# Financial Statements 2011

3 February 2012

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# ELISA'S FINANCIAL STATEMENTS 2011

## Year 2011

- Revenue increased to EUR 1,530 million (1,463)
- EBITDA grew to EUR 506 million (485) and EBIT to EUR 295 million (268)
- Profit before tax amounted to EUR 265 million (197)
- Earnings per share was EUR 1.29 (0.96)
- Cash flow after investments was EUR 207 million (172)
- The number of  Elisa Viihde IPTV customers exceeded 100,000 during Q3
- The Board of Directors proposes a dividend of EUR 1.30 per share

## Fourth quarter 2011

- Revenue increased to EUR 401 million (383)
- EBITDA grew to EUR 133 million (123) and EBIT to EUR 79 million (69)
- Cash flow after investments was EUR 65 million (28)
- Mobile ARPU was EUR 18.7 (19.0 in the third quarter)
- Churn was to 13.4 per cent  (12.7 in the third quarter)
- The number of Elisa's mobile subscriptions increased by 64,000 during the quarter.
- The number of fixed broadband subscriptions increased by 4,000 on the previous quarter
- Net debt/EBITDA was 1.6 (1.6 end 2010) and gearing 94 per cent (93 end 2010)

**Key indicators**

| | 4th Quarter | | Full year | |
|---|---|---|---|---|
| EUR million | 2011 | 2010 | 2011 | 2010 |
| Revenue | 401 | 383 | 1,530 | 1,463 |
| EBITDA | 133 | 123 | 506 | 485 |
| EBIT | 79 | 69 | 295 | 268 |
| Profit before tax[1)] | 72 | 66 | 265 | 197 |
| Earnings per share, EUR[1)] | 0.36 | 0.33 | 1.29 | 0.96 |
| Capital expenditures | 58 | 56 | 197 | 184 |

[1)] Excluding non-recurring CDO guarantee settlement profit before tax 10-12/2010 EUR 61 mil and 1-12/2010 EUR 237 mil, and earnings per share 10-12/2010 EUR 0.31 and 1-12/2010 EUR 1.15.

**Financial position and cash flow**

| EUR million | End 2011 | End 2010 |
|---|---|---|
| Net debt | 788 | 776 |
| Net debt / EBITDA [1)] | 1.6 | 1.6 |
| Gearing ratio, % | 93.8 | 93.2 |
| Equity ratio, % | 42.3 | 42.5 |

| | 4th Quarter | | Full year | |
|---|---|---|---|---|
| EUR million | 2011 | 2010 | 2011 | 2010 |
| Cash flow after investments [2)] | 65 | 28 | 207 | 172 |

[1)] (interest-bearing debt – financial assets) / (4 previous quarters' EBITDA exclusive of non-recurring items)
[2)] Excluding non-recurring CDO guarantee settlement 10-12/2010 EUR 68 mil and 1-12/2010 EUR 212 mil

The Board of Directors proposes to the Annual General Meeting a dividend of EUR 1.30 per share. The Board of Directors decided also to propose to the General Meeting an authorisation to acquire maximum 5 million treasury shares, which corresponds to 3 per cent of the totalshares.

Additional information regarding the Key Performance Indicators is available on www.elisa.com/investors Elisa Quarterly Data.xls.

## CEO Veli-Matti Mattila:

"**Solid growth in 2011**

Elisa's revenue developed well and earnings increased in 2011. Revenue from the mobile business and sales of terminal equipment and new services developed favorably. Earnings were strengthened by consistent productivity improvements in line with the strategy. The competitive situation continued to be challenging in 2011. Nevertheless, Elisa was able to strengthen both its market position and competitiveness.

The growth in mobile subscriptions continued and the number of subscriptions increased by more than 360,000 during the year, while fixed broadband grew by 19,000. During the last quarter of the year, mobile subscriptions grew by more than 64,000 and fixed broadband subscriptions by about 4,000.

The Consumer Customers business' revenue developed well with the growth of mobile revenue and new services. The use of smart phones boosted mobile revenue growth. Elisa's mobile connections also expanded to all PlayStation® Vita handheld consoles sold in Finland. The popular Elisa Viihde service passed an important milestone when the number of users exceeded 100,000 in the third quarter. Elisa was the first in Finland to combine a new era TV service with the possibility of watching recordings on a tablet. Elisa Viihde can now also be viewed through Android and iPad tablet applications.

The Corporate Customers business was strengthened with the growth of ICT services. We further reinforced the ICT service offering to improve companies' profitability and flexibility by introducing several new services to the market. For example, by means of customer service implemented through a video connection, companies and public administration organizations can offer their customers personal service face-to-face over the network. Elisa obtained significant openings in the delivery of ICT solutions for public administration with, among other things, KL-Kuntahankinnat, which is responsible for the procurements of over 400 municipal organizations, and Kuntien Tiera, which offers municipalities' information management services.

In 2011, we continued to strengthen the capacity and speed of our 3G network. An independent study proved once again that, compared to other Finnish operator networks, Elisa's 3G network has the widest coverage. This time the study showed that Elisa's 3G network is also the fastest. Elisa was the first Finnish operator to introduce test base stations based on LTE800 technology. Elisa introduced 4G speeds in its 3G network in over one hundred locations. The new speeds enable, for example, faster net surfing, games and video conferences over mobile broadband.

Our consistent improvement in customer satisfaction and productivity will continue. Elisa creates services that improve customers' productivity and provide enhanced user experiences. Combined with our strong financial position, this creates a solid foundation for the future."

ELISA CORPORATION

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# FINANCIAL STATEMENTS 2011

The Financial Statements have been prepared in accordance with the IFRS recognition and measurement principles but not all IAS 34 requirements have been observed.

