Elenia Group
INVESTOR REPORT 2023

ELENIA

INVESTOR REPORT

For the year ended 31 December 2023

Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in 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

In 2023, Elenia distributed 6,037 GWh of electricity, compared to 6,260 GWh in the previous year. Elenia's revenue in 2023 was €326.9 million (€317.4 million in 2022). The increase in revenue was mainly driven by the tariff increase in May.

Elenia's EBITDA totalled €217.6 million (€204.2 million in 2022). EBITDA excluding non-recurring items was €216.5 million in 2023 (€205.7 million in 2022). The non-recurring items consisted mainly of exceptionally high electricity price[1], grid service fees[2] that Fingrid did not invoice from distribution system operators ("DSOs") and sale of the fibre business.

During the 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 82% of Elenia's customers are within the scope of the quality requirements[3].

The key financial performance indicators are shown below. Further information is available at www.elenia.fi/en/investors.

Key Financial Performance Indicators (€m)	2021	2022	2023
Revenue	328.6	317.4	326.9
EBITDA*	215.1	205.7	216.5
EBITDA* Margin	65.5%	64.8%	66.2%
*Excluding non-recurring and exceptional items			

[1] Elenia covers its distribution losses (3-4% of the distribution volumes) by buying electricity. During H1 2022 Elenia decided to treat electricity prices above 60 €/MWh as exceptional. This is higher than any monthly average price in Finland for the previous ten years. Elenia has hedging policy in place for electricity purchases partially mitigating the impact of the elevated electricity prices.

[2] Fingrid did not charge transmission grid fees of six months from the DSOs in 2023 as its congestion income soared due to high electricity prices. Likewise, Fingrid has informed that it will not charge transmission grid fees of six months in 2024. The fees will not be charged in January, February and June but the remaining three months have not been disclosed. The expected net cost savings from transmission grid fees is €19.2 million and it will be treated as exceptional for covenant calculation purposes.

[3] 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.

2. Business Update

a. Storms and Exceptional Weather Events

The first half of the year was calm but in the latter part of the year four major low-pressure storms occurred: Sylvia in August, Varpu in September, and Pirjo and Otso in October. The largest number of customers without electricity simultaneously was 19,000 during the Otso storm. All the storms were classified as class 2 power disruptions and the Otso storm with SAIFI[4] impact of 0.16.

In 2023, the costs of the storms were approximately €3.3 million of which approximately €2.8 million were caused by the four storms mentioned above.

SAIDI[5] excluding the impact of class 3 and 4 storms was 95 minutes in 2023 (70 minutes in 2022).

b. Regulation

Following the amendment to the EMA in August 2021, the Energy Authority (“EA”) amended suddenly the regulation methods of the previous regulatory period for 2022-2023. Elenia appealed to the Market Court to repeal the decision of the EA regarding the key aspects of the decision. The ruling is expected to be received within next 12-18 months.

The EA supervises the operations of DSOs and regulation is based on four-year periods. The final regulatory confirmation decision for the sixth (2024-2027) and seventh (2028-2031) regulatory periods was published on 29 December 2023. There are numerous amendments in the new regulatory methods compared to the previously applied methods. The key changes include freezing of the asset base to values based on construction costs prevailing in 2022 and calculation of industry wide unit prices. Elenia considers the changes to the methods excessive and unjustified. The EA’s decision represents a substantial deviation from the methods and principles of distribution network regulation that has been well functioning and established in Finland. Especially, the amended method of defining the DSOs' electricity network assets is in contradiction with the applicable electricity market legislation, both in terms of content and impacts. The new methods will significantly weaken the DSOs’ operating conditions and investment capabilities.

When calculating the risk-free rate, the calculation is based on the previous year’s average level of the 10-year Finnish Government bond. Due to the elevated interest rates in 2023, the reasonable rate of return confirmed by the EA for 2024 is 7.37%.

c. Investments

Elenia was the first DSO in Europe to incorporate hourly electricity consumption monitoring into digital services in the early 2000s. In 2021, Elenia started wide-scale replacement of nearly 440,000 smart electricity meters with next-generation remotely readable meters. The project is scheduled to end in 2026 and currently more than 210,000 units have been installed. As consumption of electricity as well as the need to balance production and consumption is increasing, the next-generation electricity meters provide access to more real-time data on electricity consumption and enable the implementation of demand response services utilizing smart grid.

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[4] System Average Interruption Frequency Index describes the number of outages that have occurred in the network during the exceptional weather event in relation to the total number of customers. The most severe class 4 events are classified to have a SAIFI impact of at least 0.50.

[5] System Average Interruption Duration Index is a measure of the duration of the outages.

The network investments were €140.5 million in 2023 as Elenia cut investments significantly last year as a result of the mid-period amendment to the regulatory methods for 2022-2023. Likewise, Elenia will invest in its networks substantially less in 2024 than previously planned.

Based on the network development plan that Elenia submitted to the EA in June 2022, Elenia's capex requirements to replace aging overhead lines and improve the security of supply exceed €1,500 million between 2022 and 2036. Furthermore, 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 approximately €500 million by 2036. In June 2024 Elenia will submit its statutory network development plan to the EA. Due to the recent changes in the regulatory methods, Elenia will need to revise the development plan.

d. Continuity of Operations

ISO/IEC 27001 certification for the information security management system was successfully renewed in the beginning of the year. The current geopolitical situation in Europe highlights the importance of preparedness against cyber threats within critical infrastructure. Elenia was active both in internal cyber security development and in domestic forums and events such as the Nordic Pine, a joint exercise with NATO dedicated to deeper understanding of the energy-hybrid threats and infrastructural resilience.

