REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS 2017

ELENIA

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ELENIA GROUP, REPORT OF THE BOARD OF DIRECTORS 2017

Elenia Group's Business Operations

Elenia Group consists of Elenia Oy, Elenia Lämpö Oy, Elenia Palvelut Oy and Elenia Finance Oyj.

Elenia Group has three business lines:

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

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

Financial Performance

Elenia Group's revenue in 2017 was EUR 338.8 million (EUR 315.3 million in 2016). The revenue growth was mainly driven by higher volumes due to cold weather, an increase in electricity distribution tariffs and less severe weather-related outages compared to 2016, which resulted in lower statutory and voluntary outage compensations paid to customers.

In 2017, the Group's EBITDA was EUR 187.9 million (EUR 168.4 million in 2016). The growth in EBITDA was mainly driven by higher revenues and opex savings during the year. EBITDA excluding non-recurring and exceptional items was EUR 190.9 million in 2017 (176.3 million in 2016). The non-recurring and exceptional items in 2017 include costs relating to write-down of old receivables, reversal of a provision and other costs that are considered either non-recurring or exceptional.

Business Review – Electricity Distribution

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

With an electricity network of approximately 70,200 km, Elenia Networks supplies electricity to over 424,000 end-users (31.12.2017). In addition to residential customers, key customer segments include industrial, services, construction and public sectors. The company has operations in more than 100 cities and municipalities spanning a geographical area of nearly 600 km in length across central Finland, from Southern Häme to Northern Ostrobothnia.

In 2017, Elenia Networks distributed 6,342 GWh (6,330 GWh in 2016) of electricity, which is 0.2% more than in 2016. Elenia Networks' total revenue (including intra-group items) was EUR 263.1 million (EUR 240.2 million in 2016). The increase in revenue was attributable to higher volumes due to cold weather, an increase in electricity distribution tariffs, benign weather conditions resulting in less severe weather-related outages and an increase in the number of customers.

Elenia Networks' EBITDA in 2017 was EUR 161.2 million (EUR 143.1 million in 2016). The growth in EBITDA was primarily driven by the increase in revenue described above.

The weather conditions in 2017 were benign and Elenia experienced only one major storm (storm Sauli on 27 March 2017) during the year. Elenia was prepared for the storm and worked to mitigate the impact on customers. The maximum number of customers simultaneously without electricity was less than 22,000. All connections were restored in less than 24 hours. SAIDI (System Average Interruption Duration Index), a measure of the duration of outages, was 94 min during the year, the lowest in the company's history.

During the year, Elenia Networks continued to invest in the electricity network in accordance with its development plan. Elenia Networks' investment plan has been designed to improve the security of supply via under-

ELENIA GROUP

(EUR million)	2017	2016	2015	2014	2013
Revenue	338.8	315.3	282.3	299.7	293.7
EBITDA	187.9	168.4	135.6	153.9	140.8
EBITDA excluding non-recurring and exceptional items	190.9	176.3	152.2	156.2	152.4
EBITDA margin (excl. Non-rec. and exceptional items)	56.3%	55.9%	53.9%	52.1%	51.9%

ground cabling. Elenia Networks has only built weatherproof underground cables since 2009. At the end of 2017, 41% of the network was underground, up from 38% at the end of 2016.

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

Elenia Networks invested close to EUR 136 million in developing its electricity network in 2017. Investment in the electricity network will continue in 2018 and Elenia Networks plans to deploy approximately EUR 140 million primarily to construct approximately 3,000 km of underground cables.

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

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

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

The regulatory methods for the fourth regulatory period (2016–2019) came into effect on 1.1.2016. The basic structure of the regulatory framework continues to be based on a combination of a reasonable rate of return and various incentives. The reasonable rate of return declined from 7.42% in 2016 to 7.05% in 2017 due to the change in the risk free rate. The reasonable rate of return for 2018 is 6.62%. Incentives related to investments, quality, efficiency, innovation and security of supply remain in place, with minor changes. The regulatory guidelines provide stability for the industry and enable the continuation of Elenia Networks' security of supply driven investment programme as planned.

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

Business Review – Heat Business

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

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

In 2017, Elenia Heat's sales volume of heat, gas and electricity totalled 1.1 TWh (1.1 TWh in 2016). Elenia Heat's total revenue (including intra-group items) in 2017 was EUR 78.9 million (EUR 77.8 million in 2016). The increase in revenue was attributable to higher sales in the gas business and non-recurring revenue from the sale of oil inventory. District heating revenue remained in line with the previous year, but electricity revenue decreased due to lower production volume. Despite the increase in revenue, Elenia Heat's EBITDA in 2017 remained in line with the previous year at EUR 25.6 million (EUR 25.6 million in 2016).

Business Review – Customer Service Business

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

In 2017 Elenia Services' total revenue (including intra-group items) was EUR 9.5 million (EUR 10.2 million in 2016). Of this, the total revenue from external customers amounted to EUR 1.3 million in 2017 (EUR 1.4 million in 2016). Elenia Services' EBITDA was EUR 1.1 million in 2017 (EUR 0.8 million in 2016).

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

Financing

In 2017, Elenia Group continued to benefit from favourable market conditions and strong investor demand for long-dated investment grade bonds. Elenia Finance Oyj issued bonds under its EMTN programme for EUR 75 million (EUR 107 million in 2016) and private placements for an aggregate amount of EUR 138.5 million (EUR 150 million in 2016). The proceeds were used for general corporate purposes, to repay Elenia Oy's drawn bank debt and to finance investments.

The tenor of new issuances varies from 11 years to 17 years. The weighted average maturity of Elenia Group's debt declined slightly to 9.9 years (10.1 years at the end of 2016). The weighted average interest rate (excluding other long-term loans) was 2.9% in 2017 (2.9% at the end of 2016).

In June 2017, Elenia signed new fully committed credit facilities totalling EUR 470 million with a syndicate of eight banks. The credit facilities consist of a EUR 350 million Capex Facility, a EUR 60 million Working Capital Facility and a EUR 60 million Liquidity Facility. The new facilities replaced older similar EUR 355 million credit facilities.

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

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

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

Employees

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

At the end of 2017, the Group employed 349 people (333 in 2016). The following table illustrates the headcounts and FTEs per company.

	31.12.2017		31.12.2016	
	Headcount	FTE	Headcount	FTE
Elenia Oy and Elenia Finance Oyj	180	173	186	174
Elenia Lämpö	79	79	84	84
Elenia Palvelut Oy	90	79	63	53
Group Total	**349**	**332**	**333**	**310**

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

Acquisitions and Divestments

There were no material acquisitions or divestments during the period.

Corporate Governance

Elenia Oy's Board of Directors convened 11 times in 2017. The members of the Board of Directors during the financial year were Timo Rajala (Chairman), Robert Clark, Heidi Koskinen, Kunal Koya, Tapani Liuhala, Jorma Myllymäki, Timothy Short and Philip White. There were no changes to the Board of Directors in 2017.

Head of Customer Services and member of the management team Sanna Öörni has resigned from Elenia Oy and her employment with the company has ended on 30 November 2017. There were no other changes to the Elenia Oy's management team in 2017.

Shares

Elenia Oy has 100 outstanding shares. Each share entitles the holder to one vote at the Annual General Meeting and carries equal rights to dividends.

Corporate Responsibility

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

In addition, Elenia Group provides its employees with general information on topical occupational safety and environmental issues and an opportunity to participate in training that facilitates the improvement of their professional skills and competences. Supervisors and employees working on site are required to successfully complete Occupational Safety Card training and ensure that their statutory qualifications are up to date. Compliance with regulations is monitored regularly. Elenia Group has an OHSAS 18001 occupational health and safety management system in place. OHSAS 18001 was recertified in June 2017. Elenia Group operates in accordance with the principle of continuous improvement with the aim of being a leading company in occupational safety. Elenia Group and its extensive partner network have a target of zero occupational accidents and zero defects in all stages of construction. In 2017 Elenia Networks together with its partners had Loss Time Injury Frequency of 10.0 (4.1 in 2016). The increased focus on safety has resulted in higher number of reported accidents especially by Elenia's partners and their subcontractors, contributing to an increase in reported LTIF in 2017.

Environmental Matters

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

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

Elenia Heat continues its efforts to improve operational efficiency and maintain a high rate of efficiency at production plants. The development of the fuel portfolio and the efficient utilisation of existing equipment and systems will continue to be a priority. In 2017, Elenia Heat continued to reduce the use of fossil fuels in its heat and electricity production and emphasise the use of domestic fuels. Both of these will continue to be important goals going forward. The share of biofuels in Elenia Heat's own production operations exceeded 70% in 2017, while the share of domestic fuels is approximately 88%.

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

Risk Management

The Legal Affairs and Risk Management unit is responsible for coordinating risk management. Comprehensive risk management is undertaken covering risk identification, assessment, reporting and measures to manage risks in cooperation with business units and Group functions. The Finance Unit is responsible for the Elenia Group's insurance programme and for handling insurance claims in cooperation with an insurance broker.

Events after the Balance Sheet Date

As a result of the implementation of IFRS 15, effective 1.1.2018, Elenia has changed its revenue recognition regarding income on new connections. Previously the new connection revenue was recognised immediately after signing of the contract or completion of the physical distribution network connection. From 1.1.2018 onwards the new connection revenue is recognised over a period of 30 years for the electricity network as well as district heating and gas network connections. The time period is in line with the depreciation period of the connection assets. This change is only related to the group consolidated IFRS accounts and there is no change to FAS treatment of new connection revenue nor to the regulatory accounting, cash flows or taxes.

Outlook

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

On 13 December 2017, a consortium comprising Allianz Capital Partners ("ACP") on behalf of the Allianz Group, Macquarie Infrastructure and Real Assets ("MIRA") and Valtion Eläkerahasto ("VER") signed an agreement to acquire Elenia Group from GS Infrastructure Partners, 3i and the Mutual Pension Insurance Company.

