Elenia Holdings S.à r.l.

Consolidated Financial Statements

1 January 2018 - 31 December 2018

Address of the registered office :

20, Boulevard Royal
L-2449 Luxembourg

R.C.S. Luxembourg : B 181.773

Share capital : EUR 14.000

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Société à responsabilité limitée
20, Boulevard Royal
L-2449 Luxembourg
Share Capital: EUR 14,000
R.C.S. Luxembourg: B 181.773
(hereinafter the "Company")

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2018

Dear shareholders of the Company,

In accordance with the provisions of the Luxembourg law of 10 August 1915 on commercial companies as amended, the Board of Managers of the Company ("**Board of Managers**") hereby submits to you the consolidated management report for the financial year 2018.

1. Elenia group company structure - overview

The Company holds all the shares in Elenia Oy, a Finnish limited liability company and having its registered office at Patamäenkatu 7, Tampere. The Company together with Elenia Oy and its subsidiaries are hereafter referred to as the "Group". The Company is part of a group of companies which invests in Elenia Sub-group (the "**Sub-Group**"). The Sub-Group consists of Elenia Oy, Elenia Lämpö Oy, Elenia Palvelut Oy and Elenia Finance Oyj.

The Group has three business lines:

- Elenia Oy ("Elenia Networks") owns and operates an electricity distribution network which is the main business of the Group accounting for over 75% of revenues and over 85% of EBITDA;
- Elenia Lämpö Oy ("Elenia Heat") owns and operates a district heating business; and
- Elenia Palvelut Oy ("Elenia Services") operates a customer service business.

These business functions are supported by Elenia Finance Oyj ("Elenia Finance"), which provides treasury services to the Group companies. Elenia Holdings S.à r.l. is the parent company of the Group.

As at 31 December 2018, the subscribed share capital of the Company is divided into 1,400,000 shares fully paid up with a nominal value of EUR 0.01 each. Lakeside Network Investments Holding B.V. holds 1,250,000 shares in the Company corresponding to 89% of the share capital of the Company. Elenia Finance SPPS S.à r.l. holds 150,000 shares in the Company corresponding to 11% of the share capital of the Company.

At 1 January 2018, the Company's ultimate parents, were 3i Networks Finland L.P. a limited partnership company duly incorporated under the law of the United Kingdom (16 Palace Street, SW1E 5JD London, Great Britain), GS International Infrastructure Partners II, L.P. and GS Global Infrastructure Partners II, L.P.two limited partnership companies duly incorporated under the law of the state of Delaware (USA) (1209, Orange Street, Wilmington) and Ilmarien Mutual Pension Insurance Company a mutual insurance company duly incorporated under the law of Finland.

On 28 February 2018, the Group was acquired by a consortium of infrastructure investors: Société Foncière Européenne B.V. (SFE) and Allianz Infrastructure Luxembourg I S.à r.l. (AIL) (together 45%), Elton Ventures S.à r.l. (45%) and Valtion Eläkerahasto (VER) (10%). SFE and AIL are fully indirect subsidiaries of Allianz SE, and therefore members of the Allianz Group. Elton Ventures S.à r.l. is a wholly owned indirect subsidiary of Macquarie Super Core Infrastructure Fund SCSp managed by Macquarie Infrastructure and Real Assets (Europe), who is part of Macquarie Asset Management Group. VER is the State Pension Fund of Finland.

2. Financial Performance

The Group's revenue in 2018 was EUR 349.7 million (EUR 338.8 million in 2017). The 3.2% revenue growth was mainly driven by higher volumes due to cold weather especially in March 2018 and increases in electricity distribution tariffs. The Group increased its tariffs by on average 9.4% in May 2017 and 9.9% in August 2018 to finance the continued investments in underground cabling. Due to taxes, the actual increases on customer invoices were approximately 6%. IFRS 15 came into effect on 1 January 2018 and the Group changed its revenue recognition for connection charges related to new connections in both the Networks and Heat Businesses. Without the impact of IFRS 15, the increase in revenues would have been significantly higher: the comparable revenue in 2018 is EUR 359.5 million, which is 6.1% higher than revenue in 2017.

In 2018, the Group's EBITDA was EUR 194.4 million (EUR 187.9 million in 2017). The growth in EBITDA was mainly driven by higher revenues. EBITDA excluding non-recurring and exceptional items was EUR 196.0 million in 2018 (EUR 190.9 million in 2017). The non-recurring and exceptional items in 2018 include costs relating to Elenia Heat's minor oil leakage in Vuohkallio (in city of Heinola), metering correction related to a single customer for the period of 2015-2017, and other minor costs.

Elenia Group (EUR million)	2018[1]	2017	2016	2015	2014
Revenue	349.7	338.8	315.3	282.3	299.7
EBITDA	194.4	187.9	168.4	135.6	153.9
EBITDA excluding non-recurring and exceptional items	196.0	190.9	176.3	152.2	156.2
EBITDA margin (excl. non-rec. and exceptional items)	*56.1%*	*56.3%*	*55.9%*	*53.9%*	*52.1%*

[1)]The revenue for 2018 not comparable with 2017 due to implementation of IFRS 15

3. Risk management

The Group undertakes comprehensive risk management at its operation in Finland covering risk identification, assessment, reporting and measures to manage risks in cooperation with business units and other Group functions.

Currency risk

The Group's subsidiaries operate in Finland and uses the euro as its primary operating currency. The Group's currency risk is based on purchases of raw materials and services denominated in currencies other than the euro. The purchases of raw materials and services denominated in currencies other than the euro have a negative effect on the Group's result and cash flow in the event that the currencies in question appreciate against the euro. As the Group's purchasing operations are currently primarily focused on Finland, the currency risk related to purchasing is limited.

The Group has guidelines for the management of currency risk as part of the purchasing policy for network operations approved by the Executive Board of the Sub-Group. According to the guidelines, currency risks that have an impact on profit or loss are hedged either operationally through contractual currency rate clauses or, if that is not possible, through forward contracts concluded by the Treasury unit.

Operating profit includes EUR 7.6 thousand exchange rate differences (2017: EUR 0.1 thousand). Finance costs include EUR (6.6) thousand exchange rate differences (2017: EUR (1.9) thousand). At the end of 2018, there were no receivables or liabilities in other currencies than in euro.

Credit risk

Due to electricity distribution companies having regional monopolies based on electricity distribution system licenses, customers do not have the option of choosing which distribution company's network they connect to. As a result, the local distribution company always provides electricity distribution services, with the exception of electricity generation customers who, pursuant to the Finnish Electricity Market Act, have the right to choose which electricity distribution company's network to connect to.

Invoicing for electricity distribution services is based on measured consumption and the distribution tariffs specified in the public electricity network price list. The invoicing period may be one month or two months. In the event that a customer fails to pay the invoice, the electricity distribution company has the right to discontinue the supply of electricity after sending the required collection letters. Also the wide fragmentation of the customer base reduces the credit risk.In district heating business operations, the credit risk is based on the difference between the invoicing period and the heating supplied. Credit risk is mitigated by monthly invoicing.

Liquidity risk

Liquidity risk refers to the risk of the Group not having adequate liquid assets to finance its operations, pay interest and repay its loans. The management of liquidity risk is divided into short-term and long-term liquidity management. Short-term liquidity risk is managed by cash flow planning that takes into account the expected trade receivables, trade payables and other known expenses for a period of two weeks. The adequacy of long-term liquidity is assessed by 12-month forecasts conducted monthly.

Refinancing risk

Elenia Finance Oyj issues bonds and notes. Bonds are issued under the EUR 3 billion EMTN programme and listed at the London Stock Exchange. Notes are not listed and issued through private placements targeted mostly to the US investors through private placements.

At the end of 2018, the Group has borrowed from the international banks EUR 40.0 million using the Working Capital Facility and EUR 18.0 million using the Capex Facility (2017: no bank loans). In December 2018, Elenia Oy agreed on EUR 150.0 million credit with European Investment bank. The loan can be drawn within 18 months from the agreement and the maturity of the loans will be 7-10 years from the drawdown. There were no drawdowns from the credit at the end of 2018. The Group has other long-term loans totaling EUR 252.2 million, which are subordinated to the Bonds and Notes.

In June 2018, the Company's indirect subsidiary Elenia Finance Oyj issued EUR 161.0 million bonds, which will mature in 2035. Elenia Finance Oyj used the proceeds of the Notes and Bonds to make an equity investment in Elenia Finance (SPPS) S.à r.l., its wholly owned subsidiary. Elenia Finance (SPPS) S.à r.l. then lent the amount of the proceeds to the Company through a subordinated profit-participating security (the SPPS). The Company used the amounts under the SPPS to subscribe for additional equity in Elenia Oy. The proceeds were used for general corporate purposes, to repay Elenia Oy's bank debt and to finance investments.

Interest rate risk

The Group is exposed to interest rate risk mainly through its interest-bearing net debt. The objective of the Group's interest rate risk management is to limit volatility of interest expenses in the consolidated statement of profit or loss. The Group's interest rate risk management is handled by the Group Treasury. The interest rate risk is managed by entering into interest rate swaps and by drawdown of loans with fixed interest. At the balance sheet date 95% (2017: 98%) of the loans were fixed rate loans.

A parallel shift of +/- 1.0 percentage points in the interest rate curve at the balance sheet date would have EUR +/- 0.5 million (2017: EUR +/-0.2 million) effect on the interests relating to floating rate.

4. Business Review – Electricity Distribution

Elenia Networks is Finland's second largest electricity distribution system operator ("DSO") with a 12% market share by number of customers. Elenia Networks is a regional monopoly serving all customers in the regions in which it operates as defined by the licence granted by the Energy Authority ("EA"). The relevant licence holder has the exclusive right to build and operate an electricity distribution network in its area of responsibility.

With an electricity network of approximately 71,800 km, Elenia Networks supplies electricity to approximately 430,000 end-users. In addition to residential customers, key customer segments include industrial, services, construction and public sectors. The company has operations in more than 100 cities and municipalities spanning a geographical area of nearly 600 km in length across central Finland, from Southern Häme to Northern Ostrobothnia.

In 2018, Elenia Networks distributed 6,440 GWh (6,342 GWh in 2017) of electricity, which is 1.5% more than in 2017. Elenia Networks' total revenue (including intra-group items and other operating income) was EUR 273.2 million (263.1 million in 2017). The 3.8% increase in total revenue was attributable to higher volumes due to cold weather, an increase in electricity distribution tariffs, and an increase in the number of customers. The IFRS 15 comparable total revenue is 282.5 million, which is 7.4% higher than 2017 total revenue.

Elenia Networks' EBITDA in 2018 was EUR 169.0 million (EUR 161.2 million in 2017). The growth in EBITDA was primarily driven by the increase in revenue described above.

The weather conditions in 2018 were reasonably benign and while there were several smaller storms in Finland, Elenia didn't experience any major storms. The most recent major storms during 2016-2018 have been Sauli in March 2017 (Class 3 storm, maximum number of customers without electricity simultaneously was less than 22,000) and Rauli in August 2016 (Class 4 storm, maximum number of customers without electricity simultaneously was approximately 96,000). SAIDI (System Average Interruption Duration Index), a measure of the duration of outages, was 95 minutes during the year (94 minutes in 2017).

During 2018, Elenia Networks continued to invest in the electricity network in accordance with its development plan. Elenia Networks' investment plan has been designed to improve the security of supply via underground cabling. Elenia Networks has built only weatherproof underground cables since 2009. At the end of 2018, 45.1% of the network was underground, up from 41.1% at the end of 2017.

At the end of 2018, Elenia Sub-Group launched a procurement process for next generation smart meters. The procurement process continues during 2019 and the roll out of the new smart meters will take 2 to 3 years after the procurement has been completed.

In 2018 the Sub-Group began the process to define and acquire a new ERP system to further improve the management of the network business and financial operations. The Sub-Group also continues to invest in other technological solutions such as robotics, business intelligence and data analytics and has set a goal to develop its cybersecurity management to reach the ISO 27001 standard by the end of 2019.

The Electricity Market Act ("EMA") states that 100% of customers must be within the scope of the quality requirements by the end of 2028[1]. This will be achieved by increasing the cabling rate to 75% by the end of 2028. At the end of 2018, approximately 62% of the Sub-Group's customers were within the scope of the EMA quality requirements. While the main focus in relation to the development of the security of supply remains on underground

[1] EMA stipulates that by end of 2028 all customers (100%) need to be connected to a secure network where outages cannot last more than 6 hours in zoned areas and not more than 36 hours in other areas. By end of 2019 50% customers must be connected to a secure network, 75% by end of 2023 and 100% by end of 2028.

cabling, the Sub-Group also seeks to improve the security of supply by other means. For example, in recent years Elenia Networks has developed an efficient model for tree clearance outside line corridors.

Elenia Networks invested EUR 148.1 million in developing its electricity network in 2018, of which EUR 146.4 million was Regulatory Asset Value ("RAV") accretive. Investment in the electricity network will continue in 2019 and Elenia Networks deploys approximately EUR 145 million primarily to construct approximately 3,000 km of underground cables.

The Sub-Group continued to further develop its asset management system according to the PAS 55-1:2008 standard and the international standard ISO 55001:2014. The requirements of both PAS 55 and ISO 55001 guide the construction, operation, maintenance and repair of Elenia's electricity network. This ensures that Elenia Networks will improve the way it operates, maintains and upgrades its electricity network in order to respond to its customers' needs. The certificates also require that the suppliers and service providers commit to responsible, high-quality operations.

Lloyd's Register conducted a surveillance visit to assess Elenia Networks' asset management system in June 2018. During the assessment, Elenia Networks demonstrated that it has in place asset management processes, systems and plans which have been implemented throughout the organization and continue to be in line with the relevant standards. The next surveillance visit is in June 2019 and recertification in November 2019.

Elenia Networks' existing OHSAS 18001 based occupational health and safety management system was certified according to the new international ISO 45001:2018 standard in May 2018. The next external surveillance audit will take place in April 2019. In addition, Pöyry Finland Oy performed a WHSE audit in September 2018 as part of the Sub-Group's ongoing focus on quality and operational excellence. WHSE audit resulted in a few improvement proposals which Elenia Networks is currently implementing.

The EA supervises the operations of Finnish DSOs. The regulation is based on four-year regulatory periods. The current year marks the end of the fourth regulatory period (2016–2019). The reasonable rate of return declined from 7.05% in 2017 to 6.62% in 2018 due to a change in the risk-free rate. The EA has confirmed that the reasonable rate of return for 2019 is 6.20%. The regulatory guidelines provide stability for the industry and enable the continuation of Elenia Networks' security of supply driven investment programme as planned.

The EA has published selected preliminary key figures, including Regulatory Asset Base ("RAB") and regulatory deficit/surplus for all Finnish DSOs for 2017. Elenia Networks' RAB was EUR 1,495.8 million and regulatory deficit was EUR 44.4 million. The Sub-Group's cumulative regulatory deficit after taking into account the surplus carried over from the third period was EUR 14.8 million at the end of 2017. The publication of these figures was preceded by discussions between Elenia Sub-Group and the EA and, whilst Elenia Sub-Group is confident that these numbers will not change, they should be considered preliminary until the final regulatory decision has been given by EA. The EA will confirm the final regulatory deficit and surplus amounts as well as final RAB figures after the end of the entire fourth period, i.e. in 2020. Therefore, the Group is not publishing its own calculation of 2018 regulatory deficit, the cumulative regulatory deficit or RAB.

