Eltel Group

INTERIM REPORT JANUARY–JUNE 2016

January–June 2016

- Net sales amounted to EUR 656.6 million (546.8), up 23.0% in local currencies, organic net sales increased by 3.2%*
- Operative EBITA amounted to EUR 8.9 million (19.2) or 1.4% of net sales (3.5)
- No items affecting comparability (-2.6)
- EBITA amounted to EUR 8.9 million (16.7) or 1.4% of net sales (3.0)
- EBIT amounted to EUR 1.7 million (10.5)
- Net financial expenses decreased to EUR -6.1 million (-9.7)
- The net result amounted to EUR -3.7 million (0.7)
- Earnings per share was EUR -0.07 (0.01)
- Operative cash flow was negative at EUR 53.1 million (-37.2), cash conversion was 68.8% on a rolling 12-month basis

April–June 2016

- Net sales amounted to EUR 369.0 million (307.8), up 22.9% in local currencies, organic net sales increased by 3.5%*
- Operative EBITA amounted to EUR 5.7 million (13.9) or 1.6% of net sales (4.5)
- EBITA amounted to EUR 5.7 million (14.0) or 1.6% of net sales (4.5)
- EBIT amounted to EUR 2.1 million (10.9)
- Net financial expenses amounted to EUR -2.4 million (-1.8)
- The net result amounted to EUR -0.1 million (8.3)
- Earnings per share was EUR -0.01 (0.13)
- Operative cash flow was negative at EUR 15.7 million (+22.7)

Unless otherwise stated, figures in brackets refer to the same period in the previous year
* Organic net sales excludes Norwegian Communication business and the Sønnico and Vete acquisitions in 2015 and U-SERV acquisition in 2016, and are presented using comparable exchange rates.

Comments by the CEO

Strong growth, but isolated performance issues affected profitability

Eltel continued to show very strong growth in the second quarter 2016. The more than 20% increase in sales was primarily driven by the past year's acquisitions, but also by solid organic growth. Regarding new orders, it is very encouraging that these also include contracts in the power transmission sector both in the Nordics and the UK. The Communication segment continued to show a solid performance with good margin development and strong growth, even excluding the consolidated Eltel Sønnico business.

However, Group profitability for the second quarter was negatively affected by a EUR 10 million provision related to the execution of a challenging rail project in Norway, as previously announced. This event is totally unacceptable and Eltel is now taking immediate corrective actions to rectify the situation and to ensure that it does not happen again. The main root cause for the poor execution is unsatisfactory technical quality in the delivery of this project resulting in additional significant amount of corrective works. Currently, we are putting maximum effort into making necessary improvements, including additional quality and performance audits as well as managerial and process changes.

The quarter was also impacted by performance issues in certain African power projects, effects from the lower order intake in the power transmission business over the last twelve months and continued impact from the other challenging Norwegian rail project.

In parallel, we have initiated further Group initiatives with a very strong focus on operational efficiency in terms of specialisation and sharing of best practices. As a very good example of this, we have gradually changed the organisational structure of the fibre business to better support the current strong market demand. Our ongoing Group Shared Services programme – a two-year initiative to centralise our support functions and utilise best practice and add efficiency – is another good example of improvements based on The Eltel Way concept.

Our cash flow was negative during the quarter as a consequence of higher net working capital and made acquisitions. In the short term, cash flow is expected to continue to be weak compared to the good performance last year due to challenges mentioned above. However, we still see that our asset-light business model will continue to be a strength for our cash generation going forward.

In the second quarter, we have further built on our platform to reach Eltel's targets for profitable growth in a mid- to long-term perspective. Acquisitions completed in the second quarter – Celer in Finland and U-Serv and EVB in Germany – are all examples of acquisitions that expand our local presence and add scalability of the business. In addition, we still have a good pipe-line of future potential acquisitions.

Our organic growth continues to be supported by the visible positive long-term drivers in the Infranet market. This applies to all segments and business units, especially within fibre and smart meters. Our strong market position gives us excellent opportunities to benefit from our customers' increased investment plans that are driven by needs for the end-user and by new regulations.

During the quarter, I decided, after twelve years at Eltel, to leave my position as CEO. With the set strategy and a strong and competent management team in place, I am certain that Eltel will continue to be the forerunner in transforming the Infranet industry. The recruitment process is on-going and I will remain fully focused in my position until a successor is in place.

–Axel Hjärne, President and CEO

IMPORTANT EVENTS DURING THE SECOND QUARTER 2016

ELTEL GROUP:

- In April, Eltel issued 537,000 class C shares to be used in Eltel's long-term incentive programme 2015
- In April, the Finnish Competition and Consumer Authority (FCCA) appealed the decision of the Market Court
- In May, Eltel held its 2016 Annual General Meeting
- In June, it was announced that CEO Axel Hjärne will resign from his position
- In June, Eltel held an Extraordinary General Meeting which approved a new long-term incentive programme – the LTIP 2016

POWER SEGMENT:

- In April, Eltel's power distribution business acquired the metering company U-SERV GmbH and field service activities of EVB Billing und Services GmbH in Germany

COMMUNICATION SEGMENT:

- In April, Eltel's fixed communication business signed a renewal of a three-year fibre build and maintenance agreement with TDC Group in Denmark at a value of EUR 50 million

TRANSPORT & SECURITY SEGMENT:

- In April, Eltel's rail and road business acquired the Finnish signalling services company Celer Oy
- In June, Eltel's aviation & security business signed a maintenance agreement with Banedanmark in Denmark at a value of EUR 16 million

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

- In July, Eltel's mobile communication business signed a new three-year frame agreement with Huawei in Germany
- In August, Eltel's power transmission business won a major overhead line order for Statnett in Norway at a value of approximately EUR 50 million
- In August, Eltel's joint venture with Carillion plc won a power transmission order for National Grid in the UK at a value of almost EUR 45 million
- In August, Eltel announced a EUR 10 million provision in one rail project in Norway negatively affecting the second quarter 2016 results

KEY FIGURES

EUR million	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015	Rolling 12-month
Net sales	369.0	307.8	656.6	546.8	1,254.9	1,364.6
Net sales growth, %	19.9	2.7	20.1	-2.2	1.0	10.9
Organic net sales growth, %*	3.5	12.5	3.2	9.2	4.5	N/A
Operative EBITA	5.7	13.9	8.9	19.2	62.2	51.9
Operative EBITA margin, %	1.6	4.5	1.4	3.5	5.0	3.8
Items affecting comparability	-	0.0	-	-2.6	-1.7	0.9
EBITA	5.7	14.0	8.9	16.7	60.5	52.7
EBITA margin, %	1.6	4.5	1.4	3.0	4.8	3.9
Operating result (EBIT)	2.1	10.9	1.7	10.5	46.6	37.8
EBIT margin, %	0.6	3.5	0.3	1.9	3.7	2.8
Result after financial items	-0.3	9.1	-4.4	0.9	32.2	27.0
Net result for the period	-0.1	8.3	-3.7	0.7	43.2	38.7
Earnings per share EUR, basic	-0.01	0.13	-0.07	0.01	0.69	0.59
Earnings per share EUR, diluted	-0.01	0.13	-0.07	0.01	0.69	0.59
Leverage ratio**	3.6	4.1	3.6	4.1	2.0	3.6
Leverage ratio, proforma adj. for items affecting comparability**	3.6	2.7	3.6	2.7	2.0	3.6
Operative cash flow	-15.7	22.7	-53.1	-37.2	45.8	29.9
Cash conversion, %**	68.8	78.1	68.8	78.1	75.8	68.8
Number of personnel, end of period	9,674	8,223	9,674	8,223	9,568	9,674

* organic net sales exclude Norwegian communication business, Sønnico and Vete acquisitions in 2015 and U-SERV acquisition in 2016 and is presented with comparable exchange rates
** calculated on a rolling 12-month basis
Please see page 20 for definitions of the key ratios.

