

Year-End Report. January - December 2018.

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# Business review.

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## Key financials January–December 2018

- Net sales amounted to SEK 6,974 million (6,894)
- Distributed electricity amounted to a total of 27.3 TWh (27.1)
- Operating profit amounted to SEK 2,067 million (2,161)
- Free cash flow totalled SEK 2,065 million (1,748)
- Capital expenditure amounted to SEK 2,870 million (2,381)

## Business operations

The ambitions of the energy policy agreement between a majority of the Swedish parties in 2016, the so-called Energy Agreement, are high; by 2040, Sweden will have 100 percent renewable energy production. Net emissions of carbon dioxide should be completely gone by 2045. At the same time, we experience an accelerating urbanization and digitization together with the electrification of important social functions such as the transport systems. The requirements for reliable, flexible and smart grid systems are large. Nevertheless, already today, the electricity networks of our growing cities are balancing on the limit of capacity shortages. Ellevio has so far continuously planned and prepared to develop our electricity networks to meet these needs. During the period 2016–2019, Ellevio will have invested SEK 10 billion in refurbishment and development of our electricity networks. In 2018 Ellevio invested SEK 2.9 billion.

To mention a few projects; we have started an important project at Stora Essingen in Stockholm. The power grid here was built in the 1950s and 1960s and in recent years, several power outages have occurred as cables and other equipment become older. We will replace a total of 40 kilometres of cables, 120 cable cabinets and 9 power stations. This large project is expected to run until the end of 2020. We have also completed major projects in the region of Värmland, Sweden, where Ellevio invests a total of about SEK 300 million to increase the capacity of the electricity grid. Several new wind power projects take shape around the Värmland forests. We hereby get more renewable electricity production in the system.

## Customer relations

During 2018 Ellevio welcomed approximately 18,000 new customers to the company, yielding a total of 957,000 customers at the end of the year. Circa 14,800 of the customers was a result of the integration of the acquired Elverket Vallentuna.

As part of the price harmonization which started in 2017, Ellevio has implemented a 6 percent price increase in Stockholm from 1 October 2018. In addition, price decreases of circa 5 percent have been announced for customers on the West coast of Sweden, this adjustment will take effect on 1 January 2019.

The digitalization and automation of our customer services continue. During the year, Ellevio has implemented robotic process automation in several customer service processes. For example, the possibility for customers with several connections to collect data has been improved. In addition, a lot of resources and efforts have been made to improve customer communication, both in terms of new functions as customer service chats as well as of direct communication and meetings with customers.

In 2018 Ellevio conducted a process to appoint an assigned electricity sales company for its customers. If a customer moves and does not make an active choice of electricity sales company, the customer is automatically given a so-called assigned agreement with an electricity sales company, in order to not stand without electricity in the new house. Historically, this kind of agreement has been less favourable for the customers. In order to provide these customers with a better agreement, Ellevio turned to the open market, which has never been done previously in the Swedish market. The agreement with the procured company, GodEl, will provide Ellevio's customers with environmental friendly electricity to a very competitive price.

## Acquisitions and integration

The integration of Elverket Vallentuna was successfully finalized in September. In addition to welcoming new customers and new employees, the integration also included the transfer of the control centre from Vallentuna to Karlstad and transfer of customers service to Ellevio as well as the outsourcing of field personnel.

Ellevio continues to evaluate different potential acquisitions, as we believe a market consolidation not only would benefit the company but also customers, society and the energy transition as a whole.

## Safety

On the night of 22nd of September, a tragic accident occurred in the wake of the storm Knud, when a contractor working for Ellevio with repair work was badly injured by a falling tree. Despite the medical efforts on site and at the hospital, his life could not be saved. The accident is currently being investigated by the police and the Swedish Work Environment Authority, according to normal procedures. Ellevio has and will continuously make all the necessary resources available to assist the investigation in the best way possible. Ellevio has also initiated its own investigation regarding the accident with the sole purpose to find improvements that will mitigate and prevent similar accidents in the future.

In the light of this tragic accident, the importance of the Safe workplace programme has been further highlighted. During the year, Ellevio has taken several important steps to further improve the safety culture in the company and in the sector. To mention a few activities, the company has launched a Safety handbook and e-learning targeting employees and contractors as well as conducted a Safety day for all employees.