## Market situation

The competitive environment has been intense but stable in Finland. The mobile subscription base and the use of data services continued to evolve favourably. The mobile smartphone market is growing rapidly. With a broader assortment now available, over two thirds of the mobile handsets sold are smartphones. This further increases the use of mobile data services. Another factor contributing to the mobile market growth has been the use of multiple terminal devices for different purposes. The number and usage of traditional fixed network subscriptions decreased at the same pace as in the previous quarters.

The market for new visual communications (video conference) services continues to develop favourably. The demand for non-linear TV services is also growing.

## Revenue, earnings and financial position

**Revenue and earnings**

| EUR million | 2011 | 2010 | 2009 |
|---|---|---|---|
| Revenue | 1,530 | 1,463 | 1,430 |
| EBITDA | 506 | 485 | 484 |
| *EBITDA-%* | *33.1* | *33.1* | *33.8* |
| EBITDA excluding non-recurring items | 506 | 485 | 484 |
| *EBITDA-% excluding non-recurring items* | *33.1* | *33.1* | *33.8* |
| EBIT | 295 | 268 | 267 |
| *EBIT-%* | *19.3* | *18.3* | *18.7* |
| Return on equity, % | 24.1 | 17.4 | 19.9 |
| Equity ratio, % | 42.3 | 42.5 | 46.1 |

*Year 2011*

Revenue increased by 5 per cent on the previous year. Revenue growth was driven by increased equipment sales, growth in Corporate Customers' ICT services and Elisa's Estonian business. Consumer Customers' online services, e.g. Elisa Viihde IPTV service also contributed positively to revenue growth. The decrease in usage and subscriptions of traditional fixed telecom services in both segments affected revenue negatively, as did the decrease in mobile termination rates.

EBITDA increased by 4 per cent on the previous year. EBITDA growth was mainly due to higher revenue and cost efficiency measures. The EBITDA margin was negatively affected by the increase in low margin equipment sales and growth in lower margin ICT and online services.

Financial income and expenses totalled EUR -30 million (-71; excluding non-recurring CDO guarantee expense of EUR 40 million, -31). Income taxes in the income statement amounted to EUR -64 million (-47). Elisa's earnings after taxes were EUR 201 million (151). The Group's earnings per share amounted to EUR 1.29 (0.96).

*Fourth quarter 2011*

Revenue increased by 5 per cent from EUR 383 million to EUR 401 million. Revenue growth was driven by the same factors as during January – December, in addition to growth in mobile services.

EBITDA grew 8 per cent from EUR 123 million to EUR 133 million. EBITDA growth was mainly due to growth in revenue, cost efficiency measures and somewhat lower sales expenses. The EBITDA margin was negatively affected by the increase in low margin equipment sales and growth in lower margin ICT and On-line services.

Financial income and expenses totalled EUR -7 million (-2; excluding non-recurring CDO guarantee related income of EUR 5 million, -7). Income taxes in the income statement amounted to EUR -15 million (-15). Elisa's earnings after taxes were EUR 57 million (52). The Group's earnings per share amounted to EUR 0.36 (0.33).

**Financial position**

| EUR million | End 2011 | End 2010 | End 2009 |
|---|---|---|---|
| Net debt | 788 | 776 | 719 |
| Net debt / EBITDA [1)] | 1.6 | 1.6 | 1.5 |
| Gearing ratio, % | 93.8 | 93.2 | 79.8 |
| Equity ratio, % | 42.3 | 42.5 | 46.1 |

| EUR million | Full year 2011 | Full year 2010 | Full year 2009 |
|---|---|---|---|
| Cash flow after investments | 207 | 172 | 252 |

[1)] (interest-bearing debt – financial assets) / (4 previous quarters' EBITDA exclusive of non-recurring items)

*Year 2011*
Elisa's cash flow after investments was EUR 207 million (172; excluding non-recurring CDO guarantee expense, 212). The change in net working capital and increased capital expenditure affected cash flow negatively, while the increase in EBITDA, lower tax payments and share investments had a positive cash flow effect.

*Fourth quarter 2011*
Elisa's financial position and liquidity remained good. Cash flow after investments was EUR 65 million (28; excluding non-recurring CDO guarantee expense, 68). The change in net working capital and income taxes affected cash flow negatively, while the increase in EBITDA and lower M&A investments had a positive cash flow effect.

## Changes in corporate structure

*Year 2011*
Elisa divested its 51 per cent stake in Excenta Oy in May. This has no material impact on Elisa's consolidated income statement or balance sheet.

*Fourth quarter 2011*
On December 16, Elisa transferred the ownership of Elisa Eesti AS to Saunalahti Group Oyj from the parent company. On 31 December 2011, Elisa's wholly-owned subsidiary Saunalahti Group Oyj merged into Elisa Corporation. These changes have no impact on the consolidated income statement or balance sheet. These transactions increased the parent company's result and equity, but there was no tax effect.

## Consumer Customers business

| | 4th Quarter | | Full year | |
|---|---|---|---|---|
| EUR million | 2011 | 2010 | 2011 | 2010 |
| Revenue | 245 | 229 | 930 | 885 |
| EBITDA | 81 | 71 | 301 | 290 |
| *EBITDA-%* | *33.0* | *31.0* | *32.4* | *32.7* |
| EBIT | 50 | 40 | 181 | 165 |
| CAPEX | 37 | 31 | 119 | 108 |

*Year 2011*
The Consumer Customers business' revenue increased by 5 per cent. Revenue growth was driven by increased equipment sales, growth in the Estonian business and mobile services as a result of an increased number of subscriptions. The growth trend in online services continued. The decrease in fixed network usage and subscriptions, and lower mobile termination rates negatively

affected revenue. EBITDA increased by 4 per cent mainly due to revenue growth and cost efficiency measures. The EBITDA margin was negatively impacted by growth in low margin equipment sales and growth in online services.