Group performance

Sales and financial results

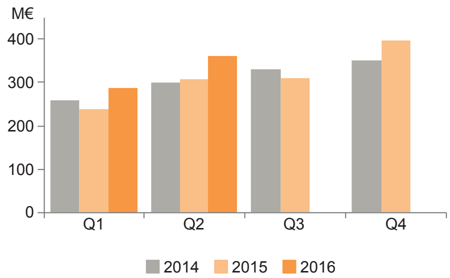
NET SALES

January–June 2016 compared to the same period in 2015

In local currencies, net sales for the Eltel Group increased by 23.0%. Reported net sales grew by 20.1% to EUR 656.6 million (546.8). The reason for the significant growth derived from the acquisition of Norwegian Eltel Sønnico AS, concluded in 2015, and some marginal impact from the acquisitions of Norwegian Vete Signaltjenester AS and German U-SERV GmbH. Organic net sales growth was mainly related to the Communication segment and amounted to 3.2%.

In the first half of 2016, the Power segment accounted for 40.0% (47.4), the Communication segment for 49.5% (38.4) and the Transport & Security business segment for 10.5% (14.1) of Group net sales. The Communication segment's high share of Group net sales for the first six months is a result of the consolidation of Eltel Sønnico AS. In the comparable period in 2015, Eltel's Norwegian communication business was operated as a joint venture and net sales were deconsolidated.

NET SALES

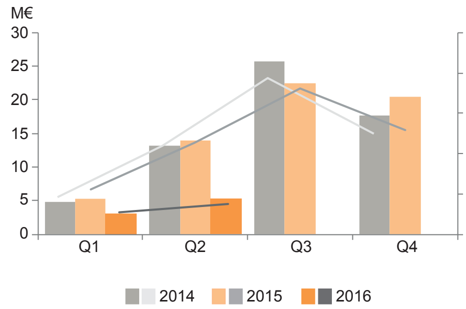


April–June 2016 compared to the same period in 2015

In local currencies, net sales for the Eltel Group increased by 22.9%. Reported net sales grew by 19.9% to EUR 369.0 million (307.8). The reason for the significant growth was mainly related to the acquisition of Norwegian Eltel Sønnico AS which was concluded in 2015. Organic net sales increased by 3.5% and were mainly driven by the Communication segment, while for the Power segment the effect of the lower order intake in power transmission during 2015 and 2016 is now starting to be visible in the net sales.

Compared to the level at the end of 2015, Eltel's committed order backlog grew from EUR 920 million to EUR 953 million at the end of June 2016 (31 March 2016: 951). The change in the mix in the order backlog was mainly related to order intake in the Communication segment. The committed order backlog comprises the total value of committed orders received but not yet recognised as sales. This is mainly related to project orders with a delivery time of 2-5 years and also includes committed orders in frame agreements.

OPERATIV EBITA AND MARGIN, QUARTERLY



Net sales comparability

Net sales development and items impacting comparability are summarised in the table below:

EUR million	Jan-Jun 2016	Jan-Jun 2015	Growth -%	Fx-corrected growth -%
Group net sales	656.6	546.8	20.1	23.0
Net sales from acquisitions	100.3	-	18.3	19.9
Group net sales excluding acquisitions	556.2	546.8	1.7	-
Foreign currency translation effect	-7.8	-	-	-
Group organic net sales (comparable)	564.1	546.8	-	3.2

Net sales from acquisitions include acquired companies in the period from July 2015 until end of June 2016: Eltel Sønnico AS, Vete Signaltjenester AS and U-SERV GmbH.

FINANCIAL RESULTS

January–June 2016 compared to the same period in 2015

In the first half of 2016, the Eltel Group's operative EBITA decreased to EUR 8.9 million (19.2), representing 1.4% of net sales (3.5). The decrease in operative EBITA resulted from the EUR 10 million provision in the second quarter in one rail project in Norway and lower performance impact in certain power transmission projects in Africa as well as in another Norwegian rail project. The loss of the terminated Rakel contract in Sweden, ramp-up of communication business in the UK and start-up of the Group Shared Services programme also contributed to the weaker performance. Profitability was positively impacted by good performance in the power business in Germany and Poland as well as in the communication business especially in Norway. In the comparable reporting period in 2015, there was a 0.3 percentage point positive impact on Group operative EBITA margin due to the Norwegian Eltel Sønnico AS being included as a share of joint venture.

Group EBITA amounted to EUR 8.9 million (16.7). No items affecting comparability were recognised in 2016, while EUR 2.6 million costs relating to Eltel's listing on Nasdaq Stockholm in February 2015 were recognised in the comparable period in 2015. In the reporting period, amortisation of acquisition-related intangible assets amounted to EUR 7.2 million (6.1).

Net financial expenses decreased to EUR 6.1 million (9.7) due to lower interest costs as a consequence of the renewed financing carried out in February 2015. During the first half of 2016, financial costs included a negative effect of EUR 2.3 million from interest rate revaluation in derivatives due to negative interest rates.

Taxes for the period were positive EUR 0.7 million (-0.1). Net result for the first six months of 2016 was EUR -3.7 million (0.7).

April–June 2016 compared to the same period in 2015

In the second quarter, the Eltel Group's operative EBITA decreased to EUR 5.7 million (13.9) representing 1.6% of net sales (4.5). The deterioration in operative EBITA was mainly related to a EUR 10 million provision in one Norwegian rail project caused by costs for correction work of significant quality issues in the execution of the project. In addition, challenges in certain power transmission projects in Africa and in another rail project in Norway negatively affected profitability. The loss of the terminated Rakel contract and the ramp-up of communication business in the UK also had a negative impact. The performance was positively supported by favourable development in the communication business in the Nordics and in the power business in Germany.

In the comparable quarter in 2015, there was a 0.3-percentage point positive impact on Group operative EBITA margin due to the Norwegian Eltel Sønnico AS being included as a share of joint venture.

Group EBITA amounted to EUR 5.7 million (14.0). No items affecting comparability were recognised in the second quarter of 2016. During the quarter, amortisation of acquisition-related intangible assets amounted to EUR 3.6 million (3.1). Net financial expenses amounted to EUR 2.4 million (1.8). In the second quarter, financial costs included a negative effect of EUR 0.9 million from interest rate revaluation in derivatives due to negative interest rates.

Taxes for the period were positive at EUR 0.2 million (-0.9). Net result for the second quarter amounted to EUR -0.1 million (8.3).

Operating environment

Power

Market demand in the power segment is underpinned by strong long-term drivers. The operating environment is characterised by high market activity and long-term investment plans. In the power transmission market, there is a solid flow of public tender requests, based on the extensive investment plans announced by transmission system operators in all of Eltel's markets, especially in Norway. However, some postponements have been noted in the Polish market. The price competition continues to be intense in the Nordics due to its higher attractiveness compared to other markets in Europe. In the power distribution market, the overall high activity level persisted in the reporting period. Growing demand for power and related new investment plans have attracted new players and competition remains intense. Distribution system operators in Norway, Denmark and Germany will continue to make investments in smart metering in the coming years. There is also some new activity in such markets as the UK, Austria and the Netherlands. In Sweden, a new regulation model is expected to further increase power transmission and power distribution network investment levels.

Communication

Market conditions in communication are strong but show some variation among countries and technologies. The communication sector continues to be driven mainly by fibre deployment and mobile roll-outs. Demand for fibre deployment is expected to remain at a high level in the Nordics and to grow in Poland, Germany and the UK. Meanwhile, in the Nordics, there is continued hesitation in the willingness of operators to invest in the copper network as a consequence of the ongoing copper churn. In the mobile communication sector, market demand for LTE/4G roll-outs continues to provide opportunities, especially in the Nordics. In Germany, announced investment plans are at a high level, although some delays in mobile communication have been noted in roll-out plans.

