Eltel Group

Interim report January – September 2017

July – September 2017

- Group net sales decreased to EUR 328.0 million (356.2), mainly as a result of the discontinuation of non-core operations and unprofitable contracts
- Net sales in the Core business, including segment Power and segment Communication, decreased 1.8% to EUR 298.6 million (304.0)
- Discontinuation and ramp down of non-core operations in Other led to a planned net sales decrease of 42.3% to EUR 30.4 million (52.8)
- Group operative EBITA amounted to EUR 3.1 million (7.8)*
- EBIT amounted to EUR -2.8 million (4.1) including EUR -0.7 million in items affecting comparability**
- Net result amounted to EUR -11.0 million (1.9)
- Earnings per share were EUR -0.07 (0.01)
- Operative cash flow was EUR -25.6 million (22.6)
- EUR 110.6 million in bank term loans repaid

January – September 2017

- Group net sales decreased to EUR 955.7 million (1,012.7), mainly as a result of the discontinuation of non-core operations and unprofitable contracts
- Net sales in the Core business, including segment Power and segment Communication, increased 0.8% to EUR 863.0 million (856.5)
- Discontinuation of non-core operations in Other led to a planned net sales decrease of 40.3% to EUR 94.1 million (157.7)
- Group operative EBITA amounted to EUR -27.7 million (16.7)*
- EBIT amounted to EUR -185.9 million (5.9) including a goodwill impairment of EUR 149.4 million
- Net result amounted to EUR -196.9 million (-1.8)
- Earnings per share were EUR -1.61 (-0.02)
- Operative cash flow was EUR -102.7 million (-30.5)

Unless otherwise stated, figures in brackets refer to the same period in the preceding year
* Items not allocated to segments consist of the Group management function including development projects
** loss on sale of business

Transformation strategy – Important events during the period

Q1 2017

- 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

Q2 2017

- 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

Q3 2017

- Agreement to divest operations in Latvia
- Agreement to divest operations in Estonia
- Letter of intent to divest Power Transmission International

	Jul-Sep 2017	Jul-Sep 2016	Change, %
Net sales			
Core*	**298.6**	**304.0**	**-1.8**
Power	117.5	126.0	-6.7
Communication	181.1	178.0	1.7
Other	30.4	52.8	-42.3
Total Group	**328.0**	**356.2**	**-7.9**
Operative EBITA**			
Core*	**12.3**	**12.5**	**-1.7**
Power	0.9	2.6	-66.5
Communication	11.4	9.9	15.1
Other	-6.0	-1.1	n/a
Items not allocated	-3.3	-3.6	10.4
Total Group	**3.1**	**7.8**	**-60.7**

	Jan-Sep 2017	Jan-Sep 2016	Change, %
Net sales			
Core*	**863.0**	**856.5**	**0.8**
Power	339.7	345.7	-1.7
Communication	523.3	510.8	2.5
Other	94.1	157.7	-40.3
Total Group	**955.7**	**1,012.7**	**-5.6**
Operative EBITA**			
Core*	**22.5**	**35.5**	**-36.6**
Power	0.2	12.3	-98.3
Communication	22.3	23.2	-3.9
Other	-38.5	-11.7	n/a
Items not allocated	-11.6	-7.1	-64.5
Total Group	**-27.7**	**16.7**	**-265.5**

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

Comments by the CEO

Stable performance for Communication but weak result for Power

The work aimed at restructuring and streamlining operations continued during the quarter. Our change strategy is largely about developing a stable platform – based on the principles of efficiency, clear governance and internal control – at the same time as we are divesting or discontinuing operations where we are not competitive, where profitability is low or where the risks are high. In the third quarter, we were in the midst of the transformation process, which will continue for the remainder of 2017 and throughout 2018.

Sales for Eltel's Core business were, despite the above measures, almost in line with last year and in the third quarter amounted to more than EUR 298 million, mainly due to the stable performance for segment Communication. However, segment Power's performance was weak, which was primarily a result of continued challenges for projects with a fixed price, though part of the explanation can also be found in short-term challenges in the transmission market. In the longer term, market conditions for Power are however attractive with expected healthy growth. In the quarter, the market for segment Communication continued to mainly be driven by the roll out of fibre and offers favourable business opportunities as a consequence of the technology shift from fixed to mobile solutions.

Operative EBITA in the Core business amounted to EUR 12.3 million during the third quarter, which was in line with the same period previous year, despite costs for streamlining as well as margin adjustments and impairment losses for projects. Taken together, this means the EBITA margin was 4.1%.

Work continued during the quarter identifying synergies in segment Communication, where we are integrating the fixed and mobile business units and Aviation and Security, as well as in segment Power, where we have merged distribution and transmission operations. These measures will improve our competitiveness in the long-term, but have a negative short-term impact on earnings due to costs for implementing the changes. In the first nine months, approximately 40% of the year-on-year deviation in operative EBITA for segment Power was related to restructuring costs, including costs for discontinuation of operations such as the substation business in Germany. 40% is explained by impairment losses and margin adjustments in projects and 20% by lower sales.

The process of divesting and discontinuing non-core operations is progressing well. In July, we signed an agreement to divest the loss-making business in Latvia and in August to divest our operations in Estonia. In September, we signed a letter of intent to divest Power Transmission International. The total financial impact of the divestment is expected to be lower than the estimated ramp down cost of EUR 40 million, assuming that the transaction is completed. Moreover, in the second quarter we divested the unprofitable part of the communication business in Poland and discontinued the communication business in the UK. Total net sales in these operations for the January–September 2017 period amounted to EUR 61.5 million (110.8) and the operative EBITA was EUR -29.8 million (-6.5).

The process of divesting or closing down other non-core operations is proceeding as planned.

It is very satisfying that, despite our focus on change, we are frequently reminded that we are able to provide good deliveries to our customers, which is reflected in a high level of customer satisfaction. I can clearly see how hard and dedicated work by our employees is producing results, which is creating a solid foundation for our work moving forward.

The ongoing transformation is a prerequisite for creating a stable and profitable platform. This will enable us to develop and roll out a new strategy for Eltel, to secure long-term growth, profitability and shareholder value. Strategy to be presented in 2018.

Håkan Kirstein, President and CEO

Summary of Eltel's transformation strategy

In February 2017, Eltel decided to focus its operations on areas with lower risk, 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 2016, the Core business net sales amounted to approximately EUR 1.2 billion, corresponding to 85% of Eltel's total net sales.

Businesses considered as non-core will be 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 gathered in Other and include the power transmission business outside Europe, the rail business, and parts of Aviation & Security in Sweden. In 2016, sales of these operations amounted to approximately EUR 212 million.

The implementation of the strategy will result in significant costs for restructuring the operations and costs for gradually discontinuing certain businesses. Eltel estimates the wind-down cost of the power transmission business outside Europe, gathered in Power Transmission International, to amount to approximately EUR 40 million. The main part of the cost is expected to be charged to 2017 and the remainder to 2018 and 2019. The implementation of the revised strategy will also result in additional restructuring costs in other parts of the business.

All information in this report is presented based on the new segment structure that was established as part of the decided strategy and in which Eltel's segments consist of segment Power, segment Communication and Other.

