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Private and Confidential

[BIDDER]

Salassapidettävä dokumentti

23rd of May, 2023

Project Headquarters – Phase II Process Letter

Thank you for your interest towards Project HQ – an opportunity to acquire a minority holding in Etelä-Savon Energia Oy (the ”**Company**” or ”**ESE**”). Having received your Indication (dated 8th May, 2023), The City of Mikkeli (”**Mikkeli**”) has shortlisted you to participate to the second phase (the ”**Phase II**”) of the Sale Process.

1. Overview of Phase II

Following receipt of your Indication, in Phase II the selected Prospective Acquirers is provided with the following information:

- Further information of the Sale Process in the Phase II process letter;
- An opportunity to meet the management of Etelä-Savon Energia and the Mayor and the CFO of the City of Mikkeli in a Teams meeting;
- Financial, commercial, technical, legal and other additional information in a virtual dataroom;
- A financial fact book containing detailed historical financial information;
- A tax fact book containing key historical tax information with respect to Etelä-Savon Energia Oy and main group entities
- A legal guidance report containing guidance on the key legal issues;
- Shareholders agreement (SHA);
- Sale and purchase agreement (SPA) (subject to due diligence); and
- Exclusivity Agreement (EA)

The access to the virtual dataroom will be provided simultaneously with this Process letter. Meetings with the management and the Mayor and the CFO of the City of Mikkeli will be organized during the week starting at 5th May, 2023.

Based on previously distributed Memorandum and Model and other information you consider relevant, we invite you to submit a price confirmation (the ”**Price Confirmation**”) by **16:00 (CET) 9th June, 2023**. The Price Confirmation shall be submitted to the attention of Mr Harri Räsänen (harri.rasanen@kpmg.fi) and Mr. Olli Laine (olli.laine@kpmg.fi) at KPMG.

Based on the Price Confirmation, Mikkeli will invite one Prospective Acquirer to the third and final phase (the ”**Phase III**”) of the Sale Process. Mikkeli will evaluate certain factors which are encouraged to be addressed in the Price Confirmation.

2. Instruction for the Price Confirmation

The Price Confirmation should, in addition to other factors you may consider relevant, address the following:

(i) Consideration

- Cash consideration (in euros) which you are prepared to pay for a minority holding (49.0%) of shares in Etelä-Savon Energia Oy at closing;
- Estimated proceeds for the current owner of the Company based on potential refinancing of the Company and timing of the refinancing;
- Estimated proceeds (dividends, interest, etc.) for the current owner of the Company going forward on an annual basis;
- A detailed description of key assumptions which you have applied in deriving the Price Confirmation including:
 - Enterprise value (i.e. debt-and-cash free value) of the Company (100%) and its derivation;
 - A detailed list of items which you have added to or deducted from the enterprise value to calculate full equity value of the Company;
 - Impact of potentially assumed refinancing of the Company to your valuation;
 - Impact of the Company's minority holdings in other assets (e.g. Koskienergia Oy, Suomen Voima Oy etc.) to your consideration; and
 - Key factors related to the Company or more generally related to the sector in which the Company operates, that could lead you to change the Indication either upwards or downwards.
- The Price Confirmation should include single value for a specified holding. In the event a range is submitted, it will be assumed that the Indication proposed is the lowest value within that range.

(ii) Transaction documentation

- You should attach to your Price Confirmation an electronic copy of the SHA in the form in which you are basing your consideration.
 - The Prospective Acquirer must present a full mark-up version of an SHA in which the Prospective Acquirer has presented all terms and items which will have a possible effect on the Price Confirmation. The presented SHA shall be watertight and all possible effects on the Price Confirmation should be clearly marked. No exceptions or additions are allowed after advancing to Phase III.
- You should also attach to your Price Confirmation an electronic copy of the SPA and its key terms (subject to due diligence) that you are prepared to sign the transaction.
- The Prospective Acquirer must also present an electronic copy of the mark-up version of the Exclusivity Agreement and its key terms, which you are prepared to proceed with to the third Phase of the Project HQ.
- All proposed changes should be clearly marked with complete wordings. The extent and substance of any mark-up provided by you will be a relevant factor for Mikkeli in evaluating your Price Confirmation.

(iii) Commentary of the business plan and refinancing assumptions

- Commentary of the business plan and details of deviations from or assumptions made regarding the plan presented in the Memorandum and in the Model in terms of tariffs and investments.
- Description of contemplated/estimated refinancing assumptions for the Company going forward including:
 - Amount of senior or other debt financing which would be included in the Company;
 - Timing, structure and amortisation profile of facilities;
 - Pricing of facilities;
 - Key covenants related to the presented facilities and structure; and
 - Other key terms/items you consider relevant.
- Estimated proceeds (dividends, interest, etc.) for the current owner of the Company going forward.

