# Financial Results 2018

31 January 2019

# ELISA'S FINANCIAL RESULTS 2018

## Fourth quarter 2018

- Revenue amounted to EUR 471m (473)
- EBITDA was EUR 158m (151, comparable 154) and EBIT EUR 98m (93, comparable 95)
- Earnings per share were EUR 0.49 (0.45) and comparable EPS EUR 0.47 (0.46)
- Comparable cash flow after investments was EUR 58m (48)

- Mobile post-paid voice ARPU was EUR 20.5 (20.4 in previous quarter)
- Mobile post-paid voice churn was 18.7 per cent (17.2 in previous quarter)
- Mobile service revenue increased by 1.5 per cent to EUR 205m (202)
- The number of post-paid mobile subscriptions decreased by 4,700 and prepaid subscriptions by 14,300 during the quarter
- The number of fixed broadband subscriptions increased by 4,300 during the quarter

## Year 2018

- Revenue was EUR 1,832m (1,787)
- EBITDA was EUR 640m (608) and EBIT EUR 404m (378)
- Comparable EBITDA and EBIT were EUR 639m (613) and 403m (384), respectively
- Earnings per share were EUR 1.98 (2.11) and comparable EPS EUR 1.95 (1.86)
- Cash flow after investments was EUR 272m (300), and comparable cash flow after investments was EUR 282m (246)
- Net debt / EBITDA was 1.7 (1.8) and gearing 95 per cent (103)

**Key indicators**

| EUR million | 10-12/2018 | 10-12/2017 | Δ % | 1-12/2018 | 1-12/2017 | Δ % |
|---|---|---|---|---|---|---|
| Revenue | 471 | 473 | -0.4 | 1,832 | 1,787 | 2.5 |
| EBITDA | 158 | 151 | 4.6 | 640 | 608 | 5.3 |
| Comparable EBITDA | 158 | 154 | 3.0 | 639 | 613 | 4.2 |
| EBIT [1)] | 98 | 93 | 6.4 | 404 | 378 | 6.8 |
| Profit before tax [1)] | 93 | 87 | 6.9 | 381 | 403 | -5.5 |
| EPS, EUR[1)] | 0.49 | 0.45 | 10.4 | 1.98 | 2.11 | -6.3 |
| Capital expenditure[2)] | 92 | 71 | 29.7 | 254 | 246 | 3.2 |

[1)] Comparable: 10-12/2018 EBIT EUR 98m (95), profit before tax EUR 93m (89) and EPS EUR 0.47 (0.46); 1-12/2018 EBIT EUR 403m (384), profit before tax EUR 380m (364) and EPS EUR 1.95 (1.86). [2)] 10-12/2018 and 1-12/2018 CAPEX includes EUR 26m licence investment.

**Financial position and cash flow**

| EUR million | End 2018 | End 2017 |
|---|---|---|
| Net debt | 1,068 | 1,073 |
| Net debt / EBITDA[1)] | 1.7 | 1.8 |
| Gearing ratio, % | 94.8 | 103.2 |
| Equity ratio, % | 42.4 | 40.5 |

| EUR million | 10-12/2018 | 10-12/2017 | Δ % | 1-12/2018 | 1-12/2017 | Δ % |
|---|---|---|---|---|---|---|
| Cash flow after investments[2)] | 52 | 48 | 8.4 | 272 | 300 | -9.2 |

[1)] (Interest-bearing debt – financial assets) / (four previous quarters' comparable EBITDA)
[2)] Comparable cash flow 1-12/2018 EUR 282m and 1-12/2017 EUR 246m. See page 5.

The Board of Directors proposes to the Annual General Meeting a dividend of EUR 1.75 per share. The Board of Directors also decided to propose an authorisation to acquire a maximum of 5 million treasury shares, which corresponds to 3 per cent of the total shares.

## CEO Veli-Matti Mattila:

**Elisa achieves strong earnings by investing in quality**

Elisa's competitiveness has strengthened thanks to the continuous improvement of customer experience and quality. Both revenue and earnings grew in 2018, reaching all-time highs. Earnings grew due to improved productivity in Elisa's operational activities and growth in the revenue from digital and mobile services.

The post-paid mobile subscription base fell by 4,700 subscriptions and the prepaid subscription base by 14,300 subscriptions during the quarter. The fixed-network broadband subscription base grew by 4,300 subscriptions. Elisa set up the world's first 5G networks in Tampere and Tallinn, and 5G networks were built in a total of five cities in 2018: Turku, Jyväskylä and Helsinki, as well as Tampere and Tallinn. We also built 5G-ready networks, in Seinäjoki, for instance. Elisa will continue to build 5G networks further in 2019.

With 5G, Elisa enables Finns to remain at the spearhead of the development of mobile services. Different 5G applications are being built in cooperation with different partners. This collaboration is focusing on improving the quality of air in big cities, making everyday life easier for city dwellers, as well as developing manufacturing processes and mobile gaming culture.

Elisa is investing in high-quality content, and customers have welcomed this content with interest. Two original international series – *Bullets* and *Arctic Circle* – premiered on Elisa Viihde during the autumn. In 2018, we released a total of five international hit series in the service. Further, the original series *Nyrkki*, the filming of which began in September, was shortlisted in the competition category of the most important film festival in the Nordic countries. Elisa Kirja is Finland's largest retailer of e-books, and audiobooks are experiencing particularly strong growth. During the year, the selection of books was increased even further with interesting new audiobooks and e-books, including *The Unknown Kimi Räikkönen* and the latest work from popular thriller author Ilkka Remes, *Perikato*.

