

ELLEVIO



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All values are expressed in SEK. Figures within parentheses refer to 2016, unless specified otherwise. The data concerning markets and the competitive situation are Ellevio's own estimates unless a specific source is indicated. These estimates are based on the best and latest available facts from published sources.

About us.

Take a moment to consider how electricity affects our lives. When you woke up this morning, you turned off the alarm on your mobile phone and switched the bedside light on. At the same time but in another place, a plane was coming in to land, directed by powerful runway lights. A school class turned its attention to the classroom's illuminated smartboard. A newborn baby was placed in an electronically powered incubator. Electricity is used everywhere to facilitate or simply enable our lives; from the little things to the big things, from the typical to the unexpected.

Reliable and stable distribution of electricity is a prerequisite for the functioning of our daily lives as well as the ability to develop new solutions and innovations, both today and in the future. By investing in, developing and maintaining our electricity networks, we can guarantee a reliable supply of electricity to our customers and thus improve the quality of life of 939,000 households and companies in Sweden and for the wider society. Step-by-step, this brings us closer to our vision of using our commitment and expertise to contribute to a bright and sustainable future.

Welcome to Ellevio.

Ellevio is building the electricity networks of the future.

Our mission

Ellevio is one of Sweden's largest distribution system operators, which ensures that electricity is supplied to homes and workplaces. An important part of this responsibility consists of weather-proofing the electricity network in rural areas and strengthening and regenerating the electricity network in cities. We safeguard the quality of life of our customers by ensuring that the electricity networks in our areas are sustainable in the long term and contribute to the transition towards a climate-smart energy system.

A few facts about us

We own, operate and develop regional and local electricity networks and distribute electricity with 99.98 percent reliability to 939,000 customers in Sweden. Our grid is 73,000 km long, corresponding to almost two trips around the Earth. Our customers are spread across the West coast, mid-Sweden, and Stockholm. The largest proportion of our grids is located in rural areas, but most of our customers are in Stockholm. We have a clear objective; Ellevio's customers are to have an uninterrupted supply of electricity, regardless of whether they live in the country or in an urban area. Ellevio will be investing close to SEK 10 billion between 2016 and 2019 to modernise and future-proof our electricity networks. So far, we have invested around SEK 4.5 billion, fully in line with our plan.

We are a regulated business subject to the provisions of the Electricity Act. The government-run Swedish Energy Markets Inspectorate implements legislation and regulations and monitors the extent to which we fulfil our mission.

Ellevio has a long history, but the company only took the name Ellevio in 2015 when Fortum sold its Swedish electricity network operations to the current owners. In 2017, Ellevio had net sales of SEK 6.9 billion (6.5). The company is owned by a consortium consisting of the Swedish Third National Pension Fund, Folksam and the First National Pension Fund, as well as OMERS Infrastructure (previously Borealis Infrastructure Management), which invests in infrastructure on behalf of OMERS, one of Canada's largest pension funds. The owners all share a long-term approach and want to invest in businesses that contribute to sustainable development.

Sustainable value creation

Ensuring a reliable supply of electricity is one of society's most vital assignments. We view this great responsibility with humility and a strong desire to keep contributing to sustainable societal development. Consideration for people and the environment is an integral part of our business. We play a part in the construction of Sweden's future climate-smart energy system.

Mission.

We improve the quality of life by guaranteeing a long-term sustainable power network.

Vision.

With commitment and expertise, we contribute to a bright and sustainable future.

Strategy.

Our overall strategy is to deliver value to our customers and investors by ensuring a reliable power network, efficient operations, committed employees and growth through acquisitions.

Our values.

Ellevio's business operates as a monopoly, which is a profound responsibility for the entire organisation. It is important that we live up to the demands and expectations of our customers and other stakeholders and earn their trust. Our three values – reliability, commitment and development – guide our day-to-day work, in every interaction and every conversation, in both simple and complex situations.

Reliability

Our customers should be able to rely on our power grid and the people who work at Ellevio. We are available around the clock to provide the technology and expertise required to supply electricity all the way to customers' homes.

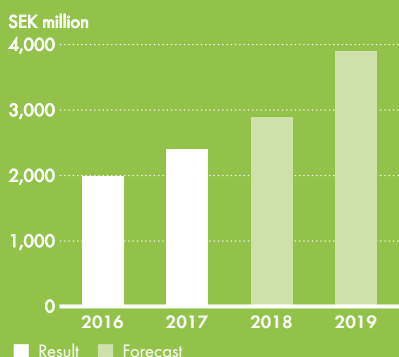
Commitment

It should be evident that we care about our customers and community and that we listen. We are driven and take sustainable action in terms of the safety of all who work for us, our impact on the environment and our responsibility as an employer, business and supplier.

Development

We think innovatively in matters both large and small. We continuously develop and improve our services and look for new expertise while sharing our own, with the aim of ensuring that Sweden's power grids are developed in a long-term and sustainable manner. Our power grid should be constructed in a way that meets society's existing and future energy needs. We are building the power grids of tomorrow, today.

Investment plan 2016–2019



Investments in 2016–2017 implemented according to plan.

Net Sales 2017

SEK 6,894 m

Investments in tangible and intangible assets in 2017

SEK 2,386 m

Our networks.

Västra Svealand-Västergötland

133,000 customers
25,000 km of electricity network
188 metres of electricity network
per customer

Västikusten

125,000 customers
13,500 km of electricity network
108 metres of electricity network
per customer

Dalarna-Södra Norrland

102,000 customers
14,400 km of electricity network
141 metres of electricity network
per customer

Stockholm

579,000 customers
14,100 km of electricity network
24 metres of electricity network
per customer

Our objective.

Ellevio's customers should have an uninterrupted electricity supply – today, tomorrow and in 50 years.

Our electricity network is divided into four local grid areas based on geographical location. These areas also form our tariff zones. In addition to the four local electricity grids, we also own regional grids in Stockholm and rural areas. In total, this represents about 67,000 km of local grids and 6,400 km of regional grids. From 1 January 2018, the four local grid areas will be merged into two: Mid-Sweden and West Coast.

Review of 2017.

Quarter 1.

Stockholm Data Parks is launched. Together with the City of Stockholm, Fortum Värme, Stokab and Stockholm Business Region, Ellevio launches Stockholm Data Parks, thus placing Stockholm on the map as a new centre of the next generation of data centres. The aim is to attract large-scale data-park investments and turn Stockholm into the future centre of a sustainable data-park industry, where the surplus heat from parks is recycled for use in the district heating network.

Guaranteed financing for the electricity networks of the future. The European Investment Bank (EIB) grants Ellevio a loan of EUR 250 million. The EIB offers long-term financing for sound and sustainable investment projects that help further the EU's objectives. The loan to Ellevio is to be used during the period 2017–2019 for investments that future-proof the electricity networks.

Quarter 2.

Procurement of the next generation of smart electricity meters begins. Ellevio begins the procurement process for over 900,000 new smart electricity meters, thus taking a major step forward towards securing the electricity system we will need to have in the future. The new meters will be used for purposes such as giving customers greater opportunities to connect to new energy services and control their electricity consumption. The first meters will be installed at customers' homes early 2020, representing an important part of the development of smart grids.

Signs the Global Compact. Ellevio signs up to the UN Global Compact, thus becoming the first Swedish electricity network company to do so. The UNGC was formed in 1999 at the request of the UN's then-Secretary General Kofi Annan. His aim was to establish international principles surrounding human rights, labour law issues, the environment and corruption. Today, over 13,000 companies and organisations across the globe have signed up and more will do so over time.

Puts forward a recommended offer to shareholders in Vallentuna. Ellevio takes another step forward in its strategy to grow in the Swedish electricity network market as Ellevio Holding 1 AB makes an offer on Elverket Vallentuna AB. This acquisition further reinforces Ellevio's presence in the Stockholm region. The integration of Nynäsham Energi AB is also completed during the quarter.

Quarter 3.

Stockholm's grid map is redrawn as Ellevio and Svenska kraftnät purchase electricity networks. Ellevio and Svenska kraftnät enter into an agreement whereby Ellevio is to acquire parts of Svenska kraftnät's power lines in the Stockholm region as Svenska kraftnät purchases a line from Ellevio. The transaction enables efforts to strengthen the supply of electricity to a growing Stockholm to continue.

Launches partnerships within e-sport, music and football. Ellevio launches partnerships with three organisations – Female Legends, Popkollo and Stockholm's football association – that aim to create the right conditions for young girls in the areas of e-sport, music and football. The aim of the partnerships is to promote insight and a shift in attitudes that lead to a more equal society and industry.

Launches strategy for a safe workplace. To support Ellevio's efforts to create a safe workplace, a new strategy is drawn up that will guide in terms of the conduct expected at Ellevio. The programme aims to improve the safety culture throughout Ellevio and for all those who work on behalf of the company, so that everyone comes home safely after a day's work.

Quarter 4.

Green light for price harmonisation. The Swedish Energy Markets Inspectorate gives the green light for price harmonisation among Ellevio's customers. For several years, Ellevio has been working to level out the major difference in price paid by customers in rural areas and cities. The decision means that electricity prices can be reduced by 5 percent for our customers in Värmland, Skaraborg and Närke.

The Swedish Energy Markets Inspectorate releases a report on the revenue regulation. At the request of the Minister for Policy Coordination and Energy, Ei published a report on tightened regulation of revenues.

New focal point. In one of Sweden's largest project linked to wind power – the Grönviken project – Ellevio will build an entirely new transmission substation in the electricity network together with Svenska kraftnät. The Grönviken substation opens up new opportunities to expand wind power in Hälsingland and Gästrikland. Annual production in the two parks that will be connected is equivalent to the electricity consumption of 200,000 apartments.

Accelerated investments to enable the energy transition.

Ellevio's planning horizon stretches further than most other companies. We need to have a vision of what the wider world will look like half a century in advance and then make sustainable investments in line with that vision today.

The energy agreement's vision of a robust electricity system featuring a high level of reliability, limited environmental impact and electricity at competitive prices serves as our guide.

Investments today for the electricity networks of tomorrow

What will Sweden look like in 50 years? How do we want it to look? Will there be over a million electric cars driving on our roads? Will there be solar panels on the roof of each and every house? Will large-scale wind and solar electricity production have replaced some of the other types of energy? These are all questions that we at Ellevio put to ourselves on a daily basis as we plan for and construct the electricity networks of today and the future. As electricity production becomes increasingly decentralised, urbanisation is leading to consumption becoming more concentrated in major cities. The society we are creating will not look the same in the future as it does now. Many exciting challenges are involved.

The largest transition of the energy system in modern times is currently under way. The cross-party energy agreement achieved in 2016 contains great ambitions for the Swedish energy supply and places strict requirements on all those who operate within the energy industry. For Ellevio and other distribution system operators, this involves intense efforts to achieve a sustainable, reliable and flexible electricity network that will enable the society of the future. The electricity network is at the core of the energy transition and major investments are required to

ensure an efficient and sustainable energy society becomes reality. We have now reached the halfway point via our first investment programme of about SEK 10 billion during the period 2016–2019; an investment programme that will be followed by others over the years to come. So far, we have invested around SEK 4.5 billion. 2018 will also see intensive investments being made across our electricity networks.

An electricity network that protects people and safety

We are there for our customers. They should always be able to rely on our services functioning and on us doing all we can to ensure a high quality of delivery in both the long and short term. The people who make this possible are our knowledgeable and committed employees and business partners, who develop and work on our electricity network to ensure secure access to electricity around the block, 365 days a year and all across Sweden. At a time when we have doubled our investments, this obviously also entails many more contractors in the field, which renders our safety initiatives more vital than ever.

Safety must always come first – in every situation. It is the very cornerstone of a sustainable electricity network and a prerequisite of our entire business. The fact that safety is on the agenda of every Board meeting also sends a signal that we will never compromise on our commitments in this area. Everyone should come home safe and sound after a day at work.

A journey comprising many interim objectives

The long planning horizon notwithstanding, it is important to always keep our eyes focused on the way forward. Both initiated and completed projects in various operational areas should be given attention over the course of this journey. This year we signed agreements to build an entirely new transmission substation in the electricity network as part of Sweden's largest project linked to wind power, the Grönviken station in the municipalities of Bollnäs and Ockelbo. The project will be implemented in collaboration with Svenska kraftnät. A total of 85 wind turbines will be constructed and connected to our electricity network, 58 of which will be located in the Åmot-Lingbo wind farm and 27 in the Tönsen wind farm. The estimated average production of 1.1 TWh per year corresponds to the electricity consumption of 200,000 apartments. This represents a major project that will create jobs in the area and introduce more renewable electricity production to the energy system.

The entire country should be equal

One vital issue that was resolved during the year was the issue of price harmonisation. Until now, there has been a significant difference in electricity network prices between urban and rural areas. Our view is that it should cost the same amount to be connected to the electricity network regardless of where a customer happens to live in Sweden. Previously, this type of price structure has not been possible, but after pursuing this issue for several years we finally obtained approval from the Swedish Energy Markets Inspectorate in October last year. This means we are now able to level out the prices and, once we have done so, our electricity network prices will be at an average for the entire country.

As we begin this harmonisation process that is due to proceed until 2020, we do it with support from the public. In a newly conducted survey, 77 percent agree that it should cost the same amount to be connected to the electricity network regardless of where a person lives in Sweden.

A sustainable network industry

Investments in the future represent a considerable commitment even for a large operator like Ellevio and our strong owners. It can be difficult for a number of small, municipally-owned electricity network companies to maintain and develop their grids in the manner required according to current legislation. We are convinced that a consolidation of the industry is the best thing for customers, society and the energy transition process as a whole. In 2017, we integrated Nynäshamn Energi AB that we acquired in 2016. We also acquired Elverket Vallentuna AB through Ellevio Holding 1 AB, which will be integrated during the coming year. Our experience of previous acquisitions and integrations is very good, we believe that consolidation in the industry will pick up and we actively search for new business opportunities.



A sustainable organisation is an equal organisation

Equality is an important long-term issue for Ellevio and the entire energy industry. For us, it is a question of creating the best workplace for everybody, of being able to take the best decisions and develop the services customers and society want to have in the future. In order to succeed in this, we need to ensure our company is equal.

The work with equality requires real efforts and changes on multiple levels. At Ellevio, we are working intensively both at our own organisation and in collaboration with other companies in the industry to ensure that both men and women become interested in and feel welcome to apply for a professional role with us. We also entered into a collaboration this year with three organisations that we believe could provide us with new insights. Female Legends, Popkollo and Stockholm's football association all work to improve the conditions for young girls in the areas of e-sport, music and football. This collaboration is intended to reinforce the organisations' work while also broadening our knowledge of equality.

A greater focus on sustainability

During the year, we signed up to the UN Global Compact (UNGC) and thus further emphasised our extensive sustainability ambitions. We want to focus on the aspects where we can truly make a difference, and although we were already working in line with the UNGC's principles before, we are now subject to requirements governing detailed follow-up work and more structured efforts, which is a positive development in terms of sustainability efforts.

Sustainable business involves many aspects and creates value for customers, society, employees and owners. As an electricity network company, we are also a key player in the transition towards a sustainable planet. We are a part of the efforts to create a bright and sustainable future.

A handwritten signature in black ink, appearing to read 'Johan Lindehag'. The signature is fluid and stylized, with a long horizontal stroke at the end.

Johan Lindehag
CEO Ellevio AB (publ)

The current and future electricity network.

The largest transition of the energy system in modern times is currently under way. The electricity network is at the core of this transition and major investments are required to ensure an efficient and sustainable energy society becomes reality.

Striking a balance between reliability, the environment and competitiveness

By way of common targets in the areas of climate and energy, the EU aims to set the course of future global climate partnerships and establish the internal market for the energy sector. Climate initiatives are based on agreements within the UN – Agenda 2030, the global sustainable development goals adopted in September 2015. Swedish energy policy is based on the same three cornerstones as the energy partnership in the EU, namely merging ecological sustainability, competitiveness and security of supply. Sweden is at the forefront of developing climate initiatives, in part because our natural resources already provide us with a large share of renewable electricity production, but also because of an efficient market system prompting timely political decisions, such as the installation of smart electricity meters.

The Swedish Energy Commission submitted its report *Mobilising for the future of energy* in January 2017, which contained proposals including:

- 100 percent renewable electricity production by 2040 (though without a final date for the end of nuclear power).
- 50 percent more efficient energy consumption in 2030 than in 2005.

To live up to these proposals, Ellevio is now implementing its largest investment since the 1960s and 1970s. We are building reliable, flexible and smart electricity networks that enable our customers to actively manage both their consumption and production based on their own habits and needs.

Electricity networks then and now

In the early 19th century, it was not yet possible to speak of a Swedish electricity network. Both production and distribution of electricity was handled locally in cities that had undergone electrification. It had generally not been possible to connect the grids as decisions about technical standards – such as voltage levels – were taken locally.

When hydropower was expanded in northern Sweden at the end of the 1930s, a highly significant surplus was produced in the region of Norrland. Efforts to create a connected Swedish electricity network that could transport the surplus in the north to satisfy the rapidly increasing demand in the south continued right through to the 1950s.

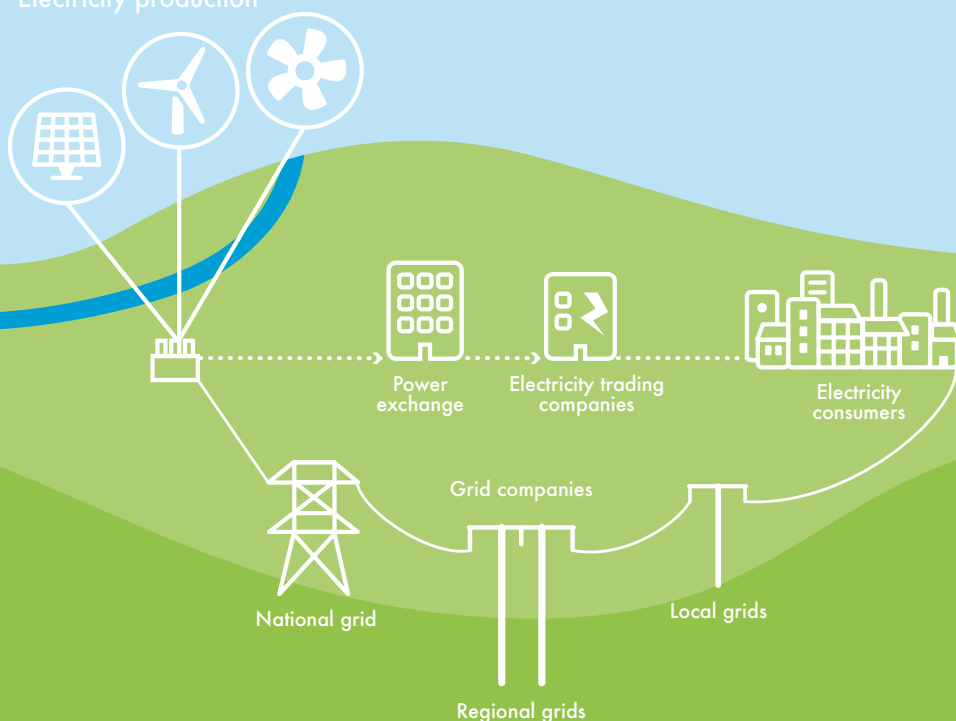
The next major change occurred during the 1960s, 1970s and 1980s, as nuclear power and combined heat and power (CHP) were introduced to the Swedish electricity market. Major sections of the electricity networks we use today were constructed during this time.

For the electricity networks of the future

The next major technological change is under way. Lines and components put in place between thirty and forty years ago now need to be replaced and upgraded. New industries will be electrified and the proportion of green electricity will increase. Furthermore, the grids will need to become both digital and more flexible, while security of supply when distributing electricity will also require improvement.



Electricity production



Electricity producers

Electricity can be produced for example as hydro-electric power, nuclear power, wind power, bio power, coal power, gas power, wave power and solar power. In Sweden, more than 80 percent of electricity production is hydroelectric and nuclear.

Electricity network companies

The companies that own, manage and develop the national, regional and local grids and transports the electricity from the production point to the customers. Electricity networks are natural monopolies, as it is not possible to justify parallel grids from a socioeconomic perspective. Customers are thus not able to choose which network companies they use. For this reason, network companies are regulated by the Swedish Energy Markets Inspectorate.

Electricity sales companies

The companies that purchases electricity via the electricity market and sells it to the end-customers. In Sweden, there is free competition between electricity

trading companies and so customers can choose which company to buy electricity from.

National grid

“The trunk of the electricity tree” – the lines that transport electricity from the major power stations to the regional grids. The national grid is owned and managed by the state via Svenska kraftnät.

Regional grids

“The branches of the electricity tree” – the lines that hold the national grid and local grids together and ensure that electricity in Sweden is transported safely and efficiently between producers and consumers. The regional grids are owned by electricity network companies such as Ellevio.

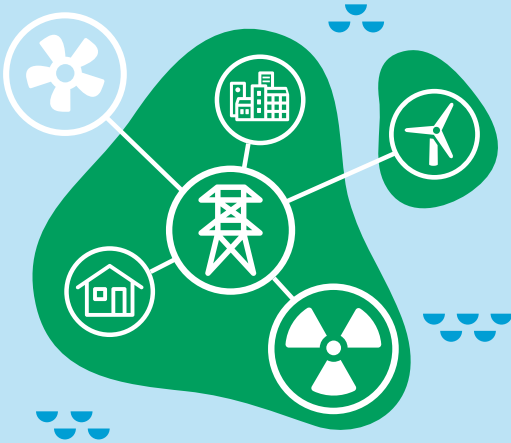
Local grids

“The leaves of the electricity tree” – the lines that distribute electricity at the very last stage to end customers, i.e. companies and households, etc. The local grids may be owned by either public or private players.



1980s

In the early 1970s, nuclear power was commissioned and has, along with hydropower, dominated electricity production in Sweden ever since. In the 1980s and 1990s, these power sources accounted for up to 96 percent of all electricity production. The production was large-scale.



2010s

Sweden's electricity production still consists largely of hydropower and nuclear power. However, the proportion has declined to 81 percent (2015) as renewable electricity production has expanded. Wind power and CHP are the primary new sources that have increased. Electricity has also started to be produced locally by what are known as prosumers.



2030s

By 2030 at the latest, Sweden is to have a vehicle fleet that is independent of fossil fuels. This is a prioritised interim target that forms part of the vision to have a sustainable and resource-efficient energy supply by 2045, without net emissions of greenhouse gases into the atmosphere. The assessment of the 2030 secretariat is that this will be achieved by the equal impact of more fuel-efficient vehicles, the transition to renewable fuels and amended behaviour.

100% renewable

2040s

The Energy Commission has proposed that 100 percent of Swedish electricity production is to be renewable by 2040. In the future, production will also be both large-scale and small-scale, and the electricity system will be able to handle electricity in both directions.

We develop our grids and make them more flexible to enable our electricity consumers who also want to produce electricity, known as prosumers, to both receive and input electricity. The opportunity for customers to be more flexible in how and when they use their electricity will increase in the future, and we can enable and facilitate this by increasing our range of digital services and preparing for hourly metering for all.

Revenue regulation

Electricity networks are known as natural monopolies, and electricity network companies are regulated and monitored by the Swedish Energy Markets Inspectorate (Ei), a government authority. The reason that electricity network companies have a monopoly in their geographical areas is that it is very expensive to build and maintain such grids, and it would not be socioeconomically feasible to build parallel grids.

The regulation should ensure that the grids maintain good quality and provide long-term security of supply. It gives the network companies compensation for reasonable costs linked to managing their business and a reasonable yield on investments made. According to the Electricity Act, the prices that customers pay should be fair, objective and non-discriminatory. The current revenue regulation applicable to the period 2016–2019 provides an incentive for investments in the electricity network – a positive and necessary change compared to the past.

The Energy Markets Inspectorate’s proposal for revenue regulation for the period 2020–2023, presented in October 2017, contains proposals for a reduced and shorter-term reference interest rate. A decision on the forthcoming revenue regulation will be taken in late 2018. Ellevio monitors the decision-making process and continue to advocate a reasonable cost of capital based on the long-term investment horizon in the industry, which is needed to stimulate required investments.

Driving forces in the electricity network market

Technological development has an impact on the electricity network market in many ways. Digitisation and new IT solutions will create opportunities moving forward, including the conditions for storing and analysing metering data that can be used for product development and new service for customers, but also management of electricity networks that creates an efficient electricity system that secures supply.

Production – increasingly local and renewable

Electricity can be produced as hydroelectric power, nuclear power, wind power, bio power, coal power, gas power, wave power and solar power, for example. In Sweden, hydro and nuclear power account for more than 80 percent of electricity production.

A major increase in the proportion of renewable energy sources is currently under way in the form of solar and wind power. Electricity is also produced locally to an increasing extent. In some cases, consumers are also prosumers, since they connect systems such as solar panels or small wind turbines to the grid, into which they can feed their surplus electricity. Meanwhile, several of the major nuclear power owners have presented forthcoming investments in lifespan-lengthening measures for nuclear power, for example independent core cooling, which will mean several reactors could remain operational until the 2040s. We can therefore expect to see a large proportion of plannable electricity production in parallel to the growing amount of weather-dependent production for a long time to come.

The new production places new demands on the electricity network, which needs to become more flexible and able to function in both directions. On specific days and at specific times, the grid needs to receive locally produced surplus electricity, while on other days it needs to distribute supplementary electricity from power stations far away. Solar and wind are examples of weather-dependent energy sources that make it harder to plan production. Electricity networks must be able to manage an irregular inflow from these sources, with rapid fluctuations in electricity production.

At certain times, more electricity will be produced than is used and, in these cases, the networks must “know” how much electricity can be distributed to other parts of the country or exported, as well as how much needs to be stored for use later in the day or week.

An urbanised and digitised society

The way we use electricity is also changing. Society is becoming increasingly urbanised, digitised, electrified and dependent on a secure electricity supply.

These days, electricity is essential for everything from daily tasks at home and work, many leisure activities, contact with friends and family to life-saving public services. This digitised society is placing very high demands on reliability in every part of the country, and the electricity network must therefore be modern, flexible and smart to meet these needs. Thanks to smart grids, the energy system and electricity consumption can be managed in a more efficient way, either by customers themselves or automatically. Smart grids also make it possible to identify, isolate and even rectify faults before there is an outage.

Redundancy in the electricity network will also become more important, meaning the grid is increasingly built using alternative connections. If a fault occurs in one location in the grid, it must be possible for the electricity to be reconnected and rerouted so that as few customers as possible are affected by an outage.

The urbanisation trend is progressing. For example, Stockholm is expected to have 2.6 million inhabitants in 2030, compared to the 1.3 million inhabitants it had at the beginning of the 1960s. This will impose new requirements on capacity and power in cities. The electricity networks need to be extended and redeveloped to enable new residential areas, kindergartens, schools, public transportation, offices and shops. Greater cooperation between the electricity network and CHP production could become one way to meet the cities' power demands.

