Elenia Holdings S.à r.l.

Consolidated Financial Statements

1 January 2014 - 31 December 2014

Address of the registered office :

2, rue du Fossé
L-1536 Luxembourg

R.C.S. Luxembourg : B 181.773

Share capital: EUR 14.000

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Building a better
working world

Ernst & Young
Société anonyme

7, rue Gabriel Lippmann
Parc d'Activité Syrdall 2
L-5365 Munsbach

Tel: +352 42 124 1

www.ey.com/luxembourg

B.P. 780
L-2017 Luxembourg

R.C.S. Luxembourg B 47 771
TVA LU 16063074

Independent auditor's report

To the Shareholders of
Elenia Holdings S.à r.l.
2, rue du Fossé
L-1536 Luxembourg

We have audited the accompanying consolidated financial statements of Elenia Holdings S.à r.l., which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Managers' responsibility 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 International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Managers determines is necessary to enable the preparation and presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Managers, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Elenia Holdings S.à r.l. as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Olivier Coekelbergs

Luxembourg, 8 May 2015

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

Consolidated statement of profit or loss

for the year ended 31 December 2014

All amounts in EUR 000

	Note	From 1 January 2014 to 31 December 2014	From 1 January 2013 to 31 December 2013
Revenue		**299.749**	**293.693**
Other operating income	6	4.662	3.119
Materials and services		(106.657)	(110.975)
Employee benefit expenses	7	(21.644)	(20.253)
Depreciation, amortisation and impairment	8	(76.044)	(71.055)
Other operating expenses	6	(22.442)	(24.820)
Operating profit		**77.624**	**69.709**
Share of profit of an associate	9	151	45
Finance income	10	365	349
Finance costs	10	(116.552)	(129.267)
Loss before tax from continuing operations		**(38.412)**	**(59.164)**
Income tax	11	**7.243**	**50.756**
Loss for the year		**(31.169)**	**(8.408)**

Consolidated statement of other comprehensive income

for the year ended 31 December 2014

All amounts in EUR 000

	Note	From 1 January 2014 to 31 December 2014	From 1 January 2013 to 31 December 2013
Loss for the year		**(31.169)**	**(8.408)**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement losses on defined benefit plans	20	(485)	(143)
Income tax effect	11	97	(4)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net movement of cash flow hedges		7.939	25.400
Net loss on available-for-sale financial assets		(85)	(65)
Income tax effect	11	(1.571)	(6.587)
Other comprehensive income for the year after tax		**5.895**	**18.601**
Total comprehensive income for the year		**(25.274)**	**10.193**

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

Consolidated statement of financial position

as at 31 December 2014

All amounts in EUR 000

	Note	31 December 2014	31 December 2013
Assets			
Non-current assets			
Property, plant and equipment	12	1.208.991	1.166.060
Intangible assets	13	609.681	610.961
Investments in associates	9	513	407
Other non-current financial assets		258	941
Deferred tax assets	11	1.641	1.081
Total non-current assets		**1.821.084**	**1.779.450**
Current assets			
Inventories	14	11.934	16.518
Trade receivables	15	20.290	23.086
Other current receivables	15	43.558	51.081
Cash and cash equivalents		17.479	63.088
Total current assets		**93.261**	**153.773**
Total assets		**1.914.345**	**1.933.223**
Equity and liabilities			
Equity			
Share capital	23	14	14
Share premium	23	2.037	2.002
Cash flow hedge reserve	23	(1.288)	(7.639)
Available for sale reserve	23	820	888
Retained earnings		(87.008)	(55.451)
Treasury shares	23	(2)	(2)
Total equity		**(85.427)**	**(60.188)**
Non-current liabilities			
Loans from financial institutions	16	100.223	389.098
Bonds and notes	16	976.282	645.278
Other long-term loans	16	650.630	638.728
Finance lease liabilities	16, 22	23.428	26.919
Employee benefit liability	20	1.335	818
Derivatives	16	2.802	10.153
Provisions	17	12.383	12.357
Deferred tax liabilities	11	155.909	161.233
Total non-current liabilities		**1.922.992**	**1.884.584**
Current liabilities			
Finance lease liabilities	18, 22	3.868	4.208
Trade payables	18	15.470	14.730
Other current liabilities	18	57.442	89.889
Total current liabilities		**76.780**	**108.827**
Total equity and liabilities		**1.914.345**	**1.933.223**

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 2014

All amounts in EUR 000	Note	Share capital	Share premium	Available for sale reserve	Cash flow hedge reserve	Retained earnings	Treasury shares	Total equity
As at 1 January 2013		**3**	**2.000**	**887**	**(26.386)**	**(46.896)**	**-**	**(70.392)**
Comprehensive income								
Loss for the year		-	-	-	-	(8.408)	-	(8.408)
Other components of comprehensive income (adjusted by tax effect)								
Cash flow hedging		-	-	-	18.747	-	-	18.747
Available-for-sale financial assets		-	-	1	-	-	-	1
Change in defined benefit plans	20	-	-	-	-	(147)	-	(147)
Total comprehensive income for the year		**-**	**-**	**1**	**18.747**	**(8.555)**	**-**	**10.193**
Transactions with shareholder		(3)	(2.000)	-	-	-		(2.003)
Increase in share capital and share premium	24	14	2.002	-	-	-		2.016
Purchase of shares by a subsidiary	24	-	-	-	-	-	(2)	(2)
As at 31 December 2013		**14**	**2.002**	**888**	**(7.639)**	**(55.451)**	**(2)**	**(60.188)**
As at 1 January 2014		**14**	**2.002**	**888**	**(7.639)**	**(55.451)**	**(2)**	**(60.188)**
Comprehensive income								
Loss for the year		-	-	-	-	(31.169)	-	(31.169)
Other components of comprehensive income (adjusted by tax effect)								
Cash flow hedging		-	-	-	6.351	-	-	6.351
Available-for-sale financial assets		-	-	(68)	-	-	-	(68)
Change in defined benefit plans	20	-	-	-	-	(388)	-	(388)
Total comprehensive income		**-**	**-**	**(68)**	**6.351**	**(31.557)**	**-**	**(25.274)**
Increase in share premium	24	-	35	-	-	-	-	35
As at 31 December 2014		**14**	**2.037**	**820**	**(1.288)**	**(87.008)**	**(2)**	**(85.427)**