*Fourth quarter 2011*
Consumer Customers business' revenue increased by 7 per cent. The growth in revenue was mainly attributable to the same reasons as presented for the whole year. EBITDA increased by 14 per cent due to revenue growth, cost efficiency measures, and somewhat lower sales expenses. The EBITDA margin was negatively impacted by growth in both low margin equipment sales and online services.
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## Corporate Customers business

| | 4th Quarter | | Full year | |
|---|---|---|---|---|
| EUR million | 2011 | 2010 | 2011 | 2010 |
| Revenue | 156 | 154 | 600 | 578 |
| EBITDA | 52 | 52 | 205 | 195 |
| *EBITDA-%* | *33.2* | *34.0* | *34.1* | *33.8* |
| EBIT | 29 | 29 | 114 | 103 |
| CAPEX | 21 | 25 | 78 | 76 |

*Year 2011*
The Corporate Customers business' revenue increased 4 per cent. Revenue increased as a result of the growth in ICT services due in part to the previous year's acquisitions, and equipment sales. The decline in usage and subscriptions in traditional fixed telecom services and lower mobile termination rates decreased revenue. EBITDA increased by 5 per cent. The increase in EBITDA was attributable to the revenue growth and cost efficiency measures. The EBITDA margin was negatively impacted by growth in low margin equipment sales and growth in ICT services.

*Fourth quarter 2011*
The Corporate Customers business' revenue increased by 1 per cent mainly for the same reasons as presented for the whole year. EBITDA remained at the same level as the previous year. The EBITDA margin was negatively impacted by growth in low margin equipment sales and ICT services.

## Personnel

In 2011, the average number of personnel at Elisa was 3,757 (3,477). Employee expenses totalled EUR 223 million (208). Personnel at the end of 2011 amounted to 3,772 (3,665). Personnel by segment at the end of the period:

| | End 2011 | End 2010 |
|---|---|---|
| Consumer Customers | 2,153 | 2,084 |
| Corporate Customers | 1,619 | 1,581 |
| Total | 3,772 | 3,665 |

Compared to the corresponding period last year, the number of personnel grew mainly as a result of the growth in both new services and Estonian businesses.

On 19 December 2011, Elisa's Board of Directors approved two new share-based incentive plans for key personnel.

The first plan, called the Performance Share Plan, includes three performance periods based on the calendar years 2012-2014, 2013 - 2015 and 2014 - 2016. The rewards will correspond to the value of maximum approximately 3.3 million Elisa shares. The Board of Directors will decide on the Plan's performance criteria and their targets at the beginning of each performance period.

The Plan's potential reward from the performance period 2012 - 2014 will be based on the increase of the Consumer Customer and Corporate Customer segments' new business revenue and on Elisa's earnings per share. The Plan's rewards will correspond to the value of maximum approximately 1 million Elisa shares including the proportion to be paid in cash.

The second incentive plan is called the Restricted Stock Plan and covers the calendar years 2012 - 2018. The potential rewards of this Plan are based on approximately three year retention periods. The rewards to be paid on the basis of this stock plan correspond to the value of maximum 0.5 million Elisa shares including also the proportion to be paid in cash. So far, no decisions have been made regarding this Plan.

## Investments

| | 4th Quarter | | Full year | |
|---|---|---|---|---|
| EUR million | 2011 | 2010 | 2011 | 2010 |
| Capital expenditures, of which | 58 | 56 | 197 | 184 |
| - Consumer Customers | 37 | 31 | 119 | 108 |
| - Corporate Customers | 21 | 25 | 78 | 76 |
| Shares | 0 | 20 | 0 | 35 |
| Total | 58 | 76 | 197 | 218 |

In 2011, the main capital expenditures relate to the capacity and coverage increase of the 3G network, as well as to other network and IT investments.

## Financing arrangements and ratings

### Valid financing arrangements

| EUR million | Maximum amount | In use on 31.12.2011 |
|---|---|---|
| Committed credit lines | 300 | 25 |
| Commercial paper program 1) | 250 | 189 |
| EMTN program 2) | 1,000 | 375 |

1) The program is not committed
2) European Medium Term Note program, not committed

### Long-term credit ratings

| Credit rating agency | Rating | Outlook |
|---|---|---|
| Moody's Investor Services | Baa2 | Stable |
| Standard & Poor's | BBB | Stable |

The Group's cash and undrawn committed credit lines totalled EUR 334 million at 31 December 2011 (EUR 300 million at 31 December 2010).

On 3 June 2011, Elisa signed a EUR 170 million five-year Syndicated Revolving Credit Facility with an option to be extended by two years. This new facility replaces the previous facility of the same amount that was signed in June 2005.

On 29 July 2011, Elisa signed a EUR 120 million long-term loan agreement with The European Investment Bank and it was drawn on 15 September 2011.

On 22 September 2011, Elisa paid back in full a maturing bond of EUR 226 million.

On 21 December 2011, Elisa signed a EUR 50 million seven year loan agreement with the Nordic Investment Bank and it was drawn on 27 December 2011.

