



Elenia Group
INVESTOR REPORT
2019



ELENIA

INVESTOR REPORT

For the year ended 31 December 2019

Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in 2019, 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 accordance with its strategy, Elenia continued operations in 2019 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 Networks' investments¹ were €151.0 million in 2019 and the underground cabling rate increased as planned to 49.6%.

Elenia's revenue in 2019 was €295.6 million (€272.7 million in 2018, restated²). The revenue growth was mainly driven by the increases in electricity distribution tariffs. Elenia Networks increased its tariffs on average by 9.9% in August 2018 and 9.0% in September 2019 to finance the continued investments in underground cabling. Due to taxes, the actual increases on customer invoices were approximately 6%.

In 2019, Elenia's EBITDA totalled €182.6 million (€169.5 million in 2018, restated²). The growth in EBITDA was mainly driven by higher revenues. EBITDA excluding non-recurring and exceptional items was €187.9 million in 2019 (€170.4 million in 2018, restated²). The non-recurring and exceptional items in 2019 include costs related to the snow loads.

The key financial performance indicators for 2019 are shown in the table below. Further information is available at www.elenia.com/en/investors.

Key Financial Performance Indicators (€m)	2015	2016	2017	2018 ²	2019
Revenue	282.3	315.3	338.8	272.7	295.6
EBITDA*	152.2	176.3	190.9	170.4	187.9
EBITDA* Margin	53.9%	55.9%	56.3%	62.5%	63.6%

*Excluding non-recurring and exceptional items

¹ Regulatory asset value accretive capex

² The district heating business which was divested on 22 July 2019 accounted for approximately 22% of group revenues and 13% of group EBITDA according to 2018 full year actuals. The revenue and EBITDA in 2018 including the district heating business were €349.7 million and €194.4 million, respectively. EBITDA excluding exceptional and non-recurring items was €196.0 million in 2018.

2. Regulatory and Business Update

a. Storms and Exceptional Weather Events

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 was challenging and continued until mid-February, making it the longest period of continuous outages during Elenia's recorded history. The exceptional and non-recurring costs related to the snow loads were approximately €4.8 million.

In December 2019, the Aapo snowstorm caused an acute snow load situation in Pirkanmaa region when heavy and wet snow was accompanied by below zero temperature. The maximum number of customers without electricity was almost 40,000 but all connections were restored in less than 48 hours.

SAIDI³, a measure of the duration of the outages, was 254 minutes in 2019 (95 minutes in 2018).

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 2018 level of 6.62% to 6.20% in 2019 due to a change in the risk-free rate. Furthermore, the EA has confirmed the reasonable rate of return for 2020 to be 5.73%.

During 2019 the EA published selected preliminary regulatory key figures of Finnish DSOs based on 2018 accounts. Elenia Networks' regulatory asset base ("RAB") was €1,633.0 million and regulatory deficit €36.9 million. The cumulative regulatory deficit, after taking into account the surplus carried over from the third period, was €51.6 million⁴.

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 2019, 49.6% of the network was underground, up from 45.1% at the end of 2018.

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 2019, approximately 68% 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.

³ System Average Interruption Duration Index. SAIDI excluding the impact of Class 3 and 4 storms was 87 minutes in 2019.

⁴ 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 2019 regulatory deficit, the cumulative regulatory deficit or RAB.

Elenia Networks invested €151 million in developing its electricity network in 2019. Investment in the electricity network will continue in 2020 and Elenia Networks plans to deploy approximately €160 million to construct roughly 3,500 km of new underground cables.

d. IT Projects

Elenia has started the ISO 27001 Information Security Management System certification project consisting of improvements in processes, documentation, technology and awareness. The framework will be certified in 2020.

e. Safety, Health and Sustainability

In 2019, Elenia participated for the second time in the GRESB Infrastructure Assessment focusing on environmental, social and governance performance. Out of the 236 European infrastructure companies, Elenia was third. In the electricity distribution network sector, Elenia placed first out of seven companies.

Elenia Networks' personnel and external contractors reported approximately 700 safety observations in 2019 due to active promotion of safety awareness. Elenia Networks' personnel did not sustain any recorded accidents during the reporting period but there were altogether fourteen (eleven in 2018) recorded work related accidents for Elenia Networks' external contractor personnel in 2019. 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 LTIF⁵ figure of 5.9 in 2019 (5.2 in 2018).

Elenia's employees and contractors continued to receive regular safety training. During 2019, Elenia Networks carried out approximately 1,200 environmental, health, safety and quality reviews at its construction sites.

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. In 2019, Elenia Networks 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 home healthy after work. This is monitored on the highest level and all accidents are reported to the Board.

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 targets, the company has set specific goals and the related KPIs are followed monthly. The first Sustainability Report prepared in accordance with the Global Reporting Initiative standards was released in 2019 and Elenia aims to publish the second report in 2020.

f. Elenia Services

Elenia Services provides customer services to Elenia as well as other Finnish utilities. Its services include invoicing, collection, connection sales, outage management and electricity market information exchange services. In 2019, Elenia Services entered into customer service agreements with Suur-Savon Sähkö and Etelä-Savon Energia adding the amount of external third party customers to seven companies. The Jyväskylä office was closed down to streamline the operations as the services are provided from the headquarter in Tampere.

⁵ 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 one day. Total LTIF = (ΣLTI*1,000,000 hours) / (Cumulative internal and external hours).

In 2019, the procurement and construction unit as well as the marketing and sales unit were transferred from Elenia Networks to Elenia Services to strengthen its offering in customer services concept. The change also enables Elenia Services to pilot the entry into the (passive) fiber business.

