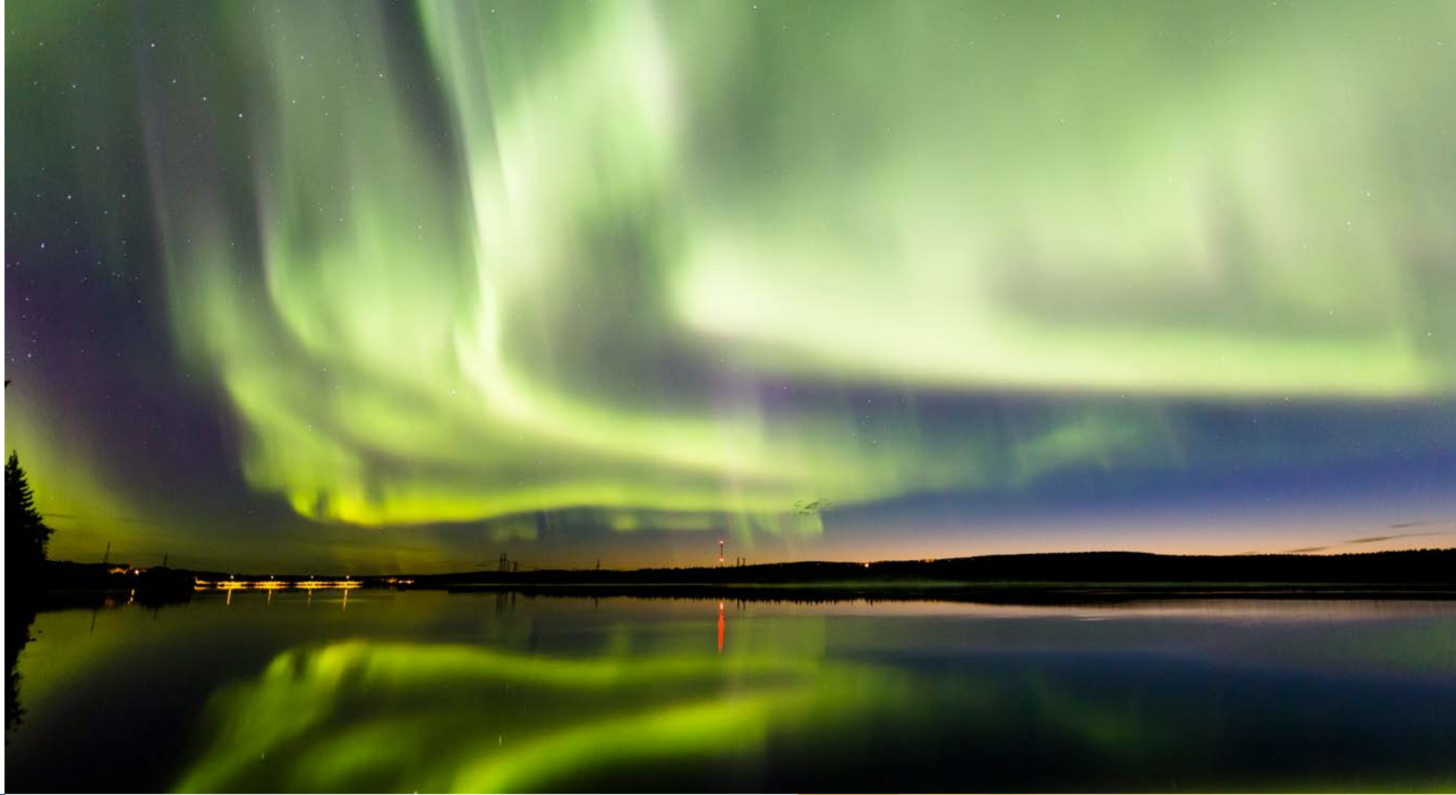
KEMIJOKI



FOR THE CLIMATE

2018

Financial Statements

CLIMATE YEAR OF 2018 HIGHLIGHTED THE SIGNIFICANCE OF HYDROPOWER

THE REPORT by Intergovernmental Panel on Climate Change made 2018 a climate year. Simultaneously, the role in curbing climate change became more prominent. We at Kemijoki Oy have been well ahead of the curve, with the Finnish Meteorological Institute and the Finnish Environment Institute surveying the effects of climate change on Kemijoki Oy's operating area. According to the survey, the temperature and rainfall will increase. Floods, run-offs and water flow rates will change. Winters in the north will become shorter. According to the most realistic scenario, the average temperature in the Kemijoki water system will increase by 2.4 degrees by 2040–2069, as rainfall increases by over 8 per cent.

Hydropower is irreplaceable, both in terms of Finland's energy self-sufficiency and flexibility of the electricity system in the future as well. Renewable hydropower supports Finland's national climate strategy. Curbing climate change requires securing the operating conditions of hydropower.

Hydropower is the foundation of the electricity market in the Nordics. The electrification of society increases the demand for electricity. The global energy transition and growing production of the weather-dependent wind and solar power also increase the need for energy system regulating power. Hydropower has a unique regulating ability in all time horizons, all the way from seconds to months. In addition, hydropower has a role in frequency control that is difficult to replace.

THE MOST FORWARD-LOOKING AND EFFICIENT IN THE NORDICS

2018 was a busy year for us. We produced hydropower responsibly and cost-efficiently. We secured, from our part, the functionality of the electricity system. Finns appreciate our work. According to a survey on attitudes towards energy, 63 per cent of Finns would increase the use of hydropower, whereas 27 per cent consider the current level to be appropriate. The share of Finns in favour of increasing hydropower is now on the rise for the third consecutive year.

We are the most significant producer of hydro and regulating power in Finland. Our 20 hydropower plants' electric energy production totalled 4,501 GWh. We produced 14.5 per cent of renewable electricity produced in Finland and 12.5 per cent of electricity produced with domestic sources of energy. We are an expert and commissioner organization of hydropower production. According to a comparative study in hydropower, our operating model is the most progressive and efficient in the Nordics. In outsourcing agreements, we will move to the next stage at the start of the 2020s.

Our overall availability was an excellent 97.48 per cent. We continued the maintenance and refurbishments of our power plants in accordance with our investment plan. In addition to continuous maintenance, we carried out refurbishments and alteration investments at Lieksankoski, Pankakoski and Taivalkoski power plants. At Lieksankoksi power plant, we renovated the building designed by architect Alvar Aalto to match its original look. The facade renovation was designed together with the Finnish Heritage Agency and Alvar Aalto Foundation. We started preparation work for the refurbishments of Porttipahta power plant and continued the detailed planning of the Sierilä power plant project.