Electrification of the transport industry – an eagerly awaited development

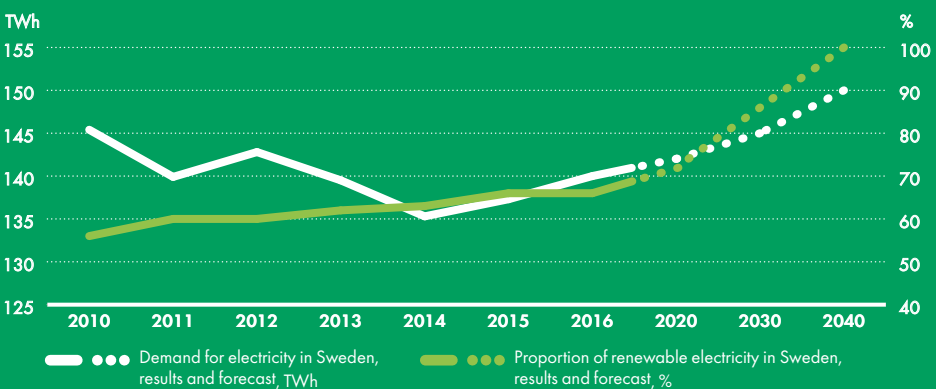
The significance of electric vehicles in terms of environment and health means electrification of the transport industry is an urgent and prioritised issue for the future. Today, transportation by road accounts for almost 30 percent of Swedish carbon dioxide emissions. Luckily, the transport sector is in the process of being rapidly electrified. Ellevio supports a Swedish vision for one million electric cars by 2030, and there are many signs indicating there is a good chance that this vision can be fulfilled. A necessary prerequisite for electric cars is that there are places to charge them, and it is here that the electricity network plays an important role.

The electrification has so far mainly reached passenger cars in cities, and in 2017 there were approximately 45,000 electric cars in Sweden. Electric buses are being tested mainly in public transportation, while the electrification of road transportation and ports is still at an early stage. Electric vehicles present both an opportunity and a challenge for the grid – they will lead to increased load and a need for more capacity and load control in the long term, but at the same time offer an opportunity for storage that could balance electricity consumption in the future.

The environmental effects linked to the vehicle fleet no longer running on fossil fuels will be very significant. In addition to a massive reduction in carbon dioxide emissions, emissions of many other harmful chemical combinations will also fall. Furthermore, less oil will need to be transported, which will represent a major environmental gain in itself.

To ensure these transitions function effectively, the sites where electricity is produced must first and foremost be connected to the electricity network and vehicle charging stations must be expanded. This will require investments.

Demand for electricity and proportion of renewable electricity in Sweden



Source: Swedish Energy Agency and Svenska kraftnät, 2017



Smart electricity meters are paving the way for the electricity system of the future.

Ellevio is preparing to update every customer's electricity meter to the second generation smart meters – a major project that will commence during the second half of 2019 and continue until 2022 before all of the roughly 900,000 meters have been replaced.

The current electricity meters are nearing the end of their technical lifespan, just as network developments begin to impose new requirements. The next generation of meters represents one aspect

of the new, smart grid that can communicate with different parts of the energy system, analyse data and act on information. The smart meters, which will be able to show 8,760 different measurement values per year in contrast to today's 12, will make it easier to connect to new energy services and manage individual energy production and consumption.

On average, 1,500 new meters will be installed each working day between the beginning of 2020 and end of 2022.

Smart grids – a giant leap into the future

Major investments are currently being made around the globe to modernise electricity networks and turn them into smart grids, which will become the hub of a sustainable energy system.

Naturally, technological developments have progressed since the electricity networks were first built in the 1960s and 1970s. At that time, many people could not even imagine the technology that we are beginning to take for granted today. Thanks to smart components, sophisticated software and other digitised improvements, we are able to obtain very precise data relating to electricity consumption. Electricity distribution can be managed in real time, which provides greater security of supply.

Ellevio was involved in the creation of the smart grid in Norra Djurgårdsstaden in Stockholm and will soon begin extensive work on the installation of the next generation of smart electricity meters among our customers.

In order to explain how a smart grid works, we can draw a comparison with how a road works. A traditional road is simply an asphalt-covered surface that connects two points. Imagine that the road constantly detects how many cars, bicycles and buses are driving on it, where the vehicles are heading and what speed they are driving at. Furthermore, every traffic light, petrol station and emergency vehicle along the road has access to this data. For the individual motorist, this makes it easier to determine when it is appropriate to go out and drive and which roads are most appropriate at that moment.

In the case of the electricity networks of the future, we will install information technology that gathers, relays, stores and analyses information from thousands of measurement points. This makes it possible to ensure the right amount of electricity is produced and shared where it is needed, also in the future, and that electricity is used more efficiently. Another major advantage of better data is that future decisions surrounding the construction, maintenance, safety and use of electricity networks will be facilitated by having access to much higher quality information than today.

As electricity networks become smarter, it will also become easier to rectify outages. In part, the grids will be able to solve problems on their own by reconfiguring how the current is transported, while it will also become possible to obtain information about an outage immediately as well as see that an outage is about to happen before it does, thus enabling preventive measures to be taken.

Cyber security – new opportunities, but new threats

Although smarter electricity networks enable us to supply electricity in a more secure way, we also need to manage new threats. Smart components can be attacked by individuals, organisations or foreign powers who aim to damage electricity networks. Just like banks, teleoperators and other suppliers of critical functions, we at Ellevio work to maximise the opportunities afforded by digitisation while minimising the risks for society, the electricity networks and our customers. We invest in cyber security, build the most robust systems possible and collaborate with authorities and players involved in electricity networks. By preparing our organisation and using the latest technology, we are able to manage the cyber security issue – one of the most important aspects when it comes to a future-proofed electricity network.

Need for investment affecting industry players

The Swedish market for electricity distribution is fragmented, with over 160 companies that have a natural monopoly in their respective grid areas. The amount of companies is unique from a European perspective. Many of the companies are small and limited to individual municipalities or cities. We believe that a major need for investment to maintain security of supply and develop the electricity networks ahead of future requirements and stricter efficiency enhancement requirements will contribute to change. It is often beneficial to consolidate smaller parts into larger units, and we believe that a consolidation of the electricity network market may be about to pick up momentum.

The contractor market must also be developed to correspond to increased investment levels. Contracts awarded by contractors will be more numerous, comprehensive and project-based and will run over longer periods. The contractors also need to be prepared for formalised tendering processes. Ellevio is engaging in ongoing dialogue with Swedish and international contractors in this respect and arranges contractor meetings along with other activities.

The long permit-approval processes for developing electricity infrastructure poses a challenge – not just for electricity network companies but also for electricity producers. There is thus a need for change and simplification in this area. Obtaining approval to build a new power line often takes longer than obtaining approval to expand a wind farm, for example, and therefore risks impeding developments.

Value creation – from the little things to the big things.

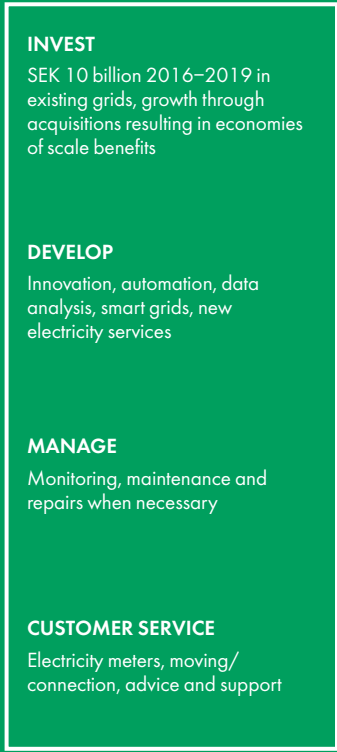
Ellevio’s operations are significant to society as a whole. A stable and reliable supply of electricity is a prerequisite of ensuring our customers to live their lives and manage their businesses.

Ellevio’s model for sustainable value creation

Assets and resources



Core operations



Our operations enable us to create value for customers. Without electricity, people’s everyday lives cannot function. Traffic and other vital societal functions would cease. Industries and other companies would lose revenue and, in the long term, also competitiveness and innovative capability. We view this great responsibility with humility and a strong desire to keep contributing to sustainable societal development. The confidence our customers have in our ability to supply their electricity needs now and in the future is the most important measure of our success.

Economic value creation

Grid investments and ongoing work on operational enhancements create secure and long-term value growth for investors, customers and employees. We also contribute to society by way of the jobs we create with our contractors and, indirectly, among our customers. We must guarantee a secure supply of electricity in an electricity-dependent society, both in urban and rural areas.

We work to develop more efficient processes and maintenance procedures, as well as to increase the level of digitisation, all with the aim of maintaining substantial value creation.

We are committed to using every invested krona as efficiently as possible. For example, we work to

jointly lay electricity networks and other infrastructure, such as fibre grids, district heating systems and charging infrastructure, wherever possible.

The electricity network of the future will require investments in capacity and automation in order to maintain security of supply and support societal developments. Sweden is unique in terms of the number of electricity network companies it has – some 160 today. Further consolidation of the electricity network market will bring advantages by enabling even more efficient investments in the grid. Over the long term, this will mean day-to-day operations can be managed using a more cost-effective structure. These synergies will also benefit customers.

Security of supply

Nothing is more important to us than ensuring our customers have a secure supply of electricity that is free from outages. Good accessibility to electricity is vital if society is to function, and accessibility will become increasingly important as new industries become electrified. Although we currently offer an almost outage-free supply, the electricity network is occasionally hit by disruptions from time to time. Most disruptions are either due to planned works, damage to cables or severe weather conditions.

**RELIABLE,
FLEXIBLE AND
SMART GRIDS
TODAY, TOMORROW
AND IN 50 YEARS**

Creates value

For owners

Opportunity to make a sustainable investment with a long-term horizon
Secure and long-term value growth

For society

Secure supply of electricity in both urban and rural areas
Stable electricity supply to vital societal functions
Secure supply of electricity to an electricity-dependent society
Jobs

For customers

Secure and outage-free electricity supply at affordable cost
High level of service
New services as part of a smarter grid
Opportunity to produce your own electricity
Fair tariffs between cities/rural areas

For employees

Satisfying jobs
Safe workplace
Knowledgeable and committed employees
Competent and responsible contractors

For the environment

Adaptation of the electricity network to the fossil-free transport system of the future
Transition to 100% renewable electricity
Biodiversity along power lines

The availability of our networks is 99.98 percent. This is a very good level internationally speaking, but obviously we will not be satisfied as long as outages keep occurring. There are also major differences between different parts of our electricity network. While hundreds of thousands of our customers experience no outages, there is sadly a number of customers who experience several per year. With the aim of improving the security of supply, we are weather-proofing the electricity network by replacing overhead lines with cables in the ground, and we are maintaining and building new stations to increase our capacity. Since 2005, we have in total weather-proofed 10,000 km.

Planned electricity outages are sometimes necessary. When maintaining or expanding our grids, we are sometimes forced to shut off the power. Around 15 percent of our outages are planned and we always ensure that we inform our customers as to when they will be taking place.

A further 10 percent of outages are due to damage to cables, for example during excavation works carried out by a company other than Ellevio. To reduce this type of outages, we offer free guidance for everyone carrying out works close to our cables.

The rest of the outages are due to storms, snowfall and other severe weather. Sweden is a sparsely populated country, meaning we have many metres of cable per customer. Outside the major cities where there are many overhead lines, the risk is higher that outages will occur.

Value creation in local communities

For us, sustainability initiatives are not merely a question of complying with laws and regulations; they are also an opportunity to fulfil our societal mission in the best way possible by serving as an active and committed partner to the communities affected by our operations, either in that we have electricity networks distributed across the community or that we supply electricity there. We take responsibility for local communities in which our customers live and work

by ensuring we provide an electricity network that is sustainable and offers a secure supply in the long term. The removal of overhead lines also makes way for more agriculture and housing in the areas where they are needed. For example, together with Vattenfall and Svenska kraftnät, Ellevio runs the Stockholms Ström project, which involves overhead lines that distribute electricity to Stockholm and its environs being buried or placed in tunnels, thus leading to land being made available for developing society.

An important aspect of our responsibility for the local community is that we prioritise cities and rural areas equally. To make it easier for our customers to live and support themselves in rural areas, we have been arguing for many years for price harmonisation that levels the cost of investments and leads to fairer contributions between densely and sparsely populated areas. In autumn 2017, we got the green light from Ei to carry out this kind of price harmonisation, which meant that we were able to take the first step towards lowering prices for customers in the areas with the highest prices in December 2017.

For us, it is important to invite local stakeholders when initiating new projects to ensure that the project is linked to the local area and to minimise potentially negative effects on the environment, the local business community and the residents who live near our electricity networks and facilities. In the case of major local projects, we inform customers by way of open houses, meetings in the town square, letters and other forms of direct communication. The aim is for our customers, stakeholders and local communities to feel well-informed about what we are doing and how they are affected. In the event of planned outages and disruptions, we attempt as far as possible to consider those who will be affected, sensitive industries, supermarkets, care homes, etc. Reliability, commitment and development are key words in the dialogue with local communities and our customers.

Ellevio's value creation connected to the UN's global development goals



Ellevio analysed the UN's 17 global development goals in 2017. Thanks to our skills and core operations, Ellevio has the opportunity to make an active contribution to Goal 7 "Affordable and clean energy" and Goal 9 "Industry, innovation and infrastructure". In addition to this, the company decided to actively focus on Goal 5 "Gender equality" to develop the company and industry as well as offer support outside our sphere – read about our sponsorship activities on pages 20–21, for example.

Seven strategic focus areas.

Ellevio is responsible for critical infrastructure that fulfils a fundamental function in society. Our operations involve a very wide range of responsibilities. Our vision is to contribute to a bright and sustainable future through our commitment and expertise.

Ellevio's overall strategy to achieve this vision and create value for our customers and investors is to guarantee a reliable electricity network, efficient operations, committed employees and continued growth.

We have seven strategic focus areas that aim to create value for our customers and investors.

1. Sustainability

For Ellevio, sustainability means striking the right balance between financial, social and environmental sustainability.

2. Customer experience

The core of the customer experience is a reliable electricity network and an attractive range of services.

3. Committed employees

Ellevio should be an organisation where everyone takes responsibility for their own development, as well as that of their team and the company. Our conduct is guided by our values of reliability, commitment and development.

4. Regulation and industry development

The electricity network market is regulated, and it is important to Ellevio to be involved in developing those regulations and to contribute knowledge, experience and opinions to issues that are important in terms of ensuring the electricity functions and develops as best it can.

5. Improved reliability through efficient investments

Investments to maintain a robust security of supply and to further improve that aspect in certain areas is an important part of Ellevio's operations.

6. Operational efficiency

Our strategy for operational efficiency includes reducing the costs of repairing faults and maintenance through the extensive investments planned for the electricity network.

7. Growth through acquisitions

According to the strategy for growth through acquisitions, Ellevio will identify, evaluate and, when the opportunity arises, carry out acquisitions of electricity network businesses.



Employees.

Health, safety, well-being and equal opportunities of our employees and other people are vital issues for our business. Ellevio is to be a safe and attractive workplace and contractor.

Commitments to others

Ellevio's business operates as a monopoly, which is a profound responsibility for the entire organisation. It is important that we live up to the demands and expectations of our customers and other stakeholders, as we want to earn their trust. Our values - reliability, commitment and development - are to serve as guiding principles for every employee and permeate everything we do. The way we should conduct ourselves is described in our Code of Conduct. Varied training courses and workplace meetings ensure that the Code of Conduct is followed.

Employer Branding

In order to attract new employees, we need to take steps to strengthen our brand as an employer. We achieve this by collaborating with universities and offering summer jobs and opportunities for students to do their master thesis with us. We are also helping spread knowledge about Ellevio and our industry through involvement in industry initiatives and an active social media presence. Our goal is for Ellevio to be seen as an attractive company and a preferred option for both present and future employees.



Sponsorship activities with new approaches.

At Ellevio, we need to broaden our understanding of equality issues in order to achieve our goal of an equal workplace. This is why we have chosen to collaborate with several organisations that work to ensure girls and boys have the same opportunities and conditions from the very beginning. These organisations adopt very different approaches, which we hope will lead to exciting and dynamic results for our partnerships.

By participating in the events of our business partners and being seen in their channels, we look forward to reaching our target groups in new contexts. The next step will be to bring our sponsorship partners together via joint activities and help establish a dialogue between them.

Ellevio's sponsorship policy

We base our policy on the areas that engage the target group in question, as well as on the results we want to achieve through the sponsorship. We choose activities that offer the maximum benefit possible.

Sponsorship always involves active collaboration between us and the sponsored party, and it should be beneficial for both parties in terms of their respective objectives.

Written agreements should always form the basis of a collaboration, and clearly defined target groups and objectives should be established to allow results to be measured.

Satisfied employees

Our strength lies in our collective ability to utilise every employees' skills in the right way. All new employees undergo training relating to this collective ability in order to adopt the approach that permeates the entire company – that we are better when we work together.

Each year, Ellevio undertakes an employee survey that assesses the level of engagement: the Employee Engagement Index, which is based on four questions relating to job satisfaction, pride, job-seeking and recommendation. Each business unit reviews the results and produces action plans for improvement areas. The results show a stable trend.

The two other dimensions of the employee survey are workload and equality. By repeatedly measuring and follow up such aspects, we strive to achieve a better balance, a healthy working environment and an equal workplace. Two important aspects in this context include better resource planning and strong leadership from managers who are to set a good example.

Managers at Ellevio

The task of a manager is to guide his or her employees in the way that most effectively develops and uses their potential, both through dialogue and feedback and prioritising areas to ensure each employee is able to perform well.

In order to provide clear expectations at all levels of the company, a business plan is produced every

year containing overall goals for the business. These goals are then broken down into targets for each business unit/team and individual.

All managers at Ellevio meet at least once per year at Management Days that have different themes each time. The theme for this year was workload and health & safety.

Equality and diversity

Ellevio considers diversity among employees to be an asset and works actively to increase diversity at the company, both in terms of skills, gender and ethnicity. We work to gradually achieve a more equal gender distribution across the company. Ellevio's equality targets are to:

- Maintain an equal distribution between men and women in the management team (55 percent women today).
- Increase the number of female managers at the company (22 percent today).
- Increase the total number of women at the company (27 percent today).

When it comes to ethnicity, we want to reflect wider society. Currently, 13 percent of our employees have a non-Swedish cultural background. You can read more about our employees in the Sustainability Report on pages 68–79.



Our sponsorship collaborations should be long-term in nature, with fewer but deeper commitments. Our sponsorship activities should be clearly and logically linked to our operations.

Female Legends

Female Legends presents itself as a community for girls who partake in e-sport, that is, compete in computer games. Their aim is for girls and non-binary people to be an obvious part of e-sport and for the professional scene to be equal.

Popkollo

Since 2003, Popkollo has brought together thousands of girls and transgender people interested in music at different locations

around the country. The aim of the project is to provide an introduction to the world of music and to create a safe place in which they can develop their identity as a musician or artists.

In the long term, Popkollo wants to establish an equal music industry and contribute to an equal society.

Stockholm football association

The Stockholm football association (Stockholms fotbollförbund) organises football associations within Stockholm County. Together with them, Ellevio launches the 50/50 fund as part of the St Erik's cup, whose aim is to give girls the same conditions as boys to invest in sports they love.

Health and safety.

Ellevio constantly aims to ensure a high level of safety for our employees, all those who we contract to work for us and employees of our suppliers. Our vision is to achieve an accident-free and safe workplace.

To do this, we need to improve the safety culture and increase safety awareness among employees and our business partners so that all work can be conducted in a safe manner. The safety of those who work for us is our top priority, and greater efforts were made during 2017 to enhance safety by way of the “Safe workplace” programme – the route to our vision of zero accidents. The programme will extend over many years and aims to further improve processes and working methods, as well as change behaviours and thereby make us even more proactive in our efforts. This work can never be seen as finished; rather it is a continuous effort.

The safety culture needs to be improved across the industry as a whole to create accident-free and safe workplaces for everyone – regardless of the contractor. A chain is only as strong as its weakest link, which is why Ellevio is working to create a safer industry through collaborations with suppliers and industrial organisations.

It is in the field, in the work with the electricity network that accidents mainly occur. This work is conducted by our business partners, and Ellevio looks to collaborate closely with the business partners in order to bring about change, although the work starts with

us. Ellevio lays the foundations for a safe workplace externally among its contractors. The contractors we engage must not only be experts in their fields, but they must also be trained in health and safety procedures and knowledgeable about safe working environments. From 2018, these requirements will be intensified further. Contractors will need to have sustainability plans for their whole agreement with Ellevio.

Ellevio invests substantial resources in preventing accidents through training and follow-up work. Safety procedures among contractors are reviewed on-site out in the field, with any shortcomings being reported and remedied immediately. In 2017, 313 unannounced visits were made to check compliance with Ellevio’s requirements governing safety, environment and quality. These visits are an important tool in terms of identifying potential areas of improvement. Our presence out in the workplaces is important and enables a continuous dialogue. It also clarifies that the requirements are important building blocks for enhancing the safety culture and form part of our zero-accident vision.

You can read more about Ellevio’s health and safety efforts in the Sustainability Report on pages 68–79.





Safe workplace.

Our aim is to create an accident-free and safe workplace for everyone by reinforcing safe behaviors and safe working conditions. We will improve safety culture throughout Ellevio and for all those working on behalf of Ellevio.

We work safely or not at all

- We are open and honest in all occupational health and safety issues
- We help each other to always work safely
- We always reinforce safe behaviors and prevent risks
- We always stop unsafe work

Collective understanding

- We create a positive safety climate through continuous dialogue, communication and cooperation between all organizational levels in the company and our contractors
- Ambitions, priorities and targets for our safety performance should be the same at company level as at the individual level

Commitment and consideration

- Ellevio is characterized by a culture where everyone's commitment and consideration for each other creates an accident-free workplace
- We take responsibility for our own and others' safety with the common goal that everyone will get home safely everyday

Leadership

- Our leaders are fully committed to safety and have a continuous focus on work environment and safety issues
- All leaders within Ellevio are fully responsible for the work environment and safety performance

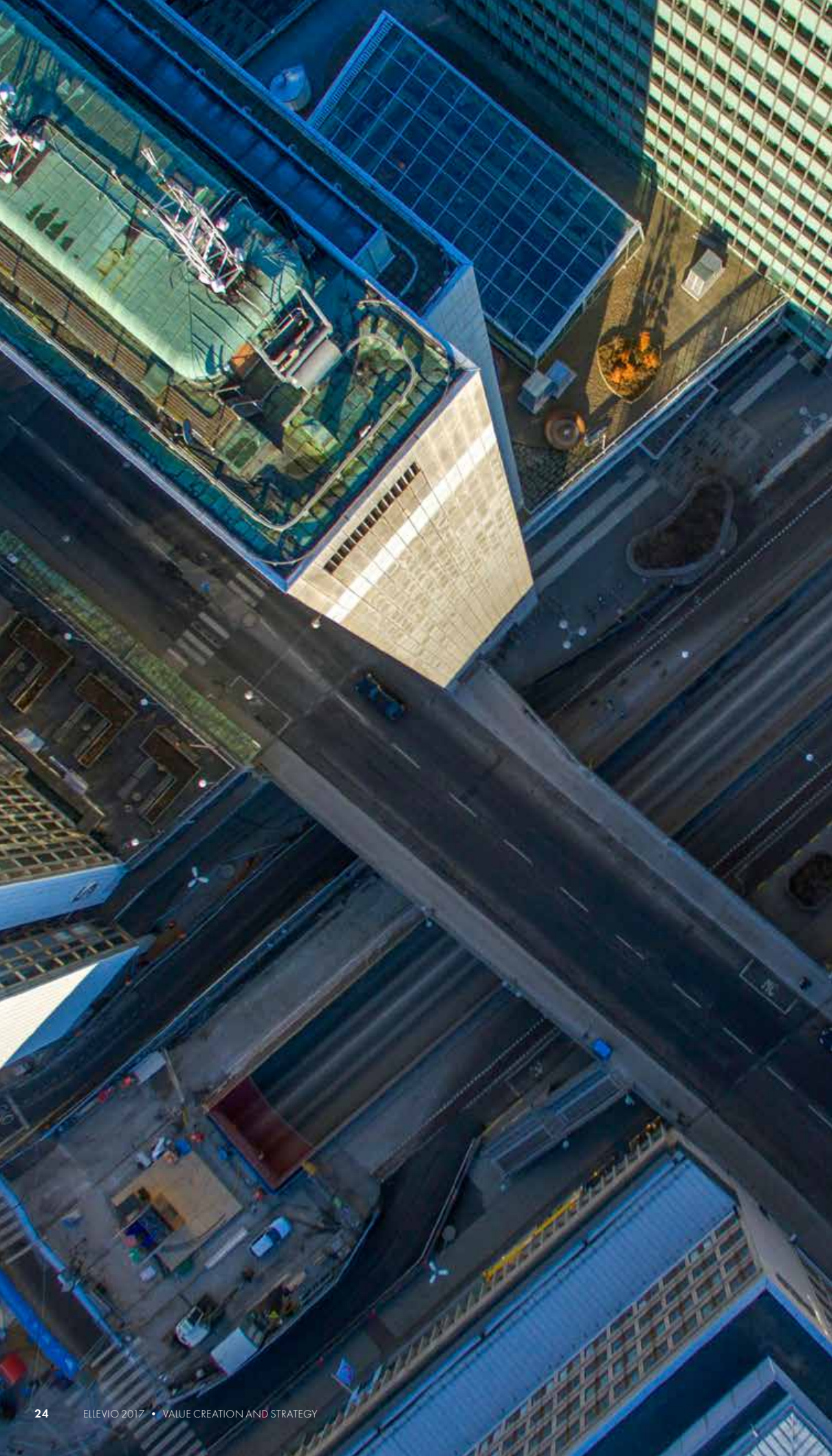
Own responsibility

- I take personal responsibility for safety in my work, comply with safety precautions and determined working methods. This is achieved through clear descriptions of roles, responsibilities and expected results

Nine areas assessed during site visits

1. Planning and organisation
2. Training and skills
3. Monitoring and intervention
4. Conduct and working methods
5. Safety relating to tools and equipment
6. Orderliness and waste management
7. Quality of work and caution
8. Safety issues and shortcomings
9. Reporting





Responsible purchasing.

Ellevio has a centralised purchasing function responsible for all procurement of services, materials and contracts.

Purchases mainly fall into five categories: contractors, IT, consultants, strategic materials and indirect materials and services. In 2017, Ellevio purchased products and services for some SEK 3.4 billion, of which 75 percent were contract services and materials for investments in our electricity network.

In its risk assessment, Ellevio has identified contractor operations to be the greatest risk in terms of working environment issues, which is why we have placed major focus on this area, partly via the Safe workplace programme that can be seen in more detail under Health and Safety, and partly in the purchasing process.

To qualify as a contractor or major material supplier, we apply extensive sustainability requirements that we specify in a special Code of Conduct for suppliers available on Ellevio's website. The Code is based on the UN Global Compact's ten principles and contains clear requirements relating to human rights, labour law, the environment and anti-corruption. The aim of the Code of Conduct for suppliers is to minimise risks and protect Ellevio's stakeholders.

