



Eltel AB

Q4 2016 presentation

21 February 2017

Today's presenters



Håkan Kirstein
CEO



Ulf Lundahl
Chairman of the Board



Lars Nilsson
Interim CFO



Q4 2016 business performance

Challenges in project business - special audit

Strategy to focus on core business

Q4 2016 Highlights



- Net sales decreased by 2.6%
 - Increase sales in Communication
 - Decline in Power and Transport & Security
- Order backlog lower compared to year-end 2015
 - Deliberate cautiousness to reduce risk in H2 2016
- Operative EBITA significantly impacted by write downs in the project business
 - Project investigation led by a team of auditors, mainly projects in power transmission in Africa and rail in Norway
 - Good performance in Communication
- Covenant restraints due to eroding EBITA
 - Reset covenants for year-end 2016
- Goodwill impairment of EUR 55 million
 - Changed future projections of Eltel's power transmission business and related risks, especially in Africa



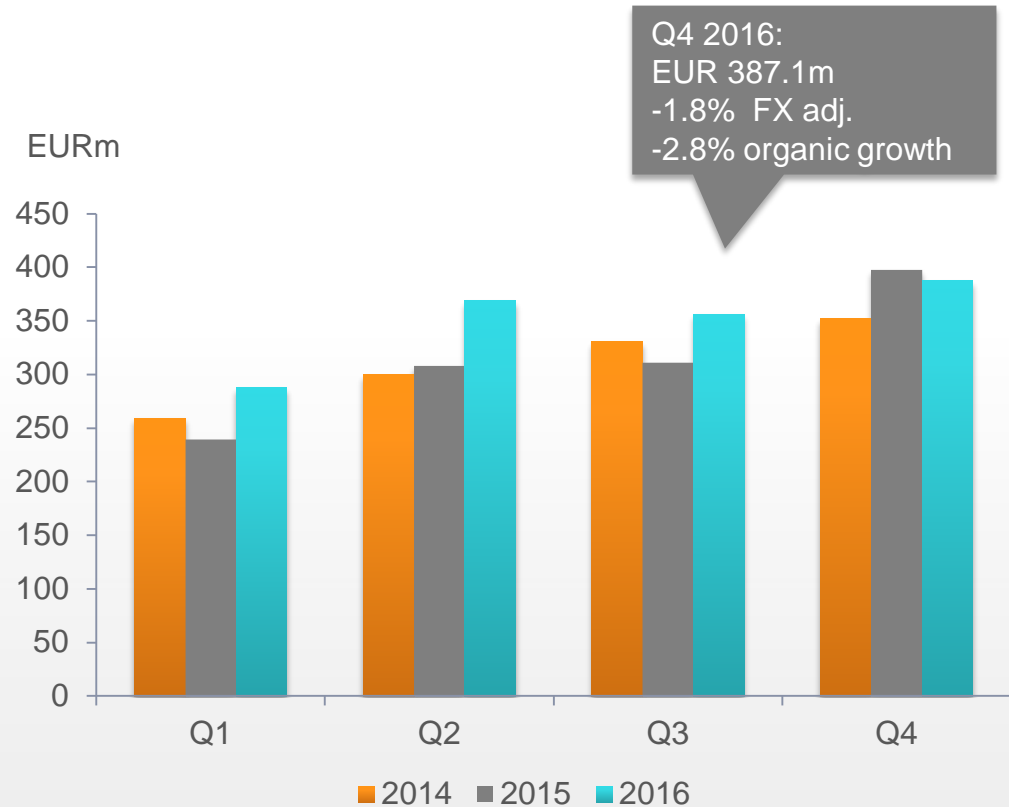
Q4 2016 Net sales

Q4 Net sales

- EUR 387.1 million (397.3)
 - -1.8% FX adjusted
 - -2.8% organic growth
- Committed order backlog
 - EUR 845 million (Dec 2015: 920)
- Lower net sales in Power
 - Revaluation of optimistic revenue recognition in Power transmission
- Positive impact from Communication and Transport&Security

