Elenia Verkko Oyj

Report of the Board of Directors and Financial Statements

1 January 2022 - 31 December 2022

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Unofficial translation from Finnish to English

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Elenia Verkko OYJ Group, Report of the Board of Directors 2022

Elenia Verkko Oyj Group's Business Operations

Elenia Verkko Oyj Group ("Elenia or "Elenia Verkko Oyj") consisted of Elenia Verkko Oyj (the parent company) and its fully-owned subsidiary Elenia Innovations Oy. Elenia Innovations had no business in 2022. Elenia Verkko Oyj is a fully-owned subsidiary of Elenia Oy.

Business Review and financial performance

Elenia Verkko Oyj is Finland's second-largest electricity distribution system operator (DSO) with a 12% market share in terms of total number of customers. The company has a regional monopoly position, and it serves all customers in the geographical areas defined in the licence granted by the Energy Authority (EA). The licence holder has the exclusive right to build and operate an electricity distribution network in its geographical area of responsibility.

With an electricity network of approximately 76,000 kilometres, Elenia Verkko Oyj supplies electricity to over 438,000 end users. In addition to residential customers, key customer segments include industrial, service, 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.

During the financial year, Elenia's network business distributed 6,260 GWh of electricity, compared to 6,643 GWh in the previous year. The distribution volume declined by 383 GWh (5.8%). The decline is partly attributable to the fact that the distribution volume in 2021 was the highest in Elenia's history driven by cold winter and electrification, and partly to the energy saving measures in 2022 undertaken by Elenia's customers in response to the exceptionally high electricity prices.

The revenue of Elenia Verkko Oyj Group amounted to EUR 310.9 million (EUR 322.2 million in 2021). Revenue declined by EUR 11.3 million (3.5%). The EBITDA of Elenia Verkko Oyj Group was EUR 203.1 million (EUR 213.8 million in 2021). EBITDA declined by EUR 10.7 million (5.0%). The negative EBITDA development was the result of declining distribution volumes as well as the exceptionally high distribution loss costs resulting from the very high electricity prices.

The weather during 2022 can be characterised as benign with no major power disruptions caused by snow loads or storms. In March, the Manu storm caused outages in certain areas of Elenia's distribution network served by overhead lines. The maximum number of customers simultaneously without electricity was approximately 9,000 and all connections were restored in less than 26 hours. Additionally, a series of thunderstorms hit Elenia's network area in August causing outages. The maximum number of customers simultaneously without electricity was approximately 10,300 and all connections were restored in just over two days. Both Manu storm and the thunderstorms were classified as a class 2 power disruptions and jointly they caused almost 1000 fault repair tasks. In total Elenia raised its preparedness level (to yellow, i.e. the lowest level) seven times in 2022.

The operational costs of all storm repair and preparedness activities were EUR 1.7 million, mandatory compensations EUR 0.1 million and voluntary compensations EUR 0.1 million.

SAIDI (System Average Interruption Duration Index), a measure of the duration of outages, was 70 minutes during the year (111 minutes in 2021). SAIDI excluding the impact of Class 3 and 4 storms was 70 minutes (67 minutes in 2021). While Elenia did not experience any Class 3 and 4 storms, the impact of the Manu storm and August thunderstorms to SAIDI were 7 minutes and 8 minutes, respectively. Without these two events, SAIDI would have been 55 minutes. The SAIDI figures show the positive trend in outages driven by the increased underground cabling, but also the need to continue to improve security of supply in the coming years by replacing old overhead lines at the end of their useful life with new underground cables.

Elenia Verkko Oyj continued to invest in the electricity network in accordance with its development plan during the financial year. The investment plan of Elenia's network business is designed to improve the security of supply via underground cabling. Since 2009, Elenia has built only weatherproof distribution lines. At the end of the year, 61.7% of Elenia's network was underground, compared to 58.5% at the end of 2021.

The Electricity Market Act (EMA) states that 100% of customers must be within the scope of the quality requirements by the end of 2036[1]. At the end of the year, 80.3% of the customers of Elenia's network business were within the scope of the quality requirements stipulated by the EMA. The corresponding figure at the end of 2021 was 78%. The main focus of Elenia's network development is in improving the security of supply and replacing overhead lines at the end of their lifetime by underground cabling. Elenia also seeks to improve the security of supply by other means. In 2020, a battery pack was successfully deployed in the Kuru area to provide electricity to local households in case of an outage. Two additional battery packs will be operational by the end of 2023.

Elenia invested 175.8 EUR million in developing electricity networks during the financial year. In 2021, the corresponding investments amounted to EUR 172.2 million. Investments in the electricity

[1] Pursuant to the EMA, which was amended in 2021, by the end of 2036, all customers (100%) must 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. For Elenia, 75% of customers must be connected to a secure network by the end of 2023, and 100% by the end of 2036. The previous deadline for the quality requirements was the end of 2028, which still applies to some network companies (whose underground cabling rate was over 60% at the end of 2018).

network will continue in 2023, but Elenia will invest EUR 60 million less than previously planned. The significant reduction in investments is due to changes in regulatory methods implemented by the EA, especially the significant reduction in the reasonable rate of return, which presents challenges to the financing of the investments.

In June 2022 Elenia submitted to the EA its statutory network development plan Elenia’s capex requirements to replace aging overhead lines and improve the security of supply exceed 1500 million euro by 2036. Additionally, green transition related capex including e.g. deployment of smart meters and increasing network capacity to enable connection of wind power, are expected to amount to approximately 500 million euro by 2031. Elenia was required for the first time to organise a public hearing for its customers and stakeholders on the network development plan. One of the findings of the hearing was that 85% of the customers think that 12 hours is the maximum acceptable outage length, which is significantly shorter than the 36-hour limit set in EMA for 2036.

In 2022, 254.8 MW of new wind power capacity and 4,457 new small-scale solar panel installations were connected to Elenia's distribution grid. There is a clear increase among our corporate customers in industrial electrification solutions and interest in battery solutions. For the consumer customers there is a clear increase in the solar panel installations and EV charging, and the interest towards real-time electricity consumption data, our online services and Elenia Aina application. For corporate customers the interest is driven by the green transition and the need to move away from fossil fuel based solutions (such as natural gas) and for consumer customers the interest is driven additionally by the very high electricity prices.

In 2022, Elenia Verkko Oyj continued to develop its asset management system according to the international standard ISO 55001:2014. The requirements of ISO 55001 guide the construction, operation, maintenance and repairs of Elenia’s electricity network. This ensures that the company will continue to operate, maintain and upgrade its electricity network in order to respond to its customers’ needs. The standards also require that suppliers and service providers commit to responsible, high-quality operations. The asset management system of Elenia’s network business was recertified in November 2022 by Lloyd’s Register.

Elenia supplemented its statutory preparedness plan, which was originally submitted to the EA in June, based on the government decree on the priority order of critical customers in disruption and power shortage situations.

The EA oversees the operations of Finnish distribution system operators. The regulation is based on four-year regulatory periods. The past year was the third year of the fifth regulatory period (2020–2023). The reasonable rate of return declined from 5.35% in 2021 to 3.97% in 2022 mainly due to a change in the calculation methodology for the risk-free rate. For 2023, the EA has confirmed that the reasonable rate of return is 6.08%. The substantial increase is due to the sharp rise in the interest rates in 2022.

Like other DSOs, Elenia received a new regulatory decision in December 2021 regarding changes in regulatory methods that entered into effect on 1 January 2022 and remain in effect for only two years, namely 2022 and 2023. The changes were in line with the previous information communicated by the EA. The key changes include updated unit prices, changes to WACC calculation methods and eliminating the security of supply incentive from the regulatory methods. Like several other Finnish DSOs, Elenia has appealed to the Market Court to repeal the decision of the EA with regard to the key aspects of the decision. The outcome of the appeal is expected in 2023 or 2024.

Financing

Elenia Group's financing activities are centralised into Elenia Verkko Oyj. In 2022, Elenia Verkko Oyj did not issue any new bonds (no new bonds were issued in 2021). The Group's solvency and liquidity remain very strong after the bond issue carried out in 2020. At the end of the financial year, cash and cash equivalents amounted to EUR 51 million (EUR 72 million at the end of 2021).

The Group's credit facilities consist of a EUR 350 million Capex Facility, a EUR 60 million Working Capital Facility and a EUR 60 million Liquidity Facility. The first two mature in June 2024 and the seven-year Liquidity Facility matures in June 2029. All of the credit facilities were entirely undrawn (as was the case at the end of 2021). In addition, the facility of EUR 100 million agreed upon with the European Investment Bank was entirely undrawn at the end of the year. In 2023, Elenia will renew its Capex, Working Capital and Liquidity Facilities, well ahead of their final maturity.

The bonds issued by Elenia Verkko Oyj are rated by S&P Global Ratings ("S&P"). S&P downgraded the issue rating to BBB (stable) at the end of January 2022 as a result of the changes in the regulatory methods in the middle of the regulatory period.

Elenia sold its district heating business in 2019. In relation to this, EUR 14.2 million in equity repayment was paid in 2022 (EUR 70 million in 2021).

Elenia Group has two financial covenants in its financing agreements: Interest Coverage Ratio (ICR) and Leverage Ratio (LR). For each relevant period until 31 December 2027 ("the First Ratio adjustment period"[2]), the trigger event ratio levels are 1.46x for ICR and 10.18x for LR and the default ratios are 0.96x for ICR and 11.33x for LR. At the end of 2022, the ICR and LR were 5.21 and 8.69, respectively. At end of 2021, the corresponding levels were 5.52 and 8.22. Elenia Group is in compliance with the financial covenants. Elenia retains adequate headroom to both financial covenants on a historical and forward-looking basis.

Employees

Elenia Verkko Oyj number of employees declined moderately in 2022.

	31 Dec 2022 FTE	31 Dec 2021 FTE
Elenia Verkko	73	81

Close cooperation with local contracting partners is an integral part of the Group's operations. The total employment effect of the Group and its external subcontractor's operations related to Elenia is approximately 1,000 people.

The employees have largely worked remotely for the past three years. The transition to remote work in 2020 was successful, and employees will also be offered extensive and flexible remote work opportunities going forward, taking job-specific differences into account.

Employees' ability to cope with remote work has been assessed with the usual employee surveys and psychosocial stress surveys carried out in cooperation with the occupational health services at the end of 2020, 2021 and 2022. During 2022, the situation in Ukraine has also affected Elenia's personnel, increasing the willingness to help, but to some extent also increasing psychosocial stress.

For more information on Elenia's personnel, please see our sustainability report at www.elenia.com.

Acquisitions and Divestments

There were no major corporate acquisitions or divestments during the financial year. However,

[2] Elenia's financing is based on three core financial documents and all financiers are parties to these agreements. These documents are the Common Terms Agreement (CTA), the Security Trust and Intercreditor Deed (STID) and the Master Definitions Agreement (MDA). In 2018, the trigger event and event of default levels for both ICR and LR were amended in accordance with the requirements of the Common Terms Agreement (CTA) to mitigate the impact of the IFRS 15 standard, which became effective on 1 January 2018 obliging Elenia to change the revenue recognition of connection charges. The change affected only figures such as EBITDA that are reported in accordance with IFRS, it had no impact on FAS, taxes, cash flows or regulatory accounting.

Elenia acquired several powerlines in December 2022:

- Two 110kV Toivila-Leskenmaja powerlines were acquired from UPM. The total length of the powerlines is 28.9km.
- The 110kV Petäjävesi-Pysäysperä-Haapavesi powerline was acquired from Fingrid. The length of the powerline is 209.3km.

Corporate Governance

Elenia Verkko Oyj's Board of Directors has six members: Tapani Liuhala (Chairman), Jorma Myllymäki, Ville Sihvola, Jarkko Kohtala, Tommi Valento and Anne-Marie Malmberg. There were no changes to the board during the fiscal year. The Board of Directors made 10 written resolutions during the financial year and no meetings were held.

Auditor

Elenia Verkko Oyj's auditor is Ernst & Young Oy, with Miikka Hietala, Authorised Public Accountant, as the auditor with principal responsibility.

Shares

Elenia Verkko OyJ has ninety (90) outstanding shares. Each share entitles the holder to one vote at the Annual General Meeting and carries equal rights to dividends.

Corporate Responsibility and Sustainability

Please see Elenia's sustainability report at www.elenia.com.

Risk Management

Please see Elenia's sustainability report at www.elenia.com.

Cyber Security

Elenia has continued to reinforce cyber security awareness as a crucial part of the business internally and in cooperation with partners and the National Cyber Security Centre Finland (NCSC-FI). Elenia's information security management system has been ISO 27001 certified since 2020 and externally audited in 2022.

Events after the Balance Sheet Date

Elenia's information security management system was recertified according to ISO 27001 in January 2023.