One vital part of the Safe workplace programme is to increase the number of safe behaviours; this will be achieved through behaviour-based-safety (BBS). During the autumn two pilot projects, one

internal within Ellevio and one external together with a contractor have been conducted. The pilot aims at changing certain unwanted behaviours, so called hot spots, which could lead to a safety incident or accident.

A majority of the safety enhancing activities involve Ellevio's partners in one way or another. Ellevio has therefore initiated a safety-award to highlight and encourage the importance of systematic and continuous safety work. The award was presented at the Contractor's day in November. The award will be annual and the intention is to increase the focus around safety and reward successful ideas for a better safety culture in the industry and for Ellevio as a company.

### Regulatory update

The work on establishing the regulatory framework for the regulatory period, 2020–2023, is ongoing. In August 2018, the Swedish government decided on a new ordinance regarding the regulatory framework for the third regulatory period.

In short, the ordinance states six different parameters, which should be applied when calculating WACC (weighted average cost of capital) and the allowed revenue. In addition, the depreciation time for certain assets will be prolonged. The ordinance stipulates a decreased allowed revenue, which will affect all Swedish distribution system operators, from state- and municipality-owned to private companies. In addition, the "38 year rule" (the transition rule) has been removed.

Following the decision in the Government, the Swedish Energy Markets Inspectorate (Ei) will continue to formulate the regulations based on the ordinance and Ellevio expects the new regulation to be released in the beginning of 2019. In the next step, the deadline for applications for allowed revenue will be on March 31, 2019.

It is Ellevio's view that the new regulation will lead to a situation where the allowed revenue will not be sufficient to enable the investment levels needed to fulfil society's demand for reliability and continued growth, nor to reach the climate targets. The energy transition towards renewable production and the electrification of the transport sector demands smart modern power grids, in terms of flexibility, capacity and efficiency. The time horizon for investments in this

### 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.

industry are long, often more than 40–50 years and the essence of long term predictable and stable regulation could not be underestimated.

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

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



# Earnings and financial position.

## Financial result

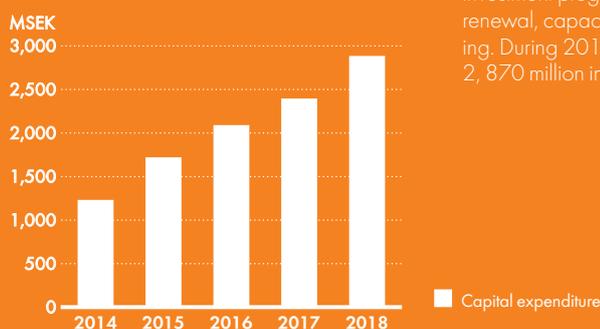
In 2018 net sales amounted to SEK 6,974 million (6,894). The distribution revenue increased, both due to the acquisition and merger of Elverket Vallentuna and as a result of higher distribution volume because of cold weather in the first quarter of the year. The revenue from new connections were lower related to the implementation of IFRS 15, Revenue from contracts with customers\*. The volume of local and regional network transmission 2018 totalled 14.7 TWh (14.3) and 12.6 TWh (12.8), respectively. EBITDA totalled SEK 4,188 million (4,207) and operating profit totalled SEK 2,067 million (2,161).

Interest expense and similar items were SEK -3,019 million (-2,912), of which SEK -1,609 million (-1,656) were related to Group internal interest expenses and SEK -1,409 million (-1,256) to external interest expenses. The external interest expenses include changes in the fair value of financial instruments of SEK 375 million (127) as well as SEK -87 million (-154) in transaction costs, primarily related to the original acquisition financing. During 2018 Ellevio has closed and cash settled interest rate swaps, resulting in realized results of SEK -377 million. Excluding the items above the external interest expenses have increased with SEK 91 million compared to 2017, mainly due to issuance of Class B debt to repay the internal loan related to the junior debt in the Group and by extended debt maturity profile and interest rate duration. Loss after financial items amounted to SEK -893 million (-750). The deferred tax liabilities have been re-evaluated due to a decision in the Parliament to decrease the Swedish Corporate tax rate to 21.4% in 2019 and 20.6% in 2021, impacting the income tax positively with SEK 895 million. Profit for the year amounted to SEK 1,280 million (288).

