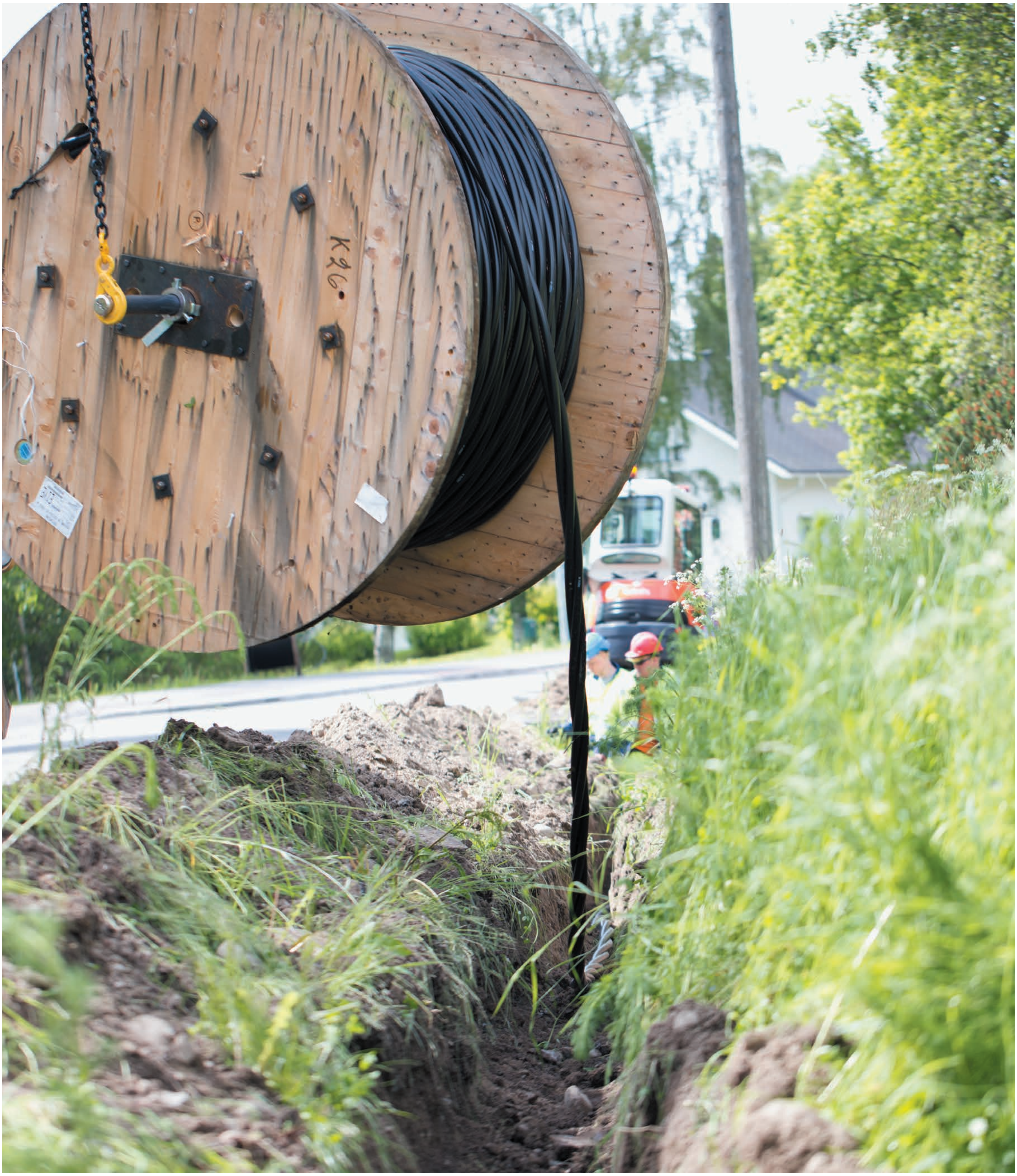
FINANCIAL STATEMENTS 2016

ELENIA



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Unofficial translation from Finnish to English

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ELENIA GROUP'S BUSINESS OPERATIONS

Elenia Group consists of Elenia Oy, Elenia Lämpö Oy, Elenia Palvelut Oy and Elenia Finance Oyj.

Elenia Group has three business lines:

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

These business functions are supported by Elenia Finance Oyj ('Elenia Finance'), which provides treasury services to the Group companies. Elenia Oy is the parent company of the Group.

FINANCIAL PERFORMANCE

Elenia Group's revenue in 2016 was EUR 315.3 million (EUR 282.3 million in 2015). The revenue growth was mainly driven by higher volumes due to cold weather, an increase in electricity distribution tariffs and fewer weather related outages compared to 2015, which resulted in lower statutory and voluntary outage compensations paid to customers.

In 2016, the Group's EBITDA was EUR 168.4 million (EUR 135.6 million in 2015). The growth in EBITDA was mainly driven by higher revenues and opex savings during the year. EBITDA excluding non-recurring and exceptional items was EUR 176.3 million in 2016 (152.2 million in 2015). The non-recurring and exceptional items in 2016 include costs relating to an exceptionally severe storm during the year (storm Rauli), provision release and other costs that are considered either non-recurring or exceptional.

BUSINESS REVIEW – ELECTRICITY DISTRIBUTION

Elenia Networks is Finland's second largest electricity distribution system operator (DSO) with a 12% market share by number of customers. Elenia Networks is a regional monopoly serving all customers in the regions in which it operates as defined by the licence granted by the Energy Authority (EA). The relevant licence holder has the exclusive right to build and operate an electricity distribution network in its area of responsibility. Elenia Networks' licence was renewed on 29 June 2016. This new licence is valid until further notice and specifies Elenia Networks' geographic area of responsibility.

With an electricity network of 68,900 km, Elenia Networks supplies electricity to approximately 420,000 end-users. In addition to residential customers, key customer segments include industrial, services, construction and public sectors. The company has operations in more than 100 cities and municipalities spanning a geographical area of nearly 600 km in length across central Finland, from Southern Häme to Northern Ostrobothnia.

In 2016, Elenia Networks distributed 6,330 GWh (5,994 GWh in 2015) of electricity, which is 5.6% more than in 2015. Elenia Networks' total revenue (including intra-group items) was EUR 240.2 million (EUR 208.3 million in 2015). The increase in revenue was attributable to higher volumes due to cold weather, an increase in electricity distribution tariffs, benign weather conditions resulting in fewer weather related outages and an increase in the number of customers.

Elenia Networks' EBITDA in 2016 was EUR 143.1 million (EUR 111.9 million in 2015). The growth in EBITDA was primarily driven by the increase in revenue described above.

The weather conditions in 2016 were more benign and Elenia experienced only one major storm (storm Rauli on 27 August 2016) during the year. This is favourable compared to 2015, which was characterised by a number of storms (Suoma and Yrjänä in April, Lyyli in May and Valio in October) and snow loads (in January and November). Storm Rauli was the most severe summer storm in Elenia's history and caused outages for more than 96,000 customers simultaneously. It took up to 75 hours to restore all connections despite Elenia being well prepared for the storm. The resulting fault repair

ELENIA GROUP

(EUR million)	2016	2015	2014	2013	2012
Revenue	315.3	282.3	299.7	293.7	299.6
EBITDA	168.4	135.6	153.9	140.8	127.8
EBITDA excluding non-recurring and exceptional items	176.3	152.2	156.2	152.4	157.4
EBITDA margin (excl. Non-rec. and exceptional items)	55.9%	53.9%	52.1%	51.9%	52.5%

costs and compensations to customers had a negative impact on the financial performance. The EUR 7.3 million storm costs are treated as exceptional.

During the year, Elenia Networks continued to invest in the electricity network in accordance with its development plan. Elenia Networks' investment plan has been designed to improve the security of supply via underground cabling. Elenia Networks has only built weatherproof underground cables since 2009. At the end of 2016, 38% of the network was underground, up from 34% at the end of 2015.

The Electricity Market Act (EMA) states that 100% of customers must be within the scope of the quality requirements by the end of 2028. This will be achieved by increasing the cabling rate to above 70% by the end of 2028. At the end of 2016, 49% of Elenia's customers were within the scope of EMA quality requirements. While the main focus in the development of the security of supply is on underground cabling, Elenia also seeks to improve the security of supply by other means. For example, in recent years Elenia Networks has developed an efficient model for tree clearance outside the line corridors.

Elenia Networks invested close to EUR 120 million in developing its electricity network in 2016. Investment in the electricity network will continue in 2017 and Elenia Networks plans to deploy more than EUR 120 million to replace approximately 3,000 km of old overhead lines with new underground cables.

Elenia Networks continued to develop its asset management system. Following the PAS 55 certificate granted in 2013, the company was awarded a certificate by Lloyd's Register based on the new international ISO 55001 standard as evidence of its high-quality electricity network management in 2014. Both the PAS 55 and ISO 55001 certificates were successfully renewed by Lloyd's Register in 2016 and are valid for the next three years. These two certificates illustrate the international recognition of the quality of Elenia's electricity network development, construction, maintenance and use.

The requirements of both PAS 55 and ISO 55001 guide the construction, operation, maintenance and repair of Elenia's electricity network. This ensures that Elenia Networks will improve the way it operates, maintains and upgrades its electricity network in order to respond to its customers' needs. The certificates also require that the suppliers and service providers commit to responsible, high-quality operations.

In November 2015, the EA confirmed the regulatory methods to be applied in the fourth and fifth regulatory periods (2016–2019 and 2020–2023). These new regulatory methods came into effect in 2016 at the start of the fourth regulatory period. The basic structure of the regulatory framework remained largely unchanged from the third regulatory period (2012–2015) and it continues to be based on a combination of a reasonable rate of return and various incentives. The parameters for the weighted average cost of capital (WACC) model used to determine the reasonable rate of return have changed. As a result, the reasonable rate of return increased from the 2015 level of 3.1% to approximately 5.9% (on a post-tax basis) in 2016. Incentives related to investments, quality, efficiency, innovation and security of supply remain in place, with minor changes. The regulatory guidelines provide stability for the industry and enable the continuation of Elenia Networks' security of supply driven investment programme as planned.

Following the distribution price increases announced by certain Finnish DSOs, the Finnish Ministry of Employment and the Economy is considering legislative steps to restrict distribution system operators, including Elenia Networks, from increasing their electricity distribution tariffs by more than an aggregate 15% (on tariffs after taxes) over any rolling 12 month period. The new regulation would apply to both consumer and corporate customers.

BUSINESS REVIEW – HEAT BUSINESS

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

Elenia Heat primarily produces its heat via wood, peat, natural gas and oil. In 2016, biofuels accounted for more than 68% of Elenia Heat's production volume (65% in 2015), and approximately 90% of the fuel used was of domestic origin. Elenia Heat purchases approximately 30% of its total heat volumes from third party companies, including energy companies and the local industry. The fuel and energy is sourced using long-term procurement contracts.

In 2016, Elenia Heat's sales volume of heat, gas and electricity totalled 1.1 TWh (1.0 TWh in 2015). Elenia Heat's total revenue (including intra-group items) in 2016 was EUR 77.8 million (EUR 72.5 million in 2015). The increase in revenue was attributable to higher volumes during the year due to cold weather. Elenia Heat's EBITDA in 2016 was EUR 25.6 million (EUR 23.2 million in 2015). The EBITDA improvement was driven by the higher volumes, more favourable fuel mix and improved fuel efficiency.

BUSINESS REVIEW – CUSTOMER SERVICE BUSINESS

Elenia Services provides customer service and related services to the Elenia Group, including invoicing, collection, connection sales, outage management and electricity market information exchange services. Under a Transitional Service Agreement (TSA), Elenia Services also provided invoicing and collection services to Vattenfall Group ("Vattenfall") until the first half of 2016.

