



Elenia Group
INVESTOR REPORT
H1 2019



ELENIA

INVESTOR REPORT

For the six months ended 30 June 2019

Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in the first half of 2019, 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

In accordance with its strategy, Elenia continued operations in the first half of 2019 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 €85.7 million in the first half of 2019 (€151.0 million on a rolling 12-month basis) and the underground cabling rate increased as planned to 46.8%.

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 2019. 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 international ISO 45001:2018 standard in April 2019.

In the first half of 2019, Elenia's revenue and EBITDA increased by 4.2% and 6.8% respectively compared to the first half of 2018. The increase in revenue and EBITDA was mainly driven by the increase in distribution tariffs of 9.9%² in August 2018.

The key financial performance indicators for the first half of 2019 are shown in the table below. Further information is available at www.elenia.com/en/investors.

Key Financial Performance Indicators (€M)	H1 2018	H1 2019	Change (%)
Revenue	182.2	189.9	4.2%
EBITDA *	102.0	109.0	6.8%
EBITDA * margin	56.0%	57.4%	

* Excluding exceptional and non-recurring items

¹ Regulatory asset value accretive capex

² The actual increase on customer invoices was approximately 6% on post-tax basis.

2. Regulatory and Business Update

a. Storms and exceptional weather events

In January 2019, the Aapeli storm caused outages in certain areas of Elenia's distribution network served by overhead lines. The maximum number of customers simultaneously without electricity was less than 39,000. All connections were restored within 52 hours. The costs related to the storm were approximately €3.5 million.

After the Aapeli storm, January was cold with substantial snowfall causing heavy snow loads in trees and subsequently outages in the distribution network. The snow load situation was challenging and continued until mid-February, making it the longest period of continuous outages during Elenia's recorded history. The exceptional and non-recurring costs related to the snow loads were approximately €4.8 million.

In May 2019, the Helka 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 15,000. All connections were restored in less than 24 hours.

b. Regulation

The current year is the last of the fourth regulatory period. The regulation methods have been set for two consecutive regulatory periods i.e. until the end of the fifth regulatory period at the end of 2023. Between the fourth (2016-2019) and the fifth (2020-2023) regulatory period the reference level for the quality incentive and the efficiency incentive, as well as the debt risk premium component of the regulatory WACC will be updated for the entire fifth regulatory period.

The Energy Authority ("EA") has confirmed the reasonable rate of return for 2019 to be 6.20%. The reasonable rate has been declining on the back of the low interest rates since the new calculation formula for WACC was introduced in 2016.

In June 2019, Elenia Networks submitted its Preparedness Plan to the EA, which regulates distribution system operators ("DSOs"). As part of this obligation, a DSO must have plans in place to ensure continued communications with emergency personnel and other network operators and the deployment of repair personnel. Every DSO is obliged to submit a contingency plan to the EA at least once every three years and in the event of material changes in circumstances. The plan is prepared on the basis of well-tested preparedness plans of Elenia Networks and various years of experience in storm situations and other disturbances.

The EA has previously published selected preliminary regulatory key figures of Finnish DSOs based on 2017 accounts. Elenia Networks' regulatory asset base was €1,495.2 million³.

c. Investment Programme and Underground Cabling

Elenia Networks' long-term investment plan emphasises the importance of replacing old overhead lines that are at the end of their useful life in order 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 ("EMA"). Elenia Networks submitted its electricity network development plan to the EA in June 2019 and the target is to increase the underground cabling rate of the electricity distribution network to 75% by 2028. As at 30

³ The figure should be considered preliminary until the final regulatory decision has been given by the EA.

June, 63.9% of the customers were within the scope of the EMA quality requirements. 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 2019, Elenia Networks has continued network investments according to its long-term investment plan. The network investments at Elenia Networks in the first half of 2019 were €85.7 million (€81.0 million in the first half of 2018). The capital expenditure budget for the distribution network in 2019 is approximately €145 million.

d. IT Projects

Elenia has continued to develop its IT systems in co-operation with its partner service providers. In order to meet the business objectives and secure the continuity, Elenia has started an Information Security Management System ("ISMS") project. The ISMS framework will be certified according to the ISO/IEC 27001:2013 standard.

e. Health, Safety and Environment

During the first half of 2019, Elenia published the Sustainability Report for the first time. Elenia also participated in the GRESB Infrastructure Assessment focusing on environmental, social and governance performance. The 2019 results from the assessment are expected to be released in September.