In 2022 the EA continued the development of regulatory methods for the upcoming sixth (2024–2027) and seventh (2028–2031) regulatory periods. Elenia is actively involved in the process. The EA has stated that the new regulatory methods will be a continuation of the current methods, and any changes are expected to be relatively minor. Unit prices are expected to be updated again for the sixth regulatory period, which is expected to have a positive impact in view of the recent increase in raw material prices, which is also reflected in the prices of network components. Elenia strongly believes that regulatory methods will continue to support DSOs and compensate for long-term investments in security of supply in the upcoming sixth and seventh regulatory periods. The first guidelines for the regulatory methods were published in March 2023 and they are broadly in line with Elenia's expectations, but without the updated unit prices the impact of the upcoming regulation to Elenia's business cannot be fully assessed.

Outlook

The electricity prices in Finland have surged during 2022 as a result of the Russian war in Ukraine. As a major electricity purchaser due to the distribution losses (which are 3-4% of the distribution volumes), Elenia is susceptible to the electricity price changes. Elenia has a four-year hedging policy and program in place, which has mitigated the impact of increasing electricity prices. Hence the very high electricity price is not fully reflected in the 2022 figures. Elenia estimates that the cost of the distribution losses will total EUR 37.4 million for 2023, out of which EUR 18.4 million will be treated as exceptional for covenant calculation purposes.

Fingrid has informed DSOs that it will not charge transmission fees for at least three and up to six months in 2023, as its congestion revenues have risen sharply due to very high electricity prices. At least for the months of January, February and June, no will be charged. Elenia estimates that the net cost savings from transmission fees for the six months would be EUR 19.2 million, which in its entirety will be treated as exceptional in the covenant calculation.

The high electricity prices and rebates from Fingrid partially offset each other. The high electricity price is however affecting Elenia also otherwise. The electricity consumption, which has increased steadily over the last few years driven by electrification, has started to decline as customers are saving electricity in response for the surging electricity prices. The figures for September to December illustrate that customers (especially consumer customers) can reduce their electricity consumption by 10-15%, depending on the outside temperature. If the January to March is warm, the volumes and revenue can decline clearly compared to winter of 2022.

From the regulatory perspective, both the distribution losses as well as the grid costs are considered as pass-through items and Elenia can recoup them in the coming years. Additionally, the regulation is also volume neutral, which offers protection against declining volumes.

Inflation has been very high in Finland in 2022. It started from the network raw materials such as aluminium and steel, spread to fuels and electricity, and since then to all areas of the society. Elenia expects that its costs will continue to increase in line with the inflation in 2023. To compensate for the increased costs, Elenia is increasing tariffs by 5.8% (tax inclusive) in the beginning of May 2023. The previous tariff increase took place in autumn of 2019, almost four years ago. The tariff increase will take place after the heating season is over, which mitigates the impact for Elenia's customers. The full impact of the tariff increase will not be fully reflected in 2023 revenues.

In 2022 the interest rates rose sharply with the Finnish government bond yield increasing from 0.14% on 3 January 2022 to 3.00% on 2 January 2023. With average maturity of 7.4 years and hedging ratio of 90.5% Elenia is well hedged against rising interest rates.

The Board of Directors' Proposal Concerning Distribution of Profits

The Board of Directors proposes that no dividend be distributed.

Consolidated Statement of Profit or Loss

for the Year ended 31 December 2022

EUR 1,000	Note	1.1.-31.12.2022	1.1.-31.12.2021
Revenue	2.1.1	**308 552**	**320 185**
Other operating income	2.2.1	2 328	1 996
Materials and services		-82 267	-83 337
Employee benefit expenses	2.3.3	-3 526	-3 698
Depreciation, amortisation and impairment	3	-88 627	-86 348
Other operating expenses	2.3.1	-21 977	-21 344
Operating profit		**114 482**	**127 455**
Finance income		258	938
Finance costs		-39 990	-40 579
Finance income and costs	4.1	**-39 731**	**-39 641**
Profit before tax		**74 751**	**87 814**
Income tax	6.1.1	-18 877	-15 532
Profit for the year		**55 874**	**72 282**

Consolidated Statement of Comprehensive Income

for the Year ended 31 December 2022

EUR 1,000	1.1.-31.12.2022	1.1.-31.12.2021
Profit for the year	**55 874**	**72 282**
Other comprehensive income		
Other comprehensive income not to be reclassified to profit or loss in subsequent years:		
Re-measurement gains on defined benefit plans	193	-137
Income tax effect	-39	27
Other comprehensive income / (loss) for the year after tax	155	-110
Total comprehensive profit for the year	**56 029**	**72 172**

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

Consolidated Statement of Financial Position

as at 31 December 2022

	Note	31.12.2022	31.12.2021
EUR 1,000			
Assets			
Non-current assets			
Property, plant and equipment	3.1	1 642 733	1 558 910
Goodwill	3.2	417 823	417 823
Intangible assets	3.2	26 704	25 487
Right-of-use assets	3.1, 3.3	552	1 466
Other non-current financial assets		194	194
Deferred tax assets	6.1.2	8 187	6 473
Total non-current assets		**2 096 193**	**2 010 354**
Current assets			
Trade receivables	2.1.4	17 987	23 546
Other current receivables	2.1.4	59 634	44 129
Cash and cash equivalents		51 154	71 841
Total current assets		**128 774**	**139 517**
Total assets		**2 224 967**	**2 149 870**

Consolidated Statement of Financial Position

as at 31 December 2022

	Note	31.12.2022	31.12.2021
EUR 1,000			
Equity and liabilities			
Equity			
Share capital	4.4	80	80
Unrestricted equity	4.4	-548 843	-548 843
Retained earnings	4.4	448 723	371 990
Total equity		**-100 041**	**-176 773**
Non-current liabilities			
Loans from financial institutions	4.2	150 000	150 000
Bonds and notes	4.2	1 683 025	1 682 046
Lease liabilities	3.3	311	395
Employee benefit liability	6.2	244	453
Provisions	2.3.4	6 119	7 665
Derivatives			
Liabilities related to contracts with customers	2.1.3	38 954	29 893
Deferred tax liabilities	6.1.2	156 888	138 763
Total non-current liabilities		**2 035 541**	**2 009 214**
Current liabilities			
Loans from financial institutions	4.2		
Lease liabilities	2.3.2, 3.3	425	1 531
Trade payables	2.3.2	5 639	16 460
Liabilities related to contracts with customers	2.1.3	1 467	1 110
Other current liabilities	2.3.2, 6.3	281 935	298 328
Total current liabilities		**289 467**	**317 429**
Total equity and liabilities		**2 224 967**	**2 149 870**

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2022

EUR 1,000	1.1.-31.12.2022	1.1.-31.12.2021
Operating activities		
Profit for the year	55 874	72 282
Adjustments to reconcile profit to net cash flows		
Depreciation, amortisation and impairment	88 627	86 348
Gains and losses of disposals of fixed assets and other non-current	-359	-
Finance income	-258	-938
Finance costs	39 990	40 579
Taxes	18 877	15 532
Other adjustments	-18	-18
Other short-term and low value rental expenses	35	37
Working capital adjustments		
Increase (+) / decrease (-) in trade and other current liabilities	11 983	30 872
Increase (-) / decrease (+) in trade and other current receivables	12 708	-4 710
Increase (+) / decrease (-) in provisions	-1 546	-504
Interests received	257	79
Interest and other financial expenses paid	-38 724	-38 673
Interest paid on lease liabilities	-307	-801
Taxes paid	-5 354	-5 351
Net cash flows from operating activities	**181 785**	**194 733**
Investing activities		
Capital expenditure	-178 127	-172 892
Changes in investments	4 221	267
Net cash flows used in investing activities	**-173 906**	**-172 625**
Financing activities		
Equity repayment	-27 000	-70 000
Repayment of lease liabilities	-1 566	-3 117
Group contributions received and paid	0	9 071
Net cash flows from financing activities	**-28 566**	**-64 046**
Net increase in cash and cash equivalents	**-20 688**	**-41 938**
Cash and cash equivalents at 1 January	71 841	113 780
Change in cash and cash equivalents	-20 688	-41 938
Cash and cash equivalents at 31 December	**51 154**	**71 841**

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

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

Loans granted and repayments of loan receivables are presented in financing cash flow instead of cash flow from investing activities.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022		**Unrestricted equity**			
EUR 1,000	**Share capital**	**Reserve for invested unrestricted equity**	**Common control reserve**	**Retained earnings**	**Total equity**
Equity at 1 January	**80**	**1 657 400**	**-2 206 243**	**371 990**	**-176 773**
Profit for the year	0	0	0	55 874	55 874
Other components of comprehensive income (adjusted by tax effect)					
Change in defined benefit plans	0	0	0	155	155
Total comprehensive income for the year	**0**	**0**	**0**	**56 029**	**56 029**
Transactions with shareholders					
Group contribution	0	0	0	20 704	20 704
Total transactions with shareholders	**0**	**0**	**0**	**20 704**	**20 704**
Equity at 31 December	**80**	**1 657 400**	**-2 206 243**	**448 723**	**-100 041**

for the year ended 31 December 2021		**Unrestricted equity**			
EUR 1,000	**Share capital**	**Reserve for invested unrestricted equity**	**Common control reserve**	**Retained earnings**	**Total equity**
Equity at 1 January	**80**	**1 657 400**	**-2 206 243**	**299 818**	**-248 945**
Profit for the year	0	0	0	72 282	**72 282**
Other components of comprehensive income (adjusted by tax effect)					
Change in defined benefit plans	0	0	0	-110	**-110**
Total comprehensive income for the year	**0**	**0**	**0**	**72 172**	**72 172**
Equity at 31 December	**80**	**1 657 400**	**-2 206 243**	**371 990**	**-176 773**

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

Changes in the equity are explained in more details in Note 4.4.

1 Group accounting policies

1.1 General information

Elenia Verkko Oyj is a Finnish limited liability company domiciled in Tampere. Address is Patamäenkatu 7, Tampere, Finland. Elenia Verkko Oyj's parent company is Elenia Oy, having its registered office at Patamäenkatu 7, Tampere.

The ultimate parent of the Group is Elton Investments S.à r.l., domiciled in Luxembourg.

The consolidated financial statements of Elenia Verkko Oyj ("Elenia Networks Group") are consolidated in the financial statements of Elenia Oy ("Elenia Group"), available at the following address: Patamäenkatu 7, 33900 Tampere. Elenia Group is the owner and operator of an electricity distribution network (Elenia Verkko Oyj, 'Elenia Networks') and it also has a customer service business, construction business and intercompany services (Elenia Oy, 'Elenia Services').
Elenia Networks Group is the owner and operator of an electricity distribution network. The group was formed on 1.1.2020.

The Board of Directors approved the consolidated financial statements on 7 March 2023. 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 2022 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretations (IFRIC) approved for application within the European Union (EU). The consolidated financial statements are compliant with the provisions of the Finnish Accounting Act and other regulations governing the preparation of financial statements in Finland.

The consolidated financial statements have been prepared based on a historical cost. 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 2021. The nature of each new standard and amendment adopted by the Group has been described in the relevant note. New standards, amendments and interpretations not material for the Group have been described in Note 5.

1.4 Significant accounting judgements, estimates and assumptions

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

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

1.4.1 Judgements

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

Going concern

The consolidated financial statements are prepared on a going concern basis. The Board of Directors has noted that the Group made a profit before tax for 2022 of EUR 74 751 thousands (2021:EUR 87 814 thousands) and has a net equity of EUR -100 041 thousands as at 31 December 2022 (2021:-176 773 thousands).

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:

- The Group has issued bonds under the EUR 3 billion EMTN programme. As at 31 December 2022, the Group has utilized 1 171 million out of this programme. In February 2020 Elenia Verkko Oyj (Elenia Finance Oyj) issued a new EUR 500.0 million benchmark bond maturing in 2027 which was oversubscribed several times, reflecting strong investor demand for the securities issued by Elenia.This programme is supported by strong credit rating of BBB with based on S&P Global Ratings' assessment.
- The Group has sufficient liquidity based on its cash position and undrawn credit facilities of EUR 570 million from a syndicate of international banks and European Investment Bank (as fully described in Note 4.2.9).

Furthermore, as mergers were universal succession, therefore, the Board of Directors prepares the annual accounts on a going concern basis.

Climate change

In accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), Elenia's management has assessed the financial risks and opportunities related to climate change to Elenia's business. The main risks are related to extreme weather events and the opportunities are related to the green transition. The impact of extreme weather events on Elenia's business is mitigated by Elenia's significant investment in a weatherproof underground network between 2012 and 2022. These investments will continue until at least 2036, for example increasing the level of underground cabling to around 90%, which will further reduce the impact of extreme weather events. In addition, the electricity network regulation mitigates the economic impact of both risks and opportunities for Elenia. For these reasons, the impact of climate change risks on Elenia's financial statements is not material.

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.

1.4.3 Restructurings under common control

The restructurings of the group structure has been carried out in accordance with the principle of common control in which the the ultimate controlling parties have not changed.