## Share

Share trading volumes and closing prices are based on the trades made in NASDAQ OMX Helsinki.

| | 4th Quarter | | Full year | |
|---|---|---|---|---|
| **Trading of shares** | 2011 | 2010 | 2011 | 2010 |
| Shares traded, millions | 27.4 | 38.5 | 121.9 | 144.7 |
| Volume, EUR million | 423,7 | 615.8 | 1,880.9 | 2,226.7 |
| % of shares | 16.4 | 23.2 | 73.1 | 87.0 |

| **Shares and market values** | End 2011 | End 2010 |
|---|---|---|
| Total number of shares | 166,662,763 | 166,307,586 |
| Treasury shares | 10,435,275 | 10,534,606 |
| Outstanding shares | 156,227,488 | 155,773,080 |
| Closing price, EUR | 16.13 | 16.27 |
| Market capitalisation, EUR million | 2,520 | 2,534 |
| Treasury shares, % | 6.26 | 6.33 |

| **Number of shares** | Total number of shares | Treasury shares | Outstanding shares | Change in equity, € |
|---|---|---|---|---|
| Shares as 31.12.2010 | 166,307,586 | 10,534,506 | 155,773,080 | |
| Share incentive plan 1.3.2011[1)] | | -99,483 | 99,483 | |
| Returned shares, incentive plan | | 252 | -252 | |
| Option subscription 22.3.2011[2)] | 16,839 | | 16,839 | 159,465 |
| Option subscription 27.6.2011[3)] | 13,975 | | 13,975 | 208,247 |
| Option subscription 24.10.2011[4)] | 1,350 | | 1,350 | 11,570 |
| Option subscription 29.12.2011[5)] | 323,013 | | 323,013 | 2,639,016 |
| Shares at 31.12.2011 | 166,662,763 | 10,435,275 | 156,227,488 | 3,018,298 |

[1)] Stock exchange bulletin 11.2.2011, [2)] Stock exchange bulletin 22.3.2011, [3)] Stock exchange bulletin 26.6.2011, [4)] Stock exchange bulletin 24.10.2011, [5)] Stock exchange bulletin 29.12.2011

| **Options** | 2007A | 2007B | 2007C | Total |
|---|---|---|---|---|
| Total number of options | 850,000 | 850,000 | 850,000 | 2,550,000 |
| Held by Elisa or not distributed | 0 | 268,000 | 245,000 | 513,000 |
| Used in share subscription | 12,375 | 342,802 | 0 | 355,177 |
| Used in subscription, not registered | | 1,000 | | 1,000 |
| Terminated | 837,625 | 0 | 0 | 837,625 |
| Outstanding | 0 | 238,198 | 605,000 | 843,198 |
| Current subscription price, € | - | 8,17 | 11,27 | |
| Subscription period | 1.10.2009-31.5.2011 | 1.10.2010-31.5.2012 | 1.10.2011-31.5.2013 | |

At the end of the year, Elisa's total number of the shares was 166,662,763 (166,307,586), all within one share series.

On 1 March 2011, Elisa transferred 99,483 treasury shares to persons involved in the 2009 - 2011 share based incentive plan. In December 2011, 252 of the transferred shares were returned to company.

In April, Elisa distributed a dividend of EUR 0.90 per share, totalling EUR 140 million, in accordance with the decision of the shareholders at the Annual General Meeting. In November, Elisa distributed an extraordinary dividend of EUR 0.40 per share, totalling EUR 62 million, based on the Annual General Meeting's authorisation to distribute funds from the unrestricted equity to a maximum amount of EUR 70 million.

On 22 March 2011, a total of 16,839 new Elisa shares have been subscribed with 2007B option rights. A subscription price of EUR 159,000 has been booked into Elisa's reserve as invested non-restricted equity. The subscription period for the Elisa 2007B option rights began on 1 December 2010 and shall expire on 31 May 2012.

From 11 March 2011 to 31 May 2011, a total of 13,975 new Elisa shares have been subscribed with 2007A and 2007B option rights (12,375 with 2007A and 1,600 with 2007B). A subscription price of EUR 208,000 has been booked into Elisa's reserve for invested non-restricted equity.

From 1 June 2011 to 13 October 2011, a total of 1,350 new Elisa shares have been subscribed with 2007B option rights. A subscription price of EUR 11,600 has been booked into Elisa's reserve for invested non-restricted equity.

From 24 October 2011 to 12 December 2011, a total of 323,013 new Elisa shares have been subscribed 2007B option rights. Subscription price, EUR 2,639,000 has been booked into Elisa's reserve for invested non-restricted equity.

For more information, see Elisa's Annual report 2010 pages 44-45 and the Stock exchange release of 18 December 2007.

## Research and development

Elisa invested EUR 5 million in research and development, of which EUR 2 million has been capitalised in 2011 (EUR 10 million in 2010 and EUR 10 million in 2009), corresponding to 0.4 per cent of revenue (0.7 per cent in 2010 and 0.7 per cent in 2009). The majority of the service development occurs during the ordinary course of business and is accounted for as a normal operating expense.

## The Annual General Meeting

In accordance with the proposal of the Board of Directors, Elisa's Annual General Meeting decided on a dividend of EUR 0.90 per share based on the adopted financial statements of 2010. The dividend affected the Elisa 2007 stock options by reducing the strike price of the series 2007A stock options to EUR 15.72, series 2007B stock options to EUR 8.57 and series 2007C stock options to EUR 11.67.

The Annual General Meeting adopted the financial statements for 2010, and the Board of Directors and the CEO were discharged from liability.

The number of members of the Board of Directors was confirmed at five. Ari Lehtoranta, Raimo Lind, Leena Niemistö, Eira Palin-Lehtinen and Risto Siilasmaa were re-elected as members of the Board of Directors. The Board of Directors elected Risto Siilasmaa as the Chairman of the Board and Raimo Lind as the Deputy Chairman. Risto Siilasmaa (Chairman), Ari Lehtoranta and Eira Palin-Lehtinen were appointed to the Nomination and Compensation Committee. Raimo Lind (Chairman), Leena Niemistö and Eira Palin-Lehtinen were appointed to the Audit Committee.