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

Consolidated statement of cash flows

for the year ended 31 December 2014

All amounts in EUR 000

	From 1 January 2014 to 31 December 2014	From 1 January 2013 to 31 December 2013
Operating activities		
Loss for the period	(31.169)	(8.408)
Adjustments to reconcile loss to net cash flows		
Depreciation, amortisation and impairment	76.044	71.055
Other adjustments	109.739	78.061
Working capital adjustments		
Decrease/(increase) in inventories	3.178	(1.573)
(Decrease)/increase in trade and other current liabilities	(20.312)	8.152
Decrease in trade and other current receivables	10.443	6.761
Increase in provisions	29	677
Dividends received	45	45
Interests received	358	349
Interest and financial expenses paid	(30.062)	(36.737)
Interest paid on other long-term loans	(34.854)	(69.668)
Swap breakage costs paid	(8.158)	(13.560)
Taxes paid	(238)	(2.772)
Net cash from operating activities	**75.043**	**32.382**
Investing activities		
Capital expenditure, net	(117.518)	(88.209)
Changes in investments	14	(2)
Net cash used in investing activities	**(117.504)**	**(88.211)**
Financing activities		
Proceeds from increase in share premium	35	14
Proceeds from long-term borrowings	372.000	1.045.000
Payment of debt arrangement costs	(12.847)	(5.301)
Repayment of long-term borrowings	(358.505)	(959.747)
Repayment of finance lease liabilities	(3.831)	(3.911)
Decrease in long-term receivables	-	16.298
Net cash (used in)/ from financing activities	**(3.148)**	**92.353**
Net (decrease)/increase in cash and cash equivalents	**(45.609)**	**36.524**
Cash and cash equivalents at 1 January	63.088	26.564
Change in cash and cash equivalents	(45.609)	36.524
Cash and cash equivalents at 31 December	**17.479**	**63.088**

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 2, rue du Fossé, L-1536 Luxembourg.

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 Televisiokatu 4, Helsinki. The Company together with Elenia Oy are hereafter referred to as the "Group".

The Company was incorporated in the frame of a restructuring of the Group, in order to restructure/refinance Elenia Oy's debts.

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 24.

These consolidated financial statements were authorised for issue by the Board of Managers of the Company on 8 May 2015. 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, financial assets and liabilities recorded at fair value through profit or loss 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. Significant accounting policies (continued)

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 2014. The nature and the impact of each new standards and amendments are described in below:

Amendments to IFRS 7 Financial Instruments: Disclosures and IAS 32 Financial Instruments: Presentation

The amendments to IFRS 7 concerning the disclosure of financial assets and financial liabilities which have been set off are effective for annual periods beginning on or after 1 January 2013. The amendments to IAS 32 clarify the requirements for offsetting financial assets and financial liabilities and are effective for annual periods beginning on or after 1 January 2014. These amendments have been endorsed by the EU. The amendments have no impact on the consolidated financial statements.

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

The amendments to IAS 32 Financial Instruments: Presentation clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems), which apply gross settlement mechanisms that are not simultaneous.

The amendments clarify that rights of set-off must not only be legally enforceable in the normal course of business, but must also be enforceable in the event of default and the event of bankruptcy or insolvency of all of the counterparties to the contract, including the reporting entity itself. The amendments also clarify that rights of set-off must not be contingent on a future event. The amendments have no impact on the consolidated financial statements.

IFRS 10, IFRS 12 and IAS 27 Investment Entities - Amendments to IFRS 10, IFRS 12 and IAS 27

The amended standards are effective for annual periods beginning on or after 1 January 2014. The EU has endorsed the amendments.

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments have no impact on the consolidated financial statements.

IAS 36 Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36

The amended standard is effective for annual periods beginning on or after 1 January 2014. The EU has endorsed the standard amendment in December 2014.

The amendments to IAS 36 Impairment of Assets clarify the disclosure requirements in respect of fair value less costs of disposal. The amendments remove the requirement to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant. The amendments have no impact on the consolidated financial statements.

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39

The amended standard is effective for annual periods beginning on or after 1 January 2014. The EU has endorsed the standard amendment in December 2014. The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendments cover novations:

- That arise as a consequence of laws or regulations, or the introduction of laws or regulations
- In which the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties
- That did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing

All of the above criteria must be met to continue hedge accounting under this exception. The amendments cover novations to central counterparties, as well as to intermediaries such as clearing members, or clients of the latter that are themselves intermediaries.

For novations that do not meet the criteria for the exception, entities have to assess the changes to the hedging instrument against derecognition criteria for financial instruments and the general conditions for continuation of hedge accounting. The amendments have no impact on the consolidated financial statements.

IFRIC 21 Levies

The interpretation is effective for annual periods beginning on or after 1 January 2014. The EU has endorsed the interpretation in June 2014. IFRIC 21 is applicable to all levies other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation. Levies are defined in the interpretation as outflows of resources embodying economic benefits imposed by government on entities in accordance with legislation.

The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognised before the specified minimum threshold is reached. The interpretation does not address the accounting for the debit side of the transaction that arises from recognising a liability to pay a levy. Entities look to other standards to decide whether the recognition of a liability to pay a levy would give rise to an asset or an expense under the relevant standards. This interpretation has no impact on the consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements (revised)

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The adoption of this standard has no impact on the financial position or performance of the Group.

2. Significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures (revised)

The new standard IFRS 11 and the amendments to IAS 28 are effective for annual periods beginning on or after 1 January 2013. The EU has endorsed the standard but its implementation does not become mandatory until 1 January 2014. The new standard replaces the IAS 31 Interests in Joint Ventures standard and the SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures interpretation. According to the new standard, more attention must be paid to the actual nature than the legal form of the arrangement in identifying joint ventures. A significant amendment to the previous treatment of joint ventures is that joint ventures in which the parties have the right to the net assets related to the venture (joint venture) can no longer be consolidated proportionately but only with the equity method. The adoption of this standard has no impact on the financial position or performance of the Group.

FRS 12 Disclosures of Interests in Other Entities

The new standard is effective for annual periods beginning on or after 1 January 2013. The EU has endorsed the standard but its implementation does not become mandatory until 1 January 2014. The new standard compiles all of the requirements for notes to consolidated financial statements in a single standard and includes the requirements for notes concerning subsidiaries, joint arrangements, associates and structured entities. The standard must be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The adoption of this standard has no impact on the financial position or performance of the Group.

Annual improvement cycle 2010-2012

The IASB has issued the Annual Improvements to IFRSs 2010-2012 Cycle, which is a collection of amendments to IFRSs. Only amendment which is effective for annual periods beginning on or after 1 January 2014 is summarized below. These annual improvements have endorsed by the EU in December 2014.

- **IFRS 13 Fair Value Measurement - Short-term receivables and payables:** The amendment clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately. According to the estimate of the Group's management, the amendment does not have a material 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 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 income statement 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.

2. Significant accounting policies (continued)

2.3 Consolidation principles and business combinations (continued)

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 2014, the subsidiaries do not have non-controlling interests.

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

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 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 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 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 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 statement of profit or loss.

Business combinations under common control

Subsidiaries acquired from entities under common control, such that the ultimate controlling parties have not changed as a result of the acquisition, are accounted for as combination of businesses under common control. Currently, there is no specific guidance on accounting for common control transactions under IFRSs. In December 2007, the IASB added a project on this topic to its agenda with a view to examining the definition of common control and the methods of accounting for business combinations under common control in the acquirer's consolidated and separate financial statements. At the time of preparation of these consolidated financial statements, this project is still under study by the IASB.

2. Significant accounting policies (continued)

2.3 Consolidation principles and business combinations (continued)

Business combinations under common control (continued)

The Group accounts for business combinations under common control using polling of interest method. Under this method, the assets and liabilities of the acquired subsidiaries are recognised at their previous carrying amounts. No adjustments are made to reflect fair values and no new assets and liabilities of the acquired subsidiaries are recognised at the date of business combination under common control. As a result no new goodwill is recognised in these consolidated financial statements. Any difference between the consideration paid / transferred and the shares acquired is reflected within the equity.