Currently, there is no specific guidance on accounting for common control transactions under IFRSs. The IASB has a project on this topic with a view to examing the definition of common control and the methods of accounting for business combinations under common control in the acquirer's consolidated and separate financial statements. At the time of preparation of these consolidated financial statements, this project is still under study by the IASB. Comments on the puplished discussion paper are still being reviewed by IASB.

Elenia Group accounts for restructurings (share-for-share exchange and business combinations) under common control using pooling of interest method. Under this method, the assets and liabilities of the acquired subsidiaries are recognised at their previous carrying amounts.

No adjustments are made to reflect fair values and no new assets and liabilities of the acquired subsidiaries are recognised in these consolidated financial statements. As a result no new goodwill is recognised in these consolidated financial statements. Any difference between the consideration paid / transferred and the shares acquired is reflected within the equity.

1.4.4. Segment reporting

The Group consists of only one segment, the networks business.

2 Operating profit

2.1 Revenue and trade and other current receivables

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

Revenue from the distribution of electricity is recognised at the time of delivery. Revenue from other revenue, for example contracting income is recognised in the period in which such services are rendered.

Connection fees paid by customers for joining an electricity network are recognised as revenue in the consolidated statement of profit or loss. The same principles are followed as in the Elenia Group and have been followed before the restructuring and the formation of the Elenia Network Group. Until the end of 2017 revenue from new connections was recognised immediately after signing of the contract or completion of the physical distribution network connection. As a result of the implementation of IFRS 15 standard, from 1 January 2018 onwards the new connection revenue has been recognised over a period of 30 years for the electricity network connections. The time period is in line with the depreciation period of the connection assets.

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 below. 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 (Note 2.3.1).

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.

2.1.2 Disaggregation of revenue

Group revenue consists of revenue from the distribution of electricity, connection fees paid by the customers for joining an electricity network and other revenues. Other revenues consist mainly contracting income.

Revenue by type of service

EUR 1,000	2022	2021
Distribution of electricity	305 758	317 343
Connection fees	1 304	967
Other revenues	1 490	1 876
Total	**308 552**	**320 185**

Timing of revenue recognition

EUR 1,000	2022	2021
Transferrred at a point in time	307 248	319 218
Transferred over time	1 304	967
Total	**308 552**	**320 185**

2.1.3 Liabilities related to contracts with customers

EUR 1,000	2022	2021
Non-current liabilities related to contracts with customers	38 954	29 893
Current liabilities related to contracts with customers	1 467	1 110
Total	**40 421**	**31 003**

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

2.1.4 Trade and other current receivables

2.1.4.1 Trade receivables (Accounting policy)

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

Trade receivables also include invoiced sales revenue based on estimates.

Trade and other current receivables

EUR 1,000	2022	2021
Trade receivables	17 987	23 546
Accrued income and prepaid expenses	35 842	43 887
Group contribution receivable	20 704	-
Other current receivables	3 088	242
Total trade and other receivables	**77 620**	**67 675**

Break-down of accrued income and prepaid expenses

EUR 1,000	2022	2021
Sales accruals	35 539	43 406
Accrued financial items (prepayments)	0	280
Other accrued income and receivables	303	201
	35 842	**43 887**

2.1.4.2 Financial risk management

Credit risk

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.

The electricity market environment and resulting high electricity prices especially in the last quarter of 2022 has increased the proportion of delayed payments. As a result the credit risk has temporarily increased somewhat, which is reflected in the amount of credit loss additions booked in 2022 and in the resulting amount of credit losses expected for 2023.

Trade receivables

The Group's trade receivables at the end of 2022 were EUR 18,0 million (2021: EUR 23.5 million). EUR 24,5 thousand collateral securities were received for trade receivables (2021: EUR 31.8 thousand).

Distribution volume and price risks

Electricity distribution operations do not involve particular volume or price risks in the medium term due to being subject to reasonable return under electricity distribution license. . In the short term changes in distribution volumes and electricity prices has an impact on revenues and operating expenses respectively.

Impairment of trade receivables

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

However, applying the impairment requirements of IFRS 9 has had an impact on the method used in calculation of the credit loss allowance for trade receivables, but the amount of credit loss allowances has not changed remarkably. The Group has applied the simplified approach and recorded lifetime expected losses on all trade receivables.
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 relative proportion of credit losses calculated from historically realized level. The customers are segmented to private and company customers to be able to take into account the differences between these customer groups in the calculation. Generally, trade receivables are written-off on a monthly basis based on customers' credit rating level and payment history.

Breakdown and impairment of trade receivables by age (IFRS)

EUR 1,000	**Trade receivables**				
31 Dec 2022	**Undue**	**1-90 days**	**91-180 days**	**Over 180 days**	**Total**
Trade receivables by age	14 643	3 169	244	594	**18 649**
Expected credit loss rate, private customers	0,2 %	10,3 %	52,8 %	78,9 %	
Expected credit loss, private customers	-17	-204	-114	-142	**-476**
Expected credit loss rate, company customers	0,1 %	1,6 %	32,0 %	37,5 %	
Expected credit loss, company customers	-3	-18	-9	-155	**-186**
Total expected credit losses	**-21**	**-222**	**-123**	**-297**	**-662**
Total trade receivables	**14 622**	**2 946**	**121**	**297**	**17 987**

Breakdown and impairment of trade receivables by age (IFRS)

EUR 1,000	**Trade receivables**				
31 Dec 2021	**Undue**	**1-90 days**	**91-180 days**	**Over 180 days**	**Total**
Trade receivables by age	19 021	4 299	246	417	**23 983**
Expected credit loss rate, private customers	0,1 %	6,6 %	34,1 %	53,7 %	
Expected credit loss, private customers	-15	-161	-73	-68	**-317**
Expected credit loss rate, company customers	0,1 %	2,0 %	8,0 %	26,0 %	
Expected credit loss, company customers	-4	-38	-3	-75	**-120**
Total expected credit losses	**-19**	**-199**	**-75**	**-143**	**-437**
Total trade receivables	**19 002**	**4 100**	**171**	**273**	**23 546**

All trade receivables are denominated in euros.

Change in expected credit losses	**2022**	**2021**
Expected credit loss 1 Jan	437	669
Additions	1059	276
Realized credit losses	-834	-508
Expected credit loss 31 Dec	**662**	**437**

2.2 Other operating income

2.2.1 Other operating income (Accounting policy)

Other operating income includes income from non-operating activities, such as income from trade receivables collection and from sales of used fixed assets, insurance compensation and rental income.

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	**2022**	**2021**
Indemnities	713	729
Income from the trade receivables collection	1 041	1 060
Income from the sales of obsolete materials and used fixed assets	360	4
Other operating income	214	202
Total	**2 328**	**1 996**

2.3 Other operating expenses and related liabilities

2.3.1 Other operating expenses (Accounting policy)

Outage compensations

Outage compensations in accordance with the Electricity Market Act, which are paid to the customers due to interruption of over 12 hours in the electricity distribution, are recognised as other operating expenses and included in the item "Outage compensation costs" in the table below. 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 (Note 2.1.1).

Research and development costs

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

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

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

Other operating expenses

EUR 1,000	2022	2021
Lease expenses	-387	-298
External services	-1 765	-1 510
IT and communication expenses	-3 330	-2 220
Research and development costs	-353	-645
Marketing and communications	-124	-139
Insurances	-232	-220
Other personnel expenses	-167	-120
Travelling expenses	-58	-42
Outage compensation costs	-225	-594
Elenia service expenses	-14 236	-13 810
Other expenses	-1 101	-1 747
Total	**-21 977**	**-21 344**

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

Audit fees

EUR 1,000	2022	2021
Auditing fees	-101	-48
Fees for tax services	-7	-11
Fees for other services	-6	-69
Total	**-114**	**-128**

Ernst & Young was appointed as the auditor until the Annual General Meeting held in the 2023 reporting period.

Auditing fees

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

2.3.2 Trade and other current payables

EUR 1,000	**2022**	**2021**
Short-term financial lease liabilities	425	1 531
Trade payables	5 639	16 460
Accrued expenses		
Employee benefits expenses	1 570	1 625
Interest expenses	13 359	13 364
Other accrued expenses	54 865	44 687
Liabilities related to contracts with customers	1 467	1 110
Other liabilities		
VAT liability	8 937	12 448
Energy taxes	16 321	9 569
Tax liability for the period	0	0
Prepayments received	6 783	8 767
Equity repayment liability	177 447	204 447
Other liabilities	2 655	3 422
Total	**289 467**	**317 429**

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.

2.3.3 Employee benefits expenses

EUR 1,000	**2022**	**2021**
Salaries and remuneration	-2 958	-3 164
Pensions:		
Defined contribution plans	-503	-473
Defined benefit plans	5	10
Social security costs	-70	-72
Total	**-3 526**	**-3 698**

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

EUR 1,000 **Salaries and remuneration paid to other key members of the management**	**2022**	**2021**
Salaries and other short-term employee benefits	236	222
Other long-term employee benefits	49	59
Pension expenses related to salaries and employee benefits	51	51

Salaries and remuneration were not paid to CEO in 2022 and 2021.

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

The annual performance bonuses (i.e. short-term annual performance bonus plan) are based for example on the Group 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 in Elenia group companies 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. Key management includes management team and Board members of Elenia Oy.

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 2022, the remunerations related to the 2017-2019, 2018-2020 and 2019-2021 programmes were paid. During 2022 there were three programmes on-going: 2020-2022, 2021-2023 and 2022-2024.

During 2022 EUR 61 thousand (2021: EUR 76 thousand) were paid out related to the long-term incentive plan in Elenia Networks Group.

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

Five of the key management persons of Elenia Oy and Elenia Verkko Oyj have invested into Elton Investment S.à r.l. which is the ultimate owner of Elenia Oy. The management investment is channelled through a management owned holding company Manco Investment Oy, which owns approximately 0.3% of Elton Investment S.à r.l. after the arrangement. There is also a shareholder loan between Manco Investment Oy and Elton Investment S.à r.l. The original loan amount was 0.3 million euros. The equity investment has been made at fair market values and it therefore is not a compensation plan. The equity ownership forms an additional tool for retaining key management members and therefore promotes continuity, and it also signals strong commitment from the senior management into the long-term development of Elenia.

2.3.4 Provisions

Provisions (Accounting policy)

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

Provisions (Accounting estimates)

The same principles are followed as in the Elenia Group and have been followed before the restructuring and the formation of the Elenia Network Group. 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.

A provision for refundable connection fees for electricity 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.

Provisions 2022

EUR 1,000	Provision for refunds of connection fees	Total
Provisions at 1 January	7 665	7 665
Decrease	-1 243	-1 243
Use of provisions	-302	-302
Provisions at 31 December	**6 119**	**6 119**

Provisions 2021

EUR 1,000	Provision for refunds of connection fees	Total
Provisions at 1 January	8 168	8 168
Decrease	-232	-232
Use of provisions	-271	-271
Provisions at 31 December	**7 665**	**7 665**

3 Investments and Lease commitments

3.1 Property, plant and equipment (Accounting policy)

Property, plant and equipment comprise mainly electricity 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 (see Note 3.2 Accounting policy for Impairment of non-financial assets). 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.

The same principles are followed as in the Elenia Group and have been followed before the restructuring and the formation of the Elenia Network Group. Until December 31, 2018 land use rights for underground cables have been capitalized in intangible assets for other long-term expenditure, but those rights have been capitalized in property, plant and equipment as networks as of January 1, 2019. According to the estimate of the Group's management, they are not treated as lease contracts under IFRS 16.

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 structures15-50 years
Electricity transmission network25-40 years
Electricity distribution network10-30 years
Machinery and equipment3-30 years

Right-of-use assets are depreciated on a straight-line basis over the lease term between the commencement date of the lease and the end of the lease term or using the estimated useful life of the asset. Leases of buildings and vehicles generally have lease terms between 3 and 5 years and electricity meters 10 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.

