Stockholm, Sweden, 9 August 2018

Eltel Group

Interim report January–June 2018

April–June 2018

- Group net sales decreased 10.4% to EUR 295.5 million (329.8), mainly as a result of divestments and on-going discontinuation of non-core operations, in line with the transformation strategy
- Net sales in the Core business, including segment Power and segment Communication, decreased 3.1% to EUR 293.8 million (303.2). The decrease is mainly explained by divestments of operations in Poland and the Baltics
- Net sales in the Core business adjusted for divested operations and currency effects increased 4.5%
- Discontinuation of non-core operations in Other led to a planned net sales decrease of 90.5% to EUR 2.5 million (26.8), in line with the transformation strategy
- Group operative EBITA* amounted to EUR 2.0 million (-21.0) and Core operative EBITA* EUR 9.7 (5.3) million
- EBIT amounted to EUR 1.6 million (-23.2)
- Net result amounted to EUR 0.2 million (-24.5)
- Earnings per share were EUR 0.00 (-0.23)
- Operative cash flow* was EUR -17.3 million (-10.7)
- Casimir Lindholm was appointed as Eltel's new President & CEO effective 1 September 2018. He will succeed Håkan Kirstein, who will leave his role after having finalised the first phase of the transformation strategy. Håkan Kirstein will remain in his position as President & CEO until Casimir Lindholm starts
- The Board of Directors has come to the conclusion that it is not commercially justified to initiate a damages claim against the former CEO and Chairman or to pursue actions to recover damages against previous Directors or sellers due to disclosure of information during the company's initial public offering in 2015

January–June 2018

- Group net sales decreased 10.4% to EUR 562.2 million (627.6), mainly as a result of divestments and on-going discontinuation of non-core operations, in line with the transformation strategy
- Net sales in the Core business, including segment Power and segment Communication, decreased 4.3% to EUR 551.8 million (576.7). The decrease is mainly explained by divestments of operations in Poland and the Baltics
- Net sales in the Core business adjusted for divested operations and currency effects increased 3.1%
- Discontinuation of non-core operations in Other led to a planned net sales decrease of 76.5% to EUR 12.1 million (51.4), in line with the transformation strategy
- Group operative EBITA* amounted to EUR -5.7 million (-30.7) and Core operative EBITA* EUR 9.5 million (9.5)
- EBIT amounted to EUR -8.8 million (-183.0)
- Net result amounted to EUR -9.3 million (-185.9)
- Earnings per share were EUR -0.06 (-1.76)
- Operative cash flow was EUR -54.9 million (-77.1)
- Decision in January 2018 to implement country-based organisation for segments Power and Communication – expected reduction of cost level approximately EUR 3 million annualised from 2019

Unless otherwise stated, figures in brackets refer to the same period in the preceding year
*Please see page 20 for definitions of the key ratios

Significant events after the end of the reporting period

- An agreement to divest the Norwegian rail operations was signed. Eltel's rail operations in the Norwegian market generated net sales of EUR 13.1 million in 2017 and an EBITA of EUR -4.7 million. The transaction price was EUR 1. The expected cash flow effect is EUR -0.7 million, expected to occur in the third quarter of 2018 in connection with the completion of the transaction.
- Following conclusion of the first phase of the transformation strategy Eltel has reached agreement with its banks to revise current facilities and prolong those with one year until 2021

EUR million	Apr-Jun 2018	Apr-Jun 2017	Change, %
Net sales			
Core*	**293.8**	**303.2**	**-3.1**
Power	116.0	118.3	-1.9
Communication	177.7	184.9	-3.9
Other	2.5	26.8	-90.5
Total Group	**295.5**	**329.8**	**-10.4**
Operative EBITA**			
Core*	**9.7**	**5.3**	**82.5**
Power	2.5	-1.2	307.0
Communication	7.2	6.5	10.9
Other	-3.1	-21.7	85.6
Items not allocated	-4.5	-4.6	1.6
Total Group	**2.0**	**-21.0**	**109.3**

EUR million	Jan-Jun 2018	Jan-Jun 2017	Change, %
Net sales			
Core*	**551.8**	**576.7**	**-4.3**
Power	211.8	222.1	-4.7
Communication	340.0	354.5	-4.1
Other	12.1	51.4	-76.5
Total Group	**562.2**	**627.6**	**-10.4**
Operative EBITA**			
Core*	**9.5**	**9.5**	**+/-0**
Power	1.2	-0.7	276.3
Communication	8.3	10.2	-18.2
Other	-6.8	-31.8	78.6
Items not allocated	-8.3	-8.4	1.1
Total Group	**-5.7**	**-30.7**	**81.5**

* Core includes segments Power and Communication
** Please see page 20 for definitions of the key ratios

Comments by the CEO

Positive progress in Core business

In the second quarter, we started to see signs of a turnaround in our Core business, partly as a result of the change process we executed, and partly as a result of production being high after a harsh winter. Adjusted for divested operations and currency effects, net sales increased by 4.5% in the second quarter, and by 3.1% in the first half-year, in year-on-year terms. At the same time, the operative EBITA of the Core business was up by EUR 4.4 million to EUR 9.7 million in the second quarter, while it for the first half-year was in line with previous year, amounting to EUR 9.5 million.

Operative EBITA for the Group overall also improved, from EUR -21.0 million in the second quarter of the previous year, to EUR 2.0 million in the second quarter 2018, and from EUR -30.7 million to EUR -5.7 million in the first half-year 2018. This progress confirms that step by step, operations are heading in the right direction, even if in terms of achieving Eltel's intended profitability, the work has just begun.

Segment Power increased net sales in the second quarter, and for the whole period, adjusted for the sold operations in the Baltics and currency effects. Net sales were negatively impacted by ramp-down of some old contracts in Sweden, lower sales in Finland as an effect of changed project mix and some delayed projects. However, Smart Grids made very positive progress again in the second quarter, with a significant increase in sales with high profitability. Operative EBITA was positive, and up on the previous year, both in the second quarter and for the period. The market conditions for Power remain robust, with good potential for healthy growth and profitability as old, unprofitable projects are finalised.

Segment Communication also increased net sales in the second quarter and the first six months of the year, adjusted for the sold operations in Poland and currency effects. Overall, good sales performance in Sweden, Finland and Denmark compensated for the project delays we experienced in Norway resulting from earlier, extreme weather conditions in the winter.

Operative EBITA was higher than in the second quarter of the previous year, but somewhat lower for the whole period due to the adverse weather conditions in the first quarter. Work on increasing efficiency through improved resource planning, monitoring and new IT tools remain in focus for the segment.

We signed an agreement to divest the loss-making rail operations in Norway after the end of the period. This sale means that all non-core businesses intended to be sold now have been sold in accordance with the strategic direction we decided on in spring 2017.

Now that the first phase of our transformation process is complete, our focus is on continuing to develop with full force our Core business. A long-term strategy to ensure sustainable growth and profitability will be presented during the fall.

I would like to take this opportunity to thank all my colleagues in the Group, who for the past year and a half, have been working hard to execute the rapid transformation of Eltel, which we launched a short time after I became CEO in fall 2016. Eltel is now a more stable company and is in a good position to successfully develop well going forward.

