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CREDIT OPINION
13 November 2019

Update

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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.

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Elisa Corporation

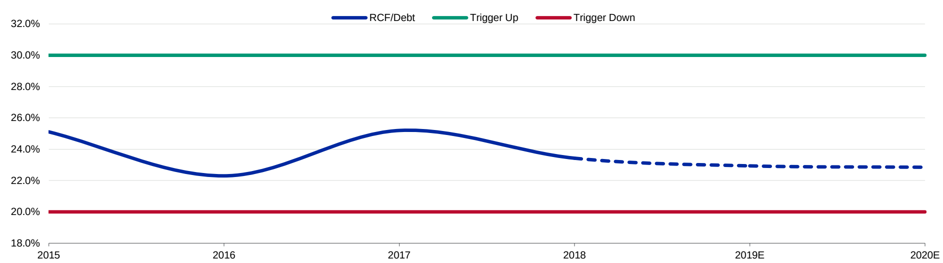
Update to credit analysis following ratings affirmation

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; (4) its track record of operating with predictable financial policies, including a target leverage (net reported debt/EBITDA) of 1.5x-2.0x; and (5) solid and stable cash flow metrics for the Baa2 rating.

The rating also factors in (1) Elisa's small scale and revenue concentration in Finland, except for its increasing exposure to Estonia; and (2) the company's limited free cash flow generation owing to the generous shareholder remuneration policy.

Exhibit 1
Elisa's cash flow metrics are well positioned in the rating category
Evolution of Moody's-adjusted RCF/Debt



Source: Moody's Financial Metrics™

Credit strengths

» Strong market position in Finland

» Integrated business model and moderate technology risk

» 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

» 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 takes into consideration that Elisa will perform according to its business plan while maintaining its credit metrics for the current rating category. In addition, the stable outlook factors in our expectation that the company will maintain adequate liquidity at all times.

Factors that could lead to an upgrade

Positive pressure could be exerted on Elisa's 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

Elisa Corporation

EUR Millions	Dec-15	Dec-16	Dec-17	Dec-18	LTM (Sep-19)	2019 - proj	2020 - proj
Revenue	1,570	1,636	1,787	1,832	1,827	1,835	1,863
Debt / EBITDA	2.0x	2.2x	2.0x	2.0x	2.2x	1.9x	1.8x
RCF / Debt	25.1%	22.3%	25.2%	23.4%	19.9%	22.9%	22.9%
(EBITDA - CAPEX) / Interest Expense	10.8x	12.4x	12.7x	12.9x	13.1x	14.7x	15.8x
Net Debt / EBITDA	2.0x	2.2x	1.9x	1.9x	1.9x	1.8x	1.8x
RCF / Net Debt	25.7%	23.0%	26.1%	24.9%	22.3%	23.7%	23.6%

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
(2) RCF calculated as funds from operations less dividends
Source: Moody's Financial Metrics™

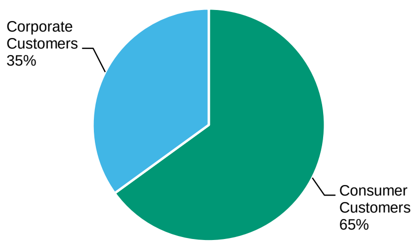
Profile

Elisa Corporation (Elisa) is an integrated provider of telecommunication services in Finland, with around 4.7 million mobile and 0.7 million fixed broadband subscriptions as of the end of September 2019. Elisa holds leading positions in Finland, in both the mobile and fixed-line segments, with a 41% subscriber market share in mobile and 35% in fixed broadband. 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 the 12 months ended September 2019, Elisa generated revenue and EBITDA of €1.8 billion and €651 million, respectively.

Exhibit 3

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

EBITDA breakdown by segment for 2018

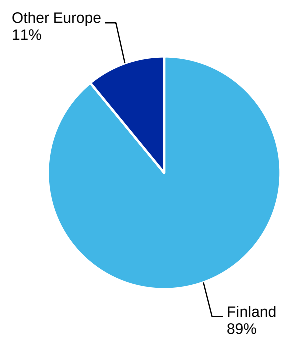


Source: Company reports

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 revenue of €1.8 billion and EBITDA of €651 million in the 12 months ended September 2019, 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 favourably than standalone fixed-line operators or mobile-only companies. As markets converge, integrated operators are better positioned to benefit from growth trends in either the 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 megahertz 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. Elisa has also started commercialising 5G devices in the Finnish market and expects to have a mass-market product in 2020 and beyond.

In Estonia, the governments of Estonia and the US have signed a memorandum of understanding that will restrict the use of Huawei equipment in Estonia's 5G mobile core networks. However, although Elisa's suppliers for Radio Access Network are Nokia Oyj (Ba2 Stable) and Huawei, the company's equipment in the core is provided by Ericsson.

