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All values are explained in SEK. Figures within parentheses refer to, if nothing else is specified, 2015. The data about markets and competitive situations are Ellevio's own estimations unless a specific source is indicated. These estimates are based on the best and latest available facts from published sources.

About us.

All our efforts lead to something you hardly notice: a reliable flow of electricity silently streaming out of your outlet into mobile phones, coffee machines, bedside lamps and other everyday objects making life easier. Or into electric motors that power elevators, pumps and cranes.

All in all, our 72,000 kilometers of power lines supply electricity to 918,000 households and businesses in Sweden. Wherever electricity is needed. Day and night. All year round. Regardless of weather conditions.

Seen from a bird's eye view, we reliably move power from point A to point B. Putting it simply, we bring electricity to you.

Welcome to Ellevio.

We are building the electricity network of the future.

Our mission

A reliable and stable electricity supply is a prerequisite for our modern lives. Ellevio gives 918,000 Swedish homes and workplaces access to electricity – at all times. As one of Sweden’s biggest distribution network operators, we play an essential role in society.

To ensure that Sweden has a reliable electricity network going forward, major investments are required to renew, reinforce, maintain and convert the network for the sustainable energy system of the future. Consequently, ongoing investments in future-proofing the network are a central part of our operations. Between 2016 and 2019, we will invest almost SEK 10 billion in improvements for our customers. Our objective is clear: Ellevio’s customers must have an uninterrupted electricity supply – today, tomorrow and in 50 years.

About us

We own, operate and develop regional and local electricity networks and distribute electricity from about 1,600 production sites in Sweden. Our network is 72,000 km long, corresponding to almost two trips around the Earth. Our customers are spread across the West coast, mid-Sweden, and the Stockholm area. Most of the electricity network is in the countryside while the majority of customers are in Stockholm. In 2016, Ellevio distributed 27.1 TWh (26.8) electricity in total. We have more than 400 direct employees and provide jobs for around 3,000 people all told.

The company is owned by three Swedish pension funds (Third National Pension Fund, pension and insurance company Folksam and First National Pension Fund) and Borealis Infrastructure, which invests in

infrastructure for OMERS, one of Canada’s biggest pension plans. Ellevio has a long history, but the company only took the name Ellevio in 2015 when Fortum sold its Swedish network operations to the current owners. In 2016, Ellevio had net sales of SEK 6.5 billion (6.0).

Strategy

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

Reliability, commitment and development

Our unwavering aim is to make it possible for customers to use or produce electricity whenever they want and for them to perceive us as accommodating and our services as good value for money.

Our three values govern our day-to-day work and conduct in every interaction and every conversation, in simple and complex situations.

Reliability – Ellevio’s electricity network and employees can be relied on, in all situations.

Commitment – We demonstrate initiative and it should be evident that we care about and listen to our customers and stakeholders.

Development – In matters large and small, we think innovatively. We are constantly developing our services and are responsive to feedback and new knowledge.

Mission.

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

Vision.

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





Investment plan 2016–2019



Net sales 2016

6,537 MSEK

Investments in tangible and intangible assets 2016

2,076 MSEK

Our networks.

Västra Svealand-Västergötland

133,000 customers
25,000 kilometers power network
188 meters power network
per customer
600 jobs

Västkusten

123,000 customers
13,500 kilometers power network
110 meters power network
per customer
400 jobs

Dalarna-Södra Norrland

102,000 customers
14,400 kilometers power network
141 meters power network
per customer
500 jobs

Stockholm

560,000 customers
12,800 kilometers power network
23 meters power network
per customer
1,500 jobs

Our network is divided into four local network areas, which largely follow the geographical areas. These areas are also our tariff zones. In addition to the four local electricity networks, we also own regional networks in Stockholm and rural areas. In total, this represents about 66,000 km of local networks and 6,400 km of regional networks.

Our objective is clear:
Ellevio's customers must
have an uninterrupted
electricity supply –
today, tomorrow and
in 50 years.

The most important events of the year.

During 2016, Ellevio decided that the company will seek growth through acquisitions, a strategy that can facilitate favourable development in the power distribution market and benefit society as a whole.

Quarter 1.

Major investments in the electricity network.

Ellevio presented a comprehensive investment programme for the electricity network areas within the framework of the previously announced investments corresponding to almost SEK 10 billion during the period of 2016–2019. These regional investments are aimed primarily at maintaining and improving reliability of supply in rural areas and renewing and increasing capacity in the growing Stockholm area.

New contracts to purchase electricity. Ellevio contracts with E.ON and Jämtkraft to purchase electricity to compensate for grid losses, which occur when a portion of the electricity is converted to heat when it is transported from the producer to the consumer through a electricity network. The distribution network operator compensates the power market for grid losses, usually by contracting to buy a corresponding volume of electricity. These procurements are important because they affect network tariffs for all end users.

Quarter 2.

Decision made to add a new strategic focus area; growth through acquisitions.

Increased network tariff. The network tariff was increased by approximately 9 percent, effective 1 June 2016, to finance the previously announced investments in electricity network improvements.

Unique agreement for wind farm of record size.

The wind farm in Sörby, Hälsingland, was connected to Ellevio's electricity network. This is the largest wind farm connected to date. A total of 37 wind turbines, each with a capacity of 3.45 MW, are now standing tall on the heights between Bollnäs and Ljusdal. Annual production equals the electricity requirement for about 76,000 households.

Partnership for green data centres. Stockholm Business Region, the Stockholm Development Administration, the Stockholm City Planning Administration and Stokab jointly decided with Fortum Värme and Ellevio to embark upon a structured collaboration to make Stockholm the prime choice of location for establishing large data centres.

Quarter 3.

Agreement with Kraftringen. Ellevio made an agreement with energy company Kraftringen to buy Kraftringen's electricity network operations in Nynäshamn. The network in Nynäshamn/Ösmo is adjacent to Ellevio's regional network in Stockholm and further reinforces Ellevio's already strong base in Greater Stockholm.

Quarter 4.

Gold medal in Stockholm Royal Seaport. The Technical Building won a gold medal in the American Architecture Prize Awards in the Architectural Design/Industrial Buildings category. The prize illustrates that technical buildings can make a clear and striking architectonic statement and do not, as is usually the case, have to fade into the background. The building was previously nominated for both the Steel Building Prize and the Stockholm Building of the Year award.

Smart Energy City. A unique research programme in Royal Seaport Stockholm that is studying energy use in smart cities, Smart Energy City was opened on 17 November. One hundred and fifty families have moved into smart apartments where they will be able to track and control their energy use in real time. The goal is to develop smart electricity networks for better utilisation of renewable sources of energy and to develop energy-smart homes. The research programme is supported jointly by ABB, Electrolux, Ellevio, Ericsson and Fortum.

Tragic accident in Tyfors, Dalarna. Two employees of a contractor, a partner company to Ellevio, died while working on Ellevio's electricity network in the village of Tyfors in Ludvika Municipality. The accident is being investigated by the Swedish Police, the Work Environment Authority and the National Electrical Safety Board. The event made Ellevio formulate a new safety program.

Significantly increased investments into a sustainable power network.

Ellevio's business largely involves anticipating and preparing for the future. We are involved in steering the electricity market in a more sustainable direction, and we participate in the public discourse and in collaborative projects with other operators. Our investments are focused on the long term, in order to guarantee an electricity infrastructure that promotes sustainable development, today and in the future.

The energy transition imposes new requirements on the electricity infrastructure

Goals for transforming the energy system can be found at the global, EU and national levels. In Sweden, we have made substantial progress toward our goals – 98 percent of our electricity production is already fossil-free, and more than 50 percent derives from renewable energy sources. The Energy Commission proposes making 100 percent of electricity production renewable by 2040. Along with the other owners of the electricity infrastructure in Sweden, Ellevio plays a highly significant role in making the energy transition a reality, and ensuring that Sweden achieves its goals. Secure, flexible and smart electricity networks that enable greater efficiency in the energy system and a level of reliability aligned with the needs of a digital society are necessary, and this requires making investments.

Investments and acquisitions for the future

Substantial sections of the Swedish electricity network were built in the 1960s and 70s and are now, after 40-50 years of public service, in need of renewal. Meanwhile, the energy system is facing a transformation. The regulations governing the electricity networks aim to support community development, and it is encouraging to see that the revenue regulations that came into effect in January 2016

are promoting the electricity network investments needed for the future.

In June 2016, Ellevio made investments totalling SEK 2.1 billion with the aim of strengthening the reliability and capacity of our networks, within the framework of the extensive investment programme that we presented in 2015. Renewal applies to all of our areas. In rural districts, we are also highly focused on protecting the networks against weather-related disruptions. In Stockholm, the focus is on capacity reinforcements to meet the needs of a rapidly growing city. These investments allow us to ensure reliability for our customers and to prepare the electricity networks for the future. They also enable us to grow organically.

Alongside initiatives related to our existing networks, we are also pursuing the development of the Swedish electricity network market. The market is currently fragmented, with numerous small distribution network operators. The development of the networks that is needed moving forward requires massive investments, and we believe this could lead to consolidation, which would also yield enhanced efficiency. In November 2016, we made our first acquisition when we purchased Nynäshamn Energi AB and welcomed 16,000 new customers. This acquisition solidifies our presence in the Stockholm region and enables synergies. We will continue to evaluate suitable acquisition opportunities that allow continued efficiency enhancements and growth.

Safety always comes first

In the coming years, our investment programme will progress at a rapid pace. We will have thousands of electricity network projects under way, through which we will employ thousands of individuals in the field every year. This imposes rigorous demands on us having clearly defined safety rules and procedures in place and ensuring compliance therewith. The safety of each and every individual who is contracted by us in these electricity network projects is just as important as the safety of our own staff. We are a driving force in ensuring safe workplaces both for our own projects and by way of industry partnerships. Safety aspects are always front and centre for us, and during the year we have deepened our safety work even more. A tragic accident with a contractor in Tyfors in Dalarna in November shook us all. Such accidents must not happen. Everyone should come home safe and sound after a day at work.

Creating value for future generations

Ellevio's business is largely based on anticipating and preparing for the future. We are involved in steering the electricity market in a more sustainable and customer-centric direction. We participate in the public discourse and in collaborative projects with other operators. We are there for our customers and we are deeply focused on being able to guarantee that we can live up to their requirements in the future as well. Our base offering to customers naturally includes a secure supply of electricity and the opportunities for new services that smart electricity networks will provide moving forward. Yet with our investments, we are also laying the foundation for the continued digitalisation and development of society, for the good of all.

What consumers find important and what actually adds value is the subject of constant research and development. In November 2016, for example, we inaugurated an exciting and globally unique research project in Norra Djurgårdstaden in Stockholm called "Smart Energy City." Some 150 families then moved into the new smart apartments where they are able to monitor and control their electricity consumption in real time. The Royal Institute of Technology will research how the residents act based on different control signals. The project is a collaboration between Ellevio, ABB, Electrolux, Ericsson and Fortum and aims to develop smart grids for urban environments, identify solutions as to how we can improve our use of renewable energy sources in the future, and develop energy smart homes. The project was recognised as the Best Sustainable Urban Development Project in conjunction with the COP21 climate conference in Paris.

And that's not all. In Norra Djurgårdsstaden, we have also been given the opportunity to demonstrate that buildings featuring technological infrastructure do not necessarily have to be drab, anonymous structures that we prefer to keep out of sight. The technology house in Norra Djurgårdsstaden was nominated for two architectural awards in 2015: the Steel Building Award and the Stockholm Building of the Year, and we won a gold medal at the American Architec-



ture Prize Awards. We are very pleased that the building was so well received and look forward to similar future projects in which environmental considerations can be reflected in both form and function.

Ellevio is continuing to build

In June, Ellevio will celebrate two years as an independent company. During these two years, we have significantly increased the pace of our investment programme, we have created an independent IT infrastructure and Group processes. In 2017, we will continue our efforts to improve processes and tools in our business, our branding efforts will have a greater presence and we are continuing to pursue the development of digital services and channels to communicate with our customers and improve our service.

All of this work requires persistence, vision and commitment. I am pleased, impressed and proud of the participation and energy our employees have shown in our development process. With an 84 percent employee-satisfaction rate in our latest employee survey, our employees have signalled that they are also satisfied with our development.

Ellevio is in the midst of an exciting development phase, both in the market and in our own operations. Acquisitions and continued investments combined with an even sharper and more efficient organisation will enable us to better meet expectations from our shareholders, customers and society. Together, we are progressing toward a bright and sustainable future.

Johan Lindehag
CEO Ellevio

A strategy that benefits customers, society, employees, and investors.

Ellevio's overall strategy is to deliver value to our customers and investors by ensuring a reliable electricity network, efficient operations, committed employees, and growth. A decision was taken in 2016 to adopt a new strategic focus area; to complement the organic growth with growth through acquisitions.

Ellevio is responsible for a critical infrastructure that serves a fundamental purpose in society. Every single day, we improve people's quality of life by ensuring a electricity network that is reliable and sustainable over the long term. Step-by-step, our work is taking us closer to our vision of leveraging our commitment and expertise to contribute to a bright and sustainable future.

In 2016, we augmented our strategy to include development of our total network through the acquisition of other networks.

Our seven strategic focus areas:

1. Sustainability

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

Financial sustainability means implementing network investments that generate long-term value for investors, customers and employees while continuously working to streamline operations.

Social responsibility involves promoting the health, safety, well-being and equal opportunities of employees and others. We must guarantee a reliable electricity network for everyone and be an active social agent and a safe, attractive employer and contracting party. The safety of the people who work at and for Ellevio is always the top priority and we have a zero vision in relation to accidents.

Environmental sustainability has two dimensions. We aim to consume as few resources as possible and be a key player in the transition to a sustainable energy system by fostering renewable electricity

generation, locally produced electricity, more efficient use of electricity and over the long-term, new applications for electricity.

2. Customer experience

The core of the customer experience is a reliable electricity supply and an attractive range of services. The main focus is on managing power cuts and other faults and keeping our customers informed. By making life easier for the customer, we also aim to improve their experience of Ellevio. The opportunity for customers to be more flexible in how and when they use their electricity will increase in the future. We can enable and facilitate this by increasing our range of digital services and enabling hourly metering for everyone. Local, open, service minded, and innovative are key words when we communicate with our customers. Being a new brand we work to increase the awareness about and trust in us and our services.

3. Committed employees

Ellevio is an organisation where everyone takes responsibility for their own, their team's and the company's development. Our conduct is guided by our values of reliability, commitment and development.

To maintain commitment in the organisation, we are, for example, promoting individual and team efficiency by enhancing personal leadership and collective ability. We start with the company's objectives and break them down to team level so that expectations are clear. As we build Ellevio's corporate culture, openness and collegial generosity are keystones.

4. Regulation and industry development

The electricity network market is regulated and it is important to Ellevio to be involved in developing regulations and to contribute knowledge, expertise and opinions. Our view is that regulations must strike a balance among several perspectives – the needs of customers and society for reliable electricity and the transition to a sustainable energy system, as well as customers' willingness to pay and operators' profit imperative and capacity to invest.

The new revenue regulation that applies for the period of 2016–2019 provides incentives to invest in the electricity network, which is a favourable and necessary change. We are continuing our efforts to bring about a reasonable discount rate based on the long-term investment horizon of our industry. Ellevio is also supporting the option to harmonise prices nationwide to cope with the strong urbanisation and depopulation trends in Sweden, where people are migrating to cities in increasing numbers and fewer are staying in rural areas. We want to see the market evolve towards a retail market that is more focused on electricity trading and makes life easier for consumers. The retail market must be developed in balance with the task and capacity of the electricity network to give customers greater flexibility. We also aim to contribute to a common vision of the future of the industry to ensure excellent and long-term regulations.