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 October 2016 – 30 September 2017
Annual growth	2–4%	1.5%
EBITA-margin	5%	3.2%
Cash conversion	95–100% of EBITA[2]	-62.8% of EBITA[2]
Leverage	1.5–2.5x net debt/EBITDA[3]	3.6x net debt/EBITDA[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.

July – September 2017

Net sales

Net sales decreased 7.8% to EUR 328.0 million (356.2), mainly as a result of the discontinuation of non-core operations and unprofitable contracts.

For further information regarding net sales development, refer to the section on the relevant segment below.

Operative EBITA

Operative EBITA decreased 60.7% to EUR 3.1 million (7.8), which is mainly explained by restructuring costs and costs and provisions for the on-going discontinuation and project ramp down within Other and other non-core operations, in line with the strategy to reduce the risk level in operations and focus on Eltel's Core business. The contribution of Other to Group operative EBITA was to EUR -6.0 million (-1.1).

For further information regarding operative EBITA development, refer to the section on the relevant segment below.

Core business: segment Power and segment Communication

Net sales in the Core business decreased 1.8% to EUR 298.6 million (304.0). The Core business represented 91.0% (85.3) of Eltel's net sales during the third quarter of 2017.

Operative EBITA in the Core business decreased by EUR 0.2 million to EUR 12.3 million (12.5), representing a decrease of 1.7%. The EBITA margin amounted to 4.1% (4.1).

Segment Power

Net sales in segment Power decreased by 6.7% to EUR 117.5 million (126.0), due to decrease in volumes of high voltage projects in Poland, build and services in Finland and the strategy to avoid low margin and high risk assignments and discontinue non-profitable contracts. The decrease was partly offset by an increase of EUR 11.1 million in Smart Grids, in Norway, Denmark and Germany.

Operative EBITA decreased by 66.5% to EUR 0.9 million (2.6), and the operative EBITA margin was 0.7% (2.0). The on-going ramp down of Eltel's substation business in Germany and the Nordics, the restructuring and merger of Power Distribution and Power Transmission, and gross margin adjustments in certain projects, primarily within service in Sweden had a negative impact on operative EBITA during the period. Restructuring costs are expected to continue to impact profitability in the quarters ahead. Furthermore, the lower volumes of high-voltage projects in Poland and build and services in Finland had a negative impact on operative EBITA. Increased sales in the Smart Grid operation, with attractive margins, had a positive impact on operative EBITA compared to the corresponding period in 2016.

In August 2017, an agreement was signed to divest Eltel's non-core operations in Estonia, comprising power, telecommunication and gas infranet services. In 2016, these operations generated net sales of EUR 26.3 million, with low profitability. The divestment of Eltel's business operations in Estonia had a negative impact of EUR 0.7 million on Group EBITA and a goodwill impairment of EUR 3.8 million was recognised in the quarter.

Segment Communication

Net sales in segment Communication increased by 1.7% to EUR 181.1 million (178.0). The rise in net sales is mainly attributable to strong development in the Nordic markets and Germany, driven largely by optic fibre deployment. The increase was partly offset by the divestment of the unprofitable maintenance business of copper networks in Poland and the discontinuation of the loss-making UK operations, both completed during the second quarter of 2017. The two operations represented a decrease in net sales of EUR -7.8 million compared to the corresponding period in 2016.

Operative EBITA increased by 15.1% to EUR 11.4 million (9.9), and the operative EBITA margin was 6.3% (5.6). The increase is mainly a result of increased sales and net positive effects from the divestment of the unprofitable maintenance business of copper networks in Poland and the discontinuation of the loss-making UK operations.

Non-core business: Other

Net sales in Other decreased by 42.3% to EUR 30.4 million (52.8). The decline is in line with Eltel's strategy and is mainly attributable to the ramp down of operations in Power Transmission International and lower sales in Rail.

Operative EBITA amounted to EUR -6.0 million (-1.1), resulting from operative EBITA in Rail and cost for discontinuing Power Transmission International, the operative EBITA margin was -19.6% (-2.0).

The total cost of discontinuing Power Transmission International is estimated to amount to approximately EUR 40 million of which EUR 2.3 million was recognised during the period. In total, costs amounting to EUR 28.7 million have been recorded, which is in line with the plan. The main part of the cost is expected to be recognised in 2017 and the remainder in 2018 and 2019. The discontinuation process is expected to be completed in 2019. However, a letter of intent was signed in September to divest Power Transmission International. The transaction presents an option to, already in 2017, release the liability for Eltel and reduce the total cost for the planned ramp down. The combined cost for the ramp down to date and the divestment is expected to be lower than the earlier estimated total ramp down cost of EUR 40 million, should the divestment be completed.

EBITA

Group EBITA declined to EUR 2.4 million (7.8), including a loss of EUR 0.7 million on the divestment of the power business in Estonia.

EBIT

EBIT amounted to EUR -2.8 million (4.1). Amortisation of acquisition-related intangible assets amounted to EUR 1.4 million (3.6) and impairment of goodwill amounted to EUR 3.8 million.

Net financial expenses

Net financial expenses amounted to EUR 3.6 million (2.0). The increase in net financial expenses is mainly related to higher interest costs. In May 2017, Eltel and its bank consortium agreed on revised financing terms until the end of 2018. The agreement was subject to the EUR 150 million preferential rights issue, which was successfully completed in June 2017.

Taxes

The tax expense for the quarter amounted to EUR 4.6 million (0.3), corresponding to an effective tax rate of -71.2% (12.1).

The July-September tax expense relates to changes to estimates for the effective tax rate for the full year between the second and third quarter.

Net result for the quarter and earnings per share

The net result was EUR -11.0 million (1.9). Earnings per share were EUR -0.07 (0.01).

Cash flow

Cash flow from operating activities was EUR -21.4 million (+24.9), including a negative impact of EUR -27.4 million (+14.4) from the change in net working capital. Cash flow from financial items and taxes was EUR -5.1 million (-1.9). Net capital expenditure, mainly replacement investments, amounted to EUR 4.2 million (2.7). Cash flow for acquisitions and disposals of businesses amounted to EUR 0.1 million (-1.5). Share issue costs amounted to EUR 3.0 million, repayment of bank loans amounted to EUR 110.6 million and repayment of other short-term financial facilities amounted to EUR 0.8 million.

Employees

The average number of employees was 8,461 (9,608) in the quarter. At the end of the quarter, the number of employees was 8,441 (9,648). The reduction in the number of employees was mainly the result of divestments and restructuring of operations.

January – September 2017

Net sales

Net sales decreased 5.6% to EUR 955.7 million (1,012.7), mainly as a result of the discontinuation of non-core operations and unprofitable contracts.

At the end of September 2017, Eltel's committed order backlog amounted to EUR 710 million (30 June 2017: 786). The decrease is primarily the result of seasonal effects, the divestment of Eltel's non-core business operations in Estonia and lower demand for high voltage projects in Poland.

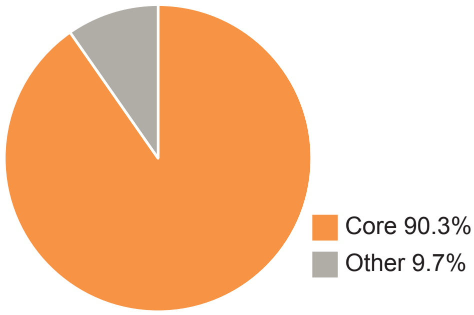
For further information regarding net sales development, refer to the section on the relevant segment below.