Integrated IT and data communication solutions provide customers with clear added value. We solidified our pioneering role through the acquisition of Fenix Solutions Oy, for example. Elisa has also strengthened partnerships in expanding its cybersecurity services. The Elisa AI Co-Creation Challenge, intended for world-class AI teams, developed business operations by taking advantage of Elisa's data. The winning team was Lifemoto, which developed a system for predicting disturbances in residential Wi-Fi connections.

For the second time, Elisa's employees chose Elisa for Finland's Great Place to Work list. The personnel mentioned the working culture based on trust as one of Elisa's strengths. ShedHelsinki, the foundation established by Elisa, gave more than 130 talented young people a chance to perform onstage in a musical.

The continuous improvement of customer experience and quality are integral parts of our corporate culture, and we will continue to keep a strong focus on them. Increasing productivity, internationalising our digital services, creating value with data, and our strong investment capability will continue to create a solid foundation for the creation of competitive value in the future.

## FINANCIAL STATEMENTS 2018

This Financial Statement Release has been prepared in accordance with the IAS 34 standard.

### Market situation

The competitive environment has been intense and active. Mobile churn levels are high due to continued campaigning. Smartphone sales continued to be strong. Also, high demand for data and higher 4G speeds has continued. The competition in the fixed broadband market has continued to be intense in multi-dwelling units. The number and usage of traditional fixed network subscriptions is decreasing.

The markets for IT and IPTV entertainment services have continued to develop favourably. The demand for IoT and other digital services is also growing.

### Revenue, earnings and financial position

**Revenue and earnings:**

| EUR million | 2018 | 2017 | Δ % | 2016 |
|---|---|---|---|---|
| Revenue | 1,832 | 1,787 | 2.5 | 1,636 |
| EBITDA | 640 | 608 | 5.3 | 563 |
| Comparable EBITDA [1)] | 639 | 613 | 4.2 | 564 |
| *EBITDA-%* | *34.9* | *34.0* | | 34.4 |
| *Comparable EBITDA-%* | *34.9* | *34.3* | | 34.5 |
| EBIT | 404 | 378 | 6.8 | 339 |
| Comparable EBIT [1)] | 403 | 384 | 5.1 | 349 |
| *EBIT-%* | *22.0* | *21.2* | | 20.7 |
| *Comparable EBIT-%* | *22.0* | *21.5* | | 21.4 |
| Return on equity, % | 29.2 | 33.5 | | 27.1 |

[1)] 2018 excluding restructuring costs of EUR 4.7m and capital gains of EUR 5.5m from divested businesses. 2017 excluding restructuring costs of EUR 3.9m, acquisition costs of EUR 3.1m and a capital gain of EUR 1.5m from the divested businesses.
Changes have been calculated with exact figures prior to rounding

*Year 2018*
Revenue increased by 2 per cent. Acquisitions in 2017 (Starman and Santa Monica Networks), growth in the mobile service business and equipment sales in both Finland and Estonia, as well as digital services in both customer segments, affected revenue positively. Divestments, lower mobile interconnection and roaming revenue, as well as the decrease in usage and subscriptions of traditional fixed telecom services in both segments, affected revenue negatively.

Comparable EBITDA increased by 4 per cent, mainly due to the acquisitions, revenue growth and productivity improvement measures. Comparable EBIT increased by 5 per cent.

Net financial income and expenses were EUR -23 million (25). The comparison year includes the sale of Comptel shares for EUR 44 million. Income taxes in the income statement decreased to EUR -65 million (-67), mainly due to a EUR 3m utilisation of tax losses for which no deferred tax asset had been recognised. Elisa’s net profit was EUR 316 million (337) and earnings per share EUR 1.98 (2.11). Comparable net profit, excluding the sale of Comptel shares in 2017 and other non-recurring items, was EUR 312 million (297) and earnings per share EUR 1.95 (1.86).

*Fourth quarter 2018*
Revenue decreased by 0.4 per cent from EUR 473 million to EUR 471 million. Revenue was negatively affected by divestments and decrease in usage and subscriptions of traditional fixed telecom services. Revenue was positively affected by growth in mobile services and equipment sales in both Finland and Estonia, as well as digital services in the consumer segment.

Comparable EBITDA increased by 3 per cent from EUR 154 million to EUR 158 million, mainly due to productivity improvement measures. Comparable EBIT increased by 4 per cent.

Net financial income and expenses were EUR -6 million (-6). Income taxes in the income statement decreased to EUR -13 million (-15), mainly due to a EUR 3m utilisation of tax losses for which no deferred tax asset had been recognised. Net profit was EUR 79 million (72) and earnings per share EUR 0.49 (0.45). Comparable net profit grew to EUR 76 million (73) and earnings per share to EUR 0.47 (0.46).

