



ELENIA

ANNUAL INVESTOR UPDATE

NOVEMBER 2016 – TAMPERE

PRESENTERS



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AGENDA

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BUSINESS & REGULATORY UPDATE

- ✧ Business performance for the first half of 2016 was in line with expectations
- ✧ Total network capex was €59 million in the first half of 2016 and €118 million on a rolling twelve months basis
- ✧ The new regulatory methods for the 4th and 5th regulatory periods are supportive for Elenia
- ✧ The proposed amendments to the Electricity Market Act are yet to be considered by Parliament and therefore not likely to become law before H1 2017

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FINANCING UPDATE

- ✧ Successful issuance of additional €132 million debt during 2016
- ✧ Elenia's weighted average cost of debt is 2.9% and weighted average maturity is 9.4 years
- ✧ The next material maturity is in 2020
- ✧ The process for refinancing the drawn bank facilities will commence in 2017

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BUSINESS & REGULATORY UPDATE

ELENIA NETWORKS H1 2016 BUSINESS UPDATE

- ✧ For the first half of 2016, Elenia Networks' revenue and Adjusted EBITDA increased 8.9% and 18.0% y-o-y respectively. The key drivers for the increase in revenue were:
 - ✧ The increase in distribution tariffs by 9.4% ¹ from April onwards
 - ✧ Electricity distribution volumes increased (4.7% y-o-y) due to colder weather and
 - ✧ Lower network outage compensation compared to the same period in 2015 due to the absence of major power disruptions
- ✧ There were no major power disruptions during the first half of 2016
 - ✧ However at the end of August, storm Rauli 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 was 96,000. All connections were restored within 75 hours, with most customers reconnected significantly sooner
- ✧ Elenia successfully continued its capex programme to replace overhead lines with underground cables
 - ✧ 35.5% of the network (on a weighted average basis across medium and low voltage lines) is now underground (vs. 32.0% H1 2015), which reduces outages and improves security of supply to customers
- ✧ 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

Elenia Networks (€m) ³	H1 2015	H1 2016	Y-o-Y Change	FY2015 A
Volume (GWh)	3 166.9	3 316.2	4.7%	5 994.0
Revenues ⁴	111.6	121.5	8.9%	208.3
EBITDA	63.1	74.5	18.0%	111.9
Capex	45.3	60.3	33.0%	107.1
<i>EBITDA margin</i>	<i>56.6%</i>	<i>61.3%</i>		<i>53.7%</i>

¹ 9.4% increase in pre-tax tariffs is roughly equivalent to a 6% increase in post-tax tariffs

² PAS 55-1:2008 Publicly Available Specification for the optimised management of physical assets

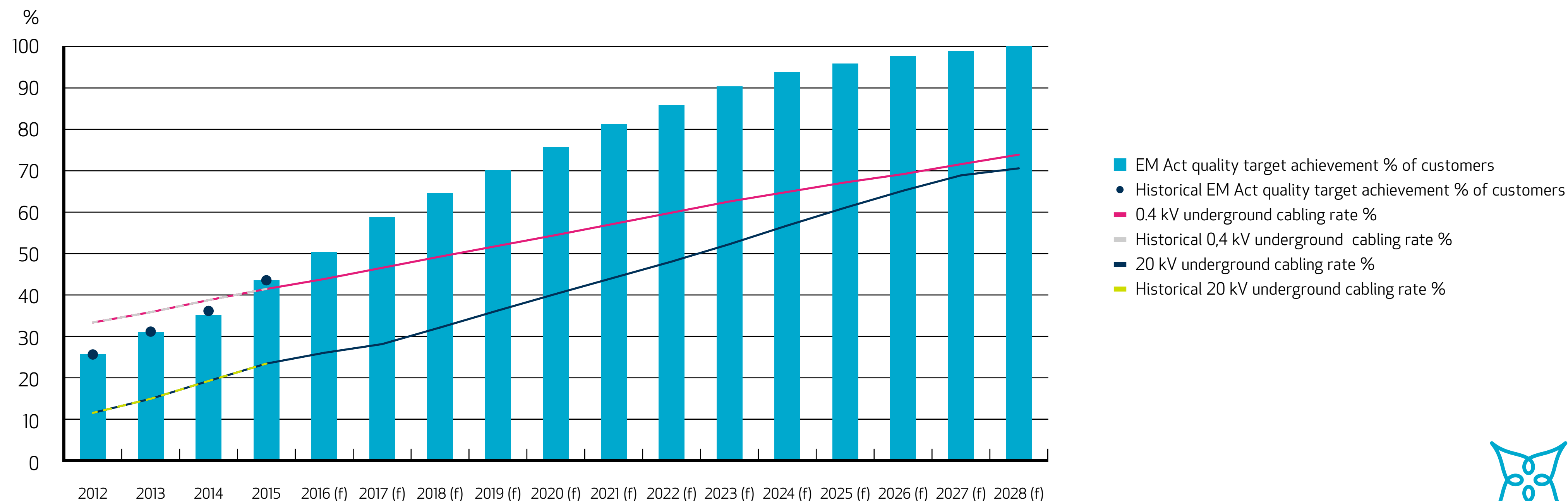
³ Figures are prepared according to IFRS

