Annual Report 2005

Elisa Corporation • Annual Report 2005

Contents

Shareholder information

Annual General Meeting

The 2006 Annual General Meeting of Elisa Corporation will be held at the Helsinki Fair Centre, Messuaukio 1, Helsinki, at 2:00 pm on Monday, 27 March 2006.

Shareholders must announce their intention to attend the meeting by 8:00 pm (Finnish time) on Sunday, 19 March 2006. This should be done either by writing to Elisa Corporation, Contact Center Services/Sö A 6201, P.O. Box 30, FI-00061 ELISA, Finland; by telephone: +358 800 0 6242 any day of the week from 8:00 am to 8:00 pm; by fax: +358 10 262 2727; or by e-mail: yhtiokokous@yhteyspalvelut.elisa.fi.

Shareholders registered in the company's shareholders' register maintained by the Finnish Central Securities Depository Ltd by Friday, 17 March 2006, are eligible to attend the Annual General Meeting. Shareholders are entitled to make proposals at the Annual General Meeting and to address the meeting. Shareholders will exercise their voting rights according to their number of shares. Each share carries one vote, and final decisions at the Annual General Meeting are made by voting.

Distribution of profit

In accordance with Elisa's dividend policy, the dividend payment is 40–60 per cent of the profit for the financial period. Distribution of profit includes dividend payment and purchase of treasury shares.

The Board of Directors will propose that a dividend of EUR 0.70 per share be distributed for 2005. The dividend approved by the Annual General Meeting will be paid to shareholders listed in the company's shareholder register maintained by the Finnish Central Securities Depository Ltd on the record date. The record date for the dividend payment is 30 March 2006. The dividends will be paid out starting on 6 April 2006.

Financial information

Elisa Corporation will publish an annual report and interim reports on 25 April 2006, 25 July 2006 and 20 October 2006. The annual reports and interim reports will be published in Finnish and English, and they may be ordered by phone at +358 50 305 1605.

The annual report, interim reports, information about the Annual General Meeting, stock exchange releases and other investor information are also posted on Elisa's web site under the heading "Investors" at www.elisa.com.

The contact person for Elisa's Investor Relations

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Elisa Corporation

Elisa’s mission is to offer its customers telecommunication services for fast, effective and secure communication. Its vision is to be the most attractive and effective operator.

Elisa operates in Finland and in carefully selected international market areas, and provides international services in association with its partners, Vodafone and Telenor.

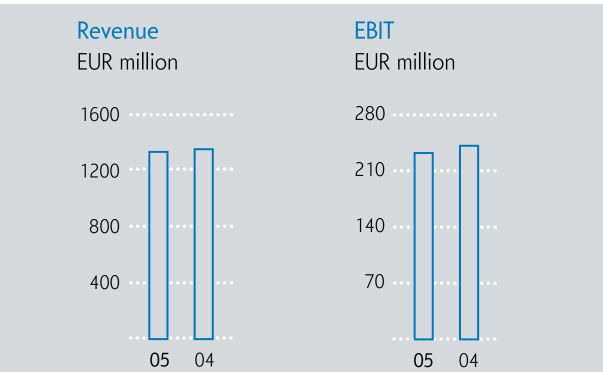
Elisa is a full-service telco whose customers comprise large companies, organisations, small and medium-sized companies and consumers. Elisa offers diverse voice and data services, connections to the Internet and content services, voice solutions, customised communication and ICT solutions, international communication solutions and network operator services.

Key indicators

EUR million	2005	2004
Revenue	1,337	1,356
EBITDA	446	455
EBIT	233	242
Profit before tax	212	213
Net result	178	159
Earnings per share, EUR	1.22	1.10
Research and product development	8	17
Investments in shares	415	61
Capital expenditures	204	182
Equity ratio, %	62	49
Gearing, %	22	51
Employees, 31 Dec	4,681	5,376

Elisa in 2005

- Elisa revised its structure during the year. As of 1 January 2006, the company’s core business in Finland will comprise four units: Consumer and Small Enterprise Customers, Business Customers, Production and Support Services.
- Elisa sold Yomi Software Ltd and Estera Ltd as non-core businesses during the year. The company also sold majority of its Comptel Corporation shares, reducing its holding to 19.9 per cent. Comptel is no longer an Elisa subsidiary or associated company.
- Elisa sold Kiinteistö Oy Espoon Keilasatama 5, which was formerly used by Radiolinja, to Local Government Pensions Institution. Kapiteeli Plc also purchased some of Elisa’s properties in Tampere and Helsinki.
- The last major step in the process aimed at streamlining the corporate structure was the merger of Elisa Matkapuhelinpalvelut Oy (previously known as Oy Radiolinja Ab) with Elisa on 31 December 2005.
- Elisa acquired 100 per cent of the shares in Tikka Communications Oy and 97 per cent of Saunalahti Group Oyj shares. Elisa has decided to retain the active and agile Saunalahti brand and develop it further.
- As of 1 July 2005, Elisa transferred its personnel’s statutory pension coverage to Varma Mutual Pension Insurance Company and supplementary pensions to Sampo Life Insurance Company Limited.
- Elisa and IBM signed an agreement on the concentration of Elisa’s application management services to IBM.
- Nokia, TietoEnator, TeliaSonera, Elisa, Finnet and YLE (The Finnish Broadcasting Company) established the Dimes Association (Digital Media Service Innovations – Finland), whose aim is to promote the commercialisation of Finnish technology expertise into services and successful business.



Elisa and Saunalahti – Finns together

Dear Reader,

Implementation of the strategy has progressed determinedly and as planned. We are working on all phases of the strategy simultaneously. The integration of One Elisa as such was necessary in the interest of succeeding in the market competition. A strong market position, for one, provides a solid foundation as we're aiming for new services and new markets.

Development of profitability and operations continues

In 2005 we continued our consistent reform of Elisa, aiming at a simpler and more streamlined operating method and, above all, a sharper competitive edge.

We have made a tremendous renewal effort. The functions are now concentrated within one group and under one umbrella brand. From the customer perspective, Elisa is more accessible: all the services are available at one stop.

The integration of One Elisa has changed the working methods of all Elisa employees and often required going the extra mile. I would like to give special thanks to all Elisa employees for their commitment to the changes made and their dedication to our common effort for the best of the joint Elisa.

The integration of One Elisa is not finished. The customers demand convenience and speed, and the market continues to demand more efficient operations. You need to be quick and flexible to survive.

In 2005 we placed special emphasis on customer service. For example, the average queuing time for the private customer service improved clearly from the close to seven minutes at the beginning of the year down to some 40 seconds at the end of the year.

We reinforced our market position in 2005

2005 was also a successful year in the market for Elisa.

We became the market leader in broadband subscriptions. In mobile subscriptions, the transfer of Saunalahti's customers to Elisa's network significantly boosted our position.

Elisa's acquisition of Saunalahti was in line with our strategy and was certainly the most important event in the Finnish telecommunications market in 2005. The long anticipated consolidation in the market became reality when these two Finnish operators found each other.

Together, Elisa and Saunalahti make an extremely strong player on the Finnish markets. We are the market leader in broadbands by a fair margin, and in mobile subscriptions our joint market share is approximately 37 per cent.

Elisa's reliability and Saunalahti's unbiased approach form a competitive package. For the customer, this means better and more versatile services.

Elisa's strategy consists of three phases: one, the integration of One Elisa; two, reinforcement of our market position on our core markets; three, new markets and services.

Mobile phones replace sleeping bags

Competition on the Finnish telecommunications market has been fierce. Mobile call prices have been more than halved in a short time. At its highest, the annual churn has exceeded 60 per cent.

Consumers have mainly based their decision to switch operators on price. There are signs that the fiercest price competition is coming to an end and that overall quality and new services are gaining more importance as competitive factors.

Thus, while competition remains fierce, it will expand from prices to services. This is partially attributable to the partial lifting of the ban on bundling. As of 1 April 2006 it will be possible to sell 3G phones and subscriptions together. This is something that has been forbidden thus far.

Elisa was among the first to demand this restriction be removed. In our opinion, the ban on bundling could have been lifted from all subscriptions and handsets. Nevertheless, this is a good start. I believe that experience will lead to the ban being lifted entirely in the future.

We introduce services that make everyday life significantly easier

The operator business still mainly consists of voice and SMS services and monthly fees for broadband subscriptions. New services and markets allow us to expand our business.

Susanna Huovinen, the Minister of Transport and Communications, made the following statement concerning information society services in daily life at the Communications Forum held in January 2006:

"For the users of communication services, the benefits must naturally exceed the cost. It is the commercial task of businesses to develop services and attract interest among customers."

Elisa takes this challenge seriously and much has already been achieved in this area.

There are already a number of new services, and they have quite a few uses in people's day-to-day lives. A viable example can be found in my own daily life. For the past year I have managed my affairs more productively with the help of real-time e-mail and a calendar that I can access with my mobile phone. The Push Email service is an excellent day-to-day tool.

In Lahti people can book dental appointments through SMS messages. This innovation has been awarded the Government's Information Society Award. In Helsinki, SMS tram tickets have also sold by the million.

Finnair also offers SMS check-in on flights.

Thanks to the mobile certificate, customers can manage their affairs securely and safely via their mobile phones.

Thus there are already some new services available for our daily lives. Naturally, operators can also look in the mirror when regretting the, as yet, small number of new services. Resources have been spent on the price competition. Convenience of services has also left room for improvement.

At Elisa we find that developing new services for the benefit of our customers' everyday lives opens rich opportunities.

Elisa wants to stay at the leading edge of development, creating and providing new useful services for the customers and companies. The integration of the information society in people's day-to-day lives will not progress without an active input from the operators.

Onwards with enthusiasm

Elisa's employees achieved excellent results in 2005. Elisa had a highly successful year on many fronts. We want to provide pleasant surprises for our customers and ourselves in 2006 as well. While our challenges will not grow less, our opportunities will increase. The exciting new opportunities infuse us with tremendous amounts of energy.

I would like to thank our customers, partners and shareholders for a successful year 2005.

I would also like to thank all Elisa employees for doing a wonderful job.

Thanks to you all, we are able to build an ever more competitive Elisa. We offer our customers useful everyday services and opportunities for enhancing the efficiency of their operations, and challenging tasks for the Elisa team.

Mr Veli-Matti Mattila
President and CEO

Mobile communication business

98 per cent of Finns have a mobile phone.
Almost 2 million of the subscriptions were with Elisa's network in 2005.

The combination of Elisa and Saunalahti's businesses has created a bigger and more competitive Finnish operator in all customer segments.

Elisa offers mobile communications services for corporate and institutional customers, other operators and private customers through its own networks in Finland and Estonia. Elisa's service provision is supported by a comprehensive retail network, which is based on its own retail outlets and a network of representatives.

Operating environment and competitive situation

Competition in the mobile communication business continued fiercely in 2005. In addition to prices, services will play an increasingly important role in future competition. This is made possible by factors such as the removal of prohibition on bundling 3G phones and subscriptions, which has been approved by the Finnish Parliament.

During the autumn Elisa's network operator significantly increased the number of its subscriptions as Saunalahti shifted its subscriptions to Elisa's network. At the end of 2005, Elisa's network stood at some two million subscriptions.

The revenue from the mobile phone business was impacted by an increase in subscribers' usage and increase in traffic generated by Saunalahti's subscribers. Revenue growth was curtailed by reduced interconnection fees and consumer prices.

Elisa agreed on new mobile interconnection fees with TeliaSonera Finland and Finnet Networks. As of 1 June 2005, Elisa's mobile interconnection fee was reduced to 8.4 cents per minute, compared to 10 cents per minute prior to this date.

Elisa's Estonian subsidiary continued to grow, improving both its revenue and result. At the end of 2005 the number of subscriptions stood 266 000, showing an increase of approximately 40 000 subscriptions over the previous year.

Services

In March, Elisa, Digita, MTV3, Nelonen, Nokia, Sonera and YLE (The Finnish Broadcasting Company) started a mobile TV pilot, testing mobile TV services and consumer experiences in the Helsinki capital region.

Elisa developed two interactive mobile TV services, IndicaTV and SnadiTV, through which companies, organisations or private individuals may provide content to TV channels.

Elisa introduced the Vodafone Push Email service for corporate and private customers. The service allows automatic, secure updating of email messages to mobile phones without the need for separate downloading.

Together with Nokia, Elisa introduced the Elisa Mobi mobile phone product, which gives easy access to value-added and entertainment services and the main features of the mobile phone.

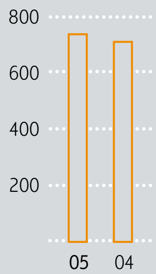
Elisa introduced the citizen certificate-embedded SIM card to mobile phones. The service is provided in collaboration with the Population Register Centre and offers consumers easy, secure and user-friendly access to electronic services.

Elisa opened its 3G network for commercial use in 2004. Expanded during 2005, the network now covers over 30 locations. ●

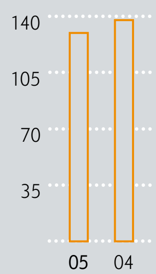
Key figures of the mobile communication business

EUR million	2005	2004
Revenue	740	713
EBITDA	220	227
EBIT	130	138
Personnel 31 Dec	1,629	1,477

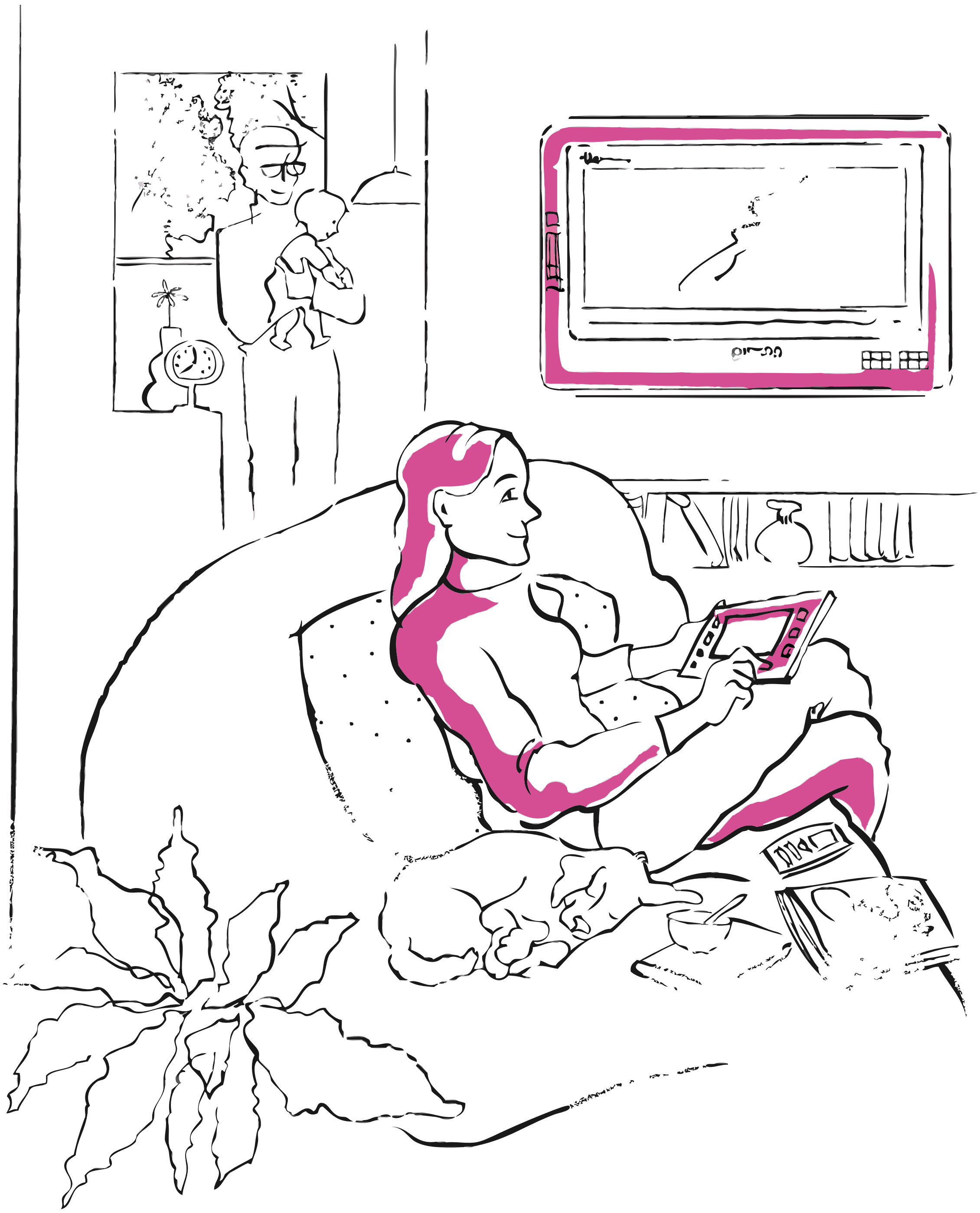
Revenue
EUR million



EBIT
EUR million



Fixed network business



There are some 1.2 million broadband subscriptions in Finland.
Elisa is the Finnish market leader in broadband subscriptions.

Elisa offers broadband services throughout Finland. The growth in subscriptions has been strong and is estimated to continue.

Elisa offers fixed network-based voice and data services to private, corporate and institutional customers and operators in Finland. The service portfolio also covers ICT solutions, Nordic and international telecommunication services as well as contact center services.

Operating environment and competitive situation

During 2005 the robust growth in the number of broadband subscriptions continued in the fixed network business, with Elisa achieving market leadership at the end of June. Elisa also expanded the availability of broadband subscriptions to a further 19 municipalities in Northern Finland.

The number of traditional subscriptions continued to decrease steadily as voice calls shifted to the mobile communication network and data transfers to broadband subscriptions.

The target set in the national broadband strategy – one million subscriptions – was exceeded in June. According to the Ministry of Transport and Communications, there were approximately 1.2 million broadband connections at the end of the year; this meant some 42 per cent of households in Finland had a connection. A broadband connection is now an available option to 96 per cent of households.

Changes in the pricing principles applied to calls made from the fixed network to mobile phones took effect at the beginning of March. This made it possible to reduce the price of these calls for end customers.

Services

Elisa concluded a partnership agreement on integrated voice service packages with, among others, the Espoo and Helsinki Parish Unions, Kemira Oyj, SOK, the Ministry of the Interior and Kemira GrowHow. The agreements are for several years.

The Kolumbus unit introduced its international call service at the beginning of April. The new international call with the prefix 99 559 is available from all landline and mobile subscriptions.

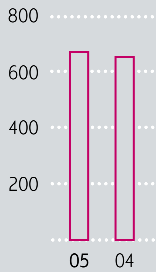
If P&C Insurance appointed Elisa and Telenor to provide all of its telecommunications services in the Nordic region – in Finland, the service provider is Elisa.

Elisa and Suomen Asumisoikeus Oy (ASO) signed an agreement concerning the connection of 2,000 ASO apartments to the cable TV network in the Helsinki capital region during 2005. The agreement significantly expanded the availability of Elisa's cable TV subscriptions for housing associations in Helsinki, Espoo and Vantaa. ●

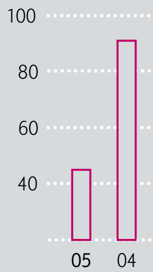
Key figures of the fixed network business

EUR million	2005	2004
Revenue	671	654
EBITDA	160	201
EBIT	45	91
Personnel 31 Dec	3,001	3,015

Revenue
EUR million



EBIT
EUR million



Saunalahti Group Oyj

Saunalahti Group Oyj offers Internet and telecom services to consumers under the name Saunalahti and to corporate customers under the name EUnet Finland.

The group's revenue in 2005 totalled EUR 225 (161) million. The group had 257 (263) employees at the end of the year. Elisa Corporation owned 97.4 per cent of Saunalahti Group Oyj shares at the end of 2005. Saunalahti has been consolidated in the Elisa Corporation as of 1 December 2005.

Saunalahti

Saunalahti is an Internet and telecom operator that offers services to consumers and small companies. Saunalahti produces and markets its services in a cost-efficient manner. Thus the price/quality ratio of our services is competitive from the customer's perspective. Saunalahti quickly responds to changes on the market and has rapidly introduced new products in line with its strategy on the market. The group's main distribution channel is the Internet, which is augmented by telephone services and a cost-effective retailer network.

Saunalahti's business operations are divided into four product lines: Internet services, GSM services, telecom services, and domain and hosting services. Saunalahti's core business is supported by functions such as Marketing, Helpdesk, Sales and Customer Service.

Towards the end of 2004 the group initiated a reform, which resulted in a transition from the previous service operator model to the Mobile Virtual Network Operator (MVNO) model by the end of the first quarter in 2005. With the reform Saunalahti significantly improved its capacity to respond to the price competition and develop its own products. In 2005 the group launched a number of additional GSM services, including 3G video call, push-to-talk (Pikayhteys), navigation service (Kartturi) and ring back tones (Tunnari).

EUnet Finland

EUnet Finland is a business unit of Saunalahti Group Oyj, which provides high-quality data communications and telecommunications solutions for mid-sized and large enterprises and organisations. EUnet's services include high-quality Internet connections, private network solutions for voice and data communications, data centre and hosting services, comprehensive voice solutions from mobile calls to landline subscriptions, and data security services built on a high level of expertise. EUnet ensures the high quality of its services with Service Level Agreements that specify strict criteria for the availability of connections and services supplied by EUnet.

In 2005, EUnet further reinforced its market share as a supplier of corporate network solutions. For example, EUnet has supplied networks to a significant number of Finnish fuel distribution stations. Other important customer groups in the private network services business include companies that offer expert services, IT companies and the financial sector.

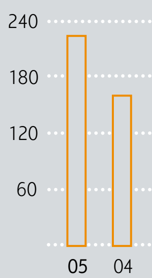
The price competition in Internet connections remains fierce and demand is focusing on connections offering a higher capacity. In voice services the demand is shifting from traditional switchboard solutions to IP-based and wholly mobile solutions. Year 2006 seems set to become the breakthrough year for VoIP calls and wireless switchboard solutions.

Key figures of Saunalahti *

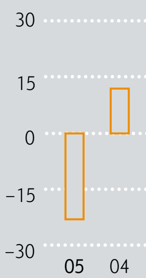
EUR million	2005	2004
Revenue	225	161
EBITDA	–15	17
EBIT	–23	12
Personnel 31 Dec	257	263

* Saunalahti has been consolidated in the Elisa Corporation as of 1 December 2005.

Revenue
EUR million



EBIT
EUR million



Elisa R&D

Elisa R&D follows a long-term development vision in which Elisa creates opportunities for its customers to transmit information, services and experiences electronically in ways that free the user of the limitations of time, place or medium.

Elisa R&D acts as a forerunner and trendsetter, securing the group's future. Elisa R&D develops know-how and competence that lead to new business activities. Competence and expertise support the business' product development and the group's long-term options.

Operating environment

Important trends in 2005 were IP technologies, development of terminals, the customer-oriented approach and the service-oriented architecture. Customer-focused research, which takes the user's perspective into account, had a key role in creating new services. New services were developed and piloted in collaboration with Elisa's customers.

Research cooperation

Elisa R&D actively took part in Finnish and international research projects. Domestic partners included universities, higher education institutions, the VTT Technical Research Centre of Finland and innovative companies.

The greatest investment target in long-term research was MobiLife, the EU's large-scale sixth generation framework project. MobiLife investigates everyday applications and services enabled by technological development from a user-centric point of view. The key areas of study included personalisation and adaptable interfaces, as well as privacy, security and trust.

Elisa was one of the initiators of Forum Virium Helsinki, a cluster project concerned with digital content and services, which gathered together the various producers of service packages to jointly carry out research and development in a real environment. The aim of the first Forum Virium project, called Finnish MobileTV Forum, was to establish a cluster of enterprises developing mobile TV services and to introduce commercial services to the market.

Another important new form of cooperation was Dimes Association, which promotes the development of technology and service innovations related to the ICT field in Finland. One of the founders of Dimes, Elisa is responsible for the Service Oriented Systems program and the project related to infra services for e-business and electronic customer service.

Major events in 2005

During 2005 Elisa actively participated in the Finnish Government's Information Society programme and its various development projects. Veli-Matti Mattila, President and CEO, is a member of the Finnish Information Society Council led by the Prime Minister.

Elisa's Navitas service gives professionals in the social and healthcare sector access to the customer and treatment data stored in electronic format in their respective information systems. Sufficiently complete and up-to-date data may significantly improve the quality of healthcare, its correct timing and economic efficiency, and improve the safety of the customers and their geographic equality.

In association with Finnish television, and content and mobile communication companies, Elisa participated in a pilot project that collected end-users' experiences with mobile phone TV. The project involved 500 test users. This service, known as IP-datacast, is based on the DVB-H (Digital Video Broadcast -Handheld) standard. Together with its partners, Elisa also developed novel services built on the DVB-H network, such as communal services allowing people to share self-made content with others, and visual radio broadcasts together with SBS Finland Oy.

As a measure of enhancing customer-centeredness, the R&D unit was relocated into the business units at the end of 2005. ●

Personnel and environment

Elisa monitored the environmental impact of its operations
and continuously strove to improve their environmental friendliness.

In Elisa, responsibility for the development of competence, the working environment and operations is shared by managers, line management and centralised functions.

