

A high-angle photograph of a woman with short brown hair and glasses, wearing a white top and a dark cardigan, sitting in a light-colored armchair. She is reading an open book. A grey blanket is draped over her lap. To her left is a white, modern-style side table with a cylindrical object on it. The room has wooden flooring and a large window in the background.

Caruna

INVESTOR REPORT

2019

Positive energy.

caruna

31 DECEMBER 2019

Caruna in 2019: local progress is being made on building a reliable electricity network

KEY FINANCIAL (IFRS) AND OPERATIVE INDICATORS FOR THE CARUNA NETWORKS BV GROUP

EUR million or as indicated	2019	2018
Net sales	466.4	454.1
Profit for the period	29.4	19.7
Corporation tax	12.7	11.3
Investments	167.3	258.4
Cash flow after investments	-10.1	-134.4
Customers	692,000	683,000
Network cabling rate (%)	56	52
Small-scale producers of solar power in the network area	6,600	4,100
System Average Interruption Duration Index per customer (SAIDI), minutes	79	103
Reliability of supply rate (%)	99.99	99.98

Key events during the financial period

Construction of the smart electricity network continued in 2019 in Caruna Oy's area, which mainly operates in rural areas. A total of 3,800 kilometres of electricity network was placed underground to protect it from the weather, and 3,600 kilometres of this was in Caruna Oy's area. The cabling rate increased to 56 (52) per cent of the network.

Approximately 2,500 (1,700) new solar power systems were connected to Caruna's electricity network in 2019. At the end of December, there were approximately 6,600 (4,100) small-scale generators.

At the beginning of 2019, Caruna began working with Telia to install a fibre-optic network in the ground along with weatherproof electric cables. Joint construction began in the autumn in cities of Rusko and Raisio in Southwest Finland. The joint construction of electricity and fibre-optic networks is the first joint project of this scale in Finland.

Caruna's customer satisfaction improved substantially in 2019. Improvements in the availability of customer service, the use of a standardised key account management model, and improvements to the customer experience in service interactions contributed to this score. The average Net Promoter Score (NPS) for 2019 was 24.2 (6.5).

Caruna Oy's increased electricity distribution prices took effect on 1 November 2019. The price increases

affected customers' total electricity distribution fees, including tax, by an average of 3.9 per cent. The electricity distribution prices remained unchanged in Caruna Espoo Oy's network area.

Caruna Oy received conditional decision from Energy Authority in March 2019, which allows Caruna Oy to extend the recovery period for its cumulative under income from four to eight years. This decision is aligned with now proposed updates in Energy Market Act, which would provide the same opportunity to all distribution service operators.

Financial development

Caruna's net sales in 2019 amounted to EUR 466.4 (454.1) million, showing an increase of 2.7 per cent compared to the same period last year. This increase in net sales is mainly attributable to the price increases that took effect at the start of November in Caruna Oy's network area.

Variable costs, consisting of transmission costs and grid loss electricity purchases, were EUR 87.2 (92.5) million. The cost savings of EUR 5.3 million were due to the weather being warmer than usual in 2019.

Other operating expenses came to EUR 82.7 (81.6) million. Depreciations, amortisations and impairment charges amounted to EUR 136.3 (133.2) million and include scrapping of overhead lines EUR 14.4 (17.5) million.

Consolidated operating profit amounted to EUR 166.8 (154.2) million. Net finance costs were EUR 128.9 (131.5) million. Profit for the period was EUR 29.4 (19.7) million.

Financial key figures (IFRS)

EUR million or as indicated	2019	2018	2017
Net sales	466.4	454.1	426.4
Operating profit	166.8	154.2	145.6
Operating profit (% of sales)	35.8	34.0	34.1
Profit for the period	29.4	19.7	29.6
Investments	167.3	258.4	291.1
Cash flow after investments	-10.1	-134.4	-169.1
Interest-bearing net debt (at the end of the period)	3,286.5	3,269.8	3,131.2

Business activities

Caruna Group includes two network companies: Caruna Oy, which operates mainly in rural areas, and Caruna Espoo Oy, which operates in urban areas. These two network companies have a total of 692,000 customers in South, Southwest and West Finland, the city of Joensuu and the regions of Koillismaa and Satakunta. At the end of the review period, the total length of the electricity network

operated by the network companies was approximately 87,000 kilometres.

Digitalisation, the increase of decentralised energy production and electric transportation require a strong and smart network to ensure electricity supply is as reliable as possible under all conditions.

Construction of the smart electricity network continued in 2019 in Caruna Oy's area, which mainly operates in rural areas. A total of 3,800 kilometres of electricity network was placed underground to protect it from the weather, and approximately 3,600 kilometres of this was in Caruna Oy's area. The cabling rate increased to 56 (52) per cent of the Caruna's network.

The investments made in 2019 improved the reliability of supply for approximately 30,000 customers. At the end of 2019, the reliability of supply rate was 99.99 (99.98) per cent. The reliability of the electricity network was also improved through other measures, such as increasing the amount of network automation to speed up fault rectification. In addition, poles were replaced to extend the life cycle of overhead lines in sparsely populated areas and trees were felled in the vicinity of overhead lines.