5. Improved reliability through efficient investments

Investments to maintain high reliability and further improve it in certain areas is an important aspect of Ellevio's operations. Today, reliability is 99.98 percent on average, but there are variations among geographical and urban/rural areas. The regulations that govern the electricity market were introduced with the aim of increasing the rate of investment by providing incentives for investments. Between 2016 and 2019, Ellevio will invest almost SEK 10 billion in improvements for our customers.

We are committed to using every invested krona as efficiently as possible. This will be achieved in a variety of ways, including improving how we procure and implement projects, optimising our investments and maintenance and engaging in dialogue with the contractor market to prepare it for more and larger contracts.

6. Operational efficiency

Ellevio's strategy for operational efficiency includes reducing the costs of fault repair and maintenance through the extensive investments planned in the electricity network. We also intend to achieve smoother and more efficient processes, increase digitalisation, coordinate maintenance work and streamline the IT infrastructure. Ellevio's status as an independent company since 2015 provides favourable conditions for improving operational efficiency.

7. Growth through acquisitions

The electricity network of the future is going to require investments for modernisation, capacity and automation, to retain reliability of supply and support society's development. Sweden is unique in having such a high number of distribution network operators – at present, more than 160. A consolidation of the power distribution market would bring significant advantages by enabling even more efficient investments in the network. Over the long term, distribution operators would also be able leverage economies of scale to run their businesses in a more cost-effective structure. These synergies will also benefit customers. According to the new strategy for growth through acquisitions, Ellevio will identify, evaluate and, when the opportunity arises, carry out acquisitions within the company's core business.

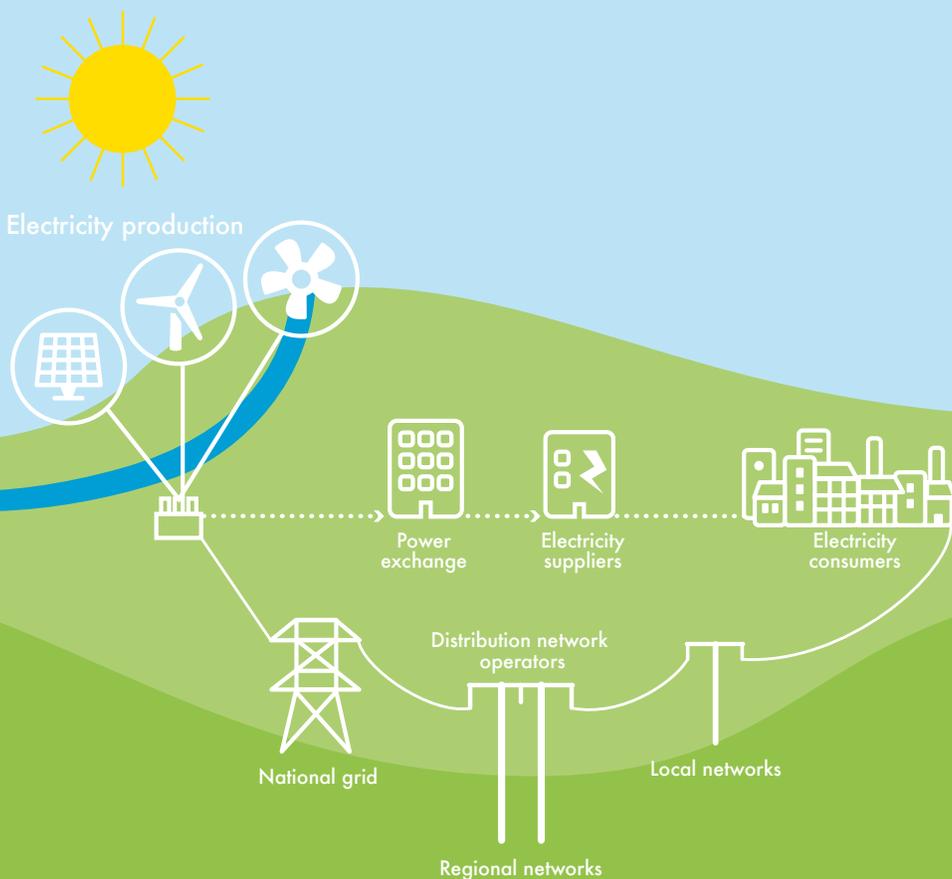
Six strategic focus areas set the framework for Ellevio's operations and priorities.

1. Sustainability
2. Customer experience
3. Committed employees
4. Regulation and industry development
5. Improved reliability through efficient investments
6. Operational efficiency
7. Growth through acquisitions



The Swedish electricity market – how it works.

In Sweden, all electricity consumers are free to choose their electricity supplier, but the actual transmission of electricity takes place via the distribution network operator that owns the network where the customer lives or does business. This means that all electricity consumers are customers of two companies in the electricity market – an electricity supplier that buys the electricity and a distribution network operator that distributes the electricity to the home or place of business.



Ellevio owns, runs and develops regional and local networks in Sweden – on the west coast, in mid-Sweden and the Stockholm region and is thus responsible for transmitting electricity to consumers in these areas. A reliable, well-maintained network that also meets the new conditions for the future electricity market is essential to ensuring stable transmission.

Revenue regulation

A distribution network is a so called natural monopoly and the distribution operators are regulated and supervised by the government agency the Swedish Energy Markets Inspectorate (Ei). The reason that there is a monopoly is that it is very expensive to build and maintain electricity networks, and it would not be economically feasible to build parallel networks.

The regulation should ensure that the networks are of good quality and reliability to avoid outages. It therefore gives the network companies coverage for reasonable costs for running the operations, and a reasonable return for the ones investing in and developing the networks. According to the Electricity Act, the prices that customers pay should be fair, objective and non-discriminatory.

Three types of networks

In Sweden, we have three types of networks: the national grid, regional networks and local networks. The national grid is a transmission network with a voltage of 220,000 V or higher. Regional and local networks are distribution networks with lower voltage levels. The electricity that comes out of wall sockets at home is normally 230 V.

The national grid can be likened to a motorway where large quantities of electricity can be transported across long distances. The regional networks can be likened to main roads where the electricity is transported to cities, urban areas and larger industries. The local networks – which can be likened to city streets – then distribute the electricity to the consumer's home or place of business.

Sweden's national grid is managed and developed by a state-owned enterprise, Svenska Kraftnät, which is also responsible for the entire Swedish power system. Local and regional networks are owned and operated by more than 160 distribution network operators. The three biggest distribution network operators, Ellevio, E.ON and Vattenfall, supply electricity to more than half of all electricity consumers in Sweden. Many distribution network operators are owned by municipalities.

Production – increasingly local and renewable

Electricity can be produced for example as hydroelectric power, nuclear power, wind power, bio power, coal power, gas power, wave power and solar power. In Sweden, more than 80 percent of electricity production is hydroelectric and nuclear. The biggest electricity producers in Sweden are Vattenfall, Uniper, Fortum, Statkraft and Skellefteå Kraft.

A major change is currently underway in electricity production in that an increased proportion of the electricity produced is renewable – solar and wind power. Electricity is also produced locally to an increasing extent. In some cases, consumers are also electricity producers (known as prosumers), since they have connected systems such as solar panels or small wind turbines to the network, where they can feed in their surplus electricity to the grid.

Distribution – new demands on the network

The new production places new demands on the electricity network, that needs to become more flexible and transport electricity to and from customers. On some days and at some times, the network needs to receive locally produced surplus electricity. On other days it needs to distribute supplemental electricity from power stations far away. Sun and wind are examples of weather-dependent energy sources that do not enable production planning. The power networks must be able to manage an irregular inflow from these sources, where rapid fluctuations in electricity production must be manageable. The electrification of the transport sector will also have an impact, and capacity is needed for charging infrastructure for example for public transports in the cities.

Electricity trading – a free market

Electricity trading means that electricity producers sell power to electricity suppliers, which in turn sell it on to consumers. In most cases, trading takes place over the power exchange. The Nordic power exchange is called Nord Pool. While electricity transmission is a regulated monopoly market, trading takes place in open competition. There are about one hundred Swedish electricity traders. The biggest are Vattenfall, E.ON, Fortum, DinEl and Bixia.

Cooperation across borders

The electricity market is also affected by the power systems in neighbouring countries. It is often said that the electricity market is currently Nordic and is becoming increasingly European as more international transmission links are built. At present, Sweden has 17 transmission links to Norway, Finland, Denmark, Poland, Germany and Lithuania. Additional transmission links are in planning.

1980s

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

2010s

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

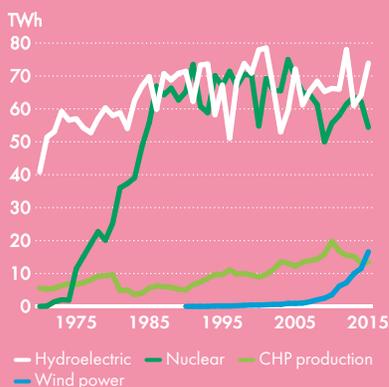
2040s

The Energy Commission has proposed that 100 percent of Swedish electricity production be renewable by 2040. In the future, production will also be both large-scale and small-scale, and the electricity system will be able to handle electricity in both directions. The digitalisation and electrification of society at large, and the transport sector in particular, will increase demands on the electricity system.

100 percent

The goal is to have 100 percent renewable electricity production and a robust electricity system with a high degree of reliability, a low environmental impact and electricity at competitive prices. The electricity network of the future must be able to meet these goals.

Sweden's electricity production per source



Extensive modernisation to meet future needs.

Energy policy objectives and a number of social trends indicate that the operation and maintenance of today's networks are inadequate to guarantee future needs.

Political context

Striking a balance between reliability, the environment and competitiveness.

By means of common targets in the climate and energy area, the EU aims to indicate the direction of future global climate partnership and ensure the completion of the internal market in the energy sector. Climate efforts are based on agreements within the UN – Agenda 2030, the global sustainable development goals adopted in September 2015. In the autumn of 2016, the European Commission presented an extensive new reform package entitled “Clean Energy for all,” including proposals on renewable energy, energy efficiency and the Union’s internal market. The proposals aim to address the current transition under way in the European energy system by offering a more modern and flexible energy market, fair terms for consumers, smart cities and a working energy union.

A key element of the proposal is making it easier for citizens to actively participate in the energy market, in part by offering information on electricity consumption, the ability to buy and sell electricity, energy storage and demand-side management. Market integration is key in terms of improving the energy union and in 2021–2030, the focus will be on linking countries’ energy systems to strengthen and streamline the system. The advancement of the Energy union and the EU’s overall pursuits are at somewhat of a crossroads in 2017 in the wake of Brexit and the forthcoming parliamentary elections in the Netherlands, France, Germany, and the possibility of a new election in Italy, the outcome of which is uncertain.

Swedish energy policies are to be based on the same three cornerstones as the energy partnership in the EU, namely merging ecological sustainability, competitiveness and security of supply. Sweden is on the forefront of climate-effort developments, in part because our natural resources already provide us with a high share of hydropower and wind power, but

also because of an efficient market system prompting timely political decisions, such as the installation of smart electricity meters. In 2015, the Government appointed the Commission on Energy to draft a basis for the long-term direction of Swedish energy policy, with focus on 2025 and forward. The work builds further upon the National Objectives for Transition of the Energy System adopted by the Riksdag in 2009. The Commission on Energy submitted its Mobilising for the future of energy report in January 2017, with proposals including:

- 100 percent renewable electricity production by 2040 (though without a final date for the end of nuclear power).
- 50 percent more efficient energy usage in 2030 than in 2005.
- The Swedish Energy Agency has been commissioned, along with various industries, to draft sector-based energy efficiency enhancement strategies.
- The vision of Sweden becoming a net exporter of electricity, meaning that demand for the domestic market should be covered and that we should aim to export surplus energy.

Sweden must have a robust electricity system featuring a high level of reliability, limited environmental impact and offer electricity at competitive prices. This provides all those involved with a long-term horizon and clarity, and helps create new jobs and investments in Sweden. The energy policies are also based on Sweden being closely associated with its neighbours, thus making joint solutions to challenges important.

While the Energy Compact is a historical political agreement, a great deal remains to be addressed, including reliability targets and how to handle the output balance. An array of investigations and bills will be introduced in 2017 as part of efforts to initiate the implementation of the Energy Compact.



Customers and society

Increasing volumes of locally produced renewable electricity

Until now, the production of electricity largely followed demand for electricity, but as renewable electricity becomes more common, this will change in the future. Electricity consumption will to some extent need to be adapted to the volume of electricity that can be produced, because access to weather-dependent electricity, such as wind power and solar power, is more difficult to predict and control. More unpredictable electricity production also implies new requirements for network versatility.

The network must also be adapted to electricity that to a greater extent is locally produced and sometimes produced by the consumers themselves using systems like solar panels or wind turbines. At present, there are relatively few consumers who are also producers (known as prosumers), but they are expected to increase, in part because subsidies and falling prices for solar panels make producing your own electricity attractive. The number of prosumers in Ellevio's network increased by 49 percent in 2016 to a total of 1,012.

Since locally produced electricity is becoming more commonplace, the power system has to be able to manage the electricity in both directions, for example. It has to be just as simple for consumers to feed electricity into the network as it is to receive electricity on days when self-produced electricity is insufficient. The network will be part of the sharing economy, which means that people share resources when they are not using them themselves.

An urbanised, digitalised society

How we use electricity is also changing. Society is becoming increasingly urbanised, digitalised, electrified and dependent on a constant power supply.

These days electricity is essential to everything from the daily tasks at home, at work, in many leisure activities and contacts with friends and family, to life-saving public services. The digitised society is placing very high demands on reliability, everywhere in the country, and the electricity network must be modern, flexible, and smart, to meet these needs. With smart grids the energy system and electricity usage can be managed in a more efficient way, by the customers themselves, or automated. Smart grids also makes it possible for faults to be identified, isolated, and even rectified before there is a power cut. The so called

redundancy in the networks also needs to be larger, meaning the network is increasingly built using alternative connections. If a fault occurs in one location in the network, it must be possible for the electricity to be reconnected and rerouted so that as few customers as possible are affected by the outage.

The urbanisation trend continues. For example, in 2030 Stockholm is expected to have 2.6 million inhabitants. This puts new demands on capacity and load in the cities. The electricity networks need to be enlarged and renewed to enable new residential areas, kindergartens, schools, public transportation, offices, shops. A greater cooperation between the electricity network and CHP production can become a way to meet a city's power demands.

The electrification of the transport sector is one of the most important trends for the network of the future. The electrification has begun with passenger cars, mostly in metropolitan areas, and there were nearly 28,000 electric cars in Sweden in 2016. Electric buses are being used at a smaller scale mainly in public transportation, while the electrification of road transports and harbours are still at an early stage. Charging infrastructure is being built, however a question is whether it is sufficiently and quickly enough. Electrically powered vehicles present both an opportunity and a challenge for the network – they will lead to increased load and a need for more capacity in the long term, but brings at the same time a storage possibility that in the future could balance electricity usage.

The energy industry

Investments are affecting industry players

The Swedish market for electricity distribution is fragmented, with over 160 companies that have a natural monopoly in their respective network areas. The number of companies is unique in a European perspective. Many of the companies are small and limited to, individual municipalities or cities. We believe that large needs for investments to maintain reliability and develop the network to meet future demand as well as tougher demands for efficiency may contribute to a change. As such, it is often advantageous to consolidate local electricity networks into larger units. We believe that this type of consolidation of the electricity network market may be about to gain momentum.

The contractor market must also be developed to correspond to increased investment levels. Contracts awarded by players like Ellevio will be more numer-

Investing for a reliable electricity network today, tomorrow and fifty years from now.