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 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 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 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.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

a) Translation differences (continued)

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

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.

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 recognized 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 sale 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 statement of profit or loss.

Electricity network connection fees paid by customers prior to 2008 must be refunded, less termination fees, to customers that terminate the service contract. District heating network connection fees are also refundable for customers who want to terminate the heating service contract. A provision has been recorded for future refunds.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

Purchased emission allowances are accounted for as intangible assets at acquisition cost plus transaction costs. Unused emission allowances received free of charge are not recognised on the statement of financial position. In the event that 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 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 other operating expenses.

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 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 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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

g) Property, plant and equipment (continued)

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

Gains and losses on the sales of property, plant and equipment are recorded as the difference between the selling price and carrying value and recognised in the 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 infinite useful life, are stated at original acquisition cost less accumulated amortisation and impairment losses.

Computer software and licenses

Acquired computer software licences are capitalised 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 capitalised.

Recurring annual compensation payments are recognised as an expense on the 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/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at acquisition cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Amortisation periods for intangible assets

Computer software and licences	3-5 years
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 12
- Intangible assets Note 13.

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 and its value in use.

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

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 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 statement of profit or loss under other operating expenses over the lease term.

The Group as a lessor

Leases in which the Group is a lessor are all categorised as operating leases and the assets concerned are included in the Group's property, plant and equipment. Lease payments received for operating leases are recognised in the statement of profit or loss under other operating income over the lease term.

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 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.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

p) Taxes (continued)

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in the statement of profit or loss.

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 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 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.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

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.

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 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.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

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.

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.

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

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

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 EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the 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 the purpose of measuring the impairment loss. The interest income is recorded as finance income in the 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 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 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 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.

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 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.

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.

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.

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

The Group measures financial instruments such as derivatives, and non-financial assets 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 15, 16 and 19
- Quantitative disclosures of fair value measurement hierarchy Note 19
- Financial instruments (including those carried at amortised cost) Note 19

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

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

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

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

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

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

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

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.

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)

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 16 and 19.

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. Currently, the Group uses only cash flow hedges to hedge against interest rate risk.

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

2. Significant accounting policies (continued)

2.4 Summary of significant accounting policies (continued)

s) Derivative financial instruments and hedge accounting (continued)

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 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 issued but not yet effective

The following new standards, amendments to standards and interpretations have been issued but are not yet effective for the financial year beginning 1 January 2014:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. This standard has not yet been endorsed by the EU. The Group is currently assessing the impact of this standard and plans to adopt the new standard when the EU will endorse it.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised 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 principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. This standard has not yet been endorsed by the EU. The Group is currently assessing the impact of this standard and plans to adopt the new standard when the EU will endorse it.

3. Standards issued but not yet effective (continued)

IAS 1 Disclosure Initiative - Amendments to IAS 1

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. The amended is effective for annual periods beginning on or after 1 January 2016. These amendments have not yet been endorsed by the EU. The adoption of these amendments are not expected to have an impact on the financial position or performance of the Group, however, the Group plans to adopt the new standard when the EU will endorse it.

IAS 19 Defined Benefit Plans: Employee Contributions - Amendments to IAS 19

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. These amendments are effective for annual periods beginning on or after 1 July 2014. The EU has endorsed the amendments in December 2014. According to the estimate of the Group's management, the amendment will not have a material effect on the consolidated financial statements.

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

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.

The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 Business Combinations, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The amendments must be applied prospectively. The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments have not yet been endorsed by the EU. The adoption of these amendments are not expected to have an impact on the financial position or performance of the Group, however, the Group plans to adopt the new standard when the EU will endorse it.

IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28

The amendments to IFRS 10 clarify that the exemption (in IFRS 10.4) from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.

3. Standards issued but not yet effective (continued)

IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28 (continued)

The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments have not yet been endorsed by the EU. The adoption of these amendments are not expected to have an impact on the financial position or performance of the Group, however, the Group plans to adopt the new standard when the EU will endorse it.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments have not yet been endorsed by the EU. The adoption of these amendments are not expected to have an impact on the financial position or performance of the Group, however, the Group plans to adopt the new standard when the EU will endorse it.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. This standard has not yet been endorsed by the EU. The adoption of this standard does not have an impact on the financial position or performance of the Group.

IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments have not yet been endorsed by the EU. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets. However, the Group plans to adopt the new standard when the EU will endorse it.

3. Standards issued but not yet effective (continued)

IAS 27 - Equity Method in Separate Financial Statements - Amendments to IAS 27

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments have not yet been endorsed by the EU. These amendments will not have any impact on the Group's consolidated financial statements. However, the Group plans to adopt the new standard when the EU will endorse it.

Annual improvements

The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. These annual improvements are endorsed by the EU in December 2014.

- **IFRS 2 Share-based Payment:** This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- **IFRS 3 Business combinations:** This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- **IFRS 8 Operating Segments:** This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- **IAS 16 Property Plant & Equipment:** The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- **IAS 24 Related Party Disclosures:** The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- **IAS 38 Intangible Assets:** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

The IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. These annual improvements are endorsed by the EU in December 2014.

- **IFRS 3 Business Combinations:** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- **IFRS 13 Fair Value Measurement**: This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
- **IAS 40 Investment Properties**: This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

3. Standards issued but not yet effective (continued

The IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. These annual improvements have not yet endorsed by the EU.

- **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal:** The amendment clarifies that, when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'held for sale' or 'held for distribution' simply because the manner of disposal has changed. The amendment also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not reclassified as 'held for sale'.
- **IFRS 7 Financial Instruments: Disclosures - Servicing contracts:** The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- **IFRS 7 Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements:** The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendment must be applied retrospectively.
- **IAS 19 Employee Benefits - Discount rate: regional market issue:** The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied prospectively.
- **IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report':** The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross- reference between the interim financial statements and wherever they are included within the interim financial report (e. g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment must be applied retrospectively.

The Group is in the process of assessing the impact of these new standards and amendments on its financial position and performance.

4. Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the accompanying disclosures, and the disclosure of contingent liabilities. Estimates 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, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods.

Judgements

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

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

Estimates

4.1 Testing goodwill for impairment

The Group tests goodwill annually for impairment.
The recoverable amounts of cash-generating units are based on estimated future cash flows. Preparation of these estimates requires management to make assumptions relating to future cash flows. The main variables in determining recoverable amounts 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 13).

4.2 Deferred taxes

The Group has deferred tax assets and liabilities which are expected to be realised through the income statement 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 11).

4.3 Provisions

Electricity network connection fees, paid by 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 17).

5. Business combinations under common control

As part of restructuring of Lakeside Network Investments S.à r.l. (the ultimate parent or "LNI"), on November 2013 the Company was established as an intermediary holding company. On 22 November 2013, Lakeside Network Investment Holding BV ("Lakeside BV") (a wholly owned subsidiary of LNI) has transferred all shares of Elenia Oy to the Company in consideration for the issuance of the Company's shares.

