Elenia Holdings S.à r.l.

Consolidated Financial Statements

1 January 2017 - 31 December 2017

Address of the registered office :
9, allée Scheffer
L-2520 Luxembourg

R.C.S. Luxembourg : B 181.773

Share capital : EUR 14.000

Table of contents

	Pages
Consolidated management report for the financial year 2017	1 - 8
Independent auditor's report	9 - 11
Consolidated financial statements:	
- Consolidated statement of profit or loss	12
- Consolidated statement of other comprehensive income	13
- Consolidated statement of financial position	14
- Consolidated statement of changes in equity	15
- Consolidated statement of cash flows	16
- Notes to the consolidated financial statements	17-69

Elenia Holdings S.à r.l.

Société à responsabilité limitée

9, allée Scheffer
L-2520 Luxembourg
Share Capital: EUR 14,000

R.C.S. Luxembourg: B 181.773

(hereinafter the "**Company**")

CONSOLIDATED MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2017

Dear shareholders of the Company,

In accordance with the provisions of the Luxembourg law of 10 August 1915 on commercial companies as amended, the Board of Managers of the Company ("**Board of Managers**") hereby submits to you the consolidated management report for the financial year 2017.

1. Elenia group company structure - overview

The Company is part of a group of companies which invests in Elenia Sub-group ("**Sub-Group**"). The Sub-group consists of (i) Elenia Oy ("**Elenia Networks**") which owns and operates an electricity distribution network and it is the main business of the Group accounting for over 75% of the revenue and 85% of EBITDA (ii) Elenia Lämpö Oy ("**Elenia Heat**") which owns and operates a district heating business (iii) Elenia Palvelut Oy ("**Elenia Services**") which operates a customer service business and (iv) financing company Elenia Finance Oyj ("**Elenia Finance**") which provides treasury services to the Group. Elenia Networks is the parent company of the Sub-Group. Elenia Networks has 100 outstanding shares all of which are held by the Company. As at 31 December 2017, the subscribed share capital of the Company is divided into 1.400.000 shares fully paid up with a nominal value of EUR 0,01 each. Lakeside Network Investments Holding B.V. holds 1.250.000 shares in the Company corresponding to 89% of the share capital of the Company. Elenia Finance SPPS S.à r.l. holds 150.000 shares in the Company corresponding to 11% of the share capital of the Company. As of 31 December 2017, the Company's ultimate parents are affiliated entities to Goldman Sachs, 3i and Ilmarinen, also refer Section 9 for change in ownership subsequent to the year ended 31 December 2017.

2. Financial Performance

The Group's revenue in 2017 was EUR 338,8 million (EUR 315,3 million in 2016). The revenue growth was mainly driven by higher volumes due to cold weather, an increase in electricity distribution tariffs and less severe weather-related outages compared to 2016, which resulted in lower statutory and voluntary outage compensations paid to customers.

In 2017, the Sub-group's EBITDA was EUR 187,9 million (EUR 168,4 million in 2016). The growth in EBITDA was mainly driven by higher revenues and opex savings during the year. EBITDA excluding non-recurring and exceptional items was EUR 190,9 million in 2017 (176,3 million in 2016). The non-recurring and exceptional items in 2017 include costs relating to write-down of old receivables, reversal of a provision and other costs that are considered either non-recurring or exceptional.

Sub-group (EUR million)	2017	2016	2015	2014	2013
Revenue	338,8	315,3	282,3	299,7	293,7
EBITDA	187,9	168,4	135,6	153,9	140,8
EBITDA excluding non-recurring and exceptional items	190,9	176,3	152,2	156,2	152,4
EBITDA margin (excl. Non-rec. and exceptional items)	*56.3%*	*55.9%*	*53.9%*	*52.1%*	*51.9%*

3. Risk management

The Group undertakes comprehensive risk management at its operation in Finland covering risk identification, assessment, reporting and measures to manage risks in cooperation with business units and other Group functions.

Since the Group uses EUR as its primary operating currency, its currency risk rises from purchases of raw materials and services denominated in currencies other than EUR. Trades in currencies other than EUR may have a negative effect on the Group`s result. Such currency risks are hedged either through contractual currency rate clauses or through forward contracts. At the end of 2016, the currency risk of the Group comprises of trade payables which amounted to SEK 48.7 thousand and whose counter was EUR 5.1 thousand. 4

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

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

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

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

4. Business Review – Electricity Distribution

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

With an electricity network of approximately 70.200 km, Elenia Networks supplies electricity to over 424.000 end-users (31.12.2017). In addition to residential customers, key customer segments include industrial, services, construction and public sectors. The company has operations in more than 100 cities and municipalities spanning a geographical area of nearly 600 km in length across central Finland, from Southern Häme to Northern Ostrobothnia.

In 2017, Elenia Networks distributed 6.342 GWh (6.330 GWh in 2016) of electricity, which is 0,2% more than in 2016. Elenia Networks' total revenue (including intra-group items) was EUR 263,1 million (EUR 240,2 million in 2016). The increase in revenue was attributable to higher volumes due to cold weather, an increase in electricity distribution tariffs, benign weather conditions resulting in less severe weather-related outages and an increase in the number of customers.

Elenia Networks' EBITDA in 2017 was EUR 161,2 million (EUR 143,1 million in 2016). The growth in EBITDA was primarily driven by the increase in revenue described above.

The weather conditions in 2017 were benign and Elenia Networks experienced only one major storm (storm Sauli on 27 March 2017) during the year. Elenia Networks was prepared for the storm and worked to mitigate the impact on customers. The maximum number of customers simultaneously without electricity was less than 22.000. All connections were restored in less than 24 hours. SAIDI (System Average Interruption Duration Index), a measure of the duration of outages, was 94 min during the year, the lowest in the company's history.

During the year, Elenia Networks continued to invest in the electricity network in accordance with its development plan. Elenia Networks' investment plan has been designed to improve the security of supply via underground cabling. Elenia Networks has only built weatherproof underground cables since 2009. At the end of 2017, 41% of the network was underground, up from 38% at the end of 2016.

The Electricity Market Act (EMA) states that 100% of customers must be within the scope of the quality requirements by the end of 2028. This will be achieved by increasing the cabling rate to 75% by the end of 2028. At the end of 2017, 55% of Elenia's customers were within the scope of EMA quality requirements. While the main focus in the development of the security of supply is on underground cabling, Elenia Netwlorks also seeks to improve the security of supply by other means. For example, in recent years Elenia Networks has developed an efficient model for tree clearance outside the line corridors.

Elenia Networks invested close to EUR 136 million in developing its electricity network in 2017. Investment in the electricity network will continue in 2018 and Elenia Networks plans to deploy approximately EUR 140 million primarily to construct approximately 3.000 km of underground cables.

During the year, Elenia Networks entered into several multi-year framework agreements with contractors for underground cabling and other capex projects. These agreements provide increased predictability and stable framework conditions both for the contracting companies and Elenia Networks.

Elenia Networks continued to develop its asset management system. Both the PAS 55 and ISO 55001 certificates were successfully renewed by Lloyd's Register in 2016 and are valid for the next three years. Lloyd's Register carried out a routine surveillance visit in June 2017.

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

The regulatory methods for the fourth regulatory period (2016–2019) came into effect on 1.1.2016. The basic structure of the regulatory framework continues to be based on a combination of a reasonable rate of return and various incentives. The reasonable rate of return declined from 7,42% in 2016 to 7,05% in 2017 due to the change in the risk free rate. The reasonable rate of return for 2018 is 6,62%. Incentives related to investments, quality, efficiency, innovation and security of supply remain in place, with minor changes. The regulatory guidelines provide stability for the industry and enable the continuation of Elenia Networks' security of supply driven investment programme as planned.

Following the distribution price increases announced by certain Finnish DSOs in early 2016, the EMA was amended. The new EMA become effective 1.9.2017 and it restricts the distribution system operators, including Elenia Networks, from increasing their electricity distribution tariffs by more than an aggregate of 15% (on tariffs after taxes) in any rolling 12-month period. The new regulation applies to both individual and corporate customers.

5. Business Review – Heat Business

Elenia Heat owns and maintains 16 district heating networks across Finland, primarily in the Häme and Keski-Suomi regions. Elenia Heat has approximately 5.000 customers and approximately 85.000 end-users. The business is well established and an integral part of the Finnish utility market in the regions it serves. District heating is the leading heating solution in Finland. It involves the distribution of heat generated in centralised locations for residential and commercial heating through a distribution network. In Finland, the market share of district heating is approximately 46%. Compared to alternatives, district heating is reliable, easy to use, cost efficient and expensive to replace. Elenia Heat is Finland's tenth-largest seller of district heat and the second-largest private seller of district heating. In addition to district heating, Elenia Heat is also engaged in the sale and distribution of natural gas and in the sale of the electricity that it generates.