2022 EUR 1,000	Land and water areas	Buildings	Networks	Machinery and equip-	Other tangible	Prepayments	Total
Cost at 1 January	2 105	6 400	2 545 006	160 604	56	21 421	2 735 592
Additions	11	0	157 334	14 638	0	448	172 430
Additions through revaluations	0	435	0	0	0	0	435
Disposals	-1	-203	-11 286	-14	0	0	-11 503
Transfers between balance sheet items	30	0	1 137	0	0	-1 723	-555
Cost at 31 December	**2 145**	**6 632**	**2 692 192**	**175 228**	**56**	**20 146**	**2 896 399**
Accumulated depreciation, amortisation and impairment at 1 January	0	-5 761	-1 024 075	-145 326	-55	0	-1 175 216
Depreciation and amortisation for the year	0	-200	-78 322	-4 311	-1	0	-82 833
Accumulated depreciation and amortisation on disposals	0	0	8 045	0	0	0	8 045
Impairment for the year *	-1	0	-3 109	0	0	0	-3 110
Accumulated depreciation, amortisation and impairment at 31 December	**-1**	**-5 960**	**-1 097 460**	**-149 637**	**-55**	**0**	**-1 253 114**
Book value at 31 December 2022	**2 144**	**671**	**1 594 732**	**25 591**	**1**	**20 146**	**1 643 285**
Book value at 31 December 2021	**2 105**	**639**	**1 520 932**	**15 278**	**1**	**21 421**	**1 560 376**

2021 EUR 1,000	Land and water areas	Buildings	Networks	Machinery and equip-ment	Other tangible assets	Prepay-ments	Total
Cost at 1 January	2 105	6 077	2 400 810	155 279	56	23 091	2 587 419
Additions through revaluations	0	387	0	0	0	0	387
Additions	0	19	158 529	5 891	0	84	164 524
Disposals	0	-83	-14 609	-566	0	0	-15 259
Transfers between balance sheet items	0	0	276	0	0	-1 755	-1 479
Cost at 31 December	**2 105**	**6 400**	**2 545 006**	**160 604**	**56**	**21 421**	**2 735 592**
Accumulated depreciation, amortisation and impairment at 1 January	0	-5 542	-958 127	-140 767	-54	0	-1 104 489
Depreciation and amortisation for the year	0	-219	-74 285	-4 559	-1	0	-79 064
Transfers between balance sheet items	0	0	0	0	0	0	0
Accumulated depreciation and amortisation on disposals	0	0	13 726	0	0	0	13 726
Impairment for the Comparative_Year *	0	0	-5 389	0	0	0	-5 389
Accumulated depreciation, amortisation and impairment at 31 December	**0**	**-5 761**	**-1 024 075**	**-145 326**	**-55**	**0**	**-1 175 216**
Book value at 31 December 2021	**2 105**	**639**	**1 520 932**	**15 278**	**1**	**21 421**	**1 560 376**
Book value at 31 December 2020	**2 105**	**535**	**1 442 684**	**14 512**	**2**	**23 091**	**1 482 930**

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

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.

IFRS interpretations committee issued an agenda decion in April 2021 on configuration and customazation costs in a cloud computing arrangement. In the agenda decision the comittee considered whether an intangible asset according to IAS 38 can be recognised related to configuration and customization costs of a cloud based software and if not, how these costs should be accounted for.

Licenses concerning cloud based software can only be capitalized if the group has the right and ability to take possession of the software and run it on own servers. Otherwise the license is considered to be a service contract and costs are expensed when incurred. Concerning the implementation costs of a cloud based software only customization related costs can be capitalized if they create and asset that is distinct, controlled by the group and it creates economic benefits that flow to the group. The part of the implementation costs that is not capitalized is expensed when incurred.

Compensation paid to landowners

The same principles are followed as in the Elenia Group and have been followed before the restructuring and the formation of the Elenia Network Group. One-time compensation payments paid to landowners for inconvenience and damage caused by the network company's overhead lines, cables and equipment are capitalised. Until December 31, 2018 land use rights for underground cables have been capitalized in intangible assets for other long-term expenditure, but those rights have been capitalized in property, plant and equipment as networks as of January 1, 2019. According to the estimate of the Group's management, they are not treated as lease contracts under IFRS 16.

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.

Amortisation periods for intangible assets:

Computer software and licences3-5 years
Customer relationships20 years
Compensation paid to landowners10-30 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
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.

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.

Testing goodwill for impairment (Accounting estimates)
The Group tests goodwill annually for impairment.

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

The Group has conducted a sensitivity analysis of the effects of the key assumptions underlying the impairment testing on the test results.

Impairment testing of goodwill

Goodwill has been allocated to the cash generating unit, Network business segment, of EUR 418 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 to determine the value in use. The discount rate applied (pre-tax) reflects the risk profile of the business.

Elenia performed its annual impairment test in November 2022. Due to the regulated and stable nature of the electricity distribution business, the basis for cash flow projections is the long-term business plan covering the period Q4/2022-2055 which has been approved by the Board of Directors. A volume growth of approximately 0.5% p.a. has been incorporated for the forecast period. The discount rate applied is 5.9% (pre-tax), calculated based on relevant studies and the Energy Authority's communication regarding the required rate of return in the distribution business. Long term capital expenditure plans have been prepared to meet the security of supply requirements in line with the Electricity Market Act.

The projected cash flows reflect the amendments to the regulatory methods in effect for 2022-2023 with the expectation of the regulatory framework remaining relatively stable subsequently. The Energy Authority will confirm the new regulatory methods for the 6th and 7th regulatory periods (2024-2031) during 2023.

Based on the analysis in 2022 there is a headroom of 1 586 million euros.

Sensitivity analysis

Discount rate of the projected cashflows is based on the actual risk-free interest rates of the valuation timing and the parameters based on the Energy Authority's communication regarding the required rate of return in the distribution business. The discount rate (pre-tax) increasing by 4.45% (445bps) would cause the recoverable value of the assets to be equal to its book value.

3.2 Intangible assets

2022 **EUR 1,000**	Goodwill	Intangible rights	Other long-term expenditure	Total
Cost at 1 January	417 823	22 568	38 977	479 368
Additions	0	15	3 331	3 346
Transfer between balance sheet items	0	0	555	555
Cost at 31 December	**417 823**	**22 583**	**42 862**	**483 269**
Accumulated depreciation, amortisation and impairment at 1 January	0	-14 244	-21 813	-36 057
Depreciation and amortisation for the year	0	-557	-2 127	-2 684
Accumulated depreciation, amortisation and impairment at 31.12.2021	**0**	**-14 802**	**-23 940**	**-38 742**
Book value at 31 December 2021	**417 823**	**7 782**	**18 922**	**444 527**
Book value at 31 December 2020	**417 823**	**8 324**	**17 164**	**443 310**

2021 **EUR 1,000**	Goodwill	Intangible rights	Other long-term expenditure	Total
Cost at 1 January	417 823	21 863	30 559	470 245
Additions	0	64	7 580	7 644
Transfer between balance sheet items	**0**	641	838	1 479
Cost at 31 December	**417 823**	**22 568**	**38 977**	**479 368**
Accumulated depreciation, amortisation and impairment at 1 January	0	-13 697	-20 465	-34 163
Depreciation and amortisation for the year	0	-547	-1 348	-1 895
Accumulated depreciation, amortisation and impairment at 31.12.2020	**0**	**-14 244**	**-21 813**	**-36 057**
Book value at 31 December 2021	**417 823**	**8 324**	**17 164**	**443 310**
Book value at 31 December 2020	**417 823**	**8 165**	**10 094**	**436 082**

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. At the end of 2021 the value of Goodwill is 417,8 million euros, since 97,8 million euros was allocated to heating business which was sold in 2019.

3.3 Lease commitments

3.3.1 Leases (Accounting policy)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

3.3.2 Group as the lessor (Accounting policy)

Leases in which the Group does not transfer substantially all the risks and rewards incidental to 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 other operating income in the period in which they are earned (See Note 2.2).

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

3.3.3 The Group as the lessee (Accounting policy)

According to the requiremets of IFRS 16 the Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets concerning certain lease contracts related to office premises, car leasing contracts, and lease contracts related to electricity meters.

The Group applies the short-term lease exemption to a part of the contracts related to office premises and to IT-contracts. Lease payments on short-term leases are recognised in the consolidated statement of profit or loss as other operating expenses over the lease term. The effect of these costs on the income statement in 2022 was approximately EUR 35 thousand (2021: EUR 37 thousand) .

The Group's management has estimated that lease contracts related to indoor secondary substations, primary substations 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 has not been 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. Lease payments on these contracts are recognised on the consolidated statement of profit or loss as other operating expenses over the lease term. The effect of these costs on the income statement in 2022 was approximately EUR 78 thousand (2021: EUR 79 thousand).

One-time subsurface rights compensations are paid to landowners based on perpetual contracts. Compensations are capitalized to the networks assets in the consolidated statement of financial position and amortized over their expected useful lives. Normally subsurface rights should be recognised as leases under IFRS 16 but as compensations are paid based on perpentual contracts, they are not treated as lease contracts under IFRS 16.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term between the commencement date of the lease and the end of the lease term or using the estimated useful life of the asset. Leases of buildings and vehicles generally have lease terms between 3 and 5 years and electricity meters 10 years.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculate using the estimated useful life of the asset. The right-of-use assets are also subject to impairment (see accounting policies in Notes 3.1 and 3.2).

At the transition date the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised because the Group has adopted the IFRS 16 standard by using the modified retrospective method.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

In calculating the present value of lease payments, the Group uses as interest rate an estimated average medium-term financing cost at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

In addition, the carrying amount of lease liabilities is remeasured if there is a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The Group’s lease liabilities are included in non-current and current financial liabilities.

At the transition date lease liabilities were recognised based on the present value of the remaining lease payments, discounted using as interest rate an estimated average medium-term financing cost at the date of initial application because the Group has chosen to adopt the IFRS 16 standard by using the modified retrospective method.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

2022 EUR 1,000	Buildings	Machinery	Total
As at 1 January	368	1 098	1 466
Additions	0	122	122
Revaluations	435	0	435
Disposals	-203	-14	-216
Depreciations	-188	-1 066	-1 254
As at 31 December	**412**	**140**	**552**

2021 EUR 1,000	Buildings	Machinery and equipment	Total
As at 1 January	253	3 702	3 955
Additions	19	74	93
Revaluations	387	0	387
Disposals	-83	-566	-649
Depreciations	-208	-2 112	-2 320
As at 31 December	**368**	**1 098**	**1 466**

Set out below are the carrying amounts of lease liabilities and the movements during the peri

Lease liabilities **EUR 1,000**	**2022**	**2021**
As at 1 January	1 927	5 176
Disposals	-209	-80
Additions	556	-
Payments	-1 531	-3 080
Interest expenses	-7	-90
As at 31 December	**735**	**1 927**
Non-current	311	395
Current	425	1 531

The maturity analysis of lease liabilities are disclosed in Note 4.2.6.

Amounts recognised in profit or loss

EUR 1,000	**2022**	**2021**
Depreciation expense of right-of-use assets	-1 254	-2 320
Interest expense on lease liabilities	-7	-90
Expense related to short-term leases (incl. in other operating expenses)	-35	-37
Total amount recognised in profit or loss	**-1 297**	**-2 446**

During 2022 the Group had total cash outflows for leases of EUR 1 873 thousand(2021: EUR 3,918 thousand).

The Group has not lease contracts that contains variable payments, but all lease contracts contains fixed rent.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in in managing the leased-asset portfolio according to needs of business. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 1.4).

The lease contract concerning the main premises of the group will change from a fixed term to valid untill further notice on 31.3.2022. Management has assessed in December 2022 that the coming lease period will be at least 2 years. The lease contract has been revaluated based on this assesment and the resulting addition to lease liabilities is 232 thousand euros.

According to management's assumption, the Group estimates that it will not use termination options of car's and electricity meters' leases

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 Verkko Oyj is responsible for the Group financial risk management.

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

Capital management

As the electricity distribution is 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

Translation differences (Accounting policy)

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

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

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

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

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

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

Finance income and costs

Interest expenses include interest expenses on interest-bearing loans. Other interest expenses mainly consist of deposit fees amounting to EUR 0.2 million.

EUR 1,000	**2022**	**2021**
Interest expenses		
Loans from financial institutions	-729	-446
Bonds and notes	-36 050	-35 925
Interest expenses related to lease liabilities	-7	-90
Other interest expenses	-240	-419
Total interest	**-37 026**	**-36 880**
Other finance costs	-2 963	-3 697
Exchange rate losses		
Loans and receivables	0	-1
Total finance costs	**-39 990**	**-40 579**
Interest income		
Other interest income	257	937
Exchange rate gains		
Loans and receivables	0	0
Other finance income	1	1
Total finance income	**258**	**938**
Finance costs (net)	**-39 731**	**-39 641**

4.2 Financial assets and liabilities

IFRS 9 Financial Instruments

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.

The impairment requirements 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 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.

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

Classification of current and non-current assets and liabilities

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

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

4.2.1 Cash and cash equivalents

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

4.2.2 Financial assets

Initial recognition and measurement

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

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The group does not have any financial assets measured at fair value in 2022. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS15. Refer to the accounting policies in Note 2.1.1 Revenue from contracts with customers.

Subsequent measurement

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

Financial assets carried at amortised cost

Financial assets carried 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 determined 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.

Derecognition of financial assets

Financial assets are derecognised when:

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

4.2.3 Impairment of financial assets

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

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

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

4.2.4 Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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.

