



Eltel AB

SEB Nordic Seminar 2017 in Copenhagen

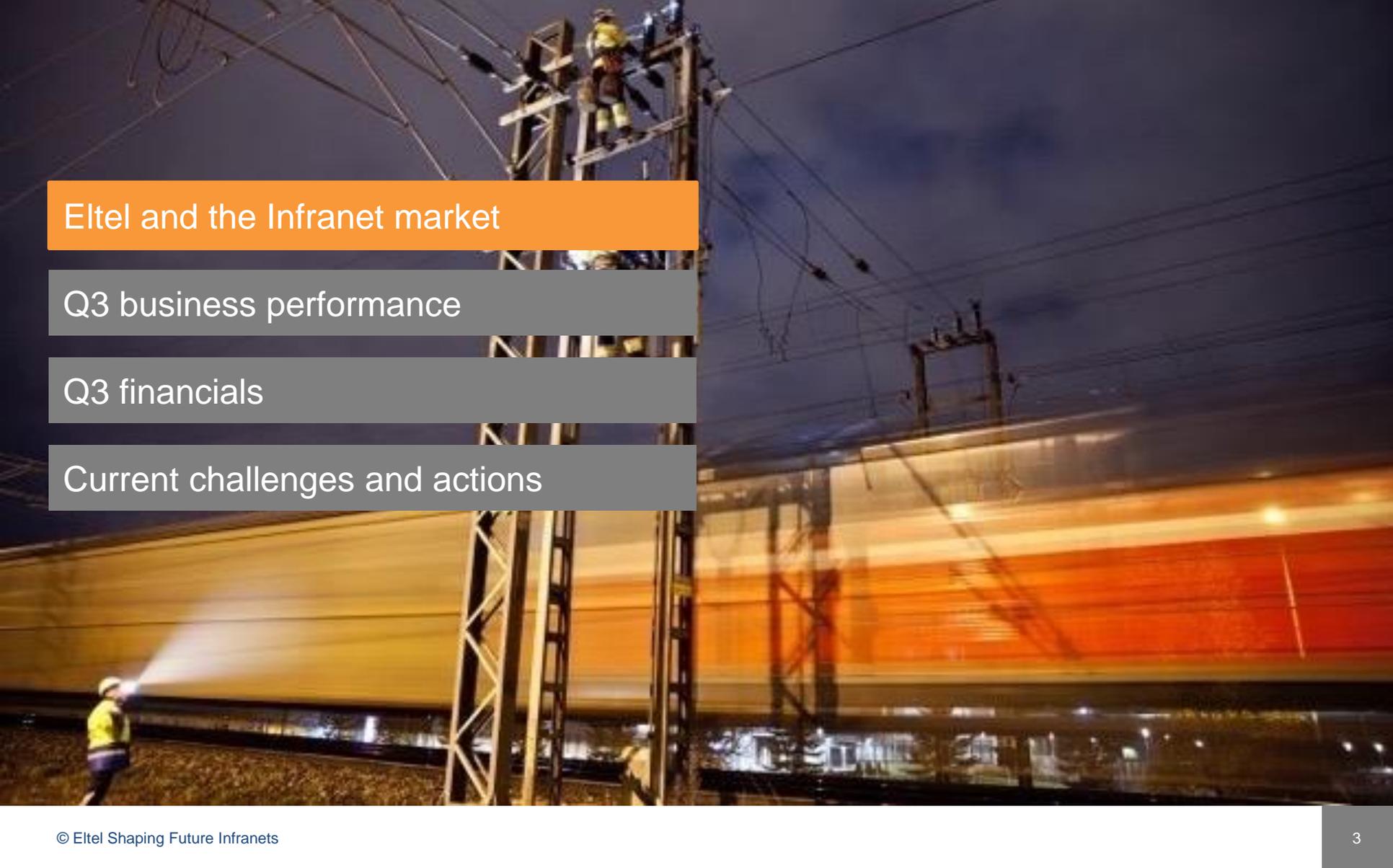
Håkan Kirstein, CEO

10 January 2017

Today's presenter



Håkan Kirstein
CEO



Eltel and the Infranet market

Q3 business performance

Q3 financials

Current challenges and actions

Eltel in brief

European market leader

Industry with long term structural growth

Scalable platform for growth and M&A

Solid customer base and recurring revenues

Good financial profile with strong cash generation

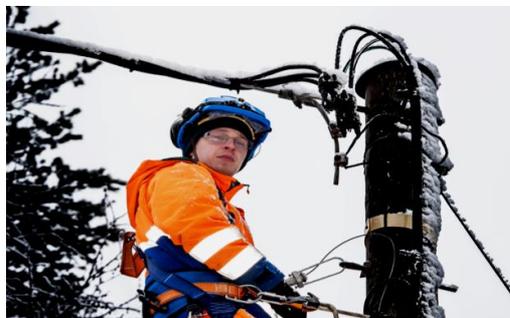
Operations in 10 countries

Net sales EUR 1.25 billion

9,600 employees



Our services – in three business segments



Power



Communication



Transport & Security

FY2015
Net Sales
EURm 1 255



45%
EURm 568

Power
Transmission

Power
Distribution



43%
EURm 544

Fixed
Communication

Mobile
Communication



12%
EURm 152

Aviation &
Security

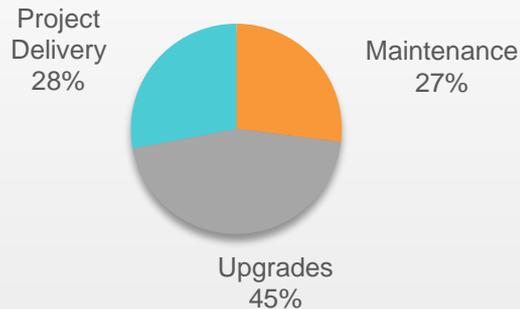
Rail & Road

Contract types

Contract description

- Majority of revenue (>70%) is flow business¹⁾
 - Comprised of maintenance and upgrade work
- Project delivery are generally recurring tender-based projects to stable and large government entities
- Unit pricing, not paid by the hour
- 2.5 million work orders annually
- Average annual revenue per customer of EUR 140,000