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 Elisa's long term strategy, its execution and unchanged capital allocation policies and a favourable operating environment where the three established national operators — Elisa, Telia Company AB (Telia, Baa1 stable) and DNA Oyj (DNA, 97,87% owned by Telenor ASA(A3 stable)) — 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 the European market standard, leaving little room for discounted offers by mobile virtual network operators, which only have a less than 1% share of the market.

The Finish mobile market remains dominated by Elisa, which has a 41% market share in terms of subscribers, followed by Telia with 32% and DNA with 27%. In fixed broadband, Elisa has a leading position with a 35% market share, followed by DNA with 28% and Telia with 27%.

On 9 April 2019, Telenor, the leading integrated telecommunications provider in Norway, announced the acquisition of a majority stake in DNA. We do not expect the acquisition to have a significant impact on the competitive environment in Finland, given the fact 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. Elisa believes that its ability to continue to defend its market share depends on its (1) superior network quality; (2) wider portfolio of digital services businesses; (3) premium packages that are unique to the market; and (4) 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, despite intense competition

Elisa's operating performance has been solid compared with that of its European peers, with revenue and EBITDA growth at -0.4% and 2.2%, respectively, in the first nine months of 2019. Revenue growth in the first nine months of 2019 was driven by (1) higher mobile service revenue (up 2.1% in the first nine months of 2019, 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, (4) the impact from the acquisition of Polystar in June 2019, (5) lower revenue from equipment sales, and (6) impact from lower interconnection prices and roaming. 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 to customers at higher prices. However, ARPU was flat in the third quarter of 2019, driven by lower interconnection prices and intensified competition. The shift to higher speeds has been accelerated by the rapid uptake of smartphones in Finland (84% of Elisa's customers used 3G-capable and 4G-capable smartphones in Q3 2019 compared with 81% in Q3 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.

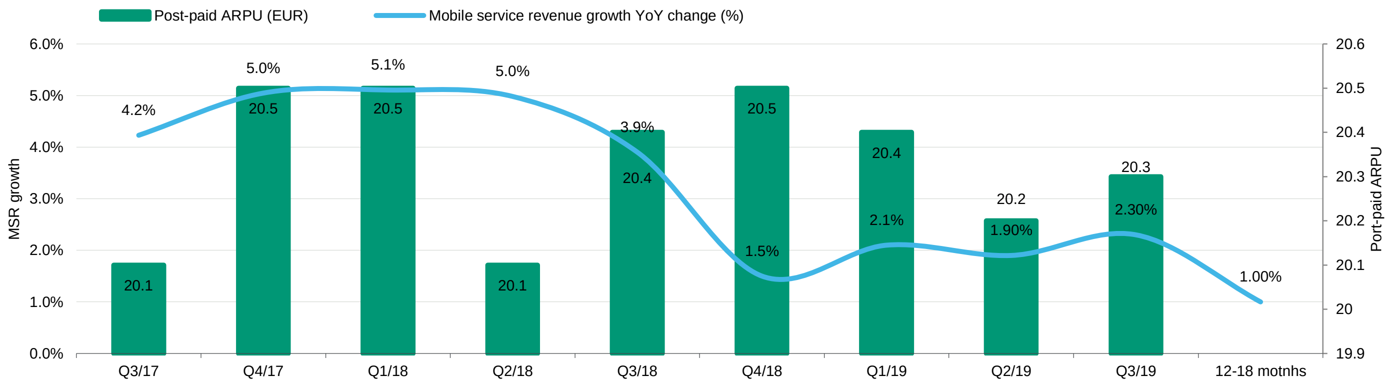
For 2019, Elisa is guiding its revenue at the same level or slightly higher than that in 2018 and has upgraded its EBITDA guidance to higher than in 2018. We believe the guidance reflects uncertainties regarding the evolution in the competitive environment, given the greater promotional activity than in the past few years. Increased competitive pressure had an adverse impact on postpaid voice churn of 18.2% in Q3 2019 (Q3 2018: 18%).

In the next 12-18 months, we expect mobile service revenue growth to continue, although at a slower rate of around 1%-2% 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 Polystar.

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 (Q3 2019: 1.9x), (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, lean strategy that is focused on market demands and 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 1.9x net leverage as of September 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 the fact 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 20% as of the last twelve months ended September 2019, at the lower end of the range established for its rating category (20%-30%).

Environmental, Social and Governance considerations

We have considered in our analysis of Elisa the following environmental, social and governance (ESG) considerations. From a corporate governance perspective, Elisa is a public company. 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.

Elisa presents a stable financial policy which 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 the 1.5x-2.0x range.

