Eltel Group

INTERIM REPORT JANUARY–SEPTEMBER 2016

January–September 2016

- Net sales amounted to EUR 1,012.7 million (857.6), up 20.6% in local currencies, organic net sales increased by 3.5%*
- Operative EBITA amounted to EUR 16.7 million (41.7) or 1.6% of net sales (4.9)
- No items affecting comparability (-1.7)
- EBITA amounted to EUR 16.7 million (40.0) or 1.6% of net sales (4.7)
- EBIT amounted to EUR 5.9 million (30.1)
- Net financial expenses decreased to EUR -8.1 million (-12.2)
- The net result amounted to EUR -1.8 million (25.9)
- Earnings per share was EUR -0.04 (0.42)
- Operative cash flow was negative at EUR 30.5 million (-44.6), cash conversion was 160.8% on a rolling 12-month basis

July–September 2016

- Net sales amounted to EUR 356.2 million (310.8), up 16.2% in local currencies, organic net sales increased by 4.0%*
- Operative EBITA amounted to EUR 7.8 million (22.5) or 2.2% of net sales (7.2)
- EBITA amounted to EUR 7.8 million (23.3) or 2.2% of net sales (7.5)
- EBIT amounted to EUR 4.1 million (19.6)
- Net financial expenses amounted to EUR -2.0 million (-2.6)
- The net result amounted to EUR 1.9 million (25.2)
- Earnings per share was EUR 0.02 (0.39)
- Operative cash flow was positive at EUR 22.6 million (-7.4)

Unless otherwise stated, figures in brackets refer to the same period in the previous year
* Organic net sales excludes Vete acquisition in 2015, U-SERV acquisition in 2016, and the Norwegian Communication business until 1 September 2016 (Eltel Sønnico) and is presented using comparable exchange rates.

Comments by the CEO

Focus on restoring financials

My first few weeks as CEO of Eltel has without doubt been hectic. The performance deviations in certain projects have been top priority for the management team. We take these performance deviations, communicated after the summer, very seriously and address them accordingly.

These challenges mainly affected profitability in the third quarter, with only a minor impact on net sales. Net sales growth amounted to 16% in the quarter. Growth was mainly driven by acquisitions but also by organic growth, especially within our fibre business in the Communication segment. The EBITA for the quarter amounted to EUR 8 million, in line with our communicated guidance on 14 October, most significantly burdened by the performance in Power segment and especially by certain electrification projects in Africa.

As earlier communicated, these challenges are expected to also impact net sales and profitability in the fourth quarter. Eltel estimates that EBITA for the full year 2016 will be in the range of EUR 27-32 million, indicating an EBITA for the fourth quarter in the range of EUR 10-15 million. In the estimate for the fourth quarter, management has also considered the increased impact of delayed customer investments in the Polish and German power markets and in the German communication sector as communicated in connection with the second quarter 2016 interim report.

Regarding 2017, management is now taking a more cautious stand concerning Eltel's project business within power transmission in Africa and rail and road in Norway. Within the Power segment, it is estimated that net sales from power transmission will decrease in 2017 compared to the level in 2016.

Eltel's management is currently carrying out a thorough review, including planning of permanent corrective actions, to restore the situation in this part of our business. The conclusions and an action plan will be in place during November.

Despite the challenges, the vast majority of Eltel's operations are performing well. The project business, which accounts for approximately one third of total Group volumes, has demonstrated a profitable track record over many years. We have a sizeable committed order backlog that is well supported by both smart meter installations and fibre rollouts. In a longer term perspective, Eltel's position within both the projects and service business for Infranets will remain strong.

–Håkan Kirstein, President and CEO

IMPORTANT EVENTS DURING THE THIRD QUARTER 2016

ELTEL GROUP:

- In August, Håkan Kirstein was appointed the new CEO of Eltel AB and took up his position in mid-September
- In August, Eltel initiated subscription for the long-term incentive programme 2016 (LTIP 2016)
- In September, Henrik Sundell was appointed General Counsel and member of Eltel's Group Management Team

POWER SEGMENT:

- In August, Eltel's power transmission business won a transmission line order for Statnett in Norway valued at approximately EUR 50 million
- In August, Eltel's joint venture with Carillion plc won a power transmission order for National Grid in the UK valued at approximately EUR 45 million
- In August, Eltel's power transmission business won five new contracts in Finland with a total value of approximately EUR 18 million
- In September, Eltel's power distribution business won a three-year contract in Finland valued at approximately EUR 18 million

COMMUNICATION SEGMENT:

- In July, Eltel's mobile communication business won a new three-year frame agreement with Huawei in Germany

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

- In October, the share purchase related to Eltel's long-term incentive programme was completed
- In October, Eltel announced that the third and fourth quarters will be significantly impacted by challenges in certain projects
- In November, Eltel's chairman of the Board of Directors, Mr Gérard Mohr, stepped down from his position and Mr Ulf Lundahl took over as chairman.

KEY FIGURES

EUR million	Jul-Sep 2016	Jul-Sep 2015	Jan-Sep 2016	Jan-Sep 2015	Jan-Dec 2015	Rolling 12-month
Net sales	356.2	310.8	1,012.7	857.6	1,254.9	1,410.0
Net sales growth, %	14.6	-6.1	18.1	-3.6	1.0	16.5
Organic net sales growth, %*	4.0	-3.4	3.5	4.5	4.5	N/A
Operative EBITA	7.8	22.5	16.7	41.7	62.2	37.2
Operative EBITA margin, %	2.2	7.2	1.6	4.9	5.0	2.6
Items affecting comparability	-	0.9	-	-1.7	-1.7	-
EBITA	7.8	23.3	16.7	40.0	60.5	37.2
EBITA margin, %	2.2	7.5	1.6	4.7	4.8	2.6
Operating result (EBIT)	4.1	19.6	5.9	30.1	46.6	22.4
EBIT margin, %	1.2	6.3	0.6	3.5	3.7	1.6
Result after financial items	2.1	17.0	-2.2	17.9	32.2	12.1
Net result for the period	1.9	25.2	-1.8	25.9	43.2	15.4
Earnings per share EUR, basic	0.02	0.39	-0.04	0.42	0.69	0.22
Earnings per share EUR, diluted	0.02	0.39	-0.04	0.42	0.69	0.22
Leverage ratio**	4.3	3.6	4.3	3.6	2.0	4.3
Leverage ratio, proforma adj. for items affecting comparability**	4.3	3.2	4.3	3.2	2.0	4.3
Operative cash flow	22.6	-7.4	-30.5	-44.6	45.8	59.9
Cash conversion, %**	160.8	4.5	160.8	4.5	75.8	160.8
Number of personnel, end of period	9,648	9,236	9,648	9,236	9,568	9,648

