



Elenia Group
INVESTOR REPORT
2018



ELENIA

INVESTOR REPORT

For the year ended 31 December 2018

Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in 2018, 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 on 3 September 2018 ("CTA").

1. Overview

In February, Elenia was acquired by Valtion Eläkerahasto, Allianz Capital Partners on behalf of the Allianz Group and Macquarie Super Core Infrastructure Fund.

In accordance with its strategy, Elenia continued operations in 2018 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' investments¹ were €146.4 million in 2018 and the underground cabling rate increased as planned to 45.1%. Elenia Heat's investments were €10.3 million in 2018.

Elenia's revenue in 2018 was €349.7 million (€338.8 million in 2017). The revenue growth was mainly driven by higher volumes due to cold weather and increases in electricity distribution tariffs. The IFRS 15 standard became effective on 1 January 2018 obliging Elenia to change the revenue recognition of connection charges. Therefore, the comparable revenue in 2018 is €359.5 million. Elenia Networks increased its tariffs on average by 9.4% in May 2017 and by 9.9% in August 2018 to finance the continued investments in underground cabling. Due to taxes, the actual increases on customer invoices were approximately 6%.

In 2018, Elenia's EBITDA was €194.4 million (€187.9 million in 2017). The growth in EBITDA was mainly driven by higher revenues. EBITDA excluding non-recurring and exceptional items was €196.0 million in 2018 (€190.9 million in 2017). The non-recurring and exceptional items in 2018 include costs relating to the oil leakage at Elenia Heat Vuohkallio district heating plant, metering correction related to a single customer between 2015 and 2017 and other minor costs.

The key financial performance indicators for 2018 are shown in the table below. Further information is available at www.elenia.com/en/investors.

Key Financial Performance indicators (€m)	2014	2015	2016	2017	2018	Change (%)
Revenue*	299.7	282.3	315.3	338.8	349.7	3.2 %
EBITDA**	156.2	152.2	176.3	190.9	196.0	2.7 %
EBITDA** Margin	52.1%	53.9%	55.9%	56.3%	56.1%	

* The revenue for 2018 not comparable with 2017 due to implementation of the IFRS 15 standard.

** Excluding exceptional and non-recurring items.

¹ Regulatory asset value ("RAV") accretive capex

2. Regulatory and Business Update

a. Storms

There were no major power disruptions in 2018. However, there were several smaller storms throughout the year. For example, the Toivo and Pauliina storms in June and the Mauri and Kuisma storms in September caused outages in certain areas of Elenia's distribution network served by overhead lines. Elenia was well prepared for the storms and worked to mitigate the impact on customers. At worst, the maximum number of customers simultaneously without electricity was less than 15 000 and all the connections were restored in less than 24 hours.

SAIDI², a measure of the duration of the outages, was 95 minutes in 2018 (94 minutes in 2017).

b. Regulation

The Energy Authority ("EA") supervises the operations of distribution system operators ("DSOs") and the regulation is based on four-year periods. The regulatory guidelines provide stability for the industry and enable the continuation of Elenia Networks' security of supply driven investment programme as planned.

The reasonable rate of return decreased from the 2017 level of 7.05% to 6.62% in 2018 due to a change in the risk-free rate. Furthermore, the EA has confirmed the reasonable rate of return for 2019 to be 6.20%.

During 2018 the EA published selected preliminary regulatory key figures of Finnish DSOs based on 2017 accounts. Elenia Networks' regulatory asset base ("RAB") was €1,495.8 million. The cumulative regulatory deficit, after taking into account the surplus carried over from the third period, was €14.8 million³.

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 2018, 45.1% of the network was underground, up from 41.1% at the end of 2017.

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 Electricity Market Act ("EMA"). At the end of 2018, 62% 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 instance, Elenia Networks has developed an efficient model for tree clearance outside the line corridors.

Elenia Networks invested €146.4 million in developing its electricity network in 2018. Investment in the electricity network will continue in 2019 and Elenia Networks plans to deploy approximately €145 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. Elenia Finance Oyj has successfully implemented TWIN treasury system to improve and streamline internal reporting processes.

² System Average Interruption Duration Index

³ These figures should be considered preliminary until the final regulatory decision has been given by the EA. Therefore, Elenia will not publish its own calculation of the 2018 regulatory deficit, the cumulative regulatory deficit or RAB.

e. Health, Safety and Environment

In 2018, Elenia completed its first GRESB Infrastructure Assessment focusing on environmental, social and governance performance. Out of the 173 European companies, Elenia was 12th. In the network utility sector, Elenia placed fifth out of 26 companies.