⁴ Including Other Operating Income

NETWORK DEVELOPMENT PLAN 2014-2028

- ✧ Elenia submitted its electricity network development plan to the Energy Authority in June 2016
- ✧ The plan includes measures for fulfilling the Electricity Market Act's requirements during the transition period (by 2028)
 - ✧ In zoned areas, power needs to be restored within 6 hours, and in other areas, within 36 hours
 - ✧ The Act's quality requirements apply to 50% of customers by 2019, 75% of customers by 2023 and 100% of customers by the end of 2028

ELENIA'S UNDERGROUND CABLING RATES AND CUSTOMERS WITHIN THE SCOPE OF QUALITY REQUIREMENTS 2012-2028



REGULATORY METHODS FOR THE 4TH AND 5TH PERIODS

- ✧ Supportive, predictable and stable regulatory environment
 - ✧ In November 2015, the regulatory methods for the 4th (2016–2019) and 5th (2020–2023) regulatory periods were published
 - ✧ The basic structure of the regulatory framework remains the same, composed of a regulatory asset base, an allowed regulatory WACC plus various incentives
 - ✧ Focus remains on enhanced security of supply, investment efficiency, operational efficiency and innovation
 - ✧ Overall impact on Elenia is expected to be positive
- ✧ Regulatory changes are strongly supportive of Elenia's investment plan
 - ✧ Regulatory WACC has increased (2016 post-tax WACC of 5.9% compared to 2015 post-tax WACC of 3.1%)
 - ✧ Reduced volatility in WACC as the risk-free rate will be reset annually to the higher of (i) the rolling 10 year historical average and (ii) the previous year's April – September average Finnish 10 year government bond yield
 - ✧ Elenia's regulatory asset base ("RAB") is set to increase due to changes to the RAB build-up methodology and definition of RAV
 - ✧ Incentives for capex outperformance retained
 - ✧ Unit price list is static during the 4th and 5th regulatory periods (on a cumulative basis), but the EA expects to conduct a unit price survey at the end of the 5th regulatory period
 - ✧ Within the 4th and 5th regulatory period the investment incentive is adjusted for inflation annually

ELECTRICITY MARKET ACT AMENDMENTS

- ✧ 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. The proposed amendments are yet to be considered by the Parliament and therefore not likely to become law before H1 2017
- ✧ 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

ELENIA HEAT H1 2016 BUSINESS UPDATE

ELENIA
HEAT

- ✧ For the first half of 2016 Elenia Heat posted 3.9% and 3.3% increases in y-o-y revenue and EBITDA, respectively
- ✧ The increase in Elenia Heat's revenue was due to the relatively cold weather and the corresponding impact on heat volumes sold
- ✧ 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, increasing total fuel costs. The reduced efficiency was due to the use of gas turbine during the coldest period in winter
- ✧ The share of domestically sourced fuels (biofuel and peat) exceeded 85%
- ✧ Elenia Heat continued to provide highly reliable heating
 - ✧ No major interruptions in heat or gas delivery and the reliability of supply to customers was above the industry average
- ✧ Elenia Heat Invested €1.9m in improving the heat distribution network and generation assets