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 2022					
Balance sheet item, EUR 1,000	Note	Amortised cost	Fair value through profit and loss	Carrying value of balance sheet items	Fair value
Current financial assets					
Trade receivables and other non-interest-bearing receivables	2.1.4	17 987	-	17 987	17 987
Cash and cash equivalents		51 154	-	51 154	51 154
Total Current assets		**69 140**	**0**	**69 140**	**69 140**
Carrying amount by category		**69 140**	**0**	**69 140**	**69 140**
Non-current financial liabilities					
Bonds and notes	4.2.8-9	-1 683 025	-	-1 683 025	-1 480 588
Loans from financial institutions	4.2.8-9	-150 000	-	-150 000	-150 000
Interest-bearing non-current liabilities					
- Leases	3.3	-311	-	-311	-311
Total interest-bearing non-current liabilities		**-1 833 336**	**-**	**-1 833 336**	**-1 630 899**
Current financial liabilities					
Other current interest-bearing liabilities					
- Leases	3.3	-425	-	-425	-425
Trade payables	2.3.2	-5 639	-	-5 639	-5 639
Total current financial liabilities		**-6 064**	**-**	**-6 064**	**-6 064**
Carrying amount by category		**-1 839 400**	**-**	**-1 839 400**	**-1 636 963**

Values at 31 December 2021					
Balance sheet item, EUR 1,000	Note	Amortised cost	Fair value through profit and loss	Carrying value of balance sheet items	Fair value
Current financial assets					
Trade receivables and other non-interest-bearing receivables	2.1.4	23 546	-	23 546	23 546
Cash and cash equivalents		71 841	-	71 841	71 841
Total Current assets		**95 387**	**-**	**95 387**	**95 387**
Carrying amount by category		**95 387**	**-**	**95 387**	**95 387**
Non-current financial liabilities					
Bonds and notes	4.2.8-9	-1 682 046	-	-1 682 046	-1 895 066
Loans from financial institutions	4.2.8-9	-150 000	-	-150 000	-150 000
Interest-bearing non-current liabilities		-	-	-	-
- Leases	3.3	-395	-	-395	-395
Total interest-bearing non-current liabilities		**-1 832 441**	**-**	**-1 832 441**	**-2 045 461**
Current financial liabilities					
Other current interest-bearing liabilities					
- Leases	3.3	-1 531	-	-1 531	-1 531
Trade payables	2.3.2	-16 460	-	-16 460	-16 460
Total current financial liabilities		**-17 991**	**-**	**-17 991**	**-17 991**
Carrying amount by category		**-1 850 433**	**-**	**-1 850 433**	**-2 063 452**

The valuation of financial assets and liabilities at fair value has not had an effect on the income statement or the statement of comprehensive income in 2022 and 2021.

Cash at banks and on hand
Elenia had short-term bank deposits amounting to EUR 51.2 million (2021: EUR 71.8 million). All bank deposits were denominated in euros.

Bonds and notes
The fair value of the bonds have been calculated based on the required rate of return estimated using the EUR-denominated swap rate yield curve and the estimated risk premium calculated based on the market quotes of Elenia Verkko Oyj's bonds at the balance sheet date.

Financial liabilities
Interest-bearing liabilities at the balance sheet date totalled EUR 1,835 million.
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.

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

31 December 2022	**Effective**	**Maturity**			
	interest rate				
EUR 1,000	**%**	**Within 1 year**	**1-5 years**	**Over 5 years**	**Total**
Loans from financial institutions	1,93 %	0	0	150 000	150 000
Bonds	1,91 %	0	640 000	531 000	1 171 000
Notes	2,71 %	0	0	518 500	518 500
Lease liabilities		0	311	0	311
Total interest-bearing non-current liabilities					**1 839 811**
Lease liabilities		425	0	0	425
Total current interest-bearing liabilities					**425**
Trade payables		5 639	0	0	5 639
Total current financial liabilities					**5 639**
Total		**6 064**	**640 311**	**1 199 500**	**1 845 875**

31 December 2021	**Effective**	**Maturity**			
	interest rate				
EUR 1,000	**%**	**Within 1 year**	**1-5 years**	**Over 5 years**	**Total**
Loans from financial institutions	0,28 %	0	0	150 000	150 000
Bonds	1,89 %	0	140 000	1 031 000	1 171 000
Notes	2,71 %	0	0	518 500	518 500
Lease liabilities		0	395	0	395
Total interest-bearing non-current liabilities					**1 839 895**
Lease liabilities		1531	0	0	1531
Total current interest-bearing liabilities					**1 531**
Trade payables		16 460	0	0	16 460
Total current financial liabilities					**16 460**
Total		**17 991**	**140 395**	**1 699 500**	**1 857 887**

4.2.7 Changes in financial liabilities arising from financing activities

Changes in liabilities arising from financing activities

EUR 1,000	1 Jan 2022	Cash flows	Other changes	31 Dec 2022
Current obligations under lease liabilities	1 531	-1 531	425	425
Non-current interest-bearing loans and borrowings (excl. items listed below)	1 832 046	0	979	1 833 025
Non-current obligations under lease liabilities	395	0	-85	311

EUR 1,000	1 Jan 2021	Cash flows	Other changes	31 Dec 2021
Current obligations under lease liabilities	3 943	-3 080	668	1 531
Non-current interest-bearing loans and borrowings (excl. items listed below)	1 831 082	0	964	1 832 046
Non-current obligations under lease liabilities	1 233	0	-837	395

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

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

4.2.8 Fair value hierarchy of financial assets and liabilities

Fair value measurement of financial instruments (Accounting policy)

Fair value related to 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.

Fair value hierarchy

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

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

As at 31 December 2022, the Group held the following financial instruments carried at amortised cost in the consolidated statement of financial position:

Financial assets and liabilities	**Level 1**		**Level 2**		**Level 3**		**Total**	
EUR 1,000	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Financial instruments, non-current liabilities								
Bonds and notes	0	0	-1 480 588	-1 895 066	0	0	-1 480 588	-1 895 066
Loans from financial institutions	-150 000	-150 000	0	0	0	0	-150 000	-150 000
Total non-current financial liabilities	**-150 000**	**-150 000**	**-1 480 588**	**-1 895 066**	**0**	**0**	**-1 630 588**	**-2 045 066**
Total financial liabilities	**-150 000**	**-150 000**	**-1 480 588**	**-1 895 066**	**0**	**0**	**-1 630 588**	**-2 045 066**

4.2.9 Risk management

Liquidity risk

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

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

Cash and cash equivalents and committed unutilized credit facilities
31 Dec 2022

EUR 1,000	Facility amount	In use	Available amount	Maturity
Capex facility	350 000	0	350 000	1-5 years
Working Capital facility	60 000	0	60 000	1-5 years
Liquidity facility	60 000	0	60 000	Over 5 years
EIB credit facility	250 000	150 000	100 000	Over 5 years
Cash and cash equivalents			51 154	
Total	**720 000**	**150 000**	**621 154**	

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 Management team. According to the guidelines, currency risks that have an impact on profit or loss are primarily hedged operationally through contractual currency rate clauses.

Operating profit includes EUR 1 thousand (2021:-1.2 thousand euros) exchange rate differences. Finance costs include EUR 0.0 thousand exchange rate differences (2021: EUR 1.0 thousand). At the end of 2022 there were no outstanding receivables or payables in foreign currencies.

Counterparty and credit 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 consit solely of short-term bank deposits.

Refinancing risk

Elenia Verkko 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 North American investors through private placements. The Group has financial covenants relating to interest cover and leverage. The covenants are typical in such arrangements. There were no covenant breaches in 2022. Elenia Verkko 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

At the end of 2022 Group had no borrowings from the Capex Facility nor from the Working Capital Facility. A the end of 2022 Elenia Verkko Oyj had a drawn loan facility with the European Investment Bank (EIB) EUR 50 million maturing in 2028 and EUR 100 million maturing in 2030. Elenia Verkko Oyj has agreed another EUR 100.0 million credit facility with the At the end of 2022 there were no drawdowns from the credit facility.

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 91% (2019: N/A) 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 +/- 1.7 million (2021: +/-1.7 million) effect on the interests relating to floating rate loans.

Commodity price risk

Changes in commodity prices affect mainly electricity purchases used for distribution losses and purchases of electricity network components. The Group has a hedging policy covering electricity purchases for approximately the following 4 years to mitigate the impact of short term price fluctuations. The majority of electricity purchases are hedged for the following year, with a declining hedging profile for the subsequent years. The regulatory methods governing electricity distribution operations provide protection against changes in commodity prices over the medium term. Changes in raw material prices such as oil, aluminum and copper affecting purchases of network components, causes fluctuations primarily in capital expenditure.

4.3 Other commitments and contingencies

<u>Other commitments</u> **EUR 1,000**	**2022**	**2021**
Registered floating charges:		
Provided on behalf of own and Group liabilities	9 000 000	9 000 000
Mortgages	202 000	206 600
Refundable connection fees	283 337	283 293

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

4.4 Equity

Share capital

Reorganisations were done in legal structure during 2020 which are explained in more detail in the 2021 and 2020 financial statements. After those reorganisations Elenia Network Group was formed.

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.

Equity repayment

The meeting of Elenia Verkko Oyj's shareholders decided on 15.12.2020 proactively the equity repayment of €550.0m to its sole shareholder Elenia Oy during 2020-2023. The equity repayment was done from Unrestricted equity and was transferred to short-term payables in December 2020.

Equity investment and common control reserve

There were no restructuring in 2022 or 2021.

	2022	**2021**
Unrestricted equity 1 Jan	-548 843	-548 843
Unrestricted equity 31 Dec	**-548 843**	**-548 843**

Retained earnings

Change in retained earnings of 20 704 thousand euros consists of group contribution given by Elenia Oy. During 2021 there were no changes in retained earnings.

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:

	2022	**2021**
Profit attributable to equity holders of the parent, EUR	56 029 046	72 171 974
Average number of shares, pcs	90	90
Earnings/share, EUR - basic = diluted	**622 545**	**801 911**

5 Consolidation

5.1 Basis of consolidation (Accounting policy)

The consolidated financial statements comprise the parent company Elenia Verkko Oyj 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 2022, the subsidiaries do not have non-controlling interests.

5.2 Business combinations 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.

5.3 Acquisitions and disposals

In 2022 or 2021 there were no business disposals.

In 2022 or 2021 there were no acquistions to be accounted for as business combinations.

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

5.4.1 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 2020. 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:

Amendment to IFRS 16 Leases Covid-19 Related Rent Concessions

The amended standards will be effective for annual periods beginning on or after 1 January 2020 with early adoption permitted. The EU has endorsed the amendments.

The Amendment permits lessees, as a practical expedient, not to assess whether particular COVID-19-related rent concessions are lease modifications. Therefore, if meeting the conditions, lessees that apply the practical expedient would recognise the amount of rent forgiven on or before 30 June 2021 in income in the year of the concession. In the absence of the practical expedient, it would have been recognised in income over the duration of the contract.

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

Amendments to IFRS 3 Business Combination, IAS 16 Property, Plant and Equipment, IAS 37 Provisions and Annual Improvements 2018-2020

The amended standards will be effective for annual periods beginning on or after 1 January 2022 with early adoption permitted. The EU has not endorsed the amendments.

The package of amendments includes narrow-scope amendments to three Standards as well as the Board's Annual Improvements, which are changes that clarify the wording or correct minor consequences, oversights or conflicts between requirements in the Standards.

Amendments to IFRS 3 Business Combinations update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

Amendments to IAS 16 Property, Plant and Equipment prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets specify which costs a company includes when assessing whether a contract will be loss-making. Annual Improvements make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

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

5.4.2 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:

Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9
The amended standard is effective for annual periods beginning on or after 1 January 2023, early application is permitted. The EU has not endorsed the standard.

Currently the temporary exemption from applying IFRS 9 included in IFRS 4 Insurance Contracts, is further extended to 1 January 2023. This is to align with the effective date of IFRS 17 Insurance Contracts which will replace IFRS 4.

The amendment is not applicable to the Group.

IFRS 17 Insurance Contracts
The new standard is effective for annual periods beginning on or after 1 January 2023, 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 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current
The amended standard will be effective for annual periods beginning on or after 1 January 2023 with early adoption permitted. The EU has not endorsed the amendments.

The amendments clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

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

Amendments to IAS 8 Definition of accounting estimates
The amended standards will be effective for annual periods beginning on or after 1 January 2023 with early adoption permitted. The EU has not endorsed the amendments.

The amendments clarify the definitions of accounting estimates. After implementing the changes the standard more cleary distiguish between accounting estimates, changes in accounting policies and correction of errors.

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

Amendments on IAS 12 Deferred tax related to assets and liabilities arising from a single transaction
The amended standards will be effective for annual periods beginning on or after 1 January 2023 with early adoption permitted.

The amendments clarify the recognition of deferred tax when an entity accounts for transactions, such as leases or decommissioning obligations, by recognizing both an asset and a liability.

Group is evaluating the impact of these changes on deferred tax postings and notes on deferred taxes.

Amendments on IAS 1 Disclosure of accounting policies
The amended standards will be effective for annual periods beginning on or after 1 January 2023 with early adoption permitted.

The amendments include a requirement for entities to disclose their material accounting policies rather that their significant accouting policies. Also guidance and examples have been added to support the recognistion of material accounting policies.

Group is evaluating the impacts of the changes to the accounting policies disclosed.

Amendments on IFRS 16: Lease liability in salea and leaseback
The amended standards will be effective for annual periods beginning on or after 1 January 2024 with early adoption permitted.

