



# **Elenia Group INVESTOR REPORT H1 2016**



**ELENIA**

# INVESTOR REPORT

For the six months ended 30 June 2016

## Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in the first half of 2016, 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.

## 1. Overview

In accordance with its strategy, Elenia continued operations in the first half of 2016 with a special focus on providing progressive electricity network services to its customers, thereby helping society to function without disruption to daily life.

During the 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 investments were €59.3 million in the first half of 2016 (€118.2 million on a rolling twelve month basis) and the underground cabling rate increased as planned to 35.5%.

Elenia continued to further develop its asset management system according to the PAS 55-1:2008 standard and the international standard ISO 55001:2014. Lloyd's Register conducted a surveillance visit to assess Elenia Networks' asset management system in May 2016. During 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.

In the first half of 2016, Elenia's revenue and EBITDA increased by 6.7% and 16.6% respectively compared to the first half of 2015. The key drivers for the increase in revenue were (i) the increase in distribution tariffs by 9.4%<sup>1</sup> from April onwards and (ii) lower network outage compensation compared to the same period in 2015 due to the absence of major power disruptions.

In addition to higher revenue, lower fault repair costs, due to the absence of major power disruptions, had a positive impact on Elenia's EBITDA compared to the same period in 2015.

The key financial performance indicators for the first half of 2016 are shown in the table below. Further information is available at [www.elenia.com/en/financialinformation](http://www.elenia.com/en/financialinformation).

Key Financial Performance indicators (€M)	H1 2014	H1 2015	H1 2016	change %
Revenue	160,7	153,7	164,0	6,7%
EBITDA*	84,8	77,1	89,8	16,6%
EBITDA* Margin	52,8%	50,1%	54,8%	

\* Excluding exceptional and non-recurring items

Exceptional and non-recurring items were €1.0m in H1 2014 and €1.5m in H1 2016

There were no exceptional items in H1 2015

<sup>1</sup> The tariff increase is 9.4% on pre-tax basis and 6% on post-tax basis.

## **2. Regulatory and Business Update**

### **a. Storms**

There were no major power disruptions during the first half of 2016. In June, the Salomo storm caused outages in certain areas of Elenia's distribution network served by overhead lines. Elenia was prepared for the storm and worked to mitigate the impact on customers. The maximum number of customers simultaneously without electricity was less than 15,000. All connections were restored within 2 days, with most customers reconnected significantly sooner.

At the end of August, the Rauli storm caused severe outages to several areas of Elenia's distribution network served by overhead lines. Despite Elenia being well prepared, the maximum number of customers simultaneously without electricity rose to 96,000. All connections were restored within 75 hours, with most customers reconnected significantly sooner.

### **b. Regulation**

Following the distribution price increases announced by certain Finnish DSOs, the Energy Authority (EA) issued two memoranda on 3 February 2016 and 7 March 2016 respectively (at the request of the Finnish Ministry of Employment and the Economy) proposing that the Ministry consider legislative steps to (i) define a limit on one-off increases in the electricity distribution tariff and minimum intervals between such increases and (ii) ensure that a sufficient share of the income deriving from the electricity distribution tariffs is directed to investments and other development of the distribution network.

On 3 June 2016 the Finnish Ministry of Employment and the Economy issued a draft government bill which, if enacted, would amend the Electricity Market Act by implementing certain restrictions on price increases by distribution system operators. According to the draft bill, distribution system operators, including Elenia, would be restricted from increasing their electricity distribution tariffs by more than an aggregate 15% (on tariffs after taxes) over any rolling 12 month period. The new regulation would apply to both consumer and corporate customers.

On 21 June 2016 the Finnish Ministry of Employment and the Economy issued a memorandum which stated that it does not see a need for further legislative changes at this stage (other than the changes proposed in the draft bill related to above) and that the EA should be able to address the issues relating to the adequate funding of investments by extending the use of existing network development plans, which DSOs submit to the EA every two years.

As part of the implementation provisions of the Electricity Market Act, there is a technical requirement for each DSO to renew its licence. The EA granted Elenia Networks' new licence on 29 June 2016. This new licence is valid until further notice.

### **c. Investment Programme and Underground Cabling**

Elenia Networks' long-term investment plan emphasises the importance of building underground electricity networks and replacing overhead lines 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 fulfil the security of supply targets set by the Electricity Market Act.

Elenia Networks' target is to increase the underground cabling rate of the electricity distribution network to 70% by 2028 to meet the security of supply targets in the Electricity Market Act. In addition

to the construction of a weather-tolerant electricity network, future investments will also be focused on business growth in line with the company's strategic objectives.

In the first half of 2016, Elenia Networks has continued network investments according to its long-term investment plan. The total expenditure on network investments at Elenia Networks in the first half of 2016 was €59.3 million (€118.2 million on a rolling twelve month basis). Since start of 2012, when Elenia was established as an independent company, it has invested over €400 million in its network.

In June 2016, Elenia Networks delivered its updated Network Development Plan (2014-2028) to the EA and also delivered the updated storm preparedness plan to the National Emergency Supply Agency.

