

Interim Report of Caruna Group

January 1 to June 30, 2017





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Caruna continued to invest into weatherproof networks to improve the reliability of supply

Summary 1 January -30 June 2017 (1 January -30 June 2016)

- + Operating profit (EBIT) EUR 82.6 (54.2) million
- + Investments EUR 135.9 (99.2) million
- + Cash flow after investments EUR -68.0 (-27.1) million
- + Customer base 669 (659) thousand
- + Small-scale production of solar and wind power connected to the network area 1,736 (752) production units
- + Average duration of power supply interruptions per customer 99 (96) minutes

Key events during the reporting period

During the first half of 2017, Caruna continued to implement its programme aimed at improving the reliability of electricity distribution and invested EUR 114.7 million into its networks for this purpose.

The programme was launched in 2014 and it boosts the reliability of electricity distribution mainly by substituting overhead lines with underground cabling in areas particularly exposed to falling trees. It also increases network automation so that any faults can be isolated and power restored to undamaged parts of the network quickly.

These improvements ensure that by 2028 Caruna will meet the objectives for the security of supply, laid down in the amended Electricity Market Act, and will thus be able to restore the power to its customers within six hours in urban areas and within 36 hours in rural areas. This reporting period also saw the launch of new reliability improvement projects in Ranua, Pudasjärvi, Sastamala, Kuusamo, Lohja and Raasepori, for instance. Caruna initiated large-scale wood clearance work in their entire network area in the spring 2017.

In addition to these activities, Caruna continued to develop its key information systems over the first half of 2017. The new electricity network operating system, adopted at the beginning of February, allows Caruna to ensure more efficient fault detection. Development of different electronic service channels for customers is another area the company has been working on during this period. Together with its partners, Caruna addressed quality and safety-related matters by offering training and other events for contractors and subcontractors. The development of its practices, processes and risk management methods reached an important milestone when Caruna was awarded the ISO 55001 Certificate for electricity network asset management in June.

The temporary 25-per cent discount on fixed basic charges granted to customers ended at the beginning of March 2017, but otherwise distribution prices remained unchanged. The Electricity Market Act amendment, brought in 2016 as a consequence of price increases, was approved by the Parliament in June 2017. One of its key changes is a cap of 15 per cent set for increases of average taxable 12-month distribution prices.

Caruna Networks Oy took out two instalments of a new loan granted by the European Investment Bank, in March and May 2017, for a total amount of EUR 200 million. The purpose of this loan is to finance network improvement projects.

Tomi Yli-Kyyny started as the Caruna's new CEO on 1 May 2017.

Electricity distribution volumes remained unchanged from last year

Temperatures were approximately two degrees warmer than long-term averages from January to March, which resulted in lower electricity distribution volumes, similar to 2016. From April to June, however, the weather was colder than on average, but this did not lead to significant increases of electricity distribution volumes because these months are not within the heating period. The growth of Caruna’s customer base was only minimally visible in the volumes. These factors explain why the volume of electricity supplied during the reporting period remained unchanged, amounting to a total of 5.1 (5.1) TWh in the distribution network and 1.4 (1.4) TWh in the regional network.

Small-scale production and customer base continued to grow

Caruna’s customer base has grown steadily during the past years, reaching 669 (659) thousand customers by the end of the reporting period.

Each individual company’s customer numbers were as follows at the end of this period (thousand customers):

| Company | H1 2017 | 2016 | H1 2016 | 2015 |
|-----------------|---------|------|---------|------|
| Caruna Oy | 465 | 463 | 461 | 459 |
| Caruna Espoo Oy | 203 | 201 | 198 | 196 |

Customer satisfaction is measured on a monthly basis using the Net Promoter Score index. The coverage of the survey was extended at the beginning of 2017, by including groups such as customers who contacted Caruna’s customer services about connections and land-owners with maintenance and network improvement work on their land, for instance. The cumulative NPS score at the end of June 2017 was -2.2 per cent.

Small-scale production of various forms of renewable energy became more popular in Caruna’s network area: a total of 593 (337) new solar power systems and one (one) new wind power production unit were connected to Caruna’s electricity network between January and June. By the end of this period, the company’s small-scale production units connected exceeded 1,700.