Elenia Heat primarily produces its heat via wood, peat, natural gas and oil. In 2017, biofuels accounted for more than 70% of Elenia Heat's production volume (68% in 2016), and approximately 88% of the fuel used was of domestic origin. Elenia Heat purchases approximately 32% of its total heat volumes from third party companies, including energy companies and the local industry. The fuel and energy is sourced using long-term procurement contracts.

In 2017, Elenia Heat's sales volume of heat, gas and electricity totalled 1,1 TWh (1,1 TWh in 2016). Elenia Heat's total revenue (including intra-group items) in 2017 was EUR 78,9 million (EUR 77,8 million in 2016). The increase in revenue was attributable to higher sales in the gas business and non-recurring revenue from the sale of oil inventory. District heating revenue remained in line with the previous year, but electricity revenue decreased due to lower production volume. Despite the increase in revenue, Elenia Heat's EBITDA in 2017 remained in line with the previous year at EUR 25,6 million (EUR 25,6 million in 2016).

6. Business Review – Customer Service Business

Elenia Services provides customer service and related services to the Elenia Group and other Finnish utilities, including invoicing, collection, connection sales, outage management and electricity market information exchange services. During 2017, Elenia Services entered into customer service arrangements with third party customers, Jyväskylän Energia Oy, Tampereen Sähkölaitos Oy and Auris Kaasunjakelu Oy (effective February 2018).

In 2017, Elenia Services' total revenue (including intra-group items) was EUR 9,5 million (EUR 10,2 million in 2016). Of this, the total revenue from external customers amounted to EUR 1,3 million in 2017 (EUR 1,4 million in 2016). Elenia Services' EBITDA was EUR 1,1 million in 2017 (EUR 0,8 million in 2016).

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

7. Financing

In 2017, Elenia Group continued to benefit from favourable market conditions and strong investor demand for long-dated investment grade bonds. Elenia Finance Oyj issued bonds under its EMTN programme for EUR 75 million (EUR 107 million in 2016) and private placements for an aggregate amount of EUR 138,5 million (EUR 150 million in 2016). The proceeds were used for general corporate purposes, to repay Elenia Oy's drawn bank debt and to finance investments.

The tenor of new issuances varies from 11 years to 17 years. The weighted average maturity of Elenia Group's debt declined slightly to 9,9 years (10,1 years at the end of 2016). The weighted average interest rate (excluding other long-term loans) was 2,9% in 2017 (2,9% at the end of 2016).

In June 2017, Elenia signed new fully committed credit facilities totalling EUR 470 million with a syndicate of eight banks. The 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 new facilities replaced older similar EUR 355 million credit facilities.

Elenia Group continues to have a strong liquidity position. As at 31 December 2017, cash and cash equivalents were EUR 25 million (EUR 15 million in 2016) and the credit facilities were completely undrawn.

Elenia Finance Oyj has a rating from Standard & Poor's, who published their most recent credit rating for Elenia Finance Oyj in December 2017 and kept the rating unchanged (BBB, outlook stable). S&P regards Elenia Group's business risk profile as excellent, mainly due to the fully regulated electricity distribution business, which accounts for approximately 85% of the group's EBITDA. S&P also considers the Finnish regulatory framework for electricity distribution network companies to be well established, predictable, and supportive.

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

Treasury shares

Own equity instruments that are reacquired (treasury shares) by a subsidiary are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

During 2017 there was no change in the treasury shares value.

8. Employees

Elenia Networks successfully implemented a new organisational structure that became effective from 1.1.2017. The new organisation redefined the roles and responsibilities of teams within the Operations and Asset Management, Project and Construction Management and Customers and Electricity Markets -units to streamline operations, improve cooperation with our external partners, improve overall efficiency and increase agility.

At the end of 2017, the Group employed 349 people (333 in 2016).

Close cooperation with local partner companies is an integral part of the Group's operations. Including the personnel of external sub-contractors, the Group's business operations employ approximately 1.000 people.

9. Corporate Governance

There were no changes to the Board of Managers of the Company in 2017.

10. Research and development

Own equity instruments that are reacquired (treasury shares) by Research and development costs are recognised as an expense in the year in which they are incurred. Research and development costs are included in the consolidated statement of profit or loss under personnel costs and other operating expenses. As research expenses, these costs do not meet the criteria for capitalisation. The total amount of R&D expense was EUR 1,8 million (2016: EUR 1,7 million).

11. Events after the Balance Sheet Date

As a result of the implementation of IFRS 15, effective 1 January 2018, the Group has changed its revenue recognition regarding income on new connections. Previously the new connection revenue was recognised immediately after signing of the contract or completion of the physical distribution network connection. From 1 January 2018 onwards the new connection revenue is recognised over a period of 30 years for the electricity network as well as district heating and gas network connections. The time period is in line with the depreciation period of the connection assets.

On 13 December 2017, a consortium comprising Allianz Capital Partners ("**ALP**") on behalf of the Allianz Group, Macquarie Infrastructure and Real Assets ("**MIRA**") and Valtion Eläkerahasto signed an agreement to acquire Elenia Group from affiliated entities to Goldman Sachs, 3i and Ilmarinen. The transaction has been completed on 28 February 2018.

After completion date the registered office of the company changed from 2 Rue du Fossé, L- 1536 Luxembourg to 9 Allée Scheffer, L-2520 Luxembourg. Also the board members namely Mrs. Yvanna

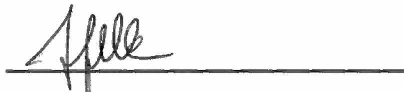
somba, Mr. Antoine Clauzel and Mrs. Marielle Stijger were replaced in the Board by Mr. Livio Gambardella, Mrs. Stephanie Meyer, Mrs. Caroline Goergen and Mr. Metzger Thomas and Mr. Sergii Tarnakin.

12. Outlook

The new regulatory period began on 1 January 2016. The regulation provides a solid foundation for the Sub-group's operations, investments and strategy. Customers, as well as the surrounding society, require secure supply of electricity now and in the future. In order to meet these expectations, Elenia Networks has prepared an investment plan which emphasises the significance of underground cabling to ensure the security of supply. The Sub-group's target is to increase the underground cabling rate of the electricity distribution network to 75% by 2028. This requires substantial investments; the Sub-group's investments into electricity distribution network are approximately EUR 140 million in 2018.

Luxembourg, on May 16, 2018.

On behalf of the Board of Managers of the Company,



Livio Gambardella
Manager

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Independent auditor's report

To the sole shareholder of
Elenia Holdings S.à r.l.
Société à responsabilité limitée
9, allée Scheffer
L-2520 Luxembourg

Opinion

We have audited the consolidated financial statements of Elenia Holdings S.à r.l. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under those Law and standards are further described in the "responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Managers is responsible for the other information. The other information comprises the information included in the consolidated management report but does not include the consolidated financial statements and our report of the "réviseur d'entreprises agréé" thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Managers and those charged with governance for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, the Board of Managers is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers.

- Conclude on the appropriateness of Board of Managers' 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 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 report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated 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 report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and 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.

Report on other legal and regulatory requirements

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

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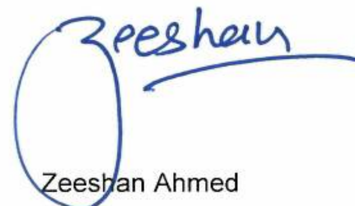

Zeeshan Ahmed

Luxembourg, 16 May 2018

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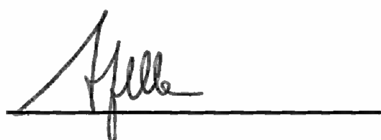
Elenia Holdings S.à r.l.
Société à responsabilité limitée

Consolidated statement of profit or loss

for the year ended 31 December 2017

All amounts in EUR 000

	Note	From 1 January 2017 to 31 December 2017	From 1 January 2016 to 31 December 2016
Revenue		**338.806**	**315.325**
Other operating income	5	3.620	3.394
Materials and services		(112.494)	(110.193)
Employee benefit expenses	6	(21.723)	(20.572)
Depreciation, amortisation and impairment	7	(86.280)	(83.640)
Other operating expenses	5	(20.570)	(19.817)
Operating profit		**101.359**	**84.497**
Finance income	9	210	303
Finance costs	9	(100.880)	(103.858)
Share of profit of an associate	8	164	181
Profit/(loss) before tax from continuing operations		**853**	**(18.877)**
Income tax	10	**(882)**	**3.430**
Loss for the year		**(29)**	**(15.447)**



Livio Gambardella

Manager

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

Consolidated statement of other comprehensive income

for the year ended 31 December 2017

All amounts in EUR 000

	Note	From 1 January 2017 to 31 December 2017	From 1 January 2016 to 31 December 2016
Loss for the year		**(29)**	**(15.447)**
Other comprehensive income/ (loss)			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement losses on defined benefit plans	19	39	(202)
Income tax effect	10	(8)	40
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net gain/ (loss) on available-for-sale financial assets		-	1
Other comprehensive income /(loss) for the year after tax		**31**	**(161)**
Total comprehensive profit/(loss) for the year		**2**	**(15.608)**

