# Elenia Verkko Oyj

## Report of the Board of Directors and Financial Statements

1 January 2020 - 31 December 2020

Business ID 3001882-6

Unofficial translation from Finnish to English

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## Elenia Verkko Oyj Group, Report of the Board of Directors 2020

### Elenia Verkko Oyj Group's Business Operations

Elenia Verkko Oyj Group ("Elenia or Elenia Verkko Oyj") formed on when group structure of upper Elenia Oy Group changed significantly in 2020. On 31 December 2020, Elenia Verkko Oyj Group consisted of Elenia Verkko Oyj (the parent company) and its fully-owned subsidiary Elenia Innovations Oy. Elenia Innovations Oy was established during 2020 and had no business. Elenia Verkko Oyj is a fully-owned subsidiary of Elenia Oy.

In 2019, the former Elenia Oy was Elenia Oy Group's parent company. The former Elenia Oy previously owned a district heating company (Elenia Lämpö Oy), which was divested to a consortium of infrastructure investors in July 2019. On 2 January 2020, Elenia Oy sold its shares in the wholly-owned subsidiary Elenia Palvelut Oy (the current Elenia Oy) to Elenia Investments S.à r.l., a new company established in 2019. Subsequently, on 2 January 2020, share transfers were carried out between the Elenia Group companies with the outcome that, effective from 2 January 2020, Elenia Group's operational parent company has been Elenia Oy (then named Elenia Palvelut Oy) and Elenia Verkko Oyj subgroup was formed. In July, a series of mergers were carried out to merge the former Elenia Oy, Elenia Finance Oyj, Elenia Holdings S.à r.l. and Lakeside Network Investments Holding B.V. into Elenia Network Oyj.

### 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. 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 75,500 kilometres, Elenia Verkko Oyj supplies electricity to approximately 432,000 end users. In addition to residential customers, key customer segments include industrial, agriculture, 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 6,032 GWh of electricity, compared to 6,362 GWh in the previous year. The decrease of 5.2% is mainly attributable to the exceptionally warm start to the year.

The revenue of Elenia Verkko Oyj Group amounted to EUR 299.6 million. Revenue growth was slowed by the exceptionally warm start to the year, which was reflected in lower distribution volumes.

The impact of COVID-19 cannot be reliably determined, although the best estimate is that its effect is less than one per cent of revenue. The exceptionally warm weather in the early part of the year had a much more significant impact.

The EBITDA of Elenia Verkko Oyj Group was EUR 196.0 million.

Profitability was negatively affected by several storms in 2020. The costs of Class 2–4 storms came to EUR 9.7 million (2019: EUR 12.4 million), consisting mainly of fault repair costs (EUR 5.8 million), mandatory compensations (EUR 3.3 million) and the voluntary outage compensation paid by Elenia (EUR 0.6 million).

There was an exceptionally large number of significant storm days in 2020 and Elenia prepared for storms a total of 12 times during the year. In early June, storm Suvi and the weather phenomenon named Otus by the Finnish Meteorological Institute caused power outages which, at one point, left more than 15,000 customer without electricity. The connections were restored within 48 hours. In September, storm Aila caused widespread damage in Elenia's network area. According to the Finnish Meteorological Institute, Aila was the third-most intense storm of the millennium after Janika (2001) and Tapani (2011). At its worst, nearly 34,000 customers were without electricity and restoring the connections took just over two days. In early November, nearly 13,000 customers were without electricity at one point during storm Topi. The connections were restored within 30 hours. Later in November, storm Liisa left more than 25,000 customers without electricity at its worst. The connections were restored within 70 hours.

SAIDI (System Average Interruption Duration Index), a measure of the duration of outages, was 217 minutes during the year (254 minutes in 2019). SAIDI excluding the impact of Class 3 and 4 storms was 70 minutes (87 minutes in 2019). The SAIDI figures show the positive underlying 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 network development plan during the financial year. The investment plan of Elenia's network business is designed to improve the security of supply through underground cabling. Since 2009, Elenia has built only weatherproof distribution networks. At the end of the year, 54.4% of Elenia's network was underground, compared to 49.6% at the end of 2019.

The Electricity Market Act states that 100% of customers must be within the scope of the quality requirements by the end of 2028[1]. Elenia Verkko Oyj intends to achieve this target by increasing the underground cabling rate to 75% by the end of 2028. At the end of the year, 73% of the customers of Elenia's network business were within the scope of the quality requirements stipulated by the Electricity Market Act. The corresponding figure at the end of 2019 was 68%. While the main focus in the development of the security of supply is on underground cabling, Elenia is also exploring other means to improve the security of supply. During the past few years, Elenia has, for example, developed an efficient model for tree clearance outside line corridors, and in 2020, a battery pack was successfully deployed in the Kuru area to provide electricity to local households in case of an outage.

Elenia invested EUR 165.0 million in developing electricity networks during the financial year. In 2019, the corresponding investments were EUR 152.7 million. Investments in the electricity network will continue in 2021, with Elenia set to invest approximately EUR 160 million in constructing more than 3,000 kilometres of underground cables.

Elenia Verkko Oyj continued to further develop its asset management system according to the PAS 55-1:2008 standard and the international standard ISO 55001:2014. The requirements of both PAS 55 and ISO 55001 guide the construction, operation, maintenance and 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 the suppliers and service providers commit to responsible, high-quality operations. The asset management system of Elenia's network business was recertified in November 2019 and, due to COVID-19, Lloyd's Register conducted the first part of the 2020 audit virtually in spring 2020, with the second part set to take place in late spring 2021.

The Energy Authority oversees the operations of Finnish distribution system operators. The regulation is based on four-year regulatory periods. The past year was the first year of the fifth regulatory period (2020–2023). The reasonable rate of return declined from 6.20% in 2019 to 5.73% in 2020 due to a change in the risk-free rate. For 2021, the Energy Authority has confirmed that the reasonable rate of return is 5.35%.

At the end of 2020, the Energy Authority issued a regulatory decision concerning the fourth regulatory period (2016–2019). In connection with issuing the decision, the Energy Authority published selected key indicators for all Finnish DSOs for 2019, including the Regulatory Asset Base (RAB) and the annual deficit/surplus. Elenia Network Oyj's RAB was EUR 1,793.3 million and its

[1] Pursuant to the Electricity Market Act, by the end of 2028, 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. By the end of 2019, 50% customers must be connected to a secure network, 75% by the end of 2023 and 100% by the end of 2028. The Finnish Government is preparing amendments to the Electricity Market Act that, if enacted, would extend the transition period until the end of 2036.

deficit was EUR 24.0 million. The cumulative regulatory deficit, which takes into account the surplus transferred over from the third regulatory period, amounted to EUR 75.6 million at the end of 2019.

**Financing**

Elenia Group's financing activities are centralised into Elenia Verkko Oyj. Prior to the corporate reorganisation, financing activities were centralised into Elenia Finance Oyj.

In February 2000, Elenia Finance Oyj issued EUR 500 million secured bonds with a maturity of seven years. The bonds carry a coupon rate of 0.375%, which is the lowest in Elenia's history. The new bond issue increased the weighted average maturity of Elenia's liabilities and reduced interest expenses. The funds were used for the Group's general business purposes, including approximately EUR 89 million for the repayment of the remaining portion of a EUR 500 million bond that matured in December 2020 as well as the repayment of drawdowns under the Group's existing credit facilities. Following the changes in group structure implemented in July, Elenia Verkko Oyj is now the borrower for all of the previously issued securities.

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 2027.

Elenia Group's liquidity position developed favourably during the financial year. At the end of the year, cash and cash equivalents totalled at EUR 114 million and the credit facilities were entirely undrawn. The positive development of was attributable to the aforementioned bond issue.

During the financial year, Elenia also drew EUR 100 million from the EUR 150 million facility from the European Investment Bank, signed in December 2018. That facility has now been drawn in full. During the financial year, Elenia also agreed with the European Investment Bank on a new facility of EUR 100 million, which was entirely undrawn at the end of the year.

The bonds issued by Elenia Verkko Oyj are rated by Standard & Poor's ("S&P"). In November 2019, S&P upgraded the rating to BBB+ (outlook stable), having changed the outlook from stable to positive in July 2019 after Elenia announced the sale of the district heating business. The Group's corporate reorganisation had no impact on the credit rating. S&P regards Elenia Group's business risk profile as excellent, mainly due to the fully regulated electricity distribution business, which now accounts for approximately 99% of the Group's EBITDA.

Elenia sold its district heating business in 2019 and, as a consequence, Elenia Verkko Oyj is returning EUR 550 million of equity to its parent company during 2020-2023 and correspondingly Elenia Oy is returning the same EUR 550 million to its own parent company during 2020-2023. Elenia Oy sold the shares of Elenia Lämpö Oy to a group of investors in 2019. The return of equity is not related to Elenia's network business.

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 2020, the ICR and LR were 4.67 and 8.84 respectively. At the end of 2019, the corresponding levels were 3.55x and 8.65x. The improved ICR is attributable to the replacement of the previous EUR 500 million bond issued in 2013 with a higher coupon with a new bond of corresponding size, issued in February 2020.

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

**Corporate Reorganisation**

In 2019, Elenia launched a process to simplify its group structure. As part of this process, on 2 January 2020, the previous Elenia Oy sold its shares in the wholly-owned subsidiary Elenia Palvelut Oy to Elenia Investments S.à r.l., a new company established in 2019. The final stages of the reorganisation were completed in July 2020.

The sole shareholder of Elenia Verkko Oyj (then Elenia NewCo Oyj) Elenia Oy (then Elenia Palvelut Oy) has on 20 December, 2019 decided on a directed share issue with 10 shares to be issued. The subscription price according to the share issue decision was a total of EUR 2,207,400,000.00, which had to be paid in kind by transferring 1,800,000 shares in Lakeside Network Investments Holding B.V., ie the entire share capital of the company in question. The share subscription period took place on January 2, 2020. The subscription price of the shares is based on the valuation of the shares to be transferred in kind using the generally used valuation methods. The subscription price of EUR 2,207,400,000.00 was posted in full in Elenia Verkko Oyj's invested unrestricted equity fund.

The current structure of Elenia Group consists of two operating companies in Finland: Elenia Oy and Elenia Verkko Oyj[3]. Elenia Verkko Oyj is the surviving entity from several mergers, including the mergers of Elenia Oy and Elenia Finance Oyj. Elenia Verkko Oyj is therefore the network licence

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[2] Elenia's financing is based on three core financial documents and all investors 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)2 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.

[3] Elenia Palvelut Oy changed its name to Elenia Oy on 1 July 2020 when the name Elenia Oy became available after the previous Elenia Oy merged with Elenia Network Oyj on 1 July 2020 and Elenia NewCo Oyj changed its name during the financial year to Elenia Network Oyj. In addition, Elenia Innovations Oy was established in autumn 2020 as a new subsidiary of Elenia Network Oyj. It has been included in the consolidated figures although it has no operational activities at present.

holder, owner and operator of the electricity distribution network and owns all of the network assets that previously resided in Elenia Oy. Following the completion of the reorganisation, Elenia Verkko Oyj also acts as the borrower under the secured debt arrangements, including all of the bank facilities as well as bonds and private placements that previously resided in Elenia Oy and Elenia Finance Oyj. The new Elenia Oy is the parent company of the operating group. The credit rating agency S&P confirmed before the reorganisation that the reorganisation will not have an adverse impact on Elenia's credit rating.

**Employees**

Elenia has continued to streamline its organisation and the new organisation became operational on 1 January 2020. While several smaller changes were made to the organisation, the most significant change was the transfer of support functions and the related employees from the old Elenia Oy to the new Elenia Oy (which was named Elenia Palvelut Oy at the time). The transfer impacted 38 employees. In addition, two employees were transferred from Elenia Finance Oyj to Elenia Palvelut Oy (currently Elenia Oy).

| | 31 Dec 2020 | |
|---|---|---|
| | Headcount | FTE |
| Elenia Verkko Oyj Group | 87 | 83 |

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.