Services split¹⁾

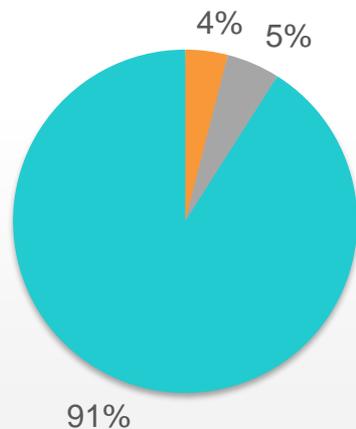


Typical contract type and size¹⁾

		Contract type	Typical work order
Flow Business	Maintenance	Multi-year frame agreement	EUR 100–200
	Upgrades	Multi-year frame agreement	EUR 2 000–6 000
Project Basis	Project delivery	Project basis	EUR 2–20 million

Solid market potential

Eltel sales per market

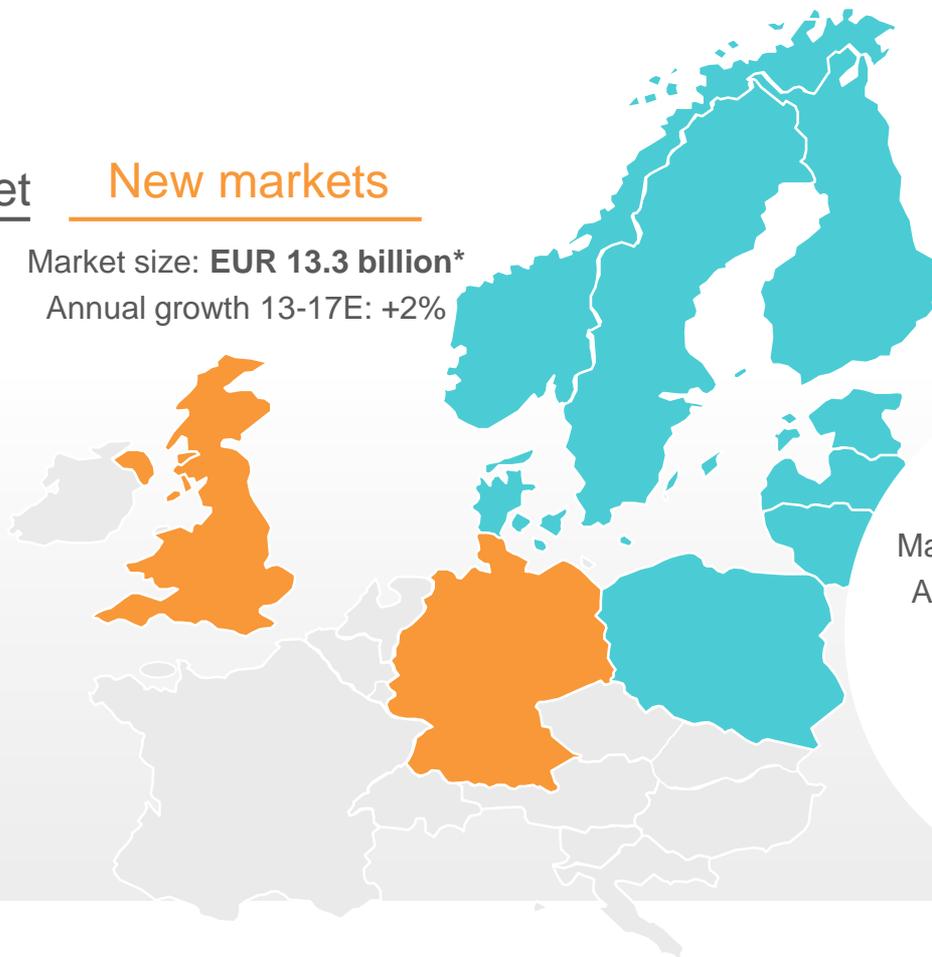


New markets

Market size: **EUR 13.3 billion***
Annual growth 13-17E: +2%

Core markets

Market size: **EUR 8.1 billion***
Annual growth 13-17E: +5%

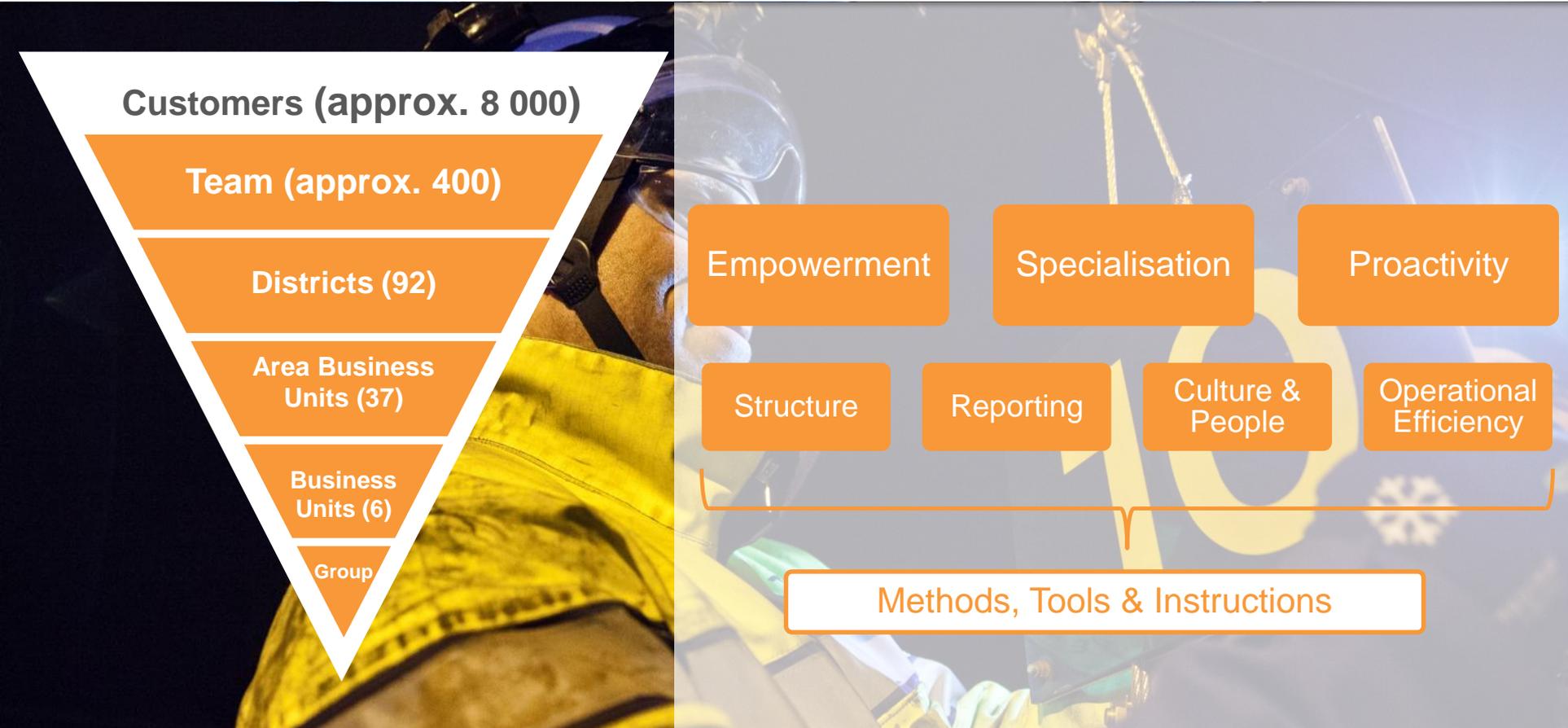


