



Elenia Group
INVESTOR REPORT
2020



ELENIA

INVESTOR REPORT

For the year ended 31 December 2020

Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in 2020, 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 2020 without interruptions despite the activation of the pandemic preparedness plan in mid-March. The impact of covid-19 on the business has been limited in terms of distribution volumes as electricity consumption has not changed materially. The pandemic situation is monitored constantly and Elenia is prepared to adjust its operations accordingly.

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. Elenia's network investments¹ were €161.1 million in 2020 and the underground cabling rate increased as planned to 54.4%. Elenia's revenue in 2020 was €306.3 million (€295.6 million in 2019). The revenue growth was mainly driven by the increase in electricity distribution tariffs. Elenia increased its tariffs on average by 9.0% in September 2019 to finance the continued investments in underground cabling. Due to taxes, the actual increase on customer invoice was approximately 6%.

In 2020, Elenia's EBITDA totalled €195.1 million (€182.6 million in 2019). The growth in EBITDA was mainly driven by higher revenues. EBITDA excluding non-recurring and exceptional items was €195.5 million in 2020 (€187.9 million in 2019). The non-recurring and exceptional items in 2020 included costs related to the reorganisation of Elenia and compensation received from a bankrupt contractor.

Elenia continued to expand its fiber network in 2020 as implementation of fibre projects proceeded well.

The key financial performance indicators for 2020 are shown in the table below. Further information is available at www.elenia.com/en/investors.

Key Financial Performance Indicators (€m)	2018 ²	2019	2020
Revenue	272.7	295.6	306.3
EBITDA*	170.4	187.9	195.5
EBITDA* Margin	62.5%	63.6%	63.8%
*Excluding non-recurring and exceptional items			

¹ Regulatory asset value accretive capex

² The district heating business was divested in 2019. The reported revenue and EBITDA (excluding exceptional and non-recurring items) for 2018 at the time were €349.7 million and €196.0 million respectively.

2. Business Update

a. Storms and Exceptional Weather Events

There were exceptionally many stormy days in 2020 and Elenia prepared in total a dozen times for storms during the year.

In June, the Suvi storm and the weather phenomenon designated as Otus by the Finnish Meteorological Institute (“FMI”) caused outages in certain areas of Elenia’s distribution network served by overhead lines. At worst there were more than 15,000 customers without electricity simultaneously, but connections were restored within 48 hours. During the outage, a battery pack developed and constructed together with Fortum, the Finnish energy company, and installed in Kuru, supplied power for the first time to our customers for several hours in the operation area mitigating the effects of the outage. In September, the Aila storm left approximately 34,000 customers simultaneously without electricity and it took almost 48 hours to restore the connections. According to the FMI, Aila was the third strongest storm in this millennium.

No storm nor weather event was classified exceptional in 2020. The cost of storms classified between 2 and 4 was €9.7 million in 2020 consisting mainly of fault repair (€5.8 million), mandatory compensations (€3.3 million) and voluntary compensations paid by Elenia (€0.6 million).

SAIDI³, a measure of the duration of the outages, was 217 minutes in 2020 (254 minutes in 2019).

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’s security of supply driven investment programme as planned. The reported year was the first year of the fifth regulatory period (2020–2023).

The reasonable rate of return decreased from the 2019 level of 6.20% to 5.73% in 2020 due to change in the risk-free rate. Furthermore, the EA has confirmed the reasonable rate of return for 2021 to be 5.35%.

During 2020 the EA issued a regulatory decision concerning the fourth regulatory period (2016–2019) and published selected regulatory key figures of Finnish DSOs based on 2019 accounts. Elenia Verkko Oyj’s regulatory asset base was €1,793.3 million and regulatory deficit €24.0 million. The cumulative regulatory deficit, after taking into account the surplus carried over from the third period, was €75.6 million.

c. Investment Programme and Underground Cabling

The Electricity Market Act (“EMA”) states that the quality requirements should apply to 100% of customers by the end of 2028 and power needs to be restored within six hours in zoned areas, and within 36 hours in other areas. At the end of 2020, approximately 73% of Elenia Verkko Oyj’s customers were within the scope of the requirements.

During the year, Elenia Verkko Oyj continued to invest in the electricity network in accordance with its development plan. The 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 EMA. Elenia Verkko Oyj has only built weatherproof underground cables since 2009 and at the end of 2020, 54.4% of the network was underground.

³ System Average Interruption Duration Index. SAIDI excluding the impact of Class 3 and 4 storms was 70 minutes in 2020 (87 minutes in 2019).

Elenia Verkko Oyj invested approximately €161 million in developing its electricity network in 2020. Investments in the electricity network will continue in 2021 and we plan to invest approximately €160 million to construct more than 3,000 km of new underground cables.

d. IT Projects

Elenia completed the ISO 27001 Information Security Management System certification project consisting of improvements in processes, documentation, technology and awareness.

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. The first Sustainability Report prepared in accordance with the Global Reporting Initiative standards was released in 2019 and Elenia publishes the third report in 2021.

In 2020, Elenia participated for the third time in the GRESB Infrastructure Assessment focusing on environmental, social and governance performance of real estate and infrastructure companies and assets worldwide. Out of the 406 global infrastructure companies, Elenia was ninth. Elenia reached 96 points out of 100 and scored full five stars for the third consecutive year.

