Elenia Holdings S.à r.l.

Consolidated Financial Statements

1 January 2016 - 31 December 2016

Address of the registered office :

2, rue du Fossé
L-1536 Luxembourg

R.C.S. Luxembourg: B 181.773

Share capital: EUR 14.000

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Elenia Holdings S.à r.l.
Société à responsabilité limitée
2, rue du Fossé
L- 1536 Luxembourg
Share Capital: EUR 14,000
R.C.S. Luxembourg: B 181.773
(hereinafter the "**Company**")

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2016

Dear shareholders of the Company,

In accordance with the provisions of the Luxembourg law of 10 August 1915 on commercial companies as amended by the law of 10 August 2016 and in force on 23 August 2016, the board of managers of the Company ("**Board of Managers**") hereby submits to you the consolidated management report for the financial year 2016.

1. Elenia group company structure - overview

The Company is part of a group of companies which invests in Elenia group ("**Group**"). The Group consists of (i) Elenia Oy which owns and operates an electricity distribution network and it is the main business of the Group accounting for over 75% of the revenue and 85% of EBITDA (ii) Elenia Lämpö Oy which owns and operates a district heating business (iii) Elenia Palvelut Oy which operates a customer service business and (iv) financing company Elenia Finance Oyj which provides treasury services to the Group. Elenia Oy is the parent company of the Group. Elenia Oy has 100 outstanding shares all of which are held by the Company. As at 31 December 2016, 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. ("**Lakeside BV**") 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. ("**Elenia SPPS**") holds 150,000 shares in the Company corresponding to 11% of the share capital of the Company. The Company`s ultimate parents are affiliated entities to Goldman Sachs, 3i and Ilmarinen.

2. Business review

The Group`s revenue for the financial year 2016 was EUR 315.3 million (EUR 282.3 million in 2015) and the consolidated balance sheet amounts to EUR 1.984 billion.

The Group`s favorable performance was driven by increased electricity volume due to colder winter, an increase in electricity distribution tariffs, increased number of customers and fewer weather outages compared to 2015. The reasons that drove the revenue increase also positively impacted the Group`s EBITDA by 24% (EUR 168.3 million in 2016 against EUR 135.5 million in 2015). Following public debate over the electricity distribution tariff increase in April 2016, the Finnish ministry of Economy and Employment is considering implementing a tariff increase cap of 15% over any rolling 12 month period. These changes are expected to be implemented during 2017. The Group experienced two storms during 2016 one of which in August 2016 was exceptionally severe - storm Rauli - which has left 96,000 customers without electricity. Repair costs and compensations to customers for around c. 7.3 million had a negative impact on the financial performance of the Group. The Group invested close to EUR 120 million in developing its electricity network in 2016 in order to improve security of supply by increasing underground cabling and replacing old overhead lines, many of them dating from the 60`s and the 70`s and now reaching the end of their economic life. With respect to R&D costs, the Group incurred EUR 1.7 million costs of research projects during 2016. Concerning the heat business of the Group, total revenue in 2016 was EUR 77.8 million against 72.5 million in 2015 and EBITDA was EUR 25.6 million against EUR 23.2 million in 2015). The increase in revenue and EBITDA in the heat sector was attributable to higher volumes during 2016 due to colder weather, more favourable fuel mix and improved fuel efficiency. Concerning the customer service business, total revenue in 2016 was EUR 10.2 million against 14 million in 2015 and EBITDA was EUR 0.8 million against EUR 0.5 million in 2015. The Group has made no material acquisitions or disinvestments during the 2016 period.

Despite a solid business performance with positive outlook, the Group has realized a loss of EUR 18.9 million before tax and a loss of EUR 15.4 million after tax, which should be carried forward to the next financial year. Such pretax loss is mainly due to finance costs for an amount of EUR 103.8 million comprising interest expenses on interest bearing loans and finance leases.

The Group has negative equity balance at 31 December 2016 of EUR 144.2 million and expects it to remain negative throughout 2017.

3. Financing review

Elenia Finance Oyj issued (i) bonds under its 3 billion EMTN programme for an aggregate amount of EUR 107 million (no issuances in 2015) listed at the London Stock Exchange and (ii) private placements for an aggregate amount of EUR 150 million (EUR 75 million in 2015). The proceeds were used for general corporate purposes, to repay Elenia Oy's drawn bank debt and to finance investments. The weighted average maturity of Group`s debt increased to 10.1 years (9.2 years at the end of 2015). The weighted average interest rate (excluding other long-term loans) increased to 2.9% in 2016 (2.8% at the end of 2015). The increase in weighted average interest rate was driven by the reduction in the floating rate bank debt, which declined from EUR 160 million to EUR 22 million as a result of new fixed rate issuances in 2016. There are no covenant breaches in 2016. As at 31 December 2016, the Group had sufficient liquidity with cash equivalents amounting to EUR 15 million (EUR 19 million in 2015), with EUR 333 million in undrawn committed credit facilities (EUR 195 million in 2015). Cash equivalents and undrawn committed credit facilities cover more than 12 months of investments and operating expenses. Standard & Poor`s has kept the Elenia Finance Oy rating of BBB with stable outlook in 2016 and the same rating agency considers the 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.

The proceeds from the financing are invested by Elenia Finance Oyj as capital surplus into Elenia SPPS. Elenia SPPS subscribes for subordinated profit participating securities ("**SPPS**") issued by the Company and thereafter the Company invests the funds received from through the issuance of SPPS as capital contribution to the unrestricted equity of Elenia Oy. This mechanism ensures that the funds from the financing are channeled to Elenia Oy to be used for financing investments and business operations.

During 2016, the Company has issued SPPS to Elenia SPPS for a total amount of EUR 257.2 million. The Company has used the proceeds from the issuance of SPPS for an amount of EUR 257 million to make capital contributions to the unrestricted equity of Elenia Oy. Due to the negative equity, Elenia Oy is unable to make cash distributions to the Company in the form of dividends or unrestricted equity. This resulted in the capital contributions to Elenia Oy and SPPS being impaired on a standalone basis. The SPPS are however eliminated as part of the consolidation.

4. 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.

Since the Group uses EUR as its primary operating currency, its currency risk rises from purchases of raw materials and services denominated in currencies other than EUR. Trades in currencies other than EUR may have a negative effect on the Group`s result. Such currency risks are hedged either through contractual currency rate clauses or through forward contracts. At the end of 2016, the currency risk of the Group comprises of trade payables which amounted to SEK 48.7 thousand and whose counter was EUR 5.1 thousand.

The liquidity risk of the Group is divided into short-term and long-term liquidity management. Short term liquidity risk takes into account trade receivables or payables for a two week period. Long term liquidity is assessed by 12 month period. As mentioned in point 3. (Financing review), the Group has sufficient liquidity with cash equivalents amounting to EUR 15 million at the end of 2016.

The Group is exposed to interest rate risk through its interest bearing net debt. The interest rate risk is managed by entering into interest rate swaps and drawdown of fixed rate loans. At 31 December 2016, 96% of the Group` loans were fixed rate loans and the Group had no open interest rate swaps (all were closed in August 2015). As mentioned in point 3. (Financing review), the weighted average interest rate increased to 2.9% (2.8% at the end of 2015) due to reduction in the floating rate bank debt.

The Group is exposed to credit risk and counterpart risk. Credit risk is mitigated by one or two months invoicing based on measured consumption and distribution tariffs.

With respect to volume & price risks, electricity distribution operations do not involve particular price risks as these are subject to a license. With respect to heating operations, fluctuations in temperatures can give rise to volume risks. The Group has the right to adjust heating prices subject to notice conditions thereby mitigating price risk of production.

5. Corporate governance

There were no changes to the Group`s management team in 2016 save for Mr. Robert Clark being appointed to the board of directors of Elenia Oy starting from 1 December 2016 thereby replacing Peter Lyneham after having served until 30 November 2016.

6. Employment & environment

At the end of 2016, the Group employed 333 people (383 in 2015). Together with local partner companies including the personnel of external sub-contractors, the Group employs approximately 1,000 people.

The Group`s networks and heat business are certified as having an ISO 14001 Environmental Management System. The Group`s external sub-contractors are also required to have environmental management systems in line with the ISO 140014 standard. In 2016, the Group`s heat business continued to reduce the use of fossil fuels and emphasise the use of domestic fuels. The share of biofuels in the heat business exceeded 68% in 2016 while the share of domestic fuels is approximately 90%.