The reliability of electricity distribution was improved for about 2,700 customers in the regions of Kuusamo and Posio in Koillismaa. In cities of Kauhajoki and Isojoki, the reliability of electricity distribution was also improved for nearly 4,000 customers. Additionally, in the region of Oulunjoki the planning of electricity network power line alterations and renovations was started in order to improve the electricity distribution network and meet the network alteration requirements of Fingrid, the transmission system operator.

Caruna began working with Telia at the beginning of 2019 to install a fibre-optic network in the ground along with weatherproof electric cables. Joint construction began in the autumn in cities of Rusko and Raisio in Southwest Finland. The joint construction of electricity and fibre-optic networks is the first joint project of this scale in Finland.

As each base station of the 5G network requires a fibre-optic connection, building the fibre network is a precondition also for developing wireless connections. Reliable and fast network connections also contribute to attracting investments to municipalities.

The Suurpelto substation in city of Espoo was commissioned in August. The substation contains gas-insulated equipment, which substantially reduces the amount of land required and the impact on the landscape in comparison with conventional air-insulated substations. The new substation will provide more than 20,000 customers with a more reliable electricity supply in an area where electricity consumption is projected to increase in the coming years.

The company is also studying alternative ways to improve the reliability of supply. In September, Caruna Oy signed an agreement with Fortum Power and Heat Oy on a pilot project involving electricity storage in city of Inkoo. The

batteries used to store electricity will enable electricity to be distributed to approximately 1,500 residents in city of Inkoo for an average of four hours in the event of problems elsewhere on the electricity distribution network.

In September, Caruna and Digita agreed to work together to study whether base stations for mobile networks could be located on the land areas occupied by Caruna's substations. The aim is to identify the degree to which electricity network structures such as substations could serve as sites for new mobile base stations.

In December, Caruna Oy sold its 110-kV overhead line network in the city of Pori to Pori Energia Sähköverkot Oy. The transaction will enable both companies to enhance their high-voltage distribution networks in the future. The agreement also included a new network connection for the Impola substation, which will reinforce the back-up connection between Harjavalta and Impola.

Caruna Group's investments during the reporting period amounted to EUR 167.3 (258.4) million. The company began its programme of investments in the improvement of the reliability of supply in 2013 by focusing initially on enhancements to the medium-voltage network which will benefit every customer. The investment programme has reached the midway stage. In 2019, investments were made in the low-voltage network as planned, and allocations are primarily made on the basis of age. This is reflected in a decrease in annual investment levels.

Approximately 6,600 small-scale producers of solar power

By the end of December, about 2,500 new solar power systems were connected to Caruna's electricity network. At the end of the period, there were approximately 6,600 small-scale producers. Caruna supported this objective by launching an electronic service platform enabling customers to compare product and price information to find a suitable solar panel provider.

At present, more than 20 solar power partners are listed on Caruna's electronic service, which offers service providers ready-made contact channels in Caruna's network areas.

In September and October, the service offering expanded to include charging solutions for electric cars.

Warm weather reduced electricity consumption

The weather was warmer than normal, resulting in lower electricity supply volumes in comparison with the previous year, with a total of 9.6 (9.7) TWh in the distribution network and 2.8 (2.9) TWh in the high voltage distribution network.

Reliability of supply remained excellent

The reliability of electricity supply is measured by the System Average Interruption Duration Index (SAIDI). The average interruption duration in Caruna's electricity distribution was 79 (103) minutes per customer between January and December, and the reliability of electricity supply was 99.99 (99.98) per cent. The System Average Interruption Frequency Index (SAIFI) per customer was 1.4 (1.9) events.

The highest number of supply interruptions was caused by the storm known as Aapeli in January, during which the highest number of customers simultaneously affected by an interruption of supply was 28,900 in West Finland. Fault locations were identified quickly, and thanks to network automation and ring network connections particularly, electricity was restored to most customers quickly.

Preparations have been made to maintain the capacity to supply electricity at the current reliability level, even in the event of a longer crisis. There were no substantial disruptions in 2019, but preparations were made for several smaller disruptions during the year. The preparations include adding field resources and raising the preparedness of the control centre and the fault management service.

Caruna Oy's price increases took effect on 1 November 2019

The network improvement projects affected Caruna Oy's pricing, and the company's electricity distribution prices including tax increased by an average of 3.9 per cent as of 1 November 2019. The impact of the price increases on individual customers' bills varied depending on the type of housing and the energy consumption. Prices remained unchanged in the area served by Caruna Espoo Oy, the urban network company.

Climate change is increasing the number of storms and heavy snowfalls, causing power outages, thus increasing society's dependent on electricity. Price changes are necessary to fund the network improvement projects needed to boost the reliability of supply. The investments in network improvements aim to achieve the security of supply commitments in accordance with the Electricity Market Act by the end of 2028. Customers in urban and rural areas must have access to electricity in such a way that in the event of an outage, the power supply must be resumed within 6 hours in urban areas and within 36 hours in sparsely populated areas.

Notable improvement in customer satisfaction

Caruna's customer base has grown steadily in recent years. The total number of customers was 692 (683) thousand at the end of 2019. A total of 2,000 (2,300) new connection contracts were signed.

