Elenia Group
INVESTOR REPORT
H1 2023

ELENIA

INVESTOR REPORT[1]

For the six months ended 30 June 2023

Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in the first half of 2023, 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 2023 without interruptions. Elenia raised its distribution tariffs on average by 5.8% (after taxes) in May due to steadily increasing electricity network service costs. Among other things, construction, materials and fuels have become more expensive in the recent inflationary environment.

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, and approximately 81 % of Elenia's customers are within the scope of the quality requirements[2].

In the first half of 2023, Elenia's revenue and EBITDA[2] decreased by 4.5% and 3.7% respectively compared to the first half of 2022. The main reason for the decline is the reduced electricity consumption of the customers in order to save energy.

The key financial performance indicators for the first half of 2023 are shown in the table below. Further information is available at www.elenia.fi/en/investors.

Key Financial Performance Indicators (€m)	**H1 2022**	**H1 2023**	***Change (%)***
Revenue	168.4	160.8	*-4.5%*
EBITDA[3]	112.4	108.6	*-3.7%*
EBITDA[3] Margin	66.7%	67.5%	

[1] Elenia Group Investor Report H1 2023 published on 8 Sep 2023 has been revised by replacing the EBITDA figure including exceptional and non-recurring items with the EBITDA figure excluding exceptional and non-recurring items in the above table on page 1. The correct figure is 108.6.

[2] The Electricity Market Act ("EMA") states that the quality requirements should apply to 100% of customers by the end of 2036 and accordingly power needs to be restored within six hours in zoned areas, and within 36 hours in other areas.

[3] Excluding exceptional and non-recurring items of approximately €5.9 million that included mainly network losses caused by exceptionally high electricity price and transmission grid service fee rebates. Exceptional and non-recurring network losses are determined as costs from network losses exceeding 60 €/MWh on a monthly basis. The cost of the network losses totalled €22.5 million for H1 2023, of which €14.3 million were treated as exceptional for covenant calculation purposes. Fingrid did not charge transmission grid fees from distribution system operators ("DSOs") in January, February and June. The net impact of the transmission grid fee rebates amounted to €8.7 million during the reporting period. The rebates were also treated as exceptional and non-recurring items for covenant calculation purposes. As per the current regulatory framework, network losses and transmission grid fees are pass-through items that can be passed on to customers through network tariffs in the long run.

2. Business Update

a. Storms and Exceptional Weather Events

There were no major power disruptions or storms during the reporting period.

b. Regulation

The Energy Authority ("EA") supervises the operations of DSOs and the regulation is based on four-year periods. Following the amendment to the EMA in 2021, the EA published changes to amend the regulation methods of the current regulatory period. The revised methods are applied for 2022-2023. Elenia has appealed to the Market Court to repeal the decision of the EA regarding the key aspects of the decision. The Market Court has decided to request a preliminary ruling from the EU court postponing the outcome of the appeal most likely to 2024.

The EA has continued to develop the regulatory methods for the upcoming sixth (2024–2027) and seventh (2028–2031) regulatory periods. Based on the first draft guidelines published in March, the general regulatory framework is expected to be maintained with updates and amendments concerning the different components within the existing framework. In other words, the reasonable rate of return and capex remuneration continues to be based on industry-wide unit prices and WACC on market parameters. Additionally, specific incentives will encourage efficient operations, quality of service as well as innovation. The draft WACC parameters are on average broadly in line with the existing regulatory methods. Draft industry-wide unit prices are expected to be published in autumn and will be based on a survey conducted by the EA during the summer. The final regulatory decisions together with the unit prices will be published by the end of 2023.

The EA has published selected regulatory key figures of Finnish DSOs based on the 2021 figures. Elenia Verkko Oyj's regulatory asset base ("RAB")[4] was €2,065.1 million at the end of 2021. Following the regulatory changes, the unit prices used for determining the RAB were updated resulting in the regulatory asset value for Finnish DSOs to decrease on average by 15% at the beginning of 2022.

c. Investments

Elenia was the first DSO in Europe to incorporate hourly electricity consumption monitoring into digital services and is now replacing 435,000 smart electricity meters with next-generation meters. The project is scheduled to last until the end of 2025 and currently some 150,000 units have been installed. An increasing share of electricity is being produced from wind and solar energy meaning that changes in weather will 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 capex requirements to replace aging overhead lines and improve the security of supply exceed €1,500 million between 2022 and 2036. Additionally, green transition related capex including, for example, the deployment of smart meters and increasing network capacity to enable connection of wind power, are expected to amount to approximately €500 million by 2031. The network investments in the first half of 2023 were €62.8 million (€158.8 million on a rolling 12-month basis) and the underground cabling rate increased as planned to 63%. However, following the decrease in the reasonable return as a result of the regulatory changes, Elenia cut its original investment plan for the current year by €60 million.

