

Corporate Governance report

Eltel AB (publ) (hereafter "Eltel" or the "Company") is a Swedish public limited liability company with its shares admitted to trading on Nasdaq Stockholm. Eltel complies with the guidelines and provisions of its Articles of Association, the Swedish Companies Act (Sw. Aktiebolagslagen (2005:551), the Swedish Annual Accounts Act (Sw. Årsredovisningslagen (1995:1554), and the rules and regulations of the Nasdaq Stockholm's Rule Book for Issuers, as well as other Swedish and international laws and regulations, as applicable. Eltel applies the Swedish Corporate Governance Code (the "Code"), issued by The Swedish Corporate Governance Board (Sw. Kollegiet för svensk bolagsstyrning), available at www.corporategovernanceboard.se.

Eltel comply with all parts of the Code with the following exceptions: As detailed in section Remuneration principles at Eltel "Eltel's short-term incentives". Eltel has decided on bonus arrangements for key personnel specifically linked to success factors in Eltel's ongoing transformation work. These bonus arrangements constitute a deviation from point 9.4 of the Code and are motivated by the critical importance this key personnel have for Eltel's strategic change in 2018 and beyond.

Eltel's Audit Committee has reviewed the Corporate Governance Report, and has monitored the issuing of the report and verified that the description of the main features of the internal control and risk management section, as related to the financial reporting process included in the statement, matches the Financial Statements.

GOVERNANCE

Eltel's internal governance is regulated by the Swedish Companies Act and the Code.

In January 2018, Eltel decided to change the governance structure of the Core business, from the current business unit-centric organisation to a country and market-driven organisation. The change is part of the transformation strategy and will improve control over Eltel's operations. The number of management levels will, as a result of the new governance structure, be reduced and full profit centre responsibility achieved in each country within the segments Power and Communication. The two solution areas within segment Power that operate within High Voltage and Smart Metering, are project based, offer standard solutions for all markets, and will therefore be managed with cross-border mandates.

OWNERSHIP STRUCTURE

At 31 December 2017, Eltel's market capitalisation amounted to SEK 4,540 million represented by 156,560,595 shares. According to the share register, Eltel had about 5,100 shareholders at 31 December 2017. Solero Luxco S.á.r.l., Zeres Public Market Fund, Wipunen varainhallinta Oy*, Mariatorp Oy* and Riikantorppa Oy* were the largest owners with about 40.57% of the share capital. In addition, Eltel holds 537,000 C shares.

