



Elenia Group INVESTOR REPORT H1 2021



ELENIA

INVESTOR REPORT

For the six months ended 30 June 2021

Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in the first half of 2021, 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 2021 without interruptions despite the pandemic. Its impact on business has been very limited in terms of distribution volumes and number of customer defaults as well as operationally. 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 Verkko Oyj") continued the roll-out of its long-term investment plan which is designed to improve the security of supply. Elenia's network investments¹ were €84.0 million in the first half of 2021 (€155.7 million on a rolling 12-month basis) and the underground cabling rate increased as planned to 56.7%.

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

In the first half of 2021, Elenia's revenue and EBITDA increased by 6.6% and 8.0% respectively compared to the first half of 2020. The increase in revenue and EBITDA was mainly driven by colder weather compared to the previous year.

The key financial performance indicators for the first half of 2021 are shown in the table below. Further information is available at www.elenia.fi/en/investors.

Key Financial Performance Indicators (€m)	H1 2020	H1 2021	Change (%)
Revenue	158.7	169.2	6.6%
EBITDA ²	104.3	112.7	8.0%
EBITDA ² Margin	65.7%	66.6%	

¹ Regulatory asset value accretive capex

² Excluding exceptional and non-recurring items

2. Business Update

a. Storms and Exceptional Weather Events

In mid-June, the Vieno storm caused outages in certain areas of Elenia's distribution network served by overhead lines. The maximum number of customers simultaneously without electricity was approximately 27,000. All connections were restored in less than 36 hours. A week later, the whole network area was impacted by thunderstorms. The maximum number of customers simultaneously without electricity was approximately 15,000. Both events were classified as a class 3 power disruption with SAIFI³ impacts of 0.26 and 0.28 respectively.

SAIFI describes the number of outages that have occurred in the network during the exceptional weather event in relation to the total number of customers and is a more accurate way to measure consequences of exceptional weather events than the maximum number of customers without electricity. The figure takes also into account the duration of the event, which is a major factor for instance in long lasting snow loads in the wintertime. The most severe class 4 events are classified to have a SAIFI impact of at least 0.50, meaning on average one outage for every second customer (though in practise one customer may experience several outages).

Elenia constructed in 2020 together with Fortum, the Finnish energy company, a cutting-edge battery concept in Kuru. Elenia is now building two new energy storages and the equipment will be commissioned by the summer of 2022. Elenia owns the network connection equipment of the solution and purchases battery capacity as a service from Fortum, who owns the energy storages. During outages the battery pack supplies power successfully to customers in the operation area thus mitigating the effects of the outage. The target is to expand the use of energy storage systems in sparsely populated areas as a solution that can ensure the security of electricity distribution in the event of power outages caused by storms and snow loads.

b. Regulation

In June 2021, the Parliament amended the Electricity Market Act ("EMA") which became effective in August. The main changes include emphasizing cost efficiency in the distribution system operators' ("DSOs") development of their networks allowing the Energy Authority ("EA") to make sure that DSOs invest efficiently and consider also other alternatives to investments (including the EA's right to require amendments to the investment plans), lowering the cap on DSOs' tariff increases to an aggregate level of 8 % (tariff after taxes) over any 12-month period, extending the time limit for reaching the security of supply requirements set in the EMA from 2028 to 2036 for certain DSOs (including the Elenia Verkkö Oyj) allowing DSOs to adjust a deficit accrued during the fourth regulatory period during the following two regulatory periods (as compared to the adjustment allowed only during the immediately following regulatory period), and increasing the level of mandatory compensations payable on outages that last more than 48 hours.

The EA is amending the regulatory methods as a result of the legislative amendment. The expected changes include an update to the unit prices underlying the regulatory asset base, changing the calculation of the risk-free rate to be based on the previous year's value of the 10-year Finnish government bond resulting in a reduction in the reasonable rate of return to 4 %, and removal of the investment part of the security of supply incentive. The changes are expected to be applied to the current regulatory period from the beginning of 2022.