KPMG Oy Ab, authorised public accountants, was appointed the company's auditor. APA Esa Kailiala is the responsible auditor.

## The Board of Directors' authorisations

The Annual General Meeting accepted the proposal of the Board of Directors to resolve to distribute funds from the unrestricted equity to a maximum amount of EUR 70 million. The authorisation is effective until the beginning of the following Annual General Meeting.

The Annual General Meeting decided on the authorisation to repurchase or accept as pledge the company's own shares. The repurchase may be directed. The number of shares under this authorisation is 5 million at maximum. The authorisation is effective until 30 June 2012.

The Annual General Meeting of 2010 approved the proposal of the Board of Directors on the issuance of shares as well as the issuance of special rights entitled to shares. The issue may be directed. The authorisation is effective until 30 June 2014. A maximum aggregate of 15 million of the company's shares can be issued under the authorisation.

## Significant legal issues

The verdict on 28 May 2009 regarding Jippii Group stock exchange disclosures in 2001 became final upon the Supreme Court decision on 10 March 2010 to dismiss the appeal. The Supreme Court, however, cancelled the decision and returned it to the Court of Appeals on 10 January 2011.

On 15 June 2011, The Supreme Court of Finland issued a verdict that confirms the right of Elisa and Saunalahti to advertise Elisa's 3G network as having the largest area coverage in Finland.

In May 2010, the Finnish Communications Regulatory Authority (Ficora) issued a decision on pricing local loop access, according to which Elisa must reduce its pricing to a level based on Ficora's decision. Proceedings on Elisa's appeal continue in the Supreme Administrative Court.

## Regulatory issues

Changes to the Finnish Communications Market Act regarding number portability rules came into force on 25 May 2011. According to the new act, customers can transfer their telephone number to another operator in the middle of a fixed-term subscription agreement.

On 23 June 2011, Elisa and other mobile operators agreed on interconnection fees for 2011–2014. All Finnish mobile operators have the same interconnection fee, which is currently 3.82 cents per minute. The interconnection fee will be reduced to 2.8 cents per minute effective from 1 December 2012 until 30 November 2014.

The government proposal regarding restrictions in telemarketing of mobile subscriptions was issued last year. The act is expected to come into force after the parliament reading during the first half of 2012.

## Substantial risks and uncertainties associated with Elisa's operations

Risk management is part of Elisa's internal control system. It aims to ensure that risks affecting the company's business are identified, influenced and monitored. The company classifies risks into strategic, operational, accidental and financial risks.

*Strategic and operational risks:*
The telecommunications industry is under intense competition in Elisa's main market areas, which may have an impact on Elisa's business. The telecommunications industry is subject to heavy regulation. Elisa and its businesses are monitored and regulated by several public authorities. This regulation also affects the price level of some products and services offered by Elisa. Regulation may also require investments, which have long pay-back times.

The rapid developments in telecommunications technology may have a significant impact on Elisa's business.

Elisa's main market is Finland, where the number of mobile phones per inhabitant is among the highest in the world, and growth in subscriptions is thus limited. Furthermore, the volume of phone traffic in Elisa's fixed network has decreased in the past few years. These factors may limit the opportunities for growth.

*Accident risks:*
The company's core operations are covered by insurance against damage and interruptions caused by accidents. Accident risks also include litigations and claims.

*Financial risks:*
In order to manage interest rate risk, the Group's loans and investments are diversified in fixed- and variable-rate instruments. Interest rate swaps can be used to manage interest rate risk.

As most of Elisa's operations and cash flow are denominated in Euros, the exchange rate risk is minor.

The objective of liquidity risk management is to ensure the Group's financing in all circumstances. Elisa has cash reserves, committed credit facilities and a sustainable cash flow to cover its foreseeable financing needs.

Liquid assets are invested within confirmed limits to investment targets with a good credit rating. Credit risk concentrations in accounts receivable are minor as the customer base is wide.
A detailed description of the financial risk management can be found in note 34 of the Annual Report 2010.

## Environmental issues

Elisa carries out high-quality and environmentally responsible telecommunications services. The utilisation of these services reduces the need to transport people and goods, which leads to a reduction in traffic.

Elisa is involved in the building of a low-carbon society and in the promotion of sustainable development. Elisa contributes to these goals by decreasing both its own and its customers' carbon footprint with the help of Elisa's services. These objectives are achieved through continuous measurement and assessment.

Reduction of our customers' carbon footprint guides Elisa's environmental responsibility. In 2011, Elisa's ICT and online services reduced this footprint by a total of 15,232 tonnes of carbon dioxide (tCO2).

In Finland, the emissions of Elisa's radio network per subscription decreased by 18 per cent and in relation to transferred mobile data volume by more than 68 percent, as compared with the baseline year 2009.

## 2011 Annual Report and Corporate Governance Statement

Elisa will publish its 2011 Annual Report, which contains the report by the Board of Directors and the financial statements for 2011, as well as a separate Corporate Governance Statement during week 10 (beginning 5 March 2012) on its website at www.elisa.com.

## Events after the financial period

There are no major events after the financial period.

## Outlook for 2012

The budget deficits and solvency issues in several European countries have impacted the Finnish economy to some extent. The macro economic outlook for Finland has weakened from the previous year. The risk of an even less favourable general economic development creates uncertainty. Competition in the Finnish telecommunications market also remains challenging.