In 2019, Elenia Services' total revenue (including intra-group items) was €24.5 million (€10.5 million in 2018). Of this, the total revenue from external customers amounted to €4.0 million in 2019 (€2.4 million in 2018). Elenia Services' EBITDA was €2.4 million in 2019 (€1.8 million in 2018).

3. Changes to the Board of Directors

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

On 18 November 2019, Jörg Spanier ceased to be a director of Elenia Networks and was replaced by Eduard Fidler.

There have been no changes to the Board of Directors of Elenia Services, Elenia Finance Oyj, Elenia Finance (SPPS) S.à r.l., Elenia Holdings S.à r.l. and Lakeside Network Investments Holding B.V. since the date of the previous Investor Report.

There had been no changes to the composition of Elenia Heat's Board of Directors prior to the disposal of the heating business.

4. Financing and Hedging Position

There were no issuances during the reporting period (€161 million of issued bonds under the EMTN programme in 2018). On contrary, Elenia Finance Oyj made a cash tender offer on its €500 million benchmark bond maturing in December 2020 resulting in approximately 82% of the outstanding bond being bought back.

Due to the successful tender, the weighted average maturity of Elenia's debt increased to 11.4 years (9.6 years at the end of 2018), excluding other long-term loans and bank facilities. The weighted average interest rate (excluding other long-term loans and bank facilities) was 2.3% in 2019 (2.9% at the end of 2018).

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 to 2024 in June 2019 by utilising the second extension option. Likewise, the Liquidity Facility was renewed as well.

In November Elenia solicited consent from the secured creditors to simplify the group structure and make certain amendments to finance documents. Approximately 92% of the secured creditors voted in favour of the proposal meaning it was duly passed. Elenia started to implement the changes immediately and the finance documents were amended on 20 December 2019. As a result, Elenia NewCo Oyj⁶, Elenia Investments S.à r.l. and Lakeside Network Investments S.à r.l. acceded as obligors into Elenia's finance agreements before the year-end. Following the reorganisation Elenia will have two operating Finnish companies in July 2020: Elenia Services⁷ and Elenia Verkko Oyj.

In November, Standard & Poor's ("S&P") upgraded the credit rating of the bonds issued by Elenia Finance Oyj to BBB+ with stable outlook. S&P regards Elenia's business risk profile as excellent, mainly due to the

⁶ To be renamed Elenia Verkko Oyj

⁷ To be renamed Elenia Oy

fully regulated electricity distribution business accounting for approximately 99% of the EBITDA. S&P also considers the Finnish regulatory framework for electricity distribution network companies to be well established, predictable and supportive.

Elenia continues to have a strong liquidity position. As at 31 December 2019, cash and cash equivalents were €29 million (€17 million in 2018) while €320 million of the credit facilities was drawn (€58 million drawn in 2018). At the end of December, €50 million was drawn from the €150 million facility agreed with the European Investment Bank in 2018. The Hedging Ratio was 94.4% as at 31 December 2019 and Elenia was in compliance with the Hedging Policy.

5. Acquisitions or Disposals

In July 2019, the sale of the district heating business, Elenia Heat, to international infrastructure investors was completed.

6. Restricted Payment

The amount of Restricted Payments made since the date of the previous Investor Report is €231.0 million.

7. Recent Development

Elenia has continued to simplify its group structure. On 1 January 2020 Elenia Services ceased to be a subsidiary of Elenia Networks. On the same day, Tapani Liuhala, the CEO of Elenia Networks, was appointed also as the managing director of Elenia Services and Ville Sihvola was appointed as the deputy CEO of Elenia Services. Simultaneously, Jorma Myllymäki was appointed as the deputy CEO of Elenia Networks.

In January 2020, Elenia Finance Oyj issued a €500 million benchmark bond with a seven-year maturity and carrying a coupon of 0.375%. The funds will be used for general corporate purposes including the refinancing of the remaining portion of the tendered bond maturing in December 2020 as well refinancing of the existing bank facilities.

In January 2020, the Ministry of Economic Affairs and Economy published a draft government bill that, if enacted, will impact the business of Elenia. The proposed changes include prolonging the deadline to comply with the quality requirements set by the EMA from the end of 2028 to the end of 2036 (for DSOs with medium-voltage line underground cabling rate below 60% at the end of 2018⁸), lowering the electricity distribution tariff cap from 15% to an aggregate level of 12.5% (on tariffs after taxes) over any rolling 12-month period and prolonging the offsetting period of cumulative regulatory deficit from four to eight years. Furthermore, the network development plan would be reviewed more extensively by the EA to make sure that the DSOs invest efficiently and consider also other alternatives to investments. A DSO would need to hear its appropriate customers regarding the network development plan, and the network development plan needs to be published together with the hearing results. Finally, the level of mandatory compensations payable on outages that last more than 12 hours would be increased in cases where the outage last more than 48 hours.

⁸ Applies to Elenia Networks

On 14 February 2020 the merger plans of Elenia Networks and Elenia Finance Oyj with and into Elenia NewCo Oyj were filed. The mergers are expected to be implemented on 1 July 2020.

8. Ratios

In respect of this investor report dated 23 March 2020 covering the 12-month period ending 31 December 2019, 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 2019 $\text{€}176.7\text{m} / \text{€}49.8\text{m} = 3.55$

31 December 2020 $\text{€}207.6\text{m} / \text{€}41.3\text{m} = 5.02$

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

31 December 2019 $\text{€}1,629.4\text{m} / \text{€}188.4\text{m} = 8.65$

31 December 2020 $\text{€}1,830.6\text{m} / \text{€}213.3\text{m} = 8.58$

(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 2019:

- (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