Operative EBITA

Operative EBITA decreased 265.5% to EUR -27.7 million (16.7), which is mainly attributable to costs and provisions for the ongoing discontinuation and project ramp down within Other, restructuring costs and ramp down of non-core operations in Segment Power, in line with the strategy to reduce the risk level in the operations and focus on Eltel's Core business. The contribution of Other to Group operative EBITA was EUR -38.5 million (-11.7), whereof EUR 28.7 million relates to costs for discontinuing Power Transmission International.

For further information regarding operative EBITA development, refer to the section on the relevant segment below.

Core business: segment Power and segment Communication



Net sales in the Core business increased 0.8% to EUR 863.0 million (856.5). The Core business represented 90.3% (84.4) of Eltel's net sales during the period.

Operative EBITA in the Core business decreased by EUR 13.0 million to EUR 22.5 million (35.5), representing a decrease of 36.6%. The EBITA margin amounted to 2.6% (4.1).

Segment Power

Net sales in segment Power decreased by 1.7% to EUR 339.7 million (345.7), mainly due to the strategy to avoid low-margin and high-risk assignments and discontinue non-profitable contracts. The selective ramp down of the unprofitable parts of Eltel's substation business in Germany and the Nordics continued. Furthermore, volumes of high voltage projects in Poland and Germany decreased due to challenging market conditions. The decrease was offset by increased Smart Grids sales, primarily in Norway and Germany, and by strong development in the power distribution service business in Finland.

Operative EBITA decreased by 98.3% to EUR 0.2 million (12.3), and the operative EBITA margin was 0.1% (3.6).

The on-going ramp down of Eltel's substation business in Germany and the Nordics, as well as the restructuring and merger of Power Distribution and Power Transmission had a negative impact on EBITA during the period. Restructuring measures are expected to continue to impact profitability in the quarters ahead.

The deviation was also a result of weak performance in high voltage projects in the Nordics, and lower volumes in high voltage projects in Poland and Germany. Furthermore, margin revisions in the service business in Sweden had a negative impact. Increased sales in the Smart Grid operation, with attractive margins had a positive impact compared to the corresponding period in 2016.

In total, the net negative deviation of operative EBITA compared to the preceding year is the result of the following factors: approximately 40% restructuring costs, 40% impairment losses and margin adjustments in projects and 20% lower sales.

In August 2017, an agreement was signed to divest Eltel's non-core business operations in Estonia, comprising power, telecommunication and gas infranet services. In 2016, these operations generated net sales of EUR 26.3 million, with low profitability. The divestment of Eltel's business operations in Estonia had a negative impact of EUR 0.7 million on Group EBITA and a goodwill impairment of approximately EUR 3.8 million was recognised in the third quarter.

Segment Communication

Net sales in segment Communication increased by 2.5% to EUR 523.3 million (510.8). The net sales increase is mainly the result of strong development in the Nordic markets and Germany, driven mainly by optic fibre deployment. The increase was partly offset by the divestment of an unprofitable maintenance business of copper networks in Poland and the discontinuation of the loss-making UK operations, both completed during the second quarter of 2017. The two operations represented a decrease in net sales of EUR 13.5 million compared to the corresponding period in 2016.

Operative EBITA decreased by 3.9% to EUR 22.3 million (23.2), and the operative EBITA margin was 4.3% (4.5). The decrease is mainly attributable to the low utilisation of work force during the first half of 2017 in Sweden and Norway offset of positive effects by the divestment of the unprofitable maintenance business of copper networks in Poland and the discontinuation of the loss-making UK operations, completed during the second quarter, both of which had a positive impact on operative EBITA.

In June 2017, Eltel divested a low-profitability maintenance communication business in Poland, referred to above. These operations, sold to Polish BKJ sp. z o.o., comprise maintenance of copper networks for the Polish telecommunication operator Orange. In 2016, the net sales of these operations amounted to approximately EUR 24 million with marginal impact on Group profitability. The operations employed approximately 950 people.

Non-core business: Other

Net sales in Other decreased by 40.3% to EUR 94.1 million (157.7). The decline is in line with Eltel's approved strategy and is mainly attributable to the ramp down of operations in Power Transmission International and lower sales in Rail.

Operative EBITA amounted to EUR -38.5 million (-11.7), and the operative EBITA margin was -40.9% (-7.4).

The total cost of discontinuing Power Transmission International is estimated to amount to approximately EUR 40 million, of which EUR 28.7 million was recognised during the period, in line with expectations. The main part of the cost is expected to be reported in 2017 and the remainder in 2018 and 2019. The discontinuation process is expected to be completed in 2019. However, a letter of intent was signed in September to divest Power Transmission International. The transaction presents possibility to, already in 2017, release the liability for Eltel and reduced the total cost for the planned ramp down. The combined cost for the ramp down to date and the divestment is expected to be lower than the earlier estimated total ramp-down cost of EUR 40 million, should the divestment be completed.

EBITA

Group EBITA declined to EUR -28.4 million (16.7). Net items affecting EBITA comparability amounted to EUR -0.7 million, comprising a positive impact from the adjustment of an acquisition earn-out of EUR 3.0 million netted with a cost of EUR 2.3 million for the sale of businesses and EUR 1.4 million in costs related to reviews and investigations.

The divestment of the low-profitability maintenance communication business in Poland to Polish BKJ sp. z o.o yielded a capital loss of approximately EUR 0.8 million affecting Group EBITA in the second quarter.

EBIT

EBIT amounted to EUR -185.9 million (5.9). Amortisation of acquisition-related intangible assets amounted to EUR 8.0 million (10.8) and impairment of goodwill amounted to EUR 149.4 million.

Net financial expenses

Net financial expenses amounted to EUR 10.8 million (8.1). The increase in net financial expenses is mainly related to higher interest costs. In May 2017, Eltel and its bank consortium agreed on revised financing terms until the end of 2018. The agreement was subject to the EUR 150 million preferential rights issue that was successfully completed in June 2017.

Taxes

The tax expense amounted to EUR 0.3 million (income 0.4), corresponding to an effective tax rate of -0.1% (18.9).

The effective tax rate for January-September is based on the estimated effective tax rate for the full year, which is expected to be close to 0%. The main items impacting the estimated effective tax rate include non-allowable goodwill impairments and non-valuated tax losses related to non-core businesses.

Net result for the period and earnings per share

The net result for the period was EUR -196.9 million (-1.8). Earnings per share were EUR -1.61 (-0.02).

Preferential rights issue

On 2 May 2017, Eltel's Board of Directors, resolved upon a rights issue of approximately EUR 150 million (approximately SEK 1,500 million) with preferential rights for Eltel's shareholders. On 1 June 2017, Eltel's shareholders approved the rights issue at the 2017 Annual General Meeting. In June, the preferential rights issue was successfully completed and fully subscribed for. Gross proceeds from the rights issue totalled EUR 153.9 million and net proceeds amounted to EUR 149.7 million. Rights issue costs recorded in equity consequently amounted to EUR 4.7 million (EUR 3.7 million after tax).