5. Business Review – Heat Business

Elenia Heat owns and maintains 16 district heating networks across Finland, primarily in the Häme and Keski-Suomi regions. Elenia Heat has approximately 5,000 customers and approximately 85,000 end-users. The business is well established and an integral part of the Finnish utility market in the regions it serves. District heating is the leading heating solution in Finland. It involves the distribution of heat generated in centralised locations for residential and commercial heating through a distribution network. In Finland, the market share of district heating is approximately 46%. Compared to alternatives, district heating is reliable, easy to use, cost efficient and expensive to replace. Elenia Heat is Finland's tenth-largest seller of district heating and the second-largest private seller of district heating. In addition to district heating, Elenia Heat is also engaged in the sale and distribution of natural gas and in the sale of the electricity that it generates.

Elenia Heat primarily produces its heat via wood, peat, natural gas and oil. In 2018, biofuels accounted for 69% of Elenia Heat's production volume (70% in 2017), and approximately 86% of the fuel used was of domestic origin. Elenia Heat purchases approximately 31% of its total heat volumes from third party companies, including energy companies and the local industry. The fuel and energy are sourced using long-term procurement contracts.

In 2018, Elenia Heat's sales volume of heat, gas and electricity totalled 1.1 TWh (1.1 TWh in 2017). Elenia Heat's total revenue (including intra-group items and other operating income) in 2018 was EUR 78.5 million (EUR 78.9 million in 2017). The 0.5% decrease in total revenue was attributable to lower other operating income. District heating revenue increased slightly due to price increase in August 2017, and electricity revenue increased due to higher electricity price. The IFRS 15 comparable total revenue is EUR 78.9 million. Due to extraordinary costs of EUR 0.7 million related to the Heinola oil leakage, Elenia Heat's EBITDA in 2018 decreased to EUR 25.2 million (EUR 25.6 million in 2017).

The Supreme Administrative Court rejected Elenia Heat's appeal of higher Vanaja K4 boiler emission limits. Elenia Heat is taking measures to comply with the stricter emission limits applicable to the K4 boiler for the remaining 18 months the boiler is intended to be used. As announced in November 2018, Elenia Heat has decided to invest EUR 30 million in a new biofuel boiler which will replace the K4 boiler in late 2020.

6. Business Review – Service Business

Elenia Services provides customer service and related services to the Elenia Sub-Group's and other Finnish utilities, including invoicing, collection, connection sales, outage management and electricity market information exchange services. During 2018, Elenia Services continued steady growth in the customer service business and the company entered into a customer service arrangement with Lahti Energia Oy. Elenia Services has, in addition to Lahti Energia Oy, three external third party customers, Jyväskylän Energia Oy, Tampereen Sähkölaitos Oy and Auris Kaasunjakelu Oy.

In 2018, Elenia Services' total revenue (including intra-group items) was EUR 10.5 million (EUR 9.5 million in 2017). Of this, the total revenue from external customers amounted to EUR 2.4 million in 2018 (EUR 1.3 million in 2017). Elenia Services' EBITDA was EUR 1.8 million in 2018 (EUR 1.1 million in 2017).

Excellent customer service is a key strategic goal for the Elenia Group. Customer service and process quality are also critical success factors for Elenia Services to grow in the customer service business in the Finnish energy sector.

7. Financing

In 2018, the Group continued to benefit from favourable market conditions and strong investor demand for long-dated investment grade bonds. Elenia Finance Oyj issued bonds under its EMTN programme for EUR 161 million (EUR 75 million in 2017). No private placements were issued during the year (EUR 138.5 million in 2017). The proceeds were used for general corporate purposes and to finance investments.

The tenor of new issuance was 17 years. The weighted average maturity of Elenia Sub-Group's debt declined slightly to 9.6 years (9.9 years at the end of 2017), excluding the other long-term loans and bank facilities. The weighted average interest rate (excluding other long-term loans and bank facilities) was 2.9% in 2018 (2.9% at the end of 2017).

The Group's credit facilities consist of a EUR 350 million Capex Facility, a EUR 60 million Working Capital Facility and a EUR 60 million Liquidity Facility. The Capex Facility and Working Capital Facility were extended by one year in June using the first of the two extension options. The Group envisages to use the second option during 2019. The Liquidity Facility was renewed during 2018 as well. In December 2018, the Group also agreed a long-term credit facility of EUR 150 million with the European Investment Bank ("EIB") for financing of capital expenditure related to security of supply.

The Group continues to have a strong liquidity position. As at 31 December 2018, cash and cash equivalents were EUR 17 million (EUR 25 million in 2017) and EUR 58 million of the credit facilities was drawn at the year-end (undrawn at the end of 2017). At the year-end, the EIB credit facility was still undrawn.

Elenia Finance Oyj has a rating from Standard & Poor's ("S&P"), who published their most recent credit rating for Elenia Finance Oyj in December 2018 and kept the rating unchanged (BBB, outlook stable). S&P regards Elenia Sub-Group's business risk profile as excellent, mainly due to the fully regulated electricity distribution business, which accounts for approximately 85% of the group's EBITDA. S&P also considers the Finnish regulatory framework for electricity distribution network companies to be well established, predictable, and supportive.

The Group has interest coverage ratio ("ICR") and leverage ratio ("LR") covenants in its finance documentation. In July 2018, in accordance with the requirements of the Common Terms Agreement ("CTA")[2], the Group proposed to the Security Trustee and the Secured Creditors certain amendments to the financial covenant levels. The purpose of the amendments is to mitigate the impact of implementing the IFRS 15 standard which became effective on 1 January 2018 obliging the Group to change the revenue recognition of connection charges. The change affects only figures such as EBITDA that are reported in accordance with IFRS, it has no impact on taxes, cash flows or regulatory accounting.

Following satisfaction of the quorum requirement and receipt of a direction from participating qualifying secured creditors representing a simple majority of voted qualifying debt in favour of the proposal, the Group and the Security Trustee have entered into an amendment and

[2] Elenia's financing is based on three core financial documents and all financiers are parties to these agreements. These documents are CTA, Security Trust and Interceditor Deed ("STID") and Master Definitions Agreement ("MDA").

restatement agreement on 3 September 2018, amending and restating the CTA and the Master Definitions Agreement to give effect to and to implement the proposal. For each relevant period until 31 December 2027 ("the First Ratio Adjustment period"), the trigger event ratio levels are 1.46 for ICR and 10.18 for LR and the default ratios are 0.96 for ICR and 11.33 for LR.

The Group retains adequate headroom to both ICR and LR covenants on a historical and forward-looking basis. Elenia Group is in compliance with these financial covenants.

Treasury shares

Own equity instruments that are reacquired (treasury shares) by a subsidiary are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. During 2018, there was no change in the treasury shares value.

8. Employees

The Sub-Group changed its organisation in 2018 to streamline its operations and to increase the distinction between the regulated and unregulated businesses. The new organisation became effective on 1 January 2019. There were several changes, but the most significant was the transfer of the project management and construction business unit from Elenia Networks to Elenia Services.

At the end of 2018, the Group employed 360 people (349 in 2017). The following table illustrates the headcount and Full Time Employees ("FTEs") per company.

	31.12.2018		31.12.2017	
	Headcount	FTE	Headcount	FTE
Elenia Oy and Elenia Finance Oyj	179	171	180	173
Elenia Lämpö	87	87	79	79
Elenia Palvelut Oy	94	80	90	79
Group Total	**360**	**338**	**349**	**332**

Close cooperation with local partner companies is an integral part of the Group's operations. Including the personnel of external sub-contractors, the Group's business operations employ approximately 1,000 people.

9. Corporate Governance

On 28 February 2018, the Group was acquired by Valtion Eläkerahasto, Allianz Capital Partners on behalf of the Allianz Group and Macquarie Super Core Infrastructure Fund. Subsequently, there were several changes to Elenia Networks' Board of Directors (the "Board"). On the same day Robert Clark, Heidi Koskinen, Kunal Koya, Timothy Short and Phil White ceased to be directors of Elenia Networks and were replaced by Martin Bradley, Mark Braithwaite, Michael Pfennig and Jörg Spanier. On 27 April 2018, Sirpa Ojala became a director of Elenia Networks. On 25 October 2018, Martin Bradley was replaced by Mr. Thomas Metzger. Timo Rajala continues as the chairman of the Board.

The Board had three committees: audit and risk committee (chaired by Mark Braithwaite), remuneration and nomination committee (chaired by Timo Rajala) and safety, health, environment and security committee (chaired by Martin Bradley until replaced by Mr. Thomas Metzger as the new chair).

From 28 February 2018, the Board of Managers of the Company namely Mrs. Yvanna Esomba, Mr. Antoine Clauzel and Mrs. Marielle Stijger were replaced by Mr. Livio Gambardella, Mrs. Stephanie Meyer, Mrs. Caroline Goergen and Mr. Thomas Metzger and Mr. Sergii Tarnakin.

On December 21, 2018, the Board of Managers of the Company namely Mrs. Roberta Masson and Mr. Liviu Rusu were replaced in the Board by Mrs. Dirk Raab and Mrs. Rosa Rodriguez Villalobos.

The Board of Managers of the Company has convened five times in 2018.

The Sub-Group established a separate strategy unit to lead the development of both the group and business level strategies. Dr. Jouni Pylvänäinen was nominated as Head of Strategic Development and member of the management team effective as of 1 September 2018. There were no other changes in the management team during 2018.

At the date of the change in ultimate parent, the registered office of the Company changed from 2 Rue du Fossé, L- 1536 Luxembourg to 9 Allée Scheffer, L-2520 Luxembourg. On December 21, 2018, the registered office of the Company was moved from 9, Allée Scheffer, L-2520 Luxembourg to 20, Boulevard Royal, L-2449 Luxembourg.

10. Research and development

Own equity instruments that are reacquired (treasury shares) by Research and development ("R&D") costs are recognised as an expense in the year in which they are incurred. Research and development costs are included in the consolidated statement of profit or loss under personnel costs and other operating expenses. As research expenses, these costs do not meet the criteria for capitalisation. The total amount of R&D expense was EUR 2.5 million (2017: EUR 1.8 million).

11. Corporate Responsibility

In 2018, the Sub-Group participated for the first time in the Global Real Estate Sustainability Benchmark ("GRESB") Infrastructure Assessment. GRESB is a responsibility-focused research and benchmarking organisation tailored to real estate and infrastructure companies. It works to promote operational responsibility and to gather valuable international data to compare the operations and performance of companies. The GRESB assessment looks at the environmental, social and governance ("ESG") performance of a company and how it has succeeded in the three areas.

A total of 280 infrastructure companies took part in the GRESB Infrastructure Assessment around the world. The Sub-Group scored the full five stars in the assessment and a total score of 81, which is well above average of the infrastructure companies taking part in the assessment. The Sub-Group was placed on 17th in the total results. Out of the 173 European companies, Elenia Network was 12th. In the Network Utility Sector, Elenia Network placed 5th out of 26 companies. Out of 11 private European network companies, Elenia Network was 4th.

Elenia Network will utilise the GRESB Assessment's results in developing and executing its own ESG development programme as well as in following the development of the industry. Elenia intends to participate in the GRESB assessment also in 2019. In 2018 Elenia started the development of its ESG programme and reporting based on GRI (Global Reporting Initiative). The first report will be published in 2019.

The Group aims to ensure that its employees and partners work in a safe and motivating environment. In addition to highly competent and professional employees, the safety work is based on safe equipment, processes and operating models as well as visible safety management.

In addition, the Group provides its employees with general information on topical occupational safety and environmental issues and an opportunity to participate in training that facilitates the improvement of their professional skills and competences. Supervisors and employees working on site are required to successfully complete Occupational Safety Card training and ensure that their statutory qualifications are up to date. Compliance with regulations is monitored regularly. The Group has an externally certified occupational health and safety management system in place. The Group operates in accordance with the principle of continuous improvement with the aim of being a leading company in occupational safety. The Group and its extensive partner network have a target of zero occupational accidents and zero defects in all stages of construction. In 2018, Elenia Networks together with its partners had Loss Time Injury Frequency[3] of 5.2 (10.0 in 2017). Elenia Networks started a project Safely back Home in autumn 2018 with its contracting partners to strengthen safety culture and to develop common safety practices. The safety project will continue in 2019.

12. Environmental Matters

Elenia Networks, Elenia Services and Elenia Heat have systematic Environmental Management Systems ("EMS"). Since 2008, Elenia Networks has been certified as having an ISO 14001 EMS. In 2016 Elenia Networks', Elenia Heat's and Elenia Services' EMS were recertified to ISO 14001:2015. In addition, external sub-contractors are required to have environmental management systems that support environmental work and are in line with the ISO 14001 standard.

The most significant environmental aspects of the Sub-Group's operations are related to land use, the protection of soil and water areas, waste handling, the preservation of biodiversity, the control of greenhouse gas emissions and material and energy efficiency. In line with its strategy, the Group takes safety and the environment into consideration in all decision-making through the development and use of its Environmental Policy for sustainable development. Environmental matters are integral to the Group's corporate culture, and its operations are based on continuous improvement. The goal is to reduce the environmental effects of all operations and lead the way in environmental management in the industry.

[3] Lost Time Injury Frequency (LTIF), the number of lost time injuries occurring in all Elenia Networks' activities per 1 million internal as well as external hours worked. Lost time injuries include all on-the-job injuries that require a person to stay away from work more than 1 day. Total LTIF = (ΣLTI*1.000.000 h) / (Cumulative internal & external hours).

Elenia Heat continues its efforts to improve operational efficiency and maintain a high rate of efficiency at production plants. The development of the fuel portfolio and the efficient utilisation of existing equipment and systems will continue to be a priority. In 2018, Elenia Heat continued to reduce the use of fossil fuels in its heat and electricity production and emphasise the use of domestic fuels. Both of these will continue to be important goals going forward. The share of biofuels in Elenia Heat's own production operations was almost 70% in 2018, while the share of domestic fuels is approximately 86%.

13. Events after the Balance Sheet Date

In January 2019, Storm Aapeli ("Aapeli") caused outages in certain areas of the Sub-Group's distribution network served by overhead lines. The Sub-Group was prepared for the storms and worked to mitigate the impact on customers. The maximum number of customers simultaneously without electricity was less than 39,000. All connections were restored in 52 hours. The costs related to Aapeli include approximately EUR 1.7 million of fault repair costs, approximately EUR 1.5 million of mandatory outage compensations to customers for outages lasting more than 12 hours and approximately EUR 0.3 million of proprietary voluntary customer compensation for outages lasting more than 6 hours.

After Storm Aapeli, January 2019 was cold with substantial snowfall, which caused heavy snow loads in trees and subsequently power outages in Elenia Networks' electricity distribution network. The snow load situation continued until mid-February 2019. Elenia Networks conducted extensive helicopter inspections and additional tree clearing outside line corridors to remove the trees from overhead lines and also as preventive measures to avoid further power outages.

Jouni Pylvänäinen resigned from his position as Head of Strategic Development in January 2019.

Elenia Networks has commenced a strategic review of its interests in Elenia Heat and its associated subsidiary. At this time there is no certainty as to the decisions which may ultimately be made on conclusion of this strategic review.

