

Report of the Board of Directors 2015

1 General review

The Vantaa Energy Group consists of the parent company Vantaa Energy Ltd and its subsidiary Vantaa Energy Electricity Networks Ltd (ownership 100%), as well as its associated companies.

Vantaa Energy Ltd produces energy services for its customers. The company's main products are electricity, district heating and natural gas. Vantaa Energy sells electricity to corporate customers throughout Finland and to households in Vantaa and its neighbouring areas. The company's main market area for the district heating business is Vantaa. The company also provides natural gas for industrial needs.

Vantaa Energy Ltd is owned by the City of Vantaa (60%) and the City of Helsinki (40%).

The year 2015 was the company's 105th year of operation.

The subsidiary Vantaa Energy Electricity Networks Ltd is responsible for electricity network operations in Vantaa

In 2015, the associated companies of Vantaa Energy Ltd were (ownership shares in brackets): Svartisen Holding A/S (49.6%), Suomen Energia-Urakointi Oy (25.9%), and Kolsin Voima Oy (22.5%)

The associated company Svartisen Holding A/S owns a subsidiary in Norway, Eastern Norge Svartisen A/S (100%). Kolsin Voima Oy has a subsidiary, Kolsin Vesivoimantuotanto Oy (100%).

2 Development of business operations

The company's electricity generation was based on its own combined heat and power (CHP) generation at the Martinlaakso power plant and the Långmossen power plant. These two power plants accounted for 51% of total electricity generation. The company's shares in various partly-owned power plants totalled 49%. The company's own electricity generation and the electricity obtained from its shares in partly-owned power plants amounted to 1,061 GWh (1,033 GWh in 2014). The annual output of the Martinlaakso power plant was 325 GWh (409 GWh) of electricity and 821 GWh (973 GWh) of district heat. The output of the waste-to-energy power plant during its first full year of operation was 210 GWh (114 GWh) of electricity and 828 GWh (545 GWh) of district heat. The volume of the company's own electricity generation and that of the elec-

tricity obtained from its shares in partly-owned power plants were slightly up from the previous year, but still remained at a low level. This was mainly due to the low market price level of electricity, which limited the amount of profitable electricity generation.

The first year of operation of the waste-to-energy power plant was a success, and in 2015, the plant received approx. 360,000 tonnes of waste-derived fuel. A total of 343,000 tonnes of waste were used as fuel. According to the environmental permit, the waste-to-energy power plant can annually use 340,000 tonnes of waste-derived fuel. As the total amount of waste-derived fuel generated in its collection area exceeds 380,000 tonnes, a permit was applied for and obtained to use 374,000 tonnes of incinerable waste annually in the next few years (2015 - 2018).

Due to the economical production of the waste-to-energy power plant, we were able to reduce the price of district heating, even though the increases in energy taxes on 1 January 2015 raised the costs of district heating by an average of 2.4%.

Vantaa Energy Ltd reduced its energy fee for district heat for the spring season (1 March – 31 May) by 7% and the energy fee for the summer season (1 June – 31 August) by 10%. At a later date, also the energy price for the autumn season (1 September – 30 November) was reduced by 7%. After the price reductions implemented in 2014 and 2015, the price of district heat in Vantaa is among the lowest in Finland, and the district heat price for the summer season is the lowest in Finland.

The targeted customer-specific outage time for district heating customers was 0.8 h/customer. In 2015, the customer-specific outage time was 1.1 h/customer (1.3 h/customer).

The Recycled Heat and Recycled Electricity generated by the waste-to-energy power plant have been granted the Finnish Key Flag Symbol of the Association for Finnish Work

The year 2015 was the warmest year in the history of recorded temperatures in Vantaa, which was in evidence in the consumption of both district heat and electricity. In terms of the heating requirement, the year was about 20% warmer than the long-term average.

District heat and steam energy sales to the Vantaa region fell to 1,536 GWh (1,647 GWh). At the close of the year, the total contracted capacity of district heating customers was 960 MW (948 MW). Retail sales of natural gas to customers totalled 25 GWh (29 GWh)

The net increase in the number of district heating connections was 74.

The drop in the market prices of electricity continued, and competition for consumer-customers continued to be tough.

A good 70% of the electricity sold by Vantaa Energy comes from outside the City of Vantaa. The total amount of electricity sold to customers was 3,180 GWh (3,237 GWh). Profitability in electricity sales remained good.

In line with the company's objective, customers' online access to services, as well as their self-service, developed favourably. Online services increased in popularity, and electronic invoicing was also on the increase among both households and business customers. A new offer calculator for consumer customers and a data system that automatically takes contracts to the company's systems were deployed in 2015. The data system increases the degree of automation, reduces the amount of work to be carried out by our customer services and makes it easy for customers to access services.

In the course of 2015, we focused on increasing the efficiency of our customer services. The end result of our studies was that the first stage of customer contacts are handled by an outside service provider as from 1 January 2016.

In August, the Ministry of Employment and the Economy decided to proceed with a review of the construction licence application for the Hanhikivi 1 nuclear power plant project that Fennovoima Oy had submitted to the government at the end of June, after it had received assurance that the national ownership condition had been met. Vantaa Energy's power share in the Hanhikivi 1 nuclear power plant project of Fennovoima Oy in Pyhäjoki is approx. 60 MW. The objective is that the Pyhäjoki nuclear power plant will start to produce electricity in 2024.

