

Caruna Oy

OPERATING AND
FINANCIAL REVIEW AND
FINANCIAL STATEMENTS

2018



Positive energy.

caruna


31 DECEMBER 2018



Table of content

Financial period 1 January 2018 – 31 December 2018

3	Operating and financial review
7	Profit and loss statement
7	Balance sheet
8	Cash flow statement
9	Notes
21	Signatures to the operating and financial review and financial statements
22	Auditor's note
23	List of ledgers



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

Caruna Oy is a part of Caruna Group (Caruna). Caruna Oy's previous parent company, Caruna Networks Sähkösiirto Oy, was merged into the Group's parent company, Caruna Networks Oy, on 1 January 2018, when Caruna Networks Oy took ownership of the shares in Caruna Oy. Caruna Oy is engaged in regulated electricity distribution network operations and high-voltage electricity distribution network operations on the electricity networks it owns, and it is a distribution network and high-voltage distribution network company as referred to in the Electricity Market Act, within its area of responsibility.

Key events during the financial period

In 2018, construction of a smart electricity network continued in Caruna Oy's network area, and approximately 6,200 kilometres of the network was placed underground, protected from the elements. Cabling now accounts for 49 (43) per cent of the network. Other actions were taken to improve the reliability of electricity network, including clearing trees from the power-line corridors.

A total of 1,400 new solar power systems were connected to Caruna Oy's electricity network. By the end of the year, the number of small-scale producers exceeded 3,400.

In 2018, the company 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 increase affected customers' total electricity distribution fees, including tax, by an average of 6.5 per cent.

Financial development

In 2018, Caruna Oy's net sales amounted to EUR 369.2 million, showing an increase of 7.6 per cent year-on-year. The increase in net sales was mainly due to higher electricity distribution prices and volume growth.

Variable costs, consisting of transmission costs and grid loss electricity purchases, were EUR 73.5 (70.3) million. The increase of EUR 3.2 million in costs came mainly from the growth in the electricity supply volume.

Operating expenses, including external services, employee costs and other operating expenses, were EUR 61.1 (58.3) million, which is EUR 2.8 million higher than in the previous year. The growth in expenses is mainly due to higher personnel expenses and IT and fault repair expenses. Depreciations, amortisations and impairment charges amounted to EUR 88.1 (78.7) million. In the previous year, a non-recurring item amounting to EUR 4.3 million was recognised under depreciation to reflect the change in the depreciation treatment of compensation for power-line corridors. Depreciations, amortisations and impairment charges also include scrapping costs arising from dismantling overhead lines in a total amount of EUR 16.3 (9.2) million.

The company's operating profit was EUR 153.7 (143.4) million, and the loss for the financial period was EUR 7.8 (2017: loss of 7.6) million.

The company gave EUR 149.0 (190.9) million in group contributions.

Financial key figures

	2018	2017	2016
Net sales (EUR million)	369.2	343.2	332.8
Operating profit (EUR million)	153.7	143.4	150.1
Operating profit (% of net sales)	41.6	41.8	45.1
Loss for the period (EUR million)	-7.8	-7.6	-7.1
Investments (EUR million)	232.5	275.6	258.6
Return on equity (%)	24.5	22.7	22.6
Equity ratio (%)	30.7	34.8	44.3

Business activities

Caruna Oy has approximately 79,900 kilometres of electricity network in its operating area of South, Southwest and West Finland, and in the regions of Koillismaa and Satakunta. The electricity supply volume during the year increased slightly, amounting to 6.8 (6.7) TWh on distribution network and to 2.8 (2.7) TWh on the high-voltage distribution network.

Caruna Oy's customer base has grown steadily during the past years. The total number of customers was 471 (467) thousand at the end of 2018. A total of 1,600 (1,656) new connection contracts were signed.

The reliability of electricity supply is measured by the System Average Interruption Duration Index (SAIDI). The average interruption time for Caruna Oy's electricity distribution was 132 (146) minutes per customer in 2018, and the reliability of electricity supply was 99.98 (99.97) per cent. The System Average Interruption Frequency Index (SAIFI) per customer was 2.4 (2.3) 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 6,150 (14,500) customers.

During the reporting period, Caruna Oy's reliability of supply projects focused on sparsely populated areas. New projects began in Lieto, Kustavi, Merikarvia, Ylikiiminki, Närpiö, the Lohja area and Kemiönsaari. Over the year, Caruna Oy built approximately 6,200 (5,900) kilometres of low and medium-voltage underground cable network. By the end of the year, 49 (43) per cent of the network was cabled.

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.

Caruna Oy's performance-based investments during the financial period amounted to EUR 232.5 (275.6) million.

In 2018, the company 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.

A total of 1,400 new solar power systems were connected to Caruna Oy's electricity network. By the end of the year, the number of small-scale producers exceeded 3,400.

