

Eltel Group

Interim report January–September 2019

Stockholm, Sweden, 7 November 2019

July–September 2019

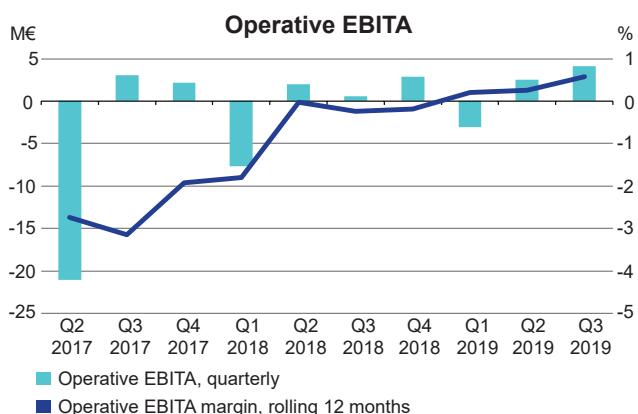
- Net sales EUR 281.8 million (295.9). Total growth -4.8% and organic growth¹ in Power and Communication -2.9%
- Operative EBITA² EUR 4.1 million (0.5) and operative EBITA margin 1.5% (0.2)
- Operating result (EBIT) EUR 3.9 million (-0.2) and EBIT margin 1.4% (-0.1)
- Net result EUR -3.9 million (-9.6)
- Earnings per share EUR -0.03 (-0.06), basic and diluted
- Cash flow from operating activities EUR 6.7 million. The comparable cash flow from operating activities before IFRS 16 impact³ was EUR -0.1 million (-16.8).

January–September 2019

- Net sales EUR 808.8 million (858.1). Total growth -5.7% and organic growth¹ in Power and Communication -3.9%
- Operative EBITA² EUR 3.6 million (-5.2) and operative EBITA margin 0.4% (-0.6)
- Operating result (EBIT) EUR 2.5 million (-9.0) and EBIT margin 0.3% (-1.0)
- Net result EUR -13.3 million (-18.9)
- Earnings per share EUR -0.09 (-0.13), basic and diluted
- Cash flow from operating activities EUR -13.6 million. The comparable cash flow from operating activities before IFRS 16 impact³ was EUR -33.8 million (-66.8).

Significant events during and after the third quarter

- On 6 August 2019, Eltel signed an agreement to divest its Polish Communication business to VINCI Energies. The divestment was completed on 14 October 2019 and the total consideration of the transaction was EUR 12.6 million.
- On 1 September 2019, Mikael Malmgren, Strategy and Business Development Director of Eltel AB, was appointed Chief Financial Officer, CFO, and Chief Operating Officer, COO, of Eltel Sweden and subsequently left the Group Management Team.
- On 24 October 2019, it was announced that Petter Traaholt, Chief Financial Officer (CFO) of Eltel, will leave the company at the end of February 2020, to assume the position as CFO at V.Group. A search process for his successor has been initiated.



EUR million	Jul-Sep 2019	Jul-Sep 2018	Change, %
Net sales			
Power	103.1	112.0	-7.9
Communication	176.3	180.2	-2.1
Other	3.1	7.5	-58.5
Total Group	281.8	295.9	-4.8
Operative EBITA²			
Power	-3.6	0.2	N/A
Communication	9.4	6.8	36.9
Other	-0.2	-3.2	93.8
Items not allocated ⁴	-1.4	-3.3	56.8
Total Group	4.1	0.5	682.4

EUR million	Jan-Sep 2019	Jan-Sep 2018	Change, %
Net sales			
Power	284.7	323.7	-12.0
Communication	515.4	520.2	-0.9
Other	10.1	19.6	-48.6
Total Group	808.8	858.1	-5.7
Operative EBITA²			
Power	-5.5	1.4	N/A
Communication	16.1	15.1	6.3
Other	-0.1	-10.1	98.7
Items not allocated ⁴	-6.9	-11.6	40.1
Total Group	3.6	-5.2	169.3

1) Adjusted for divested operations and currency effects.

2) Eltel follows the profitability of segments with Operative EBITA. Please see page 23 for definitions of the key ratios.

3) See page 22 for more information on IFRS 16 impact on cash flow.

4) Items not allocated to operating segments consist of Group management and support function.

Comments by the CEO

For the fourth consecutive quarter, we slightly improved the results compared to last year. We improved our operative EBITA margin and the rolling 12-months gross margin continues to gradually recover. Our operating cash flow was stronger, compared both to last year's quarter and year to date.

As part of the strategic evaluation of Eltel's operations outside the Nordics, we have divested our Polish Communication business, which will give a total proceeds of about EUR 12 million. A divestment of the German Communication business is ongoing and we have concluded that we will retain the Polish and German Power businesses for the time being, while we continue the work to increase their profitability. The planned divestment of business area Aviation & Security to Luftfartsverket is proceeding according plan and both parties undertake to ensure a definitive agreement is signed no later than the first quarter 2020. The definitive agreement is however conditional on approval by the respective party's board, the Swedish Competition Authority and the Swedish Government.

In our daily operations, we continue to make improvements in both the Power and Communication segments. We are improving the quality of deliveries and services, particularly to our largest customers and we can see positive results from the Operational Excellence strategy, especially in the Nordic markets. However, these quality improvements have increased our production cost in the short term, especially in the areas where we have had delayed execution of orders.

In Power, the expected lower net sales in Smart Grids as well as write downs in High Voltage and in the Swedish business impacted the result negatively during the quarter.

In Communication, the result improved from last year, despite lower net sales overall. The improvement is mainly driven by increased net sales in Norway combined with product mix and efficiency improvements. Both the Norwegian and the Danish markets are growing, and we see improved efficiency in both countries. In general, we can say that all Communication markets except Sweden contributed positively to the result during the quarter.

In Communication, the Swedish volumes are declining even faster than we anticipated in the second quarter. Our largest Swedish customer has drastically reduced its investment levels and we need to adapt to the situation. In the Power segment, we see a similar trend in High Voltage Poland. We will need to right size both businesses and that will come with a cost and is likely to lead to a prolonged transition period for the Group.

Going forward, we will continue to focus on our Operational Excellence strategy in our daily operations in order to increase profitability. At the same time, we will also continue to strengthen our balance sheet and lower the net debt level.

Casimir Lindholm, President & CEO



About Eltel and the Group strategy

Eltel in brief

Eltel is a leading provider of technical services for power and telecom networks. Operations are conducted in the Nordic countries, Poland and Germany within country-based organisations that have full responsibility for their financial results inside the Power and Communication segments. The Power segment provides maintenance of power grids, upgrades and project work to national transmission system operators and distribution network owners. The Communication segment provides similar services to telecom operators and other owners of communication networks.

Eltel's markets are characterised by a high concentration of customers and competitors offering similar products and services. Eltel competes mainly on price and partly on quality. The markets are regulated and typically have predictable and repetitive demand in line with each country's GDP.

Our strategy – Operational Excellence

A decision was taken in 2017 to restructure Eltel in order to focus on areas with a balanced risk level in which it has a leading market position and a high level of expertise, and in which the business model is repetitive and primarily targeted towards build, service and maintenance. Work to discontinue remaining non-strategic operations is expected to be completed in 2020.