In 2016 Elenia Services' total revenue (including intra-group items) was EUR 10.2 million (EUR 14.0 million in 2015). Of this, the total revenue from external customers amounted to EUR 1.4 million in 2016, down from EUR 6.4 million in 2015 due to the expiry of the TSA with Vattenfall. Elenia Services' EBITDA was EUR 0.8 million in 2016 (EUR 0.5 million in 2015).

Elenia Services continued restructuring its operations due to the lower customer service volumes following the expiry of the TSA with Vattenfall in 2016. At the end of 2016, the headcount was 63, down from 133 at the end of 2015. In January 2016 Elenia Services migrated to a new customer information system. The implementation proceeded according to plan and further development of the system will continue in 2017.

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

FINANCING

In 2016, Elenia Group benefited from favourable market conditions and strong investor demand for long-dated investment grade bonds. Elenia Finance Oyj issued bonds under its EMTN programme for an aggregate amount of EUR 107 million (no issuances in 2015) and 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 tenor of new issuances varies from 13 years to 17 years. Consequently, the weighted average maturity of Elenia 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) was 2.9% in 2016 (2.8% at the end of 2015).

Elenia Group continued to have a strong liquidity position. As at 31 December 2016, cash and cash equivalents were EUR 15 million (EUR 19 million in 2015). Furthermore, Elenia Group had EUR 333 million (EUR 195 million at the end of 2015) in undrawn committed credit facilities.

Elenia Finance Oyj has a rating from Standard & Poor's, who published their most recent credit rating for Elenia Finance Oyj in December 2016 and kept the rating unchanged (BBB, outlook stable). S&P regards Elenia Group's business risk profile as excellent, mainly due to the fully regulated electricity distribution business, which accounts for approximately 85% of the group's EBITDA. S&P also considers the Finnish regulatory framework for electricity distribution network companies to be well established, predictable, and supportive.

Elenia Group has interest coverage ratio ("ICR") and leverage ratio covenants in its finance documentation. Elenia retains adequate headroom to both ICR and leverage ratio covenants on a historical and forward looking basis. Elenia Group is in compliance with these financial covenants.

EMPLOYEES

At the end of 2016, the Group employed 333 people (383 in 2015). The following table illustrates the headcounts and FTEs per company.

31 Dec 2016	**Headcount**	**Full-time equivalent**
Elenia Oy and Elenia Finance Oyj	186	173.6
Elenia Lämpö	84	83.6
Elenia Palvelut Oy	63	52.6
Group Total	**333**	**309.8**

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

ACQUISITIONS AND DIVESTMENTS

There were no material acquisitions or divestments during the period.

CORPORATE GOVERNANCE

There were no changes to the Elenia Oy's management team in 2016.

Elenia Oy's Board of Directors convened 11 times in 2016. The members of the Board of Directors during the financial year were Timo Rajala (Chairman), Heidi Koskinen, Kunal Koya, Tapani Liuhala, Jorma Myllymäki, Timothy Short and Philip White. Peter Lyneham served as a member of the Board of Directors until 30 November 2016. Robert Clark was appointed to the Board of Directors starting from 1 December 2016.

SHARES

Elenia Oy has 100 outstanding shares. Each share entitles the holder to one vote at the Annual General Meeting and carries equal rights to dividends.

CORPORATE RESPONSIBILITY

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

In addition, Elenia Group provides its employees with general information on topical occupational safety and environmental issues and an opportunity to participate in training that facilitates the improvement of their professional skills and competences. Supervisors and employees working on site are required to successfully complete Occupational Safety Card training and ensure that their statutory qualifications are up to date. Compliance with regulations is monitored regularly. Elenia Group has an OHSAS 18001 occupational health and safety management system in place. Elenia Group operates in accordance with the principle of continuous improvement with the aim of being a leading company in occupational safety. Elenia Group and its extensive partner network have a target of zero occupational accidents and zero defects in all stages of construction. In 2016 Elenia Networks together with its partners had Loss Time Injury Frequency[1] of 4.1 (4.3 in 2015).

ENVIRONMENTAL MATTERS

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

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

Elenia Heat continues its efforts to improve operational efficiency and maintain a high rate of efficiency at production plants. The development of the fuel portfolio and the efficient utilisation of existing equipment and systems will continue to be a priority. In 2016, Elenia Heat continued to reduce the use of fossil fuels in its heat and electricity production and emphasise the use of domestic fuels. Both of these will continue to be important goals going forward. The share of biofuels in Elenia Heat's own production operations exceeded 65% in 2016, while the share of domestic fuels is approximately 90%.

1) Lost Time Injury Frequency (LTIF), the number of lost time injuries occurring in all Elenia Oy's activities per 1 million internal as well as external hours worked. Lost time injuries include all on-the-job injuries that require a person to stay away from work more than 1 day. Total LTIF = (ΣLTI*1,000,000 h) / (Cumulative internal & external hours).

RISK MANAGEMENT

The Legal Affairs and Risk Management unit is responsible for coordinating risk management. Comprehensive risk management is undertaken covering risk identification, assessment, reporting and measures to manage risks in cooperation with business units and Group functions. The Finance Unit is responsible for the Elenia Group's insurance programme and for handling insurance claims in cooperation with an insurance broker.

EVENTS AFTER THE BALANCE SHEET DATE

In January 2017, Elenia Services entered into an agreement with Jyväskylän Energia ("JE") to provide certain customer service operations to JE's customers. The agreement covers customer service related to the electricity distribution, electricity sales, district heating and water distribution operations of JE. The agreement with JE is the first external customer service agreement for Elenia Services since the expiry of the TSA with Vattenfall.

In February 2017, the EA, which regulates electricity Distribution System Operators (DSOs), published regulatory deficits and surpluses for each DSO for the third regulatory period (2012–2015). Elenia Networks' regulatory surplus of EUR 79.1 million will be offset during 2016 and 2017. Elenia Networks' regulatory deficit for 2016 is approximately EUR 48 million and it is estimated to be approximately EUR 40 million for 2017.

Elenia Networks has informed its customers that it will increase its after-tax distribution tariffs by on average 6%, effective from 1 May 2017.

OUTLOOK

The new regulatory period began on 1 January 2016. The regulation provides a solid foundation for our operations, investments and strategy. Our customers, as well as the surrounding society, require secure supply of electricity now and in the future. In order to meet these expectations, Elenia Networks has prepared an investment plan which emphasises the significance of underground cabling to ensure the security of supply. Our target is to increase the underground cabling rate of the electricity distribution network to 70% by 2028. This requires substantial investments and we will invest more than EUR 120 million in 2017.

THE BOARD OF DIRECTORS' DIVIDEND PROPOSAL

The Board of Directors proposes not to declare a dividend.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

EUR 1,000	Note	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Revenue		**315,325**	**282,347**
Other operating income	1	3,394	4,505
Materials and services		-110,193	-107,932
Employee benefit expenses	2	-20,572	-23,465
Depreciation, amortisation and impairment	3	-83,640	-79,229
Other operating expenses	1	-19,695	-19,986
Share of profit of an associate	4	181	132
Operating profit		**84,800**	**56,372**
Finance income		253	1,296
Finance costs		-103,858	-111,377
Finance income and costs	5	**-103,606**	**-110,081**
Loss before tax		**-18,805**	**-53,709**
Income tax	6	3,434	9,830
Loss for the year		**-15,372**	**-43,879**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

EUR 1,000	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Loss for the year	**-15,372**	**-43,879**
Other comprehensive income		
Other comprehensive income not to be reclassified to profit or loss in subsequent years:		
Re-measurement gains/(losses) on defined benefit plans	-202	316
Income tax effect	40	-63
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Net movement of cash flow hedges	-	1,610
Net gain/(loss) on available-for-sale financial assets	2	-1,027
Income tax effect	0	-117
Other comprehensive income for the year after tax	**-160**	**719**
Total comprehensive income for the year	**-15,531**	**-43,160**

In 2015 swap breakage costs of EUR 2.0 million have been reclassified from other comprehensive income to profit or loss.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR 1,000	Note	31 Dec 2016	31 Dec 2015
Assets			
Non-current assets			
Property, plant and equipment	7	1,286,739	1,245,044
Intangible assets	8	93,110	91,144
Goodwill	8	515,606	515,606
Investments in associates	4	687	590
Other non-current financial assets		247	249
Other interest bearing receivables		317	-
Deferred tax assets	6	1,125	1,126
Total non-current assets		**1,897,831**	**1,853,758**
Current assets			
Inventories	9	7,515	10,044
Trade receivables	10	21,513	19,804
Other current receivables	10	42,182	43,312
Cash and cash equivalents		14,938	19,115
Total current assets		**86,147**	**92,276**
Total assets		**1,983,978**	**1,946,034**
Equity and liabilities			
Equity			
Share capital		3	3
Unrestricted equity		2,000	2,000
Fair value fund		-	-1
Retained earnings		-146,095	-130,562
Total equity		**-144,093**	**-128,561**
Non-current liabilities			
Loans from financial institutions	11, 21	22,000	130,000
Bonds and notes	11, 21	1,307,838	1,051,626
Other long-term loans	11, 21	542,116	599,458
Finance lease liabilities	17	16,445	19,831
Employee benefit liability	15	1,177	1,005
Provisions	12	9,791	11,588
Other long-term liabilities		1,072	840
Deferred tax liabilities	6	141,850	145,413
Total non-current liabilities		**2,042,287**	**1,959,761**
Current liabilities			
Loans from financial institutions	11, 21	-	30,000
Finance lease liabilities	17	4,403	3,727
Trade payables	13	22,462	17,657
Other current liabilities	13	58,919	63,451
Total current liabilities		**85,784**	**114,835**
Total equity and liabilities		**1,983,978**	**1,946,034**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR 1,000	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Operating activities		
Loss for the year	-15,372	-43,879
Adjustments to reconcile loss to net cash flows		
Depreciation, amortisation and impairment	83,640	79,229
Finance income	-253	-1,296
Finance costs	103,858	111,377
Share of profit of an associate	-181	-132
Taxes	-3,434	-9,830
Other adjustments	828	-35
Working capital adjustments		
Increase (-) / decrease (+) in inventories	2,530	1,890
Increase (+) / decrease (-) in trade and other current liabilities	-1,605	7,901
Increase (-) / decrease (+) in trade and other current receivables	-3,410	-536
Increase (+) / decrease (-) in provisions	-2,601	-795
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	-54	-370
Net cash flows from operating activities	**66,342**	**37,039**
Investing activities		
Capital expenditure	-125,288	-113,444
Changes in loans	-317	-
Changes in investments	1,105	8
Net cash flows from investing activities	**-124,500**	**-113,436**
Financing activities		
Proceeds from / Repayment of short-term borrowings	-30,000	30,000
Proceeds from long-term borrowings	257,000	166,000
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 flows from financing activities	**53,980**	**78,044**
Net increase in cash and cash equivalents	**-4,177**	**1,647**
Cash and cash equivalents 1.1.	19,115	17,468
Change in cash and cash equivalents	-4,177	1,647
Cash and cash equivalents 31.12.	**14,938**	**19,115**

Cash and cash equivalents comprises of cash balance at bank accounts.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR 1,000	Share capital	Reserve for invested unrestricted equity	Available for sale reserve (Fair value fund)	Cash-Flow hedge fund	Retained earnings	Total equity
Equity at 1 January 2015	**3**	**2,000**	**820**	**-1,288**	**-86,936**	**-85,401**
Comprehensive income						
Profit for the year	-	-	-	-	-43,879	-43,879
Other components of comprehensive income (adjusted by tax effect)						
Cash flow hedging	-	-	-	1,288	-	1,288
Available-for-sale financial assets	-	-	-822	-	-	-822
Change in defined benefit plans	-	-	-	-	252	252
Total comprehensive income for the year	**-**	**-**	**-822**	**1,288**	**-43,626**	**-43,160**
Equity at 31 December 2015	**3**	**2,000**	**-1**	**0**	**-130,562**	**-128,561**
Equity at 1 January 2016	**3**	**2,000**	**-1**	**0**	**-130,562**	**-128,561**
Comprehensive income						
Profit for the year	-	-	-	-	-15,372	-15,372
Other components of comprehensive income (adjusted by tax effect)						
Cash flow hedging	-	-	-	-	-	0
Available-for-sale financial assets	-	-	1	-	-	1
Change in defined benefit plans	-	-	-	-	-161	-161
Total comprehensive income for the year	**-**	**-**	**1**	**-**	**-15,533**	**-15,531**
Equity at 31 December 2016	**3**	**2,000**	**0**	**0**	**-146,095**	**-144,093**

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

ACCOUNTING POLICIES APPLIED TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 DESCRIPTION OF BUSINESS OPERATIONS

Elenia Oy is a Finnish limited liability company domiciled in Tampere (address: Patamäenkatu 7). Elenia Oy's parent company is Elenia Holdings S.à r.l., a company duly incorporated under the laws of Luxembourg and having its registered office at 2 rue du Fossé, L-1536 Luxembourg. The parent of the Elenia Holdings S.à r.l. is Lakeside Network Investments Holding B.V., domiciled in the Netherlands.

