ANNUAL REPORT 2018

ELTEL

Contents

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This is Eltel

Eltel is a leading northern European provider of technical services for power and communication networks.

We deliver a comprehensive range of solutions – from maintenance and upgrade services to project delivery. This includes design, planning, building, installing and securing the operation of power and communication networks for a more sustainable and connected world today and for future generations.

7,376
NUMBER OF EMPLOYEES

1,188.9
NET SALES, EUR MILLION

-9.2
EBIT, EUR MILLION

This is Eltel

Eltel provides technical services for critical power and communication infrastructure networks – infranets.

Securing the lifelines of modern society
We keep society working by ensuring power can be supplied to end users and by securing good communication connections. Our services also make society more robust with well-managed and modern power and communication networks. We are proud professionals who know our work makes a difference.

Eltel – shaping the infranets of the future
Our customers include telecom operators and other owners of communication networks. We also work for owners of power distribution grids and national transmission system operators.

Most of our work is conducted through long-term frame agreements that range from two and five years. This enables us to create and hold long-term relationships with customers – and work closely with them to achieve their objectives. We do this through our Operational Excellence strategy, which focuses on delivering on our customer promises, streamlining our operations and improving productivity. Read more about our new Operational Excellence strategy on page 10.

Eltel's activities
In 2018, we continued to focus on our core activities and markets. During the year the divestments of all non-core businesses, except for the completion of certain projects and warranty undertakings in the Swedish rail operations, were finalised in accordance with the strategic direction Eltel set, and announced in the spring of 2017.

What is an infranet?
The term 'infranet' was created by Eltel over a decade ago as a collective term, based on the words 'infrastructure' and 'network'. The infranet sector covers how power and communications networks are developed, upgraded, commissioned and maintained.

Segment	Services	Markets	Customers	Net sales 2018
Power The only regional stakeholder active in all Nordic countries. Read more about our Power segment on page 16.	• Maintenance in electricity distribution and transmission • Upgrades in electricity distribution • Projects in High Voltage • Smart Grids	• Nordics • Poland • Germany	• Network operators • Local industrial customers and public sector	37%
Communication The market leader in the Nordic region. Read more about our Communication segment on page 20.	• Maintenance of mobile and fixed networks • Upgrades of mobile and fixed networks • Aviation and Security	• Nordics • Lithuania • Poland • Germany	• Telecom operators • Local industrial customers and public sector	61%
Other Includes non-core business activities that are being divested or ramped down. Read more about the divestment of our non-core business activities on page 12.	• Projects in Power Transmission outside Europe • Electricity distribution in the Baltics • Railway projects	• Outside Europe • Baltics • Nordics	• Network operators • Railway operators	2%

Eltel 2018 highlights

- Country-based organisation rolled out from February – read more on page 24.
- New CEO in September – read more on page 4.
- New strategy launched in the autumn – read more on page 10.
- Divested or merged the majority of our 'Other' non-core business segment – read more on page 12.

Organisation overview

In 2018, Eltel was reorganised around its country-based operations. Eltel's Country Units have a great deal of autonomy with their own management team, and profit and loss responsibility. The units are supported by cost-efficient, Group-wide support functions.

Year of change builds for the future

Much has changed at Eltel in 2018. With our new strategy and country-based organisation, we are working to strengthen the company financially and gradually improve our profitability.

I look forward to taking on this new challenge. I bring my knowledge of the business and its customers from my previous five years at Eltel as Managing Director of Eltel Sweden and President of the Communication business. In addition, as the CEO of the second largest construction company in Finland, I led the financial turn around of the company during the last four years. I look forward to the journey with Eltel and working together with all our employees to turn the company around, both financially and operationally.

Eltel's outlook

If you look at our business in general, Eltel's core operations have been profitable throughout the financially challenging period over the past couple of years, although still far from acceptable levels. On top of this, large loss-making projects mainly related to our Rail and Power Transmission businesses in the Nordics and Africa have affected us negatively since 2016. Some of these projects have recently been closed or divested but some continue until 2020.

By implementing a new strategy – Operational Excellence – Eltel has positioned itself for a turn around. Our strategy will help us to simplify things by going back to basics in terms of how we operate. We do this to improve our daily operations and to ensure that we are always the customers' first choice. We know that we are already perceived as a reliable partner with a reputation for delivering quality, and we are the market leader in the Nordics.

Our progress so far

The country-based reorganisation with a leaner management structure has partly been implemented and will be completed in 2019 with some further organisational adjustments. New operational KPIs have been developed and will be piloted in Finland in Q2 2019. Other significant progress includes the divestment of loss-making businesses, and the completion of some financially challenging projects, which has gradually improved our bottom line.

Through our Group Tender Board we ensure more selective tendering to help us avoid high-risk projects in the future. We will also start employee training on contract and project management to avoid margin deviations. Additionally, by ensuring we have the right managers in the right place and that we streamline our processes, we will improve our efficiency and our overall project profitability.

Towards value creation

By stabilising the company financially within the next couple of years and promoting operational excellence throughout Eltel, our long-term goal is to return to a 5 % EBITA margin with a stable cash flow and a healthy balance sheet. This will require a focus on customer interface, production planning, efficiency and productivity throughout Eltel's operations. It will also require measures to bring down our net debt in the company.

Benefits to society

Eltel already plays a vital role in securing the lifelines of modern society as well as enabling a more sustainable society. For example, the infranets we deliver and maintain enable society to use electric vehicles, smart meters that promotes energy efficiency and renewable sources of electricity.
Our customers, investors and employees place increasing demands on us and it is essential that we promote good business ethics, safeguard human rights and reduce our environmental footprint. This commitment is demonstrated by our comprehensive policies and our role as a proud signatory of the United Nations Global Compact.

We continue our transformational journey together

Our new strategy and Eltel's market-leading position are of course essential to our success. I would also like to highlight the importance of the everyday knowledge, competence and dedication of all our employees. Together with our customers, we will continue to make progress and succeed on our transformational journey.

Casimir Lindholm
President and CEO

"Eltel already plays a vital role in securing the lifelines of modern society as well as enabling a more sustainable society."

The infranet sector:

Trends and market overview

A variety of ongoing trends are transforming the infranet sector. These trends present both challenges and opportunities and shape the outlook for players in the infranet market.

Global megatrends and the infranet sector

The demand to install, upgrade, maintain and secure power and communication networks is driven by megatrends such as digitalisation and urbanisation. Infranets are therefore increasingly essential lifelines for modern society that meet the day-to-day needs of businesses and individuals. The infranet sector is also an enabler for a more sustainable and low-carbon society by promoting increased connectivity and efficient electricity use in favour of fossil fuels. This includes providing efficient smart meters, the infrastructure for electric vehicles and renewable energy, and enabling communication networks that reduce the need to travel.

Key trends in the infranet sector

The infranet sector in Europe is continuously changing. The key ongoing trends driving this change include increasing customer demands, regulatory requirements, the need to upgrade ageing power infrastructure and the growing use of renewable energy in society. The table below summarises these key trends, their impacts and how the infranet sector is responding.

Key trend	Impact on the sector	Sector response
1 Increasing customer demands and technological development	• Ever-increasing data usage and digitalisation are driving a shift towards new technology and smarter networks.	• The ongoing upgrade of infrastructure, including higher capacity and smart networks. • 3G/4G and Wi-Fi/LAN/radio build-out/upgrades. • 5G and the 'Internet of Things' are set to shape the near future.
2 Increasing regulatory requirements	• The EU drives harmonisation and sets minimum targets for broadband capacity and availability. • European governments demand reliable power networks, renewable energy and automated meter management.	• Ongoing fibre roll-out. • Network investments in improved operations and service levels to meet strict requirements. • Installation of smart meters.
3 Aging power infrastructure	• Old and inefficient power and communication networks are approaching the end of their technical life cycle.	• Large investments are being made to upgrade aging power and communication networks with next generation infrastructure, load management capabilities and smart grids.
4 Growing use of renewable energy and energy saving solutions	• Renewable energy sources (RES) require load management capabilities. • Power networks must be able to manage supply and demand from a growing number of 'prosumers' that both produce and consume energy. • The drive towards energy efficient solutions.	• Increased investment in systems that can cope with RES. • More investments in network capabilities, energy storage and load management. • Large national smart meter roll-outs and other energy efficient solutions, such as municipal LED street lightning and electric vehicle charging infrastructure.

The infranet market in 2018 and beyond

The power market

The power market saw continued high levels of investment in 2018. In Sweden, for example, large investment plans announced by major grid owners will see a high level of market activity in the coming years. In addition to anticipated regulation changes, new wind energy certificates will drive demand for the necessary power infrastructure to support new wind energy projects. The high level of power network investments in Poland, which are co-funded with the EU, are likely to continue.

The small number of large customers in the power market typically have a focus on cost, which makes the power market highly competitive. New foreign players are also entering some markets. However, power service providers are required to have the necessary certificates, such as Health, Safety and Environment (HSE), field technician certificates and similar reference projects. Customers may also require a certain national or international scope, as well as established bid and contract management systems to ensure correct pricing.

The communication market

The communication market is primarily driven by demand for the build out and upgrade of communication networks, installation of fibre optics and the need for ongoing maintenance. The replacement of old copper networks with fibre ensures more reliable communication networks that are easier to maintain. Swedish and Norwegian fibre roll-out penetration has driven the market in recent years. Future growth will be in countries with a historically lower fibre penetration, such as Denmark where large investments have recently been announced. In addition, all markets are expected to see large investments in fifth generation cellular mobile communication (5G) in the coming years, although it remains unclear exactly when this technology will be commercialised.

The communication market offers slightly higher margins than the power market but is still highly competitive. Competition in the sector could increase in the future if there is a slowdown in the construction industry and construction companies enter the market. Similarly, more installation-focused companies may try to win 5G roll-out contracts.

The infranet sector

The infranet sector is highly consolidated with a small number of large network owners, but suppliers are highly fragmented. This makes the market competitive with low profit margins for service providers. The extensive use of service provider frame agreements also locks markets for several years at a time.

The infranet sector will continue to be a large market that can sustain many competing actors. Intense competition in the sector and small profit margins mean that highly efficient operations are essential. Quality, sustainability, cost efficiency and customer relationships are essential for success going forward.

”

Eltel has a leading position in the Communication segment in all Nordic markets with good relations and contracts with the major customers.”

Eltel in the wider infranet sector

Eltel has leading positions in many of its markets and can take advantage of the trends that are shaping the infranet sector. We can continue to compete and win through our objective to offer customers the best value for money by becoming the most efficient and productive provider of technical services for communication and power networks. This involves further improving operational excellence, our day-to-day activities and strengthening customer relationships. Such an approach will enable us to continuously deliver Service Level Agreements (SLAs) and on agreed KPIs.

Our strategy:

Operational Excellence

In the autumn of 2018, Eltel approved a new strategy – Operational Excellence. The strategy recognises that as a provider of technical services for power and communication networks, operational excellence must be central to everything we do.

Focus on our key markets

The Eltel strategy defines that we are to focus on markets where we have a market-leading position. Since February 2017, Eltel continued to minimise risk by divesting and ramping down our non-core operations. Read more about how we became a more focused business in 2018 on page 12.

Country-based reorganisation

In 2018, Eltel was reorganised into a country-based organisation to make our operations more market-oriented and focused on local customer needs. Eltel also became a flatter organisation with a leaner management structure that is closer to our operations.

Each Country Unit (CU) is divided into a Communication segment and a Power segment. Our CUs are Sweden, Finland, Norway and Denmark. We also have two project-based solution units that operate across our CUs – High Voltage with operations in the Nordics, Germany and Poland, and Smart Grids, which is a smart meter roll-out organisation. Additionally, Eltel has three small but strong Communication Business Units in Lithuania, Germany and Poland.

Promoting profitability and winning market share

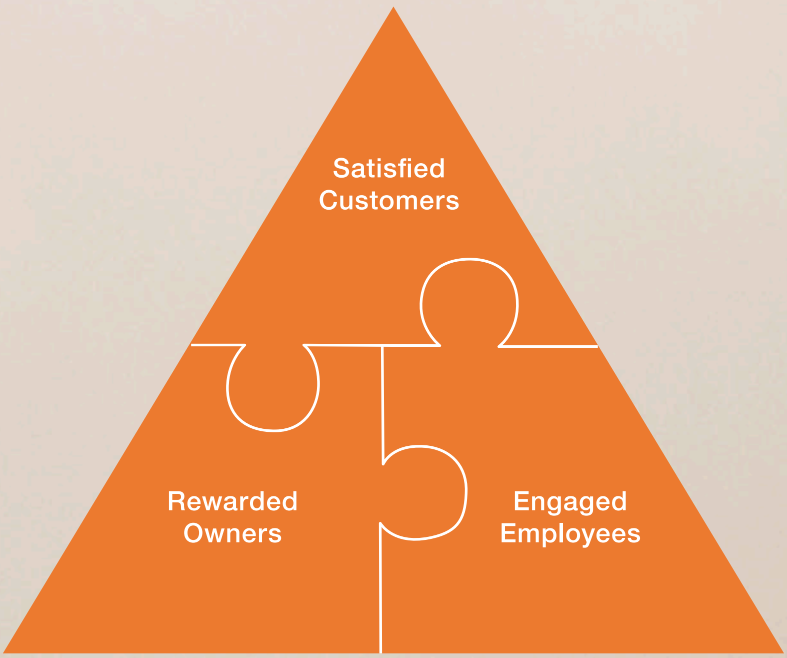
We have four Strategic Priorities designed to promote profitability and win market share in our key markets. Our strategy is aligned with the market trends influencing the infranets sector – read more in the 'Trends and market overview' chapter on page 6.

Our four Strategic Priorities are:

- Always deliver on our customer promises
- Optimal use of competence and resources
- Improve team performance
- Work smarter and improve quality.

Our strategic goals

Eltel's strategy, Operational Excellence, is built around three strategic goals that mutually support each other and contribute to our success:



Our transformation journey

Eltel is on a three-phase transformation journey to secure sustainable profitable growth. 2018 saw the completion of the first phase of our strategy – to get Eltel's 'House in order'. This involved divesting the majority of non-core businesses in accordance with the strategic direction Eltel set and announced in the spring of 2017.

The second phase 'Fit for growth' will drive operational excellence throughout the business between 2019 and 2021.

The third phase 'Investing in sustainable profitable growth' will continue our long-term focus on operational excellence, as well as innovation and new market development.

Key Eltel divestments and mergers in 2018

- The Swedish Aviation and Security business was merged into Eltel's Swedish Communication segment (January 2018).
- Finnish rail operations were divested to a subsidiary of Graniittirakennus Kallio Oy (January 2018).
- Swedish rail operations were divested to Strukton AB (February 2018).
- Norwegian rail operations were divested to a subsidiary of Jotunfjell Partners AS (July 2018).

2017–2018

House in order

- Reorganisation to strengthen focus on local markets.
- Increased focus on operational KPIs to foster continuous improvements and sharing of best practices.
- Initiatives to control project business risk.

2019–2021

Fit for growth

- Prioritise core operational improvements (operational excellence).
- Strengthen the financial situation of the company.

>2022

Investing in sustainable profitable growth

- Continued focus on operational excellence.
- Pursue structural M&As in Nordics when financial situation improves.
- Innovation and new market development.

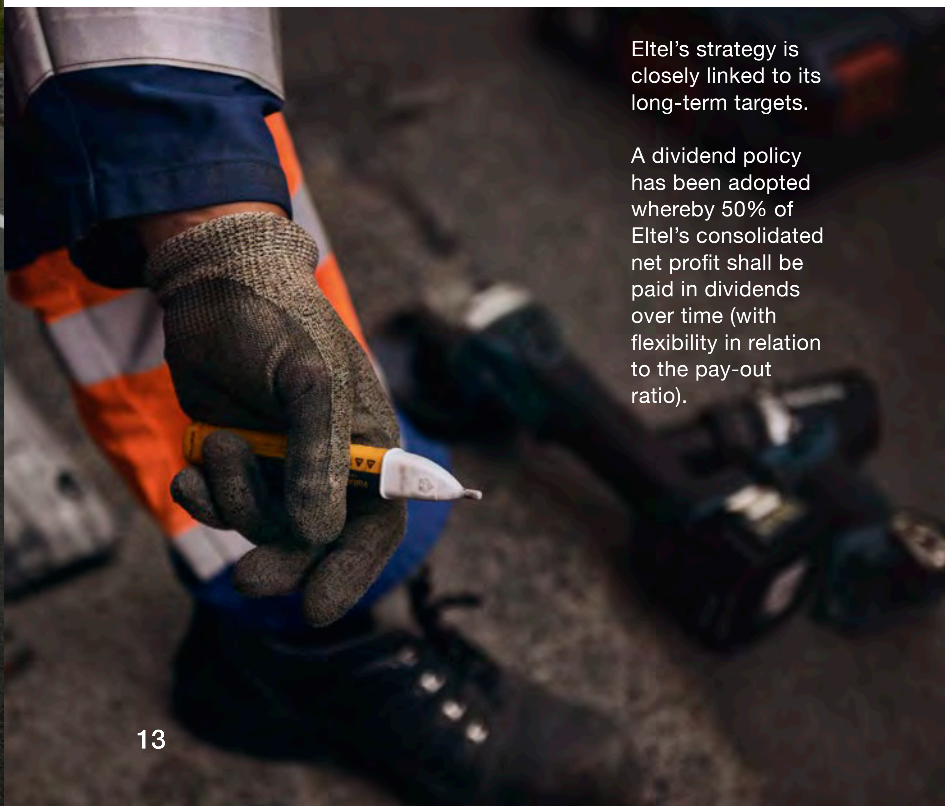
Our long-term targets

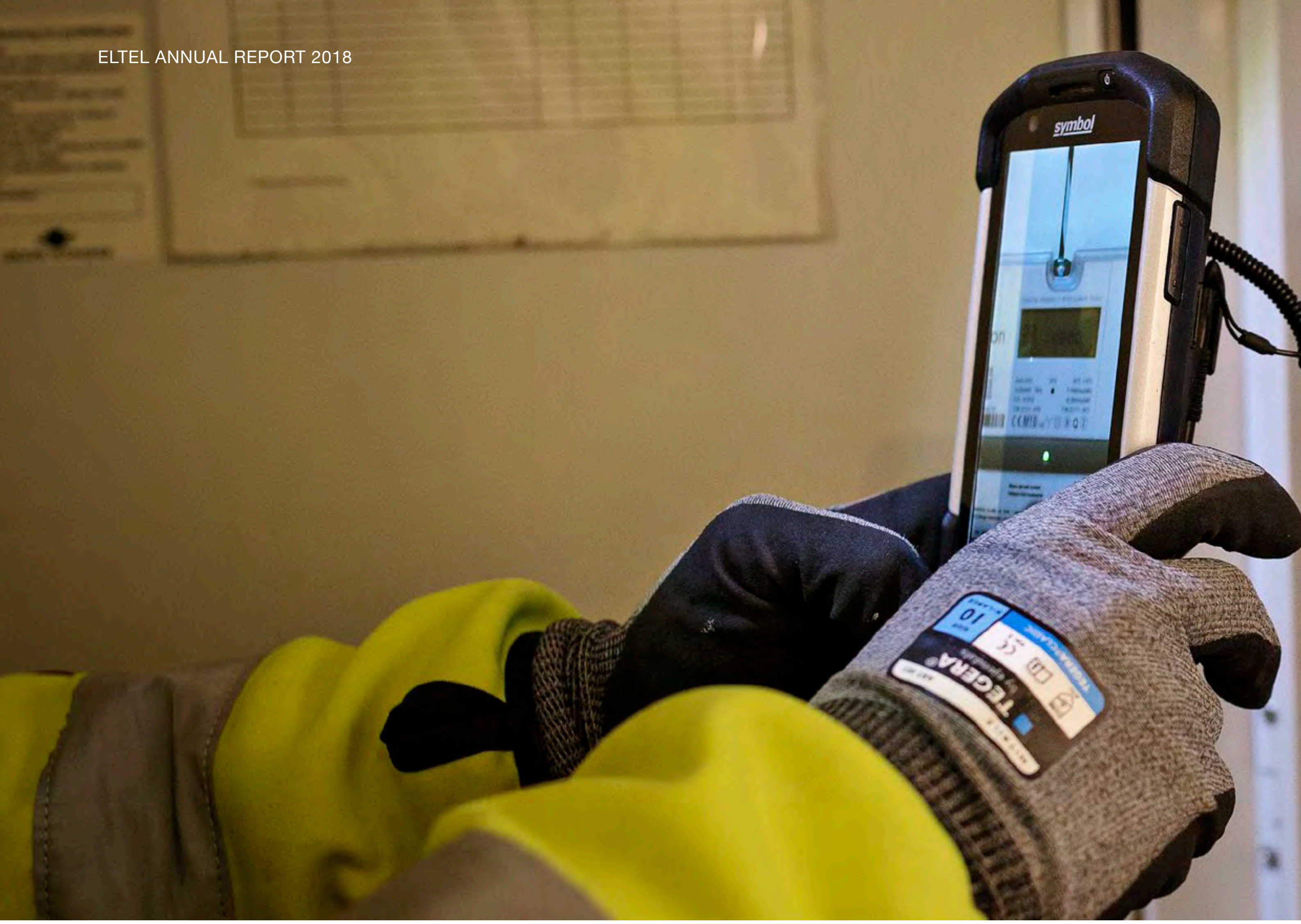
Eltel's business	Target[1]
Rewarded owners	
Annual growth	2–4%
EBITA-margin	5%
Cash conversion	95–100% of EBITA[2]
Leverage	1.5–2.5x net debt/EBITDA[3]
Satisfied customers	
Customer satisfaction index	>75
Engaged Employees	
Employee satisfaction & motivation	>75
Lost time injury frequency	Goal zero
Short-term sick leave	<2.5%
Annual training days	3–5

1) Power segment and Communication segment including selected acquisitions.

2) Cash conversion is calculated as operative cash flow as a percentage of EBITDA. Operative cash flow is calculated as the sum of (a) operating profit before acquisition-related amortisation (EBITDA), (b) depreciation and (c) change in net working capital, minus (d) net acquisition of properties, plant and equipment (CAPEX).

3) Net debt/EBITDA is calculated as net debt, which is defined as interest-bearing debt consisting of short-term and long-term liabilities minus cash and cash equivalents, in relation to EBITDA. Net debt is calculated for the entire Group.





Case story:
Operational excellence in practice – Smart meter installation in Norway

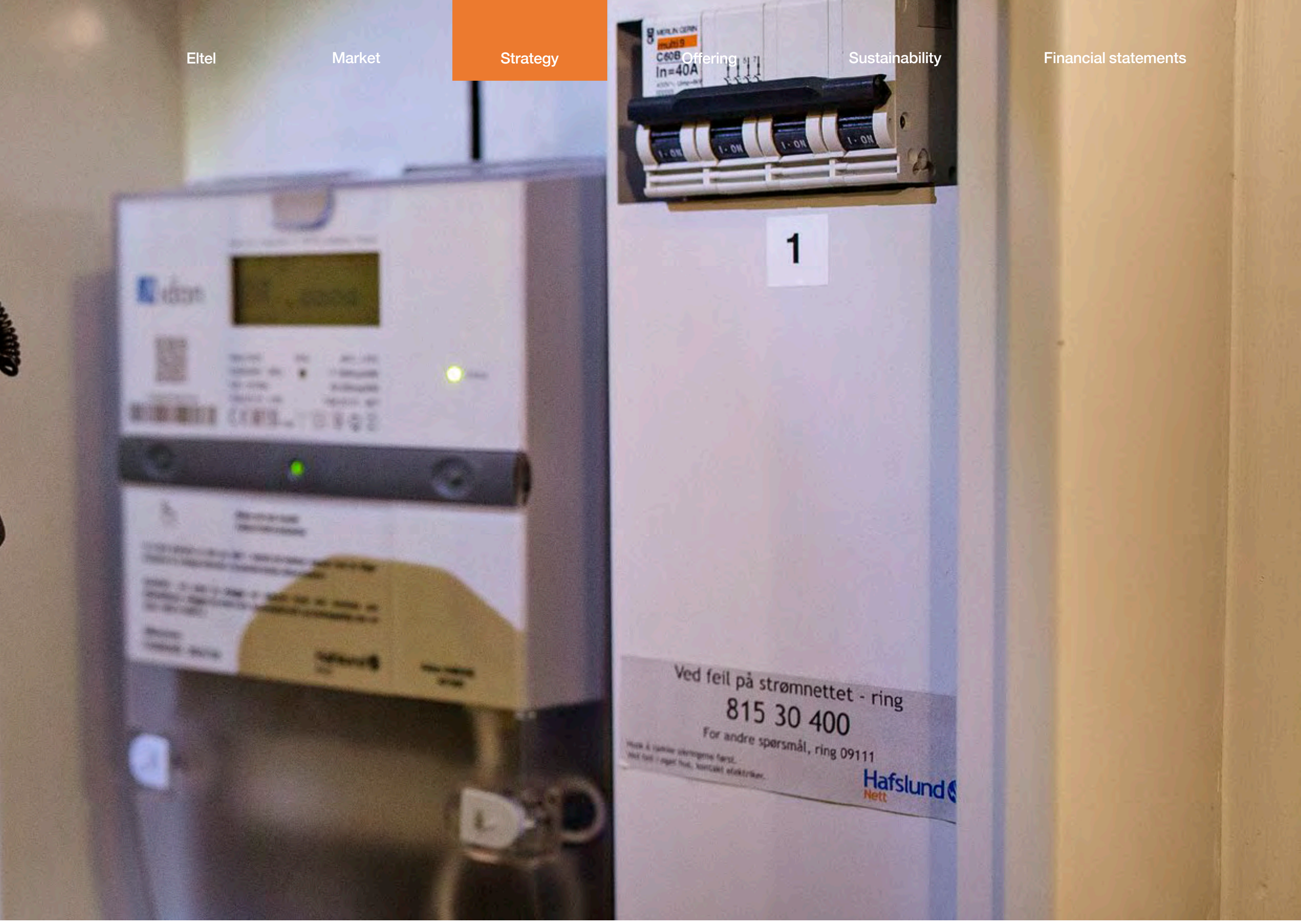
Eltel's smart meter installation project for Hafslund in Norway is a good example of how we can achieve operational excellence – in terms of satisfied customers and engaged employees.

The project in brief
Eltel completed a large smart meter roll-out project in 2018 for the Norwegian company Hafslund Nett AS – one of the largest power companies in the Nordic region. The project upgraded 622,164 Hafslund customer electricity meters to smart meters, which was required by law to enable remote readability. Eltel managed the entire project from planning, scheduling and end customer communication to logistics and installation.

Satisfied customers
The project was completed on budget and one month ahead of the original schedule. A follow up survey showed end customer satisfaction ratings of over 80% in terms of contact and installer visits.

Engaged employees
Eltel's project teams were energised by the Hafslund project goals and by sharing good practice. Eltel also had two other similar large smart meter installation projects ongoing in Norway at the same time. The different teams cooperated and learned from each other, particularly in terms of Health, Safety, Environment and Quality.

A model for operational excellence
The Hafslund project shows how operational excellence can be copied on other smart meter projects. With satisfied customers, engaged employees and good financial results, such Eltel projects will be role models throughout Eltel as we drive our Operational Excellence strategy forward.



Eltel's system has proven to be flexible, very efficient and easy to intergrate into our systems. End customer communication has also been efficient and well-tailored to a large number of customers."

Cathrine Loennecken, Direktør Anskaffelser at Hafslund Nett AS

Key project facts

Client: Hafslund Nett AS, Norway
Project term: April 2015 – November 2018
Number of smart meters installed: 622,164
Scope:
- Project management
- Planning and scheduling
- End customer communication
- Installation, including resources and logistics
- Health, Safety, Environment, & Quality (HSEQ) topics

I am impressed how professional and passionate the team members have worked – from the Project Managers to individual installers. They have regularly beaten daily installation records and it has been great to see them take pride in their performance on the project."

Sami Peippo, Smart Grids Solution Unit Director at Eltel

Power segment

Energy sector customers demand reliable and safe infrastructure with low life cycle costs. There is also growing demand in the segment for infranet solutions to support renewable energy sources, electric vehicle charging and the latest smart metering solutions.

Eltel's Power offering

Eltel builds, maintains and upgrades power transmission systems – society's lifelines – and is a full-service supplier of power distribution services. Primary customers include national transmission system operators and owners of power distribution grids. Our expertise covers everything from standard products to customised solutions. We ensure a safe and smart everyday energy supply and do this from market-leading positions.

Upgrade projects are normally completed in a few months, while typical frame agreements extend over three to five years. The segment is active in the Nordics, Poland and Germany. Demand in the sector is generally driven by the need for increased availability and capacity in the grid, as well as regulatory requirements.

Focus on key Power markets

2018 was a year of consolidation for our Power segment where we strengthened our positions in core markets and focused on a more selective tendering. Net sales decreased by EUR 31.5 million to EUR 438.8 million (470.4), representing a decrease of 6.7%. EUR 20.7 million of the decline is explained by the divestment of the Baltic operations in the second half of 2017. The decrease is furthermore explained by considerably lower volumes in Finland as well at the ramp down of certain power service contracts in Sweden. The decrease was partly offset by strong net sales in Smart Grids and increased volumes in High Voltage. Organic net sales, adjusted for divested operations and currency effects, decreased 1.3%.

Operative EBITA decreased to EUR -0.5 million (-0.3). The operative EBITA margin was -0.1% (-0.1). The strong net sales growth and performance in Smart Grids, mainly in Norway, had a positive impact on EBITA. The measures taken in High Voltage has also started to show effect. This was offset by Finland with poor project execution in Service and lower volumes in Build. Measures to increase focus on cost, resource planning, project governance and project control have been implemented.

Operational Excellence

In line with our new Operational Excellence strategy, we focused on ensuring project excellence and the right competencies for project tendering and governance. The tender approval process has also been made more selective by the Group Tender Board that oversees projects of a certain size to reduce risk. Promoting efficient operations and improving customer engagement are important strategic areas that ultimately promote customer satisfaction and cost efficiency.

Financial performance

	2018	2017
Net sales (EUR million)	438.8	470.4
Operative EBITA (EUR million)	-0.5	-0.3
Operative EBITA margin (%)	-0.1	-0.1
Number of employees	2,346	2,453

Case story: Securing power connections in extreme winter weather in Finland

Unprecedented snowfall in January in Kainuu, northern Finland, required extra-ordinary efforts from Eltel and its partners to restore local electricity supply.

Eltel's response to restore supply
Over a period of more than a week, Eltel mobilised a large team of professionals to make every effort to restore electricity supply to 12,000 customers. Eltel had up to 140 electricians, dozens of harvesters, excavators and forest workers operating around the clock to repair broken powerlines. Eltel brought in electricians from the city of Lahti and southwest Finland to Kainuu. The Finnish Defence Forces also contributed by providing equipment, including helicopters and tracked transport vehicles.

Working in partnership
Eltel worked closely with its customers in the Northern part of Finland, such as the Finnish energy provider Loiste, to identify and resolve problems in the power network. "The cooperation between Eltel and our employees has been excellent, and this major disturbance has once again shown the advantages of a long-term strategic partnership," says Heikki Juntunen, Managing Director of Loiste Sähköverkko. "Everything has gone smoothly, and no one could tell that the professionals working side by side in Loiste's coordination centre for major disturbances were from two different companies."

Long-term aftercare
The situation in Kainuu improved when colder weather arrived as dry snow is less sticky than wet snow on trees and power lines. However, fault repair aftercare measures kept Eltel busy for weeks after the snow storm.

Our electricians and the whole team have worked tirelessly around the clock. I wish to thank all Eltel employees for their invaluable flexibility and effort."

Juha Luusua, Managing Director of Eltel Finland

> Everything has gone smoothly, and no one could tell that the professionals working side by side were from two different companies."

Heikki Juntunen, Managing Director of Loiste Sähköverkko

Communication segment

Modern society is entirely dependent on communication networks, with greater digitalisation and ever-increasing demands on data usage and connectivity driving the adoption of the latest technology.

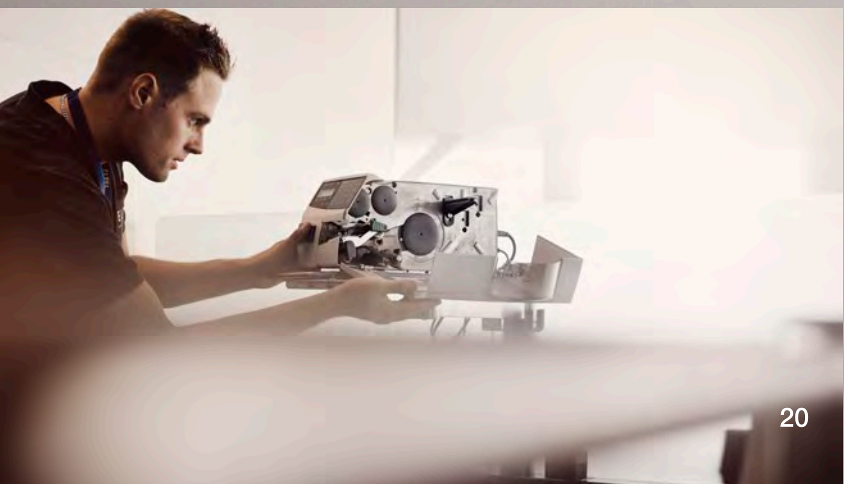
Eltel's Communication offering
The Communication segment is the largest of our two business segments. It provides comprehensive installation and maintenance services to telecom operators and other owners of communication networks. This includes the design, planning, building, installation, upgrade, operation and service of mobile and fixed networks. Eltel is a pioneering service provider that has introduced a number of game-changing innovations and solutions to the infranet market. We do this in close cooperation with our customers, operators and suppliers.

We are the market leader in the Nordic region with operations in the Nordics, Lithuania, Germany and Poland. Our business is characterised by long-term customer relationships, with a regular inflow of orders that are primarily generated through frame agreements. Activities are mainly driven by technical upgrades, maintenance needs and increasing demand for improved capacity and faster networks.

The robust communication market
The market situation for communication is strong and primarily driven by high demand for the installation of fibre optics and the need for ongoing maintenance. Net sales decreased by EUR 29.4 million to EUR 727.3 million (756.8), representing a decrease of 3.9%. EUR 11.4 million of the decline is explained by the divestment of Eltel's Polish maintenance operation in June 2017. Net sales in Sweden and Norway was considerably lower compared to the same period in 2017. The decrease in Sweden is mainly related to lower volumes in Build and currency effects. In Norway, delayed construction compared to 2017 and completion of a large Build project impacted the net sales negatively. The decrease was partly offset by strong performance in Finland and Denmark. Organic growth, adjusted for divested operations and currency effects, was 1.3%.

Operative EBITA decreased to EUR 24.8 million (34.5). The operative EBITA margin was 3.4% (4.6). The decrease is mainly attributable to lower net sales and margin adjustments in Sweden.