FY 2016 Net sales

- EUR 1,399.8 million (1,254.9)
 - +13.5% FX adjusted
- +1.8% organic growth



Q4 2016 Operative EBITA

Q4 2016 Operative EBITA

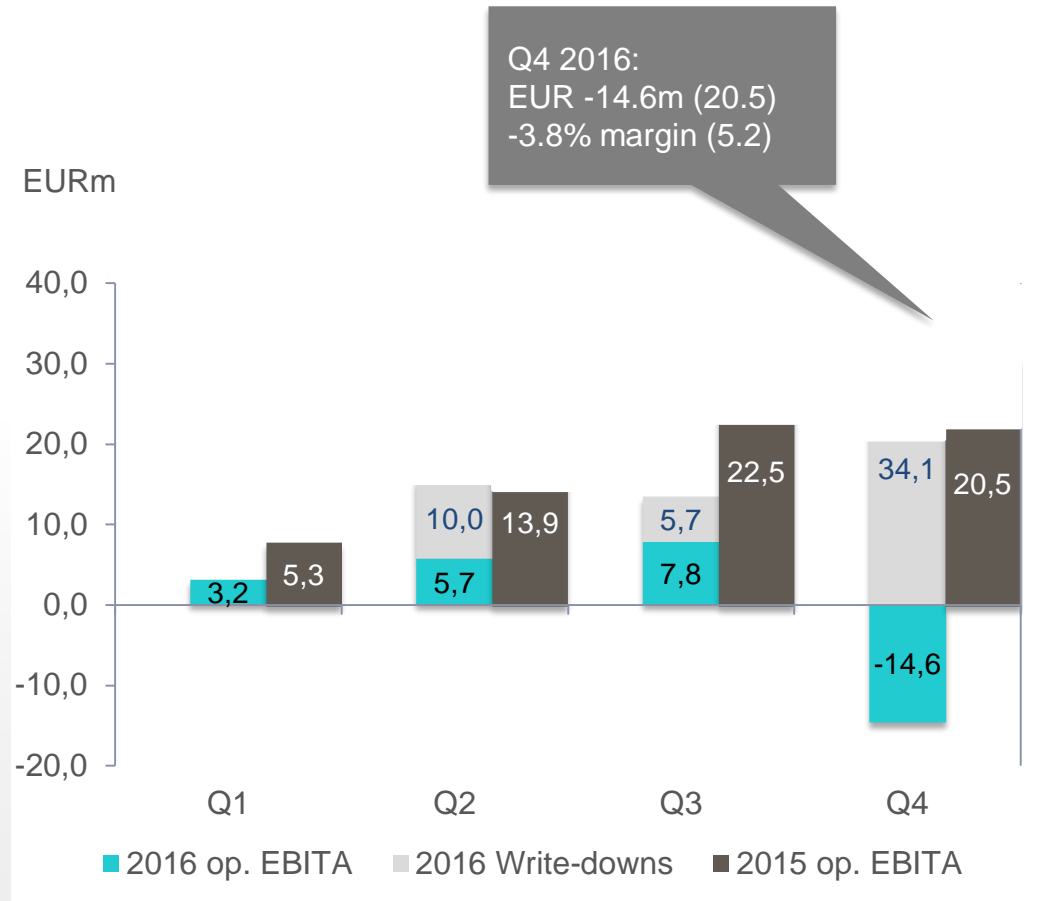
- EUR -14.6 million (20.5)
 - Including provisions and write-downs of EUR 34.1 million
 - Projects in power transmission mainly in Africa

Q4 2016 EBITA

- EUR -73.2 (16.5)
 - non-cash impairment of EUR 55 million
 - Changed future projections in power transmission business and related risks, especially in Africa

FY 2016 Operative EBITA

- EUR 2.1 million (62.2)
 - Including provisions and write-downs of EUR 49.8 million



Power

- Significant write-downs in projects

Q4 Net sales

- Lower volumes in power transmission Africa
- Revaluation of optimistic revenue recognition
- Net sales increased in the Nordics, especially in Norway
 - substation projects and smart metering

Q4 Operative EBITA

- Investigation by external auditors mainly of African power transmission projects
- Provisions and write-downs of EUR 29.9 million

- Goodwill impairment of EUR 55 million
 - Changes in future projections of the power transmission business especially in Africa

Q4 Net sales
EUR 148.0 m (171.3)
-13.7% FX adj.

Q4 Operative EBITA
EUR -17.5 m (10.2)

Communication

- Growth driven by fibre roll-outs

Q4 Net sales

- Net sales increase in the Norwegian and Swedish fixed communication business
 - fibre roll-outs

Q4 Operative EBITA

- Good contribution from communication business in Sweden and Norway
- Offset by unprofitable operations in the UK

Q4 Net sales
EUR 201.6 m (192.4)
+6.1% FX adj.

Q4 Operative EBITA
EUR 12.8 (13.5)
6.3% margin (7.0)

Transport & Security

- Hit by rail projects in Norway

Net sales

- Positive impact from acquisition of Finnish signalling company Celer Oy
- Growth offset by lower volumes in the rail and road business in Norway