These consolidated financial statements are included in the consolidated financial statements of Elenia Holdings S.à r.l., available at the following address: 2, rue du Fossé L - 1536 Luxembourg.

Elenia Group is the owner and operator of an electricity distribution network (Elenia Oy, 'Elenia Networks') and a district heating business (Elenia Lämpö Oy, 'Elenia Heat'). Elenia Group also has a customer service business (Elenia Palvelut Oy, 'Elenia Services'). These business functions are supported by the financing company (Elenia Finance Oyj, 'Elenia Finance').

Elenia Group was formed on 10 January 2012 as a result of Vattenfall AB selling its Finnish electricity distribution and district heating operations.

The Board of Directors approved the consolidated financial statements on 28 March 2017. The shareholders have the right either to approve, reject or change the consolidated financial statements in the Annual General Meeting.

2.1 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for the year ended 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretations (IFRIC) approved for application within the European Union (EU). The consolidated financial statements are compliant with the provisions of the Finnish Accounting Act and other regulations governing the preparation of financial statements in Finland.

The Group adopted IFRS-compliant reporting from the start of 2012. The IFRS opening balance sheet was prepared for the date of establishment of the company, 2 December 2011, and this also the Group's IFRS transition date. The consolidated financial statements have been prepared based on 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 euro as their operating currency and all figures are reported in euros. The consolidated financial statements are presented in thousands of euros. There may be rounding discrepancies in the sum totals due to the presentation method used.

2.2 COMPARABILITY WITH PREVIOUS YEAR FIGURES

Items affecting comparability may include costs relating to exceptionally severe storms, and other items which are considerable in amount and do not relate to the actual operative business of the Group. Such items may arise for example as a result of mergers, acquisitions, divestments, corporate or organisational restructurings, major information system projects as well as certain financial transactions. These items have been specified in the notes of the consolidated financial statements.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2016. According to the Group's management, the amendments are not expected to have a material effect on the consolidated financial statements. The nature of each new standard and amendment is described below:

AMENDMENTS TO IAS 1: DISCLOSURE INITIATIVE

The amended standard is effective for annual periods beginning on or after 1 January 2016. The EU has endorsed the amendments.

The amendment clarifies the effect of materiality in the presentation of information, subtotals, classification and the order of notes.

ANNUAL IMPROVEMENTS TO IFRSS (2012–2014 CYCLE)

The following annual improvements to IFRSs are effective for annual reporting periods beginning on or after 1 January 2016. The EU has endorsed the amendments.

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

The amendment clarifies that the changes in methods of disposal do not affect the classification.

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.

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.

IAS 19 Employee Benefits

According to the amendment, the assessment of the market depth of corporate bonds should be based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

IAS 34 Interim Financial Reporting

The amendment specifies the meaning of disclosure of information "elsewhere in the interim financial report".

IFRS 14 REGULATORY DEFERRAL ACCOUNTS

The new standard is effective for annual periods beginning on or after 1 January 2016 with early adoption permitted. The EU has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

The new standard 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.

AMENDMENTS TO IFRS 11: ACCOUNTING FOR ACQUISITIONS OF INTERESTS IN JOINT OPERATIONS

The amended standard is effective for annual periods beginning on or after 1 January 2016 with early adoption permitted. The EU has endorsed the amendments.

The amendments require that an entity 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.

AMENDMENTS TO IFRS 10, IFRS 12 AND IAS 28: INVESTMENT ENTITIES: APPLYING THE CONSOLIDATION EXCEPTION

The amended standards are effective for annual periods beginning on or after 1 January 2016 with early adoption permitted. The EU has endorsed the amendments.

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity. A corresponding exception was extended to the application of the equity method to associates and joint ventures.

AMENDMENTS TO IAS 16 AND IAS 38: CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION AND AMORTISATION

The amended standards are effective for annual periods beginning on or after 1 January 2016 with early adoption permitted. The EU has endorsed the amendments.

The amendments forbid the use of revenue based depreciation method for property, plant and equipment and allow the use of that method only in very limited circumstances to amortise intangible assets.

AMENDMENTS TO IAS 16 AND IAS 41: AGRICULTURE: BEARER PLANTS

The amended standards are effective for annual periods beginning on or after 1 January 2016 with early adoption permitted. The EU has endorsed the amendments.

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants; they will no longer be in the scope of IAS 41, instead IAS 16 will apply.

AMENDMENTS TO IAS 27: EQUITY METHOD IN SEPARATE FINANCIAL STATEMENTS

The amended standards are effective for annual periods beginning on or after 1 January 2016 with early adoption permitted. The EU has endorsed the amendments.

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.

2.4 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the parent company Elenia Oy 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.

The subsidiaries do not have non-controlling interests.

The Group's investments in its associated companies are accounted for using the equity method. Under the equity method the investments in associated companies are initially recognised at acquisition cost on the date of the acquisition and adjusted thereafter to recognise the Group's share of the post-acquisition profits os losses and movements in other comprehensive income.

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

After consolidation, 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 between the working value and book value on the consolidated statement of profit or loss as a loss.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.5.1 TRANSLATION DIFFERENCES

Transactions denominated in foreign currencies are translated using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the date of closing the accounts are translated using the exchange rate quoted on the closing date. Exchange rate differences are recorded in financial income and expenses, or other business expenses, depending on the nature of the item in question.

2.5.2 RESEARCH AND DEVELOPMENT COSTS

Research and development costs are recognised as an expense in the year in which they are incurred. Research and development costs are included in the consolidated statement of profit or loss under personnel costs and other business expenses. As research expenses, these costs do not meet the criteria for capitalisation.

2.5.3 GOVERNMENT GRANTS

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

Other government grants are recognised as other income in the consolidated statement of profit or loss for the period in which the expenses relating to the grant are incurred and in which the decision on the grant is received.

2.5.4 REVENUE RECOGNITION

Revenue from the distribution of electricity and heat is recognised at the time of delivery. Revenue from customer service operations is recognised for the period in which the service is provided.

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.

2.5.5 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.

2.5.6 EMISSION ALLOWANCES

Purchased emission allowances are accounted for as intangible assets at acquisition cost plus transaction costs. Unused emission allowances received free of charge are not recognised on the balance sheet. In the event that the amount of emission allowances returned exceeds the amount of emission allowances received free of charge, a provision is recognised at the market value of the emission allowances at the date of closing the accounts. 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 reported in other income.

2.5.7 PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment are stated at original acquisition cost less accumulated depreciation and accumulated impairment losses as applicable on the consolidated balance sheet. 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 no longer has any expected revenue streams, the asset is dismantled and the remaining carrying value is recognised as an expense under depreciation, amortisation and impairment.

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

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

Land and water areas are not depreciated since they have indefinite useful lives. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each closing date. 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.

2.5.7.1 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. Currently, Elenia has not capitalized any borrowing costs since there have not been any qualifying assets.

2.5.8 INTANGIBLE ASSETS

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

2.5.8.1 Computer software

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

2.5.8.2 Compensation paid to landowners

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

2.5.8.3 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. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

2.5.8.4 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. Separately recognised goodwill is tested annually for impairment and carried at acquisition cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

2.5.8.5 Amortisation periods for intangible assets

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

2.5.8.6 Impairment of non-financial assets

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

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

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

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

2.5.9 TRADE RECEIVABLES

Trade receivables are recorded on the balance sheet at their nominal 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 balance sheet value and the estimated future cash flows. Trade receivables also include invoiced sales revenue based on estimates.

2.5.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise deposits held at call with banks.

2.5.11 LEASES

2.5.11.1 The Group as the 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.

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

2.5.11.2 The Group as the lessor

Leases in which the Group is the 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 on the consolidated statement of profit or loss under other operating income over the lease term.

2.5.12 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 under standard operations, less variable selling expenses and other production costs.

2.5.13 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.

2.5.13.1 Refundable connection fees

Electricity network connection fees 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 has been made for future refunds by calculating a net present value of estimated future refunds.

2.5.14 TAXES

2.5.14.1 Current income tax

The income tax payable for the period is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss due to items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Tax expense comprises the tax based on the company's taxable income for the period and the change in deferred taxes. Taxes are recognised through profit or loss, except where they are related to the consolidated statement of other comprehensive income or items entered directly through equity. In such cases, the tax effect is also recognised in the corresponding items. The tax based on taxable income for the period is calculated on the taxable income according to the applicable tax rate. The tax is adjusted for any tax related to previous periods.

2.5.14.2 Deferred tax

Deferred tax is calculated on the basis of temporary differences between carrying value and taxable value. However, deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

The most significant temporary differences result from adjustments based on fair value recorded in conjunction with business combinations, losses for the financial period and the differences in timing between taxation and amortisation as well as financial assets.

Deferred tax assets are recognised to the extent that it is probable that they can be utilised against future taxable income.

Deferred tax is calculated using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets against current tax liabilities and it intends to realise the asset and settle the liability simultaneously.

2.5.15 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 consolidated statement of profit or loss under personnel expenses for the period in which they are due.

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

The Group applies the IAS 19 standard to calculations on defined benefit pension plans. Under the new 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 balance sheet. 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 profit or loss. Items arising from the remeasurement of the net defined benefit liability are recognised in consolidated statement of other comprehensive income.

2.5.16 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 balance sheet date 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.

2.5.16.1 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.

Subsequent measurement

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

2.5.16.1.1 Financial assets at fair value through profit or loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are categorised as held for trading unless they are designated as hedging instruments.

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

2.5.16.1.2 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 rate method less accumulated impairment. The losses arising from impairment are recognised in the consolidated statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

2.5.16.1.3 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 which time 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 to the consolidated statement of profit or loss in finance costs.

2.5.16.1.4 Derecognition of financial assets

Financial assets are derecognised when the rights to the related cash flows have expired or have been transferred and the Group has transferred all substantial risks and rewards of ownership.

2.5.16.2 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.

2.5.16.2.1 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 effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in 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 consolidated statement of profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of profit or loss.

2.5.16.2.2 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 consolidated statement of profit or loss – is removed from the consolidated statement of 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.

2.5.16.3 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 and also loans and borrowings.

Subsequent measurement

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

2.5.16.3.1 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. 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 consolidated statement of profit or loss.

2.5.16.3.2 Loans and borrowings

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

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

2.5.16.3.3 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 consolidated statement of profit or loss.

2.5.16.4 Fair value measurement of financial instruments

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

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:

- 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

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 Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 — Quoted (unadjusted) market 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 — Valuation techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

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.

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.