Håkan Kirstein, President & CEO

Transformation strategy – Important events

Q1–Q2 2017	Q3–Q4 2017	Q1 2018	Q2/July 2018
■ Decision to focus on Eltel's Core business; segment Power and segment Communication in the Nordics, Poland and Germany ■ Decision to divest or discontinue non-core businesses to decrease risk level in operations ■ Merger of Fixed and Mobile Communication ■ Merger of part of Aviation and Security with segment Communication ■ Merger of Power Distribution and Power Transmission ■ Revised financial targets ■ Rights issue of EUR 150 million ■ Divestment of part of communication business in Poland	■ Agreement to divest operations in Latvia ■ Agreement to divest operations in Estonia ■ Agreement to divest the rail operations in Finland ■ Agreement to divest the rail operations in Denmark ■ Letter of intent to divest Power Transmission International	■ Decision to implement country-based organisation for segments Power and Communication ■ Swedish Aviation and Security business merged into Communication business unit Sweden ■ Divestment of rail operations in Sweden ■ Letter of intent to divest Power Transmission International expired. Eltel proceeds with the discontinuation of the operations.	■ Agreement to divest Norwegian rail operations ■ Amended loan facilities agreement signed to reflect ongoing transition and improving conditions for transformation and growth

Summary of Eltel's transformation strategy

In February 2017, Eltel decided to focus its operations on areas with balanced risk level, where the Company holds a market leading position and competence and where the business model is repetitive. These operations are defined as Core business and consist of segment Power and segment Communication in the Nordics, Poland and Germany. Segment Power provides network maintenance services, upgrade work and project business to national transmission system operators and distribution network owners. Segment Communication provides similar services to telecom operators and other communication network owners. In 2017, the Core business net sales amounted to approximately EUR 1.2 billion (1.2), corresponding to 90% (85%) of Eltel's total net sales.

Businesses considered as non-core are in the process of being divested or discontinued in order to decrease the risk level in the operations and to relocate resources to Eltel's Core business. The non-core businesses are mainly gathered in Other and include the power transmission business outside Europe and the Rail business that to a large extent has been divested. Eltel's power business in the Baltics, that was divested in 2017, is furthermore considered a non-core business, but included in segment Power. In 2017, sales of the operations included in segment Other amounted to approximately EUR 129 million (197).

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

The implementation of the strategy has resulted in significant costs for restructuring the operations and costs for gradually discontinuing certain businesses. The total cost of discontinuing Power Transmission International is estimated to be slightly lower than EUR 40 million. EUR 28.0 million was charged during 1 January 2017–30 June 2018 and the remainder is expected to be recognised as cost in the second half of 2018 and in 2019. To date accumulated cost of EUR 22.5 million has been recognised for the divestment and ramp down of Rail operations in Other. The continuing implementation of the strategy will also result in additional restructuring costs in other parts of the business.

Eltel's long-term strategy

Implementation of the transformation strategy will extend until the beginning of 2019. In parallel with delivering on the transformation strategy, management has initiated a project to develop a long-term strategy for Eltel, to secure long-term growth, profitability and shareholder value. The strategy will be presented in 2018.

Eltel's financial development (rolling 12 months) and financial targets[1]

The table below shows how Eltel's Core operations, including segment Communication and segment Power, have performed in relation to Eltel's financial targets. Non-core operations are not included since they are not part of Eltel's financial targets and will be divested or discontinued.

Eltel's Core business	Target[1]	1 July 2017–30 June 2018
Annual growth	2–4%	-3.6%
EBITA-margin	5%	2.8%
Cash conversion	95–100% of EBITA[2]	-34.2%
Leverage	1.5–2.5x net debt/EBITDA[3]	4.3

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

[1] Segment Power and segment Communication including selective acquisitions

[2] Cash conversion is calculated as operative cash flow as a percentage of EBITA. Operative cash flow is calculated as the sum of (a) operating profit before acquisition-related amortisation (EBITA), (b) depreciation and (c) change in net working capital, less (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 less cash and cash equivalents, in relation to EBITDA. Net debt is calculated for the Group in total.

April–June 2018

Net sales

Net sales decreased 10.4% to EUR 295.5 million (329.8), mainly as a result of divestments and on-going discontinuation of non-core operations, in line with Eltel's transformation strategy.

At the end of June 2018, Eltel's committed order backlog amounted to EUR 628 million (31 March 2018: 687).

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

Operative EBITA

Operative EBITA amounted to EUR 2.0 million (-21.0).

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

Core business: segment Power and segment Communication

Net sales in the Core business decreased 3.1% to EUR 293.8 million (303.2). The decrease is mainly explained by divestments of operations in Poland and the Baltics and currency effects. Excluding these effects, net sales increased 4.5%. The Core business represented 99.4% (91.9) of Eltel's net sales during the period.

Operative EBITA in the Core business increased by EUR 4.4 million to EUR 9.7 million (5.3). The operative EBITA margin amounted to 3.3% (1.7).

Segment Power

Net sales in segment Power decreased by EUR 2.3 million to EUR 116.0 million (118.3), representing a decrease of 1.9%. EUR 7.7 million of the decline in net sales is explained by the divestment of the Baltics operations in the second half of 2017 and EUR 1.5 million by currency rate changes. Adjusted for divested operations and currency effects net sales increased by 6.3%. The increase was to a large extent explained by increasing net sales in Smart Grids, amounting to EUR 22.3 million in the quarter, and a high production level in High Voltage in Poland and Norway. Net sales was, however, negatively affected by a ramp down of certain power services contracts in Sweden and lower net sales in Finland due to a change in the project mix.

Operative EBITA increased to EUR 2.5 million (-1.2). The total operative EBITA margin for segment Power was 2.1% (-1.0).

The continued strong net sales growth and performance in Smart Grid, especially in Norway, and stable project performance in High Voltage had a positive impact on EBITA compared to previous year. Continued restructuring costs and a change in the project mix in Finland had a negative impact on the profitability. Restructuring measures will continue in 2018 in order to improve efficiency, strengthen control and finalise low margin projects.

Segment Communication

Net sales in segment Communication decreased by EUR 7.2 million to EUR 177.7 million (184.9), representing a decrease of 3.9%. EUR 6.1 million of the decline in net sales is explained by the divestment of Eltel's Polish maintenance operation in 2017 and EUR 7.0 million by currency rate changes. Adjusted for divested operations and currency effects net sales increased by 3.3%. Sweden and Finland contributed positively to the increase, while Norway showed declining net sales.

Operative EBITA increased to EUR 7.2 million (6.5). The operative EBITA margin was 4.1% (3.5). The increase is mainly attributable to Sweden, improved utilisation of resources and increased efficiency in Norway.

Non-core business: Other

Net sales in Other decreased by 90.5% to EUR 2.5 million (26.8). The decline is in line with Eltel's transformation strategy and explained by that operations have been divested or discontinued during 2017 and 2018.

Operative EBITA amounted to EUR -3.1 million (-21.7), and the operative EBITA margin was -122.6% (-81.0). The negative EBITA is mainly attributable to the Rail business and lower volumes and costs for discontinuing businesses.

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 1.2 million have been recorded during 1 April 2018–30 June 2018, and EUR 28.0 million during 1 January 2017–30 June 2018, in line with the plan. The remaining cost for discontinuing Power Transmission International is expected to be recorded in the second half of 2018 and in 2019 and the discontinuation process is expected to be completed in 2019. From 1 January 2017–30 June 2018 accumulated cost of EUR 22.5 million has been recognised in operative EBITA for the divestment and ramp down of Rail operations.

EBITA

Group EBITA amounted to EUR 2.1 million (-20.0). Net items affecting EBITA comparability amounted to EUR 0.1 million (1.0).

EBIT

EBIT amounted to EUR 1.6 million (-23.2). Amortisation of acquisition-related intangible assets amounted to EUR 0.5 million (3.1).

Net financial expenses

Net financial expenses amounted to EUR 1.3 million (4.1). The decrease is primarily due to lower debt levels in 2018 compared to the first half of 2017.

Taxes

Taxes amounted to EUR -0.1 million (2.7), corresponding to an effective tax rate of 21.1% (10.0).

