



Elenia Group INVESTOR REPORT H1 2020



ELENIA

INVESTOR REPORT

For the six months ended 30 June 2020

Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in the first half of 2020, including regulatory and business developments, Elenia's financial performance and other information in accordance with the requirements of the Common Terms Agreement dated 10 December 2013 as amended and restated from time to time ("CTA").

1. Overview

Elenia continued its operations in the first half of 2020 without interruptions despite the activation of the pandemic preparedness plan in mid-March. So far impact on business has been limited in terms of distribution volumes and number of customer defaults, and the liquidity is very good. At the date of this report, the situation in Finland is reasonably good and Elenia staff is returning to the office. However, the pandemic situation is monitored constantly and Elenia is prepared to adjust its operations accordingly.

During the reporting period, Elenia's electricity distribution business ("Elenia Networks") continued the roll-out of its long-term investment plan which is designed to improve the security of supply. Elenia's network investments¹ were €89.3 million in the first half of 2020 (€154.6 million on a rolling 12-month basis) and the underground cabling rate increased as planned to 52.3%.

Elenia continued to further develop its asset management system according to the PAS55-1:2008 standard and the international standard ISO 55001:2014. Due to pandemic situation Lloyd's Register conducted the first part of surveillance visit remotely in June to assess Elenia Networks' asset management system and the second phase will take place in autumn. During the first phase of the assessment, Elenia Networks demonstrated that it has in place asset management processes, systems and plans which have been implemented throughout the organization and continue to be in line with the relevant standards. Likewise, the first part of re-certification audit of the ISO 45001 based Occupational Health and Safety system (OHS) was carried out in April 2020.

Elenia also continued to develop its fiber business in accordance with the business plan.

In the first half of 2020, Elenia's revenue and EBITDA increased by 6.6% and 10.4% respectively compared to the first half of 2019². The increase in revenue and EBITDA was mainly driven by the increase in distribution tariffs of 9.0%³ in September 2019.

The key financial performance indicators for the first half of 2020 are shown in the table below. Further information is available at www.elenia.com/en/investors.

¹ Regulatory asset value accretive capex

² The district heating business was divested on 22 July 2019. The reported H1 2019 revenue and EBITDA (excluding exceptional and non-recurring items) at the time were €189.9 million and €109.0 respectively.

³ The actual increase on customer invoices was approximately 6% on post-tax basis.

Key Financial Performance Indicators (€m)	H1 2019 (restated)	H1 2020	Change (%)
Revenue	148.9	158.7	6.6%
EBITDA ⁴	94.4	104.3	10.4%
EBITDA ⁴ Margin	63.4%	65.7%	

2. Business Update

a. Storms and exceptional weather events

There were no major power disruptions during the first half of 2020.

In early June, the Suvi storm caused outages in certain areas of Elenia's distribution network served by overhead lines. The maximum number of customers simultaneously without electricity was over 15,000. All connections were restored in less than 48 hours.

Elenia has developed and constructed together with Fortum, the Finnish energy company, a cutting-edge battery concept. The first battery pack has been installed in Kuru. Fortum owns and operates the battery, and during normal times it is used for regulating power for the transmission grid. In case of a power outage the battery will supply electricity to a limited grid area. This makes it possible to keep the electricity running during the repair work. The battery pack can secure the supply of electricity for over one hundred Elenia's customers for several hours. During the outage in June the battery pack for the first time supplied power successfully to our customers in the operation area thus mitigating the effects of the outage.

b. Regulation

The current year is the first of the fifth regulatory period. The regulation methods have been set for two consecutive regulatory periods i.e. until the end of the fifth regulatory period at the end of 2023. The regulatory guidelines provide stability for the industry and enable the continuation of Elenia's security of supply driven investment programme as planned. The Energy Authority ("EA") has confirmed the reasonable rate of return for 2020 to be 5.73%.

A distribution system operator ("DSO") is obliged to submit a contingency plan to the EA every three years and in the event of material changes in circumstances. The EA published a general feedback regarding DSOs' preparedness plans delivered in 2019. No company specific feedback was given but generally the preparedness level is good among the Finnish DSOs.

The EA has previously published selected preliminary regulatory key figures of Finnish DSOs based on 2018 accounts. Elenia Networks' regulatory asset base was €1,633.0 million⁵.

In January 2020, the Ministry of Economic Affairs and Economy published a draft government bill to amend the Electricity Market Act ("EMA") that, if enacted, would impact the business of Elenia. The proposed changes include, among other things, prolonging the deadline to comply with the quality requirements set by the EMA from the end of 2028 to the end of 2036, lowering the electricity distribution tariff cap from 15% to an aggregate level of 12.5% over any rolling 12-month period and prolonging the

⁴ Excluding exceptional and non-recurring items. The discontinued operations removed from the H1 2019 figures. The H1 2020 figures are not fully comparable due to changes in Elenia's corporate structure. However, the difference is not material.

⁵ The figure should be considered preliminary until the final regulatory decision has been given by the EA.

offsetting period of cumulative regulatory deficit from four to eight years. The bill is expected to be sent to the Parliament during the autumn.

c. Investment Programme and Underground Cabling

Elenia Networks' long-term investment plan emphasises the importance of replacing old overhead lines that are at the end of their useful life with underground cables in order to secure uninterrupted availability of electricity. The investment programme is designed to decrease the number of faults in the distribution network, reduce fault repair costs and meet the security of supply targets set by the EMA. Elenia Networks submitted its electricity network development plan to the EA in June 2020 and the target is to increase the underground cabling rate of the electricity distribution network to 75% by 2028. As at 30 June, 70.1% of the customers were within the scope of the EMA quality requirements.

