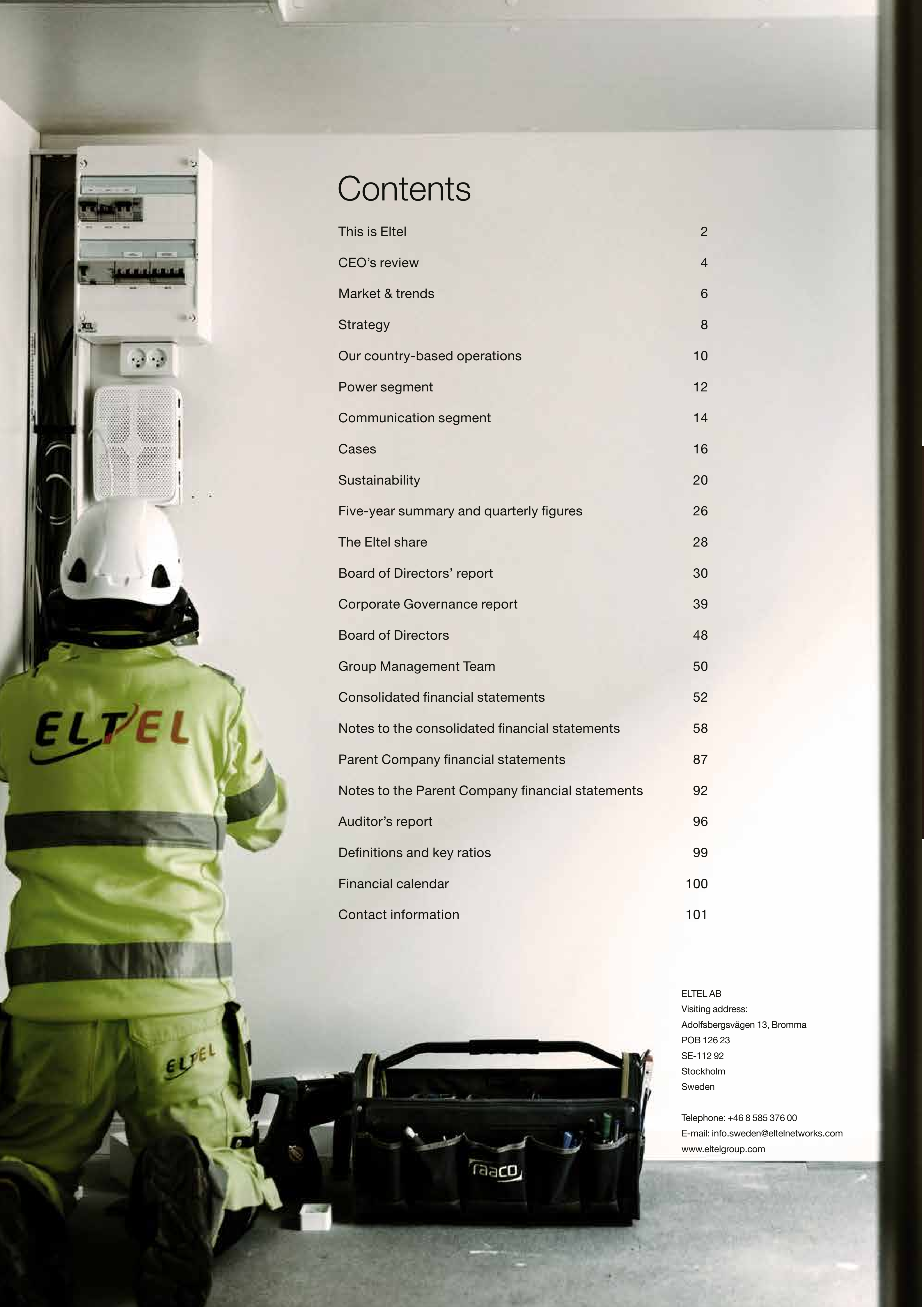
ANNUAL REPORT 2019

ELTEL



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This is Eltel

Eltel is a leading Nordic field service provider 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.

6,678
Number of employees

1,087.6
Net sales, EUR million

-11.2
EBIT, EUR million

This is Eltel

Eltel provides field 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 to five years. This enables us to create and maintain 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 Operational Excellence strategy on page 8.

Eltel's activities
In 2019, Eltel continued focusing on its core activities and markets. Over the year, Eltel took the next step on its transformation journey and continued to transform the company from a diversified project and service company into a service company focused on its markets in the Nordics. Consequently, the Polish Communication business was divested in 2019. During Q1 2020, Eltel signed agreements to divest both the German Communication-business as well as the Swedish business area Aviation & Security.

Segment	Services	Markets	Customers	Net sales 2019
Power The only regional stakeholder active in all the Nordic countries. *Read more about our Power segment on page 12.*	• Maintenance in electricity distribution and transmission • Upgrades in electricity distribution • Projects in High Voltage • Smart Grids	• The Nordics • Poland • Germany	• Network operators • Local industrial customers and public sector	35%
Communication The market leader in the Nordic region. *Read more about our Communication segment on page 14.*	• Maintenance of mobile and fixed networks • Upgrades of mobile and fixed networks • Aviation & Security	• The Nordics • Lithuania	• Telecom operators • Local industrial customers and the public sector • Utility companies	64%
Other Includes non-core business activities that are being divested or ramped down.	• Projects in Power Transmission outside Europe	• Outside Europe	• Network operators	1%

Organisation overview

In 2019, Eltel completed its reorganisation around its country-based operations with a leaner management structure on both a Group level and on a Country Unit level. Eltel's Country Units have a great deal of autonomy with their own management teams, as well as profit and loss responsibility. The units are supported by cost-efficient, Group-wide support functions – read more about the Country Units on page 10.

Eltel 2019 highlights

- Improved quality of deliveries and services towards our customers
- Finalised the country-based organisation with a leaner management structure
- Increased focus on the Nordic markets
- Divested Polish Communication business
- Signed letter of intent to divest the Swedish business area Aviation & Security
- Improved cash flow and reduced net debt

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.

On our way

During a challenging year, our people have managed to improve the quality of our services, increase customer satisfaction and won or retained several major contracts.

Everyone has worked hard and their efforts have paid off. In 2019, we improved our cash flow and reduced our net debt compared to last year. There is still work to do, but we are moving in the right direction and have improved our margins in large parts of the company.

Our journey

We are continuing to transform the company from a diversified project and service company that operates in several parts of the world into a service company focused on our markets in the Nordics. We will also improve our operational performance and our quality, as well as strengthen our financial position.

In 2019, we entered the Operational Excellence phase of our transformational journey. In the coming years, we will continue to focus on increasing our Nordic market share with key customers and improving our productivity, gross margin and profitability.

Focus on profitable markets

Part of our strategic evaluation was to focus on our Nordic markets, in which Eltel has a healthy business and a market-leading position. Consequently, the Polish Communication business was divested in 2019 and in early 2020 we signed agreements to divest the German Communication business and our Swedish business area Aviation & Security.

In the meantime, the German and Polish Power businesses will remain while we work on improving profitability. We will also retain our small service unit in Lithuania, which will continue to supply the Nordic units with a highly-skilled workforce.

Operational Excellence

As a provider of technical services, Operational Excellence is key to everything we do. This is how we deliver on our customer promises and also how we improve our profitability.

We have completed our organisational changes that stem from business unit organisation to a country-based organisation with a leaner management structure at both Group level and Country Unit level.

Over the year, we have worked hard to ensure the quality of deliveries to our customers. We increased first-time resolution to our customers and improved our KPIs for our largest customers.

We developed new systems, processes and implemented more digitalisation in production planning in order to enhance efficiency. This is an area in which we are investing more in going forward.

We invested in training and development, in everything from team building and leading projects to financial training. We also strengthened our control of sourcing and subcontractors.

We will continue to improve our production planning and project management. These are two of the most important areas for ensuring that Eltel strengthens its position as the market leader in the Nordics with regards to quality, productivity and its financial position.

Financially stronger

Divesting parts of the business that are not core will help us become financially stronger. Our focus has been on reducing the company's net debt. Going forward, we will continue to strengthen our balance sheet and take measures to further improve the cash flow.

Our long-term goal is to return to a 5% EBITA margin with a stable cash flow and a healthy balance sheet. To achieve this, we need to ensure that our daily operations are best in class.

Good business, doing good

This year, all employees completed training in our Code of Conduct. This is to ensure that we act ethically and are a responsible corporate citizen. We want to make a positive contribution to society. When we review our operations, we have found that this is very much associated with our business.

For example, if we send the right technician on a job, with the right skills and the right equipment, the job is completed as planned. This way we deliver higher quality and improve our customer satisfaction. We also reduce costs by being efficient and not travelling further than necessary which, in turn, results in a smaller carbon footprint.

In 30 years, the world must eliminate its carbon footprint and reduce its volume of waste. Eltel operates in a market that can help achieve this goal. Electrification and digitalisation will be at the heart of the transformation journey to a carbon-neutral society. This is both an opportunity and a responsibility. We will continue to develop innovative solutions and support our customers in their efforts to drive a sustainable future.

I would like to take the opportunity to highlight the importance of the everyday knowledge, skills 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

As a provider of technical services, Operational Excellence is key to everything we do.

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.

The demand to install, upgrade, maintain and secure power and communication networks is driven by megatrends such as digitalisation, electrification 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 also enables more sustainable and low-carbon societies 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 building communication networks that reduce the need to travel.

Our markets

Market outlook Power segment

The market in general is stable and demand is driven by the need for increased availability and capacity or by regulatory requirements. In recent years a few major customers have reduced their investment levels.

Over the last couple of years, the economy in Finland has improved, resulting in more infrastructure investments, making the sub-contractor market more competitive. In Sweden, Norway, Germany and Poland the situation has been more stable.

The electrification of society has also created a demand from major companies such as Google and Tesla, which are investing in transmission and charging stations. There has also been a surge of investments in wind power and increased investments in weatherproofing distribution systems, such as replacing old overhead lines.

The competition is tough and the price pressure is considerable. Despite this, Eltel did not lose any major contracts in 2019. Eltel holds a market-leading position in several of its markets and is experienced in bringing together the teams that are needed to manage bigger projects.

Market outlook Communication segment

The Communication market is driven by the ongoing transformation of society towards digitalisation and electrification. Increased mobile data usage, the Internet of Things and cloud services are increasing the demand for streaming services. Besides upgrading communication networks, installing fibre optics and maintaining existing networks, we see opportunities in larger charging stations for electric vehicles and solar power installations.

Competition is tough and it is possible that smaller locally-based companies will enter the market in the years to come. International software and material suppliers are looking for turnkey solutions, particularly within 5G roll-out contracts. Eltel is well positioned in this market and we are constantly working to further develop and improve our offering.

In the Nordics, the replacement of old copper networks with new fibre has driven the market in recent years. This is expected to continue for three to five years. Sweden has a high level of fibre network penetration. In the near future, the growth in fibre will come from Denmark, Norway and Finland in which major investment plans have recently been announced.

Norway has decided to roll out the nationwide installation of fifth-generation mobile networks (5G). Eltel started the first pilot project this year. All Nordic countries will see major investments in 5G in the coming years two to three years.

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
Increasing customer demands and technological developments	• 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.
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 stringent requirements. • Installation of smart meters.
Aging power and communication infrastructure	• Old and inefficient power and communication networks are approaching the end of their technical life cycle.	• Major investments are being made in order to upgrade aging power and communication networks with next generation infrastructure, load management capabilities and smart grids.
Growing use of renewable energy and energy-saving solutions	• Renewable energy sources (RES) require load management capabilities. • Power networks must be capable of managing 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 lighting and electric vehicle charging infrastructure.

Our strategy

Operational Excellence

Our goals

Eltel's strategy – Operational Excellence – is based on three goals that are mutually supportive and contribute to our success:

- Satisfied customers
- Rewarded owners
- Engaged employees

In 2019, Eltel implemented a new strategy – Operational Excellence, which focuses on delivering on our customer promises, streamlining our operations and improving productivity. The strategy recognises that as a provider of field services for power and communication networks, operational excellence must be key to everything we do.

Focus on our Nordic markets

Eltel's strategy is to focus on the Nordic markets in which it has a market-leading position. A Nordic focus with lower risk and fewer capital-intensive projects will enable us to continue to develop, grow and invest in the company to ensure long-term sustainable value creation for both the company and its shareholders. Over the year, the Polish Communication business was divested, and in Q1 2020 we signed agreements to divest the German Communication business and the Swedish business area Aviation & Security.

Country-based organisation

In 2019, Eltel completed the organisational changes, changing from a Business Unit organisation to a Country Unit (CU) based organisation. Today, Eltel also has a flatter and leaner management structure that is closer to our operations, on both a CU level and a Group level. Each 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 one small but strong Communication Business Unit in Lithuania.

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 market trends that influence the infranet sector – read more in the 'Trends and market overview' chapter on page 6.

Our four Strategic Priorities are:

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

Our transformation journey

Eltel is on a three-phase transformation journey to ensure sustainable and profitable growth.

The first phase – House in order – was carried out from 2017–2018 and involved divesting the majority of non-core businesses in accordance with the strategic direction set and announced by Eltel in spring 2017.

In 2019, Eltel entered the second phase of its journey – Operational Excellence. This is where Eltel prioritises core operational improvements, restructures non-performing businesses and strengthens the financial situation of the company.

The third phase – Investing in sustainable profitable growth – will continue Eltel's long-term focus on Operational Excellence, as well as innovation and new market development.

Eltel divestments and announcements in 2019

- Polish Communication operations were divested to Vinci Energies (August 2019)
- Signed letter of intent to divest the Aviation & Security business to LFV, Air Navigation Services of Sweden (June 2019)

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

Operational Excellence

- Prioritise core operational improvements
- Restructure non-performing businesses
- Strengthen the financial situation of the company

>2022

Investing in sustainable profitable growth

- Continued focus on Operational Excellence
- Pursue structural M&As in the Nordics when the 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	1.5–2.5 x 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.

Eltel's strategy is closely linked to its long-term targets

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).

Our country-based operations

Sweden
Net sales: EUR 294.2 million
Number of employees: 1,822
Services: Power and Communication

Finland
Net sales: EUR 270.4 million
Number of employees: 1,431
Services: Power and Communication

Lithuania
Net sales: EUR 2.8 million
Number of employees: 247
Services: Communication

Norway
Net sales: EUR 234.1 million
Number of employees: 1,062
Services: Mainly Communication

Denmark
Net sales: EUR 108.9 million
Number of employees: 632
Services: Mainly Communication

Germany
Net sales: EUR 76.6 million
Number of employees: 644
Services: Power

Poland
Net sales: EUR 88.1 million
Number of employees: 839
Services: Power

Power segment

Our lives would not be possible without electricity. We rely on a stable power transmission and distribution systems to transmit the electricity. It is not an exaggeration to call them the lifelines of modern society. Eltel's Power segment builds, maintains and upgrades these lifelines.

Eltel's Power segment provides maintenance of power grids, upgrades and project work to national transmission system operators and distribution network owners. The Power segment can be roughly divided into three areas: maintenance, projects and turnkey projects, in which Eltel is responsible for design, planning and construction of the project.

Eltel operates in the Power segment in the Nordics, Germany and Poland. In line with strategy, Eltel will continue to focus on the Nordic markets, in which it has a market-leading position. Despite this, Eltel will retain its Polish and German businesses for the time being and continue to work on improving profitability.

Focus on profitability

The competition in the market is tough. There is considerable price pressure and contracts have become more complex and comprehensive. In order to restore profitability, Eltel has been more selective in bidding for projects and has strengthened its tender approval process.

In line with our Operational Excellence strategy, we have also put a lot of effort into training and developing our people in project planning, cost control, resource planning and project governance. This is also a way of promoting stronger customer focus and delivering on our customer promises. In 2019, Eltel successfully renegotiated a number of large contracts with power companies.

Eltel successfully renegotiated a number of large contracts with power companies.

Eltel Power in 2019

Net sales decreased by EUR 61.1 million to EUR 377.7 million (438.8), representing a decrease of 13.9%. Organic net sales, adjusted for currency effects, decreased 13.4%. Net sales have decreased in all markets but mainly due to 40% lower volumes in Smart Grids. Other contributing factors include reduced customer investment levels, phasing and ramp down of projects in High Voltage as well as loss of contracts with subsequent lower activity, ramp down and write-downs in Sweden. In Finland, an increase in wind power net sales during the second half of the year compensated for reduced revenue during the first half.

Operative EBITA decreased to EUR -17.5 million (-0.5). The operative EBITA margin was -4.6% (-0.1). Improved performance in Finland and Denmark was offset by weaker performance and write-downs in High Voltage projects. Following the strategic evaluation, we updated the strategy in High Voltage Poland to decrease future contractual and operational risk and to reduce the exposure towards larger projects. This also includes a change in management. In line with expectations, the lower volumes in Smart Grids negatively impacted EBITA with EUR 7.4 million. Ramp down of Service operations, provisions, and restructuring costs in Sweden also contributed to the result.

Financial performance

	2019	2018
Net sales (EUR million)	377.7	438.8
Operative EBITA (EUR million)	-17.5	-0.5
Operative EBITA margin (%)	-4.6	-0.1
Number of employees	2,111	2,346

Major contracts 2019

- Agreement with investor Octopus and energy developer VALOREM to build the infrastructure for two new wind farms in Western Finland worth about EUR 13 million (May 2019)
- Agreement in Finland with Fingrid to build a 400 kV transmission line worth about EUR 11 million (September 2019)
- Two-year frame agreement in Finland with Elenia for power distribution worth about EUR 13 million (October 2019)
- Agreement in Finland with Fingrid to build transmission line worth about EUR 17.5 million (November 2019).

Communication segment

Eltel's Communication segment provides installation and maintenance services to telecom operators and other communication network owners. It is the largest of Eltel's two segments and represents around two thirds of Group revenue.

Eltel's Communication segment provides a broad range of services such as designing and planning to building, installing, upgrading, operating and service of mobile and fixed networks. In segment Communication, Eltel was active in the Nordics, Lithuania, Poland and Germany during 2019. Following the strategic review, Eltel will focus on the Nordic markets in which it is a market leader.

Eltel's main customers are large telecom operators and communication network owners, such as utility companies, other private owners and municipalities, and its business generally comprises long-term relationships with a steady inflow of orders generated by frame agreements. The Communication market offers slightly higher margins than the Power market, although competition is tough.

Focus on Operational Excellence

Our focus in 2019 has been on developing or adjusting solutions for increased efficiency throughout the entire value chain. From planning to final documentation, we must ensure the most efficient day-to-day operations. Our technicians are those whom end customers meet and it is important that we have the best tools in order to guarantee a good customer experience, while also streamlining the planning of daily tasks for our technicians.

To deliver on our customer promise, we must be as efficient as possible and deliver a high-quality service to our end customers. Our customers demand high quality and we need to constantly develop. Our efforts in this area have been successful and we have managed to improve both the quality of our services and the efficiency of our operations.

For example, we have invested in an app-based solution for planning orders and ensuring that the technician closest to the job, with the right skills and certification, is assigned the service order. Our goal is to improve the service to our customers, the health and safety of our employees, the quality of our work and the environment.

Eltel Communication in 2019

Net sales decreased by EUR 29.0 million to EUR 698.4 million (727.3), representing a decrease of 4.0%. Organic net sales, adjusted for currency effects and divestments, decreased 1.5%. The majority of the decline is explained by the sudden volume drop in Sweden due to significantly reduced investment levels from a main customer. Also, Finland faced a drop in customer investment levels, but to a lower extent. EUR 7.1 million of the decline relates to the divestment of the Polish Communication business in the third quarter of 2019. The decline was partly offset by large volume increases in Norway and Denmark.

Operative EBITA decreased to EUR 18.1 million (24.8). The operative EBITA margin was 2.6% (3.4). The decrease is mainly explained by sudden lower volumes, subsequent workforce overcapacity and restructuring costs, representing a negative impact of approximately EUR 13 million for the full year. Write-downs and provisions in Sweden also impacted the result negatively, of which the majority come from Build, fibre projects, awarded during 2016–2017. Finland contributed to the decline, but on a smaller scale and mainly during the first half of the year. The decrease was partly offset by increased net sales, change in product mix and efficiency improvements in Norway. Germany and Denmark also contributed positively with increased net sales and improved project execution.

To deliver on our customer promise, we must be as efficient as possible and deliver a high-quality service to our end customers.

Financial performance

	2019	2018
Net sales (EUR million)	698.4	727.3
Operative EBITA (EUR million)	18.1	24.8
Operative EBITA margin (%)	2.6	3.4
Number of employees	4,137	4,502

Major contracts 2019

- Three-year frame agreement renewal in Finland with DNA worth about EUR 39 million (January 2019)
- Three-year frame agreement in Norway with Telenor worth about EUR 17 million (February 2019)
- Polish Communication operations were divested to Vinci Energies with total consideration EUR 12.6 million (August 2019)
- Three-year continuation of the current frame agreement in Finland worth about EUR 25 million (November 2019)
- Three-year frame agreement in Sweden with Telenor worth about EUR 17 million (December 2019).

> The main reason for the boom in wind power in recent years is that generators have almost doubled in capacity and costs has decreased considerably.

Eltel team is laying foundations to the Oltava wind farm in Finland in the autumn 2019.

Case

A wind of change

The front loader trembles to life in the early morning frost. It will continue to clear a road through the thick forest in the north of Finland. But the small dirt road to the Oltava wind farm is part of something much bigger.

The world is experiencing an energy revolution. Ten years ago, solar and wind power generated barely 4% of the world's electricity. At the end of 2019 solar and wind power generated 18% of the world's electricity. And this growth is expected to continue.

The main reason for the boom in wind power in recent years is that generators have almost doubled in capacity and costs has decreased considerably. Wind power has become the cheapest way of producing energy in most countries in the world[1)].

A few years back, investments in wind power in Finland stopped, following a decision to discontinue the subsidies. Today, this doesn't matter; subsidies or not, wind power is a good investment.

In many ways, Finland is well suited to wind power. The wind conditions are favourable and there is a huge land mass. This is why Finland has attracted the interest of foreign investors. Eltel is involved in several of the ongoing wind power projects in Finland.

Once the road to the Oltava wind farm has been cleared, the Eltel team will lay the foundations and cables for the wind turbines and carry out the installation. The team does everything but erect the wind turbines.

Eltel has done this kind of work many times before. Sometimes investors from warmer countries are concerned about the extreme winter in Finland. The team then explains that it isn't really a problem. It just takes a little longer.

[1)] Source: New energy outlook 2019, BloombergNEF.

Case

Connecting to the future

A team stands around a mast outside Trondheim, Norway. It is quiet, and everyone is focused. The team leader is on the phone with the customer, and once he hangs up, they are supposed to carry three days of work in just one day.

The conditions are tough, and they are replacing heavy equipment in a very small space. Time is also of the essence and the client wants regular updates to ensure they are on schedule.

At least this time the weather is good, and they are not bothered by curious onlookers or well-meaning people who want to help, as is the case when they work in cities.

The call is to inform the customer they are about to cut the transmission for the old equipment. As soon as the team leader hangs up, everyone gets to work.

The team is part of a pilot project to install 5G transmitters on masts, towers or rooftops. Once the pilot project and the tests have been completed, there will be 15,000 sites all over Norway that will need new equipment.

A lot of planning goes into the 5G installations and today's work actually started more than a week ago. To ensure a smooth transition, a technical engineer studied the documentation and the site to figure out how to perform the work and what equipment was needed.

The team knows exactly what to do. After almost eight hours the team leader makes a new call, telling the customer they can start to test run and integrate the new equipment.

In the meantime, the people of Trondheim do not notice much. Maybe a downloading session went a little slower than usual or they had one bar less on their cell phone connection for a few hours. But when the mission is done, the people of Trondheim will be connected to a network that will allow a future with an Internet of Things and self-driving cars.

Eltel is well positioned in 5G market and cooperates with vendors in order to improve its offerings.

During the World Championships in Åre 2019, Anna Swenn-Larsson made one of the best runs in her career and came in a strong second place after the fourth-time reigning world champion Mikaela Shiffrin from the USA.

Case

A race against time

All eyes are on the 27-year-old from Rättvik, Sweden. The slope and the stands are full of people defying the sleet and snow to cheer her on. Anna Swenn-Larsson must give her best.

As she hurtles down the slope there is a deafening roar from the crowd, TV cameras follow her, 1,300 journalists are reporting, thousands of spectators take photos and update their social media profiles, and 700 million TV viewers globally follow her to the finish line.

It is hard to grasp the amount of data transmitted from Åre, Sweden, to all over the world. And everything must work perfectly for all the media teams. Eltel was assigned the task of ensuring that Telia's most demanding customers were happy when the World Championships started on 4 February 2019.

Time was short and there wasn't any room for missed deadlines. First, more than 600 kilometres of fibre connection to Stockholm had to be updated. Then a local network for transmitting film and sound had to be built, a fully-equipped press centre established and 40 access points installed on the slope which, in turn, were divided into hundreds more. Also, several international TV crews working with analogue technology needed copper cables instead of fibre.

Planning was key. The coordination with construction companies and other parties was one factor. Another factor was the temperature, which could decrease to -30°C, making it impossible to work outside. When the weather permitted, the team brought out skis in order to install access points on the slope.

