



Elenia Group INVESTOR REPORT H1 2018



ELENIA

INVESTOR REPORT

For the six months ended 30 June 2018

Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in the first half of 2018, 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 on 3 September 2018 ("CTA").

1. Overview

On 28 February 2018, Elenia was acquired by Valtion Eläkerahasto, Allianz Capital Partners on behalf of the Allianz Group and Macquarie Super Core Infrastructure Fund.

In accordance with its strategy, Elenia continued operations in the first half of 2018 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's network investments¹ were €81.0 million in the first half of 2018 (€143.6 million on a rolling 12-month basis) and the underground cabling rate increased as planned to 42.4%.

Elenia continued to further develop its asset management system according to the PAS 55-1:2008 standard and the international standard ISO 55001:2014. Lloyd's Register conducted a surveillance visit to assess Elenia Networks' asset management system in June 2018. During the assessment, Elenia Networks demonstrated that it has in place asset management processes, systems and plans which have been implemented throughout the organization and continue to be in line with the relevant standards. Elenia Networks' existing OHSAS 18001 based occupational health and safety management system was certified according to the new international ISO 45001:2018 standard in May 2018. Elenia also completed its first GRESB Infrastructure Assessment, which is a global environmental, social and governance reporting framework.

In the first half of 2018, Elenia's revenue and EBITDA increased by 5.2% and 5.2% respectively compared to the first half of 2017. The increase in revenue and EBITDA was mainly driven by higher volumes due to cold weather in winter time and the increase in distribution tariffs of 9.4%² in May 2017.

The key financial performance indicators for the first half of 2018 are shown in the table below. Further information is available at www.elenia.com/en/investors.

¹ RAV accretive capex

² The tariff increase was 9.4% on pre-tax basis and 6% on post-tax basis.

Key Financial Performance Indicators (€M)	H1 2017	H1 2018	Change %
Revenue	173.3	182.2	5.2%
EBITDA *	96.9	102.0	5.2%
EBITDA * margin	55.9%	56.0%	

* Excluding exceptional and non-recurring items

2. Regulatory and Business Update

a. Storms

There were no major power disruptions during the first half of 2018.

In June, the Toivo and Pauliina storms caused outages in certain areas of Elenia's distribution network served by overhead lines. Elenia was prepared for the storms and worked to mitigate the impact on customers. The maximum number of customers simultaneously without electricity was less than 15,000. All connections were restored in less than 24 hours.

b. Regulation

The basic structure of the regulatory framework continues to be based on a combination of a reasonable rate of return and various incentives. The reasonable rate of return for 2018 is 6.62%. Incentives related to investments, quality, efficiency, innovation and security of supply remain in place, with minor changes. The regulatory guidelines provide stability for the industry and enable the continuation of Elenia Networks' security of supply driven investment programme as planned. During the first half of 2018 the Energy Authority, which regulates electricity distribution system operators ("DSOs"), published selected preliminary regulatory key figures of Finnish DSOs based on 2016 accounts. Elenia Networks' regulatory asset value ("RAV") was €1,521 million.

c. Investment Programme and Underground Cabling

Elenia Networks' long-term investment plan emphasises the importance of building underground electricity networks and replacing overhead lines to secure uninterrupted availability of electricity. The investment programme is designed to decrease the number of faults in the distribution network, reduce fault repair costs and meet the security of supply targets set by the Electricity Market Act. Elenia Networks' target is to increase the underground cabling rate of the electricity distribution network to 75% 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 Elenia's strategic objectives.

In the first half of 2018, Elenia Networks has continued network investments according to its long-term investment plan. The total expenditure on network investments at Elenia Networks in the first half of 2018 was €81.0 million (€73.2 million in the first half of 2017). The capital expenditure budget for the distribution network in 2018 is approximately €147 million. Between 2012-2018, Elenia has invested approximately €750 million in weatherproofing its electricity network.

d. IT Projects

Elenia has continued to develop its IT systems in co-operation with its partner service providers. During the first half of the year, Elenia Finance Oyj successfully implemented TWIN treasury system to improve internal reporting processes.

e. Health, Safety and Environment

There was one recorded work-related accident involving a member of Elenia's own personnel and six recorded work-related accidents for Elenia's external contractor personnel in the first half of 2018. None of these accidents were severe and all have been handled in accordance with Elenia's safety procedures in order to prevent similar future accidents.

Elenia's employees and contractors continued to receive regular safety training and the company continued to carry out quality and safety inspections at its construction sites. Elenia Networks conducted over 450 quality and safety inspections at its construction sites in the first half of 2018. Elenia Heat completed 18 safety walks (i.e. safety reviews) during the same period.