14. Outlook

Customers, as well as the surrounding society, require secure supply of electricity and fast and reliable internet connections now and in the future. In order to meet these expectations, Elenia Networks has prepared an investment plan which emphasises the significance of underground cabling to ensure the security of electricity supply. Additionally, the Group is also exploring the possibility to expand into broadband fiber business by laying down fiber optic broadband cables at the same time when electricity underground cables are installed, which improves efficiency and sustainability for not only the Group but also for the Finnish society as a whole. Previously, the Group has cooperated with broadband telecom companies in co-construction projects in areas where existing telecom companies have been expanding their network. Entry into the fiber business would mean that the Group would offer fiber access in areas where the Group is installing underground cables and none of the telecom companies currently have existing broadband network.

The Group's target is to increase the underground cabling rate of the electricity distribution network to 75% by 2028. This requires substantial investments. The Group's investments in the electricity distribution network will be approximately EUR 145 million in 2019.

The EA has confirmed that the regulatory WACC is 6.20% for 2019. The Sub-Group's is forecasting a regulatory deficit for 2019 and a cumulative regulatory deficit for the entire fourth regulatory period. This regulatory deficit will be carried over to the fifth regulatory period.

Luxembourg, 6 March 2019

On behalf of the Board of Managers of the Company

Caroline Goergen

Manager

Ernst & Young
Société anonyme

35E, Avenue John F. Kennedy
L-1855 Luxembourg

Tel: +352 42 124 1

www.ey.com/luxembourg

B.P. 780
L-2017 Luxembourg

R.C.S. Luxembourg B 47 771
TVA LU 16063074

Independent auditor's report

To the Shareholders of
Elenia Holdings S.à r.l.
20, Boulevard Royal
L-2449 Luxembourg

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Elenia Holdings S.à r.l. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under those Law and standards are further described in the "responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Managers is responsible for the other information. The other information comprises the information included in the consolidated management report but does not include the consolidated financial statements and our report of the "réviseur d'entreprises agréé" thereon.

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Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Managers and those charged with governance for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, the Board of Managers is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers.

- Conclude on the appropriateness of Board of Managers' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Zeeshan

Zeeshan Ahmed

Luxembourg, 6 March 2019

Elenia Holdings S.à r.l.

Consolidated Statement of Profit or Loss

for the year ended 31 December 2018

EUR 1,000	Note	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Revenue	2.1.1	**349,734**	**338,806**
Other operating income	2.2.1	3,967	3,620
Materials and services		(117,639)	(112,494)
Employee benefit expenses	2.3.3	(20,002)	(21,723)
Depreciation, amortisation and impairment	3	(89,496)	(86,280)
Other operating expenses	2.3.1	(21,935)	(20,570)
Operating profit		**104,629**	**101,359**
Finance income	4.1	255	210
Finance costs	4.1	(93,771)	(100,880)
Share of profit of an associate	5.4	143	164
Finance income and costs		**(93,373)**	**(100,506)**
Profit before tax from continuing operations		**11,256**	**853**
Income tax	6.1.1	(4,453)	(882)
Profit/(loss) for the year		**6,803**	**(29)**

The accompanying notes are an integral part of these consolidated financial statements.

Elenia Holdings S.à r.l.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

EUR 1,000	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Profit/(loss) for the year	**6,803**	**(29)**
<u>Other comprehensive income/(loss)</u>		
Other comprehensive income not to be reclassified to profit or loss in subsequent years:		
Re-measurement gains on defined benefit plans	56	39
Income tax effect	(11)	(8)
Other comprehensive income for the year after tax	45	31
Total comprehensive profit for the year	**6,848**	**2**

The accompanying notes are an integral part of these consolidated financial statements.

Elenia Holdings S.à r.l.

Consolidated Statement of Financial Position

as at 31 December 2018

	Note	31 December 2018	31 December 2017
EUR 1,000			
Assets			
Non-current assets			
Property, plant and equipment, net	3.1	1,420,589	1,348,045
Intangible assets	3.2	603,602	605,479
Investments in associates	5.4	774	727
Other non-current financial assets		672	597
Deferred tax assets	6.1.2	2,914	1,058
Total non-current assets		**2,028,551**	**1,955,906**
Current assets			
Inventories	6.2	3,447	4,130
Trade receivables	2.1.4	19,786	22,261
Other current receivables	2.1.4	49,650	44,413
Cash and cash equivalents		17,417	24,595
Total current assets		**90,300**	**95,399**
Total assets		**2,118,851**	**2,051,305**
Equity and liabilities			
Equity			
Share capital	4.4	14	14
Share premium	4.4	2,037	2,037
Hedge fund		-	-
Fair value fund		-	-
Retained earnings		(139,471)	(146,319)
Treasury shares	4.4	(2)	(2)
Total equity		**(137,422)**	**(144,270)**
Non-current liabilities			
Loans from financial institutions	4.2	18,000	-
Bonds and notes	4.2	1,682,305	1,521,082
Other long-term loans	4.2	252,185	426,385
Finance lease liabilities	3.3	8,608	12,412
Employee benefit liability	6.3	1,105	1,134
Provisions	2.3.4	8,711	9,015
Liabilities related to contracts with customers	2.1.3	9,397	-
Other long-term liabilities		1,147	1,252
Deferred tax liabilities	6.1.2	142,924	142,627
Total non-current liabilities		**2,124,382**	**2,113,907**
Current liabilities			
Loans from financial institutions	4.2	40,000	-
Finance lease liabilities	3.3	3,772	4,068
Trade payables	2.3.2	15,266	12,155
Liabilities related to contracts with customers	2.1.3	330	-
Other current liabilities	2.3.2	72,523	65,445
Total current liabilities		**131,891**	**81,668**
Total equity and liabilities		**2,118,851**	**2,051,305**

The accompanying notes are an integral part of these consolidated financial statements.

Elenia Holdings S.à r.l.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

EUR 1,000	1 January 2018 - 31 December 2018	1 January 2017 - 31 December 2017
Operating activities		
Profit/(loss) for the year	**6,803**	**(29)**
Adjustments to reconcile profit/(loss) to net cash flows		
Depreciation, amortisation and impairment	89,496	86,280
Finance income	(255)	(210)
Finance costs	93,771	100,880
Share of profit of an associate	(143)	(164)
Taxes	4,453	882
Other adjustments	(84)	325
Working capital adjustments		
Increase (-) / decrease (+) in inventories	683	3,133
Increase (+) / decrease (-) in trade and other current liabilities	10,166	(2,467)
Increase (-) / decrease (+) in trade and other current receivables	(3,156)	(1,345)
Increase (+) / decrease (-) in provisions	(304)	(259)
Dividends received	96	125
Interests received	248	206
Interest and financial expenses paid	(47,541)	(43,766)
Interest paid on other long-term loans	(34,746)	(42,468)
Taxes paid	(35)	(106)
Net cash flows from operating activities	**119,452**	**101,017**
Investing activities		
Capital expenditure, net	(158,715)	(146,290)
Changes in loans	(125)	(36)
Changes in investments	(21)	29
Net cash flows used in investing activities	**(158,861)**	**(146,297)**
Financing activities		
Proceeds from long-term borrowings	179,000	213,566
Payment of debt arrangement costs	(444)	(4,848)
Repayment of long-term borrowings	(182,224)	(149,532)
Repayment of finance lease liabilities	(4,101)	(4,368)
Proceeds from short-term borrowings	40,000	-
Net cash flows from financing activities	**32,231**	**54,818**
Net (decrease)/increase in cash and cash equivalents	**(7,178)**	**9,538**
Cash and cash equivalents at 1 January	24,595	15,057
Change in cash and cash equivalents	(7,178)	9,538
Cash and cash equivalents at 31 December	**17,417**	**24,595**

The accompanying notes are an integral part of these consolidated financial statements.

Elenia Holdings S.à r.l.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

EUR 1,000	Share capital	Share premium	Available for sale reserve (Fair value fund)	Cash-Flow hedge fund	Retained earnings	Treasury shares	Total equity
Equity at 1 January 2017	**14**	**2,037**	**(0)**	**0**	**(146,321)**	**(2)**	**(144,272)**
Profit for the year	-	-	-	-	(29)	-	(29)
Other components of comprehensive income (adjusted by tax effect)	-	-			-	-	-
Change in defined benefit plans	-	-	-	-	31	-	31
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**2**	**0**	**2**
Equity at 31 December 2017	**14**	**2,037**	**(0)**	**0**	**(146,319)**	**(2)**	**(144,270)**

for the year ended 31 December 2018

EUR 1,000	Share capital	Share premium	Available for sale reserve (Fair value fund)	Cash-Flow hedge fund	Retained earnings	Treasury shares	Total equity
Equity at 1 January 2018	**14**	**2,037**	**(0)**	**0**	**(146,319)**	**(2)**	**(144,270)**
Profit for the year	-	-	-	-	6,803	-	6,803
Other components of comprehensive income (adjusted by tax effect)	-	-			-	-	-
Change in defined benefit plans	-	-	-	-	45	-	45
Total comprehensive income for the year	**-**	**-**	**-**	**0**	**6,848**	**-**	**6,848**
Equity at 31 December 2018	**14**	**2,037**	**(0)**	**0**	**(139,471)**	**(2)**	**(137,422)**

The accompanying notes are an integral part of these consolidated financial statements.

1 Group accounting policies

1.1 General information

Elenia Holdings S.à r.l. (hereafter the "Company") was incorporated on 13 November 2013 and organised under the laws of Luxembourg as a société à responsabilité limitée for an unlimited period. The registered office of the Company is established at 20, Boulevard Royal L-2449 Luxembourg. The company has changed the registered office on 28 February 2018 from 2 Rue du Fossé, L-1536 Luxembourg to 9 Allée Scheffer - 2520 Luxembourg. On 21 December 2018, the registered office of the Company was moved from 9, Allée Scheffer, L-2520 Luxembourg to the current address.

The main activity of the Company is to hold participations in any form whatsoever, in Luxembourg and foreign companies, the acquisition by purchase, subscription, or in any other manner as well as the transfer by sale, exchange or otherwise of stock, bonds, debentures, notes and other securities or any kind, the possession, the administration, the development and the management of its portfolio. The Company may participate in the establishment and development of any financial, industrial or commercial enterprises and may render any assistance by way of loan, guarantees or otherwise to subsidiaries or affiliated companies. The Company may borrow in any form. In general, the Company may take any controlling and supervisory measures and carry out any financial, movable or immovable, commercial and industrial operation, which it may deem useful in the accomplishment and development of its purpose.

The Company holds all the shares in Elenia Oy, a Finnish limited liability company and having its registered office at Patamäenkatu 7, Tampere. The Company together with Elenia Oy and its subsidiaries are hereafter referred to as the "Group".

The Group's business operations comprise electricity distribution and district heating solutions as well as customer service functions. Information on the Groups ultimate parent is presented in Note 6.4.

The Group's financial year begins on 1 January and closes on 31 December.

The Board of Directors approved the consolidated financial statements on 6 March 2019. The shareholders have the right either to approve, reject or change the consolidated financial statements in the Annual General Meeting.

1.2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU").

The consolidated financial statements have been prepared based on a historical cost. All Group companies use the Euro as their functioning currency. The consolidated financial statements are presented in thousands of Euros ("EUR"). There may be rounding discrepancies in the sum totals due to the presentation method used.

1.3 Changes in accounting policies and disclosures

The Group applied for the first-time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2018. The nature of each new standard and amendment adopted by the Group has been described in the relevant note. New standards, amendments and interpretations not material for the Group have been described in Note 5.

1.4 Significant accounting judgements, estimates and assumptions

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the accompanying disclosures and the disclosure of contingent liabilities.
Estimates and assumptions are based on the management's best judgement on the reporting date. Estimates are made based on historical experience and expectations of future events that are considered probable on the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying amount of assets and liabilities affected in future periods. The Group's significant accounting judgements, estimates and assumptions are described either below or in the relevant notes.

1.4.1 Judgements

The preparation of consolidated financial statements requires management to make judgements in applying the accounting principles. The significant judgements made by the Group management have been presented in the relevant note except for the going concern which is described below.

Going Concern

The consolidated financial statements are prepared on a going concern basis. The Board of Managers has noted that the Group made a profit before tax for 2018 of EUR 11,256 thousands and has a negative net equity of EUR 135,843 thousands as at 31 December 2018. Consequently, the going concern of the activities of the Group is dependent on its future cash flows and profitable operations.

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has sufficient resources to continue its business for the foreseeable future. The management's assessment is based on the following:

- Only EUR 40 million of the Group's external debt is maturing in next twelve months (as fully described in Note 4.2).
- The Group has issued bonds under the EUR 3 billion EMTN programme. As at 31 December 2018, the Group has only utilized EUR 1,171 million out of this programme. This programme is supported by credit rating of "BBB with outlook stable" based on S&P Global Ratings' assessment.
- The Group has sufficient liquidity based on its cash position and undrawn credit facilities of EUR 562 million from a syndicate of international banks (as fully described in Note 4.2).

Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Board of Managers are of the view that the consolidated financial statements should continue to be prepared on the going concern basis. The financial position, cash flows, liquidity position and credit facilities are described in the accompanying notes to the consolidated financial statements.

1.4.2 Estimates

Estimates are based on the management’s best judgement on the reporting date. Estimates are made on the basis of historical experience and expectations of future events that are considered probable on the reporting date. However, actual results and timing may differ from these estimates. The Group’s significant accounting estimates have been described in the relevant note.

2 Operating profit

2.1 Revenue and trade and other current receivables

Changes in accounting policies and disclosures

The Group applied for the first-time IFRS 15 Revenue from Contracts with Customers in 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 standard is effective for annual periods beginning on or after 1 January 2018 with limited early adoption permitted. The EU has endorsed the standard.

IFRS 15 standard replaces IAS 11, IAS 18 and related interpretations. IFRS 15 standard establishes a five-step model on how to account for revenue from contracts with customers. The core principle in the new standard is that an entity will recognise revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The five-step model includes the following phases: i) Identifying the contracts with a customer, ii) Identifying the performance obligations in the contract, iii) Determining the transaction price, iv) Allocating the transaction price to the performance obligations and v) Recognising revenue when the entity satisfies a performance obligation.

The Group has adopted IFRS 15 standard on the required effective date using the modified retrospective method. The reference data for year 2017 has not been restated due to the implementation of a new standard since on 1 January 2018 Group has not had any uncompleted customer contracts whose revenue recognition would be affected by the implementation of IFRS 15.

As a result of the implementation of IFRS 15 standard, the Group has changed its revenue recognition regarding income on new connections. Previously revenue from new connections was recognised immediately after signing of the contract or completion of the physical distribution network connection. From 1 January 2018 onwards the new connection revenue has been recognised over a period of 30 years for the electricity network as well as district heating and gas network connections. The time period is in line with the depreciation period of the connection assets. IFRS 15 standard has not affected revenue recognition regarding income on distribution of electricity and heat nor income on customer service operations.

2.1 Revenue and trade and other current receivables (continued)

2.1.1 Disaggregation of revenue

Group revenue consists of revenue from the distribution of electricity and heat, revenue from customer service operations, connection fees paid by the customers for joining an electricity or heating network and other revenues. Other revenues consist mainly of income on sales of natural gas and electricity and contracting income.

