



ELENIA

## Annual Investor Update

DECEMBER 2019 - TAMPERE

## PRESENTERS



Tapani Lihala  
**CEO**

Jorma Myllymäki  
**COO**

Tommi Valento  
**CFO**

# AGENDA

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## Business & Regulatory Update

- ✧ Business performance for the first half of 2019 was in line with expectations
- ✧ Disposal of the heating business was completed in July
- ✧ Regulatory methods, which are supportive for Elenia, will remain the same in the fifth regulatory period

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## Reorganisation & Financing Update

- ✧ Elenia signed credit facilities with the syndicate of Nordic and international banks in 2017 and extended them for second time by one year in June 2019
- ✧ Elenia solicited consent from the creditors to approve a STID proposal relating to the reorganisation of the Elenia Group along with certain changes to the finance documents
- ✧ Together with the creditor consent process a tender offer on Elenia's € 500 million benchmark bond was launched in November

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## BUSINESS & REGULATORY UPDATE

# ELENIA NETWORKS H1 2019 BUSINESS UPDATE

- ✦ For the first half of 2019, Elenia Networks' revenue and EBITDA increased 7.0% and 3.1% (y-o-y) respectively. The key driver for the increase in revenue:
  - ✦ An increase in distribution tariffs by 9.9%<sup>1</sup> in August 2018
- ✦ Electricity distribution volumes decreased 2.1% (y-o-y) due to reasonably mild weather compared to the previous year
- ✦ Winter storms and exceptional weather events during the first half of 2019
  - ✦ In January, the Apeli 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.
  - ✦ Heavy snow loads in trees after the Apeli storm 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 roughly €4.8 million.
- ✦ Elenia successfully continued its capex programme to replace overhead lines with underground cables
  - ✦ On a weighted average basis across medium and low voltage lines, 46.8% of the network is now underground (42.4% H1 2018) reducing outages and improving security of supply to customers

Elenia Networks (€m) <sup>2</sup>	H1 2018	H1 2019	Y-o-Y Change	FY2018
Volume (GWh)	3442.2	3369.6	-2.1 %	6439.8
Total Revenue <sup>3</sup>	138.5	148.3	7.0 %	273.2
EBITDA	86.9	89.6	3.1 %	169.0
Capex <sup>4</sup>	81.0	85.7	5.7%	146.4
<i>EBITDA margin</i>	62.7%	60.4%		61.9%

<sup>1</sup> The tariff increase was approximately 6% on post-tax basis

<sup>2</sup> Figures are prepared according to IFRS

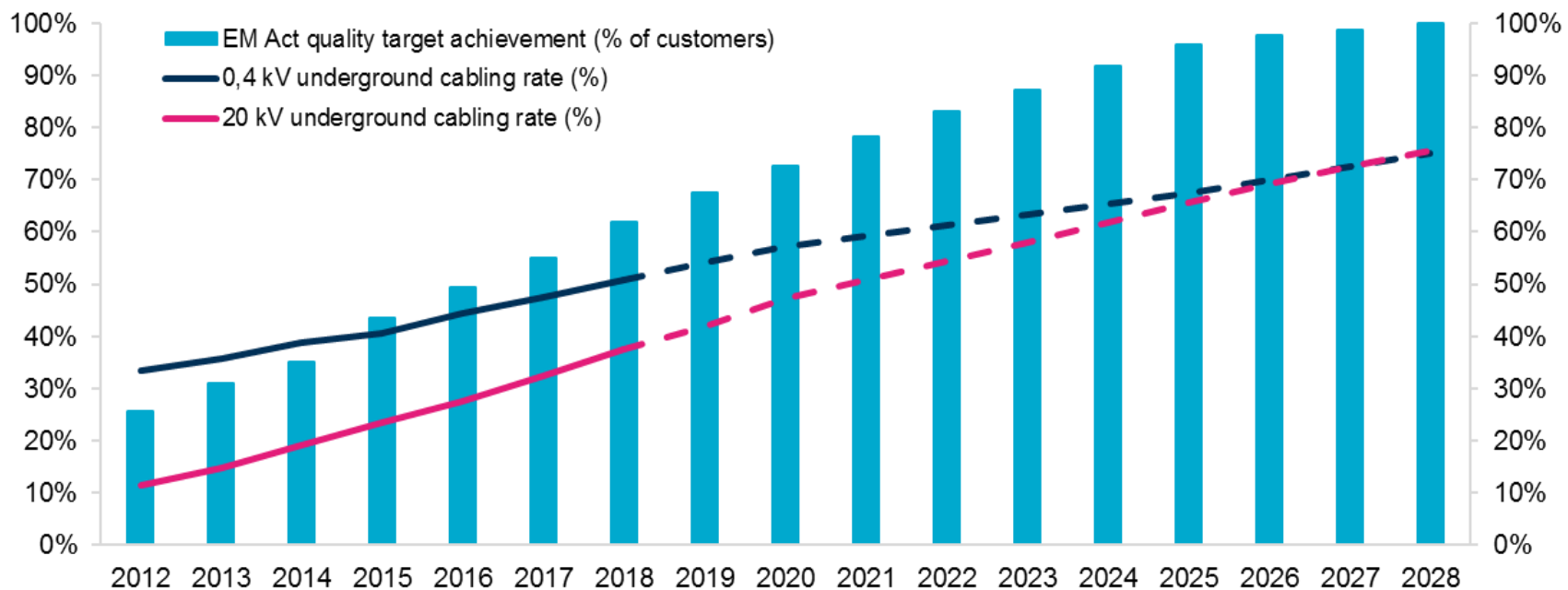
<sup>3</sup> Including Other Operating Income and intra-group items