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

Consolidated statement of financial position

as at 31 December 2017

All amounts in EUR 000

	Note	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment, net	11	1.348,045	1.286.739
Intangible assets	12	605.479	608.716
Investments in an associates	8	727	687
Other non-current financial assets		597	562
Deferred tax assets	10	1.058	1.125
Total non-current assets		**1.955.906**	**1.897.829**
Current assets			
Inventories	13	4.130	7.515
Trade receivables	14	22.261	21.513
Other current receivables	14	44.413	42.191
Cash and cash equivalents		24.595	15.057
Total current assets		**95.399**	**86.276**
Total assets		**2.051.305**	**1.984.105**
Equity and liabilities			
Equity			
Share capital	22	14	14
Share premium	22	2.037	2.037
Retained earnings		(146.319)	(146.321)
Treasury shares	22	(2)	(2)
Total equity		**(144.270)**	**(144.272)**
Non-current liabilities			
Loans from financial institutions	15	-	22.000
Bonds and notes	15	1.521.082	1.307.838
Other long-term loans	15	426.385	542.116
Finance lease liabilities	15, 21	12.412	16.445
Employee benefit liability	19	1.134	1.177
Provisions	16	9.015	9.791
Other long-term liabilities		1.252	1.072
Deferred tax liabilities	10	142.627	141.850
Total non-current liabilities		**2.113.907**	**2.042.289**
Current liabilities			
Finance lease liabilities	17, 21	4.068	4.403
Trade payables	17	12.155	22.535
Other current liabilities	17	65.445	59.150
Total current liabilities		**81.668**	**86.088**
Total equity and liabilities		**2.051.305**	**1.984.105**

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

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

Consolidated statement of changes in equity

for the year ended 31 December 2017

All amounts in EUR 000	Note	Share capital	Share premium	Available for sale reserve	Retained earnings	Treasury shares	Total equity
As at 1 January 2016		**14**	**2.037**	**(1)**	**(130.713)**	**(2)**	**(128.665)**
Comprehensive income							
Loss for the year		-	-	-	(15.447)	-	(15.447)
Other components of comprehensive income (adjusted by tax effect)							
Available-for-sale financial assets		-	-	1	1	-	1
Change in defined benefit plans	19	-	-	-	(162)	-	(162)
Total comprehensive income for the year		-	-	-	**(15.608)**	-	**(15.608)**
As at 31 December 2016		**14**	**2.307**	-	**(146.321)**	**(2)**	**(144.272)**
As at 1 January 2017		**14**	**2.307**	-	**(146.321)**	**(2)**	**(144.272)**
Comprehensive income							
Loss for the year		-	-	-	(29)	-	(29)
Other components of comprehensive income (adjusted by tax effect)							
Change in defined benefit plans	19	-	-	-	31	-	31
Total comprehensive income for the year		-	-	-	**2**	-	**2**
As at 31 December 2017		**14**	**2.307**	-	**(146.319)**	**(2)**	**(144.270)**

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

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

Consolidated statement of cash flows

for the year ended 31 December 2017

All amounts in EUR 000

	From 1 January 2017 to 31 December 2017	From 1 January 2016 to 31 December 2016
Operating activities		
Loss for the year	(29)	(15.447)
Adjustments to reconcile loss to net cash flows		
Depreciation, amortisation and impairment	86.280	83.640
Other adjustments	101.713	100.818
Working capital adjustments		
Decrease in inventories	3.133	2.530
Decrease in trade and other current liabilities	(2.467)	(1.655)
Increase in trade and other current receivables	(1.345)	(3.410)
Decrease in provisions	(259)	(2.573)
Dividends received	125	84
Interests received	206	251
Interest and financial expenses paid	(43.766)	(37.064)
Interest paid on other long-term loans	(42.468)	(60.875)
Taxes paid	(106)	(60)
Net cash from operating activities	**101.017**	**66.239**
Investing activities		
Capital expenditure, net	(146.290)	(125.288)
Changes in loans	(36)	(317)
Changes in investments	29	1.105
Net cash used in investing activities	**(146.297)**	**(124.500)**
Financing activities		
Repayment of short-term borrowings	-	(30.000)
Proceeds from long-term borrowings	213.566	257.223
Payment of debt arrangement costs	(4.848)	(2.168)
Repayment of long-term borrowings	(149.532)	(167.125)
Repayment of finance lease liabilities	(4.368)	(3.727)
Net cash from financing activities	**54.818**	**54.203**
Net increase/(decrease) in cash and cash equivalents	**9.538**	**(4.058)**
Cash and cash equivalents at 1 January	15.057	19.115
Change in cash and cash equivalents	9.538	(4.058)
Cash and cash equivalents at 31 December	**24.595**	**15.057**

Notes to the consolidated financial statements

1. General information

Elenia Holdings S.à r.l. (hereafter the "Company") was incorporated on 13 November 2013 and organised under the laws of Luxembourg as a société à responsabilité limitée for an unlimited period. The registered office of the Company is established at 9, allée Scheffer L-2520 Luxembourg. The company has changed the registered office on 28 February 2018 from 2 Rue du Fossé, L-1536 Luxembourg to the current address above mentioned.

The main activity of the Company is to hold participations in any form whatsoever, in Luxembourg and foreign companies, the acquisition by purchase, subscription, or in any other manner as well as the transfer by sale, exchange or otherwise of stock, bonds, debentures, notes and other securities or any kind, the possession, the administration, the development and the management of its portfolio. The Company may participate in the establishment and development of any financial, industrial or commercial enterprises and may render any assistance by way of loan, guarantees or otherwise to subsidiaries or affiliated companies. The Company may borrow in any form. In general, the Company may take any controlling and supervisory measures and carry out any financial, movable or immovable, commercial and industrial operation, which it may deem useful in the accomplishment and development of its purpose.

The Company holds all the shares in Elenia Oy, a Finnish limited liability company and having its registered office at Patamäenkatu 7, Tampere. The Company together with Elenia Oy and its subsidiaries are hereafter referred to as the "Group".

The Group's financial year begins on 1 January and closes on 31 December.

The Group's business operations comprise electricity distribution and district heating solutions as well as customer service functions. Information on the Groups ultimate parent is presented in Note 23 and Note 24.

These consolidated financial statements were authorised for issue by the Board of Managers of the Company on 16 May 2018. The shareholders have the right either to approve or reject the consolidated financial statements during the annual general meeting.

2. Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU").

The consolidated financial statements have been prepared based on a historical cost, except for available-for-sale financial assets and derivative contracts used for hedging purposes. All Group companies use the Euro as their functioning currency. The consolidated financial statements are presented in thousands of Euros ("EUR").

2.2 Changes in accounting policies and disclosures

The Group applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2017. The nature and the impact of each new standards and amendments are described in below:

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

The amended standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. The EU has endorsed the amendments. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, such as foreign exchange gains or losses. The amendments increase the amount of disclosure information given in the consolidated financial statements.

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

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

The amended standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. The EU has endorsed the amendments.

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

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

Annual improvements to IFRSs (2014 – 2016 Cycle)

The following annual improvement to IFRSs is effective for annual reporting periods beginning on or after 1 January 2017. The EU has endorsed the improvement.

IFRS 12 Disclosure of Interests in Other Entities

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

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

2.3 Consolidation principles and business combinations

The consolidated financial statements comprise the parent company Elenia Holdings S.à r.l. and its subsidiaries which the Group controls. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee. The consolidated financial statements also include, as associated companies, any companies over which the Group has significant influence. Significant influence generally involves a shareholding of over 20% of the voting rights or when the Group has the power to participate in the financial and operating policy decisions of the investee but has not control or joint control over those policies.

Subsidiaries are included in the consolidated financial statements using the acquisition cost method. The acquisition cost is measured as the aggregate of the fair value of the assets given and liabilities incurred or assumed at the date of exchange. Costs related to acquisitions are recorded on the consolidated statement of profit or loss as other operating expenses. The excess of the cost of acquisition over the fair value of the Group's share of the net assets acquired is recorded as goodwill. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Intercompany transactions, receivables and debts are eliminated in the consolidated financial statements. Where necessary, the accounting policies of subsidiaries have been changed to ensure consistency with the accounting policies adopted by the Group.

As at 31 December 2017, the subsidiaries do not have non-controlling interests.

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

2. Significant accounting policies (continued)

2.3 Consolidation principles and business combinations (continued)

Business combination and goodwill

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

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

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

Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either the statement of profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

2. Significant accounting policies (continued)

2.3 Consolidation principles and business combinations (continued)

Investment in an associate

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

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

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

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

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

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

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

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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies

a) Translation differences

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or consolidated statement of profit or loss are also recognised in other comprehensive income or statement of profit or loss, respectively).

