



Year-End Report. January–December 2016.

Significantly increased investment into a reliable power network.

January–December 2016

- Net sales amounted to SEK 6,537 (6,014) million
 - The distributed electricity amounted to in total 27.1 (26.8) TWh
 - EBITDA was SEK 3,946 (3,275) million
 - Operating profit amounted to SEK 1,929 (1,675) million
 - Cash flow from operating activities totalled SEK 3,463 (3,443) million
 - Investments in tangible and intangible assets amounted to SEK 2,076 (1,706) million
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CEO comment

Ellevio AB (publ) is one of Sweden's largest distribution network operators connecting more than 900,000 households and companies and more than 1,000 electricity production sites.

The prerequisite for modern society to function is that we have constant access to electricity. Ellevio works every day to secure the quality and reliability of electricity supply for our customers and society at large, and to enable the transition to more renewable energy sources, sustainable transportation and a more digitalized society through investments in a long-term sustainable electricity grid.

A reliable power network for our customers

Throughout 2016, Ellevio continued to significantly increase its investments to ensure that the customers have the best electrical network possible. The investment programme continued according to plan with a total of almost SEK 2.1 billion invested to renew and increase capacity. This is a 22 percent increase from the investments made in 2015. These investments will allow us to maintain and continue improving our 99.98 percent reliability of electricity supplied, as we prepare our networks for the future. In Stockholm we invest to modernize and increase capacity of the networks to meet the needs of a growing city, while renewal and weather proofing is a focus for rural areas. We will also continue to automate the networks by installing remote disconnectors and smart network stations, which decrease the number and length of outages for customers.

The development of renewable electricity production continues on small and larger scale. During 2016, four wind parks were connected to our network: Sättravallen and Långmarken in Kristinehamn, Sörby in Ljusdal, and Iglasjön in Kungsbacka. In addition, another 331 customers started producing their own electricity by installing solar panels at home, an increase by 49 percent from 2015.

The large investments will require access to long-term financing. Several steps were taken during the year to lay the foundation for future financing activities in Ellevio. A new financing and security platform was established. A long-term rating of 'BBB' was received from Standard and Poor's, and a sizable part of the initial senior acquisition debt facility was repaid and replaced by long-term debt issuance in the U.S. and in Sweden.

The increased investments also required increases in customer prices during 2016. As a regulated company Ellevio's allowed

revenue is decided by the Swedish Energy Markets Inspectorate and it is this revenue that is the frame for the prices that customers pay. Within this allowed revenue frame, Ellevio raised network prices for all local network customers by 9 percent on 1 June 2016. Ellevio's price increase together with other network companies' price increases caused criticism from customers, the media and policy makers. Many Swedish network companies including Ellevio are entering a period of heavy investments to replace ageing networks and prepare networks for future customer and society needs, which comes at a cost. It is therefore important that society has a common view about the value of having a well-functioning, sustainable and reliable electricity infrastructure. Ellevio and the industry continued to promote a constructive dialogue about the role of the electricity networks in the future sustainable society, and the investment needs to uphold reliability of supply.

Strategy for growth

To meet the population growth in urban areas, society's need for security of supply and digitalization, Ellevio will continue to grow organically. In 2016, the company also included growth by acquisition to its strategic focus areas. On 30 November, the Ellevio group acquired Nynäshamn Energi AB from Kraftringen Group and Nynäshamn Energi will be part of Ellevio AB from 2017. Nynäshamn Energi is an electricity network company in the southern part of the Greater Stockholm area, with 16,000 customers. The acquisition has several benefits; it strengthens Ellevio's position in the capital area and the proximity to Ellevio's other network areas in Stockholm gives operational synergies. Nynäshamn is an expansive area, e.g. the harbor is being developed to become a new logistics hub in the growing Stockholm region.

Safety in focus

Health and safety considerations have the highest priority at Ellevio, both for our inhouse staff and for the contractors that work for the company. Even with high requirements and continuous follow-up of the health and safety procedures, serious accidents can however occur. In November 2016, we experienced a fatal accident. Two fitters, employed by a contractor working on an assignment from Ellevio, who were working on a power line in Dalarna in central Sweden came in contact with a live wire and lost their lives.

We are saddened by this accident and our thoughts have been first and foremost with the family and friends of the deceased. Swedish authorities are following their normal protocol and are investigating the accident. Ellevio conducted an internal investigation and has launched an enlarged programme to further improve the focus on safety.

