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AUDITOR'S REPORT (Translation of the Finnish Original)

To the Annual General Meeting of Caruna Networks Oy

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Caruna Networks Oy (business identity code 2584904-3) for the year ended 31 December, 2018. The financial statements comprise the consolidated statement of financial position, 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 and notes to the financial statements.

In our opinion

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

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.

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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 in 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.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

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. 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 the 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 report of the Board of Directors, 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.

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Other opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the treatment of profit for the period is in compliance with the Limited Liability Companies Act. We support that the Board of Directors of the parent company and the Chief Executive Officer should be discharged from liability for the financial period audited by us.

Espoo, 19 March 2019

Deloitte Oy
Audit Firm

Jukka Vattulainen
Authorised Public Accountant

Caruna Group

OPERATING AND FINANCIAL REVIEW AND FINANCIAL STATEMENTS 2018

Positive energy.

caruna

31 DECEMBER 2018

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Operating and financial review for 2018 by Caruna Networks Oy's Board

EUR million or as indicated	2018	2017
Net sales	454.1	426.4
Profit for the period	18.5	28.8
Corporate taxes	10.3	6.3
Investments	258.4	291.1
Cash flow after investments	-132.6	-169.9
Number of customers	683,000	672,000
Cabling rate, per cent	52	45
Small-scale production of solar and wind power in the network area, producers	4,100	2,400
System Average Interruption Duration Index per customer (SAIDI), minutes	103	123

Key events during the financial period

In 2018, construction of a smart electricity network continued in all of Caruna's network areas, and approximately 6,300 kilometres of the network was constructed underground, protected from the elements. Cabling rate increased to 52 (45) per cent of the entire network. Other actions were taken to improve the reliability of the electricity network, including clearing trees from the power-line corridors.

A total of 1,700 new solar power systems were connected to Caruna's electricity network. By the end of the year, the number of small-scale producers exceeded 4,100 (2,400).

In 2018, Caruna ran pilot projects to jointly construct a low voltage network and a fibre optic network in Inkoo, Riihimäki and Hyvinkää in order to develop an efficient joint construction model. The pilot projects seek to identify best practices related to construction methods and collaboration models.

Caruna Oy's increased electricity distribution prices took effect on 1 July 2018. The price increases affected customers' total electricity distribution fees, including tax, by an average of 6.5 per cent. The electricity distribution prices remained unchanged in Caruna Espoo Oy's network area.

In April, the Zero Accidents Forum run by the Finnish Institute of Occupational Health granted Caruna the highest possible level in occupational safety for 2017. Caruna was awarded the classification of "Level I – at the global forefront" for the third time.

In June, Caruna Networks Oy signed a loan agreement of EUR 150 million with the Nordic Investment Bank (NIB), intended to finance the company's extensive investment programme to build a more weatherproof electricity network. Caruna took out the entire loan during the second half of the year.

In December, the European Investment Bank (EIB) granted a loan of EUR 100 million for Caruna's weather-proof network construction projects. The loan period is 12 years, and the loan will be drawn in 2019.

Caruna Networks Sähkönsiirto Oy and Caruna Networks Espoo Oy were merged into Caruna Networks Oy on 1 January 2018. The mergers did not impact Caruna's customers or personnel in any way.

FINANCIAL DEVELOPMENT

Caruna's net sales in 2018 amounted to EUR 454.1 (426.4) million, showing an increase of 6.5 per cent compared to the same period last year. This increase in net sales is mainly attributable to the price increases that took effect at the start of July in Caruna Oy's network area and to volume growth, particularly during the cold period in February and March.

Variable costs, consisting of transmission costs and grid loss electricity purchases, were EUR 92.5 (88.1) million. The increase of EUR 4.4 million in costs came mainly from the growth in the electricity supply volume.

Other operating expenses were EUR 81.4 (74.7) million, which is EUR 6.6 million higher than in the comparison period. Heavy snowfall at the beginning of the year, particularly in the Koillismaa region, increased fault repair costs. In addition, the network's reliability was improved by increasing the amount of maintenance. Contingencies for storms and labour market actions increased standby expenditure compared with the previous year. Business development increased other operating expenses in comparison with the previous year.

Depreciations, amortisations and impairment charges amounted to EUR 133.1 (123.9) million. Depreciations, amortisations and impairment charges include EUR 17.5 (11.5) million from the scrapping of overhead lines.

The operating profit was EUR 154.4 (145.7) million. The net financing costs were EUR 133.1 (123.9) million. The profit for the financial period was EUR 18.5 (28.8) million.

FINANCIAL KEY FIGURES (IFRS)

EUR million or as indicated	2018	2017	2016
Net sales	454.1	426.4	384.0
Operating profit	154.4	145.7	119.4
Operating profit (% of sales)	34.0	34.2	31.1
Profit/loss for the period	18.5	28.8	-31.6
Investments	258.4	291.1	283.4
Cash flow after investments	-132.6	-169.9	-173.8
Interest-bearing net debt (at the end of the period)	3,269.8	3,131.2	2,973.1

Business activities

Increasing the small-scale production of renewable forms of energy, enabling electric transport and the growth in digital services require a strong, smart electricity network to guarantee an uninterrupted supply of electricity in all conditions. Caruna has approximately 87,600 kilometres of electricity networks in its operating areas in South, Southwest and West Finland, the city of Joensuu and in the regions of Koillismaa and Satakunta.

In 2018, construction of a smart electricity network continued in all of Caruna's network areas, and approximately 6,300 kilometres of the network was constructed underground, protected from the elements. Cabling rate increased to 52 (45) per cent of the entire network. Other actions were taken to improve the network reliability, including clearing trees from the power-line corridors.

As extreme weather conditions become more intense, cabling is a means of increasing the reliability of the electricity supply to customers. It has been possible to reduce the time taken to rectify electrical faults when overhead lines have been placed underground, and this has also increased the degree of network automation. This enables the electricity to be restored to customers more quickly if there is a fault.

Hundreds of transformers, distribution cabinets and other network components required for secure and reliable electricity distribution were also installed. Roughly 1,700 ha of land was released for agriculture and forestry purposes.

In 2018, Caruna's reliability of supply projects remained focused on sparsely populated areas. New projects began in Lieto, Kustavi, Merikarvia, Ylikiiminki, Närpiö, the Lohja area, and Kemiönsaari. Caruna also conducted major sawing operations by helicopter in its power-line corridors to improve the reliability of supply in its network areas.

The next stage of the project to build a weatherproof network is to install low voltage network cables underground in population centres. The aim is to build electricity, street lighting and fibre optic networks simultaneously to ensure that customers experience minimal disruption due to construction. A further aim is to build the electricity and data network infrastructure in one go in anticipation of the future growth of digital services.

In 2018, the Group ran pilot projects to jointly construct a low voltage network and a fibre optic network in Inkoo, Riihimäki and Hyvinkää in order to develop an efficient joint construction model. The pilot projects seek to identify best practices related to construction methods and collaboration models.

In December, Caruna concluded a transaction with Fingrid, the transmission system operator, to purchase a primary substation in Leppävaara as well as the high voltage distribution network supplying the primary substation in Espoo from Leppävaara. The purchase is related to the limitation of the transmission network carried out by Fingrid during the summer 2018. The network acquired by Caruna is located in Caruna's distribution area and will better enable Caruna Espoo Oy to develop to satisfy the growing electricity distribution needs in Espoo.

Caruna Group's performance-based investments during the financial period amounted to EUR 258.4 (291.1) million.

MORE THAN 4,100 SMALL-SCALE PRODUCERS OF SOLAR POWER

A total of 1,700 new solar power systems were connected to Caruna's electricity network in 2018. By the end of the period, the number of small-scale producers exceeded 4,100 (2,400). The aim is to connect 20,000 solar power producers to Caruna's distribution network by 2020. The solar power campaign supported this aim: customers received a discount on solar energy systems purchased from Caruna's solar energy partners between May and October. Caruna is the first electricity distributor to enable a self-sustaining Mökkivoimala solution, developed by Solarvoima Oy and intended to function as an alternative to a fixed connection.

ELECTRICITY SUPPLY VOLUMES GREW SLIGHTLY

The total volume of supplied electricity during the financial period increased slightly: 9.7 (9.6) TWh on the distribution network and 2.9 (2.8) TWh on the high voltage distribution network. This growth was mainly explained by colder temperatures in February and March compared with the same period in the previous year.

RELIABILITY OF SUPPLY REMAINED STABLE

The reliability of electricity supply is measured by the System Average Interruption Duration Index (SAIDI). The average interruption time in Caruna's electricity distribution was 103 (123) minutes per customer in 2018, and the reliability of electricity supply was 99.98 (99.98) per cent. The System Average Interruption Frequency Index (SAIFI) per customer was 1.9 (1.8) events.

The heavy snowfall in the Koillismaa region caused the most interruptions in the first half of 2018. In the summer and autumn, storms caused interruptions in all network areas. The highest number of customers without electricity at the same time was 6,500 (21,200).

Preparations have been made to maintain the capacity to supply electricity at the current reliability level, even in the event of a longer crisis. There were no substantial disruptions in 2018, but preparations were made for several smaller disruptions during the year. The preparations include adding field resources and raising the preparedness of the control centre and the fault management service.

CARUNA OY'S PRICE RISES TOOK EFFECT ON 1 JULY 2018

Caruna Oy, which operates in sparsely populated areas, increased its electricity distribution prices as of 1 July 2018. The impact of the price rises on individual customers' bills varied depending on the type of housing and the energy consumption. The price increases affected customers' total electricity distribution fees, including tax, by an average of 6.5 per cent. Prices remained unchanged in the area served by Caruna Espoo Oy, the urban network company.

Price changes are necessary to fund the network improvement projects needed to boost the reliability of supply, and the investments made into network improvement projects aim to ensure that Caruna can reach the security of supply targets set by the Electricity Market Act by the end of 2028. In accordance with the Act, during disturbances companies must be able to resume power supply within 6 hours for customers in urban areas and within 36 hours in sparsely populated areas.

INTRODUCING A KEY ACCOUNT MANAGEMENT MODEL

Caruna's customer base has grown steadily in recent years. The total number of customers was 683 (672) thousand at the end of 2018. A total of 2,300 (2,430) new connection contracts were signed.

Number of customers at the end of the financial period (thousands):

Company	2018	2017	2016
Caruna Oy	471	467	463
Caruna Espoo Oy	212	205	201
Total	**683**	**672**	**664**

Caruna works hard to continuously improve its customer satisfaction score, measuring it monthly by the Net Promoter Score index (NPS) based on the opinions of private customers, small and medium-sized customer companies, large customers, land-owners, municipal customers and contractors.

Caruna's cumulative NPS improved year-on-year, reaching 6.5 (-3.9) at the end of December. A reduction in waiting times for customer service and the processing times of customer-initiated jobs contributed to this score.

New services and functionalities were launched in 2018. One of the new services was the 'My site' online service where private customers and municipalities can monitor their electricity consumption, view their invoicing data and compare different products. Caruna has also been working on a personalised service offering together with customers.

In the spring, Caruna developed a key account management model for corporate and municipal customers to ensure even better service to key customers. Caruna's key account managers are responsible for introducing the key account management model region by region, and the first managers started in their new roles during the spring.

Research and development

Total research and development expenditure for the financial period amounted to EUR 0.1 (2017: 0.2 and 2016: 1.0) million, which is 0.10 (2017: 0.23 and 2016: 0.35) per cent of operating expenses.

Financing

Electricity distribution is a capital-intensive sector. The network improvement programme to be completed by the end of 2028 will require continuous additional financing. Caruna's debts amount to approximately three billion euros, of which over two billion consist of external loans and approximately EUR 900 million is in shareholder loans.

The purpose of Caruna's financing operations is to guarantee the Group's operations in the long term and to ensure that the network improvement programme can be carried out as planned. To achieve this, Caruna arranges highly diversified funding from several capital markets.

In 2018, Caruna signed a loan agreement for EUR 150 million with the Nordic Investment Bank (NIB). The entire loan was taken out during the second half of the year. During the financial period, Caruna also drew a capex facility and working capital loan in the amount of EUR 70 million, and repaid EUR 40 million of the sum. In December, the European Investment Bank (EIB) granted Caruna a loan of EUR 100 million, which will be drawn in 2019.

At the end of the financial period, the Group's external loans totalled EUR 2,430.5 (2,247.5) million. On the balance sheet date, 98 per cent of Caruna's external loans had fixed interest rates when interest rate swaps are taken into consideration. The average interest rate on external loans at the end of the year was 2.2% (2.4%).

At the end of the year, Caruna had a fixed-interest shareholder loan amounting to EUR 903 million. At the end of September, EUR 30 million of the shareholder loan was repaid. The interest on the shareholder loan is paid biannually if the covenants of the other external loans are met.

Caruna renewed its revolving credit facility limit agreement in autumn 2018. The credit facilities available on the balance sheet date were a capex and revolving credit limit amounting to EUR 300 million, a bank overdraft limit of EUR 30 million, a liquidity facility of EUR 15 million and undrawn bank loan of EUR 100 million. The liquidity facility will be renewed in January 2019.

The net financing costs recognised in the income statement for the financial period were EUR 133.7 (129.2) million, and accrued interest expenses on the balance sheet were EUR 39.3 (39.7) million.

Caruna complied with the covenant terms of all loan agreements.

Standard & Poor's assigned Caruna a long-term credit rating of BBB+ and a stable outlook.

Employees

At the end of the year, Caruna had 289 (2017: 276 and 2016: 273) personnel. The average number of personnel during the financial period was 289 (2017: 274 and 2016: 275). During the financial year, Caruna paid EUR 19.2 (2017: 16.7 and 2016: 17.8) million in wages and salaries.

By the end of the financial period, the number of personnel employed by the individual Group companies was as follows:

Company	Number of employees 31 Dec 2018	Number of employees 31 Dec 2017	Number of employees 31 Dec 2016
Caruna Networks Oy	63	15	16
Caruna Oy	219	222	213
Caruna Espoo Oy	7	7	8
Caruna Networks Sähkönsiirto Oy *)	-	24	29
Caruna Networks Espoo Oy *)	-	8	7
Total	**289**	**276**	**273**

*) Caruna Networks Sähkönsiirto Oy and Caruna Networks Espoo Oy were merged into Caruna Networks Oy on 1 January 2018.

The average numbers of employees of individual Group companies were as follows during the financial period:

Company	Average 2018	Average 2017	Average 2016
Caruna Networks Oy	51	17	18
Caruna Oy	231	218	213
Caruna Espoo Oy	7	7	8
Caruna Networks Sähkönsiirto Oy *)	-	24	29
Caruna Networks Espoo Oy *)	-	8	7
Total	**289**	**274**	**275**

*) Caruna Networks Sähkönsiirto Oy and Caruna Networks Espoo Oy were merged into Caruna Networks Oy on 1 January 2018.

In 2018, development priorities included coaching supervisory work and change management. In addition, the development of a new model for performance management began in 2018. Every employee spent an average of approximately three days in training, which is almost as much as in 2017. The number absences due to illness remained low, averaging 2.6 (1.8) per cent of working time.

In addition to the new Development and innovation unit, Caruna adopted a new operating model in the summer, which resulted in changes such as the reorganisation of the Electricity Network unit and the introduction of the key account management model. The new operating model highlights improvements in collaboration between the units, customer orientation, a visible role for safety in everything that Caruna does, and clearer personal responsibilities in the various sub-areas of the business. The aim is to provide better customer service and collaborate more closely with municipalities and other key stakeholders.

The employee commitment index continued to trend positively, reaching 72 (68) per cent. More information on employees can be found in the corporate responsibility section of Caruna's annual report published at caruna.fi/en.

Corporate responsibility

Caruna is committed to "zero accidents", which means that safety comes first in all operations.

In 2018, Caruna's personnel completed more than 900 Safety Walks to observe and discuss safety-related matters. In addition, Caruna's project supervisors and contractors conducted almost 3,300 site inspections. As part of a programme of actions aiming to improve contractor safety, Caruna Card training was held, and more than 1,100 subcontractors attended.

Caruna also continued to execute network improvement projects to reduce grid losses while taking other energy-efficiency actions. Thanks to investments in the reliability of supply, Caruna was able to reduce network losses by approximately 2 (1) GWh.

In 2018, Kuusakoski processed approximately 81 (32) per cent of the scrap material created by Caruna's network projects. In 2018, approximately 450 (350) pole-mounted transformers were removed from groundwater areas.