Transport & Security

In the Nordic transport sector, primarily railway, long-term market drivers remain strong and create a business environment with many opportunities for Eltel to expand its business. Increased investment plans for the transport sector were recently announced in Finland. Several customers publish their rolling forecasts for planned purchases on a monthly or quarterly basis, providing a good overview for tendering and business planning. The availability of resources remains challenging in some key technical areas. The security market in Sweden continues to grow, supported by increased spending in the defence area. In the aviation sector, the Swedish remote tower operation provides potential business and market opportunities. The aviation sector in Norway and Denmark is opening up for external service providers, thereby providing new opportunities for Eltel. Current uncertainty in Europe is expected to drive investments in the defence area regarding surveillance and various communication solutions.

Balance sheet and cash flow

BALANCE SHEET AND FINANCIAL POSITION

30 June 2016

At the end of June 2016, interest-bearing liabilities totalled EUR 283.6 million (228.8), of which EUR 231.7 million (216.0) were non-current and EUR 51.9 million (12.7) were current. Cash and cash equivalents amounted to EUR 50.9 million (34.4).

Interest-bearing net debt totalled EUR 234.1 million (196.0), representing an increase of 19.5% and equivalent to a leverage (net debt/EBITDA) ratio of 3.6. Eltel's mid to long-term target ratio is to be in the range of 2.0-2.5. The increase in net debt in 2016 is related to the increase in net working capital, dividend payment and high M&A activity.

INTEREST-BEARING LIABILITIES AND NET DEBT

EUR million	30 Jun 2016	30 Jun 2015	31 Dec 2015
Interest-bearing debt in balance sheet	283.6	228.8	231.6
Allocation of effective interest to periods	1.4	1.6	1.4
Less cash and cash equivalents	-50.9	-34.4	-87.9
Net debt	**234.1**	**196.0**	**145.1**

At the end of the second quarter, Eltel's liquidity position was at a healthy level and available liquidity reserves amounted to EUR 156.7 million (129.9). At the end of the reporting period, EUR 44 million of Eltel's EUR 100 million commercial paper programme – established in September 2015 – was utilised. At the end of June 2016, the Group's equity ratio was 40.3% (43.9).

At the end of June, guarantees based on contractual commercial commitments and pension liabilities issued by banks, other financial institutions and the parent company amounted to EUR 381.0 million (369.0). This amount included advance and other payment security guarantees.

CASH FLOW AND CASH CONVERSION

January–June 2016

In the first half of 2016, Eltel's operative cash flow was negative at EUR 53.1 million (-37.2) mainly driven by the increase in net working capital. The negative cash flow is characteristic of the beginning of Eltel's calendar year as a consequence of gradually increasing production volumes – a typical seasonal pattern for Eltel's earnings generation. Cash flow was also impacted by the high level of net working capital as a consequence of certain challenging African electrification projects and two rail projects in Norway. In addition, working capital intensive power projects in Poland impacted cash flow negatively and are expected to cause volatility in working capital going forward.

The rolling 12-month cash conversion was 68.8% (78.1%). In general cash flow and thus cash conversion fluctuates on a quarterly basis due to Eltel's seasonal pattern for its net sales and production.

Cash flow from operating activities was EUR -45.3 million (-37.1), including a negative impact of EUR 62.0 million (-54.8) from the change in net working capital. Cash flow from financial items and taxes was EUR -6.4 million (-8.3). Net capital expenditure, mainly replacement investments, amounted to EUR 6.6 million (4.5). Cash flow for acquisitions amounted to EUR -18.4 million including payment of the remaining part of the consideration for the acquisition of Eltel Sønnico AS and first payments of acquisitions made in 2016.

Seasonality during the calendar year

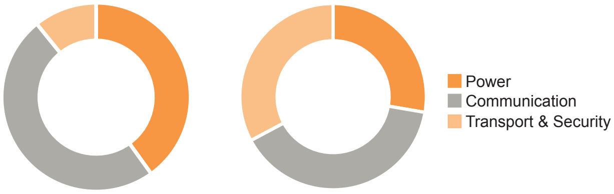
DISTRIBUTION OF SALES AND EARNINGS DURING THE FINANCIAL YEAR

Eltel's businesses are characterised by seasonal patterns that have a substantial impact on net sales, EBITA and cash flow. Seasonality is 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. The Eltel Group has historically reported higher revenues and operating profit in the second half of the year. Net sales and EBITA by quarter are presented in the graphs on page 4. Cash flow normally displays a strong seasonal pattern with weaker cash flow recorded until the end of the third quarter due to higher production activity during this period. At the end of the year, as production volumes decrease, cash flow is normally strong. For more details, please refer to quarterly key financial figures for the Group on page 19.

Segment information

Eltel reports its business in three segments – Power, Communication and Transport & Security – based on the products and services offered.

Q2 NET SALES BY SEGMENT **Q2 OPERATIVE EBITA BY SEGMENT**



POWER

The Power segment provides network maintenance services, upgrade work and project business to national transmission system operators and distribution network owners. This segment operates throughout Eltel's geographic regions and its business is characterised by long-term customer relationships, with a continuous order flow generated through framework agreements and projects. Demand in the sector is typically driven by increased power grid availability requirements and regulatory demands rather than by GDP. The majority of this business consists of upgrades and project-based work. Upgrade assignments are typically completed within a few months, whereas project agreements normally last for two to three years. The length of frame agreements is typically three to five years.

EUR million	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015
Net sales	148.1	152.6	262.9	260.5	567.6
Operative EBITA	6.8	7.7	8.2	9.8	29.6
Operative EBITA margin, %	4.6	5.1	3.1	3.8	5.2
Number of employees	3,536	3,442	3,536	3,442	3,607

Foreign currency translation effect included in Net sales was EUR -3.8 million for the quarter and EUR -6.8 million for Jan-Jun 2016

January–June 2016 compared to the same period in 2015

In local currencies, the increase in net sales for the Power segment was 3.5%. Reported net sales increased by 0.9% to EUR 262.9 million (260.5). Growth in net sales was attributable to good performance in the German power transmission business and higher delivery volumes especially in power transmission projects in Poland and Norway. Certain electrification projects in Africa had a negative impact on the net sales development, the effect of which is expected to also continue in the remaining quarters of 2016. Some customer delay in smart metering roll-outs in Norway was visible. Order intake, especially in power transmission in the Nordics, continued to be soft.

Operative EBITA decreased to EUR 8.2 million (9.8), and the operative EBITA margin was 3.1% (3.8). The weak performance in certain electrification projects in Africa continued and had a negative effect on Power segment profitability in the first half of 2016. The challenges in the African electrification projects are expected to continue for the remainder of 2016. Weather conditions in the Nordics were cold at the beginning of the year and rather stable without storms during the second quarter, which was somewhat unfavourable for the power distribution business. Power transmission in Germany and Poland performed well and contributed with good profitability in the reporting period.

April–June 2016 compared to the same period in 2015

In local currencies, the decrease in net sales for the Power segment was 0.5%. Reported net sales decreased by 3.0% to EUR 148.1 million (152.6). The negative growth in the Power segment was a result of low order intake in the power transmission business in previous quarters. The power business in Germany increased clearly as a consequence of organic growth, including Edi.Son Energietechnik GmbH, and of new acquisitions. However, this was offset by lower delivery volumes in African electrification projects and the effect of the lower power order intake seen in the past quarters. This is expected to continue to have an impact also in the coming quarters of 2016. Order intake within power transmission remained soft during the quarter. Power distribution business in the Nordics showed some higher volumes especially in Sweden and Norway, while volumes in Finland were lower.

Operative EBITA decreased to EUR 6.8 million (7.7), and the operative EBITA margin was 4.6% (5.1). The lower profitability mainly derives from weaker profitability in certain African projects and an unfavourable business mix in the Nordics. During the second quarter, weather conditions in the Nordics were rather stable without storms, and consequently, somewhat unfavourable for the power distribution business. The challenges in the African electrification projects are expected to continue for the remainder of 2016.

Acquisition of German metering service company U-SERV GmbH and the field service assets of EVB GmbH

In the second quarter, Eltel made two acquisitions in the Power segment to establish a platform for expansion of its metering business in Germany. In April, the German metering service company U-SERV GmbH and the field service assets of EVB Billing und Services GmbH were acquired.

