



# **Elenia Group INVESTOR REPORT H1 2022**



ELENIA

# INVESTOR REPORT

For the six months ended 30 June 2022

## Elenia Group

This investor report provides information on the Elenia Group's ("Elenia") business in the first half of 2022, 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 from time to time ("CTA").

## 1. Overview

Elenia continued its operations in the first half of 2022 without interruptions. The security environment has changed fundamentally in Europe following Russia's aggression on Ukraine and Elenia is monitoring the impacts of the war and preparing to secure continuity of operations and services by identifying various threats related to cyber security and material procurement.

During the reporting period, Elenia's electricity distribution business ("Elenia Verkko Oyj") continued the roll-out of its long-term investment plan which is designed to improve the security of supply. Elenia's network investments were €79.8 million in the first half of 2022 (€162.0 million on a rolling 12-month basis) and the underground cabling rate increased as planned to 60.6%.

Elenia also continued to develop its fiber business in accordance with the business plan.

In the first half of 2022, Elenia's revenue and EBITDA<sup>1</sup> decreased by 0.5% and 0.3% respectively compared to the first half of 2021. The development was mainly due to the cold weather during the first half of 2021.

The key financial performance indicators for the first half of 2022 are shown in the table below. Further information is available at [www.elenia.fi/en/investors](http://www.elenia.fi/en/investors).

| Key Financial Performance Indicators (€m) | H1 2021 | H1 2022 | Change (%) |
|---|---------|---------|------------|
| Revenue                                   | 169.2   | 168.4   | -0.5%      |
| EBITDA <sup>1</sup>                       | 112.7   | 112.4   | -0.3%      |
| EBITDA <sup>1</sup> Margin                | 66.6%   | 66.7%   |            |

<sup>1</sup> Excluding exceptional and non-recurring items. The exceptional and non-recurring items include €0.2 million expenses related to legal costs due to regulatory changes and €0.2 million costs from network losses. Exceptional and non-recurring network losses are determined as costs from network losses exceeding 60 €/MWh on a monthly basis. As per June 2021, the maximum monthly average electricity price in Finland during the previous 10-year period was 57 €/MWh. Due to existing hedging contracts, Elenia is expected to procure electricity at a price lower than the prevailing market price in the short-term. However, Elenia expects the exceptional costs from the network losses to increase significantly in 2022 and 2023. As per the current regulatory framework, network losses are pass-through items that can be passed on to customers through network tariffs in the long run.



## 2. Business Update

### a. Storms and Exceptional Weather Events

There were no major power disruptions during the reporting period. In March, the Manu storm caused outages in certain areas of Elenia's distribution network served by overhead lines. The maximum number of customers simultaneously without electricity was approximately 9,000. All connections were restored in less than 26 hours. The storm was classified as a class 2 power disruption with SAIFI<sup>2</sup> impact of 0.16.

SAIFI describes the number of outages that have occurred in the network during the exceptional weather event in relation to the total number of customers and is a more accurate way to measure consequences of exceptional weather events than the maximum number of customers without electricity. The figure takes also into account the duration of the event, which is a major factor for instance in long lasting snow loads in the wintertime. The most severe class 4 events are classified to have a SAIFI impact of at least 0.50, meaning on average one outage for every second customer (though in practise one customer may experience several outages).

### b. Regulation

The Energy Authority ("EA") amended the regulatory methods as a result of the legislative amendment to the Electricity Market Act ("EMA") by the Parliament in August 2021. The most significant changes included an update to the unit prices underlying the regulatory asset base ("RAB") and changing the calculation of the risk-free rate. The amended methods are applied for 2022-2023. The EA will publish next year the regulatory methods for the sixth and the seventh regulatory periods commencing in 2024 and 2028, respectively.

Elenia has sought repeal from the Market Court against the decisions of the EA. Changes in the middle of the regulatory period are contrary to good governance, the principle of legal certainty and the protection of property. The changes erode the confidence of distribution system operators ("DSOs") and their stakeholders in the credibility and the continuity of regulation.

