MOODY'S
INVESTORS SERVICE

CREDIT OPINION
26 April 2019

Update

Rate this Research

RATINGS

Elisa Corporation

Domicile	Finland
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Analyst Contacts

Carlos Winzer +34.91.768.8238
Senior Vice President
carlos.winzer@moodys.com

Ivan Palacios +34.91.768.8229
Associate Managing Director
ivan.palacios@moodys.com

Pilar Anduiza +34.91.768.8220
Associate Analyst
pilar.anduiza@moodys.com

Elisa Corporation

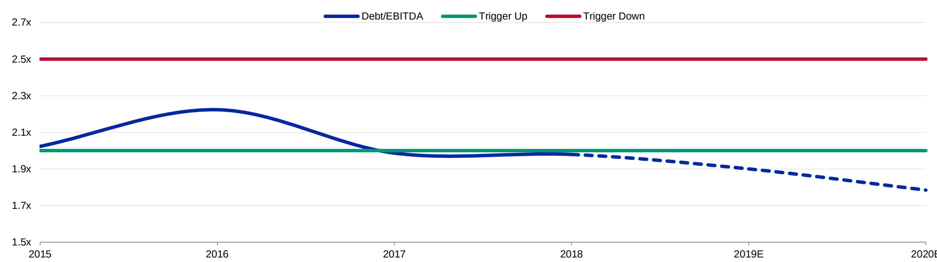
Update to credit analysis

Summary

Elisa Corporation's (Elisa) Baa2 rating reflects (1) the company's integrated business profile and leading positions in Finland's fixed and mobile markets; (2) the stable operating environment in Finland (Aa1 stable), which supports a rational pricing environment; (3) the company's solid financial profile; and (4) its track record of operating with predictable financial policies, including a target leverage (net reported debt/EBITDA) of 1.5x-2.0x (equivalent to Moody's-adjusted gross debt/EBITDA of around 1.7x-2.2x).

The rating also factors in (1) Elisa's small scale and revenue concentration in Finland, except for its increasing exposure to Estonia; and (2) our expectation that the company's credit metrics will improve modestly over the next 24 months.

Exhibit 1
Elisa's leverage is strongly positioned in the rating category
Moody's Adjusted Debt/EBITDA evolution



Source: Moody's Financial Metrics™

Credit strengths

» A strong market position in Finland

» An integrated business model and moderate technology risk

» A stable market structure, despite heightened pricing competition in the mobile segment

» Relatively high EBITDA margin and low capital spending intensity, which support cash flow generation

» Predictable financial policies, which support stable and conservative credit metrics

Credit challenges

» Its small scale

» Revenue concentration in Finland, notwithstanding increased exposure to Estonia

» A competitive domestic market, which limits growth opportunities

Rating outlook

The stable rating outlook assumes that Elisa will perform according to its business plan while maintaining sustainable credit metrics for the current rating category. In addition, the stable outlook factors in our expectation that the company will maintain an adequate liquidity profile at all times.

Factors that could lead to an upgrade

Positive pressure could be exerted on the rating if the company's credit metrics improve such that its Moody's-adjusted gross debt/ EBITDA remains well below 2.0x and retained cash flow (RCF)/adjusted debt remains above 30%.

Factors that could lead to a downgrade

Negative rating pressure could result from (1) any unexpected deterioration in market conditions; or (2) larger-than-expected investments and further returns to shareholders, causing the company's Moody's-adjusted gross debt/EBITDA to rise above 2.5x and RCF/adjusted debt to trend towards 20% without any prospect of recovery.