Reliable supply of electricity

Caruna aims to secure supply of electricity to all customers and offers a 24/7 phone line for assistance in case of faults.

Caruna made investments into improving the reliability of supply in all its network areas during H1 of 2017. The amount of investments was higher than before; totalling EUR 135.9 (99.2) million in Caruna's network areas.

Renovation of medium voltage networks remained the company's main focus in network improvement projects. Caruna mainly substitutes overhead power lines with underground cabling, as these are safe from strong storms and heavy snowfall. Caruna also continued its structural and technical network improvements to speed up fault repairs.

A total of 2,579 km of small and medium voltage underground cable network was installed during the first half of the year, and by the end of that period, 43 per cent of the entire network was cabled. The number of customers covered by the weather-proof network was 559,000.

Caruna's network was spared any major damage caused by strong storms or heavy snowfall during the first half of 2017. The average duration of power supply interruptions per customer, or the System Average Interruption Duration Index (SAIDI), remained nearly the same as that of the previous year: 99 (96) minutes due to weather conditions and fault types. The reliability of electricity supply percentage at the end of June 2017 was 99.98 (99.98) per cent.

The most significant weather event that caused supply interruptions during this period was the Päiviö storm at the end of June, resulting in power interruptions particularly in the south and south-west of Finland. At the most, 26,000 customers experienced interruptions longer than 3 minutes, and the highest number of customers without any electricity supply at the same time was 10,600.

Operating profit grew compared to the same period last year

Caruna's net sales were EUR 217.5 (191.7) million, showing a growth of 25.8 million compared to last year's numbers, mainly because the temporary discount of 25 per cent from fixed basic charges ended in March 2017. Variable costs were EUR 47.1 (43.3) million, consisting of transmission charges and

grid loss electricity purchases. The growth of costs, EUR 3.8 million, is due to the increase in transmission charges in January 2017 and new reactive power charges introduced at the beginning of the year.

Operating costs were EUR 36.6 million during the first half of 2017, which is nearly the same as last year, EUR 37.2 million. Depreciation and amortisation came up to EUR 53.7 (59.6) million.

Consequently, Caruna's operating profit grew to EUR 82.6 (54.2) million. The following key figures outline Caruna's financial position and performance (EUR million):

| | H1 2017 | H1 2016 | 2016 |
|-------------------------------------|---------|---------|-------|
| Net sales | 217.5 | 191.7 | 384.0 |
| Operating profit | 82.6 | 54.2 | 119.4 |
| Operating profit, % of net sales | 38.0% | 28.3% | 31.1% |

Net financing costs during H1 2017 were EUR 64.4 (107.1) million. This amount includes shareholder loan interests, senior facility interests as well as related loan arrangement fees and ongoing fees. The significant drop in financing costs, EUR 42.7 million, from the same period last year is due to one-off costs associated with re-financing arrangements in 2016.

Caruna's profit before taxes for the reporting period was EUR 18.2 (-52.9) million. Consequently, the Group's equity improved from June 2016, but still remained negative. All legal companies belonging to Caruna group have positive equity and the companies can increase the equity when necessary.

Cash flow negative after major investments

The operating cash flow, EUR 62.1 (97.2) million, includes operating profit EUR 136.3 (113.8) million, as well as EUR 77.6 (38.4) million of interest expenses paid. The amount of net working capital released during the reporting period was EUR 8.7 (-24.8) million.

Net cash used in investing activities was EUR 138.8 (99.5) million; the growth is due to the network improvement programme and increased investments during the first half of 2017 compared to last year's corresponding period. Actual performance-based investments were EUR 135.9 (99.2) million.

Caruna's cash flow after investments was EUR -68.0 (-27.1) million.

Financial structure secures the completion of investments

In December 2016, Caruna Networks Oy signed a loan agreement of EUR 200 million with the European Investment Bank. The entire loan has been drawn during the reporting period and the maturity of the loan is ten years.

Caruna repaid investment loan for a total amount of EUR 170 million, while also reducing its investment loan facility from EUR 600 million to EUR 400 million.