The EA has published selected regulatory key figures of Finnish DSOs for the fourth regulatory period ending in 2019. Elenia Verkkö Oyj's regulatory asset base was €1,943.9 million.

³ System Average Interruption Frequency Index

c. Investments

Elenia was the first DSO in Europe to incorporate hourly electricity consumption monitoring into digital services. Next step is to replace nearly 400,000 smart electricity meters with next-generation meters and the project is scheduled to last until 2024. An increasing share of electricity is being produced from wind and solar energy meaning that changes in weather will also affect the volume of electricity production. As consumption of electricity as well as the need to balance production and consumption is increasing, new state-of-the-art technology solutions for electricity networks and electricity metering systems are required.

Elenia's 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. Despite the extension of the time limit for reaching the security of supply requirements Elenia aims to increase the underground cabling rate of the electricity distribution network to 75% by 2028. As at 30 June, 75.1% of the customers were within the scope of the EMA quality requirements.

In the first half of 2021, Elenia has continued network investments according to its long-term investment plan. The network investments in the first half of 2021 were €84 million and the capex estimate for the distribution network in 2021 is approximately €160 million.

d. Continuity of Operations

Elenia continued to further develop its asset management system according to the PAS55-1:2008 standard and the international standard ISO 55001:2014. Lloyd's Register conducted the surveillance visit remotely in May to assess Elenia's asset management system. During the assessment, Elenia demonstrated that it has in place asset management processes, systems and plans which have been implemented throughout the organization and external partners and continue to be in line with the relevant standards.

Similarly, the surveillance visit of the ISO/IEC 27001 certificate was passed successfully. Elenia continues to develop the Information Security Management System to support and secure strategic business development. The development focuses on creating a Cyber Security Roadmap 2025 for Elenia.

e. Safety, Health and Sustainability

Elenia's sustainability programme and its targets apply to everyone at Elenia. The 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 third Sustainability Report prepared in accordance with the Global Reporting Initiative standards was published in April 2021. Elenia's vision is to be the most responsible reformer of energy services and markets. As part of an ambitious future-oriented sustainability 2030 vision Elenia focuses on its own operations to reach carbon-neutrality. Network losses are a significant source of emissions and Elenia is currently investigating the most effective solutions for the reduction and compensation of emissions. During the reporting period Elenia also participated in the GRESB Infrastructure Assessment focusing on environmental, social and governance performance. The 2021 results from the assessment are expected to be released in October.

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. 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. Approximately 450 quality and safety inspections and 89 safety walks (i.e. safety reviews) were conducted at the construction sites during the first half of 2021.

There were nine recorded work-related accidents for Elenia's external contractor personnel in the first half of 2021. 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.

3. Changes to the Board of Directors

On 16 June 2021, Alli Seppänen ceased to be a member of the board of directors of Elenia Verkko Oyj and was replaced by Anne-Marie Malmberg.

4. Financing and Hedging Position

There were no issuances during the reporting period (a €500 million benchmark bond in the first half of 2020).

As at 30 June 2021, the Facilities consisting of €350 million Capex Facility, €60 million Working Capital Facility and €60 million Liquidity Facility were undrawn. The €100 million loan signed with the European Investment Bank in 2020 was also undrawn.

In June, S&P Global Ratings published its rating report on Elenia Verkko Oyj maintaining the BBB+ issue rating with stable outlook. The stable outlook signifies stable earnings and credit metrics.

The Hedging Ratio was 90.5% as at 30 June 2021 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 €70.0 million.

7. Recent Development

On 24 August, Lakeside Network Investments S.à r.l. was renamed to Elenia Holdings S.à r.l.

8. Ratios

In respect of this investor report dated 8 September 2021 covering the 6-month period ending 30 June 2021, 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 2021 €199.7m / €39.3m = 5.09

30 June 2022 €194.4m / €38.2m = 5.09

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

30 June 2021 €1 765.8m / €204.2m = 8.65

30 June 2022 €1 813.6m / €200.7m = 9.04

(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 2021:

- (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,



Tommi Valento

Chief Financial Officer

Signing without personal liability, for and on behalf of

Elenia Verkko Oyj as Security Group Agent