NUMBER OF CUSTOMERS AT THE END OF THE FINANCIAL PERIOD (THOUSANDS):

Company	2019	2018	2017
Caruna Oy	474	471	467
Caruna Espoo Oy	218	212	205
Total	692	683	672

Caruna works hard to continuously improve its customer satisfaction and measures it monthly using the Net Promoter Score (NPS) and the Customer Effort Score (CES) based on the opinions of private customers, small and medium-sized customer companies, large customers, landowners, municipal customers and contractors.

In 2019, Caruna's NPS went up to 24.2 (6.5), a significant improvement on the year before. Improvements in the availability of customer service, the use of a standardised key account management model, and improvements to the customer experience in service interactions contributed to this score. At the end of 2019, the average CES was 4.3 on a scale from 1 to 5.

New services were developed and launched in 2019. The first version of the Caruna+ mobile app was launched in the spring. Caruna+ provides a new customer communication channel and enables customers to easily manage all things related to Caruna. The service was designed to offer an excellent user experience and content that makes customers' daily lives easier.

The features provided by the Caruna+ electronic self-service channel underwent further development, with one of the focus areas being payment solutions offered to customers. In addition, a digital turnkey service for builders was launched, helping new home builders to easily get an electricity connection.

The first customer ombudsman of Caruna was appointed in the spring. A customer can turn to the customer ombudsman in situations where customer service has not found a solution to a situation unsatisfactory to the customer. A customer can also send an appeal to the customer ombudsman, who will investigate all related documents and will contact the customer to solve the situation. The customer ombudsman processes all appeals independently of all previous case handlers.

Research and development

Total research and development expenditure for the financial period amounted to EUR 0.2 (2018: 0.1 and 2017: 0.2) million, which is 0.27 (2018: 0.10 and 2017: 0.23) per cent of operating expenses.

Financing

Electricity distribution is a capital-intensive sector. The network improvement programme to be completed by the end of 2028 will require continuous additional financing. Caruna's debts amount to more than three billion euros, of which over two billion consist of external loans and approximately EUR 800 million is in shareholder loans.

The purpose of Caruna's financing operations is to guarantee the Group's operations in the long term and to ensure that the network improvement programme can be carried out as planned. To achieve this, the company arranges highly diversified funding from several capital markets.

In the second half of 2019, Caruna drew down a loan of EUR 100 million granted by the European Investment Bank (EIB) in 2018. During the financial period, Caruna also drew a capex facility and working capital loan in a total amount of EUR 158 million, and repaid EUR 85 million of the sum.

At the end of the financial period, the Group's external loans totalled EUR 2,604.8 (2,430.5) million. On the balance sheet date, 93 per cent of Caruna's external loans had fixed interest rates when interest rate swaps are taken into consideration. The average interest rate on external loans at the end of the year was 2.1% (2.2%).

At the end of the year, Caruna Networks BV had a fixed-interest shareholder loan amounting to EUR 773 million. At the end of September, EUR 127.3 million of the shareholder loan was repaid. The interest on the shareholder loan is paid biannually if the covenants of the other external loans are met.

Caruna renewed its liquidity credit facility in early 2019. The credit facilities available on the balance sheet date were a capex and revolving credit limit amounting to EUR 227 million, a bank overdraft limit of EUR 30 million, a liquidity credit facility of EUR 6.7 million, and an undrawn investment loan of EUR 100 million.

Net financing costs recognised on the income statement for the financial period totalled EUR 128.9 (132.2) million, and the interest liabilities recognised on the balance sheet were EUR 36.3 (37.5) million.

Caruna complied with the covenant terms of all loan agreements.

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

Employees

Caruna Group had 313 (289) employees at the end of the year, 65 (63) of whom were employed by the Group's parent company.

	2019	2018	2017
Number of employees 31 Dec	313	289	276
Average number of employees during the year	313	289	274
Wages and salaries (EUR million)	20.6	19.2	16.7

In 2019, development focused on initiating a cultural change to make the operating methods more customer oriented. Caruna's values were adjusted at the beginning of September to align them more closely with the company's culture, and the change was supported by the cultural handbook. The company also put an effort in supervisor training in 2019 to accelerate the cultural change.

Caruna was awarded its first Great Place to Work certificate in September. The Great Place to Work certificate is an acknowledgement of the achievement of a corporate culture based on trust.

Every employee spent an average of nearly three days in training, which is almost as much as in 2018. The number absences due to illness remained low, averaging 2.3 (2.6) per cent of working time.

The employee commitment index remained good at 72 (72) per cent.

More information on employees can be found in the corporate responsibility section of Caruna's annual report published at caruna.fi/en.

Corporate responsibility

Caruna is committed to the goal of "zero accidents", which means that safety comes first in all operations.

In 2019, Caruna's personnel completed more than 1,000 Safety Walks to observe and discuss safety-related matters. In addition, Caruna's project supervisors and contractors conducted more than 3,400 site inspections. Caruna Card training continued as part of the programme of actions aiming to improve contractor safety, and more than 290 subcontractors attended. A total of 490 people attended municipal electrical and occupational safety training.