Elenia's personnel and external contractors reported approximately 1,700 safety observations in 2020 due to active promotion of safety awareness. Elenia's personnel did not sustain any recorded accidents during the reporting period but there were altogether 21 (14 in 2019) recorded work related accidents for external contractor personnel in 2020. All the 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 LTIF⁴ figure of 10.0 in 2020 (5.9 in 2019).

Elenia's 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 home healthy from work. This is monitored on the highest level and all accidents are reported to the Board.

3. Changes to the Board of Directors

The following changes have taken place since the date of the previous Investor Report.

On 31 December 2020, Caroline Goergen and Roberta Masson ceased to be members of the Board of Directors of Elenia Investments S.à r.l. and were replaced by Rosa Villalobos and Pascal Geiter. Simultaneously Caroline Goergen and Roberta Masson ceased to be members of the Board of Directors of Lakeside Network Investments S.à r.l. and were replaced by Rosa Villalobos, Pascal Geiter and Ingrid Moinet.

⁴ 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 = $(\sum \text{LTI} \times 1,000,000 \text{ hours}) / (\text{Cumulative internal and external hours})$. The Report of the Board of Directors as included in the consolidated financial statements of Elenia Oy and Elenia Verkko Oyj for the financial year 2020, states that LTIF per 31 December 2020 as 9.5. Following a late report of an accident that took place in 2020 by one of Elenia's contractors, LTIF has been revised to 10.0.

4. Financing and Hedging Position

Elenia Verkko Oyj became the issuing entity of Elenia after the group reorganisation in July 2020. Prior to the reorganisation, Standard & Poor's released a statement confirming that the BBB+ (stable) rating of bonds and notes issued by Elenia Finance Oyj remains the same.

In February 2020, Elenia issued a €500 million benchmark bond with a seven-year maturity and a coupon of 0.375%. The funds were used for general corporate purposes including repaying the remaining portion (approximately €89 million) of the bond maturing in December 2020 as well as drawdowns from the bank facilities. The weighted average maturity of Elenia's debt was 9.8 years at the end of 2020 (11.4 years at the end of 2019). The weighted average interest rate was 2.0% in 2020 (2.3% at the end of 2019).

In April, Elenia agreed a second loan in the amount of €100 million with the European Investment Bank ("EIB"). Elenia signed in 2018 a €150 million loan with the EIB, which has been fully drawn.

Elenia continues to have a strong liquidity position. As at 31 December 2020, cash and cash equivalents were €114 million (€29 million in 2019) while the credit facilities consisting of €350 million Capex Facility, €60 million Working Capital Facility and €60 million Liquidity Facility were undrawn (€320 million of Capex Facility drawn in 2019). The Hedging Ratio was 90.5% as at 31 December 2020 and Elenia was in compliance with the Hedging Policy.

Elenia sold its district heating business (Elenia Lämpö Oy) to a group of investors in 2019 and, as a consequence, Elenia Oy is returning €550 million of equity to its parent company during 2020-2023. The return of equity is not related to Elenia's network business.

5. Acquisitions or Disposals

Prior to the reorganisation in July, the share capital of Elenia Palvelut Oy (current Elenia Oy) was sold to Elenia Investments S.à r.l.

6. Restricted Payments

The amount of Restricted Payments made since the date of the previous Investor Report is €63.0 million.

7. Recent Development

In January 2021, the proposal to amend the EMA was submitted to the Parliament. The main 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, including Elenia Verkko Oyj, with medium-voltage line underground cabling rate below 60% at the end of 2018), lowering the electricity distribution tariff cap from 15% to an aggregate level of 8% (on tariffs after taxes) over any rolling 12-month period, and prolonging the offsetting period of cumulative regulatory deficit from four to eight years, in other words the next two regulatory periods, if the deficit is due to the tariff cap. 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 lasts more than 48 hours.

The EA is expected to take actions as a result of the amendment. These include update of the unit prices used to determine the regulatory asset base, lowering the WACC to approximately 4%, and removal of the security of supply incentive from the regulatory methods. The changes could come into force already during the current fifth regulatory period, potentially in the beginning of 2022.

On 8 April 2021, Thomas Metzger ceased to be a member of the board of directors of Elenia Oy and was replaced by Miguel Antonanzas.

8. Ratios

In respect of this investor report dated 9 April 2021 covering the 12-month period ending 31 December 2020, 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 2020 $\text{€}190.5\text{m} / \text{€}40.7\text{m} = 4.68^5$

31 December 2021 $\text{€}197.6\text{m} / \text{€}38.5\text{m} = 5.13$

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

31 December 2020 $\text{€}1,731.5\text{m} / \text{€}195.9\text{m} = 8.84$

31 December 2021 $\text{€}1,820.3\text{m} / \text{€}203.0\text{m} = 8.97$

(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.

⁵ The Report of the Board of Directors as included in the consolidated financial statements of Elenia Oy and Elenia Verkko Oyj for the financial year 2020, states that the Interest Coverage Ratio per 31 December 2020 is 4.67. Following a specification to the financials of one of the holding companies within the ring-fence, the ICR has been revised to 4.68.

9. Confirmations

We confirm that as at 31 December 2020:

- (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