



# **Elenia Group INVESTOR REPORT 2021**



ELENIA

# INVESTOR REPORT

For the year ended 31 December 2021

## Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in 2021, 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 2021, Elenia distributed 6,643 GWh of electricity, compared to 6,032 GWh in the previous year. The distribution volume in 2021 was the highest in Elenia's history increasing by 10.1%. Elenia's revenue in 2021 was €328.6 million (€306.3 million in 2020). The growth in revenue was driven by the cold weather at the start of the year and at the end of the year, which was reflected in higher distribution volumes, but also the exceptionally warm weather in the comparison year 2020. Additional factors behind the growth in volume included the passing of the temporary drop in volume caused by covid-19, the substantial increase in the number of connections and the general electrification of society, which was reflected in a higher distribution volume per customer.

In 2021, Elenia's EBITDA totalled €214.8 million (€195.1 million in 2020). The growth in EBITDA was mainly driven by higher revenues. EBITDA excluding non-recurring and exceptional items was €215.1 million in 2021 (€195.5 million in 2020). The non-recurring and exceptional items in 2021 included legal costs related to the regulatory changes and damage compensation to a customer.

The impact of covid-19 on the business has been very limited and mainly relates to continued remote work by Elenia's personnel.

During the period, Elenia's electricity distribution business ("Elenia Verkkö Oyj") continued the roll-out of its long-term investment plan which is designed to improve the security of supply. Elenia's network investments were €172.2 million in 2021 and the underground cabling rate increased as planned to 58.5%.

Elenia continued to expand its fiber network in 2021 as implementation of fibre projects proceeded well.

The key financial performance indicators are shown in the table below. Further information is available at [www.elenia.fi/en/investors](http://www.elenia.fi/en/investors).

Key Financial Performance Indicators (€m)	2019	2020	2021
Revenue	295.6	306.3	328.6
EBITDA*	187.9	195.5	215.1
EBITDA* Margin	63.6%	63.8%	65.5%
*Excluding non-recurring and exceptional items			



## 2. Business Update

### a. Storms and Exceptional Weather Events

In mid-June, the Vieno 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 27,000. A week later, the whole network area was impacted by thunderstorms. The maximum number of customers simultaneously without electricity was approximately 15,000. Both events were classified as a class 3 power disruption with SAIFI<sup>1</sup> impacts of 0.26 and 0.28 respectively.

No storm nor other adverse weather event was classified as exceptional in 2021. The cost of storms classified as 2 and 3 was €3.5 million in 2021 consisting mainly of fault repair (€2.7 million), mandatory compensations (€0.5 million) and voluntary compensations paid by Elenia (€0.3 million).

SAIDI<sup>2</sup>, a measure of the duration of the outages, excluding the impact of class 3 and 4 storms was 67 minutes in 2021 (70 minutes in 2020) illustrating the positive effects of underground cabling.

### b. Regulation

The Energy Authority ("EA") supervises the operations of distribution system operators ("DSOs") and the regulation is based on four-year periods. Following the amendment to the Electricity Market Act ("EMA") in June 2021, the EA published changes in October to amend the regulation methods of the current regulatory period. The methods will be applied for 2022-2023.

The most significant changes included an update to the unit prices underlying the regulatory asset base and changing the calculation of the risk-free rate. Due to removal of the option to calculate the risk-free rate based on the 10-year historical average of the Finnish Government bond, the calculation is now based only on the previous year's average level. Therefore, the reasonable rate of return confirmed by the EA for 2022 is 3.97%. Similarly, the unit prices used for determining the regulatory asset base were updated resulting in the regulatory asset value for Finnish DSOs to decrease on average by 15% with the highest cut up to approximately 22%. While Elenia's regulatory asset base declines following the unit price update, the impact on key financial ratios is expected to be limited since long offsetting periods as well as accrued deficits from the previous regulatory period smoothen out the impact of short-term regulatory changes.

### c. Investments

Elenia was the first DSO in Europe to incorporate hourly electricity consumption monitoring into digital services in the early 2000s. In September, Elenia started wide-scale replacement of nearly 400,000 smart electricity meters with next-generation meters. As consumption of electricity as well as the need to balance production and consumption is increasing, new technological solutions for electricity networks and electricity metering systems are required.

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<sup>1</sup> System Average Interruption Frequency Index. SAIFI 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.

<sup>2</sup> System Average Interruption Duration Index. SAIDI was 111 minutes in 2021 (217 minutes in 2020).

The EMA states that the quality requirements should apply to 100% of customers by the end of 2036<sup>3</sup> and power needs to be restored within six hours in zoned areas, and within 36 hours in other areas. At the end of 2021, approximately 78% of Elenia's customers were within the scope of the requirements.