In parallel, a strategy for existing operations has been developed, with a focus on operating profitability. The strategy, which is being implemented in 2019–2021, aims to raise the operating margin by generating customer focus, improving efficiency, measuring and tracking relevant key performance indicators, and simplifying the daily operations of our technicians. Furthermore, the focus is on improving the competence level within the organisation through various forms of training and recruitment.

This will create the foundation for sustainable growth, profitability and shareholder value.

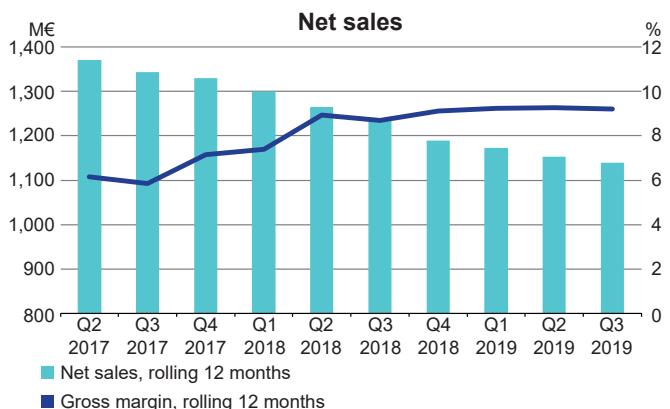
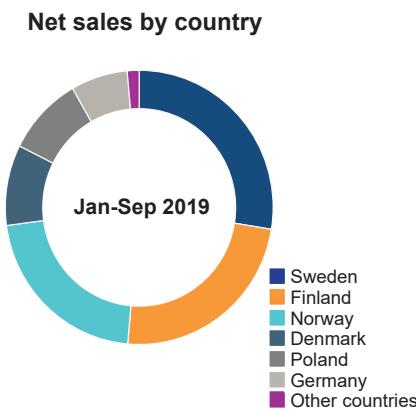
Eltel's long-term financial targets

	Target
Annual growth	2–4%
EBITA-margin	5%
Cash conversion ¹	95–100% of EBITA
Leverage ²	1.5–2.5x net debt/EBITDA

1) 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 (EBIT), (b) depreciation and amortisation (c) change in net working capital, less (d) net acquisition of properties, plant and equipment (CAPEX).

2) 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.

Eltel's long-term financial target definitions exclude the IFRS 16 impacts.



Net sales and earnings Group

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Net sales	281.8	295.9	808.8	858.1	1,188.9
Operative EBITA	4.1	0.5	3.6	-5.2	-2.2
EBIT	3.9	-0.2	2.5	-9.0	-9.2
Net result	-3.9	-9.6	-13.3	-18.9	-22.2
Key ratios					
Net sales growth, %	-4.8	-9.8	-5.7	-10.2	-10.6
Currency translation effect in net sales, MEUR	-4.1	-9.9	-11.2	-27.1	-32.1
Operative EBITA margin, %	1.5	0.2	0.4	-0.6	-0.2
Tax rate, %	341.4	-174.6	-132.2	-24.0	-22.9
Earnings per share after dilution, EUR	-0.03	-0.06	-0.09	-0.13	-0.15

July–September 2019

Net sales decreased 4.8% to EUR 281.8 million (295.9). Organic net sales in segment Power and Communication, adjusted for currency effects, decreased 2.9%. Net sales decreased in Power by EUR 8.9 million and in Communication by EUR 3.9 million. Other decreased by EUR 4.4 million, in line with the planned discontinuation of the businesses.

Operative EBITA amounted to EUR 4.1 million (0.5). In Power, operative EBITA decreased by EUR 3.8 million. In Communication, operative EBITA increased by EUR 2.5 million and increased in Other by EUR 3.0 million. Items not allocated improved by EUR 1.9 million.

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

Net items affecting comparability amounted to EUR 0.2 million (0.0) from earn-out adjustment for Danish acquisition in Communication segment in 2016.

EBIT amounted to EUR 3.9 million (-0.2).

Net financial expenses amounted to EUR -2.3 million (-3.3), including EUR -0.5 million interest expense impact from IFRS16 standard and EUR 1.5 million positive impact from FX compared to previous year.

Taxes amounted to EUR -5.5 million (-6.1) including EUR 3.7 million write down of deferred tax assets for losses carried forward in Sweden due to negative change in short-term expectations in Sweden, including reduced investment levels by the largest customer.

The net result for the period was EUR -3.9 million (-9.6). Earnings per share were EUR -0.03 (-0.06).

January–September 2019

Net sales decreased 5.7% to EUR 808.8 million (858.1). Organic net sales in segment Power and Communication, adjusted for currency effects, decreased 3.9%. Net sales in Power decreased by EUR 39.0 million and in Communication by EUR 4.8 million. Other decreased by EUR 9.5 million, in line with the planned discontinuation of the businesses.

Operative EBITA amounted to EUR 3.6 million (-5.2). In Power, operative EBITA decreased by EUR 6.8 million. In Communication, operative EBITA increased by EUR 1.0 million and increased in Other by EUR 9.9 million. Items not allocated improved by EUR 4.6 million.

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

Net items affecting comparability amounted to EUR 0.2 million (-2.1). The negative result last year was related to the sale of the Rail businesses in Sweden and Finland.

EBIT amounted to EUR 2.5 million (-9.0).

Net financial expenses amounted to EUR -8.2 million (-6.2), including EUR -1.2 million interest expense impact from IFRS16 standard.

Taxes amounted to EUR -7.6 million (-3.7), corresponding to an effective tax rate of -132.2% (-24.0).

The net result for the period was EUR -13.3 million (-18.9). Earnings per share were EUR -0.09 (-0.13).

Net sales and EBITA – Segments

Power

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Net sales	103.1	112.0	284.7	323.7	438.8
Operative EBITA	-3.6	0.2	-5.5	1.4	-0.5
Number of employees	2,232	2,389	2,232	2,389	2,346
Key ratios					
Net sales growth, %	-7.9	-4.7	-12.0	-4.7	-6.7
Organic growth ¹ , %	-7.4	-	-11.4	-	-
Currency translation effect in net sales, MEUR	-0.6	-1.3	-2.0	-4.2	-5.2
Operative EBITA margin, %	-3.5	0.2	-1.9	0.4	-0.1

1) Adjusted for divested operations and currency effects.

July–September 2019

Net sales decreased by EUR 8.9 million to EUR 103.1 million (112.0), representing a decrease of 7.9%. Organic net sales, adjusted for currency effects, decreased 7.4%. The majority of the decrease is coming from the expected lower volumes in Smart Grids as projects in Norway and Denmark are finished and will be closed during the year. The decrease is furthermore explained by lower activity and write downs in Sweden and slightly lower High Voltage activity in the Nordics. The decrease is partly offset by Finland, due to wind power projects.

Operative EBITA decreased to EUR -3.6 million (0.2). The operative EBITA margin was -3.5% (0.2). The decrease is coming from write downs in High Voltage projects in Nordics and Poland, lower volumes in Smart Grids compared to the same period last year, and lower volumes and project write downs in Sweden. The decrease was partly offset by Finland and Denmark.