A decision has been made to decommission PVO-Lämpövoima Oy's coal-fired condensing power plants in Kristiinankaupunki and the Pori district of Tahkoluoto. Vantaa Energy has shares in both of these power plants through its ownership in EPV Energia Oy.

Vantaa Energy Ltd is a shareholder of the wind power company Innovoima Oy, which is now up for sale.

In 2015, Vantaa Energy decided to participate in the Nikkarinkaarto wind power project of Suomen Hyötytuuli Oy and in the Tahkoluoto offshore wind power demonstration project, and, as a shareholder of

EPV Energia Oy, in investments in the Santavuori wind farm in Ilmajoki and the Metsälä wind farm in Kristiinankaupunki.

Due to the increasingly stringent emission limits laid down in the Industrial Emissions Directive (IED) that limits flue gases, the main fuel of the heating plant at Helsinki-Vantaa Airport was changed from heavy fuel oil to light fuel oil.

Vantaa Energy Electricity Networks Ltd reduced the price level of electricity distribution in the Vantaa area by about 15% on 1 January 2015. With respect to private-sector and service-sector consumption (tax class I), the electricity tax included in distribution tariffs increased by 18.5% at the beginning of 2015. The electricity tax for industry (tax class II) remained unchanged.

3 Financial performance

Consolidated turnover stood at EUR 282.7 million (EUR 309.2 million in 2014).

The turnover of the parent company Vantaa Energy Ltd totalled EUR 253.7 million (EUR 274.0 million). The share of electricity sales in the turnover was EUR 141.6 million (EUR 157.8 million) and that of heat sales EUR 91.9 million (104.0 million). The turnover of Vantaa Energy Electricity Networks Ltd stood at EUR 31.3 million (EUR 37.6 million).

The Group's operating profit amounted to EUR 29.0 million (EUR 44.2 million). The parent company's operating profit stood at EUR 24.3 million (EUR 34.3 million), and that of Vantaa Energy Electricity Networks Ltd at EUR 1.7 million (EUR 8.7 million). The most important reasons for the parent company's diminished profitability were a drop in the market price of electricity and warmer weather than in the previous year. The operating profit of Vantaa Energy Electricity Networks Ltd was diminished by the 15% price reduction carried out at the start of the year, as well as by the warmer-than-average weather.

The Group's profit before appropriations and taxes totalled EUR 26.3 million (EUR 41.6 million). The parent company's profit before appropriations and taxes stood at EUR 34,8 million (EUR 50.9 million). Direct taxes amounted to EUR 5,6 million (EUR 7.7 million).

The Group's gross investments in fixed assets totalled EUR 38.8 million (EUR 74.1 million). This amount includes the parent company's investments of EUR 7.9 million in the waste-to-energy power plant, the Martinlaakso power plant and heating plants. Refurbishments of the district heating network amounted to EUR 6.2 million, and a total

of EUR 9.1 million was invested in production shares. The parent company's other investments stood at EUR 2.4 million and those of Vantaa Energy Electricity Networks Ltd at EUR 13.2 million. .

The Group's financial position was stable. The final long-term financing for the waste-to-energy power plant amounting to EUR 300 million was raised during the first months of 2015. Lease financing accounted for EUR 170 million and other long-term loan agreements for EUR 130 million of this financing. The short-term working capital needs continue to be met with the Group account credit limit (EUR 25 million) of the City of Vantaa and the parent company's commercial-paper programme. (EUR 150 million). A total of EUR 7.8 million of the Group account credit limit of EUR 25 million of the City of Vantaa had been drawn at the end of the year. No commercial papers were issued.

Financial key figures:

Key figure	Group			Parent company		
	2015	2014	2013	2015	2014	2013
Turnover, EUR mill.	282.7	309.2	379.0	253.7	274.0	342.3
Operating profit, EUR mill.	29.0	44.2	37.8	24.3	34.3	26.1
• % of turnover	10.3	14.3	10.0	9.6	12.5	7.6
Return on equity (ROE), %	10.6	16.1	16.3	12.5	18.8	14.5
Equity ratio, %	35.4	35.0	35.3	36.0	31.8	32.2
Gross investments, EUR mill.	38.8	74.1	101.9	25.6	58.9	86.8
• % of turnover	13.7	24.0	26.9	10.1	21.5	25.4

4 Risk management

Principles of risk management

Objectives

The aim of Vantaa Energy's risk management measures is to support the achievement of business objectives and to prevent any negative effects. The Board of Directors of Vantaa Energy approves the Group's risk management policy. The policy sets out the key principles, responsibilities and processes of risk management.

Organisation

The parent company's Managing Director is responsible for risk management at the group level. The managers of the subsidiary and the different business units are responsible for risk management in their individual company or business unit, as well as for the agreed reporting to the parent company's Managing Director. They also take part in the management of key risks at the group level.

The Managing Director is responsible for the implementation of the risk management policy, and for the organisation and development of risk management practices in accordance with the requirements set by business operations and in compliance with good governance. The Managing Director is assisted by experts in the development of risk management processes and methods.

The key risks of the Group have designated owners. The owner of the risk is responsible for ensuring that the management of the risk in question is developed and that the necessary measures are taken.