Full year revenue is estimated to be at the same level as in the previous year. The use of mobile communications, especially mobile broadband services and equipment sales, is continuing to rise. In addition, Elisa continues to invest in ICT and new online services, which are expected to boost revenue. Full year EBITDA, excluding non-recurring items, is anticipated to be at the same level, and EBIT is expected to improve on last year given the lower level of depreciation. Full-year capital expenditure is expected to be maximum 12 per cent of revenue.

In addition to its strong position as a network service provider, Elisa is transforming itself to be able to provide customers with exciting and relevant new services. Among the factors contributing to long-term growth and profitability improvement is mobile data market growth, as well as new online and ICT services. Elisa continues determinedly to employ its efficiency measures. Elisa's financial position and liquidity are good.

## Profit distribution

The Board of Directors proposes to the Annual General Meeting a dividend of EUR 1.30 per share. The payment corresponds to 101 per cent of the financial period's net result.

Shareholders who are listed in the company's register of shareholders maintained by Euroclear Finland Ltd on 11 April 2012 are entitled to funds distributed by the General Meeting. The Board of Directors proposes that the payment date be 18 April 2012. The profit for the period shall be added to retained earnings.

The Board of Directors decided also to propose to the General Meeting that the Board of Directors be authorised to acquire a maximum of 5 million treasury shares, which corresponds to 3 per cent of the total shares.

BOARD OF DIRECTORS

*The annual financial statements figures presented in this release are based on the company's audited financial statements. The auditor's report was issued on 2 February 2012.*

## Consolidated Income Statement

| EUR million | Note | 10-12 2011 | 10-12 2010 | 1-12 2011 | 1-12 2010 |
|---|---|---|---|---|---|
| **Revenue** | 1 | **400,7** | 382,6 | **1 530,0** | 1 463,2 |
| Other operating income | | **2,2** | 2,5 | **5,8** | 5,1 |
| Materials and services | | **-170,2** | -163,3 | **-643,5** | -600,2 |
| Employee expenses | | **-58,7** | -55,0 | **-223,0** | -208,3 |
| Other operating expenses | | **-41,4** | -43,6 | **-163,1** | -175,1 |
| **EBITDA** | 1 | **132,6** | 123,2 | **506,2** | 484,7 |
| Depreciation and amortisation | | **-53,8** | -54,6 | **-211,4** | -216,7 |
| **EBIT** | 1 | **78,8** | 68,6 | **294,8** | 268,0 |
| Financial income | | **3,0** | -1,1 | **11,6** | 9,5 |
| Financial expense | | **-9,7** | -1,1 | **-41,2** | -80,4 |
| Share of associated companies' profit | | **0,0** | 0,0 | **0,1** | 0,0 |
| **Profit before tax** | | **72,1** | 66,4 | **265,3** | 197,1 |
| Income taxes | | **-15,4** | -14,6 | **-63,9** | -46,6 |
| **Profit for the period** | | **56,7** | 51,8 | **201,4** | 150,5 |
| **Attributable to:** | | | | | |
| Owners of the parent | | **56,6** | 51,4 | **201,5** | 149,7 |
| Non-controlling interests | | **0,1** | 0,4 | **-0,1** | 0,8 |
| | | **56,7** | 51,8 | **201,4** | 150,5 |
| **Earnings per share (EUR)** | | | | | |
| Basic | | **0,36** | 0,33 | **1,29** | 0,96 |
| Diluted | | **0,36** | 0,33 | **1,29** | 0,96 |
| **Average number of outstanding shares (1000 shares)** | | | | | |
| Basic | | **155 911** | 155 773 | **155 878** | 155 748 |
| Diluted | | **156 212** | 156 154 | **156 179** | 156 129 |

## Consolidated Statement of Comprehensive Income

| | 10-12 2011 | 10-12 2010 | 1-12 2011 | 1-12 2010 |
|---|---|---|---|---|
| **Profit for the period** | **56,7** | 51,8 | **201,4** | 150,5 |
| **Other comprehensive income, net of tax:** | | | | |
| Translation difference | **0,0** | -0,2 | **0,2** | -0,2 |
| Available-for-sale investments | **-0,2** | -2,0 | **-1,2** | -1,2 |
| **Total comprehensive income** | **56,5** | 49,6 | **200,4** | 149,1 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the parent | **56,4** | 49,2 | **200,5** | 148,3 |
| Non-controlling interest | **0,1** | 0,4 | **-0,1** | 0,8 |
| | **56,5** | 49,6 | **200,4** | 149,1 |

# Consolidated Statement of Financial Position

| EUR million | 31.12. 2011 | 31.12. 2010 |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | **617,7** | 611,3 |
| Goodwill | **797,1** | 798,0 |
| Other intangible assets | **109,2** | 129,3 |
| Investments in associated companies | **0,1** | 0,1 |
| Available-for-sale investments | **30,8** | 33,2 |
| Receivables | **30,3** | 22,5 |
| Deferred tax assets | **11,9** | 19,6 |
| | **1 597,2** | 1 614,0 |
| **Current assets** | | |
| Inventories | **40,2** | 38,7 |
| Trade and other receivables | **302,7** | 283,1 |
| Tax receivables | **0,3** | 4,1 |
| Cash and cash equivalents | **59,0** | 31,8 |
| | **402,2** | 357,7 |
| | | |
| **Total assets** | **1 999,4** | 1 971,7 |

| | | |
|---|---|---|
| **Equity attributable to owners of the parent** | **836,8** | 829,8 |
| **Non-controlling interests** | **3,5** | 3,1 |
| **Total equity** | **840,3** | 832,9 |
| | | |
| **Non-current liabilities** | | |
| Deferred tax liabilities | **19,4** | 26,9 |
| Pension obligations | **1,2** | 1,2 |
| Provisions | **3,5** | 3,6 |
| Financial liabilities | **625,9** | 445,8 |
| Other non-current liabilities | **15,6** | 15,7 |
| | **665,7** | 493,2 |
| **Current liabilities** | | |
| Trade and other payables | **260,4** | 280,6 |
| Tax liabilities | **11,0** | 0,6 |
| Provisions | **0,8** | 2,1 |
| Financial liabilities | **221,2** | 362,3 |
| | **493,4** | 645,6 |
| | | |
| **Total equity and liabilities** | **1 999,4** | 1 971,7 |