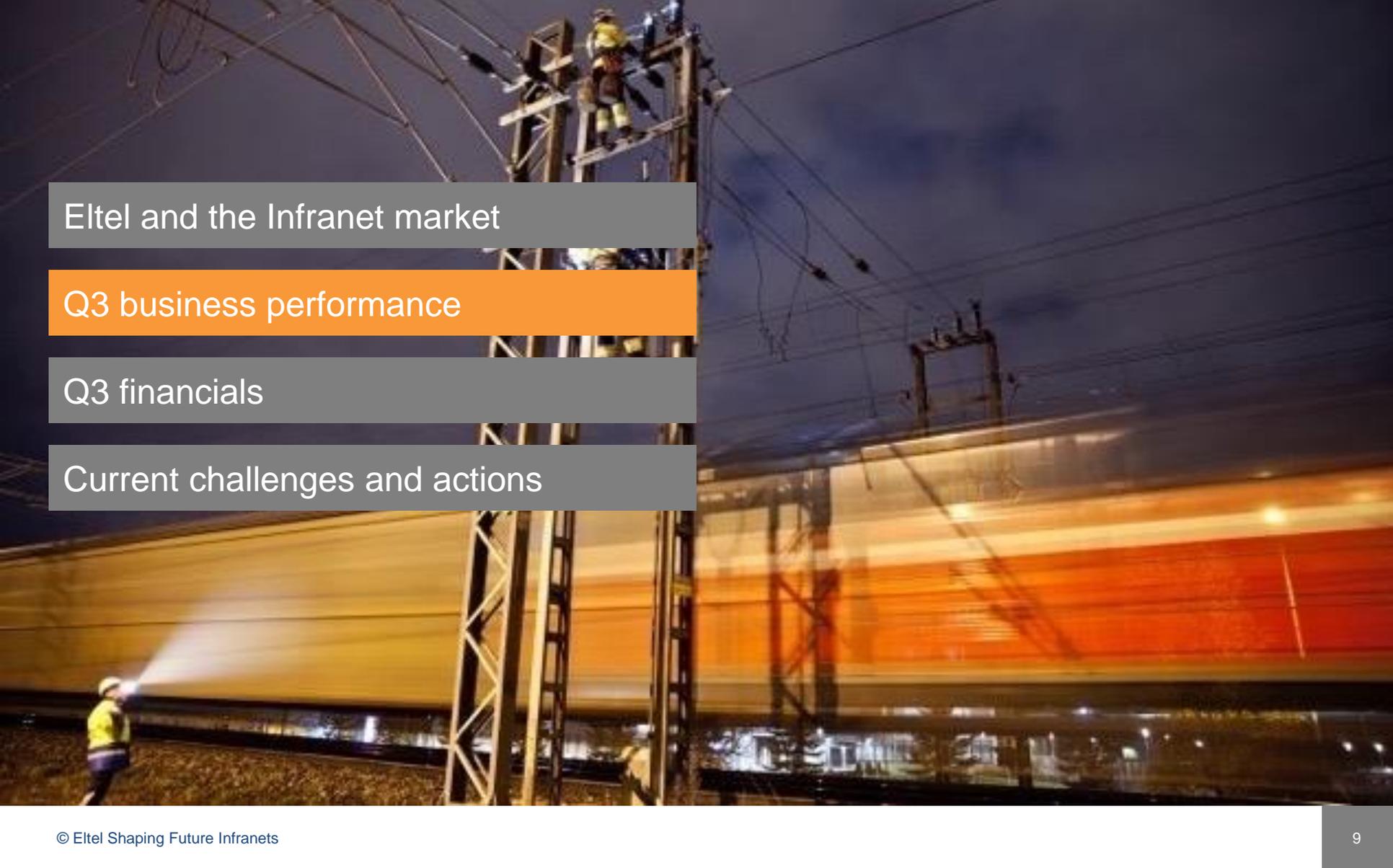
Africa

Market size: **EUR 3.9 billion***
Annual growth 13-17E: +9%



The Eltel Way – a service model that makes difference





Eltel and the Infranet market

Q3 business performance

Q3 financials

Current challenges and actions

Q3 2016 Highlights

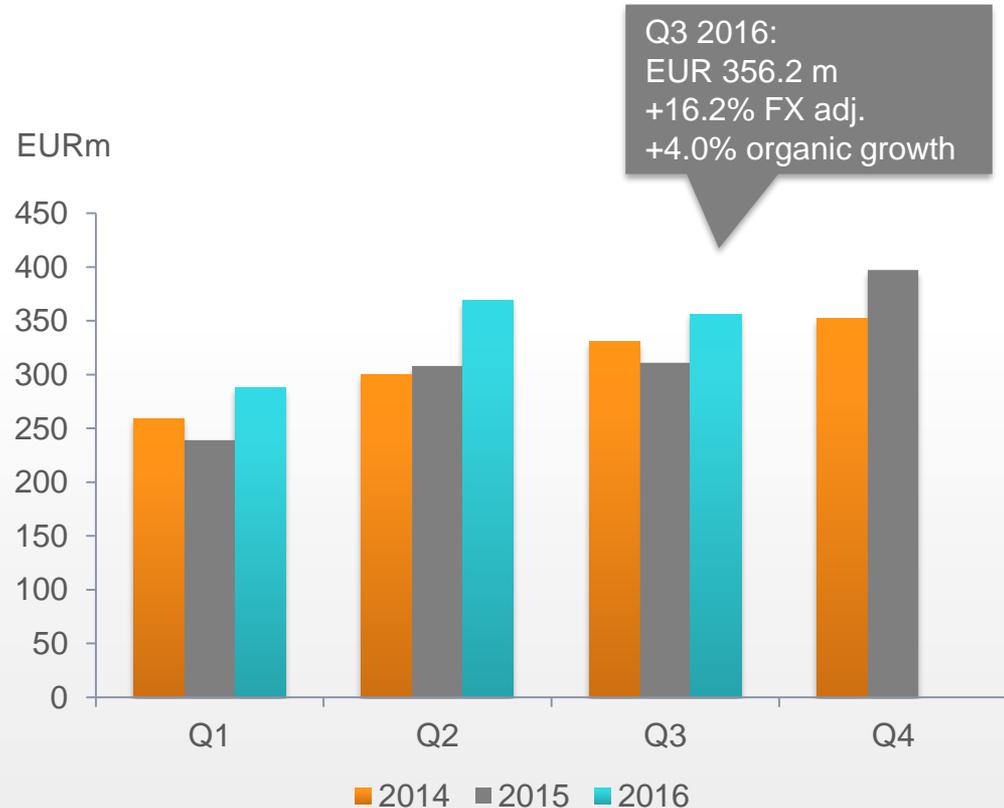


- Strong net sales growth mainly driven by acquisitions
- Order backlog flat compared to level at beginning of 2016
- EBITA significantly impacted by challenges mainly in the project business
 - Performance in Power, especially certain electrification projects in Africa
 - In October, Eltel announced that Q3 and Q4 2016 will be significantly impacted by challenges in certain projects
 - A strategic and operational project review was initiated
- Håkan Kirstein started as Eltel's new CEO in mid-September



Q3 2016 Net sales

- **Q3 net sales** EUR 356.2 million (310.8)
 - +16.2% FX adjusted
 - Driven by acquisitions (Eltel Sönnico, Vete AS, U-SERV GmbH)
- +4.0% organic growth driven by the Power segment
- **Committed order backlog**
 - EUR 923 million (Dec 2015: 920)
 - Mix shift towards fibre rollouts and smart meter installations – well balanced