(iv) Acquisition financing and conditions

- A description of your intended sources of equity and debt financing for the acquisition and the preparatory work you have done to have the necessary financing in place at the time of closing. Further, a description of the consents, approvals or other conditions required for such funding as well as the timetable to secure unconditional funding.
- Support letters from financing banks should be included in the Price Confirmation, should you intend to use external financing.
- A description of internal and external conditions which any binding offer would be subject to, including (if applicable) an outline of any approvals, consents and authorisations which you require or have already received to consummate a transaction, together with the estimated timing for obtaining such approvals, consents and authorisations.

(v) The outline of the planned transaction structure

- Description of the planned transaction structure which the Price Confirmation is based on and linked to the valuation.

(vi) Due diligence requirements

- A description of the due diligence requirements in your due diligence review during the Phase III of the Sale Process, prior to submitting a binding offer, including details of any additional information you would require as well as the possible requirements of your financing providers.
- Confirmation that you have engaged and appointed relevant advisers regarding due diligence and other work streams for the Phase III of the Sale Process.
- Confirmation that you are able to complete the due diligence process by the end of August 2023 given needed access to information.

(vii) Targeted timetable

- A confirmation that you will be able to adhere to the timetable of the Sale Process as set out in this letter.

(viii) Other information

- Any other information which you may consider relevant in connection with the Indication which could assist the Owner in evaluating the merits of your Price Confirmation.

(ix) W&I insurance

- Should the Prospective Acquirer be willing to insure the Acquisition with a W&I insurance, it will be considered as their benefit while proceeding in the Sales Process - provided that such insurance policy will actually limit the Seller's liability arising from the share sale and purchase agreement.

(x) Net Debt and Net Working Capital calculations

- Prospective Acquirer should present a proposal of normalized net working capital based on the information in the financial fact book.
- Prospective Acquirer must present a confirmation that the net working capital and the net debt items/accounts presented in the financial fact book are sufficient with the final proceeding calculations and no other items will be accepted as a part of those calculations afterwards.

3. Overview of the Phase III

Following receipt of the Price Confirmation, one Prospective Acquirer is invited to Phase III of the Sale Process. In Phase III, the Prospective Acquirer is provided with the following information:

- Further information on the Sale Process in a process letter;
- An opportunity to have meetings with the management of Etelä-Savon Energia in a management presentation and workshops;
- Financial, commercial, technical, legal and other additional information in a virtual dataroom and the opportunity to submit questions through the Q&A function;

The Phase III of the Sale Process is scheduled to commence after the summer break (Summer break will be effective in the beginning of July) during the week beginning 31st July, 2023. Phase III is scheduled to be finalised during the week beginning 28th of August, 2023.

4. Objectives of the Owner

The Sale Process concerns a minority holding (49.0%) of the shares of Etelä-Savon Energia Oy. The objective of Mikkeli is to divest the holding on terms which reflect highest possible cash value and otherwise acceptable terms.

Mikkeli is also seeking an active majority owner and a long-term partner with experience and knowledge to contribute to the development and value of the Company. Additionally, the partner could contribute to other possible infrastructure development opportunities in the region.

The Memorandum and the Model incorporate guidelines of a business plan which has been estimated by the management of the Company. The most important items within the plan are electricity distribution tariffs, district heating tariffs and CAPEX rationality and efficiency of electricity distribution.



Mikkeli intends to complete (including the mandatory appeal period related to public decision making) the Sale Process during the Q3 of 2023.

5. Other matters

Mikkeli and KPMG reserve the right, exercisable at their sole discretion, without giving reasons therefore at any time and in any respect to amend or terminate the Sale Process, to terminate discussions with any or all Prospective Acquirers, to withhold any or all information from any party, to reject any or all proposals received or to negotiate with any party with respect to a transaction involving the Company.

Each Prospective Acquirers will bear all costs of its own investigation and evaluation of the Company including the fees and disbursements of its own advisers. Neither this letter nor the Memorandum or the Model shall constitute an offer to sell shares in the Company. Mikkeli and KPMG expressly disclaim any and all liability for representations, warranties or statements contained in this letter or in any other written material furnished or information orally transmitted to any Prospective Acquirer. This letter and all discussions concerning Project HQ are strictly confidential and subject to the terms of the NDU you have entered into.

6. Communication and KPMG's contact persons

All communication or enquiries relating to the Sale Process should be directed to KPMG's contact persons. Under no circumstances should you, or any party connected with or related to you, approach Mikkeli, the Company, its management or employees, or any of their subsidiaries, associated companies, customers, suppliers, competitors in connection (directly or indirectly) with the Sale Process unless specific written permission is obtained in advance from KPMG. Failure to comply with this may result in disqualification from the Sale Process.

KPMG's contact persons in connection with the Sale Process are the following:

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On behalf of Mikkeli, we would like to thank you for your interest in Project HQ. Should you have any questions regarding the Sale Process, please do not hesitate to contact us.

Yours sincerely,

Harri Räsänen