During the year, Elenia continued to invest in the electricity network in accordance with its development plan. The target has been 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 has only built weatherproof underground cables since 2009 and at the end of 2021, 58.5% of the network was underground.

Elenia invested approximately €172 million in developing its electricity network in 2021. Following the decrease in the reasonable return as a result of the regulatory changes, the investments in the electricity network will be cut by €40 million in 2022.

#### **d. Continuity of Operations**

Elenia has the ISO 27001 Information Security Management System certification in place and continues to improve cybersecurity both internally and together with its partners.

Elenia also continued to develop its asset management system according to the PAS55-1:2008 standard and the international standard ISO 55001:2014. Lloyd's Register conducted the surveillance visit remotely in May to assess Elenia's asset management system. During the assessment, Elenia demonstrated that it has in place asset management processes, systems and plans which have been implemented throughout the organization and external partners and continue to be in line with the relevant standards.

#### **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.

In 2021, Elenia participated for the fourth time in theGRESB Infrastructure Assessment focusing on environmental, social and governance performance of real estate and infrastructure companies and assets worldwide. Elenia reached 95 points out of 100 and scored full five stars for the fourth 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's personnel did not sustain any recorded accidents during the reporting period but there were altogether 19 recorded work-related accidents for external contractor personnel in 2021 (21 in 2020). 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<sup>4</sup> figure of 9.5 in 2021 (10.0 in 2020). 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 home healthy from work. This is monitored on the highest level and all accidents are reported to the Board.

Elenia has been approved for the Science Based Targets initiative ("SBTi") climate target and also participates in the ambitious Net Zero target. Elenia has set its goals for reducing the GHG emissions of its own operations in accordance with the Paris Climate Agreement, and the SBTi has accepted Elenia's

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<sup>3</sup> Following the EMA amendment in June 2021 the deadline was extended from 2028 to 2036.

<sup>4</sup> 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 = ( $\Sigma$ LTi\*1,000,000 hours) / (Cumulative internal and external hours).

commitment. 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 and overall this means a reduction of approximately 90% in emissions for the carbon footprint.

The EU Taxonomy establishes classification to provide businesses and financiers with a common language to identify to what degree economic activities can be considered environmentally sustainable. Though the EU Taxonomy does not apply to Elenia yet, the assessment on the eligibility and alignment is ongoing. Final results of the assessment on Elenia are expected to be published during the spring of 2022.

### **3. Changes to the Board of Directors**

There have been no changes in the compositions of the Board of Directors since the date of the previous Investor Report.

### **4. Financing and Hedging Position**

There were no issuances during the reporting period (a €500 million benchmark bond in 2020). The weighted average maturity of Elenia's debt was 8.9 years at the end of 2021 (9.8 years at the end of 2020). The weighted average interest rate was 2.0% in 2021 (2.0% at the end of 2020).

Elenia continues to have a strong liquidity position. As at 31 December 2021, cash and cash equivalents were €72million (€114 million in 2020) while the credit facilities consisting of €350 million Capex Facility, €60 million Working Capital Facility and €60 million Liquidity Facility were undrawn. Elenia has also agreed an undrawn loan in the amount of €100 million with the European Investment Bank.

The Hedging Ratio was 90.5% as at 31 December 2021 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 Payments**

Elenia has not made any Restricted Payments since the date of the previous Investor Report.

### **7. Recent Development**

Following the EMA amendment, the changes to the regulatory methods confirmed by the EA became effective on 1 January 2022. On 18 January, Elenia sought repeal from the Market Court against the decisions of the EA. Changes in the middle of the regulatory period are contrary to good governance, the principle of legal certainty and the protection of property.

On 28 January, S&P Global Ratings ("S&P") downgraded the BBB+ issue rating of Elenia Verkko Oyj by one notch to BBB with stable outlook. S&P sees that the regulatory environment for DSOs in Finland has weakened as a result of the changes to the framework in the middle of the regulatory period. The change in rating was driven solely by the regulatory amendments and not actual or expected changes in Elenia's credit ratios.

In February, CIO Jenni Heinisuo ceased to be a member of the management team of Elenia and was replaced by Harri Happonen.

## 8. Ratios

In respect of this investor report dated 16 March 2022 covering the 12-month period ending 31 December 2021, 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 2021	$\text{€}210.0\text{m} / \text{€}38.1\text{m} = 5.52$
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31 December 2022	$\text{€}198.1\text{m} / \text{€}38.2\text{m} = 5.19$
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The Leverage Ratio (Total Net Debt / EBITDA) in respect of the Relevant Periods are:

31 December 2021	$\text{€}1,770.3\text{m} / \text{€}215.4\text{m} = 8.22$
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31 December 2022	$\text{€}1,792.7\text{m} / \text{€}203.9\text{m} = 8.79$
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(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 2021:

- (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