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

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

b) Research and development costs

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

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

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

c) Government grants

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

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

d) Revenue recognition

Revenue from the distribution of electricity and heat is recognised at the time of delivery.Sales revenue from customer service operations is recognised in the period in which such services are rendered.

Connection fees paid by customers for joining an electricity or heating network are recognised as revenue in the consolidated statement of profit or loss. Electricity network connection fees, which have been paid by the customers before 2008, must be refunded net of demolition costs, if the customer wants to terminate the electricity connection. Similar refunding obligation applies to all district heating connection fees. A provision has been recorded for future refunds.

Outage compensations in accordance with the Electricity Market Act, which are paid to the customers due to interruption in the electricity distribution, are recognised as a reduction of revenue. However, starting from 1 June 2017 outage compensations have been treated as compensation for damages and recorded as a charge in consolidated statement of profit or loss.

e) Other operating income

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

f) Emission allowances

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

g) Property, plant and equipment

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

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

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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

g) Property, plant and equipment (continued)

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

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

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

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

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

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

h) Borrowing costs

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

i) Intangible assets

Intangible assets, except goodwill and intangible assets with indefinite useful 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 licenses

Acquired computer software licenses are capitalized on the basis of the costs incurred from the acquisition and implementation of the software. Costs associated with developing or maintaining computer software are recognised as an expense as incurred.

Compensation paid to landowners

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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

i) Intangible assets (continued)

Contractual customer relationships

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

Goodwill

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

Amortisation periods for intangible assets

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

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

j) Impairment of non-financial assets

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

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

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

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

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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

j) Impairment of non-financial assets (continued)

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

In assessing value in use, the estimated future cash flows expected to be derived from a cash-generating unit are discounted to their present value. The financial projections used in the calculations are based on business plans approved by management.

k) Trade receivables

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

l) Cash and cash equivalents

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

m) Leases

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

The Group as a lessee

Leases of property, plant and equipment, where the Group has a substantial share of the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the commencement of the lease term at the lower of the fair value of the leased property and the present value of the minimum lease payments determined at the inception of the lease. Each lease payment is allocated between the finance charges and the reduction of the outstanding liability. The interest element of the finance cost is charged to the consolidated statement of profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. The corresponding rental obligations, net of finance charges, are included in the long-term or short-term interest-bearing liabilities according to their maturities.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

m) Leases (continued)

The Group as a lessee (continued)

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

The Group as a lessor

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

n) Inventories

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

o) Provisions

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

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

p) Taxes

Current income tax

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

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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

p) Taxes (continued)

Deferred tax

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

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

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

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

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

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

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

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

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.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

q) Pension obligations

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

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

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

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

r) Financial instruments – initial recognition and subsequent measurement

Classification of current and non-current assets and liabilities

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

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

i. Financial assets

Initial recognition and measurement

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

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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

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

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. The Group has not designated any financial assets at fair value through profit or loss.

Loans and receivables

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

Available-for-sale financial investments

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

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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

Derecognition of financial assets

Financial assets are derecognised when:

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

ii. Impairment of financial assets

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

Financial assets carried at amortised cost

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

Available for sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

Of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

iii. Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. The Group has not designated any financial liabilities at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

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

Loans and borrowings

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

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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

iii. Financial liabilities (continued)

Derecognition

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

iv. Offsetting of financial instruments

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

v. Fair value measurement of financial instruments

The Group measures financial instruments such as derivatives at fair value at each balance sheet date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Notes 4, 15 and 18
- Quantitative disclosures of fair value measurement hierarchy Note 18
- Financial instruments (including those carried at amortised cost) Note 18

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

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

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

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

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

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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

v. Fair value measurement of financial instruments (continued)

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

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

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

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

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

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

s) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

2. Significant accounting policies (continued)

2.5 Summary of significant accounting policies (continued)

s) Derivative financial instruments and hedge accounting (continued)

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

Cash flow hedges

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

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

t) Treasury shares

Own equity instruments that are reacquired (treasury shares) by a subsidiary are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

3. Standards and interpretations issued but not yet effective

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

IFRS 9 Financial Instruments

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

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

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

IFRS 9 Financial Instruments (continued)

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

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

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

The Group plans to adapt the new standard on the required effective date and will not restate the comparative information. During 2017, Group's management has evaluated the effects of the IFRS 9 standard on the consolidated financial statements. Overall, no significant impact on the consolidated financial statements is expected. However, applying the impairment requirements of IFRS 9 will impact on the method used in calculation of the credit loss allowance for trade receivables, but according to the estimate of the Group's management the amount of credit loss allowances will not change significantly due to the nature of its operations. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables.

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

The Group plans to adopt the new standard on the required effective date using the modified retrospective method. During 2016, the Group's management made a high-level impact assessment of the effects of the IFRS 15 standard and its clarifications on the consolidated financial statements, and this was continued with a more detailed analysis in 2017.

Notes to the consolidated financial statements (continued)

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

IFRS 15 Revenue from Contracts with Customers (continued)

As a result of the implementation of IFRS 15 standard, the Group changes its revenue recognition regarding income on new connections. Previously revenue from new connections has been recognised immediately after signing of the contract or completion of the physical distribution network connection. From 1 January 2018 onwards the new connection revenue is recognised over a period of 30 years for the electricity network as well as district heating and gas network connections. The time period is in line with the depreciation period of the connection assets. As a result of implementing IFRS 15, the Group's revenues will be clearly lower, which will also have corresponding impact on the Group EBITDA. The impact on Group EBITDA level is approximately -6% compared to 2017 figures. IFRS 15 standard does not effect on revenue recognition regarding income on distribution of electricity and heat.

IFRS 16 Leases

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

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The new standard includes two recognition exemptions for lessee: leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. The new IFRS 16 standard also requires lessees and lessors to make more extensive disclosures than under IAS 17.

According to the current estimate of the Group's management the new IFRS 16 standard will result in more extensive disclosure information in the consolidated financial statements but no material changes are expected in the consolidated statement of profit or loss and consolidated statement of financial position. In 2018, the management will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 17 Insurance Contracts

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

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

The new standard is not applicable to the Group.

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

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

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

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

These amendments are not applicable to the Group.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

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

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

These amendments are not applicable to the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

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

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

Amendments to IAS 28: Long-term Interests In Associates and Joint Ventures

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

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

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

Amendments to IAS 40: Transfers of Investment Property

The amended standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The EU has not endorsed the amendments.

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

These amendments are not applicable to the Group.

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

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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

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

Annual Improvements to IFRSs (2014 – 2016 Cycle)

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

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

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

Annual Improvements to IFRSs (2015 – 2017 Cycle)

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

> ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements***
> The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
>
> ***IAS 12 Income Taxes***
> The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
>
> ***IAS 23 Borrowing Costs***
> The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The IFRIC interpretation is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The EU has not endorsed the amendments.

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

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

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

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

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

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

4. Significant accounting judgments, 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 below.

Judgments

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

Going concern

The consolidated financial statements are prepared on a going concern basis. The Board of Managers has noted that the Group made a profit before tax for 2017 of EUR 853 thousands and has a negative net equity of EUR 144.270 thousands as at 31 December 2017. Consequently, the going concern of the activities of the Group is dependent on its future cash flows and profitable operations.
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has sufficient resources to continue in business for the foreseeable future. The management's assessment is based on the following:

- None of the Group's external debt is maturing in next twelve months (as fully described in Note 25),
- The Group has issued bonds under the EUR 3 billion EMTN programme. As at 31 December 2017, the Group has only utilized 1,010 million out of this programme. This programme is supported by credit rating of "BBB with outlook stable" based on S&P Global Ratings' assessment.
- The Group has sufficient liquidity based on its cash position and undrawn credit facilities from a syndicate of international banks (as fully described in Note 25).

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

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. 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 recognised, these differences will affect income tax and provisions for deferred tax during the year when the determination of tax differences took place. Management estimates that the estimated tax shown in the consolidated financial statement represent a reasonable estimate of the Group's tax position. The Group recognizes deferred tax assets by taking into account their recoverability, based on the existence of deferred tax liabilities with similar maturities for netting and the possibility of generation of sufficient future taxable profits. The management assessed the deferred tax booked in the financial statements to be recoverable. The estimations and the actual flows of taxes paid or received could differ from the estimates made by the Group as a result of unforeseen future legal changes in estimates.