Elenia also continued to develop its asset management system according to the international standard ISO 55001:2014. The requirements of ISO 55001 guide the construction, operation, maintenance and repairs of Elenia's electricity network. This ensures that the company will continue to operate, maintain and upgrade its electricity network in order to respond to its customers' needs. The standards also require that suppliers and service providers commit to responsible, high-quality operations. The asset management system was recertified in November 2022 by LRQA and the first surveillance visit was in 2023.

e. Safety, Health and Sustainability

Elenia's sustainability program is aligned with the UN's Sustainable Development Goals and there are six selected goals that have strong links to Elenia's operations. For each of the goals, Elenia has set specific targets and the related KPIs are followed monthly. Elenia is also a signatory of the UN's Global compact.

In 2023, Elenia participated the GRESB Infrastructure Assessment focusing on environmental, social and governance performance of real estate and infrastructure companies and assets worldwide. Elenia reached 97 points out of 100 and scored full five stars for the sixth consecutive year. The assessment is an important benchmark and research tool for continuous development and proves that the goals of sustainability have been led from a company level to a personnel level internally as well as to Elenia's supply chain.

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.

Elenia's personnel did not sustain any recorded accidents during the reporting period but there were altogether four recorded work-related accidents for external contractor personnel in 2023 (eight in 2022). All accidents have been handled in accordance with Elenia's safety procedures in order to prevent similar accidents in the future. Elenia together with its partners had an LTIF[6] figure of 2.4 in 2023 (4.5 in 2022). The target is to ensure that all employees and partners work in a safe environment. Safety work is based on secure tools, processes and operating models. Elenia has signed the Safety Manifesto with its main contractors, aiming to show that they are jointly committed to safety and that everyone is entitled to return

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[6] Lost Time Injury Frequency, the number of lost time injuries occurring in all Elenia's 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 one day. Total LTIF = (ΣLTI*1,000,000 hours) / (Cumulative internal and external hours).

home healthy from work. This is monitored constantly 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. At the year end, the Safety Academy was started aiming to further strengthen and deepen the safety behaviour and activities of the staff and contracting partners.

The EU taxonomy is a classification system establishing a list of environmentally sustainable activities. Approximately 97 % of Elenia’s revenue, 97 % of capex and 77 % of operating expenses are taxonomy eligible. When assessing the alignment of Elenia’s EU taxonomy eligible activities, the 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.

3. Changes to the Board of Directors

There have been no changes in the compositions of the boards of directors since the date of the previous Investor Report.

4. Financing and Hedging Position

There were no issuances during the reporting period.

Elenia continues to have a strong liquidity position. As of 31 December 2023, cash and cash equivalents were €60 million (€51 million in 2022) while the sustainability linked revolving credit facilities consisting of €250 million Capex Facility, €50 million Working Capital Facility and €70 million Liquidity Facility were undrawn. During the reporting period, Elenia has also drawn the €100 million loan signed with the European Investment Bank in 2020. The weighted average maturity of Elenia’s debt was 6.7 years at the end of 2023 (7.4 years at the end of 2022). The weighted average interest rate was 2.6% in 2023 (2.2% at the end of 2022).

The Hedging Ratio was 85.8% as at 31 December 2023 and Elenia was in compliance with the Hedging Policy.

Bonds and notes issued by Elenia Verkko Oyj have a BBB rating from S&P Global Ratings (“S&P”). Following the regulatory decision for the next two regulatory periods, S&P placed Elenia Verkko Oyj's senior secured issue rating on CreditWatch with negative implications. The reason cited by S&P is that the new regulatory methods could have a significant impact on DSOs in Finland.

5. Acquisitions or Disposals

Elenia divested its fibre business in December 2023.

6. Restricted Payments

The amount of Restricted Payments made since the date of the previous Investor Report is €83.0 million.

7. Recent Development

In January, Elenia appealed to the Market Court to repeal the decision of the EA regarding the key aspects of the regulatory methods for 2024-2027 and 2028-2031. The outcome of the appeal is expected within the next 2-4 years.

Jorma Myllymäki has been appointed as the CEO of Elenia effective from 1 April 2024. Timo Rajala ceases to be a chairman and a member of the board of directors of Elenia Oy effective as of 1 April 2024 and will be replaced by Tapani Liuhala. Simultaneously, Tapani Liuhala ceases to be a member of the board of directors of Elenia Verkko Oyj effective as of 1 April 2024. Tommi Valento will become a member of the board of Elenia Oy starting from 1 April 2024.

8. Ratios

In respect of this investor report dated 13 March 2024 covering the 12-month period ending 31 December 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:

31 December 2023	€212.9m / €47.0m = 4.53
31 December 2024	€214.8m / €49.1m = 4.38

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

31 December 2023	€1,881.4m / €215.5m = 8.73
31 December 2024	€1,962.0m / €217.3m = 9.03

(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 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