The Board of Directors' Dividend Proposal

The Board of Directors proposes not to declare a dividend.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2017

EUR 1,000	Note	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Revenue		**338,806**	**315,325**
Other operating income	5	3,620	3,394
Materials and services		-112,494	-110,193
Employee benefit expenses	6	-21,723	-20,572
Depreciation, amortisation and impairment	7	-86,280	-83,640
Other operating expenses	5	-20,503	-19,695
Share of profit of an associate	8	164	181
Operating profit		**101,590**	**84,800**
Finance income		210	253
Finance costs		-100,880	-103,858
Finance income and costs	9	**-100,670**	**-103,606**
Profit / Loss before tax from continuing operations		**920**	**-18,805**
Income tax	10	-877	3,434
Profit / Loss for the year		**43**	**-15,372**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

EUR 1,000	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Profit / Loss for the year	**43**	**-15,372**
Other comprehensive income		
Other comprehensive income not to be reclassified to profit or loss in subsequent years:		
Re-measurement gains/(losses) on defined benefit plans	39	-202
Income tax effect	-8	40
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Net gain/(loss) on available-for-sale financial assets	-	2
Income tax effect	-	0
Other comprehensive income / (loss) for the year after tax	**31**	**-160**
Total comprehensive profit / loss for the year	**74**	**-15,531**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

EUR 1,000	Note	31 Dec 2017	31 Dec 2016
Assets			
Non-current assets			
Property, plant and equipment	11	1,348,045	1,286,739
Intangible assets	12	89,873	93,110
Goodwill	12	515,606	515,606
Investments in associates	8	727	687
Other non-current financial assets		246	247
Other interest bearing receivables		353	317
Deferred tax assets	10	1,058	1,125
Total non-current assets		**1,955,909**	**1,897,831**
Current assets			
Inventories	13	4,130	7,515
Trade receivables	14	22,261	21,513
Other current receivables	14	44,400	42,182
Cash and cash equivalents		24,519	14,938
Total current assets		**95,310**	**86,147**
Total assets		**2,051,218**	**1,983,978**
Equity and liabilities			
Equity			
Share capital		3	3
Unrestricted equity		2,000	2,000
Retained earnings		-146,021	-146,095
Total equity		**-144,019**	**-144,093**
Non-current liabilities			
Loans from financial institutions	15, 25	-	22,000
Bonds and notes	15, 25	1,521,082	1,307,838
Other long-term loans	15, 25	426,385	542,116
Finance lease liabilities	21	12,412	16,445
Employee benefit liability	19	1,134	1,177
Provisions	16	9,015	9,791
Other long-term liabilities		1,252	1,072
Deferred tax liabilities	10	142,627	141,850
Total non-current liabilities		**2,113,907**	**2,042,287**
Current liabilities			
Finance lease liabilities	21	4,068	4,403
Trade payables	17	12,120	22,462
Other current liabilities	17	65,141	58,919
Total current liabilities		**81,330**	**85,784**
Total equity and liabilities		**2,051,218**	**1,983,978**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

EUR 1,000	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Operating activities		
Profit / loss for the year	43	-15,372
Adjustments to reconcile loss to net cash flows		
Depreciation, amortisation and impairment	86,280	83,640
Finance income	-210	-253
Finance costs	100,880	103,858
Share of profit of an associate	-164	-181
Taxes	877	-3,434
Other adjustments	330	828
Working capital adjustments		
Increase (-) / decrease (+) in inventories	3,133	2,530
Increase (+) / decrease (-) in trade and other current liabilities [1)]	-2,467	-3,229
Increase (-) / decrease (+) in trade and other current receivables	-1,345	-3,410
Increase (+) / decrease (-) in provisions	-227	-2,601
Dividends received	125	84
Interests received	206	251
Interest and financial expenses paid	-43,766	-37,064
Interest paid on other long-term loans	-42,468	-60,875
Taxes paid	-101	-54
Net cash flows from operating activities	**101,126**	**64,718**
Investing activities		
Capital expenditure [1)]	-146,290	-123,664
Changes in loans	-36	-317
Changes in investments	29	1,105
Net cash flows used in investing activities	**-146,297**	**-122,876**
Financing activities		
Repayment of short-term borrowings	-	-30,000
Proceeds from long-term borrowings	213,500	257,000
Payment of debt arrangement costs	-4,848	-2,168
Repayment of long-term borrowings	-149,532	-167,125
Repayment of finance lease liabilities	-4,368	-3,727
Net cash flows from financing activities	**54,752**	**53,980**
Net increase in cash and cash equivalents	**9,581**	**-4,177**
Cash and cash equivalents at 1 January	14,938	19,115
Change in cash and cash equivalents	9,581	-4,177
Cash and cash equivalents at 31 December	**24,519**	**14,938**

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

[1)] In 2016 cash flow the adjustments made to items Increase / decrease in trade and other current liabilities and Capital expenditure relate to change in current liabilities for investments.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

EUR 1,000	Share capital	Reserve for invested unrestricted equity	Available for sale reserve (Fair value fund)	Retained earnings	Total equity
Equity at 1 January 2016	**3**	**2,000**	**-1**	**-130,562**	**-128,561**
Profit for the year	-	-	-	-15,372	-15,372
Other components of comprehensive income (adjusted by tax effect)					
Available-for-sale financial assets	-	-	1	-	1
Change in defined benefit plans	-	-	-	-161	-161
Total comprehensive income for the year	**-**	**-**	**1**	**-15,533**	**-15,531**
Equity at 31 December 2016	**3**	**2,000**	**0**	**-146,095**	**-144,093**

for the year ended 31 December 2017

EUR 1,000	Share capital	Reserve for invested unrestricted equity	Available for sale reserve (Fair value fund)	Retained earnings	Total equity
Equity at 1 January 2017	**3**	**2,000**	**0**	**-146,095**	**-144,093**
Profit for the year	-	-	-	43	43
Other components of comprehensive income (adjusted by tax effect)					
Available-for-sale financial assets	-	-	-	-	0
Change in defined benefit plans	-	-	-	31	31
Total comprehensive income for the year	**-**	**-**	**-**	**74**	**74**
Equity at 31 December 2017	**3**	**2,000**	**0**	**-146,021**	**-144,019**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Elenia Oy is a Finnish limited liability company domiciled in Tampere (address: Patamäenkatu 7). Elenia Oy's parent company is Elenia Holdings S.à r.l., a company duly incorporated under the laws of Luxembourg and having its registered office at 2 rue du Fossé, L-1536 Luxembourg. The parent of the Elenia Holdings S.à r.l. is Lakeside Network Investments Holding B.V., domiciled in the Netherlands.

These consolidated financial statements are included in the consolidated financial statements of Elenia Holdings S.à r.l., available at the following address: 2, rue du Fossé L - 1536 Luxembourg.

Elenia Group is the owner and operator of an electricity distribution network (Elenia Oy, 'Elenia Networks') and a district heating business (Elenia Lämpö Oy, 'Elenia Heat'). Elenia Group also has a customer service business (Elenia Palvelut Oy, 'Elenia Services'). These business functions are supported by Elenia Finance Oyj ('Elenia Finance'), which provides treasury services to the Group companies.

The Board of Directors approved the consolidated financial statements on 27 February 2018. The shareholders have the right either to approve, reject or change the consolidated financial statements in the Annual General Meeting.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretations (IFRIC) approved for application within the European Union (EU). The consolidated financial statements are compliant with the provisions of the Finnish Accounting Act and other regulations governing the preparation of financial statements in Finland.

The consolidated financial statements have been prepared based on 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 euro ("EUR") as their operating currency and all figures are reported in euros. The consolidated financial statements are presented in thousands of euros. There may be rounding discrepancies in the sum totals due to the presentation method used.

2.2 Comparability with previous year figures

Items affecting comparability may include costs relating to exceptionally severe storms, and other items which are considerable in amount and do not relate to the actual operative business of the Group. Such items may arise for example as a result of mergers, acquisitions, divestments, corporate or organisational restructurings, major information system projects as well as certain financial transactions. These items have been specified in the notes of the consolidated financial statements.

2.3 Changes in accounting policies and disclosures

The Group applied for the first-time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature of each new standard and amendment is described below:

AMENDMENTS TO IAS 7: DISCLOSURE INITIATIVE: STATEMENT OF CASH FLOWS

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

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, such as foreign exchange gains or losses.

The amendments increase the amount of disclosure information given in the consolidated financial statements.

AMENDMENTS TO IAS 12: RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES

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

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

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

ANNUAL IMPROVEMENTS TO IFRSS (2014–2016 CYCLE)

The following annual improvement to IFRSs is effective for annual reporting periods beginning on or after 1 January 2017. The EU has not yet endorsed the improvement.

IFRS 12 Disclosure of Interests in Other Entities

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

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

2.4 Basis of consolidation

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

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

Intercompany transactions, receivables and debts are eliminated in the consolidated financial statements.

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

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

2.4.1 BUSINESS COMBINATION AND GOODWILL

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

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

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

Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in 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 consolidated statement of profit or loss.

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

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

2.4.2 INVESTMENT IN AN ASSOCIATE

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

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

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

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

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

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

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

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

2.5 Summary of significant accounting policies

2.5.1 TRANSLATION DIFFERENCES

Transactions denominated in foreign currencies are translated using the exchange rate at the date of the transaction. Receivables and liabilities denominated in foreign currencies outstanding on the date of closing the accounts are translated using the exchange rate quoted on the closing date. Exchange rate differences are recorded in financial income and expenses, or other business expenses, depending on the nature of the item in question.

2.5.2 RESEARCH AND DEVELOPMENT COSTS

Research and development costs are recognised as an expense in the year in which they are incurred. Research and development costs are included in the consolidated statement of profit or loss under personnel costs and other operating expenses. As research expenses, these costs do not meet the criteria for capitalisation.

2.5.3 GOVERNMENT GRANTS

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

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

2.5.4 REVENUE RECOGNITION

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

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

Outage compensations in accordance with the Electricity Market Act, which are paid to the customers due to interruption in the electricity distribution, are recognised as a reduction of revenue. Starting from 1 June 2017 outage compensations have been treated as compensation for damages in value added taxation.

2.5.5 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.

2.5.6 EMISSION ALLOWANCES

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

2.5.7 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

2.5.7.1 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.