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

Estimates

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

a) Testing goodwill for impairment

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

The Group has conducted a sensitivity analysis of the effects of the key assumptions underlying the impairment testing on the test results (Note 12).

b) Deferred taxes

The Group has deferred tax assets and liabilities which are expected to be realised through the consolidated statement of profit or loss over certain periods of time in the future. The calculation of deferred tax assets and liabilities involves making certain assumptions and estimates regarding the future tax consequences attributable to differences between the carrying amounts of assets and liabilities as recorded in the financial statements and their tax basis (Note 10).

c) Provisions

Electricity network connection fees, which have been paid by the customers prior to 2008, must be refunded net of demolition costs, if the customer wants to terminate the electricity connection. Similar refunding obligation applies to all district heating connection fees. A provision for refundable connection fees for electricity and heating networks has been calculated by discounting estimated future annual connection fee refunds to their present value. The calculation is based on the management's estimate of the volume and timing of refundable connection fees (Note 16).

5. Other operating income and expenses

Other operating income	From 1 January 2017 to 31 December 2017	From 1 January 2016 to 31 December 2016
All amounts in EUR 000		
Rental income	104	285
Capital gains on sale of property, plant and equipment and intangible assets	104	22
Subsidy for bio-based electricity production	647	670
Others	2.765	2.417
Total	**3.620**	**3.394**

Other operating expenses	From 1 January 2017 to 31 December 2017	From 1 January 2016 to 31 December 2016
All amounts in EUR 000		
Lease expenses	1.187	3.412
External services	4.194	3.494
IT and communication expenses	4.538	5.360
Research and development costs	1.761	1.704
Other expenses	8.890	5.847
Total	**20.570**	**19.817**

Other operating expenses include lease and other real estate related costs and purchase of services. IT and communication costs comprise of both internal operating IT costs and purchased IT services from Vattenfall. Research and development costs mainly include costs of research projects that do not meet the criteria for capitalization.

Audit fees	From 1 January 2017 to 31 December 2017	From 1 January 2016 to 31 December 2016
All amounts in EUR 000		
Audit fees	297	244
Audit related fees	15	68
Tax fees	34	322
Other fees	44	709
Total	**390**	**1.343**

6. Employee benefits expense

All amounts in EUR 000	From 1 January 2017 to 31 December 2017	From 1 January 2016 to 31 December 2016
Salaries and remuneration	17.905	16.709
Pensions		
Defined contribution plans	2.751	2.944
Defined benefit plans	69	68
Social security costs	998	851
Total	**21.723**	**20.572**

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

6. Employee benefits expense (continued)

In EUR 000	2017	2016
CEOs		
Salaries and remuneration paid to CEOs	430	428
Other long-term employee benefits	223	136
Pension expenses related to salaries	118	129
Other key members of the management		
Salaries and other short-term employee benefits	1.545	1.505
Other long-term employee benefits	318	193
Pension expenses related to salaries and employee benefits	318	370

The subsidiary of the Company, Elenia Oy 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. Elenia Oy's Boards of Directors approve both the criteria as well as payment under the plans.

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

During 2017, EUR 808 thousand (2016: EUR 600 thousand) were recognised as an expense and EUR 535 thousand (2016: EUR 328 thousand) were paid out related to the long-term incentive plan. During 2017, EUR 1,9 million (2016: EUR 1,6 million) were booked as a liability related to the long-term incentive plan.

Key management includes management teams and Board members of Elenia Oy and Elenia Lämpö Oy. The key members of the management have no share or option based incentive schemes.

The annual performance bonuses (i.e. short-term annual performance bonus plan) are based for example on the Sub-group's profitability, work safety and customer or personnel satisfaction. Also the achievement of the individual key objectives in employee's own responsibility area is taken into consideration.

The key members of the management personnel are included within the scope of the long-term incentive plan. The purpose of the plan is to align the interests of the management with those of the shareholders in order to improve the competitiveness of the business and promote long-term financial success. The long-term incentive plan is measured over a three years period and potential remunerations are paid during the following three years after the earnings period. The payment is made only if the related to the 2012-2014, 2013-2015 and 2014-2016 programmes were paid. During 2017, there were three programmes on-going: 2015-2017, 2016-2018 and 2017-2019.

In addition, consolidated financial statements for the ended 31 December 2017, include an accrual of EUR 2,5 million related to the management work fee.

7. Depreciation, amortization and impairment

	From 1 January 2017 to 31 December 2017	From 1 January 2016 to 31 December 2016
All amounts in EUR 000		
Depreciation, amortisation and impairment on property, plant and equipment	79.768	76.802
Depreciation and amortisation of intangible assets	6.512	6.838
Total	**86.280**	**83.640**

Notes to the consolidated financial statements (continued)

8. Investment in an associate

	31 December 2017	31 December 2016
All amounts in EUR 000		
Cost at 1 January	687	590
Share of profit for the year	164	181
Dividends received	(125)	(84)
At 31 December	**727**	**687**

Group's share of the profit of associates for 2017 was EUR 164 thousand (2016: EUR 181 thousand).

Associates

31 December 2017

All amounts in EUR 000	Segment	Holding %	Assets	Liabilities	Revenue	Profit/(Loss)
Oriveden Aluelämpö Oy	Heat	**50**	**3.905**	**3.354**	**1.897**	**286**

31 December 2016

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

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

Notes to the consolidated financial statements (continued)

9. Finance income and finance costs

	From 1 January 2017 to 31 December 2017	From 1 January 2016 to 31 December 2016
All amounts in EUR 000		
Interest expenses		
Loans from financial institutions	(58)	(1.041)
Bonds and notes	(41.882)	(35.246)
Other long-term loans	(54.269)	(62.658)
Other interest expenses	(867)	(960)
Total interest	**(97.076)**	**(99.905)**
Other finance costs	(3.799)	(3.950)
Exchange rate differences		
Loans and receivables	(5)	(3)
Total	**(100.880)**	**(103.858)**
Interest income		
Other interest income	207	251
Other finance income	3	52
Total	**210**	**303**
Finance costs (net)	**(100.670)**	**(103.555)**

Interest expenses include interest expenses on interest-bearing loans.
Other interest expenses mainly consist of interest on finance leases of EUR 0,7 million (2016: EUR 0,8 million).

Notes to the consolidated financial statements (continued)

10. Income tax

	From 1 January 2017 to 31 December 2017	From 1 January 2016 to 31 December 2016
All amounts in EUR 000		
Tax for the year	(31)	(85)
Adjustments to taxes for previous periods	(15)	(6)
Deferred taxes	(836)	3.521
Income tax in the consolidated statement of profit or loss	**(882)**	**3.430**

Income tax rate

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

	From 1 January 2017 to 31 December 2017	From 1 January 2016 to 31 December 2016
Accounting profit/(loss) before tax	**853**	**(18.877)**
Theoretical income tax using the average applicable tax rate	(171)	3.775
- tax-free income items	10	85
- expenses that are non-deductible in taxation	(780)	(513)
- share of the profits of associates	8	19
- adjustment of taxes based on previous periods	60	74
- unrecognised deferred tax assets from taxation losses	(9)	(10)
Loss for the year	**(29)**	**(15.447)**

Accounting profit before tax is mainly derived from Elenia Oy, therefore, domestic rate of 20,0% (2016: 20,0%) has been used for determining theoretical income tax.

Notes to the consolidated financial statements (continued)

10. Income tax (continued)

Change in deferred tax assets and liabilities in 2017:

All amounts in EUR 000	As at 31 December 2016	Recognised in the statement of profit or loss	Recognised in other components of comprehensive income	As at 31 December 2017
Deferred tax assets				
Deferred tax assets for the confirmed losses	18.966	(6.294)	-	12.672
Defined benefit plans	236	(1)	(8)	227
Finance leases	889	(58)	-	831
Total	**20.091**	**(6.353)**	**(8)**	**13.730**
Offset by deferred tax liabilities	(18.966)			(12.672)
	1.125	-	-	**1.058**

	As at 31 December 2016	Recognised in the statement of profit or loss	Recognised in other components of comprehensive income	As at 31 December 2017
Deferred tax liabilities				
Interest-bearing liabilities	1.313	499	-	1.812
Depreciation differences	61.133	(838)	-	60.295
Measurement of assets at fair value in acquisition	98.370	(5.178)	-	93.192
Total	**160.816**	**(5.517)**	-	**155.299**
Offset by deferred tax assets	(18.966)	-	-	(12.672)
	141.850	-	-	**142.627**

Notes to the consolidated financial statements (continued)

10. Income tax (continued)

Change in deferred tax assets and liabilities in 2016

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

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

The Group has aggregate tax losses of EUR 1.621.309.186 (EUR 1.526.104.186 for the Company and EUR 75.865.045 for Elenia Oy) for offset against future taxable profits of the Group in which the losses arose. The losses carried forward are available for ten years for Elenia Oy and indefinitely for the Company. The Group has recorded a deferred tax asset on the confirmed losses for 2012-2013 for Elenia Oy as these losses will be offset against future profits. While the remaining losses on which the deferred tax not recorded are related to the Company that have a history of losses, deferred tax assets have not been recognised as these losses may not be used to offset taxable profits elsewhere in the Group.