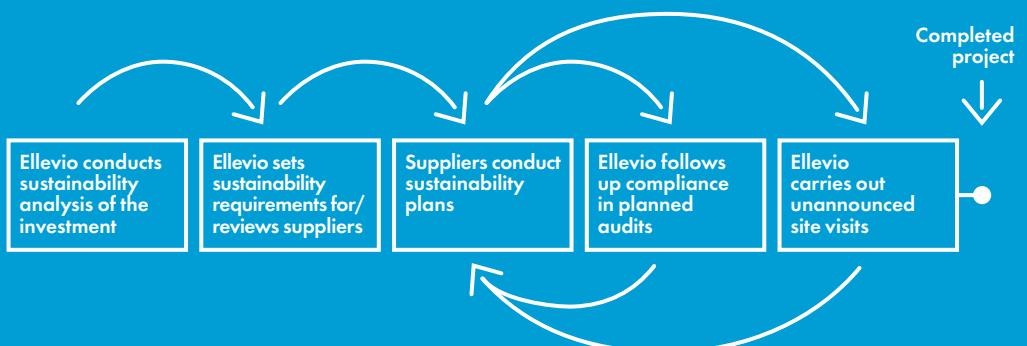
The Code of Conduct applies to all of Ellevio's operations in every part of the world, as well as all suppliers of services, materials and contracts. All suppliers are obliged to implement the requirements throughout their operations and ensure that their sub-contractors adhere to the requirements in Ellevio's Code of Conduct for suppliers.

Ellevio's suppliers must also confirm their compliance with the Code and be able to show documentation of such compliance. To follow up on compliance of the requirements established during the purchasing process, Ellevio employs two types of checks: firstly, unannounced visits to the site of the projects, and secondly extensive and planned audits focusing on environment, health & safety and the Code of Conduct. In 2017, 313 unannounced site visits were carried out, along with 10 planned audits. A number of deviations were identified and those of major significance were remedied.

Ellevio developed an evaluation tool for new contractors in 2017, whereby we systematised and further developed the evaluation process of our sustainability requirements. We will extend this process in 2018 by introducing a self-assessment tool that contractors complete during the procurement and whose answers will form the basis of ongoing follow-up work. We will also continue in 2018 to develop systems and working methods to manage risks throughout the supplier chain. The focus here will continue to be on suppliers who we assess to be strategically important as well as on major investment projects.

You can read more about Ellevio's work surrounding responsible purchasing in the Sustainability Report on pages 68–79.

Managing sustainability from project start-up to implementation



Environment.

Ellevio's environmental initiatives support society's efforts to become more sustainable. Environmental sustainability has two main dimensions for us. We should consume as few resources as possible. At the same time, we are an important player in the transition to a sustainable energy system.

We should enable renewable electricity production, locally produced electricity, more efficient use of electricity and, over the long-term, new applications for electricity. An important future issue is the development of electricity storage methods for standardising the distribution quality between periods of varying loads in the electricity networks.

We need to adhere to national and international regulations ahead of the global energy transition. Development of the electricity networks is a key issue in terms of being able to entirely use renewable energy sources that will account for a constantly growing share of Sweden's energy production.

We take responsibility for our environmental impact

Ellevio works continuously to keep its environmental impact as limited as possible. An environmental management system has been implemented and certified in line with ISO 14001:15.

Significant environmental aspects

As part of its environment initiatives, Ellevio has identified significant environment aspects in its operations; management of sensitive natural environments (biodiversity), use of materials in power line poles that contain creosote, oil leakages from cables and capacitors and energy losses from the network.

Ellevio's overall environmental goals are – apart from the transition to a sustainable energy system – to reduce the impact on the climate and natural resources and contribute to strong biodiversity. This is achieved by:

- Establishing environmental requirements for purchases, taking account of environmental aspects in the company's business and operational activities (in terms of the greenhouse gases SF₆ and CO₂, oil and energy losses, for example) and promoting solutions that contribute to a reduced environmental impact.
- Promoting the application of a lifecycle perspective in all of our activities.



- Avoiding materials and substances that can be harmful to humans, animals and the environment as far as possible. Applying the precautionary principle in connection with investments and purchasing.
- Employing the principles of the waste hierarchy to minimise waste.
- Providing information about and raising awareness of how the company's operations can affect the environment.
- Adopting a sustainability perspective when selecting venues for meetings and modes of transport for travel.

Ellevio uses wooden poles in its electricity networks, and these contain creosote as a preservative. Creosote is extracted from coal tar that is produced as a waste product when coking coals, and it contains substances such as phenols. The use of creosote is regulated by an EU directive and by the Swedish Chemicals Agency. The use of creosote is currently permitted until 2023. Ellevio has drawn up a plan to phase out the use of creosote poles, partly by replacing overhead lines with underground cables and partly by assessing alternative solutions.

With regard to oil leakages from cables and capacitors, particularly in terms of oils containing PCBs (polychlorinated biphenyls), Ellevio has a special policy to avoid leakages. There are 35 km of oil-filled electricity cables under Stockholm, which are continuously monitored for any leakage. Furthermore, a project is under way to gradually replace all of these lines by 2020.

Biodiversity

So-called power line corridors are created wherever our power lines traverse forested areas. These corridors play an important role in protecting our biodiversity. In a natural area of forest unaffected by human activity, trees blow over and forest fires ensure that large areas become deforested at regular intervals. Many species need such areas to live and thrive, and therefore such areas also need to be created in areas of forest used by humans. As Ellevio keeps its corridors clear, environments are created that help promote biodiversity. During 2017, Ellevio began to record the positive environmental impact supplied by our power corridors in order to identify areas worth protecting and establish management plans. The

results of this work will lead to a growing database that could be useful for authorities and researchers who work in various ways to protect the environment and varied species, as well as learn more about them.

Our biodiversity initiatives are one example of how we work to promote a positive environmental impact wherever our operations permit.

The transition to a sustainable energy society

Sweden already produces electricity almost without the use of carbon dioxide, and the share of renewable electricity production is rising steadily. Our electricity needs will increase in the future as the population expands and we use electricity for more purposes. To ensure we will be in a position to have even greener electricity in the future, greater production of renewable electricity will be required, which will entail modernisation of the electricity network.

About 98 percent of the electricity we transport via our grids at Ellevio is produced almost entirely without carbon dioxide emissions. This mix of electricity is unique from both a global and climate perspective, but it does not mean that we do not have any urgent areas for improvement. Carbon dioxide-free electricity is a positive thing, but renewable electricity is even better. In the future, the level of renewable electricity will need to rise in order for Sweden to achieve its ambitious politically-grounded environmental and climate ambitions.

If the electricity we use today were produced in a renewable manner, in exactly the same locations and in the same quantities as before, it would not place any greater requirements on the electricity networks. In the future, however, small-scale production is expected to increase dramatically. There is great interest among the Swedish population in producing their own electricity, and technological progress in areas such as solar panels has made it possible for more people to produce electricity at a reasonable cost for their own use or for sale.

Ellevio is investing about SEK 10 billion during the period 2016–2019 to make the electricity networks of the future a reality.

You can read more about Ellevio's environmental initiatives in the Sustainability Report on pages 68–79.



Investments and financing for the future.

Ellevio's major investments in the electricity networks of the future require a stable and long-term supply of financing.

Investments

Investments are needed to maintain an electricity network of the same quality as today. The need for investment is coinciding with a period of rapid technological development and a societal transition to renewable electricity that entails major opportunities for synergies. In other words, as the electricity network industry enters its most intense investment phase since the 1960s and 1970s, electricity networks need to be built to meet the needs and requirements with which society will be faced in 40–50 years, thus ensuring a future-proofed and world-class Swedish electricity network. Political incentives are extremely important as investments that fail to materialise risk hampering the energy transition.

Drivers behind the need for investment

Sweden is at the forefront of the EU's energy transition activities, in part because our natural resources already provide us with a large share of renewable electricity production, but also because of an efficient market system prompting timely political decisions. In 2015, the Government appointed the Energy Commission to draft a supporting document for the long-term direction of Swedish energy policy, with a focus on 2025 and beyond. This work further develops the national objectives for the transition of the energy system adopted by the Riksdag (Swedish Parliament) in 2009. The Energy Commission submitted its Mobilising for the future of energy report in January 2017. This contains a number of requirements relating to the Swedish mix of electricity in the future. By 2040, our electricity production should be entirely renewable, and Sweden should also be a net exporter of electricity in the future.

Smaller-scale production of renewable electricity will increase dramatically in years to come, and will vary from biofuel-driven CHP plants that supply communities and factories with electricity to wind farms that supply a number of houses or solar panels that produce electricity during the day for one household. Technological progress in areas such as solar panels has made it possible for more people to produce electricity at a reasonable cost for their own use or for sale.

To ensure this works effectively, the sites where electricity is produced must first and foremost be connected to the electricity network, which will require investment in itself. In addition, the electricity network will need to be adapted to offer more variable production. If the wind is not blowing or the sun is not shining, neither wind farms nor solar panels will deliver electricity, and in this case the electricity network will need to be able to remedy potential local shortages of electricity. Conversely, at certain times, more electricity will be produced than is used and, in these cases, electricity networks must determine how much electricity can be distributed to other parts of the country or exported, as well as how much needs to be stored for use later in the day or week.

Major investment programme for the electricity network of the future

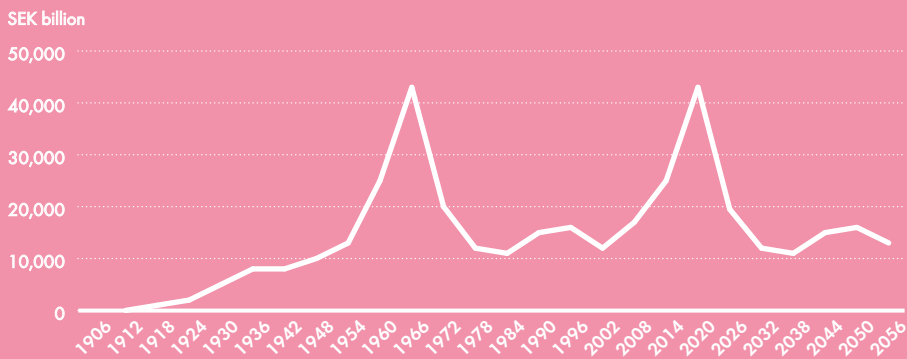
In autumn 2015, we launched the biggest investment programme in the history of our company. Ellevio will be investing almost SEK 10 billion between 2016 and 2019 to modernise and strengthen the electricity network, thereby laying the foundations for the electricity network of the future. These improvements involve continuing to weather-proof rural areas – a task that we embarked on after Storm Gudrun twelve years

ago and which is now being deployed at a significantly faster pace. It is also a question of increasing capacity in the growing city of Stockholm. Improvements that enable more renewable electricity to be used is another important investment area. Our goal is for our customers to receive an uninterrupted supply of electricity – now and in the future, and that the electricity network should support developments in society. Investing in a reliable electricity network is one of our most important tasks.

Our investments are distributed across all areas: SEK 1.6 billion in Dalarna-Södra Norrland, around SEK 2 billion in Västra Svealand-Västergötaland, SEK 1.3 billion on the west coast and SEK 5 billion in Stockholm.

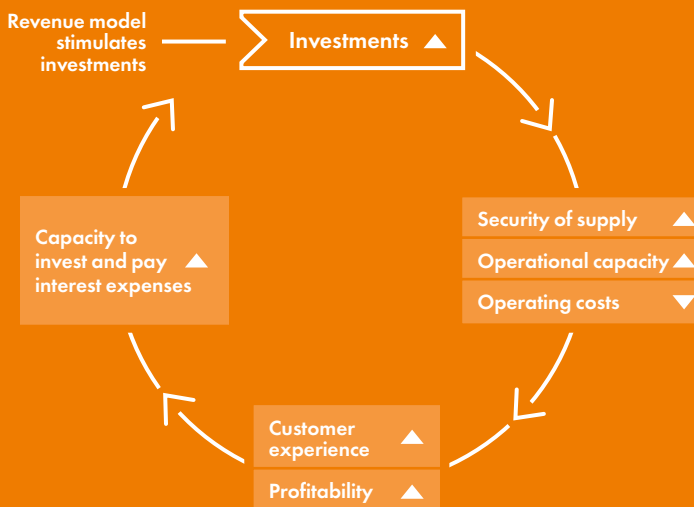
The improvements will not only result in weather-proofing, regeneration and increased capacity, but will also contribute to lowering operating and maintenance costs over the long term. In addition, when we replace overhead lines with underground cables, we make land available that can be used for new housing or parks, for example.

Investment cycles in the Swedish electricity network



The need for investment in the electricity network is cyclical in nature. At the current time the entire industry is in a period of heavy investment. Source: IVA, Vägval EI, 2016

Ellevio is investing SEK 10 billion in the electricity network between 2016–2019



Dalarna

- Around 34,000 customers

Investments

- In Älvdalen, SEK 45 million is being invested in eight different projects. The electricity network is being weather-proofed by burying 150 km of cables underground. In addition, fibre is being jointly laid in several locations during these works.
- The regional grids in Dalarna are being upgraded. For around SEK 70 million, 90 km of lines are being weather-proofed and the capacity of the electricity network is being expanded. This work began in autumn 2017 and will continue for three years.

Värmland

- Around 105,000 customers

Investments

- Around 1,000 km of lines are being weather-proofed as part of the "Värmland package". Some 11,000 households and companies will have a modern electricity network thanks to this investment, which will cost some SEK 270 million between 2018 and 2021. In addition, major areas of land will be cleared for forestry, for example.
- In Grums, three new secondary substations are being built using the very latest technology. SEK 35 million is being invested in building substations with systems that are currently only available in a small number of locations across the country. The substations will also be easier to develop in the future as they are being constructed as modular houses.
- The switching centre in Kil, which is a hub of the electricity network in Värmland, is being totally renovated and modernised – an investment of over SEK 100 million.

West coast (Halland, Bohuslän)

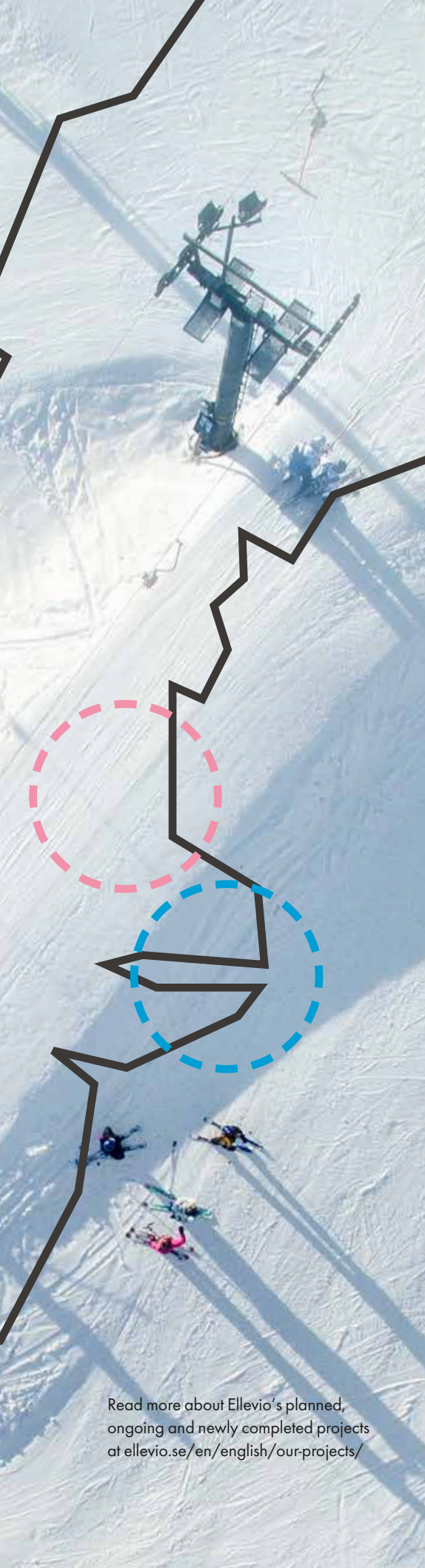
- Around 125,000 customers

Investments

- South of Gothenburg in Askim, Billdal and Hovås, the electricity network is being modernised by replacing 100 km of lines. Almost the entire length will be buried underground, thus leading to fewer power outages in the future. 9,000 customers will be affected by these investments, which will cost around SEK 100 million.
- A major project is being planned in Gothenburg's southern archipelago at Vrångö, Donsö, Styrösö, Brännö and a number of smaller islands. Around 100 km on land and in the sea will be replaced and weather-proofed. In total, approximately 3,200 households will then have a modern electricity network.
- At the Onsala peninsula outside Kungsbacka, 15,000 customers will have a new and modern electricity network when Ellevio buries some 200 km of lines underground.
- On the island of Orust, Ellevio is rebuilding the electricity network for 1,300 customers. 80 km of lines will be buried and made weather-proof against weather and wind.



Ellevio is currently making its largest investment in its electricity networks ever. Until 2019, the company will invest nearly SEK 10 billion in modernising the grids.



Skaraborg-Närke

- Around 27,000 customers

Investments

- 2,800 households in Skövde, Mariestad and Karlsborg will have a more secure supply of electricity once the Skaraborg package is complete. Investments here amount to SEK 130 million, and 200 km of cables are being buried.
- Major substations are being rebuilt in Svartå, Hova, Käckestad, Hjärstad and Kulläsen.

Gävleborg (Hälsingland, Gästrikland)

- Around 69,000 customers

Investments

- We are rebuilding the electricity network for some 6,500 customers as part of three major projects: Arbrå and the northern and western parts of Hudiksvall municipality. This involves some 600 km of lines being buried underground in order to provide customers with a weather-proofed electricity network. 315 secondary substations are also being replaced. In total, Ellevio is investing some SEK 230 million in the project.
- Outside Ljusdal, where Höggölen's wind farm is in the process of being extended, Ellevio will be responsible for connecting the farm to the grid. Once this work is complete, it will be possible for 244 GWh of wind power to supply almost 50,000 households with renewable electricity.
- 70 km cables are being buried and 36 new measurement stations are being set up in Rengsjö. The project has a cost of SEK 20 million and will give residents an electricity network better able to withstand storms.

Stockholm (City of Stockholm, Ekerö, Lidingö, Täby, Nynäshamn)

- Around 579,000 customers

Investments

- Together with Vattenfall and Svenska kraftnät, Ellevio is managing the "Stockholms Ström" project which, when complete, will supply the capital with a future-proofed electricity network with a greater capacity.
- In total, SEK 5 billion will be invested in Stockholm's electricity network between 2016–2019. Each year, around 1,000 different investment projects of varying sizes are initiated in Stockholm.
- During the winter of 2018, a major project will be launched in which Stora Essingen's electricity network will be rebuilt and upgraded.
- Many key hubs of Stockholm's electricity network are being rebuilt, including Örby, Ulvsunda, Västberga, Högdalen, Bredäng and Sättra.

Read more about Ellevio's planned, ongoing and newly completed projects at ellevio.se/en/english/our-projects/

Financing

The electricity network we are currently building is designed to function in the long term, which entails major demands in terms of longevity from both ourselves and our owners. At the same time, our operations are regulated, and these regulatory periods span a period of four years at a time.

Our owners

Our operations are stable and predictable and have a long-term investment horizon. At the same time, a shareholding in electricity network companies requires extensive access to capital and long-term responsibility for critical infrastructure.

Our owners – the Third National Pension Fund, Folksam, the First National Pension Fund and OMERS Infrastructure, have a long-term perspective that is clearly aligned with the long-term investment horizon required in the electricity network business. We are facing a major need for investment and our new owners are therefore enabling the investments necessary for us to continue offering our customers a reliable electricity network.

The Third National Pension Fund is one of five national pension funds tasked with helping safeguard the value of the Swedish state pension for both current and future pensioners. The task of this fund is to responsibly invest in and manage the pension system's buffer capital. Total managed capital amounts to approximately SEK 340 billion.

Folksam is one of Sweden's largest insurance and pensions companies, with a major investment business and total managed capital of around SEK 400 billion.

The First National Pension Fund aims to invest in a way that ensures the greatest benefit for the pension system. The fund is to strive for a high long-term return while ensuring the risk to current and future pensions remains low. The investments are being made across the globe. Total managed capital amounts to approximately SEK 323 billion.

OMERS Infrastructure represents a branch of the Canadian pension fund OMERS, which manages pensions for the province of Ontario's 470,000 active, previous and retired public-sector employees. Total managed capital amounts to CAD 85 billion.

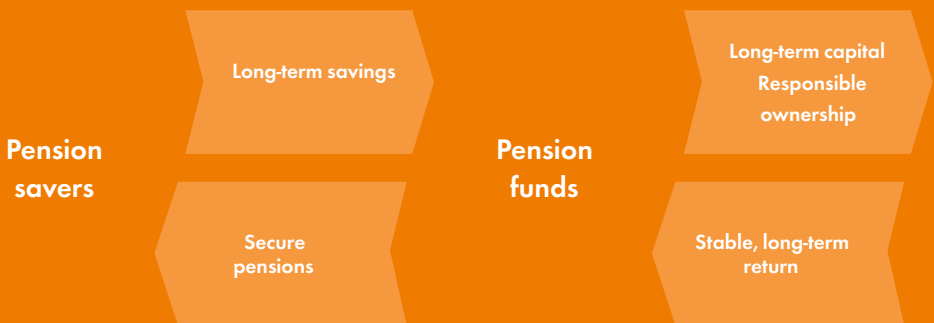
Our model

Ellevio's owners have created a model whereby pension savings can be channelled into investments in the transition to a sustainable energy system.

Those who are currently in work can save into pension funds that offer both financial security after pension age and enable investments in a sustainable energy system for future generations.

This is structured so that the pensions funds which manage the pension capital place long-term capital at Ellevio's disposal, which we in turn invest in the electricity networks of the future. In return, we offer the pension funds a long-term and stable return.

Ellevio channels long-term pension savings into investments in the transition towards a sustainable energy system



As both Ellevio and the pension funds work based on a long-term horizon, the pension funds can be considered appropriate and responsible owners.

It is difficult to quantify the societal benefit of the investments Ellevio makes in the electricity network. The electricity networks of the future will be a prerequisite of our ability to electrify the transport industry, make the transition to 100 percent renewable electricity and ensure a secure supply of electricity to the whole country. A large number of jobs will also be created, both directly at our company and indirectly among the many contractors we engage.

Our loan structure

Our loans consist of secured loans (whereby the company's assets are collateral) and subordinated loans issued to holding companies in the Group and then lent to Ellevio AB. The subordinated loans comprise loans from external lenders and shareholder loans from our owners. The average financing interest rate for Ellevio's external loan financing, including interest hedging derivatives, amounted to around 3.5 percent at year-end 2017, and the average remaining term was around 8.5 years.

Shareholder loans that have a term of 25 years and are subordinate to other loans have an interest rate of 8.5 percent. This corresponds to around 6 percent of total shareholder capital, which consists of shareholder loans and share capital. No dividend has been paid to shareholders, with all return instead being taken out as interest on the shareholder loans.

During the year we paid SEK 1.3 billion (1.1) in returns to the shareholders in Ellevio Holding 1 AB. The fact that the loans are subordinate means their interest is only paid once amortisations and interest on other loans have been paid, and thus entail a higher risk.

Our financing and interest rates do not affect the prices paid by customers

Electricity network companies operate as monopolies, which are subject to state supervision and regulation by the Swedish Energy Markets Inspectorate (Ei). The business's revenue is decided by the Energy Markets Inspectorate and the regulation should ensure that the grids are of good quality and provide long-term security of supply.

Electricity network companies receive compensation for reasonable costs linked to running the operations and a reasonable return on investments in the development of the electricity networks. The allowed revenues, that is, how much we are paid by our customers, is determined by regulations that are identical for all Swedish electricity network companies. Allowed revenue is not affected by the owner of the operations (municipality, private or other) or how the operations are financed; no electricity network company can charge its customers more than the revenue regulation allows. This means that neither financing nor interest rates have any impact on the prices paid by customers.

ELLEVIÖ

Reliable, flexible and smart electricity networks today, tomorrow and in 50 years

Trust

Ellevio is given licence to run and manage electricity networks from society

Revenue framework is determined by laws and regulations

Society

- Secure supply of electricity in both urban and rural areas
- Stable electricity supply to vital societal functions
- Integrated European electricity market
- Secure supply of electricity to an electricity-dependent society

Employees

- Jobs
- Safe workplace
- Knowledgeable and committed employees
- Competent and responsible contractors

Environment

- Adaptation of the electricity network to the fossil-free transport system of the future
- Transition to 100% renewable electricity
- Biodiversity along power lines

Customers

- Secure and outage-free electricity supply
- High level of service
- New services as part of a smarter grid
- Opportunity to produce your own electricity
- Fair tariffs between cities/rural areas

Revenue

The allowed revenues resolved by Ei comprise four different components: compensation for capital costs, controllable costs, non-controllable costs and finally a quality incentive.

Compensation for capital costs is compensation for the actual electricity network assets, including systems for operating the electricity network and measuring the electricity consumption, and investments made in these systems. The compensation is based on each company's electricity network assets (a regulatory calculation that is the same for all grid companies) and an interest rate, the cost of capital (weighted average cost of capital, WACC) that is meant to cover interest on loans, taxes and returns. The cost of capital for the regulatory period 2016–2019 is 5.85 percent.

Non-controllable costs are costs that we cannot influence and which instead pass "straight through" our operations. This refers mainly to costs for "neighbouring grids", which are the grids that transmit the

electricity from the production site to our electricity network, such as the national grid owner Svenska kraftnät, and costs for purchasing electricity that is lost in transmission ("grid losses"). Non-controllable costs also include public authority fees that electricity network companies are required to charge customers.

Controllable costs are costs that we can influence: the costs of maintenance, customer service, grid monitoring, etc. These costs are subject to efficiency requirements: we are required to incrementally improve efficiency each year. If we are less efficient than the industry average, we are penalised by a reduction in permitted revenue.

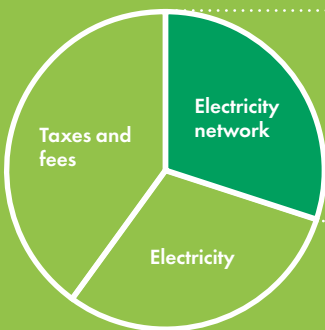
The quality incentive is based on power outages that last between three minutes and twelve hours. Depending upon the reliability of our electricity network, our permitted revenue may be increased or decreased. Compensation for power outages that last for more than twelve hours falls outside the revenue regulation; electricity network companies pay this compensation directly to their customers.

The customer's electricity bill comprises three components

Electricity network – the cost of having the electricity transmitted from the production source, such as a hydropower plant, wind farm or nuclear power plant, through power lines, cables, substations, network stations to the home or workplace.

Electricity – the cost of the actual electricity that the customer consumes, which the electricity supplier purchases via the electricity market and sells to the customer.

Taxes and fees – about 40 percent of the electricity bill comprises government taxes and fees to authorities.



The grid component consists in turn of several parts

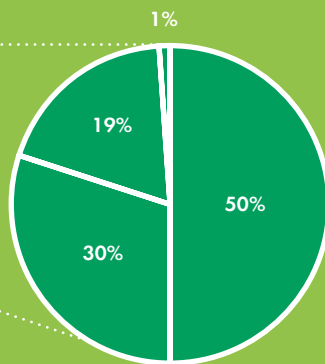
The grid component on the customer's electricity bill is distributed as follows:

Compensation for capital costs, 50%

Non-controllable costs, 30%

Controllable costs, 19%

Quality incentive, 1%



Major information campaign

In January 2018, responsibility for energy taxes was transferred from electricity traders to electricity network companies. The transfer of energy taxes of SEK 0.325/kWh excluding VAT for 2017 poses a challenge in terms of communication in order to avoid misunderstandings about an increase in electricity network costs. Ellevio is rolling out a major information campaign to offer customers clarity about what this change involves.