Net result for the period and earnings per share

The net result for the period was EUR 0.2 million (-24.5). Earnings per share were EUR 0.00 (-0.23).

Cash flow

Eltel's operative cash flow was EUR -17.3 million (-10.7), mainly as a consequence of increase 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 power projects in Poland, which are expected to continue to create volatility in net working capital going forward.

Cash flow from operating activities was EUR -13.9 million (-8.6), including a negative impact of EUR -17.5 million (+8.6) from the change in net working capital. Cash flow from financial items and taxes was EUR -0.4 million (-4.4). Net capital expenditure, mainly replacement investments, amounted to EUR 4.7 million (2.5). Cash flow for acquisitions and disposal of business amounted to EUR 0.2 million (-7.9). Net repayment of financial lease liabilities amounted to EUR 0.2 million and net utilisation of short-term financial facilities amounted to EUR 37.6 million.

Employees

The average number of employees was 7,608 (9,150) during the period. At the end of the period, the number of employees was 7,680 (8,685). The reduction in the number of employees was mainly a result of divestments and restructuring of operations.

Long-term incentive programmes (LTIP 2015 and LTIP 2016)

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

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

- The performance target for performance shares under the share savings plan LTIP 2016 shall be amended from Eltel's EPS (Earnings Per Share) for the financial year 2018 to instead be based on Eltel's EBITDA for the financial year 2019.
- The Board of Directors is instructed to establish a new performance target level for LTIP 2016 based on the new performance target.
- The new performance target shall be established based on the purpose of providing an effective incentive for the participants in LTIP 2016 to promote increased shareholder value.
- The performance shares shall be allocated after the disclosure of the first quarterly report of 2020.
- The maximum number of potential performance shares for each category of participants in LTIP 2016 shall be recalculated with the multiple 1.68, reflecting the dilution effect in the 2017 rights issue.
- Other terms for LTIP 2016, including the date of allocation of matching shares, shall not be affected by the change of the performance target.

The amendments to LTIP 2016 are expected to be defined during second half of 2018 and have an impact on the results accordingly.

January–June 2018

Net sales

Net sales decreased 10.4% to EUR 562.2 million (627.6), mainly as a result of divestments and on-going discontinuation of non-core operations, in line with Eltel's transformation strategy.

At the end of June 2018, Eltel's committed order backlog amounted to EUR 628 million (31 March 2018: 687).

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

Operative EBITA

Operative EBITA amounted to EUR -5.7 million (-30.7).

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

Core business: segment Power and segment Communication

Net sales in the Core business decreased 4.3% to EUR 551.8 million (576.7). The decrease is mainly explained by divestments of operations in Poland and the Baltics, the discontinuation of operations in the UK and currency effects. Excluding these effects, net sales increased 3.1%. The Core business represented 98.2% (91.9) of Eltel's net sales during the period.

Operative EBITA in the Core business amounted to EUR 9.5 million (9.5). The operative EBITA margin amounted to 1.7% (1.6).

Segment Power

Net sales in segment Power decreased by EUR 10.4 million to EUR 211.8 million (222.1), representing a decrease of 4.7%. EUR 13.7 million of the decline in net sales is explained by the divestment of the Baltics operations in the second half of 2017 and EUR 2.8 million by currency rate changes. Adjusted for divested operations and currency effects net sales increased by 3.0%. The decline is furthermore explained by lower net sales in Finland due to a change in the project mix and certain delayed projects in Finland as a result of difficult winter conditions in the first quarter and a ramp down of certain services contracts in Sweden. The decline was to a large extent offset by increasing net sales in Smart Grids, amounting to EUR 42.7 million in the first half of 2018.

Operative EBITA increased to EUR 1.2 million (-0.7). The total operative EBITA margin for segment Power was 0.5% (-0.3).

The continued strong net sales growth in Smart Grid, especially in Norway, and in High Voltage had a positive impact on EBITA. Continued restructuring costs, low utilisation of resources due to delayed projects in Finland and a change in the project mix in Finland had a negative impact on the profitability. Restructuring measures will continue in 2018 in order to improve efficiency, strengthen control and finalise low margin projects.

Segment Communication

Net sales in segment Communication decreased by EUR 14.5 million to EUR 340.0 million (354.5), representing a decrease of 4.1%. EUR 11.8 million of the decline in net sales is explained by the divestment of Eltel's Polish maintenance operation and closure of UK in 2017 and EUR 13.7 million by currency rate changes. Adjusted for divested, closed operations and currency effects net sales increased by 3.2%. Net sales in Norway was considerably lower compared to the same period in 2017, due to construction of certain projects starting later in 2018 than 2017 as a result of the harsher winter conditions in 2018 offset by a strong performance in Finland with increased sales to new customers.

Operative EBITA decreased to EUR 8.3 million (10.2). The operative EBITA margin was 2.4% (2.9). The decrease is mainly attributable to overcapacity in the first quarter 2018 as a result of delayed projects in Norway due to harsh winter conditions, increased cost in Finland due to new contracts and associated ramp up costs to build new capacity.

Non-core business: Other

Net sales in Other decreased by 76.5% to EUR 12.1 million (51.4). The decline is in line with Eltel's transformation strategy and explained by that operations have been divested or discontinued during 2017 and 2018. Power Transmission International represented EUR 16.7 million and Rail EUR 22.7 million of the decrease, mainly as a consequence of the majority of the Rail operations having been sold and not included in Eltel during the first six months 2018.

Operative EBITA amounted to EUR -6.8 million (-31.8), and the operative EBITA margin was -56.5% (-61.9). The negative EBITA is mainly attributable to the Rail business and lower volumes and costs for discontinuing businesses.

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 28.0 million were recorded during 1 January 2017–30 June 2018, in line with the plan. The remaining cost for discontinuing Power Transmission International is expected to be recorded in the second half of 2018 and in 2019 and the discontinuation process is expected to be completed in 2019. From 1 January 2017–30 June 2018 accumulated cost of EUR 22.5 million has been recognised in operative EBITA for the divestment and ramp down of Rail operations.

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

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

On 29 March 2018, Eltel completed the sale of the Swedish rail operations to Strukton Rail AB. The transaction, comprising build and maintenance contracts with key customers, employees and operational equipment used for delivering the relevant services, had a negative impact of EUR 5.9 million on EBITA and a negative cash flow effect of EUR 5.7 million in the first quarter of 2018. Eltel has as part of the divestment entered into a subcontractor agreement with Strukton Rail AB for the completion of certain contracts relating to the rail business, expected to be completed during 2019.

On 29 March 2018, a letter of intent to divest Power Transmission International to Encomm Sweden AB expired. The letter of intent was subject to key customer approval and that the purchaser obtained financing of the transaction and full release for Eltel under certain guarantees. The parties agreed that the purchaser did not fulfil the conditions of the transaction.

EBITA

Group EBITA increased to EUR -7.8 million (-30.8). Net items affecting EBITA comparability amounted to EUR -2.1 million (0.0), comprising of the net impact of the sale of the Rail businesses in Sweden and Finland.

EBIT

EBIT amounted to EUR -8.8 million (-183.0). Amortisation of acquisition-related intangible assets amounted to EUR 1.1 million (6.6) and impairment of goodwill amounted to EUR 0.0 million (145.6).

Net financial expenses

Net financial expenses amounted to EUR 2.9 million (7.2). The decrease is primarily due to lower debt levels in 2018 compared to the first half of 2017.

Taxes

Taxes amounted to EUR +2.5 million (4.3), corresponding to an effective tax rate of 21.0% (2.3).

Net result for the period and earnings per share

The net result for the period was EUR -9.3 million (-185.9). Earnings per share were EUR -0.06 (-1.76).