The objective of this restructuring was to facilitate the restructuring /refinancing of the Elenia Oy's existing debts and to bring efficiency in the whole structure. Thus, the establishment of the Company and transfer of Elenia Oy's share are considered as an extension of the existing LNI group. As this transaction involved the combination of businesses under common control, the pooling of interests method of accounting was applied in the presentation of these consolidated financial statements for the year ended 31 December 2014 and 31 December 2013, which present the results of the Group as if Elenia Holdings S.à r.l. had always been the parent company of the Group.

Notes to the consolidated financial statements (continued)

6. Other operating income and expenses

Other operating income	From 1 January 2014 to 31 December 2014	From 1 January 2013 to 31 December 2013
All amounts in EUR 000		
Gains from the sales of emission allowances	562	-
Rental income	510	535
Insurance indemnities	163	-
Capital gains on property, plant and equipment and intangible assets	63	115
Subsidy for bio-based electricity production	415	487
Others	2.949	1.982
Total	**4.662**	**3.119**

Other operating expenses	From 1 January 2014 to 31 December 2014	From 1 January 2013 to 31 December 2013
All amounts in EUR 000		
Lease expenses	2.810	3.113
External services	4.671	3.553
IT and communication expenses	4.948	5.542
Research and development costs	1.446	1.210
Other non-recurring costs	1.332	377
Other expenses	7.235	11.025
Total	**22.442**	**24.820**

Other operating expenses include non-recurring costs in the amount of EUR 1.332 thousands (2013: EUR 377 thousands of non-recurring costs). In addition to non-recurring costs, other expenses include lease and other real estate related costs and purchase of services.

IT and communication costs comprise of both internal operating IT costs and purchased IT services from Vattenfall.

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

7. Employee benefits expense

All amounts in EUR 000	From 1 January 2014 to 31 December 2014	From 1 January 2013 to 31 December 2013
Salaries and remuneration	17.778	16.452
Pensions		
Defined contribution plans	2.995	3.134
Defined benefit plans	52	(32)
Social security costs	819	699
Total	**21.644**	**20.253**

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.

7. Employee benefits expense (continued)

In EUR 000	2014	2013
Salaries and remuneration paid to CEOs	403	419
Pension expenses related to salaries	95	99

8. Depreciation, amortisation and impairment

	From 1 January 2014 to 31 December 2014	From 1 January 2013 to 31 December 2013
All amounts in EUR 000		
Depreciation, amortisation and impairment on property, plant and equipment	70.362	66.015
Depreciation and amortisation on intangible assets	5.682	5.040
Total	**76.044**	**71.055**

9. Investment in an associate

	31 December 2014	31 December 2013
All amounts in EUR 000		
Cost at 1 January	407	407
Share of profit for the year	151	45
Decrease	-	-
Dividends received	(45)	(45)
At 31 December	**513**	**407**

The Group's share of the profit of associates and for 2014 was EUR 151 thousands (2013: EUR 45 thousand).

Associates

31 December 2014

All amounts in EUR 000	Segment	Holding %	Assets	Liabilities	Revenue	Profit/(Loss)
Oriveden Aluelämpö Oy	Heat	**50**	**4.054**	**3.739**	**1.862**	**95**

31 December 2013

All amounts in EUR 000	Segment	Holding %	Assets	Liabilities	Revenue	Profit/(Loss)
Oriveden Aluelämpö Oy	Heat	**50**	**4.066**	**3.757**	**1.824**	**90**

Notes to the consolidated financial statements (continued)

10. Finance income and finance costs

All amounts in EUR 000	From 1 January 2014 to 31 December 2014	From 1 January 2013 to 31 December 2013
Interest expenses		
Loans	(11.501)	(31.903)
Bonds	(25.103)	(798)
Other long-term loans	(65.991)	(62.523)
Other interest expenses	(1.157)	(1.359)
Total interest	**(103.752)**	**(96.583)**
Other finance costs	(12.211)	(32.067)
Ineffective portion of cash flow hedging	(587)	(604)
Exchange rate differences		
Loans and receivables	(2)	(13)
Total	**(116.552)**	**(129.267)**
Interest income		
Other interest income	357	349
Other finance income	8	-
Total	**365**	**349**
Finance costs (net)	**(116.187)**	**(128.918)**

Interest expenses mainly include interest expenses on interest-bearing loans and interest rate swaps. Other interest expenses mainly consist of interest on finance leases of EUR 1,1 million (2013: EUR 1,3 million).

Other finance costs include EUR 8,2 million (2013: EUR 13,6 million) of swap breakage costs.

Notes to the consolidated financial statements (continued)

11. Income tax

	From 1 January 2014 to 31 December 2014	From 1 January 2013 to 31 December 2013
All amounts in EUR 000		
Tax for the year	(69)	(169)
Adjustments to taxes for previous periods	(46)	-
Deferred taxes	7.358	50.925
Income tax in the consolidated statement of profit or loss	**7.243**	**50.756**

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

	From 1 January 2014 to 31 December 2014	From 1 January 2013 to 31 December 2013
Accounting loss before tax	**(38.412)**	**(59.164)**
Theoretical income tax using the average applicable tax rate	7.667	14.487
- tax-free income items	69	-
- expenses that are non-deductible in taxation	(464)	293
- share of the profits of associates	21	11
- adjustment of taxes based on previous periods	(46)	-
- unrecognized deferred tax assets from taxation losses	(4)	(3)
- effect of change in potential tax rate	-	35.968
Loss for the year	**(31.169)**	**(8.408)**

Accounting loss before tax is mainly derived from Elenia Oy, therefore, domestic rate of 20,0% (2013: 24,5%) has been used for determining theoretical income tax.

Notes to the consolidated financial statements (continued)

11. Income tax (continued)

Change in deferred tax receivables and liabilities in 2014

All amounts in EUR 000	As at 31 December 2013	Recognised in the statement of profit or loss	Recognised in other components of comprehensive income	As at 31 December 2014
Deferred tax receivables				
Interest-bearing liabilities	1.910	118	(1.588)	440
Deferred tax receivable for the loss for the period	36.482	(5.225)	-	31.257
Defined benefit plans	164	6	97	267
Finance leases	917	17	-	934
Total	**39.473**	**(5.084)**	**(1.491)**	**32.898**
Offset by deferred tax liabilities	(38.392)			(31.257)
	1.081	-	-	**1.641**

	As at 31 December 2013	Recognised in the statement of profit or loss	Recognised in other components of comprehensive income	As at 31 December 2014
Deferred tax liabilities				
Interest-bearing liabilities	2.998	(1.120)	-	1.878
Depreciation differences	83.358	(6.535)	-	76.823
Measurement of assets at fair value in acquisition	113.047	(4.787)	-	108.260
Available-for-sale financial assets	222	-	(17)	205
Total	**199.625**	**(12.442)**	**(17)**	**187.166**
Offset by deferred tax receivables	(38.392)	-	-	(31.257)
	161.233	-	-	**155.909**

Notes to the consolidated financial statements (continued)