<sup>4</sup> Regulatory asset value accretive capex

# NETWORK DEVELOPMENT PLAN

- ✦ Elenia submitted its electricity network development plan to the Energy Authority (EA) in June 2018
- ✦ The plan includes measures for fulfilling the Electricity Market Act's (EMA) quality requirements during the transition period
  - ✦ In zoned areas, power needs to be restored within 6 hours, and in other areas, within 36 hours
  - ✦ The quality requirements apply to 50% of customers by 2019, 75% of customers by 2023 and 100% of customers by the end of 2028
  - ✦ As at 30 June, 63.9% of the customers were within the scope of the requirements
- ✦ The next development plan will be submitted in June 2020

## ELENIA'S CUSTOMERS WITHIN THE SCOPE OF QUALITY REQUIREMENTS AND UNDERGROUND CABLING RATES IN 2012–2028



## REGULATORY UPDATE

- ✧ The current year is the last year of the fourth regulatory period
- ✧ The regulatory methods will remain the same in the fifth regulatory period (2020-2023)
- ✧ However, some of the parameters will be updated:
  - ✧ Debt risk premium will decrease to 1.26% from the current level of 1.40%
  - ✧ The reference level of Quality Incentive will be updated from the current level based on 2008 - 2015 outages to the revised level based on outages between 2012 and 2019
  - ✧ The reference level of Efficiency Incentive will also be updated as the EA has requested distribution system operators (DSOs) to submit their operative parameters such as network length, volumes, number of customers, number of network connections, RV, controllable operating expenses and regulatory outage costs for 2012-2018
- ✧ The WACC for 2020 has been confirmed by the EA to be 5.73%
- ✧ The EMA restricts DSOs from increasing their electricity distribution tariffs by more than an aggregate 15% (on tariffs after taxes) over any rolling 12-month period. A government bill aiming to lower the cap is expected to become effective in Q1/2020
- ✧ Similarly, a government bill aiming to prolong the offsetting period of regulatory deficit from four to eight years is expected to become effective in Q1/2020

## ELENIA SERVICES

- ✦ Elenia Services provides customer service 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, 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, Elenia Services closed down the Jyväskylä office to streamline the operations as the services are provided from the headquarter in Tampere



## RECENT DEVELOPMENT

- ✦ Disposal of the heating business
  - ✦ In July, the sale of Elenia Heat to international infrastructure investors was completed
  
- ✦ Standard & Poor's positive outlook on Elenia followed by rating upgrade
  - ✦ Following the disposal virtually all earnings will be derived from fully regulated power distribution
  
- ✦ Excellent scores in GRESB Infrastructure Assessment 2019
  - ✦ The assessment looks at the environmental, social and governance performance of a company
  - ✦ Elenia placed fifth in the total world-wide results among 393 infrastructure companies
  - ✦ In the Electricity Distribution Network Sector, Elenia placed globally first out of seven companies
  
- ✦ Tariff Increase
  - ✦ Elenia Networks increased its distribution tariffs on average by 9% in September 2019
  - ✦ The increase is driven by the network investments to meet current and future requirements