Revenue by type of service

EUR 1,000	As reported 2018 (in accordance with IFRS 15)	Impact of IFRS 15	2018 (in accordance with IAS 18)
Distribution of electricity	267,130	-	267,130
Distribution of heat	65,863	-	65,863
Customer service operations	2,390	-	2,390
Connection fees	174	9,727	9,901
Other revenues	14,177	-	14,177
Total	**349,734**	**9,727**	**359,461**

EUR 1,000	As reported 2017
Distribution of electricity	246,397
Distribution of heat	65,677
Customer service operations	1,256
Connection fees	12,065
Other revenues	13,411
Total	**338,806**

Timing of revenue recognition

EUR 1,000	As reported 2018
Transferrred at a point in time	349,560
Transferred over time	174
Total	**349,734**

2.1.2 Contracts with customers: revenue recognition and payment terms (Accounting policy)

Revenue from the distribution of electricity and heat is recognised at the time of delivery. Revenue from customer service operations and other revenue, for example contracting income as well as income on sales of natural gas and electricity, are recognised in the period in which such services are rendered.

Connection fees paid by customers for joining an electricity or heating network are recognised as revenue in the consolidated statement of profit or loss. From 1 January 2018 onwards the new connection revenue has been recognised over a period of 30 years for the electricity network as well as district heating and gas network connections.

Electricity network connection fees, which have been paid by the customers before 2008, must be refunded net of demolition costs, if the customer wants to terminate the electricity connection. Similar refunding obligation applies to all district heating connection fees. A provision has been recorded for future refunds.

The Group pays to the customers voluntary outage compensations due to interruption of over 6 hours in the electricity distribution. These compensations are recognised as a reduction of revenue at a point in time and included in the item "distribution of electricity" in the disaggregation of revenue -table above.

Payments from all the Group's contracts with customers are generally due within 14 days and consideration for services are paid in cash. Contracts do not have any significant financing components.

2.1.3 Liabilities related to contracts with customers

EUR 1,000	31 December 2018
Non-current liabilities related to contracts with customers	9,397
Current liabilities related to contracts with customers	330
Total	**9,727**

Liabilities related to contracts with customers include the unrecognised part of new connection revenue for the electricity network as well as district heating and gas network connections. Revenue will be recognised over a period of next 30 years. The amount reported as current liabilities will be recognized during the next 12 months.

2.1.4 Trade and other current receivables

2.1.4.1 Trade receivables (Accounting policy)

Trade receivables are recorded on the balance sheet at their fair value. Impairment is recorded on trade receivables when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the agreements. The Group records impairment based on lifetime expected credit losses from all trade receivables incurred as a result of transactions subject to IFRS15. The impairment amount is measured as the difference between the asset's original carrying value and the estimated future cash flows.

Trade receivables also include invoiced sales revenue based on estimates.

The amount of credit loss allowance for trade receivables is checked and updated quarterly and it is recognised in accordance with IFRS9 requirements.

The calculation of the amount of credit loss reserve is based on the persentages calculated from historically realized credit losses. The customers are segmented to private and company customers to be able to take into account the differences between thes customer groups in the calculation. Due to the nature of business and customers no material credit losses are expected in Elenia Lämpö Oy, Elenia Palvelut Oy and Elenia Finance Oyj. Therefore no credit loss allowance is booked in these companies.

Trade and other current receivables

EUR 1,000	31 December 2018	31 December 2017
Trade receivables	19,786	22,261
Accrued income and prepaid expenses	49,489	44,093
Other current receivables	161	320
Total trade and other receivables	**69,436**	**66,674**

Break-down of accrued income and prepaid expenses

EUR 1,000	31 December 2018	31 December 2017
Sales accruals	45,405	40,099
Accrued financial items (prepayments)	2,014	2,592
Other accrued income and receivables	2,231	1,722
	49,650	**44,413**

Breakdown and impairment of trade receivables by age

EUR 1,000	Trade receivables				
31/12/2018	**Undue**	**1-90 days**	**91-180 days**	**Over 180 days**	**Total**
Trade receivables by age	14,746	4,443	367	885	**20,441**
Expected credit loss rate, private customers	0.1 %	3.5 %	37.0 %	10.2 %	
Expected credit loss, private customers	(21)	(156)	(136)	(90)	**(403)**
Expected credit loss rate, company customers	0.0 %	1.0 %	4.0 %	21.6 %	
Expected credit loss, company customers	(2)	(44)	(15)	(191)	**(252)**
Total expected credit losses	**(23)**	**(200)**	**(150)**	**(281)**	**(655)**
Total trade receivables	**14,723**	**4,243**	**217**	**604**	**19,786**

EUR 1,000	Trade receivables				
31/12/2017	**Undue**	**1-90 days**	**91-180 days**	**Over 180 days**	**Total**
Trade receivables by age	16,890	4,567	324	1,214	**22,995**
Total expected credit losses	**-**	**-**	**-**	**-**	**(734)**
Total trade receivables					**22,261**

The Group has adapted the new standard on the required effective date but comparative information has not been restated.

The fair value of trade and other receivables does not materially differ from the values on the consolidated statement of financial position.

All trade receivables are denominated in euros.

Change in expected credit losses	2018
Expected credit loss 1.1.2018	734
Additions	499
Credit losses	(578)
Expected credit loss 31.12.2018	**655**

2.1.4.2 Financial risk management

Credit risk

Due to electricity distribution companies having regional monopolies based on electricity distribution system licenses, customers do not have the option of choosing which distribution company's network they connect to. As a result, the local distribution company always provides electricity distribution services, with the exception of electricity generation customers who, pursuant to the Finnish Electricity Market Act, have the right to choose which electricity distribution company's network to connect to.

Invoicing for electricity distribution services is based on measured consumption and the distribution tariffs specified in the public electricity network price list. The invoicing period may be one month or two months. In the event that a customer fails to pay the invoice, the electricity distribution company has the right to discontinue the supply of electricity after sending the required collection letters. Also the wide fragmentation of the customer base reduces the credit risk.

In district heating business operations, the credit risk is based on the difference between the invoicing period and the heating supplied. Credit risk is mitigated by monthly invoicing.

Trade receivables

The Group's trade receivables at the end of 2018 were EUR 19.8 million (2017: EUR 22.3 million). EUR 0.1 million collateral securities were received for trade receivables (2017: 0.2 million).

Impairment of trade receivables

The Group records lifetime expected credit losses from all trade receivables incurred as a result of transactions subject to IFRS15. Trade receivables do not contain any significant financing component.

However, applying the impairment requirements of IFRS 9 has had an impact on the method used in calculation of the credit loss allowance for trade receivables, but the amount of credit loss allowances has not changed remarkably. The Group has applied the simplified approach and recorded lifetime expected losses on all trade receivables.

Volume and price risks

Electricity distribution operations do not involve particular volume or price risks due to being subject to reasonable return under electricity distribution license.

In district heating operations, fluctuations in average and monthly temperatures give rise to volume risks. However, the maximum annual range is only approximately 10%. During periods of low volume the Group's heating generation costs per unit are also lower, which mitigates the volume risk. The Group has the right to adjust its district heating prices by giving one month's notice. This mitigates the price risk of production costs.

2.2 Other operating income

2.2.1 Other operating income (Accounting policy)

Other operating income includes income from non-operating activities, such as income from trade receivables collection and from sales of used fixed assets, insurance compensation and rental income. Also possible gains from the sales of emission rights are included in other operating income.

Government grants relating to the other purpose than the purchase of property, plant and equipment are recognised as other income in the consolidated statement of profit or loss for the period in which the expenses relating to the grant are incurred and in which the decision on the grant is received.

Other operating income

EUR 1,000	**31 December 2018**	**31 December 2018**
Rental income	98	104
Subsidy for bio-based electricity production	428	647
Capital gains on tangible and intangible assets	25	104
Income from the wood fuel trading	624	697
Income from the trade receivables collection	923	665
Income from the sales of obsolete materials and used fixed assets	1,225	969
Other operating income	644	434
Total	**3,967**	**3,620**

2.2.2 Group as the lessor (Accounting policy)

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Rental income for real estates and land was invoiced to a total value of EUR 100 thousand (2017: EUR 101 thousand) during the year.

Lease agreements comprise fixed-term agreements and agreements which are valid until further notice.

2.3 Other operating expenses and related liabilities

2.3.1 Other operating expenses (Accounting policy)

Outage compensations

Outage compensations in accordance with the Electricity Market Act, which are paid to the customers due to interruption of over 12 hours in the electricity distribution, are recognised as other operating expenses and included in the item "other expenses" in the table below.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset only when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually. The Group has not recognised any development expenditures as an intangible assets.

Emission allowances

Emission allowances, which are purchased to cover future periods deficit are recorded in intangible assets and measured at cost. Emission allowances received free of charge are not recognised in the consolidated statement of financial position. In the event if the amount of emission allowances returned exceeds the amount of emission allowances received, a provision is recognised at the market value of the emission allowances at financial year end. The cost of the provision is recognised in the consolidated statement of profit or loss within materials and services.

Other operating expenses

EUR 1,000	1 January 2018 to 31 December 2018	1 January 2017 to 31 December 2017
Lease expenses	1,463	1,187
External services	5,901	4,194
IT and communication expenses	5,247	4,538
Research and development costs	2,511	1,761
Marketing and communications	1,165	1,217
Insurances	531	499
Mailing expenses	575	1,224
Other personnel expenses	944	984
Travelling expenses	447	487
Other expenses	3,151	4,479
Total	**21,935**	**20,570**

Research and development costs mainly include costs of research projects that do not meet the criteria for capitalization.

Audit fees

EUR 1,000	1 January 2018 to 31 December 2018	1 January 2017 to 31 December 2017
Auditing fees	395	297
Audit related fees	71	15
Fees for tax services	29	34
Fees for other services	25	44
Total	**519**	**390**

Auditing fees include fees for auditing the consolidated financial statements and for auditing the parent company and subsidiaries. Fees for tax services include fees charged for tax advice. Fees for other services consist of other assignments.

2.3.2 Trade and other current payables

Currency risk

The Group operates in Finland and uses the Euro as its primary operating currency. The Group's currency risk is based on purchases of raw materials and services denominated in currencies other than the Euro. The purchases of raw materials and services denominated in currencies other than the Euro have a negative effect on the Group's result and cash flow in the event that the currencies in question appreciate against the Euro. As the Group's purchasing operations are currently primarily focused on Finland, the currency risk related to purchasing is limited.

The Group has guidelines for the management of currency risk as part of the purchasing policy for network operations approved by the Executive Board. According to the guidelines, currency risks that have an impact on profit or loss are hedged either operationally through contractual currency rate clauses or, if that is not possible, through forward contracts concluded by the Treasury unit.

Operating profit includes EUR 7.6 thousand exchange rate differences (2017: -0.1 thousand). Finance costs include EUR -6.6 thousand exchange rate differences (2017: -1.9 thousand). At the end of 2018 there were no receivables or liabilities in other currencies than in EUR.

EUR 1,000	**31 December 2018**	**31 December 2017**
Short-term financial lease liabilities	3,772	4,068
Trade payables	15,266	12,155
Accrued expenses	-	-
Employee benefits expenses	6,617	7,891
Interest expenses	14,217	12,322
Other accrued expenses	17,710	14,658
Liabilities related to contracts with customers	330	-
Other current liabilities	-	-
VAT liability	13,387	14,178
Energy taxes	9,330	9,775
Tax liability for the period	6,005	13
Prepayments received	778	219
Other liabilities	4,479	6,389
Total	**91,891**	**81,668**

According to the management's estimate, the fair value of trade and other current payables does not materially deviate from the balance sheet value.

Trade payables are non-interest bearing and are normally settled on 14-30 days terms.

Other accrued expenses comprise mainly of deferred material and service purchases as well as deferred financing items.

2.3.3 Employee benefits expenses

EUR 1,000	**1 January 2018 to 31 December 2018**	**1 January 2017 to 31 December 2017**
Salaries and remuneration	16,651	17,905
Pensions		
Defined contribution plans	3,351	2,751
Defined benefit plans	74	69
Social security costs	(74)	998
Total	**20,002**	**21,723**

The total remuneration paid by the Group to its employees consists of salaries, fringe benefits and short-term performance bonuses.

2.3.3 Employee benefits expenses (Continued)

EUR 1,000	1 January 2018 to 31 December 2018	1 January 2017 to 31 December 2017
Salaries and remuneration paid to CEOs		
Salaries and other short-term employee benefits	962	430
Other long-term employee benefits	238	223
Pension expenses related to salaries and employee benefits	218	118
Salaries and remuneration paid to other key members of the management		
Salaries and other short-term employee benefits	2,757	1,545
Other long-term employee benefits	315	318
Pension expenses related to salaries and employee benefits	534	318

The subsidiary of the Company, Elenia Oy applies two incentive plans. All employees of the Group are included within the scope of the short-term annual performance bonus plan; in addition the key members of the management are included by a long-term incentive plan. Both of the plans are company-specific but the principles and criteria are mainly uniform. Elenia Oy' Boards of Directors approve both the criteria as well as payment under the plans.

The total remuneration paid by the Group to its employees consists of salaries, fringe benefits and short-term performance bonuses. All employees of the Group are included within the scope of the performance bonus scheme.

During 2018, EUR 591 thousand (2017: EUR 808 thousand) were recognized as an expense and EUR 562 thousand (2017: EUR 535 thousand) were paid out related to the long-term incentive plan.

During 2018, EUR 1.8 million (2017: EUR 1.9 million) were booked as a liability related to the long-term incentive plan.

In addition, financial statements for the year 2017 included an accrual of EUR 2.5 million related to the management work fee.

Key management includes management teams and Board members of the Group entities, Elenia Oy and Elenia Lämpö Oy respectively.

The annual performance bonuses (i.e. short-term annual performance bonus plan) are based for example on the Sub-Group's profitability, work safety and customer or personnel satisfaction. Also the achievement of the individual key objectives in employee's own responsibility area is taken into consideration.

The key members of the management personnel are included within the scope of the long-term incentive plan. The purpose of the plan is to align the interests of the management with those of the shareholders in order to improve the competitiveness of the business and promote long-term financial success. The long-term incentive plan is measured over a three year period and potential remunerations are paid during the following three years after the earnings period. The payment is made only if the goals have been achieved also during the year preceding the payment.

In 2018, the remunerations related to the 2013-2015, 2014-2016 and 2015-2017 programmes were paid. During 2018 there were three programmes on-going: 2016-2018, 2017-2019 and 2018-2020.

The key members of the management have no share or option based incentive schemes. In 2019 the Group is undertaking an external benchmark study to assess the competitiveness of management compensation.

2.3.4 Provisions

Provisions (Accounting policy)

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events to a third party, provided that it is probable that the obligation will be realised and the amount can be reliably estimated.

Provisions (Accounting estimates)

Electricity network connection fees, which have been paid by the customers prior to 2008, must be refunded net of demolition costs, if the customer wants to terminate the electricity connection. Similar refunding obligation applies to all district heating connection fees.

A provision for refundable connection fees for electricity and heating networks has been calculated by discounting estimated future annual connection fee refunds to their present value. The calculation is based on the management's estimate of the volume and timing of refundable connection fees. The historical level of refunded connection fees is taken into account while compiling the calculations and the discount rates applied correspond to the rates used in impairment testing of goodwill for network and heat businesses.