* organic net sales exclude Vete acquisition in 2015, U-SERV acquisition in 2016, and the Norwegian Communication business until 1 September 2016 (Eltel Sønnico) and is presented with comparable exchange rates
** calculated on a rolling 12-month basis
Please see page 20 for definitions of the key ratios.

Group performance

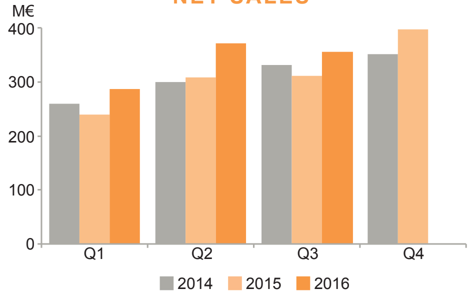
Sales and financial results

NET SALES

January–September 2016 compared to the same period in 2015

In local currencies, net sales for the Eltel Group increased by 20.6%. Reported net sales grew by 18.1% to EUR 1,012.7 million (857.6). The strong growth was attributable to the acquisition of Norwegian Eltel Sønnico AS, concluded in 2015, and a marginal impact from the acquisitions of Norwegian Vete Signaltjenester AS and German U-SERV GmbH. Organic net sales growth of 3.5% was mainly related to the Communication segment.

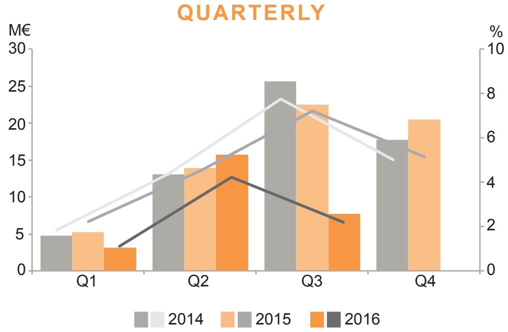
In the January-September 2016 reporting period, the Power segment accounted for 40.3% (46.0) of Group net sales, the Communication segment for 49.3% (40.8) and the Transport & Security business segment for 10.4% (13.3). The Communication segment's high share of Group net sales for the first nine months was mainly a result of the consolidation of Eltel Sønnico AS and was partly supported by healthy growth for fibre rollouts and upgrade services in the Nordics. In January-August 2015, Eltel's Norwegian communication business was operated as a joint venture and net sales were not consolidated.



July–September 2016 compared to the same period in 2015

In local currencies, net sales for the Eltel Group increased by 16.2%. Reported net sales grew by 14.6% to EUR 356.2 million (310.8). The reason for the significant growth was mainly related to the acquisition of Norwegian Eltel Sønnico AS which was concluded in 2015. Organic net sales increased by 4.0% mainly driven by the Power segment.

Compared to the level at the end of 2015, Eltel's committed order backlog was relatively flat at EUR 923 million (31 Dec 2015: 920) at the end of September 2016 (30 June 2016: 953). The mix composition in the order backlog is well supported by smart meter installations in the Power segment and fibre rollouts in 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.



Net sales comparability

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

EUR million	Jan-Sep 2016	Jan-Sep 2015	Growth -%	Fx-corrected growth -%
Group net sales	1,012.7	857.6	18.1	20.6
Net sales from acquisitions	137.2	-	16.0	17.1
Group net sales excluding acquisitions	857.6	857.6	2.1	-
Foreign currency translation effect	-11.8	-	-	-
Group organic net sales (comparable)	887.4	857.6	-	3.5

Net sales from acquisitions include acquired companies in the period from October 2015 until end of September 2016: Vete Signaltjenester AS and U-SERV GmbH and net sales from the Norwegian Communication business until 1 September 2016 (Eltel Sønnico AS)

FINANCIAL RESULTS

January–September 2016 compared to the same period in 2015

The Eltel Group's operative EBITA decreased to EUR 16.7 million (41.7), representing 1.6% of net sales (4.9). During the first nine months, Group profitability was impacted by continued challenges and faster than anticipated deterioration in operational performance, especially within the Power segment and the Transport & Security business segment. Most of the significant decline in operative EBITA resulted from the recognition of a EUR 10 million provision in the second quarter for a Norwegian rail project and provision and margin revisions in the amount of EUR 5.7 million in the third quarter, largest items including an African electrification project, margin revision in power distribution in Sweden and bankruptcy of a Swedish subcontractor. In addition, EBITA was negatively impacted by lower performance in the second power transmission project in Africa as well as profitability dilution in Norwegian rail projects in the third quarter. Other factors that contributed to the weaker performance included the loss of the terminated Rakel contract in Sweden, higher costs for the organic establishment of the communication business in the UK and implementation costs for the Group Shared Services programme. In the comparable reporting period in 2015, there was a 0.2 percentage point positive impact on Group operative EBITA margin due to Norwegian Eltel Sønnico AS being included as a share of joint venture.

Group EBITA decreased to EUR 16.7 million (40.0). No items affecting 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 in 2015. In the reporting period, amortisation of acquisition-related intangible assets amounted to EUR 10.8 million (9.9).

