

Half Year Report. January - June 2019.

Business review.

Key financials January–June 2019

- Net sales amounted to SEK 3,662 million (3,542)
- Distributed electricity amounted to a total of 13.9 TWh (14.3)
- Operating profit amounted to SEK 1,161 million (1,217)
- Free cash flow totalled SEK 1,346 million (1,912)
- Capital expenditure amounted to SEK 1,266 million (1,022)

Business operations

Entering 2019, the last year of the regulatory period 2016–2019, Ellevio could look back on investments on historical high levels. The first six months of 2019 was not an exception, Ellevio has during the period a capital expenditure of SEK 1,266 million. Major demands are being placed on reliable, flexible and smart electricity networks, even though these networks are already currently on the cusp of capacity shortages in many areas. The need for investments in the future-proofing of Sweden will remain for the foreseeable future. Ellevio has the will and the knowledge to continue our investment programme for decades to come but the industry need to have reasonable and stable conditions, in order to be able to continue to make the necessary investments.

In Stockholm, Ellevio's largest network area in terms of customers, the focus has been on securing capacity and renewing the ageing power grid. Several large projects have been initiated during the period, among others the rebuilding of a primary substation in Stockholm, "Värtan", as well as the rebuilding of the 220kV power line between Beckomberga and Bredäng. The two projects are important pieces in securing a reliable security of supply for the growing Stockholm.

One of the most debated energy related questions during the period has been the rising threat for capacity shortages in and around the growing urban areas, such as for example the Stockholm metropolitan area, but also in other areas in the south of Sweden. The shortage is due to a lack of transmission capacity in the national grid during the coming ten years. Ellevio is working intensively together with different stakeholders to find solutions both in the short and in the long term to the problem. If a solution is not found in the short term Ellevio will find itself in a situation where the company must consider to postpone larger new connections in the Stockholm region.

One long-term solution will be the implementation of the next generation of smart electricity meters. During the first six months of the year, Ellevio has taken several important steps in this crucial project. Two major agreements have been signed to supply the next generation of meters and metering system. The first new meters will be installed during a pilot project in Stockholm between April 2020 and September 2020. All meters will be installed before the end of 2023.

In the beginning of 2019, Ellevio announced the investments plans for the next regulation period, 2020–2023. Ellevio has modified the plans in order to adjust to the new regulatory framework with decreased allowed revenue. During the period, Ellevio plan to invest 4.3 billion into the network, so called base investments which includes reinvestments and investments in increased

capacity in the existing network. This implies more than 40 per cent decrease compared to the original plans and to the investments in 2016–2019.

The focus of the investments will be to continue weatherproofing in rural areas and securing capacity in the urban areas enabling for instance the extension of the subway in Stockholm. It is Ellevio's view that the regulatory framework does not support the long-term target to secure the continued high reliability of the network and to enable the transition to a climate-smart society. The company have made hard prioritization in the investment plans focusing on the most important projects for our customers and for the society.

In the beginning of the year, Sweden was hit by the storm Alfrida. Winds of more than 108 kilometres per hour uprooted trees and dislodged objects, causing transport disruption and power blackouts. Most of Ellevio's network areas was, in comparison with other parts of Sweden, less affected with no or a limited number of affected customers. The main exception were the eastern network areas of Vallentuna, Nynäshamn, Ekerö and Täby, were customers had a longer period of power blackout.

Customer relations

During the first six months of 2019, Ellevio welcomed approximately 3,000 new customers to the company, yielding a total of 960,000 customers at the end of the period.

In comparison with base investments, the customer driven investments shows a stable increasing trend, both in the small scale such as micro producing customers and in the large scale with wind power parks. In the first six months of 2019, the requests for installation of solar panels increased with 98 per cent compared to the same period last year, from 658 installed solar panels the first six months of 2018 to 1,283 during the same period 2019. Ellevio expect the trend to continue, and as early as 2020 we may have some 15,000 small scale solar energy producing customers. Ellevio is working actively to connect wind power by way of close collaborations with wind power developers and has during the period signed several large agreements. To mention a few projects, in Kronoberget in Närke, a wind power park of 16 power turbines and 60 MW, with an estimated yearly production of 200 GWh, has been connected to the power grid.