U-SERV is considered one of the major meter service companies in Germany with net sales of approximately EUR 9 million and approximately 50 permanent employees and an ability to mobilise more than 1,000 employees when needed. The product offering comprises national electrical meter replacements, read-outs, customer self-readings and gas meter adjustments and replacements.

Eltel also acquired field service assets of EVB Billing und Services GmbH, a subsidiary of ATV Energie GmbH. The assets comprised EVB's customer base in metering-related field services and an offer was made to the approximately 80 employees to transfer to Eltel.

COMMUNICATION

The Communication segment provides maintenance, upgrade and project work to telecom operators and other communication network owners. This segment currently operates throughout all of Eltel's geographies and its business is characterised by long-term customer relationships, with a continuous order flow generated mainly through framework agreements. The business is primarily driven by technology upgrades and growing demand for networks.

EUR million	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015
Net sales	181.4	113.6	325.7	211.0	543.7
Operative EBITA	9.7	6.1	12.3	9.9	34.2
Operative EBITA margin, %	5.4	5.3	3.8	4.7	6.3
Number of employees	5,177	4,032	5,177	4,032	5,126

Foreign currency translation effect included in Net sales was EUR -5.0 million for the quarter and EUR -8.7 million for Jan-Jun 2016

Consolidation of the Norwegian communication business, Eltel Sønnico AS, impacted comparability. In January-August 2015, the net sales of Eltel Sønnico AS were not consolidated and Eltel's share (50%) of the net results of Eltel Sønnico AS was included in EBITA. Since the acquisition on 1 September 2015, 100% of the company is consolidated.

January–June 2016 compared to the same period in 2015

In local currencies, growth in net sales was 58.5%. Reported net sales increased by 54.4% to EUR 325.7 million (211.0), mainly as a result of the consolidation of the acquired Norwegian joint venture Eltel Sønnico AS from September 2015 and onwards. Organic net sales were supported by continued fibre roll-out and upgrades services, especially in Sweden.

Operative EBITA increased to EUR 12.3 million (9.9) and the operative EBITA margin was 3.8% (4.7). Profitability was positively affected by the communication business in the Nordics, especially in Norway, but offset by ramp-up of new communication business in Germany and the UK. Weather conditions, particularly in the Nordics were not optimal for the business during the first half on 2016. In the comparable reporting period 2015, the operative EBITA margin was positively impacted by 0.8 percentage points due to the Norwegian communication business joint venture being included as a share of joint venture, with no impact on net sales.

April–June 2016 compared to the same period in 2015

In local currencies, growth in net sales in the Communication segment amounted to 64.0%. Reported net sales increased by 59.7% to EUR 181.4 million (113.6), mainly as a result of the consolidation of the acquired Norwegian joint venture Eltel Sønnico AS from September 2015 onwards. Organic growth was driven by increased volumes in fibre roll-outs and upgrade services, especially in Sweden. During the second quarter, order intake in fibre roll-outs and upgrade services in several markets was good, thereby contributing to an increased committed order backlog for coming quarters.

Operative EBITA increased to EUR 9.7 million (6.1) and the operative EBITA margin was almost flat at 5.4% (5.3). Profitability was supported by the fibre business in Sweden but offset by start-up costs from new contracts and the ramp-up of new communication business in the UK. In the comparable quarter 2015, the operative EBITA margin was positively impacted by 0.7 percentage points from the Norwegian communication business joint venture being included as a share of joint venture, with no impact on net sales.

TRANSPORT & SECURITY

The Transport & Security business segment provides maintenance, upgrade work and project business to various governmental authorities, including rail, road, defence and aviation authorities. The Transport & Security business segment primarily operates in the Nordic markets. Its business is characterised by long-term customer relationships, with continuous order flow of maintenance work generated from long-term framework agreements and project business contracts via tendering processes. The business is driven by investments in transport infrastructure, for air and rail transport and by the outsourcing of technical services in security and aviation.

EUR million	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015
Net sales	40.0	42.9	69.0	77.7	151.7
Operative EBITA	-8.1	3.4	-8.1	5.8	11.4
Operative EBITA margin, %	-20.2	8.0	-11.8	7.4	7.5
Number of employees	687	581	687	581	611

Foreign currency translation effect included in Net sales was EUR -0.5 million for the quarter and EUR -0.8 million for Jan-Jun 2016

January–June 2016 compared to the same period in 2015

In local currencies, net sales for the Transport & Security business segment decreased by 10.2%. Reported net sales declined by 11.2% to EUR 69.0 million (77.7). The decline in net sales was mainly attributable to the Rakel contract which was terminated in the second quarter of 2015. There was some positive contribution to the net sales from the acquired signalling company Celer Oy, concluded in April 2016.

Operative EBITA deteriorated to EUR -8.1 million (5.8) and the operative EBITA margin turned negative at 11.8% (7.4). The very unsatisfactory result was mainly attributable to a provision of EUR 10 million in a Norwegian rail project caused by costs for correction work of significant quality issues in the execution of the project. The decline is also attributable to the loss of the Rakel contract and weak profitability in another Norwegian rail project. Weak performance in the rail project is expected to continue also in the remaining quarters of 2016.

April–June 2016 compared to the same period in 2015

In local currencies, net sales for the Transport & Security business segment decreased by 5.8%. Reported net sales declined by 6.9% to EUR 40.0 million (42.9). In April, the Finnish signalling services company Celer Oy was acquired and consolidated, thus contributing positively to net sales of the business segment. However, this positive impact was offset by the negative impact of the terminated Rakel contract in Sweden in the corresponding period of the previous year.

Operative EBITA deteriorated to a loss of EUR 8.1 million (3.4) and the operative EBITA margin was negative at 20.2% (8.0). The very unsatisfactory result was mainly attributable to a provision of EUR 10 million related to a Norwegian rail project caused by costs for correction work of significant quality issues in the execution of the project. The terminated Rakel contract and continued weak profitability in another rail project in Norway also contributed to the weak performance. Weak performance in the rail project is expected to continue also in the remaining quarters of 2016.

Acquisition of Finnish signalling services company Celer Oy

In April, Eltel acquired Celer Oy, a Finnish signalling services company well recognised in the Finnish railway market with an important market position. The acquisition of Celer Oy is complementary to Eltel's current offering in Finland and provides clear synergies with Eltel's existing rail and road business. This acquisition further expands the Group's Nordic footprint in the signalling market as a complement to the acquisition of Vete Signaltjenester AS in Norway made in October 2015. Celer had a turnover of approximately EUR 6 million and 29 employees.

Other information

ACQUISITIONS IN THE POWER AND TRANSPORT & SECURITY SEGMENTS

In April, two acquisitions in the Power segment were announced with the aim to establish a platform for expansion of the metering business in Germany. Eltel acquired the German metering service company U-SERV GmbH and the field service assets of EVB Billing und Services GmbH. U-SERV is considered one of the major meter service companies in Germany with net sales of approximately EUR 9 million and approximately 50 permanent employees and an ability to mobilise more than 1,000 employees when needed. The product offering comprises national electrical meter replacements, read-outs, customer self-readings and gas meter adjustments and replacements. Eltel also acquired field service assets of EVB Billing und Services GmbH, a subsidiary of ATV Energie GmbH. The assets comprised EVB's customer base in metering-related field services and an offer to the approximately 80 employees to transfer to Eltel.

In April, Eltel made an acquisition in the Transport & Security business segment when it bought Celer Oy, a Finnish signalling services company well recognised in the Finnish railway market and with an important market position providing railway signalling services. Celer had a turnover of approximately EUR 6 million and 29 employees. The acquisition of the company was signed and closed on 1 April 2016.

GROUP SHARED SERVICES PROGRAMME IS PROGRESSING ACCORDING TO PLAN

As part of its continuous operational efficiency improvements, Eltel initiated a two-year programme to centralise its back office support function that was started in May 2016. In the second quarter, a new back office site was established in Gdansk in Poland and the first transition of local functions has begun. There will be some cost impact related to the implementation to this programme in 2016. In 2017 costs related to this programme are estimated to be offset by savings achieved and in 2018 net savings are expected to materialise.