During the first days of February 2019, the international media teams rolled in. Eltel was prepared. Everything was ready, tested and worked exactly as planned. When the World Championships were over, the Eltel team was almost as pleased as Anna Swenn-Larsson.

Case

Copenhagen goes electric

That day, the Mayor of Copenhagen, Ritt Bjerregaard, got the attention of the international media. It was 2009 and she was about to present the vision of making the Danish capital the first climate neutral city in the world by 2025.

Making a capital city climate neutral in 15 years time is a monumental task. Electrification is at the heart of the transition. The city is working hard to erect wind farms, install more than 30,000 square metres of solar power and set up charging stations. This year Eltel, was given the task of electrifying the city's buses.

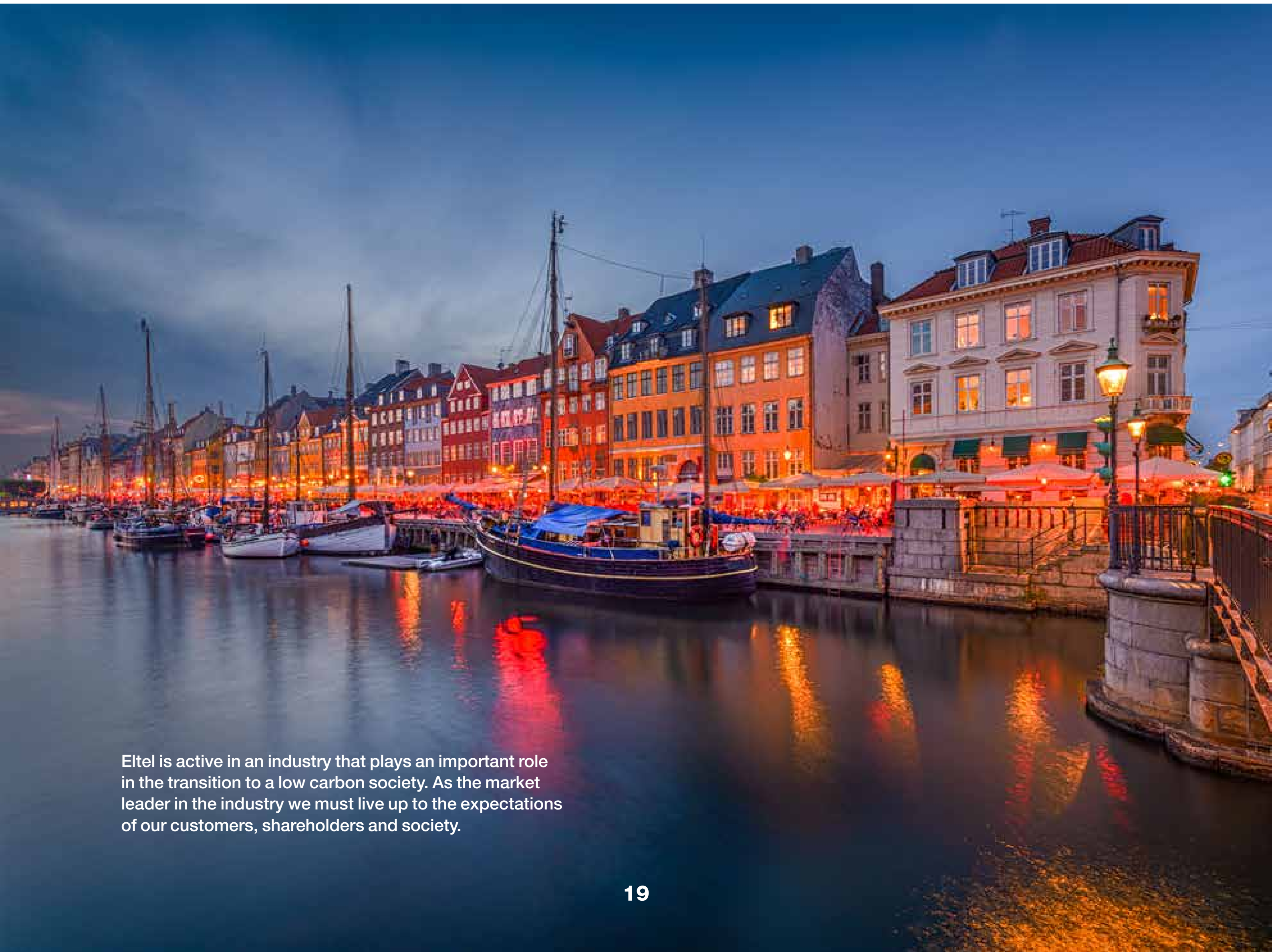
It should be possible for the buses to charge while in normal service. However, it takes a lot of energy to charge a bus so that it can run for 170 kilometres – and charge it in only six minutes.

Eltel installed four 450-kilowatt charging stations along route 2A. The 9-tonne charging stations were supported by concrete foundations and if two charging stations are placed together, a substation has to be built to handle the massive power output.

After a test period on route 2A, everyone was pleased and the customer was happy with the smooth, quiet ride. To complete the electrification of the city's buses, 80 additional charging stations will need to be installed.

Next up is the Port of Copenhagen where ships must be able to use electricity instead of running their engines. The huge demand for charging buses and ships will require an upgrade of the grids. There is much to be done before Copenhagen reaches its 2025 target, but it is on schedule.

The goal of being the first climate neutral city in the world still remains unchallenged and today, cities all over the world are looking to Copenhagen for inspiration in the transition to a climate neutral future.



Eltel is active in an industry that plays an important role in the transition to a low carbon society. As the market leader in the industry we must live up to the expectations of our customers, shareholders and society.

Sustainability

Eltel shall always act as a good corporate citizen. To us, this means more than complying with the laws and regulations of the countries in which we operate. It is about always improving and developing for the good of society. This goes hand in hand with operating a long-term sustainable and profitable business.

Customers and investors place high demands and expectations regarding our work on sustainability, and talents want to work in companies that contribute to society. Sustainability is good for business. Increasing efficiency, reducing fuel consumption, less sick leaves and eliminating work-related accidents are ways of improving profitability.

Eltel's Sustainability plan for 2018–2020 is divided into five areas: health and safety, people and society, environment, supply chain and business ethics. These are our most material areas.

In order to improve the process for tracking and following up on our most important areas, we completed the implementation of our safety and quality reporting system this year. The system is an IT tool that measures and follows up our performance in environment, health and safety and quality. We have already seen that the system works. During 2020 we will work on increasing the number of reports and improving the quality of the reports to be able to take action quickly.

Eltel is certificated according to ISO 9001, OHSAS 18001/ISO 45001[1)] and ISO 14001. Eltel is a signatory to the United Nations Global Compact and its 10 principles on human rights, labour, environment and anti-corruption. Eltel also reports its environmental data in accordance with the Carbon Disclosure Project.

[1)] Norway will be certificated to OHSAS 18001/ISO 45001 in 2020.

Priority areas	Focus areas	Stakeholders that impact our focus areas
Health & safety	• Zero fatalities and disability cases • Reduce Lost Time Injury Frequency (LTIF) including subcontractor employees	• Employees • Suppliers • Customers
People & society	• Be the industry's most attractive workplace in the infranet field • Contribute to sustainable development and welfare	• Employees • Society • Shareholders
Environment	• Reduce the average CO_2 emissions of cars and vans • Report environmental accidents, including subcontractors' environmental accidents • Promote the positive impact of Eltel's customer solutions	• Employees • Customers • Suppliers • Society
Supply chain	• Monitoring strategic partners' HSE performance and compliance with Eltel's Code of Conduct	• Suppliers
Business ethics	• Comply with all applicable laws, regulations, policies and agreements • Code of Conduct and policy trainings	• Employees • Suppliers • Customers

Health and safety

Everyone has the right to be safe at work. We will never accept that people get hurt when working for us and our long-term goal is zero accidents.

Our employees are our most valuable resource and health and safety is our most important sustainability area. Since 2015, Eltel has worked systematically to reduce the number of accidents by promoting a culture of health and safety and introducing new policies and procedures.

Health and safety policies

Eltel has a comprehensive Health, Safety, Environment and Quality Policy and subcontractors shall always be part of Eltel's health and safety plans. Eltel complies with OHSAS 18001/ISO 45001 standards and all our subsidiaries also comply. Norway is not yet certified but expects to be in 2020.

Proper equipment

To prevent accidents, we need to plan carefully and ensure that everyone uses the proper protective equipment. This year Eltel launched a new Personal Protective Equipment (PPE) Policy to ensure that all markets use the same standard. The policy is based on existing best practice from all markets.

Safety culture

Apart from policies and equipment, safety is a state of mind. To foster a culture where safety is a primary concern among our employees and subcontractors, managers conduct regular safety walks and we publish internal safety bulletins. All knowledge gained from safety walks and incidents is logged in our safety and quality reporting system, which we launched in 2018. The data is used to identify risks in order to strengthen our structures and our preventive work.

In the fall of 2019, a fatal accident occurred when a subcontractor in Poland was doing maintenance work on a high power transmission line. The accident was a stark reminder of how important it is to constantly improve the safety and work environment at our job sites. As a result of the accident, we have further reviewed the procedures with regard to improvement in physical signage as well as work management, risk analysis and routines. We will follow up on all points to make sure this kind of accident does not happen again.

Health & safety 2019

- One fatality in Poland where a subcontractor was working on a high-power transmission line
- The safety and quality reporting system fully implemented
- Proactive reporting of potential incidents (up 10%) and safety walks (up 30%) increased significantly
- Near-misses down 48% compared to 2018

Lost Time Injury Frequency

6.2

(Down 11% from 2018)

Key performance indicators	2019	2018
Absence due to illness, including long-term illness, Eltel employees, %	5.4	4.9
Lost-time injuries per million working hours (LTIF), Eltel employees	6.2	7.0
Number of fatal accidents, Eltel and subcontractor employees	1	–

People & society 2019

- Leadership framework developed and introduced
- 83% of our employees had individual Performance and Development Dialogues (Nordics)
- Expenses in wages and salaries EUR 307.0 million (327.8)

Annual training days average

3.0

per employee (goal achieved)

Key performance indicators	2019	2018
Number of employees at year end	6,678	7,376
Of which < 30 years, %	19	21
Of which > 55 years, %	24	23
Share of male/female at year end, %	87/13	88/12
Share of women in Group Management Team, % end-of-year	20	10
Share of women on Board of Directors, % at year end	9	9

People and society

Eltel wants to contribute to sustainable development and welfare in society through its services and by being the most attractive workplace in the infranet field. Employee engagement strengthens our operations and ultimately our customer satisfaction.

Delivering the lifelines of society

Eltel's services ensure access to power and communication networks, which are critical in people's everyday lives. The importance of our services has been highlighted by the extreme weather events in recent years. After an extreme weather event, Eltel strives to be the first on the scene to restore the infrastructure and facilitate rescue, by establishing telecommunications to people in the area and electricity for heat in private households for example.

Sustainable leadership

Managers have a great responsibility towards the people they lead, and indirectly towards the family and friends of employees. Time spent at work constitutes a large part of our lives and can really affect the people around us.

In order to support our managers, we have developed a leadership framework with clearly defined roles, responsibilities and expectations. We trained many of our managers and are improving our production planning to facilitate the everyday work of our technicians.

All employees should have regular performance and development dialogues with their managers. This is an important way of establishing whether an employee needs further training, wants to develop or assume more responsibility. It is also a way of establishing whether changes are needed in order to avoid an unsustainable situation.

Our approach

We want to create a stimulating work environment with good opportunities to create employee engagement. This is a way of attracting the right people and ultimately improve our customer satisfaction. We strongly believe that diverse teams perform better.

Eltel has strategic targets for the number of annual training days and short-term sick leave. The Eltel Human Resources Policy and the Eltel Code of Conduct provide guidance in our work with employees and suppliers.

Environment

Eltel is active in an industry that plays an important role in the transition to a low carbon society. As the market leader in the industry we must live up to the expectations of our customers, shareholders and society.

Eltel is active in many services that enable society to reduce its environmental footprint. In 2019, we installed wind power plants in the Nordics, as well as charging stations and solar panels. We upgraded networks, so they can manage an increased supply of renewable energy and support electric vehicle charging infrastructure.

Our approach

Our Health, Safety, Environment and Quality Policy states how we shall minimise the environmental impact of our operations and monitor potential incidents. All units shall maintain local certified management systems based on ISO 14001. In 2019, no major environmental incidents occurred as a result of our operations.

Our impact

The main source of our environmental impact is our fleet of 3,789 vehicles. By keeping a modern, fuel-efficient fleet we reduce emissions per kilometre. Everytime a lease contract is bound to be renewed we consider the possibility to switch to lighter vehicles that consume less fuel, hybrids or electric vehicles. Our ambition is to electrify the fleet as technology develops. Since our vehicles are leased over five year the update of the fleet has to be an ongoing and long-term project.

Besides keeping a modern low-emission fleet, we plan jobs in such a way as to ensure that we don't drive more than necessary. GPS systems coupled with technicians who can perform a range of tasks optimise fleet usage. The use of digital tools is one example of how we can plan orders better. Preliminary results show that digital planning of production has reduced our CO_2 emissions by 7%.

Waste management

Another area of focus for our environmental work impact is waste management and the procurement of materials that are as environmentally friendly as possible. We work to minimise the physical impact, disruption and noise from construction sites. We also work together with property owners to avoid any negative impact on gardens or privately-owned land.

Environment 2019

- 15% reduced CO_2 emissions of entire fleet
- No major environmental incidents
- A project to electrify parts of the fleet initiated
- CO_2 measurement standard has been modified from NEDC to new WLTP European Union standard

Digital planning resulted in

7%

reduced CO_2 emissions (Norway)

Key performance indicators	2019	2018
Average CO_2 emissions, cars and vans, g/km	170[1]	167
Total number of vehicles in entire fleet	3,789	4,247
Total fuel consumption of entire fleet, tonnes	8,876,973	10,476,128
Total CO_2 emissions of entire car fleet		
– tonnes	23,222	27,393
– kg per total working hours	1.9	
– kg per annual sales in million Euro	21.3	
– tonnes per total number of vehicles	6.1	

[1] Figure for average CO_2 emissions has increased slightly, even though the Eltel fleet is greener now than 2018. This is due to the modification of measurement standard to the new WLTP European standard which is different from NEDC.

Supply chain 2019

- All category A subcontractors are integrated into Eltel's reporting, and are requested to commit in writing to our policies and principles.

Supply chain audits

57%

increase from 2018

Key performance indicator	2019	2018
Number of supply chain audits, subcontractors	321	205

Supply chain

Eltel depends on its supply chain to get the work done and to live up to the standards and expectations of its stakeholders.

Our subcontractors
In a typical project, Eltel relies on a number of subcontractors, consisting of 1,200 in total. As project leader, we have overall responsibility for the site, including the work environment of subcontractors and employees, as well as the delivery to the customer.

All our subcontractors shall work according to our standards in order to meet expectations of our customers and other stakeholders. They sign our Code of Conduct and commit to other key policies and principles, including our Health, Safety and Environment (HSE) controls, human rights and ethical behaviour.

We recommend that our suppliers and partners have valid ISO 9001, OHSAS 18001/ISO 45001 and ISO 14001 certification. If they do not hold such certification, they are required to demonstrate their compliance by signing an agreement and participating in Eltel's e-learning courses.

Managing the supply chain
Eltel is responsible for its supply chain, it poses a financial and legal risk to the company. Eltel has clear processes to ensure subcontractors sign up to the Eltel Code of Conduct. Eltel categorises subcontractors and suppliers according to their level of risk exposure. Partners rated as the highest risk, category A, are integrated into Eltel's reporting procedures.

We regularly conduct audits of our subcontractors and if any non-compliance is found we implement an action plan together to ensure the subcontractor meets our standards. We also have a Management of Subcontractors (MoSC) system. In the system, the partner assesses its own operations, together with on-site audits conducted by Eltel, including both announced and unannounced audits.

Business ethics

As a market leader in our industry, we have a responsibility to be a good corporate citizen. Our customers have high ethical requirements and we must meet them in order to remain a market leader.

Being a good corporate citizen is a way of attracting and retaining talent. As a listed company, investors, particularly institutional shareholders, monitor how we fulfil our commitment to business ethics.

Our approach

Working with business ethics involves complying with all applicable laws and regulations, as well as our internal policies and agreements with customers and suppliers. We must abide by what is commonly understood as ethical behaviour by our shareholders, customers, employees and subcontractors, and external stakeholders, including the media. By meeting these stakeholder expectations, we will ensure that we remain relevant as a partner, employer and investment opportunity.

Eltel is a signatory to the United Nations Global Compact and its 10 principles on human rights, labour rights, environment and anti-corruption. The UN principles are incorporated into our internal policies.

Eltel policies relevant to business ethics

- Eltel's Code of Conduct
- Anti-corruption Policy
- Human Resources Policy
- Health, Safety and Environment and Quality Policy
- Insider Policy
- Group Tax Policy
- Information Security Policy
- Whistleblowing Policy
- Risk Management Policy
- Competition Law Instruction

Code of Conduct training

95%

employee completion rate

Fair Play

In 2019, we rolled out an e-learning programme called Fair Play. Fair Play presents the fundamentals of our Code of Conduct and other governing policies, including business ethics, whistleblowing, anti-corruption, risk assessment and data protection. The programme is mandatory for all Eltel employees.

Whistleblowing procedure

We work hard to ensure that nothing unethical or inappropriate takes place. However, if something unethical or inappropriate does take place, we need to have the right procedures in place in order to learn about it as quickly as possible. Our whistleblowing procedure enables employees, partners or customers to report any breach of our Code of Conduct or other policies. Any issue can be reported anonymously via email or phone. It will then come to the attention of Eltel's General Counsel who will report the matter exclusively to the Audit Committee, which is a permanent sub-committee of the Eltel Group's Board of Directors. All issues are investigated confidentially before being reported back to the whistleblower.

In 2019 Eltel's Group Compliance function received one whistleblower matter. The matter was investigated in accordance with established procedures and certain irregularities were identified involving one senior manager and three additional employees. The involved individuals have been relieved of their duties and are no longer employees at Eltel.

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 2019 on pages 20-25 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 1 April 2020
KPMG AB

Mats Kåvik
Authorized Public Accountant

Five-year summary

Condensed consolidated income statement

EUR million	Full-year 2019	Full-year 2018	Full-year 2017	Full-year 2016	Full-year 2015
Net sales	1 087.6	1,188.9	1,329.9	1,399,8	1,254.9
Cost of sales	-1 004.7	-1,080.5	-1,234.8	-1,279.5	-1,089.6
Gross profit	**82.9**	**108.4**	**95.1**	**120.3**	**165.3**
Other income	2.6	4.5	4.9	4.0	4.3
Expenses[1]	-97.1	-123.3	-134.7	-136.2	-124.4
Share of profit/loss of joint ventures	0.4	1.1	-0.4	-0.4	1.5
Impairment of acquisition-related intangible assets	–	–	-149.4	-55.0	–
Operating result (EBIT)	**-11.2**	**-9.2**	**-184.6**	**-67.4**	**46.6**
Financial expenses, net	-11.5	-8.8	-12.3	-12.6	-14.4
Result before taxes	**-22.7**	**-18.0**	**-197.0**	**-80.0**	**32.2**
Taxes	-2.4	-4.1	-7.7	-2.2	11.0
Net result	**-25.1**	**-22.2**	**-204.6**	**-82.2**	**43.2**

1) Expenses include Jan–Dec 2019 EUR -1.5 million, Jan–Dec 2018 EUR -2.2 million, Jan–Dec 2017 EUR -8.5 million, Jan–Dec 2016 -14.4 and Jan–Dec 2015 EUR -13.9 million customer relationship amortisations, which in previous years were presented on a separate line together with impairment of acquisition-related intangible assets.

Key figures

EUR million	Full-year 2019	Full-year 2018	Full-year 2017	Full-year 2016	Full-year 2015
Net sales	1,087.6	1,188.9	1,329.9	1,399.8	1,254.9
Net sales growth, %	-8.5	-10.6	-5.0	11.6	1.0
Operative EBITA	-11.3	-2.2	-25.5	2.1	62.2
Operative EBITA margin, %	-1.0	-0.2	-1.9	0.1	5.0
Items affecting comparability[1]	1.6	-4.8	-1.2	–	-1.7
EBITDA	29.7	5.1	-13.4	15.1	72.3
Operating result (EBIT)	-11.2	-9.2	-184.6	-67.4	46.6
EBIT margin, %	-1.0	-0.8	-13.9	-4.8	3.7
Result after financial items	-22.7	-18.0	-197.0	-80.0	32.2
Net result for the period	-25.1	-22.2	-204.6	-82.2	43.2
Earnings per share EUR, basic and diluted	-0.17	-0.15	-1.56	-1.33	0.69
Return on equity (ROE), %[2),3)]	-6.7	-8.3	-64.9	-20.7	12.3
Net working capital	-6.3	39.9	45.6	14.7	7.6
Number of personnel, end of period	6,678	7,376	7,999	9,465	9,568

1) In 2019 gain from divestment of business and earn-out adjustment. 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 2015 mainly IPO-related costs.

2) Calculated on a rolling 12-month basis.

3) Assets and liabilities held for sale are not included (in 2019 German Communication business and Aviation & Security business area and in 2017 Finnish and Danish Rail business).

Cash flow from operating activities

EUR million	Full-year 2019	Full-year 2018	Full-year 2017	Full-year 2016	Full-year 2015
EBITDA	29.7	5.1	-13.4	15.1	72.3
Changes in working capital	37.9	6.8	-32.8	-9.8	-15.5
Total financial expenses and taxes	-10.9	-10.1	-14.7	-12.8	-12.6
Other	-5.4	1.3	-4.3	-0.8	-7.8
Cash flow from operating activities	**51.4**	**3.2**	**-65.2**	**-8.3**	**36.4**
IFRS 16 impact in the cash flow from operating activities	25.7	–	–	–	–
Cash flow from operating activities before IFRS 16 impact	**25.7**	**3.2**	**-65.2**	**-8.3**	**36.4**

Quarterly figures

Quarterly key financial figures for the Group

EUR million	Full-year 2019	Oct–Dec 2019	Jul–Sep 2019	Apr–Jun 2019	Jan–Mar 2019	Full-year 2018	Oct–Dec 2018	Jul–Sep 2018	Apr–Jun 2018	Jan–Mar 2018
Net sales	1,087.6	278.9	281.8	276.0	251.0	1,188.9	330.9	295.9	295.5	266.6
Net sales growth, %	-8.5	-15.7	-4.8	-6.6	-5.9	-10.6	-11.6	-9.8	-10.4	-10.5
Operative EBITA	-11.3	-14.9	4.1	2.5	-3.0	-2.2	2.9	0.5	2.0	-7.6
Operative EBITA margin, %	-1.0	-5.3	1.5	0.9	-1.2	-0.2	0.9	0.2	0.7	-2.9
Items affecting comparability[1]	1.6	1.4	0.2	–	–	-4.8	-2.8	–	0.1	-2.2
EBITDA	29.7	-4.8	14.3	12.7	7.5	5.1	3.2	3.9	4.8	-6.9
Operating result (EBIT)	-11.2	-13.7	3.9	2.1	-3.6	-9.2	-0.2	-0.2	1.6	-10.4
EBIT margin, %	-1.0	-4.9	1.4	0.8	-1.4	-0.8	-0.1	-0.1	0.5	-3.9
Result after financial items	-22.7	-17.0	1.6	-1.0	-6.4	-18.0	-2.8	-3.5	0.3	-12.0
Net result for the period	-25.1	-11.8	-3.9	-2.0	-7.4	-22.2	-3.3	-9.6	0.2	-9.5
Earnings per share EUR, basic	-0.17	-0.08	-0.03	-0.01	-0.05	-0.15	-0.02	-0.06	0.00	-0.06
Earnings per share EUR, diluted	-0.17	-0.08	-0.03	-0.01	-0.05	-0.15	-0.02	-0.06	0.00	-0.06
Return on equity (ROE), %[2), 3)]	-6.7	-6.7	-6.7	-8.8	-7.8	-8.3	-8.3	-9.5	-9.7	-23.0
Net working capital	-6.3	-6.3	63.7	66.8	74.8	39.9	39.9	109.3	91.9	75.1
Number of personnel, end of period	6,678	6,678	7,019	7,128	7,180	7,376	7,376	7,490	7,680	7,605

1) In 2019 gain from divestment of business and earn-out adjustment. In 2018 earn-out adjustment and net loss for the disposed business.

2) Calculated on a rolling 12-month basis.

3) Assets and liabilities held for sale are not included (on 31 December 2019 German Communication business and business area Aviation & Security, on 30 September 2019 and on 30 June 2019 Polish and German Communication businesses and on 30 June 2018 Norwegian rail business).