Development for the future

Digitalization of society increases, urbanization continues, the transport sector is getting more electrified, more renewable power is being produced from larger and smaller production sites, and the need for a reliable electricity supply is constantly increasing. We need to consider the impact of these developments as we plan the investments into the electricity network of the future. We participate in development programs, studies and test new technologies to better understand the network's future needs and requirements.

Work continued last year on the project at Stockholm Royal Seaport (Norra Djurgårdsstaden), a new sustainable district in

Stockholm where Ellevio is testing new technical solutions for the electricity network together with a number of other companies and with support from the Swedish Energy Agency. In November, the program reached a milestone when families moved into apartments that use smart devices for control of energy usage, such as load control.

The work within the Swedish Government's Energy Commission also continued during the year. Ellevio is taking an active part, e.g. in a sub-project together with The Royal Swedish Academy of Engineering Sciences (IVA) to better understand new requirements and future investment needs.

Ellevio welcomed another approximately 6,000 customers to its network during 2016 and had a total of 918,000 customers at the end of the year.

Johan Lindehag
CEO Ellevio

Regulatory update

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

On 1 January 2016, a new four-year regulatory period started. Some changes take effect in the new period, most noticeable a change in the calculation of the capital base to an age adjusted capital base. The new framework stimulates new investments into the networks, and thereby promotes the needed renewal and weather-proofing. The new framework also means that the allowed revenue for the network companies decreased compared to the previous period.

The basis of the new regulation framework, stimulating new investments, is positive. However, there are parameters where the industry's and the authority's view differ. The most important 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 the network investments (40 years). In 2015, Ellevio and the majority of the Swedish

network industry therefore appealed Ei's decision of a cost of capital of 4.53 percent and argued for a cost of capital of 6.3 percent. In December 2016, the Administrative Court made a decision of 5.85 percent. Ei appealed the decision to the Administrative Court of Appeals, the process continues and a verdict is expected in late 2017.

An important issue that Ellevio has been driving for years is the possibility to harmonize prices between its rural and urban network areas. Today, network prices differ largely between rural and urban areas. Customer prices are much higher in rural areas where there are few customers to share the costs of the networks, and the difference will increase as the urbanization continues. Ellevio's target is to remove this difference. The legal framework in this area has not been completely clear, and a court process has been needed for clarification. On 21 June, 2016 the Administrative Court announced a decision in favour of harmonized pricing and in accordance with Ellevio's argumentation. The court referred the case back to Ei and instructed Ei to make a new decision based on Ellevio's reasoning. Instead Ei appealed the decision to the next court level. In early March 2017 the decision by the next court level was made confirming the decision from the Administrative Court. Ellevio is currently awaiting the decision from the Ei.

During 2016, the work to determine the regulation for the third regulatory period, 2020–2023, started. The main direction of the regulation for the next period is expected to be set during the autumn of 2017. Ellevio intends to engage in a constructive dialogue with all relevant stakeholders.



Earnings and financial position.

Financial result

In 2016, net sales amounted to SEK 6,537 (6,014) million. The increase in net sales was an effect from the cold weather at the start of the year which increased the amount of distributed electricity, and the price increase in June. The volume of local and regional network transmissions during 2016 totalled 14.2 (13.8) TWh and 12.9 (13.0) TWh, respectively.

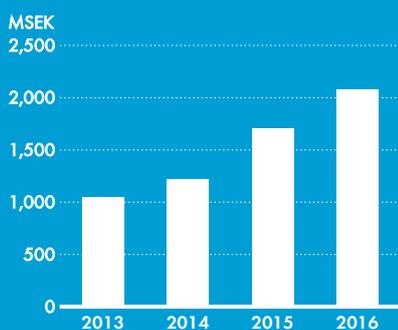
EBITDA totalled SEK 3,946 (3,275) million and operating profit totalled SEK 1,929 (1,675) million. The operating profit was in comparison with 2015 impacted by higher depreciations from the surplus values from the acquisition, since 2015 only included seven months compared to full year effect 2016.

Net financial income/expense were SEK 3,298 (1,389) million, of which SEK 1,652 (959) were related to Group internal interest expenses and SEK 1,647 (431) external interest expenses. The external interest expenses include negative changes in the fair value of financial instruments of SEK 481 (34) million as well as SEK 168 (0) million related to arrangement fees from the original acquisition financing that was dissolved in connection to the re-financing. Profit after financial items amounted to SEK -1,369 (285) million.