Year 2005 was eventful for Elisa in terms of personnel management: the integration of One Elisa continued on many fronts.

Personnel survey

A personnel survey was carried out in January as well as November. The response rate for both surveys exceeded 75%. On the basis of the January survey, Elisa identified personnel motivation and well-being, a goal-oriented operating method and reinforcing the One Elisa model as group-level goals. A decision was also made to focus resources on the development of target-oriented operations and leadership.

In the November survey the measured indices for goal-oriented operations and leadership showed a statistically meaningful improvement. Elisa employees were particularly satisfied with the work of their immediate supervisors. The respondents also felt that the company responded to changes in the business environment with sufficient speed.

Although the well-being at work index calculated on the basis of the survey responses showed a marked improvement, the survey revealed a need for further improvements in well-being issues. The well-being work group prepared development plans for various areas.

Measures targeted at improving the employee's well-being will be developed in connection with the employee pension insurance company Varma. The measures will focus on improving the smooth management and meaningfulness of daily responsibilities in particular.

A changing operating environment places special emphasis on compliance with the company's values. A total of 27 employees nominated by their colleagues received awards for their exemplary input in translating Elisa's values into practical work.

The nominations were accompanied with characterisations such as "the key words describing this person's work are productivity, development, ability to co-operate and readiness to help others" or "able to see the customer's point of view and question existing operating methods and models, as well as propose even radical measures for enhancing the operations".

	2005	2004	2003
Total number of the employees	4,681	5,376	6,683
Gross capacity	4,846	5,821	7,156
Male	2,680	3,432	4,384
Female	2,166	2,389	2,772

Promoting equality

The act on the equality of women and men was amended as of 1 June 2005. Employers must now initiate equality-promoting measures according to a separate equality plan, which was to have been completed by the end of 2005. Elisa's equality plan focused on three issues:

- Payroll distribution: salary differences between men and women
- Structure of administrative and executive management: number of women in management and leadership positions
- Distribution of men and women according to job requirement and salary classification

Elisa had already set down its equality principles, as well as instructions for preventing harassment in the workplace, in 2004.

At the end of the year the personnel of Saunalahti Group Oyj were welcomed to the Elisa family, even if still as a separate company. They were provided with access to Elisa's intranet and plans for joint development events were begun.

Development in personnel and activities

In Elisa, responsibility for the development of competence, the working environment and operations is shared by managers, line management and centralised functions.

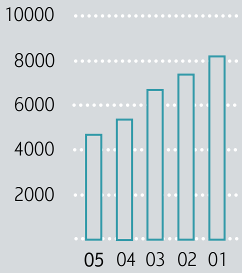
Development is aligned with the needs of the business and the working environment. In addition to the business outlook, the personnel survey and objective and development appraisals provide an important basis for the development of competence, operations and the working environment.

Elisa supported leadership by providing training for new supervisors. The training modules involved leadership, business, finance, employment legislation and employment relationships.

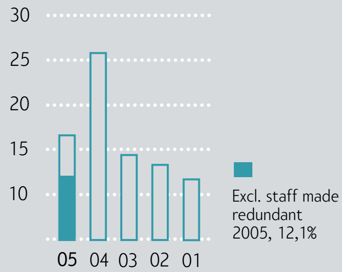
The number of employees who entered supervisor training in 2005 was 75. A further 70 employees began an 18-month training programme tailored for more experienced supervisors and experts with development responsibilities. The programme will lead to a specialist qualification in management.

All of Elisa's supervisors attended a management seminar, where agenda covered topical challenges concerning Elisa's business and leadership. Supervisors were also provided with

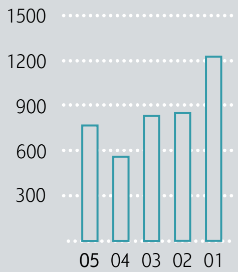
Number of employees



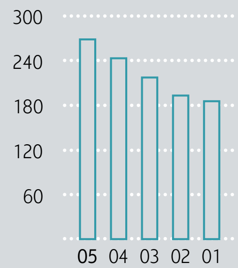
Staff turnover rate, %



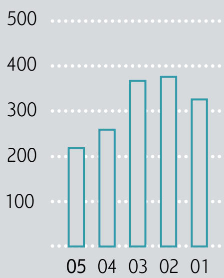
Training expenditure per employee
EUR



Revenue per employee
EUR 1000



Personnel costs
EUR million



extensive training in topical issues concerning employment contracts.

The fifth Development Center programme for potential key personnel was brought to a close in the autumn. The programme consisted of Learning Forums focusing on topical management themes and Discovery Group sessions offering a more in-depth review of the identified themes.

The first Executive Masterclass, which targeted the present key personnel, ended in June. A total of some 80 Elisa people attended these programmes for key and potential key personnel. Planning of the new key potential programme began in the autumn.

The unit-specific training programmes focused on themes such as customer account management, sales development and reinforcement of technical competence. Process development and related information system development projects resulted in several training sessions and workshops during the year.

The Elisa Academy organised by Elisa R&D gathered Elisa employees together around various themes related to technology and the changing business environment. The customer service center personnel and sales teams were provided with continuous training on products and operating methods. Re-training projects were also launched.

Basic skills, such as IT, telecommunications, language and project skills, were improved by using mainly external service providers and partners.

Co-operation

Co-operation continued to be lively and regular within Elisa as a whole and within the different business operations. The harmonisation of guidelines concerning daily work and personnel benefits was largely completed during the year.

Together with personnel representatives, Elisa planned and determined measures in preparation for situations requiring staff reduction; the planned measures exceed the statutory requirements. The guiding principle is that Elisa will shoulder its responsibilities in situations involving personnel reductions, and individuals will not be left without support.

Corporate responsibility

Industrial safety co-operation within Elisa took the form of work environment groups established in the business units and operating areas. The groups serve as statutory safety committees. Numerical indicators were developed for the purpose of monitoring the realisation of working environment targets.

Elisa's work environment committee, which comprised nine industrial safety delegates, an occupational health care representative and two employer representatives, reviewed the working environment development targets for the entire company. A separately nominated well-being group plans measures supporting well-being at work.

Elisa launched a project aimed at surveying and reporting on the quality of interior air in the workplace. Elisa is involved in the development of a method for analysing industrial safety risks in the electronics and IT industry.

Environmental responsibility

Elisa carries out high-quality and environmentally friendly telecommunications services.

The aims of the company's confirmed environmental policy are:

- to promote sustainable development at the local, national and international levels as part of competitive business;
- to commit to protecting the environment affected by Elisa's operations and to take environmental, quality and safety considerations into account in its decision-making and management systems;
- to comply with national and international environmental regulations.

Elisa monitored the environmental impact of its operations and continuously strove to improve their environmental friendliness. Elisa took environmental concerns into account when making decisions concerning suppliers and subcontractors, and improved awareness of environmental issues among the personnel by openly and regularly providing information on environmental effects.

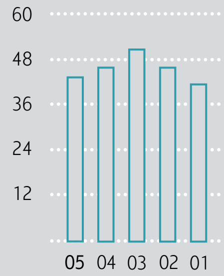
Elisa's environment group collected data on the environmental load of energy, water and fuel consumption, and waste, etc. Elisa also followed the development of environmental legislation and increased environmental awareness among the personnel by directing the operations that contribute to the environmental load.

The principal projects initiated in 2005 were concerned with the development of the environmental load data reporting system, improving waste management in Elisa's office buildings, developing the production waste processes, and increasing the employees' environmental awareness. Elisa organised an environmental seminar for the employees working with these issues.

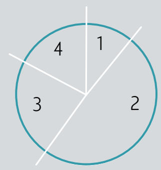
Elisa's outlets serve as collection points for the customers' electrical goods and electronic scrap waste material from Elisa's operations. Co-operation with the environmental management company Lassila &Tikanoja plc has taken various forms. Sorting of waste material in Elisa involves a total of 18 substances, of which only four cannot be recycled. Elisa collaborates with Vodafone and the European Telecommunications Network Operators' Association (ETNO) on environmental issues.

Personnel costs per employee

EUR 1000

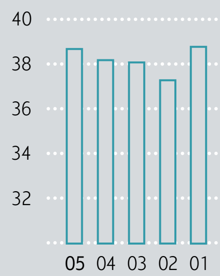


Educational structure

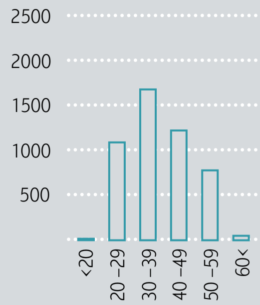


1 primary education 11%
2 lower secondary education 49%
3 upper secondary education 23%
4 higher degree 17%

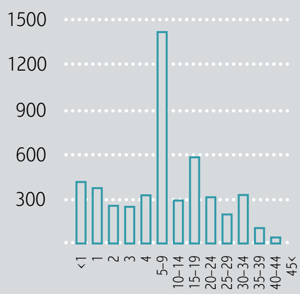
Average age of employees



Personnel age structure



Distribution according to length of employment



Financial statements

The report of the Board of Directors for 2005

As of 1 January 2005, the Finnish Accounting Standards (FAS) were replaced by the International Financial Reporting Standards (IFRS) in Elisa Corporation's consolidated reporting.

This financial statement has been prepared in accordance with the IFRS recognition and measurement principles.

Market situation

The market situation was tight throughout 2005. Prices continued to fall for the average call/minute rate in the mobile phone business, and subscriber usage increased. The year saw several marketing campaigns offering low-rate voice and SMS services. The number of Elisa's own mobile phone subscriptions continued to develop favourably.

The number of broadband subscriptions in the fixed network business continued to grow strongly, but the decrease in the number of traditional subscriptions and their usage was even stronger than before.

Revenue

EUR million	Financial statements 1–12/2005	Financial statements 1–12/2004
Mobile communications	740	713
Fixed network	671	654
Other businesses	38	111
Inter-segment sales	–112	–122
Total	1,337	1,356

The decrease in Elisa's turnover was due to the sale of Comptel, Yomi Software and Estera shares, which were not included in Elisa's core business. The comparable revenue for 2005 improved slightly on the previous year.

The revenue from the mobile phone business was affected by an increase in the number of subscriptions in Elisa's network, growth in usage of the subscriptions and the increase in traffic generated by Saunalahti's subscribers. Revenue growth was curtailed by a heavy reduction in interconnection fees and consumer prices. Revenue growth in the fixed network business was attributable to the acquisition of a new subsidiary, Tikka Communications, and growth in the broadband business.

Performance

	Financial statements		Exclusive of non-recurring items	
EUR million	1–12/2005	1–12/2004	1–12/2005*	1–12/2004**
Mobile communications				
EBITDA	220	227	190	227
EBITDA-%	30	32	26	32
EBIT	130	138	100	138

Fixed network				
EBITDA	160	201	156	201
EBITDA-%	24	31	23	31
EBIT	45	91	41	91
Other business and corporate functions				
EBITDA	66	27	0	13
EBIT	58	12	–8	–2
Total				
EBITDA	446	455	346	441
EBITDA-%	33	34	26	33
EBIT	233	242	133	227

* Capital gain on the divestment of Yomi Software, EUR 4 million; compensations for damage in interconnection traffic, EUR 28 million; capital gain on real estate, EUR 15 million; capital gain on the disposal of Comptel shares and the related impact on earnings, EUR 40 million; IFRS adjustment relating to the transfer of pension liabilities, EUR 13 million; provision for reorganizing operations, EUR –6 million; and capital gain on the sale of Estera, EUR 6 million.

** EUR 9 million capital gain on real estate and EUR 5 million revenue recognition due to a change in the calculating principles of the pension provision.

Elisa's EBITDA decreased by 2 per cent from the previous year, and relative profitability decreased by one percentage point to 33 per cent of the revenue. EBITDA for 2005 included a capital gain on the divestment of Yomi Software Ltd and Estera, capital gain on the disposal of Comptel shares, compensation for damages received from TeliaSonera and capital gain on real estate. Thus the relative profitability, excluding non-recurring items, decreased from 33 to 26 per cent. This was affected by the decrease in average consumer prices and interconnection fees in mobile communications, diminished traffic volumes in the fixed network, frontloading of costs in the broadband business and market investments.

The Group's other financial income and expenses totalled EUR –22 million (–30). The financial income also included the share of the associated companies' results, EUR 1.2 million (1.3). The reduced financial expenses were mainly due to a significant decrease in interest-bearing liabilities.

Income taxes in the income statement amounted to EUR –34 million (–53). The Finnish corporate tax rate was altered from 29 per cent to 26 per cent at the beginning of 2005.

The group's January-December results after taxes and minority interests stood at EUR 176 million (152). The group's earnings per share (EPS) amounted to EUR 1.22 (1.10). At the end of 2005, the consolidated equity per share stood at EUR 8.06 (6.23 at the end of 2004).

Changes in corporate structure

Elisa sold the entire share capital of Yomi Software Ltd, a 100 per cent subsidiary of Elisa, to Sysopen Digia Plc. The selling price was EUR 12.1 million, and Elisa was also released from a EUR 1.5 million debt liability.

Elisa and IBM signed an agreement on the allocation of Elisa's application management services to IBM as of 1 April 2005. On the same date, 150 Elisa employees transferred to IBM.

The merger of Liedon Puhelin Oy with Lounet Oy was entered in the trade register on 31 March 2005. Elisa previously owned 16.8 per cent of Liedon Puhelin. Following the merger, Elisa's holding in Lounet decreased from 50.2 per cent to 46.7 per cent. Lounet remains consolidated in Elisa as a group company on the basis of actual control.

The merger of Kestel Oy and Kesnet Oy with Elisa was entered in the trade register on 31 March 2005, the merger of Finnet International Ltd on 31 May 2005 and the merger of Elisa Matkapuhelinpalvelut Ltd on 31 December 2005.

On 29 April 2005 Elisa submitted a public tender offer for the shares of Tikka Communications Oy. In May, Elisa's holding in the company exceeded 50 per cent, after which Tikka Communications Oy was consolidated as a subsidiary as of 1 June 2005. Elisa acquired a 100 per cent holding in the company by mid-December.

Elisa's ownership of Comptel Corporation decreased from 58.1 per cent to 19.9 per cent after Elisa sold 40,946,000 Comptel Corporation shares to investors for EUR 65.1 million at the end of May. Comptel Corporation was consolidated as a subsidiary until 31 May 2005.

On 1 June 2005, Elisa sold its 35 per cent holding of Racap Solutions Oy to Capgemini Finland Oy.

On 27 June 2005 Elisa sold a 55.1 per cent stake in Lippupiste Oy's share capital to Interavanti Oyj and a 25 per cent stake to Cardplus Oy. Elisa still has a 19.9 per cent holding in Lippupiste Oy, which the buyers have agreed to purchase from Elisa after a period of two years.

As of 1 July 2005, Elisa transferred its personnel's statutory pension coverage from the pension fund to Varma Mutual Pension Insurance Company and supplementary pensions to Sampo Life Insurance Company Limited.

On 7 July 2005 Elisa made a public tender offer for all shares issued by Saunalahti Group Oyj and a bid to Saunalahti option holders. Elisa's ownership of Saunalahti Group Oyj stood at approximately 97 per cent at the end of the year. In order to acquire all Saunalahti shares, Elisa made a redemption offer on all remaining shares and share options. Simultaneous with the redemption offer, Elisa initiated compulsory acquisition proceedings for minority shareholders in accordance with the Finnish Companies Act. The proceedings ended on 13 January 2006 at 4.30 pm. Elisa has initiated arbitration proceedings in accordance with the Finnish Companies Act in relation to the redemption of the Saunalahti Group Oyj shares.

On 4 November 2005, Elisa sold the entire share capital of Estera Oy, a security business company, to ISS Security Oy. In connection with the sale, Estera Oy sold part of its business to its operative management.

On 30 November 2005 Elisa sold the entire share capital of Kiinteistö Oy Espoon Keilasatama 5, which was formerly used by Radiolinja, to Local Government Pensions Institution. The sold property is not included the holdings that are in line with Elisa's strategy.

Mobile communication business

	9–12/2005	9–12/2004	1–12/2005	1–12/2004
Total number of subscriptions (Finland and Estonia)	2,228,101	1,609,015	2,228,101	1,609,015
Number of subscriptions in Finland *	1,962,101	1,383,515	1,962,101	1,383,515
– Network operator in Finland **	1,483,129	1,383,515	1,483,129	1,383,515
– Saunalahti subscriptions	478,973	-	478,973	-
Subscriptions in Estonia	266,000	225,500	266,000	225,500

* Elisa's network operator in Finland

** Elisa's network operator in Finland, exclusive of Saunalahti

Operating figures in Finland, exclusive of Saunalahti

Revenue/subscription *** (ARPU), €	30.4	37.0	32.5	37.8
Churn ***, %	22.6	38.9	28.4	33.7
Usage, million minutes *	1,070	659	3,509	2,498
Usage, min/subscription/month ***	180	161	172	156
SMS, million msg *	275	154	827	537
SMS, msg/subscription/month ***	40	38	38	34
Value-added services/revenue, %	17	14	16	14

* Elisa's network operator in Finland

*** Elisa's network operator in Finland, exclusive of Saunalahti

Elisa's network operator significantly increased the number of its subscriptions during the year as Saunalahti shifted its subscriptions to Elisa's network. At the end of 2005 Elisa's network stood at approximately two million subscriptions. Exclusive of Saunalahti subscriptions, the number of Elisa subscriptions stood at 1,483,129, showing an increase of 2,335 subscriptions from the previous quarter.

In 2005 the call minutes per subscription of Elisa's own service operator rose by approximately 10 per cent and the number of SMS messages increased by approximately 12 per cent on the previous year. The call minutes of the network operator rose by 40 per cent and SMS messages by 54 per cent. The increased volume of the network operator was substantially affected by additional traffic generated by Saunalahti after 1 September 2005.

Revenue per subscription (ARPU) decreased by approximately 14 per cent on the previous year. This was mainly due to a fall in interconnection fees and consumer prices.

The business operations of Elisa's subsidiary in Estonia were favourable. Revenue was EUR 88.1 million (75.3), EBITDA EUR 27.9 million (22.5) and EBIT 18.5 million (13.2). The number of subscriptions stood at 266,000 (225 500) at the end of 2005.

Elisa agreed on new mobile interconnection fees with TeliaSonera Finland and Finnet Networks. As of 1 June 2005, Elisa's mobile interconnection fee was reduced to 8.4 cents per minute, compared to 10 cents per minute prior to this date.

Elisa announced the launch of the Vodafone Push Email service, which will make sending and receiving email with a mobile phone easier.

Elisa introduced a new mobile communications concept, which integrates the handset and services into one package. Elisa's Mobi menu give users easy access to value-added and entertainment services as well as the main features of the mobile phone.

Elisa introduced the citizen certificate on a GSM SIM card for its customers. The service is provided in collaboration with the Population Register Centre and offers consumers easy, safe and user-friendly access to electronic services.

Fixed network business

Number of subscriptions	31 Dec 2005	31 Dec 2004	Change, %
Number of subscriptions, total	420,465	250,390	68
– Elisa subscriptions	384,909	222,307	73
– Saunalahti subscriptions	35,556	28,083	27
ISDN channels	128,665	159,591	–19
Cable TV subscriptions	214,054	198,447	8
Analogue and other subscriptions	578,002	639,202	–10
Subscriptions, total	1,305,630	1,219,547	7

The demand for Elisa's broadband subscriptions continued briskly throughout 2005. The number of subscriptions showed an increase of 73 per cent on the previous year. Elisa achieved market leadership in the Finnish broadband market.

The target set in the national broadband strategy – one million subscriptions – was exceeded in June. The number of traditional subscriptions continued to decrease as voice calls shifted to the mobile communication networks and data transfers to broadband subscriptions.

Changes in the pricing principles applied to calls made from the fixed network to mobile phones took effect at the beginning of March. This made it possible to reduce the price of these calls for end customers.

Personnel

The average number of personnel at Elisa was 4,989 (5,590) during 2005. At the end of 2005, the number of personnel stood at 4,681 (5,376).

	31 Dec 2005	31 Dec 2004	Change, %
Mobile communications	1,629	1,477	+10
Fixed network	3,001	3,015	–0
Other business operations	-	814	
Corporate functions	51	70	–27
Total	4,681	5,376	–13

During the year, the disposal of Comptel reduced the number of personnel by approximately 420, the disposal of Estera by approximately 160 and the disposal of Yomi Software by approximately 260. The consolidation of Tikka Communications and Saunalahti increased the number of personnel by approximately 260 people for each company.

Elisa executed a major business reorganisation in spring and summer 2005. It was further specified at the year-end. As part of extensive streamlining measures, Elisa initiated a reorganisation of operations, aimed at simplifying and rationalising its operations. This led to outsourcing and a need for fewer personnel. Reductions in the number of personnel were achieved through pension arrangements and support packages.

Investments

EUR million	1–12/2005	1–12/2004
Capital expenditures, of which	204	182
– mobile communications business	86	68
– GSM leasing liability buy-backs	4	20
– fixed network business	112	88
– others	2	6
Shares	415	61
– of which achieved through an exchange of shares	361	47
Total	619	243

Financial position

Elisa's financial position and liquidity remained good throughout the year. Cash flow after investments amounted to EUR 308 million (225). This was particularly affected by the divestment of non-core businesses, loan receivables and fixed assets, and compensations for damages received.

On 17 June 2005 Elisa entered into a seven-year EUR 170 million revolving credit facility. The facility replaced a comparable arrangement that Elisa had entered into in June 2003.

Before shifting Elisa's TEL pension liabilities to Varma Mutual Pension Insurance Company, Elisa repaid EUR 64 million in pension loans to the Elisa Group's Pension Fund ahead of schedule.

On 7 November 2005 Elisa updated the EMTN programme in compliance with the new directive requirements.

Financial key indicators

EUR million	31 Dec 2005	31 Dec 2004
Net debt	293	462
Gearing, %	21.7	50.6
Equity ratio, %	61.7	49.3

	1–12/2005	1–12/2004
Cash flow after investments	308	225

Valid finance arrangements

EUR million	Maximum amount	In use on 31 Dec 2005
Committed credit limit	170	0
Commercial paper programme [1]	150	0
EMTN programme [2]	1 000	452

[1] The programme is not committed.
[2] European Medium Term Note programme, not committed.

Long-term credit ratings

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

Share

At the end of 2005 the company's total number of shares was 166,066,016 (141,989,109). The market capitalisation on 31 December stood at EUR 2,596 million (1,682).

In 2005 a total of 248.3 million shares were traded on the Helsinki Stock Exchange for an aggregate of EUR 3,464 million. The exchange was 171.5 per cent of the number of shares on the market.

Elisa did not have any valid warrants on 31 December 2005.

Treasury shares

At the end of 2005 the total number of Elisa's shares owned by group companies was 180,000 (210,672 at the end of 2004). The nominal value of the shares totalled EUR 90,000, and their proportion of the share capital and voting rights was 0.11 per cent.

Research and development

The group invested EUR 8 million (17) in research and development in 2005. Important research trends included IP technologies, development of terminals and service-oriented architecture. Customer-centred R&D is of key importance in developing new services. As a measure of enhancing customer-centeredness, the R&D unit was relocated in to the business units.

Elisa's Extraordinary General Meeting

On 5 December 2005, Elisa Corporation's Extraordinary General Meeting resolved to pay an extra dividend of EUR 0.40 per share in accordance with the Board of Director's proposal. The number of members at the company's Board of Directors was also increased by two to eight members. President and CEO Lasse Kurkilahti and attorney Matti Manner were elected new members. Voting limitation was removed from the Articles of Association.

The Board of Directors' authorisations

On14 March 2005 the Annual General Meeting approved the Board of Directors' proposal authorising the Board of Directors to decide on increasing the company's share capital. The authorisation is valid for one year. A maximum aggregate of 28.3 million of the company's shares can be issued, and the company's share capital can be increased by a maximum of EUR 14,150,000 in total.

The Annual General Meeting approved the Board of Directors' proposal concerning the authorisation to acquire and assign treasury shares. The authorisation applies to a maximum of 6,888,000 treasury shares.

The Annual General Meeting adopted the Board of Directors proposal concerning the sale of shares in the joint book-entry account in accordance with Chapter 3a, section 3a of the Finnish Companies Act.

Directed issue

On 7 July 2005 Elisa made a public tender offer for all shares issued by Saunalahti Group Oyj. The consideration offered by Elisa in the tender offer was 1 Elisa share for 5.6 Saunalahti shares. The calculated total value of the consideration offered by Elisa was approximately 27 per cent higher than the average volume-weighted price of the Saunalahti shares traded in the previous 12 months. Elisa also made an offer to Saunalahti option holders, offering EUR 1.53 in cash for each share option of the 2002 option programme, and EUR1.82 in cash for each share option of the 2003 option programme. The calculated total amount of the consideration offered by Elisa was approximately EUR 320 million at the time of the offering.

Following Elisa's tender offer for Saunalahti shares and share options, which ended on 4 November 2005, Elisa's proportion of Saunalahti shares and voting rights exceeded two thirds (2/3) of the voting rights of Saunalahti's shares. On 11 November 2005 Elisa decided to complete the public tender offer, and the right of ownership to Saunalahti shares was transferred to Elisa on 14 November 2005. By the end of 2005 Elisa held approximately 97 per cent of Saunalahti shares and voting rights.