Caruna Oy's increased electricity distribution prices took effect on 1 July 2018. The impact of the price rises on individual customers' bills varied depending on the type of housing and the energy consumption. These changes affected customers' total electricity distribution fees, including tax, by an average of 6.5 per cent.

Price changes are necessary to fund the network improvement projects needed to boost the reliability of supply. The investments in network improvements aim to achieve the security of supply commitments in accordance with 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.

Research and development

Total research and development expenditure for the financial period amounted to EUR 0.1 (2017: 0.2 and 2016: 0.7) million, which is 0.14 (2017: 0.29 and 2016: 0.37) per cent of operating expenses.

Employees

Caruna Oy employed an average of 231 (2017: 218 and 2016: 213) personnel, and it had 282 (2017: 222 and 2016: 213) personnel at the end of the year. During the financial year, the company paid EUR 13.2 (2017: 11.4 and 2016: 11.5) million in wages and salaries. More information can be found in Caruna Group's corporate responsibility section of the annual report published at Caruna.fi/en.

Corporate responsibility

Caruna Oy's corporate responsibility is presented in greater detail in a separate corporate responsibility report published at Caruna.fi/en.

Risks

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

Liquidity risk

As part of Caruna Group, Caruna Oy utilises the corporation's committed credit limits and other credit facilities that it can use to balance liquidity in addition to funds from operations.

Credit risk

Caruna Group's policies determine the credit rating requirements for customers and derivative financial instrument counterparties, as well as the investment transaction principles. Caruna Oy's customers can have supply or connection contracts including a collateral or advance payment to cover any contractual amounts that remain outstanding. Collaterals hedge against potential credit losses and the accumulation of credit losses is closely monitored. Credit losses amounted to EUR 124 (597) thousand in 2018.

Price risk

In previous years, price risks related to grid loss electricity purchases have been hedged using electricity derivatives. In 2017, following a re-evaluation of the impact of price risks related to grid loss electricity purchases, Caruna Oy decided that no new electricity derivatives will be purchased and, where necessary, the risk will be hedged by signing physical electricity purchase agreements.

Changes in equity

Caruna Oy's share capital amounts to EUR 2.0 million. Caruna Oy's invested unrestricted equity fund was expanded by EUR 10 million, and the fund now totals EUR 63.4 million. The company has no subordinated loans as defined in the Limited Liability Companies Act.

Board of Directors

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.

The board convened seven 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.

Auditors

Caruna Oy's audit firm was Deloitte Oy, with Reeta Virolainen, Authorised Public Accountant, acting as the auditor with principal responsibility.

Shares and ownership

The company has 470,671 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. 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.

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 operates as part of Caruna Group and within the framework of the electricity distribution industry in a regulated operational environment. The operations are expected to continue in accordance with normal business principles and conditions.

Caruna Oy is continuing a large-scale investment programme that began in 2013 to improve the reliability of supply. The company believes that it will succeed in meeting 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 Oy is concerned about climate change and is working to ensure that the Finnish energy system develops quickly enough to address future needs. The company 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.

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 Oy's distributable assets totalled EUR 14,455,582.55. The company's net loss for the financial period was EUR 7,825,782.14. The Board of Directors proposes to the annual general meeting that no dividends be paid for 2018 and that the losses be transferred to retained earnings.

PROFIT AND LOSS STATEMENT

EUR	Note	1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
Net sales	3	369,165,411.49	343,223,363.43
Capitalised own work		1,827,953.22	3,609,958.36
Other operating income	4	5,492,631.06	3,879,272.88
Materials and supplies	5	-98,994,482.45	-96,676,364.77
Personnel expenses	6	-15,904,453.58	-13,869,334.50
Depreciation and impairment	7	-88,144,963.97	-78,696,291.39
Other operating expenses	8	-19,710,259.57	-18,053,760.11
Operating profit		153,731,836.20	143,416,843.90
Financial income and expenses	9	-23,345,238.65	-15,707,611.39
Profit before appropriations and taxes		130,386,597.55	127,709,232.51
Appropriations	10	-138,007,141.47	-135,282,345.75
Income taxes	11	-205,238.22	-74,077.97
Loss for the period		-7,825,782.14	-7,647,191.21