In addition, Ellevio has signed two connection agreements. The first project is Olingan, in Härjedalen, with a planned installed effect of 300 MW and the second Frykdalshöjden, in Värmland, with a planned installed effect of 40 MW.

As part of the price harmonization, which started in 2017, Ellevio implemented 1 January 2019 a price decrease of circa 5 per cent for the local network customers on the West coast.

In June, an agreement with GodEl as assigned electricity supplier for Ellevio's customers took effect. If a customer moves and does not make an active choice of electricity sales company, the customer is automatically given a so-called assigned agreement with an electricity sales company, in order to not stand without electricity in the new home or office. Historically, this kind of agreement has been less favourable for the customers. In order to provide these customers with a better agreement, Ellevio turned to the open market, which has never been done previously in the Swedish market. The agreement with the chosen company, GodEl, will provide Ellevio's customers with environmental friendly electricity to a very competitive price.

Acquisitions and integration

Ellevio's strategy for growth through acquisitions is firmly established and we continuously assess potential acquisitions as we are convinced that a consolidation of the sector is the best thing for customers, society and the energy transition process as a whole. Many of the companies in the fragmented Swedish markets are small and limited to individual municipalities or cities. We believe that the major need for investment to maintain security of supply and develop electricity networks ahead of future demands and stricter efficiency enhancement requirements will contribute to change.

In January 2019 Ellevio AB acquired shares in three asset owning companies related to Laforsen sub-station in the amount of 44 MSEK. The business operations have during the period been integrated with Ellevio's regional network and mergers with Ellevio AB have been initiated.

Safety

Ellevio's Safe workplace programme – the route to our "zero vision", is making progress. During the period Ellevio has conducted a pilot project with three of the largest contractors in order to decrease the number of accidents and incidents on low voltage electricity work, a high risk area within electricity work. The pilot will be concluded after the summer.

In order to learn from other sectors and expand our collaborations, Ellevio joined, in 2018, the construction and real estate industry "Håll Nollan" (Keep to Zero) safety initiative as the first energy company. In February Ellevio was one of three nominees to the initiative's Health and safety prize, the largest award within this area in Sweden. The purpose of the prize is to reward and highlight good safety work in the construction and real estate industry.

Two work related accidents resulting in temporary sick leave were reported in the period from January to June, 2019. However no severe accidents were reported. Ellevio's internal investigation following the fatal accident of a contractor in connection to the storm Knud in September 2018 has been concluded. Key learnings have been evaluated and instructions have been further clarified in order to mitigate the risk for similar accidents in the future. The investigations from the authorities have not been finalized.

Regulatory update

The work on establishing the regulatory framework for the next regulatory period, 2020–2023, is ongoing. In March, Ellevio delivered its applications for allowed revenue to the Swedish Energy Markets Inspectorate (Ei) specifying a decrease of 40 per cent in the company's planned base investments due to the new regulatory framework with decreased allowed revenue.

In June Ei served the first four decisions regarding allowed revenue for the next period. Ellevio is not subject to these decisions, but expect to receive the formal decision in the next few months and before the due date 31 October 2019. In the decisions from Ei, a WACC (weighted average cost of capital) of 2.16 per cent has been established for the industry (expressed as real WACC before taxes). The decisions have been appealed to the Administrative Court by the companies in question.

The European Commission has sent a letter addressed to the Swedish government regarding the regulatory framework for 2020–2023, arguing that the framework may violate EU legislation. Ellevio follows the progress in this process.

It is Ellevio's view that the decided new level of WACC is far from sufficient to enable the investment levels needed to fulfil society's demand for reliability and continued growth, nor to reach the climate targets. The energy transition towards renewable production and the electrification of the transport sector demands smart modern power grids, in terms of flexibility, capacity and efficiency. The time horizon for investments in this industry are long, often more than 40–50 years and the essence of long term predictable and stable regulation could not be underestimated.