RELIABLE COMPETENCE AND AWARD-WINNING EXPERTISE

We are an active member in riverside communities, we create regional vitality and develop hydropower competence. The safety of our personnel, partners and other users of the river is a top priority in all our operations. The starting point of our safety work is that every accident can be prevented. In 2018, no accidents occurred among the employees of Kemijoki Oy or its partner network that would have resulted in over a day's absence from work.

Personnel competence, work well-being and enthusiasm are the foundation of maintaining strong expertise in and the development of hydropower competence. According to a work well-being survey carried out at the end of the year, the personnel's competence, enthusiasm and interest towards work were at a high level. On a scale of 1–10, the measurable personnel Work Ability Index was 8.4, which increased further from previous year's 7.9.

We improved our operations in deviations from permit conditions. In 2018, there was only one permit condition deviation. The upstream water surface level was above the permit condition by two centimetres, when a fault in the powerline caused a disturbance in Matarakoski power plant at Kitinen at the end of December. Hydropower permit conditions define the limits of the water level and water flow rate. We continuously monitor and supervise operations falling under permit conditions.

The Association for Finnish Work awarded the Key Flag Symbol to the energy produced by Kemijoki Oy and expertise related to the company's hydropower competence. For Kemijoki Oy, the Flag Symbol is a sign of not only domestic energy and a service employing people in Finland, but also a recognition of the entire personnel's expertise. We are multiskilled experts in responsible hydropower.

IMPRESSIVE RESULTS THROUGH COOPERATION

Our work affects many Finns. We surveyed opinions about hydropower and us. 70 per cent of Finns have a positive stance towards hydropower. The majority considers hydropower as a renewable and responsible form of energy that curbs climate change. We were evaluated well in personnel expertise and consideration for safety aspects.

Being present is a key part of our responsible operations. We took part, among others, in the traditional Marjetantori event by the Oikarainen village association, where we reported on the advancement of the Sierilä project and discussed current hydropower issues. We organised an open doors event at Pankakoski power plant. We supported the SàmiSoster project of turning the Mokta-tupa hut into a living room for the elderly people of Vuotso and made a trip to Mutenia together. We again offered internship and thesis work opportunities for students, as we want to secure the development of hydropower competence in the future as well.

Our migratory fish work based on voluntariness and cooperation achieved excellent results at Lieksanjoki river. We also made new openings in terms of migratory fish, as we proposed that also companies could purchase fisher salmon quotas in the future. Quota purchases would serve both migratory fish work and professional fishers.

I would like to thank the inhabitants in our operating area and our own as well as partners' hydropower experts. I also thank all our stakeholder representatives, whom we have had the privilege to advance hydropower operating requirements with. Let us continue the good cooperation in the future as well.

TUOMAS TIMONEN
CEO

CONTENTS

REPORT OF THE BOARD OF DIRECTORS

Kemijoki Oy is a so-called Mankala company, which means that the main purpose of Kemijoki Oy is to produce electricity at cost price and cost-efficiently for its shareholders. An annual report has been compiled on the Company and its operations in 2018.

PRODUCTION AND INVESTMENTS

During 2018, the Company's hydropower plants produced a total of 4,501 GWh, representing 34 per cent of the hydropower electricity produced in Finland. Production was on the average level. Water reservoirs decreased by 262 GWh during the year. The fill level of the water reservoirs was 59 per cent at the end of the year, which is clearly below average.

The total availability of power plants affecting production was 97.48 per cent. The availability taking into account only unexpected interruptions caused by disturbances was 99.92 per cent. The longest outage was caused by the replacement the of the turbine shaft of unit 2 at Taivalkoski and the refurbishment of unit 1 at Pankakoski.

The refurbishments of power plants continued. The turbine shaft of unit 2 at Taivalkoski was replaced to ensure reliability and safety. The efficiency of unit 1 at Taivalkoski power plant improved and the risk of oil spills decreased significantly with the refurbishment, completed in April. The refurbishment of unit 1 at Pankakoski was also begun at the end of November. The refurbishment includes renewing the unit's runner hub to use water as a lubricant as well as the generator's stator and the automation and electrical systems. The façade and roof of the Lieksankoski power plant, constructed in early 1960s, was renovated and restored with respect to the traditions of Alvar Aalto. The refurbishment programme of dam gates was continued with the refurbishments of gate 4 at Valajaskoski and the vertical lift gates at Inkeroinen. Electric systems were improved with the renewal of the Ossauskoski transformer 1 and Seitankorva 20 kV power transmission systems.

Detailed planning of the Sierilä hydropower plant was continued. The Supreme Administrative Court confirmed the project's water management permit in May 2017. After the ruling of the Supreme Administrative Court, Kemijoki Oy has a legally valid permit to construct and use the Sierilä power plant and to regulate the river system. The project also has legally valid exemption permits with regards to the Capricornia boisduvaliana and the Moehringia lateriflora. The City of Rovaniemi also granted a construction permit for the power plant in February 2018. An appeal has been filed for the permit to the Administrative Court of Northern Finland, where the matter is sub-judice. The project and its advancement have been communicated both locally and nationally at several different events. Investments totalled EUR 17.7 million.

FINANCES

Cost-efficiency is the Company's main financial goal. The expense structure and operational expenses developed according to plan. Real estate taxes accounted for the single most significant expenditure, amounting to EUR 18.7 million.

The Company's loan portfolio totalled EUR 418.2 million at the end of 2017. The Company's long-term financing loans amounted to EUR 294.7 million. During the year, no new long-term financing loans were taken out. At the end of the year, the Company's short-term financing loans amounted to EUR 123.4 million. Short-term financing and liquidity management have been arranged by way of a commercial paper programme and credit limit arrangements. The Company's liquidity remained good. The average interest rate for financing was 1.02 per cent at the end of the year. The hedging rate of the financing portfolio was 57.0 per cent at the end of the year.

The depreciation difference in the Company's balance sheet was reduced by EUR 7.1 million. The balance sheet includes a significant share of acquisition costs related to the Kemihaara reservoir. Appreciation of acquisition costs has been based on the cash flow from the power plant planned to be constructed in connection to the reservoir. However, the realization of the power plant is currently highly uncertain. Therefore, the appreciation of acquisition costs has been evaluated based on the commercial value of forest on the land, and a EUR 1.5 million depreciation has been made for the land areas. At the end of the year under review, the balance sheet total was EUR 477.6 million. The Company's equity ratio was 10.8 per cent. Other operating income from rental and reservoir income totalled EUR 9.4 million. Because Kemijoki Oy operates on cost price principle, analysis of financial indicators is not relevant.