BALANCE SHEET

EUR	Note	31 Dec 2018	31 Dec 2017
ASSETS	12		
Non-Current Assets			
Intangible assets		43,417,434.22	43,421,373.91
Tangible assets		1,499,339,093.24	1,355,077,825.10
Investments		48,973.96	48,972.96
Total Non-Current Assets		1,542,805,501.42	1,398,548,171.97
Current assets			
Non-current receivables	13	–	709,690.00
Current receivables	14	139,990,886.30	104,954,592.83
Cash and cash equivalents	15	36,600,000.00	34,500,000.00
Total Current Assets		176,590,886.30	140,164,282.83
TOTAL ASSETS		1,719,396,387.72	1,538,712,454.80
EQUITY AND LIABILITIES			
Equity	16		
Share capital		2,000,000.00	2,000,000.00
Other reserves			
Invested distributable equity fund		63,387,669.09	53,387,669.09
Retained earnings (cumulative loss)		-41,106,304.40	-33,459,113.19
Loss for the financial year		-7,825,782.14	-7,647,191.21
Total equity		16,455,582.55	14,281,364.69
Appropriations	17	336,331,933.20	347,324,791.73
Provisions	18	–	97,248.47
Liabilities			
Non-current liabilities	20	1,081,277,533.90	800,811,510.61
Current liabilities	21	285,331,338.07	376,197,539.30
Total liabilities		1,366,608,871.97	1,177,009,049.91
TOTAL EQUITY AND LIABILITIES		1,719,396,387.72	1,538,712,454.80

CASH FLOW STATEMENT

EUR	1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
Cash flows from operating activities		
Profit before appropriations and taxes	130,386,597.55	127,709,232.51
Financial income and expenses	23,345,238.65	15,707,611.39
Adjustments to operating profit		
Depreciation and impairment	88,144,963.97	78,696,291.39
Proceeds on sale of fixed assets and retirements	-44,065.31	-107,301.69
Other non-cash adjustments	-797,577.47	-177,339.53
Changes in working capital		
Increase (-)/decrease (+) in trade and other current receivables	-1,833,586.46	-8,788,311.37
Increase (+)/decrease (-) in current liabilities	3,760,350.86	14,724,824.65
Changes in working capital total	1,926,764.40	5,936,513.28
Interest and other financial expenses paid	-22,092,907.40	-14,393,007.44
Interest received	50,334.06	174,678.50
Income taxes paid	-332,030.33	-661,028.44
Cash flow from operating activities	220,587,318.12	212,885,649.97
Cash flow from investments		
Purchase of tangible and intangible items	-238,432,765.70	-276,931,074.65
Proceeds from sale of tangible and intangible assets	117,465.00	453,228.00
Change in cash pool account	-80,172,017.42	25,392,196.68
Cash flow from investments	-318,487,318.12	-251,085,649.97
Cash flow from financing activities		
Withdrawal of non-current borrowings	100,000,000.00	41,700,000.00
Cash flow from financing activities	100,000,000.00	41,700,000.00
Net increase in cash and cash equivalents	2,100,000.00	3,500,000.00
Cash and cash equivalents as at 1 Jan	34,500,000.00	31,000,000.00
Cash and cash equivalents as at 31 Dec	36,600,000.00	34,500,000.00

Notes

1. Accounting principles

The financial statements of Caruna 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 mainly income from transmission and distribution of electricity. The revenue from distribution of electricity is recognised at delivery.

Energy Authority regulates the price charged from customers for the distribution of electricity in Finland. 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 due to the fact that 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 credited or charged over a number of years in the future to the customer using the electricity connection at that time.

The fees paid by a customer when connected to the electricity network are recognised as revenue in net sales. Connection fees paid by customers when connected to the electricity network before 2003 are refundable in Finland if the customer should ever disconnect the initial connection. These connection fees have not been recognised in the income statement and are included in other non-current liabilities in the balance sheet.

1.2 REASONABLENESS OF THE PRICING OF NETWORK SERVICE

The Finnish Energy Authority confirms principles for the pricing of transmission services and supervises the reasonableness of the pricing of network service. The length of the supervision period is four years. The decisions are issued after the end of each supervision period. Energy Authority confirms the possible over/under income with a separate supervision decision. Over income and possible interest need to be taken into account in pricing in the following supervision period and under income could be considered in pricing decisions. According to KILA statement, Accounting treatment of over income determined by the Electricity Market Act (1957/2016) and the guidelines from Energy Authority, Caruna Oy has not accrued the possible income because it is not confirmed yet. The current supervision period includes years 2016-2019 and the outcome of the supervision period is confirmed in 2020.

1.3 OTHER OPERATING INCOME

Proceeds from sales of assets and activities outside normal operations is reported in other operating income. This includes recurring items such as rental income and customer based services.

1.4 FOREIGN CURRENCY ITEMS

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.

1.5 BASIS OF MEASUREMENT OF NON-CURRENT ASSETS

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Both intangible and tangible assets are depreciated according to plan over the assets' useful life.

Depreciation periods

Buildings and structures	20-40 years
Transmission and distribution network	15-40 years
Other machinery and equipment	3-12 years
Wayleave compensations	35 years
Intangible assets	5-10 years

Research and development costs are recognised as an expense in the year in which they are incurred.

Wayleave compensations are one-time compensations paid to the land owners on harm and damage caused by Caruna Oy's electricity network and equipment. Caruna Oy records the paid compensations to the intangible assets in the balance sheet. Caruna Oy changed the concept of the economic lifetime of wayleave compensations from infinite lifetime to 35 years. Wayleave compensations are depreciated over the expected lifetime in 35 years. The change in the economic lifetime was made retroactively, and a one-time item was booked in the depreciation for the financial year.