Key indicators

Exhibit 2
Elisa Corporation

EUR Millions	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	2019-proj	2020-proj
Revenue	1,535	1,570	1,636	1,787	1,832	1,835	1,863
Debt / EBITDA	2.2x	2.0x	2.2x	2.0x	2.0x	1.9x	1.8x
RCF / Debt	21.9%	25.1%	22.3%	25.2%	23.4%	24.7%	25.7%
(EBITDA - CAPEX) / Interest Expens	9.9x	10.8x	12.4x	12.7x	12.9x	14.1x	14.8x
Net Debt / EBITDA	2.1x	2.0x	2.2x	1.9x	1.9x	1.7x	1.7x
RCF / Net Debt	22.6%	25.7%	23.0%	26.1%	24.9%	26.4%	27.2%

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

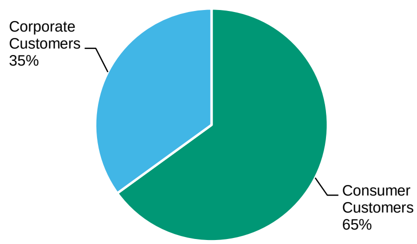
Profile

Elisa is an integrated provider of telecommunication services in Finland, with around 4.6 million mobile and 0.7 million fixed broadband subscriptions as of the end of March 2019. Elisa holds leading positions in Finland, in both mobile and fixed-line segments, with a 38% subscriber market share in mobile and 35% in fixed broadband as of the end of June 2018. The company also operates in Estonia as the second largest integrated telecommunications operator, with a total revenue market share of 31%. The company offers fixed broadband, mobile, pay-TV and corporate network services. The Finnish state, through its investment arm, Solidium, owns a 10.0% stake in Elisa. In addition, the State Pension Fund owns a 0.59% stake in the company. In 2018, Elisa generated revenue and EBITDA of €1.8 million and €640 million, respectively.

Exhibit 3

Elisa provides fixed and mobile services to consumers and businesses in Finland and Estonia

EBITDA breakdown by segment for 2018

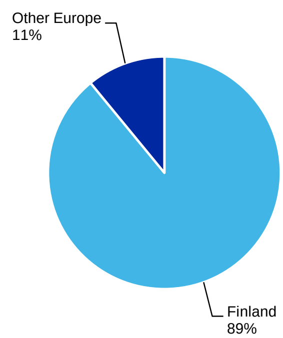


Source: Company reports

Exhibit 4

Elisa's operations are concentrated in Finland, which accounted for 89% of EBITDA in 2018

EBITDA breakdown by geography for 2018



Source: Company reports

Detailed credit considerations

Small size and limited geographical diversification, partially offset by a strong market position in Finland

With annual revenue of €1.8 billion and EBITDA of €640 million in 2018, Elisa is a relatively small incumbent telecom operator in Europe. The company's operations are concentrated in Finland, which accounted for 89% of its revenue in 2018, and where it holds leadership positions in mobile and fixed broadband. In Estonia, which accounted for 9% of Elisa's revenue in 2018, the company historically operated as a wireless network operator. However, Elisa's competitive position has improved in Estonia after the acquisitions of Starman and Santa Monica in 2016 and 2017, respectively, creating an integrated operator offering fixed broadband, mobile and pay-TV services. In the near term, we expect Elisa's management to remain focused on building its competitive position in its core markets, Finland and Estonia. Furthermore, we expect a conservative M&A policy focused on small bolt-on acquisitions designed to strengthen the company's market position in strategic segments such as the digital services business.

An integrated business model and moderate technology risk

Elisa is an integrated operator in Finland. Overall, we view integrated operators more favourable than standalone fixed-line operators or mobile-only companies. As markets converge, integrated operators are better positioned to benefit from growth trends in either fixed line or mobile business while hedging their exposure to slowing sub-segments such as fixed voice. Similarly, converged operators tend to merge corporate functions, such as sales, marketing and network operations, thereby enhancing operating efficiency.

We view Elisa's technology risk as moderate, given its leading position in 4G networks, in terms of both coverage and speed. The company has made heavy investments in its 4G LTE network, reaching over 99% coverage in Finland and 98% coverage in Estonia. In October 2018, Elisa was awarded 130 megahertzs in the 3.5 gigahertz band for €26 million. Because of its large spectrum ownership (Elisa secured part of the new spectrum in the auction for 700 megahertz frequencies in November 2016) and the low population density in Finland, the company has more spectrum per capita than other European operators. As a result, Elisa is one of the few European companies that differentiate their offers by speed rather than the size of data buckets.