The changes affect how the seller-lessee handles the variable rental payments arising in a sale and leaseback transaction. With the changes, a new variable payment accounting model will be introduced, which requires that seller-lessees reevaluate and possibly correct sales and leaseback transactions made since 2019.

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

Regulatory Assets and Regulatory Liabilities:Possible new standard
The International Accounting Standards Board published in January 2021 an exposure draft on Regulatory Assets and Regulatory Liabilities. The Exposure Draft sets out the IASB’s proposals for a model to account for regulatory assets and regulatory liabilities. If issued as a new IFRS Standard, the proposals would replace IFRS 14 Regulatory Deferral Accounts. The IASB discussed feedback on the Exposure Draft during October and November 2021 and will begin redeliberating the proposals in the Exposure Draft at a future meeting.
Group is following closely the development of this initiative and evaluating impacts.

6 Other notes

6.1 Taxes

6.1.1 Current income tax

Current income tax (Accounting policy)

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

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

Current income taxes (Accounting judgements)

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

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

The major components of income tax expense for the years ended 31 December 2022 and 2021 are:

Consolidated statement of profit or loss,

EUR 1,000	2022	2021
Current income tax charge	-2 501	-5 344
Adjustments in respect of current income tax of previous periods	-3	-6
Deferred taxes	-16 373	-10 182
Income tax expense reported in the consolidated statement of profit or loss	**-18 877**	**-15 532**

Consolidated statement of OCI,

EUR 1,000	2022	2021
Deferred tax related to items recognised in OCI during the year:		
Remeasurement gains (losses) on defined benefit plans	-39	27
Deferred tax charged to OCI	**-39**	**27**

Income tax rate

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

EUR 1,000	2022	2021
Profit before tax	**74 751**	**87 814**
Theoretical income tax using the nominal tax rate of 20.0%	-14 950	-17 563
- tax-free income items	-60	-54
- expenses that are non-deductible in taxation	278	67
- non-deductible interests from previous years	-	2 024
- adjustment of taxes based on previous periods	-3	-6
- unrecognized deferred tax assets from taxation losses	-4 141	0
Income tax in the income statement,	**-18 877**	**-15 532**

Effective tax rate was 25% (2021: 18%)

6.1.2 Deferred tax

Deferred tax (Accounting policy)

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

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

When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

Deferred tax (Accounting judgements)

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.

Deferred tax (Accounting estimates)

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

6.1.2 Deferred tax

Change in deferred tax assets and liabilities in 2022

Deferred tax assets EUR 1,000	Balance sheet 1 Jan 2022	Recognised in the statement of profit or loss	Recognised in other comprehensive income	Balance sheet 31 Dec 2022
Defined benefit plans	91	-3	-39	49
Liabilities related to contracts with customers	6 201	1 884	0	8 086
Finance leases	181	-128	0	53
Total	**6 473**	**1 753**	**-39**	**8 188**
Deferred tax assets	**6 473**			**8 188**

Deferred tax liabilities EUR 1,000	Balance sheet 1 Jan 2022	Recognised in the statement of profit or loss	Recognised in other comprehensive income	Balance sheet 31 Dec 2022
Interest-bearing liabilities	1 306	-205	0	1 101
Depreciation differences	79 082	22 629	0	101 712
Measurement of assets at fair value in acquisition	58 375	-4 299	0	54 076
Total	**138 763**	**18 125**	**0**	**156 889**
Deferred tax liabilities	**138 763**			**156 889**

Change in deferred tax assets and liabilities in 2021

Deferred tax assets EUR 1,000	Balance sheet 1 Jan 2021	Recognised in the statement of profit or loss	Recognised in other comprehensive income	Balance sheet 31 Dec 2021
Defined benefit plans	66	-2	27	91
Liabilities related to contracts with customers	4 595	1 605	0	6 201
Finance leases	476	-294	0	181
Total	**5 136**	**1 308**	**27**	**6 473**
Deferred tax assets	**5 136**			**6 473**

Deferred tax liabilities EUR 1,000	Balance sheet 1 Jan 2021	Recognised in the statement of profit or loss	Recognised in other comprehensive income	Balance sheet 31 Dec 2021
Interest-bearing liabilities	1 567	-261	0	1 306
Depreciation differences	63 002	16 080	0	79 082
Measurement of assets at fair value in acquisition	62 703	-4 328	0	58 375
Total	**127 272**	**11 490**	**0**	**138 763**
Deferred tax liabilities	**127 272**			**138 763**

6.2 Pensions and other post-employment benefits

Pension obligations (Accounting policy)

Pension arrangements are categorised as defined benefit or defined contribution plans.

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

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

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

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

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

EUR 1,000	**2022**	**2021**
Items recognised on the consolidated statement of financial position at 31 December		
Current value of funded obligations	1 625	2 659
Fair value of assets	-1 381	-2 206
Deficit	244	453
Value of the obligation on the consolidated statement of financial position	**244**	**453**
The obligations of defined benefit pension plans have changed as follows:		
Obligation at the beginning of the year	2 659	3 069
Business combinations		
Current service costs	0	0
Interest expenses	18	15
Actuarial losses	-597	-163
Settlements	-270	-61
Benefits paid	-184	-202
Obligation at the end of the year	**1 625**	**2 659**
The fair value of the assets of defined benefit pension plans has developed as follows:		
Fair value of plan assets at the beginning of the year	2 206	2 741
Business combinations		
Expected income from assets	15	13
Actuarial gains	-404	-300
Settlements	-264	-50
Payments by the employer	13	3
Benefits paid	-184	-202
Fair value of plan assets at the end of the year	**1 381**	**2 206**
The obligation in the consolidated statement of financial position consists of the following items:		
Obligation at the beginning of the year	453	328
Business combinations		
Net cost recognised in the statement of profit or loss	-2	-9
Payments by the employer	-13	-3
Profits and losses recognised in other comprehensive income	-193	137
Value of the obligation at year end	**244**	**453**
Items recognised in the consolidated statement of profit or loss		
Expenses based on service in the reporting year	-5	-10
Interest income	-15	-13
Interest expenses	18	15
Total	**-2**	**-9**
Items recognised in the consolidated statement of other comprehensive income for the year		
Actuarial gains/(losses) on assets	404	300
Actuarial gains/(losses) on obligations	-597	-163
Total	**-193**	**137**

6.2 Pensions and other post-employment benefits

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

2022 **Assumption** **EUR 1,000**	Change in assumption	benefit obligations	Fair value of Plan assets	Net Liability	Net interest
Discount rate 3,9 %		1 625	1 381	244	9
Discount rate 1.3 %	+0,50 %	1 553	1 327	226	10
Discount rate 0.2 %	-0,50 %	1 704	1 440	265	9

2021 **Assumption** **EUR 1,000**	Change in assumption	benefit obligations	Fair value of Plan assets	Net Liability	Net interest
Discount rate 0.7 %		2 659	2 206	453	3
Discount rate 1.3 %	+0,50 %	2 502	2 093	409	5
Discount rate 0.2 %	-0,50 %	2 833	2 330	503	1

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 2023 are estimated to be EUR 14 thousand.

The weighted average duration of defined benefit obligation is 10 years.

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

EUR 1,000	**2022**	**2021**
Under 1 year	197	206
1-10 years	997	1 169
10-20 years	686	820
20-30 years	412	478
Over 30 years	246	248
Total	**2 537**	**2 920**

Actuarial assumptions used in calculations	**2022**	**2021**
Discount rate	3,9 %	0,7 %
Estimate of salary increases	2,6 %	2,9 %
Inflation	2,4 %	1,9 %

6.3 Related Party Disclosures

Shareholders

All of the shares in Elenia Verkko Oyj are owned by a Finnish company, Elenia Oy.
Elenia's ultimate parent Elton Investments S.à r.l. is majority owned by a consortium of infrastructure investors: Société Foncière Européenne B.V.(SFE) and Allianz Infrastructure Luxembourg I S.à r.l. (AIL), Lynx Elton S.à r.l. (Lynx Elton), Allianz European Infrastructure Acquisition Holding S.à r.l. (AEIAH), Elton Ventures S.à r.l., Manco Investment Oy and Valtion Eläkerahasto (VER).

SFE and AIL are fully indirect subsidiaries of Allianz SE, and therefore members of the Allianz Group. AEIAH is an investment vehicle of the Allianz European Infrastructure Fund S.A. RAIF (AEIF), a fund managed by Allianz Capital Partners (ACP) and Lynx Elton is a vehicle managed by CapMan Infra and advised by ACP. Elton Ventures S.à r.l. is an entity managed by Macquarie Infrastructure and Real Assets (Europe) Limited (MIRA) and whose majority shareholder is Macquarie Super Core Infrastructure Fund SCSp. Manco Investment Oy is owned by five Elenia's key management persons.

Subsidiaries and associates

Elenia Verkko Group was formed on January 1, 2020 as a result of corporate restrucutrings. Elenia Verkko Oyj owns all the shares in Elenia Innovations Oy. Prior to the July 2020 mergers, the Elenia Network Group also had subsidiaries Elenia Oy, Elenia Finance Oyj, Elenia Finance SPPS S.à r.l., Elenia Holdings S.à r.l. and Lakeside Network Investments Holding B.V.

Senior Management

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

Five of the key management persons have invested into Elton Investment S.à r.l. which is the ultimate owner of Elenia Oy. The management investment is channelled through a management owned holding company Manco Investment Oy, which owns approximately 0.3% of Elton Investment S.à r.l. after the arrangement. The equity investment has been made at fair market values. There is a also shareholder loan between Manco Investment Oy and Elton Investment S.à r.l. The original loan amount was 0.3 million euros.

Management team

Management team of Elenia Verkko Oyj's parent company Elenia Oy is 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 not intercompany transactions but Elenia Verkko Oyj has transaction with a parent company Elenia Oy and upper Finnish entity Elenia Group Oy. Transactions are related to internal services and construction provided by Elenia Oy and Elenia Group Oy to Elenia Verkko Oyj.

During 2021 other long-term receivables (2020: EUR 274.7 million) from the company's ultimate owners through intermediary holding entities were netted against the payable related to equite repayment. The following table includes the specification of other long-term receivables and related accrued interests.

EUR 1,000	Loan 1st Jan 2021	Loan 31 Dec 2021	Interest income 1 Jan - 31 Dec 2021
Elenia Group Oy	274 695	0	858
Total	**274 695**	**0**	**858**

The meeting of Elenia Verkko Oyj's shareholders decided on 15.12.2020 proactively the equity repayment of €550.0m to its sole shareholder Elenia Oy during 2020-2023. The equity repayment was done from Unrestricted equity and was transferred to short-term payables in December 2020. The following table includes the specification of other short-term payables.

EUR 1,000	Unrestricted equity repayment liability 31 Dec 2020	Decrease during 2021-2022	Unrestricted equity repayment liability 31 Dec 2022
Elenia Oy	550 000	372 553	177 447
Total	**550 000**	**372 553**	**177 447**

6.4 Events after the reporting period

Elenia’s information security management system was recertified according to ISO 27001 in January 2023.

In 2022 the EA continued the development of regulatory methods for the upcoming sixth (2024–2027) and seventh (2028–2031) regulatory periods. Elenia is actively involved in the process. The EA has stated that the new regulatory methods will be a continuation of the current methods, and any changes are expected to be relatively minor. Unit prices are expected to be updated again for the sixth regulatory period, which is expected to have a positive impact in view of the recent increase in raw material prices, which is also reflected in the prices of network components. Elenia strongly believes that regulatory methods will continue to support DSOs and compensate for long-term investments in security of supply in the upcoming sixth and seventh regulatory periods. The first guidelines for the regulatory methods were published in March 2023 and they are broadly in line with Elenia’s expectations, but without the updated unit prices the impact of the upcoming regulation to Elenia’s business cannot be fully assesse sh

6.5 Consolidated statement of profit or loss (adjusted for comparability)

Comparability with previous year figures (Accounting policy)

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.

	Note	**1.1.-31.12.2022**	**1.1.-31.12.2021**
EUR 1,000			
Revenue	2.1.1	308 552	320 185
Items affecting comparability included in revenue		-626	0
Other operating income	2.2.1	2 328	1 996
Items affecting comparability included in other operating income		347	0
Materials and services		-82 267	-83 337
Employee benefit expenses	2.3.3	-3 526	-3 698
Other operating expenses	2.3.1	-21 977	-21 344
Operating expenses Total		-107 770	-108 379
Items affecting comparability included in operating expenses		-1 206	-330
EBITDA		**203 110**	**213 803**
EBITDA before Items affecting comparability		**204 594**	**214 132**
Depreciation and amortisation	3	-88 627	-86 348
Operating profit		**114 482**	**127 455**
Operating profit before Items affecting comparability		**115 967**	**127 785**

The purpose of the above table is to illustrate the underlying profitability of the business without any items affecting comparability (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 2022 in total EUR 1 485 thousand was recognised as items affecting comparability. This amount consist of exceptional network losses of 7 005 million euros, costs that relate to legal actions due to regulatory changes of 229 thousand euros, temporary rebate to customers of 626 thousand euros, temporary network upstream cost rebate of 4 482 thousand euros, compensation related to a bankruptcy of 347 thousand euros and decrease in connection fee related provision due do increase in market rates of 1 546 thousand euros.