# CONSOLIDATED FINANCIAL PERFORMANCE

€m <sup>1</sup>	H1 2018	H1 2019	Y-o-Y Change	FY2018
Networks Revenue <sup>2</sup>	138.5	148.3	7.0%	273.2
Heat Revenue <sup>2</sup>	45.0	42.3	-6.0%	78.5
<b>Consolidated Revenue<sup>3</sup></b>	<b>184.1</b>	<b>191.8</b>	<b>4.2%</b>	<b>353.7</b>
Networks EBITDA	86.9	89.6	3.1%	169.0
Heat EBITDA	14.7	14.2	-3.0%	25.2
Other EBITDA <sup>4</sup>	0.2	0.4		0.3
Non-recurring and exceptional items	0.3	4.8		1.6
<b>Consolidated EBITDA<sup>5</sup></b>	<b>102.0</b>	<b>109.0</b>	<b>6.8%</b>	<b>196.0</b>
<i>Consolidated EBITDA margin</i>	<i>55.4%</i>	<i>56.8%</i>		<i>55.4%</i>
<b>Consolidated Capex</b>	<b>85.3</b>	<b>95.3</b>	<b>11.7%</b>	<b>160.2</b>
<b>Net Debt</b>	<b>1492.9</b>	<b>1835.1</b>	<b>22.9%</b>	<b>1742.4</b>

<sup>1</sup> Figures are prepared according to IFRS

<sup>2</sup> Including intra-group items

<sup>3</sup> Excluding intra-group items

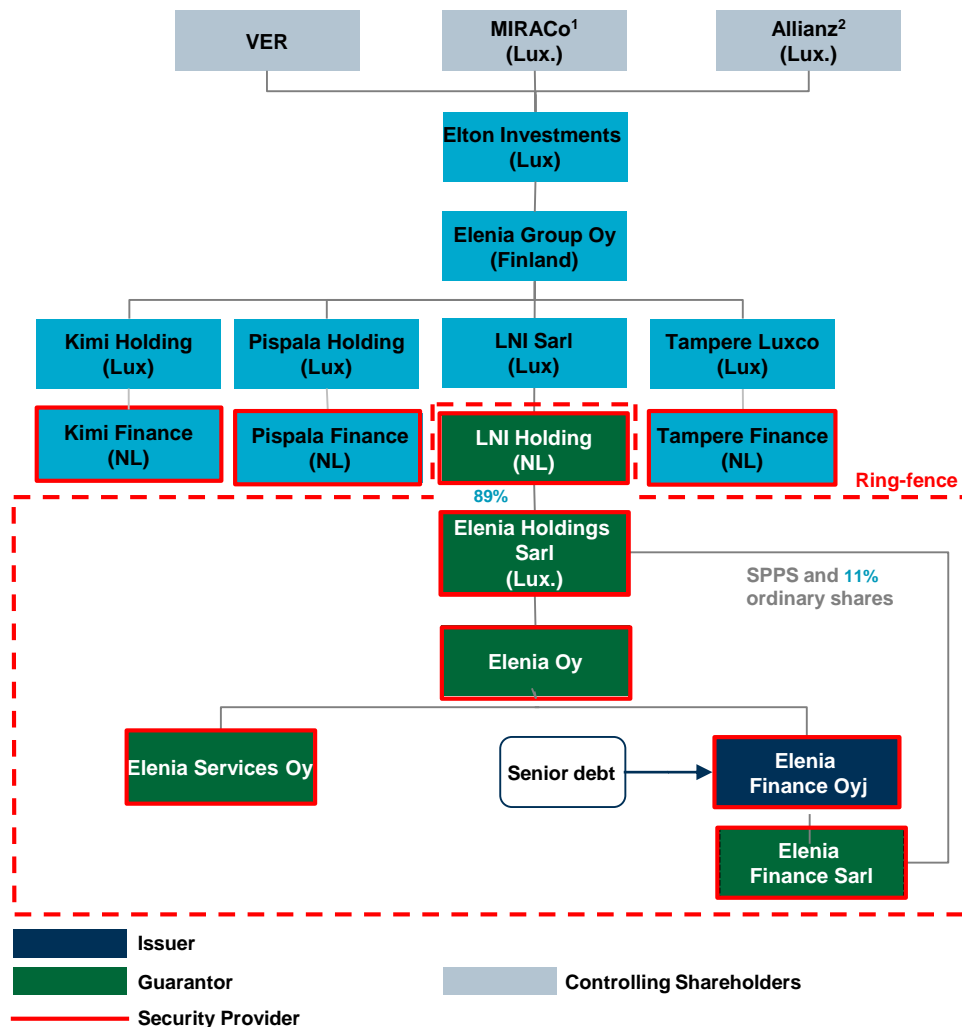
<sup>4</sup> Including Elenia Services, Elenia Finance, common services and street lighting

