Eltel Group

FULL-YEAR REPORT JANUARY–DECEMBER 2016

January–December 2016

- Net sales amounted to EUR 1,399.8 million (1,254.9), up 13.5% in local currencies, organic net sales increased by 1.8%*
- Operative EBITA amounted to EUR 2.1 million (62.2) or 0.1% of net sales (5.0)
- Write-downs and provisions in operative EBITA amounted to EUR 49.8 million
- Goodwill impairment of EUR 55.0 million recognised relating to the power transmission business
- EBIT amounted to EUR -67.4 million (46.6)
- Net financial expenses amounted to EUR -12.6 million (-14.4)
- The net result amounted to EUR -82.2 million (43.2)
- Earnings per share was EUR -1.33 (0.69)
- Operative cash flow was negative at EUR 8.0 million (+45.8), cash conversion was -387.4% on a rolling 12-month basis
- The Board proposes that no dividend be paid for the year 2016 (0.24)

October–December 2016

- Net sales amounted to EUR 387.1 million (397.3), down 1.8% in local currencies, organic net sales decreased by 2.8%*
- Operative EBITA amounted to EUR -14.6 million (20.5) or -3.8% of net sales (5.2)
- Write-downs and provisions in operative EBITA amounted to EUR 34.1 million
- Goodwill impairment of EUR 55.0 million recognised relating to the power transmission business
- EBIT amounted to EUR -73.2 million (16.5)
- Net financial expenses amounted to EUR -4.5 million (-2.2)
- The net result amounted to EUR -80.3 million (17.3)
- Earnings per share was EUR -1.29 (0.27)
- Operative cash flow was positive at EUR 22.5 million (90.4)

Unless otherwise stated, figures in brackets refer to the same period in the preceding year.
* Organic net sales excludes the U-SERV acquisition in 2016 and the Norwegian Communication business until 1 September 2016 (Eltel Sønnico) and is presented using comparable exchange rates.

IMPORTANT DECISIONS AND EVENTS AT THE BOARD MEETING ON 20 FEBRUARY 2017

Decisions by the Board of Directors to focus and stabilise the operations:

- Eltel's management and Board of Directors have decided on strategic focus on Eltel's core businesses in Power and Communication
- Geographically, the markets in the Nordics and Poland will be prioritised, as will further growth opportunities in Germany
- Combined net sales of operations in Power and Communication amounted to approximately EUR 1.2 billion, corresponding to 87% of Group total net sales in 2016
- Following this decision, operations excluding Eltel's core businesses will be divested, with the intention to find new owners with relevant core expertise in the respective business areas. The decision covers the following businesses:
  – The power transmission business in Africa
  – The rail business
  – The power distribution business in the Baltics
- Net sales of businesses intended to be divested amounted to approximately EUR 180 million in 2016
- Eltel and its creditors have agreed on revised covenants for 2016
- The Board of Directors decided to initiate a process for a preferential rights issue to enable required restructuring and growth in core markets
- Eltel's largest shareholders, Zeres Capital, Solero Luxco S.á.r.l., The Fourth Swedish National Pension Fund (AP4), Swedbank Robur Funds and The First Swedish National Pension Fund (AP1), representing 49.02% of Eltel's share capital as of 31 January 2017, support the decision of a preferential rights issue
- The Board has decided to appoint a special investigator regarding the liabilities of potential historical inaccuracies in the accounting of the project business

Comments by the CEO

Strategy to achieve stable growth in our core area

After taking on my position as CEO of Eltel on 19 September 2016, we initiated an operational review of the project business. Next, a Group Project function was established to execute certain operational improvement actions within the project business, including project governance, risk assessment and reporting. A decision was made to implement an in-depth investigation, led by external auditors, of projects with high risk profile and focus mainly in Africa. In parallel, Eltel's management, in close cooperation with the Board, has continued to review the remaining business.

Our conclusions following the review are clear. Eltel's core competence is in Power and Communication in our domestic markets in the Nordics and in Poland. Furthermore, there are growth opportunities in Germany – a market that is close to the Nordics both in cultural and structural terms. Expansion in other markets has not been successful. Eltel has had difficulties to achieve critical mass and consequently profitability.

In light of the above analysis and Eltel's financial situation, management has developed a strategy and action plan which the Board has decided to implement in 2017.

We will focus Eltel's operations on our stable and profitable businesses within Power and Communication in the Nordics and Poland, and evaluate our continued growth opportunities in Germany. This is where we have long-term ability to generate stable profitability. These markets also offer attractive market potential, stable customers and an interesting development in fibre and smart meters. In 2016, the operations in Power and Communication in the Nordics, Poland and Germany recorded net sales of approximately EUR 1.2 billion, corresponding to 87% of Group net sales.

As a consequence of the decision, Eltel's operations, excluding the core business, will be divested to new owners with core expertise in the business area concerned. The decision is in line with our ambition to reduce the risk level in our operations and release resources for our core business. As a consequence of the decision, the intention is to initiate sales processes regarding the power transmission business in Africa, the rail business and our power distribution business in the Baltics. In 2016, net sales of these operations amounted to approximately EUR 180 million.

To enable execution of stated actions, Eltel and its banks have agreed on revised covenants for 2016. However, in order to create long-term shareholder value, a balance sheet allowing for a balanced debt structure combined with investments in growth in our core markets, is required. The Board has consequently decided to initiate a process for a preferential rights issue. Eltel's largest shareholders, Zeres Capital, Solero Luxco S.á.r.l., The Fourth Swedish National Pension Fund (AP4), Swedbank Robur Funds and The First Swedish National Pension Fund (AP1), representing 49% of Eltel's share capital as of 31 January 2017, support the decision of a preferential rights issue. This Board decision and the expressed support by the main owners are important cornerstones for the turnaround now put in action.

The outcome of our investigation led by external auditors and covering certain projects shows larger deficiencies than earlier anticipated. This resulted in larger than expected write-downs compared to estimates provided in the profit warning in January. Revenue recognition in power transmission has proven to have been more aggressive than previously anticipated, mainly in projects in Africa. The work, initiated as I started as CEO, to investigate the project business and implementation of new governance and control continues. Eltel's Board has decided to appoint a special investigator regarding the liabilities of potential historical inaccuracies in the accounting of the project business.

Considering the development in the fourth quarter, net sales decreased by 1.8% to EUR 387.1 million. For the full-year 2016, net sales amounted to EUR 1.4 billion, growth by 13.5%, mainly driven by acquisitions in the Communication segment. In the fourth quarter, operative EBITA was negative at EUR -14.6 million and positive at EUR 2.1 million for full-year 2016. In 2016, Group operative EBITA was negatively impacted by EUR 49.8 million of provisions and write-downs mainly related to the project business in power transmission in Africa and the rail business in Norway. Of these, EUR 34.1 million were recorded in the fourth quarter.

The weak result is concerning, although there are clear explanations. At the same time, I feel great confidence in us now taking right actions. Eltel's operations are fundamentally solid with highly skilled employees and loyal customers. We have a strong and solution-focused culture and a long track record of delivering value-adding services. Our decision to refocus on our core businesses and markets goes back a long way, and we know our customers and markets well. Together with our Board and our owners, we will now channel all our efforts on implementing this action plan to restore Eltel to become a stable company that will have what it takes to capitalise on the clear growth opportunities in our core business.

–Håkan Kirstein, President and CEO

IMPORTANT EVENTS DURING THE FOURTH QUARTER 2016

ELTEL GROUP:

- In October, Eltel completed the share purchase of its long-term incentive programme 2016 (LTIP 2016)
- In November, Ulf Lundahl took over as Chairman of the Board of Directors following Gerard Mohr's resignation from the Board
- In November, Lars Nilsson was appointed interim CFO during CFO Gert Sköld's temporary leave of absence
- In December, Eltel concluded its operational project review and decided on immediate operational actions in its project business
- In December, Eltel signed an amendment of the Group's financing agreement with its banks covering temporary resetting of financial covenant levels until the end of 2017
- At the end of 2016, Eltel did not meet its reset covenants. In February 2017, Eltel and its bank consortium agreed on an additional amendment to the existing financing agreement with revised covenants for year-end 2016

POWER SEGMENT:

- In December, Eltel's power distribution business and Finnish Caruna Oy signed a new frame agreement at a value of approximately EUR 18 million for cabling projects in Finland

COMMUNICATION SEGMENT:

- In November, Eltel's fixed communication business signed a two-year extension of its contract with the Swedish Transport Administration, value approximately EUR 15 million

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

- In January, Dariush Rezai resigned from his position as President – Mobile Communication
- In January, Eltel appointed a team lead by external auditors with the objective of performing a comprehensive investigation of selected ongoing projects in power transmission mainly in Africa
- In February, Eltel's Nomination Committee for the AGM 2017 was expanded to include Solero Luxco S.á.r.l. as a fifth member
- In February, Eltel decided to merge its fixed and mobile communication business into a single business unit, Communication, reported as the Communication segment. Peter Uddfors was appointed President – Communication as of 1 March 2017
- In February, Eltel reorganised its power transmission business unit, appointing Juha Luusua, President – Power Distribution, as acting President – Power Transmission. Fredrik Menander, President – Power Transmission, left Eltel

