ANNUAL REVIEW

2018

Enhanced customer experience through responsible investments

ELENIA

GROUP STRUCTURE, OPERATIONS AND OPERATING AREA

ELENIA AT YOUR SERVICE

RELIABLE ELECTRICITY DISTRIBUTION AND DISTRICT HEATING SERVICES

Elenia Group consists of the electricity distribution company Elenia Oy and its wholly-owned subsidiaries Elenia Lämpö Oy, Elenia Palvelut Oy and Elenia Finance Oyj.

Elenia Oy

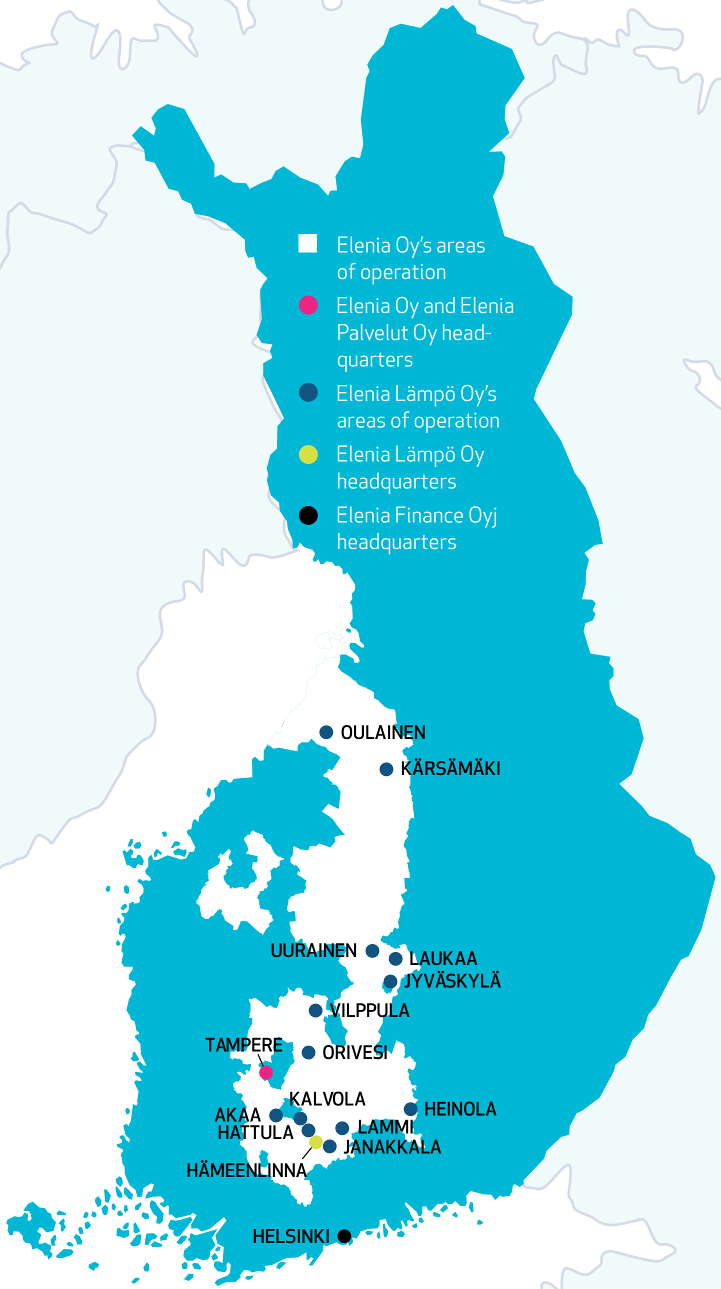
Elenia Lämpö Oy | Elenia Palvelut Oy | Elenia Finance Oyj

Elenia Oy distributes electricity to a total of circa 430,000 household, corporate and community customers in approximately one hundred municipalities in the regions of Kanta-Häme, Päijät-Häme, Pirkanmaa, Central Finland, Southern Ostrobothnia and Northern Ostrobothnia. The company is responsible for the construction, maintenance and operation of its electricity distribution networks in cooperation with external contractors, as well as connecting new customers to the network, measuring its customers' electricity consumption and submitting consumption data to electricity suppliers. Elenia is the second largest among the approximately 80 electricity distribution companies in Finland. The company has cirka 71,800 kilometres of electricity networks.

Elenia Lämpö Oy generates, distributes and sells district heating in approximately ten municipalities in the regions of Häme, Central Finland, Northern Ostrobothnia and Heinola. In addition, Elenia Lämpö Oy sells and distributes natural gas as well as generates electricity through its combined heat and power plant to be sold on the wholesale electricity market. Elenia Lämpö Oy has nearly 5,000 customers and around 85,000 end users.

Elenia Palvelut Oy is a multi-skilled service provider in the energy sector. It provides customer service for electricity distribution, district heating, natural gas and electricity sales businesses. The operations are guided by the service and business objectives of its customers. In cooperation with its customers, Elenia Palvelut Oy is renewing the Finnish energy markets' customer service offering in response to the changing needs of end customers.

From March 2018 Elenia's owners are Valtion Eläkerahasto (VER), Allianz Capital Partners (ACP) on behalf of the Allianz Group as well as Macquarie Infrastructure and Real Assets (MIRA). Elenia's first owners, since 2012, were Ilmarinen Mutual Pension Insurance Company, 3i and GS Infrastructure Partners.



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THE BENEFITS OF A WEATHERPROOF ELECTRICITY NETWORK FOR OUR CUSTOMERS ARE ALREADY EVIDENT

Elenia Oy had an excellent year in 2018. There were no major storms during the year, which enabled us to maintain the historically high level of security of supply in electricity distribution that we achieved in the previous year, at 99.98%. We also achieved—and even exceeded—the other targets set for our operations. We continued to develop our services in line with previous years to improve the positive customer experience. Elenia's performance in the energy industry's customer satisfaction survey improved and was at all time high.

Our special theme for the year was occupational safety. We invested in improving occupational safety in various ways and built an even stronger foundation for a strong safety culture and safety-oriented attitudes. Safety will remain one of our key themes going forward, with our unequivocal objective being safe and accident-free work throughout our partner network.

Elenia Lämpö Oy also achieved its targets to a fairly well, although the warmer-than-average temperatures during the year were not ideal for the business. We made a significant investment decision during the year to renew the Vanaja power plant in Hämeenlinna, which includes the purchase of a new biofuel-fired boiler for the plant. Scheduled to be commissioned in 2020, the boiler will increase the share of renewable fuels to well over 80% in the production of district heating in Hämeenlinna. We actively invested in new customer solutions; for example, by introducing two-way heating solutions that involve us buying surplus heat generated by the customers' solar thermal collectors back into our district heating network.

During the year under review, Elenia Palvelut Oy acquired a significant new customer in Lahti Energia. Our cooperation with existing customers continued as planned. During the year, we decided to combine our construction of weatherproof networks and fibre-optic networks and consolidate our construction operations under Elenia Palvelut. We restructured our organisation in accordance with this decision at the beginning of 2019. Our first combined weatherproof underground cabling and fibre-optic construction projects will start in 2019.

We participated for the first time in the Global Real Estate Sustainability Benchmark (GRESB), an assessment of sustainability in the infrastructure industry. The assessment covered the entire range of our business operations and we were awarded full five stars. This achievement is evidence of our success in working in line with our values and it motivates us to continue to develop the sustainability of our operations.

THE WEATHERPROOF ELECTRICITY NETWORK IS ALREADY SUBSTANTIALLY REDUCING OUTAGES

The public debate regarding electricity distribution prices has remained active. Much-needed factual information on the subject was introduced by a report by Professor Jarmo Partanen, commissioned by Minister Kimmo Tiilikainen, regarding the factors affecting distribution tariffs and the alternatives for achieving high level of security of supply.

As electricity is used more and more broadly to maintain practically all functions of society, the development of the security of supply is essential. Elenia has been a pioneer in the construction of weatherproof networks and we have made systematic progress on this front. At the end of 2018, our underground cabling rate stood at 45%. In the aftermath of the winter storm Aapeli in early 2019, we observed that our long-term investments in a weatherproof electricity network have already significantly reduced customers' power outages and our outage storm-related costs. Estimates indicate that Aapeli would have left three times as many people without electricity if we hadn't invested into underground cabling. We construct the weatherproof electricity network to make sure our customers' daily lives run smoothly.

ELENIA IS ACTIVELY INVOLVED IN THE CREATION OF A SMART ELECTRICITY SYSTEM

The key goal of the development of the Finnish electricity market is ensuring the security of supply in all circumstances. This goal is pursued not only by building weatherproof networks, but also by creating a smart electricity system that enables the flexible and cost-effective balancing of variable levels of production and consumption. The smart grid working group established in 2016 by the Finnish Ministry of Economic Affairs and Employment published its final report in autumn 2018. The report stimulated extensive national discussion on the significance of a smart grid and the opportunities it presents for maintaining the security of supply and promoting customer participation in electricity generation. Having been a pioneer in smart grid development for several years, we were actively involved in the work of the smart grid working group.

A smart grid enables new market models based on the decentralised generation of renewable energy. The renewable energy generation capacity connected to our electricity network continued to see significant growth in 2018.

At the end of 2018, there were 476 MW of wind power connected to our network. In 2018 we entered into three new connection agreements with wind farms where the total capacity will be 168 MW. The number of our customers' solar power systems connected to our network also continued to increase. With approximately 950 new solar power systems connected to the network in 2018, their total number stood at 2,500 at year's end.

Our operations have continued seamlessly after the change in ownership at the beginning of 2018. Together with our new owners, we have continued to work with our eyes firmly on the future and with a strong focus on the customer perspective, safety and social responsibility. I want to thank our customers, personnel, partners and new owners for their constructive and successful cooperation.

Tapani Liuhala
CEO

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GROUP KEY FIGURES 2018

ELENIA OY´S CUSTOMERS
430,000

ELECTRICITY NETWORK
71,800 km

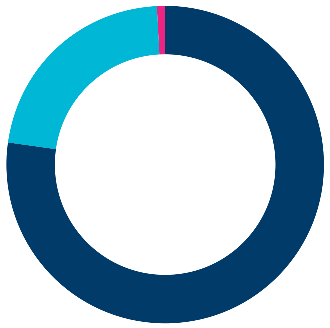
TOTAL UNDERGROUND CABLING RATE OF THE ELECTRICITY NETWORK
45.1%

TOTAL ELECTRICITY DISTRIBUTION VOLUME
6,440 GWh

ELENIA LÄMPÖ OY'S CUSTOMERS
5,000 DIRECT CUSTOMERS
85,000 END USERS

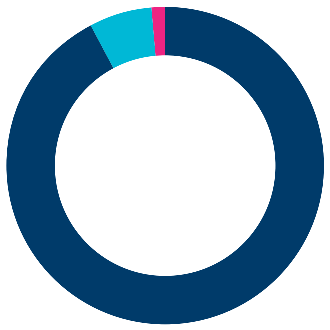
SALES
Includes heating, electricity and gas sales
1.1 TWh

REVENUE BREAKDOWN, MEUR



Elenia Oy 270.3 (261.0)
Elenia Palvelut Oy 2.4 (1.3)
Elenia Lämpö Oy 77.0 (76.6)

ELENIA GROUP'S INVESTMENTS, MEUR



Elenia Oy 148.1 (137.5)
Elenia Palvelut Oy 2.1 (1.1)
Elenia Lämpö Oy 10.3 (5.9)

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ELENIA OY'S STRATEGY

VISION

Service and weatherproof network

MISSION

Electrifying life

STARTERS

Clear and guiding strategy
—
Customer expectations and feedback
—
Influencing the business environment and society
—
Good management and self-driven professionals
—
An attitude based on values and a desire for renewal

ENABLERS

Sustainable network development
—
Smart grid and technology platform for new energy services
—
High-quality, efficient and networked processes and acquisitions
—
Integrated and transparent guidelines for the organisation and partners
—
Effective stakeholder cooperation
—
Availability of financing for investments and restructuring measures

SOURCES OF ADDED VALUE

Security of supply and quality
—
New products and services in electricity distribution business
—
Implementation of investment and maintenance programmes
—
Cost and investment efficiency

RESULTS

Satisfied customers, stakeholders and society at large
—
Elenia's strong forerunner brand
—
Achievement of key performance indicators according to the Elenia model
—
Growth of business and EBITDA through corporate mergers and acquisitions

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ELENIA LÄMPÖ OY'S STRATEGY

VISION

Elenia Lämpö is a frontrunner in providing sustainable, energyefficient and customerfriendly heating solutions in its area of operation