**Financial position**

| EUR million | End 2018 | End 2017 | End 2016 |
|---|---|---|---|
| Net debt | 1,068 | 1,073 | 1,124 |
| Net debt / EBITDA [1)] | 1.7 | 1.8 | 2.0 |
| Gearing ratio, % | 94.8 | 103.2 | 115.7 |
| Equity ratio, % | 42.4 | 40.5 | 38.5 |

| EUR million | 2018 | 2017 | 2016 |
|---|---|---|---|
| Cash flow after investments | 272 | 300 | 65 |
| Investments in shares | 11 | 40 | 49 |
| Sale of shares and businesses | -1 | -48 | |
| Loan arrangements | 0 | -45 | 167 |
| Comparable cash flow after investments | 282 | 246 | 281 |

[1)] (Interest-bearing debt – financial assets) / (four previous quarters' comparable EBITDA)

*Year 2018*
Cash flow after investments was EUR 272 million (300) and comparable cash flow EUR 282 million (246), excluding the share investments and sale of shares. Comparable cash flow was positively affected by increased EBITDA, a change in net working capital and lower capital expenditure.

The financial and liquidity positions are good. Net debt was EUR 1,068 million (1,073). Cash and undrawn committed loans and credit lines totalled EUR 381 (344) million at the end of the year.

*Fourth quarter 2018*
Comparable cash flow after investments was EUR 58 million (48). Cash flow was positively affected by increased EBITDA and lower capital expenditure, and negatively by a change in net working capital.

## Changes in corporate structure

In March, Elisa's fully owned subsidiary Tampereen Tietoverkko Oy merged with Elisa Corporation.

In April, Elisa purchased 70 per cent share of video streaming technology and services company Kepit Systems Oy.

In May, Elisa divested its outsourced customer service and corporate switchboard businesses for corporate clients to Oy Eniro Finland Ab.

In June, Elisa purchased the 2.6 GHz Band 38 from Ukkoverkot Oy and agreed to rent the capacity to Ukkoverkot in a few geographical areas. In the transaction, Elisa acquired Ukkonet Oy's share capital from Ukkoverkot. Ukkonet manages the licence and it was consolidated into Elisa as of 1 July 2018.

In June, Elisa's ownership in Sulake Oy decreased to 49 per cent by a directed share issue to Orangegames Holding B.V. Sulake runs the Habbo and Hideaway social gaming platforms. Elisa has an option to decrease its ownership further to 30 per cent.

In September, Elisa transferred its direct shareholdings in Elisa Eesti AS and Santa Monica Networks AS to its fully owned subsidiary Elisa Teleteenused AS.

In October, Elisa acquired Fenix Solutions Oy, which specialises in Dynamics 365 CRM expert services for corporate customers.

Elisa Appelsiini Oy merged with Elisa Corporation in December 2018.

## Consumer Customers business

| EUR million | 10-12/2018 | 10-12/2017 | Δ % | 1-12/2018 | 1-12/2017 | Δ % |
|---|---|---|---|---|---|---|
| Revenue | 296 | 294 | 0.6 | 1,150 | 1,125 | 2.2 |
| EBITDA | 104 | 96 | 7.9 | 416 | 388 | 7.1 |
| Comparable EBITDA | 104 | 97 | 7.2 | 415 | 391 | 6.1 |
| *EBITDA-%* | *35.0* | *32.6* | | *36.2* | *34.5* | |
| *Comparable EBITDA-%* | *35.0* | *32.9* | | *36.1* | *34.8* | |
| EBIT | 66 | 60 | 10.8 | 268 | 247 | 8.7 |
| Comparable EBIT | 66 | 61 | 9.6 | 268 | 250 | 7.1 |
| CAPEX | 57 | 48 | 19.6 | 166 | 164 | 1.1 |

Changes have been calculated using exact figures prior to rounding

*Year 2018*

Revenue increased by 2 per cent. Acquisitions, mobile services, equipment sales and growth in digital services contributed positively to revenue. The decrease in usage and subscriptions of traditional fixed telecom services and divestment affected revenue negatively, as did the lower mobile interconnection and roaming revenue.

Comparable EBITDA increased by 6 per cent, mainly due to revenue growth and productivity improvement measures.

*Fourth quarter 2018*

Revenue increased by 1 per cent, mainly due to acquisitions, and growth in mobile services, equipment sales and digital services. The decrease in traditional fixed network services and divestments affected revenue negatively.

Comparable EBITDA increased by 7 per cent, mainly due to revenue growth and productivity improvement measures.

## Corporate Customers business

| EUR million | 10-12/2018 | 10-12/2017 | Δ % | 1-12/2018 | 1-12/2017 | Δ % |
|---|---|---|---|---|---|---|
| Revenue | 174 | 178 | -2.1 | 681 | 663 | 2.8 |
| EBITDA | 54 | 55 | -1.1 | 224 | 219 | 2.1 |
| Comparable EBITDA | 54 | 57 | -4.2 | 224 | 222 | 0.9 |
| *EBITDA-%* | *31.2* | *30.9* | | *32.9* | *33.1* | |
| *Comparable EBITDA-%* | *31.2* | *31.9* | | *32.9* | *33.5* | |
| EBIT | 32 | 33 | -1.8 | 135 | 131 | 3.3 |
| Comparable EBIT | 32 | 34 | -6.9 | 135 | 134 | 1.3 |
| CAPEX | 35 | 23 | 50.3 | 88 | 82 | 7.4 |

Changes have been calculated using exact figures prior to rounding

*Year 2018*

Revenue increased by 3 per cent. Acquisitions, equipment sales, and growth in mobile and digital services contributed positively to revenue. Divestments, lower mobile interconnection and roaming revenue, as well as a decrease in usage and subscriptions of traditional fixed telecom services, affected revenue negatively.