KEY FIGURES

EUR million	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015	Rolling 12-month
Net sales	387.1	397.3	1,399.8	1,254.9	1,399.8
Net sales growth, %	-2.6	12.8	11.6	1.0	11.6
Organic net sales growth, %*	-2.8	4.5	1.8	4.5	1.8
Operative EBITA	-14.6	20.5	2.1	62.2	2.1
Operative EBITA margin, %	-3.8	5.2	0.1	5.0	0.1
Items affecting comparability	-	-	-	-1.7	-
EBITA	-14.6	20.5	2.1	60.5	2.1
EBITA margin, %	-3.8	5.2	0.1	4.8	0.1
Amortisation and impairment of acquisition-related intangible assets**	-58.6	-4.0	-69.4	-13.9	-69.4
Operating result (EBIT)	-73.2	16.5	-67.4	46.6	-67.4
EBIT margin, %	-18.9	4.2	-4.8	3.7	-4.8
Result after financial items	-77.7	14.3	-80.0	32.2	-80.0
Net result for the period	-80.3	17.3	-82.2	43.2	-82.2
Earnings per share EUR, basic	-1.29	0.27	-1.33	0.69	-1.33
Earnings per share EUR, diluted	-1.29	0.27	-1.33	0.69	-1.33
Leverage ratio***	13.2	2.0	13.2	2.0	13.2
Operative cash flow	22.5	90.4	-8.0	45.8	-8.0
Cash conversion, %***	-387.4	75.8	-387.4	75.8	-387.4
Number of personnel, end of period	9,465	9,568	9,465	9,568	9,465

* Organic net sales exclude the U-SERV acquisition in 2016 and the Norwegian Communication business until 1 September 2016 (Eltel Sønnico) and is presented with comparable exchange rates
** Impairment of EUR 55.0 million related to value of goodwill in the power transmission business recognised in Q4/2016
*** Calculated on a rolling 12-month basis
Please see page 24 for definitions of the key ratios.

Group performance

Sales and financial results

NET SALES

January–December 2016 compared to the same period in 2015

In local currencies, net sales for the Eltel Group increased by 13.5%. Reported net sales grew by 11.6% to EUR 1,399.8 million (1,254.9). This strong growth was attributable to the Communication segment driven by the acquisition of Norwegian Eltel Sønnico AS, concluded in 2015, and supported by the fixed communication business in the Nordics. Organic net sales growth of 1.8% was mainly attributable to strong growth in the Communication segment, while net sales in the Power segment and in the Transport & Security business segment decreased.

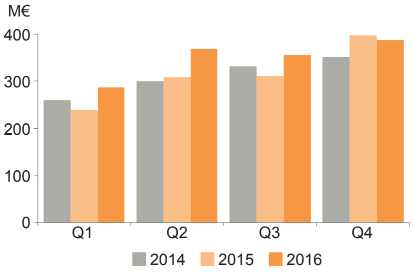
In the January-December 2016 period, the Power segment accounted for 39.7% (44.9) of Group net sales, the Communication segment for 50.0% (43.0) and the Transport & Security business segment for 10.3% (12.0). The Communication segment's high share of Group net sales for the year was a result of the consolidation of Eltel Sønnico AS in Norway, and partly supported by healthy growth within the fixed communication business for fibre rollouts and upgrade services, especially in Sweden. Net sales in both the Power and Transport & Security segments decreased compared to the level in 2015.

Compared to the level at the end of 2015, Eltel's committed order backlog decreased to EUR 845 million (31 Dec 2015: 920) at the end of 2016. The decline is mainly related to lower order intake in the power transmission and rail and road business, but also partly as a result of conscious risk level reduction in the project business. Compared with the situation at the end of 2015, the mix composition in the order backlog is well balanced between the Power segment and the Communication segment. The committed order backlog comprises the total value of committed orders received but not yet recognised as sales. This is mainly related to project orders with a delivery time of 2-5 years and also includes committed orders in frame agreements.

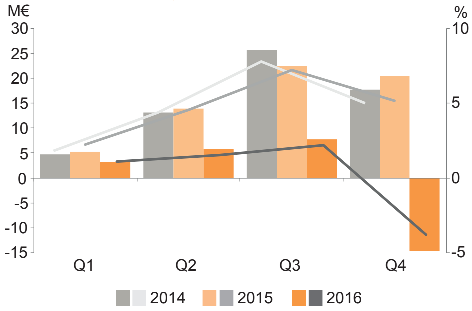
October–December 2016 compared to the same period in 2015

In local currencies, net sales for the Eltel Group decreased by 1.8%. Reported net sales decreased by 2.6% to EUR 387.1 million (397.3). Net sales in the Power segment declined significantly as a consequence of lower net sales in the power transmission business but were offset by increased net sales, mainly in the Communication segment, but also in the Transport & Security business segment. Organic net sales decreased by 2.8%.

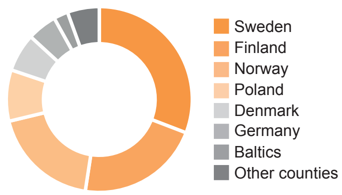
NET SALES



OPERATIVE EBITA AND MARGIN, QUARTERLY



NET SALES BY COUNTRY



Net sales comparability

Net sales development and items impacting comparability are summarised in the table below:

EUR million	Jan-Dec 2016	Jan-Dec 2015	Growth -%	FX-adjusted growth
Group net sales	1,399.8	1,254.9	11.6	13.5
Net sales from acquisitions	136.8	-	10.9	11.7
Group net sales excluding acquisitions	1,263.0	1,254.9	0.7	-
Foreign currency translation effect	-14.8	-	-	-
Group organic net sales (comparable)	1,277.8	1,254.9	-	1.8

Net sales from acquisitions include acquired companies U-SERV GmbH and net sales from the Norwegian Communication business until 1 September 2016 (Eltel Sønnico AS)

FINANCIAL RESULTS

January–December 2016 compared to the same period in 2015

The Eltel Group's operative EBITA decreased to EUR 2.1 million (62.2), representing 0.1% of net sales (5.0). In 2016, particularly the second half of the year, Group profitability was clearly impacted by challenges and underperformance in the project business of the Power segment and the Transport & Security business segment. In the full year, provisions and write-downs of EUR 49.8 million were booked in operative EBITA. In the second quarter, provisions of EUR 10 million were booked in relation to one of the Norwegian rail projects and in the third quarter EUR 5.7 million of provisions and project margin revisions were booked, the majority of which were related to one African electrification project. Challenges in the above-mentioned projects continued to affect performance in the fourth quarter. Further, within the project business, understated risks and overly optimistic revenue recognition identified in certain projects in the power transmission business were investigated by a team led by external auditors in February 2017. In the fourth quarter, recorded write-downs and provisions, including the outcome of the external investigation, amounted to EUR 34.1 million. Other factors that slightly contributed to the clear decline in operative EBITA included margin revision in power distribution in Sweden, a bankruptcy of a Swedish subcontractor, the loss of the terminated Rakel contract in Sweden, higher costs in the communication business in the UK and implementation costs for the Group Shared Services programme.

Group EBITA deteriorated to EUR 2.1 million (60.5). No items affecting EBITA comparability were recognised in 2016, while costs of EUR 1.7 million mainly relating to Eltel's listing on Nasdaq Stockholm in February 2015 were recognised in the comparable period. Based on changes in future projections of Eltel's power transmission business and related risks, especially in Africa, Eltel recorded impairment of EUR 55.0 million in the value of goodwill in the power transmission business. The impairment had no impact on cash flow or leverage ratio (Net Debt/adjusted EBITDA). Amortisation of acquisition-related intangible assets amounted to EUR 14.4 million (13.9).

Net financial expenses decreased to EUR 12.6 million (14.4) as a consequence of the renewed financing carried out in February 2015 and the introduction of the commercial paper programme in 2015. During the year 2016, financial costs included a negative effect of EUR 2.4 million attributable to realised interest rate derivatives. In December, Eltel signed an amendment agreement of its existing financing agreement with its banks on temporary resetting of the leverage covenant covering the time period from the fourth quarter 2016 until the end of 2017. At the end of 2016, Eltel did not meet the reset leverage covenant (Net Debt/adjusted EBITDA) nor interest cover covenant (adjusted EBITDA/adjusted net finance charges). In February 2017, Eltel and its bank consortium agreed on an amendment to the existing financing agreement with revised covenants for year-end 2016.

The tax cost for the period was EUR 2.2 million (+11.0), derived mainly from valuation of deferred taxes. The net result for full-year 2016 was EUR -82.2 million (+43.2).