## Condensed Consolidated Statement of Cash Flows

| EUR million | 1-12 2011 | 1-12 2010 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit before tax | **265,3** | 197,1 |
| Adjustments | | |
| Depreciation and amortisation | **211,4** | 216,7 |
| Other adjustments | **27,2** | 71,7 |
| | **238,7** | 288,4 |
| Change in working capital | | |
| Increase (-) / decrease (+) in trade and other receivables | **-18,7** | 2,1 |
| Increase (-) / decrease (+) in inventories | **-1,5** | -6,4 |
| Increase (+) / decrease (-) in trade and other payables | **-10,5** | 11,2 |
| | **-30,7** | 6,9 |
| Financial items, net | **-31,2** | -67,9 |
| Taxes paid | **-50,7** | -53,4 |
| **Net cash flow from operating activities** | **391,3** | 371,1 |
| **Cash flow from investing activities** | | |
| Capital expenditure | **-188,2** | -181,6 |
| Purchase of shares | **-5,2** | -19,3 |
| Proceeds from asset disposal | **9,5** | 1,9 |
| **Net cash used in investing activities** | **-183,9** | -199,0 |
| **Cash flow before financing activities** | **207,4** | 172,1 |
| **Cash flow from financing activities** | | |
| Proceeds from long-term borrowings | **170,0** | 75,0 |
| Repayment of long-term borrowings | **-226,2** | -80,2 |
| Change in short-term borrowings | **80,7** | 59,3 |
| Repayment of finance lease liabilities | **-4,9** | -4,1 |
| Proceeds from increase in reserve for invested non-restricted equity | **3,0** | |
| Dividends paid and capital repayment | **-202,8** | -221,3 |
| **Net cash used in financing activities** | **-180,2** | -171,3 |
| **Change in cash and cash equivalents** | **27,2** | 0,8 |
| Cash and cash equivalents at beginning of period | **31,8** | 31,0 |
| **Cash and cash equivalents at end of period** | **59,0** | 31,8 |

# Statement of Changes in Equity

| EUR million | Share capital | Treasury shares | Other reserves | Reserve for invested non-restricted equity | Retained earnings | Non-controlling interests | **Total equity** |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2010** | 83,0 | -202,0 | 394,7 | 188,6 | 434,9 | 0,8 | **900,0** |
| Profit for the period | | | | | 149,7 | 0,8 | **150,5** |
| Translation differences | | | | | -0,2 | | **-0,2** |
| Available-for-sale investments | | | -1,2 | | | | **-1,2** |
| Total comprehensive income | 0,0 | 0,0 | -1,2 | 0,0 | 149,5 | 0,8 | **149,1** |
| Dividends and capital repayment | | | | -143,3 | -77,9 | -0,6 | **-221,8** |
| Share-based compensation | | 3,0 | | | 0,6 | | **3,6** |
| Other changes | | | | | -0,1 | 2,1 | **2,0** |
| **Balance at 31 December 2010** | 83,0 | -199,0 | 393,5 | 45,3 | 507,0 | 3,1 | **832,9** |

| EUR million | Share capital | Treasury shares | Other reserves | Reserve for invested non-restricted equity | Retained earnings | Non-controlling interests | **Total equity** |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2011** | 83,0 | -199,0 | 393,5 | 45,3 | 507,0 | 3,1 | **832,9** |
| Profit for the period | | | | | 201,5 | -0,1 | **201,4** |
| Translation differences | | | | | 0,2 | | **0,2** |
| Available-for-sale investments | | | -1,2 | | | | **-1,2** |
| Total comprehensive income | 0,0 | 0,0 | -1,2 | 0,0 | 201,7 | -0,1 | **200,4** |
| Dividends | | | | | -202,7 | -0,7 | **-203,4** |
| Share-based compensation | | 2,0 | | | 2,3 | | **4,3** |
| Stock options exercised | | | | 3,0 | | | **3,0** |
| Other changes | | | | | 2,1 | 1,2 | **3,3** |
| **Balance at 31 December 2011** | 83,0 | -197,0 | 392,3 | 48,3 | 510,3 | 3,5 | **840,3** |

## Notes

**ACCOUNTING PRINCIPLES**

The interim report has been prepared in accordance with the IFRS recognition and measurement principles, although all requirements of IAS 34 standard have not been followed. The information has been prepared in accordance with International Financial Reporting Standards (IFRS) effective at the time of preparation and adopted for use by European Union. Apart from the changes in accounting principles stated below, the accounting principles applied in the interim report are the same as in the financial statements at 31 December 2010.

**Changes in the accounting principles**

The Group adopted the following standards, amendments to standards and interpretations as from 1 January 2011 onward:

- Amended IAS 24 Related Party Disclosures. Amendments to definitions and requirements concerning notes.

- Revised IAS 32 Financial instruments: Presentation. The amendments concern the accounting of issues of shares, options or subscription rights denominated in a currency other than the issuer's operating currency. A derivative associated with the party's equity is an equity instrument if it entitles to receive a fixed number of shares in the company for a fixed amount of currency or other financial receivable. Previously, such subscription rights were classified as derivative liabilities in accounting.

