



Elenia Group INVESTOR REPORT 2016



ELENIA

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For the year ended 31 December 2016

This investor report provides information on the Elenia Group's ("Elenia") business in 2016, 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 2016 with a special focus on providing progressive electricity network and district heating 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 Network's investments were €119.2 million in 2016 and the underground cabling rate increased as planned to 37.6%. Elenia Heat's investments were €6.3 million in 2016.

Elenia Group's revenue in 2016 was EUR 315.3 million (EUR 282.3 million in 2015). The revenue growth was mainly driven by higher volumes due to cold weather, an increase in electricity distribution tariffs and fewer weather related outages compared to 2015, which resulted in lower statutory and voluntary outage compensations paid to customers. Elenia Networks increased its tariffs by 9.4% pre-tax (equivalent of approximately 6% on after tax prices) from April 1st 2016 onwards.

In 2016, the Group's EBITDA was EUR 168.4 million (EUR 135.6 million in 2015). The growth in EBITDA was mainly driven by higher revenues and opex savings during the year. EBITDA excluding non-recurring and exceptional items was EUR 176.3 million in 2016 (152.2 million in 2015). The non-recurring and exceptional items in 2016 include costs relating to an exceptionally severe storm during the year (storm Rauli), provision release and other costs that are considered either non-recurring or exceptional.

The key financial performance indicators for 2016 are shown in the table below. Further information is available at www.elenia.com/en/financialinformation.

Key Financial Performance indicators (€m)	2012	2013	2014	2015	2016	Change %
Revenue	299.6	293.7	299.7	282.3	315.3	11.7 %
EBITDA *	157.4	152.4	156.2	152.2	176.3	15.8 %
EBITDA* Margin	52.5%	51.9%	52.1%	53.9%	55.9%	

* Excluding exceptional and non-recurring items

2. Regulatory and Business Update

a. Storms

Despite the occurrence of a single exceptionally severe storm (Rauli) in August, 2016 was a relatively benign weather year compared to 2015, resulting in opex savings. This is favourable compared to 2015, which was characterised by a number of storms (Suoma and Yrjänä in April, Lyyli in May and Valio in October) and snow loads (in January and November). Storm Rauli was the most severe summer storm in Elenia's history and caused outages for more than 96,000 customers simultaneously. It took up to 75 hours to restore all connections despite Elenia being well prepared for the storm. The resulting fault repair costs and compensations to customers had a negative impact on financial performance. In total, EUR 7.3 million of storm costs are treated as exceptional.

b. Regulation

In November 2015, the EA confirmed the regulatory methods to be applied in the fourth and fifth regulatory periods (2016–2019 and 2020–2023). These new regulatory methods came into effect in 2016 at the start of the fourth regulatory period. The basic structure of the regulatory framework remained largely unchanged from the third regulatory period (2012–2015) and it continues to be based on a combination of a reasonable rate of return and various incentives. The parameters for the weighted average cost of capital (WACC) model used to determine the reasonable rate of return have changed. As a result, the reasonable rate of return increased from the 2015 level of 3.1% to approximately 5.9% (on a post-tax basis) in 2016. 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.

Following the distribution price increases announced by certain Finnish DSOs, the Finnish Ministry of Employment and the Economy is considering legislative steps to restrict distribution system operators, including Elenia Networks, 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 would apply to both consumer and corporate customers.

c. Investment Programme and Underground Cabling

During the year, Elenia Networks continued to invest in the electricity network in accordance with its development plan. Elenia Networks' investment plan has been designed to improve the security of supply via underground cabling. Elenia Networks has only built weatherproof underground cables since 2009. At the end of 2016, 37.6% of the network was underground, up from 34.1% at the end of 2015.

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 set by the EMA. At the end of 2016, 49% of Elenia Network's customers were within the scope of the EMA quality requirements. While the main focus in the development of the security of supply is on underground cabling, Elenia Networks also seeks to improve the security of supply by other means. For example, Elenia Networks also carries out regular network maintenance such as tree clearing projects outside line corridors.

Elenia Networks invested EUR 119.2 million in developing its electricity network in 2016. Investment in the electricity network will continue in 2017 and Elenia Networks plans to deploy more than EUR 120 million to construct approximately 3,000 km of new underground cables. Elenia Networks expects to invest a total of c. EUR 600 million between 2012-2017.

d. IT Projects

One of the key projects for the year was the rollout of a new Customer Information System. In January 2016, Elenia Services migrated to this new IT system. The implementation proceeded according to plan and further development of the system will continue in 2017.

e. Health, Safety and Environment

Elenia Networks' personnel did not sustain any recorded accidents in 2016 or in 2015. There was one recorded accident at Elenia Heat in 2016. There were eight (eight also in 2015) recorded work related accidents for Elenia Networks' external contractor personnel in the same period. None of these accidents

were severe and all have been handled in accordance with Elenia Networks' safety procedures in order to prevent similar future accidents. Elenia Networks' LTIF¹ was 4.1 in 2016 (4.3 in 2015).

Elenia's employees and contractors continued to receive regular safety training. During 2016, Elenia Networks carried out over 700 environmental, health, safety and quality (EHSQ) reviews at its construction sites. Elenia Heat completed 26 safety walks during 2016.

Environmental, safety and quality monitoring became a more deeply embedded part of day to day work as the NordSafety mobile application was utilized by Elenia's contractors and own personnel. In addition, in 2016 the Company started publishing a regular safety newsletter to employees.