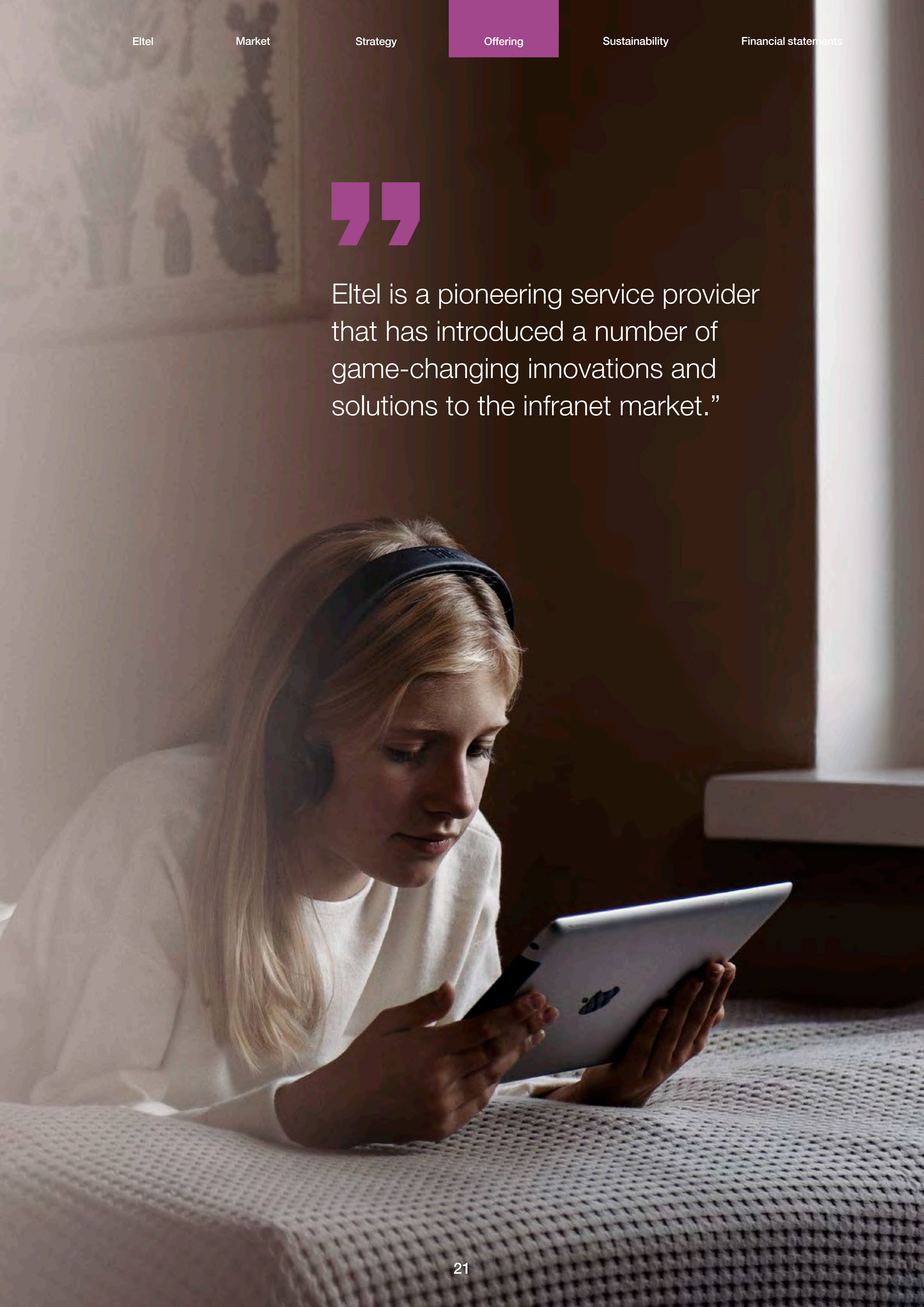
Operational excellence
Our focus on operational excellence in the Communication segment involves working smarter and ensuring we have the right competence and tools. We have also implemented several initiatives to improve day-to-day technician operational efficiency. This includes better IT support services and mobile tools to improve health, safety, environment and quality reporting.



Financial performance

	2018	2017
Net sales (EUR million)	727.3	756.8
Operative EBITA (EUR million)	24.8	34.5
Operative EBITA margin (%)	3.4	4.6
Number of employees	4,502	4,604

> Eltel is a pioneering service provider that has introduced a number of game-changing innovations and solutions to the infranet market.”



Case story: Revolutionising Denmark's rail traffic

Eltel is improving train punctuality and internet access for Danish passengers, in partnership with the country's main rail operator.

In line with Eltel's purpose to 'secure the lifelines of modern society', Eltel Denmark is designing, building and managing communication infrastructure for Danish railways through three large projects that are revolutionising train transport in Denmark.

Improving train punctuality
Eltel is replacing old railway signalling throughout Denmark with a modern IT system installed in the locomotives. The system is significantly improving punctuality and reliability for passengers, and Eltel is safeguarding the IT security of the system.

Network upgrade
The existing fibre network is being upgraded with new technology to increase bandwidth. Eltel is responsible for designing the project, the hardware tender, installation and 24/7 surveillance.

Better connected rail passengers
Eltel is building 60 new mobile base stations along railway routes to ensure good mobile connectivity throughout Denmark's rail network. When complete, the investment will ensure passengers have better internet access when traveling by train throughout Denmark.

"Eltel plays an important role in improving the rail travel experience for Danish people. I believe that more reliable rail services with better opportunities to work or be entertained when travelling encourage more people to take the train in favour of their cars."

Claus Metzsch Jensen, Managing Director of Eltel Denmark

Our country-based operations

The transition to a country-based organisation in 2018 promotes our Operational Excellence strategy by enabling more efficient and effective local organisations with lower overhead costs and better decision-making processes. Our Country Units (CU) have been positively received by customers as we are now better organised from a customer perspective and more able to deliver end-to-end solutions.

Finland

Power

We continue to be the clear number one in Finland with good sales and order backlog. The market remains strong and we signed three large contracts with the Finnish energy company Caruna in 2018 – including two underground cabling regional contracts and a national maintenance contract.

Communication

Eltel is the market leader in Finland, and the CU manages Eltel's Communication activities in Lithuania. The Finnish fibre market is stable. Significant contracts won in 2018 include a large build-out and maintenance contract with a major telecom operator worth EUR 30 million, which was ramped up during the year.

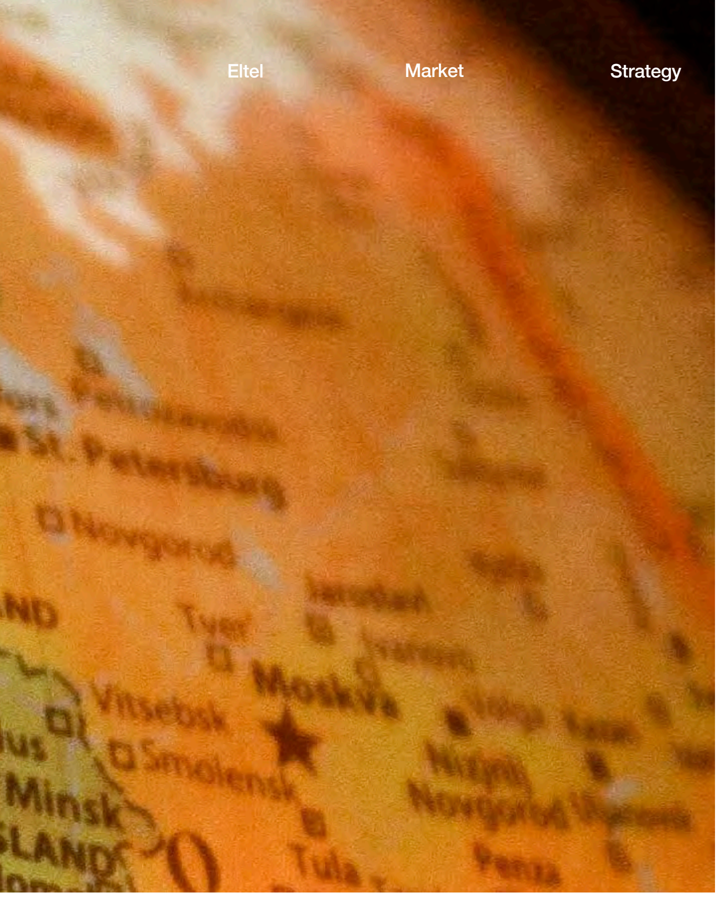
Sweden

Power

The Swedish market remains strong with a lot of investment. Smart metering is a high-potential market for Eltel with the nationwide roll-out of new smart meter technology due to begin in 2019.

Communication

Eltel is the market leader in Sweden. Fibre build-out is declining slightly, but we are still involved in build-out, particularly in rural areas. With large investments in 4G in recent years, the Swedish market is waiting for the next technological wave of 5G. We are also involved in maintaining and dismantling old copper networks.



Norway

Power

Norway is a small power market for Eltel with three large smart metering projects driving our Norwegian business in 2018. All three projects were completed by early 2019.

Communication

As the Norwegian market leader, we are heavily involved in Fibre to the Home (FTTH) projects and 4G deployment, which were largely completed during the year. Growing markets include end-to-end life cycle solutions, 24/7 maintenance services and the infrastructure for electric vehicle charging stations, which is now required by law in Norway.

Denmark

Power

Denmark is our smallest Power market and we work as a sub-contractor installing smart meters and delivering reading services. The size of the market is limited due to minimal outsourcing.

Communication

Eltel is a leading player in Denmark. The fibre market grew significantly in 2018 with many new contracts awarded, including a EUR 29 million FTTH frame agreement for Fibia. During 2018, Eltel signed large contracts to install its specialist equipment to strengthen indoor mobile coverage. In addition, we have a national railway communication installation and maintenance contract until 2022.

Poland

Power

We are the market leader in Poland with good profitability and strong performance in 2018. During the year, we signed a high voltage power line agreement with the Polish power grid company PSE S.A. to deliver a 105 km overhead line by the end of 2023. Many of our Polish technicians are highly skilled and also serve our other markets.

Communication

Eltel performed well in Poland in 2018 with growth in mobile communications and fibre build-out. We are also involved in building out the fibre network and installing fibre along railway lines, which is a new business area for Eltel in Poland.

Germany

Power

Germany is one of the largest markets in Europe. However, Eltel is a small player, which limits our ability to strengthen our market position.

Communication

Eltel is a small player in a fragmented and competitive market, but with good market potential. We provide fibre build-out, including everything from turnkey projects to the design, build, planning and commissioning of networks. Eltel is involved in mobile and Wi-Fi build-out and upgrades.

Outlook for the Power segment

Investments in the power sector are set to continue in all Eltel markets. Key trends driving demand include urbanisation, the need to modernise ageing infrastructure and the shift to more renewable energy. New requirements on data monitoring, reporting, load management and energy efficient solutions are creating new services and technology, such as smart metering and LED lightning. The majority of this work is outsourced to companies such as Eltel as customers do not typically view such activities as their core business.

Outlook for the Communication segment

The outlook for Eltel's Communication segment is reasonably positive for all our CUs. Digitalisation and the use of mobile data will continue to grow, which fuels the demand for our communication network installation, upgrade and maintenance services. Technology plays an increasingly important role and Eltel is working closer with vendors of technologically advanced solutions.

Customers are also looking for more strategic partners such as Eltel that are able to provide cost-effective end-to-end services and game-changing solutions. The anticipated deployment of 5G and outdoor Wi-Fi networks will present market opportunities for Eltel in the coming years, together with electric vehicle charging infrastructure.

Sustainability

Sustainability is an important part of our business – both in terms of our infranet services that enable a more sustainable society, and through the direct impacts of our operations on our employees, partners and the environment.

The growing importance of sustainability
Our performance in terms of environmental and social topics is increasingly important to our stakeholders. Customers and investors are placing greater sustainability demands on us, and employees want to work for companies that are responsible corporate citizens. More sustainable operations are aligned with our Operational Excellence strategy, for example by improving efficiency and cost savings through reduced fuel use, less accidents, first time resolution and lower sick leave among our employees.

Eltel's approach to sustainability
Our Sustainability Plan 2018–2020 is based on five focus areas. We consider these areas to be our most important priorities in terms of managing our sustainability impacts. Each of these focus areas are described in more detail in this chapter.

- Health and Safety – we promote a proactive health and safety culture towards our goal of zero accidents.
- People and Society – our activities directly affect the people we employ and partner with, and indirectly through securing the lifelines of modern society.
- Environment – we work to reduce the direct environmental impacts of our operations, and Eltel's infranet services help reduce society's environmental footprint.
- Supply Chain – it is essential that our sub-contractors and suppliers live up to our standards to ensure we are able to deliver high-quality services to our customers.
- Business Ethics – as a company working to secure society's lifelines, we have an important role to play as a good corporate citizen.

Our new reporting system
In 2018, we improved how we work with environmental, health, safety and quality management by developing and implementing new working procedures and a new supporting system. The system is an IT tool that helps us to better measure and follow up our performance. It gives structure to our activities and helps us to improve our sustainability performance. Implementation will be completed in early 2019.

Abiding by international principles
Eltel is a signatory to the United Nations Global Compact and its ten principles on human rights, labour, environment and anti-corruption, which demonstrates our commitment to adopting more sustainable and responsible policies.

Health & safety

We promote a proactive health and safety culture towards our long-term goal of zero accidents.

The importance of health and safety
We consider health and safety to be our most important sustainability focus area as it involves safeguarding the lives and health of our employees and partners.

Our approach
We have systematically implemented a Group-wide programme in recent years to reduce work-related injuries by promoting a more proactive health and safety culture. This has led to a significant reduction in the number of injuries since 2015.

Eltel has a comprehensive Health, Safety and Environment Policy, and sub-contractors are integrated into Eltel's health and safety plans. Eltel is committed to comply with the OHSAS 18001/ISO 45001 standards, and approximately 80% of our subsidiaries are certified.

Our health and safety targets
Our long-term Lost Time Injury Frequency target is to reach the level of zero. We also measure the development of our short-term sick leave.

Health and safety risks
Eltel has clearly defined the health and safety risks for our people. High-risk activities related to our day-to-day operations include electrical safety, working at height, handling ageing infrastructure and safety on the road. Eltel is constantly seeking to identify and implement more modern and safer solutions and processes on a regular basis in order to reduce risk. We also aim to update and

Health & Safety Highlights 2018

- Zero fatal accidents
- Our Lost Time Injuries Frequency rate remained the same as the previous year – 7.0
- The number of near-miss and potential incident reports increased by 18%
- Absence due to illness including long-term illness increased from 4.5% to 4.9%
- 77% of our 'category A sub-contractors and suppliers' were part of Eltel's H&S programme

More sustainable operations are aligned with our Operational Excellence strategy."

clarify our work instructions and procedures to avoid accidents. We encourage near-miss and potential incident reporting, and conduct management safety walks and regular work site safety audits to increase risk awareness and improve working methods in the field. Safety training and sharing good practice also help to promote safety.

Road safety is a particularly important area for Eltel as our teams spend a lot of time on the road. We actively work to ensure that our employees do not drink and drive, do not drive when they are too tired, follow speed limits and use safety belts.

Safety performance in 2018

Following good progress on safety in recent years, our positive trend stalled in 2018. We are planning to reassess our work with health and safety in 2019 with the aim of continuing our good progress towards our zero accident vision. During 2018, the number of fatal accidents was zero.

Learning from incidents

Although our objective is to avoid accidents and achieve a proactive safety culture, we recognise the importance of learning from experience. When an accident occurs, we conduct an in-depth incident investigation to understand the root causes and prevent similar incidents in the future. During the year, some incidents occurred due to the incorrect use of materials, lack of alertness and not following routines. All of these issues are continuously addressed in Eltel's health and safety training.

People & society

Our activities directly affect the people we employ and partner with, and indirectly through securing the lifelines of modern society.

The importance of people and society

We are dependent on our employees and partners to be able to deliver technical infranet services. These services benefit people throughout society by ensuring electricity and communication networks work properly, and that society's demands for greater digitalisation are met. The importance of our role is highlighted by extreme weather situations that have disrupted networks in recent years.

Our approach

In terms of our people, we aim to attract the right people by providing stimulating employment opportunities and environments. We also work to increase employee engagement as it enhances our operations and ultimately our customer satisfaction. The Eltel Human Resources Policy and the Eltel Code of Conduct provide essential guidance in our work with employees and suppliers.

Our people targets

We have strategic targets on employee engagement, the number of annual training days and short-term sick leave.

Employee engagement in 2018

Reorganisation, divestments and business closures have affected our employees during the year. We have strived to proactively communicate about all organisational changes that might affect our employees.

In 2018, we worked with the important topics highlighted by our 2017 Employee Engagement Survey. This involved taking strong actions at management and team levels to eliminate harassment in our operations. Teams have discussed the topic in their meetings during the year and employees are encouraged to raise any issues directly with their manager. Employees can also report inappropriate behaviour through the Eltel whistle blowing function (read more about the function on page 33). Follow up assessments have shown that we have made significant progress and that the majority of harassment cases now result from inappropriate behaviour from external parties. Such issues may require a different approach to handle.

Team discussions and improvements
The results of the employee survey in January 2018, formed the basis for team discussions during the year. These discussions covered improvement areas such as how we can improve our processes and tools, which has significant positive impacts on the day-to-day activities of our employees.

We received a lot of in-depth knowledge and experience during the year from our employees who contributed towards the formation of our new strategy. The examples provided by our employees highlighted the importance of having the right work tools and the need to reduce the number of systems they work with on a daily basis. In total, 469 improvement actions resulted from team discussions in 2018.

Employees

	2018	2017
Employee satisfaction & motivation	65	63
% of female employees	12	14

People & Society Highlights 2018

- 75% of all employees responded to the employee engagement survey
- 469 improvement actions from team discussions
- EUR 327.8 million expenses in wages and salaries

Environment

We work to reduce the direct environmental impacts of our operations. Eltel's infranet services help reduce society's environmental footprint.

The importance of environmental topics

Good environmental performance is essential to ensure we meet regulations and stakeholder expectations. Our technical infranet services also enable society to reduce its environmental footprint. We do this by upgrading power networks to support electric vehicle charging infrastructure, smart metering to reduce energy use and networks that can manage the increased supply of renewable electricity. We are active in solar panel installations and are growing in the wind power industry.

Our approach

Eltel's Health, Safety and Environment Policy is the cornerstone of our environmental work. It states how we are to minimise the environmental impacts of our operations and monitor possible environmental incidents. In 2018, no major environmental incidents occurred as a result from Eltel's operations.

Our work with environmental topics is closely related to our strategic priority 'Optimal use of competence and resources'. This priority promotes the efficient use of resources, which decreases our environmental footprint and cost.

Reducing vehicle emissions

We consider vehicle emissions to be our most significant environmental impact. The total emissions from our vehicle fleet reduced by 4.13% during 2018. Our per km emissions and the amount of fuel we used decreased during the year.

Initiatives to reduce our vehicle emissions include eco-driving training for our drivers, which promotes more fuel-efficient driving. We also work to optimise 'ticket planning', which is how we plan the jobs and routes our technicians take. Vehicle GPS systems combined with technicians that can deal with a range of tasks optimise fleet routing and minimise emissions.

Reducing site impacts

We always strive to reduce the environmental impact of our work on all sites. We collaborate with landlords to plan and minimise the physical impacts, disruption and noise from major construction works. We work closely with property owners to minimise negative impacts on gardens or privately-owned land.

Environment

	2018	2017
Average CO_2 emissions from cars and vans (g/km)	167	171
Total fuel consumption of entire fleet (litres)	10,476,128	10,928,350
CO_2 emissions of entire fleet (tonnes)	27,393	28,573
Total number of vehicles in entire fleet	4,247	4,509

Environment Highlights 2018

- 4.13% reduction in CO_2 emissions from our own fleet
- No major environmental incidents
- Installation of approx. 577,000 smart meters during the year
- Installation of the latest technology for electric vehicle charging stations

Supply chain

It is essential that our sub-contractors and suppliers live up to our standards to ensure we are able to deliver high-quality services to our customers.

The importance of our supply chain
Eltel has approximately 1,200 sub-contractors. Our projects typically rely on a number of sub-contractors that Eltel has overall responsibility for. It is essential that they work according to our standards to ensure we meet the expectations of our customers and other stakeholders.

Our approach
We request our partners to commit themselves in writing to Eltel's Code of Conduct and other key policies and principles, including our Health, Safety and Environmental (HSE) controls, human rights and ethical behavior.

Valid certificates for ISO 9001 (Quality), OHSAS 18001/ISO 45001 (Health and Safety) and ISO 14001 (Environment) are recommended. If partners do not hold such certificates, they are required to prove their compliance by signing an agreement and participating in Eltel's e-learning courses.

Managing supply chain risks
As the actions and performance of our partners pose direct financial and legal risks to Eltel, we have clear processes to ensure our main sub-contractors sign up to the Eltel Code of Conduct and that we continuously monitor their compliance. Eltel categorises sub-contractors and suppliers according to their level of risk exposure. Partners rated as the highest risk, category A, are integrated into Eltel's reporting.

Management of Sub-Contractors
Our Management of Sub-Contractors (MoSC) system includes self-assessments that allow our partners to assess their own operations, together with on-site audits conducted by Eltel (including both announced and unannounced audits). If our audits identify any inadequacies or deviations, we implement an action plan together with the partner to ensure they meet our standards.

Our new environmental, health, safety and quality handling system launched during the year will ensure better data collection for supply chain partners and will enable us to work more proactively with MoSC going forward.

Enhancing our supply chain through learning
Training that we provide to our main suppliers is another part of our MoSC system, and we offered video information and e-learning courses to over 1,000 partners during the year. The courses help to raise sub-contractor knowledge and awareness of certain topics, such as safety and environmental impacts. We also promote the sharing of performance and real-life events to support continuous learning and improvement. Our drive for operational excellence involves working to promote collaboration throughout our supply chain.

Supply Chain Highlights 2018

- 1,263 sub-contractors have been identified as our highest risk category A partners
- 77% of our category A partners have committed to comply with our policies
- 205 supply chain audits conducted during the year
- E-learning provided to over 1,000 partners

Business ethics

As a company working to secure society's lifelines, we have an important role to play as a good corporate citizen.

The importance of business ethics
Customers are placing more ethical requirements on Eltel. We must meet these expectations to continue to win work now and in the future. From an employer perspective, being a good corporate citizen helps us to attract and retain talent. As a listed company, how we fulfil our business ethics and corporate citizenship commitments is becoming increasingly important for investors – particularly among our institutional shareholders.

Our approach
Working with business ethics involves complying with all relevant laws and regulations, our internal policies and agreements with customers and suppliers. We must also abide by what is commonly understood as ethical behaviour by our shareholders, customers, employees and sub-contractors, as well as external stakeholders such as the media. Meeting these stakeholder expectations ensures we remain a relevant partner, employer and investment opportunity.

Our key policies
Our policies and other key steering documents contribute to everything we do and guide us to be an ethical business partner and a responsible corporate citizen. Our main policies that promote business ethics are listed in the box below.

Business Ethics Highlights 2018

- A number of Eltel's policies were updated
- New e-learning business ethics programme developed – Fair Play at Eltel

Fair Play at Eltel
Our policies are applicable to all our employees and sub-contractors. During 2018, we refined a number of our main policies, including the Code of Conduct, and developed a new e-learning programme – Fair Play at Eltel. The programme will be rolled out throughout Eltel in 2019.

Eltel's whistle blowing function
Our whistle blowing function is the ultimate safeguard for business ethics as it enables our people to report anything that violates our policies and ethics. The whistle blowing function brings issues to the attention of Eltel's General Counsel and can be reported anonymously via email or phone if necessary. The General Counsel reports any whistle blowing matters exclusively to the Audit Committee, which is a permanent sub-committee of the Eltel Group Board of Directors. All reported issues are investigated confidentially and dealt with, before reporting back to the whistle blower and the Audit Committee.

In 2018, a few issues were reported and investigated by the whistle blowing function but none of them required specific action to be taken.

Eltel's policies relevant to business ethics

- Eltel Code of Conduct
- Anti-corruption Policy
- Human Resources Policy
- Health, Safety and Security Policy
- Insider Policy
- Group Tax Policy
- Information Security Policy
- Whistle blowing policy

Auditor's opinion regarding the statutory sustainability report

To the general meeting of the shareholders in Eltel AB, corporate identity number 556728-6652

Engagement and responsibility
It is the board of directors who is responsible for the sustainability report for the year 2018 on pages 26-33 and that it is prepared in accordance with the Annual Accounts Act.

The scope of the examination
Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

Opinion
A statutory sustainability report has been prepared.

Stockholm 4 April 2019
KPMG AB

Mats Kåvik
Authorized Public Accountant

Five-year summary

Condensed consolidated income statement

EUR million	Full-year 2018	Full-year 2017	Full-year 2016	Full-year 2015	Full-year 2014
Net sales	1,188.9	1,329.9	1,399,8	1,254.9	1,242.1
Cost of sales	-1,080.5	-1,234.8	-1,279.5	-1,089.6	-1,078.3
Gross profit	**108.4**	**95.1**	**120.3**	**165.3**	**163.8**
Other income	4.5	4.9	4.0	4.3	8.4
Expenses	-121.2	-126.2	-121.8	-110.6	-132.8
Share of profit/loss of joint ventures	1.1	-0.4	-0.4	1.5	-0.7
Operating result before acquisition-related amortisations (EBITA)	**-7.1**	**-26.7**	**2.1**	**60.5**	**38.6**
Amortisation and impairment of acquisition-related intangible assets	-2.2	-158.0	-69.4	-13.9	-12.4
Operating result (EBIT)	**-9.2**	**-184.6**	**-67.4**	**46.6**	**26.2**
Financial expenses, net	-8.8	-12.3	-12.6	-14.4	-19.0
Result before taxes	**-18.0**	**-197.0**	**-80.0**	**32.2**	**7.2**
Taxes	-4.1	-7.7	-2.2	11.0	3.9
Net result	**-22.2**	**-204.6**	**-82.2**	**43.2**	**11.1**

Key figures

EUR million	Full-year 2018	Full-year 2017	Full-year 2016	Full-year 2015	Full-year 2014
Net sales	1,188.9	1,329.9	1,399.8	1,254.9	1,242.1
Net sales growth, %	-10.6	-5.0	11.6	1.0	8.2
Operative EBITA	-2.2	-25.5	2.1	62.2	61.3
Operative EBITA margin, %	-0.2	-1.9	0.1	5.0	4.9
Items affecting comparability[1]	-4.8	-1.2	–	-1.7	-22.7
EBITA	-7.1	-26.7	2.1	60.5	38.6
EBITA margin, %	-0.6	-2.0	0.1	4.8	3.1
Amortisation of acquisition-related intangible assets	-2.2	-8.5	-14.4	-13.9	-12.4
Impairment of goodwill and other acquisition-related intanbigle assets[2]	–	-149.4	-55.0	–	–
Operating result (EBIT)	-9.2	-184.6	-67.4	46.6	26.2
EBIT margin, %	-0.8	-13.9	-4.8	3.7	2.1
Operative cash flow	-6.6	-59.7	-8.0	45.8	88.9
Cash conversion, %[3]	N/A	224	-387	76	230
Number of personnel, end of period	7,376	7,999	9,465	9,568	8,647

1) In 2018, earn-out adjustment and net loss for the disposed business. In 2017, net effect of acquisition earn-out adjustment, sale of businesses and costs related to reviews and investigations. In 2014 and 2015, mainly IPO-related costs.
2) Impairment is related to Power Transmission International and Rail reported in Other and Power Transmission reported in segment Power.
3) Calculated on a rolling 12-month basis.

Operative cash flow

EUR million	Full-year 2018	Full-year 2017	Full-year 2016	Full-year 2015	Full-year 2014
EBITA	-7.1	-26.7	2.1	60.5	38.6
Depreciation	12.2	13.3	13.1	11.9	11.0
EBITDA	5.1	-13.4	15.1	72.3	49.6
Change in net working capital	6.8	-32.8	-9.8	-15.5	48.1
Net purchases of PPE	-18.6	-13.5	-13.3	-11.1	-8.9
Operative cash flow (used in cash conversion key figure)	**-6.6**	**-59.7**	**-8.0**	**45.8**	**88.9**

Quarterly figures

Quarterly key financial figures for the Group

EUR million	Full-year 2018	Oct-Dec 2018	Jul-Sep 2018	Apr-Jun 2018	Jan-Mar 2018	Full-year 2017	Oct-Dec 2017	Jul-Sep 2017	Apr-Jun 2017	Jan-Mar 2017
Net sales	1,188.9	330.9	295.9	295.5	266.6	1,329.9	374.2	328.0	329.8	297.8
Net sales growth, %	-10.6	-11.6	-9.8	-10.4	-10.5	-5.0	-3.3	-7.9	-10.6	3.6
Operative EBITA	-2.2	2.9	0.5	2.0	-7.6	-25.5	2.2	3.1	-21.0	-9.7
Operative EBITA margin, %	-0.2	0.9	0.2	0.7	-2.9	-1.9	0.6	0.9	-6.4	-3.2
EBITDA	5.1	3.2	3.9	4.8	-6.9	-13.4	5.0	6.0	-16.8	-7.6
EBITA	-7.1	0.2	0.5	2.1	-9.9	-26.7	1.7	2.4	-20.0	-10.7
EBITA margin, %	-0.6	0.0	0.2	0.7	-3.7	-2.0	0.5	0.7	-6.1	-3.6
Impairment of goodwill and other acquisition-related intangible assets	–	–	–	–	–	-149.4	–	-3.8	–	-145.6
Operating result (EBIT)	-9.2	-0.2	-0.2	1.6	-10.4	-184.6	1.2	-2.8	-23.2	-159.8
EBIT margin, %	-0.8	-0.1	-0.1	0.5	-3.9	-13.9	0.3	-0.9	-7.0	-53.7
Result after financial items	-18.0	-2.8	-3.5	0.3	-12.0	-197.0	-0.3	-6.4	-27.3	-162.9
Net result for the period	-22.2	-3.3	-9.6	0.2	-9.5	-204.6	-7.7	-11.0	-24.5	-161.4
Earnings per share EUR, basic	-0.15	-0.02	-0.06	0.00	-0.06	-1.56	-0.05	-0.07	-0.23	-1.53
Earnings per share EUR, diluted	-0.15	-0.02	-0.06	0.00	-0.06	-1.56	-0.05	-0.07	-0.23	-1.53
Return on operative capital employed, %[1]	-8.3	-8.3	-3.9	-3.2	-22.8	-37.4	-37.4	-38.3	-35.8	-11.6
Return on equity (ROE), %[1]	-8.3	-8.3	-9.5	-9.7	-23.0	-64.9	-64.9	-77.2	-72.0	-76.0
Leverage ratio[1]	29.0	29.0	30.6	20.5	N/A	N/A	N/A	N/A	N/A	N/A
Net working capital	39.9	39.9	109.3	91.9	75.1	45.6	45.6	88.4	59.9	71.6
Operative cash flow	-6.6	66.4	-18.2	-17.3	-37.6	-59.7	43.0	-25.6	-10.7	-66.4
Cash conversion, %[1]	N/A	N/A	N/A	N/A	N/A	223.9	223.9	N/A	N/A	N/A
Number of personnel, end of period	7,376	7,376	7,490	7,680	7,605	7,999	7,999	8,441	8,685	9,516

1) Calculated on a rolling 12-month basis.

Quarterly segment information

EUR million	Full-year 2018	Oct-Dec 2018	Jul-Sep 2018	Apr-Jun 2018	Jan-Mar 2018	Full-year 2017	Oct-Dec 2017	Jul-Sep 2017	Apr-Jun 2017	Jan-Mar 2017
NET SALES										
Power	438.8	115.1	112.0	116.0	95.7	470.4	130.7	117.5	118.3	103.8
Communication	727.3	207.1	180.2	177.7	162.3	756.8	215.6	186.7	184.9	169.6
Other	23.1	3.6	7.5	2.5	9.5	103.8	27.6	24.8	26.8	24.6
Elimination of sales between segments	-0.4	5.0	-3.7	-0.8	-0.9	-1.1	0.4	-1.0	-0.2	-0.2
Net sales, total	**1,188.9**	**330.9**	**295.9**	**295.5**	**266.6**	**1,329.9**	**374.2**	**328.0**	**329.8**	**297.8**
OPERATIVE EBITA BY SEGMENT										
Power	-0.5	-1.9	0.2	2.5	-1.3	-0.3	-0.5	0.9	-1.2	0.5
% of net sales	-0.1%	-1.6%	0.2%	2.1%	-1.4%	-0.1%	-0.3%	0.7%	-1.0%	0.5%
Communication	24.8	9.7	6.8	7.2	1.1	34.5	12.9	11.5	6.5	3.7
% of net sales	3.4%	4.7%	3.8%	4.1%	0.7%	4.6%	6.0%	6.2%	3.5%	2.2%
Other	-11.1	-1.1	-3.2	-3.1	-3.7	-43.7	-5.8	-6.1	-21.7	-10.1
% of net sales	-48.2%	-30.4%	-43.4%	-122.6%	-38.8%	-42.1%	-21.0%	-24.4%	-81.0%	-41.1%
Costs not allocated to segments	-15.4	-3.8	-3.3	-4.6	-3.7	-16.1	-4.4	-3.3	-4.6	-3.8
Operative EBITA	**-2.2**	**2.9**	**0.5**	**2.0**	**-7.6**	**-25.5**	**2.2**	**3.1**	**-21.0**	**-9.7**
% of net sales	-0.2%	0.9%	0.2%	0.7%	-2.9%	-1.9%	0.6%	0.9%	-6.4%	-3.2%

The Eltel Share

Eltel's share has been listed on Nasdaq Stockholm since 2015. The Eltel share is quoted on the OMX Stockholm Mid Cap, under the trading symbol "ELTEL".

Share capital

At the end of the financial period 2018, the number of Eltel shares totalled 156,649,081 and the share capital entered in the trade register was EUR 157,980,251. Eltel had 5,427 share-holders at the end of the financial period 2018. The largest shareholder was the Herlin families through their companies Wipunen Varainhallinta Oy, Mariatorp Oy, Riikantorppa Oy with 20.4% of the share capital. These 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.

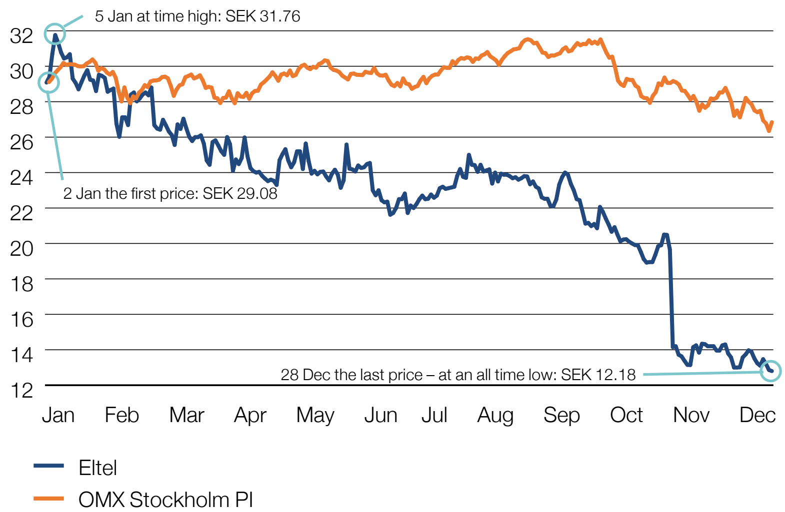
Price development and trading volumes

The closing price on 28 December 2018 was SEK 12.80 and the volume-weighted average adjusted price for the year was SEK 21.66. At year-end, Eltel's market capitalisation was SEK 2,005,108. The trading volume on Nasdaq Stockholm was 64,474,248 shares, equivalent to a turnover of SEK 14,894,023. Eltel's shares were only traded on Nasdaq Stockholm.