Caruna complies with the Finnish Act on Public Procurement in Special Sectors (1398/2016) when it makes procurements. Caruna's own corporate responsibility criteria supplement the procurement requirements, in addition to the Act and other regulations. Caruna regularly monitors the operations of its contractual partners and ensures that they meet the applicable requirements. In 2018, six supplier audits were conducted, focusing on two main contractors, one material supplier, two ICT service providers and one recycling partner. A small number of deviations were found during the audits. Corrective measures are underway to address the identified deviations.

More information on corporate responsibility can be found in the corporate responsibility section of Caruna's annual report published at caruna.fi/en.

Risks and uncertainties

Risk management is a part of Caruna's internal control system, and Caruna regularly assesses the strategic, operational and financial risks facing the Group. Risk management strives to ensure that any risks affecting the Group's business operations are identified, managed and monitored. The Group has taken out appropriate insurance policies that provide comprehensive cover for its operations.

STRATEGIC RISKS

Strategic risks include, among others, regulatory risk, that is, harmful and negative impacts on the regulatory environment, challenges in the operating environment, and the availability of financing and competent resources.

OPERATIONAL RISKS

The most significant risks to operations are related to abnormal weather conditions, supplier risk and safety. For example, abnormal weather conditions may affect the reliability of the supply and distribution network. The key means of preventing interruptions are to replace overhead lines with underground cables, manage the forests near overhead lines and develop remote network control. The operational risks are described in more detail in Caruna's annual report.

FINANCIAL RISKS

The financial risks are presented in note 18 (management of financial risks) to the consolidated financial statements.

Changes in equity

Caruna Networks Oy's share capital is EUR 2,500 and the invested unrestricted equity fund is EUR 171,203,600.47. The company has no subordinated loans as defined in the Limited Liability Companies Act. Caruna Networks Oy's profit for the financial period was EUR 508,224,821.50 (41,360,260.31), including a non-recurring merger profit of EUR 448,860,706.01 realised when Caruna Networks Sähkönsiirto Oy and Caruna Networks Espoo Oy were merged into Caruna Networks Oy on 1 January 2018. The comparable profit for the financial period was EUR 59,364,115.49 (41,360,260.31).

Governance

The Annual General Meeting appoints the members of the Board of Directors for a term of office commencing at the Annual General Meeting and ending at the next Annual General Meeting. Planning the composition of the Board of Directors involves taking into account Caruna's current and future business needs and seeking to ensure the diversity of the Board in several aspects. Caruna's Board members must have adequate experience and expertise that complement those of the other members. The members' individual qualities are also emphasised.

General meetings

Caruna Networks Oy's Annual General Meeting was held on 26 March 2018. The AGM approved Caruna's financial statements for 2017, confirmed the consolidated income statement and balance sheet and discharged the members of the Board of Directors and the CEO from liability. Caruna Networks Oy's Extraordinary General Meetings were held on 15 November 2018 and 19 December 2018. The Extraordinary General Meetings decided on the composition of the Board of Directors and amendments to the Articles of Association.

Board of Directors

The Board convened nine times during the financial period. The Board members were Juha Laaksonen (Chair), Kenton Bradbury (until 15 November 2018), Jouni Grönroos, John Guccione, Gregor Kurth and Matthew Liddle (as of 15 November 2018). The deputy members were Tomas Pedraza (until 26 March 2018), Ellen Richardson (as of 26 March 2018) and Delphine Voeltzel.

COMMITTEES OF THE BOARD OF DIRECTORS

The committees under the Board are the Audit Committee, the Nomination and Remuneration Committee, and the Health, Safety and Environment Committee. The committees support the work of the Board by preparing and evaluating matters for decisions by the Board. The Board of Directors appoints the Committee members, three for each Committee. The members' terms of office end after the conclusion of the next Annual General Meeting.

The Audit Committee consisted of Jouni Grönroos (Chair), Gregor Kurth and Delphine Voeltzel. The composition of the Audit Committee did not change during the financial period.

The Nomination and Remuneration Committee consisted of Juha Laaksonen (Chair), John Guccione and Niall Mills. The composition of the Nomination and Remuneration Committee did not change during the financial period.

The Health, Safety and Environment Committee consisted of Niall Mills (Chair), Kenton Bradbury (until 15 November 2018) and Gregor Kurth.

Management Team

The Management Team consisted of CEO Tomi Yli-Kyyny, CFO and Deputy CEO Jyrki Tammivuori, Head of Electricity Network Kosti Rautiainen (from 18 March 2018), Head of Customer Relations Katriina Kalavainen, Head of Governance, Compliance and Risks Harri Pynnä, Head of HR Tommi Saikkonen, Head of Communications and Public Affairs Anne Pirilä (from 5 February 2018) and Head of Development and Innovation Elina Lehtomäki (from 15 June 2018).

Jyrki Tammivuori has served as the Deputy CEO and the CEO's substitute since 1 January 2018.

Auditing

Caruna Networks Oy's auditor was the audit firm Deloitte Oy, with Jukka Vattulainen, Authorised Public Accountant, as the auditor with principal responsibility.

Shares and ownership

Caruna Networks Oy has 2,500 shares, each carrying an equal right to a dividend and to the company's assets. Each share entitles its holder to one vote at a General Meeting.

Key events after the financial period

The unusually strong storm winds that began at new year felled a large number of trees onto power lines in various parts of Finland. Caruna made preparations for the arrival of the storm in good time, and there were hundreds of professionals in the field making repairs. The most difficult areas were the Turku archipelago and the coast of Ostrobothnia, along with the islands there. The System Average Interruption Duration Index per customer (SAIDI) was 117 minutes.

In January 2019, Caruna and Telia Finland agreed on a joint construction project that will see electricity and fibre-optic networks being built in an efficient and environmentally friendly manner.

Estimate of probable future developments

Caruna Oy and Caruna Espoo Oy operate as part of Caruna Group and within the framework of the electricity distribution industry in a regulated operational environment. Caruna Networks Oy will continue acting as the parent company, offering administrative services to the other companies in the Group. The operations are expected to continue in accordance with normal business principles and conditions.

Caruna embarked on the systematic implementation of a major programme of investments to improve the reliability of supply in 2013, and its current plans are to invest a further EUR 1.4 billion in developing its network between 2019 and 2028 in order to meet the statutory targets concerning the security of supply by the end of 2028, providing that the conditions remain unchanged.

Finland's National Energy and Climate Strategy, approved by the Government in November 2016, will affect the long-term operational planning of electricity distribution companies. Caruna is concerned about climate change and is working to ensure that the Finnish energy system develops quickly enough to address future needs. Caruna strives to act as a pioneer in promoting the increased use of renewable energy and the electrification of transport by making its electricity network a reliable platform on which these solutions can be rapidly and efficiently deployed. Caruna also believes it will be able to handle the debts and repayments of its debts and to comply with the terms of its loans in accordance with the agreements.

The digital infrastructure strategy published by the Ministry of Transport and Communications in October 2018 strives to make Finland one of the best countries for data networks by 2025. Achieving this target will require the construction of fibre-optic networks to be significantly accelerated from the current rate. For society, the fastest and most cost-efficient solution is to build as much of the fibre-optic network as possible alongside the substantial programme of modernisation of electricity networks. Caruna considers the promotion of digitalisation to be an important factor in safeguarding Finland's competitiveness, and it is committed to developing operating models that enable the amount of joint construction to increase when future electricity networks are built.

Board of Directors’ proposal for dividend distribution

Caruna Networks Oy’s distributable assets total EUR 680,112,100.91. The company’s profit for the financial period was EUR 508,224,821.50. The Board of Directors proposes to the annual general meeting that no dividend be paid for 2018 and that the profit be transferred to retained earnings.

Caruna takes care of electricity distribution and is maintaining, overhauling and building a weatherproof electricity network for more than 680,000 customers in South, Southwest and West Finland, the city of Joensuu and in the regions of Koillismaa and Satakunta. The operation of the network is monitored around the clock to ensure that customers can be guaranteed access to electricity with the minimum disruption under all conditions. The intelligent weatherproof electricity network will also lay the foundation for the energy system of the future, in which digital services will increase, transport will be electrified, and consumers will become energy generators.

www.caruna.fi, Twitter @CarunaSuomi

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (IFRS)

EUR 1,000	Notes	2018	2017
Net sales	4	**454,069**	**426,427**
Other operating income	5	7,383	6,012
Direct costs		-92,496	-88,116
Personnel expenses	6	-22,949	-20,362
Other operating expenses	7	-58,521	-54,386
Depreciations, amortisations and impairment charges	8	-133,149	-123,894
		-307,115	**-286,758**
Operating profit		**154,337**	**145,681**
Finance income	9	6,201	6,415
Finance costs	10	-139,949	-135,577
Finance items total		**-133,748**	**-129,162**
Profit before taxes		**20,589**	**16,519**
Income taxes	11	-2,051	12,259
Profit for the period		**18,538**	**28,778**
Attributable to			
Equity holders of the parent		18,538	28,778

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME (IFRS)

EUR 1,000	Notes	2018	2017
Profit for the period		**18,538**	**28,778**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net movement on cash flow hedges		-4,005	-4
Income tax effect	11	801	1
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**-3,204**	**-3**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Re-measurement losses (gains) on defined benefit plans	22	-60	-38
Income tax effect	11	12	8
Net other comprehensive income not to be reclassified to profit		**-48**	**-30**
Other comprehensive income for the period, net of tax		**-3,252**	**-33**
Total comprehensive income for the period, net of tax		**15,286**	**28,745**
Attributable to:			
Equity holders of the parent		15,286	28,745

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

EUR 1,000	Notes	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Goodwill	12	62,468	62,468
Intangible assets	12	1,586,882	1,585,940
Property, plant and equipment	13	2,359,443	2,235,159
Derivative financial instruments	16,17	–	905
Other non-current assets	15,16	1,917	49
Deferred tax assets	11	1,596	73
Total non-current assets		**4,012,306**	**3,884,594**
Current assets			
Trade receivables	16, 17, 19	111,248	108,828
Other receivables	19	2,103	1,049
Derivative financial instruments	16, 17	1,806	151
Cash and cash equivalents	17, 20	57,535	42,900
Total current assets		**172,692**	**152,928**
TOTAL ASSETS		**4,184,998**	**4,037,522**

EUR 1,000	Notes	31 Dec 2018	31 Dec 2017
EQUITY AND LIABLILITIES			
Share capital		3	3
Invested unrestricted equity fund		171,204	171,204
Other equity funds		-5,763	-2,511
Retained earnings		-277,836	-296,374
Total equity		**-112,392**	**-127,678**
Non-current liabilities			
Interest bearing loans and borrowings	16, 17	3,327,310	3,174,068
Derivative financial instruments	16, 17	8,491	24,679
Deferred tax liabilities	11	513,570	521,158
Provisions	21	169	208
Net employee defined benefit liabilities	22	195	160
Other non-current liabilities	16, 17	304,300	304,546
Total non-current liabilities		**4,154,035**	**4,024,819**
Current liabilities			
Trade payables	16, 17, 23	53,394	55,316
Other payables	23	37,313	35,451
Derivative financial instruments	16, 17	3,222	11
Provisions	21	46	160
Other current liabilities	23	49,380	49,443
Total current liabilities		**143,355**	**140,381**
Total liabilities		**4,297,390**	**4,165,200**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**4,184,998**	**4,037,522**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IFRS)

	Attributable to the equity holders of the parent					
				Other equity components		
EUR 1,000	**Share capital (Note 25)**	**Invested unrestricted equity fund (Note 25)**	**Retained earnings**	**Cash flow hedge reserve**	**Other comprehensive income**	**Total**
As at 1 January 2018	3	171,204	-296,373	-2,767	256	-127,678
Profit for the period	–	–	18,538	–	–	18,538
Other comprehensive income	–	–	–	-3,204	-48	-3,252
Total comprehensive income	–	–	18,538	-3,204	-48	15,286
At 31 December 2018	**3**	**171,204**	**-277,835**	**-5,971**	**208**	**-112,392**

	Attributable to the equity holders of the parent					
				Other equity components		
EUR 1,000	**Share capital (Note 25)**	**Invested unrestricted equity fund (Note 25)**	**Retained earnings**	**Cash flow hedge reserve**	**Other comprehensive income**	**Total**
As at 1 January 2017	3	171,204	-325,151	-2,764	286	-156,423
Profit for the period	–	–	28,778	–	–	28,778
Other comprehensive income	–	–	–	-3	-30	-33
Total comprehensive income	–	–	28,778	-3	-30	28,745
At 31 December 2017	**3**	**171,204**	**-296,373**	**-2,767**	**256**	**-127,678**

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

EUR 1,000	Notes	2018	2017
Net profit for the period		**18,538**	**28,778**
Adjustments			
Taxes		2,051	-12,259
Finance costs - net		133,748	129,162
Depreciation, amortisation and impairment charges		133,149	123,894
Total		**268,948**	**240,797**
Operating profit before depreciation (EBITDA)		**287,486**	**269,575**
Non-cash flow items		-969	-1,525
Interest paid		-155,822	-148,824
Interest received		6,175	6,943
Taxes		-10,550	-7,121
Total		**-161,166**	**-150,527**
Funds from operations		**126,320**	**119,048**
Change in working capital			
Change in trade and other receivables		-3,282	9,135
Change in trade and other payables		7,177	-4,652
Change in connection fee payables		-247	-411
Total		**3,648**	**4,072**
Net cash flows from operating activities		**129,968**	**123,120**
Capital expenditure		-262,418	-293,495
Proceeds from sales of fixed assets		117	453
Net cash flows used in investing activities		**-262,301**	**-293,042**
Loans withdrawal		220,000	400,000
Repayments of long-term liabilities		-70,000	-250,000
Net cash used in financing activities		**150,000**	**150,000**
Net increase in cash and cash equivalents		17,667	-19,922
Cash and cash equivalents at 1 January		39,868	59,790
Cash and cash equivalents at 31 December	16	**57,535**	**39,868**

Notes to the consolidated financial statements (IFRS)

1. Accounting policies applied to the consolidated financial statements

1. CORPORATE INFORMATION

Caruna Networks Oy is a Finnish limited liability company with its domicile in Espoo, Finland. The registered office is located at Upseerinkatu 2 in Espoo. The operations of Caruna Networks Oy (the Company or Caruna Networks) and its subsidiaries (collectively, the Caruna Group) comprise electricity distribution in Finland.

The consolidated financial statements of the Caruna Group for the year ended 31 December 2018 were approved by the Board of Directors on 19 March 2019.

Information on the Caruna Group's structure is provided in Note 3.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Caruna Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, including International Accounting Standards (IAS) and Interpretations issued by the IFRS Interpretations Committee (IFRIC) or its predecessor Standing Interpretations Committee (SIC). Additional information to the financial statements also complies with Finnish accounting principles and corporate legislation.

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss or other comprehensive income (OCI).

The consolidated financial statements are presented in euros, which is the parent company's functional currency. All amounts are rounded to the nearest thousand (EUR 1,000), except when otherwise indicated.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the period. The estimates are based on historical experience and various other assumptions that are believed to be reasonable, though actual results and timing could differ from the estimates. The areas involving more judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Chapter 3.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements include the parent company, Caruna Networks Oy, and all companies controlled by Caruna Group. Control is achieved when Caruna Group:

- has power over the entity;
- is exposed, or has rights, to variable returns from its involvement with the entity; and
- can use its power to affect its returns.

If facts and circumstances indicate that there are changes to one or more of the three elements of control listed above, the Caruna Group reassesses whether it controls an entity or not.

When Caruna Group has less than a majority of the voting rights of an entity, it has power over the entity when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the entity unilaterally. Caruna Group considers all relevant facts and circumstances in assessing whether its voting rights in an entity are sufficient to give it power, including:

- the size of Caruna Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by Caruna Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that Caruna Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when Caruna Group obtains control over the subsidiary and ceases when Caruna Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated balance sheet or other comprehensive income from the date Caruna Group gains control until the date when Caruna Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with Caruna Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of Caruna Group are eliminated in full on consolidation.

Transmission Finance Designated Activity Company ("DAC"), a limited liability company incorporated in Ireland, is a special purpose vehicle established for raising funds by the issuance of bonds and other debt instruments, as applicable, and to safeguard the collective interests of debtors. Caruna Group sees it has no power or control over the company and it is not consolidated to Caruna Group. More information is disclosed in Note 3.