7. Important events since end of financial year

In January 2017, one of the Group`s company, Elenia Palvelut Oy made an agreement with Jyväskylän Energia to take over all of the customer service operations related to electricity distribution, electricity sales, district heating and water distribution but excluding billing and technical customer service. Furthermore, the changes relating to the distribution tariff increases cap are expected to become effective beginning of June 2017.

8. Outlook

The Group`s customers expect secure supply of electricity and in order to meet these expectations the Group will remain focused in the development of its electricity network and will therefore invest more than EUR 120 million in it in 2017. The Group`s goal is to increase underground cabling rate of the distribution business to 70% by 2028. The heat business has managed to add new customers and retains a high market share despite the economic recession in recent years. With respect to the distribution tariff increases cap to be effective as of June 2017, the Group does not expect the new legislation to materially impact its business or operations.

The Board of Managers of the Company remains at your disposal in case you have any queries in respect of the above.

Luxembourg, on April 11, 2017.

On behalf of the Board of Managers of the Company,

Marielle Stijger
Manager

Antoine Clauzel
Manager

Building a better
working world

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.
2, rue du Fossé
L-1536 Luxembourg

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Elenia Holdings S.à r.l., which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Managers responsibility 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 International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Managers determines is necessary to enable the preparation and presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Managers, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Elenia Holdings S.à r.l. as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Managers, 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

O. Coekell

Olivier Coekelbergs

Luxembourg, 13 April 2017

Elenia Holdings S.à r.l.
Société à responsabilité limitée

Consolidated statement of profit or loss

for the year ended 31 December 2016

All amounts in EUR 000

	Note	From 1 January 2016 to 31 December 2016	From 1 January 2015 to 31 December 2015
Revenue		**315.325**	**282.347**
Other operating income	5	3.394	4.505
Materials and services		(110.193)	(107.932)
Employee benefit expenses	6	(20.572)	(23.465)
Depreciation, amortisation and impairment	7	(83.640)	(79.229)
Other operating expenses	5	(19.817)	(20.062)
Operating profit		**84.497**	**56.164**
Finance income	9	303	1.296
Finance costs	9	(103.858)	(111.377)
Share of profit of an associate	8	181	132
Loss before tax from continuing operations		**(18.877)**	**(53.785)**
Income tax	10	**3.430**	**9.827**
Loss for the year		**(15.447)**	**(43.958)**

Marielle Stijger

Manager

Antoine Clauzel

Manager

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

Elenia Holdings S.à r.l.
Société à responsabilité limitée

Consolidated statement of other comprehensive income

for the year ended 31 December 2016

All amounts in EUR 000

	Note	From 1 January 2016 to 31 December 2016	From 1 January 2015 to 31 December 2015
Loss for the year		**(15.447)**	**(43.958)**
Other comprehensive income/ (loss)			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement losses on defined benefit plans	19	(202)	316
Income tax effect	10	40	(63)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net movement of cash flow hedges		-	1.610
Net gain/ (loss) on available-for-sale financial assets		1	(1.027)
Income tax effect	10	-	(117)
Other comprehensive loss for the year after tax		**(161)**	**719**
Total comprehensive loss for the year		**(15.608)**	**(43.239)**

Elenia Holdings S.à r.l.
Société à responsabilité limitée

Consolidated statement of financial position

as at 31 December 2016

All amounts in EUR 000

	Note	31 December 2016	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment, net	11	1.286.739	1.245.044
Intangible assets	12	608.716	606.750
Investments in an associates	8	687	590
Other non-current financial assets		562	247
Deferred tax assets	10	1.125	1.126
Total non-current assets		**1.897.829**	**1.853.757**
Current assets			
Inventories	13	7.515	10.044
Trade receivables	14	21.513	19.804
Other current receivables	14	42.191	43.318
Cash and cash equivalents		15.057	19.115
Total current assets		**86.276**	**92.281**
Total assets		**1.984.105**	**1.946.038**
Equity and liabilities			
Equity			
Share capital	22	14	14
Share premium	22	2.037	2.037
Available for sale reserve	22	-	(1)
Retained earnings		(146.321)	(130.713)
Treasury shares	22	(2)	(2)
Total equity		**(144.272)**	**(128.665)**
Non-current liabilities			
Loans from financial institutions	15	22.000	130.000
Bonds and notes	15	1.307.838	1.051.626
Other long-term loans	15	542.116	599.458
Finance lease liabilities	15, 21	16.445	19.831
Employee benefit liability	19	1.177	1.005
Provisions	16	9.791	11.588
Other long-term liabilities		1.072	840
Deferred tax liabilities	10	141.850	145.413
Total non-current liabilities		**2.042.289**	**1.959.761**
Current liabilities			
Loans from financial institutions	15	-	30.000
Finance lease liabilities	17, 21	4.403	3.727
Trade payables	17	22.535	17.705
Other current liabilities	17	59.150	63.510
Total current liabilities		**86.088**	**114.942**
Total equity and liabilities		**1.984.105**	**1.946.038**

Elenia Holdings S.à r.l.
Société à responsabilité limitée

Consolidated statement of changes in equity

for the year ended 31 December 2016

All amounts in EUR 000	Note	Share capital	Share premium	Available for sale reserve	Cash flow hedge reserve	Retained earnings	Treasury shares	Total equity
As at 1 January 2015		**14**	**2.037**	**820**	**(1.288)**	**(87.008)**	**(2)**	**(85.427)**
Comprehensive income								
Loss for the year		-	-	-	-	(43.958)	-	(43.958)
Other components of comprehensive income (adjusted by tax effect)								
Cash flow hedging		-	-	-	1.288	-	-	1.288
Available-for-sale financial assets		-	-	(821)	-	-	-	(821)
Change in defined benefit plans	19	-	-	-	-	253	-	253
Total comprehensive income for the year		**-**	**-**	**(821)**	**1.288**	**(43.705)**	**-**	**(43.239)**
As at 31 December 2015		**14**	**2.037**	**(1)**	**-**	**(130,713)**	**(2)**	**(128.665)**
As at 1 January 2016		**14**	**2.037**	**(1)**	**-**	**(130.713)**	**(2)**	**(128.665)**
Comprehensive income								
Loss for the year		-	-	-	-	(15.447)	-	(15.447)
Other components of comprehensive income (adjusted by tax effect)								
Available-for-sale financial assets		-	-	1	-	1	-	1
Change in defined benefit plans	19	-	-	-	-	(162)	-	(162)
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(15.608)**	**-**	**(15.608)**
As at 31 December 2016		**14**	**2.037**	**-**	**-**	**(146.321)**	**(2)**	**(144.272)**

Elenia Holdings S.à r.l.
Société à responsabilité limitée

Consolidated statement of cash flows

for the year ended 31 December 2016

All amounts in EUR 000

	From 1 January 2016 to 31 December 2016	From 1 January 2015 to 31 December 2015
Operating activities		
Loss for the year	(15.447)	(43.958)
Adjustments to reconcile loss to net cash flows		
Depreciation, amortisation and impairment	83.640	79.229
Other adjustments	100.818	100.084
Working capital adjustments		
Decrease in inventories	2.530	1.890
(Decrease)/Increase in trade and other current liabilities	(1.655)	7.956
(Increase)/Decrease in trade and other current receivables	(3.410)	(536)
Increase in provisions	(2.573)	(779)
Dividends received	84	56
Interests received	251	102
Interest and financial expenses paid	(37.064)	(35.997)
Interest paid on other long-term loans	(60.875)	(68.652)
Swap breakage costs paid	-	(1.994)
Taxes paid	(60)	(373)
Net cash from operating activities	**66.239**	**37.028**
Investing activities		
Capital expenditure, net	(125.288)	(113.444)
Changes in loans	(317)	-
Changes in investments	1.105	8
Net cash used in investing activities	**(124.500)**	**(113.436)**
Financing activities		
Repayment of short-term borrowings	(30.000)	-
Proceeds from long-term borrowings	257.223	196.000
Payment of debt arrangement costs	(2.168)	(870)
Repayment of long-term borrowings	(167.125)	(113.348)
Repayment of finance lease liabilities	(3.727)	(3.738)
Net cash from financing activities	**54.203**	**78.044**
Net (decrease)/ increase in cash and cash equivalents	**(4.058)**	**1.636**
Cash and cash equivalents at 1 January	19.115	17.479
Change in cash and cash equivalents	(4.058)	1.636
Cash and cash equivalents at 31 December	**15.057**	**19.115**

Notes to the consolidated financial statements

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 2, rue du Fossé, L-1536 Luxembourg.