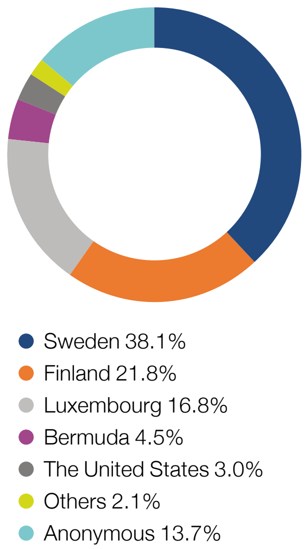
The dividend policy

A dividend policy has been adopted whereby 50% of Eltel's consolidated net profit shall be paid in dividends over time (with flexibility in relation to the pay-out ratio).

Eltel Share in 2018 (SEK)



Geographic distribution of shareholders 31 Dec 2018



Analysts monitoring Eltel

Robin Nyberg	Carnegie
Matias Rautionmaa	Pohjola

Ownership by sector on 31 December 2018

Name	Number of shares	Share capital, %
Foreign resident owners	98,216,752	62.36
Financial companies	26,016,093	16.52
Social security funds	24,568,503	15.60
Swedish individuals	6,117,615	3.88
Other Swedish legal entities	1,430,849	0.91
Municipal sector	135,000	0.09
Uncategorised legal entities	116,660	0.07
Other financial companies	100,000	0.06
State	57,841	0.04
Interest groups	24,768	0.02
Total	**157,499,081**	**100.00**

Eltel's top 10 shareholders on 31 December 2018

Shareholders	Number of shares	% of ordinary shares
Solero Luxco S.á.r.l.[1]	25,683,845	16.40
Wipunen Varainhallinta Oy[2]	16,000,000	10.21
Fjärde AP-fonden	15,027,060	9.59
Swedbank Robur Fonder	14,975,484	9.56
Första AP-fonden	9,386,750	5.99
Mariatorp Oy[2]	8,000,000	5.11
Riikantorppa Oy[2]	8,000,000	5.11
Fidelity International (FIL)	6,991,295	4.46
AMF Försäkring & Fonder	3,000,000	1.92
Fidelity Investments (FMR)	2,467,623	1.58
Total	**109,532,057**	**69.92**
Other shareholders	47,117,024	30.08
Total ordinary shares in Eltel AB	**156,649,081**	**100.00**

1) Company controlled by Triton.
2) Companies that 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.

Ownership structure on 31 December 2018

Shareholder spread	Shareholders	%
0–500	3,107	57.0
501–1,000	738	13.6
1,001–5,000	1,117	20.6
5,001–10,000	213	3.9
10,001–15,000	70	1.3
15,001–20,000	39	0.7
20,001–	143	2.6
Total	**5,427**	**100.0**

Source: Monitor by Modular Finance. Compiled and processed data from various sources, including Euroclear, Morningstar and the Swedish Financial Supervisory Authority (Finansinspektionen).

Board of Directors' Report 2018

The Board of Directors and the President and CEO of Eltel AB, corporate registration number 556728-6652, with its registered office in Stockholm, hereby submit the Annual Report and consolidated financial statements for the 2018 financial year. Eltel AB and its subsidiaries operate under the Eltel brand. The consolidated group is called Eltel Group.

Company overview

Eltel is a leading northern European provider of technical services for power and communication networks. We deliver a comprehensive range of solutions – from maintenance and upgrade services to project delivery. This includes design, planning, building, installing and securing the operation of power and communication networks for a more sustainable and connected world today and for future generations.

Our customers include telecom operators and other owners of communication networks. We also work for owners of power distribution grids and national transmission system operators. Most of our work is conducted through long-term frame agreements that range from two and five years. This enables us to create and hold long-term relationships with customers and work closely with them to achieve their objectives.

The infranet sector in Europe is continuously changing. The key ongoing trends that driving this change include increasing customer demands, regulatory requirements, the need to upgrade ageing power infrastructure and, the growing use of renewable energy in society.

Eltel provides services within two segments: Power and Communication.

Power segment

Eltel builds, maintains and upgrades power transmission systems – society's lifelines – and is a full-service supplier of power distribution services. Primary customers include national transmission system operators and owners of power distribution grids. Our expertise covers everything from standard products to customised solutions. We ensure a safe and smart everyday energy supply and do this from market-leading positions. Upgrade projects are normally completed in a few months, while typical frame agreements extend over three to five years. The segment is active in the Nordics, Poland and Germany.

The Power market

The power market saw continued high levels of investment in 2018. In Sweden, for example, large investment plans announced by major grid owners will see a high level of market activity in the coming years. In addition to anticipated regulation changes, new wind energy certificates will drive demand for the necessary power infrastructure to support new wind energy projects. The high level of power network investments in Poland, which are co-funded with the EU, are likely to continue.

The small number of large customers in the power market typically have a focus on cost, which makes the power market highly competitive. New foreign players are also entering some markets. However, power service providers are required to have the necessary certificates, such as Health, Safety and Environment (HSE), field technician certificates and similar reference projects. Customers may also require a certain national or international scope, as well as established bid and contract management systems to ensure correct pricing.

Communication segment
The Communication segment is the largest of our two business segments. It provides comprehensive installation and maintenance services to telecom operators and other owners of communication networks. This includes the design, planning, building, installation, upgrade, operation and service of mobile and fixed networks. Eltel is a pioneering service provider that has introduced a number of game-changing innovations and solutions to the infranet market. We do this in close cooperation with our customers, operators and suppliers. We are the market leader in the Nordic region with operations in the Nordics, Lithuania, Germany and Poland.

The Communication market
The communication market is primarily driven by demand for the build out and upgrade of communication networks, installation of fibre optics and the need for ongoing maintenance. The replacement of old copper networks with fibre ensures more reliable communication networks that are easier to maintain. Swedish and Norwegian fibre roll-out penetration has driven the market in recent years. Future growth will be in countries with a historically lower fibre penetration, such as Denmark where large investments have recently been announced. In addition, all markets are expected to see large investments in fifth generation cellular mobile communications (5G) in the coming years, although it remains unclear exactly when this technology will be commercialised.

The communication market offers slightly higher margins than the power market but is still highly competitive. Competition in the sector could increase in the future if there is a slowdown in the construction industry and construction companies enter the market. Similarly, more installation-focused companies may try to win 5G roll-out contracts.

Significant events 2018
New country-based organisation
In 2018, Eltel reorganised into a country-based organisation to make our operations more market-oriented and focused on local customer needs. Eltel also became a flatter organisation with a leaner management structure that is closer to the operations. Each Country Unit (CU) is divided into a Power segment and a Communication segment. Our CUs are Sweden, Finland, Norway and Denmark. We also have two project-based Solution Units that operate across our CUs – High Voltage with operations in the Nordics, Germany and Poland, and Smart Grids, which is a smart meter roll-out organisation. Additionally, Eltel has three small but strong Communication Business Units in Lithuania, Germany and Poland.

Eltel's new strategy – Operational Excellence
During the autumn 2018, Eltel launched a new strategy. The name of the strategy, Operational Excellence, reveals what must be central to everything we do.

The Eltel strategy defines that we are to focus on markets where we have a market leading position. Eltel continues to minimise risk by divesting and ramping down the non-core operations. The strategy also includes promoting profitability and winning market share in our key markets, which are driven by four strategic priorities:
- Always deliver on our customer promises
- Optimal use of competence and resources
- Improve team performance
- Work smarter and improve quality.

Management changes
In April 2018, Eltel's Board of Directors appointed Casimir Lindholm as the new President and CEO of Eltel AB, which was effective from 1 September 2018. Casimir Lindholm has previously served as Managing Director of Eltel Networks Infranet AB ("Eltel Sverige") (2008-2012) and Lemminkäinen Group (2014-2018), and possesses long-term experience of service and project-based organisations. He has demonstrated strong leadership, with the ability to turn operations around and achieve good results. Casimir is also a member of the Board of Directors of Uponor Oyj and Hartwall Capital Oy Ab.

In October 2018, Peter Uddfors, Group Management Team member and Managing Director Eltel Sweden, left his position. During a transition period Casimir Lindholm temporarily assumed the role until Leif Göransson in December 2018 was appointed Managing Director of Eltel Sweden with responsibility for Eltel's business in Sweden, starting from 1 January 2019.

In October 2018, Mikael Malmgren was appointed as Director, Group Strategy and Business Development. He also assumed the responsibility for Communication Poland, Communication Germany and segment Other.

In January 2019, Elin Otter, was appointed as a member of the Eltel Group Management Team and Director, Communications and Investor Relations.

January-December 2018

Net Sales

Net sales decreased 10.6% to EUR 1,188.9 million (1,329.9), mainly as a result of divestments and on-going discontinuation of non-core operations. Lower volumes in Power Finland and Communication Sweden also impacted net sales negatively as well as delayed projects in Norway. Organic growth in segment Power and Communication, adjusted for divested operations and currency effects, was 0.3%.

Operative EBITA

Operative EBITA amounted to EUR -2.2 million (-25.5).

For further information regarding operative EBITA development, refer to the respective section on the segments below.

Segment Power

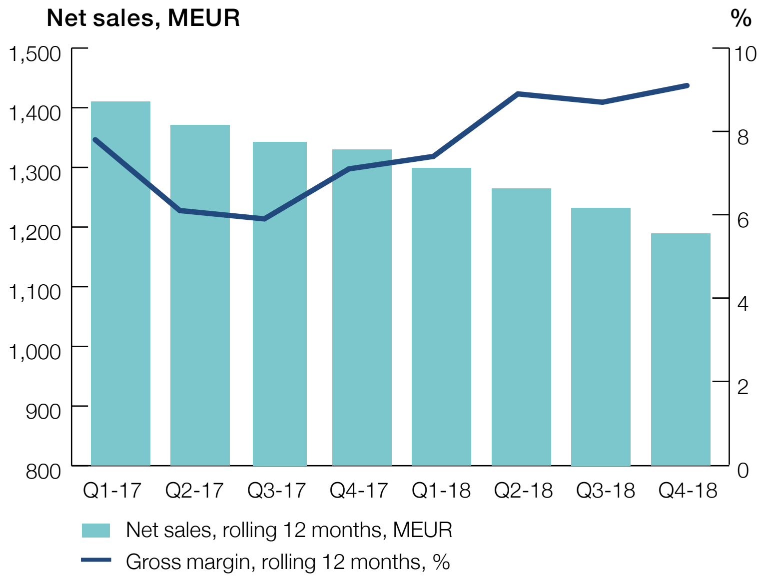
Key events during 2018

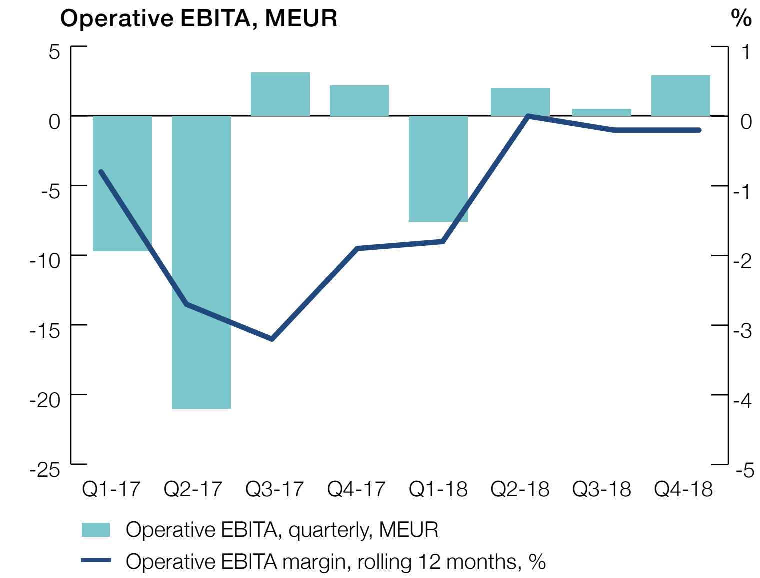
During 2018 Eltel's Power segment secured several important contracts including:

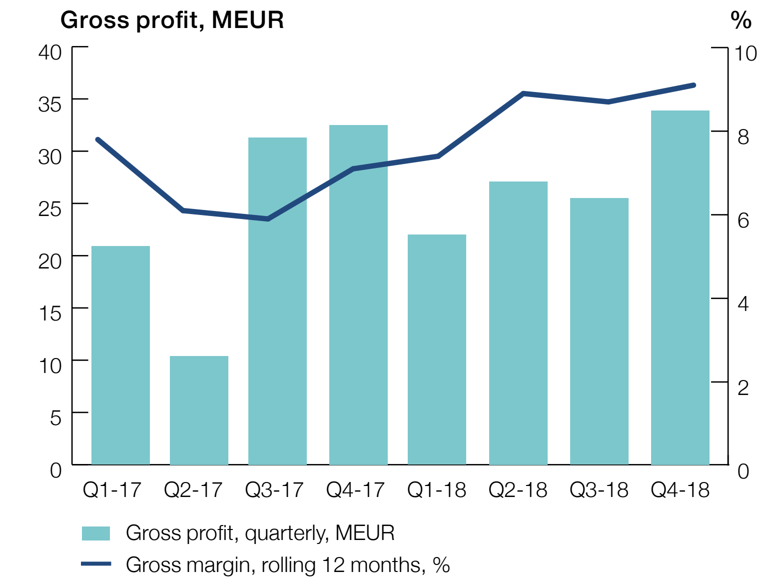
- A frame agreement for power distribution with Caruna Oy in Finland worth EUR 25 million (July 2018)
- A high voltage power line agreement with the Polish power grid company PSE S.A. for a value of about EUR 18.5 million (October 2018)
- A two-year frame agreement with Caruna Oy in Finland worth EUR 13.6 million (November 2018).

Net sales decreased by EUR 31.5 million to EUR 438.8 million (470.4), representing a decrease of 6.7%. EUR 20.7 million of the decline is explained by the divestment of the Baltic operations in the second half of 2017. The decrease is furthermore explained by considerably lower volumes in Finland as well at the ramp down of certain power service contracts in Sweden. The decrease was partly offset by strong net sales in Smart Grids and increased volumes in High Voltage. Organic net sales, adjusted for divested operations and currency effects, decreased 1.3%.

Operative EBITA decreased to EUR -0.5 million (-0.3). The operative EBITA margin was -0.1% (-0.1). The strong net sales growth and performance in Smart Grids, mainly in Norway, had a positive impact on EBITA. The measures taken in High Voltage has also started to show effect. This was offset by Finland with poor project execution in Service and lower volumes in Build. Measures to increase focus on cost, resource planning, project governance and project control have been implemented.







Segment Communication

Key events during 2018

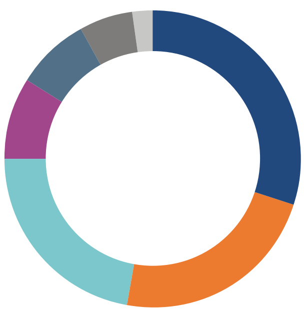
During 2018 Eltel's Communication segment secured several important contracts, including:

- A renewal of telecom frame agreement in Finland worth EUR 30 million (February 2018)
- A three-year frame agreement with Fibia in Denmark worth EUR 29 million (November 2018)
- An infrastructure contract regarding Stockholm Bypass valued at EUR 38 million (December 2018)
- A two-year agreement with TDC in Demark worth about EUR 20 million (December 2018).

Net sales decreased by EUR 29.4 million to EUR 727.3 million (756.8), representing a decrease of 3.9%. EUR 11.4 million of the decline is explained by the divestment of Eltel's Polish maintenance operation in June 2017. Net sales in Sweden and Norway was considerably lower compared to the same period in 2017. The decrease in Sweden is mainly related to lower volumes in Build and currency effects. In Norway, delayed construction compared to 2017 and completion of a large Build project impacted the net sales negatively. The decrease was partly offset by strong performance in Finland and Denmark. Organic growth, adjusted for divested operations and currency effects, was 1.3%.

Operative EBITA decreased to EUR 24.8 million (34.5). The operative EBITA margin was 3.4% (4.6). The decrease is mainly attributable to lower net sales and margin adjustments in Sweden.

Net sales by country



- Sweden 30%
- Finland 23%
- Norway 22%
- Denmark 9%
- Poland 8%
- Germany 6%
- Other countries 2%

Other

Key events during 2018

- Divestment of rail operations in Sweden completed (March 2018)
- Divestment of rail operations in Norway (September 2018).

Net sales decreased by EUR 80.7 million to EUR 23.1 million (103.8), representing a decrease of 77.7%. The decline is explained by that operations have been divested or discontinued during 2017 and 2018. Power Transmission International represented EUR -22.5 million and Rail EUR -58.2 million of the decrease.

Operative EBITA increased to EUR -11.1 million (-43.7). The operative EBITA margin was -48.2% (-42.1). The negative operative EBITA is attributable to Rail and Power Transmission International as well as lower volumes and costs for discontinuing businesses.

The total cost of discontinuing Power Transmission International is estimated to be slightly lower than EUR 40 million. In total, net costs amounting to EUR 29.9 million were recorded during 1 January 2017–31 December 2018, in line with the plan. The discontinuation is expected to be finalised in 2020. From 1 January 2017–31 December 2018 accumulated cost of EUR 24.9 million has been recognised in operative EBITA for the divestment and ramp down of Rail operations.

Divestments

On 31 January 2018, Eltel completed the sale of its Finnish rail operations to Winco Oy, a wholly owned subsidiary of Graniittirakennus Kallio Oy. The purchase price amounted to EUR 8.5 million deducted by the cash generated from these operations during September 2017–January 2018. The transaction had a positive impact on Group EBITA of EUR 3.7 million and positive cash flow of EUR 6.3 million in the first quarter of 2018.

On 31 January 2018, Eltel completed the sale of the Danish rail operations to Strukton Rail A/S. The transaction, comprising a maintenance contract with Sund & Bælt A/S, 26 employees and operational equipment used for delivering the relevant maintenance services, had a negative EBITA effect of EUR 0.5 million in the fourth quarter 2017 and a negative cash flow effect of EUR 2.4 million in the first quarter 2018.

On 29 March 2018, Eltel completed the sale of the Swedish rail operations to Strukton Rail AB. The transaction, comprising build and maintenance contracts with key customers, employees and operational equipment used for delivering the relevant services, had a negative impact of EUR

5.9 million on EBITA and a negative cash flow effect of EUR 5.7 million in the first quarter of 2018. Eltel has as part of the divestment entered into a subcontractor agreement with Strukton Rail AB for the completion of certain contracts relating to the rail business, expected to be completed during 2019.

On 4 September 2018, Eltel completed the sale of the Norwegian rail operations to Æra AS, a wholly owned subsidiary of Jotunfjell Partners AS. The transaction price was EUR 1 and the cash flow effect amounted to EUR -0.7 million.

Financial position, cash and cash equivalents

Equity at the end of the 2018 was EUR 252.0 million (284.1) and total assets were EUR 829.8 million (828.2). The equity ratio was 32.4% (36.4).

At the end of the year, available liquidity reserves amounted to EUR 183.4 million (162.9). On the same date, EUR 83.5 million of Eltel's commercial paper programme was utilised. In January 2018, Eltel's Finnish commercial paper programme was increased from EUR 100 million to EUR 150 million.

In July 2018, an amendment to Eltel's financing agreement was signed with extension of the facilities by one year, until the end of Q1 2021, and resetting of covenants during the transformation period to EBITDA adjusted with agreed nonrecurring items.

In March 2019 Eltel signed an additional amendment to its existing financing agreement including amendments to the financial covenants and a plan to reduce net debt during the term. The covenant revisions relate to minimum adjusted EBITDA to be applied until the end of the transformation period (Q2 2020) and maximum net debt of EUR 120 million to be applied as from the end of Q4 2019. As from the end of Q2 2020 original net debt/EBITDA ratio and adjusted EBITDA/net finance charges ratio are applied. In consideration for the new facilitating covenant package, Eltel has agreed to secure its debt obligations towards the banks under the financing agreement. The security consists of share and intragroup loan pledges and floating charges over certain assets of the Group on customary terms and conditions.

The financing agreement contains a provision that in the event a mandatory bid in accordance with the Swedish Takeover Act is launched due to a change of control in the company, the lending banks have the right to terminate the financing agreement in advance. The amendment to the financing agreement contains a provision that a fee corresponding to 5% of the outstanding credits held by the lending banks shall become due and payable by the company in the event a mandatory bid in accordance with the Swedish Takeover Act is launched due to a change of control in the company.

At the end of 2018, the commercial contract guarantees issued by banks, other financial institutions and the Parent Company amounted to EUR 304.8 million (337.0).

Interest-bearing liabilities and net debt

EUR million	31 Dec 2018	31 Dec 2017
Interest-bearing debt in balance sheet	200.8	164.4
Allocation of effective interest to periods	0.6	0.6
Less cash and cash equivalents	-53.4	-32.9
Net debt	**148.0**	**132.1**

Interest-bearing liabilities totalled EUR 200.8 million (164.4), of which EUR 114.5 million (119.0) were non-current and EUR 86.4 million (45.3) were current. Cash and cash equivalents amounted to EUR 53.4 million (32.9). Interest-bearing net debt totalled EUR 148.0 million (132.1).

Employees

In 2018, the number of employees decreased by 7.8% to 7,376 at year-end (7,999), mainly as a result of divestments and the discontinuation of operations.

Electrical safety, working at height, handling ageing infrastructure and driving have been identified as high-risk activities for Eltel's employees. The systematic and Group-wide programme to reduce work-related injuries by promoting a more proactive health and safety culture has led to a stabilisation of the number of accidents and incidents compared to previous years. However, much work remains to reach Operational Excellence. Active safety observation reporting and visible management commitment to Goal Zero vision have also contributed to reduction of injury severity. No fatal accidents occurred during the year and the Group's zero vision is an ongoing long-term ambition.

Being a people company, Eltel is dependent on the engagement of our employees. In our annual employee engagement survey, more than 75% (+1%) of our employees provided feedback. This resulted in an overall engagement index of 65/100 (+2). To get deeper insight on potential improvements within processes and tools, 26 focus groups were established within the Group. From the feedback, action plans to improve operations, leadership and communication was established throughout Eltel.

For more on how we work with employees, and health and safety, please refer to pages 28–30.

Sustainability

Eltel has, in accordance with the Annual Accounts Act chapter 6 section 11, prepared the statutory sustainability report as a separate report which was approved for issue by the Board of Directors and the President and CEO. The scope of the Statutory Sustainability report is defined on pages 26–33.

Risks & Uncertainties

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 Finnish Market Court dismissed the case as time-barred. 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 currently pending in the Supreme Administrative Court. The timing of the Supreme Administrative Court's ruling on the matter is unknown.

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. 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.

On 28 June 2018, Eltel received a letter from Nasdaq Stockholm where the exchange stated that it intends to request the Nasdaq Stockholm Disciplinary Committee to decide whether Eltel has breached its obligations in relation to the Nasdaq Stockholm Rulebook for Issuers in 2015, 2016 and 2017. Eltel has been invited to comment upon Nasdaq Stockholm's conclusions which primarily relate to alleged deficiencies in (a) Eltel's internal control and accounting, and (b) Eltel's capacity for providing information to the market in relation to applicable disclosure requirements under the Market Abuse Regulation. Eltel has responded and outlined its reasons for rejecting any breach. On 8 January 2019, Nasdaq Stockholm informed on closure of the matter regarding alleged deficiencies in Eltel's internal control and accounting. The matter regarding the alleged deficiencies in Eltel's capacity for providing information to the market in relation to applicable disclosure requirements under the Market Abuse Regulation continues. Any decision taken by the Disciplinary Committee will be made public.

Risk Management

Risk management is a fundamental part of business management and control at Eltel. In late 2018, the Risk Management Policy has been reviewed and updated by executive management and ultimately approved by the Board of Directors. The updated policy clarified risk reporting activities, Group function management's role and re-established a Group Risk Management Team. The Group Risk Management Team reviews top risks and updates the Board of Directors when and if Eltel's risk profile changes. The control environment within Eltel's corporate governance framework continues to include a set of clear rules of procedure for the Board of Directors and its committees, a clear organisational structure, with documented delegation of authority from the Board of Directors to the Group Management Team, and a series of Group policies and instructions. The governance framework and internal controls are applicable to all Eltel companies.

Eltel's risk management process has been consistently in place during 2018 and in previous years.

The Internal Control Function evaluates if the risk management process is in place and communicates identified gaps to top management. More information related to the risk assessment process is included in the Corporate Governance Report. For more information regarding financial risk management, please refer to note 3. in the Consolidated Financial Statements.

Remuneration to senior management
For more information regarding remuneration to senior management, please refer to note 29. in the Consolidated Financial Statements.

Major events after the reporting period

- Eltel signs renewal of three-year telecom frame agreement in Finland worth about EUR 39 million
- Change in the management team: Elin Otter has been appointed new member of the Eltel Group Management Team as of 1 January 2019
- On 31 January 2019, the total number of shares in Eltel were increased to 157,499,081 and, correspondingly, the total number of votes were increased to 156,734,081. The increase is due to the Board's resolution, based on the authorisation given to the Board by the Extraordinary General Meeting held in the Company on 17 September 2018, to issue a total of 850,000 redeemable and convertible class C shares (with 1/10 vote per share), which were registered by the Swedish Companies Registration Office during January 2019. The purpose of the issue of class C shares is to use the shares in Eltel's long-term incentive programme LTIP 2018
- In March 2019, Eltel agreed with its banks on certain amendments to its existing financing agreement (with maturity in the end of Q1 2021) that support and facilitate the transformation of Eltel.

Corporate Governance Report
Eltel has issued a Corporate Governance Report for the financial year 2018. The Corporate Governance Report has been composed in accordance with the Swedish Corporate Governance Code valid as of December 2016.

The Eltel share
Eltel's ordinary share has been listed on Nasdaq Stockholm since 2015, under the trading symbol 'ELTEL'. At the end of the financial period 2018, the number of Eltel shares totalled 156,649,081 and the share capital entered in the trade register was EUR 157,980,251.

On 31 January 2019, the total number of shares in Eltel were increased to 157,499,081 and, correspondingly, the total number of votes were increased to 156,734,081. The increase is due to the Board's resolution, based on the authorisation given to the Board by the Extraordinary General Meeting held in the Company on 17 September 2018, to issue a total of 850,000 redeemable and convertible class C shares (with 1/10 vote per share), which were registered by the Swedish Companies Registration Office during January 2019. The purpose of the issue of class C shares is to use the shares in Eltel's long-term incentive programme LTIP 2018.

More about the Eltel share please refer to pages 36–37.

Dividend policy
A dividend policy has been adopted whereby 50% of Eltel's consolidated net profit shall be paid in dividends over time (with flexibility in relation to the pay-out ratio).

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

The Parent Company's income amounted to EUR 3.8 million (2.8) related to support function services provided to the Group. The operating expenses amounted to EUR 11.9 million (12.0). In 2017, the value of investment in Group companies was written down by EUR 200 million. Financial income amounted to EUR 16.3 million (17.5) related to interest income from Group companies. Financial expenses amounted to EUR 1.9 million (4.5) and Group contribution of EUR 6.2 million (0.0) was given to a subsidiary company. Net result was EUR 0.0 million (-196.5).

Distribution of profits
The Parent Company's non-restricted equity on December 31, 2018 was EUR 285,624,417.09 of which the net profit for the year was EUR 18,313.78. The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the year 2018 and that the non-restricted equity of EUR 285,624,417.09 be retained and carried forward.

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 applicable Swedish and international laws and regulations. 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'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.

ELTEL'S GOVERNANCE STRUCTURE

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

SHAREHOLDERS

Ownership structure

As of 31 December 2018, Eltel has approximately 5,400 shareholders and the largest shareholders were the Herlin families through their controlled companies Wipunen Varainhallinta Oy[1], Mariatorp Oy[1] and Riikantorppa Oy[1], Solero Luxco S.á.r.l. (a company controlled by Triton), the Fourth Swedish National Pension Fund (AP4) and Swedbank Robur. As of 31 December 2018, the shareholders referred to above together represented 53.4% of the votes in the company.

Shares and votes

Eltel's shares are listed on Nasdaq Stockholm. On 31 December 2018 the total number of outstanding shares in Eltel was 156,649,081 shares.

The General Meeting of shareholders

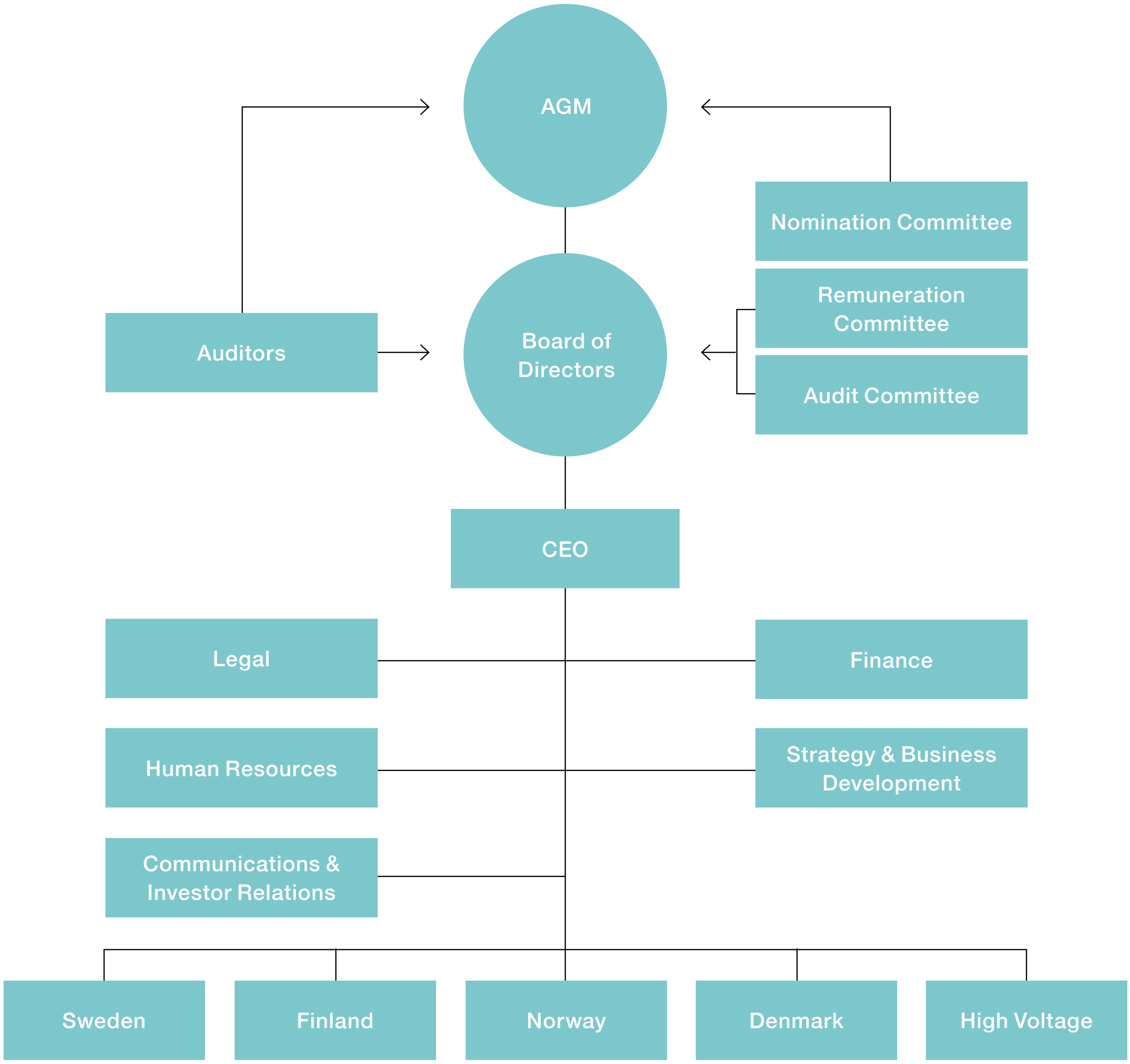
The General Meeting of shareholders is Eltel's highest decision-making body. In addition to the Annual General Meeting of shareholders, Extraordinary General Meetings of shareholders may be convened at the discretion of the Board of Directors or, if requested by the external auditor or by shareholders holding at least 10% of the shares. At the Annual General Meeting of shareholders, 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 by notice 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 publishes invitations to its General Meetings as regulatory press releases.

1) Companies that 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 STRUCTURE



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 2018
Eltel's Annual General Meeting was held on 9 May 2018. Shareholders representing 106,929,902 shares, representing 68.2% 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:

- Resolution regarding adoption of the profit and loss statement and the balance sheet and the consolidated profit and loss statement and consolidated balance sheet and resolution regarding appropriation of the company's profit according to the adopted balance sheet
- Resolution regarding discharge from liability for the members of the Board of Directors and the CEO

- Re-election of Ulf Mattsson, Håkan Dahlström, Gunilla Fransson, Ulf Lundahl, Markku Moilanen, Mikael Moll and Hans von Uthmann as members of the Board and election of Joakim Olsson as new member of the Board
- Election of KPMG AB as new auditor (whereby it was announced that Mats Kåvik will be auditor-in-charge)
- Guidelines for remuneration to senior executives
- Resolution regarding authorisation to transfer the company's own shares in Eltel's long-term incentive programme (LTIP 2015); and approval of change of performance targets in Eltel's long-term incentive programme (LTIP 2016)
- Authorisation for the Board of Directors to resolve to issue new shares and authorisation for the Board of Directors to resolve on repurchase and transfer of the company's own shares.

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

Extraordinary General Meeting 2018

On 17 September 2018 an Extraordinary General Meeting of the shareholders was held. Shareholders representing 107,586,299 shares representing 68.7% 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:

- Election of Roland Sundén and Mikael Aro as new members of the Board in the Company for the time up until and including the next Annual General Meeting (whereby it was noted that Mikael Moll had declared his seat on the Board available)
- Resolution to approve the terms for the long-term incentive programme LTIP 2018 (including authorisation for the Board to resolve on a directed issue of class C shares and authorisation for the Board to repurchase class C shares).

Annual General Meeting 2019 and Annual Report 2018

Eltel's Annual General Meeting 2019 will be held on 7 May 2019 at Scandic Alvik, Gustavslundsvägen 153, 167 51 Bromma, Sweden.

The Annual Report 2018 will be made available on the Group website as from week 14, 2019. www.eltelgroup.com and at the Eltel AB headquarters, Adolfsbergsvägen 13, Bromma, Sweden, as from week 16 2019.

NOMINATION COMMITTEE

According to the instructions for the Nomination Committee, the committee shall consist of a minimum of four members, representing each of the four largest shareholders registered on 31 August the year before the Annual General Meeting. 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.

An annual evaluation of the Board of Directors' work, expertise, composition and independence of its members is initiated by the Chairman of the Board of Directors, partly to assess the preceding year, partly to identify areas for development for the Board of Directors. The evaluation is performed with support from an evaluation form and by discussions as well as by individual interviews of the Board members.

