

Half Year Report. January - June 2020.



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# Business review.

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## Key financials January–June 2020

- Net sales amounted to SEK 3,455 million (3,662)
- Distributed electricity amounted to a total of 13.7 TWh (13.9)
- Operating profit amounted to SEK 859 million (1,161)
- Free cash flow totalled SEK 531 million (1,346)
- Capital expenditure, amounted to SEK 1,391 million (1,266)

## Business operations

Ellevio's responsibility is to provide reliable electricity networks that enable the daily life for our customers, as well as the transition towards more sustainable and climate-smart energy systems. Safety is a cornerstone of a stable electricity grid and a prerequisite for our entire business.

Customers and society demand reliable, flexible and smart electricity networks that support current needs and future growth. Further investments in the futureproofing of Sweden's electricity networks will be required in the foreseeable future to meet the growing need for electricity. We are determined to develop our electricity networks to meet these needs, however we are forced to take the current regulatory framework into consideration. Ellevio therefore modified its investment plan for this regulatory period with a 40 percent decrease, compared to the company's original plan and to its investments in 2016–2019, in order to adjust to the new regulatory framework with decreased allowed revenue and investment incentives. During the period of 2020 to 2023, Ellevio plans to invest circa SEK 4,700 million into the network, so called base investments. These include reinvestments and investments in increased transmission capacity in the existing network.

During the first six months of 2020, investments have been implemented according to Ellevio's revised plan. Our major projects in the Stockholm area have continued along with the development of local networks. Many residential and business properties want to connect to our network and increase their capacity. In rural areas, our focus is on weather resilience, to minimise weather-related power interruptions for our customers.

The work to develop and modernise electricity grids is currently continuing according to plan even during covid-19. Our crisis work to date has been focussed on ensuring adequate staffing despite the pandemic and we have also worked proactively with our subcontractors to maintain field capacity and ensure good access to resources and equipment. At the end of February, Ellevio's crisis organisation was activated to ensure that the necessary measures were taken in a structured manner. This included identifying and securing critical processes to ensure we could continue to operate, such as working remotely where possible, and implementing travel and meeting restrictions.

As one of Sweden's leading distribution network operators, Ellevio has a key role in society during the pandemic, to secure the delivery of electricity to customers and society. A pandemic such as covid-19 is one of the crisis scenarios that Ellevio has planned and prepared for. Ellevio strictly follows the guidelines and advice provided by national authorities and maintains contact with relevant parties on a regular basis. With this we aim to minimise risks to

employees, customers and society at large. We would like to take this opportunity to thank our partners and suppliers that have ensured that we can continue to modernise and strengthen our electricity networks, maintain fault repair capabilities and customer services even during this challenging period.

Ellevio reached a major milestone in May as we began the installation of second generation smart meters with a pilot in Älvsjö, Stockholm. At the end of the period, around 3,500 units had been installed. The Älvsjö pilot has been somewhat delayed by covid-19, particularly as we have only been able to upgrade meters that do not require physically entering a property. But we expect to begin the major roll-out this autumn as planned and meet the project's schedule in the long term. Our smart meter roll-out is being financed by our first green bond, which amounts to SEK 1,650 million.

The capacity issue in Stockholm persists and discussions have continued over the past six months. One action taken by Ellevio is a project together with Svenska Kraftnät and Vattenfall to create a so-called flex market in Stockholm, which can help meet peak electricity demand and not limit the capital's future growth. The market is scheduled to be launched in the autumn. There are also ongoing discussions with politicians as well as authorities and in April the Swedish Energy Markets Inspectorate (Ei) released a proposal that is now out for referral.

Several storms occurred during the first half of the year that particularly affected our western network. Our disturbance organisation, which deals with crisis and storm preparedness, was initiated and storm damage was resolved without any prolonged interruption for our customers, while at the same time we put the safety of our personnel first. It is clear that our work with the weather resilience of our electricity networks in recent years has yielded results. We will continue with this work during 2020 and 2021, but after that we will be forced to reduce our activities due to the current regulatory situation.