MSEK	Jan-Dec 2018	Jan-Dec 2017	Jul-Dec 2018	Jul-Dec 2017
Net sales	6,974	6,894	3,432	3,356
EBITDA	4,188	4,207	1,937	1,977
Comparable EBITDA	4,227	4,230	1,976	2,001
Operating profit	2,067	2,161	851	948
Profit/loss after net financial income/expense	-893	-750	-537	-466
Profit/loss for the period	1,280	288	842	641
Free cash flow	2,065	1,748	153	479
Capital expenditure	2,870	2,381	1,848	1,406
Total assets	83,543	80,048	83,543	80,048
Total equity	7,361	6,201	7,361	6,201
Equity/assets ratio	9.9%	8.8%	9.9%	8.8%
External net debt	38,649	35,528	38,649	35,528
Leverage ratio	9.1x	8.4x	-	-
Interest cover ratio	2.4x	3.3x	-	-
Class A net debt	35,666	35,528	35,666	35,528
Class A leverage ratio	8.4x	8.4x	-	-
Class A interest cover ratio	2.5x	3.3x	-	-

\* The presentation of net sales in 2018 was affected by the initial application of IFRS 15, "Revenue from Contracts with Customers" effective from the 1 January 2018. Due to the application of IFRS 15, revenue from new connections are periodised over the lifetime of the asset instead of recognised at the time of the completion of the connection. As a result the net sales and profit for the year 2018 declined by SEK 198 million. There were no effect on cash flow from operating activities.

## Capital expenditure 2014-2018



In 2015, Ellevio launched a major investment programme including renewal, capacity and weather proofing. During 2018 Ellevio invested SEK 2,870 million in the programme.



### Financial position and cash flow

In 2018, cash flow from operating activities increased by SEK 559 million to SEK 4,676 million (4,117), mainly due to an increase in received connection fees of SEK 252 million and an increase in contributions from changes in working capital of SEK 234 million. The increased contribution from change in working capital is primarily related to energy tax, which from the 1 January 2018 is collected by the distribution companies instead of the electricity suppliers. Change in working capital contributed with SEK 226 million (-8).

Paid capital expenditure increased by SEK 242 million to SEK -2,611 million (-2,368). Cash flow for 2018 includes an intra-Group acquisition of the shares in Elverket Vallentuna AB from Ellevio Holding 1 AB in the amount of SEK -627 and 2017 of Nynäshamn Energi AB in the amount of SEK -438 million. In addition, cash flow for 2018 includes a divestment of the shares in Elverket Vallentuna El AB (electricity sales company) in the amount of SEK 46 million. Free cash flow amounted to SEK 2,065 million (1,748) and cash flow before financing activities to SEK 1,491 million (1,314).

Paid interest amounted to SEK -2,238 million (-2,094), of which external interest accounted for SEK -1,260 million (-1,082), cash settlement of swaps SEK -377 million and intra-Group interest for SEK -602 million (-1,012). The internal interest is indirectly relating to the junior debt SEK -102 million (-149) and to shareholder loans SEK -500 million (-863).

The external net debt amounted to SEK 38,649 million (35,528). Since year-end 2017 the external net debt has increased by SEK 3,121 million, of which SEK 3,000 million is related issuance of external Class B debt.

### Financing

During 2018, Ellevio raised SEK 6,000 million of new long term financing. The proceeds were used to finance the company's ongoing capex program and to pre-pay existing financing arrangements in the Group.

In February, Ellevio issued a SEK 3,000 million 7-year fixed rate Class B bond. The Class B bond is contractually subordinated to Ellevio's existing senior Class A debt, and benefits from same ring-fenced security package in Ellevio AB as the Class A debt. The purpose of issuing Class B debt was to refinance the structurally subordinated SEK 3,000 million junior debt facility in Ellevio Holding 2 AB. The junior debt was prepaid in full in June 2018.

In addition to the issuance of Class B debt, Ellevio raised new long term Class A debt in the form of two separate bilateral fixed rate loans. In May, the company raised a SEK 1,500 million 15-year loan from the Nordic Investment Bank (NIB) and in August, a SEK 1,500 million 11-year loan from Export Development Canada (EDC).

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

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## Significant event after the end of the reporting period.