Along with its large spectrum holdings, Elisa's macro site density is one of the highest in the industry. The company believes it will be able to operate a commercial 5G network at the beginning of 2019. Elisa also expects 5G devices to enter the market in 2019 and expects to have a mass-market product in 2020 and beyond.

Stable market structure supports a rational pricing environment

Elisa is one of the more stable operators in the European telecom peer group in terms of operating performance and cash flow generation. This stability derives from a favourable operating environment where the three established national operators, Elisa, Telia Company AB (Telia, Baa1 stable) and DNA Oyj (DNA), own fixed broadband and mobile assets, and try to take their fair share of modest market growth, with no major shifts in market position. Average prices are relatively low by European market standard, leaving little room for discounted offers by mobile virtual network operators, which only have 1%-2% share of the market.

The mobile market remains dominated by Elisa, which had a 38% market share in terms of subscribers as of the end of June 2018, followed by Telia with 34% and DNA with 27%. In fixed broadband, Elisa had a leading position with a 35% market share, followed by Telia with 27%, DNA with 28% and Finnet with 10% as of the end of June 2018.

On April 9, 2019, Telenor ASA (A3 stable), the leading integrated telecommunications provider in Norway, announced the proposed acquisition of a majority stake (54%) in DNA from its two largest shareholders for €1.5 billion. We do not expect the acquisition to have a significant impact on the competitive environment in Finland, given that Telenor is not currently present in the market.

While mobile competition increased to some extent in 2018, driven by greater promotional activity by companies such as Telia and DNA, Elisa’s market share remained broadly stable in 2018 compared with that in 2017, although mobile subscriptions were down 0.4% in 2018 from that a year earlier (mobile post-paid subscriptions declined by 1,500 in Q1 2019). Elisa believes that its ability to continue to defend its market share rests on its superior network quality, its wider portfolio of digital services businesses, its premium packages that are unique to the market and its lean cost structure, which provides it with the capacity to invest more in customer acquisitions if required.

Upselling to higher speeds supported good operating performance in 2018, despite intense competition

Elisa's operating performance has been solid compared with that of its European peers, with revenue and comparable EBITDA up 2.5% and 4.2%, respectively, in 2018. However, in Q1 2019, total revenue declined 2.2% driven by lower equipment sales, interconnection revenue and divestments. Revenue growth in 2018 has been driven by (1) higher mobile service revenue (up 2.1% in 2019 and 2.0% in 2018, among the fastest growth rates in Europe), (2) growth in its digital service business in the corporate segment, (3) organic service revenue growth in Estonia, and (4) the impact of recent acquisitions in Estonia. EBITDA was driven by top-line growth, ongoing efficiency improvements and the favourable impact from operating leverage.

In the mobile segment, Elisa has been successful in upselling higher speeds (mobile data consumption increased 30% in 2018) to customers at higher prices (postpaid ARPU increased 1.5% in 2018 from that a year earlier). The shift to higher speeds has been accelerated by the rapid uptake of smartphones in Finland (83% of Elisa's customers used 3G- and 4G-capable smartphones in the first quarter of 2019 compared with 80% in Q1 2018), greater demand for online TV and videos, and the company's unlimited mobile data pricing model, among others. In addition, Elisa continues to record strong demand for premium subscriptions with unlimited data usage.