During the reporting period, Caruna drew floating rate investment loan from the above facility for a total of EUR 30.0 (0.0) million, which matures in February 2021. Caruna's external loans amounted to EUR 2,160.7 (1,931.5) million at the end of the reporting period.

Caruna had a total of EUR 933.6 (1,040.3) million in fixed rate shareholder loans at the end of June, to be repaid on demand, but at the latest by February 2047. Interest on the shareholder loan is paid semi-annually.

Caruna's available committed credit facilities consist of a capex facility, EUR 370 million; revolving credit facility, EUR 60 million; bank overdraft, EUR 30 million; and liquidity facility, EUR 20 million.

Financing costs for the reporting period in the income statement were EUR 64.4 (107.1) million, and interest payables in the balance sheet at the time of reporting were EUR 34.7 (34.8) million.

Caruna complied with the covenant terms of all loan agreements during the reporting period.

Standard & Poor's assigned Caruna a long-term credit rating of BBB+ and a stable outlook.

Employees

The number of personnel was 283 (284) at the end of June 2017.

Corporate responsibility

Caruna's corporate responsibility is presented in greater detail in a separate corporate responsibility report published online at caruna.fi/en.

Financial risks

INTEREST RATE RISK

Changes in market rates affect Caruna's net interest expenses, as well as the fair value of interest-bearing receivables, liabilities and derivative financial instruments. The aim of hedging the interest rate risk exposure is to reduce the effect of changes in interest rates on the income statement, balance sheet and cash flow, while also considering the market value of the net debt position.

Caruna has hedged against interest rate risks by mainly having loans with fixed interest rates. In addition Caruna has used interest rate swap contracts to hedge floating interest rate loans.

EXCHANGE RATE RISK

Changes in exchange rates affect Caruna's net financing costs, as well as the fair value of interest-bearing liabilities and derivative financial instruments. The aim of hedging the exchange rate risk exposure is to reduce the effect of changes in exchange rates on the income statement, balance sheet and cash flow, while also considering the market value of the net debt position.

LIQUIDITY RISK

Caruna manages its liquidity risk by ensuring the flexibility and availability of financing with sufficient committed credit limits. Caruna uses several sources of financing and its liabilities have long-term maturities. Caruna has arranged committed credit limits and other credit facilities that it can use to balance liquidity.

CREDIT RISK

Caruna's financial policies determine the credit rating requirements of its customers, investment transactions and derivative counterparties, and provide a basis for its investment principles. A customer's supply or connection contract can include a deposit or advance payment to cover any contractual amounts that remain outstanding, thus providing security against possible credit losses.

The amount of credit losses in 2017 remained on the same level as those of previous years. Current receivable management procedures allow Caruna to control the accumulation of potential credit losses also in the future.

PRICE RISK

Caruna has hedged against price risks related to grid loss electricity purchases by means of electricity derivatives.

Most significant identified operational risks

EXCEPTIONAL WEATHER CONDITIONS

The most significant operational risks relate to exceptional weather conditions, such as strong storms, heavy snowfall and particularly severe frosts, which can affect the reliability of supply in transmission and distribution networks. The main measures Caruna can take to prevent disturbances are the creation of power line corridors and installation of networks underground, where they remain protected from trees bent or felled by wind and snow. Caruna also develops its network structures to allow faulty parts be isolated during a disturbance or interruption of electricity supply, which minimises the number of customers affected by it.

Careful prior planning enables adequate preparation, which is essential should any supply difficulty occur.

UNFAVOURABLE CHANGES IN REGULATORY ENVIRONMENT

In the long run, operational risks often emerge as a result of changes in regulations, but also, in the short term, from differing interpretations of regulations and decisions. The Finnish regulatory environment can be considered stable. The current regulation period commenced at the beginning of 2016, and it provides an 8-year perspective instead of a 4-year one.

SUPPLIER RISK

Caruna's suppliers may, due to liquidation or other reasons, become unable to deliver commissioned network projects and services, but Caruna's purchase model aims to ensure it has a favourable and sound position for competition in each of its network areas. A systematic management model for contractors and services allows Caruna to become aware of any contractor-specific problems promptly, thus making it possible to step in and take necessary corrective actions without delay.