Quarterly segment information

EUR million	Full-year 2019	Oct–Dec 2019	Jul–Sep 2019	Apr–Jun 2019	Jan–Mar 2019	Full-year 2018	Oct–Dec 2018	Jul–Sep 2018	Apr–Jun 2018	Jan–Mar 2018
NET SALES										
Power	377.7	93.0	103.1	94.7	87.0	438.8	115.1	112.0	116.0	95.7
Communication	698.4	182.9	176.3	177.8	161.4	727.3	207.1	180.2	177.7	162.3
Other	13.2	3.2	3.1	3.9	3.1	23.1	3.6	7.5	2.5	9.5
Elimination of sales between segments	-1.7	-0.2	-0.7	-0.3	-0.4	-0.4	5.0	-3.7	-0.8	-0.9
Net sales, total	**1,087.6**	**278.9**	**281.8**	**276.0**	**251.0**	**1,188.9**	**330.9**	**295.9**	**295.5**	**266.6**
OPERATIVE EBITA BY SEGMENT										
Power	-17.5	-12.0	-3.6	2.4	-4.2	-0.5	-1.9	0.2	2.5	-1.3
% of net sales	-4.6%	-12.9%	-3.5%	2.5%	-4.8%	-0.1%	-1.6%	0.2%	2.1%	-1.4%
Communication	18.1	2.0	9.4	2.1	4.6	24.8	9.7	6.8	7.2	1.1
% of net sales	2.6%	1.1%	5.3%	1.2%	2.9%	3.4%	4.7%	3.8%	4.1%	0.7%
Other	-0.8	-0.6	-0.2	0.2	-0.1	-11.1	-1.1	-3.2	-3.1	-3.7
% of net sales	-5.9%	-20.4%	-6.5%	4.7%	-3.7%	-48.2%	-30.4%	-43.4%	-122.6%	-38.8%
Costs not allocated to segments	-11.2	-4.2	-1.4	-2.2	-3.3	-15.4	-3.8	-3.3	-4.6	-3.7
Operative EBITA	**-11.3**	**-14.9**	**4.1**	**2.5**	**-3.0**	**-2.2**	**2.9**	**0.5**	**2.0**	**-7.6**
% of net sales	-1.0%	-5.3%	1.5%	0.9%	-1.2%	-0.2%	0.9%	0.2%	0.7%	-2.9%

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 2019, the number of Eltel ordinary shares totalled 156,649,081 and the share capital entered in the trade register was EUR 158,838,751. In addition, Eltel holds 850,000 C shares.

Shareholders

Eltel had 4,152 shareholders at the end of the financial period 2019. The largest shareholder was the Herlin families through their companies Wipunen Varainhallinta Oy, Mariatorp Oy, Riikantorppa Oy with 21.8% 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 30 December 2019 was SEK 19.04. The highest closing price was SEK 23.50 on 2 July 2019 and the lowest was SEK 13.44 on 2 January 2019. Volume-weighted average adjusted price for the year was SEK 18.26. At year-end, Eltel's market capitalisation was SEK 2,982,589. The trading volume on Nasdaq Stockholm was 22,373,119 shares, equivalent to a turnover of SEK 408,076,632. Eltel shares were mainly traded on Nasdaq Stockholm, 65%, and Cboe Global Markets, 28%, and in small volumes in other marketplaces, 7%.

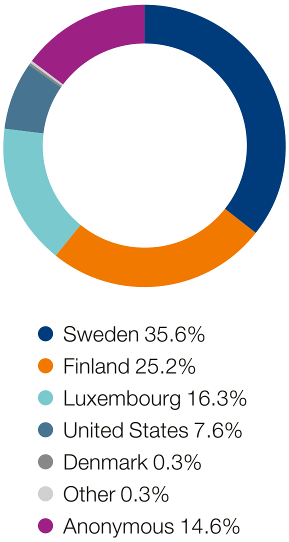
The dividend policy

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).

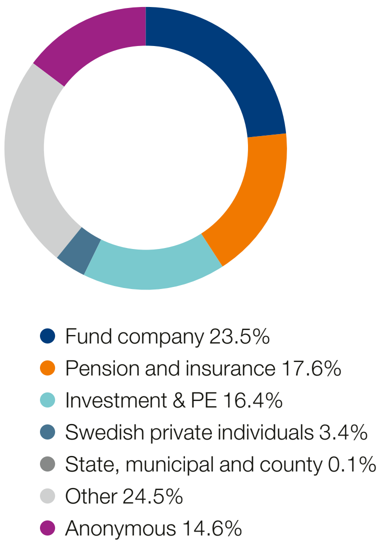
Analysts

Eltel is followed by Carnegie.

Geographic distribution of shareholders 31 Dec 2019



Ownership by sector on 31 Dec 2019



Eltel's top 10 shareholders on 31 December 2019

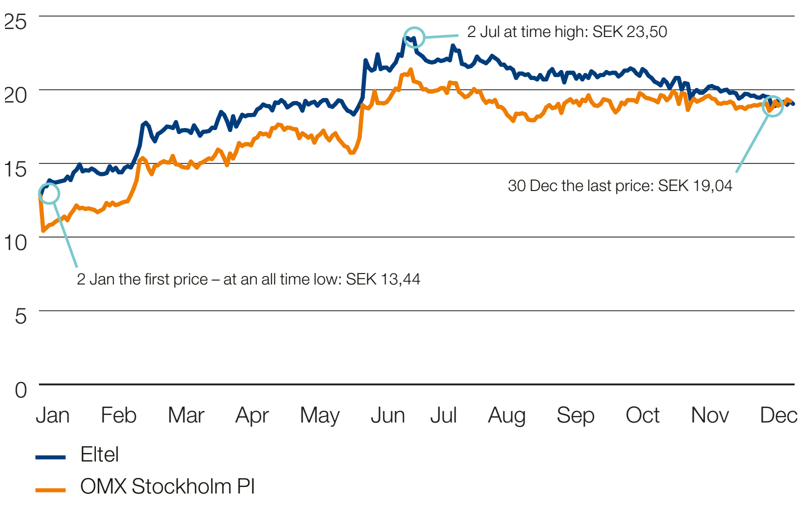
Shareholders	Number of shares	% of share capital	% of votes
Solero Luxco S.á.r.l.[1]	25,683,845	16.3	16.4
Wipunen varainhallinta Oy[2]	17,250,000	11.0	11.0
Fourth Swedish National Pension Fund	15,027,060	9.5	9.6
Swedbank Robur Funds	14,975,484	9.5	9.6
First Swedish National Pension Fund	9,386,750	6.0	6.0
Riikantorppa Oy[2]	8,650,000	5.5	5.5
Mariatorp Oy[2]	8,500,000	5.4	5.4
Fidelity International (FIL)	7,065,443	4.5	4.5
SEB Funds	2,642,292	1.7	1.7
Fidelity Investments (FMR)	2,471,597	1.6	1.6
Total	**111,652,471**	**70.9**	**71.2**
Other shareholders	44,996,610	29.1	28.8
Total ordinary shares in Eltel AB	**156,649,081**	**99.5**	**100.0**
Total C shares in Eltel AB[3]	850,000	0.5	–
Total shares in Eltel AB	**157,499,081**	**100.0**	**100.0**

[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.
[3] The C shares are held by Eltel.

Ownership structure on 31 December 2019

Shareholder spread	Number of known owners	Number of shares	% of capital	% of votes	Share of known owners
1–500	2,523	446,877	0.3	0.3	62.0
501–1,000	509	417,153	0.3	0.3	12.5
1,001–5,000	761	1,838,270	1.2	1.2	18.7
5,001–10,000	120	908,405	0.6	0.6	2.9
10,001–15,000	36	458,202	0,3	0.3	0.9
15,001–20,000	18	331,371	0.2	0.2	0.4
20,001–	105	130,029,764	82.6	82.5	2.6
Anonymous ownership		23,069,039	14.6	14.7	
Total	**4,072**	**157,499,081**	**100.0**	**100.0**	**100.0**

Eltel share in 2019 (SEK)



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 2019

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 2019 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 Nordic field service provider 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 to five years. This enables us to create and maintain 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 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's Power segment provides maintenance of power grids, upgrades and project work to national transmission system operators and distribution network owners. The Power segment can be roughly divided into three areas: maintenance, projects and turnkey projects, in which Eltel is responsible for design, planning and construction of the project. Eltel operates in the Power segment in the Nordics, Germany and Poland. Read more about Eltel Power on page 12 and the market outlook on page 6.

Communication segment

Eltel's Communication segment provides a broad range of services such as designing and planning to building, installing, upgrading, operating and service of mobile and fixed networks. In segment Communication, Eltel was active in the Nordics, Lithuania, Poland and Germany during 2019. Following the strategic review, carried out during this year, Eltel will focus on the Nordic markets in which it is a market leader.

Eltel's main customers are large telecom operators and communication network owners, such as utility companies, other private owners and municipalities, and its business generally comprises long-term relationships with a steady inflow of orders generated by frame agreements. The Communication market offers slightly higher margins than the Power market, although competition is tough. Read more about Eltel Communication on page 14 and the market outlook on page 6.

Significant events 2019

Operational Excellence strategy

In 2019, Eltel implemented the Operational Excellence strategy which was launched in the autumn 2018. Pursuant to Eltel's strategy, we focus on markets where we have a market leading position. Eltel continues to mitigate risk by divesting businesses outside Nordics and ramping down non-core operations. Eltel's strategy focuses on delivering on our customer promises, as well as streamlining our operations and improving productivity. The strategy also includes promoting profitability and winning market share in our key markets by:

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

Country-based operations

In 2019, Eltel completed its reorganisation, which was initiated in 2018, to a country-based operations with a leaner management structure on both Group and Country Unit level. Eltel's Country Units have a great deal of autonomy with their own management teams, as well as profit and loss responsibility. The units are supported by cost-efficient, Group-wide support functions.

Focus on the Nordic market

In April 2019, Eltel announced that it will focus on the Nordic market and that Eltel has initiated an evaluation of strategic alternatives for its Polish and German operations, including a potential divestment.

Letter of intent to divest the business area Aviation & Security to LFV

In June 2019, Eltel and LFV, Air Navigation Services of Sweden, signed a letter of intent according to which Eltel will divest the Swedish business area Aviation & Security to LFV. In the letter of intent, both parties undertook to ensure a definitive agreement is signed no later than during the first quarter 2020. The definitive agreement is conditional on approval by the respective party's Board of Directors, the Swedish Competition Authority and the Swedish Government.

Divestment of Communication Poland

In August 2019, Eltel signed an agreement to divest its Polish Communication business to VINCI Energies. The divestment was completed on 14 October 2019 and the total consideration of the transaction was EUR 12.6 million.

Management changes

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

In September 2019, Mikael Malmgren, Strategy and Business Development Director of Eltel AB, was appointed Chief Financial Officer, CFO, and Chief Operating Officer, COO, of Eltel Sweden. In connection with this appointment he left the Group Management Team.

In October 2019, it was announced that Petter Traaholt, Chief Financial Officer (CFO) of Eltel, will leave the company at the end of February 2020, to assume the position as CFO at V.Group.

In December 2019, Saila Miettinen-Lähde was appointed new Chief Financial Officer (CFO) of Eltel and as a member of the Eltel Group Management Team as of 1 March 2020.

Major contracts 2019

During 2019 Eltel secured several important contracts including:

- Three-year frame agreement renewal in Finland with DNA worth about EUR 39 million (January 2019)
- Agreement with investor Octopus and energy developer VALOREM to build the infrastructure for two new wind farms in Western Finland worth about EUR 13 million (May 2019)
- Agreement in Finland with Fingrid to build a 400 kV transmission line worth about EUR 11 million (September 2019)
- Two-year frame agreement in Finland with Elenia for power distribution worth about EUR 13 million (October 2019)
- Agreement in Finland with Fingrid to build transmission line worth about EUR 17.5 million (November 2019)
- Three-year continuation of the current frame agreement in Finland worth about EUR 25 million (November 2019)
- Three-year frame agreement in Sweden with Telenor worth about EUR 17 million (December 2019).

January–December 2019

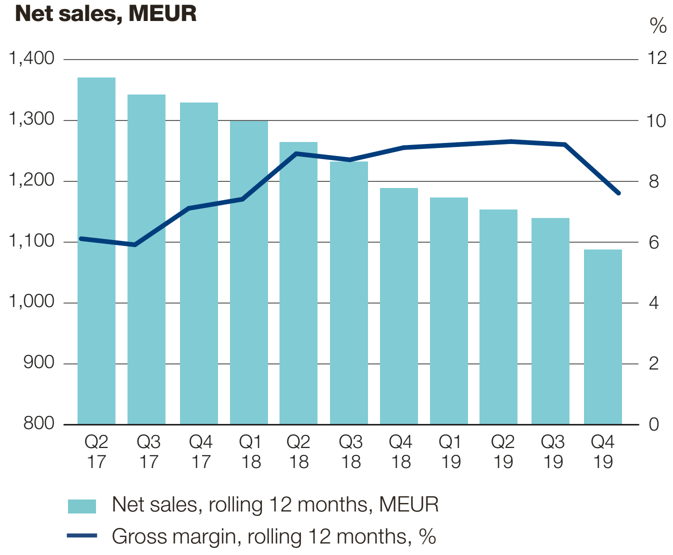
Net Sales

Net sales decreased 8.5% to EUR 1,087.6 million (1,188.9). Organic net sales in segment Power and Communication, adjusted for currency effects and divestments, decreased 6.0%. Net sales in Power decreased by EUR 61.1 million and in Communication by EUR 29.0 million. Other decreased by EUR 9.9 million, in line with the planned discontinuation of the businesses.

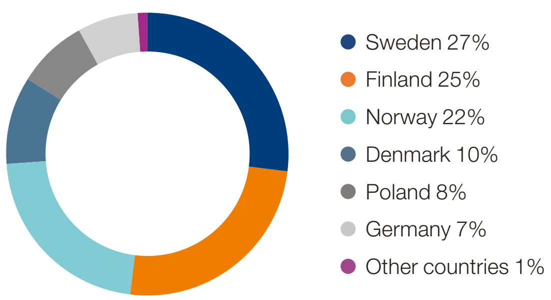
Operative EBITA

Operative EBITA amounted to EUR -11.3 million (-2.2). In Power, operative EBITA decreased by EUR 17.0 million and in Communication by EUR 6.7 million. Operative EBITA increased in Other by EUR 10.4 million. Items not allocated improved by EUR 4.3 million. Items not allocated to operating segments consist of Group management and support function.

Net sales, MEUR



Net sales by country



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

Segment Power

Net sales decreased by EUR 61.1 million to EUR 377.7 million (438.8), representing a decrease of 13.9%. Organic net sales, adjusted for currency effects, decreased 13.4%. Net sales have decreased in all markets but mainly due to 40% lower volumes in Smart Grids. Other contributing factors include reduced customer investment levels, phasing and ramp down of projects in High Voltage as well as loss of contracts with subsequent lower activity, ramp down and write-downs in Sweden. In Finland, an increase in wind power net sales during the second half of the year compensated for reduced revenue during the first half.

Operative EBITA decreased to EUR -17.5 million (-0.5). The operative EBITA margin was -4.6% (-0.1). Improved performance in Finland and Denmark was offset by weaker performance and write-downs in High Voltage projects. Following the strategic evaluation, we updated the strategy in High Voltage Poland to decrease future contractual and operational risk and to reduce the exposure towards larger projects. This also includes a change in management. In line with expectations, the lower volumes in Smart Grids negatively impacted EBITA with EUR 7.4 million. Ramp down of Service operations, provisions, and restructuring costs in Sweden also contributed to the result.

Segment Communication

Net sales decreased by EUR 29.0 million to EUR 698.4 million (727.3), representing a decrease of 4.0%. Organic net sales, adjusted for currency effects and divestments, decreased 1.5%. The majority of the decline is explained by the sudden volume drop in Sweden due to significantly reduced investment levels from a main customer. Also, Finland faced a drop in customer investment levels, but to a lower extent. EUR 7.1 million of the decline relates to the divestment of the Polish Communication business in the third quarter of 2019. The decline was partly offset by large volume increases in Norway and Denmark.

Operative EBITA decreased to EUR 18.1 million (24.8). The operative EBITA margin was 2.6% (3.4). The decrease is mainly explained by sudden lower volumes, subsequent workforce overcapacity and restructuring costs, representing a negative impact of approximately EUR 13 million for the full year. Write-downs and provisions in Sweden also impacted the result negatively, of which the majority come from Build, fibre projects, awarded during 2016–2017. Finland contributed to the decline, but on a smaller scale and mainly during the first half of the year. The decrease was partly offset by increased net sales, change in product mix and efficiency improvements in Norway. Germany and Denmark also contributed positively with increased net sales and improved project execution.

Other

Net sales decreased by EUR 9.9 million to EUR 13.2 million (23.1), representing a decrease of 42.8%. The decline is in line with the discontinuation of the businesses within Rail and Power Transmission International. The remaining net sales relates almost fully to Power Transmission International.

Operative EBITA increased to EUR -0.8 million (-11.1). The operative EBITA margin was -5.9% (-48.2). The majority of the Rail business has been discontinued with only a few projects remaining in Sweden. The discontinuation of Power Transmission International continues according to plan.

The total cost of discontinuing Power Transmission International is estimated to be somewhat lower than EUR 40 million. In total, net costs amounting to EUR 30.7 million were recorded during 1 January 2017–31 December 2019, in line with the plan. The discontinuation is expected to be finalised in 2020.

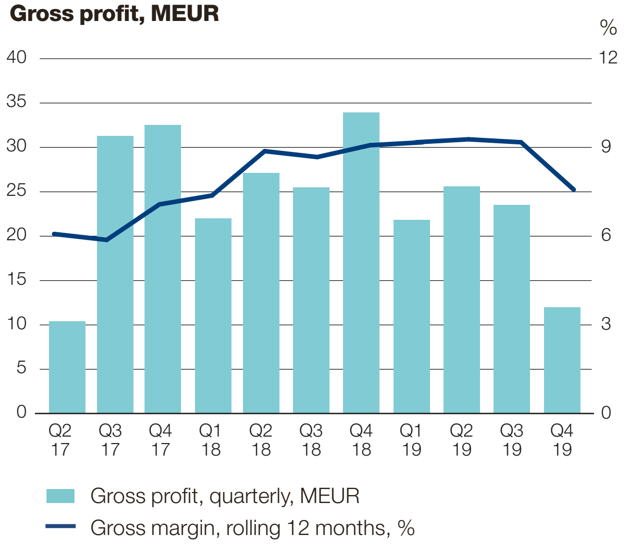
Cash flow

Cash flow from operating activities was EUR 51.4 million (3.2). This includes positive impact of EUR 37.9 million (6.8) from change in net working capital.

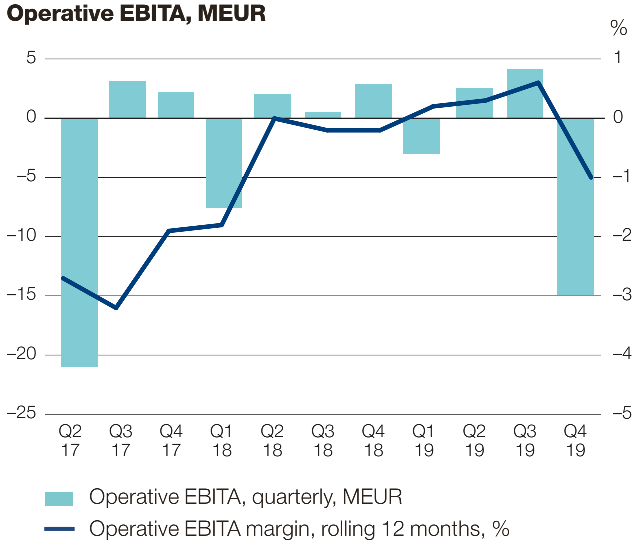
Cash flow has historically displayed a strong seasonal pattern, with weaker cash flow recorded during the period until the end of the third quarter due to higher production activity. Eltel's net working capital level is also impacted by working capital intensive projects, which are expected to continue to create volatility in net working capital going forward.

Net cash flow from investing activities was EUR -2.1 million (-21.3). This includes a positive impact of EUR 12.3 million from

Gross profit, MEUR



Operative EBITA, MEUR



divestment of the Polish Communication business, EUR -11.7 million (-18.6) net capital expenditure, mainly to improved IT systems and replacement investments, EUR -4.2 million earn-out payment for Smart Grids in Germany (-2.6 divestment) and EUR 1.5 million investment refund from joint ventures.

Cash flow from financing activities was EUR -38.2 million (39.1) including net of payment of financial lease liabilities and increase in other short-term borrowing. IFRS 16 line impact between cash flow from operating activities and financing activities was EUR -25.7 million.

Financial position, cash and cash equivalents

Equity at the end of the period was EUR 220.7 million (252.0) and total assets were EUR 807.2 million (829.8). The equity ratio was 28.5%. The comparable equity ratio before IFRS 16 impact was 31.6% (32.4).

At the end of the quarter, available liquidity reserves amounted to EUR 162.8 million (183.4). On the same date, EUR 89.5 million of Eltel's commercial paper programme was utilised.

In February 2020, Eltel and its banks agreed on certain amendments to its financial agreement that matures in Q1 2021. The new amendments include agreement of adjusted financial covenants and a plan to reduce net debt during the term. The covenant revisions relate to minimum adjusted EBITDA and maximum net debt to be applied on a quarterly basis until the end of the facility. The minimum liquidity covenant level remains throughout the agreement. The covenants, minimum adjusted EBITDA and maximum net debt, defined in the financial agreement are excluding IFRS 16 impact.

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 the year the commercial contract guarantees issued by banks, other financial institutions and the Parent Company amounted to EUR 297.0 million (304.8).

Interest-bearing liabilities and net debt

EUR million	31 Dec 2019	31 Dec 2018
Interest-bearing debt in balance sheet	185.1	196.7
Leasing liabilities in balance sheet	78.6	4.1
Allocation of effective interest to periods	0.6	0.6
Less cash and cash equivalents	-65.2	-53.4
Net debt	199.1	148.0
Less IFRS 16 leasing liabilities	-75.3	–
Adjusted for held for sale	0.0	–
Net debt, financing agreement	**123.8**	**148.0**

Interest-bearing debt amounted to EUR 185.1 million (196.7) of which EUR 76.1 million (112.3) was non-current and EUR 109.0 million (84.4) was current. Leasing liabilities amounted to EUR 78.6 million (4.1) of which EUR 54.3 million (2.2) was non-current and EUR 24.3 million (2.0) was current. IFRS 16 impact in leasing liabilities was EUR 75.3 million, of which EUR 52.9 million was non-current and EUR 22.4 million current.

Employees

In 2019, the number of employees decreased by 9.5% to 6,678 at year-end (7,376), mainly as a result of divestments and the discontinuation of operations, but also as a result of right-sizing the business due to lower volumes, particularly in segment Communication in Sweden.

Electrical safety, working at height, handling ageing infrastructure and driving are identified as high-risk activities for Eltel's employees. The number of accidents and incidents have stabilised, and the number of near misses reported has increased as a consequence of the systematic and Group-wide programme to reduce work-related injuries. The promotion of a more proactive health and safety culture as well as a structured proactive work with high risk factors are key reasons for the results compared to previous years. Still much work remains to reach a level of operational excellence. Active safety observation reporting, continuous safety walks and visible management commitment to Goal Zero vision have furthermore contributed to reduction of injury severity. One fatal accident occurred during the year, but the vision is still to reach a level of zero accidents.

Being a people company, Eltel is dependent on the engagement of our employees. No annual Group-wide employee engagement survey was performed during the year, but smaller temperature checks were performed in different part of the organisation. Next Group-wide survey is planned for Q3 2020.

For more on how we work with employees, and health and safety, please refer to pages 21–22.

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 20–25.

Risks & Uncertainties

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. The matter relates to alleged deficiencies in Eltel's capacity for providing information to the market during 2016 and 2017. Eltel has been invited to comment upon Nasdaq Stockholm's conclusions and Eltel has responded outlining its reasons for rejecting any breach. Any decision taken by the Disciplinary Committee will be made public.

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. On 10 June 2019 SAC decided to refer the interpretation of the time bar matter to the European Court of Justice ("ECJ") in Luxembourg. The timing of the ECJ'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.

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 court. 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. For further information regarding this case and the guarantee (escrow), please refer to Eltel's IPO prospectus.

Financial situation

Eltel needs to improve its financial situation and reduce net debt over time. There is a risk that the covenants under the existing financing agreement are not met during the transformation period.

Risk Management

Eltel's Risk Management's goal is to safeguard strategy execution from unexpected risks through assessing risks and opportunities on a daily basis. Risk awareness is part of our daily mindset.

The control environment within Eltel's corporate governance framework includes a set of clear rules of procedure for the Board of Directors and its committees, a clear organisational structure, 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 in place during 2019 and in previous years. The Internal Control Function evaluates if the risk management process is in place and communicates identified deficiencies to top management.

For more information regarding financial risk management, please refer to note 12 in the Consolidated financial statements.

Risk Reporting

The Group Risk Management Team (RM Team), which is comprised of the current Group Function Management, is responsible to ensure that risks are addressed adequately by Country and Solution Unit management. This is performed quarterly when the forum discusses the risks and reviews them with a comparable view to ensure adequate risk management is in place. The forum provides feedback twice per year (or immediately when necessary) to the Audit Committee and the Board of Directors.