THE GENERAL MEETING

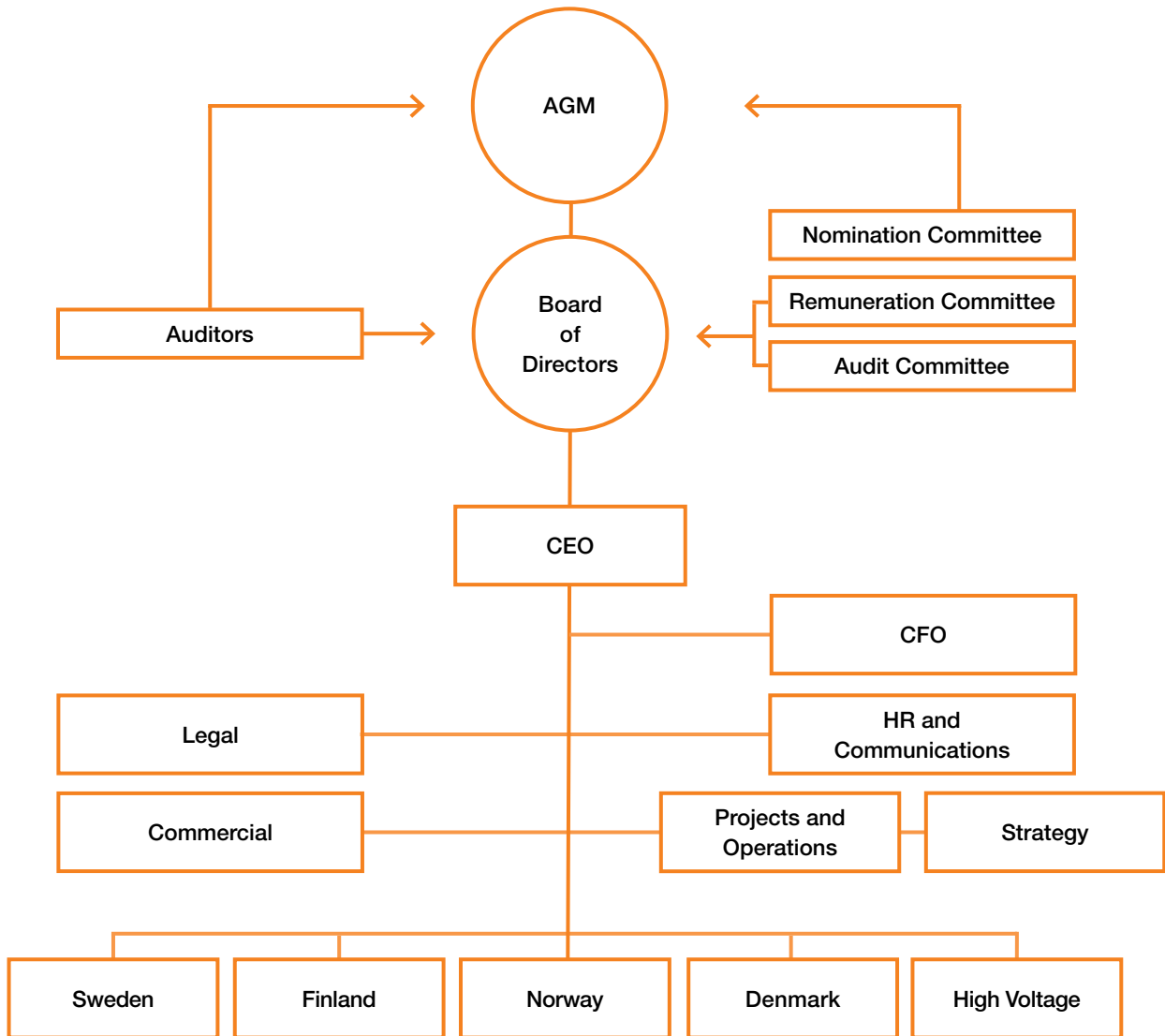
The General Meeting of shareholders is Eltel's highest decision-making body. The General Meeting may resolve upon all issues for the Company, that are not specifically reserved for another company body's exclusive competence. At the Annual General Meeting shareholders exercise their voting rights on matters such as:

- approving the financial statements,
- deciding on the distribution of dividends,
- discharging the company's Board of Directors and CEO from liability for the financial year,
- electing the company's Board of Directors and auditors and deciding on their remuneration,
- other matters as stipulated in the Swedish Companies' Act, the Articles of Association or the Code, as applicable.

All General Meetings are convened through announcement in the Swedish Official Gazette (Sw. Post- och Inrikes Tidningar) and by publishing the notice to the meeting on Eltel's website. At the time of the notice, an announcement with information that the notice has been issued is published in Svenska Dagbladet. Eltel also

* Companies have made public that they have agreed on a long-term unified conduct regarding the management of Eltel through coordinated use of their voting rights

Eltel's governance model



publishes invitations to its General Meetings as regulatory press releases.

All shareholders who have been entered in the share register and have informed the Company of their attendance within the time limit stated in the notice of the meeting are entitled to participate at Eltel's General Meetings and vote according to the number of shares held. Shareholders are also entitled to be represented by a proxy at the meeting.

ANNUAL GENERAL MEETING 2017

Eltel's Annual General Meeting was held on 1 June 2017. Shareholders representing 43,349,239 shares, representing 69.2% of the total number of shares and votes in the Company participated in person or by proxy. Matters addressed at the meeting included the following:

- A presentation by Axel Calissendorff of conclusions from his investigation, performed on behalf of the Board, with respect to potential liabilities in relation to the Company's project business,
- Resolution by the meeting that the former chairman of the Board, Gérard Mohr, and the former CEO, Axel Hjärne, are not be granted discharge of liability for the financial year 2016 and that the other members of the Board and the CEO, Håkan Kirstein, are granted discharge of liability for the financial year 2016,
- Election of Ulf Mattsson (chairman), Hans von Uthmann, Håkan Dahlström, Markku Moilanen and Mikael Moll as new members of the Board and re-election of Ulf Lundahl and Gunilla Fransson
- Re-election of PricewaterhouseCoopers as auditor (whereby it was noted that Michael Bengtsson will replace Niklas Renström as auditor in charge),
- Guidelines for remuneration to senior executives, and
- Resolution on a rights issue of approximately SEK 1,500 million.