## Customer relations

During the first six months of 2020, Ellevio welcomed approximately 3,000 new customers to the company. We now have a total of 965,000 customers at the end of the period.

At the beginning of February, we introduced price cuts for the majority of our residential customers – benefitting around 885,000 households. At the same time, the levelling of prices between Stockholm and the rest of the country continues to ensure all our customers pay the same price for the same service regardless of where they live.

In contrast to base-investments, the customer driven investments continue to show a stable trend. We continue to connect wind

power to our networks as we have proven to be an attractive partner to wind power developers and are responsive and customer oriented. The number of solar panels connected to our networks increased steadily during the first quarter of the year, but slowed during April and May due to the covid-19 pandemic. The new smart meters we are now rolling out will enable customers to install solar panels without upgrading their electricity meters.

The work to electrify the country's transport sector continued as an important piece of the puzzle if Sweden is to achieve its climate goals. Following the launch of Ellevio Smart Laddinfra – our comprehensive solution for charging electric vehicles – we have had several appreciated customer seminars on the topic. The solution is suitable for individuals, housing associations and companies as well as municipalities and commercial actors. With this service Ellevio takes total responsibility for the full installation process. Previously, it was up to each charging operator to connect new charging posts to the cable cabinets. When Ellevio now includes the connection in its offer, new charging infrastructure connections will become faster, cheaper and have a lower environmental impact.

We continued our work to make our culture even more customer focussed and improve the customer experience. This included a new electricity bill layout that is designed to help customers understand their consumption. We are also working to establish our own billing and payment organisation that better integrates into our processes to further improve the overall customer experience.

### Acquisitions and integration

No acquisitions have been made during the period. Ellevio continuously evaluate acquisition opportunities.

### Safety

We established closer cooperation with our largest subcontractor to deepen our common efforts to enhance safety in the field. A key area has been to further promote the reporting of incidents and risk observations from our subcontractors by reviewing our reporting process and tools. In particular risk observations are key in proactive safety work. We have also paved the way for safety procedures for the installation of new smart meters – partially with a focus on safe installation, but also potentially threatening situations and safe driving. Safety work has been carried out in close cooperation with subcontractors that will install our smart meters.

The number of work-related injuries resulting in sick leave during the period amounted to four accidents.

### Regulatory update

On 1 January 2020, a new regulatory period of four years began. The permitted revenue for the period, decided by the Swedish Energy Markets Inspectorate (Ei), stipulates a WACC (weighted average cost of capital) of 2.16 percent (expressed as real WACC before taxes).

Ellevio believes that the new level of WACC is far from sufficient to enable the investment levels required to fulfil society's demand for reliability and continued growth, nor to achieve Sweden's climate goals. The energy transition towards renewable production, and the electrification of the transport sector and industry all require smart modern power grids in terms of flexibility, capacity and efficiency. The time horizon for investments in our industry is long, often more than 40–50 years and the importance of long-term predictable and stable regulation should not be underestimated.

Ellevio and more than 120 other companies have appealed the allowed revenue decisions for 2020-2023. The main argument is that the revenue frame ordinance is contrary to both the EU directive and Swedish legislation and hence Ei's decisions should be declared invalid and referred back to Ei for new decisions. The new decisions should be based on valid economic theory and practice from the Swedish Courts.

Ei has responded to the network companies' grounds for appeal. In its response, Ei has admitted to a WACC of 2.35 percent instead of 2.16 percent, by including another reference company. Responses from the network companies will be delivered in August 2020 to the Administrative Court in Linköping, however the main argument from Ellevio and the other network companies remain valid.

The European Commission is looking at a similar case against Germany in the EU Court of Justice, regarding the independence of the regulatory authority. The ruling on the German case is delayed due to the covid-19 pandemic, but is still expected in 2020. Both the European Commission and the Swedish government are awaiting this decision before taking any more action regarding the Swedish revenue frame ordinance. The European Court of Justice has ruled against Slovakia concerning the Electricity Market Directive's requirements for independence (C-378/19). The national regulatory authority must be completely independent of other public or private interests when carrying out its task of setting or approving transmission or distribution tariffs for electricity or methods of calculating them. The European Court of Justice has also ruled against Hungary concerning the Electricity Market Directive's requirements for the right to a court hearing (C 771/18). The ruling implies the right to have the content of the act reviewed in substance, ie. it is not enough to have only a formal review (legality review which is that a court reviews whether an authority's or someone else's general decision is contrary to any law or constitution).