Ellevio is responsible for infrastructure with a critical social purpose. The Swedish power grid is one of the most reliable in the world. But major investments are required to maintain reliability of supply longterm, and transform the power system for future needs.

Investing for a sustainable electricity network

All the infrastructure that keeps our society and our lifestyles going has to be managed, maintained and revitalised. That applies to roads and railways, telecommunications networks, water and sewer lines and electricity networks, to mention only a few of the systems upon which we all depend. Anyone who has ever been stuck on a train due to service disruptions or in a miles-long tailback caused by under-dimensioned roads understands the potential consequences of an inadequate planning horizon or postponed or cancelled investments.

In autumn 2015, we launched the biggest investment programme in the history of our company. Ellevio will be investing almost SEK 10 billion between 2016 and 2019 to modernise and strengthen the networks, and thereby laying the ground for the network of the future.

These improvements include renewal and continuing weather-proofing in rural areas, a task that we embarked on after Storm Gudrun twelve years ago and which is now being deployed at a significantly faster pace, as well as the work to renew and increase capacity in the growing city of Stockholm. Improvements to be able to connect more renewable electricity is another important investment area going forward. During 2016, we connected four new wind parks to our network: Sättravallen and Långmarken in Kristinehamn, Sörby in Ljusdal, and Iglasjön in Kungs-

backa. Our goal is that our customers should receive an uninterrupted supply of electricity – now and in the future, and that our network should support the developments in the society. Investing for a reliable network is one of our most important tasks.

Our investments are allocated among all areas. The approximate figures are: SEK 1.6 billion in Dalarna-Södra Norrland, SEK 2 billion in Västra Svealand-Västergötaland, SEK 1.3 billion on the west coast and SEK 5 billion in Stockholm.

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

Focus on customer satisfaction

Satisfied customers who have confidence in Ellevio are indispensable. We want to be perceived as reliable, fair, engaged, and development oriented. Because our customers cannot vote with their feet, we simply must do everything we can to meet their needs and expectations.

A reliable electricity distribution is of course our most important service to our customers, and we succeed with this 99.98 percent of the time. However, it can be difficult to appreciate the electricity that is always delivered. Nowadays, electricity is some-

thing we think about only when it is not there, a bit like running water. We need to find opportunities for an increased dialogue with our customers to be able to convey the benefits of our service and the innovation that takes place in our industry. We are also involved in industry initiatives aimed at fostering greater understanding of the importance of our sector and electricity in the sustainable society.

High level of service and digital services

Clear and accurate information, rapid fault repair and digital services are important aspects of customer confidence in Ellevio. Digital services and self-service are standard these days and something that customers expect. Ellevio uses digital channels to offer customers the opportunity to self-manage services such as moving notifications, requests for compensation, notifications of change of address and account selections. As part of the separation from Fortum, Ellevio established a new digital services platform in 2016. We will be further streamlining, improving and developing the services in 2017.

Naturally, digital channels cannot replace all personal interaction. The customer service we offer via telephone and email remains very important and our experienced, service-oriented customer service staff receive continuous training in customer service and technical issues.

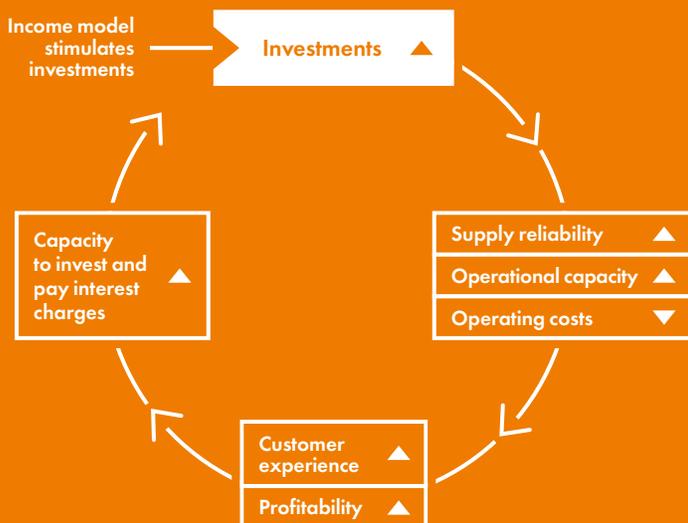
Uninterrupted electricity supply, today and tomorrow

Reducing power cuts and ensuring rapid fault repair is a more long-term process. This is where large investments and other actions come into play. By modernising and future-proofing the network we are eliminating many of the reasons that faults and cuts occur and minimising them if they occur. It is still important to remember that we already have the most reliable grid in the world, right here in Sweden. For us, the number one challenge is to maintain that level going forward.

Sometimes we also have to take decisions about which faults to deal with first, without forgetting the requirement to treat all customers equally. Our operational system shows us what types of customers are affected by a power cut. When there are major disruptions to power supply, after a winter storm, for example, this allows us to prioritise a year-round residential neighbourhood or industrial estate ahead of an area of holiday homes that is mainly unoccupied at that time of year.

Providing information during power cuts is important to our customers and is something we have been actively working on for many years. During power cuts we communicate via our text message service for power cuts – to which about 450,000 of our customers currently subscribe – as well as through mass media, social media and our customer service department. Customer surveys have shown that accurate and up-to-date information substantially alleviates the negative experience of a power cut.

Longevity and stability in the power network.



Värmland

- About 105,000 customers

Initiatives

- Continue weather-proofing low and medium voltage networks and replacing parts of the regional network.
- Modernising and replacing major stations that serve as key hubs in the electricity network, in locations including Kil, Grums and Skattkärr.
- New technology being installed that enables operational staff to operate and control the network remotely.
- We are jointly laying fibre in partnership with local and municipal fibre operators wherever possible.
- Examples of locations being equipped with a modern, weather-proof electricity network include Sunne, Kil, Torsby, Forshaga, Charlottenberg, and Syslebäck among many others.

Skaraborg-Närke

- About 28,000 customers

Initiatives

- Modernising and replacing major stations that serve as key hubs in the electricity network, in locations including Hova, Hjälstad, Svartå, Käckestad and Kulläsen.
- Continued expansion to be able to receive more wind power. During the year, we connected a wind farm in Lyrestad, between Mariestad and Töreboda, whose entire annual production of 234 gigawatt hours will be purchased by Google.
- Examples of locations being equipped with a modern, weather-proof electricity network include Laxå, Mariestad, Skövde and Karlsborg.

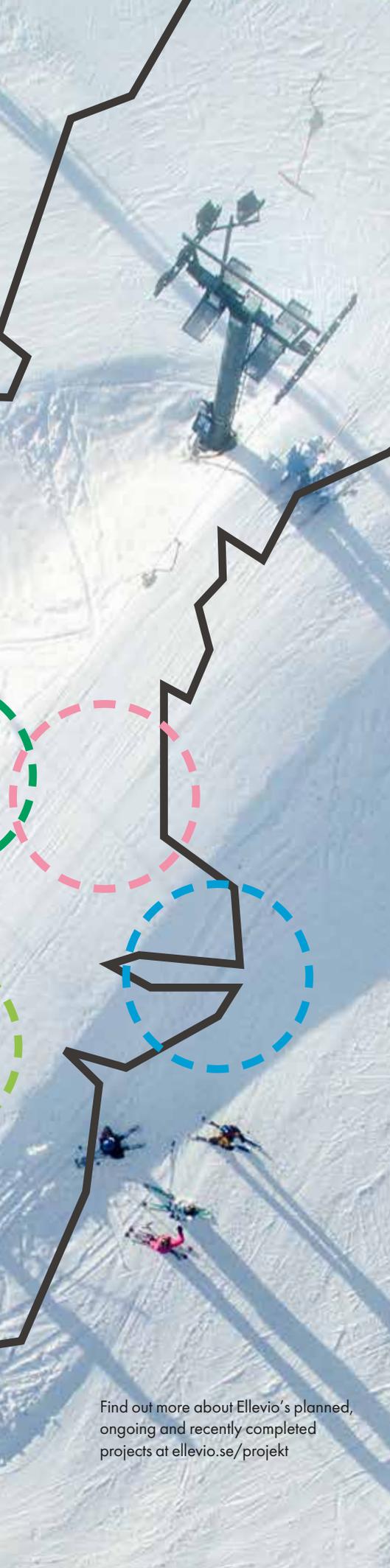
West Coast (Halland, Bohuslän)

- About 123,000 customers

Initiatives

- Replacing uninsulated low and medium voltage networks with cables in ground.
- Replacing pole transformers and network stations with new network stations.
- Modernising and replacing major stations that serve as key hubs in the electricity network – in 2016 in locations including Rantorp (Lindome) and Väröbacka.
- The wave farm outside Lysekil began delivering electricity to the electricity network.
- We are jointly laying fibre in partnership with local and municipal fibre operators wherever possible.
- Examples of locations that were equipped with a new, future-proof electricity network in 2016 or in which projects are under way include Munkedal, Sättila, Varberg, Askim, Hovås, Billdal and the southern archipelago of Gothenburg.

Ellevio is currently involved in its largest electricity network initiative ever. Until 2019, the company is investing nearly SEK 10 billion in modernising the network.



Find out more about Ellevio's planned, ongoing and recently completed projects at ellevio.se/projekt

Dalarna

- About 34,000 customers

Initiatives

- Continue weather-proofing low and medium voltage networks by replacing overhead lines with cables in the ground. Locations that are being equipped with an improved electricity network include Älvdalen, Orsa, Hansjö, Lövnäs-Särnstugan, and Gesunda among many others.
- Modernising and replacing major stations that serve as key hubs in the electricity network, in locations including Massarabäck, Mora, Falun, Borlänge, Näs, Äppelbo, Dala-Järna and Dala-Floda.
- We have also connected a new mobile mast at an elevation of 1,100 metres in Lake Grövel in Dalarna.
- New technology being installed that enables operational staff to operate and control the network remotely.
- Jointly laying fibre in partnership with local and municipal fibre operators wherever possible.

Gävleborg (Hälsingland, Gästrikland)

- About 68,000 customers

Initiatives

- Continue weather-proofing low and medium voltage networks by replacing overhead lines with cables in the ground. Locations that are being equipped with an improved electricity network include Arbrå, Enånger, Rengsjö, Norrala, Järvsö and Färila.
- Modernising and replacing major stations that serve as key hubs in the electricity network, in locations including Edeforsen, Norränge, Näsvisken, Stene (Järvsö) and Sunnansjö (Delsbo).
- New technology being installed that enables operational staff to operate and control the network remotely.
- Jointly laying fibre in partnership with local and municipal fibre operators wherever possible.
- Expanding the electricity network to be able to connect more wind power. In 2016, we connected Sörby in the province of Hälsingland, which will have an annual production equivalent to about 76,000 households. We have also connected Högkolen, whose annual production is equivalent to the annual household electricity consumption of about 48,800 Swedish households.

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

- About 560,000 customers

Initiatives

- Modernising and reinforcing capacity in numerous locations throughout Stockholm, including Hägersten and Bromma, the construction around the new Slussen area, and in many inner-city locations including a major upgrade of the electricity network for the Södersjukhuset hospital.
- Reconstructing many of the major stations in the region, including Ulvsunda, Örby, Västberga, Högdalen, Bredäng and Sättra.
- Modernising or replacing several hundred network stations.
- Under the Stockholms Ström (Stockholm's Electricity) project, Ellevio is collaborating with Svenska Kraftnät and Vattenfall and rebuilding major sections of the regional network that supplies Stockholm with electricity. These efforts include a 220 kV powerline between Danderyd and Älkistan in tunnels, in the ground and as a submarine cable, and the powerline between Beckomberga and Bredäng.

We create value for our stakeholders.

We at Ellevio have a vital public task that affects millions of people every day. This requires sustainable actions, also when it comes to finances.

Our business generates value for many stakeholders

Electricity distribution is a fundamental public service. Without it, Sweden would grind to a halt. We at Ellevio have a vital public task that affects millions of people every day.

We provide a reliable service and serve our customers well. Our contractors and suppliers are paid for their efforts, employees earn a good living, the owners receive a return on their investments and we pay taxes¹⁾ to support the common good.

A large portion of our resources is being invested in developing a sustainable electricity network. We have more than 400 direct employees and by engaging contractors and suppliers for our electricity network projects, we are creating revenues and jobs in their operations as well. At present, we indirectly provide employment for about 3,000 people a year, in total.

Our owners have a long-term perspective that is clearly aligned with the long-term investment horizon required in the distribution network business. We are embarking on a period of comprehensive projects

and the new owners are making possible the investments necessary for us to continue offering our customers a reliable electricity network.

2016 in figures

The major investment programme initiated in 2015 and intended to secure a reliable electrical infrastructure in Sweden for today's and tomorrow's customers continued during 2016. The investments in the power grid rose by 22 percent to SEK 2,076 million (1,706). Sales totalled SEK 6,537 million (6,014) and operating profit SEK 1,929 million (1,675).

During the year, Ellevio welcomed approximately 6,000 new customers, and by the end of the year, had approximately 918,000 customers. It is primarily Ellevio's network area in Stockholm that has seen major growth and where many new housing units are being built.

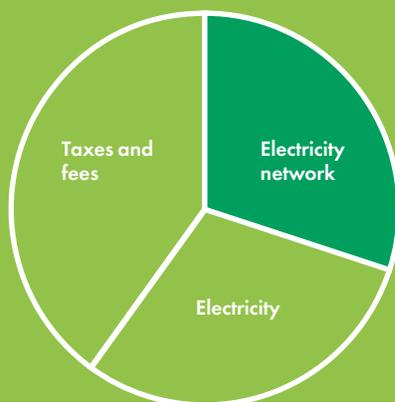
Salaries and other benefits to employees including pension costs amounted to SEK 281 million. Based on the result for the year we will pay SEK 315 million in tax¹⁾. During the year we paid SEK 1 billion in returns to our shareholders. Since our owners are pension

The customer's electricity invoice comprises three components:

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

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

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



funds, our returns create long-term value to society. In addition, we paid suppliers, contractors and lenders.

! **Read more** about Ellevio's profit and financial position in the company's statutory annual report for 2016.

Revenue regulation sets our allowed revenue

Ellevio's operations are fully regulated and supervised by the Swedish Energy Markets Inspectorate (Ei). Ei reviews our costs and on that basis decides our revenue frame: in simple terms, how much we are allowed to charge our customers. These limits are known as revenue frames and the levels are determined in advance for four years at a time in an ex ante regulation process. Our revenues are meant to cover reasonable costs for operating the business and provide a reasonable return. The same regulations and method of calculating the revenue framework apply to all Swedish distribution network operators, regardless of who owns the business or how operations are financed. No distribution network operator can charge its customers more than the revenue regulation permits. The regulation thus provides peace of mind to electricity customers.

Under the current regulation, revenue frames are divided into geographical areas and all customers in an area share the costs of that specific area. The costs of a rural electricity network area are shared by only a few customers, while the costs of an urban network are shared by a much more numerous customer base.

The network company's revenues

The allowed revenues decided on by the Ei serve as the basis in determining what customers have to pay for electricity distribution. The allowed revenues comprise four components: compensation for capital

costs, controllable costs, non-controllable costs and a quality incentive

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

Non-controllable costs are costs that we cannot affect and which instead pass "straight through" our operations. This refers mainly to costs for "neighbouring grids", which are the grids that transmit the electricity from the production site to our electricity network, such as the national grid owner Svenska Kraftnät, and costs for purchasing electricity that is lost in transmission ("grid losses"). Non-controllable costs also include public authority fees that electricity network companies are required to charge customers.

Controllable costs are costs that we can affect: the costs of maintenance, customer service, network monitoring, etc. These costs are subject to efficiency requirements. These require us to incrementally improve efficiency each year. If we are less efficient than the industry average, we are penalised with a reduction of the allowed revenue.