The proceeds from the rights issue will primarily be used to strengthen Eltel's balance sheet and to enable the changes to be made of the business that the company's management and Board of Directors have resolved upon, including managing the costs and risks in the discontinuation of Power Transmission International. In addition, the rights issue aims to create a capital structure that enables further development of Eltel's core business, including selective acquisitions.

Cash flow

Eltel's operative cash flow was EUR -102.7 million (-30.5), mainly as a consequence of higher net working capital compared to the situation at the end of 2016 and the negative result in the first nine months of 2017. Ongoing working-capital-intensive power projects in Poland are expected to continue to create volatility in net working capital going forward.

Cash flow from operating activities was EUR -94.2 million (-20.4), including a negative impact of EUR -75.6 million (-47.6) from the change in net working capital. Cash flow from financial items and taxes was EUR -13.2 million (-8.4). Net capital expenditure, mainly replacement investments, amounted to EUR 8.7 million (9.4). Cash flow for acquisitions and the disposal of business amounted to EUR -8.0 million (-19.9) mainly related to earn-out payments from previous acquisitions and also the divestment of the telecom maintenance service operations in Poland. Net proceeds from the issuance of share capital amounted to EUR 149.2 million, repayment of bank loans amounted to EUR 110.6 million and the utilisation of short-term financial facilities amounted to EUR 17.4 million.

Financial position, cash and cash equivalents

Equity at the end of the period was EUR 297.5 million (421.0) and the group's total assets were EUR 867.8 million (1,152.2).

The equity ratio was 37.0% (39.0).

Interest-bearing liabilities totalled EUR 186.1 million (286.2), of which EUR 119.9 million (231.8) were non-current and EUR 66.2 million (54.4) were current.

Cash and cash equivalents amounted to EUR 13.9 million (70.4). Interest-bearing net debt totalled EUR 173.1 million (217.1).

On 1 June 2017, Eltel's 2017 Annual General Meeting resolved upon a preferential rights issue. The rights issue was fully subscribed for in June 2017, thereby raising proceeds of approximately EUR 150 million and increasing the share capital by EUR 94,735,011 to EUR 158,433,250. In May 2017, Eltel and its bank consortium agreed on revised financing terms until the end of 2018. According to the revised terms, effective from the third quarter 2017, the covenant is based on Eltel's profitability (adjusted EBITDA).

The revised financing terms agreed on with Eltel's bank consortium in May 2017 include a new temporary revolving credit facility of EUR 20 million, effective from July 2017, the purpose of which is to cover costs for ongoing restructuring. At the end of the third quarter, guarantees based on contractual commercial commitments and pension liabilities issued by banks, other financial institutions and the Parent Company amounted to EUR 343.2 million (376.2). This amount included advance and other payment security guarantees.

On 4 July 2017, Eltel repaid EUR 110.6 million of its bank term loans.

Interest-bearing liabilities and net debt

EUR million	30 Sep 2017	30 Sep 2016	31 Dec 2016
Interest-bearing debt in balance sheet	186.1	286.2	283.5
Allocation of effective interest to periods	0.9	1.2	1.8
Less cash and cash equivalents	-13.9	-70.4	-85.2
Net debt	**173.1**	**217.1**	**200.1**

At the end of the third quarter, available liquidity reserves amounted to EUR 136.6 million (181.0). On the same date, EUR 51 million of Eltel's EUR 100 million commercial paper programme was utilised. The Group's equity ratio was 37.0% (39.0) at the end of September 2017.

Employees

The average number of employees was 9,019 (9,632) during the period. At the end of the period, the number of employees was 8,441 (9,648). The reduction in the number of employees was mainly the result of divestments and restructuring of operations.

Shares

Following registration of the rights issue by the Swedish Companies Registration Office on 7 July 2017, the number of Eltel's ordinary shares increased by 93,936,357 to 156,560,595 and the share capital increased by EUR 94,735,011 to EUR 158,433,250 in total.

Risks and uncertainty factors

No new material risks were identified during the interim period. For information regarding risks and uncertainties, please refer to Eltel's 2016 Annual Report published on 2 May 2017 and the prospectus (the "Prospectus") relating to Eltel´s rights issue of approximately SEK 1,500 million published on 7 June 2017 and which are available on Eltel's website at http://www.eltelgroup.com.

Impairment test

Impairment test on goodwill and subsidiary shares are regularly conducted in the fourth quarter and otherwise if any indications triggering potential impairment are identified.

Events after the end of the period

Eltel's divestment of its business operations in Estonia to Estonian Tecnolines OÜ, announced on 30 August 2017, was approved by the Estonian Competition Authorities after the end of the period and the transaction was completed.

The final transaction price amounted to EUR 3.0 million, with an estimated cash flow impact of approximately EUR 2.5 million that will be recorded in the fourth quarter of 2017. The sale of Eltel's business operations in Estonia has a negative impact of EUR 0.7 million on Group EBITA and a recorded goodwill impairment of approximately EUR 3.8 million in the quarter.

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	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016	Rolling 12-month
Net sales	328.0	356.2	955.7	1,012.7	1,399.8	1,342.7
Net sales growth, %	-7.9	14.6	-5.6	18.1	11.6	-4.8
Operative EBITA	3.1	7.8	-27.7	16.7	2.1	-42.3
Operative EBITA margin, %	0.9	2.2	-2.9	1.6	0.1	-3.1
Items affecting comparability	-0.7	-	-0.7	-	-	-0.7
EBITA	2.4	7.8	-28.4	16.7	2.1	-43.0
EBITA margin, %	0.7	2.2	-3.0	1.6	0.1	-3.2
Amortisation of acquisition-related intangible assets	-1.4	-3.6	-8.0	-10.8	-14.4	-11.6
Impairment of goodwill and other acquisition-related intangible assets	-3.8	-	-149.4	-	-55.0	-204.4
Operating result (EBIT)	-2.8	4.1	-185.9	5.9	-67.4	-259.1
EBIT margin, %	-0.9	1.2	-19.4	0.6	-4.8	-19.3
Result after financial items	-6.4	2.1	-196.7	-2.2	-80.0	-274.4
Net result for the period	-11.0	1.9	-196.9	-1.8	-82.2	-277.3
Earnings per share EUR, basic**	-0.07	0.01	-1.61	-0.02	-0.79	-2.35
Earnings per share EUR, diluted**	-0.07	0.01	-1.61	-0.02	-0.79	-2.35
Leverage ratio**	N/A	4.3	N/A	4.3	13.2	N/A
Operative cash flow	-25.6	22.6	-102.7	-30.5	-8.0	-80.1
Cash conversion, %*	N/A	160.8	N/A	160.8	-387.4	N/A
Number of personnel, end of period	8,441	9,648	8,441	9,648	9,465	8,441

* 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	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Net sales	117.5	126.0	339.7	345.7	486.9
Operative EBITA	0.9	2.6	0.2	12.3	15.1
Operative EBITA margin, %	0.7	2.0	0.1	3.6	3.1
Number of employees	2,776	3,040	2,776	3,040	2,888

The foreign currency translation effect included in net sales was EUR 0.2 million for the quarter and EUR 0.4 million for Jan-Sep 2017