October–December 2016 compared to the same period in 2015

In the fourth quarter, the Eltel Group's operative EBITA declined to EUR -14.6 million (+20.5), representing -3.8% of net sales (+5.2). The continued challenges in certain projects in power transmission in Africa and the rail business in Norway continued to affect performance and profitability. Within the project business, identified understated risks and overly optimistic revenue recognition in certain projects in the power transmission business, particularly in Africa, were investigated in an audit conducted by external auditors. In the fourth quarter, recorded write-downs and provisions, including the outcome of the external investigation, amounted to EUR 34.1 million. Other factors that slightly contributed to weaker performance were lower profitability in the Communication segment in the UK and in the mobile communication business in the Nordics.

Group EBITA amounted to EUR -14.6 million (+20.5). During the quarter, Eltel recognised non-cash impairment of EUR 55.0 million in the value of goodwill in the power transmission business. The goodwill impairment had no impact on the leverage ratio (net debt/adjusted EBITA). Amortisation of acquisition-related intangible assets amounted to EUR 3.6 million (4.0). Net financial expenses amounted to EUR 4.5 million (2.2).

Tax cost for the period was EUR 2.6 million (+2.9). The net result for the fourth quarter amounted to EUR -80.3 million (+17.3).

Operating environment

Power

Market demand in the power segment is underpinned by strong long-term drivers. The operating environment is characterised by high market activity and long-term investment plans. In the power transmission market, the public tender requests are based on the extensive investment plans announced by transmission system operators in most of Eltel's markets. However, especially in the latter part of 2016 project postponements were noted in the Polish and German market while power transmission investments, especially in Norway, continued at a favourable level. In the Nordics, growing demand for power transmission and associated new investment plans have attracted new players to the region. Competition remained intense and price competition continued due to this high level of attractiveness. The slump in oil and metal prices is currently impacting African grid investments due to limited access to domestic funding. Distribution system operators in Norway, Denmark and Germany are expected to continue to make investments in smart metering in the coming years. In Sweden, a new regulation model is expected to further increase power transmission and power distribution network investment levels.

Communication

While market conditions in communication are good, there is some variation among countries and technologies. The communication sector continues to be driven mainly by fibre deployment and mobile rollouts. Demand for fibre deployment is expected to remain at a healthy level in the Nordics, although it is likely that there will be a gradual transition from larger rollout projects to a greater volume of up-sales and connect services in Sweden. Fibre deployment and demand is expected to grow in Poland and Germany over the coming years. Meanwhile, in the Nordics, operators are less willing to invest in the copper network as a consequence of the ongoing copper churn rate. In the mobile communication sector, market demand for LTE/4G rollouts continues to provide opportunities in central Europe, while the peak has passed in the Nordics. In Germany, announced investment plans are at a high level, although some delays in mobile communication have been noted in rollout plans.

Transport & Security

In the Nordic transport sector, primarily railway, long-term market drivers remain strong and create a business environment with many opportunities. Due to increased investment plans for the transport sector announced in Finland, tendering activity is currently at a higher level. Several customers in the Nordics publish their rolling forecasts for planned purchases on a monthly or quarterly basis, providing a good overview for tendering and business planning. The availability of resources remains challenging in key technical areas. The security market in the Nordics continues to grow, supported by increased spending in the defence area. In the aviation sector, investments in smart solutions and networks for airports are in the planning phase, thereby providing new potential opportunities for Eltel. The current security situation in Europe is expected to drive investments in areas regarding surveillance and various communication solutions.

Balance sheet and cash flow

BALANCE SHEET AND FINANCIAL POSITION

31 December 2016

At the end of December 2016, interest-bearing liabilities totalled EUR 283.5 million (231.6), of which EUR 3.5 million (216.7) were non-current and EUR 280.0 million (14.9) were current. Cash and cash equivalents amounted to EUR 85.2 million (87.9). The loans under Eltel's bank agreement are presented as current due to the reported breach of leverage covenants calculated as of 31 December 2016. In February 2017, Eltel and its bank consortium agreed on an additional amendment to the existing financing agreement with revised covenants for 2016.

Interest-bearing net debt totalled EUR 200.1 million (145.1), representing an increase of 37.9% and equivalent to a leverage (net debt/EBITDA) ratio of 13.2. Eltel's mid to long-term target ratio is to be in the range of 2.0-2.5.

Eltel's bank loan agreements include financial covenants related to the adjusted net debt/EBITDA ratio and adjusted EBITDA/net finance charges ratio. In December, Eltel signed an amendment agreement of its existing financing agreement on temporary resetting of the leverage covenant. In the amended agreement signed with the banks, the temporary reset quarterly leverage (Net Debt/EBITDA) covenant levels vary between 6.30x and 3.60x, covering the time period effective from the situation at the end of 2016 and extending until the end of 2017. These reset levels replace the original leverage covenant levels in the financing agreement signed in 2015, which were set at 4.0x for the fourth quarter 2016 and at 3.5x commencing from the first quarter 2017. The agreement is expected to increase Eltel's financial costs by approximately EUR 4.5 million in 2017. Due to the deterioration in profitability, Eltel did not meet the reset leverage (Net Debt/EBITDA) nor interest cover (adjusted EBITDA/adjusted net finance charges) covenants at the end of 2016. In February 2017, Eltel and its bank consortium agreed on an additional amendment to the existing financing agreement with revised covenants for the situation at year-end 2016. However, there is a risk in terms of meeting the leverage (Net Debt/adjusted EBITDA) and interest cover (adjusted EBITDA/adjusted net finance charges) covenant in the first quarter 2017. Eltel has initiated discussions with its bank to find a solution.

In February 2017, the Board of Directors decided to initiate a process for a preferential rights issue to mitigate the financing and liquidity risk.

INTEREST-BEARING LIABILITIES AND NET DEBT

EUR million	31 Dec 2016	31 Dec 2015
Interest-bearing debt in balance sheet	283.5	231.6
Allocation of effective interest to periods	1.8	1.4
Less cash and cash equivalents	-85.2	-87.9
Net debt	**200.1**	**145.1**

On 31 December 2016, available liquidity reserves amounted to EUR 195.4 million (183.3). On the same date, EUR 47 million of Eltel's EUR 100 million commercial paper programme – established in September 2015 – was utilised. The Group's equity ratio was 34.2% (43.3) at the end of December 2016.

On 31 December 2016, guarantees based on contractual commercial commitments and pension liabilities issued by banks, other financial institutions and the Parent Company amounted to EUR 358.6 million (375.4). This amount included advance and other payment security guarantees.

CASH FLOW AND CASH CONVERSION

January–December 2016

Eltel's operative cash flow was negative at EUR 8.0 million (+45.8), mainly driven by deteriorated profitability in combination with an increased level of net working capital during the first half of the year. Cash flow was negative during the first half of the year and turned positive in the second half of the year. In the fourth quarter, the decrease of net working capital continued from the third quarter and operative cash flow was positive at EUR 22.5 million (90.4). Ongoing power projects in Poland that are working capital intensive are expected to continue to create volatility in net working capital going forward. In addition, the challenges faced in certain African electrification projects and two rail projects in Norway resulted in a higher net working capital.

The rolling 12-month cash conversion was -387.4% (+75.8%), negatively impacted by the timing of exceptionally strong cash flow in the fourth quarter of 2015, weak profitability in 2016 and net working capital challenges in certain projects. In general, cash flow – and thus cash conversion – fluctuates on a quarterly basis due to Eltel's seasonal pattern for its net sales and production. The beginning of Eltel's calendar year is characterised by a negative cash flow as a consequence of gradually increasing production volumes – a typical seasonal pattern for Eltel's earnings generation. Phasing of projects may significantly impact the seasonal pattern of cash flow.

Cash flow from operating activities was EUR 4.5 million (49.1), including a negative impact of EUR 9.8 million (-15.5) from the change in net working capital. Impairment of goodwill related to the power transmission business of EUR 55.0 million recorded in the fourth quarter had no impact on cash flow. Cash flow from financial items and taxes was EUR -12.8 million (-12.6). Net capital expenditure, mainly replacement investments, amounted to EUR 13.3 million (11.1). Cash flow for acquisitions amounted to EUR -19.9 million (-33.1), including payment of the remaining part of the consideration for the acquisition of Eltel Sønnico AS and Celer Oy and initial payments for acquisitions made in 2016.

Seasonality during the calendar year

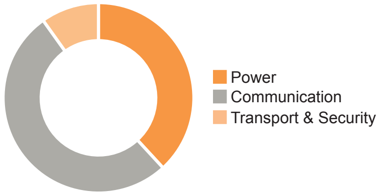
DISTRIBUTION OF SALES AND EARNINGS DURING THE FINANCIAL YEAR

Eltel's businesses are generally characterised by seasonal patterns that have a substantial impact on net sales, EBITA and cash flow. Seasonality is normally driven by a number of factors, including weather conditions, the timing of customer order placements and completion of work phases towards the end of the month, particularly for larger projects. The Eltel Group has historically reported higher revenues and operating profit in the second half of the year. Net sales and EBITA by quarter are presented in the graphs on page 4. Cash flow normally displays a strong seasonal pattern, with weaker cash flow recorded during the period until the end of the third quarter due to higher production activity. At the end of the year, as production volumes decrease, cash flow is normally stronger. For more details, please refer to quarterly key financial figures for the Group on page 23.