2.5.16.5 Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. 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, Elenia uses only cash flow hedges to hedge against interest rate risk.

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.

2.5.16.5.1 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 as financial income or costs.

Amounts recognised in the consolidated statement of other comprehensive income are transferred to the consolidated 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 consolidated 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 the consolidated statement of other comprehensive income remains in the consolidated statement of other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

2.5.17 SEGMENT REPORTING

Segment information has not been presented since IFRS 8 allows non-disclosure of them.

2.5.18 NEW AND AMENDED 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

The new standard IFRS 9 will be effective for annual periods beginning on or after 1 January 2018, early application is permitted. The EU has endorsed the standard. IFRS 9 will completely replace the existing standard IAS 39 Financial Instruments: Recognition and Measurement.

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

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

With regard to financial liabilities, the main amendment is that when applying the fair value option, the effect of changes in the entity's own credit risk on the fair value of the financial liability will be recognised through other comprehensive income. These changes in value recognised through other comprehensive income will no longer be recognised in the consolidated statement of profit or loss. The other current IAS 39 provisions pertaining to financial liabilities will remain largely unchanged.

The impairment requirements introduced in IFRS 9 are based on an expected credit loss model. In addition, IFRS 9 standard comprises a new hegde accounting model in which the criteria for applying the hedge accounting are relieved and more designations of groups of items as the hedged items are possible. The new hedge accounting model aims to enable companies to better reflect their risk management strategy and objectives in the financial statements.

Company's management 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.

IFRS 15 Revenue from Contracts with Customers

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

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

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

In April 2016 the International Accounting Standards Board (IASB) issued clarifications to IFRS 15. These amendments are intended to clarify the certain requirements of IFRS 15, not to change the standard. The amendments are affective as of 1 January 2018 which is the effective date of IFRS 15. The amendments are still subject to endorsement by the EU.

During 2016, company's management 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, company's 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 company's management, the amendments will not have a material effect on the consolidated financial statements.

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.

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.

3 SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

3.1 ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

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

The financial statements are based on going concern principle. Despite the negative equity of Elenia Oy, Elenia Group's financial and liquidity position are strong. The Group's financing is based on Elenia Finance Oyj's strong investment grade rating from S&P and EUR 3 billion EMTN program, which enable effective sourcing of long term financing from the international capital markets. The Group has strong liquidity based on cash and cash equivalents and fully committed undrawn credit facilities from a syndicate of international banks.

3.1.1 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 8)

3.1.2 FAIR VALUE OF INVESTMENTS

Due to the nature of the Elenia Finance Oyj EMTN Programme no profits are expected to be accumulated from the investment in Elenia Holdings S.à r.l. through a subordinated profit-participating security (the SPPS). Based on the expected cash flows the investment has no value and therefore the book value and the fair value have been determined to be zero. (Note 14)

3.1.3 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 6)

3.1.4 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 12)

3.2 ACCOUNTING JUDGEMENTS

The preparation of consolidated financial statements requires management to make judgements in applying the accounting principles. The Group management has not made significant judgements related to applying of accounting principles.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME

EUR 1,000	2016	2015
Gains from the sales of emission allowances	-	42
Rental income	285	371
Subsidy for bio-based electricity production	670	428
Capital gains on tangible and intangible assets	22	961
Income from the wood fuel trading	686	643
Income from the trade receivables collection	630	669
Income from the sales of obsolete materials and used fixed assets	793	931
Other operating income	308	460
Total	**3,394**	**4,505**

OTHER OPERATING EXPENSES

EUR 1,000	2016	2015
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	-5,725	-7,630
Total	**-19,695**	**-19,986**

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.

AUDIT FEES

EUR 1,000	2016	2015
Auditing fees	-244	-249
Fees for tax services	-320	-37
Fees for other services	-691	-2
Total	**-1,255**	**-288**

Ernst & Young was appointed as the auditor until the Annual General Meeting held in the 2017 reporting period.

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

NOTE 2

EMPLOYEE BENEFITS EXPENSE

EUR 1,000	2016	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**

EUR 1,000	2016	2015
CEOs		
Salaries and other short-term employee benefits	-428	-433
Other long-term employee benefits	-136	-65
Pension expenses related to salaries and employee benefits	-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

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

The annual performance bonuses are based for example on the company's profitability, work safety and customer or personnel satisfaction. Also the achievement of the individual key objectives in employee's own responsibility area is taken into consideration.

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

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

During 2016 EUR 600 thousand (2015: 810 thousand) were recognized as an expense and EUR 328 thousand (2015: 186 thousand) were paid out related to the long-term incentive plan. During 2016 EUR 1.6 million (2015: 1.2 million) were booked as a liability related to the long-term incentive plan.

Key management includes management teams and Board members of Elenia Oy and Elenia Lämpö Oy.

The key members of the management have no share or option based incentive schemes.

NOTE 3

DEPRECIATION, AMORTISATION AND IMPAIRMENT

EUR 1,000	2016	2015
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**

NOTE 4

INVESTMENT IN AN ASSOCIATE

EUR 1,000	2016	2015
Acquisition cost at 1 January	590	513
Share of profit for the year	181	132
Dividends received	-84	-56
Acquisition cost at 31 December	**687**	**590**

Elenia's share of the profit of associates for 2016 was EUR 181 thousand.

INFORMATION CONCERNING THE ASSOCIATES

31 December 2016

EUR 1,000	Segment	Holding, %	Assets	Liabilities	Revenue	Profit/loss
Oriveden Aluelämpö Oy	Heat	50	4,068	3,553	1,924	310

31 December 2015

EUR 1,000	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. Company's main products are district heating production and distribution.

NOTE 5

FINANCE INCOME AND COSTS

EUR 1,000	2016	2015
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	-3,951	-7,016
Exchange rate differences		
Loans and receivables	-3	-1
Total finance costs	**-103,858**	**-111,377**
Interest income		
Other interest income	251	102
Other finance income	1	1,193
Total finance income	**253**	**1,296**
Finance costs (net)	**-103,606**	**-110,081**

FINANCE INCOME AND COSTS

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: 1.0 million). Other finance costs do not include any (2015: 2.0 million) swap breakage costs.

NOTE 6

INCOME TAX

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

EUR 1,000	2016	2015
Current income tax charge	-82	-53
Adjustments in respect of current income tax of previous periods	-6	-278
Deferred taxes	3,521	10,161
Income tax expense reported in the statement of profit or loss	**3,434**	**9,830**

CONSOLIDATED STATEMENT OF OCI

EUR 1,000	2016	2015
Deferred tax related to items recognised in OCI during the year:		
Remeasurement gains (losses) on defined benefit plans	40	-63
Net movement of cash flow hedges	-	-322
Net (loss) gain on available-for-sale financial assets	0	205
Deferred tax charged to OCI	**40**	**-180**

INCOME TAX RATE

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

EUR 1,000	2016	2015
Profit before tax	**-18,805**	**-53,709**
Tax calculated using the nominal tax rate of 20.0% (2015: 20.0%)	3,761	10,742
– tax-free income items	85	40
– expenses that are non-deductible in taxation	-495	-544
– 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
Income tax in the income statement	**3,434**	**9,830**

The tax rate according to the income statement was 18% (2015: 18%).

CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES IN 2016

DEFERRED TAX ASSETS EUR 1,000	Balance sheet 31 Dec 2015	Recognised in the statement of profit or loss	Recognised in other comprehensive income	**Balance sheet 31 Dec 2016**
Hedging reserve	0	-	-	-
Deferred tax asset for the confirmed losses	28,680	-9,714	-	18,966
Defined benefit plans	201	-6	40	235
Finance leases	925	-36	-	889
Total	**29,806**	**-9,756**	**40**	**20,090**
Offset	-28,680			-18,966
Deferred tax assets	**1,126**			**1,125**

DEFERRED TAX LIABILITIES EUR 1,000	Balance sheet 31 Dec 2015	Recognised in the statement of profit or loss	Recognised in other comprehensive income	**Balance sheet 31 Dec 2016**
Interest-bearing liabilities	1,234	78	-	1,313
Depreciation differences	69,385	-8,252	-	61,132
Measurement of assets at fair value in acquisition	103,473	-5,103	-	98,370
Available-for-sale financial assets	0	-	0	0
Total	**174,093**	**-13,277**	**0**	**160,816**
Offset	-28,680			-18,966
Deferred tax liabilities	**145,413**			**141,850**

CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES IN 2015

DEFERRED TAX ASSETS EUR 1,000	Balance sheet 31 Dec 2014	Recognised in the statement of profit or loss	Recognised in other comprehensive income	**Balance sheet 31 Dec 2015**
Hedging reserve	440	-118	-322	0
Deferred tax asset for the confirmed losses	31,257	-2,577	-	28,680
Defined benefit plans	267	-3	-63	201
Finance leases	934	-9	-	925
Total	**32,897**	**-2,706**	**-385**	**29,806**
Offset	-31,257			-28,680
Deferred tax assets	**1,641**			**1,126**

DEFERRED TAX LIABILITIES EUR 1,000	Balance sheet 31 Dec 2014	Recognised in the statement of profit or loss	Recognised in other comprehensive income	**Balance sheet 31 Dec 2015**
Interest-bearing liabilities	1,877	-642	-	1,234
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	0
Total	**187,165**	**-12,867**	**-205**	**174,093**
Offset	-31,257			-28,680
Deferred tax liabilities	**155,909**			**145,413**

The Group has recorded a deferred tax asset on the confirmed losses for 2012–2013 for the parent company. The losses carried forward are available for ten years. The losses will be offset against future profits.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to the tax estimation. The Group companies establish provisions based on reasonable estimates. In the case that the final taxes are different than the amounts initially recognized, these differences will affect income tax and provisions for deferred tax during the year when the determination of tax differences took place.

Management estimates that the estimated tax shown in the consolidated financial statement represent a reasonable estimate of the Group's tax position.

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

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

NOTE 7

PROPERTY, PLANT AND EQUIPMENT

EUR 1,000	Land and water areas	Buildings	Networks	Machinery and equipment	Other tangible assets	Prepayments	**Total**
Cost at 1 January 2016	2,621	19,516	1,826,821	235,950	1,094	24,206	2,110,207
Additions	3	237	114,942	3,397	63	6,349	124,991
Disposals	-	-	-10,225	-15	-	-	-10,239
Transfers between balance sheet items	-	-	2,637	1,021	-	-10,140	-6,483
Cost at 31 December 2016	**2,624**	**19,752**	**1,934,175**	**240,353**	**1,157**	**20,415**	**2,218,476**
Accumulated depreciation, amortisation and impairment at 1 January 2016	-	-10,258	-713,113	-141,433	-359	-	-865,163
Depreciation and amortisation for the period	-	-583	-60,804	-11,172	-48	-	-72,607
Accumulated depreciation and amortisation on disposals	-	-	10,225	4	-	-	10,229
Impairment	-	-	-4,195	-	-	-	-4,195
Accumulated depreciation, amortisation and impairment at 31 December 2016	**-**	**-10,841**	**-767,887**	**-152,601**	**-407**	**-**	**-931,736**
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**	**9,258**	**1,113,707**	**94,517**	**735**	**24,206**	**1,245,044**

PROPERTY, PLANT AND EQUIPMENT

EUR 1,000	Land and water areas	Buildings	Networks	Machinery and equipment	Other tangible assets	Prepayments	**Total**
Cost at 1 January 2015	2,583	21,465	1,739,391	232,588	1,094	12,080	2,009,200
Additions	38	374	93,957	3,654	-	17,401	115,424
Disposals	-	-2,324	-6,527	-292	-	-	-9,143
Transfers between balance sheet items	-	-	-	-	-	-5,275	-5,275
Cost at 31 December 2015	**2,621**	**19,516**	**1,826,821**	**235,950**	**1,094**	**24,206**	**2,110,207**
Accumulated depreciation, amortisation and impairment at 1 January 2015	-	-10,695	-658,722	-130,481	-311	-	-800,209
Depreciation and amortisation for the period	-	-672	-58,375	-11,118	-48	-	-70,212
Accumulated depreciation and amortisation on disposals	-	1,109	6,526	292	-	-	7,927
Impairment	-	-	-2,543	-126	-	-	-2,669
Accumulated depreciation, amortisation and impairment at 31 December 2015	**-**	**-10,258**	**-713,113**	**-141,433**	**-359**	**-**	**-865,163**
Book value at 31 December 2015	**2,621**	**9,258**	**1,113,707**	**94,517**	**735**	**24,206**	**1,245,044**
Book value at 31 December 2014	**2,583**	**10,771**	**1,080,669**	**102,107**	**782**	**12,080**	**1,208,991**

The property, plant and equipment item machinery and equipment includes EUR 19,756 thousand (2015: 22,481 thousand) 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.