RISKS AND UNCERTAINTIES

The overall economic climate and regulatory decisions in Eltel's markets pose risks to volumes and the timing of investments. Significant fluctuations in the EUR/SEK, EUR/NOK and EUR/PLN exchange rates may affect the Group's consolidated net sales and, to a lesser extent, its profitability.

Negative interest rates may affect the Group's consolidated profitability. The interest rate derivatives entered for hedging purposes at the time when interest rates were positive may not qualify as hedges according to IFRS and, in such a case, the derivative revaluation result must be recognised in profit and loss. The cash held in currencies with negative interest rates may be subject to a deposit fee charged by the banks and recognised in financial expenses.

Finnish Competition and Consumer Authority (FCCA) case to continue in the Supreme Administrative Court in Finland

On 31 October 2014, the Finnish Competition and Consumer Authority (FCCA) proposed the imposition of a fine of EUR 35 million on Eltel in the Finnish Market Court. The violation of competition law alleged by the FCCA is related to Eltel's power transmission line construction and planning business in Finland during the period 2004-2011. Eltel considers that it did not violate competition law and contested the FCCA's allegations and fine proposal to the Finnish Market Court, requesting that the case be dismissed. The main hearing in the case was held in the Finnish Market Court in September 2015. On 30 March 2016, the Market Court in Finland dismissed as time-barred the allegations of Eltel's competition law violations in its power transmission line construction business in Finland. On 29 April 2016, the FCCA submitted an appeal to the Supreme Administrative Court against the decision of the Finnish Market Court and the proceedings are expected to continue in the Supreme Administrative Court. No timeline has yet been presented by the Court.

In relation to the listing of Eltel at the Nasdaq Stockholm in February 2015, the selling shareholders entered into an agreement whereby they contributed EUR 35 million to an escrow account held by Eltel to cover any fines (excluding costs and damages from third-party claims) payable by Eltel in relation to the FCCA case. In the event of a final decision requiring Eltel to pay a fine, the equivalent amount will be converted into equity from the escrow. For further information regarding this case and the guarantee (escrow), please refer to Eltel's 2015 Annual Report and Eltel's IPO prospectus.

For further information regarding risks and uncertainties, please refer to the 2015 Annual Report.

2016 ANNUAL GENERAL MEETING

Eltel's 2016 Annual General Meeting (AGM) was held on 2 May 2016. Members of the Board of Directors were elected as follows: Gérard Mohr, Matti Kyytsönen, Susanne Lithander, Ulf Lundahl, Rada Rodriguez and Karl Åberg were re-elected. Håkan Kirstein and Gunilla Fransson were elected as new members. Mr Mohr was re-elected Chairman of the Board. The AGM approved the dividend of EUR 0.24 per share.

2016 EXTRAORDINARY GENERAL MEETING

Eltel held an Extraordinary General Meeting on 20 June 2016. The EGM approved the implementation of a share savings programme (LTIP 2016) for key individuals at Eltel Group with the aim to create an individual long-term ownership of Eltel shares among the participants. The programme comprises the CEO and the Group Management Team involving 11 individuals, and additionally a maximum of 74 key employees at Eltel.

CEO AXEL HJÄRNE TO LEAVE HIS POSITION

In June it was announced that the CEO of Eltel, Axel Hjärne, had decided to leave his position. The Board initiated a recruitment process for the replacement of Axel Hjärne, who will remain in his position until a successor is in place. Axel Hjärne has been employed by Eltel for twelve years, and he has held the position as CEO for the last seven years. Over these years Eltel has grown significantly from being a local Nordic player to becoming the leader in the Infranet industry in Northern Europe.

ISSUANCE OF CLASS C SHARES

In April, Eltel issued 537,000 class C shares to be used in the long-term incentive programme 2015 (LTIP 2015). The shares do not entitle to any dividends and carry 1/10 voting rights. Eltel does not intend to exercise any voting rights as long as shares are held by Eltel. The total number of shares in Eltel AB after the share issue is 62,624,238 ordinary shares (unchanged) and 537,000 C shares.

OWNERSHIP STRUCTURE

The largest shareholders of Eltel AB on 30 June 2016 were:

Shareholders	**Number of shares**	**Share of capital and votes, %**
Zeres Capital	8,075,545	12.90%
Lannebo fonder	6,161,686	9.84%
Swedbank Robur Fonder	5,974,794	9.54%
The Fourth Swedish National Pension Fund	5,810,824	9.28%
BNP Paribas S.A.	3,076,206	4.91%
Total	29,099,055	46.47%
Other shareholders	33,525,183	53.53%
Total outstanding shares in Eltel AB	62,624,238	100.00%

Updated information of Eltel's largest shareholders and the holdings of public insiders as per 30 June 2016 is available on Eltel's website at www.eltelgroup.com/en/share-information/.

SIGNATURES OF THE BOARD OF DIRECTORS AND CEO

The Board of Directors and the President and CEO certify that the interim report gives a true and fair overview of the Parent Company's and Group's operations, their financial position and results of operations, and describes significant risks and uncertainties facing the Parent Company and other companies in the Group.

Stockholm, 18 August 2016

THE BOARD OF DIRECTORS

Gérard Mohr, Chairman

Gunilla Fransson

Håkan Kirstein

Matti Kyytsönen

Susanne Lithander

Ulf Lundahl

Rada Rodriguez

Karl Åberg

Jonny Andersson

Björn Ekblom

PRESIDENT AND CEO

Axel Hjärne

This report is unaudited.

Condensed financial information

CONDENSED CONSOLIDATED INCOME STATEMENT

EUR million	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015
Net sales	369.0	307.8	656.6	546.8	1,254.9
Cost of sales	-333.0	-268.7	-589.2	-478.8	-1,089.6
Gross profit	**36.0**	**39.1**	**67.4**	**68.0**	**165.3**
Other income	0.3	1.3	0.8	2.0	4.3
Sales and marketing expenses	-3.3	-5.8	-6.7	-7.8	-14.2
Administrative expenses	-25.6	-19.7	-49.0	-44.9	-88.0
Other expenses	-1.6	-2.0	-3.3	-2.1	-8.3
Share of profit/loss of joint ventures	-0.1	0.9	-0.2	1.6	1.5
Operating result before acquisition-related amortisations (EBITA)	**5.7**	**14.0**	**8.9**	**16.7**	**60.5**
Amortisation of acquisition-related intangible assets	-3.6	-3.1	-7.2	-6.1	-13.9
Operating result (EBIT)	**2.1**	**10.9**	**1.7**	**10.5**	**46.6**
Financial income	0.1	-	0.1	0.1	0.3
Financial expenses	-2.4	-1.8	-6.2	-9.8	-14.7
Net financial expenses	-2.4	-1.8	-6.1	-9.7	-14.4
Result before taxes	**-0.3**	**9.1**	**-4.4**	**0.9**	**32.2**
Taxes	0.2	-0.9	0.7	-0.1	11.0
Net result	**-0.1**	**8.3**	**-3.7**	**0.7**	**43.2**
Attributable to:					
Equity holders of the parent	-0.4	8.1	-4.1	0.5	41.7
Non-controlling interest	0.3	0.2	0.4	0.2	1.5
Earnings per share (EPS)					
Basic, EUR	-0.01	0.13	-0.07	0.01	0.69
Diluted, EUR	-0.01	0.13	-0.07	0.01	0.69

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR million	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015
Net profit for the period	-0.1	8.3	-3.7	0.7	43.2
Other comprehensive income:					
Items that will not be reclassified to profit and loss					
Revaluation of defined benefit plans	-3.2	1.3	-1.2	1.7	0.4
Items that may be subsequently reclassified to profit and loss					
Cash flow hedges	0.2	-0.3	0.0	-0.6	-3.5
Net investment hedges	1.3	-	1.5	-0.6	-1.5
Currency translation differences	-4.5	0.8	-4.1	6.1	3.3
Total	-3.1	0.5	-2.6	4.9	-1.6
Other comprehensive income/loss for the period, net of tax	-6.3	1.8	-3.8	6.6	-1.2
Total comprehensive income/loss for the period	**-6.3**	**10.0**	**-7.4**	**7.4**	**41.9**
Total comprehensive income/loss attributable to:					
Equity holders of the parent	-6.6	9.9	-7.8	7.1	40.5
Non-controlling interest	0.3	0.2	0.4	0.2	1.5