1.6 DERIVATIVES

The Company measures electricity derivatives at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or 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 Oy.

The fair value of an asset or a liability related to electricity derivatives 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 Oy uses valuation techniques that are appropriate in the circumstances and for which sufficient data is 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 Oy 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.

1.7 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Initial recognition and measurement

Caruna Oy has terminated the hedge accounting of electricity derivative contracts on 30 September 2017. The company will book changes in the fair value of derivatives of electricity derivatives directly to the income statement.

The company uses derivative financial instruments, such as electricity derivatives, to hedge its price risk on the purchase of grid losses. 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 the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is attributable to price 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 Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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 hedging 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.
- 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 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. prematurely) any related cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when effective is reclassified from equity to profit or loss as a reclassification adjustment.

1.8 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 against which the deductible temporary differences, 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.

1.9 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 are incurred.

1.10 PROVISIONS

Provisions are recognised when Caruna Oy 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. Provisions are recognised as an expense in the statement of profit or loss.

2. Group information

Caruna Oy is consolidated in Suomi Power Networks TopCo B.V. group's sub group Caruna Networks Oy.

Suomi Power Networks TopCo B.V. and Caruna Networks Oy prepare consolidated financial statements according to IFRS. The financial statements are available at the companies' head offices. Suomi Power Networks TopCo B.V. has a registered office in Luna Arena, Herikerbergweg 112, 1101 CM Amsterdam, The Netherlands. Caruna Networks Oy has a registered office in Upseerinkatu 2, Espoo, Finland.

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

Caruna Oy's previous owner Caruna Networks Sähkösiirto Oy merged with parent company Caruna Networks Oy on 1 January 2018. Since then, Caruna Networks Oy owns 100 % of Caruna Oy's shares.

3. Net sales

EUR	2018	2017
Distribution sales		
Regional distribution network	327,898,512.66	302,896,365.63
High-voltage distribution network	29,036,135.97	27,646,240.96
Connection fees		
Regional distribution network	10,374,056.35	7,671,084.74
High-voltage distribution network	1,856,706.51	5,009,672.10
Total	369,165,411.49	343,223,363.43

4. Other operating income

EUR	2018	2017
Income from sale of scrapped material	2,282,316.51	884,030.91
Customer based services and relocation of connections	1,571,391.22	1,232,830.83
Rental income	739,428.24	863,205.14
Income from electricity hedging	700,328.00	274,588.00
Proceeds from sales of fixed assets	44,815.67	171,190.48
Other	154,351.42	453,427.52
Total	5,492,631.06	3,879,272.88

5. Materials and supplies

EUR	2018	2017
Raw materials and consumables	-73,513,907.70	-70,324,802.85
External services	-25,480,574.75	-26,351,561.92
Total	-98,994,482.45	-96,676,364.77

6. Personnel and other personnel related expenses

PERSONNEL EXPENSES

EUR	2018	2017
Wages and salaries	-13,181,153.76	-11,416,234.76
Indirect personnel expenses		
Pensions	-2,208,873.68	-1,924,329.00
Other personnel expenses	-514,426.14	-528,770.74
Total	-15,904,453.58	-13,869,334.50

NUMBER OF PERSONNEL

	2018	2017
Average number of personnel during the financial year	231	218

7. Depreciation and impairment

EUR	2018	2017
Depreciation according to plan	-71,879,898.44	-69,539,326.66
Scrappings	-16,265,065.53	-9,156,964.73
Total	-88,144,963.97	-78,696,291.39

During the financial year 2017, Caruna Oy changed the concept of the economic lifetime of the wayleave compensations (previously called as street cable compensation) 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 4,255,998.28, was booked for depreciation for the financial year.

8. Other operating expenses

EUR	2018	2017
Rents	-339,018.32	-391,344.81
Losses from sales of fixed assets	-750.36	-63,888.79
Other services	-13,620,719.56	-17,010,794.79
Other expenses	-5,749,771.33	-587,731.72
Total	-19,710,259.57	-18,053,760.11

AUDITOR'S FEES, DELOITTE OY, AUDIT FIRM

EUR	2018	2017
Audit fees	-15,000.00	-60,426.56
Total	-15,000.00	-60,426.56

9. Financial income and expenses

EUR	2018	2017
Other interest and financial income	52,386.78	175,194.00
Total financial income	52,386.78	175,194.00
Other financial expenses		
Group companies	-23,316,395.76	-15,766,565.21
Others	-81,229.67	-116,240.18
Total financial expenses	-23,397,625.43	-15,882,805.39
Total	-23,345,238.65	-15,707,611.39

10. Appropriations

EUR	2018	2017
Group contribution given	-149,000,000.00	-190,850,000.00
Difference between depreciation according to plan and tax depreciation	10,992,858.53	55,567,654.25
Total	-138,007,141.47	-135,282,345.75

