



Half Year Report. January–June 2017.

Sustainable profitability and continued growth.

January–June 2017

- Net sales amounted to SEK 3,538 (3,300) million
 - Distributed electricity amounted to a total of 14.1 (14.2) TWh
 - Operating profit amounted to SEK 1,213 (1,044) million
 - Cash flow from operating activities totalled SEK 2,404 (1,887) million
 - Investments in tangible and intangible assets amounted to SEK 1,135 (944) million
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CEO comment

At Ellevio everything starts with safety and in order to take our safety practices to the next level, we are implementing a four-year safety programme reforming how we approach safety and clarifying what we expect from those around us, including our partners and contractors. We have developed a long-term strategy with the overall goal of creating a safe working environment. Everyone working at or for Ellevio should come home safely from work.

This journey will obviously be challenging and will take time. I can't promise that we will never again suffer a serious accident at Ellevio. But I can promise that the measures now being taken mark a significant improvement that greatly reduces the risk of this happening.

Investing 10 billion in a reliable power network for our customers

We are currently experiencing the largest transformation of the energy system in modern history. Society is rapidly evolving in a direction that places new demands on and drives investments in power networks to ensure that they are modernised and prepared for the energy society of the future. Power grids are at the centre of this transformation, and as a company Ellevio wants to be a driving force. For Ellevio, this will mean pursuing efficient investments and implementing smart new solutions.

Between 2016 and 2019, Ellevio will invest SEK 10 billion in its networks. In Stockholm, we are modernising and increasing capacity, and in rural areas, we continue to renew the networks and secure them against weather-related disturbances. We also continue to automate the networks by introducing smart technology.

There are several benefits to our investments. In the short term, customers will have access to a power grid with fewer and shorter power outages, which I think many customers, particularly in rural areas, value. The truly major benefits will first be seen in the long run – when we have a safe, reliable and smart power network able to handle the requirements of a sustainable, digitalised and urbanised society.

A smarter customer offering

A smarter electricity grid also becomes a platform that enables the development of smart new energy services for our customers.

We took a step in this direction in March when we commenced the procurement of next-generation smart meters for all customers. Among other features, the new meters will improve customers' ability to connect new energy services and to control their electricity use. The first meters are expected to be installed during the second half of 2019.

Harmonised pricing

The increase in investments also required increases in customer prices during the spring. As a regulated company, Ellevio's allowed revenue is determined by the Swedish Energy Markets Inspectorate (Ei) and it is this revenue that serves as the basis for the prices that customers pay. With the latest change in prices, Ellevio wants to begin reducing the major price differences currently prevailing between urban and rural areas. Levelling prices would mean a reduction in some areas, freezing prices at their current level in others, and a certain increase in areas with the lowest prices. We are awaiting a decision on harmonised pricing between three of Ellevio's network areas from Ei. For us, it is only natural that a connection to the power grid should cost the same no matter where you live. At the same time, we are working hard to show our customers the value generated by a reliable power grid, whose benefits include enabling everyone to harness the potential of digitisation.

Securing long-term financing

In early February, Ellevio issued a SEK 10 billion bond in the Swedish market. This transaction allowed Ellevio to replace earlier financing with more favourable financing featuring a longer maturity profile. There was substantial interest from the market and we are very pleased with the outcome of the transaction. This constitutes the largest corporate bond issued in SEK to date.

In addition, we were also granted a long-term EUR 250 million loan facility from The European Investment Bank. This loan was given for investments scheduled for implementation in 2017–2019.

Well-positioned for growth in a fragmented market

The Swedish DSO market is fragmented and could benefit from consolidation. There are currently more than 160 distribution network operators in total in Sweden. 112 of these have fewer than 15,000 customers. Many of them, including Ellevio, are facing

major investments to meet the new requirements demanded by the networks of the future – thus catalysing market consolidation. Ellevio is well-positioned for growth with a clear and focused strategy, as well as strong and committed owners.

In the past year, we have taken some important steps. In June, we finalised the integration of Nynäshamn Energi AB and welcomed almost 16,000 new customers to Ellevio. We also finalised an agreement to acquire transmission assets in Stockholm from Svenska kraftnät (National TSO in Sweden).

Last but not least, on 19 May we announced a recommended offer to the shareholders of Elverket Vallentuna. Elverket is a well-run and professionally managed company with experienced and skilled employees. The acquisition will allow Ellevio to continue to strengthen its already solid position in the growing Stockholm region. The acceptance period for the Elverket Vallentuna bid has been extended due to the summer holidays, and is expected to be closed

by the end of September. By 17 August, 86.73 percent of shareholders had accepted the offer.