Major risks and uncertainties have been identified and the key risks are systematically managed. The key risks include sudden fluctuations in the market price of electricity, a rise in fuel prices, public authority regulation that is difficult to forecast, extensive disturbances in the electricity or heating network or energy production, and problems in information systems.

The internal audit unit supports the company's management and organisation in the development and maintenance of the internal control system. The internal audit services are provided by an external service provider.

Reporting and monitoring

Any significant changes in the principles of risk management, key risks and their management are reported to the Board of Directors

annually. The business units report their risks to the Managing Director. Financial risks are regularly reported to the parent company's Managing Director and to the Board of Directors.

The monitoring of risk management has been integrated into the strategic monitoring process. The key persons of risk management arrange a special Day for the Development of Risk Management each year.

Development projects and audits 2015

In 2015, the Group's key development projects on risk management included the improvement of data security and cyber-security, improvement of the Group's contingency planning, and the systematic development of the risk areas in sales and financing.

In the course of 2015, the Board of Directors audited the company's general risk management policy, financial risk management policy, corporate security policy, data security policy and corporate social responsibility policy.

Descriptions of risks

Risk management means that risks are identified, assessed, handled and managed. At Vantaa Energy Ltd, risks are classified in accordance with the risk management policy into financial risks, strategic risks, operational risks and risks associated with events.

Financial risks

The focus of risk management is on financial risks. The financial risks are grouped into market risks (various commodity price risks related to fuels, electricity and emission allowances), counterparty risks and financial risks. These risks are managed in accordance with the financial risk management policy. The policy sets out the management and control of financial risks and the related reporting practices. Reports on financial risks are regularly provided to the Managing Director of the parent company and to the Board of Directors. The financial risk management policy and the management's reporting practices with respect to financial risk management were updated in 2015, paying particular attention to the entities of sales and financing.

The hedging practices of Vantaa Energy Ltd are based on the financial risk management policy approved by the company's Board of Directors. According to the production forecast for the next few years, the company's own electricity production, the fuels, emission allowances and certificates required by it, and the procurements from the

power exchange corresponding to electricity sales are hedged with financial derivative instruments in accordance with the company's financial risk management policy. Significant procurement lots of energy production related commodities are hedged against exchange rate risks. The loans taken out by the company are also hedged against interest rate risks in the manner described in the financial risk management policy.

Strategic risks

Vantaa Energy Ltd is aiming for an operational and financial success in the energy sector. The company aims to actively develop its production capacity to fulfil the challenges posed by the European electricity markets. The retail sales of electricity are carried out in a highly competitive domestic market. Electricity network and district heating operations are actively developed, taking our customers wishes into account. Our operations are based on the local energy networks.

Typically, the strategic risk faced by an energy company is the long time span related to substantial energy investments: For example, the lifetimes of power plant investments may be as long as 50 years.

Strategic risks in the Group are handled in connection with the strategy process.

Operational risks

The operational risks of Vantaa Energy Ltd are related to malfunctions of various systems, such as production plants, energy networks and data systems, and shortcomings in instructions or skills, human errors and possible deficiencies in contracts or insurances.

In 2015, one of the focus areas in terms of operational risks was corporate security. To this end, we developed business continuity planning and invested in contingency plans. We also focused on measures that improve data security and cyber-security. Special attention was paid to condition surveys of buildings and the refurbishment of the district heating network. Environmental risks are examined as part of the company's environmental management system complying with the ISO 14001 standard.

Risks associated with events

For Vantaa Energy and the energy sector as a whole, the main risks associated with events are political and legislative ones.

Political and legislative initiatives and changes are often difficult to predict in the energy sector, and they have a significant impact on

the operating preconditions of the sector. The operating model that Vantaa Energy has selected for managing changes is close interaction with decision-makers and influential persons.

Through the sector association Finnish Energy Industries, Vantaa Energy takes an active part in the work carried out with the aim of influencing the development of control systems or other policy instruments in advance. The company predicts the impacts of any changes in regulation or directives on its own operations and looks for operating models that are as flexible as possible and can be altered when regulation or directives change.

5 Employees

The Vantaa Energy Group had an average of 355 (367) employees during the financial period. Salaries, wages and bonuses totalled EUR 22.1 million (EUR 22.7 million). Job-specific pay systems that are based on job difficulty and personal competence are used for the following groups: manual workers, employees and managerial employees. The task-specific pay component is the same for all employees belonging to the same competence category; the personal pay component varies between persons, depending on the competence and performance level of each person. Vantaa Energy Ltd has a performance-based bonus system that applies to all employees, with the exception of the Managing Director and the persons who have signed individual performance agreements.

Key employee figures:

Key figure	Group			Parent company		
	2015	2014	2013	2015	2014	2013
Average number of employees during the financial period	355	367	369	285	298	295
Permanent as of 31 Dec.	331	344	361	265	282	290
• Monthly salary	288	297	311	238	252	259
• Hourly wages	43	47	50	27	30	31
• Men	257	266	270	202	214	210
• Women	74	78	91	63	68	80
Fixed-term contracts as of 31 Dec.	23	14	12	22	12	10
Average age of employees, yrs	44.2	44.9	45.3	44.2	45.1	45.4
Payed salaries, wages and bonuses	22.1	22.7	21.5	18.3	19.0	17.6

More key employee figures are available in Vantaa Energy's corporate social responsibility report for 2015.