<sup>5</sup> Excluding non-recurring and exceptional items

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## REORGANISATION & FINANCING UPDATE

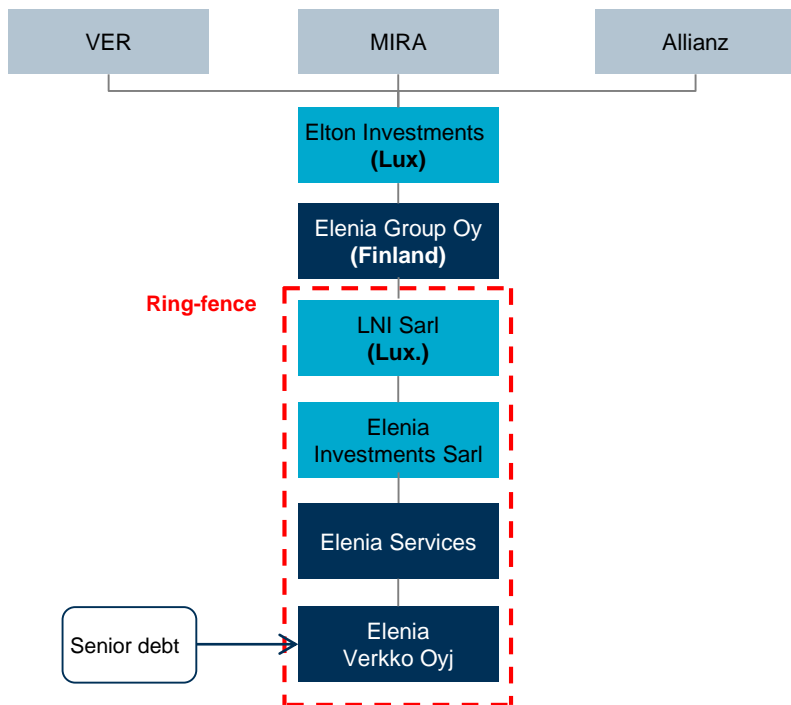
# CURRENT ELENIA GROUP STRUCTURE



- ✘ Current structure is complex and numerous holding companies are no longer needed as the shareholder loans have been repaid
- ✘ S&P has changed its rating criteria in 2016 making a separate issuer company unnecessary
- ✘ The objectives of the reorganisation are to:
  - ✘ Make the structure more simplified and transparent
  - ✘ Reduce costs and admin work related to the numerous companies
  - ✘ Cure Elenia Oy's negative equity
  - ✘ Place the network assets and liabilities in the same company enabling simpler and more reliable debt service and reducing structural inefficiencies
- ✘ The estimated cumulative cash flow impact is € 100 million over ten-year period compared to the current structure

(1) Macquarie Infrastructure and Real Assets (MIRA), including MSCIF, a MIRA managed fund, and other MIRA managed equity  
 (2) Includes both Allianz subsidiaries and investment vehicles managed by Allianz Capital Partners

# TARGETED ELENIA GROUP STRUCTURE



Note: Elenia Services to be renamed Elenia Oy; LNI Sarl to be renamed Elenia Holdings Sarl

- Controlling Shareholders
- Finnish entities
- Luxembourg entities

- ✦ On 4 November, Elenia published a stock exchange release launching a tender offer for the € 500 million benchmark bond and to concurrently solicit a consent from the creditors to reorganise the group structure
- ✦ The proposed structure will fulfil all the main objectives of Elenia and its shareholders while having no adverse rating impact and maintaining or improving the secured creditor position
- ✦ Elenia Verkko Oyj will be the main operating company of the Group as well as the issuer of bonds and notes