January–September 2019

Net sales decreased by EUR 39.0 million to EUR 284.7 million (323.7), representing a decrease of 12.0%. Organic net sales, adjusted for currency effects, decreased 11.4%. Net sales have decreased in all markets but mainly due to the expected lower volumes in Smart Grids, reduced risk level in tendering and weather conditions in Finland, and lower activity, ramp down and write downs in Sweden.

Operative EBITA decreased to EUR -5.5 million (1.4). The operative EBITA margin was -1.9% (0.4). Improved performance in the Nordic countries was offset by the lower volumes in Smart Grids, and weaker performance and write downs in High Voltage projects.

Communication

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Net sales	176.3	180.2	515.4	520.2	727.3
Operative EBITA	9.4	6.8	16.1	15.1	24.8
Number of employees	4,348	4,577	4,348	4,577	4,502
Key ratios					
Net sales growth, %	-2.1	-3.5	-0.9	-3.9	-3.9
Organic growth ¹ , %	-0.2	-	0.9	-	-
Currency translation effect in net sales, MEUR	-3.5	-8.1	-9.2	-21.8	-26.9
Operative EBITA margin, %	5.3	3.8	3.1	2.9	3.4

1) Adjusted for divested operations and currency effects.

July–September 2019

Net sales decreased by EUR 3.9 million to EUR 176.3 million (180.2), representing a decrease of 2.1%. Organic net sales adjusted for currency effects, was -0.2%. The decrease is mainly attributed to the Swedish market with an accelerated volume drop during the autumn driven by reduced customer investments, write downs and poor project execution. However, the Communication segment is facing different market situations, and the decline was partly offset by large volume increases in Norway and Denmark.

Operative EBITA increased to EUR 9.4 million (6.8). The operative EBITA margin was 5.3% (3.8). The increase is mainly explained by improved performance in Norway due to increased net sales, product mix and efficiency measures. Finland, Denmark, Germany and Poland also contributed to the improved profitability, while Sweden had a negative effect on the result due to the large volume drop and write downs. Given the large decrease in the Swedish market we are restructuring the business in Sweden.

January–September 2019

Net sales decreased by EUR 4.8 million to EUR 515.4 million (520.2), representing a decrease of 0.9%. Organic growth, adjusted for currency effects, was 0.9%. The decline is mainly explained by the unforeseen volume drop in Sweden due to reduced customer investment levels. The decline was partly offset, primarily by Norway and Denmark.

Operative EBITA increased to EUR 16.1 million (15.1). The operative EBITA margin was 3.1% (2.9). The increase is mainly explained by a strong performance in Norway due to increased net sales, change in product mix and efficiency improvements. Denmark and Germany also contributed to the increase. At the same time, unforeseen lower volumes and write downs in Sweden, weaker performance, changes in product mix and customer portfolio in Finland during the first half of the year had a negative impact on the profitability.

Other

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Net sales	3.1	7.5	10.1	19.6	23.1
Operative EBITA	-0.2	-3.2	-0.1	-10.1	-11.1
Number of employees	50	176	50	176	158
Key ratios					
Net sales growth, %	-58.5	-69.9	-48.6	-74.3	-77.7
Operative EBITA margin, %	-6.5	-43.4	-1.3	-51.5	-48.2

July–September 2019

Net sales decreased by EUR 4.4 million to EUR 3.1 million (7.5). Net sales relate almost fully to the remaining projects in Power Transmission International, in line with the discontinuation plan.

Operative EBITA increased to EUR -0.2 million (-3.2). The operative EBITA margin was -6.5% (-43.4). The operative EBITA is in line with the planned ramp down and the results comes from closing of projects.

January–September 2019

Net sales decreased by EUR 9.5 million to EUR 10.1 million (19.6), representing a decrease of 48.6%. The decline is in line with the discontinuation the businesses within Rail and Power Transmission International. The remaining net sales relates almost fully to Power Transmission International.

Operative EBITA increased to EUR -0.1 million (-10.1). The operative EBITA margin was -1.3% (-51.5). The majority of the Rail business has been discontinued with only a few projects remaining in Sweden. The discontinuation of Power Transmission International continues according to plan.

The total cost of discontinuing Power Transmission International is estimated to be somewhat lower than EUR 40 million. In total, net costs amounting to EUR 30.1 million were recorded during 1 January 2017–30 September 2019, in line with the plan. The discontinuation is expected to be finalised in 2020.

Cash flow

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Cash flow from operating activities before IFRS 16 impact	-0.1	-16.8	-33.8	-66.8	3.2
Movement between report lines, IFRS 16 impact	6.8	-	20.2	-	-
Cash flow from operating activities	6.7	-16.8	-13.6	-66.8	3.2
Cash flow from investing activities	-2.8	-6.6	-12.0	-14.6	-21.3
Cash flow from financing activities before IFRS 16 impact	4.4	23.2	18.6	73.5	39.1
Movement between report lines, IFRS 16 impact	-6.8	-	-20.2	-	-
Cash flow from financing activities	-2.3	23.2	-1.5	73.5	39.1
Net change in cash and cash equivalents	1.6	-0.2	-27.1	-8.0	21.1
Cash and cash equivalents at beginning of period	23.6	25.5	53.4	32.9	32.9
Foreign exchange rate effect	-0.1	-0.3	0.2	0.1	-0.5
Transfer as assets held for sale	1.1	-	-0.3	-	-
Cash and cash equivalents at end of period	26.2	25.0	26.2	25.0	53.4

Condensed consolidated statement of cash flows is presented on page 14.

July–September 2019

Cash flow from operating activities was EUR 6.7 million (-16.8). This includes the result from operations after cash flow for financial items and taxes and a negative impact of EUR -3.6 million (-16.1) from change in net working capital.

Net cash flow from investing activities was EUR -2.8 million (-6.6) mainly from net capital expenditure, related to improved IT systems and replacement investments.

Cash flow from financing activities was EUR -2.3 million (23.2) including net of payment of financial lease liabilities and increase in other short-term borrowing. IFRS 16 line impact between cash flow from operating activities and financing activities was EUR -6.8 million.

January–September 2019

Cash flow from operating activities was EUR -13.6 million (-66.8). This includes negative impact of EUR -36.6 million from change in net working capital (-62.7) in line with the expected seasonality. Cash flow has historically displayed a strong seasonal pattern, with weaker cash flow recorded during the period until the end of the third quarter due to higher production activity. Eltel's net working capital level is also impacted by working capital intensive projects, which are expected to continue to create volatility in net working capital going forward.

Net cash flow from investing activities was EUR -12.0 million (-14.6). This consists of EUR 9.3 million (12.2) net capital expenditure, mainly to improved IT systems and replacement investments, of EUR 4.2 million earn-out payment for Smart Grids in Germany (-2.4 divestment) and of EUR 1.5 million investment refund from joint ventures.

Cash flow from financing activities was EUR -1.5 million (73.5) including net of payment of financial lease liabilities and increase in other short-term borrowing. IFRS 16 line impact between cash flow from operating activities and financing activities was EUR -20.2 million.