2.3 NEW STANDARDS AND INTERPRETATIONS

The consolidated financial statements of the Caruna Group have been prepared according to the same accounting principles as in 2017, except the new and amended standards and interpretations. These new and amended standards and interpretations have no significant impact on Caruna Group's consolidated financial statements but may have an impact on the accounting treatment and disclosures of future transactions and events.

IFRS 9 Financial instruments

Caruna has applied IFRS 9 Financial instruments from the beginning of 2018. The standard has new requirements for the classification and measurement of financial assets and liabilities and hedge accounting and it replaces IAS 39. Caruna Group has applied the new standard from the beginning of 2018 prospectively.

Applying IFRS 9 did not have significant impact on Group Financial Statements. Caruna has implemented changes in classification of certain financial instruments.

A) CLASSIFICATION AND MEASUREMENT

The classification and measurement requirements of IFRS 9 did not have significant impact on Group Financial Statements. The subsidiary shares are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments.

Loan receivables as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

The tables below show the changes in the measurement categories for financial assets and liabilities when applying IFRS 9 classification requirements.

Financial asset type	Measurement category under IAS 39	Measurement category under IFRS 9
Trade receivables	Loans and receivables measured at amortised cost	Amortised cost
Cash and cash receivables	Loans and receivables measured at amortised cost	Amortised cost
Other investments	Other non-current assets measured at amortised cost	Amortised cost
Derivatives – no hedge accounting	Fair value through profit or loss	Fair value through profit or loss
Derivatives – cash flow hedge accounting	Fair value through OCI (effective portion of FV change)	Fair value through OCI
	Fair value through profit or loss (ineffective portion of FV change)	Fair value through profit or loss

Financial liability type	Measurement category under IAS 39	Measurement category under IFRS 9
Interest-bearing debt	Amortised cost	Amortised cost
Connection fee liabilities	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost
Derivatives – non-hedge accounting	Fair value through profit or loss	Fair value through profit or loss
Derivatives – cash flow hedge accounting	Fair value through OCI (effective portion of FV change)	Fair value through OCI
	Fair value through profit or loss (ineffective portion of FV change)	Fair value through profit or loss

B) IMPAIRMENT

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The change did not cause any material changes to the credit losses.

C) HEDGE ACCOUNTING

The Group determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. The Group has chosen to apply IFRS 9 prospectively. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 did not have a significant impact on Group's financial statements.

IFRS 15 Revenue from contracts with customers
Caruna has applied IFRS 9 Financial instruments from beginning of 2018.

IFRS 15 superseded the current revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it became effective. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the good or service underlying the particular performance obligation is transferred to the customer. IFRS 15 establishes a single comprehensive 5 step model for entities to use in accounting for revenue arising from contracts with customers.

The standard was applied with a modified retrospective approach and thus no comparative information was adjusted to comply with IFRS 15. Implementation of IFRS 15 has not had any impact on Caruna's current revenue recognition and recordings to net sales and other income. Additional notes information, to improve comparability, are given as required by IFRS 15.

The Group is in the business of conducting local and regional distribution network operations, which consist of distribution sales and connection fees. Distribution sales and connection fees form a single performance obligation under IFRS 15, that is distribution of electricity, which is recognised as revenue over time.

Annual Improvements Cycle to IFRSs 2014–2016
Annual amendments and improvements to other IFRS standards had not significant impact on Caruna Group's consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

At the acquisition date, the identifiable assets acquired, and liabilities assumed in a business combination are recognised and measured initially at their fair values, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of Caruna Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognised directly in the statement of profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of Caruna 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.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the statement of profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

If 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 this circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.4.2 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 in the normal operating cycle or within twelve months after the balance sheet date or it is classified as financial assets or liabilities held at fair value through profit or loss. Liquid funds are classified as current assets.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

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

2.4.3 Research and development costs
Research and development costs are expensed as incurred and included in operating expenses in the statement of profit or loss.

2.4.4 Revenue recognition

The principles in IFRS 15 are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue over time/at a certain time

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Caruna Group and revenue can be readily measured, regardless of when the payment is being made. Revenue comprises the fair value consideration received or receivable at the time of delivery of products and/or upon fulfilment of services. Revenue is shown, net of rebates, discounts, outage fees, value-added tax and selective taxes such as electricity tax. Revenue is recognised as follows:

Sale of distribution of electricity

Sale of distribution of electricity consists of distribution sales, outage fees given to the customers and connection fees.

Distribution of electricity and maintenance of networks are covered by distribution fees. These fees are based on the amount of electricity distributed. In addition, a monthly fee is charged. Distribution fees are recognised as income over time and the timing of revenue recognition is linked to distributed amounts (kWh). The prices charged of customers for the sale of distribution of electricity are regulated. Any over or under income decided by the regulatory body is regarded as regulatory assets or liabilities that do not qualify for balance sheet recognition because no contract defining the regulatory aspect has been entered into with a specific customer and thus the receivable is contingent on future delivery. The over or under income is currently credited or charged over a period of four years to the customer using the electricity connection at that time. No retroactive credit or charge can be made.

Electricity tax is levied on electricity distributed to the customers. The tax is calculated based on electricity distributed to the customer. There are two tax classes for different groups of customers. Distribution sales in the Profit and Loss are shown net of electricity tax.

I. DISTRIBUTION SALES

Distribution of electricity and maintenance of networks are covered by distribution fees. Distribution fees are recognised as income at the time of delivery.

II. OUTAGE FEES

Considerations paid to the customers due to interruption in the electricity distribution (outage fees) have been recorded against revenue.

III. CONNECTION FEES

A customer pays a connection fee when connecting a property to the electricity distribution network for the first time. The connection fee is a one-time payment, and afterwards the connection is transferable to a third party whenever the owner of the property and the electricity connection changes. The same connection can be shared by several users, for instance in a housing company.

Customers who signed a connection contract before August 2003 can have their connection fee refunded, and these refunds are recognised as liability in the balance sheet. In practice, connection contracts are rarely terminated; only when a property is demolished, abandoned or otherwise made redundant. Received connection fees from August 2003 onwards are no longer refundable to customers and recorded as revenue in net sales.

Other Income

Revenue from activities outside normal operations is reported in other income. This includes recurring items such as customer-based services including relocation fees, installation of new meters and connections and disconnections. Other income also includes rental income which will be recognised under IFRS 16 Leases as of 1 January 2019.

I. RELOCATION FEES

If a customer requests Caruna Group to move a piece of the electricity network from its current location to a new one, the customer pays a relocation fee to Caruna. Revenue is recognised when the new network has been installed and connection has been performed.

II. RENTAL INCOME

Rental income is arising from operating leases covering leases of electricity pylons and leased properties. The lease income is recognised on a straight-line basis over the lease term.

III. CUSTOMER BASED SERVICES

Customer based services arise from other services initiated by the customers. Such customer-initiated services can be temporary connections on construction sites, metering, meter changes, disconnections and re-connections. Revenue is recognised as other income in the Profit and Loss statement.

Interest income

Interest income from financial assets is recognised when it is probable that the economic benefits will flow to Caruna Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Interest income is included in finance income in the statement of profit or loss.

Dividends

Dividend income from investments is recognised when Caruna Group's right to receive the payment is established, which is generally when shareholders approve the dividend distribution.

2.4.5 Income Taxes

Current income tax

Current income tax payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of profit or loss because items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Caruna Group's current tax asset or liability is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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.

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.

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 re-assessed 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 (OCI) or directly in equity.

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

2.4.6 Foreign currencies

Transactions in foreign currencies are initially recorded by Caruna Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition. The gains or losses from translation are recorded in the profit or loss statement. Exchange rate gains and losses from operations are recorded to corresponding items above EBIT. The exchange rate gains and losses from loans are recorded in financing income and expenses unless the loans are under hedge accounting thus exchange rate gains or losses are recorded in comprehensive statement of profit and loss and in hedge reserve.

2.4.7 Property, plant and equipment

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

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of an item and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, Caruna Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Such repairs and maintenance costs that maintain the asset's ability to produce future economic benefits, are recognised in the statement of profit or loss as incurred. The repair and maintenance costs that increase electricity network's ability to produce future economic benefits are recognised as asset according to differentiation principles of Energy Authority. (EMV differentiation principles 3.1.2.

Repair investments of the electricity network)
Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Distribution network	15-40 years
Buildings and structures	20-40 years
Machinery and equipment	20-40 years
Other tangible assets	3-20 years

Land and lands rights are not depreciated since they have indefinite useful lives.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of profit and loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at the end of each financial year and adjusted prospectively, if appropriate.

2.4.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period to get ready for its intended use are capitalised as part of the cost of the respective asset, until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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 relating to the borrowing of funds.

2.4.9 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lifetime are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a retrospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Licences

Licences for the use of intellectual property are granted for periods ranging between 3 and 10 years depending on the specific licences. The licences may be renewed at little or no cost to Caruna Group. As a result, those licences are assessed as having a definite useful life.

Wayleave (previous years mentioned as street cable compensations)

Wayleave compensations are one-time payments paid to the land owners on harm and damage caused by Caruna's electricity network and equipment. Caruna records the paid compensations to the intangible assets in the balance sheet.

Network Licences

Network licences acquired through business combinations are recognised on the fair values at the date of business combination. Network licences have indefinite useful live and are not amortised.

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. Separately recognised goodwill is tested annually for impairment and carried at acquisition cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

A summary of the policies applied to Caruna Group's intangible assets is, as follows:

Computer software licenses	3-5 years
Other intangible assets	5-10 years
Wayleave compensation	35 years
Network licenses	indefinite
Goodwill	indefinite

2.4.10 Leases

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

Leases are classified as finance leases whenever terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All leases in Caruna Group are classified as operating leases.

Group as a lessee

The Group has entered into various operating lease contracts. The related payments are treated as rentals and recognised in the statement of profit or loss on a straight-line basis over the lease terms unless another systematic approach is more representative of the pattern of the user's benefit.

Group as a lessor

Leases in which the Caruna Group does not transfer substantially all the risks and benefits of ownership of an asset to the lessee are classified as operating leases. Payments received under operating leases where the Group leases out fixed assets are recognised as other income in the statement of profit and loss

2.4.11 Fair value measurement

The Group measures financial instruments, such as derivatives at fair value at each balance sheet date. 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 Caruna 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. Caruna Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the 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 financial statements on a recurring basis, Caruna 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.

2.4.12 Financial assets and liabilities

FINANCIAL ASSETS

Caruna classifies financial assets at initial recognition. Classification of financial assets is based on the business models specified by Caruna and on contractual cash flows of financial assets. Financial assets are classified as financial assets recognised at amortised cost, at fair value through the statement of profit or loss and as other financial assets recognised at fair value in other comprehensive income.

Financial assets measured at amortised cost

This class comprises trade receivables, other receivables and loan receivables. Trade receivables are entered in the balance sheet at nominal value. Trade receivables also include hour-based sales that have been delivered but not invoiced.

Caruna Group evaluates on each reporting day whether objective evidence exists about a financial asset or a group of financial assets having decreased in value.

The Group books the amount of expected credit losses from its trade receivables either for the 12-month-period or for the full lifetime of the instrument. The Group complies with the simplified approach and books expected credit losses over the full lifetime of receivables.

Financial assets at fair value through profit or loss

Derivative instruments held for trading purposes are classified as financial assets at fair value through profit or loss when they are not defined as effective hedging instruments in accordance with IFRS 9. Financial assets at fair value through profit or loss are measured in the balance sheet at fair value, and the net change of the fair value is presented in the statement of profit or loss as financial expenses (negative net change of fair value) or financial income (positive net change of fair value). Section 2.4.13 describes the treatment of derivatives fulfilling the criteria of IFRS 9 and used for hedging calculations.

Financial assets at fair value through profit or loss concerning electricity derivatives are measured in the balance sheet at fair value, and the net change in fair value is presented in the statement of profit or loss under other income (both positive and negative net change).

Financial assets at fair value through other comprehensive income

Caruna does not have financial assets at fair value through other comprehensive income.

Derecognition

A financial asset (or a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual right to receive cash flows from the asset expires.

FINANCIAL LIABILITIES

Caruna classifies financial liabilities as financial liabilities at amortised cost, financial liabilities recognised at fair value through the statement of profit or loss and as other financial liabilities recognised at fair value in other comprehensive income. Caruna does not reclassify financial liabilities. Caruna Group's financial liabilities comprise loans and other liabilities, accrued interest expenses, trade payables and derivative instruments.

Financial liabilities at amortised cost

Interest-bearing loans are the most significant financial liability recognised at amortised cost for Caruna Group. After the original recognition, interest-bearing liabilities are measured at amortised cost using the effective interest method. Profits and losses are recognised in the income statement when a financial liability is derecognised. Amortisation of effective interest is also recognised in the income statement. Further details about interest-bearing liabilities are presented in Note 16.

Amortised cost is calculated by considering any issuing profits or losses included in the effective interest rate of a liability, as well as any direct expenses relating to obtaining or issuing the debt. Amortisation calculated using the effective interest method is recorded in the financial expenses in the profit and loss statement. Financial expenses recognised at amortised cost also include accrued interest expenses, trade payables and connection fee payables.

A financial liability is derecognised when the liability relating to an agreement is annulled or cancelled, or when it becomes due for payment. When the contractual terms of an existing financial liability are materially amended or when a new loan arrangement is entered into with an existing creditor, the change is recognised in accounting as a derecognition of the original loan and recording of the new liability on the balance sheet. The difference between these balance sheet values is recognised in the income statement.

Financial liabilities recognised at fair value through profit and loss

In Caruna Group, financial liabilities booked through profit or loss include electricity and interest derivatives that do not fulfil the terms of hedge accounting. Realised and unrealised profits and losses caused by changes in the fair values of derivatives are recognised through profit and loss for the period in which they originate.

Financial liabilities booked at fair value through other comprehensive income

In Caruna Group, financial liabilities booked through other comprehensive income include interest and currency derivatives which fulfil the terms of hedge accounting in accordance with IFRS 9.

Derecognition

A financial liability is derecognised when the liability relating to an agreement is annulled or cancelled, or when it becomes due for payment. When the contractual terms of an existing financial liability are materially amended or when a new loan arrangement is entered into with an existing creditor, the change is recognised in accounting as a derecognition of the original loan and recording of the new liability on the balance sheet. The difference between these balance sheet values is recognised in the income statement.

Offsetting a financial asset and a financial liability

Caruna Group does not offset financial assets and financial liabilities.

2.4.13 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, such as currency swaps, interest rate swaps and electricity hedges against grid losses, to hedge its 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 re-measured 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.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to profit or loss when the hedge item affects profit or loss.

For hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is attributable to interest rate risk associated with a recognised liability and electricity price risk associated with purchase of electricity to cover grid losses.

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, 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 the hedged item's 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 have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other operating expenses. Amounts recognised as OCI are transferred to 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 hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively.

When hedge accounting is discontinued, any cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedged item does no longer exist (i.e. the loan is repaid prematurely) any related cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment.

The Group uses interest rate and currency swaps as hedges of its exposure to interest rate and currency risks arising from debt carrying variable interest rate.

Caruna group has terminated the hedge accounting of electricity derivative contracts on September 30, 2017. The group books changes in the fair value of derivatives of electricity derivatives directly to the income statement. Refer to Note 16 for more details.

2.4.14 Impairment of non-financial assets

Caruna Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are considered.

Caruna Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of Caruna Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations cover a period of thirty years in order to take into account the long-term capital expenditure plans which are driven by the security of supply requirements by the end of 2028, set by the Ministry of Economic Affairs and Employment.

Impairment losses are recognised in the statement of profit or loss.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, Caruna Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at December 31 and when circumstances indicate that the carrying amount may be impaired as described earlier in Section 2.3.1.

Impairment is determined by assessing the recoverable amount of each CGU to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Other intangible assets

Network licences included in other intangible assets with indefinite useful lives are tested for impairment annually as at December 31 at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.4.15 Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

2.4.16 Cash dividend to equity holders of the parent

The Company recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorised, and the distribution is no longer at the discretion of the Company. As per the corporate laws in Finland, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

2.4.17 Provisions

General

Provisions are recognised when Caruna Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When Caruna Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

Restructuring provisions

Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. Caruna Group has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Caruna Group.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.4.18 Pensions and other post-employment benefits

Caruna Group companies have pension schemes in accordance with the local conditions and practices in Finland. The schemes are generally funded through payments to insurance companies. The group has both defined benefit and defined contribution plans.

