



Elenia Group
INVESTOR REPORT
2014



INVESTOR REPORT

For the year ended 31 December 2014

Elenia Group

This investor report provides information on the Elenia Group's business in 2014, 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.

1. Overview

In accordance with its strategy, Elenia continued operations in 2014 with a special focus on providing progressive electricity network services to its customers, thereby helping society to function without disruption to daily life.

In this period, Elenia continued the roll-out of its long term investment plan which is designed to improve the security of supply. Elenia Oy's network investments were €100.5 million and the underground cabling rate increased as planned to 30.9%.

Elenia continued to further develop its asset management system according to new international standard ISO 55001:2014. This system was already certified according to the British PAS 55 standard¹ at the end of 2013. Following the PAS 55 certificate, the company was awarded in July 2014 a certificate by Lloyd's Register based on the ISO 55001 standard as evidence of its high-quality electricity network and asset management.

In 2014 both revenue and EBITDA were higher than the prior year. New electricity network connections drove higher sales, helping to increase revenue by 2.1%. This was partially offset by the impact of relatively warm weather, which reduced distributed volumes of electricity and heat. EBITDA was 2.5% higher than the same period last year due to lower material and services costs, which was primarily driven by fewer storms in 2014. Elenia Heat's revenue increased due to the addition of new customers and an increase in heat prices. Elenia Heat's EBITDA also increased due to an improvement in production efficiency for internal generation.

The key financial performance indicators for 2014 (excluding the impact of exceptional items) are shown in the table below. (Further information is available at: www.elenia.com/en/financialinformation)

Key Financial Performance indicators (€M)	2014	2013	change %
Revenue	299.7	293.7	2.1%
EBITDA *	156.2	152.4	2.5%

* Excluding exceptional and non-recurring items

2. Regulatory and Business Update

a. Storms

There were no exceptionally strong storms in 2014. However, during the year there were smaller storms in Elenia's operating area.

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

In May, a small storm caused outages in areas of the electricity distribution network served by overhead lines. The maximum number of customers simultaneously without electricity was approximately 17,000.

Thunderstorm Helena in July caused outages in the overhead network, in particular in Middle Finland. The maximum number of customers without electricity simultaneously was approximately 38,000.

Elenia was prepared for these storms and worked to mitigate the impact on customers according to Elenia's preparedness plan.

b. Regulation

Network Development and Preparedness Plans

In accordance with the Electricity Market Act, the Energy Authority has requested DSOs to prepare and submit a network development plan. The aim of the plan is to indicate the investments and maintenance actions that DSOs plan to carry out to fulfil the regulatory security of supply targets. Elenia's development plan was delivered to the Energy Authority in June 2014 and is fully in line with Elenia's long-term investment plan and maintenance strategy.

Elenia delivered its preparedness plan for major power disruptions to the National Emergency Supply Agency in June 2014. This is also a requirement of the Electricity Market Act. Elenia has utilised its internal preparedness plans successfully, which are built upon many years of experience in various storm situations.

c. Investment Programme and Underground Cabling

Elenia's long-term investment programme aims to improve the security of supply by replacing overhead lines with underground cables. The investment programme is designed to decrease the number of faults in the distribution network, reduce fault repair costs and fulfil the security of supply targets set by the Electricity Market Act.

In 2014, Elenia accelerated investments according to its long-term investment plan. Due to favourable winter conditions and careful project and contractor management, underground cabling projects progressed according to the plan.

The total capital expenditure in electricity network for Elenia Networks in 2014 was €100.5 million.

d. IT Projects

The main IT focus throughout 2014 has been on developing existing systems in co-operation with partner service providers.

During 2014, Elenia started to invest in its new Customer Information System (CIS). The implementation of this project will take 18 months and the new CIS is expected to be in use in early 2016.

e. Health, Safety and Environment

Elenia's personnel did not sustain any recorded accidents in 2014. There were two recorded severe accidents for Elenia Networks' external contractor personnel in the same period. Elenia's employees and contractors continued to receive regular safety training and the company continued to carry out Safety Walks (safety reviews) at its construction sites. 99 Safety Walks were completed during 2014, compared to 97 in 2013.