Provisions
As at 31 December 2018

EUR 1,000	Provision for costs related to oil leakage cleanup	Provision for rental liabilities for premises	Provision for refunds of connection fees	Total
Provisions at 1 January 2018	-	-	9,015	9,015
Increase	110	-	176	286
Cancellations of provisions	-	-	(192)	(192)
Use of provisions	-	-	(398)	(398)
Provisions at 31 December 2018	**110**	**-**	**8,601**	**8,711**

Provisions
As at 31 December 2017

EUR 1,000	Provision for costs related to oil leakage cleanup	Provision for rental liabilities for premises	Provision for refunds of connection fees	Total
Provisions at 1 January 2017	-	803	8,987	9,790
Increase	-	-	30	30
Cancellations of provisions	-	(549)	482	(67)
Use of provisions	-	(254)	(484)	(738)
Provisions at 31 December 2017	**-**	**-**	**9,015**	**9,015**

3 Investments and Lease commitments

3.1 Property, plant and equipment (Accounting policy)

Property, plant and equipment comprise mainly electricity and heat distribution networks, machinery, equipment and buildings.

Property, plant and equipment are stated at original acquisition cost less accumulated depreciation and accumulated impairment losses, if any. The original acquisition cost includes expenditure that is directly attributable to the acquisition of an item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the acquisition cost of the item can be reliably measured.

When a property, plant and equipment asset no longer has any expected revenue streams, the asset is dismantled and the remaining carrying value is recognised as an expense under depreciation, amortisation and impairment.

Acquired assets on the acquisition of a new subsidiary are stated at their fair values at the date of acquisition.

All other repairs and maintenance costs are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Land and water areas are not depreciated since they have indefinite useful lives. Depreciation on other assets is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and structures	15-50 years
Electricity transmission network	25-40 years
Electricity distribution network	10-30 years
District heating and natural gas network	30 years
Machinery and equipment	3-30 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each financial year end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on the sales of property, plant and equipment are recorded as the difference between the selling price and carrying value and recognised in the consolidated statement of profit or loss under other operating income or expenses.

Government grants

Government grants relating to the purchase of property, plant and equipment are recognised by reducing the book value of the asset they relate to when the decision on the grant has been received. The grants are thus reflected in the form of lower depreciation over the useful life of the asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Please refer to Note 3.2 for the accounting policy on impairment of non-financial assets.

EUR 1,000	Land and water areas	Buildings	Networks	Machinery and equipment	Other tangible assets	Prepayments	Total
Cost at 1 January 2018	**2,663**	**19,788**	**2,053,292**	**249,463**	**1,257**	**23,860**	**2,350,323**
Additions	88	766	141,697	5,521	-	15,408	**163,480**
Disposals	-	-	(8,841)	(65)	-	-	**(8,906)**
Transfers between balance sheet items	-	-	-	62	-	(7,724)	**(7,662)**
Cost at 31 December 2018	**2,751**	**20,554**	**2,186,148**	**254,981**	**1,257**	**31,544**	**2,497,235**
Accumulated depreciation, amortisation and impairment at 1 January 2018	**-**	**(11,395)**	**(825,577)**	**(164,847)**	**(459)**	**-**	**(1,002,278)**
Depreciation and amortisation for the year	-	(572)	(66,808)	(12,373)	(49)	-	**(79,802)**
Accumulated depreciation and amortisation on disposals	-	-	8,841	32	-	-	**8,873**
Impairment for the year	-	-	(3,439)	-	-	-	**(3,439)**
Accumulated depreciation, amortisation and impairment at 31 December 2018	**-**	**(11,967)**	**(886,983)**	**(177,188)**	**(508)**	**-**	**(1,076,646)**
Book value at 31 December 2018	**2,751**	**8,587**	**1,299,165**	**77,793**	**749**	**31,544**	**1,420,589**
Book value at 31 December 2017	**2,663**	**8,393**	**1,227,715**	**84,616**	**798**	**23,860**	**1,348,045**

EUR 1,000	Land and water areas	Buildings	Networks	Machinery and equipment	Other tangible assets	Prepayments	Total
Cost at 1 January 2017	**2,624**	**19,752**	**1,934,175**	**240,353**	**1,157**	**20,415**	**2,218,476**
Additions	39	36	128,324	9,270	100	9,413	**147,182**
Disposals	-	-	(9,207)	(160)	-	-	**(9,367)**
Transfers between balance sheet items	-	-	-	-	-	(5,968)	**(5,968)**
Cost at 31 December 2017	**2,663**	**19,788**	**2,053,292**	**249,463**	**1,257**	**23,860**	**2,350,323**
Accumulated depreciation, amortisation and impairment at 1 January 2017	**-**	**(10,841)**	**(767,888)**	**(152,601)**	**(408)**	**-**	**(931,738)**
Depreciation and amortisation for the year	-	(554)	(63,698)	(12,267)	(51)	-	**(76,570)**
Accumulated depreciation and amortisation on disposals	-	-	9,207	21	-	-	**9,228**
Impairment for the year	-	-	(3,198)	-	-	-	**(3,198)**
Accumulated depreciation, amortisation and impairment at 31 December 2017	**-**	**(11,395)**	**(825,577)**	**(164,847)**	**(459)**	**-**	**(1,002,278)**
Book value at 31 December 2017	**2,663**	**8,393**	**1,227,715**	**84,616**	**798**	**23,860**	**1,348,045**
Book value at 31 December 2016	**2,624**	**8,911**	**1,166,287**	**87,752**	**750**	**20,415**	**1,286,739**

The machinery and equipment includes EUR 11,179 thousand (2017: 15,334 thousand) of assets acquired through finance leases.

Networks' impairment for the year relates to the demolition of electricity networks.

In 2018 Group companies did not receive any investment grants.
In 2017 the Group received an investment grant of EUR 63 thousand. The grant was recorded as deduction of costs in buildings.

3.2 Intangible assets (Accounting policy)

Intangible assets, except goodwill and intangible assets with indefinite life, are stated at original acquisition cost less accumulated amortisation and impairment losses if applicable and amortised on a straight-line method over their expected useful lives.

Computer software and licences

Acquired computer software licences are capitalised based on the costs incurred from the acquisition and implementation of the software. These costs are amortised over their estimated useful lives (three to five years). Costs associated with developing or maintaining computer software are recognised as an expense as incurred.

Compensation paid to landowners

One-time compensation payments paid to landowners for inconvenience and damage caused by the network company's overhead lines, cables and equipment are capitalised. Recurring annual compensation payments are recognised as an expense on the consolidated statement of profit or loss under other operating expenses.

Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value on the acquisition date. The contractual customer relations have a finite useful life and are carried at acquisition cost less accumulated amortisation and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation is calculated using the straight-line method over the useful economic life of the customer relationship.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at acquisition cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Amortisation periods for intangible assets

Computer software and licences	3-5 years
Customer relationships	20 years
Compensation paid to landowners	10-30 years

The assets' useful lives are reviewed and adjusted, if appropriate, at each financial year end.

Impairment of non-financial assets

Besides the information given below, disclosures relating to impairment of non-financial assets are also provided in the Note 3.1 concerning property, plant and equipment.

The carrying values for individual assets are assessed at each reporting date to determine whether there is any indication of impairment. When considering the need for impairment, the Group assesses whether events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised if the carrying value of an asset or cash-generating unit exceeds its recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use.

An impairment loss relating to property, plant and equipment and intangible assets other than goodwill is reversed in the event of a change in circumstances that results in the asset's recoverable amount changing from the time the impairment loss was recorded. An impairment loss recorded on goodwill is not reversed under any circumstances.

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the cash-generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. In assessing value in use, the estimated future cash flows expected to be derived from a cash-generating unit are discounted to their present value. The financial projections used in the calculations are based on business plans approved by management.

Testing goodwill for impairment (Accounting estimates)

The Group tests goodwill annually for impairment.

The recoverable amounts of cash-generating units are based on estimated future cash flows. Preparation of these estimates requires management to make assumptions relating to future cash flows. The main variables in determining cash flows are the discount rate and the assumptions and estimates used.

The Group has conducted a sensitivity analysis of the effects of the key assumptions underlying the impairment testing on the test results (see table below).

3.2 Intangible assets

EUR 1,000	Goodwill	Intangible rights	Other long-term expenditure	Other intangible assets	Total
Cost at 1 January 2018	**515,606**	**58,223**	**34,344**	**88,200**	**696,373**
Additions	-	1,960	2,357	-	**4,317**
Transfer between balance sheet items	-	-	61	-	**61**
Cost at 31 December 2018	**515,606**	**60,183**	**36,762**	**88,200**	**700,751**
Accumulated depreciation, amortisation and impairment at 1 January 2018	**-**	**(45,729)**	**(23,997)**	**(21,168)**	**(90,894)**
Depreciation and amortisation for the year	-	(700)	(2,028)	(3,527)	**(6,255)**
Accumulated depreciation, amortisation and impairment at 31 December 2018	**-**	**(46,429)**	**(26,025)**	**(24,695)**	**(97,149)**
Book value at 31 December 2018	**515,606**	**13,754**	**10,737**	**63,505**	**603,602**
Book value at 31 December 2017	**515,606**	**12,494**	**10,347**	**67,032**	**605,479**

EUR 1,000	Goodwill	Intangible rights	Other long-term expenditure	Other intangible assets	Total
Cost at 1 January 2017	**515,606**	**56,147**	**33,145**	**88,200**	**693,098**
Additions	-	2,076	1,199	-	**3,275**
Transfer between balance sheet items	-	-	-	-	**-**
Cost at 31 December 2017	**515,606**	**58,223**	**34,344**	**88,200**	**696,373**
Accumulated depreciation, amortisation and impairment at 1 January 2017	**-**	**(45,089)**	**(21,653)**	**(17,640)**	**(84,382)**
Depreciation and amortisation for the year	-	(640)	(2,344)	(3,528)	**(6,512)**
Accumulated depreciation, amortisation and impairment at 31 December 2017	**-**	**(45,729)**	**(23,997)**	**(21,168)**	**(90,894)**
Book value at 31 December 2017	**515,606**	**12,494**	**10,347**	**67,032**	**605,479**
Book value at 31 December 2016	**515,606**	**11,058**	**11,492**	**70,560**	**608,716**

Other intangible assets mainly consist of customer relationships capitalised in connection with the business combination and acquisition.

As a result of acquisitions in 2012 goodwill of EUR 515.6 million was created. Goodwill is based on the assesment of organisational competence and knowhow which is expected to benefit business operations in coming years.

Impairment testing of goodwill

Goodwill has been allocated to cash generating units which are Network and Heat business segments. The goodwill allocated to Network is EUR 418 million and Heat EUR 98 million. Projected cash flows have been continually assessed based on long-term operational plans which have been approved by the senior management and the Board of Directors of Group entities. Cash flows have been discounted in order to determine the value in use. The discount rate applied (pre-tax) reflects the different risk profiles of the businesses.

Network segment

Due to the regulated and stable nature of the electricity distribution business, the basis for cash flow projections has been long-term business plan for the period 2019-2055 which has been approved by the Board of Directors of Group entities. Long term capital expenditure plans have been prepared and continuously updated in order to meet the security of supply reguirements by the end of 2028 in line with Electricity Market Act (588/2013) and the long term strategy of the Group. A volume growth of approximately 0.5% p.a. has been incorporated for the forecast period. The discount rate applied for Network segment is 5.6% based on the prevailing return and risk assumptions in the business (the applied pre-tax discount rate in 2017 was 4.4%).

Heat segment

Cash flow projections for 2019-2055 are based on the 5 year business plan which has been approved by the Board of Directors of Group entities. Due to the stable nature of the District heating business, long term projections are appropriate. Applied discount rate is 5.7% which is based on the prevailing return and risk assumptions in the business (the applied pre-tax discount rate in 2017 was 6.0%). District heating volumes are expected to modestly increase during the forecast period. Revenue of the business is expected to grow between 1 and 3% annually during the forecast period. A growth of 2.0% p.a. has been applied in the terminal value. The fluctuation of fuel prices is estimated to be modest as the business has several optional fuels available. Capital expenditure plans are based on maintaining the existing power plants and district heating network.

Sensitivity analysis

With regard to the assessment of the value in use in both segments, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount. The sensitivity analysis was performed for discount rate and the results are presented in the chart below.

	Network segment		Heat segment	
Change in key assumptions	**2018**	**2017**	**2018**	**2017**
Change in discount rate, %-points	6.6	4.3	2.8	1.8

The table above indicates, which amount of change in the discount rate (percentage point) would incur the recoverable amount of the assets to be equal to its carrying amount.

3.3 Lease commitments

Leases (Accounting policy)

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that is not explicitly specified in an arrangement.

The Group as the lessee (Accounting policy)

Leases of property, plant and equipment, where the Group has a substantial share of the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments determined at the inception of the lease. Each lease payment is allocated between the finance charges and the reduction of the outstanding liability. The interest element of the finance cost is charged to the consolidated statement of profit or loss over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. The corresponding rental obligations, net of finance charges, are included in the long-term or short-term interest-bearing liabilities according to their maturities.

Leases of property, plant and equipment, where the risks and rewards of ownership remain with the lessor, are classified as operating leases. Lease payments for operating leases are recognised on the consolidated statement of profit or loss under other operating expenses over the lease term.

Present value of finance lease payments

EUR 1,000	31 December 2018	31 December 2017
Finance lease liabilities		
Within one year	4,385	4,537
After one year but not more than five years	10,176	14,228
More than five years	-	288
Total	**14,561**	**19,053**
Future financial expenses	2,181	2,573
Present value of minimum lease payments	**12,380**	**16,480**
Present value of minimum lease payments matures:		
Within one year	3,772	4,068
After one year but not more than five years	8,608	12,243
More than five years	-	169
Total	**12,380**	**16,480**

Finance lease agreements do not include any special renewal or purchase options.

Rental liabilities

EUR 1,000	31 December 2018	31 December 2017
Operating leases		
Within one year	206	179
After one year but not more than five years	388	200
	594	**379**

Operating lease agreements do not include any special renewal or purchase options.

Other rental liabilities		
Within one year	833	399
After one year but not more than five years	1,700	180
More than five years	-	-
	2,533	**579**

3.3 Lease commitments

New and amended standards and interpretations issued but not yet effective

IFRS 16 Leases

IFRS 16 Leases - IFRS 16 was issued in January 2016 and requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The new standard is effective for annual periods beginning on or after 1 January 2019. The EU has endorsed the standard.

The Group intends to adopt the new standard on its effective date.

The new standard includes two recognition exemptions for lessee: leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events and the amount of the remeasurement of the lease liability will generally be recognized as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. The new IFRS 16 standard also requires lessees and lessors to make more extensive disclosures than under IAS 17.

The Group will adopt the IFRS 16 standard on the required effective date using the non-retrospective method. According to the current estimate of the Group's management, the new standard will be applied to certain lease contracts related to office premises, car leasing contracts, and finance lease contracts concerning electricity meters which have been within the scope of IAS 17 until the end of 2018. The Group will make use of the short-term lease exemption to a part of the contracts related to office premises and to IT-contracts.

The Group's management estimates that lease contracts related to indoor secondary substations, primary substations, heat plants, biofuel warehouse sites and certain office premises are immaterial contracts (referring to IAS 1 which defines the materiality of the information presented in the financial statements) and therefore IFRS 16 will not be applied to these contracts. The definition of contracts as "immaterial" is based on the low value of leases paid under these contracts which causes the lease liabilities arising from them to be immaterial in relation to the Group's consolidated statement of financial position (less than 0.05% of the total sum of the Group's consolidated statement of financial position 2018).

One-time compensations paid to landowners based on land easement contracts are capitalized to the intangible rights in the consolidated statement of financial position and amortized over their expected useful lives (refer to Note 3.2). The Group is still in the process of assessing the impact of these easement contracts under IFRS 16.