2.5.8 INTANGIBLE ASSETS

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

2.5.8.1 Computer software

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

2.5.8.2 Compensation paid to landowners

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

2.5.8.3 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.

2.5.8.4 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.

2.5.8.5 Amortisation periods for intangible assets

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

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

2.5.8.6 Impairment of non-financial assets

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

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

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

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

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

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

2.5.9 TRADE RECEIVABLES

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

2.5.10 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.

2.5.11 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.

2.5.11.1 The Group as the lessee

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

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

2.5.11.2 The Group as the lessor

Leases in which the Group is the 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 on the consolidated statement of profit or loss under other operating income over the lease term.

2.5.12 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.

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

2.5.14 TAXES

2.5.14.1 Current income tax

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

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

2.5.14.2 Deferred tax

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

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

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

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

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

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

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

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

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

2.5.15 PENSION OBLIGATIONS

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

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

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

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

2.5.16 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.

2.5.16.1 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:

2.5.16.1.1 Financial assets at fair value through profit or loss

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

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

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

2.5.16.1.2 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 rate method less accumulated impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the consolidated statement of profit or loss. The losses arising from impairment are recognised in the consolidated statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

2.5.16.1.3 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 to the consolidated statement of profit or loss as finance costs.

2.5.16.1.4 Derecognition of financial assets

Financial assets are derecognised when:

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

2.5.16.2 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.

2.5.16.2.1 Financial assets carried at amortised cost

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

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

2.5.16.2.2 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 consolidated statement of profit or loss – is removed from the consolidated statement of other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

2.5.16.3 Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

2.5.16.3.1 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 consolidated statement of profit or loss.

2.5.16.3.2 Loans and borrowings

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

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

2.5.16.3.3 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 consolidated statement of profit or loss.

2.5.16.4 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.

2.5.16.5 Fair value measurement of financial instruments

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

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

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

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

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

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

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

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

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

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

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

2.5.16.6 Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. 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.

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.

2.5.16.6.1 Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the consolidated statement of profit or loss as financial income or costs.

Amounts recognised in the consolidated statement of other comprehensive income are transferred to the consolidated 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 consolidated 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 the consolidated statement of other comprehensive income remains in the consolidated statement of other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

2.5.17 SEGMENT REPORTING

Segment information has not been presented since IFRS 8 allows non-disclosure of them.

3 NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 Financial Instruments

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

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

IFRS 16 Leases

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

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

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

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

IFRS 17 Insurance Contracts

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

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

The new standard is not applicable to the Group.

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

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

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

These amendments are not applicable to the Group.

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

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

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

These amendments are not applicable to the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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

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

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

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

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

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

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

Amendments to IAS 40: Transfers of Investment Property

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

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

These amendments are not applicable to the Group.

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

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

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

Annual improvements to IFRSs (2014–2016 Cycle)

The following annual improvements to IFRSs are effective for annual reporting periods beginning on or after 1 January 2018. The EU has not yet endorsed the improvements.

IFRS 1 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The amendment deleted the outdated exemptions for first-time adopters of IFRS.

IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

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

Annual improvements to IFRSs (2015–2017 Cycle)

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

IFRS 3 BUSINESS COMBINATIONS AND IFRS 11 JOINT ARRANGEMENTS

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

IAS 12 INCOME TAXES

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

IAS 23 BORROWING COSTS

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

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

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

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

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

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

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

4.1 Judgements

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

4.1.1 GOING CONCERN

The financial statements are based on going concern principle. Despite the negative equity of Elenia Oy, Elenia Group's financial and liquidity position are strong. The Group's financing is based on Elenia Finance Oyj's strong investment grade rating from S&P and EUR 3 billion EMTN program, which enable effective sourcing of long term financing from the international capital markets. The Group has strong liquidity based on cash and cash equivalents and fully committed undrawn credit facilities from a syndicate of international banks.

4.1.2 TAXES

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

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

The Group recognizes deferred tax assets by taking into account their recoverability, based on the existence of deferred tax liabilities with similar maturities for netting and the possibility of generation of sufficient future taxable profits. The management assessed the deferred tax booked in the financial statements to be recoverable.

The estimations and the actual flows of taxes paid or received could differ from the estimates made by the Group as a result of unforeseen future legal changes in estimates.

4.2 Estimates

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

4.2.1 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 cash flows are the discount rate and the assumptions and estimates used.

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

4.2.2 FAIR VALUE OF INVESTMENTS

Due to the nature of the Elenia Finance Oyj EMTN Programme no profits are expected to be accumulated from the investment in Elenia Holdings S.à r.l. through a subordinated profit-participating security (the SPPS). Based on the expected cash flows the investment has no value and therefore the book value and the fair value have been determined to be zero. (Note 18)

4.2.3 DEFERRED TAXES

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

4.2.4 PROVISIONS

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

5 OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME

EUR 1,000	2017	2016
Rental income	104	285
Subsidy for bio-based electricity production	647	670
Capital gains on tangible and intangible assets	104	22
Income from the wood fuel trading	697	686
Income from the trade receivables collection	665	630
Income from the sales of obsolete materials and used fixed assets	969	793
Other operating income	433	308
Total	**3,620**	**3,394**

OTHER OPERATING EXPENSES

EUR 1,000	2017	2016
Lease expenses	-1,187	-3,412
External services	-4,194	-3,494
IT and communication expenses	-4,538	-5,360
Research and development costs	-1,761	-1,704
Marketing and communications	-1,217	-1,159
Insurances	-499	-534
Mailing expenses	-1,224	-1,278
Other personnel expenses	-984	-1,106
Travelling expenses	-487	-440
Other expenses	-4,411	-1,208
Total	**-20,503**	**-19,695**

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

AUDIT FEES

EUR 1,000	2017	2016
Auditing fees	-259	-244
Fees for tax services	-30	-320
Fees for other services	-28	-691
Total	**-317**	**-1,255**

Ernst & Young was appointed as the auditor until the Annual General Meeting held in the 2018 reporting period.

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

6 EMPLOYEE BENEFITS EXPENSES

EUR 1,000	2017	2016
Salaries and remuneration	-17,905	-16,709
Pensions		
Defined contribution plans	-2,751	-2,944
Defined benefit plans	-69	-68
Social security costs	-998	-851
Total	**-21,723**	**-20,572**

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

EUR 1,000	2017	2016
Salaries and remuneration paid to CEO		
Salaries and other short-term employee benefits	-430	-428
Other long-term employee benefits	-223	-136
Pension expenses related to salaries and employee benefits	-118	-129
Salaries and remuneration paid to other key members of the management		
Salaries and other short-term employee benefits	-1,545	-1,505
Other long-term employee benefits	-318	-193
Pension expenses related to salaries and employee benefits	-318	-370

Elenia Group applies two incentive plans. All employees of the Elenia Group are included within the scope of the short-term annual performance bonus plan; in addition the key members of the management are included by a long-term incentive plan. Both of the plans are company-specific but the principles and criteria are mainly uniform. Companies' Boards of Directors approve both the criteria as well as payment under the plans.

The annual performance bonuses are based for example on the Group company's profitability, work safety and customer or personnel satisfaction. Also the achievement of the individual key objectives in employee's own responsibility area is taken into consideration.

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

During 2017 EUR 808 thousand (2016: 600 thousand) were recognized as an expense and EUR 535 thousand (2016: 328 thousand) were paid out related to the long-term incentive plan. During 2017 EUR 1.9 million (2016: 1.6 million) were booked as a liability related to the long-term incentive plan. In addition, financial statements for the year 2017 include an accrual of EUR 2.5 million related to the management work fee.

Key management includes management teams and Board members of Elenia Oy and Elenia Lämpö Oy.

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

7 DEPRECIATION, AMORTISATION AND IMPAIRMENT

EUR 1,000	2017	2016
Depreciation, amortisation and impairment on property, plant and equipment	-79,769	-76,802
Depreciation and amortisation on intangible assets	-6,512	-6,838
Total	**-86,280**	**-83,640**

8 INVESTMENT IN AN ASSOCIATE

EUR 1,000	2017	2016
Acquisition cost at 1 January	687	590
Share of profit for the year	164	181
Dividends received	-125	-84
Acquisition cost at 31 December	**727**	**687**

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

INFORMATION CONCERNING THE ASSOCIATES

31 December 2017

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

31 December 2016

EUR 1,000	Segment	Holding, %	Assets	Liabilities	Revenue	Profit/loss
Oriveden Aluelämpö Oy	Heat	50	4,068	3,553	1,924	310

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

9 FINANCE INCOME AND COSTS

EUR 1,000	2017	2016
Interest expenses		
Loans from financial institutions	-58	-1,041
Bonds and notes	-41,882	-35,246
Other long-term loans	-54,269	-62,658
Other interest expenses	-867	-960
Total interest	**-97,076**	**-99,905**
Other finance costs	-3,798	-3,951
Exchange rate differences		
Loans and receivables	-5	-3
Total finance costs	**-100,880**	**-103,858**
Interest income		
Other interest income	206	251
Other finance income	3	1
Total finance income	**210**	**253**
Finance costs (net)	**-100,670**	**-103,606**

Interest expenses include interest expenses on interest-bearing loans. Other interest expenses mainly consist of interest on finance leases of EUR 0.7 million (2016: 0.8 million).

10 INCOME TAX

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

EUR 1,000	2017	2016
Current income tax charge	-26	-82
Adjustments in respect of current income tax of previous periods	-15	-6
Deferred taxes	-836	3,521
Income tax expense reported in the consolidated statement of profit or loss	**-877**	**3,434**

CONSOLIDATED STATEMENT OF OCI

EUR 1,000	2017	2016
Deferred tax related to items recognised in OCI during the year:		
Remeasurement gains (losses) on defined benefit plans	-8	40
Net (loss) gain on available-for-sale financial assets	0	0
Deferred tax charged to OCI	**-8**	**40**

INCOME TAX RATE

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

EUR 1,000	2017	2016
Profit before tax	**920**	**-18,805**
Theoretical income tax using the nominal tax rate of 20.0% (2016: 20.0%)	-184	3,761
Tax-free income items	10	85
Expenses that are non-deductible in taxation	-761	-495
Share of the profits of associates	8	19
Adjustment of taxes based on previous periods	60	74
Unrecognized deferred tax assets from taxation losses	-9	-10
Income tax in the income statement	**-877**	**3,434**

Effective tax rate was 95% (2016: 18%).

CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES IN 2017

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

DEFERRED TAX LIABILITIES EUR 1,000	Balance sheet 31 Dec 2016	Recognised in the statement of profit or loss	Recognised in other comprehensive income	**Balance sheet 31 Dec 2017**
Interest-bearing liabilities	1,313	499	-	1,812
Depreciation differences	61,132	-838	-	60,294
Measurement of assets at fair value in acquisition	98,370	-5,178	-	93,193
Total	**160,816**	**-5,517**	**0**	**155,299**
Offset by deferred tax assets	-18,966			-12,672
Deferred tax liabilities	**141,850**			**142,627**

CHANGE IN DEFERRED TAX ASSETS AND LIABILITIES IN 2016

DEFERRED TAX ASSETS EUR 1,000	Balance sheet 31 Dec 2015	Recognised in the statement of profit or loss	Recognised in other comprehensive income	**Balance sheet 31 Dec 2016**
Deferred tax asset for the confirmed losses	28,680	-9,714	-	18,966
Defined benefit plans	201	-6	40	235
Finance leases	925	-36	-	889
Total	**29,806**	**-9,756**	**40**	**20,090**
Offset by deferred tax liabilities	-28,680			-18,966
Deferred tax assets	**1,126**			**1,125**

DEFERRED TAX LIABILITIES EUR 1,000	Balance sheet 31 Dec 2015	Recognised in the statement of profit or loss	Recognised in other comprehensive income	**Balance sheet 31 Dec 2016**
Interest-bearing liabilities	1,234	78	-	1,313
Depreciation differences	69,385	-8,252	-	61,132
Measurement of assets at fair value in acquisition	103,473	-5,103	-	98,370
Total	**174,093**	**-13,277**	**0**	**160,816**
Offset by deferred tax assets	-28,680			-18,966
Deferred tax liabilities	**145,413**			**141,850**

The Group has tax losses of EUR 95,205 thousand for the parent company Elenia Oy for offset against future taxable profits. The losses carried forward are available for ten years. The Group has recorded a deferred tax asset on the confirmed losses for 2012–2013 for Elenia Oy.

11 PROPERTY, PLANT AND EQUIPMENT

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

EUR 1,000	Land and water areas	Buildings	Networks	Machinery and equipment	Other tangible assets	Prepayments	**Total**
Cost at 1 January 2016	2,621	19,516	1,826,821	235,950	1,094	24,206	2,110,207
Additions	3	237	114,942	3,397	63	6,349	124,991
Disposals	-	-	-10,225	-15	-	-	-10,239
Transfers between balance sheet items	-	-	2,637	1,021	-	-10,140	-6,483
Cost at 31 December 2016	**2,624**	**19,752**	**1,934,175**	**240,353**	**1,157**	**20,415**	**2,218,476**
Accumulated depreciation, amortisation and impairment at 1 January 2016	-	-10,258	-713,113	-141,433	-359	-	-865,163
Depreciation and amortisation for the year	-	-583	-60,804	-11,172	-48	-	-72,607
Accumulated depreciation and amortisation on disposals	-	-	10,225	4	-	-	10,229
Impairment for the year	-	-	-4,195	-	-	-	-4,195
Accumulated depreciation, amortisation and impairment at 31 December 2016	**-**	**-10,841**	**-767,887**	**-152,601**	**-407**	**-**	**-931,736**
Book value at 31 December 2016	**2,624**	**8,911**	**1,166,287**	**87,752**	**750**	**20,415**	**1,286,739**
Book value at 31 December 2015	**2,621**	**9,258**	**1,113,707**	**94,517**	**735**	**24,206**	**1,245,044**

The property, plant and equipment item machinery and equipment includes EUR 15,334 thousand (2016: 19,756 thousand) of assets acquired through finance leases.

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

In 2017 Elenia Lämpö Oy received an investment grant of EUR 63 thousand. The grant was recorded as deduction of costs in buildings. In 2016 Group companies did not receive any investment grants.

12 INTANGIBLE ASSETS

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

EUR 1,000	Goodwill	Intangible rights	Other long-term expenditure	Other intangible assets	**Total**
Cost at 1 January 2016	515,606	54,984	25,504	88,200	684,293
Additions	-	1,163	5,002	-	6,165
Transfer between balance sheet items	-	-	2,639	-	2,639
Cost at 31 December 2016	**515,606**	**56,147**	**33,145**	**88,200**	**693,098**
Accumulated depreciation, amortisation and impairment at 1 January 2016	-	-44,503	-18,929	-14,112	-77,544
Depreciation and amortisation for the year	-	-586	-2,724	-3,528	-6,838
Accumulated depreciation, amortisation and impairment at 31 December 2016	**-**	**-45,089**	**-21,653**	**-17,640**	**-84,382**
Book value at 31 December 2016	**515,606**	**11,058**	**11,493**	**70,560**	**608,716**
Book value at 31 December 2015	**515,606**	**10,481**	**6,575**	**74,088**	**606,749**

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

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

IMPAIRMENT TESTING OF GOODWILL

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

NETWORK SEGMENT

Due to the regulated and stable nature of the electricity distribution business, the basis for cash flow projections has been long-term business plan for the period 2018–2031 which has been approved by the Board of Directors. Long term capital expenditure plans have been prepared in order to meet the security of supply reguirements by the end of 2028 in line with Electricity Market Act (588/2013). A volume growth of approximately 0.5% p.a. has been incorporated for the forecast period. The discount rate applied for Network segment is 4.4% based on the prevailing return and risk assumptions in the business (the applied pre-tax discount rate in 2016 was 4.4%).

HEAT SEGMENT

Cash flow projections for 2018–2031 are based on the 5 year business plan which has been approved by the Board of Directors. Due to the stable nature of the District heating business, long term projections are appropriate. Applied discount rate is 6.0% which is based on the prevailing return and risk assumptions in the business (the applied pre-tax discount rate in 2016 was 6.0%). District heating volumes are expected to modestly increase during the forecast period. Revenue of the business is expected to grow between 1 and 3% annually during the forecast period. A growth of 2.0% p.a. has been applied in the terminal value. The fluctuation of fuel prices is estimated to be modest as the business has several optional fuels available. Capital expenditure plans are based on maintaining the existing power plants and district heating network.

SENSITIVITY ANALYSIS

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

CHANGE IN KEY ASSUMPTIONS

	2017	2016
Network segment		
Change in discount rate, %-points	4.3	4.1
Heat segment		
Change in discount rate, %-points	1.8	1.7

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

13 INVENTORIES

EUR 1,000	2017	2016
Oil	1,556	2,687
Bio fuels	2,008	4,262
Other inventories	566	566
Total	**4,130**	**7,515**

During 2017, EUR 8.3 million (2016: 6.6 million) was recognised as an expense for inventories carried at net realisable value.

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

14 TRADE AND OTHER CURRENT RECEIVABLES

EUR 1,000	2017	2016
Trade receivables	22,261	21,513
Accrued income and prepaid expenses	44,094	40,733
Other current receivables	306	1,449
Total	**66,661**	**63,695**

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

BREAKDOWN OF TRADE RECEIVABLES BY AGE

EUR 1,000	2017	2016
Not fallen due	16,890	15,156
Due for 1–90 days	4,567	5,090
Due for 91–180 days	324	319
Due for more than 180 days	1,213	1,282
Total	**22,994**	**21,847**
Uncertain receivables	-734	-333
Total	**22,261**	**21,513**

All trade receivables are denominated in euros.

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.

BREAK-DOWN OF ACCRUED INCOME AND PREPAID EXPENSES

EUR 1,000	2017	2016
Sales accruals	40,099	38,643
Accrued financial items	2,592	467
Other accrued income	1,403	1,623
Total	**44,094**	**40,733**

15 FINANCIAL ASSETS AND LIABILITIES

CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

VALUES AT 31 DECEMBER 2017

Balance sheet item, EUR 1,000	Note	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
Current financial assets							
Trade receivables and other non-interest-bearing receivables	14	22,261	-	-	-	22,261	22,261
Available-for-sale financial assets	18	-	0	-	-	0	0
Cash and cash equivalents		24,519	-	-	-	24,519	24,519
Total Current assets		**46,779**	**0**	**-**	**-**	**46,779**	**46,779**
Carrying amount by category		**46,779**	**0**	**-**	**-**	**46,779**	**46,779**
Non-current financial liabilities							
Bonds and notes	18, 25	-	-	-1,521,082	-	-1,521,082	-1,606,246
Loans from financial institutions	18, 25	-	-	-	-	-	-
Other long-term loans	18, 25	-	-	-426,385	-	-426,385	-404,240
Interest-bearing non-current liabilities							
- Finance leases	21	-	-	-12,412	-	-12,412	-12,412
Total interest-bearing non-current liabilities		**-**	**-**	**-1,959,878**	**-**	**-1,959,878**	**-2,022,898**
Current financial liabilities							
Loans from financial institutions	18, 25	-	-	-	-	-	-
Other current interest-bearing liabilities	17, 21	-	-	-4,068	-	-4,068	-4,068
Trade payables	17	-	-	-12,120	-	-12,120	-12,120
Total current financial liabilities		**-**	**-**	**-16,189**	**-**	**-16,189**	**-16,189**
Carrying amount by category		**-**	**-**	**-1,976,067**	**-**	**-1,976,067**	**-2,039,087**

VALUES AT 31 DECEMBER 2016

Balance sheet item, EUR 1,000	Note	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
Current financial assets							
Trade receivables and other non-interest-bearing receivables	14	21,513	-	-	-	21,513	21,513
Available-for-sale financial assets	18	-	0	-	-	0	0
Cash and cash equivalents		14,938	-	-	-	14,938	14,938
Total current financial assets		**36,451**	**0**	**-**	**-**	**36,451**	**36,451**
Carrying amount by category		**36,451**	**0**	**-**	**-**	**36,451**	**36,451**
Non-current financial liabilities							
Bonds and notes	18, 25	-	-	-1,307,838	-	-1,307,838	-1,406,480
Loans from financial institutions	18, 25	-	-	-22,000	-	-22,000	-22,000
Other long-term loans	18, 25	-	-	-542,116	-	-542,116	-618,505
Interest-bearing non-current liabilities							
- Finance leases	21	-	-	-16,445	-	-16,445	-16,445
Total interest-bearing non-current liabilities		**-**	**-**	**-1,888,399**	**-**	**-1,888,399**	**-2,063,431**
Current financial liabilities							
Loans from financial institutions	18, 25	-	-	-	-	-	-
Other current interest-bearing liabilities	17, 21	-	-	-4,403	-	-4,403	-4,403
Trade payables	17	-	-	-22,462	-	-22,462	-22,462
Total current financial liabilities		**-**	**-**	**-26,865**	**-**	**-26,865**	**-26,865**
Carrying amount by category		**-**	**-**	**-1,915,264**	**-**	**-1,915,264**	**-2,090,296**

FINANCIAL ASSETS

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

CASH AT BANKS AND ON HAND

Elenia had short-term bank deposits amounting to EUR 24.5 million (2016: 14.9 million). All bank deposits were denominated in euros.