The minutes of the Meeting and other related documents can be found on Eltel's website: www.eltelgroup.com/en/annual-general-meeting.

ANNUAL GENERAL MEETING 2018 AND ANNUAL REPORT 2017

Eltel's Annual General Meeting 2018 will be held at Solna Gate, Hemvärnsgatan 9, 17154 Solna, Stockholm on 9 May 2018.

The Annual Report 2017 is available on the Group website on 5 April 2018, www.eltelgroup.com and at the Eltel AB headquarters, Adolfsbergsvägen 13, Bromma, Stockholm, Sweden as from week 16.

NOMINATION COMMITTEE

According to the instructions for the Nomination Committee, the committee shall consist of a minimum of four members, repre-

senting each of the four largest shareholders registered on 31 August in the previous year. The Nomination Committee's main duties are to propose candidates for the Board of Directors, the Chairman of the Board, as well as fees and other remuneration to the members of the Board of Directors. The Nomination Committee is also to make proposals on the election and remuneration of the statutory auditor. Shareholders in Eltel are invited to submit proposals to the Nomination Committee.

The Nomination Committee shall pay special attention to the requirements relating to diversity and breadth of qualifications, experience and background, as well as the requirement to strive for gender balance in the Board of Directors.

Nomination Committee for the AGM 2018

For the 2018 Annual General Meeting, the Nomination Committee consists of the following members:

- Erik Malmberg, Solero Luxco S.á.r.l. (Chairman)
- Joakim Rubin, Zeres Capital
- Peter Immonen, Wipunen Varainhallinta Oy, Mariatorp Oy and Riikantorppa
- Per Colleen, the Fourth Swedish National Pension Fund.

Up to the date of the Annual General Meeting, the Nomination Committee met on five occasions and held separate sessions to interview candidates for the Board.

THE BOARD OF DIRECTORS

The Board of Directors is the highest decision-making body after the General Meeting and the highest executive body of the Company. The Board of Directors' responsibility is regulated in the Swedish Companies Act, the Swedish Annual Accounts Act, the Company's Articles of Association, directions given by the General Meeting and the Procedure for Eltel's Board of Directors adopted by the Board of Directors. In addition, the Board of Directors shall comply with the Code and the Nasdaq Stockholm's Rule Book for Issuers, as well as other Swedish and international laws and regulations, as applicable.

Operations of the Board of Directors

Pursuant to the Swedish Companies Act, the Board of Directors is responsible for the Company's organisation and the administration of the Company's affairs. Furthermore, the Board of Directors shall continuously assess the Group's financial situation, as well as secure to it that the Company's organisation is formed in a way that the accounting, management of funds and the financial conditions are controlled in a secure manner.

The assignments of the Board of Directors include, inter alia, to set objectives and strategies, secure efficient systems for follow-up and control of the Company's operations, and secure

that satisfactory control exists for the Company's compliance with laws and other regulations applicable to Eltel's operations. The assignments of the Board of Directors also include implementation of required ethical guidelines set for the Company's behaviour and that the disclosure of information is made in a transparent, and correct, relevant and reliable manner. In addition, the assignments of the Board of Directors include appointing, evaluating and, if necessary, dismissing the CEO.

Except for employee representatives, members of the Board of Directors are appointed by the Annual General Meeting for one year at a time for the period until the end of the next Annual General Meeting. According to the Company's Articles of Association, the members of the Board of Directors to be elected by the General Meeting shall consist of three to ten members with no more than three deputies. According to the Swedish Corporate Governance Code, the majority of Board members shall be independent of the Company and the management.

Eltel's Board of Directors observes a written procedure, adopted by the Board of Directors and reviewed annually. The Procedure for the Board of Directors regulates, among other things, the Board of Directors' roles and responsibilities, the Board of Directors' ways of working and the division of work within the Board of Directors. The Board of Directors also adopts an Instruction for the CEO of Eltel, as well as an Instruction for financial reporting.