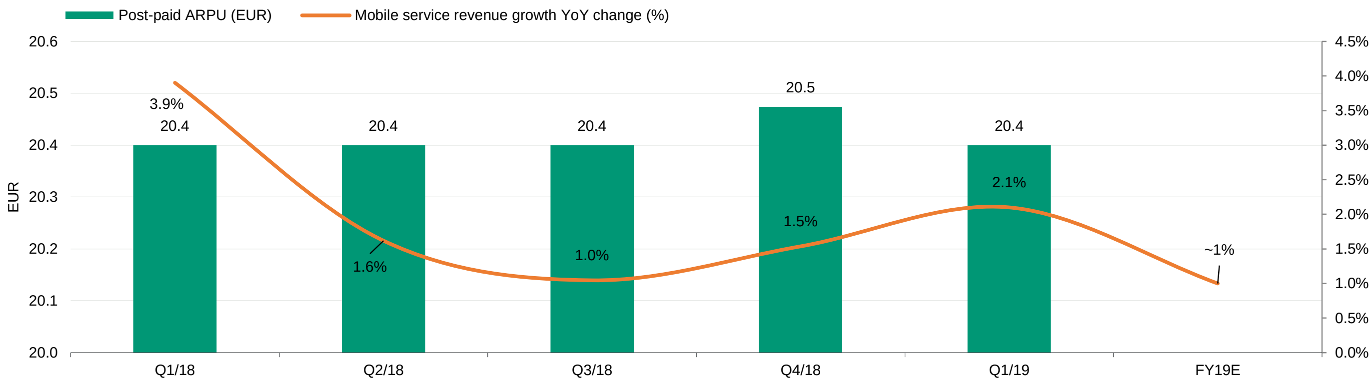
In 2019, Elisa is guiding its revenue and EBITDA at the same level or slightly higher than that in 2018. We believe the guidance reflects uncertainties regarding the evolution in the competitive environment, given greater promotional activity than in the past few years. Increased competitive pressure had an adverse impact on postpaid voice churn of up to 19.7% in Q1 2019 (Q1 2018: 18.7%).

In the next 12-18 months, we expect mobile service revenue growth to continue, although at a slower rate of around 0%-1% per year, while the reported EBITDA margin trends towards 35%-36%. Earnings growth should be supported by (1) continued upselling of customers from 3G to 4G and 4G customers to premium subscriptions, (2) growth in digital services revenue (currently margin dilutive as the business is in the development phase), (3) further productivity improvements, and (4) cost synergies from the acquisition of Starman and Santa Monica.

Exhibit 5

Mobile service revenue growth has slowed down, driven by intense competition

Evolution of mobile service revenue growth and postpaid ARPU



Source: Company Data

Predictable financial policies drive stable and conservative credit metrics

Elisa has a track record of maintaining a stable financial policy. The company's medium-term financial targets include (1) reported net debt/EBITDA of 1.5x-2.0x (Q1 2019: 1.7x), which is equivalent to a Moody's adjusted Debt/EBITDA of around 1.7x-2.2x (2) net debt/EBITDA equity above 35%, and (3) maximum capital spending/sales of 12%. Elisa's capital spending intensity is lower than the European average of around 15%, which management attributes to the company's strict capital spending policy, its lean strategy focused on market demands and its effectiveness at actively managing its network.

Elisa's adoption of IFRS 16 has led to a marginal 0.1x impact on net leverage leading to a 1.7x net leverage as of March 2019.

Elisa's stable financial policy provides good cash flow visibility and supports a generous dividend policy aimed at distributing 80%-100% of net profit, provided net debt/EBITDA remains within 1.5x-2.0x. Given that the vast majority of excess cash flow is distributed to shareholders, this policy leaves little capacity to accommodate extraordinary capital spending plans (beyond Elisa's 12% capital spending/sales target) or sizeable debt-financed M&A. Furthermore, in light of its generous dividend policy, we expect Elisa to continue to exhibit credit metrics most closely associated with a Baa2 rating; its RCF/debt was 23.4% as of the end of December 2018, at the lower end of the range established for its rating category (20%-30%).

