# Annual Investor Presentation

20 December 2023
Helsinki

# Agenda

| | | |
|---|---|---|
| 1 | **Business and Financial Update** | ▪ Temporary impact of market turbulence on financial performance in H1 2023<br>▪ Tariff increase offsetting impact of energy crisis on profitability in 2023<br>▪ Long-term fixed rate financing protects against elevated interest rates |
| 2 | **Regulatory Update** | ▪ Confidence in the EA lost due to erratic last minute regulatory changes<br>▪ Capex levels expected to be cut and based purely on revenue allowance<br>▪ Far reaching negative implications for all stakeholders |
| 3 | **Electrification and Capex Outlook** | ▪ Electrification progressing with major implications expected for networks<br>▪ Customers starting to recognize need for improved security of supply<br>▪ Outlook for green capex requirements changing drastically |
| 4 | **Sustainability** | ▪ Persistent investments and effort towards zero accidents<br>▪ Commitment to continued improvement through sustainability linked financing<br>▪ Further improved level of EU Taxonomy alignment |

# 1 Business and Financial Update

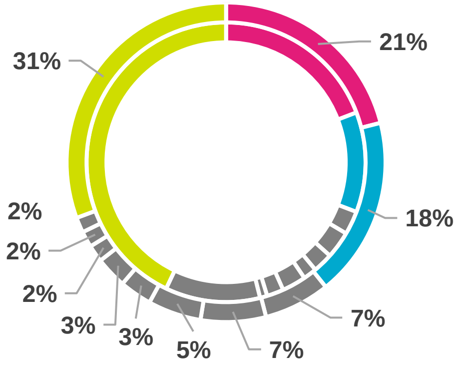
# Elenia Group in Brief

- Elenia Verkko Oyj is a regulated regional monopoly with a strong operational focus on improving security of supply and enabling green transition
- Elenia Verkko Oyj is the second largest DSO in Finland and serves 438,000 customers in its network area
- The Group also includes Elenia Oy (customer service and construction and project management)
- Bonds and notes issued by Elenia Verkko Oyj are BBB rated (stable) by S&P Global Ratings
- Elenia is backed by committed and supportive long-term infrastructure investors: Macquarie Asset Management (appr. 45%), Allianz[1] (appr. 45%) and VER (appr. 10%)

**Network Area**

1. Allianz refers to Allianz subsidiaries and investment vehicles managed or advised by Allianz Capital Partners

## Market Shares by Network Length and # of Customers[2]

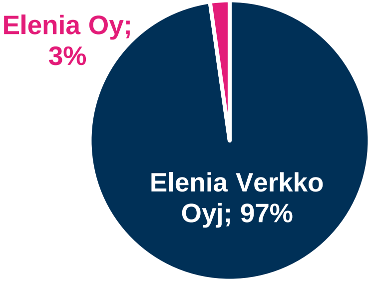



| # | Company | Length | Cust. |
|---|---|---|---|
| 1 | Caruna | 21% | 19% |
| 2 | Elenia | 18% | 12% |
| 3 | Järvi-Suomen | 7% | 3% |
| 4 | Savon Voima | 7% | 3% |
| 5 | PKS Sähkö. | 5% | 2% |
| 6 | Kajave | 3% | 2% |
| 7 | Kymenlaakso | 3% | 3% |
| 8 | Vaasan Sähkö | 2% | 2% |
| 9 | Rovakaira | 2% | 1% |
| 10 | Helen | 2% | 11% |
| | Others | 31% | 43% |

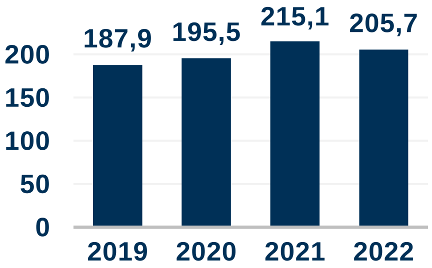
2. Reflects only network operations; Caruna represents combined market share of Caruna Oy and Caruna Espoo Oy, Source: Energy Authority (2022)

## Revenue Breakdown (2022) and EBITDA[3] Development

**Group Revenue €317.4 million**




**Group EBITDA[3] 2019-2022 (€m)**

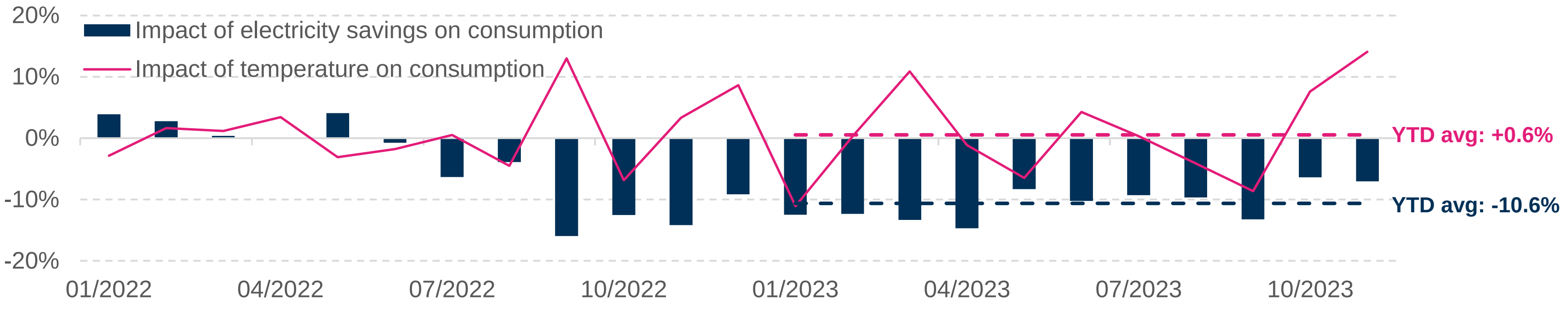



3. Excluding non-recurring and exceptional items

# Volume Decline Impacting Revenue in H1 2023

- Households have decreased electricity consumption on average by approximately 11% since the beginning of the energy crisis
  - Concerns especially volume-based revenues from fuse customers which represents roughly 40% of Elenia's revenue
- Fuse customers' electricity savings have been fairly stable in 2023, however, in Oct-Nov consumption has partially recovered
- The impact of temperature has been volatile in 2023
- Excluding the impact of a potential reversal to pre-crisis volumes, Elenia expects distribution volumes to increase in a business-as-usual scenario by roughly 1% p.a. until 2036