Risk reporting roles

Reports →

← Provides feedback

Country / Solution Unit	Group CEO / CFO	Group RM Team	Board / Audit Committee
Identifies operational risks and opportunities. Reports risks, weight of risks and potential action plan via Monthly Business Review template.	Reviews risks and opportunities during monthly business reviews. Confirms actions and deadlines.	Meets quarterly to review all top operational risks to identify strategic issues and identify whether further actions or reporting should be escalated.	Reviews deliverables from management and provides advice to the CEO.
Addresses risks and opportunities as part of the Business Plan.	Reviews and approves risks as part of the Business Plan. Reports top operational risks to the Audit Committee at least quarterly.	Prepares Annual Risk Report to the Board of Directors as an annual summary of Top Strategic and Operational Risks.	

Selection of top risks

Risk	Actions	Type
Health and safety in the working environment: Eltel regrets to communicate that during 2019 a fatality occurred in Poland when a subcontractor performed work on a live electrical line. Eltel works hard to continually improve safety communication, instructions and tools on the job. As a result, Eltel will put additional focus on subcontracting activities in all countries. Health and safety in the working environment is a top operational focus for all of Eltel. In 2019, Eltel implemented a reporting application and new safety work wear instructions, increased safety walk throughs, and had seen a decrease in lost time incidents. Eltel will continue to focus on the health and safety internally to ensure the focus is fit to purpose as Eltel's footprint changes.	Action plans have been put in place with Procurement and Operations Officers in Poland and other countries to enhance communication and improve subcontractor controls. Eltel will continue to focus on its safety culture by first ensuring that the root causes of the fatality area clearly communicated and from there continue its communication and education of health and safety information.	Health and safety
Liquidity risks: As in 2018, Eltel continues to closely monitor and mitigate liquidity risks. Eltel's cash flow corrective actions include, among other things, the sale of non-core business operations to improve the balance sheet and enable timely payments under existing loan facilities. Overall, net working capital has come down progressively in 2019.	Measures have been taken to balance the company's liquidity position and will most likely continue throughout 2020. Action plans are in place to strengthen the balance sheet by improving invoicing activities and contractual payment terms.	Financial
Long turn-around period: The significantly long turn-a-round period increases the risk of Eltel not meeting objectives through losing key personnel due to continual change in a challenging work environment. Eltel is in its last years of the long turn-a-round phase where the organisation continues to change processes, organisational set-up, and its offer to the market. It is a continual communication and operational effort to ensure management and employees are focused on the vision and mission while changing their ways of working to better the company.	On a regular basis, management focuses on clear communication to maintain momentum and ensure people are a focal point in Eltel's turn around. Eltel has resource action plans which include incentive programs for key persons.	People and process

Remuneration of senior management

For information regarding the most recently approved guidelines for remuneration to senior management by the Annual General Meeting, please refer to note 29 Remuneration to senior management, in the Consolidated financial statements.

The Board's proposal on guidelines for remuneration to senior executives

The Board of Directors of Eltel AB proposes that the Annual General Meeting 2020 resolves to adopt guidelines for remuneration to senior executives on the following principal terms and conditions.

Scope and applicability of the guidelines

These guidelines for remuneration to senior executives cover remuneration to the Board of Directors, the CEO, the Deputy CEO and other senior executives (the Group Management Team). The guidelines are applicable to remuneration agreed, and amendments to remuneration already agreed, after the adoption of the guidelines by the Annual General Meeting 2020. The guidelines apply until the general meeting resolves to adopt new guidelines for remuneration to senior executives. These guidelines do not apply to any remuneration decided or approved by the general meeting, e.g. remuneration to the Board of Directors and long-term incentives, which are decided separately by the general meeting of shareholders.

The Board of Directors shall be entitled to temporarily deviate from these guidelines, in whole or in part, if special reasons justifies doing so in an individual case and such deviation is necessary in order to meet the company's long-term interests and sustainability or to ensure the company's financial viability. If such a deviation occurs, it must be reported in the Remuneration Report before the next Annual General Meeting. As set out below, the Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters, including potential matters regarding deviation from the guidelines.

The guidelines' promotion of the company's business strategy, long-term interest and sustainability

The Board of Directors considers that a prerequisite of the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to recruit and retain a highly competent management with capacity of achieving specified goals. To this end, it is necessary that the company can offer competitive remuneration to motivate senior executives to do their utmost. Variable cash remuneration covered by these guidelines shall be based on criteria that aim at promoting the company's business strategy and long-term interests, including its sustainability, and where the fulfillment of the criteria is determined by the method set out below. For a more comprehensive description of the company's strategy, please refer to https://www.eltelgroup.com/en/strategy-and-targets/.

Forms of remuneration, etc.

The remuneration to senior executives shall be based on market terms. The remuneration may consist of fixed base salary, variable remuneration, pension and certain other benefits. In addition, the general meeting may – regardless of these guidelines – resolve on share-related or share price-related remuneration.

Fixed base salary

Fixed base salary for senior executives are reviewed yearly and in accordance with local practices. The fixed base salary constitutes 60–80% of total remuneration excluding LTI and assuming a 50% outcome of STI.

Cash short-term incentives (STI)

The aim of the short-term incentive is to reinforce the right performance and behaviors – financially and operationally – and to align the individual performance with the company's business strategy, long-term interests and sustainability.

The key performance criteria for senior executives are primarily financial, i.e. EBITA in local currency, Net Working Capital (NWC) in EUR and Safety measured as the Long Term Injury Frequency rate (LTIF). A minor part of certain senior executives' key performance criteria can be discretionary under special circumstances

The minimum financial performance of the company for any STI pay-out is defined by the Board of Directors as a level of result in EBITA. This level is set to guarantee a lowest level of earnings for the company before any STI pay-out is made.

The short-term incentives can amount to a maximum of 80% of the fixed base salary for the CEO and 60% for other senior executives. At full outcome, the short-term incentives can amount to a maximum of 45% of total remuneration for the CEO and maximum of 40% for other senior executives.

Unless otherwise provided by mandatory law or obligations in applicable collective bargaining agreements, short-term incentives shall not entail any deposition of pension.

The STI is paid in connection with the ordinary monthly salary that is paid four months after the end of the qualifying period. The company is not able to recover remuneration paid out as STI.

In specific situations, for example in relation to potential divestments, M&A or specific projects, Eltel may offer cash bonuses that are conditional on the success of the specific transaction or project.

Long-term Incentives (LTI)

Senior executives can be offered share-related or share price-related remuneration. LTI are intended to improve the participants' commitment to the company's development and they shall be implemented on market-based terms. Resolutions on incentive programmes related to shares and share prices must be passed at the general meeting and are therefore not covered by these guidelines.

Other benefits

Pension

Senior executives are offered pension benefits that are primarily based on defined insurance payments and in accordance with local practices. The pension benefits are generally funded through payments to insurance companies or trustee-administered funds.

Company car, etc.

Senior executives are offered a company car and other benefits (such as allowances to physical activity, personal health, lunch facilities, health insurance etc) in accordance with local rules, regulations and practices in each country.

Other benefits constitutes 4–14% of total remuneration excluding LTI and assuming a 50% outcome of STI.

Notice of termination and severance pay

The senior executives' employment or contractual agreements shall be valid until further notice or for a specified period of time.

The notice period is 12 months for the CEO in the event of termination by the company and 12 months in the event of termination by the CEO. In the event of termination by the company, the CEO is entitled to a severance pay equivalent of 12 months' fixed base salary and payable in one sum. The total amount of the salary and severance payment for the CEO may not exceed an amount corresponding to two years' fixed base salary.

The notice period is 12 months for other senior executives in the event of termination by the company and six months in the event of termination by other senior executives. No other senior executive than the CEO is entitled to severance payment.

Salary and terms of employment for employees

In preparing the Board of Directors' proposal for these remuneration guidelines, the salaries and terms of employment for the company's employees have been taken into account. Information about employees' total remuneration, components of their remuneration as well as increases in remuneration and increases over time have been obtained and have constituted a part of the Remuneration Committee's and the Board of Directors' decision basis in their evaluation of the fairness of the guidelines and the limitations arising from them.

The resolution process

The Board of Directors shall prepare a proposal for new guidelines when there is a need for significant changes to the guidelines, however at least every four years. The Board of Directors' proposal is prepared by the Remuneration Committee. The chairman of the Board of Directors may chair the Remuneration Committee. In order to manage conflicts of interest, other members of the Remuneration Committee who are elected by the Annual General Meeting must be independent in relation to the company and the senior executives.

The Remuneration Committee shall, inter alia, monitor and evaluate the application of the guidelines for remuneration to senior executives decided by the Annual General Meeting. When the Remuneration Committee has prepared the proposal, it is submitted to the Board of Directors for decision. The CEO or other senior executives shall not be present while the Board of Directors address matters related to remuneration and passes resolutions about them, insofar as they are affected by the matters.

If the Annual General Meeting does not resolve to adopt guidelines when there is a proposal for such, the Board of Directors shall submit a new proposal no later than the next Annual General Meeting. In such cases, remuneration shall be paid in accordance with the current guidelines or, if no guidelines exist, in accordance with the company's practice.

External advisors are used in the preparation of remuneration related matters when deemed necessary.

Review of the guidelines

A review of the guidelines for remuneration to senior executives which were adopted by the Annual General Meeting 2019 has been made as a result of the amendments to the Swedish Companies Act that came into force on 10 June 2019. The proposed changes pursuant to this proposal are not expected to entail any significant change in the remuneration paid in accordance with the guidelines adopted by the Annual General Meeting 2019.

Subsequent events

Divestment of German Communication business

On 22 January 2020, Eltel signed an agreement to divest its German Communication business to Circet Group. The total consideration of the transaction is about EUR 19 million.

COVID-19

At the time of publication, there is a pandemic outbreak of COVID-19 affecting large parts of the societies in which Eltel is active. Under these exceptional circumstances, Eltel is evaluating the impacts of the pandemic on the company, while also focusing on mitigating actions and securing the continuity of its business. Eltel is playing an important role in maintaining critical societal functions in this difficult situation.

Divestment of Aviation & Security

On 23 March 2020, Eltel signed an agreement to divest its Swedish business area Aviation & Security to LFV, Air Navigation Services of Sweden. The total consideration of the transaction is about EUR 17 million. The transaction is expected to close during Q2 2020.

Corporate Governance Report

Eltel has issued a Corporate Governance Report for the financial year 2019. The Corporate Governance Report has been prepared in accordance with the Swedish Corporate Governance Code.

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". At the end of the financial period 2019, there was a total of 156,649,081 ordinary shares in Eltel and the share capital entered in the trade register was EUR 158,838,751.

On 31 January 2019, Eltel issued a total of 850,000 redeemable and convertible class C shares, representing 0.5% of the share capital, based on the authorisation given to the Board by the Extraordinary General Meeting on 17 September 2018. The purpose of the issue of class C shares is to use the shares in Eltel's long-term incentive programme LTIP 2018. In connection with the issue, the shares have been repurchased by Eltel. The price paid for the shares corresponded to the share's quota value, in total EUR 0.9 million. Eltel holds the shares at 31 December 2019 and will hold the shares until it is time to deliver shares to the participants of LTIP 2018. Prior to delivery of the shares to participants, the class C shares will be converted to ordinary shares. On 31 December 2019, the total number of shares amounts to 157,499,081 divided into 156,649,081 ordinary shares with 1 vote per share and 850,000 C shares with 1/10 vote per share. More about the Eltel share please refer to pages 28–29.

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 Company holds management functions but has no operative business activities and its risks are mainly attributable to the value and activities of its subsidiaries.

The Parent Company's income amounted to EUR 2.2 million (3.8) related to support function services provided to the Group. The operating expenses amounted to EUR 8.7 million (11.9). Financial income amounted to EUR 20.9 million (16.3) related to interest income from Group companies. Financial expenses amounted to EUR 3.0 million (1.9) and Group contribution of EUR 11.3 million (6.2) was given to a subsidiary company. Net result was EUR 0.1 million (0.0).

The Board's proposal for the distribution of profits

The Parent Company's non-restricted equity on 31 December 2019 was EUR 284,799,214.86 of which the net profit for the year was EUR 55,567.22. The Board of Directors proposes to the Annual General Meeting that no dividend be paid or the year 2019 and that the non-restricted equity of EUR 284,799,214.86 be retained and carried forward.

Corporate Governance report

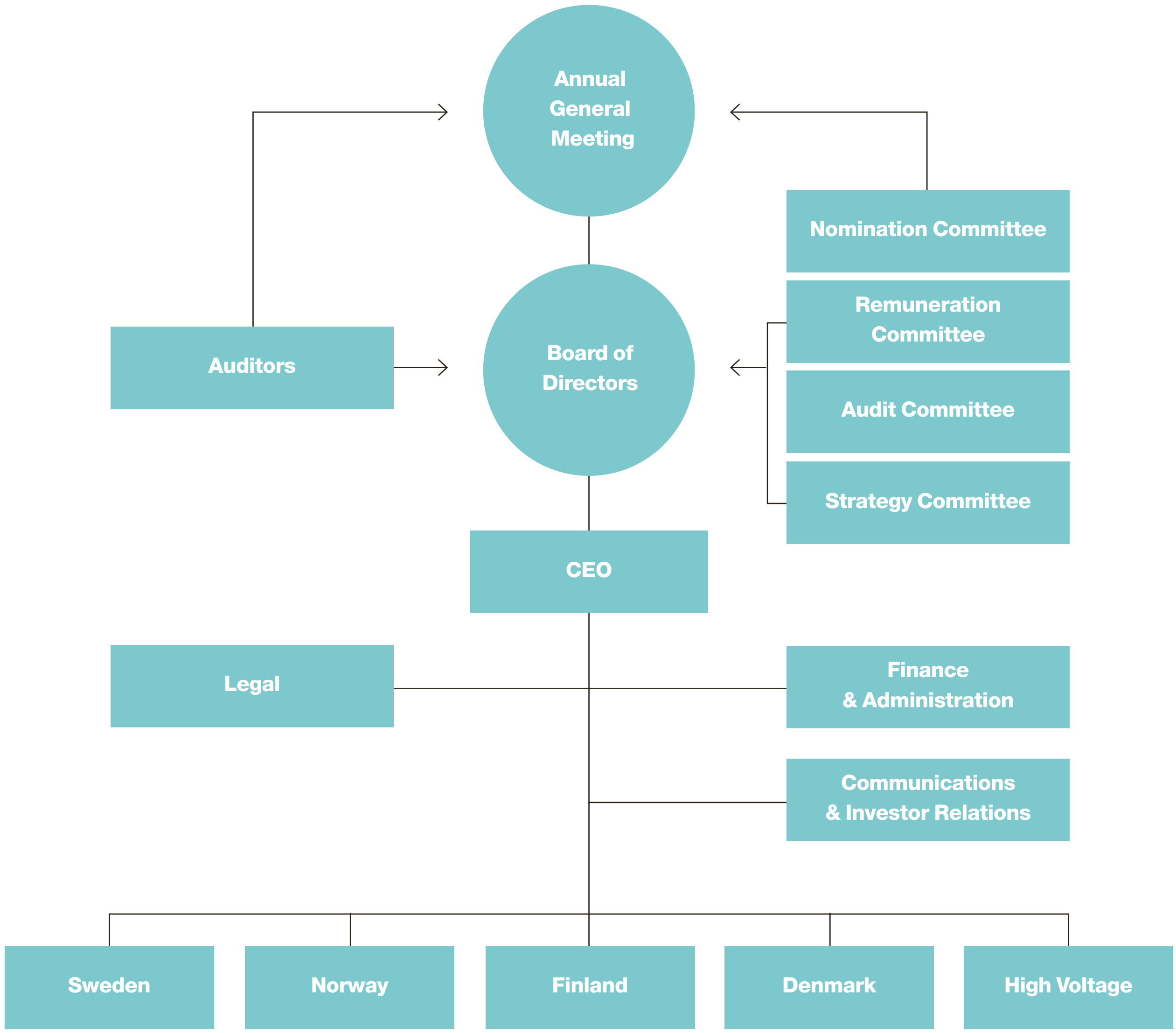
Eltel AB (publ) (hereafter referred to as “Eltel” or the “Company”) is a Swedish public limited liability company with its shares admitted to trading on Nasdaq Stockholm.

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 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, 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, matches the Financial Statements.

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

Eltel’s governance structure



Shareholders

Ownership structure

As of 31 December 2019, Eltel had 4,152 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 2019, the shareholders referred to above together represented 57.5% of the votes in the company.

Shares and votes

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". At the end of the financial period 2019, there was a total of 156,649,081 ordinary shares in Eltel and the share capital entered in the trade register was EUR 158,838,751.

On 31 January 2019, Eltel issued a total of 850,000 redeemable and convertible class C shares, representing 0.5% of the share capital, based on the authorisation given to the Board by the Extraordinary General Meeting on 17 September 2018. The purpose of the issue of class C shares is to use the shares in Eltel's long-term incentive programme LTIP 2018. In connection with the issue, the shares have been repurchased by Eltel. The price paid for the shares corresponded to the share's quota value, in total EUR 0.9 million. Eltel holds the shares at 31 December 2019 and will hold the shares until it is time to deliver shares to the participants of LTIP 2018. Prior to delivery of the shares to participants, the class C shares will be converted to ordinary shares. On 31 December 2019, the total number of shares amounts to 157,499,081 divided into 156,649,081 ordinary shares with 1 vote per share and 850,000 C shares with 1/10 vote per share.

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, 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 of 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 the newspaper Svenska Dagbladet. Eltel also publishes invitations to its General Meetings as regulatory press releases.

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

Annual General Meeting 2019

Eltel's Annual General Meeting was held on 7 May 2019. Shareholders representing 105,167,774 shares, constituting 66.8% 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, Hans von Uthmann, Joakim Olsson, Mikael Aro and Roland Sundén as members of the Board
- Election of KPMG AB as the auditor (whereby it was announced that Mats Kåvik will be auditor-in-charge)
- Guidelines for the remuneration of senior executives
- Authorisation for the Board of Directors to resolve to issue new shares and authorisation for the Board of Directors to resolve to repurchase and transfer 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/.

Annual General Meeting 2020 and Annual Report 2019

Eltel's Annual General Meeting 2020 will be held on 4 May 2020 at Scandic Alvik, Gustavslundsvägen 153, 167 51 Bromma, Sweden.

The Annual Report 2019 will be made available on the Group website from week 14, 2020, www.eltelgroup.com and at Eltel AB headquarters, Adolfsbergsvägen 13, Bromma, Sweden from week 16, 2020.

[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.

Nomination Committee

According to the instructions for the Nomination Committee, the committee shall comprise 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 for 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 and partly to identify areas of development for the Board of Directors. The evaluation is performed with the support of an evaluation form and through discussions, as well as through individual interviews of the Board members.

Nomination Committee for the AGM 2020

For the 2020 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 three occasions and also held separate sessions to interview individual members of the Board.

The Nomination Committee's complete proposals for the 2020 Annual General Meeting of shareholders is published in the notice convening the 2020 Annual General Meeting of shareholders.

The Board of Directors

The Board of Directors' responsibility is regulated by 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 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 administration of the Company's affairs. The Board of Directors shall continuously assess the Group's financial situation, as well as ensure that the Company's organisation is structured in such a way that the accounting, management of funds and the financial conditions are securely controlled.

The Board of Directors is also responsible for setting objectives and strategies, ensuring efficient systems for follow-up and control of the Company's operations, identifying how sustainability issues impact risks to and business opportunities for the Company, and that satisfactory controls are in place to ensure the Company's compliance with laws and other regulations applicable to Eltel's operations. Furthermore, the Board of Directors shall ensure the implementation of appropriate policies and other steering documents regarding the Company's conduct 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 tasks of the Board of Directors include appointing, evaluating and, if necessary, dismissing the CEO.

Members of the Board of Directors

Name	Position	Year of birth	Election year	Share holding	Remuneration EUR	Independence from main owners	Independence of the Company
Ulf Mattsson	Chairman	1964	2017	69,000	139,450	Yes	Yes
Mikael Aro	Member	1965	2018	50,000	37,100	No	Yes
Håkan Dahlström	Member	1962	2017	75,597	41,200	Yes	Yes
Gunilla Fransson	Member	1960	2016	–	43,000	Yes	Yes
Ulf Lundahl	Member	1952	2014	–	41,200	Yes	Yes
Markku Moilanen	Member	1961	2017	–	37,100	Yes	Yes
Joakim Olsson	Member	1965	2018	–	41,200	No	Yes
Roland Sundén	Member	1963	2018	50,000	37,100	Yes	Yes
Hans von Uthmann	Member	1958	2017	10,000	41,200	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

Information about the Board of Directors' other assignments can be found on pages 46–47.

With the exception of employee representatives, members of the Board of Directors are appointed at the Annual General Meeting 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 at the General Meeting shall comprise three to ten members with no more than three deputies. In accordance with 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, for example, the Board of Directors' roles and responsibilities, the Board of Directors' ways of working and the division of tasks 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 2019

Eltel's Board of Directors comprises nine ordinary members and two employee representatives as ordinary members. There are also two deputies to the employee representatives:

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

The members of the Board of Directors are presented in greater detail in the section "Board of Directors" on pages 48–49.

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

Board matters during 2019

In 2019, the main focus of the Board was to ensure the implementation of the Company's Operational Excellence strategy, that divestments and the right-sizing of operations were executed according to plan and other activities for strengthening the balance sheet and lowering the net debt.

In 2019, the Board of Directors held 16 meetings. For details of Board member participation in Board meetings, please see table below.

Evaluation of the Board's performance

To ensure the quality of the work of the Board and to identify the possible need for further expertise and experience, the work of the Board and its members is evaluated annually. In 2019, evaluations, 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

An Audit Committee and a Remuneration Committee is annually appointed by the Board in its constituent meeting following the Annual General Meeting.

The Board may also appoint other committees if deemed necessary. On 1 July 2019, the Board appointed a Strategy Committee. The Board appoints the members of the committees and their chairmen by taking account of 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.

Board meeting participation 2019

	29 Jan	4 Feb	13 Feb	4 Mar	27 Mar	3 Apr	15 Apr	25 Apr	7 May	19 Jun	23 Jul	27 Sep	21 Oct	6 Nov	25 Nov	17 Dec
Ulf Mattsson	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Mikael Aro	●	●	–	●	●	●	●	●	●	●	●	●	●	●	●	–
Håkan Dahlström	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Gunilla Fransson	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Ulf Lundahl	●	●	●	●	–	●	●	●	●	●	●	●	●	●	●	●
Markku Moilanen	●	●	●	●	●	●	●	●	–	●	●	–	●	●	●	●
Joakim Olsson	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Roland Sundén	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Hans von Uthmann	●	●	–	●	●	●	●	●	●	●	●	●	●	●	●	●
Jonny Andersson	–	–	●	●	●	●	●	–	–	–	–	–	●	●	●	–
Krister Andersson	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Björn Ekblom	●	●	●	●	●	●	●	●	●	●	–	●	●	●	●	–
Ninni Stylin	–	–	●	●	●	–	●	●	–	●	–	●	●	●	●	–

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 whether 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 an auditor
- Exercise its delegation of authority to advise and review matters such as customer tenders and financial matters.

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

The Audit Committee Chairman shall also support the CEO, the CFO and Group Communications in matters relating to information disclosure, financial reporting and media contacts, particularly in the event of a crisis.

The Audit Committee in 2019

The Audit Committee comprises three members: Gunilla Fransson (Chairman), Hans von Uthmann (until 1 July 2019), Markku Moilanen (from July 2019) and Joakim Olsson.
The Audit Committee held eight meetings in 2019 at which Eltel's external auditor and representatives of the Company's management were present and five additional meetings devoted to customer tender approvals.

The Remuneration Committee

The main responsibilities of the Remuneration Committee are to:

- Prepare the Board of Directors' resolutions on issues concerning renumeration principles, remunerations and other terms of employment for the senior management
- Monitor and evaluate programmes for the variable remuneration of senior management, both ongoing and terminated during the year
- Monitor and evaluate the application of the guidelines for the remuneration of senior management upon which the Annual General Meeting is legally obliged to decide, as well as the current remuneration structures and levels in the Company
- Assess and plan the succession of senior management at Eltel.

The Remuneration Committee in 2019

The Remuneration Committee comprises three members: Ulf Mattsson (Chairman until 1 July 2019), Hans von Uthmann (Chairman from 1 July 2019), Ulf Lundahl and Håkan Dahlström.

The Remuneration Committee held five meetings in 2019.

Remuneration Committee participation

	28 Jan	12 Apr	18 Apr	3 Jun	25 Nov
Ulf Mattsson[1]	●	●	●	●	–
Hans von Uthmann[2]	–	–	–	–	●
Håkan Dahlström	●	●	●	●	●
Ulf Lundahl	●	●	●	●	●

[1] Until 1 July 2019.
[1] From 1 July 2019.

The Strategy Committee

The main responsibilities of the Strategy Committee are to:

- Support the CEO and management in developing the company's strategy
- Evaluate and monitor the company's strategic initiatives.

The Strategy Committee in 2019

The Strategy Committee comprises three members: Ulf Mattsson (Chairman), Mikael Aro and Roland Sundén.