In the first half of 2020, Elenia Networks has continued network investments according to its long-term investment plan. The network investments in the first half of 2020 were €89.3 million (€85.7 million in the first half of 2019). The capital expenditure budget for the distribution network in 2020 is approximately €160 million.

d. IT Projects

In order to meet the business objectives and secure the continuity, Elenia started an Information Security Management System ("ISMS") project consisting of improvements in processes, documentation, technology and awareness in 2019. The ISMS framework was certified according to the ISO/IEC 27001:2013 standard in H1 2020.

e. Health, Safety and Environment

Elenia's sustainability program is aligned with the UN's Sustainable Development Goals and there are six selected goals that are linked to Elenia's operations. For each of the goals, the company has set specific targets and the related KPIs are followed monthly.

The second Sustainability Report prepared in accordance with the Global Reporting Initiative standards was published in May 2020. During the reporting period Elenia also participated in the GRESB Infrastructure Assessment focusing on environmental, social and governance performance. The 2020 results from the assessment are expected to be released in October.

There were nine recorded work-related accidents for Elenia's external contractor personnel in the first half of 2020. None of these accidents were severe and all have been handled in accordance with Elenia's safety procedures in order to prevent similar accidents in the future.

Elenia's employees and contractors continued to receive regular safety training and the company continued to carry out quality and safety inspections at its construction sites. Elenia Networks conducted over 400 quality and safety inspections and 42 safety walks (i.e. safety reviews) at its construction sites in the first half of 2020.

Elenia has in place the Safety Manifesto with its main contractors, indicating that they are jointly committed to safety and that everyone is entitled to return home healthy after work. This is monitored on the highest level and all accidents are reported to the Board.

3. Changes to the Board of Directors

There have been no changes to the Board of Directors of Elenia Networks, Elenia Services, Elenia Finance Oyj, Elenia Holdings S.à r.l., Elenia Finance (SPPS) S.à r.l., Lakeside Network Investments Holding B.V., Lakeside Network Investments S.à r.l., Elenia Investments S.à r.l. and Elenia Verkko Oyj (previously Elenia NewCo Oyj) during the reporting period.

Please, see the section Recent Development for the new organisational structure and the related Board members after the reporting period.

4. Financing and Hedging Position

In January 2020, Elenia Finance Oyj issued a €500 million benchmark bond with a seven-year maturity and a coupon of 0.375%. The funds are used for general corporate purposes including repaying the remaining portion (approximately €89 million) of the bond maturing in December 2020 as well as drawdowns from the existing bank facilities.

As at 30 June 2020, the Facilities consisting of €350 million Capex Facility, €60 million Working Capital Facility and €60 million Liquidity Facility were undrawn.

In April, Elenia agreed a second loan in the amount of €100 million with the European Investment Bank ("EIB"). Elenia signed in 2018 a €150 million loan with the EIB which has been fully drawn.

The Hedging Ratio was 90.9% as at 30 June 2020 and Elenia was in compliance with the Hedging Policy.

5. Acquisitions or Disposals

There were no material acquisitions or disposals in the reporting period.

6. Restricted Payment

The amount of Restricted Payments made since the date of the previous Investor Report is €50.0 million.

7. Recent Development

On 1 July, Elenia Finance Oyj and Elenia Oy were merged with and into Elenia Verkko Oyj and the latter became the issuing entity of Elenia and the network license holder. Elenia Verkko Oyj's licence is valid until further notice within the current network area and the license covers both electricity distribution business and high voltage electricity distribution business. Prior to the merger, Standard & Poor's released a statement confirming that the BBB+ (stable) rating of bonds and notes issued by Elenia Finance Oyj remains the same after the reorganisation. Successively, Elenia Services was renamed to Elenia Oy.

The Board of Directors of Elenia Oy (formerly Elenia Services and currently the operative parent company of Elenia) consists of Timo Rajala (Chairman), Mark Braithwaite, Eduard Fidler, Tapani Liuhala, Thomas Metzger, Jorma Myllymäki, Sirpa Ojala and Michael Pfennig.

The Board of Directors of Elenia Verkko Oyj comprises Tapani Liuhala (Chairman), Jarkko Kohtala, Jorma Myllymäki, Alli Seppänen, Ville Sihvola and Tommi Valento.

Additionally, Tapani Liuhala serves as the managing director of both companies.

The composition of the Board of Directors of each of the other two other guarantors, Lakeside Network Investments S.à r.l.⁶ and Elenia Investments S.à r.l., remains unchanged.

The ring-fenced structure as of 1 July:



8. Ratios

In respect of this investor report dated 2 September 2020 covering the 6-month period ending 30 June 2020, by reference to the most recent Financial Statements delivered to you in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 2 (Security Group Covenants) of the CTA:

The Interest Coverage Ratio (FFO / Net Finance Charge) in respect of the Relevant Periods are:

30 June 2020 €190.8m / €45.0m = 4.24

30 June 2021 €204.7m / €39.7m = 5.16

⁶ To be renamed Elenia Holdings S.à r.l.

The Leverage Ratio (Total Net Debt / EBITDA) in respect of the Relevant Periods are:

30 June 2020 €1 659.2m / €198.3m = 8.37

30 June 2021 €1 880.0m / €210.0m = 8.95

(together “the Ratios”).

Each of the above Ratios has been calculated in respect of the Relevant Period(s) or as at the Calculation Dates for which it is required to be calculated under the CTA.

9. Confirmations

We confirm that as at 30 June 2020:

- (a) no Default or Trigger Event has occurred and was continuing
- (b) the Security Group was in compliance with the Hedging Policy; and
- (c) the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully,


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Tommi Valento

Chief Financial Officer

Signing without personal liability, for and on behalf of

Elenia as Security Group Agent