STRATEGIC OBJECTIVES OF THE HEATING BUSINESS

INTERNAL EFFICIENCY AND PROFITABILITY	+	CUSTOMER SOLUTIONS AND FOCUS	+	COMPETENCE DEVELOPMENT
Improving the operating efficiency of the production chain – Leveraging new technologies and automation		Developing the customer offering to meet market and customer needs – Building a harmonised service offering and comprehensively adopting a corresponding approach to operations		Increasing business insight and competence across all of the company's operations – Strengthening the competencies required for developing operating activities and customer solutions

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ELENIA PALVELUT OY'S STRATEGY

STARTERS	ENABLERS	SOURCES OF ADDED VALUE	OUTCOMES
Vision-based service development	Innovative use of digitalisation and robotics	New, competitive products and services	Business growth
Success strategy based on identified customer needs	Frontrunner's service attitude, processes and system	Successful implementation of mergers and acquisitions	Nationwide knowledge of the Elenia brand
Leadership and management supporting growth	Partner network that promotes competitiveness	Service channels and partners	Customer and stakeholder satisfaction
Operational performance and development are driven by measured feedback and rewarding system	Know-how supporting the development of service activities	Aqcuisition of new customers	Financial performance in accordance with the objectives
An attitude based on values and a desire for renewal	An operating model that provides a good customer experience, high quality and efficiency	Efficiency and quality of operations	

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REPORT OF THE BOARD OF DIRECTORS 2018

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

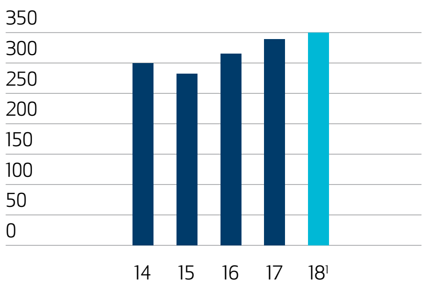
These business functions are supported by Elenia Finance Oyj ("Elenia Finance"), which provides treasury services to the Group companies. Elenia Oy is the parent company of the Group.

Financial Performance

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

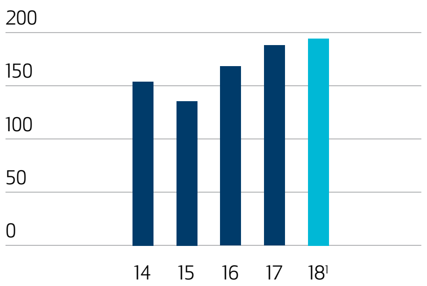
REVENUE

EUR million



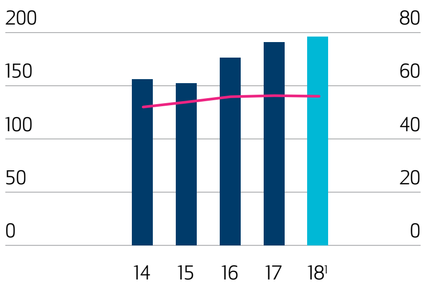
EBITDA

EUR million



EBITDA* AND EBITDA MARGIN*

EUR million %



* excluding non-recurring and exceptional items

ELENIA GROUP

(EUR million)	2018[1]	2017	Change %
Revenue	349.7	338.8	3.2
EBITDA	194.4	187.9	3.5
EBITDA excluding non-recurring and exceptional items	196.0	190.9	2.7
EBITDA margin (excl. non-rec. and exceptional items)	56.1%	56.3%	

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

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

Business Review – Electricity Distribution

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

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

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

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

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

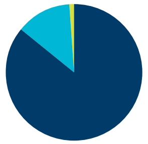
During 2018, Elenia Networks continued to invest in the electricity network in accordance with its development plan. Elenia Networks' investment plan has been designed to improve the security of supply via underground cabling. Elenia Networks has built only weatherproof underground cables since 2009.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

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

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

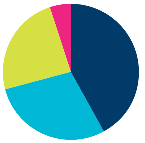
CUSTOMER SEGMENTS AND DISTRIBUTION VOLUMES, ELENIA OY

CUSTOMER SEGMENTS



- Residential 85%
- Agriculture, services and construction 13%
- Industry 1%
- Other 0%

ENERGY BY CUSTOMER SEGMENT



- Residential 42%
- Agriculture, services and constr 29%
- Industry 24%
- Other 5%

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

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

Elenia continued to further develop its asset management system according to the PAS 55-1:2008 standard and the international standard ISO 55001:2014. The requirements of both PAS 55 and ISO 55001 guide the construction, operation, maintenance and repair of Elenia's electricity network. This ensures that Elenia Networks will improve the way it operates, maintains and upgrades its electricity network in order to respond to

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

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its customers' needs. The certificates also require that the suppliers and service providers commit to responsible, high-quality operations.

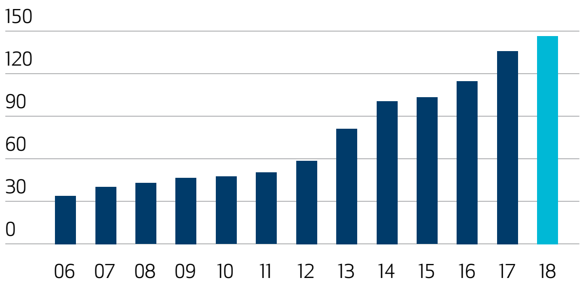
Lloyd's Register conducted a surveillance visit to assess Elenia Networks' asset management system in June 2018. During the assessment, Elenia Networks demonstrated that it has in place asset management processes, systems and plans which have been implemented throughout the organization and continue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

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

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

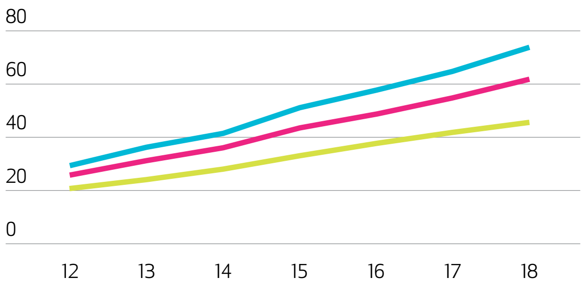
The EA has published select preliminary key figures, including Regulatory Asset Base ("RAB") and regulatory deficit/surplus for all Finnish DSOs for 2017. Elenia Networks' RAB was EUR 1,495.8 million and regulatory deficit was EUR 44.4 million. Elenia's cumulative regulatory deficit - after taking into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

ELENIA OY'S TOTAL INVESTMENTS IN ITS ELECTRICITY NETWORK 2006–2018, EUR MILLION*



* excludes ICT system investments and the street lighting network

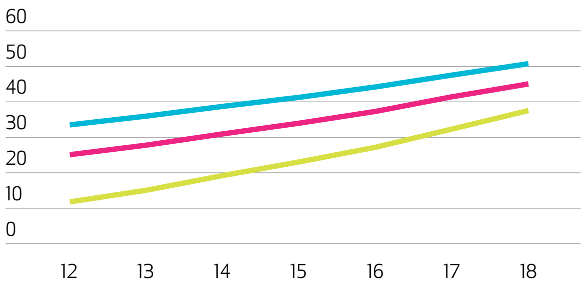
ELENIA OY'S CUSTOMERS COVERED BY THE QUALITY REQUIREMENTS 2012–2018, %



Quality requirements met, %, zoned areas
Quality requirements met, %, other areas
Quality requirements met, %, total

Pursuant to the Electricity Market Act, quality requirements will apply to 50% of customers by the end of 2019, 75% of customers by the end of 2023 and 100% of customers by the end of 2028.

ELENIA OY'S UNDERGROUND CABLING RATE 2012–2018, %



0,4 kV
20 kV
Entire network

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Business Review – Heat Business

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

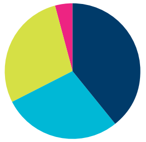
Elenia Heat primarily produces its heat via wood, peat, natural gas and oil. In 2018, biofuels accounted for 69% of Elenia Heat's production volume (70% in 2017), and approximately 86% of the fuel used was of domestic origin. Elenia Heat purchases approximately 31% of its total heat volumes from third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

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

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

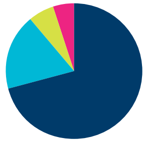
SALES BY CUSTOMER SEGMENT, ELENIA LÄMPÖ OY

DISTRICT HEATING



Housing companies	39%
Businesses	28%
Public sector	28%
Private	4%

NATURAL GAS



Businesses	71%
Public sector	18%
Housing companies	6%
Private	5%

Business Review – Service Business

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

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

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

Financing

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

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

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

Elenia Group continues to have a strong liquidity position. As at 31 December 2018, cash and cash equivalents were EUR 17 million (EUR 25 million in 2017) and EUR 58 million of the credit facilities was drawn at

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the year-end (undrawn at the end of 2017). At the year-end, the EIB credit facility was undrawn.

Elenia Finance has a rating from Standard & Poor's ("S&P"), who published their most recent credit rating for Elenia Finance in December 2018 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 ("LR") covenants in its finance documentation. In July 2018, in accordance with the requirements of the Common Terms Agreement ("CTA")[2], Elenia proposed to the Security Trustee and the Secured Creditors certain amendments to the financial covenant levels. The purpose of the amendments is to mitigate the impact of implementing the IFRS 15 standard which became effective on 1 January 2018 obliging Elenia to change the revenue recognition of connection charges. The change affects only figures such as EBITDA that are reported in accordance with IFRS, it has no impact on FAS, taxes, cash flows or regulatory accounting.

Following satisfaction of the quorum requirement and receipt of a direction from participating qualifying secured creditors representing a simple majority of voted qualifying debt in favour of the proposal, Elenia and the Security Trustee have entered into an amendment and restatement agreement on 3 September 2018, amending and restating the CTA and the Master Definitions Agreement to give effect to and to implement the proposal. For each relevant period until 31 December 2027 ("the First Ratio Adjustment period"), the trigger event ratio levels are 1.46 for ICR and 10.18 for LR and the default ratios are 0.96 for ICR and 11.33 for LR.

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

Employees

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

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

	Dec 31, 2018		Dec 31, 2017	
	Headcount	FTE	Headcount	FTE
Elenia Oy ja Elenia Finance Oyj	180	173	186	174
Elenia Lämpö	79	79	84	84
Elenia Palvelut Oy	90	79	63	53
Group Total	**349**	**332**	**333**	**310**

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

Acquisitions and Divestments

There were no material acquisitions or divestments during the period.

Corporate Governance

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

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

The Board of Directors convened six times in 2018.

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

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

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

A total of 280 infrastructure companies took part in the GRESB Infrastructure Assessment around the world. Elenia scored the full five stars in the assessment and a total score of 81, which is well above average of the infrastructure companies taking part in the assessment. Elenia placed 17th in the total results. Out of the 173 European companies, Elenia

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

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was 12th. In the Network Utility Sector, Elenia placed fifth out of 26 companies. Out of 11 private European network companies, Elenia was fourth.

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

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 externally certified 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 2018 Elenia Networks together with its partners had Loss Time Injury Frequency[3] of 5.2 (10.0 in 2017). Elenia Networks started a project Safely back Home in autumn 2018 with its contracting partners to strengthen safety culture and to develop common safety practices. The safety project will continue in 2019.

Environmental Matters

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

The most significant environmental aspects of 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 2018, Elenia Heat continued to reduce the use of fossil fuels in its heat and electricity production and emphasise the use of domestic fuels. Both of these will continue to be important goals going forward. The share of biofuels in Elenia Heat's own production operations was almost 70% in 2018, while the share of domestic fuels is approximately 86%.

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 Elenia Group's insurance programme and for handling insurance claims in cooperation with an insurance broker.

Events after the Balance Sheet Date

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

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

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

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

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

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Outlook

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

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

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

The Board of Directors' Dividend Proposal

The Board of Directors proposes not to declare a dividend.