Board of Directors in 2017

At the date of this report, Eltel's Board of Directors consisted of seven ordinary members and two employee representatives as ordinary members. In addition, there were two deputies to the employee representatives:

- Ulf Mattsson, Chairman of the Board of Directors and Chairman of the Remuneration Committee;
- Gunilla Fransson, Chairman of the Audit Committee;
- Mikael Moll, member of the Audit Committee;
- Hans von Uthmann, member of the Audit Committee;
- Ulf Lundahl, member of the Remuneration Committee;
- Håkan Dahlström, member of the Remuneration Committee;
- Markku Moilanen;
- Jonny Andersson, employee representative;
- Björn Ekblom, employee representative;
- Krister Andersson, deputy to employee representative, and
- Ninni Stylin, deputy to employee representative.

The members of the Board of Directors are presented in greater detail in the section "Board of Directors" on page 52–55.

The Chairman Ulf Mattsson and the Board members Gunilla Fransson, Hans von Uthmann, Ulf Lundahl, Håkan Dahlström and Markku Moilanen are regarded to be independent from the owners and the Company. Mikael Moll is regarded to be independent from the Company but dependent of significant shareholders due to his position at Zeres Capital.

Board matters during 2017

During 2017 the main focus of the Board was to secure that the financial situation of the Company was restored by means of the Rights Issue that was adopted at the Annual General Meeting on 1 June 2017. The Board also addressed matters related to health and safety and issues relating to strengthening of the project governance model (including reporting and follow-up) and that divestments and right-sizing of operations were executed in accordance with plan. Finally, the Board was engaged in supporting in the development of a new strategic agenda for the Company, as decided and communicated on 18 January 2018.

During 2017, the Board of Directors held 22 meetings. For details on Board member participation in Board meetings, please see table on page 47.

Evaluation of the Board's performance

To ensure the quality of the work of the Board and to identify possible need for further expertise and experience, the work of the Board and its members is evaluated annually. In 2017, the evaluations, which were led by the Chairman of the Board, were carried out by way of each Board member responding to an online questionnaire. The compiled results were presented to the Board at the final Board meeting of the year. The Chairman of the Board also presented the results of the evaluations at a meeting with the Nomination Committee.

BOARD COMMITTEES

The Board annually appoints an Audit Committee and a Remuneration Committee in its constitutive meeting following the Annual General Meeting. The Board may also appoint other committees if considered necessary. The Board appoints the members of these committees and their chairmen taking into consideration the expertise and experience required for the duties of the committee. The members of each committee are appointed for the same term of office as the Board itself. The purpose of the Board's committees is to prepare matters to be put to the Board for its decision. The committees have no decision-making authority of their own.

The Audit Committee

The main responsibilities of the Audit Committee are to:

- monitor the Company's financial reporting;
- in respect to the financial reporting, monitor the effectiveness of the Company's internal control, internal audit, and risk management;
- keep itself informed regarding the audit of the annual report and group accounts;
- review and monitor the impartiality and independence of the auditor, giving particular attention to if the auditor provides the Company with services other than auditing services, and
- assist in preparation of proposals to the resolutions to the General Meeting regarding election of auditor.

Members of the Board of Directors

Name	Position	Year of birth	Election year	Share holding	Remuneration EUR	Board meetings	Committee meetings*	Independence from main owners	Independence of the Company	Other boardships as of 31 Dec 2017
Ulf Mattsson	Chairman	1964	2017	-	106,867	11/11	4/4	Yes	Yes	Chairman of the Board of Directors at Crem International. Member of the Board of Directors at Addtech AB, Oras Invest Oy, Priveq V AB.
Håkan Dahlström	Member	1962	2017	-	33,658	10/11	4/4	Yes	Yes	
Gunilla Fransson	Member	1960	2016	-	51,875	21/22	7/7	Yes	Yes	Member of the Board of Directors at Trelleborg AB, NetInsight AB, Nederman AB, Enea AB, Permobil AB, Teleopti AB and ProOpti AB.
Matti Kyytsönen¹⁾	Member	1949	2007	-	17,167	11/11	4/4	Yes	Yes	
Susanne Lithander¹⁾	Member	1961	2014	-	17,167	10/11	4/4	Yes	Yes	
Ulf Lundahl²⁾	Member	1952	2014	-	69,158	19/22	7/8	Yes	Yes	Chairman of the Boards of Directors of Attendo AB, Ramirent PLC, Fidelio Capital and Handelsbanken Regional Bank Stockholm. Member of the Boards of Directors of Indutrade AB and Holmen AB.
Markku Moilanen	Member	1961	2017	-	28,875	10/11	-	Yes	Yes	
Mikael Moll	Member	1982	2017	-	33,658	11/11	6/6	No	Yes	Board member of Zeres Capital Partners AB and ZC Advisory AB.
Rada Rodriguez¹⁾	Member	1959	2015	-	13,750	9/11	-	Yes	Yes	
Hans von Uthmann	Member	1958	2017	10,000	33,658	9/11	5/6	Yes	Yes	Chairman of the Board of Directors at FEAB (Falbygden Energi AB) and Springtime Group AB. Member of the Board of Directors at Veidekke ASA, Skangas AS, GIH and SOK.
Karl Åberg¹⁾	Member	1979	2015	-	17,167	11/11	1/1	No	Yes	
Jonny Andersson	Employee represent.	1978	2015	-	-	16/22	-	Yes	No	
Krister Andersson	Deputy employee rep.	1964	2015	-	-	11/22	-	Yes	No	
Björn Ekblom	Employee represent.	1976	2015	3,500	-	20/22	-	Yes	No	
Ninni Stylin	Deputy employee rep.	1982	2015	-	-	1/22	-	Yes	No	