In addition, the Swedish legislation has been changed so that the regulatory deficit from 2012–2015 cannot be carried over to 2020–2023, contrary to the ruling from the Administrative Court of Appeal in Jönköping. In response to objections to this, the Swedish government has proposed a new law allowing electricity network companies to utilise the regulatory deficit from 2012–2015 for investments under certain conditions during the two regulatory periods 2020–2023 and 2024–2027. This would mean that investments above one percent of the replacement value can be financed to 75 percent with this deficit from 2012–2015.

### About the regulation

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

# Earnings and financial position.

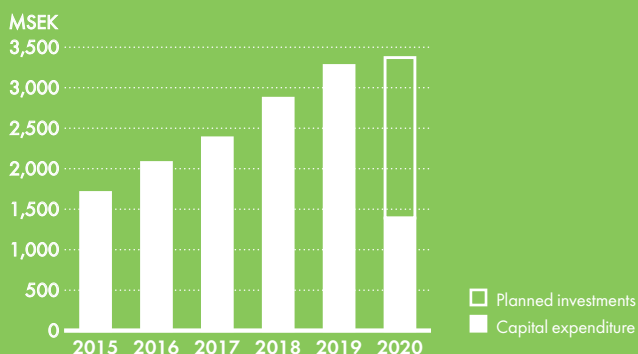
## Financial result

Net sales for the first half of 2020 amounted to SEK 3,455 million (3,662). Sales fell mainly due to price decreases in local networks in February 2020 and partly from lower distribution volume due to mild weather in the first quarter of the year. The impact of covid-19 on distribution volume and sales are so far very limited. The volume of local and regional network transmissions from January to June totalled 7.3 TWh (7.6) and 6.4 TWh (6.3) respectively. EBITDA amounted to SEK 1,958 million (2,249) and operating profit totalled SEK 859 million (1,161). The drop in operating profit is related to the distribution margin with lower revenue as well as higher cost from feeding networks and local production.

Interest expenses and similar items were SEK -1,187 million (-1,383), of which SEK -620 million (-815) were related to Group internal interest expenses and SEK -567 million (-568) to external interest expenses. The lower Group internal interest expenses are related to the reduction of the interest rate on the sub-ordinated shareholder loans from 8.5 percent to 6.0 percent in the end of August 2019. Loss after financial items amounted to SEK -328 million (-222) and loss for the period to SEK -380 million (-315).

MSEK	Jan-Jun 2020	Jan-Jun 2019	Full year 2019
Net sales	3,455	3,662	6,709
EBITDA	1,958	2,249	3,848
Comparable EBITDA	1,957	2,252	3,908
Operating profit	859	1,161	1,649
Profit/loss after net financial income/expense	-328	-222	-982
Profit/loss for the period	-380	-315	-1,248
Free cash flow	531	1,346	962
Capital expenditure	1,391	1,266	4,000
Total assets	86,101	83,129	86,459
Total equity	7,225	7,047	7,605
Equity/assets ratio	9.6%	9.6%	10.0%
External net debt	39,023	38,051	38,892
Leverage ratio	10.8x	9.0x	10.0x
Interest cover ratio	3.2x	2.6x	3.4x
Class A net debt	36,037	35,068	35,907
Class A leverage ratio	10.0x	8.3x	9.2x
Class A interest cover ratio	3.5x	2.7x	3.7x

Capital expenditure 2015-2020



### Financial position and cash flow

Cash flow from operating activities for the first half of the year decreased by SEK 635 million to SEK 2,303 million (2,939), mainly as a net impact from a lower EBITDA of SEK 291 million and a decrease in contributions from changes in working capital of SEK -400 million. The decrease from change in working capital is primarily related to the reduction of the December 2019 fixed fee for all local network customers. Change in working capital contributed with SEK 98 million (497).