#### **d. IT Projects**

In January 2016, Elenia successfully migrated to a new Customer Information System. The new system streamlines Elenia's customer service offering, improves the quality of electricity market information exchange and provides a solid foundation for further improvements. Elenia has continued to develop its other IT systems in co-operation with its partner service providers.

#### **e. Health, Safety and Environment**

Elenia Networks and Elenia Heat personnel did not sustain any recorded accidents in the first half of 2016.

There were four recorded work related accidents for Elenia Networks' external contractor personnel in the same period. None of these accidents were severe and all have been handled in accordance with Elenia's safety procedures in order to prevent similar future accidents.

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 300 quality and safety inspections at its construction sites in the first half of 2016. Elenia Heat completed 23 safety walks (i.e. safety reviews) during the first half of 2016.

Environmental, safety and quality monitoring became a more deeply embedded part of day to day work as the NordSafety mobile application was adopted by Elenia's personnel and contractors. NordSafety enables real-time monitoring and measurement of construction processes and sites with regard to quality, environment and safety issues. Close monitoring further develops our quality and safety culture towards our strategic targets of zero accidents and error-free site handovers.

There was one recorded environmental incident at Elenia Group in the first half of 2016. Elenia Heat had an oil leakage in one of its reserve boiler plants, which was successfully handled in co-operation with the local authorities. The costs associated with the oil leak were immaterial.

#### **f. Elenia Heat**

Elenia Heat continued to provide a highly reliable source of heating in the first half of 2016. There were no major interruptions in heat or gas delivery and the reliability of supply to customers was above the industry average.



Due to the relatively cold weather and the corresponding impact on heat volumes sold, Elenia Heat's revenue increased by 3.9% compared to the first half of 2015.

Elenia Heat's EBITDA was 3.3% higher than the first half of 2015. Although average fuel prices and fixed operating costs were reduced, the production and distribution efficiency of heat and electricity was slightly lower than the previous period (driven by the heating demand profile and weather patterns), increasing total fuel costs.

The percentage of biofuels in Elenia Heat's heat generation exceeded 55% and the share of domestically sourced fuels (biofuel and peat) exceeded 85%. Elenia Heat's carbon dioxide emissions are approximately 60-70% of the average Finnish district heating company.

Elenia Heat invested €1.9 million in maintaining its network and heat generation assets in the first half of 2016.

### **g. Elenia Services**

Elenia Palvelut Oy (Elenia Services) was incorporated on 1 January 2015 as a wholly owned subsidiary of Elenia Networks.

Since incorporation, Elenia Services has delivered customer service to Elenia Networks and Elenia Heat and also to Vattenfall Oy in accordance with the transitional services agreement ("TSA"), which expired in January 2016. In order to adjust to the lower customer service volume anticipated due to the expiry of the TSA, it was decided to centralise the customer service operations in Tampere, which was completed by the end of March 2016.

Following expiry of the TSA, Elenia Services and Vattenfall Oy agreed a temporary service agreement whereby Elenia Services continued to provide certain services (mainly customer invoicing and payment surveillance) to Vattenfall Oy until 30 June 2016.

## **3. Changes to the Board of Directors**

On 21 June 2016 Anna Dellis was appointed as a new member of the board of directors of Elenia Heat and replaced Andrew Cox, who resigned from his position on 15 June 2016.

There have been no changes to the composition of Elenia Oy's Board of Directors since the date of the previous Investor Report. There have also been no changes to the Board of Directors of Elenia Finance Oyj, Elenia Palvelut Oy, Elenia Holdings S.à r.l, Elenia Finance (SPPS) S.à r.l. and Lakeside Network Investments Holding B.V. in the same period.

## **4. Financing and Hedging Position**

As at 30 June 2016, the Capex Facility and the WC Facility had €140 million and €55 million of undrawn commitments respectively.

On 6 May 2016, Elenia Finance Oyj issued €27 million of fixed rate bonds under its multicurrency bond programme. On 22 June 2016, Elenia Finance Oyj issued €25 million of fixed-rate guaranteed secured senior notes to an institutional investor in the United States. On 26 August 2016, Elenia

Finance Oyj issued €30 million of fixed rate bonds under its multicurrency bond programme. The proceeds of these issuances were used to fund capital expenditure as well as for general corporate purposes.

The Hedging Ratio was 97.8% as at 30 June 2016 and Elenia Group was in compliance with the Hedging Policy.

## 5. Acquisitions or Disposals

There have not been any material acquisitions or disposals since the last Investor Report.

## 6. Restricted Payment

The amount of Restricted Payments made since the date of the previous Investor Report is €60.2 million.

## 7. Ratios

In respect of this investor report dated 14 September 2016 covering the 6 month period ending 30 June 2016, 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 Common Terms Agreement:

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

30 June 2016	€164.6 M / €36.9 M = 4.46
30 June 2017	€174.3 M / €42.3 M = 4.12

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

30 June 2016	€1 262.1 M / €164.9 M = 7.65
30 June 2017	€1 481.8 M / €174.4 M = 8.50

(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 Common Terms Agreement.

## 8. Confirmations

We confirm that as at 30 June 2016:

- (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