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

¹⁾ Tax refers to all the company's taxes in the form of income tax, property tax, social security contributions and special payroll tax on pension costs.

The network component consists in turn of several parts

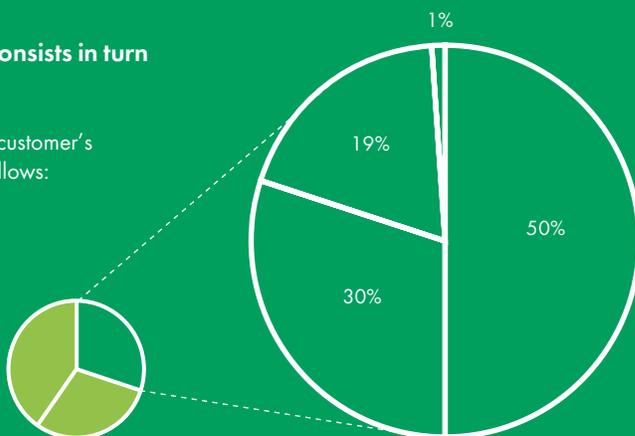
The network component on the customer's electricity bill is distributed as follows:

Capital costs, 50%

Non-controllable costs, 30%

Controllable costs, 19%

Quality incentive, 1%





Norra Djurgårdsstaden – a unique research programme.

Ellevio is advancing the development of smart electricity networks in Norra Djurgårdsstaden, a sustainable new district in Stockholm. Under the Smart Energy City research programme, along with other leading Nordic companies and with the backing of the Swedish Energy Agency and the Royal Institute of Technology, Ellevio is partnering in the development of new solutions for smart electricity networks, smart homes and smart cities. To ensure the development of smart electricity networks, the focus is on testing and evaluating new technologies, architecture for smart grids, remote monitoring and control, presentation and visualisation, etc.

In Norra Djurgårdsstaden, we have also been given the opportunity to demonstrate that buildings featuring technological infrastructure do not necessarily have to be drab, anonymous structures that we prefer to keep out of sight. The technology house in Norra Djurgårdsstaden was nominated for two architectural awards in 2015 and we won a gold medal at the American Architecture Prize Awards 2016.

Sustainability – we contribute to a sustainable electricity system and society.

Sustainability is always a prime concern at Ellevio, in terms of our contribution to the transition to a sustainable energy system, where we are facilitating novel solutions and innovations and in terms of our day-to-day operations: the health and safety for employees, suppliers and consumers must never be endangered.

Opportunities and responsibilities

Building on our financial, social and environmental responsibilities, Ellevio intends to make the most of our opportunities and manage the challenges of our business. Sustainable investments in our electricity networks are the foundation of our business. Along with the continuous streamlining of operations, investments generate value for investors, customers, employees and society. Ellevio currently supplies electricity with 99.98 percent reliability. In 2016, we invested SEK 2.1 billion in maintaining and further improving reliability. A reliable electricity network helps ensure good quality of life for our customers, strengthens the

national economy and is crucial for maintaining vital social functions and innovative capacity.

The goal of environmental management at Ellevio is to reduce our impact on the climate and conserve natural resources. We are also playing an important role in the transition to a sustainable energy system by providing for renewable electricity generation, locally produced electricity and more efficient use of electricity. And, in the long term, new applications for electricity in connection with the increasing electrification of the transport sector, for example.

Maintaining and investing in electricity networks requires a long-term approach. Accordingly, Ellevio



One of our most important contributions to a sustainable society is a reliable supply of electricity. We currently provide customers and society with electricity at a 99.98 percent reliability rate.

99.98 %

must engage in active dialogue and foster effective cooperation with partners, customers, government agencies and other stakeholders to further the development of a sustainable energy system.

Safety

Ellevio is committed to being a safe and attractive employer. The health and safety of the people who work for us is our top priority and we have a zero vision in relation to accidents. Naturally, our work in this area also covers suppliers and contractors. Development of a long-term programme began in 2016, which will provide a detailed and structured map of Ellevio's safety road towards the zero vision, and it has been introduced in the beginning of 2017. The programme extends over a long period and aims at systematically improving processes and ways of working, as well as changing safety behaviours and become even more proactive in our work to reach the zero vision.

Ellevio engages contractors for network maintenance and infrastructure projects and works in long-term relationships with established firms. The contractors we engage must not only be experts in their fields, they must also be trained in health and safety procedures and knowledgeable about safe workplace requirements. But even with rigorous standards and continuous monitoring, accidents with serious consequences can nevertheless occur. Two employees of one of our contractors were killed in 2016. The accident is being investigated by the Swedish Police, the Work Environment Authority and the National Electrical Safety Board according to established procedures.

Ellevio invests substantial resources in preventing accidents through training and monitoring. In the ongoing monitoring process, safety procedures are audited and any shortcomings are notified and immediately rectified. This effort was further intensified in 2016, with the goal of carrying out 300 unannounced audits (unannounced site visits to ensure compliance with Ellevio's requirements for project activities in the areas of quality and health, safety and

environment). These audits are an important tool for analysing potential areas of improvement in our operations. We aim to be proactive and foster a culture in which no accidents or incidents occur. Nine areas are evaluated in the audits: Planning & Organisation, Training & Competence, Supervision & Intervention, Behaviour & Working Methods, Tool & Equipment Safety, Orderliness & Waste Management, Work Quality & Prudence, Safety Faults & Shortcomings and Reporting. Our presence out in the workplaces is important. We believe continuous dialogue concerning the requirements and clarification of these building blocks and why they are key to enhancing the health and safety culture is the right road ahead.

Systematics and good governance

In accordance with the Sustainability Plan adopted in 2015, Ellevio has a Sustainability Policy and a Code of Conduct that reflect the ten principles of the UN Global Compact (UNGC). These are also based on analysis of the expectations of internal and external stakeholders. External stakeholders involved in the dialogue include government agencies, contractors and industry representatives. The Sustainability Policy and the Code of Conduct have both been adopted by the board of directors. Ellevio's executive management decided in 2016 to apply for UNGC membership. The application will be submitted during the second quarter of 2017.

Ellevio has been complying with the ISO 14001 environmental management system standard for some time and was certified as an independent company in 2015. The current ISO standard (14001:05) expired at year-end 2016. Ellevio will be certified in 2017 according to the updated version (14001:15), which imposes more stringent standards for environmental performance. New key performance indicators will be drafted that more clearly reflect our performance.

Read more: Ellevio's Sustainability Policy and Code of Conduct are available on our website: www.ellevio.se.



Objectives and results

Ellevio is continuing to develop its sustainability efforts and is defining measurements to ensure results-oriented management with clear avenues for follow-up and transparent reporting. At present, there are five corporate sustainability objectives that reflect the relevant aspects of Ellevio's work. These are described below as well as the outcomes for 2016.

- Employee accidents (TRIF¹): 0
- Contractor accidents (LWIF²): 3.5
- Health, safety and environmental audits³: 183 (unannounced audits)
- Sustainability review of proposed investments⁴: 0 seen to the working method that Ellevio has decided to use
- Monitoring of compliance with the Code of Conduct through audits⁵: 9

Clearer sustainability requirements for suppliers

Only suppliers that meet a number of criteria in relation to environmental and working conditions are eligible to become suppliers to Ellevio. We also perform quality audits and sustainability audits at suppliers. One or more areas for improvement were identified in all audits and suppliers were requested to confirm that improvement measures have been implemented. In 2016, Ellevio visited three suppliers and six contractors, which are also covered by these requirements. In 2016, Ellevio further reinforced its monitoring procedures for suppliers and contractors in order to clarify expectations and sustainability requirements.

¹ TRIF, Total Reportable Incidents Frequency: The number of accidents per one million hours worked by Ellevio's employees. Includes accidents that have resulted in absence from work of more than one day, the need for restricted work, or medical treatment.

² LWIF, Lost Workday Injury Frequency: The number of lost workdays per one million hours worked as a result of personal injuries at Ellevio's contractors.

³ Number of unannounced health, safety and environmental audits of Ellevio's projects.

⁴ Proportion (%) of network investment proposals reviewed in relation to sustainability according to company guidelines.

⁵ Number of on-site audits of suppliers and contractors to ensure compliance with Ellevio's Code of Conduct.

Sustainability assessments of investments and new projects

There are several sustainability aspects that must be considered for large infrastructure projects and investments in the network, such as choice of materials, construction method and whether the planned location involves any environmental or human impact. Ellevio intends to raise its ambitions with regard to sustainability in all contracts it awards. All larger projects are thus required to have a sustainability plan that includes a description of systematic sustainability management, objectives and improvements, as well as risk management.

The contractor must present a contract-specific sustainability plan with regard to the work environment, natural environment, health and safety and quality delivered to the client. This is a general document that illustrates how the contractor will work in a sustainable manner throughout the term of the contract. At minimum, the sustainability plan must include:

- Project/contract organisation including sub-contractors, roles and responsibilities, which assures the necessary sustainability skills.
- Risk management for the project.
- Instructions for systematic sustainability management to be applied in the contract.
- A description of the operational development system ("Continuous Improvements"), as well as a plan for monitoring, inspection and compliance.
- Assurance of compliance with relevant legal requirements, local/municipal environmental requirements, requirements issued by county administrative boards, etc.
- Sustainability targets, activities, measurement and reporting of results.
- Description of non-conformance management system that explains how non-conformances are followed up and reported and how process quality is assured in day-to-day operations.



A culture shaped by reliability, commitment and development.

Ellevio is a relatively new brand. This means that we prioritise efforts to increase awareness of and knowledge about the company externally, and to implement our values internally.

Ellevio's business is operated in a monopoly position, which is a profound responsibility for the entire organisation. It is particularly important that we live up to the expectations of our customers and other stakeholders and earn their trust. Our values - Reliability, Commitment and Development - must serve as guiding principles for every employee and permeate everything we do.

Activities were ongoing in 2016 to establish support for the values among all employees through discussions at the group and individual level about the inherent meaning of Ellevio's values. The aim is for all employees to thoroughly understand the implications of the values for each of them in the context of their day-to-day work and to keep the values strong and vibrant in the organisation.

Our actions are also governed by our Code of Conduct, which was drafted in 2015 after Ellevio became an independent company. The Code of

Conduct is available on the company's intranet and workshops were held in 2016 to spread knowledge about the Code and foster support for its contents.

Employee surveys as a steering mechanism

Twice a year, Ellevio carries out an employee survey that measures factors including the level of employee engagement. The survey is underpinned by the Employee Engagement Index, which is based on four questions relating to job satisfaction, pride, job-seeking and recommendation. The results show a positive trend and the score in 2016 was 72, up from 69 the year before. We consider this a good, high level that we hope to maintain over the long term.

Team development plans that include improvement activities and goals are drawn up on the basis of these results. All managers also participate in "leadership days" every year, at which they improve

Values.

We have three values that describe how we must act when carrying out our mission: Reliability, Commitment and Development.



Reliability – above all, you should be able to rely on our electricity network and the people who work here. We are here when you need us and we have the technology and the skills necessary to supply electricity to your home.



Commitment – we care about and listen to our customers and our stakeholders. We demonstrate initiative and act in a sustainable manner.



Development – we innovate in areas large and small, we constantly develop and improve ourselves and we welcome feedback. We seek out new knowledge, we share what we know, and we build our electricity networks so that they meet the energy needs of the future.

their leadership skills in ways including sharing how they are achieving team development, the team's collective ability and the individual's personal responsibility.

Internal communication and openness

Activities in our internal communication channels such as the intranet, knowledge seminars, and information meetings help spread knowledge about the company, our strategy, objectives and values and foster an open culture.

Active internal communication makes our employees aware of what is happening, both at the company and in the industry, which encourages participation and commitment and gives Ellevio's people the tools they need to do a good job.

Development for individuals and teams

All Ellevio employees have annual pay and performance reviews with their managers. In the beginning of the year the previous year's targets are followed up and new ones for the current year are set. During the summer, a meeting is held with focus on opportunities for individual development.

In order to provide clear expectations at all levels of the company, we break down the company's overall objectives into goals for each team. Managers have a range of tools at their disposal for working on team development, including job rotation, skills development and feedback to enhance cooperation and promote development.

Attracting and retaining employees

Ellevio is a relatively new brand. Accordingly, we are currently prioritising efforts to increase awareness of the company. In order to attract new employees, we are strengthening our employer brand through actions including partnerships with universities. Offering summer jobs to students is another way of spreading awareness of Ellevio and we hired 25 summer workers in 2016. Ellevio also offers work experience placements and opportunities for students to do their thesis projects at the company. We are also helping spread knowledge about Ellevio and our industry through involvement in industry initiatives and an active social media presence.

Integration and diversity

The electricity industry is male-dominated and the majority of Ellevio's employees are still men. The executive management team, however, comprises six women and five men, which is unusual for our industry. We are working in various ways to gradually achieve more equal gender distribution. Over the next few years, it will also become more important to compensate for high rates of retirement-related attrition. We are assiduously examining opportunities to recruit employees with foreign education and degrees. In order to gain access to the entire labour market and attract employees of diverse background, age, education and other experience, we will be intensifying our efforts to achieve diversity in 2017.





Stockholm new centre for sustainable next-generation data parks.

Stockholm Data Parks was announced in 2016 and launched in January 2017, a partnership between Ellevio, the City of Stockholm, Fortum Värme, Stokab and Stockholm Business Region. The aim is to attract large-scale data-park investments and make Stockholm the future centre for a sustainable data-park sector, where the surplus heat from parks is recycled in the district heating network.

When Stockholm Data Parks is completed, the heat recycling from the data parks will account for a substantial addition of heat to Stockholm and thus serve as a key contributor to the city's aim to be completely fossil-free by 2040 at the latest.

Until 2026, the Stockholm Data Parks partnership will enable the construction of data parks with a total gross area of about 300,000 square metres in the Stockholm region.



The Board and the CEO of Ellevio AB (publ) hereby present their annual report for the 2016 financial year. This document is a translation of the original, published in Swedish. In case of any discrepancies between the Swedish and English versions, or in any other context, the Swedish original shall have precedence.

Annual Report 2016.

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Directors' Report.

Business operations

Ellevio AB (publ) is one of Sweden's largest network companies. The company ensures that electricity reaches more than 900,000 homes and workplaces, and has decided to invest billions of SEK annually to weatherproof the electricity grid in the countryside and strengthen and renew electricity networks in urban areas. Ellevio works every day to improve the quality of life for its customers and society at large, and to enable the ongoing transition to more sustainable energy sources and a more digitalised society through investments in a long-term sustainable electricity grid. The company conducts electricity network operations in concession areas on the West Coast, in Värmland, Skaraborg, Dalarna, Gävleborg and the Stockholm region. In June 2016, Ellevio AB (publ) became a public company.

Electricity distribution is essential to modern society and an uninterrupted electricity supply is becoming ever more important. Large parts of the Swedish electricity distribution network were built during the 1960s and 70s and are thus becoming outdated and due for replacement. For Ellevio, this meant launching a major investment programme in 2015 totalling nearly SEK 10 billion between 2016 and 2019 to renew the network, increase capacity and weatherproof the networks. The efforts are aimed at maintaining the security of supply that Sweden has today, at 99.98 percent for Ellevio, but also at preparing the networks for the future. A higher share of renewable electricity from large- and small-scale solar and wind power facilities, the continued digitalisation of society, the electrification of the transport network, and new services enabling users to control their electricity consumption impose new requirements on a smarter electricity network – one that is reliable yet also more automated and flexible.