ADMINISTRATION AND MANAGEMENT

In addition to valid legislation and the Articles of Association, Kemijoki Oy follows the principles of sound corporate governance. Kemijoki Oy's administration and decision-making are guided by the Articles of Association, the goals and principles of the Company operations and the rules of procedure of the administrative bodies. The Company also complies, as applicable, with the Corporate Governance Code approved by the Finnish Securities Market Association unless the Articles of Association provide otherwise.

The highest decision-making body of the Company is the Annual General Meeting. The Annual General Meeting was held on 10 April 2018.

The Company has a Supervisory Board, whose 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 at least six and at most eleven members.

At the Annual General Meeting, Wille Rydman was elected Chair of the Supervisory Board. Sari Essayah, Hilkka Halonen, Esa Hyvärinen, Henna Kupsala, Mikko Kärnä, Markus Lohi, Juha Mäkelä, Ari Henriksson and Tatu Rauhamäki were elected as members of the Supervisory Board. The Supervisory Board elected Essayah as Vice Chair.

In 2018, the Supervisory Board had ten members. The Supervisory Board held three meetings, and the average attendance at the meetings was 67 per cent.

Kemijoki Oy's 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. The Board of Directors has at least six and at most eight members.

At the Annual General Meeting, the following were elected to the Board of Directors: Tiina Tuomela (Chair), Risto Andsten, Elina Engman, Tapio Jalonen, Tapio Korpeinen, Pekka Manninen and Jukka Ohtola. The Board of Directors appointed Korpeinen as Vice Chair.

In 2018, the Board of Directors had seven members. The Board of Directors held seven meetings, and the average attendance at the meetings was 96 per cent. The Board of Directors evaluates its own activities on an annual basis, which was also the case in 2018.

Supported by the Management Team, the CEO is responsible for the company's operations and implementation of strategy.

The Annual General Meeting elected KPMG Oy Ab, a company of Authorised Public Accountants, as Kemijoki Oy's auditor, with Pekka Alatalo, APA, as the principal auditor.

Kemijoki Oy's internal audits are outsourced. The assessments are reported to the Board of Directors. The Board of Directors approves the internal audit plan annually. In 2018, the internal audit evaluated the company's monitoring activities, communications activities and refurbishment projects at Lieksanjoki.

The company in 2016 approved for its part a renewed production sharing contract which defines the usage, recording and gainsharing of shareholder electricity. The contract has not yet been signed.

RISK MANAGEMENT

The goal of risk management is to ensure the continuity and development of the Company's operations and to support the Company in achieving its strategic and financial goals. The Board of Directors reviews the Company's risk management guidelines and related instructions annually. In 2018, an extensive risk survey was carried out. The Board also discussed the key risks related to the Company's activities and their management.

The CEO is responsible for the proper organisation of risk management according to the guidelines of the Board's risk management policy. The risks are surveyed on a regular basis. With the help of the surveys, the Company assesses the most significant risks for the business and understands the Company's risk profile in terms of the risk effects, probability and current level of risk management. This also provides an image of the financial effects of the identified risks and an evaluation of how the risks may threaten the attainment of strategic goals of Kemijoki Oy.

The Company's most important property, the power plants and dams, has been insured according to the insurance policy approved by the Board of Directors. Systematic maintenance of power plants and dams as well as the constant development of operating processes are used as safeguards against risks. A fire or a major machine breakdown at a power plant or a dam rupture could cause substantial damage to property as well as losses due to unplanned interruptions. The key risks also involve increasingly stringent and ambiguous environmental legislation and potential changes in taxation and obligations as well as cyber risks.

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. Increasing taxes, tax-like fees or obligations would further add to the Company's operating expenses. The potential update of fisheries fees should be limited so that the financial strain of electricity production does not increase in addition to current obligations and voluntary activities.

The Company manages financial risks according to the financing policy approved by the Board of Directors. Environmental risks are managed according to the environmental management system. Risks associated with personnel are taken into account in the human resources policies and plans related to personnel development. Risks associated with the Company's data security are managed by way of adequate technical solutions and training and instructions given to the personnel.

CORPORATE RESPONSIBILITY

Corporate responsibility has been defined as a key focus area of Kemijoki Oy. The Company's Board of Directors is in charge of the strategic management and supervision of corporate responsibility according to the Board of Directors' rules of procedure. The Board of Directors approves Kemijoki's corporate responsibility programme, operation guidelines and principles and also reviews and approves the corporate responsibility report published annually. The corporate responsibility goals and their achievement are reported to the Annual General Meeting each year.

The CEO, supported by the Management Team, is responsible for the goals of the Company's corporate responsibility strategy and the corporate responsibility programme's results. The CEO reports on the progress of corporate responsibility activities to the Board of Directors on a regular basis. The Management Team is tasked with decision-making, securing sufficient resources and monitoring the progress of the corporate responsibility programme. Corporate responsibility matters are discussed in accordance with the Management Team's rules of procedure and the annual operating plan.

The general operating practices of the company, which guide the company's operations, are determined by the Code of Conduct. Our Code of Conduct includes rules for equal treatment as well as anti-bribery and anti-corruption guidelines, among other things. Suspicions or reports of violations of our Code of Conduct principles can be reported through an online notification channel. No reports of unethical conduct have been made.

The company has implemented a corporate responsibility license, which is a digital learning envi-

KEY FIGURES FOR THE GROUP 2014 AND KEY FIGURES FOR THE PARENT COMPANY 2015-2018

	2014	2015	2016	2017	**2018**
Turnover MEUR	38,8	38,7	43,5	42,4	**47,9**
Other operating income MEUR	18,1	21,5	11,6	9,1	**9,4**
Operating expenses excl. real estate tax MEUR	45,0	38,5	41,2	38,9	**40,2**
Real estate tax MEUR	18,1	17,9	19,2	19,0	**18,7**
Salaries and benefits paid to personnel MEUR	6,1	3,7	3,9	3,6	**3,5**
Profit/loss for the financial period MEUR	-10,4	0,8	0,8	0,8	**0,8**
Equity ratio %	17,0	17,0	14,3	12,23	**10,8**
Balance sheet total MEUR	452,9	474,2	477	482,0	**477,6**
Gross investments MEUR	14,4	33,3	16,5	22,1	**17,7**
Research and development MEUR	0,1	0,4	0,2	0,4	**0,1**
Average number of personnel	78	44	40	37	**36**

ronment. This is a fixed-period license which will be completed by the entire personnel of Kemijoki Oy as well as the employees of contracting partners working for Kemijoki. Every employee of Kemijoki and its partners is required to complete the corporate responsibility license every three years. 304 persons had completed the license by the end of 2018. The corporate responsibility license was also published as the Company's commitment to the Society's Commitment to Sustainable Development 2050 initiative.