Segment Communication

EUR million	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Net sales	181.1	178.0	523.3	510.8	718.5
Operative EBITA	11.4	9.9	22.3	23.2	36.6
Operative EBITA margin, %	6.3	5.6	4.3	4.5	5.1
Number of employees	4,461	5,259	4,461	5,259	5,232

The foreign currency translation effect included in net sales was EUR -0.3 million for the quarter and EUR -2.4 million for Jan-Sep 2017

Other

EUR million	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Net sales	30.4	52.8	94.1	157.7	196.7
Operative EBITA	-6.0	-1.1	-38.5	-11.7	-37.0
Operative EBITA margin, %	-19.6	-2.0	-40.9	-7.4	-18.8
Number of employees	862	1,059	862	1,059	1,051

The foreign currency translation effect included in net sales was EUR 1.1 million for the quarter and EUR -1.0 million for Jan-Sep 2017

Presentation of the interim report for the third quarter of 2017

Analysts and media are invited to participate in the third quarter 2017 briefing on 2 November 2017 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

- Full-year report January–December 2017: 22 February 2018
- Interim report January–March 2018: 4 May 2018
- Interim report January–June 2018: 1 August 2018
- Interim report January–September 2018: 7 November 2018
- Annual Report 2017: Week 14, 2018
- Annual General Meeting 2018: 9 May 2018

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 2 November 2017 at 08:00 a.m. CET.

Signature of the CEO

Stockholm, Sweden, 2 November 2017

Eltel AB (publ)

Håkan Kirstein
President and CEO

Auditor's report

Eltel AB (publ) corp. reg. no. 556728-6652

Introduction

We have reviewed the condensed interim financial information (interim report) of Eltel AB (publ) as of 30 September 2017 and the nine-month period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, *Review of Interim Report Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Stockholm, 2 November 2017

Öhrlings PricewaterhouseCoopers AB

Michael Bengtsson
Authorized Public Accountant

Condensed financial information

Condensed consolidated income statement

EUR million	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Net sales	328.0	356.2	955.7	1,012.7	1,399.8
Cost of sales	-296.8	-319.3	-893.1	-908.5	-1,279.5
Gross profit	**31.3**	**36.9**	**62.6**	**104.2**	**120.3**
Other income	0.4	1.4	4.3	2.2	4.0
Sales and marketing expenses	-1.2	-2.3	-8.2	-9.0	-11.7
Administrative expenses	-27.0	-26.3	-80.4	-75.4	-104.4
Other expenses	-1.0	-1.7	-6.4	-5.0	-5.6
Share of profit/loss of joint ventures	-0.1	-0.1	-0.3	-0.3	-0.4
Operating result before acquisition-related amortisations (EBITA)	**2.4**	**7.8**	**-28.4**	**16.7**	**2.1**
Amortisation and impairment of acquisition-related intangible assets	-5.2	-3.6	-157.5	-10.8	-69.4
Operating result (EBIT)	**-2.8**	**4.1**	**-185.9**	**5.9**	**-67.4**
Financial income	0.1	-	0.2	0.1	0.2
Financial expenses	-3.7	-2.0	-11.0	-8.2	-12.8
Net financial expenses	-3.6	-2.0	-10.8	-8.1	-12.6
Result before taxes	**-6.4**	**2.1**	**-196.7**	**-2.2**	**-80.0**
Taxes	-4.6	-0.3	-0.3	0.4	-2.2
Net result	**-11.0**	**1.9**	**-196.9**	**-1.8**	**-82.2**
Attributable to:					
Equity holders of the parent	-11.3	1.5	-197.3	-2.5	-83.5
Non-controlling interest	0.3	0.3	0.4	0.7	1.3
Earnings per share (EPS)					
Basic, EUR	-0.07	0.01	-1.61	-0.02	-0.79
Diluted, EUR	-0.07	0.01	-1.61	-0.02	-0.79

Condensed consolidated statement of comprehensive income

EUR million	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Net profit for the period	-11.0	1.9	-196.9	-1.8	-82.2
Other comprehensive income:					
Items that will not be reclassified to profit and loss					
Revaluation of defined benefit plans	-0.5	-5.3	-2.7	-6.4	0.7
Items that may be subsequently reclassified to profit and loss					
Cash flow hedges	0.1	0.1	0.1	0.1	0.3
Net investment hedges	0.1	1.2	0.6	2.7	2.3
Currency translation differences	1.6	-1.4	-0.2	-5.5	-6.1
Total	1.8	-0.1	0.5	-2.7	-3.6
Other comprehensive income/loss for the period, net of tax	1.3	-5.4	-2.3	-9.1	-2.9
Total comprehensive income/loss for the period	**-9.7**	**-3.5**	**-199.2**	**-10.9**	**-85.1**
Total comprehensive income/loss attributable to:					
Equity holders of the parent	-10.0	-3.8	-199.6	-11.7	-86.4
Non-controlling interest	0.3	0.3	0.4	0.7	1.3

Condensed consolidated statement of balance sheet

EUR million	30 Sep 2017	30 Sep 2016	31 Dec 2016
ASSETS			
Non-current assets			
Goodwill	290.7	475.8	420.2
Intangible assets	42.0	72.7	70.1
Property, plant and equipment	33.2	37.8	37.8
Investments in and receivable from joint ventures	0.6	0.5	0.6
Available-for-sale investments	0.3	0.4	0.3
Deferred tax assets	29.6	37.1	29.7
Other financial asset	35.0	35.0	35.0
Trade and other receivables	0.1	0.1	0.2
Total non-current assets	**431.6**	**659.2**	**594.0**
Current assets			
Inventories	10.8	10.2	7.5
Trade and other receivables	406.4	412.4	393.3
Cash and cash equivalents	13.9	70.4	85.2
Total current assets	**431.1**	**493.0**	**486.0**
Assets held for sale	5.2	-	-
TOTAL ASSETS	**867.8**	**1,152.2**	**1,080.0**
EQUITY AND LIABILITIES			
Equity			
Shareholders' equity	290.8	414.3	339.7
Non-controlling interest	6.7	6.7	7.3
Total equity	**297.5**	**421.0**	**347.0**
Non-current liabilities			
Debt	119.9	231.8	3.5
Liabilities to shareholders	35.0	35.0	35.0
Retirement benefit obligations	8.5	18.8	8.1
Deferred tax liabilities	11.0	16.1	15.5
Provisions	1.4	2.4	1.7
Other non-current liabilities	0.5	6.2	6.2
Total non-current liabilities	**176.3**	**310.4**	**70.0**
Current liabilities			
Debt	66.2	54.4	280.0
Provisions	26.7	8.7	24.9
Advances received	64.7	71.9	65.6
Trade and other payables	231.3	285.8	292.6
Total current liabilities	**388.9**	**420.8**	**663.0**
Liabilities associated with assets held for sale	5.2	-	-
Total liabilities	**570.3**	**731.2**	**733.0**
TOTAL EQUITY AND LIABILITIES	**867.8**	**1,152.2**	**1,080.0**