Cash flow

Eltel's operative cash flow was EUR -54.9 million (-77.1), mainly as a consequence of higher net working capital compared to year-end 2017. 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 power projects in Poland, which are expected to continue to create volatility in net working capital going forward.

At the end of the second quarter, available liquidity reserves amounted to EUR 138.3 million (259.9). On the same date, EUR 76 million of Eltel's commercial paper programme was utilised. In January 2018, Eltel's Finnish commercial paper programme was increased from EUR 100 million to EUR 150 million.

Cash flow from operating activities was EUR -46.9 million (-72.8), including a negative impact of EUR -46.6 million (-48.2) from the change in net working capital. Cash flow from financial items and taxes was EUR -3.1 million (-8.1). Net capital expenditure, mainly replacement investments, amounted to EUR 6.3 million (4.5). Cash flow for acquisitions and disposal of business amounted to EUR -1.7 million (-7.9) related to the sale of Rail operations in Finland, Denmark and Sweden. Net repayment of financial lease liabilities amounted to EUR -0.1 million and net utilisation of short-term financial facilities amounted to EUR 50.2 million.

Financial position, cash and cash equivalents

Equity at the end of the period was EUR 271.3 million (308.4) and total assets were EUR 820.1 million (995.9). The equity ratio was 35.4% (33.0).

Interest-bearing liabilities totalled EUR 209.5 million (299.0), of which EUR 103.5 million (120.6) were non-current and EUR 106.0 million (178.4) were current. Cash and cash equivalents amounted to EUR 25.5 million (161.8). Interest-bearing net debt totalled EUR 184.5 million (138.4).

At the end of the second quarter, guarantees based on contractual commercial commitments and pension liabilities issued by banks, other financial institutions and the Parent Company amounted to EUR 321.8 million (342.3). This amount included advance and other payment security guarantees.

Interest-bearing liabilities and net debt

EUR million	30 Jun 2018	30 Jun 2017	31 Dec 2017
Interest-bearing debt in balance sheet	209.5	299.0	164.4
Allocation of effective interest to periods	0.5	1.1	0.6
Less cash and cash equivalents	-25.5	-161.8	-32.9
Net debt	**184.5**	**138.4**	**132.1**

Employees

The average number of employees was 7,641 (9,298) during the period. At the end of the period, the number of employees was 7,680 (8,685). The reduction in the number of employees was mainly a result of divestments and restructuring of operations.

Risks and uncertainty factors

Following Eltel's situation with several profit warnings and write-downs during 2016 and 2017, Eltel was contacted by Nasdaq Stockholm in Q3 2017 with questions primarily relating to Eltel´s internal corporate governance and considerations in connection with disclosure of inside information. After discussions Eltel received a letter from Nasdaq Stockholm on 28 June 2018 where the exchange stated that it considers 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 Eltel´s internal control, accounting and financial information. Any decision taken by the Disciplinary Committee will be made public.

Following John Murphy & Sons replacement for Carillion as JV partner with Eltel in the UK ("Murphy-Eltel JV" or "MEJV") a project review has been initiated with the customer National Grid ("NG") concerning the Richborough OHL project. The parties discuss the current development, revised finalisation plan of the project, target cost and incentive structure. Finalisation of the discussion is expected towards end of August 2018.

No further new material risks were identified during the interim period. For information regarding risks and uncertainties, please refer to Eltel's 2017 Annual Report published on 5 April 2018 and the prospectus (the "Prospectus") relating to Eltel´s rights issue published on 7 June 2017 and which are available on Eltel's website at http://www.eltelgroup.com.

Events after the end of the period

In July 2018, an agreement to divest the Norwegian rail operations was signed. Eltel's rail operations in the Norwegian market generated net sales of EUR 13.1 million in 2017 and an EBITA of EUR -4.7 million. The transaction price was EUR 1. The expected cash flow effect is EUR -0.7 million, expected to occur in the third quarter of 2018 in connection with the completion of the transaction.

In July 2018, an amendment to Eltel's financing agreement was signed with resetting of covenants during the transformation period and an extention of the facilities by one year. Eltel's amended bank loan agreements include financial covenants related to the adjusted EBITDA until the end of first quarter of 2020 and thereafter the net debt/EBITDA ratio and adjusted EBITDA/net finance charges ratio. EBITDA used in the covenant calculations until the end of Q1 2020 is adjusted with agreed non-recurring items relating to the transformation of Eltel group capped to EUR 85 million. From 2019 onwards EBITDA is adjusted with items arising from acquisitions on a rolling 12-month basis and with non-recurring EBITA items capped to EUR 5 million.

On 9 July 2018 Eltel converted 88,486 C shares to ordinary A shares in accordance with the decision by the AGM on 9 June 2018. After the conversion the amount of Eltel's ordinary A shares is 156,649,081 and the amount of C shares is 448,514. The total number of shares is unchanged, 157,097,595. It is noted that the Board has resolved to reduce the share capital 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 and that the total number of shares, after the redemption has been completed, will amount to 156,649,081.

Future prospects

Eltel does not issue guidance.

Related party transactions

No transactions took place between Eltel and related parties that significantly affected the company's position and earnings during the period.

Seasonality

Eltel's businesses are generally characterised by seasonal patterns and cyclicality of the project business that adds volatility to net sales, EBITA and cash flow. Seasonality is normally driven by a number of factors, including weather conditions, the timing of customer order placements and completion of work phases towards the end of the month, particularly for larger projects. The Eltel Group has historically reported higher revenues and operating profit in the second half of the year. 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. At the end of the year, as production volumes decrease, cash flow has normally been stronger. For more details, please refer to quarterly key financial figures for the Group on page 19.

Key figures Group

EUR million	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017	Rolling 12-month
Net sales	295.5	329.8	562.2	627.6	1,329.9	1,264.4
Net sales growth, %	-10.4	-10.6	-10.4	-4.4	-5.0	-7.8
Operative EBITA	2.0	-21.0	-5.7	-30.7	-25.5	-0.5
Operative EBITA margin, %	0.7	-6.4	-1.0	-4.9	-1.9	0.0
Items affecting comparability	0.1	1.0	-2.1	0.0	-1.2	-3.2
EBITA	2.1	-20.0	-7.8	-30.8	-26.7	-3.7
EBITA margin, %	0.7	-6.1	-1.4	-4.9	-2.0	-0.3
Amortisation of acquisition-related intangible assets	-0.5	-3.1	-1.1	-6.6	-8.5	-3.0
Impairment of goodwill and other acquisition-related intangible assets	-	-	-	-145.6	-149.4	-3.8
Operating result (EBIT)	1.6	-23.2	-8.8	-183.0	-184.6	-10.5
EBIT margin, %	0.5	-7.0	-1.6	-29.2	-13.9	-0.8
Result after financial items	0.3	-27.3	-11.7	-190.2	-197.0	-18.5
Net result for the period	0.2	-24.5	-9.3	-185.9	-204.6	-28.0
Earnings per share EUR, basic**	0.00	-0.23	-0.06	-1.76	-1.56	-0.19
Earnings per share EUR, diluted**	0.00	-0.23	-0.06	-1.76	-1.56	-0.18
Operative cash flow	-17.3	-10.7	-54.9	-77.1	-59.7	-37.5
Number of personnel, end of period	7,680	8,685	7,680	8,685	7,999	7,680

* Calculated on a rolling 12-month basis
** Shares issued in the preferential rights issue were registered on 7 July 2017
Please see page 20 for definitions of the key ratios.