Elenia Heat (€m) ¹	H1 2015	H1 2016	Y-o-Y Change	FY2015 A
Volume (GWh) ²	577.6	614.6	6.4 %	992.2
Revenues ³	40.8	42.4	3.9 %	72.5
EBITDA	13.7	14.1	3.3 %	23.2
Capex	2.2	1.9	-13.3 %	4.9
EBITDA margin	33.5 %	33.3 %		31.9 %

1 Figures are prepared according to IFRS

2 Includes heat, electricity and gas volumes

3 Including Other Operating Income

- ✧ Elenia Services began its operations following the Business Transfer on 1 January 2015. The principal activities of the company are the provision of customer service related services to Elenia Group, including frontline customer service, end customer invoicing and payment surveillance and electricity market message exchange
- ✧ The incorporation of Elenia Services has supported Elenia Oy's business plan and enabled Elenia to increase the efficiency of its service activity by offering customer and other services to other distribution companies and electricity market participants. This has resulted in increased efficiency, lower costs and higher profitability
- ✧ Customer services were also provided to Vattenfall Oy in accordance with a transitional services agreement ("TSA") which expired in January 2016. In order to adjust to the lower customer service volume following the expiry of the TSA, it was decided to centralise customer service operations in Tampere in March 2016
- ✧ Following the 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
- ✧ 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

CONSOLIDATED FINANCIAL PERFORMANCE

€m ¹	FY2015 A	H1 2015	H1 2016	Y-o-Y Change
Networks Revenue ²	208.3	111.6	121.5	8.9%
Heat Revenue ²	72.5	40.8	42.4	3.9%
Others ³	6.1	3.2	2.1	
Consolidated Revenue²	286.9	155.6	166.0	6.7%
Networks EBITDA	111.9	63.1	74.5	18.0%
Heat EBITDA	23.2	13.7	14.1	3.3%
Other EBITDA ⁴	0.6	0.3	-0.3	
Non-recurring and exceptional items	16.6	–	1.5	
Consolidated Adjusted EBITDA (Networks and Heat)⁵	152.2	77.1	89.8	16.6%
<i>Consolidated Adjusted EBITDA margin</i>	53.1%	49.5%	54.1%	
Consolidated Capex	113.6	48.0	62.8	30.8%
Net Debt	1 222.4	1 075.8	1 262.1	17.3%
Interest Coverage Ratio	4.2 x	4.1 x	4.5 x	8.8%
Leverage Ratio	8.0 x	7.3 x	7.7 x	4.8%