Condensed consolidated statement of cash flows

EUR million	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Cash flow from operating activities			
Cash flow from operating activities before financial items and taxes	-94.2	-20.4	4.5
Interest received	0.1	0.1	0.1
Interest and other financial expenses paid	-10.6	-6.2	-10.5
Income taxes paid	-2.7	-2.2	-2.5
Net cash from operating activities	**-107.4**	**-28.8**	**-8.3**
Cash flow from investing activities			
Purchases of property, plant and equipment (PPE)	-9.3	-10.1	-14.1
Proceeds from sale of PPE	0.5	0.7	0.8
Acquisition of business	-6.7	-19.9	-19.9
Investments in joint ventures	-0.3	-0.5	-0.7
Disposal of business	-1.3	-	-
Net cash from investing activities	**-17.0**	**-29.8**	**-34.0**
Cash flow from financing activities			
Proceeds from issuance of share capital	149.2	-	-
Proceeds from long-term financial liabilities	-	21.3	21.3
Proceeds from short-term financial liabilities	58.5	88.0	93.0
Payments from short-term borrowings	-151.6	-51.4	-56.4
Payments of financial liabilities	-	-0.1	-1.8
Payments of/proceeds from finance lease liabilities	-0.5	-0.5	-0.8
Dividends to shareholders	-	-15.0	-15.0
Dividends to non-controlling interest	-1.0	-1.1	-1.1
Change in non-liquid financial assets	-0.9	0.3	0.5
Net cash from financing activities	**53.7**	**41.4**	**39.7**
Net change in cash and cash equivalents	**-70.8**	**-17.2**	**-2.6**
Cash and cash equivalents at beginning of period	85.2	87.9	87.9
Foreign exchange rate effect	0.2	-0.3	-0.1
Reclassification as assets held for sale	-0.7	-	-
Cash and cash equivalents at end of period	13.9	70.4	85.2

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

EUR million	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016	Rolling 12-month
EBITA	-28.4	16.7	2.1	-43.0
Depreciation	10.0	9.7	13.1	13.3
EBITDA	-18.4	26.4	15.1	-29.7
Change in net working capital	-75.6	-47.6	-9.8	-37.8
Net purchase of PPE	-8.7	-9.4	-13.3	-12.7
Operative cash flow (used in cash conversion key figure)	-102.7	-30.5	-8.0	-80.1
Less net purchase of PPE, presented in investing activities	8.7	9.4	13.3	
Gains on sales of assets	2.3	-0.3	-0.4	
Items recognised through other comprehensive income	-2.5	-2.8	-3.4	
Other non-cash adjustments	-0.1	3.8	2.9	
Cash flow from operating activities before financial items and taxes	-94.2	-20.4	4.5	

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 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	-	-	-	-197.3	-2.7	0.7	-0.2	-199.6	0.4	-199.2
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 30 Sep 2017	158.4	118.1	373.0	-317.6	-24.6	6.9	-23.6	290.8	6.7	297.5

Changes in share capital registered after the balance sheet date

Eltel AB's Annual General Meeting on 1 June 2017 resolved upon a reduction of share capital by EUR 62,624,238 and share issue with preferential rights for the Company's shareholders. The share issue was fully subscribed in June 2017, thereby raising gross proceeds of approximately EUR 153.9 million (SEK 1,500 million) before issue costs. Through the rights issue, the number of ordinary shares in Eltel increased by 93,936,357 to 156,560,595 and the share capital increased by EUR 94,735,011 to EUR 158,433,250 in total, following registration of the rights issue by the Swedish Companies Registration Office. The amount that exceeds the issue proceeds after deduction of issue costs will be recognised in the share premium reserve in the Company's balance sheet and thereby increase the Company's unrestricted equity.

The changes in share capital were registered by the Swedish Companies Registration Office on 7 July 2017

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 2016	125.2	-	389.1	-37.3	-22.5	3.7	-17.2	440.9	7.1	448.0
Total comprehensive income for the period	-	-	-	-2.5	-6.4	2.8	-5.5	-11.7	0.7	-10.9
Equity-settled share-based payment	-	-	-	0.0	-	-	-	0.0	-	0.0
Proceeds from shares issued	1.1	-	-1.1	-	-	-	-	-	-	-
Dividends paid to shareholders	-	-	-15.0	-	-	-	-	-15.0	-	-15.0
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-1.1	-1.1
Total transaction with owners	1.1	-	-16.1	0.0	-	-	-	-15.0	-1.1	-16.1
Equity at 30 Sep 2016	126.3	-	373.0	-39.9	-29.0	6.5	-22.7	414.3	6.7	421.0

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 2016	125.2	-	389.1	-37.3	-22.5	3.7	-17.2	440.9	7.1	448.0
Total comprehensive income for the period	-	-	-	-83.5	0.7	2.5	-6.1	-86.4	1.3	-85.1
Equity-settled share-based payment	-	-	-	0.1	-	-	-	0.1	-	0.1
Proceeds from shares issued	1.1	-	-1.1	-	-	-	-	-	-	-
Dividends paid to shareholders	-	-	-15.0	-	-	-	-	-15.0	-	-15.0
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-1.1	-1.1
Total transaction with owners	1.1	-	-16.1	0.1	-	-	-	-14.9	-1.1	-16.0
Equity at 31 Dec 2016	126.3	-	373.0	-120.7	-21.8	6.2	-23.4	339.7	7.3	347.0

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 2016. In addition, Eltel applies IFRS 5 non-current assets held-for-sale and discontinued operations. Non-current assets and disposal groups (a group of assets to be disposed of in a single transaction and liabilities directly associated with those assets) are classified as held for sale when the sale is highly probable and the asset (or disposal group) is available for sale in its immediate condition. The assets (or disposal group) are recognised at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are included in the income statement.

During 2017, Eltel decided on certain strategic changes of its business structure. Consequently, as of the first quarter 2017, 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 power distribution business in the Baltics, reported in the Power segment, is planned to be divested and is recognised as held for sale. "Other" comprises operations planned to be divested or ramped down: the Power Transmission International unit with projects outside Europe, the rail business, and parts of the aviation and security business in Sweden. The segment reporting presented is in line with the new structure.

Net sales by segment

EUR million	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Power					
Net sales (external)	116.9	125.8	338.6	345.2	486.1
Inter-segment sales	0.7	0.2	1.1	0.5	0.8
Communication					
Net sales (external)	181.0	177.9	523.2	510.2	717.6
Inter-segment sales	0.1	0.0	0.1	0.6	0.9
Other					
Net sales (external)	30.2	52.5	93.9	157.3	196.1
Inter-segment sales	0.3	0.3	0.3	0.3	0.6
Elimination of sales between segments	-1.0	-0.5	-1.5	-1.4	-2.2
Net sales, total	**328.0**	**356.2**	**955.7**	**1,012.7**	**1,399.8**

Reconciliation of segment results

EUR million	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Operative EBITA by segment					
Power	0.9	2.6	0.2	12.3	15.1
Communication	11.4	9.9	22.3	23.2	36.6
Other	-6.0	-1.1	-38.5	-11.7	-37.0
Items not allocated to operating segments*	-3.3	-3.6	-11.6	-7.1	-12.6
Operative EBITA, Group	3.1	7.8	-27.7	16.7	2.1
Reviews and investigations	-	-	-1.4	-	-
Earn-out adjustment	-	-	3.0	-	-
Loss on business sold and assets held for sale	-0.7	-	-2.3	-	-
Total items affecting comparability in EBITA	-0.7	-	-0.7	-	-
EBITA before acquisition-related amortisations	2.4	7.8	-28.4	16.7	2.1
Amortisation of acquisition-related intangible asset	-1.4	-3.6	-8.0	-10.8	-14.4
Impairment of goodwill and other acquisition-related intangible assets**	-3.8	-	-149.4	-	-55.0
Operating result (EBIT)	-2.8	4.1	-185.9	5.9	-67.4
Other financial expenses, net	-3.6	-2.0	-10.8	-8.1	-12.6
Result before taxes	**-6.4**	**2.1**	**-196.7**	**-2.2**	**-80.0**

*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. In the second quarter of 2017 Eltel recognised EUR 3 million for an adjustment to an earn-out estimate for German metering service company U-SERV GmbH mainly related to a short-term volume estimate change due to a legislative protraction of a meter replacement schedule in Germany .