Nomination Committee for the AGM 2019

For the 2019 Annual General Meeting, the Nomination Committee consists of the following members:

- Peter Immonen, the Herlin families (Chairman)
- Erik Malmberg, Solero Luxco S.á.r.l.
- Per Colleen, the Fourth Swedish National Pension Fund
- Marianne Nilsson, Swedbank Robur.

Up to the date of the Annual General Meeting, the Nomination Committee met on four occasions and, in addition, held separate sessions to interview individual members of the Board.

The Nomination Committee's complete proposals for the 2019 Annual General Meeting of shareholders is published in the notice convening the 2019 Annual General Meeting of shareholders.

THE BOARD OF DIRECTORS

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 applicable Swedish and international laws and regulations.

Responsibility of the Board of Directors

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 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 Board of Directors also has the responsibility 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. Furthermore, the Board of Directors shall secure implementation of appropriate policies and other steering documents for the Company's behaviour and that any public disclosure of information is made in accordance with laws and established practices (including Nasdaq Stockholm's Rule Book for Issuers). 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 the Board members shall be independent of the Company and its 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

Members of the Board of Directors

Name	Position	Year of birth	Election year	Shareholding	Remuneration EUR	Independence from main owners	Independence of the Company
Ulf Mattsson	Chairman	1964	2017	69,000	183,200	Yes	Yes
Mikael Aro[1]	Member	1965	2018	50,000	8,250	No	Yes
Håkan Dahlström	Member	1962	2017	75,597	48,075	Yes	Yes
Gunilla Fransson	Member	1960	2016	–	49,875	Yes	Yes
Ulf Lundahl	Member	1952	2014	–	48,075	Yes	Yes
Markku Moilanen	Member	1961	2017	–	39,875	Yes	Yes
Mikael Moll[2]	Member	1982	2017	–	37,775	–	–
Joakim Olsson[3]	Member	1965	2018	–	24,033	No	Yes
Roland Sundén[1]	Member	1963	2018	50,000	8,250	Yes	Yes
Hans von Uthmann	Member	1958	2017	10,000	48,075	Yes	Yes
Jonny Andersson	Employee represent.	1978	2015	–	–	Yes	No
Krister Andersson	Deputy employee rep.	1964	2015	–	–	Yes	No
Björn Ekblom	Employee represent.	1976	2015	3,500	–	Yes	No
Ninni Stylin	Deputy employee rep.	1982	2015	–	–	Yes	No

1) From September 2018 onwards.
2) Until September 2018.
3) From May 2018 onwards.
Information about the Board of Directors' other assignments can be found on pages 56–57.

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 2018

Eltel's Board of Directors consists of nine ordinary members and two employee representatives as ordinary members. In addition, there are two deputies to the employee representatives:

- Ulf Mattsson, Chairman
- Gunilla Fransson
- Hans von Uthmann
- Ulf Lundahl
- Håkan Dahlström
- Markku Moilanen
- Joakim Olsson
- Roland Sundén
- Mikael Aro
- Jonny Andersson, employee representative
- Björn Ekblom, employee representative
- Krister Andersson, deputy to employee representative
- 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 pages 56–57.

The Chairman Ulf Mattsson and the Board members Gunilla Fransson, Hans von Uthmann, Ulf Lundahl, Håkan Dahlström, Markku Moilanen and Roland Sundén are deemed to be independent from the owners and the Company. Joakim Olsson and Mikael Aro are deemed to be independent from the Company but dependent of significant shareholders due to their positions in relation to Solero Luxco S.á.r.l.

Board matters during 2018

During 2018, the main focus for the Board was to secure the roll-out of a country-based organisation, the implementation of a new strategy for the Company and that divestments and right-sizing of operations were executed in accordance with plan.

During 2018, the Board of Directors held 18 meetings. For details on Board member participation in Board meetings, please see table below.

Board Member participation 2018

	17 Jan	29 Jan	21 Feb	26 Mar	11 Apr	3 May	9 May	18 May	20 Jun	4 Jul	8 Aug	13 Aug	3 Sep	17 Sep	1 Okt	25 Okt	6 Nov	14 Dec
Ulf Mattsson	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Gunilla Fransson	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Mikael Moll	●	●	●	●	●	●	●	●	●	●	●	●	●	–	–	–	–	–
Håkan Dahlström	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	○
Ulf Lundahl	○	●	●	●	○	●	●	●	●	●	●	●	●	●	●	●	●	●
Markku Moilanen	●	○	●	●	●	●	○	●	○	●	●	●	●	●	○	○	●	●
Hans von Uthmann	●	●	●	●	●	●	●	●	●	●	●	●	●	○	●	●	●	●
Joakim Olsson	–	–	–	–	–	–	●	●	●	●	●	●	●	●	●	●	●	●
Roland Sundén	–	–	–	–	–	–	–	–	–	–	–	–	–	●	●	●	●	●
Mikael Aro	–	–	–	–	–	–	–	–	–	–	–	–	–	●	●	●	●	●
Björn Ekblom	●	●	●	●	●	●	●	●	●	●	○	●	●	○	●	●	○	●
Jonny Anderson	●	●	●	●	●	●	●	●	○	●	○	○	●	●	●	○	○	●
Krister Andersson	●	●	●	●	●	●	○	●	●	○	●	○	○	●	●	●	●	●
Ninni Stylin	○	○	○	●	○	●	●	●	○	○	●	●	○	●	●	○	○	●

● Present ○ Absent

Evaluation of the Board's performance

To ensure the quality of the work of the Board and to identify possible needs for further expertise and experience, the work of the Board and its members is evaluated annually. In 2018, 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 constituent 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 by taking into consideration the expertise and experience required for the duties. The members of each committee are appointed for the same term of office as the Board itself.

The Audit Committee

The main responsibilities of the Audit Committee are to:

- Monitor the Company's 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, paying particular attention to if the auditor provides the Company with services other than auditing services
- Assist in the preparation of proposals to the resolutions to the General Meeting regarding the election of auditor
- Exercise its delegation of authority to advise and review matters such as customer tenders and financial matters.

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

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 2018

The Audit Committee consists of three members: Gunilla Fransson (Chairman), Hans von Uthmann, Mikael Moll (until September) and Joakim Olsson (from May).

The Audit Committee held seven meetings in 2018 at which Eltel's external auditor and representatives of the Company's management were present and six additional meetings devoted to customer tender approvals.

Audit Committee participation

	30 Jan[1]	13 Feb[1]	19 Feb	26 Apr	17 May[1]	30 May	4 Jun[1]	25 Jun[1]	6 Aug	4 Sep	2 Oct[1]	5 Nov	11 Dec
Gunilla Fransson	●	○	●	●	●	●	●	○	●	●	●	●	●
Hans von Uthmann	●	●	●	●	●	●	○	●	●	●	●	●	●
Mikael Moll	●	●	●	●	●	●	●	●	●	●	–	–	–
Joakim Olsson	–	–	–	–	●	●	●	●	●	●	●	●	●

● Present ○ Absent

1) AC Tender Approval meetings.

The Remuneration Committee

The main responsibilities of the Remuneration Committee are to:

- Prepare the Board of Directors' decisions on issues concerning renumeration principles, 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 remuneration 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
- Assess and plan the succession of the senior management of Eltel.

The Remuneration Committee in 2018

The Remuneration Committee consists of three members: Ulf Mattsson (Chairman), Ulf Lundahl and Håkan Dahlström.

The Remuneration Committee held three meetings in 2018.

Remuneration Committee participation

	26 Mar	10 Aug	28 Nov
Ulf Mattsson	●	●	●
Ulf Lundahl	●	●	●
Håkan Dahlström	●	●	●

● Present ○ Absent

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 for Eltel. In addition, senior executives may be offered long-term incentive schemes on market-based terms. The Board has 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 Group Management Team ("GMT") should be market-based in relation to terms that generally apply for comparable executives. The GMT consists of members from several different countries and the pension terms of the members of GMT reflect applicable laws and established practices.

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 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 ranges from 10% to 40% of the fixed annual salary depending on the job position of an employee. The annual bonus schemes cover some 80% of all employees. In addition, approximately 20% of the employees are included in monthly production bonus schemes that are based on individual and team performance.

Retention bonus 2018-2019

In 2018, 15 senior managers and key employees were offered a retention bonus scheme. The purpose of the retention bonus scheme is to increase motivation to excellent performance as well as to retain the most business-critical employees. The scheme is predetermined in time and contains measurable performance criteria aimed at promoting the Company's long-term value creation. The outcome of the bonus is dependent on Eltel's EBITDA result for the financial years 2018 and 2019. The incentive is payable in two instalments, in 2019 and 2020, and requires that the employee has not submitted a notice of termination of employment before 30 June 2019 and 31 December 2019, respectively.

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.

Long-term incentive programme 2015

In 2018, Eltel's long-term incentive programme 2015 ("LTIP 2015") was vested and the average price of the matching shares was 24.40 SEK. 42 participants received a total of 86,521 matching shares. Due to the insufficient financial performance of the company, no performance shares were allotted to the participants. More information about Eltel's long-term incentive programme 2015 ("LTIP 2015") is available in Eltel's Corporate Governance Report 2017.

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 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 in terms of shares purchased by the participants during the subscription period in August 2016 amounted to approximately EUR 1.0 million and was equivalent to approximately 85% of the maximum investment available for 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.

At the Annual General Meeting 2018 it was resolved to change the performance targets of the existing LTIP 2016, as follows:

- The performance target for performance shares under LTIP 2016 shall be amended from Eltel's earnings per share for the financial year 2018 to instead be based on Eltel's EBITDA for the financial year 2019
- The Board of Directors was instructed to establish a new performance target level for LTIP 2016 based on the new performance target
- The new performance target shall be established based on the purpose of providing an effective incentive for the participants in LTIP 2016 to promote increased shareholder value
- The performance shares shall be allocated after the disclosure of the first quarterly report of 2020
- The maximum number of potential performance shares for each category of participants in LTIP 2016 shall be recalculated with the multiple 1.68
- Other terms for LTIP 2016, including the date of allocation of matching shares, shall not be affected by the change of the performance target.

In October 2016, a total amount of 107,658 Eltel AB shares were purchased by the participants in ordinary trading at an average price of SEK 89.00, equal to a total value of approximately one million Euro. On the balance sheet date, the LTIP 2016 comprised a maximum of 192,922 shares in total, corresponding to approximately 0.1% of the total outstanding shares and votes in the Company. The calculation of the maximum amount includes the assumption of fully meeting the set performance targets.

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.

Following 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.

Long-term incentive programme 2018
The purpose of Eltel's long-term incentive programme 2018 ("LTIP 2018") is to continue a performance-based, long-term share programme, in order to increase and strengthen the potential for recruiting, retaining and rewarding key individuals and to create an individual long-term ownership of Eltel shares among the participants. The term of the LTIP 2018 is three years.

The programme was directed towards the top management in the Eltel Group, a total of 8 persons. The participants are based in Sweden and other countries where the Eltel Group is active. The participation rate was 87.5% of the invited individuals. The total value in terms of shares purchased by the participants during the subscription period in September 2018 amounted to approximately EUR 0.3 million and was equivalent to approximately 66% of the maximum investment available for these individuals. Dependent on the fulfilment of certain performance targets linked to Eltel's EBITDA for the financial year 2021, 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 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 2018, the participant must make a minimum investment equal to 25% of the applicable maximum level for the Savings Shares investment.

With the purpose to hedge the undertakings of the Company according to LTIP 2018 and, in terms of liquidity, to hedge payments of social security contributions related to Matching and Performance Shares, the Board of Directors resolved in January 2019, based the authorisation given at the Extraordinary General Meeting held on 17 September 2018 (as described above), on a directed issue of a total of 850,000 C-shares. The price paid for the shares by the subscriber SEB corresponded to the shares quota value. Following registration of the new shares with the Swedish Companies Registration Office, the 850,000 shares were repurchased by the Company. The shares will be converted into ordinary shares prior to allotment under LTIP 2018 in year 2022.

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 2018
The Annual General Meeting 2018 elected KPMG AB as Eltel's external auditor for a one-year mandate, with Mats Kåvik as auditor-in- charge. In 2018, total fees paid to the external auditors, KPMG AB and PricewaterhouseCoopers AB amounted to EUR 0.9 million, of which non-auditing services totalled EUR 0.2 million.

GROUP MANAGEMENT TEAM
Chief Executive Officer
Eltel's President and Chief Executive Officer (CEO) reports to the Board of Directors. As of 1 September 2018 Casimir Lindholm is the President and CEO of the Eltel Group. 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 Group Management Team ("GMT"), chaired by the CEO, meets a minimum of 10 times annually (14 times in 2018). 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.

The Group Management Team consists of the following members:

- Casimir Lindholm, President and CEO
- Petter Traaholt, CFO
- Henrik Sundell, General Counsel
- Karin Lagerstedt Woolford, Director, Human Resources
- Elin Otter, Director, Communications and Investor Relations
- Mikael Malmgren, Director, Strategy and Business Development
- Claus Metzsch Jensen, Managing Director, Country Unit Denmark
- Juha Luusua, Managing Director, Country Unit Finland
- Thor-Egel Bråthen, Managing Director, Country Unit Norway
- Leif Göransson, Managing Director, Country Unit Sweden
- Christian Wittneven, Director, Solution Unit High Voltage.

Information on the members of the GMT can be found in the Annual Report 2018 on pages 58–59.

CONTROL SYSTEMS

Guidelines and manuals

Eltel's internal control system, which is comprised of all corporate governance includes policies, guidelines and procedures, is communicated via management and is organised according to Country Unit and Solution Unit needs. Eltel's Group Accounting Manual contains instructions and guidance on accounting and financial reporting to be applied in all Eltel Group companies. The manual's objective is to secure appropriate reliability in 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, communications and investor relations, sustainability, restrictions on insider trading, accounting and controlling.

As part of the regular monitoring, Eltel performs internal audits to monitor that the Company adheres to the approved governance. Regular reporting, follow-up and escalation procedures are in place where ultimately the Audit Committee is made aware if issues are identified.

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.

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. Prior to the publication of interim reports and the Annual Report, the Audit Committee and the Board review the financial statements.

Eltel'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. Status and identified deviations are addressed at the Audit Committee meetings or escalated earlier when appropriate.

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

Priority areas in 2018

Eltel's significant priority areas for 2018 included the following: a new organisation structure, launch of the Operational Excellence Strategy, implementation of an updated Authorization Policy and completion of the GDPR Project.

In February 2018, Eltel established a Country Unit structure where the profit & loss responsibility is clearly linked to Country Units and Solution Units and thereby providing a clearer link to the way Eltel delivers to the end customer.

During the autumn, Eltel launched its strategy Operational Excellence which refocuses management's agenda to improving our operations and margins on existing business. For more information regarding the strategy see page 10.

The Authorization Policy and relevant steering documents have been updated and communicated throughout Eltel.

The GDPR project based on EU General Data Protection Regulation 2016/679, continued and was completed according to plan by May 2018. To date, relevant GDPR training has been implemented for all employees.

Internal control 2018

In January 2018, an Internal Control function was established within the CFO office, which reports 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.

During the year, the function focused on reviewing procedures related to internal control for financial reporting, special projects related to project controlling, and also obtained third-party support to perform internal audits. The outcome of the function's activities has been communicated accordingly. The function will continue to focus its efforts on supporting management with information and good practice information related to internal control for financial reporting.

Risk assessment

Eltel manages risk at each level in the organisation from project teams to top Group financial risks. Risk management is an integral part of each process and different methods are used for evaluating and mitigating risks, and to ensure that the risks to which Eltel is exposed are managed according to established rules, instructions and follow-up procedures. The Group sets out its ways of working with risk in its Risk Management Policy where ultimately risks are regularly communicated to the Audit Committee and ultimately the Board.

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. Eltel aims to manage risks and promote accurate accounting, reporting and information disclosures. For example, during 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. Most significant operational and strategic risks are collected on a monthly 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 operational risks and related mitigating actions to the Audit Committee and then the Board of Directors. On an annual basis, the Group Risk Management Team (which is comprised of Group management and Internal Control) provides an Annual risk report which summarises operational and strategic risks while providing executive management commentary for the Audit Committee and the Board of Directors. In addition, the Eltel Group Legal Review Forum, consisting of representatives from Group Finance, Legal, Tax and Internal Control, reviews all Eltel legal entities with respect to legal and financial risks on a quarterly basis and escalates additional matters when appropriate.

Eltel considers the ISO 31000 standard as guidance for risk management and has adopted a Risk Management Policy. The policy outlines the Eltel risk universe, measures for risk identification, assessment, prioritisation, mitigation, monitoring and reporting information.

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

Board of Directors

ULF MATTSSON

Chairman of the Board of Directors since 2017

Born: 1964

M.Sc. Economics

Positions and other board memberships: Chairman of the Board of Directors at VaccinDirekt i Sverige AB and Lideta AB. Member of the Board of Directors at Addtech AB, Oras Invest Oy and Priveq V AB. Advisor at EQT and PJT Partners

Board committees: Chairman of the Remuneration Committee

Previous positions: Chairman of the Board of Directors at AcadeMedia 2010–2017, Musti ja Mirri 2014–2017, Evidensia 2014–2017, Itslearning 2013–2017. Member of the Board of Directors at Gambro, 2010–2013. CEO (interim) at Gambro 2011. CEO at Capio 2005–2006 and Mölnlycke Health Care 2004–2005.

Shares: 69,000 shares

MIKAEL ARO

Member of the Board of Directors since 2018

Born: 1965

eMBA

Positions and other board memberships: Senior Industry Expert at Triton. Chairman of the Board of Directors at Kojamo Plc, Glamox AS Norway and Flokk AS Norway. Member of the Board of Directors at Nokas AS Norway and Finnish National Theatre

Board committees: –

Previous positions: Chairman of the Board at Mehiläinen Oy 2016–2018 and Nordic Cinema Group 2013–2015. Vice-Chairman of the Board at Kesko Oyj 2015–2018. Board member at Altia Oyj 2012–2016. CEO at VR-Group 2009–2016. Senior Vice President Northern Europe at Carlsberg Group 2007–2009.

Shares: 50,000 shares

JOAKIM OLSSON

Member of the Board of Directors since 2018

Born: 1965

MBA and M.Sc. Mechanical Engineering

Positions and other board memberships: Senior Industry Expert at Triton. Chairman of the Board of Directors at Seves Group S.á r.l.

Board committees: Member of the Audit Committee

Previous positions: Chairman of the Board of Directors at Ovako Group AB 2015–2018. Member of the Board of Directors at FläktGroup GmbH 2015–2018, VCST 2013–2016, Semcon AB 2011–2015, The Association of Swedish Industries 2006–2012, Concentric AB 2011–2012 and Confederation of Swedish Industries 2010–2011. President and CEO at SAG Group GmbH 2011–2014 and Haldex AB 2005–2011.

Shares: –

ROLAND SUNDÉN

Member of the Board of Directors since 2018

Born: 1953

M.Sc. Mechanical Engineering

Positions and other board memberships: Member of Cargotec Executive Board

Board committees: –

Previous positions: President of Hiab and Member of Cargotec Executive Board 2014-2018. President and CEO at LM Wind Power 2006–2013. President, Agricultural Division at Case New Holland 2003–2006. Executive Vice President at Volvo Construction Equipment 2000–2003.

Shares: 50,000 shares

HANS VON UTHMANN

Member of the Board of Directors since 2017

Born: 1958

M.Sc. Economics and Business Administration

Positions and other board memberships: Chairman of the Board of Directors at Netcontrol Oy, FEAB (Falbygdens Energi AB) and Springtime Group AB. Member of the Board of Directors at Veidekke ASA, GIH and SOK

Board committees: Member of the Audit Committee

Previous positions: Senior Partner at Neuman&Nydahl 2010–2016. SEVP at Vattenfall AB 2003–2010. CEO at Duni AB 2000–2003 and AB Svenska Shell 1996–2000.

Shares: 10,000 shares

Shares held in Eltel as of 31 December 2018.

HÅKAN DAHLSTRÖM

Member of the Board of Directors since 2017

Born: 1962

M.Sc. Engineering and M.Sc. Digital Technology

Positions and other board memberships: CEO at Tieto Sweden AB and Executive Vice President, Technology Services and Modernization at Tieto Corporation. Member of the Board of Directors at IT&Telekomföretagen and IVA Näringslivsråd

Board committees: Member of the Remuneration Committee

Previous positions: Executive Vice President, Public and Healthcare at Tieto Corporation 2013–2015. President Mobile Business area at TeliaSonera AB 2010–2012. President Broadband Business area at TeliaSonera AB 2008–2010.

Shares: 75,597 shares

GUNILLA FRANSSON

Member of the Board of Directors since 2016

Born: 1960

M.Sc. and Tech.Lic. Chemical Engineering

Positions and other board memberships: Chairman of the Board of Directors at NetInsight AB. Member of the Board of Directors at Trelleborg AB, Nederman AB and Enea AB

Board committees: Chairman of the Audit Committee

Previous positions: Head of Business Area at Saab AB 2008–2015. Board Director at Swedish Space Agency 2012–2015. Various positions at Ericsson AB 1985–2008.

Shares: –

ULF LUNDAHL

Member of the Board of Directors since 2014

Born: 1952

Bachelor of Business Administration and Master of Laws

Positions and other board memberships: Chairman of the Board of Directors at Attendo AB, Ramirent PLC, Fidelio Capital and Handelsbanken Regional Bank Stockholm. Member of the Board of Directors at Indutrade AB, Nordstjernan Kredit AB and Holmen AB

Board committees: Member of the Remuneration Committee

Previous positions: Chairman of the Board of Directors at Eltel 11/2016–6/2017. Deputy CEO at L E Lundbergföretagen 2004–2014. SEVP at Danske Bank 1997–2003. CEO at Östgöta Enskilda Bank 1992–1997. President at Nokia Data Sweden 1989–1992.

Shares: –

MARKKU MOILANEN

Member of the Board of Directors since 2017

Born: 1961

D.Sc. Technology

Positions and other board memberships: Executive Director at Ramboll Group and COO of Northern Europe

Board committees: –

Previous positions: Managing Director at Ramboll Finland 2007–2015. Vice President, Customer Services at Fortum Corporation 2000–2007. Sales Director at SAS Institute Finland 1995–2000.

Shares: –

JONNY ANDERSSON

Member of the Board of Directors – Employee Representative, since 2015

Born: 1978

Chairman of Seko branch board of Eltel Sweden, since 2012

Positions and other board memberships: –

Board committees: –

Previous positions: Systems Engineer at Eltel 2006–2012.

Shares: –

BJÖRN EKBLOM

Member of the Board of Directors – Employee Representative, since 2015

Born: 1976

Chairman of the trade union Unionen at Eltel Sweden since 2010

Positions and other board memberships: Member of the Executive Board of Unionen, since 2011

Board committees: –

Previous positions: Team Leader at Eltel Aviation & Security 2006–2010. Network Engineer at Eltel Aviation & Security 1999–2006.

Shares: 3,500 shares

KRISTER ANDERSSON

Deputy member to employee representative, since 2015

Born: 1964

NINNI STYLIN

Deputy member to employee representative, since 2015

Born: 1982

Change in the Board of Directors:
Mikael Moll was a member of the Board of Directors until 17 September 2018.

Group Management Team

CASIMIR LINDHOLM

President and CEO, since 2018

Born: 1971

M.Sc. Economics, MBA

Positions and other board memberships: Member of the Board of Directors of Uponor Oyj and Hartwall Capital Oy Ab

Previous positions: President and CEO at Lemminkäinen Group 2014–2018. Deputy CEO at Lemminkäinen Group 04/2014–08/2014. Executive Vice President, Building Construction Finland at Lemminkäinen Group 2013–2014. Various managerial positions at Eltel Group Corporation and Eltel Networks Infranet AB 2008–2012.

Shares: 67,500 shares

PETTER TRAAHOLT

CFO, since 2017

Born: 1963

B.Sc. Business Administration and Economics

Positions and other board memberships: –

Previous positions: CEO at Callenberg Technology Group 2014–2017. President at Wilhelmsen Technical Solutions 2010–2014. CFO & Deputy CEO at Wilhelmsen Maritime Services 2004–2010.

Shares: 13,500 shares

LEIF GÖRANSSON

Managing Director, Country Unit Sweden, since 2019

Born: 1967

B.Sc. Business Administration

Positions and other board memberships: –

Previous positions: COO Country Unit Sweden at Eltel 2018. Director Group Projects and Operations at Eltel 2018. Head of Group project function at Eltel 2016–02/2018. Operations Director at Otis 2016. Acting CEO at Imtech Elteknik AB 2015.

Shares: 21,000 shares

JUHA LUUSUA

Managing Director Country Unit Finland, since 2018

Born: 1965

M.Sc. Electrical Engineering

Positions and other board memberships: Member of the Board of Directors at Voimatalouspooli (part of the Finnish National Emergency Supply Agency). Member of the Board of Directors and Vice Chairman at PALTA (Service Sectors Employers Association).

Previous positions: President BU Power at Eltel 2017–2018. President Power Distribution at Eltel 2012–2017. Managing Director Country Unit Finland at Eltel 2008–. SVP Electricity at Eltel Networks/Group Corporation 2006–2007.

Shares: 152,248 shares

Shares held in Eltel as of 31 December 2018.

HENRIK SUNDELL

General Counsel, since 2016

Born: 1964

Master of Laws

Positions and other board memberships: –

Previous positions: General Counsel at Fingerprint Cards AB 2015–2016. Group General Counsel at DeLaval 2009–2015. Senior Legal Counsel and Associate General Counsel at Ericsson 2000–2009.

Shares: 4,885 shares

KARIN LAGERSTEDT WOOLFORD

Director, Human Resources, since 2018

Born: 1969

B.Sc. International Economics

Positions and other board memberships: –

Previous positions: EVP and Head of Group HR, Comms and Safety, Health and Environment at Ovako AB 2014–2017. SVP and Head of Group HR and IT at Green Cargo 2011–2014. Deputy Head of Global HR and Head of Strategic HR Office at SEB 2009–2011. Global Head of HR at SEB Retail Banking 2006–2009.

Shares: 5,900 shares

MIKAEL MALMGREN

Director, Strategy and Business Development, since 2018

Born: 1978

Bachelor of Commerce, Finance and Economics and Bachelor of Arts, Chinese and East Asian Studies

Positions and other board memberships: –

Previous positions: Head of Group Strategy at Eltel AB 2018. Managing Partner at Gaia Leadership 2016–2017. CEO at Skydda PPE Europe 2012–2016. Group Head of Business Development and Pricing at B&B TOOLS 2009–2012. Management Consultant at McKinsey & Co 2007–2009.

Shares: 15,000 shares

ELIN OTTER

Director, Communications and Investor Relations, since 2019

Born: 1978

Bachelor of Arts, Journalism and News Editorial

Positions and other board memberships: –

Previous positions: Head of Group Communications at Eltel AB 2018. Communications and Marketing Manager Nordics at Triton 2016–2018. Various managerial positions at Skanska 2007–2016.

Shares: 3,334 shares

THOR-EGEL BRÅTHEN

Managing Director Country Unit Norway, since 2018

Born: 1965

INSEAD Executive Management Programme, Certified service electronics technician

Positions and other board memberships: –

Previous positions: Director, ABU Communication at Eltel Networks AS 2015–02/2018. CEO and President, Fixed Telecom at Eltel Networks AS 2011–2015. QA Manager at Eltel Networks AS 2009–2011. CEO and Country President at Niscayah Denmark 2006–2009.

Shares: 469 shares

CLAUS METZSCH JENSEN

Managing Director Country Unit Denmark, since 2018

Born: 1968

M.Sc. Business Administration

Positions and other board memberships: Member of the Board of Directors at Fiber&Anlæg I/S

Previous positions: Vice President at Caverion A/S 2016–2017. Senior Vice President at TDC A/S 2011–2016.

Shares: 6,000 shares

CHRISTIAN WITTNEVEN

Director, Solution Unit High Voltage, since 2018

Born: 1968

PhD Physics, Diploma in Business Administration

Positions and other board memberships: –

Previous positions: COO at Talis Management Holding GmbH 2014–2017. VP and MD at Nexans Deutschland GmbH 2012–2014. VP Operations at Nexans S.A. 2011–2012. BU Manager at Nexans Deutschland GmbH 2008–2011.

Shares: –

Changes in the Group Management Team:
Håkan Kirstein was Eltel's President and CEO until 31 August 2018. Peter Uddfors was Managing Director, Country Unit Sweden until 15 October 2018.

Consolidated financial statements

Consolidated income statement

EUR million	Note	Jan-Dec 2018	Jan-Dec 2017
Net sales		1,188.9	1,329.9
Cost of sales	8	-1,080.5	-1,234.8
Gross profit		**108.4**	**95.1**
Other income	6, 8	4.5	4.9
Sales and marketing expenses	8	-8.0	-9.5
Administrative expenses	8	-101.0	-109.0
Other expenses	7, 8	-12.2	-7.7
Share of profit/loss of joint ventures		1.1	-0.4
Operating result before acquisition-related amortisations (EBITA)		**-7.1**	**-26.7**
Amortisation and impairment of acquisition-related intangible assets	8, 9	-2.2	-158.0
Operating result (EBIT)		**-9.2**	**-184.6**
Financial income		0.4	0.4
Financial expenses		-9.2	-12.7
Net financial expenses	11	-8.8	-12.3
Result before taxes		**-18.0**	**-197.0**
Taxes	12	-4.1	-7.7
Net result		**-22.2**	**-204.6**
Attributable to:			
Equity holders of the parent		-23.3	-205.3
Non-controlling interest	13	1.1	0.7
Earnings per share (EPS)	21		
Basic, EUR		-0.15	-1.56
Diluted, EUR		-0.15	-1.56

Consolidated statement of comprehensive income

EUR million	Note	Jan-Dec 2018	Jan-Dec 2017
Net result for the period		-22.2	-204.6
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Revaluation of defined benefit plans, net of tax		-4.8	-5.6
Items that may be subsequently reclassified to profit and loss			
Foreign currency hedges, net of tax		0.1	0.2
Net investment hedges, net of tax		3.0	1.0
Commodity hedges, net of tax		0.0	–
Currency translation differences		-7.2	-3.5
Total		-4.2	-2.4
Other comprehensive income/loss for the period, net of tax		-9.0	-7.9
Total comprehensive income/loss for the period		**-31.1**	**-212.6**
Total comprehensive loss attributable to:			
Equity holders of the parent		-32.3	-213.3
Non-controlling interest	13	1.1	0.7

Consolidated balance sheet

EUR million	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Goodwill	14	282.1	286.9
Intangible assets	14	42.8	41.8
Property, plant and equipment	15	34.2	32.6
Investments in and receivable from joint ventures	13	1.9	0.7
Other investments		0.3	0.3
Deferred tax assets	12	29.0	21.5
Trade and other receivables	16,17	0.4	0.1
Total non-current assets		**390.7**	**384.0**
Current assets			
Inventories	19	13.2	9.6
Other financial assets	16,17	35.0	35.0
Trade and other receivables	16,17,18	337.5	356.4
Cash and cash equivalents		53.4	32.9
Total current assets		**439.2**	**433.9**
Assets held for sale	5	–	10.4
TOTAL ASSETS		**829.8**	**828.2**
EQUITY AND LIABILITIES			
Equity	20		
Share capital		158.0	158.4
Other equity		86.3	98.5
Equity attributable to shareholders of the parent		244.3	277.1
Non-controlling interest	13	7.6	7.0
Total equity		**252.0**	**284.1**
Non-current liabilities			
Debt	16,22	114.5	119.0
Retirement benefit obligations	23	12.8	11.0
Deferred tax liabilities	12	17.6	7.9
Provisions	24	2.6	2.5
Other non-current liabilities	16	0.6	0.0
Total non-current liabilities		**148.1**	**140.4**
Current liabilities			
Debt	16,22	86.4	45.3
Liabilities to shareholders	16,22	35.0	35.0
Provisions	24	15.3	22.1
Advances received	18	51.7	48.4
Trade and other payables	16,25	241.4	244.9
Total current liabilities		**429.8**	**395.8**
Liabilities associated with assets held for sale	5	–	7.9
Total liabilities		**577.9**	**544.1**
TOTAL EQUITY AND LIABILITIES		**829.8**	**828.2**

Consolidated statement of cash flow

EUR million	Note	Jan-Dec 2018	Jan-Dec 2017
Cash flow from operating activities			
Operating result (EBIT)		-9.2	-184.6
Adjustments:			
Depreciation and amortisation		14.3	171.3
Gain/loss on sales of assets and business		2.1	2.9
Defined benefit pension plans		-3.8	-4.2
Other non-cash adjustments[1]		3.0	-3.0
Cash flow from operations before interests, taxes and changes in working capital		6.4	-17.7
Interests received		0.3	0.4
Interest and other financial expenses paid		-7.7	-11.4
Income taxes paid		-2.7	-3.6
Cash flow from operations before changes in working capital		-3.7	-32.4
Changes in working capital:			
Trade and other receivables		15.2	9.5
Trade and other payables		-4.5	-39.3
Inventories		-3.9	-2.9
Changes in working capital		6.8	-32.8
Net cash from operating activities		**3.2**	**-65.2**
Cash flow from investing activities			
Purchases of property, plant and equipment (PPE)		-19.2	-14.1
Proceeds from sale of PPE		0.6	0.5
Acquisitions of business, net of cash and cash equivalents	5	–	-6.7
Investments in joint ventures		-0.1	-0.6
Disposals of business		-2.6	1.1
Net cash from investing activities		**-21.3**	**-19.7**
Cash flow from financing activities			
Proceeds from issuance of share capital		–	149.2
Proceeds from short-term financial liabilities	22	89.7	63.0
Payments of short-term borrowings	22	-49.2	-177.6
Payments of /proceeds from finance lease liabilities	22	-0.5	-0.4
Dividends to non-controlling interest		-0.5	-1.0
Change in non-liquid financial assets		-0.4	-0.8
Net cash from financing activities		**39.1**	**32.4**
Net change in cash and cash equivalents		**21.1**	**-52.4**
Cash and cash equivalents at beginning of period		32.9	85.2
Foreign exchange rate effect		-0.5	0.1
Cash and cash equivalents at end of period		53.4	32.9

The format of cash flow statement has been changed and the comparative year has been restated accordingly.

1) Other non-cash adjustments mainly consists of adjustments to contingent consideration liability (earn-out liability), unrealised gains and losses for embedded derivatives and share of profits of associated companies.

Consolidated statement of changes in equity

EUR million	Share capital	Share issue	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 attributable to shareholders of the parent									
Equity on 1 Jan 2018	**158.4**	**–**	**491.1**	**-325.6**	**-27.4**	**7.4**	**-26.9**	**277.1**	**7.0**	**284.1**
IFRS 15 opening balance adjustment, net of tax	–	–	–	-0.6	–	–	–	-0.6	–	-0.6
Total comprehensive income for the period	–	–	–	-23.3	-4.8	3.0	-7.2	-32.2	1.1	-31.1
Transactions with owners:										
Equity-settled share-based payment[1]	–	–	–	0.0	–	–	–	0.0	–	0.0
Share capital reduction and reclassification	-0.5	–	0.5	–	–	–	–	–	–	–
Dividends paid to non-controlling interests	–		–	–	–	–	–	–	-0.5	-0.5
Total transaction with owners	-0.5	–	0.5	0.0	–	–	–	0.0	-0.5	-0.5
Equity on 31 Dec 2018	**158.0**	**–**	**491.6**	**-349.5**	**-32.2**	**10.4**	**-34.1**	**244.3**	**7.6**	**252.0**

1) Specification can be found in note 20. Equity.