CONDENSED CONSOLIDATED STATEMENT OF BALANCE SHEET

EUR million	30 Jun 2016	30 Jun 2015	31 Dec 2015
ASSETS			
Non-current assets			
Goodwill	476.4	418.4	463.6
Intangible assets	76.5	85.9	82.4
Property, plant and equipment	37.7	35.8	38.0
Investments in and receivable from joint ventures	0.4	30.6	0.2
Available-for-sale investments	0.4	0.3	0.2
Deferred tax assets	35.5	22.6	34.2
Other financial asset	35.0	35.0	35.0
Trade and other receivables	0.1	-	0.1
Total non-current assets	662.1	628.7	653.7
Current assets			
Inventories	7.7	11.0	14.5
Trade and other receivables	395.4	324.9	341.1
Cash and cash equivalents	50.9	34.4	87.9
Total current assets	454.0	370.4	443.5
TOTAL ASSETS	1,116.0	999.1	1,097.2
EQUITY AND LIABILITIES			
Equity			
Shareholders' equity	418.4	407.3	440.9
Non-controlling interest	7.5	6.6	7.1
Total equity	425.9	413.9	448.0
Non-current liabilities			
Debt	231.7	216.0	216.7
Liabilities to shareholders	35.0	35.0	35.0
Retirement benefit obligations	13.2	15.1	13.9
Deferred tax liabilities	16.8	17.8	17.1
Provisions	2.5	3.5	3.0
Other non-current liabilities	6.2	3.1	0.1
Total non-current liabilities	305.4	290.5	285.8
Current liabilities			
Debt	51.9	12.7	14.9
Provisions	13.3	3.1	3.8
Advances received	58.7	55.3	62.7
Trade and other payables	260.7	223.4	281.9
Total current liabilities	384.7	294.7	363.4
Total liabilities	690.1	585.2	649.2
TOTAL EQUITY AND LIABILITIES	1,116.0	999.1	1,097.2

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

EUR million	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015
Cash flow from operating activities			
Cash flow from operating activities before financial items and taxes	-45.3	-37.1	49.1
Interest received	0.1	0.1	0.3
Interest and other financial expenses paid	-5.1	-7.1	-9.7
Income taxes paid	-1.5	-1.4	-3.3
Net cash from operating activities	-51.8	-45.5	36.4
Cash flow from investing activities			
Purchases of property, plant and equipment (PPE)	-7.0	-4.8	-12.3
Proceeds from sale of PPE	0.4	0.3	1.3
Acquisition of business	-18.4	-12.7	-33.1
Net cash from investing activities	-25.1	-17.2	-44.2
Cash flow from financing activities			
Proceeds from issuance of share capital	-	143.1	143.1
Proceeds from long-term financial liabilities	21.3	209.3	209.3
Proceeds from short-term financial liabilities	47.0	10.0	29.2
Payments from short-term borrowings	-13.0	-	-19.0
Payments of financial liabilities	-0.1	-326.5	-326.5
Payments of/proceeds from finance lease liabilities	-0.5	-0.2	-0.5
Dividends to shareholders	-15.0	-	-
Dividends to non-controlling interest	-	-	-0.8
Change in non-liquid financial assets	-0.1	0.1	0.7
Net cash from financing activities	39.7	35.9	35.5
Net change in cash and cash equivalents	-37.2	-26.8	27.8
Cash and cash equivalents at beginning of period	87.9	61.0	61.0
Foreign exchange rate effect	0.2	0.2	-0.9
Cash and cash equivalents at end of period	50.9	34.4	87.9

RECONCILIATION OF EBITA TO CASH FLOW FROM OPERATING ACTIVITIES BEFORE FINANCIAL ITEMS AND TAXES

EUR million	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015	Rolling 12-month
EBITA	8.9	16.7	60.5	52.7
Depreciation	6.7	5.5	11.9	13.1
EBITDA	15.6	22.1	72.3	65.8
Change in net working capital	-62.0	-54.8	-15.5	-22.6
Net purchase of PPE	-6.6	-4.5	-11.1	-13.2
Operative cash flow (used in cash conversion key figure)	-53.1	-37.2	45.8	29.9
Less net purchase of PPE, presented in investing activities	6.6	4.5	11.1	
Gains on sales of assets	-0.1	-0.1	-1.3	
Items recognised through other comprehensive income	-1.6	-2.7	-6.1	
Other non-cash adjustments	2.9	-1.6	-0.4	
Cash flow from operating activities before financial items and taxes	-45.3	-37.1	49.1	

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 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	-	-	-4.1	-1.2	1.5	-4.1	-7.8	0.4	-7.4
Equity-settled share-based payment	-	-	0.4	-	-	-	0.4	-	0.4
Proceeds from shares issued	1.1	-1.1	-	-	-	-	-	-	-
Dividends paid to shareholders	-	-15.0	-	-	-	-	-15.0	-	-15.0
Total transaction with owners	1.1	-16.1	0.4	-	-	-	-14.7	-	-14.7
Equity at 30 Jun 2016	126.3	373.0	-41.1	-23.7	5.2	-21.3	418.4	7.5	425.9

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 2015	86.4	276.3	-79.4	-22.9	8.6	-20.5	248.4	6.4	254.9
Total comprehensive income for the period	-	-	0.5	1.7	-1.2	6.1	7.1	0.2	7.4
Proceeds from shares issued	38.9	113.4	-	-	-	-	152.3	-	152.3
New share issue costs	-	-0.6	-	-	-	-	-0.6	-	-0.6
Total transaction with owners	38.9	112.8	-	-	-	-	151.7	-	151.7
Equity at 30 Jun 2015	125.2	389.1	-78.9	-21.2	7.4	-14.4	407.3	6.6	413.9

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 2015	86.4	276.3	-79.4	-22.9	8.6	-20.5	248.4	6.4	254.9
Total comprehensive income for the period	-	-	41.7	0.4	-4.9	3.3	40.5	1.5	41.9
Equity-settled share-based payment	-	-	0.3	-	-	-	0.3	-	0.3
Proceeds from shares issued	38.9	113.4	-	-	-	-	152.3	-	152.3
New share issue costs	-	-0.6	-	-	-	-	-0.6	-	-0.6
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-0.8	-0.8
Total transaction with owners	38.9	112.8	0.3	-	-	-	152.0	-0.8	151.2
Equity at 31 Dec 2015	125.2	389.1	-37.3	-22.5	3.7	-17.2	440.9	7.1	448.0

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 2015.

As of the second quarter 2016, Eltel has applied ESMA's (European Securities and Markets Authority) new 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 in page 20 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.