Signing UN Global Compact

I'm also very proud to say that in May, we reached a major milestone in our vision, to contribute with commitment and expertise to a bright and sustainable future, by signing the United Nations Global Compact. Ellevio is now the first DSO in Sweden and one of approximately 10,000 companies worldwide to have signed the UN Global Compact. This commits Ellevio to actively participating in the struggle against society-threatening challenges such as pollution, corruption and human rights violations.

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.

The current regulatory framework aims to stimulate new investments in the network. At its essence, this is a good framework. However, there are parameters where the views of the industry and the authorities differ. The most important of these is the cost of capital, where the industry argues that it should be based on a long-term perspective to reflect the long-term nature of network investments (40 years). In 2015, Ellevio and the majority of the Swedish network industry therefore appealed Ei's decision on 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 decided on a cost of capital of 5.85 percent. Ei appealed the decision to the Administrative Court of Appeal, the process continues and a verdict is expected in late 2017.

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 difference will only increase as urbanisation continues. Ellevio aims to eliminate this difference. The legal framework in this area has not been entirely clear, and a court process has been needed for clarification. On 21 June 2016, the Administrative Court announced a decision in favour of harmonised pricing and in line with Ellevio's arguments. 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 by the Administrative Court. Ellevio is currently awaiting a decision from Ei.

During the spring, work on establishing regulations for the third regulatory period, from 2020–2023, intensified. A hearing on the regulatory framework for the third period took place on 8 June, at which Ei presented a first draft of its suggestions. Ei will outline the main direction of the regulations for the next period in an investigation that is to be delivered to the Ministry no later than 23 October. Ellevio has been engaged in a constructive dialogue with all relevant stakeholders.



Customer Relations

Between January and June 2017, Ellevio welcomed another approximately 18,000 customers to its network, yielding a total of 936,000 customers at the end of June 2017. Ellevio's customers are spread across the west coast, central Sweden, and the Stockholm area. Most of the electricity network is located in the countryside, while the majority of customers are in Stockholm.

Almost 16,000 of the new customers were part of the integration of Nynäshamn Energi AB, which was finalised on 12 June 2017. As part of introducing the new customers to Ellevio information about the company and its services has been provided to customers, including information about automatic payment services, the replacement of meters and other similar matters. Ellevio has also been present locally in Nynäshamn in order to introduce the company and provide customer support on site. In addition to the Nynäshamn customers, there have also been a number of new connections by way of various new residential-development projects, particularly in the urban areas of Sweden.

Safety

In February, the Board of Directors approved the implementation of a four-year safety programme. The programme is based on four pillars:

- Safety culture
- Requirements & work procedures
- Competence
- Control & compliance

To develop, control and support the implementation of the programme, a steering group has been created consisting of members of Ellevio's management team, as well as a sustainability council comprising different members of the operations. The council is led by Ellevio's Sustainability Manager.

In March, Ellevio commenced the procurement of over 900,000 new smart meters. Among other features, the new meters will improve customers' ability to connect new energy services and to control their electricity use. The first meters are expected to be installed during the second half of 2019.

Clear and accurate information, rapid repairs in case of power outages and digital services are important aspects of customer confidence in Ellevio. Ellevio uses digital channels to inform customers about power outages, local investment projects, as well as information about self-manage services, such as moving notifications, requests for compensation, notifications of change of address and account selections. During the period, Robotic Process Automation (RBA) has been implemented to more efficiently and accurately manage customer service.

As part of the programme, Ellevio invited all Swedish contractors to a Safety Day in Karlstad in May. In addition, an industry-wide International Contractor Day was held in April, where various industry players representing both Swedish unions and contractors converged from countries such as Poland, Hungary and the Netherlands.

A total of 34 activities have been set for 2017. One of the major activities will be to implement a new process for supplier on-boarding when qualifying for and becoming a supplier to Ellevio. Other activities include a platform for e-learning and the introduction of a safety license for anyone working with or for Ellevio.

No severe accidents resulting in sick leave were reported in the period from January to June, 2017.



Earnings and financial position.

Financial result

Net sales for the first half year 2017 totalled SEK 3,538 (3,300) million. The increase in net sales was mainly due to the acquisition and merger of Nynäshamn Energi and price increases. The volume of local and regional network transmissions from January to June totalled 7.5 (7.5) TWh and 6.6 (6.7) TWh, respectively.

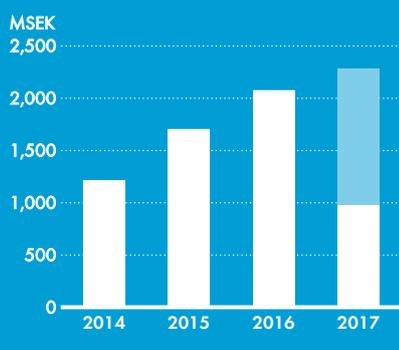
EBITDA totalled SEK 2,230 (2,044) million and operating profit totalled SEK 1,213 (1,044) million.