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CONSOLIDATED FINANCIAL STATEMENTS 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2018

EUR 1,000	Note	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Revenue	2.1.1	**349,734**	**338,806**
Other operating income	2.2.1	3,967	3,620
Materials and services		-117,639	-112,494
Employee benefit expenses	2.3.3	-20,002	-21,723
Depreciation, amortisation and impairment	3	-89,496	-86,280
Other operating expenses	2.3.1	-21,764	-20,503
Share of profit of an associate	5.4	143	164
Operating profit		**104,944**	**101,590**
Finance income		255	210
Finance costs		-93,771	-100,880
Finance income and costs	4.1	**-93,516**	**-100,670**
Profit before tax from continuing operations		**11,428**	**920**
Income tax	6.1.1	-4,448	-877
Profit for the year		**6,980**	**43**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

EUR 1,000	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Profit for the year	**6,980**	**43**
Other comprehensive income		
Other comprehensive income not to be reclassified to profit or loss in subsequent years:		
Re-measurement gains on defined benefit plans	56	39
Income tax effect	-11	-8
Other comprehensive income / (loss) for the year after tax	45	31
Total comprehensive profit for the year	**7,024**	**74**

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

EUR 1,000	Note	31 Dec 2018	31 Dec 2017
Assets			
Non-current assets			
Property, plant and equipment	3.1	1,420,589	1,348,045
Intangible assets	3.2	87,996	89,873
Goodwill	3.2	515,606	515,606
Investments in associates	5.4	774	727
Other non-current financial assets		196	246
Other interest bearing receivables		478	353
Deferred tax assets	6.1.2	2,914	1,058
Total non-current assets		**2,028,552**	**1,955,909**
Current assets			
Inventories	6.2	3,447	4,130
Trade receivables	2.1.4	19,786	22,261
Other current receivables	2.1.4	49,650	44,400
Cash and cash equivalents		17,383	24,519
Total current assets		**90,266**	**95,310**
Total assets		**2,118,818**	**2,051,218**

EUR 1,000	Note	31 Dec 2018	31 Dec 2017
Equity and liabilities			
Equity			
Share capital		3	3
Unrestricted equity		2,000	2,000
Retained earnings		-138,997	-146,021
Total equity		**-136,994**	**-144,019**
Non-current liabilities			
Loans from financial institutions	4.2	18,000	-
Bonds and notes	4.2	1,682,305	1,521,082
Other long-term loans	4.2	252,185	426,385
Finance lease liabilities	3.3	8,608	12,412
Employee benefit liability	6.3	1,105	1,134
Provisions	2.3.4	8,711	9,015
Liabilities related to contracts with customers	2.1.3	9,397	-
Other long-term liabilities		1,147	1,252
Deferred tax liabilities	6.1.2	142,924	142,627
Total non-current liabilities		**2,124,382**	**2,113,907**
Current liabilities			
Loans from financial institutions	4.2	40,000	-
Finance lease liabilities	3.3	3,772	4,068
Trade payables	2.3.2	15,146	12,120
Liabilities related to contracts with customers	2.1.3	330	-
Other current liabilities	2.3.2	72,182	65,141
Total current liabilities		**131,430**	**81,330**
Total equity and liabilities		**2,118,818**	**2,051,218**

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

EUR 1,000	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Operating activities		
Profit for the year	6,980	43
Adjustments to reconcile profit to net cash flows		
Depreciation, amortisation and impairment	89,496	86,280
Finance income	-255	-210
Finance costs	93,771	100,880
Share of profit of an associate	-143	-164
Taxes	4,448	877
Other adjustments	-84	330
Working capital adjustments		
Increase (-) / decrease (+) in inventories	683	3,133
Increase (+) / decrease (-) in trade and other current liabilities	10,081	-2,467
Increase (-) / decrease (+) in trade and other current receivables	-3,156	-1,345
Increase (+) / decrease (-) in provisions	-304	-227
Dividends received	96	125
Interests received	248	206
Interest and financial expenses paid	-47,541	-43,766
Interest paid on other long-term loans	-34,746	-42,468
Taxes paid	-31	-101
Net cash flows from operating activities	**119,544**	**101,126**

EUR 1,000	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Investing activities		
Capital expenditure	-158,715	-146,290
Changes in loans	-125	-36
Changes in investments	-21	29
Net cash flows used in investing activities	**-158,862**	**-146,297**
Financing activities		
Proceeds from long-term borrowings	179,000	213,500
Payment of debt arrangement costs	-444	-4,848
Repayment of long-term borrowings	-182,274	-149,532
Repayment of finance lease liabilities	-4,101	-4,368
Proceeds from short-term borrowings	40,000	-
Net cash flows from financing activities	**32,182**	**54,752**
Net increase in cash and cash equivalents	**-7,136**	**9,581**
Cash and cash equivalents at 1 January	24,519	14,938
Change in cash and cash equivalents	-7,136	9,581
Cash and cash equivalents at 31 December	**17,383**	**24,519**

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

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

EUR 1,000	Share capital	Reserve for invested unrestricted equity	Retained earnings	Total equity
Equity at 1 January 2017	**3**	**2,000**	**-146,095**	**-144,093**
Profit for the year	-	-	43	43
Other components of comprehensive income (adjusted by tax effect)				
Change in defined benefit plans	-	-	31	31
Total comprehensive income for the year	**-**	**-**	**74**	**74**
Equity at 31 December 2017	**3**	**2,000**	**-146,021**	**-144,019**

for the year ended 31 December 2018

EUR 1,000	Share capital	Reserve for invested unrestricted equity	Retained earnings	Total equity
Equity at 1 January 2018	**3**	**2,000**	**-146,021**	**-144,019**
Profit for the year	-	-	6,980	6,980
Other components of comprehensive income (adjusted by tax effect)				
Change in defined benefit plans	-	-	45	45
Total comprehensive income for the year	**-**	**-**	**7,024**	**7,024**
Equity at 31 December 2018	**3**	**2,000**	**-138,997**	**-136,994**

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

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1 GROUP ACCOUNTING POLICIES

Accounting policies haven been described in the relevant note and can be recognised from character

Significant judgements, estimates and assumptions made by the Group management have been presented in the relevant note and can be recognised from character

Risk management principles have been described in the relevant note and can be recognised from character

1.1 GENERAL INFORMATION

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 9 Allée Scheffer - 2520 Luxembourg. The ultimate parent of the Group is Elton Investments S.à r.l., domiciled in Luxembourg.

These consolidated financial statements of Elenia Oy are included in the consolidated financial statements of Elenia Holdings S.à r.l., available at the following address: 9 Allée Scheffer - 2520 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 Elenia Finance Oyj ('Elenia Finance'), which provides treasury services to the Group companies.

The Board of Directors approved the consolidated financial statements on 28 February 2019. The shareholders have the right either to approve, reject or change the consolidated financial statements in the Annual General Meeting.

1.2 BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 December 2018 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.

All Group companies use euro ("EUR") 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.

1.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Certain new and amended standards and interpretations are issued but not yet effective up to the date of issuance of the consolidated financial statements. The Group intends to adopt these standards, amendments and interpretations, if applicable, when they become effective. The nature of each new standard and amendment to be adopted by the Group has been described in the relevant note. Those new standards and amendments which have been issued but are not yet effective and not material for the Group have been described in note 5.

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1.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the accompanying disclosures and the disclosure of contingent liabilities.

Estimates and assumptions are based on the management's best judgement on the reporting date. Estimates are made based on historical experience and expectations of future events that are considered probable on the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require an adjustment to the carrying amount of assets and liabilities affected in future periods.

1.4.1 Judgements

The preparation of consolidated financial statements requires management to make judgements in applying the accounting principles. The significant judgements made by the Group management have been presented in the relevant note.

The consolidated financial statements are prepared on a going concern basis. The Board of Directors has noted that the Group made a profit before tax for 2018 of EUR 11,428 thousands and has a negative net equity of EUR 136,994 thousands as at 31 December 2018. Consequently, the going concern of the activities of the Group is dependent on its future cash flows and profitable operations.

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

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

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

1.4.2 Estimates

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

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2 OPERATING PROFIT

2.1 REVENUE AND TRADE AND OTHER CURRENT RECEIVABLES

Changes in accounting policies and disclosures

The Group applied for the first-time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2018.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

IFRS 15 standard replaces IAS 11, IAS 18 and related interpretations. IFRS 15 standard establishes a five-step model on how to account for revenue from contracts with customers. The core principle in the new standard is that an entity will recognise revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The disclosure requirements in 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 have been effective as of 1 January 2018 which was the effective date of IFRS 15. The EU has endorsed the amendments.

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

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

2.1.1 Disaggregation of revenue

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

Revenue by type of service

EUR 1,000	As reported 2018 (in accordance with IFRS 15)	Impact of IFRS 15	2018 (in accordance with IAS 18)
Distribution of electricity	267,130	-	267,130
Distribution of heat	65,863	-	65,863
Customer service operations	2,390	-	2,390
Connection fees	174	9,727	9,901
Other revenues	14,176	-	14,176
Total	**349,734**	**9,727**	**359,461**

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

Timing of revenue recognition

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

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2.1.2 Contracts with customers: revenue recognition and payment terms

ACCOUNTING POLICY

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

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

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

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

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

2.1.3 Liabilities related to contracts with customers

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

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

2.1.4 Trade and other current receivables

ACCOUNTING POLICY

2.1.4.1 TRADE RECEIVABLES

Trade receivables are recorded on the balance sheet at their fair value. Impairment is recorded on trade receivables when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the agreements. Such evidence of impairment may include significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments. The impairment amount is measured as the difference between the asset's original carrying value and the estimated future cash flows.

Trade receivables also include invoiced sales revenue based on estimates.

TRADE AND OTHER CURRENT RECEIVABLES

EUR 1,000	2018	2017
Trade receivables	19,786	22,261
Accrued income and prepaid expenses	49,489	44,094
Other current receivables	161	306
Total trade and other receivables	**69,436**	**66,661**

BREAK-DOWN OF ACCRUED INCOME AND PREPAID EXPENSES

EUR 1,000	2018	2017
Sales accruals	45,405	40,099
Accrued financial items	2,014	2,592
Other accrued income	2,070	1,403
Total accrued income and prepaid expenses	**49,489**	**44,094**

FINANCIAL RISK MANAGEMENT

CREDIT RISK

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

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

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

CONTENTS

TRADE RECEIVABLES

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

IMPAIRMENT OF TRADE RECEIVABLES

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

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

The amount of Credit loss allowance for trade receivables is checked and updated quarterly and it is recognised with similar principals both in IFRS- and FAS-reporting. Uncertain receivables are booked to separate book-keeping account in Group reporting.

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

BREAKDOWN AND IMPAIRMENT OF TRADE RECEIVABLES BY AGE

31 December 2018	Trade receivables				
EUR 1,000	Undue	1–90 days	91–180 days	Over 180 days	Total
Trade receivables by age	14,746	4,443	367	885	20,442
Expected credit loss rate, private customers	0.1%	3.5%	36.9%	10.2%	
Expected credit loss, private customers	-21	-156	-136	-90	-403
Expected credit loss rate, company customers	0.0%	1.0%	4.0%	21.6%	
Expected credit loss, company customers	-2	-44	-15	-191	-252
Total expected credit losses	**-23**	**-200**	**-150**	**-282**	**-655**
Total trade receivables	**14,723**	**4,243**	**217**	**604**	**19,786**

31 December 2017	Trade receivables				
EUR 1,000	Undue	1–90 days	91–180 days	Over 180 days	Total
Trade receivables by age	16,890	4,567	324	1,213	22,994
Total expected credit losses	**-**	**-**	**-**	**-**	**-734**
Total trade receivables					**22,261**

The Group has adapted the new standard on the required effective date but comparative information has not been restated.
The fair value of trade and other receivables does not materially differ from the values on the consolidated statement of financial position.
All trade receivables are denominated in euros.

CONTENTS

CHANGE IN EXPECTED CREDIT LOSSES

EUR 1,000	2018
Expected credit loss 1 January 2018	734
Additions	500
Credit losses	-578
Expected credit loss 31 December 2018	**655**

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

VOLUME AND PRICE RISKS

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

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

2.2 OTHER OPERATING INCOME

ACCOUNTING POLICY

2.2.1 Other operating income

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

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

OTHER OPERATING INCOME

EUR 1,000	2018	2017
Rental income	98	104
Subsidy for bio-based electricity production	428	647
Capital gains on tangible and intangible assets	25	104
Income from the wood fuel trading	624	697
Income from the trade receivables collection	923	665
Income from the sales of obsolete materials and used fixed assets	1,225	969
Other operating income	645	433
Total	**3,967**	**3,620**

ACCOUNTING POLICY

2.2.2 Group as the lessor

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

Contingent rents are recognised as revenue in the period in which they are earned.

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

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

CONTENTS

2.3 OTHER OPERATING EXPENSES AND RELATED LIABILITIES

ACCOUNTING POLICY

2.3.1 Other operating expenses

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

Research and development costs
Research 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 operating expenses. As research expenses, these costs do not meet the criteria for capitalisation.