6 Environment

The management of Vantaa Energy's environmental issues is guided by an environmental management system complying with the ISO 14001 standard. The company's environmental work is based on the legislative and operational requirements for its own operating environment, its social responsibility policy, and the set environmental and social responsibility-related goals and targets.

The most significant environmental aspects of Vantaa Energy are related to the use of fuels and emissions into the air, as well as mitigation of climate change. Most of the environmental impacts are created by energy generation. Environmental impacts are reduced by increasing the share of renewable energy and other carbon-neutral production, as well as by upgrading our production plants in accordance with the stricter requirements.

Last year was the first full year of operation for the waste-to-energy power plant. The operation of the power plant went as expected, and emissions into the air were well below the permitted limits.

The Martinlaakso power plant, the gas turbine of the waste-to-energy power plant and the company's six heating plants are covered by the emissions trading scheme. The actual carbon dioxide emissions of the plants located in Vantaa that are covered by the emissions trading scheme amounted to approx. 455,000 tonnes. Carbon dioxide emissions decreased by just under 20% on the year 2014 due to the first full year of operation of the waste-to-energy power plant and the warmer-than-average weather.

The environmental permit of the old gas-fired boiler 1 of the Martinlaakso power plant expired as planned on 31 December 2015, and its use was discontinued at the same time.

The environmental permits of our production plants were renewed in 2015 to comply with the new Environmental Protection Act. New emissions monitoring plans have also been drawn up for the production plants, and as a new obligation, a number of environmental risk analyses required by the permits have also been drawn up. Due to operational changes made during the year, several amendments were made to the emission permits.

Vantaa Energy monitors environmental costs and regards them as essential environmental data. In 2015, the most significant environmental investments were allocated to the waste-to-energy power plant, the renovation of the airport heating plant, and the electric vehicle charging bay. Vantaa Energy provides more detailed environ-

mental key figures annually on its corporate social responsibility website.

7 Social responsibility

Vantaa Energy Group's social responsibility policy creates guidelines for the management and development of the Group finances, the environment and social responsibility.

Vantaa Energy has drawn up reports on the objectives of social responsibility and the results of constant improvement of operations in a social responsibility report published each year. The social responsibility report is based on the international Global Reporting Initiative (GRI G3) Guidelines.

Vantaa Energy's social responsibility report for 2014 was published in April 2015. As in previous years, environmental responsibility was of primary importance in the report for 2014. Personnel matters and stakeholder relations also played an important role in the social responsibility report.

The information in the report has been verified by an independent outside expert, Inspecta Sertifiointi Oy.

The social responsibility report for 2015 will be published online in spring 2016.

Vantaa Energy Electricity Networks Ltd has drawn up a report on measures that will ensure that the parties to the electricity market are treated in an equal manner. The report has been submitted to the Energy Authority.

8 Research and development

Vantaa Energy is a Group that focuses on the production of energy services and makes only minor investments in its own research and development. The Group participates in development projects mainly by providing financing to interesting R&D projects and by making the company's expertise available to the projects. In the research, we trust in the partnership networks in the industry and in good cooperation with leading energy research institutions.

Vantaa Energy Ltd is a shareholder of the new company CLIC Innovation Ltd, which is a centre of excellence in the cleantech and bio-economy sector. Vantaa Energy is involved in the drafting of future programmes and took an active part in the research programmes of Cleen Oy, which merged with CLIC Innovation Ltd at the end of 2015.

We have also supported research serving the energy sector by participating in the electricity research pool and a number of research projects financed by Finnish Energy Industries.

Promotion of electric traffic was one of the key focus areas of the research in 2015. Vantaa Energy Ltd is involved in the Electric Traffic Helsinki Test Bed Project which is partly financed by the EVE – Electric Vehicle Systems Programme of Tekes, the Finnish Funding Agency for Technology and Innovation. Within this project, the company is gearing itself up for an increase in electric traffic and creating the infrastructure required by it, as well as investigating the possibility of the car stock to function as an accumulator-based electricity storage in the electricity market.

Vantaa Energy also continued to assess various biofuel alternatives in 2015. The assessment focused on, e.g. a new biofuel-fired CHP boiler to be installed in the Martinlaakso power plant. The company also studied various biofuel solutions related to separate heat production. Further studies will be conducted in order to find the best possible overall solution.

With respect to district heating, Vantaa Energy co-operated with several other companies in research on the development of heat storage solutions. The company has also taken an active part in various studies that support emissions reduction and climate change mitigation, such as the project entitled Energy Smart Capital City Region implemented by the Finnish Innovation Fund Sitra, and a greenhouse gas emission reduction study conducted by the City of Vantaa, along with an associated programme of measures.

9 Administration

The Annual General Meeting of Vantaa Energy Ltd was held on 21 May 2015. The issues discussed were those defined in section 13 of the articles of association for the Annual General Meeting.

The members of the company's Board of Directors were Kari Helppolainen, Chairman until 21 May 2015; Tommi Valtonen, Chairman as of 21 May 2015; Janne Pesonen, first Vice Chairman; Erkki Vuorenmaa, second Vice Chairman; Timo Auvinen; Sirpa, Kauppinen; Tapio Korhonen; Paula Lehmuskallio; Jukka Relander; and Leena Westlund.