In spring 2018, the Association for Finnish Work awarded the energy produced by Kemijoki Oy and the expertise needed to produce hydropower with the Key Flag Symbol. The mark is awarded to products manufactured in Finland and services produced and employing people in Finland.

The goals and measures of Kemijoki's corporate responsibility are reported in more detail in the online corporate responsibility report and GRI chart available on the company's website.

ENVIRONMENTAL ISSUES

Hydropower is the most significant form of renewable electricity production and it plays a central role in curbing climate change. In addition to its good qualities, hydropower also has adverse environmental effects which stem from the construction of new power plants, the regulating usage of existing power plants and the regulation of waterways. To reduce adverse environmental impacts, EUR 4.1 million was used for environmental management in 2018. Fisheries obligations accounted for EUR 2.7 million of this sum and voluntary activities for EUR 0.3 million.

On 17 March 2017, Lapland's Centre of Economic Development, Transport and the Environment submitted its application to the Regional State Administrative Agency for Northern Finland for changing Kemijoki's fisheries obligations. The comprehensive obligations required in the amendment application contains serious content and process related mistakes, and it is unreasonable and contradictory. The Regional State Administrative Agency for Northern Finland had not announced the application by the end of the year.

The voluntary migratory fish collaboration at the Kemijoki and Ounasjoki river area advanced according to plan. Key activities of 2018 included spawn stockings and the testing of Kalasydän, an innovative fish pass solution implemented at Isohaara power plant, which gave promising results. We continued preparation for implementing a pass solution in connection to the Taivalkoski power plant, although it did not receive the applied spearhead project funding from the government. The Company also successfully continued restoring the stock of landlocked salmon and brown trout at Lieksanjoki river with the rehabilitation of breeding areas.

PERSONNEL

At the end of the year, the Company employed 35 persons. During the year under review, one person retired from the Company and one new person was recruited. The absence due to sickness rate of personnel in 2018 was 1.1, which is lower than in the previous year (1.5 per cent).

The level of occupational safety in the Company continues to be good. No accidents resulting in over a day's absence occurred to Kemijoki Oy's personnel during the year under review. Two accidents resulting in absence occurred among partners in outsourced operations.

Factoring in the work done by partners for the Company, the accident frequency rate was 0 in 2018. In the previous year, the accident frequency rate was 7.3. Factoring in the work done by partners in outsourced operations, the accident frequency rate was 8.0. In 2017, the average accident frequency rate in the energy industry was 11.8.

BONUS AND INCENTIVE SYSTEMS

Kemijoki Oy uses a performance bonus system for both management and personnel. The Board of Directors approves the principles of the performance bonus system. Performance bonuses for both personnel and management and the factors determining them comply with the guidelines on remuneration of company management and key personnel as detailed in Appendix 2 of the Finnish Government Resolution on State Ownership Steering Policy, published on 13 May 2016. The principles of remuneration and their realisation are reported annually to the Annual General Meeting.

The performance bonus system supports the attainment of the Company's financial and operational 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. The compensation payable to the CEO and the Management Team consists of a basic salary and a performance bonus.

The performance bonus for the CEO is based on the Company's targets. The amount of performance bonus payable depends on how well the Company's financial and operational targets are attained, and it is no more than 40 per cent of the fixed annual salary. The performance bonus is paid to the CEO until the end of his contract in accordance with the criteria approved by the Board of Directors.

The Company's CEO has signed an executive agreement that includes no pension benefits. The retirement age of the CEO is based on the current pension legislation. If the company discontinues the CEO's contract, he will be paid a separate compensation equal to six months' salary in addition to six months' severance pay.

The criteria for the performance bonus for the Management Team are set by the Board of Directors and are based on how well the Company's financial and operational targets are attained. The amount of performance bonus payable is no more than 30 per cent of the fixed annual salary.

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

OUTLOOK FOR THE NEAR FUTURE

The goal is to address the matter of Sierilä power plant investment in the Board of Directors during 2019.

The refurbishments of power plants and environmental investments will be continued according to plan. Unit 1 at Lieksankoski will be refurbished and the main transformer 1 at Valajaskoski will be renewed in 2019. The implementation of the refurbishment of Pirttipahta will be prepared for 2020. The refurbishments include replacing oil with water as a lubricant for the runner hubs of the turbines, reducing environmental risks. Preparing the refurbishment programme of Kitinen will be continued with the preparing of the refurbishment of Kokkosniva. The refurbishment programme of dam gates will be continued with the refurbishment of the rolling gate at Inkeroinen power plant dam.

PROPOSAL FOR DISTRIBUTION OF PROFIT

The total sum of distributable profit available to the Company amounted to EUR 9,613,718.43 as of 31 December 2018. After the end of the financial year, no changes have taken place 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, amounting to EUR 794,575.92.

The Annual General Meeting will be held on
10 April 2019 at 14:00.