NOTE 8

INTANGIBLE ASSETS

EUR 1,000	Goodwill	Intangible rights	Other long-term expenditure	Other intangible assets	**Total**
Cost at 1 January 2016	515,606	54,984	25,504	88,200	684,293
Additions	-	1,163	5,002	-	6,165
Transfer between balance sheet items	-	-	2,639	-	2,639
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	-18,929	-14,112	-77,544
Depreciation and amortisation for the period	-	-586	-2,724	-3,528	-6,838
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**	**11,493**	**70,560**	**608,716**
Book value at 31 December 2015	**515,606**	**10,481**	**6,575**	**74,088**	**606,749**

INTANGIBLE ASSETS

EUR 1,000	Goodwill	Intangible rights	Other long-term expenditure	Other intangible assets	**Total**
Cost at 1 January 2015	515,606	53,873	23,199	88,200	680,877
Additions	-	1,111	2,290	-	3,401
Transfer between balance sheet items	-	-	16	-	16
Cost at 31 December 2015	**515,606**	**54,984**	**25,504**	**88,200**	**684,293**
Accumulated depreciation, amortisation and impairment at 1 January 2015	-	-43,952	-16,660	-10,584	-71,196
Depreciation and amortisation for the period	-	-550	-2,270	-3,528	-6,348
Accumulated depreciation, amortisation and impairment at 31 December 2015	**-**	**-44,503**	**-18,929**	**-14,112**	**-77,544**
Book value at 31 December 2015	**515,606**	**10,481**	**6,575**	**74,088**	**606,749**
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 515.6 million was created. Goodwill is based on the assesment of organisational competence and know-how which is expected to benefit business operations in coming years.

IMPAIRMENT TESTING OF GOODWILL

Goodwill has been allocated to cash generating units which are Network and Heat business segments. The goodwill allocated to Network is EUR 418 million and Heat EUR 98 million.

Projected cash flows have been assessed based on long-term operational plans which have been approved by the senior management and the Board of Directors. Cash flows have been discounted in order to determine the value in use. The discount rate applied (after-tax) reflects the different risk profiles of the businesses."

NETWORK SEGMENT

Due to the regulated and stable nature of the electricity distribution business, the basis for cash flow projections has been long-term business plan for the period 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 for 15 years are based on the 5 year 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.

CHANGE IN KEY ASSUMPTIONS

	2016	2015
Network segment		
Change in discount rate, % -points	3.6	4.2
Heat segment		
Change in discount rate, % -points	1.3	1.0

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

NOTE 9

INVENTORIES

EUR 1,000	2016	2015
Oil	2,687	2,522
Bio fuels	4,262	6,936
Other inventories	566	586
Total	**7,515**	**10,044**

During 2016, EUR 6.6 million (2015: 6.6 million) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

In 2016 there was a write-off of EUR 207 thousand (2015: 152 thousand) in fuel inventory value.

NOTE 10

TRADE AND OTHER CURRENT RECEIVABLES

EUR 1,000	2016	2015
Trade receivables	21,513	19,804
Accrued income and prepaid expenses	40,733	40,293
Other current receivables	1,402	2,807
Total trade and other receivables	**63,648**	**62,904**

The fair value of trade and other receivables does not materially differ from the values on the balance sheet.

BREAKDOWN OF TRADE RECEIVABLES BY AGE

EUR 1,000	2016	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 180 days	1,282	2,115
Total	**21,847**	**20,323**
Uncertain receivables	-333	-519
	21,513	**19,804**

All trade receivables are denominated in euros.

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.

BREAK-DOWN OF ACCRUED INCOME AND PREPAID EXPENSES

EUR 1,000	2016	2015
Sales accruals	38,643	34,510
Accrued financial expenses	467	980
Other accrued income	1,623	4,803
	40,733	**40,293**

NOTE 11

CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

VALUES AT 31 DECEMBER 2016

Balance sheet item, EUR 1,000	Note	Loans and other receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives qualified for hedge accounting	Carrying value of balance sheet items	Fair value
Current financial assets							
Trade receivables and other non-interest-bearing receivables	10	21,513	-	-	-	21,513	21,513
Available-for-sale financial assets	14	-	0	-	-	0	0
Cash and cash equivalents		14,938	-	-	-	14,938	14,938
Total Current assets		**36,451**	**-**	**-**	**-**	**36,451**	**36,451**
Carrying amount by category		**36,451**	**0**	**-**	**-**	**36,451**	**36,451**
Non-current financial liabilities							
Bonds and notes	14, 21	-	-	-1,307,838	-	-1,307,838	-1,406,480
Loans from financial institutions	14, 21	-	-	-22,000	-	-22,000	-22,000
Other long-term loans	14, 21	-	-	-542,116	-	-542,116	-618,505
Interest-bearing non-current liabilities							
- Finance leases	17	-	-	-16,445	-	-16,445	-16,445
Total interest-bearing non-current liabilities		**-**	**-**	**-1,888,399**	**-**	**-1,888,399**	**-2,063,431**
Current financial liabilities							
Loans from financial institutions	14, 21	-	-	-	-	-	-
Other current interest-bearing liabilities	13, 17	-	-	-4,403	-	-4,403	-4,403
Trade payables	13	-	-	-22,462	-	-22,462	-22,462
Total current financial liabilities		**-**	**-**	**-26,865**	**-**	**-26,865**	**-26,865**
Carrying amount by category		**-**	**-**	**-1,915,264**	**-**	**-1,915,264**	**-2,090,296**

VALUES AT 31 DECEMBER 2015

Balance sheet item, EUR 1,000	Note	Loans and other receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives qualified for hedge accounting	Carrying value of balance sheet items	Fair value
Current financial assets							
Trade receivables and other non-interest-bearing receivables	10	19,804	-	-	-	19,804	19,804
Available-for-sale financial assets	14	-	155	-	-	155	155
Cash and cash equivalents		19,115	-	-	-	19,115	19,115
Total current financial assets		**38,919**	**155**	**-**	**-**	**39,074**	**39,074**
Carrying amount by category		**38,919**	**155**	**-**	**-**	**39,074**	**39,074**
Non-current financial liabilities							
Bonds and notes	14, 21	-	-	-1,051,626	-	-1,051,626	-1,097,509
Loans from financial institutions	14, 21	-	-	-130,000	-	-130,000	-130,000
Other long-term loans	14, 21	-	-	-599,458	-	-599,458	-645,273
Interest-bearing non-current liabilities							
- Finance leases	17	-	-	-19,831	-	-19,831	-19,831
Total interest-bearing non-current liabilities		**-**	**-**	**-1,800,915**	**-**	**-1,800,915**	**-1,892,614**
Current financial liabilities							
Loans from financial institutions	14, 21	-	-	-30,000	-	-30,000	-30,000
Other current interest-bearing liabilities	13, 17	-	-	-3,727	-	-3,727	-3,727
Trade payables	13	-	-	-17,657	-	-17,657	-17,657
Total current financial liabilities		**-**	**-**	**-51,384**	**-**	**-51,384**	**-51,384**
Carrying amount by category		**-**	**-**	**-1,852,299**	**-**	**-1,852,299**	**-1,943,998**

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 received from external fund managers on 31 December 2015.

CASH AT BANKS AND ON HAND
Elenia had short-term bank deposits amounting to EUR 14.9 million (2015: 19.1 million). All bank deposits were denominated in euros.

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

FINANCIAL LIABILITIES
Interest-bearing liabilities grew by EUR 58.2 million (2015: 80.2 million) during the year, and interest-bearing liabilities at the balance sheet date totalled EUR 1,892.8 million (2015: 1,834.6 million).

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

The fair value of short-term trade receivables and payables, other non-interest-bearing receivables, finance leases and cash and cash equivalents corresponds essentially the carrying amount. .

NOTE 12

PROVISIONS

PROVISIONS

2016 EUR 1,000	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
Cancellations of provisions	-	-2,357	-2,357
Use of provisions	-	-244	-244
Provisions at 31 December 2016	**803**	**8,987**	**9,791**

PROVISIONS

2015 EUR 1,000	Provision for rental liabilities for premises	Provision for refunds of connection fees	**Total**
Provisions at 1 January 2015	-	12,383	12,383
Increase	-	69	69
Cancellations 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.

NOTE 13

TRADE AND OTHER CURRENT PAYABLES

EUR 1,000	**2016**	**2015**
Short-term financial lease liabilities	4,403	3,727
Trade payables	22,462	17,657
Accrued expenses		
Employee benefits expenses	5,492	5,866
Interest expenses	11,402	9,631
Other accrued expenses	15,917	23,596
Other liabilities		
VAT liability	10,943	8,675
Energy taxes	10,644	7,223
Tax liability for the period	33	10
Prepayments received	5	4
Other liabilities	4,482	8,446
Total	**85,784**	**84,835**

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

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

NOTE 14

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Due to the nature of terms of Elenia Finance Oyj's EMTN Programme no profits are expected to be accumulated from the investment in Elenia Holdings S.à r.l. through a subordinated profit-participating security (the SPPS). Based on the expected cash flows the investment has no value and therefore the book value and the fair value of the investment have been determined to be zero.

The fair value of bonds and notes has been transferred from level 1 to level 2 as the instuments 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.

As at 31 December 2016, the Group held the following financial instruments carried at fair value in the statement of financial position:

FINANCIAL ASSETS

	Level 1		Level 2		Level 3		Total	
EUR 1,000	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Financial instruments, current assets								
Available-for-sale financial investments	-	-	-	-	0	155	0	155
Total financial assets	**-**	**-**	**-**	**-**	**0**	**155**	**0**	**155**

FINANCIAL LIABILITIES

	Level 1		Level 2		Level 3		Total	
EUR 1,000	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Financial instruments, current liabilities								
Loans from financial institutions	-	-	-	-30,000	-	-	-	-30,000
Total current financial 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 financial liabilities	**-**	**-1,097,509**	**-2,046,985**	**-775,273**	**-**	**-**	**-2,046,985**	**-1,872,783**
Total financial liabilities	**-**	**-1,097,509**	**-2,046,985**	**-805,273**	**-**	**-**	**-2,046,985**	**-1,902,783**

RECONCILIATION OF FAIR VALUE MEASUREMENTS OF LEVEL 3 FINANCIAL INSTRUMENTS

The Group carries 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:

EUR 1,000	Midinvest	Jokilaaksojen rahasto	**Total**
Acquisition cost at 1 January 2016	-	155	155
Investment	-	-	-
Sales / Return of equity	-	-157	-157
Total gains and losses recognised in OCI	-	2	2
Acquisition cost at 31 December 2016	**-**	**-**	**-**

EUR 1,000	Midinvest	Jokilaaksojen rahasto	**Total**
Acquisition cost at 1 January 2015	1,241	161	1,403
Investment	-	-	-
Sales / Return of equity	-213	-8	-221
Total gains and losses recognised in OCI	-1,028	1	-1,027
Acquisition cost at 31 December 2015	**0**	**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.