Elenia Networks' personnel and external contractors reported approximately 700 safety observations in 2018 due to active promotion of safety awareness. Elenia Networks' personnel did not sustain any recorded accidents during the reporting period but there were altogether eleven (fifteen in 2017) recorded work related accidents for Elenia Networks' external contractor personnel in 2018. In Elenia Heat there occurred one minor accident involving an employee and one minor accident where an external contractor was involved. All the accidents have been handled in accordance with safety procedures in order to prevent similar accidents in the future. Elenia Networks together with its partners had an LTIF⁴ figure of 5.2 in 2018 (10.0 in 2017).

Elenia's employees and contractors continued to receive regular safety training. During 2018, Elenia Networks carried out approximately 1,100 environmental, health, safety and quality reviews at its construction sites. Elenia Heat completed 68 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. Elenia Networks started a project called Safely Back Home in autumn 2018 with its contracting partners to strengthen safety culture and to develop common safety practices. Furthermore, a safety engineer has been hired to improve the safety culture in the company.

There was one recorded environmental incident at Elenia in 2018. At the end of January, an oil leakage was observed at Elenia Heat Vuohkallio district heating plant. Altogether some 30,000 litres of light oil leaked due to technical error. The soil contaminated by oil was removed from the site and surrounding areas and oily water was pumped out with the local authorities monitoring the process. Elenia keeps following the situation closely also in 2019.

f. Elenia Heat

Elenia Heat continued to provide highly reliable heating in 2018. There were no major interruptions in heat or gas delivery and the reliability of supply to customers was above the industry average.

In 2018, Elenia Heat's sales volume of heat, gas and electricity totalled 1.1 TWh (1.1 TWh in 2017). Elenia Heat's total revenue (including intra-group items) in 2018 was €78.5 million⁵ (€78.9 million in 2017). The decrease in revenue was attributable to lower other operating income but was offset by slight increases in district heating revenue due to a price increase in August 2017 and electricity revenue due to higher electricity prices. Elenia Heat's EBITDA in 2018 decreased to €25.2 million (€25.6 million in 2017) due to extraordinary costs of €0.7 million related to the oil leakage at Elenia Heat Vuohkallio district heating plant.

Elenia Heat primarily produces its heat via wood, peat, natural gas and oil. In 2018, biofuels accounted for 69% of Elenia Heat's production volume (70% in 2017), and approximately 86% of the fuel used was of domestic origin. Elenia Heat purchases approximately 31% of its total heat volumes from third party companies, including energy companies and the local industry. The fuel and energy are sourced using long-term procurement contracts.

In November, Supreme Administrative Court rejected Elenia Heat's appeal for higher emission limits of Vanaja K4 boiler. Elenia Heat is taking measures to comply with the stricter limits applicable to the K4 boiler

⁴ Lost Time Injury Frequency, 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).

⁵ Due to implementation of the IFRS 15 standard the comparable figure in 2018 is €78.9 million.

for the remaining 18 months the boiler is intended to be used. Elenia Heat has decided to invest €30 million in a new biofuel boiler which will replace the K4 boiler in late 2020.

g. Elenia Services

Elenia Services provides customer services to Elenia Networks, Elenia Heat as well as other Finnish utilities. Its services include invoicing, collection, connection sales, outage management and electricity market information exchange services. In 2018, Elenia Services entered into a customer service agreement with Lahti Energia.

In 2018, Elenia Services' total revenue (including intra-group items) was €10.5 million (€9.5 million in 2017). Of this, the total revenue from external customers amounted to €2.4 million in 2018 (€1.3 million in 2017). Elenia Services' EBITDA was €1.8 million in 2018 (€1.1 million in 2017).

3. Changes to the Board of Directors

The following changes have taken place since the date of the previous Investor Report.

On 10 August 2018, My Le Trinh ceased to be a director of Lakeside Network Investments Holding B.V. On the same day, Louis Devi Sutrisno became a director of Lakeside Network Investments Holding B.V.

On 25 October 2018, Martin Bradley ceased to be a director of Elenia Networks and was replaced by Thomas Metzger.

On 21 December 2018, Roberta Masson and Liviu Rusu ceased to be managers of Elenia Holdings. On the same day, Dirk Raab and Rosa Villalobos Rodriguez were appointed managers of Elenia Holdings.

Correspondingly on 21 December 2018, Roberta Masson and Liviu Rusu ceased to be managers of Elenia Finance (SPPS) and were replaced by Dirk Raab and Rosa Villalobos Rodriguez.