Net financial expenses decreased to EUR 8.1 million (12.2) due to lower interest costs as a consequence of the renewed financing carried out in February 2015 and the introduction of the commercial paper programme in 2015. During the first nine months of 2016, financial costs included a negative effect of EUR 2.5 million attributable to interest rate revaluation in derivatives due to negative interest rates.

Taxes for the period were positive EUR 0.4 million (+8.0). The net result for the first nine months of 2016 was EUR -1.8 million (25.9).

July–September 2016 compared to the same period in 2015

In the third quarter, the Eltel Group's operative EBITA decreased to EUR 7.8 million (22.5) including provision and margin revisions in the amount of EUR 5.7 million, representing 2.2% of net sales (7.2). The continued challenges faced by power transmission, the majority of which related to certain African projects, clearly represented the largest negative impact on EBITA. In addition, other factors that contributed to weaker profitability included margin revision in power distribution in Sweden, bankruptcy of a Swedish subcontractor, the loss of the terminated Rakel contract in Sweden, increased costs for the organic establishment of the communication business in the UK and implementation costs for the Group Shared Services programme. The impact of profitability dilution from the Norwegian rail projects was somewhat greater than previous expectations.

In the comparable quarter in 2015, there was a 0.1 percentage point positive impact on Group operative EBITA margin due to Norwegian Eltel Sønnico AS being included as a share of joint venture.

Group EBITA amounted to EUR 7.8 million (23.3). No items affecting comparability were recognised in the third quarter of 2016 (+0.9). During the quarter, amortisation of acquisition-related intangible assets amounted to EUR 3.6 million (3.7). Net financial expenses amounted to EUR 2.0 million (2.6). In the third quarter, financial costs included a negative effect of EUR 0.2 million from interest rate revaluation in derivatives due to negative interest rates.

Taxes for the period were negative at EUR 0.3 million (+8.2). The net result for the third quarter amounted to EUR 1.9 million (25.2).

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, project postponements have recently been noted especially in the Polish and German market. The slump in oil and metal prices is currently impacting African grid investments due to limited access to domestic funding. Price competition continues in the Nordics due to the regions' higher attractiveness compared with other markets in Europe. Despite favourable activity levels in the power market, growing demand for power and related new investment plans have attracted new players and competition remains intense. Distribution system operators in Norway, Denmark and Germany are expected to continue to make investments in smart metering in the coming years. A certain degree of new activity in markets such as the UK, Austria and the Netherlands is also noted. 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 roll-outs. 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 roll-out projects to a greater volume of up-sales and connect services in Sweden. Fibre deployment and demand is expected to grow in Poland, Germany and the UK 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 roll-outs 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 roll-out plans.

Transport & Security

In the Nordic transport sector, primarily railway, long-term market drivers remain strong and create a business environment with many opportunities for Eltel to expand its business. 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, the remote tower solution provides potential business and market opportunities. Investments related to 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 the defence area regarding surveillance and various communication solutions.

Balance sheet and cash flow

BALANCE SHEET AND FINANCIAL POSITION

30 September 2016

At the end of September 2016, interest-bearing liabilities totalled EUR 286.2 million (248.6), of which EUR 231.8 million (216.8) were non-current and EUR 54.4 million (31.8) were current. Cash and cash equivalents amounted to EUR 70.4 million (23.7).

Interest-bearing net debt totalled EUR 217.1 million (226.7), representing a decrease of 4.3% and equivalent to a leverage (net debt/EBITDA) ratio of 4.3. 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 EBITDA/net finance charges. The adjusted net debt/EBITDA ratio shall not exceed 4.0. Considering specified adjustments included in the definition of the covenant calculation in the agreement, there were no breaches of the covenant at the end of the third quarter of 2016.

Eltel has initiated discussions with its banks to find a solution to overcome this potential challenge. These discussions are progressing well with a mutual aim of finding a solution and reaching an agreement before the end of 2016. A potential solution might include a resetting of covenant levels.

INTEREST-BEARING LIABILITIES AND NET DEBT

EUR million	30 Sep 2016	30 Sep 2015	31 Dec 2015
Interest-bearing debt in balance sheet	286.2	248.6	231.6
Allocation of effective interest to periods	1.2	1.8	1.4
Less cash and cash equivalents	-70.4	-23.7	-87.9
Net debt	**217.1**	**226.7**	**145.1**

On 30 September 2016, Eltel had a healthy liquidity position and available liquidity reserves amounted to EUR 181.0 million (100.3). 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 39.0% (42.4) at the end of September 2016.

On 30 September 2016, guarantees based on contractual commercial commitments and pension liabilities issued by banks, other financial institutions and the Parent Company amounted to EUR 376.2 million (325.6). This amount included advance and other payment security guarantees.

CASH FLOW AND CASH CONVERSION

January–September 2016

Eltel's operative cash flow was negative at EUR 30.5 million (-44.6) mainly driven by a gradual increase in net working capital during the year. Working capital intensive ongoing power projects in Poland negatively impacted cash flow and are expected to create volatility in working capital going forward. The high level of net working capital was also a result of challenges faced in certain African electrification projects and two rail projects in Norway. In the third quarter, working capital decreased due to good cash collection, increased advanced payments mainly from new power transmission orders in the Nordics and higher trade payables driven by high activity in cabling, fibre deployment, power transmission, and rail projects. This effect is temporary and will be reversed in the quarters ahead. In the third quarter, cash flow was positive at EUR 22.6 million (-7.4).

The rolling 12-month cash conversion was 160.8% (4.5%), inflated by the exceptionally strong cash flow in the fourth quarter of 2015, which is not expected to be repeated in 2016. 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 -20.4 million (-44.7), including a negative impact of EUR 47.6 million (-85.2) from the change in net working capital. Cash flow from financial items and taxes was EUR -8.4 million (-8.5). Net capital expenditure, mainly replacement investments, amounted to EUR 9.4 million (7.8). Cash flow for acquisitions amounted to EUR -19.9 million (-30.1), including payment of the remaining part of the consideration for the acquisition of Eltel Sønnico AS and initial payments for acquisitions made in 2016.

