

Year-End Report. January–December 2017.

Accelerated investments transforming the energy system.

January–December 2017

- Net sales amounted to SEK 6,894 (6,537) million
 - Distributed electricity amounted to a total of 27.1 (27.1) TWh
 - Operating profit amounted to SEK 2,161 (1,929) million
 - Free cash flow totalled SEK 1,748 (1,406) million
 - Capital expenditure amounted to SEK 2,381 (2,076) million
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CEO comment

We have for several years been working for the possibility of harmonising prices between our different geographical network areas. Network prices currently differ substantially between rural and urban areas. Customer prices are much higher in rural areas with fewer customers to share the costs of the networks, and the price difference will only increase as urbanisation continues. A difference we want to equalize – we believe everyone has the right to a sustainable and reliable electricity supply regardless of where you live.

In the end of October 2017, we were given an approval from the Energy Markets Inspectorate to proceed with the price harmonization. The decision means that the prices between Ellevio's urban and rural network areas will converge over time, with moderate price increases in urban areas and price decreases in rural areas. As a first step in this process, Ellevio therefore decreased the prices for customers in Värmland, Skaraborg and Närke with 5 per cent as from December 1, 2017.

Our long-term goal is that all customers will pay the same price for equal subscriptions regardless of where in Sweden they live.

Building for future generations

Our investments in transforming the energy system has continued according to plan during the year. The power grid is at the centre of the transformation, requiring substantial investments to ensure that an efficient and sustainable energy system in our society becomes a reality. It is crucial for the energy transformation that the distribution network operators are able to continue to do the investments needed for the future.

With this vision in mind, Ellevio is now embarking on its largest undertaking since the 60's and 70's. We are building reliable, flexible and smart electricity distribution networks, enabling our customers to take control over their own individual production and consumption needs, while also allowing for a safer energy system with a larger share of renewable energy to emerge. Between 2016 and 2019 we will invest approximately SEK 10 billion in our power grids in order to strengthen and modernise the networks. These improvements include renewal and continuing weather proofing in the rural areas, as well as the work to modernize and increase capacity in the growing city of Stockholm and Gothenburg area. Improvements to be able to connect more renewable electricity is another important investment area going forward.

At a time when we have doubled our investments, many more contractors are working in the field, making our safety work more central to us than ever before. Safety must come first - in all situations. It is the foundation of a sustainable electricity grid and a prerequisite for our entire business.

During the second half of 2017, we have initiated several important and exciting projects. In one of Sweden's largest wind power projects, Ellevio will together with the national grid operator Svenska kraftnät, build an entirely new substation. The station will open up for new possibilities for wind power in Hälsingland and Gästrikland. Another interesting and complex project is the modernisation of the power grids in the Gothenburg and West Coast area. About 27,000 customers will have a future-proof power grid following this project. The West Coast area of Sweden is often exposed to hard weather which increases the risk for power failures. Replacing overhead lines with underground cables will make the grids more resistant and reliable. In addition the installation of components for remote control makes it possible to limit the impact and re-route electricity during power failures. Our goal is that our customers should receive an uninterrupted supply of electricity – today, tomorrow and in the future.

A changing market structure

The energy transformation also has another effect, an effect on our market structure. Sweden is unique in having such a large number of distribution network operators, at present more than 160, many of them small. The development of the networks that is needed going forward requires massive investments. We believe this could lead to consolidation, which would yield enhanced efficiency in the market. Something that would benefit the customers and the society at large. During the year we have integrated Nynäshamn Energi and most recently Ellevio Group finalized the acquisition of the majority of the shares in Elverket Vallentuna. The integration of Elverket and its employees into Ellevio AB will take place during 2018.

Johan Lindehag
CEO Ellevio AB (publ)

Regulatory update

Electricity distribution is a natural monopoly and as such a fully regulated business. This means that Ellevio operates under a regulatory framework, and is supervised by a government agency, the Swedish Energy Markets Inspectorate (Ei). Ei's remit is to ensure fair prices for electricity users, secure reliable electricity supply and facilitate reasonable returns for investors in the network. Ei decides how much distribution network operators like Ellevio are allowed to charge. These limits are known as the allowed revenue and the levels are determined in advance for four years at a time in an ex ante regulation process. According to the Swedish Electricity Act, the electricity network charges paid by customers must be fair, objective and non-discriminatory.