Segment information

Eltel reports its business in three segments – Power, Communication and Transport & Security – based on the products and services offered.

Q4 NET SALES BY SEGMENT



POWER

The Power segment provides network maintenance services, upgrade work and project business to national transmission system operators and distribution network owners. This segment operates throughout Eltel's geographic regions and its business is characterised by long-term customer relationships, with a continuous order flow generated through frame agreements and projects. Demand in the sector is typically driven by increased power grid availability requirements and regulatory demands rather than by GDP. The majority of this business consists of upgrades and project-based work. Upgrade assignments are typically completed within a few months, whereas project agreements normally last for two to three years. The length of frame agreements is typically three to five years.

EUR million	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Net sales	148.0	171.3	557.0	567.6
Operative EBITA	-17.5	10.2	-8.9	29.6
Operative EBITA margin, %	-11.8	5.9	-1.6	5.2
Number of employees	3,345	3,607	3,345	3,607

Foreign currency translation effect included in net sales was EUR 0.2 million for the quarter and EUR -9.2 million for Jan-Dec 2016

January–December 2016 compared to the same period in 2015

In local currencies, net sales for the Power segment decreased slightly and were down 0.3%. Reported net sales decreased by 1.9% to EUR 557.0 million (567.6). The decline in net sales was attributable to lower volumes the power transmission business in Africa and a result of the revaluation of optimistic revenue recognition in certain projects. Net sales increased in the Nordics, especially in Norway, driven by both substation projects and smart metering rollouts. In Germany, net sales grew both within the power transmission and the power distribution businesses.

Operative EBITA deteriorated and turned into a loss of EUR 8.9 million (+29.6). In the reporting period, recorded provisions, write-downs and margin revisions related to the power segment amounted to EUR 34.7 million. The negative EBITA result was mainly a consequence of underperformance in certain African electrification projects within the power transmission business resulting in provisions and write-downs, main part of which were recorded in the fourth quarter and related to the outcome of an investigation, lead by external auditors and concluded in February 2017. Margin revision in power distribution in Sweden impacted slightly negatively on the result.

Based on changes in future projections of Eltel's power transmission business and related risks, especially in Africa, Eltel recorded impairment of EUR 55.0 million in the value of goodwill in the power transmission business.

October–December 2016 compared to the same period in 2015

In local currencies, net sales in the Power segment decreased by 13.7%. Reported net sales declined by 13.6% to EUR 148.0 million (171.3). Net sales declined due to the power transmission business in Africa and a result of the revaluation of overoptimistic revenue recognition. Net sales increased in the Nordics, especially in Norway, driven by both substation projects and smart metering rollouts.

Operative EBITA deteriorated and turned into a loss of EUR 17.5 million (+10.2). The negative EBITA result was mainly a consequence of underperformance in certain African electrification projects within the power transmission business resulting in provisions and write-downs, the main part of which was related to the outcome of an investigation lead by external auditors and concluded in February 2017. Margin revision in power distribution in Sweden and a lower result in power transmission in Germany had a slightly negative impact on profitability. The bulk of total Group provisions of EUR 34.1 million and recorded in the fourth quarter were related to the Power segment and amounted to EUR 29.9 million.

Eltel recorded an impairment of EUR 55.0 million in the value of goodwill in the power transmission business.

COMMUNICATION

The Communication segment provides maintenance, upgrade and project work to telecom operators and other communication network owners. This segment currently operates throughout all of Eltel's geographies and its business is characterised by long-term customer relationships, with a continuous order flow generated mainly through frame agreements. The business is primarily driven by technology upgrades and growing demand for networks.

EUR million	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Net sales	201.6	192.4	701.1	543.7
Operative EBITA	12.8	13.5	34.5	34.2
Operative EBITA margin, %	6.3	7.0	4.9	6.3
Number of employees	5,157	5,126	5,157	5,126

Foreign currency translation effect included in net sales was EUR -2.5 million for the quarter and EUR -13.3 million for Jan-Dec 2016

The consolidation of the Norwegian communication business, Eltel Sønnico AS, impacted comparability. In January-August 2015, net sales of Eltel Sønnico AS were not consolidated and Eltel's share (50%) of the net results of Eltel Sønnico AS was included in EBITA. Since the acquisition on 1 September 2015, 100% of the company is consolidated.

January–December 2016 compared to the same period in 2015

In local currencies, growth in net sales was 31.4%. Reported net sales increased by 29.0% to EUR 701.1 million (543.7), mainly as a result of the consolidation of the acquired Norwegian joint venture Eltel Sønnico AS from September 2015. The fixed communication business in the Nordics, especially in Sweden, also contributed positively to the net sales growth in 2016.

Operative EBITA increased to EUR 34.5 million (34.2) and the operative EBITA margin was 4.9% (6.3). Operative EBITA was positively affected by the fixed communication business in Norway and somewhat offset by unprofitable operations in the UK and lower profitability in the mobile communication business. In the comparable reporting period in 2015, the operative EBITA margin was positively impacted by 0.3 percentage points due to the inclusion of the Norwegian communication business joint venture as a share of joint venture, with no impact on net sales.

October–December 2016 compared to the same period in 2015

In local currencies, growth in net sales amounted to 6.1%. Reported net sales increased by 4.8% to EUR 201.6 million (192.4), mainly driven by the Norwegian and Swedish fixed communication business.

Operative EBITA decreased to EUR 12.8 million (13.5) and the operative EBITA margin was 6.3% (7.0). The main contributor to the result was the communication business in Sweden and Norway, however slightly offset by unprofitable operations in the UK.

TRANSPORT & SECURITY

The Transport & Security business segment provides maintenance, upgrade work and project business to various governmental authorities, including rail, road, defence and aviation authorities. The Transport & Security business segment primarily operates in the Nordic markets. Its business is characterised by long-term customer relationships, with continuous order flow of maintenance work generated from long-term frame agreements and project business contracts via tendering processes. The business is driven by investments in transport infrastructure for air and rail transport and by the outsourcing of technical services in security and aviation.

EUR million	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Net sales	38.3	37.5	143.9	151.7
Operative EBITA	-4.4	1.4	-10.8	11.4
Operative EBITA margin, %	-11.5	3.8	-7.5	7.5
Number of employees	669	611	669	611

Foreign currency translation effect included in net sales was EUR -0.6 million for the quarter and EUR -1.7 million for Jan-Dec 2016

January–December 2016 compared to the same period in 2015

In local currencies, net sales for the Transport & Security business segment decreased by 4.0%. Reported net sales declined by 5.2% to EUR 143.9 million (151.7). The decline in net sales was mainly attributable to lower volumes in the rail and road business in Norway and in the aviation and security business in Sweden due to the loss of the Rakel contract. The negative impact on net sales was partly offset by the acquisition of Finnish signalling company Celer Oy.

Operative EBITA declined and turned to a loss of EUR 10.8 million (+11.4). This highly unsatisfactory performance was attributable to two loss-making rail projects in Norway. In the second quarter, a provision of EUR 10 million was recognised related to one Norwegian rail project. The reason for the provision was significant quality issues in the execution of the project and required correction works. Further margin revisions and write-downs related to both of these loss-making rail projects were made in the second half of the year. The lower result is also attributable to the loss of the Rakel contract. Recorded provisions and write-downs amounted to EUR 13.9 million in 2016 and were related to the rail and road business.

October–December 2016 compared to the same period in 2015

In local currencies, net sales for the Transport & Security business segment increased by 3.9%. Reported net sales increased by 2.1% to EUR 38.3 million (37.5). The increase in net sales was mainly attributable to the acquisition of Finnish signalling company Celer Oy with growth offset by lower volumes in the rail and road business in Norway. In December, a frame agreement with Swedish Defense Material Administration (FMV, Försvarets Materielhantering) was terminated within Eltel's aviation and security business.

Operative EBITA turned to a loss of EUR 4.4 million (+1.4). The decline in EBITA is attributable to the continued weak performance of the loss-making rail projects in Norway. Recorded provisions and write-downs amounted to EUR 3.4 million in the fourth quarter 2016 and were related to the rail and road business.

Other information

GROUP SHARED SERVICES PROGRAMME PROGRESSING ACCORDING TO PLAN

As part of its continuous operational efficiency improvements, Eltel initiated a two-year programme in May 2016 to centralise its back office support function. In the second quarter, a new back office site was established in Gdansk in Poland and the first transition of local functions began. In the second half of 2016, transition of local functions from Finland, Norway and Sweden continued. In 2016, approximately EUR 1 million of costs related to the implementation of this programme were recorded. In 2018, it is expected that net savings will be realised.