11. Income taxes

EUR	2018	2017
Income taxes from group contributions	29,800,000.00	38,170,000.00
Income taxes from ordinary activities	-30,005,238.22	-38,244,077.97
Total	-205,238.22	-74,077.97

12. Non-current assets

INTANGIBLE ASSETS

EUR	Intangible rights	Way leaves	Other non-current expenditure	Total
Acquisition cost 1 Jan 2018	584,468.33	25,101,140.54	54,531,306.44	80,216,915.31
Additions	472,027.80	5,623,512.14	2,810,188.81	8,905,728.75
Disposals	-	-82,698.87	-16,802,020.46	-16,884,719.33
Acquisition cost 31 Dec 2018	1,056,496.13	30,641,953.81	40,539,474.79	72,237,924.73
Accumulated amortisation and impairment 1 Jan 2018	-399,576.76	-6,451,202.38	-29,944,762.26	-36,795,541.40
Accumulated amortisation relating to disposals and transfers	-	82,698.87	16,802,020.46	16,884,719.33
Depreciation for the period	-31,547.23	-788,891.68	-8,089,229.53	-8,909,668.44
Accumulated amortisation and impairment 31 Dec 2018	-431,123.99	-7,157,395.19	-21,231,971.33	-28,820,490.51
Carrying amount 31 Dec 2018	625,372.14	23,484,558.62	19,307,503.46	43,417,434.22
Carrying amount 31 Dec 2017	184,891.57	18,649,938.16	24,586,544.18	43,421,373.91

TANGIBLE ASSETS

EUR	Land	Buildings	Machinery and equipment	Transmission and distribution network	Prepayments and construction in progress	Total
Acquisition cost 1 Jan 2018	4,144,401.59	25,051,245.96	7,389,179.14	1,801,633,522.32	157,335,303.87	1,995,553,652.88
Additions	105,020.00	371,354.96	1,438,168.67	266,852,729.37	85,897,280.38	354,664,553.38
Transfers	-	-	-	-	-131,094,590.02	-131,094,590.02
Disposals	-36,926.25	-281,258.71	-1,526,513.58	-36,584,132.64	-	-38,428,831.18
Acquisition cost 31 Dec 2018	4,212,495.34	25,141,342.21	7,300,834.23	2,031,902,119.05	112,137,994.23	2,180,694,785.06
Accumulated amortisation and impairment 1 Jan 2018	-	-8,555,580.53	-3,951,609.71	-627,968,637.54	-	-640,475,827.78
Accumulated depreciation relating to disposals and transfers	-	280,536.83	1,490,762.02	36,584,132.64	-	38,355,431.49
Depreciation for the period	-	-1,022,846.78	-1,221,435.04	-76,991,013.71	-	-79,235,295.53
Accumulated amortisation and impairment 31 Dec 2018	-	-9,297,890.48	-3,682,282.73	-668,375,518.61	-	-681,355,691.82
Carrying amount 31 Dec 2018	4,212,495.34	15,843,451.73	3,618,551.50	1,363,526,600.44	112,137,994.23	1,499,339,093.24
Carrying amount 31 Dec 2017	4,144,401.59	16,495,665.43	3,437,569.43	1,173,664,884.78	157,335,303.87	1,355,077,825.10
Carrying amount of machinery and equipment used for production						
31 Dec 2018						1,363,526,600.44
31 Dec 2017						1,173,664,884.78

In the financial period 2018, the carrying amount of "machinery and equipment" used for production calculations includes the meters. The meters have been transferred from the "Machinery and equipment" group of tangible assets to the "Transmission and Distribution Network" group. The figures for the financial period 2017 have been changed accordingly. For the financial period 2018, the effect of the transfer is EUR 54,632,628.55 and for the financial period 2017 EUR 106,675,857.22.

INVESTMENTS

EUR	Other shares and interests	Total
Acquisition cost 1 Jan 2018	48,972.96	48,972.96
Additions	1.00	1.00
Acquisition cost 31 Dec 2018	48,973.96	48,973.96
Carrying amount 31 Dec 2018	48,973.96	48,973.96
Carrying amount 31 Dec 2017	48,972.96	48,972.96

OTHER SHARES AND INTERESTS

Company name	Registered office	No of shares	Carrying amount
Asunto Oy Keskilohja	Lohja	14	4,613.73
Asunto Oy Laurintorni	Lohja	7	4,271.97
Asunto Oy Linnaistenkuja	Lohja	51	7,689.56
Asunto Oy Nummelan Väinämöisentie	Vihti	8	1,702.06
Asunto Oy Suurlohjankatu 18-22	Lohja	8	3,417.57
Kiinteistö Oy Järvenpään Asemamäen paikoitustalo	Järvenpää	1	252.28
Kiinteistö Oy Jumpinpelto	Merikarvia	25	4,204.70
Kiinteistö Oy Kimitobacken	Kemiö	240	4,036.51
Kiinteistö Oy Suulivainio	Merikarvia	15	2,522.82
Kiinteistö Oy Tammitori	Lohja	50	15,891.75
Salon Golfkeskus Oy	Salo	1	370.01
Kiinteistö Oy Alavuden Säästökeskus	Alavus	14	1.00
Karjaan Puhelin Oy	Karjaa	330	-
Total			48,973.96