Seasonality during the calendar year

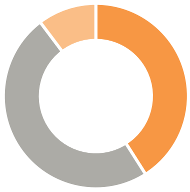
DISTRIBUTION OF SALES AND EARNINGS DURING THE FINANCIAL YEAR

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 19.

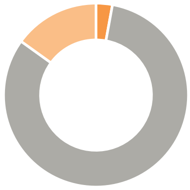
Segment information

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

Q3 NET SALES BY SEGMENT



Q3 OPERATIVE EBITA 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	Jul-Sep 2016	Jul-Sep 2015	Jan-Sep 2016	Jan-Sep 2015	Jan-Dec 2015
Net sales	146.2	135.8	409.0	396.3	567.6
Operative EBITA	0.3	9.6	8.5	19.4	29.6
Operative EBITA margin, %	0.2	7.1	2.1	4.9	5.2
Number of employees	3,488	3,347	3,488	3,347	3,607

Foreign currency translation effect included in net sales was EUR -2.6 million for the quarter and EUR -9.4 million for Jan-Sep 2016

January–September 2016 compared to the same period in 2015

In local currencies, the increase in net sales for the Power segment was 5.6%. Reported net sales increased by 3.2% to EUR 409.0 million (396.3). Growth in net sales was attributable to good performance in the German power transmission business for overhead lines and substations as well as higher production volumes for transmission lines in Poland. In the Nordics, especially in Norway, Sweden and Denmark, increased delivery volumes were attributable to both the power transmission and distribution businesses. However, growth was offset by a clear decline in delivery volumes in certain African electrification projects. Work on previously delayed smart meter installations in Norway gradually started towards the end of the quarter.

Operative EBITA decreased to EUR 8.5 million (19.4), and the operative EBITA margin was 2.1% (4.9). The weak performance of certain electrification projects in Africa deteriorated further towards the end of the reporting period, having a clear negative impact on EBITA in the Power segment. The challenges related to the African electrification projects are expected to continue in the fourth quarter of 2016. In addition, profitability was negatively impacted by margin revision in power distritution in Sweden. The negative impact was slightly offset by the positive contribution of the power business in Germany and Poland. Weather conditions in the Nordics were cold at the beginning of the year and relatively stable in the second quarter, while some storms affected the third quarter.

July–September 2016 compared to the same period in 2015

In local currencies, the increase in net sales for the Power segment was 9.5%. Reported net sales increased by 7.6% to EUR 146.2 million (135.8). The main contributors to growth in net sales were higher volumes in cabling projects and phasing of power transmission projects in the Nordics, while the power distribution operations in Germany and transmission operations in Poland accounted for a smaller impact. Some of the growth was offset by lower net sales in certain electrification projects in Africa. Work on previously delayed smart meter installations in Norway gradually started towards the end of the quarter.

Operative EBITA deteriorated to EUR 0.3 million (9.6), and the operative EBITA margin was 0.2% (7.1). The bulk of the total provisions of EUR 5.7 million booked in the third quarter were related to the Power segment. The significantly lower result is mainly a consequence of underperformance in the African electrification projects due to such factors as delays and limited access to sites, the resulting cost increases due to work acceleration and other operational project issues. The challenges related to the African electrification projects are expected to continue in the fourth quarter of 2016. Further, operative EBITA was negatively impacted by margin revision in power distribution in Sweden. In addition, profitability was negatively impacted by lower performance in Germany and Poland resulting from lower market activity. While weather conditions in the Nordics were favourable during the third quarter, there were some storms in Finland and Sweden.

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	Jul-Sep 2016	Jul-Sep 2015	Jan-Sep 2016	Jan-Sep 2015	Jan-Dec 2015
Net sales	173.9	140.3	499.6	351.3	543.7
Operative EBITA	9.4	10.8	21.7	20.7	34.2
Operative EBITA margin, %	5.4	7.7	4.3	5.9	6.3
Number of employees	5,182	5,094	5,182	5,094	5,126

Foreign currency translation effect included in net sales was EUR -2.1 million for the quarter and EUR -10.8 million for Jan-Sep 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–September 2016 compared to the same period in 2015

In local currencies, growth in net sales was 45.3%. Reported net sales increased by 42.2% to EUR 499.6 million (351.3), mainly as a result of the consolidation of the acquired Norwegian joint venture Eltel Sønnico AS from September 2015. Organic net sales were supported by continued fibre roll-out and upgrade services, especially in Sweden.

Operative EBITA increased to EUR 21.7 million (20.7) and the operative EBITA margin was 4.3% (5.9). EBITA was positively affected by the communication business in Norway, but this was partly offset by increased ramp-up costs for the communication operations in the UK and a weaker business mix and effects of the copper churn in the Nordics. In the comparable reporting period in 2015, the operative EBITA margin was positively impacted by 0.5 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.

July–September 2016 compared to the same period in 2015

In local currencies, growth in net sales amounted to 25.4%. Reported net sales increased by 23.9% to EUR 173.9 million (140.3), mainly as a result of the consolidation of the acquired Norwegian joint venture Eltel Sønnico AS from September 2015.

Operative EBITA decreased to EUR 9.4 million (10.8) and the operative EBITA margin was 5.4% (7.7). Profitability was supported by the fixed communication business in Norway, but was negatively impacted by a weaker business mix in the rest of the Nordics, ramp-up costs in the UK and the delayed start-up of a large mobile communication contract in Germany. In the comparable quarter of 2015, the operative EBITA margin was positively impacted by 0.2 percentage points by the inclusion of the Norwegian communication business joint venture as a share of joint venture, with no impact on net sales.