The trend towards more renewable electricity in the electricity system continues, both on a small and larger scale. In 2016, four wind parks were connected to Ellevio's network: Sättravallen and Långmarken in Kristinehamn, Sörby in Ljusdal, and Iglasjön in Kungsbacka. An additional 331 customers started producing their own electricity by installing solar panels, and by year-end Ellevio had just over 1,000 customers who were producing their own electricity.

A new element of Ellevio's strategy is growth by acquisition. On 30 November, the Ellevio Group's Parent Company acquired Nynäshamn Energi AB from Krafringen Group. Nynäshamn Energi is an electricity network company operating 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 provides operational synergies. Nynäshamn is an expansive area and an example of this include the harbour being developed to become a new logistics hub in the growing Stockholm and Lake Mälaren region. In early 2017, Ellevio AB (publ) acquired the company and filed an application with the Swedish Companies Registration Office to merge the company to fully integrate its business operations with Ellevio AB (publ).

Other significant circumstances

Electricity distribution is a natural monopoly and as such a regulated business. This means that Ellevio operates under a regulatory framework, and is supervised by a government agency, the Swedish Energy Markets Inspectorate (Ei). Ei decides how much distribution network operators like Ellevio are allowed to charge its customers. These limits are known as the allowed revenue and the levels are determined in advance for four years at a time. The allowed revenue should cover reasonable costs for running the business and a fair return to the network owners. According to the Swedish Electricity Act, the electricity network fees paid by customers must be fair, objective and non-discriminatory.

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

It is important that the regulatory framework support the developments taking place in society. Now that the industry is entering a period requiring substantial investments in order to renew the electricity network, it is positive that the framework stimulates investments. However, there are certain parameters where the views of the Ei and the industry differ. The most important of these is the cost of capital, where the industry argues that it should be based on a long-term view to reflect the long-term nature of network investments (over 40 years). Inadequate capital compensation can counteract the important objectives of the new regulation, i.e. to secure the renewal of the electricity networks. Unless investments are made on time, there is a risk of the security of supply suffering and of the electricity networks slowing the transformation of the energy system. Consequently, Ellevio and a majority of the network industry appealed Ei's decision on a capital cost of 4.53 percent, arguing instead for a capital cost of 6.3 percent. In December 2016, the Administrative Court decided on a capital cost of 5.85 percent. Ei appealed the decision to the Administrative Court of Appeals, the process remains in progress and a decision is expected in late 2017.

An important issue that Ellevio has been proactively pursuing for years is the ability to harmonise prices between its rural and urban network areas. Today, network prices differ substantially 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 urbanisation trend continues. Ellevio's goal is to eliminate 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 harmonised pricing. 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 Supreme Administrative Court. In early March 2017, the Supreme Administrative Court announced a decision completely in line with that of the Administrative Court. Ellevio is currently awaiting the decision from Ei.

Financial results

In 2016, Ellevio's net sales amounted to SEK 6,537 (6,014) million. The increase in net sales was an effect of colder weather early in the year, which caused an increase in electricity distribution volume, and the price increase that was implemented 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 SEK 1,929 (1,675) million. Compared with 2015, operating profit was impacted by higher depreciation on surplus values from the acquisition of Fortum Distribution AB, since 2015 only included seven months, compared with a full-year for 2016.

Net financial income/expense were SEK 3,298 (1,389) million, of which SEK 1,652 (959) were related to intra-Group interest expenses and SEK 1,647 (431) external interest expenses. 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 transaction cost from the original acquisition financing that was expensed in connection with the re-financing during the year. Profit/loss after financial items amounted to SEK -1,369 (285) million.

Profit/loss for the year was SEK -239 (15,463) million. Last year's profit included appropriations from dissolving of untaxed reserves in the amount of SEK 20,278 million, with a net impact of SEK 15,817 million after tax.

Financial position and cash flow

In 2016, cash flow from operating activities increased by SEK 19 million to SEK 3,463 (3,443) million, mainly due to SEK 670 million in higher EBITDA, SEK 250 million in higher income taxes paid, SEK 406 million less in contributions from changes in working capital. Cash flow from operating activities was negatively impacted by a retroactive tax payment of SEK 154 million from 2015. Changes in working capital in 2016 were 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 an increase in network invest-

ment volumes. In addition, cash flow for 2015 included the acquisition of Ellevio AB in the amount of SEK 57,721 million. Cash flow before financing activities was SEK 1,406 (-55,860) million. Excluding the acquisition of Ellevio AB, 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 was external interest relating to senior debt and SEK 1,604 (552) million was intra-Group interest. Intra-Group interest is related to the junior debt in the amount of SEK 166 (63) million and to shareholder loans in the amount of SEK 1,438 (489) million. The acquisition of Nynäshamn Energi AB was financed by interest on the shareholder loan, totalling SEK 436 million based on the preliminary purchase price. External interest bearing debt increased by SEK 1,211 million to SEK 34,075 (32,864) million. See Note 4 Capital structure for information on the structuring of the company's financing.

Financing

Major investments require access to long-term financing. In 2016, several steps were taken to lay the foundation for Ellevio's future financing. Ellevio established a new financing and security platform, and a sizable share of the initial senior acquisition debt facility was repaid and replaced by more favourable long-term loans in the U.S. and in Sweden.

The new platform will ensure uniform and common terms and conditions for Ellevio's creditors. 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 Euro Medium Term Note Programme (EMTN) of EUR 10 billion were established.

In connection with the establishment of the new financing platform, Ellevio received a "BBB" credit rating for its EMTN programme from Standard & Poor's. As a first step to raise financing using the new platform, Ellevio issued a corporate bond targeting investors in North America. The transaction was completed in October, and generated a total of USD 1,388 million (SEK 11,727 million). In December, Ellevio issued a SEK 1 billion corporate bond under the EMTN programme. The proceeds from the corporate bonds were used to repay part of the initial loan that was secured in conjunction with the acquisition of Fortum Distribution AB.

Financing of the capex programme mainly took the form of drawing on the Revolving Capex Facility raised in 2015, and by year-end 2016, a total of SEK 1,650 (0) million had been drawn from said facility.

Outlook

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

The contribution to the Swedish government's work through the Energy Commission continues. Ellevio is participating in one sub-project under the Royal Swedish Academy of Engineering Sciences' Opting for Electricity report (Vägval el), which examines the impact on future electricity networks.

Work on shaping the Nordic retail market also continues. The goal is to create a market model in which electricity suppliers will be the first contact for customers and take full responsibility for the invoicing. Electricity network companies will continue to be the customer's point of contact for power outages, connections and certain other matters.

In 2016, work began on defining regulations for the third regulatory period from 2020 to 2023. The main direction of the regulation for the next period is expected to be set during the autumn of 2017, and Ellevio intends to continue its dialogue with all relevant parties to contribute to a solid framework.

Investments in the electricity grid continue to increase, from around SEK 2.1 billion in 2016 to around SEK 3 billion in projected annual investments by the end of this regulation period in 2019.

Information on risks and uncertainties

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

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

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

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

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

Employees

In 2016, Ellevio had an average of 412 employees, most of whom were based at the head office in Stockholm and at the office in Karlstad. Since 2011, Ellevio has been operating in accordance with a model in which the management and planning of electricity network projects are performed in-house, while field operations are outsourced to external contractors. The company works actively on staff development, including leadership development, collective team ability and personal leadership skills. In 2016, work commenced on implementing the company's vision and values in the organisation.

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

Ellevio has a zero vision for accidents. Despite high requirements and continuous monitoring of occupational health and safety practices, serious accidents may nonetheless occur with severe consequences. In November 2016, we experienced a fatal accident. Two fitters, employed by a contractor commissioned by Ellevio, who were working on a project in Dalarna in central Sweden came into contact with a live wire and lost their lives. We are deeply regretful that this occurred. In addition to the Swedish authorities following their normal protocol and investigating the accident, Ellevio also conducted an internal investigation and has launched an expanded safety programme to further improve the company's safety practices and those of our contractors.

Environment

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

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

During the year, Ellevio continued the implementation of its new Code of Conduct for employees and its Code of Conduct for suppliers. The company has conducted nine Code of Conduct audits on suppliers. The Code of Conduct is drafted to establish a minimum level with which all of the companies' suppliers are required to comply, and sets forth the basic sustainability requirements required by Ellevio.

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

Group contributions

The company has received SEK 1,486,733,626 in group contributions and given SEK 579,000 in group contributions. Net group contributions amounted to SEK 1,486,154,626.

Proposed allocation of retained earnings (SEK)

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

Retained earnings	6,149,209,407
Profit/loss for the year	-239,253,488
	5,909,955,720

The Board of Directors proposes:

Retained earnings to be carried forward	5,909,955,720
	5,909,955,720

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

Financial overview.

MSEK	2016	2015	2014	2013	2012
Net sales	6,537	6,014	5,870	6,025	5,776
EBITDA	3,946	3,275	3,194	2,933	2,968
Operating profit	1,929	1,675	2,131	2,032	1,768
Profit/loss after net financial income/expense	-1,369	285	2,073	2,343	1,679
Investments ¹⁾	2,076	1,706	1,217	1,048	1,281
Total assets	76,968	75,235	25,534	26,689	25,718
Total equity	5,923	6,163	637	618	200
Solidity	8.5%	8.7%	64.0%	61.0%	59.0%
External net debt	34,075	32,864	-	-	-
Average no. of employees	412	407	378	359	344
Leverage ratio	8.6x	10.6x	-	-	-
Interest cover ratio	4.1x	-	-	-	-

¹⁾ Excluding acquisition through merger 2015.

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 plus depreciation, amortisation and impairments

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 divided by adjusted EBITDA

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

Income statement.

MSEK	Note	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Net sales	5, 6	6,537	6,014
Capitalised own work		70	72
Other operating income	7, 9	67	63
		6,674	6,149
OPERATING EXPENSES			
Costs for purchase and transit of power		-1,089	-1,209
Other external expenses	8, 9	-1,259	-1,310
Employee benefits expense	10, 11	-381	-355
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	12	-2,016	-1,601
Operating profit		1 929	1,675
FINANCIAL INCOME AND EXPENSES			
Interest income and similar items	13	1	0
Interest expense and similar items	14	-3,299	-1,389
Profit/loss after net financial income/expense		-1,369	285
Appropriations	15	1,148	19,834
Profit/loss before tax		-221	20,119
Income tax expense	16	-18	-4,656
PROFIT/LOSS FOR THE YEAR		-239	15,463

Statement of comprehensive income.

MSEK	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
Profit/loss for the year	-239	15,463
Other comprehensive income	-	-
COMPREHENSIVE INCOME FOR THE YEAR	-239	15,463

Balance sheet.

MSEK	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets			
	17		
Goodwill		5,495	5,793
Concessions		39,598	40,000
IT-systems		100	123
Utility easements		141	129
Projects in progress and advance payments		59	35
		45,393	46,081
Property, plant and equipment			
	18, 31		
Buildings and land		870	553
Machinery and other technical plant		25,830	25,698
Equipment, tools and facilities		17	17
Assets under construction		1,680	1,382
		28,398	27,650
Non-current financial assets			
Investments in subsidiaries	19	–	0
Investments in associates	20	0	0
Plan assets	10	0	–
		0	0
Total non-current assets		73,791	73,731
Current assets			
Current receivables			
Trade receivables	21	556	465
Receivables from Group companies	22	1,496	0
Other receivables	23	80	108
Prepaid expenses and accrued income	24	990	809
		3,122	1,382
Cash and cash equivalents	25, 31	55	121
Total current assets		3,177	1,503
TOTAL ASSETS		76,968	75,235

Balance sheet, cont.

MSEK	Note	31 Dec 2016	31 Dec 2015
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital		1	0
Statutory reserve		0	0
Development reserve		13	-
		14	0
Non-restricted equity			
Retained earnings		6,149	-9,301
Profit/loss for the year		-239	15,463
Total equity		5,923	6,163
Untaxed reserves	26	783	444
Provisions			
Deferred tax liability	16	13,961	14,166
Non-current liabilities			
Bond loans	27	19,099	6,546
Liabilities to credit institutions		14,513	25,857
Liabilities to Group companies		20,490	20,427
Derivatives		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	28	37	39
Current tax liabilities		38	179
Other current liabilities	29	251	201
Accrued expenses and deferred income	30	658	527
		1,672	1,597
TOTAL EQUITY AND LIABILITIES		76,968	75,235

Statement of changes in equity.

MSEK	Restricted equity			Non-restricted equity	Total equity
	Share capital ¹⁾	Statutory reserve ¹⁾	Development reserve ²⁾	Retained earnings including profit for the year	
Balance at 1 January 2015	0	0	–	636	637
Profit for the year				15,463	15,463
Other comprehensive income				–	–
Total comprehensive income				15,463	15,463
Merger difference				–9,937	–9,937
Balance at 31 December 2015	0	0	–	6,162	6,163
Balance at 1 January 2016	0	0	–	6,162	6,163
Bonus issue	0			–0	–
Provisions for development reserve			13	–13	–
Profit/loss for the year				–239	–239
Other comprehensive income				–	–
Total comprehensive income				–239	–239
Balance at 31 December 2016	1	0	13	5,910	5,923

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

²⁾ Refers to investments in proprietary produced IT programmes.

The company has a total of 30 (30) shares. The quotient value is SEK 10,000 (10,000) per share.

Cash flow statement.

MSEK	Note	1 Jan 2016 31 Dec 2016	1 Jan 2015 31 Dec 2015
CASH FLOW FROM OPERATING ACTIVITIES			
Operating profit		1,929	1,675
Adjustments for non-cash items:			
Depreciation and amortisation	12	2,016	1,601
Disposals/retirements of non-current assets		0	1
Change in provision for doubtful receivables		6	0
Income tax paid		-364	-115
Cash flow from operating activities before changes in working capital		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 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
Received interest		1	0
Paid interest		-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
Cash and cash equivalents at 1 January		121	735
Cash and cash equivalents at 31 December	25	55	121

Accounting policies and notes.

NOTE 1

GENERAL INFORMATION ABOUT THE COMPANY

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

NOTE 2

SIGNIFICANT ACCOUNTING POLICIES

This annual report was prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and Recommendation RFR 2 Financial Reporting for Legal Entities issued by the Swedish Financial Reporting Board. The application of RFR 2 requires the company to apply, insofar as possible, all EU-adopted International Financial Reporting Standards (IFRS) and interpretations of IFRSs issued by the IFRS Interpretation Committee (IFRIC) subject to the provisions of the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act and take account of the relationship between accounting and taxation.

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

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

Reclassification in income statement

Reminder fees to customers were previously recognised as reduced cost but are regarded as a component of operating income and recognised in other operating income. Due to the reclassifications, the comparative figures in the financial overview have been restated and the adjustment in the income statement in respect of 2015 is presented below:

SEK million	2015
Reminder fees	
Reclassification from other external expenses to other operating income	21

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

New and amended standards and interpretations and changes in RFR 2 that have been issued but become effective for reporting periods beginning after 1 January 2017 have not yet been applied by the company. New and amended standards and interpretations that are deemed to have an impact on the company's financial statements in the period in which they are first applied are described below.

IFRS 15 Revenue from Contracts with Customers was issued on 28 May 2014 and will replace IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes a model for revenue recognition for nearly all types of revenue arising from contracts with customers, with the exception of leases, financial instruments and insurance contracts. The basic principle for recognition of revenue under IFRS 15 is that a company should recognise revenue in the manner that reflects the transfer of the promised goods or service to the customer, in the amount that the company expects to receive in exchange for the goods or service. Revenue is recognised when control of the good or service has passed to the customer. IFRS 15 is applicable for reporting periods beginning 1 January 2018 or later and earlier application is permitted. It has not yet been adopted by the EU.