Audit Committee participation

	13 Feb	26 Feb	25 Apr	11 Jun	23 Jul	2 Sep	6 Nov	16 Dec
Gunilla Fransson	●	●	●	●	●	●	●	●
Markku Moilanen[1]	–	–	–	–	●	●	●	●
Hans von Uthmann[2]	●	●	●	●	–	–	–	–
Joakim Olsson	●	●	●	●	●	●	●	●

[1] From 1 July 2019.
[2] Until 1 July 2019.

Strategy Committee participation

	27 Sep	16 Oct
Ulf Mattsson	●	●
Mikael Aro	●	●
Roland Sundén	●	●

Remuneration principles at Eltel

Eltel's overall objective is to offer a competitive and market-based level of remuneration comprising both fixed and variable salary, pension and other remuneration components. The remuneration shall be determined in relation to areas of responsibility, duties, expertise and performance. The fixed salary component equals and compensates for the 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 to do so.

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 to comparable executives. The GMT comprises members from several different countries and the pension terms of the members of GMT reflect the 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 determined by the Board of Directors. The short-term (one-year) variable salary maximum outcome component varies between 10% and 80% of the fixed annual salary. The CEO has an 80% variable salary maximum outcome component and the remaining members of GMT have a 60% variable salary maximum outcome 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 variable salary component for non-GMT members ranges from 10% to 40% of the fixed annual salary maximum outcome depending on the employee's position. The annual bonus schemes cover around 60% of employees. In addition, approximately 20% of employees are included in monthly production bonus schemes based on individual and team performance.

Retention bonus

In 2018, 15 senior managers and key employees were offered a retention bonus scheme. The purpose of the retention bonus scheme is 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 results for 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. The performance of the Group in 2018 and 2019 did not meet the required EBITDA results for pay-out of any retention bonus.

In February 2020, 11 senior managers and key employees were offered a retention bonus scheme amounting to 50% of maximum STI potential for the relevant employee to be guaranteed for the years 2020 and 2021, respectively. The guarantee amount is calculated as the difference between 50% of the max STI potential for 2020 and 2021 and the accumulated actual bonus payouts for 2020 and 2021. The retention bonus scheme requires that the employee has not given notice and still is employed on 31 December 2021.

Eltel's long-term incentives

Senior executives may be offered long-term incentive schemes on market-based terms. The aim of share-based incentive schemes is to achieve an increase in and spread of share ownership/exposure among senior executives and to achieve a greater alignment of interests between 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, align management with the shareholders' interests and increase motivation and solidarity with the Company. Decisions regarding share-based incentive schemes shall always be resolved at the Annual General Meeting.

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 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 is 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 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 EUR 1 million.

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 relevant participant's base salary level for the relevent 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), the Remuneration Committee (defined as "the Committee" in the 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.

In 2019, the LTIP 2016 participants were allotted matching shares in accordance with the 2016 LTIP rules, in total, an allotment of matching shares comprising 84,262 shares to the 35 remaining participants.

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 creating individual, long-term ownership of Eltel shares among the participants. The term of LTIP 2018 is three years.

The programme was directed at the executive management in the Eltel Group, a total of eight persons. The participants are based in Sweden and other countries in which the Eltel Group operates. 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 an 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 relevant participant's base salary level for the relevant year. In order to be eligible to participate in LTIP 2018, the participants 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, the Board of Directors in January 2019, based on authorisation given at the Extraordinary General Meeting held on 17 September 2018, resolved 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 share's 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 2022.

External Audit

The Annual General Meeting appoints an 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.

The external auditor also 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 each year.

External auditor in 2019

The Annual General Meeting in 2019 elected KPMG AB as Eltel's external auditor for a one-year mandate, with Mats Kåvik as auditor-in-charge. In 2019, total fees paid to the external auditors, KPMG AB, amounted to EUR 0.9 million, of which non-auditing services totalled EUR 0.1 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 to 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 (10 times in 2019). The GMT considers strategic and operational issues related to he 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 comprises the following members:

- Casimir Lindholm, President and CEO
- Saila Miettinen-Lähde, CFO
- Henrik Sundell, General Counsel
- Elin Otter, Director, Communications and Investor Relations
- 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 for 2019 on pages 50–51.

Control systems

Guidelines and manuals

Eltel's internal control system, which comprises all corporate governance including policies, guidelines and procedures, is communicated via management and is organised according to the requirements of the Country Unit and Solution Unit. Eltel's IFRS Accounting Manual contains instructions and guidance on accounting and financial reporting to be applied to all Eltel Group companies. The manual's objective is to provide guidance on Eltel Group accounting principles to be applied in group reporting as well as preparation of the consolidated financial statements.

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 unit, health and safety, communications and investor relations, sustainability, restrictions on insider trading, accounting and controlling.

As part of regular monitoring, Eltel conducts internal audits to verify that the Company complies with the approved governance. Regular reporting, follow-up and escalation procedures have been implemented in which the Audit Committee is ultimately made aware if issues are identified.

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

Information and communications

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

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 key 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 any deviations from the 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 in specific areas. The auditors attend all regular Audit Committee meetings.

Priority areas in 2019

Eltel's significant priority areas for 2019 included the following:

Implementation of the Operational Excellence strategy, which focuses on delivering on our customer promises, streamlining our operations and improving productivity.

In 2019, Eltel transitioned to focus on the Nordic markets in which it has a market-leading position. A Nordic focus with lower risk and fewer capital-intensive projects will enable the company to continue to develop, grow and invest in the company to ensure long-term sustainable value creation for both the company and its shareholders.

During the year, Eltel completed its reorganisation, which was initiated in 2018, around its country-based operations with a leaner management structure on both Group and Country Unit level. Eltel's Country Units have a great deal of autonomy with their own management teams, as well as profit and loss responsibility. The units are supported by cost-efficient, Group-wide support functions.

Eltel divested its Communication business in Poland, which contributed to strengthen the balance sheet. The divestment created value for Eltel and its shareholders by strengthening the balance sheet and the Nordic focus.

Internal control 2019

Eltel's Internal Control Function has been in place for two years and has focused on working to improve internal control through different activities set out in an Annual Plan, which is confirmed by the Audit Committee annually. The Internal Control function is responsible, for example, for 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 control and also obtained third-party support to conduct internal audits. The outcome of the Internal Control 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 management

Please see Board of Director's report page 34–35.

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 Strategy 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.

Shareholding: 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: Member of the Strategy Committee

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.

Shareholding: 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. and Member of the Board of Directors at Logstor A/S.

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.

Shareholding: –

ROLAND SUNDÉN

Member of the Board of Directors since 2018

Born: 1953

M.Sc. Mechanical Engineering

Positions and other board memberships: -

Board committees: Member of the Strategy Committee

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.

Shareholding: 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 and FEAB (Falbygdens Energi AB). Member of the Board of Directors at Veidekke ASA, GIH and SOK

Board committees: Chairman of the Remuneration 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.

Shareholding: 10,000 shares

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, Tieto Corporation. Member and Vice Chairman of the Board of Directors in The Business Executives Council at The Royal Swedish Academy of Engineering Sciences

Board committees: Member of the Remuneration Committee

Previous positions: Executive Vice President Technology Services and Modernization at Tieto Corporation 2015–2016. 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 Telia-Sonera AB 2008–2010.

Shareholding: 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.

Shareholding: –

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, 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.

Shareholding: –

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 and United States

Board committees: Member of the Audit Committee

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.

Shareholding: –

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.

Shareholding: –

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: -

Board committees: –

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

Shareholding: 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

Shares held in Eltel as of 31 December 2019.

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.
Shareholding: 67,500 shares

SAILA MIETTINEN-LÄHDE
CFO, since 2020
Born: 1962
M.Sc. Engineering
Positions and other board memberships: Senior Advisor to Tekir Oy. Chairman of the Board of Directors of Mining Finland Association.
Previous positions: CEO at Endomines AB 2017–2019. CFO at F-Secure Corporation 2015–2017. Deputy CEO and CFO at Talvivaara Mining Company Plc 2005–2015.
Shareholding: –

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.
Shareholding: 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.
Shareholding: 152,248 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 Fixed Telecom/Deputy Chief Executive Officer at Eltel Networks AS 2015–02/2018. CEO at Eltel Networks AS 2011–2015. QA Manager at Eltel Networks AS 2009–2011. CEO at Niscayah Denmark 2006–2009.
Shareholding: 1,257 shares

Shares held in Eltel as of 31 December 2019.

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.

Shareholding: 3,334 shares

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.

Shareholding: 4,885 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.

Shareholding: 6,000 shares

CHRISTIAN WITTNEVEN

Director, Solution Unit High Voltage, since 2018

Born: 1968

PhD Physics, Diploma in Business Administration

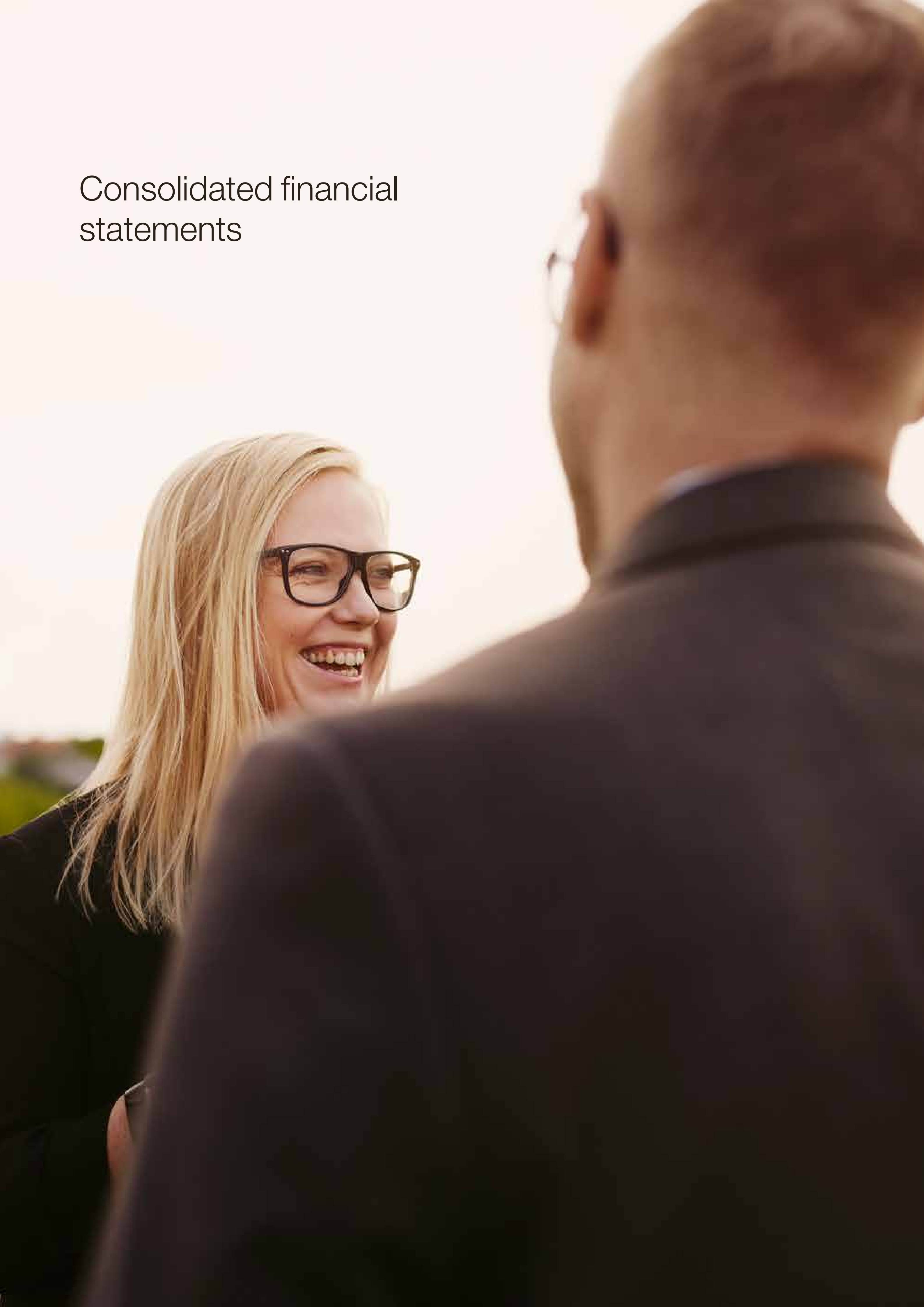
Positions and other board memberships: –

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.

Shareholding: –

Changes in the Group Management Team: Petter Traaholt was CFO until 29 February 2020. Karin Lagerstedt Woolford was Director, Human Resources and HSE until 29 February 2020. Mikael Malmgren was Director, Strategy and Business Development until 31 August 2019.

Consolidated financial statements



Consolidated income statement

EUR million	Note	Jan–Dec 2019	Jan–Dec 2018
Net sales		1,087.6	1,188.9
Cost of sales	6	-1,004.7	-1,080.5
Gross profit		**82.9**	**108.4**
Other income	4,6	2.6	4.5
Sales and marketing expenses	6	-9.1	-10.1
Administrative expenses	6	-85.5	-101.0
Other expenses	5,6	-2.5	-12.2
Share of profit/loss of joint ventures		0.4	1.1
Operating result (EBIT)		**-11.2**	**-9.2**
Financial income		0.4	0.4
Financial expenses		-11.9	-9.2
Net financial expenses	9	-11.5	-8.8
Result before taxes		**-22.7**	**-18.0**
Taxes	10	-2.4	-4.1
Net result		**-25.1**	**-22.2**
Attributable to:			
Equity holders of the parent		-25.9	-23.3
Non-controlling interest	24	0.8	1.1
Earnings per share (EPS)	11		
Basic, EUR		-0.17	-0.15
Diluted, EUR		-0.17	-0.15

Consolidated statement of comprehensive income

EUR million	Note	Jan–Dec 2019	Jan–Dec 2018
Net result for the period		-25.1	-22.2
Other comprehensive income:			
Items that will not be reclassified to profit and loss			
Revaluation of defined benefit plans, net of tax		-4.6	-4.8
Items that may be subsequently reclassified to profit and loss			
Foreign currency hedges, net of tax		0.2	0.1
Net investment hedges, net of tax		0.8	3.0
Commodity hedges, net of tax		0.0	0.0
Currency translation differences		-1.6	-7.2
Total		**-0.6**	**-4.2**
Other comprehensive income/loss for the period, net of tax		-5.1	-9.0
Total comprehensive income/loss for the period		**-30.2**	**-31.1**
Total comprehensive loss attributable to:			
Equity holders of the parent		-31.0	-32.3
Non-controlling interest	24	0.8	1.1

Consolidated balance sheet

EUR million	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Goodwill	25	264.0	282.1
Intangible assets	25	41.0	42.8
Property, plant and equipment	26	27.5	30.2
Right-of-use assets	27	77.4	4.0
Investments in and receivable from joint ventures	24	0.9	1.9
Investments		0.6	0.3
Deferred tax assets	22	26.4	29.0
Other financial assets	15	35.0	–
Trade and other receivables	15,18	0.4	0.4
Total non-current assets		**473.2**	**390.7**
Current assets			
Inventories	19	14.6	13.2
Other financial assets	15,18	–	35.0
Trade and other receivables	3,15,18	230.1	337.5
Cash and cash equivalents		65.2	53.4
Total current assets		**310.0**	**439.2**
Assets held for sale	23	24.0	–
TOTAL ASSETS		**807.2**	**829.8**
EQUITY AND LIABILITIES			
Equity	13		
Share capital		158.8	158.0
Other equity		54.3	86.3
Equity attributable to shareholders of the parent		213.1	244.3
Non-controlling interest	24	7.6	7.6
Total equity		**220.7**	**252.0**
Non-current liabilities			
Debt	14,15	76.1	112.3
Leasing liabilities	14,27	54.3	2.2
Liabilities to shareholders	14,15	35.0	–
Retirement benefit obligations	30	14.8	12.8
Deferred tax liabilities	22	11.5	17.6
Provisions	20	3.4	2.6
Other non-current liabilities		0.5	0.6
Total non-current liabilities		**195.6**	**148.1**
Current liabilities			
Debt	14,15	109.0	84.4
Leasing liabilities	14,27	24.3	2.0
Liabilities to shareholders	14,15	–	35.0
Provisions	20	15.0	15.3
Advances received	3	31.6	51.7
Trade and other payables	15,21	201.7	241.4
Total current liabilities		**381.6**	**429.8**
Liabilities associated with assets held for sale	23	9.3	–
Total liabilities		**586.5**	**577.9**
TOTAL EQUITY AND LIABILITIES		**807.2**	**829.8**

Consolidated statement of cash flow

EUR million	Note	Jan–Dec 2019	Jan–Dec 2018
Cash flow from operating activities			
Operating result (EBIT)		-11.2	-9.2
Adjustments:			
Depreciation and amortisation		40.9	14.3
Gain/loss on sales of assets and business		-1.5	2.1
Defined benefit pension plans		-4.4	-3.8
Other non-cash adjustments[1)]		0.5	3.0
Cash flow from operations before interests, taxes and changes in working capital		24.4	6.4
Interests received		0.6	0.3
Interest and other financial expenses paid		-12.3	-7.7
Income taxes received/paid		0.8	-2.7
Cash flow from operations before changes in working capital		-10.9	-3.7
Changes in working capital:			
Trade and other receivables		86.5	15.2
Trade and other payables		-46.4	-4.5
Inventories		-2.2	-3.9
Changes in working capital		37.9	6.8
Net cash from operating activities		**51.4**	**3.2**
Cash flow from investing activities			
Purchases of property, plant and equipment (PPE)		-12.4	-19.2
Proceeds from sale of PPE		0.7	0.6
Acquisitions of business, net of cash and cash equivalents	23	-4.2	–
Investments in joint ventures		–	-0.1
Investment refund from joint ventures		1.5	–
Disposals of business, net of cash disposed of	23	12.3	-2.6
Net cash from investing activities		**-2.1**	**-21.3**
Cash flow from financing activities			
Proceeds from short-term financial liabilities	14	49.3	89.7
Payments of short-term borrowings	14	-33.1	-49.2
Payments of financial liabilities	14	-26.1	–
Payments of /proceeds from lease liabilities	14	-26.9	-0.5
Dividends to non-controlling interest		-0.9	-0.5
Change in non-liquid financial assets		-0.5	-0.4
Net cash from financing activities		**-38.2**	**39.1**
Net change in cash and cash equivalents		**11.1**	**21.1**
Cash and cash equivalents at beginning of period		53.4	32.9
Foreign exchange rate effect		0.7	-0.5
Cash and cash equivalents at end of period		65.2	53.4

[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.

IFRS 16 impact on cash flow is presented in note 27 Leasing.

Consolidated statement of changes in equity

	Equity attributable to shareholders of the parent								
EUR million	Share capital	Other paid-in capital	Accu-mulated losses	Revaluation of defined benefit plans, net of tax	Hedging reserve	Currency translation	Total	Non-controlling interest	Total equity
Equity on 1 Jan 2019	**158.0**	**491.6**	**-349.5**	**-32.2**	**10.4**	**-34.1**	**244.3**	**7.6**	**252.0**
Total comprehensive income for the period	–	–	-25.9	-4.6	1.1	-1.6	-31.1	0.8	-30.3
Transactions with owners[1]:									
Equity-settled share-based payment	–	–	0.0	–	–	–	0.0	–	0.0
Proceeds from shares issued	0.9	-0.9	–	–	–	–	–	–	–
Purchase of own shares	–	-0.2	–	–	–	–	-0.2	–	-0.2
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	-0.9	-0.9
Total transaction with owners	0.9	-1.0	0.0	–	–	–	-0.1	-0.9	-1.0
Equity on 31 Dec 2019	**158.8**	**490.6**	**-375.4**	**-36.7**	**11.4**	**-35.7**	**213.1**	**7.6**	**220.7**

[1] For more information about equity-settled share-based payments see note 29 Remuneration to senior management and for share transactions see note 13 Shares and share capital.

	Equity attributable to shareholders of the parent								
EUR million	Share capital	Other paid-in capital	Accu-mulated losses	Revaluation of defined benefit plans, net of tax	Hedging reserve	Currency translation	Total	Non-controlling interest	Total equity
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[1]:									
Equity-settled share-based payment	–	–	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] For more information about equity-settled share-based payments see note 29 Remuneration to senior management and for share transactions see note 13 Shares and share capital.

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

Notes to the consolidated financial statements

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Basis of preparation

Note 1 Corporate information

Eltel AB (the Company) through its subsidiaries (together the Group) is a leading Nordic field service provider 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. In 2019, the number of employees was approximately 6,700.

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 Company holds management functions but has no operative business activities and its risks are mainly attributable to the value and activities of its subsidiaries.

Note 2 Accounting policies for the consolidated accounts

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 2019. 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 31 March 2020 and are subject to adoption by the Annual General Meeting on 4 May 2020.

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.

Change in presentation

Eltel has made the following change in presentation:

Income statement: Amortisation and impairment of acquisition-related intangible assets were previously presented as a separate line. From 1 January 2019 onwards they are included in function of expense lines. As a result, Operating result before acquisition-related amortisations (EBITA) is not presented. Comparative period presentation is changed accordingly.

Adoption of new or amended IFRS standards and interpretations

The IFRS amendments and interpretations effective for the first time from 1 January 2019 onwards are:

IFRS 16 Leases (effective from 1 January 2019). IFRS 16 replaced 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. IAS 17 is applied in the comparative period and accordingly, Eltel recognised 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

Note 2, continued

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 recognised following opening balance adjustments due to transition to the new standard:

- Right-of-use assets amounting to EUR 89.6 million and
- Leasing liabilities and restoration cost provision amounting to EUR 89.6 million

The right-of-use assets consist mainly of leases of premises and vehicles. The IFRS 16 standard requires use of estimates for valuating contracts that are valid until further notice. Eltel has estimated the length of these contracts based on expected usage in current business operations. This has considerable impact in the amount of right-of-use assets and leasing liabilities for premises. The right-of-use assets and leasing liabilities are presented as separate lines in the balance sheet. Previous finance lease assets and liabilities under IAS 17 are presented in these new lines for comparative periods. Previously these were presented in Property, plant and equipment (PPE) and non-current and current debt.

In income statement IFRS 16 resulted in a minor positive impact on operating profit and slight increase in the financial costs.

From 1 January 2019 onwards, the lease payments in the cash flow are divided to interest expense in the cash flow from operating activities and amortisation of lease liability in the cash flow from financing activities. In the comparative periods the payments were fully included in the cash flow from operating activities. Therefore, the cash flow from operating activities increases and cash flow from financing activities decreases. IFRS 16 has no impact on total cash flow.

The new IFRS standards, amendments and interpretations effective for the first time for 2020 financial year or later are not expected to have any material impact on Group's financial statements.

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 25 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. Deviations from original plan in project execution may result in significant increases in cost to complete due to various reasons including cost for additional work and materials, price increases as well as cost for delays and available resources. 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 other external conditions outside of Eltel's control, including the risk of delays and in certain cases 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) 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 30 Retirement benefit obligations.

f) Lease contracts valid until further notice

The IFRS 16 standard requires use of estimates for valuating contracts that are valid until further notice. Eltel has estimated the length of these contracts based on expected usage in current business operations. This has considerable impact in the amount of right-of-use assets and leasing liabilities for premises. The right-of-use assets and leasing liabilities are presented as separate lines in the balance sheet.

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

Note 2, continued

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 33 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.

See further information on hedge accounting for foreign currency differences arising from the translation of financial assets and liabilities designated as hedges in note 12.

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.

Segment reporting

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. 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. Revenues, costs, operative assets and liabilities are allocated to segments on consistent basis. Income statement 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.

Note 2, continued

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 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.

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 25 Intangible assets for information on impairment testing of goodwill.

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.

Right-of-use assets and leasing liabilities
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The IFRS 16 standard requires use of estimates for valuating contracts that are valid until further notice. The Group has estimated the length of these contracts based on expected usage in current business operations.The cost of a right-of-use asset also includes an estimate of costs to be incurred by the Group in restoring the asset to the condition required by the terms and conditions of the lease. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment assessments according to IAS 36.

At the commencement of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term using the incremental borrowing rate at the lease commencement date. The lease payments include fixed payments, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease liabilities are subsequently measured at amortised cost using the effective interest method. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, e.g. a change in the lease term or a change in future lease payments resulting from a change in an index or rate used to determine those payments. Generally, the amount of remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset.

Short-term leases and leases of low-value assets
The Group applies the recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Incremental borrowing rate
In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. To arrive at the incremental borrowing rate the Group applies the respective country's (economic environment) risk free rate for the term corresponding to the lease term, adjusted for credit risk of each Group company.

Assets held for sale
The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a disposal rather than through the continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate disposal in its present condition. Actions required to complete the disposal should indicate that it is unlikely that significant changes to the disposal will be made or that the decision to dispose will be withdrawn. Management must be committed to the disposal expected within one year from the date of the classification. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Note 2, continued

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 classifies all the financial liabilities at amortised costs except the derivative financial instruments which are classified at fair value through profit or loss. The classification is made on the basis of the purpose of the acquisition of financial instruments at the time of initial recognition. See note 15 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.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognised in the income statement in the period in which they arise 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 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 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 and contract assets 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.