NET SALES BY SEGMENT

EUR million	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015
Power					
Net sales (external)	148.0	151.8	262.7	259.2	561.4
Inter-segment sales	0.0	0.8	0.2	1.2	6.3
Communication					
Net sales (external)	181.1	113.2	324.9	210.0	541.9
Inter-segment sales	0.3	0.4	0.8	1.0	1.8
Transport & Security					
Net sales (external)	40.0	42.9	68.9	77.6	151.6
Inter-segment sales	0.0	0.1	0.0	0.1	0.2
Elimination of sales between segments	-0.4	-1.4	-1.0	-2.3	-8.2
Net sales, total	**369.0**	**307.8**	**656.6**	**546.8**	**1,254.9**

RECONCILIATION OF SEGMENT RESULTS

EUR million	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015
Operative EBITA by segment					
Power	6.8	7.7	8.2	9.8	29.6
Communication	9.7	6.1	12.3	9.9	34.2
Transport & Security	-8.1	3.4	-8.1	5.8	11.4
Items not allocated to operating segments*	-2.7	-3.3	-3.4	-6.2	-13.0
Operative EBITA, Group	5.7	13.9	8.9	19.2	62.2
Items affecting comparability in EBITA**	-	0.0	-	-2.6	-1.7
EBITA before acquisition-related amortisations	5.7	14.0	8.9	16.7	60.5
Amortisation of acquisition-related intangible asset	-3.6	-3.1	-7.2	-6.1	-13.9
Operating result (EBIT)	2.1	10.9	1.7	10.5	46.6
Items affecting comparability, non-cash financial expenses for pre IPO financing	-	-	-	-3.5	-3.5
Other financial expenses, net	-2.4	-1.8	-6.1	-6.2	-10.9
Result before taxes	**-0.3**	**9.1**	**-4.4**	**0.9**	**32.2**

* Items not allocated to operating segments consist of group management function and other group level expenses

** Items affecting comparability are items which management does not consider to form part of the ongoing operative business. In 2015 these consisted of IPO-related costs and gain from revaluation of Eltel's previously owned 50% of Eltel Sønnico AS to fair value.

BUSINESS COMBINATIONS

EUR million	Q2 2016
Fair value of consideration transferred at acquisition date	
Amount settled in cash	8.1
Contingent consideration	9.6
Total	17.7
Fair value of recognised amounts of identifiable net assets	
Property, plant and equipment	0.6
Intangible assets	2.1
Available-for-sale investments	0.1
Inventories	0.1
Trade and other receivables	4.5
Cash and cash equivalents	0.0
Total assets	7.4
Short-term debt	0.3
Deferred tax liability on fair value adjustments	0.6
Trade and other payables	4.0
Total liabilities	4.9
Identifiable net assets	**2.6**
Goodwill on acquisitions	**15.2**
Consideration transferred settled in cash	8.1
Cash and equivalents acquired	-0.1
Net cash outflow on acquisition	8.2
Acquisition costs charged to expenses	0.1
Net cash paid relating to the acquisitions	**8.2**

Celer Oy

On 1 April 2016, Eltel closed the acquisition of Celer Oy. Celer Oy is one of the key players in the signalling sector for the railway market in Finland with an annual turnover of approximately EUR 6 million. Celer had 29 employees with highly specialised signalling and safety competences. This acquisition of Celer Oy is well in line with Eltel's strategic plan to expand in the Finnish market. Eltel's customers have extensive investment plans and there are increasing needs to ensure sufficient competences and resources within this sector. The acquisition is complementary to Eltel's current offering in Finland and provides clear synergies with its existing rail and road business of Eltel. This acquisition further expands Eltel's Nordic footprint in the signalling market as a complement to the acquisition of Vete Signaltjenester AS in Norway made in October 2015.

U-SERV & EVB

On 1 May 2016, Eltel acquired both 100% of U-SERV GmbH, a company operating in the electricity and gas metering sector in Germany, and metering related field service assets of EVB Billing und Services GmbH, a subsidiary of ATV Energie GmbH. U-SERV is one of the major meter service companies in Germany with annual net sales of approximately EUR 9 million and approximately 50 persons with permanent employment and an ability to mobilise more than 1,000 employees when needed. The product offering comprises national electrical meter replacements, read-outs, customer self-readings and gas meter adjustments and replacements. The deal with EVB comprises the transfers of EVB's customer base as well as an offer to the approximately 80 employees to transfer to Eltel. Through its existing business development agreement ATV, EVB and Eltel will collaborate to expand the business for smart metering service in Germany.

Eltel has a strong market position in the smart metering sector in the Nordics and this acquisition expands Eltel's footprint to cover also the German market. U-SERV's strong and rapidly growing local presence in combination with Eltel's vast international competence in smart meter roll-outs offers good potential for further growth. U-SERV's installations in gas applications offer Eltel a new opportunity to grow the smart metering business and the customer base offers future opportunities for Eltel to expand its wider service offering for distribution operators in Germany. The German market is opening up for smart meter roll-out investments in accordance with the new German legislation for the period 2017 to 2032. The total amount of electricity meters estimated to be changed during this period amounts to 43 million units. In addition, approximately five million gas meters are estimated to be changed in the future.

EARNINGS PER SHARE

	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015
Net result attributable to equity holders of the parent	-0.4	8.1	-4.1	0.5	41.7
Weighted average number of common shares, basic	62,624,238	62,624,238	62,624,238	58,745,409	60,700,764
Weighted average number of common shares, diluted	62,671,703	62,624,238	62,655,784	58,745,409	60,702,870
Earnings per share EUR, basic	-0.01	0.13	-0.07	0.01	0.69
Earnings per share EUR, diluted	-0.01	0.13	-0.07	0.01	0.69

NET WORKING CAPITAL (NWC) AND CAPITAL EMPLOYED

EUR million	30 Jun 2016	30 Jun 2015	31 Dec 2015
Inventories	7.7	11.0	14.5
Trade and other receivables	395.4	324.9	341.1
Provisions	-15.8	-6.7	-6.9
Advances received	-58.7	-55.3	-62.7
Trade and other payables	-260.7	-223.4	-281.9
Other*	1.3	-10.8	3.5
Net working capital	69.1	39.8	7.6
Intangible assets excluding acquisition-related allocations	3.9	3.0	3.7
Property, plant and equipment	37.7	35.8	38.0
Capital employed	110.7	78.6	49.4
Average capital employed	94.6	75.0	34.4

*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.

DERIVATIVE FINANCIAL INSTRUMENTS

	30 Jun 2016		30 Jun 2015		31 Dec 2015	
EUR million	Nominal values	Net fair values	Nominal values	Net fair values	Nominal values	Net fair values
Interest rate derivatives	80.5	-1.8 [1)]	158.1	0.9 [3)]	157.8	-1.1 [5)]
Foreign exchange rate derivatives	92.6	0.4 [2)]	73.9	0.5 [4)]	82.0	0.3 [6)]
Embedded derivatives	44.0	4.0	71.6	7.6	58.5	6.2
Total	**217.1**	**2.6**	**303.6**	**9.0**	**298.3**	**5.4**

Designated as cash flow hedge 1) EUR -1.1 million 2) EUR 0.0 million 3) EUR 0.9 million 4) EUR -0.1 million 5) EUR -1.1 million 6) 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. Fair value of other financial instruments corresponds their book value.

TRANSACTIONS WITH RELATED PARTIES

No transactions have taken place between Eltel and related parties that significantly affect the company's position and earnings during the quarter.

QUARTERLY KEY FINANCIAL FIGURES FOR THE GROUP

EUR million	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015	Jan-Mar 2015
Net sales	369.0	287.5	397.3	310.8	307.8	239.0
Net sales growth, %	19.9	20.3	12.8	-6.1	2.7	-7.8
Operative EBITA	5.7	3.2	20.5	22.5	13.9	5.3
Operative EBITA margin, %	1.6	1.1	5.2	7.2	4.5	2.2
EBITDA	9.3	6.3	23.9	26.3	16.7	5.5
EBITA	5.7	3.2	20.5	23.3	14.0	2.7
EBITA margin, %	1.6	1.1	5.2	7.5	4.5	1.1
Operating result (EBIT)	2.1	-0.4	16.5	19.6	10.9	-0.4
EBIT margin, %	0.6	-0.1	4.2	6.3	3.5	-0.2
Result after financial items	-0.3	-4.1	14.3	17.0	9.1	-8.3
Net result for the period	-0.1	-3.6	17.3	25.2	8.3	-7.5
Earnings per share EUR, basic	-0.01	-0.06	0.27	0.39	0.13	-0.14
Earnings per share EUR, diluted	-0.01	-0.06	0.27	0.39	0.13	-0.14
Return on capital employed, %*	40.0	53.6	135.7	42.8	33.3	35.1
Return on equity (ROE), %*	9.2	11.1	12.3	10.1	3.1	2.2
Leverage ratio*	3.6	2.6	2.0	3.6	4.1	4.2
Net working capital	69.1	48.9	7.6	74.3	39.8	47.6
Operative cash flow	-15.7	-37.4	90.4	-7.4	22.7	-59.9
Cash conversion, %*	68.8	112.1	75.8	4.5	78.1	12.0
Number of personnel, end of period	9,674	9,601	9,568	9,236	8,223	7,967