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 financial year begins on 1 January and closes on 31 December.

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 23.

These consolidated financial statements were authorised for issue by the Board of Managers of the Company on 11 April 2017. The shareholders have the right either to approve or reject the consolidated financial statements during the Annual General Meeting.

2. Significant accounting policies

2.1 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, except for available-for-sale financial assets, financial assets and liabilities recorded at fair value through profit or loss and derivative contracts used for hedging purposes. All Group companies use the Euro as their functioning currency. The consolidated financial statements are presented in thousands of Euros (“EUR”).

2.2 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 2016. The nature and the impact of each new standards and amendments are described in below:

IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28

The amendments to IFRS 10 clarify that the exemption (in IFRS 10.4) from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2016. The EU has endorsed the amendments on 23 September 2016. The amendment does not have any effect on the consolidated financial statements as the Company is not controlled by single shareholder.

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The EU has endorsed the amendments on 24 November 2015. The amendment does not have any effect on the consolidated financial statements.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

IAS 1 Disclosure Initiative - Amendments to IAS 1

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. Early application is permitted and entities do not need to disclose that fact because the Board of IASB considers these amendments to be clarifications that do not affect an entity's accounting policies or accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2016. The EU has endorsed the amendments on 18 December 2015. The amendment does not have any effect on the consolidated financial statements.

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. The EU has endorsed the amendments on 2 December 2015. These amendments have no impact to the Group given the fact that the Group has not used a revenue-based method to depreciate its non-current assets.

IAS 27 - Equity Method in Separate Financial Statements - Amendments to IAS 27

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The EU has endorsed the amendments on 18 December 2015. These amendments do not have any impact on the Group's consolidated financial statements.

2012-2014 Annual improvements cycle

The following annual improvements to IFRSs are effective for annual reporting periods beginning on or after 1 January 2016. The EU has endorsed these on 15 December 2015.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

The amendment clarifies that, when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. The amendment also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as 'held for sale'. These amendments do not have any impact on the Group's consolidated financial statements.

IFRS 7 Financial Instruments: Disclosure: Servicing Contracts

The amendment clarifies that a company can continue its involvement in the transferred financial asset if the company still provides services related to the transferred financial assets. These amendments do not have any impact on the Group's consolidated financial statements.

IFRS 7 Financial Instruments: Disclosure: Applicability of the offsetting disclosures to condensed interim financial statements

The amendment abolishes the requirement for the disclosure of notes on offsetting in condensed interim financial statements. However the notes should be presented in case any essential changes have occurred compared to the previous financial statements. These amendments do not have any impact on the Group's consolidated financial statements.

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied prospectively. These amendments do not have any impact on the Group’s consolidated financial statements.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment must be applied retrospectively. These amendments do not have any impact on the Group’s consolidated financial statements.

2.3 Consolidation principles and business combinations

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 2016, the subsidiaries do not have non-controlling interests.

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

2. Significant accounting policies (continued)

2.3 Consolidation principles and business combinations (continued)

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 IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, 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 statement of profit or loss.

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.

2. Significant accounting policies (continued)

2.3 Consolidation principles and business combinations (continued)

Investment in an associate

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.

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 incurred 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.

Unrealised gains or losses 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 after 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.

Notes to the consolidated financial statements (continued)

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies

a) Translation differences

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.

b) Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset 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.

2.4 Summary of significant accounting policies (continued)

c) 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 recognized as income by way of a lower depreciation charge over the useful life of the asset.

Other government grants are recognised as other income in the 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.

d) Revenue recognition

Revenue from the distribution of electricity and heat is recognised at the time of delivery.Sales revenue from customer service operations is 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.

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.

e) Other operating income

Other operating income includes ordinary income from non-operating activities, such as insurance compensation and rental income. Rental income is recognised as other operating income over the course of the rental period.

f) Emission allowances

Emission allowances, which are purchased to cover future periods deficit are recorded in intangible assets and measured at cost, and emission allowances received free of charge are not recognised in the consolidated statement of financial position. In the event that 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. Gains from the sales of emission rights are included in other income.

g) Property, plant and equipment

Property, plant and equipment comprise mainly power 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 other operating expenses.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

g) Property, plant and equipment

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 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 is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and structures	15-50 years
Electricity transport 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.

h) 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.

i) Intangible assets

Intangible assets, except goodwill and intangible assets with infinite useful life, are stated at original acquisition cost less accumulated amortisation and impairment losses.

Computer software and licenses

Acquired computer software licences are capitalised on the basis of the costs incurred from the acquisition and implementation of the software. 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 equipments are capitalised.

Recurring annual compensation payments are recognised as an expense on the consolidated statement of profit or loss under other operating expenses.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

i) Intangible assets (continued)

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
Contractual 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.

j) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions Note 4
- Property, plant and equipment Note 11
- Intangible assets Note 12.

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 amount 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 or 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.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

j) Impairment of non-financial assets (continued)

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.

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.

k) Trade receivables

Trade receivables are initially recorded in the statement of financial position 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. Such evidence of impairment may include significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments. 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.

l) 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.

m) Leases

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 a lessee

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 so as 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.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

m) Leases (continued)

The Group as a lessee (continued)

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 in the consolidated statement of profit or loss under other operating expenses over the lease term.

The Group as a lessor

Leases in which the Group is a lessor are all categorised as operating leases and the assets concerned are included in the Group's property, plant and equipment. Lease payments received for operating leases are recognised in the statement of profit or loss under other operating income over the lease term.

n) Inventories

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.

o) Provisions

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.

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 made for future refunds by calculating a net present value of estimated future refunds.

p) Taxes

Current income tax

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.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

p) Taxes (continued)

Deferred tax

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.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

q) Pension obligations

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 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 IAS 19 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 the purpose of 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 statement of profit or loss. Items arising from the remeasurement of the net defined benefit liability are recognised in other comprehensive income.

r) Financial instruments – initial recognition and subsequent measurement

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.

i. Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, 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.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

r) Financial instruments – initial recognition and subsequent measurement (continued)

Subsequent measurement

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

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 the purpose of 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 IAS 39.

Financial assets at fair value through profit or loss are carried in the 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 IAS 39 are satisfied. The Group has not designated any financial assets at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables also include trade receivables and other receivables. Loans are carried at amortised cost using the effective interest method ("EIR) 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 EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised. At derecognition the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve in the statement of profit or loss as finance costs.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

r) Financial instruments – initial recognition and subsequent measurement (continued)

Derecognition of financial assets

Financial assets are derecognised when:

- The rights to receive cash flows from the asset 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.

ii. Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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 EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the 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 the purpose of measuring the impairment loss. The interest income is recorded as finance income in the 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 statement of profit or loss.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

r) Financial instruments – initial recognition and subsequent measurement (continued)

Available for sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. ‘Significant’ is evaluated against the original cost of the investment and ‘prolonged’ against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

iii. Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, 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:

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 IAS 39.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the EIR 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 EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

r) Financial instruments – initial recognition and subsequent measurement (continued)

iii. Financial liabilities (continued)

Derecognition

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 statement of profit or loss.

iv. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

v. Fair value measurement of financial instruments

The Group measures financial instruments such as derivatives, and non-financial assets at fair value at each balance sheet date. 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, 15 and 18
- Quantitative disclosures of fair value measurement hierarchy Note 18
- Financial instruments (including those carried at amortised cost) Note 18

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.

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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

r) Financial instruments – initial recognition and subsequent measurement (continued)

v. Fair value measurement of financial instruments (continued)

- 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

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

For assets and liabilities that are recognised in the consolidated financial statements 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 the purpose of 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 above.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 15 and 18.

s) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment. Currently, the Group uses only cash flow hedges to hedge against interest rate risk.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

s) Derivative financial instruments and hedge accounting (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the consolidated statement of profit or loss. Amounts recognised as other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the statement of profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

t) 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.