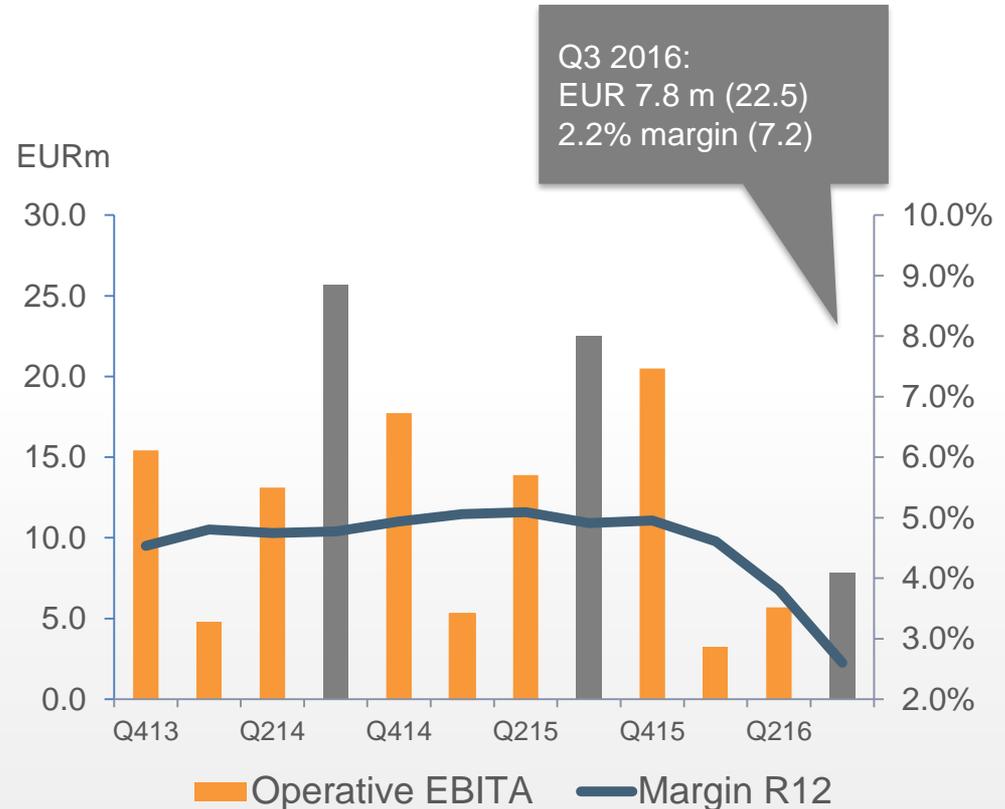
Q3 2016 Operative EBITA

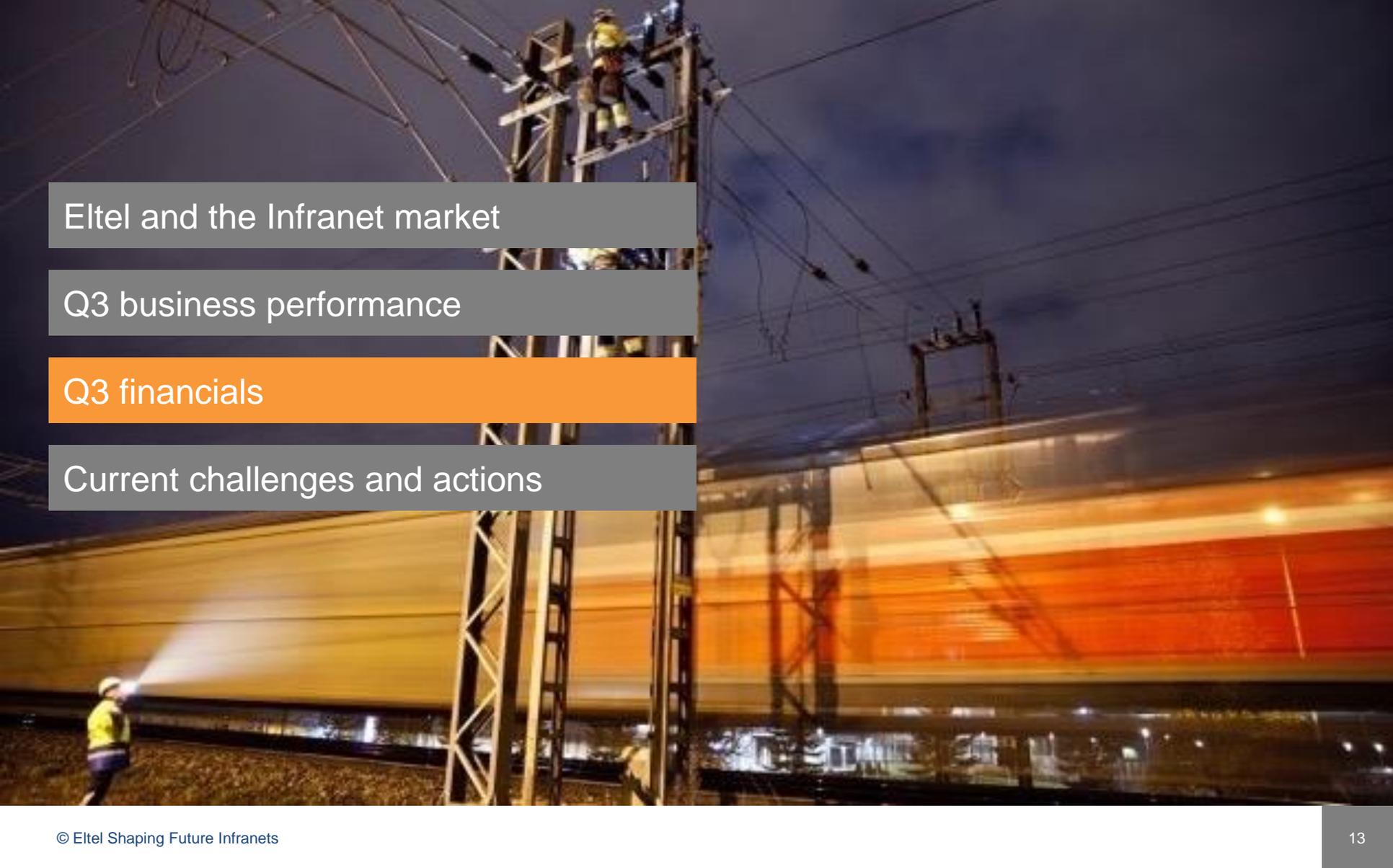
Q3 2016 Operative EBITA

- EUR 7.8 million (22.5) including provisions of EUR 5.7 million
- 2.2% of net sales (7.2)
- Challenges within the Power segment, majority related to power transmission in certain African projects
- Margin revision in power distribution in Sweden, bankruptcy of a subcontractor in Sweden, increased costs in the UK and lost Rakel contract
- Implementation costs for Group Shared Service programme

Q3 2016 EBITA

- EUR 7.8 (23.3)





Eltel and the Infranet market

Q3 business performance

Q3 financials

Current challenges and actions

Financial KPIs and P&L

EUR million	Jul-Sep 2016	Jul-Sep 2015	Jan-Sep 2016	Jan-Sep 2015	FY 2015	R12m
Net sales	356.2	310.8	1,012.7	857.6	1,254.9	1,410.0
Operative EBITA	7.8	22.5	16.7	41.7	62.2	37.2
Operating result (EBIT)	4.1	19.6	5.9	30.1	46.6	22.4
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,	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
Operative cash flow	22.6	-7.4	-30.5	-44.6	45.8	59.9