On 12 December 2005, Elisa made a redemption offer for Saunalahti shares and share options. The offer expired on 13 January 2006 at 4.30 pm. Simultaneous with the redemption offer, Elisa initiated compulsory acquisition proceedings for minority shareholders in accordance with the Finnish Companies Act to acquire all Saunalahti shares.

Major legal issues

Elisa and TeliaSonera agreed on abandoning the legal proceedings regarding the claim for restitution and compensation of mobile interconnection fees and the patent action brought on by TeliaSonera. As part of the overall solution, TeliaSonera Finland paid Elisa EUR 30 million in compensation. Elisa also reached an agreement over mobile interconnection fees regarding Finnet Networks, and paid Finnet Networks EUR 2 million in compensation. At the beginning of 2006, Finnet Verkot initiated arbitration proceedings concerning Saunalahti interconnection fees.

In the redemption proceeding regarding the merger of Yomi Plc, the arbitration court set the redemption price at EUR 7.30 per share. The redemption concerned 636,294 former shares of Yomi Plc. The handling of the matter with regard to 428,600 shares is continuing in the district court.

The Helsinki District Court issued a ruling in favour of Elisa and dismissed the action for annulment of the decision taken at Elisa Matkapuhelinpalvelut Oy's (previously known as Oy Radiolinja Ab) Annual General Meeting in the spring of 2000. The plaintiffs have appealed against the decision. The merger of Elisa Matkapuhelinpalvelut Oy with Elisa was entered in the trade register on 31 December 2005.

With regard to the redemption procedure of Oy Radiolinja Ab's shares pursuant to the Finnish Companies Act, the arbitration court set the redemption price at EUR 7,904.83 in 2001. Processes related to the redemption price concerning 325 shares are still pending.

Elisa has initiated arbitration proceedings pursuant to the Finnish Companies Act aimed at the redemption of the remaining Tikka Communications Oy shares. The right of ownership to the shares to be redeemed was transferred to Elisa in December 2005.

Elisa has initiated arbitration proceedings pursuant to the Finnish Companies Act aimed at the redemption of Saunalahti Group Oyj shares. Elisa demands the redemption price be set at EUR 2.29 per share. The redemption price concerning approximately 3.8 million shares is pending a decision by the arbitration court.

The public authorities are currently conducting investigations into Elisa concerning the pricing of broadband and fixed network traffic and interconnection fees.

Substantial risks associated with Elisa's operations

The competition in the telecommunication business is extremely tight in Elisa's main markets. The competitive situation may affect Elisa's business.

The rapid technological developments in the telecommunications business 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. Thus the overall market of mobile subscriptions in Finland cannot grow significantly. Furthermore, the share of fixed network traffic has decreased in the past few years. These factors may restrict growth potential.

The telecommunications industry is subject to heavy regulation. Elisa and its business are monitored and regulated by several public authorities. This regulation also affects the price level of some products and services offered by Elisa.

Events after the financial period

On 2 January 2006, Elisa and Manpower signed an agreement concerning the outsourcing of the outbound telemarketing services of Elisa's Contact Centers to Manpower Business Solutions Oy from the beginning of February. In connection with the business transfer, 134 employees transferred from Elisa's Contact Centers to Manpower as established employees as of 1 January 2006.

Elisa revised its business model, aiming at enhanced customer-orientation and efficiency in line with Elisa's strategic choices. As part of this effort, Elisa invited some Saunalahti executives to its Executive Board, also rotating other members and redistributing responsibilities.

Outlook for 2006

Competition in the Finnish telecommunications market remains challenging, while the focus is increasingly shifting to services. The use of mobile communications and broadband products continues to increase. Elisa's aim is to further reinforce its position as the leading service supplier.

The group's revenue is expected to increase clearly on the previous year. Changes in the operating environment are creating uncertainty concerning the predictability of the group's performance. However, Elisa expects to see an improvement in EBITDA and EBIT excluding non-recurring items in 2006. This will be due to e.g. the synergy benefits created by the Saunalahti deal and Elisa's rationalisation procedures.

Capital expenditures during the year are estimated to total 13 to 15 per cent of the revenue, and cash flow will be clearly positive. Certain non-recurring items due to IT and production system reforms, which will support the "One Elisa" operational model, are scheduled for 2006.

Consolidated income statement

EUR million	Appendix	1 Jan–31 Dec 2005	1 Jan–31 Dec 2004
Revenue	4	1,337.3	1,356.0
Other operating income	6	113.9	27.0
Materials and services	7	–565.9	–478.2
Employee benefit expenses	8	–220.5	–248.8
Other operating expenses		–218.7	–201.2
EBITDA		446.1	454.8
Depreciation and amortisation	10	–213.2	–213.2
EBIT		232.9	241.6
Financial income	11	9.5	8.4
Financial expenses	11	–31.7	–38.8
Share of associated companies' profit		1.2	1.3
Profit before tax		211.9	212.5
Income taxes	12	–34.1	–53.2
Profit for the period		177.8	159.3
Attributable to			
Equity holders of the parent		176.2	151.7
Minority interest		1.6	7.6
		177.8	159.3

Earnings per share (EUR/share) calculcated from the profit attributable to equity holders of the parent:

Basic	1.22	1.10
Diluted	1.22	1.10

Average number of outstanding shares (1,000 shares):

Basic	144,807	137,321
Diluted	144,807	137,321

Consolidated balance sheet

EUR million	Appendix	1 Jan–31 Dec 2005	1 Jan–31 Dec 2004
ASSETS			
Non-current assets			
Property, plant and equipment	13	660.6	724.2
Goodwill	14	770.6	471.8
Other intangible assets	14	178.7	68.6
Investments in associated companies	15	0.4	11.7
Available-for-sale investments	16	44.2	10.9
Receivables	17	10.6	47.6
Deferred tax receivables	18	42.5	42.5
		1,707.6	1,377.3
Current assets			
Inventories	19	20.3	15.1
Trade and other receivables	20	243.1	263.5
Tax receivables		18.7	45.0
Financial assets at fair value through profit or loss	21	177.3	96.1
Cash and cash equivalents	22	35.4	66.7
		494.8	486.4
Total assets		2,202.4	1,863.7
EQUITY AND LIABILITIES			
Share capital		83.0	71.0
Share premium		530.4	530.4
Treasury shares		–2.5	–3.1
Contingency fund		3.4	3.4
Fair value reserve		34.3	–0.5
Other funds		381.2	31.5
Retained earnings		307.5	250.8
Equity attributable to equity holders of the parent	23	1,337.3	883.5
Minority interest		12.4	31.0
Total equity		1,349.7	914.5
Non-current liabilities			
Deferred tax liabilities	18	40.6	29.8
Pension obligations	25	4.5	14.8
Provisions	26	4.8	6.6
Interest-bearing liabilities	27	393.7	593.4
Other liabilities	28	12.8	10.3
		456.4	654.9
Current liabilities			
Trade and other payables	28	279.9	257.1
Tax liabilities		0.6	2.1
Provisions	26	3.4	3.3
Interest-bearing liabilities	27	112.4	31.8
		396.3	294.3
Total liabilities		852.7	949.2
Total equity and liabilities		2,202.4	1,863.7

Consolidated cash flow statement

EUR million	Appendix	1 Jan–31 Dec 2005	1 Jan–31 Dec 2004
Cash flow from operating activities			
Profit before tax		211.9	212.5
Adjustments			
Depreciation and amortisation		213.2	213.2
Financial income and expenses		22.2	29.6
Gains and losses on the disposal of fixed assets		–21.4	–15.8
Gains and losses on the disposal of shares		–54.4	–2.8
Change in provisions in the income statement		–11.7	–14.5
Other adjustments		–1.0	–10.0
		146.9	199.7
Change in working capital			
Change in trade and other receivables		39.9	32.8
Change in inventories		–4.5	–0.3
Change in trade and other payables		–59.1	–27.6
		–23.7	4.9
Dividends received		0.8	0.1
Interests received		9.3	5.6
Interests paid		–30.6	–51.5
Taxes paid		–5.1	–16.0
Net cash flow from operating activities		309.5	355.3
Cash flow from investments			
Acquisition of subsidiaries		–1.0	–8.5
Acquisition of associates		0.0	–1.8
Investments in property, plant and equipment		–194.9	–171.4
Investments in available-for-sale investments		–3.1	–0.1
Disposal of subsidiaries		105.5	11.4
Disposal of associates		4.2	0.5
Disposal of property, plant and equipment		46.4	39.4
Disposal of available-for-sale investments		1.4	0.1
Long-term receivables		40.0	
Net cash flow from investments		–1.5	–130.4
Cash flow from financing			
Change in interest-bearing receivables		0.8	24.3
Disposal of treasury shares		0.8	6.4
Repayment of long-term debt		–102.4	–110.7
Increase (+), decrease (–) in short-term debt		–18.6	–15.3
Repayment of finance lease liabilities		–16.7	–21.0
Dividends paid		–122.0	–13.0
Net cash flow from financing		–258.1	–129.3
Change in cash and cash equivalents		49.9	95.6
Cash and cash equivalents at beginning of period	22	162.8	67.2
Cash and cash equivalents at end of period		212.7	162.8

Statement of changes in consolidated equity

	Equity attributable to equity holders of the parent							
EUR million	Share capital	Share premium	Treasury shares	Other funds	Retained earnings	Total	Minority interest	Total equity
Total equity at 31.12.2003 (FAS)	69,0	516,7	0,0	3,4	110,0	699,1	77,4	776,5
Effects of adopting IFRS			–24,7			–24,7	–4,1	–28,8
Restated balance at 1.1.2004	69,0	516,7	–24,7	3,4	110,0	674,4	73,3	747,7
Investments in subsidiaries					1,1	1,1	–37,1	–36,0
Available-for-sale investments				–0,4		–0,4		–0,4
Other changes					–12,0	–12,0	0,3	–11,7
Items recognised directly in equity				–0,4	–10,9	–11,3	–36,8	–48,1
Profit for the period					151,7	151,7	7,6	159,3
Recognised income and expense for the period				–0,4	140,8	140,3	–29,2	111,1
Dividends							–13,1	–13,1
Issue of share capital	2,0	13,7		31,5		47,2		47,2
Sale of treasury shares			21,6			21,6		21,6
Total equity at 31.12.2004	71,0	530,4	–3,1	34,5	250,8	883,5	31,0	914,5
Total equity at 1.1.2005	71,0	530,4	–3,1	34,5	250,8	883,5	31,0	914,5
Sales of subsidiaries							–15,8	–15,8
Investments in subsidiaries			–0,2			–0,2	–0,2	–0,4
Available-for-sale investments				34,7		34,7		34,7
Other changes					3,7	3,7		3,7
Items recognised directly in equity			–0,2	34,7	3,7	38,2	–16,0	22,2
Profit for the period					176,2	176,2	1,6	177,8
Recognised income and expense for the period			–0,2	34,7	179,9	214,4	–14,4	200,0
Dividends					–123,2	–123,2	–4,2	–127,4
Issue of share capital	12,0			349,7		361,7		361,7
Sale of treasury shares			0,8			0,8		0,8
Total equity at 31.12.2005	83,0	530,4	–2,5	418,9	307,5	1,337.3	12,4	1,349.7

Notes to the consolidated financial statements

Basic information on the company

The Elisa Group engages in telecommunications activities, providing data communications services in Finland and abroad. Its parent company is Elisa Corporation. The domicile of the parent company is Helsinki, and its registered address is Kutomotie 18. The shares of the parent company, Elisa Corporation, have been listed on the Helsinki Stock Exchange since 1999.

A copy of the consolidated financial statements is available from Elisa Corporation's main office at the address Kutomotie 18, Helsinki or on the company's website www.elisa.com.

Accounting principles

Basis for accounting

These are the first consolidated financial statements of Elisa in accordance with International Financial Reporting Standards. In the preparation, the IAS and IFRS standards and the SIC and IFRIC interpretations valid on 31 December 2005 have been followed. The International Financial Reporting Standards refer to standards and interpretations on them that have been approved to be applied in the EU in the Finnish Accounting Act and the provisions issued pursuant to it according to the procedures provided for in the EU regulation (EC) No. 1606/2002. Earlier, Elisa's consolidated financial statements was based on Finnish Accounting Standards.

During 2005, the Group adopted the international IFRS financial statements practice the adoption was done according to the IFRS 1 transitional standard. Elisa Group's adoption date was 1 January 2004. The differences due to the introduction of IFRS standards have been presented in the matching calculations in the notes to the consolidated financial statements. The comparison information for 2004 has been converted according to IFRS standards.

The financial statement information have been prepared under the historical cost convention except for investments available for sale and financial assets and liabilities that are recognised at fair value through profit or loss. Combinations of companies are valued at fair value on the acquisition date. In the case of the combination of operations taking place before 2004, the goodwill corresponds to the book value according to the previous financial statements regulations that have been used as the default acquisition cost according to IFRS.

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions. Although the estimates and assumptions are based on management's best knowledge of current events and actions actual results may differ from the estimates. The estimates are primarily related to the useful lives of tangible and intangible fixed assets, income taxes and impairment testing.

Subsidiaries

The consolidated financial statements include the parent company, Elisa Corporation and those subsidiaries where the parent company controls, directly or indirectly, more than 50 per cent of the subsidiary's voting rights or where the parent company otherwise exercises authority.

Subsidiaries are consolidated from the time of acquisition. The purchase method is used in the elimination of internal ownership. All intra-group transactions, receivables, liabilities, unrealized profits and distribution of profits within the group have been eliminated.

The distribution of the profit for the period to equity holders of the parent company and minority interests is presented in the income statement. Minority interest is presented as a separate item in equity.

Associated companies

Associated companies are companies where the Group exercises a considerable influence. A considerable influence is realised when the Group holds voting rights of 20–50 per cent or when the Group otherwise exercises a considerable influence but not authority. Associated companies are consolidated using the equity method. If the Group's share of losses exceeds the holding in the associated company, the investment is reduced to nil and recognition of further losses is discontinued, unless the Group has other obligations related to the associated company. An investment in an associated company includes the goodwill generated from its acquisition. Associated companies are consolidated from the day the company becomes an associate. Similarly, companies sold are consolidated until the day of sale.

Joint ventures

Joint ventures are companies where the Group exercises joint authority with other parties. The asset items under joint authority are consolidated using the proportionate consolidation method.

Foreign currency translation

The consolidated financial statements have been presented in euro, which is the operating and presentation currency of the parent company.

Foreign currency transactions have been translated into operating currency using the exchange rate valid on the transaction date. Monetary items have been translated using the exchange rate on the closing date and non-monetary items using the exchange rate on the transaction date, excluding items valued at fair value, which have been converted using the exchange rate on the valuation date. The profit and loss generated from the conversion have been recognised on the income statement. The exchange profits and losses from business operations are included in the corresponding items above operating profit. The exchange profits and losses from loans denominated in a foreign currency are included in financial income and expenses.

The income statements of foreign Group companies are translated into euro using the weighted average rate of the financial year and the balance sheets using the exchange rates on the closing date. The translation of the profit for the financial year with different exchange rates in the income statement and balance sheet causes a translation difference that is recognised in shareholders' equity.

Recognition principles

Sales are recognised when the significant risks and benefits related to the ownership of the goods have been transferred to the buyer or once the service has been rendered.

The income and expenses from a long-term project are recognised as income and expenses on the basis of the degree of completion when the result of the project can be assessed reliably. The degree of completion of a project is determined by the relation of accrued work hours to estimated overall work hours. When it is likely that the total costs necessary for completing a project exceed the total income from the project, the expected loss is immediately booked as an expense.

Research and product development

Research costs are booked as expenses on the income statement. Product development expenses are recognised on the balance sheet from the date that the product is technically feasible, it can be utilised commercially and future financial benefit is expected from the product. In other cases, development costs are booked under annual expenses.

Income taxes

The tax expenses on the income statement are formed from the tax based on the taxable income for the financial year and deferred taxes. The taxes for the financial year are calculated from the taxable income according to the valid tax rate and are adjusted by the possible taxes related to previous financial years.

Deferred taxes are calculated from all temporary differences between book value and taxable value. Principal temporary differences arise from unused taxable losses and fair valuation of net asset in connection with acquisitions. Temporary differences are not provided for goodwill, which is not deductible for tax purposes. Deferred tax is not recognised for non-distributed profits of subsidiaries in so far as the difference is not likely to be discharged in the foreseeable future.

A deferred tax asset has been recognised at the amount that it is likely that future taxable income will be available, against which the asset can be utilised.

Intangible assets

Goodwill

That part of the acquisition cost of subsidiaries exceeding shareholders' equity that has not been allocated to asset items acquired is presented as goodwill. The IFRS 3 "combination of business operations" standard is applied to acquisitions made after 1 January 2004. Assets and liabilities of the company to be acquired that can be itemised are valued at fair value on the acquisition date. Goodwill is the amount by which the acquisition cost of the subsidiary exceeds the fair net value of assets, liabilities and conditional liabilities that can be itemised.

Goodwill is no longer amortised, but it is tested annually for impairment. For the purpose of testing, goodwill is allocated to cash generating units. The goodwill of associated companies is included in the value of the associated companies. Goodwill is valued at original acquisition cost deducted by impairment losses.

Other intangible assets

An intangible asset is only recognised on the balance sheet if it is likely that the expected financial benefit due to the asset will benefit the Group and the acquisition cost of the asset can be determined reliably. Costs related to intangible assets to be realised later are only capitalised in the case that the financial benefit to the Group arising from them is increased in excess of the performance level originally assessed. In other cases, the costs are booked as an expense on the date they arise.

In connection with the acquisition of business operations, intangible assets are valued at fair value. Other intangible assets are valued at original acquisition cost and depreciated as straight-line depreciation over their assessed useful life.

Depreciation times of intangible assets

Customer base	5 years
Brand	10 years
Development expenses	3 years
IT software	5 years
Other intangible assets	5–10 years

Tangible assets

Tangible assets are recognised on the balance sheet at original acquisition cost. Tangible assets are valued on the balance sheet at acquisition cost deducted by accumulated depreciations and value adjustments. Depreciation according to plan is calculated on the basis of useful life as straight-line depreciation from the original acquisition cost. The residual value of the assets and their useful life are reviewed each time the accounts are closed and adjusted as necessary.

Costs arising later, such as the costs of renovation and refurbishment projects, are capitalised when it is likely that the increase in financial benefit will benefit the Group in the future.

Ordinary repair, service and maintenance costs are booked as expenses in the financial year during which they arise. Interest during building is not capitalised in tangible assets.

The tangible asset systems have been harmonised in the Group as of the beginning of 2005. In this connection, the depreciation times of tangible assets have been harmonised for the acquisitions made as of the beginning of 2005. The harmonisation did not have a significant earnings impact in 2005.

Depreciation times of tangible assets

Buildings and structures	25–40 years
Machinery and equipment in buildings	10–25 years
Telecommunications network (line, backbone, area, connection, cable TV)	8–15 years
Exchanges and concentrators (fixed and mobile core)	6–10 years
Equipment of the network and exchanges	3–6 years
Telecommunication terminals (rented to customers)	3–5 years
Other machines and equipment	3–5 years

No depreciation is made on land areas.

Public subsidies

Public subsidies, such as subsidies granted by the State related to the acquisition of tangible assets, have been recognised as a deduction in the book value of tangible assets. The subsidies are recognised as income in the form of smaller depreciations over the useful life of the asset. Product development subsidies and other public subsidies are booked under other operating income.

Financial assets and liabilities

The Group has applied the IAS 39 "Financial instruments: recording and valuation" standard since 1 January 2004. As of the beginning of 2004, the financial assets of the Group have been categorised according to the standard into financial assets to be recorded at fair value through profit or loss, loans and other receivables, and financial assets available for sale. This categorisation takes place on the basis of the purpose of the acquisition of the financial assets and they are categorised in connection with the original acquisition.

The financial assets recorded at fair value through profit or loss are included in short-term assets. Both realised and unrealised profit and loss due to changes in fair value are recognised on the income statement in the financial year during which they arise.

Loans and other receivables are valued at amortised cost have been designated as in short-term and long-term financial assets; as long-term financial assets if they fall due within more than 12 months.

Financial assets available for sale are included in long-term assets. Equity investments, excluding investments in associated and real estate companies, are categorised as investments available for sale. Investments in shares are primarily valued at fair value. Securities whose value cannot be determined reliably are booked at acquisition cost. The changes in the fair value of shares are booked directly in shareholders' equity. When an investment is sold, the accumulated adjustment of fair value is booked through profit or loss.

Liquid assets consist of cash in hand, short-term bank deposits and other short-term very liquid investments whose maturity is at most three months.

Financial liabilities are originally booked at fair value in accounting on the basis of the consideration received. Later, all financial liabilities are valued by the effective interest method at amortised cost. The amortised cost may include management fees, trading costs and premiums or discounts, among others. Financial liabilities are included in long-term and short-term liabilities and they may be interest-bearing or interest-free.

Impairment

Elisa assesses, at the time of closing the accounts, if there are any indications about the impairment of some asset item. If there are such indications, the amount of money that can be accrued from the asset item in question is assessed. The amount of money that can be accrued is also annually assessed for the following asset items regardless of if there are indications of impairment or not: goodwill, unfinished intangible assets and tangible assets with unlimited financial service life. The need for impairment is examined at the level of cash generating units.

The amount of money that can be accrued is the fair value of the asset item deducted by costs incurred for assignment or the service value if it is higher. Service value refers to assessed future net cash flow that can be received from an asset item or a unit generating a cash flow that is discounted to its current value. An impairment loss is booked when the book value of an asset item is higher that the amount of money that can be accrued from it. An impairment loss is recognised immediately on the income statement. If the impairment loss is allocated to a unit generating cash flow, it is first allocated to reduce the goodwill allocated to the unit generating the cash flow and after this to the other asset items of the unit in equal proportions. An impairment loss is cancelled if there are indications that a change in circumstances has taken place and the amount of money that can be accrued from the asset has changed since the booking time of the value adjustment loss. However, an impairment loss is never cancelled by more than the impairment originally. An impairment booked on goodwill is not cancelled in any situation.

An impairment test required by the transition standard has been performed for goodwill on the adoption date of the IFRS standards.

Current assets

Current assets are valued at acquisition cost or at net realisation value if it is lower. A weighted average price is used in the valuation of current assets.

Sales receivables

Sales receivables are booked according to their original value. The amount of uncertain receivables is assessed at the time of the accounts closing and credit losses are booked as an expense on the income statement.

Treasury shares

Elisa Corporation's shares owned by the subsidiaries and associated companies (treasury shares) are presented as a reduction in shareholders' equity. Treasury shares owned by associated companies are deducted by the share corresponding to the holding.

Provisions

A provision is booked when the company has an existing obligation due to earlier events (legal or factual) whose realisation is considered likely and the amount of which can be determined reliably.

Employee benefits

Pension obligations

Pensions are classified as either defined contribution or defined benefit arrangements. The contributions to defined contribution plans are booked as expenses on the income statement of the financial year during which they arise. The pension arrangements of foreign subsidiaries are defined contribution arrangements. Finnish supplementary pension arrangements and pension arrangements under company's own responsibility have been classified as defined benefit arrangements.

According to the opportunity allowed by IFRS 1, the cumulative actuarial profits and losses of the defined benefit pension arrangements have been booked in the retained earnings at the transition date. Actuarial profits and losses after the adoption date are booked on the income statement during the average remaining working time of the employees participating in the arrangement in so far as they exceed 10 per cent of the current value of the defined benefit pension obligations of the arrangement or the fair value of the assets included in the arrangement if it is higher.

Share-based payments

Elisa applies the IFRS 2 "Share-based payments" standard to all such share arrangements in which options have been granted after 7 November 2002 and the right to which has not arisen before 1 January 2005. No expenses for option arrangements earlier than this have been presented on the income statement. Option rights are valued at fair value at the time they are granted and booked as expenses on the income statement in equal instalments allocated over the period between the time of granting to the time when the right arises. Fair value is determined on the basis of the Black-Scholes pricing model. Option rights granted to the personnel falling within the scope of this standard have existed in one of Elisa's subsidiaries which was sold in 2005.

Elisa applies a share-based reward and incentive system for management. No new shares will be issued on the basis of the system. The managing director, the management group and other key persons included in the management fall within its scope. The aim of the system is to commit key persons to develop the profitability and the increase in value of the company in the long-term and, at the same time, to increase the share holdings of the management.

Leases

Property leased by finance lease contracts deducted by accumulated depreciation is booked under tangible assets and the obligations due to the contract correspondingly under interest-bearing liabilities. The lease payments are divided into financial expenses and reductions of the liability. Assets leased true through finance lease contracts is capitalised on the balance sheet and depreciated according to depreciation plan concerning tangible assets during the useful life of the asset or during the lease period if it is shorter.

The Group has primarily leased telecommunication network and facilities and IT servers through finance lease. Lease contracts where the risks and benefits related to ownership remain with the lessor are handled as operating lease. Lease payments under an operating lease are booked as expenses on the income statement in equal instalments over the lease period.

Accounting principles requiring the discretion of the management and primary uncertainty factors related to estimates

When financial statements are prepared, it is necessary to make estimates and assumptions whose result may deviate from the estimates and assumptions made. In addition, it is necessary to exercise discretion in the application of the accounting principles. The classification of certain essential income and expense items as one-off items is based on the assessment of the management.