## Fuse Customers' Electricity Consumption Driven by Temperature and Energy Crisis[1]

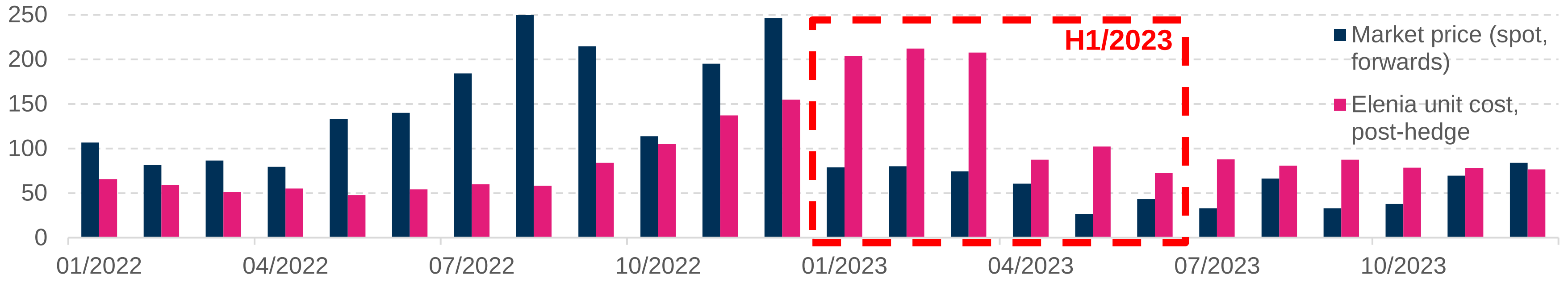



1. Temperature adjustment and other impacts compared against 10-year median volumes

# Temporary Rise in Uncontrollable Costs in H1 2023

- Impact of energy crisis on costs related to the distribution losses partially postponed from 2022 to 2023 due to Elenia's hedging policy
  - Distribution losses €22.5 million in H1 2023 of which €14.3 million treated as exceptional[1]
- Turbulent electricity prices causing grid costs to temporarily decline in 2023 due to TSO benefiting from higher congestion income
  - Fingrid not invoicing grid costs in 2023 in January-February, June-July and November-December
  - Net impact of savings €8.7 million in H1 2023 treated as exceptional
- The total net impact of exceptional items amounted to €5.9 million in H1 2023 for covenant calculation purposes
  - Impact expected to be reversed in H2 2023 as electricity prices have normalized, while the remaining Fingrid rebates are materializing
  - Fingrid has announced that grid costs will not be invoiced at least for January, February and June in 2024
- Distribution losses and grid costs are pass-through items within the regulatory framework and can be passed on to customers through tariffs in the long run

**Electricity Market Prices and Electricity Unit Costs for Elenia in 2022-2023 (€/MWh)[1,2]**




1. Costs from monthly average price exceeding pre-energy crisis 10-year maximum level of 60 €/MWh
2. Source: Nord Pool, Nasdaq OMX (8 Dec 2023)

# Energy Crisis Impacting H1 – Recovery in H2

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| €m[1] | H1 2022 | H1 2023 | Change | FY2022 |
|---|---|---|---|---|
| **Consolidated Revenue[3]** | **168.4** | **160.8** | *-4.5%* | **317.4** |
| Network Business Revenue[2] | 165.0 | 156.8 | *-5.0%* | 310.8 |
| **Consolidated EBITDA[4]** | **112.4** | **108.6** | *-3.7%* | **205.7** |
| Network Business EBITDA | 111.1 | 101.7 | *-8.5%* | 203.1 |
| *Consolidated EBITDA margin* | *66.7%* | *67.5%* | | *64.8%* |
| | | | | |
| Volume (GWh) | 3412.5 | 3081.7 | *-9.7%* | 6260.2 |
| Network Investments | 82.1 | 62.8 | *-21.3%* | 175.8 |
| | | | | |
| Net Debt | 1747.1 | 1831.9 | *4.9%* | 1789.9 |
| **Interest Coverage Ratio** | **5.48x** | **4.76x** | | **5.21x** |
| **Leverage Ratio** | **8.11x** | **9.08x** | | **8.69x** |

[1] Financial figures are prepared according to IFRS
[2] Including intra-group items
[3] Excluding intra-group items
[4] Excluding non-recurring and exceptional items

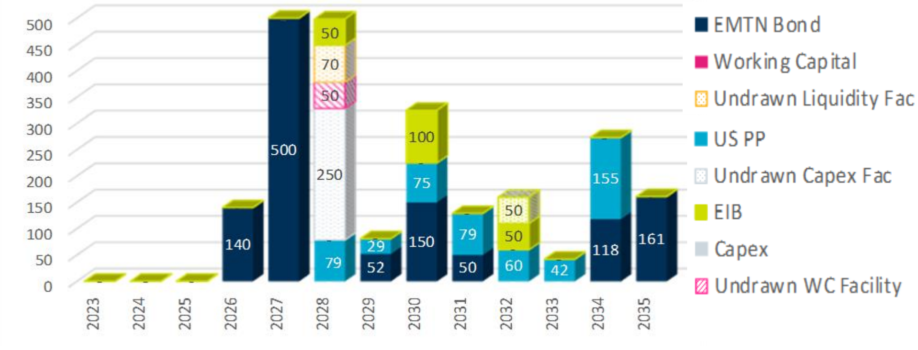
- The impact of the reduced electricity consumption following the energy crisis is evident in the revenue decline in H1 2023
  - The regulatory framework is volume neutral, and Elenia is able to recoup the decline in revenue through tariffs
  - Elenia increased tariffs on average by 8% (pre-tax) in May offsetting the impact of continued lower volumes in H2 2023
- The majority of the temporary rise in H1 (and temporary decline in H2) in uncontrollable costs is treated as exceptional
- There were no major power disruptions or storms during the first half of the year but from the security of supply perspective H2 2023 has been characterized by several storms
- Following the decrease in the reasonable return as a result of the regulatory changes for 2022 and 2023, Elenia cut its original investment plan for the current year by approximately €60 million

# Liquidity Supported by Undrawn Credit Facilities

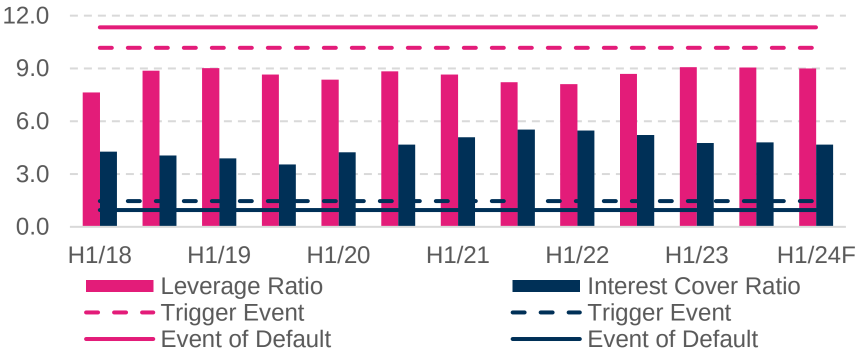
- Elenia Verkko Oyj has €3 billion multicurrency bond programme listed at the London Stock Exchange with total debt of €1939.5 million
  - €1,171 million of bonds under the programme
  - €518.5 million of US PPs
  - €250 million bank loans from EIB
- Hedging ratio of 85% and average maturity of almost seven years provide stability against elevated interest rates

- Elenia has committed undrawn credit facilities with sustainability linked KPIs totaling €370 million from its bank group
  - €250 million capex facility
  - €50 million working capital facility and overdraft
  - €70 million liquidity facility
- Bonds and notes are BBB rated (stable outlook) by S&P
- Elenia retains adequate headroom to both ICR and leverage ratio covenants on a historical and forward-looking basis