Ellevio will strive to ensure that stakeholders in the market have a mutual understanding of the important role the power grid will have in building a climate-friendly society, and a common view of what is needed to succeed. We will work actively to enable a close dialogue with the policy makers to build trust and to achieve a long-term and stable regulation that creates the required investment conditions.

In September 2018, the Administrative Court in Linköping ruled that the regulatory deficit from 2012–2015 can be carried over to 2020–2023, contrary to Ei's final decisions on the regulatory period 2012–2015. Ei appealed the verdict to the Administrative Court of Appeal in Jönköping, which ruled in favour of the industry in February 2019.

About the regulation

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 nondiscriminatory.

Earnings and financial position.

Financial result

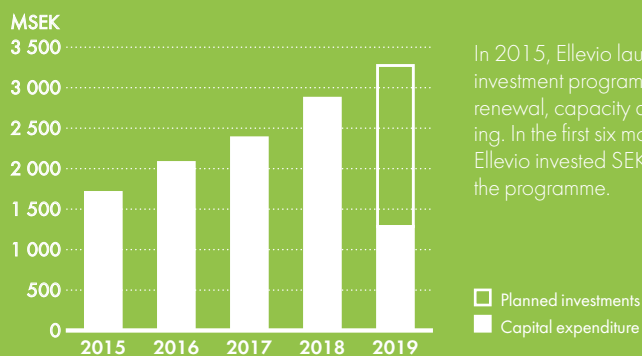
Net sales for the first half year 2019 totalled SEK 3,662 million (3,542). The net sales increased, mainly as a result of the merger of Elverket Vallentuna during the autumn 2018 and a net impact from the price increase in Stockholm during fall 2018 and the price decrease in the West Coast in the beginning of 2019. The volume of local and regional network transmissions from January to June totalled 7.6 TWh (7.7) and 6.3 TWh (6.6), respectively. EBITDA totalled SEK 2,249 million (2,252) and operating profit totalled SEK 1,161 million (1,217). The operating profit was negatively impacted with SEK 33 million from the storm Alfrida that hit Sweden during January this year.

Interest expense and similar items were SEK -1,383 million (-1,574), of which SEK -815 million (-858) were related to Group internal interest expenses and SEK -568 million (-715) to external interest expenses. The external interest expenses include changes in the fair value of financial instruments of SEK +13 million (-42) as well as SEK -18 million (-27) in transaction costs related to financing activities. Excluding the items above the external interest expenses have decreased with SEK 83 million compared to 2018, mainly due to lower average interest rate on loans and hedging arrangements. Loss after financial items amounted to SEK -222 million (-356).

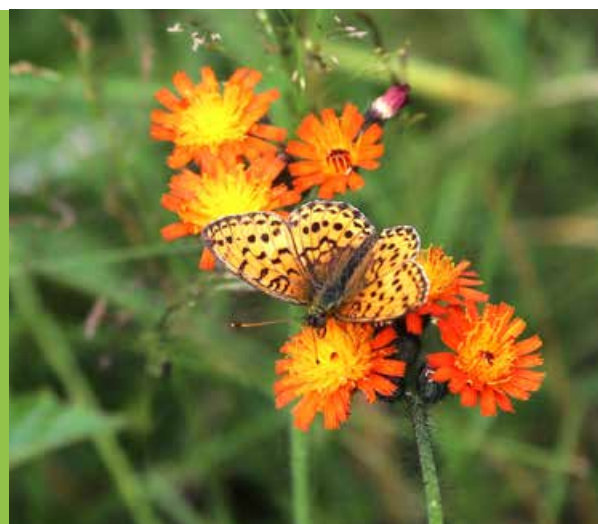
Profit for the period amounted to SEK -315 million (438). During 2018 the deferred tax liabilities was re-evaluated due to a decision in the Parliament to decrease the Swedish Corporate tax rate to 21,4 per cent in 2019 and 20,6 per cent in 2021, impacting the income tax positively with SEK 883 million in the half year results of 2018.