**Acquisitions and Divestments**

On 2 January 2020, the old Elenia Oy sold the share capital of the current Elenia Oy (named Elenia Palvelut Oy at the time) to Elenia Investment S.à r.l., which is part of the same Group.

**Corporate Governance**

Elenia Verkko Oyj's Board of Directors changed on July 1, 2020 as part of a change in the Group structure. The current Board of Directors is Tapani Liuhala (Chairman), Jorma Myllymäki, Ville Sihvola, Jarkko Kohtala, Tommi Valento and Alli Seppänen. The previous board was Tapani Liuhala (chairman), Jorma Myllymäki and Tommi Valento. The Board has met or made written decisions 10 times.

**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

Elenia's sustainability programme is aligned with the UN's Sustainable Development Goals (SDGs) and Elenia has selected six goals that have strong links to Elenia's business and operations. The goals are related to:

- Affordable and clean energy to all (SDG 7)
- Decent work and economic growth (SDG 8)
- Industry, innovation and infrastructure (SDG 9)
- Sustainable cities and communities (SDG 11)
- Climate action (SDG 13)
- Partnerships for the goals (SDG 17)

For each of the six goals, the management has set specific goals and the related KPIs are monitored and reported on a monthly basis. In 2020, Elenia continued the development of its sustainability programme. Reporting is based on the GRI (Global Reporting Initiative) standards. The third sustainability report in the Group's history will be published in early 2021.

In 2020, Elenia participated for the third time in the Global Real Estate Sustainability Benchmark ("GRESB") Infrastructure Assessment. GRESB is a responsibility-focused research and benchmarking organisation tailored to real estate and infrastructure companies. It works to promote operational responsibility and to gather valuable international data to compare the operations and performance of companies. The GRESB assessment looks at the Environmental, Social and Governance (ESG) performance of a company and how it has performed in the three areas.

In 2020, a total of 406 infrastructure companies took part in the GRESB Infrastructure Assessment around the world. Elenia was ranked ninth in the overall results. Elenia scored a full five stars in the assessment and was awarded a total score of 96 (2019: 89), which is well above the average of the infrastructure companies that took part in the assessment. Elenia utilises the GRESB Assessment results in developing and executing its own ESG development programme as well as in following the development of the industry.

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

Elenia updated its working ability management model in 2020. In March 2020, Elenia's employees switched extensively to remote work and the Group's efforts to promote overall well-being were consequently focused on resilience, ergonomics, the use of digital channels to ensure interaction and participation and, based on measurements, maintaining and developing psychosocial well-being. Elenia's well-being at work project in partnership with the occupational health service provider will continue in 2021.

Elenia provides its employees with general information on topical occupational safety and environmental issues and an opportunity to participate in training that facilitates the improvement of their professional skills and competence. Supervisors and employees working on sites are required to successfully complete Occupational Safety Card training and ensure that their statutory qualifications are up to date. Compliance with regulations is monitored on a regular basis. Elenia Group has an externally certified occupational health and safety management system in place, since 2009 in accordance with OHSAS 18001 and since May 2018 in accordance with the new international ISO 45001:2018 standard. The system was recertified in 2020.

Elenia operates in accordance with the principle of continuous improvement with the aim of being a leader in occupational safety. Elenia Group and its extensive partner network have a target of zero occupational accidents and zero defects in all stages of construction. At the end of 2020, the lost time injury frequency[4] of Elenia and its partners was 9.5 (5.9 at the end of 2019). The target for 2021 is 3.0. Elenia has had a strong focus on occupational safety during the past few years. The actions taken have increased safety awareness among employees and partners, but they are not yet reflected in the LTIF. Elenia is determined to continue the development of new safety improvement initiatives and concepts until the target is achieved.

**Environment**

Elenia has a certified environmental management system. The Group's various companies have had ISO 14001 certification since 2008. Elenia's environmental management system was recertified in 2016 in accordance with the ISO 14001:2015 standard. In addition, external subcontractors are required to have environmental management systems that support their environmental work and are in line with the ISO 14001 standard. The external recertification audit of the system was organised in 2020.

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

[4]Lost Time Injury Frequency (LTIF), the number of lost time injuries occurring in all Elenia's activities per one million internal and external hours worked. Lost time injuries include all on-the-job injuries that lead to a person being absent from work for more than one day. Total LTIF = (∑LTI*1,000,000 h) / (cumulative internal and external hours)

is to reduce the environmental impact of all operations and take a leading role in the industry with regard to environmental management.

Elenia has monitored the direct (Scope 1) and indirect (Scope 2) climate impacts of its operations in accordance with the GHG Protocol. Last year, the carbon footprint calculation was expanded by determining the other indirect emissions (Scope 3) of the Goup's operations for 2019. Elenia aims to identify and effectively manage the climate impacts of the organisation, products and services. In 2019, Elenia's fossil carbon footprint was 190,457 $tCO_2e$. Elenia's direct emissions amounted to 576 $tCO_2e$ and represented only 0.3% of the total carbon footprint. Of the carbon footprint, 45% arises from Scope 3 fixed assets, including materials associated with electricity network investments, fibre network investments, earthworks and other investments. Purchased electricity with Scope 2 accounts for 36% of the carbon footprint. A further 13% consists of Scope 3 purchased products and services, including tariffs related transmission and regional networks, maintenance and other purchasing.

**Risk Management**

The Finance, Treasury and Legal Affairs unit is responsible for coordinating risk management. Comprehensive risk management is undertaken covering risk identification, assessment, reporting and measures to manage risks in cooperation with business units and support functions. In 2019, Elenia Group conducted a maturity study based on enterprise risk management (ERM) and is currently developing its risk management according tobest practices in line with the roadmap drawn up in 2019.

**Cyber Security**

Elenia has continued to reinforce cyber security awareness as a crucial part of the business internally and in cooperation with partners. During the financial year, Elenia completed an ISO 27001 Information Security Management System certification project that consisted of improvements in processes, documentation, technology and awareness. The certification was awarded in early 2020.

**Events after the Balance Sheet Date**

In late January 2021, the Finnish Government's proposal on amendments to the Electricity Market Act was submitted to the parliament. The first version of the proposal was circulated for comment in early 2020 and the final proposal changed to some extent during the one-year legislative drafting process. The key proposed amendments relative to the current Electricity Market Act are as follows:

- DSOs – such as Elenia Verkko Oyj – whose underground cabling rate of the medium-voltage network is 60% or lower (at the end of 2018) would have until 2036 to comply with the full quality requirements (as opposed to the end of 2028 as stipulated under the existing EMA).
- DSOs would be allowed to increase their electricity distribution tariffs by up to an aggregate 8% (on tariffs after taxes) over any rolling 12-month period. The current cap is 15%.

- The offsetting period of a DSO's cumulative regulatory deficit would be extended from four to eight years, i.e., two consecutive regulatory periods, if the aforementioned cap on tariff increases has led to a deficit.
- The network development plan would be reviewed more extensively by the Energy Authority to make sure that the DSOs invest efficiently and also consider other alternatives to investments. A DSO would need to consult its appropriate customers regarding the network development plan, and the network development plan would need to be published together with the results of said hearings.
- The level of mandatory compensations payable on outages that last for more than 12 hours would be increased in cases where the outage lasts for more than 48 hours.

The Energy Authority is presumed to omit make changes to the existing confirmed regulatory methods when the legislative amendments have entered into force. The changes expected include an update to the unit prices, a reduction in the reasonable rate of return (WACC) to approximately 4 per cent, and the removal of the security of supply incentive from the regulatory methods.Based on the information presented at the time of the publication of the legislative proposal, the amendments would enter into force already during the current fifth regulatory period and potentially as early as the beginning of 2022.

**Outlook**

Anticipating the impact of changes in Elenia's operating environment is exceptionally difficult at present. The regulated electricity network business is characterised by a high degree of predictability, which is highlighted by the fact that regulatory methods are confirmed in advance for an eight-year period. The public debate on electricity distribution tariffs that has been going on for several years has had a significant impact on the amendment to the Electricity Market Act.Furthermore, the legislative amendment is pushing the Energy Authority to change previously confirmed regulatory methods in the middle of the fifth regulatory period. This is highly unorthodox and would damage Finland's reputation as a stable investment environment. Pressure from policy-makers towards the Energy Authority may also substantially weaken the Energy Authority's credibility as an independent regulator.

The extent of the changes and their impact on Elenia's operations are very difficult to forecast at this time. However, it is clear that all of the proposed changes to the regulatory methods would have a negative effect on Elenia's operations. Nevertheless, Elenia intends to continue the implementation of its significant investment programme as planned, even if amendments to the Electricity Market Act were to enable the postponement of investments by as much as eight years. A weatherproof electricity network and undisrupted electricity distribution are in the best interest of Elenia's customers and society as a whole. The increase in extreme weather phenomena proves that the decision made in 2009 to exclusively build weatherproof networks was the correct one. Naturally, we are also developing other methods to improve the security of supply alongside underground cabling.

One of the cornerstones of Elenia's operations is stability and a long-term horizon, which is reflected in our effort to maintain price stability to our customers and even out the impact of regulatory changes over time.

There is demand for the customer service-related services that Elenia offers to other energy companies but, at the same time, there is intense competition for new customer relationships. Elenia's advantages include an in-depth understanding of the customer's business and the ability to solve problems during a single instance of contact. Elenia will also continue the development of the fibre business, which is a long-term effort that requires significant investment.

While the global COVID-19 pandemic had a significant impact on the general business environment in 2020, its effect on Elenia Group's operations has been nominal. Electricity consumption has not changed significantly during the pandemic. The slightly higher consumption among private customers has partially compensated for the slight decrease in the volumes of corporate customers. The most significant impact of the pandemic has involved Elenia Oy's employees in the form of an exponential increase in remote work. Elenia Oy began operating entirely remotely in March 2020 and employees subsequently returned to offices in the summer. The second wave of the pandemic led to another increase in remote work as well as restrictions on face-to-face meetings and, for example, the permitted capacity of conference rooms was reduced to maintain safe distances. The transition to the remote work was successful and the feedback from Elenia's employees has been positive with regard to the support provided by the Group and its management during the pandemic. The pandemic was also anticipated to have an effect on material purchasing, with difficulties expected with regard to the availability of certain network components. Nevertheless, the Group has coped well with the challenging circumstances. Elenia continues to monitor the situation closely and will react to changes as necessary. There are no indications that the pandemic would cause significant challenges to Elenia in 2021 either.

**The Board of Directors' Dividend Proposal**

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. The equity repayment was done from Unrestricted equity and was transferred to short-term payables in December 2020. The Board of Directors proposes to confirm the equity repayment to the Annual General Meeting based on the approved financial statements. The Board of Directors proposes that no dividend be distributed.