Espoo, 5 February 2019

KEMIJOKI OY

Financial statements 31 December 2018

PROFIT AND LOSS ACCOUNT

	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
Turnover	**47 933975,42**	**42 363 369,84**
Other operating income	9 406 911,11	9 087 916,33
Materials and services		
Materials, supplies	-2 659 394,90	-2 615 507,02
External services	-13 394 360,65	-13 966 643,51
Personnel expenses	-3 453 162,57	-3 572 701,96
Depreciation, amortisation and value adjustments	-15 913 403,09	-14 537 423,20
Other operating expenses	-23 479 539,75	-23 205 964,32
Profit (loss)	**-1 558 974,43**	**-6 446 953,84**
Financial income and expenses	-4 623 662,90	-7 015 519,45
Profit/loss before appropriations and taxes	**-6 182 637,33**	**-13 462 473,29**
Appropriations		
Change in depreciation (+ increase / - decrease)	7 140 261,85	14 382 378,78
Income taxes	-163 048,60	-125 329,57
Profit for the financial period	**794 575,92**	**794 575,92**

BALANCE SHEET

	1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
ASSETS		
Fixed assets		
Intangible assets	27 250 772,15	27 563 588,00
Tangible assets	446 233 787,73	444 161 573,76
Investments	368 930,58	402 152,13
	473 853 490,46	**472 127 313,89**
Current assets		
Long-term receivables	51 405,00	42 405,00
Short-term receivables	3 292 372,79	5 702 516,71
Cash in hand and in bank	386 179,53	2 405 079,12
	3 729 957,32	**8 150 000,83**
Total assets	**477 583 447,78**	**480 277 314,72**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	41 285 753,60	41 285 753,60
Contingency fund	693 754,63	693 754,63
Invested unrestricted equity fund	6 972 602,00	6 972 602,00
Retained earnings	1 846 540,51	1 846 540,51
Profit for the financial period	794 575,92	794 575,92
	51 593 226,66	**51 593 226,66**
Accumulated appropriations	**0,00**	**7 140 261,85**
Obligatory provisions	**322 989,00**	**322 989,00**
Liabilities		
Long-term liabilities	294 741 960,57	350 180 557,02
Short-term liabilities	130 925 271,55	71 040 280,19
	425 667 232,12	**421 220 837,21**
Total equity and liabilities	**477 583 447,78**	**480 277 314,72**

CASH FLOW STATEMENT

EUR 1,000	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Cash flow from operating activities:		
Profit (loss) before extraordinary items	-6 183	-13 462
Adjustments:		
Planned depreciation	14 413	14 537
Other non-cash flow items	1 500	
Financial income and expenses	4 624	7 016
Profits from sales of assets		
Other adjustments	-132	-64
Cash flow before change in working capital	**14 222**	**8 026**
Change in working capital:		
“Increase (+)/ decrease (-) of short-term business receivables without interest”	2 410	1 846
”Increase (+)/ decrease (-) of short-term loans without interest”	-2 002	1 358
Operating cash flow before financing items and taxes	**14 630**	**11 231**
Interest and charges paid from other operating financing expenses	-4 687	-7 297
Dividends received	7	7
Interests received from operating activities	1	26
Direct paid taxes	-163	-123
Cash flow before extraordinary items	9 789	3 843
Cash flow from operating activities (A)	**9 789**	**3 843**
Cash flow from investments:		
Investments in tangible and intangible assets	-17 743	-22 091
Proceeds from disposal of tangible and intangible assets	203	87
Proceeds from disposal of investments	33	0
Entry of long-term security deposit	-9	
Proceeds from disposal of shares in subsidiaries and associated undertakings	0	0
Cash flow from investments (B)	**-17 516**	**-22 003**

EUR 1,000	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Cash flow from financing activities:		
Withdrawals of long-term loans	0	100 000
Repayments of long-term loans	-9 495	-89 238
Withdrawals of short-term loans	15 998	5 784
Repayments of short-term loans		
Sale of own shares		
Dividends paid and other distribution of profit	-795	-795
Cash flow from financing activities (C)	**5 708**	**15 751**
Change in liquid assets (A+B+C) increase (+) / decrease (-)	**-2 019**	**-2 409**
Liquid assets at the beginning of the financial period	2 405	4 814
Liquid assets at the end of the financial period	**386**	**2 405**

ACCOUNTING POLICIES 2018

EXTENT OF THE FINANCIAL STATEMENTS

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

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. The exchange difference and amortized interest of derivatives have been entered in the financial statements. The fair value of hedging derivative contracts is presented in the notes to the financial statements as an off-balance-sheet item.

FINANCIAL ASSETS

Financing securities have been entered at acquisition cost.

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2018

	2018	2017
OTHER OPERATING INCOME		
Proceeds from the disposal of fixed assets	132 669,26	63 980,20
Rents received	1 478 357,94	1 252 972,48
Sale of servicesi	7 109 132,62	7 340 674,04
Other	686 751,29	430 289,61
Total	**9 406 911,11**	**9 087 916,33**
NUMBER OF EMPLOYEES		
Personnel at the end of the year		
Clerical employees	36	36
Other employees	0	0
Total	**36**	**36**
Average number of employees	**36**	**37**
PERSONNEL EXPENSES		
Wages and compensation	2 934 742,23	2 995 053,52
Pension expenses	449 142,27	451 681,71
Other social security expenses	69 278,07	125 966,73
Total	**3 453 162,57**	**3 572 701,96**
MANAGEMENT SALARIES AND COMPENSATION		
Supervisory Board, Board of Directors and CEO	**370 994,00**	**379 466,00**
PERSONNEL EXPENSES CAPITALISED UNDER FIXED ASSETS	**398 479,21**	**384 215,50**
DEPRECIATION AND VALUE ADJUSTMENTS		
Amortisation on intangible assets	911 104,33	1 027 300,15
Depreciation on tangible assets		
Buildings and structures	1 845 073,01	1 775 443,48
Hydraulic structures	2 308 530,46	2 252 834,83
Machinery equipment	9 348 695,29	9 481 844,74
Depcreation on land and water areas	1 500 000,00	
Total	**15 913 403,09**	**14 537 423,20**

	2018	2017
OTHER OPERATING EXPENSES		
Rents	43 297,30	59 688,11
Leasing rents	174 458,92	154 567,75
Real estate taxes	18 668 039,28	18 962 069,02
Other	4 593 744,25	4 029 639,44
Total	**23 479 539,75**	**23 205 964,32**
FINANCIAL INCOME AND EXPENSES		
Dividend income		
From others	7 236,00	7 373,00
Interest received		
Other interest received		
From others	903,27	25 754,21
Financial income total	**903,27**	**25 754,21**
Interest paid		
To group companies	0,00	0,00
To others	-4 580 847,17	-6 602 708,84
Interest paid total	**-4 580 847,17**	**-7 476 650,60**
Other financial income		
From others		
Other financial expenses	-50 955,00	-445 937,82
Financial income and expenses total	**-4 623 662,90**	**-7 015 519,45**
CHANGE IN DEPRECIATION DIFFERENCE		
Other long-term costs	10 747 620,366	916 268,06
Buildings and constructions	9 972 145,37	1 740 783,45
Hydraulic structures	15 377 115,28	2 251 143,83
Machinery and equipment	-28 956 619,16	9 474 183,44
Total	**7 140 261,85**	**14 382 378,78**
INCOME TAXES		
Income taxes on ordinary operating activities	**163 048,60**	**125 329,57**