3. Standards and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the consolidated financial statements are described below. The Group intends to adopt these standards, amendments and interpretations, if applicable, when they become effective

.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The standard is effective for annual periods beginning on or after 1 January 2018. The EU has endorsed the standard on 22 November 2016. The Group is currently evaluating the effects of the standard on the consolidated financial statements. According to the preliminary assessment, no significant impact on the consolidated financial statements is expected when the new IFRS 9 standard becomes effective.

3. Standards and interpretations issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised 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 principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The EU has endorsed the standard on 22 September 2016. The Group made a high-level impact assessment of the effects of the new standard and its clarifications on the consolidated financial statements. According to the current view of the management, no significant impact on the consolidated financial statements is expected when the new IFRS 15 standard becomes effective.

IFRS 16 Leases

The new standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted but not before the entity applies IFRS 15. The new standard is still subject to endorsement by the EU.

IFRS 16 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 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.

During 2016, the Group management performed a preliminary assessment of the effects of the new standard on the consolidated financial statements. According to the current estimate the new IFRS 16 standard will result in more extensive disclosure information in the consolidated financial statements but no material changes are expected in the consolidated statement of profit or loss and consolidated statement of financial position.

Amendments to IAS 7: Disclosure Initiative: Statement of Cash Flows

The amended standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. The EU has not endorsed the amendments.

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, such as foreign exchange gains or losses. According to the estimate of the management, the amendments will not have a material effect on the consolidated financial statements.

3. Standards and interpretations issued but not yet effective (continued)

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amended standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. The EU has not endorsed the amendments.

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. An entity needs to consider whether tax law restricts the sources of future taxable profits against which it may make deductions on the reversal of that deductible temporary difference.

According to the estimate of the company's management, the amendments will not have a material effect on the consolidated financial statements.

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

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 not 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.

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

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

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.

3. Standards and interpretations issued but not yet effective (continued)

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 2017 (concerning IFRS 12) or on or after 1 January 2018 (concerning IFRS 1 and IAS 28). The EU has not yet 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.

IFRS 12 Disclosure of Interests in Other Entities

The amendment specifies that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale, as held for distribution or as discontinued operations.

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 will not have a significant 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 not 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.

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

4. Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the accompanying disclosures, and the disclosure of contingent liabilities. Estimates are based on the management’s best judgment 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, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods.

Judgments

The preparation of consolidated financial statements requires management to make judgments in applying the accounting principles. The Group management has following significant judgments related to applying of accounting principles.

4. Significant accounting judgments, estimates and assumptions (continued)

Judgments (continued)

Going concern

The consolidated financial statements are prepared on a going concern basis. The Board of Managers has noted that the Group made a loss before tax for 2016 of EUR 18.877 thousands and has a negative net equity of EUR 144.272 thousands as at 31 December 2016. 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 in business for the foreseeable future. The management's assessment is based on the following:

- None of the Group's external debt is maturing in next twelve months (as fully described in Note 25),
- The Group has issued bonds under the EUR 3 billion EMTN programme. As at 31 December 2016, the Group has only utilized 935 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 from a syndicate of international banks (as fully described in Note 25).

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 borrowing facilities are described in the accompanying notes to the consolidated financial statements.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. In the case that the final taxes after audit are different than the amounts initially recognized, these differences affect income tax and provisions for deferred tax during the year when the determination of tax differences takes place. Management estimates that the estimated tax shown in the consolidated financial statement represent a reasonable estimate of the Group's tax position.

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 consolidated 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.

4. Significant accounting judgments, estimates and assumptions (continued)

Estimates

Estimates and assumptions are based on the management's best judgment 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 and assumptions are described below.

a) Testing goodwill for impairment

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 (Note 12).

b) Deferred taxes

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 (Note 10).

c) Provisions

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 (Note 16).

Notes to the consolidated financial statements (continued)

5. Other operating income and expenses

Other operating income	From 1 January 2016 to 31 December 2016	From 1 January 2015 to 31 December 2015
All amounts in EUR 000		
Gains from the sales of emission allowances	-	42
Rental income	285	371
Capital gains on sale of property, plant and equipment and intangible assets	22	961
Subsidy for bio-based electricity production	670	428
Others	2.417	2.703
Total	**3.394**	**4.505**

Other operating expenses	From 1 January 2016 to 31 December 2016	From 1 January 2015 to 31 December 2015
All amounts in EUR 000		
Lease expenses	3.412	2.313
External services	3.494	3.723
IT and communication expenses	5.360	5.249
Research and development costs	1.704	1.071
Other expenses	5.847	7.706
Total	**19.817**	**20.062**

Other operating expenses include lease and other real estate related costs and purchase of services. IT and communication costs comprise of both internal operating IT costs and purchased IT services from Vattenfall.

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

6. Employee benefits expense

All amounts in EUR 000	From 1 January 2016 to 31 December 2016	From 1 January 2015 to 31 December 2015
Salaries and remuneration	16.709	19.159
Pensions		
Defined contribution plans	2.944	3.357
Defined benefit plans	68	65
Social security costs	851	884
Total	**20.572**	**23.465**

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

6. Employee benefits expense (continued)

In EUR 000	**2016**	**2015**
CEOs		
Salaries and remuneration paid to CEOs	428	433
Other long-term employee benefits	136	65
Pension expenses related to salaries	129	119
Other key members of the management		
Salaries and other short-term employee benefits	1.505	1.561
Other long-term employee benefits	193	121
Pension expenses related to salaries and employee benefits	370	368

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

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

During 2016, EUR 600 thousand (2015: EUR 810 thousand) were recognized as an expense and EUR 328 thousand (2015: EUR 186 thousand) were paid out related to the long-term incentive plan. During 2016, EUR 1,6 million (2015: EUR 1,2 million) were booked as a liability related to the long-term incentive plan.

Elenia's key management includes management teams and Board members of Elenia Oy and Elenia Lämpö Oy.

The key members of Elenia's management have no share or option based incentive schemes.

The annual performance bonuses are based for example on the Elenia'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 of Elenia are included within the scope of the long-term incentive bonus plan. The purpose of the plan is to align the interests of Elenia 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 period of three year 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 2016, the remunerations related to the 2012-2014 and 2013-2015 programmes were paid. During 2016 there were three programmes on-going: 2014-2016, 2015-2017 and 2016-2018.

7. Depreciation, amortisation and impairment

	From 1 January 2016 to 31 December 2016	**From 1 January 2015 to 31 December 2015**
All amounts in EUR 000		
Depreciation, amortisation and impairment on property, plant and equipment	76.802	72.881
Depreciation and amortisation on intangible assets	6.838	6.348
Total	**83.640**	**79.229**

8. Investment in an associate

	31 December 2016	31 December 2015
All amounts in EUR 000		
Cost at 1 January	590	513
Share of profit for the year	181	132
Dividends received	(84)	(55)
At 31 December	**687**	**590**

The Group's share of the profit of associates for 2016 was EUR 181 thousands (2015: EUR 132 thousand).

Associates

31 December 2016

All amounts in EUR 000	Segment	Holding %	Assets	Liabilities	Revenue	Profit/(Loss)
Oriveden Aluelämpö Oy	Heat	**50**	**4.068**	**3.553**	**1.924**	**310**

31 December 2015

All amounts in EUR 000	Segment	Holding %	Assets	Liabilities	Revenue	Profit/(Loss)
Oriveden Aluelämpö Oy	Heat	**50**	**3.952**	**3.580**	**1.787**	**169**

Oriveden Aluelämpö Oy is located in Orivesi municipality, Finland. Oriveden Aluelämpö Oy operation consist of district heating production and distribution.

9. Finance income and finance costs

	From 1 January 2016 to 31 December 2016	From 1 January 2015 to 31 December 2015
All amounts in EUR 000		
Interest expenses		
Loans from financial institutions	(1.041)	(2.771)
Bonds and notes	(35.246)	(31.737)
Other long-term loans	(62.658)	(68.828)
Other interest expenses	(960)	(1.024)
Total interest	**(99.905)**	**(104.360)**
Other finance costs	(3.950)	(7.016)
Exchange rate differences		
Loans and receivables	(3)	(1)
Total	**(103.858)**	**(111.377)**
Interest income		
Other interest income	251	103
Other finance income	52	1.193
Total	**303**	**1.296**
Finance costs (net)	**(103.555)**	**(110.081)**

Interest expenses include interest expenses on interest-bearing loans and in 2015 also interest rate swaps. Other interest expenses mainly consist of interest on finance leases of EUR 0,8 million (2015: EUR 1,0 million).