Notes to the consolidated financial statements (continued)

11. Property, plant and equipment

Tangible assets (All amounts in EUR 000)

	Land and water areas	Buildings	Networks	Machinery and equipment	Other tangible assets	Prepayments	Total
Cost at 1 January 2017	2.624	19.752	1.934.175	240.353	1.157	20.415	2.218.476
Additions	39	36	128.324	9.270	100	9.413	147.182
Transfers between balance sheet items	-	-	-	-	-	(5.968)	(5.968)
Disposals	-	-	(9.207)	(160)	-	-	(9.367)
Cost at 31 December 2017	2.663	19.788	2.053.292	249.463	1.257	23.860	2.350.323
Accumulated depreciation, amortisation and impairment at 1 January 2017	-	(10.841)	(767.888)	(152.601)	(407)	-	(931.736)
Depreciation and amortisation for the year	-	(554)	(63.698)	(12.267)	(52)	-	(76.570)
Impairment for the year	-	-	(3.198)	-	-	-	(3.198)
Accumulated depreciation and amortisation on disposals	-	-	9.207	21	-	-	9.228
Accumulated depreciation, amortisation and impairment at 31 December 2017	-	(11.395)	(825.577)	(164.847)	(459)	-	(1.002.277)
Book value at 31 December 2017	**2.663**	**8.393**	**1.227.715**	**84.616**	**798**	**23.860**	**1.348.045**
Book value at 31 December 2016	**2.624**	**8.911**	**1.166.287**	**87.752**	**750**	**20.415**	**1.286.739**

Notes to the consolidated financial statements (continued)

11. Property, plant and equipment (continued)

Tangible assets (All amounts in EUR 000)

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

Machinery and equipment includes EUR 15.334 thousands (2016: EUR 19.756 thousands) of assets acquired through finance leases.

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

In 2017, the Group received an investment grant of EUR 63 thousand. The grant was recorded as deduction of costs in buildings.

In 2016, the Group companies did not receive any investment grants.

Notes to the consolidated financial statements (continued)

12. Intangible assets

(All amounts in EUR 000)

	Goodwill	Intangible rights	Other long-term expenditure	Other intangible assets	Total
Acquisition cost at 1 January 2017	515.606	56.147	33.145	88.200	693.098
Additions	-	2.076	1.199	-	3.275
Acquisition cost at 31 December 2017	515.606	58.223	34.344	88.200	696.373
Accumulated depreciation, amortisation and impairment at 1 January 2017	-	(45.089)	(21.653)	(17.640)	(84.382)
Depreciation and amortisation for the year	-	(640)	(2.344)	(3.528)	(6.512)
Accumulated depreciation, amortisation and impairment at 31 December 2017	-	(45.729)	(23.997)	(21.168)	(90.894)
Book value at 31 December 2017	**515.606**	**12.494**	**10.347**	**67.032**	**605.479**
Book value at 31 December 2016	**515.606**	**11.058**	**11.492**	**70.560**	**608.716**

Notes to the consolidated financial statements (continued)

12. Intangible assets (continued)

(All amounts in EUR 000)

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

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

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

12. Intangible assets (continued)

Impairment testing of goodwill

Goodwill has been allocated to cash generating units which are Network and Heat business segments. The goodwill allocated to Network is EUR 418 million and Heat EUR 98 million.
Projected cash flows have been assessed based on long-term operational plans which have been approved by the senior management and the Board of Directors of the Group entities. Cash flows have been discounted in order to determine the value in use. The discount rate applied reflects the different risk profiles of the businesses.

Network segment

Due to the regulated and stable nature of the electricity distribution business, the basis for cash flow projections has been long-term business plan for the period 2018-2031 which has been approved by the Board of Directors of the Group entities. Long term capital expenditure plans have been prepared in order to meet the security of supply reguirements by the end of 2028 in line with Electricity Market Act (588/2013). A volume growth of approximately 0,5% p.a. has been incorporated for the forecast period. The discount rate applied for Network segment is 4,4% based on the prevailing return and risk assumptions in the business (the applied discount rate in 2016 was 4,1%).

Heat segment

Cash flow projections for 2018-2031 are based on the 5 year business plan which has been approved by the Board of Directors of the Group entities. Due to the stable nature of the District heating business, long term projections are appropriate. Applied discount rate is 6,0% which is based on the prevailing return and risk assumptions in the business (the applied discount rate in 2016 was 5,1%). District heating volumes are expected to modestly increase during the forecast period. Revenue of the business is expected to grow between 1% and 3% annually during the forecast period. A growth of 2,0% p.a. has been applied in the terminal value. The fluctuation of fuel prices is estimated to be modest as the business has several optional fuels available. Capital expenditure plans are based on maintaining the existing power plants and district heating network.

Sensitivity analysis

With regard to the assessment of the value in use in both segments, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

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

	Network segment		Heat segment	
Change in key assumptions	**2017**	**2016**	**2017**	**2016**
Change in discount rate, % -points	4,3	3,6	1,8	1,3

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

13. Inventories

	31 December 2017	31 December 2016
All amounts in EUR 000		
Oil	1.556	2.687
Bio fuels	2.008	4.262
Other inventories	566	566
Total	**4.130**	**7.515**

During 2017, EUR 8,3 million (2016: EUR 6,6 million) was recognised as an expense for inventories carried at net realisable value.

In 2017 there was a write-off of EUR 219 thousand (2016: EUR 207 thousand) in fuel inventory value.

14. Trade and other receivables

	31 December 2017	31 December 2016
All amounts in EUR 000		
Trade receivables	22.261	21.513
Accrued income and prepaid expenses	44.093	40.733
Other current receivables	320	1.458
Total trade and other receivables	**66.674**	**63.704**

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

Breakdown of trade receivables by age	**31 December 2017**	**31 December 2016**
Not fallen due	16.890	15.156
Due for 1–90 days	4.567	5.090
Due for 91-180 days	324	319
Due for more than 181 days	1.213	1.282
Total	**22.994**	**21.847**
Uncertain receivables	(733)	(334)
	22.261	**21.513**

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

Breakdown of accrued income and prepaid expenses and other receivables	**31 December 2017**	**31 December 2016**
Sales accruals	40.099	38.643
Accrued financial expenses (Prepayments)	2.592	467
Other accrued income and receivables	1.722	3.081
	44.413	**42.191**

Notes to the consolidated financial statements (continued)

15. Carrying amounts of financial assets and liabilities by category

Values at 31 December 2017

Balance sheet item, All amounts in EUR 000	Notes	Loans and other receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Carrying value of balance sheet items	Fair value
Current financial assets						
Trade receivables	14	22.261	-	-	22.261	22.261
Other current receivables	14	44.413			44.413	44.413
Cash and cash equivalents		24.595	-	-	24.595	24.595
Carrying value by measurement category		**91.269**	-	-	**91.269**	**91.269**
Other non-current financial assets		597	-	-	597	597
Non-current financial liabilities						
Bonds and notes	25,18	-	-	1.521.082	1.521.082	1.606.246
Other long-term loans	25,18	-	-	426.385	426.385	404.240
Interest-bearing non-current liabilities						
- Finance leases	21	-	-	12.412	12.412	12.412
Other long term liabilities		-	-	1.252	1.252	1.252
Total interest-bearing non-current liabilities		-	-	**1.961.131**	**1.961.131**	**2.024.150**
Current financial liabilities						
Other current interest-bearing liabilities	17,21	-	-	4.068	4.068	4.068
Other current liabilities	17	-	-	65.445	64.445	64.445
Trade payables	17	-	-	12.155	12.155	12.155
Carrying value by measurement category		-	-	**2.042.799**	**2.042.799**	**2.104.818**

Notes to the consolidated financial statements (continued)

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

Values at 31 December 2016

Balance sheet item, All amounts in EUR 000	Notes	Loans and other receivables	Financial liabilities at amortised cost	Carrying value of balance sheet items	Fair value
Current financial assets					
Trade receivables	14	21.513	-	21.513	21.513
Other current receivables	14	42.191	-	42.191	42.191
Cash and cash equivalents		15.057	-	15.057	15.057
Carrying value by measurement category		**78.761**	**-**	**78.761**	**78.761**
Other non-current financial assets		562		562	562
Non-current financial liabilities					
Bonds and notes	25,18	-	1.307.838	1.307.838	1.406.480
Loans from financial institutions	25,18	-	22.000	22.000	22.000
Other long-term loans	25,18	-	542.116	542.116	618.505
Interest-bearing non-current liabilities					
- Finance leases	21	-	16.445	16.445	16.445
Other long term liabilities		-	1.072	1.072	1.072
Total interest-bearing non-current liabilities		**-**	**1.888.399**	**1.888.399**	**2.063.430**
Current financial liabilities					
Other current interest-bearing liabilities	17,21	-	4.403	4.403	4.403
Other current liabilities	17	-	59.150	59.150	59.150
Trade payables	17	-	22.535	22.535	22.535
Carrying value by measurement category		**-**	**1.915.337**	**1.915.337**	**2.090.368**

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

Financial assets

Available-for-sale financial assets are investments in the shares of joint ventures in limited partnerships. The companies did not have investments in unlisted funds at the balance sheet date (2016: EUR 0.0 million).