EUR million	Share capital	Share issue	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 attributable to shareholders of the parent									
Equity on 1 Jan 2017	**126.3**	**–**	**373.0**	**-120.7**	**-21.8**	**6.2**	**-23.4**	**339.7**	**7.3**	**347.0**
Total comprehensive income for the period	–	–	–	-205.3	-5.6	1.1	-3.5	-213.3	0.7	-212.6
Transactions with owners:										
Equity-settled share-based payment[1]	–	–	–	0.4	–	–	–	0.4	–	0.4
Proceeds from shares issued	32.1	121.8	–	–	–	–	–	–	–	–
New share issue costs, net of tax	–	-3.7	–	–	–	–	–	-3.7	–	-3.7
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	-1.0	-1.0
Total transaction with owners	32.1	118.1	–	0.4	–	–	–	150.7	-1.0	149.7
Equity on 31 Dec 2017	**158.4**	**118.1**	**373.0**	**-325.6**	**-27.4**	**7.4**	**-26.9**	**277.1**	**7.0**	**284.1**

1) Specification can be found in note 20. Equity.

EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY

Shareholders' equity consists of the share capital, other paid-in capital, reserves and accumulated losses. Other paid-in capital includes share subscription prices to the extent that they are not included in share capital (premium) and unconditional shareholders' contribution. Actuarial gains and losses arising from employee benefits are recorded under revaluation of defined benefit plans. Hedging reserve comprises of cash flow hedges and net investment hedges. Gains and losses from hedge accounted derivative instruments are temporarily recognised in other comprehensive income under hedging reserve for their effective part and will be reclassified to the income statement as the hedged item affects the income statement. The currency translation reserve includes differences arising on translation of the financial statements of foreign entities.

Notes to the consolidated financial statements

Note 1 Corporate information

Eltel AB (the Company) through its subsidiaries (together the Group) is a leading Northern European provider of technical services for critical infrastructure networks – Infranets – in the segments of Power, Communication and Other, with operations throughout the Nordics, Poland and Germany. Eltel provides a broad and integrated range of services from maintenance and upgrade services to project deliveries. Eltel has a diverse contract portfolio and a growing customer base of large network owners. In 2018, the number of employees was approximately 7,400.

Eltel AB is domiciled in Stockholm, Sweden. Eltel AB's ordinary shares are quoted on the Nasdaq Stockholm. The operations of Eltel AB through the subsidiary companies are performed under the Eltel brand. The consolidated group is called Eltel Group.

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

Note 2 Accounting policies for the consolidated accounts

Basis of preparation

These consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU effective at 31 December 2018. In addition, the Group applies Financial Accounting Standards Council's in Sweden recommendation RFR1.

The financial statements have been authorised for issue by the Board of Directors of Eltel AB on 2 April 2019 and are subject to adoption by the Annual General Meeting on 7 May 2019.

The financial statements are prepared on a going concern basis. At the date of signing the financial statements, management is required to assess the entity's ability to continue as a going concern, and this assessment should cover the entity's prospects for a minimum of 12 months from the end of the reporting period.

Consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which are measured at fair value. The information in the consolidated financial statements is presented in millions of Euro unless otherwise stated. All figures in the financial statements have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

Adoption of new or amended ifrs standards and interpretations

The IFRS amendments and interpretations effective for the first time from 1 January 2018 onwards are:

IFRS 15 Revenue from contracts with customers. IFRS 15 replaces revenue recognition guidance in IAS 18 revenue, IAS 11 Construction contracts and related interpretations. IFRS 15 establishes a five-step model that applies to revenue arising

Note 2, continued

from contracts with customers. IFRS 15 requires identifying deliverables in contracts with customers that qualify as separate performance obligations. The deliverables may include good(s) or service(s) or a combination of goods and services. Revenue is recognised for each performance obligation separately on a relative stand-alone selling price basis and takes place when a customer obtains control of the related good(s) or service(s) and has the ability to direct the use of and obtain the benefits from the good(s) or service(s), either over time or at a point in time.

Prior to adoption of IFRS 15 on 1 January 2018 Eltel assessed each of its revenue types from an IFRS 15 revenue recognition perspective and potential differences between previous accounting principles and IFRS 15. Based on the potential differences identified in workshops, follow-ups and analyses were conducted in line with the five-step model in IFRS 15 and in-depth analysis was carried out on the effects of conversion to IFRS 15.

Following the analysis, the overall assessment was that the adaption of IFRS 15 did not have any material impact on the Group's financial position. There were no changes to the timing of revenue recognition in any of the main revenue streams. For project delivery and upgrade services revenue is recognised over time as customer controls the asset Eltel creates or enhances. In maintenance services customer receives benefits as Eltel performs and revenue is recognised based on the services performed. Under IFRS 15 Eltel continues to use the input method based on the costs incurred to measure the progress in satisfying the performance obligation over time. Eltel has anyhow defined certain areas of exceptions or potential changes to earlier practice. The impact of these has been assessed at the time of adoption.

Eltel applies the cumulative retrospective method where the cumulative impact, EUR -0.6 million, net of tax, is adjusted to equity on the date of adoption 1 January 2018. The adoption of IFRS 15 does not have material impact on the comparability between financial years 2018 and 2017. Therefore, the information presented for 2017 has not been restated.

IFRS 9 Financial Instruments and subsequent amendments. IFRS 9 replaced the earlier guidance in IAS 39 Financial instruments: recognition and measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The new rules for classification and measurement mean, like IAS 39, that financial assets are classified in different categories, of which some are measured at cost and some at fair value. IFRS 9 introduced new categories compared to IAS 39. The classification in IFRS 9 is based partly on the instrument's contractual cash flows and partly on the company's business model. Regarding financial liabilities the categories in IFRS 9 broadly comply with IAS 39.

Regarding impairment of financial assets, the change mainly concerns trade receivables where the credit losses are recognised based on the expected lifetime credit losses. There was no impact at time of adoption 1 January 2018.

The new IFRS standards, amendments and interpretations effective for the first time for 2019 financial year or later include:

IFRS 16 Leases (effective from 1 January 2019). IFRS 16 will replace IAS 17 Leases, and related interpretations. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions of short-term leases and leases of low-value items, which Eltel has chosen to apply. Under IAS 17, Eltel recognises operating lease expense on a straight-line basis over the term of the lease and recognised assets (prepaid leasing fees) and liabilities (accrued leasing fees) only to the extent there was timing differences between actual lease payments and the expense recognised. IFRS 16 replaces the operating lease expense with depreciation charge for right-of-use assets and interest expense for lease liabilities reported under financing expenses. The depreciation for right-of-use assets is presented in the same income statement line (function of expense) as the earlier operative lease expense.

Eltel applies the modified retrospective method with no restatement of comparative information. At initial application the amount of right-of-use assets has been determined as equal to the lease liabilities with the addition of provision for restoration costs reported in the balance sheet as of 31 December 2018. Eltel expects to recognise following opening balance adjustments due to transition to the new standard:

- Right-of-use assets amounting to approximately EUR 90 million and
- Leasing liabilities amounting to approximately EUR 90 million

The right-of-use assets consist mainly of leases of facilities and vehicles. Eltel expects IFRS 16 to have a minor positive impact on operating profit and slight increase in the financial costs. Cash flow from operating activities is expected to increase and cash flow from financing activities is expected to decrease, due to the fact that the amortisation part of the leasing fees will be reported as a payment in the financing activities.

The other published standards, amendments and interpretations that are effective on the financial year beginning 1 January 2019 or later are not expected to have significant impact on the Group.

Critical accounting estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the reported amounts of income and expenses during the period. The actual results may differ from these estimates and assumptions. Possible changes in estimates and assumptions are recognised in the financial period when the changes occur and in all subsequent financial periods.

The areas where significant judgments and estimates are made in preparing the financial statements and where a subsequent change in the estimates and assumptions may cause a material adjustment to the carrying amounts of assets and liabilities are outlined below:

a) Impairment testing

The Group tests annually and always, if there are indications of impairment, whether goodwill has suffered any impairment by comparing the book value with the recoverable value. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The value-in-use calculations require estimation of future cash flows expected to arise from cash-generating units and a suitable discount rate in order to calculate present value. See note 14. intangible assets for more information on impairment testing.

b) Revenue recognition over time

The Group applies the five-step model of IFRS 15 when recognising revenue from contracts with customers Revenue for the period is recognised to the extent that the performance obligation(s) to the customer have been satisfied. The Group typically uses input method to measure the progress of satisfying the performance obligation(s). The progress is measured based on costs incurred relative to the total estimated costs and revenue is recognised based on this percentage of completion.

The estimated outcome of a contract that extends over several accounting years may vary due to changes in circumstances and, for this reason, lead to revised estimations in the next reporting period. Cost estimates require estimate of the final outcome of the project and the actual future outcome may deviate from the estimate. Project business contains inherent risks related to the pricing of the project and estimates of the ultimate cost and performance of the contract. Additionally, project business involves risk related to authority, customer or

Note 2, continued

other external conditions, including the risk of delays and the risk of inability of the Group's customers to obtain financing to fund planned projects and services. The essential skills for performance and profitability of a project are the Group's ability to accurately foresee the project's costs, to correctly assess the various resources necessary to carry out the project, to effectively manage the services provided by subcontractors, and to control technical events that could affect and delay progress on the project.

c) Taxes
Determination of income taxes and deferred taxes when the ultimate tax determination is uncertain requires management judgement. The Group recognises deferred tax assets resulting from tax losses and temporary differences when the realisation of related tax benefit due to future taxable profits is probable. However, deferred tax asset is always recognised if it can be utilised against current taxable temporary differences. The assumptions regarding future taxable profits require significant judgement and are based on the current business plan and further estimates added by consideration for the uncertainties. The Group uses estimates for recognition of liabilities for anticipated tax audit and tax controversy issues based on all available information at the time of recognition.

d) Provisions and contingent liabilities
The Group uses estimates when assessing the amount of the provisions recognised in the balance sheet. The real outcome may differ from the provision recorded.

A contingent liability is a possible obligation that does not fulfil the criteria to be recognised in balance sheet as a provision due to future uncertainties towards the existence of obligation or outflow of resources required to settle the obligation. Information on contingent liabilities is disclosed in notes information. Contingent liabilities are regularly monitored, and in case the outflow of resources becomes probable, they are recognised as provisions.

e) Business combinations
The acquisition of subsidiaries or operations involves that items in the acquired company's balance sheet as well as items that have not been recognised in the acquired company's balance sheet, such as customer relations, shall be valued at fair value. Different valuation methods based on number of assumptions are used in fair value determination. Initial accounting is determined provisionally and may be adjusted subsequently. All acquisition calculations are finalised no later than one year after the acquisition is made.

All payments to acquire a subsidiary or operation are recorded at fair value at the acquisition date, including debt related to contingent considerations. The contingent consideration is measured at fair value in subsequent periods with re-measurement through the statement of income. The final outcome of deferred considerations often depends on one or more events which will be confirmed by a future development.

f) Defined benefit plans
When preparing actuarial calculations in determining the pension obligation related to defined benefit plans, certain actuarial assumptions need to be made. As the assumptions will vary, the real payment will differ from the estimated obligation, affecting the profit or loss. The assumptions used in actuarial calculations are presented in note 23. Retirement benefit obligations.

Principles of consolidation
The consolidated financial statements include the parent company Eltel AB and all companies in which, at the end of the financial year, Eltel exercises control, i.e. subsidiary companies. Control is achieved when the Group is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. This usually means that Eltel holds over 50% of the voting rights or otherwise has the power to govern the financial and operating policies of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and disposed subsidiaries are consolidated up to their date of disposal.

Acquired subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill.

Intercompany transactions, receivables, liabilities and unrealised margins, as well as distribution of profits within the Group, are eliminated in full on consolidation. Non-controlling interest is presented separately from the net profit and disclosed as a separate item in the equity.

Joint operations are joint arrangements whereby the partners, which have joint control of the arrangement, have rights to the assets and obligations for the liabilities relating to the arrangement. Joint control, which is the contractually agreed sharing of the control of an arrangement, exists only when decisions about the relevant activities require unanimous consent of the partners sharing control.

The Group recognises its interest in joint operations using the proportionate method of consolidation, whereby the Group's share of each of the assets, liabilities, income and expenses of the joint operations are combined with the similar items, line by line, in its consolidated financial statements.

Joint venture is a joint arrangement whereby the partners, which have joint control of the arrangement, have rights to the net asset of the joint arrangement. Joint control, which is the contractually agreed sharing of control of an arrangement, exists only when decision about the relevant activities require unanimous consent of the parties sharing control. Joint ventures are consolidated using the equity method. Under the equity method, an investment in a joint venture is initially recognised at cost and adjusted thereafter to the Group's share of the profit or loss of the joint venture. On acquisition of joint venture any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the joint venture is recognised as goodwill, which is included within the carrying amount of the investment in joint venture.

When a group entity transacts with a joint venture, the profits and losses resulting from the transactions are recognised only to the extent of interests in the joint venture that are not related to the Group.

A list of subsidiaries, joint operations and joint ventures is presented in note 30. Group companies.

Foreign currency translation
Functional and presentation currency
Items included in the financial statements of each of the Group companies are measured using the currency of the primary economic environment in which the company operates (the functional currency). The consolidated financial statements are presented in Euros, which is also the functional and presentation currency of the parent company.

Foreign currency transactions
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of transaction. Monetary items denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the balance sheet date. Non-monetary items measured at fair value are translated into functional currency at the exchange rates prevailing at the valuation date. All other non-monetary items are valued using the exchange rates prevailing at the date of transaction.

Foreign exchange gains and losses resulting from the translation of business transactions and monetary items are recognised in the income statement. Exchange rate gains and losses on actual business operations are recognised in respective items above operating profit. Exchange rate gains and losses on financing are entered as exchange rate differences in financial income and expenses.

Note 2, continued

See further information on hedge accounting for foreign currency differences arising from the translation of financial assets and liabilities designated as hedges in note 3.

Foreign subsidiaries
Income statements and cash flow statements of foreign subsidiaries are translated into Euros at the average exchange rates for each month and the balance sheets are translated using the exchange rates prevailing at the balance sheet date. Exchange differences arising from the translation are recognised in other comprehensive income.

When a subsidiary is partially disposed or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on the sale.

Revenue recognition
The Group applies the five-step model of IFRS 15 when recognising revenue from contracts with customers. IFRS 15 requires identifying deliverables in contracts with customers that qualify as separate performance obligations. The deliverables may include good(s) or service(s) or a combination of goods and services. Revenue is recognised for each performance obligation separately on a relative stand-alone selling price basis and takes place when a customer obtains control of the related good(s) or service(s) and has the ability to direct the use of and obtain the benefits from the good(s) or service(s), either over time or at a point in time.

Major part of Group's revenue comes from the following revenue types: project delivery services, upgrade services and maintenance services. The Group's contracts are either stand-alone agreements or contracts within frame agreements. Only agreements that are committing both of the contracting parties are defined as a contract under IFRS 15.

A contract includes promises to transfer good(s) or service(s) to a customer. If those goods or services are distinct, the promises are performance obligations that are each accounted for separately in revenue recognition. The Group has analysed the different revenue types and concluded that in the project delivery and upgrade services revenue is typically recognised over time as customer controls the asset Eltel creates or enhances. In maintenance services customer typically receives benefits as Eltel performs and revenue is and continues to be recognised based on the services performed.

When revenue from contracts with customers is recognised over time, revenue for the period is recognised to the extent of satisfying the performance obligation(s) to the customer. The Group typically uses the input method based on the costs incurred to measure the progress of satisfying the performance obligation(s) over time. The progress is measured based on costs incurred relative to the total estimated costs and revenue is recognised based on this percentage of completion. An expected loss on a customer contract is recognised as an expense immediately. IFRS 15 does not include any guidance on how to account for loss contracts. Accordingly, such contracts are accounted for using the guidance in IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

Whenever the Group's customer contracts contain a variable consideration the amount shall be withhold so that the Group does not recognise any amount relating to variable consideration until it is highly probable that a significant revenue reversal will not incur. The assessment of the likelihood of revenue reversal is based on historical evidence from earlier similar type of contracts. Also the materiality is estimated. A typical variable price element in Eltel's contracts is delay penalties.

In some contracts the timing of customer payments may differ significantly from the timing of the transfer of goods or services to the customer (for example the consideration is prepaid or is paid after the services are provided). When the difference is more than a year the Group assesses at the beginning of the contract whether the contact contains a significant financing component. If the contract contains a significant financing component the promised amount of consideration is adjusted and Eltel recognises revenue at an amount that reflects the cash selling price of the promised goods or services.

Contract assets and contract liabilities
IFRS 15 distinguished between contract assets and contract receivables. Contract receivable is a right to consideration that is unconditional and only passage of time is required before the payment is due, i.e. trade receivable. Contract asset is a right to consideration in exchange for goods or services the Group has transferred to customer, i.e. revenue recognised but not yet invoiced. The contract receivables and contract assets are included in the balance sheet in the trade and other receivables.

A contract liability is an obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. Advances received in the balance sheet represent the Group's contract liabilities.

Operating segments
Operating segments are business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker, the CEO, and for which financial information is available. Operating segments constitute the operational structure for governance, monitoring and reporting. A combination of factors has been used in order to identify the Group's segments. Most important are the characteristic of the services provided and the customer categories that are acquiring the services. According to the conditions in IFRS 8, certain of the Group's operating segments have been aggregated in the financial reporting. The Group's operations are consequently divided into two reportable segments, Power and Communication and the remaining business operations are presented under Other. These segments are also referred to as business segments in the Group's financial reports. Items below operative EBITA are not allocated to the segments.

Goodwill and other intangible assets
Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets of the acquired company on the date of acquisition. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is not amortised, but tested annually for any impairment and always, if there are indications of impairment. For the purpose of testing goodwill for any impairment, goodwill is allocated to cash-generating units. Goodwill is stated at cost less impairments.

Other intangible assets
Intangible assets are recognised only if the cost of the asset can be measured reliably and it is probable that the future economic benefits attributable to the asset will flow to the Group. Intangible assets in the Group include acquired computer software, brand, order backlog and customer relationships. The valuation of intangible assets acquired in a business combination is based on fair value. Other intangible assets (except for brands) subsequent to initial recognition, are recognised at cost less depreciations and impairments, if any. On initial recognition they are recognised at fair value at the acquisition date which is regarded as their cost.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over their expected useful lives (3–7 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads and external consultancy fees. Computer software development costs recognised as assets are amortised over their expected useful lives (7 years).

Brand, order backlog and customer relationships have been acquired in business combinations. The brand relates

Note 2, continued

to the Eltel brand as a result of the acquisition of Eltel Group Corporation. Fair value of the brand is determined based on the relief-from-royalty method. Brand is not amortised, but tested annually for impairment. The fair value of order backlog is determined based on the future cash flows expected to arise from the existing contracts with customers. Order backlog is amortised using the straight-line method over the period until delivery (2–4 years).

The fair value of customer relationships is determined based on the future cash flows expected to arise from contracts with the existing customers. Customer relationship is amortised using the straight-line method over their expected useful lives (5–10 years).

The amortisation period for an intangible asset is reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period is changed accordingly.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation according to plan and any impairment. Land is not depreciated.

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings and structures	15–40 years
Machinery and equipment	3–10 years
Heavy machinery	10–15 years

The expected useful life of an asset is reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation periods are changed accordingly.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Impairments

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation but are tested annually for impairment. In addition, other assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Should any indication of an impaired asset exist, the asset's recoverable amount will be estimated.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows and which are mainly independent (cash-generating units or groups of cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value-in-use is determined by reference to discounted future net cash flow expected to be generated by the asset.

Whenever the asset's carrying amount exceeds its recoverable amount, it is impaired, and the resulting impairment loss is recognised in the income statement.

Impairment will only be reversed if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised. Impairment is not reversed over the balance sheet value that existed before the recognition of impairment losses in the previous financial periods. Impairment losses recognised for goodwill are not reversed in any circumstances.

In addition to goodwill and brand, the Group does not have any assets that have an indefinite useful life. See note 14. Intangible assets for information on impairment testing of goodwill.

Leases – the group acting as a lessee

Lease agreements, which transfer substantially all the risks and rewards incidental to ownership, are classified as finance leases. These are recognised in the balance sheet as property, plant and equipment and lease obligations measured at the lower of the fair value of the property or the present value of the required minimum lease payments at the inception of the lease. Assets acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease period. The corresponding rental obligations, net of finance charges, are included in long-term interest-bearing liabilities.

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Financial instruments

Recognition and derecognition

All purchases and sales of financial assets are accounted for at trade date. Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially recognised at fair value and transaction costs have been included for all financial assets not carried at fair value through profit or loss. However, trade receivables without significant financing components are recognised at transaction price. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expires.

Classification and measurement

The Group classifies its financial assets into the following categories according to IFRS 9: Financial assets at amortised cost, fair value through other comprehensive income or fair value through profit and loss. The classification is made on the basis of the Group's business model for managing the financial assets and the characteristics of the contractual cash flow of the financial assets, The Group classify all the financial liabilities at amortised costs except the derivative financial instruments which are classified at fair value through profit or loss. The Group classified its financial assets and liabilities into the following categories according to IAS 39: Financial assets and liabilities at fair value through profit or loss, derivative instruments hedge accounted, loans and receivables, financial liabilities at amortised cost and available-for-sale investments. The classification is made on the basis of the purpose of the acquisition of financial instruments at the time of initial recognition. See note 16. Financial instruments by category.

Financial assets and liabilities at fair value through profit or loss are financial assets held for trading and derivative financial assets not designated as hedges, as the Group has not designated any other financial assets as at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

In addition, derivatives that are not designated as hedges are classified as held for trading and presented as derivative asset or liability. Gains or losses arising from changes in the fair value are recognised in the income statement in the period in which they arise. Changes in fair values of derivatives not designated as hedges are recognised either as other income and expenses or financial income or expenses depending on whether they relate to business or financial items. Derivatives not designated as hedges are classified as a current asset or liability and presented in the balance sheet as other receivables or liabilities. The Group applies cash flow hedge accounting to certain foreign exchange forwards and interest rate swaps which are classified as derivative instruments hedge accounted. Moreover, the Group identifies and separates embedded derivatives from the business sale or purchase contracts. The

Note 2, continued

embedded derivatives are currency forward contracts and are classified as financial assets and liabilities at fair value through profit and loss.

Financial assets at amortised costs (loans and receivables under IAS 39) are non-derivative financial assets with fixed or determinable payments not quoted in an active market nor held for trading. They are measured at amortised cost using the effective interest method. They include trade and other receivables which are measured at amortised cost less impairment and are presented in the balance sheet as current assets, except for maturities greater than 12 months after the balance sheet date. The impairment losses according to the expected credit losses method (ECL) in IFRS 9, related to trade receivables are recognised in other expenses. Financial assets at amortised costs also include cash and cash equivalents, consisting of cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Financial liabilities at amortised cost include all other financial liabilities than derivative instruments. They are measured at amortised cost using the effective interest method. They include trade payables which are initially measured at amortised cost. Financial liabilities are classified as both current and non-current liabilities and they can be interest-bearing as well as non-interest-bearing. Bank overdrafts are shown within debt in current liabilities.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument including for example transaction costs and all other premiums or discounts.

Available-for-sale investments are non-derivative financial assets that were either designated in this category or not classified in any of the other categories according to IAS 39. They consist of investments in unlisted shares which the Company does not hold for trading. In the balance sheet, they are classified as investments and included in non-current assets unless they are intended to be disposed of within 12 months of the balance sheet date. Available-for-sale investments are generally measured at fair value based on market prices. Unlisted equity securities whose fair value cannot be reliably measured are measured at acquisition cost. Fair value changes of available-for-sale investments are recognised in other comprehensive income and presented in equity in the fair value reserve, net of tax. When the securities are sold or impaired, the accumulated fair value adjustments in the fair value reserve are recognised in profit or loss.

Impairment of financial assets

The Group applies the expected credit losses (ECL) model according to IFRS 9 for impairment of trade receivables and other financial assets. The expected credit losses for trade receivables are calculated using a credit loss provision matrix in which the amount of the expected credit loss is determined based on the aging of the trade receivables. The percentages in the matrix are based on the historical realised credit losses in the Group and forward looking factors affecting customers' ability to settle the amount outstanding.

Financial instruments hedge accounted

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at fair value on each balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

The Group's derivative instruments include currency forward contracts, currency, interest rate and commodity swaps. The Group designates certain foreign currency forward contracts, currency, interest rate and commodity swaps as cash flow hedges. Other derivatives, not designated as hedges, are classified as financial assets or liabilities measured at fair value through profit or loss (financial assets held for trading according to IAS 39). However, all derivative contracts are entered into for economic hedging purposes even if they did not qualify as hedges under IFRS 9. The policy applied in the comparative information presented for 2017 is similar to that applied for 2018.

Cash flow hedges

The Group applies cash flow hedge accounting to certain foreign exchange forwards and swaps, interest rate swaps and commodity swaps. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items. The Group also documents its assessment, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. The effective portion of gains and losses from the derivative instruments under cash flow hedge accounting is recognised in other comprehensive income under hedging reserve. The cumulative gain or loss is transferred to profit or loss when the hedged items affect profit or loss. The ineffective portion is recognised immediately in profit or loss in other income or expenses.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction ultimately affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is immediately transferred to profit or loss in other income or expenses.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the derivative instrument is more than 12 months and as a current asset or liability when the remaining maturity of the derivative instrument is less than 12 months.

Net investment hedges

The Group applies net investment hedge accounting for certain foreign currency denominated loans which hedge the translation risk relating to net investments in subsidiaries. The foreign exchange differences for these loans are recognised in other comprehensive income under translation reserve. If the investment is divested, the accumulated gains or losses recognised in translation reserve from the loans attributable to that operation are transferred to profit or loss (see note 3.1 for more information).

Inventories

Inventories are stated at the lower of cost or net realisation value. Cost is determined by the FIFO (first in, first out) method. The cost of finished goods and work in progress comprises materials, direct personnel costs, other direct costs and an appropriate portion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Trade receivables

Trade receivables are initially measured at transaction price and subsequently at amortised cost including provision for impairment using expected credit loss (ECL) method according to IFRS 9.

Share capital

Share capital presents the registered share capital of the parent company Eltel AB. Share subscription proceeds in excess of share capital (premium) is presented in other paid-in capital. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Note 2, continued

Dividends
Dividends are proposed by the Board of Directors and recognised in the financial statements after the Annual General Meeting has approved the dividend.

Earnings per share
The basic earnings per share (EPS) is calculated by dividing the net result attributable to the parent company's shareholders with the weighted average number of ordinary shares during the financial period. Ordinary shares purchased and held by the Group, if any, are subtracted from number of outstanding shares. Diluted earnings per share reflect the possible impact of the share-based incentive plans.

Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions and contingent liabilities
Provisions are recognised in the balance sheet when: the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Where some of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised as a separate asset, but only when it is certain that the reimbursement will be received.

A warranty provision is recognised, when the product including a warranty clause is sold. The amount of the warranty provision is based on the past experience of the realisation of the warranty costs and the future expectations.

A provision for restructuring is recognised when management has developed and approved a plan to which it is committed. Employee termination benefits are recognised when the representatives of employees or individual employees have been informed of the intended measures in detail and the related compensation packages can be reliably measured.
The costs included in a provision for restructuring are those costs that are either incremental or incurred as a direct result of the plan or are the result of a continuing contractual obligation with no continuing economic benefit to the Group or a penalty incurred to cancel the contractual obligation. Restructuring expenses are recognised in respective expenses depending on the nature of the restructuring expenses. Provisions are not recognised for future operating losses.

A provision is recognised for an onerous contract, when the costs required to meet the obligations under the contract exceed the benefits to be received.

A contingent liability is a possible obligation that does not fulfil the criteria to be recognised in balance sheet as a provision due to future uncertainties towards the existence of obligation or outflow of resources required to settle the obligation. Information on contingent liabilities is disclosed in notes information. Contingent liabilities are regularly monitored, and in case the outflow of resources becomes probable, they are recognised as provisions.

Income taxes
The Group's income tax expense includes taxes of the group companies based on current period's taxable income and the changes in the deferred taxes. Income tax is recognised in the income statement, except for the items recognised directly in other comprehensive income, when the tax effect is accordingly recognised in other comprehensive income. Income tax expense is based on the local tax rate in each country. Tax adjustments from previous periods are included in tax expense.

Deferred tax assets or liabilities are calculated using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
Deferred tax assets are recognised only to the extent that it appears probable that future taxable profit will be available, against which the tax losses or temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Employee benefits (IAS 19)
Short-term benefits to employees are calculated without discounting and are recognised as a cost when the related services are received.

The Group companies have different pension schemes in accordance with the local conditions and practices in the countries where they operate including statutory pension plans and supplementary pension benefits. The schemes are generally funded through payments to insurance companies or trustee-administered funds.

The plans are classified as either defined contribution plans or defined benefit plans.

In the defined contribution plan, pension contributions are paid directly to insurance companies and once the contributions have been paid, the Group has no further payment obligations if the company receiving the payments cannot fulfil its obligations. These contributions are charged to the income statement in the year to which they relate.

For defined benefit plans, the liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date minus the fair value of plan assets. The pension obligation is defined using the projected unit credit method separately for each plan. The discount rate applied to calculate the present value of post-employment benefit obligations is determined by the market yields of long-term corporate bonds or government bonds with corresponding maturity to the obligation. The net interest cost is estimated by applying the discount rate to the net defined benefit obligation and recognised as financial expenses. Past service costs are recognised immediately in the income statement. Remeasurements of the defined benefit plan are recognised directly in other comprehensive income.

Termination benefits
A provision is recognised in connection with termination of employees if the company is committed to a formal and detailed plan to terminate employment before the normal time. When a termination benefit is offered to encourage voluntary redundancy, a cost is recognised if it is probable that the offer will be accepted and the number of employees who will accept the offer can be reliably estimated.

Share-based payments (IFRS 2)
Eltel has two incentive programmes that are recognised as share-based payments settled with equity instruments in accordance with IFRS 2. The fair value of the share incentives granted to the key employees is recognised as an employee expense on a straight-line basis over the vesting period when employee services are performed with corresponding entry to equity. The fair value of the share incentives is the market value at the grant date. The total amount to be expensed over the vesting period is determined based on the grant date fair value of shares and Group's estimate of the number of the shares that are expected to be vested by the end of the vesting period. The impact of a non-market vesting condition and estimate for the fulfilment of continued employment criteria at the end of the vesting period is included in the assumptions about the number of share incentives. The estimate is updated at each reporting date and changes in estimate are recorded through the statement of income. Social costs related to the share-based incentive scheme are expensed during the periods when services are performed based on the fair value at the reporting date. The resulting provision is updated at the end of each reporting period in estimate are recorded through the statement of income.

Note 3 Financial risk management

The Group has exposure to the following financial risks:
- Market risks, including currency and interest rate risks
- Liquidity risk
- Credit risk

The Group's financing and financial risk management is carried out by a central treasury department (Group treasury) under the treasury Policy approved by the Board of Directors. Group treasury Policy has been established to identify and analyse the financial risks faced by the Group, to set appropriate risk limits and controls and to monitor risk and adherence to limits. The treasury Policy and the related financial risk management policies and procedures are reviewed regularly to reflect changes in market conditions and Group's activities. The main objective of the financial risk management is to minimise the unfavourable effects of the financial risks on the Group's income and cash flow.

3.1 Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the Group's income, cash flows or the value of its holdings of financial instruments. Main market risks of the Group include currency risks and interest rate risks.

Currency risk

Currency risk in the Group consists of transaction risk, translation risk and economic risk. The purpose of currency risk management is to minimise the impact of foreign exchange fluctuations to the cash flows, profit and loss and balance sheet of the Group.

Currency transaction risk

The Group is exposed to currency transaction risks to the extent that there is a mismatch between the currencies in which sales, purchases, borrowings and cash are denominated and the respective functional currencies of the Group companies.

Majority of the Group's business is local and over 90% of the cash inflows are generated in each country's local currency. The transaction risk is therefore limited and arises from export projects and few other major projects. The foreign currency used in these projects is in most cases the US dollar or another major foreign currency. The main principle is to mitigate the risk first by operative means in the businesses, e.g. by matching, as far as possible, the project costs to the contract currency.

The open foreign exchange exposure is hedged by using foreign currency forward contracts and swaps in accordance with the Group FX risk management policy whereby any net exposure exceeding EUR 2 million shall be hedged with the minimum of 60% hedging ratio and the open net exposure may not exceed EUR 5 million. The Group applies hedge accounting for net currency exposures exceeding EUR 5 million in counter value. More information on the Group's foreign exchange derivatives is included in note 26. Derivative financial instruments.

The summary quantitative data about the Group's transaction risk exposure as reported to the Group's management is as follows:

2018
EUR million

Currency	Sales and purchases	Borrowings and cash	Hedges	Net transaction risk exposure
EUR	6.8	-	-7.2	-0.4
SEK	-3.5	25.6	-21.6	0.5
NOK	0.6	-13.8	14.4	1.3
DKK	-	-3.2	3.2	-
PLN	-0.2	18.7	-18.7	-0.1
USD	-2.0	2.4	-0.2	0.2
CHF	-6.1	-	6.1	-
MZN	2.8	3.3	-	6.1

2017
EUR million

Currency	Sales and purchases	Borrowings and cash	Hedges	Net transaction risk exposure
EUR	41.2	0.2	-41.2	0.2
SEK	-4.6	10.9	-6.3	-
NOK	0.1	0.5	-0.4	0.2
DKK	-	0.1	-	0.1
PLN	-	10.6	-10.6	0.1
USD	0.8	-3.4	2.7	0.1
CHF	-5.9	-	5.9	-
MZN	1.1	3.5	-	4.6

Sales and purchases include both forecasted contractual sales and purchases as well as trade receivables and payables.

A reasonably possible strengthening (weakening) of 10% in the most significant currencies against all other currencies at the balance sheet date would have affected the equity and profit or loss by the amounts shown in the following table. The analysis illustrates currency transaction risk including hedges and assumes that all other variables, in particular interest rates, remain constant.

Currency transaction risk impact

2018

EUR thousands	Profit or loss		Equity (net of tax)	
Currency	Strengthening	Weakening	Strengthening	Weakening
EUR	-42	34	-	-
SEK	54	-44	-	-
NOK	145	-119	-	-
DKK	3	-3	-	-
PLN	-11	9	-	-
USD	23	-19	-	-
MZN	683	-559	-	-

2017

EUR thousands	Profit or loss		Equity (net of tax)	
Currency	Strengthening	Weakening	Strengthening	Weakening
EUR	27	-22	-132	108
SEK	5	-4	-	-
NOK	20	-17	-	-
DKK	6	-5	-	-
PLN	6	-5	-	-
USD	11	-9	-	-
CHF	-4	3	-	-
MZN	509	-416	-	-

Note 3, continued

Currency translation risk
The Group's translation risk arises from translating foreign currency denominated subsidiaries' profit and loss statements and balance sheets into the Group's presentation currency upon Group consolidation. The risk is realised as volatility of both the Group's Euro-denominated profit or loss and equity (translation reserves).