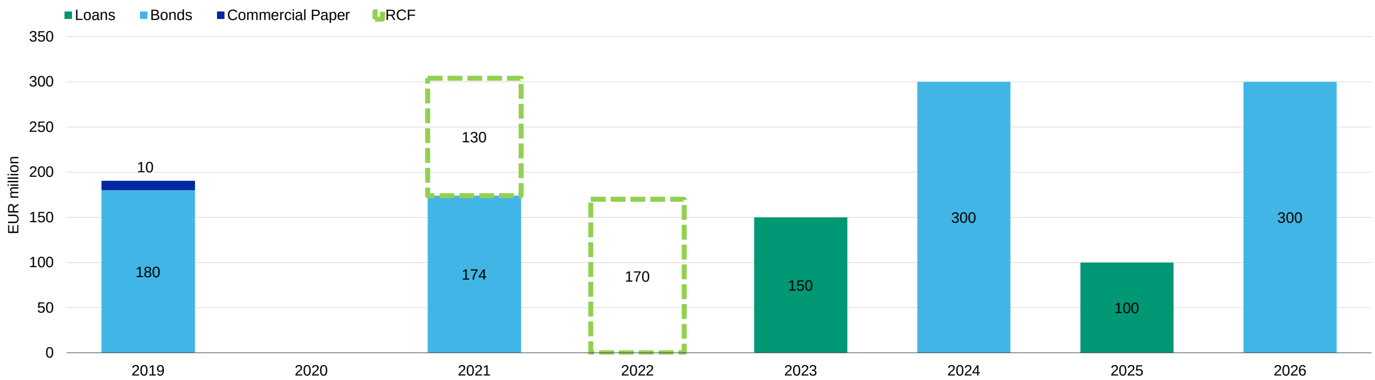
Liquidity analysis

Elisa's liquidity is adequate, supported by cash and cash equivalents of €215 million as of the end of March 2019 and full availability under its €300 million committed revolving credit facilities maturing in 2021 (€130 million) and 2022 (€170 million). These sources, together with expected annual funds from operations of around €550 million, will more than cover Elisa's cash needs over the next 12-18 months, including €10 million in commercial paper maturities, €180 million bond due 2019, around €230 million in capital spending and around €280 million in dividends. The next large debt maturity is a €300 million bond due in 2024. On February 14, 2019 Elisa issued a €300 million bond due in 2026.

Exhibit 6

We expect internal sources of liquidity to more than cover €190 million of debt maturing over 2019-20

Debt maturity profile as of March 31, 2019 (€ millions)



Source: Company reports

Rating methodology and scorecard factors

The grid outcome for Elisa, according to the global telecoms service providers rating methodology and based on our forecasts for the next 12-18 months, is in line with the actual rating assigned of Baa2. The outcome reflects the company's status as an integrated incumbent in a highly competitive domestic market, as well as its small scale compared with that of its industry peers. The outcome also incorporates the company's strong interest expense coverage ratio and modest leverage for its rating category.

Exhibit 7

Rating factors [1][2]

Elisa Corporation

Methodology: Telecommunications Service Providers	Current FY Dec-18		Moody's Forward View Next 12-18 months (as of Apr-19)	
Factor 1: SCALE (12%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$2.2	B	$2.2	B
Factor 2: BUSINESS PROFILE (28%)				
a) Business Model, Competitive Environment and Technical Positioning	Baa	Baa	Baa	Baa
b) Regulatory Environment	Ba	Ba	Ba	Ba
c) Market Share	Baa	Baa	Baa	Baa
Factor 3: PROFITABILITY AND EFFICIENCY (10%)				
a) Revenue Trend and Margin Sustainability	Baa	Baa	Baa	Baa
Factor 4: LEVERAGE AND COVERAGE (35%)				
a) Debt / EBITDA	2.0x	A	1.8x-1.9x	A
b) RCF / Debt	23.4%	Ba	25%-26%	Baa
c) (EBITDA - CAPEX) / Interest Expense	12.9x	Aaa	14.0x-14.8x	Aaa
Factor 5: FINANCIAL POLICY (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating Outcome:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned				Baa2

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
(2) This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions or divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 8

Peer comparison

Elisa Corporation - December 2018 (last 12 months)

