

FENNOVOIMA

Report of the Board of Directors 2017



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Fennovoima Oy aims to build a new nuclear power plant in Finland and produce stably 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.

Governance and management

Fennovoima's Annual General Meeting (AGM) was held on March 10, 2017. The AGM elected Esa Härmälä (Chairman), Pekka Erkkilä (Vice Chairman), Anastasia Zoteeva, Jussi Lehto, Seppo Siljama, Stefan Storholm and Djurica Tankosic as members of the Board of Directors.

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 2017.

The company's auditors were PricewaterhouseCoopers Oy (Authorized Public Accountants), with Juha Tuomala (Authorized Public Accountant) as the principal auditor until August 8, 2017. Heikki Lassila has served as the principal auditor since August 8, 2017.

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 98.0 million in reserve for invested unrestricted equity.

Personnel

The average number of personnel during the financial period was 290 (254 in 2016; 175 in 2015). The total remuneration was EUR 19.8 million (EUR 19.6 million in 2016; EUR 13.4 million in 2015).

Fennovoima's financial position

Fennovoima had no revenue in 2017. The loss for the financial period was EUR 8.8 million (EUR 7.4 million in 2016; EUR 5.0 million in 2015). At the end of the year, the total assets were EUR 1,385 million (EUR 1,282 million in 2016; EUR 1,194 million in 2015), and the equity ratio was 27.2% (22.4 % in 2016; 19.3% in 2015).

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Fennovoima has EUR 995 million of long-term liabilities. Respectively, the company has receivables such as advance payment of EUR 906 million and interest receivables of EUR 76 million from RAOS Project Oy. In addition, at the end of 2017, Fennovoima signed a long-term credit facility agreement of EUR 500 million, of which EUR 40 million is binding on the creditor. No funds were withdrawn from the facility during 2017.

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 2017 financial year

During 2017, Fennovoima strongly developed its organization and its cooperation with the plant supplier's engineering organization. During the year, Fennovoima hired 71 specialists through seven waves of recruitment. At the end of 2017, the company had 303 employees. Including full-time consultants, the company had 339 employees at the end of the year.

The company continued to review design documentation related to the construction license and submit such documentation to the Radiation and Nuclear Safety Authority (STUK). However, the plant supplier's consideration of Finnish laws and requirements took longer than expected and for this reason, Fennovoima updated in September its estimate on the target schedule for the construction license from 2018 until 2019. Supplier is currently updating project's schedule, which will later be reviewed and approved by the parties.

With regard to components with long lead times, the design of the reactor pressure vessel and the turbine island was started during 2017. In August, Fennovoima and the STUK approved the supplier of the reactor pressure vessel and audited its manufacturing plant in Ukraine.

STUK carried out 12 audits of Fennovoima's and the plant supplier's supply chains in 2017. The audits were part of the regulatory inspection program (RKT) related to the processing of the construction license.

The project's supply chain became stronger during the year. A significant selection was made in June, when the main contractor, Titan-2, selected the British Rolls-Royce and the French Schneider Electric as the preferred suppliers of automation systems for the nuclear power plant. Rolls-Royce, the main supplier, would provide the protective automation systems, with Schneider Electric supplying the automated operating system.

Fennovoima continued to carry out studies related to the final disposal of spent nuclear fuel in cooperation with Posiva Solutions Oy, in line with the agreement signed between the two companies in 2016. As part of the cooperation, studies were started concerning the target properties of the final disposal location, in addition to research related to the final disposal of low and intermediate level waste.

Fennovoima published its first corporate responsibility report in April. In February, Fennovoima was accepted as a member of the UN Global Compact initiative.

Preparatory work continued at the plant site in Pyhäjoki, including the preparation of establishment of the nuclear power plant construction site.

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Significant progress was made in terms of Fennovoima's supporting buildings, as the training building was taken into use in January, and the main gate building was completed in August. The main contractor started during the year the construction of an accommodation village for 1,000 people and the site offices for the plant supplier.

Terramare continued to carry out hydraulic construction and dredging work from May to November. In May, Terramare also participated in a joint oil spill prevention drill for the authorities and the parties involved in the Hanhikivi 1 project.

A new work phase began on the construction site in August, when Tallqvist Infra Oy began the crushing of excavated stone. The advance testing of concrete mixes in concrete mixing plants started in September, and a meteorological mast supplied by Aerial Oy was erected on the site in December. Destia Oy carried out the grouting of the bedrock surrounding the power plant pit excavation between May and December.

No lost time accidents occurred on the Hanhikivi 1 construction site during 2017.

The company continued to cooperate closely with the municipality of Pyhäjoki and other local stakeholders. During an open house event in September, a total of 2,500 people visited the Hanhikivi 1 construction site.

Support for the power plant project increased significantly in 2017 from the previous year. According to opinion surveys completed in December, 75 percent of Pyhäjoki residents support the Hanhikivi 1 project (67.4% in 2016). In total, 71.9 percent of the residents of Pyhäjoki and its neighboring municipalities of Kalajoki, Merijärvi, Oulainen and Raahen are in favor of the project. This represents an increase of 9.9 percentage points in comparison with 2016.

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 1.7 million in 2016). 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 continues. Following a certification audit carried out in November 2017, Fennovoima will be granted ISO 14001 certification in early 2018.

Fishery monitoring was carried out during the open water season in 2017, in line with water permit decisions. Environmental monitoring was also carried out with regard to dust, noise and seawater quality.

The company filed an application to amend the water permits required for the cooling water intake structure and the marine spoil disposal area with the environmental authorities. In December 2017, the Administrative Court of Vaasa issued its decision on the complaints filed against the environmental permit for Fennovoima's nuclear power plant.

The company's environmental costs related to research, permit applications and the development of its environmental management system amounted to EUR 0.4 million (EUR 0.9 million in 2016).

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Key risks and uncertainties

The company's risk management aims to support the achievement of the goals set for its operations and to prevent negative effects by identifying risks as early as possible and by actively taking corrective and preventive measures. 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.

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.

The availability and cost of debt typically have a significant effect on the economic viability of nuclear power projects. JSC Rusatom Energy International (REIN), which is the plant supplier through its subsidiaries and a significant minority shareholder of Fennovoima, has committed to procure 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 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

In January 2018 Fennovoima has delivered a required supplement to its construction license application relating to nuclear waste management to the Ministry of Economic Affairs and Employment.

Outlook for 2018

The plant supplier will continue to carry out planning and preparatory work related to the plant. The excavation work related to the plant site will continue, along with the construction of the auxiliary buildings that will serve the power plant operations. In addition, the company will continue to strengthen its organization significantly.

The company is not expected to generate revenues, meaning that its operations are expected to be loss-making.

Key figures 2017