EBITA significantly impacted by challenges mainly in project business

Bank covenants at 4.0 considering specific adjustments – no breach in Q3

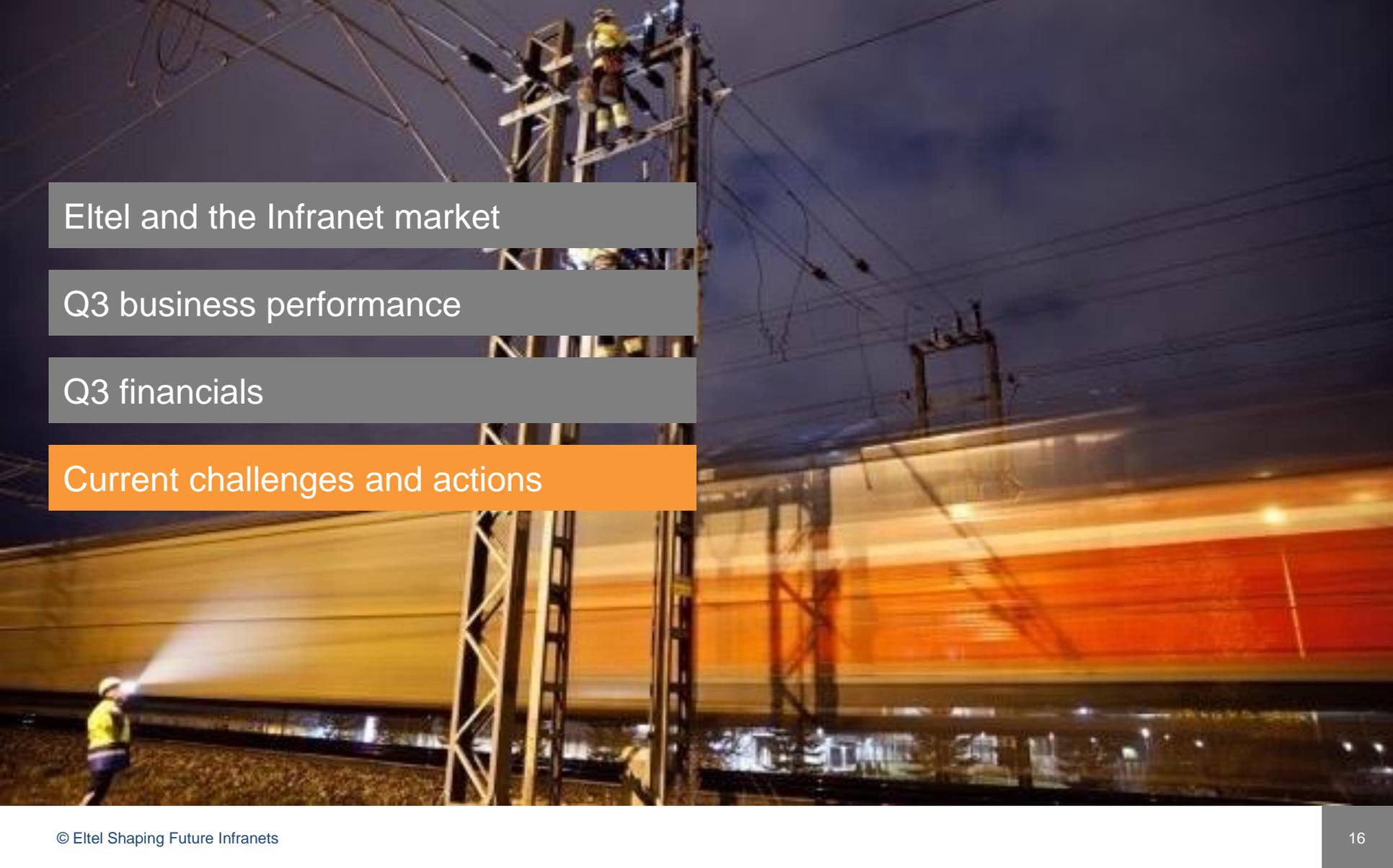
Strong cash flow due to decrease in working capital, this effect is partly temporary

In December Eltel signed an amendment of its financing agreement on temporary reset covenant levels.

The temporary reset quarterly leverage (Net debt/(EBITDA)) covenant levels vary between 6.30x and 3.60x for the period Q416-Q417

Guidance given on 14 October 2016

- Challenges are expected to continue in 2016 and to impact Q4 2016 net sales and EBITA
- **Management estimates**
 - **Group Q4 2016 EBITA expected to be EUR 10-15 million**
 - **Group full-year 2016 EBITA expected to be EUR 27-32 million**
- For 2017
 - Net sales for power transmission is expected to be lower in 2017 compared to 2016



Eltel and the Infranet market

Q3 business performance

Q3 financials

Current challenges and actions

Operating environment

Long term opportunities

Power

- *Transmission:* increasing investments in Germany and the UK
- *Distribution:* further smart meter roll-outs in Europe
- Active Nordic market

Communication

- *Fixed:* strong momentum in fibre with excellent position for Eltel
- *Mobile:* LTE/4G network roll-outs potential outside the Nordics

Transport & Security

- *Transport:* active market in the Nordics, especially in rail. Aviation opening up
- *Security:* increased defence investments in Sweden

Short term challenges

- *Transmission:* soft order intake LTM, intense competition in the Nordics, postponed investments in Poland, Germany and Africa, project challenges in Africa
- *Distribution:* smart meter delays Norway impacting 2016, challenges in Sweden
- *Fixed:* Nordic operators less willing to invest in copper networks
- *Mobile:* peak past in 4G investments in Nordics, some delays in Germany
- *Transport:* Finalisation of rail project in Norway, technical competence a scarce source in Nordics

Challenges in project business during 2016

Norway – rail projects

- Bad project execution in two rail projects in Norway from too fast ramp-up as Eltel entered Norway rail business in 2013-2014
- Delivery inspections during Q2 in one of the projects showed unsatisfactory technical work quality
- Detailed cost assessment in July/August to correct deficiencies significantly exceeded the previous assessment
- Provision of EUR 10 million booked in Q2 2016
- Projects completed in 2016 and expected to be settled in 2017

Africa – electrification projects

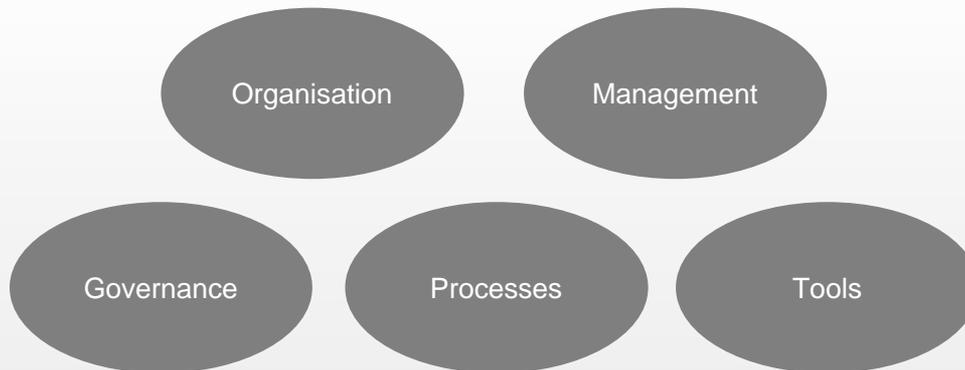
- Underperformance in certain African power transmission projects in Mozambique and Tanzania
- Delays and limited access to sites, cost increases due to work acceleration, funding limitations for extra work and other operational project issues
- Projects are expected to be finalised during H1 2017