Other finance costs include EUR nil (2015: EUR 2,0 million) of swap breakage costs.

Notes to the consolidated financial statements (continued)

10. Income tax

	From 1 January 2016 to 31 December 2016	From 1 January 2015 to 31 December 2015
All amounts in EUR 000		
Tax for the year	(85)	(56)
Adjustments to taxes for previous periods	(6)	(278)
Deferred taxes	3.521	10.161
Income tax in the consolidated statement of profit or loss	**3.430**	**9.827**

Income tax rate

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

	From 1 January 2016 to 31 December 2016	From 1 January 2015 to 31 December 2015
Accounting loss before tax	**(18.877)**	**(53.785)**
Theoretical income tax using the average applicable tax rate	3.775	10.757
- tax-free income items	85	40
- expenses that are non-deductible in taxation	(513)	(562)
- share of the profits of associates	19	15
- adjustment of taxes based on previous periods	74	(411)
- unrecognized deferred tax assets from taxation losses	(10)	(12)
Loss for the year	**(15.447)**	**(43.958)**

Accounting loss before tax is mainly derived from Elenia Oy, therefore, domestic rate of 20,0% (2015: 20,0%) has been used for determining theoretical income tax.

10. Income tax (continued)

Change in deferred tax assets and liabilities in 2016:

All amounts in EUR 000	As at 31 December 2015	Recognised in the statement of profit or loss	Recognised in other components of comprehensive income	As at 31 December 2016
Deferred tax receivables				
Deferred tax receivable for the confirmed losses	28.680	(9.714)	-	18.966
Defined benefit plans	201	(5)	40	236
Finance leases	925	(36)	-	889
Total	**29.806**	**(9.755)**	**40**	**20.091**
Offset by deferred tax liabilities	(28.680)			(18.966)
	1.126	-	-	**1.125**

	As at 31 December 2015	Recognised in the statement of profit or loss	Recognised in other components of comprehensive income	As at 31 December 2016
Deferred tax liabilities				
Interest-bearing liabilities	1.235	78	-	1.313
Depreciation differences	69.385	(8.252)	-	61.133
Measurement of assets at fair value in acquisition	103.473	(5.103)	-	98.370
Total	**174.093**	**(13.277)**	**-**	**160.816**
Offset by deferred tax assets	(28.680)	-	-	(18.966)
	145.413	-	-	**141.850**

Notes to the consolidated financial statements (continued)

10. Income tax (continued)

Change in deferred tax assets and liabilities in 2015

All amounts in EUR 000	As at 31 December 2014	Recognised in the statement of profit or loss	Recognised in other components of comprehensive income	As at 31 December 2015
Deferred tax receivables				
Interest-bearing liabilities	440	(118)	(322)	-
Deferred tax receivable for the confirmed losses	31.257	(2.577)	-	28.680
Defined benefit plans	267	(3)	(63)	201
Finance leases	934	(9)	-	925
Total	**32.898**	**(2.707)**	**(385)**	**29.806**
Offset by deferred tax liabilities	(31.257)			(28.680)
	1.641	-	-	**1.126**

	As at 31 December 2014	Recognised in the statement of profit or loss	Recognised in other components of comprehensive income	As at 31 December 2015
Deferred tax liabilities				
Interest-bearing liabilities	1.878	(643)	-	1.235
Depreciation differences	76.823	(7.438)	-	69.385
Measurement of assets at fair value in acquisition	108.260	(4.787)	-	103.473
Available-for-sale financial assets	205	-	(205)	-
Total	**187.166**	**(12.868)**	**(205)**	**174.093**
Offset by deferred tax assets	(31.257)	-	-	(28.680)
	155.909	-	-	**145.413**

The Group has aggregate tax losses of EUR 1.388.402.465 (EUR 1.312.537.420 for the Company and EUR 75.865.045 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 2011-2013 for Elenia Oy as these losses will be offset against future profits. 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.

Notes to the consolidated financial statements (continued)

11. Property, plant and equipment

Tangible assets (All amounts in EUR 000)

	Land and water areas	Buildings	Networks	Machinery and equipment	Other tangible assets	Prepayments	Total
Cost at 1 January 2016	2.621	19.516	1.826.820	235.950	1.094	24.206	2.110.207
Additions	3	236	114.943	3.397	63	6.349	124.991
Transfers between balance sheet items	-	-	2.637	1.021	-	(10.140)	(6.482)
Disposals	-	-	(10.225)	(15)	-	-	(10.240)
Cost at 31 December 2016	2.624	19.752	1.934.175	240.353	1.157	20.415	2.118.476
Accumulated depreciation, amortisation and impairment at 1 January 2016	-	(10.257)	(713.113)	(141.433)	(360)	-	(865.163)
Depreciation and amortisation for the year	-	(584)	(60.805)	(11.172)	(47)	-	(72.608)
Impairment for the year	-	-	(4.195)	-	-	-	(4.195)
Accumulated depreciation and amortisation on disposals	-	-	10.225	4	-	-	10.229
Accumulated depreciation, amortisation and impairment at 31 December 2016	-	(10.841)	(767.888)	(152.601)	(407)	-	(931.737)
Book value at 31 December 2016	**2.624**	**8.911**	**1.166.287**	**87.752**	**750**	**20.415**	**1.286.739**
Book value at 31 December 2015	**2.621**	**9.259**	**1.113.707**	**94.517**	**734**	**24.206**	**1.245.044**

Notes to the consolidated financial statements (continued)

11. Property, plant and equipment (continued)

Tangible assets (All amounts in EUR 000)

	Land and water areas	Buildings	Networks	Machinery and equipment	Other tangible assets	Prepayments	Total
Cost at 1 January 2015	2.582	21.466	1.739.390	232.588	1.094	12.080	2.009.200
Additions	39	374	93.957	3.654	-	17.401	115.425
Transfers between balance sheet items	-	-	-	-	-	(5.275)	(5.275)
Disposals	-	(2.324)	(6.527)	(292)	-	-	(9.143)
Cost at 31 December 2015	2.621	19.516	1.826.820	235.950	1.094	24.206	2.110.207
Accumulated depreciation, amortisation and impairment at 1 January 2015	-	(10.694)	(658.722)	(130.481)	(312)	-	(800.209)
Depreciation and amortisation for the year	-	(672)	(58.374)	(11.118)	(48)	-	(70.212)
Impairment	-	-	(2.543)	(126)	-	-	(2.669)
Accumulated depreciation and amortisation on disposals	-	1.109	6.526	292	-	-	7.927
Accumulated depreciation, amortisation and impairment at 31 December 2015	-	(10.257)	(713.113)	(141.433)	(360)	-	(865.163)
Book value at 31 December 2015	**2.621**	**9.259**	**1.113.707**	**94.517**	**734**	**24.206**	**1.245.044**
Book value at 31 December 2014	**2.582**	**10.772**	**1.080.668**	**102.107**	**782**	**12.080**	**1.208.991**

The property, plant and equipment item machinery and equipment includes EUR 19.756 thousands (2015: EUR 22.481 thousands) of assets acquired through finance leases.

In 2016 Group companies did not receive any investment grants.

In 2015 Elenia Lämpö Oy received an investments grant of EUR 278 thousand. The grant was recorded as deduction of costs in machinery and equipments.