1 Figures are prepared according to IFRS

2 Including Other Operating Income

3 Includes intra-group adjustments, IFRS adjustments and Elenia Service's revenue

4 Includes Elenia Services, Issuer, common services and street lighting

5 Excluding non-recurring and exceptional items

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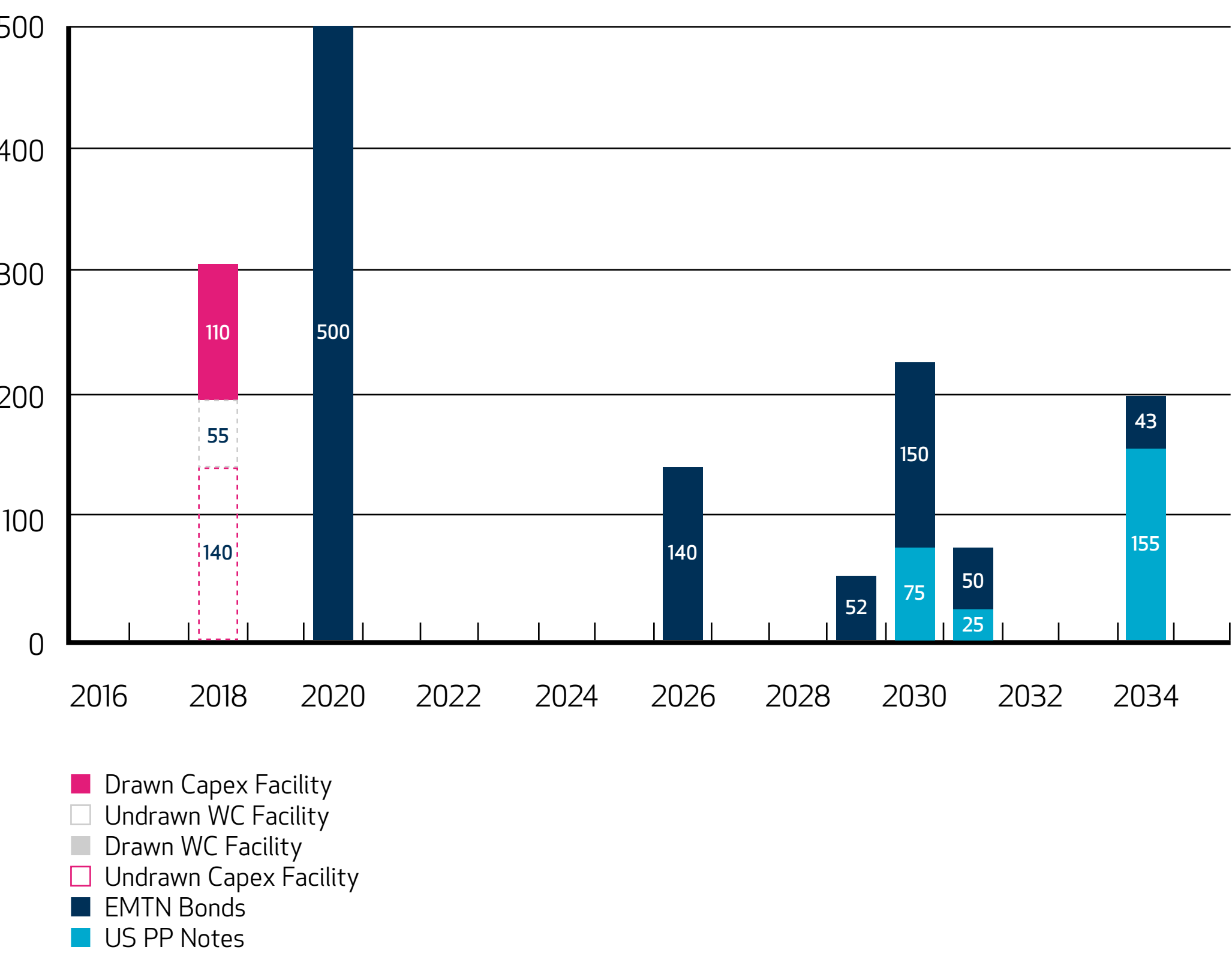
FINANCING UPDATE

FINANCING UPDATE

FINANCING
UPDATE

- ✧ During the first nine months of 2016, Elenia has issued €107m of fixed rate bonds under its multicurrency bond programme as well as €25m of secured senior notes to an institutional investor in the United States
- ✧ As of 30 September 2016, the weighted average interest rate on Elenia's outstanding debt was approximately 2.9%
- ✧ Elenia's weighted average maturity has increased from 7.3¹ years on 31st December 2013 to 9.4¹ years on 30th September 2016
- ✧ As of 30th June 2016, the hedging ratio was 97.8% and Elenia was in compliance with the Hedging Policy
- ✧ Elenia has sufficient liquidity with €245m of undrawn capex, liquidity and working capital facilities available as at 30th September 2016
- ✧ The next material maturity is the €500m bond maturing in 2020
- ✧ The bank facilities mature in November 2018

MATURITY PROFILE (30 SEPTEMBER 2016)



¹ Excluding undrawn facilities and finance leases

FINANCIAL RATIOS & COVENANTS

	Trigger Event	Event of Default	H1 2015	H2 2015	H1 2016	H1 2017 E ¹
Interest Coverage Ratio	1.70x	1.20x	4.12x	4.19x	4.46x	4.12x
Headroom			241.7%	249.0%	271.4%	244.2%
Leverage Ratio	9.50x	10.50x	7.26x	8.03x	7.65x	8.50x
Headroom			30.5%	23.5%	27.1%	19.0%

Elenia retains adequate headroom to both ICR and leverage ratio covenants on a historical and forward looking basis

¹ Values are as based on Elenia's latest compliance certificate

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