MSEK	Jan-Jun 2019	Jan-Jun 2018	Full year 2018
Net sales	3,662	3,542	6,974
EBITDA	2,249	2,252	4,188
Comparable EBITDA	2,252	2,252	4,227
Operating profit	1,161	1,217	2,067
Profit/loss after net financial income/expense	-222	-356	-893
Profit/loss for the period	-315	438	1,280
Free cash flow	1,346	1,912	2,065
Capital expenditure	1,266	1,022	2,870
Total assets	83,129	80,282	83,543
Total equity	7,047	6,639	7,361
Equity/assets ratio	9.6%	9.3%	9.9%
External net debt	38,051	37,915	38,649
Leverage ratio	9.0x	8.9x	9.1x
Interest cover ratio	2.6x	3.1x	2.4x
Class A net debt	35,068	34,934	35,666
Class A leverage ratio	8.3x	8.2x	8.4x
Class A interest cover ratio	2.7x	3.4x	2.5x

Capital expenditure 2015-2019



In 2015, Ellevio launched a major investment programme including renewal, capacity and weather proofing. In the first six months of 2019 Ellevio invested SEK 1,266 million in the programme.



Financial position and cash flow

Cash flow from operating activities for the first half year decreased by SEK 139 million to SEK 2,939 million (3,078), mainly as a net impact from increase in received connection fees of SEK 127 million and a decrease in contributions from changes in working capital of SEK -306 million. The decrease from change in working capital is primarily related to energy tax, which from the 1 January 2018 is collected by the distribution companies instead of the electricity suppliers which resulted in a positive one-time impact during 2018. Change in working capital contributed with SEK 497 million (803).

Paid capital expenditure increased by SEK 427 million to SEK -1,593 million (-1,165). In addition, cash flow for 2019 includes acquisition of shares in three asset owning companies related to Laforsen sub-station in the amount of -44 MSEK and cash flow for 2018 includes an intra-Group acquisition of the shares in Elverket Vallentuna AB from Ellevio Holding 1 AB in the amount of SEK -627 million. Free cash flow amounted to SEK 1,346 million (1,912) and cash flow before financing activities to SEK 1,301 million (1,286).

Paid interest amounted to SEK -703 million (-1,271), of which SEK -703 million (-669) consist of external interest payments. During 2019 there has not been any intra-Group interest paid. The Group internal interest in 2018 amounted to SEK -602 million indirectly related to interest on shareholder loans SEK -500 million and junior debt SEK -102 million that was fully repaid during 2018.

The external net debt (Class A and Class B) amounted to SEK 38,051 million (37,915). Since year-end 2018 the external net debt has decreased by SEK 597 million.

Financing

Ellevio concluded a series of financing and hedging transactions during the first half of 2019. The purpose of these transactions were to secure financing of the company's ongoing investment program, and to extend and smoothen the interest rate maturity profile.

In January 2019 Ellevio refinanced the remaining facility amount (SEK 8,200 million) under the original acquisition debt facility from 2015. The original facility due 2020 was cancelled and replaced with a new senior secured (Class A) revolving credit facility ("RCF") of SEK 7,500 million maturing in 2024. The new facility may be used for financing of maturing debt, capital expenditure and for general corporate purposes. As a part of the restructuring of the RCF, Ellevio also refinanced and extended the existing senior secured (Class A) and subordinated (Class B) liquidity facilities ("LF") of SEK 1,400 million and SEK 100 million respectively. The new extend LF facilities matures in 2024. The LF facilities may only be used to finance liquidity shortfalls amounts under Class A and Class B debt issued by Ellevio. The new facilities was syndicated in equal amounts to Ellevio's 12 relationship banks, with each bank committing to SEK 750 million.

