Elenia Group INVESTOR REPORT 2017

ELENIA

INVESTOR REPORT

For the year ended 31 December 2017

Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in 2017, 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 2017 with a special focus on providing progressive electricity network and district heating 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 Networks' investments were €135.8 million in 2017 and the underground cabling rate increased as planned to 41.1%. Elenia Heat's investments were €5.9 million in 2017.

Elenia's revenue in 2017 was €338.8 million (€315.3 million in 2016). The revenue growth was mainly driven by higher volumes due to cold weather, an increase in electricity distribution tariffs and less severe weather-related outages compared to 2016, which resulted in lower statutory and voluntary outage compensations paid to customers. Elenia Networks increased its tariffs by 9.4%[1] in each of April 2016 and May 2017.

In 2017, the Elenia's EBITDA was €187.9 million (€168.4 million in 2016). The growth in EBITDA was mainly driven by higher revenues and opex savings during the year. EBITDA excluding non-recurring and exceptional items was €190.9 million in 2017 (€176.3 million in 2016). The non-recurring and exceptional items in 2017 include costs relating to write-down of old receivables, reversal of a provision and other costs that are considered either non-recurring or exceptional.

The key financial performance indicators for 2017 are shown in the table below. Further information is available at www.elenia.com/en/investors.

Key Financial Performance indicators (€m)	2013	2014	2015	2016	2017	Change (%)
Revenue	293.7	299.7	282.3	315.3	338.8	7.4 %
EBITDA *	152.4	156.2	152.2	176.3	190.9	8.3 %
EBITDA* Margin	51.9%	52.1%	53.9%	55.9%	56.3%	

** Excluding exceptional and non-recurring items*

[1] The tariff increase is 9.4% on pre-tax basis and 6% on post-tax basis.

2. Regulatory and Business Update

a. Storms

There was one major power disruption in 2017. In March, the Sauli 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 22,000. All connections were restored in less than 24 hours.

b. Regulation

The new regulatory methods came into effect in 2016 at the start of the fourth regulatory period. The basic structure of the regulatory framework continues to be based on a combination of a reasonable rate of return and various incentives. The reasonable rate of return decreased from the 2016 level of 7.42% to 7.05% in 2017 due to the change in the risk free rate. The reasonable rate of return for 2018 is 6.62%. Incentives related to investments, quality, efficiency, innovation and security of supply remain in place, with minor changes. The regulatory guidelines provide stability for the industry and enable the continuation of Elenia Networks' security of supply driven investment programme as planned.

Following the distribution tariff increases announced by certain Finnish distribution system operators ("DSOs") in early 2016, the Electricity Market Act ("EMA") was amended. The new EMA became effective on 1 Sep 2017 restricting DSOs, including Elenia Networks, 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 applies to both consumer and corporate customers.

c. Investment Programme and Underground Cabling

During the year, Elenia Networks continued to invest in the electricity network in accordance with its development plan. Elenia Networks' investment plan has been designed to improve the security of supply via underground cabling. Elenia Networks has only built weatherproof underground cables since 2009. At the end of 2017, 41.1% of the network was underground, up from 37.6% at the end of 2016.

Elenia Networks' target is to increase the underground cabling rate of the electricity distribution network to 75% by the end of 2028 to meet the security of supply targets set by the EMA. At the end of 2017, 55% of Elenia Networks' customers were within the scope of the EMA quality requirements. While the main focus in the development of the security of supply is on underground cabling, Elenia Networks also seeks to improve the security of supply by other means. For example, Elenia Networks has developed an efficient model for tree clearance outside the line corridors.