Development expenditures on an individual project are recognised as an intangible asset only when the Group can demonstrate:

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

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

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

OTHER OPERATING EXPENSES

EUR 1,000	2018	2017
Lease expenses	-1,463	-1,187
External services	-5,901	-4,194
IT and communication expenses	-5,247	-4,538
Research and development costs	-2,511	-1,761
Marketing and communications	-1,165	-1,217
Insurances	-531	-499
Mailing expenses	-575	-1,224
Other personnel expenses	-944	-984
Travelling expenses	-447	-487
Other expenses	-2,980	-4,411
Total	**-21,764**	**-20,503**

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

AUDIT FEES

EUR 1,000	2018	2017
Auditing fees	-365	-259
Fees for tax services	-29	-30
Fees for other services	-26	-28
Total	**-420**	**-317**

Ernst & Young was appointed as the auditor until the Annual General Meeting held in the 2019 reporting period.

AUDITING FEES

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.

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2.3.2 Trade and other current payables

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

TRADE AND OTHER CURRENT PAYABLES

EUR 1,000	**2018**	**2017**
Short-term financial lease liabilities	3,772	4,068
Trade payables	15,146	12,120
Accrued expenses		
Employee benefits expenses	6,617	7,891
Interest expenses	14,217	12,322
Other accrued expenses	17,710	14,658
Liabilities related to contracts with customers	330	-
Other liabilities		
VAT liability	13,387	14,178
Energy taxes	9,330	9,775
Tax liability for the period	6,005	13
Prepayments received	778	219
Other liabilities	4,138	6,085
Total	**91,430**	**81,330**

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

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

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

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2.3.3 Employee benefits expenses

EUR 1,000	2018	2017
Salaries and remuneration	-16,651	-17,905
Pensions		
Defined contribution plans	-3,351	-2,751
Defined benefit plans	-73	-69
Social security costs	74	-998
Total	**-20,002**	**-21,723**

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

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

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

During 2018 EUR 591 thousand (2017: 909 thousand) were recognized as an expense and EUR 562 thousand (2017: 535 thousand) were paid out related to the long-term incentive plan.

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

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

In 2019 Elenia is undertaking an external benchmark study to assess the competitiveness of management compensation.

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.

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2.3.4 Provisions

ACCOUNTING POLICY

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.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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. The historical level of refunded connection fees is taken into account while compiling the calculations and the discount rates applied correspond to the rates used in impairment testing of goodwill for network and heat businesses.

PROVISIONS

2018

EUR 1,000	Provision for costs related to oil leakage cleanup	Provision for rental liabilities for premises	Provision for refunds of connection fees	Total
Provisions at 1 January 2018	-	-	9,015	9,015
Increase	110	-	175	285
Cancellations of provisions	-	-	-192	-192
Use of provisions	-	-	-398	-398
Provisions at 31 December 2018	**110**	**-**	**8,601**	**8,711**

PROVISIONS

2017

EUR 1,000	Provision for costs related to oil leakage cleanup	Provision for rental liabilities for premises	Provision for refunds of connection fees	Total
Provisions at 1 January 2017	-	803	8,987	9,791
Increase	-	-	30	30
Cancellations of provisions	-	-549	482	-67
Use of provisions	-	-254	-484	-738
Provisions at 31 December 2017	**-**	**0**	**9,015**	**9,015**

CONTENTS

3 INVESTMENTS AND LEASE COMMITMENTS

3.1 PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

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

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

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

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

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

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

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

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

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

Government grants

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

Borrowing costs

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

CONTENTS

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 2018	2,663	19,788	2,053,292	249,463	1,257	23,860	2,350,322
Additions	88	766	141,697	5,520	-	15,408	163,480
Disposals	-	-	-8,841	-65	-	-	-8,906
Transfers between balance sheet items	0	-	-	62	-	-7,724	-7,662
Cost at 31 December 2018	**2,751**	**20,553**	**2,186,148**	**254,980**	**1,257**	**31,544**	**2,497,234**
Accumulated depreciation, amortisation and impairment at 1 January 2018	-	-11,394	-825,577	-164,847	-459	-	-1,002,277
Depreciation and amortisation for the year	-	-572	-66,808	-12,373	-49	-	-79,802
Accumulated depreciation and amortisation on disposals	-	-	8,841	31	-	-	8,873
Impairment for the year	-	-	-3,439	-	-	-	-3,439
Accumulated depreciation, amortisation and impairment at 31 December 2018	**-**	**-11,966**	**-886,982**	**-177,189**	**-508**	**-**	**-1,076,645**
Book value at 31 December 2018	**2,751**	**8,587**	**1,299,166**	**77,791**	**749**	**31,544**	**1,420,589**
Book value at 31 December 2017	**2,663**	**8,393**	**1,227,715**	**84,616**	**799**	**23,860**	**1,348,045**

EUR 1,000	Land and water areas	Buildings	Networks	Machinery and equipment	Other tangible assets	Prepayments	**Total**
Cost at 1 January 2017	2,624	19,752	1,934,175	240,353	1,157	20,415	2,218,476
Additions	39	35	128,324	9,269	100	9,414	147,182
Disposals	-	-	-9,207	-160	-	-	-9,366
Transfers between balance sheet items	-	-	-	-	-	-5,968	-5,968
Cost at 31 December 2017	**2,663**	**19,788**	**2,053,292**	**249,463**	**1,257**	**23,860**	**2,350,322**
Accumulated depreciation, amortisation and impairment at 1 January 2017	-	-10,841	-767,887	-152,601	-407	-	-931,736
Depreciation and amortisation for the year	-	-553	-63,698	-12,268	-51	-	-76,571
Accumulated depreciation and amortisation on disposals	-	-	9,207	21	-	-	9,228
Impairment for the year	-	-	-3,198	-	-	-	-3,198
Accumulated depreciation, amortisation and impairment at 31 December 2017	**-**	**-11,394**	**-825,577**	**-164,847**	**-459**	**-**	**-1,002,277**
Book value at 31 December 2017	**2,663**	**8,393**	**1,227,715**	**84,616**	**799**	**23,860**	**1,348,045**
Book value at 31 December 2016	**2,624**	**8,911**	**1,166,287**	**87,752**	**750**	**20,415**	**1,286,739**

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

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

In 2018 Group companies did not receive any investment grants.

In 2017 Elenia Lämpö Oy received an investment grant of EUR 63 thousand. The grant was recorded as deduction of costs in buildings.

CONTENTS

3.2 INTANGIBLE ASSETS

ACCOUNTING POLICY

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

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

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

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

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

Amortisation periods for intangible assets

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

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

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

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

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

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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 (see table below).

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INTANGIBLE ASSETS

EUR 1,000	Goodwill	Intangible rights	Other long-term expenditure	Other intangible assets	**Total**
Cost at 1 January 2018	515,606	58,223	34,344	88,200	696,372
Additions	-	1,960	2,357	-	4,318
Transfer between balance sheet items	-	-	61	-	61
Cost at 31 December 2018	**515,606**	**60,183**	**36,762**	**88,200**	**700,751**
Accumulated depreciation, amortisation and impairment at 1 January 2018	-	-45,729	-23,997	-21,168	-90,893
Depreciation and amortisation for the year	-	-700	-2,028	-3,528	-6,256
Accumulated depreciation, amortisation and impairment at 31 December 2018	**-**	**-46,428**	**-26,025**	**-24,696**	**-97,149**
Book value at 31 December 2018	**515,606**	**13,755**	**10,737**	**63,504**	**603,602**
Book value at 31 December 2017	**515,606**	**12,494**	**10,347**	**67,032**	**605,479**

EUR 1,000	Goodwill	Intangible rights	Other long-term expenditure	Other intangible assets	**Total**
Cost at 1 January 2017	515,606	56,147	33,145	88,200	693,098
Additions	-	2,076	1,198	-	3,274
Transfer between balance sheet items	-	-	-	-	0
Cost at 31 December 2017	**515,606**	**58,223**	**34,344**	**88,200**	**696,372**
Accumulated depreciation, amortisation and impairment at 1 January 2017	-	-45,089	-21,653	-17,640	-84,382
Depreciation and amortisation for the year	-	-639	-2,344	-3,528	-6,512
Accumulated depreciation, amortisation and impairment at 31 December 2017	**-**	**-45,729**	**-23,997**	**-21,168**	**-90,893**
Book value at 31 December 2017	**515,606**	**12,494**	**10,347**	**67,032**	**605,479**
Book value at 31 December 2016	**515,606**	**11,058**	**11,493**	**70,560**	**608,716**

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

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

IMPAIRMENT TESTING OF GOODWILL

Goodwill has been allocated to cash generating units which are Network and Heat business segments. The goodwill allocated to Network is EUR 418 million and Heat EUR 98 million. Projected cash flows have been 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 (pre-tax) reflects the different risk profiles of the businesses.

Network segment

Due to the regulated and stable nature of the electricity distribution business, the basis for cash flow projections has been long-term business plan for the period 2019–2055 which has been approved by the Board of Directors. 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 5.6% based on the prevailing return and risk assumptions in the business (the applied pre-tax discount rate in 2017 was 4.4%).

Heat segment

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

CONTENTS

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

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

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

3.3 LEASE COMMITMENTS

ACCOUNTING POLICY

LEASES

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

THE GROUP AS 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 to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. The corresponding rental obligations, net of finance charges, are included in the long-term or short-term interest-bearing liabilities according to their maturities.

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

PRESENT VALUE OF FINANCE LEASE PAYMENTS

EUR 1,000	2018	2017
Finance lease liabilities		
Within one year	4,385	4,537
After one year but not more than five years	10,176	14,228
More than five years	-	288
Total	**14,562**	**19,054**
Future financial expenses	2,182	2,573
Present value of minimum lease payments	**12,380**	**16,481**
Present value of minimum lease payments matures:		
Within one year	3,772	4,068
After one year but not more than five years	8,608	12,243
More than five years	-	169
Total	**12,380**	**16,481**

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

RENTAL LIABILITIES

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

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

Other rental liabilities		
Within one year	833	399
After one year but not more than five years	1,700	180
Total	**2,533**	**580**

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New and amended standards and interpretations issued but not yet effective

The new IFRS 16 Leases -standard has been issued, but is not effective up to the date of issuance of the consolidated financial statements. The Group intends to adopt new standards, amendments and interpretations, if applicable, when they become effective.

IFRS 16 LEASES

The new standard is effective for annual periods beginning on or after 1 January 2019. The EU has endorsed the standard.

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.

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

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

One-time compensations paid to landowners based on land easement contracts are capitalized to the intangible rights in the consolidated statement of financial position and amortized over their expected useful lives. Hence, according to the current estimate of the Group's management, they are not treated as lease contracts under IFRS 16.

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

CONTENTS

4 CAPITAL STRUCTURE AND FINANCIAL ITEMS

RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT

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

The Group's Treasury policy, approved by the Board of 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.

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.

4.1 FINANCE INCOME AND COSTS

ACCOUNTING POLICY

TRANSLATION DIFFERENCES

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

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

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

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

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

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

EUR 1,000	2018	2017
Interest expenses		
Loans from financial institutions	-55	-58
Bonds and notes	-46,449	-41,882
Other long-term loans	-42,820	-54,269
Other interest expenses	-811	-867
Total interest	**-90,135**	**-97,076**
Other finance costs	-3,624	-3,798
Exchange rate losses		
Loans and receivables	-12	-5
Total finance costs	**-93,771**	**-100,880**
Interest income		
Other interest income	248	206
Exchange rate gains		
Loans and receivables	5	3
Other finance income	1	-
Total finance income	**255**	**210**
Finance costs (net)	**-93,516**	**-100,670**

Finance income and costs

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

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4.2 FINANCIAL ASSETS AND LIABILITIES

Changes in accounting policies and disclosures

The Group applied for the first-time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2018.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, early application has been permitted. The EU has endorsed the standard. IFRS 9 has completely replaced the 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 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.

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

At the time of initial application 1 January 2018 the financial instruments of the group were as follows, with any reclassifications noted.

RECLASSIFICATIONS OF FINANCIAL INSTRUMENTS ON ADOPTION OF IFRS 9

1 January 2018 EUR 1,000	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount, IAS 39	Carrying amount, IFRS 9
Current financial assets				
Trade receivables and other non-interest-bearing receivables	Loans and other receivables	Amortised cost	22,261	22,261
Available-for-sale financial assets	Availabe-for-sale financial assets	Fair value through profit or loss	0	0
Cash and cash equivalents	Loans and other receivables	Amortised cost	24,519	24,519
Non-current financial assets				
Bonds and notes	Financial liabilities measured at amortised cost	Amortised cost	-1,521,082	-1,521,082
Other long-term loans	Financial liabilities measured at amortised cost	Amortised cost	-426,385	-426,385
Interest-bearing non-current liabilities				
- Finance leases	Financial liabilities measured at amortised cost	Amortised cost	-12,412	-12,412
Current financial liabilities				
other current interest-bearing liabilities	Financial liabilities measured at amortised cost	Amortised cost	-4,068	-4,068
Trade payables	Financial liabilities measured at amortised cost	Amortised cost	-12,120	-12,120

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ACCOUNTING POLICY

FINANCIAL INSTRUMENTS – INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

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

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

4.2.1 Cash and cash equivalents

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

4.2.2 Financial assets

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

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

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

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

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

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

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

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

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IFRS 9 are satisfied.