Notes to the consolidated financial statements (continued)

12. Intangible assets

(All amounts in EUR 000)

	Goodwill	Intangible rights	Other long-term expenditure	Other intangible assets	Total
Acquisition cost at 1 January 2016	515.606	54.984	25.505	88.200	684.295
Additions	-	1.163	5.001	-	6.164
Transfer between balance sheet items	-	-	2.639	-	2.639
Acquisition cost at 31 December 2016	515.606	56.147	33.145	88.200	693.098
Accumulated depreciation, amortisation and impairment at 1 January 2016	-	(44.503)	(18.930)	(14.112)	(77.545)
Depreciation and amortisation for the year	-	(586)	(2.723)	(3.528)	(6.837)
Accumulated depreciation, amortisation and impairment at 31 December 2016	-	(45.089)	(21.653)	(17.640)	(84.382)
Book value at 31 December 2016	**515.606**	**11.058**	**11.492**	**70.560**	**608.716**
Book value at 31 December 2015	**515.606**	**10.481**	**6.575**	**74.088**	**606.750**

Notes to the consolidated financial statements (continued)

12. Intangible assets (continued)

	Goodwill	Intangible rights	Other long-term expenditure	Other intangible assets	Total
Acquisition cost at 1 January 2015	515.606	53.873	23.199	88.200	680.878
Additions	-	1.111	2.290	-	3.401
Transfer between balance sheet items	-	-	16	-	16
Acquisition cost at 31 December 2015	515.606	54.984	25.505	88.200	684.295
Accumulated depreciation, amortisation and impairment at 1 January 2015	-	(43.953)	(16.660)	(10.584)	(71.197)
Depreciation and amortisation for the year	-	(550)	(2.270)	(3.528)	(6.348)
Accumulated depreciation, amortisation and impairment at 31 December 2015	-	(44.503)	(18.930)	(14.112)	(77.545)
Book value at 31 December 2015	**515.606**	**10.481**	**6.575**	**74.088**	**606.750**
Book value at 31 December 2014	**515.606**	**9.920**	**6.539**	**77.616**	**609.681**

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 515.606 thousands was created. Goodwill is based on the assessment of organizational competence and knowhow which is expected to benefit business operations in coming years.

12. Intangible assets (continued)

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 assessed based on long-term operational plans which have been approved by the senior management and the Board of Directors of the Group entities. Cash flows have been discounted in order to determine the value in use. The discount rate applied 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 2017-2031 which has been approved by the Board of Directors. Long term capital expenditure plans have been prepared in order to meet the security of supply reguirements by the end of 2028 in line with Electricity Market Act (588/2013). A volume growth of approximately 0,5% p.a. has been incorporated for the forecast period. The discount rate applied for Network segment is 4,1% based on the prevailing return and risk assumptions in the business.

Heat segment

Cash flow projections are based on 15 years business plan which has been approved by the Board of Directors. Due to the stable nature of the District heating business, long term projections are appropriate. Applied discount rate is 5,1% which is based on the prevailing return and risk assumptions in the business. District heating volumes are expected to modestly increase during the forecast period. Revenue of the business is expected to grow between 1 and 4% 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.

The sensitivity analysis was performed for discount rate and the results are presented in the table below.

	Network segment		Heat segment	
Change in key assumptions	**2016**	**2015**	**2016**	**2015**
Change in discount rate, % -points	3,6	4,2	1,3	1,0

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

13. Inventories

	31 December 2016	31 December 2015
All amounts in EUR 000		
Oil	2.687	2.522
Bio fuels	4.262	6.936
Other inventories	566	586
Total	**7.515**	**10.044**

During 2016, EUR 6.600 thousands (2015: EUR 6.600 thousands) was recognized as an expense for inventories carried at net realizable value. This is recognized in operating expenses.

In 2016 there was a write-off of EUR 270 thousand (2015: EUR 152 thousand) in fuel inventory values.

14. Trade and other receivables

	31 December 2016	31 December 2015
All amounts in EUR 000		
Trade receivables	21.513	19.804
Accrued income and prepaid expenses	40.733	40.293
Other current receivables	1.458	3.025
Total trade and other receivables	**63.704**	**63.122**

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

Breakdown of trade receivables by age	**31 December 2016**	**31 December 2015**
Not fallen due	15.156	13.030
Due for 1–90 days	5.090	4.727
Due for 91-180 days	319	450
Due for more than 181 days	1.282	2.116
Total	**21.847**	**20.323**
Uncertain receivables	(334)	(519)
	21.513	**19.804**

All trade receivables are denominated in Euro. Credit losses are booked based on the recommendations by credit agencies or based on the official documents in case of debt restructuring of bankruptcies of the debtor. The Group records uncertain receivables on a specific account.

Breakdown of accrued income and prepaid expenses and other receivables	**31 December 2016**	**31 December 2015**
Sales accruals	38.643	34.510
Accrued financial expenses (Prepayments)	467	980
Other accrued income and receivables	3.081	7.828
	42.191	**43.318**

Notes to the consolidated financial statements (continued)

15. Carrying amounts of financial assets and liabilities by category

Values at 31 December 2016

Balance sheet item, All amounts in EUR 000	Notes	Loans and other receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Carrying value of balance sheet items	Fair value
Current financial assets						
Trade receivables and other non-interest-bearing receivables	14	21.513	-	-	21.513	21.513
Available-for-sale financial investments	18	-	-	-	-	-
Cash and cash equivalents		15.057	-	-	15.057	15.057
Carrying value by measurement category		**36.570**	**-**	**-**	**36.570**	**36.570**
Non-current financial liabilities						
Bonds and notes	25,18	-	-	1.307.838	1.307.838	1.406.480
Loans from financial institutions	25,18	-	-	22.000	22.000	22.000
Other long-term loans	25,18	-	-	542.116	542.116	618.505
Interest-bearing non-current liabilities						
- Finance leases	21	-	-	16.445	16.445	16.445
Total interest-bearing non-current liabilities		**-**	**-**	**1.888.399**	**1.888.399**	**2.063.430**
Current financial liabilities						
Loans from financial institutions	25,18	-	-	-	-	-
Other current interest-bearing liabilities	17,21	-	-	4.403	4.403	4.403
Trade payables	17	-	-	22.535	22.535	22.535
Carrying value by measurement category		**-**	**-**	**1.915.337**	**1.915.337**	**2.090.368**

15. Carrying amounts of financial assets and liabilities by category (continued)

Values at 31 December 2015

Balance sheet item, All amounts in EUR 000	Notes	Loans and other receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Carrying value of balance sheet items	Fair value
Current financial assets						
Trade receivables and other non-interest-bearing receivables	14	19.804	-	-	19.804	19.804
Available-for-sale financial investments	18	-	155	-	155	155
Cash and cash equivalents		19.115	-	-	19.115	19.115
Carrying value by measurement category		**38.919**	**155**	**-**	**39.074**	**39.074**
Non-current financial liabilities						
Bonds and notes	25,18	-	-	1.051.626	1.051.626	1.097.509
Loans from financial institutions	25,18	-	-	130.000	130.000	130.000
Other long-term loans	25,18	-	-	599.458	599.458	645.273
Interest-bearing non-current liabilities						
- Finance leases	21	-	-	19.831	19.831	19.831
Total interest-bearing non-current liabilities		**-**	**-**	**1.800.915**	**1.800.915**	**1.892.613**
Current financial liabilities						
Loans from financial institutions	25,18	-	-	30.000	30.000	30.000
Other current interest-bearing liabilities	17,21	-	-	3.727	3.727	3.727
Trade payables	17	-	-	17.705	17.705	17.705
Carrying value by measurement category		**-**	**-**	**1.852.347**	**1.852.347**	**1.944.045**

Notes to the consolidated financial statements (continued)

15. Carrying amounts of financial assets and liabilities by category (continued)

Financial assets

Available-for-sale financial assets are investments in the shares of joint ventures in limited partnerships. The companies did not own unlisted funds at the balance sheet date (2015: EUR 0,2 million). In 2015, these investments were measured at fair value based on assessments received from external fund managers on 31 December 2015.

Cash and cash equivalent

The Group had short-term bank deposits amounting to EUR 14,9 million (2015: EUR 19,1 million). All bank deposits were denominated in Euro.

Bonds and notes

The fair value of the bonds and notes has 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 assets and liabilities

Interest-bearing liabilities grew by EUR 58,2 million (2015: EUR 80,2 million) during the year, and interest-bearing liabilities at the balance sheet date totaled EUR 1,89 billion (2015: EUR 1,83 billion). 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 carrying value of short-term trade receivables and payables, other current interest-bearing liabilities, finance leases and cash and cash equivalents carrying amount is a reasonable approximation to their fair values.