The EA has published selected regulatory key figures of Finnish DSOs for the fifth regulatory period starting in 2020. Elenia Verkko Oyj's RAB<sup>3</sup> was €2,093.9 million at the end of 2020. Following the regulatory changes, the unit prices used for determining the RAB were updated resulting in the regulatory asset value for Finnish DSOs to decrease on average by 15% at the beginning of 2022.

### c. Investments

Elenia was the first DSO in Europe to incorporate hourly electricity consumption monitoring into digital services and is now replacing 400,000 smart electricity meters with next-generation meters. The project is scheduled to last until the end of 2025 and so far some 16% have been installed. An increasing share of electricity is being produced from wind and solar energy meaning that changes in weather will also affect the volume of electricity production. As consumption of electricity as well as the need to balance production and consumption is increasing, new state-of-the-art technology solutions for electricity networks and electricity metering systems are required.

DSOs are required to submit network development plans to the EA. Following the amendment to the EMA the guidelines for the network development plan include now, among other things, the requirement to consult the customers prior to publication. Elenia created an industry leading digital map service for

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<sup>2</sup> System Average Interruption Frequency Index

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

the purpose, where customers can visually see the connection to the home from the primary substation and information on how the security of supply of their own connection is being improved during the coming years. Additionally, Elenia also gathered feedback from customers through the service and almost all of the customers consider the 36-hour security of supply requirement to be insufficient and the deadline of 2036 to be too distant. Majority considered that 12 hours is the maximum acceptable outage length. The network development plan sets out Elenia's strategic choices and measures to enable changes in the energy system brought along by the green transition, such as the integration of carbon-free energy production and consumption in the electricity system at different voltage levels. The plan details additionally actions that cost-efficiently improve the reliability and security of supply of the distribution network.

According to the network development plan Elenia's capex to replace aging overhead lines and improve the security of supply exceeds €1,500 million by 2036. Additionally, green transition related capex including, for example, the deployment of smart meters and increasing network capacity to enable connection of wind power, are expected to amount to approximately €500 million by 2031. The network investments in the first half of 2022 were €79.8 million. However, due to the changes in regulatory methods Elenia has cut planned network investments by approximately €100 million in 2022 and 2023 in aggregate.

The EMA states that the quality requirements should apply to 100% of customers by the end of 2036 and accordingly power needs to be restored within six hours in zoned areas, and within 36 hours in other areas. Approximately 79% of Elenia's customers are currently within the scope of the quality requirements.

#### **d. Continuity of Operations**

Elenia continued to further develop its asset management system according to the PAS55-1:2008 standard and the international standard ISO 55001:2014. Lloyd's Register Quality Assurance conducted the surveillance visit in May to assess Elenia's asset management system. During the assessment, Elenia demonstrated that it has in place asset management processes, systems and plans which have been implemented throughout the organization and external partners and continue to be in line with the relevant standards.

Similarly, the surveillance visit of the ISO/IEC 27001, a certified information security management system, was passed successfully. Co-operation between the National Cyber Security Centre of Finland, the national transmission system operator Fingrid and other key players in the Finnish electricity distribution area has been systematically increased in order to strengthen the situational awareness and enable faster reactions to possible cyber security threats. Due to the geopolitical situation, cyber security in all businesses operating within critical infrastructure is extremely important.

#### **e. Safety, Health and Sustainability**

Elenia's sustainability programme and its targets apply to everyone at Elenia. The sustainability program is aligned with the UN's Sustainable Development Goals and there are six selected goals that are linked to Elenia's operations. For each of the goals, the company has set specific targets and the related KPIs are followed monthly.

The fourth Sustainability Report prepared in accordance with the Global Reporting Initiative standards was published in April 2022. The reporting takes into account the requirements of the Sustainability Accounting Standards Board (SASB) and it also includes a Task Force on Climate-related Financial Disclosures (TCFD) report facilitating the assessment of the impacts of climate-related risks and opportunities on the business, strategy and financial decision-making.