NOTE 15

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

The plan is a final average pay pension plan 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. The figures presented below include only the DB part of the plan.

Items recognised on the statement of financial position at 31 December

EUR 1,000	2016	2015
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 on the statement of financial position	**1,177**	**1,005**

The obligations of defined benefit pension plans have changed as follows:

EUR 1,000	2016	2015
Obligation at the beginning of the year	5,551	5,966
Current service costs	68	65
Interest expenses	103	103
Actuarial losses	461	-360
Benefits paid	-245	-223
Obligation at the end of the year	**5,939**	**5,551**

The fair value of the assets of defined benefit pension plans has developed as follows:

EUR 1,000	2016	2015
Fair value of plan assets at the beginning of the year	4,546	4,632
Expected income from assets	85	80
Actuarial gains	259	-45
Payments by the employer	116	102
Benefits paid	-245	-223
Fair value of plan assets at the end of the year	**4,762**	**4,546**

The obligation on the statement of financial position consists of the following items:

EUR 1,000	2016	2015
Obligation at the beginning of the year	1,005	1,335
Net cost recognised in the statement of profit or loss	86	87
Payments by the employer	-116	-102
Profits and losses recognised in other comprehensive income	202	-316
Value of the obligation on the statement of financial position at year end	**1,177**	**1,005**

Items recognised in the statement of profit or loss

EUR 1,000	2016	2015
Expenses based on service in the reporting year	68	65
Interest income	-85	-80
Interest expenses	103	103
Total	**86**	**87**

Items recognised in the statement of other comprehensive income for the year

EUR 1,000	2016	2015
Actuarial gains/(losses) on assets	-259	45
Actuarial gains/(losses) on obligations	461	-360
Total	**202**	**-316**

PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

SENSITIVITY ANALYSIS OF DEFINED BENEFIT PENSION PLANS

The following table shows how the discount rate affects to projected benefit obligation, related service cost and interest cost.

2016

Assumption EUR 1,000	Change in assumption	Defined benefit obligations	Fair value of Plan assets	Net Liability	Service costs for the next reporting year	Net interest
Discount rate 1.5%		5,939	4,762	1,177	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

2015

Assumption EUR 1,000	Change in assumption	Defined benefit obligations	Fair value of Plan assets	Net Liability	Service costs for the next reporting year	Net interest
Discount rate 1.9%		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 of the fair values of the plan assets.

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 1,000	2016	2015
Under 1 year	240	236
1–10 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 increases	2.5–2.7	2.5–2.6
Inflation	1.5–1.7	1.5–1.6

NOTE 16

OBJECTS ON LEASE AND RENTAL RECEIVABLES

The Group has leased out real estates, which are classified as other leases. Real estates are included in the balance sheet item "Property, plant and equipment".

Rental income was invoiced to a total value of EUR 281 thousand (2015: 364 thousand) during the period.

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

NOTE 17

COMMITMENTS AND CONTINGENCIES

FINANCE LEASE LIABILITIES

EUR 1,000	2016	2015
Minimum lease payments		
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	2,945	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**

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

OTHER COMMITMENTS

EUR 1,000	2016	2015
Registered floating charges:		
Provided on behalf of own and Group liabilities	18,000,000	18,000,000
Mortgages	233,600	243,432
Rental liabilities		
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.

Other rental liabilities		
Within one year	430	1,020
After one year but not more than five years	203	1,101
	632	**2,121**
Refundable connection fees	311,845	309,153
Loan commitment to LNI Holding B.V.	183	-

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

NOTE 18

EQUITY

SHARE CAPITAL

Please see note 3.1 in Parent financial statements. The shares are issued and fully paid.

RESERVE FOR INVESTED NON-RESTRICTED EQUITY

The reserve for invested non-restricted equity comprises of all other equity investments and paid share subscription price, that has not been specifically booked as share capital.

AVAILABLE FOR SALE RESERVE

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

EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit or loss attributable to equity holders of the parent by the average number of shares during the reporting period:

	2016	2015
Profit attributable to equity holders of the parent, EUR	-15,371,523	-43,878,860
Average number of shares, pcs	100	100
Earnings/share, EUR - basic= diluted	**-153,715**	**-438,789**

NOTE 19

RELATED PARTY DISCLOSURES

SHAREHOLDERS

All of the shares in Elenia Oy are owned by a Luxembourg company, Elenia Holdings S.à r.l.

SUBSIDIARIES AND ASSOCIATES

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

SENIOR MANAGEMENT

Elenia Oy is managed by its Board of Directors. Elenia's senior management includes the Board of Directors and the CEO. Elenia has not had any business transactions with persons included in its senior management and Elenia has not granted loans to these persons.

MANAGEMENT TEAM

Management teams of Elenia Oy and Elenia Lämpö Oy are included within the scope of the long-term incentive plan. Description of the long-term incentive plan has been disclosed in note 2.

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 are due to the company's ultimate owners through intermediary holding entities.

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

NOTE 20

EVENTS AFTER THE REPORTING PERIOD

There have been no material events since the date of the balance sheet.

NOTE 21

FINANCIAL RISK MANAGEMENT

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

CURRENCY RISK

Elenia operates in Finland and uses the euro as its primary operating currency. Elenia'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 Elenia'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: -45.5 thousand). Finance costs include EUR 2.8 thousand exchange rate differences (2015: -1.0 thousand). 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 Dec 2016

EUR 1,000	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			14,938	
Total	**355,000**	**22,000**	**347,938**	

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 unlisted private placements targeted mostly to the US investors.

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 Elenia Finance Oyj issued EUR 27 million bonds, which mature in 2029. In August Elenia Finance Oyj issued EUR 30 million bonds, which mature in 2034. In addition Elenia Finance Oyj issued in June 2016 EUR 25 million notes, which mature in 2031. In December Elenia Finance Oyj issued in aggregate amount of EUR 125 million notes. From these 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 and bonds to make an equity investment in Elenia Finance (SPPS) S.à r.l., its wholly owned subsidiary. Elenia Finance (SPPS) S.à r.l. then lent the amount of the proceeds to Elenia Holdings through a subordinated profit-participating security (the SPPS). Elenia Holdings S.à r.l. 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 summarizes the maturity profile of the Group's financial liabilities based on contractual payments.

LOANS BY MATURITY

31 Dec 2016

EUR 1,000	Effective interest rate %	Maturity: Within 1 year	1–5 years	Over 5 years	Total
Loans from financial institutions	0.88%	-	22,000	-	22,000
Bonds	3.12%	-	500,000	435,000	935,000
Notes	2.24%	-	-	380,000	380,000
Other long-term loans	10.95%	-	-	542,116	542,116
Finance lease liabilities		-	15,250	1,196	16,445
Total long-term interest-bearing liabilities					**1,895,561**
Finance lease liabilities		4,403	-	-	4,403
Total short-term interest-bearing liabilities					**4,403**
Total		**4,403**	**537,250**	**1,358,311**	**1,899,964**

LOANS BY MATURITY

31 Dec 2015

EUR 1,000	Effective interest rate %	Maturity: Within 1 year	1–5 years	Over 5 years	Total
Loans from financial institutions	1.05%	30,000	130,000	-	160,000
Bonds	3.32%	-	500,000	328,000	828,000
Notes	2.14%	-	-	230,000	230,000
Other long-term loans	10.75%	-	-	599,458	599,458
Finance lease liabilities		-	14,908	4,923	19,831
Total long-term interest-bearing liabilities					**1,837,289**
Finance lease liabilities		3,727	-	-	3,727
Total short-term interest-bearing liabilities					**3,727**
Total		**33,727**	**644,908**	**1,162,381**	**1,841,016**

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 96% (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 million) effect on floating rate loans.

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 Directors.

TRADE RECEIVABLES

The Group's trade receivables at the end of 2016 were EUR 21.5 million (2015: 19.8 million). EUR 0.3 million collateral securities were received for trade receivables.

BREAKDOWN OF TRADE RECEIVABLES BY AGE

EUR 1,000	**2016**
Not fallen due	15,156
Due for 1–90 days	5,090
Due for 91–180 days	319
Due for more than 180 days	1,282
Total	**21,847**
Uncertain receivables	-333
Total	**21,513**

VOLUME AND PRICE RISKS

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

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

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.

NOTE 22

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (ADJUSTED FOR COMPARABILITY)

EUR 1,000	Note	**1.1.–31.12.2016**	**1.1.–31.12.2015**
Revenue		315,325	282,347
Exceptional items included in revenue		-3,169	-9,840
Other operating income	1	3,394	4,505
Materials and services		-110,193	-107,932
Employee benefit expenses	2	-20,572	-23,465
Other operating expenses	1	-19,695	-19,986
Operating expenses Total		-150,460	-151,383
Exceptional items included in operating expenses		-4,142	-6,800
Non-recurring items included in operating expenses		-521	-
Share of profit of an associate	4	181	132
EBITDA		**168,440**	**135,601**
EBITDA before exceptional and non-recurring items		**176,273**	**152,241**
Depreciation and amortisation	3	-83,640	-79,229
Operating profit		**84,800**	**56,372**
Operating profit before exceptional and non-recurring items		**92,633**	**73,012**

The purpose of the above table is to illustrate the underlying profitability of the business without any Exceptional Items (defined in the finance documentation as "exceptional, one off, non-recurring or extraordinary items"). The financial covenants related to Group's financing are calculated excluding Exceptional Items.

In 2016 EUR 7,280 thousand (2015: EUR 16,640 thousand) in total has been classified as an exceptional item as it relates to unusually strong storms. This total compromises EUR 3,169 thousand (2015: EUR 9,840 thousand) of outage compensation paid to customers which was accounted for as a reduction of revenue, and EUR 4,110 thousand (2015: EUR 6,800 thousand) of exceptional operating expenses related to fault repair costs. In 2016 also EUR 32 thousand of operating costs related to a minor oil leak were classified as exceptional.

In 2016 EUR 521 thousand of operating costs were classified as non-recurring items. These items comprise mainly of reorganisation costs related to Elenia Palvelut Oy (EUR 1,163 thousand), relocation costs of Elenia's Helsinki office (EUR 803 thousand) and cancellation of provision for future refunds of connection fees (EUR 2,362 thousand of non-recurring income). In 2015 Group had no non-recurring items.