Recognition according to the degree of completion is based on an assessment of the expected income and expenses from the project. The calculated credit loss from sales receivables is based on an assessment of the future payments for sales receivables falling due.

Goodwill and other intangible assets are tested annually in case of a potential impairment. The amount of money that can be accrued by the cash-generating units are determined by calculations based on service value the drawing up of which requires use of estimates and assumptions. The management will assess whether there are any indications of potential impairment during the year.

In connection with corporate acquisitions, the asset items of the object acquired are valued at fair value. The allocation of the total acquisition cost to intangible assets and goodwill is partly based on an estimate. The determination of the depreciation times of asset items is based on estimates on the useful life of the assets.

Application of new and amended standards

In 2006, Elisa will take into use the following amended standards and new interpretations published by IASB in 2004 and 2005:

- Amended IAS 39, Financial instruments: recording and valuation
- IFRIC 4 interpretation, How to define if an arrangement contains a leasing contract
- Amended IAS 19, Employee benefits standard

Elisa assesses that the introduction of the amended standards or new interpretations will not have an essential impact on the consolidated financial statements in 2006.

In 2007, Elisa will take into use the following new standard published by IASB in 2005: IFRS 7 Financial Instruments: Disclosures and the amended standard IAS 1 Capital Disclosures.

According to Elisa's assessment, the new and amended standard will primarily affect the notes to the consolidated financial statements.

1. Segment information

Business segments are defined as the group's primary reporting segments and geographical segments are defined as secondary reporting segments. Pricing of inter-segment transactions is based on fair value.

The group's business segments are Mobile communications, Fixed network and Other businesses.

The mobile communications business involves mobile network-based voice and data servicesfor consumer, corporate and operator customers.

The fixed network business involves fixed network-based voice and data services for consumer, corporate and operator customers. The service portfolio also includes comprehensive ICT services and contact center services.

Other business involves non-core business activities.

The segment-specific assets and liabilities comprise items that are directly or justifiably attributable to the business. The allocated assets comprise tangible and intangible items, inventories and trade and other receivables. The liabilities consist of trade payables, other non-interest bearing liabilities and pension obligations. The items not allocated to the business segments consist of income taxes and financial items and group-level items such as corporate administration expenses.

The geographical segments are Finland, Rest of Europe and Other countries.

The revenue for the geographical segment is presented on the basis of the customer's country. The assets and liabilities are presented by country.

Business segments

2005 EUR million	Mobile communications	Fixed network	Other business	Unallocated items	Eliminations	Corporation total
External sales	707.2	595.9	34.2			1,337.3
Inter-segment sales	32.7	75.0	4.0		−111.7	0.0
Revenue	739.9	670.9	38.2	0.0	−111.7	1,337.3
EBITDA	220.1	159.6	55.8	10.6		446.1
EBIT	129.9	44.8	47.3	10.9		232.9
Share of associated companies' profit				1.2		1.2
Net income for the period						177.8
Investments in associated companies				0.4		0.4
Total assets	1,270.2	602.6		329.6		2,202.4
Total liabilities	153.4	172.7		526.6		852.7
Investments	89.3	112.2	2.9			204.4
Depreciation and amortisation	90.1	114.7	8.4			213.2
Personnel at year-end	1,629	3,001		51		4,681

2004 EUR million	Mobile communications	Fixed network	Other business	Unallocated items	Eliminations	Corporation total
External sales	691.2	576.2	86.2	2.4		1,356.0
Inter-segment sales	21.6	77.4	22.2		−121.2	0.0
Revenue	712.8	653.6	108.4	2.4	−121.2	1,356.0
EBITDA	227.0	200.7	20.3	6.8		454.8
EBIT	138.1	91.1	10.2	2.2		241.6
Share of associated companies' profit				1.3		1.3
Net income for the period						159.3
Investments in associated companies				11.7		11.7
Total assets	885.9	618.9	39.3	319.6		1,863.7
Total liabilities	150.3	147.8	18.8	632.3		949.2
Investments	88.0	88.0	5.8			181.8
Depreciation and amortisation	88.9	109.6	10.1	4.6		213.2
Personnel at year-end	1,477	3,015	814	70		5,376

Geographical segments

2005 EUR million	Finland	Rest of Europe	Other countries	Eliminations	Corporation total
Revenue	1,209.6	129.5	10.3	−12.1	1,337.3
Assets	2,141.7	60.7			2,202.4
Investments	194.8	9.3	0.3		204.4

2004 EUR million	Finland	Rest of Europe	Other countries	Eliminations	Corporation total
Revenue	1,233.5	114.0	18.5	−10.0	1,356.0
Assets	1,794.6	54.6	14.5		1,863.7
Investments	175.0	6.8			181.8

2. Acquisitions

Acquisitions in 2005

Tikka Communications

Elisa acquired the shares of Tikka Communications Oy by submitting a public tender offer to the shareholders of Tikka Communications Oy on 16 May 2005. Prior to the tender offer, Elisa owned approximately 26% of Tikka Communication shares. The tender commenced on 18 May 2005 and Elisa's holding at the end of the year was 100%. Tikka was consolidated as an associate until 31 May 2005 and as a subsidiary as of 1 June 2005.

Tikka Communications Oy is a telecommunication operator that offers fixed network-based data communication services in North and South Karelia.

The Elisa group's revenue in 2005 would have totalled EUR 1,340 million and net profit EUR 182 million, if Tikka Communications Oy had been consolidated since 1 January 2005. The result of Tikka Communications Oy as a subsidiary for the period was EUR 2.3 million.

The goodwill is estimated to result from the synergy benefits in the fixed network business. EUR 6.7 million of the cost of acquisition was allocated to the customer base.

Components of cost

EUR million	
Sale price paid in cash	36.8
Expenses allocated to the acquisition	0.5
Total cost of acquisition	37.3
Fair value of net assets acquired	30.0
Goodwill	7.2

Analysis of net assets acquired

EUR million	Recognised fair values [1]	Book values before consolidation [2]
Cash and cash equivalents	14.4	17.9
Intangible assets	6.8	0.1
Tangible assets	12.3	17.0
Receivables	3.9	6.3
Liabilities	–7.4	–7.8
Net assets acquired	30.0	33.5

[1] The purchase is successive. The recognised fair values have been calculated per acquisition on the basis of the acquired interest and represent an interest of approximately 74%.

[2] The book values represent an interest of 100%.

Effects of acquisition on cash flow

Sale price paid in cash	36.8
Expenses allocated to the acquisition	0.5
Cash and cash equivalents of the acquired subsidiary	17.9
Cash flow	–19.4

Saunalahti

Elisa acquired the shares of Saunalahti Group Plc by making a tender offer to Saunalahti shareholders and option holders. The consideration offered in the tender offer was 1 Elisa share for 5.6 Saunalahti shares. The price of Elisa share that was used to determine the purchase price was EUR 15. Saunalahti was consolidated as of 1 December 2005.

Saunalahti is an Internet and telecom operator that offers services to consumers and corporate customers in Finland. Saunalahti's business operations are divided into four product lines: Internet services, GSM services, telecom services, and domain and hosting services.

The Elisa Group's revenue in 2005 would have totalled EUR 1,465 million and net profit EUR 144 million, if Saunalahti had been consolidated since 1 January 2005. Saunalahti's result during the time in the group was EUR 1.5 million.

The goodwill is estimated to result from the synergy benefits in network capacity and the mobile communications business. EUR 52.7 million of the cost of acquisition was allocated to the customer base and EUR 39.4 million to the brand.

Components of cost

EUR million	
Sale price paid in cash	11.8
Fair value of issued shares	361.2
Expenses allocated to the acquisition	1.2
Total cost of acquisition	374.2
Fair value of net assets acquired	84.1
Goodwill	290.1

Analysis of net assets acquired

EUR million	Recognised fair values	Book values before consolidation
Cash and cash equivalents	19.1	19.1
Intangible assets	99.0	10.2
Tangible assets	14.1	14.6
Receivables	62.9	56.0
Liabilities	–110.9	–87.0
Net assets acquired	84.1	12.9

Effects of acquisition on cash flow

Sale price paid in cash	11.8
Expenses allocated to the acquisition	1.2
Cash and cash equivalents of the acquired subsidiary	19.1
Cash flow	6.1

Acquisitions in 2004

Finnet International

Elisa acquired 48.03% of the share capital of its subsidiary Finnet International Ltd in June 2004. After the June acquisition, the indirect minority of 0.78% in Finnet International was removed from the group as Yomi Plc merged with Elisa in December 2004.

Finnet International has been a telecommunications operator offering international telecom services. The Elisa group's profit in 2004 would have totalled EUR 160 million, if Finnet International had been consolidated with a 100% ownership interest as of 1 January 2004.

Components of cost

EUR million	
Sale price paid in cash	7.7
Expenses allocated to the acquisition	0.0
Total cost of acquisition	7.7
Fair value of net assets acquired	7.8
Group reserve	–0.1

Analysis of net assets acquired

EUR million	Recognised fair values	Book values before consolidation
Cash and cash equivalents	0.5	0.5
Intangible assets	3.8	0.3
Tangible assets	2.9	2.9
Receivables	5.1	5.1
Liabilities	–4.5	–4.5
Net assets acquired	7.8	4.3

Effects of acquisition on cash flow

Sale price paid in cash	7.7
Expenses allocated to the acquisition	0.0
Cash flow	–7.7

Yomi

Elisa acquired the final 48.54% of the share capital of its subsidiary Yomi Plc by submitting a public tender offer to Yomi Plc's shareholders on 12 May 2004. The share acquisition cost corresponds to the fair value of the shares issued as compensation in the merger. The Yomi shareholders received 0.5654 Elisa shares per each Yomi share.

Yomi has offered fixed network-based telecommunications services in Central Finland, as well as services related to the software business.

The Elisa group's profit in 2004 would have totalled EUR 159 million, if Yomi been consolidated with a 100% ownership interest as of 1 January 2004. The goodwill is estimated to result from the synergy benefits in the fixed network business.

Components of cost

EUR million	
Sale price paid in cash	4.2
Fair value of issued shares	47.3
Expenses allocated to the acquisition	0.4
Total cost of acquisition	51.9
Fair value of net assets acquired	41.3
Goodwill	10.6

Analysis of net assets acquired

EUR million	Recognised fair values	Book values before consolidation
Cash and cash equivalents	12.5	12.5
Intangible assets	12.8	1.5
Tangible assets	21.9	17.3
Inventories	0.3	0.3
Receivables	5.0	5.0
Liabilities	–11.2	–7.9
Net assets acquired	41.3	28.7

Effects of acquisition on cash flow

Sale price paid in cash	4.2
Expenses allocated to the acquisition	0.4
Cash flow	–4.6

3. Divestments

Elisa sold several non-core businesses during 2005. The most important divestments are described below.

In March 2005 Elisa sold the entire share capital of Yomi Software Ltd to Sysopen Digia Plc. The sales price was EUR 12.1 million, and Elisa was also released from a EUR 1.5 million debt liability. The capital gain was EUR 4.7 million.

In May 2005 Elisa sold 40,946,000 Comptel Corporation shares to institutional investors through the Helsinki Stock Exchange. Elisa's ownership interest in Comptel decreased from 58.1% to 19.9%. The sales price was EUR 65.1 million, and Elisa booked a capital gain of EUR 40.8 million on the sale.

In October 2005 Elisa sold Estera Oy's security business to ISS Security Oy and building automation business to the company's operative management. The sales price was EUR 10.8 million. The capital gain was EUR 6.2 million.

In November 2005 Elisa sold the entire share capital of Kiinteistö Oy Espoon Keilasatama 5, which was formerly used by Radiolinja, to Local Government Pensions Institution. The sale had no significant impact on the group's performance.

The aggregate value of the divestments described above are detailed below:

Net assets of sold enterprises

EUR million	2005
Intangible assets	4.8
Tangible assets	55.6
Receivables	35.0
Liabilities	–23.2
	72.2
Capital gains/losses	53.2

Impact of sold enterprises on performance

Income	46.6
Expenses	–47.7
Profit before taxes	–1.1

Impact of sold enterprises on cash flow

Received in cash	118.0
Expenses allocated to the sales	–3.9
Cash and cash equivalents of the divested subsidiaries	–24.5
Cash flow	89.6

Elisa did not make any significant divestments in 2004.

4. Revenue

EUR million	2005	2004
Service sales	1,292.6	1,306.0
Sale of goods	44.7	50.0
Total revenue	1,337.3	1,356.0

The 2004 revenue analysis is based on an estimate.

5. Long-term projects

EUR million	2005	2004
Income from long-term projects recognised in revenue		21.7
Amount from ongoing long-term projects recognised as income by the end of the accounting period		15.2
Back-orders of long-term projects		13.3

In 2004 one of the group's subsidiaries had long-term projects. The subsidiary was sold in 2005. Receivables from customers related to long-term projects are presented in note 20 and liabilities in note 28.

6. Other operating income

EUR million	2005	2004
Capital gain from property, plant and equipment and intangible assets	21.9	13.0
Capital gain from subsidiary shares	53.4	
Capital gain from associate shares	1.0	
Government grants	0.1	0.6
Damages received	28.0	
Other income items [1]	9.5	13.4
Total	113.9	27.0

[1] Other income items mainly include rental income from residential units.

7. Materials and services

EUR million	2005	2004
Purchases during the financial year	127.6	77.0
Change in inventories	–2.8	–0.3
External services	441.1	401.5
Total	565.9	478.2

8. Employee benefit expenses

EUR million	2005	2004
Wages and salaries	193.6	212.1
Pension expenses – defined contribution plans	19.3	28.6
Pension expenses – defined benefit plans	–10.3	–10.7
Other statutory employee costs	17.9	18.8
Total	220.5	248.8

As of 1 July 2005, Elisa transferred its personnel's statutory pension coverage from the pension fund to insurance companies. A more detailed analysis of the pension expenses is shown in note 25.

Management remuneration

Managing Directors and deputies	1.6	3.2
Members and deputy members of Boards of Directors	0.4	0.3
Members and deputy members of Supervisory Boards	0.0	0.0

Managing Directors' pension commitments

The agreed retirement age of the group companies' Managing Directors is 60–63 years.

Personnel of the group on average	4,989	5,590

Staff rewards and incentive schemes

Performance-based bonus scheme

All personnel are covered by a performance or commission-based bonus scheme. Rewards are based on the financial metrics of the group, unit and the employee's team, and on either personal or team-specific operative metrics. The values used in determining the rewards and their maximum amounts are confirmed annually.

Management's incentive scheme

In the 2005 accounting period, the management's incentive scheme included the CEO, Executive Board, the immediated subordinate managers of the members of the Executive Board and other key individuals, appriximately 100 people in total. The long-term objective of the scheme is to secure the commitment of the key individuals to enhancing the company's profitability and increasing its value, and simultaneously increase the management's shareholding.

Personnel fund

The objective of the personnel fund is to secure the commitment of the personnel to Elisa's long-term objectives and to reinforce their interest in the company's financial success and its metrics. The evaluation tool for the performance-based bonus system is the adjusted earnings per share (EPS), based on the Elisa Group's audited performance and calculated in the manner defined by the Board of Directors. The Board of Directors decides on the performance-based bonus scheme and defines the values that determine the reward amount. The members of the personnel fund are the employees of Elisa Corporation and its 100% owned subsidiaries, provided the respective subsidiary's Board of Directors has decided to join Elisa Corporation's personnel fund. In 2005 the members of the personnel fund included the personnel of Elisa Corporation, the subsidiaries that merged with the company during the year and Ecosite Oy.

9. Research and development costs

EUR million	2005	2004
Research and development costs recognised as expenses	6.6	13.0
Depreciation from development costs	0.6	
Total	7.2	13.0
Capitalised development costs	0.8	4.1

10. Depreciation and amortisation

EUR million	2005	2004
Depreciation from intangible assets		
Customer base	3.8	
Other intangible assets	18.3	23.0
Total	22.1	23.0
Depreciation from tangible assets		
Buildings and structures		
Owned buildings and structures	9.2	10.6
Buildings and structures leased through a finance lease contract	0.6	0.5
Telecom devices, machines and equipment		
Owned telecom devices, machines and equipment	159.4	159.1
Assets leased through a finance lease contract	18.1	16.9
Other tangible assets	3.8	3.1
Total	191.1	190.2
Total depreciation and amortisation expense	213.2	213.2

No impairments were made on the assets in 2004–2005.

11. Financial income and expenses

EUR million	2005	2004
Financial income		
Dividend yield	0.1	0.1
Interest income	5.8	6.1
Other financial income	3.1	2.0
Capital gain from financial assets at fair value through profit or loss	0.4	
Change in fair value of financial assets at fair value through profit or loss	0.1	0.2
Total	9.5	8.4
Financial expenses		
Interest expense	−30.2	−34.9
Other financial expenses	−1.4	−3.6
Foreign currency translation loss	−0.1	
Changes in the value of forward exchange contracts		−0.3
Total	−31.7	−38.8

Exchange gains and losses included in EBIT have been minimal.

12. Income taxes

EUR million	2005	2004
Taxes for the period	–30.1	20.5
Taxes for previous periods	1.4	–0.7
Deferred taxes	–5.4	–73.0
Total	–34.1	–53.2

As of 1 January 2005 the statutory tax rate in Finland decreased from 29% to 26%, which impacted on the amount of deferred taxes in 2004.

Reconciliation of the tax expense in the income statement and taxes calculated at the statutory tax rate in the group's country of incorporation.

EUR million	2005	2004
Profit before tax	211.9	212.5
Tax according to the domestic tax rate	–55.1	–61.6
Tax effects of the following:		
Tax-free gains/losses on the disposal of shares	13.7	
Non-deductible expenses	–0.1	–0.1
Tax effects of foreign subsidiaries	5.3	3.7
Share of associated companies' profit	0.4	0.4
Change in tax rate and other differences	0.3	3.7
Taxes for previous periods	1.4	0.7
Taxes in the income statement	–34.1	–53.2
Effective tax rate	16.1%	25.0%

13. Property, plant and equipment

2005 EUR million	Land and water	Buildings and structures	Telecom devices, machinery and equipment	Other tangible assets	In progress and pre-payments	Total
Acquisition cost at 1 Jan 2005	19.7	271.0	1,572.6	56.4	28.7	1,948.5
Additions	0.1	17.7	127.3	0.4	27.8	173.3
Investment in subsidiaries	0.4	5.1	69.9	1.3	0.4	77.1
Disposals	–13.7	–109.9	–106.2	–2.6	–0.4	–232.8
Reclassifications	0.1	1.5	24.2		–25.8	0.0
Acquisition cost at 31 Dec 2005	6.6	185.4	1,687.8	55.5	30.7	1,966.1
Accumulated depreciation and amortisation at 1 Jan 2005		103.4	1,082.8	38.1		1,224.3
Investments in subsidiaries		2.5	45.1	0.9		48.5
Depreciation for the financial year		9.8	177.5	3.8		191.1
Accumulated depreciation of disposals and reclassifications		–58.4	–97.9	–2.5		
Accumulated depreciation and amortisation at 31 Dec 2005		57.6	1,207.5	40.3		1,305.4
Book value at 1 Jan 2005	19.7	167.6	489.8	18.3	28.7	724.2
Book value at 31 Dec 2005	6.6	127.8	480.3	15.2	30.7	660.7

2004 EUR million	Land and water	Buildings and structures	Telecom devices, machinery and equipment	Other tangible assets	In progress and pre-payments	Total
Acquisition cost at 1 Jan 2004	18.7	290.0	1,908.1	55.2	29.9	2,301.8
Additions	0.1	11.1	107.3	4.3	32.1	154.8
Disposals	–0.4	–30.5	–433.6	–35.7	–3.6	–503.8
Reclassifications	1.4	0.4	–9.2	32.6	–29.6	–4.4
Acquisition cost at 31 Dec 2004	19.7	271.0	1,572.6	56.4	28.7	1,948.4
Accumulated depreciation and amortisation at 1 Jan 2004		104.2	1,151.7	40.3		1,296.3
Depreciation for the financial year		11.1	176.0	3.1		190.2
Accumulated depreciation of disposals and reclassifications		–11.9	–244.9	–5.4		–262.2
Accumulated depreciation and amortisation at 31 Dec 2004		103.4	1,082.8	38.1		1,224.3
Book value at 1 Jan 2004	18.7	185.7	756.4	14.9	29.9	1,005.6
Book value at 31 Dec 2004	19.7	167.6	489.8	18.3	28.7	724.2

The additions include EUR 9.6 million (2004: EUR 7.6 million) of assets leased through a finance lease contract.

Property, plant and equipment include assets leased through a finance lease contract as follows:

2005 EUR million	Buildings and structures	Telecom devices, machinery and equipment	Total
Acquisition cost	29.3	155.8	185.0
Accumulated depreciation and amortisation	2.5	129.4	131.9
Book value at 31 Dec 2005	26.8	26.4	53.1
2004			
Acquisition cost	22.3	142.7	165.0
Accumulated depreciation and amortisation	1.8	102.3	104.1
Book value at 31 Dec 2004	20.4	40.4	60.8

14. Intangible assets

2005 EUR million	Goodwill	Customer base	Other intangible assets	In progress and pre-payments	**Total**
Acquisition cost at 1 Jan 2005	780.0	11.2	142.4	14.4	948.0
Additions	0.1		7.1	23.9	31.1
Investments in subsidiaries	301.5	59.4	50.0		410.9
Disposals	–5.2		–34.5		–39.7
Reclassifications			7.6	–7.6	0.0
Acquisition cost at 31 Dec 2005	1,076.5	70.6	172.6	30.7	1,350.4
Accumulated depreciation and amortisation at 1 Jan 2005	308.2		99.4		407.6
Investments in subsidiaries	1.2		3.6		4.8
Depreciation for the financial year		3.8	18.3		22.1
Accumulated depreciation of disposals and reclassifications	–3.5		–29.9		–33.4
Accumulated depreciation and amortisation at 31 Dec 2005	305.9	3.8	91.4		401.1
Book value at 1 Jan 2005	471.8	11.2	43.0	14.4	540.4
Book value at 31 Dec 2005	770.6	66.8	81.2	30.7	949.3

2004 EUR million	Goodwill	Customer base	Other intangible assets	In progress and pre-payments	**Total**
Acquisition cost at 1 Jan 2004	774.7	0.0	165.8	1.5	942.0
Additions	12.2	11.2	17.6	9.4	50.4
Disposals	–6.5	0.0	–42.9	0.0	–49.5
Reclassifications	–0.4	0.0	2.0	3.4	5.0
Acquisition cost at 31 Dec 2004	780.0	11.2	142.4	14.4	948.0
Accumulated depreciation and amortisation at 1 Jan 2004	312.8		113.4		426.2
Depreciation for the financial year			23.0		23.0
Accumulated depreciation of disposals and reclassifications	–4.6		–37.0		–41.6
Accumulated depreciation and amortisation at 31 Dec 2004	308.2		99.4		407.6
Book value at 1 Jan 2004	461.9	0.0	52.3	1.5	515.8
Book value at 31 Dec 2004	471.8	11.2	43.0	14.4	540.4

Impairment testing of goodwill

Goodwill is allocated to the group's cash generating units as follows:

EUR million	2005	2004
Mobile communications	712.8	426.3
Fixed network	54.2	45.5
Saunalahti	3.6	
Total	770.6	471.8

In impairment tests the recoverable amount of the segments is determined based on the value in use, which is calculated on the basis of projected discounted cash flows (DCF model). The cash flows projections are based on plans approved by the management covering a five-year period. The discount rate used is 9–10%, depending on the segment. Cash flows after five years have been projected by estimating the change in future cash flows either as zero or decreasing on a straight-line basis. As a result of the performed impairment tests, there is no need for impairment of the segments' goodwill. Use of the DCF model requires forecasts and assumptions concerning market growth, prices, volume development, investment needs and general interest rate. The major sensitivities in the performance are associated with the forecast revenue and profitability levels and investment needs.

15. Associates and joint ventures

Associates

EUR million	2005	2004
At the beginning of the period	11.7	15.4
Share of associated companies' profit	0.3	1.1
Additions	1.4	1.6
Disposals	–2.1	–4.6
Changes in group structure	–11.1	–1.6
Other changes	0.2	–0.2
At end of period	0.4	11.7

Goodwill of associated companies on the balance sheet at 31 December 2005 was EUR 0 million (EUR 3 million at 31 December 2004). The balance sheet date of all associated companies was 31 December 2005.

Elisa's ownership interest in the associated company Tikka Communications Oy reached 100% during 2005. Elisa sold its 35% holding in Racap Solutions Oy. After these corporate arrangements Elisa had no significant interests in associated companies at 31 December 2005.

Significant associates in 2004:

31 Dec 2004	Domicile	Assets	Liabilities	Revenue	Profit/ loss	Ownership interest (%)
Tikka Communications Oy	Joensuu	40.9	7.1	29.5	3.0	26
Racap Solutions Oy	Helsinki	2.9	2.3	5.0	0.5	35

Joint ventures

At the end of 2005 Elisa had two mutual real estate companies, which have been consolidated corresponding to the group's ownership interest. Elisa's holding in Kiinteistö Oy Paimion Puhelinkulma was 33% and in Kiinteistö Oy Brahenkartano 26%.