When evaluating the amount of lease liabilities arising from the IFRS 16 transition, the management has used as interest rate an estimated average medium-term financing cost. According to the current estimate of the Group management, the implementation of IFRS 16 will increase the amount of lease liabilities (excluding the impact of easement contracts) by the end of year 2019 by approximately EUR 1.8 million (0.1% compared to the total sum of the Group's consolidated statement of financial position 2018). Correspondingly, Group EBITDA is estimated to increase by approximately EUR 0.9 million (0.4% compared to 2018 Group EBITDA). The new IFRS 16 standard will also result in more extensive disclosure information in the consolidated financial statements.

4 Capital structure and financial items

Risk management

Financial risk management

The management of financial risks is based on the following principles.

The Group's Treasury policy, approved by the Board of Group entities, defines financial risk management governance, responsibilities and processes for reporting risks and risk management. Treasury Policy defines principles covering currency, liquidity, interest rate and counterparty risks. Also the Group's existing loan arrangements include guidelines and restrictions pertaining to financial risk management. Elenia Finance Oyj is responsible for the Group financial risk management.

- For credit risk management refer Note 2.1.4.2;
- For currency risk management refer Note 2.3.2; and
- For Liquidity risk, refinancing risk and interest rate risk management refer Note 4.2.9.

Capital management

As the electricity distribution and heating businesses are capital-intensive, the Group ensures it has adequate capital to meet its operating requirements. Business planning includes assessing the adequacy of available capital in relation to the risks arising from business operations and the operating environment.

4.1 Finance income and costs

Translation differences (Accounting policy)

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to the consolidated statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or consolidated statement of profit or loss are also recognised in other comprehensive income or statement of profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

The assets and liabilities of foreign operations are translated into EUR at the rate of exchange prevailing at the reporting date and their statement of profit or loss and other comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

4.1 Finance income and costs (continued)

EUR 1,000	1 January 2018 to 31 December 2018	1 January 2017 to 31 December 2017
Interest expenses		
Loans from financial institutions	(55)	(58)
Bonds and notes	(46,449)	(41,882)
Other long-term loans	(42,820)	(54,269)
Other interest expenses	(811)	(867)
Total interest	**(90,135)**	**(97,076)**
Other finance costs	(3,624)	(3,799)
Interest rate hedges not qualified for hedge accounting,		
Loans and receivables	(12)	(5)
Total finance costs	**(93,771)**	**(100,880)**
Interest income		
Other interest income	249	207
Dividend income	-	-
Exchange rate gains		
Loans and receivables	5	3
Other finance income	1	-
Total finance income	**255**	**210**
Finance costs (net)	**(93,516)**	**(100,670)**

Finance income and costs
Interest expenses include interest expenses on interest-bearing loans.
Other interest expenses mainly consist of interest on finance leases of EUR 0.6 million (2017: EUR 0.7 million).

4.2 Financial assets and liabilities

Changes in accounting policies and disclosures

IFRS 9 Financial Instruments

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The EU has endorsed the standard. IFRS 9 has completely replaced the standard IAS 39 Financial Instruments: Recognition and Measurement. The Group has applied IFRS 9 Financial Instruments accounting standard since 1 January 2018. The standard contains new rules concerning the classification, measurement and hedge accounting of financial assets and financial liabilities. The classification and measurement requirements of IFRS 9 have been adopted retrospectively as of the date of initial application on 1 January 2018. However, the Group has chosen to take advantage of the option not to restate comparatives. Therefore, 2017 figures are presented and measured under IAS 39.

The initial measurement of financial instruments is made at fair value for all financial assets. Financial assets that are debt instruments and to which the fair value option is not applied are measured following initial recognition either at amortised cost or fair value, depending on the Group's business model for the management of financial assets and contractual cash flows of the financial assets.

As a rule, all equity instruments are measured at fair value following the initial measurement, either through consolidated statement of profit or loss or through consolidated statement of other comprehensive income. All equity instruments held for trading are to be measured at fair value through profit or loss. Items that are recognised through other comprehensive income will no longer be recognised in the consolidated statement of profit or loss if the entity has elected to measure it at fair value through consolidated statement of other comprehensive income.

With regard to financial liabilities, the main amendment is that when applying the fair value option, the effect of changes in the entity’s own credit risk on the fair value of the financial liability will be recognised through other comprehensive income. These changes in value recognised through other comprehensive income will no longer be recognised in the consolidated statement of profit or loss.

4.2 Financial assets and liabilities (continued)

IFRS 9 requires the Group to record expected credit losses ("ECLs") on all of its debt securities, loans and other receivables, either on a 12-month or lifetime basis. In addition, IFRS 9 comprises a new hegde accounting model in which the criteria for applying the hedge accounting are relieved and more designations of groups of items as the hedged items are possible. The new hedge accounting model aims to enable companies to better reflect their risk management strategy and objectives in the financial statements.

Overall, the effect of the IFRS 9 standard on the consolidated financial statements has not been very significant. However, applying the impairment requirements of IFRS 9 has had an impact on the method used in calculation of the credit loss allowance for trade receivables, but the amount of credit loss allowances has not changed remarkably. The Group has applied the simplified approach and recorded lifetime expected losses on all trade receivables.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018:

Reclassifications of financial instruments on adoption of IFRS 9

1 January 2018	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount, EUR 1,000 IAS 39	Carrying amount, EUR 1,000 IFRS 9
Current financial assets				
Trade receivables and other receivables	Loans and other receivables	Amortised cost	22,261	22,261
Available-for-sale financial assets	Availabe-for-sale financial assets	Fair value through profit or loss	-	-
Cash and cash equivalents	Loans and other receivables	Amortised cost	24,595	24,595
Non-current financial assets				
Bonds and notes	Financial liabilities measured at amortised cost	Amortised cost	(1,521,082)	(1,521,082)
Other long-term loans	Financial liabilities measured at amortised cost	Amortised cost	(426,385)	(426,385)
Interest-bearing non-current liabilities				
- Finance leases	Financial liabilities measured at amortised cost	Amortised cost	(12,412)	(12,412)
Current financial liabilities				
Other current interest-bearing liabilities	Financial liabilities measured at amortised cost	Amortised cost	(4,068)	(4,068)
Trade payables	Financial liabilities measured at amortised cost	Amortised cost	(12,155)	(12,155)

4.2 Financial assets and liabilities (continued)

Financial instruments – initial recognition and subsequent measurement (Accounting policy)

Classification of current and non-current assets and liabilities
An asset or a liability is classified as current when it is expected to be realised within twelve months after the financial year end or it is classified as financial assets or liabilities held at fair value through profit or loss. Liquid funds are classified as current assets.

All other assets and liabilities are classified as non-current assets and liabilities.

4.2.1 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

4.2.2 Financial assets

Initial recognition and measurement
Financial assets within the scope of IFRS 9 are classified as financial assets carried at amoritsed cost, financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income (OCI), as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Purchases or sales of financial assets are recognised on the trade date.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in Note 3A. Revenue from contracts with customers.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets carried at amortised cost

Financial assets carreid at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assests carried at amortised cost also include trade receivables and other receivables. Loans are carried at amortised cost using the effective interest rate method less accumulated impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the consolidated statement of profit or loss. The losses arising from impairment are recognised in the consolidated statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced using an allowance account and the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for measuring the impairment loss. The interest income is recorded as finance income in the consolidated statement of profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of profit or loss.

4.2 Financial assets and liabilities (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IFRS 9.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the consolidated statement of profit or loss.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IFRS 9 are satisfied. The Group had no such instruments at the balance sheet date.

Derecognition of financial assets

Financial assets are derecognised when:
- The rights to receive cash flows have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4.2.3 Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and other receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

4.2.4 Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of FRS 9 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.
The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

4.2 Financial assets and liabilities (continued)

Loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the consolidated statement of profit or loss.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of profit or loss. The Group had no such instruments at the balance sheet date.

Derecognition of Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

4.2.6 Carrying amounts by category and maturity profile of financial assets and liabilities

Carrying amounts of financial assets and liabilities by category

Values at 31 December 2018 **Balance sheet item, EUR 1,000**	**Note**	**Amortised cost**	**Fair value through profit and loss**	**Fair value through other comprehensive income**	**Carrying value of balance sheet items**	**Fair value**
Current financial assets						
Trade receivables	2.1.4	19,786	-	-	19,786	19,786
Other current receivables	2.1.4	49,650	-	-	49,650	49,650
Cash and cash equivalents		17,417	-	-	17,417	17,417
Total Current assets		**86,853**	-	**-**	**86,853**	**86,853**
Carrying amount by category		**86,853**	-	**-**	**86,853**	**86,853**
Non-current financial liabilities						
Bonds and notes	4.2.8-9	(1,682,305)	-	-	(1,682,305)	(1,776,388)
Loans from financial institutions	4.2.8-9	(18,000)	-	-	(18,000)	(18,000)
Other long-term loans	4.2.8-9	(252,185)	-	-	(252,185)	(262,107)
Interest-bearing non-current liabilities						
- Finance leases	3.3	(8,608)	-	-	(8,608)	(8,608)
Total interest-bearing non-current liabilities		**(1,961,098)**	-	**-**	**(1,961,098)**	**(2,065,103)**
Current financial liabilities						
Loans from financial institutions	4.2.8-9	(40,000)	-	-	(40,000)	(40,000)
Other current interest-bearing liabilities	3.3	(3,772)	-	-	(3,772)	(3,772)
Trade payables and other current liabilities	2.3.2	(87,459)	-	-	(87,459)	(87,459)
Total current financial liabilities		**(131,231)**	-	**-**	**(131,231)**	**(131,231)**
Carrying amount by category		**(2,092,329)**	-	**-**	**(2,092,329)**	**(2,196,334)**

4.2.6 Carrying amounts by category and maturity profile of financial assets and liabilities (continued)

Carrying amounts of financial assets and liabilities by category

Values at 31 December 2017 **Balance sheet item, EUR 1,000**	**Note**	**Loans and other receivables**	**Fair value through profit and loss**	**Financial liabilities at amortized cost**	**Carrying value of balance sheet items**	**Fair value**
Current financial assets						
Trade receivables	2.1.4	22,261	-	-	22,261	22,261
Other current receivables	2.1.4	44,413	-	-	-	-
Cash and cash equivalents		24,595	-	-	24,595	24,595
Total Current assets		**91,269**	-	**-**	**46,856**	**46,856**
Carrying amount by category		**91,269**	-	**-**	**46,856**	**46,856**
Non-current financial liabilities						
Bonds and notes	4.2.8-9	-	-	(1,521,082)	(1,521,082)	(1,606,246)
Loans from financial institutions	4.2.8-9	-	-	-	-	-
Other long-term loans	4.2.8-9	-	-	(426,385)	(426,385)	(404,240)
Interest-bearing non-current liabilities						
- Other long term liabilities		-	-	(1,252)	(1,252)	(1,252)
- Finance leases	3.3	-	-	(12,412)	(12,412)	(12,412)
Total interest-bearing non-current liabilities		**-**	-	**(1,961,131)**	**(1,961,131)**	**(2,024,150)**
Current financial liabilities						
Loans from financial institutions	4.2.8-9	-	-	-	-	-
Other current interest-bearing liabilities	3.3	-	-	(4,068)	(4,068)	(4,068)
Trade payables and other current liabilities	2.3.2	-	-	(77,600)	(77,600)	(77,600)
Total current financial liabilities		**-**	-	**(81,668)**	**(81,668)**	**(81,668)**
Carrying amount by category		**-**	-	**(2,042,799)**	**(2,042,799)**	**(2,105,818)**

Cash at banks and on hand
The Group had short-term bank deposits amounting to EUR 17.4 million (2017: EUR 24.5 million). All bank deposits were denominated in euros.

Bonds and notes
The fair value of the bonds have been calculated using the market quotes at the balance sheet date. For calculating the fair value of the bonds and notes without market quote, the market quotes of the corresponding bonds have been used.

Financial liabilities
Interest-bearing liabilities grew by EUR 40.9 million (2017: EUR 67.1 million) during the year, and interest-bearing liabilities at the balance sheet date totalled EUR 2,004.9 million (2017: EUR 1,959.9 million).

The fair value of other long-term loans has been calculated by using the market value of Finnish benchmark government 10 year bonds at the balance sheet date.

The carying value of short-term trade receivables and payables, other non-interest-bearing receivables, finance leases and cash and cash equivalents is a reasonable approximation to their fair value.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual payments.

31 December 2018 **EUR 1,000**	**Effective interest rate %**	**Maturity** **Within 1 year**	**1-5 years**	**Over 5 years**	**Total**
Loans from financial institutions	0.48%	-	18,000	-	18,000
Bonds	2.94%	-	500,000	671,000	1,171,000
Notes	2.71%	-	-	518,500	518,500
Other long-term loans	12.00%	-	-	252,185	252,185
Finance lease liabilities		-	8,608	-	8,608
Total interest-bearing non-current liabilities					**1,968,293**
Loans from financial institutions	0.48%	40,000	-	-	40,000
Finance lease liabilities		3,772	-	-	3,772
Total current interest-bearing liabilities					**43,772**
Trade payables and other current liabilities		87,459	-	-	87,459
Total current financial liabilities					**87,459**
Total		**131,231**	**526,608**	**1,441,685**	**2,099,524**

31 December 2017 **EUR 1,000**	**Effective interest rate %**	**Maturity** **Within 1 year**	**1-5 years**	**Over 5 years**	**Total**
Loans from financial institutions		-	-	-	-
Bonds	2.97%	-	500,000	510,000	1,010,000
Notes	2.71%	-	-	518,500	518,500
Other long-term loans	11.55%	-	-	426,385	426,385
Finance lease liabilities		-	12,243	169	12,412
Total interest-bearing non-current liabilities					**1,967,297**
Loans from financial institutions		-	-	-	-
Finance lease liabilities		0	-	-	0
Total current interest-bearing liabilities					**0**
Trade payables and other current liabilities		0	-	-	0
Total current financial liabilities					**0**
Total		**0**	**512,243**	**1,455,054**	**1,967,297**

4.2.7 Changes in financial liabilities arising from financing activities

Changes in liabilities arising from financing activities

EUR 1,000	1 January 2018	Cash flows	New leases	Other changes	31 December 2018
Current interest-bearing loans and borrowings (excl. items listed below)	-	40,000	-	-	40,000
Current obligations under finance leases	4,068	(4,101)	-	3,804	3,772
Non-current interest-bearing loans and borrowings (excl. items listed below)	1,947,466	(3,274)	-	8,298	1,952,490
Non-current obligations under finance leases	12,412	-	-	(3,804)	8,608

EUR 1,000	1 January 2017	Cash flows	New leases	Other changes	31 December 2017
Current interest-bearing loans and borrowings (excl. items listed below)	-	-	-	-	-
Current obligations under finance leases	4,403	(4,368)	-	4,033	4,068
Non-current interest-bearing loans and borrowings (excl. items listed below)	1,871,953	63,968	-	11,545	1,947,466
Non-current obligations under finance leases	16,445	-	-	(4,033)	12,412

The "Other changes" column includes the effect of reclassification of non-current portion of obligations under finance leases to current due to passage of time, the effect of capitalization of interests of other long-term loans and the effect amortisation of transaction costs of bonds and notes using the effective interest rate method.