Net financial income/expense amounted to SEK 1,497 (1,265) million, of which SEK 667 (439) million was related to external interest expenses and SEK 831 (826) million to intra-Group interest expenses. External interest expenses have increased due to the extended debt maturity profile and interest rate duration from re-financing activities conducted in late 2016 and early 2017. Furthermore, external interest expenses include transaction costs of SEK 128 (52) million mainly related to the original acquisition financing that was expensed in conjunction with re-financing activities.

The Company posted a loss after financial items of SEK -284 (-221) million. The Company posted a loss for the period of SEK -353 (-283) million.

SEK million	Jan-Jun 2017	Jan-Jun 2016	Full year 2016
Net sales	3,538	3,300	6,537
EBITDA	2,230	2,044	3,946
Operating profit	1,213	1,044	1,929
Profit/loss after net financial income/expense	-284	-221	-1,369
Profit/loss for the period	-353	-283	-239
Investments (excl. acquisitions)	975	793	2,076
Total assets	77,139	74,699	76,968
Total equity	5,560	5,880	5,923
Equity/assets ratio	8.0%	8.3%	8.5%
External net debt	34,275	33,157	34,075
Leverage ratio	8.3x	9.2x	8.6x
Interest cover ratio	3.6x	4.3x	4.1x

Investments 2014-2017



In 2015, Ellevio launched a major investment programme including renewal, capacity and weather proofing. In the first six months of 2017 SEK 975 million was invested in the programme (excluding acquisitions).



Financial position and cash flow

Cash flow from operating activities for the first half year increased by SEK 517 million to SEK 2,404 (1,887) million, mainly due to an increase in EBITDA of SEK 186 million, and an increase in contributions from changes in working capital of SEK 260 million.

Paid investments excluding investments in shares increased by SEK 191 million to SEK 1,135 (944) million, as a result of a successful ramp-up in 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.

Cash flow before financing activities amounted to SEK 835 (943) million. Excluding the acquisition of Nynäshamn Energi AB, cash flow before financing activities was SEK 1,273 million.

Paid interest amounted to SEK 1,006 (1,230) million, of which external interest relating to senior debt accounted for SEK 513 (405) million and intra-Group interest for SEK 493 (825) million. Intra-Group interest is indirectly related to junior debt in the amount of SEK 74 (77) million and to shareholder loans in the amount of SEK 419 (748) million.

External net debt amounted to SEK 34,275 (33,157) million. Since year-end 2016 the external net debt has increased by SEK 200 million.

Financing

Ellevio concluded a series of financing transactions during the first half of 2017. The purpose of these transactions was to refinance existing bank debt and to finance the company's investment programme.

In January, Ellevio issued a SEK 675 million 15-year fixed-rate bond. The transaction was followed in February by a public transaction in the Swedish market, whereby Ellevio issued a dual-tranche bond comprising a three-year tranche and a seven-year tranche in the amounts of SEK 3.5bn and 6.5bn, respectively. The bond attracted strong investor demand and the transaction represents the largest corporate Swedish Krona bond issue ever.

The proceeds from the bond issue was used to refinance part of the acquisition loan raised in 2015. In total, SEK 11,517 million of the acquisition loan was pre-paid during the first half of 2017.

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 SEK 2,371.8 million under the facility.

The amount drawn under the existing SEK 8.1bn Revolving Capex Facility was reduced by SEK 800 million during the period, and as per the end of June, SEK 850 million had been drawn under the Facility.

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

Significant events after the end of the period.

On 21 August, Ellevio announced that the company would be proceeding with the recommended offer to the shareholders of Elverket Vallentuna. Shareholders representing 86.73 percent of the shares and votes of Elverket had accepted the offer as of 17 August. To allow the remaining shareholders to accept the offer, Ellevio extended its acceptance deadline until 29 September 2017.



Income statement.

SEK million	Jan-Jun 2017	Jan-Jun 2016	Full year 2016
Net sales	3,538	3,300	6,537
Capitalised own work	34	36	70
Other income	31	30	67
	3,604	3,366	6,674
OPERATING EXPENSES			
Costs for purchase and transit of power	- 526	- 567	-1,089
Other operating expenses	- 639	- 576	-1,259
Employee benefit expense	- 209	- 178	-381
Depreciation and amortisation	- 1,017	- 1,000	-2,016
Operating profit	1,213	1,044	1,929
FINANCIAL INCOME AND EXPENSES			
Interest income and similar items	1	0	1
Interest expenses and similar items	- 1,497	- 1,265	-3,299
Profit/loss after net financial income/expense	- 284	- 221	-1,369
Appropriations	-	-	1,148
Profit/loss before tax	- 284	- 221	-221
Income tax expense	-70	- 62	-18
PROFIT/LOSS FOR THE PERIOD	-353	- 283	-239

Balance sheet.