## Consolidated Statement of Profit or Loss

**for the year ended 31 December 2020**

| EUR 1,000 | Note | 1 Jan - 31 Dec 2020 |
|---|---|---|
| **Revenue** | 2.1.1 | **299 564** |
| Other operating income | 2.2.1 | 2 836 |
| Materials and services | | -74 842 |
| Employee benefit expenses | 2.3.3 | -3 239 |
| Depreciation, amortisation and impairment | 3 | -80 869 |
| Other operating expenses | 2.3.1 | -28 276 |
| **Operating profit** | | **115 173** |
| Finance income | | 3 167 |
| Finance costs | | -44 874 |
| **Finance income and costs** | 4.1 | **-41 707** |
| **Profit before tax** | | **73 465** |
| Income tax | 6.1.1 | -15 900 |
| **Profit for the year** | | **57 566** |

## Consolidated Statement of Comprehensive Income

**for the year ended 31 December 2020**

| EUR 1,000 | 1 Jan - 31 Dec 2020 |
|---|---|
| **Profit for the year** | **57 566** |
| **Other comprehensive income** | |
| Other comprehensive income not to be reclassified to profit or loss in subsequent years: | |
| Re-measurement gains on defined benefit plans | 127 |
| Income tax effect | -25 |
| Other comprehensive income / (loss) for the year after tax | 101 |
| **Total comprehensive profit for the year** | **57 667** |

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

## Consolidated Statement of Financial Position

**as at 31 December 2020**

| EUR 1,000 | Note | 31 Dec 2020 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Property, plant and equipment | 3.1 | 1 478 974 |
| Goodwill | 3.2 | 417 823 |
| Intangible assets | 3.2 | 18 259 |
| Right-of-use assets | 3.1, 3.3 | 3 955 |
| Other non-current financial assets | | 194 |
| Other interest bearing receivables | 6.3 | 274 695 |
| Deferred tax assets | 6.1.2 | 5 137 |
| **Total non-current assets** | | **2 199 038** |
| | | |
| **Current assets** | | |
| Trade receivables | 2.1.4 | 21 616 |
| Other current receivables | 2.1.4 | 50 376 |
| Cash and cash equivalents | | 113 780 |
| **Total current assets** | | **185 772** |
| | | |
| **Total assets** | | **2 384 810** |

| EUR 1,000 | Note | 31 Dec 2020 |
|---|---|---|
| **Equity and liabilities** | | |
| **Equity** | | |
| Share capital | 4.4 | 80 |
| Unrestricted equity | 4.4 | -548 843 |
| Retained earnings | 4.4 | 299 818 |
| **Total equity** | | **-248 945** |
| | | |
| **Non-current liabilities** | | |
| Loans from financial institutions | 4.2 | 150 000 |
| Bonds and notes | 4.2 | 1 681 082 |
| Lease liabilities | 3.3 | 1 233 |
| Employee benefit liability | 6.2 | 328 |
| Provisions | 2.3.4 | 8 168 |
| Liabilities related to contracts with customers | 2.1.3 | 22 166 |
| Deferred tax liabilities | 6.1.2 | 127 272 |
| **Total non-current liabilities** | | **1 990 249** |
| | | |
| **Current liabilities** | | |
| Loans from financial institutions | 4.2 | |
| Lease liabilities | 2.3.2, 3.3 | 3 943 |
| Trade payables | 2.3.2 | 7 244 |
| Liabilities related to contracts with customers | 2.1.3 | 810 |
| Other current liabilities | 2.3.2, 6.3 | 631 508 |
| **Total current liabilities** | | **643 506** |
| | | |
| **Total equity and liabilities** | | **2 384 810** |

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

## Consolidated Statement of Cash Flows

**for the year ended 31 December 2020**

| EUR 1,000 | 1 Jan - 31 Dec 2020 |
|---|---|
| **Operating activities** | |
| Profit for the year | 57 566 |
| **Adjustments to reconcile profit to net cash flows** | |
| Depreciation, amortisation and impairment | 80 869 |
| Finance income | -3 167 |
| Finance costs | 44 874 |
| Taxes | 15 900 |
| Other adjustments | -963 |
| Other short-term and low value rental expenses | 37 |
| **Working capital adjustments** | |
| Increase (+) / decrease (-) in trade and other current liabilities | 20 763 |
| Increase (-) / decrease (+) in trade and other current receivables | -2 535 |
| Increase (+) / decrease (-) in provisions | 261 |
| Interests received | 146 |
| Interest and other financial expenses paid | -40 688 |
| Interest paid on lease liabilities | -1 033 |
| Taxes paid | -5 351 |
| **Net cash flows from operating activities** | **166 678** |
| **Investing activities** | |
| Capital expenditure | -171 042 |
| Changes in loans | 4 000 |
| Changes in investments | 9 |
| **Net cash flows used in investing activities** | **-167 033** |
| **Financing activities** | |
| Owners' equity investment | 14 800 |
| Repayment of short-term borrowings | -89 024 |
| Proceeds from long-term borrowings | 600 000 |
| Repayment of long-term borrowings | -320 000 |
| Payment of debt arrangement costs | -4 515 |
| Repayment of lease liabilities | -3 910 |
| Loans granted | -113 000 |
| Group contributions received and paid | 431 |
| **Net cash flows from financing activities** | **84 782** |
| **Net increase in cash and cash equivalents** | **84 427** |
| Cash and cash equivalents at 1 January | 0 |
| Change in cash and cash equivalents | 84 427 |
| **Cash and cash equivalents at 31 December** | **113 780** |
| **Cash and cash equivalents, restructurings** | 29 352 |

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 2020**

| EUR 1,000 | Share capital | Unrestricted equity: Reserve for invested unrestricted equity | Unrestricted equity: Common control reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Equity at 1 January 2020** | **80** | **0** | **0** | **0** | **80** |
| Profit for the year | 0 | 0 | 0 | 57 566 | 57 566 |
| Other components of comprehensive income (adjusted by tax effect) | | | | | |
| Change in defined benefit plans | 0 | 0 | 0 | 101 | 101 |
| **Total comprehensive income for the year** | **0** | **0** | **0** | **57 667** | **57 667** |
| **Transactions with shareholders** | | | | | |
| Increase | 0 | 2 207 400 | 0 | 23 298 | 2 230 698 |
| Restructurings changes | | 0 | -2 206 243 | 218 853 | -1 987 391 |
| Equity repayment | 0 | -550 000 | 0 | 0 | -550 000 |
| **Total transactions with shareholders** | **0** | **1 657 400** | **-2 206 243** | **242 151** | **-306 692** |
| **Equity at 31 December 2020** | **80** | **1 657 400** | **-2 206 243** | **299 818** | **-248 945** |

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 2.1.2020. In the Elenia Group and the Elenia Verkko Group, changes have taken place in the Group structures as a result of legal reorganizations during 2020. More on structural changes in Notes 1.4.1 and 1.4.3.

The Board of Directors approved the consolidated financial statements on 27 May 2021. 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 2020 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 2020. 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 2020 of EUR 73,465 thousands and has a net equity of EUR -248,945 thousands as at 31 December 2020.

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. In February 2020 Elenia Verkko Oyj (Elenia Finance Oyj) issued a new EUR 500.0 million benchmark bond maturing in 2027. As at 31 December 2020, the Group has utilized 1 171 million out of this programme. This programme is supported by credit rating of "BBB+ with outlook stable" based on S&P Global Ratings' assessment.
- The Group has sufficient liquidity based on its cash position and undrawn credit facilities of EUR 570 million from a syndicate of international banks and European Investment Bank (as fully described in Note 4.2).

In July 2019 former parent company of Elenia Group Elenia Oy (business ID 2445423-4), sold its district heating business, Elenia Lämpö Oy (Elenia Heat), to SL Capital Infrastructure II SCSP, DIF Infrastructure V Coöperatief U.A. and LPPI Infrastructure Investments LP.

As part of the reorganization of the Group, on 28 November 2019 Elenia Finance Oyj announced that the Security Trustee had received the requisite votes from the Secured Creditors in favour of the proposed reorganisation of Group to be implemented as it was published on 4 November 2019.

The purpose of the reorganization was to i) simplify the existing structure, ii) cure the negative equity of Network business company (former Elenia Oy and current Elenia Verkko Oyj business ID 3001882-6) and iii) ensure the operating assets of the regulated network business are within the same entity as interest costs. This was a common control reorganization (i.e. ultimate ownership of the Group didn't change) and the operations of the Group remain same. More about restructurings under common control in Note 1.4.3.

As part of the reorganization, the following steps were taken in 2019 and in 2020:

- During 2019, Elenia Palvelut Oy (current parent company of Elenia Group, renamed as Elenia Oy subsequently, business ID 2658611-8) incorporated Elenia Newco Oyj (renamed as Elenia Verkko Oyj subsequently) as its direct subsidiary
- During 2019 also in upper group Lakeside Network Investments S.à r.l. incorporated a new company Elenia Investment S.à r.l. as its direct subsidiary.
- In January 2020, Elenia Oy (the former parent company of Elenia Group, business ID 2445423-4) sold 100% of the shares in Elenia Palvelut Oy to Elenia Investment S.à r.l.
- In January 2020, the shares in Lakeside Network Investments Holding B.V. have been transferred by series of share-for-share exchanges from Lakeside Network Investments S.à r.l. first to Elenia Group's parent company Elenia Oy and forward ta the same day to to Elenia Verkko Oyj.
- These steps in January 2020 caused that the parent company of Elenia Group changed from Elenia Oy (business ID 2445423-4) to Elenia Palvelut Oy (renamed as Elenia Oy subsequently, business ID 2658611-8) and new Elenia Verkko-subgroup formed.
- In July 2020, Elenia Oy (the former parent company of Elenia Group, business ID 2445423-4) merged upstream into Elenia Verkko Oyj, with Elenia Verkko Oyj was the surviving company.
- In July 2020, Elenia Finance Oyj (business ID 2584057-5) merged into Elenia Verkko Oyj, with Elenia Verkko Oyj is the surviving company.
- In July 2020, Elenia Finance (SPPS) S.à r.l. (business ID B181775) merged into Elenia Holdings S.à r.l. (business ID B181773) with Elenia Holdings S.à r.l. is the surviving company.
- In July 2020, Elenia Holdings S.à r.l. and Lakeside Network Investments Holding B.V. (business ID 53150309) merged into Elenia Verkko Oyj, with Elenia Verkko Oyj is the surviving company.
- After all the above mergers Elenia Palvelut Oy (current parent of Elenia Group, business ID 2658611-8) was renamed as Elenia Oy.
- In December 2020 new holding entity Elenia Innovations Oy was established as subsidiary of Elenia Verkko Oyj. As at 31 December 2020 Elenia Verkko- subgroup consists of Elenia Verkko Oyj (business ID 3001882-6) and Elenia Innovations Oy (business ID 3173274-8) and operational Elenia Group consists of parent company Elenia Oy (business ID 2658611-8) and Verkko- subgroup.

After taking over the above steps for the reorganization of the Verkko Group, Elenia Verkko Oyj's immediate parent company is Elenia Oy, and above that there is Elenia Investments S.à r.l.. Elenia Group Oy will be the ultimate Finnish parent company of Elenia Oy.

Considering the reorganization steps that was taken in 2020, former Elenia Group's parent Elenia Oy was merged into Elenia Verkko Oyj and assets and liabilities were therefore transferred to Elenia Verkko Oyj. Given that the Secured Creditors approved the reorganizations and as the mergers are universal succession, the reorganization has no adverse impact on the creditors and their rights. Furthermore, as mergers were universal succession, therefore, the Board of Directors prepares the annual accounts on a going concern basis.

### 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 restructuring 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. They published a Discussion paper in November 2020 to where comments should be received by 1 September 2021.

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 | 2020 |
|---|---|
| Distribution of electricity | 297 174 |
| Connection fees | 699 |
| Other revenues | 1 692 |
| **Total** | **299 564** |

**Timing of revenue recognition**

| EUR 1,000 | 2020 |
|---|---|
| Transferrred at a point in time | 298 865 |
| Transferred over time | 699 |
| **Total** | **299 564** |

#### 2.1.3 Liabilities related to contracts with customers

| EUR 1,000 | 2020 |
|---|---|
| Non-current liabilities related to contracts with customers | 22 166 |
| Current liabilities related to contracts with customers | 810 |
| **Total** | **22 976** |

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

Trade receivables also include invoiced sales revenue based on estimates.

**Trade and other current receivables**

| EUR 1,000 | 2020 |
|---|---|
| Trade receivables | 21 616 |
| Accrued income and prepaid expenses | 37 961 |
| Other current receivables | 235 |
| **Total trade and other receivables** | **59 812** |

**Break-down of accrued income and prepaid expenses**

| EUR 1,000 | 2020 |
|---|---|
| Sales accruals | 36 546 |
| Accrued financial items (prepayments) | 858 |
| Other accrued income and receivables | 557 |
| | **37 961** |

### 2.1.4.2 Financial risk management

**Credit risk**

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

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

The global Covid-19 pandemic had a significant impact on the business environment during 2020, but its impact on Elenia Group's credit risk has been very small.