The current regulatory framework aims to stimulate new investments in the network. At its essence, this is a good framework. However, there are parameters where the views of the industry and the authority differ. The most important of these is the cost of capital, where the industry argues that it should be based on a long-term perspective to reflect the long-term nature of network investments (40 years). In 2015, Ellevio and the majority of the Swedish network industry therefore appealed Ei's decision regarding the cost of capital. In December 2016, the Administrative Court decided on a cost of capital of 5.85 percent. Ei appealed the decision to the Administrative Court of Appeal. In November 2017 it was announced that Ei would not receive leave of appeal. Ei did not overrule the decision. That means that the verdict from the Administrative Court in December 2016 on a cost of capital of 5.85 percent is final for the regulatory period of 2016 to 2019.

The work on establishing the regulations for the third regulatory period, 2020–2023, is ongoing. In October Ei delivered a report to the Ministry with suggested changes to the regulation. The proposed changes included a decreased cost of capital, which would be a return to a more short-term regulation. A decision regarding the coming regulation period will be taken in the end of 2018. Ellevio will continue to engage in a constructive dialogue with all relevant stakeholders in order to work for a reasonable cost of capital taking the industry's long term investment horizons into consideration.

An important issue that Ellevio has been pursuing for years is the possibility of harmonising prices between its network areas. The legal framework in this area has not been entirely clear. In October 2017, Ei announced that Ellevio could proceed with the price harmonization. Ellevio could therefore initiate a first price decrease in the end of the year for its customers in areas with the highest prices. The ambition is that all customers should pay the same price for a similar contract.



Customer Relations

Ellevio's customers are spread across the West Coast, central Sweden, and the Stockholm area. A major part of the electricity network is located in the countryside, while the majority of customers are in Stockholm. Between July and December 2017, Ellevio welcomed approximately new 3,000 customers to its network, yielding a total of approximately 939,000 customers at the end of year. In total the number of customers increased with nearly 21,000 during 2017, of which 16,000 relates to the integration of Nynäshamn Energi. Ellevio specifically welcomed our new customers in Nynäshamn, through welcome communication and by attending "Nynäskalaset", a local music festival during three days in August.

Clear, proactive and accurate information, rapid repairs and digital services are important aspects of customers' confidence in Ellevio. Digital services and self-service are standard these days and something that customers expect. Ellevio uses digital channels to offer customers both information about local investment projects,

as well as the opportunity to self-manage services, such as moving notifications, requests for compensation, notifications of change of address, account selections and digital signature of offers for new connections. During the period, a first concept study has been performed regarding sending information about planned outages adjacent to investment projects, to customers via automated messages by phone and text messages. In addition, Ellevio has conducted several customer information meetings in order to proactively handle questions and concerns relating to the large investment projects, during the year.

From the first of January 2018 the energy tax will be transferred from the electricity sales companies to the distribution companies. In order to minimize confusion and criticism for increased prices Ellevio launched an information campaign in the end of 2017, including invoice information, e-mails and proactive outreach to large business customers.

Safety

In 2017, Ellevio embarked on a journey to improve the safety focus in the company and in the industry. The aim of Ellevio's safety programme, "Safe workplace", is to secure that everybody working for Ellevio – own staff and contractors – return safely home after a day's work.

A majority of the safety enhancing activities involve Ellevio's partners in one way or another. Ellevio has therefor further developed our audit process with both announced audits and unannounced site visits, so called flying audits. During the year we have increased the number of flying audits with more than 70 per cent. We have also intensified the work with Supplier Code of Conduct audits, focusing on health and safety as well as ethical compliance.

In addition, Ellevio has during the year continued to improve the evaluation process for new contractors, where we have

systematized and further developed the evaluation of sustainability requirements. In 2018, we will continue to develop the tool with a self-assessment that contractors will answer in the procurement processes and where the follow-up work will be adapted based on their response.

The Safe workplace programme was first presented for contractors in November 2016. During Ellevio's contractor day 2017 the safety programme and strategy was presented in detail. Ellevio also launched its new Safety Award.

In total Ellevio had one accident resulting in sick leave during 2017.



Earnings and financial position.

Financial result

In 2017 net sales amounted to SEK 6,894 (6,537) million. The increase in net sales was mainly due to the acquisition and merger of Nynäshamn Energi and a price increase in the Stockholm area in June. The volume of local and regional network transmissions during 2017 totalled 14.3 (14.2) TWh and 12.8 (12.9) TWh, respectively. EBITDA totalled SEK 4,207 (3,946) million and operating profit totalled SEK 2,161 (1,929) million.