There was one recorded environmental incident at Elenia in the first half of 2018. At the end of January, an oil leakage was observed at Elenia Heat Vuohkallio district heating plant. Altogether some 30,000 litres of light oil leaked due to technical error. The soil contaminated by oil was removed and oily water has been pumped out with the local authorities monitoring the process. The costs associated with the oil leak are expected to be approximately €0.6 million of which approximately €0.2 million have been realised during the first half of the year.

f. Elenia Heat

Elenia Heat continued to provide a highly reliable source of heating in the first half of 2018. There were no major interruptions in heat or gas delivery and the reliability of supply to customers was above the industry average.

Due to cold weather and the corresponding impact on heat volumes sold, Elenia Heat's revenue increased by 2.7% compared to the first half of 2017.

Elenia Heat's EBITDA was 4.4% higher during the first half of 2018 compared to the first half of 2017. This was driven by higher volumes and an increase in heat prices in August 2017.

The percentage of biofuels in Elenia Heat's heat generation was 65% and the share of domestically sourced fuels (biofuel and peat) was 85%. Elenia Heat's carbon dioxide emissions are approximately 70% of the average Finnish district heating company.

Elenia Heat invested €2.5 million in maintaining its network and heat generation assets in the first half of 2018.

g. Elenia Services

Elenia Services provides customer services to Elenia Networks, Elenia Heat as well as other Finnish utilities. Its services include frontline customer service, end customer invoicing and payment surveillance as well as electricity market message exchange.

In April 2018, Elenia Services entered into a customer service agreement with Lahti Energia.

3. Changes to the Board of Directors

On 31 May 2018, Livio Gambardella and Stéphanie Meyer ceased to be managers of Elenia Holdings S.à r.l. and Elenia Finance (SPPS) S.à r.l. and were replaced by Liviu Rusu and Roberta Masson.

There have been no changes to the composition of Elenia Networks' Board of Directors since the date of the previous Investor Report.

There have also been no changes to the Board of Directors of Elenia Heat, Elenia Services, Elenia Finance Oyj and Lakeside Network Investments Holding B.V. in the same period.

4. Financing and Hedging Position

In June 2018, Elenia Finance Oyj issued bonds under its EMTN programme for an aggregate amount of €161 million (€138.5 million of secured senior notes in the first half of 2017). The proceeds of the issuance were used for refinancing existing debt, to fund capital expenditure as well as for general corporate purposes.

In June 2017, Elenia signed credit facilities consisting of €350 million Capex Facility, €60 million Working Capital Facility and €60 million Liquidity Facility. In June 2018, the Facilities were extended by one year in accordance with the Facilities Agreement. As at 30 June 2018, the Facilities remain undrawn.

The Hedging Ratio was 98.5% as at 30 June 2018 and Elenia 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 Restricted Payments made since the date of the previous Investor Report is €72.2 million.

7. Recent Development

In June 2018, Elenia announced an increase of 9.9% on pre-tax basis (6.1% on post-tax basis) to the distribution tariffs from the beginning of August. The increase is driven by investments in modernising the network to meet current and future requirements.

In July 2018, in accordance with the requirements of the CTA, Elenia proposed to the Security Trustee and the Secured Creditors certain amendments to the financial covenant levels. The purpose of the amendments is to mitigate the impact of implementing the IFRS 15 standard which became effective on 1 January 2018 obliging Elenia to change the revenue recognition of connection charges. The change affects only figures such as EBITDA that are reported in accordance with the IFRS, it has no impact on

FAS, taxes, cash flows or regulatory accounting. Following satisfaction of the quorum requirement and receipt of a direction from Participating Qualifying Secured Creditors representing a simple majority of Voted Qualifying Debt in favour of the proposal, Elenia and the Security Trustee have entered into an amendment and restatement agreement on 3 September 2018, amending and restating the CTA and the Master Definitions Agreement to given effect to and to implement the Proposal. For each Relevant Period until 31 December 2027 (“the First Ratio Adjustment period”), the Trigger Event Ratio Levels are 1.46 for Interest Coverage Ratio and 10.18 for Leverage Ratio and the Default Ratios are 0.96 for Interest Coverage Ratio and 11.33 for Leverage Ratio.

In August 2018, Jouni Pylvänäinen was appointed as Head of Strategic Development to the Executive Management Team of Elenia Networks. The appointment strengthens the strategic innovation and business development capabilities of Elenia and its pioneering role in the energy sector.

8. Ratios

In respect of this investor report dated 10 September 2018 covering the 6-month period ending 30 June 2018, 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:

30 June 2018	$\text{€}195.6\text{m} / \text{€}45.7\text{m} = 4.28$
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30 June 2019	$\text{€}202.5\text{m} / \text{€}51.2\text{m} = 3.95$
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The Leverage Ratio (Total Net Debt / EBITDA) in respect of the Relevant Periods are:

30 June 2018	$\text{€}1\,492.9\text{m} / \text{€}195.7\text{m} = 7.63$
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30 June 2019	$\text{€}1\,852.7\text{m} / \text{€}202.5\text{m} = 9.15$
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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 30 June 2018:

- (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