Financial assets at fair value through other comprehensive income (OCI)
Derivatives are measured at fair value and gains and losses from fair value measurement are treated as etermined by the purpose of the derivatives. The effects on results of changes in the value of derivatives that are eligible for hedge accounting and that are effective hedging instruments are presented consistent with the hedged item.

Derivatives eligible for hedge accounting are classified as financial assets at fair value through other comprehensive income. The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income. Any ineffective portion is recognised immediately in the consolidated statement of profit or loss as financial income or costs. The group had no derivatives at the balance sheet date.

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Derecognition of financial assets

Financial assets are derecognised when:

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

4.2.3 Impairment of financial assets

The Group 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.

4.2.4 Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

Subsequent measurement

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

Loans and borrowings

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

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

Financial liabilities at fair value through profit or loss

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

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

Derecognition of Financial liabilities

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

4.2.5 Offsetting of financial instruments

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

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

CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

VALUES AT 31 DECEMBER 2018

Balance sheet item, EUR 1,000	Note	Amortised cost	Fair value through profit and loss	Fair value through other comprehensive income	Carrying value of balance sheet items	Fair value
Current financial assets						
Trade receivables and other non-interest-bearing receivables	2.1.4	19,786	-	-	19,786	19,786
Available-for-sale financial assets	4.2.8	-	0	-	0	0
Cash and cash equivalents		17,383	-	-	17,383	17,383
Total Current assets		**37,169**	**0**	**-**	**37,169**	**37,169**
Carrying amount by category		**37,169**	**0**	**-**	**37,169**	**37,169**
Non-current financial liabilities						
Bonds and notes	4.2.8–9	-1,682,305	-	-	-1,682,305	-1,776,388
Loans from financial institutions	4.2.8–9	-18,000	-	-	-18,000	-18,000
Other long-term loans	4.2.8–9	-252,185	-	-	-252,185	-262,107
Interest-bearing non-current liabilities						
- Finance leases	3.3	-8,608	-	-	-8,608	-8,608
Total interest-bearing non-current liabilities		**-1,961,098**	**-**	**-**	**-1,961,098**	**-2,065,103**
Current financial liabilities						
Loans from financial institutions	4.2.8–9	-40,000	-	-	-40,000	-40,000
Other current interest-bearing liabilities	3.3	-3,772	-	-	-3,772	-3,772
Trade payables	2.3.2	-15,146	-	-	-15,146	-15,146
Total current financial liabilities		**-58,918**	**-**	**-**	**-58,918**	**-58,918**
Carrying amount by category		**-2,020,016**	**-**	**-**	**-2,020,016**	**-2,124,021**

CASH AT BANKS AND ON HAND

Elenia had short-term bank deposits amounting to EUR 17.4 million (2017: 24.5 million). All bank deposits were denominated in euros.

BONDS AND NOTES

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

FINANCIAL LIABILITIES

Interest-bearing liabilities grew by EUR 40.9 million (2017: 67.1 million) during the year, and interest-bearing liabilities at the balance sheet date totalled EUR 2,004.9 million (2017: 1,963.9 million).

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

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VALUES AT 31 DECEMBER 2017

Balance sheet item, EUR 1,000	Note	Amortised cost	Fair value through profit and loss	Fair value through other comprehen-sive income	Carrying value of balance sheet items	Fair value
Current financial assets						
Trade receivables and other non-interest-bearing receivables	2.1.4	22,261	-	-	22,261	22,261
Available-for-sale financial assets	4.2.8	-	0	-	0	0
Cash and cash equivalents		24,519	-	-	24,519	24,519
Total Current assets		**46,779**	**0**	**-**	**46,779**	**46,779**
Carrying amount by category		**46,779**	**0**	**-**	**46,779**	**46,779**
Non-current financial liabilities						
Bonds and notes	4.2.8–9	-1,521,082	-	-	-1,521,082	-1,606,246
Loans from financial institutions	4.2.8–9	-	-	-	-	-
Other long-term loans	4.2.8–9	-426,385	-	-	-426,385	-404,240
Interest-bearing non-current liabilities						
- Finance leases	3.3	-12,412	-	-	-12,412	-12,412
Total interest-bearing non-current liabilities		**-1,959,878**	**-**	**-**	**-1,959,878**	**-2,022,898**
Current financial liabilities						
Loans from financial institutions	4.2.8–9	-	-	-	-	-
Other current interest-bearing liabilities	3.3	-4,068	-	-	-4,068	-4,068
Trade payables	2.3.2	-12,120	-	-	-12,120	-12,120
Total current financial liabilities		**-16,189**	**-**	**-**	**-16,189**	**-16,189**
Carrying amount by category		**-1,976,067**	**-**	**-**	**-1,976,067**	**-2,039,087**

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

31 DECEMBER 2018

EUR 1,000	Effective interest rate %	Maturity Within 1 year	1–5 years	Over 5 years	Total
Loans from financial institutions	0.48%	-	18,000	-	18,000
Bonds	2.94%	-	500,000	671,000	1,171,000
Notes	2.71%	-	-	518,500	518,500
Other long-term loans	12.00%	-	-	252,185	252,185
Finance lease liabilities		-	8,608	-	8,608
Total interest-bearing non-current liabilities					**1,968,293**
Loans from financial institutions	0.48%	40,000	-	-	40,000
Finance lease liabilities		3,772	-	-	3,772
Total current interest-bearing liabilities					**43,772**
Trade payables		15,146	-	-	15,146
Total current financial liabilities					15,146
Total		**58,918**	**526,608**	**1,441,685**	**2,027,211**

31 DECEMBER 2017

EUR 1,000	Effective interest rate %	Maturity Within 1 year	1–5 years	Over 5 years	Total
Loans from financial institutions	-	-	-	-	-
Bonds	2.97%	-	500,000	510,000	1,010,000
Notes	2.71%	-	-	518,500	518,500
Other long-term loans	11.55%	-	-	426,385	426,385
Finance lease liabilities		-	12,243	169	12,412
Total interest-bearing non-current liabilities					**1,967,297**
Loans from financial institutions		-	-	-	-
Finance lease liabilities		4,068	-	-	4,068
Total current interest-bearing liabilities					**4,068**
Trade payables		12,120	-	-	12,120
Total current financial liabilities					12,120
Total		**16,189**	**512,243**	**1,455,054**	**1,983,486**

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4.2.7 Changes in financial liabilities arising from financing activities

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

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

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

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

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4.2.8 Fair value hierarchy of financial assets and liabilities

ACCOUNTING POLICY

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

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

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

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

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

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

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

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

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

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

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

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

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FAIR VALUE HIERARCHY

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

Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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. 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.

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

FINANCIAL ASSETS

	Level 1		Level 2		Level 3		Total	
EUR 1,000	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Financial instruments, current assets								
Available-for-sale financial investments	-	-	-	-	0	0	0	0
Total financial assets	**-**	**-**	**-**	**-**	**0**	**0**	**0**	**0**

FINANCIAL LIABILITIES

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

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4.2.9 Risk management

FINANCIAL RISK MANAGEMENT

LIQUIDITY RISK

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

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

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 through private placements.

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

In June 2018 Elenia Oy's subsidiary Elenia Finance Oyj issued EUR 161.0 million bonds, which mature in 2035. Elenia Finance Oyj used the proceeds of the notes and bonds to make an equity investment in Elenia Finance (SPPS) S.à r.l., its wholly owned subsidiary. Elenia Finance (SPPS) S.à r.l. then lent the amount of the proceeds to 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. The proceeds were used for general corporate purposes, to repay Elenia Oy's drawn bank debt and to finance investments.

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

INTEREST RATE RISK

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 95% (2017: 98%) of the loans were fixed rate loans.

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

COUNTERPARTY RISK

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

CASH AND CASH EQUIVALENTS AND COMMITTED UNUTILIZED CREDIT FACILITIES

31 DECEMBER 2018

EUR 1,000	Facility amount	In use	Available amount	Maturity
Capex facility	350,000	18,000	332,000	1–5 years
Working Capital facility	60,000	40,000	20,000	1–5 years
Liquidity facility	60,000	-	60,000	Over 5 years
EIB credit facility	150,000	-	150,000	Over 5 years
Cash and cash equivalents			17,383	
Total	**620,000**	**-**	**579,383**	

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4.3 OTHER COMMITMENTS AND CONTINGENCIES

OTHER COMMITMENTS

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

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

4.4 EQUITY

Share capital

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.

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:

	2018	2017
Profit attributable to equity holders of the parent, EUR	6,979,949	43,180
Average number of shares, pcs	100	100
Earnings/share, EUR - basic = diluted	**69,799**	**432**

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5 CONSOLIDATION

5.1 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.

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

5.2 BUSINESS COMBINATION AND GOODWILL

ACCOUNTING POLICY

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

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

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

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

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

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

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

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5.3 DISCONTINUED OPERATIONS

ACCOUNTING POLICY

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

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

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

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

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations
- Or
- Is a subsidiary acquired exclusively with a view to resale.

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

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

5.4 INVESTMENT IN AN ASSOCIATE

ACCOUNTING POLICY

INVESTMENT IN AN ASSOCIATE

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

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

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

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

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

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

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

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

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

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

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INFORMATION CONCERNING THE ASSOCIATES

31 Dec 2018

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

31 Dec 2017

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

Oriveden Aluelämpö Oy is located in Orivesi municipality, Finland. Company's main products are district heating production and distribution.

5.5 OTHER CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES / NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

5.5.1 Changes in accounting policies and disclosures

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

AMENDMENTS TO IFRS 2: CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS

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

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

These amendments are not applicable to the Group.

AMENDMENTS TO IFRS 4: APPLYING IFRS 9 FINANCIAL INSTRUMENTS WITH IFRS 4 INSURANCE CONTRACTS

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

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

These amendments are not applicable to the Group.

AMENDMENTS TO IAS 40: TRANSFERS OF INVESTMENT PROPERTY

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

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

These amendments are not applicable to the Group.

ANNUAL IMPROVEMENTS TO IFRSS (2014 – 2016 CYCLE)

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

IFRS 1 First-time Adoption of International Financial Reporting Standards
The amendment deleted the outdated exemptions for first-time adopters of IFRS.

IAS 28 Investments in Associates and Joint Ventures
The amendment clarifies that the election to measure investments on associates and joint ventures at fair value through profit or loss is available separately for each associate or joint venture, and that the election can be made at initial recognition.

The improvements do not have an effect on the consolidated financial statements.

IFRIC INTERPRETATION 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION

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

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

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

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

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

IFRS 17 INSURANCE CONTRACTS

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

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

The new standard is not applicable to the Group.

AMENDMENTS TO IAS 1 AND IAS 8: DEFINITION OF MATERIAL

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

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

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

AMENDMENT TO IFRS 3: BUSINESS COMBINATIONS

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

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

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

AMENDMENTS TO IFRS 9: PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

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

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

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

AMENDMENTS TO IAS 19: PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT

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

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

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

AMENDMENTS TO IAS 28: LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES

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

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

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

AMENDMENTS TO IFRS 10 AND IAS 28: SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE

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

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

ANNUAL IMPROVEMENTS TO IFRSS (2015 – 2017 CYCLE)

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

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

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

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

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

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

IFRIC INTERPRETATION 23 UNCERTAINTY OVER INCOME TAX TREATMENTS

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

The interpretation clarifies application of the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

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

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6 OTHER NOTES

6.1 TAXES

6.1.1 Current income tax

ACCOUNTING POLICY

CURRENT INCOME TAX

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

CURRENT INCOME TAXES

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

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

EUR 1,000	2018	2017
Current income tax charge	-6,013	-26
Adjustments in respect of current income tax of previous periods	-5	-15
Deferred taxes	1,570	-836
Income tax expense reported in the consolidated statement of profit or loss	**-4,448**	**-877**

CONSOLIDATED STATEMENT OF OCI

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

INCOME TAX RATE

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

EUR 1,000	2018	2017
Profit before tax	**11,428**	**920**
Theoretical income tax using the nominal tax rate of 20.0% (2017: 20.0%)	-2,286	-184
tax-free income items	-29	10
expenses that are non-deductible in taxation	-2,125	-761
share of the profits of associates	9	8
adjustment of taxes based on previous periods	-5	60
unrecognized deferred tax assets from taxation losses	-13	-9
Income tax in the income statement	**-4,448**	**-877**

Effective tax rate was 39% (2017: 95%).