Financial position, cash and cash equivalents

Equity at the end of the period was EUR 229.2 million (262.3) and total assets were EUR 836.7 million (838.2). The equity ratio was 28.5%. The comparable equity ratio before IFRS 16 impact was 31.6% (33.4).

At the end of the quarter, available liquidity reserves amounted to EUR 132.8 million (127.9). On the same date, EUR 90 million of Eltel's commercial paper programme was utilised.

In March 2019 Eltel and its banks agreed on certain amendments to its financial agreement that matures in Q1 2021. The new amendments include financial covenants and a plan to reduce net debt during the term. The covenant revisions relate to minimum adjusted EBITDA to be applied until the end of the transformation period (Q2 2020) and maximum net debt of EUR 120 million to be applied as from the end of Q4 2019. As from the end of Q2 2020 the original net debt/EBITDA ratio and adjusted EBITDA/net finance charges ratio are applied. The minimum liquidity covenant level remains throughout the agreement with a seasonal reduction of covenant level during the period mid-July to mid-September. In consideration for the facilitated amended loan agreement, Eltel has secured its debt obligations towards the banks by share and intragroup loan pledges and floating charges over certain assets of the Group, all on customary terms and conditions. The covenants, minimum adjusted EBITDA and maximum net debt, defined in the financial agreement are excluding IFRS 16 impact.

At the end of the quarter the commercial contract guarantees issued by banks, other financial institutions and the Parent Company amounted to EUR 307.2 million (316.9).

Interest-bearing liabilities and net debt

EUR million	30 Sep 2019	30 Sep 2018	31 Dec 2018
Interest-bearing debt in balance sheet	212.9	230.0	196.7
Leasing liabilities in balance sheet	80.2	4.3	4.1
Allocation of effective interest to periods	0.9	0.9	0.6
Less cash and cash equivalents	-26.2	-25.0	-53.4
Net debt	267.7	210.1	148.0
Less IFRS 16 leasing liabilities	-76.0	-	-
Adjusted for held for sale	-0.3	-	-
Net debt, financing agreement	191.4	210.1	148.0

Interest-bearing debt amounted to EUR 212.9 million (230.0) of which EUR 90.8 million (112.5) was non-current and EUR 122.1 million (117.4) was current. Leasing liabilities amounted to EUR 80.2 million (4.3) of which EUR 55.3 million (2.3) was non-current and EUR 24.8 million (2.0) was current. IFRS 16 impact in leasing liabilities was EUR 76.0 million, of which EUR 53.5 million was non-current and EUR 22.5 million current.

Other information

Long-term incentive programme (LTIP 2016)

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

Risks and uncertainty factors

On 28 June 2018, Eltel received a letter from Nasdaq Stockholm where the exchange stated that it intends to request the Nasdaq Stockholm Disciplinary Committee to decide whether Eltel has breached its obligations in relation to the Nasdaq Stockholm Rulebook for Issuers. The matter relates to alleged deficiencies in Eltel's capacity for providing information to the market during 2016 and 2017. Eltel has been invited to comment upon Nasdaq Stockholm's conclusions and Eltel has responded outlining its reasons for rejecting any breach. Any decision taken by the Disciplinary Committee will be made public.

On 31 October 2014, the Finnish Competition and Consumer Authority (FCCA) proposed the imposition of a fine of EUR 35 million on Eltel in the Finnish Market Court. The alleged competition law violations relates to Eltel's power transmission line construction and planning business in Finland during the period 2004–2011. Eltel claims that it did not violate competition law and therefore contested the FCCA's allegations and fine proposal to the Finnish Market Court, requesting that the case be dismissed. On 30 March 2016, the Finnish Market Court dismissed the case as time-barred. FCCA, however, filed an appeal to the Supreme Administrative Court ("SAC") and the proceedings are currently pending in the SAC.

On 10 June 2019 SAC decided to refer the interpretation of the time bar matter to the European Court of Justice ("ECJ") in Luxembourg. The time for a ruling by the ECJ is not known. More information about the FCCA-case is available in the 2018 Annual Report (page 43).

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

Due to the market situation in Sweden, an analysis of its long-term impact is ongoing and there is an increased risk of impairment of goodwill during the fourth quarter.

No further new material risks were identified during the interim period. For information regarding risks and uncertainties, please refer to Eltel's 2018 Annual Report published on 4 April 2019 which is available on Eltel's website at www.eltelgroup.com.

Future prospects

Eltel does not issue guidance.

Related party transactions

No significant transactions took place between Eltel and related parties during the period.

Seasonality

Eltel's businesses are generally characterised by seasonal patterns and cyclicity 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 17.

Presentation of the third quarter 2019 report

Analysts and media are invited to participate in the third quarter 2019 briefing on 7 November 2019 at 10.00 am CET where Eltel's President and CEO Casimir Lindholm 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 2019: 14 February 2020
- Interim report January–March: 29 April 2020
- Interim report January–June: 23 July 2020
- Interim report January–September: 5 November 2020
- Annual Report 2019: week 14, 2020
- Annual General meeting 2020: 4 May 2020

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 7 November 2019 at 08:00 a.m. CET.

Signature of the CEO

Stockholm, Sweden, 7 November 2019

Eltel AB (publ)

Casimir Lindholm, President and CEO

Review report

Translation from the Swedish original

Eltel AB (publ)
Corp. id. 556728-6652

Introduction

We have reviewed the condensed interim financial information (interim report) of Eltel AB (publ) as of 30 September 2019 and the nine-month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the 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 International Standard on Review Engagements ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information 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 and other generally accepted auditing practices and consequently does 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, for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Stockholm 7 November 2019

KPMG AB

Mats Kåvik, Authorized Public Accountant

Condensed financial information

Condensed consolidated income statement

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Net sales	281.8	295.9	808.8	858.1	1,188.9
Cost of sales	-258.3	-270.4	-737.8	-783.5	-1,080.5
Gross profit	23.5	25.5	70.9	74.6	108.4
Other income ¹	0.4	1.9	0.9	6.4	4.5
Sales and marketing expenses ²	-1.0	-1.5	-5.6	-6.8	-10.1
Administrative expenses	-18.3	-26.3	-62.4	-77.3	-101.0
Other expenses ¹	-0.7	-0.2	-1.8	-6.2	-12.2
Share of profit/loss of joint ventures	0.0	0.4	0.4	0.2	1.1
Operating result (EBIT)	3.9	-0.2	2.5	-9.0	-9.2
Financial income	0.1	0.2	0.2	0.3	0.4
Financial expenses	-2.4	-3.5	-8.4	-6.6	-9.2
Net financial expenses	-2.3	-3.3	-8.2	-6.2	-8.8
Result before taxes	1.6	-3.5	-5.7	-15.2	-18.0
Taxes	-5.5	-6.1	-7.6	-3.7	-4.1
Net result	-3.9	-9.6	-13.3	-18.9	-22.2
Attributable to:					
Equity holders of the parent	-4.2	-10.0	-13.8	-19.7	-23.3
Non-controlling interest	0.3	0.4	0.5	0.8	1.1
Earnings per share (EPS)					
Basic, EUR	-0.03	-0.06	-0.09	-0.13	-0.15
Diluted, EUR	-0.03	-0.06	-0.09	-0.13	-0.15

