



Elenia Group INVESTOR REPORT H1 2017



ELENIA

INVESTOR REPORT

For the six months ended 30 June 2017

Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in the first half of 2017, 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 the first half of 2017 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 investments were €73.2 million in the first half of 2017 (€128.6 million on a rolling twelve month basis) and the underground cabling rate increased as planned to 38.6%.

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 2017. 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.

In the first half of 2017, Elenia's revenue and EBITDA increased by 5.6% and 7.9% respectively compared to the first half of 2016. The increase in revenue and EBITDA was mainly driven by the increases in distribution tariffs of 9.4%¹ in each of April 2016 and May 2017.

The key financial performance indicators for the first half of 2017 are shown in the table below. Further information is available at www.elenia.com/en/financialinformation.

Key Financial Performance indicators (€M)	H1 2016	H1 2017	Change %
Revenue	164.0	173.3	5.6%
EBITDA*	89.8	96.9	7.9%
EBITDA* Margin	54.8%	55.9%	

* Excluding exceptional and non-recurring items

Exceptional and non-recurring items were €1.5m in H1 2016 and €0.7m in H1 2017

¹ The tariff increase is 9.4% on pre-tax basis and 6% on post-tax basis. The increase is driven by investments in weatherproofing the network and the transmission system operator Fingrid's increase in transmission tariffs (pass-through cost for Elenia Networks).

2. Regulatory and Business Update

a. Storms

There was one major power disruption during the first half of 2017. In March, the Sauli storm caused outages in certain areas of Elenia's distribution network served by overhead lines. Elenia was prepared for the storm and worked to mitigate the impact on customers. The maximum number of customers simultaneously without electricity was less than 22,000. All connections were restored in less than 24 hours.

b. Regulation

Following the distribution tariff increases announced by certain Finnish distribution system operators ("DSOs") in 2016, the Ministry of Economic Affairs and Employment issued a government bill on 11 May 2017 which, when enacted, is expected to amend the Electricity Market Act 2013 by implementing certain restrictions on price increases by DSOs. According to the bill, DSOs, including Elenia Networks, will be restricted from increasing their electricity distribution tariffs by more than an aggregate 15% (on tariffs after taxes) over any rolling 12 month period. The new regulation will apply with respect to both consumer and corporate customers. The Parliament approved the proposed amendment on 26 June 2017 and it becomes effective from 1 September 2017.

In February 2017 the Energy Authority ("EA"), which regulates electricity DSOs, published the regulatory deficits and surpluses for the third regulatory period (2012–2015). Elenia Networks' cumulative regulatory surplus for the period was €79.1 million (net of deficit for the second regulatory period). A surplus accrued at the end of one regulatory period is required to be returned to customers at the latest by the end of the following regulatory period. Accordingly, in the regulatory period 2016–2019, Elenia Networks is required to adjust its tariffs so that the accrued surplus is returned to its customers. Elenia Networks expects its cumulative regulatory surplus to be completely offset by the end of 2017.

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 fulfil 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 70% by 2028 to meet the security of supply targets in the Electricity Market Act. 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.

In the first half of 2017, 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 2017 was €73.2 million (€59.3 million in the first half of 2016). The capital expenditure budget for the distribution network in 2017 is €127.9 million. In 2012–2017, Elenia's investments in a weatherproof electricity network are approximately €600 million.

d. IT Projects

Elenia has continued to develop its IT systems in co-operation with its partner service providers.

e. Health, Safety and Environment

There was one recorded work related accident involving Elenia's own personnel and seven recorded work related accidents for Elenia's external contractor personnel in the first half of 2017. 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 300 quality and safety inspections at its construction sites in the first half of 2017. Elenia Heat completed 10 safety walks (i.e. safety reviews) during the same period.

f. Elenia Heat

Elenia Heat continued to provide a highly reliable source of heating in the first half of 2017. 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 3.3% compared to the first half of 2016.

Elenia Heat's EBITDA was 0.6% lower during the first half of 2017. This was driven by higher average fuel prices and fixed operating costs compared to the same period in 2016.

The percentage of biofuels in Elenia Heat's heat generation exceeded 65% and the share of domestically sourced fuels (biofuel and peat) exceeded 85%. Elenia Heat's carbon dioxide emissions are approximately 60-70% of the average Finnish district heating company.

Elenia Heat invested €1.8 million in maintaining its network and heat generation assets in the first half of 2017.

g. Elenia Services

Elenia Palvelut Oy (Elenia Services) was incorporated on 1 January 2015 as a wholly owned subsidiary of Elenia Networks.

Elenia Services provides customer service 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 May 2017, Elenia Services began providing customer services to Tampereen Sähkölaitos Oy.

In June 2017 Elenia Services entered into an agreement to provide customer services to Auris Kaasunjakelu Oy from February 2018.

3. Changes to the Board of Directors

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

On 22 August 2017 Alli Soralahti was appointed as a member of the Board of Directors of Elenia Finance Oy and replaced Timo Talvitie, who resigned from his position on the same date.

There have been no changes to the Board of Directors of Elenia Heat, Elenia Palvelut Oy, Elenia Holdings S.à r.l, Elenia Finance (SPPS) S.à r.l. and Lakeside Network Investments Holding B.V. in the same period.

4. Financing and Hedging Position

In April 2017, Elenia Finance Oy issued €138.5 million of fixed rate guaranteed secured senior notes to North American institutional investors. 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 new credit facilities totaling €470 million with a syndicate of eight banks. The credit facilities consisted of €350 million Capex Facility, €60 million Working Capital Facility, and €60 million Liquidity Facility. As at 30 June 2017, the Facilities were undrawn.

The Hedging Ratio was 98.3% as at 30 June 2017 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 €70.0 million.

7. Ratios

In respect of this investor report dated 28 August 2017 covering the 6 month period ending 30 June 2017, 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:

30 June 2017 €183.2 M / €41.0 M = 4.46

30 June 2018 €192.5 M / €45.5 M = 4.23

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

30 June 2017 €1 401.9 M / €183.2 M = 7.65

30 June 2018 €1 684.8 M / €192.5 M = 8.75

(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 30 June 2017:

- (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