IFRS 9 Financial Instruments was issued on 24 July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard has been issued in stages and the version that was issued in July 2014 replaces all previous versions. The standard contains new requirements on the classification and measurement of financial instruments, on derecognition and impairment, and general rules for hedge accounting. The macro hedging section has been removed to form a separate project. The standard, which is mandatory for periods beginning on or after 1 January 2018, has not yet been adopted by the EU.

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

Management has not yet performed a detailed analysis of the effects of applying IFRS 15, IFRS 9 and IFRS 16 and is therefore unable to quantify the effects. Management considers that the other new and amended standards and interpretations that have not yet become effective will not have material impact on the company's financial statements when they are initially applied.

Revenue

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

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

Network services

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

Connection services

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

Other network-related services

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

Communication and rental income

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

Leases

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

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

Foreign currency

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

Borrowing costs

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

Employee benefits

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

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

Taxes

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

Current tax

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

Deferred tax

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

Untaxed reserves are recognised inclusive of deferred tax liability.

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

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

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

Current and deferred tax for the period

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

Group contributions

Group contributions paid and received are recognised as appropriations.

Property, plant and equipment

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

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

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

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

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

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

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

Intangible assets

Internally generated intangible assets

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

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

Separate acquisition of intangible assets

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

The estimated useful lives for intangible assets are:

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

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

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

Impairment of non-financial assets

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

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

If an impairment is subsequently reversed, the carrying amount of the cash-generating unit is increased to the remeasured recoverable amount, although the increased carrying amount may not exceed the carrying amount that would have been determined if the cash-generating unit had not been subject to impairment in previous years. A reversal of an impairment is recognised directly in profit or loss. Any goodwill impairment is immediately recognised as an expense and is not reversed.

Non-current financial assets

Investments in subsidiaries are recognised at cost less any impairment. Cost includes acquisition-related costs and any additional consideration paid.

When there is an indication that interests in a subsidiary have declined in value, an estimate is made of the recoverable amount. If the recoverable amount is less than the carrying amount an impairment loss is recognised. Impairment losses are recognised in the item "Profit/loss from shares in Group companies."

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

Financial instruments

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

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

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

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

Amortised cost

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

Loans and receivables

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

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

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

Offsetting of financial assets and financial liabilities

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

Derivatives

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

Due to the connection between accounting and tax, the accounting standard for financial derivatives, IAS39, is not applied. Derivatives are instead recognised using the lower of cost method. Derivatives with negative value are measured at the amount that is most favourable for the company if the obligation is settled or transferred at the end of the reporting period.

Hedge accounting

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

Cash and cash equivalents

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

Provisions

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

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

NOTE 3**SIGNIFICANT ESTIMATES AND JUDGEMENTS**

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

Network income and network expenses

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

Useful life of concessions

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

-elected useful life of 100 years best reflects the company's consumption of the asset. The amortisation period and method are reviewed at the end of each financial year or more frequently.

Useful life of goodwill

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

Useful life of other intangible assets

The useful life of a part of IT investments related to systems for monitoring the operation of the electricity network has been defined as 8 years based on the minimum expected life of the monitoring system.

Utility easements (including land leases) refer to contracts that give the company access to land belonging to third parties for an indefinite period for the establishment of electricity network facilities. The company therefore considers the asset equivalent to land and no amortisation is recognised. The value of utility easements is tested for impairment annually or when there is an indication of impairment.

Useful life of property, plant and equipment

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

Deferred tax and current tax

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

Impairment of non-financial assets

The company has property, plant and equipment and intangible assets, including goodwill, with significant carrying amounts, that are tested for impairment pursuant to the accounting policies listed in Note 2 Accounting policies. When the cash-generating units are tested for impairment, the calculations are based on estimated future cash flow, which requires management to make assumptions about future expectations. Impairment testing that has been conducted, and significant estimates and assumptions are detailed in Note 17.

NOTE 4 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Through its operations the company is exposed to various types of financial risks, such as market, liquidity and credit risks. Market risks consist mainly of currency, electricity price and interest rate risks. The company enters into derivative transactions to mitigate these risks. Ultimate responsibility for defining the framework and regulations for managing and monitoring the company's financial risks rests with the Board of Directors. The framework and regulations are set forth in a financial policy adopted by the Board that is reviewed annually. The group structure is shown in Note 33.

MARKET RISKS

Currency risk

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

Transaction exposure

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

Balance sheet exposure

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

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

At the end of the reporting period the nominal amount of loans in foreign currency and corresponding outstanding cross-currency interest rate swaps amounted to EUR 655 million (605) and USD 1,104.5 million (100).

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

	31 Dec 2016		31 Dec 2015	
	Nominal amount	Fair value	Nominal amount	Fair value
EUR converted into MSEK				
Maturity over 10 years	6,176	49	5,700	-248
USD converted into MSEK				
Maturity over 10 years	8,802	-198	846	1

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

Electricity price risk

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

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

	31 Dec 2016		31 Dec 2015	
	Volume, GWh	Fair value	Volume, GWh	Fair value
Maturity within 12 months	1,318	4	1,596	-102
Maturity within 1-5 years	1,316	-16	2,349	-86
Maturity after 5 years	-	-	-	-

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

Interest rate risk

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

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

Fixed-rate term	31 Dec 2016	31 Dec 2015
Within 12 months	5,574	4,431
Within 1-5 years	3,273	15,000
Within 5-10 years	13,340	10,000
Over 10 years	32,470	24,034
Total	54,657	53,465

The company's policy is to reduce the volatility of net financial income/expenses by mainly financing operations at fixed, long-term interest rates. At the end of the reporting period, 90 percent of the company's external debt was subject to fixed interest rates after taking account of interest rate derivatives. The weighted average interest rate on all borrowings, taking account of derivatives contracts, was 5.0 percent at the end of the reporting period.

The company applies hedge accounting. The hedge is a cash flow hedge. During the period, SEK -481 million (-34) was recognised in the income statement in respect of the market valuation of derivatives attributable to this hedge that do not meet the criteria for hedge accounting. Most of the SEK -481 million is related to interest rate swaps that were closed in connection to the refinancing done during the year. Derivatives recognised in accordance with the lower of cost are measured on the basis of contractual cash flows discounted at market interest rates at the end of the reporting period.

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

	31 Dec 2016		31 Dec 2015	
	Nominal amount	Fair value	Nominal amount	Fair value
Maturity within 12 months	-	-	-	-
Maturity within 1-5 years	25,543	-594	15,000	-168
Maturity over 5 years	10,000	-657	10,000	-122
Maturity over 10 years	955	-24	955	-34

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

Sensitivity analysis

At 31 December 2016, around 10 percent of the debt portfolio, including intra-Group loans, was subject to variable interest rates. The effect of a 1 percent change in the interest rate for the debt portfolio is SEK 44 million (34) for 2017.

Valuation of financial instruments to fair value

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

Derivatives

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

Financial liabilities

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

LIQUIDITY AND FINANCING RISK

Liquidity risk refers to the risk that the company will struggle to meet its obligations related to financial liabilities or other payment obligations. Financing risk refers to the risk that the company will be unable to obtain sufficient financing at a reasonable cost. To reduce its liquidity risk and financing risk, the financial policy states that the company must at all times maintain a liquidity reserve consisting of cash and cash equivalents and binding loan commitments of at least 1.2 times the sum of forecast repayments on loans and investments in non-current assets for the coming 12-month period. At the end of the reporting period, the company had total external loan facilities of SEK 43.1 (36.0) billion, of which SEK 9.0 (8.9) billion was unutilised, and cash and cash equivalents excluding customer deposits of SEK 46 (1 14) million. No more than 25 percent of the total outstanding loan volume may be repayable in any single calendar year and the average remaining maturity of the total volume of external loans must exceed five years.

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

31 Dec 2016	Within 12 months	1–5 years	Over 5 years	Total
Interest-bearing liabilities	472	17,603	44,864	62,938
Trade payables	557	–	–	557
Total	1,028	17,603	44,864	63,495

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

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

31 Dec 2016	Within 12 months	1–5 years	Over 5 years	Total
Electricity derivatives (net debt)	4	–16	–	–12
Cross-currency interest rate swaps (liabilities)	–489	–2,117	–4,112	–6,717
Cross-currency interest rate swaps (receivables)	439	1,892	3,721	6,052
Interest rate swaps (net debt)	–399	–1,355	–799	–2,553
Total	–455	–1,596	–1,190	–3,231

CREDIT AND COUNTERPARTY RISK

Credit risk refers to the risk that a counterparty to a transaction will cause a loss by failing to fulfil its contractual obligations. The company's exposure to credit risk is primarily attributable to trade receivables and derivatives. The company's derivatives are transacted with counterparties with a minimum credit rating of BBB+ (S&P, Fitch) or Baa1 (Moody's). Trade receivables are spread across a large number of customers and no individual customer accounts for a significant share of the company's total trade receivables. Nor are the company's trade receivables concentrated to a specific geographic area. The company therefore considers the concentration risks to be limited.

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

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

	31 Dec 2016	31 Dec 2015
Trade receivables	556	465
Other current receivables	902	851
Cash and cash equivalents	46	114
Total	1,504	1,430

CAPITAL STRUCTURE

The company's goal is to maintain an efficient capital structure that minimises the cost of the sum of equity and debt while ensuring long-term access to debt financing. The company is primarily financed through external loans amounting to about SEK 34.1 billion. The external debt consists of various types of debt that are all managed through an established financing platform based on a Common Terms Agreement, where all lenders have common terms and conditions and are equal from securitisation point of view (senior debt). In addition, the company is financed through intra-Group loans from Ellevio Holding 4 AB. These loans derive from external loans to Ellevio Holding 2 AB in the amount of about SEK 3.0 billion (junior debt that from a security perspective is subordinated to the senior debt) and loans from the Group's shareholders to Ellevio Holding 1 AB of about SEK 17.5 billion.

In 2016, Ellevio received a "BBB" (stable outlook) credit rating from Standard and Poor's for its bond programme. During the year, the restructuring of financing continued and external bonds amounting to SEK 12.7 billion were issued, and bank loans in a corresponding amount were amortised. Also refer to the Financing section in the Directors' Report.

The company monitors its capital structure by calculating the leverage ratio and the interest coverage ratio. These key ratios are financial covenants which limit the company's maximum debt level in accordance with the Common Terms Agreement described above.

Leverage ratio	31 Dec 2016	31 Dec 2015
Interest-bearing liabilities	54,657	53,465
Less intra-Group interest-bearing liabilities	–20,537	–20,487
Less cash and cash equivalents excl. customer deposits	–46	–114
External net debt	34,075	32,864
Operating profit	1,929	1,675
Plus depreciation, amortisation and impairment	2,016	1,601
EBITDA	3,945	3,275
Adjustment of exceptional items	0	1
Comparable EBITDA	3,945	3,277
Leverage ratio	8.6	10.0

NOTE 5 GROUP INTERNAL PURCHASES AND SALES

	2016	2015
Purchases	0.0%	0.0%
Sales	0.0%	0.0%

NOTE 6 NET SALES BY PRICE AREA

	2016	2015
Local networks Stockholm	2,686	2,430
Local networks West Svealand	1,204	1,104
Local networks West Coast	987	891
Local networks South Norrland	713	646
Regional networks Rest of Sweden	822	864
Regional networks Stockholm	126	79
Total	6,537	6,014

NOTE 7 OTHER OPERATING INCOME

	2016	2015
Communication income	11	13
Rental income	6	7
Reconnection income	5	5
Network monitoring services	6	3
Reminder fees	25	21
Other operating income	14	15
Total	67	63

NOTE 8 REMUNERATION TO AUDITORS

KSEK	2016	2015
Deloitte AB		
Audit engagement	-675	-675
Audit activities in addition to audit engagement	-168	-168
Tax advisory services	-131	-645
Other services	-492	-419
Total	-1,466	-1,907

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

NOTE 9 LEASES

Operating leases – lessee	2016	2015
Expense for the year, operating leases		
Lease expenses	-124	-134
Total	-124	-134

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

	2016	2015
Maturity:		
Within 1 year	119	115
1–5 years	175	182
Later than 5 years	477	507
Total	771	804

Operating leases – lessor

Leases refer to the lease of premises, capacity in the fibre-optic network and space in masts and poles. Lease income during the financial year totalled SEK 6 (7) million. Future minimum lease expenses under non-cancellable operating leases fall due as follows:

	2016	2015
Maturity:		
Within 1 year	7	7
1–5 years	8	4
Later than 5 years	3	2
Total	18	14

NOTE 10 EMPLOYEES AND EMPLOYEE BENEFITS

Average numbers of employees	2016	2015
Women	118	117
Men	294	290
Total	412	407

Number of directors and senior executives	2016	2015
Women:		
Board of Directors	3	2
Other senior executives including the CEO	6	6
Men:		
Board of Directors	6	7
Other senior executives including the CEO	5	5
Total	20	20

Salaries and remuneration	2016	2015
Salaries and other remuneration to Directors, the CEO and other senior executives	-30	-15
Salaries and other remuneration to other employees	-212	-201
Pension costs for Directors, CEO and other senior executives	-5	-4
Pension costs for other employees	-35	-36
Social security contributions	-83	-79
Total	-366	-339

Remuneration of the Board of Directors, CEO and senior executives

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

Remuneration and other benefits 2016

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

¹⁾ The variable remuneration consists of both expensed bonuses (short-term incentives, STIs) that will be paid during 2017, and expensed long-term incentives (LTIs) that will be paid out in 2018 and 2019.

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

²⁾ Other benefits mainly consist of company cars.

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

Remuneration and other benefits 2015

KSEK	Base salary/ board fees	Variable remuneration	Other benefits	Pension costs	TOTAL	Capital value of pension commitment
Sören Mellstig (Chairman of the Board from Nov)	-233				-233	
Oskar Backman (Board member from June)					-	
Ralph Berg (Board member from June)					-	
Bengt Hellström (Board member from June)					-	
Jens Henriksson (Board member from June)					-	
Colin Hood (Board member from June)	-85				-85	
Nicola Shaw (Board member from June)	-267				-267	
Johan Lindehag (CEO)	-1,461	-1,575	-36	-619	-3,691	
Other senior executives (10 persons)	-8,460	-2,563	-174	-3,247	-14,443	
Summa	-10,506	-4,138	-210	-3,866	-18,719	-

Ellevio's principles for the remuneration of senior executives state that the company shall offer market-based terms of employment that enable the company to recruit, develop and retain senior executives. The total remuneration package consists of a combination of a fixed monthly salary, variable remuneration, pensions and other benefits. The total remuneration level has increased from 2015 to 2016 as a result of the change in structure, complexity and responsibility in mid-2015. New Board members were appointed successively during the year, the responsibilities of senior management – and mainly the CEO – were expanded since Ellevio operates as an independent company, and the company's management team was expanded in late 2015.

In 2016, the CEO received a fixed salary of SEK 2,131 thousands (1,461) and variable remuneration of SEK 3,008 thousands (1,575). Variable remuneration consists of a short-term incentive corresponding to 0–50 percent of the fixed annual salary, and a long-term incentive corresponding to 0–100 percent of the yearly fixed salary. Variable remuneration does not constitute pensionable salary, nor is it a basis for holiday pay. (For further information on variable remuneration, please see information below on STIs and LTIs).

The CEO has previously been encompassed by an alternative ITP plan in the form of Birkaplanen, which is a defined benefit pension plan. During the year, the CEO and all other senior executives in the management team transitioned to a defined contribution pension plan that is entirely based on premiums, under which premiums comprise 30 percent of the fixed annual salary (see Note 11). For 2016, pension premiums were expensed in accordance with the table above. The retirement age for the CEO and the management team is 65 years.