Paid capital expenditure increased by SEK 179 million to SEK -1,772 million (-1,593). In addition, cash flow for 2020 includes proceeds from sales of land that amounted to SEK 1 million and the 2019 figure includes the acquisition of shares in three asset owning companies related to Laforsen sub-station amounting to -44 MSEK. Free cash flow amounted to SEK 531 million (1,346) and cash flow before financing activities to SEK 532 million (1,301).

Paid external interest amounted to SEK -645 million (-703). During both 2020 and 2019, there has been no intra-Group interest paid, i.e. interest on subordinated shareholder loans.

The external net debt (Class A and Class B) amounted to SEK 39,023 (38,051) million. Since year-end 2019, external net debt has increased by SEK 131 million.

### Financing

In January, Ellevio extended its senior secured (Class A) revolving credit facility (RCF) of SEK 7,500 million, and senior secured (Class A) and subordinated (Class B) liquidity facilities (LF) of SEK 1,400 million and SEK 100 million respectively. The new extended facilities mature in January 2025. The RCF may be used for financing capital expenditures and for general corporate purposes. The LF facilities may only be used to finance liquidity shortfall amounts under Class A and Class B debt issued by Ellevio.

In June, Ellevio issued its inaugural green bond under the company's green bond framework that was established in 2019. The total size of the bond was SEK 1,650 million and the proceeds are earmarked for investments in smart electricity meters to be installed in 2020-2023 in close to one million households and companies connected to Ellevio's network. Ellevio's green bond framework gives bond investors the opportunity to invest in projects that support the transition to an emission-neutral and climate-smart energy system. The framework has been reviewed by the climate and environmental research institute CICERO, and has received the highest rating "Dark Green". The bond was issued under the company's Euro Medium Term Note (EMTN) programme and structured as a SEK 1,000 million 7-year fixed rate tranche and a SEK 650 million 7-year floating rate note.

As of the end of June 2020, senior secured debt (Class A) amounted to SEK 36,037 million (35,068) and total secured debt (Class A and Class B) to SEK 39,023 million (38,051).

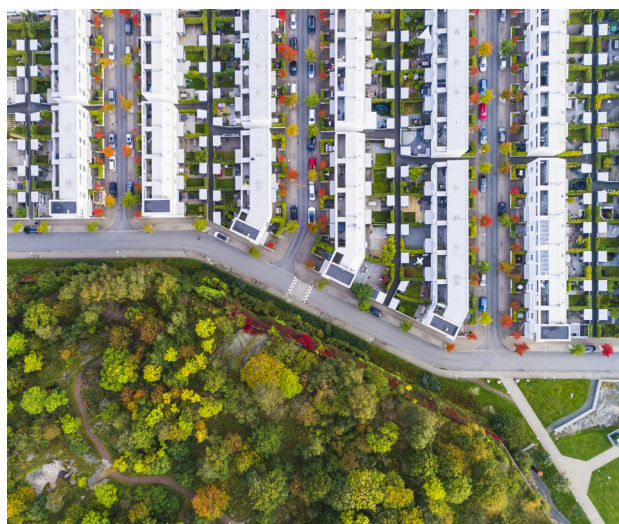
On 30 June 2020 S&P confirmed the "BBB" rating for Ellevio's senior secured (Class A) debt and the "BB+" rating for Ellevio's subordinated (Class B) debt. The outlook for the rating is "negative", reflecting the uncertain situation regarding the Swedish regulatory framework with ongoing court appeal processes.

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## Significant events after the end of the period.

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On 8 July 2020, Ellevio issued SEK 1,000 million of subordinated secured debt (Class B), which increased the outstanding total nominal amount of Class B debt to SEK 4,000 million. The Class B debt has a final maturity date in February 2025. The proceeds from the new bonds have been used for the amortization of a corresponding amount of senior secured debt (Class A).