COMPOSITION OF THE NOMINATION COMMITTEE

In January 2017, following a change in the ownership of Eltel AB, the composition of Eltel's Nomination Committee changed as Lannebo Fonder sold its holding in Eltel AB. As of 20 January 2017, the four largest shareholders and members of the Nomination Committee of Eltel were: Zeres Capital, the Fourth Swedish National Pension Fund (AP4), Swedbank Robur Fonder and the First Swedish National Pension Fund (AP1).

In February 2017, the Nomination Committee was expanded by Solero Luxco S.á.r.l. as a fifth member. In January 2017, Solero Luxco flagged a holding in Eltel corresponding to 10.84% of votes. As of 6 February 2017, the members of the Nomination Committee were as follows: Joakim Rubin, Zeres Capital (13.03% of votes), Erik Malmberg, Solero Luxco S.á.r.l. (10.84% of votes), Per Colleen, the Fourth Swedish National Pension Fund (AP4) (9.60% of votes), Marianne Flink, Swedbank Robur Fonder (9.57% of votes) and Ossian Ekdahl, the First Swedish National Pension Fund (AP1) (6.00% of votes). The Nomination Committee represented 49.02% of the votes in the company.

RISKS AND UNCERTAINTIES

The overall economic climate and regulatory decisions in Eltel's markets pose risks to volumes and the timing of investments. Significant fluctuations in the EUR/SEK, EUR/NOK and EUR/PLN exchange rates may affect the Group's consolidated net sales and, to a lesser extent, its profitability.

Negative interest rates may affect the Group's consolidated profitability. The interest rate derivatives entered for hedging purposes at the time when interest rates were positive may not qualify as hedges according to IFRS and, in such a case, the derivative revaluation result must be recognised in profit and loss. The cash held in currencies with negative interest rates may be subject to a deposit fee charged by the banks and recognised in financial expenses.

Eltel's current performance impacting Group EBITA in coming quarters includes a risk in terms of meeting the leverage (net debt/adjusted EBITDA) covenant in its banking agreement. In December, Eltel signed an amendment agreement of its existing financing agreement on temporary resetting of the leverage covenant. In the amended agreement signed with the banks, the temporary reset quarterly leverage (Net Debt/EBITDA) covenant levels vary between 6.30x and 3.60x, covering the time period effective from the situation at the end of 2016 and extending until the end of 2017. These reset levels replaced the original leverage covenant levels in the financing agreement signed in 2015 defined at 4.0x Net Debt/EBITDA for the fourth quarter 2016 and at 3.5x starting from the first quarter 2017. The amendment agreement increases Eltel's financial costs and is dependent on the progress in restoring Group profitability and reducing working capital. Per the year-end 2016, Eltel did not meet the reset leverage (net debt/adjusted EBITDA) nor interest cover (adjusted EBITDA/adjusted net finance charges) covenants. In February 2017, Eltel and its bank consortium agreed on an additional amendment to the existing financing agreement with revised covenants for the situation at the year-end 2016. However, there is a risk in terms of meeting the leverage (net debt/adjusted EBITDA) and interest cover (adjusted EBITDA/adjusted net finance charges) covenant in the first quarter 2017. Eltel has initiated discussions with its bank to find a solution.

Eltel's challenges with respect to meeting its financial covenants might lead to a risk that suppliers and other stakeholders could request accelerated payment terms or additional guarantees.

In February 2017, the Board of Directors decided to initiate a process for a preferential rights issue to mitigate the financing and liquidity risks.

Project business contains inherent risks related to the pricing of the project and estimates of the ultimate cost and performance of the contract. Additionally, project business involves risk related to authority, customer or other external conditions, including the risk of delays and the risk of inability of the Group's customers to obtain financing to fund planned projects and services. The essential skills for performance and profitability of a project are the Group's ability to accurately foresee the project's costs, to correctly assess the various resources necessary to carry out the project, to effectively manage the services provided by subcontractors, and to control technical events that could affect and delay progress on the project. In practice, poor project management, errors in calculating costs or defective bids by subcontractors engaged by the Group can generate significant additional performance costs and delays.

Finnish Competition and Consumer Authority (FCCA) case to continue in the Supreme Administrative Court in Finland

On 31 October 2014, the Finnish Competition and Consumer Authority (FCCA) proposed the imposition of a fine of EUR 35 million on Eltel in the Finnish Market Court. The violation of competition law alleged by the FCCA is related to Eltel's power transmission line construction and planning business in Finland during the period 2004-2011. Eltel considers that it did not violate competition law and contested the FCCA's allegations and fine proposal to the Finnish Market Court, requesting that the case be dismissed. The main hearing in the case was held in the Finnish Market Court in September 2015. On 30 March 2016, the Market Court in Finland dismissed as time-barred the allegations of Eltel's competition law violations in its power transmission line construction business in Finland. On 29 April 2016, the FCCA submitted an appeal to the Supreme Administrative Court against the decision of the Finnish Market Court and the proceedings are expected to continue in the Supreme Administrative Court. No timeline has yet been presented by the Court.

In relation to the listing of Eltel on Nasdaq Stockholm in February 2015, the selling shareholders entered into an agreement under which they contributed EUR 35 million to an escrow account held by Eltel to cover any fines (excluding costs and damages from third-party claims) payable by Eltel in relation to the FCCA case. In the event of a final decision requiring Eltel to pay a fine, the equivalent amount will be converted into equity from the escrow. For further information regarding this case and the guarantee (escrow), please refer to Eltel's 2015 Annual Report and Eltel's IPO prospectus.

Eltel has received notifications of claims for damages from certain of its customers based on the allegations by the FCCA. No damages claims have been filed in any civil courts. Eltel maintains that the company has not violated competition law and that all related damages claims are unfounded and incomplete in respect of facts. Eltel will dispute and defend itself against any damage claims. As stated in the IPO prospectus, Eltel expects to receive damage claims relating to the alleged cartel, and expects that such claims may be material. The ultimate outcome of any such claims will be highly dependent on several factors such as the outcome of the Supreme Administrative Court proceedings, which will constitute the final resolution of the FCCA case.

For further information regarding this case, please refer to Eltel's 2015 Annual Report and Eltel's IPO prospectus. For further information regarding risks and uncertainties, please refer to the 2015 Annual Report.

OWNERSHIP STRUCTURE

The largest shareholders of Eltel AB on 31 December 2016 were:

Shareholders	Number of shares	% of ordinary shares
Zeres Capital	8,146,875	13.0%
The Fourth Swedish National Pension Fund	6,010,824	9.6%
Swedbank Robur Fonder	5,990,194	9.6%
Lannebo Fonder	4,280,000	6.8%
The First Swedish National Pension Fund	3,164,700	5.1%
Total	27,592,593	44.1%
Other shareholders	35,031,645	55.9%
Total ordinary shares in Eltel AB	62,624,238	100.0%
Total C shares in Eltel AB	537,000	

Updated information of Eltel's largest shareholders after 31 December 2016 is available on Eltel's website at www.eltelgroup.com/en/share-information/.

SIGNATURES OF THE BOARD OF DIRECTORS AND CEO

Stockholm, 20 February 2017

THE BOARD OF DIRECTORS

Ulf Lundahl, Chairman	Gunilla Fransson	Matti Kyytsönen
Susanne Lithander	Rada Rodriguez	Karl Åberg
Jonny Andersson	Björn Ekblom	

PRESIDENT AND CEO

Håkan Kirstein

Condensed financial information

CONDENSED CONSOLIDATED INCOME STATEMENT

EUR million	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Net sales	387.1	397.3	1,399.8	1,254.9
Cost of sales	-371.0	-346.3	-1,279.5	-1,089.6
Gross profit	**16.0**	**51.0**	**120.3**	**165.3**
Other income	1.9	1.1	4.0	4.3
Sales and marketing expenses	-2.7	-4.2	-11.7	-14.2
Administrative expenses	-29.0	-23.8	-104.4	-88.0
Other expenses	-0.7	-3.5	-5.6	-8.3
Share of profit/loss of joint ventures	-0.1	-0.1	-0.4	1.5
Operating result before acquisition-related amortisations (EBITA)	**-14.6**	**20.5**	**2.1**	**60.5**
Amortisation and impairment of acquisition-related intangible assets	-58.6	-4.0	-69.4	-13.9
Operating result (EBIT)	**-73.2**	**16.5**	**-67.4**	**46.6**
Financial income	0.1	0.1	0.2	0.3
Financial expenses	-4.6	-2.3	-12.8	-14.7
Net financial expenses	-4.5	-2.2	-12.6	-14.4
Result before taxes	**-77.7**	**14.3**	**-80.0**	**32.2**
Taxes	-2.6	2.9	-2.2	11.0
Net result	**-80.3**	**17.3**	**-82.2**	**43.2**
Attributable to:				
Equity holders of the parent	-80.9	16.6	-83.5	41.7
Non-controlling interest	0.6	0.6	1.3	1.5
Earnings per share (EPS)				
Basic, EUR	-1.29	0.27	-1.33	0.69
Diluted, EUR	-1.29	0.27	-1.33	0.69