## Maturity Profile




## Leverage and Interest Coverage Ratio[1,2] (x)




[1] Ratio adjustment period ending 31 December 2027, [2] Values are based on Elenia's latest compliance certificate

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## Regulatory Update

**Please note that this section of the presentation is based on draft regulatory methods published on 1 Dec 2023 and not the final methods as this presentation has been published prior to the release of the final methods that will be valid 2024-2031**

Based on draft regulatory methods published on 1 Dec 2023

# Draft Methods Disrupted the Industry in Oct 2023

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## Schedule for preparing the regulatory methods for the 6th and 7th reg periods

**Mar 2023**
1. opinions to be provided to the EA on the first regulatory guidelines

**Jun 2023**
2. opinions to be provided on the first reg guidelines

**Nov 2023**
Opinions to be provided on the second reg. guidelines

**Dec 2023**
Opinions to be provided to the EA on the reg. guideline amendments

2022 — 2023 — 2024

**Jan 2022**
Publication of the EA's official process the Stakeholder Advisory Board

**Mar-Dec 2022**
8 meetings between the EA and and the Stakeholder Advisory Board

**Oct-Dec 2022**
Publication of EA's own and external studies relating to WACC and incentives

**Mar 2023**
Publication of the first draft of the regulatory guidelines

**Oct 2023**
Publication of the external study on adjustments for inflation

**Oct 2023**
Publication of the second draft reg. guidelines including draft unit prices

**Dec 2023**
Publication of amend-ments to the reg. guidelines

**Dec 2023**
Publication of the final confirmation decisions

## After 21 months of a relatively smooth and predictable process, the EAs actions became erratic in October

- Methods changed drastically, especially regarding asset base (RAV) determination in Oct, a couple of months before methods in effect
  - The EA published an external report in Oct, which, lacking any analysis of the existing unit price methodology, suggested two theoretical methods for inflation treatment within a real regulatory asset base framework
- RAV determination against everything the EA has communicated during the process for two years, and they have not taken into account or commented practically any of the opinions it has received
  - The EA arranged meetings with its Stakeholder Advisory Group eight times before publishing first draft methods in Mar 2023
  - DSOs were requested to provide comments to the first draft methods twice in Mar and Jun
- The EA drafted in Oct methods implementation of the first RAV determination method suggested in the external report, and in Dec changed to suggest a modified version of the other alternative
  - The EA nor the consultants have not had time or sufficient information to do any impact kind of assessment of the changes on network development, customers, or society
  - The Oct draft methods resulted in over 100 responses from stakeholders of which over 90% critical
- The latest amendments published in Dec (3rd draft) have a 2-week consultation period, with final methods to be in place by year-end
  - The EA is required to arrange a consultation round following any significant changes to the methods

Based on draft regulatory methods published on 1 Dec 2023

# Key Changes to Regulatory Methods for 2024-2031

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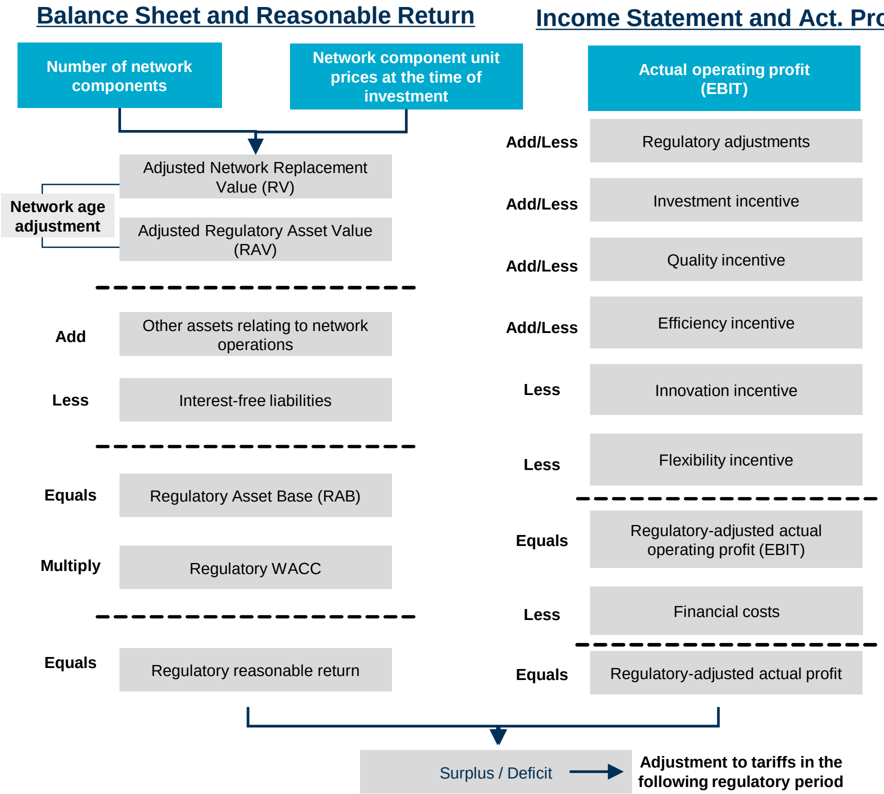
## Key changes to reasonable return

- **RV and RAV frozen at the end of each regulatory period and existing assets valued with current unit prices (2020-2021 construction costs).** New unit prices (2022-2023 construction costs) determining value of capex in 2024-2027.
- Demolition costs not added to the regulatory asset base.
- Tax liability portion of depreciation difference deducted from the regulatory asset base.
- **Definition of WACC parameters and peer group updated based on report by KPMG. The reasonable rate of return for 2024 is 6.90% increasing from 6.08% in 2023 (2024 pro forma WACC with existing reg methods 7.59%)**




## Key changes to adjusted profit

- **Investment incentive updated with a profit-sharing mechanism where 15% of outperformance is allocated customers (i.e. not retained by DSO).** Annual inflation adjusted between reg periods removed.
- Low voltage outages included to the quality incentive.
- The general efficiency target is set at 0% for 6th and 1% for 7th reg period. Reference level updated, Elenia preliminary efficiency 100.4%.
- Cap for innovation incentive reduced from 1% to 0.5% of revenue.
- **New incentive introduced to promote development of demand flexibility solutions with a cap of 1% of revenue in the 6th and 2% of revenue in the 7th reg period.**

Based on draft regulatory methods published on 1 Dec 2023

# Confidence in the Capabilities of the EA is Wavering

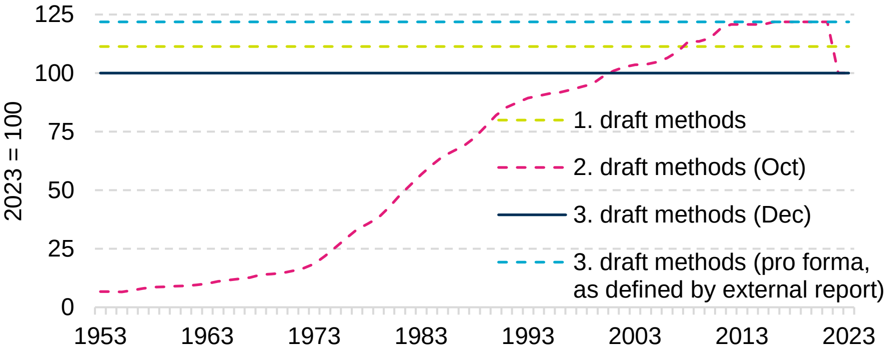
## Pros and Cons of the Regulatory Changes