Disposals

In June 2017, Eltel disposed of its telecom maintenance service operations in Poland by selling 100% of the shares in Eltel Networks S.A., resulting in a EUR 0.8 million sales loss in Eltel's EBITA in the second quarter of 2017. In 2016, net sales from these operations amounted to approximately EUR 24 million and they employed approximately 950 people.

In July 2017, Eltel disposed of its business operations in Latvia via divestment of 100% of the shares in SIA Eltel Networks. In 2016, these operations generated net sales of EUR 4.7 million, were marginally loss-making and employed approximately 90 people at the time of sale. The business in Latvia was recognised as held-for-sale in the second quarter of 2017, resulting in a negative impact on Eltel's EBITA of EUR 0.9 million. The divestment had no further impact on earnings in the third quarter of 2017.

In August, Eltel signed an agreement to divest its business operations in Estonia via sale of 100% of the shares in AS Eltel Networks. In 2016, these operations generated net sales of EUR 26.3 million with low profitability and employed approximately 300 people at the time of the sale. The transaction was completed in October after approval of the Estonian Competition Authorities. The transaction had a negative impact of EUR 0.7 million on Group EBITA and goodwill impairment of EUR 3.8 million was recognised related to the divestment.

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. The divestment of the business in Estonia was completed in October and presented as held for sale in the third quarter of 2017.

Operations presented under "Other" are planned to be divested or ramped down. At the reporting date, no other businesses planned to be divested meet the criteria for held-for-sale presentation.

In September, Eltel signed a letter of intent to divest its Power Transmission International (PTI) business operations. The planned transaction agreement includes the sale of all of Eltel's shares in Eltel Networks TE AB (TEAB) and its subsidiaries.

The transaction is subject to key customer approval, that the purchaser secures financing for the transaction and that Eltel has full release of liability subject to certain customer guarantees. As a result of these conditions, the planned divestment does not meet the criteria for held-for-sale presentation at the time of publishing of the third quarter report.

If the above criteria for the transaction are met, signing and completion of the transaction are expected to occur before the end of 2017.

Assets and liabilities held for sale

EUR million	**30 Sep 2017**
Assets	
Trade receivables and other assets	4.5
Cash and cash equivalents	0.7
Total assets held for sale	**5.2**
Liabilites	
Provisions	0.3
Advances received	0.9
Trade and other payables	3.9
Total liabilities held for sale	**5.2**

Earnings per share

	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Net result attributable to equity holders of the parent	-11.3	1.5	-197.3	-2.5	-83.5
Weighted average number of common shares, basic	156,560,595	105,208,720	122,702,216	105,208,720	105,208,720
Weighted average number of common shares, diluted	156,603,197	105,242,540	122,738,393	105,233,374	105,235,678
Earnings per share EUR, basic	-0.07	0.01	-1.61	-0.02	-0.79
Earnings per share EUR, diluted	-0.07	0.01	-1.61	-0.02	-0.79

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 Sep 2017	30 Sep 2016	31 Dec 2016
Inventories	10.8	10.2	7.5
Trade and other receivables	406.4	412.4	393.3
Provisions	-28.1	-11.1	-26.5
Advances received	-64.7	-71.9	-65.6
Trade and other payables	-231.3	-285.8	-292.6
Other*	-4.8	1.1	-1.4
Net working capital	88.4	54.9	14.7
Intangible assets excluding acquisition-related allocations	6.4	3.9	4.9
Property, plant and equipment	33.2	37.8	37.8
Operative capital employed	128.1	96.5	57.5
Average operative capital employed	112.3	106.1	53.4

*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

Derivative financial instruments

	30 Sep 2017			30 Sep 2016			31 Dec 2016		
EUR million	Nominal values	Net fair values		Nominal values	Net fair values		Nominal values	Net fair values	
Interest rate derivatives	22.8	0.1	1)	79.9	-1.9	3)	22.2	0.1	5)
Foreign exchange rate derivatives	98.7	0.5	2)	95.2	-0.1	4)	90.9	0.3	6)
Embedded derivatives	52.9	1.3		35.7	3.6		37.7	3.1	
Total	**174.3**	**1.8**		**210.7**	**1.7**		**150.9**	**3.6**	

Designated as cash flow hedge 1) EUR -0.5 million 2) EUR 0.1 million 3) EUR -1.0 million 4) EUR 0.0 million 5) EUR -0.7 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.

During 2016, SEK and EUR interest rate derivatives were closed prematurely as they no longer qualified as hedges according to IFRS due to negative interest rates. The realised value was included in financial costs.

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	Jul-Sep 2017	Apr-Jun 2017	Jan-Mar 2017	Oct-Dec 2016	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016
Net sales	328.0	329.8	297.8	387.1	356.2	369.0	287.5
Net sales growth, %	-7.9	-10.6	3.6	-2.6	14.6	19.9	20.3
Operative EBITA	3.1	-21.0	-9.7	-14.6	7.8	5.7	3.2
Operative EBITA margin, %	0.9	-6.4	-3.2	-3.8	2.2	1.6	1.1
EBITDA	6.0	-16.8	-7.6	-11.3	10.8	9.3	6.3
EBITA	2.4	-20.0	-10.7	-14.6	7.8	5.7	3.2
EBITA margin, %	0.7	-6.1	-3.6	-3.8	2.2	1.6	1.1
Impairment of goodwill and other acquisition-related intangible assets	-3.8	-	-145.6	-55.0	-	-	-
Operating result (EBIT)	-2.8	-23.2	-159.8	-73.2	4.1	2.1	-0.4
EBIT margin, %	-0.9	-7.0	-53.7	-18.9	1.2	0.6	-0.1
Result after financial items	-6.4	-27.3	-162.9	-77.7	2.1	-0.3	-4.1
Net result for the period	-11.0	-24.5	-161.4	-80.3	1.9	-0.1	-3.6
Earnings per share EUR, basic and diluted	-0.07	-0.23	-1.53	-0.77	0,01	-0.00	-0.03
Return on operative capital employed, %*	-38.3	-35.8	-11.6	3.9	35.1	55.7	70.1
Return on equity (ROE), %*	-77.2	-72.0	-76.0	-20.7	3.6	9.2	11.1
Leverage ratio*	N/A	N/A	N/A	13.2	4.3	3.6	2.6
Net working capital	88.4	59.9	71.6	14.7	54.9	69.1	48.9
Operative cash flow	-25.6	-10.7	-66.4	22.5	22.6	-15.7	-37.4
Cash conversion, %*	N/A	N/A	N/A	-387.4	160.8	68.8	112.1
Number of personnel, end of period	8,441	8,685	9,516	9,465	9,648	9,674	9,601