Cash and cash equivalent

The Group had short-term bank deposits amounting to EUR 24,5 million (2016: EUR 14,9 million). All bank deposits were denominated in Euro.

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 assets and liabilities

Interest-bearing liabilities grew by EUR 67,1 million (2016: EUR 58,2 million) during the year, and interest-bearing liabilities at the balance sheet date totaled EUR 1,959.9 million (2016: EUR 1,892.8 million). The fair value of "Other long-term loans" has been calculated by using the market value of Finnish benchmark government 10 year bonds at the balance sheet date.

The carrying value of short-term trade receivables and payables, other current interest-bearing liabilities, finance leases and cash and cash equivalents carrying amount is a reasonable approximation to their fair values.

16. Provisions

All amounts in EUR 000

	Provision for rental liabilities for premises	Provision for refunds of connection fees	Total
Provisions at 1 January 2017	**803**	**8.988**	**9.791**
Increase	-	30	30
Other movements in provisions	(549)	481	(68)
Use of provisions	(254)	(484)	(738)
Provisions at 31 December 2017	**-**	**9.015**	**9.015**

All amounts in EUR 000

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

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

17. Trade and other payables

All amounts in EUR 000	**31 December 2017**	**31 December 2016**
Short term financial lease liability	4.068	4.403
Trade payables	12.155	22.535
Other current liabilities		
Employee benefits expense	7.891	5.492
Interest expenses	12.322	11.402
Other accrued expenses	14.658	15.917
VAT liability	14.178	10.943
Energy taxes	9.775	10.644
Tax liability for the year	13	33
Prepayments received	219	5
Other liabilities	6.389	4.714
Total	**81.668**	**86.088**

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.

18. Fair value of financial assets and liabilities

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: 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

In 2016, the fair value of bonds and notes has been transferred from level 1 to level 2 as the instruments are not liquid enough for an effective price formation. Market quotes are available for only some of the instruments, despite their similar terms and risk and return characteristics. Therefore, all instruments were transferred to level 2.

As at 31 December 2017, the Group held the following financial instruments carried at fair value in the consolidated statement of financial position:

FINANCIAL ASSETS	**Level 1**		**Level 2**		**Level 3**		**Total**	
All amounts in EUR 000	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Financial instruments, non-current assets								
Available-for-sale financial investments	-	-	-	-	-	-	-	-
Total financial assets	-	-	-	-	-	-	-	-

FINANCIAL LIABILITIES	**Level 1**		**Level 2**		**Level 3**		**Total**	
All amounts in EUR 000	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Financial instruments current liabilities								
Loans from financial institutions	-	-	-	-	-	-	-	-
Total current financials liabilities	-	-	-	-	-	-	-	-
Financial instruments, non-current liabilities								
Bonds and notes	-	-	(1.606.246)	(1.406.480)	-	-	(1.606.246)	(1.406.480)
Loans from financial institutions	-	-	-	(22.000)	-	-	-	(22.000)
Other long-term loans	-	-	(404.240)	(618.505)	-	-	(404.240)	(618.505)
Total non-current financials liabilities	-	-	**(2.010.486)**	**(2.046.985)**	-	-	**(2.010.486)**	**(2.046.985)**
Total financial liabilities	-	-	**(2.010.486)**	**(2.046.985)**	-	-	**(2.010.486)**	**(2.046.985)**

Notes to the consolidated financial statements (continued)

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

Reconciliation of fair value measurements of Level 3 financial instruments

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

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

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

All amounts in EUR 000	Midinvest	Jokilaaksojen rahasto	Total
1 January 2017	-	-	-
Investment	-	-	-
Sales / Return of equity	-	-	-
Total gains and losses recognised in OCI	-	-	-
31 December 2017	-	-	-
1 January 2016	-	155	155
Investment	-	-	-
Sales / Return of equity	-	(157)	(157)
Total gains and losses recognised in OCI	-	2	2
31 December 2016	-	-	-

Financial assets Available-for-sale financial assets are investments in the shares of joint ventures in limited partnerships. The companies did not own unlisted funds at the balance sheet date (2016: no ownership).

19. Pensions and other post-employment benefits

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

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

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

Items recognised on the statement of financial position at 31 December	**31 December 2017**	**31 December 2016**
All amounts in EUR 000		
Current value of funded obligations	5.888	5.939
Fair value of assets	(4.754)	(4.762)
Deficit	1.134	1.177
Value of the obligation	**1.134**	**1.177**
The obligations of defined benefit pension plans have changed as follows:		
Obligation at the beginning of the year	5.939	5.551
Current service costs	69	68
Interest expenses	87	103
Actuarial loss	44	461
Benefits paid	(251)	(244)
Obligation at the end of the year	**5.888**	**5.939**
The fair value of the assets of defined benefit pension plans has changed as follows:		
Fair value of plan assets at the beginning of the year	4.762	4.546
Expected income from assets	70	85
Actuarial gain	83	259
Payments by the employer	90	116
Benefits paid	(251)	(244)
Fair value	**4.754**	**4.762**
Net obligation consists of the following items:		
Obligation at the beginning of the year	1.177	1.005
Net cost recognised in the statement of profit or loss	86	86
Payments by the employer	(90)	(116)
Gains and losses recognised in OCI	(39)	202
Obligation at year end	**1.134**	**1.177**

Items recognised in the consolidated statement of profit or loss		
Expenses based on service in the reporting period	69	68
Interest income	(70)	(85)
Interest expenses	87	103
Total	**86**	**86**

Items recognised in the consolidated statement of comprehensive income for the year		
Actuarial (loss)/gain on assets	(83)	(259)
Actuarial loss/(gain) on obligations	44	461
Total	**(39)**	**202**

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

Sensitivity analysis of defined benefit pension plans

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

Values as at 31 December 2017

Assumptions	Change in assumption	Defined benefit obligations	Fair value of Plan assets	Net Liability	Service costs for the next reporting year	Net interest
All amounts in EUR 000						
Discount rate 1,5%	-	5.888	4.754	1.134	58	16
Discount rate 2,0%	+0,50%	5.478	4.475	1.004	53	19
Discount rate 1,0%	-0,50%	6.348	5.063	1.284	64	12

Values as at 31 December 2016

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

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

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

Sensitivity analysis of defined benefit pension plans (continued)

Expected contributions for 2018 are estimated to be EUR 101 thousand.

The weighted average duration of defined benefit obligation is 13-18 years.

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

EUR 000	2017	2016
Under 1 year	251	240
11-10 years	2.280	2.243
10-20 years	2.239	2.266
20-30 years	1.613	1.660
Over 30 years	1.054	1.131
Total	**7.437**	**7.540**

Actuarial assumptions used in calculations:

	2017	2016
Discount rate	1,5%	1,5%
Estimate of salary increase	2,7%	2,5-2,7%
Inflation	1,7%	1,5-1,7%

20. Lease and rental receivables

The Group has leased out real estates, which are classified as other leases. Real estates are included in "Property, plant and equipment". Rental income was invoiced to a total value of EUR 101 thousand (2016: EUR 281 thousand) during the year.

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

Notes to the consolidated financial statements (continued)

21. Commitments and contingencies

Present value of financial lease payments	31 December 2017	31 December 2016
All amounts in EUR 000		
Financial lease liabilities		
Within one year	4.537	4.739
After one year but not more than five years	14.228	17.043
More than five years	288	2.011
Total	**19.053**	**23.793**
Future financial expenses	2.573	2.944
Present value of minimum lease payments	**16.480**	**20.849**

Present value of minimum lease payments matures:		
Within one year	4.068	4.403
After one year but not more than five years	12.243	15.250
More than five years	169	1.196
Total	**16.480**	**20.849**

Other commitments
All amounts in EUR 000

Registered floating charges:	2017	2016
Provided on behalf of own and Group liabilities	18.000.000	18.000.000
Mortgages	233.600	233.600
	18.233.600	**18.233.600**
Operating leases:		
Within one year	179	238
After one year but not more than five years	200	269
	379	**507**

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

Rental liabilities		
Within one year	399	430
After one year but not more than five years	180	203
	579	**633**
Refundable connection fees	**316.860**	**311.845**
Loan commitment to Lakeside Network Investments Holding B.V	147	183

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

Notes to the consolidated financial statements (continued)

22. Equity

Share capital
The Company was incorporated on 13 November 2013 with a subscribed and fully paid-up capital of EUR 12.500, divided into 1.250.000 shares with a nominal value of EUR 0,01 each.