- The trust in the capabilities of the EA is being lost
  - Erratic and unjustified changes to RAV critically impairs the trust in the EA for the time being
  - Last minute major changes to RAV without any consultation or impact assessment will cause unwanted impacts, including insufficient capex financeability through lower protection against inflation
  - Majority of other amendments poorly justified: retrospective, directly opposed to existing methods, against tax and accounting conventions, and lacking any theoretical and practical justifications
  - Limiting incentives to operate efficiently, drive innovation, or develop network to support requirements of society
- On the positive, the regulatory framework is maintained with unit prices methodology, market WACC and incentives
  - The new methods provide visibility for the next 8 years
  - Unit price methodology from 2024 onwards provides protection against inflation
  - Freezing unit prices provides stability against larger movements in asset base in the future
  - Other elements protect against changes in distribution volumes, interest rates, electricity prices, and grid costs
  - The EMA requires regulatory methods to enable sufficient funds for DSOs to operate and reach the security of supply targets

## Far Reaching Negative Implications for All Stakeholders

- Capex levels cut (i) to reflect increasing cost environment and (ii) to be based on revenue allowance due to inability to frontload capex driven by regulatory uncertainty
- Tariff levels in short run supported by historical capex and market conditions, and in the long run by increasing unit prices from lower efficiency
- Capex cuts causing security of supply targets in EMA not to be reached, decrease reliance in critical infrastructure and cause unemployment throughout network areas
- Deteriorating network performance causing government's targets for the clean transition and ambitions for Finland to be leading attractive target for green capex initiatives to be obsolete

## Value of Historical Capex with Different Methods*




* 1. draft methods approximated by 2022-2023 BCI inflation. 2. draft based on Elenia's RAV component weights

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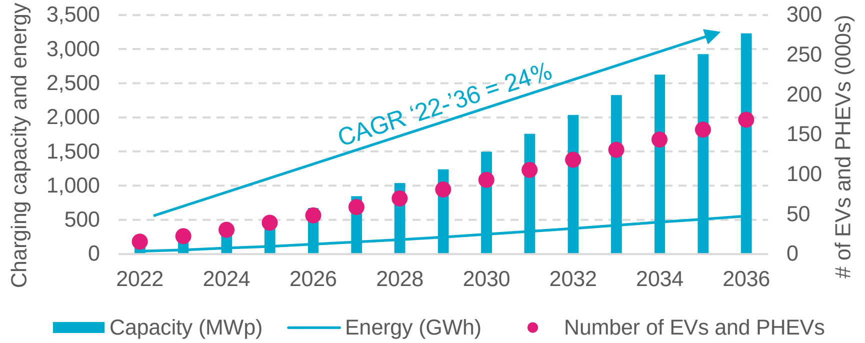
# Electrification and Capex Outlook

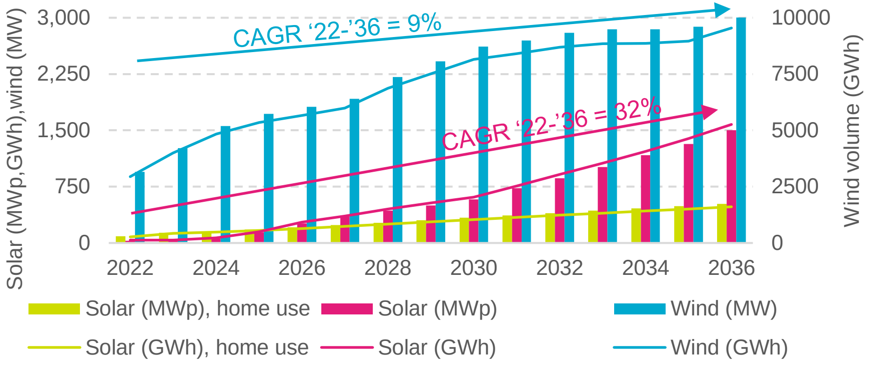
# Electrification in Elenia's Network Area

- To develop capex plan to include market requirements, Elenia has ordered a study on implications of electrification in Elenia's network
- Especially production of renewables and electrification of traffic will have a significant impact on distributed capacity
  - Production capacity increasing from wind power by 2100 MW (HV network) and from solar power by 1500 MW (MV, HV network)
  - Electrification of traffic increases consumption capacity by 3600 MW in LV network and 500 MW in MV network
- Consumption by industrials is increasing moderately in this period, whereas heating of homes is slightly declining due to urbanization and increased energy efficiency of buildings

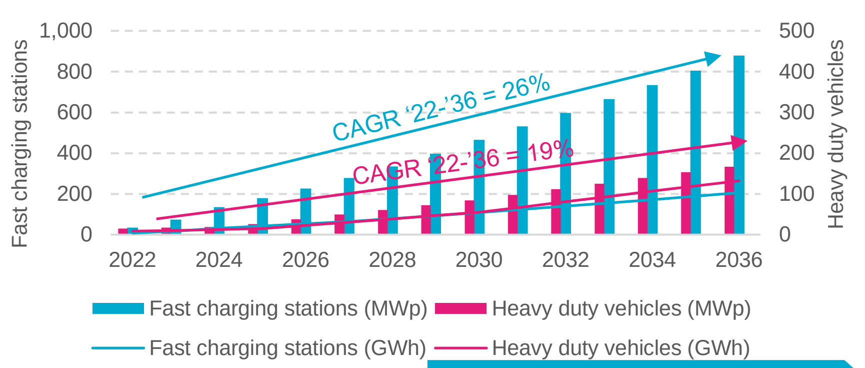
## Charging of Personal EVs and PHEVs (LV)




## Production of Wind (HV) and Solar (HV+MV) Power




## Commercial Charging of Vehicles (LV and MV)

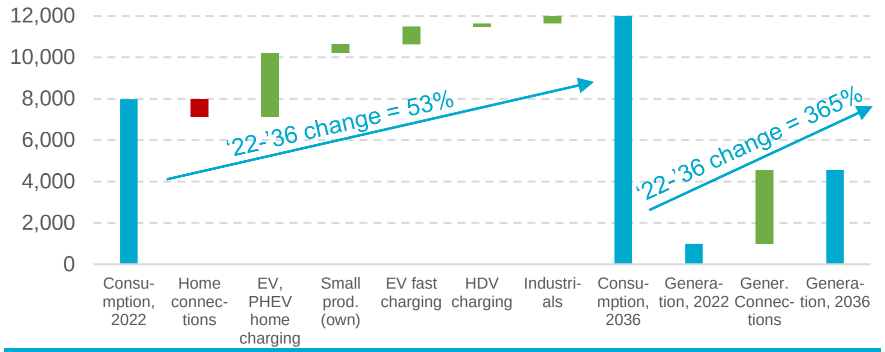



Source: Analysis by Vanguard Consulting Oy (VGC) in collaboration with Elenia: Presented business-as-usual scenario. Underlying public data presented in appendix