16. Provisions

All amounts in EUR 000

	Provision for rental liabilities for premises	Provision for refunds of connection fees	Total
Provisions at 1 January 2016	**-**	**11.588**	**11.588**
Increase	803	-	803
Cancellation of provisions	-	(2.356)	(2.356)
Use of provisions	-	(244)	(244)
Provisions at 31 December 2016	**803**	**8.988**	**9.791**

All amounts in EUR 000

	Provision for refunds of connection fees	Total
Provisions at 1 January 2015	**12.383**	**12.383**
Increase	69	69
Cancellation of provisions	(457)	(457)
Use of provisions	(407)	(407)
Provisions at 31 December 2015	**11.588**	**11.588**

The provision made for the refunds of electricity and heat connection fees in coming years is calculated by discounting the cash flows from estimated refunds to their current value.

Notes to the consolidated financial statements (continued)

17. Trade and other payables

All amounts in EUR 000	**31 December 2016**	**31 December 2015**
Short term financial lease liability	4.403	3.727
Trade payables	22.535	17.705
Other current liabilities		
Employee benefits expense	5.492	5.866
Interest expenses	11.402	9.631
Other accrued expenses	15.917	23.596
VAT liability	10.943	8.675
Energy taxes	10.644	7.223
Tax liability for the year	33	10
Prepayments received	5	4
Other liabilities	4.714	8.505
Total	**86.088**	**84.942**

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

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

Notes to the consolidated financial statements (continued)

18. Fair value of financial assets and liabilities

Fair value hierarchy

The Group uses the following hierarchy for determining the fair value of financial instruments:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The fair value of bonds and notes has been transferred from level 1 to level 2 as the instruments are not liquid enough for an effective price formation. Market quotes are available for only some of the instruments, despite their similar terms and risk and return characteristics. Therefore, all instruments are transferred to level 2. This transfer does not qualify for de-recognition of financial instruments in accordance with IAS 39.

As at 31 December 2016, the Group held the following financial instruments carried at fair value or for which the fair values are disclosed in the consolidated statement of financial position:

FINANCIAL ASSETS	**Level 1**		**Level 2**		**Level 3**		**Total**	
All amounts in EUR 000	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Financial instruments, non-current assets								
Available-for-sale financial investments	-	-	-	-	-	155	-	155
Total financial assets	**-**	**-**	**-**	**-**	**-**	**155**	**-**	**155**

FINANCIAL LIABILITIES	**Level 1**		**Level 2**		**Level 3**		**Total**	
All amounts in EUR 000	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Financial instruments current liabilities								
Loans from financial institutions	**-**	**-**	-	(30.000)	**-**	**-**	-	(30.000)
Total current financials liabilities	**-**	**-**	**-**	**(30.000)**	**-**	**-**	**-**	**(30.000)**
Financial instruments, non-current liabilities								
Bonds and notes	-	(1.097.509)	(1.406.480)	-	-	-	(1.406.480)	(1.097.509)
Loans from financial institutions	-	-	(22.000)	(130.000)	-	-	(22.000)	(130.000)
Other long-term loans	-	-	(618.505)	(645.273)	-	-	(618.505)	(645.273)
Total non-current financials liabilities	**-**	**(1.097.509)**	**(2.046.985)**	**(775,273)**	**-**	**-**	**(2.046.985)**	**(1.872.782)**
Total financial liabilities	**-**	**(1.097.509)**	**(2.046.985)**	**(805.273)**			**(2.046.985)**	**(1.902.783)**

18. Fair value of financial assets and liabilities (continued)

Reconciliation of fair value measurements of Level 3 financial instruments

The Group carried unquoted equity shares as available-for-sale financial instruments classified as Level 3 within the fair value hierarchy.

The Group has had equity interests in two unlisted entities which it originally acquired when it purchased municipal electricity companies. As part of the purchase agreement, the Group invested in equity instruments of those entities whose aim is to develop local business activity.

A reconciliation of the beginning and closing balances including movements is summarised below:

All amounts in EUR 000	Midinvest	Jokilaaksojen rahasto	Total
1 January 2016	-	155	155
Investment	-	-	-
Sales / Return of equity	-	(157)	(157)
Total gains and losses recognised in OCI	-	2	2
31 December 2016	**-**	**-**	**-**
1 January 2015	1.241	162	1.403
Investment	-	-	-
Sales / Return of equity	(213)	(8)	(221)
Total gains and losses recognised in OCI	(1.028)	1	(1.027)
31 December 2015	**-**	**155**	**155**

Financial assets Available-for-sale financial assets are investments in the shares of joint ventures in limited partnerships. The companies did not own unlisted funds at the balance sheet date (2015: 0.2 million). At the end of 2015 these investments were measured at fair value based on assessment reports at the balance sheet date received from external fund managers.

19. Pensions and other post-employment benefits

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 below table, figures are presented for DB part of the plan:

Notes to the consolidated financial statements (continued)

19. Pensions and other post-employment benefits (continued)

Items recognized on the statement of financial position at 31 December	**31 December 2016**	**31 December 2015**
All amounts in EUR 000		
Current value of funded obligations	5.939	5.551
Fair value of assets	(4.762)	(4.546)
Deficit	1.177	1.005
Value of the obligation	**1.177**	**1.005**
The obligations of defined benefit pension plans have changed as follows:		
Obligation at the beginning of the year	5.551	5.966
Current service costs	68	65
Interest expenses	103	103
Actuarial loss	461	(360)
Benefits paid	(244)	(223)
Obligation at the end of the year	**5.939**	**5.551**
The fair value of the assets of defined benefit pension plans has changed as follows:		
Fair value of plan assets at the beginning of the year	4.546	4.631
Expected income from assets	85	80
Actuarial gain	259	(44)
Payments by the employer	116	102
Benefits paid	(245)	(223)
Fair value	**4.761**	**4.546**
Net obligation consists of the following items:		
Obligation at the beginning of the year	1.005	1.335
Net cost recognized in the statement of profit or loss	86	87
Payments by the employer	(116)	(101)
Gains and losses recognized in OCI	202	(316)
Obligation at year end	**1.177**	**1.005**

Items recognized in the consolidated statement of profit or loss		
Expenses based on service in the reporting period	68	65
Interest income	(85)	(80)
Interest expenses	103	103
Total	**86**	**88**

Items recognized in the consolidated statement of comprehensive income for the year		
Actuarial (loss)/gain on assets	(259)	44
Actuarial loss/(gain) on obligations	461	(360)
Total	**202**	**(316)**

19. Pensions and other post-employment benefits (continued)

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.

Values as at 31 December 2016

Assumptions	Change in assumption	Defined benefit obligations	Fair value of Plan assets	Net Liability	Service costs for the next reporting year	Net interest
All amounts in EUR 000						
Discount rate 1,5%	-	5.939	4.762	1.117	69	17
Discount rate 2,0%	+0,50%	5.517	4.478	1.039	62	20
Discount rate 1,0%	-0,50%	6.415	5.079	1.336	76	13

Values as at 31 December 2015

Assumptions	Change in assumption	Defined benefit obligations	Fair value of Plan assets	Net Liability	Service costs for the next reporting year	Net interest
All amounts in EUR 000						
Discount rate 1,9%	-	5.551	4.546	1.005	68	18
Discount rate 2,4%	+0,50%	5.167	4.279	888	62	20
Discount rate 1,4%	-0,50%	5.982	4.843	1.139	75	15

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

Notes to the consolidated financial statements (continued)

19. Pensions and other post-employment benefits (continued)

Sensitivity analysis of defined benefit pension plans (continued)

Expected contributions for 2017 are estimated to be EUR 118 thousand.

The weighted average duration of defined benefit obligation is 13-19 years.

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

EUR 000	2016	2015
Under 1 year	240	236
11-10 years	2.243	2.224
10-20 years	2.266	2.289
20-30 years	1.660	1.619
Over 30 years	1.131	1.132
Total	**7.540**	**7.500**

Actuarial assumptions used in calculations:

	2016	2015
Discount rate	1,5%	1,9%
Estimate of salary increase	2,5-2,7%	2,5-2,6%
Inflation	1,5-1,7%	1,5-1,6%

20. Lease and rental receivables

The Group has leased out real estate, whose leases are classified as other leases. Real estates are included in “Property, plant and equipment”. Rental income was invoiced to a total value of EUR 281 thousand (2015: EUR 364 thousand) during the year.