Condensed consolidated statement of comprehensive income

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Net profit for the period	-3.9	-9.6	-13.3	-18.9	-22.2
Other comprehensive income:					
Items that will not be reclassified to profit and loss					
Revaluation of defined benefit plans, net of tax	-1.8	0.0	-6.9	-1.3	-4.8
Items that may be subsequently reclassified to profit and loss					
Cash flow hedges, net of tax	0.1	0.0	0.2	0.0	0.0
Net investment hedges, net of tax	1.2	-1.3	2.5	3.1	3.0
Currency translation differences	-3.6	2.5	-4.1	-3.4	-7.2
Total	-2.3	1.2	-1.5	-0.3	-4.2
Other comprehensive income/loss for the period, net of tax	-4.1	1.3	-8.4	-1.7	-9.0
Total comprehensive income/loss for the period	-7.9	-8.4	-21.7	-20.6	-31.1
Total comprehensive income/loss attributable to:					
Equity holders of the parent	-8.3	-8.7	-22.2	-21.4	-32.3
Non-controlling interest	0.3	0.4	0.5	0.8	1.1

Presentation of income statement has been changed for all periods. See changes in presentation on page 16 for more information.

1) The comparative year includes significant items related to divestment of Rail business: EUR 3.7 million gain from Finland and EUR 5.9 million loss from Sweden.

2) Sales and marketing expenses include Jul-Sep 2019 EUR -0.4 million (-0.7), Jan-Sep 2019 EUR -1.3 million (-1.8) and Jan-Dec 2018 EUR -2.2 million of customer relationship amortisations. In previous years amortisations were presented as a separate line.

Condensed consolidated balance sheet

EUR million	30 Sep 2019	30 Sep 2018	31 Dec 2018
ASSETS			
Non-current assets			
Goodwill	272.2	283.8	282.1
Intangible assets	40.2	41.9	42.8
Property, plant and equipment	30.8	28.4	30.2
Right-of-use assets	79.7	4.1	4.0
Investments in and receivable from joint ventures	0.9	1.0	1.9
Investments	0.4	0.2	0.3
Deferred tax assets	22.3	22.6	29.0
Other financial assets	35.0	-	-
Trade and other receivables	0.4	0.6	0.4
Total non-current assets	481.8	382.6	390.7
Current assets			
Inventories	10.8	15.7	13.2
Other financial assets	-	35.0	35.0
Trade and other receivables	293.3	379.9	337.5
Cash and cash equivalents	26.2	25.0	53.4
Total current assets	330.3	455.6	439.2
Assets held for sale ²	24.6	-	-
TOTAL ASSETS	836.7	838.2	829.8
EQUITY AND LIABILITIES			
Equity			
Shareholders' equity	221.9	255.0	244.3
Non-controlling interest	7.3	7.3	7.6
Total equity	229.2	262.3	252.0
Non-current liabilities			
Debt	90.8	112.5	112.3
Leasing liabilities	55.3	2.3	2.2
Liabilities to shareholders ¹	35.0	-	-
Retirement benefit obligations	16.5	9.3	12.8
Deferred tax liabilities	17.0	11.2	17.6
Provisions	3.1	3.2	2.6
Other non-current liabilities	0.5	0.7	0.6
Total non-current liabilities	218.2	139.2	148.1
Current liabilities			
Debt	122.1	117.4	84.4
Leasing liabilities	24.8	2.0	2.0
Liabilities to shareholders ¹	-	35.0	35.0
Provisions	12.7	17.6	15.3
Advances received	31.3	52.4	51.7
Trade and other payables	189.6	212.2	241.4
Total current liabilities	380.5	436.6	429.8
Liabilities associated with assets held for sale ²	8.7	-	-
Total liabilities	607.5	575.9	577.9
TOTAL EQUITY AND LIABILITIES	836.7	838.2	829.8

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

2) Assets held for sale include Polish and German Communication business on 30 September 2019.

Condensed consolidated statement of cash flows

EUR million	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Cash flow from operating activities			
Operating result (EBIT)	2.5	-9.0	-9.2
Adjustments:			
Depreciation and amortisation	32.0	10.9	14.3
Gain/loss on sales of assets and business	-0.1	2.2	2.1
Defined benefit pension plans	-2.7	-2.8	-3.8
Other non-cash adjustments	-0.1	0.8	3.0
Cash flow from operations before interests, taxes and changes in working capital	31.6	2.1	6.4
Interest and other financial expenses paid, net	-7.7	-5.3	-7.4
Income taxes paid	-0.8	-0.9	-2.7
Total financial expenses and taxes	-8.6	-6.2	-10.1
Changes in working capital:			
Trade and other receivables	23.7	-26.9	15.2
Trade and other payables	-61.8	-29.7	-4.5
Inventories	1.5	-6.1	-3.9
Changes in working capital	-36.6	-62.7	6.8
Net cash from operating activities	-13.6	-66.8	3.2
Cash flow from investing activities			
Purchases of property, plant and equipment (PPE), net	-9.3	-12.2	-18.6
Acquisition of business, net of cash and cash equivalents	-4.2	-	-
Investments in and refund from joint ventures	1.5	-	-0.1
Disposal of business	-	-2.4	-2.6
Net cash from investing activities	-12.0	-14.6	-21.3
Cash flow from financing activities			
Proceeds from short-term financial liabilities	49.3	92.6	89.7
Payments of short-term borrowings	-20.0	-18.5	-49.2
Payments of financial liabilities	-9.4	-	-
Payments of/proceeds from lease liabilities	-21.3	-0.3	-0.5
Dividends to non-controlling interest	-0.9	-0.5	-0.5
Change in non-liquid financial assets	0.6	0.2	-0.4
Net cash from financing activities	-1.5	73.5	39.1
Net change in cash and cash equivalents	-27.1	-8.0	21.1
Cash and cash equivalents at beginning of period	53.4	32.9	32.9
Foreign exchange rate effect	0.2	0.1	-0.5
Transfer as assets held for sale	-0.3	-	-
Cash and cash equivalents at end of period	26.2	25.0	53.4

See page 22 for more information about IFRS 16 impact on cash flow statement.

Condensed consolidated statement of changes in equity

EUR million	Share capital	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 2019	158.0	491.6	-349.5	-32.2	10.4	-34.1	244.3	7.6	252.0
Total comprehensive income for the period	-	-	-13.8	-6.9	2.6	-4.1	-22.3	0.5	-21.7
Transactions with owners:									
Equity-settled share-based payment	-	-	0.0	-	-	-	0.0	-	0.0
Proceeds from shares issued	0.9	-0.9	-	-	-	-	-	-	-
Purchase of own shares	-	-0.2	-	-	-	-	-0.2	-	-0.2
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-0.9	-0.9
Total transaction with owners	0.9	-1.0	0.0	-	-	-	-0.2	-0.9	-1.0
Equity at 30 Sep 2019	158.8	490.6	-363.3	-39.1	13.0	-38.2	221.9	7.3	229.2