¹⁾ Member of the Board until the Annual General Meeting 2017

²⁾ Chairman of the Board from November 2016 until June 2017

* For further information regarding compositions of Board Committees in 2017, please see pages 46–48.

As part of the tasks above, the Chairman of the Audit Committee shall support the senior management in questions regarding financial reporting and information disclosure and have an ongoing contact with the auditor in these matters.

In addition, the Audit Committee Chairman shall support the CEO, the CFO and Group Communications in matters relating to information disclosures, financial reporting and media contacts, especially in the event of crisis situations.

The Audit Committee in 2017

At the date of this report, the Audit Committee consists of three members: Gunilla Fransson (Chairman), Mikael Moll and Hans von Uthmann. The Audit Committee held 10 meetings in 2017 at which Eltel's external auditor and representatives of the company's management were present.

The Remuneration Committee

The main responsibilities of the Remuneration Committee are to:

- prepare the Board of Directors' decisions on issues concerning principles for remuneration, remunerations and other terms of employment for the senior management;
- monitor and evaluate, both ongoing and terminated during the year, programmes for variable remuneration for the senior management;
- monitor and evaluate the application of the guidelines for remunerations to senior management that the Annual General Meeting is legally obliged to decide on, as well as the current remuneration structures and levels in the Company, and
- assess and plan the succession of the senior management of Eltel.

The Remuneration Committee in 2017

At the date of this report, the Remuneration Committee consisted of three members: Ulf Mattsson (chairman), Ulf Lundahl and Håkan Dahlström.

The Remuneration Committee held five meetings in 2017.

EXTERNAL AUDIT

The Annual General Meeting appoints the external auditor for one year at a time. The external auditor is responsible for auditing the annual financial statements of the Group and Parent Company. In addition, the external auditor reviews the third quarter interim report and the Company's administration. The external auditor attends all regular Audit Committee meetings and reports observations related to internal control, administration of the Company and the review of the third quarter and the annual financial statements. The external auditor attends at least one Board meeting during the year.

External auditor in 2017

The General Meeting 2017 elected PricewaterhouseCoopers AB as Eltel's external auditor for a one-year mandate, with Michael Bengtsson as auditor-in-charge. In 2017, total fees paid

to the external auditors amounted to EUR 1.8 million, of which non-auditing services totalled EUR 1.1 million.

GROUP MANAGEMENT TEAM

Chief Executive Officer

Eltel's President and Chief Executive Officer (CEO) reports to the Board of Directors. The CEO's responsibility is governed by the Swedish Companies Act, the Swedish Annual Accounts Act, the Company's Articles of Association, directions given by the General Meeting, Eltel's Instructions for the CEO and other directions and guiding principles established by the Board of Directors.

Group Management Team

The GMT, chaired by the CEO, meets a minimum of 10 times annually (10 times in 2017). The GMT considers strategic and operational issues related to the Group and its businesses, as well as investments, Group structure and corporate steering systems, and it supervises the Company's operations. The GMT also delivers the annual business plan, budget and forecast updates to the Board of Directors in accordance with the Company's established planning cycle.