* calculated on a rolling 12-month basis

QUARTERLY SEGMENT INFORMATION

NET SALES

EUR million	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015	Jan-Mar 2015
Power	148.1	114.8	171.3	135.8	152.6	107.8
Communication	181.4	144.3	192.4	140.3	113.6	97.4
Transport & Security	40.0	29.0	37.5	36.6	42.9	34.8
Elimination of sales between segments	-0.4	-0.6	-3.9	-1.9	-1.4	-1.0
Net sales, total	**369.0**	**287.5**	**397.3**	**310.8**	**307.8**	**239.0**

OPERATIVE EBITA BY SEGMENT

EUR million	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015	Jan-Mar 2015
Power	6.8	1.4	10.2	9.6	7.7	2.1
% of net sales	4.6	1.2	5.9	7.1	5.1	1.9
Communication	9.7	2.6	13.5	10.8	6.1	3.8
% of net sales	5.4	1.8	7.0	7.7	5.3	3.9
Transport & Security	-8.1	-0.1	1.4	4.2	3.4	2.3
% of net sales	-20.2	-0.3	3.8	11.4	8.0	6.7
Costs not allocated to segments	-2.7	-0.7	-4.6	-2.2	-3.3	-2.9
Operative EBITA	**5.7**	**3.2**	**20.5**	**22.5**	**13.9**	**5.3**
% of net sales	1.6	1.1	5.2	7.2	4.5	2.2

NUMBER OF EMPLOYEES BY SEGMENT, AT THE END OF PERIOD

	Apr-Jun 2016	Jan-Mar 2016	Oct-Dec 2015	Jul-Sep 2015	Apr-Jun 2015	Jan-Mar 2015
Power	3,536	3,324	3,607	3,347	3,442	3,278
Communication	5,177	5,401	5,126	5,094	4,032	3,971
Transport & Security	687	629	611	566	581	555
Other	274	247	224	229	168	163
Total	**9,674**	**9,601**	**9,568**	**9,236**	**8,223**	**7,967**

Definitions and key ratios

IFRS key ratios

EARNINGS PER SHARE (EPS)	Net result attributable to equity holders of the parent / Weighted average number of ordinary shares

Alternative performance measures (APMs)

ORGANIC NET SALES	Organic net sales exclude Norwegian communication business and Sønnico and Vete acquisitions in 2015 and U-SERV acquisition in 2016 and is presented with comparable exchange rates
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
COMMITTED ORDER BACKLOG	The total value of committed orders received but not yet recognised as sales
OPERATIVE CASH FLOW	EBITA + depreciation + change in net working capital – net purchase of PPE (capex)
CASH CONVERSION, %*	Operative cash flow x 100 / EBITA
EQUITY RATIO, %	Total equity x 100 / Total assets - advances received
NET DEBT	Interest-bearing debt (excluding shareholder loans) - cash and cash equivalents
LEVERAGE RATIO*	Net debt / EBITDA
CAPITAL EMPLOYED	Net working capital + Intangible assets excluding goodwill and acquisition-related allocations + Property, plant and equipment
RETURN ON CAPITAL EMPLOYED, %*	EBIT x 100 / Capital employed (average over the reporting period)
RETURN ON EQUITY, %*	Net result x 100 / Total equity (average over the reporting period)

* calculated on a rolling 12-month basis

Parent company

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

PARENT COMPANY INCOME STATEMENT

EUR million	Apr-Jun 2016	Apr-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Dec 2015
Net sales	-	-	-	-	1.4
Administrative income and expenses	-1.1	-1.4	-2.3	-3.4	-4.9
Interest and other financial income	4.9	6.4	9.9	13.3	23.7
Interest and other financial expenses	-1.2	-0.2	-2.0	-1.5	-2.6
Net financial items	3.7	6.2	7.9	11.8	21.1
Result after financial items	**2.6**	**4.8**	**5.6**	**8.3**	**17.5**
Appropriations					
Group contributions given	-	-	-	-	-17.2
Taxes	-0.6	-	-1.2	-	-
Net result	**2.0**	**4.8**	**4.4**	**8.3**	**0.4**

PARENT COMPANY BALANCE SHEET

EUR million	30 Jun 2016	30 Jun 2015	31 Dec 2015
ASSETS			
Non-current assets			
Shares in group companies	241.6	241.6	241.6
Deferred tax assets	0.1	-	0.1
Other financial asset	35.0	35.0	35.0
Receivables from group companies	348.3	362.0	357.6
Total non-current assets	625.0	638.6	634.3
Current assets			
Trade and other receivables	0.9	1.5	2.2
Cash pool receivable	50.1	-	5.8
Cash and cash equivalents	0.1	-	-
Total current assets	51.1	1.5	8.1
TOTAL ASSETS	676.1	640.1	642.4
EQUITY AND LIABILITIES			
Equity	493.7	512.3	504.0
Non-current liabilities			
Debt	83.2	83.2	83.3
Liabilities to shareholders	35.0	35.0	35.0
Liabilities to group companies	-	0.4	-
Deferred tax liabilities	1.2	-	-
Total non-current liabilities	119.5	118.6	118.3
Current liabilities			
Debt	43.9	-	-
Liabilities to group companies	17.3	6.5	17.5
Provisions	-	0.4	-
Trade and other payables	1.7	2.3	2.5
Total current liabilities	62.9	9.2	20.1
Total liabilities	182.4	127.8	138.4
TOTAL EQUITY AND LIABILITIES	676.1	640.1	642.4

PRESENTATION OF THE INTERIM REPORT

Analysts and media are invited to participate in the second quarter 2016 briefing on 19 August 2016 at 10:00 a.m. (CET) where Eltel's President and CEO Axel Hjärne and CFO Gert Sköld will present the report and answer questions. A live audiocast as well as the presentation will be available at www.eltelgroup.com/investors.

FOR FURTHER INFORMATION, PLEASE CONTACT:

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FINANCIAL CALENDAR

Interim report January-September 2016	9 November 2016
Full-year report January-December 2016	10 February 2017

This information is information that Eltel AB is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, at 08.00 CET on 19 August 2016.

Eltel in Brief

Eltel is a leading European provider of technical services to the Infranet industry-critical infrastructure in the segments of Power, Communication and Transport & Security – with operations throughout the Nordic and Baltic regions, Poland, Germany and the United Kingdom. Eltel provides a broad and integrated range of services spanning from maintenance and upgrade services to project deliveries. Eltel has a diverse contract portfolio and a loyal and growing customer base of large network owners.

The group began its journey towards becoming a leading European provider of technical services for the Infranet industry in early 2000. At that point of time, deregulation, privatisations and needs of efficiency improvements among electricity utilities and telecom operators started to shape the industry. Since then, Eltel has grown rapidly and, for the financial year ended 31 December 2015, the group generated net sales of EUR 1,255 million and reported operative EBITA of EUR 62.2 million.

STRATEGY AND TARGETS

Eltel has a clear strategic agenda of capitalising on its strong market position and ensuring sustained profitable growth. The company has set four financial targets in the journey towards its vision of becoming the leading Infranet service company in Europe.

MEDIUM- TO LONG-TERM TARGETS

Eltel has defined the following medium- to long-term targets:

- Average annual organic revenue growth of approximately 5% and approximately 5% annual growth from M&A including new outsourcing
- a reported EBITA margin of approximately 6%
- average cash conversion of 95-100% of EBITA, and
- a leverage ratio of 2.0-2.5 x Net debt/EBITDA

Medium- to long-term should roughly be seen as a three- to five-year period.

DIVIDEND POLICY

The Board of Directors has adopted a dividend policy whereby 50%, with some flexibility with payout ratio, of the Company's consolidated net profit shall be paid in dividends over time.

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