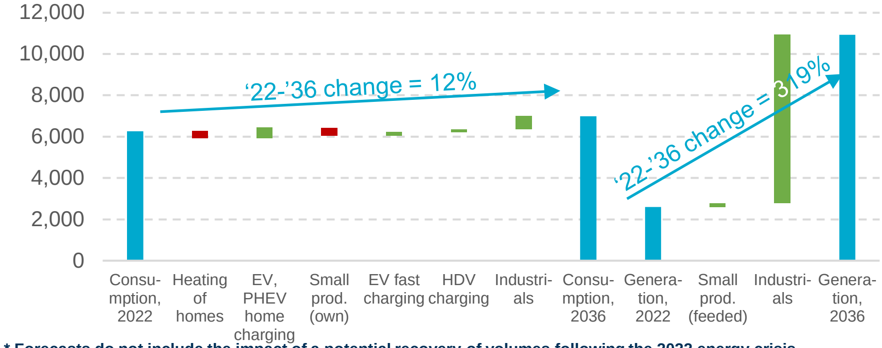
# Implications on Elenia's Network by 2036

- Elenia's distributed volume is expected to increase moderately (700 GWh) driven mainly by corporate customers, whereas production fed into the network grows rapidly (8300 GWh) mainly from wind power
- Requirement for network capacity, which is the driver for network development and investments, is expected to increase significantly both from consumption (4200 MW) and generation connections (3600 MW)
  - The capacity increase from consumption impacts mainly the LV network (80%) due to EV home charging, and from generation mainly the HV network (75%) due to wind power
  - Corresponding impacts on MV network are 15% mainly due to EV fast charging and 20% from solar power generation

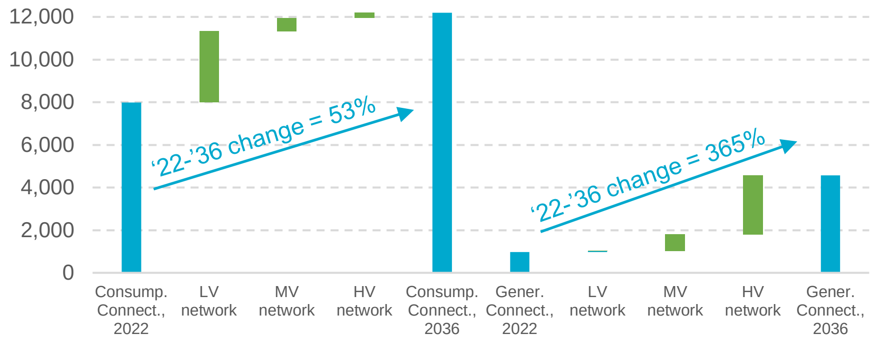
## Network Capacity by Underlying Effect 2022 => 2036 (MW)




## Network Volume* by Underlying Effect 2022 => 2036 (GWh)




## Network Capacity per Voltage Level 2022 => 2036 (MW)



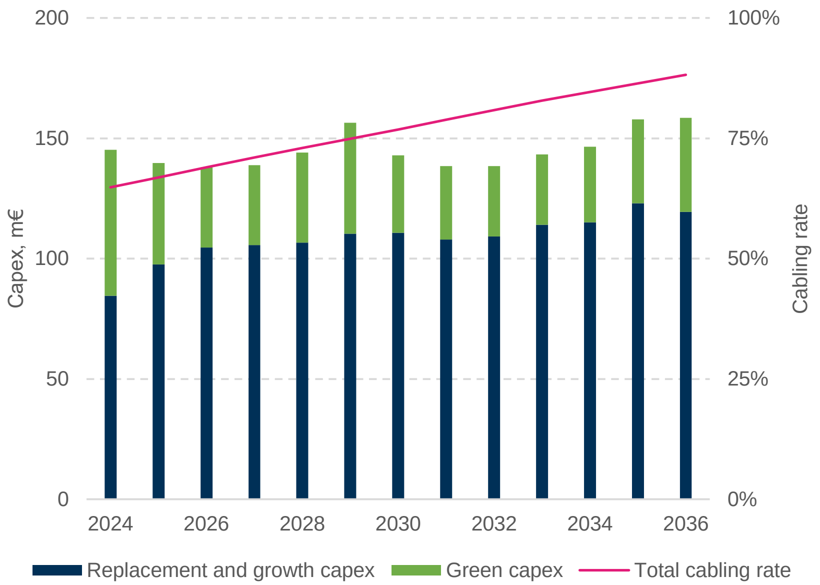

*** Forecasts do not include the impact of a potential recovery of volumes following the 2022 energy crisis**

**Source: Analysis by Vanguard Consulting Oy (VGC) in collaboration with Elenia**

# Increasing Capex Requirements until 2036

- Elenia's network development plan (NDP) sets out required capex levels for the following purposes of the society:
  - Improvement of security of supply to reach the Electricity Market Act (EMA) requirements by 2036
  - Replacement of overhead lines reaching the end of their lifetime
  - Connecting and strengthening network for the requirements of the green transition
- Capex requirements until 2036 amount to €1,900 million, of which €500 million relates to green capex (mainly wind power)
- Elenia is updating the network development plan to the EA in 2024 and based on the development in electrification since 2022, the green capex requirements are increasing drastically from the existing plan
  - Existing plan covers wind power production in HV network
  - Requirements of electrification significantly underestimated regards to e.g. need for increased transformer capacity and new substations
- For Finland to be a forerunner in green transition, as set out by the government, DSOs need to have a more proactive approach in network development to enable and attract green transition initiatives
  - The presented electrification scenario assumes that network development is conducted on a reactive basis in order to barely fulfill the requirements in the EMA
- Elenia hopes for the EA to realize the detrimental impact the regulatory changes will have on the security of supply and electrification of Finland
  - Elenia is otherwise prepared to consider all legal measures available

**Capex Requirements 2024-2036 (NDP 2022)**

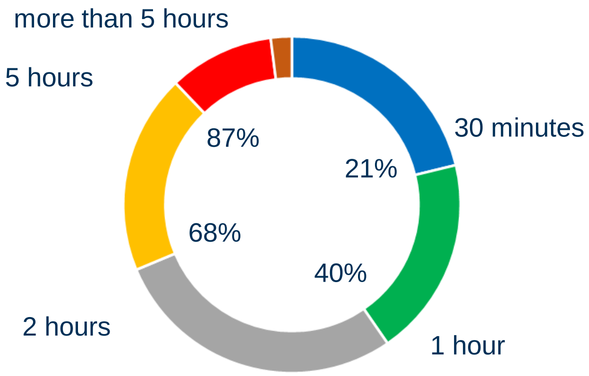


# Finns Want Improved Security of Supply

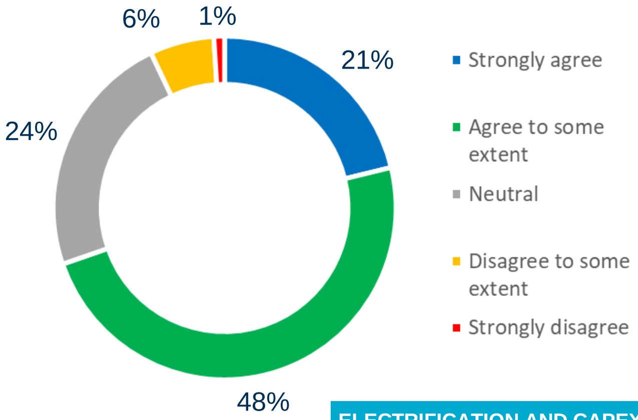
- Elenia created a digital map service in 2022 for the customer consultation with 16,000 visitors browsing the website
  - 85 % of all respondents see that the maximum length of an outage should be less than 12 hours
  - Many respondents recognize the need for green transition and understand how it relates to electricity network services