11. Income tax (continued)

Change in deferred tax receivables and liabilities in 2013

All amounts in EUR 000	As at 31 December 2012	Recognised in the statement of profit or loss	Recognised in other components of comprehensive income	As at 31 December 2013
Deferred tax receivables				
Interest-bearing liabilities	8.563	-	(6.653)	1.910
Deferred tax receivable for the loss for the period	30.376	6.106	-	36.482
Defined benefit plans	180	(12)	(4)	164
Finance leases	1.054	(137)	-	917
Total	**40.173**	**5.957**	**(6.657)**	**39.473**
Offset by deferred tax liabilities	(34.381)			(38.392)
	5.792	-	-	**1.081**

	As at 31 December 2012	Recognised in the statement of profit or loss	Recognised in other components of comprehensive income	As at 31 December 2013
Deferred tax liabilities				
Interest-bearing liabilities	4.004	(1.006)	-	2.998
Depreciation differences	96.085	(12.728)	-	83.357
Measurement of assets at fair value in acquisition	144.281	(31.234)	-	113.047
Available-for-sale financial assets	288	-	(66)	222
Total	**244.658**	**(44.968)**	**(66)**	**199.624**
Offset by deferred tax receivables	(34.381)	-	-	(38.391)
	210.277	-	-	**161.233**

The Group has recorded a deferred tax asset on the confirmed losses for 2011-2013 for Elenia Oy. The losses carried forward are available for ten years. The losses will be offset against future profits.

Notes to the consolidated financial statements (continued)

12. 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 2014	2.256	18.391	1.627.777	223.588	951	27.910	1.900.873
Additions	326	3.075	100.746	9.208	143	13.476	126.974
Transfers	-	-	(4.717)	(285)	-	-	(5.002)
Disposals	-	-	15.584	77	-	(29.306)	(13.645)
Cost at 31 December 2014	2.582	21.466	1.739.390	232.588	1.094	12.080	2.009.200
Accumulated depreciation, amortisation and impairment at 1 January 2014	-	(10.111)	(604.388)	(120.044)	(270)	-	(734.813)
Depreciation and amortisation for the year	-	(583)	(56.301)	(10.707)	(42)	-	(67.633)
Impairment	-	-	(2.729)	-	-	-	(2.729)
Accumulated depreciation and amortisation on disposals	-	-	4.696	270	-	-	4.966
Accumulated depreciation, amortisation and impairment at 31 December 2014	-	(10.694)	(658.722)	(130.481)	(312)	-	(800.209)
Book value at 31 December 2013	**2.256**	**8.280**	**1.023.389**	**103.544**	**681**	**27.910**	**1.166.060**
Book value at 31 December 2014	**2.582**	**10.772**	**1.080.668**	**102.107**	**782**	**12.080**	**1.208.991**

Notes to the consolidated financial statements (continued)

12. 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 2013	2.189	18.707	1.504.923	271.344	715	19.095	1.816.973
Additions	67	102	71.603	3.778	43	14.244	89.837
Transfers	-	-	-	(341)	-	-	(341)
Disposals	-	(418)	51.251	(51.193)	193	(5.429)	(5.596)
Cost at 31 December 2013	2.256	18.391	1.627.777	223.588	951	27.910	1.900.873
Accumulated depreciation, amortisation and impairment at 1 January 2013	-	(9.354)	(514.525)	(144.815)	(525)	-	(669.219)
Depreciation and amortisation for the year	-	(571)	(54.701)	(10.704)	(39)	-	(66.015)
Transfers	-	(186)	(35.162)	35.145	294	-	91
Accumulated depreciation and amortisation on disposals	-	-	-	330	-	-	330
Accumulated depreciation, amortisation and impairment at 31 December 2013	-	(10.111)	(604.388)	(120.044)	(270)	-	(734.813)
Book value at 31 December 2012	**2.189**	**9.352**	**990.398**	**126.529**	**190**	**19.095**	**1.147.754**
Book value at 31 December 2013	**2.256**	**8.280**	**1.023.389**	**103.544**	**681**	**27.910**	**1.166.060**

The property, plant and equipment item machinery and equipment includes EUR 26.231 thousands (2013: EUR 30.093 thousands) of assets acquired through finance leases.

In 2014 Group companies received an investment grant of EUR 126 thousand (2013: nil). The grant was recorded as deduction of costs in buildings and machinery and equipment.

Notes to the consolidated financial statements (continued)

13. Intangible assets

(All amounts in EUR 000)

	Goodwill	Intangible rights	Other long-term expenditure	Other intangible assets	Total
Acquisition cost at 1 January 2014	515.606	52.797	19.873	88.200	676.476
Increase	-	1.076	3.218	-	4.294
Decrease	-	-	-	-	-
Transfers	-	-	108	-	108
Acquisition cost at 31 December 2014	515.606	53.873	23.199	88.200	680.878
Accumulated depreciation, amortisation and impairment at 1 January 2014	-	(43.434)	(15.025)	(7.056)	(65.515)
Depreciation and amortisation for the year	-	(519)	(1.635)	(3.528)	(5.682)
Accumulated depreciation and amortisation on transfers	-	-	-	-	-
Accumulated depreciation, amortisation and impairment at 31 December 2014	-	(43.953)	(16.660)	(10.584)	(71.197)
Book value at 31 December 2013	**515.606**	**9.363**	**4.848**	**81.144**	**610.961**
Book value at 31 December 2014	**515.606**	**9.920**	**6.539**	**77.616**	**609.681**

Notes to the consolidated financial statements (continued)

13. Intangible assets (continued)

(All amounts in EUR 000)

	Goodwill	Intangible rights	Other long-term expenditure	Other intangible assets	Total
Acquisition cost at 1 January 2013	515.606	52.105	15.287	88.200	671.198
Increase	-	873	4.526	-	5.399
Decrease	-	-	-	-	-
Transfers		(181)	60	-	(121)
Acquisition cost at 31 December 2013	515.606	52.797	19.873	88.200	676.476
Accumulated depreciation,					
amortisation and impairment at 1 January 2013	-	(42.928)	(13.928)	(3.528)	(60.384)
Depreciation and amortisation for the year	-	(489)	(1.023)	(3.528)	(5.040)
Accumulated depreciation and amortisation on transfers	-	(17)	(74)	-	(91)
Accumulated depreciation, amortisation and impairment at 31 December 2013	-	(43.434)	(15.025)	(7.056)	(65.515)
Book value at 31 December 2012	**515.606**	**9.177**	**1.359**	**84.672**	**610.814**
Book value at 31 December 2013	**515.606**	**9.363**	**4.848**	**81.144**	**610.961**

Other intangible assets mainly consist of customer relationships capitalised in connection with the business combination and acquisition.
As a result of acquisitions in 2012 a goodwill of EUR 515.606 thousands was created. Goodwill is based on the assessment of organizational competence and knowhow which is expected to benefit business operations in coming years.

13. 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 factor 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 2015-2027.
Long term capital expenditure plans have been prepared in order to meet the security of supply requirements by 2028 as published by the Ministry of Employment and Economy.
A growth rate of 1,0 % has been incorporated in the cash flow projections for the whole period and beyond.
The discount rate applied for Network segment is 4,0 % which is derived from the regulatory WACC calculation.