Elenia has been approved for the Science Based Targets initiative climate target. As part of an ambitious future-oriented sustainability vision Elenia focuses on its own operations to reach carbon-neutrality.

Elenia is committed to reduce absolute greenhouse gas Scope 1 and 2 emissions 42% by 2030 in accordance with the Paris Climate Agreement. Additionally, Elenia is committed to setting Net Zero targets that cover also the emissions from the entire value chain (Scope 1, 2 and 3). The Net Zero targets must be met by 2050 meaning a reduction of approximately 90% in emissions for the carbon footprint.

The EU taxonomy is a classification system establishing a list of environmentally sustainable activities. Approximately 97 % of Elenia's revenue, 96 % of capex and 76 % of operating expenses are taxonomy eligible. When assessing the alignment of Elenia's EU taxonomy eligible activities, it can be noted that Elenia's taxonomy eligible revenue, capex and operating expenses are in line with the criteria for climate change mitigation.

Elenia has in place the Safety Manifesto with its main contractors, indicating that they are jointly committed to safety and that everyone is entitled to return home healthy after work. This is monitored on the highest level and all accidents are reported to the Board. 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. Approximately 470 quality and safety inspections and 56 safety walks (i.e. safety reviews) were conducted by Elenia staff at the construction sites during the first half of 2022.

During the reporting period Elenia also participated in the GRESB Infrastructure Assessment focusing on environmental, social and governance performance. The 2022 results from the assessment are expected to be released in October.

### **3. Changes to the Board of Directors**

There have been no changes in the compositions of the Board of Directors during the reporting period.

### **4. Financing and Hedging Position**

There were no issuances during the reporting period.

As at 30 June 2022, the Facilities consisting of €350 million Capex Facility, €60 million Working Capital Facility and €60 million Liquidity Facility were undrawn. The €100 million loan signed with the European Investment Bank in 2020 was also undrawn.

In January, S&P Global Ratings ("S&P") downgraded the BBB+ issue rating of Elenia Verkko Oyj by one notch to BBB. According to S&P the regulatory environment for DSOs in Finland had weakened as a result of the changes to the framework in the middle of the regulatory period. The change in rating was driven solely by the mid-period regulatory amendments and not actual or expected changes in Elenia's financial metrics.

The Hedging Ratio was 90.5% as at 30 June 2022 and Elenia was in compliance with the Hedging Policy.

### **5. Acquisitions or Disposals**

There were no material acquisitions or disposals in the reporting period.

## 6. Restricted Payment

The amount of Restricted Payments made since the date of the previous Investor Report is €6.6 million.

## 7. Recent Development

On 15 July 2022, Thomas Metzger ceased to be a member of the board of directors of Elenia Holdings S.à r.l. and was replaced by Gabriele Duesberg.

On 22 July 2022, Thomas Metzger ceased to be a member of the board of directors of Elenia Investments S.à r.l. and was replaced by Gabriele Duesberg.

In mid-August, thunderstorms 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 10,000. In Finland, approximately 34,000 lightnings were registered in one day which is a new record in the 21st century.

## 8. Ratios

In respect of this investor report dated 15 September 2022 covering the 6-month period ending 30 June 2022, 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 2022 | $\text{€}209.2\text{m} / \text{€}38.1\text{m} = 5.48$ |
|--------------|---|

|              |   |
|--------------|---|
| 30 June 2023 | $\text{€}191.5\text{m} / \text{€}38.6\text{m} = 4.96$ |
|--------------|---|

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

|              |   |
|--------------|---|
| 30 June 2022 | $\text{€}1\,747.1\text{m} / \text{€}215.5\text{m} = 8.11$ |
|--------------|---|

|              |   |
|--------------|---|
| 30 June 2023 | $\text{€}1\,782.1\text{m} / \text{€}196.7\text{m} = 9.06$ |
|--------------|---|

(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 2022:

- (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 Verkko Oyj as Security Group Agent