Segment Power

EUR million	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Net sales	116.0	118.3	211.8	222.1	470.4
Operative EBITA	2.5	-1.2	1.2	-0.7	-0.3
Operative EBITA margin, %	2.1	-1.0	0.5	-0.3	-0.1
Number of employees	2,429	2,963	2,429	2,963	2,453

The foreign currency translation effect included in net sales was EUR -1.5 million for the quarter and EUR -2.8 million for Jan-Jun 2018

Segment Communication

EUR million	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Net sales	177.7	184.9	340.0	354.5	756.8
Operative EBITA	7.2	6.5	8.3	10.2	34.5
Operative EBITA margin, %	4.1	3.5	2.4	2.9	4.6
Number of employees	4,721	4,590	4,721	4,590	4,604

The foreign currency translation effect included in net sales was EUR -7.0 million for the quarter and EUR -13.7 million for Jan-Jun 2018

Other

EUR million	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Net sales	2.5	26.8	12.1	51.4	103.8
Operative EBITA	-3.1	-21.7	-6.8	-31.8	-43.7
Operative EBITA margin, %	-122.6	-81.0	-56.5	-61.9	-42.1
Number of employees	187	751	187	751	592

The foreign currency translation effect included in net sales was EUR -0.1 million for the quarter and EUR -0.6 million for Jan-Jun 2018

Presentation of the second quarter 2018 report

Analysts and media are invited to participate in the second quarter 2018 briefing on 9 August 2018 at 10.00 am CET where Eltel's President and CEO Håkan Kirstein and CFO Petter Traaholt will host a presentation. A live audiocast as well as the presentation will be available at www.eltelgroup.com/investors.

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Financial calendar

- Interim report January–September 2018: 7 November 2018
- Full-year report January–December 2018: 21 February 2019

Eltel AB discloses the information provided herein pursuant to the EU's Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the above contacts, on 9 August 2018 at 08:00 a.m. CET.

Board's assurance

The Board of Directors and CEO certify that the half-year interim report gives a true and fair presentation of the Parent Company's and Group's business, financial position and result of operations, and describes material risks and uncertainties facing the Parent Company and the companies included in the Group.

Signatures of the Board of Directors and CEO

Stockholm, Sweden, 9 August 2018

Eltel AB (publ)

Ulf Mattsson, Chairman

Håkan Dahlström
Gunilla Fransson
Ulf Lundahl
Markku Moilanen
Mikael Moll
Joakim Olsson
Hans von Uthmann

Employee representatives:
Jonny Andersson
Björn Ekblom

Håkan Kirstein, President & CEO

The information in this interim report has not been reviewed by the Company's auditors.

Condensed financial information

Condensed consolidated income statement

EUR million	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Net sales	295.5	329.8	562.2	627.6	1,329.9
Cost of sales	-268.4	-319.4	-513.1	-596.3	-1,234.8
Gross profit	**27.1**	**10.4**	**49.1**	**31.3**	**95.1**
Other income	0.2	3.7	4.5	3.9	4.9
Sales and marketing expenses	-0.7	-3.6	-4.2	-7.0	-9.5
Administrative expenses	-25.4	-26.7	-51.0	-53.4	-109.0
Other expenses	1.1	-3.6	-6.0	-5.5	-7.7
Share of profit/loss of joint ventures	-0.1	-0.1	-0.2	-0.2	-0.4
Operating result before acquisition-related amortisations (EBITA)	**2.1**	**-20.0**	**-7.8**	**-30.8**	**-26.7**
Amortisation and impairment of acquisition-related intangible assets	-0.5	-3.1	-1.1	-152.3	-158.0
Operating result (EBIT)	**1.6**	**-23.2**	**-8.8**	**-183.0**	**-184.6**
Financial income	0.1	0.1	0.1	0.1	0.4
Financial expenses	-1.4	-4.2	-3.0	-7.3	-12.7
Net financial expenses	-1.3	-4.1	-2.9	-7.2	-12.3
Result before taxes	**0.3**	**-27.3**	**-11.7**	**-190.2**	**-197.0**
Taxes	-0.1	2.7	2.5	4.3	-7.7
Net result	**0.2**	**-24.5**	**-9.3**	**-185.9**	**-204.6**
Attributable to:					
Equity holders of the parent	0.0	-24.7	-9.7	-186.1	-205.3
Non-controlling interest	0.2	0.1	0.4	0.1	0.7
Earnings per share (EPS)					
Basic, EUR	0.00	-0.23	-0.06	-1.76	-1.56
Diluted, EUR	0.00	-0.23	-0.06	-1.76	-1.56

Condensed consolidated statement of comprehensive income

EUR million	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Net profit for the period	0.2	-24.5	-9.3	-185.9	-204.6
Other comprehensive income:					
Items that will not be reclassified to profit and loss					
Revaluation of defined benefit plans	-2.5	0.5	-1.4	-2.3	-5.6
Items that may be subsequently reclassified to profit and loss					
Cash flow hedges	0.0	0.1	0.0	0.0	0.2
Net investment hedges	1.8	0.1	4.4	0.5	1.0
Currency translation differences	-2.2	-2.6	-5.9	-1.8	-3.5
Total	-0.5	-2.5	-1.6	-1.3	-2.4
Other comprehensive income/loss for the period, net of tax	-2.9	-2.0	-2.9	-3.5	-7.9
Total comprehensive income/loss for the period	**-2.7**	**-26.6**	**-12.2**	**-189.4**	**-212.6**
Total comprehensive income/loss attributable to:					
Equity holders of the parent	-2.9	-26.7	-12.6	-189.6	-213.3
Non-controlling interest	0.2	0.1	0.4	0.1	0.7

Condensed consolidated balance sheet

EUR million	30 Jun 2018	30 Jun 2017	31 Dec 2017
ASSETS			
Non-current assets			
Goodwill	282.1	294.0	286.8
Intangible assets	41.3	42.5	41.8
Property, plant and equipment	30.7	34.3	32.6
Investments in and receivable from joint ventures	0.6	0.7	0.7
Available-for-sale investments	0.2	0.3	0.3
Deferred tax assets	26.2	34.1	21.5
Other financial asset	-	35.0	-
Trade and other receivables	0.6	0.1	0.1
Total non-current assets	**381.7**	**441.0**	**384.0**
Current assets			
Inventories	17.9	10.7	9.6
Other financial assets	35.0	-	35.0
Trade and other receivables	359.7	381.6	356.4
Cash and cash equivalents	25.5	161.8	32.9
Total current assets	**438.0**	**554.1**	**433.9**
Assets held for sale	0.4	0.8	10.4
TOTAL ASSETS	**820.1**	**995.9**	**828.2**
EQUITY AND LIABILITIES			
Equity			
Shareholders' equity	263.8	301.0	277.1
Non-controlling interest	7.5	7.4	7.0
Total equity	**271.3**	**308.4**	**284.1**
Non-current liabilities			
Debt	103.5	120.6	119.0
Liabilities to shareholders	-	35.0	-
Retirement benefit obligations	10.2	8.9	11.0
Deferred tax liabilities	9.0	12.2	7.9
Provisions	2.5	1.4	2.5
Other non-current liabilities	0.7	0.5	0.0
Total non-current liabilities	**126.0**	**178.7**	**140.4**
Current liabilities			
Debt	106.0	178.4	45.3
Liabilities to shareholders	35.0	-	35.0
Provisions	19.9	27.0	22.1
Advances received	52.7	62.1	48.4
Trade and other payables	207.9	240.3	244.9
Total current liabilities	**421.5**	**507.9**	**395.8**
Liabilities associated with assets held for sale	1.3	1.0	7.9
Total liabilities	**548.8**	**687.5**	**544.1**
TOTAL EQUITY AND LIABILITIES	**820.1**	**995.9**	**828.2**