EUR million	Share capital	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
IFRS 15 opening balance adjustments, net of tax	-	-	-0.6	-	-	-	-0.6	-	-0.6
Total comprehensive income for the period	-	-	-19.7	-1.3	3.1	-3.4	-21.3	0.8	-20.6
Transactions with owners:									
Equity-settled share-based payment	-	-	-0.2	-	-	-	-0.2	-	-0.2
Proceeds from shares issued	-	0.0	-	-	-	-	0.0	-	0.0
Share capital reduction and reclassification	-0.5	0.5	-	-	-	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-0.5	-0.5
Total transaction with owners	-0.5	0.5	-0.2	-	-	-	-0.2	-0.5	-0.7
Equity at 30 Sep 2018	158.0	491.6	-346.0	-28.7	10.5	-30.3	255.0	7.3	262.3

EUR million	Share capital	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
IFRS 15 opening balance adjustments, net of tax	-	-	-0.6	-	-	-	-0.6	-	-0.6
Total comprehensive income for the period	-	-	-23.3	-4.8	3.0	-7.2	-32.2	1.1	-31.1
Transactions with owners:									
Equity-settled share-based payment	-	-	0.0	-	-	-	0.0	-	0.0
Proceeds from shares issued	-	0.0	-	-	-	-	0.0	-	0.0
Share capital reduction and reclassification	-0.5	0.5	-	-	-	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-0.5	-0.5
Total transaction with owners	-0.5	0.5	0.0	-	-	-	0.0	-0.5	-0.5
Equity at 31 Dec 2018	158.0	491.6	-349.5	-32.2	10.4	-34.1	244.3	7.6	252.0

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 the same with those of the Group's annual financial statements for the year ended 31 December 2018 except for *IFRS 16 Leases* effective from 1 January 2019 as described below. The Parent company does not apply IFRS 16 in accordance with the exception in RFR2.

IFRS 16 Leases (effective from 1 January 2019) 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 of short-term leases and leases of low-value items, which Eltel has chosen to apply. Under IAS 17, Eltel recognised operating lease expense on a straight-line basis over the term of the lease and recognised assets (prepaid leasing fees) and liabilities (accrued leasing fees) only to the extent there was timing differences between actual lease payments and the expense recognised. IFRS 16 replaces the operating lease expense with depreciation charge for right-of-use assets and interest expense for lease liabilities reported under financing expenses. The depreciation for right-of-use assets is presented in the same income statement line (function of expense) as the earlier operative lease expense.

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

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

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

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

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

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

Changes in presentation in 2019

Eltel has made the following changes in presentation:

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

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

Key figures

Key figures for the period

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018	Rolling 12-month
Net sales	281.8	295.9	808.8	858.1	1,188.9	1,139.6
Net sales growth, %	-4.8	-9.8	-5.7	-10.2	-10.6	-7.5
Operative EBITA	4.1	0.5	3.6	-5.2	-2.2	6.5
Operative EBITA margin, %	1.5	0.2	0.4	-0.6	-0.2	0.6
Items affecting comparability	0.2	-	0.2	-2.1	-4.8	-2.6
EBITDA	14.3	3.9	34.5	1.9	5.1	37.7
Operating result (EBIT)	3.9	-0.2	2.5	-9.0	-9.2	2.2
EBIT margin, %	1.4	-0.1	0.3	-1.0	-0.8	0.2
Result after financial items	1.6	-3.5	-5.7	-15.2	-18.0	-8.5
Net result for the period	-3.9	-9.6	-13.3	-18.9	-22.2	-16.6
Earnings per share EUR, basic and diluted	-0.03	-0.06	-0.09	-0.13	-0.15	-0.11
Return on equity (ROE), % ^{1,2}	-6.7	-9.5	-6.7	-9.5	-8.3	-6.7
Net working capital ²	63.7	109.3	63.7	109.3	39.9	63.7
Number of personnel, end of period	7,019	7,490	7,019	7,490	7,376	7,019

Quarterly key figures

EUR million	Jul-Sep 2019	Apr-Jun 2019	Jan-Mar 2019	Oct-Dec 2018	Jul-Sep 2018	Apr-Jun 2018	Jan-Mar 2018
Net sales	281.8	276.0	251.0	330.9	295.9	295.5	266.6
Net sales growth, %	-4.8	-6.6	-5.9	-11.6	-9.8	-10.4	-10.5
Operative EBITA	4.1	2.5	-3.0	2.9	0.5	2.0	-7.6
Operative EBITA margin, %	1.5	0.9	-1.2	0.9	0.2	0.7	-2.9
Items affecting comparability	0.2	-	-	-2.8	-	0.1	-2.2
EBITDA	14.3	12.7	7.5	3.2	3.9	4.8	-6.9
Operating result (EBIT)	3.9	2.1	-3.6	-0.2	-0.2	1.6	-10.4
EBIT margin, %	1.4	0.8	-1.4	-0.1	-0.1	0.5	-3.9
Result after financial items	1.6	-1.0	-6.4	-2.8	-3.5	0.3	-12.0
Net result for the period	-3.9	-2.0	-7.4	-3.3	-9.6	0.2	-9.5
Earnings per share EUR, basic and diluted	-0.03	-0.01	-0.05	-0.02	-0.06	0.00	-0.06
Return on equity (ROE), % ^{1,2}	-6.7	-8.8	-7.8	-8.3	-9.5	-9.7	-23.0
Net working capital ²	63.7	66.8	74.8	39.9	109.3	91.9	75.1
Number of personnel, end of period	7,019	7,128	7,180	7,376	7,490	7,680	7,605

1) Calculated on a rolling 12-month basis.

2) Assets and liabilities held for sale are not included (on 30 June 2019 and on 30 September 2019 Polish and German Communication business and on 30 June 2018 Norwegian rail business).

Please see page 23 for definitions of the key ratios.

Net sales by segment

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Power					
Net sales (external)	103.1	109.6	284.7	320.8	438.8
Inter-segment sales	0.0	2.4	0.0	3.0	0.1
Communication					
Net sales (external)	175.7	178.9	514.1	517.8	727.0
Inter-segment sales	0.7	1.3	1.4	2.5	0.3
Other					
Net sales (external)	3.1	7.5	10.0	19.6	23.1
Elimination of sales between segments	-0.7	-3.7	-1.5	-5.4	-0.4
Net sales, total	281.8	295.9	808.8	858.1	1,188.9

Net sales by geographical area

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Sweden	65.5	84.4	222.9	263.4	359.8
Finland	74.4	74.6	192.6	200.5	275.8
Norway	64.0	65.6	174.0	191.6	258.9
Denmark	25.4	21.6	76.9	64.2	101.1
Poland	27.3	24.4	75.4	67.3	98.2
Germany	21.7	19.5	55.3	58.4	76.2
Other countries	3.4	5.8	11.6	12.6	19.0
Net sales, total	281.8	295.9	808.8	858.1	1,188.9