Comparable EBITDA increased by 1 per cent, mainly due to revenue growth and productivity improvement measures.

*Fourth quarter 2018*

Revenue decreased by 2 per cent. Divestments and the decrease in usage and subscriptions of traditional fixed telecom and digital services affected revenue negatively. Acquisitions, equipment sales and growth in mobile services contributed positively to revenue.

Comparable EBITDA decreased by 4 per cent, mainly due to a decrease in revenue.

## Personnel

In 2018, the average number of personnel at Elisa was 4,814 (4,614). Employee expenses were EUR 311 million (304). Personnel at the end of 2018 amounted to 4,787(4,715). Personnel by segment at the end of the period:

| | End 2018 | End 2017 |
|---|---|---|
| Consumer Customers | 2,754 | 2,793 |
| Corporate Customers | 2,033 | 1,922 |
| Total | 4,787 | 4,715 |

## Investments

| EUR million | 10-12/2018[1] | 10-12/2017 | 1-12/2018[1] | 1-12/2017 |
|---|---|---|---|---|
| Capital expenditure, of which | 92 | 71 | 254 | 246 |
| - Consumer Customers | 57 | 48 | 166 | 164 |
| - Corporate Customers | 35 | 23 | 88 | 82 |
| Shares | 6 | 0 | 14 | 104 |
| Total | 98 | 71 | 268 | 350 |

[1] 10-12/2018 and 1-12/2018 include EUR 26m 3.5 GHz frequency licence investment

*Year 2018*

The main capital expenditures related to the capacity and coverage increase of the 4G networks, as well as to other network and IT investments.

*Fourth quarter 2018*
The main capital expenditures related to the capacity and coverage increase of the 4G networks, as well as to other network and IT investments.

## Financing arrangements and ratings

**Valid financing arrangements**

| EUR million | Maximum amount | In use on 31 Dec 2018 |
|---|---|---|
| Committed credit limits | 300 | 0 |
| Commercial paper programme[1] | 350 | 107 |
| EMTN programme[2] | 1,500 | 780 |

[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 |
| S&P Global Ratings | BBB+ | Stable |

The Group’s cash and undrawn committed loans and credit lines totalled EUR 381 million (344) on 31 December 2018.

S&P Global Ratings affirmed Elisa’s rating as BBB+ and the outlook as stable on 9 August 2018. Moody’s Investors Service affirmed Elisa's rating as Baa2 and the outlook as stable on 24 April 2018.

## Shares

Share trading volumes are based on trades made on the Nasdaq Helsinki and alternative marketplaces. Closing prices are based on the Nasdaq Helsinki.

| **Trading of shares** | 10-12/2018 | 10-12/2017 | 1-12/2018 | 1-12/2017 |
|---|---|---|---|---|
| Nasdaq Helsinki, millions | 27.9 | 26.5 | 103.9 | 104.5 |
| Other marketplaces, millions[1] | 47.3 | 33.8 | 197.8 | 151.9 |
| Total volume, millions | 75.2 | 60.3 | 301.7 | 256.5 |
| Value, EUR million | 2,724.8 | 2,084.4 | 11,003.9 | 8,627.8 |
| % of shares | 44.9 | 36.1 | 180.3 | 153.3 |

| **Shares and market values** | End 2018 | End 2017 |
|---|---|---|
| Total number of shares | 167,335,073 | 167,335,073 |
| Treasury shares | 7,611,821 | 7,801,397 |
| Outstanding shares | 159,723,252 | 159,533,676 |
| Closing price, EUR | 36.08 | 32.72 |
| Market capitalisation, EUR million | 6,037 | 5,475 |
| Treasury shares, % | 4.55 | 4.66 |

[1] Other marketplaces based on the Fidessa Fragmentation Index.

| **Number of shares** | Total number of shares | Treasury shares | Outstanding shares |
|---|---|---|---|
| Shares at 31 Dec 2017 | 167,335,073 | 7,801,397 | 159,533,676 |
| Performance Share Plan 5 Feb 2018 [1)] | | -228,543 | 228,543 |
| Transfer to treasury shares 5 Dec 2018 [2)] | | 41,267 | -41,267 |
| Restricted Share Plan 17 Dec 2018 [3)] | | -2,300 | 2,300 |
| Shares at 31 Dec 2018 | 167,335,073 | 7,611,821 | 159,723,252 |

[1)] Stock exchange bulletin, 5 February 2018. [2)] Stock exchange bulletin, 5 December 2018. [3)] Stock exchange bulletin, 17 December 2018.

## Research and development

The majority of the service development occurs during the ordinary course of business and is accounted for as a normal operating expense. Elisa invested EUR 8 million (10) in research and development, of which EUR 7 million (8) was capitalised in 2018, corresponding to 0.5 per cent (0.6) of revenue.

## Annual General Meeting and Board of Directors' organising meeting

On 12 April 2018, Elisa's Annual General Meeting decided to pay a dividend of EUR 1.65 per share based on the 2017 financial statements. The dividend was paid to shareholders on 24 April 2018.

The Annual General Meeting adopted the financial statements for 2017. The members of the Board of Directors and the CEO were discharged from liability for 2017.