TOTAL NON-CURRENT ASSETS

EUR	2018	2017
Total non-current assets	1,542,805,501.42	1,398,548,171.97

13. Non-current receivables

EUR	2018	2017
Electricity derivatives	-	709,690.00

14. Current receivables

EUR	2018	2017
Trade receivables	104,476,947.38	102,252,914.11
Other receivables	58,488.00	-
Prepayments and accrued income		
Electricity derivatives	1,418,420.00	130,112.00
Income tax receivables	364,456.57	237,664.46
Insurance prepayments	70,198.82	68,157.34
Indirect personnel expenses	57.66	67.65
Other prepayments and accrued income	28,360.60	167,495.40
Prepayments and accrued income total	1,881,493.65	603,496.85
Receivables from group companies		
Trade receivables	114,550.51	426,382.01
Other receivables from group companies		
Cash pool account	33,459,406.76	1,671,799.86
Receivables from group companies total	33,573,957.27	2,098,181.87
Total current receivables	139,990,886.30	104,954,592.83

Cashpool receivables of EUR 33 459 406,76 (1,671,799.86) are part of the group cash pool arrangements and the company's option to reclaim these resources is limited to other cash pool account balances by other group companies.

15. Cash and cash equivalents

EUR	2018	2017
OP Yrityspankki Oyj	36,600,000.00	34,500,000.00

16. Equity

EUR	2018	2017
Restricted equity		
Share capital 1 Jan	2,000,000.00	2,000,000.00
Share capital 31 Dec	2,000,000.00	2,000,000.00
Hedging reserve 1 Jan	-	393,660.00
Change in hedging reserve	-	-393,660.00
Hedging reserve 31 Dec	-	-
Total restricted equity	2,000,000.00	2,000,000.00
Unrestricted equity		
Invested distributable equity fund 1 Jan	53,387,669.09	53,387,669.09
Additions for invested distributable equity fund	10,000,000.00	-
Invested distributable equity fund 31 Dec	63,387,669.09	53,387,669.09
Retained earnings 1 Jan	-41,106,304.40	-33,459,113.19
Retained earnings 31 Dec	-41,106,304.40	-33,459,113.19
Loss for the period	-7,825,782.14	-7,647,191.21
Total unrestricted equity	14,455,582.55	12,281,364.69
Total equity	16,455,582.55	14,281,364.69

DISTRIBUTABLE UNRESTRICTED EQUITY

EUR	2018	2017
Invested distributable equity fund	63,387,669.09	53,387,669.09
Retained earnings	-41,106,304.40	-33,459,113.19
Loss for the period	-7,825,782.14	-7,647,191.21
Total	14,455,582.55	12,281,364.69

17. Appropriations

EUR	2018	2017
Accumulated depreciation difference	336,331,933.20	347,324,791.73

18. Provisions

EUR	2018	2017
Other provisions	-	97,248.47

19. Deferred tax liabilities

EUR	2018	2017
From appropriations	67,266,386.64	69,464,958.35
From timing differences and temporary differences	8,772,740.00	8,866,282.12
Total	76,039,126.64	78,331,240.47

Deferred tax liabilities are only recognised in group accounts.

20. Non-current liabilities

EUR	2018	2017
Liabilities to group companies		
Loans from group companies	838,453,258.00	557,603,258.00
Connection fees	242,824,275.90	243,039,530.61
Electricity derivatives	-	168,722.00
Total non-current liabilities	1,081,277,533.90	800,811,510.61

21. Current liabilities

EUR	2018	2017
Trade payables	41,190,519.65	48,699,589.43
Other current liabilities	26,899,152.40	22,425,374.54
Accrued expenses		
Accrued employee expenses	3,582,820.35	3,178,064.67
Advance payments	3,571,772.12	3,783,047.26
Electricity derivatives	55,410.00	8,398.00
Other accrued expenses and deferred revenue	340,097.55	528,891.54
Accrued expenses total	7,550,100.02	7,498,401.47
Liabilities to group companies		
Trade payables	1,240,558.23	631,234.46
Other current liabilities	16,912,939.11	16,473,125.53
Cash pool account	37,353,929.48	85,738,340.00
Group contribution liability	149,000,000.00	190,850,000.00
Accrued expenses		
Accrued interest expenses	5,184,139.18	3,881,473.87
Liabilities to group companies total	209,691,566.00	297,574,173.86
Total current liabilities	285,331,338.07	376,197,539.30
Non-interest bearing liabilities	490,801,684.49	533,667,451.91
Interest bearing liabilities	875,807,187.48	643,341,598.00
Total	1,366,608,871.97	1,177,009,049.91

Liabilities to group companies include cash pool account of EUR 37,353,929.48 (85,738,340.00). The company's option to reclaim these resources is limited to other cash pool account balances by other group companies.