# Condensed income statement.

MSEK	1 Jan 2020 30 Jun 2020	1 Jan 2019 30 Jun 2019	1 Jan 2019 31 Dec 2019
Net sales	3,455	3,662	6,709
Capitalised own work	60	50	101
Other operating income	36	34	70
	<b>3,551</b>	<b>3,746</b>	<b>6,880</b>
<b>OPERATING EXPENSES</b>			
Costs for purchase and transit of power	-736	-624	-1,232
Other external expenses	-595	-619	-1,301
Employee benefits expense	-263	-254	-499
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-1,099	-1,088	-2,200
<b>Operating profit</b>	<b>859</b>	<b>1,161</b>	<b>1,649</b>
<b>FINANCIAL INCOME AND EXPENSES</b>			
Interest income and similar items	1	1	2
Interest expense and similar items	-1,187	-1,383	-2,633
<b>Profit/loss after net financial income/expense</b>	<b>-328</b>	<b>-222</b>	<b>-982</b>
Appropriations	-	-	-115
<b>Profit/loss before tax</b>	<b>-328</b>	<b>-222</b>	<b>-1,097</b>
Income tax expense	-52	-93	-151
<b>PROFIT/LOSS FOR THE PERIOD</b>	<b>-380</b>	<b>-315</b>	<b>-1,248</b>

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

# Condensed balance sheet.

MSEK	30 Jun 2020	30 Jun 2019	31 Dec 2019
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	43,599	44,132	43,886
Property, plant and equipment	34,471	32,027	33,892
Non-current financial assets	5,985	4,538	5,985
<b>Total non-current assets</b>	<b>84,055</b>	<b>80,697</b>	<b>83,763</b>
<b>CURRENT ASSETS</b>			
<b>Current receivables</b>			
Trade receivables	584	848	1,025
Receivables from Group companies	–	2	0
Other receivables	332	196	382
Prepaid expenses and accrued income	1,116	1,120	1,270
<b>Total current receivables</b>	<b>2,032</b>	<b>2,167</b>	<b>2,677</b>
Cash and cash equivalents	14	264	20
<b>Total current assets</b>	<b>2,047</b>	<b>2,431</b>	<b>2,697</b>
<b>TOTAL ASSETS</b>	<b>86,101</b>	<b>83,129</b>	<b>86,459</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	1	1	1
Other reserves	36	33	36
Retained earnings	7,568	7,328	8,816
Profit/loss for the period	–380	–315	–1 248
<b>Total equity</b>	<b>7,225</b>	<b>7,047</b>	<b>7,605</b>
<b>Untaxed reserves</b>	<b>1,312</b>	<b>1,198</b>	<b>1,312</b>
<b>Deferred tax liability</b>	<b>13,439</b>	<b>13,350</b>	<b>13,387</b>
<b>Other provisions</b>	<b>2</b>	<b>1</b>	<b>2</b>
<b>NON-CURRENT LIABILITIES</b>			
Bond loans	30,914	32,744	29,257
Liabilities to credit institutions	5,294	5,326	5,327
Liabilities to Group companies	20,668	19,177	20,668
Other non-current liabilities	1,295	772	1,033
<b>Total non-current liabilities</b>	<b>58,171</b>	<b>58,019</b>	<b>56,286</b>
<b>CURRENT LIABILITIES</b>			
Bond loans	31	–	3,500
Liabilities to credit institutions	2,568	–	594
Trade payables	560	520	846
Liabilities to Group companies	620	816	0
Current tax liabilities	1	6	13
Other current liabilities	1,092	1,152	1,540
Accrued expenses and deferred income	1,081	1,020	1,374
<b>Total current liabilities</b>	<b>5,952</b>	<b>3,513</b>	<b>7,868</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>86,101</b>	<b>83,129</b>	<b>86,459</b>