The Group classifies interest paid as cash flows from operating activities.

4.2.8 Fair value hierarchy of financial assets and liabilities

Fair value measurement of financial instruments (Accounting policy)

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Notes 4.2.6 and 4.2.8
- Quantitative disclosures of fair value measurement hierarchy Note 4.2.8
- Financial instruments (including those carried at amortised cost) Note 4.2.6

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

4.2.8 Fair value hierarchy of financial assets and liabilities (continued)

Fair value measurement of financial instruments (Accounting policy)

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The transfers between levels of the fair value hierarchy shall be disclosed at the date of the event or change in circumstances that caused the transfer.

For fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained next.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Notes 4.2.6 and 4.2.8.

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

As at 31 December 2018, the Group held the following financial instruments carried at amortised cost in the consolidated statement of financial position:

Financial assets	**Level 1**		**Level 2**		**Level 3**		**Total**	
EUR 1,000	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Financial instruments, current assets								
Available-for-sale financial investments	-	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-

Financial liabilities	**Level 1**		**Level 2**		**Level 3**		**Total**	
EUR 1,000	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Financial instruments, current liabilities								
Loans from financial institutions	(40,000)	-	-	-	-	-	(40,000)	-
Total current financial liabilities	**(40,000)**	**-**	**-**	**-**	**-**	**-**	**(40,000)**	**-**
Financial instruments, non-current liabilities								
Bonds and notes	-	-	(1,776,388)	(1,606,246)	-	-	(1,776,388)	(1,606,246)
Loans from financial institutions	(18,000)	-	-	-	-	-	(18,000)	-
Other long-term loans	-	-	(262,107)	(404,240)	-	-	(262,107)	(404,240)
Total non-current financial liabilities	**(18,000)**	**-**	**(2,038,495)**	**(2,010,486)**	**-**	**-**	**(2,056,495)**	**(2,010,486)**
Total financial liabilities	**(58,000)**	**-**	**(2,038,495)**	**(2,010,486)**	**-**	**-**	**(2,096,495)**	**(2,010,486)**

4.2.9 Risk management

Liquidity risk

Liquidity risk refers to the risk of the Group not having adequate liquid assets to finance its operations, pay interest and repay its loans.

The management of liquidity risk is divided into short-term and long-term liquidity management. Short-term liquidity risk is managed by cash flow planning that takes into account the expected trade receivables, trade payables and other known expenses for a period of two weeks. The adequacy of long-term liquidity is assessed by 12-month forecasts conducted monthly.

Cash and cash equivalents and committed unutilized credit facilities
31 December 2018

EUR 1,000	Facility amount	In use	Available amount	Maturity
Capex facility	350,000	18,000	332,000	1-5 years
Working Capital facility	60,000	40,000	20,000	1-5 years
Liquidity facility	60,000	-	60,000	Over 5 years
EIB credit facility	150,000	-	150,000	Over 5 years
Cash and cash equivalents			17,417	
Total	**620,000**	**-**	**579,417**	

Refinancing risk

Elenia Finance Oyj issues bonds and notes. Bonds are issued under the EUR 3 billion EMTN programme and listed at the London Stock Exchange. Notes are not listed private placements targeted mostly to the US investors through private placements.

At the end of 2018, the Group has borrowed from the international banks EUR 40.0 million using the Working Capital Facility and EUR 18.0 million using the Capex Facility (2017: no bank loans). In December 2018 Elenia Oy agreed on EUR 150.0 million credit with European Investment bank. The loan can be drawn within 18 months from the agreement and the maturity of the loans will be 7-10 years from the drawdown. There were no drawdowns from the credit at the end of 2018. The Group has other long-term loans totaling EUR 252.2 million, which are subordinated to the Bonds and Notes.

In June 2018, the Company's indirect subsidiary Elenia Finance Oyj issued EUR 161.0 million bonds, which mature in 2035. Elenia Finance Oyj used the proceeds of the Notes and Bonds to make an equity investment in Elenia Finance (SPPS) S.à r.l., its wholly owned subsidiary. Elenia Finance (SPPS) S.à r.l. then lent the amount of the proceeds to the Company through a subordinated profit-participating security (the SPPS). The Company used the amounts under the SPPS to subscribe for additional equity in Elenia Oy. The proceeds were used for general corporate purposes, to repay Elenia Oy’s bank debt and to finance investments.

The Bonds are listed on London Stock Exchange. Elenia Oy, Elenia Lämpö Oy and Elenia Palvelut Oy have given EUR 1,689.5 million joint guarantees relating to the loans from financial institutions, Bonds and Notes. The Group's financial structure has financial covenants relating to interest cover and leverage. There were no covenant breaches in 2018. Elenia Finance Oyj monitors the financial markets in order to carry out loan refinancing at an appropriate time, ahead of the due date of the current loans.

Interest rate risk

The Group is exposed to interest rate risk mainly through its interest-bearing net debt. The objective of the Group's interest rate risk management is to limit volatility of interest expenses in the income statement. The Group's interest rate risk management is handled by the Group Treasury.
The interest rate risk is managed by entering into interest rate swaps and by drawdown of loans with fixed interest. At the balance sheet date 95% (2017: 98%) of the loans were fixed rate loans.
A parallel shift of +/- 1.0 percentage points in the interest rate curve at the balance sheet date would have EUR +/- 0.5 million (2017: +/-0.2 million) effect on the interests relating to floating rate loans.

Counterparty risk

Accepted financial counterparties are counterparties approved in existing financing agreements and other counterparties separately approved by the Board of the Group entities.

4.3 Other commitments and contingencies

Other commitments **EUR 1,000**	**2018**	**2017**
Registered floating charges:		
Provided on behalf of own and Group liabilities	18,000,000	18,000,000
Mortgages	233,600	233,600
Refundable connection fees	317,274	316,860
Loan commitment to Lakeside Network Investment Holding B.V.	522	147

Group bank accounts have been pledged as security for loans from financial institutions and bonds.

4.4 Equity

Share capital

The Company was incorporated on 13 November 2013 with a subscribed and fully paid-up capital of EUR 12.500, divided into 1.250.000 shares with a nominal value of EUR 0,01 each.

On 13 December 2013, the subscribed capital has been increased by an amount of EUR 1.500 by issuance of 150.000 shares with a nominal value of EUR 0,01 each to a new shareholder called Elenia Finance (SPPS) S.à r.l., a Group entity. In the consolidation under IFRS of the Group these shares have been treated as treasury shares.

As at 31 December 2014, the subscribed capital is divided into 1.400.000 shares fully paid-up with a nominal value of EUR 0,01 each. Each of these shares has the same voting rights and each shareholder has voting rights commensurate with his shareholding. Each share entitles to a fraction of the corporate assets and profits of the Company in direct proportion to the number of shares in existence.

On 17 December 2013, the Company issued subordinated profit participating securities (SPPS) to its shareholder Elenia Finance (SPPS) S.à r.l., which is also part of the Group. In 2014, the Company issued additional SPPS to its shareholder Finance (SPPS) S.à r.l..

On 19 August 2015, the Company issued additional SPPS for an amount of EUR 75 million. They were all subscribed by Elenia Finance (SPPS) S.à r.l. pursuant to a subscription agreement by and between the Company and Elenia Finance (SPPS) S.à r.l..

In 2016, the Company issued additional SPPS to its shareholder Elenia Finance (SPPS) S.à r.l. for the total amount of EUR 257.2 million. In 2017, the Company issued additional SPPS to its shareholder Elenia Finance (SPPS) S.à r.l. for a total amount of EUR 213.5 million.

During the financial year 2018 the Company issued additional SPPS to its shareholder Elenia Finance (SPPS) S.à r.l. for a total amount of EUR 161.5 million.

These SPPS have been used by the Company to increase its equity in Elenia Oy, which are eliminated as part of the consolidation.

As at 31 December 2018, the Group’s share capital amounts to EUR 14 thousand (2017: EUR 14 thousand).

Legal reserve

In accordance with Luxembourg law, the Company is required to allocate to a legal reserve a minimum of 5% of the annual net income, until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed.

5 Consolidation

5.1 Basis of consolidation

The consolidated financial statements comprise the parent company Elenia Holdings S.à r.l. and its subsidiaries which the Group controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee. The consolidated financial statements also include, as associated companies, any companies over which the Group has significant influence. Significant influence generally involves a shareholding of over 20% of the voting rights or when the Group has the power to participate in the financial and operating policy decisions of the investee but has not control or joint control over those policies.

Subsidiaries are included in the consolidated financial statements using the acquisition cost method. The acquisition cost is measured as the aggregate of the fair value of the assets given and liabilities incurred or assumed at the date of exchange. Costs related to acquisitions are recorded on the consolidated statement of profit or loss as other operating expenses. The excess of the cost of acquisition over the fair value of the Group's share of the net assets acquired is recorded as goodwill. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Intercompany transactions, receivables and debts are eliminated in the consolidated financial statements.

Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

As at 31 December 2018, the subsidiaries do not have non-controlling interests.

5.2 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the statement of profit or loss. It is then considered in the determination of goodwill. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with changes in fair value recognised either in the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of profit or loss.

5.1 Basis of consolidation (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

5.3 Discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:
- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations

Or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

5.4 Investment in an associate

Investment in an associate (Accounting policy)

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

Investments in associated companies are valued at acquisition cost on the date of the acquisition. Interests in associated companies are accounted for using the equity method. The Group's share of its associated companies' post-acquisition profits or losses after tax is recognised in the consolidated statement of profit or loss.

5.4 Investment in an associate (continued)

Investment in an associate (Accounting policy)

The carrying value of the investment is adjusted by post-acquisition changes in equity. Investments in associated companies include the goodwill recorded for the acquisition. Goodwill is not amortised or individually tested for impairment. If the Group's share of losses in an associated company exceeds the carrying value of the investment, the investment is recorded on the balance sheet as having zero value and losses in excess of the carrying value are not recognised in the consolidated financial statements unless the Group has undertaken obligations on behalf of the associated company.

After application of the equity method, the Group assesses whether there is a need to record impairment for an associated company. If there are indications that the value of the investment has declined, the Group calculates the loss on impairment and records the difference in the consolidated statement of profit or loss as a loss.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associated company. The Group's share of the results of associated companies for the financial period is presented as a separate item before operating profit.

The accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

EUR 1,000	**31 December 2018**	**31 December 2017**
Acquisition cost at 1 January	727	687
Business combination	-	-
Share of profit for the year	143	164
Decrease	-	
Dividends received	(96)	(125)
Acquisition cost at 31 December	**774**	**727**

Group's share of the profit of associates for 2018 was EUR 143 thousand (2017:EUR 164 thousand).

Information concerning the associates
31 December 2018

EUR 1,000	**Segment**	**Holding, %**	**Assets**	**Liabilities**	**Revenue**	**Profit/loss**
Oriveden Aluelämpö Oy	Heat	**50**	**3,820**	**3,178**	**1,884**	**283**

31 December 2017

EUR 1,000	**Segment**	**Holding, %**	**Assets**	**Liabilities**	**Revenue**	**Profit/loss**
Oriveden Aluelämpö Oy	Heat	**50**	**3,905**	**3,354**	**1,897**	**286**

Oriveden Aluelämpö Oy is located in Orivesi municipality, Finland.

Oriveden Aluelämpö Oy's main products are district heating production and distribution

5.5 Other changes in accounting policies and disclosures / New and amended standards and interpretations issued but not yet effective

5.5.1 Changes in accounting policies and disclosures

The Group applied for the first-time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2018. The nature of each new standard and amendment adopted by the Group has been described in the relevant note. New standards and amendments not material for the Group have been described below:

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The amended standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The EU has endorsed the amendments.

The amendments concern three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

These amendments are not applicable to the Group.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amended standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The EU has endorsed the amendments.

The amendments give guidance to entities which are implementing the new Financial Instruments -standard IFRS 9 before implementing the new insurance contracts standard that will replace IFRS 4.

These amendments are not applicable to the Group.

Amendments to IAS 40: Transfers of Investment Property

The amended standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The EU has endorsed the amendments.

The amendments clarify that an entity can transfer a property to, or from, investment property only when there is evidence of a change in use. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use.

These amendments are not applicable to the Group.

Annual improvements to IFRSs (2014 – 2016 Cycle)

The following annual improvements to IFRSs are effective for annual reporting periods beginning on or after 1 January 2018. The EU has endorsed the improvements.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment deleted the outdated exemptions for first-time adopters of IFRS.

IAS 28 Investments in Associates and Joint Ventures

The amendment clarifies that the election to measure investments on associates and joint ventures at fair value through profit or loss is available separately for each associate or joint venture, and that the election can be made at initial recognition. The improvements do not have an effect on the consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The IFRIC interpretation is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The EU has endorsed the amendments.

The interpretation clarifies that the date of the transaction, for the purpose of determining the exchange rate to be used on initial recognition of the related asset, expense or income, is the date of the advance consideration – i.e. the date when non-monetary asset or liability is recognised.

5.5.1 Changes in accounting policies and disclosures (continued)

The interpretation does not have a significant effect on the consolidated financial statements..

5.5.2 New and amended standards and interpretations issued but not yet effective

Certain new and amended standards and interpretations are issued but not yet effective up to the date of issuance of the consolidated financial statements. The Group intends to adopt these standards, amendments and interpretations, if applicable, when they become effective. New standards and amendments which have been issued but are not yet effecetive nor material for the Group have been described below:

IFRS 17 Insurance Contracts

The new standard is effective for annual periods beginning on or after 1 January 2021, early application is permitted. The EU has not endorsed the standard.

IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. The new standard applies to all types of insurance contracts as well as to certain guarantees and financial instruments with discretionary participation features.

The new standard is not applicable to the Group.

Amendments to IAS 1 and IAS 8: Definition of Material

The amended standards will be effective for annual periods beginning on or after 1 January 2020 with early adoption permitted. The EU has not endorsed the amendments.

The purpose of the amendments is to align the definition of "material" across the standards and to clarify certain aspects of the definition.

The amendments will not have an essential effect on the consolidated financial statements.

Amendment to IFRS 3: Business Combinations

The amended standard will be effective for annual periods beginning on or after 1 January 2020 with early adoption permitted. The EU has not endorsed the amendments.

The amendments help entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendment will not have a material effect on the consolidated financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amended standard is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The EU has endorsed the amendments.

The amendments clarify that in the early termination of the contract a debt instrument can be measured at amortised cost or at fair value through other comprehensive income regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments will not have an effect on the consolidated financial statements.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amended standard will be effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The EU has not endorsed the amendments.

5.5.1 Changes in accounting policies and disclosures (continued)

The amendments specify how an entity is required to determine current service cost and net interest when a plan amendment, curtailment or settlement occurs during the annual reporting period.

The amendments will not have a material effect on the consolidated financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amended standard is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The EU has not endorsed the amendments.

The amendments clarify that companies account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9.

The amendments will not have an effect on the consolidated financial statements.

5.5.2 New and amended standards and interpretations issued but not yet effective

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The effective date of the amendments has been postponed and hence the EU has not yet endorsed the standard amendments.

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

Annual improvements to IFRSs (2015 – 2017 Cycle)

The following annual improvements to IFRSs are effective for annual reporting periods beginning on or after 1 January 2019. The EU has not yet endorsed the improvements.

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 Income Taxes

The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The improvements will not have a significant effect on the consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

The IFRIC interpretation is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The EU has endorsed the amendments.