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In the beginning of 2019, Ellevio announced the investments plans for the next regulation period, 2020–2023. Ellevio has modified the plans in order to adjust to the new regulatory framework with decreased allowed revenue. During the period, Ellevio will invest 4.3 billion into the network, so called base investments which includes reinvestments and investments in increased capacity in the existing network. This implies more than 40 percent decrease compared to the original plans and to the investments in 2016–2019, a decrease that will have a negative effect on the electricity infrastructure and the society as a whole.

The focus of the investments will be to continue weatherproofing in rural areas and securing capacity in the urban areas enabling for instance the extension of the subway in Stockholm. It is Ellevio's view that the framework does not support the long-term target to secure the continued high reliability of the network and to enable the transition to a climate-smart society.

On 22 January 2019, Ellevio announced that the company has signed a financing agreement with 12 Swedish and international banks. The agreement, which is a so-called Revolving Credit Facility and Liquidity Facility of SEK 9 billion, secures financing for Ellevio to a pre-agreed interest margin during a period of 5 to 7 years.

# Condensed income statement.

MSEK	1 Jan 2018 31 dec 2018	1 Jan 2017 31 Dec 2017	1 Jul 2018 31 Dec 2018	1 Jul 2017 31 Dec 2017
Net sales	6,974	6,894	3,432	3,356
Capitalised own work	84	70	40	36
Other operating income	93	70	59	38
	<b>7,151</b>	<b>7,034</b>	<b>3,532</b>	<b>3,430</b>
<b>OPERATING EXPENSES</b>				
Costs for purchase and transit of power	-1,151	-1,023	-575	-497
Other operating expenses	-1,337	-1,384	-776	-745
Employee benefits expense	-474	-419	-244	-210
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	-2,121	-2,046	-1,086	-1,029
<b>Operating profit</b>	<b>2,067</b>	<b>2,161</b>	<b>851</b>	<b>948</b>
<b>FINANCIAL INCOME AND EXPENSES</b>				
Interest income and similar items	58	1	58	0
Interest expense and similar items	-3,019	-2,912	-1,445	-1,415
<b>Profit/loss after net financial income/expense</b>	<b>-893</b>	<b>-750</b>	<b>-537</b>	<b>-466</b>
Appropriations	1,463	1,207	1,463	1,207
<b>Profit/loss before tax</b>	<b>569</b>	<b>457</b>	<b>926</b>	<b>741</b>
Income tax expense	711	-169	-84	-100
<b>PROFIT/LOSS FOR THE PERIOD</b>	<b>1,280</b>	<b>288</b>	<b>842</b>	<b>641</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	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>		
<b>NON-CURRENT ASSETS</b>		
Intangible assets	44,436	44,866
Property, plant and equipment	31,546	29,718
Non-current financial assets	2,981	2,138
<b>Total non-current assets</b>	<b>78,963</b>	<b>76,721</b>
<b>CURRENT ASSETS</b>		
<b>Current receivables</b>		
Trade receivables	1,098	632
Receivables from Group companies	1,515	1,493
Current tax assets	3	-
Other receivables	291	155
Prepaid expenses and accrued income	1,616	1,037
<b>Total current receivables</b>	<b>4,524</b>	<b>3,317</b>
Cash and cash equivalents	56	10
<b>Total current assets</b>	<b>4,580</b>	<b>3,327</b>
<b>TOTAL ASSETS</b>	<b>83,543</b>	<b>80,048</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	1	1
Other reserves	33	20
Retained earnings	6,048	5,893
Profit/loss for the period	1,280	288
<b>Total equity</b>	<b>7,361</b>	<b>6,201</b>
<b>Untaxed reserves</b>	<b>1,198</b>	<b>1,069</b>
<b>Deferred tax liability</b>	<b>13,311</b>	<b>14,005</b>
<b>Other provisions</b>	<b>1</b>	<b>0</b>
<b>NON-CURRENT LIABILITIES</b>		
Bond loans	32,732	29,749
Liabilities to credit institutions	5,356	5,005
Liabilities to Group companies	19,176	21,131
Derivative instruments	13	388
Other non-current liabilities	540	207
<b>Total non-current liabilities</b>	<b>57,817</b>	<b>56,480</b>
<b>CURRENT LIABILITIES</b>		
Liabilities to credit institutions	392	509
Trade payables	818	607
Liabilities to Group companies	1	38
Current tax liabilities	-	29
Other current liabilities	1,448	167
Accrued expenses and deferred income	1,195	944
<b>Total current liabilities</b>	<b>3,854</b>	<b>2,293</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>83,543</b>	<b>80,048</b>