The period of notice for the CEO¹⁾ is six months both for resignation and when termination is initiated by the company. If the CEO is terminated by the company, a compensation equivalent up to twelve months' salary is payable in addition to the salary during the notice period. Any income from any other employment and/or any other proceeds from other business activity during the period for which the CEO receives severance pay shall be deducted from the severance pay. No other remuneration is paid if the CEO resigns. The employment terms of other senior executives are consistent with market employment terms and there are no agreements providing for termination salary in excess of six months or agreements on severance pay.

SHORT-TERM INCENTIVES (STI)

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

LONG-TERM INCENTIVES (LTI)

In 2016, the Board of Directors implemented a LTI programme for the CEO and members of the company's management team. The purpose of the programme is to support the delivery of sustainable, long-term performance, and align the interests of management with those of the shareholders as well as assist in committing and retaining senior management. The LTI program is a cash-based supplement to the fixed annual salary. The award target level is 20–50 percent of the annual salary depending on responsibility area, with a maximum award of 40–100 percent.

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

**NOTE 11
PENSIONS**

All employees are covered by collective agreements and the company's pension obligations comprise both defined-contribution and defined benefit pension plans. The company has elected not to apply the provisions of IAS 19 in a legal entity, which means that the company's defined-benefit pension plans are treated as defined contribution plans and charged to income statement as premiums are paid. A description of the company's defined benefit pension plans and information on the fair values of pension obligations and plan assets in accordance with IAS 19 are provided in the following.

Defined benefit pension plans

The company has undertaken to make predetermined payments to the employee on or after retirement. The company has the following defined benefit pension plans: PA-KL (including SPP), Birkaplanen and the ITP 2 Plan. PA-KL (including SPP) is a plan for municipal employees in Sweden. There are currently no active employees in that plan. The plan is administered and valued by SPP. Birkaplanen is an alternative ITP plan. The benefits are administered by and secured through an insurance policy with Skandia Liv, ömsesidigt. The ITP 2 Plan is partly closed, which means that only new employees born before 1979 have the option of choosing the ITP 2 solution. The ITP 2 Plan is insured with Alecta.

According to a statement from the Swedish Financial Reporting Board, UFR 10 Recognition of the ITP 2 Plan Funded through Insurance with Alecta, this is a defined benefit plan covering several employers. For the 2016 financial year, the company has not had access to information that would enable it to account for its proportionate share of the plan's obligations, assets and expenses. It has therefore not been possible to recognise the plan as a defined benefit plan. The ITP 2 pension plan secured through an insurance policy with Alecta is therefore recognised as a defined contribution plan. The premium cost for the defined benefit age and family pension plan is calculated on individual basis and depends on such factors as salary, previous pension earnings and expected remaining worktime. Forecasted premium cost for the next reporting period for the ITP-2 plan with Alecta is expected to be SEK 17 million (16.5). The company's share of the combined fees to the plan, and the company's total number of active members in the plan is considered to be an insignificant share.

The collective consolidation level comprises the market value of Alecta's assets as a percentage of insurance commitments calculated in line with Alecta's actuarial methods and assumptions, which do not comply with IAS 19. The collective consolidation level is normally permitted to vary between 125 percent and 155 percent. If Alecta's collective consolidation level falls below 125 percent or exceeds 155 percent, measures must be taken to create the requisite conditions for the level of consolidation to return to normal. One possible measure to address a low consolidation level is to raise the contractual price for new subscriptions and expand existing benefits. One possible measure to address a high consolidation level is to introduce reduced premiums. At year-end 2016, Alecta's surplus in the form of the collective consolidation level was 149 (153 percent).

The company's defined benefit obligations in the Group's annual report that are presented below have been calculated based on the salary levels applying at each end of the reporting period and using a discount rate of 2.8 percent (3.3%). Assumed annual returns are defined by the company.

Defined benefit pension plans in the consolidated balance sheet

	31 Dec 2016	31 Dec 2015
Total present value of defined benefit obligations	181	187
Fair value of plan assets	240	218
Net amount, defined benefit pension plans	59	31

Defined contribution pension plans

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

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

	2016	2015
Cost in profit/loss for the year		
Costs relating to services during current period	-40	-40
Total	-40	-40

NOTE 12
DEPRECIATION, AMORTISATION AND IMPAIRMENT OF
INTANGIBLE ASSETS, AND PROPERTY, PLANT AND EQUIPMENT

	2016	2015
Amortisation of intangible assets	-743	-451
Depreciation of buildings and land improvements	-29	-19
Depreciation of machinery and other technical plant	-1,238	-1,125
Depreciation of equipment, tools and facilities	-6	-5
Total	-2,016	-1,601

NOTE 13
OTHER INTEREST INCOME AND SIMILAR ITEMS

	2016	2015
External interest income	1	0
Intra-Group interest income	-	-
Total	1	0

NOTE 14
INTEREST EXPENSE AND SIMILAR ITEMS

	2016	2015
External interest expense	-1,094	-380
Intra-Group interest expense	-1,652	-959
Derivatives that do not meet the criteria for hedge accounting	-481	-34
Other financial expenses	-72	-18
Total	-3,299	-1,389

NOTE 15
APPROPRIATIONS

	2016	2015
Group contributions received	1,487	-
Group contributions paid	-1	-
Distribution to tax allocation reserve	-338	444
Accelerated depreciation	-	20,278
Total	1,148	19,834

NOTE 16
TAX

	2016	2015
Current tax		
Current tax on profit for the year	-223	-294
Deferred tax		
Deferred tax attributable to temporary differences	205	-4,361
Deferred tax attributable to prior years	-	-1
Total	-18	4,656

Reconciliation, tax expense for the year	2016	2015
Profit/loss before tax	-221	20,119
Tax calculated at Swedish rate (22%)	49	-4,426
Tax effect, permanent items:		
Non-deductible depreciation on goodwill	-66	-38
Non-deductible interest expense	0	-189
Other non-deductible expenses	-1	-2
Non-taxable income	0	0
Tax effect, temporary items:		
Non-deductible depreciation on concessions	-88	-52
Non-deductible cost unrealised derivatives	-106	-7
Effect from dissolution of accelerated depreciation	-	4,460
Other non-deductible cost	-11	-40
Deferred tax attributable to previous years	-	-1
Change in deferred tax	205	-4,361
Total	-18	-4,656
Recognised tax expense for the year	-18	-4,656

Deferred tax assets and deferred tax liabilities

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

	31 Dec 2016	31 Dec 2015
Deferred tax assets		
Doubtful receivables	1	0
Unrealised losses on derivatives	113	7
Residual value depreciation, machinery and equipment	-	26
Adjustment of accelerated depreciation from prior years	-	5
Other	0	0
Deferred tax assets	114	38
Deferred tax liability		
Deferred tax through merger ¹⁾	-	9,657
Dissolution of accelerated depreciation ¹⁾	-	4,460
Surplus value concessions	8,712	-
Buildings and land improvements	157	87
Residual value depreciation, machinery and equipment	5,206	-
Deferred tax liability	14,075	14,204
Net deferred tax liabilities	13,961	14,166

¹⁾ For the year 2016 the values of these items are divided into deferred tax liabilities related to concession rights and residual value depreciation on machinery and equipment.

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

The tax rate for calculating deferred tax is 22 percent.

NOTE 17 INTANGIBLE ASSETS

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

At the end of the reporting period, there were commitments to acquire tangible fixed assets amounting to SEK 3 million (17).

The useful life of a part of IT investments related to systems for monitoring the operation of the electricity network has been defined as 8 years based on the minimum expected life of the monitoring system. The cost amounts to SEK 32 million (27) and the residual value per 2016-12-31 amounted to SEK 26 million (25).

2015	Goodwill	Concessions	IT Systems	Utility easements	Projects in progress and advances related to intangible assets	Total
Cost of 1 January 2015	-	-	324	120	71	515
Cost via merger	5,967	40,235	-	-	-	46,202
Costs incurred during the year	-	-	-	-	57	57
Disposals/retirements	-	-	-	-	-	-
Reclassification	-	-	-	-	2	2
Classification of capitalised costs	-	-	86	9	-95	-
Accumulated cost at 31 December 2015	5,967	40,235	411	129	35	46,776
Depreciation at 1 January 2015	-	-	-245	-	-	-245
Disposals/retirements	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Depreciation for the year	-174	-235	-43	-	-	-451
Accumulated depreciation at 31 December 2015	-174	-235	-288	-	-	-696
Carrying amount at 31 December 2015	5,793	40,000	123	129	35	46,081

Impairment testing

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

31 Dec 2016	Goodwill	Concessions
Local networks Stockholm		12,447
Local networks West Svealand		9,607
Local networks West Coast		7,877
Local networks South Norrland		6,322
Regional networks Rest of Sweden		2,794
Regional networks Stockholm		551
Common	5,495	
Carrying amount	5,495	39,598

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

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

The company's future cash flow is discounted to its value of use with a discount factor of 5.6 percent after tax. Assumptions of the discount rate are based on external observable market information for similar assets. The individual assets categories have a discount rate amounting to 5.0-9.5 percent before tax which reflects the risks associated with each asset. The annual test for possible impairment performed in the fourth quarter of 2016 shows that there is no need for impairment. The company has evaluated the sensitivity in the assumptions on which the impairment test is based. The calculations mainly depend on assumptions related to the regulatory rate of return and discount rate. Since these two parameters are strongly connected it does not provide a true or fair outcome to adjust these parameters independently of each other. Sensitivity analysis however shows that a 5 percent reduction in the long-term regulatory rate of return, all other factors remaining equal, does not cause any need for impairment.

NOTE 18
TANGIBLE FIXED ASSETS

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

At the end of the reporting period, there were commitments to acquire property, plant and equipment amounting to SEK 1,457 million (1,383).

2015	Buildings and land	Land improve-ments	Machinery and other technical plant	Equipment, tools and other facilities	Assets under construc-tion and advances related to property, land and equipment	Total
Cost at 1 January 2015	953	21	39,284	115	843	41,215
Costs incurred during the year	-	-	-	-	1,648	1,648
Cost via merger	-	-	3,971	-	-	3,971
Disposals/retirements	-	-	-2	-	-	-2
Reclassification	-	-	-	-	-2	-2
Classification of activated costs	4	-	1,095	8	-1,107	-
Accumulated costs at 31 december 2015	957	21	44,347	123	1,382	46,830
Depreciation at 1 January 2015	-388	-17	-17,526	-101	-	-18,032
Disposals/retirements	-	-	1	-	-	1
Reclassifications	-	-	-	-	-	-
Depreciation for the year	-18	-1	-1,125	-5	-	-1,149
Accumulated depreciation at 31 December 2015	-407	-18	-18,649	-106	-	-19,180
Carrying amount at 31 December 2015	550	3	25,698	17	1,382	27,650

NOTE 19 INVESTMENTS IN SUBSIDIARIES

	31 Dec 2016	31 Dec 2015
At 1 January	–	0
Carrying amount at 31 December	–	0

Laforsen Produktionsnät AB, corporate ID 556050-9191 was sold on 1 September 2016 to Ellevio Holding 1 AB, corporate ID 559005-2444.

NOTE 20 INVESTMENTS IN ASSOCIATES

	31 Dec 2016	31 Dec 2015
Cost at 1 January	0	0
Carrying amount at 31 December¹⁾	0	0

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

Name	Share of equity ²⁾	Share of votes	Number of shares	Value 31 Dec 2016
Triangelbolaget	25%	25%	525	0

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

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

NOTE 21 TRADE RECEIVABLES

	31 Dec 2016	31 Dec 2015
Trade receivables, gross	566	467
Provision for doubtful receivables	–9	–3
Trade receivables, net after provisions for doubtful receivables	556	465

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

Changes in provisions for doubtful receivables

	31 Dec 2016
Provisions for doubtful receivables at 1 January	–3
Provisions for doubtful receivables for the year	–6
Reversal of unused amount	–
Provisions at 31 December 2016	–9

31 Dec 2016	Gross	Provisions for doubtful receivables	Net
Not yet payable	559		559
30 days past due	–6		–6
31–60 days past due	–0		–0
61–90 days past due	1		1
> 90 days past due	11	–9	2
Total	566	–9	556

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

NOTE 22 RECEIVABLES FROM GROUP COMPANIES

	31 Dec 2016	31 Dec 2015
Receivable, group contributions	1,487	–
Other receivables	9	0
Total	1,496	0

NOTE 23 OTHER RECEIVABLES

	31 Dec 2016	31 Dec 2015
Settlement account for taxes and fees	0	2
Settlement, billing agent	79	105
Other current receivables	1	1
Total	80	108

NOTE 24 PREPAID EXPENSES AND ACCRUED INCOME

	31 Dec 2016	31 Dec 2015
Accrued income from fuse tariff customers	515	457
Accrued income from power tariff customers	293	275
Accrued interest	123	39
Prepaid rents	23	8
Other items	36	31
Total	990	809

NOTE 25 CASH AND CASH EQUIVALENTS

	31 Dec 2016	31 Dec 2015
Available balances with banks and other credit institutions	46	113
Customer deposits	9	7
Total	55	121

NOTE 26 UNTAXED RESERVES

	31 Dec 2016	31 Dec 2015
Tax allocation reserve	783	444
Total	783	444

NOTE 27 NON-CURRENT LIABILITIES

	31 Dec 2016	31 Dec 2015
Maturity within 1–5 years	14,525	25,857
Maturity over 5 years	40,104	27,007
Total carrying amount	54,629	52,864

The nominal amount of the loans at the end of the reporting period was SEK 54,657 million (53,465).

The company's utilised overdraft facilities totalled SEK 130 million (15) and are included in the item "Current liabilities to credit institutions." The limit on the overdraft facility is SEK 300 million (137).

NOTE 28

LIABILITIES TO GROUP COMPANIES

	31 Dec 2016	31 Dec 2015
Accrued interest	37	39
Other liabilities	–	–
Total	37	39

NOTE 29

OTHER CURRENT LIABILITIES

	31 Dec 2016	31 Dec 2015
Restructuring reserve	1	4
Liability, VAT	89	81
Employer contributions and deduction of withholding tax	11	11
Repayments to customers	1	–
Advances received	143	95
Disruption and damage compensation to customers	2	5
Other liabilities	4	5
Total	251	201

NOTE 30

ACCRUED EXPENSES AND DEFERRED INCOME

	31 Dec 2016	31 Dec 2015
Accrued interest	252	108
Accrued salaries	26	15
Accrued holiday pay	22	22
Accrued social security contributions	14	14
Deferred income	7	5
Accrued investment expenses	138	99
Accrued transmission costs	97	76
Accrued measurement value costs	5	18
Accrued rents	24	32
Accrued field services	21	85
Accrued customer service costs	10	10
Other items	41	44
Total	658	527

NOTE 31

PLEDGED ASSETS

	31 Dec 2016	31 Dec 2015
Floating charges	136	136
Property mortgages	462	462
Bank deposits	46	114
Total	644	712

NOTE 32

RELATED-PARTY TRANSACTIONS

The company's balances with Group companies mainly consist of interest-bearing liabilities and related interest expenses to the parent company, Ellevio Holding 4 AB. Information on transactions with related parties is provided in Notes 4, 5, 14, 22 and 28.