All employees are eligible to statutory earnings-related pension under the TyEL (The employee's Pensions Act). The company has arranged its TyEL cover with Varma Pension Insurance Company. The TyEL plan, as arranged via a pension insurance company, is treated as an insured plan and as a defined contribution plan according to IAS 19. The employer pays annually premiums to the pension insurance company and after that the employer carries no risk for the benefits or the depreciation of the insurance premiums invested by the insurance company.

Caruna Group has arranged voluntary pension cover for a limited number of persons and all these plans are closed. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that Caruna Group recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation in consolidated statement of profit or loss:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

2.5 NEW AND REVISED STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Caruna Group has not applied the following new and revised standards and interpretations that have been issued but are not yet effective:

IFRS 16 Leases

The IFRS 16 standard was published in January 2016. According to the standard, lessees must recognise a lease liability and a right-of-use asset reflecting the future lease payments for nearly all leases in their balance sheets.

The new standard concerning leases supersedes all current IFRS guidelines concerning the recognition of leases. For periods commencing 1 January 2019 or thereafter, retrospective or simplified application of the standard is required.

Caruna will adopt IFRS 16 Leases on 1 January 2019. The standard is applied with a simplified approach and thus no comparison information has been adjusted to comply with IFRS 16. To facilitate comparisons, the Notes will provide additional information as required by IFRS 16.

The Group has performed a comprehensive evaluation of the effects of IFRS 16. All Caruna's currently valid lease agreements have been classified as operating leases in accordance with the IAS 17 standard and therefore, IFRS 16 will partly change Caruna's current method of recognising rental expenses direct in the income statement. Some rental expenses will be recorded in the balance sheet as lease liabilities and as corresponding right-of-use assets as of 1 January 2019.

Caruna has analysed the hundreds of current lease agreements that mainly concern land and real estate leased for the distribution network's pad mounted secondary substations and real estate secondary substations as well as land, real estate and equipment leases related to the operation of the high voltage distribution network. Caruna acts both as a lessee and a lessor. However, the Group does not have sale and leaseback agreements, or subleasing arrangements.

Caruna as a lessee

Lease term

It is typical for Caruna's lease agreements that they have been in force for a long time, and that new lease agreements are rarely concluded any more. The majority of the lease agreements have been concluded until further notice. However, the Group also has a significant number of agreements that are fixed term and valid for an agreed period of time. The fixed term agreements may contain terms to the effect that the agreements will continue after the expiry of the fixed term for 2–5 years at a time, unless the agreements are terminated no later than 12 months prior to the expiry of the fixed term.

In its calculation of lease liabilities, Caruna interprets the lease term to be the fixed lease term specified in the agreements. If an agreement is valid until further notice, it is assumed that the agreement will remain valid for 35 years, i.e., for the duration of the network's economic life. As regards agreements whose fixed term has already expired, the lease liability is booked in accordance with the continuation period specified in the agreement (2–5 years). In the calculation of lease liabilities, the amount of the lease as well as the number of any voluntary continuation periods are taken into consideration if it is relatively certain that the lease agreement will be continued.

Measurement and discount rate

A lease liability is created when remaining leases are discounted at the rate of Caruna's incremental borrowing rate (IBR) at the time of the transition. The amount of the discount rate varies by the duration of the lease term.

Lease payments are allocated as repayment of lease liabilities and as finance costs. Finance cost is recognised in the income statement for the lease period. The amount of lease liabilities is recalculated in the event that changes occur in the lease amounts, for example on the basis of indexes, or if the lease period is shortened of extended. Lease liability is discounted in the balance sheet at the discount rate of the moment of change, at which time the value of the right-of-use asset is also adjusted.

Caruna books lease agreements in the balance sheet as right-of-use assets and as corresponding lease liabilities on the day when the underlying asset of the lease agreement becomes available to Caruna. A right-of-use asset is measured at the original value of the lease liability, deducted by any payments made prior to the commencement of the lease period.

Caruna's lease agreements do not have associated incentives or direct costs at the initial phase. Some of Caruna's lease agreements include restoration obligations regarding the annulment or removal of an asset, restoration of the location of an asset to its original state, or restoration of the underlying asset to the condition required in the terms of the lease agreement. However, Caruna considers that restoration costs, which mainly consist of restoring the leased land areas under pad mounted secondary substations to their original state, are not significant and they have therefore not been included in the calculation of the discounted lease liabilities.

A right-of-use asset is written off either on the basis of economic life or lease period, depending on which of these is shorter. Right-of-use assets are included in asset impairment testing.

Recognition exemptions

Caruna applies the exemptions allowed in IFRS 16 regarding low-value underlying assets. Caruna has classified as low-value assets land leases relating to the distribution network's pad mounted secondary substations, low-value real estate leases concerning the distribution network's real estate secondary substations as well as any land leases of high voltage distribution network where the value of the assets when new would be less than EUR 5,000. According to the standard, lease payments of short-term leases can be recognised as expenses. However, Caruna does not apply this exemption, because the notice periods of in the lease agreements mostly exceed 12 months. The lease agreements that are within the scope of the standard's exemption are not recorded in the balance sheet, but the lease expenses related to such lease agreements are still recognised in the income statement as lease expenses.

Caruna as lessor

Caruna has leased real estate and poles owned by it to external parties. These leases will continue to be treated as operating leases under the new standard. Lease income is recognised in the income statement under other income.

Economic impacts of the transition

Caruna will adopt the new standard as of 1 January 2019, utilising the simplified method under which comparison information does not need to be adopted. As a result of adopting the standard, only some of the Group's lease agreements are included in the balance sheet. The exemption allowed by the standard for a low-value asset is applied to the majority of Caruna's lease agreements. Lease costs relating to low-value assets are recognised on a straight-line basis direct in the income statement.

At the time of the transition, Caruna recognises a right-of-use asset and the corresponding lease liability with a value of approximately EUR 3 million in the balance sheet. Retained earnings are not adjusted, because Caruna has selected the approach in accordance with the standard to measure a right-of-use asset at an amount equal to the amount of the lease liability. Lease liability is the current value of the remaining leases included in the balance sheet in accordance with IFRS 16, which have been discounted by applying the interest rate of Caruna's incremental credit.

Other interpretations and annual improvements

The IFRIC interpretation 23, Uncertainty over income tax treatments, was published in June 2017 (mandatory application for financial periods starting on 1 January 2019 and thereafter). The interpretation clarifies how the recognition and measurement requirements of IAS 12 Income Taxes are applied in the case of uncertain tax positions. Caruna will start to apply the new interpretation at the start of 2019. The Group estimates that the coming into force of the IFRIC 23 interpretation will not have significant effects on the consolidated financial statements.

Annual improvements during the periods 2015–2017 were published in December 2017 (mandatory application in financial periods commencing on 1 January 2019 or thereafter). The improvements mainly eliminate inconsistencies and clarify the wording of the standards. There are separate transition rules for each standard. The changes are not expected to have an effect on the consolidated financial statements of Caruna Group.

Other IFRS standards or IFRIC interpretations that have been published but are not yet in force are not expected to have a significant effect on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Caruna Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent assets and liabilities existing at the balance sheet date as well as the reported amounts of revenues and expenses during the reporting period. The estimates are based on historical experience and various other assumptions that are believed to be reasonable. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Management believes that the accounting policies below represent those matters requiring the exercise of judgment where a different opinion could result in the greatest changes to reported results.

3.1 FAIR VALUES OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT ACQUIRED IN A BUSINESS COMBINATION

In a business combination, the acquired intangible and tangible assets are measured at fair value and their remaining useful lives are determined. The determination of fair values is based on calculation models prepared by an external advisor and who also assists in determining their remaining useful lives. Management believes that the assigned values and useful lives, as well as the underlying assumptions, are reasonable and accurately represent the value of the assets. However, different assumptions, assigned values and useful lives could have a significant impact on the reported amounts.

3.2 IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. Caruna Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of Caruna Group's CGUs to which the individual assets are allocated. Budgets for the next three years are approved by the Board of Directors. These budgets and forecast calculations cover a period of approximately thirty years in order to consider the long-term capital expenditure plans which are driven by the security of supply requirements by the end of 2028, set by the Ministry of Economic Affairs and Employment. The Board of Directors approve the impairment calculations. The applied discount rate of 6.21% has been derived directly from the regulatory pre-tax WACC.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 14.

3.3 DEFERRED TAXES

Caruna Group has deferred tax assets and liabilities which are expected to be realised through the 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. Assumptions made include the expectation that future operating performance for Caruna Group entities will be consistent with historical levels of operating results, recoverability periods of tax losses carry-forwards will not change, and that existing tax laws and rates will remain unchanged into foreseeable future.

3.4 BASIS OF CONSOLIDATION

Transmission Finance Designated Activity Company ("DAC"), a limited liability company incorporated in Ireland, is a special purpose vehicle established for raising funds by issuance of bonds and other debt instruments, as applicable, and to safeguard the collective interests of debtors. Caruna Group management sees it has no power or control over the company and it is not consolidated to Caruna Group.

2. Capital management

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

For the purpose of the Group's capital management, capital includes issued capital, invested distributable equity fund, all other equity reserves attributable to the equity holders of the parent and the shareholder loan.

The primary objective of the Group's capital management is to ensure efficient financing for operations and investments in the long run. In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches in the financial covenants of any interest-bearing loans and borrowing in the current or previous financial period. More information regarding covenants are presented in the note 16.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. It is possible for the companies to strengthen the equity when necessary.

There has been no changes to capital management objectives, instructions or processes during 2018 or the previous year.

Standard & Poor has confirmed the credit rating BBB+ for Caruna. Caruna's strategy has been to keep the credit rating at the targeted grade, and the credit rating BBB+ has been maintained 2018 as well as the previous year.

3. Group information

THE PARENT COMPANY AND SUBSIDIARIES OF THE GROUP

The consolidated financial statements of the Group include the following subsidiaries, in addition to the parent company Caruna Networks Oy:

Name	Principal activity	Country of incorporation and operation	% equity interest 2018
Caruna Oy	Electricity distribution	Finland	100
Caruna Espoo Oy	Electricity distribution	Finland	100

The ultimate parent of Caruna Group is Suomi Power Networks Topco BV, incorporated in the Netherlands.

Caruna Network Sähkönsiirto Oy and Caruna Networks Espoo Oy have been merged into Caruna Networks Oy on 1 January, 2018.

TRANSMISSION FINANCE DESIGNATED ACTIVITY COMPANY

Non-consolidated structured company Transmission Finance Designated Activity Company ("DAC"), a limited liability company incorporated in Ireland, is a special purpose vehicle established for the purpose of raising funds by issuance of bonds and other debt instruments, as applicable, and to safeguard the collective interests of the debtors.

DAC shares are held on trust for charitable purposes by Maples Fiduciary Services Trustees Ireland Limited ("Maples"), an Irish limited liability company. Maples appoints the directors and is responsible for managing DAC. Maples and the directors and management members of DAC are independent from Caruna Group. Caruna Group has no legal, contract-based or other de facto rights to direct the operations of DAC that would result in Caruna Group exercising control over DAC. Therefore, DAC is not consolidated to Caruna Group.

DAC issued no new bonds in 2018. During the comparison year, DAC issued one bond, the proceeds from which it has lent to Caruna Group based on a loan agreement (IBLA) between the two parties.

TRANSACTIONS BETWEEN CARUNA GROUP AND DAC

In 2018, the interest expenses to DAC by Caruna Group amounted to EUR 48,807 (2017: 46,697) thousand. Interest expenses have been recorded in the income statement. During 2018 Caruna Group paid no upfront fees (2017: EUR 300 thousand) to DAC. The fees have been capitalised and will be amortised according to effective interest method during the average life time of IBLA loans.

EUR 1,000	31 Dec 2018	31 Dec 2017
IBLA-loans w/o loan arrangement fees	2,030,502	2,027,536
Accrued interest expense	18,525	18,510
Total	**2,049,027**	**2,046,046**

The carrying amounts of loans from DAC are presented in long-term interest bearing liabilities, while the accrued interest expenses are presented in the current liabilities in other payables.

For the corresponding debt instruments issued by DAC, Caruna Group has guaranteed the payment of principal and interest to DAC's bondholders in the event of DAC's default. At year-end, Caruna Group had no other material risk exposures related to DAC, and the amounts presented above represent its maximum risk exposure.

The interest rates of all loans are fixed and are determined by the fixed interest rates of the corresponding bonds issued by DAC, increased by margin of 0.0025 %. For further information on interest-bearing liabilities, see Note 16.

Had Transmission Finance DAC (DAC) been consolidated into Caruna Group, the issuer of the loans would remain and the group would have separate notes to several financial institutions instead of the one lender (DAC). If consolidated, the amount of the liabilities would be the same but the interest expenses would be lower at the amount of the loan margin (EUR 50 thousand/year).

4. Net sales

2018

EUR 1,000	Caruna Oy	Caruna Espoo Oy	Other and internal	Total
Electricity distribution				
Distribution network	327,899	78,713	-66	406,546
High-voltage network	29,036	2,583	–	31,619
Total	**356,935**	**81,296**	**-66**	**438,165**
Connection fees				
Distribution network	10,374	3,160	–	13,534
High-voltage network	1,857	513	–	2,370
Total	**12,231**	**3,673**	**–**	**15,904**
Total Net sales	**369,166**	**84,969**	**-66**	**454,069**

2017

EUR 1,000	Caruna Oy	Caruna Espoo Oy	Other and internal	Total
Electricity distribution				
Distribution network	302,896	77,598	-70	380,424
High-voltage network	27,646	2,126	-	29,772
Total	**330,542**	**79,724**	**-70**	**410,196**
Connection fees				
Distribution network	7,671	3,392	-	11,063
High-voltage network	5,010	123	-	5,133
Total	**12,681**	**3,515**	**-**	**16,196**
Other income	-	-	35	35
Total Net sales	**343,223**	**83,239**	**-35**	**426,427**

The Group is in the business of conducting local (distribution network) and regional (high voltage) distribution network operations, which consist of distribution sales and connection fees. Distribution sales and connection fees form a single performance obligation under IFRS 15 that is distribution of electricity and recognises revenue over time.

The implementation of the new IFRS 15 standard at the beginning of the year did not affect the way Caruna records sales revenue in net sales and other operating income.

The Group operates only in the Finnish market an the whole net sales is collected from Finland.

Caruna has not divided operations in different segments, therefore net sales is not reported by segments.

5. Other operating income

EUR 1,000	2018	2017
Customer based services and relocation of connections	3,172	2,637
Gain on Electricity derivatives without hedge accounting status unrealised	899	1,112
Rental Income	752	908
Income from sale of demolished material	2,282	899
Proceeds from sale of property, plant and equipment	93	171
Other	185	285
Other operating income total	**7,383**	**6,012**

Revenue from activities outside normal operations is reported in other operating income. This includes recurring items such as relocation of connections, power cuts and re-connections, cable guidance and rental income as well as nonrecurring items such as proceeds from sale of property, plant and equipment, unrealised gains and losses of electricity derivatives. From 2017 onwards, changes in the fair value of derivative contracts are booked in other operating income as the Caruna Group terminated the hedge accounting of electricity derivative contracts on 30 September 2017.

Income from sale of demolished material consists of sales from dismantled electricity network material to recycling and further processing.

6. Personnel expenses

EUR 1,000	Notes	2018	2017
Wages and salaries		19,267	16,681
Pension costs			
Defined contribution plans	22	2,941	2,931
Defined benefit plans	22	39	13
Social security costs		701	737
Total personnel expenses		**22,949**	**20,362**

The total wages and salaries paid by Caruna Group to its employees consist of salaries, fringe benefits and short-term incentives. The employee has the option to transfer the whole amount or half amount of the STI, however not more than 10% of the yearly salary, to the Caruna Personnel Fund established in 2015.

In its meeting 16 November 2017 The Caruna Board of Directors approved a Long-Term incentive program (LTI-program) for the years 2018-2020. Annually a group of employees are accepted by the Board into the program. Also the CEO can participate in the program. The incentive is in euros and to achieve it the Board annually sets parametres that are the same for all participants. The incentive progam is by its nature funded in the way that a third of the cumulatively earned incentives are paid the following year for the earnings period and two thirds are left in the accumulated earned incentives. As a rule, the participant loses the accumulated incentives if the employee resigns. If the employment is terminated by Caruna due to other than personal grounds, the employee receives the accummulated amount of the incentive at the end of the employment. There is a detailed guide regarding the LTI program. In 2018, EUR 561 (844) thousand were paid out from the LTI program.