16. Available-for-sale investments

EUR million	2005	2004
Book value at 1 Jan	9.3	7.5
Additions	4.7	1.8
Disposals	–5.4	–1.3
Changes in fair value	34.7	1.1
Impairments	–0.2	
Reclassifications	–0.8	
Other changes	1.9	1.8
Book value at 31 Dec	44.2	10.9

The available-for-sale investments mainly include unlisted shares whose fair value cannot be reliably determined. These shares are recognised at cost deducted by potential impairments. The value of shares recognised at cost has been determined either
a) based on the value of comparable enterprises
b) based on the discounted cash flow method or
c) based on share transactions.

17. Long-term receivables

EUR million	2005	2004
Loan receivables from associated companies	0.1	
Other loan receivables	3.1	43.0
Accruals	2.7	2.4
Other long-term receivables	4.7	2.2
Total	10.6	47.6

During the period Elisa disposed of the EUR 40.0 million loan receivables from Tropolys GmbH, which were associated with the sale of the German business. The entire capital risk was transferred to the buyer in the transaction. Elisa has issued a guarantee for the payment of interest on behalf of Tropolys, which has been presented as a contingent liability.

Other long-term loan receivables also include a capital note in accordance with Chapter 5 of the Finnish Companies Act. A maximum annual interest of 10 per cent will be collected on the capital note, if possible within the limits of the distributable assets. The loand will be repaid as a lump-sum payment once the tied capital and other undistributable items on the confirmed balance sheet have full coverage.

Long-term receivables are classified under Loans and other receivables and measured at amortised cost.

The effective interest rate applied to receivables (short-term and long-term) was 3.5% (3.9%).

18. Deferred tax receivables and liabilities

Change in deferred tax receivables and liabilities during the 2005 period is divided as follows:

Deferred tax receivables

EUR million	31 Dec 2004	Reclassifications	Recognised in income statement	Acquired/ sold subsidiaries	31 Dec 2005
Provisions	8.4		−5.0		3.4
Unused tax losses	3.6		−3.2	22.0	22.4
Finance lease contracts	1.6		0.8		2.4
Negative depreciation difference	23.3		−17.9		5.4
Internal margins	4.9	4.1	−0.6		8.4
Other temporary differences	0.7		−0.2		0.5
Total	42.5	4.1	−26.1	22.0	42.5

Deferred tax liabilities

EUR million	31 Dec 2004	Reclassifications	Recognised in income statement	Acquired/ sold subsidiaries	31 Dec 2005
Fair value measurement of tangible and intangible assets in acquisition	4.5			23.9	28.4
Accumulated depreciation difference	28.0		−16.9		11.1
Finance lease contracts	0.3				0.3
Internal margins	−4.1	4.1			0.0
Other temporary differences	1.1		−0.3		0.8
Total	29.8	4.1	−17.2	23.9	40.6

The group had EUR 4.6 million (0) of unused tax losses at 31 December 2005, which have not been recognised in tax receivables. These losses expire in 2009–2011. The group also had EUR 19.2 million of avoir fiscal receivables.

Change in deferred tax receivables and liabilities during the 2004 period is divided as follows:

Deferred tax receivables EUR million	1 Jan 2004	Recognised in income statement	Acquired/sold subsidiaries	31 Dec 2004
Provisions	22.3	–13.9		8.4
Unused tax losses	64.8	–61.2		3.6
Finance lease contracts	0.8	0.9		1.6
Negative depreciation difference	32.3	–9.0		23.3
Internal margins	5.6	–0.8		4.9
Other temporary differences	–2.4	3.1		0.7
Total	123.4	–80.9		42.5

Deferred tax liabilities EUR million	1 Jan 2004	Recognised in income statement	Acquired/sold subsidiaries	31 Dec 2004
Fair value measurement of tangible and intangible assets in acquisition			4.5	4.5
Accumulated depreciation difference	41.1	–13.1		28.0
Finance lease contracts	2.1	–1.8		0.3
Internal margins	–4.4	0.3		–4.1
Other temporary differences	1.0	0.1		1.1
Total	39.8	–14.5	4.5	29.8

19. Inventories

EUR million	2005	2004
Materials and supplies	10.3	8.9
Work in progress	2.2	1.2
Finished products/goods	7.8	5.0
Total	20.3	15.1

An impairment of EUR 0.7 million (EUR 0.9 million) for inventories was recognised during the period.

20. Trade and other receivables

EUR million	2005	2004
Trade receivables	225.3	235.3
Receivables from associated companies	0.0	0.3
Loan receivables from associated companies		0.1
Forward exchange contracts		0.4
Long-term project receivables from customers		3.6
Accruals	9.7	17.2
Loan receivables	0.4	0.9
Other receivables	7.7	5.7
Total	243.1	263.5

Concentrations of credit risks in trade receivables are minimal due to the group’s extensive customer base. The group’s previous experience in the collection of trade receivables corresponds to the recognised provisions. Based on these facts, the managment is confident that the group’s trade receivables are not associated with a credit risk in excess of the provision for loss on loans.

Accruals consist of interest receivables of EUR 0.3 million (EUR 4 million) and other ordinary amortisation of sales and operating expenses of EUR 9.4 million (EUR 13.2 million).

21. Financial assets at fair value through profit or loss

EUR million	2005	2004
Money market funds	133.8	66.0
Commercial papers	43.5	30.1
Total	177.3	96.1

Investments in money market funds consist of funds investing in high-quality euro-denominated interest-bearing securities issued by enterprises and public sector entities operating in the European Economic Area. Investments have only been made in short-term fixed income funds; the duration of funds investments was less than three months at the balance sheet date.

Commercial papers are debt certificates issued by high credit quality Finnish enterprises. At the balance sheet date the average remaining maturity of commercial papers was 11 days.

22. Cash and cash equivalents

EUR million	2005	2004
Cash assets	27.1	61.3
Cash at bank	8.3	5.4
Total	35.4	66.7

The effective interest rate of bank deposits was 1.94% and the average maturity 3 days.

The composition of the cash and cash equivalents on the cash flow statement is as follows:

EUR million	2005	2004
Cash assets and cash at bank	35.4	66.7
Money market funds and commercial papers	177.3	96.1
Total	212.7	162.8

23. Equity

Share capital and share premium

EUR million	Number of shares (thousands)	Share capital	Share premium	Treasury shares	Total
1 Jan 2004	141,989	69.0	516.7	–24.7	561.0
Issue of share capital		2.0	13.7		15.7
Sale of treasury shares				21.6	21.6
31 Dec 2004	141,989	71.0	530.4	–3.1	598.3
Issue of share capital	24,077	12.0			12.0
Treasury sales acquired through corporate acquisitions				–0.2	–0.2
Sale of treasury shares				0.8	0.8
31 Dec 2005	166,066	83.0	530.4	–2.5	610.9

Other reserves

EUR million	Contingency fund	Fair value reserve	Other funds	Total
1 Jan 2004	3.4			3.4
Issue of share capital			31.5	31.5
Available-for-sale investments		–0.4		–0.4
31 Dec 2004	3.4	–0.4	31.5	34.5
Issue of share capital			349.7	349.7
Available-for-sale investments		34.7		34.7
31 Dec 2005	3.4	34.3	381.2	418.9

The company's share capital, paid and registered in the trade register, amounted to EUR 83,033,008 at the end of the period (2004: EUR 70,994,554.50). The minimum capital in accordance with the Articles of Association is EUR 25,000,000, and the maximum capital is EUR 500,000,000.

According to its Articles of Assocation, Elisa corporation only has one series of shares, each share entitling to one vote. In accordance with the Articles of Association, the maximum number of shares is 1,000 million shares (2004: 1,000 million shares). The nominal value of each share is EUR 0.50 (2004: EUR 0.50). All issued shares have been paid.

Treasury shares

	No. of shares	Nominal value, euro	Holding, % of shares and votes
Held by Lounet Oy	210,000	105,000	
Held by Jyväskylän Keskusantenni Oy	672	336	
Treasury shares held by group companies at 31 Dec 2004	210,672	105,336	0.15
Shares acquired through acquisition of Tikka Communications Oy on 1 June 2005	21,679	10,840	
Tikka Communications sold shares on 10 Oct 2005	–21,679	–10,840	
Lounet sold shares 8 Dec–9 Dec 2005	–30,000	–15,000	
Jyväskylän Keskusantenni divested on 20 Dec 2005	–672	–336	
Treasury shares held by group companies at 31 Dec 2005	180,000	90,000	0.11

Elisa Corporation shares held by group companies do not have a significant effect on the distribution of ownership and voting power in the company.

The Annual General Meeting authorised Elisa Corporation's Board of Directors to acquire and asign treasury shares on 14 March 2005. The authorisation has not been used.

Other reserves

The EUR 3.4 million contingency fund includes the amount transferred from the distributable equity under the Articles of Association or by a decision by the Annual General Meeting. The fair value reserve of EUR 34.3 million includes movements in the fair value of the available-for-sale investments. The other reserves of EUR 381.2 million were formed through the use of equity issue in acquisitions. Translation differences are minimal, below EUR 0.1 million.

Statement of distributable equity EUR million	IFRS 2005	FAS 2004
Retained earnings, FAS	214.7	108.2
Adjustments due to transition to IFRS	39.1	
Dividends paid	–123.2	
Other adjustments	0.6	
Net profit	176.2	106.5
Share of accumulated depreciation difference entered in shareholders' equity	–31.2	–72.2
Distributable funds at 31 Dec, total	276.2	142.6

24. Share-based payments

Warrant programme 2000

The exercise period for all shares included in the programme ended on 31 October 2005. No shares were subscribed for on the basis of the warrants during the programme period. The listing of the 2000 warrants on the Helsinki Stock Exchange ended at the end of the exercise period on 31 October 2005. The IFRS 2 Share-based payments standard is not applied to the warrant programme.

Changes in the number of outstanding warrants are as follows (thousands):

	2005	2004
At beginning of period	5,764	5,764
Warrants granted	191	
Expired warrants	–5,955	
At end of period	0	5,764

25. Pension obligations

Prior to 1 July 2005, the personnel's pension insurance was covered through the Elisa Group's Pension Fund and external pension insurance companies. The pension provision of the pension fund consisted of statutory pension insurance (TEL) and supplementary pension insurance.

As of 1 July 2005, Elisa transferred the personnel's staturoty pension insurance from the Elisa Group's Pension Fund to Varma Mutual Pension Insurance Company and supplementary pensions to Sampo Life Insurance Company Limited.. At the same time Elisa Group's Pension Fund also transferred the TEL pension liability and corresponding assets to Varma and the supplementary pension liability and corresponding assets to Sampo Life.

The defined benefit pension liability recognised in the balance sheet is determined as follows:

EUR million	2005	2004
Present value of unfunded obligations	2.3	1.7
Present value of funded obligations	66.5	283.5
Fair value of plan assets	–64.2	–271.8
Deficit/excess	4.6	13.4
Unrecognised actuarial gain (–) / losses(+)	–0.1	1.4
Net pension liability in the balance sheet	4.5	14.8

In 2004 the pension plan assets included shares whose fair value was EUR 2.4 million, and buildings used by Elisa whose fair value stood at EUR 23.8 million.

The defined benefit pension liability recognised in the income statement is determined as follows:

EUR million	2005	2004
Current service cost	–2.2	–7.0
Interest costs	–8.6	–15.2
Expected return on plan assets	9.6	17.3
Actuarial gains and losses	0.0	–0.1
Past service cost	–0.4	7.5
Gains on curtailments	11.9	8.2
	10.3	10.7

Actual return on plan assets was EUR 1.5 million in 2005 (EUR 17.9 million in 2004).

Changes in balance sheet liability:

EUR million	2005	2004
Net liability at beginning of period	14.8	24.0
Paid contributions	–2.7	–3.0
Pension costs in income statement	3.3	–6.2
Other changes	–10.9	0.0
Net liability at end of period	4.5	14.8

The main actuarial defined benefit assumptions were as follows:

	2005	2004
Discount rate	4.50%	5.25%
Expected return on plan assets	5.25%	6.70%
Future salary increase assumption	3.30%	3.30%
Future pension increase expectation	2.10%	2.25–2.30%

26. Provisions

EUR million	Re structuring	Other	Total
1 Jan 2005	5.1	4.7	9.8
Increases in provisions	5.7		5.7
Used provisions	–4.3	–3.0	–7.3
31 Dec 2005	6.5	1.7	8.2

EUR million	2005	2004
Long-term provisions	4.8	6.6
Short-term provisions	3.4	3.3
Total	8.2	9.9

Restructuring provision
As part of the group's rationalisation measures Elisa has carried out statutory employee negotiations leading to personnel reductions. The restructuring provisions includes provisions for both unemployment pensions and other expenses due to redundancies.

Other provisions
Other provisions mainly consists of the environmental provision for telephone poles and leases on empty premises.

27. Interest-bearing liabilities

EUR million	Balance sheet values 2005	Fair values 2005	Balance sheet values 2004	Fair values 2004
Long-term				
Loans from financial institutions	0.1	0.1	0.1	0.1
Bonds	347.7	359.3	466.8	495.0
Pension liabilities [1]			75.4	75.4
Finance lease liabilities	45.9	45.9	51.1	51.2
	393.7	405.3	593.4	621.7
Short-term				
Loans from financial institutions			0.0	0.0
Bonds	98.2	98.5		
Financial Services Office's loans to the personnel [2]			7.6	7.6
Finance lease liabilities	10.4	10.4	17.2	17.1
Other short-term liabilities	3.8	3.8	7.0	7.0
	112.4	112.7	31.8	31.7
Total	506.1	518.0	625.2	653.4

[1] In 2004 the pension loans were from the Pension Fund.

[2] Financial Services Office's loans were granted to personnel in 2004. The loans were small, less than EUR 20,000. Beneficiaries also included shareholders who were company employees. There were no Financial Services Office's loans at 31 December 2005, since the Office's deposit and lending activities were outsourced during the period.

The loans include a total of EUR 60.1 million (2004: EUR 150.7 million) of secured liabilities (leasing liabilities and other short-term liabilities, and pension liabilities in 2004). The collateral for other short-term liabilities consists of financial guarantees issued by financial institutions. In 2004 the collateral for pension liabilities and other short-term liabilities included group-owned property and financial guarantees issued by financial institutions. In substance the financial lease liabilities are secured liabilities, since rights to the leased property will revert to the lessor if payments are neglected.

All interest-bearing liabilities are denominated in euro. Interest-bearing liabilities are measured at amortised cost. The fair values of interest-bearing liabilities are based on quoted market prices or have been calculated by discounting the related cash flow by the market rate of interest on the balance sheet date.

Maturity dates of long-term liabilities

EUR million	2006 [3]	2007	2008	2009	2010	2011–	Total
Bonds	98.2	44.2	30.0	36.0	0.0	250.0	**458.4**
Loans from financial institutions	0.0	0.1	0.0	0.0	0.0	0.0	**0.1**
Financial lease liabilities	10.4	8.5	5.8	3.1	0.7	27.8	**56.3**
Total	108.6	52.8	35.8	39.1	0.7	277.8	**514.8**

[3] The 2006 instalments are included in the short-term liabilities.

Long-term liabilities are presented at nominal value.

The average maturity of long-term liabilities was 5.1 years and effective average rate of interest 5.24%.

Bonds

In the framework of its bond programme, the parent company has issued the following bonds:

	31 Dec 2005 Balance sheet value EUR million	31 Dec 2005 Nominal value EUR million	31 Dec 2005 Nominal interest rate %	Coupon interest rate %	Maturity date
Bond loan programme 1999 / EUR 335 million					
I/1999	19.6	19.7	4,750	4,750	18 Jun 2007
EMTN programme 2001 / EUR 1,000 million					
I/2001	98.2	98.2	6,375	6,375	31 Jan 2006
II/2002	20.0	20.0	6-month euribor + 0.91	3.128	8 Apr 2007
III/2002	20.0	20.0	6-month euribor + 1.02	3.238	8 Apr 2009
IV/2002	30.0	30.0	3-month euribor + 0.93	3.113	8 Apr 2008
V/2002	6.0	6.0	6-month euribor + 1.00	3.218	8 Apr 2009
VI/2002	10.0	10.0	6-month euribor + 1.00	3.218	8 Apr 2009
VII/2002	4.5	4.5	6-month euribor + 0.91	3.128	8 Apr 2007
IX/2004	237.6	250.0	4,375	4,375	22 Sep 2011
Total	445.9	458.4			

The bonds are measured at amortised cost in the balance sheet using the effective interest method.

The EMTN loan maturing on 31 January 2006 includes a special Investor Put condition, according to which investors have, in certain circumstances, the right to demand repayment of the loan with terms and conditions agreed in advance. The right to demand repayment will become valid if there are significant changes in Elisa's ownership structure which lead to a decrease in Elisa's credit rating.

Finance lease liabilities

EUR million	2005	2004
Finance lease liabilities – total of minimum lease payments		
Within one year	14.0	20.1
After 12 months and up to 5 years	29.3	37.9
After more than five years	77.1	51.2
	120.4	109.2
Future finance charges	63.6	42.3
Current value of minimum lease payments	56.8	66.9

EUR million	2005	2004
Finance lease liabilities – current value of minimum lease payments		
Within one year	13.4	19.0
Later than 12 months and up to 5 years	27.3	35.3
Later than five years	16.1	12.6
	56.8	66.9

Finance lease liabilities arise from the lease of GSM and optic fibre networks, servers, telecom facilities and a business building in Jyväskylä. The conditions vary in terms of purchase options/redemption clauses, index clauses and lease periods.

28. Trade payables and other non-interest bearing liabilities

EUR million	2005	2004
Long-term		
Advances received	6.7	9.8
Other liabilities	6.1	0.5
	12.8	10.3
Short-term		
Trade payables	151.7	131.3
Amounts owed to associated companies	0.0	1.3
Advances received	7.4	3.4
Accrued employee-related expenses	41.2	57.0
Accruals due to long-term projects	0.4	2.8
Other accruals	39.2	29.5
Other liabilities	40.0	31.8
	279.9	257.1
Total	292.7	267.4

Other accruals consist of amortised interest expenses and other ordinary expenses.

29. Derivative contracts

EUR million	2005	2004
Forward exchange contracts		
Value of underlying asset		13.5
Fair value		1.3

The 2004 forward exchange contracts were commitments of a subsidiary which was sold in 2005.

30. Operating leases

Minimum lease payments payable on the basis of non-terminable operating lease agreements:

EUR million	2005	2004
Before 12 months	19.4	22.9
Later than 12 months and up to 5 years	36.8	51.0
Later than five years	21.4	21.6
	77.6	95.5

Operating leases include business premises, telecom facilities, office equipment, cars, etc. Lease periods range from 3 to 6 years for office equipment to more than 50 years for telecom facilities.

31. Collateral, commitments and other liabilities

EUR million	2005	2004
Mortgages		
Mortgages to secure own borrowing		24.2
Pension loan		75.4
Mortgages to secure own commitments	18.6	3.4
Total mortgages	18.6	27.6
Pledges given		
Bank deposits given for own debt	0.9	0.2
Guarantees given	3.1	0.0
Total	22.6	27.8
Other commitments	0.6	9.1

Elisa disposed of the loan receivable from Tropolys GmbH, which resulted from the disposal of the German-based business, in October 2005. Elisa obtained a guarantee as security for Tropolys' interest payments from OKO Bank. In connection with this guarantee Elisa has given a counter-guarantee to OKO Bank for Tropolys' interest payments. At 31 December 2005, the maximum amount of the commitment was EUR 2.6 million.

Elisa has guaranteed small short-term loans of less than EUR 20,000 for personnel. The guarantees totalled approximately EUR 0.5 million at 31 December 2005.

Other commitments

Other commitments consist of standard assurances given in connection with corporate acquisitions and preparations to any claims for damages that might be presented in different judicial proceedings. These commitments totalled EUR 0.6 million (EUR 9.1 million) at 31 December 2005.

The group also has a large number of small lease commitments concerning the sites of masts or public phones, or central wiring closets These commitments are not included in the above-mentioned figures.

Liabilities related to the lease/leaseback agreement (QTE arrangement)

EUR million	2005	2004
Total value of the arrangement	171.5	149.8
Risk of interruption	23.5	22.8

In September 1999, Elisa Corporation signed a leaseback agreement (a so-called QTE facility) with U.S.-based capital investors. The arrangement concerns certain parts of the telecommunication network to which Elisa Corporation group companies retain the title in accordance with the agreement. The overall leasing assets and liabilities arising from the arrangement were paid at the time the facility was arranged. The company received net compensation of approximately EUR 13 million. The overall value of the arrangement was approximate 203 million US dollars. The group capitalised EUR 1.3 million of the compensation as other financial income in 2005. The compensation will be capitalised in full within ten years of the agreement having been signed.

The facility is in US dollars. Thus Elisa's euro-denominated liability also changes due to fluctuations in the euro/dollar exchange rate. The QTE facility is recognised in the balance sheet with its net value on the basis of interpretation SIC 27 issued by IASB. Elisa is entitled to terminate the agreement free of cost in 2014 at the earliest.

The arrangement is not expected to generate other cash flows to the company other that the aforementioned net compensation. The liability of the companies and the group in this arrangement is restricted to a situation in which the financial institution operating within the EU with a credit rating of A2/A or the US-based guarantor with a credit rating of Aa2/AA responsible for relaying the company's leases fails to carry out its commitments.

Other commitments

EUR million	2005	2004
Repurchase commitments	0.7	1.2

Repurchase commitments mainly concern telecom network terminals purchased with leasing financing by customers, such as corporate PBXs.

32. Financial risk management

The parent company is principally responsible for the Elisa group's finance, and as a rule, subsidiaries' financing is done through intra-group loans. The liquidity of group companies is centralised by means of corporate accounts. The accounting and finance department is in charge of investing liquidity surpluses. There were no changes to Elisa's risk managment policy in 2005.

Interest rate risk

In order to manage the interest rate risk, the group's loans and investments have been spread into fixed and floating rate instruments. Derivative financial instruments may be used in managing the interest rate risk. The aim is to hedge the negative effects caused by fluctuations in interest rates. Derivative financial instruments were not used in 2005.

Currency risk

A principal part of the Elisa group's cash flow is in euro. In this case the company's exposure to currency risk (economic risk and transaction risk) is small. The translation exposure of Elisa's equity, mainly due to Elisa's Estonian subdisiaries and denominated in foreign currency, was moderate at the end of 2005. The translation exposure is not hedged.

Liquidity risk

Management of the liqudity risk aims an ensuring the group's financing in all circumstances. The company's main finance arrangement is the EUR 1,000 million EMTN programme, in the framework of which bonds worth EUR 426.3 million have been issued. In addition, the company has a EUR 150 million commercial paper programme and a EUR 170 million committed credit limit. At the end of 2005 the amount of the group's liquid assets and investments stood at EUR 212.7 million. At the balance sheet date, the available long-term committed credit limits amounted to EUR 170 million.

Credit risk

Business units are responsible for the credit risk associated with trade receivables. Financial instruments contain an element of risk of the respective parties not being able to meet their obligations. Investments of liquid assets are made within the framework of set limits for targets with high creditworthiness. Investments and the limits specified for them are reviewed annually, or more often if necessary. Investment activities are monitored, and the outstanding investments are not expected to result in credit losses. Foreign currency and interest derivative agreements are only signed with Finnish and foreign banks with good credit ratings.

Concentrations of credit risks in trade receivables are minimal due to the group's extensive customer base. The group's previous experience in the collection of trade receivables corresponds to the recognised provisions. Based on these facts the managment is confident that the group's trade receivables are not associated with a credit risk in excess of the provision for loss on loans.

Credit ratings

To ensure part of its financing, Elisa has acquired international credit ratings. Moody's Investor Services have rated Elisa's long-term commitments as Baa2 (outlook stable). Standard & Poor's have rated the company's long-term commitments to BBB (outlook negative) and short-term commitments to A-3.

33. Related party transactions

The group's parent company and subsidiary relationships are as follows:

The parent company of the group is Elisa Corporation.