At the date of this report, the Group Management Team consisted of the following members:

- Håkan Kirstein, President and CEO
- Petter Traaholt, CFO
- Henrik Sundell, General Counsel
- Karin Lagerstedt Woolford, HR and Communications Director
- Leif Göransson, Projects and Operations Director
- Mikael Malmgren, Head of Strategy
- Claus Metzsch Jensen, Managing Director – Country Unit Denmark
- Juha Luusua, Managing Director – Country Unit Finland
- Thor-Egel Bråthen, Managing Director – Country Unit Norway
- Peter Uddfors, Managing Director – Country Unit Sweden
- Christian Wittneven, Managing Director – Solution Unit High Voltage

Information on the members of the GMT can be found in the Annual Report 2017 on pages 56–59.

REMUNERATION PRINCIPLES AT ELTEL

Eltel's overall objective is to offer a competitive and market-based level of remuneration consisting of both fixed and variable salary, pension and other remuneration components. Remuneration to senior executives shall motivate senior management to do its utmost in the best interests of Eltel's shareholders. Remuneration shall be determined in relation to area of responsibility, duties, expertise and performance. The fixed salary component equals and compensates for engaged work of management at a high professional level, creating value to Eltel. In addition, senior executives may be offered long-term incentive schemes on market-based terms. The Board shall have the right to deviate from the guidelines in individual cases if there are particular grounds for such deviation.

The pension terms of the CEO and other senior executives in the GMT should be market based in relation to terms that generally apply for comparable executives. The Group Management Team being an international team with members from Sweden, Finland and Denmark, the pension terms of Eltel's senior management reflect some national differences.

Eltel's short-term incentives

The short-term variable salary component is based on predetermined and measurable financial and individual targets. The criteria are recommended by the Remuneration Committee and ultimately decided by the Board of Directors. The short-term (one year) variable salary component varies between 10% and 80% of fixed annual salary. The CEO has an 80% variable salary component and the remaining members of Group Management Team (GMT) have a 60% variable salary component.

The short-term incentive programme at Eltel covers all managerial levels from team level to the GMT as well as key managers in Group shared services and functions. The range of variable salary component for other than GMT members is from 10% to 40% of the fixed annual salary depending on the job position of an employee. The yearly bonus schemes cover some 90% of all employees.

For the year 2017, the Board has decided to offer 20 key employees, comprising the CEO and employees within the Communication and Power business (of which two employees have left the company), a retention bonus arrangement. The arrangement will grant each employee a bonus of four to six months' salary, provided the relevant individual is still employed with Eltel on 31 March 2018. In addition, the Board has decided to offer another six key employees (of which one employee has left the company), within the businesses to be divested a retention bonus arrangement. This arrangement will grant each key employee a bonus of four months' salary, provided the relevant individual is still employed with Eltel when a business transfer agreement regarding the divested business is signed and closed by a new owner. These bonus arrangements constitute a deviation from Section 9.4 of the Code explained by the critical importance of these key employees to the strategic changes of Eltel during 2017 and onwards.

Eltel's long-term incentives

Senior executives may be offered long-term incentive schemes at market-based terms. The motive for share-based incentive schemes is to achieve an increase in and spread of share ownership/exposure among the senior executives and to achieve a greater alignment of interests between the executives and the Company's shareholders. A long-term personal share ownership commitment among key personnel can be expected to stimulate greater commitment to the Company's long-term development, to align management with shareholders' interests and to increase motivation and solidarity with the Company. Decisions regarding share-based incentive schemes shall always be resolved on by General Meeting.

Currently there are two active long-term incentive programmes (LTIP); LTIP 2015 and LTIP 2016. Both of these are three-year programmes and the basic principles are the same in both programmes. Some 70 key individuals are covered by these programmes.

Long-term incentive programme 2015

The purpose of Eltel's long-term incentive programme 2015 (LTIP 2015), approved by the Annual General Meeting 2015, is to increase the attractiveness of Eltel as an employer on the global market, making it easier to retain and recruit qualified key individuals. The term of the LTIP 2015 is three years.