The company's exposure to environmental and social risks is low and in line with the overall industry. Electromagnetic radiation (for example, from mobile antennas or mobile handsets) has repeatedly been claimed to be potentially harmful to the environment and health. While the need for higher mobile data speeds will increase electromagnetic radiation, we do not see it as a meaningful environmental risk for global telecommunication providers given the existing regulatory radiation limits and ongoing technology improvements. In terms of social risks, data security and data privacy issues are prominent in the sector. Telecommunications providers exchange large amounts of data, and a breach could cause legal, regulatory or reputation issues. In addition, a breach could result in increased operational costs to mitigate cyberattacks and reduce exposure to loss of private data.

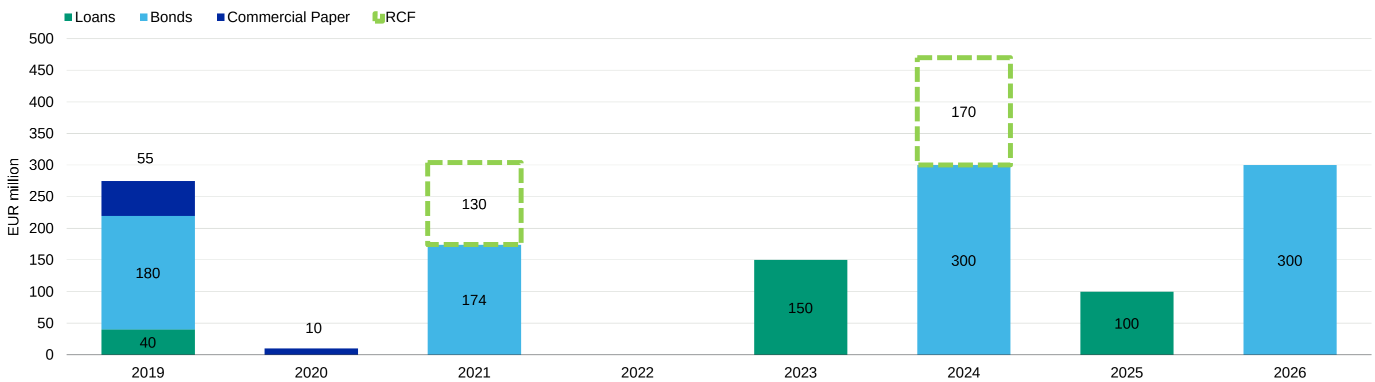
Liquidity analysis

Elisa's liquidity is adequate, supported by cash and cash equivalents of €154 million as of the end of September 2019 and full availability under its €300 million committed revolving credit facilities maturing in 2021 (€130 million) and 2024 (€170 million). These sources, together with expected annual funds from operations of around €550-€560 million, will more than cover Elisa's cash needs over the next 12-18 months, including €55 million in commercial paper maturities, around €230 million in capital spending and around €280 million in dividends. In October, Elisa repaid a €180 million bond due in 2019. 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 debt maturing over 2019-20

Debt maturity profile as of 30 September 2019 (€ millions)



Source: Company reports

Rating methodology and scorecard factors

The scorecard-indicated outcome for Elisa, according to the global Telecommunications Service Providers rating methodology and based on our forecasts for the next 12-18 months, is in line with the actual rating 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. We have recently raised the Revenue Trend and Margin Sustainability factor to A from Baa to reflect the company's good mobile service revenue growth, which is above industry average.

Exhibit 7

Rating factors [1][2]

Elisa Corporation

Telecommunications Service Providers Industry Scorecard [1][2]	Current LTM 9/30/2019		Moody's 12-18 Month Forward View As of Nov-19	
Factor 1 : Scale (12.5%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$2.1	B	$2.0	B
Factor 2 : Business Profile (27.5%)				
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	A	A
Factor 4 : Leverage and Coverage (35%)				
a) Debt / EBITDA	2.2x	Baa	1.8x - 1.9x	A
b) RCF / Debt	19.9%	B	22.9%	Ba
c) (EBITDA - CAPEX) / Interest Expense	13.1x	Aaa	14.7x - 15.8x	Aaa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Outcome from Scorecard		Baa3		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
12 months ended December 2018