**Trade receivables**

The Group's trade receivables at the end of 2020 were EUR 21.6 million. EUR 48.7 thousand collateral securities were received for trade receivables.

**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 persentages calculated from historically realized credit losses. The customers are segmented to private and company customers to be able to take into account the differences between these customer groups in the calculation.

**Breakdown and impairment of trade receivables by age (IFRS)**

| EUR 1,000 | Trade receivables | | | | |
|---|---|---|---|---|---|
| 31 Dec 2020 | Undue | 1-90 days | 91-180 days | Over 180 days | Total |
| Trade receivables by age | 17 798 | 3 336 | 282 | 869 | **22 285** |
| Expected credit loss rate, private customers | 0,1 % | 4,1 % | 35,9 % | 11,4 % | |
| Expected credit loss, private customers | -16 | -135 | -101 | -99 | **-351** |
| Expected credit loss rate, company customers | 0,0 % | 0,5 % | 2,5 % | 33,3 % | |
| Expected credit loss, company customers | -4 | -17 | -7 | -289 | **-318** |
| **Total expected credit losses** | **-20** | **-153** | **-108** | **-388** | **-669** |
| **Total trade receivables** | **17 778** | **3 184** | **174** | **481** | **21 616** |

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

All trade receivables are denominated in euros.

| Change in expected credit losses | 2020 |
|---|---|
| Expected credit loss 1 Jan | 0 |
| Additions | 1375 |
| Credit losses | -706 |
| **Expected credit loss 31 Dec** | **669** |

**Volume and price risks**

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

## 2.2 Other operating income

### 2.2.1 Other operating income (Accounting policy)

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

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

| **Other operating income**<br>**EUR 1,000** | **2020** |
|---|---|
| Indemnities | 746 |
| Income from the trade receivables collection | 1 097 |
| Income from the sales of obsolete materials and used fixed assets | 0 |
| Other operating income | 438 |
| **Total** | **2 281** |

## 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 | 2020 |
|---|---|
| Lease expenses | -768 |
| External services | -3 297 |
| IT and communication expenses | -2 175 |
| Research and development costs | -1 806 |
| Non-recurring costs related to business combinations | 0 |
| Marketing and communications | -164 |
| Insurances | -212 |
| Mailing expenses | |
| Other personnel expenses | -184 |
| Travelling expenses | -51 |
| Outage compensation costs | -3 470 |
| Elenia service expenses | -13 398 |
| Other expenses | -2 750 |
| **Total** | **-28 276** |

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

**Audit fees**

| EUR 1,000 | 2020 |
|---|---|
| Auditing fees | -296 |
| Fees for tax services | -33 |
| Fees for other services | -49 |
| **Total** | **-378** |

Ernst & Young was appointed as the auditor until the Annual General Meeting held in the 2021 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** | **2020** |
|---|---|
| Short-term financial lease liabilities | 3 943 |
| Trade payables | 7 244 |
| Accrued expenses | |
| Employee benefits expenses | 1 466 |
| Interest expenses | 14 153 |
| Other accrued expenses | 34 625 |
| Liabilities related to contracts with customers | 810 |
| Other liabilities | |
| VAT liability | 12 392 |
| Energy taxes | 8 955 |
| Tax liability for the period | 1 |
| Prepayments received | 6 234 |
| Equity repayment liability | 550 000 |
| Other liabilities | 3 681 |
| **Total** | **643 506** |

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** | **2020** |
|---|---|
| Salaries and remuneration | -2 785 |
| Pensions | |
| Defined contribution plans | -520 |
| Defined benefit plans | 0 |
| Social security costs | 65 |
| **Total** | **-3 239** |

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

| **EUR 1,000** | **2020** |
|---|---|
| **Salaries and remuneration paid to other key members of the management** | |
| Salaries and other short-term employee benefits | 206 |
| Other long-term employee benefits | 62 |
| Pension expenses related to salaries and employee benefits | 48 |

Salaries and remuneration were not paid to CEO in 2020.

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

Key management includes management team and Board members of Elenia Verkko Oyj.
In 2020, the remunerations related to the 2015-2017, 2016-2018 and 2017-2019 programmes were paid. During 2020 there were three programmes on-going: 2018-2020, 2019-2021 and 2020-2022.

During 2020 EUR 62 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 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** | | **2020** |
|---|---|---|
| **EUR 1,000** | Provision for refunds of connection fees | Total |
| Provisions at 1 January | 7 907 | 7 907 |
| Increase | 659 | 659 |
| Use of provisions | -398 | -398 |
| **Provisions at 31 December** | **8 168** | **8 168** |

## 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 structures | 15-50 years |
| Electricity transmission network | 25-40 years |
| Electricity distribution network | 10-30 years |
| Machinery and equipment | 3-30 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.

| **2020** **EUR 1,000** | Land and water areas | Buildings | Networks | Machinery and equip-ment | Other tangible assets | Prepay-ments | Total |
|---|---|---|---|---|---|---|---|
| Cost at 1 January | 2 081 | 6 633 | 2 253 988 | 156 171 | 56 | 20 298 | 2 439 227 |
| Additions | 25 | 0 | 161 463 | 1 469 | 0 | 2 846 | 165 802 |
| Disposals | 0 | -556 | -14 640 | -2 413 | 0 | 0 | -17 609 |
| Transfers between balance sheet items | 0 | 0 | 0 | 52 | 0 | -52 | 0 |
| **Cost at 31 December** | **2 105** | **6 077** | **2 400 810** | **155 279** | **56** | **23 091** | **2 587 419** |
| | | | | | | | |
| Accumulated depreciation, amortisation and impairment at 1 January | 0 | -5 329 | -899 924 | -136 430 | -54 | 0 | -1 041 737 |
| Depreciation and amortisation for the year | 0 | -213 | -66 935 | -6 214 | -1 | 0 | -73 363 |
| Accumulated depreciation and amortisation on disposa | 0 | 0 | 14 640 | 1 878 | 0 | 0 | 16 518 |
| Impairment for the year * | 0 | 0 | -5 908 | 0 | 0 | 0 | -5 908 |
| **Accumulated depreciation, amortisation and** | **0** | **-5 542** | **-958 127** | **-140 767** | **-54** | **0** | **-1 104 489** |
| | | | | | | | |
| **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.

*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.

*Goodwill*

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

*Amortisation periods for intangible assets*

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

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

*Impairment of non-financial assets*

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

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

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

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

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

**Testing goodwill for impairment (Accounting estimates)**

The Group tests goodwill annually for impairment.

The recoverable amounts of cash-generating units are based on estimated future cash flows. Preparation of these estimates requires management to make assumptions relating to future cash flows. The main variables in determining cash flows are the discount rate and the assumptions and estimates used.
The Group has conducted a sensitivity analysis of the effects of the key assumptions underlying the impairment testing on the test results (see table below).

## 3.2 Intangible assets

| 2020<br>EUR 1,000 | Goodwill | Intangible rights | Other long-term expenditure | Total |
|---|---|---|---|---|
| Cost at 1 January | 417 823 | 21 598 | 26 653 | 466 074 |
| Additions | 0 | 265 | 4 028 | 4 293 |
| Disposals | 0 | 0 | -122 | -122 |
| **Cost at 31 December** | **417 823** | **21 863** | **30 559** | **470 245** |
| Accumulated depreciation, amortisation and impairment at 1 January | 0 | -13 184 | -19 448 | -32 632 |
| Depreciation and amortisation for the year | 0 | -513 | -1 085 | -1 599 |
| Accumulated depreciation and amortisation on decrease | 0 | 0 | 68 | 68 |
| **Accumulated depreciation, amortisation and impairment at 31 December** | **0** | **-13 697** | **-20 465** | **-34 163** |
| **Book value at 31 December 2020** | **417 823** | **8 165** | **10 094** | **436 082** |

As a result of acquisitions in 2012 goodwill of EUR 430.2 million was created. Goodwill is based on the assesment of organisational competence and knowhow which is expected to benefit business operations in coming years.

**Impairment testing of goodwill**

Goodwill has been allocated to 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 in order to determine the value in use. The discount rate applied (pre-tax) reflects the risk profile of the business.

Due to the regulated and stable nature of the electricity distribution business, the basis for cash flow projections is the long-term business plan for the period 2020-2055 which has been approved by the Board of Directors. The calculations are based on the current business and regulatory environment, and the potential effects of the Government proposal of the amendment of the Energy Market Act (HE 265/2020) and its implications in the regulatory methods have not been included in the management estimates in the impairment testing calculations. Long term capital expenditure plans have been prepared in order to meet the security of supply requirements in line with Electricity Market Act (588/2013). A volume growth of approximately 0.5% p.a. has been incorporated for the forecast period. The discount rate applied for Network segment is 4.8% based on the prevailing return and risk assumptions in the business (the applied pre-tax discount rate in 2019 was 5.2%).

**Sensitivity analysis**

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

| Change in key assumptions | 2020 |
|---|---|
| Change in discount rate, %-points | 6,5 |

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

## 3.3 Lease commitments

### 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 2020 was approximately 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 2020 was approximately EUR 60 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

### 3.3 Lease commitments

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:

| 2020 | Buildings | Machinery and equipment | Total |
|---|---|---|---|
| **EUR 1,000** | | | |
| As at 1 January | 1 011 | 7 377 | 8 388 |
| Additions | 0 | 17 | 17 |
| Disposals | -556 | -18 | -575 |
| Depreciations | -202 | -3 672 | -3 874 |
| **As at 31 December** | **253** | **3 702** | **3 955** |

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

| Lease liabilities | 2020 |
|---|---|
| **EUR 1,000** | |
| As at 1 January | 10 228 |
| Disposals | -901 |
| Payments | -3 873 |
| Interest expenses | -278 |
| **As at 31 December** | **5 176** |
| Non-current | 1 233 |
| Current | 3 943 |

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

Amounts recognised in profit or loss

| EUR 1,000 | 2020 |
|---|---|
| Depreciation expense of right-of-use assets | -3 888 |
| Interest expense on lease liabilities | -278 |
| Expense related to short-term leases | -37 |
| **Total amount recognised in profit or loss** | **-4 203** |

During 2020 the Group had total cash outflows for leases of EUR 3 836 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).

According to management's assumption, the Group estimates that it will not use termination options of car's and electricity meters' leases, but intends to make use of the extension options for office premise leases. The extension option has not been included in the lease liabilities.

## 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.

| **EUR 1,000** | **2020** |
|---|---|
| Interest expenses | |
| Loans from financial institutions | -709 |
| Bonds and notes | -38 391 |
| Other long-term loans | 0 |
| Interest expenses related to lease liabilities | -278 |
| Other interest expenses | -1 186 |
| **Total interest** | **-40 563** |
| Other finance costs | -4 302 |
| Exchange rate losses | |
| Loans and receivables | -9 |
| **Total finance costs** | **-44 874** |
| | |
| Interest income | |
| Other interest income | 3 163 |
| Dividend income | 0 |
| Exchange rate gains | |
| Loans and receivables | 3 |
| Other finance income | 1 |
| **Total finance income** | **3 167** |
| **Finance costs (net)** | **-41 707** |

**Finance income and costs**
Interest expenses include interest expenses on interest-bearing loans. Other interest expenses mainly consist of interest on finance leases of EUR 0.4 million.

## 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.

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

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

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

The requirements of the new standard were initially applied on 1 January 2018.