Operational project review done and action plan in implementation

Focus areas in project review

- Aim to reduce the overall risk level in Eltel's project business
- Full review of all projects > EUR 2 million
- Assessment including the following areas:



Actions taken

- ✓ Organisational enforcements such as the establishment of a Group Project function and recruitment of a Project Director
- ✓ Strengthening of governance and processes
- ✓ Establishment of Project Board for risk assessment from tender process to execution of projects
- ✓ New internal reporting model implemented from project level until board

Underlying drivers for organic growth

POWER

- Ageing infrastructure
- Smart networks
- Sustainability

COMMUNICATION

- Global connections
- Mobile evolution
- Data traffic volumes

TRANSPORT & SECURITY

- Increased transport needs
- Increased security needs
- Integrated EU-market



MEGA-TRENDS
Underlying drivers for organic growth



Thank you!

Eltel's Q4 2016 interim report to be published on 10 February 2017

For further information:

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Appendix

Power

- Mixed geographical market conditions

Net sales:

- Higher volumes in cabling projects and power transmission projects in the Nordics
- Small positive impact from power distribution acquisitions in Germany and transmission in Poland
- Growth was offset by lower net sales in certain electrification projects in Africa
- Previously delayed smart meter installations in Norway gradually started at the end of Q3

Operative EBITA:

- Performance in certain electrification projects in Africa deteriorated further having a clear negative impact on EBITA
 - Challenges to impact remainder of 2016
- Negative impact from margin revision in power distribution in Sweden

Q3 Net sales
EUR 146.2 m (135.8)
+9.5% FX adj.

Q3 Operative EBITA
EUR 0.3m (9.6)
0.2% margin (7.1)

Communication

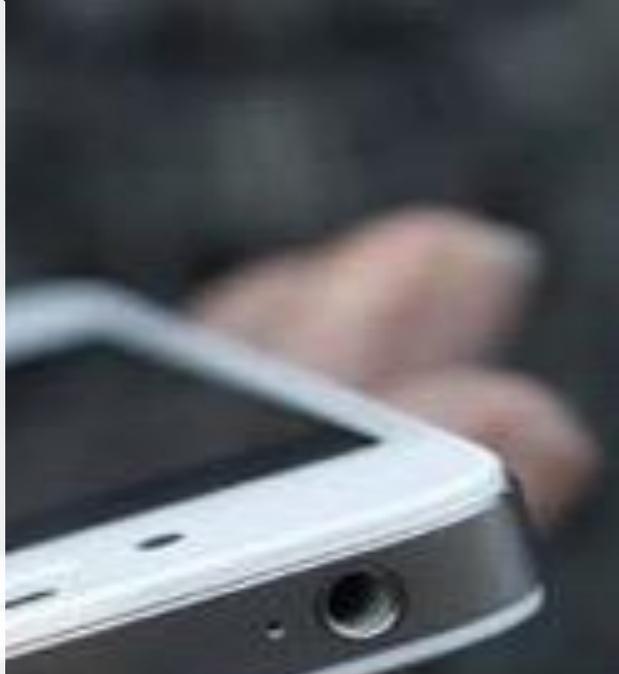
- Growth driven by Eltel Sønnico and fibre

Net sales:

- Strong growth mainly due to the consolidation of the Norwegian JV Eltel Sønnico AS in Sep 2015

Operative EBITA

- Positive impact from fixed communication business in Norway
- Negative impact from 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 Q3 2015, operative EBITA margin positively impacted by 0.2 percentage points by the inclusion of the Norwegian communication business - no impact on net sales



Q3 Net sales
EUR 173.9 m (140.3)
+25.4% FX adj.

Q3 Operative EBITA
EUR 9.4m (10.8)
5.4% margin (7.7)

Transport & Security

- Hit by isolated performance issues

Net sales

- The modest development was mainly attributable to the loss of the Rakel contract and lower volumes in the rail and road business in Norway
- This was partly offset by a positive contribution from the acquisitions of Vete Signaltjenester AS and Celer Oy

Operative EBITA:

- Negative effect from loss of the Rakel contract, included in the comparable figures
- Weak performance of the rail projects in Norway
 - These rail projects in Norway will continue to have a profitability dilution effect on EBITA in Q4 2016

Q3 Net sales
EUR 36.7m (36.6)
+1.2% FX adj.

Q3 Operative EBITA
EUR 1.7m (4.2)
4.7% margin (11.4)