There were five recorded work-related accidents for Elenia's external contractor personnel in the first half of 2019. 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 530 quality and safety inspections and 54 safety walks (i.e. safety reviews) at its construction sites in the first half of 2019. Elenia Heat completed 40 safety walks during the same period.

Elenia Networks started a project called Safely Back Home in 2018 with its contracting partners to strengthen safety culture and to develop common safety practices. In January 2019, Elenia Networks signed the Safety Manifesto with its main contractors, aiming to show that they are jointly committed to safety work and that everyone is entitled to return home healthy after work.

There was one recorded environmental incident in 2018 at Elenia Heat Vuohkallio district heating plant when some 30,000 litres of light oil leaked due to technical error. The soil contaminated by oil needs to be removed from the neighbouring area and the costs associated with the oil leak were approximately €0.7 million by 22 July 2019 when the disposal of the heating business was completed.

f. Elenia Heat

Elenia Heat continued to provide a highly reliable source of heating in the first half of 2019. There were no major interruptions in heat or gas delivery and the reliability of supply to customers was above the industry average.

Due to warm weather and the corresponding impact on heat volumes sold, Elenia Heat's revenue decreased by 5.8% compared to the first half of 2018.

Elenia Heat's EBITDA was 2.8% lower during the first half of 2019 compared to the first half of 2018. This was driven by lower volumes.

The percentage of biofuels in Elenia Heat's heat generation was 67% and the share of domestically sourced fuels (biofuel and peat) was 90%. Elenia Heat's carbon dioxide emissions are approximately 70% of the average Finnish district heating company.

Elenia Heat invested €7.4 million in maintaining its network and heat generation assets in the first half of 2019.

g. Elenia Services

Elenia Services provides customer services to Elenia Group as well as other Finnish utilities for electricity distribution, district heating, natural gas and electricity sales businesses. Its services include invoicing, collection, connection sales and electricity market information exchange services.

In May 2019, Elenia Services entered into a customer service agreement with Suur-Savon Sähkö and Etelä-Savon Energia and opened a new office in the city of Mikkeli.

In May 2019, Elenia Services closed down the Jyväskylä office to streamline the operations as the services will be provided from the headquarter in Tampere. The cooperation with Jyväskylän Energia will continue in accordance with the service agreement.

3. Changes to the Board of Directors

There have been no changes to the Board of Directors of Elenia Networks, Elenia Services, Elenia Finance Oyj, 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.

There have been no changes to the composition of Elenia Heat's Board of Directors prior to the disposal of the heating business.

4. Financing and Hedging Position

There were no issuances during the reporting period (€161 million of issued bonds under the EMTN programme in the first half of 2018).

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 2019, the Facilities were extended for second time by one year in accordance with the Facilities Agreement. As at 30 June 2019, altogether €153 million of the Facilities was drawn.

The Hedging Ratio was 98.5% as at 30 June 2019 and Elenia was in compliance with the Hedging Policy.

5. Acquisitions or Disposals

In July 2019, the sale of the district heating business, Elenia Heat, to international infrastructure investors was completed.

6. Restricted Payment

The amount of Restricted Payments made since the date of the previous Investor Report is €366.2 million.

7. Recent Development

In July 2019, Elenia announced an increase of 9.9% on pre-tax basis (approximately 6.5% on post-tax basis) to the distribution tariffs from the beginning of September. The increase is driven by investments in modernising the network to meet the future requirements.

In July 2019, Standard & Poor's ("S&P") revised the outlook to positive from stable on Elenia's senior secured debt. This is because, following the disposal of the heating business, 100% of the earnings will be derived from fully regulated power distribution activities according to S&P.

8. Ratios

In respect of this investor report dated 30 August 2019 covering the 6-month period ending 30 June 2019, 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 2019	$\text{€}196.7\text{m} / \text{€}50.5\text{m} = 3.89$
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30 June 2020	$\text{€}201.6\text{m} / \text{€}50.8\text{m} = 3.97$
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The Leverage Ratio (Total Net Debt / EBITDA) in respect of the Relevant Periods are:

30 June 2019	$\text{€}1\,835.1\text{m} / \text{€}203.5\text{m} = 9.02$
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30 June 2020	$\text{€}1\,827.5\text{m} / \text{€}209.1\text{m} = 8.74$
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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 2019:

- (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