A significant portion of the Group's net sales is generated by subsidiaries that operate in countries where a currency other than the Euro is used, particularly Sweden, Norway and Poland.

The Group aims to match the currency of borrowings to the profits generated by the underlying operations of the Group in order to achieve neutral translation position.

For the year ended 31 December 2018, 31% of the Group's net sales were generated in SEK (33%), 22% in NOK (20%) and 8% in PLN (8%). Therefore, the Group's results are most sensitive to changes in EUR/SEK and to a lesser extent to changes in EUR/ PLN and EUR/NOK. A change in the average EUR/ SEK, EUR/ NOK, EUR/ PLN rates by 10% would have had an impact of EUR 0.0 million (2.3) on the Group's operating result before acquisition-related amortisations (EBITA) and EUR 0.3 million (0.2) in the Group's post tax profit in 2018.

In addition, the Group monitors the sensitivity of its net debt to EBITDA ratio to strengthening of the Euro against all other operative currencies. An increase in the average exchange rates of Euro by 10% would have led to an increase of 37% in the net debt to EBITDA ratio.

The majority of the Group's net investment translation risk arises from the net investments in the Swedish and Polish subsidiaries. This net investment is hedged by SEK and PLN denominated loans (SEK 685.5 million and PLN 131.5 million), which mitigates the foreign currency translation risk arising from the subsidiaries' net assets. The hedged risk is the risk of weakening SEK and PLN against EUR that will result in a reduction in the carrying amounts of the Group's net investments in the subsidiaries. Net investment hedge accounting according to IFRS 9 is applied for the loans. Hedges are included in the sensitivity analysis.

Net investment hedges

EUR million	Loans denominated in foreign currency	Discontinued net investment hedges	Total
Opening balance 1 Jan 2018	2.2	7.4	9.6
Amount recognised in hedging reserve during the period	3.7	-	3.7
Amount transferred from hedging reserve to P/L during the period	-	-	-
Closing balance 31 Dec 2018	**5.9**	**7.4**	**13.3**

EUR million	Loans denominated in foreign currency	Discontinued net investment hedges	Total
Opening balance 1 Jan 2017	1.0	7.4	8.4
Amount recognised in hedging reserve during the period	1.2	-	1.2
Amount transferred from hedging reserve to P/L during the period	-	-	-
Closing balance 31 Dec 2017	**2.2**	**7.4**	**9.6**

Economic risk
Economic risk arises from the business strategy of the Group and relates more long-term and structural cost structures in different currencies. Economic risk is taken into account in the course of the Group's strategy and planning process.

Interest rate risk
Interest rate risk is the uncertainty in the financial result or the value of the Group caused by fluctuations in interest rates. Interest rate risk can be divided into two components:

- interest flow risk is the risk that the Group's net interest expenses change due to interest rate changes.
- interest price risk is the risk that the fair values of financial instruments change due to interest rate changes.

The Group's policy is to keep the interest duration between 10–36 months.

The Group's borrowing is based on floating interest rates (one to six months) including a floor market rate of zero. Currently 66% of the interest rate risk exposure position is subject to such zero floor rate.

A part of the finance lease liabilities have a fixed interest rate for the lease period. At 31 December 2018 there were total of EUR 22.8 million (23.5) of interest rate swap contracts in place. More information on the Group's interest rate derivatives is included in note 26. Derivative financial information.

The interest rate profile of the Group is as follows:

EUR million	2018	2017
Fixed-rate instruments		
Financial liabilities	2.7	3.4
Effect of interest rate swaps	22.8	23.5
Total fixed-rate net liabilities	**25.5**	**26.8**
Variable-rate instruments		
Financial assets	54.1	33.1
Financial liabilities	197.5	160.6
Effect of interest rate swaps	-22.8	-23.5
Total variable-rate net liabilities	**120.7**	**104.0**

Note 3, continued

A reasonably possible change in the relevant market interest rates at the reporting date would affect the equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis takes into account the effect in the interest costs of all floating rate borrowings as well as the effects of the changes in fair values of the interest rate derivatives.

2018	Profit or loss		Equity (net of tax)	
EUR million	**50 bp increase**	**25 bp decrease**	**50 bp increase**	**25 bp decrease**
Variable rate instruments	0.1	0.0	-	-
Interest rate swaps	-	-	0.1	-0.1
Total	**0.1**	**0.0**	**0.1**	**-0.1**

2017	Profit or loss		Equity (net of tax)	
EUR million	**50 bp increase**	**25 bp decrease**	**50 bp increase**	**25 bp decrease**
Variable rate instruments	0.1	0.0	-	-
Interest rate swaps	-	-	0.2	-0.1
Total	**0.1**	**0.0**	**0.2**	**-0.1**

Commodity price risk

Commodity price risk is the uncertainty in the financial result or the value of the Group caused by fluctuations in commodity prices.

According to the Group's policy the commodity derivates may be used to hedge the commodity purchases for the long-term customer contracts, if the price of the commodity purchases for the contract cannot be fixed, and a relevant commodity derivative is available in the market. More details on the commodity derivatives used is included in note 26. Derivative financial information.

3.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter financial difficulty in meeting its financial obligations. The Group's objective of liquidity risk management is to ensure that it will maintain a sufficient liquidity reserve to meet its liabilities when they are due under both normal and stressed conditions.

Securing adequate amount of funding is centralised to the Group Treasury. The Group maintains sufficient liquidity by efficient cash management through group level cash pools and related overdraft limits. Additionally, the Group has committed syndicate revolving credit facilities of EUR 20 million, which expires in November 2019 and of EUR 90 million, which expires in 2021. The Group has also access to short-term debt capital markets via Finnish Domestic Commercial Paper programme, which in the first quarter of 2018 was increased from EUR 100 million to EUR 150 million.

Currently the cash and cash equivalents consist solely of cash in hand and deposits. The Group's available liquidity reserve at the balance sheet date was as follows:

EUR million	31 Dec 2018	31 Dec 2017
Committed credit facility	110.0	110.0
Current account overdrafts	20.0	20.0
Cash and cash equivalents	53.4	32.9
Total	**183.4**	**162.9**

At the end of December the Group held counter value of EUR 3.3 million in local MZN currency bank accounts in Mozambique. Due to the local currency and other regulatory requirements the funds are not readily transferrable off-shore and the funds are currently kept in the country to serve the ongoing projects' working capital needs. The funds are included in the cash and cash equivalents since the use of the funds is not restricted. The funds are subject to currency risk in group consolidation and to the extend the project costs arise in other than the local currency. The risk analysis is included in section 3.1. Market risk.

The Group also monitors closely the expected cash inflows and outflows. The liquidity projections are prepared at a daily level for the following 5 weeks and at a monthly level for the 6 months thereafter. The most significant uncertainties in the projections are related to the cash inflows from the project business.

Note 3, continued

The maturities of the Group's undiscounted financial liabilities at the balance sheet date are presented in the following table in line with their contractual terms.

Liabilities to shareholders constitute the shareholders' contribution to the potential fines payable in relation to the FCCA case. The corresponding amount is recognised in the Group's assets, as the contribution amount is deposited in an escrow bank account. Should any fines become payable the corresponding amount shall be converted into unconditional capital contribution to the Group. Any amount not needed to cover the FCCA fines shall be promptly returned to the shareholders from the escrow account.

	31 Dec 2018 Carrying amounts		Contractual cash flows			
2018 EUR million	**Less than 1 year**	**Over 1 year**	**Less than 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Trade receivables	144.0	-	144.0	-	-	-
Derivative instruments	0.0	-	0.0	-	-	-
Other financial assets	35.0	-	35.0	-	-	-
Other receivables	0.9	0.3	0.9	-	-	0.3
Cash and cash equivalents	53.4	-	53.4	-	-	-
Total financial assets	**233.4**	**0.3**	**233.4**	**-**	**-**	**0.3**

	31 Dec 2018 Carrying amounts		Contractual cash flows			
2018 EUR million	**Less than 1 year**	**Over 1 year**	**Less than 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Bank borrowings and commercial papers	83.5	112.6	88.7	118.8	-	-
Liabilities to shareholders[1]	35.0	-	35.0	-	-	-
Finance lease liabilities	2.0	2.2	2.0	1.5	0.8	-
Trade payables	123.5	-	123.5	-	-	-
Derivative financial instruments	0.5	0.0	0.5	-	-	-
Total financial liabilities	**244.5**	**114.8**	**249.7**	**120.2**	**0.8**	**-**

1) Refers to selling shareholders at the time of the listing on 6 February 2015.

	31 Dec 2017 Carrying amounts		Contractual cash flows			
2017 EUR million	**Less than 1 year**	**Over 1 year**	**Less than 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Trade receivables	170.0	-	170.0	-	-	-
Derivative instruments	0.3	0.1	0.3	0.1	-	-
Other financial assets	35.0	-	35.0	-	-	-
Other receivables	0.5	0.1	0.5	-	-	0.1
Cash and cash equivalents	32.9	-	32.9	-	-	-
Financial assets total	**238.7**	**0.2**	**238.7**	**0.1**	**-**	**0.1**

	31 Dec 2017 Carrying amounts		Contractual cash flows			
2017 EUR million	**Less than 1 year**	**Over 1 year**	**Less than 1 year**	**1-3 years**	**3-5 years**	**Over 5 years**
Bank borrowings and commercial papers	43.0	116.4	47.1	121.8	-	-
Liabilities to shareholders[1]	35.0	-	35.0	-	-	-
Finance lease liabilities	1.6	3.0	1.6	2.0	0.7	0.2
Trade payables	114.6	-	114.6	-	-	-
Derivative financial instruments	0.4	-	0.4	-	-	-
Total financial liabilities	**194.6**	**119.3**	**198.8**	**123.7**	**0.7**	**0.2**

1) Refers to selling shareholders at the time of the listing on 6 February 2015.

Note 3, continued

3.3 Credit risk

Credit risk is the risk of loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations.

The Group's credit risk arises primarily from the Group's receivables from customers. The Group has identified a concentration risk relating to certain key customers who account for a significant amount of the Group's net sales. The key customers are solid infrastructure network owners in Europe. Typically, they are owned by governments or municipalities or are well-known publicly listed companies. Therefore, the Group assess that the concentration risk and credit risk related to these key customers is limited.

The Group carries out several projects in African countries in the Power Transmission International unit which is in process of being ramped down. These projects are typically pre-funded, i.e. there are financing agreements in place prior to the start of the project. The Group receives payments directly from the funding bank(s) against agreed evidence of project progress. Consequently the Group usually does not carry significant credit risk relating to the African customers. The Group is currently carrying out three projects in Mozambique which are funded by the World Bank via the Ministry of Finance in Mozambique. While the credit risk of the funding is mitigated by the external financing received, the sovereign risk relating to Mozambique remains. The uninvoiced order backlog relating to these projects amounts to EUR 2.1 million.

Maturity analysis of trade receivables past due but not impaired:

EUR million	31 Dec 2018	31 Dec 2017
Not past due	112.9	126.6
Past due:		
1-14 days overdue	12.7	24.6
15-90 days overdue	7.8	5.8
91-180 days overdue	3.8	4.3
More than 180 days overdue	6.9	8.8
Total trade receivables (net)	**144.0**	**170.0**

The amount of receivables represent managements best estimate of amounts that will be recovered from the customers. The Group applies the expected credit losses (ECL) model according to IFRS 9 for impairment of trade receivables. The expected credit losses are calculated using a credit loss provision matrix in which the amount of the expected credit loss is determined based on the aging of the trade receivables. The percentages used in the calculation matrix are based on the historical realised credit losses in the Group and forward looking factors affecting customers' ability to settle the amount outstanding. Realised credit losses in the Group were EUR 0.2 million in 2018 and EUR 0.2 million in 2017.

The current impairment reserve for credit losses is EUR 11.8 million. The Group has recognised a decrease of EUR 2.8 million in the impairment reserve of trade receivables. There were no past due receivables in any other class of financial assets. The carrying amount of the Group's receivables represents the maximum amount of credit risk at the balance sheet date.

The Group's investments are related to liquidity management and made in liquid instruments with low credit risk. The Group investment activities are not exposed to significant credit risk. Any long-term investments have to be approved by the Board of Directors. Derivative financial instruments are entered into with banks with high credit rating. Group treasury is responsible for credit risk management relating to financial risk counterparties. New derivative counterparties always have to be approved by the Board of Directors. EUR 50.0 million of the cash balance on 31 December 2018 was deposited in the banks having the credit rating classified as investment grade. EUR 3.3 million of the cash was deposited in the banks in Mozambique having the credit rating of BB.

3.4 Capital management

The Group's objective when managing capital is to safeguard its ability to continue as going concern in order to provide returns for shareholders. The Group defines total capital as equity plus net debt in the balance sheet. The Group monitors capital on the basis of net debt to EBITDA ratio. Net debt is calculated as total bank borrowings on undiscounted method added by financial leasing liabilities less cash and cash equivalent.

The ratio at 31 December 2018 and 2017 have been as follows:

EUR million	31 Dec 2018	31 Dec 2017
EBITDA	5.1	-13.4
Total bank borrowings	197.3	160.3
Finance lease liabilities	4.1	4.6
Cash and cash equivalents	-53.4	-32.9
Net debt	**148.0**	**132.1**
Net debt/EBITDA	**29.0**	**-9.9**

In July 2018, an amendment to Eltel's financing agreement was signed with resetting of covenants during the transformation period and an extension of the facilities by one year. Eltel's amended bank loan agreements include financial covenants related to the adjusted EBITDA until the end of first quarter of 2020 and thereafter the net debt/EBITDA ratio and adjusted EBITDA/net finance charges ratio and minimum liquidity. EBITDA used in the covenant calculations until the end of Q1 2020 is adjusted with agreed non-recurring items relating to a transformation of Eltel group capped to EUR 85 million.

In March 2019, Eltel agreed with its banks on certain amendments to its existing financing agreement (with maturity in the end of Q1 2021). Please refer to note 32. Events after balance sheet date for more information.

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

Note 4 Revenue recognition and segment reporting

Eltel reports its segments in Power, Communication and Other. The Power and Communication segments comprise Eltel's businesses in the Nordics, Poland and Germany. The Other comprises operations planned to be divested or ramped down: Power Transmission International unit with projects outside of Europe and few remaining rail business projects in Sweden.

In January 2018, Eltel decided to change the governance structure from the earlier business unit-centric organisation to a country and market-driven organisation with Country and Solution Units. The change is part of the transformation strategy and improves control over Eltel's operations within the segments. The number of management levels is, as a result of the new governance structure, reduced and full profit centre responsibility achieved in each country within the segments Power and Communication. Eltel's operations in segment Power within the areas High Voltage and Smart Grids, are project based and offer standard solutions for all markets, and are therefore managed as Solution Units with cross-border mandates. The activities and governance of Eltel's business, reported as Other, continue to be led by the special project office.

On 17 January 2018, Eltel decided to retain part of the Swedish Aviation and Security business which previously was planned to be divested and reported under Other. The operations are transferred to Country Unit Sweden and presented

Note 4, continued

under segment Communication and historical comparative information is restated accordingly.

Net sales by service type
Eltel's revenue consists of project delivery, upgrade and maintenance services.

Maintenance services
Eltel's maintenance services comprise of scheduled and corrective care services and connect services where the customer contracts are usually multi-year frame agreements. The works are performed based on continuous flow of small orders that are typically unit priced, but also certain fixed fee based contracts exist. The services are not highly customised to a particular customer. The nature of Eltel's maintenance services is such that the customer typically can benefit from the services either on its own or together with other readily available resources. In maintenance services customer receives benefits as Eltel performs and revenue is recognised over time based on the services performed.

Upgrade services
(Upgrade and conversion projects)
Upgrade and conversion services are services to recover and upgrade the condition or technology of an existing infrastructure network where Eltel typically dismantle, build and/or install on customer specifications. The projects are typically based on multi-year frame agreements where the services are ordered based on individual purchase orders but also on separately tendered projects. Size of a project varies typically from EUR 10 thousand to over EUR 1 million projects and pricing is typically based on units. For upgrade services revenue is typically recognised over time as customer controls the asset that Eltel creates or enhances.

Project delivery services
(Engineering, procurement, construction)
Project delivery services comprise engineering and delivering customer specific network infrastructure projects. The contracts include projects with estimated units and variation orders as well as turnkey projects and Eltel's activities typically include tasks relating to design, construction, installation and project management. The size of a contract is typically large (EUR 1–100 million) and project execution time frame from months to years. For project delivery services revenue is typically recognised over time as customer controls the asset that Eltel creates or enhances.

Net sales by geographical area

EUR million	2018	2017
Sweden	359.8	415.5
Finland	275.8	309.8
Norway	258.9	273.3
Denmark	101.1	93.3
Poland	98.2	96.7
Germany	76.2	78.3
Baltics	3.3	24.5
Other countries	15.6	38.4
Net sales, total	**1,188.9**	**1,329.9**

Net sales by segment

EUR million	2018	2017
Power		
Net sales (external)	438.8	469.7
Inter-segment sales	0.1	0.7
Communication		
Net sales (external)	727.0	756.7
Inter-segment sales	0.3	0.1
Other		
Net sales (external)	23.1	103.5
Inter-segment sales	-	0.3
Elimination of sales between segments	-0.4	-1.1
Total	**1,188.9**	**1,329.9**

The Group has two customers in segment Communication that represent over 10% of total sales of the Group (in 2017 two customers). The customers' share of the sales amounts to 33% (30%). Customer means a legal entity, and where applicable, a collection of legal entities in the same group.

Net sales by service split

EUR million	2018	2017
Power		
Project delivery	262.2	245.6
Upgrade services	120.2	156.6
Maintenance	65.2	72.8
Internal net sales and fx adjustments	-8.8	-4.6
Total Power	438.8	470.4
Communication		
Project delivery	42.1	59.9
Upgrade services	460.7	534.7
Maintenance	266.1	185.8
Internal net sales and fx adjustments	-41.5	-23.6
Total Communication	727.3	756.8
Other		
Project delivery	22.4	84.6
Upgrade services	-	1.6
Maintenance	0.5	14.0
Internal net sales and fx adjustments	0.2	3.5
Total Other	23.1	103.8
Elimination of sales between segments	-0.4	-1.1
Total	**1,188.9**	**1,329.9**

In 2018 project delivery services form 26% (31), upgrade services 47% (49) and maintenance services 27% (20) of Eltel's total net sales.

Note 4, continued

Committed order backlog

Committed order backlog in Eltel is defined as the total value of committed (purchase) orders received but not yet recognised as net sales. It is therefore the best measure of unsatisfied performance obligations according to IFRS 15 Revenue from contracts with customers. The below table presents the committed order backlog by service split for each segment.

EUR million	2018	2017
Power		
Project delivery	252.0	272.5
Upgrade services	48.6	80.7
Maintenance	15.9	19.6
Total Power	316.5	372.8
Communication		
Project delivery	19.8	38.5
Upgrade services	125.8	110.0
Maintenance	42.2	38.8
Total Communication	187.8	187.4
Other		
Project delivery	26.7	74.7
Maintenance	-	13.0
Total Other	26.7	87.8
Total	**531.0**	**647.9**

Approximately two thirds of the committed order backlog in project delivery services and majority of the committed order backlog in upgrade services and maintenance service is to be recognised as revenue during 2019.

Segment results

EUR million	2018	2017
Operative EBITA by segment		
Power	-0.5	-0.3
Communication	24.8	34.6
Other	-11.1	-43.8
Items not allocated to operating segments[1]	-15.4	-16.1
Operative EBITA, Group	-2.2	-25.5
Items affecting comparability in EBITA[2]	-4.8	-1.2
EBITA before acquisition-related amortisation	-7.1	-26.7
Amortisation of acquisition-related intangible assets	-2.2	-8.5
Impairment of goodwill and other acquisition-related intangible assets[3]	-	-149.4
Operating result (EBIT)	-9.2	-184.6
Financial expenses, net	-8.8	-12.3
Result before taxes	**-18.0**	**-197.0**

1) Consist of group management function and other group level expenses.
2) Items which management does not consider to form part of the ongoing operative business.
3) Impairment in 2017 is related to Power Transmission international and Rail reported in Other and Power Transmission reported in segment Power.

Segment net working capital

EUR million	2018	2017
Power	43.3	54.0
Communication	11.4	18.7
Other	-3.0	-11.3
Items not allocated to operating segments	-11.7	-15.8
Total	**39.9**	**45.6**

Net working capital and operative capital employed

EUR million	2018	2017[1]
Inventories	13.2	9.6
Trade and other receivables	337.5	356.4
Provisions	-17.9	-24.7
Advances received	-51.7	-48.4
Trade and other payables	-241.4	-244.9
Other[2]	0.2	-2.4
Net working capital	**39.9**	**45.6**
Intangible assets excluding acquisition-related allocations	10.6	7.0
Property, plant and equipment	34.2	32.6
Operative capital employed	**84.7**	**85.1**
Average operative capital employed	84.9	71.3

1) Assets and liabilities held for sale are not included (on 31 December 2017 Finnish and Danish Rail business).
2) 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.

Segment property, plant and equipment

EUR million	2018	2017
Power	18.1	21.3
Communication	14.0	7.5
Other	0.1	0.9
Items not allocated to operating segments	2.0	2.8
Total	**34.2**	**32.6**

Intangible assets excluding acquisition-related allocations are mainly items, which are not allocated to segments.

Refer to note 18. Contract balances for information about contract assets and contract liabilities.

Note 5 Acquisitions, disposals and assets held for sale

Acquisitions

During 2018, no new acquisitions were made. An adjustment to contingent consideration (earn-out) of EUR 2.8 million was done relating to the acquisition of the German smart grid operations (U-SERV GmbH) in 2016 as a result of the performance of the asset and the leverage mechanism in the agreement.

Disposals

During the first quarter of 2018 Eltel divested its non-core rail operations in Finland, Denmark and Sweden. The divestments of the Finnish and Danish rail operations were completed on 31 January 2018 and divestment of the Swedish rail operation on 29 March 2018.

On 31 January 2018, Eltel completed the sale of its Finnish rail operations, with approximately 120 employees, in full, consisting of services to deliver electrification and signalling systems to railway and metro operators. The purchase price amounted EUR 8.5 million deducted by the cash generated from these operations during September 2017–January 2018. The transaction had a positive impact on Group EBITA of EUR 3.7 million and positive cash flow of EUR 6.3 million in the first quarter of 2018.

The divested Danish operations comprised maintenance contract for signalling, track and catenary services for Sund & Bælt A/S, 26 employees and operational equipment used for delivering the relevant services. Negative impact of the divestment, EUR 0.5 million, was recognised in the fourth quarter of 2017 and a negative cash flow effect of EUR 2.4 million in the first quarter of 2018.

On 29 March 2018, Eltel concluded the sale of its Swedish rail operations, consisting of key customer contracts, employees and operational equipment, to Strukton Rail AB, a company providing solutions in rail infrastructure, railway vehicles and mobility systems. The transaction had a negative impact of EUR 5.9 million on EBITA and a negative cash flow effect of EUR 5.7 million in the first quarter of 2018.

On 4 September 2018, Eltel completed the sale of the Norwegian rail operations to Æra AS, a wholly owned subsidiary to Jotunfjell Partners AS. The transaction price was EUR 1 and the cash flow effect amounted to EUR -0.7 million.

After the sale of the Norwegian rail operations, the divestments of all non-core businesses presented under Other, except for completion of certain projects and warranty undertakings in the Swedish rail operations, are finalised in accordance with the strategic direction Eltel has set, as announced in the spring of 2017.

Assets held for sale

The agreements to divest Rail business in Finland and Denmark were announced in the fourth quarter of 2017 and the assets and liabilities relating to these business operations were presented as held for sale on 31 December 2017. Both transactions were completed at the end of January 2018. At 31 December 2018 there were no assets held for sale.

EUR million	31 Dec 2018	31 Dec 2017
Assets		
Property, plant and equipment	-	1.6
Trade receivables and other assets	-	8.7
Total assets held for sale	**-**	**10.4**
Liabilities		
Provisions	-	0.1
Advances received	-	1.0
Trade and other payables	-	6.8
Total liabilities held for sale	**-**	**7.9**

Note 6 Other income

EUR million	2018	2017
Gains on disposal of business and sales of assets	3.9	0.2
Adjustments to earn-out estimates	0.2	3.2
Other income	0.5	1.6
Total	**4.5**	**4.9**

In 2018, gains on disposal of business and sales of assets include the gain on sale of Rail Finland of EUR 3.7 million. The earn-out adjustments relate to Exo Consult ApS. In 2017 adjustments to earn-out estimates include an adjustment of EUR 3.0 million related to U-SERV GmbH and an adjustment of EUR 0.2 million related to Exo Consult ApS.

Note 7 Other expenses

EUR million	2018	2017
Loss on foreign exchange forward contracts	1.7	1.9
Losses on divestments	6.0	2.9
Adjustments to earn-out estimates	2.8	-
Other expenses	1.8	2.9
Total	**12.2**	**7.7**

In 2018, majority of losses on divestments relate to loss of EUR 5.9 million from divestment of the rail business in Sweden. The earn-out adjustments relate to German smart grid business (U-SERV GmbH). In 2017 losses on divestments include loss of EUR 0.8 million related to Eltel Networks S.A in Poland, EUR 0.9 million related to SIA Eltel Networks in Latvia, EUR 0.8 million related to AS Eltel Networks in Estonia and EUR 0.5 million related to selling of Rail business in Denmark.

Note 8 Function expenses by nature

EUR million	2018	2017
Materials and supplies	182.3	234.2
Employee benefit expenses	434.9	466.0
External services	418.6	477.7
Other costs	149.2	164.9
Depreciation, amortisation and impairment	14.3	171.3
Total	**1,199.3**	**1,514.1**

Note 9 Depreciation, amortisation and impairment

EUR million	2018	2017
Amortisation on customer relationships and order backlog	2.2	8.5
Impairment of goodwill and other acquisition-related assets	-	149.4
Other depreciation and amortisation	12.2	13.3
Total	**14.3**	**171.3**

See note 14. Intangible assets for more information on impairment.

The total amount recognised in the income statement is divided by function as follows:

EUR million	2018	2017
Cost of sales	6.7	8.8
Sales and marketing expenses	0.0	0.0
Administrative expenses	5.4	4.4
Sum	12.2	13.3
Amortisation and impairment of acquisition-related intangible assets	2.2	158.0
Total	**14.3**	**171.3**

Note 10 Employee benefit expenses

EUR million	2018	2017
Wages and salaries	327.8	353.5
Post-employment benefits:		
Defined benefit plans	0.0	-0.5
Defined contribution plans	36.9	38.4
Other indirect employee costs	70.4	74.7
Total	**435.1**	**466.2**

Salaries and other remunerations to Board of Directors and senior management were EUR 4.5 million (3.9) of which the amount of fixed salaries was EUR 4.0 million (2.8) including fees to Board of Directors of EUR 0.5 million (0.4) and of which variable salaries was EUR 0.5 million (1.1). Defined contribution pension plans for senior management amounted to EUR 0.6 million (0.7). The amount of other indirect employee costs for senior management was EUR 0.6 million (0.6).

Information on the compensation for Board of Directors and other key management personnel is presented in note 29. Remuneration to senior management.

Employee benefit expenses by function

	2018	2017
Cost of sales	364.2	391.6
Sales and marketing expenses	4.6	6.8
Administrative expenses	66.1	67.5
Sum	434.9	466.0
Financial income and costs	0.2	0.2
Total	**435.1**	**466.2**

Average number of personnel by country

	2018	Of whom men %	2017	Of whom men %
Sweden	2,151	87	2,498	88
Finland	1,480	91	1,523	89
Norway	1,204	89	1,319	89
Poland	1,140	78	1,584	81
Denmark	653	93	610	93
Baltics	304	94	619	92
Other	632	79	629	77
Total	7,563	87	8,781	87
Total personnel at year-end	**7,376**	**88**	**7,999**	**86**

Note 11 Financial income and expenses

EUR million	2018	2017
Interest income arising from financial assets	0.2	0.2
Other financial income	0.3	0.2
Total financial income	**0.4**	**0.4**
Interest expenses from liabilities at amortised cost	-6.5	-8.1
Fee expenses	-2.1	-2.5
Net impact from financial instruments at fair value through income statement	-0.2	-0.2
Fair value change of foreign exchange derivatives	-0.3	0.4
Other foreign exchange differences	-0.1	-2.3
Total financial expenses	**-9.2**	**-12.7**
Net financial expenses	**-8.8**	**-12.3**

Note 12 Income tax

12.1 Income tax expense in the consolidated income statement

EUR million	2018	2017
Current tax	2.3	5.2
Deferred tax	1.9	2.5
Total tax cost / income (-)	**4.1**	**7.7**

The difference between income taxes at the statutory tax rate in Sweden 22.0% and income taxes recognised in the consolidated income statement is reconciled as follows:

EUR million	2018	2017
Profit before tax	-18.0	-197.0
Tax calculated at Swedish tax rate	**-4.0**	**-43.3**
Effect of different tax rates outside Sweden	-0.3	-0.4
Income not subject to tax	-2.0	-1.5
Expenses not deductible for tax purposes	1.7	0.2
Tax effect of non-deductible impairment of goodwill	-	28.1
Tax loss valuation[1]	6.9	16.3
Non-valuated temporary differences	-0.9	4.4
Remeasurement of deferred tax for change in tax rate	1.3	0.1
Taxes and adjustments in respect of prior years	0.9	3.4
Other items	0.4	0.4
Income taxes in the consolidated income statement	**4.1**	**7.7**

1) In 2018, tax effect of results for which no deferred income tax asset was recognised, mainly in Sweden.

In 2019 the Swedish government enacted a change in the national corporate income tax rate from 22.0% to 21.4%. In 2021 the Swedish national corporate income tax rate will further decrease to 20.6%. Temporary differences which are estimated to be realised in years 2019-2020 have been booked using the rate of 21.4%. Temporary differences estimated to be realised in the year 2021 or later, and unused tax losses for which deferred tax asset has been recognised, have been booked using a tax rate of 20.6%.

12.2 Deferred tax assets and liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

EUR million	31 Dec 2018	31 Dec 2017
Deferred tax liabilities	17.6	7.9
Deferred tax assets	29.0	21.5
Net deferred tax liabilities (-assets)	**-11.5**	**-13.6**

The gross movement on the deferred income tax amount:

EUR million	2018	2017
1 Jan	**-13.6**	**-14.3**
Recognised in the income statement	1.9	2.5
Share issue costs, recognised in equity	-	-1.0
Translation differences, recognised in other comprehensive income	0.4	0.1
Defined benefit plans, recognised in other comprehensive income	-0.7	-1.5
Hedge accounting, recognised in other comprehensive income	0.8	0.3
IFRS 15 opening balance adjustment, recognised in other comprehensive income	-0.1	-
Acquisition/disposal of subsidiaries	-	0.3
31 Dec	**-11.5**	**-13.6**

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction:

Deferred tax liabilities

EUR million	Fair value adjustment	Other temporary differences	Total
1 Jan 2017	**15.1**	**4.5**	**19.6**
Recognised in the income statement	-6.7	0.0	-6.7
Translation differences	-0.5	-	-0.5
Transfer between categories	-	-0.8	-0.8
31 Dec 2017	**8.0**	**3.7**	**11.7**
Recognised in the income statement	-0.6	3.1	2.5
Translation differences	0.3	-0.4	-0.2
Transfer between categories	-	3.6	3.6
31 Dec 2018	**7.6**	**9.9**	**17.5**

Deferred tax assets

EUR million	Retirement benefit obligations	Tax losses carried forward	Other temporary differences	Total
1 Jan 2017	**1.8**	**30.6**	**1.5**	**33.8**
Recognised in the income statement	-0.9	-8.8	0.6	-9.2
Recognised in other comprehensive income	1.5	-	-0.3	1.3
Share issue costs, recognised in equity	-	-	1.0	1.0
Translation differences	-0.1	-0.5	-0.1	-0.6
Disposal of subsidiaries	-	-	-0.3	-0.3
Transfer between categories	-	-	-0.8	-0.8
31 Dec 2017	**2.3**	**21.3**	**1.6**	**25.3**
Recognised in the income statement	-0.4	0.0	1.0	0.6
Recognised in other comprehensive income	0.7	-	-0.8	0.0
Share issue costs, recognised in equity	-	-	0.1	0.1
Translation differences	0.0	-0.4	-0.1	-0.6
Transfer between categories[1]	-	-	3.6	3.6
31 Dec 2018	**2.6**	**21.0**	**5.4**	**29.0**

1) In 2018 the transfer between categories relate to presentation of offsetting balances within other temporary differences with no impact on net amounts recognised.

Note 12, continued

Deferred tax assets are recognised for tax loss carry forwards and temporary differences to the extent that the realisation of the related tax benefit against future taxable profits is probable.

Gross amount of EUR 21.0 million deferred tax assets are recognised for losses carried forward (21.3), of which EUR 10.3 million relates to operations in Sweden (10.8). The tax losses relate to identifiable causes that are unlikely to recur. During 2016-2018 Eltel has incurred significant one-off costs in Sweden mainly relating to Rail and Power transmission international businesses, that are being disposed or ramped down. The continuing business operations are profitable and deferred tax asset recognised for losses carried forward are expected to be utilised against taxable profits in the foreseeable future.

On 31 December 2018 the Group had in its main operational countries total of EUR 275.6 million (256.7) tax losses for which no deferred tax asset was recognised. Of these tax losses EUR 157.0 million (146.0) will expire within five years, EUR 2.4 million (13.2) will expire after five years and EUR 116.2 million (97.5) will never expire.

Note 13 Non-controlling interests and joint ventures

EUR million	Subsidiaries with non-controlling interest		Joint ventures	
Summarised statement of balance sheet	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Current assets	30.3	25.7	17.3	4.8
Non-current assets	2.9	2.9	1.6	2.0
Total assets	33.2	28.6	18.9	6.8
Current liabilities	13.4	10.1	18.1	7.7
Non-current liabilities	0.6	1.0	0.0	0.4
Total liabilities	14.1	11.1	18.1	8.1
Equity				
Shareholders' equity	19.1	17.6	0.9	-1.4
Non-controlling interest	7.6	7.0	-	-
Summarised income statement	**Jan-Dec 2018**	**Jan-Dec 2017**	**Jan-Dec 2018**	**Jan-Dec 2017**
Net sales	52.4	40.7	62.3	8.8
Net result	2.9	1.7	2.2	-0.9
Total comprehensive income	2.9	1.7	2.2	-0.9
Total comprehensive income allocated to non-controlling interests	1.1	0.7	-	-
Dividends paid to non-controlling interest	-0.5	-1.0	-	-
Summarised cash flows	**Jan-Dec 2018**	**Jan-Dec 2017**	**Jan-Dec 2018**	**Jan-Dec 2017**
Cash flow from operating activities	5.4	0.8	-	-
Cash flow from investing activities	-0.5	-0.6	-	-
Cash flow from financing activities	-4.9	-0.3	-	-
% of ownership	60%	60%	50%	50%
Commercial guarantees on behalf of joint ventures	-	-	9.7	12.1

Reconciliation of changes in carrying value	2018	2017
Carrying value, January 1	0.7	0.0
Profit/loss for the period	1.1	-0.4
Capital investment	0.1	0.5
Carrying value, December 31	1.9	0.7

Non-controlling interest
Eltel Networks Pohjoinen Oy, domiciled in Finland, is a subsidiary with a non-controlling interest of 40%.