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2018

INTANGIBLE AND TANGIBLE ASSETS

	Acquisition cost	Increase	Decrease	Accumulated depreciation	Balance sheet value 31 Dec 2018
Intangible assets					
Other long-term expenses	65 812 198,76	598 288,48		39 159 715,09	27 250 772,15
Tangible assets					
Land and water areas	43 263 180,15	279 272,11	1 571 520,00	0,00	41 970 932,26
Buildings and constructions	140 047 727,08	1 379 859,31		62 634 742,13	78 792 844,26
Hydraulic structures	199 789 140,04	653 149,38		96 198 922,61	104 243 366,81
Machinery and equipment	384 603 739,56	15 722 776,39		215 909 793,51	184 416 722,44
Advance payments and ongoing acquisitions	37 698 946,42	17 745 885,85	18 634 910,31	0,00	36 809 921,96
Total	**805 402 733,25**	**35 780 943,04**	**20 206 430,31**	**374 743 458,25**	**446 233 787,73**
Shares and holdings	**402 152,13**	**0,00**	**33 221,55**	**0,00**	**368 930,58**
Total	**871 617 084,14**	**36 379 231,52**	**20 239 651,86**	**413 903 173,34**	**473 853 490,46**

Machinery and equipment directly serving electricity production	**2018**	**2017**
Underpreciated part of acquisition cost as at 31 Dec	153 018 716,28	145 483 731,03

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

Calculation on distributable equity 31 Dec	**2018**	**2017**
Retained earnings	1 846 540,51	1 846 540,51
Profit for the financial period	794 575,92	794 575,92
Invested unrestricted equity fund	6 972 602,00	6 972 602,00
Total	**9 613 718,43**	**9 613 718,43**

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2018

INVESTMENTS	SHARES			
	Group companies	**Participating interests**	**Other**	**Total**
Acquisition cost as at 1 Jan 2017	0,00	168 187,92	233 964,21	402 152,13
Decrease (+) / Increase (-)	0,00		33 221,55	33 221,55
Acquisition cost as at 31 Dec 2017	0,00	168 187,92	200 742,66	368 930,58
Book value as at 31 Dec 2017	0,00	**168 187,92**	**200 742,66**	**368 930,58**

SHARES AND HOLDINGS	Group interest %
Shares in associated undertakings owned by parent company	
Voimalohi Oy, Kemi	50,0

SALARIES AND COMPENSATION PAID TO THE SUPERVISORY BOARD,
BOARD OF DIRECTORS AND CEO OF KEMIJOKI OY IN 31 JANUARY 2018 - 31 DECEMBER 2018

	Salaries and fringe benefits	**Incentive pay**	**Total**
Chairman of the Supervisory Board	5 400		5 400
Deputy Chairman of the Supervisory Board	1 800		1 800
Members of the Supervisory Board	8 500		8 500
Chairman of the Board of Directors	23 400		23 400
Deputy Chairman of the Board of Directors	13 800		13 800
Members of the Board of Directors	63 000		63 000
CEO	197 280	57 814	255 094
Total	**313 180**	**57 814**	**370 994**

FEES PAID BY KEMIJOKI OY TO THE AUDITOR

	1 Jan - 31 Dec 2018	**1 Jan – 31 Dec 2017**
Audit fees	**23 274**	**24 420**
Other fees	**13 552**	**4 743**

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2018

	2018	2017
ITEMISATION OF RECEIVABLES		
Short-term		
Accounts receivable	2 098 142,28	4 479 074,02
Receivables from associated undertakings	489 364,50	488 759,95
Other receivables	656 268,63	609 017,26
Prepayments and accrued income	48 597,38	125 665,48
Total	**3 292 372,79**	**5 702 516,71**
SUBSTANTIAL ITEMS INCLUDED IN PREPAYMENTS AND ACCRUED INCOME		
Employee retirement fund receivables	29 797,32	93 898,82
Income tax		
Other	18 800,06	31 766,66
Total	**48 597,38**	**125 665,48**

SHARE CAPITAL BY SHARE TYPE

		31 Dec 2018		**2017**
	number of shares	**nominal value**	**number of shares**	**nominal value**
Hydropower shares (A-series, 1 vote)	105 956	1 790 656,40	105 956	1 790 656,40
Monetary shares (B-series, 1 vote)	2 336 988	39 495 097,20	2 336 988	39 495 097,20
Total	**2 442 944**	**41 285 753,60**	**2 442 944**	**41 285 753,60**

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

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2018

	2018	2017
CHANGES IN SHAREHOLDERS' EQUITY		
Share capital as at 1 Jan	41 285 753,60	41 285 753,60
Share capital as at 31 Dec	**41 285 753,60**	**41 285 753,60**
Contingency fund as at 1 Jan	693 754,63	693 754,63
Contingency fund as at 31 Dec	**693 754,63**	**693 754,63**
Invested unrestricted equity fund as at 1 Jan	**6 972 602,00**	**6 972 602,00**
Invested unrestricted equity fund as at 31 Dec	**6 972 602,00**	**6 972 602,00**
Retained earnings as at 1 Jan	2 641 116,43	2 641 116,43
Distribution of dividend	-794 575,92	-794 575,92
Used by the Board of Directors for general purposes		
Retained earnings as at 31 Dec	**1 846 540,51**	**1 846 540,51**
Profit for the financial period	794 575,92	794 575,92
Total shareholders' equity	**51 593 226,66**	**51 593 226,66**
Distributable funds	**9 613 718,43**	**9 613 718,43**
ACCUMULATED APPROPRIATIONS		
Accumulated depreciation difference		
Other long-term expenses	9 837 067,88	10 747 620,36
Buildings and constructions	11 712 928,82	9 972 145,37
Hydraulic structures	13 068 584,82	15 377 115,28
Machinery and equipment	-34 618 581,52	-28 956 512,72
Deferral		
Total	**0,00**	**7 140 368,29**
OBLIGATORY PROVISIONS		
Pension provision	**322 989,00**	**322 989,00**
LONG-TERM LIABILITIES		
Long-term debts		
Loans from financial institutions	246 578 947,40	302 017 543,85
Bonds	48 163 013,17	48 163 013,17
Total	**294 741 960,57**	**350 180 557,02**