Group's subsidiaries	Domicile	31 Dec 2005 Group's ownership interest, %
Oy Arvotel Ab	Helsinki	100
Oy Dianatel Ab	Helsinki	100
Ecosite Oy	Espoo	100
Elisa Mobiilsideteenused As	Tallinna	100
Elisa Ventures Ltd	Helsinki	100
Oy Extel-Achterkamer Ab	Helsinki	100
Oy Extel-Bevaren Ab	Helsinki	100
Oy Extel-Grenzenloos Ab	Helsinki	100
Oy Extel-Grinniken Ab	Helsinki	100
Oy Extel-Grissen Ab	Helsinki	100
Oy Extel-Noodlottig Ab	Helsinki	100
Oy Extel-Onbeheerd Ab	Helsinki	100
Fiaset Oy	Jyväskylä	100
Fiotele Oy	Helsinki	100
Fonetic Oy	Jyväskylä	100
JMS Group Ltd	Helsinki	100
Jyväsviestintä Oy	Jyväskylä	100
KSP Applications Oy	Jyväskylä	100
KSP Vision Oy	Jyväskylä	100
Lancom Solutions Oy	Jyväskylä	100
Linenet Ltd	Helsinki	100
Elisa Andmesideteenused As	Tallinna	100
LNS Kommunikation AB	Tukholma	100
Preminet Ltd	Helsinki	100
OOO LNR	Pietari	100
Lounet Oy	Turku	43
Lounet Oy Call Center	Turku	43
Rahoituslinkki Oy	Helsinki	100
Kiinteistö Oy Raision Luolasto	Espoo	100
Kiinteistö Oy Rinnetorppa	Kuusamo	80
Saunalahti Group Oyj	Espoo	100
Helsingin Netti Media Oy	Helsinki	100
Jippii UK Plc	Iso-Britannia	100
Supertel Oy	Helsinki	100
SIA Radiolinja Latvija	Riika	100
Tampereen Tietoverkko Oy	Tampere	63
Tampereen Keskusantenni Oy	Tampere	63
Kiinteistö Oy Tapiolan Luolasto	Espoo	100
Telcofounding Ltd	Helsinki	100
Tikka Communications Oy	Joensuu	100
Kiinteistö Oy Joensuun Helasähkö	Joensuu	100
UAB Radiolinja	Vilna	100

The group's associated companies

City-Suvanto Oy	Joensuu	36
Joensuun Datalaite Oy	Joensuu	30
Kiinteistö Oy Herrainmäen Luolasto	Tampere	50
Kiinteistö Oy Lauttasaarentie 19	Helsinki	42
Kiinteistö Oy Runeberginkatu 43	Helsinki	30
Kiinteistö Oy Stenbäckinkatu 5	Helsinki	40
Pispalan Televisio Oy	Tampere	28
Suomen Numerot NUMPAC Oy	Helsinki	25
Vantaan Yhteisverkko Oy	Vantaa	24

Significant changes in ownership during the period are presented in Appendices 2 and 3.

Elisa Group has related party relationships with its Board of Directors, CEO, Executive Board, associates, joint ventures, and Elisa Group's Pension Fund.

Transactions with related parties:

Related party sales:

EUR million	2005	2004
Associates and joint ventures	7.4	6.9

Related party purchases:

EUR million	2005	2004
Associates and joint ventures	3.2	3.5
Lease of sold and leaseback premises from the pension fund	1.2	2.4
Interest expense to the pension fund	1.5	4.3
Total	5.9	10.2

Loans and receivables from associated companies have been itemised in the notes to the balance sheet items in question.

Employment benefits for key management

Key management consists of the Board of Directors, the CEO and Elisa's Executive Board.

EUR million	2005	2004
Salaries and other short-term employment benefits	2.3	2.2
Termination benefits	0.2	
Bonus based on share-based incentive system	0.4	0.4
	2.9	2.6

During the fiscal year, the CEO was paid a total salary of EUR 502,698.80. In addition to a regular monthly salary and a performance-based bonus, this sum also includes taxable benefits for the use of a telephone and a company-owned car. Moreover, in the framework of the management's bonus and incentive scheme, a fee of EUR 145,405.52 has been deposited in a bank for the Chief Executive. The period of notice for the Chief Executive is six months from Elisa's side and three months from the Chief Executive Officer's side. Should the contract be terminated by Elisa, the Chief Executive Officer is entitled to receive a severance payment equalling the total salary of 24 months minus his salary of the period of notice. Elisa's CEO is entitled to retire after the age of 60 on a total pension at the statutory rate of 60 percent of his pensionable salary.

The following compensation determined by the Annual General Meeting is paid to the Members of the Board: monthly remuneration fee for the Chairman EUR 5,000 per month; monthly remuneration fee for the Deputy Chairman EUR 3.500 per month, monthly remuneration fee for the Members EUR 2.500 per month, and meeting remuneration fee EUR 300/ meeting/participant. The monthly remuneration fees (deducted by tax withheld at the rate of 60%) are used for purchases of Elisa Corporation shares every quarter. The shares are subject to a transfer restriction of four years.

Members of the Executive Board are entitled to retire on the basis of group supplementary pension insurance after the age of 62 on a total pension at the statutory rate of 60 percent of his/her pensionable salary.

Share options granted to the management

The Members of the Board, the CEO and members of the Executive Board did not have valid option rights.

Elisa shares held by the management

The members of the Board of Directors and the CEO held a total of 41,782 shares and votes, corresponding to 0.03% of the shares and votes.

Share-based bonus and incentive scheme

The Board of Directors has approved a share-based bonus and incentive scheme for the group's executive management, which aims at increasing share ownership. The long-term objective of the scheme is to secure the commitment of the key individuals to enhancing the company's profitability and increasing its value, and simultaneously increase the management's shareholding.

No new shares will be issued on the basis of the scheme. The reward sums are deposited for two years into an account whose value development is tied to Elisa's share performance. The accrued rewards are paid to the participants after the two-year period has elapsed by buying shares for the persons concerned. Each person has a personal target of share ownership corresponding to his/her six months' salary.

The evaluation tool for the scheme in 2005 was the adjusted earnings per share (EPS), based on the Elisa group's audited performance and calculated in the manner defined by the Board of Directors. If the adjusted result is negative, the incentive is always nil. The Board of Directors defines the values that determine the reward amounts and confirms the individual amounts for each person. No reward deposits will be made under the incentive scheme for 2005.

34. Events after the balance sheet date

The company's management does not have any knowledge of any significant events after the balance sheet date that would have had an impact on the financial statements.

35. Effects of IFRS adoption on previously reported equity and result

Reconciliation of equity for comparison periods

EUR million	Appendix	31 Dec 2004	1 Jan 2004
Total equity according to FAS		851	699
Effects of adopting IFRS			
Reversal of goodwill amortisation	1	45	
Employee benefits	2	−14	−24
Finance leases	3	−5	5
Reversal of revaluations	4		−11
Financial instruments	5	1	1
Other adjustments	6	2	2
Income tax	7	4	3
IFRS adjustments, total		33	−25
Equity holders of the parent		884	675
Minority interests according to FAS		34	77
IFRS adjustments	8	−3	−4
Minority interest		31	73
Total equity according to IFRS		915	748

Reconciliation of net profit for comparison periods

EUR million		1 Jan–31 Dec 2004
Profit for the period according to FAS		114
Effects of adopting IFRS		
Reversal of goodwill amortisation	1	45
Employee benefits	2	11
Finance leases	3	−10
Financial instruments	5	1
Income tax	7	−1
IFRS adjustments, total		45
Profit for the period according to IFRS		159
Attributable to		
Equity holders of the parent		152
Minority interest		7
		159

Effects of adopting IFRS on the income statement 1 Jan–31 Dec 2004

EUR million	Appendix	FAS 1 Jan–31 Dec 2004	IFRS 1 Jan–31 Dec 2004	Effects of transition to IFRS
Revenue		1,356	1,356	0
Other operating income		31	27	−4
Operating expenses	2, 3, 6	−955	−928	26
Depreciation and amortisation:				
From tangible assets	3, 6	−196	−213	−18
From consolidated goodwill	1	−43	0	43
EBIT		193	242	48
Financial income and expenses:				
Share of associated companies' profit	1	1	1	1
Other financial income and expenses	3, 5	−28	−30	−2
Profit before tax		166	213	46
Income tax	7	−52	−53	−1
Minority interest	8	−7	−8	−0
Profit for the period		107	152	45
Earnings per share (EUR/share), basic		0.78	1.10	0.32
Diluted earnings per share (EUR/share)		0.78	1.10	0.32

Effects of adopting IFRS on the balance sheet 31 December 2004

EUR million	Appendix	FAS 31 Dec 2004	IFRS 31 Dec 2004	Effects of transition to IFRS
Non-current assets				
Intangible assets	1, 6	62	69	7
Goodwill	1	441	472	31
Property, plant and equipment	3, 4, 6	650	724	74
Investments in associated companies	6	16	12	–4
Available-for-sale investments	1, 5, 6	12	11	–1
Receivables	5	58	46	–12
Deferred tax receivables	7	14	43	29
		1 253	1 377	124
Current assets				
Inventories		15	15	0
Trade and other receivables	5	310	308	–2
Financial assets at fair value through profit or loss		96	96	0
Cash and cash equivalents		67	67	0
		488	486	–2
Total assets		1 741	1 864	122

EUR million	Appendix	FAS 31 Dec 2004	IFRS 31 Dec 2004	Effects of transition to IFRS
Total equity				
Share capital		71	71	0
Share premium		530	530	0
Contingency fund and other funds		35	35	0
Treasury shares		–3	–3	0
Retained earnings		111	99	–12
Net profit		107	152	45
Minority interests	8		31	31
		851	915	64
Minority interests	8	34		–34
Provisions for liabilities and charges	3	17		–17
Non-current liabilities				
Pension obligations	2		15	15
Deferred tax liabilities	7		30	30
Provisions	6		10	10
Long-term debt	3, 5	566	604	38
		566	658	93
Current liabilities				
Tax liabilities		2	2	0
Short-term debt	3	272	289	17
		274	291	17
Liabilities, total		1 741	1 864	122

Notes to reconciliations

1. Goodwill

Subsidiaries and associates acquired before 1 January 2004 are consolidated by using the acquisition cost or consolidation method in accordance with FAS. The IFRS 3 standard applies to acquisitions made after 1 January 2004.

The depreciation according to plan on consolidated goodwill pursuant to FAS has been reversed. The annual impact of the reversal is EUR 45 million. The total amount of goodwill in the balance sheet of the transition date as at 1 January 2004 was EUR 460 million. Of the acquisition of Finnet International Ltd in June 2004, EUR 3.5 million was targeted at intangible assets. EUR 11.2 million from the acquisition of Yomi Plc was directed to customer relationships, EUR 3.2 million to available-for-sale IT business, and EUR 10.6 million was recognised as goodwill. On 31 December 2004, the total amount of goodwill was EUR 472 million.

2. Employee benefits

The pension security and supplementary pension arrangements of the statutory Finnish pension scheme (TEL), which in principal are the responsibility of Elisa Pension Fund, are treated as a defined benefit plan on the balance sheet at the transition date. In defined benefit pensions, a liability of EUR 24 million is booked on the opening balance sheet, resulting in the difference between the current value of the retirement benefit obligation and the fair value of the plan assets. In accordance with the opportunity allowed by IFRS 1, the cumulative actuarial gains and losses of the defined benefit pensions are booked in the retained earnings at the transition date.

Due to changes in the calculation bases approved by the Ministry of Social Affairs and Health in December 2004, the disability element of TEL is calculated as a defined contribution plan in the IFRS balance sheet as per 31 December 2004. As a consequence of this, the TEL liability arranged in insurance companies and entered on the balance sheet on the day of the transition was capitalised in total in the fourth quarter in 2004. The liability for the employment pension and supplementary pension security arranged in the Pension Fund was capitalised during the last quarter of 2004. This was due to the amendments in the TEL legislation and the layoffs which took place in 2004. The treatment of the retirement benefit obligation arranged in the Pension Fund will continue as a defined benefit plan. The balance sheet as at 31 December 2004 included EUR 14.8 million defined benefit liability, which includes the share of the pension fund arrangements accounts for EUR 12.8 million, the company's own liability EUR 1.7 million and the share of insurance company arrangements EUR 0.3 million.

3. Leases

The Elisa Group has categorised several leases to be treated as finance lease contracts in accordance with the IAS 17 Leases standard. The most significant changes in the categories apply to the leasing and rental agreements the telecom network, IT servers and certain real estate. According to the previous practice, these agreements were disclosed in notes under leasing and rental liabilities.

The share of the telecom premises, EUR 3.6 million, from the capital gain on the former main office is reversed because a long-term contract concerning the premises was signed. The contract is classified as a finance lease contract. For this part, the capital gain will be capitalised during the lease period.

Assets leased through finance lease contracts less accumulated depreciation are booked under property, plant and equipment, and correspondingly, liabilities from the agreement are recognised as interest-bearing liabilities. Rents generated by finance lease contracts have been replaced by entries in financial expenses and repayment of debt.

At the end of 2004, tangible assets included finance lease assets of EUR 59 million (EUR 146 million on 1 January 2004) and liabilities included finance lease liability of EUR 72 million (EUR 179 million on 1 January 2004). The balance sheet of the transition date included EUR 72 million German-based finance lease assets and finance lease liability of EUR 79 million. Provisions of EUR 7 million (EUR 30 million on 1 January 2004) from the provisions for liability and charges pursuant to FAS were reversed on the GSM network.

4. Revaluation of tangible assets

Revaluations recognised in the carrying amounts of real estate in accordance with FAS have been reversed (EUR 11 million on 1 January 2004). After the adjustment the group's non-current assets are entirely based on original acquisition costs.

5. Financial instruments

Elisa complies with the IAS 39 standard as of 1 January 2004.

In accordance with FAS, borrowings are valued at their amortised cost instead of nominal capital. The change in the value method reduced the interest-bearing net liability by EUR 13.4 million during the third quarter of 2004.

The group's derivative contracts consist of Comptel Corporation's forward exchange contract. Forward exchange contracts are measured at fair value in Elisa's opening balance sheet and re-measured to fair value at the end of comparative annual quarters. Changes in value are recognised as income in financial income and expenses.

The treatment of financial instruments had no major impact on the 2004 result.

6. Other adjustments

The capitalisation principles relating to product development have been specified mainly for the part of the capitalisation of own work. After the adjustment of software product development expenses, intangible assets rose by EUR 3.0 million in 2004 (EUR 2.9 million on 1 January 2004).

Equities which entitle to the management of real estate companies (mainly telecom facilities), are consolidated by using the proportionate consolidation method in accordance with IAS 31. As a result of the consolidation, the item presented as the value of the equities in principally reported as part of the buildings.

The environmental obligation is treated as the anticipated dismantlement costs of treated telephone poles (the so-called arsenic directive). The dismantlement costs, EUR 1.7 million on 1 January 2004, are capitalised in non-current assets. The corresponding debt is presented under provisions.

Elisa applies the IFRS 2 Share-based Payment standard to all stock option schemes in which the options have been granted after 7 November 2002 and which do not vest before 1 January 2005. Option arrangements prior to this have not been presented as expenses in the income statement. Stock options are measured at fair value at the time they are granted, and they are recognised as expenses on a straight-line basis in the income statement over the period from the date they were granted to the commencement of the right to exercise them. The fair value of the option is determined on the basis of the Black-Scholes pricing model. Stock options granted to the personnel pursuant to the application of this standard exist in Elisa's subsidiary Comptel. The impact on earnings was not substantial in 2004.

Reporting lines in the income statement and balance sheet have also been regrouped.

7. Income taxes

Deferred taxes have been entered for IFRS adjustments causing temporary differences. Deferred taxes are not recognised for goodwill and other permanently tax-free or non-deductible items.

The deferred tax receivables and liabilities settled on a net basis according to FAS have been derecognised. Deferred tax liabilities are grouped under non-current liabilities in IFRS reporting.

8. Minority interests

The changes brought about by IFRS reporting also concern subsidiaries with minority interests. These changes have an effect on the respective subsidiaries' equity and as a consequence on the group's minority interests. Minority interests are grouped under corporate equity in IFRS reporting.

Key indicators

Key indicators describing the group's financial development

INCOME STATEMENT	IFRS 2005	IFRS 2004	FAS 2003 [1]	FAS 2002 [1]	FAS 2001 [1]
Revenue, EUR million	1,337	1,356	1,538	1,563	1,439
Change of revenue, %	−1.4%	−11.8%	−1.6%	8.6%	15.6%
EBITDA, (EUR million)	446	455	385	333	424
EBITDA as % of revenue	33.4%	33.6%	25.0%	21.3%	29.5%
EBIT, EUR million	233	242	−34	−49	108
EBIT as % of revenue	17.4%	17.8%	−2.2%	−3.1%	7.5%
Profit before tax, EUR million	212	213	−74	−100	46
Profit before tax as % of revenue	15.8%	15.7%	−4.8%	−6.4%	3.2%
Return on equity (ROE), %	15.9%	19.2%	−1.8%	−12.1%	0.5%
Return on investment (ROI), %	14.7%	15.7%	−1.8%	−2.7%	6.6%
Research and development costs, EUR million	8	17	24	36	36
Research and development costs as % of turnover	0.6%	1.3%	1.6%	2.3%	2.5%
BALANCE SHEET					
Gearing ratio, %	21.7%	50.6%	87.5%	94.8%	93.8%
Current ratio	1.4	1.7	1.1	0.9	0.7
Equity ratio, %	61.7%	49.3%	40.4%	38.3%	40.1%
Non-interest bearing debt, EUR million	347	324	407	467	389
Balance sheet total, EUR million	2,202	1,864	1,930	2,098	2,151
INVESTMENTS					
Purchases of shares, EUR million	415	61	28	16	242
of which paid in equity issue	361	47			
GROSS CAPITAL EXPENDITURES					
Gross investments, (EUR million)	204	182	194	269	373
Gross investments as % of revenue	15.3%	13.4%	12.6%	17.2%	25.9%
PERSONNEL					
Average number of employees during the financial year	4,989	5,590	7,172	8,115	7,783
Revenue/employee, EUR 1,000	268	242	214	193	185

The order book is not shown because such information is immaterial owing to the nature of the company's business.

[1] The figures for 2001 to 2003 were calculated according to the Finnish Accounting Standards (FAS)

Formulae for financial summary indicators

EBITDA	EBIT + depreciation and amortisation	
Return on equity (ROE), %	Net profit / Total shareholders' equity (on average during the financial year)	x 100
Return on investment (ROI), %	Profit before taxes + interest costs and other financial expenses / Balance sheet total – non-interest bearing liabilities (on average during the financial year)	x 100
Gearing ratio, %	Interest-bearing debts – cash and bank and financial assets booked at the market value in the profit and loss account / Total shareholders' equity	x 100
Current ratio	Current assets / Short-term debts – advances received	
Equity ratio, %	Total shareholders' equity / Balance sheet total – advances received	x 100

Formulae for per share data

Earnings per share (EPS)	Profit attributable to equity holders of the parent / Adjusted number of shares for the financial year	
Dividend per share	Adjusted dividend / Adjusted number of shares on the balance sheet date	
Effective dividend yield	Dividend per share / Adjusted trading price on the balance sheet date	x 100
Dividend payout ratio, %	Dividend per share / Earnings per share	x 100
Equity per share	Equity attributable to equity holders of the parent / Adjusted number of shares on the balance sheet date	
Price/earnings ratio (P/E ratio)	Trading price on the balance sheet date / Earnings per share	

For the formulae for the indicators according to the Finnish Accounting Standards, see the financial statements for the relevant year.

Per share data [1]

	IFRS 2005	IFRS 2004	FAS 2003	FAS 2002	FAS 2001
Share capital, EUR	83,033,008.00	70,994,554.50	69,005,878.50	69,005,878.50	69,005,878.50
Number of shares at 31.12.	165,886,016	141,778,437	137,230,194	137,230,194	135,726,482
Average number of shares	144,806,906	137,320,789	137,230,194	135,989,026	130,257,869
Number of shares at 31.12. diluted	165,886,016	141,778,437	137,230,194	137,230,194	135,726,482
Average number of shares, diluted	144,806,906	137,320,789	137,230,194	135,989,026	130,257,869
Market capitalisation, EUR million [2]	2,596	1,682	1,455	785	1,847
Earnings per share (EPS), EUR	1.22	1.10	–0.12	–0.54	0.01
Dividend per share, EUR	0.70 [*]	0.80			
Payout ratio, %	57.4%	72.7%			
Equity per share, EUR	8.06	6.23	5.09	5.21	5.67
P/E ratio	12.8	10.8	neg.	neg.	1361
Effective dividend yield, %	4.47%	6.75%			
Share performance on the Helsinki Stock Exchange					
Middle price, EUR	13.95	11.36	7.62	8.21	16.42
Closing price at 31.12., EUR	15.65	11.86	10.60	5.72	13.61
Lowest price, EUR	10.56	8.80	4.67	4.46	8.70
Highest price, EUR	16.79	14.50	11.50	15.50	25.01
Trading of shares					
Total number of shares traded, 1,000 shares	248,290	121,447	87,873	66,127	85,939
Percentage of shares traded, % [3]	172%	88%	64%	49%	66%

The figures for 2001 to 2003 were calculated according to the Finnish Accounting Standards (FAS)

[1] The numbers of shares do not include treasury shares held by Elisa Group. Treasury shares have been taken into account in the calculation of the indicators.

[2] Calculated at the closing price on the last trading day of the year.

[3] Calculated in relation to the average number of shares during the financial year.

[*] The Board of Directors propoeses that EUR 0.70 per share be paid as dividend for 2005.

Parent company's income statement

EUR million	Appendix	1 Jan–31 Dec 2005	1 Jan–31 Dec 2004
Revenue	1	747.6	406.0
Change in finished and non-finished stocks		1.3	–0.4
Other operating income	2	112.1	25.8
Materials and services	3	–299.0	–131.9
Personnel expenses	4	–188.4	–100.6
Depreciation and amortisation	5	–99.5	–57.5
Other operating costs		–179.8	–101.6
		–766.7	–391.6
EBIT		94.3	39.8
Financial income and expenses	6	–16.9	98.6
Profit before extraordinary items		77.4	138.4
Extraordinary items	7	127.4	–61.7
Profit after extraordinary items		204.8	76.7
Appropriations	8	67.0	63.2
Income taxes	9	–25.7	–0.7
Profit for the period		246.1	139.2

Parent company's balance sheet

EUR million	Appendix	31 Dec 2005	31 Dec 2004
ASSETS			
Fixed assets			
Intangible assets	10	821.2	43.3
Tangible assets	10	466.8	292.7
Investments	11	131.9	1,335.9
		1,419.9	1,671.9
Current assets			
Inventories	12	17.9	12.9
Long-term receivables	13	26.7	77.1
Current receivables	14	283.1	247.1
Marketable securities	15	168.7	112.2
Cash and bank		3.2	7.4
		499.6	456.7
		1,919.5	2,128.6
SHAREHOLDERS' EQUITY			
Total equity	16		
Share capital		83.0	71.0
Share premium		530.4	530.4
Contingency fund		3.4	3.4
Retained earning		332.5	316.5
Profit for the period		246.1	139.2
		1,195.4	1,060.5
Appropriations		0.0	57.2
Provisions for liabilities and charges	17	10.9	7.8
Liabilities			
Long-term debt	18	365.7	561.3
Short-term debt	19	347.5	441.8
		713.2	1,003.1
		1,919.5	2,128.6

Parent company's cash flow statement

EUR million	1 Jan–31 Dec 2005	1 Jan–31 Dec 2004
Cash flow from operations		
Profit before extraordinary items	77.4	138.4
Adjustments		
Depreciation and amortisation according to plan	99.5	57.5
Other financial income and expenses	16.9	–98.6
Gains and losses (+/–) on the disposal of fixed assets	–31.5	–15.9
Gains and losses (+/–) on the disposal of shares	–73.0	2.5
Change in provisions and liabilities in the income statement	0.7	–9.2
Other adjustments	1.1	
Cash flow before change in working capital	91.1	74.7
Change in working capital	51.1	47.7
Cash flow before financial items and taxes	142.2	122.4
Interests paid and interests and dividends received	–13.4	57.9
Income taxes paid	–2.8	–0.7
Cash flow from operating activities	126.0	179.6
Cash flow from investments		
Capital expenditures	–111.3	–56.9
Disposal of fixed assets	53.6	34.7
Investments in shares and other financial assets	–44.8	–9.3
Proceeds from disposal of shares and other financial assets	86.2	38.4
Loans granted	–11.0	
Repayment of loan receivables	58.4	34.7
Cash flow from investments	31.1	41.6
Cash flow from financing		
Amortisation of long-term debt	–98.5	–7.6
Change in short-term debt	–34.8	–270.7
Dividends paid	–117.5	
Group contributions received	143.4	120.1
Cash flow from financing	–107.4	–158.2
Change in cash and cash equivalents	49.7	63.0
Cash and cash equivalents at beginning of period	119.6	13.8
Cash and cash equivalents transferred for merger/business	2.6	42.8
Cash and cash equivalents at end of period	171.9	119.6

Notes to the financial statements of the parent company

Accounting principles

Elisa Corporation's financial statements have been prepared following the accounting principles based on Finnish accounting legislation.

Comparability with previous year

When the information for the financial year is compared with the previous financial year, it must be taken into account that mergers of Group companies with the parent company have taken place, which is the most important reason for the significant growth of turnover and expenses due to it and the balance sheet and liabilities. In addition, significant one-off items are included in the financial statements.

One-off items in the 2005 financial statements:

- sales profit of EUR 74.2 million from the sale of shares and business operations
- sales profit of EUR 30.9 million from the sale of fixed assets
- merger profits of EUR 24.8 million
- merger assets of EUR 751.8 million booked on the balance sheet from the merger of Elisa Matkapuhelimet Oy

One-off items of the comparison year 2004:

- recognition of EUR 5.1 million as income due to a change in the calculation principles of the pension provision
- sales profit of EUR 12.8 million from the sale of the main office property
- merger profits of EUR 20.5 million and merger losses of EUR 126.8 million

Items denominated in foreign currencies

Transactions denominated in a foreign currency are booked at the exchange rates quoted on the day that the transaction took place. On the day of closing, the accounts balance sheet items denominated in a foreign currency are valued at the average rate quoted by ECB at the closing date.