Joint ventures
Murphy Eltel JV Limited
Murphy Eltel JV Limited, domiciled in the UK, is a joint venture owned 50/50 by Eltel Networks UK Limited and Murphy Power Networks Limited.

On 6 February 2018 Eltel's joint venture partner was changed to Murphy Power Networks Limited, that acquired Carillion's share of the joint venture in full. The name of Carillion Eltel JV limited was been changed to Murphy Eltel JV limited on 15 February 2018.

Note 14 Intangible assets

EUR million	Goodwill	Customer relationship	Order backlog	Brand	Advances paid and other intangible assets	Total
Cost on 1 Jan 2018	510.0	142.5	14.6	50.8	21.3	739.1
Additions	-	-	-	-	5.8	5.8
Disposal of companies	-	-	-	-	-0.1	-0.1
Translation differences	-4.8	-3.1	-0.4	-1.1	-0.2	-9.6
Reclassifications	-	-	-	-	-0.2	-0.2
Cost on 31 Dec 2018	**505.1**	**139.4**	**14.2**	**49.7**	**26.5**	**734.9**
Accumulated amortisation and impairment on 1 Jan 2018	223.0	137.8	14.0	21.3	14.3	410.3
Accumulated depreciation of disposals of companies	-	-	-	-	-0.1	-0.1
Translation differences	-	-3.1	-0.4	-0.5	0.0	-4.0
Amortisation during the period	-	1.6	0.6	-	1.6	3.7
Accumulated amortisation and impairment on 31 Dec 2018	**223.0**	**136.2**	**14.2**	**20.8**	**15.8**	**410.0**
Carrying value on 1 Jan 2018	286.9	4.7	0.6	29.5	7.0	328.8
Carrying value on 31 Dec 2018	**282.1**	**3.1**	**0.0**	**29.0**	**10.6**	**324.9**

EUR million	Goodwill	Customer relationship	Order backlog	Brand	Advances paid and other intangible assets	Total
Cost on 1 Jan 2017	515.4	143.9	14.7	51.4	18.2	743.6
Additions	-	-	-	-	3.1	3.1
Disposals	-	-	-	-	-0.1	-0.1
Translation differences	-5.5	-1.5	-0.2	-0.5	0.0	-7.6
Cost on 31 Dec 2017	**510.0**	**142.5**	**14.6**	**50.8**	**21.3**	**739.1**
Accumulated amortisation on 1 Jan 2017	95.2	130.1	13.7	1.1	13.2	253.2
Translation differences	-0.1	-1.3	-0.2	-0.4	0.2	-1.8
Impairment during the period	127.9	1.0	-	20.6	-	149.4
Amortisation during the period	-	8.1	0.4	-	0.9	9.4
Accumulated amortisation on 31 Dec 2017	**223.0**	**137.8**	**14.0**	**21.3**	**14.3**	**410.3**
Carrying value on 1 Jan 2017	420.2	13.9	1.0	50.3	4.9	490.4
Carrying value on 31 Dec 2017	**286.9**	**4.7**	**0.6**	**29.5**	**7.0**	**328.8**

Value of customer relationship and Eltel brand origin from the acquisition of Eltel's business. The amortisation of customer relationship is presented in the income statement line "Amortisation and impairment of acquisition-related intangible assets". The Eltel brand is not amortised, because it has been assessed that it has an indefinite useful life. No foreseeable limit to the period over which it is expected to generate net cash inflows for the Group can be seen. Eltel brand is tested for impairment annually together with goodwill.

Note 14, continued

Allocation of goodwill and brand

In 2018 Eltel changed its organisation from the earlier business unit -centric structure and organises its business today through country units (CU), and two project based solution units (SU) with operations across countries within segment Power. The change is part of the transformation strategy and improves control over Eltel's operations within the segments Power and Communication. The activities and governance of Rail and Power Transmission International businesses reported as Other continue to be led by the special project office.

The composition of operating segments has been changed to mirror the way that management follows operations. Goodwill and brand are monitored on operating segment level and a reallocation of these items has been made to each operating segment on a relative value basis. The values in accordance with new allocation and pre-tax discount rates used in valuation are presented in below table.

EUR million	Brand 31 Dec 2018	Goodwill 31 Dec 2018	WACC
Country Unit Sweden	7.1	69.4	10.6%
Country Unit Finland	8.0	77.5	10.4%
Country Unit Norway	8.1	78.5	10.1%
Country Unit Denmark	3.3	32.2	9.9%
Solution Unit Smart Grids	1.8	17.5	10.2%
Other	0.7	7.0	11.8%
Total	**29.0**	**282.1**	

Goodwill and brand relating to Rail, Power Transmission International and High Voltage businesses has been fully impaired in earlier periods and therefore no value has been allocated to these units.

The recoverable amount of business is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on business plans approved by management covering a four-year period. Cash flows beyond the four-year period are extrapolated using a growth rate of 1.5% in average which does not exceed the long-term average growth rate for the businesses in which the Group operates.

The key assumptions used for value-in-use calculations are:

1. The sales volumes of the business plan – determined based on past performance and existing and planned contracts with clients.
2. Profitability of the business plan – determined based on previous years actual profitability and the planned actions to increase the profitability; EBITA.
3. Discount rate – determined based on the weighted capital cost of capital (WACC) which describes the total cost of debt and equity considering the risks specific to the business.

The pre-tax discount rates used in calculations including risk premium to reflect the current state of macroeconomic uncertainty and risks specific to the business are presented in above table.

The annual impairment test conducted for year-end 2018 resulted in no impairment. Anyhow, the value is sensitive to negative changes in the estimated future cash flows. The recoverable amount for CGU Sweden exceeds the carrying amount by 18% and a 2.1 percentage points increase in WACC, or 1.9% increase in estimated costs would change the recoverable amount to be equal to its carrying amount.

Goodwill and brand in 2017

EUR million	Brand 31 Dec 2017	Goodwill 31 Dec 2017	WACC
Communication	13.6	150.3	8.4%
Power Distribution	13.6	117.9	9.0%
Aviation & Security	2.3	18.7	8.4%
Total	**29.5**	**286.9**	

During the first quarter of 2017, number of strategic decisions were taken, including decision to focus on defined core business, decision to lower the risk exposure and consequently lower the growth expectations in the power transmission business and decision to divest the rail business. Due to the change in the strategy Eltel conducted additional impairment test in the first quarter of 2017 using updated future estimates. As a result of the test a total impairment of EUR 145.6 million was recognised in the value of goodwill and related intangible assets. The recoverable amount of the Power Transmission CGU in the Power segment was estimated to be EUR 50 million and an impairment loss of EUR 100.0 million was recognised for goodwill, brand and customer relationships, of which goodwill impairment was EUR 84 million. The carrying amount of goodwill for the CGU after the impairment is EUR 0 million. The recoverable amount of the Rail CGU in Other was estimated to cover only the amount of net working capital and other tangible operative assets and an impairment loss of EUR 45.6 million was recognised. The impairment is equivalent to the total value of goodwill, brand and customer relationships allocated to Rail CGU, of which goodwill impairment was EUR 40.5 million.

Note 15 Property, plant and equipment

EUR million	Land	Buildings	Machinery and equipment	Total
Cost on 1 Jan 2018	0.9	5.7	88.2	94.8
Additions	-	0.0	13.2	13.2
Disposals	-	-	-1.5	-1.5
Disposals of companies	-	-	-7.6	-7.6
Translation differences	0.0	-0.1	-1.3	-1.5
Reversal of reclassification as assets held for sale	-	-	6.6	6.6
Reclassifications	-	0.0	0.3	0.2
Cost on 31 Dec 2018	**0.8**	**5.6**	**97.9**	**104.3**
Accumulated depreciation on 1 Jan 2018	0.1	1.5	60.6	62.2
Accumulated depreciation of disposals	-	-	-1.0	-1.0
Accumulated depreciation of disposals of companies	-	-	-5.4	-5.4
Translation differences	-	0.0	-1.3	-1.3
Reversal of reclassification as assets held for sale	-	-	5.0	5.0
Depreciation during the period	-	0.2	10.4	10.6
Accumulated depreciation on 31 Dec 2018	**0.1**	**1.7**	**68.3**	**70.1**
Carrying value on 1 Jan 2018	0.7	4.3	27.6	32.6
Carrying value on 31 Dec 2018	**0.7**	**4.0**	**29.5**	**34.2**

EUR million	Land	Buildings	Machinery and equipment	Total
Cost on 1 Jan 2017	0.8	5.9	97.0	103.7
Additions	-	0.1	10.7	10.8
Disposals	-	-	-1.6	-1.6
Disposals of companies	-	-0.5	-11.3	-11.7
Translation differences	0.0	0.1	0.0	0.2
Reclassification as assets held for sale	-	-	-6.6	-6.6
Cost on 31 Dec 2017	**0.9**	**5.7**	**88.2**	**94.8**
Accumulated depreciation on 1 Jan 2017	0.1	1.3	64.5	65.9
Accumulated depreciation of disposals	-	-	-1.7	-1.7
Accumulated depreciation of disposals of companies		-0.2	-9.2	-9.4
Translation differences	-	0.1	-0.1	-0.1
Reclassification as assets held for sale	-	-	-5.0	-5.0
Depreciation during the period	-	0.3	12.1	12.4
Accumulated depreciation on 31 Dec 2017	**0.1**	**1.5**	**60.6**	**62.2**
Carrying value on 1 Jan 2017	0.7	4.6	32.5	37.8
Carrying value on 31 Dec 2017	**0.7**	**4.3**	**27.6**	**32.6**

Machinery and equipment includes the following amounts where the group is a lessee under a finance lease:

EUR million	2018	2017
Cost	19.2	17.7
Accumulated depreciation	-15.2	-13.8
Carrying value on 31 Dec	**4.0**	**3.9**

Note 16 Financial instruments by category

Book values of financial instruments by category

When measuring the financial assets and liabilities, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data.

Trade and other payables and receivables are non-interest-bearing and short-term and thus the fair value corresponds their book value.

Fair value of debt is based on discounted cash flows. The discount rate is based on market rates and the nominal risk premium on Group's bank borrowing. The difference between fair value and book value is not significant as the Group's bank borrowing is based on short-term market rates.

The fair values of currency forward contracts and the currency swaps are based on the present value of the cash flow at the maturity date. The fair values of interest rate swaps are calculated as the present value of the estimated future cash flow based on observable yield curves.

The Group applies IFRS 9 Financial instruments standard from 1 January 2018. The standard introduces new classification of financial asset categories: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The below table summarises the changes:

Financial asset	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount	New carrying amount
Trade and other receivables	Loans and receivables	Amortised cost	174.6	174.6
Other financial assets	Loans and receivables	Amortised cost	35.0	35.0
Cash and cash equivalent	Loans and receivables	Amortised cost	32.9	32.9
Interest rate derivatives	Derivatives hedge accounting	FVOCI	0.1	0.1
Foreign exchange derivatives	Fair value through PL	FVTPL	0.2	0.2
Foreign exchange derivatives, hedge accounting	Derivatives hedge accounting	FVOCI	0.0	0.0
Embedded derivative contracts	Fair value through PL	FVTPL	2.1	2.1

The adoption of IFRS 9 has not had significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments used as hedging instruments.

The Group has used an exemption not to restate comparative information for prior period in respect of classification requirements. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

31 Dec 2018 EUR million	Note	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortised cost	Financial liabilities at amortised cost	Carrying amounts	Fair value	Fair value hierarchy
Non-current financial assets		**0.3**	**-**	**0.4**	**-**	**0.7**	**0.7**	
Other receivables and financial assets	17	0.3	-	0.4	-	0.7	0.7	
Current financial assets		**0.8**	**-**	**237.8**	**-**	**238.6**	**238.6**	
Trade receivables	17	-	-	144.0	-	144.0	144.0	
Derivative instruments	17, 26	0.0	-	-	-	0.0	0.0	2
Embedded derivative instruments	17	0.7	-	-	-	0.7	0.7	2
Other financial assets	17		-	35.0	-	35.0	35.0	
Other receivables	17	-	-	5.4	-	5.4	5.4	
Cash and cash equivalents		-	-	53.4	-	53.4	53.4	
Total Financial assets		**1.0**	**-**	**238.2**	**-**	**239.2**	**239.2**	
Non-current financial liabilities		**-**	**-**	**-**	**114.5**	**114.5**	**114.8**	
Interest-bearing debt	22	-	-	-	114.5	114.5	114.8	2
Current financial liabilities		**0.4**	**0.1**	**-**	**255.9**	**256.5**	**256.8**	
Interest-bearing debt	22	-	-	-	86.4	86.4	86.7	2
Liabilities to shareholders[1]	22	-	-	-	35.0	35.0	35.0	
Trade and other payables	25, 26	-	-	-	134.6	134.6	134.6	
Derivative instruments	26	0.4	0.1	-	-	0.5	0.5	2
Total financial liabilities		**0.4**	**0.1**	**-**	**370.4**	**370.9**	**371.6**	
Carrying amount, net		**0.6**	**-0.1**	**238.2**	**-370.4**			

1) Refers to selling shareholders at the time of the listing on 6 February 2015.

Note 16, continued

31 Dec 2017 EUR million	Note	Fair value through profit or loss	Derivatives hedge accounting	Loans and receivables	Available-for-sale investments	Financial liabilities at amortised cost	Carrying amounts	Fair value	Fair value hierarchy
Non-current financial assets		**-**	**-**	**0.1**	**0.3**	**-**	**0.4**	**0.4**	
Other receivables and financial assets	17	-	-	0.1	0.3	-	0.4	0.4	
Current financial assets		**2.3**	**0.1**	**242.4**	**-**	**-**	**244.8**	**244.8**	
Trade receivables	17	-	-	170.0	-	-	170.0	170.0	
Derivative instruments	17, 26	0.2	0.1	-	-	-	0.3	0.3	2
Embedded derivative instruments	17	2.1	-	-	-	-	2.1	2.1	2
Other financial assets	17	-	-	35.0	-	-	35.0	35.0	
Other receivables	17	-	-	4.5	-	-	4.5	4.5	
Cash and cash equivalents		-	-	32.9	-	-	32.9	32.9	
Total Financial assets		**2.3**	**0.1**	**242.5**	**0.3**	**-**	**245.2**	**245.2**	
Non-current financial liabilities		**-**	**-**	**-**	**-**	**119.0**	**119.0**	**119.4**	
Interest-bearing debt	22	-	-	-	-	119.0	119.0	119.4	2
Current financial liabilities		**0.4**	**0.0**	**-**	**-**	**203.7**	**204.1**	**204.3**	
Interest-bearing debt	22	-	-	-	-	45.3	45.3	45.6	2
Liabilities to shareholders[1]	22	-	-	-	-	35.0	35.0	35.0	
Trade and other payables	25	-	-	-	-	123.3	123.3	123.3	
Derivative instruments	25, 26	0.4	0.0	-	-	-	0.4	0.4	2
Embedded derivative instruments	26	0.0	-	-	-	-	0.0	0.0	2
Total financial liabilities		**0.4**	**0.0**	**-**	**-**	**322.7**	**323.1**	**323.8**	
Carrying amount, net		**1.9**	**0.1**	**242.5**	**0.3**	**-322.7**			

1) Refers to selling shareholders at the time of the listing on 6 February 2015.

Note 17 Trade and other receivables

Non-current

EUR million	31 Dec 2018	31 Dec 2017
Total non-current receivables	**0.4**	**0.1**

Current

EUR million	31 Dec 2018	31 Dec 2017
Trade receivables, gross	155.8	184.5
Bad debt provision	-11.8	-14.5
Trade receivables, net	144.0	170.0
Derivative instruments	0.8	2.5
Income tax receivables	1.9	1.2
Indirect tax receivables	2.5	3.1
Contract assets	163.8	154.8
Other prepayments and accruals	19.1	20.3
Other receivables	5.4	4.5
Total current trade and other receivables	**337.5**	**356.4**

The Group applies the expected credit losses (ECL) model according to IFRS 9 for impairment of trade receivables. The expected credit losses are calculated using a credit loss provision matrix in which the amount of the expected credit loss is determined based on the aging of the trade receivables. The percentages used in the calculation matrix are based on the historical realised credit losses in the Group and forward looking factors affecting customers' ability to settle the amount outstanding. Refer to note 3.3 Credit risk for more information.

Fair values of trade and other receivables approximate their carrying amount due to short maturities. The Group has recognised an decrease of EUR 2.8 million (EUR 8.5 million increase) for the bad debt provision.

During 2018 the Group has sold on non-recourse basis EUR 378.4 million (390.9) of trade receivables to various financial institutions as part of vendor financing solutions and derecognised the amounts from the balance sheet at the time of receipt of payment. The costs, EUR 1.1 million (1.3) are included in EBITA.

Note 18 Contract balances

EUR million	Trade receivables	Contract assets	Advances received
31 December 2017	170.0	154.8	48.4
IFRS 15 opening balance adjustment	-	0.1	-
1 January 2018	**170.0**	**154.9**	**48.4**
31 December 2018	**144.0**	**163.8**	**51.7**

Trade receivables and contract assets are included in the trade and other receivables in the balance sheet. Contract assets mainly consist of net sales not yet invoiced. Advances received represent the contract liabilities.

Note 19 Inventories

EUR million	31 Dec 2018	31 Dec 2017
Raw materials and consumables	6.7	6.7
Work in progress	6.5	2.8
Advance payments	0.0	0.1
Total	**13.2**	**9.6**

Note 20 Equity

Shares and share capital

On 9 July 2018, Eltel converted 88,486 C shares to ordinary A shares in accordance with the decision by the AGM on 9 May 2018. After the conversion the share capital was reduced with EUR 452,999.14 by redemption of all remaining 448,514 C-shares at nominal value in accordance with section 5 of the articles of association. After the redemption, the total number of ordinary shares amounts to 156,649,081. Each ordinary share is assigned one vote.

Changes in the share capital

Date of registration with the Swedish Companies Registration office	Transactions	Change in number of shares	Total number of ordinary shares	Total number of C-shares	Total number of shares	Change in share capital (EUR)	Total share capital (EUR)	Quota (par) value (EUR)
1 January 2017			62,624,238	537,000	63,161,238		126,322,477	
3 July 2017	Reduction of share capital		62,624,238	537,000	63,161,238	-62,624,238	63,698,239	1.01
3 July 2017	New issue	93,516,133	156,140,371	537,000	156,677,371	94,311,214	158,009,453	1.01
7 July 2017	New issue	420,224	156,560,595	537,000	157,097,595	423,797	158,433,250	1.01
31 December 2017			**156,560,595**	**537,000**	**157,097,595**		**158,433,250**	
9 July 2018	Reclassification of shares	0	156,649,081	448,514	157,097,595		158,433,250	0.10
21 August 2018	Reduction of share capital	-448,514	156,649,081	0	156,649,081	-452,999	157,980,251	1.01
31 December 2018			**156,649,081**	**0**	**156,649,081**		**157,980,251**	

Other changes in equity

Changes in other items within equity during the financial period are presented in the statement of changes in equity.

The board's proposal for the distribution of profits

The parent company's non-restricted equity on 31 December 2018 was EUR 285,624,417.09 of which the net profit for the year was EUR 18,313.78. The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the year 2018 and that the non-restricted equity of EUR 285,624,417.09 be retained and carried forward.

Note 21 Earnings per share

	2018	2017
Net result attributable to equity holders of the parent	-23.3	-205.3
Weighted average number of ordinary shares, basic	156,603,262	131,236,383
Weighted average number of ordinary shares, diluted	156,795,867	131,305,832
Earnings per share, basic	-0.15	-1.56
Earnings per share, diluted	-0.15	-1.56

The basic earnings per share figure is calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares by the effect of potential diluting shares due to share-based incentive plans in the Group.

The number of shares is adjusted by share issue bonus element in share issue for 2017. Shares issued were registered on 7 July 2017.

Note 22 Borrowings

The financial liability amounts include capital amount and accrued interests.

The carrying amounts of the non-current liabilities

EUR million	31 Dec 2018	31 Dec 2017
Bank borrowings	112.3	116.1
Finance lease liabilities	2.2	3.0
Total non-current debt/financial liabilities	**114.5**	**119.0**

The carrying amounts of the current liabilities

EUR million	31 Dec 2018	31 Dec 2017
Bank borrowings	84.4	43.7
Finance lease liabilities	2.0	1.6
Total current debt	**86.4**	**45.3**
Liabilities to shareholders[1]	35.0	35.0
Total current financial liabilities	**121.4**	**80.3**
Total financial liabilities at amortised cost	**235.8**	**199.4**

1) Refers to selling shareholders at the time of the listing on 6 February 2015.

Note 22, continued

The carrying amounts of the Group's financial liabilities are denominated in following currencies:

EUR million	31 Dec 2018	31 Dec 2017
EUR	126.3	86.2
SEK	67.8	70.6
PLN	31.7	32.1
DKK	9.6	0.7
NOK	0.5	9.7
Total	**235.8**	**199.4**

Finance lease liabilities – minimum lease payments

EUR million	31 Dec 2018	31 Dec 2017
Not later than 1 year	2.0	1.6
1-5 years	2.2	2.7
Later than 5 years	-	0.2
	4.1	**4.6**
Future finance charges	-0.2	-0.2
Present value of minimum lease payments	**4.0**	**4.4**

The present value of finance lease liabilities

EUR million	31 Dec 2018	31 Dec 2017
Not later than 1 year	1.9	1.6
1-5 years	2.1	2.5
Later than 5 years	-	0.2
Total	**4.0**	**4.4**

Non-cash changes of borrowings

			Non-cash changes				
EUR million	1 Jan 2018	Cash flows (net)	Disposals of companies	Foreign exchange movements	Reclassification between items	Other non-cash changes	31 Dec 2018
Long-term borrowings	116.1	-	-	-3.8	-	0.1	112.3
Short-term borrowings	78.7	40.5	-	-	-	0.2	119.4
Finance lease liabilities	4.6	-0.5	-	-	-	-	4.1
Total	**199.4**	**40.0**	**-**	**-3.8**	**-**	**0.2**	**235.8**

			Non-cash changes				
EUR million	1 Jan 2017	Cash flows (net)	Disposals of companies	Foreign exchange movements	Reclassification between items	Other non-cash changes	31 Dec 2017
Long-term borrowings	35.0	-	-	-1.9	83.3	-0.3	116.1
Short-term borrowings	275.4	-114.6	-	0.1	-83.3	1.0	78.7
Acquisition liabilities	3.0	-3.0	-	-	-	-	-
Finance lease liabilities	5.1	-0.4	-0.1	-	-	-	4.6
Total	**318.5**	**-118.0**	**-0.1**	**-1.8**	**-**	**0.7**	**199.4**

Note 23 Retirement benefit obligations

The majority of employees in the Group are included in defined contribution pension plans. Some countries also have defined benefit plans, largest one being in Sweden, where the plan has been closed for any new earnings at year end 2007. Benefits earned since then are covered by premiums paid to Alecta. There are also smaller voluntary pension plans in Finland that are accounted for as defined benefit plans.

Pension liabilities in the balance sheet

EUR million	31 Dec 2018	31 Dec 2017
Defined benefit pension liability	12.4	10.4
Other pension liability	0.4	0.5
Net pension liability	**12.8**	**11.0**

Defined pension liabilities in the balance sheet

EUR million	31 Dec 2018	31 Dec 2017
Present value of funded obligations	90.6	92.9
Fair value of plan assets	-78.2	-82.5
Net liability	**12.4**	**10.4**

The movement in the fair value of plan assets

EUR million	2018	2017
Fair value of assets on 1 Jan	82.5	83.2
Interest on plan assets	1.8	2.0
Remeasurement of plan assets	-2.7	-0.4
Contributions by employer	0.1	0.2
Benefits paid	-0.8	-0.6
Translation differences	-2.6	-1.9
Fair value of assets on 31 Dec	**78.2**	**82.5**

Note 23, continued

The movement in the defined benefit obligations

EUR million	2018	2017
Total obligations on 1 Jan	92.9	90.7
Current service cost	-0.7	-0.6
Past service cost	0.5	-
Interest cost	2.0	2.2
Remeasurement of pension obligation	2.8	6.7
Benefits paid	-4.0	-3.9
Translation differences	-2.9	-2.1
Total obligations on 31 Dec	**90.6**	**92.9**

The amounts recognised in the income statement and other comprehensive income

EUR million	2018	2017
Current service cost	-0.7	-0.6
Past service cost	0.5	-
Net interest cost	0.2	0.2
Sum recognised in the income statement	**0.0**	**-0.5**
Remeasurements recognised in other comprehensive income[1]	5.5	7.1
Total pension charges recognised during the period	**5.5**	**6.6**

1) Actuarial effects from changes in financial adjustments amounted to EUR 2.3 million (6.2) and from experience adjustments amounted to EUR 3.2 million (0.9). There were no actuarial effects from changes in demographic assumptions in 2018 or 2017.

The principal actuarial assumptions

Discount rate, %	2018	2017
Sweden	2.30	2.40
Norway	-	-
Finland	1.50	1.50

Future salary increase expectation, %	2018	2017
Sweden	closed plan	closed plan
Norway	closed plan	closed plan
Finland	2.90	2.90

Inflation rate, %	2018	2017
Sweden	1.90	1.80

The pension plan in Sweden forms 71% of the Groups total obligations and 91% of the net obligations. The plan is sensitive to changes in discount rate and inflation. An increase of 0.5% in discount rate would reduce the obligation in Sweden by EUR 5.6 million. Similar rise in inflation rate would have the opposite effect and increase the obligation by EUR 6.0 million. If the discount rate was decreased by 0.5% the obligation would increase by EUR 6.3 million whilst similar decrease in the inflation rate would reduce the obligation by EUR 5.5 million.

Retirement pension and family pension obligations for salaried employees in Sweden are secured through pension insurance with Alecta. According to a statement issued by the Swedish Financial reporting Board (UFR 10), this constitutes a multi-employer plan. For the 2018 fiscal year, the company did not have access to such information that would enable the company to record this plan as a defined benefit plan. Consequently, the ITP pension plan secured through insurance with Alecta is recorded as a defined contribution plan. The contribution to the plan is determined based on the age, salary and previously earned pension benefits of the plan participants. The company has an insignificant part in the plan.

The collective consolidation ratio reflects the market value of Alecta's assets as a percentage of insurance obligations, calculated in accordance with Alecta's actuarial assumptions, which do not correspond with IAS 19. The collective solvency is normally allowed to vary between 125% and 155%. If the level of collective solvency is less than 125% or exceeds 155%, measures are to be taken in order to create conditions for restoring the level of collective solvency to the normal interval. Alecta's surplus can be distributed to the policyholders and/or the insured if the collective consolidation ratio exceeds 155%. However, Alecta aim to avoid surplus by using reduced contributions. On 31 December 2018, Alecta's surplus corresponded to a collective consolidation ratio of 142% (154%).

The distribution of plan assets in Sweden is as follows:

%	2018	2017
Debt instruments	69	57
Equity instruments	22	34
Cash and cash equivalents	9	9
Total	**100**	**100**

Note 24 Provisions

EUR million	Warranty provision	Project risk provision	Other provisions	Total
1 Jan 2018	**3.6**	**17.1**	**4.0**	**24.7**
Exchange rate differences	-0.1	-0.8	-0.1	-0.9
Additional provisions	1.2	4.5	0.4	6.0
Used provisions during year	-1.3	-4.9	-0.1	-6.3
Unused amounts reversed	-0.4	-4.6	-0.6	-5.6
31 Dec 2018	**2.9**	**11.3**	**3.7**	**17.9**

Analysis of total provisions

EUR million	31 Dec 2018	31 Dec 2017
Non-current	2.6	2.5
Current	15.3	22.1
Total	**17.9**	**24.7**

The provision for warranties will materialise in two to three years' time from the balance sheet date unless they are classified as current in the balance sheet, when they will materialise over the next financial year. Based on past experience, the outcome of these warranties will not give rise to any further significant losses.

Project risk provisions relate mainly to operations in Power Transmission International and to smaller extent to project cost provisions in segment Power for certain High Voltage projects in the Nordics and Services projects in Sweden. Project risk provisions are based on management estimates of the outcome of the project and based on facts and circumstances and other information available at the reporting date, also taking into account any significant events after the reporting period. See also Legal claims and investigations in note 27. The actual future outcome may deviate from the estimate.

Other provisions are recognised mainly for tax controversy cases.

Note 25, continued

Note 25 Trade and other payables

Current

EUR million	31 Dec 2018	31 Dec 2017
Trade payables	123.5	114.6
Other liabilities	11.0	8.8
Derivative financial liabilities	0.5	0.4
Indirect tax liabilities	18.4	14.3
Company income tax liabilities	0.6	0.6
Accrued expenses and prepaid income	87.3	106.2
Total current trade and other payables	**241.4**	**244.9**

Accrued expenses consist of the following items:

EUR million	31 Dec 2018	31 Dec 2017
Accrued wages and salaries	48.6	56.5
Accrued indirect employee costs	22.7	24.0
Other accruals	16.0	25.8
Total	**87.3**	**106.2**

Note 26 Derivative financial instruments

	31 Dec 2018			31 Dec 2017		
EUR million	Nominal values	Fair values Positive	Fair values Negative	Nominal values	Fair values Positive	Fair values Negative
Interest rate derivatives, hedge accounting	22.8	-	0.0	23.5	0.1	-
Foreign exchange derivatives, hedge accounting	-	-	-	1.2	0.0	0.0
Foreign exchange derivatives, not hedge accounting	61.7	0.0	-0.4	81.5	0.2	-0.4
Embedded derivatives	7.8	0.7	-	45.6	2.1	0.0
Commodity derivatives	0.6	-	-0.1	-	-	-
Total	**92.9**	**0.8**	**-0.5**	**151.8**	**2.4**	**-0.4**

For the instruments under hedge accounting, EUR -0.1 million (0.2) was recognised in the hedging reserve during the period. EUR -0.2 million (-0.1) was transferred from hedging reserve to profit or loss during the period. Interest rate derivatives hedge accounted are interest rate swaps by which the floating interest rate of the hedged loan instrument is swapped to fixed rate.

The hedged interest payments relating to the Group's borrowing take place at various dates during years 2018–2020. The hedged highly probable commodity purchases are expected to occur at various dates during the years 2019–2020. More information on the financial risks which are hedged by the derivative financial instruments are presented in note 3.

The commercial contracts agreed in a currency which is not a home currency of the seller or the buyer, are classified as embedded derivatives if they meet the criteria of an embedded derivative according to IFRS 9.

The Group enters into derivatives transactions, other than embedded derivatives, under international Swaps and Derivatives Association (ISDA) master netting agreements. The ISDA agreements do not meet the criteria for offsetting in the balance sheet. The following table sets out the carrying amount of the financial instruments that are subject to above agreements:

	31 Dec 2018			31 Dec 2017		
EUR million	Carrying amounts	Related instruments that are not offset	Net amounts	Carrying amounts	Related instruments that are not offset	Net amounts
Financial assets						
Interest rate swaps, hedge accounting	0.0	-	0.0	0.1	-	0.1
Foreign exchange derivatives, not hedge accounting	0.0	-0.1	-0.1	0.2	0.0	0.2
Financial liabilities						
Foreign exchange derivatives, hedge accounting	-	-	-	0.0	-	0.0
Foreign exchange derivatives, not hedge accounting	-0.5	0.0	-0.5	-0.4	0.0	-0.4
Commodity derivatives	-0.1	-	-0.1	-	-	-

Note 27 Commitments and contingent liabilities

The future minimum lease payments under non-cancellable operating leases

31 Dec 2018 EUR million	Premises	Fleet	Total
Not later than 1 year	1.8	11.1	12.9
1-5 years	17.8	26.7	44.5
Later than 5 years	8.7	-	8.7
Total	**28.2**	**37.8**	**66.1**

Assets financed by operating leases consist of fleet used in business operations. The lease period varies from 3 – 5 years. After the lease period the vehicles are replaced by new ones or in certain cases the lease period may be prolonged. The rent payments are based on the maintenance cost of the assets, the estimated residual value and the agreed interest rate. Future minimum lease payments for fleet in 2017 were EUR 11.6 million (< 1 year) and EUR 26.1 million (1-5 years).

Commitments and collateral pledged

EUR million	31 Dec 2018	31 Dec 2017
Off balance sheet liabilities, unsecured		
Commercial guarantees	125.9	152.2
Commercial guarantees on behalf of joint ventures	9.7	12.1
Commercial guarantees on behalf of third parties	0.5	0.7
Guarantees	**136.1**	**165.0**

Off balance sheet commercial guarantees consist of performance and other contract guarantees issued by the banks on behalf of group companies under the facilities for which the group companies have given a counter guarantee or other security.

During 2017 the Group divested a company in Estonia and in accordance with the agreement certain contract guarantees were retained at Eltel. These guarantees are reported as guarantees given on behalf of third parties.

Legal claims and investigations

In Tanzania, Gati Masero Buiter t/a Botech Project Management ("Botech") has filed a statement of claim against Eltel Tanzania Ltd amounting to EUR 4.7 million and a corresponding claim against Eltel Group Oy and Eltel Networks TE AB in the Tanzanian high Court. The basis of the claim is a subcontractor agreement entered into between Eltel Tanzania and Botech in 2013, under which Botech undertook laying of 132kv, 33kv and fibre cables in ground for the Dar es Salam project. Botech did not fulfill its obligations under the subcontractor agreement and therefore Eltel Tanzania terminated the subcontractor agreement. Botech claims that the termination was unfounded and claims damages.

Eltel's legal advisor's view is that the claim has no substantial merits. Moreover, Eltel has moved for dismissal of the claims filed in Tanzania in whole due to that the subcontractor agreement is subject to dispute resolution in London under the ICC arbitration rules. Finally, Eltel Group Oy and Eltel Networks TE AB are not signatories or active parties in the subcontractor agreement. In September 2017, the Tanzanian high Court issued an order striking out Eltel Group Corporation and Eltel Networks TE AB from the suit.

Eltel AS Norway has an open claim against Bane NOR for the work performed by Eltel according to the Ofotbanen contract. Eltel's claim is mainly based on disputed change orders connected to the delivery of drawings and engineering for which Bane NOR is responsible. The case was brought to court (the district court of Ofoten) in June 2018 and the main hearing is scheduled for June 2019. Eltel´s claim amounts to approximately NOK 156 million (which has been assessed with the support of external legal counsel), of which approximately NOK 45 million is subject to dispute.

FCCA

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 Finnish Market Court dismissed the case as time-barred. 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 currently pending in the Supreme Administrative Court. The timing of the Supreme Administrative Court's ruling on the matter is unknown.

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 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.