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6.1.2 Deferred tax

ACCOUNTING POLICY

DEFERRED TAX

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

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

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

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

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

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

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

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

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

ACCOUNTING JUDGEMENTS

DEFERRED TAX

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.

ACCOUNTING ESTIMATES

DEFERRED TAX

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.

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CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES IN 2018

DEFERRED TAX ASSETS EUR 1,000	Balance sheet 31 Dec 2017	Recognised in the statement of profit or loss	Recognised in other comprehensive income	**Balance sheet 31 Dec 2018**
Deferred tax asset for the confirmed losses	12,672	-12,672	-	0
Defined benefit plans	227	5	-11	221
Liabilities related to contracts with customers	-	1,945	-	1,945
Finance leases	831	-84	-	747
Total	**13,730**	**-10,805**	**-11**	**2,914**
Offset by deferred tax liabilities	-12,672			0
Deferred tax assets	**1,058**			**2,914**

DEFERRED TAX LIABILITIES EUR 1,000	Balance sheet 31 Dec 2017	Recognised in the statement of profit or loss	Recognised in other comprehensive income	**Balance sheet 31 Dec 2018**
Interest-bearing liabilities	1,812	-137	-	1,675
Depreciation differences	60,294	-7,051	-	53,243
Measurement of assets at fair value in acquisition	93,193	-5,187	-	88,005
Total	**155,299**	**-12,375**	**-**	**142,924**
Offset by deferred tax assets	-12,672			0
Deferred tax liabilities	**142,627**			**142,924**

CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES IN 2017

DEFERRED TAX ASSETS EUR 1,000	Balance sheet 31 Dec 2016	Recognised in the statement of profit or loss	Recognised in other comprehensive income	**Balance sheet 31 Dec 2017**
Deferred tax asset for the confirmed losses	18,966	-6,294	-	12,672
Defined benefit plans	235	-1	-8	227
Finance leases	889	-58	-	831
Total	**20,090**	**-6,353**	**-8**	**13,730**
Offset by deferred tax liabilities	-18,966			-12,672
Deferred tax assets	**1,125**			**1,058**

DEFERRED TAX LIABILITIES EUR 1,000	Balance sheet 31 Dec 2016	Recognised in the statement of profit or loss	Recognised in other comprehensive income	**Balance sheet 31 Dec 2017**
Interest-bearing liabilities	1,313	499	-	1,812
Depreciation differences	61,132	-838	-	60,294
Measurement of assets at fair value in acquisition	98,370	-5,178	-	93,193
Total	**160,816**	**-5,517**	**-**	**155,299**
Offset by deferred tax assets	-18,966			-12,672
Deferred tax liabilities	**141,850**			**142,627**

In the consolidated financial statements for the year ended 31 December 2017 the Group had tax losses of EUR 95,205 thousand for the parent company Elenia Oy to be offset against future taxable profits. The confirmed losses and deferred tax asset recorded on them have been utilized in total during the financial period 1 January–31 December 2018.

The parent company Elenia Oy has non-deductible net interest expenses of EUR 7,230 thousand on which deferred tax asset has not been recorded.

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6.2 INVENTORIES

ACCOUNTING POLICY

INVENTORIES

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

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

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

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

6.3 PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

ACCOUNTING POLICY

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 in the consolidated statement of profit or loss as to spread the service cost over the service lives of employees. The defined benefit obligation is calculated annually on the reporting date and is measured as the present value of the estimated future cash flows.

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

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

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

Items recognised on the consolidated statement of financial position at 31 December:

EUR 1,000	2018	2017
Current value of funded obligations	5,550	5,888
Fair value of assets	-4,445	-4,754
Deficit	1,105	1,134
Value of the obligation on the consolidated statement of financial position	**1,105**	**1,134**

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

EUR 1,000	2018	2017
Obligation at the beginning of the year	5,888	5,939
Current service costs	58	69
Interest expenses	86	87
Actuarial losses	-274	44
Settlements	45	-
Benefits paid	-254	-251
Obligation at the end of the year	**5,550**	**5,888**

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

EUR 1,000	2018	2017
Fair value of plan assets at the beginning of the year	4,754	4,762
Expected income from assets	70	70
Actuarial gains	-218	83
Settlements	30	-
Payments by the employer	63	89
Benefits paid	-254	-251
Fair value of plan assets at the end of the year	**4,445**	**4,754**

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The obligation in the consolidated statement of financial position consists of the following items:

EUR 1,000	2018	2017
Obligation at the beginning of the year	1,134	1,177
Net cost recognised in the statement of profit or loss	90	86
Payments by the employer	-63	-89
Profits and losses recognised in other comprehensive income	-56	-39
Value of the obligation at year end	**1,105**	**1,134**

Items recognised in the consolidated statement of profit or loss:

EUR 1,000	2018	2017
Expenses based on service in the reporting year	73	69
Interest income	-70	-70
Interest expenses	86	87
Total	**90**	**86**

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

EUR 1,000	2018	2017
Actuarial gains/(losses) on assets	218	-83
Actuarial gains/(losses) on obligations	-274	44
Total	**-56**	**-39**

Sensitivity analysis of defined benefit pension plans

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

2018

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

2017

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

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

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

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

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

EUR 1,000	2018	2017
Under 1 year	264	251
1–10 years	2,231	2,280
10–20 years	2,139	2,239
20–30 years	1,503	1,613
Over 30 years	948	1,054
Total	**7,086**	**7,436**

ACTUARIAL ASSUMPTIONS USED IN CALCULATIONS

%	2018	2017
Discount rate	1.5–1.7%	1.5%
Estimate of salary increases	2.6–2.7%	2.7%
Inflation	1.6–1.7%	1.7%

6.4 RELATED PARTY DISCLOSURES

Shareholders

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

Change in Elenia Group's ownership took place on 28 February 2018 and until that Elenia Oy's ultimate parents were a UK based company 3i Networks Finland L.P., US based companies GS International Infrastructure Partners II, L.P. and GS Global Infrastructure Partners II, L.P and a Finnish company Ilmarinen Mutual Pension Insurance Company.

After the transaction Elenia Oy's ultimate parents are a Germany based Allianz SE, a Finland based CapMan Infra Lynx Ky, a Luxembourg registered Limited Partnerships Macquarie Super Core Infrastructure Fund SCSp, MSCIF NC1 SCSp and MSCIF A1 SCSp and the State Pension Fund of Finland (VER).

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 2.3.3.

BUSINESS TRANSACTIONS

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

Group companies have intercompany transactions which are mainly related to administrative services. Besides Elenia Palvelut Oy provides customer service and related services to the Elenia Group, and Elenia Finance Oyj provides treasury services to the Group companies. These are eliminated upon consolidation.

As at 31 December 2018, other long-term loans with an aggregate carrying value of EUR 252.2 million (2017: 426.4 million) are due to the company's ultimate owners through intermediary holding entities. Starting from 1 March 2018 these loans are treated as shareholder loans in taxation. The following table includes the specification of other long-term loans and related accrued interests.

EUR 1,000	Loan amount 31 Dec 2018	Accrued interest 1 Mar–31 Dec 2018
Tampere Finance B.V.	113,551	14,622
Kimi Finance B.V.	113,428	14,622
Pispala Finance B.V.	25,206	3,249
Total	**252,185**	**32,494**

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

6.5 EVENTS AFTER THE REPORTING PERIOD

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

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

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6.6 CONSOLIDATED STATEMENT OF PROFIT OR LOSS (ADJUSTED FOR COMPARABILITY)

ACCOUNTING POLICY

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.

EUR 1,000	Note	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Revenue	2.1.1	349,734	338,806
Exceptional items included in revenue		-154	-200
Other operating income	2.2.1	3,967	3,620
Materials and services		-117,639	-112,494
Employee benefit expenses	2.3.3	-20,002	-21,723
Other operating expenses	2.3.1	-21,764	-20,503
Operating expenses Total		-159,404	-154,720
Exceptional items included in operating expenses		-1,437	-154
Non-recurring items included in operating expenses		-	-2,658
Share of profit of an associate	5.4	143	164
EBITDA		**194,440**	**187,870**
EBITDA before exceptional and non-recurring items		**196,031**	**190,882**
Depreciation and amortisation	3	-89,496	-86,280
Operating profit		**104,944**	**101,590**
Operating profit before exceptional and non-recurring items		**106,535**	**104,602**

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 2018 there were no exceptional operating expenses related to fault repair costs. In 2017 EUR 200 thousand in total was classified as an exceptional item as it related to unusually strong storms. This total comprised of outage compensation paid to customers which was accounted for as a reduction of revenue.

In 2018 EUR 1,591 thousand (2017: EUR 154 thousand) in total has been classified as as other exceptional items. This total comprises EUR 154 thousand of refunds relating to metering correction of a single customer which was accounted for as a reduction of revenue. In 2018 also EUR 540 thousand of operating costs relating to above mentioned metering correction, EUR 690 thousand of costs relating to oil-leak incident in Vuohkallio, Heinola and EUR 207 thousand (2017: EUR 154 thousand) of other operating costs were classified as exceptional.

In 2018 there were no operating expenses classified as non-recurring items. In 2017 EUR 2,658 thousand of operating expenses were classified as non-recurring items. These items comprised mainly of write-down of old receivables, cancellation of provision for rental liabilities for Elenia's Helsinki office and other costs that were considered non-recurring.

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PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

EUR	Note	1 Jan–31 Dec 2018	1 Jan–31 Dec 2017
Revenue	1.1	**281,886,601.04**	**263,112,952.23**
Other operating income	1.2	2,821,632.67	2,162,163.02
Materials and services	1.3	-76,068,508.14	-71,670,430.24
Personnel expenses	1.4	-9,526,040.28	-11,432,139.52
Depreciation, amortisation and impairment	1.5	-107,636,743.74	-104,299,659.99
Other operating expenses	1.6	-27,545,416.82	-26,169,674.24
Operating profit		**63,931,524.73**	**51,703,211.26**
Finance income and expenses	1.7	-202,939,058.95	-269,549,822.38
Profit / loss before appropriations and taxes		**-139,007,534.22**	**-217,846,611.12**
Appropriations	1.8		
Change in accelerated depreciations		35,449,787.18	4,334,947.20
Group contributions		-29,991,000.00	-26,613,000.00
Income taxes	1.9	-18,678,673.15	-6,316,243.35
Profit / loss for the year		**-152,227,420.19**	**-246,440,907.27**

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PARENT COMPANY BALANCE SHEET

EUR	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Intangible assets	2.1		
Intangible rights		13,727,424.46	12,464,297.61
Other capitalized long term expenditure		489,314,224.44	523,333,900.76
		503,041,648.90	535,798,198.37
Tangible assets	2.2		
Land and water areas		2,033,422.69	2,014,262.69
Buildings and constructions		318,834.99	344,560.69
Electricity network		1,293,028,669.00	1,222,565,324.24
Machinery and equipments		14,153,586.41	15,141,379.28
Other tangible assets		3,205.75	4,087.03
Advance payments and construction in progress		24,970,625.91	21,223,849.56
		1,334,508,344.75	1,261,293,463.49
Investments	2.3		
Holdings in group companies		240,310,968.62	240,310,968.62
Other shares and holdings		194,287.64	244,801.98
		240,505,256.26	240,555,770.60
Total non current assets		**2,078,055,249.91**	**2,037,647,432.46**
Current assets			
Long-term receivables	2.4		
Loan receivables		478,000.00	353,000.00
Loan receivables from group companies		3,000,000.00	2,400,000.00
Deferred tax assets		-	12,671,982.91
		3,478,000.00	15,424,982.91
Short-term receivables	2.4		
Trade receivables		18,618,138.32	21,178,871.33
Receivables from group companies		5,896,759.93	2,469,142.17
Other receivables		8,084.30	199,164.54
Prepayments and accrued income		34,987,004.20	30,118,047.22
		59,509,986.75	53,965,225.26
Cash and cash equivalents	2.4	17,129,197.51	23,421,464.10
Total current assets		**80,117,184.26**	**92,811,672.27**
TOTAL ASSETS		**2,158,172,434.17**	**2,130,459,104.73**

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PARENT COMPANY BALANCE SHEET