## Other Technical Changes to Documents

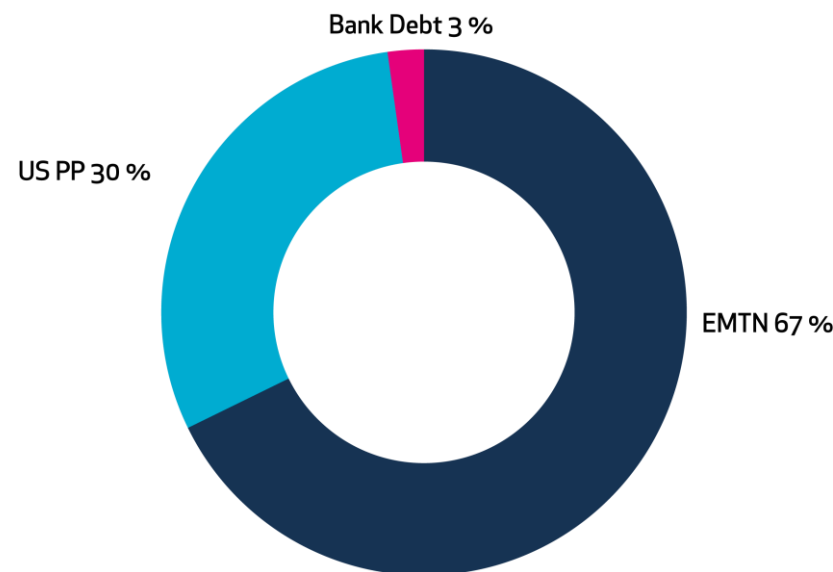
- ✦ Debt maturity concentration limit to be aligned with S&P's current criteria
- ✦ Inclusion of incurrence caps for existing group entities to invest in non-core businesses
- ✦ For purposes of covenant calculations, EBITDA from acquisitions to be included on a pro-forma 12-month rolling basis
- ✦ Companies within the ring-fence allowed to open bank accounts in more than one bank

# ELENIA'S CURRENT FINANCING POSITION

## FINANCIAL POSITION

- ✘ Elenia Finance Oyj has € 3 billion multicurrency bond programme listed at the London Stock Exchange
- ✘ Elenia has € 1,171 million of bonds outstanding under the EMTN programme and € 518.5 million of US PPs bringing the total issuances to € 1,689.5 million
- ✘ Elenia has committed credit facilities totaling €470 million with a syndicate of domestic and international banks:
  - ✘ € 350 million Capex Facility
  - ✘ € 60 million Working Capital Facility
  - ✘ € 60 million Liquidity Facility
- ✘ In June 2019, the Facilities were extended for the second time by one year
- ✘ Elenia signed a credit facility of € 150 million with the European Investment Bank at the end of 2018 of which € 50 million have now been drawn

## SOURCES OF FINANCING (15 NOV 2019)



*Note: Elenia has agreed to buy back the tendered notes under the EMTN programme worth of approximately € 411 million on 5 December 2019*

# RECENT ACTIVITIES

## LIABILITY MANAGEMENT

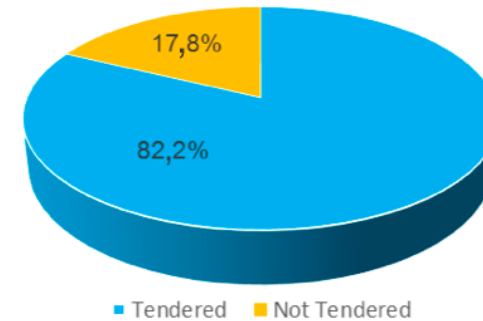
- ✦ In November Elenia conducted a cash tender offer on € 500 million benchmark bond maturing in December 2020
- ✦ The purpose of the tender offer was to deleverage using the proceeds from the sale of Elenia Heat
- ✦ Simultaneously Elenia solicited consent from the creditors to approve a STID proposal relating to the reorganisation of the Elenia Group
- ✦ Public bondholders participating in the tender offer automatically voted to support the STID proposal
- ✦ Validly tendered notes approximately € 411 million

## STID PROPOSAL

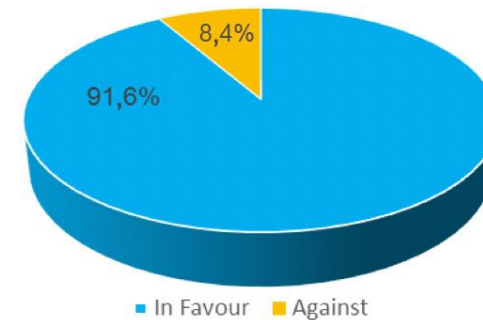
- ✦ Approximately 95 % of Secured Creditors (by value) voted
- ✦ Almost 92 % of the Voted Qualifying Debt in favour of the STID Proposal
- ✦ Extraordinary STID Resolution proposed by the STID Proposal was duly passed