	Elisa Corporation Baa2 Stable			Telia Company AB Baa1 Stable			Telenor ASA A3 Stable			Koninklijke KPN N.V. Baa3 Stable			TDC A/S Ba3 Stable		
(in USD millions)	FYE Dec-17	FYE Dec-18	FYE Dec-18	FYE Dec-16	FYE Dec-17	LTM Sep-18	FYE Dec-16	FYE Dec-17	LTM Sep-18	FYE Dec-17	FYE Dec-18	FYE Dec-18	FYE Dec-17	FYE Dec-18	FYE Dec-18
Revenues	$2,020	$2,163	$2,163	$9,846	$9,362	$9,714	$14,930	$15,102	$15,326	$6,485	$6,652	$6,652	$2,641	$2,750	$2,750
EBITDA	$749	$817	$817	$3,235	$3,128	$3,320	$5,806	$6,715	$6,733	$2,725	$2,844	$2,844	$1,107	$1,039	$1,039
Total Debt	$1,581	$1,565	$1,565	$12,640	$11,280	$10,621	$12,197	$11,582	$9,937	$10,388	$9,176	$9,176	$4,800	$5,514	$5,514
Cash & Cash Equivalents	$53	$92	$92	$3,140	$4,213	$3,724	$2,811	$2,785	$4,005	$1,423	$736	$736	$285	$344	$344
EBITDA Margin	37.1%	37.8%	37.8%	32.9%	33.4%	34.2%	38.9%	44.5%	43.9%	42.0%	42.7%	42.7%	41.9%	37.8%	37.8%
(EBITDA-CAPEX) / Interest Exper	12.7x	12.9x	12.9x	2.8x	2.5x	3.6x	7.1x	10.5x	12.6x	2.9x	3.4x	3.4x	3.4x	1.8x	1.8x
Debt / EBITDA	2.0x	2.0x	2.0x	4.2x	3.5x	3.3x	2.2x	1.7x	1.5x	3.6x	3.3x	3.3x	4.1x	5.5x	5.5x
FCF / Debt	0.5%	1.2%	1.2%	-6.5%	-2.1%	3.2%	1.7%	10.2%	9.1%	3.1%	3.7%	3.7%	8.5%	4.4%	4.4%
RCF / Debt	25.2%	23.4%	23.4%	10.6%	21.9%	18.6%	26.4%	31.9%	35.6%	19.1%	19.9%	19.9%	21.4%	14.1%	14.1%

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months. RUR* = Ratings under review, where UPG = for upgrade and DNG = for downgrade.
Source: Moody's Financial Metrics™

Exhibit 9

Moody's-adjusted debt breakdown

Elisa Corporation

(in EUR Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported Debt	**1,109.0**	**1,042.8**	**991.1**	**1,168.6**	**1,117.5**	**1,148.6**
Pensions	12.9	17.1	14.6	15.4	14.8	13.9
Operating Leases	175.2	171.3	167.4	168.9	166.2	172.5
Non-Standard Adjustments	27.2	20.5	13.8	29.2	18.1	34.3
Moody's-Adjusted Debt	**1,324.3**	**1,251.7**	**1,186.9**	**1,382.1**	**1,316.6**	**1,369.3**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted EBITDA breakdown

Elisa Corporation

(in EUR Millions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported EBITDA	**491.8**	**519.1**	**535.3**	**566.1**	**654.9**	**640.5**
Pensions	0.3	0.4	-0.1	0.0	0.0	0.0
Operating Leases	58.4	57.1	55.8	56.3	55.4	57.5
Unusual	-1.0	-4.1	-2.1	-2.2	-47.5	-6.5
Non-Standard Adjustments	0.0	0.1	-2.3	1.4	0.0	0.4
Moody's-Adjusted EBITDA	**549.5**	**572.6**	**586.6**	**621.6**	**662.8**	**691.9**

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Ratings

Exhibit 11

Category	Moody's Rating
ELISA CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured -Dom Curr	Baa2

Source: Moody's Investors Service

REPORT NUMBER 1168912

MOODY'S
INVESTORS SERVICE