Heat segment

Cash flow projections for 25 year 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 4,3% which is based on the prevailing return and risk assumptions in the business.
Growth rate for district heating is expected to modestly increase until 2019, and thereafter the volumes are gradually expected to decrease.
Revenue of the business is expected to grow by 1 to 2 % annually for the next 25 years and thereafter a growth of 0,5% p.a. has been applied.
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 table below.

	Network segment		Heat segment	
Change in key assumptions	**2014**	**2013**	**2014**	**2013**
Change in discount rate, % -points	0,8	0,8	0,3	0,8

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

Notes to the consolidated financial statements (continued)

14. Inventories

	31 December 2014	31 December 2013
All amounts in EUR 000		
Oil	2.870	3.856
Bio fuels	8.510	12.089
Other inventories	554	573
Total	**11.934**	**16.518**

During 2014, EUR 18.300 thousands (2013: EUR 16.200 thousands) was recognized as an expense for inventories carried at net realizable value. This is recognized in operating expenses.

In 2014 there was a write-off of EUR 117 thousands (2013: EUR 60 thousand) in fuel inventory values. After stocktaking, there was an additional write-off of EUR 1.003 thousands in bio fuels inventory value recorded.

15. Trade and other receivables

	31 December 2014	31 December 2013
All amounts in EUR 000		
Trade receivables	20.290	23.086
Accrued income and prepaid expenses	37.003	43.538
Other current receivables	6.555	7.543
Total trade and other receivables	**63.848**	**74.167**

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

Breakdown of trade receivables by age	31 December 2014	31 December 2013
Not fallen due	15.216	15.462
Due for 1–90 days	4.387	5.372
Due for 91-180 days	260	727
Due for more than 181 days	1.533	2.900
Total	**21.396**	**24.461**
Uncertain receivables	(1.106)	(1.375)
	20.290	**23.086**

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 2014	31 December 2013
Sales accruals	29.700	36.770
Accrued financial expenses (Prepayments)	3.188	4.969
Other accrued income and receivables	10.670	9.342
	43.558	**51.081**

16. Carrying amounts of financial assets and liabilities by category

Values at 31 December 2014

Balance sheet item, All amounts in EUR 000	Notes	Loans and other receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives qualified for hedge accounting	Carrying value of balance sheet items	Fair value
Non-current financial assets							
Non-current non-interest-bearing receivables		-	-	-	-	-	-
Non-current interest-bearing receivables		-	-	-	-	-	-
Current financial assets							
Trade receivables and other non-interest bearing receivables	15	20.290	-	-	-	20.290	20.290
Interest-bearing receivables		-	-	-	-	-	-
Available-for-sale financial investments	19	-	1.403	-	-	1.403	1.403
Financial assets at fair value through profit or loss		-	-	-	-	-	-
Cash and cash equivalents		17.479	-	-	-	17.479	17.479
Carrying value by measurement category		**37.769**	**1.403**	**-**	**-**	**39.172**	**39.172**
Non-current financial liabilities							
Bonds and notes	26,19	-	-	976.282	-	976.282	1.077.793
Loans from financial institutions	26,19	-	-	100.223	-	100.223	100.223
Other long-term loans	26,19	-	-	650.630	-	650.630	751.785
Interest-bearing non-current liabilities							
- Derivative liabilities		-	-	-	2.802	2.802	2.802
- Finance leases	22	-	-	23.428	-	23.428	23.428
Total interest-bearing non-current liabilities		**-**	**-**	**1.750.563**	**2.802**	**1.753.365**	**1.956.031**
Non-interest-bearing non-current liabilities		-	-	-	-	-	-
Total non-interest-bearing non-current liabilities		**-**	**-**	**-**	**-**	**-**	**-**
Current financial liabilities							
Other current interest-bearing liabilities	18,22	-	-	3.868	-	3.868	3.868
Trade payables	18	-	-	15.470	-	15.470	15.470
Carrying value by measurement category		**-**	**-**	**1.769.901**	**2.802**	**1.772.703**	**1.975.369**

Notes to the consolidated financial statements (continued)

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

Values at 31 December 2013

Balance sheet item, All amounts in EUR 000	Notes	Loans and other receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives qualified for hedge accounting	Carrying value of balance sheet items	Fair value
Non-current financial assets							
Non-current non-interest-bearing receivables		-	-	-	-	-	-
Non-current interest-bearing receivables		-	-	-	-	-	-
Current financial assets							
Trade receivables & other non-in-bearing receivables	15	23.086	-	-	-	23.086	23.086
- Derivatives		-	-	-	-	-	-
Interest-bearing receivables		-	-	-	-	-	-
Available-for-sale financial investments	19	-	1.502	-	-	1.502	1.502
Financial assets at fair value through profit or loss		-	-	-	-	-	-
Cash and cash equivalents		63.088	-	-	-	63.088	63.088
Carrying value by measurement category		**86.174**	**1.502**	**-**	**-**	**87.676**	**87.676**
Non-current financial liabilities							
Bonds and notes	26,19	-	-	645.278	-	645.278	645.278
Loans from financial institutions	26,19	-	-	389.098	-	389.098	389.098
Other long-term loans	26,19	-	-	638.728	-	638.728	638.728
Interest-bearing non-current liabilities							
- Derivative liabilities		-	-	-	10.153	10.153	10.153
- Finance leases	22	-	-	26.919	-	26.919	26.919
Total interest-bearing non-current liabilities		**-**	**-**	**1.700.023**	**10.153**	**1.710.176**	**1.710.176**
Non-interest-bearing non-current liabilities		-	-	-	-	-	-
Total non-interest-bearing non-current liabilities		**-**	**-**	**-**	**-**	**-**	**-**
Current financial liabilities							
Other current interest-bearing liabilities	18,22	-	-	4.208	-	4.208	4.208
Trade payables	18	-	-	14.730	-	14.730	14.730
Carrying value by measurement category		**-**	**-**	**1.718.961**	**10.153**	**1.729.114**	**1.729.114**

16. 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 own unlisted funds at EUR 1,4 million (2013: EUR 1,5 million). These investments are measured at fair value based on assessments received from external fund managers on 31 December 2014.

Cash and cash equivalent

The Group had short-term bank deposits amounting to EUR 17,5 million (2013: EUR 63,1 million). All bank deposits were denominated in Euro.

Bonds

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

Financial assets and liabilities

Interest-bearing liabilities grew by EUR 54,4 million (2013: EUR 130,7 million) during the year, and interest-bearing liabilities at the balance sheet date totaled EUR 1,75 billion (2013: EUR 1,7 billion). 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.