[4] The figure should be considered preliminary until the final regulatory decision has been given by the EA.

d. Continuity of Operations

Elenia has an asset management system according to the international ISO 55001:2014 standard in place. Lloyds Register will conduct next surveillance visit in October to assess Elenia's asset management system with Elenia demonstrating that it has asset management processes, systems and plans which have been implemented throughout the organization.

The ISO/IEC 27001 certification for the information security management system was successfully renewed in the beginning of the reporting period. Elenia participated in a national infrastructure cybersecurity threat simulation during the first half of the year and will participate in a joint Northern European simulation in autumn. Due to the geopolitical situation, cyber security in all businesses operating within critical infrastructure is extremely important.

Elenia joined GEODE, the organization of independent European gas and electricity distribution companies, as the first Finnish DSO during the reporting period. It represents more than 1,200 companies in 15 countries supporting local distributors on both national and international level.

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. Elenia is also a signatory of the UN's Global compact.

The fifth Sustainability Report prepared in accordance with the Global Reporting Initiative standards was published in April 2023. The reporting takes into account the requirements of the Sustainability Accounting Standards Board (SASB) and it also includes a Task Force on Climate-related Financial Disclosures (TCFD) report facilitating the assessment of the impacts of climate-related risks and opportunities on the business, strategy and financial decision-making.

Elenia has been approved for the Science Based Targets initiative climate target. As part of an ambitious future-oriented sustainability vision Elenia focuses on its own operations to reach carbon-neutrality. Elenia is committed to reduce absolute greenhouse gas Scope 1 and 2 emissions 42% by 2030 in accordance with the Paris Climate Agreement. Additionally, Elenia is committed to setting Net Zero targets that cover also the emissions from the entire value chain (Scope 1, 2 and 3). The Net Zero targets must be met by 2050.

The EU taxonomy is a classification system establishing a list of environmentally sustainable activities. Approximately 97 % of Elenia's revenue, 97 % of capex and 79 % of operating expenses are taxonomy eligible. When assessing the alignment of Elenia's EU taxonomy eligible activities, it can be noted that Elenia's taxonomy eligible revenue, capex and operating expenses are in line with the criteria for climate change mitigation. Elenia has also taken into account EU taxonomy alignment requirements for companies to comply with minimum social safeguards regarding human rights, corruption and bribery, taxation and fair competition.

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 launched an HSEQ (Health, Safety, Environment and Quality) development project together with partners aiming at preventing accidents and improve safety, sustainability and quality in work performed for Elenia. The project involves HSEQ coordinators conducting visits to construction sites to observe on-site work and activities, as well as safety attitudes.

During the reporting period Elenia also participated in the GRESB Infrastructure Assessment focusing on environmental, social and governance performance. The 2023 results from the assessment are expected to be released in October.

3. Changes to the Board of Directors

The following change has taken place since the date of the previous Investor Report.

In June, Miguel Antoñanzas ceased to be a member of the board of directors of Elenia Oy and was replaced by Philip Swift.

4. Financing and Hedging Position

In May, Elenia signed sustainability linked revolving credit facilities with a syndicate of nine banks. The facilities include sustainability KPIs aiming to reduce CO_2 emissions, improve security of supply and enhance safety among personnel and service providers. As at 30 June 2023, the Facilities consisting of €250 million Capex Facility, €50 million Working Capital Facility and €70 million Liquidity Facility were undrawn.

In June, S&P Global Ratings maintained the issue rating of Elenia Verkko Oyj at BBB (stable).

During the reporting period, Elenia has drawn €50 million from the €100 million loan signed with the European Investment Bank leaving the remaining €50 million still undrawn.

The Hedging Ratio was 88.1% as at 30 June 2023 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 €71.0 million.

7. Recent Development

In August, the Sylvia 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 16,000.

In the beginning of September, Jenni Sironen Mäkinen started as Chief Human Resource Officer in the management team of Elenia replacing Marianne Kihlman who will retire later this year.

8. Ratios

In respect of this investor report dated 8 September 2023 covering the 6-month period ending 30 June 2023, 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 2023 €199.2m / €41.8m = 4.76

30 June 2024 €209.6m / €44.9m = 4.67

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

30 June 2023 €1 831.9m / €201.8m = 9.08

30 June 2024 €1 914.0m / €212.6m = 9.00

(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 2023:

(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 Verkko Oyj as Security Group Agent