# Condensed cash flow statement.

MSEK	1 Jan 2018 31 Dec 2018	1 Jan 2017 31 Dec 2017	1 Jul 2018 31 Dec 2018	1 Jul 2017 31 Dec 2017
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Operating profit	2 067	2,161	851	948
Adjustments for non-cash items:				
Depreciation and amortisation	2,121	2,046	1,086	1,029
Disposals/retirements of non-current assets	29	23	29	24
Periodised connection fees	-7	-5	-5	-2
Change in provision for doubtful receivables	-3	0	-5	1
Received connection fees	350	98	233	56
Income tax paid	-107	-199	-12	-18
<b>Cash flow from operating activities before changes in working capital</b>	<b>4,450</b>	<b>4,125</b>	<b>2,176</b>	<b>2,037</b>
<b>CHANGES IN WORKING CAPITAL</b>				
Decrease(+)/increase(-) in trade receivables	-418	-76	-332	-182
Decrease(+)/increase(-) in other operating receivables	-631	-79	-604	-291
Decrease(-)/increase(+) in trade payables	16	25	0	25
Decrease(-)/increase(+) in other operating liabilities	1,259	122	358	124
<b>Cash flow from operating activities</b>	<b>4,676</b>	<b>4,117</b>	<b>1,598</b>	<b>1,713</b>
<b>INVESTING ACTIVITIES</b>				
Capital expenditure in intangible assets	-102	-64	-55	-42
Capital expenditure in property, plant and equipment	-2,508	-2,305	-1,390	1,192
Acquisition of shares	-627	-438	-	-
Proceeds from sales of fixed assets	7	4	7	0
Proceeds from sales of shares in group companies	46	-	46	-
<b>Cash flow from investing activities</b>	<b>-3,185</b>	<b>-2,802</b>	<b>-1,392</b>	<b>-1,234</b>
<b>Cash flow before financing activities</b>	<b>1,491</b>	<b>1,314</b>	<b>206</b>	<b>479</b>
<b>FINANCING ACTIVITIES</b>				
Borrowings	6,200	14,063	895	1,847
Repayment of borrowings	-6,080	-12,695	-271	-589
Loans given	-	-650	-	-650
Repayment of loan receivables	650	-	26	-
Received dividend	21	-	21	-
Received interest	2	1	2	0
Paid interest	-2,238	-2,094	-968	-1,088
<b>Cash flow from financing activities</b>	<b>-1,445</b>	<b>-1,374</b>	<b>-296</b>	<b>-479</b>
<b>CASH FLOW FOR THE PERIOD</b>	<b>46</b>	<b>-60</b>	<b>-90</b>	<b>0</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>10</b>	<b>55</b>	<b>146</b>	<b>9</b>
<b>Cash in merged company</b>	<b>0</b>	<b>15</b>	<b>0</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>56</b>	<b>10</b>	<b>56</b>	<b>10</b>

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# Definitions.

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## Adjusted cash

Cash and cash equivalents less customer deposits

## Adjusted equity

Total equity plus 78 percent of the untaxed reserves

## Class A financial items

External financial items less Class B interest expense

## Class A interest cover ratio

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

## Class A leverage ratio

Class A net debt divided by comparable EBITDA

## Class A net debt

External net debt less Class B debt

## Comparable EBITDA

EBITDA less items affecting comparability

## EBITDA

Operating profit plus depreciation, amortisation and impairments

## Equity/assets ratio

Adjusted equity divided by total assets multiplied with 100

## External financial items

Net financial income/expense less dividend, 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

Comparable 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 Year-End Report that are not defined according to IFRS. The company considers that these measures provide valuable supplementary information for investors and company management, as they enable an assessment and benchmarking of the company's performance. Since not all companies calculate financial measures in the same way, these are not always comparable to measures used by other companies. These financial measures should not therefore be regarded as substitutes for measures defined according to IFRS. The above key ratios are not defined according to IFRS, unless otherwise stated.

The Board of Directors and CEO of Ellevio AB (publ) confirm that the Year-End 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 Year-End Report is prepared on a voluntary basis. The Report has not been reviewed by the company's auditors.

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