Net sales by service split

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Power					
Project delivery	50.0	79.9	151.4	200.5	262.2
Upgrade services	35.4	18.8	90.6	81.2	120.2
Maintenance	19.8	16.2	51.3	48.6	65.2
Internal net sales and fx adjustments	-2.2	-2.9	-8.6	-6.6	-8.8
Total Power	103.1	112.0	284.7	323.7	438.8
Communication					
Project delivery	7.8	28.5	20.9	48.9	42.1
Upgrade services	128.5	108.7	373.2	336.7	460.7
Maintenance	47.5	51.3	149.0	161.0	266.1
Internal net sales and fx adjustments	-7.5	-8.3	-27.6	-26.4	-41.5
Total Communication	176.3	180.2	515.4	520.2	727.3
Other					
Project delivery	3.1	7.6	10.3	19.0	22.4
Maintenance	-	-0.1	-0.2	0.5	0.5
Internal net sales and fx adjustments	-	-	-	-	0.2
Total Other	3.1	7.5	10.1	19.6	23.1
Elimination of sales between segments	-0.7	-3.7	-1.5	-5.4	-0.4
Total	281.8	295.9	808.8	858.1	1,188.9

Reconciliation of segment results

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Operative EBITA by segment					
Power	-3.6	0.2	-5.5	1.4	-0.5
Communication	9.4	6.8	16.1	15.1	24.8
Other	-0.2	-3.2	-0.1	-10.1	-11.1
Items not allocated to operating segments ¹	-1.4	-3.3	-6.9	-11.6	-15.4
Operative EBITA, Group	4.1	0.5	3.6	-5.2	-2.2
Earn-out adjustment	0.2	-	0.2	0.2	-2.6
Gain on sale of business	-	-	-	3.7	3.7
Loss on sale of business and assets held for sale	-	-	-	-6.0	-6.0
Total items affecting comparability in EBITA ²	0.2	-	0.2	-2.1	-4.8
Amortisation of acquisition-related intangible asset	-0.4	-0.7	-1.3	-1.8	-2.2
Operating result (EBIT)	3.9	-0.2	2.5	-9.0	-9.2
Financial expenses, net	-2.3	-3.3	-8.2	-6.2	-8.8
Result before taxes	1.6	-3.5	-5.7	-15.2	-18.0

1) Items not allocated to operating segments consist of Group management and support function.

2) In 2018, items affecting comparability in EBITA include EUR 3.7 million positive impact from sale of the Finnish rail operations and EUR 5.9 million negative impact from sale of the Swedish rail operations.

Net working capital (NWC) and operative capital employed

EUR million	30 Sep 2019	30 Sep 2018	31 Dec 2018
Inventories	10.8	15.7	13.2
Trade and other receivables	293.3	379.9	337.5
Provisions	-15.8	-20.9	-17.9
Advances received	-31.3	-52.4	-51.7
Trade and other payables	-189.6	-212.2	-241.4
Other ¹	-3.6	-0.8	0.2
Net working capital	63.7	109.3	39.9
Intangible assets excluding acquisition-related allocations	10.4	9.3	10.6
Property, plant and equipment	30.8	28.4	30.2
Right-of-use assets	79.7	4.1	4.0
Operative capital employed	184.7	151.2	84.7

1) 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 September 2019 Polish and German Communication business).

Contract balances

EUR million	30 Sep 2019	30 Sep 2018	31 Dec 2018
Trade receivables	118.0	150.9	144.0
Contract assets	146.1	199.2	163.8
Total	264.1	350.1	307.8
Advances received	31.3	52.4	51.7

Trade receivables and contract assets are included in the trade and other receivable line in the above net working capital table. Advances received represent contract liabilities.

Acquisitions, disposals and assets held for sale

January–September 2019

- On 6 August 2019, Eltel announced that it has signed an agreement to divest its Polish Communication business to VINCI Energies. The divestment was completed after the period, on 14 October 2019. The total consideration of the transaction was EUR 12.6 million. The transaction is estimated to give a positive cash flow impact of EUR 12 million and have a net positive result of approximately EUR 1 million on Group EBIT in the fourth quarter 2019.

In January-June 2019 following announcements were made:

- On 3 April 2019, Eltel announced that it will focus on the Nordic market and has initiated a strategic evaluation of the company's operations outside the Nordics, including a potential divestment. The evaluation was initiated, and the divestment of the Polish Communication business was published on 6 August 2019. A divestment of the German Communication business is ongoing and we have concluded that we will retain the Polish and German Power businesses for the time being, while we continue the work to increase their profitability.
- On 26 June 2019, Eltel and LFV, Air Navigation Services of Sweden, signed a letter of intent according to which Eltel will divest the business area Aviation & Security to LFV. In the letter of intent, both parties undertake to ensure a definitive agreement is signed no later than the first quarter 2020. The definitive agreement is conditional on approval by the respective party's board, the Swedish Competition Authority and the Swedish Government.

At the reporting date, the Polish and German communication business is presented as assets held for sale. At the reporting date, none of the other operations under the strategic evaluation or under the letter of intent meet the criteria for either held-for-sale presentation or presentation as discontinued operation.

January–September 2018

During January-September 2018 there were no acquisitions.

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

- The purchase price of the Finnish rail operations amounted EUR 8.5 million deducted by the cash generated from these operations during September 2017–January 2018. The transaction had a positive impact on Group EBIT of EUR 3.7 million and positive cash flow of EUR 6.3 million in the first quarter of 2018.
- The sale of the Swedish rail operations had a negative impact of EUR 5.9 million on EBIT and a negative cash flow effect of EUR 5.7 million in the first quarter of 2018.
- The divested Danish rail operations had a negative impact of EUR 0.5 million, which was recognised in the fourth quarter of 2017 and a negative cash flow effect of EUR 2.4 million in the first quarter of 2018.
- The divested Norwegian rail operations had a negative cash flow effect of EUR 0.7 million in the third quarter of 2018.

Assets and liabilities held for sale

EUR million	30 Sep 2019
Assets	
Goodwill and other intangible assets	
Property, plant and equipment	0.1
Right-of-use assets (IFRS 16)	1.4
Deferred tax assets	0.3
Trade receivables and other assets	16.0
Cash and cash equivalents	0.3
Total assets held for sale	24.6
Liabilities	
Leasing liabilities (IFRS 16)	1.3
Advances received	1.2
Trade and other liabilities	6.2
Total liabilities held for sale	8.7

Deferred taxes

EUR million	30 Sep 2019	30 Sep 2018	31 Dec 2018
Deferred tax assets	22.3	22.6	29.0
Deferred tax liabilities	-17.0	-11.2	-17.6
Sum	5.3	11.4	11.5

In September 2019, the deferred taxes for losses carried forward in Sweden were written down by EUR 3.7 million. In September 2019, gross amount of EUR 17.0 million (23.2) deferred tax assets was recognised for losses carried forward, of which EUR 6.3 million (10.4) related to operations in Sweden. The tax losses relate to identifiable causes that are unlikely to recur. During 2016 and 2017 Eltel has incurred significant one-off costs in Sweden mainly relating to Rail and Power transmission international businesses, that are being disposed or ramped down. Further write down was reported in Q3 2019 due to negative change in short-term expectations in Sweden including reduced investment levels by our largest customer. The continuing business operations are profitable and deferred tax asset recognised for losses carried forward are expected to be utilised against taxable profits in the foreseeable future.