SEK million	31 Jun 2017	31 Jun 2016	31 Dec 2016
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	45,188	45,741	45,393
Property, plant and equipment	29,043	27,783	28,398
Non-current financial assets	1,492	0	0
Total non-current assets	75,722	73,524	73,791
CURRENT ASSETS			
Current receivables			
Trade receivables	449	399	556
Receivables from Group companies	1	0	1,496
Current tax assets	59	-	-
Other current receivables	108	55	80
Pre-paid expenses and accrued income	790	685	990
Total current receivables	1,408	1,139	3,122
Cash and cash equivalents	9	37	55
Total current assets	1,417	1,176	3,177
TOTAL ASSETS	77,139	74,699	76,968
EQUITY AND LIABILITIES			
Equity			
Share capital	1	1	1
Other reserves	13	0	13
Retained earnings	5,900	6,162	6,149
Profit/loss for the period	- 353	- 283	- 239
Total equity	5,560	5,880	5,923
Untaxed reserves	783	444	783
Deferred tax liability	14,018	14,118	13,961
NON-CURRENT LIABILITIES			
Bond loans	32,114	6,546	19,099
Liabilities to credit institutions	1,726	26,007	14,513
Liabilities to Group companies	20,076	20,062	20,490
Derivative instruments	448	13	515
Other non-current liabilities	23	-	12
Total non-current liabilities	54,387	52,629	54,629
CURRENT LIABILITIES			
Liabilities to credit institutions	144	220	130
Trade payables	409	382	557
Liabilities to Group companies	787	405	37
Current tax liabilities	-	35	38
Other current liabilities	281	193	251
Accrued expenses and pre-paid income	771	393	658
Total current liabilities	2,391	1,628	1,672
TOTAL EQUITY AND LIABILITIES	77,139	74,699	76,968

Cash flow statement.

SEK million	Jan-Jun 2017	Jan-Jun 2016	Full year 2016
CASH FLOW FROM OPERATING ACTIVITIES			
Operating profit	1,213	1,044	1,929
Adjustments for non-cash items:			
Depreciation and amortisation	1,017	1,000	2,016
Disposals/retirements of non-current assets	-1	0	0
Change in provision for doubtful receivables	0	1	6
Income tax paid	-181	-255	-364
Cash flow from operating activities before changes in WC	2,047	1,790	3,587
CHANGES IN WORKING CAPITAL			
Decrease(+)/increase(-) in trade receivables	107	250	-178
Decrease(+)/increase(-) in other operating receivables	212	21	2
Decrease(-)/increase(+) in trade payables	-1	-217	-213
Decrease(-)/increase(+) in other operating liabilities	38	43	264
Cash flow from operating activities	2,404	1,887	3,463
INVESTING ACTIVITIES			
Acquisition of shares	-438	-	-
Acquisition of intangible assets	-21	-31	-55
Acquisition of property, plant and equipment	-1,113	-912	-2,002
Proceeds from sales of fixed asset	4	-	-
Cash flow from investing activities	-1,568	-944	-2,057
FINANCING ACTIVITIES			
Borrowings	13,020	475	14,295
Repayment of borrowings	-12,910	-272	-13,348
Received interest	1	0	1
Paid interest	-1,006	-1,230	-2,418
Cash flow from financing activities	-895	-1,027	-1,471
CASH FLOW FOR THE PERIOD	-60	-84	-66

Definitions.

Adjusted cash

Cash and cash equivalents less customer deposits

Adjusted EBITDA

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

Adjusted equity

Total equity adjusted by 78 percent of the untaxed reserves

EBITDA

Operating profit excluding depreciation and amortisation

Equity/assets ratio

Adjusted equity expressed as a percentage of total assets

External financial items

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

External net debt

External interest-bearing liabilities less adjusted cash

Interest cover ratio

Adjusted EBITDA less paid tax divided by external financial items

Leverage ratio

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

The Board of Directors and CEO confirm that the Half Year Report gives a fair presentation of the operations and financial results. Unless otherwise stated, amounts in tables refer to millions of Swedish Krona (SEK million). Due to rounding of amounts to the nearest million Swedish Krona, some totals may not be exactly equal to the sum of all line items. The Report has not been reviewed by the company's auditors.

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