Insurances

Caruna has taken out appropriate insurance policies that provide comprehensive cover for its operations.

Annual general meeting

Caruna Networks Oy's Annual general meeting was held on 2 March 2017. The AGM approved the financial statements for 2016, confirmed the consolidated income statement and balance sheet and discharged the members of the Board of Directors and the CEO from liability. The AGM elected Juha Laaksonen as the Chairman of the Board of Directors. Other elected members were Jouni Grönroos, Kenton Bradbury, John Cuccione, Gregor Kurth and Niall Mills, and deputy members Tomas Pedraza and Delphine Voeltzel.

No dividends decided to be paid.

Auditing

The interim report is unaudited.

Subsequent events after reporting period

The thunderstorm Kiira with its strong gusts and lightning caused some damage to Caruna's customers in Central and West Uusimaa in August. Approximately 20,000 customers suffered power interruptions simultaneously. The majority of all faults were repaired in less than six hours.

Caruna Networks Oy is the parent company of Caruna Networks Group. The parent company of Caruna Networks Oy is Suomi Power BV, with its domicile in The Netherlands. In addition to Caruna Networks Oy, Caruna Group includes Caruna Networks Sähkönsiirto Oy, Caruna Networks Espoo Oy, Caruna Oy and Caruna Espoo Oy. Caruna Networks Oy owns Caruna Networks Sähkönsiirto Oy and Caruna Networks Espoo Oy, which, in turn, own Caruna Oy and Caruna Espoo Oy.

Of all the companies in the Group, Caruna Oy and Caruna Espoo Oy run regional and distribution network operations in the electricity networks they own. They are two of the regional and distribution network operators referred to in the Electricity Market Act, within their areas of responsibility. Caruna Networks Oy, Caruna Networks Espoo Oy and Caruna Networks Sähkönsiirto Oy provide support services for the entire Caruna Group.

All numbers are consolidated figures at the Group level and reported according to IFRS.

Caruna Group

The figures of the interim report are unaudited.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS 1 JANUARY – 30 JUNE, 2017

| MEUR, cumulative | ACT Jan- Jun 2017 | ACT Jan- Jun 2016 | Change | ACT Jan- Dec 2016 |
|-----------------------------------|----------------------|----------------------|-------------|----------------------|
| NET SALES | 217.5 | 191.7 | 25.8 | 384.0 |
| Other operating income | 2.5 | 2.6 | -0.1 | 7.6 |
| Direct costs | -47.1 | -43.3 | -3.8 | -81.8 |
| Personnel expenses | -11.1 | -10.7 | -0.4 | -21.8 |
| Other operating expenses | -25.5 | -26.5 | 1.0 | -55.7 |
| Depreciation and amortisation | -53.7 | -59.6 | 5.9 | -112.9 |
| OPERATING PROFIT | 82.6 | 54.2 | 28.4 | 119.4 |
| Finance income | 3.2 | 0.9 | 2.3 | 4.3 |
| Finance costs | -67.6 | -108.0 | 40.4 | -177.2 |
| Profit/Loss before taxes | 18.2 | -52.9 | 71.1 | -53.5 |
| Income taxes | -16.5 | -14.1 | -2.4 | 21.9 |
| PROFIT/LOSS FOR THE PERIOD | 1.7 | -67.0 | 68.7 | -31.6 |

Caruna Group

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME 1 JANUARY – 30 JUNE, 2017

| MEUR, cumulative | ACT Jan- Jun 2017 | ACT Jan- Jun 2016 | ACT Jan- Dec 2016 |
|----------------------------------------------------------------------------------------------------------|----------------------|----------------------|----------------------|
| Profit/Loss for the period | 1.7 | -67.0 | -31.6 |
| Other comprehensive income: | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Net movement of cash flow hedges | 1.4 | 0.5 | -1.3 |
| Income tax effect | -0.3 | -0.1 | 0.3 |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods | 1.1 | 0.4 | -1.0 |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods: | | | |
| Reameasurement gains (losses) on defined benefit plans | 0.0 | 0.0 | 0.0 |
| Income tax effect | 0.0 | 0.0 | 0.0 |
| Net other comprehensive income not to be reclassified to profit or loss in subsequent periods | 0.0 | 0.0 | 0.0 |
| Other comprehensive income for the period, net of tax | 1.1 | 0.4 | -1.0 |
| Total comprehensive income for the period, net of tax | 2.8 | -66.6 | -32.6 |