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Net profit for the period	-80.3	17.3	-82.2	43.2
Other comprehensive income:				
Items that will not be reclassified to profit and loss				
Revaluation of defined benefit plans	7.1	2.3	0.7	0.4
Items that may be subsequently reclassified to profit and loss				
Cash flow hedges	0.2	-2.0	0.3	-3.5
Net investment hedges	-0.4	-1.0	2.3	-1.5
Currency translation differences	-0.7	3.4	-6.1	3.3
Total	-0.9	0.3	-3.6	-1.6
Other comprehensive income/loss for the period, net of tax	6.2	2.6	-2.9	-1.2
Total comprehensive income/loss for the period	**-74.1**	**19.9**	**-85.1**	**41.9**
Total comprehensive income/loss attributable to:				
Equity holders of the parent	-74.7	19.2	-86.4	40.5
Non-controlling interest	0.6	0.6	1.3	1.5

CONDENSED CONSOLIDATED STATEMENT OF BALANCE SHEET

EUR million	31 Dec 2016	31 Dec 2015
ASSETS		
Non-current assets		
Goodwill	420.2	463.6
Intangible assets	70.1	82.4
Property, plant and equipment	37.8	38.0
Investments in and receivable from joint ventures	0.6	0.2
Available-for-sale investments	0.3	0.2
Deferred tax assets	29.7	34.2
Other financial asset	35.0	35.0
Trade and other receivables	0.2	0.1
Total non-current assets	594.0	653.7
Current assets		
Inventories	7.5	14.5
Trade and other receivables	393.3	341.1
Cash and cash equivalents	85.2	87.9
Total current assets	486.0	443.5
TOTAL ASSETS	1,080.0	1,097.2
EQUITY AND LIABILITIES		
Equity		
Shareholders' equity	339.7	440.9
Non-controlling interest	7.3	7.1
Total equity	347.0	448.0
Non-current liabilities		
Debt	3.5	216.7
Liabilities to shareholders	35.0	35.0
Retirement benefit obligations	8.1	13.9
Deferred tax liabilities	15.5	17.1
Provisions	1.7	3.0
Other non-current liabilities	6.2	0.1
Total non-current liabilities	70.0	285.8
Current liabilities		
Debt	280.0	14.9
Provisions	24.9	3.8
Advances received	65.6	62.7
Trade and other payables	292.6	281.9
Total current liabilities	663.0	363.4
Total liabilities	733.0	649.2
TOTAL EQUITY AND LIABILITIES	1,080.0	1,097.2

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

EUR million	Jan-Dec 2016	Jan-Dec 2015
Cash flow from operating activities		
Cash flow from operating activities before financial items and taxes	4.5	49.1
Interest received	0.1	0.3
Interest and other financial expenses paid	-10.5	-9.7
Income taxes paid	-2.5	-3.3
Net cash from operating activities	-8.3	36.4
Cash flow from investing activities		
Purchases of property, plant and equipment (PPE)	-14.1	-12.3
Proceeds from sale of PPE	0.8	1.3
Acquisition of business	-19.9	-33.1
Investments in joint ventures	-0.7	-
Net cash from investing activities	-34.0	-44.2
Cash flow from financing activities		
Proceeds from issuance of share capital	-	143.1
Proceeds from long-term financial liabilities	21.3	209.3
Proceeds from short-term financial liabilities	93.0	29.2
Payments from short-term borrowings	-56.4	-19.0
Payments of financial liabilities	-1.8	-326.5
Payments of/proceeds from finance lease liabilities	-0.8	-0.5
Dividends to shareholders	-15.0	-
Dividends to non-controlling interest	-1.1	-0.8
Change in non-liquid financial assets	0.5	0.7
Net cash from financing activities	39.7	35.5
Net change in cash and cash equivalents	-2.6	27.8
Cash and cash equivalents at beginning of period	87.9	61.0
Foreign exchange rate effect	-0.1	-0.9
Cash and cash equivalents at end of period	85.2	87.9

RECONCILIATION OF EBITA TO CASH FLOW FROM OPERATING ACTIVITIES BEFORE FINANCIAL ITEMS AND TAXES

EUR million	Jan-Dec 2016	Jan-Dec 2015
EBITA	2.1	60.5
Depreciation	13.1	11.9
EBITDA	15.1	72.3
Change in net working capital	-9.8	-15.5
Net purchase of PPE	-13.3	-11.1
Operative cash flow (used in cash conversion key figure)	-8.0	45.8
Less net purchase of PPE, presented in investing activities	13.3	11.1
Gains on sales of assets	-0.4	-1.3
Items recognised through other comprehensive income	-3.4	-6.1
Other non-cash adjustments	2.9	-0.4
Cash flow from operating activities before financial items and taxes	4.5	49.1

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR million	Share capital	Other paid-in capital	Accumulated losses	Revaluation of defined benefit plans, net of tax	Hedging reserve	Currency Translation	Total	Non-controlling interest	Total equity
Equity at 1 Jan 2016	125.2	389.1	-37.3	-22.5	3.7	-17.2	440.9	7.1	448.0
Total comprehensive income for the period	-	-	-83.5	0.7	2.5	-6.1	-86.4	1.3	-85.1
Equity-settled share-based payment	-	-	0.1	-	-	-	0.1	-	0.1
Proceeds from shares issued	1.1	-1.1	-	-	-	-	-	-	-
Dividends paid to shareholders	-	-15.0	-	-	-	-	-15.0	-	-15.0
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-1.1	-1.1
Total transaction with owners	1.1	-16.1	0.1	-	-	-	-14.9	-1.1	-16.0
Equity at 31 Dec 2016	126.3	373.0	-120.7	-21.8	6.2	-23.4	339.7	7.3	347.0

EUR million	Share capital	Other paid-in capital	Accumulated losses	Revaluation of defined benefit plans, net of tax	Hedging reserve	Currency Translation	Total	Non-controlling interest	Total equity
Equity at 1 Jan 2015	86.4	276.3	-79.4	-22.9	8.6	-20.5	248.4	6.4	254.9
Total comprehensive income for the period	-	-	41.7	0.4	-4.9	3.3	40.5	1.5	41.9
Equity-settled share-based payment	-	-	0.3	-	-	-	0.3	-	0.3
Proceeds from shares issued	38.9	113.4	-	-	-	-	152.3	-	152.3
New share issue costs	-	-0.6	-	-	-	-	-0.6	-	-0.6
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-0.8	-0.8
Total transaction with owners	38.9	112.8	0.3	-	-	-	152.0	-0.8	151.2
Equity at 31 Dec 2015	125.2	389.1	-37.3	-22.5	3.7	-17.2	440.9	7.1	448.0

Notes to the condensed consolidated interim financial statements

Accounting principles

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting. The accounting principles adopted are consistent with those of the Group's annual financial statements for the year ended 31 December 2015.

As of the second quarter 2016, Eltel has applied ESMA's (European Securities and Markets Authority) new guidelines for alternative performance measures (APM). In addition to the financial measures defined in IFRS, certain key figures, which qualify as alternative performance measures (APMs) are presented to reflect the underlying business performance, facilitate analysis of the Group's development as followed by Group Management and enhance comparability from period to period. The definition of these key figures is presented in page 21 and relevant information enabling reconciliations to IFRS measures can be found in connection with relevant parts of the report. These APMs should not be considered as a substitute for measures in accordance with IFRS.

NET SALES BY SEGMENT

EUR million	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Power				
Net sales (external)	147.6	167.7	556.3	561.4
Inter-segment sales	0.3	3.6	0.7	6.3
Communication				
Net sales (external)	201.3	192.1	700.1	541.9
Inter-segment sales	0.3	0.2	1.0	1.8
Transport & Security				
Net sales (external)	38.1	37.4	143.3	151.6
Inter-segment sales	0.1	0.0	0.6	0.2
Elimination of sales between segments	-0.7	-3.9	-2.3	-8.2
Net sales, total	**387.1**	**397.3**	**1,399.8**	**1,254.9**

RECONCILIATION OF SEGMENT RESULTS

EUR million	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Operative EBITA by segment				
Power	-17.5	10.2	-8.9	29.6
Communication	12.8	13.5	34.5	34.2
Transport & Security	-4.4	1.4	-10.8	11.4
Items not allocated to operating segments*	-5.5	-4.6	-12.6	-13.0
Operative EBITA, Group	-14.6	20.5	2.1	62.2
Items affecting comparability in EBITA**	-	-	-	-1.7
EBITA before acquisition-related amortisations	-14.6	20.5	2.1	60.5
Amortisation of acquisition-related intangible asset	-3.6	-4.0	-14.4	-13.9
Impairment of goodwill***	-55.0	-	-55.0	-
Operating result (EBIT)	-73.2	16.5	-67.4	46.6
Items affecting comparability, non-cash financial expenses for pre IPO financing	-	-	-	-3.5
Other financial expenses, net	-4.5	-2.2	-12.6	-10.9
Result before taxes	**-77.7**	**14.3**	**-80.0**	**32.2**

* Items not allocated to operating segments consist of group management function and other group level expenses
** Items affecting comparability are items which management does not consider to form part of the ongoing operative business. In 2015 these consisted of IPO-related costs and gain from revaluation of Eltel's previously owned 50% of Eltel Sønnico AS to fair value.
*** Impairment of goodwill is related to the power transmission business.