- Finnish Energy (2023) studied attitudes of one thousand Finns towards outages and electricity network investments
  - 87 % of all respondents thought that the maximum length of an outage should not be more than 5 hours
  - 69 % of all respondents agree that investing in networks and developing them is necessary in order to make the electrification of society possible

**Finnish Energy: Maximum Length of an Outage**




**Finnish Energy: Investments Needed to Enable Electrification**



## 4 Sustainability

# Vision of Renewing Electricity Market Responsibly

- Elenia has Sustainability Programme in place and promotes the UN SDGs through its operations

**Strategic objectives**

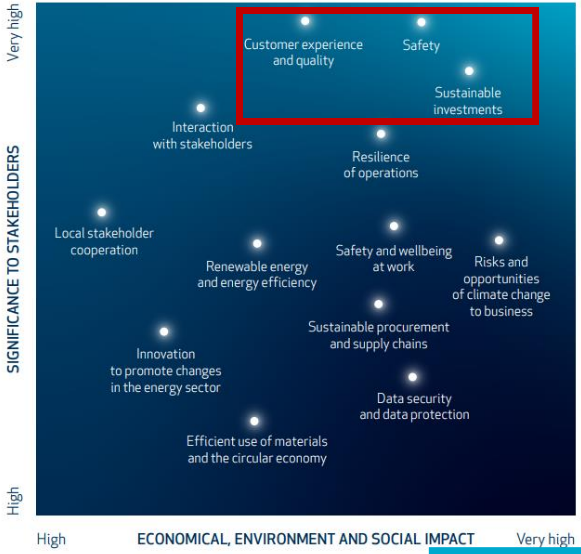
- Mitigation of climate change
- Earning customers' trust
- Ensuring efficient operations

**Focus of sustainability actions**

- The sustainability actions focus on key themes that form the sustainability principles:
  - Safety and well-being at work
  - Customer experience and the quality of electricity network services
  - Climate action and role as forerunner
  - Social impact

**Elenia's Alignment with the SDGs**


**Materiality Choices**




**Sustainable RCF**

Sustainability linked revolving credit facilities with the following KPIs:

- Safety among personnel and service providers
- Improvement of security of supply
- Reduction of $CO_2$ emissions

SUSTAINABILITY

# Commitment to Safety while Improving Performance

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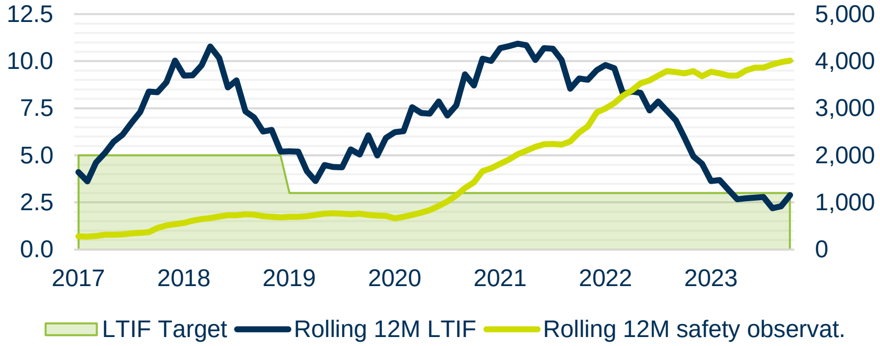
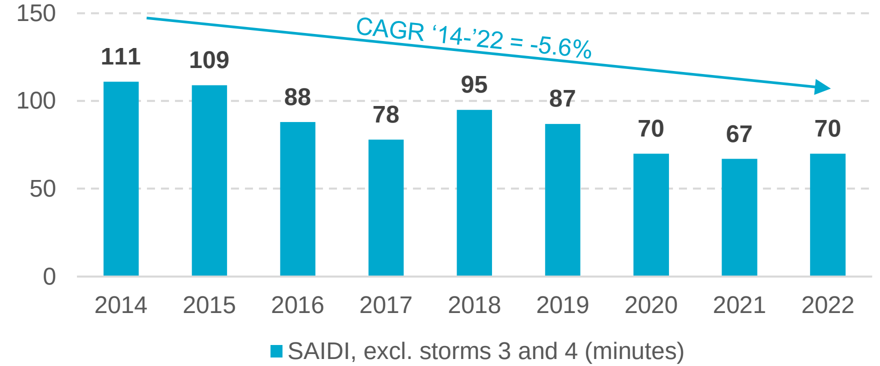
## Safety Observations and LTIF




## Security of Supply




**Safety First**

- Safety Manifesto - joint commitment to safety with our partners
- Safety also basis for selecting contractors as well as part of their performance review
- Elenia's and contractor's management teams visit project sites together with focus on safety

**LTIF target below 2 by 2030**

- Reported figure 4.5 in 2022
- Increased safety observations and safety management practices driving the figure towards long term target

**SAIDI Target 2030: 49 minutes**

- Figure in 2022 was 70 minutes for Elenia's customers (excluding storms)

# Commitment to Ambitious Science Based Targets

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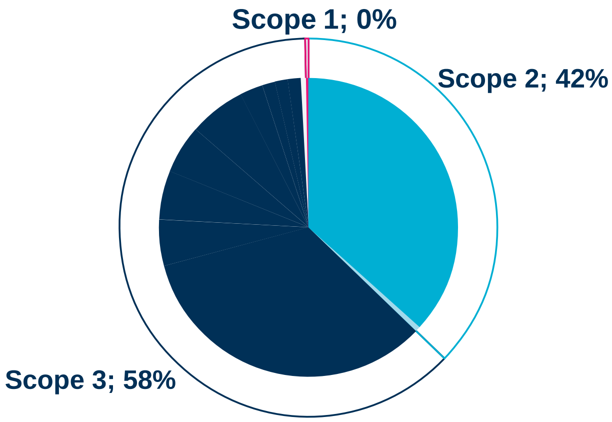
## Breakdown of Current CO2 Emissions