The Board and the CEO of Ellevio AB (publ) hereby present their annual report for the 2017 financial year. This document is a translation of the original, published in Swedish. In case of any discrepancies between the Swedish and English versions, or in any other context, the Swedish original shall have precedence.

Annual Report 2017.

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Directors' Report.

Business operations

Ellevio AB (publ) is one of Sweden's largest distribution network operators. Ellevio invest in, develop and maintain the company's power grids in order to ensure a reliable electricity supply to the 939,000 customers, 24 hours a day, each day of the year. By investing in a long-term sustainable power grid Ellevio works to improve the quality of life for its customers as well as to enable the ongoing energy transformation and the continued digitization of the society. The company conducts electricity distribution operations in concession areas on the West Coast, in Värmland, Skaraborg, Dalarna, Gävleborg and the Stockholm region.

Electricity distribution is essential to modern society and an uninterrupted electricity supply is becoming ever more important. Large parts of the Swedish electricity distribution network were built during the 1960s and 70s and are thus becoming outdated and due for replacement. This means that the entire distribution sector enters a period of large investments. For Ellevio, this meant launching a major investment programme in 2015 totalling nearly SEK 10 billion between 2016 and 2019 to renew the network, increase capacity and weatherproof the networks. During 2017 the investments has amounted to about SEK 2.4 billion, compared to SEK 2.1 billion in 2016.

The efforts are aimed at maintaining the high security of supply of 99.98 per cent that Ellevio's customers have today, but also at preparing the networks for the future. A higher share of renewable electricity from large- and small-scale solar and wind power facilities, the continued digitisation of society, the electrification of the transport network, and new services enabling users to control their electricity consumption impose new requirements on a smarter electricity network – one that is reliable yet also more automated and flexible.

Ellevio has the ambition to increase its market share both through organic investments and acquisitions. On May 19, 2017 the Ellevio Group announced a recommended public bid to the shareholders of Elverket Vallentuna AB (publ). The offer was closed on October 23 when 92.5 per cent of the shares had been acquired by Ellevio Holding 1 AB and the process of automatic redemption of the outstanding share could be initiated. Ellevio Holding 1 AB owned 94.8 per cent of the shares per 31 December 2017. Elverket Vallentuna, which is a well-managed and responsible company, is an attractive complement to Ellevio's operations given its size and proximity to Ellevio's other network areas in Stockholm. The distribution operations of Elverket Vallentuna will be integrated into Ellevio AB (publ) during 2018.

You could find information about Ellevio's sustainability management and value creation on pages 16–27 in the Annual Report and in the Sustainability report on pages 68–79.

Other significant circumstances

Electricity distribution is a natural monopoly and as such a 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 decides how much distribution network operators like Ellevio are allowed to charge its customers. These limits are known as the allowed revenue and the levels are determined in advance for four years at a time. The allowed revenue should cover reasonable costs for running the business and a fair return to the network owners. According to the Swedish Electricity Act, the electricity network fees paid by customers must be fair, objective and non-discriminatory.

On 1 January 2016, a new four-year regulatory period started, which entailed a few changes to the regulatory framework, above all a change in the method for calculating the asset base on the basis of the age of the network. Although the change substantially reduces the allowed revenue for distribution network companies compared with the previous periods, the new framework also stimulates new investments in electricity networks, which promotes the renewal and weather-proofing needed.

It is important that the regulatory framework support the developments taking place in society. Now that the industry is entering a period requiring substantial investments in order to renew the electricity network, it is positive that the framework stimulates investments. However, there are certain parameters where the

views of the Ei and the industry differ. The most important of these is the cost of capital, where the industry argues that it should be based on a long-term view to reflect the long-term nature of network investments (over 40 years). Inadequate capital compensation can counteract the important objectives of the new regulation, i.e. to secure the renewal of the electricity networks. Unless investments are made on time, there is a risk of the security of supply suffering and of the electricity networks slowing the transformation of the energy system. Consequently, Ellevio and a majority of the network industry appealed Ei's decision on a capital cost in 2015. In December 2016, the Administrative Court decided on a capital cost of 5.85 per cent. 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 appeal the decision. That means that the verdict from the Administrative Court in December 2016 on a cost of capital of 5.85 per cent is final for the regulatory period of 2016 to 2019.

An important issue that Ellevio has been pursuing for years is the possibility of harmonising prices between its 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. Ellevio wants to remove this difference. However, the legal framework in this area has not been entirely clear. In October 2017, Ei announced that Ellevio could proceed with the price harmonisation. Ellevio could therefore initiate price decrease for customers in Värmland, Skaraborg and Närke with 5 per cent as from December 1, 2017.

Financial results

In 2017 net sales amounted to SEK 6,894 million (6,537). 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 TWh (14.2) and 12.8 TWh (12.9), respectively.

EBITDA totalled SEK 4,207 million (3,946) and operating profit totalled SEK 2,161 million (1,929).

Interest expense and similar items were SEK –2,912 million (–3,299), of which SEK –1,656 million (–1,652) were related to Group internal interest expenses and SEK –1,256 million (–1,647) external interest expenses. The external interest expenses include changes in the fair value of financial instruments of SEK 127 million (–481) as well as SEK –154 million (–289) 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 million (–1,369).

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

Financial position and cash flow

In 2017, cash flow from operating activities increased by SEK 654 million to SEK 4,117 million (3,463), 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 million (–125).

Paid capital expenditure increased by SEK –311 million to SEK –2,368 million (–2,057), 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 million (1,406) and cash flow before financing activities to SEK 1,314 million (1,406).

Paid interest amounted to SEK –2,094 million (–2,418), of which external interest relating to senior debt accounted for SEK –1,082 million (–828) and intra-Group interest for SEK –1,012 million (–1,590). The internal interest is indirectly relating to the junior debt SEK –149 million (–152) and to shareholder loans SEK –863 million (–1,438).

The external net debt increased by SEK 1,453 million to SEK 35,528 million (34,075), 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 3-year bond in the amount of SEK 3,500 million and a 7-year bond in the amount of 6,500 million. The transactions attracted strong investor demand and 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.

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 million (12,967).

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 million (1,650) was drawn under the Facility.

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

Outlook

Ellevio works actively to shape the Swedish energy market, with a focus on electricity distribution operations. The company is driving a number of important regulatory matters through active involvement in industry trade groups, contacts with regulators and collaborations with other operators, both nationally and internationally.

During 2017, the work on establishing the regulations for the third regulatory period, 2020–2023, has proceeded. 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.

Further on, the preparatory work to reform the retail market has also proceeded. Ellevio has during the year been arguing for changes in the original proposal, in which electricity suppliers will be the first contact for customers. Many of the challenges that existed when the proposal first was initiated are now solved. Ellevio also sees a risk that a changed market model, where electricity suppliers have a majority of the customers contact, would endanger the implementation of the proposition regarding demand flexibility that the government will put forward in 2018.

Information on risks and uncertainties

Risk management is an integral element of operational planning, governance and monitoring. Business risks are assessed through management's and Board of Directors' strategy and planning work, and are documented in a business plan adopted by the Board.

The management of operational and financial risks is based on the company's adopted policies, which specify principles, frameworks and responsibilities with the aim of limiting the company's risk exposure. The policies are reviewed and submitted for adoption annually. Operational risks are identified, assessed and addressed as an integral part of the company's day-to-day activities.

Strategic risks refer primarily to risks that change the operating environment for the electricity distribution business. Various political decisions and changes to the regulatory framework may affect the company's operations. Strategic risks also include legal compliance risks, as the business forms an important part of the country's infrastructure, and the company is therefore required to comply with many laws, directives and regulations. Along with other industry players, Ellevio is actively involved in driving regulatory issues that are of importance for our business.

The ownership and operation of electricity distribution facilities entails operational risks, primarily in the form of operational disruptions that result in interruptions in the delivery of power to our customers. These risks are managed mainly through the reinvestment and maintenance programmes run by the company, with a focus on reducing sensitivity to storms and improving the general reliability of our electricity network. The company also has an advanced organization to address major disruptions and a fault repair process that is continuously being improved to ensure that power is restored to customers as soon as possible after an outage.

Through its operations the company is exposed to various types of financial risks, such as market, liquidity and credit risks. Market risks consist mainly of currency, electricity price and interest rate risks. The company enters into derivative instruments to reduce these risks. Also see Note 4 Financial risk management and financial instruments.

Employees

In 2017, Ellevio had an average of 433 employees, most of whom were based at the head office in Stockholm and at the office in Karlstad. Since 2011, Ellevio has been operating in accordance with a model in which the management and planning of electricity network projects are performed in-house, while field operations are outsourced to external contractors.

Occupational health and safety issues are assigned high priority at Ellevio, both for our in-house staff and for contractors who are commissioned the company on assignments. The company takes a structured approach to these issues, which are governed and coordinated by a central function for occupational health and safety, environment, quality, security and sustainability, and pursues continuous improvements, through measures including regular audits of our operations and those of our contractors. Compliance is monitored through among others recurring audits of the operations and at our contractors. Progress in the organisation is monitored by management and the Board of Directors, on an ongoing and monthly basis. Ellevio has also established a special committee linked to the Board that addresses health and safety issues as well as sustainability issues.

During 2017, Ellevio has launched an increased safety program, Safe workplace, in order to further improve the work around occupational health and safety within Ellevio and among contractors.

Environment

Ellevio AB (publ) is ISO 14001 certified and the company operates under a Board approved sustainability policy, where environmental responsibility comprises one of three components. Environmental responsibility involves ensuring that the company employs various activities to reduce its impact on the environment and biological diversity by:

- Setting environmental requirements on purchases, taking account of environmental aspects in the company's business activities and giving priority to solutions that help reduce environmental impact
- Promoting the application of a lifecycle perspective in all activities
- Employing the principles of the waste hierarchy to minimise waste
- Providing information on and raising awareness of how the company's operations can affect the environment
- Avoiding materials and substances that can be harmful to humans, animals and the environment
- Employing a sustainability perspective when selecting venues for meetings and means of transport for travel

Under the Swedish Electricity Act, a permit for the construction and use of an electricity line ("concession") can be granted for a line covering a specified distance or an electricity network in a certain area. As of 1 June 2013, the company's concession applies until further notice. The examination of the application for a concession includes an assessment in accordance with the provisions of the Swedish Environmental Code. Electricity network operations are not regulated by the provisions of the Environmental Code with regard to permit and notification requirements on environmentally hazardous operations.

Sustainability report

In accordance with ÅRL, Ellevio AB has chosen to establish the statutory sustainability report as a separate report from the Annual Report. The sustainability report is found on pages 68–79.

Group contributions

The company has in 2017 received SEK 1,493,038,630 in group contributions and given SEK 187,504 in group contributions. Net group contributions received amounted to SEK 1,492,851,126.

Proposed allocation of retained earnings (SEK)

The following earnings are at the disposal of the Annual General Meeting:

Retained earnings	5,893,471,906
Profit/loss for the year	287,790,529
	6,181,262,435

The Board of Directors proposes:

Retained earnings to be carried forward	6,181,262,435
	6,181,262,435

For further information on the company's performance and financial position, see the following income statement, balance sheet, statement of changes in equity, cash flow statement and the notes to the accounts. Unless otherwise stated, amounts in tables refer to millions of Swedish kronor (MSEK). Due to rounding of amounts to the nearest million Swedish kronor, some totals may not be exactly equal to the sum of all line items.

Financial overview.

MSEK	2017	2016	2015	2014	2013
Net sales	6,894	6,537	6,014	5,870	6,025
EBITDA	4,207	3,946	3,275	3,194	2,933
Items affecting comparability	-23	0	-5	-13	0
Comparable EBITDA	4,230	3,946	3,280	3,282	3,192
Operating profit	2,161	1,929	1,675	2,131	2,032
External financial items	-1,255	-1,646	-432	-1	-1
Profit/loss after net financial income/expense	-750	-1,369	285	2,073	2,343
Profit/loss for the year	288	-239	15,463	18	417
Cash flow from operating activities	4,117	3,463	3,443	3,192	3,307
Free cash flow	1,748	1,406	1,860	1,975	2,258
Capital expenditure	2,381	2,076	1,706	1,217	1,048
Total assets	80,048	76,968	75,235	25,534	26,689
Total equity	6,201	5,923	6,163	637	618
Adjusted equity	7,035	6,534	6,509	16,454	16,386
Equity/assets ratio	8.8%	8.5%	8.7%	64.0%	61.0%
External net debt	35,528	34,075	32,864	-	-
Adjusted cash	1	46	114	-	-
Leverage ratio	8.4x	8.6x	10.6x	-	-
Interest cover ratio	3.3x	4.1x	-	-	-
Delivered volume (TWh)	27.1	27.1	26.8	26.8	27.8
No. of customers (in thousands)	939	918	912	908	904
Average no. of employees	433	412	407	378	339

Definitions.

Adjusted cash

Cash and cash equivalents less customer deposits

Adjusted equity

Total equity plus 78 percent of the untaxed reserves

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 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 income tax paid divided by external financial items

Items affecting comparability

Gains/losses from sales of fixed assets, scrapping of fixed assets and restructuring costs

Leverage ratio

External net debt divided by comparable EBITDA

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.

Income statement.

MSEK	Note	1 Jan 2017 31 Dec 2017	1 Jan 2016 31 Dec 2016
Net sales	6, 7	6,894	6,537
Capitalised own work		70	70
Other operating income	8, 10	70	67
		7,034	6,674
OPERATING EXPENSES			
Costs for purchase and transit of power		-1,023	-1,089
Other external expenses	9, 10	-1,384	-1,259
Employee benefits expense	11, 12	-419	-381
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	13	-2,046	-2,016
Operating profit		2,161	1,929
FINANCIAL INCOME AND EXPENSES			
Interest income and similar items	14	1	1
Interest expense and similar items	15	-2,912	-3,299
Profit/loss after net financial income/expense		-750	-1,369
Appropriations	16	1,207	1,148
Profit/loss before tax		457	-221
Income tax expense	17	-169	-18
PROFIT/LOSS FOR THE YEAR		288	-239

Statement of comprehensive income.

MSEK	1 Jan 2017 31 Dec 2017	1 Jan 2016 31 Dec 2016
Profit/loss for the year	288	-239
Other comprehensive income		-
COMPREHENSIVE INCOME FOR THE YEAR	288	-239

Balance sheet.

MSEK	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets			
	18		
Goodwill		5,233	5,495
Concessions		39,298	39,598
IT systems		94	100
Utility easements		163	141
Projects in progress and advance payments		77	59
		44,866	45,393
Property, plant and equipment			
	19, 33		
Buildings and land		854	870
Machinery and other technical plant		26,352	25,830
Equipment, tools and facilities		36	17
Assets under construction and advance payments		2,476	1,680
		29,718	28,398
Non-current financial assets			
Investments in associates	20	0	0
Receivables from Group companies		2,138	–
Plan assets	11	0	0
		2,138	0
Total non-current assets		76,721	73,791
Current assets			
Current receivables			
Trade receivables	21	632	556
Receivables from Group companies	22	1,493	1,496
Other receivables	23	155	80
Prepaid expenses and accrued income	24	1,307	990
		3,317	3,122
Cash and cash equivalents	25, 33	10	55
Total current assets		3,327	3,177
TOTAL ASSETS		80,048	76,968

Balance sheet, cont.

MSEK	Note	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital		1	1
Statutory reserve		0	0
Development reserve		19	13
		20	14
Non-restricted equity			
Retained earnings		5,893	6,149
Profit/loss for the year		288	-239
Total equity		6,201	5,923
Untaxed reserves	26	1,069	783
Provisions			
Deferred tax liability	17	14,005	13,961
Other provisions		0	-
Non-current liabilities			
Bond loans	27	29,749	19,099
Liabilities to credit institutions		5,005	14,513
Liabilities to Group companies		21,131	20,490
Derivatives		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	28	38	37
Current tax liabilities		29	38
Other current liabilities	29	361	251
Accrued expenses and deferred income	30	944	658
		2,487	1,672
TOTAL EQUITY AND LIABILITIES		80,048	76,968

Statement of changes in equity.

MSEK	Note	Restricted equity			Non-restricted equity	Total equity
		Share capital ¹⁾	Statutory reserve ¹⁾	Development reserve ²⁾	Retained earnings including profit for the year	
Balance at 1 January 2016		0	0	0	6,162	6,163
Bonus issue		0			-0	-
Provisions for development reserve				13	-13	-
Profit/loss for the year					-239	-239
Other comprehensive income					-	-
Total comprehensive income					-239	-239
Balance at 31 December 2016		1	0	13	5,910	5,923
Balance at 1 January 2017		1	0	13	5,910	5,923
Provisions for development reserve				7	-7	-
Profit/loss for the year					288	288
Other comprehensive income					-	-
Total comprehensive income					-281	288
Merger difference					-10	-10
Balance at 31 December 2017		1	0	19	6,181	6,201

¹⁾ Share capital amounted to SEK 600,000 (600,000) and the statutory reserve amounted to SEK 82,300 (82,300).

²⁾ Refers to investments in proprietary produced IT programmes.

The company has a total of 60 shares (60). The quotient value is SEK 10,000 (10,000) per share.

Cash flow statement.

MSEK	Note	1 Jan 2017 31 Dec 2017	1 Jan 2016 31 Dec 2016
CASH FLOW FROM OPERATING ACTIVITIES			
Operating profit		2,161	1,929
Adjustments for non-cash items:			
Depreciation and amortisation	13	2,046	2,016
Disposals/retirements of non-current assets		23	0
Change in provision for doubtful receivables		0	6
Income tax paid		-199	-364
Cash flow from operating activities before changes in working capital		4,031	3,587
CHANGES IN WORKING CAPITAL			
Decrease(+)/increase(-) in trade receivables		-76	-178
Decrease(+)/increase(-) in other operating receivables		-79	2
Decrease(-)/increase(+) in trade payables		25	-213
Decrease(-)/increase(+) in other operating liabilities		215	264
Cash flow from operating activities		4,117	3,463
INVESTING ACTIVITIES			
Capital expenditure in intangible assets		-64	-55
Capital expenditure in property, plant and equipment		-2,305	-2,002
Acquisition of shares		-438	-
Proceeds from sales of tangible assets		4	-
Cash flow from investing activities		-2,802	-2,057
Cash flow before financing activities		1,314	1,406
FINANCING ACTIVITIES			
Borrowings	31	14,063	14,295
Repayment of borrowings		-12,695	-13,348
Loans given		-650	-
Received interest		1	1
Paid interest		2,094	-2,418
Cash flow from financing activities		-1,374	-1,471
Cash flow for the year		-60	-66
Cash and cash equivalents at 1 January		55	121
Cash and cash equivalents in merged company		15	-
Cash and cash equivalents at 31 December	25	10	55

Accounting policies and notes.

NOTE 1

GENERAL INFORMATION ABOUT THE COMPANY

Ellevio AB (publ), corporate ID number 556037-7326, is a limited liability company registered in Sweden whose registered office is in Stockholm. The address of the head office is Valhallavägen 203, SE-115 53 Stockholm, Sweden. The company conducts electricity network operations. Ellevio AB (publ) is a wholly owned subsidiary of Ellevio Holding 4 AB, corporate ID number 559005-2451. Consolidated financial statements are prepared by Ellevio Holding 1 AB, corporate ID number 559005-2444. The Group structure is presented in Note 35.

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES

This annual report was prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and 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.

Assets, provisions and liabilities have been recognised at cost unless otherwise indicated.

The cash flow statement was prepared using the indirect method. The company is classified as a large company in accordance with Ch. 1 section 3 of the Swedish Annual Accounts Act (1995:1554). Pursuant to Ch. 7 section 2 of the Annual Accounts Act, consolidated financial statements are not prepared for Ellevio AB (publ).

New and amended standards and interpretations that have not yet come into effect, as well as amendments to RFR 2

New and amended standards as well as interpretations of and changes to RFR 2 that have been issued but only become effective for reporting periods beginning after 1 January 2018 have not yet been applied by the company. New and amended standards and interpretations that are deemed to have an impact on the company's financial statements in the period in which they are first applied are described below

IFRS 15 Revenue from Contracts with Customers was issued on 28 May 2014 and will replace IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes a model for revenue recognition for nearly all types of revenue arising from contracts with customers, with the exception of leases, financial instruments and insurance contracts. The basic principle for recognition of revenue under IFRS 15 is that a company should recognise revenue in the manner that reflects the transfer of the promised goods or service to the customer, in the amount that the company expects to receive in exchange for the goods or service. Revenue is recognised when control of the good or service has passed to the customer. IFRS 15 is applicable for reporting periods beginning 1 January 2018 or later and earlier application is permitted. The new standard will be applied prospectively.

Revenue from connection fees, except revenue from connection of wind farms in the regional grid, will have an impact on the company's financial statements due to the implementation of the new standard. The company's assessment is that a connection to the grid consists of two promises: a promise to implement a new connection to the grid and a promise to continuously connect and distribute electricity to the connection points. These promises are not distinct, since a new connection is only possible if there is a commitment to continuously connect and distribute electricity. The two promises should be considered to be one performance obligation as neither one of them fulfils the criteria to be distinct in IFRS 15. The consequence of this for Ellevio is that connection fees will be periodised. The periodisation period for standard connections is 40 years and 25 years for wind farms. The effect of the change is estimated at approximately SEK 200 million in lower revenues for the full year 2017. Other than the impact on the connection fees the transition to IFRS 15 is not expected to have any significant effects.

IFRS 9 Financial Instruments was issued on 24 July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard contains new requirements on the classification and measurement of financial instruments, on derecognition and impairment, and general rules for hedge accounting. The standard is applicable for periods beginning on 1 January 2018. The new standard will be applied prospectively.

Classification and measurement

The new rules for classification and measurement entail – in the same way as in IAS 39 – financial assets being classified into different categories, of which certain assets are measured at amortised cost and others at fair value. IFRS 9 introduces other categories than those included in IAS 39. Classification under IFRS 9 is based partly on the instruments' contractual cash flows and partly on the company's business model. In terms of financial liabilities, IFRS 9 largely corresponds to IAS 39. The purpose of Ellevio's holdings of financial assets is to obtain contractual cash flows, and the company will report financial assets at amortised cost. Derivative instruments are measured at fair value in the Ellevio Group, and changes in fair value are reported in the income statement in cases where hedges do not fulfil hedge accounting requirements and in other total comprehensive income where hedge accounting requirements are fulfilled, see also Financial instruments. In practice, the model for classification in accordance with IFRS 9 does not entail any changes for Ellevio.

Expected credit losses

The implementation of IFRS 9 means that Ellevio will apply a new model for impairment of financial assets. The model is based on expected losses and not on losses that have already occurred, as is the case today. Impairment rules under IFRS 9 are based on a three-step model, where the accounting should reflect changes in the credit risk and take into account losses at an earlier stage. Ellevio's financial assets consist primarily of trade receivables, which are categorized as current receivables where the counterparty has a good credit rating, see Note 4 Credit and counterparty risk. Ellevio has implemented a model for calculating expected credit losses based on counterparty credit rating and payment history. The analysis that Ellevio conducted based on historical customer data shows that the transition to the new model based on expected credit losses does not entail any material impact on the company's financial reports.

Hedge accounting

Ellevio will apply hedge accounting according to IFRS 9 from 1 January 2018. IFRS 9 expands the potential risk components to also include non-financial items. The company is obliged to pay compensation for grid losses, and it hedges the electricity price through electricity derivatives in order to reduce risk. The new standard enables the company to apply hedge accounting to one or more risk components. The company considers that the product's system price (SYS) and area price differential (EPAD) hedge the corresponding electricity price risk. This change will reduce volatility in the P&L but is not expected to have any major impact on the company's financial reporting

IFRS 16 Leases was issued on 13 January 2016 and will replace IAS 17 Leases. IFRS 16 introduces a right-of-use model under which the lessee is required to recognise essentially all leases in the balance sheet. No classification of operating and finance leases should therefore be made. The exceptions are leases with a term of 12 months or less and low-value leases. Depreciation/amortisation of the asset and interest expenses on the liability are recognised in the income statement. The standard contains more extensive disclosure requirements compared with the current standard. For lessors, IFRS 16 does not entail any real differences compared with IAS 17. IFRS 16 is applicable to reporting periods on or after 1 January 2019. Earlier application is permitted provided that IFRS 15 is applied simultaneously. The standard was adopted by the EU on 31 October 2017.

Management has not yet performed a detailed analysis of the effects of applying IFRS 16 and is therefore unable to quantify the effects. Management considers that the other new and amended standards and inter-

NOTE 2 cont.

pretations – that have not yet become effective – will not have any material impact on the company's financial statements when they are initially applied.

Revenue

Revenue is recognised at the fair value of the consideration received or receivable after deducting VAT, discounts, returns and similar deductions. The company recognises revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the company and specific criteria have been met for each of the company's categories of revenue.

The company's revenue comes mainly from network services, connection services and other network-related services. The company's revenue is covered by revenue regulation and any excess or deficit revenue is handled in the subsequent regulation period for accounting purposes.

Network services

Revenue from the sale of network services is based on actual measured consumption during the period (excluding VAT and duties) and revenue is recognised upon completion of delivery.

Connection services

Revenue from the sale of connection services is recognised as revenue to the extent that it is not intended to cover future obligations. Revenue from the connection of wind farms in the regional network is allocated over 25 years in accordance with the contracted future tariff reduction.

Other network related services

Revenue from the relocation of network facilities is recognised as revenue to the extent that it is not intended to cover future obligations. Other recurring operating income such as income from reconnection services and other customer-initiated activities are recognised in connection with the performance of the service.

Communication and rental income

Income from the lease of capacity in company-owned fibre-optic networks, space in masts and poles and rent for premises is recognised in accordance with the rules for operating leases (lessor).

Leases

A finance lease is a lease that transfers substantially all the economic risks and rewards incidental to ownership of an asset to the lessee. Other leases are classified as operating leases. All leases, both finance leases and operating leases, are recognised as operating leases. Lease payments are charged to income statement on a straight-line basis over the term of the lease unless another method systematically provides a better reflection of the user's economic benefit over time.

Future lease payments refer to operating leases. The company has no significant finance leases.

Foreign currency

Receivables and liabilities in foreign currency have been translated at the rate at the end of the reporting period. Unrealised foreign exchange gains and losses are included in profit or loss. Foreign exchange gains (losses) on operating receivables and liabilities are recognised in the same item of income and expense as that to which the income or expense refers. Foreign exchange differences related to financial assets and liabilities are recognised under net financial income and expenses.

Borrowing costs

Borrowing costs are recognised on an ongoing basis in profit or loss in the period to which they refer.

Employee benefits

Employee benefits in the form of salaries, bonuses, paid annual leave, paid sick leave, etc., as well as pensions are recognised as they are earned. Pensions and other post-employment benefits are classified as defined contribution pension plans and are charged to income statement. The company has both defined-benefit and defined contribution pension plans.