In 2019, Caruna conducted a thorough assessment of the impacts of its operations on climate change and, conversely, the impacts of climate change on the company's operations. More than two-thirds of Caruna's carbon footprint arises in the procurement and supply chain. The materials used for network construction accounted for 40 per cent of the carbon footprint. The study also assessed Caruna's carbon handprint, i.e. the positive

effects of its operations. The connection of renewable energy to the electricity network had the greatest effect on the handprint.

Caruna also continued to execute network improvement projects to reduce grid losses while taking other energy-efficiency actions. Thanks to investments in the reliability of supply, the company was able to reduce network losses by approximately 2 (1) GWh.

In 2019, Caruna's partner Kuusakoski Oy processed approximately 95 (81) per cent of the scrap material created by Caruna's network projects. In 2019, approximately 235 (450) pole-mounted transformers were removed from groundwater areas. The aim is to replace all remaining pole-mounted transformers in groundwater areas with pad-mounted transformers in 2020.

Caruna regularly monitors the operations of its contractual partners and ensures that they meet the applicable requirements. In 2019, Caruna audited seven suppliers: one construction contractor, two material suppliers, three ICT suppliers and one project supervision partner.

More information on corporate responsibility can be found in the corporate responsibility section of Caruna's annual report published at caruna.fi/en.

Risks and uncertainties

Risk management is a part of Caruna's internal control system, and Caruna regularly assesses the strategic, operational and financial risks facing the Group. Risk management strives to ensure that any risks affecting the Group's business operations are identified, managed and monitored. The Group has taken out appropriate insurance policies that provide comprehensive cover for its operations.

STRATEGIC RISKS

Strategic risks include, among others, regulatory risk, that is, harmful and negative impacts on the regulatory environment, challenges in the operating environment, and the availability of financing and competent resources.

OPERATIONAL RISKS

The most significant risks to operations are related to abnormal weather conditions, supplier risk and safety. For example, abnormal weather conditions may affect the reliability of the supply and distribution network. The key means of preventing interruptions are to replace overhead lines with underground cables, manage the forests near overhead lines and develop remote network control. The operational risks are described in more detail in Caruna's annual report.

FINANCIAL RISKS

The financial risks are presented in note 18 (management of financial risks) to the consolidated financial statements.

Changes in equity

Caruna Networks Oy's share capital is EUR 2,500 and the invested unrestricted equity fund is EUR 171,203,600.47. The company has no subordinated loans as defined in the Limited Liability Companies Act. Caruna Networks Oy's profit for the financial period amounted to EUR 51,135,211.16 (508,224,821.50). The profit in the comparison period arose from a non-recurring merger profit of EUR 448,860,706.01 realised when Caruna Networks Sähkösiirto Oy and Caruna Networks Espoo Oy were merged into Caruna Networks Oy on 1 January 2018.

Governance

The Annual General Meeting appoints the members of the Board of Directors for a term of office commencing at the Annual General Meeting and ending at the next Annual General Meeting. Planning the composition of the Board of Directors involves taking into account Caruna's current and future business needs and seeking to ensure the diversity of the Board in several aspects. Caruna's Board members must have adequate experience and expertise that complement those of the other members. The members' individual qualities are also emphasised.

General meetings

Caruna Networks Oy's Annual General Meeting was held on 27 March 2019. The AGM approved Caruna's financial statements for 2018, confirmed the consolidated income statement and balance sheet and discharged the members of the Board of Directors and the CEO from liability. A decision was made not to pay dividends.

Caruna Networks Oy held an Extraordinary General Meetings on 1 August 2019 to decide on a change to the composition of the Board of Directors.

Board of Directors

The Board convened six times during the financial period. The Board members were Juha Laaksonen (Chair until 27 March 2019) and Matti Ruotsala (Chair as of 27 March 2019), Jouni Grönroos, John Guccione, Gregor Kurth, Matthew Liddle, Niall Mills and Laura Tarkka (as of 1 August 2019). The deputy members were Ellen Richardson, Delphine Voeltzel (until 27 March 2019), Nicolas Grant (as of 27 March 2019) and Ines Grund (as of 27 March 2019).

COMMITTEES OF THE BOARD OF DIRECTORS

The committees under the Board are the Audit Committee, the Nomination and Remuneration Committee, and the Health, Safety and Environment Committee. The committees support the work of the Board by preparing

and evaluating matters for decision-making by the Board. Committee members are elected by the Board. The members' terms of office end after the conclusion of the next Annual General Meeting.

The Audit Committee consisted of Jouni Grönroos (Chair), Gregor Kurth, Delphine Voeltzel (until 27 March 2019) and Matt Liddle (as of 27 March 2019).

The Nomination and Remuneration Committee consisted of Juha Laaksonen (Chair until 27 March 2019), Matti Ruotsala (Chair as of 27 March 2019), John Guccione and Niall Mills.

The Health, Safety and Environment Committee consisted of Niall Mills (Chair until 27 March 2019), Nick Grant (Chair as of 27 March 2019), Gregor Kurth, Matt Liddle (as of 27 March 2019) and Laura Tarkka (as of 5 September 2019).