EUR	Note	31 Dec 2018	31 Dec 2017
EQUITY AND LIABILITIES			
Capital and reserves	3.1		
Subscribed capital		2,500.00	2,500.00
Non restricted equity		1,688,828,000.00	1,527,828,000.00
Retained earnings		-1,873,931,094.86	-1,627,490,187.59
Loss for the financial year		-152,227,420.19	-246,440,907.27
		-337,328,015.05	-346,100,594.86
Cumulative accelerated depreciations	3.2	**217,871,087.99**	**253,320,875.17**
Other provisions	3.3	**1,689,500,000.00**	**1,528,500,000.00**
Liabilities	3.4		
Non-current liabilitites			
Connection fees		203,642,772.14	203,885,276.92
Loans from financial institutions		18,000,000.00	-
Other long-term loans		252,185,170.29	426,384,558.34
Other non-current liabilities		874,334.97	937,311.60
		474,702,277.40	631,207,146.86
Current liabilities			
Loans from financial institutions		40,000,000.00	-
Trade payables		13,457,292.67	10,352,327.97
Liabilities to group companies		12,892,703.35	11,244,302.04
Other short-term liabilities		25,461,360.84	27,733,998.84
Accruals and deferred income		21,615,726.97	14,201,048.71
		113,427,083.83	63,531,677.56
Total liabilities		**588,129,361.23**	**694,738,824.42**
TOTAL EQUITY AND LIABILITIES		**2,158,172,434.17**	**2,130,459,104.73**

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PARENT COMPANY CASH FLOW STATEMENT

EUR	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Cash flow fron operating activities		
Loss before appropriations and taxes	-139,007,534.22	-217,846,611.12
Adjustments		
Depreciation, amortisation and impairment	107,636,743.74	104,299,659.99
Finance income and expenses	202,939,058.95	269,549,822.38
Other adjustments	-51,764.42	85,821.82
Cash flow before change in working capital	**171,516,504.05**	**156,088,693.07**
Change in working capital		
Increase (-) / decrease (+) in non-interest bearing receivables	-2,367,839.70	-3,419,870.59
Increase (+) / decrease (-) in non-interest bearing liabilities	2,330,154.10	4,873,542.30
Operating cash flow before financial items and taxes	**171,478,818.45**	**157,542,364.78**
Interest payments	-35,040,966.87	-42,660,816.89
Interests received	207,247.64	228,355.28
Payments for other finance items	930,849.81	-3,349,270.45
Connection fee refunds	-242,504.78	-373,739.10
Taxes paid	24,476.06	-10,875.12
Cash flow from operating activities	**137,357,920.31**	**111,376,018.50**

EUR	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Cash flow from investing activities		
Capital expenditures	-146,638,124.31	-138,253,170.03
Change in loans receivable	-725,000.00	-36,000.00
Cash flow from investing activities	**-147,363,124.31**	**-138,289,170.03**
Cash flow from financing activities		
Re-payment of short-term borrowings	40,000,000.00	-
Proceeds from long-term borrowings	18,000,000.00	-
Re-payment of long-term borrowings	-182,274,062.59	-149,531,749.60
Group contributions received and paid	-33,013,000.00	-27,396,200.00
Increase in non restricted equity	161,000,000.00	213,500,000.00
Cash flow from financing activities	**3,712,937.41**	**36,572,050.40**
Change in cash and cash equivalents	**-6,292,266.59**	**9,658,898.87**
Cash and cash equivalents 1 Jan	23,421,464.10	14,762,565.23
Cash and cash equivalents 1 Jan + change	17,129,197.51	23,421,464.10
Cash and cash equivalents 31 Dec	**17,129,197.51**	**23,421,464.10**

Cash and cash equivalents comprise of bank deposits.

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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

In the financial statements for the year ended 31 December 2017 Elenia Oy had tax losses of EUR 95,205 to be offset against future taxable profits.

The confirmed losses and a deferred tax asset recorded on them have been utilized in total during the financial period 1 January–31 December 2018.

1 NOTES TO INCOME STATEMENT

1.1 Revenue

EUR 1,000	2018	2017
Distribution income	267,603	247,075
Contracting income	2,402	2,447
Connection fee income	9,486	11,668
Other sales income	2,531	2,370
Outage compensation	-136	-446
Total	**281,887**	**263,113**

1.2 Other operating income

EUR 1,000	2018	2017
Lease income	25	33
Capital gains	25	94
Other operating income	2,772	2,034
Total	**2,822**	**2,162**

1.3 Materials and services

EUR 1,000	2018	2017
Grid costs	-40,598	-38,221
Network losses	-10,725	-9,429
External services	-23,564	-22,991
Materials	-1,181	-1,029
Total	**-76,069**	**-71,670**

1.4 Personnel expenses

EUR 1,000	2018	2017
Average number of personnel during the financial year	182	176
Salaries	-7,944	-9,463
Pension expenses	-1,675	-1,259
Other employee expenses	93	-710
Total	**-9,526**	**-11,432**

SALARIES AND REMUNERATION PAID TO CEO

EUR 1,000	2018	2017
Salaries and other short-term employee benefits	-686	-253
Other long-term employee benefits	-184	-184
Pension expenses related to salaries and employee benefits	-156	-79
Total	**-1,026**	**-515**

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1.5 Depreciations according to the plan

EUR 1,000	2018	2017
Impairment	-3,439	-3,198
Intangible fixed assets	-1,048	-1,405
Other capitalized long term expenditure	-34,867	-34,806
Buildings and constructions	-27	-28
Electricity network	-64,866	-61,824
Machinery and equipments	-3,391	-3,039
Total	**-107,637**	**-104,300**

1.6 Other operating expenses

EUR 1,000	2018	2017
Lease expenses	-6,689	-6,768
Loss on sale of fixed assets	-36	-38
Other external services	-15,846	-13,831
Other operating expenses	-4,974	-5,533
Total	**-27,545**	**-26,170**
Audit charges EUR 1,000		
Auditing fees	-264	-178
Fees for tax services	-19	-13
Fees for other services	-19	-23
Total	**-303**	**-215**

1.7 Financial income and expenses

EUR 1,000	2018	2017
Interest and other financial income		
From group companies	3,283	2,922
Other financial income	160	185
Total	**3,442**	**3,107**
Interest and other financial expenses		
Mandatory provision for the guarantee obligation of Elenia Finance Oyj's bonds and notes	-161,000	-213,500
Interest expenses	-43,122	-54,462
Other financial expenses	-2,259	-4,695
Total	**-206,381**	**-272,657**
Total financial income and expenses	**-202,939**	**-269,550**

1.8 Appropriations

EUR 1,000	2018	2017
Change in accelerated depreciations	35,450	4,335
Group contribution received	3,909	887
Group contribution paid	-33,900	-27,500
Total	**5,459**	**-22,278**

1.9 Income taxes

EUR 1,000	2018	2017
Income taxes for the financial period	-6,007	-22
Change in deferred taxes	-12,672	-6,294
Total	**-18,679**	**-6,316**

2 NOTES TO THE BALANCE SHEETS ASSETS

2.1 Intangible fixed assets

INTANGIBLE RIGHTS

EUR 1,000	2018	2017
Cost 1 Jan	24,758	22,682
Investments	1,960	2,076
Cost 31 Dec	26,718	24,758
Accumulated depreciation 1 Jan	-12,293	-11,656
Depreciation according to the plan	-697	-637
Book value 31 Dec	**13,727**	**12,464**

OTHER CAPITALIZED LONG-TERM EXPENDITURE

EUR 1,000	2018	2017
Cost 1 Jan	746,604	745,784
Investments	1,197	820
Cost 31 Dec	747,801	746,604
Accumulated depreciation 1 Jan	-223,270	-187,697
Depreciation according to the plan	-35,217	-35,574
Book value 31 Dec	**489,314**	**523,334**

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2.2 Tangible fixed assets

LAND AND WATER AREAS

EUR 1,000	2018	2017
Cost 1 Jan	2,014	1,999
Investments	19	15
Cost 31 Dec	2,033	2,014
Book value 31 Dec	**2,033**	**2,014**

BUILDINGS AND CONSTRUCTIONS

EUR 1,000	2018	2017
Cost 1 Jan	3,119	3,119
Cost 31 Dec	3,119	3,119
Accumulated depreciation 1 Jan	-2,775	-2,748
Depreciation according to the plan	-26	-27
Book value 31 Dec	**319**	**345**

ELECTRICITY NETWORK

EUR 1,000	2018	2017
Cost 1 Jan	2,001,143	1,884,592
Investments	138,768	125,759
Disposals	-8,841	-9,207
Cost 31 Dec	2,131,071	2,001,143
Accumulated depreciation 1 Jan	-778,578	-722,763
Disposals	5,402	6,009
Depreciation according to the plan	-64,866	-61,824
Book value 31 Dec	**1,293,029**	**1,222,565**

MACHINERY AND EQUIPMENTS

EUR 1,000	2018	2017
Cost 1 Jan	60,679	54,538
Investments	2,436	6,281
Disposals	-65	-140
Cost 31 Dec	63,051	60,679
Accumulated depreciation 1 Jan	-45,538	-42,500
Disposals	31	1
Depreciation according to the plan	-3,391	-3,039
Book value 31 Dec	**14,154**	**15,141**

OTHER TANGIBLE ASSETS

EUR 1,000	2018	2017
Cost 1 Jan	56	56
Cost 31 Dec	56	56
Accumulated depreciation 1 Jan	-52	-51
Depreciation according to the plan	-1	-1
Book value 31 Dec	**3**	**4**

ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS

EUR 1,000	2018	2017
Cost 1 Jan	21,224	18,715
Increase	148,128	137,459
Decrease	-144,381	-134,951
Book value 31 Dec	**24,971**	**21,224**

2.3 Investments

HOLDINGS IN GROUP COMPANIES

EUR 1,000	2018	2017
Cost 1 Jan	240,311	240,311
Cost 31 Dec	240,311	240,311
Book value 31 Dec	**240,311**	**240,311**

OTHER SHARES AND HOLDINGS

EUR 1,000	2018	2017
Cost 1 Jan	245	245
Disposals	-51	0
Cost 31 Dec	194	245
Book value 31 Dec	**194**	**245**

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2.4 Receivables

LONG TERM RECEIVABLES

EUR 1,000	2018	2017
External loan receivables	478	353
Loan receivables from group companies	3,000	2,400
Deferred tax assets	-	12,672
Long term receivables total	**3,478**	**15,425**

SHORT TERM RECEIVABLES

Receivables from group companies

EUR 1,000	2018	2017
Trade receivables	3	9
Accrued income	1,985	1,573
Group contribution receivables	3,909	887
Receivables from group companies total	5,897	2,469

External receivables

EUR 1,000	2018	2017
Trade receivables	18,618	21,179
Other short-term receivables	8	199
Accrued income	34,987	30,118
External receivables total	53,613	51,496
Short term receivables total	**59,510**	**53,965**
Total receivables	**62,988**	**69,390**
Cash and cash equivalents	**17,129**	**23,421**

3 NOTES TO THE BALANCE SHEETS EQUITY AND LIABILITIES

3.1 Capital and reserves

EUR 1,000	2018	2017
Subscribed capital	3	3
Non restricted equity 1 Jan	1,527,828	1,314,328
Change (+/-)	161,000	213,500
Non restricted equity 31 Dec	1,688,828	1,527,828
Retained earnings (loss) 1 Jan	-1,873,931	-1,627,490
Loss for the the financial year	-152,227	-246,441
Total capital and reserves	**-337,328**	**-346,101**

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 16 September 2015.

3.2 Cumulative accelerated depreciations

EUR 1,000	2018	2017
Cumulative accelerated depreciations	217,871	253,321

Accelerated depreciations include deferred tax liability of 43,574,218 euros.