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	Jul-Sep 2016	Jul-Sep 2015	Jan-Sep 2016	Jan-Sep 2015	Jan-Dec 2015
Net sales	36.7	36.6	105.7	114.3	151.7
Operative EBITA	1.7	4.2	-6.4	10.0	11.4
Operative EBITA margin, %	4.7	11.4	-6.1	8.7	7.5
Number of employees	688	566	688	566	611

Foreign currency translation effect included in net sales was EUR -0.3 million for the quarter and EUR -1.1 million for Jan-Sep 2016

January–September 2016 compared to the same period in 2015

In local currencies, net sales for the Transport & Security business segment decreased by 6.6%. Reported net sales declined by 7.5% to EUR 105.7 million (114.3). The decline in net sales was mainly attributable to the loss of the Rakel contract, terminated in the second quarter of 2015, and lower volumes in the rail and road business in Norway. This negative impact was partly offset by a positive contribution to net sales from the acquisition of signalling companies Vete Signaltjenester AS and Celer Oy.

Operative EBITA deteriorated to EUR -6.4 million (+10.0) and the operative EBITA margin was negative at 6.1% (+8.7). This highly unsatisfactory result was mainly attributable to a provision of EUR 10 million recognised in the second quarter related to a Norwegian rail project. The reason for the provision was significant quality issues in the execution of the project and required correction works. The deterioration is also attributable to the loss of the Rakel contract and the continued weak performance of another rail project in Norway. The rail projects in Norway will continue to have a profitability dilution effect on EBITA in the fourth quarter of 2016 compared to the margins shown in the comparative period.

July–September 2016 compared to the same period in 2015

In local currencies, net sales for the Transport & Security business segment increased by 1.2%. Reported net sales increased by 0.3% to EUR 36.7 million (36.6). The decline in net sales was mainly attributable to the loss of the Rakel contract, terminated in the second quarter of 2015, and lower volumes in the rail and road business in Norway. This negative impact was partly offset by a positive contribution to net sales from the acquisition of signalling companies Vete Signaltjenester AS and Celer Oy.

Operative EBITA decreased to EUR 1.7 million (4.2) and the operative EBITA margin was 4.7% (11.4). The deterioration in EBITA is attributable to the loss of the Rakel contract, which is included in the comparable figures, and the continued weak performance of the rail projects in Norway. The rail projects in Norway will continue to have a profitability dilution effect on EBITA in the fourth quarter of 2016 compared to the margins shown in the comparative period.

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. The transition of local functions continued during the third quarter. By the end of September, EUR 1 million of costs related to the implementation of this programme were recorded in 2016. In 2017, programme-related costs are estimated to be offset by savings achieved and, in 2018, it is expected that net savings will be realised.

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 has identified that the Group EBITA guidance for 2016 may lead to challenges in coming quarters in terms of meeting the leverage (net debt/adjusted EBITDA) covenant in its banking agreement. To address this risk, Eltel has initiated discussions with its banks to find a solution to overcome this potential challenge. These discussions are progressing well with a mutual aim of finding a solution and reaching an agreement before the end of 2016. A potential solution might include a resetting of covenant levels.

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.

HÅKAN KIRSTEIN APPOINTED NEW CEO AT ELTEL

In August, Eltel's Board of Directors appointed Håkan Kirstein as Eltel's new President and Chief Executive Officer as of 19 September 2016. Håkan Kirstein was a member of the Board of Directors at Eltel AB, which he joined in May 2016. His background is in Statoil, as CEO of Niscayah Group AB, and he also held an interim assignment as CEO of Imtech Nordic AB.

OWNERSHIP STRUCTURE

The largest shareholders of Eltel AB on 30 September 2016 were:

Shareholders	Number of shares	% of ordinary shares
Zeres Capital	8,127,395	12.98%
Swedbank Robur Fonder	5,984,794	9.56%
The Fourth Swedish National Pension Fund	5,810,824	9.28%
Lannebo fonder	4,335,575	6.92%
The First Swedish National Pension Fund	3,164,700	5.05%
Total	27,423,288	43.79%
Other shareholders	35,200,950	56.21%
Total ordinary shares in Eltel AB	62,624,238	100.00%

Updated information of Eltel's largest shareholders as per 30 September 2016 is available on Eltel's website at www.eltelgroup.com/en/share-information/.

Stockholm, 8 November 2016

Håkan Kirstein
President and CEO

Condensed financial information

CONDENSED CONSOLIDATED INCOME STATEMENT

EUR million	Jul-Sep 2016	Jul-Sep 2015	Jan-Sep 2016	Jan-Sep 2015	Jan-Dec 2015
Net sales	356.2	310.8	1,012.7	857.6	1,254.9
Cost of sales	-319.3	-264.5	-908.5	-743.3	-1,089.6
Gross profit	**36.9**	**46.3**	**104.2**	**114.3**	**165.3**
Other income	1.4	1.2	2.2	3.2	4.3
Sales and marketing expenses	-2.3	-2.3	-9.0	-10.1	-14.2
Administrative expenses	-26.3	-19.2	-75.4	-64.2	-88.0
Other expenses	-1.7	-2.7	-5.0	-4.9	-8.3
Share of profit/loss of joint ventures	-0.1	0.1	-0.3	1.6	1.5
Operating result before acquisition-related amortisations (EBITA)	**7.8**	**23.3**	**16.7**	**40.0**	**60.5**
Amortisation of acquisition-related intangible assets	-3.6	-3.7	-10.8	-9.9	-13.9
Operating result (EBIT)	**4.1**	**19.6**	**5.9**	**30.1**	**46.6**
Financial income	-	0.1	0.1	0.2	0.3
Financial expenses	-2.0	-2.6	-8.2	-12.4	-14.7
Net financial expenses	-2.0	-2.6	-8.1	-12.2	-14.4
Result before taxes	**2.1**	**17.0**	**-2.2**	**17.9**	**32.2**
Taxes	-0.3	8.2	0.4	8.0	11.0
Net result	**1.9**	**25.2**	**-1.8**	**25.9**	**43.2**
Attributable to:					
Equity holders of the parent	1.5	24.6	-2.5	25.1	41.7
Non-controlling interest	0.3	0.6	0.7	0.8	1.5
Earnings per share (EPS)					
Basic, EUR	0.02	0.39	-0.04	0.42	0.69
Diluted, EUR	0.02	0.39	-0.04	0.42	0.69