Fixed assets

The acquisition cost deducted by accumulated depreciation according to plan and value adjustments is presented on the balance sheet as the book value of intangible and tangible assets. Self-manufactured and built fixed assets are valued as variable costs.

The difference between depreciation according to plan and total depreciation made is shown under appropriations in the parent company's income statement and the accumulated depreciation difference is shown under accumulated appropriations in the shareholders' equity and liabilities in the balance sheet. The negative depreciation difference transferred from merged companies is recognised as income. Depreciation according to plan is calculated on the basis of financial service life as straight-line depreciation from the original acquisition cost.

The financial service lives according to plan for the different asset groups are:

Immaterial rights	3–5 years
Other expenditure with long-term effects	5–10 years
Buildings and structures	25–40 years
Machinery and equipment in buildings	10–25 years
Telephone exchanges	6–10 years
Cable network	8–15 years
Telecommunication terminals (rented to customers)	3–5 years
Other machines and equipment	3–5 years

Valuation principles of current assets

Current assets are valued at variable costs, acquisition price or the likely assignment or repurchase price if it is lower. A weighted average price is used in the valuation of current assets.

Turnover and other operating income

The sale of performances is recognised as income at the time of assignment and income from services is booked once the services have been rendered.

Transit traffic payments that are invoiced from the customer and paid as such to other telephone companies are presented as a deduction item under sales income (Accounting Board 1995/1325).

The sales profit from the sales of business operations, shares and fixed assets, subsidies received and rental income from flats are presented under other operating income.

Research and development costs

Research and development costs are handled as an annual expense according to the time they arise.

Future expenses and losses

Future expenses and losses that are allocated to an ended or previous financial year and the realisation of which is considered certain or likely and income corresponding to which is not certain or likely are booked as expenses under the expense item in question on the income statement. On the balance sheet, they are presented under provisions for liabilities and charges when their exact amount or realisation date is not known. In other cases, they are presented under accruals and deferred income.

Extraordinary income and expenses

Given and received Group contributions and merger profits and losses have been booked under extraordinary items.

Income taxes

Income taxes belonging to the financial year are allocated and booked on the income statement. No deferred tax liabilities and receivables have been booked in the financial statements.

1. Invoiced sales and revenue

EUR million	2005	2004
Invoiced sales	810.0	447.1
Interconnection fees and other adjustments	–62.4	–41.1
Revenue total	747.6	406.0
Geographical distribution		
Finland	726.4	404.9
Rest of Europe	21.2	1.1
Total	747.6	406.0

2. Other operating income

Proceeds from the disposal of fixed assets	30.9	15.8
Proceeds from the disposal of shares and business	74.2	0.1
Others [1]	7.0	9.9
Other operating income total	112.1	25.8

[1] Other operating income mainly includes rental income from residential units

3. Materials and services

Materials, equipment and goods		
Purchases during the financial year	66.4	41.3
Change in inventories	–5.0	–12.9
	61.4	28.4
External services	237.6	103.5
Materials and services total	299.0	131.9

4. Personnel expenses

Wages and salaries	159.2	89.6
Pension costs	15.6	3.2
Other statutory employee costs	13.6	7.8
Personnel expenses total	188.4	100.6
Average number of personnel	4,048	2,155

Management remuneration, EUR

CEO's remuneration		
Mr Veli-Matti Mattila	502,698.80	606,865.78

In the framework of the management's bonus and incentive scheme, a fee of EUR 145,405.52 (EUR 190,090.63 in 2004) has also been deposited in a bank account for the CEO. The terms of the bonus system are described in more detail in note 33 to the consolidated financial statements.

The CEO is entitled to retire at the age of 60 on a total pension at the statutory rate of 60% of his pensionable salary.

EUR	2005	2004
The board of Directors' remuneration		
Mr Keijo Suila	69,300	50,200
Mr Ossi Virolainen	52,100	27,100
Mr Matti Aura	42,000	27,100
Mr Pekka Ketonen	40,850	27,100
Mr Mika Ihamuotila	40,350	27,100
Mr Jere Lahti		5,850
Mr Jussi Länsiö	41,200	20,500
Mr Lasse Kurkilahti	3,400	
Mr Matti Manner	3,400	
	292,600	184,950

The monthly remuneration fees (deducted by tax withheld at the rate of 60%) are used for purchases of Elisa Corporation shares every quarter. The shares are subject to a transfer restriction of four years.

5. Depreciation and amortisation

EUR million	2005	2004
Depreciation and amortisation on intangible assets	12.0	7.3
Depreciation on tangible assets	87.5	50.2
Total	99.5	57.5

Specification of depreciation by balance sheet items is included in Non-current assets.

6. Financial income and expenses

Dividends received		
from group companies	5.7	93.1
from associated companies	0.0	0.2
from others	0.1	0.1
Avoir fiscal		38.1
Total dividends received	5.8	131.5
Other interest and financial income		
from group companies	1.3	2.4
from others	6.0	4.3
Other interest and financial income, total	7.3	6.7
Interest and other financial income, total	13.1	138.2
Interest costs and other financing expenses		
to group companies	–1.8	–4.0
to others	–28.2	–35.6
Interest costs and other financing expenses, total	–30.0	–39.6
Financial income and expenses, total	–16.9	98.6

7. Extraordinary items

EUR million	2005	2004
Extraordinary income		
Merger gain	24.8	20.5
Group contributions	99.2	44.6
Other	3.8	
Extraordinary expenses		
Merger loss		−126.8
Other	−0.4	
Extraordinary items, total	127.4	−61.7

8. Appropriations

EUR million	2005	2004
Depreciation in excess/less than plan	67.0	63.2

9. Income taxes

	2005	2004
Income tax on extraordinary items	25.8	12.9
Income tax on actual business	0.4	−12.9
Income tax for previous periods	−0.5	0.7
Income taxes, total	25.7	0.7

10. Non-current assets/Intangible and tangible assets

Intangible assets

EUR million	Intellectual property rights	Goodwill	Other capitalised expenditures	Purchases in progress	Total
Acquisition cost at 1 Jan	1.0	7.6	54.0	12.1	74.8
Transferred in mergers	4.1	0.3	62.4	0.5	67.4
Additions	1.3	751.8	2.8	23.3	779.2
Disposals	0.0		−1.9		−1.9
Reclassifications	1.7		3.3	−5.6	−0.6
Acquisition cost at 31 Dec	8.0	759.8	120.7	30.4	918.9
Accrued depreciation and amortisation at 1 Jan	0.2	2.9	28.4		31.6
Transferred in mergers	2.2	0.1	53.5		55.7
Accrued depreciation of disposals and reclassifications	0.0		−1.6		−1.6
Depreciation for the period	0.8	1.7	9.6		12.0
Accrued depreciation at 31 Dec	3.2	4.7	89.8		97.7
Book value at 31 Dec 2005	4.9	755.1	30.8	30.4	821.2

Tangible assets

EUR million	Land and water	Buildings and structues	Machinery and equipment	Other tangible assets	Purchases in progress	Total
Acquisition cost at 1 Jan	4.8	106.4	474.9	34.5	2.7	623.3
Transferred in mergers	1.6	8.7	806.7	0.1	17.1	834.3
Additions	0.0	1.8	73.5	0.3	8.3	83.9
Disposals	−0.8	−44.5	−7.4	−0.1	0.0	−52.9
Reclassifications		0.4	1.6		−1.4	0.6
Acquisition cost at 31 Dec	5.6	72.9	1 349.3	34.8	26.6	1 489.3
Accrued depreciation at 1 Jan		65.7	238.5	26.4		330.6
Transferred in mergers		5.6	638.8	0.1		644.5
Accrued deprecation of						
disposals and reclassifications		−35.5	−4.5	−0.1		−40.1
Depreciation for the period		4.0	81.7	1.8		87.5
Accrued depreciation at 31 Dec		39.7	954.5	28.2		1 022.5
Book value at 31 Dec 2005	5.6	33.2	394.8	6.6	26.6	466.8

Book value of machinery and equipment (telecom network) in production on 31 December 2005 was EUR 371.8 million (2004: EUR 213.0 million).

11. Investments

	Shares in			Receivables		Total
EUR million	group companies	associated companies	Others	group companies	Others	
Acquisition cost at 1 Jan	1,423.9	12.1	9.5	0.6	1.2	1,447.3
Transferred in mergers	28.1	0.7	0.2			29.0
Additions	62.4		2.0		1.0	65.5
Disposals	−1,404.1	−3.8	−1.8			−1,409.7
Reclassifications	5.0	−5.0	0.0			0.0
Acquisition cost at 31 Dec	115.4	4.0	9.9	0.6	2.2	132.1
Depreciation at 1 Jan	−111.2		−0.2			
Change	111.2					
Depreciation at 31 Dec	0.0		−0.2			−0.2
Book value at 31 Dec 2005	115.4	4.0	9.7	0.6	2.2	131.9

On the closing day, the repurchase price of publicly quoted shares was EUR 35 million higher than the book value of the owner company (2004: EUR 115 million higher)

12. Inventories

EUR million	2005	2004
Materials and equipment	9.3	6.8
Work in progress	2.2	1.1
Finished goods	6.4	5.0
Inventories total	17.9	12.9

13. Long-term receivables

Amounts owed by group companies		
Loan receivables [1]	9.8	19.3
Prepayments and accrued income		0.1
Amounts owed by associated companies	0.1	
Amounts owed by others		
Loan receivables [2]	3.0	43.1
Other receivables	2.2	0.9
Prepayments and accrued income [3]	11.6	13.7
Long-term receivables total	26.7	77.1

[1] In 2005, long-term loan receivables include interest-bearing loan receivables of EUR 9.7 million (EUR 17.2 million in 2004). The company also had capital loan receivables of EUR 2.1 million in 2004.

[2] In 2005 the loan receivables include EUR 3.0 million of loan receivables from Tropolys GmbH (EUR 43 million in 2004). The loan falls due on 31 December 2008.

[3] In 2005 prepayments and accrued income include EUR 9.0 million of issue loss (EUR 11.3 million in 2004).

14. Current receivables

EUR million	2005	2004
Amounts owed by group companies		
Trade receivables	27.5	9.8
Loan receivables	52.3	33.2
Other receivables	1.3	56.9
Prepayments and accrued income	1.3	0.5
	82.4	100.4
Amounts owed by associated companies		
Trade receivables	0.0	0.3
Loan receivables		0.1
Other receivables		
	0.0	0.4
Amounts owed by others		
Trade receivables	166.7	90.2
Loan receivables	0.0	0.6
Other receivables	5.9	3.5
Prepayments and accrued income	28.1	52.0
	200.7	146.3
Current receivables, total	283.1	247.1

15. Marketable securities

Securities mainly comprise investments in money market funds and short-term certificates of deposits and commercial papers. Investments in money market funds have been recognised at the repurchase price. Investments in certificates of deposits and commercial papers have been recognised at the acquisition cost, as the difference between the repurchase price and cost of acquisition is not significant.

16. Total equity

EUR million	2005	2004
Share capital at 1 Jan	71.0	69.0
Increase in share capital	12.0	2.0
Share capital at 31 Dec	83.0	71.0
Share premium at 1 Jan	530.4	516.7
Share issue		13.7
Share premium 31 Dec	530.4	530.4
Contingency fund at 1 Jan	3.4	3.4
Contingency fund at 31 Dec	3.4	3.4
Retained earnings 1 Jan	455.7	316.5
Dividends	−123.2	
Retained earnings 31 Dec	332.5	316.5
Profit for the period	246.1	139.2
Total equity	1,195.4	1,060.5
Statement of distributable funds		
Retained earnings	455.7	316.5
Dividends paid	−123.2	
Profit for the period	246.1	139.2
Distributable funds at 31 Dec, total	578.5	455.7

17. Provisions for liabilities and charges

EUR million	2005	2004
Pension provisions	5.4	6.3
Other provisions for liabilities and charges [1]	5.5	1.5
Provisions for liabilities and charges, total	10.9	7.8

[1] Other provisions for liabilities and charges mainly consist of salaries, including related statutory employee costs, for employees not required to work during their severance period. Provisions of EUR 1.4 million were entered as income in 2005.

18. Long-term debt

Interest-bearing		
Bonds	360.2	481.5
Pension loans		75.4
Interest-bearing, total	360.2	556.9
Non-interest bearing		
Advances received	5.5	4.3
Non-interest bearing, total	5.5	4.4
Long-term debt, total	365.7	561.3

Debts maturing after 5 years

Bonds	250.0	260.0
Pension loans [1]		75.4
Total	250.0	335.4

[1] Pension loans which consist of loans from pension funds were repaid in full in 2005. The repayment decision was associated with the transfer of the pension insurance from the pension fund to an insurance company on 1.7.2005.

19. Short-term debt

EUR million	2005	2004
Interest-bearing debt		
Amounts owed to group companies		
Consolidated account payable	2.3	31.2
Other liabilities	4.1	28.1
	6.4	59.3
Amounts owed to others		
Financial Services Office's loan to personnel		7.6
Other liabilities	102.0	6.9
	102.0	14.5
Interest-bearing, total	108.4	73.8
Non-interest bearing debt		
Amounts owed to group companies		
Trade payables	7.3	16.2
Other liabilities	0.0	208.5
Accruals and deferred income	0.2	1.1
	7.5	225.8
Amounts owed to associated companies		
Trade payables	0.0	1.2
	0.0	1.2
Amounts owed to others		
Advances received	2.0	2.6
Trade payables	130.8	51.7
Other liabilities	34.1	24.5
Accruals and deferred income [1]	64.7	62.2
	231.6	141.0
Non-interest bearing, total	239.1	368.0
Short-term debt, total	347.5	441.8

[1] Major accruals and deferred income consist of the following amortisations: holiday pay, performance-based bonuses and related statutory employee costs, EUR 38 million (EUR 46 million in 2004); interest expenses, EUR 10.4 million (11) and other ordinary amortisations, mainly of expenses, EUR 17 million (5).

20. Collateral, commitments and other liabilities

EUR million	2005	2004
Mortgages		
For own loans		
Pension loans		75.4
Mortgages given		24.2
Other commitments		
Mortgages given		1.4
Assets mortgaged, total		25.6
Pledges given		
For own loans		
Consolidated account payable	1.4	0.1
Shares pledged	50.0	50.0
Other loans		
Bank deposits given	0.6	0.2
Pledges, total	50.6	50.2
Guarantees given		
for group companies	4.1	19.1
for others	3.1	
Guarantees, total	7.2	19.1
Total	57.8	94.9
Leasing and rental liabilities		
Leasing and rental liabilities of the telecom network [1]	8.2	9.0
Other leasing liabilities [2]	12.0	15.2
Repurchase commitments [3]	0.6	1.1
Real estate leases [4]	183.3	142.2
Leasing and rental liabilities, total	204.1	167.5

[1] Consists mainly of access right charges of backbone network connections. As a rule, the agreements are for five years.

[2] Leasing liabilities consist mainly of leases of cars, office and IT equipment.

[3] Repurchase liabilities mainly relate to telecom network terminals purchased with leasing financing by customers, such as corporate PBXs.

[4] Real estate leases comprise rental agreements relating to business, office and telecom premises. Real estate leases have been presented by using nominal prices.

Yomi Plc's previously owned main office in Jyväskylä was transferred to Elisa Corporation upon the merger. Based on a long-term rental agreement, the company is liable for the capital rent, totalling EUR 13.8 million, related to its office facilities. The capital rent is included in the rental liabilities. The company is also liable for all use and maintenance-related expenses concerning the facilities, as well as for its due share of the corresponding expenses of the building's other rented facilities. Furthermore, unless the company itself should exercise the right to purchase the facilities, the option agreement related to the rental agreement provides that, on request, the company is obliged to assign a third party to purchase the facilities no later than at the end of the lease period. The purchase price is 60 per cent of the facilities' original total cost of acquisition.

Liabilities related to the lease/leaseback agreement (QTE facility), EUR million	2005	2004
Total value of the arrangement	171.5	149.8
Risk of interruption	23.5	22.8

In September 1999, Elisa Corporation signed a leaseback agreement (a so-called QTE facility) with U.S.-based capital investors. The arrangement concerns certain parts of the telecommunication network to which Elisa Corporation group companies retain the title in accordance with the agreement. The overall leasing assets and liabilities arising from the arrangement were paid at the time the facility was arranged. The company received net compensation of approximately EUR 13 million. The overall value of the arrangement was approximate 203 million US dollars. The group capitalised EUR 1.3 million of the compensation as other financial income in 2005. The compensation will be capitalised in full within ten years of the agreement having been signed. The arrangement is not expected to generate other cash flows to the company other that the aforementioned net compensation. The liability of the companies and the group in this arrangement is restricted to a situation in which the financial institution responsible for relaying the company's leases fails to carry out its commitments.

Other commitments

Other commitments consist of standard assurances given in connection with corporate acquisitions and preparations to any claims for damages that might be presented in different judicial proceedings. There we no such commitments at 31 December 2005. The total amount of other commitments at 31 December 2004 was EUR 4.7 million.

Environmental costs

Environmental costs did not have any material impact on the formation of the result and balance sheet position of the financial period.

Shares and shareholders

1. Share capital and shares

The company's share capital, paid and registered in the trade register, amounted to EUR 83,033,008 at the end of the financial year. The minimum capital in accordance with the Articles of Association is EUR 25,000,000, and the maximum capital is EUR 500,000,000. The nominal value of each share is EUR 0.50.

At the end of the financial year, the number of shares in Elisa Corporation was 166,066,016, consisting entirely of the same share class.

2. Treasury shares

Of Elisa Corporation's subsidiaries, Lounet Oy owns 180,000 Elisa shares. Elisa Corporation shares held by the group have no significant effect on the distribution of holdings and voting rights in the company. Their proportion of all company shares and votes is 0.11%.

The Annual General Meeting authorised the Board of Directors to purchase treasury shares on 14 March 2005. The authorisation applies to a maximum of 6,888,000 treasury shares. The authorisation has not been used.

3. Warrant programme 2000

The Extraordinary General Meeting of Elisa Corporation held on 20 October 2000 decided to offer a loan with warrants to the group's personnel. The exercise period based on the warrant programme 2000 ended on 31 October 2005 in accordance with the stated conditions. No shares were subscribed for on the basis of the warrants.

4. Board of Directors' Authorisations

On 14 March 2005, the Annual General Meeting authorised the Board of Directors to decide on increasing the company's share capital through one or more new issues, taking a convertible bond and/or granting warrants, so that in a new issue the subscription of new shares in exchange for the convertible bonds and pursuant to warrants, a maximum aggregate of 28.3 million of the company's shares can be issued and the company's share capital can be increased by a maximum of EUR 14,150,000.

Moreover, the Annual General Meeting accepted the proposal of the Board of Directors in which the authorisation entitles the Board to disapply the pre-emption rights of existing shareholders to subscribe for new shares, convertible bonds and/or warrants and to decide on the determination principles and issue prices, the terms and conditions for subscribing for new shares and the terms of the convertible bond and/or warrants. The pre-emption rights of existing shareholders may be waived by means of this authorisation if there exists an important financial reason for doing so, such as financing, implementing or enabling corporate acquisitions, strengthening or developing the company's financial or capital structure, or carrying out other arrangements related to the development of the company's activities. The Board of Directors is authorised to decide on who is entitled to subscribe for the aforementioned, but such decision may not be made for the benefit of members of the company's related parties. The Board of Directors in entitled to decide that the shares to be issued in a new issue, convertible bond or warrants can be subscribed for in kind or otherwise, subject to certain conditions or by using the right of set-off.

5. Tender offer to Saunalahti Group Oyj's shareholders

On 7 July 2005 Elisa announced it would make a public tender offer for all shares issued by Saunalahti Group Oyj. In the tender Elisa offered one Elisa share for 5.6 Saunalahti Group Oyj shares. The tender commenced on 23 August 2005 and ended on 4 November 2005. As a result of the share subscriptions Elisa's share capital increased by EUR 12,038,453.50 to EUR 83,033,008 and the number of shares by 24,076,907 shares to 166,066,016 shares. The shares issued in the exchange of shares were entered in the trade register on 15 November 2005.

6. Management's and CEO's interests

The members of the Board of Directors and the CEO held a total of 41,782 shares and votes on 31 December 2005, corresponding to 0.03% of the shares and votes.

7. Share performance

Elisa Corporation's share closed at EUR 15.65 on 31 December 2005. The highest quotation of the year was EUR 16.79 and the lowest EUR 10.56. The average price was EUR 13.95.

At the end of the financial year, Elisa Corporation had a market capitalisation of EUR 2,596 million.

8. Quotation and trading

Elisa Corporation's share is listed on the Main List of the Helsinki Stock Exchange under the symbol ELI1V. From 1 January 2005 to 31 December 2005, a total of 248,290,437 shares were traded, corresponding to a total value of EUR 3,464 million. The trading volume was 171.5% of the average number of shares outstanding during the financial year.

9. Shareholdings by owner group on 31 December 2005

	Shares	% of all shares
1a. Public companies	381,391	0.23
1b. Private companies	29,155,143	17.56
2. Finance and insurance companies	6,783,575	4.08
3. Public sector entities	12,061,163	7.26
4. Non-profit making entities	2,715,385	1.64
5. Private households	45,029,809	27.12
6. Foreign	229,322	0.14
7. Joint account and waiting list	516,177	0.31
Nominee registered	69,014,051	41.56
Elisa Group	180,000	0.11
Total	166,066,016	100.00

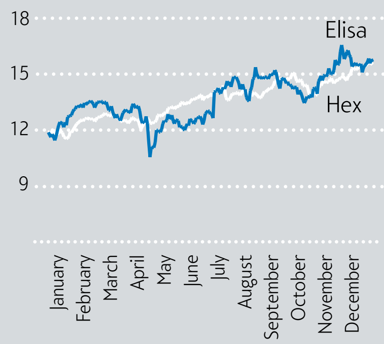
10. Analysis of shareholdings on 31 December 2005

Size of shareholding	No. of share-holdings	%	No. of shares	%
1–100	27,851	10.75	1,364,747	0.82
101–500	222,811	85.99	39,774,551	23.95
501–1 000	5,509	2.13	3,727,588	2.24
1 001–5 000	2,469	0.95	4,633,285	2.79
5 001–10 000	214	0.08	1,476,105	0.89
10 001–50 000	180	0.07	3,847,998	2.32
50 001–100 000	32	0.01	2,289,593	1.38
100 001–	49	0.02	108,255,972	65.19
Total	259,115	100.00	165,369,839	99.58
On waiting list, total			0	0.00
In joint accounts			516,177	0.31
Elisa Group			180,000	0.11
Number issued			166,066,016	100.00

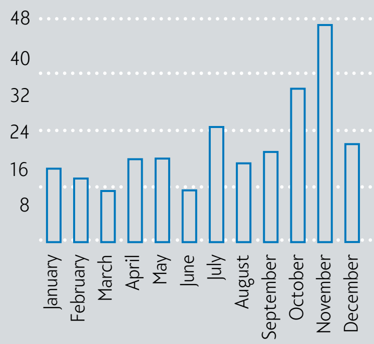
11. Largest shareholders on 31 December 2005

	Name	Shares	%
1	Novator Finland Oy	17,105,583	10.30
2	Ilmarinen Mutual Pension Insurance	2,595,163	1.56
3	Varma Mutual Pension Insurance Company	2,464,163	1.48
4	Ajanta Oy	2,074,176	1.25
5	Auria Ltd	1,310,209	0.79
6	Sampo Life Insurance Company Limited	1,158,435	0.70
7	City of Helsinki	1,124,540	0.68
8	State of Finland / State Treasury	1,085,792	0.65
9	Tapiola Mutual Pension Insurance Company	915,642	0.55
10	State Pension Fund	800,000	0.48
11	Mutual Insurance Company Kaleva	627,250	0.38
12	Vaasan Läänin Puhelin Oy	572,200	0.34
13	Nordea Bank Finland Plc	542,665	0.33
14	Etera Mutual Pension Insurance Company	521,184	0.31
15	OMX Helsinki 25 Special Equity Fund	469,512	0.28
16	Nordea Nordic Small Cap Equity Fund	388,350	0.23
17	Neste Oil Pension Fund	334,158	0.20
18	Mutual Insurance Company Pension-Fennia	317,823	0.19
19	PSS-Trade Oy	313,758	0.19
20	OP-Focus Special Equity Fund	300,000	0.18
	Total	35,020,603	21.09
	Elisa Group	180,000	0.11
	Nominee registered	69,014,051	41.56
	Other than listed	61,851,362	37.25
	Total	166,066,016	100.00

12. Daily share performance (closing rate, EUR)



13. Trading (shares/month)



Proposal by the board of directors for the distribution of profit

The consolidated equity on the balance sheet date of 31 December 2005 is EUR 1,349,709,000, of which EUR 276,250,000 is distributable.

The parent company's equity on the balance sheet date of 31 December 2005 is EUR 1,195,367,017.16, of which EUR 578,539,789.20 is distributable.