Under RFR 2, the provisions of IAS 19 concerning defined-benefit pension plans do not need to be applied in a legal entity.

Taxes

The tax expense consists of the sum of current tax and deferred tax.

Current tax

Current tax is the amount of income taxes payable in respect of the taxable profit for the period. The taxable profit differs from the profit recognised in income statement, as it has been adjusted for non-taxable income and other non-deductible expenses and for income and expenses that are taxable or deductible in other periods. The company's current tax liability is calculated based on the tax rates applicable at the end of the reporting period.

Deferred tax

Deferred tax is recognised for temporary differences that arise between the carrying amount of assets and liabilities and the tax base used in calculating the taxable profit. Deferred tax is recognised in accordance with the balance sheet liability method. Deferred tax liabilities are recognised for practically all taxable temporary differences, and deferred tax assets are recognised for practically all temporary differences to the extent that it is probable that the amounts can be used to offset future taxable surpluses. Deferred tax liabilities and tax assets are not recognised if the temporary difference is attributable to goodwill or if it arises from a transaction that constitutes the initial recognition of an asset or liability (that is not a business combination) and that at the time of the transaction does not affect recognised profit or taxable profit.

Untaxed reserves are recognised inclusive of deferred tax liability.

The carrying amount of deferred tax assets is tested for impairment at the end of each reporting period and an impairment loss is recognised to the extent that it is no longer probable that sufficient taxable profits will be available against which the deferred tax asset can be fully or partially offset.

Deferred tax is calculated using the tax rates that are expected to apply for the period in which the asset is recovered or the liability settled, based on the tax rates (and tax laws) that have been enacted or announced by the end of the reporting period.

Deferred tax assets and tax liabilities are offset when they refer to income tax, are paid to the same authority and when the company intends to settle the tax by paying the net amount.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in the income statement.

Group contributions

Group contributions paid and received are recognised as appropriations.

Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the site and into working condition for its intended use. Subsequent costs are only included in the asset or recognised as a separate asset when it is probable that future economic benefits associated with the asset will flow to the company and the cost of the same can be reliably measured. All other subsequent costs are recognised in the income statement in the period in which they are incurred.

NOTE 2 cont.

Depreciation of property, plant and equipment is charged to income statement so that the cost of the asset, less any residual profit the cost of the asset, less any residual value at the end of its useful life, is depreciated on a straight-line basis over the asset's estimated useful life. An item of property, plant and equipment is depreciated as of the date when it can be taken into use.

The estimated useful lives for property, plant and equipment are:

Buildings	10–50 years
Land improvements	20 years
Machinery and other technical plant	8–40 years
Equipment, tools and facilities	3–20 years

Land has an indefinite useful life and is therefore not depreciated.

Estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period or more frequently and the effect of any changes in assessments is recognised prospectively.

The carrying amount of an item of property, plant and equipment is derecognised upon retirement or disposal or when no future economic benefits are expected from the use or disposal/sale of the asset. The gain or loss on the retirement or disposal of the asset consists of the difference between any net proceeds and the carrying amount of the item and is recognised in profit or loss in the period when the asset is derecognised.

Intangible assets

Internally generated intangible assets

Internally generated intangible assets resulting from the company's development of IT systems are recognised only when the following conditions are met:

- it is technically feasible to complete the intangible asset and use it,
- the company intends to complete the intangible asset and use it,
- it is possible to use the intangible asset,
- the company can demonstrate how the intangible asset will generate probable future economic benefits,
- adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset, and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Separate acquisition of intangible assets

Intangible assets with definite useful lives that have been acquired separately are recognised at cost less accumulated amortisation and any accumulated impairment. The assets are amortised on a straight-line basis over their estimated useful lives.

The estimated useful lives for intangible assets are:

Concessions	100 years
Goodwill	20 years
IT systems	3–8 years

Utility easements and intangible assets that are not yet available for use are not amortised.

Estimated useful lives and amortisation methods are reviewed at least at the end of each financial year and the effect of any changes in assessments is recognised prospectively.

Impairment of non-financial assets

Impairment testing for property, plant and equipment, and intangible assets including goodwill is done on an annual basis and on the indication of a need for impairment.

An asset's recoverable amount is calculated in order to determine the value of any impairment loss. With the aim of determining a need for impairment, the assets are grouped together based on the minimal levels for which there are identifiable cash flows (cash-generating units). If the recoverable amount of a cash-generating unit is determined at a value that is lower than the carrying amount, the carrying amount of the cash-generating unit is impaired to the recoverable amount. Impairment losses must immediately be expensed in profit or loss.

If an impairment is subsequently reversed, the carrying amount of the cash-generating unit is increased to the remeasured recoverable amount, although the increased carrying amount may not exceed the carrying amount that would

have been determined if the cash-generating unit had not been subject to impairment in previous years. A reversal of an impairment is recognised directly in profit or loss. Any goodwill impairment is immediately recognised as an expense and is not reversed.

Non-current financial assets

Investments in subsidiaries are recognised at cost less any impairment. Cost includes acquisition-related costs and any additional consideration paid. When there is an indication that interests in a subsidiary have declined in value, an estimate is made of the recoverable amount. If the recoverable amount is less than the carrying amount an impairment loss is recognised. Impairment losses are recognised in the item "Profit/loss from shares in Group companies."

Investments in associates are recognised at cost less any impairment. Cost includes acquisition-related costs and any additional consideration paid. When there is an indication that interests in an associate are impaired, an estimate is made of the recoverable amount. If the recoverable amount is less than the carrying amount an impairment loss is recognised. Impairment losses are recognised in the item "Profit/loss from shares in associates".

Financial instruments

A financial asset or financial liability is recognised in the balance sheet when the company becomes party to the contractual terms and conditions of the instrument. A financial asset is derecognised when the contractual right to the cash flow from the asset expires or is settled or when the company loses control of it. A financial liability, or portion of a financial liability, is derecognised when the contractual obligation is fulfilled or is otherwise concluded.

Current assets and current liabilities are measured at cost on initial recognition. Non-current receivables and non-current liabilities are measured at amortised cost on initial recognition. Borrowing costs are allocated to accounting periods as part of the interest expense of the loan.

Subsequent to initial recognition, current assets are measured using the lower of cost or market method, i.e. at the lower of cost and net realisable value at the end of the reporting period. Current liabilities are measured at their nominal amount.

Subsequent to initial recognition, non-current receivables and non-current liabilities are measured at amortised cost.

Amortised cost

Amortised cost refers to the amount at which the asset or liability is measured upon initial recognition minus principal repayments, plus or minus the cumulative amortisation of the initial difference between the amount to be paid/received and the amount payable/receivable upon maturity and less impairment losses.

Loans and receivables

Financial assets classified as "Loans and receivables" are financial assets that are not derivatives, have fixed or determinable payments, and are not quoted on an active market. This includes trade receivables and cash and cash equivalents. Loans and receivables are measured at amortised cost less any impairment.

However, since the expected maturity of trade receivables is short, these are recognised at the nominal amount on an undiscounted basis. A deduction is made for doubtful receivables. Impairment of trade receivables is recognised in operating expenses.

As cash and cash equivalents are payable on demand, amortised cost is the same as the nominal amount.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and presented as a net amount in the statement of financial position only if there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivatives

The company enters into derivatives transactions for the purpose of managing currency, price and interest rate risks. See also Note 4 for further information on the Group's risks and hedging strategies.

Due to the connection between accounting and tax, the accounting standard for financial derivatives, IAS39, is not applied. Derivatives are instead recognised using the lower of cost method. Derivatives with negative value are measured at

NOTE 2 cont.

the amount that is most favourable for the company if the obligation is settled or transferred at the end of the reporting period.

Hedge accounting

Hedge accounting is applied for derivatives that are included in a documented hedge relationship. The use of hedge accounting requires an explicit link to exist between the hedging instrument and the hedged item. It also requires the hedge to effectively protect against the risk that it is intended to hedge, that its effectiveness can be shown to be sufficiently high on an ongoing basis through effectiveness measurements and that hedge documentation has been established. The assessment of whether hedge accounting should be applied is made at the inception of the hedge relationship. Valuation is based on cost and accounting of the change in value is not recognised in the income statement as long as the hedge accounting is ongoing.

Cash and cash equivalents

Cash and cash equivalents include cash and bank balances as well as other short-term liquid investments that can be quickly converted into cash and are subject to insignificant risk of changes in value. To be classified as cash and cash equivalents, the maturity must not exceed three months from the date of purchase.

Provisions

Provisions are recognised when the company has an existing (legal or constructive) obligation as a result of a past event, it is likely that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The amount that is set aside is the best estimate of the amount that is required to settle the existing obligation at the end of the reporting period, taking account of risks and uncertainties associated with the obligation. When a provision is calculated by estimating the payments that are expected to be required to settle the obligation, the carrying amount must equal the present value of these payments.

NOTE 3

SIGNIFICANT ESTIMATES AND JUDGEMENTS

In preparing financial statements, management is required to make judgements, estimates and assumptions that affect the application of the accounting policies and the carrying amounts of assets, liabilities, income and expenses. These judgements are based on previous experience as well as assumptions that are deemed to be reasonable under present circumstances and are continuously reviewed. The actual outcome and actual date may differ from the estimates if other assumptions are taken into account or other circumstances are present. Significant estimates and judgements for the company are described below:

Network income and network expenses

Accrued network income and network expenses as well as the associated receivable and liability are calculated mainly on the basis of measured volumes, but a small portion refers to a share of estimated volume based on historical data in combination with actual temperature data for the period. Income and expenses are assessed and accrued on a monthly basis. Reconciliation of previous periods and potential adjustments are also made on a monthly basis.

Useful life of concessions

Concession to operate a grid are granted to network companies, apply until further notice and can only be revoked in a potential bankruptcy situation or in case of gross negligence. Under IAS 38, an intangible asset with an indefinite useful life should not be amortised but reviewed in each period to determine whether events and circumstances continue to support the assessment of an indefinite useful life for the asset. Under RFR 2, IAS 38 should not be applied in respect of the financial reporting of intangible assets with indefinite useful lives. Instead, such assets should be amortised based on the same rules that apply for other intangible assets. As concessions to operate the grid apply until further notice and thus have an indefinite useful life, the company considers that an elected useful life of 100 years best reflects the company's consumption of the asset. The amortisation period and method are reviewed at the end of each financial year or more frequently.

Useful life of goodwill

Goodwill arising from a merger has a useful life of 20 years. Goodwill has arisen from a merger of an electricity distribution business, which is a stable, long-term business with long-term investments, as reflected in the amortisation period. The amortisation period and method are reviewed at the end of each financial year or more frequently.

Useful life of other intangible assets

The useful life of a part of IT investments related to systems for monitoring the operation of the electricity network has been defined as 8 years based on the minimum expected life of the monitoring system. Utility easements (including land leases) refer to contracts that give the company access to land belonging to third parties for an indefinite period for the establishment of electricity network facilities. The company therefore considers the asset equivalent to land and no amortisation is recognised. The value of utility easements is tested for impairment annually or when there is an indication of impairment.

Useful life of property, plant and equipment

The company has property, plant and equipment with a significant carrying amount, and assumptions about the useful lives of the assets involve the use of estimates and assessments. These estimates are based on the status and condition of the assets and on historical knowledge of useful lives for equivalent assets. Continuous inspections and monitoring activities are carried out to ensure that the company's network assets are adequately maintained.

Deferred tax and current tax

The company has deferred tax assets and liabilities that are expected to be realised in the income statement over extended future periods. When calculating deferred tax, the company is required to make certain assumptions and estimates concerning the future tax consequences for temporary differences between the carrying amounts and tax bases of assets and liabilities.

Impairment of non-financial assets

The company has property, plant and equipment and intangible assets, including goodwill, with significant carrying amounts, that are tested for impairment pursuant to the accounting policies listed in Note 2 Accounting policies. When the cash-generating units are tested for impairment, the calculations are based on estimated future cash flow, which requires management to make assumptions about future expectations. Impairment testing that has been conducted, and significant estimates and assumptions are detailed in Note 18.

NOTE 4

FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Through its operations the company is exposed to various types of financial risks, such as market, liquidity and credit risks. Market risks consist mainly of currency, electricity price and interest rate risks. The company enters into derivative transactions to mitigate these risks. Ultimate responsibility for defining the framework and regulations for managing and monitoring the company's financial risks rests with the Board of Directors. The framework and regulations are set forth in a financial policy adopted by the Board that is reviewed annually.

MARKET RISKS

Currency risk

Currency risk refers to the risk that the fair value or future cash flows will fluctuate as a result of changes in exchange rates. The exposure to currency risk comes mainly from the company's financing as well as payment flows in foreign currency.

Transaction exposure

Transaction exposure is the risk that earnings will be adversely affected by fluctuations caused by changes in exchange rates for cash flows in foreign currency. The company's commercial transaction exposure is limited, as the company's inflows and outflows are mainly in SEK.

Balance sheet exposure

Balance sheet exposure is the risk that the value of balance sheet items in foreign currency will be adversely affected by changes in exchange rates. A significant portion of the company's financing is in foreign currency but there is no other significant exposure.

The company's policy is to hedge all balance sheet exposures and contracted cash flows in foreign currency. The company mainly uses cross-currency interest rate swaps for this purpose.

At the end of the reporting period the nominal amount of loans in foreign currency and corresponding outstanding cross-currency interest rate swaps amounted to EUR 655 million (655) and USD 1,104.5 million (1,104.5).

The following table shows outstanding cross-currency interest rate swaps at the end of the reporting period converted into SEK million:

	31 Dec 2017		31 Dec 2016	
	Nominal amount	Fair value	Nominal amount	Fair value
EUR converted into MSEK				
Maturity over 10 years	6,176	84	6,176	49
USD converted into MSEK				
Maturity over 10 years	8,802	-1,304	8,802	-198

The cross-currency interest rate swaps refer to hedging of loan capital and future interest payments. Interest payments are made every six months, at which time the company settles the fixed interest amount in foreign currency and the fixed interest amount in SEK with its counterparty. These derivatives have been identified as hedging instruments in a cash flow hedge. Payments of interest and principal on the loan and derivatives are made at the same dates and the amount for the hedged risk that has accumulated in equity is reclassified to the income statement when the payment affects the income statement.

Electricity price risk

Electricity price risk refers to the risk that future cash flows will fluctuate as a result of changes in the electricity price. The company is exposed to electricity price risk through its consumption of electricity in the form of transmission losses that arise in connection with the distribution of electricity. The company's policy is to hedge forecast costs for future network losses. The company uses forwards contracts for this purpose.

The following table shows outstanding electricity derivatives at the end of the reporting period:

	31 Dec 2017		31 Dec 2016	
	Volume, GWh	Fair value	Volume, GWh	Fair value
Maturity within 12 months	665	4	658	4
Maturity within 1-5 years	668	15	655	-16
Maturity after 5 years	-	-	-	-

The hedged item consists of highly probable forecast transactions relating to purchases of electricity. Cash flows are expected to be generated in the periods in which the futures mature, as specified above, at which time the cumulative change in value of the futures contract is reclassified from equity to profit or loss.

Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates. The company is mainly exposed to interest rate risk through its debt financing. Some borrowings are at variable interest rates, which means that the company's future financial expense is affected by changes in market interest rates. The company manages the interest rate risk in its financing by either borrowing at fixed interest rates or by using interest rate swaps to hedge at fixed-rate terms for variable-rate loans.

The tables below present fixed-rate terms for interest-bearing liabilities, including intra-Group loans, and interest rate derivatives based on nominal amounts converted into SEK.

Fixed-rate term	31 Dec 2017	31 Dec 2016
Within 12 months	2,807	5,574
Within 1-5 years	3,273	3,273
Within 5-10 years	20,387	13,340
Over 10 years	30,226	32,470
Total	56,693	54,657

The company's policy is to reduce the volatility of net financial income/expenses by mainly financing operations at fixed, long-term interest rates. The financial policy states that at least 75 percent of the external interest-bearing debt is to be financed or fixed at fixed interest rate. At the end of the reporting period, 95 percent of the company's external debt was subject to fixed interest rates after taking account of interest rate derivatives. The weighted average interest rate on all borrowings, taking account of derivatives contracts, was 5.1 percent at the end of the reporting period.

The company applies hedge accounting. The hedge is a cash flow hedge. During the period, SEK 127 million (-481) was recognised in the income statement in respect of the market valuation of derivatives attributable to this hedge that do not meet the criteria for hedge accounting. Derivatives recognised in accordance with the lower of cost are measured on the basis of contractual cash flows discounted at market interest rates at the end of the reporting period.

The following table shows outstanding interest rate swaps at the end of the reporting period:

	31 Dec 2017		31 Dec 2016	
	Nominal amount	Fair value	Nominal amount	Fair value
Maturity within 12 months	-	-	-	-
Maturity within 1-5 years	25,543	-429	25,543	-594
Maturity over 5 years	10,000	-564	10,000	-657
Maturity over 10 years	955	-22	955	-24

Normally Ellevio enters into interest rate swaps agreements whereby the company receives a cash flow based on short-term variable interest rate and pays a cash flow based on a fixed interest rate. Payments of interest under the interest rate swaps are made mainly on a quarterly basis, at which time the company settles the variable interest amount and fixed-interest amount in SEK with the counterparty. These derivatives have been identified as hedging instruments in a cash flow hedge. Payments of interest and principal on the loans and derivatives are made at the same dates.

Sensitivity analysis

At 31 December 2017, around 5 percent of the debt portfolio, including intra-Group loans, was subject to variable interest rates. The effect of a 1 percent change in the interest rate for the debt portfolio is SEK 21 million (44) for 2018.

Valuation of financial instruments to fair value

Financial assets and liabilities measured at fair value in the balance sheet, or where information is provided about fair value, are classified in three levels (1-3) based on the information which is used to determine the fair value.

Derivatives

All derivatives are measured according to level 2. Interest rate swaps are measured by discounting future cash flows based on actual market interest rates (observable curves) and interest rates according to the derivative agreement, discounted with an interest that takes the credit risk of the counterparty into account. For cross-currency interest rate swaps the currency at the end of the reporting period is also considered. Electricity derivatives are measured by discounting future cash flows which are based on electricity price (observable curves) and price according to the agreement, discounted with an interest that takes the credit risk of the counterparty into account.

Financial liabilities

Measurement according to level 2 by discounting future cash flows based on actual market interest rates (observable curves) and interest rates according to the derivative agreement, discounted with a relevant swap curve.

LIQUIDITY AND FINANCING RISK

Liquidity risk refers to the risk that the company will struggle to meet its obligations related to financial liabilities or other payment obligations. Financing risk refers to the risk that the company will be unable to obtain sufficient financing at a reasonable cost. To reduce its liquidity risk and financing risk, the financial policy states that the company must at all times maintain a liquidity reserve consisting of cash and cash equivalents and binding loan commitments of at least 1.1 times the sum of forecast liquidity uses for the coming 12-month period. At the end of the reporting period, the company had total external loan facilities of SEK 43.5 billion (43.1), of which SEK 7.8 billion (9.0) was unutilised, and cash equivalents excluding customer deposits of SEK 1 million (46). No more than 25 percent of the total outstanding loan volume may be repayable in any single calendar year and the average remaining maturity of the total volume of external loans must exceed five years.

The maturity structure of contractual payment obligations related to the company's financial liabilities excluding derivatives is presented in the following table. The amounts in the table are not discounted values and also include any interest payments and amortisations, which means that they cannot be reconciled to the amounts presented in the balance sheet. Amounts in foreign currency have been converted into SEK at the fixed currency hedging rate or the rates at the end of the reporting period.

31 Dec 2017	Within 12 months	1–5 years	Over 5 years	Total
Interest-bearing liabilities	1,382	13,204	51,422	66,008
Trade payables	607	–	–	607
Total	1,989	13,204	51,422	66,615

The maturity structure of contractual payment obligations related to the company's derivatives is presented in the table below. The amounts in the table are not discounted values. The table is based on net inflows and outflows for derivatives that are settled on a net basis and gross inflows and outflows for those derivatives that cannot be settled on a net basis.

Interest payments and electricity prices have been determined on the basis of the circumstances applying at the end of the reporting period. Amounts in foreign currency have been converted into SEK at the rates at the end of the reporting period.

31 Dec 2017	Within 12 months	1–5 years	Over 5 years	Total
Electricity derivatives (net receivable)	4	15	–	19
Cross-currency interest rate swaps (liabilities)	–529	–2,117	–3,583	–6,229
Cross-currency interest rate swaps (receivables)	473	1,892	3,248	5,613
Interest rate swaps (net debt)	–415	–1,248	–624	–2,287
Total	–467	–1,458	–958	–2,883

CREDIT AND COUNTERPARTY RISK

Credit risk refers to the risk that a counterparty to a transaction will cause a loss by failing to fulfil its contractual obligations. The company's exposure to credit risk is primarily attributable to trade receivables and derivatives. The company's derivatives are transacted with counterparties with a minimum credit rating of BBB+ (S&P, Fitch) or Baa 1 (Moody's). Trade receivables are spread across a large number of customers and no individual customer accounts for a significant share of the company's total trade receivables. Nor are the company's trade receivables concentrated to a specific geographic area. The total sales to the single biggest customer equals approximately 1.5 percent of the company's net sales. The company therefore considers the concentration risks to be limited.

The company's credit risk in relation to external banks arising from cash and cash equivalents is deemed to be low, as the majority of the company's liquid assets are held in the Swedish banking system.

The exposure to credit risk is offset by the carrying amounts of financial assets excluding derivatives and is presented in the table below.

	31 Dec 2017	31 Dec 2016
Trade receivables	632	556
Other current receivables	988	902
Cash and cash equivalents	1	46
Total	1,620	1,504

CAPITAL STRUCTURE

The company's goal is to maintain an efficient capital structure that minimises the cost of the sum of equity and debt while ensuring long-term access to debt financing. The company is primarily financed through external loans amounting to about SEK 35.5 billion. The external debt consists of various types of debt that are all managed through an established financing platform based on a Common Terms Agreement, where all lenders have common terms and conditions and are equal from securitisation point of view (senior debt). In addition, the company is financed through intra-Group loans from Ellevio Holding 4 AB. These loans derive from external loans to Ellevio Holding 2 AB in the amount of about SEK 3.0 billion (junior debt that from a security perspective is subordinated to the senior debt) and loans from the Group's shareholders to Ellevio Holding 1 AB of about SEK 18.2 billion.

In 2016, Ellevio received a "BBB" (stable outlook) credit rating from Standard and Poor's for its bond programme. During the year, the restructuring of financing continued and external bonds amounting to SEK 10.7 billion were issued, and bank loans in a corresponding amount were amortised. Also refer to the Financing section in the Directors' Report.

The company monitors its capital structure by calculating the leverage ratio and the interest coverage ratio.

Leverage ratio	31 Dec 2017	31 Dec 2016
Interest-bearing liabilities	56,693	54,657
Less intra-Group interest-bearing liabilities	–21,164	–20,537
Less cash and cash equivalents excl. customer deposits	–1	–46
External net debt	35,528	34,075
Operating profit	2,161	1,929
Plus depreciation, amortisation and impairment	2,046	2,016
EBITDA	4,207	3,945
Items affecting comparability	23	0
Comparable EBITDA	4,230	3,945
Leverage ratio	8.4	8.6

NOTE 5 SEGMENT REPORTING

Operating segments are reported in compliance with the internal reporting submitted to the highest Executive Officer. The highest Executive Officer is the function responsible for allocating resources and assessing the operating segment results. In the company, this function has been identified as the CEO. The company reports its activities as one segment in the internal reporting.

NOTE 6 GROUP INTERNAL PURCHASES AND SALES

	2017	2016
Purchases	0.0%	0.0%
Sales	0.0%	0.0%

NOTE 7 NET SALES BY REGULATED ENTITY

2017	Distribution revenue	Connection fees	Other network related services	Total
Local networks Stockholm	2,788	143	31	2,962
Local networks West Svealand	1,225	19	3	1,247
Local networks West Coast	989	37	1	1,027
Local networks South Norrland	724	16	0	740
Regional networks Rest of Sweden	803	8	10	821
Regional networks Stockholm	37	0	60	97
Total	6,566	223	105	6,894

2016	Distribution revenue	Connection fees	Other network related services	Total
Local networks Stockholm	2,537	111	38	2,686
Local networks West Svealand	1,185	18	1	1,204
Local networks West Coast	945	41	0	987
Local networks South Norrland	698	13	1	712
Regional networks Rest of Sweden	807	6	9	822
Regional networks Stockholm	41	9	76	126
Total	6,213	198	126	6,537

NOTE 8 OTHER OPERATING INCOME

	2017	2016
Communication income	7	11
Rental income	7	6
Reconnection income	5	5
Network monitoring services	4	6
Reminder fees	26	25
Other operating income	20	14
Total	70	67

NOTE 9 REMUNERATION TO AUDITORS

KSEK	2017	2016
Deloitte AB		
Audit engagement	-780	-675
Audit activities in addition to audit engagement	-76	-168
Tax advisory services	-360	-131
Other services	-467	-492
Total	-1,683	-1,466

Audit engagements refer to the auditor's remuneration for the statutory audit, which comprises the audit of the annual report and accounting records, and the Board of Directors' and CEO's management as well as fees for audit advice provided in connection with the audit engagement. Other services largely comprise advice and assessment of the company's refinancing.

NOTE 10 LEASES

Operating leases – lessee	2017	2016
Expense for the year, operating leases		
Lease expenses	-127	-124
Total	-127	-124

Leases refer primarily to land leases and rents for stations. At the end of the reporting period the outstanding obligations in the form of minimum lease expenses under non-cancellable operating leases fall due as follows:

	2017	2016
Maturity:		
Within 1 year	126	119
1–5 years	215	175
Later than 5 years	452	477
Total	793	771

Operating leases – lessor

Leases refer to the lease of premises, capacity in the fibre-optic network and space in masts and poles. Lease income during the financial year totalled SEK 8 million (6). Future minimum lease expenses under non-cancellable operating leases fall due as follows:

	2017	2016
Maturity:		
Within 1 year	7	7
1–5 years	10	8
Later than 5 years	5	3
Total	22	18

NOTE 11 EMPLOYEES AND EMPLOYEE BENEFITS

Average numbers of employees	2017	2016
Women	120	118
Men	313	294
Total	433	412

Number of directors and senior executives	2017	2016
Women:		
Board of Directors	3	3
Other senior executives	6	6
Men:		
Board of Directors	6	6
Other senior executives including the CEO	5	5
Total	20	20

Salaries and remuneration	2017	2016
Salaries and other remuneration to Directors, the CEO and other senior executives	-25	-30
Salaries and other remuneration to other employees	-236	-212
Pension costs for Directors, CEO and other senior executives	-4	-5
Pension costs for other employees	-40	-35
Social security contributions	-94	-83
Total	-399	-366

Remuneration of the Board of Directors, CEO and senior executives

The Board of Directors consist of seven Board members and two employee representatives. The table below shows total remuneration to the Board of Directors, the Chief Executive Officer and other senior executives, who are defined as the management team of the company. The table considers any changes made to both the Board of Directors and the management team during the year.