The Board of Directors convened 11 times during the year.

The auditors of the company were Deloitte & Touche Oy, Authorised Public Accountants, with Robert Kajander, APA and Matti Ojala,

APA, as auditors in charge, and Merja Itäniemi, APA, as deputy auditor.

The company's Managing Director was Pertti Laukkanen, M.Sc. (Eng.).

10 Significant legal affairs

In March 2013, the Regional State Administrative Agency for Southern Finland issued a positive decision on an amendment to the environmental permit of the waste-to-energy power plant applied by Vantaa Energy Ltd. The application concerned a change in the direction of run-off rainwater, a flue gas condenser to be added to the power plant, along with a bigger gas turbine. Appeals against the positive decision have been lodged, and the matter is now being heard by the Supreme Administrative Court.

In January 2014, the Regional State Administrative Agency for Southern Finland issued its decision on Vantaa Energy's application to have the environmental permit of the waste-to-energy power plant supplemented with incinerable waste types. With the exception of a few waste types, the decision was in line with the company's application. Appeals against this decision have been lodged, and the matter is now being heard by the Supreme Administrative Court.

During the hearing of the above-mentioned appeals, the environmental permit of the waste-to-energy power plan granted by the Regional State Administrative Agency for Southern Finland will be complied with.

On 16 September 2015, the Regional State Administrative Agency for Southern Finland granted Vantaa Energy a permanent right to use all the hydropower of the joint water area of the village of Änkilä, used at the Lahnasenkoski hydropower plant. The participants' association of Änkilä for the joint water area has filed an appeal against the Regional State Administrative Agency's decision with the Vaasa Administrative Court. The matter is pending in the Vaasa Administrative Court.

In accordance with the decision of the Supreme Administrative Court, Vantaa Energy Ltd submitted to the Regional State Administrative Agency for Southern Finland a report on a few alternative fish passages through the dam of the Lahnasenkoski hydropower plant, a plan for a fish passage, and an application for a building permit for a fish passage in 2013. No decision had been issued on the fish passage application by the end of 2015.

In connection with the filling of the oil storage tank of the Katariina Hospital, there was an oil spill into the soil and the surrounding area. The oil spill was appropriately cleaned after the event. Due to this event, the company was prosecuted in spring 2015 in the Vantaa District Court for having committed an environmental offence. The District Court dropped the charges on 3 June 2015.

In July 2015, the Market Court issued its decision on the appeal that Vantaa Energy Electricity Networks Ltd had filed against the Energy Authority's regulatory decision concerning the years 2008 – 2011. The Market Court turned down two of the company's appeals. With respect to the third appeal concerning the method of calculating the interest liability on excess profits, the Market Court required that the Energy Authority should revise its decision. The Energy Authority issued a new regulatory decision for the company in October. The new decision is legally binding.

Together with Helen Sähköverkko Oy, Vantaa Energy Electricity Networks Ltd filed an appeal against the Energy Authority's decision with the Market Court, concerning the naming decision on the main grid made by Fingrid Oyj. The matter is still pending in the Market Court.

Vantaa Energy Ltd and Vantaa Energy Electricity Networks Ltd are also involved in a few dispute cases. In economic terms, these cases are deemed to be insignificant.

11 Events after the financial period

Vantaa Energy Electricity Networks Ltd raised its electricity distribution price by approx. 15% on 1 January 2016. At the same time, the special pricing that had been applied to the airport area was discontinued, and many price adjustments required by changes in the operating environment were made. The new prices make investments in the electricity network possible and ensure an excellent security of electricity supply. The price increase is based on the rise in the grid fees and in the costs of the services required by electricity network operations.

Vantaa Energy Electricity Networks Ltd changed the night/day time division for customers with electric heating in Vantaa as of 1 January 2016. At the same time, Vantaa Energy Ltd reduced the price of time-of-day electricity by about 4%.

Vantaa Energy Ltd introduced monthly billing for district heating on 1 January 2016 and reduced its energy prices for January and February, due to which the customers' average annual heating costs fell by

2.1%. The energy fees were also reduced, although the energy tax on fuels raises the cost by about 2%.

The technical condition of Vantaa Energy's office building stemming from the 1970s is poor, especially with respect to the HVAC systems and foundations. For this reason, the company made a decision in January 2016 to implement an extensive renovation and building project, due to which some of the company's operations must be moved to temporary facilities as from summer 2016.

12 Outlook

In 2016, the turnover of Vantaa Energy is expected to show a slight decrease compared to the previous year. The operating profit of the Group is expected to fall from the previous year's level. The most important reason for the drop in profitability is the sustained period of low market price of electricity in relation to production costs.

A new regulatory period concerning electricity network operations started at the beginning of 2016. The Energy Authority has defined new regulation principles for the next two four-year regulatory periods. The aim of the new regulation principles is to ensure that the goals for the security of supply laid down in the Electricity Market Act are reached. The permitted level of return on network operations will clearly rise, and the predictability of regulation will improve when the principles of regulation are known for an eight-year period. As a result of the reform, the profitability of the business operations of Vantaa Energy Electricity Networks Ltd will improve.