Interest in participation was high and 97% of the invited 70 participants chose to participate. The subscription period for the programme took place in August 2015. Participation in LTIP 2015 required that the participant acquired and locked Eltel ordinary shares into LTIP 2015 ("Savings Shares"). For each acquired "Savings Share", the participant is entitled, after a three-year qualification period and provided continued employment during the entire period, to receive an allotment of one Eltel matching share ("Matching Share"). Dependent on the fulfilment of certain performance targets linked to Eltel's earnings per share for the financial year 2017, the participant may also be entitled to receive allotment of additional Eltel shares ("Performance Shares"). The participant shall not pay any consideration for the allotted "Matching Shares" and "Performance Shares". "Matching Shares" and "Performance Shares" are Eltel ordinary shares.

The "Savings Shares" covered by the LTIP 2015 programme were acquired in a structured way in ordinary trading on the stock market on 17 September 2015. The average purchasing price of these 91,953 "Savings Shares" was 94.94 SEK. On balance sheet date, the LTIP 2015 comprised a maximum of 80,322 matching shares, corresponding to approximately 0.1% of the total outstanding shares and votes in the Company.

LTIP 2015 was directed towards three categories of participants:

- CEO;
- the Group Management Team (GMT), a maximum of ten employees;
- individuals reporting directly to GMT members or other key employees, a total of 59 persons.

The maximum number of Savings Shares for each participant is based on an investment in Eltel shares with an amount corresponding to a certain portion of the concerned participant's base salary level for the current year. In order to be eligible to participate in LTIP 2016, the participant must make a minimum investment equal to 25% of the applicable maximum level for Savings Shares investment.

Long-term incentive programme 2016

The purpose of Eltel's long-term incentive programme 2016 (LTIP 2016), approved by the Extraordinary General Meeting in June 2016, is to increase the attractiveness of Eltel as an employer on the global market, making it easier to retain and recruit qualified key individuals. The term of the LTIP 2016 is three years.

The programme was directed towards 85 key individuals at Eltel including the new CEO, members of the Group Management Team and other key employees at Eltel. The participation rate was 87% of the invited individuals. The total value subscribed for by the participants during the subscription period in August 2016 amounted to approximately EUR 1.0 million euro and was equivalent to approximately 85% of the maximum offered to these individuals. Dependent on the fulfilment of certain performance targets linked to Eltel's earnings per share for the financial year 2018, the participant may also be entitled to receive allotment of additional Eltel shares ("Performance Shares"). The participant shall not pay any consideration for the allotted "Matching Shares" and "Performance Shares". "Matching Shares" and "Performance Shares" are Eltel ordinary shares.

In October 2016, a total amount of 107,658 Eltel AB shares were purchased in ordinary trading at an average price of SEK 89.00, equal to a total value of approximately one million euro. On balance sheet date, the LTIP 2016 comprised a maximum of 324,905 shares in total, corresponding to approximately 0.2% of the total outstanding shares and votes in the Company. The calculation of the maximum amount includes assumption of fully meeting the set performance targets linked to Eltel's earnings per share for the financial year 2018.

LTIP 2016 is directed towards three categories of participants:

- CEO;
- Group Management Team (GMT), maximum ten employees;
- individuals reporting directly to the GMT and other key employees, a total of 74 persons.

The maximum number of Savings Shares for each participant is based on an investment in Eltel shares with an amount corresponding to a certain portion of the concerned participant's base salary level for the current year. In order to be eligible to participate in LTIP 2016, the participant must make a minimum investment equal to 25% of the applicable maximum level for Savings Shares investment.

By reason of the Rights' Issue decided by Eltel's Annual General Meeting on 1 June 2017 (the "Rights' Issue") (and in order to compensate for the dilution effect caused by the Rights' Issue) Remuneration Committee (defined as "the Committee" in the 2015 and 2016 LTI Plan Rules) has recalculated the number of Matching Shares so that the financial position of the Holders as far as practicable is equal to the financial position immediately prior to the Rights' Issue.

CONTROL SYSTEMS

Guidelines and manuals

Etel's internal control system, including corporate governance as well as the business and other processes, are described in various guidelines and manuals. Eltel's Group Accounting Manual contains instructions and guidance on accounting and financial reporting to be applied in all Eltel Group companies. The manual supports the achievement of the objectives regarding the reliability of Eltel's financial reporting.

Fundamental Eltel policies cover areas such as authorisation, Code of Conduct, internal control and risk management, reporting of suspected violations of laws, ethics or misconduct (whistleblowing) to Eltel's Compliance function, health and safety, communication and investor relations, sustainability, restrictions on insider trading, accounting and controlling.