Profit for the year was SEK -239 (15,463) million. The 2015 profit included appropriations from dissolving untaxed reserves amounting to SEK 20,278 million, with a net impact with SEK 15,817 million after tax.

SEK million	2016	2015
Net sales	6,537	6,014
EBITDA	3,946	3,275
Operating profit	1,929	1,675
Profit after net financial income/expense	-1,369	285
Profit of the year	-239	15,463
Investments (excl. acquisitions)	2,076	1,706
Total assets	76,968	75,235
Total equity	5,923	6,163
Equity/assets ratio	8,5%	8,7%
External net debt	34,075	32,864
Leverage ratio	8.6x	10.0x
Interest cover ratio	4.1x	N/A

Investments 2013–2016



In 2015, Ellevio launched a major investment program including renewal, capacity and weather proofing. Annual investments have gone up with almost 100 percent between 2013–2016 and will continue to increase in the coming years.



Financial position and cash flow

In 2016, net cash flow from operating activities increased by SEK 19 million to SEK 3,463 (3,443) million, mainly due to SEK 670 million higher EBITDA, SEK 250 million higher income taxes paid, SEK 406 million lower contribution from changes in working capital. The cash flow from operations 2016 was negatively impacted by retroactive tax payment from 2015 of SEK 154 million. Change in working capital 2016 contributed with SEK -125 (282) million.

Paid investments excluding investments in shares increased by SEK 474 million to SEK 2,057 (1,583) million, as a result of a successful ramp-up of the network investment volumes. In addition, the 2015 cash flow include the acquisition of Ellevio AB with SEK 57,721 million.

Cash flow before financing activities was SEK 1,406 (-55,860) million. Excluding the acquisition of Ellevio AB, the cash flow before financing activities in 2015 was SEK 1,860 million.

Net interest paid was SEK 2,418 (808) million, of which SEK 815 (256) million external interest relating to senior debt and SEK 1,604 (552) million internal interest. The internal interest is indirectly relating to the junior debt SEK 166 (63) million and to shareholder loans SEK 1,438 (489) million. The acquisition of Nynäshamn Energi AB was financed through the Shareholder loan interest amounting to SEK 436 million based on the preliminary purchase price.

The external interest bearing debt increased by SEK 1,211 million to SEK 34,075 (32,864) million.

Financing

Ellevio's large investments to secure reliability of electricity supply for customers and society require access to long-term stable financing. During 2016, Ellevio established a new financing and security platform, and a sizable part of the initial senior acquisition debt facility was repaid and replaced by long-term debt issuance in the U.S. and in Sweden.

The platform will ensure uniform and common terms and conditions for senior A-class lenders to Ellevio. Existing financing and derivative agreements were moved in under the new framework agreements and new financing arrangements such as a SEK 1,5 billion Liquidity Facility Agreement and a EUR 10 billion Euro Medium Term Note Program (EMTN) were established as a part of the implementation of the common terms platform.

In connection with the establishment of the new financing platform, Ellevio received a "BBB" credit rating for its EUR 10 billion senior secured multicurrency debt program.

As a first step to raise financing using the new platform, Ellevio issued a Private Placement targeting investors in North America. The transaction closed in October, totalled USD 1,388 million (SEK 11,727 million). In December Ellevio issued a SEK 1 billion seven year Floating Rate Note under the EMTN program. The proceeds from the US Private placement and the SEK note was used to prepay part of the initial acquisition debt facility.

Financing of the capex program has mainly been done by drawings under the Revolving Capex Facility raised in 2015 and at the end of 2016, a total of SEK 1,650 (0) million was drawn under the facility.

Significant events after the end of the period.

On 30 November, the Ellevio Group parent company acquired Nynäshamn Energi AB from Kraftringen Group. In January 2017 Ellevio AB acquired the company from the Group parent and started the integration of Nynäshamn Energi into Ellevio AB. In March an application to merge Nynäshamn with Ellevio AB has been filed to the Swedish Companies Registration Office.

During January and February, Ellevio raised new long term financing of approximately SEK 13 billion. The transactions include SEK 10 675 million of bond issues, with tenors ranging from 3 to 15 years and a EUR 250 million, 15-year credit facility from EIB. The proceeds from these transactions will be used to replace initial acquisition debt financing from 2015 and to finance Ellevio's capex program.