Over 80 per cent of the heating requirement in Vantaa is covered by environmentally friendly and efficient CHP district heating. Due to the fact that district heating competes with other heating methods in the heating market, a precondition for profitable operations is that production costs are efficiently managed. Thanks to the new waste-to-energy power plant, the pricing of district heating is likely to remain highly competitive in Vantaa. We also believe that our district heating operations will remain the market leader in our area of operation, and continue to be a profitable business throughout the current decade.

In the next few years, the Nordic electricity market is expected to become integrated also with respect to sales to residential customers. This will increase the need for electronic customer services and speed up their deployment. To increase the efficiency of our customer services, we are developing electronic sales and service channels, such as homepages and online services.

Due to the challenging targets set by contracts signed with the EU and other international organisations on reducing carbon dioxide emissions and increasing the share of renewable energy, the com-

pany will have to make further investments in production outside the emissions trading scheme and the increased use of renewable energy sources in production. Vantaa Energy has already responded to this challenge by making investments in, e.g. wind power, nuclear power and waste power. The company will continue to reduce the share of production based on fossil fuels. At the Martinklaakso power plant, the use of coal will be discontinued in the 2020s at the latest, and the present production equipment of the plant will be replaced with one using bio-based fuels.

Vantaa Energy Ltd is a shareholder in a number of wind power companies. Through these companies, Vantaa Energy will make significant investments to increase the production capacity of wind power over the next few years. However, new investments in wind power generation will require significant financial support from the government in the form of e.g. feed-in tariffs or other types of subsidies.

The above-mentioned government subsidies for renewable energy will significantly diminish the willingness and ability of operators in the Nordic electricity market to invest in new non-subsidised electricity production. Even the profitability of the cost-efficient combined heat and power production (CHP) is at risk. Due to its poor profitability, the present production capacity is rapidly making an exit from the market, which will diminish the security of energy production in Finland. We are ending up in a situation where public support is needed also for nonrenewable production with, e.g. separate capacity fees.

Due to increasing competition in the electricity trade, the instability of fuel prices and fuel taxes, and increasing regulation and supervision of profit levels in the sector, it will be a challenging task to maintain the company's profit level. Intensification and constant improvement of operations, as well as development of expertise will be inevitable.

Special measures must also be taken to reduce energy consumption (energy-efficient construction, heating methods, consumption monitoring).

The long-standing collective labour agreements applied by the energy sector will expire on 31 January 2017. Negotiations on collective agreements and local agreements will be launched towards the end of 2016. The aim of local agreement is to find solutions that will make more flexible preconditions for working possible without raising the cost level.

The services related to the energy networks, electricity distribution and district heating in Vantaa will continue to provide stability for the Group's finances. The expected population growth and increase in

the number of jobs in Vantaa will provide a growing base for these services.

13 The Board of Directors' proposal for the distribution of dividends

The distributable equity of the parent company according to the financial statements of 31 December 2015 is as follows:

- profits from the previous financial years	€ 101,285,858.59
- profits from the financial year	€ <u>25,654,048.95</u>
- total	€ 126,939,907.54

The Board of Directors proposes that the company should pay a dividend of EUR 11.68/share, totalling EUR 19,983,405.44, to external share capital, reserve EUR 31,000 for donations, and set aside a sum of EUR 25,000 for the Board of Directors to use for the public good. The rest of the distributable equity, EUR 106,900,502.10, is left in the retained earnings account.

Since the end of the financial year, there have been no essential changes in the company's financial position. The company's liquidity is good and, according to the Board of Directors, the proposed distribution of profits will not jeopardise the company's solvency.

14 Company stock

The company's capital stock is divided as follows:

Owner	Number	€
City of Vantaa	1,026,545	2,053,090
City of Helsinki	684,363	1,368,726
Total	1,710,908	3,421,816

The nominal value of each share is EUR 2.00. All shares have an equal right to dividend and company assets.

VANTAA ENERGY LTD

Profit and loss account

(EUR)	Notes	GROUP		PARENT COMPANY	
		1.1.-31.12.2015	1.1.-31.12.2014	1.1.-31.12.2015	1.1.-31.12.2014
Turnover	2	282 722 990,29	309 166 968,86	253 748 990,14	274 000 200,89
Manufacture for own use	3	3 642 314,14	4 495 702,17	2 338 825,09	2 949 069,07
Other operating income	4	1 773 487,04	1 205 474,00	8 157 574,47	7 549 078,90
Materials and services	5	-178 849 978,54	-200 173 078,49	-170 712 586,28	-191 831 074,44
Personnel expenses	6	-28 425 441,55	-28 870 499,08	-23 702 830,77	-24 220 460,13
Depreciation and value adjustments	7	-28 101 372,64	-22 266 982,33	-19 663 820,89	-14 371 446,27
Other operating expenses	8	-26 776 050,22	-20 535 395,88	-25 870 534,38	-19 737 549,23
Share of the profit of associated companies		3 010 985,30	1 219 836,77	-	-
Operating profit		28 996 933,82	44 242 026,02	24 295 617,38	34 337 818,79
Financial income and expenses	9	-2 668 251,18	-2 601 658,50	514 223,27	804 788,67
Profit before extraordinary items		26 328 682,64	41 640 367,52	24 809 840,65	35 142 607,46
Extraordinary items	10			10 000 000,00	15 800 000,00
Profit before appropriations and taxes		26 328 682,64	41 640 367,52	34 809 840,65	50 942 607,46
Appropriations					
Change in depreciation reserve		-	-	-3 579 738,74	-8 522 705,62
Income taxes	11	-4 430 779,25	-7 990 819,35	-5 576 052,96	-7 722 779,15
Profit for the financial year		21 897 903,39	33 649 548,17	25 654 048,95	34 697 122,69