Condensed consolidated statement of cash flows

EUR million	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Cash flow from operating activities			
Cash flow from operating activities before financial items and taxes	-46.9	-72.8	-50.5
Interest received	0.0	0.1	0.4
Interest and other financial expenses paid	-2.2	-6.2	-11.4
Income taxes paid	-0.9	-2.0	-3.6
Net cash from operating activities	**-50.1**	**-80.9**	**-65.2**
Cash flow from investing activities			
Purchases of property, plant and equipment (PPE)	-6.5	-4.8	-14.1
Proceeds from sale of PPE	0.2	0.3	0.5
Acquisition of business	-	-6.7	-6.7
Investments in joint ventures	-	-0.3	-0.6
Disposal of business	-1.7	-1.2	1.1
Net cash from investing activities	**-8.0**	**-12.7**	**-19.7**
Cash flow from financing activities			
Proceeds from issuance of share capital	-	152.2	149.2
Proceeds from short-term financial liabilities	61.2	42.2	63.0
Payments from short-term borrowings	-11.0	-24.0	-177.6
Payments of/proceeds from finance lease liabilities	-0.1	-0.5	-0.4
Dividends to shareholders	-	-	-
Dividends to non-controlling interest	-	-	-1.0
Change in non-liquid financial assets	0.1	-	-0.8
Net cash from financing activities	**50.2**	**169.9**	**32.4**
Net change in cash and cash equivalents	**-7.8**	**76.3**	**-52.4**
Cash and cash equivalents at beginning of period	32.9	85.2	85.2
Foreign exchange rate effect	0.4	0.4	0.1
Cash and cash equivalents at end of period	25.5	161.9	32.9

Reconciliation of EBITA to cash flow from operating activities before financial items and taxes

EUR million	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017	Rolling 12-month
EBITA	-7.8	-30.8	-26.7	-3.7
Depreciation	5.7	6.4	13.3	12.7
EBITDA	-2.0	-24.4	-13.4	9.0
Change in net working capital	-46.6	-48.2	-32.8	-31.2
Net purchase of PPE	-6.3	-4.5	-13.5	-15.3
Operative cash flow (used in cash conversion key figure)	-54.9	-77.1	-59.7	-37.5
Less net purchase of PPE, presented in investing activities	6.3	4.5	13.5	
Gains on sales of assets	2.2	1.7	2.9	
Items recognised through other comprehensive income	-1.9	-1.7	-4.2	
Other non-cash adjustments	1.4	-0.2	-3.0	
Cash flow from operating activities before financial items and taxes	-46.9	-72.8	-50.5	

Condensed consolidated statement of changes in equity

EUR million	Share capital	Share issue	Other paid-in capital	Accumulated losses	Revaluation of defined benefit plans, net of tax	Hedging reserve	Currency translation	Total	Non-controlling interest	Total equity
Equity at 1 Jan 2018	158.4	-	491.1	-325.6	-27.4	7.4	-26.9	277.1	7.0	284.1
Total comprehensive income for the period	-	-	-	-9.7	-1.4	4.3	-5.9	-12.6	0.4	-12.2
Equity-settled share-based payment	-	-	-	0.0	-	-	-	0.0	-	0.0
IFRS 15 opening balance adjustments, net of tax	-	-	-	-0.6	-	-	-	-0.6	-	-0.6
Total transaction with owners	-	-	-	-0.6	-	-	-	-0.6	-	-0.6
Equity at 30 Jun 2018	158.4	-	491.1	-335.9	-28.8	11.7	-32.8	263.8	7.5	271.3

EUR million	Share capital	Share issue	Other paid-in capital	Accumulated losses	Revaluation of defined benefit plans, net of tax	Hedging reserve	Currency translation	Total	Non-controlling interest	Total equity
Equity at 1 Jan 2017	126.3	-	373.0	-120.7	-21.8	6.2	-23.4	339.7	7.3	347.0
Total comprehensive income for the period	-	-	-	-186.1	-2.3	0.6	-1.8	-189.6	0.1	-189.4
Equity-settled share-based payment	-	-	-	0.3	-	-	-	0.3	-	0.3
Proceeds from shares issued	-	153.9	-	-	-	-	-	153.9	-	153.9
New share issue costs, net of tax	-	-3.3	-	-	-	-	-	-3.3	-	-3.3
Total transaction with owners	-	150.6	-	0.3	-	-	-	150.9	-	150.9
Equity at 30 Jun 2017	126.3	150.6	373.0	-306.4	-24.1	6.8	-25.2	301.0	7.4	308.4

EUR million	Share capital	Share issue	Other paid-in capital	Accumulated losses	Revaluation of defined benefit plans, net of tax	Hedging reserve	Currency translation	Total	Non-controlling interest	Total equity
Equity at 1 Jan 2017	126.3	-	373.0	-120.7	-21.8	6.2	-23.4	339.7	7.3	347.0
Total comprehensive income for the period	-	-	-	-205.3	-5.6	1.1	-3.5	-213.3	0.7	-212.6
Equity-settled share-based payment	-	-	-	0.4	-	-	-	0.4	-	0.4
Proceeds from shares issued	32.1	121.8	-	-	-	-	-	153.9	-	153.9
New share issue costs, net of tax	-	-3.7	-	-	-	-	-	-3.7	-	-3.7
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-1.0	-1.0
Total transaction with owners	32.1	118.1	-	0.4	-	-	-	150.7	-1.0	149.7
Equity at 31 Dec 2017	158.4	118.1	373.0	-325.6	-27.4	7.4	-26.9	277.1	7.0	284.1

Notes to the condensed consolidated interim financial statements

Accounting principles

This interim report has been prepared in accordance with *IAS 34 Interim Financial Reporting*. The accounting principles adopted are consistent with those of the Group's annual financial statements for the year ended 31 December 2017. In addition, Eltel applies *IFRS 15 Revenue from contracts with customers* and *IFRS 9 Financial instruments* effective from 1 January 2018.

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

Eltel has assessed each of the revenue streams from an IFRS 15 revenue recognition perspective and potential differences between current accounting principles and IFRS 15. Based on the potential differences identified, follow-ups and analyses have been conducted based on the five-step model in IFRS 15. Where potential differences have been identified, in-depth analysis has been carried out on the conversion effects to IFRS 15.

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

Eltel applies the cumulative retrospective method where the cumulative impact, EUR -0.6 million, net of tax, is adjusted to equity on the date of adoption 1 January 2018. The adoption of IFRS 15 does not have material impact on the comparability of the first and second quarter of 2018 to corresponding period in 2017.

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

The new rules for classification and measurement mean, like IAS 39, that financial assets are classified in different categories, of which some are measured at cost and some at fair value. IFRS 9 introduces new categories than those in IAS 39. The classification in IFRS 9 is based partly on the instrument's contractual cash flows and partly on the company's business model. Regarding impairment of financial assets, the changes concern trade receivables where the credit losses are recognised based on the expected lifetime credit losses. The adoption of IFRS 9 had no impact to Eltel's financials as at 1 January 2018. Anyhow the new classification will have an impact on the notes of the consolidated financial statements 2018.

IFRS 16 Leases (effective from 1 January 2019). IFRS 16 replaces 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 for short-term leases and leases of low-value items. The new standard will increase Eltel's recognised assets and liabilities, mainly for operating leases of facilities and vehicles. In addition, the nature of expenses related to those expenses will change as IFRS 16 replaces the operating lease expense with depreciation charge for right-of-use assets and interest expense for lease liabilities reported under financing expenses. Eltel's project for assessing the impacts and preparing for adoption of IFRS 16 on its consolidated financial statements is progressing according to plan.

Segment reporting

Eltel reports its segments in Power, Communication and Other. The Power and Communication segments comprise Eltel's core 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 the rail business.