Market leader in fibre roll-outs

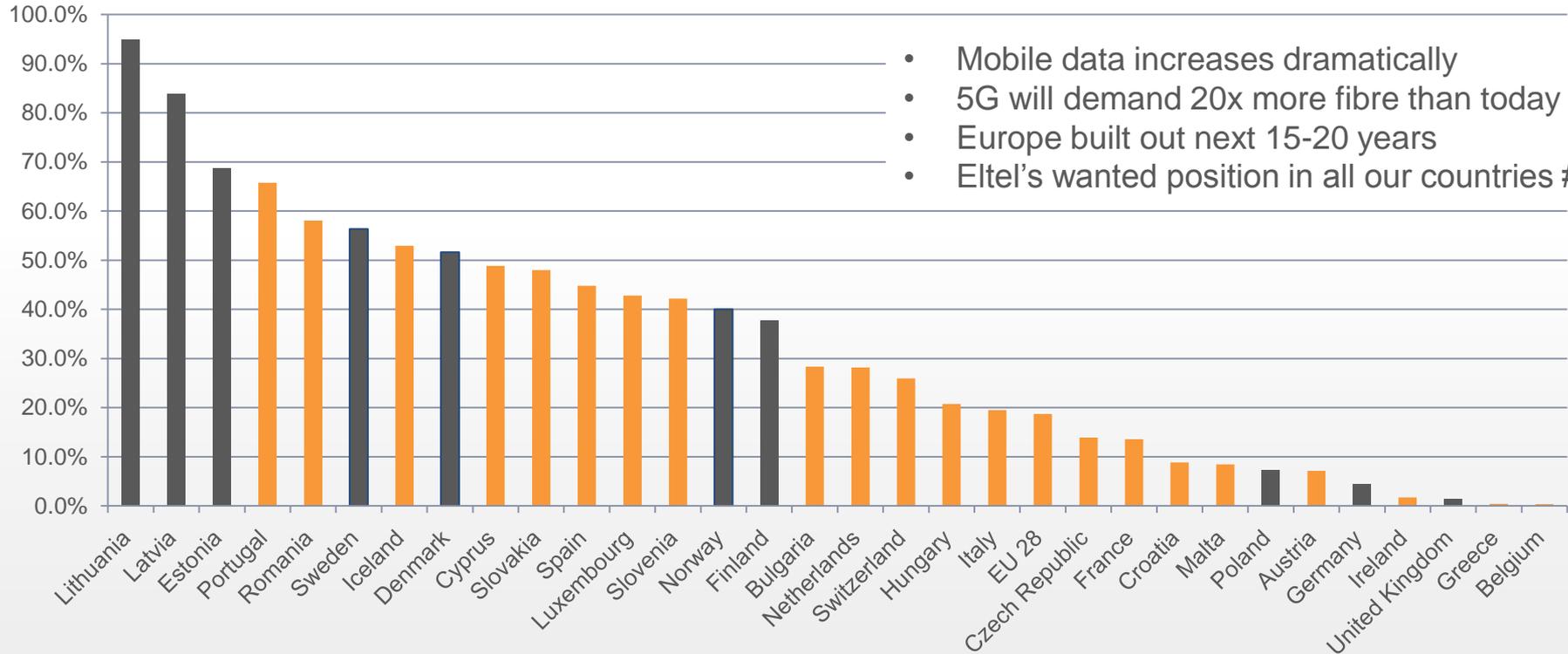
Eltel has more than 10 years of experience from large scale roll-out and field services within fibre

- Market leading position with ~10 million homes passed in Northern Europe
- Projects ranging in size from small pilots to ~200,000 homes passed
- Eltel 'Fibre Force' – specialised units for fibre in all countries



Large share of the market still to explore

Fibre penetration in Europe 2014



- Mobile data increases dramatically
- 5G will demand 20x more fibre than today
- Europe built out next 15-20 years
- Eltel's wanted position in all our countries #1

Eltel's Fibre Force™ – further specialisation

- 'Fibre Force' - specialisation of Eltel's fibre organisation within Fixed Communication
- Development and implementation of unified process for massive fibre roll-outs
- Methods and tools for the implementation of best practise technologies for maximised efficiency
- End-to-end responsibility to secure end customer satisfaction
- 3,500 specialists and subcontracted people currently fully dedicated to fibre rollouts



Eltel M&A and business development

- Strong presence ●
- Present ●
- Not Present ●
- Actions 2015 □
- Actions 2016 □

Nordics

	Sweden	Finland	Norway	Denmark	Baltics	Poland	UK	Germany
Fixed Comm.	Strong presence	Strong presence	Strong presence EltelSønnico	Strong presence	Strong presence	Strong presence	Present BT/Carillion	Present
Mobile Comm.	Strong presence	Strong presence	Strong presence EltelSønnico	Strong presence	Strong presence	Strong presence	Present Huawei/EE/ Vodafone	Present
Power Transmission	Strong presence	Strong presence	Present Statnett	Not Present	Strong presence	Strong presence	Present National Grid	Present Edi.Son
Power Distribution	Strong presence	Strong presence	Present Hafslund, Soria, Skagerak	Present DONG	Strong presence	Present	Not Present	Present U-SERV EVB
Rail&Road	Strong presence	Present Celer Oy	Present Vete	Present	Not Present	Not Present	Not Present	Not Present
Aviation & Security	Strong presence	Not Present	Not Present	Strong presence	Not Present	Not Present	Not Present	Not Present

Eltel's strategic agenda

Vision: Be the European Leader in
Infranet Technical Services

Medium- to long-term financial targets

1

Further Improve
Operating Performance

2

Drive Organic Growth

3

Pursue Selective M&A

Financial targets

Financial targets, mid- to long-term (3-5 years)

Sales growth

Average annual sales growth of around 10%, with split into 5% organic and 5% growth from M&A

EBITA-margin

EBITA-margin of approximately 6%

Cash conversion

An average cash conversion of 95-100% of EBITA

Capital structure

Leverage of 2.0-2.5x net debt / EBITDA

Dividend policy

Approx. 50% pay-out ratio of net profit with some flexibility - scope for acquisitions and deleveraging

EUR 0.24 per share
51% of adj. net profit

Financial comments and assessments

Capex

Asset-light business. Historical annual net capex of slightly more than 1% of net sales. In Q3 2016 the net capex was EUR 2.7 million, 0.8% of net sales.

Goodwill

Goodwill of EUR 475.8 million at end of Q3 2016, mainly related to 3i acquisition of Eltel in 2007. Change in Q3 related to FX impact. Annual impairment tests conducted.

Amortisation

Intangible assets of EUR 72.7 million in balance sheet allocated to customer relations and brand. In Q3 2016 amortisation amounted to EUR 3.6 million. Pre-IPO assets expected to be fully amortised in 2017.

Net financials

Loan facility of approx. EUR 210 million, CP programme of EUR 100 million and RCF of EUR 90 million post-IPO. In Q3 net financials were EUR –2.0 million of which EUR –0.2 million was an effect from interest rate derivative revaluation.

Taxes

In Q3 net tax P&L cost of EUR 0.3 million.