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2018

	2018	2017
Debts due in five years or more		
Loans from financial institutions	**6 491 228,00**	**83 426 171,22**
SHORT-TERM LIABILITIES		
Loans from financial institutions	123 416 364,08	61 474 737,55
Bonds	0,00	0,00
Accounts payable	4 536 986,41	6 445 124,67
Other loans	577 428,28	719 164,03
Accruals and deferred income	2 394 492,78	2 401 253,94
Total	**130 925 271,55**	**71 040 280,19**
SUBSTANTIAL ITEMS INCLUDED IN ACCRUALS AND DEFERRED INCOME		
Salaries, including social security cost	893 749,80	923 247,48
Interest	677 081,63	731 853,02
Other	823 661,35	746 153,44
Total	**2 394 492,78**	**2 401 253,94**
SECURITY GIVEN AND CONTINGENT LIABILITIES		
Contingent and other liabilities		
Guarantees		
On own behalf	12 833 333,39	14 666 666,72
On behalf of associated undertakings	33 442,49	34 554,40
On behalf of others	0,00	0,00
Leasing agreements		
Amounts payable during the current financial period	92 202,90	71 727,12
Amounts payable during the following financial periods	79 938,78	42 573,30
Residual value liabilities	0,00	0,00
Total	**13 038 917,56**	**14 815 521,54**

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2018

	2018	2017
Derivative contracts		
Interest rate derivatives		
Market value	-3 366 938,00	-3 730 388,00
Value of underlying asset	90 350 877,00	96 414 474,00
Not entered as income	-3 137 984,00	-3 476 601,00
Exchange and interest rate swaps		
Market value	-11 396 134,00	-10 253 079,00
Value of underlying asset	39 202 678,00	39 632 938,00
Not entered as income	-2 456 425,00	-1 746 402,00
Options, puts and calls		
Market value	-878 205,00	-550 972,00
Value of underlying asset	100 000 000,00	100 000 000,00
Not entered as income	-848 241,00	-508 325,00

All derivative contracts have been made to hedge loans against changes of interest rates and exchange rates in accordance with the financing policy approved by the Board of Directors. The hedged loans and their hedging derivative contracts are inversely congruent. Interest rate swaps are used to change the variable interest rate of the loan to be hedged to a fixed rate. The terms and conditions of an interest rate swap with interest rate floor are consistent with the loan to be hedged. Currency and interest rate swaps are used to change the currency of a NOK-denominated loan to euro while the exchange rate remains fixed. The exchange rate difference as well as the amortised interest of derivatives are recorded in the financial statements. The 12-month interest flow risk calculated for derivatives and interest-bearing loans on 31 December 2018 is EUR -1.4 million and the duration is 1.7 years.

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 2014 and 2018 if the taxable use of those properties decreases during the review period. The maximum liability is EUR 1 209 488,84 and the final year of the review is 2023.

RETIREMENT OBLIGATIONS

The uncovered obligation is booked as obligatory pension provision. The retirement obligation is partly covered with voluntary pension insurance. The other retirement obligations in the company have been insured in external Pension Insurance companies and in the Kemijoki Pension Fund.

PROPOSAL FOR DISTRIBUTION OF PROFIT BY THE BOARD OF DIRECTORS

The total sum of distributable profit available to the parent company amounts to EUR 9,613,718.43.

No significant changes have taken place in the company's financial position since the end of the financial year. The company's liquidity is good and in the view of the Board of Directors, the proposed distribution does not jeopardise the company's solvency.

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	794 575,92 €
- to be transferred to retained earnings	8 819 142,51 €
	9 613 718,43 €

Espoo, 5 February 2019

Tiina Tuomela

Risto Andsten **Elina Engman**

Tapio Jalonen **Tapio Korpeinen**

Jukka Ohtola **Pekka Manninen**

Tuomas Timonen
CEO

AUDITOR'S SIGNATURE

An audit report has been given today.

Espoo, 5 February 2019

KPMG Oy Ab
Company of Authorised Public Accountants

Pekka Alatalo
APA

AUDITOR'S REPORT

TO THE ANNUAL GENERAL MEETING OF KEMIJOKI OY

FINANCIAL STATEMENTS AUDIT STATEMENT

We have audited the financial statements of Kemijoki Oy (Finnish Business ID 0192171-7) for the financial year 1 January 2017 to 31 December 2017. The financial statements comprise the balance sheet, profit and loss account, cash flow statement and notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial performance and the financial position of the Company, in accordance with current Finnish legislation on the preparation of financial statements, and comply with legal requirements.

JUSTIFICATION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities which comply with good auditing practice are introduced in more detail in section Responsibility of the Auditor. In accordance with ethical requirements in Finland that concern our audit, we are independent of the Company and we have also fulfilled the other ethical responsibilities of these requirements. In our opinion, we have obtained a sufficient amount of applicable audit evidence to provide a basis for our audit opinion.

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 for ensuring that they give a true and fair view in accordance with current Finnish legislation concerning the preparation of financial statements and comply with legal requirements. The Board of Directors and the CEO are also responsible for internal control deemed necessary in order to prepare financial statements which are free of material misstatement due to fraud or error.

While preparing the financial statements, the Board of Directors and the CEO are obligated to assess the Company's ability to continue its operations and, where applicable, present matters which concern continuity of operations and that the financial statements have been prepared based on continuity of operations. The financial statements are prepared based on continuity of operations except if it is intended to dissolve the Company or to close its operations or no other realistic alternative exists.

RESPONSIBILITY OF THE AUDITOR

Our aim is to obtain reasonable assurance about whether the financial statements are free from material misstatement due to fraud or error as well as to provide an auditor's report with our opinion. Reasonable assurance is a high level of assurance. However, it does not guarantee that material misstatement is always detected during auditing conducted in accordance with good auditing practice. Misstatement can be caused by fraud or error, and they are considered material if alone or together they can reasonably be expected to affect financial decisions based on the financial statements.