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

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

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

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

### 4.2.2 Financial assets

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

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

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

## 4.2 Financial assets and liabilities

***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 Financial assets and liabilities

### 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 2020<br>Balance sheet item, EUR 1,000 | Note | Amortised cost | Carrying value of balance sheet items | Fair value |
|---|---|---|---|---|
| **Current financial assets** | | | | |
| Trade receivables and other non-interest-bearing receivables | 2.1.4 | 21 616 | 21 616 | 21 616 |
| Cash and cash equivalents | | 113 780 | 113 780 | 113 780 |
| **Total Current assets** | | **135 396** | **135 396** | **135 396** |
| **Carrying amount by category** | | **135 396** | **135 396** | **135 396** |
| | | | | |
| **Non-current financial liabilities** | | | | |
| Bonds and notes | 4.2.8-9 | -1 681 082 | -1 681 082 | -1 962 038 |
| Loans from financial institutions | 4.2.8-9 | -150 000 | -150 000 | -150 000 |
| Interest-bearing non-current liabilities | | | | |
| - Leases | 3.3 | -1 233 | -1 233 | -1 233 |
| **Total interest-bearing non-current liabilities** | | **-1 832 315** | **-1 832 315** | **-2 113 270** |
| **Current financial liabilities** | | | | |
| Other current interest-bearing liabilities | | | | |
| - Leases | 3.3 | -3 943 | -3 943 | -3 943 |
| Trade payables | 2.3.2 | -7 244 | -7 244 | -7 244 |
| **Total current financial liabilities** | | **-11 187** | **-11 187** | **-11 187** |
| **Carrying amount by category** | | **-1 843 502** | **-1 843 502** | **-2 124 458** |

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 2019 and 2020.

**Cash at banks and on hand**
Elenia had short-term bank deposits amounting to EUR 113.8 million. All bank deposits were denominated in euros.

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

**Financial liabilities**
Interest-bearing liabilities at the balance sheet date totalled EUR 1,837.0 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 2020 | Effective interest | Maturity | | | |
|---|---|---|---|---|---|
| **EUR 1,000** | **rate %** | **Within 1 year** | **1-5 years** | **Over 5 years** | **Total** |
| Loans from financial institutions | 0,39 % | 0 | 0 | 150 000 | 150 000 |
| Bonds | 1,87 % | 0 | 0 | 1 171 000 | 1 171 000 |
| Notes | 2,71 % | 0 | 0 | 518 500 | 518 500 |
| Lease liabilities | | 0 | 1 233 | 0 | 1 233 |
| **Total interest-bearing non-current liabilities** | | | | | **1 840 733** |
| Lease liabilities | | 3 943 | 0 | 0 | 3 943 |
| **Total current interest-bearing liabilities** | | | | | **3 943** |
| Trade payables | | 7 244 | 0 | 0 | 7 244 |
| **Total current financial liabilities** | | | | | **7 244** |
| **Total** | | **11 187** | **1 233** | **1 839 500** | **1 851 920** |

### 4.2.7 Changes in financial liabilities arising from financing activities

**Changes in liabilities arising from financing activities**

| EUR 1,000 | 1 Jan 2020 | Cash flows | Other changes | 31 Dec 2020 |
|---|---|---|---|---|
| Current interest-bearing loans and borrowings (excl. items listed below) | 88 920 | -89 024 | 104 | 0 |
| Current obligations under lease liabilities | 4 181 | -3 873 | 3 635 | 3 943 |
| Non-current interest-bearing loans and borrowings (excl. items listed below) | 1 553 897 | 280 000 | -2 814 | 1 831 082 |
| Non-current obligations under lease liabilities | 5 411 | 0 | -4 179 | 1 233 |

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

Due to the nature of terms of Elenia Verkko Oyj's (Elenia Finance Oyj) EMTN Programme no profits were expected to be accumulated from the investment in Elenia Holdings S.à r.l. through a subordinated profit-participating security (the SPPS). Based on the expected cash flows the investment had no value and therefore the book value and the fair value of the investment had been determined to be zero. These investments ceased to exist in the mergers of the companies to Elenia Verkko Oyj at the beginniong of July 2020. **(Accounting estimates)**

As at 31 December 2020, 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** | **2020** | **2020** | **2020** | **2020** |
| **Financial instruments, non-current liabilities** | | | | |
| Bonds and notes | 0 | -1 962 038 | 0 | -1 962 038 |
| Loans from financial institutions | -150 000 | 0 | 0 | -150 000 |
| **Total non-current financial liabilities** | **-150 000** | **-1 962 038** | **0** | **-2 112 038** |
| | | | | |
| **Total financial liabilities** | **-150 000** | **-1 962 038** | **0** | **-2 112 038** |

### 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.

The global Covid-19 pandemic had a significant impact on the business environment during 2020, but its impact on Elenia Group's liquidity risk has been very small.

**Cash and cash equivalents and committed unutilized credit facilities**
**31 Dec 2020**

| 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 | | | 113 780 | |
| **Total** | **720 000** | **150 000** | **683 780** | |

During 2020 EUR 14.7 million has been drawn out from the Working Capital facility for bank account overdraft facilities.

**Currency risk**

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

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

Operating profit includes EUR 0.9 thousand exchange rate differences. Finance costs include EUR -16.3 thousand liabilities in Swedish Krona and US Dollars and no receivables in other currencies than in EUR.

**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 US investors through private placements.

At the end of 2020 Group had no borrowings from the Capex Facility nor from the Working Capital Facility. In December 2018 the former parent company Elenia Oy agreed on EUR 150.0 million credit with European Investment Bank. At the end of 2020 the loan was fully drawn; EUR 50 million maturing in 2028 and EUR 100 million maturing in 2030. In April 2020 former paent company Elenia Oy agreed on a new EUR 100.0 million credit with European Investment Bank. The loan can be drawn within 18 months from the agreement and the maturity of the loans will be 7-10 years from the drawdown. At the end of 2020 there were no drawdowns from the credit facility. These loan facilities and the loans were transferred to Elenia Verkko Oyj in the merger of the companies at the beginning of July 2020.

In February 2020 Elenia Verkko Oyj (Elenia Finance Oyj) issued a new UR 500.0 million benchmark bonds. maturing in 2027. The company used the proceeds of the bonds to repay the remaining portion of the Bond maturing in December 2020, repayment of loans drawn from current bank facilities and for the general corporate purposes. In November 2019 Elenia Verkko Oyj (Elenia Finance Oyj) published the tender offer regarding EUR 500 million Bond maturing in December 2020. Amount of the submitted tenders was EUR 411.0 million, which was repaid to the investors in December 2019. Elenia Verkko Oyj repaid the remaining EUR 89.0 million in December 2020.

The bonds are listed on London Stock Exchange. The Group's financial structure has financial covenants relating to interest cover and leverage. The covenants are typical in such arrangements. There were no covenant breaches in 2020. 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.

**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 (2019: N/A) effect on the interests relating to floating rate loans.

**Counterparty risk**

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

## 4.3 Other commitments and contingencies

| **<u>Other commitments</u>** | |
|---|---|
| **EUR 1,000** | **2020** |
| | |
| **Registered floating charges:** | |
| Provided on behalf of own and Group liabilities | 9 000 000 |
| Mortgages | 206 600 |
| | |
| **Refundable connection fees** | 282 789 |
| | |
| **Loan commitment to Elenia Group Oy** | 151 305 |

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

## 4.4 Equity

**Share capital**

There have been done reorganisations in legal structure which are explained in more details in Notes 1.4.1 and 1.4.3. After the changes, 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**

In January 2020, the shares in Lakeside Network Investments Holding B.V. have been transferred by series of share-for-share exchanges from Lakeside Network Investments S.à r.l. first to Elenia Group's parent company Elenia Oy and forward ta the same day (2.1.2020) to to Elenia Verkko Oyj. Equity investment of EUR 2,207.4 million to the invested unrestricted equity fund were posted to Elenia Verkko Oyj. The increase is presented in Note 4.4. Equity investment and other items related to restructurings total of 2,207.6 million is eliminated in Elenia Networks Group. More about restructurings in Notes 1.4.1 and 1.4.3.

| | **2020** |
|---|---|
| Unrestricted equity 1 Jan | 0 |
| Equity investment | 2 207 400 |
| Common control reserve | -2 206 243 |
| Equity repayment | -550 000 |
| Unrestricted equity 31 Dec | **-548 843** |

**Retained earnings**

Increase of EUR 23,298 thousand in retained earnings comprises of EUR 9,071 thousand group contribution received from Elenia Oy and EUR 14,228 thousand of the sale of shares of Elenia Palvelut Oy (renamed to Elenia Oy). More about sale of shares in Note 1.4.3.

**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:

| | **2020** |
|---|---|
| Profit attributable to equity holders of the parent, EUR | 57 667 166 |
| Average number of shares, pcs | 90 |
| Earnings/share, EUR - basic = diluted | **640 746** |

## 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 2020, 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 2020 there were no business disposals.

In 2020 there were no acquistions to be accounted for as business combinations.

There have been changes in the Group legal structure as a result of the Group's internal corporate reorganisations during 2020. Structural changes and their accounting treatment are opened in sections 1.4.1 and 1.4.4.

## 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:

***Amendments to IAS 1 and IAS 8: Definition of Material***

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

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

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

***Amendment to IFRS 3: Business Combinations***

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

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

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

***Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform***

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 amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR).

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

***Amendments to References to the Conceptual Framework in IFRS Standards***

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 revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

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

***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.

### 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:

***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 IFRS 4 Insurance Contracts - deferral of IFRS 9***

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

Currently, under IFRS 4 Insurance Contracts, the effective date to apply IFRS 9, for the temporary exemption from IFRS 9, is 1 January 2021.

The purpose is to extend the temporary exemption from IFRS 9 by one year. Subsequently, based on the IASB's re-deliberations, the effective date of IFRS 9 has been extended further to 1 January 2023 in order to align with the effective date of IFRS 17 Insurance Contracts.

The amendment is not applicable to the Group.

***Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform - phase 2***

The amended standards will be effective for annual periods beginning on or after 1 January 2021 with early adoption permitted. The EU has not endorsed the amendments.

The amendments in this final phase relate to:
- changes to contractual cash flows: a company will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- hedge accounting: a company will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and
- disclosures: a company will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

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

***Amendments to IFRS 3 Business Combination, AIS 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.

***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.

# 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 2020 are:

**Consolidated statement of profit or loss,**

| **EUR 1,000** | **2020** |
|---|---|
| Current income tax charge | -5 357 |
| Deferred taxes | -10 543 |
| **Income tax expense reported in the consolidated statement of profit or loss** | **-15 900** |

**Consolidated statement of OCI,**

| **EUR 1,000** | **2020** |
|---|---|
| **Deferred tax related to items recognised in OCI during the year:** | |
| Remeasurement gains (losses) on defined benefit plans | -25 |
| **Deferred tax charged to OCI** | **-25** |

**Income tax rate**

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

| **EUR 1,000** | **2020** |
|---|---|
| **Profit before tax** | **73 465** |
| Theoretical income tax using the nominal tax rate of 20.0% | -14 693 |
| - tax-free income items | -80 |
| - expenses that are non-deductible in taxation | -1 081 |
| - previous years' losses used | 56 |
| - unrecognized deferred tax assets from taxation losses | -102 |
| **Income tax in the income statement,** | **-15 900** |
| **Effective tax rate was 22%** | |

### 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 (Accounting policy)**

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 2020**

| | Balance sheet 1 Jan 2020 | Recognised in the statement of profit or loss | Recognised in other comprehensive income | Balance sheet 31 Dec 2020 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| **EUR 1,000** | | | | |
| Defined benefit plans | 92 | -1 | -25 | 66 |
| Liabilities related to contracts with customers | 3 285 | 1 311 | 0 | 4 595 |
| Finance leases | 623 | -148 | | 476 |
| **Total** | **4 000** | **1 162** | **-25** | **5 136** |
| **Deferred tax assets** | | | | **5 136** |

| | Balance sheet 1 Jan 2020 | Recognised in the statement of profit or loss | Recognised in other comprehensive income | Balance sheet 31 Dec 2020 |
|---|---|---|---|---|
| **Deferred tax liabilities** | | | | |
| **EUR 1,000** | | | | |
| Interest-bearing liabilities | 1 304 | 263 | 0 | 1 567 |
| Depreciation differences | 46 874 | 16 128 | 0 | 63 002 |
| Measurement of assets at fair value in acquisition | 67 389 | -4 686 | 0 | 62 703 |
| **Total** | **115 567** | **11 705** | **0** | **127 272** |
| **Deferred tax liabilities** | | | | **127 272** |