17. Provisions

All amounts in EUR 000

	Provision for refunds of connection fees	**Total**
Provisions at 1 January 2014	12.357	12.357
Increase	404	404
Use of provisions	(378)	(378)
Provisions at 31 December 2014	**12.383**	**12.383**

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

Notes to the consolidated financial statements (continued)

18. Trade and other payables

All amounts in EUR 000	31 December 2014	31 December 2013
Short term financial lease liability	3.868	4.208
Trade payables	15.470	14.730
Other current liabilities		
Employee benefits expense	5.725	5.287
Interest expenses	9.072	7.532
Other accrued expenses	14.166	42.993
VAT liability	8.502	9.645
Energy taxes	6.468	5.119
Tax liability for the year	13	112
Prepayments received	9	-
Other liabilities	13.487	19.201
Total	**76.780**	**108.827**

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

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

Notes to the consolidated financial statements (continued)

19. Fair value of financial assets and liabilities

Fair value hierarchy

The Group uses the following hierarchy for determining the fair value of financial instruments:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As at 31 December 2014, the Group held the following financial instruments:

FINANCIAL ASSETS	**Level 1**		**Level 2**		**Level 3**		**Total**	
All amounts in EUR 000	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Financial instruments, non-current assets								
Available-for-sale financial investments	-	-	-	-	1.403	1.502	1.403	1.502
Total	**-**	**-**	**-**	**-**	**1.403**	**1.502**	**1.403**	**1.502**

FINANCIAL LIABILITIES	**Level 1**		**Level 2**		**Level 3**		**Total**	
All amounts in EUR 000	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Financial instruments, non-current liabilities								
Bonds	(976.282)	(645.278)	-	-	-	-	(976.282)	(645.278)
Loans from financial institutions	-	-	(100.223)	(389.098)	-	-	(100.223)	(389.098)
Other long-term loans	-	-	(650.630)	(638.728)	-	-	(650.630)	(638.728)
Derivative instruments								
Interest rate swaps								
Hedge accounting is applied	-	-	(2.802)	(10.153)	-	-	(2.802)	(10.153)
Total	**(976.282)**	**(645.278)**	**(753.655)**	**(1.037.979)**	**-**	**-**	**(1.729.937)**	**(1.683.257)**

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

During the reporting year ended 31 December 2014, there were no transfers between Level 1 and Level 2 fair value measurements.

Reconciliation of fair value measurements of Level 3 financial instruments

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

The Group has had equity interests in three 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 2014	1.301	201	1.502
Investment	-	-	-
Sales / Return of equity	(14)	-	(14)
Total gains and losses recognised in OCI	(46)	(39)	(85)
31 December 2014	**1.241**	**162**	**1.403**
1 January 2013	1.379	187	1.566
Investment	-	-	-
Sales / Return of equity	-	-	-
Total gains and losses recognised in OCI	(78)	14	(64)
31 December 2013	**1.301**	**201**	**1.502**

20. Pensions and other post-employment benefits

The plan is a final average pay pension plan concerning additional pensions.

The benefits are insured with an insurance company.

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

Notes to the consolidated financial statements (continued)

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

Items recognized on the statement of financial position at 31 December	31 December 2014	31 December 2013
All amounts in EUR 000		
Current value of funded obligations	5.966	4.950
Fair value of assets	(4.631)	(4.132)
Deficit	1.335	818
Value of the obligation	**1.335**	**818**
The obligations of defined benefit pension plans have changed as follows:		
Obligation at the beginning of the year	4.950	4.606
Current service costs	52	48
Interest expenses	146	137
Actuarial losses	1.017	319
Benefits paid	(199)	(160)
Obligation at the end of the year	**5.966**	**4.950**
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	4.132	3.872
Expected income from assets	124	116
Actuarial gains	532	176
Payments by the employer	42	128
Benefits paid	(199)	(160)
Fair value	**4.631**	**4.132**
Net obligation consists of the following items:		
Obligation at the beginning of the period	818	734
Net cost recognized in the statement of profit or loss	74	69
Payments by the employer	(42)	(128)
Gains and losses recognized in OCI	485	143
Obligation at year end	**1.335**	**818**

Notes to the consolidated financial statements (continued)

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

Items recognized in the statement of profit or loss	**2014**	**2013**
Expenses based on service in the reporting year	52	48
Interest income	(124)	(116)
Interest expenses	146	137
Total	**74**	**69**

Items recognised in the statement of other comprehensive income for the year		
Actuarial gains on assets	(532)	(176)
Actuarial losses on obligations	1.017	319
	485	**143**

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 2014

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 1.75%	-	5.966	4.632	1.335	65	23
Discount rate 2.25%	+0,50%	5.535	4.348	1.187	59	26
Discount rate 1.25%	-0,50%	6.452	4.947	1.505	72	18

Expected contributions for 2015 are estimated to be EUR 80 thousands.

Notes to the consolidated financial statements (continued)

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

Values as at 31 December 2013

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 3%	-	4.950	4.132	818	52	22
Discount rate 3.5%	+0,50%	4.620	3.888	731	47	22
Discount rate 2.5%	-0,50%	5.285	4.384	901	57	20

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.

The weighted average duration of defined benefit obligation is 15-19 years.

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

EUR 000	**2014**	**2013**
Under 1 year	171	177
11-10 years	2.036	2.208
10-20 years	2.503	2.365
20-30 years	1.893	1.791
Over 30 years	1.168	1.217
Total	7.771	7.758

Actuarial assumptions used in calculations:

	2014	**2013**
Discount rate	1,75%	3,0%
Estimate of salary increase	3,0%	3,0%
Inflation	2,0%	2,0%

Notes to the consolidated financial statements (continued)

21. Lease and rental receivables

The Group has leased out real estate, whose leases are classified as other leases. Real estates are included in "Property, plant and equipment".
Rental income was invoiced to a total value of EUR 500 thousands (2013: EUR 517 thousand) during the year. All leases are open-ended.

22. Commitments and contingencies

Present value of financial lease payments	31 December 2014	31 December 2013
All amounts in EUR 000		
Financial lease liabilities		
Within one year	3.927	4.144
After one year but not more than five years	16.507	16.003
More than five years	10.176	14.517
Total	**30.610**	**34.664**
Future financial expenses	3.314	3.537
Present value of minimum lease payments	**27.296**	**31.127**
Present value of minimum lease payments matures:		
Within one year	3.868	4.208
After one year but not more than five years	14.908	14.957
More than five years	8.520	11.962
	27.296	**31.127**
Other commitments		
All amounts in EUR 000		
Registered floating charges:		
Provided on behalf of own and Group liabilities	18.000.000	13.500.000
Mortgages	245.155	27.000
	18.245.155	**13.527.000**
Operating leases:		
Within one year	237	207
After one year but not more than five years	446	468
	683	**675**

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

Rental liabilities		
Within one year	1.035	919
After one year but not more than five years	1.184	2.280
More than five years	-	-
	2.219	**3.199**
Refundable connection fees	**308.908**	**314.765**

23. 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.. 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 2014, the Group's share capital is amounting to EUR 14 thousands.

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

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

24. Related party disclosures

Shareholders
The Company's parent company is Lakeside Network Investment Holding BV, a limited liability company incorporated under the law of the Netherlands, with statutory seat in Amsterdam.

The Company's ultimate parents are 3i Networks Finland L.P. a limited partnership company duly incorporated under the law of the United Kingdom (16 palace Street, gb – SW1E 5JD London), 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).