Remuneration and other benefits 2017

KSEK	Base salary/ Board fees	Variable remuneration ¹⁾	Other benefits ²⁾	Pension costs ³⁾	TOTAL	Capital value of pension commitment
Sören Mellstig (Chairman of the Board)	-1,400				-1,400	
Oskar Backman (Board member)					-	
Ralph Berg (Board member)					-	
Catharina Elmsäter-Svärd (Board member)	-233				-233	
Jens Henriksson (Board member)					-	
Colin Hood (Board member)	-535				-535	
Nicola Shaw (Board member)	-535				-535	
Johan Lindehag (CEO)	-2,253	-1,958	-30	-701	-4,942	-281
Other senior executives (10 persons)	-11,335	-6,810	-207	-3,452	-21,804	-116
Total	-16,291	-8,768	-237	-4,153	-29,449	-397

Remuneration and other benefits 2016

KSEK	Base salary/ Board fees	Variable remuneration ¹⁾	Other benefits ²⁾	Pension costs ³⁾	TOTAL	Capital value of pension commitment
Sören Mellstig (Chairman of the Board)	-1,400				-1,400	
Oskar Backman (Board member)					-	
Ralph Berg (Board member)					-	
Anna Borg Saether (Board member from Sept to Nov)	-67				-67	
Catharina Elmsäter-Svärd (Board member from Sep)	-67				-67	
Bengt Hellström (Board member until Aug)					-	
Jens Henriksson (Board member)					-	
Colin Hood (Board member)	-517				-517	
Nicola Shaw (Board member)	-517				-517	
Johan Lindehag (CEO)	-2,131	-3,008	-38	-809	-5,986	-71
Other senior executives (10 persons)	-11,741	-10,299	-210	-4,398	-26,648	-21
Total	-16,440	-13,307	-248	-5,207	-35,202	-92

¹⁾ The variable remuneration consists of both expensed bonuses (short-term incentives, STIs) that will be paid during following year, and expensed long-term incentives (LTIs) that will be paid out in during the three following years.

For further information on variable remuneration, please see information below on STIs and LTIs.

²⁾ Other benefits mainly consist of company cars.

³⁾ Disclosures on pension costs refer to pension premiums expensed for the financial year.

NOTE 11 cont.

Ellevio's principles for the remuneration of senior executives state that the company shall offer market-based terms of employment that enable the company to recruit, develop and retain senior executives. The total remuneration package consists of a combination of a fixed monthly salary, variable remuneration, pensions and other benefits.

In 2017, the CEO received a fixed salary of SEK 2,253 thousands (2,131) and variable remuneration of SEK 1,958 thousands (3,008). Variable remuneration consists of a short-term incentive corresponding to 0–100 percent of the fixed annual salary, and a long-term incentive corresponding to 0–100 percent of the yearly fixed salary. Variable remuneration does not constitute pensionable salary, nor is it a basis for holiday pay. (For further information on variable remuneration, please see information below on STIs and LTIs).

The CEO and all other senior executives in the management team are covered by a defined contribution pension plan that is entirely based on premiums, under which premiums comprise 30 percent of the fixed annual salary (see Note 12). For 2017, pension premiums were expensed in accordance with the table above. The retirement age for the CEO and the management team is 65 years.

The period of notice for the CEO is six months both for resignation and when termination is initiated by the company. If the CEO is terminated by the company, a compensation equivalent up to twelve months' salary is payable in addition to the salary during the notice period. Any income from any other employment and/or any other proceeds from other business activity during the period for which the CEO receives severance pay shall be deducted from the severance pay. No other remuneration is paid if the CEO resigns. The employment terms of other senior executives are consistent with market employment terms and there are no agreements providing for termination salary in excess of six months or agreements on severance pay.

SHORT-TERM INCENTIVES (STI)

Ellevio's STI programme is designed to support the achievement of the company's financial and other relevant non-financial targets on an annual basis. All employees are covered by the programme. The financial targets are the same for all employees including the CEO and the management team and constitute 80 percent of the performance evaluation. The non-financial targets are team-based targets and constitute 20 percent of the target evaluation. The award target level is 5 percent of the annual salary for employees in general, with a maximum award of 10 percent. For the CEO, other senior executives and key employees as designated by management, the award target level is 10–25 percent of the annual salary, with a maximum award of 20–50 percent. Awards from the STI programme are paid in cash in April the year after the performance year.

LONG-TERM INCENTIVES (LTI)

The CEO and members of the company's management team are covered by a long-term incentive program. The purpose of the programme is to support the delivery of sustainable, long-term performance, and align the interests of management with those of the shareholders as well as assist in committing and retaining senior management. The LTI program is a cash-based supplement to the fixed annual salary. The award target level is 20–50 percent of the annual salary depending on responsibility area, with a maximum award of 40–100 percent.

Each LTI plan consists of a three-year earnings period and is contingent on the participant remaining employed by the company throughout the period of the programme. The outcome of the programme is calculated annually and accumulated over the three-year period and any payments are made in April the year after the programme ends. The first programme that was established in 2016 is exceptional and has a two-year earnings period with payouts to be made in April 2018. The reward is recognised as an expense during the earning period with a corresponding increase in liability, along with related accrual for social security contributions.

NOTE 12 PENSIONS

All employees are covered by collective agreements and the company's pension obligations comprise both defined-contribution and defined benefit pension plans. The company has elected not to apply the provisions of IAS 19 in a legal entity, which means that the company's defined-benefit pension plans are

treated as defined contribution plans and charged to income statement as premiums are paid. A description of the company's defined benefit pension plans and information on the fair values of pension obligations and plan assets in accordance with IAS 19 are provided in the following.

Defined benefit pension plans

The company has undertaken to make predetermined payments to the employee on or after retirement. The company has the following defined benefit pension plans: PA-KL (including SPP), Birkaplanen and the ITP 2 Plan. PA-KL (including SPP) is a plan for municipal employees in Sweden. There are currently no active employees in that plan. The plan is administered and valued by SPP. Birkaplanen is an alternative ITP plan. The benefits are administered by and secured through an insurance policy with Skandia Liv. The ITP 2 Plan is partly closed, which means that only new employees born before 1979 have the option of choosing the ITP 2 solution. The ITP 2 Plan is insured with Aleccta. According to a statement from the Swedish Financial Reporting Board, UFR 10 Recognition of the ITP 2 Plan Funded through Insurance with Aleccta, this is a defined benefit plan covering several employers. For the 2017 financial year, the company has not had access to information that would enable it to account for its proportionate share of the plan's obligations, assets and expenses. It has therefore not been possible to recognise the plan as a defined benefit plan. The ITP 2 pension plan secured through an insurance policy with Aleccta is therefore recognised as a defined contribution plan. The premium cost for the defined benefit age and family pension plan is calculated on individual basis and depends on such factors as salary, previous pension earnings and expected remaining worktime. Forecasted premium cost for the next reporting period for the ITP-2 plan with Aleccta is expected to be SEK 19 million (17). The company's share of the combined fees to the plan, and the company's total number of active members in the plan is considered to be an insignificant share.

The collective consolidation level comprises the market value of Aleccta's assets as a percentage of insurance commitments calculated in line with Aleccta's actuarial methods and assumptions, which do not comply with IAS 19. The collective consolidation level is normally permitted to vary between 125 percent and 155 percent. If Aleccta's collective consolidation level falls below 125 percent or exceeds 155 percent, measures must be taken to create the requisite conditions for the level of consolidation to return to normal. One possible measure to address a low consolidation level is to raise the contractual price for new subscriptions and expansion of existing benefits. One possible measure to address a high consolidation level is to introduce reduced premiums. At year-end 2017, Aleccta's surplus in the form of the collective consolidation level was 154 percent (149).

The company's defined benefit obligations in the Group's annual report that are presented below have been calculated based on the salary levels applying at each end of the reporting period and using a discount rate of 2.4 percent (2.8). Assumed annual returns are defined by the company.

Defined benefit pension plans in the consolidated balance sheet

	31 Dec 2017	31 Dec 2016
Total present value of defined benefit obligations	149	181
Fair value of plan assets	189	240
Net amount, defined benefit pension plans	38	59

Defined contribution pension plans

The company pays fixed premiums to a number of different insurance companies. Upon payment of the premiums, the company has fulfilled its obligation in respect of pension payments. Defined contribution plans are charged to income statement in the period in which the employee performs his or her services.

Total premiums paid during the year in respect of defined benefit and defined contribution plans

	2017	2016
Cost in profit/loss for the year		
Costs relating to services during current period	–44	–40
Total	–44	–40

NOTE 13
DEPRECIATION, AMORTISATION AND IMPAIRMENT OF
INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

	2017	2016
Amortisation of intangible assets	-740	-743
Depreciation of buildings and land improvements	-30	-29
Depreciation of machinery and other technical plant	-1,266	-1,238
Depreciation of equipment, tools and facilities	-10	-6
Total	-2,046	-2,016

NOTE 14
INTEREST INCOME AND SIMILAR ITEMS

	2017	2016
External interest income	1	1
Total	1	1

NOTE 15
INTEREST EXPENSE AND SIMILAR ITEMS

	2017	2016
External interest expense	-1,340	-1,094
Intra-Group interest expense	-1,656	-1,652
Derivatives that do not meet the criteria for hedge accounting	127	-481
Other financial expenses	-43	-72
Total	-2,912	-3,299

NOTE 16
APPROPRIATIONS

	2017	2016
Group contributions received	1,493	1,487
Group contributions paid	0	-1
Distribution to tax allocation reserve	-286	-338
Total	1,207	1,148

NOTE 17
TAX

	2017	2016
Current tax		
Current tax on profit for the year	-189	-223
Current tax attributable to prior years	-1	-
Deferred tax		
Deferred tax attributable to temporary differences	21	205
Deferred tax attributable to prior years	0	-
Total	-169	-18

Reconciliation, tax expense for the year	2017	2016
Profit/loss before tax	457	-221
Tax calculated at Swedish rate (22%)	-101	49
Tax effect, permanent items:		
Non-deductible depreciation on goodwill	-66	-66
Non-deductible interest expense	0	0
Other non-deductible expenses	-2	-1
Non-taxable income	0	0
Current tax attributable to prior years	-1	0
Tax effect, temporary items:		
Non-deductible depreciation on concessions	-89	-88
Change in market value unrealised derivatives	28	-106
Other non-deductible cost	-5	-2
Other taxable income	-1	0
Residual value depreciation, machinery and equipment	46	-9
Deferred tax attributable to previous years	0	-
Change in deferred tax	21	205
Total	-169	-18
Recognised tax expense for the year	-169	-18

Deferred tax assets and deferred tax liabilities

The company's deferred tax assets and deferred tax liabilities refer to the following items:

	31 Dec 2017	31 Dec 2016
Deferred tax assets		
Doubtful receivables	0	1
Unrealised losses on derivatives	85	113
Other	0	0
Deferred tax assets	86	114
Deferred tax liability		
Surplus value concessions	8,646	8,712
Buildings and land improvements	152	157
Residual value depreciation, machinery and equipment	5,293	5,206
Deferred tax liability	14,091	14,075
Net deferred tax liabilities	14,005	13,961

Deferred tax assets are measured at the highest amount that is likely to be recovered based on current and future taxable profits. Deferred tax assets and tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when the deferred taxes relate to the same taxation authority and the taxes can be settled on a net basis.

The tax rate for calculating deferred tax is 22 percent.

NOTE 18 INTANGIBLE ASSETS

2017	Goodwill	Concessions	IT systems	Utility easements	Projects in progress and advance payments	Total
COST at 1 January 2017	5,967	40,235	421	141	59	46,823
Costs incurred during the year	–	–	–	–	49	49
Disposals/retirements	–	–	–	–	–	–
Acquisition value through merger	38	104	–	–	–	142
Reclassifications	–	–	–	–	22	22
Classification of capitalised costs	–	–	31	22	–53	–
Accumulated cost at 31 December 2017	6,005	40,339	452	163	77	47,035
Depreciation at 1 January 2017	–472	–637	–321	–	–	–1,430
Disposals/retirements	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Depreciation for the year	–300	–403	–37	–	–	–740
Accumulated depreciation at 31 December 2017	–772	–1,040	–358	–	–	–2,170
Carrying amount at 31 December 2017	5,233	39,298	94	163	77	44,865

At the end of the reporting period, there were commitments to acquire intangible fixed assets amounting to SEK 0 million (3).

The useful life of a part of IT investments related to systems for monitoring the operation of the electricity network has been defined as 8 years based on the minimum expected life of the monitoring system. The cost amounts to SEK 32 million (32) and the residual value per 2017-12-31 amounted to SEK 23 million (26).

2016	Goodwill	Concessions	IT systems	Utility easements	Projects in progress and advance payments	Total
COST at 1 January 2016	5,967	40,235	411	129	35	46,776
Costs incurred during the year	–	–	–	–	55	55
Disposals/retirements	–	–	–9	–	–	–9
Reclassifications	–	–	–	–	–	–
Classification of capitalised costs	–	–	19	12	–31	–
Accumulated cost at 31 December 2016	5,967	40,235	420	141	59	46,823
Depreciation at 1 January 2016	–174	–235	–288	–	–	–696
Disposals/retirements	–	–	9	–	–	9
Reclassifications	–	–	–	–	–	–
Depreciation for the year	–298	–402	–42	–	–	–743
Accumulated depreciation at 31 December 2016	–472	–637	–320	–	–	–1,430
Carrying amount at 31 December 2016	5,495	39,598	100	141	59	45,393

Impairment testing

The company's non-financial assets excl. goodwill are divided into six cash-generating units and equated with the regulated entities into which the company is divided pursuant to its reports to the Swedish Energy Markets Inspectorate. Goodwill is based on synergies among the cash-generating units and are attributable to the company's overall earnings capacity. Accordingly, goodwill is allocated to the company level when testing for impairment requirements.

31 Dec 2017	Goodwill	Concessions
Local networks Stockholm		12,423
Local networks West Svealand		9,509
Local networks West Coast		7,797
Local networks South Norrland		6,258
Regional networks Rest of Sweden		2,765
Regional networks Stockholm		545
Common	5,233	
Carrying amount	5,233	39,298

The recoverable amount is the higher of the fair value of the asset less selling costs and its value in use. The recoverable amount for a cash-generating unit is determined by calculating the value in use. In measuring value in use, the calculation is based on estimated future cash flows based on financial forecasts approved by management covering a period of 40 years, of which the first five

years are based on detailed business plans. The 40-year forecast period corresponds with the regulatory lifetime of the electricity distribution assets, which also conforms well with the investment cycle. Determination of future cash flow is made by calculating how allowed revenue is expected to evolve over time, based on an assumption that the current regulatory model will remain valid for future regulatory periods. The calculations are based on the company's long-term investment plans, assumptions concerning the company's evolution of costs for both investments and operating costs in relation to regulatory norm-/reference costs and regulatory rate of return (WACC). After the 40-year period, a growth rate of 2 percent is applied which corresponds to the company's long-term assumption about inflation and long-term growth.

The company's future cash flow is discounted to its value of use with a discount factor of 5.6 percent after tax. Assumptions of the discount rate are based on external observable market information for similar assets. The individual assets categories have a discount rate amounting to 5.0–9.5 percent before tax which reflects the risks associated with each asset. The annual test for possible impairment performed in the fourth quarter of 2017 shows that there is no need for impairment. The company has evaluated the sensitivity in the assumptions on which the impairment test is based. The calculations mainly depend on assumptions related to the regulatory rate of return and discount rate. Since these two parameters are strongly connected it does not provide a true or fair outcome to adjust these parameters independently of each other. Sensitivity analysis however shows that a 5 percent reduction in the long-term regulatory rate of return, all other factors remaining equal, does not cause any need for impairment.

NOTE 19 TANGIBLE FIXED ASSETS

	Buildings and land	Land improvements	Machinery and other technical plant	Equipment, tools and facilities	Assets under construction and advance payments	Total
2017						
Cost at 1 January 2017	1,311	21	45,710	129	1,681	48,852
Costs incurred during the year	–	–	–	–	2,332	2,332
Disposals/retirements	–3	–	–240	–1	–	–244
Acquisition value through merger	11	–	324	1	10	345
Reclassifications	–	–	–	–	–22	–22
Classification of capitalised costs	4	–	1,491	29	–1,524	0
Accumulated cost at 31 December 2017	1,323	21	47,284	158	2,476	51,263
Depreciation at 1 January 2017	–443	–19	–19,880	–112	–	–20,454
Disposals/retirements	0	–	216	0	–	216
Accumulated depreciations through merger	0	–	–3	0	–	–3
Reclassifications	–	–	–	–	–	–
Depreciation for the year	–29	–1	–1,266	–10	–	–1,305
Accumulated depreciation at 31 December 2017	–472	–20	–20,932	–122	–	–21,546
Carrying amount at 31 December 2017	852	1	26,352	36	2,476	29,718

At the end of the reporting period, there were commitments to acquire property, plant and equipment amounting to SEK 2,821 million (1,457).

	Buildings and land	Land improvements	Machinery and other technical plant	Equipment, tools and facilities	Assets under construction and advance payments	Total
2016						
Cost at 1 January 2016	958	21	44,347	123	1,382	46,830
Costs incurred during the year	–	–	–	–	2,021	2,021
Disposals/retirements	–	–	–	–	–	–
Reclassification	350	–	–350	–	–	–
Classification of capitalised costs	3	–	1,713	6	–1,722	–
Accumulated cost at 31 December 2016	1,311	21	45,710	129	1,680	48,851
Depreciation at 1 January 2016	–407	–18	–18,649	–106	–	–19,180
Disposals/retirements	–	–	–	–	–	–
Reclassification	–7	–	7	–	–	–
Depreciation for the year	–29	–1	–1,238	–6	–	–1,274
Accumulated depreciation at 31 December 2016	–442	–19	–19,880	–112	–	–20,453
Carrying amount at 31 December 2016	868	2	25,830	17	1,680	28,398

NOTE 20 INVESTMENTS IN ASSOCIATES

	31 Dec 2017	31 Dec 2016
Cost at 1 January	0	0
Carrying amount at 31 December¹⁾	0	0

¹⁾ The carrying amount at 31 December 2016 was SEK 32,000 (32,000).

Name	Share of equity ²⁾	Share of votes	Number of shares	Value 31 Dec 2017
Triangelbolaget	25%	25%	525	0

Name	Corp. ID no.	Reg. office
Triangelbolaget	556007-9799	Stockholm

²⁾ The share of equity is the same as share of votes.

NOTE 21 TRADE RECEIVABLES

	31 Dec 2017	31 Dec 2016
Trade receivables, gross	641	566
Provision for doubtful receivables	-10	-9
Trade receivables, net after provisions for doubtful receivables	632	556

Management deems the carrying amount of trade receivables, net after provisions for doubtful receivables, to be the same as fair value.

Changes in provisions for doubtful receivables

	31 Dec 2017
Provisions for doubtful receivables at 1 January	-9
Provisions for doubtful receivables for the year	-1
Reversal of unused amount	0
Provisions at 31 December 2017	-10

31 Dec 2017	Gross	Provisions for doubtful receivables	Net
Not yet payable	622		622
30 days past due	2		2
31-60 days past due	3		3
61-90 days past due	1		1
> 90 days past due	13	-10	3
Total	641	-10	632

The company's assessment is that payment will be received for trade receivables that are due but have not yet been impaired, as the customers' payment histories are favourable.

NOTE 22 RECEIVABLES FROM GROUP COMPANIES

	31 Dec 2017	31 Dec 2016
Receivable, group contributions	1,493	1,487
Other receivables	0	9
Total	1,493	1,496

NOTE 23 OTHER RECEIVABLES

	31 Dec 2017	31 Dec 2016
Settlement account for taxes and fees	0	0
Settlement, billing agent	154	79
Other current receivables	1	1
Total	155	80

NOTE 24 PREPAID EXPENSES AND ACCRUED INCOME

	31 Dec 2017	31 Dec 2016
Accrued distribution revenue	826	808
Accrued interest income	165	123
Prepaid rents	25	23
Other items	21	36
Total	1,037	990

NOTE 25 CASH AND CASH EQUIVALENTS

	31 Dec 2017	31 Dec 2016
Available balances with banks and other credit institutions	1	46
Customer deposits	9	9
Total	10	55

NOTE 26 UNTAXED RESERVES

	31 Dec 2017	31 Dec 2016
Tax allocation reserve	1,069	783
Total	1,069	783

NOTE 27 NON-CURRENT LIABILITIES

	31 Dec 2017	31 Dec 2016
Maturity within 1-5 years	9,444	14,525
Maturity over 5 years	46,842	40,104
Total carrying amount	56,285	54,629

The nominal amount of the loans at the end of the reporting period was SEK 56,184 million (54,657).

The company's utilised overdraft facilities totalled SEK 136 million (130) and are included in the item "Current liabilities to credit institutions." The limit on the overdraft facility is SEK 300 million (300).

NOTE 28 LIABILITIES TO GROUP COMPANIES

	31 Dec 2017	31 Dec 2016
Accrued interest	38	37
Total	38	37

NOTE 29 OTHER CURRENT LIABILITIES

	31 Dec 2017	31 Dec 2016
Restructuring reserve	0	1
Liability, VAT	111	89
Employer contributions and deduction of withholding tax	13	11
Repayments to customers	1	1
Advances received	226	143
Disruption and damage compensation to customers	10	2
Other liabilities	0	4
Total	361	251

NOTE 30 ACCRUED EXPENSES AND DEFERRED INCOME

	31 Dec 2017	31 Dec 2016
Accrued interest	441	252
Accrued salaries	55	48
Accrued social security contributions	21	14
Deferred income	2	7
Accrued investment expenses	117	138
Accrued transmission costs	74	97
Accrued measurement value costs	10	5
Accrued rents	28	24
Accrued field services	131	21
Accrued customer service costs	9	10
Other items	56	41
Total	944	658

NOTE 31

RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

	31 Dec 2016	Cash flows	Non-cash items			31 Dec 2017
			Capitalized interest	Unrealised contracts	Periodised financing costs	
Liabilities to Group companies	20,490	-421	1,049		14	21,131
Current liabilities to credit institutions	130	378				509
Non-current liabilities to credit institutions	14,513	-9,645			138	5,005
Bonds	19,099	10,635			14	29,749
Derivatives	515	-122		-5		388
Total liabilities from financing activities	57,747	825	1,049	-5	166	56,782

NOTE 32

MERGER

In 2017, Ellevio AB acquired the Group company Nynäshamn Energi AB, corporate ID number 556069-0995, from Ellevio Holding 1 AB. As of June 12 2017, Nynäshamn Energi AB was merged with Ellevio AB. The income statement for Ellevio AB for 2017 includes SEK 41 million in net profit, SEK 12 million in operating profit and SEK 0 million from financial items that relate to the income statement from Nynäshamn Energi AB before the merger (taking account of elimination of internal transactions between the companies). In the merger, goodwill on consolidation from intangible and tangible assets and the related deferred tax and depreciations were taken over by Ellevio AB. The breakdown by balance sheet is as follows:

Assets

Goodwill	37
Surplus value concessions	103
Surplus value buildings and land	8
Surplus value machinery, equipment and tools	331
Current assets	37
Total assets	517

Equity and liabilities

Deferred tax liabilities	64
Current liabilities	169
Total equity and liabilities	234

NOTE 33

PLEDGED ASSETS

	31 Dec 2017	31 Dec 2016
Floating charges	136	136
Property mortgages	462	462
Bank deposits	1	46
Total	599	644

NOTE 34

RELATED-PARTY TRANSACTIONS

The company's balances with Group companies mainly consist of interest-bearing liabilities and related interest expenses to the parent company, Ellevio Holding 4 AB. The company has not been involved in any significant transactions with board members or with members of the management team. No loans exist for any member of the board or management team as at 31 December 2017. Information on transactions with related parties is provided in Notes 4, 6, 15, 22 and 28.

NOTE 35

GROUP STRUCTURE

Company	Corp. ID No.	Share (%)
Ellevio Holding 1 AB	559005-2444	100%
Elverket Vallentuna AB	556577-2141	94,8%
Elverket Vallentuna El AB	556473-5107	100%
Elverket Vallentuna Elnät AB	556907-2134	100%
Elverket Entreprenad AB	556910-6791	100%
Laforsen Produktionsnät AB	556050-9191	60%
Ellevio Holding 2 AB	559001-1937	100%
Ellevio Holding 3 AB	559005-2436	100%
Ellevio Holding 4 AB	559005-2451	100%
Ellevio AB (publ)	556037-7326	100%

NOTE 36

PROPOSED ALLOCATION OF RETAINED EARNINGS

The following earnings are at the disposal of the Annual General Meeting:

Retained earnings	5,983
Profit/loss for the year	288
	6,181

The Board of Directors proposes:

Retained earnings to be carried forward	6,181
	6,181

NOTE 37

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

In the beginning of February 2018, Ellevio 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.

CEO's and Board of Directors' approval.

The annual accounts were approved for release by the Board of Directors and the CEO on 26 April 2018 and the income statements and balance sheets were adopted by the Annual General Meeting on the same date.

Stockholm, 26 April 2018

Sören Mellstig
Chairman of the Board

Oskar Backman

Ralph Berg

Mattias Bylund

Jens Henriksson

Colin Hood

Karin Jarl Månsson

Mohammad Nazemi

Pamela Sundin

Johan Lindehag
Chief Executive Officer

We submitted our audit report on 26 April 2018
Deloitte AB

Daniel Wassberg
Authorised Public Accountant

Auditor's Report.

TO THE GENERAL MEETING OF THE SHAREHOLDERS OF ELLEVIO AB (PUBL) CORP. ID 556037-7326

Report on the annual accounts

Opinions

We have audited the annual accounts of Ellevio AB (publ) for the financial year 2017-01-01–2017-12-31. The annual accounts of the company are included on pages 35–60 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopt the income statement and balance sheet for the company.

Our opinions in this report on the the annual accounts are consistent with the content of the additional report that has been submitted to the company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters.

Impairment of intangible assets

Ellevio AB (publ)'s financial statements include intangible assets as of December 31, 2017, amounts to 44,866 MSEK which includes concessions and goodwill. These items are significant in the entity's balance sheet and changes in the regulatory market environment Ellevio operates in or lower than expected performance may be indicators of possible impairment of the recoverable amount of these assets and hence the net asset value of Ellevio AB (publ).

Please refer to note 2, note 3 and note 18 for more information.

Our audit procedures included, but were not limited to:

- We obtained an understanding of management's annual impairment testing process and controls for assessing impairment triggers and tested relevant controls.
- We reviewed the valuation and financial development of the entity and discussed historical performance with management.
- We analyzed the assumptions made in the impairment tests and compared to historical performance and external and other benchmark data.
- We evaluated the sensitivity testing of key assumptions.

- We reviewed the disclosures related to valuation of intangible assets and assess whether the disclosures are in line with Annual Accounts Act and RFR2.
- We have had our valuation experts involved in performing the above audit procedures.

Financing and financial instruments

Ellevio's financial statements as of December 31, 2017 include liabilities to credit institutions and bonds amounting to 35,263 MSEK as well as related financial instruments amounting to 388 MSEK. These items are significant in the entity's balance sheet and accounting for derivative contracts and other financial instruments are highly complex and could have a significant impact on the reported results of Ellevio AB (publ). These items are also subject to complex accounting and disclosure rules. The liabilities to credit institutions also have covenant requirements which Ellevio AB (publ) must comply with.

Please refer to note 2, note 4 and note 27 for more information.