BONDS AND NOTES

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

FINANCIAL LIABILITIES

Interest-bearing liabilities grew by EUR 67.1 million (2016: 58.2 million) during the year, and interest-bearing liabilities at the balance sheet date totalled EUR 1,959.9 million (2016: 1,892.8 million).

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

The fair value of short-term trade receivables and payables, other non-interest-bearing receivables, finance leases and cash and cash equivalents corresponds essentially the carrying amount.

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

EUR 1,000	1 January 2016	Cash flows	New leases	Other changes	**31 December 2016**
Current interest-bearing loans and borrowings (excl. items listed below)	30,000	-30,000	-	-	**-**
Current obligations under finance leases	3,727	-3,727	676	3,727	**4,403**
Non-current interest-bearing loans and borrowings (excl. items listed below)	1,781,084	89,875	-	994	**1,871,953**
Non-current obligations under finance leases	19,831	-	341	-3,727	**16,445**

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

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

16 PROVISIONS

PROVISIONS

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

PROVISIONS

2016 EUR 1,000	Provision for rental liabilities for premises	Provision for refunds of connection fees	Total
Provisions at 1 January 2016	-	11,588	11,588
Increase	803	-	803
Cancellations of provisions	-	-2,357	-2,357
Use of provisions	-	-244	-244
Provisions at 31 December 2016	**803**	**8,987**	**9,791**

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

17 TRADE AND OTHER CURRENT PAYABLES

EUR 1,000	**2017**	**2016**
Short-term financial lease liabilities	4,068	4,403
Trade payables	12,120	22,462
Accrued expenses		
Employee benefits expenses	7,891	5,492
Interest expenses	12,322	11,402
Other accrued expenses	14,658	15,917
Other liabilities		
VAT liability	14,178	10,943
Energy taxes	9,775	10,644
Tax liability for the period	13	33
Prepayments received	219	5
Other liabilities	6,085	4,482
Total	**81,330**	**85,784**

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

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

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

18 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

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

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

Due to the nature of terms of Elenia Finance Oyj's EMTN Programme no profits are expected to be accumulated from the investment in Elenia Holdings S.à r.l. through a subordinated profit-participating security (the SPPS). Based on the expected cash flows the investment has no value and therefore the book value and the fair value of the investment have been determined to be zero.

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

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

FINANCIAL ASSETS

	Level 1		Level 2		Level 3		Total	
EUR 1,000	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Financial instruments, current assets								
Available-for-sale financial investments	-	-	-	-	0	0	0	0
Total financial assets	**-**	**-**	**-**	**-**	**0**	**0**	**0**	**0**

FINANCIAL LIABILITIES

	Level 1		Level 2		Level 3		Total	
EUR 1,000	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Financial instruments, current liabilities								
Loans from financial institutions	-	-	-	-	-	-	-	-
Total current financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial instruments, non-current liabilities								
Bonds and notes	-	-	-1,606,246	-1,406,480	-	-	-1,606,246	-1,406,480
Loans from financial institutions	-	-	-	-22,000	-	-	-	-22,000
Other long-term loans	-	-	-404,240	-618,505	-	-	-404,240	-618,505
Total non-current financial liabilities	**-**	**-**	**-2,010,486**	**-2,046,985**	**-**	**-**	**-2,010,486**	**-2,046,985**
Total financial liabilities	**-**	**-**	**-2,010,486**	**-2,046,985**	**-**	**-**	**-2,010,486**	**-2,046,985**

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

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

EUR 1,000	Midinvest	Jokilaaksojen rahasto	**Total**
Acquisition cost at 1 January 2017	-	-	-
Investment	-	-	-
Sales / Return of equity	-	-	-
Total gains and losses recognised in OCI	-	-	-
Acquisition cost at 31 December 2017	**-**	**-**	**-**

EUR 1,000	Midinvest	Jokilaaksojen rahasto	**Total**
Acquisition cost at 1 January 2016	-	155	155
Investment	-	-	-
Sales / Return of equity	-	-157	-157
Total gains and losses recognised in OCI	-	2	2
Acquisition cost at 31 December 2016	**-**	**-**	**-**

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

19 PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

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

EUR 1,000	2017	2016
Current value of funded obligations	5,888	5,939
Fair value of assets	-4,754	-4,762
Deficit	1,134	1,177
Value of the obligation on the consolidated statement of financial position	**1,134**	**1,177**

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

EUR 1,000	2017	2016
Obligation at the beginning of the year	5,939	5,551
Current service costs	69	68
Interest expenses	87	103
Actuarial losses	44	461
Benefits paid	-251	-245
Obligation at the end of the year	**5,888**	**5,939**

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

EUR 1,000	2017	2016
Fair value of plan assets at the beginning of the year	4,762	4,546
Expected income from assets	70	85
Actuarial gains	83	259
Payments by the employer	89	116
Benefits paid	-251	-245
Fair value of plan assets at the end of the year	**4,754**	**4,762**

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

EUR 1,000	2017	2016
Obligation at the beginning of the year	1,177	1,005
Net cost recognised in the statement of profit or loss	86	86
Payments by the employer	-89	-116
Profits and losses recognised in other comprehensive income	-39	202
Value of the obligation at year end	**1,134**	**1,177**

Items recognised in the consolidated statement of profit or loss

EUR 1,000	2017	2016
Expenses based on service in the reporting year	69	68
Interest income	-70	-85
Interest expenses	87	103
Total	**86**	**86**

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

EUR 1,000	2017	2016
Actuarial gains/(losses) on assets	-83	-259
Actuarial gains/(losses) on obligations	44	461
Total	**-39**	**202**

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.

2017

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

2016

Assumption EUR 1,000	Change in assumption	Defined benefit obligations	Fair value of Plan assets	Net Liability	Service costs for the next reporting year	Net interest
Discount rate 1.5%		5,939	4,762	1,177	69	17
Discount rate 2.0%	+0.50%	5,517	4,478	1,039	62	20
Discount rate 1.0%	-0.50%	6,415	5,079	1,336	76	13

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

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

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

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

EUR 1,000	**2017**	**2016**
Under 1 year	251	240
1–10 years	2,280	2,243
10–20 years	2,239	2,266
20–30 years	1,613	1,660
Over 30 years	1,054	1,131
Total	**7,436**	**7,540**

ACTUARIAL ASSUMPTIONS USED IN CALCULATIONS

%	**2017**	**2016**
Discount rate	1.5	1.5
Estimate of salary increases	2.7	2.5–2.7
Inflation	1.7	1.5–1.7

20 LEASE AND RENTAL RECEIVABLES

The Group has leased out real estates, which are classified as other leases. Real estates are included in "Property, plant and equipment".

Rental income was invoiced to a total value of EUR 101 thousand (2016: 281 thousand) during the year.

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

21 COMMITMENTS AND CONTINGENCIES

PRESENT VALUE OF FINANCE LEASE PAYMENTS

EUR 1,000	2017	2016
Finance lease liabilities		
Within one year	4,537	4,739
After one year but not more than five years	14,228	17,043
More than five years	288	2,011
Total	**19,054**	**23,793**
Future financial expenses	2,573	2,945
Present value of minimum lease payments	**16,481**	**20,849**
Present value of minimum lease payments matures:		
Within one year	4,068	4,403
After one year but not more than five years	12,243	15,250
More than five years	169	1,196
Total	**16,481**	**20,849**

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

OTHER COMMITMENTS

EUR 1,000	2017	2016
Registered floating charges:		
Provided on behalf of own and Group liabilities	18,000,000	18,000,000
Mortgages	233,600	233,600
Rental liabilities		
Operating leases		
Within one year	179	238
After one year but not more than five years	200	269
Total	**379**	**507**

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

Other rental liabilities		
Within one year	399	430
After one year but not more than five years	180	203
Total	**580**	**632**
Refundable connection fees	316,860	311,845
Loan commitment to Lakeside Network Investment Holding B.V.	147	183

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

22 EQUITY

SHARE CAPITAL

Please see note 3.1 in Parent financial statements. The shares are issued and fully paid.

RESERVE FOR INVESTED NON-RESTRICTED EQUITY

The reserve for invested non-restricted equity comprises of all other equity investments and paid share subscription price, that has not been specifically booked as share capital.

AVAILABLE FOR SALE RESERVE

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

EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit or loss attributable to equity holders of the parent by the average number of shares during the reporting period:

	2017	2016
Profit attributable to equity holders of the parent, EUR	43,180	-15,371,523
Average number of shares, pcs	100	100
Earnings/share, EUR - basic = diluted	**432**	**-153,715**

23 RELATED PARTY DISCLOSURES

SHAREHOLDERS

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

Elenia Oy's ultimate parents are a UK based company 3i Networks Finland L.P., US based companies GS International Infrastructure Partners II, L.P. and GS Global Infrastructure Partners II, L.P and a Finnish company Ilmarinen Mutual Pension Insurance Company.