The number of the members of the Board of Directors was confirmed at seven. Mr Raimo Lind, Ms Clarisse Berggårdh, Mr Petteri Koponen, Ms Leena Niemistö, Ms Seija Turunen and Mr Antti Vasara were re-elected as members of the Board of Directors and Mr Anssi Vanjoki as a new member of the Board of Directors. Elisa's Annual General Meeting elected Mr Raimo Lind as the Chairman of the Board and Mr Anssi Vanjoki as the Deputy Chairman.

KPMG Oy Ab, authorised public accountants, was appointed the company's auditor. Mr Toni Aaltonen, APA, is the responsible auditor.

The Annual General Meeting decided to remove section 3 "Minimum and maximum number of shares" from the Articles of Association. Section 10 "Auditing" was amended so that the Company has only one Auditor, which is an Authorised Public Accountants Organisation. Further, section 12 "General Meeting of Shareholders" was amended accordingly.

The Annual General Meeting decided that the right of owners of Lounet Oy and companies that had earlier merged into Lounet Oy (e.g. Lounais-Suomen Puhelin Oy, Paimion Puhelin Oy, Piikkiön Puhelin Oy, Piikkiön Puhelinosuuskunta, Liedon Puhelin Oy, Liedon Puhelinosuuskunta) to have Elisa Corporation's shares as merger consideration and rights based on the shares was forfeited on 12 April 2018. The shares became Elisa's own shares. See further details in the stock exchange release *Decisions of Elisa's Annual General Meeting 2018* on 12 April 2018.

The Board of Directors appointed Mr Raimo Lind (Chair), Mr Petteri Koponen and Ms Leena Niemistö to the Compensation & Nomination Committee. Ms Seija Turunen (Chair), Ms Clarisse Berggårdh, Mr Anssi Vanjoki and Mr Antti Vasara were appointed to the Audit Committee.

## Board of Directors' authorisations

The Annual General Meeting 2018 decided to authorise the Board of Directors to pass a resolution concerning the share issue, the right of assignment of treasury shares and/or the granting of special rights entitling to shares. The authorisation entitles the Board of Directors to issue the shares in a proportion other than that of the current shareholdings (directed share issue). A maximum aggregate of 15 million of the company's shares can be issued under the authorisation. The authorisation is effective until 30 June 2020. Under this authorisation 2,300 treasury shares have been issued. In 2018, a total of 228,543 treasury shares were issued under the authorisation of the Annual General Meeting 2016, which was effective until 12 April 2018.

The Annual General Meeting 2018 decided to authorise the Board of Directors to resolve to repurchase or accept as pledge the company's own shares. The repurchase may be directed. The amount of shares under this authorisation is 5 million shares at maximum. The authorisation is effective until 30 June 2019. This authorisation has not been used.

## Elisa Shareholders' Nomination Board

As of 3 September 2018, the composition of Elisa's Shareholders' Nomination Board is as follows:

- Mr Antti Mäkinen, CEO, nominated by Solidium Oy
- Mr Reima Rytsölä, Executive Vice-President, nominated by Varma Mutual Pension Insurance Company
- Mr Jouko Pölönen, President and CEO, nominated by Ilmarinen Mutual Pension Insurance Company
- Ms Hanna Hiidenpalo, Director, Chief Investment Officer, nominated by Elo Mutual Pension Insurance Company
- Mr Raimo Lind, Chairman of the Board of Elisa

The Nomination Board elected Mr Antti Mäkinen as the chair.

The Shareholders' Nomination Board was established in 2012 by the Annual General Meeting. Its duty is to prepare proposals for the election and remuneration of the members of the Board of Directors of Elisa for the Annual General Meeting.

## Significant legal and regulatory issues

In March 2018, the Finnish Communications Regulatory Authority issued significant market power decisions concerning local loop and bitstream markets. The decisions contain maximum wholesale prices that the three largest telecommunication operators must comply with when leasing fibre local loops in those areas where an obligation has been imposed. As of 15 June 2018, the highest permitted monthly rate on Elisa's network is EUR 17 for an FTTH local loop and EUR 23 for an FTTB local loop. These maximum prices are valid for three years. Elisa has appealed FICORA's decision to the Supreme Administrative Court. In June, the Supreme Administrative Court decided not to issue a prohibition of enforcement to Elisa relating to FICORA's significant market power decision of 15 March 2018.

Elisa agreed with Finnish mobile operators on new mobile termination rates. All operators have the same price, which is currently 1.25 euro cents per minute. On 1 December 2018, the new MTR reduced to 0.93 cents per minute, on 1 December 2019 to 0.89 cents per minute, and on 1 December 2020 to 0.82 cents per minute. These changes are neutral for Elisa's profits.

In April, FICORA granted Elisa a new licence to apply surcharges for consumer customer data roaming in EU and EEA countries. The new licence became valid on 15 June 2018, and is valid until 14 June 2019.

In May, the Estonian Technical Surveillance Agency granted Elisa Eesti AS a new licence to apply surcharges for customer roaming in EU and EEA countries. The new licence became valid on 15 June 2018 and is valid until 14 June 2019.

In December, the EU accepted the proposed directive for an Electronic Communications Code, which updates the EU's telecoms rules. The EU's new legislation relates, among other things, to frequencies, market regulation, users' rights and universal service. The member states will implement the directive within the 24-month implementing period. In addition, the renewal includes retail price regulation of intra-EU calls and text messages, which will enter into force in May 2019. This retail price regulation could have some financial effects on Elisa.