The interpretation clarifies application of the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The interpretation will not have a significant effect on the consolidated financial statements.

6 Other notes

6.1 Taxes

6.1.1 Current income tax

Current income tax (Accounting policy)

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Current income taxes (Accounting judgements)

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to the tax estimation.

The Group companies establish provisions based on reasonable estimates. In the case that the final taxes are different than the amounts initially recognized, these differences will affect income tax and provisions for deferred tax during the year when the determination of tax differences took place. Management estimates that the estimated tax shown in the consolidated financial statement represent a reasonable estimate of the Group's tax position.

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

Consolidated statement of profit or loss

EUR 1,000	**1 January 2018 to 31 December 2018**	**1 January 2017 to 31 December 2017**
Current income tax charge	(6,018)	(31)
Adjustments in respect of current income tax of previous periods	(5)	(15)
Deferred taxes	1,570	(836)
Income tax expense reported in the consolidated statement of profit or loss	**(4,453)**	**(882)**

Consolidated statement of OCI

EUR 1,000	**1 January 2018 to 31 December 2018**	**1 January 2017 to 31 December 2017**
Deferred tax related to items recognised in OCI during the year:		
Remeasurement gains (losses) on defined benefit plans	(11)	(8)
Deferred tax charged to OCI	**(11)**	**(8)**

Income tax rate

Tax on profit before tax deviates from the nominal tax calculated according to the tax rate as follows:

EUR 1,000	**1 January 2018 to 31 January 2018**	**1 January 2017 to 31 January 2017**
Profit before tax	**11,256**	**853**
Theoretical income tax using the nominal tax rate of 20.0% (2017: 20.0%)	(2,251)	(171)
- Tax-free income items	(29)	10
- Expenses that are non-deductible in taxation	(2,164)	(780)
- Share of the profits of associates	9	8
- Adjustment of taxes based on previous periods	(5)	60
- Unrecognized deferred tax assets from taxation losses	(13)	(9)
Income tax in the income statement	**(4,453)**	**(882)**

6.1.2 Deferred tax

Deferred tax (Accounting policy)

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside the statement of profit or loss is recognised outside the statement of profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

The Group offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax (Accounting judgements and estimates)

The Group recognizes deferred tax assets by taking into account their recoverability, based on the existence of deferred tax liabilities with similar maturities for netting and the possibility of generation of sufficient future taxable profits. The management assessed the deferred tax booked in the financial statements to be recoverable.

The estimations and the actual flows of taxes paid or received could differ from the estimates made by the Group as a result of unforeseen future legal changes in estimates.

The Group has deferred tax assets and liabilities which are expected to be realised through the consolidated statement of profit or loss over certain periods of time in the future. The calculation of deferred tax assets and liabilities involves making certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets and liabilities as recorded in the financial statements and their tax basis.

6.1.2 Deferred tax

Change in deferred tax assets and liabilities in 2018

Deferred tax assets	**As at 31 December 2017**	**Recognised in the statement of profit or loss**	**Recognised in other comprehensive income**	**As at 31 December 2018**
EUR 1,000				
Deferred tax asset for the confirmed losses	12,672	(12,672)	-	-
Defined benefit plans	227	6	(11)	222
Liabilities related to contracts with customers	-	1,945	-	1,945
Finance leases	831	(84)	-	747
Total	**13,730**	**(10,805)**	**(11)**	**2,914**
Offset by deferred tax liabilities	(12,672)			-
Deferred tax assets	**1,058**			**2,914**

Deferred tax liabilities	**As at 31 December 2017**	**Recognised in the statement of profit or loss**	**Recognised in other comprehensive income**	**As at 31 December 2018**
EUR 1,000				
Interest-bearing liabilities	1,812	(137)	-	1,675
Depreciation differences	60,295	(7,051)	-	53,244
Measurement of assets at fair value in acquisition	93,192	(5,187)	-	88,005
Total	**155,299**	**(12,375)**	**-**	**142,924**
Offset by deferred tax assets	(12,672)			-
Deferred tax liabilities	**142,627**			**142,924**

Change in deferred tax assets and liabilities in 2017

	As at 31 December 2016	**Recognised in the statement of profit or loss**	**Recognised in other comprehensive income**	**As at 31 December 2017**
Deferred tax assets				
EUR 1,000				
Hedging reserve	(0)	-	-	(0)
Deferred tax asset for the confirmed losses	18,966	(6,294)	-	12,672
Defined benefit plans	236	(1)	(8)	227
Finance leases	889	(58)	-	831
Total	**20,091**	**(6,353)**	**(8)**	**13,730**
Offset by deferred tax liabilities	(18,966)			(12,672)
Deferred tax assets	**1,125**			**1,058**

	As at 31 December 2016	**Recognised in the statement of profit or loss**	**Recognised in other comprehensive income**	**As at 31 December 2017**
Deferred tax liabilities				
EUR 1,000				
Interest-bearing liabilities	1,313	499	-	1,812
Depreciation differences	61,133	(838)	-	60,295
Measurement of assets at fair value in acquisition	98,370	(5,178)	-	93,192
Elimination of internal margin in non-current assets	-	-	-	-
Total	**160,816**	**(5,517)**	**-**	**155,299**
Offset by deferred tax assets	(18,966)			(12,672)
Deferred tax liabilities	**141,850**			**142,627**

The Group has aggregate tax losses of EUR 1,687,275,990 (EUR 1,687,275,990 for the Company and EUR nil for Elenia Oy) for offset against future taxable profits of the Group in which the losses arose. The losses carried forward are available for ten years for Elenia Oy and indefinitely for the Company. The Group has recorded a deferred tax asset on the confirmed losses for 2012-2013 for Elenia Oy which have been fully utilizied in the financial year 2018 . While the remaining losses on which the deferred tax not recorded are related to the Company that have a history of losses, deferred tax assets have not been recognised as these losses may not be used to offset taxable profits elsewhere in the Group.

6.2 Inventories

Inventories (Accounting policy)

Inventories mainly consist of fuels and spare parts used in the production process. Inventories are stated at the lower of acquisition cost and net realisable value. Acquisition cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

EUR 1,000	**31 December 2018**	**31 December 2017**
Oil	1,455	1,556
Bio fuels	1,485	2,008
Other inventories	507	566
Total	**3,447**	**4,130**

During 2018, EUR 4.2 million (2017: EUR 8.3 million) was recognised as an expense for inventories carried at net realisable value.

In 2018 there was a write-off of EUR 127 thousand (2017: EUR 219 thousand) in fuel inventory value.

6.3 Pensions and other post-employment benefits

Pension obligations (Accounting policy)

Pension arrangements are categorised as defined benefit or defined contribution plans.
Under defined contribution plans, the Group pays fixed pension contributions and has no legal or constructive obligation to make additional payments. This category includes the Finnish Statutory Employment Pension Scheme (TyEL). Payments relating to defined contribution pension plans are recognised in the consolidated statement of profit or loss under personnel expenses for the period in which they are due.

For defined benefit plans, pension costs are assessed using the projected unit credit method. The cost of providing pensions is recorded in the consolidated statement of profit or loss as to spread the service cost over the service lives of employees. The defined benefit obligation is calculated annually on the reporting date and is measured as the present value of the estimated future cash flows.

The Group applies the IAS 19 standard to calculations on defined benefit pension plans. Under this standard, all actuarial gains and losses are recognised in the period in which they occur in total in other comprehensive income and the net defined benefit liability or asset is presented in full on the consolidated statement of financial position. The expected return on plan assets is calculated using the same discount rate as applied for discounting the benefit obligation to its present value. Current and past service costs as well as net interest on net defined benefit liability is recorded in the consolidated statement of profit or loss. Items arising from the remeasurement of the net defined benefit liability are recognised in consolidated statement of other comprehensive income.

The Group has defined contribution pension plans concerning additional pensions. The benefits are insured with an insurance company.

The benefits include both defined benefit (DB) and defined contribution (DC) parts as defined in IAS 19. In the following tables, figures are presented for DB part of the plan.

6.3 Pensions and other post-employment benefits

EUR 1,000	31 December 2018	31 December 2017
Items recognised on the consolidated statement of financial position at 31 December		
Current value of funded obligations	5,550	5,888
Fair value of assets	(4,445)	(4,754)
Deficit	1,105	1,134
Value of the obligation on the consolidated statement of financial position	**1,105**	**1,134**
The obligations of defined benefit pension plans have changed as follows:		
Obligation at the beginning of the year	5,888	5,939
Current service costs	58	69
Interest expenses	86	87
Actuarial losses	(274)	44
Settlements	45	-
Benefits paid	(253)	(251)
Obligation at the end of the year	**5,550**	**5,888**
The fair value of the assets of defined benefit pension plans has developed as follows:		
Fair value of plan assets at the beginning of the year	4,754	4,762
Expected income from assets	70	70
Actuarial gains	(218)	83
Settlements	30	-
Payments by the employer	63	90
Benefits paid	(254)	(251)
Fair value of plan assets at the end of the year	**4,445**	**4,754**
Net obligation in the consolidated statement of financial position consists of:		
Obligation at the beginning of the year	1,134	1,177
Net cost recognised in the statement of profit or loss	-	86
Payments by the employer	(63)	(89)
Gains and losses recognised in OCI	(56)	(39)
Value of the obligation at year end	**1,015**	**1,135**
Items recognised in the consolidated statement of profit or loss		
Expenses based on service in the reporting year	73	69
Interest income	(70)	(70)
Interest expenses	87	87
Total	**90**	**86**
Items recognised in the consolidated statement of other comprehensive income for the year		
Actuarial gains/(losses) on assets	218	(83)
Actuarial gains/(losses) on obligations	(274)	44
Total	**(56)**	**(39)**

6.3 Pensions and other post-employment benefits

Sensitivity analysis of defined benefit pension plans
The following table shows how the discount rate affects to projected benefit obligation, related service cost and interest cost.

2018

Assumption EUR 1,000	Change in assumption	Defined benefit obligations	Fair value of Plan assets	Net Liability	Service costs for the next reporting year	Net interest
Discount rate 1.5 - 1.7%		5,550	4,445	1,105	49	17
Discount rate 2.0 - 2.2%	+0.50%	5,176	4,190	986	45	20
Discount rate 1.0 - 1.2%	-0.50%	5,969	4,727	1,242	54	13

2017

Assumption EUR 1,000	Change in assumption	Defined benefit obligations	Fair value of Plan assets	Net Liability	Service costs for the next reporting year	Net interest
Discount rate 1.5%		5,888	4,754	1,134	58	16
Discount rate 2.0%	+0.50%	5,478	4,475	1,004	53	19
Discount rate 1.0%	-0.50%	6,348	5,063	1,284	64	12

As the defined benefit plans are managed by an external insurance company, it is not possible to present a division of the fair values of the plan assets.

Expected contributions for 2019 are estimated to be EUR 65 thousand.

The weighted average duration of defined benefit obligation is 13-21 years.

The following table shows the maturity profile of the future benefit payments:

EUR 1,000	31 December 2018	31 December 2017
Under 1 year	264	251
1-10 years	2,231	2,280
10-20 years	2,139	2,239
20-30 years	1,503	1,613
Over 30 years	949	1,054
Total	**7,086**	**7,437**

Actuarial assumptions used in calculations	31 December 2018	31 December 2017
Discount rate	1.5 - 1.7%	1.5%
Estimate of salary increases	2.6 - 2.7%	2.7%
Inflation	1.6 - 1.7%	1.7%

6.4 Related Party Disclosures

Shareholders

The Company's shareholders are Lakeside Network Investment Holding BV, a limited liability company incorporated under the law of the Netherlands, with statutory seat in Amsterdam and Elenia Finance (SPPS) S.à r.l. organised under the laws of Luxembourg as a société à responsabilité limitée with the statutory seat in Luxembourg.

At 1 January 2018, the Company's ultimate parents, were 3i Networks Finland L.P. a limited partnership company duly incorporated under the law of the United Kingdom (16 Palace Street, SW1E 5JD London, Great Britain), GS International Infrastructure Partners II, L.P. and GS Global Infrastructure Partners II, L.P.two limited partnership companies duly incorporated under the law of the state of Delaware (USA) (1209, Orange Street, Wilmington) and Ilmarien Mutual Pension Insurance Company a mutual insurance company duly incorporated under the law of Finland.

On 28 February 2018, the Group was acquired by a consortium of infrastructure investors: Société Foncière Européenne B.V. (SFE) and Allianz Infrastructure Luxembourg I S.à r.l. (AIL) (together 45%), Elton Ventures S.à r.l. (45%) and Valtion Eläkerahasto (VER) (10%). SFE and AIL are fully indirect subsidiaries of Allianz SE, and therefore members of the Allianz Group. Elton Ventures S.à r.l. is a wholly owned indirect subsidiary of Macquarie Super Core Infrastructure Fund SCSp managed by Macquarie Infrastructure and Real Assets (Europe), who is part of Macquarie Asset Management Group. VER is the State Pension Fund of Finland.

Subsidiaries and associates

The Company owns all shares in Elenia Oy. Elenia Oy owns all of the shares in Elenia Lämpö Oy, Elenia Palvelut Oy and Elenia Finance Oyj. The Company owns all shares in Elenia Oy. Elenia Oy owns all of the shares in Elenia Lämpö Oy, Elenia Palvelut Oy and Elenia Finance Oyj. Elenia Finance Oyj owns all of the shares in Elenia Finance (SPPS) S.à r.l., Luxembourg. Elenia Lämpö Oy has an associate, Oriveden Aluelämpö Oy; it holds 50% of its shares.

Senior Management

The Group is managed by its Board of Managers. The Group's top management includes the Board of Managers and the Board of Directors of Elenia Oy. The Group has not had any business transactions with persons included in its top management and the Group has not granted loans to these persons. Refer to Note 2.3.3 for the compensation to the CEOs of the Group.

Management team

Management teams of Elenia Oy and Elenia Lämpö Oy are included within the scope of the long-term incentive plan. Description of the long-term incentive plan has been disclosed in Note 2.3.3.

Business transactions

All transactions with related parties take place in an arm's length manner. Group companies have intercompany transactions which are mainly related to administrative services. Besides Elenia Palvelut Oy provides customer service and related services to the Elenia Group, and Elenia Finance Oyj provides treasury services to the Group companies. These are eliminated upon consolidation.

As at 31 December 2018, other long-term loans with an aggregate carrying value of EUR 252.2 million (2017: EUR 426.4 million) are due to the company's ultimate owners through intermediary holding entities. The following table includes the specification of other long-term loans and related accrued interests.

EUR 1,000	Loan amount 31 December 2018	Interest expense 1 March 2018 to 31 December 2018
Tampere Finance B.V.	113,551	14,622
Kimi Finance B.V.	113,428	14,622
Pispala Finance B.V.	25,206	3,249
Total	**252,185**	**32,493**

Transactions and outsanding items with the associated company Oriveden Lämpö Oy are not material.

6.5 Events after the reporting period

The Group changed its organisation during 2018 to streamline its operations and to separate the regulated and unregulated business more fully from each other. The new organisation has become effective on 1 January 2019. The most significant change was the transfer of the project management and construction business unit from Elenia Oy to Elenia Palvelut Oy.

In February 2019, the Group commenced a strategic review of its interests in Elenia Lämpö Oy and its associated subsidiary. At this time there is no certainty as to the decisions which may ultimately be made on conclusion of this strategic review.