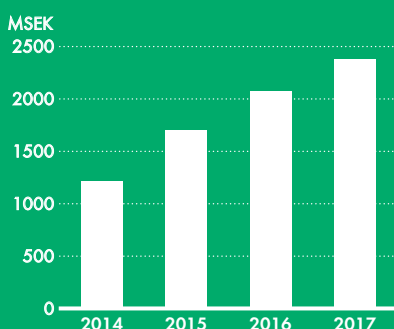
Net financial income/expense were SEK -2,911 (-3,298) million, of which SEK -1,656 (-1,652) million were related to Group internal interest expenses and SEK -1,256 (-1,647) million external interest expenses. The external interest expenses include changes in the fair value of financial instruments of SEK 127 (-481) million as well as SEK -154 (-289) million in transaction costs mainly related to the original acquisition financing. Excluding the items above the external interest expenses have increased with SEK 353 million compared to 2016 due to the extended debt maturity profile and interest rate duration from re-financing activities conducted in late 2016 and early 2017.

Loss after financial items amounted to SEK -750 (-1,369) million.

Profit for the year was SEK 288 (-239) million.

SEK million	Jan-Dec 2017	Jan-Dec 2016	Jul-Dec 2017	Jul-Dec 2016
Net sales	6,894	6,537	3,356	3,238
EBITDA	4,207	3,946	1,977	1,901
Operating profit	2,161	1,929	948	885
Profit/loss after net financial income/expense	-750	-1,369	-466	-1,148
Profit/loss for the period	288	-239	641	44
Free cash flow	1,748	1,406	479	462
Capital expenditure	2,381	2,076	1,406	1,284
Total assets	80,048	76,968	80,048	76,968
Total equity	6,201	5,923	6,201	5,923
Equity/assets ratio	8.8%	8.5%	8.8%	8.5%
External net debt	35,528	34,075	35,528	34,075
Leverage ratio	8.4x	8.6x	8.4x	8.6x
Interest cover ratio	3.3x	4.1x	3.3x	4.1x

Capital expenditure 2014-2017



In 2015, Ellevio launched a major investment programme including renewal, capacity and weather proofing. During 2017 Ellevio invested SEK 2,381 million in the programme.



Financial position and cash flow

In 2017, cash flow from operating activities increased by SEK 654 million to SEK 4,117 (3,463) million, mainly due to SEK 261 million higher EBITDA, SEK 165 million lower income taxes paid and SEK 210 million higher contribution from changes in working capital. The cash flow from operations in 2016 was negatively impacted by retroactive tax payment from 2015 of SEK 154 million. Change in working capital 2017 contributed with SEK 86 (-125) million.

Paid capital expenditure increased by SEK -311 million to SEK -2,368 (-2,057) million, as a result of a successful ramp-up of the network investment volumes. In addition, cash flow for 2017 includes an intra-Group acquisition of the shares in Nynäshamn Energi AB from Ellevio Holding 1 AB in the amount of SEK -438 million. Free cash flow amounted to SEK 1,748 (1,406) million and cash flow before financing activities to SEK 1,314 (1,406) million.

Net interest paid amounted to SEK -2,093 (-2,418) million, of which external interest relating to senior debt accounted for SEK -1,082 (-828) million and intra-Group interest for SEK -1,012 (-1,590) million. The internal interest is indirectly relating to the junior debt SEK -149 (-152) million and to shareholder loans SEK -863 (-1,438) million.

The external interest bearing net debt increased by SEK 1,453 million to SEK 35,528 (34,075) million, including SEK 650 million raised to finance the acquisition of Elverket Vallentuna AB done by Ellevio Holding 1 AB.

Financing

During 2017, Ellevio raised SEK 13 billion of new long term financing in a series of financing transactions, with the purpose to refinance existing bank debt and to finance the company's investment program.

In January, Ellevio issued a SEK 675 million 15-year fixed-rate bond. The transaction was followed in February by a public transaction in the Swedish market, whereby Ellevio issued a dual-tranche bond comprising a 3-year tranche and a 7-year tranche in the amounts of SEK 3,500 million and 6,500 million, respectively. The bond attracted strong investor demand and the transaction represents the largest corporate Swedish Krona bond issue to this date.