There have been no changes to the Board of Directors of Elenia Heat, Elenia Services and Elenia Finance Oyj since the date of the previous Investor Report.

4. Financing and Hedging Position

In 2018, Elenia Finance Oyj issued bonds under its EMTN programme for an aggregate amount of €161 million (€75 million in 2017) but no private placements (€138.5 million in 2017). The proceeds were used for general corporate purposes and to finance investments. At the end of December 2018, the total issuances amounted to €1,689.5 million.

The tenor of the new issuance was 17 years. The weighted average maturity of Elenia's debt decreased to 9.6 years (9.9 years at the end of 2017), excluding the other long-term loans and bank facilities. The weighted average interest rate (excluding other long-term loans and bank facilities) was 2.9% in 2018 (2.9% at the end of 2017).

The credit facilities consist of a €350 million Capex Facility, a €60 million Working Capital Facility and a €60 million Liquidity Facility. The Capex and Working Capital Facilities were extended by one year in June 2018 utilising the first of the two extension options. Elenia envisages to use the second option during 2019. Likewise, the Liquidity Facility was renewed in June. In December, Elenia also agreed a long-term credit

facility worth €150 million with the European Investment Bank (“EIB”) for financing capital expenditure related to security of supply.

In July 2018, in accordance with the requirements of the CTA, Elenia proposed to the Security Trustee and the secured creditors certain amendments to the financial covenant levels to mitigate the impact of implementing the IFRS 15 standard which became effective on 1 January 2018 obliging Elenia to change the revenue recognition of connection charges. The change affects only figures such as EBITDA that are reported in accordance with the IFRS. Following satisfaction of the quorum requirement and receipt of a direction from participating qualifying secured creditors representing a simple majority of voted qualifying debt in favour of the proposal, Elenia and the Security Trustee amended and restated the CTA and the Master Definitions Agreement to implement the proposal. For the first ratio adjustment period until 31 December 2027, the trigger event ratio levels are 1.46 for Interest Coverage Ratio and 10.18 for Leverage Ratio and the default ratios are 0.96 for Interest Coverage Ratio and 11.33 for Leverage Ratio.

Elenia continues to have a strong liquidity position. As at 31 December 2018, cash and cash equivalents were €17 million (€25 million in 2017) and €58 million of the credit facilities was drawn (undrawn in 2017). The EIB credit facility remained undrawn. The Hedging Ratio was 98.5% as at 31 December 2018 and Elenia was in compliance with the Hedging Policy.

In December, Standard & Poor’s (“S&P”) kept the BBB credit rating of Elenia Finance Oyj unchanged with stable outlook. S&P regards Elenia’s business risk profile as excellent, mainly due to the fully regulated electricity distribution business accounting for approximately 85% of the EBITDA.

5. Acquisitions or Disposals

There were no material acquisitions or disposals in 2018.

6. Restricted Payment

The amount of Restricted Payments made since the date of the previous Investor Report is €144.9 million.

7. Recent Development

In January 2019, the Aapeli storm caused outages in certain areas of Elenia’s distribution network served by overhead lines. The maximum number of customers simultaneously without electricity was less than 39,000. All connections were restored within 52 hours. The costs related to Aapeli are expected to be approximately €3.5 million.

After Aapeli, January 2019 was cold with substantial snowfall causing heavy snow loads in trees and subsequently power outages in Elenia’s distribution network. The snow load situation continued until mid-February 2019.

The new organisational structure became effective on 1 January 2019 to increase the distinction between the regulated and unregulated businesses. As a result, the project management and construction unit was transferred from Elenia Networks to Elenia Services.

In February 2019, Elenia Networks announced that it has commenced a strategic review of its interests in Elenia Heat and its associated subsidiary. At the time of this report there is no certainty as to the decisions which may ultimately be made on conclusion of this strategic review.

On 5 March 2019, Louis Devi Sutrisno ceased to be a member of the board of directors of Lakeside Network Investments Holding B.V. and was replaced by Rudolf van Weerdenburg.

8. Ratios

In respect of this investor report dated 19 March 2019 covering the 12-month period ending 31 December 2018, 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:

31 December 2018	$\text{€}196.4\text{m} / \text{€}48.4\text{m} = 4.05$
31 December 2019	$\text{€}204.0\text{m} / \text{€}52.5\text{m} = 3.89$

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

31 December 2018	$\text{€}1,742.4\text{m} / \text{€}196.4\text{m} = 8.87$
31 December 2019	$\text{€}1,956.1\text{m} / \text{€}215.6\text{m} = 9.07$

(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 31 December 2018:

- (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