## 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 | 2020 |
|---|---|
| **Items recognised on the consolidated statement of financial position at 31 December** | |
| Current value of funded obligations | 3 069 |
| Fair value of assets | -2 741 |
| Deficit | 328 |
| **Value of the obligation on the consolidated statement of financial position** | **328** |
| | |
| **The obligations of defined benefit pension plans have changed as follows:** | |
| Obligation at the beginning of the year | 3 514 |
| Business combinations | 0 |
| Current service costs | 0 |
| Interest expenses | 14 |
| Actuarial losses | -247 |
| Settlements | 0 |
| Benefits paid | -211 |
| **Obligation at the end of the year** | **3 069** |
| | |
| **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 | 3 053 |
| Business combinations | 0 |
| Expected income from assets | 12 |
| Actuarial gains | -121 |
| Settlements | 0 |
| Payments by the employer | 8 |
| Benefits paid | -211 |
| **Fair value of plan assets at the end of the year** | **2 741** |
| | |
| **The obligation in the consolidated statement of financial position consists of the following items:** | |
| Obligation at the beginning of the year | 460 |
| Business combinations | 0 |
| Net cost recognised in the statement of profit or loss | 2 |
| Payments by the employer | -8 |
| Profits and losses recognised in other comprehensive income | -127 |
| **Value of the obligation at year end** | **328** |
| | |
| **Items recognised in the consolidated statement of profit or loss** | |
| Expenses based on service in the reporting year | 0 |
| Interest income | -12 |
| Interest expenses | 14 |
| **Total** | **2** |
| | |
| **Items recognised in the consolidated statement of other comprehensive income for the year** | |
| Actuarial gains/(losses) on assets | 121 |
| Actuarial gains/(losses) on obligations | -247 |
| **Total** | **-127** |

### 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.

**2020**

| Assumption<br>**EUR 1,000** | Change in assumption | Defined benefit obligations | Fair value of Plan assets | Net Liability | Service costs for the next reporting year | Net interest |
|---|---|---|---|---|---|---|
| Discount rate 0.5 % | | 3 069 | 2 741 | 328 | 0 | 2 |
| Discount rate 1.1 % | +0,50 % | 2 892 | 3 597 | 295 | 0 | 3 |
| Discount rate 0.0 % | -0,50 % | 3 266 | 2 901 | 365 | 0 | 0 |

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 2021 are estimated to be EUR 8 thousand.

The weighted average duration of defined benefit obligation is 12 years.

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

| **EUR 1,000** | **2020** |
|---|---|
| Under 1 year | 212 |
| 1-10 years | 1 372 |
| 10-20 years | 927 |
| 20-30 years | 507 |
| Over 30 years | 247 |
| **Total** | **3 266** |

| **Actuarial assumptions used in calculations** | **2020** |
|---|---|
| Discount rate | 0,5 % |
| Estimate of salary increases | 2,0 % |
| Inflation | 1,0 % |

## 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 senior management members.

**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. More on structural changes in Notes 1.4.1 and 1.4.3.

**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 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.

As at 31 December 2020, other long-term receivables with an aggregate carrying value of EUR 274.7 million are due from the company's ultimate owners through intermediary holding entity. The following table includes the specification of other long-term receivables and related accrued interests.

| EUR 1,000 | Loan receivables amount 31 Dec 2020 | Interest income 1 Jan - 31 Dec 2020 |
|---|---|---|
| Elenia Group Oy | 274 695 | 3 017 |
| **Total** | **274 695** | **3 017** |

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 |
|---|---|
| Elenia Oy | 550 000 |
| **Total** | **550 000** |

## 6.4 Events after the reporting period

At the end of January 2021, a government proposal to amend the Electricity Market Act was submitted to Parliament. The main amendments to the current Electricity Market Act are as follows:

- Electricity network companies, such as Elenia Verkko Oyj, which have a ground cabling rate of up to 60% for the medium-voltage network (at the end of 2018), would have until 2036 to meet the security of electricity supply requirements (under the current Electricity Market Act, there is time until the end of 2028).
- Electricity network companies could increase their distribution tariffs by up to 8% (on after-tax tariffs) for each 12-month period. The current tariff increase cap is 15%.
- The cumulative deficit compensation period would be extended from four to eight years, i.e. to the next two regulatory periods, if the proposed tariff increase cap has led to a deficit.
- The Energy Authority would monitor the distribution network development plan more extensively to ensure that DSOs make cost-effective investments and also consider other options. DSOs should consult customers on the network development plan, and the views of the customers must also be published in connection with the development plan.
- The mandatory compensation for power outages lasting more than 12 hours would be increased in situations where the power outage lasts more than 48 hours.

The Energy Authority is expected to change the confirmed regulatory methods after the legislative amendment enters into force. Identified possible changes include updating unit prices, lowering the reasonable rate of return (WACC) to around 4 per cent and removing the security of supply incentive from regulatory methods. The changes could enter into force as early as in the current fifth regulatory period, possibly even at the beginning of 2022.

The global Covid-19 pandemic has had a significant impact on the business environment during 2020, but Elenia Group's business operations have had very little impact. Electricity use has not changed substantially, but the slightly higher consumption volumes of retail customers have partly compensated for the small decrease in the volumes of corporate customers.

The biggest impacts of the pandemic have been through the exponential growth of Elenia's own personnel through remote working. In March 2020, Elenia moved to operate completely remotely and the return to the office took place during the summer season. With the second wave of the pandemic, the share of remote working has increased again, restrictions on physical meetings have been imposed and, for example, the number of people allowed in the conference rooms have been reduced to maintain the necessary safety distances. Remote working has worked well and the staff has given positive feedback on the group's and management's support during the pandemic. The pandemic was also expected to affect material procurement, where difficulties were anticipated with the availability of some network components. However, the challenging situation has been managed well. Elenia will continue to monitor the situation closely and react to changes if necessary. It is not expected that the pandemic poses significant challenges for Elenia in 2021 either.

## 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.

| EUR 1,000 | Note | 1 Jan - 31 Dec 2020 |
|---|---|---|
| Revenue | 2.1.1 | 299 564 |
| Exceptional items included in revenue | | 0 |
| Other operating income | 2.2.1 | 2 836 |
| Non-recurring items included in other operating income | | 413 |
| Materials and services | | -74 842 |
| Employee benefit expenses | 2.3.3 | -3 239 |
| Other operating expenses | 2.3.1 | -28 276 |
| Operating expenses Total | | -106 358 |
| Exceptional items included in operating expenses | | 0 |
| Non-recurring items included in operating expenses | | -1 138 |
| **EBITDA** | | **196 042** |
| **EBITDA before exceptional and non-recurring items** | | **196 767** |
| | | |
| Depreciation and amortisation | 3 | -80 869 |
| **Operating profit** | | **115 173** |
| **Operating profit before exceptional and non-recurring items** | | **115 898** |

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

In 2020 there were no operational expenses classified as exceptional items.

In 2020, EUR 725 thousand is recognized as non-recurring items. This amount consists of compensation from the bankruptcy estate of EUR 413 thousand recognized in other operating income and EUR 1 138 thousand of group restructuring costs recognized in operating expenses.

Elenia Verkko Oyj

# PARENT COMPANY FINANCIAL STATEMENTS

**1 January 2020 - 31 December 2020**

## Income Statement

| Income Statement | Note | 1 Jan - 31 Dec 2020 | 1 Jan - 31 Dec 2019 |
|---|---|---|---|
| **EUR** | | | |
| **Revenue** | 1.1 | **147 660 595,95** | **0,00** |
| Other operating income | 1.2 | 1 105 778,45 | 0,00 |
| Materials and services | 1.3 | -37 009 550,01 | 0,00 |
| Personnel expenses | 1.4 | -1 855 010,70 | 0,00 |
| Depreciation, amortisation and impairment | 1.5 | -73 413 034,36 | 0,00 |
| Other operating expenses | 1.6 | -34 076 038,28 | -1 269,75 |
| **Operating profit** | | **2 412 741,05** | **-1 269,75** |
| Finance income and expenses | 1.7 | -19 423 812,00 | 0,00 |
| **Profit / loss before appropriations and taxes** | | **-17 011 070,95** | **-1 269,75** |
| Appropriations | 1.8 | | |
| Change in accelerated depreciations | | -20 665 736,09 | 0,00 |
| Group contributions | | 9 070 500,00 | 0,00 |
| Income taxes | 1.9 | -3 217 985,13 | 0,00 |
| **Profit / loss for the year** | | **-31 824 292,17** | **-1 269,75** |

| **Balance Sheet** | **Note** | | **31 Dec 2020** | | **31 Dec 2019** |
|---|---|---|---|---|---|
| **EUR** | | | | | |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 2.1 | | | | |
| Intangible rights | | 21 435 237,07 | | 0,00 | |
| Goodwill | | 2 211 823 922,30 | | 0,00 | |
| Other capitalized long term expenditure | | 10 093 687,76 | 2 243 352 847,13 | 0,00 | 0,00 |
| Tangible assets | 2.2 | | | | |
| Land and water areas | | 2 105 207,69 | | 0,00 | |
| Buildings and constructions | | 282 109,76 | | 0,00 | |
| Electricity network | | 1 986 226 245,24 | | 0,00 | |
| Machinery and equipments | | 10 809 855,16 | | 0,00 | |
| Other tangible assets | | 1 940,72 | | 0,00 | |
| Advance payments and construction in progress | | 23 091 349,54 | 2 022 516 708,11 | 0,00 | 0,00 |
| Investments | 2.3 | | | | |
| Holdings in group companies | | 0,00 | | 0,00 | |
| Other shares and holdings | | 194 229,69 | 194 229,69 | 0,00 | 0,00 |
| **Total non current assets** | | | **4 266 063 784,93** | | **0,00** |
| **Current assets** | | | | | |
| Long-term receivables | 2.4 | | | | |
| Long-term other receivables | | 1 202 520,51 | | 0,00 | |
| Loan receivables | | 274 694 581,67 | 275 897 102,18 | 0,00 | 0,00 |
| Short-term receivables | 2.4 | | | | |
| Trade receivables | | 21 616 472,30 | | 0,00 | |
| Receivables from group companies | | 12 189 253,05 | | 78 730,25 | |
| Other receivables | | 470 792,45 | | 0,00 | |
| Prepayments and accrued income | | 37 103 005,10 | 71 379 522,90 | 0,00 | 78 730,25 |
| Cash and cash equivalents | 2.4 | | 113 779 555,18 | | 0,00 |
| **Total current assets** | | | **461 056 180,26** | | **78 730,25** |
| **TOTAL ASSETS** | | | **4 727 119 965,19** | | **78 730,25** |

| Balance Sheet | Note | | 31 Dec 2020 | | 31 Dec 2019 |
|---|---|---|---|---|---|
| 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 | | 0,00 | |
| Retained earnings | | -1 269,75 | | 0,00 | |
| Loss for the financial year | | -31 824 292,17 | 1 625 654 438,08 | -1 269,75 | 78 730,25 |
| **Cumulative accelerated depreciations** | 3.2 | | **315 008 814,33** | | **0,00** |
| **Liabilities** | 3.3 | | | | |
| Non-current liabilitites | | | | | |
| Connection fees | | 202 907 741,32 | | 0,00 | |
| Bonds and notes | | 1 689 500 000,00 | | 0,00 | |
| Loans from financial institutions | | 150 000 000,00 | | 0,00 | |
| Deferred tax liabilities | | 106 453 935,01 | 2 148 861 676,33 | 0,00 | 0,00 |
| Current liabilities | | | | | |
| Trade payables | | 7 244 048,15 | | 0,00 | |
| Liabilities to group companies | | 570 368 606,71 | | 0,00 | |
| Other short-term liabilities | | 25 028 463,32 | | 0,00 | |
| Accruals and deferred income | | 34 953 918,27 | 637 595 036,45 | 0,00 | 0,00 |
| **Total liabilities** | | | **2 786 456 712,78** | | **0,00** |
| **TOTAL EQUITY AND LIABILITIES** | | | **4 727 119 965,19** | | **78 730,25** |