NOTE 33

GROUP STRUCTURE

Company	Corp. ID No.	Share (%)
Ellevio Holding 1 AB	559005-2444	100%
Nynäshamn Energi AB	556069-0995	100%
Laforsen Produktionsnät AB	556050-9191	60%
Ellevio Holding 2 AB	559001-1937	100%
Ellevio Holding 3 AB	559005-2436	100%
Ellevio Holding 4 AB	559005-2451	100%
Ellevio AB (publ)	556037-7326	100%

NOTE 34

PROPOSED ALLOCATION OF RETAINED EARNINGS

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

Retained earnings	6,149
Profit /loss for the year	–239
	5,910

The Board of Directors proposes:

Retained earnings to be carried forward	5,910
	5,910

NOTE 35

SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

On 30 November, Ellevio Group's Parent Company acquired Nynäshamn Energi AB from Krafringen Group. In January, Ellevio AB (publ) acquired the company from the Group's Parent Company and has initiated the integration of the company with the business operations of Ellevio AB. In March, an application to merge Nynäshamn Energi AB with Ellevio AB (publ) was filed with the Swedish Companies Registration Office.

In early February, Ellevio issued a SEK 10 billion bond in the Swedish market. With this transaction, Ellevio replaced its previous financing with more favourable financing with a longer maturity profile.

CEO's and Board of Directors' approval.

The annual accounts were approved for release by the Board of Directors and the CEO on 26 April 2017 and the income statements and balance sheets were adopted by the Annual General Meeting on the same date.

Stockholm, 26 April 2017

Sören Mellstig
Chairman of the Board

Oskar Backman

Ralph Berg

Catharina Elmsäter - Svärd

Jens Henriksson

Colin Hood

Nicola Shaw

Pamela Sundin

Patrik Widén

Johan Lindehag
Chief Executive Officer

We submitted our audit report on 26 April 2017
Deloitte AB

Daniel Wassberg
Authorised Public Accountant

Auditor's Report.

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

Report on the annual accounts

Opinions

We have audited the annual accounts of Ellevio AB (publ) for the financial year 2016-01-01 – 2016-12-31. The annual accounts of the company are included on pages 1–24 in the second part of this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts.

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

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Ellevio AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Key audit matters

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

Impairment of intangible assets

Ellevio AB (publ)'s financial statements include intangible assets as of December 31, 2016, amounting to 45,393 MSEK which includes concessions and goodwill. These items are significant in the entity's balance sheet and changes in the regulatory market environment Ellevio operates in or lower than expected performance may be indicators of possible impairment of the recoverable amount of these assets and hence the net asset value of Ellevio AB (publ).

Please refer to note 2, note 3, note 4 and note 17 for more information.

Our audit procedures included, but were not limited to:

- We obtained an understanding of management's annual impairment testing process and controls for assessing impairment triggers and tested relevant controls.
- We reviewed the valuation and financial development of the entity and discussed historical performance with management.
- We analyzed the assumptions made in the impairment tests and compared to historical performance and external and other benchmark data.
- We evaluated the sensitivity testing of key assumptions.
- We reviewed the disclosures related to valuation of intangible assets and assess whether the disclosures are in line with Annual Accounts Act and RFR2.
- We have had our valuation experts involved in performing the above audit procedures.

Financing and financial instruments

Ellevio's financial statements as of December 31, 2016 include liabilities to credit institutions and bonds amounting to 33,742 MSEK as well as related financial

instruments amounting to 515 MSEK. These items are significant in the entity's balance sheet and accounting for derivative contracts and other financial instruments are highly complex and could have a significant impact on the reported results of Ellevio AB (publ). These items are also subject to complex accounting and disclosure rules. The liabilities to credit institutions also have covenant requirements which Ellevio AB (publ) must comply with.

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

Our audit procedures included, but were not limited to:

- We obtained an understanding of treasury business process and controls and tested those for assessing the internal controls over the financing structure and the valuation of financial instruments.
- We received external confirmations from credit institutes to verify that liabilities and financial instruments are correctly accounted for in the financial statements as of 31 December 2016.
- We reviewed the accounting policies related to valuation of financial instruments and assessed whether the accounting of these items are in line with Annual Accounts Act and RFR2.
- We reviewed the disclosures related to valuation of financial instruments and assessed whether the disclosures are in line with Annual Accounts Act and RFR2.
- We have had our treasury and accounting experts involved in performing the above audit procedures.

Other information than the annual accounts

This document also contains other information than the annual accounts and consist of a company presentation that can be found on pages 1–28 in the first part of this document. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibility

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Ellevio AB (publ) for the financial year 2016-01-01 – 2016-12-31 and the proposed appropriations of the company's profit or loss.

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

Basis for opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Stockholm, April 26 2017
Deloitte AB

Signature on Swedish original

Daniel Wassberg
Authorized Public Accountant

Corporate Governance Report.

General information on Ellevio's corporate governance

Ellevio AB (publ), "Ellevio", is a public Swedish limited liability company registered in Stockholm. Ellevio's corporate governance aims to ensure proper risk and internal control, a defined delegation of responsibilities, a healthy corporate culture, effective decision-making procedures and sound relations with the company's stakeholder, and thus contribute to long-term value creation for the company's shareholders.

Ellevio's Board of Directors believes that proper corporate governance is essential to operating a successful business, as it creates the means for diligent decision-making and maintaining a high level of confidence among the company's stakeholders.

At Ellevio, authority, management and governance are allocated among the shareholders, Board of Directors, CEO and management team. Corporate governance at Ellevio is based on the applicable laws and ordinances, Articles of Association, shareholder agreement, and internal policies and instructions.

The Board of Directors hereby submits its 2016 corporate governance report. This report has been reviewed by the company's auditors, whose statement appears on page 29.

Regulatory framework

The external regulatory policies primarily comprise the Swedish Companies Act, Swedish Annual Accounts Act, as well as other relevant laws. As a natural monopoly the business is regulated in accordance with the Electricity Act and supervised by the Swedish Energy Markets Inspectorate (Ei). The company's most important policies comprise the shareholder agreement between the Ellevio Group's four shareholders. Other key internal policies are the Articles of Association, Board's rules of procedure, as well as the Board's instructions for the CEO and on reporting to the Board. In addition, there are internal policies and instructions that are defined by the Board or by the company and revised on an annual basis.

Owners and ownership structure

Ellevio AB (publ) is a wholly owned subsidiary of Ellevio Holding 4 AB. The Group Parent Company of the Ellevio Group is Ellevio Holding 1 AB which is owned by Borealis Infrastructure (50 percent), the Swedish Third National Pension Fund (20 percent), Folksam (17.5 percent) and the Swedish First National Pension Fund (12.5 percent). The Group also includes Ellevio Holding 2 AB, Ellevio Holding 3 AB, Nynäshamn Energi AB and Laforsen Produktionsnät AB. The Group structure is presented in Note 33 on page 23.

Shareholder agreement

The shareholders of Ellevio Holding 1 AB have signed a shareholder agreement stipulating how the Parent Company and Group's subsidiaries are to be governed. The shareholder agreement stipulates how many Board members each owner may nominate. These nominees are subsequently elected by the general meeting of shareholders.

Annual general meeting

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

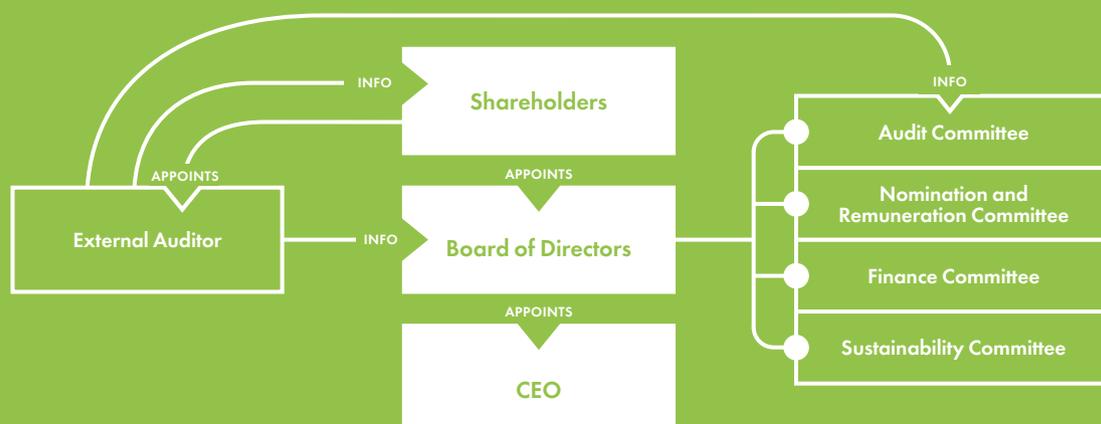
The 2016 annual general meeting was held on 19 April at the company's premises at Hangövägen 19 in Stockholm. In addition to matters on the fixed agenda as per the Articles of Association, the annual general meeting resolved that Ellevio is to be a public company, and to conduct a bonus issue in order to raise the share capital from SEK 300,000 to SEK 600,000.

The 2017 annual general meeting is held on 26 April 2017 at the company's premises at Valhallavägen 203 in Stockholm.

Board of Directors and its work

The Board of Directors is responsible for the organisation and administration of Ellevio and for the continuous monitoring of the company's financial position. The Board is also tasked with ensuring that Ellevio's organisation is designed in a manner that assures satisfactory control of accounting, asset management and financial conditions in general. Furthermore, the Board adopt operational targets and strategies, evaluate operational management and ensure that effective systems for monitoring and control are in place. The Board ensure compliance with the adopted principles for monitoring and internal control. The Board is also in charge of ensuring that its financial reporting complies with the Swedish Companies Act and the applicable accounting policies. The Board is required to draft written rules of procedure for its own work, which must be revised and adopted annually.

Under the Articles of Association, the Board is to comprise no less than three and no more than 10 Directors, and no more than 10 deputies. In 2016, the Board comprised seven Directors and two employee representatives. The



Board comprises Sören Mellstig (Chairman), Oskar Backman, Ralph Berg, Catharina Elmsäter-Svärd, Jens Henriksson, Colin Hood, Nicola Shaw, Pamela Sundin (employee representative) and Patrik Widén (employee representative). The Board's deputies are Mattias Bylund, Alastair Hall, Martin Källström, Sten Olsson, Tomas Bergquist (employee representative) and Leif Haag (employee representative). The Board of Directors is presented on page 30.

In 2016, Ellevio held 11 Board meetings.

Board committees

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

The Audit Committee is responsible for monitoring the financial reporting and discussing the accounting policies to be applied with the auditors. The Audit Committee monitors compliance with the relevant laws and the application of and compliance with corporate governance policies, including internal control and risk management.

In 2016, the Audit Committee comprised Nicola Shaw (Chair), Sören Mellstig, Bengt Hellström until 24 October 2016, and Mattias Bylund as of 24 October 2016.

The Nomination and Remuneration Committee is responsible for adopting policies for the appointment and dismissal of senior executives, establishing remuneration policies and terms of employment for senior executives, as well as reviewing the performance of senior executives in relation to set objectives.

In 2016, the Nomination Committee comprised Ralph Berg (Chairman), Oskar Backman, Jens Henriksson, Sören Mellstig and Leif Haag (employee representative).

The Finance Committee is responsible for the ongoing monitoring of Ellevio's financial risk exposure and financial strategies. In 2016, the Finance Committee comprised Sören Mellstig (Chairman), Oskar Backman and Patrik Widén (employee representative).

The Sustainability Committee is responsible for reviewing the Health, Safety and Environment (HSE) strategy, monitoring HSE performance in relation to set targets, identifying key areas of improvement and encouraging greater awareness of the importance of HSE. In 2016, the Sustainability Committee comprised Colin Hood (Chairman) and Tomas Bergquist (employee representative).

Evaluation of the Board's work

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

Board fees

The shareholders have submitted a proposal for adoption by the annual general meeting concerning Board fees. The 2016 annual general meeting adopted a resolution on fees pursuant to the proposal submitted by shareholders. Information on Board fees for 2016 can be found in Note 10 on pages 16–17.

Auditor

Auditors are elected for a term of one year, in accordance with the main rule of the Swedish Companies Act. Pursuant to the Articles of Association, Ellevio must

have one or two auditors. An auditing firm can be elected as Ellevio's auditor. The external auditor is elected by the general meeting of shareholders and reviews the management of Ellevio by the Board of Directors and CEO.

At Ellevio's annual general meeting on 19 April 2016, Deloitte AB was elected as the company's auditor for the period until the end of the 2017 annual general meeting. The principal auditor is authorised public accountant Daniel Wassberg.

The auditor reported the findings of their review of the 2016 annual accounts to the Board at a Board meeting on 22 February 2017.

CEO and management team

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

The CEO's responsibility includes, but is not limited to, the operation of the business, human resources, finances and accounting, and maintaining regular contact with Ellevio's stakeholders, such as government agencies. The CEO is responsible for ensuring that the Board is furnished with the information required for decision-making. The CEO delivers monthly reports to the Board covering financial circumstances, significant events and other important information.

The CEO has appointed a management team that is in charge of day-to-day operations. The management team meets regularly to make decisions about and monitor the business, to discuss organisational and human resources matters, as well as current projects and other matters. The management team, including the CEO, is presented on page 31.

Operational management and internal control

Ellevio's operational management and control efforts are based on the delegation of responsibilities among the Board and the CEO that are stipulated in the Board's rules of procedure, as well as on the reporting standards set by the Board.

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

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

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

Ellevio maintains policies, instructions and procedures intended to establish rules and responsibilities for specific areas and to define mandates and authority. In 2016, the Board adopted the following policies: the Code of Conduct, Sustainability Policy, Financial Policy, and Insider Policy. In addition to the policies adopted by the Board, there are also policies determined by the CEO, as well as instructions and procedures determined by the head of each business function. These documents are available to all employees. They are revised on an annual basis or when necessary to ensure compliance with the prevailing laws and provisions and so forth. The organisation is continuously updated and given training in policies, instructions and procedures.

Over all, this internal framework covers in an appropriate manner all relevant areas of operation.

Auditor's report on the corporate governance statement.

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

Engagement and responsibility

It is the board of directors who is responsible for the corporate governance statement for the financial year 2016-01-01–2016-12-31 on pages 27–28 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

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

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

Opinions

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

Stockholm 26 April, 2017
Deloitte AB

Signature on Swedish original

Daniel Wassberg
Authorized public accountant

Board of Directors.



FROM LEFT TO RIGHT, SEATED:

Ralph Berg

Year of birth: 1972, year of election 2015

Sören Mellstig

Chairman

Year of birth: 1951, year of election 2015

Jens Henriksson

Year of birth: 1967, year of election 2015

Pamela Sundin

Employee representative

Year of birth: 1972, year of election 2015

Oskar Backman

Year of birth: 1971, year of election 2015

Catharina Elmsäter-Svärd

Year of birth: 1965, year of election 2016

FROM LEFT TO RIGHT, STANDING:

Nicola Shaw

Year of birth: 1969, year of election 2015

Colin Hood

Year of birth: 1955, year of election 2015

Patrik Widén

Employee representative

Year of birth: 1979, year of election 2015

Management Team.



FROM LEFT TO RIGHT, SEATED:

Helena Ahlström

HR and sustainability

Year of birth: 1983, joined the operations in 2012

Anna Lidberg

Communications

Year of birth: 1968, joined the operations in 2008

Johan Lindehag

CEO

Year of birth: 1972, joined the operations in 2000

Lowina Lundström

Customer and market

Year of birth: 1967, joined the operations in 2009

Erika Abrahamsson

Legal

Year of birth: 1965, joined the operations in 2011

Bengt Johansson

Network

Year of birth: 1961, joined the operations in 1989

Thomas Saubach

Operations

Year of birth: 1969, joined the operations in 2002

FROM LEFT TO RIGHT, STANDING:

Anna-Carin Joelsson

Projects and IT

Year of birth: 1972, joined the operations in 2007

Jan Seveborg

Treasury

Year of birth: 1962, joined the operations in 2015

Anna-Karin Käck

Finance

Year of birth: 1976, joined the operations in 1999

NOT IN THE PHOTO:

David Bjurhall

Regulation

Year of birth: 1975, joined the operations in 2010





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