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

Notes to the consolidated financial statements (continued)

21. Commitments and contingencies

Present value of financial lease payments	**31 December 2016**	**31 December 2015**
All amounts in EUR 000		
Financial lease liabilities		
Within one year	4.739	3.918
After one year but not more than five years	17.043	17.190
More than five years	2.011	5.576
Total	**23.793**	**26.684**
Future financial expenses	2.944	3.126
Present value of minimum lease payments	**20.849**	**23.558**

Present value of minimum lease payments matures:		
Within one year	4.403	3.727
After one year but not more than five years	15.250	14.908
More than five years	1.196	4.923
Total	**20.849**	**23.558**

Other commitments
All amounts in EUR 000

Registered floating charges:	**2016**	**2015**
Provided on behalf of own and Group liabilities	18.000.000	18.000.000
Mortgages	233.600	243.432
	18.233.660	**18.243.432**
Operating leases:		
Within one year	238	232
After one year but not more than five years	269	379
	507	**611**

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

Rental liabilities		
Within one year	430	1.020
After one year but not more than five years	203	1.101
	633	**2.121**
Refundable connection fees	**311.845**	**309.153**

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

22. 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.

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 2016, the Group's share capital amounts to EUR 14 thousand.

Cash flow hedge reserve
The effective portion of the gain or loss on the hedging instrument is recognized in the cash flow hedge reserve.

Available for sale reserve
The reserve include the gain and losses on available for sale instruments.

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.

23. 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.

The Company's ultimate parents are 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 (1, Porkkalankatu, FIN – 00180 Helsinki).

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

Top 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. Please also refer to Note 6 for the compensation to the CEOs of the Group.

Business transactions
All transactions with related parties take place in an arm's length manner.

Group companies have intercompany transactions which are related to administrative services.
These are eliminated upon consolidation.

As at 31 December 2016, other long-term loans with an aggregate carrying value of EUR 542,1 million (2015: EUR 599,5 million) are due to the Company's ultimate parents through intermediary holding entities.

Transaction and outstanding items with associated company Oriveden Lämpö Oy are not material.

24. Events after the reporting period

There are no significant events subsequent to the year ended 31 December 2016 that will require disclosure in these consolidated financial statements.

25. Financial risk management objectives and policies

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

The Group's treasury unit under the finance department is responsible for financial risk management.

The Group's Treasury policy, approved by the Board of the Group or relevant entities within the Group, 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. The Group's treasury unit is responsible for financial risk management.

The Group's existing loan arrangements include:

Currency risk

The Group operates in Finland and uses 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 3,7 thousand exchange rate differences (2015: EUR 45,5 thousands). Finance costs include EUR 2,8 thousand exchange rate differences (2015: 1,0 thousands). At the end of 2016, the currency risk comprises of trade payables which amounted to SEK 48,7 thousand and whose counter value was EUR 5,1 thousand.

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 2016

EUR 000	Facility amount	In use	Available amount	Maturity
Capex facility	250.000	22.000	228.000	1-5 years
Working Capital facility	55.000	-	55.000	1-5 years
Liquidity facility	50.000	-	50.000	1-5 years
Cash and cash equivalents			15.057	
Total	**355.000**	**22.000**	**348.057**	

25. Financial risk management (continued)

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 to the US investors through private placements.

In 2016, the Group has borrowed from the international banks EUR 22 million using the Capex Facility. The Group also has other long-term loans totaling EUR 542,1 million, which are subordinated to the aforementioned bank loan, bonds and notes.

In January 2016, Elenia Oy's subsidiary Elenia Finance Oyj issued EUR 50 million Bonds which mature in 2031. In May 2016, Elenia Finance Oyj issued EUR 27 million Bonds, which mature in 2029. In August 2016, Elenia Finance Oyj issued EUR 30 million Bonds, which mature in 2034. In addition Elenia Finance Oyj issued EUR 25 million Notes, which mature in 2031. In December 2016, Elenia Finance Oyj issued in aggregate amount of EUR 125 million Notes. From these Notes, EUR 29 million mature in 2029, EUR 54 million mature in 2031 and EUR 42 million mature in 2033. Elenia Finance Oyj used the proceeds of the notes 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 Elenia Holdings S.à r.l. through a subordinated profit-participating security (the SPPS). The Company used the amounts under the SPPS to subscribe for additional equity in Elenia Oy. Elenia Oy used the proceeds to repay the loan from financial institutions.

The Bonds are listed on London Stock Exchange. Elenia Oy, Elenia Heat Oy and Elenia Services Oy have given EUR 1,315 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. The covenants are typical in such arrangements. There were no covenant breaches in 2016. 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.

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

31 December 2016

All amounts in EUR 000	Effective interest rate %	31 December 2016	Maturity Under 1 year	1-5 years	Over 5 Years
Loans from financial institutions	0,88%	22.000	-	22.000	-
Bonds	3,12%	935.000	-	500.000	435.000
Notes	2,24%	380.000	-	-	380.000
Other long-term loans	10,75%	542.116	-	-	542.116
Financial lease liabilities		16.445	-	15.250	1.195
Total long-term interest-bearing liabilities		**1.895.561**			
Finance lease liabilities		4.403	4.403	-	-
Trade payables and other current liabilities		81.685	81.685	-	-
Total short-term interest-bearing liabilities		**86.088**			
Total		**1.981.649**	**86.088**	**537.250**	**1.358.311**

25. Financial risk management (continued)

Refinancing risk (continued)

31 December 2015

All amounts in EUR 000	Effective interest rate %	31 December 2015	Maturity Under 1 year	1-5 years	Over 5 Years
Loans from financial institutions	1,05%	160.000	30.000	130.000	-
Bonds	3,32%	828.000	-	500.000	328.000
Notes	2,14%	230.000	-	-	230.000
Other long-term loans	10,75%	599.458	-	-	599.458
Financial lease liabilities		19.831	-	14.908	4.923
Total long-term interest-bearing liabilities		**1.837.289**			
Financial lease liabilities		3.727	3.727	-	-
Trade payables and other current liabilities		81.215	80.375	840	-
Total short-term interest-bearing liabilities		**84.942**			
Total		**1.922.231**	**114.102**	**645.748**	**1.162.381**

Interest rate risk

Elenia 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 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 99% (2015: 90%) of the loans were fixed rate loans.

At the balance sheet date the Group had no open interest rate swaps. All interest rate swaps were closed in August 2015. All interest rate swaps were designated as cash flow hedges, hedging the interest rate risk of floating rate loans. The effective portion of the changes in the fair value of the derivative financial instruments that were designated as and qualify for cash flow hedges were recognized in equity / other comprehensive income. Gains or losses relating to the ineffective portion were recognized under finance income or costs in income statement. When the interest rate swaps were closed also hedge accounting related to them was ended and all the costs recognized in equity / other comprehensive income were then transferred to finance income or costs in income statement.

A parallel shift of +/- 0,5 percentage points in the interest rate curve at the balance sheet date would have EUR +/- 0,0 million (2015: +-0,1) effect on floating rate loans.

Notes to the consolidated financial statements (continued)

25. Financial risk management (continued)

Credit and counterparty 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.

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.

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

Trade receivables

The Group's trade receivables at the end of 2016 were EUR 21,5 million (2015: EUR 19,8 million). EUR 0,3 million collateral securities were received for trade receivables.

Breakdown of trade receivable by age EUR 000	**31 December 2016**	**31 De4cember 2015**
Not fallen due	15.156	13.030
Due for 1-90 days	5.090	4.727
Due for 91-180 days	319	450
Due for more than 181 days	1.282	2.116
Total	**21.847**	**20.323**
Uncertain receivables	(334)	(519)
	21.513	**19.804**

Volume and price risks

Electricity distribution operations do not involve particular volume or price risks due to being subject to a 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 company has the right to adjust its district heating prices by giving one month's notice. This mitigates the price risk of production costs.

Capital management

As the electricity distribution and heating businesses are capital-intensive, the Group must ensure 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.

As part of restructuring, on 17 December 2013 the Company has pledged the shares it holds in Elenia Oy to the secured parties represented by Citicorp Trustee Company Limited. On the same date the shares of Elenia Holdings S.à r.l. have been pledged Elenia Finance (SPPS) S.à r.l. and Lakeside Network Investment Holdings B.V. in favor of Citicorp Trustee Company Limited.