SUBSIDIARIES AND ASSOCIATES

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

SENIOR MANAGEMENT

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

MANAGEMENT TEAM

Management teams of Elenia Oy and Elenia Lämpö Oy are included within the scope of the long-term incentive plan. Description of the long-term incentive plan has been disclosed in note 6.

BUSINESS TRANSACTIONS

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

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

As at 31 December 2017, other long-term loans with an aggregate carrying value of EUR 426.4 million (2016: 542.1 million) are due to the company's ultimate owners through intermediary holding entities.

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

24 EVENTS AFTER THE REPORTING PERIOD

Yrityskauppa ei vaikuta Elenia Oy:n taloudelliseen asemaan 31.12.2017. On 13 December 2017, a consortium comprising Allianz Capital Partners ("ACP") on behalf of the Allianz Group, Macquarie Infrastructure and Real Assets ("MIRA") and Valtion Eläkerahasto ("VER") signed an agreement to acquire Elenia Group from GS Infrastructure Partners, 3i and Ilmarinen Mutual Pension Insurance Company.

The transaction does not affect the financial position of Elenia Oy as at 31 December 2017

25 FINANCIAL RISK MANAGEMENT

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

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

CURRENCY RISK

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

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

Operating profit includes EUR -0.1 thousand exchange rate differences (2016: -3.7 thousand). Finance costs include EUR -1.9 thousand exchange rate differences (2016: -2.8 thousand). At the end of 2017 the currency risk comprises of trade payables in GBP, SEK and USD and their total counter value was EUR 14.2 thousand.

LIQUIDITY RISK

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

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

CASH AND CASH EQUIVALENTS AND COMMITTED UNUTILIZED CREDIT FACILITIES

31 December 2017

EUR 1,000	Facility amount	In use	Available amount	Maturity
Capex facility	350,000	-	350,000	1–5 years
Working Capital facility	60,000	-	60,000	1–5 years
Liquidity facility	60,000	-	60,000	1–5 years
Cash and cash equivalents			24,519	
Total	**470,000**	**-**	**494,519**	

REFINANCING RISK

Elenia Finance Oyj issues bonds and notes. Bonds are issued under the EUR 3 billion EMTN programme and listed at the London Stock Exchange. Notes are unlisted private placements targeted mostly to the US investors through private placements.

At the end of 2017 Group had no loans from the banks (2016: 22.0 million). The Group has other long-term loans totaling EUR 426.4 million, which are subordinated to the bonds and notes.

In April 2017 Elenia Oy's subsidiary Elenia Finance Oyj issued EUR 138.5 million notes, from which EUR 78.5 million mature in 2028 and EUR 60.0 million in 2032. In September 2017 Elenia Finance Oyj issued EUR 75 million bonds, which mature in 2034. Elenia Finance Oyj used the proceeds of the notes and bonds to make an equity investment in Elenia Finance (SPPS) S.à r.l., its wholly owned subsidiary. Elenia Finance (SPPS) S.à r.l. then lent the amount of the proceeds to Elenia Holdings through a subordinated profit-participating security (the SPPS). Elenia Holdings S.à r.l. used the amounts under the SPPS to subscribe for additional equity in Elenia Oy. The proceeds were used for general corporate purposes, to repay Elenia Oy's drawn bank debt and to finance investments.

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

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

LOANS BY MATURITY

31 December 2017

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

LOANS BY MATURITY

31 December 2016

EUR 1,000	Effective interest rate %	Maturity: Within 1 year	Maturity: 1–5 years	Maturity: Over 5 years	Total
Loans from financial institutions	0.84%	-	22,000	-	22,000
Bonds	3.00%	-	500,000	435,000	935,000
Notes	2.90%	-	-	380,000	380,000
Other long-term loans	10.95%	-	-	542,116	542,116
Finance lease liabilities		-	15,250	1,196	16,445
Total long-term interest-bearing liabilities					**1,895,561**
Finance lease liabilities		4,403	-	-	4,403
Trade payables		22,462	-	-	22,462
Total current financial liabilities					**4,403**
Total		**26,865**	**537,250**	**1,358,311**	**1,922,426**

INTEREST RATE RISK

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

The interest rate risk is managed by entering into interest rate swaps and by drawdown of loans with fixed interest. At the balance sheet date 98% (2016: 96%) of the loans were fixed rate loans.

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

CREDIT AND COUNTERPARTY RISK

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

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

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

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

TRADE RECEIVABLES

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

BREAKDOWN OF TRADE RECEIVABLES BY AGE

EUR 1,000	**2017**	**2016**
Not fallen due	16,890	15,156
Due for 1–90 days	4,567	5,090
Due for 91–180 days	324	319
Due for more than 180 days	1,213	1,282
Total	**22,994**	**21,847**
Uncertain receivables	-734	-333
Total	**22,261**	**21,513**

VOLUME AND PRICE RISKS

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

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

CAPITAL MANAGEMENT

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

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

EUR 1,000	Note	**1 Jan - 31 Dec 2017**	**1 Jan - 31 Dec 2016**
Revenue		338,806	315,325
Exceptional items included in revenue		-200	-3,169
Other operating income	5	3,620	3,394
Materials and services		-112,494	-110,193
Employee benefit expenses	6	-21,723	-20,572
Other operating expenses	5	-20,503	-19,695
Operating expenses Total		-154,720	-150,460
Exceptional items included in operating expenses		-154	-4,142
Non-recurring items included in operating expenses		-2,658	-521
Share of profit of an associate	8	164	181
EBITDA		**187,870**	**168,440**
EBITDA before exceptional and non-recurring items		**190,882**	**176,273**
Depreciation and amortisation	7	-86,280	-83,640
Operating profit		**101,590**	**84,800**
Operating profit before exceptional and non-recurring items		**104,602**	**92,633**

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

In 2017 EUR 200 thousand (2016: EUR 7,280 thousand) in total has been classified as an exceptional item as it relates to unusually strong storms. This total comprises EUR 200 thousand (2016: EUR 3,169 thousand) of outage compensation paid to customers which was accounted for as a reduction of revenue. In 2017 there were no other exceptional operating expenses related to fault repair costs (2016: EUR 4,110 thousand).

In 2017 also EUR 154 thousand (2016: EUR 32 thousand) of other operating costs were classified as exceptional.

In 2017 EUR 2,658 thousand of operating costs were classified as non-recurring items. These items comprise mainly of write-down of old receivables, cancellation of provision for rental liabilities for Elenia's Helsinki office and other costs that are considered non-recurring.

In 2016 EUR 521 thousand of operating costs were classified as non-recurring items. These items comprise mainly of reorganisation costs related to Elenia Palvelut Oy (EUR 1,163 thousand), relocation costs of Elenia's Helsinki office (EUR 803 thousand) and cancellation of provision for future refunds of connection fees (EUR 2,362 thousand of non-recurring income).

PARENT COMPANY FINANCIAL STATEMENTS

PARENT COMPANY INCOME STATEMENT

EUR	Note	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Revenue	1.1	**263,112,952.23**	**241,089,114.15**
Other operating income	1.2	2,162,163.02	1,967,575.67
Materials and services	1.3	-71,670,430.24	-70,390,293.32
Personnel expenses	1.4	-11,432,139.52	-9,815,445.61
Depreciation, amortisation and impairment	1.5	-104,299,659.99	-102,374,459.30
Other operating expenses	1.6	-26,169,674.24	-28,066,840.63
Operating profit		**51,703,211.26**	**32,409,650.96**
Finance income and expenses	1.7	-269,549,822.38	-319,417,048.02
Profit / loss before appropriations and taxes		**-217,846,611.12**	**-287,007,397.06**
Appropriations	1.8		
Change in accelerated depreciations		4,334,947.20	41,498,481.11
Group contributions		-26,613,000.00	-22,396,200.00
Income taxes	1.9	-6,316,243.35	-9,715,865.06
Profit / loss for the year		**-246,440,907.27**	**-277,620,981.01**

PARENT COMPANY BALANCE SHEET

EUR	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets	2.1		
Intangible rights		12,464,297.61	11,025,411.51
Other capitalized long term expenditure		523,333,900.76	558,087,392.70
		535,798,198.37	569,112,804.21
Tangible assets	2.2		
Land and water areas		2,014,262.69	1,998,953.49
Buildings and constructions		344,560.69	371,249.38
Electricity network		1,222,565,324.24	1,161,828,957.13
Machinery and equipments		15,141,379.28	12,038,378.80
Other tangible assets		4,087.03	4,968.31
Advance payments and construction in progress		21,223,849.56	18,715,162.35
		1,261,293,463.49	1,194,957,669.46
Investments	2.3		
Holdings in group companies		240,310,968.62	240,310,968.62
Other shares and holdings		244,801.98	245,207.69
		240,555,770.60	240,556,176.31
Total non current assets		**2,037,647,432.46**	**2,004,626,649.98**
Current assets			
Long-term receivables	2.4		
Loan receivables		353,000.00	317,000.00
Loan receivables from group companies		2,400,000.00	2,400,000.00
Deferred tax assets		12,671,982.91	18,966,256.30
		15,424,982.91	21,683,256.30
Short-term receivables	2.4		
Trade receivables		21,178,871.33	19,598,015.10
Receivables from group companies		2,469,142.17	248,976.32
Other receivables		199,164.54	1,410,064.76
Prepayments and accrued income		30,118,047.22	27,540,508.69
		53,965,225.26	48,797,564.87
Cash and cash equivalents	2.4	23,421,464.10	14,762,565.23
Total current assets		**92,811,672.27**	**85,243,386.40**
TOTAL ASSETS		**2,130,459,104.73**	**2,089,870,036.38**