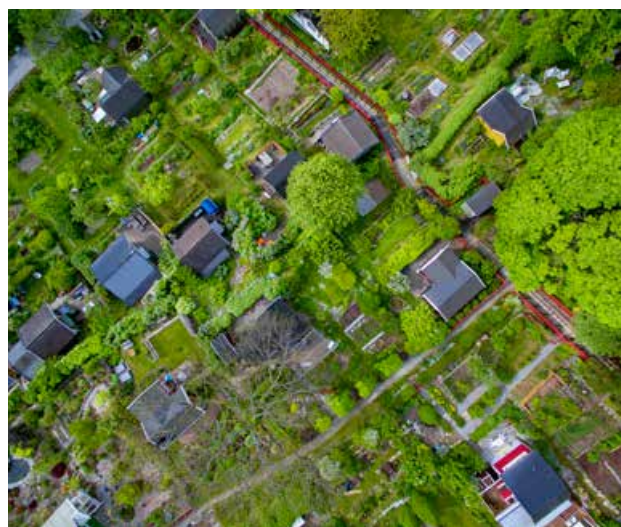
During the period February to April, Ellevio restructured SEK 8,421 million of existing interest hedging agreements. The hedging agreements where Ellevio pays fixed interest rate and receives 3 months Stibor rate until 2025 was extended and split up on four new maturities 2027, 2029, 2030 and 2032. The purpose of the hedging restructuring was to extend and diversify the interest maturity profile as well as to lower interest payments in the period up to 2025.

Ellevio's senior secured (Class A) debt is rated "BBB" and its subordinated (Class B) debt is rated "BB+" by Standard and Poor's.

Significant events after the end of the period.

On 5 July 2019, Standard and Poor's affirmed Ellevio's rating for senior secured (Class A) debt "BBB" and subordinated (Class B) debt "BB+" and changed their outlook for the ratings from "stable" to "negative". The change in outlook follows Ei's decision in June 2019, regarding the WACC of 2.16 per cent for the period 2020-2023.

Ellevio's shareholders have decided that the interest rate on subordinated shareholder loans will be lowered from today's 8.5 per cent to 6.0 per cent. The change in interest rate will be effective as from 30 August 2019 and is consistent with recent development in long term Swedish interest rates.



Condensed income statement.

MSEK	1 Jan 2019 30 Jun 2019	1 Jan 2018 30 Jun 2018	1 Jan 2018 31 Dec 2018
Net sales	3,662	3,542	6,974
Capitalised own work	50	43	84
Other operating income	34	34	93
	3,746	3,619	7,151
OPERATING EXPENSES			
Costs for purchase and transit of power	-624	-576	-1,151
Other external expenses	-619	-561	-1,337
Employee benefits expense	-254	-230	-474
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-1,088	-1,035	-2,121
Operating profit	1,161	1,217	2,067
FINANCIAL INCOME AND EXPENSES			
Interest income and similar items	1	1	58
Interest expense and similar items	-1,383	-1,574	-3,019
Profit/loss after net financial income/expense	-222	-356	-893
Appropriations	-	-	1,463
Profit/loss before tax	-222	-356	569
Income tax expense	-93	794	711
PROFIT/LOSS FOR THE PERIOD	-315	438	1,280

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

Condensed balance sheet.

MSEK	30 Jun 2019	30 Jun 2018	31 Dec 2018
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	44,132	44,530	44,436
Property, plant and equipment	32,027	30,040	31,546
Non-current financial assets	4,538	3,633	2,981
Total non-current assets	80,697	78,203	78,963
CURRENT ASSETS			
Current receivables			
Trade receivables	848	716	1,098
Receivables from Group companies	2	1	1,515
Current tax assets	-	-	3
Other receivables	196	160	291
Prepaid expenses and accrued income	1,120	1,056	1,616
Total current receivables	2,167	1,932	4,524
Cash and cash equivalents	264	146	56
Total current assets	2,431	2,078	4,580
TOTAL ASSETS	83,129	80,282	83,543
EQUITY AND LIABILITIES			
Equity			
Share capital	1	1	1
Other reserves	33	20	33
Retained earnings	7,328	6,181	6,048
Profit/loss for the period	-315	438	1,280
Total equity	7,047	6,639	7,361
Untaxed reserves	1,198	1,069	1,198
Deferred tax liability	13,350	13,141	13,311
Other provisions	1	1	1
NON-CURRENT LIABILITIES			
Bond loans	32,744	32,719	32,732
Liabilities to credit institutions	5,326	4,218	5,356
Liabilities to Group companies	19,177	17,664	19,176
Derivative instruments	-	430	13
Other non-current liabilities	772	323	540
Total non-current liabilities	58,019	55,354	57,817
CURRENT LIABILITIES			
Liabilities to credit institutions	-	850	392
Trade payables	520	479	818
Liabilities to Group companies	816	761	1
Current tax liabilities	6	4	-
Other current liabilities	1,152	1,037	1,448
Accrued expenses and deferred income	1,020	947	1,195
Total current liabilities	3,513	4,078	3,854
TOTAL EQUITY AND LIABILITIES	83,129	80,282	83,543

Condensed cash flow statement.