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

Eltel continues to follow its Core business operations separated to Power and Communication and consequently continues to report its segments in Power, Communication and Other.

On 17 January 2018, Eltel decided to retain part of the Swedish Aviation and Security business which previously was planned to be divested and reported under Other. The operations are transferred to business unit Sweden under segment Communication and historical comparative information is restated accordingly.

Net sales by segment

EUR million	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Power					
Net sales (external)	115.9	118.1	211.2	221.7	469.7
Inter-segment sales	0.1	0.2	0.6	0.4	0.7
Communication					
Net sales (external)	177.1	184.9	338.9	354.5	756.7
Inter-segment sales	0.6	0.0	1.2	0.0	0.1
Other					
Net sales (external)	2.5	26.8	12.1	51.4	103.5
Inter-segment sales	0.0	0.1	0.0	0.0	0.3
Elimination of sales between segments	-0.8	-0.2	-1.7	-0.5	-1.1
Net sales, total	**295.5**	**329.8**	**562.2**	**627.6**	**1,329.9**

Net sales by geographical area

EUR million	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Sweden	88.8	100.4	178.9	190.3	415.5
Finland	68.9	77.4	126.0	148.3	309.8
Norway	67.6	62.2	126.0	123.9	273.3
Poland	25.1	27.2	42.9	50.9	96.7
Denmark	21.2	22.2	42.6	43.2	93.3
Germany	21.9	19.6	39.0	33.4	78.3
Baltics	0.6	8.8	2.2	16.0	24.5
Other countries	1.5	11.9	4.5	21.6	38.4
Net sales, total	**295.5**	**329.8**	**562.2**	**627.6**	**1,329.9**

In January–June 2018 upgrade services represented 50%, maintenance services 24% and project delivery services 26% of Eltel's total net sales.

Reconciliation of segment results

EUR million	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Operative EBITA by segment					
Power	2.5	-1.2	1.2	-0.7	-0.3
Communication	7.2	6.5	8.3	10.2	34.6
Other	-3.1	-21.7	-6.8	-31.8	-43.8
Items not allocated to operating segments*	-4.5	-4.6	-8.3	-8.4	-16.1
Operative EBITA, Group	2.0	-21.0	-5.7	-30.7	-25.5
Reviews and investigations	-	-0.3	-	-1.4	-1.4
Earn-out adjustment	0.2	3.0	0.2	3.0	3.2
Gain on sale of business	-	-	3.7	-	-
Loss on business sold and assets held for sale	-	-1.7	-6.0	-1.7	-2.9
Total items affecting comparability in EBITA	0.1	1.0	-2.1	0.0	-1.2
EBITA before acquisition-related amortisations	2.1	-20.0	-7.8	-30.8	-26.7
Amortisation of acquisition-related intangible asset	-0.5	-3.1	-1.1	-6.6	-8.5
Impairment of goodwill and other acquisition-related intangible assets**	-	-	-	-145.6	-149.4
Operating result (EBIT)	1.6	-23.2	-8.8	-183.0	-184.6
Other financial expenses, net	-1.3	-4.1	-2.9	-7.2	-12.3
Result before taxes	**0.3**	**-27.3**	**-11.7**	**-190.2**	**-197.0**

*Items not allocated to operating segments consist of Group management function
** Impairment is related to the power and rail & road businesses

Acquisitions, disposals and assets and liabilities held for sale

Acquisitions

During the period, no new acquisitions were made.

Disposals

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

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

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

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

Assets and liabilities held for sale

Eltel's strategic focus is on the Group's core businesses in Power and Communication with the geographical markets being in the Nordics, Poland and Germany.

In July 2018, Eltel signed an agreement to divest its Norwegian rail operations to Æra AS, a wholly owned subsidiary of Jotunfjell Partners AS. The assets and liabilities relating to these business operations are presented as assets held for sale.

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

Assets and liabilities held for sale

EUR million	30 Jun 2018
Assets	
Property, plant and equipment	0.3
Trade receivables and other assets	0.1
Total assets held for sale	**0.4**
Liabilites	
Trade and other payables	1.3
Total liabilities held for sale	**1.3**

Earnings per share

	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Net result attributable to equity holders of the parent	0.0	-24.7	-9.7	-186.1	-205.3
Weighted average number of common shares, basic	156,560,595	105,773,026	156,560,595	105,492,432	131,236,383
Weighted average number of common shares, diluted	156,688,551	105,815,628	156,722,464	105,525,344	131,305,832
Earnings per share EUR, basic	0.00	-0.23	-0.06	-1.76	-1.56
Earnings per share EUR, diluted	0.00	-0.23	-0.06	-1.76	-1.56

Numbers of shares adjusted by share issue and bonus element in share issue for all periods. Shares issued were registered on 7 July 2017.

Net working capital (NWC) and operative capital employed

EUR million	30 Jun 2018	30 Jun 2017	31 Dec 2017
Inventories	17.9	10.7	9.6
Trade and other receivables	359.7	381.6	356.4
Provisions	-22.4	-28.5	-24.7
Advances received	-52.7	-62.1	-48.4
Trade and other payables	-207.9	-240.3	-244.9
Other*	-2.5	-1.4	-2.4
Net working capital	91.9	59.9	45.6
Intangible assets excluding acquisition-related allocations	8.2	5.4	7.0
Property, plant and equipment	30.7	34.3	32.6
Operative capital employed	130.8	99.6	85.1
Average operative capital employed	115.2	105.2	71.3

*Includes adjustments for non-NWC items included in above receivable and payables lines, mainly for derivative valuations, contingent consideration from acquisitions and income tax liabilities and NWC items included in other balance sheet lines
Assets and liabilities held for sale are not included (on 30 June 2018 Norwegian Rail business and on 31 December 2017 Finnish and Danish Rail business)

Derivative financial instruments

	30 Jun 2018		30 Jun 2017		31 Dec 2017	
EUR million	Nominal values	Net fair values	Nominal values	Net fair values	Nominal values	Net fair values
Interest rate derivatives	22.4	0.0 [1]	23.2	0.0 [3]	23.5	0.1 [5]
Foreign exchange rate derivatives	62.2	0.6 [2]	106.9	0.0 [4]	82.7	-0.2 [6]
Embedded derivatives	13.9	1.1	24.2	1.1	45.6	2.1
Total	**98.6**	**1.7**	**154.3**	**1.1**	**151.8**	**2.0**

Designated as cash flow hedge [1] EUR -0.4 million [2] EUR 0.0 million [3] EUR -0.7 million [4] EUR 0.1 million [5] EUR -0.5 million [6] EUR 0.0 million. Financial assets recognised at fair value through profit and loss comprise solely derivatives. Fair values of the derivative instruments are based on observable market values (level 2 observable input information) at balance sheet date. Fair value of other financial instruments corresponds their book value.

Transactions with related parties

No transactions took place between Eltel and related parties that significantly affected the company's position and earnings during the quarter.