The maximum monthly average electricity price in Finland during the previous 10-year period was 57 €/MWh as per June 2021. On this basis, costs from network losses exceeding 60 €/MWh on a monthly basis are treated as exceptional. Finland’s transmission system operator, Fingrid did not invoice grid service fees from distribution system operators from December 2022. Based on the company’s announcement in October 2022, the rebate, which will be granted also for 3-6 months in 2023, is the result of significantly higher than expected congestion income caused by electricity price differences at Finland’s boarders. Elenia’s distribution revenue decreased correspondingly by the proportion of grid service fees invoiced directly from customers connected to Elenia’s high voltage network.

In 2021 in total EUR 330 thousand was recognised as items affecting comparability. This amount relates to damage compensation of EUR 200 thousand paid to a single customer due to a metering error during previous years and consultancy fees of EUR 130 thousand that relate to legal actions taken due to regulatory changes.

Elenia Verkko Oyj

PARENT COMPANY FINANCIAL STATEMENTS

1 January 2022 - 31 December 2022

Income Statement	**Note**	**1 Jan - 31 Dec 2022**	**1 Jan - 31 Dec 2021**
EUR			
Revenue	1.1	**318 272 620,67**	**328 482 460,76**
Other operating income	1.2	2 328 466,75	1 996 464,69
Materials and services	1.3	-82 266 814,13	-83 336 895,76
Personnel expenses	1.4	-3 544 567,02	-3 712 173,72
Depreciation, amortisation and impairment	1.5	-156 686 092,64	-153 196 276,87
Other operating expenses	1.6	-25 424 487,29	-25 728 101,74
Operating profit		**52 679 126,34**	**64 505 477,36**
Finance income and expenses	1.7	-38 696 748,50	-38 243 574,20
Profit / loss before appropriations and taxes		**13 982 377,84**	**26 261 903,16**
Appropriations	1.8		
Change in accelerated depreciations		-113 147 000,00	-80 397 695,34
Group contributions		20 703 500,00	0,00
Income taxes	1.9	1 754 168,02	-1 092 472,04
Profit / loss for the year		**-76 706 954,14**	**-55 228 264,22**

Elenia Verkko Oyj

Business ID: 3001882-6

Financial Statements

31 December 2022

Balance Sheet	**Note**		**31 Dec 2022**		**31 Dec 2021**
EUR					
ASSETS					
Non-current assets					
Intangible assets	2.1				
Intangible rights		22 778 056,98		22 650 499,47	
Goodwill		2 099 832 837,50		2 155 828 379,90	
Other capitalized long term expenditure		18 922 324,39	2 141 533 218,87	17 163 564,97	2 195 642 444,34
Tangible assets	2.2				
Land and water areas		2 144 088,88		2 105 357,69	
Buildings and constructions		259 400,00		270 754,88	
Electricity network		2 110 056 870,27		2 050 244 415,18	
Machinery and equipments		25 451 078,83		14 179 703,65	
Other tangible assets		795,44		1 368,08	
Advance payments and construction in progress		20 145 983,33	2 158 058 216,75	21 420 743,90	2 088 222 343,38
Investments	2.3				
Other shares and holdings		194 229,69	194 229,69	194 229,69	194 229,69
Total non current assets			**4 299 785 665,31**		**4 284 059 017,41**
Current assets					
Long-term receivables	2.4				
Long-term other receivables		731 828,84		967 174,68	
Loan receivables		0,00	731 828,84	0,00	967 174,68
Short-term receivables	2.4				
Trade receivables		17 986 726,25		23 546 313,75	
Receivables from group companies		20 903 451,51		8 310,00	
Other receivables		474 497,55		477 832,28	
Prepayments and accrued income		38 500 127,14	77 864 802,45	43 607 332,19	67 639 788,22
Cash and cash equivalents	2.4		51 153 571,67		71 841 122,48
Total current assets			**129 750 202,96**		**140 448 085,38**
TOTAL ASSETS			**4 429 535 868,27**		**4 424 507 102,79**

Balance Sheet	Note		31 Dec 2022		31 Dec 2021
EUR					
EQUITY AND LIABILITIES					
Capital and reserves	3.1				
Subscribed capital		80 000,00		80 000,00	
Non restricted equity		1 657 400 000,00		1 657 400 000,00	
Retained earnings		-87 053 826,14		-31 825 561,92	
Loss for the financial year		-76 706 954,14	1 493 719 219,72	-55 228 264,22	1 570 426 173,86
Cumulative accelerated depreciations	3.2		**508 553 509,67**		**395 406 509,67**
Liabilities	3.3				
Non-current liabilitites					
Connection fees		202 334 106,49		202 636 448,85	
Bonds and notes		1 689 500 000,00		1 689 500 000,00	
Loans from financial institutions		150 000 000,00		150 000 000,00	
Deferred tax liabilities		97 937 620,21	2 139 771 726,70	102 195 777,61	2 144 332 226,46
Current liabilities					
Trade payables		5 639 368,07		16 459 977,39	
Liabilities to group companies		226 558 894,55		232 610 268,56	
Other short-term liabilities		27 912 796,46		25 438 657,65	
Accruals and deferred income		27 380 353,10	287 491 412,18	39 833 289,20	314 342 192,80
Total liabilities			**2 427 263 138,88**		**2 458 674 419,26**
TOTAL EQUITY AND LIABILITIES			**4 429 535 868,27**		**4 424 507 102,79**

Cash Flow Statement

EUR	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
Cash flow fron operating activities		
Loss before appropriations and taxes	13 982 377,84	26 261 903,16
Adjustments		
Depreciation, amortisation and impairment	156 686 092,64	153 196 276,87
Finance income and expenses	38 696 748,50	38 243 574,20
Other adjustments	-358 774,74	-4 442,07
Cash flow before change in working capital	**209 006 444,24**	**217 697 312,16**
Change in working capital		
Increase (-) / decrease (+) in non-interest bearing receivables	12 707 850,87	-4 711 311,44
Increase (+) / decrease (-) in non-interest bearing liabilities	1 959 787,67	22 302 996,59
Operating cash flow before financial items and taxes	**223 674 082,78**	**235 288 997,31**
Interest payments	-36 657 987,57	-36 867 207,98
Interests received	257 357,14	79 299,58
Payments for other finance items	-2 002 888,85	-1 805 117,42
Connection fee refunds	302 342,36	271 292,47
Taxes paid	-5 353 976,14	-5 351 225,97
Cash flow from operating activities	**180 218 929,72**	**191 616 037,99**
Cash flow from investing activities		
Capital expenditures	-178 126 982,19	-172 892 394,58
Proceeds from disposals of other investments	4 220 501,66	267 423,89
Cash flow from investing activities	**-173 906 480,53**	**-172 624 970,69**
Cash flow from financing activities		
Equity repayment	-27 000 000,00	-70 000 000,00
Group contributions received and paid	-	9 070 500,00
Cash flow from financing activities	**-27 000 000,00**	**-60 929 500,00**
Change in cash and cash equivalents	**-20 687 550,81**	**-41 938 432,70**
Cash and cash equivalents 1 Jan	71 841 122,48	113 779 555,18
Cash and cash equivalents 31 Dec	**51 153 571,67**	**71 841 122,48**

Cash and cash equivalents comprise of bank deposits.

Loans granted and repayments of loan receivables are presented in financing cash flow instead of cash flow from investing activities.

Accounting principles

The financial statements of Elenia Verkko Oyj 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

Connection fees are non-refundable and therefore they have been booked as revenue in the profit and loss account.

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 tax liabilities and receivables
Deferred tax liabilities or assets have been calculated for temporary differences between taxation and the financial statements using rate established at the balance sheet date for the following years. The balance sheet includes the deferred tax liability in its entirety a deferred tax asset in the amount of the estimated probable receivable.

1.1 Revenue

EUR 1,000	2022	2021
Distribution income	305 818	317 330
Contracting income	1 569	2 083
Connection fee income	10 723	8 993
Other sales income	285	443
Outage compensation	-122	-367
Total	**318 273**	**328 482**

1.2 Other operating income

EUR 1,000		
Revenue from collection of trade receivables	1 041	1 060
Other operating income	1 287	936
Total	**2 328**	**1 996**

1.3 Materials and services

EUR 1,000		
Grid costs	-35 074	-41 924
Network losses	-24 507	-16 528
External services	-20 844	-23 189
Materials	-1 841	-1 696
Total	**-82 267**	**-83 337**

1.4 Personnel expenses

	2022	2021
Average number of personnel during the financial year	75	83
EUR 1,000		
Salaries	-2 958	-3 164
Pension expenses	-516	-477
Other employee expenses	-70	-72
Total	**-3 545**	**-3 712**

Salaries and remuneration were not paid to CEO in 2022 or 2021.

1.5 Depreciations according to the plan

EUR 1,000		
Impairment	-3 110	-5 389
Intangible fixed assets	-1 109	-1 052
Goodwill	-55 996	-55 996
Other capitalized long-term expenditure	-2 127	-1 348
Buildings and constructions	-12	-12
Electricity network	-91 088	-86 952
Machinery and equipments	-3 245	-2 447
Total	**-156 686**	**-153 196**

1.6 Other operating expenses

EUR 1,0(		
Lease expenses	-2 289	-4 178
Other external services	-19 547	-18 119
Other operating expenses	-3 589	-3 431
Total	**-25 424**	**-25 728**

Audit charges EUR 1,000		
Auditing fees	-101	-48
Fees for tax services	-7	-11
Fees for other services	-6	-69
Total	**-114**	**-128**

1.7 Financial income and expenses

EUR 1,0(		
Interest and other financial income		
From group companies	6	0
Other financial income	253	938
Total	**258**	**938**
Interest and other financial expenses		
Interest expenses	-37 016	-36 789
Other financial expenses	-1 939	-2 393
Total	**-38 955**	**-39 182**
Total financial income and expenses	**-38 697**	**-38 244**

1.8 Appropriations

EUR 1,0(	**2022**	**2021**
Change in accelerated depreciations	-113 147	-80 398
Group contribution received	20 704	0
Total	**-92 443**	**-80 398**

1.9 Income taxes

EUR 1,0(		
Income taxes for the financial period	-2 501	-5 344
Adjustment in income taxes for the previous periods	-3	-6
Change in deferred taxes	4 258	4 258
Total	**1 754**	**-1 092**

2.1 Intangible fixed assets

Intangible rights
EUR 1,000

Cost 1 Jan	38 441	36 174
Investments	1 237	2 268
Cost 31 Dec	39 678	38 441
Accumulated depreciation 1 Jan	-15 791	-14 738
Depreciation according to the plan	-1 109	-1 052
Book value 31 Dec	**22 778**	**22 650**

Goodwill
EUR 1,000

Acquisition cost 1.1.	2 259 730	2 259 730
Cost 31 Dec	2 259 730	2 259 730
Accumulated depreciation 1.1.	-103 902	-47 906
Depreciation according to the plan	-55 996	-55 996
Book value 31.12.	**2 099 833**	**2 155 828**

Other capitalized long-term expenditure
EUR 1,000

Cost 1 Jan	330 464	322 046
Investments	3 886	8 418
Cost 31 Dec	334 349	330 464
Accumulated depreciation 1 Jan	-313 300	-311 952
Depreciation according to the plan	-2 127	-1 348
Book value 31 Dec	**18 922**	**17 164**

2.2 Tangible fixed assets

Land and water areas
EUR 1,000

Cost 1 Jan	2 105	2 105
Investments	41	0
Disposals	-1	-
Cost 31 Dec	2 145	2 105
Impairment	-1	-
Book value 31 Dec	**2 144**	**2 105**

Buildings and constructions
EUR 1,000

Cost 1 Jan	3 119	3 119
Cost 31 Dec	3 119	3 119
Accumulated depreciation 1 Jan	-2 849	-2 837
Depreciation according to the plan	-11	-11
Book value 31 Dec	**259**	**271**

Electricity network
EUR 1,000

	2022	**2021**
Cost 1 Jan	3 096 862	2 954 228
Investments	157 249	157 243
Disposals	-11 286	-14 609
Cost 31 Dec	3 242 825	3 096 862
Accumulated depreciation 1 Jan	-1 046 617	-968 002
Impairment	-3 109	-5 389
Disposals	8 045	13 726
Depreciation according to the plan	-91 088	-86 952
Book value 31 Dec	**2 110 057**	**2 050 244**

Notes to the Financial Statements

Machinery and equipments
EUR 1,000

Cost 1 Jan	69 711	63 894
Investments	14 516	5 817
Cost 31 Dec	84 227	69 711
Accumulated depreciation 1 Jan	-55 531	-53 084
Depreciation according to the plan	-3 245	-2 447
Book value 31 Dec	**25 451**	**14 180**