PARENT COMPANY BALANCE SHEET

EUR	Note	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES			
Capital and reserves	3.1		
Subscribed capital		2,500.00	2,500.00
Non restricted equity		1,527,828,000.00	1,314,328,000.00
Retained earnings		-1,627,490,187.59	-1,349,869,206.58
Loss for the financial year		-246,440,907.27	-277,620,981.01
		-346,100,594.86	-313,159,687.59
Cumulative accelerated depreciations	3.2	**253,320,875.17**	**257,655,822.37**
Other provisions	3.3	**1,528,500,000.00**	**1,315,803,392.52**
Liabilities	3.4		
Non-current liabilitites			
Connection fees		203,885,276.92	204,259,016.02
Loans from financial institutions		-	22,000,000.00
Other long-term loans		427,321,869.94	542,894,876.44
		631,207,146.86	769,153,892.46
Current liabilities			
Trade payables		10,352,327.97	17,128,535.68
Liabilities to group companies		11,244,302.04	4,962,890.69
Other short-term liabilities		27,733,998.84	23,559,023.85
Accruals and deferred income		14,201,048.71	14,766,166.40
		63,531,677.56	60,416,616.62
Total liabilities		**694,738,824.42**	**829,570,509.08**
TOTAL EQUITY AND LIABILITIES		**2,130,459,104.73**	**2,089,870,036.38**

PARENT COMPANY CASH FLOW STATEMENT

EUR	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Cash flow fron operating activities		
Loss before appropriations and taxes	-217,846,611.12	-287,007,397.06
Adjustments		
Depreciation, amortisation and impairment	104,299,659.99	102,374,459.30
Finance income and expenses	269,549,822.38	319,417,048.02
Other adjustments	85,821.82	655,617.02
Cash flow before change in working capital	**156,088,693.07**	**135,439,727.28**
Change in working capital		
Increase (-) / decrease (+) in non-interest bearing receivables	-3,419,870.59	245,544.18
Increase (+) / decrease (-) in non-interest bearing liabilities	4,873,542.30	-7,343,378.66
Operating cash flow before financial items and taxes	**157,542,364.78**	**128,341,892.80**
Interest payments	-42,660,816.89	-61,963,808.62
Interests received	228,355.28	273,417.54
Payments for other finance costs	-3,349,270.45	2,090,097.36
Connection fee refunds	-373,739.10	-211,462.46
Taxes paid	-10,875.12	-14,632.01
Cash flow from operating activities	**111,376,018.50**	**68,515,504.61**
Cash flow from investing activities		
Capital expenditures	-139,253,170.03	-114,903,260.89
Cash flow from investing activities	**-139,253,170.03**	**-114,903,260.89**
Cash flow from financing activities		
Re-payment of short-term borrowings	-	-30,000,000.00
Re-payment of long-term borrowings	-149,531,749.60	-167,124,653.95
Change in loans receivable	-36,000.00	-572,000.00
Group contributions received and paid	-27,396,200.00	-16,494,650.00
Increase in non restricted equity	213,500,000.00	257,000,000.00
Cash flow from financing activities	**36,536,050.40**	**42,808,696.05**
Change in cash and cash equivalents	**8,658,898.87**	**-3,579,060.23**
Cash and cash equivalents 1.1.	14,762,565.23	18,341,625.46
Cash and cash equivalents 1.1. + change	23,421,464.10	14,762,565.23
Cash and cash equivalents 31.12.	**23,421,464.10**	**14,762,565.23**

Cash and cash equivalents comprise of bank deposits.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

The financial statements of Elenia Oy have been prepared in accordance with the Finnish Accounting Standards (FAS).

For tangible and intangible assets have been used direct acquisition prices which have been deducted with planned depreciations. Depreciations according to the plan are linear and are based on the following assets economical lifetimes:

Intangible fixed assets	3–30 years
Goodwill	5–15 years
Other capitalized long term expenditures	5–25 years
Buildings and constructions	15–50 years
Transmission network	25–40 years
Distribution network	10–30 years
Machinery and equipments	3–30 years

From the 1st of January 2008 connection fees have been non-refundable and therefore they have been booked as revenue in the profit and loss account after that. Before 2008 connection fees were included in long term liabilities.

Transactions denominated in foreign currencies and derivative agreements

Transactions denominated in foreign currencies are recognised at the rate prevailing at the time of the transaction. At the balance sheet date the receivables and liabilities in balance sheet denominated in foreign currencies are converted to Euro using the exchange rate prevailing at the balance sheet date. The possible currency exchange rate differences are recognised in finance income or costs or other operating costs in accordance with the underlying item.

Deferred taxes

Elenia Oy has booked deferred tax assets related to 2011–2013 losses. Deferred tax can be used during the next 10 years against taxable profit. Deferred tax assets has been included in the balance sheet.

1 NOTES TO INCOME STATEMENT

1.1 Revenue

EUR 1,000	2017	2016
Distribution income	247,075	227,040
Contracting income	2,447	3,693
Connection fee income	11,668	10,328
Other sales income	2,370	3,277
Outage compensation	-446	-3,248
Total	**263,113**	**241,089**

1.2 Other operating income

EUR 1,000	2017	2016
Lease income	33	222
Capital gains	94	22
Other operating income	2,034	1,724
Total	**2,162**	**1,968**

1.3 Materials and services

EUR 1,000	2017	2016
Grid costs	-38,221	-32,130
Network losses	-9,429	-9,568
External services	-22,991	-27,532
Materials	-1,029	-1,161
Total	**-71,670**	**-70,390**

1.4 Personnel expenses

EUR 1,000	2017	2016
Average number of personnel during the financial year	176	185
Salaries	-9,463	-7,967
Pension expenses	-1,259	-1,415
Other employee expenses	-710	-434
Total	**-11,432**	**-9,815**

SALARIES AND REMUNERATION PAID TO CEO

EUR 1,000	2017	2016
Salaries and other short-term employee benefits	-253	-251
Other long-term employee benefits	-184	-119
Pension expenses related to salaries and employee benefits	-79	-93
Total	**-515**	**-463**

1.5 Depreciations according to the plan

EUR 1,000	2017	2016
Impairment	-3,198	-4,195
Intangible fixed assets	-1,405	-1,842
Other capitalized long term expenditure	-34,806	-34,668
Buildings and constructions	-28	-28
Electricity network	-61,824	-58,988
Machinery and equipments	-3,039	-2,654
Total	**-104,300**	**-102,374**

1.6 Other operating expenses

EUR 1,000	2017	2016
Lease expenses	-6,768	-7,342
Loss on sale of fixed assets	-38	-6
Other external services	-13,831	-14,840
Other operating expenses	-5,533	-5,879
Total	**-26,170**	**-28,067**
Audit charges EUR 1,000		
Auditing fees	-178	-156
Fees for tax services	-13	-287
Fees for other services	-23	-688
Total	**-215**	**-1,132**

1.7 Financial income and expenses

EUR 1,000	2017	2016
Interest and other financial income		
From group companies	2,922	2,353
Other financial income	185	230
Total	**3,107**	**2,583**
Interest and other financial expenses		
Mandatory provision for the guarantee obligation of Elenia Finance Oyj's bonds and notes	-213,500	-257,000
Interest expenses	-54,462	-63,737
Other financial expenses	-4,695	-1,264
Total	**-272,657**	**-322,000**
Total financial income and expenses	**-269,550**	**-319,417**

1.8 Appropriations

EUR 1,000	2017	2016
Change in accelerated depreciations	4,335	41,498
Group contribution received	887	104
Group contribution paid	-27,500	-22,500
Total	**-22,278**	**19,102**

1.9 Income taxes

EUR 1,000	2017	2016
Income taxes for the financial period	-22	-2
Adjustment in income taxes for the previous periods	-	0
Change in deferred taxes	-6,294	-9,714
Total	**-6,316**	**-9,716**

2 NOTES TO THE BALANCE SHEETS ASSETS

2.1 Intangible fixed assets

INTANGIBLE RIGHTS

EUR 1,000	2017	2016
Cost 1.1.	22,682	21,519
Investments	2,076	1,163
Cost 31.12.	24,758	22,682
Accumulated depreciation 1.1.	-11,656	-11,072
Depreciation according to the plan	-637	-584
Book value 31.12.	**12,464**	**11,025**

OTHER CAPITALIZED LONG-TERM EXPENDITURE

EUR 1,000	2017	2016
Cost 1.1.	745,784	741,781
Investments	820	4,003
Cost 31.12.	746,604	745,784
Accumulated depreciation 1.1.	-187,697	-151,771
Depreciation according to the plan	-35,574	-35,926
Book value 31.12.	**523,334**	**558,087**

2.2 Tangible fixed assets

LAND AND WATER AREAS

EUR 1,000	2017	2016
Cost 1.1.	1,999	1,999
Investments	15	-
Cost 31.12.	2,014	1,999
Book value 31.12.	**2,014**	**1,999**

BUILDINGS AND CONSTRUCTIONS

EUR 1,000	2017	2016
Cost 1.1.	3,119	3,119
Cost 31.12.	3,119	3,119
Accumulated depreciation 1.1.	-2,748	-2,721
Depreciation according to the plan	-27	-27
Book value 31.12.	**345**	**371**

ELECTRICITY NETWORK

EUR 1,000	2017	2016
Cost 1.1.	1,884,592	1,779,832
Investments	125,759	114,985
Disposals	-9,207	-10,225
Cost 31.12.	2,001,143	1,884,592
Accumulated depreciation 1.1.	-722,763	-669,805
Disposals	6,009	6,030
Depreciation according to the plan	-61,824	-58,988
Book value 31.12.	**1,222,565**	**1,161,829**

MACHINERY AND EQUIPMENTS

EUR 1,000	2017	2016
Cost 1.1.	54,538	52,742
Investments	6,281	1,796
Disposals	-140	-
Cost 31.12.	60,679	54,538
Accumulated depreciation 1.1.	-42,500	-39,846
Disposals	1	-
Depreciation according to the plan	-3,039	-2,654
Book value 31.12.	**15,141**	**12,038**

OTHER TANGIBLE ASSETS

EUR 1,000	2017	2016
Cost 1.1.	56	56
Cost 31.12.	56	56
Accumulated depreciation 1.1.	-51	-50
Depreciation according to the plan	-1	-1
Book value 31.12.	**4**	**5**

ADVANCE PAYMENTS AND CONSTRUCTION IN PROGRESS

EUR 1,000	2017	2016
Cost 1.1.	18,715	21,467
Increase	137,459	119,191
Decrease	-134,951	-121,943
Book value 31.12.	**21,224**	**18,715**