22. Fair value hierarchy of financial derivatives valued at fair value

EUR	2018	2017
Derivative receivables recognised at fair value through profit and loss	Level 2	Level 2
Electricity derivatives	1,418,420.00	839,802.00
Derivative liabilities recognised at fair value through profit and loss	Level 2	Level 2
Electricity derivatives	55,410.00	177,120.00

23. Maturity of electricity derivative liabilities

EUR	2018	2017
On demand	-	-
Less than 3 months	55,410.00	-
4 to 12 months	-	8,398.00
1 to 5 years	-	168,722.00
> 5 years	-	-
Total	55,410.00	177,120.00

24. Commitments and contingent liabilities

EUR	2018	2017
Operating lease liability		
Payable during one year	11,103.00	-
Total	11,103.00	-
Other leases		
Payable during one year	281,706.61	242,751.00
Payable later than one year	1,502,364.67	1,247,434.00
Total	1,784,071.28	1,490,185.00
Other commitments		
Pledges and other assets given on behalf of group companies		
Floating charges	2,220,000,000.00	2,220,000,000.00
Pledges given	2,430,502,183.40	2,247,536,479.61
Mortgages	20,055,947.07	20,640,067.02
Total	4,670,558,130.47	4,488,176,546.63

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.

The cash pool accounts of the group and other bank accounts have been pledged as mortgage for loans.

CAPITAL COMMITMENTS

EUR	2018	2017
Property, plant and equipment	225,567,946.00	267,435,978.00
Total	225,567,946.00	267,435,978.00

REAL ESTATE INVESTMENTS

The company has made real estate investments defined in VAT legislation. Related review periods, VAT included in the investment, VAT deducted from the construction cost and amount subject to annual review are presented in the table below.

10 year review period

EUR	2010	2011	2012	2013	2014
Last review period	2019	2020	2021	2022	2023
Cost on real estate investment (net)	29,179,378.54	32,662,290.82	75,108,785.75	43,513,673.62	36,554,028.44
VAT on real estate investment	6,522,477.84	7,512,326.89	17,275,020.72	10,443,281.67	8,772,966.83
Net of VAT	6,522,477.84	7,512,326.89	17,275,020.72	10,443,281.67	8,772,966.83
Amount on annual review	652,247.78	751,232.69	1,727,502.07	1,044,328.17	877,296.68
Contingent liability subject to review 31 Dec 2018	652,247.78	1,502,465.38	5,182,506.22	4,177,312.67	4,386,483.41
(Left at 31 Dec 2018)	(1/10)	(2/10)	(3/10)	(4/10)	(5/10)

EUR	2015	2016	2017	2018
Last review period	2024	2025	2026	2027
Cost on real estate investment (net)	76,907,654.34	130,153,862.54	161,447,212.19	182,990,724.88
VAT on real estate investment	18,457,837.04	31,236,927.01	38,747,330.93	43,917,773.97
Net of VAT	18,457,837.04	31,236,927.01	38,747,330.93	43,917,773.97
Amount on annual review	1,845,783.70	3,123,692.70	3,874,733.09	4,391,777.40
Contingent liability subject to review 31 Dec 2018	11,074,702.22	21,865,848.91	30,997,864.74	39,525,996.57
(Left at 31 Dec 2018)	(6/10)	(7/10)	(8/10)	(9/10)

Contingent liability subject to review

Contingent liability subject to review 31 Dec 2018	119,365,427.90
Contingent liability subject to review 31 Dec 2017	94,620,929.43

OTHER PURCHASE COMMITMENTS

EUR	2018	2017
Electricity purchase commitments	5,549,936.00	2,119,853.00
Total	5,549,936.00	2,119,853.00

25. Related party transactions

Group's related parties include subsidiaries, board of directors, CEOs, members of the managements team and family members of these all before mentioned. There are no significant transactions with persons included in the related parties.

26. Formulas for key figures

Connection fees and accumulated depreciation differences less deferred tax liabilities are added to equity when calculating the figures.

OPERATING PROFIT-%

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

RETURN ON EQUITY-%

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

EQUITY RATIO-%

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

27. Information required by Electricity Market Act

The company operates as a holder of a network as defined in Electricity Market Act.

DIFFERENTIATED OPERATIONS

The degree of the company's operations that are not related to network operations is so low, that they have not been differentiated. Below is presented profit and loss statement and balance sheet for network operations as required by the Electricity Market Act.