Management Team

The Management Team consisted of CEO Tomi Yli-Kyyny, CFO and Deputy CEO Jyrki Tammivuori, Head of Electrical Network Unit Kosti Rautiainen, Head of Customer Relations Katriina Kalavainen, Head of Governance, Compliance and Risks Harri Pynnä (until 31 July 2019), Head of HR Tommi Saikkonen, Head of Communications and Public Affairs Anne Pirilä and Head of Development and Innovation Elina Lehtomäki.

Harri Pynnä, the Head of Governance, Compliance and Risks, left Caruna's Management Team on 31 July 2019. Harri Pynnä retired on 31 January 2020 and worked in a special expert capacity until then.

Auditing

Caruna Networks Oy's auditor was the audit firm Deloitte Oy, with Jukka Vattulainen, Authorised Public Accountant, as the auditor with principal responsibility.

Shares and ownership

Caruna Networks Oy has 2,500 shares, each carrying an equal right to a dividend and to the company's assets. Each share entitles its holder to one vote at a General Meeting.

Key events after the financial period

The Government's draft bill on amending the Electricity Market Act was given for statements at the beginning of 2020. The proposal includes a reduction in the annual price increase limit to 12.5 per cent, an extension of the deficit levelling period from four to eight years, and an extension of the deadline for implementing the reliability requirements for

electricity distribution for companies operating in the most challenging areas, with the new deadline set at the end of 2036.

Estimate of probable future developments

Caruna Oy and Caruna Espoo Oy operate as part of Caruna Group and within the framework of the electricity distribution industry in a regulated operational environment. Caruna Networks Oy will continue to operate as the parent company, offering administrative services to the other companies in the Group, along with other services to support electricity distribution, such as Caruna's electronic service platform and fibre construction for customers and partners. The operations are expected to continue in accordance with normal business principles and conditions.

Since 2013, Caruna has systematically implemented a large-scale investment programme to improve the reliability of supply. The first phase focused on enhancements to the reliability of the medium-voltage network which will benefit every customer. The investment programme has reached the midway stage.

The network is being developed in the most cost-effective way based on life-cycle costs, and also other construction methods are being studied besides underground cabling. Caruna is studying the possibility of utilising storage facilities and demand-side response services.

The Government's draft bill on amending to the Electricity Market Act was given for consultation at the beginning of January 2020. The draft bill proposes postponing the reliability of supply requirements from 2028 to 2036 for companies with medium-voltage networks that had a cabling rate of less than 60% at the end of 2018. Within Caruna Group, Caruna Oy meets this criterion, so Caruna Oy's investments will be rescheduled on the basis of the draft bill.

Caruna is concerned with combating the impacts of climate change and ensuring that the Finnish energy system develops to address future needs. Caruna wants to act as a pioneer in promoting the increased use of renewable energy and the electrification of transport. The electricity network will be developed into a reliable platform on which these solutions can be rapidly and efficiently deployed.

The digital infrastructure strategy published by the Ministry of Transport and Communications in 2018 strives to make Finland one of the best countries for data networks by 2025. Achieving this target will require the construction of fibre-optic networks to be significantly accelerated. Caruna considers the promotion of digitalisation to be an important factor in safeguarding Finland's competitiveness, and it is committed to developing operating models that enable the amount of joint construction to increase when future electricity networks are built.

Regulatory and Business Update

There were no changes to regulatory framework in 2019. However, discussion around it continued to be active. Distribution prices and the level of reasonable return were the main items discussed. Due to this Finland's new government set the target to find means to decrease the price increase pressures and smoothen price development within electricity distribution in their government program. As a result, some updates to Energy Market Act are expected in 2020. These include decrease in price increase cap, extension of under income recovery period, tightening time limits for customer compensations in case of outage as well as additional requirements for network development plans reported to Energy Authority. Caruna's current business plan is well aligned with assumed updates and thus, no major impact on company financials is expected.

The project to prepare for 6th regulatory period (starting 2024) continued under the guidance of Energy Industry's Regulatory Committee. Main discussion is around definition of regulatory capital, WACC-parameters and how the model would incorporate needs to promote storage and flexibility. Due to heavy Security of Supply Program still ongoing the overall view is that the main principles of the model should remain the same in order to secure the needed investments. Preparatory work for national level implementation of Clean Energy Package as well as Smart Grid Workgroup's recommendations started. Some legislative updates are expected during 2020 and 2021 and related to energy storages, energy communities, flexibility solutions and services as well retail market model. Caruna is well represented in preparations and in good position to carry out impactful interest promotion. These changes should, however, trigger no major changes in current Finnish legislation.

Caruna Oy received conditional decision from Energy Authority in March, which allows Caruna Oy to extend the recovery period for its cumulative under income to eight years. This decision is aligned with now proposed updates in Energy Market Act, which would provide the same opportunity to all distribution service operators. The decision allows Caruna Oy to distribute the needed revenue collection for a longer period of time, and thus allow smoother price development for its customers. End result is already reflected in current business plan, and thus have no impact on company financials.

