



Board of Director's Report 2018

FENNOVOIMA

Fennovoima Oy aims to build a new nuclear power plant in Finland and produce reasonably priced electricity for its shareholders. Once the commercial operation of the nuclear power plant has started, Fennovoima will operate under the Mankala principle, where the shareholders are entitled to the electricity generated by the nuclear power plant at cost price in proportion to their ownership of the company. Fennovoima's shareholders are responsible for the costs incurred by the company in the production of nuclear power in accordance with the Articles of Association and the Shareholders' Agreement.

Fennovoima has offices in Helsinki and Pyhäjoki, and Fennovoima's subsidiary has an office in St Petersburg, Russia.

Group structure

Fennovoima is owned by Voimaosakeyhtiö SF (66%) and RAOS Voima Oy (34%). Fennovoima is part of the Voimaosakeyhtiö SF Group. Fennovoima Oy has a subsidiary, OOO Fennovoima Rus, in Russia. The subsidiary has not been active during the financial year 2018.

Governance and management

Fennovoima's Annual General Meeting (AGM) was held on March 23, 2018. The AGM elected Esa Härmälä (Chairman), Anastasia Zoteeva (Vice Chairman), Pekka Erkkilä, Jussi Lehto, Seppo Siljama, Stefan Storholm and Djurica Tankosic as members of the Board of Directors.

According to the resolution of the shareholders 1/2019 on February 19, 2019 Anton Dedusenko was nominated as a member of the Board of Directors replacing Djurica Tankosic.

The company has the following committees nominated by the Board of Directors: the Nuclear Safety Committee, the Project Execution Committee, the Finance Committee and the Nominating Committee.

Toni Hemminki served as the company's CEO during the financial year 2018.

The company's auditors were PricewaterhouseCoopers Oy (Authorized Public Accountants), with Heikki Lassila (Authorized Public Accountant) as the principal auditor.

Shares and share issues

The company has two series of shares: Series A (1,056 shares) and Series B (544 shares). All shares are equal in terms of voting rights.

During the financial period, the shareholders invested EUR 105.7 million in reserve for invested unrestricted equity.

Personnel

The average number of personnel during the financial period was 316 (290 in 2017; 254 in 2016). The total remuneration was EUR 25.3 million (EUR 19.8 million in 2017; EUR 19.6 million in 2016).

Fennovoima's financial position

Fennovoima had no revenue in 2018. The loss for the financial period was EUR 8.4 million (EUR 8.8 million in 2017; EUR 7.4 million in 2016). At the end of the year, the total assets were EUR 1,514 million (EUR 1,385 million in 2017; EUR 1,282 million in 2016), and the equity ratio was 31.3% (27.2% in 2017; 22.4% in 2016). Fennovoima has EUR 1,024 million of long-term liabilities. Respectively, the company has advance payments receivables of EUR 860 million and interest receivables of EUR 105 million from RAOS Project Oy.

The company's liquidity position is good.

The Board of Directors proposes that the loss be entered into the profit and loss account and that no dividends be distributed.

Significant events during the 2018 financial year

In 2018, Fennovoima prepared the construction license documentation, continued to prepare the plant site and to further develop its internal operations and organization, and began work to move operations to Pyhäjoki.

During the year, Fennovoima hired 49 new specialists. At the end of 2018, the company had 306 own employees and with full-time consultants included, the company had 365 employees. The number of Fennovoima employees working in Pyhäjoki was 44 at the end of 2018.

Progress of the Hanhikivi 1 project

At the end of December 2018, Fennovoima received a new project schedule estimate from the plant supplier RAOS Project. According to the plant supplier, granting of a nuclear power plant construction license as well as the launch of the power plant construction work will take place in 2021. Commercial operation is estimated to begin in 2028, which is four years later than in the original time schedule of RAOS Project.

Fennovoima and RAOS Project have begun comprehensive reworking of the project schedule. The work will be completed within the first quarter of 2019.