IMPAIRMENT OF GOODWILL

Following the challenges in the project business and the outcome of a comprehensive investigation of selected projects, Eltel's management revisited estimated future cash flows in the power transmission CGU (Cash Generating Unit). The recoverable amount of the power transmission CGU was estimated to be EUR 164 million and an impairment loss of EUR 55 million was recognised, reducing the carrying amount of the goodwill for the CGU to EUR 83 million. The impairment arose following greater risks than expected in relation to the project business, primarily in Africa, including challenges in project execution as well as limited access to domestic funding, as well as other challenges in the local economies impacted by the slump in oil and metal prices. As a result, the expectations for sales volume and corresponding cash flows was lowered significantly.

The recoverable amount is based on the value in use calculation. The pre-tax discount rate (WACC) used in the calculation is 9.2%.

BUSINESS COMBINATIONS

EUR million	Q2 2016
Fair value of consideration transferred at acquisition date	
Amount settled in cash	8.1
Contingent consideration	9.6
Total	17.7
Fair value of recognised amounts of identifiable net assets	
Property, plant and equipment	0.6
Intangible assets	2.1
Available-for-sale investments	0.1
Inventories	0.1
Trade and other receivables	4.5
Cash and cash equivalents	0.0
Total assets	7.4
Short-term debt	0.3
Deferred tax liability on fair value adjustments	0.6
Trade and other payables	4.0
Total liabilities	4.9
Identifiable net assets	**2.6**
Goodwill on acquisitions	**15.2**
Consideration transferred settled in cash	8.1
Cash and equivalents acquired	-0.1
Net cash outflow on acquisition	8.2
Acquisition costs charged to expenses	0.1
Net cash paid relating to the acquisitions	**8.2**

Celer Oy

On 1 April 2016, Eltel closed the acquisition of Celer Oy. Celer Oy is one of the key players in the signalling sector for the railway market in Finland with an annual turnover of approximately EUR 6 million. Celer had 29 employees with highly specialised signalling and safety competences. This acquisition of Celer Oy is well in line with Eltel's strategic plan to expand in the Finnish market. Eltel's customers have extensive investment plans and there are increasing needs to ensure sufficient competences and resources within this sector. The acquisition is complementary to Eltel's current offering in Finland and provides clear synergies with its existing rail and road business of Eltel. This acquisition further expands Eltel's Nordic footprint in the signalling market as a complement to the acquisition of Vete Signaltjenester AS in Norway made in October 2015.

U-SERV & EVB

On 1 May 2016, Eltel acquired both 100% of U-SERV GmbH, a company operating in the electricity and gas metering sector in Germany, and metering related field service assets of EVB Billing und Services GmbH, a subsidiary of ATV Energie GmbH. U-SERV is one of the major meter service companies in Germany with annual net sales of approximately EUR 9 million and approximately 50 persons with permanent employment and an ability to mobilise more than 1,000 employees when needed. The product offering comprises national electrical meter replacements, read-outs, customer self-readings and gas meter adjustments and replacements. The deal with EVB comprises the transfers of EVB's customer base as well as an offer to the approximately 80 employees to transfer to Eltel. Through its existing business development agreement ATV, EVB and Eltel will collaborate to expand the business for smart metering service in Germany.

Eltel has a strong market position in the smart metering sector in the Nordics and this acquisition expands Eltel's footprint to cover also the German market. U-SERV's strong and rapidly growing local presence in combination with Eltel's vast international competence in smart meter rollouts offers good potential for further growth. U-SERV's installations in gas applications offer Eltel a new opportunity to grow the smart metering business and the customer base offers future opportunities for Eltel to expand its wider service offering for distribution operators in Germany. The German market is opening up for smart meter rollout investments in accordance with the new German legislation for the period 2017 to 2032. The total amount of electricity meters estimated to be changed during this period amounts to 43 million units. In addition, approximately five million gas meters are estimated to be changed in the future.

There were no business combinations during the quarter.

EARNINGS PER SHARE

	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Net result attributable to equity holders of the parent	-80.9	16.6	-83.5	41.7
Weighted average number of common shares, basic	62,624,238	62,624,238	62,624,238	60,700,764
Weighted average number of common shares, diluted	62,658,058	62,631,662	62,651,196	60,702,870
Earnings per share EUR, basic	-1.29	0.27	-1.33	0.69
Earnings per share EUR, diluted	-1.29	0.27	-1.33	0.69

NET WORKING CAPITAL (NWC) AND CAPITAL EMPLOYED

EUR million	31 Dec 2016	31 Dec 2015
Inventories	7.5	14.5
Trade and other receivables	393.3	341.1
Provisions	-26.5	-6.9
Advances received	-65.6	-62.7
Trade and other payables	-292.6	-281.9
Other*	-1.4	3.5
Net working capital	14.7	7.6
Intangible assets excluding acquisition-related allocations	4.9	3.7
Property, plant and equipment	37.8	38.0
Capital employed	57.5	49.4
Average capital employed	53.4	34.4

*Includes adjustments for non-NWC items included in above receivable and payables lines, mainly for derivative valuations, contingent consideration from acquisitions and income tax liabilities and NWC items included in other balance sheet lines.

DERIVATIVE FINANCIAL INSTRUMENTS

	31 Dec 2016		31 Dec 2015	
EUR million	Nominal values	Net fair values	Nominal values	Net fair values
Interest rate derivatives	22.2	0.1 [1)]	157.8	-1.1 [3)]
Foreign exchange rate derivatives	90.9	0.3 [2)]	82.0	0.3 [4)]
Embedded derivatives	37.7	3.1	58.5	6.2
Total	**150.9**	**3.6**	**298.3**	**5.4**

Designated as cash flow hedge 1) EUR -0.7 million 2) EUR 0.0 million 3) EUR -1.1 million 4) EUR -0.1 million. Financial assets recognised at fair value through profit and loss comprise solely derivatives. Fair values of the derivative instruments are based on observable market values (level 2 observable input information) at balance sheet date. Fair value of other financial instruments corresponds their book value.

During 2016, SEK and EUR interest rate derivatives were closed prematurely as they no longer qualified as hedges according to IFRS due to negative interest rates. The realised value is included in financial costs.

TRANSACTIONS WITH RELATED PARTIES

No transactions have taken place between Eltel and related parties that significantly affect the company's position and earnings during the quarter.

QUARTERLY KEY FINANCIAL FIGURES FOR THE GROUP

EUR million	Oct-Dec 2016	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015	Jan-Mar 2015
Net sales	387.1	356.2	369.0	287.5	397.3	310.8	307.8	239.0
Net sales growth, %	-2.6	14.6	19.9	20.3	12.8	-6.1	2.7	-7.8
Operative EBITA	-14.6	7.8	5.7	3.2	20.5	22.5	13.9	5.3
Operative EBITA margin, %	-3.8	2.2	1.6	1.1	5.2	7.2	4.5	2.2
EBITDA	-11.3	10.8	9.3	6.3	23.9	26.3	16.7	5.5
EBITA	-14.6	7.8	5.7	3.2	20.5	23.3	14.0	2.7
EBITA margin, %	-3.8	2.2	1.6	1.1	5.2	7.5	4.5	1.1
Impairment of goodwill	-55.0	-	-	-	-	-	-	-
Operating result (EBIT)	-73.2	4.1	2.1	-0.4	16.5	19.6	10.9	-0.4
EBIT margin, %	-18.9	1.2	0.6	-0.1	4.2	6.3	3.5	-0.2
Result after financial items	-77.7	2.1	-0.3	-4.1	14.3	17.0	9.1	-8.3
Net result for the period	-80.3	1.9	-0.1	-3.6	17.3	25.2	8.3	-7.5
Earnings per share EUR, basic and diluted	-1.29	0.02	-0.01	-0.06	0.27	0.39	0.13	-0.14
Return on capital employed, %*	-126.1	21.1	40.0	53.6	135.7	42.8	33.3	35.1
Return on equity (ROE), %*	-20.7	3.6	9.2	11.1	12.3	10.1	3.1	2.2
Leverage ratio*	13.2	4.3	3.6	2.6	2.0	3.6	4.1	4.2
Net working capital	14.7	54.9	69.1	48.9	7.6	74.3	39.8	47.6
Operative cash flow	22.5	22.6	-15.7	-37.4	90.4	-7.4	22.7	-59.9
Cash conversion, %*	-387.4	160.8	68.8	112.1	75.8	4.5	78.1	12.0
Number of personnel, end of period	9,465	9,648	9,674	9,601	9,568	9,236	8,223	7,967