## RESULTS OF THE TENDER AND STID PROPOSAL

- ✦ The share of tendered notes on 13 November



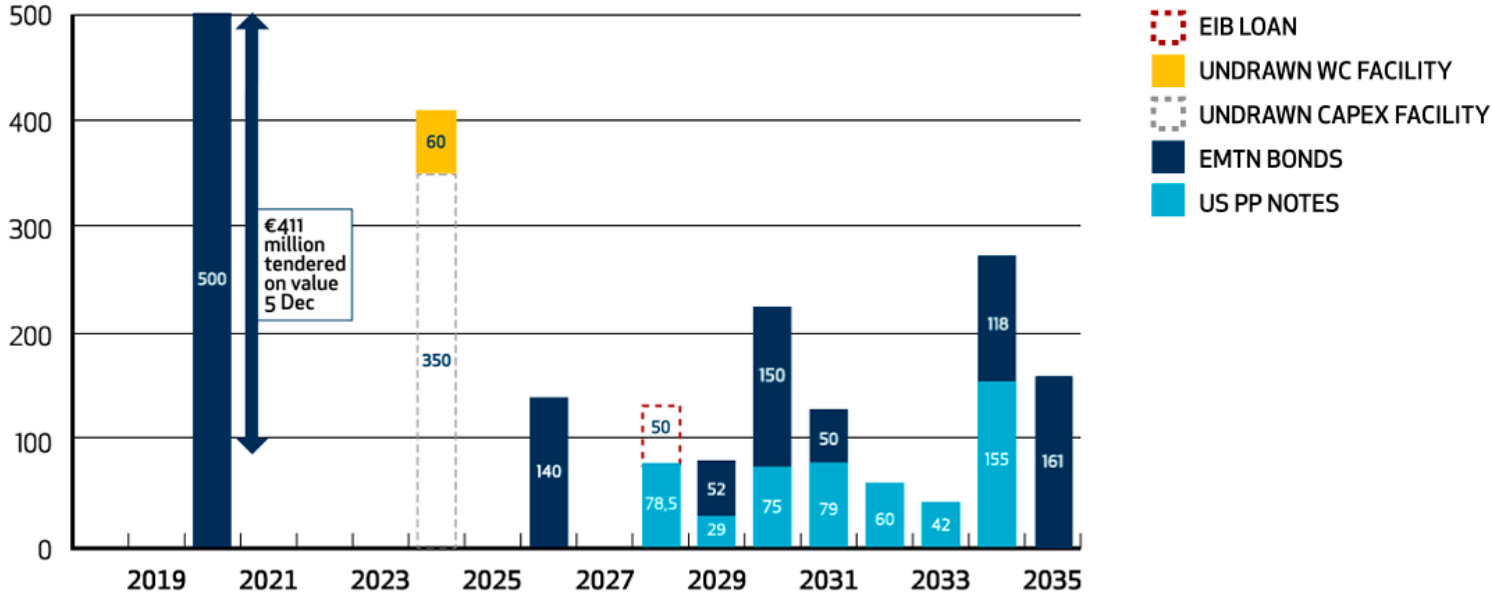
- ✦ The result of STID proposal on 29 November



# FUNDING BASED ON LONG-DATED BONDS

- ✦ The weighted average interest rate on Elenia's outstanding debt is approximately 2.8%
- ✦ Elenia's weighted average maturity has increased from 7.3<sup>1</sup> years in December 2013 to 8.7<sup>1</sup> years in November 2019
- ✦ As at 15 November, the hedging ratio was 95.7% and Elenia was in compliance with the Hedging Policy
- ✦ No major maturities in the nearest future as the majority of the benchmark bond has been bought back recently

## Maturity Profile (15 November 2019)



<sup>1</sup> Excluding undrawn facilities and finance leases



# FINANCIAL RATIOS AND COVENANTS

	Trigger Event <sup>1</sup>	Event of Default <sup>1</sup>	H1 2018	H2 2018	H1 2019	H1 2020 E <sup>2</sup>
<b>Interest Coverage Ratio</b>	<b>1.46x</b>	<b>0.96x</b>	<b>4.28x</b>	<b>4.05x</b>	<b>3.89x</b>	<b>3.97x</b>
<i>Headroom</i>			346%	322%	305%	314%
<b>Leverage Ratio</b>	<b>10.18x</b>	<b>11.33x</b>	<b>7.63x</b>	<b>8.87x</b>	<b>9.02x</b>	<b>8.74x</b>
<i>Headroom</i>			33%	22%	20%	23%

**Elenia retains adequate headroom to both ICR and leverage ratio covenants on a historical and forward looking basis**

<sup>1</sup> Ratio adjustment period ending 31 December 2027

<sup>2</sup> Values are based on Elenia's latest compliance certificate

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