Other tangible assets
EUR 1,000

Cost 1 Jan	56	56
Cost 31 Dec	56	56
Accumulated depreciation 1 Jan	-55	-54
Depreciation according to the plan	-1	-1
Book value 31 Dec	**1**	**1**

Advance payments and construction in progress
EUR 1,000

Cost 1 Jan	21 421	23 091
Increase	448	84
Decrease	-1 723	-1 755
Book value 31 Dec	**20 146**	**21 421**

2.3 Investments

Other shares and holdings
EUR 1,000

Cost 1 Jan	194	194
Book value 31 Dec	**194**	**194**

2.4 Receivables

	2022	**2021**
Long term receivables		
EUR 1,000		
External loan receivables	732	967
Long term receivables total	**732**	**967**
Short term receivables		
Receivables from group companies		
EUR 1,000		
Accrued income	200	8
Group contribution receivables	20 704	0
Receivables from group companies total	20 903	8
External receivables		
EUR 1,000		
Trade receivables	17 987	23 546
Other short-term receivables	474	478
Accrued income	38 500	43 607
External receivables total	56 961	67 631
Accrued income		
EUR 1,000		
Sales accruals	35 539	43 406
Other accrued income and receivables	112	201
Accrued income total	2 850	0
Accrued income total	38 500	43 607
Short term receivables total	**77 865**	**67 640**
Total receivables	**78 597**	**68 607**
Cash and cash equivalents	**51 154**	**71 841**

3.1 Capital and reserves

EUR 1,000		
Subscribed capital 1 Jan	80	80
Change (+-)	0	0
Subscribed capital 31 Dec	80	80
Non restricted equity 1 Jan	1 657 400	1 657 400
Non restricted equity 31 Dec	1 657 400	1 657 400
Retained earnings (loss) 1 Jan	-87 054	-31 826
Loss for the the financial year	-76 707	-55 228
Total capital and reserves	**1 493 719**	**1 570 426**
Distributable equity	1 493 639	1 570 346

3.2 Cumulative accelerated depreciations

EUR 1,000	508 554	395 407

Accelerated depreciations include deferred tax liability of 101 710 701.93 euros.

3.3 Liabilities

	2022	**2021**
Non-current liabilities		
EUR 1,000		
Connection fee liability 1 Jan	202 636	202 908
Connection fee refunds	-302	-271
Connection fee liability 31 Dec	202 334	202 636
Bonds and notes	1 689 500	1 689 500
Loans from financial institutions	150 000	150 000
Deferred tax liabilities	97 938	102 196

Elenia Verkko Oyj has recognized a deferred tax liability for the merger loss allocated to the electricity network.

Total non-current liabilitie	**2 139 772**	**2 144 332**

Maturity breakdown of financial liabilities
31 December 2022

EUR 1,000	**Effective interest rate %**	**Maturity Over 5 years**	**Total**
Bonds	1,91 %	531 000	531 000
Notes	2,71 %	518 500	518 500
Loans from financial institutions	1,93 %	150 000	150 000
Total interest-bearing non-current liabilities			**1 199 500**

Maturity breakdown of financial liabilities
31 December 2021

EUR 1,000	**Effective interest rate %**	**Maturity Over 5 years**	**Total**
Bonds	1,89 %	1 031 000	1 171 000
Notes	2,71 %	518 500	518 500
Loans from financial institutions	0,28 %	150 000	150 000
Total interest-bearing non-current liabilities			**1 839 500**

Current liabilities		
EUR 1,000		
Trade payables	5 639	16 460
Other short term liabilities	27 913	25 439
Accrued expenses		
Salaries and social expenses	1 570	1 625
Accrued interest expenses	13 275	12 918
Other accrued expenses	12 535	25 291
	27 380	39 833
Liabilities to group companies		
Group account	45 854	26 262
Accrued expenses	3 258	1 901
Equity repayment liability	177 447	204 447
	226 559	232 610
Total current liabilities	**287 491**	**314 342**
Total liabilities	**2 427 263**	**2 458 674**

3.4 Liabilities and quarantees for debts
EUR 1,000

Provided on behalf of own and group liabilities		
Floating charges	9 000 000	9 000 000
Mortgages	202 000	206 600
Leasing agreements		
Within one year	305	1 706
After one year but not more than five years	95	290
Total	**400**	**1 997**
Other own liabilities		
Connection fees not included in the balance sheet values	85 114	85 114

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

Shares and Holdings

	Domicile	Share	Vote share	Share of ownership	Nominal value EUR 1,000	Book value EUR 1,000
Subsidiary						
Elenia Innovations Oy	Tampere	100 %	100 %	100 %	0	0
Other shares and holdings					194	194
					194	194

Elenia Verkko Oyj

Business ID: 3001882-6

Financial statements
31 December 2022

Differentiated Profit and Loss Account	1 Jan - 31 Dec 2022	1 Jan - 31 Dec 2021
EUR 1,000		
Revenue	**318 249**	**328 434**
Other operating income	**2 299**	**1 982**
Materials and services		
Materials and goods		
Purchace during the financial period		
Network losses	-24 507	-16 522
Other materials	-1 841	-1 694
Services		
Grid costs	-35 074	-41 919
Other external services	-20 844	-23 182
Personnel expenses	**-3 520**	**-3 685**
Depreciation, amortisation and impairment		
Merger loss	-90 988	-90 988
Network assets	-64 304	-61 060
Other assets	-1 395	-1 144
Other operating expenses		
Lease expenses	-293	-289
Network rents and network leasing expe	-1 973	-3 882
Other operating expenses	-23 113	-21 484
Operating profit	**52 695**	**64 568**
Financial income and expenses		
Income from other fixed investment		
Interest and other financial income		
From group companies	6	-
From other companies	253	938
Interest and other financial expenses		
From other companies	-38 955	-39 182
Profit / loss before appropriations and taxes	**13 999**	**26 324**
Appropriations		
Change in accelerated depreciations		
Network assets	-111 985	-79 193
Other assets	-1 276	-1 360
Group contributions		
Group contribution received	20 704	-
Income taxes	**-2 504**	**-5 351**
Loss for the year	**-81 062**	**-59 579**

Differentiated Balance Sheet		**31 Dec 2022**		**31 Dec 2021**
EUR 1,000				
ASSETS				
Non-current assets				
Intangible assets				
Intangilble rights	26 053		25 975	
Goodwill	2 099 833		2 155 828	
Other capitalized long term expenditure	15 647	2 141 533	13 839	2 195 642
Tangible assets				
Land and water areas	190		190	
Buildings and constructions	259		271	
Electricity network	1 332 143		1 225 966	
Merger losses	804 825		839 817	
Machinery and equipments	494		556	
Other tangible assets	1		1	
Advance payments and construction in progress	20 146	2 158 058	21 421	2 088 222
Total non current assets		**4 299 591**		**4 283 865**
Current assets				
Long-term receivables				
Other long-term receivables	732	732	967	967
Short-term receivables				
Trade receivables	17 987		23 546	
Receivables from group companies	20 903		8	
Other receivables	232		231	
Prepayments and accrued income	38 500	77 623	43 607	67 393
Cash and cash equivalents		5 300		45 579
Total current assets		**83 654**		**113 939**
TOTAL ASSETS		**4 383 246**		**4 397 804**

Differentiated Balance Sheet		**31 Dec 2022**		**31 Dec 2021**
EUR 1,000				
EQUITY AND LIABILITIES				
Capital and reserves				
Subscribed capital	80		80	
Non restricted equity	1 926 730		1 968 431	
Retained earnings	-76 728		-31 826	
Loss for the financial year	-81 062	1 769 020	-59 579	1 877 106
Cumulative accelerated depreciations				
Cumulative accelerated depreciations, network assets	504 732		392 747	
Cumulative accelerated depreciations, other assets	3 482	508 213	2 206	394 953
Liabilities				
Non-current liabilitites				
Non-current liabilities, interest-free				
Connection fees	202 334		202 636	
Non-current liabilities, interest-bearing				
Loans from financial institutions and other long-term loans	1 839 500	2 041 834	1 839 500	2 042 136
Current liabilities				
Current liabilities, interest-free				
Trade payables	5 637		16 446	
Liabilities to group companies	3 258		1 901	
Other short-term liabilities	27 913		34 205	
Accruals and deferred income	27 371	64 179	31 057	83 609
Total liabilities		**2 106 013**		**2 125 745**
TOTAL EQUITY AND LIABILITIES		**4 383 246**		**4 397 804**

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. This differentiation requirement also applies to legally separated network operator. Only items that are relevant for network business operations are included in the differentiated financial statements. 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 Verkko Oyj contains Streetlightning Network business as well as Elenia group's financing and administrative related services and items. In January 2021 Elenia Verkko Oyj divested its Streetlightning Network business.

Differentiation principles

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

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

Electricity Network business' key figures **EUR 1,000**	**1 Jan - 31 Dec 2022**	**1 Jan - 31 Dec 2021**
Investments		
Intangble assets		
Intangble rights	2 006	5 041
Other capitalized long term expenditures		
Connection fees	2 257	4 800
Other capitalized long-term expenditures	860	844
Tangible assets of electricity network business		
Land and water areas	41	0
Electricity network	150 908	151 489
Demolition costs	6 341	5 753
Meters	14 504	5 791
Other tangible assets	12	26
Other key figures		
Refundable connection fees	202 334	202 636
Capital gain on the sales of a power line included in the other operating income	360	-
Mandatory outage compensations	225	594
R&D expenses in the profit and loss account during the financial year	407	433
Operative expenses included in security of supply incentive during the financial year	-	478
Demolition costs in the balance sheet at the end of the financial year	39 975	35 033
Return On Equity, network business (%)	0.53%	0.96%
Average number of personnel in the network business	75	83

Signatures to the financial statements

Dates and signatures

Tampere, 7/3 2023

Tapani Liuhala Chairman of the Board of Directors	Jarkko Kohtala
Jorma Myllymäki	Anne-Marie Malmberg
Ville Sihvola	Tommi Valento

AUDITOR'S NOTE

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

Tampere, 8/3 2023

Ernst & Young Oy
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Miikka Hietala
Authorized Public Accountant

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AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Elenia Verkko Oyj

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Elenia Verkko Oyj (business identity code 3001882-6) for the year ended 31 December, 2022. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

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

Our opinion is consistent with the additional report submitted to the Board of Directors.

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.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 2.3.1. to the consolidated financial statements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of Goodwill *We refer to the notes to the consolidated financial statements 3.2.* Valuation of Goodwill was a key audit matter because the assessment process is judgmental, it is based on assumptions relating to market or economic conditions extending to the future, and because of the significance of the goodwill to the financial statements. As of balance sheet date 31 December 2022, the value of goodwill amounted to 418 million euro representing 19,9 % of the total assets. The valuation of goodwill is based on management's estimate about the value-in-use calculations. There are number of underlying assumptions used to determine the value-in-use, including the revenue growth, EBITDA and discount rate applied on net cash-flows. Estimated value-in-use may vary significantly when the underlying assumptions are changed and the changes in above-mentioned individual assumptions may result in an impairment of goodwill. This matter is a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2).	Our audit procedures to address the risk of material misstatement regarding the valuation of goodwill included: • Our audit procedures included involving EY valuation specialists to assist us in evaluating underlying assumptions and methodologies especially related to the following assumptions: revenue growth, EBITDA and discount rate applied to cash-flows. • We focused on the sensitivity in the available headroom by cash generating unit and whether any reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. • We evaluated the effect of regulation changes to the management's estimates and parameters. • We considered the appropriateness of the Group's disclosures in respect of impairment testing.
Revenue Recognition *We refer to the Group's accounting policies and the notes to the consolidated financial statements 2.1.* Revenue from the distribution of electricity is recognized at the time of delivery. Revenue from customer service operations and other revenue is recognized in the period in which such services are rendered.	Our audit procedures to address the risk of material misstatement relating to revenue recognition included, among others: • We assessed the reasonableness of the Group's accounting policies over revenue

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The Group focuses on revenue as a key performance measure which could create an incentive for revenue to be recognized before the risks and rewards have been transferred. This matter is a significant risk of material misstatement referred to in EU Regulation No 537/2014, point (c) of Article 10(2) due to the risk associated with the timely recognition of revenues.	recognition and compliance with applicable accounting standards. • We assessed the IT-systems, processes, and methods for revenue recognition • We examined the recorded sales transactions during the year against underlying documents. • We examined the sales accruals. • We obtained confirmations of open accounts receivable balances at year end from customers and analyzed credit invoices issued after the balance sheet date. • We performed data-analytics procedures on revenues. • We considered the appropriateness of the Group's disclosures in respect of revenues.

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 the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors on 13.5.2019, and our appointment represents a total period of uninterrupted engagement of 4 years. Elenia Verkko Oyj has been a public interest entity since 1.7.2020.

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 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.

Tampere March 8th, 2023

Ernst & Young Oy
Authorized Public Accountant Firm

Miikka Hietala
Authorized Public Accountant