## Cash Flow Statement

| EUR | 1 Jan - 31 Dec 2020 | 1 Jan - 31 Dec 2019 |
|---|---|---|
| **Cash flow fron operating activities** | | |
| Loss before appropriations and taxes | -17 011 070,95 | -1 269,75 |
| Adjustments | | |
| Depreciation, amortisation and impairment | 73 413 034,36 | 0,00 |
| Finance income and expenses | 19 423 812,00 | 0,00 |
| Other adjustments | 16 299 763,76 | 0,00 |
| **Cash flow before change in working capital** | **92 125 539,17** | **-1 269,75** |
| Change in working capital | | |
| Increase (-) / decrease (+) in non-interest bearing receivables | -17 645 788,08 | -78 730,25 |
| Increase (+) / decrease (-) in non-interest bearing liabilities | 18 663 411,24 | 0,00 |
| **Operating cash flow before financial items and taxes** | **93 143 162,33** | **-80 000,00** |
| Interest payments | -24 181 472,07 | 0,00 |
| Interests received | 47 885,44 | 0,00 |
| Payments for other finance items | -859 908,95 | 0,00 |
| Connection fee refunds | 151 769,25 | 0,00 |
| Taxes paid | -2 679 004,01 | 0,00 |
| **Cash flow from operating activities** | **65 622 431,99** | **-80 000,00** |
| **Cash flow from investing activities** | | |
| Capital expenditures | -77 626 228,16 | 0,00 |
| Proceeds from disposals of other investments | 9 076,95 | 0,00 |
| **Cash flow from investing activities** | **-77 617 151,21** | **0,00** |
| **Cash flow from financing activities** | | |
| Paid share issue | 0,00 | 80 000,00 |
| Re-payment of short-term borrowings | -89 024 000,00 | 0,00 |
| Group contributions received and paid | 431 000,00 | 0,00 |
| Loans granted | -63 000 000,00 | 0,00 |
| **Cash flow from financing activities** | **-151 593 000,00** | **80 000,00** |
| **Change in cash and cash equivalents** | **-163 587 719,22** | **0,00** |
| Cash and cash equivalents 1 Jan | 0,00 | 0,00 |
| Cash and cash equivalents 1 Jan + change | -163 587 719,22 | 0,00 |
| **Cash and cash equivalents 31 Dec** | **113 779 555,18** | **0,00** |
| **Cash and cash equivalents, restructurings** | 277 367 274,40 | |

Cash and cash equivalents comprise of bank deposits. Cash from restructurings consists of cash and bank receivables transferred in mergers.

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 (F

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 statemen the tax rate established at the balance sheet date for the following years. The balance sheet includes the deferred tax liabili entirety and the deferred tax asset in the amount of the estimated probable receivable.

| **1.1 Revenue** | **2020** | **2019** |
|---|---|---|
| **EUR 1,000** | | |
| Distribution income | 142 705 | 0 |
| Contracting income | 1 312 | 0 |
| Connection fee income | 3 670 | 0 |
| Other sales income | 187 | 0 |
| Outage compensation | -464 | 0 |
| **Total** | **147 411** | **0** |

| **1.2 Other operating income** | | |
|---|---|---|
| **EUR 1,000** | | |
| Revenue from collection of trade receivables | 523 | 0 |
| Other operating income | 582 | 0 |
| **Total** | **1 106** | **0** |

| **1.3 Materials and services** | | |
|---|---|---|
| **EUR 1,000** | | |
| Grid costs | -17 784 | 0 |
| Network losses | -5 257 | 0 |
| External services | -13 019 | 0 |
| Materials | -949 | 0 |
| **Total** | **-37 010** | **0** |

## Notes to the Financial Statements

| | 2020 | 2019 |
|---|---|---|
| **1.4 Personnel expenses** | | |
| Average number of personnel during the financial year | 83 | 0 |
| | | |
| **EUR 1,000** | | |
| Salaries | -1 580 | 0 |
| Pension expenses | -239 | 0 |
| Other employee expenses | -36 | 0 |
| **Total** | **-1 855** | **0** |

Salaries and remuneration were not paid to CEO in 2020.

| | 2020 | 2019 |
|---|---|---|
| **1.5 Depreciations according to the plan** | | |
| **EUR 1,000** | | |
| Impairment | -1 247 | 0 |
| Intangible fixed assets | -242 | 0 |
| Goodwill | -4 666 | 0 |
| Other capitalized long-term expenditure | -110 | 0 |
| Buildings and constructions | -1 | 0 |
| Electricity network | -7 196 | 0 |
| Machinery and equipments | -204 | 0 |
| **Total** | **-13 665** | **0** |
| | | |
| **1.6 Other operating expenses** | | |
| **EUR 1,000** | | |
| Lease expenses | -2 859 | 0 |
| Other external services | -9 873 | 0 |
| Merger loss | -16 309 | 0 |
| Other operating expenses | -5 035 | -1 |
| **Total** | **-34 076** | **-1** |
| | | |
| **Audit charges EUR 1,000** | | |
| Auditing fees | -149 | 0 |
| Fees for tax services | -5 | 0 |
| Fees for other services | -46 | 0 |
| **Total** | **-200** | **0** |
| | | |
| **1.7 Financial income and expenses** | | |
| **EUR 1,000** | | |
| Interest and other financial income | | |
| From group companies | 0 | 0 |
| Other financial income | 1 782 | 0 |
| **Total** | **1 782** | **0** |
| | | |
| Interest and other financial expenses | | |
| Interest expenses | -20 205 | 0 |
| Other financial expenses | -1 001 | 0 |
| **Total** | **-21 206** | **0** |
| | | |
| **Total financial income and expenses** | **-19 424** | **0** |

## Notes to the Financial Statements

| | 2020 | 2019 |
|---|---|---|
| **1.8 Appropriations** | | |
| **EUR 1,000** | | |
| Change in accelerated depreciations | -20 666 | 0 |
| Group contribution received | 9 071 | 0 |
| **Total** | **-11 595** | **0** |
| | | |
| **1.9 Income taxes** | | |
| **EUR 1,000** | | |
| Income taxes for the financial period | -5 347 | 0 |
| Change in deferred taxes | 2 129 | 0 |
| **Total** | **-3 218** | **0** |

| | 2020 | 2019 |
|---|---|---|
| **2.1 Intangible fixed assets** | | |
| **Intangible rights** | | |
| **EUR 1,000** | | |
| Cost 1 Jan | 0 | 0 |
| Merger | 29 895 | 0 |
| Investments | 6 279 | 0 |
| Cost 31 Dec | 36 174 | 0 |
| Accumulated depreciation 1 Jan | 0 | 0 |
| Merger | -14 150 | 0 |
| Depreciation according to the plan | -588 | 0 |
| **Book value 31 Dec** | **21 435** | **0** |
| | | |
| **Goodwill** | | |
| **EUR 1,000** | | |
| Acquisition cost 1.1. | 0 | 0 |
| Merger | 450 086 | 0 |
| Merger loss | 1 809 644 | 0 |
| Cost 31 Dec | 2 259 730 | 0 |
| Merger | -19 908 | 0 |
| Depreciation according to the plan | -27 998 | 0 |
| **Book value 31.12.** | **2 211 824** | **0** |
| | | |
| **Other capitalized long-term expenditure** | | |
| **EUR 1,000** | | |
| Cost 1 Jan | 0 | 0 |
| Merger | 319 248 | 0 |
| Investments | 2 798 | 0 |
| Cost 31 Dec | 322 046 | 0 |
| Accumulated depreciation 1 Jan | 0 | 0 |
| Merger | -311 375 | 0 |
| Depreciation according to the plan | -577 | 0 |
| **Book value 31 Dec** | **10 094** | **0** |

| | 2020 | 2019 |
|---|---|---|
| **2.2 Tangible fixed assets** | | |
| **Land and water areas** | | |
| **EUR 1,000** | | |
| Cost 1 Jan | 0 | 0 |
| Merger | 2 083 | 0 |
| Investments | 22 | 0 |
| Cost 31 Dec | 2 105 | 0 |
| **Book value 31 Dec** | **2 105** | **0** |
| | | |
| **Buildings and constructions** | | |
| **EUR 1,000** | | |
| Cost 1 Jan | 0 | 0 |
| Merger | 3 119 | 0 |
| Cost 31 Dec | 3 119 | 0 |
| Accumulated depreciation 1 Jan | 0 | 0 |
| Merger | -2 832 | 0 |
| Depreciation according to the plan | -6 | 0 |
| **Book value 31 Dec** | **282** | **0** |

## Notes to the Financial Statements

| | 2020 | 2019 |
|---|---|---|
| **Electricity network** | | |
| **EUR 1,000** | | |
| Cost 1 Jan | 0 | 0 |
| Merger | 2 288 481 | 0 |
| Investments | 665 747 | 0 |
| Cost 31 Dec | 2 954 228 | 0 |
| Accumulated depreciation 1 Jan | 0 | 0 |
| Merger | -927 717 | 0 |
| Depreciation according to the plan | -40 285 | 0 |
| **Book value 31 Dec** | **1 986 226** | **0** |
| | | |
| **Machinery and equipments** | | |
| **EUR 1,000** | | |
| Cost 1 Jan | 0 | 0 |
| Merger | 62 796 | 0 |
| Investments | 1 098 | 0 |
| Cost 31 Dec | 63 894 | 0 |
| Accumulated depreciation 1 Jan | 0 | 0 |
| Merger | -51 843 | 0 |
| Depreciation according to the plan | -1 241 | 0 |
| **Book value 31 Dec** | **10 810** | 0 |
| | | |
| **Other tangible assets** | | |
| **EUR 1,000** | | |
| Cost 1 Jan | 0 | 0 |
| Merger | 56 | 0 |
| Cost 31 Dec | 56 | 0 |
| Accumulated depreciation 1 Jan | 0 | 0 |
| Merger | -54 | 0 |
| Depreciation according to the plan | 0 | 0 |
| **Book value 31 Dec** | **2** | 0 |
| | | |
| **Advance payments and construction in progress** | | |
| **EUR 1,000** | | |
| Cost 1 Jan | 0 | 0 |
| Merger | 79 624 | 0 |
| Increase | 74 101 | 0 |
| Decrease | -130 633 | 0 |
| **Book value 31 Dec** | **23 091** | 0 |

### 2.3 Investments

| | 2020 | 2019 |
|---|---|---|
| **Holdings in group companies** | | |
| **EUR 1,000** | | |
| Cost 1 Jan | 0 | 0 |
| Merger / increases | 222 879 | 0 |
| Investments | 2 207 400 | 0 |
| Merger / disposals | -2 430 279 | 0 |
| Cost 31 Dec | 0 | 0 |
| **Book value 31 Dec** | **0** | **0** |
| | | |
| **Other shares and holdings** | | |
| **EUR 1,000** | | |
| Cost 1 Jan | 0 | 0 |
| Merger | 194 | 0 |
| Disposals | 0 | 0 |
| Cost 31 Dec | 194 | 0 |
| **Book value 31 Dec** | **194** | 0 |