* calculated on a rolling 12-month basis

QUARTERLY SEGMENT INFORMATION

NET SALES

EUR million	Oct-Dec 2016	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015	Jan-Mar 2015
Power	148.0	146.2	148.1	114.8	171.3	135.8	152.6	107.8
Communication	201.6	173.9	181.4	144.3	192.4	140.3	113.6	97.4
Transport & Security	38.3	36.7	40.0	29.0	37.5	36.6	42.9	34.8
Elimination of sales between segments	-0.7	-0.6	-0.4	-0.6	-3.9	-1.9	-1.4	-1.0
Net sales, total	**387.1**	**356.2**	**369.0**	**287.5**	**397.3**	**310.8**	**307.8**	**239.0**

OPERATIVE EBITA BY SEGMENT

EUR million	Oct-Dec 2016	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015	Jan-Mar 2015
Power	-17.5	0.3	6.8	1.4	10.2	9.6	7.7	2.1
% of net sales	-11.8	0.2	4.6	1.2	5.9	7.1	5.1	1.9
Communication	12.8	9.4	9.7	2.6	13.5	10.8	6.1	3.8
% of net sales	6.3	5.4	5.4	1.8	7.0	7.7	5.3	3.9
Transport & Security	-4.4	1.7	-8.1	-0.1	1.4	4.2	3.4	2.3
% of net sales	-11.5	4.7	-20.2	-0.3	3.8	11.4	8.0	6.7
Costs not allocated to segments	-5.6	-3.7	-2.7	-0.7	-4.6	-2.2	-3.3	-2.9
Operative EBITA	**-14.6**	**7.8**	**5.7**	**3.2**	**20.5**	**22.5**	**13.9**	**5.3**
% of net sales	-3.8	2.2	1.6	1.1	5.2	7.2	4.5	2.2

NUMBER OF EMPLOYEES BY SEGMENT, AT THE END OF PERIOD

	Oct-Dec 2016	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015	Jan-Mar 2015
Power	3,345	3,488	3,536	3,324	3,607	3,347	3,442	3,278
Communication	5,157	5,182	5,177	5,401	5,126	5,094	4,032	3,971
Transport & Security	669	688	687	629	611	566	581	555
Other	294	290	274	247	224	229	168	163
Total	**9,465**	**9,648**	**9,674**	**9,601**	**9,568**	**9,236**	**8,223**	**7,967**

Definitions and key ratios

IFRS key ratios

EARNINGS PER SHARE (EPS)	Net result attributable to equity holders of the parent / Weighted average number of ordinary shares

Alternative performance measures (APMs)

ORGANIC NET SALES	Organic net sales exclude U-SERV acquisition in 2016 and Norwegian Communication business until 1 September 2016 (Eltel Sønnico) and is presented with comparable exchange rates
OPERATIVE EBITA	Operating result before acquisition-related amortisations and items affecting comparability
ITEMS AFFECTING COMPARABILITY	Items for specific events which management does not consider to form part of the ongoing operative business
COMMITTED ORDER BACKLOG	The total value of committed orders received but not yet recognised as sales
OPERATIVE CASH FLOW	EBITA + depreciation + change in net working capital – net purchase of PPE (capex)
CASH CONVERSION, %*	Operative cash flow x 100 / EBITA
EQUITY RATIO, %	Total equity x 100 / Total assets - advances received
NET DEBT	Interest-bearing debt (excluding shareholder loans) - cash and cash equivalents
LEVERAGE RATIO*	Net debt / EBITDA
CAPITAL EMPLOYED	Net working capital + Intangible assets excluding goodwill and acquisition-related allocations + Property, plant and equipment
RETURN ON CAPITAL EMPLOYED, %*	EBIT x 100 / Capital employed (average over the reporting period)
RETURN ON EQUITY, %*	Net result x 100 / Total equity (average over the reporting period)

* calculated on a rolling 12-month basis

Parent company

Eltel AB owns and governs the shares related to the Eltel Group. The operational and strategic management functions of the Group are centralised to Eltel AB. The Company has no operative business activities and its risks are mainly attributable to the activities of its subsidiaries.

PARENT COMPANY INCOME STATEMENT

EUR million	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Net sales	0.6	1.4	0.6	1.4
Administrative income and expenses	-2.1	-0.7	-5.6	-4.9
Interest and other financial income	4.5	5.2	18.9	23.7
Interest and other financial expenses	-0.8	-0.9	-3.5	-2.6
Net financial items	3.7	4.3	15.3	21.1
Result after financial items	**2.2**	**4.9**	**10.3**	**17.5**
Appropriations				
Group contributions given	-9.8	-17.2	-9.8	-17.2
Taxes	1.8	-	-	-
Net result	**-5.8**	**-12.3**	**0.5**	**0.4**

PARENT COMPANY BALANCE SHEET

EUR million	31 Dec 2016	31 Dec 2015
ASSETS		
Non-current assets		
Shares in group companies	241.6	241.6
Deferred tax assets	0.1	0.1
Other financial asset	35.0	35.0
Receivables from group companies	331.8	357.6
Total non-current assets	608.5	634.3
Current assets		
Trade and other receivables	3.4	2.2
Cash pool receivable	74.0	5.8
Cash and cash equivalents	0.0	0.0
Total current assets	77.4	8.1
TOTAL ASSETS	685.9	642.4
EQUITY AND LIABILITIES		
Equity	489.7	504.0
Non-current liabilities		
Debt	-	83.3
Liabilities to shareholders	35.0	35.0
Total non-current liabilities	35.0	118.3
Current liabilities		
Debt	130.4	-
Liabilities to group companies	29.0	17.5
Trade and other payables	1.9	2.5
Total current liabilities	161.2	20.1
Total liabilities	196.2	138.4
TOTAL EQUITY AND LIABILITIES	685.9	642.4

The loans under Eltel's bank agreement are presented as current due to the reported breach of leverage covenant calculated as of 31 December 2016.

EQUITY

EUR million	1 Jan 2016	Proceeds from shares issued	Dividends to shareholders	Hedging reserve	Equity-settled share-based payment	Net result	31 Dec 2016
Share capital	125.2	1.1	-	-	-	-	126.3
Non-restricted equity	378.7	-1.1	-15.0	0.1	0.1	0.5	363.3
Total	504.0	-	-15.0	0.1	0.1	0.5	489.7

PRESENTATION OF THE INTERIM REPORT

Analysts and media are invited to participate in the fourth quarter 2016 briefing on 21 February 2017 at 09:00 a.m. (CET) where Eltel's President and CEO Håkan Kirstein, interim CFO Lars Nilsson and Chairman of the Board Ulf Lundahl will present the report and answer questions. A live audiocast as well as the presentation will be available at www.eltelgroup.com/investors.

FOR FURTHER INFORMATION, PLEASE CONTACT:

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FINANCIAL CALENDAR

Annual Report 2016	7 April 2017
Annual General Meeting 2017	28 April 2017
Interim report January-March 2017	5 May 2017
Interim report January-June 2017	17 August 2017
Interim report January-September 2017	2 November 2017

This information is information that Eltel AB is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, at 07.00 CET on 21 February 2017.

Eltel in Brief

Eltel is a leading European provider of technical services to the Infranet industry-critical infrastructure in the segments of Power, Communication and Transport & Security – with operations throughout the Nordic and Baltic regions, Poland, Germany and the United Kingdom. Eltel provides a broad and integrated range of services spanning from maintenance and upgrade services to project deliveries. Eltel has a diverse contract portfolio and a loyal and growing customer base of large network owners.

The group began its journey towards becoming a leading European provider of technical services for the Infranet industry in early 2000. At that point of time, deregulation, privatisations and needs of efficiency improvements among electricity utilities and telecom operators started to shape the industry. Since then, Eltel has grown rapidly and, for the financial year ended 31 December 2016, the group generated net sales of EUR 1,400 million and reported operative EBITA of EUR 2.1 million.

STRATEGY AND TARGETS

Eltel has a clear strategic agenda of capitalising on its strong market position and ensuring sustained profitable growth. The company has set four financial targets in the journey towards its vision of becoming the leading Infranet service company in Europe.

MEDIUM- TO LONG-TERM TARGETS

Eltel has defined the following medium- to long-term targets:

- Average annual organic revenue growth of approximately 5% and approximately 5% annual growth from M&A including new outsourcing
- a reported EBITA margin of approximately 6%
- average cash conversion of 95-100% of EBITA, and
- a leverage ratio of 2.0-2.5 x Net debt/EBITDA

Medium- to long-term should roughly be seen as a three- to five-year period.

DIVIDEND POLICY

The Board of Directors has adopted a dividend policy whereby 50%, with some flexibility with payout ratio, of the Company's consolidated net profit shall be paid in dividends over time.

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