Our audit procedures included, but were not limited to:

- We obtained an understanding of treasury business process and controls and tested those for assessing the internal controls over the financing structure and the valuation of financial instruments.
- We received external confirmations from credit institutes to verify that liabilities and financial instruments are correctly accounted for in the financial statements as of 31 December 2017.
- We reviewed the accounting policies related to valuation of financial instruments and assessed whether the accounting of these items are in line with Annual Accounts Act and RFR2.
- We reviewed the disclosures related to valuation of financial instruments and assessed whether the disclosures are in line with Annual Accounts Act and RFR2.
- We have had our treasury and accounting experts involved in performing the above audit procedures.

Other information than the annual accounts

This document also contains other information than the annual accounts is found on pages 1–34 and 66–79. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue

as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

A further description of our responsibilities for the audit of the annual accounts is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar. This description forms part of the auditor's report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Ellevio AB (publ) for the financial year 2017-01-01–2017-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit to be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the company in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general. The Board of Directors is responsible for the company's organization and the

administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibilities for the audit of the annual accounts is located at the Swedish Inspectorate of Auditors website: www.revisorsinspektionen.se/revisornsansvar. This description forms part of the auditor's report.

Deloitte AB, was appointed auditor of Ellevio AB by the general meeting of the shareholders on the 2017-04-26 and has been the company's auditor since 2006-06-30.

Stockholm, April 26 2018
Deloitte AB

Daniel Wassberg
Authorized Public Accountant

Corporate Governance Report.

Ellevio AB (publ), "Ellevio", is a public Swedish limited liability company with its head office in Stockholm. At Ellevio, authority, management and governance are allocated among the shareholders, Board of Directors, CEO and management team. Ellevio's corporate governance aims to ensure proper risk and internal control, a defined delegation of responsibilities, a healthy corporate culture, effective decision-making procedures and sound relations with the company's stakeholders, and thus to contribute to long-term value creation for the company's shareholders.

The Board of Directors hereby submits its corporate governance report for 2017. A statutory review of the corporate governance report has been carried out by company's auditors whose opinion is on page 65.

Principles of corporate governance

Corporate governance at Ellevio is based on applicable laws and ordinances, Articles of Association, shareholder agreements, internal policies and instructions.

The external regulatory policies primarily comprise the Swedish Companies Act, Swedish Annual Accounts Act, as well as other relevant laws. As a natural monopoly, the business is regulated in accordance with the Electricity Act and supervised by the Swedish Energy Markets Inspectorate (Ei). Ellevio also adheres to regulations applicable to companies with interest-bearing instruments registered on the Irish Stock Exchange. Ellevio is not subject to the mandatory requirement for listed companies to comply with the Swedish Corporate Governance Code (the Code).

The company's most significant governing document is the shareholder agreement signed by the four shareholders of Ellevio Holding 1 AB. The shareholder agreement stipulates how the Parent Company and Group's subsidiaries are to be governed. Other key internal policies are the Articles of Association and the Board's rules of procedure and instructions for the CEO and on reporting to the Board. In addition, there is a Code of Conduct along with internal policies and instructions that are adopted by the Board or by the company and revised on an annual basis.

Owners and ownership structure

Ellevio AB (publ) is a wholly owned subsidiary of Ellevio Holding 4 AB. The Ellevio Group's Parent Company is Ellevio Holding 1 AB, which has the following ownership structure:

- The Third National Pension Fund, 20 percent
- Folksam, 17.5 percent
- The First National Pension Fund, 12.5 percent
- OMERS Infrastructure, 50 percent

The Group also includes Ellevio Holding 2 AB, Ellevio Holding 3 AB, Elverket Vallentuna AB including subsidiary and Laforsen Produktionsnät AB. The Group structure is presented in Note 35 on page 59.

Annual general meeting

The annual general meeting is Ellevio's highest decision-making body, through which Ellevio's shareholders are entitled to determine Ellevio's affairs. The annual general meeting elects the Board of Directors and the auditors, decides their fees, adopts the income statement and balance sheet, resolves on the allocation of the company's earnings, grants the Board and CEO discharge from liability, and resolves on other matters pursuant to the law, Articles of Association and shareholder agreement.

The 2017 annual general meeting was held on 26 April at Ellevio's head office in Stockholm. All shareholders were represented and the auditors were present. No decisions were taken beyond the ordinary decisions at the annual general meeting. Given the limited amount of owners, neither a notification of nor minutes for the annual general meeting were published on the company's website.

The 2018 annual general meeting will be held on 26 April 2018 in Stockholm.

Board of Directors and its work

The overall task of the Board of Directors is to bear responsibility for the organisation and management of operations as well as financial reporting and sustainability reporting. The Board is also tasked with ensuring that Ellevio's organisation is designed in a manner that assures satisfactory control of accounting, asset management and financial conditions in general.

The Board is also responsible for establishing effective and appropriate systems for governance, internal control and risk management, as well as for establishing guidelines that aim to ensure long-term value creation. Furthermore, the Board should work to ensure that the company displays exemplary sustainable entrepreneurship in areas such as the environment, ethics, working conditions, human rights, equality and diversity.

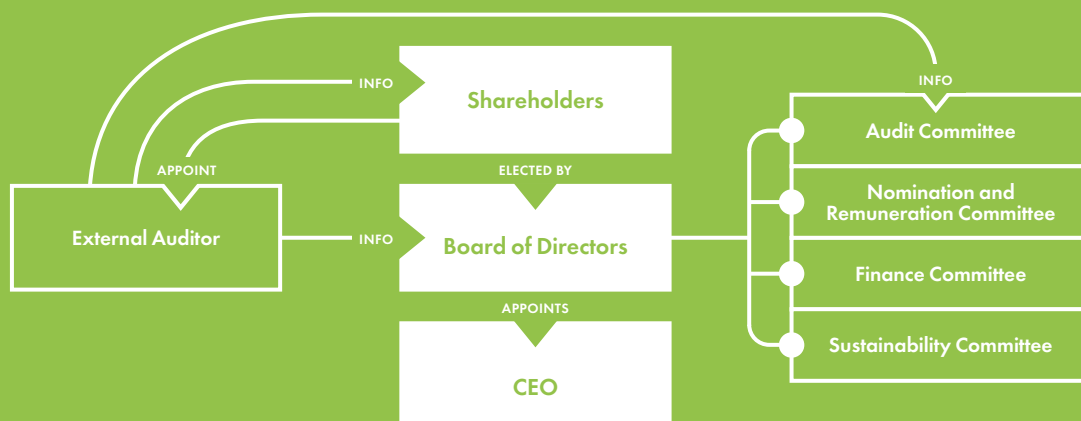
The Board is to establish written rules of procedure governing its own work, and these should be revised and established on an annual basis. These include instructions for the Board's areas of responsibilities and the boundaries between the Committees and the CEO.

The Chairman of the Board is in charge of evaluating the work of the Board and reporting to the owners. This is done on an annual basis and aims to provide an overview of the Directors' opinions on how work is progressing, as well as what changes could be made to enhance efficiency.

Composition of the Board

According to the Articles of Association, the Board is to comprise no less than 3 and no more than 10 Directors, and no more than 10 deputies. The shareholders nominate Directors in accordance with the shareholder agreement, and the annual general meeting takes the final decision.

In 2017, the Board consisted of 7 Directors and 2 employee representatives. The Board comprised Sören Mellstig (Chairman of the Board), Nicola Shaw, Colin Hood, Ralph Berg, Jens Henriksson, Oskar Backman, Catharina Elmsäter-Svärd, Pamela Sundin, (employee representative) and Patrik Widén (employee representative).



The Board's deputies during the year were Alastair Hall, Sten Olsson, Mattias Bylund, Martin Källström, Tomas Bergquist (employee representative) and Leif Haag (employee representative) who was replaced by Fredrik Ullman in November.

At the end of the year, Nicole Shaw and Catharina Elmsäter-Svärd resigned and were replaced by Karin Jarl Månsson and Mattias Bylund. The Board of Directors is presented on page 66.

Board meetings

According to the Board's rules of procedure, at least four ordinary meetings must be held each year. In addition to the ordinary meetings, the Board may be called to convene whenever necessary. In 2017, nine Board meetings were held at Ellevio, including the statutory meeting. Significant matters discussed included:

- Ellevio's strategic direction, business plan and goals (including sustainability targets)
- Financing matters
- Acquisition matters, such as the acquisition of Elverket Vallentuna AB and the agreement with Svenska kraftnät concerning future acquisitions of grid assets
- Safety issues, particularly concerning the working environment and cyber security

Board Committees

Four Board committees have been established to enhance efficiency and opportunities for expanding the work of the Board: the Audit Committee, the Nomination and Remuneration Committee, the Finance Committee and the Sustainability Committee. The committees serve in an advisory capacity and their work primarily involves preparing matters for adoption by the Board. Meetings are minuted and committee chairs report on the progress of their work at every Board meeting. Representatives of Ellevio's executive management participate in committee meetings.

The Audit Committee is responsible for monitoring the financial reporting and the audit process. The Audit Committee monitors compliance with the relevant laws and the application of and compliance with corporate governance policies, including internal control and risk management. In 2017, the Audit Committee comprised Nicola Shaw (Chair), Sören Mellstig and Mattias Bylund.

The Nomination and Remuneration Committee is responsible for adopting policies for the appointment and dismissal of senior executives, establishing remuneration policies and terms of employment for senior executives, as well as reviewing the performance of senior executives in relation to set objectives. In 2017, the Committee comprised Sören Mellstig (Chair), Oskar Backman, Jens Henriksson and Leif Haag (employee representative).

The Finance Committee is responsible for reviewing the company's financial strategy and the ongoing monitoring of the financial risk exposure. In 2017, the Finance Committee comprised Oskar Backman (Chair), Ralph Berg and Patrik Widén (employee representative).

The Sustainability Committee is responsible for assessing the Health, Safety and Environment (HSE) strategy, monitoring HSE performance in relation to set targets, identifying key areas of improvement and encouraging greater awareness of the importance of HSE. In 2017, the Sustainability Committee comprised Colin Hood (Chair) and Tomas Bergquist (employee representative).

Board fees

The shareholders have submitted a proposal for adoption by the annual general meeting concerning Board fees. The 2017 annual general meeting adopted a resolution on fees pursuant to the proposal submitted by shareholders. Information on Board fees for 2017 can be found in Note 11 on pages 53–54.

Auditor

The task of the auditor is to independently review the administration of the Board and CEO along with the company's annual report and bookkeeping. The annual general meeting is responsible for electing an external auditor. Auditors are elected for a term of one year, in accordance with the main rule of the Swedish Companies Act. Pursuant to the Articles of Association, Ellevio must have one or two auditors. An auditing firm can be elected as Ellevio's auditor.

At Ellevio's annual general meeting on 26 April 2017, Deloitte AB was elected as the company's auditor for the period until the end of the 2018 annual general meeting. The principal auditor is authorised public accountant Daniel Wassberg.

The auditor reported the findings of the review of the 2017 annual accounts to the Audit Committee at its meeting of 13 February 2018 as well as to the Board at the Board meeting of 26 April 2018.

CEO and management team

The Board of Directors appoints the CEO, who is responsible for the day-to-day management of Ellevio in accordance with the Board's instructions. The allocation of responsibilities between the Board and the CEO is, in addition to the rules that apply to limited liability companies, specified in an instruction adopted annually by the Board of Directors.

The CEO's responsibility includes, but is not limited to, the operation of the business, human resources, finances and accounting, and maintaining regular contact with Ellevio's stakeholders, such as government agencies. The CEO is responsible for ensuring that the Board receives the information it requires to take decisions and delivers monthly reports to the Board regarding financial circumstances, significant events and other important information.

The CEO has appointed a management team that is in charge of day-to-day operations. The management team meets regularly to make decisions about and monitor the business, to discuss issues linked to the organisation and human resources, as well as current projects and other matters. Information about remuneration to the CEO and management team in 2017 can be found in Note 11 on pages 53–54. The management team, including the CEO, is presented on page 67.

Operational management and internal control

The Board and management team work in accordance with an annual cycle including a structured process for strategic business planning and operational monitoring. All of the company's activities are based on Ellevio's values, which are in turn based on the key words reliability, commitment and development. The company's business is operated in accordance with Ellevio's Code of Conduct.

Ellevio maintains policies, instructions and procedures that are intended to establish rules and responsibilities for specific areas and to define mandates and authority. In addition to the policies adopted by the Board, there are also policies determined by the CEO, as well as instructions and procedures determined by the head of each business function. In line with the operational management structure, the management has produced policies within the areas of sustainability, working environment, financing, management of insider information, information security, whistleblowing and others.

These documents are available to all employees. They are revised on an annual basis or when necessary to ensure compliance with the prevailing laws and provisions and so forth. The organisation is continuously updated and given training in policies, instructions and procedures. Overall, this internal framework covers all relevant operational areas in an appropriate manner.

Risk management is an integrated element in the planning, governance and monitoring of operations. Business risks are assessed through the strategy and planning activities of the Board and management, and the underlying premise is that risks are managed on a day-to-day basis in the operations in which they arise.

Ellevio conducts internal control efforts aimed at ensuring that operations are managed in a secure, appropriate and efficient manner. Internal control mechanisms for financial reporting aim to secure that the company prepare reliable financial statements and reporting, and to comply with applicable laws and regulations.

Ellevio has information and communication channels that aim to promote completeness and accuracy in its financial reporting. The annual report and half-yearly reports specify which parts are formal financial reports, the regulations on which they are based and which parts have been audited by the company's auditor. Ellevio publishes the half-yearly report, year-end report and annual report on the company's website.

Ellevio's operations are subject to supervision by the Swedish Energy Markets Inspectorate (Ei) and means that financial and operational reporting should be conducted yearly. These reports can be found on Ei's website.

Sustainability

Sustainability is an integrated part of Ellevio's vision and the company is working systematically to integrate sustainability into the business plan and operational management. The Board of Directors is consistently involved in the company's sustainability initiatives and receives monthly progress reports.

In 2017, Ellevio became the first stand-alone electricity distribution operator to join the UN Global Compact, which covers the areas of human rights, labour law, environment and anti-corruption.

Auditor's statement on the corporate governance report.

TO THE GENERAL MEETING OF SHAREHOLDERS IN ELLEVIO AB (PUBL) CORPORATE IDENTITY NUMBER 556037-7326

Mission and responsibility

The Board of Directors is responsible for the corporate governance report for the financial year 2017-01-01 – 2017-12-31 on pages 63–64 and for ensuring it is prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our audit has been conducted in accordance with FAR's auditing standard: RevU 16 The auditor's examination of the corporate governance statement. This means that our audit of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International

Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

Opinions

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6, section 6, second paragraph, points 2–6 of the Annual Accounts Act and chapter 7, section 31, second paragraph of the same law are consistent with the annual accounts and are in accordance with the Annual Accounts Act.

Stockholm, 26 April 2018
Deloitte AB

Daniel Wassberg
Authorised Public Accountant

Board of Directors.



FROM LEFT TO RIGHT, SEATED:

Pamela Sundin

Employee representative

Year of birth: 1972, year of election: 2015

Sören Mellstig

Chairman

Year of birth: 1951, year of election: 2015

Colin Hood

Year of birth: 1955, year of election: 2015

Jens Henriksson

Year of birth: 1967, year of election: 2015

FROM LEFT TO RIGHT, STANDING:

Oskar Backman

Year of birth: 1971, year of election: 2015

Nicola Shaw*

Year of birth: 1969, year of election: 2015

Patrik Widén

Employee representative

Year of birth: 1979, year of election: 2015

NOT IN THE PHOTO:

Ralph Berg

Year of birth: 1972, year of election: 2015

Catharina Elmsäter-Svärd*

Year of birth: 1965, year of election: 2016

Karin Jarl Månsson*

Year of birth: 1964, year of election: 2018

Mattias Bylund*

Year of birth: 1977, year of election: 2018

* Nicola Shaw and Catharina Elmsäter-Svärd resigned on 31 December, 2017. They have been replaced by Karin Jarl Månsson and Mattias Bylund.

Management Team.



FROM LEFT TO RIGHT, SEATED:

Anna-Karin Käck

Finance

Year of birth: 1976, joined the business in: 1999

Thomas Saubach

Operations

Year of birth: 1969, joined the business in: 2002

Johan Lindehag

CEO

Year of birth: 1972, joined the business in: 2000

Anna Lidberg

Communications

Year of birth: 1968, joined the business in: 2008

Anna-Carin Joelsson

Projects and IT

Year of birth: 1972, joined the business in: 2007

FROM LEFT TO RIGHT, STANDING:

Bengt Johansson

Network

Year of birth: 1961, joined the business in: 1989

Lowina Lundström

Customer and market

Year of birth: 1967, joined the business in: 2009

Jan Seveborg

Treasury

Year of birth: 1962, joined the business in: 2015

David Bjurhall

Regulation

Year of birth: 1975, joined the business in: 2010

Erika Abrahamsson

Legal

Year of birth: 1965, joined the business in: 2011

NOT IN THE PHOTO:

Helena Karlsson

HR and sustainability (Acting)

Year of birth: 1973, joined the business in: 2017

Sustainability report.

Our sustainability initiatives

For Ellevio, sustainability is an important part of the business and is considered in every decision we make. We view sustainability as a balance between financial, social and environmental responsibility and the basic work involves ensuring that we comply with strict requirements and expectations in all of these areas. Financial sustainability refers to ongoing work to enhance operational efficiency and carry out investments in the grid that create long-term value for customers, investors and employees, as well as establish a transparent price framework. Social responsibility involves promoting the health, safety, well-being and equality of employees and others. Ellevio should be a safe and attractive employer and contractor. Environmental responsibility means our impact on the climate and our natural resources should be as minimal as possible, and involves us contributing to the transition to a sustainable energy system.

Our sustainability initiatives are not merely a question of complying with laws and regulations, but taking social responsibility by constantly making improvements to prioritised significant sustainability issues. This involves setting clear targets, measuring their progress and implementing regular follow-ups of results before taking corrective measures where necessary. Below is a description of our efforts and achievements in 2017.

This year's sustainability report has been produced in line with Global Reporting Initiatives (GRI) standards "core" level. As from 2017, the Annual Accounts Act places increased demands on large companies to report on the company's actions in a number of sustainability issues. Ellevio has carried out the reconciliation of the sustainability report in order to ensure that it complies with the requirements of the Annual Accounts Act. The full sustainability report consists of the following report as well as the texts referred to in the GRI index on pages 77–79.

During the year, Ellevio signed up to the UN Global Compact (UNGC) and participated in the Swedish interim board of directors of UNGC Sweden in 2017. This report contains information about Ellevio's work involving the UN Global Compact's ten principles in the areas of human rights, labour law, environment and anti-corruption, and fulfils our requirement to report the progress of our sustainability initiatives (Communication on Progress). The report also describes Ellevio's activities linked to the UN's global sustainable development goals.

In addition to these initiatives, Ellevio has decided to affiliate itself with a number of voluntary industry organisations and initiatives in order to promote long-term, sustainable industry development and regulation at local, national and international level. Examples of such affiliations include:

- Energiföretagen Sverige
- The Royal Swedish Academy of Engineering Sciences (IVA)
- Energiforsk
- International Council on Large Electric Systems (Cigre)
- The 2030 Secretariat
- The Värmland Chamber of Commerce
- The Stockholm Chamber of Commerce
- EFA – Energiföretagensarbetsgivareförening AB

The UN's global sustainable development goals

During the year, Ellevio analysed the UN's 17 global development goals which are to be achieved before the end of 2030. These global goals have been ratified by 150 countries and Ellevio's view is that the business community has an important role to play in terms of achieving the goals. Thanks to our skills and core operations, we have the opportunity to make

an active contribution to Goal 7 "Affordable and clean energy", Goal 9 "Industry, innovation and infrastructure" and Goal 5 "Gender Equality".

Goal 7 "Affordable and clean energy" essentially represents our mission in society and is the focus of our long-term investments. Between 2016 and 2019, Ellevio is investing around SEK 10 billion in the development and future-proofing of the electricity network. In cities, this is principally a question of increasing capacity while greater security of supply by way of weather-proofing is the main focus outside the cities. These investments will provide us with an electricity network that can handle the challenges and opportunities we face in the future. Goal 7 also contains guidelines for realising energy efficiency enhancements, which is largely the focus of our work on the next generation of smart electricity meters. The next generation of meters will allow producers, electricity network companies and consumers to all monitor their electricity production and consumption in real time. That said, all customers in the Swedish electricity network market already have access to meters that allow half-hourly measurements. In the case of the electricity networks of the future, we will install information technology that gathers, relays, stores and analyses information from thousands of measurement points. This makes it possible to ensure the right amount of electricity is produced and distributed where it is needed.

Goal 9 "Industry, innovation and infrastructure" also forms part of our mission in society. Efficient infrastructure is currently dependent upon an efficiently functioning electricity network; for instance, it allows people to get to work or school in a smooth and reliable way. It also ensures everyone has access to information and communication technology and that companies can rely on robust transport systems and energy services. Sustainable infrastructure is accessible, reliable, environmentally friendly and robust.

In addition to this, Ellevio also actively focuses on Goal 5 "Gender Equality" in order to develop the company, industry and offer support outside our sphere by way of social responsibility initiatives and sponsorship. For Ellevio, equality is both a goal in itself and a prerequisite of sustainable development. By working towards a more equal Ellevio, our ambition is to contribute to a more equal industry and, in the end, a more equal society.

Management of sustainability initiatives

A Code of Conduct which reflects the Global Compact's (UNGC) ten principles and a sustainability policy form the basis of Ellevio's sustainability initiatives. Both the sustainability policy and the Code of Conduct have been adopted by Ellevio's Board of Directors. Ellevio has an environmental management system certified in accordance with ISO 14001:2015. In addition to these policies, there are further supporting policies that govern Ellevio's sustainability initiatives.

- Guidelines for governance of EHS
- Fundamental safety policy
- Code of Conduct for suppliers
- Risk policy
- Information security policy
- Grid policy, which describes how Ellevio will plan and develop its electricity network, including principles for redundancy
- Whistleblowing policy
- Equal opportunity policy
- Sponsorship policy
- SF₆ policy

All major sustainability issues, such as joint improvement targets, activities and measurements are prepared by one of the sustainability committees appointed by the Board for decisions to be taken by the Board. Ellevio's sustainability manager participates in the meetings of the sustainability committee and is responsible for implementing decisions within the organisation.

There are several sustainability aspects that must be considered for large infrastructure projects and investments in the grid, such as choice of materials, construction method and whether the planned location involves any environmental or human impact. All projects over SEK 5 million and SEK 10 million respectively (local and regional grids) must therefore undergo a sustainability analysis before an investment decision can be taken. The aim of the sustainability analysis is to ensure that every sustainability aspect and risk relevant to us is taken into account in the investment proposal. By integrating and mapping such sustainability aspects during the investment process, we are able to increase our understanding of sustainability. The analysis also ensures that our investment proposals are in line with Ellevio's environmental targets and the sustainability policy.

Requirements are also placed on purchases in order to reduce the environmental impact and safeguard human rights and good working conditions for employees of suppliers. These requirements can be found in a special Code of Conduct for suppliers.

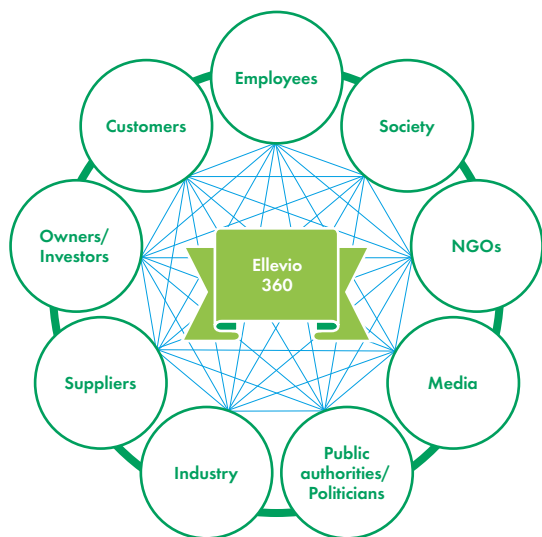
Stakeholder dialogue and materiality analysis

Ellevio pursues a continuous dialogue with its most important stakeholders. This dialogue takes a different form for different groups.

In 2017, a materiality analysis was undertaken to identify the sustainability issues that have the most significant financial, environmental and social impact on Ellevio and its stakeholders. The materiality analysis comprised three parts: a desktop analysis, interviews and an internal workshop with Ellevio employees.

- The desktop analysis mapped out Ellevio's sustainability context and was based on internal information and a review of the sustainability initiatives of industry colleagues.

Important stakeholders



- Interviews with stakeholders. Employees, representatives of owners, industry and stakeholder organisations, suppliers and customers were all interviewed. There were no major differences in how these stakeholders viewed Ellevio's significant issues, which are described on the following pages.
- The results of the desktop analysis and interviews along with 9 significant sustainability issues for Ellevio were established at the workshop, which involved executive management.

Significant sustainability issues

Ellevio significant sustainability issues have been established and are based on the feedback we have received from our most important stakeholders. Certain issues affect several areas and can have a financial, environmental and social impact. Our social responsibility is also described on pages 16–18.

Financial impact	Environmental impact	Social impact
Transition to a more sustainable energy system	Transition to a more sustainable energy system	Health and safety
Security of supply	Responsible purchasing/Supplier relationships	Responsible purchasing/Supplier relationships
Customer satisfaction	Biodiversity	Responsibility for local communities
		Equality
		Good working conditions

Sustainability risks

Risk management at Ellevio is an integral part of our operational planning, governance and follow-up. Risk management is decentralised, and the responsibility for identifying and managing risks lies with each business unit. The finance department is responsible for coordinating risk management activities and for reporting on significant risks together with action plans for the Board of Directors. Ellevio's Audit Committee, which reports directly to the Board, bears overall responsibility for risk management.

The precautionary principle is followed, which refers to the evaluation and management of sustainability risks linked to Ellevio's operations. The table below shows the significant sustainability-related risks that have been identified.

Risk areas	Description of risk	Potential impact
Responsible purchasing/supplier relationships	Risk of potential bribery before and during procurements and during implementation phase	Legal consequences
Responsible purchasing/supplier relationships	Suppliers and contractors that do not comply with Ellevio's code of conduct for suppliers	Personal injury Damage to environment Disruption to supply
Choice of materials	Products contain forbidden substances or conflict materials	Injury/ill-health among staff when handling Legal consequences
	Leakage of oil in oil-filled power lines	Damage to environment Increased sanitisation costs
	Creosote poles used in a way that is not in line with Ellevio's policy and guidelines	Harm to environment or individuals

Risk areas	Description of risk	Potential impact
Health and safety	Unsafe working conditions or lack of understanding of risks among employees who work at or on behalf of Ellevio	Accidents or fatalities Weakened productivity Legal consequences
Environment	We do not comply with applicable laws and regulations	Legal consequences Increased costs, poorer results
Security of supply	Major, long-term disruptions to electricity supply	Consequences for society Financial consequences
IT and information security	Major IT disruptions and/or loss of customer data or other data	Damage to property Consequences for society

Sustainability targets

In 2017, Ellevio established a number of major, long-term sustainability targets. By 2023, we are to have achieved the following:

- Safety and the environment will be taken into account in all of our work and decisions, which in turn will lead to better choices for a sustainable future. Ellevio safety culture will be well integrated into the organisation and extend right out to staff in the field who work on behalf of Ellevio, which in turn will reduce incidents and accidents. Our environmental footprint will be reduced and we will enhance biodiversity along our power line corridors by establishing adapted maintenance plans.
- Our customers will see us as reliable, committed and sustainable. In addition to a reliable supply of electricity, our customers will be offered a modern platform that enables efficiency enhancements. Our customers and other important stakeholders will view Ellevio as a responsible and reliable partner and consultant in our society.
- We will ensure a dramatically reduced proportion of power outages, unplanned maintenance and actions to remedy faults thanks to effective investments in the grid and preventive maintenance.
- We will have developed our sustainability initiatives to the extent that sustainability is a fully integrated part of our processes and organisation.