VANTAA ENERGY LTD

Balance sheet

(EUR)	Notes	GROUP		PARENT COMPANY	
		31.12.2015	31.12.2014	31.12.2015	31.12.2014
ASSETS					
Fixed assets	12,1				
Intangible assets					
Intangible rights		2 270 528,18	3 634 668,65	2 190 116,10	3 528 416,61
Other expenses with long-term effects		14 635 457,59	19 320 210,65	13 272 213,07	17 988 862,76
Aquisitions in progress		283 659,09	54 398,00	283 659,09	54 398,00
		17 189 644,86	23 009 277,30	15 745 988,26	21 571 677,37
Tangible assets					
Land and water areas		8 616 945,70	8 208 557,14	8 182 764,49	7 737 411,38
Buildings and structures		116 600 361,27	122 875 661,00	110 708 129,67	116 618 035,93
Electricity network		110 172 041,84	108 155 565,01	0,00	0,00
District heating network and equipment		62 479 312,01	59 620 089,77	62 479 312,01	59 620 089,77
Gas distribution network		747 905,09	791 799,53	747 905,09	791 799,53
Machinery and equipment		34 099 227,31	36 250 912,35	33 977 657,84	36 204 990,68
Other tangible assets		5 636 286,07	3 719 012,36	5 636 286,07	3 719 012,36
Aquisitions in progress		5 685 934,78	2 128 204,75	1 795 058,88	1 116 177,69
		344 038 014,07	341 749 801,91	223 527 114,05	225 807 517,34
Investments					
Shares in group companies		0,00	0,00	76 000,00	76 000,00
Holdings in associated companies		30 367 710,44	32 406 869,54	35 356 066,69	35 356 066,69
Other shares and participations		49 533 882,74	40 472 618,90	49 531 081,69	40 469 817,85
Other long-term investments		1 040 000,00	1 040 000,00	1 040 000,00	1 040 000,00
		80 941 593,18	73 919 488,44	86 003 148,38	76 941 884,54
Total fixed assets and other long-term investments		442 169 252,11	438 678 567,65	325 276 250,69	324 321 079,25
Current assets	14				
Inventories					
Materials and supplies		82 777,61	73 213,11	82 777,61	73 213,11
Oil reserve		8 496 696,49	9 808 035,47	8 496 696,49	9 808 035,47
Coal reserve		11 393 292,52	14 415 818,62	11 393 292,52	14 415 818,62
Advance payments		214 910,11	0,00	214 910,11	0,00
		20 187 676,73	24 297 067,20	20 187 676,73	24 297 067,20
Long-term receivables					
Loan receivables from group companies		0,00	0,00	0,00	5 555 000,00
Loan receivables from associated companies		15 730 930,92	17 605 812,50	15 730 930,92	17 605 812,50
Accrued income		2 164 129,48	2 367 842,66	420 060,48	451 176,00
Other receivables		11 488 278,00	0,00	11 488 278,00	0,00
Short-term receivables					
Trade receivables		54 782 131,37	66 034 095,93	43 758 612,31	53 789 970,27
Connection charge receivables		194 411,64	253 382,89	115 019,00	165 628,05
Receivables from group companies		0,00	0,00	50 493 019,96	52 925 722,49
Receivables from associated companies		1 909 727,88	42 052 371,82	1 909 727,88	42 052 371,82
Accrued income		3 467 585,74	8 535 172,96	3 187 693,01	8 059 402,07
Other receivables		11 324 436,87	1 621 077,18	11 324 436,87	1 621 077,18
Receivables, total		101 061 631,90	138 469 755,94	138 427 778,43	182 226 160,38
Cash in hand and at banks		7 794 199,88	5 927 547,31	7 794 199,88	5 927 347,31

Total current assets	129 043 508,51	168 694 370,45	166 409 655,04	212 450 574,89
TOTAL ASSETS	571 212 760,62	607 372 938,10	491 685 905,73	536 771 654,14