	Elisa Corporation			Telia Company AB			Telenor ASA			Koninklijke KPN N.V.			TDC A/S		
	Baa2 Stable			Baa1 Stable			A3 Stable			Baa3 Stable			B1 Stable		
(in US millions)	FYE Dec-17	FYE Dec-18	LTM Sep-19	FYE Dec-17	FYE Dec-18	LTM Sep-19	FYE Dec-17	FYE Dec-18	LTM Jun-19	FYE Dec-17	FYE Dec-18	LTM Jun-19	FYE Dec-17	FYE Dec-18	LTM Jun-19
Revenues	$2,020	$2,163	$2,061	$9,353	$9,624	$9,188	$13,566	$13,571	$13,136	$6,485	$6,652	$6,337	$2,641	$2,750	$2,636
EBITDA	$749	$817	$750	$3,096	$3,188	$3,184	$6,168	$5,873	$5,625	$2,725	$2,844	$2,584	$1,107	$1,097	$1,019
Total Debt	$1,581	$1,565	$1,567	$11,280	$10,792	$11,087	$11,614	$10,577	$15,323	$10,388	$9,176	$8,742	$4,800	$5,484	$5,911
Cash & Cash Equivalents	$53	$92	$168	$4,213	$2,543	$927	$2,794	$2,136	$4,982	$1,423	$736	$434	$285	$344	$263
EBITDA Margin	37.1%	37.8%	36.4%	33.1%	33.1%	34.7%	45.5%	43.3%	42.8%	42.0%	42.7%	40.8%	41.9%	39.9%	38.7%
(EBITDA-CAPEX) / Interest Expense	12.7x	12.9x	13.1x	2.6x	4.5x	4.4x	8.4x	8.1x	5.3x	2.9x	3.4x	3.3x	3.4x	2.1x	1.5x
Debt / EBITDA	2.0x	2.0x	2.2x	3.5x	3.5x	3.7x	1.9x	1.9x	2.7x	3.6x	3.3x	3.4x	4.1x	5.2x	5.8x
FCF / Debt	0.5%	1.2%	2.0%	-2.1%	3.3%	3.0%	6.3%	0.4%	-4.6%	3.1%	3.7%	1.0%	8.5%	4.4%	4.9%
RCF / Debt	25.2%	23.4%	19.9%	21.5%	16.4%	15.1%	31.7%	29.4%	17.7%	19.1%	19.9%	19.8%	21.4%	14.2%	14.5%

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-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Ending Sep-19
As Reported Debt	**1,042.8**	**991.1**	**1,168.6**	**1,117.5**	**1,148.6**	**1,389.3**
Pensions	17.1	14.6	15.4	14.8	13.9	13.9
Operating Leases	171.3	167.4	168.9	166.2	172.5	-
Non-Standard Adjustments	20.5	13.8	29.2	18.1	34.3	34.3
Moody's-Adjusted Debt	**1,251.7**	**1,186.9**	**1,382.1**	**1,316.6**	**1,369.3**	**1,437.5**

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-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	LTM Ending Sep-19
As Reported EBITDA	**519.1**	**535.3**	**566.1**	**654.9**	**640.5**	**655.4**
Pensions	0.4	-0.1	0.0	0.0	0.0	0.0
Operating Leases	57.1	55.8	56.3	55.4	57.5	14.4
Unusual	-4.1	-2.1	-2.2	-47.5	-6.5	-5.5
Non-Standard Adjustments	0.1	-2.3	1.4	0.0	0.4	0.2
Moody's-Adjusted EBITDA	**572.6**	**586.6**	**621.6**	**662.8**	**691.9**	**664.5**

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

Exhibit 11

Elisa Corporation

Summary Financials

	2013	2014	2015	2016	2017	2018	Sep-19 LTM	2019 - proj	2020 - proj
INCOME STATEMENT									
Revenue	1,547	1,535	1,570	1,636	1,787	1,832	1,827	1,835	1,863
EBITDA	550	573	587	622	663	692	664	658	675
BALANCE SHEET									
Cash & Cash Equivalents	138	41	29	45	44	81	154	39	41
Total Debt	1,324	1,252	1,187	1,382	1,317	1,369	1,438	1,257	1,249
CASH FLOW									
Capex = Capital Expenditures	252	242	249	259	304	285	258	252	256
Dividends	204	207	210	223	240	263	280	280	295
RCF / Debt	18.8%	21.9%	25.1%	22.3%	25.2%	23.4%	19.9%	22.9%	22.9%
PROFITABILITY									
EBITDA Margin %	35.5%	37.3%	37.4%	38.0%	37.1%	37.8%	36.4%	35.9%	36.3%
INTEREST COVERAGE									
EBITDA / Interest Expense	15.8x	17.2x	18.8x	21.2x	23.4x	22.0x	21.4x	23.9x	25.5x
(EBITDA - CAPEX) / Interest Expense	8.5x	9.9x	10.8x	12.4x	12.7x	12.9x	13.1x	14.7x	15.8x
LEVERAGE									
Debt / EBITDA	2.4x	2.2x	2.0x	2.2x	2.0x	2.0x	2.2x	1.9x	1.8x

[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.
Source: Moody's Financial Metrics™ & Moody's Investors Service Estimates

Ratings

Exhibit 12

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

Source: Moody's Investors Service

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