2.3 Investments

HOLDINGS IN GROUP COMPANIES

EUR 1,000	2017	2016
Cost 1.1.	240,311	240,311
Cost 31.12.	240,311	240,311
Book value 31.12.	**240,311**	**240,311**

OTHER SHARES AND HOLDINGS

EUR 1,000	2017	2016
Cost 1.1.	245	247
Disposals	0	-2
Cost 31.12.	245	245
Book value 31.12.	**245**	**245**

INVESTMENTS

EUR 1,000	2017	2016
Cost 1.1.	-	157
Disposals	-	-157
Cost 31.12.	0	0
Book value 31.12.	**0**	**0**

2.4 Receivables

LONG TERM RECEIVABLES

EUR 1,000	2017	2016
External loan receivables	353	317
Loan receivables from group companies	2,400	2,400
Deferred tax assets	12,672	18,966
Long term receivables total	**15,425**	**21,683**

SHORT TERM RECEIVABLES

Receivables from group companies

EUR 1,000	2017	2016
Trade receivables	9	3
Accrued income	1,573	143
Group contribution receivables	887	104
Receivables from group companies total	2,469	249

External receivables

EUR 1,000	2017	2016
Trade receivables	21,179	19,598
Other short-term receivables	199	1,410
Accrued income	30,118	27,541
External receivables total	51,496	48,549
Short term receivables total	**53,965**	**48,798**
Total receivables	**69,390**	**70,481**
Cash and cash equivalents	**23,421**	**14,763**

3 NOTES TO THE BALANCE SHEETS EQUITY AND LIABILITIES

3.1 Capital and reserves

EUR 1,000	2017	2016
Subscribed capital	3	3
Non restricted equity 1.1.	1,314,328	1,057,328
Change (+/-)	213,500	257,000
Non restricted equity 31.12.	1,527,828	1,314,328
Retained earnings (loss) 1.1.	-1,627,490	-1,349,869
Loss for the the financial year	-246,441	-277,621
Total capital and reserves	**-346,101**	**-313,160**

Company's equity is negative and the company does not have any distributable funds. The negative equity has been registered at the Trade Register on September 16, 2015.

3.2 Cumulative accelerated depreciations

EUR 1,000	2017	2016
Cumulative accelerated depreciations	253,321	257,656

Accelerated depreciations include deferred tax liability 50,664,175 euros.

3.3 Mandatory provisions

EUR 1,000	2017	2016
Mandatory provision for the guarantee obligation of Elenia Finance Oyj's bonds	1,528,500	1,315,000
Mandatory provision for lease liabilities	-	803
Total mandatory provisions	**1,528,500**	**1,315,803**

3.4 Liabilities

NON-CURRENT LIABILITIES

EUR 1,000	2017	2016
Connection fee liability 1.1.	204,259	204,470
Connection fee refunds	-374	-211
Connection fee liability 31.12.	203,885	204,259
Capex facility	-	22,000
Other long-term liabilities	937	779
Other long-term loans	426,385	542,116
Total non-current liabilities	**631,207**	**769,154**

CURRENT LIABILITIES

EUR 1,000	2017	2016
Trade payables	10,352	17,129
Other short term liabilities	27,734	23,559
Accrued expenses		
Salaries and social expenses	5,330	3,269
Other accrued expenses	8,871	11,497
Total	14,201	14,766
Liabilities to group companies		
Trade payables	14	-
Group account	10,192	3,538
Other short term liabilities	1,038	1,425
Total	11,244	4,963
Total current liabilities	**63,532**	**60,417**
Total liabilities	**694,739**	**829,571**

3.5 Liabilities and quarantees for debts

EUR 1,000	2017	2016
Floating charges		
Provided on behalf of own and group liabilities	4,500,000	4,500,000
Mortgages	206,600	206,600
Leasing agreements		
Within one year	4,576	4,989
After one year but not more than five years	14,252	17,081
More than five years	288	2,011
Total	**19,116**	**24,081**
Other lease liabilitites		
Within one year	285	351
After one year but not more than five years	0	8
Total	**285**	**359**
Other own liabilities		
Connection fees not included in the balance sheet values	85,114	85,114
Loan commitment to LNI Holding B.V.	147	183

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

Shares and Holdings

	Share	Vote share	Share of ownership	Nominal value EUR 1,000	Book value EUR 1,000
Subsidiary					
Elenia Lämpö Oy	100%	100%	100%	239,659	239,659
Elenia Finance Oyj	100%	100%	100%	80	80
Elenia Palvelut Oy	100%	100%	100%	572	572
Other shares and holdings				245	245
				240,556	240,556

DIFFERENTIATED PROFIT AND LOSS ACCOUNT

EUR 1,000	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2016
Revenue	**261,461**	**238,647**
Other operating income	**2,039**	**1,724**
Materials and services		
Materials and goods		
Purchace during the financial period		
Network losses	-9,412	-9,548
Other materials	-1,022	-1,152
Services		
Grid costs	-38,182	-32,091
Other external services	-22,972	-27,523
Personnel expenses	**-8,567**	**-8,695**
Depreciation, amortisation and impairment		
Merger loss	-56,939	-56,939
Network assets	-45,771	-43,568
Other assets	-1,540	-1,819
Other operating expenses		
Lease expenses	-145	-1,578
Network rents and network leasing expenses	-6,434	-5,727
Other operating expenses	-18,445	-18,123
Operating profit	**54,069**	**33,608**
Financial income and expenses		
Income from other fixed investment		
Interest and other financial income		
From group companies	2,922	2,353
From other companies	185	230
Interest and other financial expenses		
From other companies	-59,157	-65,000
Profit / loss before appropriations and taxes	**-1,980**	**-28,809**
Appropriations		
Change in accelerated depreciations		
Network assets	4,212	41,004
Other assets	-194	445
Group contributions		
Group contribution received	887	104
Group contribution paid	-27,500	-22,500
Income taxes	**-6,316**	**-9,710**
Loss for the year	**-30,892**	**-19,466**

DIFFERENTIATED BALANCE SHEET

EUR 1,000	31 Dec 2017	31 Dec 2016
ASSETS		
Non-current assets		
Intangible assets		
Intangilble rights	13,052	11,581
Other capitalized long term expenditure	522,746	557,532
	535,798	569,113
Tangible assets		
Land and water areas	190	190
Buildings and constructions	344	370
Electricity network	843,756	757,346
Merger losses	394,181	416,706
Machinery and equipments	1,176	1,161
Other tangible assets	4	5
Advance payments and construction in progress	21,224	18,715
	1,260,875	1,194,493
Investments		
Holdings in group companies	240,311	240,311
Other shares and holdings	245	245
	240,556	240,556
Total non current assets	**2,037,229**	**2,004,162**
Current assets		
Long-term receivables		
Loan receivables	353	317
Loan receivables from group companies	2,400	2,400
Deferret tax assets	12,672	18,966
	15,425	21,683
Short-term receivables		
Trade receivables	21,179	19,598
Receivables from group companies	2,411	-
Other receivables	199	1,410
Prepayments and accrued income	30,118	27,541
	53,907	48,549
Cash and cash equivalents	13,229	11,224
Total current assets	**82,561**	**81,456**
TOTAL ASSETS	**2,119,790**	**2,085,618**

DIFFERENTIATED BALANCE SHEET

EUR 1,000	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES		
Capital and reserves		
Subscribed capital	3	3
Non restricted equity	1,514,920	1,302,667
Retained earnings	-298,605	-279,139
Loss for the financial year	-30,892	-19,466
	1,185,425	1,004,065
Cumulative accelerated depreciations	**252,099**	**256,116**
Other provisions	**-**	**803**
Liabilities		
Non-current liabilitites		
Connection fees	203,885	204,259
Other long-term liabilities	937	779
Loans from financial institutions and other long-term loans	426,385	564,116
	631,207	769,154
Current liabilities		
Trade payables	10,223	16,880
Liabilities to group companies	1,052	1,425
Other short-term liabilities	27,638	22,410
Accruals and deferred income	12,147	14,766
	51,060	55,480
Total liabilities	**682,267**	**824,634**
TOTAL EQUITY AND LIABILITIES	**2,119,790**	**2,085,618**

NOTES FOR DIFFERENTIATED FINANCIAL STATEMENTS

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

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

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

Differentiation principles

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

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

Electricity Network business' key figures

EUR 1,000	**31.12.2017**	**31.12.2016**
INVESTMENTS		
Intangble assets		
Intangble rights	2,278	1,294
Other capitalized long term expenditures		
Connection fees	500	3,498
Other capitalized long term expenditures	118	374
Tangible assets		
Land and water areas	15	-
Electricity network	120,434	109,996
Demolition costs	5,321	4,988
Meters	5,604	1,189
Other tangible assets	676	607
Shares and holdings	-	-
OTHER KEY FIGURES		
Refundable connection fees	203,885	204,259
Mandatory outage compensations	303	2,696
R&D expenses in the profit and loss account 1.1.–31.12.	1,088	1,524
Operative expenses included in security of supply incentive 1.1.–31.12.	2,113	1,824
Average number of personnel in the network business	176	185

SIGNATURES TO THE FINANCIAL STATEMENTS

Helsinki, 27 February 2018

Timo Rajala
Chairman of the Board of Directors

Robert Clark

Heidi Koskinen

Kunal Koya

Tapani Liuhala

Jorma Myllymäki

Timothy Short

Philip White

AUDITOR'S NOTE

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

Helsinki, 27 February 2018

Ernst & Young Oy
Authorised Public Accountants

Mikko Rytilahti
Authorised Public Accountant

AUDITOR'S REPORT (TRANSLATION)

To the Annual General Meeting of Elenia Oy

REPORT ON THE AUDIT OF FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Elenia Oy (business identity code 2445423–4) for the year ended 31 December, 2017. The financial statements comprise the consolidated balance sheet, [income statement], statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

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

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER REPORTING REQUIREMENTS

Other information

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

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

Helsinki February 27, 2018

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Rytilahti
Authorized Public Accountant