In 2018, documentation was delivered to the Finnish Radiation and Nuclear Safety Authority (STUK) concerning the preliminary probabilistic risk assessment and safety analyses, interim storage for spent nuclear fuel, security arrangements and design materials that are at the conceptual level. By the end of the year, approximately one quarter of all licensing materials had been submitted to STUK.

STUK carried out eight audits of Fennovoima's and the plant supplier's supply chains in 2018. The audits were part of the regulatory inspection program (RKT) related to the processing of the construction license.

Fennovoima submitted the required additional account of its nuclear waste management to the Ministry of Economic Affairs and Employment of Finland. The additional account is part of the construction license application.

With regard to components with long lead times, the design of the reactor pressure vessel and the turbine generator continued during 2018. The design materials for the reactor pressure vessel were updated in 2018 in accordance with STUK's requirements, and sub-

mitted again to STUK for processing. Preparation of the pressure vessel's manufacturing documentation also continued with the development of a construction plan.

With regard to the turbine generator, basic and process engineering as well as quality management documentation have been under development in 2018. In addition, several companies have been assessed and approved into the supply chain. Manufacturing of the main components of the turbine generator is estimated to begin in spring 2019.

The main contractor Titan-2 started a new competitive bidding process on the delivery of the main automation systems (I&C) in autumn 2018 with four potential suppliers.

The general design of the nuclear power plant's power lines was completed and approved in 2018. In September 2018, the Energy Authority granted project permits for the 110 kV and 400 kV power lines to connect the Hanhikivi 1 nuclear power plant to the national grid.

Construction work carried out at the plant site

Preparatory work continued at the plant site in Pyhäjoki, including the establishment of the nuclear power plant construction site. At the end of the year, an average of 209 people were working at the site.

In 2018, the plant supplier continued the construction of facilities such as the site cafeteria for 600 people, accommodation village for 1,000 people and site offices that will be used by the main contractor. The plant supplier's development of support functions continued with the launch of construction work on staff facilities for 2,600 people in the second half of 2018.

The plant supplier began the hydraulic construction and dredging of the nuclear power plant's cooling water discharge channel and continued hydraulic construction and dredging in the cooling water intake area. In addition, the construction of breakwaters began in the sea area in summer 2018.

Further bedrock surveys were carried out in the plant area and near it during 2018. Decisions on possible additional measures will be made in spring 2019.

With regard to Fennovoima's support buildings, new temporary site office for 85 employees as well as a main gate building were commissioned in 2018.

A building permit was granted for Fennovoima's administrative building in June 2018. In September 2018, Fennovoima signed a preliminary agreement on the construction of the administrative building and a plant office with Lehto Group.

Occupational health and safety at the Hanhikivi 1 site

At the end of the year, work had continued at the Hanhikivi 1 site for 299 days with no lost time accidents. Early in 2018, two lost time accidents occurred at the site. There have been no serious accidents.

During the year, Fennovoima has been preparing for the transfer to the ISO 45001 occupational health and safety standard that will replace the current OHSAS 18001 standard.

Cooperation in the Pyhäjoki region

Fennovoima is making preparations for moving operations to the plant site in stages. To facilitate the move, a project to aid the personnel in matters related to the move has been launched. The municipalities of the region are also making various preparations in cooperation with Fennovoima to receive the new residents.

In September 2018, Fennovoima held an on-site open house event, which has already become a site tradition. A record number of 3,400 people visited the site during the day.

Support of the project has remained solid in Pyhäjoki and its neighboring municipalities. According to a survey carried out during October and November, 72.7% of the residents of Pyhäjoki (2017: 75.5%) and 67.2% of the residents of Pyhäjoki and the neighboring municipalities combined (2017: 71.9%) support the construction of a nuclear power plant in the Hanhikivi headland.

Research and development

Fennovoima's research and development operations are closely related to the design and implementation of the Hanhikivi 1 project.