In Finland the 900, 1800 and 2100 MHz licences, which were to expire in 2019, were renewed using a comparative procedure. The licences are valid until 31 December 2033.

The Finnish auction for the 3.5 GHz spectrum ended on 1 October 2018. Elisa won 130 MHz of spectrum, meeting its target. The licence fee is EUR 26 million, and it will be paid in five annual instalments. The licence is valid from 1 January 2019 to 31 December 2033.

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

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

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

Elisa processes different kinds of data including personal and traffic data. Therefore, the applicable data protection legislation, especially the General Data Protection Regulation, has a significant impact on Elisa and its businesses.

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

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

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

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

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

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

Liquid assets are invested within confirmed limits in financially solid banks, domestic companies and institutions. Credit risk concentrations in accounts receivable are minor, as the customer base is broad.

A detailed description of financial risk management can be found in Note 34 to the Annual Report 2017.

## Corporate responsibility and non-financial reporting

Elisa will publish its fifth verified responsibility report as part of the Annual Report 2018 during week 11. The responsibility report is prepared according the GRI requirements and meets the requirements of non-financial reporting. The report includes mid-term targets, performance and metrics.

In recognising Elisa’s material corporate responsibility, the most important financial, social and environmental effects and risks of the company, as well as other significant trends affecting the industry, have been taken into account. The management’s description of corporate responsibility is available on the company website.

## 2018 Annual Report and Corporate Governance Statement

The release date of Elisa's Corporate Governance Statement is 31 January 2019. Elisa will publish its 2018 Annual Report, which contains the report by the Board of Directors and the financial statements for 2018 as well as the Corporate Governance Statement, during week 11 (beginning 11 March 2019) on the company website at www.elisa.com.

## Events after the financial period

The Shareholders’ Nomination Board of Elisa Corporation proposes to the Annual General Meeting of 3 April 2019 that the number of members of the Board of Directors be seven (7). The current Chairman of the Board, Mr Raimo Lind, has announced that he will not be available for re-election at the 2019 Annual General Meeting.

The Nomination Board proposes that Ms Clarisse Berggårdh, Mr Petteri Koponen, Ms Leena Niemistö, Ms Seija Turunen, Mr Anssi Vanjoki and Mr Antti Vasara be re-elected as members of the Board. The Shareholders’ Nomination Board further proposes that Mr Kim Ignatius be elected as a new member of the Board. The Nomination Board proposes to the Annual General Meeting that Mr Anssi Vanjoki be elected as the Chairman of the Board and Mr Petteri Koponen be elected as the Deputy Chairman. All the proposed Board Members are considered to be independent of the company and of its significant shareholders. (See stock exchange bulletin, 21 January 2019.)

## Outlook and guidance for 2019

The positive development of the macroeconomic environment is decelerating in Finland. Competition in the Finnish telecommunications market remains keen.

Full-year revenue is estimated to be at the same level or slightly higher than in 2018. Mobile data and digital services are expected to increase revenue. Full-year comparable EBITDA is anticipated to be at the same level or slightly higher than in 2018. The first-quarter EBITDA is expected to be at last year’s level. Capital expenditure is expected to be a maximum of 12 per cent of revenue.

Elisa is continuing its productivity improvement development, for example by increasing automation and data analytics in different processes, such as customer interactions, network operations and delivery. Additionally, Elisa’s continuous quality improvement measures will increase customer satisfaction and efficiency, and reduce costs.

Elisa's transformation into a provider of exciting, new and relevant services for its customers is continuing. Long-term growth and profitability improvement will derive from the growth in the mobile data market, as well as digital online and ICT services.

## Profit distribution

According to Elisa’s distribution policy, profit distribution is 80–100 per cent of the previous fiscal year’s net profit. In addition, any excess capital can be distributed to shareholders. When making the distribution proposal or decision, the Board of Directors will take into consideration the company's financial position, future financial needs and financial targets. Profit distribution includes dividend payment, capital repayment and purchase of treasury shares.

The Board of Directors proposes to the Annual General Meeting a dividend of EUR 1.75 per share. The dividend payment corresponds to 90 per cent of the financial period’s comparable net profit.

Shareholders who are listed in the company’s register of shareholders maintained by Euroclear Finland Ltd on 5 April 2019 are entitled to funds distributed by the General Meeting. The Board of Directors proposes that the payment date be 16 April 2019. The profit for the period will be added to retained earnings.

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

BOARD OF DIRECTORS

*The annual financial statements figures presented in this release are based on the company's audited financial statements. The auditor's report was issued on 30 January 2019.*