Elenia Networks invested €135.8 million in developing its electricity network in 2017. Investment in the electricity network will continue in 2018 and Elenia Networks plans to deploy approximately €140 million to construct roughly 3,000 km of new underground cables.

d. IT Projects

Elenia has continued to develop its IT systems in co-operation with its partner service providers. Currently Elenia Finance Oyj is in the process of implementing TWIN treasury system to improve and streamline internal reporting processes.

e. Health, Safety and Environment

Elenia Networks' personnel and external contractors reported over 500 safety observations in 2017 due to active promotion of safety awareness. Elenia Networks' personnel did not sustain any serious recorded accidents during the reporting period but there were two minor accidents: a traffic related accident and a case of person tripping on the stairs. There were altogether fifteen (eight in 2016) recorded work related accidents for Elenia Networks' external contractor personnel in 2017. All the accidents have been handled in accordance with Elenia Networks' safety procedures in order to prevent similar accidents in the future. Elenia Networks together with its partners had an LTIF[2] figure of 10.0 in 2017 (4.1 in 2016).

Elenia's employees and contractors continued to receive regular safety training. During 2017, Elenia Networks carried out over 950 environmental, health, safety and quality (EHSQ) reviews at its construction sites. Elenia Heat completed 27 safety walks (i.e. safety reviews) in the same period.

Elenia Networks publishes a monthly safety report and a regular safety newsletter to its employees and external contractor personnel.

f. Elenia Heat

Elenia Heat continued to provide a highly reliable heating in 2017. There were no major interruptions in heat or gas delivery and the reliability of supply to customers was above the industry average.

In 2017, Elenia Heat's sales volume of heat, gas and electricity totalled 1.1 TWh (1.1 TWh in 2016). Elenia Heat's total revenue (including intra-group items) in 2017 was €78.9 million (€77.8 million in 2016). The increase in revenue was attributable to higher sales in the gas business and from the sale of oil inventory. District heating revenue remained in line with the previous year, but electricity revenue decreased due to lower production volume. Despite the increase in revenue, Elenia Heat's EBITDA in 2017 remained in line with the previous year at €25.6 million (€25.6 million in 2016) due to higher costs during the year.

Elenia Heat primarily produces its heat via wood, peat, natural gas and oil. In 2017, biofuels accounted for more than 70% of Elenia Heat's production volume (68% in 2016), and approximately 88% of the fuel used was of domestic origin. Elenia Heat purchases approximately 32% of its total heat volumes from third party companies, including energy companies and the local industry. The fuel and energy is sourced using long-term procurement contracts.

g. Elenia Services

Elenia Services provides customer service to Elenia Networks, Elenia Heat as well as as other Finnish utilities. Its services include frontline customer service, end customer invoicing and payment surveillance as well as electricity market message exchange. During the year, Elenia Services entered into customer service arrangements with third party customers, Jyväskylän Energia Oy, Tampereen Sähkölaitos Oy and Auris Kaasunjakelu Oy (effective February 2018).

In 2017, Elenia Services' total revenue (including intra-group items) was €9.5 million (€10.2 million in 2016). Of this, the total revenue from external customers amounted to €1.3 million in 2017 (€1.4 million in 2016). Elenia Services' EBITDA was €1.1 million in 2017 (€0.8 million in 2016).

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[2] Lost Time Injury Frequency (LTIF), the number of lost time injuries occurring in all Elenia Networks' activities per 1 million internal as well as external hours worked. Lost time injuries include all on-the-job injuries that require a person to stay away from work more than 1 day. Total LTIF = (ΣLTI*1.000.000 h) / (Cumulative internal & external hours).

3. Changes to the Board of Directors

On 22 August 2017 Alli Soralahti was appointed as a member of the Board of Directors of Elenia Finance Oyj and replaced Timo Talvitie, who resigned from his position on the same date.

On 28 February 2018, Robert Clark, Heidi Koskinen, Kunal Koya, Timothy Short and Phil White ceased to be directors of Elenia Networks. On the same day, Martin Bradley, Mark Braithwaite, Michael Pfennig and Jörg Spanier became directors of Elenia Networks. On 27 April 2018, Sirpa Ojala became a director of Elenia Networks.

On 28 February 2018, Anna Dellis, Matteo Botto Poala and Mikko Räsänen ceased to be directors of Elenia Heat and were replaced by Erin Eisenberg, Scott McGregor and David Tilstone.