Summary of financial result January-December 2019

KEY NOTES TO THE INCOME STATEMENT

Net sales 2019 EUR 466.4 million (budget EUR 481.1 million): The difference to budget was EUR -14.7 million (-3.1 %). The distribution sales were EUR -11.8 million less than budget

driven by lower price change than assumed in the budget and lower volume as a result of warmer weather. This was already taken into account in forecast in H1 2019 Investor report. Other sales were EUR 2.8 million lower than plan due to lower connection fees.

Direct costs 2019 EUR 87.2 million (budget EUR 88.2 million): Direct costs were EUR 1.0 million lower than budget. The lower distribution volume drove the direct costs below budget.

Fixed costs 2019 EUR 82.8 million (budget EUR 79.0 million): Fixed costs were EUR 3.8 million higher than budget, EUR 1.6 million comes from grid loss hedging and the rest EUR 2.2 million comes from board approved costs to implement strategy and extra costs related to operations.

Depreciation & amortisation 2019 EUR 136.3 million (budget EUR 131.9 million): The deviation between actuals and budget came from scrapping of old overhead line network. Depreciation includes EUR 30.1 million depreciation of fair value adjustments.

Net financing expenses 2019 EUR 128.9 million (budget EUR 132.2 million): Interest expenses were smaller than assumed in the budget as there were repayment of shareholder loan which were not in budget. Interest expenses 2019 consist of interest on shareholder loan and interests related to Senior loans. Additionally, net financing expenses 2019 include ongoing fees and loan arrangement fee amortisation.

KEY NOTES TO THE BALANCE SHEET

Intangible assets EUR 1,649.1 million (budget EUR 1,619.7 million) were higher than budgeted. Intangible assets consist mainly of non-depreciable fair value of operating licenses and goodwill raising from purchase price allocation EUR 1,591.7 million. Capitalised way leaves and IT-costs contribute for EUR 40.6 million and EUR 16.3 million respectively.

Property, plant and equipment EUR 2,393.6 million (budget EUR 2,489.2 million) was lower than planned due to lower capital expenditure. The balance includes fair value adjustment of network assets from purchase price allocation EUR 566.2 million.

Other non-current assets EUR 7.3 million (budget EUR 7.5 million). This item consists of deferred tax assets and capitalised loan arrangement fees related to Revolving Credit Facility.

Total equity EUR -93.7 million (budget EUR -99.4 million) remained negative. The equities of the standalone Finnish companies are positive and comply with Finnish Companies Act.

Interest-bearing debt EUR 3,374.9 million (budget EUR 3,479.8 million) was lower than planned. Operating cash flow was higher than expected due to favorable development in working capital and the capital expenditure was lower than in plan.

Derivative financial instruments EUR 27.3 million (budget EUR 0.0 million) were more than planned and consist of fair value of interest and currency derivatives.

Deferred tax liabilities EUR 509.3 million (budget EUR 512.2 million) were on budget level.

KEY NOTES TO THE CASH FLOW

Net cash from operating activities was EUR 158.7 million (budget EUR 136.9 million), which is EUR 21.8 million higher than assumed in budget. The difference is mainly due to favorable development in working capital that compensated the smaller EBITDA.

Net cash used in investing activities was EUR -168.8 million (budget EUR -220.7 million) which is EUR 51.9 million less than planned due to lower than anticipated capital expenditure spend for network improvements.

Net cash used in financing activities was EUR 45.7 million (budget EUR 154.4 million). The difference of EUR 108.7 million is due to lower capital expenditure and repayment of shareholder loan.

1. We confirm that in respect of this Investor Report dated 12 March 2020, by reference to the most recent Financial Statements that we are obligated to deliver to you in accordance with paragraph 1 (*Financial Statements*) of part 2 (*Information Covenants*) of Schedule 2 (*Borrower Security Group Covenants*) of the Common Terms Agreement:
 - (a) the Senior Interest Cover Ratio in respect of the Relevant Period is estimated to be greater than or equal to 1.7x; and
 - (b) the Senior Leverage Ratio in respect of the Relevant Period is or is estimated to be greater than or equal to 5.0%,(together the "Ratios").
2. We confirm that 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.
3. We confirm that:
 - (a) no Default or Trigger Event has occurred and is continuing;
 - (b) the Borrower Security Group is in compliance with the Hedging Policy; and
 - (c) the statements set out in this Investor Report are accurate in all material respects.

Yours faithfully

Officer

Signing without personal liability, for and on behalf of
Caruna Networks Oy as Borrower Security Group Agent