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Jul-Sep 2016	Jul-Sep 2015	Jan-Sep 2016	Jan-Sep 2015	Jan-Dec 2015
Net profit for the period	1.9	25.2	-1.8	25.9	43.2
Other comprehensive income:					
Items that will not be reclassified to profit and loss					
Revaluation of defined benefit plans	-5.3	-3.6	-6.4	-1.9	0.4
Items that may be subsequently reclassified to profit and loss					
Cash flow hedges	0.1	-0.9	0.1	-1.5	-3.5
Net investment hedges	1.2	0.2	2.7	-0.4	-1.5
Currency translation differences	-1.4	-6.2	-5.5	-0.1	3.3
Total	-0.1	-6.9	-2.7	-2.0	-1.6
Other comprehensive income/loss for the period, net of tax	-5.4	-10.5	-9.1	-3.8	-1.2
Total comprehensive income/loss for the period	**-3.5**	**14.7**	**-10.9**	**22.1**	**41.9**
Total comprehensive income/loss attributable to:					
Equity holders of the parent	-3.8	14.1	-11.7	21.2	40.5
Non-controlling interest	0.3	0.6	0.7	0.8	1.5

CONDENSED CONSOLIDATED STATEMENT OF BALANCE SHEET

EUR million	30 Sep 2016	30 Sep 2015	31 Dec 2015
ASSETS			
Non-current assets			
Goodwill	475.8	461.1	463.6
Intangible assets	72.7	84.9	82.4
Property, plant and equipment	37.8	38.2	38.0
Investments in and receivable from joint ventures	0.5	0.3	0.2
Available-for-sale investments	0.4	0.3	0.2
Deferred tax assets	37.1	32.9	34.2
Other financial asset	35.0	35.0	35.0
Trade and other receivables	0.1	-	0.1
Total non-current assets	659.2	652.8	653.7
Current assets			
Inventories	10.2	11.9	14.5
Trade and other receivables	412.4	372.7	341.1
Cash and cash equivalents	70.4	23.7	87.9
Total current assets	493.0	408.2	443.5
TOTAL ASSETS	1,152.2	1,061.0	1,097.2
EQUITY AND LIABILITIES			
Equity			
Shareholders' equity	414.3	421.4	440.9
Non-controlling interest	6.7	6.4	7.1
Total equity	421.0	427.8	448.0
Non-current liabilities			
Debt	231.8	216.8	216.7
Liabilities to shareholders	35.0	35.0	35.0
Retirement benefit obligations	18.8	17.9	13.9
Deferred tax liabilities	16.1	17.4	17.1
Provisions	2.4	3.0	3.0
Other non-current liabilities	6.2	0.1	0.1
Total non-current liabilities	310.4	290.3	285.8
Current liabilities			
Debt	54.4	31.8	14.9
Provisions	8.7	3.6	3.8
Advances received	71.9	50.9	62.7
Trade and other payables	285.8	256.6	281.9
Total current liabilities	420.8	342.9	363.4
Total liabilities	731.2	633.2	649.2
TOTAL EQUITY AND LIABILITIES	1,152.2	1,061.0	1,097.2

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

EUR million	Jan-Sep 2016	Jan-Sep 2015	Jan-Dec 2015
Cash flow from operating activities			
Cash flow from operating activities before financial items and taxes	-20.4	-44.7	49.1
Interest received	0.1	0.2	0.3
Interest and other financial expenses paid	-6.2	-7.6	-9.7
Income taxes paid	-2.2	-1.1	-3.3
Net cash from operating activities	-28.8	-53.3	36.4
Cash flow from investing activities			
Purchases of property, plant and equipment (PPE)	-10.1	-8.7	-12.3
Proceeds from sale of PPE	0.7	0.8	1.3
Acquisition of business	-19.9	-30.1	-33.1
Investments in joint ventures	-0.5	-	-
Net cash from investing activities	-29.8	-37.9	-44.2
Cash flow from financing activities			
Proceeds from issuance of share capital	-	143.1	143.1
Proceeds from long-term financial liabilities	21.3	209.3	209.3
Proceeds from short-term financial liabilities	88.0	29.2	29.2
Payments from short-term borrowings	-51.4	-	-19.0
Payments of financial liabilities	-0.1	-326.5	-326.5
Payments of/proceeds from finance lease liabilities	-0.5	-0.1	-0.5
Dividends to shareholders	-15.0	-	-
Dividends to non-controlling interest	-1.1	-0.8	-0.8
Change in non-liquid financial assets	0.3	0.4	0.7
Net cash from financing activities	41.4	54.7	35.5
Net change in cash and cash equivalents	-17.2	-36.5	27.8
Cash and cash equivalents at beginning of period	87.9	61.0	61.0
Foreign exchange rate effect	-0.3	-0.8	-0.9
Cash and cash equivalents at end of period	70.4	23.7	87.9