Operative EBITA

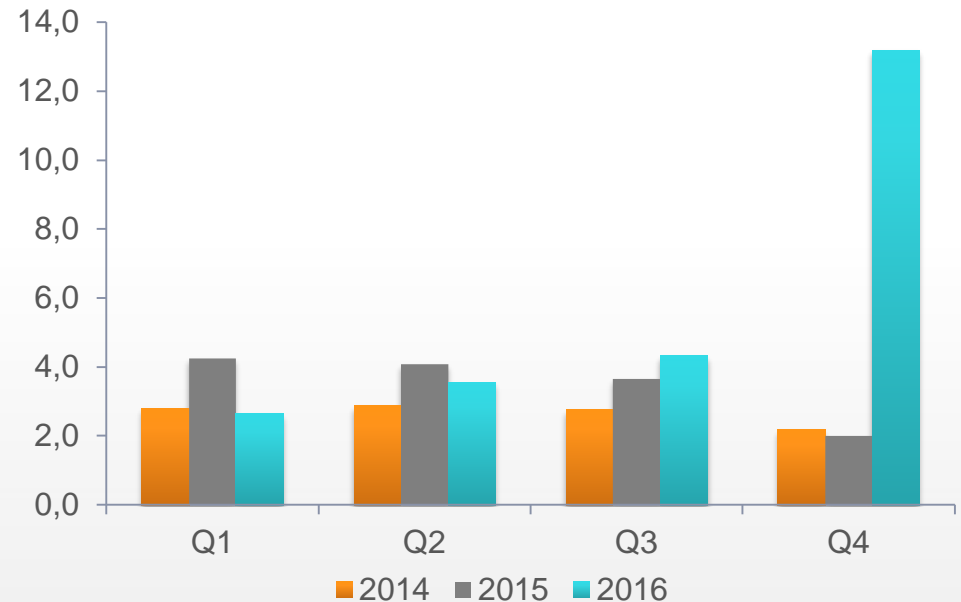
- Weak performance of the rail business
 - provisions and write-downs of EUR 3.4 million

Q4 Net sales
EUR 38.3 m (37.5)
+3.9% FX adj.

Q4 Operative EBITA
EUR -4.4 m (1.4)

Leverage ratio

- Leverage (net debt/EBITDA) ratio of 13.2 at year-end
 - Adj. leverage 11.2
- Loan agreements covenants:
 - Adj. net debt/EBITDA ratio
 - Adj. EBITDA/net finance ratio
- Due to significant write-downs, Eltel did not meet reset covenants at year-end 2016
 - However, In Feb 2017 banks agreed on further revised covenants for 2016





Q4 2016 business performance

Challenges in project business - special audit

Strategy to focus on core business

Background to challenges in the project business

- mainly in power transmission

- Four challenging projects in Norway and Africa impacting performance in 2016
 - Two rail projects in Norway
 - Two power transmission projects in Africa
- Operational review initiated in Q4 2016
- New Group Project function established in Dec 2016
 - Improve project governance, risk assessment and reporting
 - Group Tender Board
- Project function identified significant understated risks in certain projects in January 2017
- Investigation of seven selected projects led by a team of external auditors in Jan-Feb 2017



Outcome of external investigation of selected projects

- Conducted investigation shows larger deficiencies than anticipated
 - Larger than expected write-downs in Q4 2016 compared to estimates given in the profit warning in January
 - Revenue recognition has been aggressive in power transmission, mainly in African projects
 - Higher costs in running projects

- Implementation of new governance model will continue

- Eltel's Board has appointed a special investigator regarding potential liabilities of historical inaccuracies



Strategic evaluation of Eltel's business

- Eltel's management and Board of Directors has made an overall review of Eltel's business
- Conclusions: Eltel's core business is in Power and Communication
 - in the Nordics and Poland, with growth potential in Germany
- The expansion that started into other countries has not been successful
 - Eltel has not been able to reach critical mass and profitability
 - Deficient control, overly optimistic revenue recognition and monitoring of project business





Q4 2016 business performance

Challenges in project business - special audit

Strategy to focus on core business

New strategy

- focus on core business and geographies

- Strategic focus on the core businesses maintenance and upgrade services in the Power and Communication segments
- Markets in the Nordics and Poland will be prioritised, as will further growth opportunities in Germany.
- Core business in 2016:
 - Net sales approx. EUR 1.2 billion, which is 87% of Group total sales



Non-profitable businesses to be divested

- to new owners with relevant core expertise

To be divested:

- The power transmission business in Africa
- The rail business
- The power distribution business in the Baltics

- Business intended for divestment in 2016:
 - Sales approx. EUR 180 million, which is 13% of Group total sales

13% of sales, 2016



■ Core business
■ Business for divestment

Organisational change for efficiency

- Merger of fixed and mobile communication
- Merger of the business units fixed and mobile communication as of 1 March
- Improve the customer focus
 - One unified customer interface
 - More integrated offerings
 - Better product management
 - Short term cost synergies and long term revenue leverage
- Positive financial impact from 2018
- Communication business to exit the UK
 - Sales below EUR 10 million and lossmaking



Process of preferential rights issue backed by main owners

- Agreement with creditors on revised covenants for 2016
- Need of a balance sheet that allows investment in growth
- The board has decided to initiate a process of preferential rights issue
- Preferential rights issue supported by owners:
 - Zeres Capital, Solero Luxco S.á.r.l., AP4, Swedbank Robur Funds and AP1
 - representing 49% of Eltel's share capital

Q&A

Eltel to publish its first quarter
interim report 2017 on 5 May 2017

For further information:

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