



Elenia Group
INVESTOR REPORT
2015



ELENIA

INVESTOR REPORT

For the year ended 31 December 2015

Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in 2015, 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 2015 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 €103.2 million in 2015 and the underground cabling rate increased as planned to 34.1%.

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 June 2015. 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 2015, Elenia's revenue declined by 5.8% compared to 2014. The key drivers for the fall in revenue were lower distributed volumes of electricity due to warm weather and higher network outage compensation.

In 2015, the weather in Finland was generally warmer than the previous year, resulting in lower distributed volumes of electricity. As a reminder, Elenia Networks is protected from volatility in volume under the electricity distribution regulatory framework. Finally, increased outage compensation during the year was due to more weather-related interruptions compared to 2014.

In addition to the decline in revenue, Elenia's EBITDA was impacted by higher fault repair costs associated with several weather events during the year. Strong financial performance at Elenia's district heating business ("Elenia Heat") and tight control of non-weather related operating costs at Elenia Networks partly mitigated the overall impact on group EBITDA. In 2015 unusually severe storms gave rise to €16.6 million of exceptional costs, relating to outage compensation and fault repair costs.

The key financial performance indicators for 2015 are shown in the table below. Further information is available at www.elenia.com/en/financialinformation.

Key Financial Performance indicators (€M)	2014	2015	change %
Revenue	299.7	282.3	-5.8%
EBITDA *	156.2	152.2	-2.5%

* Excluding exceptional and non-recurring items

Total amount of exceptional and non-recurring items were €2.3m in 2014 and €16.6m in 2015

2. Regulatory and Business Update

a. Storms

There were five major power disruptions in Elenia Networks' operating area during 2015. The year began with more than two weeks of challenging snow loads in January. Atypically for the season, there were also storms during the spring. Trees that fell during the Suoma storm in April and the Lyyli storm in May caused power outages. At the beginning of October, the Valio storm caused extensive power outages in different parts of Elenia's network area, leaving up to 65,000 customers without electricity simultaneously. In late November, exceptionally high amounts of heavy snow building up on trees and structures caused major disruption to electricity distribution in the middle of Elenia's network area. As a result, the number of customers without electricity reached 63,000 at its peak point. Both Valio storm and November snow loads were exceptionally severe.

Elenia Networks was well prepared for managing the weather-related outages. In all major power disruptions, we operated according to Elenia's contingency plan, which is developed continuously.

b. Regulation

In November 2015, the Energy Authority (EA) released the electricity distribution network regulation methods to be applied in the fourth regulatory period (2016–2019) and the fifth regulatory period (2020–2023). For the first time, the regulation methods have been set for two consecutive periods. The fourth regulatory period began on 1 January 2016.

As a whole, the basic structure of the regulatory methods is similar to the principles of the third regulatory period (2012-2015), although there were further specifications to encourage development of the business in line with the objectives of the Electricity Market Act.

Under the regulatory framework companies are encouraged to improve operational efficiency, develop innovative operating models and improve the security of supply in electricity distribution. Regulation supports and steers companies to invest in improving the security of supply to customers in line with the objectives of the Electricity Market Act. Elenia's long-term targets are well aligned with these goals.

Following the distribution price increases announced by certain Finnish Distribution System Operators ("DSO"), the EA issued a memorandum on 3 February 2016 (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. The Ministry has confirmed that the memorandum serves as the basis for the Government's further assessment of the potential legislative changes and indicated that it anticipates that such potential changes could enter into force by the beginning of 2017. We do not expect such changes to have a material impact on Elenia Networks' business.

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 in line with the security of supply targets. 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 2015, Elenia Networks has continued network investments according to its long-term investment plan. Due to careful project and contractor management, underground cabling projects for 2015 were completed on time and on budget. The total expenditure on network investments at Elenia Networks in 2015 was €103.2 million.

d. IT Projects

One of the key projects for the year was preparation for the rollout of a new Customer Information System, which became ready for implementation by the end of the year as planned. The new system provides a solid foundation for further improvements and streamlining of Elenia's customer service.