In February, Ellevio signed a EUR 250 million loan facility from the European Investment Bank to finance part of the company's investments during 2017-2019 in a reliable and sustainable power network. The full facility amount was drawn during the first half of 2017, whereby Ellevio raised a 15-year loan in Swedish Krona amounting to approximately SEK 2,372 million under the facility.

The proceeds from the new financing were used to refinance a majority of the bank loan raised in conjunction with the acquisition of Ellevio in 2015. In the end of December 2017, the outstanding amount under the bank loan was SEK 373 (12,967) million.

The amount drawn under the existing SEK 8,100 million Revolving Capex Facility increased by SEK 1,050 million during the year and as per end of December 2017, SEK 2,700 (1,650) million was drawn under the Facility.

Ellevio's senior debt is rated "BBB" (stable outlook) by Standard and Poor's.

Significant events after the end of the period.

In the beginning of February 2018, Ellevio AB (publ) issued a 7-year fixed class B bond amounting to SEK 3 billion, in order to further enhance the capital structure and pay back existing junior debt in the Group. The transaction represents the first Class B debt ever issued in the Swedish market. The financial structure of Ellevio follows an established framework commonly used to finance infrastructure assets e.g. regulated water utilities, power grids and airport operators.



Condensed income statement.

SEK million	1 Jan 2017 31 Dec 2017	1 Jan 2016 31 Dec 2016	1 Jul 2017 31 Dec 2017	1 Jul 2016 31 Dec 2016
Net sales	6,894	6,537	3,356	3,238
Capitalised own work	70	70	36	34
Other income	70	67	38	37
	7,034	6,674	3,430	3,308
OPERATING EXPENSES				
Costs for purchase and transit of power	-1,023	-1,089	-497	-522
Other operating expenses	-1,384	-1,259	-745	-683
Employee benefit expenses	-419	-381	-210	-203
Depreciation and amortisation	-2,046	-2,016	-1,029	-1,016
Operating profit	2,161	1,929	948	885
FINANCIAL INCOME AND EXPENSES				
Interest income and similar items	1	1	0	0
Interest expenses and similar items	-2,912	-3,299	-1,415	-2,034
Profit/loss after net financial income/expenses	-750	-1,369	-466	-1,148
Appropriations	1,207	1,148	1,207	1,148
Profit/loss before tax	457	-221	741	-1
Income tax expense	-169	-18	-100	44
PROFIT/LOSS FOR THE PERIOD	288	-239	641	44

The company has no transactions in other comprehensive income. This means that comprehensive income for the year corresponds to profit for the year above. As a result no separate statement of comprehensive income is presented.

Condensed balance sheet.

SEK million	31 Dec 2017	31 Dec 2016
ASSETS		
NON-CURRENT ASSETS		
Intangible assets	44,866	45,393
Property, plant and equipment	29,718	28,398
Non-current financial assets	2,138	0
Total non-current assets	76,721	73,791
CURRENT ASSETS		
Current receivables		
Trade receivables	632	556
Receivables from Group companies	1,493	1,496
Other current receivables	155	80
Pre-paid expenses and accrued income	1,037	990
Total current receivables	3,317	3,122
Cash and cash equivalents	10	55
Total current assets	3,327	3,177
TOTAL ASSETS	80,048	76,968
EQUITY AND LIABILITIES		
Equity		
Share capital	1	1
Other reserves	20	13
Retained earnings	5,893	6,149
Profit/loss for the period	288	-239
Total equity	6,201	5,923
Untaxed reserves	1,069	783
Deferred tax liability	14,005	13,961
Other provisions	0	-
NON-CURRENT LIABILITIES		
Bond loans	29,749	19,099
Liabilities to credit institutions	5,005	14,513
Liabilities to Group companies	21,131	20,490
Derivative instruments	388	515
Other non-current liabilities	12	12
Total non-current liabilities	56,285	54,629
CURRENT LIABILITIES		
Liabilities to credit institutions	509	130
Trade payables	607	557
Liabilities to Group companies	38	37
Current tax liabilities	29	38
Other current liabilities	361	251
Accrued expenses and pre-paid income	944	658
Total current liabilities	2,487	1,672
TOTAL EQUITY AND LIABILITIES	80,048	76,968

Condensed cash flow statement.