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

EUR	Note	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Revenue	1.1	**241,089,114.15**	**208,655,114.63**
Other operating income	1.2	1,967,575.67	3,283,235.54
Materials and services	1.3	-70,390,293.32	-70,268,821.78
Personnel expenses	1.4	-9,815,445.61	-10,493,090.67
Depreciation, amortisation and impairment	1.5	-102,374,459.30	-98,115,959.94
Other operating expenses	1.6	-28,066,840.63	-24,600,417.80
Operating profit		**32,409,650.96**	**8,460,059.98**
Finance income and expenses	1.7	-319,417,048.02	-147,067,473.30
Profit / loss before appropriations and taxes		**-287,007,397.06**	**-138,607,413.32**
Appropriations	1.8		
Change in accelerated depreciations		41,498,481.11	36,920,179.09
Group contributions		-22,396,200.00	-20,294,650.00
Income taxes	1.9	-9,715,865.06	-2,584,250.92
Profit / loss for the year		**-277,620,981.01**	**-124,566,135.15**

PARENT COMPANY BALANCE SHEET

EUR	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets	2.1		
Intangible rights		11,025,411.51	10,446,201.42
Other capitalized long term expenditure		558,087,392.70	590,010,733.03
		569,112,804.21	600,456,934.45
Tangible assets	2.2		
Land and water areas		1,998,953.49	1,998,953.49
Buildings and constructions		371,249.38	398,647.05
Electricity network		1,161,828,957.13	1,110,026,638.18
Machinery and equipments		12,038,378.80	12,896,136.62
Other tangible assets		4,968.31	6,062.41
Advance payments and construction in progress		18,715,162.35	21,466,715.02
		1,194,957,669.46	1,146,793,152.77
Investments	2.3		
Holdings in group companies		240,310,968.62	240,310,968.62
Other financial assets		-	156,620.19
Other shares and holdings		245,207.69	247,473.37
		240,556,176.31	240,715,062.18
Total non current assets		**2,004,626,649.98**	**1,987,965,149.40**
Current assets			
Long-term receivables	2.4		
Loan receivables		317,000.00	-
Loan receivables from group companies		2,400,000.00	2,145,000.00
Deferred tax assets		18,966,256.30	28,680,135.02
		21,683,256.30	30,825,135.02
Short-term receivables	2.4		
Trade receivables		19,598,015.10	19,243,284.31
Receivables from group companies		248,976.32	9,936,686.77
Other receivables		1,410,064.76	258,623.83
Prepayments and accrued income		27,540,508.69	28,690,632.84
		48,797,564.87	58,129,227.75
Cash and cash equivalents	2.4	14,762,565.23	18,341,625.46
Total current assets		**85,243,386.40**	**107,295,988.23**
TOTAL ASSETS		**2,089,870,036.38**	**2,095,261,137.63**

PARENT COMPANY BALANCE SHEET

EUR	Note	31 Dec 2016	31 Dec 2015
EQUITY AND LIABILITIES			
Capital and reserves	3.1		
Subscribed capital		2,500.00	2,500.00
Non restricted equity		1,314,328,000.00	1,057,328,000.00
Retained earnings		-1,349,869,206.58	-1,225,303,071.43
Loss for the financial year		-277,620,981.01	-124,566,135.15
		-313,159,687.59	-292,538,706.58
Cumulative accelerated depreciations	3.2	**257,655,822.37**	**299,154,303.48**
Other provisions	3.3	**1,315,803,392.52**	**1,058,000,000.00**
Liabilities	3.4		
Non-current liabilitites			
Connection fees		204,259,016.02	204,470,478.48
Loans from financial institutions		22,000,000.00	130,000,000.00
Other long-term loans		542,894,876.44	600,222,647.37
		769,153,892.46	934,693,125.85
Current liabilities			
Loans from financial institutions		-	30,000,000.00
Trade payables		17,128,535.68	13,600,548.95
Liabilities to group companies		4,962,890.69	9,229,982.45
Other short-term liabilities		23,559,023.85	20,962,345.93
Accruals and deferred income		14,766,166.40	22,159,537.55
		60,416,616.62	95,952,414.88
Total liabilities		**829,570,509.08**	**1,030,645,540.73**
TOTAL EQUITY AND LIABILITIES		**2,089,870,036.38**	**2,095,261,137.63**

PARENT COMPANY CASH FLOW STATEMENT

EUR	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Cash flow fron operating activities		
Loss before appropriations and taxes	-287,007,397.06	-63,607,413.32
Adjustments		
Depreciation, amortisation and impairment	102,374,459.30	98,115,959.94
Finance income and expenses	319,417,048.02	72,067,473.30
Other adjustments	655,617.02	-52,653.62
Cash flow before change in working capital	**135,439,727.28**	**106,523,366.30**
Change in working capital		
Increase (-) / decrease (+) in non-interest bearing receivables	245,544.18	-1,832,418.10
Increase (+) / decrease (-) in non-interest bearing liabilities	-5,379,723.24	7,647,146.89
Operating cash flow before financial items and taxes	**130,305,548.22**	**112,338,095.09**
Interest payments and payments for other finance costs	-63,227,560.36	-74,339,968.95
Interests received	3,627,266.64	2,915,835.26
Connection fee refunds	-211,462.46	-348,399.85
Taxes paid	-14,632.01	-38,601.45
Cash flow from operating activities	**70,479,160.03**	**40,526,960.10**
Cash flow from investing activities		
Capital expenditures	-116,866,916.31	-106,962,426.23
Cash flow from investing activities	**-116,866,916.31**	**-106,962,426.23**
Cash flow from financing activities		
Proceeds from short-term borrowings	-	30,000,000.00
Re-payment of short-term borrowings	-30,000,000.00	-
Proceeds from long-term borrowings	-	91,000,000.00
Re-payment of long-term borrowings	-167,124,653.95	-113,348,139.82
Change in loans receivable	-572,000.00	12,000,000.00
Group contributions received and paid	-16,494,650.00	-24,878,000.00
Increase in non restricted equity	257,000,000.00	75,000,000.00
Cash flow from financing activities	**42,808,696.05**	**69,773,860.18**
Change in cash and cash equivalents	**-3,579,060.23**	**3,338,394.05**
Cash and cash equivalents 1.1.	18,341,625.46	15,944,072.64
Business transfer	-	-940,841.23
Cash and cash equivalents 1.1. + change	14,762,565.23	18,341,625.46
Cash and cash equivalents 31.12.	**14,762,565.23**	**18,341,625.46**

Cash and cash equivalents comprise of bank deposits.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

The financial statements of Elenia Oy have been prepared in accordance with the Finnish Accounting Standards (FAS).

For tangible and intangible assets have been used direct acquisition prices which have been deducted with planned depreciations. Depreciations according to the plan are linear and are based on the following assets economical lifetimes:

Intangible fixed assets	3–30 years
Goodwill	5–15 years
Other capitalized long term expenditures	5–25 years
Buildings and constructions	15–50 years
Transmission network	25–40 years
Distribution network	10–30 years
Machinery and equipments	3–30 years

From the 1st of January 2008 connection fees have been non-refundable and therefore they have been booked as revenue in the profit and loss account after that. Before 2008 connection fees were included in long term liabilities.

TRANSACTIONS DENOMINATED IN FOREIGN CURRENCIES AND DERIVATIVE AGREEMENTS

Transactions denominated in foreign currencies are recognised at the rate prevailing at the time of the transaction. At the balance sheet date the receivables and liabilities in balance sheet denominated in foreign currencies are converted to Euro using the exchange rate prevailing at the balance sheet date. The possible currency exchange rate differences are recognised in finance income or costs or other operating costs in accordance with the underlying item.

DEFERRED TAXES

Elenia Oy has booked deferred tax assets related to 2011–2013 losses. Deferred tax can be used during the next 10 years against taxable profit. Deferred tax assets has been included in the balance sheet.

1 NOTES TO INCOME STATEMENT

1.1 REVENUE

EUR 1,000	2016	2015
Distribution income	227,040	204,517
Contracting income	3,693	2,622
Connection fee income	10,328	8,514
Other sales income	3,277	4,248
Outage compensation	-3,248	-11,245
Total	**241,089**	**208,655**

1.2 OTHER OPERATING INCOME

EUR 1,000	2016	2015
Lease income	222	309
Capital gains	22	941
Other operating income	1,724	2,033
Total	**1,968**	**3,283**

1.3 MATERIALS AND SERVICES

EUR 1,000	2016	2015
Grid costs	-32,130	-27,225
Network losses	-9,568	-9,810
External services	-27,532	-32,005
Materials	-1,161	-1,229
Total	**-70,390**	**-70,269**

1.4 PERSONNEL EXPENSES

EUR 1,000	2016	2015
Average number of personnel during the financial year	185	184
Salaries	-7,967	-8,530
Pension expenses	-1,415	-1,532
Other employee expenses	-434	-431
Total	**-9,815**	**-10,493**

SALARIES AND REMUNERATION PAID TO CEO

EUR 1,000	2016	2015
Salaries and other short-term employee benefits	-251	-267
Other long-term employee benefits	-119	-59
Pension expenses related to salaries and employee benefits	-93	-87
Total	**-463**	**-414**

1.5 DEPRECIATIONS ACCORDING TO THE PLAN

EUR 1,000	2016	2015
Impairment	-4,195	-2,669
Intangible fixed assets	-1,842	-1,688
Other capitalized long term expenditure	-34,668	-34,619
Buildings and constructions	-28	-74
Electricity network	-58,988	-56,461
Machinery and equipments	-2,654	-2,605
Total	**-102,374**	**-98,116**

1.6 OTHER OPERATING EXPENSES

EUR 1,000	2016	2015
Lease expenses	-7,342	-6,755
Loss on sale of fixed assets	-6	-115
Other external services	-14,840	-13,056
Other operating expenses	-5,879	-4,675
Total	**-28,067**	**-24,600**
Audit charges EUR 1,000		
Auditing fees	156	175
Fees for tax services	287	20
Fees for other services	688	2
Total	**1,132**	**197**

1.7 FINANCIAL INCOME AND EXPENSES

EUR 1,000	2016	2015
Interest and other financial income		
From group companies	2,353	2,273
Other financial income	230	99
Total	**2,583**	**2,372**
Interest and other financial expenses		
Mandatory provision for the guarantee obligation of Elenia Finance Oyj's bonds	-257,000	-75,000
Interest expenses	-63,737	-70,835
Other financial expenses	-1,264	-3,605
Total	**-322,000**	**-149,440**
Total financial income and expenses	**-319,417**	**-147,067**

1.8 APPROPRIATIONS

EUR 1,000	2016	2015
Change in accelerated depreciations	41,498	36,920
Group contribution received	104	6,005
Group contribution paid	-22,500	-26,300
Total	**19,102**	**16,626**

1.9 INCOME TAXES

EUR 1,000	2016	2015
Income taxes for the financial period	-2	-8
Adjustment in income taxes for the previous periods	0	0
Change in deferred taxes	-9,714	-2,577
Total	**-9,716**	**-2,584**

2 NOTES TO THE BALANCE SHEETS ASSETS

2.1 INTANGIBLE FIXED ASSETS

INTANGIBLE RIGHTS

EUR 1,000	2016	2015
Acquisition cost 1.1.	21,519	20,408
Investments	1,163	1,111
Acquisiton cost 31.12.	22,682	21,519
Accumulated depreciation 1.1.	-11,072	-10,525
Depreciation according to the plan	-584	-548
Book value 31.12.	**11,025**	**10,446**

OTHER CAPITALIZED LONG-TERM EXPENDITURE

EUR 1,000	2016	2015
Acquistion cost 1.1.	741,781	741,710
Investments	4,003	1,383
Disposals / Business transfer Elenia Palvelut Oy	-	-1,311
Acquisition cost 31.12.	745,784	741,781
Accumulated depreciation 1.1.	-151,771	-116,886
Disposals / Business transfer Elenia Palvelut Oy	-	874
Depreciation according to the plan	-35,926	-35,759
Book value 31.12.	**558,087**	**590,011**

2.2 TANGIBLE FIXED ASSETS

LAND AND WATER AREAS

EUR 1,000	2016	2015
Acquistion cost 1.1.	1,999	1,971
Investments	-	28
Acquisition cost 31.12.	1,999	1,999
Book value 31.12.	**1,999**	**1,999**

BUILDINGS AND CONSTRUCTIONS

EUR 1,000	2016	2015
Acquistion cost 1.1.	3,119	5,443
Disposals	-	-2,324
Acquistion cost 31.12.	3,119	3,119
Accumulated depreciation 1.1.	-2,721	-3,757
Disposals	-	1,109
Depreciation according to the plan	-27	-73
Book value 31.12.	**371**	**399**

ELECTRICITY NETWORK

EUR 1,000	2016	2015
Acquistion cost 1.1.	1,779,832	1,694,914
Investments	114,985	91,445
Disposals	-10,225	-6,527
Acquistion cost 31.12.	1,884,592	1,779,832
Accumulated depreciation 1.1.	-669,805	-617,326
Disposals	6,030	3,983
Depreciation according to the plan	-58,988	-56,461
Book value 31.12.	**1,161,829**	**1,110,027**