Impairment of financial assets

The Group applies the expected credit losses (ECL) model according to IFRS 9 for impairment of trade receivables, contract assets and other financial assets. The expected credit losses for trade receivables and contract assets 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 has designated certain 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. However, all derivative contracts are entered into for economic hedging purposes even if they did not qualify as hedges under IFRS 9.

Cash flow hedges

The Group has applied cash flow hedge accounting to certain 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 12.1 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.

Note 2, continued

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.

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.

Financial performance

Note 3 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.

Eltel's governance structure is country and market-driven with Country and Solution Units. Full profit centre responsibility is 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.

Net sales by segment

EUR million	2019	2018
Power		
Net sales (external)	377.7	438.8
Inter-segment sales	0.0	0.1
Communication		
Net sales (external)	696.7	727.0
Inter-segment sales	1.6	0.3
Other		
Net sales (external)	13.2	23.1
Elimination of sales between segments	-1.7	-0.4
Total	**1,087.6**	**1,188.9**

The Group has two customers in segment Communication that represent over 10% of total sales of the Group (in 2018 two customers). The customers' share of the sales amounts to 35% (33). Customer means a legal entity, and where applicable, a collection of legal entities in the same group.

Net sales by geographical area

EUR million	2019	2018
Sweden	294.2	359.8
Finland	270.4	275.8
Norway	234.1	258.9
Denmark	108.9	101.1
Poland	88.1	98.2
Germany	76.6	76.2
Other countries	15.3	19.0
Total	**1,087.6**	**1,188.9**

Net sales by geographical area is presented by party issuing the invoice.

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

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 1–50 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.

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.

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.

Net sales by service type

EUR million	2019	2018
Power		
Project delivery	209.7	262.2
Upgrade services	121.6	120.2
Maintenance	58.9	65.2
Elimination of internal net sales and fx adjustments	-12.6	-8.8
Total Power	377.7	438.8
Communication		
Project delivery	26.0	42.1
Upgrade services	517.1	498.9
Maintenance	205.6	227.9
Elimination of internal net sales and fx adjustments	-50.4	-41.5
Total Communication	698.4	727.3
Other		
Project delivery	13.5	22.4
Maintenance	-0.2	0.5
Elimination of internal net sales and fx adjustments	–	0.2
Total Other	13.2	23.1
Elimination of sales between segments	-1.7	-0.4
Total	**1,087.6**	**1,188.9**

In 2019 project delivery services form 22% (26), upgrade services 55% (50) and maintenance services 23% (24) of Eltel's total net sales. Internal net sales include inter-segment and intra-segment net sales.

Note 3, 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	2019	2018
Power		
Project delivery	212.3	252.0
Upgrade services	44.0	48.6
Maintenance	18.1	15.9
Total Power	**274.3**	**316.5**
Communication		
Project delivery	55.0	19.8
Upgrade services	134.1	125.8
Maintenance	18.0	42.2
Total Communication	**207.1**	**187.8**
Other		
Project delivery	17.0	26.7
Total Other	**17.0**	**26.7**
Total	**498.4**	**531.0**

Approximately half of the committed order backlog in project delivery services and nearly all of the committed order backlog in upgrade services and maintenance service is to be recognised as revenue during 2020.

Segment results

EUR million	2019	2018
Operative EBITA by segment		
Power	-17.5	-0.5
Communication	18.1	24.8
Other	-0.8	-11.1
Items not allocated to operating segments[1]	-11.2	-15.4
Operative EBITA, Group	**-11.3**	**-2.2**
Items affecting comparability in EBITA[2]	1.6	-4.8
Amortisation of acquisition-related intangible assets	-1.5	-2.2
Operating result (EBIT)	**-11.2**	**-9.2**
Financial expenses, net	-11.5	-8.8
Result before taxes	**-22.7**	**-18.0**

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.

Net working capital and operative capital employed

EUR million	2019	2018
Inventories	14.6	13.2
Trade and other receivables	230.1	337.5
Provisions	-16.6	-17.9
Advances received	-31.6	-51.7
Trade and other payables	-203.5	-241.4
Other	0.7	0.2
Net working capital	**-6.3**	**39.9**
Intangible assets excluding acquisition-related allocations	12.3	10.6
Property, plant and equipment	27.5	30.2
Right-of-use assets	77.4	4.0
Total operative fixed assets	**117.2**	**44.8**
Operative capital employed	**110.9**	**84.7**

Assets and liabilities held for sale are not included (on 31 December 2019 German Communication business and Aviation & Security business area).

Segment net working capital

EUR million	2019	2018
Power	17.6	43.3
Communication	-7.0	11.4
Other	-5.1	-3.0
Items not allocated to operating segments	-11.8	-11.7
Total	**-6.3**	**39.9**

Segment operative fixed assets

EUR million	2019	2018
Power	31.4	18.5
Communication	61.3	14.2
Other	1.2	0.1
Items not allocated to operating segments	23.3	12.0
Total	**117.2**	**44.8**

Segment operative fixed assets include Intangible assets excluding acquisition-related allocations, property, plant and equipment and right-of-use assets.

Contract balances

EUR million	2019	2018
Trade receivables	124.9	144.0
Contract assets	83.7	163.8
Total assets related to contracts with customers	**208.6**	**307.8**
Advances received	31.6	51.7
Total liabilities related to contracts with customers	**31.6**	**51.7**

Trade receivables and contract assets are included in the trade and other receivables in the balance sheet. Contract assets mainly consist of recognised net sales not yet invoiced. Majority of decrease in contract assets relates to High Voltage Solution Unit and Sweden Country Unit. Advances received represent the contract liabilities.

Note 4 Other income

EUR million	2019	2018
Gains on disposal of business and sales of assets	1.5	3.9
Adjustments to earn-out estimates	0.2	0.2
Other income	0.9	0.5
Total	**2.6**	**4.5**

In 2019, gains on disposal of business and sales of assets include the gain on sale of 100% of shares of Polish communication business company Eltel Networks Telecom Sp.z.o.o of EUR 1.4 million and in 2018, the gain on sale of rail business in Finland of EUR 3.7 million. The earn-out adjustments in 2019 and 2018 relate to the acquisition of Danish Exo Consult ApS in 2016. See note 23 Acquisitions, disposals and assets held for sale for more information about earn-out adjustments.

Note 5 Other expenses

EUR million	2019	2018
Loss on foreign exchange forward contracts	1.3	1.7
Losses on divestments	–	6.0
Adjustments to earn-out estimates	–	2.8
Other expenses	1.2	1.8
Total	**2.5**	**12.2**

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 the acquisition of German Smart Grids (U-SERV GmbH) in 2016. See note 23 Acquisitions, disposals and assets held for sale for more information about earn-out adjustments.

Note 6 Function expenses by nature

EUR million	2019	2018
Materials and supplies	183.9	182.3
Employee benefit expenses	392.2	434.9
External services	374.7	418.6
Other costs	107.4	149.2
Depreciation, amortisation and impairment	40.9	14.3
Total	**1,099.2**	**1,199.3**

Note 7 Depreciation and amortisation

EUR million	2019	2018
Amortisation on customer relationships and order backlog	1.5	2.2
Depreciation of right-of-use assets (IFRS 16)	28.4	–
Other depreciation and amortisation	11.0	12.2
Total	**40.9**	**14.3**

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

EUR million	2019	2018
Cost of sales	26.3	6.7
Sales and marketing expenses	1.5	2.2
Administrative expenses	13.0	5.4
Total	**40.9**	**14.3**

Note 8 Employee benefit expenses

Employee benefit expenses

EUR million	2019	2018
Wages and salaries	307.0	327.8
Post-employment benefits:		
Defined benefit plans	-0.4	0.0
Defined contribution plans	30.8	36.9
Other indirect employee costs	55.1	70.4
Total	**392.5**	**435.1**

Employee benefit expenses by function

EUR million	2019	2018
Cost of sales	332.4	364.2
Sales and marketing expenses	4.1	4.6
Administrative expenses	55.7	66.1
Sum in operative expenses	**392.2**	**434.9**
Financial income and costs	0.2	0.2
Total	**392.5**	**435.1**

Note 9 Financial income and expenses

EUR million	2019	2018
Interest income arising from financial assets	0.2	0.2
Other financial income	0.2	0.3
Total financial income	**0.4**	**0.4**
Interest expenses from liabilities at amortised cost[1)]	-8.7	-6.5
Fee expenses	-2.9	-2.1
Net impact from financial instruments at fair value through profit and loss	-0.2	-0.2
Fair value change of foreign exchange derivatives	-0.6	-0.3
Other foreign exchange differences	0.6	-0.1
Total financial expenses	**-11.9**	**-9.2**
Net financial expenses	**-11.5**	**-8.8**

1) Includes EUR 1.9 million (0.2) of interest expenses for leasing liabilities.

Note 10 Income tax

Income tax expense in the consolidated income statement

EUR million	2019	2018
Current tax	5.6	2.3
Deferred tax	-3.2	1.9
Total tax cost	**2.4**	**4.1**

The difference between income taxes at the statutory tax rate in Sweden 21.4% and income taxes recognised in the consolidated income statement is reconciled as follows:

EUR million	2019	2018
Profit before tax	-22.7	-18.0
Tax calculated at Swedish tax rate	**-4.9**	**-4.0**
Effect of different tax rates outside Sweden	-0.2	-0.3
Income not subject to tax	-2.3	-2.0
Expenses not deductible for tax purposes	1.7	1.7
Tax loss valuation	9.0	6.9
Non–valuated temporary differences	–	-0.9
Remeasurement of deferred tax for change in tax rate	–	1.3
Taxes and adjustments in respect of prior years	-1.2	0.9
Other items	0.2	0.4
Income taxes in the consolidated income statement	**2.4**	**4.1**

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%. In 2019 and 2018 tax loss valuation includes tax effects of results for which no deferred income tax asset was recognised, mainly in Sweden.

Note 11 Earnings per share

	2019	2018
Net result attributable to equity holders of the parent	-25.9	-23.3
Weighted average number of ordinary shares, basic	156,649,081	156,603,262
Weighted average number of ordinary shares, diluted	156,895,149	156,795,867
Earnings per share, basic	-0.17	-0.15
Earnings per share, diluted	-0.17	-0.15

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.

Financial risk management and capital structure

Note 12 Financial risk management

The Group has exposure to the following financial risks:
- Market risks, including currency, interest rate and commodity price 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.

12.1 Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and commodity 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.

12.1.1 Currency risk

Currency risk in the Group consists of transaction risk and translation risk. The purpose of currency risk management is to minimise the impact of foreign exchange fluctuations to the cash flows, income statement 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 95% 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 foreign currency 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 16 Derivative financial instruments.

Note 12, continued

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

2019

EUR million	Sales and purchases	Borrowings and cash	Hedges	Net transaction risk exposure
EUR	0.4	0.0	–	0.4
SEK	-3.2	6.0	-3.0	-0.2
NOK	0.3	1.1	-1.0	0.5
DKK	0.2	0.2	-0.2	0.2
PLN	-0.2	0.2	0.0	-0.1
USD	10.5	0.0	-10.9	-0.3
ZAR	-2.1	–	–	-2.1
MZN	-0.7	1.8	–	1.2

2018

EUR million	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

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

Currency transaction risk impact

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.

	2019 profit or loss		2018 profit or loss	
EUR thousands	Strengthening	Weakening	Strengthening	Weakening
EUR	42	-34	-42	34
SEK	-21	17	54	-44
NOK	51	-42	145	-119
DKK	26	-21	3	-3
PLN	-9	7	-11	9
USD	-37	30	23	-19
ZAR	-237	194	–	–
MZN	130	-106	683	-559

In 2019 or 2018 the Group has not applied hedge accounting to currency derivatives and all fair value changes are reported through profit and loss.

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, Poland and Denmark.

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 in the long-term.

For the year ended 31 December 2019, 28% (31) of the Group's net sales were generated in SEK, 22% (22) in NOK, 8% (8) in PLN and 10% (9) in DKK. Therefore, the Group's results are most sensitive to changes in EUR/SEK and to a lesser extent to changes in EUR/PLN, EUR/NOK and EUR/DKK. A change in the average EUR/SEK, EUR/NOK, EUR/PLN, EUR/DKK rates by 10% would have had an impact of EUR 0.4 million (0.0) on the Group's operating result (EBIT) and EUR -1.0 million (0.3) in the Group's post tax profit in 2019.

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 11% in the net debt to EBITDA ratio.

Net investment translation risk

The majority of the Group's net investment translation risk arises from the net investments in the Swedish, Norwegian and Polish subsidiaries. This net investment is hedged by SEK and PLN denominated loans (SEK 685.5 million and PLN 21.0 million), which partly 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 net debt to EBITDA ratio sensitivity analysis.

The valuations of the net investment hedges in hedging reserve are presented in the below table:

2019 EUR million	Loans denominated in foreign currency	Discontinued net investment hedges	Total
1 Jan	**5.9**	**7.4**	**13.3**
Rrecognised in hedging reserve during the period	1.2	–	1.2
Transferred from hedging reserve to profit and loss during the period	-0.1	–	-0.1
31 Dec	**6.9**	**7.4**	**14.4**

2018 EUR million	Loans denominated in foreign currency	Discontinued net investment hedges	Total
1 Jan	**2.2**	**7.4**	**9.6**
Recognised in hedging reserve during the period	3.7	–	3.7
Transferred from hedging reserve to profit and loss during the period	–	–	–
31 Dec	**5.9**	**7.4**	**13.3**

Note 12, continued

12.1.2 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 long-term policy is to keep the interest duration between 10–36 months. However, the Group does not have any interest rate hedges in place at the balance sheet date due to the nature of the current market interest rate environment.

The Group's borrowing is based on floating interest rates (one to six months) including a floor market rate of zero. Currently 89% of the interest rate risk exposure position is subject to such zero floor rate.

The interest rate profile of the Group is as follows:

EUR million	2019	2018
Fixed-rate instruments		
Effect of interest rate swaps	–	22.8
Total fixed-rate net liabilities	**–**	**22.8**
Total leasing liabilities	**78.6**	**2.7**
Variable-rate instruments		
Financial assets	-66.4	-54.1
Financial liabilities	185.2	197.5
Effect of interest rate swaps	–	-22.8
Total variable-rate net liabilities	**118.8**	**120.7**

A majority of the leasing liabilities have a fixed interest rate for the lease period. More information on the Group's interest rate derivatives is included in note 16 Derivative financial information.

Interest rate sensitivity

A reasonably possible change in the relevant market interest rates at the reporting date would affect the equity and income statement 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.

2019	Income statement		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	–	–
Total	**0.1**	**0.0**	–	–

2018	Income statement		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**

12.1.3 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 16 Derivative financial information.

12.2 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 facility of EUR 90 million (EUR 110 million in 2018), which expires in 2021. The Group has also access to short-term debt capital markets via Finnish Domestic Commercial Paper programme of 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 2019	31 Dec 2018
Committed credit facility	77.6	110.0
Current account overdrafts	20.0	20.0
Cash and cash equivalents	65.2	53.4
Total	**162.8**	**183.4**

At the end of December the Group held counter value of EUR 1.8 million (3.3) 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 12.1 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 12, 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.

2019 EUR million	Carrying amounts Less than 1 year	 Over 1 year	Contractual cash flows Less than 1 year	 1–3 years	 3–5 years	 Over 5 years
Trade receivables	124.9	–	124.9	–	–	–
Derivative instruments	0.1	–	0.1	–	–	–
Other financial assets	–	35.0	–	35.0	–	–
Other receivables	1.7	0.2	1.7	–	–	0.2
Cash and cash equivalents	65.2	–	65.2	–	–	–
Total financial assets	**191.9**	**35.2**	**191.9**	**35.0**	**–**	**0.2**

2019 EUR million	Carrying amounts Less than 1 year	 Over 1 year	Contractual cash flows Less than 1 year	 1–3 years	 3–5 years	 Over 5 years
Bank borrowings and commercial papers	109.1	76.1	112.7	76.3	–	–
Liabilities to shareholders	–	35.0	–	35.0	–	–
Leasing liabilities	24.3	54.3	27.7	36.2	13.4	6.5
Trade payables	85.9	–	85.9	–	–	–
Derivative financial instruments	0.0	–	0.0	–	–	–
Total financial liabilities	**219.4**	**165.4**	**226.3**	**147.5**	**13.4**	**6.5**

2018 EUR million	Carrying amounts Less than 1 year	 Over 1 year	Contractual cash flows 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**

2018 EUR million	Carrying amounts Less than 1 year	 Over 1 year	Contractual cash flows 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	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**	**–**

Liabilities to shareholders refer to selling shareholders at the time of the listing on 6 February 2015. The amount constitutes 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. On 10 June 2019, the legal case was referred to the European Court of Justice (ECJ) in Luxembourg. The expected closing of the case is therefore prolonged and the asset and liability are moved from short-term to long-term in 2019.

12.3 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 some 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 two 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 12.8 million.

Note 12, continued

Maturity analysis of receivables:

EUR million	31 Dec 2019	31 Dec 2018
Not past due	99.8	112.9
1–14 days overdue	11.5	12.7
15–90 days overdue	6.5	7.8
91–180 days overdue	3.3	3.8
More than 180 days overdue	3.8	6.9
Total trade receivables (net)	**124.9**	**144.0**
Contract assets	83.7	163.8
Total	**208.6**	**307.8**

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 and contract assets. 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 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 (0.2) during the year.

The current impairment reserve for trade receivables, including credit losses, is EUR 9.0 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 63.2 million (50.0) of the cash balance on 31 December 2019 was deposited in the banks having the credit rating classified as investment grade. EUR 2.0 million (3.3) of the cash was deposited in the banks in Mozambique having the credit rating of BB.

12.4 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. Net debt is followed as in financing agreement and is calculated as total borrowings from banks and other financial institutions on undiscounted method less cash and cash equivalent. IFRS 16 leasing liabilities are not included.

The net debt has been as follows:

EUR million	31 Dec 2019	31 Dec 2018
Total bank borrowings	185.7	197.3
Leasing liabilities in balance sheet	78.6	4.1
Cash and cash equivalents	-65.2	-53.4
Net debt	**199.1**	**148.0**
Less IFRS 16 leasing liabilities	-75.3	–
Adjusted for held for sale	0.0	–
Net debt, financing agreement	**123.8**	**148.0**

In 31 December 2019, Eltel's bank loan agreements included financial covenants related to the adjusted EBITDA, minimum liquidity and net debt for the transformation period until the end of second quarter of 2020. In February 2020, the transformation period was prolonged until the maturity of the loan agreements in February 2021 and the covenant levels were reset in line with expectations for 2020.

If the liquidity, net debt or EBITDA outcome differs significantly from planned, there is a risk that the covenants under the existing financing agreement are not met during the transformation period. Challenges with respect to meeting the financial covenants might lead to a risk that suppliers and other stakeholders could request accelerated payment terms or additional guarantees. Measures taken to reduce net debt include, among other things, the sale of non-core business operations, focus on improving invoicing activities and contractual payment terms.

Note 13 Shares and share capital

On 31 January 2019, Eltel issued a total of 850,000 redeemable and convertible class C shares based on the authorisation given to the Board by the Extraordinary General Meeting on 17 September 2018. The purpose of the issue of class C shares is to use the shares in Eltel's long-term incentive programme LTIP 2018. In connection with the issue, the shares have been repurchased by Eltel. Eltel holds the shares at 31 December 2019 and will hold the shares until it is time to deliver shares to the participants of LTIP 2018. Prior to delivery of the shares to participants, the class C shares will be converted to ordinary shares.

The share issue resulted in an increase of share capital by EUR 858,500. On 31 December 2019, the total number of shares amounts to 157,499,081 divided into 156,649,081 ordinary shares with 1 vote per share and 850,000 C shares with 1/10 vote per share. On 31 December 2019, the share capital amounts to EUR 158.8 million.

On 9 July 2018, Eltel converted 88,486 C shares to ordinary 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[1]	Transactions	Ordinary shares	C shares	Total number of shares	Change in share capital (EUR)	Total share capital (EUR)	Quota (par) value (EUR)
1 Jan 2018		**156,560,595**	**537,000**	**157,097,595**		**158,433,250**	**1.01**
9 Jul 2018	Reclassification of shares	88,486	-88,486	157,097,595	–	158,433,250	–
21 Aug 2018	Reduction of share capital	–	-448,514	156,649,081	-452,999	157,980,251	1.01
31 Dec 2018		**156,649,081**	–	**156,649,081**		**157,980,251**	**1.01**
31 Jan 2019	Issue of new C shares	–	850,000	157,499,081	858,500	158,838,751	1.01
31 Dec 2019		**156,649,081**	**850,000**	**157,499,081**		**158,838,751**	**1.01**

[1] Date of registration with the Swedish Companies Registration office.

Note 14 Borrowings

The financial liability amounts include capital amount and accrued interests.

EUR million	31 Dec 2019	31 Dec 2018
Carrying amounts of non-current liabilities		
Bank borrowings	76.1	112.3
Leasing liabilities[1]	54.3	2.2
Total non-current debt	**130.3**	**114.5**
Liabilities to shareholders[2]	35.0	–
Total non-current financial liabilities	**165.3**	**114.5**
Carrying amounts of current liabilities		
Bank borrowings	109.0	84.4
Leasing liabilities[1]	24.3	2.0
Total current debt	**133.4**	**86.4**
Liabilities to shareholders[2]	–	35.0
Total current financial liabilities	**133.4**	**121.4**
Total financial liabilities at amortised cost	**298.7**	**235.8**

[1] IFRS 16 leasing liabilities are included in 2019.
[2] Refers to selling shareholders at the time of the listing on 6 February 2015. The amount has been moved from short-term to long-term in 2019.

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

EUR million	31 Dec 2019	31 Dec 2018
EUR	166.8	126.3
SEK	92.2	67.8
PLN	6.2	31.7
NOK	24.1	9.6
DKK	9.4	0.5
Total	**298.7**	**235.8**

See note 12 For information about interest rate risk, currency risk, liquidity risk and capital management.

Non-cash changes of borrowings

	2019				2018			
EUR million	Long-term borrowings	Short-term borrowings	Leasing liabilities	Total	Long-term borrowings	Short-term borrowings	Finance lease liabilities	Total
1 Jan	**112.3**	**119.4**	**4.1**	**235.8**	**116.1**	**78.7**	**4.6**	**199.4**
Cash flows (net)	-26.1	16.2	-26.9	-36.8	–	40.5	-0.5	40.0
Non-cash changes:								
IFRS 16 opening balance	–	–	89.0	89.0	–	–	–	–
New lease agreements	–	–	13.7	13.7	–	–	–	–
Disposals of companies and transfers to assets held for sale	–	–	-2.3	-2.3	–	–	–	–
Change in maturity[1]	25.7	-25.7	–	–	–	–	–	–
Foreign exchange movements	-1.1	–	1.1	0.1	-3.8	–	–	-3.8
Other non-cash changes	0.2	-1.0	–	-0.7	0.1	0.2	–	0.3
31 Dec	**111.1**	**109.0**	**78.6**	**298.7**	**112.3**	**119.4**	**4.1**	**235.9**

[1] Includes EUR 35 million liability to shareholders which was moved from short-term to long-term.

Note 15 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.

Note 15, continued

31 Dec 2019 EUR million	Note	Fair value through profit or loss	Fair value through other comprehen-sive income	Financial assets at amortised cost	Financial liabilities at amortised cost	Carrying amounts	Fair value	Fair value hierarchy
Non-current financial assets		**0.6**	**–**	**35.4**	**–**	**36.0**	**36.0**	
Other receivables and financial assets	18	0.6	–	0.4	–	1.0	1.0	2
Other financial assets		–	–	35.0	–	35.0	35.0	
Current financial assets		**0.2**	**–**	**196.8**	**–**	**197.0**	**197.0**	
Trade receivables	18	–	–	124.9	–	124.9	124.9	
Derivative instruments	16,18	0.1	–	–	–	0.1	0.1	2
Embedded derivative instruments	16	0.1	–	–	–	0.1	0.1	2
Other receivables	18	–	–	6.7	–	6.7	6.7	
Cash and cash equivalents		–	–	65.2	–	65.2	65.2	
Total financial assets		**0.8**	**–**	**232.2**	**–**	**233.0**	**233.0**	
Non-current financial liabilities		**–**	**–**	**–**	**165.3**	**165.3**	**165.4**	
Interest-bearing debt	14	–	–	–	130.3	130.3	130.4	2
Liabilities to shareholders[1)]	14	–	–	–	35.0	35.0	35.0	
Current financial liabilities		**0.5**	**–**	**–**	**228.0**	**228.5**	**229.1**	
Interest-bearing debt	14	–	–	–	133.4	133.4	134.0	2
Trade and other payables	21	–	–	–	94.6	94.6	94.6	
Derivative instruments	16,18	0.0	0.0	–	–	0.0	0.0	2
Embedded derivative instruments	16	0.5	–	–	–	0.5	0.5	2
Total financial liabilities		**0.5**	**0.0**	**–**	**393.3**	**393.8**	**394.5**	
Carrying amount, net		**0.3**	**-0.0**	**232.2**	**-393.3**			

1) Refers to selling shareholders at the time of the listing on 6 February 2015. The amount has been moved from short-term to long-term in 2019.