Caruna Group

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| MEUR | ACT Jun 30, 2017 | ACT Jun 30, 2016 | ACT Dec 31, 2016 |
|---------------------------------------|---------------------|---------------------|---------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Goodwill | 62.5 | 62.5 | 62.5 |
| Intangible assets | 1,575.4 | 1,573.7 | 1,578.8 |
| Property, plant and equipment | 2,160.9 | 1,949.7 | 2,075.4 |
| Derivative financial assets | 0.4 | 1.1 | 0.7 |
| Other non-current assets | 0.0 | 0.5 | 0.5 |
| Deferred tax assets | 0.1 | 0.1 | 0.1 |
| Total non-current assets | 3,799.3 | 3,587.6 | 3,718.0 |
| Current assets | | | |
| Trade and other receivables | 90.2 | 79.4 | 117.4 |
| Derivative financial instruments | 0.6 | 1.0 | 1.2 |
| Cash and cash equivalents | 51.8 | 36.5 | 59.8 |
| Total current assets | 142.6 | 116.9 | 178.4 |
| Total assets | 3,941.9 | 3,704.5 | 3,896.4 |
| EQUITY | | | |
| Share capital | 0.0 | 0.0 | 0.0 |
| Invested distributable funds | 171.2 | 171.2 | 171.2 |
| Profit/Loss for the period | 1.7 | -67.0 | -31.6 |
| Retained earnings | -325.1 | -293.6 | -293.5 |
| Other equity fund | -1.4 | -1.0 | -2.5 |
| Total equity | -153.6 | -190.4 | -156.4 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Interest bearing loans and borrowings | 3,087.7 | 2,858.8 | 3,032.9 |
| Derivative financial instruments | 27.7 | 40.3 | 31.3 |
| Deferred tax liabilities | 548.9 | 564.2 | 539.8 |
| Provisions | 0.2 | 0.2 | 0.2 |
| Other non-current liabilities | 306.4 | 306.9 | 305.1 |
| Total non-current liabilities | 3,970.9 | 3,770.4 | 3,909.3 |
| Current liabilities | | | |
| Derivative financial instruments | 0.7 | 3.0 | 0.7 |
| Trade payables | 42.3 | 31.8 | 53.3 |
| Other current liabilities | 20.9 | 34.8 | 56.2 |
| Other payables | 60.7 | 54.9 | 33.3 |
| Total current liabilities | 124.6 | 124.5 | 143.5 |
| Total liabilities | 4,095.5 | 3,894.9 | 4,052.8 |
| Total equity and liabilities | 3,941.9 | 3,704.5 | 3,896.4 |

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

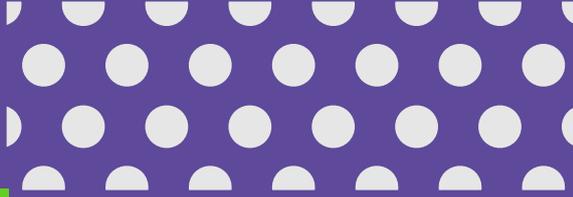
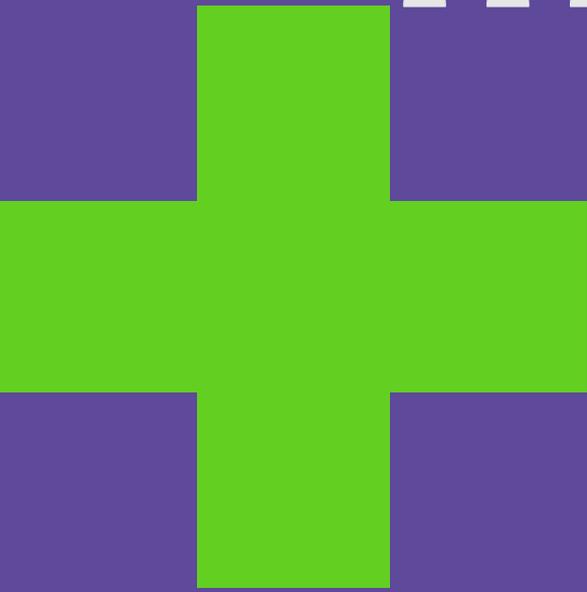
| MEUR | Attributable to the equity holders of the parent | | | | | Total |
|-----------------------------------|--------------------------------------------------|---------------------------------|-------------------|-------------------------|----------------------------|------------|
| | Share capital | Invested restricted equity fund | Retained Earnings | Cash flow hedge reserve | Other comprehensive income | |
| As at 1 January 2017 | 0.0 | 171.2 | -325.1 | -2.8 | 0.3 | -156.4 |
| Profit for the period | | | 1.7 | | | 1.7 |
| Other comprehensive income | | | | 1.1 | 0.0 | 1.1 |
| Total Comprehensive income | | | 1.7 | 1.1 | 0.0 | 2.8 |
| At 30.6.2017 | 0.0 | 171.2 | -323.4 | -1.7 | 0.3 | -153.6 |