# Condensed cash flow statement.

MSEK	1 Jan 2020 30 Jun 2020	1 Jan 2019 30 Jun 2019	1 Jan 2019 31 Dec 2019
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Operating profit	859	1,161	1,649
Adjustments for non-cash items:			
Depreciation and amortisation	1,099	1,088	2,200
Disposals/retirements of non-current assets	-1	-	57
Periodised connection fees	-17	-7	-19
Change in provision for doubtful receivables	1	-1	-1
Received connection fees	276	244	535
Income tax paid	-12	-44	-69
<b>Cash flow from operating activities before changes in working capital</b>	<b>2,205</b>	<b>2,441</b>	<b>4,351</b>
<b>CHANGES IN WORKING CAPITAL</b>			
Decrease(+)/increase(-) in trade receivables	440	251	74
Decrease(+)/increase(-) in other operating receivables	203	588	256
Decrease(-)/increase(+) in trade payables	-74	-108	-37
Decrease(-)/increase(+) in other operating liabilities	-471	-234	214
<b>Cash flow from changes in working capital</b>	<b>98</b>	<b>497</b>	<b>508</b>
<b>Cash flow from operating activities</b>	<b>2,303</b>	<b>2,939</b>	<b>4,859</b>
<b>INVESTING ACTIVITIES</b>			
Capital expenditure in intangible assets	-86	-72	-191
Capital expenditure in property, plant and equipment	-1,686	-1,520	-3,706
Acquisition of shares	-	-44	-44
Proceeds from sales of property, plant and equipment	1	-	-
<b>Cash flow from investing activities</b>	<b>-1,771</b>	<b>-1,637</b>	<b>-3,941</b>
<b>Cash flow before financing activities</b>	<b>532</b>	<b>1,301</b>	<b>918</b>
<b>FINANCING ACTIVITIES</b>			
Borrowings	3,608	-	162
Repayment of borrowings	-3,500	-392	-
Received interest	1	1	2
Paid interest	-645	-703	-1,123
Received/paid group contributions	0	-	2
<b>Cash flow from financing activities</b>	<b>-537</b>	<b>-1,094</b>	<b>-957</b>
<b>CASH FLOW FOR THE PERIOD</b>	<b>-6</b>	<b>208</b>	<b>-39</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>20</b>	<b>56</b>	<b>56</b>
<b>Cash in merged company</b>	<b>-</b>	<b>-</b>	<b>2</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>14</b>	<b>264</b>	<b>20</b>



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# Definitions.

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The company presents alternative performance measures in the Half Year Report that are not defined according to IFRS nor the Swedish annual accounts act. These financial measures should not be regarded as substitutes for measures defined according to IFRS. The company considers that these measures provide valuable supplementary information for investors and company management, as they enable an assessment of the company's performance, the ability to carry through strategic investments and fulfil financial obligations. Below are definitions on how the alternative performance measures are calculated.

## 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 of external financial interest income and interest expense plus other financial expenses excl transaction costs related to financing activities

## External financial items, Class A

External financial items less Class B interest expense

## External net debt

External interest-bearing liabilities excluding transaction cost related to financing activities less adjusted cash

## External net debt, Class A

External net debt less Class B debt

## Free cash flow

Cash flow from operating activities less paid capital expenditure

## Interest cover ratio

Comparable EBITDA less income tax paid divided by external financial items

## Interest cover ratio, Class A

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

## 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

## Leverage ratio, Class A

External net debt, Class A divided by comparable EBITDA

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The Board of Directors and CEO of Ellevio AB (publ) confirm that the Half Year Report gives a fair presentation of the operations and financial results. The financial statements was prepared in accordance with the Recommendation RFR 2 Financial Reporting for Legal Entities issued by the Swedish Financial Reporting Board. The application of RFR 2 requires the company to apply, insofar as possible, all EU-adopted International Financial Reporting Standards (IFRS) and interpretations of IFRS issued by the IFRS Interpretation Committee (IFRIC) subject to the provisions of the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act and take account of the relationship between accounting and taxation. Unless otherwise stated, amounts in tables refer to millions of Swedish Krona (SEK million). Due to rounding of amounts to the nearest million Swedish Krona, some totals may not be exactly equal to the sum of all line items. There are no requirements to prepare interim financial statements for an issuer with securities admitted to trading on the Irish Stock Exchange. Since chapter 9 of the annual accounts act (interim reporting) is not applicable to the company this Half Year report is prepared on a voluntary basis. The Report has not been reviewed by the company's auditors.

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