Information regarding management employee benefits are presented in note 26 Related party transactions.

7. Other operating expenses

EUR 1,000	2018	2017
Repairs and maintenance	21,253	17,689
External services	22,784	26,664
Other	14,484	10,033
Total other operating expenses	**58,521**	**54,386**

Other operating expenses include repairs and maintenance costs of network, consulting and IT fees, external service fees, communication costs and rental expenses.

External service fees include customer service fees, billing fees, consulting fees, IT service fees and automatic meter reading service fees.

AUDITOR'S FEES

EUR 1,000	2018	2017
Audit fees	173	276
Other services	99	11
Total auditor's fees	**272**	**287**

Deloitte Oy was appointed as the auditor for the 2018 reporting period. Audit fees include fees for auditing the consolidated financial statements and for auditing the parent company and subsidiaries. Other services include other assignments performed by Deloitte Oy.

8. Depreciation, amortisation and impairment charges

EUR 1,000	2018	2017
Intangible rights	318	1,175
Way leaves	839	5,512
Other intangible assets	7,733	5,453
Buildings and constructions	1,713	1,733
Machinery and equipment	122,546	110,021
Total depreciation	**133,149**	**123,894**

Caruna has continued to improve the network reliability program where over head lines exposed to weather conditions are replaced by under ground cabling. Due to this, Caruna has booked EUR 17,498 (11,511) thousand scrapping costs to the depreciation for the financial year 2018.

During the comparison year 2017, Caruna changed the concept of the economic lifetime of the wayleave compensations from indefinite lifetime to 35 years. Wayleave compensations are depreciated over the expected lifetime in 35 years. The change in the economic life time was made retroactively, and a one-time item, EUR 4,548 thousand, was booked for depreciation for the comparison year.

9. Finance income

EUR 1,000	2018	2017
Interest income	66	235
Interest income from interest derivatives, through OCI	2,059	2,090
Interest income from interest derivatives, non-hedged	4,076	4,090
Total finance income	**6,201**	**6,415**

10. Finance costs

EUR 1,000	2018	2017
Interest on debts and borrowings		
Shareholder loan	79,810	80,462
IBLA-loans (Senior-loan)	48,807	46,697
Investment loans	838	601
Other	87	161
Total	**129,542**	**127,921**
Interest expenses on interest rate derivatives, through OCI	2,676	1,108
Interest expenses on interest rate derivatives, non-hedged	4,042	4,045
Total interest expense	**136,260**	**133,074**
Arrangement and commitment fees relating to interest-bearing loans	1,554	1,481
Other financing expenses	2,135	1,022
Total finance costs	**139,949**	**135,577**

11. Income tax

INCOME TAX RECOGNISED IN THE STATEMENT OF PROFIT OR LOSS

EUR 1,000	2018	2017
Current income tax:		
In respect of the current year	-10,349	-6,338
Deferred tax:		
Relating to origination and reversal of temporary differences	8,298	18,597
Total income tax expense recognised in the statement of profit or loss (tax expense -/tax income +)	**-2,051**	**12,259**
Consolidated statement of comprehensive income		
Deferred tax related to items recognised in OCI during the year:		
Fair value remeasurement of hedging instruments entered into cash flow hedges	801	1
Remeasurements of post employment benefit liabilities	12	8
Income tax charged to other comprehensive income (tax expense -/tax income +)	**813**	**9**

Reconciliation of tax expense and the accounting profit multiplied by Finland's domestic tax rate (20%) for:

EUR 1,000	2018	2017
Profit before tax	20,589	16,519
Tax calculated at nominal Finnish tax rate 20%	-4,118	-3,304
Non-deductible expenses for tax purposes	974	833
Utilisation of tax losses carried forward	1,093	14,730
	-2,051	**12,259**
Income tax expense reported in the statement of profit or loss	-2,051	12,259

Income taxes are tax expenses in the statement of profit or loss during the financial period and the comparison year. The changes in deferred taxes recorded in the statement of profit or loss are tax income both during the financial period and the comparison year.

DEFERRED TAXES

EUR 1,000	Balance sheet 31 Dec 2017	Recognised in P&L	Recognised in OCI	Balance sheet 31 Dec 2018
Deferred tax receivables				
Provisions	-834	31	834	31
Derivative financial instruments	848	–	645	1,493
Expensed acquisition related cost	73	–	–	73
Defined benefit plans	-14	–	14	–
Total deferred tax receivables	**73**	**31**	**1,493**	**1,597**
Deferred tax liabilities				
Derivative financial instruments	-692	–	692	–
Depreciation difference	88,006	-2,622	–	85,384
Measurement of assets at fair value in acquisition	432,391	-6,079	–	426,312
Other	1,453	434	-12	1,875
Total deferred tax liabilities	**521,158**	**-8,267**	**680**	**513,571**

EUR 1,000	Balance sheet 31 Dec 2016	Recognised in P&L	Recognised in OCI	Balance sheet 31 Dec 2017
Deferred tax receivables				
Provisions	-834	–	–	-834
Derivative financial instruments	848	–	–	848
Expensed acquisition related cost	73	–	–	73
Defined benefit plans	-14	–	–	-14
Total deferred tax receivables	**73**	**–**	**–**	**73**
Deferred tax liabilities				
Derivative financial instruments	-747	56	-1	-692
Depreciation difference	101,758	-13,752	–	88,006
Measurement of assets at fair value in acquisition	438,642	-6,251	–	432,391
Other	111	1,350	-8	1,453
Total deferred tax liabilities	**539,764**	**-18,597**	**-9**	**521,158**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Deferred tax assets have not been recognised in respect of such losses arisen from subsidiaries that are loss-making and there are no other ways to even out taxes or other evidence of recoverability in the near future. The Group has not booked deferred tax assets of EUR 1,093 thousand from tax losses carried forward from year 2015.

The tax losses carried forward have been fully used in the year 2018.

12. Intangible assets

EUR 1,000	Goodwill	Intangible rights	Network license	Wayleaves	Other intangible assets	Total
Acquisition cost 1 January 2018	62,468	3,988	1,529,212	24,633	47,828	1,668,129
Additions	–	472	–	5,716	3,643	9,831
Disposals	–	–	–	-85	-21,656	-21,742
Acquisition cost 31 December 2018	**62,468**	**4,460**	**1,529,212**	**30,263**	**29,816**	**1,656,218**
Accumulated depreciation 1 January 2018	–	3,621	–	4,860	11,241	19,721
Depreciation for the period	–	318	–	839	7,733	8,890
Depreciation charge on disposals	–	–	–	-85	-21,656	-21,742
Accumulated depreciation 31 December 2018	**–**	**3,939**	**–**	**5,614**	**-2,683**	**6,869**
Net book value						
At 31 December 2018	**62,468**	**521**	**1,529,212**	**24,649**	**32,498**	**1,649,349**
At 31 December 2017	62,468	367	1,529,212	19,773	36,588	1,648,408
Acquisition cost 1 January 2017	62,468	3,980	1,529,212	20,273	33,700	1,649,632
Additions	–	9	–	5,012	14,266	19,288
Disposals	–	-1	–	-652	-137	-790
Acquisition cost 31 December 2017	**62,468**	**3,988**	**1,529,212**	**24,633**	**47,828**	**1,668,129**
Accumulated depreciation 1 January 2017	–	2,446	–	–	5,925	8,371
Depreciation for the period	–	1,175	–	5,512	5,453	12,140
Depreciation charge on disposals	–	–	–	-652	-137	-789
Accumulated depreciation 31 December 2017	**–**	**3,621**	**–**	**4,860**	**11,241**	**19,721**
Net book value						
At 31 December 2017	**62,468**	**367**	**1,529,212**	**19,773**	**36,588**	**1,648,408**
At 31 December 2016	62,468	1,534	1,529,212	20,273	27,775	1,641,262

The network licenses give permission to the company to distribute electricity on the network area for the time being. The network licenses have indefinite lifetime and they are not depreciated.

13. Property, plant and equipment

EUR 1,000	Land and water areas	Buildings and constructions	Machinery and equipments	WIP *)	Total
Acquisition cost 1 January 2018	7,042	28,834	2,245,117	166,217	2,447,211
Additions	474	371	288,459	94,512	383,816
Transfers between items	–	–	–	-135,200	-135,200
Disposals	-37	-281	-41,184	–	-41,502
Acquisition cost 31 December 2018	**7,480**	**28,924**	**2,492,392**	**125,528**	**2,654,325**
Accumulated depreciation 1 January 2018	–	4,375	207,677	–	212,052
Depreciation charge for the year	–	1,713	122,546	–	124,259
Depreciation charge on disposals	–	-281	-41,148	–	-41,429
Accumulated depreciation 31 December 2018	**–**	**5,807**	**289,074**	**–**	**294,882**
Net book value					
At 31 December 2018	**7,480**	**23,117**	**2,203,318**	**125,528**	**2,359,443**
At 31 December 2017	7,042	24,459	2,037,440	166,217	2,235,159
Acquisition cost 1 January 2017	7,086	28,517	2,022,585	157,841	2,216,030
Additions	36	444	262,989	367,444	630,913
Transfers between items	–	–	–	-359,068	-359,068
Disposals	-80	-127	-40,457	–	-40,663
Acquisition cost 31 December 2017	**7,042**	**28,834**	**2,245,117**	**166,217**	**2,447,211**
Accumulated depreciation 1 January 2017	–	2,768	137,848	–	140,616
Depreciation charge for the year	–	1,733	110,021	–	111,754
Depreciation charge on disposals	–	-127	-40,192	–	-40,318
Accumulated depreciation 31 December 2017	**–**	**4,375**	**207,677**	**–**	**212,052**
Net book value					
At 31 December 2017	**7,042**	**24,459**	**2,037,440**	**166,217**	**2,235,159**
At 31 December 2016	7,086	25,749	1,884,737	157,841	2,075,414

*) WIP= Work in progress including advance payments

14. Impairment testing of goodwill and network license

Goodwill acquired through business combinations has been allocated to the two Cash Generating Units (CGU) below for impairment testing purposes:

- Caruna Oy
- Caruna Espoo Oy

2018 carrying amount of goodwill and network licenses allocated to each of the CGUs:

EUR 1,000	Caruna Oy	Caruna Espoo Oy	Total
Goodwill	53,567	8,901	62,468
Network licenses	1,332,112	197,100	1,529,212

KEY ASSUMPTIONS USED IN VALUE IN USE CALCULATIONS

Impairment test is based on value in use which has been estimated to be higher than net selling price. Value in use has been estimated based on cash flow projections for 2019-2045. Of these, cash flows for 2019-2023 are based on the 3 year business plan which has been approved by the Board of Directors. Cash flow projections for 2024-2045 have been prepared by the management and they are based on the allowed regulated revenue which has been modelled for each CGU based on the best knowledge of the regulatory rules and their future development. Applied long term capital expenditure has been prepared taking into account the security of supply requirements by 2028 set by the Ministry of Economic Affairs and Employment. A longer calculation period than the 5 years set by IAS 36 has been applied in order to take into account the effect of the security of supply requirements on the allowed regulated revenues.

An annual growth rate of 2% has been applied for operating expenditure for 2024-2045. The terminal value cash flow is expected to grow by 2% annually. Net sales is based on the modelled allowed regulated revenue and its growth rate varies from year to year with the assumption that no regulatory surplus or deficit is generated from 2024 onwards.

Discount rates represent the current market assessment of the risks specific to the business, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The applied discount rate of 6.21% has been derived directly from the regulatory pre-tax WACC.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

The headroom turned negative when the sensitivity of the value was tested by decreasing EBITDA by 10% and increasing the discount rate by 10%. The breakeven point for the EBITDA sensitivity amounts to -4.2% for Caruna Espoo Oy. The breakeven point for the discount rate sensitivity amounts to +6.7% in Caruna Espoo Oy. Due to the stability of the regulated business, the management believes that changes in the business environment causing the carrying amount to materially exceed the recoverable amount are very unlikely.

15. Other non-current assets

EUR 1,000	2018	2017
Other investments at 1 January	49	49
Other investments at 31 December	49	49

Other investments include other shares owned less than 10%. The shares are shown at amortised cost since no fair values are available. The shares are related to storage facilities kept for Caruna Group's own purposes for example for transformators etc.

16. Financial assets and liabilities

FINANCIAL ASSETS

EUR 1,000	2018	2017
Non-current		
Financial assets at fair value through profit or loss		
Electricity derivatives, non-hedged	–	905
Financial assets at amortised cost		
Accrued receivables	1,868	–
Current		
Financial assets at fair value through profit or loss		
Electricity derivatives, non-hedged	1,806	151
Financial assets at amortised cost		
Trade receivables	111,248	108,828
Total financial assets	**114,922**	**109,884**

Financial assets through profit or loss reflect positive change in fair value of those electricity derivatives that are not designated in hedge relationships according to IFRS 9.

Financial assets at amortised cost are non-derivative financial assets carried at amortised cost. The carrying value may be affected by changes in the credit risk of the counterparties.

FINANCIAL LIABILITIES

EUR 1,000	2018	2017
INTEREST-BEARING LIABILITIES		
Non-current liabilities		
Financial liabilities at amortised cost		
Loans	3,327,310	3,174,068
TRADE PAYABLES AND OTHER LIABILITIES		
Non-current liabilities		
Financial liabilities at fair value through OCI		
Cross-currency swaps	8,491	3,458
Financial instruments through profit or loss		
Electricity derivatives	–	212
Interest derivatives	–	21,009
Financial liabilities at amortised cost		
Connection fee liabilities	304,300	304,546
Current liabilities		
Financial instruments through profit or loss		
Electricity derivatives	73	11
Interest derivatives	3,149	–
Financial liabilities at amortised cost		
Trade payables	53,394	55,316
Total financial liabilities	**3,696,717**	**3,558,620**

Financial liabilities at fair value through OCI reflect negative change in fair value of those interest rate swaps, that have been designated in hedge relationships according to IFRS 9.

Financial liabilities through the statement of profit or loss reflect negative change in fair value of electricity and currency derivatives and those interest rate swaps that are not designated in hedge relationships according to IFRS 9.

Financial liabilities at amortised cost are non-derivative financial liabilities carried at amortised cost.

INTEREST-BEARING LOANS AND BORROWINGS

EUR 1,000	Interest rate %	Maturity	2018	2017
Non-current interest-bearing loans and borrowings				
Shareholder loan	8.50 %	2047	903,642	933,642
IBLA-loans				
IBLA-loan 7y	1.50 %	2023	500,000	500,000
IBLA-loan 10y	2.04 %	2026	10,000	10,000
IBLA-loan 10y	1.69 %	2026	60,000	60,000
IBLA-loan 10y	3.18 %	2026	65,502	62,536
IBLA-loan 13y	1.93 %	2029	75,000	75,000
IBLA-loan 15y	2.57 %	2031	75,000	75,000
IBLA-loan 15y	2.57 %	2031	25,000	25,000
IBLA-loan 15y	2.57 %	2031	78,000	78,000
IBLA-loan 15y	2.57 %	2031	82,000	82,000
IBLA-loan 15y	2.57 %	2031	75,000	75,000
IBLA-loan 18y	2.74 %	2034	75,000	75,000
IBLA-loan 18y	2.74 %	2034	75,000	75,000
IBLA-loan 20y	2.83 %	2036	50,000	50,000
IBLA-loan 20y	2.83 %	2036	40,000	40,000
IBLA-loan 20y	2.42 %	2036	125,000	125,000
IBLA-loan 20y	2.70 %	2037	100,000	100,000
IBLA-loan 22y	2.90 %	2038	40,000	40,000
IBLA-loan 25y	2.97 %	2041	35,000	35,000
IBLA-loan 25y	2.97 %	2041	40,000	40,000
IBLA-loan 25y	2.97 %	2041	50,000	50,000
IBLA-loan 27y	3.00 %	2043	135,000	135,000
IBLA-loan 30y	3.03 %	2046	220,000	220,000
Investment loans				
EIB loan, 11y	0.16 %	2028	150,000	150,000
EIB loan, 11y	0.19 %	2028	50,000	50,000
NIB loan, 15y	0.37 %	2033	100,000	–
NIB loan, 15y	1.54 %	2033	50,000	–
Facility loans				
Capex facility loan	0.48 %	–	–	20,000
RCF loan	0.33 %	2023	50,000	–
Accrued loan arrangement fees			-6,834	-7,110
Total non-current interest-bearing loans and borrowings			**3,327,310**	**3,174,068**
Total interest-bearing loans and borrowings			**3,327,310**	**3,174,068**

The owners First State Investments (40%), OMERS Infrastructure (40%), Keva (12.5%) and Elo (7.5%) have given a Shareholder loan to Suomi Power Networks TopCo B.V and its subsidiaries. In 2018, Caruna Networks Oy repaid the Shareholder loan by EUR 30 million. No interest expenses were capitalised nor added to the principal Shareholder loan amount during 2018 or 2017. No repayment was done during comparison year 2017.