Elenia has continued to develop its other IT systems in co-operation with its partner service providers.

e. Health, Safety and Environment

Elenia Networks' personnel did not sustain any recorded accidents in 2015. There were three recorded accidents at Elenia Heat in 2015. There were eight 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 Safety Walks (safety reviews) at its construction sites. At Elenia Networks, an external service provider and the safety manager conducted safety walks at over 100 sites in 2015. In addition, field personnel made nearly 1,000 site inspection visits in 2015. Elenia Heat completed 54 safety walks during 2015.

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 contractors and own personnel. 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 the strategic targets of zero accidents and error-free site handovers.

There were no recorded material environmental incidents at Elenia Group in 2015. Elenia Heat was in full compliance with the environmental permit requirements for its heat generation operations.

f. Elenia Heat

Elenia Heat continued to provide a highly reliable source of heating in 2015. 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 warm weather and the corresponding impact on heat volumes sold, Elenia Heat's revenue declined by 5.4% compared to 2014.

Despite this decline in revenue, Elenia Heat's EBITDA increased by 13.3%. This was primarily due to a favourable fuel mix, driven by lower peak production demand, the availability of base load generation capacity and lower operating costs.

Elenia Heat's use of fossil fuels further reduced in 2015 and the use of domestically sourced fuels continued to increase. The percentage of biofuels in Elenia Heat's heat generation exceeded 65% and the share of domestically sourced fuels (biofuel and peat) exceeded 90%. Elenia Heat's carbon dioxide emissions are approximately 60-70% of the average Finnish district heating company.

Elenia Heat invested €4.9 million in maintaining its network and heat generation assets in 2015.

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 continued delivering customer service to Elenia Networks, Elenia Heat and 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.

During 2015, Elenia Services focused on improving the quality and efficiency of customer service operations and developing digital services. In March 2015 Elenia Services launched the new digital Elenia Aina service and in January 2016 migrated to a new Customer Information System. Customers were satisfied with company's services during the year and Elenia Networks' customer service was ranked second best in an industry-wide survey among the Finnish DSOs in 2015.

3. Changes to the Board of Directors

There were no changes to the composition of Elenia Oy's Board of Directors since the date of the previous Investor Report. There were also no changes to the Board of Directors of Elenia Lämpö Oy, 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 31 December 2015, the Capex Facility and the WC Facility had €120 million and €25 million of undrawn commitments respectively.

On 27 January 2016, Elenia Finance Oyj issued €50 million of fixed rate bonds under its multicurrency bond programme. The proceeds were used to repay the €30 million outstanding balance of WC Facility and to finance capital expenditure.

The Hedging Ratio was 97.6% as at 31 December 2015 and Elenia Group was in compliance with the Hedging Policy.

5. Acquisitions or Disposals

In July 2015, Elenia Networks and the transmission system operator Fingrid Oyj signed a sale and purchase agreement by which Fingrid sold an approximately 60-kilometre 110 kV transmission line between Jylkkä and Siikajoki to Elenia Networks. At the same time, agreements on Elenia's connection to the Jylkkä and Siikajoki primary substations were signed.

As a result of the transaction, Elenia has the potential to connect up to 400 MW of wind power to its electricity network in the Kalajoki and Raahe region.

6. Restricted Payment

The amount of Restricted Payments made since the date of the previous Investor Report is €110 million.

7. Ratios

In respect of this investor report dated 20 April 2016 covering the 12 month period ending 31 December 2015, 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 2015 €151.8 M / €36.2 M = 4.19

31 December 2016 €167.6 M / €38.9 M = 4.31

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

31 December 2015 €1 222.4 M / €152.2 M = 8.03

31 December 2016 €1 467.5 M / €167.7 M = 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.

8. Confirmations

We confirm that as at 31 December 2015:

- (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