31 Dec 2018 EUR million	Note	Fair value through profit or loss	Fair value through other comprehen-sive 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	18	0.3	–	0.4	–	0.7	0.7	2
Current financial assets		**0.8**	**–**	**237.8**	**–**	**238.6**	**238.6**	
Trade receivables	18	–	–	144.0	–	144.0	144.0	
Derivative instruments	16,18	0.0	–	–	–	0.0	0.0	2
Embedded derivative instruments	16	0.7	–	–	–	0.7	0.7	2
Other financial assets		–	–	35.0	–	35.0	35.0	
Other receivables	18	–	–	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	14	–	–	–	114.5	114.5	114.8	2
Current financial liabilities		**0.4**	**0.1**	**–**	**255.9**	**256.5**	**256.8**	
Interest-bearing debt	14	–	–	–	86.4	86.4	86.7	2
Liabilities to shareholders[1)]	14	–	–	–	35.0	35.0	35.0	
Trade and other payables	21	–	–	–	134.6	134.6	134.6	
Derivative instruments	16,18	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. The amount has been moved from short-term to long-term in 2019.

Note 16 Derivative financial instruments

EUR million	31 Dec 2019 Nominal values	31 Dec 2019 Fair values Positive	31 Dec 2019 Fair values Negative	31 Dec 2018 Nominal values	31 Dec 2018 Fair values Positive	31 Dec 2018 Fair values Negative
Interest rate derivatives, hedge accounting	–	–	–	22.8	–	0.0
Foreign exchange derivatives	32.2	0.1	0.0	61.7	0.0	-0.4
Embedded derivatives	12.0	0.1	-0.5	7.8	0.7	–
Commodity derivatives	0.2	–	0.0	0.6	–	-0.1
Total	**44.3**	**0.2**	**-0.5**	**92.9**	**0.8**	**-0.5**

All derivative contracts have been made according to the Eltel Treasury Policy. The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the currency, amount and timing of their respective cash flows. For the instruments under hedge accounting, EUR -0.0 million (-0.1) was recognised in the hedging reserve during the period. EUR -0.3 million (-0.2) 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 2020. The hedged highly probable commodity purchases are expected to occur at various dates during 2020. More information on the financial risks which are hedged by the derivative financial instruments are presented in note 12. 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:

EUR million	31 Dec 2019 Carrying amounts	31 Dec 2019 Related instruments that are not offset	31 Dec 2019 Net amounts	31 Dec 2018 Carrying amounts	31 Dec 2018 Related instruments that are not offset	31 Dec 2018 Net amounts
Financial assets						
Interest rate swaps, hedge accounting	–	–	–	0.0	–	0.0
Foreign exchange derivatives	0.1	0.0	0.1	0.0	-0.1	-0.1
Financial liabilities						
Foreign exchange derivatives	0.0	–	0.0	-0.5	0.0	-0.5
Commodity derivatives	0.0	–	0.0	-0.1	–	-0.1

Note 17 Commitments and contingent liabilities

Commitments and collateral pledged

EUR million	31 Dec 2019	31 Dec 2018
Pledged assets		
Shares in subsidiaries	61.9	–
Floating charges	219.0	–
Intra-group loan receivables	336.9	–
Other pledges	0.1	0.2
Total pledged assets	**617.8**	**0.2**
Guarantees		
Counter guarantees for external guarantees	115.5	125.9
Commercial guarantees on behalf of joint ventures	5.7	9.7
Commercial guarantees on behalf of third parties	0.3	0.5
Total guarantees	**121.5**	**136.1**

Pledged assets relate mainly to securing the Group's liabilities under the amended financing agreement in 2019. Securities provided include the shares in The Infranet Company AB, floating charges and the pledge of certain intra-group loan receivables.

Counter guarantees for external guarantees consist of performance and other contract guarantees issued by the banks and insurance companies 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 in 2019 and 2018.

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**

In 2019, the previous operating leases are reported according to IFRS 16 and presented in the balance sheet as right-of-use assets and corresponding leasing liabilities. See reconciliation of previous operating leasing commitments to IFRS 16 leasing liabilities in note 27 Leasing.

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

Note 17, continued

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. Hearings in the case have been held and Botech has concluded its pleading. Eltel will proceed to present its case during 2020.

Power Transmission International closing matters

The ramp-down of the Power Transmission International ("PTI") business operations continues according to plan. As part of the ramp-down activities some of the local Eltel entities forming part of PTI are involved in tax proceedings and/or disputes incidental to their business. In management's opinion, the outcome of these cases is difficult to predict but not likely to have any material effect on the Group's financial position.

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. On 10 June 2019 SAC decided to refer the interpretation of the time bar matter to the European Court of Justice ("ECJ") in Luxembourg. The timing of the ECJ'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.

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. For further information regarding this case and the guarantee (escrow), please refer to the 2018 Annual Report and Eltel's IPO prospectus.

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.

Working capital and deferred taxes

Note 18 Trade and other receivables

Non-current

EUR million	31 Dec 2019	31 Dec 2018
Total non-current receivables	**0.4**	**0.4**

Current

EUR million	31 Dec 2019	31 Dec 2018
Trade receivables, gross	133.9	155.8
Bad debt provision	-9.0	-11.8
Trade receivables, net	**124.9**	**144.0**
Contract assets	83.7	163.8
Derivative instruments	0.2	0.8
Income tax receivables	0.1	1.9
Indirect tax receivables	2.2	2.5
Other prepayments and accruals	12.3	19.1
Other receivables	6.7	5.4
Total current trade and other receivables	**230.1**	**337.5**

The Group applies the expected credit losses (ECL) model according to IFRS 9 for impairment of trade receivables and contract assets. 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 12.3 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 2.8 million decrease) for the bad debt provision.

During 2019 the Group has sold on non-recourse basis EUR 418.6 million (378.4) 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 1.8 million (1.1) are included in EBITA.

Note 19 Inventories

EUR million	31 Dec 2019	31 Dec 2018
Raw materials and consumables	6.8	6.7
Work in progress	7.8	6.5
Total	**14.6**	**13.2**

Note 20 Provisions

EUR million	31 Dec 2019	31 Dec 2018
Non-current	3.4	2.6
Current	15.0	15.3
Total	**18.5**	**17.9**

Main part of non-current provisions are warranty provisions. 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.

Note 20, continued

2019 EUR million	Warranty provision	Project risk provision	Other provisions	Total
1 Jan	**2.9**	**11.3**	**3.7**	**17.9**
Additional provisions	1.1	6.2	2.3	9.6
Used provisions during year	-1.2	-3.6	0.0	-4.8
Unused amounts reversed	-0.2	-3.6	0.0	-3.8
Transfer to asset held for sale	-0.1	–	–	-0.1
Exchange rate differences	0.0	-0.3	0.0	-0.3
Other changes	–	-0.1	0.2	0.1
31 Dec	**2.4**	**9.9**	**6.2**	**18.5**

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 Power 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 17. The actual future outcome may deviate from the estimate. Other provisions are recognised mainly for tax controversy cases.

Note 21 Trade and other payables

Current

EUR million	31 Dec 2019	31 Dec 2018
Trade payables	85.9	123.5
Other liabilities	8.7	11.0
Derivative financial liabilities	0.5	0.5
Indirect tax liabilities	18.1	18.4
Company income tax liabilities	3.9	0.6
Accrued expenses and prepaid income	84.5	87.3
Total current trade and other payables	**201.7**	**241.4**

Accrued expenses consist of the following items:

EUR million	31 Dec 2019	31 Dec 2018
Accrued wages and salaries	38.5	48.6
Accrued indirect employee costs	18.2	22.7
Other accruals	27.8	16.0
Total	**84.5**	**87.3**

Note 22 Deferred tax

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 2019	31 Dec 2018
Deferred tax liabilities	11.5	17.6
Deferred tax assets	26.4	29.0
Net deferred tax liabilities (-assets)	**-14.9**	**-11.5**

The gross movement on the deferred income tax amount:

EUR million	2019	2018
1 Jan	**-11.5**	**-13.6**
Recognised in the income statement	-3.2	1.9
Recognised in other comprehensive income:		
Translation differences	0.4	0.4
Defined benefit plans	-1.2	-0.7
Hedge accounting	0.3	0.8
IFRS 15 opening balance adjustment	–	-0.1
Disposal of subsidiaries	0.3	–
31 Dec	**-14.9**	**-11.5**

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 2018	**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[1]	–	3.6	3.6
31 Dec 2018	**7.6**	**9.9**	**17.5**
Recognised in the income statement	-0.5	-5.9	-6.4
Translation differences	0.0	0.3	0.3
31 Dec 2019	**7.2**	**4.3**	**11.5**

Deferred tax assets

EUR million	Retirement benefit obligations	Tax losses carried forward	Other temporary differences	Total
1 Jan 2018	**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
IFRS 15 Opening balance adjustment recognised in other comprehensive income	–	–	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**
Recognised in the income statement	-0.8	-3.7	1.3	-3.2
Recognised in other comprehensive income	1.2	–	-0.3	0.9
Translation differences	0.0	-0.3	0.3	0.0
Divestment of subsidiaries	–	–	-0.3	-0.3
31 Dec 2019	**3.0**	**17.0**	**6.4**	**26.4**

[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 22, 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.

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 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%.

Gross amount of EUR 17.0 million (21.0) deferred tax assets are recognised for losses carried forward, of which EUR 10.0 million (10.3) relates to operations in Sweden. Significant part of the losses incurred in Sweden relate to Rail and Power Transmission International businesses that are reported under Other and are being disposed or ramped down and also to certain Power business areas in Sweden. Deferred tax assets are recognised for tax loss carry forwards to the extent that the utilisation against future taxable profits is probable. The future taxable profit estimate is based on current business plans approved by management. At year-end 2019 the expected future taxable income in Sweden includes a positive impact from the estimated result for the planned divestment of Aviation & Security business area to LFV, Air Navigation Services of Sweden.

On 31 December 2019 the Group had in its main operational countries total of EUR 257.9 million (275.6) tax losses for which no deferred tax asset was recognised. Of these tax losses EUR 98.3 million (157.0) will expire within five years, EUR 11.6 million (2.4) will expire after five years and EUR 148.0 million (116.2) does not have expiry date.

Business combinations and capital expenditure

Note 23 Acquisitions, disposals and assets held for sale

Strategic evaluation and process

On 3 April 2019, Eltel announced that it will focus on the Nordic market and has initiated a strategic evaluation of the company's operations outside the Nordics, including a potential divestment. The evaluation was initiated, and agreement to divest the Polish Communication business was signed on 6 August 2019.

On 26 June 2019, Eltel and LFV, Air Navigation Services of Sweden, signed a letter of intent according to which Eltel will divest the business area Aviation & Security to LFV. In the letter of intent, both parties undertake to ensure a definitive agreement is signed no later than the first quarter 2020. The agreement is conditional on approval by the respective party's board, the Swedish Competition Authority and the Swedish Government.

An agreement to divest the German Communication was signed on 22 January 2020 and is expected to be closed at the end of the first quarter 2020.

Furthermore, Eltel concluded to retain the Polish and German Power businesses for the time being, while continuing the work to increase their profitability.

Acquisitions

During 2019, no acquisitions were made. Cash flow in 2019 includes EUR 4.2 million final earn-out payment for the acquisition of the German Smart Grids (U-SERV GmbH) in 2016. No liabilities for contingent consideration remain for previous acquisitions at year-end 2019.

During 2018, no 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 Grids (U-SERV GmbH) in 2016 as a result of the performance of the asset and the leverage mechanism in the agreement. After the adjustment the final earn-out liability was EUR 4.2 million.

Disposals

On 14 October 2019 Eltel completed the divestment of its Polish Communication business to VINCI Energies. The total consideration of the transaction was EUR 12.6 million, positive cash flow impact amounted to EUR 12.3 million and sales gain impact on Group EBIT was EUR 1.4 million in the fourth quarter 2019. The disposed assets and liabilities are presented in the following table:

EUR million	2019
Cash and cash equivalents	0.3
Other assets	11.1
Total assets	**11.5**
Total liabilities	**5.6**

During 2018, Eltel divested its non-core Rail operations in Finland, Denmark, Sweden and Norway. The net impact of the divestments on EBIT was EUR -2.2 million, which was recorded during the first quarter of 2018.

The purchase price of the Finnish Rail operations 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 EBIT of EUR 3.7 million and positive cash flow of EUR 6.3 million in the first quarter of 2018.

The sale of the Swedish Rail operations had a negative impact of EUR 5.9 million on EBIT and a negative cash flow effect of EUR 5.7 million in the first quarter of 2018.

The divested Danish Rail operations had a negative impact of EUR 0.5 million, which 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.

The divested Norwegian Rail operations had a negative cash flow effect of EUR 0.7 million in the third quarter of 2018.

Assets held for sale

On 31 December 2019, the German Communication business and Aviation & Security business area are presented as assets held for sale, both in the segment Communication. These operations do not meet the criteria for presentation as discontinued operation.

EUR million	31 Dec 2019
Assets	
Goodwill and other intangible assets	13.0
Property, plant and equipment	1.5
Right-of-use assets (IFRS 16)	0.9
Trade receivables and other assets	8.5
Total assets held for sale	**24.0**
Liabilities	
Leasing liabilities (IFRS 16)	0.9
Advances received	3.6
Trade and other payables	4.7
Total liabilities held for sale	**9.3**

On 31 December 2018 there were no assets held for sale.

Agreements after balance sheet date

On 22 January 2020, Eltel signed an agreement to divest its German Communication business to Circet Group, a European telecom network service provider. The total consideration of the transaction is about EUR 19 million. The transaction is estimated to give a positive cash flow impact of EUR 19 million and have a net positive result of approximately EUR 13 million on Group EBIT.

On 23 March 2020, Eltel signed an agreement to divest its business area Aviation & Security to LFV, Air Navigation Services of Sweden. The total consideration of the transaction is about EUR 17 million. The transaction is expected to close during Q2 2020. The transaction is estimated to give a positive cash flow impact of EUR 17 million and have a net positive result of approximately EUR 6 million on Group EBIT. Both divestmentd are subject to customary approvals.

Note 24 Non-controlling interests and joint ventures

EUR million	Subsidiaries with non-controlling interest		Joint ventures	
Summarised statement of balance sheet	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Current assets	28.5	30.3	11.3	17.3
Non-current assets	6.0	2.9	1.4	1.6
Total assets	**34.5**	**33.2**	**12.7**	**18.9**
Current liabilities	12.7	13.4	10.9	18.1
Non-current liabilities	2.9	0.6	–	0.0
Total liabilities	**15.5**	**14.1**	**10.9**	**18.1**
Equity:				
Shareholders' equity	18.9	19.1	1.8	0.9
Non-controlling interest	7.6	7.6	–	–
Summarised income statement	**Jan–Dec 2019**	**Jan–Dec 2018**	**Jan–Dec 2019**	**Jan–Dec 2018**
Net sales	50.2	52.4	4.2	62.3
Net result	2.0	2.9	0.8	2.2
Total comprehensive income	2.0	2.9	0.8	2.2
Total comprehensive income allocated to non-controlling interests	0.8	1.1	–	–
Dividends paid to non-controlling interest	-0.9	-0.5	–	–
Summarised cash flows	**Jan–Dec 2019**	**Jan–Dec 2018**	**Jan–Dec 2019**	**Jan–Dec 2018**
Cash flow from operating activities	-1.0	5.4	–	–
Cash flow from investing activities	-0.1	-0.5	–	–
Cash flow from financing activities	1.1	-4.9	–	–
% of ownership	60%	60%	50%	50%
Commercial guarantees on behalf of joint ventures	–	–	5.7	9.7

	Joint ventures	
Reconciliation of changes in carrying value	**2019**	**2018**
1 Jan	**1.9**	**0.7**
Profit/loss for the period	0.4	1.1
Investment refund	-1.5	–
Capital investment	–	0.1
31 Dec	**0.9**	**1.9**

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

Joint ventures
Murphy Eltel JV Limited
Murphy Eltel JV Limited, 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 25 Intangible assets

2019 EUR million	Goodwill	Customer relationship	Order backlog	Brand	Advances paid	Other intangible assets	Total
Cost 1 Jan	505.1	139.4	14.2	49.7	3.7	22.7	734.9
Additions	–	–	–	–	0.0	4.5	4.5
Disposals	–	–	–	–	–	-1.8	-1.8
Disposal of companies	-4.9	–	–	-0.5	–	-0.1	-5.5
Transfer to assets held for sale	-11.8	–	–	-1.2	–	–	-13.0
Transfer to other intangible assets	–	–	–	–	-3.3	3.3	–
Translation differences	-1.4	-0.8	-0.1	-0.2	–	0.0	-2.6
Cost 31 Dec	**487.1**	**138.5**	**14.0**	**47.8**	**0.4**	**28.7**	**716.5**
Accumulated amortisation and impairment 1Jan	223.0	136.2	14.2	20.8	–	15.8	410.0
Accumulated amortisation of disposals	–	–	–	–	–	-1.5	-1.5
Accumulated amortisation of disposals of companies	–	–	–	–	–	-0.1	-0.1
Amortisation during the period	–	1.5	–	–	–	2.3	3.8
Translation differences	–	-0.9	-0.1	–	–	0.3	-0.8
Accumulated amortisation and impairment 31 Dec	**223.0**	**136.8**	**14.1**	**20.8**	**–**	**16.8**	**411.4**
Carrying value 1Jan	282.1	3.1	0.0	29.0	3.7	6.9	324.9
Carrying value 31 Dec	**264.0**	**1.7**	**0.0**	**27.1**	**0.4**	**11.9**	**305.1**

2018 EUR million	Goodwill	Customer relationship	Order backlog	Brand	Advances paid	Other intangible assets	Total
Cost 1 Jan	510.0	142.5	14.6	50.8	1.8	19.5	739.1
Additions	–	–	–	–	2.0	3.7	5.8
Disposal of companies	–	–	–	–	–	-0.1	-0.1
Transfer to PPE	–	–	–	–	-0.1	-0.2	-0.2
Translation differences	-4.8	-3.1	-0.4	-1.1	–	-0.2	-9.6
Cost 31 Dec	**505.1**	**139.4**	**14.2**	**49.7**	**3.7**	**22.7**	**734.9**
Accumulated amortisation and impairment 1Jan	223.0	137.8	14.0	21.3	–	14.3	410.3
Accumulated amortisation of disposals of companies	–	–	–	–	–	-0.1	-0.1
Amortisation during the period	–	1.6	0.6	–	–	1.6	3.7
Translation differences	–	-3.1	-0.4	-0.5	–	0.0	-4.0
Accumulated amortisation and impairment 31 Dec	**223.0**	**136.2**	**14.2**	**20.8**	–	**15.8**	**410.0**
Carrying value 1Jan	286.9	4.7	0.6	29.5	1.8	5.2	328.8
Carrying value 31 Dec	**282.1**	**3.1**	**0.0**	**29.0**	**3.7**	**6.9**	**324.9**

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 "Sales and marketing expenses".

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.

Allocation of goodwill and brand

Eltel organises its business through Country Units (CU), and two project based Solution Units (SU) with operations across countries. In addition Eltel has Rail and Power Transmission International businesses that are being ramped down.

The composition of operating segments mirrors the way that management follows operations. Goodwill and brand are monitored and tested for impairment on Country and Solution Unit -level. The values and pre-tax discount rates used in valuation are presented in following tables.

Goodwill and brand relating to Rail and Power Transmission International businesses and High Voltage Solution Unit has been fully impaired in earlier periods and no value remains for these units.

2019 EUR million	Brand	Goodwill	WACC
Country Unit Sweden	5.9	57.6	9.7%
Country Unit Finland	8.0	77.5	9.4%
Country Unit Norway	8.0	78.3	10.1%
Country Unit Denmark	3.3	32.2	9.4%
Solution Unit Smart Grids	1.8	17.5	9.8%
Other units	0.1	0.9	10.7%
Total	**27.1**	**264.0**	

Note 25, continued

2018 EUR million	Brand	Goodwill	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 units	0.7	7.0	11.8%
Total	**29.0**	**282.1**	

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 1.4% (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. Additional temporary risk component has been included to reflect the higher risk level in profitability related to project business and market changes in recent years.

The annual impairment test conducted for year-end 2019 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 12% and use of pre-tax WACC of 11.2% would change the recoverable amount to be equal to its carrying amount.

Note 26 Property, plant and equipment

2019 EUR million	Land	Buildings	Machinery and equipment	Total
Cost 1 Jan	0.8	5.6	78.7	85.1
Additions	–	–	7.9	7.9
Disposals	–	-0.1	-2.6	-2.7
Disposals of companies	–	–	-0.5	-0.5
Reclassifications	–	–	-1.0	-1.0
Transfer to assets held for sale	–	–	-3.9	-3.9
Translation differences	–	0.0	-0.1	-0.1
Cost 31 Dec	**0.8**	**5.6**	**78.6**	**85.0**
Accumulated depreciation 1 Jan	0.1	1.7	53.1	54.9
Accumulated depreciation of disposals	–	–	-3.3	-3.3
Accumulated depreciation of disposals of companies	–	–	-0.3	-0.3
Depreciation during the period	–	0.2	8.5	8.7
Transfer to assets held for sale	–	–	-2.4	-2.4
Translation differences	–	0.0	-0.1	-0.1
Accumulated depreciation 31 Dec	**0.1**	**1.9**	**55.4**	**57.5**
Carrying value 1 Jan	0.7	4.0	25.5	30.2
Carrying value 31 Dec	**0.7**	**3.7**	**23.1**	**27.5**

2018 EUR million	Land	Buildings	Machinery and equipment	Total
Cost 1 Jan	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
Reversal of transfer to assets held for sale	–	–	6.6	6.6
Reclassifications from advances paid	–	-0.0	0.3	0.2
Translation differences	0.0	-0.1	-1.3	-1.5
Transfer between balance sheet lines [1]	–	–	-19.2	-19.2
Cost 31 Dec	**0.8**	**5.6**	**78.7**	**85.1**
Accumulated depreciation 1 Jan	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
Reversal of transfer to assets held for sale	–	–	5.0	5.0
Depreciation during the period	–	0.2	10.4	10.6
Translation differences	–	0.0	-1.3	-1.3
Transfer between balance sheet lines [1]	–	–	-15.2	-15.2
Accumulated depreciation 31 Dec	**0.1**	**1.7**	**53.1**	**54.9**
Carrying value 1 Jan	0.7	4.3	27.6	32.6
Carrying value 31 Dec	**0.7**	**4.0**	**25.5**	**30.2**

[1] Right-of-use assets and leasing liabilities according to IFRS 16 have been added as separate lines in the balance sheet. Previous finance lease assets and liabilities under IAS 17 are presented in these new lines for comparative periods. Previously these were presented in Property, plant and equipment (PPE) and non-current and current debt.

Note 27 Leasing

Under IFRS 16 Eltel 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. Right-of-use assets are depreciated on a straight line basis and an interest expense is recognised under financing expenses for the lease liabilities. IFRS 16 requires use of estimates for valuating contracts that are valid until further notice (continuous contracts). Lengths of these contracts have been estimated based on expected usage in current business operations.

Eltel applies the modified retrospective method with no restatement of comparative information. There are optional exemptions for short-term leases and leases of low value items, which Eltel has chosen to apply. According to the exemption in IFRS 16, leasing liabilities previously classified as finance leases according to IAS 17 have been included in the opening balances of 2019 with values equal to the year-end 2018.

IFRS 16 leasing expenses in income statement

EUR million	2019
Depreciation	
Depreciation of right-of-use assets	28.4
Other operating expenses	
Short-term lease expense	3.8
Expense for leases of low-value assets	3.2
Financial expenses	
Interest expense on lease liabilities	1.9
Total	**37.3**

Right-of-use assets

EUR million	Buildings	Machinery and equipment	Total
Transfer of IAS 17 finance lease assets from PPE	–	4.0	4.0
IFRS 16 opening balance adjustment	49.3	40.3	89.6
1 Jan 2019	**49.3**	**44.3**	**93.6**
Additions	4.0	11.0	15.0
Depreciation	-10.4	-18.0	-28.4
Transfer to assets held for sale	–	-0.9	-0.9
Translation differences	-0.7	-1.0	-1.8
31 Dec 2019	**42.2**	**35.2**	**77.4**

Reconciliation of operating lease commitments to leasing liabilities

EUR million	
Operating lease commitments 31 Dec 2018	66.1
Less impact of service elements	-7.0
Operating lease commitments without service elements 31 Dec 2018	59.1
Weighted average incremental borrowing rate 1 Jan 2019	1.71%
Discounted operating lease commitments 1 Jan 2019	**57.3**
Add:	
Commitments relating to leases previously classified as finance leases	4.1
Estimated contract lengths for continuous lease contracts:	
Buildings	8.9
Impact of optional extension periods not recognised 31 Dec 2018:	
Buildings	13.9
Machinery and equipment	8.9
Leasing liabilities 1 Jan 2019	**93.1**

Leasing liabilities

EUR million	Non-current	Current	Total
Transfer of IAS 17 finance lease liability from debt	2.2	2.0	4.1
IFRS 16 opening balance adjustment	61.8	27.1	89.0
1 Jan 2019	**64.0**	**29.1**	**93.1**
Changes during the period	-9.3	-4.2	-13.6
Transfer to assets held for sale	-0.4	-0.5	-0.9
31 Dec 2019	**54.3**	**24.3**	**78.6**

Maturity analysis of leasing liabilities is presented in note 12.2 Liquidity risk. Future lease payments for short-term lease commitments outside IFRS 16 accounting were EUR 2.1 million on 31 December 2019.