| MEUR | Attributable to the equity holders of the parent | | | | | Total |
|-----------------------------------|--------------------------------------------------|---------------------------------|-------------------|-------------------------|----------------------------|--------------|
| | Share capital | Invested restricted equity fund | Retained Earnings | Cash flow hedge reserve | Other comprehensive income | |
| As at 1 January 2016 | 0.0 | 171.2 | -293.6 | -1.7 | 0.3 | -123.8 |
| Profit for the period | | | -67.0 | | | -67.0 |
| Other comprehensive income | | | | 0.4 | 0.0 | 0.4 |
| Total Comprehensive income | | | -67.0 | 0.4 | 0.0 | -66.6 |
| At 30.6.2016 | 0.0 | 171.2 | -360.6 | -1.3 | 0.3 | -190.4 |

Caruna Group

CONSOLIDATED STATEMENT OF CASH FLOWS

| MEUR | 1-6/2017 | 1-6/2016 | 1-12/2016 |
|---------------------------------------------------------------------------|---------------|--------------|---------------|
| Cash flow from operating activities | | | |
| Profit/Loss for the period | 1.7 | -67.0 | -31.6 |
| Adjustments: | | | |
| Income tax expenses | 16.5 | 14.1 | -21.9 |
| Finance costs-net | 64.4 | 107.1 | 172.9 |
| Depreciation, amortisation and impairment charges | 53.7 | 59.6 | 112.9 |
| Operating profit before depreciations (EBITDA) | 136.3 | 113.8 | 232.3 |
| Non-cash flow items | | | |
| Interest received | 4.1 | 0.0 | 2.6 |
| Interest paid | -77.6 | -38.4 | -112.7 |
| Taxes | -0.1 | -0.1 | -0.1 |
| Funds from operations | 62.1 | 97.2 | 119.1 |
| Change in net working capital | 8.7 | -24.8 | -20.3 |
| Total net cash from operating activities | 70.8 | 72.4 | 98.8 |
| Cash flow from investing activities | | | |
| Capital expenditures | -139.0 | -99.8 | -273.2 |
| Acquisition of shares | 0.0 | 0.0 | 0.0 |
| Proceeds from sales of fixed assets | 0.2 | 0.3 | 0.5 |
| Total net cash used in investing activities | -138.8 | -99.5 | -272.7 |
| Cash flow before financing activities | -68.0 | -27.1 | -173.9 |
| Cash flow from financing activities | | | |
| Proceeds from long-term liabilities | 230.0 | 2,756.5 | 2,926.5 |
| Payments of long-term liabilities | -170.0 | -2,756.8 | -2,756.7 |
| Total net cash used in financing activities | 60.0 | -0.3 | 169.8 |
| Total net increase (+) / decrease (-) in cash and cash equivalents | -8.0 | -27.4 | -4.1 |
| Cash and cash equivalents in the beginning of the period | 59.8 | 63.9 | 63.9 |
| Cash and cash equivalents at the end of the period | 51.8 | 36.5 | 59.8 |



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