Income statement.

SEK million	2016	2015
Net sales	6 537	6 014
Capitalised own work	70	72
Other income	67	63
	6 674	6 149
OPERATING EXPENSES		
Costs for purchase and transit of power	-1 089	-1 209
Other operating expenses	-1 259	-1 310
Employee benefit expense	-381	-355
Depreciation and amortisation	-2 016	-1 601
Operating profit	1 929	1 675
FINANCIAL INCOME AND EXPENSES		
Interest income and other similar items	1	0
Interest expenses and other similar items	-3 299	-1 389
Profit after net financial income/expense	-1 369	285
Appropriations	1 148	19 834
Profit before tax	-221	20 119
Income tax expense	-18	-4 656
PROFIT FOR THE YEAR	-239	15 463

Balance sheet.

SEK million	31 Dec 2016	31 Dec 2015
ASSETS		
NON-CURRENT ASSETS		
Intangible assets	45 393	46 081
Property, plant and equipment	28 398	27 650
Non-current financial assets	0	0
Total non-current assets	73 791	73 731
CURRENT ASSETS		
Current receivables		
Trade receivables	556	465
Receivables from Group companies	1 496	0
Other current receivables	80	108
Pre-paid expenses and accrued income	990	809
Current receivables	3 122	1 382
Cash and cash equivalents	55	121
Total current assets	3 177	1 503
TOTAL ASSETS	76 968	75 235
EQUITY AND LIABILITIES		
Equity		
Share capital	1	0
Other reserves	13	0
Retained earnings	6 149	-9 301
Profit for the year	-239	15 463
Total equity	5 923	6 163
Untaxed reserves	783	444
Deferred tax liability	13 961	14 166
NON-CURRENT LIABILITIES		
Bond loans	19 099	6 546
Liabilities to credit institutions	14 513	25 857
Liabilities to Group companies	20 490	20 427
Derivative instruments	515	34
Other non-current liabilities	12	-
Total non-current liabilities	54 629	52 864
CURRENT LIABILITIES		
Liabilities to credit institutions	130	115
Trade payables	557	536
Liabilities to Group companies	37	39
Current tax liabilities	38	179
Other current liabilities	251	201
Accrued expenses and pre-paid income	658	527
Total current liabilities	1 672	1 597
TOTAL EQUITY AND LIABILITIES	76 968	75 235

Cash flow statement.

SEK million	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit	1 929	1 675
Adjustments for non-cash items:		
Depreciation and amortisation	2 016	1 601
Other items	6	1
Income tax paid	-364	-115
Cash flow from operating activities before changes in WC	3 587	3 162
CHANGES IN WORKING CAPITAL		
Decrease(+)/increase(-) in trade receivables	-178	-406
Decrease(+)/increase(-) in other operating receivables	2	493
Decrease(-)/increase(+) in trade payables	-213	149
Decrease(-)/increase(+) in other operating liabilities	264	46
Cash flow from operating activities	3 463	3 443
INVESTING ACTIVITIES		
Acquisition of shares in merged company	-	-57 721
Acquisition of intangible assets	-55	-60
Acquisition of property, plant and equipment	-2 002	-1 523
Cash flow from investing activities	-2 057	-59 304
FINANCING ACTIVITIES		
Borrowings	14 295	52 504
Repayment of borrowings	-13 348	-1 800
Interest received	1	0
Interest paid	-2 418	-808
Group contribution paid	-	-1 985
Shareholder contribution received in merged company	-	7 335
Cash flow from financing activities	-1 471	55 247
CASH FLOW FOR THE YEAR	-66	-614

Definitions.

Adjusted cash

Cash and cash equivalents less customer deposits

Adjusted EBITDA

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

Adjusted equity

Total equity adjusted with 78 percent of the Untaxed reserves

EBITDA

Operating profit less Depreciation and amortisation

Equity/assets ratio

Adjusted equity / Total assets

External finance charges

Net financial income/expense less Group internal interest, unrealized results from derivatives and arrangement fees

External net debt

Total external borrowings less Adjusted cash

Interest cover ratio

Adjusted EBITDA less paid tax divided by External finance charges

Leverage ratio

External net debt end of period divided by Adjusted EBITDA

The Board of Directors and CEO confirm that the Year-End Report gives a fair presentation of the operations and financial results. The Report has not been reviewed by the company's auditors.

For further information contact

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