There was one recorded environmental incident of note at Elenia Group during 2016. Elenia Heat had an oil leakage in one of its reserve boiler plants, which was successfully handled in co-operation with the local authorities. The costs associated with the oil leak were immaterial and the Finnish environmental authority confirmed that there were no further follow-ups required. Elenia Heat was in full compliance with the environmental permit requirements for its heat generation operations.

f. Elenia Heat

Elenia Heat continued to provide a highly reliable heating in 2016. There were no major interruptions in heat or gas delivery and the reliability of supply to customers was above the industry average.

In 2016, Elenia Heat's sales volume of heat, gas and electricity totalled 1.1 TWh (1.0 TWh in 2015). Elenia Heat's total revenue (including intra-group items) in 2016 was EUR 77.8 million (EUR 72.5 million in 2015). The increase in revenue was attributable to higher volumes during the year due to colder weather. Elenia Heat's EBITDA in 2016 was EUR 25.6 million (EUR 23.2 million in 2015). The EBITDA improvement was driven by higher volumes, more favourable fuel mix and improved fuel efficiency.

Elenia Heat primarily produces its heat via wood, peat, natural gas and oil. In 2016, biofuels accounted for more than 68% of Elenia Heat's production volume (65% in 2015), and approximately 90% of the fuel used was of domestic origin. Elenia Heat purchases approximately 30% of its total heat volumes from third party companies, including energy companies and the local industry. The fuel and energy is sourced using long-term procurement contracts.

g. Elenia Services

In 2016, Elenia Services continued to deliver customer service to Elenia Networks and Elenia Heat. The transitional services agreement ("TSA") between Elenia Services and Vattenfall Group ("Vattenfall") expired in January 2016. In order to adjust to the lower customer service volume anticipated due to the expiry of the TSA, Elenia decided to centralise customer service operations in Tampere, which was completed by the end of March 2016. At the end of 2016, headcount was 63, down from 133 at the end of 2015.

In 2016, Elenia Services' total revenue (including intra-group items) was EUR 10.2 million (EUR 14.0 million in 2015). Of this, the total revenue from external customers amounted to EUR 1.4 million in 2016, down from 2015 (EUR 6.4 million) due to the expiry of the TSA with Vattenfall. Elenia Services' EBITDA was EUR 0.8 million in 2016 (EUR 0.5 million in 2015).

¹ Lost Time Injury Frequency (LTIF), the number of lost time injuries occurring in all Elenia Oy'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 1 day. Total LTIF = (Σ LTi*1.000.000 h) / (Cumulative internal & external hours).

In January 2017, Elenia Services entered into an agreement with Jyväskylän Energia ("JE") to provide certain customer service operations to JE's customers. The agreement covers customer service related to the electricity distribution, electricity sales, district heating and water distribution operations of JE. The agreement with JE is the first external customer service agreement for Elenia Services since the expiry of the TSA with Vattenfall.

3. Changes to the Board of Directors

Since the date of the previous Investor Report, there has been one change within Elenia Oy's Board of Directors. Peter Lyneham served as a member of the Board of Directors until 30 November 2016. Robert Clark was appointed to the Board of Directors starting from 1 December 2016. There were no changes to the Board of Directors of Elenia Lämpö Oy, Elenia Finance Oyj, Elenia Palvelut Oy, Elenia Holdings S.à r.l., Elenia Finance (SPPS) S.à r.l. and Lakeside Network Investments Holding B.V. since the date of the previous Investor Report.

4. Financing and Hedging Position

In 2016, Elenia Finance Oyj issued bonds under its EMTN programme for an aggregate amount of EUR 107 million (no issuances in 2015) and private placements for an aggregate amount of EUR 150 million (EUR 75 million in 2015). The proceeds were used for general corporate purposes, to repay Elenia Oy's drawn bank debt and to finance investments.

The tenor of the new issuances in 2016 varied from 13 years to 17 years. Consequently, the weighted average maturity of Elenia Group's debt increased to 10.1 years (9.2 years at the end of 2015). The weighted average interest rate (excluding other long-term loans) was 2.9% in 2016 (2.8% at the end of 2015).

Elenia Group continued to have a strong liquidity position. As at 31 December 2016, cash and cash equivalents were EUR 15 million (EUR 19 million in 2015). Furthermore, Elenia Group had EUR 333 million (EUR 195 million at the end of 2015) in undrawn committed credit facilities. The Hedging Ratio was 98.1% as at 31 December 2016 and Elenia Group was in compliance with the Hedging Policy.

5. Acquisitions or Disposals

There were no material acquisitions or disposals in 2016.

6. Restricted Payment

The amount of Restricted Payments made since the date of the previous Investor Report is €60.1million.

7. Ratios

In respect of this investor report dated 18 April 2017 covering the 12 month period ending 31 December 2016, 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 2016 $\text{€}176.0\text{m} / \text{€}38.4\text{m} = 4.59$

31 December 2017 $\text{€}179.6\text{m} / \text{€}42.6\text{m} = 4.21$

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

31 December 2016 $\text{€}1\,342.7\text{m} / \text{€}176.0\text{m} = 7.63$

31 December 2017 $\text{€}1\,571.7\text{m} / \text{€}179.6\text{m} = 8.75$

(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 31 December 2016:

- (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