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

EUR million	Jan-Sep 2016	Jan-Sep 2015	Jan-Dec 2015	Rolling 12-month
EBITA	16.7	40.0	60.5	37.2
Depreciation	9.7	8.5	11.9	13.1
EBITDA	26.4	48.5	72.3	50.3
Change in net working capital	-47.6	-85.2	-15.5	22.1
Net purchase of PPE	-9.4	-7.8	-11.1	-12.6
Operative cash flow (used in cash conversion key figure)	-30.5	-44.6	45.8	59.9
Less net purchase of PPE, presented in investing activities	9.4	7.8	11.1	
Gains on sales of assets	-0.3	-1.1	-1.3	
Items recognised through other comprehensive income	-2.8	-5.3	-6.1	
Other non-cash adjustments	3.8	-1.6	-0.4	
Cash flow from operating activities before financial items and taxes	-20.4	-44.7	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	-	-	-2.5	-6.4	2.8	-5.5	-11.7	0.7	-10.9
Equity-settled share-based payment	-	-	0.0	-	-	-	0.0	-	0.0
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	0.0	-	-	-	-15.0	-1.1	-16.1
Equity at 30 Sep 2016	126.3	373.0	-39.9	-29.0	6.5	-22.7	414.3	6.7	421.0

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	-	-	25.1	-1.9	-1.9	-0.1	21.2	0.8	22.1
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	-	-	-	-	151.7	-0.8	150.9
Equity at 30 Sep 2015	125.2	389.1	-54.3	-24.8	6.7	-20.6	421.4	6.4	427.8

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	Jul-Sep 2016	Jul-Sep 2015	Jan-Sep 2016	Jan-Sep 2015	Jan-Dec 2015
Power					
Net sales (external)	146.0	134.5	408.7	393.7	561.4
Inter-segment sales	0.2	1.4	0.3	2.6	6.3
Communication					
Net sales (external)	173.9	139.8	498.8	349.8	541.9
Inter-segment sales	0.0	0.5	0.8	1.5	1.8
Transport & Security					
Net sales (external)	36.3	36.6	105.2	114.2	151.6
Inter-segment sales	0.4	-	0.5	0.1	0.2
Elimination of sales between segments	-0.6	-1.9	-1.5	-4.3	-8.2
Net sales, total	**356.2**	**310.8**	**1,012.7**	**857.6**	**1,254.9**

RECONCILIATION OF SEGMENT RESULTS

EUR million	Jul-Sep 2016	Jul-Sep 2015	Jan-Sep 2016	Jan-Sep 2015	Jan-Dec 2015
Operative EBITA by segment					
Power	0.3	9.6	8.5	19.4	29.6
Communication	9.4	10.8	21.7	20.7	34.2
Transport & Security	1.7	4.2	-6.4	10.0	11.4
Items not allocated to operating segments*	-3.7	-2.2	-7.1	-8.4	-13.0
Operative EBITA, Group	7.8	22.5	16.7	41.7	62.2
Items affecting comparability in EBITA**	-	0.9	-	-1.7	-1.7
EBITA before acquisition-related amortisations	7.8	23.3	16.7	40.0	60.5
Amortisation of acquisition-related intangible asset	-3.6	-3.7	-10.8	-9.9	-13.9
Operating result (EBIT)	4.1	19.6	5.9	30.1	46.6
Items affecting comparability, non-cash financial expenses for pre IPO financing	-	-	-	-3.5	-3.5
Other financial expenses, net	-2.0	-2.6	-8.1	-8.7	-10.9
Result before taxes	**2.1**	**17.0**	**-2.2**	**17.9**	**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.

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 roll-outs 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 roll-out 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

	Jul-Sep 2016	Jul-Sep 2015	Jan-Sep 2016	Jan-Sep 2015	Jan-Dec 2015
Net result attributable to equity holders of the parent	1.5	24.6	-2.5	25.1	41.7
Weighted average number of common shares, basic	62,624,238	62,624,238	62,624,238	60,052,560	60,700,764
Weighted average number of common shares, diluted	62,658,058	62,625,171	62,648,892	60,052,874	60,702,870
Earnings per share EUR, basic	0.02	0.39	-0.04	0.42	0.69
Earnings per share EUR, diluted	0.02	0.39	-0.04	0.42	0.69

NET WORKING CAPITAL (NWC) AND CAPITAL EMPLOYED

EUR million	30 Sep 2016	30 Sep 2015	31 Dec 2015
Inventories	10.2	11.9	14.5
Trade and other receivables	412.4	372.7	341.1
Provisions	-11.1	-6.6	-6.9
Advances received	-71.9	-50.9	-62.7
Trade and other payables	-285.8	-253.6	-281.9
Other*	1.1	0.9	3.5
Net working capital	54.9	74.3	7.6
Intangible assets excluding acquisition-related allocations	3.9	3.2	3.7
Property, plant and equipment	37.8	38.2	38.0
Capital employed	96.5	115.7	49.4
Average capital employed	94.6	75.0	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

	30 Sep 2016		30 Sep 2015		31 Dec 2015	
EUR million	Nominal values	Net fair values	Nominal values	Net fair values	Nominal values	Net fair values
Interest rate derivatives	79.9	-1.9 [1)]	156.5	-1.1 [3)]	157.8	-1.1 [5)]
Foreign exchange rate derivatives	95.2	-0.1 [2)]	84.7	0.1 [4)]	82.0	0.3 [6)]
Embedded derivatives	35.7	3.6	55.7	7.1	58.5	6.2
Total	**210.7**	**1.7**	**296.9**	**6.1**	**298.3**	**5.4**

Designated as cash flow hedge 1) EUR -1.0 million 2) EUR 0.0 million 3) EUR -1.1 million 4) EUR 0.0 million 5) EUR -1.1 million 6) 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.