INCOME STATEMENT 1 JANUARY – 31 DECEMBER 2019

EUR million, cumulative	ACT Jan-Dec 2019	BUD Jan-Dec 2019	Diff	ACT Jan-Dec 2018	Change	BUD Jan-Dec 2020
Distribution sales	453.7	465.5	-11.8	438.2	15.5	469.8
Other sales	12.7	15.6	-2.9	15.9	-3.2	15.6
NET SALES	466.4	481.1	-14.7	454.1	12.3	485.4
Direct costs	-87.2	-88.2	1.0	-92.5	5.3	-89.3
SALES MARGIN	379.2	392.9	-13.7	361.6	17.6	396.1
Other Income	6.7	4.8	1.9	7.4	-0.7	3.3
Personnel costs	-25.1	-23.1	-2.0	-22.9	-2.2	-25.8
Repairs & maintenance	-20.4	-18.1	-2.3	-21.3	0.9	-18.0
External services	-19.9	-25.8	5.9	-22.9	3.0	-26.2
Other expenses	-17.4	-12.0	-5.4	-14.5	-2.9	-13.5
Total fixed costs	-82.8	-79.0	-3.8	-81.6	-1.2	-83.5
EBITDA	303.1	318.7	-15.6	287.4	15.7	315.9
Depreciation and amortisation	-136.3	-131.9	-4.4	-133.2	-3.1	-133.0
OPERATING PROFIT	166.8	186.8	-20.0	154.2	12.6	182.9
Financial Income	0.1	-	0.1	0.1	-	-
Interest expenses on Senior loan	-52.9	-53.3	0.4	-50.2	-2.7	-54.1
Interest expenses on Shareholder loan	-72.9	-76.8	3.9	-77.6	4.7	-65.8
Ongoing fees	-0.8	-1.7	0.9	-1.6	0.8	-0.9
Loan arrangement fee amortisation	-0.8	-0.4	-0.4	-0.6	-0.2	-0.4
Other financial items	-1.6	-	-1.6	-1.6	-	-
Total financial income / expense	-128.9	-132.2	3.3	-131.5	2.6	-121.2
PROFIT/LOSS BEFORE TAX	37.9	54.6	-16.7	22.7	15.2	61.7
Income taxes	-12.7	-17.0	4.3	-11.3	-1.4	-17.0
Deferred taxes	4.2	3.3	0.9	8.3	-4.1	10.5
PROFIT/LOSS FOR THE PERIOD	29.4	40.9	-11.5	19.7	9.7	55.2

BALANCE SHEET

EUR million	ACT 31 Dec 2019	BUD 31 Dec 2019	ACT 31 Dec 2018	BUD Dec 31 2020
ASSETS				
Non-current assets				
Intangible assets	1,649.1	1,619.7	1,649.3	1,677.4
Property, plant and equipment	2,393.6	2,489.2	2,359.5	2,443.9
Other non-current assets	7.3	-	3.5	5.9
Total non-current assets	4,050.0	4,108.9	4,012.3	4,127.2
Current assets				
Trade receivables	114.0	140.8	111.2	133.9
Other current receivables	1.6	-	4.0	-
Cash and cash equivalents	94.9	124.9	59.3	10.0
Total current assets	210.5	265.7	174.5	143.9
TOTAL ASSETS	4,260.5	4,374.6	4,186.8	4,271.1
EQUITY				
Share capital	0.0	0.0	0.0	0.0
Invested distributable funds	171.3	171.2	171.3	171.2
Profit for the period	29.4	40.9	19.7	55.2
Retained earnings	-272.5	-308.2	-292.2	-270.1
Other equity components	-21.9	-3.3	-5.8	-23.6
Total equity	-93.7	-99.4	-107.0	-67.3
LIABILITIES				
Non-current liabilities				
Senior loan	2,607.7	2,606.2	2,430.5	2,629.3
Shareholder loan	773.6	873.6	901.0	773.6
Loan arrangement fees	-6.4	-	-6.8	-7.5
Derivative financial instruments	27.3	-	8.5	30.7
Deferred tax liabilities	509.3	512.2	513.6	504.8
Provisions	-	-	0.2	-
Other non-current liabilities	304.7	304.9	304.6	306.8
Total non-current liabilities	4,216.2	4,296.9	4,151.6	4,237.7
Current liabilities				
Derivative financial instruments	-	-	3.2	-
Trade payables	43.5	49.7	53.6	42.1
Accrued interest expenses	36.3	37.5	37.9	37.4
Other current interest-free payables	58.2	89.9	47.5	21.2
Total current liabilities	138.0	177.1	142.2	100.7
TOTAL LIABILITIES	4,354.2	4,474.0	4,293.8	4,338.4
TOTAL EQUITY AND LIABILITIES	4,260.5	4,374.6	4,186.8	4,271.1