* calculated on a rolling 12-month basis
Return on operative capital employed calculation revised and earlier periods restated accordingly
Assets and liabilities held for sale are not included

Quarterly segment information

Net sales

EUR million	Jul-Sep 2017	Apr-Jun 2017	Jan-Mar 2017	Oct-Dec 2016	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016
Power	117.5	118.3	103.8	141.2	126.0	124.4	95.3
Communication	181.1	179.0	163.3	207.7	178.0	184.8	148.0
Other	30.4	32.8	30.9	39.0	52.8	60.2	44.7
Elimination of sales between segments	-1.0	-0.2	-0.2	-0.8	-0.5	-0.3	-0.5
Net sales, total	**328.0**	**329.8**	**297.8**	**387.1**	**356.2**	**369.0**	**287.5**

Operative EBITA by segment

EUR million	Jul-Sep 2017	Apr-Jun 2017	Jan-Mar 2017	Oct-Dec 2016	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016
Power	0.9	-1.2	0.5	2.8	2.6	7.7	2.0
% of net sales	0.7	-1.0	0.5	2.0	2.0	6.2	2.1
Communication	11.4	7.3	3.6	13.4	9.9	10.3	3.0
% of net sales	6.3	4.1	2.2	6.4	5.6	5.6	2.0
Other	-6.0	-22.5	-10.0	-25.3	-1.1	-9.6	-1.0
% of net sales	-19.6	-68.7	-32.4	-64.9	-2.0	-15.9	-2.3
Costs not allocated to segments	-3.3	-4.6	-3.8	-5.6	-3.6	-2.7	-0.7
Operative EBITA	**3.1**	**-21.0**	**-9.7**	**-14.6**	**7.8**	**5.7**	**3.2**
% of net sales	0.9	-6.4	-3.2	-3.8	2.2	1.6	1.1

Number of employees by segment, at the end of period

	Jul-Sep 2017	Apr-Jun 2017	Jan-Mar 2017	Oct-Dec 2016	Jul-Sep 2016	Apr-Jun 2016	Jan-Mar 2016
Power	2,776	2,963	2,820	2,888	3,040	3,036	2,841
Communication	4,461	4,427	5,274	5,232	5,259	5,258	5,486
Other	862	914	1,041	1,051	1,059	1,106	1,027
Outside segments	342	381	381	294	290	274	247
Total	**8,441**	**8,685**	**9,516**	**9,465**	**9,648**	**9,674**	**9,601**

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)	$\frac{\text{Net result attributable to equity holders of the parent}}{\text{Weighted average number of ordinary shares}}$

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, %*	$\frac{\text{Operative cash flow x 100}}{\text{EBITA}}$
Equity ratio, %	$\frac{\text{Total equity x 100}}{\text{Total assets - advances received}}$
Net debt	Interest-bearing debt (excluding shareholder loans) - cash and cash equivalents
Leverage ratio*	$\frac{\text{Net debt}}{\text{EBITDA}}$
Operative capital employed	Net working capital + Intangible assets excluding goodwill and acquisition-related allocations + Property, plant and equipment
Return on operative capital employed, %*	$\frac{\text{EBITA x 100}}{\text{Operative capital employed (average over the reporting period)}}$
Return on equity, %*	$\frac{\text{Net result x 100}}{\text{Total equity (average over the reporting period)}}$
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.

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 income statement

EUR million	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Net sales	-	-	-	-	2.6
Administrative income and expenses	-2.1	-1.2	-7.7	-3.5	-7.6
Write-down of investment in Group companies	-	-	-200.0	-	-
Interest and other financial income	4.5	4.4	13.3	14.4	18.9
Interest and other financial expenses	-0.9	-0.7	-3.8	-2.8	-3.5
Net financial items	3.7	3.7	9.5	11.6	15.3
Result after financial items	**1.5**	**2.5**	**-198.2**	**8.1**	**10.3**
Group contributions given	-	-	-	-	-9.8
Taxes	0.7	-0.6	0.6	-1.8	-
Net result	**2.2**	**2.0**	**-197.6**	**6.3**	**0.5**

Parent Company balance sheet

EUR million	30 Sep 2017	30 Sep 2016	31 Dec 2016
ASSETS			
Investment in Group companies	361.5	568.8	573.4
Deferred tax assets	1.8	0.1	0.1
Other financial asset	35.0	35.0	35.0
Total non-current assets	**398.2**	**604.0**	**608.5**
Trade and other receivables	1.6	1.1	3.4
Cash pool receivable	130.5	76.5	74.0
Receivables from group companies	7.0	-	-
Cash and cash equivalents	-	0.2	0.0
Total current assets	**139.1**	**77.8**	**77.4**
TOTAL ASSETS	**537.3**	**681.7**	**685.9**
EQUITY AND LIABILITIES			
Total equity	**442.5**	**495.3**	**489.7**
Debt	-	83.3	-
Liabilities to shareholders	35.0	35.0	35.0
Deferred tax liabilities	-	1.8	-
Total non-current liabilities	**35.0**	**120.1**	**35.0**
Debt	56.5	47.0	130.4
Liabilities to Group companies	0.1	17.2	29.0
Trade and other payables	3.3	2.2	1.9
Total current liabilities	**59.9**	**66.3**	**161.2**
Total liabilities	**94.9**	**186.4**	**196.2**
TOTAL EQUITY AND LIABILITIES	**537.3**	**681.7**	**685.9**

Equity

EUR million	1 Jan 2017	Proceeds from shares issued	New share issue costs, net of tax	Hedging reserve, net of tax	Equity-settled share-based payment	Net result	30 Sep 2017
Share capital	126.3	32.1	-	-	-	-	158.4
Non-restricted equity	363.3	-	-	0.1	0.0	-197.6	165.9
Share issue	-	121.8	-3.7	-	-	-	118.1
Total	489.7	153.9	-3.7	0.1	0.0	-197.6	442.5

Changes in share capital

Eltel AB's Annual General Meeting on 1 June 2017 resolved upon a reduction of share capital by EUR 62,624,238 and share issue with preferential rights for the Company's shareholders. The share issue was fully subscribed in June 2017, thereby raising gross proceeds of approximately EUR 153.9 million (SEK 1,500 million) before issue costs. Through the rights issue, the number of ordinary shares in Eltel increased by 93,936,357 to 156,560,595 and the share capital increased by EUR 94,735,011 to EUR 158,433,250 in total, following registration of the rights issue by the Swedish Companies Registration Office.

The amount that exceeds the issue proceeds after deduction of issue costs will be accounted for in the share premium reserve on the Company's balance sheet and thereby increase the Company's unrestricted equity.

The changes in share capital were registered by the Swedish Companies Registration Office on 7 July 2017.

Eltel AB

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