Balance sheet

(EUR)	Note	GROUP		PARENT COMPANY	
		31.12.2015	31.12.2014	31.12.2015	31.12.2014
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	15				
Share capital		3 421 816,00	3 421 816,00	3 421 816,00	3 421 816,00
Retained earnings		178 324 621,53	178 189 533,45	101 285 858,59	96 619 703,13
Net profit for the period		21 897 903,39	33 649 548,17	25 654 048,95	34 697 122,70
Translation differences		-1 214 987,21	-2 758 622,58	--	--
Total shareholders' equity		202 429 353,70	212 502 275,04	130 361 723,54	134 738 641,83
Accrued appropriations					
Depreciation difference		--	--	48 505 798,04	44 926 059,30
Obligatory reserves		0,00	0,00	0,00	0,00
Liabilities	16				
Long-term liabilities					
Connection charges		129 299 634,84	127 059 141,53	89 977 859,56	89 191 583,17
Loans from financial institutions		140 807 854,00	17 605 812,50	140 807 854,00	17 605 812,50
Other long-term liabilities		1 334 666,67	0,00	1 334 666,67	0,00
Deferred tax liabilities		17 939 611,66	18 911 094,31	0,00	0,00
		289 381 767,17	163 576 048,34	232 120 380,23	106 797 395,67
Short-term liabilities					
Loans from financial institutions		12 992 026,12	49 746 880,69	12 992 026,12	49 746 880,69
Advance payments received		58,63	0,00	13,63	0,00
Accounts payable		18 140 775,75	18 721 123,16	16 923 073,29	17 221 743,28
Amounts owed to group companies		0,00	0,00	4 153 930,00	23 082 776,49
Amounts owed to associated companies		376 962,15	231 760,59	51 984,67	74 318,26
Accruals and deferred income		11 328 742,65	15 652 128,86	10 187 734,34	13 878 472,02
Other liabilities		36 563 074,45	146 942 721,42	36 389 241,87	146 305 366,60
		79 401 639,75	231 294 614,72	80 698 003,92	250 309 557,34
Total liabilities		368 783 406,92	394 870 663,06	312 818 384,15	357 106 953,01
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		571 212 760,62	607 372 938,10	491 685 905,73	536 771 654,14

VANTAA ENERGY LTD

Cash flow statement

(EUR)	GROUP		PARENT COMPANY	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Cash flow from operating activities				
Profit before extraordinary items	26 328 682,64	41 640 367,52	24 809 840,65	35 142 607,46
Adjustments				
Depreciation according to plan	28 101 372,64	23 061 314,51	19 663 820,89	15 165 778,45
Unrealised foreign currency gains and losses	0,00	0,00	0,00	-794 332,18
Other non-cash income and expenses	6 389 443,86	2 181 789,56	6 324 207,24	593 567,84
Financial income and expenses	2 668 251,18	2 601 658,50	-514 223,27	-804 788,67
Share of the profit of associated companies/other adju	-3 010 985,30	-1 221 036,38	0,00	0,00
Cash flow before changes in working capital	60 476 765,02	68 264 093,70	50 283 645,51	49 302 832,90
Change in working capital				
Change in inventories	4 109 390,47	-524 016,60	4 109 390,47	-524 016,60
Change in short-term receivables	46 817 807,28	-32 565 700,55	19 143 412,85	-7 556 591,84
Change in short-term loans	-157 120 370,40	64 075 781,48	-132 856 698,85	44 884 999,08
Cash flow from operating activities before financial items	-45 716 407,63	99 250 158,03	-59 320 250,02	86 107 223,54
Interest paid and decrease in operating receivables	-2 989 756,94	-3 101 312,69	-3 013 182,12	-3 160 345,71
Dividends received	3 150 178,51	3 377 384,19	3 150 178,51	3 377 384,19
Interest received	281 614,16	462 517,19	377 226,88	587 750,19
Direct taxes paid	-5 402 261,90	-7 867 376,69	-5 576 052,96	-7 722 779,15
Cash flow from operating activities	-50 676 633,80	92 121 370,03	-64 382 079,71	79 189 233,06
Cash flow from investments				
Investments in tangible and intangible assets	-29 715 313,88	-56 054 966,38	-16 547 269,06	-40 783 440,93
Proceeds from the sale of tangible and intangible assets	90 584,33	0,00	0,00	0,00
Other investments	-9 098 709,20	-18 084 312,35	-9 098 709,20	-18 084 312,35
Proceeds from the sale of other investments	37 445,36	148 292,52	37 445,36	148 292,52
Other adjustments	0,00	4 000,00	0,00	4 000,00
Cash flow from investments	-38 685 993,39	-73 986 986,21	-25 608 532,90	-58 715 460,76
Cash flow before financial activities	-89 362 627,19	18 134 383,82	-89 990 612,61	20 473 772,30
Financing cash flow				
Withdrawals of long-term loans	130 000 000,00	0,00	130 000 000,00	0,00
Payment of long-term loans	-1 641 025,64	-1 542 250,00	-1 641 025,64	-1 542 250,00
Withdrawals of short-term loans	70 462,57	0,00	70 462,57	0,00
Payment of short-term loans	-41 982 250,00	-3 806 752,23	-41 982 250,00	-3 806 752,23
Increase (-) / decrease (+) in loan receivables	43 857 131,58	1 542 250,00	36 112 131,58	-14 957 750,00
Increase (-) / decrease (+) in long-term receivables	-11 284 564,82	180 968,25	-11 457 162,48	104 301,59
Increase (+) / decrease (-) in connection charges	2 240 493,31	3 040 891,10	786 276,39	1 491 472,39
Dividends paid	-29 992 217,24	-24 979 256,80	-29 992 217,24	-24 979 256,80
Group contributions received and paid			10 000 000,00	15 800 000,00
Other	-38 750,00	-33 000,00	-38 750,00	-33 000,00
Fir Cash flow	91 229 279,76	-25 597 149,68	91 857 465,18	-27 923 235,05
Change in liquid assets	1 866 652,57	-7 462 765,85	1 866 852,57	-7 449 462,75
Liquid assets on 1 January	5 927 547,31	13 390 313,16	5 927 347,31	13 376 810,06
Liquid assets on 31 December	7 794 199,88	5 927 547,31	7 794 199,88	5 927 347,31