On 28 February 2018, Yvanna Essomba, Antoine Clauzel and Marielle Stijger ceased to be directors of Elenia Holdings. On the same day, the following became directors of Elenia Holdings: Thomas Metzger, Sergii Tarnakin, Livio Gambardella, Stéphanie Meyer and Caroline Goergen.

Correspondingly on 28 February 2018, Yvanna Essomba, Antoine Clauzel and Marielle Stijger ceased to be directors of Elenia Finance (SPPS) and were replaced by Thomas Metzger, Sergii Tarnakin, Livio Gambardella, Stéphanie Meyer and Caroline Goergen.

On 28 February 2018, Trust International Management (T.I.M.) B.V., Dennis Kulk and Michael Furth ceased to be directors of Lakeside Network Investments Holding B.V. On the same day, Ka-Lok Fung, Thomas Metzger, Sergii Tarnakin and Myle Trinh became directors of Lakeside Network Investments Holding B.V.

There have been no changes to the Board of Directors of Elenia Services.

4. Financing and Hedging Position

In 2017, Elenia Finance Oyj issued bonds under its EMTN programme for an aggregate amount of €75 million (€107 million in 2016) and private placements for an aggregate amount of €138.5 million (€150 million in 2016). The proceeds were used for general corporate purposes, to repay Elenia's drawn bank debt and to finance investments.

The tenor of the new issuances in 2017 varied from 11 years to 17 years. Consequently, the weighted average maturity of Elenia's debt decreased to 9.9 years (10.1 years at the end of 2016). The weighted average interest rate (excluding other long-term loans) was 2.9% in 2017 (2.9% at the end of 2016).

In June 2017, Elenia signed new fully committed credit facilities totalling €470 million with a syndicate of eight banks. The credit facilities consist of a €350 million Capex Facility, a €60 million Working Capital Facility and a €60 million Liquidity Facility. The new facilities replaced similar credit facilities worth of €355 million. Elenia continues to have a strong liquidity position. As at 31 December 2017, cash and cash equivalents were €25 million (€15 million in 2016) and the credit facilities were completely undrawn.

The Hedging Ratio was 98.4% as at 31 December 2017 and Elenia was in compliance with the Hedging Policy.

5. Acquisitions or Disposals

There were no material acquisitions or disposals in 2017.

6. Restricted Payment

The amount of Restricted Payments made since the date of the previous Investor Report is €100.1 million.

7. Recent Development

On 28 February 2018, Elenia was acquired by funds managed by Allianz Capital Partners, Macquarie Infrastructure and Real Assets and Valtion Eläkerahasto.

On 10 April 2018, Elenia Services entered into customer service agreement with Lahti Energia.

8. Ratios

In respect of this investor report dated 25 May 2018 covering the 12-month period ending 31 December 2017, 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:

31 December 2017	€190.7m / €44.2m = 4.31
31 December 2018	€190.1m / €49.1m = 3.87
31 December 2018 (Pro-forma) [3]	€199.0m / €49.1m = 4.05

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

31 December 2017	€1 520.4m / €190.7m = 7.97
31 December 2018	€1 742.5m / €190.2m = 9.16
31 December 2018 (Pro-forma) [3]	€1 742.5m / €199.1m = 8.75

(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.

[3] IFRS 15 standard became effective 1 Jan 2018. As a result, and in consultation with the auditor, Elenia has changed the revenue recognition of connection charges under IFRS. Previously the connection charges revenue was recognized immediately or when the connection was established, from 1 Jan 2018 onwards the connection charges revenue is recognized over period of 30 years. Consequently, the IFRS revenues and EBITDA are lower under the new IFRS standards. The change has no impact on FAS, taxes, cash flows or regulatory accounting. The pro-forma financial ratios illustrate the same financial ratios without the impact of implementation of IFRS 15 purely for comparison purposes. In line with Schedule 2 Part 1, paragraph 2 (c) of the Common Terms Agreement, Elenia will be seeking to amend the financial covenant levels to mitigate the impact of implementation of the IFRS 15 standard.

9. Confirmations

We confirm that as at 31 December 2017:

(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