MSEK	1 Jan 2019 30 Jun 2019	1 Jan 2018 30 Jun 2018	1 Jan 2018 31 Dec 2018
CASH FLOW FROM OPERATING ACTIVITIES			
Operating profit	1,161	1,217	2,067
Adjustments for non-cash items:			
Depreciation and amortisation	1,088	1,035	2,121
Disposals/retirements of non-current assets	–	–	29
Periodised connection fees	–7	–3	–7
Change in provision for doubtful receivables	–1	2	–3
Received connection fees	244	117	350
Income tax paid	–44	–94	–107
Cash flow from operating activities before changes in working capital	2,441	2,274	4,450
CHANGES IN WORKING CAPITAL			
Decrease(+)/increase(–) in trade receivables	251	–86	–418
Decrease(+)/increase(–) in other operating receivables	588	–26	–631
Decrease(–)/increase(+) in trade payables	–108	16	16
Decrease(–)/increase(+) in other operating liabilities	–234	901	1,259
Cash flow from changes in working capital	497	803	226
Cash flow from operating activities	2,939	3,078	4,676
INVESTING ACTIVITIES			
Capital expenditure in intangible assets	–72	–47	–102
Capital expenditure in property, plant and equipment	–1,520	–1,118	–2,508
Acquisition of shares	–44	–627	–627
Proceeds from sales of property, plant and equipment	–	–	7
Proceeds from sales of shares in Group companies	–	–	46
Cash flow from investing activities	–1,637	–1,792	–3,185
Cash flow before financing activities	1,301	1,286	1,491
FINANCING ACTIVITIES			
Borrowings	–	5,305	6,200
Repayment of borrowings	–392	–5,809	–6,080
Repayment of loan receivables	–	624	650
Received dividend	–	–	21
Received interest	1	1	2
Paid interest	–703	–1,271	–2,238
Cash flow from financing activities	–1,094	–1,149	–1,445
CASH FLOW FOR THE PERIOD	208	136	46
Cash and cash equivalents at the beginning of the period	56	10	10
Cash in merged company	–	–	0
Cash and cash equivalents at the end of the period	264	146	56

Definitions.

Adjusted cash

Cash and cash equivalents less customer deposits

Adjusted equity

Total equity plus 78 per cent of the untaxed reserves

Class A financial items

External financial items less Class B interest expense

Class A interest cover ratio

Comparable EBITDA less income tax paid divided by Class A financial items

Class A leverage ratio

Class A net debt divided by comparable EBITDA

Class A net debt

External net debt less Class B debt

Comparable EBITDA

EBITDA less items affecting comparability

EBITDA

Operating profit plus depreciation, amortisation and impairments

Equity/assets ratio

Adjusted equity divided by total assets multiplied with 100

External financial items

Net financial income/expense less intra-Group interest, unrealised results from derivatives, transaction costs related to financing activities, dividend and gains/losses from sales of shares

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

Comparable EBITDA less income tax paid divided by external financial items

Items affecting comparability

Gains/losses from sales of property, plant and equipment, scrapping and restructuring costs

Leverage ratio

External net debt divided by comparable EBITDA

The company presents certain financial measures in the Half Year 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 Half Year Report gives a fair presentation of the operations and financial results. The financial statements was prepared in accordance with the Recommendation RFR 2 Financial Reporting for Legal Entities issued by the Swedish Financial Reporting Board. The application of RFR 2 requires the company to apply, insofar as possible, all EU-adopted International Financial Reporting Standards (IFRS) and interpretations of IFRS issued by the IFRS Interpretation Committee (IFRIC) subject to the provisions of the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act and take account of the relationship between accounting and taxation. 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 Half Year 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