MACHINERY AND EQUIPMENTS

EUR 1,000	2016	2015
Acquistion cost 1.1.	52,742	51,305
Investments	1,796	1,851
Business transfer / Elenia Palvelut Oy	-	-171
Disposals	-	-242
Acquistion cost 31.12.	54,538	52,742
Accumulated depreciation 1.1.	-39,846	-37,444
Business transfer / Elenia Palvelut Oy	-	85
Disposals	-	117
Depreciation according to the plan	-2,654	-2,605
Book value 31.12.	**12,038**	**12,896**

OTHER TANGIBLE ASSETS

EUR 1,000	2016	2015
Acquistion cost 1.1.	56	56
Acquisition cost 31.12.	56	56
Accumulated depreciation 1.1.	-50	-49
Depreciation according to the plan	-1	-1
Book value 31.12.	**5**	**6**

ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS

EUR 1,000	2016	2015
Acquistion cost 1.1.	21,467	11,455
Increase	119,191	11,270
Business transfer / Elenia Palvelut Oy	-	-1,242
Decrease	-121,943	-16
Book value 31.12.	**18,715**	**21,467**

2.3 INVESTMENTS

HOLDINGS IN GROUP COMPANIES

EUR 1,000	2016	2015
Acquistion cost 1.1.	240,311	239,741
Investments	-	570
Acquistion cost 31.12.	240,311	240,311
Book value 31.12.	**240,311**	**240,311**

OTHER SHARES AND HOLDINGS

EUR 1,000	2016	2015
Acquistion cost 1.1.	247	248
Disposals	-2	0
Acquistion cost 31.12.	245	247
Book value 31.12.	**245**	**247**

INVESTMENTS

EUR 1,000	2016	2015
Acquistion cost 1.1.	157	377
Disposals	-157	-221
Acquistion cost 31.12.	0	157
Book value 31.12.	**0**	**157**

2.4 RECEIVABLES

LONG TERM RECEIVABLES

EUR 1,000	2016	2015
External loan receivables	317	-
Loan receivables from group companies	2,400	2,145
Deferred tax assets	18,966	28,680
Long term receivables total	**21,683**	**30,825**

SHORT TERM RECEIVABLES

Receivables from group companies

EUR 1,000	2016	2015
Trade receivables	3	19
Accrued income	-	2,335
Other short-term receivables	143	1,578
Group contribution receivables	104	6,005
Receivables from group companies total	249	9,937

External receivables

EUR 1,000	2016	2015
Trade receivables	19,598	19,243
Other short-term receivables	1,410	259
Accrued income	27,541	28,691
External receivables total	48,549	48,193
Short term receivables total	**48,798**	**58,129**
Total receivables	**70,481**	**88,954**
Cash and cash equivalents	**14,763**	**18,342**

3 NOTES TO THE BALANCE SHEETS EQUITY AND LIABILITIES

3.1 CAPITAL AND RESERVES

EUR 1,000	2016	2015
Subscribed capital	3	3
Non restricted equity 1.1.	1,057,328	982,328
Change (+/-)	257,000	75,000
Non restricted equity 31.12.	1,314,328	1,057,328
Retained earnings (loss) 1.1.	-1,349,869	-1,225,303
Loss for the the financial year	-277,621	-124,566
Total capital and reserves	**-313,160**	**-292,539**

Company's equity is negative and the company does not have any distributable funds. The negative equity has been registered at the Trade Register on September 16, 2015.

3.2 CUMULATIVE ACCELERATED DEPRECIATIONS

EUR 1,000	2016	2015
Cumulative accelerated depreciations	257,656	299,154

Accelerated depreciations include deferred tax liability 51,531,164 euros.

3.3 MANDATORY PROVISIONS

EUR 1,000	2016	2015
Mandatory provision for the guarantee obligation of Elenia Finance Oyj's bonds	1,315,000	1,058,000
Mandatory provision for lease liabilities	803	-
	1,315,803	**1,058,000**

3.4 LIABILITIES

NON-CURRENT LIABILITIES

EUR 1,000	2016	2015
Connection fee liability 1.1.	204,470	204,819
Connection fee refunds	-211	-348
Connection fee liability 31.12.	204,259	204,470
Capex facility	22,000	130,000
Other long-term liabilities	779	765
Other long-term loans	542,116	599,458
Total non-current liabilities	**769,154**	**934,693**

CURRENT LIABILITIES

EUR 1,000	2016	2015
Loans from financial institutions	-	30,000
Trade payables	17,129	13,601
Other short term liabilities	23,559	20,962
Accrued expenses		
Salaries and social expenses	3,269	3,107
Other accrued expenses	11,497	19,053
Total	14,766	22,160
Liabilities to group companies		
Group account	3,538	3,927
Other short term liabilities	1,425	5,303
Total	4,963	9,230
Total current liabilities	**60,417**	**95,952**
Total liabilities	**829,571**	**1,030,646**

3.5 LIABILITIES AND QUARANTEES FOR DEBTS

EUR 1,000	2016	2015
Floating charges		
Provided on behalf of own and group liabilities	4,500,000	4,500,000
Mortgages	206,600	216,432
Leasing agreements		
Within one year	4,989	4,035
After one year but not more than five years	17,081	17,333
More than five years	2,011	5,576
Total	**24,081**	**26,944**
Other lease liabilitites		
Within one year	351	942
After one year but not more than five years	8	891
Total	**359**	**1,832**
Other own liabilities		
Connection fees not included in the balance sheet values	85,114	85,114
Loan commitment to LNI Holding B.V.	183	-

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

SHARES AND HOLDINGS

	Share	Vote share	Share of ownership	Nominal value EUR 1,000	Book value EUR 1,000
Subsidiary					
Elenia Lämpö Oy	100%	100%	100%	239,659	239,659
Elenia Finance Oyj	100%	100%	100%	80	80
Elenia Palvelut Oy	100%	100%	100%	572	572
Other shares and holdings				245	245
				240,556	240,556

DIFFERENTIATED PROFIT AND LOSS ACCOUNT

EUR 1,000	1 Jan - 31 Dec 2016	1 Jan - 31 Dec 2015
Revenue	**238,647**	**205,316**
Other operating income	**1,724**	**3,283**
Materials and services		
Materials and goods		
Purchace during the financial period		
Network losses	-9,548	-9,785
Other materials	-1,152	-1,222
Services		
Grid costs	-32,091	-27,190
Other external services	-27,523	-31,982
Personnel expenses	**-8,695**	**-9,340**
Depreciation, amortisation and impairment		
Merger loss	-56,939	-56,939
Network assets	-43,568	-39,091
Other assets	-1,819	-2,036
Other operating expenses		
Lease expenses	-1,578	-871
Network rents and network leasing expenses	-5,727	-5,148
Other operating expenses	-18,123	-16,453
Operating profit	**33,608**	**8,540**
Financial income and expenses		
Income from other fixed investment		
Interest and other financial income		
From group companies	2,353	2,273
From other companies	230	99
Interest and other financial expenses		
From other companies	-65,000	-74,440
Profit / loss before appropriations and taxes	**-28,809**	**-63,527**
Appropriations		
Change in accelerated depreciations		
Network assets	41,004	36,213
Other assets	445	658
Group contributions		
Group contribution received	104	6,005
Group contribution paid	-22,500	-26,300
Income taxes	**-9,710**	**-2,590**
Loss for the year	**-19,466**	**-49,542**

DIFFERENTIATED BALANCE SHEET

EUR 1,000	31 Dec 2016	31 Dec 2015
ASSETS		
Non-current assets		
Intangible assets		
Intangilble rights	11,581	10,999
Other capitalized long term expenditure	557,532	589,457
	569,113	600,457
Tangible assets		
Land and water areas	190	190
Buildings and constructions	370	396
Electricity network	757,346	684,028
Merger losses	416,706	439,230
Machinery and equipments	1,161	962
Other tangible assets	5	6
Advance payments and construction in progress	18,715	21,467
	1,194,493	1,146,279
Investments		
Holdings in group companies	240,311	240,311
Other financial assets	-	157
Other shares and holdings	245	247
	240,556	240,715
Total non current assets	**2,004,162**	**1,987,451**
Current assets		
Long-term receivables		
Loan receivables	317	0
Loan receivables from group companies	2,400	2,145
Deferret tax assets	18,966	28,674
	21,683	30,819
Short-term receivables		
Trade receivables	19,598	19,243
Receivables from group companies	-	9,594
Other receivables	1,410	259
Prepayments and accrued income	27,541	28,691
	48,549	57,786
Cash and cash equivalents	11,224	11,874
Total current assets	**81,456**	**100,479**
TOTAL ASSETS	**2,085,618**	**2,087,930**

DIFFERENTIATED BALANCE SHEET

EUR 1,000	31 Dec 2016	31 Dec 2015
EQUITY AND LIABILITIES		
Capital and reserves		
Subscribed capital	3	3
Non restricted equity	1,302,667	1,045,667
Retained earnings	-279,139	-229,598
Loss for the financial year	-19,466	-49,542
	1,004,065	766,530
Cumulative accelerated depreciations	**256,116**	**297,565**
Other provisions	**803**	**-**
Liabilities		
Non-current liabilitites		
Connection fees	204,259	204,470
Other long-term liabilities	779	765
Loans from financial institutions and other long-term loans	564,116	729,458
	769,154	934,693
Current liabilities		
Trade payables	16,880	13,257
Liabilities to group companies	1,425	2,763
Other short-term liabilities	22,410	50,819
Accruals and deferred income	14,766	22,303
	55,480	89,142
Total liabilities	**824,634**	**1,023,835**
TOTAL EQUITY AND LIABILITIES	**2,085,618**	**2,087,930**

NOTES FOR DIFFERENTIATED FINANCIAL STATEMENTS

DIFFERENTIATION PRINCIPLES

Income statement items and balance sheet items have been allocated into the differentiated business either directly or using a distribution method.

Depreciation principles for intangible and tangible assets have been presented in the beginning of parent company notes.

NETWORK BUSINESS' KEY FIGURES
EUR 1,000

	31 Dec 2016	31 Dec 2015
INVESTMENTS		
Intangble assets		
Intangble rights	1,294	1,669
Other capitalized long term expenditures		
Connection fees	3,498	600
Other capitalized long term expenditures	374	225
Tangible assets		
Land and water areas	-	28
Electricity network	109,996	91,445
Demolition costs	4,988	5,856
Meters	1,189	1,518
Other tangible assets	607	333
Shares and holdings	-	570
OTHER KEY FIGURES		
Refundable connection fees	204,259	204,470
Mandatory outage compensations	2,696	9,513
R&D expenses in the profit and loss account 1.1.–31.12.	1,524	763
Operative expenses included in security of supply incentive 1.1.–31.12.	1,824	1,441
Average number of personnel in the network business	185	184

SIGNATURES TO THE FINANCIAL STATEMENTS

Helsinki, 28 March 2017

Timo Rajala
Chairman of the Board of Directors

Robert Clark

Heidi Koskinen

Kunal Koya

Tapani Liuhala

Jorma Myllymäki

Timothy Short

Philip White

AUDITOR'S NOTE

A report on the audit carried out has been issued today.

Helsinki, 28 March 2017

Ernst & Young Oy
Authorised Public Accountants

Mikko Rytilahti
Authorised Public Accountant

AUDITOR'S REPORT (TRANSLATION)

To the Annual General Meeting of Elenia Oy

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Elenia Oy (business identity code 2445423–4) for the year ended 31 December, 2016. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- The consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- The financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENTS

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

OTHER REPORTING REQUIREMENTS

OTHER INFORMATION

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors, but does not include the financial statements and our report thereon. We obtained the report of the Board of Directors prior to the date of the auditor's report.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this fact. We have nothing to report in this regard.

Helsinki 28.3.2017

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Rytilahti
Authorized Public Accountant