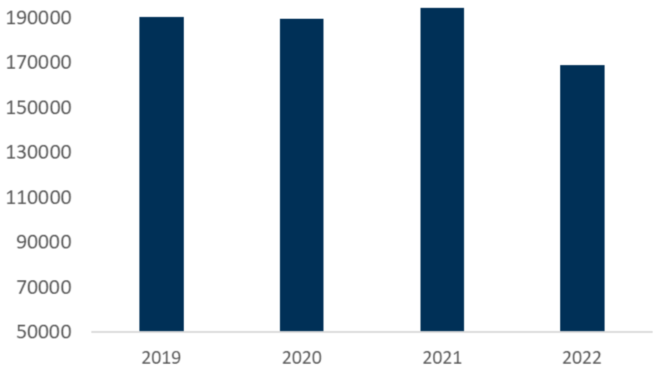

| Scope 1 | $tCO_2e$ | % |
|---|---|---|
| SF6-leaks, fuel (vehicles, reserve capacity equipment) | 659 | 0.4 % |
| **Scope 2** | | |
| Network losses | 69,996 | 41.4% |
| Other electricity and heating (own use, Valmisvalo) | 881 | 0.5% |

| Scope 3 | $tCO_2e$ | % |
|---|---|---|
| Network materials | 46,661 | 27.6% |
| Main grid fees | 11,531 | 6.8% |
| Earthworks | 4,633 | 2.7% |
| Fibre network investments | 7,431 | 4.4% |
| Supply chain emissions from energy consumption | 11,230 | 6.6% |
| Regional network fees | 3,706 | 2.2% |
| Other procurement | 2,959 | 1.8% |
| Other purchased products and services | 3,513 | 2.1% |
| Other investments | 4,035 | 2.4% |

## Science Based Targets

- SBTi commitment to reduce absolute GHG emissions (Scope 1 and 2) 42% by 2030
- Commitment to set Net Zero targets that cover the emissions generated by the entire value chain (Scope 1, 2 and 3)
  - Majority of the Scope 3 emissions come from using network construction materials (aluminum and plastic)
  - Climate targets and emission reduction commitments of partners become selection criteria

## Carbon Footprint (tCO2e)



# Operations Aligned and Eligible with EU Taxonomy

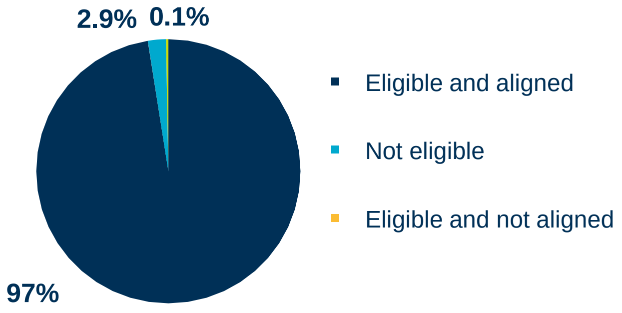
**EU taxonomy classifies environmentally sustainable activities**

- Promotes the EU's shared environmental objectives to support the EU's sustainable finance strategy and capital markets

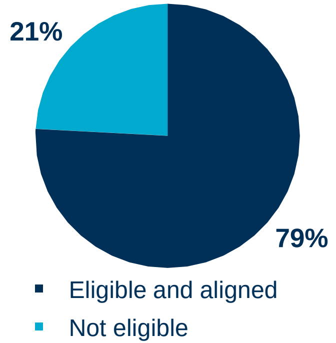
**Status of Elenia**

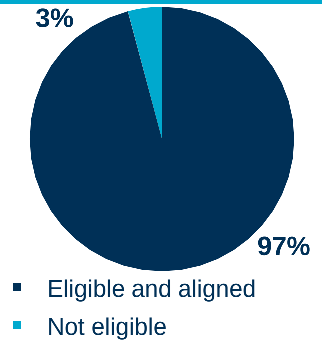
- Revenue, capex and opex are taxonomy eligible
  - The share of not taxonomy eligible business relates to fibre network business, customer service business, internal service actions and a small portion of reserve capacity
- Taxonomy eligible revenue, capex and opex are mostly taxonomy aligned in line with the criteria for climate change mitigation
- Elenia also complies with minimum social safeguards regarding human rights, corruption and bribery, taxation and fair competition

## Revenue




## Opex (left) and Capex (right)

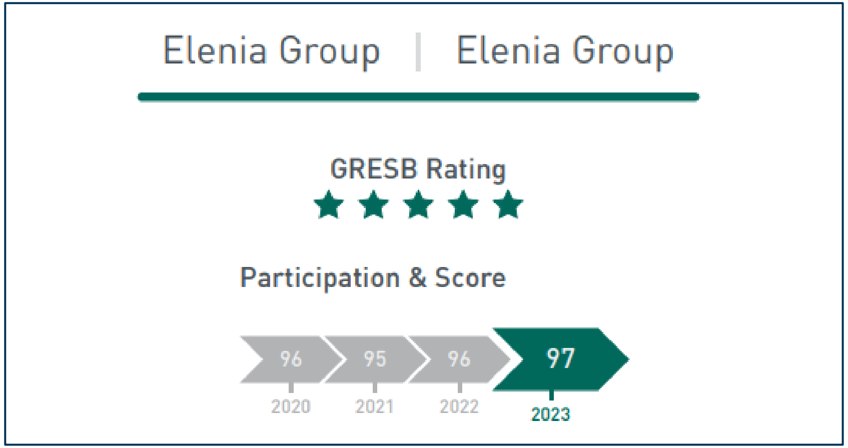


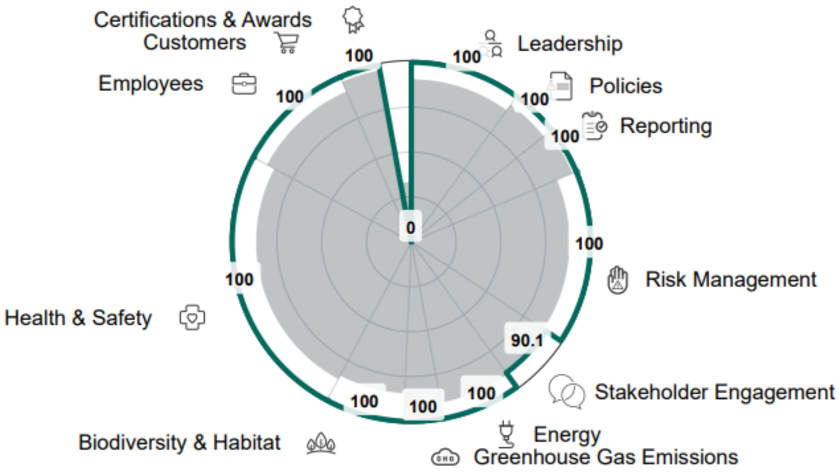
# Record Rating in ESG Assessment

## GRESB Infrastructure Assessment 2023

- Captures information regarding ESG performance and sustainability best practices for real estate and infrastructure funds, companies and assets worldwide
- Elenia reached 97 points out of 100 and scored full five stars for the sixth consecutive year