3.3 Mandatory provisions

EUR 1,000	2018	2017
Mandatory provision for the guarantee obligation of Elenia Finance Oyj's bonds	1,689,500	1,528,500
Mandatory provisions total	**1,689,500**	**1,528,500**

3.4 Liabilities

NON-CURRENT LIABILITIES

EUR 1,000	2018	2017
Connection fee liability 1 Jan	203,885	204,259
Connection fee refunds	-243	-374
Connection fee liability 31 Dec	203,643	203,885
Capex facility	18,000	-
Other long-term liabilities	874	937
Other long-term loans	252,185	426,385
Total non-current liabilities	**474,702**	**631,207**

CURRENT LIABILITIES

EUR 1,000	2018	2017
Loans from financial institutions	40,000	-
Trade payables	13,457	10,352
Other short term liabilities	25,461	27,734
Accrued expenses		
Salaries and social expenses	4,071	5,330
Other accrued expenses	17,545	8,871
Total	21,616	14,201
Liabilities to group companies		
Trade payables	-	14
Group account	12,052	10,192
Other short term liabilities	840	1,038
Total	12,893	11,244
Total current liabilities	**113,427**	**63,532**
Total liabilities	**588,129**	**694,739**

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3.5 Liabilities and quarantees for debts

EUR 1,000	2018	2017
Floating charges		
Provided on behalf of own and group liabilities	4,500,000	4,500,000
Mortgages	206,600	206,600
Leasing agreements		
Within one year	4,465	4,576
After one year but not more than five years	10,415	14,252
More than five years	-	288
Total	**14,880**	**19,116**
Other lease liabilitites		
Within one year	491	285
After one year but not more than five years	1,043	-
Total	**1,534**	**285**
Other own liabilities		
Connection fees not included in the balance sheet values	85,114	85,114
Loan commitment to LNI Holding B.V.	522	147

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				194	194
				240,505	240,505

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DIFFERENTIATED PROFIT AND LOSS ACCOUNT

EUR 1,000	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Revenue	**280,004**	**261,461**
Other operating income	**2,785**	**2,039**
Materials and services		
Materials and goods		
Purchase during the financial period		
Network losses	-10,705	-9,412
Other materials	-1,177	-1,022
Services		
Grid costs	-40,561	-38,182
Other external services	-23,553	-22,972
Personnel expenses	**-8,838**	**-8,567**
Depreciation, amortisation and impairment		
Merger loss	-56,939	-56,939
Network assets	-49,332	-45,771
Other assets	-1,316	-1,540
Other operating expenses		
Lease expenses	-446	-145
Network rents and network leasing expenses	-6,168	-6,434
Other operating expenses	-18,489	-18,445
Operating profit	**65,266**	**54,069**

EUR 1,000	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017
Financial income and expenses		
Income from other fixed investment		
Interest and other financial income		
From group companies	3,283	2,922
From other companies	160	185
Interest and other financial expenses		
From other companies	-45,381	-59,157
Profit / loss before appropriations and taxes	**23,327**	**-1,980**
Appropriations		
Change in accelerated depreciations		
Network assets	34,881	4,212
Other assets	318	-194
Group contributions		
Group contribution received	3,909	887
Group contribution paid	-33,900	-27,500
Income taxes	**-18,679**	**-6,316**
Profit / loss for the year	**9,856**	**-30,892**

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DIFFERENTIATED BALANCE SHEET

EUR 1,000	31 Dec 2018	31 Dec 2017
ASSETS		
Non-current assets		
Intangible assets		
Intangilble rights	14,477	13,052
Other capitalized long term expenditure	488,565	522,746
	503,042	535,798
Tangible assets		
Land and water areas	190	190
Buildings and constructions	319	344
Electricity network	935,575	843,756
Merger losses	371,657	394,181
Machinery and equipments	1,425	1,176
Other tangible assets	3	4
Advance payments and construction in progress	24,971	21,224
	1,334,139	1,260,875
Investments		
Holdings in group companies	240,311	240,311
Other shares and holdings	-	245
	240,311	240,556
Total non current assets	**2,077,492**	**2,037,229**

EUR 1,000	31 Dec 2018	31 Dec 2017
Current assets		
Long-term receivables		
Loan receivables	478	353
Loan receivables from group companies	3,000	2,400
Deferret tax assets	-	12,672
	3,478	15,425
Short-term receivables		
Trade receivables	18,544	21,179
Receivables from group companies	5,708	2,411
Other receivables	8	199
Prepayments and accrued income	34,987	30,118
	59,247	53,907
Cash and cash equivalents	8,487	13,229
Total current assets	**71,212**	**82,561**
TOTAL ASSETS	**2,148,704**	**2,119,790**

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DIFFERENTIATED BALANCE SHEET

EUR 1,000	31 Dec 2018	31 Dec 2017
EQUITY AND LIABILITIES		
Capital and reserves		
Subscribed capital	3	3
Non restricted equity	1,675,920	1,514,920
Retained earnings	-329,498	-298,605
Loss for the financial year	9,856	-30,892
	1,356,281	1,185,425
Cumulative accelerated depreciations	**216,899**	**252,099**
Liabilities		
Non-current liabilitites		
Connection fees	203,643	203,885
Loans from financial institutions and other long-term loans	270,185	426,385
Other non-current liabilities	874	937
	474,702	631,207
Current liabilities		
Short-term loans	40,000	-
Trade payables	13,164	10,223
Liabilities to group companies	840	1,052
Other short-term liabilities	25,461	27,638
Accruals and deferred income	21,356	12,147
	100,822	51,060
Total liabilities	**575,524**	**682,267**
TOTAL EQUITY AND LIABILITIES	**2,148,704**	**2,119,790**

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NOTES FOR DIFFERENTIATED FINANCIAL STATEMENTS

According to the Electricity Market Act, a company operating on electricity market must differentiate its electricity network business from other business activities. The differentiated financial statements of electricity business should be published and attached to company's official financial statements.

Differentiated financial statements include income statement and balance sheet, which should be derived from the accounting.

In addition to Electricity Network business Elenia Oy's other businesses are Streetlightning Network business and Group Shared Services business.

Differentiation principles

Income statement items have been allocated into the differentiated businesses directly on the basis of accounting. Balance sheet items have been allocated to the differentiated businesses directly on the basis of accounting or using an allocation key.

Depreciation principles for intangible and tangible assets are based on Elenia Oy's depreciations rules which have been presentes in the beginning of parent company notes.

Electricity Network business' key figures

EUR 1,000	2018	2017
INVESTMENTS		
Intangble assets		
Intangble rights	2,324	2,278
Other capitalized long term expenditures		
Connection fees	300	500
Other capitalized long-term expenditures	534	118
Tangible assets of electricity network business		
Land and water areas	19	15
Electricity network	133,858	120,434
Demolition costs	4,991	5,321
Meters	1,367	5,604
Other tangible assets	989	676
OTHER KEY FIGURES		
Refundable connection fees	203,643	203,885
Mandatory outage compensations	148	303
R&D expenses in the profit and loss account 1 Jan–31 Dec	1,743	1,088
Operative expenses included in security of supply incentive 1 Jan–31 Dec	2,209	2,113
Average number of personnel in the network business	182	176

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SIGNATURES TO THE FINANCIAL STATEMENTS

Helsinki, 28 February 2019

Timo Rajala
Chairman of the Board of Directors

Mark Braithwaite

Tapani Liuhala

Thomas Metzger

Jorma Myllymäki

Sirpa Ojala

Michael Pfennig

Joerg Spanier

AUDITOR'S NOTE

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

Helsinki, 28 February 2019

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Rytilahti
Authorized Public Accountant

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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, 2018. 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 financial statements give a true and fair view of the group's and parents financial position as well as its financial performance and their cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with the 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

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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 the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

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 the 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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki February 28, 2019

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Rytilahti
Authorized Public Accountant

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ELENIA OY BOARD OF DIRECTORS

Timo Rajala

CEO Rajalimes Oy, Consulting company

Timo has been on Elenia's Board since 2012 and is the Chairman of the Board. Timo is the CEO of Rajalimes Oy, is the Chairman of the Board of FinNuclear Oy and the Chairman of FinNuclear ry, and is a member of the Board of Ilmatar Windpower Plc. Prior to joining the company, Timo was President and CEO of Pohjolan Voima Oy (1992–2010), Director and manager of Teollisuuden Voima Oy and Pohjolan Voima Oy 1975–1992, Manager of Ekono Oy (Pöyry) (1973–1975). Timo was also previously Chairman of the following Boards: Teollisuuden Voima Oy (1992–2010) and Fingrid Oy (1996–2010). Timo was also a member of the following Boards: Savon Voima Oy (2000–2012) and Empower Oy (1995–2002) and (2010–2012). Timo holds a Master of Science degree in Engineering.

Mark Braithwaite

Senior Managing Director, Macquarie Infrastructure and Real Assets (MIRA), Head of Portfolio and Strategy

Mark is the Head of Portfolio and Strategy and sits on MIRA's investment committee in Europe. Mark joined MIRA in 2011, having previously held the role of Chief Financial Officer of Thames Water Utilities Limited. Prior to joining Thames Water, Mark was Finance Director of the customer and energy divisions at EDF Energy plc. Mark is a Non-Executive Director of Cadent, Arqiva, Viesgo, Czech Gas Networks, OGE and Techem. Mark is a fellow of the Institute of Chartered Accountants in England and Wales and a fellow of the Association of Corporate Treasurers. He has a Bachelor of Science (honours) in Economics from the University of Surrey, UK.

Tapani Liuhala

CEO, Elenia Oy

Tapani joined the company in 1990 and is the CEO of Elenia Oy and is a member of the Elenia Oy Board. Tapani is also the Chairman of the Board of Directors of Kiinteistö Oy Forssan Aleksi 6 and a member of the Board of Financelitas Oy. Tapani held various managerial positions at Vattenfall Verkko Oy including Head of Networks Finland, Assistant Managing Director and Manager of Customer Relations. Tapani holds a Bachelor of Science in Electrical Engineering.

Thomas Metzger

Senior Vice President, Macquarie Infrastructure and Real Assets (MIRA)

Thomas joined MIRA in 2007 and plays a key role of the Network & Utilities team. The first 8 years of his career he spent in London and since 2015 he is working in the Frankfurt office. The focus of his work is on the acquisition of companies in the German speaking region and in the asset management of existing companies. Thomas sits on the board of Elenia Oy and Warnow Tunnel. In the DACH region Thomas was responsible for the Open Grid Europe, Thyssengas and Energie Steiermark transactions and has furthermore led acquisitions of Elenia in Finland and was a key member of the team acquiring TDC in Denmark. He graduated from University of Bonn in Germany and holds a Master in Finance from the Lancaster Management School in England.

Jorma Myllymäki

COO, Elenia Oy

Jorma joined the company in 2007 and is the COO and is a member of the Elenia Oy Board. Prior to this, Jorma was the Head of Operations and Network Performance at Elenia Oy (2010–2015) and Head of Operations at Vattenfall Distribution Nordic Networks Finland (2007–2010). Prior to joining the company, he held various managerial positions at ABB as Head of Product Management and Global Product Manager (2003–2007), R&D Manager in Sweden (2002–2003) and Development Manager, Site Manager and Program Manager (1997–2002). Prior to that, Jorma was Sales Manager at Otis Oy (1996–1997) and Team Leader, Specialist and Design Engineer at ABB Transmit Oy (1993–1996). Jorma holds a Master of Science in Electrical Engineering.

Sirpa Ojala

CEO, Colliers International Finland Group Oy

Sirpa Ojala joined Colliers International Finland Group (ex Ovenia Group Oy) in February 2016. The company is the leading property management service provider in Finland. Prior to joining Colliers, Sirpa worked at MBrain Oy, which is a global information, technology and consulting services' company and for 15 years at Digita Oy in the Finnish terrestrial broadcasting industry. She has an extensive experience in regulated infrastructures and building longterm especially BtoB customer relations. Sirpa currently holds board positions at NESA (Huoltovarmuuskeskus), Kuntien Tiera Oy, Kekkilä Oy, Helsinki region Chamber of Commerce and Finnish Estonian Institution Founda tion. She was a Member of the Board at Fingrid Oyj 7/2012–4/2015. Sirpa holds a M.Sc. (Eng.) in Industrial Economics from the University of Technology of Lappeenranta.

Michael Pfennig

Managing Director, Allianz Capital Partners (ACP)

Dr. Michael Pfennig is Managing Director at Allianz Capital Partners and heads the direct investment/infrastructure team in Munich. He joined ACP in 2004 and has worked on numerous transactions both in the infrastructure as well as in the private equity sector. He currently holds non-executive board positions at several companies in the European gas and electricity DSO sector as well as Tank und Rast in Germany. Prior to joining ACP, Michael worked in Corporate Finance at Deutsche Bank and previously with the Corporate Finance and Strategy practice of McKinsey in Frankfurt and London. He started his career in Corporate Risk Management at Siemens in Munich. Michael holds a master degree in Business Administration from Frankfurt University (Dipl.-Kfm.) and has received his doctorate in finance and capital markets research from Munich University.

Joerg Spanier

Managing Director, Allianz Capital Partners (ACP)

Joerg Spanier is Managing Director at Allianz Capital Partners. He joined ACP in 2007 and has worked on numerous transactions both in the infrastructure as well as in the private equity sector. Joerg currently holds board positions at Tank & Rast and Elenia Oy. Prior to joining ACP, Joerg worked at HgCapital, a UK-based private equity firm and the M&A Advisory Division at Citigroup (formerly Schroder Salomon Smith Barney). Joerg holds a master degree in Business Administration from the University of Cologne (Dipl.-Kfm.) and a major in finance from the Stockholm School of Economics.

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