The company contributed EUR 1.8 million to the National Nuclear Waste Management Fund (EUR 1.8 million in 2017). This statutory payment is used for national research projects related to nuclear safety and nuclear waste management.

Environmental aspects

The development of the construction site's environmental management system continued. Following a certification audit, and Fennovoima was granted ISO 14001 certification in February 2018.

Environmental monitoring at the site continued with regard to dust, noise and seawater quality. Surveys of bottom-dwelling animals and aquatic vegetation, required for the water permit, were carried out during the dredging work while there was no ice in 2018.

Fennovoima filed a complaint with the Supreme Administrative Court on the nuclear power plant's environmental permit in January 2018. The Supreme Administrative Court is expected to issue a decision on the matter in spring 2019. In 2018, Fennovoima has prepared a chemical permit application and the related reports.

The company's environmental costs related to research, permit applications and the development of its environmental management system amounted to EUR 0.2 million (EUR 0.4 million in 2017).

Key risks and uncertainties

During the development and construction of the nuclear power plant, the most significant financial risks are related to cost overruns and the availability and cost of debt financing, as well as delays in the commissioning of the plant.

Fennovoima has hedged its risks against cost overruns by entering into fixed-price purchasing contracts, therefore delay will not affect. In addition according to the Shareholders' Agreement, the parent company of the plant supplier (REIN) is obligated to procure debt financing needed during the construction period.

As the plant supplier bears a significant part of the project's risks, Fennovoima monitors the plant supplier to ensure that its risks are managed in accordance with Fennovoima's requirements.

The availability and cost of debt typically have a significant effect on the economic viability of nuclear power projects. Rosatom Energy International (REIN), which is the plant supplier through its subsidiaries and a significant minority shareholder of Fennovoima, is committed to procuring the necessary debt financing for the project during the construction phase, in line with the shareholders' agreement. International sanction policies and changes in the financial markets may affect the ability of the Russian government, Russian banks and other financial institutions and/or export credit agencies to provide funding and the related guarantees for the project and to achieve the target interest rate levels for debt financing.

The most significant risks that could cause a delay in the commissioning of the power plant are related to the progress of the construction license application process and the construction phase.

Significant events after the end of the financial period

There were no significant events after the financial period.

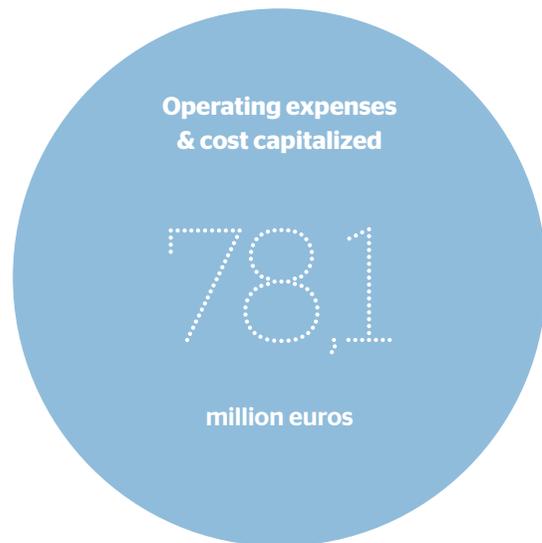
Outlook for 2019

Fennovoima and the plant supplier are together working on a comprehensive project schedule for the Hanhikivi 1 project. The schedule is estimated to be completed during the first quarter of 2019. To ensure more efficient design and preparation work, Fennovoima will revise its operating methods and the cooperation with the plant supplier. Fennovoima's organization will be strengthened by recruiting new specialists. Preparatory work

will continue at the plant site in Pyhäjoki, including the establishment of the nuclear power plant construction site.

The company is not expected to generate revenues, meaning that its operations are expected to be loss-making. The loss is estimated to be on the same level as in 2018.

Key figures 2018



FENNOVOIMA