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	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015	Jan-Mar 2015
Net sales	356.2	369.0	287.5	397.3	310.8	307.8	239.0
Net sales growth, %	14.6	19.9	20.3	12.8	-6.1	2.7	-7.8
Operative EBITA	7.8	5.7	3.2	20.5	22.5	13.9	5.3
Operative EBITA margin, %	2.2	1.6	1.1	5.2	7.2	4.5	2.2
EBITDA	10.8	9.3	6.3	23.9	26.3	16.7	5.5
EBITA	7.8	5.7	3.2	20.5	23.3	14.0	2.7
EBITA margin, %	2.2	1.6	1.1	5.2	7.5	4.5	1.1
Operating result (EBIT)	4.1	2.1	-0.4	16.5	19.6	10.9	-0.4
EBIT margin, %	1.2	0.6	-0.1	4.2	6.3	3.5	-0.2
Result after financial items	2.1	-0.3	-4.1	14.3	17.0	9.1	-8.3
Net result for the period	1.9	-0.1	-3.6	17.3	25.2	8.3	-7.5
Earnings per share EUR, basic	0.02	-0.01	-0.06	0.27	0.39	0.13	-0.14
Earnings per share EUR, diluted	0.02	-0.01	-0.06	0.27	0.39	0.13	-0.14
Return on capital employed, %*	21.1	40.0	53.6	135.7	42.8	33.3	35.1
Return on equity (ROE), %*	3.6	9.2	11.1	12.3	10.1	3.1	2.2
Leverage ratio*	4.3	3.6	2.6	2.0	3.6	4.1	4.2
Net working capital	54.9	69.1	48.9	7.6	74.3	39.8	47.6
Operative cash flow	22.6	-15.7	-37.4	90.4	-7.4	22.7	-59.9
Cash conversion, %*	160.8	68.8	112.1	75.8	4.5	78.1	12.0
Number of personnel, end of period	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	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015	Jan-Mar 2015
Power	146.2	148.1	114.8	171.3	135.8	152.6	107.8
Communication	173.9	181.4	144.3	192.4	140.3	113.6	97.4
Transport & Security	36.7	40.0	29.0	37.5	36.6	42.9	34.8
Elimination of sales between segments	-0.6	-0.4	-0.6	-3.9	-1.9	-1.4	-1.0
Net sales, total	**356.2**	**369.0**	**287.5**	**397.3**	**310.8**	**307.8**	**239.0**

OPERATIVE EBITA BY SEGMENT

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

NUMBER OF EMPLOYEES BY SEGMENT, AT THE END OF PERIOD

	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015	Jan-Mar 2015
Power	3,488	3,536	3,324	3,607	3,347	3,442	3,278
Communication	5,182	5,177	5,401	5,126	5,094	4,032	3,971
Transport & Security	688	687	629	611	566	581	555
Other	290	274	247	224	229	168	163
Total	**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 Vete acquisition in 2015, 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	Jul-Sep 2016	Jul-Sep 2015	Jan-Sep 2016	Jan-Sep 2015	Jan-Dec 2015
Net sales	-	-	-	-	1.4
Administrative income and expenses	-1.2	-0.8	-3.5	-4.2	-4.9
Interest and other financial income	4.4	5.3	14.4	18.6	23.7
Interest and other financial expenses	-0.7	-0.2	-2.8	-1.7	-2.6
Net financial items	3.7	5.0	11.6	16.8	21.1
Result after financial items	**2.5**	**4.3**	**8.1**	**12.6**	**17.5**
Appropriations					
Group contributions given	-	-	-	-	-17.2
Taxes	-0.6	-	-1.8	-	-
Net result	**2.0**	**4.3**	**6.3**	**12.6**	**0.4**

PARENT COMPANY BALANCE SHEET

EUR million	30 Sep 2016	30 Sep 2015	31 Dec 2015
ASSETS			
Non-current assets			
Shares in group companies	241.6	241.6	241.6
Deferred tax assets	0.1	0.1	0.1
Other financial asset	35.0	35.0	35.0
Receivables from group companies	327.2	352.2	357.6
Total non-current assets	604.0	628.9	634.3
Current assets			
Trade and other receivables	1.1	1.3	2.2
Cash pool receivable	76.5	7.1	5.8
Cash and cash equivalents	0.2	0.1	-
Total current assets	77.8	8.4	8.1
TOTAL ASSETS	681.7	637.3	642.4
EQUITY AND LIABILITIES			
Equity	495.3	516.1	504.0
Non-current liabilities			
Debt	83.3	83.0	83.3
Liabilities to shareholders	35.0	35.0	35.0
Liabilities to group companies	-	0.4	-
Deferred tax liabilities	1.8	-	-
Total non-current liabilities	120.1	118.4	118.3
Current liabilities			
Debt	47.0	-	-
Liabilities to group companies	17.2	-	17.5
Provisions	-	0.3	-
Trade and other payables	2.2	2.5	2.5
Total current liabilities	66.3	2.8	20.1
Total liabilities	186.4	121.2	138.4
TOTAL EQUITY AND LIABILITIES	681.7	637.3	642.4

REPORT OF REVIEW OF INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the condensed interim financial information (interim report) of Eltel AB (publ) as of 30 September 2016 and the nine-month period then ended. The Board of Directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Stockholm 8 November 2016

Öhrlings PricewaterhouseCoopers AB

Niklas Renström
Authorized Public Accountant

PRESENTATION OF THE INTERIM REPORT

Analysts and media are invited to participate in the third quarter 2016 briefing on 9 November 2016 at 10:00 a.m. (CET) where Eltel's President and CEO Håkan Kirstein and CFO Gert Sköld 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:

Ingela Ulfves, VP - IR and Group Communications
tel. +358 40 311 3009, ingela.ulfves@eltelnetworks.com

FINANCIAL CALENDAR

Full-year report January-December 2016	10 February 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
Annual Report 2016	7 April 2017
Annual General Meeting 2017	28 April 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 08.00 CET on 9 November 2016.

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 2015, the group generated net sales of EUR 1,255 million and reported operative EBITA of EUR 62.2 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.

Eltel AB
POB 126 23, Adolfsbergsvägen 13, Bromma
SE-112 92 Stockholm
SWEDEN
Corp. id no. 556728-6652

tel. +46 8 585 376 00
info@eltelnetworks.com
http://www.eltelnetworks.com
http://www.eltelgroup.com