Derivative financial instruments

EUR million	30 Sep 2019		30 Sep 2018		31 Dec 2018	
	Nominal values	Net fair values	Nominal values	Net fair values	Nominal values	Net fair values
Interest rate derivatives	22.4	0.0	¹⁾ 22.9	0.0	³⁾ 22.8	0.0
Foreign exchange rate derivatives	67.7	0.3	74.0	-0.6	⁴⁾ 61.7	-0.4
Embedded derivatives	11.1	0.0	11.6	1.0	7.8	0.7
Commodity derivatives	0.3	0.0	²⁾ 0.6	0.0	0.6	-0.1
Total	101.5	0.3	109.1	0.4	92.9	0.2

Designated as cash flow hedge ¹⁾ EUR -0.2 million ²⁾ EUR -0.0 million ³⁾ EUR -0.4 million ⁴⁾ EUR 0.0 million ⁵⁾ EUR -0.3 million ⁶⁾ EUR 0.0 million ⁷⁾ EUR -0.1 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. Eltel considers the carrying amounts of these financial instruments to be reasonable approximations of their fair values, because the changes in the market interest rates are reflected in the future interest flows within a short period.

Earnings per share	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Net result attributable to equity holders of the parent	-4.2	-10.0	-13.8	-19.7	-23.3
Weighted average number of common shares, basic	156,649,081	156,641,387	156,649,081	156,603,136	156,603,262
Weighted average number of common shares, diluted	156,933,706	156,837,168	156,894,748	156,795,585	156,795,867
Earnings per share EUR, basic	-0.03	-0.06	-0.09	-0.13	-0.15
Earnings per share EUR, diluted	-0.03	-0.06	-0.09	-0.13	-0.15

Leasing

Right-of-use assets

EUR million	Buildings	Machinery and equipment	Total
Transfer of IAS 17 finance lease assets from PPE	-	4.0	4.0
IFRS 16 opening balance adjustment	49.3	40.3	89.6
1 Jan 2019	49.3	44.3	93.6
Additions	3.0	6.6	9.6
Depreciations	-8.7	-13.4	-22.1
Transfer to assets held for sale	-0.5	-0.8	-1.4
Translation differences	-0.5	0.5	0.0
30 Sep 2019	42.6	37.1	79.7

Leasing liabilities

EUR million	Non-current	Current	Total
Transfer of IAS 17 finance lease liability from debt	2.2	2.0	4.1
IFRS 16 opening balance adjustment	61.8	27.1	89.0
1 Jan 2019	64.0	29.1	93.1
Changes during the period	-7.8	-3.9	-11.6
Transfer to assets held for sale	-0.9	-0.4	-1.3
30 Sep 2019	55.3	24.8	80.2

Cash flow

EUR million	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Cash flow from operating activities before IFRS 16 impact	-0.1	-16.8	-33.8	-66.8	3.2
Movement between report lines:					
IFRS 16 impact on operating result (EBIT)	0.2	-	0.4	-	-
IFRS 16 impact on depreciation and amortisation	6.9	-	21.1	-	-
IFRS 16 impact on interests and other financial expenses paid	-0.3	-	-1.2	-	-
Total IFRS 16 impact on cash flow from operating activities	6.8	-	20.2	-	-
Cash flow from operating activities	6.7	-16.8	-13.6	-66.8	3.2
Cash flow from investing activities	-2.8	-6.6	-12.0	-14.6	-21.3
Cash flow from financing activities before IFRS 16 impact	4.4	23.2	18.6	73.5	39.1
IFRS 16 impact on payments of/proceeds from lease liabilities	-6.8	-	-20.2	-	-
Cash flow from financing activities	-2.3	23.2	-1.5	73.5	39.1

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

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

Operative EBITA	Operating result before acquisition-related amortisations and items affecting comparability
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Items affecting comparability	Items for specific events which management does not consider to form part of the ongoing operative business
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Operative cash flow	EBIT + depreciation and amortisation + change in net working capital – net purchase of PPE (capex)
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Cash conversion, %¹	$\frac{\text{Operative cash flow} \times 100}{\text{EBITA}}$
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Equity ratio, %	$\frac{\text{Total equity} \times 100}{\text{Total assets} - \text{advances received}}$
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Net debt	Interest-bearing debt (excluding shareholder loans) - cash and cash equivalents
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Operative capital employed	Net working capital + Intangible assets excluding goodwill and acquisition-related allocations + Property, plant and equipment
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Return on equity (ROE), %¹	$\frac{\text{Net result} \times 100}{\text{Total equity} \text{ (average over the reporting period)}}$
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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.
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Committed order backlog	The total value of committed orders received but not yet recognised as sales
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1) 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	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018	Jan-Dec 2018
Net sales	-	-	1.2	-	3.8
Administrative income and expenses	-1.4	-2.6	-6.7	-8.6	-11.9
Operating result	-1.4	-2.6	-5.5	-8.6	-8.1
Interest and other financial income	5.9	4.0	15.1	12.2	16.3
Interest and other financial expenses	-0.7	-0.4	-2.1	-1.3	-1.9
Net financial items	5.2	3.6	13.0	10.9	14.4
Result after financial items	3.8	1.0	7.5	2.2	6.3
Group contributions given	-	-	-	-	-6.2
Taxes	-	-	-	-	-0.1
Net result	3.8	1.0	7.5	2.2	0.0

Parent Company balance sheet

EUR million	30 Sep 2019	30 Sep 2018	31 Dec 2018
ASSETS			
Shares in Group companies	68.3	68.3	68.3
Long-term loans receivable from Group companies ¹	483.9	324.3	328.3
Other financial asset	35.0	-	-
Intangible assets	0.1	0.1	0.1
Deferred tax assets	0.5	0.7	0.6
Total non-current assets	587.8	393.4	397.2
Trade and other receivables	0.6	0.5	4.4
Cash pool receivable ¹	-	144.7	135.5
Other financial asset	-	35.0	35.0
Cash and cash equivalents	0.3	0.0	0.0
Total current assets	0.9	180.2	174.9
TOTAL ASSETS	588.7	573.6	572.1
EQUITY AND LIABILITIES			
Total equity	451.6	446.3	444.1
Liabilities to shareholders	35.0	-	-
Total non-current liabilities	35.0	-	-
Debt	89.5	89.6	83.3
Liabilities to shareholders	-	35.0	35.0
Liabilities to Group companies	10.6	0.1	7.8
Trade and other payables	2.0	2.6	1.9
Total current liabilities	102.2	127.4	128.1
Total liabilities	137.2	127.4	128.1
TOTAL EQUITY AND LIABILITIES	588.7	573.6	572.1

In March 2019 Eltel and its banks agreed on certain amendments to its existing financial agreement that matures in Q1 2021. Eltel has secured its debt obligations towards the banks by share and intragroup loan pledges and floating charges over certain assets of the Group, all on customary terms and conditions.

1) In Q2 2019 cash pool receivables were converted to long-term loans receivable from Group companies.

Equity	1 Jan 2019	Proceeds from shares issued	Purchase of own shares	Hedging reserve, net of tax	Equity-settled share-based payment	Net result	30 Sep 2019
EUR million							
Share capital	158.0	0.9	-	-	-	-	158.8
Statutory reserve	0.5	-	-0.2	-	-	-	0.3
Non-restricted equity	285.6	-0.9	-	0.1	0.1	7.5	292.5
Total	444.1	-	-0.2	0.1	0.1	7.5	451.6

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