The parent company's profit for the financial year from 1 January 2005 to 31 December 2005 is EUR 246,099,400.97. The Board of Directors proposes to the Annual General Meeting that the distributable funds be appropriated as follows:

- A dividend of EUR 0.70/share is paid, i.e. a total of EUR 116,246,211.20.
- EUR 462,293,578.00 is entered in the equity

Helsinki, 8 February 2006

Keijo Suila Chairman of the Board of Directors	Ossi Virolainen	Matti Aura
Mika Ihamuotila	Pekka Ketonen	Lasse Kurkilahti
Jussi Länsiö	Matti Manner	Veli-Matti Mattila President and CEO

Auditors' report

To the shareholders of Elisa Corporation

We have audited the accounting records, the financial statements and the administration of Elisa Corporation for the period 1.1.–31.12.2005. The Board of Directors and the Managing Director have prepared the Report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that include parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements and on the administration of the parent company.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration is to examine that the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Finnish Companies Act.

Consolidated financial statements

In our opinion the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company's financial statements and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Finnish Companies Act.

Helsinki 8 February, 2006
KPMG OY AB

Pekka Pajamo
Authorized Public Accountant

Corporate Governance and Structure

Elisa Corporation's domestic core business organisation comprises four units: Consumer and Small Enterprise Customers, Business Customers, Production and Support Functions.

Elisa's financial result is reported according to its mobile business and fixed network business. Elisa complies with the Corporate Governance Recommendation issued by the Helsinki Stock Exchange, the Central Chamber of Commerce and the Confederation of Finnish Industries EK.

Annual General Meeting

The ultimate decision-making power in Elisa Corporation is vested in the Annual General Meeting. Among other things, the meeting approves the consolidated income statement and balance sheet. It also declares the dividend to be paid at the Board of Directors' proposal, appoints members to the Board of Directors, appoints the auditors, and approves the discharge of the members of the Board of Directors and the CEO from liability.

The 2006 Annual General Meeting of Elisa Corporation will be held at 2.00 pm on Monday, 27 March 2006, at the Helsinki Fair Centre, Messuaukio 1, Helsinki, Finland.

Board of Directors

Composition and term of office

In accordance with the Articles of Association, the Board of Directors of Elisa Corporation comprises a minimum of 5 and a maximum of 9 members. The members of the Board are appointed at the Annual General Meeting for a one-year term of office starting at the close of the relevant General Meeting, and ending at the close of the next General Meeting after the new appointments are made. The Board of Directors elects a chairman and deputy chairman from among its members.

At present, the Board of Directors comprises 8 members. The following members of the Board were appointed at the Annual General Meeting on 14 March 2005: Mr Keijo Suila (Chairman), Mr Ossi Virolainen (Deputy Chairman), Mr Matti Aura, Mr Mika Ihamuotila, Mr Pekka Ketonen and Mr Jussi Länsiö. In addition, Mr Lasse Kurkilahti, President and CEO of Kemira, and Mr Matti Manner, Attorney-at-law, were appointed to the Board at the Extraordinary General Meeting on 5 December 2005.

Tasks

The Board is responsible for administering the company and arranging its operations appropriately. The Board of Directors has confirmed its rules of procedure including meeting practices and tasks of the Board. The general task of the Board of Directors is to focus the company's operations so that it will generate the greatest possible added value on invested equity, keeping the interests of Elisa's various stakeholders in mind.

In order to reach its objectives, the Board of Directors:

- confirms Elisa's ethical values and procedures and monitors their realisation;
- monitors the corporate management's disclosure of information to the shareholders and securities market and, if necessary, discusses the formation of shareholder interest and market attitudes;
- defines Elisa's dividend policy and makes a dividend proposal at the Annual General Meeting in accordance with the dividend policy;
- annually confirms Elisa's basic strategy and the business targets derived from it for the planning period;
- annually approves the financial and operating plan and the business targets based thereon;
- approves the total sum of annual investments and makes separate decisions on large and strategically significant investments, divestments and acquisitions;
- approves significant entries into new business areas or foreign countries;
- annually studies the technical development of the industry and the general situation regarding demand and competition, and assesses the company's crucial risks on the basis of an analysis prepared by the CEO;
- reviews and approves any interim accounts and interim reports, as well as the annual accounts and the report by the Board of Directors;
- confirms the main characteristics of Elisa's organisational structure;
- appoints and, if necessary, discharges the CEO and his/her immediate subordinates, and decides on their employment terms and incentive schemes;

- if necessary, prepares proposals for the Annual General Meeting regarding bonus schemes for the management and personnel;
- annually assesses its own operations.

Committees

In its organising meeting, the Board of Directors annually decides upon committees, their chairmen and members. In 2005, the acting committees were: the Committee for Remuneration Evaluation and Appointments and the Committee for Auditing. The committees do not make actual resolutions, but prepare issues, which fall under the respective committee's duties, for the decision of the Board of Directors. The minutes of the committees are distributed to all members of the Board of Directors.

The Committee for Remuneration Evaluation and Appointments prepares the following issues: appointing and discharging persons within the management; matters associated with long-term incentive schemes and remuneration for the management. The Chairman of the committee discusses with the largest shareholders the proposal on Board members and their remuneration for the Annual General Meeting.

In 2005, the Chairman of the Board of Directors, Mr Keijo Suila, served as Chairman of the Committee for Remuneration Evaluation and Appointments, the members being Mr Mika Ihamuotila and Mr Pekka Ketonen, and Lasse Kurkilahti as of 15 December 2005.

The task of the Committee for Auditing is to ensure that financial reporting, accounting and asset management as well as external and internal auditing have been duly organised.

To fulfil its duties, the committee reviews the contents of the annual accounts and interim reports before their actual handling by the Board of Directors. Internal auditing presents an auditing plan and auditing report for the previous year. The external auditors present an auditing plan for the forthcoming year and an auditing report for the previous year. The organising of risk management is also presented, and the Committee reviews a report on major risks. The principal auditor also attends Committee meetings.

In 2005, the Deputy Chairman of the Board, Mr Ossi Virolainen, acted as the chairman of the Committee for Auditing, the members being Mr Matti Aura and Mr Jussi Länsiö as well as Mr Matti Manner as of 15 December 2005.

In 2005, the Committee for Remuneration Evaluation and Appointments convened 3 times and the Committee for Auditing convened 7 times.

Meetings and remuneration

As a rule, the Board of Directors generally convenes monthly, except during the summer. The CEO of Elisa Corporation acts as the presenting official.

In 2005, the members of the Board were paid the following emoluments, which were decided upon and set by the Annual General Meeting:

- monthly remuneration fee for the Chairman EUR 5,000 per month
- monthly remuneration fee for the Deputy Chairman EUR 3,500 per month
- monthly remuneration fee for the Members EUR 2,500 per month
- meeting remuneration fee EUR 300/meeting/participant.

The monthly remuneration fees (deducted by tax withheld at the rate of 60%) are used for purchases of Elisa Corporation shares every quarter. The shares are subject to a transfer restriction of four years.

In 2005, a total of 1,646 Elisa Corporation shares were issued to the Chairman of the Board, 1,090 shares to the Deputy Chairman and 822 shares to Board members. Lasse Kurkilahti and Matti Manner, who were appointed as members to the Board of Directors on 5 December 2005, were an exception. They were issued 63 Elisa Corporation shares for 2005. The shares purchased for the members of Elisa's Board of Directors on 30 December 2005 were entered in the members' book-entry accounts on 4 January 2006. Therefore, this number of shares is not included in the number of shares mentioned in the details of each member underneath.

The holdings of Elisa's Board of Directors in Elisa	Number of shares, 31 Dec 2005
Mr Keijo Suila, Chairman of the Board of Directors	7,690
Mr Ossi Virolainen, Deputy Chairman of the Board of Directors	6,205
Mr Matti Aura, Board member	4,648
Mr Mika Ihamuotila, Board member	2,292
Mr Pekka Ketonen, Board member	4,170
Mr Lasse Kurkilahti, Board member	500
Mr Jussi Länsiö, Board member	1,277
Mr Matti Manner, Board member	-

In 2005, the Board of Directors convened 46 times. The average participation percentage in the Board meetings was 96.8 per cent.

Chief Executive Officer

Elisa Corporation has a Chief Executive Officer, whose task is to engage in the everyday administration of the company in accordance with instructions and orders from the Board of Directors and the Finnish Companies Act. The CEO is appointed by the Board of Directors. Mr Veli-Matti Mattila served as CEO in 2005.

Remuneration of the Chief Executive Officer

During the fiscal year, CEO Mattila was paid a total salary of EUR 502,698.80. In addition to a regular monthly salary and a performance-based bonus, this sum also includes taxable benefits for the use of a telephone and a company-owned car. Moreover, in the framework of the management's bonus and incentive scheme, a fee of EUR 145,405.52 has been deposited in a bank for the Chief Executive.

The period of notice for the Chief Executive is six months from Elisa's side and three months from the Chief Executive Officer's side. Should the contract be terminated by Elisa, the Chief Executive Officer is entitled to receive a severance payment equalling the total salary of 24 months minus his salary of the period of notice.

Elisa's CEO is entitled to retire after the age of 60 on a total pension at the statutory rate of 60 percent of his/her pensionable salary.

Elisa's Executive Board

Elisa's Executive Board prepares the company strategy, monitors the development of results and deals with issues with substantial financial or other impacts on Elisa. The following table shows the composition of the Executive Board and the holdings of its members.

The holdings of Elisa's Executive Board in Elisa	Number of shares, 31 Dec 2005
Mr Veli-Matti Mattila, Chief Executive Officer	15,000
Mr Matti Vikkula, Executive Vice President, Consumer and Small Enterprise Customers	37,964
Mr Jukka Valtanen, Executive Vice President, Consumer and Small Enterprise Customers, Elisa	-
Mr Panu Lehti, Executive Vice President, Consumer and Small Enterprise Customers, Saunalahti	300
Mr Asko Känsälä, Executive Vice President, Business Customers	-
Mr Pasi Mäenpää, Executive Vice President, Sales, Business Customers	-
Mr Tapio Karjalainen, Executive Vice President, Production	150
Mr Matias Castrén, Executive Vice President, Services, Development and IT, Production	-
Mr Jukka Peltola, Executive Vice President, Development	-
Mr Jari Kinnunen, CFO	86
Mr Hannu Laakso, Executive Vice President, Marketing	-
Mr Sami Ylikortes, Executive Vice President, Administration	582

Ms Tuija Soanjärvi served as Elisa's CFO and member of the Executive Board until 31 November 2005. Mr Pasi Lehmus, Executive Vice President (Corporate Customers) and Mr Jukka Veteläsuo, Executive Vice President (Networks) were also members of the Executive Board until 31 December 2005.

Risk management

Risk management is part of Elisa's internal auditing system. It aims at ensuring that risks affecting the company's business are identified, influenced and monitored. The company classifies risks into strategic, operative, insurable and financial risks.

The Board of Director's Committee for Auditing ensures that risk management has been duly organised. The company's strategy process includes risk monitoring as well as assessing the scale, potential and feasibility of accepting the identified risks. Strategic goals are achieved by steering operative activities through both an individual and operating unit basis and by setting personal objectives. Operational policies, instructions and risk monitoring ensure that measures conform to the goals. Risks to be insured by Elisa are managed via an external insurance broker.

Internal auditing

The purpose of internal auditing is to assist the organisation in achieving its goals by evaluating and investigating its functions. For this purpose, it produces analyses, assessments, recommendations and information for the use of the company's senior management. Internal auditing is independent of the rest of the organisation. The starting point for internal auditing is business management and work is conducted in close cooperation with financial auditing. An annual auditing plan and auditing report are presented to the Board of Director's Committee for Auditing.

Auditors

The auditors' principal duty is to ensure that the financial statements have been prepared in accordance with the valid regulations, so that the statements give a true and fair view of the company's performance and financial position as well as other necessary information to the company's stakeholders. Other main targets are to ensure that internal auditing and risk management has been duly organised and the organisation operates in compliance with instructions and within the framework of issued authorisations. The mutual division of labour between external and internal auditing is organised so that internal auditing will ensure that the organisation operates in accordance with the company's internal instructions.

The company employed one external authorised auditing company in 2005. The auditing company must be duly authorised by the Central Chamber of Commerce. The auditors' term of office is the current financial period for which they are appointed.

The Members of the Board 2005

The Board of Directors of Elisa Corporation from left: Mika Ihamuotila, Matti Manner, Matti Aura, Lasse Kurkilahti, Jussi Länsiö, Keijo Suila (Chairman), Pekka Ketonen and Ossi Virolainen (Deputy Chairman)

The duties of the auditors end at the close of the first Annual General Meeting following the expiration of their term of office.

In the year under review, Elisa's auditor was KPMG Oy Ab, authorised public accountants, with Mr Pekka Pajamo (APA) serving as principal auditor.

In the fiscal year of 2005, the auditing fees of Finnish group companies totalled EUR 192,000, of which the share of the parent company accounted for EUR 136,000. The auditing fees for the foreign group companies were EUR 20,000. The auditing firm has been paid fees of EUR 221,000 for services not associated with auditing. These remunerations are related to IFRS implementation, regulation accounting, tax counselling and corporate arrangements.

Corporate insiders

Elisa has adopted the insider instructions prepared by the Helsinki Stock Exchange. The public insiders of Elisa Corporation include the people holding the following positions: members of the Board of Directors, President and CEO, auditors, including the principal auditor for the company within an auditing firm, and members of Elisa's Executive Board. In addition, Elisa Corporation also has a number of company-specific insiders.

The insider register of Elisa Corporation is maintained by the Finnish Central Securities Depository Ltd. Information about the holdings of public insiders is available on the Internet at www.apk.fi. This site can also be accessed from Elisa's Web site at www.elisa.fi.

The Members of the Board

Mr Keijo Suila (1945), B.Sc.(Econ.), Chairman of the Board of Directors, President and CEO of Finnair Oyj until 31 December 2005, member since 1999.

- Main employment history: CEO of Leaf in the Huhtamäki Group from 1985 to 1998. Deputy CEO of Huhtamäki Oy from 1992 to 1998 and the deputy chairman of the Board from 1996 to 1998. Deputy CEO of Oy Sinebrychoff Ab from 1981 to 1985. Employed by Unilever Finland Oy from 1968 to 1981, most recently as Marketing Director.

- Main Board memberships and public duties currently undertaken: Deputy chairman of the Supervisory Board of the Finnish Fair Cooperative, Member of the Board of Directors of the Confederation of Finnish Industries EK (until 31 December 2005), the Foundation of Confederation of Finnish Industry and Employers (TT) and Kesko Oyj.
- In 2005, his remuneration for working in the Board of Directors amounted to EUR 69,300.

Mr Ossi Virolainen (1944), LL.M, M.Sc. (Econ.), Deputy Chairman of the Board of Directors, member since 1997.

- Main employment history: CEO of Avesta-Polarit Oyj from 2001 to 2003. Employed by Outokumpu Oyj from 1967 to 2001; Deputy Chief Executive from 1992 to 2001 and member of the Management Group from 1983 to 2001.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Directors of Kemira GrowHow Oyj and member of the Board of Directors of Oy Langh Ship Ab.
- In 2005, his remuneration for working in the Board of Directors amounted to EUR 52,100.

Mr Matti Aura (1943), Master of Laws, Managing Director, Finnish Port Association, member since 1999.

- Main employment history: Minister of Transport and Communications from 1997 to 1999 and Managing Director of the Central Chamber of Commerce from 1986 to 1997.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Directors of Catella Property Consultants Ltd, Member of the Board of Directors of Harjavalta Oy and Perlos Corporation. Member of the Executive Board of the Finnish Maritime Administration.
- In 2005, his remuneration for working in the Board of Directors amounted to EUR 42,000.

Mr Mika Ihamuotila (1964), D.Sc. (Econ.), President of Sampo Bank plc, member since 2003.

- Main employment history: Executive Vice President and CEO of Mandatum Bank from 1994 to 2000.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Directors of The Finnish Bankers' Association, member of the Board of Directors of The Euro Banking Association, HYY Group Ltd and Confederation of Finnish Industries EK.
- In 2005, his remuneration for working in the Board of Directors amounted to EUR 40,350.

Mr Pekka Ketonen (1948), D.Tech. (h.c.), President and CEO, Vaisala Corporation, member since 2001.

- Main employment history: CEO of Vaisala Oyj since 1992.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Directors of VTT Technical Research Centre of Finland, member of the Board of Directors of the Confederation of Finnish Industries EK (until 31 December 2005) and the Technology Industries in Finland.
- In 2005, his remuneration for working in the Board of Directors amounted to EUR 40,850.

Mr Jussi Länsiö (1952), M.Sc. (Econ.), partner; Primaca Partners Oy, member since 2004.

- Main employment history: Member of the Management Group in Scottish & Newcastle Plc in 2002–2003, Managing Director of Hartwall Ltd from 1994 to 2003, Marketing Director for Langnese-Inglo GmbH/Unilever Germany from 1992 to 1994, Managing Director of Jalostaja Oy Huhtamäki from 1983 to 1992, duties in sales and marketing in Huhtamäki Oy from 1978 to 1983.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Directors of Lumene Oy, Talentum Oyj, Satama Interactive Plc and Nybrok Oy (Prilog Oy), Member of the Board of Directors of SoliferPolar Ab.
- In 2005, his remuneration for working in the Board of Directors amounted to EUR 41,200.

Mr Lasse Kurkilahti (1948), B.Sc. (Econ.), President and CEO of Kemira Oyj, member since 5 December 2005.

- Main employment history: CEO of Elcoteq Network Corporation from 2001 to 2004, CEO of Raisio Group Plc from 2000 to 2001 and CEO of Nokian Tyres Plc from 1988 to 2000.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Chemical Industry Federation of Finland, Member of the Board of Directors of the Fortum Corporation, Lassila & Tikanoja Plc and the Confederation of Finnish Industries EK.
- In 2005, his remuneration for working in the Board of Directors amounted to EUR 3,400.

Mr Matti Manner (1953), LL.M, attorney-at-law, member since 5 December 2005.

- Main employment history: Partner in Brander & Manner Attorneys at Law Ltd. since 1980. Manner has served as a judge and referendary in the Turku District Court and Turku Court of Appeal, as an assistant in the University of Turku's Faculty of Law, as a bailiff and as a registrar.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Directors of Ruissalo Säätiö, member of the Board of Directors of Turun Osuuskauppa, Länsi-Suomi Yhtymä Oy and YH Länsi-Suomi Oy. Member of the Board of Directors of the Finnish Bar Association since 1996, Vice President from 1998 to 2001 and President from 2001 to 2004.
- In 2005, his remuneration for working in the Board of Directors amounted to EUR 3,400.

Each member of Elisa's Board of Directors in 2005 is independent of the company's major shareholders.

Elisa's Executive Board

Mr Veli-Matti Mattila (1961), M.Sc. (Tech.), MBA, President and CEO, joined the company in 2003.

- Main employment history: CEO of Oy L M Ericsson Ab from 1997 to 2003. Has held various positions in the Ericsson Group in Finland and the USA since 1986. Mr Mattila's previous career also includes expert advisory tasks in SwissAscom Hasler AG.
- Main Board memberships and public duties currently undertaken: Member of the Board of Directors of the Federation of Finnish Industries EK, deputy chairman of the Board of Directors of the Confederation of Telecommunications and Information Technology (FiCom ry) and Employers' Association (TIKLI).

Mr Matti Vikkula (1960) M.Sc. (Econ), Executive Vice President, Consumer and Small Enterprise Customers, joined the company on 14 November 2005.

- Main employment history: CEO of Saunalahti Group Oyj since 2001. Mr Vikkula has also worked in management consulting duties at PwC Consulting as a partner.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Directors of Kristina Cruises Oy, member of the Board of Directors of Ruukki Group Oyj.

Mr Jukka Valtanen (1961) M.Sc. (Econ), Executive Vice President, Consumer and Small Enterprise Customers, Elisa; joined the company in 2005.

- Main employment history: Managing Director of Varesvuo Partners Oy from 2001 to 2005; Managing Director of Crea Video Oy from 1998 to 2000; Division Director and Sales Director for L'Oreal Finland Oy from 1991 to 1997; Product Manager and Group Accounting Manager at Vaasan Mylly, Cultor Group from 1987 to 1990.

Mr Panu Lehti (1970), technology and M.A. student, Executive Vice President, Consumer and Small Enterprise Customers, Saunalahti, joined the company on 14 November 2005.

- Main employment history: Joined Saunalahti Group Oyj in 2000 as Chief Technology Officer; since July 2002 Chief Operating Officer of the Internet and Teleoperator Unit. Previously, Managing Director of NIC Data Networks Ltd and Sales Manager for Nortel Networks Oy.
- Main Board memberships and public duties currently undertaken: Member of the Board of Directors of Suomen Numerot NUMPAC Oy (until 31 December 2005).

Elisa's Executive Board

Elisa's Executive Board from left: Panu Lehti, Jari Kinnunen, Matias Castrén, Matti Vikkula, Tapio Karjalainen, Pasi Mäenpää, Hannu Laakso, Jukka Valtanen, Asko Känsälä, Sami Ylikortes, Veli-Matti Mattila and Jukka Peltola

Mr Asko Känsälä (1957), M.Sc. (Tech.), Executive Vice President, Business Customers, joined the company in 2003.

- Main employment history: Sales Director for the Nordic and Baltic sales unit of the Ericsson Group, member of the management group from 2001 to 2003; Sales Director of Oy L M Ericsson Ab from 1996 to 2001, National Technology Agency of Finland (TEKES), Head of Japan's industrial secretariat from 1993 to 1996; Sales Manager at Hewlett Packard Oy from 1987 to 1993.

Mr Pasi Mäenpää (1965), business information technology graduate, MBA; Executive Vice President, Sales, Business Customers; joined the company on 23 January 2006.

- Main employment history: CEO of Cisco Systems Finland Oy from 2002 to 2006; Regional Manager for Central Europe at Netigy Corporation from 2000 to 2002; Vice President, Sales for Europe and the USA at Fujitsu from 1999 to 2000; Sales and Country Manager at Oracle Corporation in Northern, Central and Eastern Europe from 1990 to 1999.
- Main Board memberships and public duties currently undertaken: Member of the Board of Directors of Affecto-Genimap Plc.

Mr Tapio Karjalainen (1959), M.Sc. (Tech), Executive Vice President, Production, employed by the company from 1985 to 1992 and since 2003.

- Main employment history: Several managerial tasks in Nokia Networks and its predecessors from 1992 to 2001; Member of the management group of Nokia Networks and its predecessor Nokia Telecommunications from 1998 to 2001. Various positions in Helsinki Telephone Corporation (HPY) from 1985 to 1992, including Sales Director and Departmental Director.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Comptel Corporation (until 9 August 2005).

Mr Matias Castrén (1963), M.Sc. (Tech.), eMBA, Executive Vice President, Services, Development and IT, Production, joined the company in 1995.

- Main employment history: Vice President, Customer Support Services, 2005, Vice President, Customer Care and Billing, from 2004 to 2005, Vice President, Mobile Portal Solutions, from 2000 to 2003, IT Director and Vice President of Oy Radiolinja Ab from 1995 to 2000 and Digital Equipment Corporation, expert assignments from 1989 to 1995.

Mr Jukka Peltola (1970), M.A. student, Executive Vice President, Development, joined the company on 14 November 2005.

- Main employment history: Managing Director and Member of the Board of Directors of PSS-Trade Oy, Director of Internet and Teleoperator business of Saunalahti Group Oyj since 2002.
- Main Board memberships and public duties currently undertaken: Member of the Board of Directors of Finnish Commuter Airlines Oy, Seicapital Oy and SmartIT Finland Oy.

Mr Jari Kinnunen (1962), M.Sc. (Business Finance and Accounting), CFO since 1 December 2005, joined the company in 1999.

- Main employment history: CEO and President of Yomi Plc in 2004, CFO of Elisa Kommunikation GmbH in Germany from 1999 to 2004, Managing Director of Polar International Ltd from 1996 to 1999 and Controller from 1990 to 1996; Controller in Oy Alftan Ab from 1989 to 1990.

Mr Hannu Laakso (1963), M.Sc. (Econ & Bus. Adm.), Executive Vice President, Marketing, joined the company in 2004.

- Main employment history: Previously Marketing Director for MTV Corporation from 2000 to 2004, Marketing Manager at the McDonald's chain from 1997 to 2000 and Product Manager at Olvi from 1994 to 1997. Mr Laakso's earlier career includes sales positions in Nokia Data and ICL from 1989 to 1994.

Mr Sami Ylikortes (1967), M.Sc (Economics and Business Administration), LLM, Executive Vice President, Administration, joined the company in 1996.

- Main employment history: Executive Vice President, Administration, since 2000. Secretary to the Board of Directors since 1998. Positions in accounting management in Unilever Finland Oy from 1991 to 1996.

On the basis of the additional group pension insurance, members of Elisa's Executive Board and certain members of the management are entitled to retire mainly at the age of 62 and receive a statutory total pension at 60 per cent of their salary.

The Board of Directors has approved a share-based bonus and incentive scheme for the executive management, which aims at increasing share ownership. In 2005, the scheme included 93 people in total.

The long-term objective of the scheme is to secure the commitment of the key individuals to enhancing the company's profitability and increasing its value by rewarding them for achieving set targets and simultaneously increase the management's shareholding.

No new shares will be issued on the basis of the scheme. The reward sums are deposited for two years into an account whose value development is tied to Elisa's share performance. The accrued rewards are paid to the participants after the two-year period has elapsed by buying shares for the persons concerned. In 2005, deposit amounted to EUR 1,378,807.36. ●

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