- Our employees will be very satisfied with Ellevio as an employer. Diversity will be a strength, with more and more women working at the organisation and occupying management positions and thus contributing to greater equality. Our employees will enjoy a good work-life balance thanks to correct resource allocation and planning, as well as support from aware managers who set a good example. Ellevio will be an attractive company, renowned in its industry and a preferred option for people who have the skills and qualifications Ellevio needs to continue its success.

Ellevio's overall environmental goals are – apart from the transition to a sustainable energy system – to reduce the impact on the climate and natural resources and contribute to strong biodiversity.

The following detailed targets have been established:

Significant sustainability issues	Description of target	Target 2023
Health and safety	Total proportion of fulfilled requirements in the field during unannounced site visits (indexed)	90%
	Accident frequency (LWIF) of workers at contractors	<2
Biodiversity	Total surveyed power line corridors (km) including updated management plans	900
Good working conditions	Percentage women at the company	33%
	Employee engagement index (level of engagement)	75



Ellevio's significant sustainability issues and our achievements during the year.

To clarify why selected issues are considered significant for Ellevio, these issues have been categorised in a value pyramid. According to this model, there are different incentives for companies to work on sustainability issues and these can be divided up into three categories:

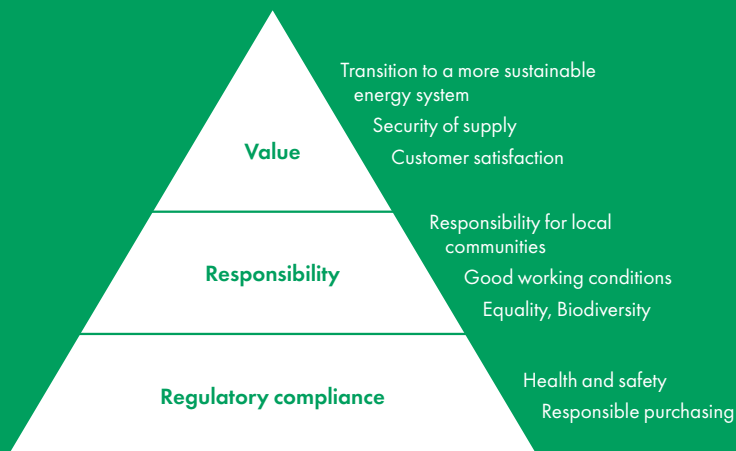
1. Value: strategic business issues that create financial value for society and the company
2. Responsibility: relates to extra responsibility for securing future operations
3. Regulatory compliance: risk management and compliance with regulations and laws.

Transition to a more sustainable energy system

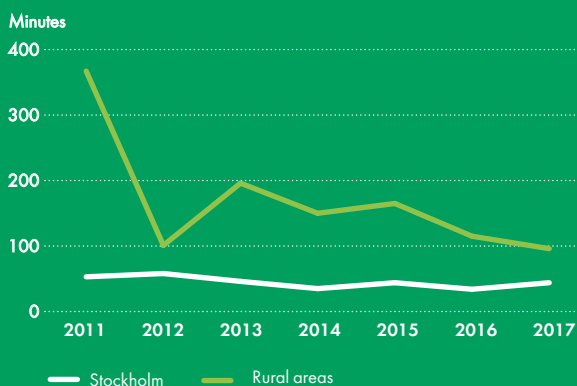
On pages 6 and 8–15, there is a description of what is meant by a sustainable energy system and its significance to society. In order to better understand and measure the transition, we have chosen to divide

sustainable energy systems into the following significant issues; investments in infrastructure, choice of materials, smart electricity networks and electricity from renewable sources.

Issue	Target	Outcome
Transition to a more sustainable energy system. <i>Choice of materials</i>	Decommission pipelines with pressured cables to reduce the risk of oil leaks. According to the plan, all oil cables in Stockholm will be decommissioned in 2018. Only use SF ₆ if there are no alternatives and reduce leakage.	During the year, 14 km was decommissioned and 33 km was cleaned. 1,040 kg (208) was newly installed and total leakage amounted to 29.6 kg (56.9).
Transition to a more sustainable energy system. <i>Smart electricity networks</i>	Reduce usage of creosote poles. During the period 2018–2019, 25–30,000 poles were removed. Improved operational monitoring and metering infrastructure by replacing electricity meters for all customers.	In 2017, around 13,600 creosote poles were removed. Procurement commenced in 2017.
Transition to a more sustainable energy system. <i>Electricity from renewable sources</i>	Contribute to greater share of electricity produced by renewable sources.	In 2017, the number of micro-producing solar panel customers rose by 56%. The total number of customers in 2017 was 1,493. In 2017, 26 new wind turbines were connected, providing 82 MW.
Transition to a more sustainable energy system. <i>Investment in infrastructure</i>	Ellevio is investing SEK 10 billion during the period 2016–2019.	<ul style="list-style-type: none"> • During the year, Ellevio invested SEK 2.4 billion. • Results for 2017 are described in more detail in the section Investments and financing for the future, p. 28–34.



Security of supply (SAIDI)



Investments in infrastructure

Ellevio's electricity network should provide a high level of accessibility and be safe for customers, society and employees. Investments are the most important activity in terms of adapting the electricity network to the needs of the future. Ellevio carries out major investments to reduce outages, improve security of supply and increase the electricity network's capacity. Investments are made to meet society's heightened need for energy and to enable a greater share of renewable energy.

Annual investments in Ellevio's electricity network amount to between SEK 2–3 billion. The cost of maintenance and fault repairs on the grid corresponds to some SEK 0.5 billion per year.

Choice of materials

With regard to the choice of materials, we consider it vital to minimise or, ideally, avoid the use of the gas sulphur hexafluoride (SF₆) which has an almost 23,000 times greater impact on the climate than CO₂. SF₆ is used as an insulator in instruments (breakers) and switching centres. There is a risk of leakage into the surrounding environment in the event of major accidents, but also to a lesser extent in normal operations.

There are not always ideal alternatives to the use of SF₆ due to technical, space and cost reasons. In practice, this means that instruments that use SF₆ as an insulator should be avoided as far as possible, and in the case of switching centres, new facilities are only built at higher voltages in densely populated areas, principally in Stockholm where we compete with many other players for space.

Descriptions of environmental aspects such as the use of creosote as a preservative for wooden poles and oils containing PCBs (polychlorinated biphenyls) in certain cables and capacitors can be found on pages 26–27. Ellevio is reducing the number of wooden poles by replacing older low and medium-voltage overhead lines with cables in the ground as far as possible, thus also weather-proofing the grids. The surrounding environment is taken into consideration when replacing poles. Other pole materials are used in sensitive environments and urban areas where people are often present, such as composite, steel or concrete. Measures are taken to protect the ground from deposits of preservatives in the case of temporarily erected poles.

To ensure these chemicals are used in a controlled manner, there are clear requirements in agreements, policies and internal control programmes. Work is under way to pinpoint more environmentally solutions.

Smart grids

The description of why smart grids are a significant issue and how they are managed can be found on pages 12–15.

Electricity from renewable sources

The description of why electricity from renewable sources is a significant issue can be found on pages 11–12 and 26–27. Ellevio is working actively to connect wind power by way of close collaborations with wind power developers. We also have specific processes to help micro-producers who want to produce electricity using solar panels, for example.

Security of supply

One of the most significant sustainability issues for Ellevio is ensuring that our customers receive a highly reliable supply of electricity. Good accessibility to electricity is vital if society is to function, and accessibility will become increasingly important as new industries become electrified. Ellevio currently has a security of supply of 99.98 percent. In order to ensure a robust security of supply, a specific organisation has been established at Ellevio that monitors the electricity network around the clock, 7 days a week and 365 days a year. Read more about security of supply on pages 17–18.

The international standard SAIDI (System Average Interruption Duration Index) is used to measure security of supply, which is calculated as the sum of all outage periods (excluding planned works) experienced

by customers divided by the total number of customers. The index enables comparison with other companies. SAIDI is an important key ratio for Ellevio and is measured each month and analysed continuously.

SAIDI can vary between years depending on whether there have been any major storms during the autumn or winter of the year in question. Since Storm Gudrun in 2005, Ellevio has undertaken systematic work to weather-proof the electricity network, particularly in rural areas, which are affected more severely than Stockholm and other urban areas. There are more customers in Stockholm, but a larger proportion of the grid is buried underground and there are extensive opportunities for change-over switching.

Issue	Target	Outcome	Comments
Security of supply	Ellevio's customers should have an uninterrupted electricity supply – today, tomorrow and in 50 years.	The outcome of SAIDI 2017 in the Stockholm area was 44 minutes (34) and 96 minutes (115) in the rural area.	The better result in the rural area is primarily due to stable weather at the same time as the result in Stockholm has decreased somewhat due to more sensitive operational conditions in our grid from redevelopments.

Customer satisfaction

Electricity is a necessity if our modern lives are to function properly. A reliable electricity supply is the basis of our offering to customers and a prerequisite for our customers feeling satisfied with us as a company. In addition to measuring security of supply, we have also chosen to report customer satisfaction in some of the company's most important customer processes – customer service and connection. Customer

satisfaction is measured on a monthly basis by way of telephone surveys among a selection of our customers. In total, some 10,000 customers respond to our questions every year. The results of the customer surveys are followed up at management level and reported to the Board of Directors.

Issue	Target	Outcome
Customer satisfaction	84% satisfied customers	85% satisfied customers

Responsible purchasing

Ellevio's operations are dependent upon a large number of suppliers, and we consider it a significant issue for all purchasing to be conducted in a responsible manner. This means we ensure the conditions at suppliers' premises are acceptable from a sustainability perspective. Ellevio's Code of Conduct for suppliers specifies environmental and social requirements that the suppliers must fulfil. These requirements are identical to the ones we place on ourselves.

Ellevio procures various goods and services which are divided up into five main categories: contractors, IT, consultants, strategic materials and indirect materials/services. Ellevio has around 1,100 different suppliers. In 2017, 74 percent of purchases were for contractor services and materials for investments in our electricity networks.

The majority of these suppliers are from Sweden or Europe, with a small number from other parts of the world. Around 100 suppliers account for 95 percent of Ellevio's purchasing volume. All of these suppliers were assessed during the tendering process to check whether they fulfilled the requirements in the Code of Conduct.

Ellevio is subject to the Act on procurement of water, energy, transport and postal services (LUF) and procurements are conducted in the same manner as public procurements. More information about responsible purchasing can be found on page 25.

Issue	Target	Outcome	Comments
Responsible purchasing/ Supplier relationships	All new supplier contracts are to include Ellevio's sustainability requirements. 250 unannounced site visits will be carried out along with 10 major audits.	In 2017, all 19 new major suppliers were evaluated based on social and environmental criteria. Furthermore, 313 unannounced site visits at contractors were carried out during the year, along with 10 audits focusing particularly on the Code of Conduct for suppliers.	This evaluation was undertaken during the tendering process.

Biodiversity

Biodiversity is a concept used to describe the variety of species of life on Earth. There is a large number of different species, habitats and ecosystems that combine to provide us with the fundamental conditions needed for our climate and environment.

For Ellevio, contributing to biodiversity is a significant issue. Ellevio keeps power lanes free from trees and bushes so that electricity can be transported as safely as possible, thus minimising outages. At the same time, we create environments for species connected to meadows and pastures.

These species are finding it increasingly hard to survive nowadays. We take responsibility by taking an inventory and then adapting our management of areas rich in different species, thus creating green infrastructure that contributes to biodiversity and functioning ecosystems. Green infrastructure is a matter of creating networks of habitats and distribution pathways so that plants and animals can live and move around the landscape. See also pages 26–27.

Issue	Target	Outcome	Comments
Biodiversity	By 2023, 900 km of our power lanes that have been shown to be "likely rich in species" in conducted GIS analyses will be inventoried in the field. Adapted maintenance measures will be implemented in the species-rich areas where adjustments may benefit biodiversity.	In 2017, GIS analyses were carried out in order to identify the most likely power lanes to have grassland rich in species (species that benefit pastoral land and plains). During the coming years, field inventories will be produced, after which the needs for adapted maintenance for species-rich areas will be identified.	The boundary is to focus on power lanes for overhead lines of 50 kV and over due to their width over the next 5 years.

Health and safety

The health and safety of our employees and business partners is a key issue at the core of our operations. Ellevio is to be a safe and attractive workplace and contractor. The safety of the people who work at and for Ellevio is always our top priority and we have a zero vision in relation to accidents and work-related illnesses.

Ellevio has a deviation management system for reporting and following up deviations relating to near-accidents, accidents, risks, safety short-

comings, work-related injuries and proposals for improvements. When a case has been registered, the information is automatically sent to an incident manager who ensures an investigation is carried out, measures are taken and a follow-up is conducted before the case can be closed. Investigations, measures and follow-up work are all vital aspects that contribute to the continuous improvement of our operations and help prevent serious near-accidents, accidents and work-related illnesses.

Issue	Target	Outcome	Comments
Health and safety	Zero vision for the number of accidents	<p><i>In-house staff</i> In the last 2 years, none of our employees have been injured at work. TRIF:0</p> <p><i>Contractors</i> LWIF: 0.9</p> <p>During 2017, personal injuries for contractors have primarily been a result of current passages, falling and vehicle accidents. All injuries comprises men.</p> <p>2017's results are the lowest reported, in the history of the company. A result of 0.9 shows that we have 0.9 accidents per 1 million hours worked.</p> <p><i>Sickleave</i> Absence during 2017, measured in terms of total absence, was 2.56%. This includes all sick-leaves, of which 1.19% represents short sick-leaves up to 14 days.</p>	<p>TRIF: 'Total Reportable Incidents Frequency', the number of accidents per 1 million hours worked for Ellevio's employees. Includes accidents that led to absence from work of more than one day, the need for restricted work, or medical treatment.</p> <p>LWIF: 'Lost Workday Injury Frequency' represents the number of lost workdays per 1 million hours worked due to personal injury among Ellevio's contractors.</p> <p>There has not been any fatal accidents among Ellevio employees or contractors during 2017.</p>

Responsibility for local communities

Ellevio considers it important to invite local stakeholders when initiating new projects to ensure that the project is linked to the local area and to minimise potentially negative effects on the environment and the residents who live near our facilities. Our work could affect local communities negatively, for example by limiting accessibility, noise or related issues.

Ellevio adheres to society's recommendations and permit processes as a basis for its environmental impact descriptions and collaborations. In addition, we communicate with the public about what we intend to do and always invite consultation with stakeholders when we deem it to be necessary, thus enabling viewpoints to be collected as early as possible.

Ellevio analyses the arguments and viewpoints that are submitted on the basis of cost and benefit, with financial sustainability a major factor. At worst, customers will have to bear a potential increase in the cost of investment, which is why there must be concrete advantages for customers if costs increase.

The clearing or logging of forests is timed carefully so that particular attention can be paid to land with a poor level of bearing capacity. Before logging takes place, cultural heritage sites, biotope protection, Natura 2000 and other protective values should be checked and demarcated on the land.

Issue	Target	Outcome	Comments
Responsibility for local communities	Increase share of local activities, impact assessments and/or development programmes.	<p>During the year, a total of 20 concessions were granted by Ei, of which 7 were for new lines and 13 for extensions of concessions. Furthermore, 21 new applications were submitted to Ei, of which 5 were for new lines and 2 for redevelopments of existing lines.</p> <p>An open day was held for three projects during the year.</p>	Before a concession application, a consultation must always be carried out. This can be done in several ways and to different extents depending on the complexity and environmental impact of the project.

Equality

The description of why equality is a significant issue can be found on pages 7 and 21. Ellevio monitors diversity developments by measuring the proportion of women and men in the management team, among managers across the company, the number of employees in different age groups and the proportion of employees with a foreign background.

Equality is measured by comparing the average salaries of men and women. In 2017, the company carried out a survey of salaries. This survey showed that there are minor differences between men and women's average salaries and between different categories of employees.

These differences can largely be explained by differing levels of work experience. Ellevio operates in an industry where a relatively large proportion of young women have recently entered the labour market and in which a large number of older men have been working for many years. Receiving an equal salary is a prioritised equality issue for Ellevio. In addition to adjusting employees' salaries that were at the wrong level, we will also carry out management training that focuses on this important issue.

A survey of the equality climate, potentially discriminatory behaviour and related issues was also conducted in 2017. The results of this survey will form the basis of our future equality-related initiatives.

Issue	Target	Outcome
Equality	Maintain an equal distribution between men and women in the management team	At year-end: 55% women 64% between the ages of 30 and 50 36% over 50 years
	Increase the number of female managers at the company	At year-end: 22% women
	Increase the total number of women at the company	At year-end: 27% women

Good working conditions

Creating good working conditions is a significant issue in terms of Ellevio being able to attract, recruit, develop and retain employees with diverse skills.

To create good working conditions, Ellevio focuses on collective ability and ensuring that employees are giving the right skills and opportunities to develop. This is monitored continuously by way of training and personal appraisals. Furthermore, Ellevio works actively to encourage uptake of parental leave and a positive work-life balance. Managers are another important factor relating to working conditions. To ensure they develop their employees and workplaces in a positive way,

Management Days are held each year at which different themes are discussed, such as team development, workload, health & safety and equality.

Efforts to create good working conditions are followed up by way of employee surveys, follow-ups of employee appraisals and reviewing employee turnover and the number of people who took out parental leave, divided up by gender. In 2017, employee turnover was 6 percent. 81 new employees were recruited during the year, of which 23 were women. 113 employees, of which 40 were women, took out parental leave during the year. This personal data is based on data collected by Ellevio's HR system.

Issue	Target	Outcome	Comments
Good working conditions	100% of employees are to have an annual personal appraisal.	During the year, 77% of employees underwent appraisals which have been documented in the HR system.	No major differences between men and women or between different positions. During the latter part of the year, a large number of new recruits were taken on. These employees have not yet had any appraisals documented in the system.
	Maintain a high level of satisfaction as measured by the "Employee Engagement Index" survey.	The outcome for 2017 was 69%.	Each year, Ellevio undertakes an employee survey that assesses the level of engagement: the Employee Engagement Index. Each business function reviews the results and produces action plans for improvement areas.

Key indicators

Number of employees

	Under age of 30	Age 30-50	Over age of 50	Total
Permanent employees	41	273	136	450
– of which women	11	84	29	124
Temporary employees*	0	0	7	7
– of which women	0	0	1	1
Total	41	273	143	457
– of which women	11	84	30	125

* Temporary employees refers to all once-permanent employees who are now retired and working on an hourly basis.

Ellevio does not have any part-time roles. However, employees do have the opportunity to work part-time for certain periods and under specific circumstances.

New recruitments

	Under age of 30	Age 30-50	Over age of 50	Total
Women	7	14	1	22
Men	15	29	11	55
Total	22	43	12	77

Proportion of total employees, %

	Under age of 30	Age 30-50	Over age of 50	Total
Women	2	3	0	5
Men	3	6	2	12
Total	5	9	3	17

Employee turnover

Proportion of total employees, %

	Under age of 30	Age 30-50	Over age of 50	Total
Women	0	2	1	2
Men	0	2	1	3
Total	0	4	1	6

Diversity in management, managers and employees

Gender, proportion in %

	Management team	Other managers	Employees	Total
Women	55	15	28	27
Men	45	85	72	73

Age, proportion in %

	Management team	Other managers	Employees	Total
Under age of 30	0	0	11	9
Age 30-50	64	69	58	60
Over age of 50	36	31	31	31

GRI content index.

All references to GRI standards refer to Standards from 2016. The following index shows which GRI data are reported and where the information is found.

General Standard Disclosures

GRI indicators	Page	Comments	UN Global Compact
GRI 101: Foundation 2016		This report was prepared in accordance with GRI guidelines	
Organisational Profile			
102-1 Name of the Organisation	The inside of the cover		
102-2 Activities, brands, products and services	2-4, 16-17		8-9: Environment
102-3 Location of headquarters	The inside of the cover		
102-4 Location of operations	2		
102-5 Ownership and legal form	63		
102-6 Markets served	2		
102-7 Scale of the organization	2		
102-8 Information on employees and other workers	20-21 75-76		6: Labour Standards
102-9 Supply chain	9, 25 73		
102-10 Significant changes to the organisation and its supply chain	5	No changes to report	
102-11 Precautionary Principle or approach	69		7: Environment
102-12 External initiatives	18, 20-21, 25-26, 68		
102-13 Membership of associations	68		
Strategy			
102-14 Statement from senior decision-maker	6-7		
Ethics and Integrity			
102-16 Values, principles, standards and norms of behaviour	2-3 68-69		1-10: Human rights, Labour Standards, Environment, Corruption
Governance			
102-18 Governance structure	68-69		
Stakeholder engagement			
102-40 List of stakeholder groups	69		
102-41 Collective bargaining agreements		100% of Ellevio's employees are covered by collective bargaining agreement	3: Labour Standards
102-42 Identifying and selecting stakeholders	69		
102-43 Approach to stakeholder engagement	69		
102-44 Key topics and concerns raised	69		
Reporting practice			
102-45 Entities included in the consolidated financial statements		Ellevio AB (publ)	
102-46 Defining report content and topic Boundaries	69		
102-47 List of material topics	69		
102-48 Restatements of information	The first sustainability report in compliance with GRI		
102-49 Changes in reporting	The first sustainability report in compliance with GRI		
102-50 Reporting period	68		
102-51 Date of most recent report	The first sustainability report in compliance with GRI		
102-52 Reporting cycle	68		
102-53 Contact point for questions regarding the report	The inside of the cover		
102-54 Claims of reporting in accordance with the GRI Standards	68		
102-55 GRI content index	77-79		
102-56 External assurance		No external assurance applied	

Material topics

GRI indicators		Page	Comments	Ellevio's material sustainability topics	UN Global Compact
ECONOMIC STANDARDS					
Indirect Economic Impacts					
103-1	Explanation of the material topic and its Boundary	26–27 69, 71–72	Divided into the following significant issues; investments in infrastructure, choice of materials, smart electricity networks and electricity from renewable sources	Transition to a sustainable energy system	8–9: Environment
103-2	The management approach and its components	26–27 69, 71–72			
103-3	Evaluation of the management approach	68–69			
203-1	Infrastructure investments and services supported	71–72	All of Ellevio's investments are conducted on commercial terms		
	– Own disclosure: Choice of materials	26–27 71			
	– Own disclosure: Smart electricity networks	12–15 71–72			
	– Own disclosure: kWh from renewable sources	26–27 71			
103-1	Explanation of the material topic and its Boundary	8, 11, 15, 18–19 69, 72		Security of supply	
103-2	The management approach and its components	8, 11, 15, 18–19 69, 72			
103-3	Evaluation of the management approach	8, 11, 15, 18–19 69, 72			
	– Own disclosure: Security of supply	71–72			
103-1	Explanation of the material topic and its Boundary	69, 73		Customer satisfaction	
103-2	The management approach and its components	73			
103-3	Evaluation of the management approach	68–69			
	– Own disclosure: Customer satisfaction	73			
ENVIRONMENTAL STANDARDS					
Supplier Environmental Assessment					
103-1	Explanation of the material topic and its Boundary	69, 73		Responsible purchasing/ Supplier relationships	7–8: Environment
103-2	The management approach and its components	25 73			
103-3	Evaluation of the management approach	25 68–69			
308-1	New suppliers that were screened using environmental criteria	25 73			
Biodiversity					
103-1	Explanation of the material topic and its Boundary	69, 73		Biodiversity	7–8: Environment
103-2	The management approach and its components	26–27 73			
103-3	Evaluation of the management approach	26–27 68–69			
304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	26–27 73	Geographical location and biodiversity value are not reported. Size of the area as well as the rights to the underground surface are not reported either when data is not available (and in the latter case is not relevant considering Ellevio's activities). Ellevio will examine the possibility of developing the accounts during the year.		

GRI indicators		Page	Comments	Ellevio's material sustainability topics	UN Global Compact
SOCIAL STANDARDS					
Occupational Health and Safety					
103-1	Explanation of the material topic and its Boundary	69, 74		Health and safety	1–2: Human rights 4–6: Labour Standards
103-2	The management approach and its components	22–23 74			
103-3	Evaluation of the management approach	22–23 68–69			
403-2	Type of injury and rates of injury, occupational diseases, lost days and absenteeism and total number of work-related fatalities	74	Ellevio does not report Type of Injury Rate (IR), Occupational Disease Rate (ODR), Lost Day Rate (LDR), and Absentee Rate (AR), as these are not considered applicable. Ellevio has other own similar measurement numbers that are used and are well integrated into the business.		
Supplier Social Assessment					
103-1	Explanation of the material topic and its Boundary	69, 73		Responsible purchasing/ Supplier relationships	1–2: Human rights 3–6: Labour Standards 10: Corruption
103-2	The management approach and its components	25 73			
103-3	Evaluation of the management approach	25 68–69			
414-1	New suppliers that were screened using social criteria	25 73			
Local Communities					
103-1	Explanation of the material topic and its Boundary	69, 74		Responsibility for local communities	1–2: Human rights 8–9: Miljö
103-2	The management approach and its components	74			
103-3	Evaluation of the management approach	68–69			
413-1	Operations with local community engagement, impact assessments and development programs	74			
Diversity and Equal Opportunity					
103-1	Explanation of the material topic and its Boundary	69, 75		Equality	6: Labour Standards
103-2	The management approach and its components	21 75			
103-3	Evaluation of the management approach	21 68–69			
405-1	Diversity of governance bodies and employees	75–76			
Employment					
103-1	Explanation of the material topic and its Boundary	69, 75		Good working conditions	6: Labour Standards
103-2	The management approach and its components	20–21 77			
103-3	Evaluation of the management approach	20–21 68–69			
401-1	New employee hires and employee turnover	75–76	Ellevio does not report staff divided up by region. The reason for this is that many of our employees work at a specific office while simultaneously carrying out duties that concern the entire business.		
Training and education					
103-1	Explanation of the material topic and its Boundary	69, 75		Good working conditions	6: Labour Standards
103-2	The management approach and its components	75			
103-3	Evaluation of the management approach	68–69			
404-3	Percentage of employees receiving regular performance and career development reviews	75			

Auditor's report on the statutory sustainability report.

To the general meeting of the shareholders in Ellevio AB (publ), corporate identity number 556037-7326.

Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the financial year 2017 on pages 68–79 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion

A statutory sustainability report has been prepared.

Stockholm 26th of April 2018
Deloitte AB

Daniel Wassberg
Authorized Public Accountant

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ELLEVIO

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