- Revised IFRIC 14 IAS 19 - The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. After the amendments, advance contributions to a defined benefit plan can, in certain cases, be recognised as assets on the balance sheet.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. A debtor and creditor may renegotiate the terms of a financial liability with the result that the liability is fully or partially extinguished by the debtor issuing equity instruments to the creditor; the debt is swapped for equity. Such equity instruments are "consideration paid," and the difference between the financial liability (or part thereof) and the original valuation price of the granted equity instruments is recognised through profit or loss.

- Annual Improvements of IFRS standards

## 1. Segment Information

| **10-12/2011** | Consumer | Corporate | Unallocated | Group |
|---|---|---|---|---|
| EUR million | Customers | Customers | Items | Total |
| Revenue | 244,9 | 155,8 | | 400,7 |
| EBITDA | 80,8 | 51,8 | | 132,6 |
| Depreciation and amortisation | -30,8 | -23,0 | | -53,8 |
| EBIT | 50,0 | 28,8 | | 78,8 |
| Financial income | | | 3,0 | 3,0 |
| Financial expense | | | -9,7 | -9,7 |
| Share of associated companies' profit | | | 0,0 | 0,0 |
| Profit before tax | | | | 72,1 |
| Investments | 36,6 | 21,0 | | 57,6 |

| **10-12/2010** | Consumer | Corporate | Unallocated | Group |
|---|---|---|---|---|
| EUR million | Customers | Customers | Items | Total |
| Revenue | 228,9 | 153,7 | | 382,6 |
| EBITDA | 71,0 | 52,2 | | 123,2 |
| Depreciation and amortisation | -31,5 | -23,1 | | -54,6 |
| EBIT | 39,5 | 29,1 | | 68,6 |
| Financial income | | | -1,1 | -1,1 |
| Financial expense | | | -1,1 | -1,1 |
| Share of associated companies' profit | | | 0,0 | 0,0 |
| Profit before tax | | | | 66,4 |
| Investments | 31,3 | 25,1 | | 56,4 |

# 1. Segment Information (cont.)

| **1-12/2011**<br>EUR million | Consumer Customers | Corporate Customers | Unallocated Items | Group Total |
|---|---|---|---|---|
| Revenue | 930,1 | 599,9 | | 1 530,0 |
| EBITDA | 301,5 | 204,7 | | 506,2 |
| Depreciation and amortisation | -120,2 | -91,2 | | -211,4 |
| EBIT | 181,3 | 113,5 | | 294,8 |
| Financial income | | | 11,6 | 11,6 |
| Financial expense | | | -41,2 | -41,2 |
| Share of associated companies' profit | | | 0,1 | 0,1 |
| Profit before tax | | | | 265,3 |
| | | | | |
| Investments | 119,0 | 78,4 | | 197,4 |
| Total assets | 1 084,1 | 773,8 | 141,5 | 1 999,4 |

| **1-12/2010**<br>EUR million | Consumer Customers | Corporate Customers | Unallocated Items | Group Total |
|---|---|---|---|---|
| Revenue | 885,0 | 578,2 | | 1 463,2 |
| EBITDA | 289,6 | 195,1 | | 484,7 |
| Depreciation and amortisation | -125,0 | -91,7 | | -216,7 |
| EBIT | 164,6 | 103,4 | | 268,0 |
| Financial income | | | 9,5 | 9,5 |
| Financial expense | | | -80,4 | -80,4 |
| Share of associated companies' profit | | | 0,0 | 0,0 |
| Profit before tax | | | | 197,1 |
| | | | | |
| Investments | 107,7 | 76,1 | | 183,8 |
| Total assets | 1 062,0 | 801,0 | 108,7 | 1 971,7 |

## 2. Operating Lease Commitments

| EUR million | **31.12. 2011** | 31.12. 2010 |
|---|---|---|
| Due within 1 year | **42,9** | 42,8 |
| Due after 1 year but within 5 years | **37,1** | 34,3 |
| Due after 5 years | **11,3** | 11,3 |
| Total | **91,3** | 88,3 |

## 3. Contingent Liabilities

| EUR million | **31.12. 2011** | 31.12. 2010 |
|---|---|---|
| Mortgages | | |
| For own | **2,0** | 2,0 |
| Pledges given | | |
| Pledges given as surety | **0,9** | 0,9 |
| Guarantees given | | |
| For others | **0,5** | 0,5 |
| Mortgages, pledges and guarantees total | **3,4** | 3,4 |

## 4. Derivative Instruments

| EUR million | **31.12. 2011** | 31.12. 2010 |
|---|---|---|
| Interest rate swaps | | |
| Nominal value | **150,0** | 150,0 |
| Fair value | **0,8** | 1,2 |

## Key Figures

| EUR million | 1-12 2011 | 1-12 2010 |
|---|---|---|
| Shareholders' equity per share, EUR | **5,36** | 5,33 |
| Interest bearing net debt | **788,0** | 776,2 |
| Gearing | **93,8 %** | 93,2 % |
| Equity ratio | **42,3 %** | 42,5 % |
| Return on investment (ROI) *) | **18,8 %** | 14,0 % |
| Gross investments in fixed assets | **197,4** | 183,8 |
| of which finance lease investments | **9,2** | 2,2 |
| Gross investments as % of revenue | **12,9 %** | 12,6 % |
| Investments in shares | **0,1** | 34,5 |
| Average number of employees | **3 757** | 3 477 |

*) rolling 12 months profit preceding the reporting date

## Financial Calendar

| | |
|---|---|
| Annual General Meeting | 4 April 2012 |
| Q1 2012 Interim Report | 27 April 2012 |
| Q2 2012 Interim Report | 13 July 2012 |
| Q3 2012 Interim Report | 19 October 2012 |

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