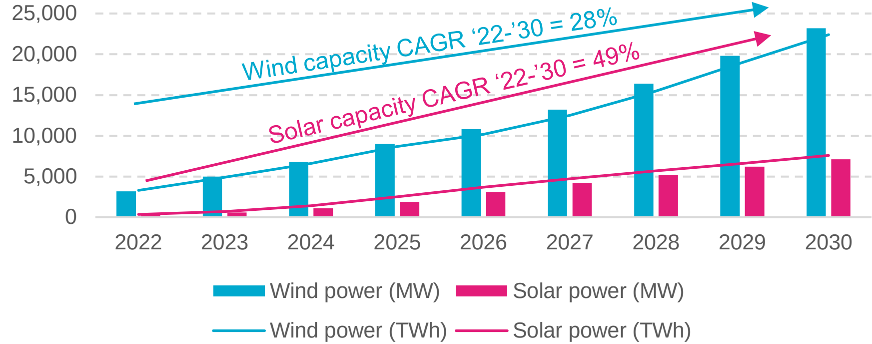

## GRESB Feedback Report



# Appendix

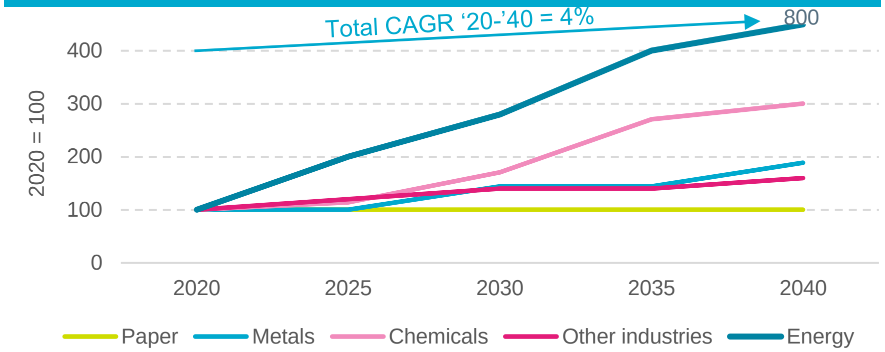
# Electrification of Finland

## Production of Renewables



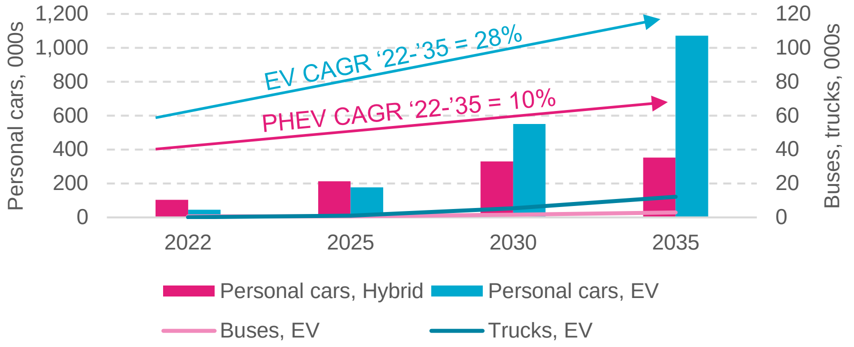

Source: Fingrid, 2023: Best estimate scenario H1/2023

## Electricity Used by Industrials (Indexed)



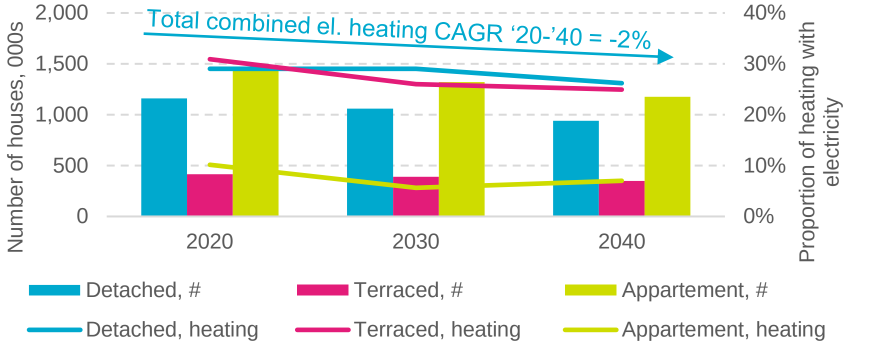

Source: Finnish Government (VN) 2021: Impact of net zero targets on electricity system

## Electrification of Traffic



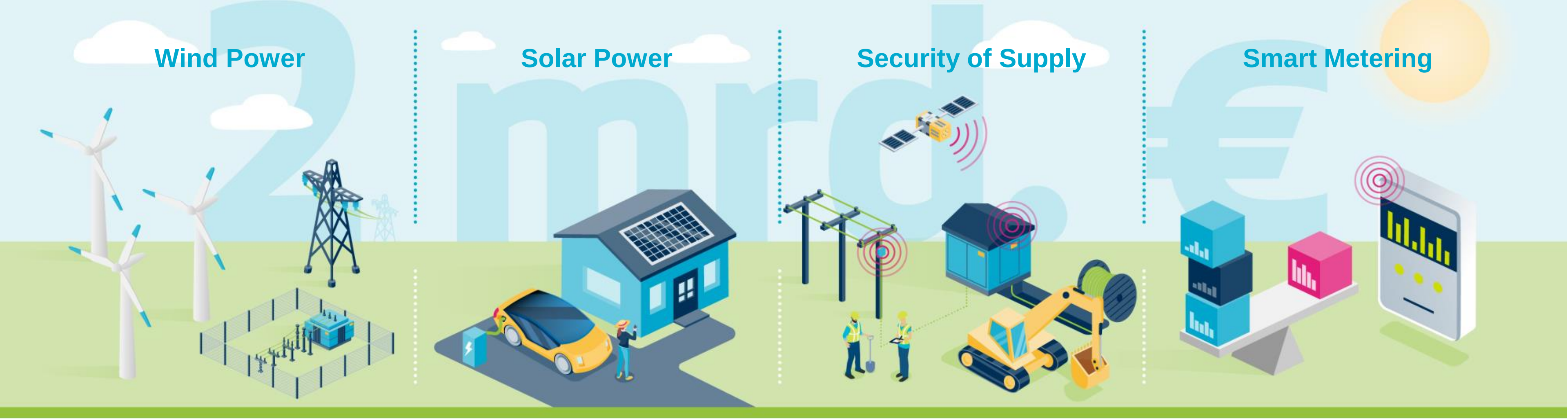

Source: VTT Technical Research Centre of Finland 2022: Recommendation for electric car targets based on net zero target scenario for traffic, Ministry of Transport and Communication 2023-1: Publications

## Electricity Used for Heating of Homes




Source: Ministry of environment 2020: long term building construction strategy, Finnish government (VN) 2021: Zero carbon Finland 2035, Statistics Finland

# Capex Requirements in Existing Development Plan




## Wind Power

- 100% of distributed electricity expected to be renewable by 2035
- Wind power related capex expected to amount to €500 million in 10 years

## Solar Power

- 10 000 solar power plants connected to the network
- Solar power will be tripled during following 10 years
- Renewable electricity production increases the demand for flexibility in consumption

## Security of Supply

- SoS capex requirements amounting to €1500 million by 2036
- Resilient distribution network is foundation for flexibility

## Smart Metering

- Roll-out of 400,000 next generation AMR meters ongoing and scheduled to be completed by 2025
- AMRs enable carbon-free society and electricity markets

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