## Consolidated Income Statement

| EUR million | Note | 10-12 2018 | 10-12 2017 | 1-12 2018 | 1-12 2017 |
|---|---|---|---|---|---|
| **Revenue** | 1 | **470,6** | 472,5 | **1 831,5** | 1 787,4 |
| Other operating income | | **0,9** | 2,6 | **9,8** | 5,7 |
| Materials and services | | **-185,1** | -190,2 | **-704,4** | -695,6 |
| Employee expenses | | **-80,3** | -82,5 | **-311,4** | -304,0 |
| Other operating expenses | | **-47,9** | -51,3 | **-185,4** | -185,8 |
| **EBITDA** | 1 | **158,1** | 151,2 | **640,1** | 607,7 |
| Depreciation, amortisation and impairment | 1 | **-59,7** | -58,6 | **-236,2** | -229,7 |
| **EBIT** | 1 | **98,4** | 92,6 | **403,8** | 378,0 |
| Financial income | | **0,6** | 0,5 | **2,4** | 49,1 |
| Financial expense | | **-6,3** | -6,4 | **-25,0** | -23,9 |
| Share of associated companies' profit | | **-0,2** | -0,1 | **-0,4** | 0,0 |
| **Profit before tax** | | **92,6** | 86,6 | **381,0** | 403,2 |
| Income taxes | | **-13,4** | -15,1 | **-65,0** | -66,5 |
| **Profit for the period** | | **79,2** | 71,5 | **316,0** | 336,7 |
| **Attributable to** | | | | | |
| Equity holders of the parent | | **79,1** | 71,5 | **315,8** | 336,6 |
| Non-controlling interests | | **0,1** | 0,0 | **0,2** | 0,1 |
| | | **79,2** | 71,5 | **316,0** | 336,7 |
| **Earnings per share (EUR)** | | | | | |
| Basic | | **0,49** | 0,45 | **1,98** | 2,11 |
| Diluted | | **0,49** | 0,45 | **1,98** | 2,11 |
| **Average number of outstanding shares (1000 shares)** | | | | | |
| Basic | | **159 751** | 159 538 | **159 737** | 159 607 |
| Diluted | | **159 751** | 159 538 | **159 737** | 159 607 |

## Consolidated Statement of Comprehensive Income

| | 10-12 2018 | 10-12 2017 | 1-12 2018 | 1-12 2017 |
|---|---|---|---|---|
| **Profit for the period** | **79,2** | 71,5 | **316,0** | 336,7 |
| **Other comprehensive income, net of tax** | | | | |
| **Items which may be reclassified subsequently to profit or loss** | | | | |
| Other investments | | | | -34,7 |
| Cash flow hedge | **0,1** | 0,2 | **0,5** | 0,3 |
| Translation difference | **-0,1** | 0,0 | **-0,1** | -0,2 |
| | **0,0** | 0,1 | **0,4** | -34,6 |
| **Items which are not reclassified subsequently to profit or loss** | | | | |
| Remeasurements of the net defined benefit liability | **0,7** | 0,3 | **0,7** | 0,3 |
| **Total comprehensive income** | **79,8** | 72,0 | **317,0** | 302,4 |
| **Total comprehensive income attributable to** | | | | |
| Equity holders of the parent | **79,8** | 72,0 | **316,9** | 302,4 |
| Non-controlling interest | **0,1** | 0,0 | **0,2** | 0,1 |
| | **79,8** | 72,0 | **317,0** | 302,4 |

# Consolidated Statement of Financial Position

| EUR million | Note | 31.12. 2018 | 31.12. 2017 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 3 | **751,6** | 758,1 |
| Goodwill | 3 | **1 020,7** | 1 013,5 |
| Other intangible assets | 3 | **206,7** | 177,1 |
| Investments in associated companies | 12 | **2,7** | 1,9 |
| Other investments | 4 | **9,6** | 7,8 |
| Deferred tax assets | | **16,5** | 16,9 |
| Trade and other receivables | 4 | **93,8** | 83,7 |
| | | **2 101,6** | 2 058,9 |
| **Current assets** | | | |
| Inventories | | **65,4** | 68,3 |
| Trade and other receivables | | **416,6** | 407,6 |
| Tax receivables | | **4,3** | 1,2 |
| Cash and cash equivalents | | **80,9** | 44,3 |
| | | **567,2** | 521,5 |
| **Total assets** | | **2 668,8** | 2 580,4 |
| | | | |
| **Equity attributable to equity holders of the parent** | 6 | **1 126,3** | 1 039,6 |
| **Non-controlling interests** | | **0,5** | 0,1 |
| **Total shareholders' equity** | | **1 126,9** | 1 039,7 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **25,7** | 23,5 |
| Pension obligations | | **15,2** | 16,0 |
| Provisions | 8 | **2,3** | 2,5 |
| Financial liabilities | 4, 7 | **861,3** | 939,6 |
| Trade payables and other liabilities | 4, 5 | **36,3** | 25,1 |
| | | **940,8** | 1 006,8 |
| **Current liabilities** | | | |
| Trade and other payables | 4, 5 | **309,3** | 349,8 |
| Tax liabilities | | **1,7** | 0,1 |
| Provisions | 8 | **2,7** | 6,2 |
| Financial liabilities | 4, 7 | **287,4** | 177,8 |
| | | **601,1** | 533,8 |
| **Total equity and liabilities** | | **2 668,8** | 2 580,4 |