PROFIT AND LOSS STATEMENT FOR NETWORK OPERATION

in EUR thousands	1 Jan 2018– 31 Dec 2018	1 Jan 2017– 31 Dec 2017
NET SALES	369,165	343,223
Work performed for own use	1,828	3,610
Other operative income	5,447	3,708
Proceeds of sale of investments	44	107
Materials and supplies		
Raw materials and consumables		
Purchases during the period		
Loss electricity	-11,567	-10,867
External services		
Fees paid for grid and network services	-61,947	-59,457
Other external services	-32,352	-38,463
Personnel expenses		
Wages and salaries	-13,181	-11,416
Social security expenses		
Pension expenses	-2,209	-1,924
Other social security expenses	-514	-529
Depreciation and impairment		
Depreciation according to plan		
On electricity network assets	-80,211	-71,839
On other non current assets	-7,934	-6,857
Other operating expenses		
Rental expenses	-339	-392
Other expenses	-12,498	-5,487
OPERATING PROFIT	153,732	143,417
Other interest income and other financial income		
From others	50	175
Interest expense and other financial expenses		
To group companies	-23,316	-15,723
To others	-79	-160
PROFIT BEFORE APPROPRIATIONS AND TAXES	130,387	127,709
Appropriations		
Group contributions	-149,000	-190,850
Change in depreciation difference		
Change in depreciation difference on electricity network assets	10,795	53,071
Change in depreciation difference on other non current assets	198	2,497
Income taxes	-205	-74
LOSS FOR THE PERIOD	-7,825	-7,647

BALANCE SHEET FOR NETWORK OPERATION

in EUR thousands	31 Dec 2018	31 Dec 2017
ASSETS		
Non current assets		
Intangible assets		
Intangible assets of electricity network	32,017	29,179
Other intangible assets	11,401	14,242
Tangible assets		
Tangible assets of electricity network	1,313,652	1,135,089
Other tangible assets	73,550	62,653
Prepayments and constructions in progress	112,138	157,335
Investments	49	49
Total non current assets	1,542,807	1,398,547
Current Assets		
Receivables		
Non current receivables		
Receivables from others	-	710
Current receivables		
Cash pool receivables	33,459	1,672
Receivables from others	106,531	103,283
Cash and cash equivalents	36,600	34,500
Total current assets	176,590	140,165
TOTAL ASSETS	1,719,397	1,538,712

in EUR thousands	31 Dec 2018	31 Dec 2017
EQUITY AND LIABILITIES		
Equity		
Share capital	2,000	2,000
Other reserves	63,388	53,388
Retained earnings (loss)	-41,107	-33,460
Loss for the period	-7,825	-7,647
Total equity	16,456	14,281
Appropriations		
Depreciation difference	336,332	347,325
Provisions	-	97
Liabilities		
Non current liabilities		
Non current interest bearing liabilities		
Amounts owed to group companies	838,453	557,603
Non current non-interest bearing liabilities		
Refundable connection fees	242,824	243,040
Liabilities to others	-	169
Current liabilities		
Current interest bearing liabilities		
To group companies		
Cash pool account	37,354	85,738
Current non-interest bearing liabilities		
To group companies	172,375	211,847
To others	75,603	78,612
Total liabilities	1,366,609	1,177,009
TOTAL EQUITY AND LIABILITIES	1,719,397	1,538,712

KEY FIGURES FOR NETWORK OPERATION

	2018	2017
Average number of personnel during the period	231	218
Investments (EUR thousand)		
Net investments of electricity network		
Intangible assets	5,926	12,774
Tangible assets	212,282	246,322
Other intangible assets	2,204	3,654
Other tangible assets	12,064	12,873
Investments total	232,476	275,623
Return on investments %	13.8	15.9

The key figure is calculated in accordance with the decision nr 79/2005 9S issued by the Ministry of Trade and Industry. The decision guides calculation of key figures regarding differentiated operations within the electricity business.

Formula for calculation :

$$\frac{(\text{Profit before appropriations and taxes} + \text{interest income and other financial income}) \times 100}{(\text{Total assets} - \text{interest free liabilities} + \text{leases on electricity network}) (\text{average on beginning and end of the reporting period})}$$

The amount of interest included in the rents paid for electricity network is not available, therefore interest is not included in the interest expenses in the numerator.

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

Reeta Virolainen
APA

List of ledgers, types of vouchers and their archiving methods

	Method
Operating and financial review and financial statements	Bound book
Note vouchers	Electronically
Balance sheet 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
Fixed Assets	Electronically
Commitments	Electronically
Voucher types	
Bank vouchers	Electronically
Adjusting journal entries	Electronically
Trade debtors ledger	Electronically
Trade creditors ledger	Electronically
Payroll vouchers	Electronically
Fixed assets vouchers	Electronically
Vouchers for travel expenses	Electronically

caruna | Positive energy.

Caruna Oy

www.caruna.fi/en

Mail Address

PO Box 1, 00068
CARUNA, FINLAND

Street Address

Upseerinkatu 2
00068, Espoo, FINLAND