IFRS 16 impact on cash flow

EUR million	Jan–Dec 2019	Jan–Dec 2018
Cash flow from operating activities before IFRS 16 impact	25.7	3.2
Movement between report lines:		
IFRS 16 impact on operating result (EBIT)	0.5	–
IFRS 16 impact on depreciation and amortisation	26.9	–
IFRS 16 impact on interests and other financial expenses paid	-1.7	–
Total IFRS 16 impact on cash flow from operating activities	25.7	–
Cash flow from operating activities	**51.4**	**3.2**
Cash flow from investing activities	**-2.1**	**-21.3**
Cash flow from financing activities before IFRS 16 impact	-12.5	39.1
IFRS 16 impact on payments of/proceeds from lease liabilities	-25.7	–
Cash flow from financing activities	**-38.2**	**39.1**

Cash flow from operating activities and cash flow from financing activities are impacted by IFRS 16. From 1 January 2019 onwards, the lease payments in the cash flow are divided to interest expense in the cash flow from operating activities and amortisation of lease liability in the cash flow from financing activities. In the comparative periods the payments were fully included in the cash flow from operating activities. Therefore, the cash flow from operating activities increases and cash flow from financing activities decreases. IFRS 16 has no impact on total cash flow.

Remuneration and other

Note 28 Personnel

Number of personnel by country

Average	2019	Of whom men %	2018	Of whom men %
Sweden	1,944	87	2,151	87
Finland	1,040	79	1,480	91
Norway	1,485	91	1,204	89
Poland[1)]	1,059	89	1,140	78
Denmark	655	91	653	93
Germany	608	86	630	79
Other	245	94	306	94
Total	**7,036**	**88**	**7,563**	**87**
Total personnel 31 Dec	**6,678**	**87**	**7,376**	**88**

1) Includes the average number of personnel of the divested Polish Communication business for the period January–September 2019.

Number of key management

	31 Dec 2019	31 Dec 2018
Board of Directors		
Men	10	10
Women	1	1
Other key management		
Men	8	9
Women	2	1
Total	**21**	**21**

Note 29 Remuneration to senior management

Guidelines for remuneration to senior management

The Annual General Meeting 2019 approved the following guidelines for remuneration to senior management:
Eltel's overall objective is to offer senior management a competitive and market-based level of remuneration consisting of fixed and variable salary, pension and other remuneration components. Remuneration shall be determined in relation to area of responsibility, duties, expertise and performance.

The fixed salary component equals and compensates for an engaged work of management at a high professional level, creating value to Eltel. The short-term variable salary component is based on predetermined and measurable financial targets recommended by the Remuneration Committee and ultimately decided by the Board of Directors.

The pension terms of senior executives should be market-based in relation to those that generally apply for comparable executives. Being an international team with members from several different countries, the pension terms of Eltel's senior management reflect some national differences. In addition, senior executives may be offered long-term incentive schemes on market-based terms. The Board of Directors shall have the right to deviate from the guidelines in individual cases if there are particular grounds for such deviation.

Key management compensation 2019

EUR thousands	Fee	Fixed salary	Annual variable salary	Long-term variable salary	Pension	Other benefits	Total
Ulf Mattsson	139	–	–	–	–	–	139
Ulf Lundahl	41	–	–	–	–	–	41
Gunilla Fransson	43	–	–	–	–	–	43
Håkan Dahlström	41	–	–	–	–	–	41
Markku Moilanen	37	–	–	–	–	–	37
Hans von Uthmann	41	–	–	–	–	–	41
Joakim Olsson	41	–	–	–	–	–	41
Roland Sundén	37	–	–	–	–	–	37
Mikael Aro	37	–	–	–	–	–	37
Casimir Lindholm	–	619	–	24	107	–	750
Håkan Kirstein[1)]	–	140	–	76	27	35	278
Other members of the senior management (10 individuals)	–	2,182	80	36	260	79	2,638

1) President and CEO until 31 August 2018.

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

Note 29, continued

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 onwards.
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, other remuneration and pensions refer to amounts that were recorded as expense according to IFRS. 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.

Salaries, remuneration and benefits
Salaries and other remuneration to Board of Directors and senior management excluding pensions and other benefits amounted to EUR 3.6 million (4.5) of which the fixed salaries amounted to EUR 3.4 million (4.0) including fees to Board of Directors of EUR 0.5 million (0.5). Out of this, variable salaries including provisions for LTIP 2016 and LTIP 2018 amounted to EUR 0.2 million (0.5). The defined contribution pension plans for senior management amounted to EUR 0.4 million (0.6) and the amount of other indirect employee costs for senior management amounted to EUR 0.8 million (0.6).

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 determined by the Board of Directors. The CEO has an 80% variable salary maximum outcome component and the remaining members of GMT have a 60% variable salary maximum outcome component.

In 2018, 15 senior managers and key employees were offered a retention bonus scheme. The purpose of the retention bonus scheme is 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 results for 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. The performance of the Group in 2018 and 2019 did not meet the required EBITDA results for pay-out of any retention bonus.

In February 2020, 11 senior managers and key employees were offered a retention bonus scheme amounting to 50% of maximum STI potential for the relevant employee to be guaranteed for the years 2020 and 2021, respectively. The guarantee amount is calculated as the difference between 50% of the max STI potential for 2020 and 2021 and the accumulated actual bonus payouts for 2020 and 2021. The retention bonus scheme requires that the employee has not given notice and still is employed on 31 December 2021.

The pension terms of the CEO and other senior executives in the Group Management Team ("GMT") are market-based in relation to terms that generally apply to comparable executives and reflect the applicable laws and established practices in different countries.

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.

Long-term incentive programmes
Eltel's share-based incentive programme LTIP 2016 related to matching shares vested at the end of the second quarter 2019. In accordance with the rules of the programme, Eltel awarded 84,262 matching shares to employees covered by the programme. The shares were purchased from the market and delivered to the participants on 5 July 2019. The weighted average share price was SEK 22.49. The LTIP 2016 programme in relation to performance shares continues for one additional year and any allocation of performance shares is subject to Eltel reaching performance targets based on Eltel's EBITDA for the financial year 2019.

The Annual General Meeting of 2018 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 be based on Eltel's EBITDA for the financial year 2019 instead
- 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 is established for 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 publication 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 in the performance target

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 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.

Note 29, continued

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.

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. Matching shares have vested in 2019.

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.

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 2018 comprises maximum 114,128 matching shares (114,128 in 2018), 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 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 433 thousand (568), of which EUR 126 thousand (278) for the President and CEO and other senior executives. Total expense for the year was EUR 11 thousand (33), of which EUR 90 thousand (60) 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 285 thousand (817), of which EUR 285 thousand (817) for the President and CEO and other senior executives. Total expense for the year was EUR 46 thousand (33), of which EUR 46 thousand (33) 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 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 2019	31 Dec 2018
Defined benefit pension liability	14.2	12.4
Other pension liability	0.6	0.4
Net pension liability	**14.8**	**12.8**

Defined pension liabilities in the balance sheet

EUR million	31 Dec 2019	31 Dec 2018
Present value of funded obligations	97.1	90.6
Fair value of plan assets	-82.9	-78.2
Net liability	**14.2**	**12.4**

The movement in the fair value of plan assets

EUR million	2019	2018
Fair value of assets 1 Jan	78.2	82.5
Interest on plan assets	1.6	1.8
Remeasurement of plan assets	4.8	-2.7
Contributions by employer	0.1	0.1
Benefits paid	-0.8	-0.8
Translation differences	-1.1	-2.6
Fair value of assets 31 Dec	**82.9**	**78.2**

The movement in the defined benefit obligations

EUR million	2019	2018
Total obligations 1 Jan	90.6	92.9
Current service cost	-0.7	-0.7
Past service cost	0.0	0.5
Interest cost	1.9	2.0
Remeasurement of pension obligation	10.6	2.8
Benefits paid	-4.0	-4.0
Translation differences	-1.3	-2.9
Total obligations 31 Dec	**97.1**	**90.6**

The amounts recognised in the income statement and other comprehensive income

EUR million	2019	2018
Current service cost	-0.7	-0.7
Past service cost	0.0	0.5
Net interest cost	0.2	0.2
Sum recognised in the income statement	**-0.4**	**0.0**
Remeasurements recognised in other comprehensive income:		
Financial assumptions	0.9	2.3
Experience adjustments	4.9	3.2
Total pension charges recognised during the period	**5.3**	**5.5**

Maturity profile of future gross benefit payments

EUR million	2019
Less than 1 year	3.9
1–5 years	16.0
5–10 years	18.2
10–20 years	29.1
20–30 years	16.4
Over 30 years	7.4
Total	**91.0**

The maturity profile amounts are not adjusted for inflation and excluding special salary tax. The expected contributions to the plan for 2020 are EUR 3.3 million.

The principal actuarial assumptions

Discount rate, %	2019	2018
Sweden	1.20	2.30
Finland	0.70	1.50

Future salary increase expectation, %	2019	2018
Sweden	closed plan	closed plan
Finland	2.40	2.90

Inflation rate, %	2019	2018
Sweden	1.80	1.90
Finland	1.20	1.70

The pension plan in Sweden forms 80% of the Groups total obligations and 88% 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 6.4 million. Similar rise in inflation rate would have the opposite effect and increase the obligation by EUR 6.8 million. If the discount rate was decreased by 0.5% the obligation would increase by EUR 7.2 million whilst similar decrease in the inflation rate would reduce the obligation by EUR 6.2 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 2019 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 175%. If the level of collective solvency is less than 125% or exceeds 175%, 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 175%. However, Alecta aim to avoid surplus by using reduced contributions. On 31 December 2019, Alecta's surplus corresponded to a collective consolidation ratio of 148% (142%).

The distribution of plan assets in Sweden is as follows:

%	2019	2018
Debt instruments	66	69
Equity instruments	33	22
Cash and cash equivalents	1	9
Total	**100**	**100**

Note 31 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 shareholders, 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 Remuneration to senior management.

Note 32 Group companies

31 Dec 2019	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 Poland S.A.	Poland	100%
Ollidin Investments Sp. z.o.o.	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 Tanzania Limited	Tanzania	100%
Transmission Eltel Limited	Zambia	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 2019 Eltel Networks Telecom Sp. z.o.o. in Poland was divested outside Eltel Group. Eltel Networks LLC in Ukraine was liquidated. The shares of Ollidin Investments Sp.z.o.o. in Poland were acquired. The company is dormant.

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

Note 33 Auditors' fees

EUR million	2019	2018
Main auditor		
Audit	0.8	0.6
Other services	0.1	0.2
Total	**0.9**	**0.9**
Other auditing firms		
Audit	–	0.1
Tax services	–	0.1
Other services	0.2	0.3
Total	**0.2**	**0.5**
Total	**1.1**	**1.3**

The main auditor of the Group in 2019 and 2018 has been KPMG.

Note 34 Events after balance sheet date

Divestment of German communication business
On 22 January 2020, Eltel signed an agreement to divest its German communication business to Circet Group, a European telecom network service provider. The total consideration of the transaction is about EUR 19 million. The transaction is estimated to give a positive cash flow impact of EUR 19 million and have a net positive result of approximately EUR 13 million on Group EBIT.

Bank agreement amendment
On 13 February 2020, Eltel agreed with its banks on amendments to its existing financial agreement. The amendments include covenants aligned with financial expectations for 2020.

COVID-19
At the time of publication, there is a pandemic outbreak of COVID-19 affecting large parts of the societies in which Eltel is active. Under these exceptional circumstances, Eltel is evaluating the impacts of the pandemic on the company, while also focusing on mitigating actions and securing the continuity of its business. Eltel is playing an important role in maintaining critical societal functions in this difficult situation.

Divestment of the Swedish business area Aviation & Security
On 23 March 2020, Eltel signed an agreement to divest its business area Aviation & Security to LFV, Air Navigation Services of Sweden. The total consideration of the transaction is about EUR 17 million. The transaction is expected to close during Q2 2020. The transaction is estimated to give a positive cash flow impact of EUR 17 million and have a net positive result of approximately EUR 6 million on Group EBIT. The divestment is subject to customary approvals.

Parent Company financial statements

Income statement

EUR thousands	Note	Jan–Dec 2019	Jan–Dec 2018
Net sales	4	2,210	3,790
Personnel costs	5	-3,248	-4,385
Other operating expenses		-5,420	-7,499
Total operating expenses		**-8,668**	**-11,884**
Operating result		**-6,458**	**-8,094**
Interest and other financial income		20,945	16,284
Interest and other financial expense		-2,960	-1,932
Financial items, net	7	**17,986**	**14,352**
Result after financial items		**11,527**	**6,259**
Appropriations			
Group contribution given	12	-11,300	-6,150
Result before tax		**227**	**109**
Tax for the year		-171	-91
Net result for the year		**56**	**18**

Statement of comprehensive income

EUR thousands	Note	Jan–Dec 2019	Jan–Dec 2018
Net result for the year		**56**	**18**
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		-30	-96
Total comprehensive income/loss for the period		**177**	**73**

Balance sheet

EUR thousands	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Financial assets			
Shares in group companies	8	68,308	68,308
Deferred tax assets		363	564
Long-term loans receivable from group companies	9	483,345	328,257
Other financial assets	9	35,000	–
Intangible assets		67	67
Total non-current assets		**587,083**	**397,196**
Current assets			
Receivables from group companies	9	1,026	3,790
Other receivables		356	580
Cash pool receivables	9	–	135,545
Other financial assets	9	–	35,000
Cash and cash equivalents		260	2
Total current assets		**1,643**	**174,917**
TOTAL ASSETS		**588,726**	**572,113**
EQUITY AND LIABILITIES			
Restricted equity			
Share capital		158,839	157,980
Statutory reserve		453	453
Total restricted equity		**159,292**	**158,433**
Non-restricted equity			
Retained earnings		284,744	285,606
Net result for the year		56	18
Total non-restricted equity		**284,800**	**285,624**
Total equity	10	**444,091**	**444,058**
LIABILITIES			
Non-current liabilities			
Liabilities to shareholders	11	35,000	–
Total non-current liabilities		**35,000**	**–**
Current liabilities			
Debt	11	89,145	83,302
Liabilities to shareholders	11	–	35,000
Liabilities to group companies	12	19,140	7,833
Trade and other payables	13	1,350	1,920
Total current liabilities		**109,635**	**128,056**
Total liabilities		**144,635**	**128,056**
TOTAL EQUITY AND LIABILITIES		**588,726**	**572,113**

Changes in equity

EUR thousands	Share capital	Statutory reserve	Non-restricted equity[2]	Total equity
1 Jan 2019	**157,980**	**453**	**285,624**	**444,058**
Net profit for the period	–	–	56	56
Other comprehensive income	–	–	121	121
Total comprehensive income/loss	**–**	**–**	**177**	**177**
Transactions with owners[1]				
Equity-settled share-based payment	–	–	39	39
Proceeds from shares issued	859	–	–	859
Purchase of own shares	–	–	-1,041	-1,041
Total transactions with owners	**859**	**–**	**-1,002**	**-143**
31 Dec 2019	**158,839**	**453**	**284,800**	**444,091**
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[1]:				
Equity-settled share-based payment	–	–	-46	-46
Treasury shares sold	–	–	32	32
Share capital reduction	-453	453	–	–
Total transactions with owners	**-453**	**453**	**-14**	**-14**
31 Dec 2018	**157,980**	**453**	**285,624**	**444,058**

[1] For more information about equity-settled share-based payments see note 29 Remuneration to senior management in the consolidated financial statements and for share transactions see note 10 Equity and share capital.

[2] Cash flow hedging reserve amounting to eur 50 thousand (201) is included in non-restricted equity. Cash flow hedging reserve consists of hedge accounting for interest rate swaps used for swapping the floating interest rate of hedged loan to fixed rate.

Cash flow statement

EUR thousands	Note	Jan–Dec 2019	Jan–Dec 2018
Cash flow from operating activities			
Profit/loss before taxes		227	109
Adjustments for:			
Depreciation		27	14
Equity-settled share-based payment		39	-46
Group contribution given	12	11,300	6,150
Financial items, net	7	-17,984	-14,352
Changes in working capital		1,443	-2,434
Cash flow from operating activities before financial items and taxes		**-4,948**	**-10,560**
Financial income received		3,872	6,689
Financial expenses paid		-2,971	-1,854
Cash flow from operating activities		**-4,046**	**-5,723**
Cash flow from investing activities			
Payments received from loans from group companies		2,740	5,714
Purchases of property, plant and equipment (PPE)		-27	-31
Cash flow from investing activities		**2,713**	**5,683**
Cash flow from financing activities			
Proceeds from issuance of share capital		–	33
Purchase of own C shares		-182	–
Proceeds from short-term borrowings		22,498	58,000
Payments of short-term borrowings		-16,498	-17,500
Payments of short-term borrowings from group companies	9	-140,839	-40,503
Proceeds from short-term borrowings from group companies		142,762	–
Payments of group contributions		-6,150	–
Cash flow from financing activities		**1,591**	**30**
Decrease/increase in cash and cash equivalents		257	-10
Cash and cash equivalents at beginning of year		2	12
Cash and cash equivalents at end of year		**260**	**2**

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 Company holds management functions but has no operative business activities and its risks are mainly attributable to the value and 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 income statement for the Parent company is presented on the nature of expense method. The Parent company has reported group contributions and related taxes in the income statement in accordance with RFR 2. The Parent company does not apply IFRS 16 in accordance with the exception in RFR 2.

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 chosen to apply the alternative rule in accordance with RFR 2, 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 12 Financial risk management in the consolidated financial statements applies to the Parent Company as well in all material aspects.

Note 4 Net sales

EUR thousands	2019	2018
Remunerations from group companies for group-wide administration	2,210	3,790
Total	**2,210**	**3,790**

Note 5 Employee benefit expenses

EUR thousands	2019	2018
Salaries and other remunerations	1,844	2,799
Social security contributions:		
Pension costs	545	545
Other social security contributions	859	1,041
Total	**3,248**	**4,385**

	2019	2018
Average number of employees	9	10
Of whom men	39%	59%

Salaries and other remunerations to senior executives were EUR 1.1 million (2.3), pension costs EUR 0.2 million (0.4) and other social security contributions EUR 0.6 million (0.4). In addition, salaries and other remunerations including social costs to the President and CEO paid by other group companies were EUR 0.8 million (0.3). Group senior management participates in the long-term share-based incentive programmes LTIP 2016 and LTIP 2018. Total expense for the LTIP 2016 programme for the year was EUR 92 thousand (-61), of which EUR 92 thousand (-64) for the President and CEO and other senior executives. Total expense for the LTIP 2018 programme for the year was EUR 43 thousand (31), of which EUR 43 thousand (31) for the President and CEO and other senior executives. More information of Group senior management and the Board of Directors is presented in note 8 Employee benefit expenses and 31 Related party information in the consolidated financial statements.

In Eltel AB the number of individuals in the Board of Directors was eleven in 2019 and in 2018 and the number of other senior management employed by the company was four in 2019 and five in 2018.

Note 6 Auditors' fees

EUR thousands	2019	2018
Main auditor		
Audit assignments	87	93
Tax assignments	–	13
Other assignments	73	71
Other auditing firms		
Other assignments	128	186
The company in total	**288**	**363**

Main auditor in 2019 and 2018 has been KPMG.

Note 7 Result from financial items

EUR thousands	2019	2018
Interest and other financial income		
Interest income, loans from group companies	20,483	15,881
Other financial income	77	55
Other financial income, group companies	386	348
Total	**20,945**	**16,284**
Interest and other financial expenses		
Interest expenses	-2,428	-1,670
Other financial expenses	-532	-262
Total	**-2,960**	**-1,932**
Total financial items	**17,986**	**14,352**

Note 8 Shares in group companies

EUR thousands	2019	2018
Acquisition value		
Opening balance 1 Jan	268,308	268,308
Closing balance 31 Dec	**268,308**	**268,308**
Accumulated impairment losses		
Opening balance 1 Jan	-200,000	-200,000
Closing balance 31 Dec	**-200,000**	**-200,000**
Carrying amount on the balance sheet	**68,308**	**68,308**

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	68,308

Note 9 Receivables from related parties

Non-current receivables

EUR thousands	31 Dec 2019	31 Dec 2018
Loans from group companies	483,345	328,257
Other financial assets, received from shareholders[1]	35,000	–
Total	**518,345**	**328,257**

Current receivables

EUR thousands	31 Dec 2019	31 Dec 2018
Cash pool receivable	–	135,545
Other financial assets, received from shareholders[1]	–	35,000
Accounts receivable	1,026	3,790
Total	**1,026**	**174,335**

[1] Shareholders refers to selling shareholders at the time of the listing on 6 February 2015. The amount has been moved from short-term to long-term in 2019. See also Legal claims and investigations in note 17 in the consolidated financial statements.

Interest resulting from loans to group companies is capitalised annually. Capitalised interest bears no interest. In Q2 2019 cash pool receivables were converted to long-term loans receivable from group companies.

Note 10 Equity and share capital

On 31 January 2019, Eltel issued a total of 850,000 redeemable and convertible class C shares based on the authorisation given to the Board by the Extraordinary General Meeting on 17 September 2018. The purpose of the issue of class C shares is to use the shares in Eltel's long-term incentive programme LTIP 2018. In connection with the issue, the shares have been repurchased by Eltel. Eltel holds the shares at 31 December 2019 and will hold the shares until it is time to deliver shares to the participants of LTIP 2018. Prior to delivery of the shares to participants, the class C shares will be converted to ordinary shares.

The share issue resulted in an increase of share capital by EUR 858,500. After the share issue, the total number of shares amounts to 157,499,081 divided into 156,649,081 ordinary shares with 1 vote per share and 850,000 C shares with 1/10 vote per share. On 31 December 2019 the share capital amounted to EUR 158,839 thousand.

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 2019 are Wipunen Varainhallinta Oy, Mariatorp Oy and Riikantorppa Oy with 21.9% 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 28–29.

The Board's proposal for the distribution of profits

The Parent Company's non-restricted equity on 31 December 2019 was EUR 284,799,214.86 of which the net profit for the year was EUR 55,567.22. The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the year 2019 and that the non-restricted equity of EUR 284,799,214.86 be retained and carried forward.

Note 11 Liabilities

EUR thousands	31 Dec 2019	31 Dec 2018
Non-current liabilities		
Liabilities to shareholders[1]	35,000	–
Current liabilities		
Bank borrowings	89,145	83,302
Liabilities to shareholders[1]	–	35,000
Total liabilities	**124,145**	**118,302**

[1] Shareholders refers to selling shareholders at the time of the listing on 6 February 2015. The amount has been moved from short-term to long-term in 2019. See also Legal claims and investigations in note 17 in the consolidated financial statements.

Note 12 Liabilities to group companies

EUR thousands	31 Dec 2019	31 Dec 2018
Cash pool payable	7,217	–
Accounts payable	623	1,683
Group contribution liabilities	11,300	6,150
Total	**19,140**	**7,833**

Note 13 Trade and other payables

EUR thousands	31 Dec 2019	31 Dec 2018
Trade payables	164	264
Accrued employee related expenses	323	465
Other short-term liabilities	658	982
Other accrued expenses	205	210
Total	**1,350**	**1,920**

Note 14 Contingent liabilities and pledged assets

Contingent liabilities

EUR thousands	31 Dec 2019	31 Dec 2018
Commercial guarantees on behalf of subsidiaries	175,227	177,222
Commercial guarantees on behalf of joint ventures	5,728	9,689
Total guarantees	**180,955**	**186,911**

Pledged assets

EUR thousands	31 Dec 2019	31 Dec 2018
Pledged subsidiary shares	68,308	–
Pledged other assets	336,921	–
Total pledged assets	**405,229**	**–**

In 2019, Eltel AB has secured the debt obligations of the group towards the banks under the amended loan agreement by share and intragroup loan pledges, all an customary terms and conditions.

The Company's financial statement will be submitted for approval to the Annual General Meeting on 4 May 2020

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 31 March 2020

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 1 April 2020
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 2019, except for the corporate governance statement on pages 39-51. The annual accounts and consolidated accounts of the company are included on pages 30-95 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 2019 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 2019 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 39-51. 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.

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 3 and accounting principles on page 60 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 process 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 25 (group) and disclosure 8 (parent company) and accounting principles on page 60-61 (group) and on page 92 (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 2019 amounted to 264 MEUR, which is approximately 33% 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 2019 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 assumptions 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 sensitivity 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 1-29 and 99-100. 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 2019 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 39–51 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 1 April 2020

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	EBIT + depreciation and amortisation + 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 / Total assets – advances received
Net debt	Interest-bearing debt (excluding shareholder loans) – cash and cash equivalents
Operative capital employed	Net working capital + Intangible assets excluding goodwill and acquisition-related allocations + Property, plant and equipment
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-month basis.

Financial calendar 2020–2021

Annual General Meeting 2020	4 May 2020
Interim report January–March 2020	29 April 2020
Interim report January–June 2020	23 July 2020
Interim report January–September 2020	5 November 2020
Full-year report January–December 2020	February 2021

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