During 2018, Caruna raised a EUR 150 million loan from the Nordic Investment Bank (NIB). The average maturity of the loan is 10 years. Caruna also took out in total EUR 70 million for investments from the Capex and Revolving Credit Facilities, which of EUR 40 million was repaid. Caruna's available facility limits consist of a capex and revolving credit facility, EUR 300 million; a bank overdraft facility, EUR 30 million; and a liquidity facility, EUR 15 million; and an undrawn capex loan EUR 100 million The period's financing costs stated on the income statement were EUR 133.7 (129.2) million, and the amount interest loans stated on the balance sheet were EUR 39.3 (39.7) million. Of Caruna's external loans, 98 percent are with fixed interest rates. The average interest rate on external loans at the end of the year was 2.2% (2.4%). Caruna complied with the covenant terms of all loan agreements. Standard & Poor's assigned Caruna's long-term credit rating of BBB+ and a stable outlook.

During 2017, Caruna raised fully the EUR 200 million loan, which was signed with the European Investment Bank (EIB) in December 2016. The loan maturity is 10 years. At the same time, Caruna reduced the capex facility limit from EUR 600 million to EUR 400 million. In addition to the EIB loan, Caruna Networks Oy borrowed EUR 100 million IBLA-loan for 20 years from the Transmission Finance DAC, which is issuing bonds and private placement loans for institutional investors. In addition, Caruna Networks Oy repaid EUR 170 million of its capex facility loan in 2017.

In addition to existing securities, Caruna Group has pledged all its properties.

The loan arrangement fees are accrued based on the effective interest method on the average maturity of the IBLA-loans.

The company's loans include covenants. The breaches of covenants may lead to increased cost of financing or withdrawal of the loan. The company has fulfilled the covenants and they are continuously monitored.

NET DEBT

EUR 1,000	2018	2017
Cash and cash equivalents	-57,535	-42,900
Shareholder loan	903,642	933,642
Total non-current interest-bearing loans and borrowings	2,423,668	2,240,426
Total net debt	**3,269,775**	**3,131,168**
Cash and cash equivalents	-57,535	-42,900
Gross debt - fixed rate	2,977,310	2,954,068
Gross debt - floating rate	350,000	220,000
Total net debt	**3,269,775**	**3,131,168**

EUR 1,000	Cash and cash equivalents	Shareholder loan	IBLA-loans	Loan facilities	Total
Net debt 1 January 2018	**-42,900**	**933,642**	**2,020,426**	**220,000**	**3,131,168**
Cash flow	-14,635	-30,000	2,966	180,000	138,331
Exchange rate differences	–	–	–	–	–
Other non-payment changes	–		276	–	276
Net debt 31 December 2018	**-57,535**	**903,642**	**2,023,668**	**400,000**	**3,269,775**
Net debt 1 January 2017	**-59,790**	**933,642**	**1,929,283**	**170,000**	**2,973,135**
Cash flow	16,890	–	100,000	50,000	166,890
Exchange rate differences	–	–	-8,615	–	-8,615
Other non-payment changes	–	–	-242	–	-242
Net debt 31 December 2017	**-42,900**	**933,642**	**2,020,426**	**220,000**	**3,131,168**

CASH AND CASH EQUIVALENTS RECONCILIATION

EUR 1,000	2018	2017
Cash and cash equivalents balance at 31 December	57,535	42,900
Group's Cash Pool account balance at 31 December	–	-3,032
Cash and cash equivalents at 31 December	57,535	39,868
Cash and cash equivalents in Group cash flow	57,535	39,868

LOAN COVENANTS

The loan covenant of the Senior-loans (IBLA loans and investment loans) is the ratio between Group's Funds from operations (after adding Senior Net finance charges) to Senior Net finance charges (ICR). The other of the loan covenants is the ratio between Group's Funds from operations to net debt excluding shareholder loan (SLR).

ICR-loan covenant is tested with backward lock-up tests of the last 12 months and with forward lock-up tests of the following 12 months. The ratio can not be less than 1.70:1. The consolidated EBITDA included in the Funds from operations is adjusted based on the definitions set in the loan arrangements.

Senior Leverage Ratio is tested with backward lock-up tests of the last 12 months, with forward lock-up tests of the following 12 months and with extended forward lock-up tests for the following 36 months. The ratio on the 12 month backward and forward lock-up tests can not be less than 0.05:1. The ratio on the extended forward lock-up test can not be less than 0.055:1. The consolidated EBITDA included in the Funds from operations is adjusted based on the definitions set in the loan arrangements. The net senior finance charges are calculated on accrued basis.

Loan covenants are monitored on semi-annual basis. The breach of the loan covenants may lead to premature withdrawal of Senior loans.

17. Fair values of financial assets and financial liabilities

In the table below is shown the fair value and book value for each financial asset and liability represented in the consolidated statement of financial position.

AT 31 DECEMBER 2018

EUR 1,000	Note	At fair value through profit or loss	At fair value through OCI	Amortised cost	Book value	Fair value	Fair value hierarchy
Non-current financial assets							
Loan arrangement fee, Revolving credit facility	16			1,868	1,868	1,868	1
Current financial assets							
Derivative financial instruments (electricity)	16	1,806			1,806	1,806	2
Trade receivables	16			111,248	111,248	111,248	2
Cash and cash equivalents	20			57,535	57,535	57,535	1
Total financial assets		**1,806**	**–**	**170,651**	**172,457**	**172,457**	
Non-current financial liabilities							
Interest-bearing liabilities (floating rate)	16			350,000	350,000	350,000	2
Interest-bearing liabilities (fixed rate)	16			2,984,144	2,984,144	2,984,144	2
Accrued loan arrangement fee	16			-6,834	-6,834	-6,834	1
Derivative financial instruments (interest)	16		8,491		8,491	8,491	2
Connection fee liabilities	16			304,300	304,300	304,300	3
Current financial liabilities							
Derivative financial instruments (electricity)	16	73			73	73	2
Derivative financial instruments (interest)	16	3,149			3,149	3,149	2
Trade payables	23			53,394	53,394	53,394	2
Total financial liabilities		**3,222**	**8,491**	**3,685,004**	**3,696,717**	**3,696,717**	

AT 31 DECEMBER 2017

EUR 1,000	Note	At fair value through profit or loss	At fair value through OCI	Amortised cost	Book value	Fair value	Fair value hierarchy
Non-current financial assets							
Derivative financial instruments (electricity)	16	905			905	905	2
Current financial assets							
Derivative financial instruments (electricity)	16	151			151	151	2
Trade receivables	16			108,828	108,828	108,828	2
Cash and cash equivalents	20			42,900	42,900	42,900	1
Total financial assets		**1,056**	**–**	**151,728**	**152,784**	**152,784**	
Non-current financial liabilities							
Interest-bearing liabilities (floating rate)	16			220,000	220,000	220,000	2
Interest-bearing liabilities (fixed rate)	16			2,961,178	2,961,178	2,961,178	2
Accrued loan arrangement fee	16			-7,110	-7,110	-7,110	1
Derivative financial instruments (interest)	16	21,009	3,458		24,467	24,467	2
Derivative financial instruments (electricity)	16	212			212	212	2
Connection fee liabilities	16			304,546	304,546	304,546	3
Current financial liabilities							
Derivative financial instruments (electricity)	16	11			11	11	2
Trade payables	23			55,316	55,316	55,316	2
Total financial liabilities		**21,232**	**3,458**	**3,533,930**	**3,558,620**	**3,558,620**	

The management assesses that cash and cash equivalents, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- The fair value of loans from banks and other financial liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including interest rate curves.
- Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own nonperformance risk as at 31 December 2018 was assessed to be insignificant.

Fair value hierarchy disclosures for each class of financial instruments:

Caruna has adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements according to the fair value measurement hierarchy.

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

18. Financial risk management

The Group's activities expose it to a variety of financial risks: cash flow interest rate risk, credit risk, currency risk and liquidity risk. The objective of the Group's risk management is to minimise the negative effects on the Group's financial performance caused by changes in financial markets. The Group uses derivative financial instruments to hedge certain risk exposures.

Financial risk management is carried out by Caruna's Treasury. Caruna's Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units according to the Treasury policy approved by the Board. The objective of treasury management is to secure sufficient funding for business operations, avoiding financial constraints at all times, to provide business units with financial services, to minimise the costs of financing, to manage financial risks (interest rate, liquidity, re-funding, credit and currency risks) and to provide the management with information on the financial position and risk exposures of Caruna and its business units. In addition, Caruna's Treasury actively monitors the actual values of the Group's financial covenants and anticipated financial headroom in relation to maximum values of these financial covenants as part of the Group's reporting purposes.

MARKET RISK

Electricity price risk

Grid loss purchases are exposed to market price volatility. Price risk for grid loss purchases is covered when needed by entering into physical electricity contracts. Caruna hedged the grid loss costs beforehand with electricity derivates until 30 September 2017, when Caruna decided to terminate the hedge accounting of electricity hedges.

Electricity derivatives 31 Dec 2018

EUR 1,000	Positive fair value	Negative fair value	Net fair value
Electricity derivatives, non-hedge accounting	1,806	-73	1,733
Total	**1,806**	**-73**	**1,733**

Electricity derivatives 31 Dec 2017

EUR 1,000	Positive fair value	Negative fair value	Net fair value
Electricity derivatives, non-hedge accounting	1,056	-223	833
Total	**1,056**	**-223**	**833**

Interest rate risk

Fluctuations in market interest rates have an effect on consolidated interest outflows and the fair value of interest-bearing receivables, loans payable and derivative instruments. The objective of interest rate risk management is to mitigate the impact of interest rate changes on the income statement, balance sheet and cash flow, while also taking into account the market value of net debt.

Interest rate derivatives 31 Dec 2018

EUR 1,000	Positive fair value	Negative fair value	Net fair value
Interest rate derivatives, non-hedge accounting	-	-3,149	-3,149
Interest rate derivatives, cash flow hedges and fair value hedges	–	-7,463	-7,463
Cross currency derivatives, cash flow hedges and fair value hedges	–	-1,029	-1,029
Total	**–**	**-11,640**	**-11,640**

Interest rate derivatives 31 Dec 2017

EUR 1,000	Positive fair value	Negative fair value	Net fair value
Interest rate derivatives, cash flow hedges	–	-17,015	-17,015
Cross currency derivatives, cash flow hedges and fair value hedges	–	-7,452	-7,452
Total	**–**	**-24,467**	**-24,467**

For interest rate sensitivity analysis in accordance with IFRS 7, if interest rates at 31 December 2018 on EUR-denominated borrowings had been 1% higher/lower with all other variables held constant, pre-tax profit for the year would have been EUR 1.3 (2.1) million lower / EUR 2.1 (2.1) million higher, as a result of changes in the interest flows on floating rate borrowings and hedging instruments and the change of market value of the non-hedge accounted interest rate swaps; there would not be any effect on other components of equity. The following table illustrates the sensitivity analysis.

31 Dec 2018

	Income statement		Equity	
EUR million	**+ 1%**	**- 1%**	**+ 1%**	**- 1%**
Interest-bearing liabilities	-2.0	2.7	–	–
Interest rate derivatives				
Hedge accounted	0.7	-0.6	–	–
Non-hedge accounted	–	–	–	–
Total	**-1.3**	**2.1**	**0.0**	**0.0**

31 Dec 2017

	Income statement		Equity	
EUR million	**+ 1%**	**- 1%**	**+ 1%**	**- 1%**
Interest-bearing liabilities	-2.1	2.1	–	–
Interest rate derivatives				
Hedge accounted	–	–	–	–
Non-hedge accounted	–	–	–	–
Total	**-2.1**	**2.1**	**0.0**	**0.0**

Credit risk

Caruna Finance is to manage the financial counterparty risks selecting carefully and distributing various transactions among adequate number of financial institutions and other counterparties.

Counterparty risk arises if a customer, borrower or other counterparty fails to honor its payment obligations. When drawing up a supply or connection contract, collateral or advance payment can be set for the customers of Caruna companies, for the payment of outstanding claims based on the supply contract. Collaterals provide security against possible credit losses. There are also elements of counterparty risk involved, if substantial amount of loans, hedging contracts or other financial services are obtained from too few providers.

Expected loss rate for trade receivables

Caruna Group records according to IFRS 9 expected credit losses on trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and records lifetime expected losses on trade receivables.

The loss allowance was determined as follows for trade receivables:

EUR 1,000	Not past due	Past due 1–30 days	Past due 31–90 days	Past due 91–180 days	Total
Supplier with a delivery obligation					
Gross trade receivables	19,562	–	–	–	19,562
Expected loss rate %	0.000 %	–	–	–	
Loss allowance	0	–	–	–	0
Households					
Gross trade receivables	1,722	926	222	96	2,966
Expected loss rate %	0.001 %	0.001 %	0.715 %	0.534 %	
Loss allowance	0	0	2	1	2
Companies					
Gross trade receivables	41,573	5,367	490	89	47,519
Expected loss rate %	0.004 %	0.934 %	14.973 %	29.081 %	
Loss allowance	2	50	73	26	151
Total loss allowance	**2**	**50**	**75**	**26**	**153**

For ECL measurement Caruna has divided customers into three groups; supplier with a delivery obligation, households and companies (including municipalities). Caruna has identified that the payment behavior and credit risk differ between these groups. The companies book all trade receivables over 180 days past due as credit loss accruals. On top of this, starting at 1 January 2018, the Group books according to IFRS 9 ECL model a credit loss for expected future receivables. The calculation reflect the most likely outcome for future credit losses, taking in account customers previous payment behavior as well as other information supporting decision making. Assumptions used in the calculation are revised annually or adjusted when necessary.

Trade receivables are arising from a large number of customers. There is no single customer who represents a significant part of the trade receivables. Trade receivables can not be pointed to a certain geographical area within Caruna's network area.

Currency risk

Changes in currency rates have impact on group's net financing costs as well as interest bearing liabilities and the fair values of derivatives. The aim of hedging the currency risk exposure is to reduce the effect of changes in income statement, balance sheet and cash flow, while also taking into account the market value of the net debt position.

Liquidity and refinancing risk

Caruna Treasury manages the Group's liquidity risk and ensures flexibility in funding by maintaining availability under committed credit lines. The Group uses diverse funding sources and its borrowings are long-term.

Caruna Networks Oy has unused committed borrowing facilities or other lines of credit that it can access to meet liquidity needs. At 31 December 2018 undrawn committed credit facilities were capex and revolving credit facility EUR 300 (capex facility 380 and revolving credit facility 60) million, bank overdraft EUR 30 (30) million, liquidity facility EUR 15 (20) million. In addition Caruna had an unused EIB bank loan of EUR 100 (0) million.

In order to decrease the refinancing risk Caruna aims to diversify the maturity structure of its interest-bearing debt and negotiates new committed credit lines well in advance of need. The table below summarises the maturity profile of the Caruna Networks Oy financial liabilities based on contractual undiscounted payments.