Good auditing practice entails that we apply professional judgement and maintain professional scepticism during the auditing process. In addition:

- We identify and assess the risks of material misstatement, whether due to fraud or error, plan and implement audit practices for these risks, and we obtain sufficient and appropriate evidence to provide a basis for our audit opinion. The risk that material misstatement due to fraud remains undetected is greater than the risk that material misstatement due to error remains undetected as fraud may linked to coaction, falsification, purposefully withholding information or presenting erroneous information or disregarding internal control.
- We consider the internal control relevant for the auditor's report 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the information presented on them.
- We form a conclusion on whether it has been appropriate for the Board of Directors and the CEO to prepare the financial statements based on a presumption of operations continuing, and based on the audit evidence that we have obtained we form a conclusion on whether uncertainty, connected to events or circumstances, which could cause notable reason to doubt the Company's ability to continue its operations, exists. If we conclude that such uncertainty exists, we must draw the reader's attention to information presented in the financial statements concerning uncertainty in our auditor's report or, if the information concerning uncertainty is insufficient, we must adapt our statement. Our conclusions are based on audit evidence acquired by the date of issue of the auditor's report. Adverse events or circumstances may, however, cause the Company to be unable to continue its operations.
- We evaluate the financial statements, including all information presented in the financial statements, overall presentation, structure and content, and whether the financial statements describe the business and events it is based on correctly and adequately.

We communicate with administrative bodies on, for instance, the planned scope and timing of the auditor's report and significant audit findings, including potential deficiencies in internal control which we identify during the auditing process.

OTHER REPORTING RESPONSIBILITIES

OTHER INFORMATION

The Board of Directors and the CEO are responsible for other information. Other information comprises the information in the report of the Board of Directors. Our opinion on the financial statements does not include other information.

Our duty is to read the information in the report of the Board of Directors in connection with auditing the financial statements and to evaluate whether the information contradicts information in the financial statements or information we have acquired during auditing or whether it appears to be otherwise incorrect. It is also our duty to evaluate whether the report of the Board of Directors has been prepared in accordance with applicable legislation.

In our opinion, the report of the Board of Directors is consistent with the financial statements and the report of the Board of Directors has been prepared in accordance with legislation applied to the preparation of a report of the Board of Directors.

If, based on the work that we have conducted on the information included in the report of the Board of Directors, we conclude that there is material misstatement in the other information in question, we must report the matter. We have nothing to report regarding this.

OTHER STATEMENTS

We recommend that the financial statements be approved. We recommend that the members of the Board of Directors and the CEO be granted discharge from liability for the financial period covered in this audit.

Espoo, 5 February 2019

KPMG OY AB

Pekka Alatalo
Authorised Public Accountant (KHT)

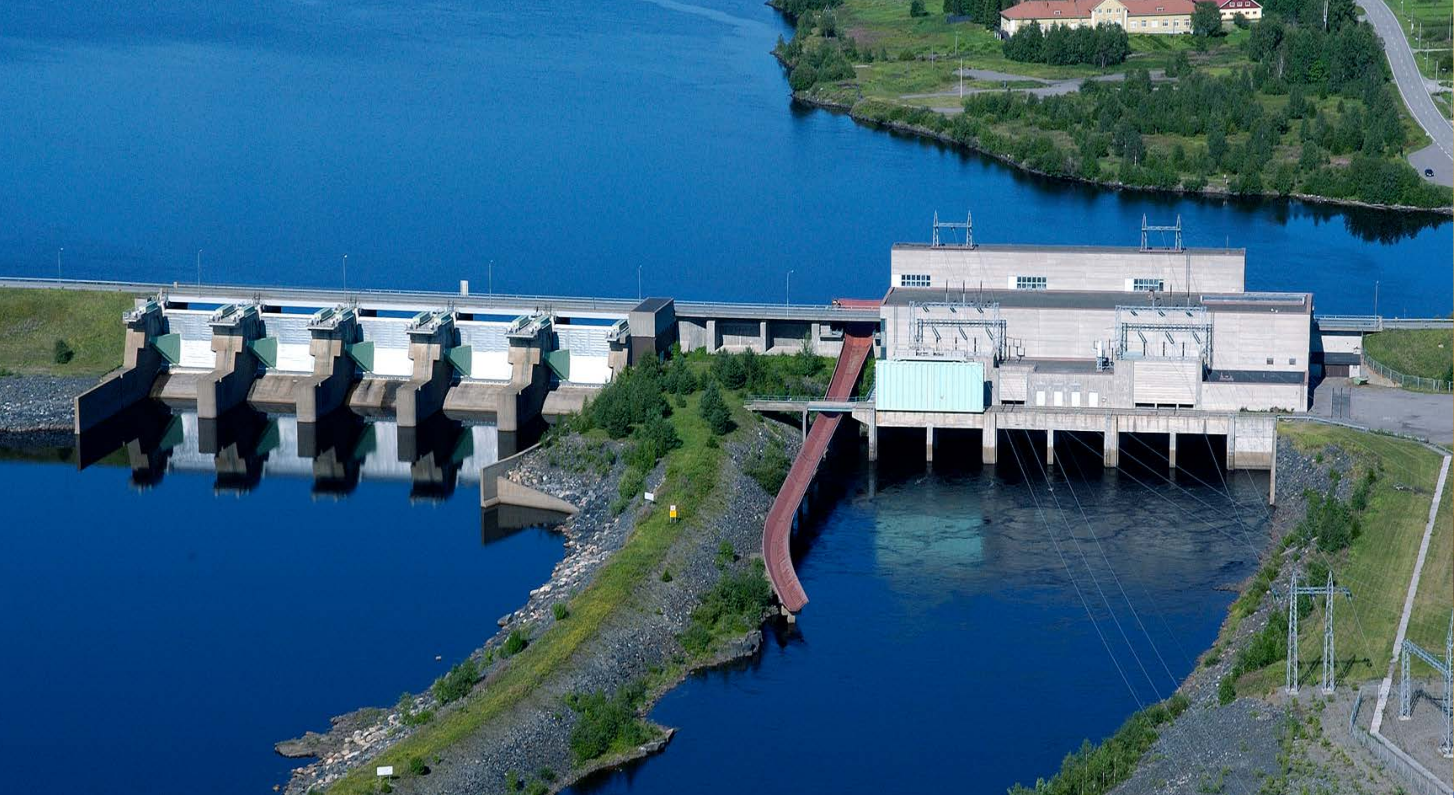
STATEMENT BY THE SUPERVISORY BOARD

The Supervisory Board has examined the financial statements of Kemijoki Oy for 2017, as well as 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 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, 14 March 2019

Wille Rydman	**Sari Essayah**
Marko Ekqvist	**Hilkka Halonen**
Ari Henriksson	**Esa Hyvärinen**
Henna Kupsala	**Mikko Kärnä**
Markus Lohi	**Juha Mäkelä**



KEMIJOKI OY

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FOR THE CLIMATE