Subsidiaries and associates
The Company owns all shares in Elenia Oy. Elenia Oy owns shares in Elenia Finance Oyi 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 7 for the compensation to the CEOs of the Group.

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 2014, other long-term loans with an aggregate carrying value of EUR 650,6 million (2013: EUR 638,7 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.

25. Events after the reporting period

Subsequent to the year ended 31 December 2014, the Group incorporated Elenia Palvelut Oy which started its operations from 1 January 2015. Elenia Palvelut Oy is a Finnish limited liability company domiciled in Tampere (address: Patamäenkatu 7). Elenia Palvelut Oy is a customer service center operating in energy sector. It provides to Group companies customer services related to electricity distribution network, district heating and natural gas business.

Furthermore Elenia Palvelut Oy provides customer services and other related supplementary services (invoicing and electricity market information exchange) related to electricity sales business to Vattenfall Oy.

26. Financial risk management objectives and policies

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

The Group's treasury unit under the finance department is responsible for financial risk management.

The Group's Treasury policy, approved by the Board of Managers of 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. 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 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 13.4 thousand exchange rate differences and finance costs include EUR 2.4 thousand exchange rate differences. At the end of 2014 the currency risk comprises of trade payables which amounted to SEK 3,4 million and whose counter value was EUR 0,4 million.

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 2014

EUR 000	Facility amount	In use	Available amount	Maturity
Capex facility	250.000	39.000	211.000	1-5 years
Working Capital facility	55.000	-	55.000	1-5 years
Liquidity facility	50.000	-	50.000	1-5 years
Cash and cash equivalents			17.479	
Total	**355.000**	**39.000**	**333.479**	

26. Financial risk management (continued)

Refinancing risk

In July, August and September 2014, the Group repaid total amount of EUR 333 million of its EUR 395 million external loan, which the Group borrowed from international banks in December 2013. At the balance sheet date the remaining amount of the loan was EUR 62 million. In 2014, the Group has also borrowed from the same international banks EUR 39 million using the Capex Facility. The Group also has other long-term loans totaling EUR 650,6 million, which are subordinated to the aforementioned bank loan, bonds and notes.

In July 2014 Elenia Oy's subsidiary Elenia Finance Oyj issued EUR 120 million bond and EUR 20 million bond, which mature in 2026, and a EUR 120 million note, which matures in 2034. In August 2014, Elenia Finance Oyj issued EUR 25 million bond, which matures in 2029. In September 2014,Elenia Finance Oyj issued EUR 13 million bond and EUR 35 million note, which mature in 2034.

Elenia Finance Oyj used the proceeds of the Bonds and Notes 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. Elenia Oy used the proceeds to repay the loan from financial institutions. The Bonds and Notes are listed on London Stock Exchange. Elenia Oy and Elenia Heat Oy have given EUR 983 million (2013: EUR 650 million) joint guarantees relating to the loans from financial institutions, issued 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 2014. The Group's Treasury unit 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 summarises the maturity profile of the Group's financial liabilities based on contractual payments.

31 December 2014

All amounts in EUR 000	Effective interest rate %	31 December 2014	Maturity Under 1 year	1-5 years	Over 5 years
Loans from financial institutions	1.91%	101.000	-	101.000	-
Bonds	2.88%	983.000	-	-	983.000
Other long-term loans	10.61%	650.630	-	-	650.630
Fair value of swaps		2.802	-	2.802	-
Financial lease liabilities		27.296	3.868	23.428	-
Trade payables and other current liabilities		72.912	72.912	-	-
Total		**1.837.640**	**76.780**	**127.230**	**1.633.630**

Notes to the consolidated financial statements (continued)

26. Financial risk management (continued)

Refinancing risk (continued)

31 December 2013

All amounts in EUR 000	Effective interest rate %	31 December 2013	Maturity Under 1 year	1-5 years	Over 5 years
Loans from financial institutions	2.31%	395.000	-	395.000	-
Bonds	2.88%	500.000	-	-	500.000
Bonds	4.10%	150.000	-	-	150.000
Other long-term loans	10.5%	638.728	-	-	638.728
Fair value of swaps		10.152	-	10.152	-
Financial lease liabilities		34.664	4.144	16.003	14.517
Trade payables		14.731	14.731	-	-
Total		**1.743.275**	**18.875**	**421.155**	**1.303.245**

Interest rate risk

Elenia is exposed to interest rate risk mainly through its interest-bearing net debt. The objective of the Group's interest rate risk management is to limit volatility of interest expenses in the income statement. The Group's interest rate risk management is handled by Group Treasury.

The interest rate risk is managed by entering into interest rate swaps and by withdrawing loans with fixed interest. Under its financing agreement, the minimum of 85% of the debt must be fixed rate or converted into fixed rate loans by using interest rate swaps until the end of current regulatory period. At the balance sheet date 96% (2013: 100%) of the loans were either fixed rate loans or converted into fixed rate loans by using interest rate swaps.

At the balance sheet date the Group had interest rate swaps with notional amount of EUR 108 million and fair value of EUR -2,8 million. All interest rate swaps were designated as cash flow hedges, hedging the interest rate risk of floating rate loans. All derivative instruments mature on 10 January 2017. The effective portion of the changes in the fair value of the derivative financial instruments that are designated as and qualify for cash flow hedges are recognized in equity/other comprehensive income. Gains or losses relating to the ineffective portion are recognized under finance income or costs in the statement of profit or loss.

A parallel shift of +/- 0,5 percentage points in the interest rate curve at the balance sheet date would have EUR +/- 1,0 million (2013: +/-5,8) effect on equity and EUR +/- 0,4 million (2013: +/-0,3) effect to finance costs in the statement of profit or loss.

A parallel shift of +/- 0,5 percentage points in the interest rate curve at the balance sheet date would have EUR +/- 0,1 million effect on floating rate loans.

26. Financial risk management (continued)

Credit and counterparty risk

Due to the electricity distribution companies having regional monopolies based on electricity system licences, 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, two months or four 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 loan agreements and other counterparties separately approved by the Board of Managers of the Group entities.

Trade receivables

The Group's trade receivables at the end of 2014 were EUR 20,3 million (2013: EUR 23,1 million). EUR 0,2 million collateral securities were received for trade receivables.

Breakdown of trade receivable by age EUR 000	**31 December 2014**
Not fallen due	15.216
Due for 1-90 days	4.387
Due for 91-180 days	260
Due for more than 181 days	1.533
Total	**21.396**
Uncertain receivables	(1.106)
	20.290

Volume and price risks

Electricity distribution operations do not involve particular volume or price risks due to being subject to a licence. 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 company has the right to adjust its district heating prices by giving one month's notice. This mitigates the price risk of production costs.

26. Financial risk management (continued)

Capital management

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

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.

As part of restructuring, on 17 December 2013 the Company has pledged the shares it holds in Elenia Oy to the secured parties represented by Citicorp Trustee Company Limited. On the same date the shares of Elenia Holdings S.à r.l. have been pledged Elenia Finance (SPPS) S.à r.l. and Lakeside Network Investment Holdings B.V. in favor of Citicorp Trustee Company Limited.