Year ended 31 December 2018

EUR 1,000	Payable on demand	Payable in less than 3 months	Payable in 4 to 12 months	Payable in 1 to 5 years	Payable in more than 5 years	Total
Interest-bearing loans and borrowings	–		–	550,000	2,784,144	3,334,144
Accrued loan arrangement fee	–	–	–	–	-6,834	-6,834
Connection fee liabilities	–	–	–	–	304,300	304,300
Interest derivatives	–	3,149	-	4,157	3,305	10,611
Currency derivatives	–	–	–	–	1,029	1,029
Electricity derivatives	–	71	2	–	–	73
Trade payables	–	53,394	–	–	–	53,394
Accrued interest expenses	–	32,638	6,651	–	–	39,289
Total	**–**	**89,252**	**6,653**	**554,157**	**3,085,944**	**3,736,006**

Year ended 31 December 2017

EUR 1,000	Payable on demand	Payable in less than 3 months	Payable in 4 to 12 months	Payable in 1 to 5 years	Payable in more than 5 years	Total
Interest-bearing loans and borrowings	–	–	–	20,000	3,161,178	3,181,178
Accrued loan arrangement fee	–	–	–	–	-7,110	-7,110
Connection fee liabilities	–	–	–	–	304,546	304,546
Interest derivatives	–	–	–	20,473	–	20,473
Currency derivatives	–	–	–	3,994	–	3,994
Electricity derivatives	–	–	11	212	–	223
Trade payables	–	55,316	–	–	–	55,316
Accrued interest expenses	–	33,174	6,530	–	–	39,704
Total	**–**	**88,490**	**6,541**	**44,679**	**3,458,614**	**3,598,324**

19. Trade and other receivables

TRADE RECEIVABLES

EUR 1,000	2018	2017
Trade receivables, gross amount	70,047	71,513
Credit losses	-153	–
Accrued sales	41,354	37,314
Total trade and other receivables	**111,248**	**108,828**

AGING ANALYSIS OF TRADE RECEIVABLES (GROSS AMOUNT)

EUR 1,000	2018	2017
Not past due	62,578	67,014
Past due 1–90 days	7,005	4,487
Past due 91–180 days	185	12
Past due more than 181 days	279	–
Total	**70,047**	**71,513**

Credit losses recorded in 2018 were EUR 432 (738) thousand. Trade receivables overdue more than 180 days are generally considered to be credit-impaired and reservations are made in group companie's bookkeeping for the full amount, adjusted for expected recovery rates. On top of this starting 1 January 2018 the Group books according to the IFRS 9 ECL model a credit loss for future credit losses. The change in accounting policy has not had a material impact on accounting for credit losses and there was no material change in credit losses.

OTHER RECEIVABLES

EUR 1,000	2018	2017
Income tax receivables	760	441
Accrued income and prepaid expenses	1,343	607
Total trade and other receivables	**2,103**	**1,049**

For terms and conditions relating to related party receivables, refer Note 26. Related party transactions.

20. Cash and cash equivalents

EUR 1,000	2018	2017
Cash at banks and on hand	57,535	42,900
Total cash and cash equivalents	**57,535**	**42,900**

Cash at banks earns interest at floating rates based on daily bank deposit rates.

At the end of the financial period 2018 the available committed facilities were: capex and revolving credit facility EUR 300 (capex facility 380 and revolving credit facility 60) million, bank overdraft EUR 30 (30) million, liquidity facility EUR 15 (20) million, and undrawn investment loan of EUR 100 million.

The Group has pledged all of its short-term deposits to fulfil collateral requirements.

21. Provisions

EUR 1,000	2018	2017
At 1 January 2018	368	726
Increases in provisions	22	101
Decreases in provisions	-175	-459
At 31 December 2018	**215**	**368**
Non-current provisions	169	208
Current provisions	46	160

Other provisions relate mainly to compensations for ended employments.

22. Pension and other post-employment benefit plans

The Caruna Group companies have pension schemes in accordance with the local conditions and practices in Finland. The schemes are generally funded through payments to insurance companies or the Caruna Group's pension fund as determined by actuarial calculations on a regularly basis. The group has both defined benefit and defined contribution plans.

All employees are eligible to statutory earnings-related pension under the TyEL (The employee's Pensions Act). Caruna has arranged its TyEL cover with Varma Pension Insurance Company. TyEL- plan is interpreted as a defined contribution plan according to IAS 19. The employer pays annual premiums to the pension insurance company and after that Caruna doesn't carry risk for the benefits or the depreciation of the insurance premiums invested by the insurance company.

The Caruna Group has arranged voluntary pension cover for a limited number of persons and all these plans are closed. The valuation is based on the reports prepared by the external actuaries.

Statement of financial position (Items recognised in the balance sheet at 31 December)

EUR 1,000	2018	2017
Defined benefit obligation	1,210	1,664
Fair value of plan assets	-1,015	-1,504
Surplus (-)/deficit (+)	195	160
Net defined benefit liability (+)/asset (-) recognised in statement of financial position	**195**	**160**

The reconciliation below shows the opening and closing balances of the defined benefit obligation

EUR 1,000	2018	2017
Opening defined benefit obligation	1,664	1,674
Current service cost	21	26
Interest expense	24	25
Actuarial gains (-)/losses (+) on obligation	-399	21
Benefits paid	-100	-82
Defined benefit obligation at the end of the period	**1,210**	**1,664**

The reconciliation below shows the opening and closing balances of the fair value of plan assets

EUR 1,000	2018	2017
Opening fair value of plan assets	1,504	1,563
Interest income	22	23
Actuarial gains (+)/losses (-) on plan assets	-459	-17
Benefits paid	-100	-82
Contributions	48	17
Fair value of plan assets at the end of the period	**1,015**	**1,504**

CHANGES IN NET DEFINED BENEFIT LIABILITY DURING THE PERIOD

The following table shows how the net defined benefit liability recognised in the statement of financial position is changed during the year.

EUR 1,000	2018	2017
Net defined benefit liability recognised in statement of financial position at beginning of period	160	111
Expense recognised in profit or loss	23	28
Remeasurements recognised in other comprehensive income	60	38
Contributions	-48	-17
Total	**195**	**160**

Items recognised in profit or loss

EUR 1,000	2018	2017
Service cost	21	26
Net interest	2	2
Expenses recognised in profit or loss	**23**	**28**

Items recognised in the statement of comprehensive income for the period

EUR 1,000	2018	2017
Actuarial gains (-)/losses (+) on defined benefit obligation arising from changes in financial assumptions	-32	16
Actuarial gains (-)/losses (+) on defined benefit obligation arising from experience adjustments	-367	5
Actuarial gains (-)/losses (+) on plan assets	459	17
Remeasurement in other comprehensive income	**60**	**38**

THE PRINCIPAL ASSUMPTIONS USED IN DETERMINING PENSION BENEFIT OBLIGATIONS FOR THE GROUP'S PLAN ARE SHOWN BELOW

The following tables show how the changes in assumptions used affect to the defined benefit obligation, related service cost and net interest.

Reporting Period ending 31 December 2018

Items	Defined benefit obligation	Fair Value of Plan Assets	Net Liability	Service cost	Net interest
Discount rate 1.70%	0 %	0 %	0 %	0 %	0 %
Discount rate +0.50%	6 %	5 %	9 %	11 %	42 %
Discount rate -0.50%	-2 %	-1 %	-3 %	-3 %	-32 %
Benefit increase 2%/0%	0 %	0 %	0 %	0 %	0 %
Benefit increase +0.50%	3 %	0 %	20 %	7 %	22 %
Benefit increase -0.50%	-3 %	0 %	-19 %	-5 %	-20 %

Reporting Period ending 31 December 2017

Items	Defined benefit obligation	Fair Value of Plan Assets	Net Liability	Service cost	Net interest
Discount rate 1.50%	0 %	0 %	0 %	0 %	0 %
Discount rate +0.50%	-7 %	-7 %	-8 %	-8 %	22 %
Discount rate -0.50%	8 %	8 %	9 %	9 %	-27 %
Benefit increase 1.90%	0 %	0 %	0 %	0 %	0 %
Benefit increase +0.50%	4 %	0 %	45 %	5 %	48 %
Benefit increase -0.50%	-4 %	0 %	-42 %	-5 %	-44 %

23. Trade and other current payables

EUR 1,000	2018	2017
Trade payables		
Accounts payables trade	29,994	32,234
Accrued trade payables	23,400	23,082
Total trade payables	**53,394**	**55,316**
Other liabilities		
Electricity tax liability	18,203	18,566
VAT liability	18,314	13,467
Other payables	795	3,418
Total other liabilities	**37,313**	**35,451**
Accrued expenses		
Employee benefit expenses	5,766	5,037
Interest expenses	39,289	39,704
Income tax liability	171	53
Other accrued expenses	4,154	4,648
Total accrued expenses	**49,380**	**49,443**
Total	**140,086**	**140,210**

Trade payables are non-interest bearing and are normally settled on 14- day or 30-day terms. According to the Management's estimate, the fair value of the trade and other payables does not materially differ from the balance sheet value.

24. Commitments and contingencies

OPERATING LEASE COMMITMENTS

Future minimum rentals payable under non-cancellable operating leases are as at 31 December are, as follows:

EUR 1,000	2018	2017
Within one year	457	379
After one year but no more than five years	1,882	1,555
More than five years	492	401
Total	**2,831**	**2,335**

CAPITAL COMMITMENTS

EUR 1,000	2018	2017
Property, plant and equipment	288,890	288,577
Total	**288,890**	**288,577**

OTHER PURCHASE COMMITMENTS

EUR 1,000	2018	2017
Purchase of electricity	7,132	2,764
Total	**7,132**	**2,764**

CONTINGENT LIABILITIES

EUR 1,000	2018	2017
Loans, for which shares have been pledged and mortgages given		
Loans from financial institutions	2,430,502	2,247,536
Floating charges	11,100,000	11,100,000
Real estate mortgages	24,077	24,544
Guarantees on behalf of Group companies	20,048	20,442

Caruna companies have given guarantees and security for the obligations of each other as well as for Caruna Networks B.V. and Suomi Power B.V. under the finance documents. This guarantee and security liability has expressly not been assumed by any Finnish Caruna company to the extent such assumption would constitute unlawful distribution of assets within the meaning of Chapter 13, Section 1 of the Finnish Companies Act, unlawful financial assistance within the meaning of Chapter 13, Section 10 of the Finnish Companies Act or be otherwise in breach of any other applicable mandatory provisions of Finnish law.

The shares in companies belonging to Caruna Group, group internal loans receivables and group cashpool accounts have been pledged as security on behalf of group loans.

Group cashpool and other bank accounts, EUR 57,535 (42,900) thousand have been pledged as security for loans from financial institutions.

The company's loans include covenants. The breach of covenants may lead to increased cost of financing or withdrawal of the loan. The company has fulfilled the covenants and these are continuously monitored.

Caruna Group has pledged it's receivables based on the Share Purchase Agreement for the security of loans from financial institutions taken by other group companies. At the balance sheet date the value of the pledge was zero.

Caruna Group has pledged its receivables based on the Electricity Hedging Agreement. At the balance sheet date the amount was EUR 0.

Caruna Group has pledged its receivables based on financing agreements for insurance contract. At the balance sheet date the amount was zero.

25. Equity

SHARE CAPITAL

Caruna Networks Oy's issued share capital is EUR 2,500. The shares are fully paid. The company has 2,500 shares, with no nominal value, and of which each has an equal right to dividend and to the company's assets. Each share entitles the holder to one vote at the Annual General Meeting.

INVESTED UNRESTRICTED EQUITY FUND

Caruna Networks Oy's invested unrestricted equity fund was EUR 171,204 (171,204) thousand during the financial year.

OTHER FUNDS

EUR 1,000	2018	2017
Cash flow hedge reserve	-5,971	-2,766
Other comprehensive income	208	255
Total other funds	**-5,763**	**-2,511**

The effective portion of the gain or loss on the hedging instrument is recognised in the cash flow hedge reserve. Caruna has terminated the hedge accounting of electricity derivative contracts on 30 September 2017. The changes in the fair value of derivatives of electricity derivatives are booked directly to the income statement.

DIVIDEND DISTRIBUTION

Caruna Networks Oy's profit for the financial period was EUR 508,224,821.50 (41,360,260.31), including a non-recurring merger profit of EUR 448,860,706.01 realised when Caruna Networks Sähkönsiirto Oy and Caruna Networks Espoo Oy were merged into Caruna Networks Oy on 1 January 2018. The comparable profit for the financial period was EUR 59,364,115.49 (41,360,260.31). The Board of Directors proposes to the annual general meeting that no dividend be paid for 2018 and that the profit be transferred to retained earnings.

26. Related party transactions

The Caruna Group related parties consists of its subsidiaries, The Board of Directors, the CEO and the Management team. Note 3 Group information provides the information about the Group's structure including the details of the subsidiaries and the holding company.

THE BOARD OF DIRECTORS AND MANAGEMENT TEAM

Salaries and other short term employee benefits

EUR 1,000	2018	2017
Board members	180	178
CEO	410	424
Management team	1,234	1,558
Total	**1,824**	**2,160**

The salaries and short term employee benefits for Board members, CEO and Management team in 2018 were EUR 1,824 (2,160) thousand. Remunerations have been paid to independent domestic Board members.

Caruna's Management team consists of 8 members. Caruna renewed it's organisation and Management team in 2017 to 2018. In the autumn of 2017 the Management team was reduced from 11 members to 6 members. In the spring of 2018 the Management team was complemented with two persons. In the beginning of September 2018 a new Development and innovation unit was launched and the leader of the Development and innovation unit joined the Management team.

Salaries paid by the Caruna Group include also short-term incentives (STI). The employee has the option to transfer the whole amount or half amount of the STI, however not more than 10% of the annual salary, to the Caruna Personnel Fund established in 2015.

In its meeting 16 November 2017 The Caruna Board of Directors approved a Long-Term incentive program (LTI-program) for the years 2018-2020. Annually a group of employees are accepted by the Board into the program. Also the CEO can participate in the program. The incentive is in euros and to achieve it the Board annually sets parameters that are the same for all participants. The incentive program is by its nature funded in the way that a third of the cumulatively earned incentives are paid the following year for the earnings period and two thirds are left in the accumulated earned incentives. As a rule, the participant loses the accumulated incentives if the employee resigns. If the employment is terminated by Caruna due to other than personal grounds, the employee receives the accumulated amount of the incentive at the end of the employment. In 2018, EUR 561 (844) thousand were paid out from the LTI program.

RETIREMENT ARRANGEMENTS

The CEO's retirement age is based on the Finnish pension laws.

TERMINATION BENEFITS

If the employment contact with the CEO is terminated, the CEO is entitled to six months salary.

No loans have been granted to the persons included in Caruna's related party during the current and previous period.

BUSINESS TRANSACTIONS

All transactions with related parties take place in an arm's length manner. Transactions with the Board of Directors and Management team during the financial year were immaterial.

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

LOANS

In September 2018 Caruna Networks Oy repaid EUR 30,000 thousand of the Shareholder loan to it's owners. At the end of 2018 the shareholder loan was EUR 903,642 (933,642) thousand from the owners First State Investment, OMERS Infrastructure, Keva and Elo through Suomi Power Networks TopCo BV and its subsidiaries. The outstanding amount of the accrued interest on the shareholder loan was EUR 19,629 (20,281) thousand.

Loans are specified in the Note 16 Financial assets and liabilities.

27. Events after the reporting period

The unusually strong storm winds that began at new year felled a large number of trees onto power lines in various parts of Finland. The company made preparations for the arrival of the storm in good time, and there were hundreds of professionals in the field making repairs. The most difficult areas were the Turku archipelago and the coast of Ostrobothnia, along with the islands there. The System Average Interruption Duration Index per customer (SAIDI) was 117 minutes.

In January 2019, Caruna and Telia Finland agreed on a joint construction project that will see electricity and fiber-optic networks being built in an efficient and environmentally friendly manner.

Parent company financial statements (FAS)

PARENT COMPANY INCOME STATEMENT

EUR	Note	1 January 2018–31 December 2018	1 January 2017–31 December 2017
Net sales	3	**16,343,424.96**	**4,868,015.34**
Other operating income	4	448,860,706.01	–
Personnel expenses	5	-6,383,856.67	-2,985,062.95
Other operating expenses	6	-10,788,919.56	-1,599,797.44
Operating profit		**448,031,354.74**	**283,154.95**
Financial income and expenses	7	-107,804,338.05	15,125,356.60
Profit before appropriations and taxes		**340,227,016.69**	**15,408,511.55**
Appropriations	8	178,100,000.00	32,150,000.00
Income taxes	9	-10,102,195.19	-6,198,251.24
Profit for the period		**508,224,821.50**	**41,360,260.31**

PARENT COMPANY BALANCE SHEET

EUR	Note	31 December 2018	31 December 2017
ASSETS			
Non current assets	10		
Investments		2,947,000,000.00	266,108,600.47
Total non current assets		**2,947,000,000.00**	**266,108,600.47**
Current assets			
Non-current receivables	11	929,310,711.18	2,972,080,447.98
Current receivables	12	223,567,720.57	215,916,361.16
Cash and cash equivalents	13	12,435,408.47	–
Total current assets		**1,165,313,840.22**	**3,187,996,809.14**
TOTAL ASSETS		**4,112,313,840.22**	**3,454,105,409.61**
EQUITY AND LIABILITIES			
Equity	14		
Share capital		2,500.00	2,500.00
Invested distributable equity fund		171,203,600.47	171,203,600.47
Hedging reserves		-7,462,902.13	-3,458,019.94
Retained earnings (cumulative profit/loss)		8,146,581.07	-33,213,679.24
Profit for the financial year		508,224,821.50	41,360,260.31
Total equity		**680,114,600.91**	**175,894,661.60**
Liabilities			
Non current liabilities	15	3,342,635,137.22	3,205,645,117.05
Current liabilities	16	89,564,102.09	72,565,630.96
Total liabilities		**3,432,199,239.31**	**3,278,210,748.01**
TOTAI EQUITY AND LIABILITIES		**4,112,313,840.22**	**3,454,105,409.61**

Notes to the parent company financial statements (FAS)

1. Accounting principles

The financial statements of Caruna Networks Oy have been prepared in accordance with Finnish Accounting Standards and other regulation and legislation governing preparing of financial statements.