On 13 December 2013, the subscribed capital has been increased by an amount of EUR 1.500 by issuance of 150.000 shares with a nominal value of EUR 0,01 each to a new shareholder called Elenia Finance (SPPS) S.à r.l., a Group entity. In the consolidation under IFRS of the Group these shares have been treated as treasury shares.

As at 31 December 2014, the subscribed capital is divided into 1.400.000 shares fully paid-up with a nominal value of EUR 0,01 each. Each of these shares has the same voting rights and each shareholder has voting rights commensurate with his shareholding. Each share entitles to a fraction of the corporate assets and profits of the Company in direct proportion to the number of shares in existence.

On 17 December 2013, the Company issued subordinated profit participating securities (SPPS) to its shareholder Elenia Finance (SPPS) S.à r.l., which is also part of the Group. In 2014, the Company issued additional SPPS to its shareholder Finance (SPPS) S.à r.l..

On 19 August 2015, the Company issued additional SPPS for an amount of EUR 75 million. They were all subscribed by Elenia Finance (SPPS) S.à r.l. pursuant to a subscription agreement by and between the Company and Elenia Finance (SPPS) S.à r.l..

In 2016, the Company issued additional SPPS to its shareholder Elenia Finance (SPPS) S.à r.l. for the total amount of EUR 257,2 million.

During the financial year 2017 the company issued additional SPPS to its shareholder Elenia Finance (SPPS) S.à r.l. for a total amount of EUR 213,5 million.

These SPPS have been used by the Company to increase its equity in Elenia Oy, which are eliminated as part of the consolidation.

As at 31 December 2017, the Group's share capital amounts to EUR 14 thousand (2016: EUR 14 thousand).

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

Legal reserve
In accordance with Luxembourg law, the Company is required to allocate to a legal reserve a minimum of 5% of the annual net income, until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed.

23. Related party disclosures

Shareholders
The Company's shareholders are Lakeside Network Investment Holding BV, a limited liability company incorporated under the law of the Netherlands, with statutory seat in Amsterdam and Elenia Finance (SPPS) S.à r.l. organised under the laws of Luxembourg as a société à responsabilité limitée with the statutory seat in Luxembourg.

The Company's ultimate parents, as of 31 December 2017, are 3i Networks Finland L.P. a limited partnership company duly incorporated under the law of the United Kingdom (16 Palace Street, SW1E 5JD London, Great Britain), GS International Infrastructure Partners II, L.P. and GS Global Infrastructure Partners II, L.P.two limited partnership companies duly incorporated under the law of the state of Delaware (USA) (1209, Orange Street, Wilmington) and Ilmarien Mutual Pension Insurance Company a mutual insurance company duly incorporated under the law of Finland (1, Porkkalankatu, FIN – 00180 Helsinki) (refer to Note 24).

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

Top Management
The Group is managed by its Board of Managers. The Group's top management includes the Board of Managers and the Board of Directors of Elenia Oy. The Group has not had any business transactions with persons included in its top management and the Group has not granted loans to these persons. Please also refer to Note 6 for the compensation to the CEOs of the Group (refer to Note 24).

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

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

As at 31 December 2017, other long-term loans with an aggregate carrying value of EUR 426,4 million (2016: EUR 542,1 million) are due to the Company's ultimate parents through intermediary holding entities.

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

24. Events after the reporting period

On 13 December 2017, a consortium comprising Allianz Capital Partners ("ALP") on behalf of the Allianz Group, Macquarie Infrastructure and Real Assets ("MIRA") and Valtion Eläkerahasto signed an agreement to acquire Elenia Group from affiliated entities to Goldman Sachs, 3i and Ilmarinen. The transaction has been completed on 28 February 2018.

After completion date the registered office of the company changed from 2 Rue du Fossé, L- 1536 Luxembourg to 9 Allée Scheffer, L-2520 Luxembourg. Also the board members namely Mrs. Yvanna Esomba, Mr. Antoine Clauzel and Mrs. Marielle Stijger were replaced in the Board by Mr. Livio Gambardella, Mrs. Stephanie Meyer, Mrs. Caroline Goergen and Mr. Metzger Thomas and Mr. Sergii Tarnakin.

25. Financial risk management objectives and policies

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

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

The Group's existing loan arrangements include:

Currency risk

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

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

Operating profit includes EUR -0,1 thousand exchange rate differences (2016: EUR 3,7 thousand). Finance costs include EUR -1,9 thousand exchange rate differences (2016: EUR 2,8 thousand). At the end of 2017 the currency risk comprises of trade payables in GBP, SEK and USD and their total counter value was EUR 14,2 thousand.

Liquidity risk

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

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

Cash and cash equivalents and committed unutilized credit facilities

31 December 2017

EUR 000	Facility amount	In use	Available amount	Maturity
Capex facility	350.000	-	350.000	1-5 years
Working Capital facility	60.000	-	60.000	1-5 years
Liquidity facility	60.000	-	60.000	1-5 years
Cash and cash equivalents			24.495	
Total	**470.000**	-	**494.495**	

25. Financial risk management (continued)

Refinancing risk

Elenia Finance Oyj issues bonds and notes. Bonds are issued under the EUR 3 billion EMTN programme and listed at the London Stock Exchange. Notes are not listed and issued to the US investors through private placements.

At the end of 2017, the Group had no loans from the banks (2016: EUR 22.0 million). The Group has other long-term loans totaling EUR 426,4 million, which are subordinated to the bonds and notes.

In April 2017, Elenia Oy's subsidiary Elenia Finance Oyj issued EUR 138,5 million notes, from which EUR 78,5 million mature in 2028 and EUR 60,0 million in 2032. In September 2017; Elenia Finance Oyj issued EUR 75 million Bonds, which mature in 2034. Elenia Finance Oyj used the proceeds of the notes and bonds to make an equity investment in Elenia Finance (SPPS) S.à r.l., its wholly owned subsidiary. Elenia Finance (SPPS) S.à r.l. then lent the amount of the proceeds to the Company through a subordinated profit-participating security (the SPPS). The Company used the amounts under the SPPS to subscribe for additional equity in Elenia Oy. The proceeds were used for general corporate purposes, to repay Elenia Oy's bank debt and to finance investments.

The Bonds are listed on London Stock Exchange. Elenia Oy, Elenia Heat Oy and Elenia Services Oy have given EUR 1,528.5 million joint guarantees relating to the loans from financial institutions, Bonds and Notes. The Group's financial structure has financial covenants relating to interest cover and leverage. The covenants are typical in such arrangements. There were no covenant breaches in 2017. Elenia Finance Oyj monitors the financial markets in order to carry out loan refinancing at an appropriate time, ahead of the due date of the current loans.

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

31 December 2017

All amounts in EUR 000			**Maturity**		
	Effective interest rate %	**31 December 2017**	**Under 1 year**	**1-5 years**	**Over 5 Years**
Bonds	2,97%	1.010.000	-	500.000	510.000
Notes	2,71%	518.500	-	-	518.500
Other long-term loans	11,55%	426.385	-	-	426.385
Financial lease liabilities		12.412	-	12.243	169
Total long-term interest-bearing liabilities		**1.967.297**			
Finance lease liabilities		4.068	4.068	-	-
Trade payables and other current liabilities		77.600	77.600	-	-
Total short-term interest-bearing liabilities		**81.668**			
Total		**2.048.965**	**81.668**	**512.443**	**1.455.054**

Notes to the consolidated financial statements (continued)

25. Financial risk management (continued)

Refinancing risk (continued)

31 December 2016

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

Interest rate risk

The Group 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 the 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 98% (2016: 99%) of the loans were fixed rate loans.

A parallel shift of +/- 0.5 percentage points in the interest rate curve at the balance sheet date would have EUR +/- 0.0 million (2016: EUR +-0.0 million) effect on floating rate loans.

25. Financial risk management (continued)

Credit and counterparty risk

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

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

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

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

Trade receivables

The Group's trade receivables at the end of 2017 were EUR 22.3 million (2016: EUR 21.5 million).
EUR 0.2 million collateral securities were received for trade receivables (2016: EUR 0.3 million).

Cash and other receivables

The Group has all the cash and cash equivalents as also all the receivables in EUR and therefore Group does not have any currency risk. Elenia Group has all its bank accounts in Nordea Bank AB. Nordea's rating is AA-, which shows very minor credit risk and counterparty risk.

Breakdown of trade receivable by age EUR 000	**31 December 2017**	**31 De4cember 2016**
Not fallen due	16.890	15.156
Due for 1-90 days	4.567	5.090
Due for 91-180 days	324	319
Due for more than 181 days	1.213	1.282
Total	**22.994**	**21.847**
Uncertain receivables	(733)	(334)
	22.261	**21.513**

Volume and price risks

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

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

Capital management

As the electricity distribution and heating businesses are capital-intensive, the Group must ensure it has adequate capital to meet its operating requirements. Business planning includes assessing the adequacy of available capital in relation to the risks arising from business operations and the operating environment.