The CEO is primarily responsible for implementing Board instructions of the control environment in the day-to-day work. The CEO regularly reports to the Board based on established procedures. Furthermore, monthly operational business reviews are performed with the CEO and CFO.

Information and communications

All external communications are carried out in accordance with relevant regulations and Eltel's Communications Policy. Eltel has a Group Communications function which focuses on four key communication areas: Investor Relations, internal and external communications, brand and marketing as well as sustainability. If needed, Eltel also works with external communications support.

Follow-up

The Board and GMT monitor Eltel's compliance with adopted policies and guidelines. At each Board meeting the Company's financial position is addressed. The Board's Remuneration and Audit Committees play important roles in terms of, for example, remuneration, financial statements and internal control. Before publication of interim reports and the Annual Report, the Audit Committee and the Board review the financial statements.

Etel's management conducts a monthly follow-up of earnings, analysing deviations from budget, forecasts and the previous year. The duties of the external auditor include performing an annual review of the internal controls of the Group and Group subsidiaries.

The Board meets with the auditors once a year to go through the internal controls and, in specific cases, to instruct the auditors to perform separate reviews of specific areas. The auditors attend all regular meetings of the Audit Committee.

Priority areas in 2017

Based on the outcome of the operational project review in 2016, Eltel established a Group Project function with dedicated focus on governance and structure in running Eltel's project business. The task of this new function is to implement and follow-up on the decided new governance and processes. The strengthening of the project business' governance and processes includes several actions related to governance, risk assessments, reporting, audits and tools covering the process from tendering to execution of a project. A Group Tender Board (represented by the CEO, the CFO, the General Counsel and the Head of Group Project Office) was established with the purpose of securing a thorough risk assessment and control starting from the tender phase.

In addition, Eltel established a project (the "GDPR project") the purpose of which is to ensure compliance with applicable data protection laws (including the new EU General Data Protection Regulation 2016/679) and to document and protect the rights of Eltel's employees, customers, suppliers and other stakeholders in relation to data protection. The GDPR project will be implemented in a consistent way, taking local deviations and requirements into account, in all countries where Eltel is present. The GDPR project was initiated in 2017 and is intended to secure that Eltel will be compliant with GDPR when the new regulation comes into force on 25 May 2018.

Internal control 2018

As from January 2018 an internal control function has been established, within the CFO office, reporting to the Audit Committee. The function is responsible for, among other things, managing the internal control framework, risk management, performing internal audits and continuous monitoring and control of Eltel's compliance with applicable laws and generally accepted accounting principles.

Risk assessment

The Group conducts regular risk assessments to identify material risks and mitigating action. In terms of risks associated with the financial statements, the main risk is considered to be management estimates and assumptions that impact the valuation of assets, liabilities, income and expense or other discrepancies.

Fraud and losses through embezzlement are a further risk. Risk management is an integral part of each process and different methods are used for evaluating and limiting risks and to ensure that the risks to which Eltel is exposed are managed according to established rules, instructions and follow-up procedures. The purpose is to minimise any risks and promote accurate accounting, reporting and information disclosure. Most significant operational and strategic risks are collected on a quarterly basis and assessed and reported to Group management from each business unit. Group management assesses the need for

any mitigating actions (and/or financial provisioning) and reports the most significant strategic risks and related mitigating actions to the Board of Directors. In addition, the Group Legal Review Forum, consisting of representatives from Group Finance, Legal, HR and Communications, reviews all Eltel legal entities with respect to legal and financial risks on a quarterly basis.

Eltel follows the ISO 31000 standard for risk management and has adopted a Risk Management Policy. The policy includes, among other things, social and environmental risks and outlines measures for risk identification, assessment, prioritisation, mitigation, monitoring and reporting. Risk assessments, including the evaluation of health, safety and environmental risks, are also a standard part of all projects.

In the monthly business reviews that are performed at each level in the organisation, a report of the most important operational risks in terms of monetary risk are reported and assessed in order to establish any need for mitigating actions and/or financial provisioning.

For more information regarding financial risk management, please refer to Note 3. in the Consolidated Financial Statements.

SUSTAINABILITY REPORT

Eltel annually publishes a Sustainability Report, which are to be found on the Company's website: www.eltelgroup.com.