CASH FLOW STATEMENT

EUR million	ACT Jan-Dec 2019	BUD Jan-Dec 2019	Diff.	ACT Jan-Dec 2018	Change	BUD Jan-Dec 2020
CASH FLOW FROM OPERATING ACTIVITIES						
Result for the period	29.4	40.9	-11.5	19.7	9.7	55.2
Adjustments:						
Income tax expenses	8.5	13.7	-5.2	3.0	5.5	6.5
Finance costs-net	128.9	132.2	-3.3	131.5	-2.6	121.2
Depreciation, amortisation and impairment charges	136.3	131.9	4.4	133.2	3.1	133.0
Operating profit before depreciations (EBITDA)	303.1	318.7	-15.6	287.4	15.7	315.9
Non-cash flow items and divesting activities	-0.4	-	-0.4	-1.1	0.7	0.5
Interest received	4.0	-	4.0	6.2	-2.2	-
Interest paid, Senior loan	-59.6	-63.8	4.2	-69.5	9.9	-54.4
Interest paid, Shareholder loan	-74.9	-77.5	2.6	-79.2	4.3	-67.2
Ongoing fees, paid	-0.8	-1.9	1.1	-1.5	0.7	-1.6
Other financial expenses paid	-1.8	-	-1.8	-4.7	2.9	-
Taxes	-11.3	-2.1	-9.2	-11.5	0.2	-17.2
Funds from operations	158.3	173.4	-15.1	126.1	32.2	176.0
Change in working capital	0.4	-36.5	36.9	1.8	-1.4	-40.6
Total net cash from operating activities	158.7	136.9	21.8	127.9	30.8	135.4
CASH FLOW FROM INVESTING ACTIVITIES						
Capital expenditures	-170.9	-220.7	49.8	-262.4	91.5	-180.7
Proceeds from sales of fixed assets	2.1	-	2.1	0.1	2.0	-
Total net cash used in investing activities	-168.8	-220.7	51.9	-262.3	93.5	-180.7
Cash flow before financing activities	-10.1	-83.8	73.7	-134.4	124.3	-45.3
CASH FLOW FROM FINANCING ACTIVITIES						
Proceeds from long-term liabilities	223.0	184.4	38.6	220.0	3.0	8.8
Payments of long-term liabilities	-177.3	-30.0	-147.3	-70.3	-107.0	-
Dividends paid	-	-	-	-	-	-12.1
Total net cash used in financing activities	45.7	154.4	-108.7	149.7	-104.0	-3.3
Total net increase(+) / decrease(-) in cash and cash equivalents	35.6	70.6	-35.0	15.3	20.3	-48.6
Cash and cash equivalents in the beginning of the period	59.3	54.3	5.0	44.0	15.3	58.6
Cash and cash equivalents at the end of the period	94.9	124.9	-30.0	59.3	35.6	10.0

Ratio ICR	31 Dec 2019 Backward	31 Dec 2019 Forward	31 Dec 2019 Extended Forward
Senior Interest Cover Ratio	5.1x	5.4x	-
Lock-up	1.7x	1.7x	-
Lock-up breach	-	-	-
Default	1.2x	-	-
Default breach	-	-	-
Senior Leverage Ratio	9.2 %	9.3 %	10.0 %
Lock-up	5.0 %	5.0 %	5.5 %
Lock-up breach	-	-	-
Default	4.0 %	-	-
Default breach	-	-	-

LOAN COVENANT RATIO CALCULATION

EUR million	H1/2019	H2/2019	"Backward" 31 Dec 2019	H1/2020	H2/2020	"Forward" 31 Dec 2020	"Extended" 36 months total
Senior Interest Cover Ratio, Denominator:							
EBITDA	154.4	148.7	303.1	163.4	152.5	315.9	
+/- Unrealised gains or losses of electricity derivatives	1.3	-3.0	-1.7	-	-	-	
+ Taxes	-6.8	-5.9	-12.7	-8.5	-8.5	-17.0	
Consolidated EBITDA - taxes, total	148.9	139.8	288.7	154.9	144.0	298.9	
Senior Interest Cover Ratio, Numerator:							
Interest Costs, Senior	-26.0	-26.9	-52.9	-27.4	-26.7	-54.1	
+ Fair valued interest rate derivatives adjustment	-3.1	-	-3.1	-	-	-	
Ongoing fees, Senior	-0.4	-0.4	-0.8	-0.5	-0.4	-0.9	
Net Finance Charges, Senior total	-29.5	-27.3	-56.8	-27.9	-27.1	-55.0	
Senior Interest Cover Ratio			5.1x			5.4x	
Senior Leverage Ratio, Denominator:							
EBITDA	154.4	148.7	303.1	163.4	152.5	315.9	337.7
+/- Unrealised gains or losses of electricity derivatives	1.3	-3.0	-1.7	-	-	-	-
Interest Costs, Senior	-26.0	-26.9	-52.9	-27.4	-26.7	-54.1	-54.4
+ Fair valued interest rate derivatives adjustment	-3.1	-	-3.1	-	-	-	-
Ongoing fees, Senior	-0.4	-0.4	-0.8	-0.5	-0.4	-0.9	-0.7
+ Taxes	-6.8	-5.9	-13.0	-8.5	-8.5	-17.0	-19.8
Funds from Operations, FFO	119.4	112.5	231.9	127.0	116.9	243.9	262.8
Senior Leverage Ratio, Numerator:							
Senior debt		2 607.7	2 607.7		2 629.3	2 629.3	2 643.9
Cash		-94.9	-94.9		-10.0	-10.0	-10.0
Net debt - Senior		2 512.8	2 512.8		2 619.3	2 619.3	2 633.9
Senior Leverage Ratio			9.2 %			9.3 %	10.0 %

EUR million	ACT Jan-Dec 2019	BUD Jan-Dec 2019	Diff	ACT Jan-Dec 2018	Change
Permitted Acquisition	none	none	none	none	none
Permitted Disposal	2.1	-	2.1	-	2.0
Permitted Distribution	202.2	107.5	94.7	109.2	93.0
Additional Financial Indebtedness	none	none	none	none	none

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