Quarterly key financial figures for the Group

EUR million	Apr-Jun 2018	Jan-Mar 2018	Oct-Dec 2017	Jul-Sep 2017	Apr-Jun 2017	Jan-Mar 2017
Net sales	295.5	266.6	374.2	328.0	329.8	297.8
Net sales growth, %	-10.4	-10.5	-3.3	-7.9	-10.6	3.6
Operative EBITA	2.0	-7.6	2.2	3.1	-21.0	-9.7
Operative EBITA margin, %	0.7	-2.9	0.6	0.9	-6.4	-3.2
EBITDA	4.8	-6.9	5.0	6.0	-16.8	-7.6
EBITA	2.1	-9.9	1.7	2.4	-20.0	-10.7
EBITA margin, %	0.7	-3.7	0.5	0.7	-6.1	-3.6
Impairment of goodwill and other acquisition-related intangible assets	-	-	-	-3.8	-	-145.6
Operating result (EBIT)	1.6	-10.4	1.2	-2.8	-23.2	-159.8
EBIT margin, %	0.5	-3.9	0.3	-0.9	-7.0	-53.7
Result after financial items	0.3	-12.0	-0.3	-6.4	-27.3	-162.9
Net result for the period	0.2	-9.5	-7.7	-11.0	-24.5	-161.4
Earnings per share EUR, basic and diluted	0.00	-0.06	-0.05	-0.07	-0.23	-1.53
Return on operative capital employed, %*	-3.2	-22.8	-37.4	-38.3	-35.8	-11.6
Return on equity (ROE), %*	-9.7	-23.0	-64.9	-77.2	-72.0	-76.0
Net working capital	91.9	75.1	45.6	88.4	59.9	71.6
Operative cash flow	-17.3	-37.6	43.0	-25.6	-10.7	-66.4
Cash conversion, %*	N/A	N/A	223.9	N/A	N/A	N/A
Number of personnel, end of period	7,680	7,605	7,999	8,441	8,685	9,516

* calculated on a rolling 12-month basis
Assets and liabilities held for sale are not included (on 30 June 2018 Norwegian Rail business and on 31 December 2017 Finnish and Danish Rail business)

Quarterly segment information

Net sales

EUR million	Apr-Jun 2018	Jan-Mar 2018	Oct-Dec 2017	Jul-Sep 2017	Apr-Jun 2017	Jan-Mar 2017
Power	116.0	95.7	130.7	117.5	118.3	103.8
Communication	177.7	162.3	215.6	186.7	184.9	169.6
Other	2.5	9.5	27.6	24.8	26.8	24.6
Elimination of sales between segments	-0.8	-0.9	0.4	-1.0	-0.2	-0.2
Net sales, total	**295.5**	**266.6**	**374.2**	**328.0**	**329.8**	**297.8**

Operative EBITA by segment

EUR million	Apr-Jun 2018	Jan-Mar 2018	Oct-Dec 2017	Jul-Sep 2017	Apr-Jun 2017	Jan-Mar 2017
Power	2.5	-1.3	-0.5	0.9	-1.2	0.5
% of net sales	2.1	-1.4	-0.3	0.7	-1.0	0.5
Communication	7.2	1.1	12.9	11.5	6.5	3.7
% of net sales	4.1	0.7	6.0	6.2	3.5	2.2
Other	-3.1	-3.7	-5.8	-6.1	-21.7	-10.1
% of net sales	-122.6	-38.8	-21.0	-24.4	-81.0	-41.1
Costs not allocated to segments	-4.6	-3.7	-4.4	-3.3	-4.6	-3.8
Operative EBITA	**2.0**	**-7.6**	**2.2**	**3.1**	**-21.0**	**-9.7**
% of net sales	0.7	-2.9	0.6	0.9	-6.4	-3.2

Number of employees by segment, at the end of period

	Apr-Jun 2018	Jan-Mar 2018	Oct-Dec 2017	Jul-Sep 2017	Apr-Jun 2017	Jan-Mar 2017
Power	2,429	2,340	2,453	2,776	2,963	2,820
Communication	4,721	4,666	4,604	4,621	4,590	5,448
Other	187	265	592	702	751	867
Outside segments	343	334	350	342	381	381
Total	**7,680**	**7,605**	**7,999**	**8,441**	**8,685**	**9,516**

Definitions and key ratios

Eltel applies ESMA's (European Securities and Markets Authority) guidelines for alternative performance measures (APM). In addition to the financial measures defined in IFRS, certain key figures, which qualify as alternative performance measures (APMs) are presented to reflect the underlying business performance, facilitate analysis of the Group's development as followed by Group Management and enhance comparability from period to period. The definition of these key figures is presented below and relevant information enabling reconciliations to IFRS measures can be found in connection with relevant parts of the report. These APMs should not be considered as a substitute for measures in accordance with IFRS.

IFRS key ratios

Earnings per share (EPS)	Net result attributable to equity holders of the parent / Weighted average number of ordinary shares

Alternative performance measures (APMs)

Operative EBITA	Operating result before acquisition-related amortisations and items affecting comparability
Items affecting comparability	Items for specific events which management does not consider to form part of the ongoing operative business
Operative cash flow	EBITA + depreciation + change in net working capital – net purchase of PPE (capex)
Cash conversion, %*	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
Leverage ratio*	Net debt / EBITDA
Operative capital employed	Net working capital + Intangible assets excluding goodwill and acquisition-related allocations + Property, plant and equipment
Return on operative capital employed, %*	EBITA x 100 / Operative capital employed (average over the reporting period)
Return on equity, %*	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

* calculated on a rolling 12-month basis

Parent Company

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

Parent Company income statement

EUR million	Apr-Jun 2018	Apr-Jun 2017	Jan-Jun 2018	Jan-Jun 2017	Jan-Dec 2017
Net sales	-	-	-	-	2.8
Administrative income and expenses	-3.8	-2.5	-6.1	-5.6	-12.0
Operating result	**-3.8**	**-2.5**	**-6.1**	**-5.6**	**-9.2**
Write-down of investment in Group companies*	-	-200.0	-	-200.0	-200.0
Interest and other financial income	4.1	4.5	8.2	8.8	17.5
Interest and other financial expenses	-0.5	-1.8	-0.9	-3.0	-4.5
Net financial items	3.6	2.7	7.3	5.8	13.0
Result after financial items	**-0.2**	**-199.8**	**1.2**	**-199.8**	**-196.1**
Taxes	0.3	-0.1	-	-0.1	-0.4
Net result	**0.1**	**-199.8**	**1.2**	**-199.8**	**-196.5**

*The value of investment in Group companies has been written down in the second quarter of 2017 in line with the revisited strategy and targets

Parent Company balance sheet

EUR million	30 Jun 2018	30 Jun 2017	31 Dec 2017
ASSETS			
Investment in Group companies	388.7	382.1	392.7
Intangible assets	0.1	-	0.1
Deferred tax assets	0.7	1.0	0.8
Other financial asset	-	35.0	-
Total non-current assets	**389.5**	**418.1**	**393.5**
Trade and other receivables	1.3	2.5	4.2
Cash pool receivable	134.0	226.2	95.0
Other financial asset	35.0	-	35.0
Cash and cash equivalents	0.0	0.0	0.0
Total current assets	**170.2**	**228.6**	**134.3**
TOTAL ASSETS	**559.7**	**646.7**	**527.8**
EQUITY AND LIABILITIES			
Total equity	**445.2**	**440.5**	**444.0**
Liabilities to shareholders	-	35.0	-
Deferred tax liabilities	-	0.1	-
Total non-current liabilities	**-**	**35.1**	**-**
Debt	75.8	136.3	42.9
Liabilities to shareholders	35.0	-	35.0
Liabilities to Group companies	0.2	27.0	2.1
Trade and other payables	3.5	7.8	3.8
Total current liabilities	**114.5**	**171.1**	**83.8**
Total liabilities	**114.5**	**206.2**	**83.8**
TOTAL EQUITY AND LIABILITIES	**559.7**	**646.7**	**527.8**

Equity

EUR million	1 Jan 2018	Hedging reserve, net of tax	Equity-settled share-based payment	Net result	30 Jun 2018
Share capital	158.4	-	-	-	158.4
Non-restricted equity	285.6	0.1	-	1.2	286.8
Total	**444.0**	**0.1**	**-**	**1.2**	**445.2**

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