SEK million	1 Jan 2017 31 Dec 2017	1 Jan 2016 31 Dec 2016	1 Jul 2017 31 Dec 2017	1 Jul 2016 31 Dec 2016
CASH FLOW FROM OPERATING ACTIVITIES				
Operating profit	2,161	1,929	948	885
Adjustments for non-cash items:				
Depreciation and amortisation	2,046	2,016	1,029	1,016
Disposals/retirements of non-current assets	23	0	24	-
Change in provision for doubtful receivables	0	6	1	6
Income tax paid	-199	-364	-18	-110
Cash flow from operating activities before changes in WC	4,031	3,587	1,984	1,797
CHANGES IN WORKING CAPITAL				
Decrease(+)/increase(-) in trade receivables	-76	-178	-182	-427
Decrease(+)/increase(-) in other operating receivables	-79	2	-291	-19
Decrease(-)/increase(+) in trade payables	25	-213	25	4
Decrease(-)/increase(+) in other operating liabilities	215	264	177	221
Cash flow from operating activities	4,117	3,463	1,713	1,576
INVESTING ACTIVITIES				
Capital expenditure in intangible assets	-64	-55	-42	-23
Capital expenditure in property, plant and equipment	-2,305	-2,002	-1,192	-1,090
Acquisition of shares	-438	-	-	-
Proceeds from sales of fixed assets	4	-	0	-
Cash flow from investing activities	-2,802	-2,057	-1,234	-1,114
Cash flow before financing activities	1,314	1,406	479	462
FINANCING ACTIVITIES				
Borrowings	14,063	14,295	1,847	13,820
Repayment of borrowings	-12,695	-13,348	-589	-13,076
Issued loans	-650	-	-650	-
Received interest	1	1	0	1
Paid interest	-2,094	-2,418	-1,088	-1,188
Cash flow from financing activities	-1,374	-1,471	-479	-444
CASH FLOW FOR THE PERIOD	-60	-66	0	18
Cash and cash equivalents at beginning of period	55	121	9	37
Cash in merged company	15	-	-	-
Cash and cash equivalents at end of period	10	55	10	55

Definitions.

Adjusted cash

Cash and cash equivalents less customer deposits

Adjusted EBITDA

EBITDA less exceptional items, such as restructuring costs, gains/losses from sales of fixed assets and scrapping of assets

Adjusted equity

Total equity adjusted by 78 percent of the untaxed reserves

Capital expenditure

Capitalised investments in property, plant and equipment and intangible assets

EBITDA

Operating profit excluding depreciation and amortisation

Equity/assets ratio

Adjusted equity expressed as a percentage of total assets

External financial items

Net financial income/expense less intra-Group interest, unrealised results from derivatives and transaction costs related to financing activities

External net debt

External interest-bearing liabilities less adjusted cash

Free cash flow

Cash flow from operating activities less paid capital expenditure

Interest cover ratio

Adjusted EBITDA less paid tax divided by external financial items

Leverage ratio

External net debt end of period divided by adjusted EBITDA for the last 12 months

The company presents certain financial measures in the annual report that are not defined according to IFRS. The company considers that these measures provide valuable supplementary information for investors and company management, as they enable an assessment and benchmarking of the company's performance. Since not all

companies calculate financial measures in the same way, these are not always comparable to measures used by other companies. These financial measures should not therefore be regarded as substitutes for measures defined according to IFRS. The above key ratios are not defined according to IFRS, unless otherwise stated.

The Board of Directors and CEO of Ellevio AB (publ) confirm that the Year-End Report gives a fair presentation of the operations and financial results. Unless otherwise stated, amounts in tables refer to millions of Swedish Krona (SEK million). Due to rounding of amounts to the nearest million Swedish Krona, some totals may not be exactly equal to the sum of all line items. There are no requirements to prepare interim financial statements for an issuer with securities admitted to trading on the Irish Stock Exchange. Since chapter 9 of the annual accounts act (interim reporting) is not applicable to the company this year-end report is prepared on a voluntary basis. The Report has not been reviewed by the company's auditors.

For further information contact

Maria Bang, Communications, maria.bang@ellevio.se
Anna-Karin Käck, Finance, anna-karin.kack@ellevio.se

Ellevio AB (publ)
Box 242 07, SE-104 51 STOCKHOLM
Corp. ID no. 556037-7326
ellevio.se