## Notes to the Financial Statements

| | 2020 | 2019 |
|---|---|---|
| **2.4 Receivables** | | |
| | | |
| **Long term receivables** | | |
| **EUR 1,000** | | |
| External other long-term recievables | 274 695 | 0 |
| External loan receivables | 1 203 | 0 |
| Loan receivables from group companies | 0 | 0 |
| **Long term receivables total** | **275 897** | **0** |
| | | |
| **Short term receivables** | | |
| Receivables from group companies | | |
| **EUR 1,000** | | |
| Accrued income | 8 | 79 |
| Other short-term receivables | 3 110 | 0 |
| Group contribution receivables | 9 071 | 0 |
| Receivables from group companies total | 12 189 | 79 |
| | | |
| External receivables | | |
| **EUR 1,000** | | |
| Trade receivables | 21 616 | 0 |
| Other short-term receivables | 471 | 0 |
| Accrued income | 37 103 | 0 |
| External receivables total | 59 190 | 0 |
| | | |
| Accrued income | | |
| **EUR 1,000** | | |
| Sales accruals | 21 616 | 0 |
| Other accrued income and receivables | 471 | 0 |
| Accrued income total | 37 103 | 0 |
| | | |
| **Short term receivables total** | **71 380** | **79** |
| | | |
| **Total receivables** | **347 277** | **79** |
| | | |
| **Cash and cash equivalents** | **113 780** | **0** |

| | 2020 | 2019 |
|---|---|---|
| **3.1 Capital and reserves** | | |
| **EUR 1,000** | | |
| Subscribed capital 1 Jan | 80 | 0 |
| Change (+-) | 0 | 80 |
| Subscribed capital 31 Dec | 80 | 80 |
| | | |
| Non restricted equity 1 Jan | 0 | 0 |
| Increase (+) | 2 207 400 | 0 |
| Equity repayment (-) | -550 000 | 0 |
| Non restricted equity 31 Dec | 1 657 400 | 0 |
| | | |
| Retained earnings (loss) 1 Jan | -1 | 0 |
| Loss for the the financial year | -31 824 | -1 |
| **Total capital and reserves** | **1 625 654** | **-1** |
| | | |
| Distributable equity | 1 625 574 | 0 |
| | | |
| **3.2 Cumulative accelerated depreciations** | | |
| **EUR 1,000** | 315 009 | 0 |

Accelerated depreciations include deferred tax liability of 63 001 763 euros.

## Notes to the Financial Statements

| | 2020 | 2019 |
|---|---|---|
| **3.3 Liabilities** | | |
| **Non-current liabilities** | | |
| **EUR 1,000** | | |
| Connection fee liability 1 Jan | 0 | 0 |
| Business combination increase | 203 060 | 0 |
| Connection fee refunds | -152 | 0 |
| Connection fee liability 31 Dec | 202 908 | 0 |
| | | |
| Bonds and notes | 1 689 500 | 0 |
| Loans from financial institutions | 150 000 | 0 |
| Deferred tax liabilities | 106 454 | 0 |

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

| | 2020 | 2019 |
|---|---|---|
| **Total non-current liabilities** | **2 148 862** | **0** |

**Maturity breakdown of financial liabilities**
**31 December 2020**

| EUR 1,000 | Effective interest rate % | Maturity Over 5 years | Total |
|---|---|---|---|
| Bonds | 1,87 % | 1 171 000 | 1 171 000 |
| Notes | 2,71 % | 518 500 | 518 500 |
| Loans from financial institutions | 0,39 % | 150 000 | 150 000 |
| **Total interest-bearing non-current liabilities** | | | **1 689 500** |

| | 2020 | 2019 |
|---|---|---|
| **Current liabilities** | | |
| **EUR 1,000** | | |
| Trade payables | 7 244 | 0 |
| Other short term liabilities | 31 263 | 0 |
| | | |
| Accrued expenses | | |
| Salaries and social expenses | 1 466 | 0 |
| Accrued interest expenses | 12 996 | 0 |
| Other accrued expenses | 14 257 | 0 |
| | 28 720 | 0 |
| | | |
| Liabilities to group companies | | |
| Group account | 17 966 | |
| Accrued expenses | 2 403 | 0 |
| Equity repayment liability | 550 000 | 0 |
| | 570 369 | 0 |
| | | |
| **Total current liabilities** | **637 595** | **0** |
| | | |
| **Total liabilities** | **2 786 457** | **0** |

**3.5 Liabilities and quarantees for debts**
**EUR 1,000**

| | 2020 | 2019 |
|---|---|---|
| Provided on behalf of own and group liabilities | | |
| Floating charges | 9 000 000 | 0 |
| Mortgages | 206 600 | 0 |
| | | |
| Leasing agreements | | |
| Within one year | 3 617 | 0 |
| After one year but not more than five years | 2 017 | 0 |
| **Total** | **5 634** | **0** |
| | | |
| Other own liabilities | | |
| Connection fees not included in the balance sheet values | 85 114 | 0 |
| Loan commitment to Elenia Group Oy | 151 305 | 0 |

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 |

| Differentiated Profit and Loss Account<br>EUR 1,000 | 1 July - 31 Dec 2020 |
|---|---|
| **Revenue** | **147 568** |
| **Other operating income** | **1 081** |
| **Materials and services** | |
| Materials and goods | |
| Purchace during the financial period | |
| Network losses | -5 252 |
| Other materials | -948 |
| Services | |
| Grid costs | -17 762 |
| Other external services | -12 967 |
| **Personnel expenses** | **-1 837** |
| **Depreciation, amortisation and impairment** | |
| Merger loss | -45 494 |
| Network assets | -27 400 |
| Other assets | -495 |
| **Other operating expenses** | |
| Lease expenses | -167 |
| Network rents and network leasing expenses | -2 729 |
| Other operating expenses | -14 383 |
| **Operating profit** | **19 216** |
| **Financial income and expenses** | |
| Income from other fixed investment | |
| Interest and other financial income | |
| From group companies | 0 |
| From other companies | 1 782 |
| Interest and other financial expenses | |
| From other companies | -21 180 |
| **Profit / loss before appropriations and taxes** | **-182** |
| **Appropriations** | |
| Change in accelerated depreciations | |
| Network assets | -20 363 |
| Other assets | -325 |
| Group contributions | |
| Group contribution received | 9 071 |
| **Income taxes** | **-5 347** |
| **Loss for the year** | **-17 147** |

**Differentiated Balance Sheet**

**EUR 1,000**

| | | 31 Dec 2020 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Intangible assets | | |
| Intangilble rights | 22 285 | |
| Goodwill | 2 211 824 | |
| Other capitalized long term expenditure | 9 243 | 2 243 353 |
| Tangible assets | | |
| Land and water areas | 190 | |
| Buildings and constructions | 282 | |
| Electricity network | 1 123 257 | |
| Merger losses | 874 810 | |
| Machinery and equipments | 613 | |
| Other tangible assets | 2 | |
| Advance payments and construction in progress | 23 091 | 2 022 245 |
| **Total non current assets** | | **4 265 598** |
| **Current assets** | | |
| Long-term receivables | | |
| Loan receivables | 274 695 | |
| Other long-term receivables | 1 203 | 275 897 |
| Short-term receivables | | |
| Trade receivables | 21 616 | |
| Receivables from group companies | 9 079 | |
| Other receivables | 234 | |
| Prepayments and accrued income | 37 103 | 68 032 |
| Cash and cash equivalents | | 95 814 |
| **Total current assets** | | **439 743** |
| **TOTAL ASSETS** | | **4 705 341** |

**Differentiated Balance Sheet**
**EUR 1,000**

| | | 31 Dec 2020 |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **Capital and reserves** | | |
| Subscribed capital | 80 | |
| Non restricted equity | 2 296 031 | |
| Retained earnings | -1 | |
| Loss for the financial year | -17 147 | 2 278 962 |
| **Cumulative accelerated depreciations** | | **314 400** |
| **Liabilities** | | |
| Non-current liabilitites | | |
| Connection fees | 202 908 | |
| Loans from financial institutions and other long-term loans | 1 839 500 | 2 042 408 |
| Current liabilities | | |
| Trade payables | 7 186 | |
| Liabilities to group companies | 2 403 | |
| Other short-term liabilities | 31 263 | |
| Accruals and deferred income | 28 720 | 69 572 |
| **Total liabilities** | | **2 111 979** |
| **TOTAL EQUITY AND LIABILITIES** | | **4 705 341** |

## 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.

**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.

Changes in the financial statements of Elenia Verkko Oyj approved on 27 May 2021 compared to financial statements approved on 3 March 2021 are the following:

Debt of 550 million euros related to equity repayment due to the sale of heating business is allocated to other than network business. Deferred tax liability (106.5 million euros) and change in deferred taxes during the year (2.1 million euros) resulting from group restructurings are allocated to other than network business.
Due to these changes listed above network business's unrestricted equity increased by 658.6 million euros.

| **Electricity Network business' key figures** | **1 July - 31 Dec 2020** |
| --- | --- |
| **EUR 1,000** | |
| | |
| **Investments** | |
| Intangble assets | |
| Intangble rights | 1 714 |
| Other capitalized long term expenditures | |
| Connection fees | 1 800 |
| Other capitalized long-term expenditures | 451 |
| | |
| Tangible assets of electricity network business | |
| Land and water areas | 22 |
| Electricity network | 124 101 |
| Demolition costs | 1 448 |
| Meters | 989 |
| | |
| Other tangible assets | 108 |
| | |
| **Other key figures** | |
| Refundable connection fees | 202 908 |
| Mandatory outage compensations | 3 337 |
| R&D expenses in the profit and loss account during the financial year | 537 |
| Operative expenses included in security of supply incentive during the financial year | 113 |
| Average number of personnel in the network business | 84 |

# Elenia Verkko Oyj

## Signatures to the financial statements

Dates and signatures

Tampere, _____/____ 2021

| | |
|---|---|
| Tapani Liuhala<br>Chairman of the Board of Directors | Jarkko Kohtala |
| Jorma Myllymäki | Alli Seppänen |
| Ville Sihvola | Tommi Valento |

**AUDITOR'S NOTE**

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

Tampere, _____/____ 2021

Ernst & Young Oy
Authorized Public Accountant Firm

Miikka Hietala
Authorized Public Accountant

Ernst & Young Oy
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*(This auditor's report replaces auditor's report dated 3 March 2021)*

# 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, 2020. 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.

### Other matter

This auditor's report replaces the auditor's report dated 3 March 2021 and issued for financial statements and report of Board of Directors dated and signed in 3 March 2021. This auditor's report has been issued for financial statements which has amendments to the notes of the parent company's financial statements dated and signed in 28 May 2021. The amendments made are specified in the notes under the paragraph *Notes for differentiated financial statements.*

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## 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**<br>*We refer to the note 3.2.*<br><br>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 2020, the value of goodwill amounted to 418 million euro representing 18 % of the total assets and -170 % of the total equity.<br><br>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.<br><br>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:<br><br>• 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.<br>• 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.<br>• We assessed retrospectively the outcome of the management's historical estimates.<br>• We considered the appropriateness of the Group's disclosures in respect of impairment testing. |

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| | |
|---|---|
| **Revenue Recognition**<br>*We refer to the Group's accounting policies and the note 2.1.*<br><br>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.<br><br>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.<br><br>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 relating to revenue recognition included, among others:<br><br>• We assessed the reasonableness of the Group's accounting policies over revenue recognition and compliance with applicable accounting standards.<br>• We assessed the process and methods for revenue recognition<br>• We tested the recorded sales transactions during the year against underlying documents on a sample basis.<br>• We tested the sales cut off on either side of the balance sheet date on a sample basis.<br>• We obtained confirmations of open accounts receivable balances at year end from customers and analyzed credit invoices issued after the balance sheet date.<br>• We performed analytical procedures on revenues.<br>• 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

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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 2 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.

Helsinki 28.5.2021

Ernst & Young Oy
Authorized Public Accountant Firm

Miikka Hietala
Authorized Public Accountant