Nasdaq

On 28 June 2018, Eltel received a letter from Nasdaq Stockholm where the exchange stated that it intends to request the Nasdaq Stockholm Disciplinary Committee to decide whether Eltel has breached its obligations in relation to the Nasdaq Stockholm Rulebook for Issuers in 2015, 2016 and 2017. Eltel has been invited to comment upon Nasdaq Stockholm's conclusions which primarily relate to alleged deficiencies in (a) Eltel's internal control and accounting, and (b) Eltel's capacity for providing information to the market in relation to applicable disclosure requirements under the Market Abuse Regulation. Eltel has responded and outlined its reasons for rejecting any breach. On 8 January 2019, Nasdaq Stockholm informed on closure of the matter regarding alleged deficiencies in Eltel's internal control and accounting. The matter regarding the alleged deficiencies in Eltel's capacity for providing information to the market in relation to applicable disclosure requirements under the Market Abuse Regulation continues. Any decision taken by the Disciplinary Committee will be made public.

Note 28 Related party information

No significant transactions have taken place between Eltel and related parties during the year.

Transactions with shareholders
Upon completion of the IPO in February 2015, the Selling Shareholders, including 3i, BNP Paribas and management share-holders, have lent EUR 35 million on an interest-free basis to cover potential fines payable by Eltel in connection with the FCCA Case. Should any fines become payable, the parties have agreed to convert an equal portion of the loan to an unconditional capital contribution in equity.

Transactions with key individuals in executive positions
Salaries, remuneration and other benefits are accounted for in note 10. Employee benefit expenses and note 29. Remunera-tion to senior management.

Note 29 Remuneration to senior management

Key management compensation 2018

EUR thousands	Fee	Fixed salary	Annual variable salary	Long-term variable salary	Pension	Other benefits	Total
Ulf Mattsson	183	-	-	-	-	-	183
Ulf Lundahl	48	-	-	-	-	-	48
Gunilla Fransson	50	-	-	-	-	-	50
Håkan Dahlström	48	-	-	-	-	-	48
Markku Moilanen	40	-	-	-	-	-	40
Mikael Moll[1]	38	-	-	-	-	-	38
Hans von Uthmann	48	-	-	-	-	-	48
Joakim Olsson[2]	24	-	-	-	-	-	24
Roland Sundén[3]	8	-	-	-	-	-	8
Mikael Aro[3]	8	-	-	-	-	-	8
Casimir Lindholm[4]	-	206	-	18	38	-	263
Håkan Kirstein[5]	-	1,201	52	-	83	6	1,342
Other members of the senior management (11 individuals)	-	2,130	307	82	465	114	3,099

1) Until September 2018.
2) From May 2018 onwards.
3) From September 2018 onwards.
4) President and CEO from 1 September 2018.
5) President and CEO until 31 August 2018. Fixed salary includes a provision of EUR 0.6 million for compensation to be paid in 2019.

Variable salary and other remuneration refer to amounts that were recorded as expense. The long-term variable salary refers to compensation for LTIP 2015 programme as well as provisions made for the LTIP 2016 and LTIP 2018 programmes.

Key management compensation 2017

EUR thousands	Fee	Fixed salary	Annual variable salary	Long-term variable salary	Pension	Other benefits	Total
Ulf Lundahl	69	-	-	-	-	-	69
Ulf Mattsson[2]	107	-	-	-	-	-	107
Matti Kyytsönen[1]	17	-	-	-	-	-	17
Susanne Lithander[1]	17	-	-	-	-	-	17
Karl Åberg[1]	17	-	-	-	-	-	17
Rada Rodriguez[1]	14	-	-	-	-	-	14
Gunilla Fransson	52	-	-	-	-	-	52
Håkan Dahlström[2]	34	-	-	-	-	-	34
Markku Moilanen[2]	29	-	-	-	-	-	29
Mikael Moll[2]	34	-	-	-	-	-	34
Hans von Uthmann[2]	34	-	-	-	-	-	34
Håkan Kirstein	-	610	470	58	188	13	1,340
Other members of the senior management (14 individuals)[3]	-	1,793	531	33	487	295	3,139

1) Until May 2017.
2) From June 2017 onwards.
3) Including costs for the interim CFO invoiced to the Group.

Variable salary and other remuneration refer to amounts that were recorded as expense. The long-term variable salary refers to provisions made for the LTIP 2015 and LTIP 2016 programmes. A reversal of EUR 83 thousand is included in the amount presented for the senior management that have forfeited their rights to the shares by failing to meet the service condition.

Note 29, continued

Key management	31 Dec 2018	31 Dec 2017
Board of Directors		
Men	10	8
Women	1	1
Other key management		
Men	9	7
Women	1	-
Total	**21**	**16**

Salaries and other remuneration to Board of Directors and senior management excluding pensions and other benefits amounted to EUR 4.5 million (3.9) of which the fixed salaries amounted to EUR 4.0 million (2.8) including fees to Board of Directors of EUR 0.5 million (0.4). Out of this, variable salaries including LTIP 2015 and provisions for LTIP 2016 and LTIP 2018 amounted to EUR 0.5 million (1.1). The defined contribution pension plans for senior management amounted to EUR 0.6 million (0.7) and the amount of other indirect employee costs for senior management amounted to EUR 0.6 million (0.6).

The variable salary component is based on predetermined and measurable targets, which are related to the performance of the company and/or continued employment. The criteria are recommended by the Remuneration Committee and ultimately decided by the Board of Directors.

The pension terms of the CEO and senior executives are market based reflecting national differences. The CEO and senior executives in Finland, Sweden, Denmark, Norway and Germany participate in pension systems based on statutory pension arrangements and national market practices.

The CEO has a notice period of twelve months in case of termination from the company and twelve months in the event of his resignation. The notice period for other senior executives is twelve months in case of termination from the company and six months in the event of their own resignation. The CEO is also entitled to a severance pay equivalent to 12 months base salary. The retirement age of the CEO is 62 years.

The principles for remuneration to senior executives in Eltel are presented in the Corporate Governance report.

Long-term incentive programmes

Eltel's share-based incentive scheme LTIP 2015 vested in July 2018. In accordance with the programme rules Eltel awarded 79,400 matching shares to employees under the programme. Performance targets under the programme were linked to Eltel's earnings per share for the financial year 2017 and resulted in no allotment of performance shares. According to the decision by AGM on 9 May 2018 Eltel converted 88,486 C shares to ordinary A shares. After conversion 79,400 shares was utilised for allotment of matching shares and 9,086 shares were sold in the market to cover social security costs.

The performance targets in Eltel's share-based long-term incentive programme LTIP 2016 were changed by AGM decision on 9 May 2018 as follows:

- The performance target for performance shares under the share savings plan LTIP 2016 shall be amended from Eltel's EPS (Earnings Per Share) for the financial year 2018 to instead be based on Eltel's EBITDA for the financial year 2019.

The Board of Directors was instructed to establish a new performance target level for LTIP 2016 based on the new performance target.

- The new performance target shall be established based on the purpose of providing an effective incentive for the participants in LTIP 2016 to promote increased shareholder value.
- The performance shares shall be allocated after the disclosure of the first quarterly report of 2020.
- The maximum number of potential performance shares for each category of participants in LTIP 2016 shall be recalculated with the multiple 1.68, reflecting the dilution effect in the 2017 rights issue.
- Other terms for LTIP 2016, including the date of allocation of matching shares, shall not be affected by the change of the performance target.

The amendments to LTIP 2016 are expected to be defined during second half of 2019.

The Extraordinary General Meeting in September 2018 approved the implementation of a new share saving programme 2018 (the "LTIP 2018") for key personnel in the Eltel Group. The term of LTIP 2018 is more than three years and the maximum number of participants is eight consisting the CEO, CFO and a maximum of six individuals within the Group Management Team. The EGM approved the proposal to hedge obligations related to the LTIP 2018 via equity swap agreement with a third party.

The aim of the programmes is to increase and strengthen the potential for recruiting, retaining and rewarding key individuals and furthermore to use the LTIP programmes to create individual long-term ownership of Eltel shares among participants.

Participation in the LTIP programmes assume that the participant acquires and locks Eltel ordinary shares into the LTIP programme ("Savings Shares"). For each acquired Savings Share, the participant is entitled, after a certain qualification period and provided continued employment throughout the entire period, to receive allotment of one Eltel matching/retention share (a "Matching Share"). Depending on fulfilment of performance targets linked to Eltel's earnings per share, the participant may also be entitled to receive allotment of additional Eltel shares ("Performance Shares"). Participants do not pay any consideration for the allotted Matching Shares and Performance Shares. Matching Shares and Performance Shares are Eltel ordinary shares.

In September 2017 Eltel's Board of Directors decided to adjust the calculation of the Matching Shares in the company's long-term incentive programmes (LTIP), initiated in 2015 and 2016, in order to compensate for the dilution effect of the EUR 150 million preferential rights issue. In order to maintain the financial position of the participants in the programmes prior to the execution of the rights issue, it was decided to adjust the calculation of the number of Matching Shares. The ratio for receiving Matching Shares, based on the amount of held Savings Shares, was adjusted from 1.0x to 1.68x. The adjustment is made in accordance with the terms and conditions of the incentive programmes and Swedish market practices for re-calculation of financial instruments. All other conditions in the long-term incentive programmes remain unchanged.

LTIP 2016 programme is directed towards three categories of participants:

Category	Savings Shares maximum (% of base salary)	Matching Shares per Savings Share	Performance Shares per Savings Share
A (CEO)	20%	1.68x	4.0x
B (Group Management Team (GMT), maximum 10 persons)	15%	1.68x	3.0x
C (individuals reporting directly to GMT and other key employees[1])	10%	1.68x	2.0x

1) For LTIP 2016 maximum 74 persons.

LTIP 2018 programme is directed towards three categories of participants:

Category	Savings Shares maximum (% of base salary)	Matching Shares per Savings Share	Performance Shares per Savings Share
A (CEO)	25%	1.0x	4.0x
B (CFO)	20%	1.0x	3.0x
C (Group Management Team (GMT[1]))	15%	1.0x	3.0x

1) For LTIP 2018 maximum 6 persons.

Note 29, continued

The maximum number of Savings Shares for each participant is to be 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. The Savings Shares covered by the LTIP programmes were acquired in a structured way in ordinary trading in the stock market during certain periods of time.

On balance sheet date, the LTIP 2016 comprises maximum 198,922 shares in total, corresponding to approximately 0.1% of the total outstanding shares and votes and LTIP 2018 comprises maximum 114,128 shares in total, corresponding to approximately 0.1% of the total outstanding shares and votes in the Company.

Allotment of matching shares and performance shares

Allotment of Matching Shares and Performance Shares within LTIP 2016 will be made during a limited period of time following presentation of the first quarterly statement 2019. The performance targets are Eltel's earnings per share for the financial year 2018.

Earnings per share is defined as earnings (after tax) per share for the Eltel Group on a consolidated basis. Partial fulfilment of the performance targets will result in partial allotment of Performance Shares. Performance under a certain level will result in no allotment.

Allotment of Matching Shares and Performance Shares within LTIP 2018 will be made during a limited period of time following presentation of the first quarterly statement 2022. The performance targets are Eltel's EBITDA for the financial year 2021 and the performance targets shall be established by the Board. Partial fulfilment of the performance targets will result in partial allotment of Performance Shares. Performance under a certain level will result in no allotment.

Costs for the LTIP programmes

In accordance with IFRS 2, the estimated total expenses for the LTIP 2016 programme amounted to EUR 0.6 million (0.9), of which EUR 0.3 million (0.3) for the President and CEO and other senior executives. Total expense for the year was EUR 0.0 million (0.3), of which EUR 0.1 million (0.1) for the President and CEO and other senior executives.

In accordance with IFRS 2, the estimated total expenses for the LTIP 2018 programme amounted to EUR 0.8 million, of which EUR 0.8 million for the President and CEO and other senior executives. Total expense for the year was EUR 0.0 million, of which EUR 0.0 million for the President and CEO and other senior executives.

The employee matching shares and performance shares are expensed as an employee expense over the vesting period and are recognised directly against equity. Expenses for the shares do not affect the company's cash flow. Related social costs are expensed during the vesting period based on the change in value of the Eltel AB's share.

Note 30 Group companies

31 Dec 2018	Domicile	Group holding, %
The InfraNet Company AB	Sweden	100%
Eltel Networks Infranet AB	Sweden	100%
Eltel Networks TE AB	Sweden	100%
Jämtlands Linjebyggare & Republikens El AB	Sweden	100%
Eltel Networks Infranet Privat AB	Sweden	100%
Eltel Group Corporation	Finland	100%
Eltel Networks Oy	Finland	100%
Eltel Networks Pohjoinen Oy	Finland	60%
Eltel Networks AS	Norway	100%
Eltel Networks A/S	Denmark	100%
Eltel Networks Energetyka S.A.	Poland	100%
Eltel Academy Foundation	Poland	100%
Energoprojekt-Kraków S.A.	Poland	100%
Eltel Networks Telecom Sp.z o.o	Poland	100%
Eltel Networks Poland S.A.	Poland	100%
Eltel Networks UK limited	the UK	100%
UAB Eltel Networks	Lithuania	100%
Eltel Infranet GmbH	Germany	100%
Eltel Infranet Production GmbH	Germany	100%
Eltel Comm Philippines Inc	Philippines	100%
Transmast Philippines, Inc.	Philippines	40%[1]
Eltel Networks LLC	Ukraine	99%
Eltel Tanzania Limited	Tanzania	100%
Transmission Eltel Limited	Zambia	100%
Eltel Networks PLC	Ethiopia	100%
Jointly controlled entities		
Fiber og Anlaeg I/S	Denmark	40%
Murphy Eltel JV Limited	The UK	50%

1) Group voting 100%.

During the financial year 2018 Celer Oy in Finland, Eltel Networks B.V. in the Netherlands and Eltel Networks GmbH in Germany were closed. Edi.Son Energietechnik GmbH was merged in Eltel Infranet GmbH in Germany.

Eltel Networks UK Limited is exempt from statutory audit in accordance with the Company's Act Section 479 A.

Note 31 Auditors’ fees

EUR million	2018	2017
Main auditor		
Audit	0.6	0.9
Tax services	0.0	0.2
Other services	0.2	0.7
Total	**0.9**	**1.8**
Other auditing firms		
Audit	0.1	0.1
Tax services	0.1	-
Other services	0.3	0.2
Total	**0.5**	**0.3**
Total	**1.3**	**2.1**

The main auditor of the Group in 2018 has been KPMG and in 2017 PricewaterhouseCoopers.

Tax services mainly consist of work related to tax returns and questions relating to tax compliance. Other services in 2017 mainly relate to services provided in connection with the rights issue.

Note 32 Events after balance sheet date

On 31 January 2019, the total number of shares in Eltel were increased to 157,499,081 and, correspondingly, the total number of votes were increased to 156,734,081. The increase is due to the Board’s resolution, based on the authorisation given to the Board by the Extraordinary General Meeting held in the Company on 17 September 2018, to issue a total of 850,000 redeemable and convertible class C shares (with 1/10 vote per share), which were registered by the Swedish Companies Registration Office during January 2019. The purpose of the issue of class C shares is to use the shares in Eltel’s long-term incentive programme LTIP 2018. In March 2019, Eltel agreed with its banks on certain amendments to its existing financing agreement (with maturity in the end of Q1 2021) that support and facilitate the transformation of Eltel.

In March 2019 Eltel agreed with its banks on certain amendments to its existing financial agreement that matures in Q1 2021. The new amendments include financial covenants and a plan to reduce net debt during the term. The covenant revisions relate to minimum adjusted EBITDA to be applied until the end of the transformation period (Q2 2020) and maximum net debt of EUR 120 million to be applied as from the end of Q4 2019. As from the end of Q2 2020 the original net debt/EBITDA ratio and adjusted EBITDA/net finance charges ratio are applied. In consideration for the facilitated amended loan agreement, Eltel has agreed to secure its debt obligations towards the banks by share and intragroup loan pledges and floating charges over certain assets of the Group, all on customary terms and conditions.

Parent Company financial statements

Income statement

EUR thousands	Note	Jan-Dec 2018	Jan-Dec 2017
Net sales	4	3,790	2,831
Personnel costs	5	-4,385	-4,472
Other operating expenses		-7,499	-7,531
Total operating expenses		**-11,884**	**-12,003**
Operating result		**-8,094**	**-9,172**
Write-down of subsidiary shares	8	–	-200,000
Interest and other financial income		16,284	17,524
Interest and other financial expense		-1,932	-4,490
Financial items, net	7	**14,352**	**13,034**
Result after financial items		**6,259**	**-196,138**
Appropriations			
Group contribution given		-6,150	–
Tax for the year		-91	-352
Net result for the year		**18**	**-196,490**

Statement of comprehensive income

EUR thousands	Note	Jan-Dec 2018	Jan-Dec 2017
Net result for the year		**18**	**-196,490**
Other comprehensive income:			
Items that may be subsequently reclassified to profit and loss			
Cash flow hedges		151	151
Taxes attributable to items that may be subsequently reclassified to profit and loss		-96	-30
Total comprehensive income/loss for the period		**73**	**-196,369**

Balance sheet

EUR thousands	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Non-current assets			
Financial assets			
Shares in group companies	8	68,308	68,308
Deferred tax assets		564	751
Receivables from group companies	9	328,257	324,393
Intangible assets		67	50
Total non-current assets		**397,196**	**393,502**
Current assets			
Receivables from group companies	9	3,790	3,073
Other receivables		580	1,146
Cash pool receivables	9	135,545	95,042
Other financial assets	9	35,000	35,000
Cash and cash equivalents		2	12
Total current assets		**174,917**	**134,273**
TOTAL ASSETS		**572,113**	**527,775**
EQUITY AND LIABILITIES			
Restricted equity			
Share capital		157,980	158,433
Statutory reserve		453	–
Total restricted equity		**158,433**	**158,433**
Non-restricted equity			
Retained earnings		285,606	482,055
Net result for the year		18	-196,490
Total non-restricted equity		**285,624**	**285,565**
Total equity	10	**444,058**	**443,998**
LIABILITIES			
Current liabilities			
Debt	11	83,302	42,949
Liabilities to shareholders	11	35,000	35,000
Liabilities to group companies	12	7,833	2,066
Trade and other payables	13	1,920	3,765
Total current liabilities		**128,056**	**83,780**
Total liabilities		**128,056**	**83,780**
TOTAL EQUITY AND LIABILITIES		**572,113**	**527,775**

Changes in equity

EUR thousands	Share capital	Statutory reserve	Non-restricted equity	Total equity
1 Jan 2018	**158,433**	**–**	**285,565**	**443,998**
Net profit for the period	–	–	18	18
Other comprehensive income	–	–	55	55
Total comprehensive income/loss	–	–	73	73
Transactions with owners:				
Equity-settled share-based payment	–	–	-46	-46
Proceeds from shares issued	–	–	32	32
Share capital reduction and reclassification	-453	453	–	–
Declared dividend to shareholders	–	–	–	–
Total transactions with owners	-453	453	-14	-14
31 Dec 2018	**157,980**	**453**	**285,624**	**444,058**
1 Jan 2017	**126,322**	**–**	**363,348**	**489,670**
Net profit for the period	–	–	-196,490	-196,490
Other comprehensive income	–	–	121	121
Total comprehensive income/loss	–	–	-196,369	-196,369
Transactions with owners:				
Equity-settled share-based payment	–	–	438	438
Proceeds from shares issued	32,111	–	121,807	153,918
New share issue costs, net of tax	–	–	-3,659	-3,659
Declared dividend to shareholders	–	–	–	–
Total transactions with owners	32,111	–	118,586	150,697
31 Dec 2017	**158,433**	**–**	**285,565**	**443,998**

Cash flow statement

EUR thousands	Jan-Dec 2018	Jan-Dec 2017
Cash flow from operating activities		
Profit/loss before taxes	109	-196,138
Adjustments for:		
Depreciation	14	1
Equity-settled share-based payment	-46	438
Group contribution given	6,150	–
Financial items, net	-14,352	-13,034
Changes in working capital	-2,434	474
Cash flow from operating activities before financial items and taxes	**-10,560**	**-208,259**
Financial income received	6,689	13,015
Financial expenses paid	-1,854	-3,529
Cash flow from operating activities	**-5,723**	**-198,773**
Cash flow from investing activities		
Capital contribution to subsidiaries	–	-26,700
Write-down of subsidiary shares[1]	–	200,000
Payments received from loans from group companies	5,714	12,319
Purchases of property, plant and equipment (PPE)	-31	-51
Cash flow from investing activities	**5,683**	**185,568**
Cash flow from financing activities		
Proceeds from issuance of share capital	33	149,226
Proceeds from short-term borrowings	58,000	34,000
Payments of short-term borrowings	-17,500	-122,000
Payments of short-term borrowings from group companies	-40,503	-21,073
Payments of group contributions	–	-26,971
Cash flow from financing activities	**30**	**13,182**
Decrease/increase in cash and cash equivalents	-10	-23
Cash and cash equivalents at beginning of year	12	35
Cash and cash equivalents at end of year	**2**	**12**

1) Write-down of subsidiary shares has no cash flow effect.

Notes to the Parent Company financial statements

Note 1 General information

Eltel AB's role is to own and govern the shares related to 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. All transactions with group companies are performed on an arm's length basis. Additional general information about the Parent Company can be found in note 1. Corporate information in the consolidated financial statements.

Note 2 Accounting principles

Basis for the preparation of the reports

The annual report for the Parent Company, Eltel AB, has been prepared in accordance with the Swedish Annual Accounts Act and RFR 2 Accounting for Legal Entities. RFR 2 states that the Parent Company in its annual report shall apply International Financial Reporting Standards (IFRS) as adopted by the EU, to the extent possible within the framework of the Swedish Annual Accounts Act and the law of safeguarding of pension commitments, and also by taking into account the relationship between reporting and taxation

Accordingly, the Parent Company applies those principles presented in note 2. Accounting policies for the consolidated accounts in the consolidated financial statements with the exception of that which is mentioned below. The principles have been applied consistently for all years presented, unless otherwise stated.

The Parent company has reported group contributions and related taxes in the income statement in accordance with the amendment in RFR.

All figures in the Parent Company financial statements are presented in thousands of Euro unless otherwise stated.

Shares and participations in subsidiaries

Shares and participations in subsidiaries are reported at acquisition cost less deduction for possible write-downs. Dividends received are reported as revenues to the extent they originate from earnings earned after the acquisition. Dividend amounts exceeding these returns are considered as repayments of the investment and reduce the carrying value of the participations.

When there is an indication that shares and participations in subsidiaries have decreased in value, an estimate is made of the recoverable amount. If this value is lower than the reported value, a write-down is made. Write-downs/impairment losses are reported as a separate line in the income statement.

Financial instruments

The Company applies fair value in accordance with the Swedish Annual Accounts Act 4: 14a-d and hence the description of the accounting principles in Financial instruments of the consolidated financial statements also applies to the Parent Company with the exception of financial guarantees. The Parent Company applies the rule permitted by the Swedish Financial Reporting Board to the reporting of financial guarantee agreements issued for the benefit of subsidiaries, associated companies and joint ventures. The Parent Company recognises financial guarantees as a provision in the balance sheet when the company has an obligation for which payment is probably necessary to settle the commitment.

The Company's financial instruments are comprised of long-term receivables from Group companies, other financial assets, current receivables from Group companies and also cash and cash equivalents. These make up the category financial assets at amortised cost. Financial instruments are also comprised of long-term borrowing and liabilities to shareholders, short-term liabilities to group companies and accounts payable – trade and other liabilities. These comprise the category other financial liabilities.

Group contributions

The Company has elected to apply the alternative rule in accordance with RFR2, which means that all group contributions are recognised in appropriations.

Note 3 Financial risk management

The Group applies common risk management for all units. Hence, the description in note 3. Financial risk management in the consolidated financial statements applies to the Parent Company as well in all material aspects.

Note 4 Net sales

	Jan–Dec 2018	Jan–Dec 2017
Remunerations from group companies for group-wide administration	3,790	2,831
Total	**3,790**	**2,831**

Note 5 Employee benefit expenses

	Jan–Dec 2018	Jan–Dec 2017
Salaries and other remunerations	2,799	3,078
Social security contributions:		
Pension costs	545	703
Other social security contributions	1,041	691
Total	**4,385**	**4,472**

Salaries and other remunerations to senior executives were EUR 2.3 million (1.5), pension costs EUR 0.4 million (0.4) and other social security contributions EUR 0.4 million (0.3). In addition, salaries and other remunerations including social costs to the President and CEO paid by other group companies were EUR 0.3 million. Group senior management participates in the long-term share-based incentive programmes LTIP 2016 and LTIP 2018. The compensation for the LTIP 2015 programme for the year was EUR 0 thousand, of which EUR 0 thousand for the President and CEO and other senior executives. Total expense for the LTIP 2016 programme for the year was EUR -61 thousand (60), of which EUR -64 thousand (61) for the President and CEO and other senior executives. Total expense for the LTIP 2018 programme for the year was EUR 31 thousand, of which EUR 31 thousand for the President and CEO and other senior executives. More information of Group senior management and the Board of Directors is presented in note 10. Employee benefit expenses and 28. Related party information in the consolidated financial statements.

In Eltel AB the number of individuals in the Board of Directors was eleven and the number of other senior management employed by the company was five at the year-end 2018.

	2018	2017
Average number of employees	10	6
Of whom men	59%	83%

Note 6 Auditors' fees

	Jan–Dec 2018	Jan–Dec 2017
Main auditor		
Audit assignments	93	390
Tax assignments	13	107
Other assignments	71	558
Other auditing firms		
Other assignments	186	-
Tax assignments	-	19
The company in total	**363**	**1,074**

Main auditor in 2018 has been KPMG and in 2017 PricewaterhouseCoopers.

Note 7 Result from financial items

	Jan–Dec 2018	Jan–Dec 2017
Interest and other financial income		
Interest income, loans from group companies	15,881	17,190
Other financial income, group companies	403	334
Total	**16,284**	**17,524**
Interest and other financial expenses		
Interest expenses	-1,670	-3,827
Other financial expenses	-262	-663
Total	**-1,932**	**-4,490**
Whereof group companies	-	-584
Total financial items	**14,352**	**13,034**

Note 8 Shares in group companies

	2018	2017
Acquisition value		
Opening balance 1 Jan	268,308	241,608
Investments	-	26,700
Closing balance 31 Dec	**268,308**	**268,308**
Accumulated impairment losses		
Opening balance 1 Jan	-200,000	-
Impairment losses	-	-200,000
Closing balance 31 Dec	**-200,000**	**-200,000**
Carrying amount on the balance sheet	**68,308**	**68,308**

The value of subsidiary shares has been written down in the second quarter of 2017 in line with the revisited strategy and targets.

Shares are held in the following subsidiaries:

The InfraNet Company AB, 556728-6645	
Share of equity, %	100
Share of voting power, %	100
Number of shares	11,000
Book value	268,308

Note 9 Receivables from related parties

Non-current receivables	31 Dec 2018	31 Dec 2017
Loans from group companies	328,257	324,393
Total	**328,257**	**324,393**

Interest resulting from loans to group companies is capitalised annually. Capitalised interest bears no interest.

Current receivables	31 Dec 2018	31 Dec 2017
Cash pool receivable	135,545	95,042
Other financial assets, received from shareholders[1]	35,000	35,000
Accounts receivable	3,790	3,073
Total	**174,335**	**133,115**

1) Refers to selling shareholders at the time of the listing on 6 February 2015.

Note 10 Equity

On 9 July 2018, Eltel converted 88,486 C shares to ordinary A shares in accordance with the decision by the AGM on 9 May 2018. After the conversion the share capital was reduced with EUR 452,999.14 by redemption of all remaining 448,514 C-shares at nominal value in accordance with section 5 of the articles of association. After the redemption, the total number of ordinary shares amounts to 156,649,081.

A specification of changes in equity is found under the section "Changes in equity", which is presented directly after the balance sheet.

Shareholders with more than 10% of the votes at 31 December 2018 are Wipunen Varainhallinta Oy, Mariatorp Oy and Riikantorppa Oy with 20.4% and Solero Luxco S.á.r.l. with 16.4% of ordinary shares. Wipunen Varainhallinta Oy, Mariatorp Oy and Riikantorppa Oy 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. More information about Eltel's shareholders is found in "The Eltel Share" on pages 36–37.

The Board's proposal for the distribution of profits

The Parent Company's non-restricted equity on 31 December 2018 was EUR 285,624,417.09 of which the net profit for the year was EUR 18,313.78. The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the year 2018 and that the non-restricted equity of EUR 285,624,417.09 be retained and carried forward.

Note 11 Liabilities

Current liabilities	31 Dec 2018	31 Dec 2017
Bank borrowings	83,302	42,949
Liabilities to shareholders[1]	35,000	35,000
Total	**118,302**	**77,949**

1) Refers to selling shareholders at the time of the listing on 6 February 2015.

Note 12 Liabilities to group companies

	31 Dec 2018	31 Dec 2017
Accounts payable	1,683	2,066
Group contribution liabilities	6,150	-
Total	**7,833**	**2,066**

Note 13 Trade and other payables

	31 Dec 2018	31 Dec 2017
Trade payables	264	817
Accrued employee related expenses	465	1,896
Other short-term liabilities	982	660
Other accrued expenses	210	392
Total	**1,920**	**3,765**

Note 14 Contingent liabilities

	31 Dec 2018	31 Dec 2017
Commercial guarantees on behalf of subsidiaries	177,222	203,007
Commercial guarantees on behalf of joint ventures	9,689	12,119

There are no pledged assets.

The Company's financial statement will be submitted for approval to the Annual General Meeting on 7 May 2019

The Board of Directors certifies that the annual financial report has been prepared in accordance with generally accepted accounting principles and that the consolidated accounts have been prepared in accordance with the international set of accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards; and give a true and fair view of the position and profit or loss of the Company and the Group; and that the management report for the Company and for the Group gives a fair review of the development and performance of the business, position and profit or loss of the Company and the Group; and describes the principal risks and uncertainties that the Company and the companies in the Group face.

Stockholm 2 April 2019

Ulf Mattsson
Chairman of the Board of Directors

Mikael Aro
Board member

Håkan Dahlström
Board member

Gunilla Fransson
Board member

Ulf Lundahl
Board member

Markku Moilanen
Board member

Joakim Olsson
Board member

Roland Sundén
Board member

Hans von Uthmann
Board member

Casimir Lindholm
President and CEO

Jonny Andersson
Board member

Björn Ekblom
Board member

Our audit report was submitted on 4 April 2019
KPMG AB

Mats Kåvik
Authorized Public Accountant

Auditor's report

To the general meeting of the shareholders of Eltel AB, corp. id 556728-6652

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Eltel AB for the year 2018, except for the corporate governance statement on pages 45-59. The annual accounts and consolidated accounts of the company are included on pages 38-106 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 45-59. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the statement of comprehensive income and balance sheet for the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Other Matter

The audit of the annual accounts for year 2017 was performed by another auditor who submitted an auditor´s report dated 3 April 2018, with unmodified opinions in the Report on the annual accounts and consolidated accounts.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Revenue and profit calculation of projects

See disclosure 4 and accounting principles on page 69 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

From 2018, the Company has applied IFRS 15 Revenues from Contracts with Customers. Performance obligations relevant to projects are normally being achieved over time. This means that revenues are being recognized over time when the progress is being measured against a complete achievement of such performance obligation.

The percentage of completion depends on actual costs in relation to the total projected costs for each project. The latter may change during the life cycle of the projects which in turn may have a significant impact on reported revenue and earnings. Unforeseeable costs may also have to be included in the assessments to take project risks or disputed claims into account. These items are regularly assessed by the Group and are adjusted if necessary. Expected losses are recognized as expenses as soon as they become known. Revenues from alterations and additional work are recognised when the Group expects the amounts will be obtained. Based on the above, there is a significant measure of judgement involved which impacts the accounting of revenue and earnings.

Response in the audit

We have obtained information about and evaluated management's pro-cess for reviewing projects, including their procedures for identifying loss-making projects and/or high risk projects.

We have further tested to ensure that controls are effective throughout the year for expenses attributable to the construction projects such as payroll expenses, expenses for subcontractors and purchasing costs. We have further performed additional sample testing of workorders where we have agreed cost allocated to the projects to supporting evidence and assessed whether the cost and revenue recognition is true and fair.

We have also assessed whether risks and opportunities in projects were accurately reflected in project forecasts.

Valuation of goodwill (group) and shares in group companies (parent company)

See disclosure 14 (group) and disclosure 8 (parent company) and accounting principles on page 69 (group) and on page 103 (parent company) in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The carrying value of goodwill for the group as at 31 December 2018 amounted to 282 MEUR, which is approximately 34% of total assets. Goodwill is required to be tested annually for impairment, which comprise both complexity and is dependent on judgements.

The impairment test shall according to IFRS be performed in accordance with a certain method where management needs to make judgements of future, internal as well as external, conditions and plans. Example of such judgements is forecasts of future cash flows which, among other things, require assumptions about future development and market conditions.

Another important assumption is what discount rate should be used to reflect market-based assessments of the time value of money and the particular risks that the business faces.

The carrying value of shares in group companies in the parent company as at 31 December 2018 amounted to 68 MEUR. If the carrying amount of the shares exceeds the consolidated value of the respective group company, the same type of testing is carried out, with the same technology and input values, as for goodwill in the group.

Response in the audit

We have assessed whether the goodwill impairment test carried out by the client was performed in accordance with the prescribed accounting method. We have further considered the reasonableness of the assump-tions in the cashflow forecasts as well as the discount rate used through evaluation of the group's internal written documentation and forecasts.

An important part of our work has also been to review the group's sensi-tivity analysis of their own assessment to evaluate how reasonable changes in the assumptions may impact the valuation.

Furthermore, we have considered the completeness of the disclosures in the annual report and evaluated whether they are in agreement with the assumptions made in the group's impairment tests.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-37 and 110-111. The Board of Directors and the Managing Director] are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Eltel AB for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 45-59 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Eltel AB by the general meeting of the shareholders on the 9 May 2018. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2018.

Stockholm 4 April 2019

KPMG AB

Mats Kåvik
Authorized Public Accountant

Definitions and key ratios

Eltel applies ESMA's (European Securities and Markets Authority) 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 below 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.

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)

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
Operative cash flow	EBITA + depreciation + change in net working capital - net purchase of PPE (capex)
Cash conversion, %[1]	Operative cash flow x 100 / EBITA
Equity ratio, %	Total equity x 100 / EBITA
Net debt	Interest-bearing debt (excluding shareholder loans) – cash and cash equivalents
Leverage ratio[1]	Net debt / EBITDA
Operative capital employed	Net working capital + Intangible assets excluding goodwill and acquisition-related allocations + Property, plant and equipment
Return on operative capital employed, %[1]	EBIT x 100 / Operative capital employed (average over the reporting period)
Return on Equity (ROE), %[1]	Net result x 100 / Total equity (average over the reporting period)
Net working capital	Net of inventories, trade and other receivables, provisions, advances received and trade and other payables, excluding items in these balance sheet items that are not considered to form part of operative working capital: derivative valuations, contingent consideration from acquisitions and income tax liabilities.
Committed order backlog	The total value of committed orders received but not yet recognised as sales

1) Calculated on rolling 12 months basis.

Financial calendar 2019–2020

Annual General Meeting 2019	7 May 2019
Interim report January–March 2019	26 April 2019
Interim report January–June 2019	24 July 2019
Interim report January–September 2019	7 November 2019
Full-year report January–December 2019	February 2020

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