1.1 NET SALES

The revenue includes income from financial administration services, financial services and management services from group companies.

1.2 FOREIGN CURRENCY ITEMS AND DERIVATIVE INSTRUMENTS

Transactions in foreign currencies are recorded at the exchange rates prevailing at the transaction dates. Foreign currency receivables and liabilities are converted into euros using the exchange rates prevailing on the balance sheet date. Exchange rate differences arising from operations are recorded to adjust income or costs in the profit and loss statement depending on the nature of the item in question. Exchange rate differences arising from financial items are recorded in the financial income and expenses in the profit and loss statement.

1.2.1 Financial instruments – Recognition

Caruna Networks Oy has changed its accounting policies regarding derivatives on 31 December 2016 to meet the criteria of KILA 1963/2016 and has applied the IFRS approach. Caruna Networks Oy has appliedhedge accounting to currency swap agreement 31 December 2016.

The Company measures financial instruments, such as derivatives at fair value at each balance sheet date. 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 to by Caruna Networks Oy.

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. Caruna Network Oy uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the 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 –** AValuation 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 financial statements on a recurring basis, Caruna 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.

1.2.2 Derivative financial instruments and hedge accounting

The company uses derivative financial instruments, such as interest rate swaps and currency swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured 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.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in hedging reserve and later reclassified to profit or loss when the hedge item affects profit or loss.

For hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is attributable to interest rate risk associated with a recognised liability.

At the inception of a hedge relationship, the company 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, 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 the hedged item's 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 have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

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

When hedge accounting is discontinued, any cumulative gain or loss previously recognised in hedge reserve is reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss. If the hedged item does no longer exist (i.e. the loan is repaid prematurely) any related cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective is reclassified from equity to profit or loss as a reclassification adjustment.

1.3 INCOME TAXES

Income taxes recognised in the profit or loss statement includes both taxes from reporting period and possible adjustment to prior periods.

Deferred taxes are 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 assets are recognised to the extent that it is probable that taxable profit will be available rences, and the carry forward of unused tax losses can be utilised.

Deferred tax is calculated using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

1.4 PENSIONS

The pension coverage for employees is provided through insurance policies taken out with a pension institution. The statutory pension expenses are recognised as expenses in the year they incurred.

1.5 FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are recognised initially at fair value, net of transaction costs. Loans of the company are long-term.

1.6 PROVISIONS

Provisions are recognised when Caruna Networks Oy has a present obligation (legal or constructive) because of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are recognised as an expense in the statement of profit or loss.

2. Group information

Caruna Networks Oy is consolidated in Suomi Power Networks TopCo B.V. and its Dutch subsidiary Suomi Power BV owns 100% of the shares in Caruna Networks Oy.

Suomi Power Networks TopCo B.V. has a registered office in Amsterdam, The Netherlands. The consolidated financial statements of Suomi Power Networks TopCo B.V. according to IFRS are available at Suomi Power Networks TopCo B.V. head quarters in Luna Arena, Herikerbergweg 112, 1101 CM Amsterdam, The Netherlands.

The shareholders of Caruna Networks Oy through Suomi Power Networks TopCo B.V. are mutual pension insurance companies Keva (12,5 %) and Elo (7,5 %), and international infrastructure investors First State Investments (40 %) and OMERS Infrastructure (40 %).

Caruna Networks Sähkönsiirto Oy and Caruna Networks Espoo Oy have been merged into Caruna Networks Oy on 1 January, 2018. Previously Caruna Networks Oy owned the both companies with 100%.

3. Net sales by geographical markets

EUR	2018	2017
Sales to group companies, Finland	16,343,424.96	4,828,723.39
Sales to others, abroad	–	39,291.95
Total	**16,343,424.96**	**4,868,015.34**

4. Other operating income

EUR	2018	2017
Merger gain	448,860,706.01	–

The merger gain was created when Caruna Networks Sähkönsiirto Oy and Caruna Networks Espoo Oy merged with Caruna Networks Oy on 1 January 2018.

5. Personnel and other personnel related expenses

PERSONNEL EXPENSES

EUR	2018	2017
Wages and salaries	-5,481,462.67	-2,250,937.97
Indirect personnel expenses		
Pensions	-727,042.68	-584,701.56
Other personnel expenses	-175,351.32	-149,423.42
Total	**-6,383,856.67**	**-2,985,062.95**

NUMBER OF PERSONNEL

	2018	2017
Average number of personnel during the financial year	51	17

SALARIES AND OTHER SHORT TERM EMPLOYEE BENEFITS TO MANAGEMENT

EUR	2018	2017
To board members, CEO and management team	-1,824,491.00	-2,159,512.83

6. Other operating expenses

EUR	2018	2017
Rents	-70,954.92	-123.96
External services	-9,924,334.63	-1,300,312.62
Other expenses	-793,630.01	-299,360.86
Total	**-10,788,919.56**	**-1,599,797.44**

AUDITOR'S FEES, DELOITTE OY, AUDIT FIRM

EUR	2018	2017
Audit fees	-148,111.00	-60,431.48
Other fees	-98,768.50	-108,525.00
Total	**-246,879.50**	**-168,956.48**

7. Financial income and expenses

EUR	2018	2017
Other interest and financial income		
From group companies	25,996,215.59	144,525,887.20
From others	6,135,679.51	6,179,743.89
Total financial income	**32,131,895.10**	**150,705,631.09**
Interest expenses and other financial expenses		
To group companies		
Shareholder loan interest expenses	-79,810,083.96	-80,461,750.63
To others		
Senior loan interest and financial expenses	-51,847,980.54	-49,450,270.78
Interest swap expenses	-6,717,665.03	-5,152,629.71
Other interest and financial expenses	-1,560,503.62	-515,623.37
Total financial expenses	**-139,936,233.15**	**-135,580,274.49**
Total	**-107,804,338.05**	**15,125,356.60**

8. Appropriations

EUR	2018	2017
Group contributions received	178,100,000.00	32,150,000.00

9. Income taxes

EUR	2018	2017
Income taxes from group contributions	35,620,000.00	6,430,000.00
Income taxes from ordinary activities	-45,722,195.19	-12,628,251.24
Total taxes	**-10,102,195.19**	**-6,198,251.24**

The company has not booked deferred tax assets from confirmed losses arising from 2015 of EUR 1,092,793.27.

10. Assets

INVESTMENTS

EUR	Investments in group companies 2018	Investments in group companies 2017
Acquisition cost 1 Jan	**266,108,600.47**	**266,108,600.47**
Additions	2,947,000,000.00	–
Disposals	-266,108,600.47	–
Acquisition cost 31 Dec	**2,947,000,000.00**	**266,108,600.47**
Carrying amount 31 Dec	2,947,000,000.00	266,108,600.47
Total assets	**2,947,000,000.00**	**266,108,600.47**

As a result of the merger of Caruna Networks Sähkönsiirto Oy and Caruna Networks Espoo Oy, the shares of Caruna Oy and Caruna Espoo Oy were transferred to Caruna Networks Oy on 1 January 2018.

11. Non-current receivables

EUR	2018	2017
Receivables from group companies		
Loan receivables		
Shareholder loan receivables	–	998,465,152.92
Other loan receivables	920,876,666.00	1,966,700,000.00
Receivables from group companies total	**920,876,666.00**	**2,965,165,152.92**
Receivables from others		
Prepayments and accrued income		
Other prepayments and accrued income	8,434,045.18	6,915,295.06
Non-current receivables total	**929,310,711.18**	**2,972,080,447.98**

12. Current receivables

EUR	2018	2017
Trade receivables	**–**	**40,150.09**
Prepayments and accrued income		
Accrued interest income, swaps	372,396.77	345,882.93
Prepaid insurance premiums	11,051.00	0.00
Other prepaid expenses	782,114.40	0.00
Other prepaid expenses and accrued income	9,734.84	4,687.46
Prepayments and accrued income total	**1,175,297.01**	**350,570.39**
Receivables from group companies		
Trade receivables	1,194,663.24	–
Cash pool account	37,353,929.48	147,397,450.89
Prepayments and accrued income		
Shareholder loan interest income	–	21,726,295.29
Other interest interest income	5,743,830.84	14,251,894.50
Prepayments and accrued income total	5,743,830.84	35,978,189.79
Group contributions	178,100,000.00	32,150,000.00
Receivables from group companies total	**222,392,423.56**	**215,525,640.68**
Total current receivables	**223,567,720.57**	**215,916,361.16**

Receivables from group companies includes cash pool account of EUR 37,353,929.48 (147,397,450.89). The company's option to reclaim these resources is limited to other cash pool account balances by other group companies.

13. Cash and cash equivalents

EUR	2018	2017
OP Yrityspankki Oyj	12,435,408.47	–

14. Equity

EUR	2018	2017
Restricted equity		
Share capital 1 Jan	2,500.00	2,500.00
Share capital 31 Dec	2,500.00	2,500.00
Hedging reserves 1 Jan	-3,458,019.94	-4,757,111.46
Change in hedging reserves	-4,004,882.19	1,299,091.52
Hedging reserves 31 Dec	-7,462,902.13	-3,458,019.94
Total restricted equity	**-7,460,402.13**	**-3,455,519.94**
Unrestricted equity		
Invested distributable equity fund 1 Jan	171,203,600.47	171,203,600.47
Invested distributable equity fund 31 Dec	171,203,600.47	171,203,600.47
Retained earnings 1 Jan	8,146,581.07	-33,213,679.24
Retained earnings 31 Dec	8,146,581.07	-33,213,679.24
Profit for the period	508,224,821.50	41,360,260.31
Total unrestricted equity	**687,575,003.04**	**179,350,181.54**
Total equity	**680,114,600.91**	**175,894,661.60**

DISTRIBUTABLE UNRESTRICTED EQUITY

EUR	2018	2017
Retained earnings	8,146,581.07	-33,213,679.24
Profit for the period	508,224,821.50	41,360,260.31
Invested distributable equity fund	171,203,600.47	171,203,600.47
Hedging reserve	-7,462,902.13	-3,458,019.94
Total	**680,112,100.91**	**175,892,161.60**

15. Non current liabilities

EUR	2018	2017
Loans from the group companies	903,641,586.65	933,641,586.65
Loans from financial institutions	2,430,502,183.40	2,247,536,479.61
Interest and currency derivatives	8,491,367.17	24,467,050.79
Total non-current liabilities	**3,342,635,137.22**	**3,205,645,117.05**

16. Current liabilities

EUR	2018	2017
Trade payables	1,030,455.31	262,996.10
Other current liabilities	3,831,902.34	4,148,621.58
Interest derivatives	3,148,500.51	0.00
Accrued expenses		
Accrued employee expenses	1,984,979.14	948,862.62
Accrued interest expenses, other	19,659,893.93	19,423,387.44
Income tax liabilities	171,080.70	49,003.30
Other accrued expenses	178,465.44	137,118.67
Accrued expenses total	**21,994,419.21**	**20,558,372.03**
Liabilities to group companies		
Trade payables	151,628.21	287,015.56
Cash pool account	39,778,093.15	27,027,855.66
Accrued expenses		
Accrued shareholder loan interest expenses	19,629,103.36	20,280,770.03
Liabilities to group companies total	**59,558,824.72**	**47,595,641.25**
Total Current liabilities	**89,564,102.09**	**72,565,630.96**
Non-interest bearing liabilities	58,277,376.11	70,004,826.09
Interest bearing liabilities	3,373,921,863.20	3,208,205,921.92
Total	**3,432,199,239.31**	**3,278,210,748.01**

17. Fair value Hierachy of financial derivatives valued at fair value

EUR	2018	2017
Derivative liabilities recoqnised at fair value through OCI	Level,2	Level,2
Interest rate swaps	10,611,402.64	17,014,862.01
Cross currency swaps	1,028,465.04	7,452,188.78
Total	**11,639,867.68**	**24,467,050.79**

18. Maturity of interest rate and cross currency swaps liabilities

EUR	2018	2017
On demand	–	–
Less than 3 months	3,148,500.51	–
4 to 12 months	–	–
1 to 5 years	–	17,014,862.01
> 5 years	8,491,367.17	7,452,188.78
Total	**11,639,867.68**	**24,467,050.79**

19. Commitments and contingent liabilities

EUR	2018	2017
Loans, for which shares and other assets have been pledged		
Loans from financial institutions (senior-loan)	2,430,502,183.40	2,247,536,479.61
Bookvalue of pledged subsidiary shares	2,947,000,000.00	266,108,600.47
Floating charges	6,660,000,000.00	2,220,000,000.00
Loans receivables	920,876,666.00	2,965,165,152.92
Cashpool receivables	37,353,929.48	147,397,450.89
Mortgages	24,076,753.61	24,544,156.51
Guarantees on behalf of group companies	20,047,890.00	20,441,985.93

Caruna Oy has given guarantees and security for the obligations of other group companies as well as Caruna Networks B.V. and Suomi Power B.V. under the finance documents. This guarantee and security liability has expressly not been assumed by Caruna Oy to the extent such assumption would constitute unlawful distribution of assets within the meaning of Chapter 13, Section 1 of the Finnish Companies Act, unlawful financial assistance within the meaning of Chapter 13, Section 10 of the Finnish Companies Act or be otherwise in breach of any other applicable mandatory provisions of Finnish law.

Company's bank accounts, EUR 12,435,408.47 (2017: -) have been pledged as security for loans from financial institutions.

The company's loans include covenants. The breakage of covenants may lead to increased cost of financing or withdrawal of the loan. The company has fulfilled the covenants and these are continously monitored.

The company has pledged possible liabilities arising from electricity hedging on behalf of its subsidiaries.

20. Holdings in other companies

	Caruna Oy	Caruna Espoo Oy
Ownership, %	100	100
Registered office	Espoo	Espoo
Share capital, EUR	2,000,000.00	4,000,000.00
Equity, EUR	16,455,582.55	20,294,894.68
Profit/Loss for the period	-7,825,782.14	166,827.99

21. Formulas for key figures

OPERATING PROFIT-%

$$\frac{\text{Operating profit x 100}}{\text{Net sales}}$$

RETURN ON EQUITY-%

$$\frac{\text{(Profit/Loss before appropriations and taxes - taxes) x 100}}{\text{Equity (avarage for the period)}}$$

EQUITY RATIO-%

$$\frac{\text{Equity x 100}}{\text{Total assets}}$$

Signatures to the financial statements and operating and financial review

Espoo, 19 March 2019

Juha Laaksonen
Chairman of the Board

Jouni Grönroos
Member of the Board

John Guccione
Member of the Board

Gregor Kurth
Member of the Board

Matthew Liddle
Member of the Board

Niall Mills
Member of the Board

Tomi Yli-Kyyny
Managing Director

Auditor's note

An auditor's report based on the audit performed has been issued today.

Espoo, 19 March 2019

Deloitte Oy
Audit Firm

Jukka Vattulainen
APA

List of ledgers, types of vouchers and their archiving methods

		Method
Operating and finacial review and financial statements		Bound book
	Note vouchers	Electronically
Balance specifications		Electronically
Accounting documents		
	Income statement and balance sheet	Electronically
	General ledger	Electronically
	Journal	Electronically
Supporting ledgers		
	Trade debtors ledger	Electronically
	Trade creditors ledger	Electronically
	Payroll accounting	Electronically
	Commitments	Electronically
Voucher types		
	Bank vouchers	Electronically
	Adjusting journal entries	Electronically
	Trade debtors ledger	Electronically
	Trade creditors ledger	Electronically
	Payroll vouchers	Electronically
	Vouchers for travel expenses	Electronically

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