There were no recorded severe environmental incidents at Elenia in 2014.

f. Elenia Heat

Despite relatively warm weather, Elenia Heat managed to increase its revenue in 2014, driven by the addition of new customers and an increase in heat prices. Elenia Heat also increased EBITDA by 7.0%

compared to 2013. This was primarily due to revenue growth and an improvement in production efficiency for internal generation.

Elenia Heat continued to provide a highly reliable source of heating. There were no major interruptions in heat or gas delivery, and the reliability of supply to customers was above the industry average.

At Elenia Heat, the use of fossil fuels was reduced further in 2014 and the use of domestic fuels has been gradually increased, which remains an on-going goal going forward. For example, the company has completely discontinued the use of coal, and the percentage of biofuels in production exceeded 60%, while the share of domestic fuels (biofuel and peat) exceeded 80%. The level of the company's carbon dioxide emissions is approximately 60-70 % of the average level for other Finnish district heating companies.

Elenia Heat invested €12.8 million in improving its network and heat generation assets. The largest investment project was a 10 MW biofuel boiler in Turenki, which was taken into use towards the end of 2014. The new boiler will further enable Elenia Heat to replace natural gas with renewable fuel for the generation of heat.

Elenia Heat continued its focus on environmental, health and safety matters. No environmental damage occurred in 2014 and Elenia Heat was in full compliance with the environmental permit requirements for its heat generation operations. External and internal audits and inspections were successfully carried out, with no major recommended changes to operations. During 2014 there were no serious accidents.

g. Outlook

The Energy Authority has prepared draft regulatory guidelines for the next two regulatory periods; 2016–2019 and 2020–2023. These guidelines are important for the future development of the entire electricity distribution industry. After relevant parties, including DSOs, have provided their comments on the draft guidelines, the Energy Authority will make a final decision on the guidelines in the autumn of 2015.

Elenia's investment plan, which extends to 2028, emphasises the importance of building underground electricity networks to secure uninterrupted availability of electricity. The target is to increase the underground cabling rate of the electricity distribution network to 70% by 2028. In addition to the construction of a weather-tolerant electricity network, future investments will also be focused on business growth in line with the company's strategic objectives. The number of customers is expected to increase during 2015 at the same rate as in 2014, provided construction activity in Finland stays at the same level as in 2014.

Elenia Heat continues to invest to further increase the use of biofuels and reduce the need for fossil fuels, which will enhance district heating's ability to remain a competitive heating solution. Elenia Heat also continues its efforts to improve operational efficiency and maintain a high rate of efficiency at production plants.

3. Changes to the Board of Directors:

There were no changes to the composition of Elenia Oy's Board of Directors in 2014. There were also no changes to Elenia Heat's Board of Directors in the same period.

4. Financing and Hedging Position

During 2014, Elenia Group issued a total of €333 mm of bond and private placement debt. As at 31 December 2014, the outstanding balance on Facility A was €62 mm.

As at 31 December 2014, the Elenia Group has drawn €39.0 million of the Capex Facility.

As at 31 December 2014, the Hedging Ratio was 102.0% and Elenia Group was in compliance with the Hedging Policy.

5. Acquisitions or Disposals

There have not been any material acquisitions or disposals since the last Investor Report.

6. Restricted Payment

The amount of any Restricted Payment made since the date of the previous Investor Report is €10 million.

7. Ratios

In respect of this investor report dated 20 May 2015 covering the 12 month period ending 31 December 2014, 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 Common Terms Agreement:

The Interest Coverage Ratio (FFO/ Net Finance Charge) in respect of the Relevant Periods are:

31 December 2014 €156.0 M / €34.2 M = 4.6

31 December 2015 €149.9 M / €36.3 M = 4.1

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

31 December 2014 €1 093.6 M / €156.0 M = 7.0

31 December 2015 €1 129.9 M / €150.0 M = 7.5

(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 Common Terms Agreement.

8. Confirmations

We confirm that as at 31 December 2014:

- (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,



.....
Apoo Nikunen

Chief Financial Officer

Signing without personal liability, for and on behalf of

Elenia as Security Group Agent