## Condensed Consolidated Statement of Cash Flows

| EUR million | 1-12 2018 | 1-12 2017 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit before tax | **381,0** | 403,2 |
| Adjustments | | |
| Depreciation, amortisation and impairment | **236,2** | 229,7 |
| Other adjustments | **4,4** | -28,7 |
| | **240,6** | 201,0 |
| Change in working capital | | |
| Increase (-) / decrease (+) in trade and other receivables | **6,1** | -59,2 |
| Increase (-) / decrease (+) in inventories | **3,1** | -10,5 |
| Increase (+) / decrease (-) in trade and other payables | **-30,3** | 45,0 |
| | **-21,1** | -24,7 |
| Financial items, net | **-16,9** | -15,1 |
| Taxes paid | **-68,2** | -63,6 |
| **Net cash flow from operating activities** | **515,4** | 500,8 |
| **Cash flow from investing activities** | | |
| Capital expenditure | **-235,6** | -254,8 |
| Investments in shares and business combinations | **-10,5** | -39,5 |
| Repayment of loan receivables | | 44,8 |
| Proceeds from asset disposal | **3,0** | 48,4 |
| **Net cash used in investing activities** | **-243,2** | -201,1 |
| **Cash flow before financing activities** | **272,2** | 299,7 |
| **Cash flow from financing activities** | | |
| Proceeds from long-term borrowings | **100,0** | 169,8 |
| Repayment of long-term borrowings | **-59,5** | -11,1 |
| Increase (+) / decrease (-) in short-term borrowings | **-9,6** | -214,0 |
| Repayment of finance lease liabilities | **-3,4** | -3,8 |
| Acquisition of non-controlling interests | | -1,2 |
| Dividends paid | **-263,1** | -239,6 |
| **Net cash used in financing activities** | **-235,6** | -299,9 |
| **Change in cash and cash equivalents** | **36,6** | -0,2 |
| Cash and cash equivalents at the beginning of period | **44,3** | 44,5 |
| **Cash and cash equivalents at the end of period** | **80,9** | 44,3 |

# Consolidated Statement of Changes in Equity

| EUR million | Share capital | Treasury shares | Reserve for invested non-restricted equity | Other reserves | Retained earnings | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2017** | 83,0 | -142,9 | 90,9 | 405,7 | 534,1 | 0,5 | **971,3** |
| Profit for the period | | | | | 336,6 | 0,1 | **336,7** |
| Translation differences | | | | | -0,2 | | **-0,2** |
| Other investments | | | | -34,7 | | | **-34,7** |
| Cash flow hedge | | | | 0,3 | | | **0,3** |
| Remeasurements of the net defined benefit liability | | | | 0,3 | | | **0,3** |
| Total comprehensive income | | | | -34,1 | 336,4 | 0,1 | **302,4** |
| Dividend distribution | | | | | -239,6 | -0,3 | **-240,0** |
| Share-based compensation | | 2,7 | | | 6,7 | | **9,4** |
| Acquisition of non-controlling interests without a change in control | | | | | -1,1 | -0,1 | **-1,2** |
| Other changes | | | | | -2,2 | 0,1 | **-2,1** |
| **Balance at 31 December 2017** | 83,0 | -140,2 | 90,9 | 371,6 | 634,2 | 0,1 | **1 039,7** |

| EUR million | Share capital | Treasury shares | Reserve for invested non-restricted equity | Other reserves | Retained earnings | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2018** | 83,0 | -140,2 | 90,9 | 371,6 | 634,2 | 0,1 | **1 039,7** |
| Adoption of IFRS 15 | | | | | 7,5 | | **7,5** |
| Adoption of IFRS 9 | | | | | 4,2 | | **4,2** |
| Adoption of amendment to IFRS 2 | | | | | 14,5 | | **14,5** |
| **Balance at 1 January 2018** | 83,0 | -140,2 | 90,9 | 371,6 | 660,4 | 0,1 | **1 065,9** |
| Profit for the period | | | | | 315,8 | 0,2 | **316,0** |
| Translation differences | | | | | -0,1 | | **-0,1** |
| Cash flow hedge | | | | 0,5 | | | **0,5** |
| Remeasurements of the net defined benefit liability | | | | 0,7 | | | **0,7** |
| Total comprehensive income | | | | 1,2 | 315,7 | 0,2 | **317,0** |
| Dividend distribution | | | | | -263,6 | | **-263,6** |
| Share-based compensation | | 4,6 | | | 7,6 | | **12,2** |
| Acquisition of non-controlling interests | | | | | | 0,2 | **0,2** |
| Other changes | | | | | -4,9 | | **-4,9** |
| **Balance at 31 December 2018** | 83,0 | -135,6 | 90,9 | 372,8 | 715,2 | 0,5 | **1 126,9** |

# Notes

**ACCOUNTING PRINCIPLES**

This financial statement release is prepared in compliance with IAS 34 *Interim Financial Reporting* . The information has been prepared in accordance with International Financial Reporting Standards (IFRS) effective at the time of preparation and adopted for use by the European Union. Apart from the changes in accounting principles stated below, the accounting principles applied in the financial statement release are the same as in the financial statements on 31 December 2017.

**Changes in the accounting principles**

The Group adopted the following standards, amendments to standards and interpretations as of 1 January 2018:

• IFRS 15 *Revenue from Contracts with Customers* . The standard includes a five-step model for revenue recognition. Revenue is allocated to performance obligations based on relative transaction prices. Revenue recognition takes place over time or at a specific point in time, and the key criterion is the passing of control.

In the transition, Elisa has applied a modified retrospective approach, which means that contracts that are not completed by 1 January 2018 are treated as if they had been recognised in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition, EUR 7.5 million, is recognised as an adjustment to the opening balance of retained earnings. The opening balance of short-term receivables increased by EUR 10.3 million, deferred tax assets increased by EUR 0.1 million, short-term liabilities increased by EUR 0.8 million and deferred tax liabilities increased by EUR 2.0 million. The comparison year is not restated.

The Group's fixed-term service agreements are recognised during the agreement period, and as an exception from the previous recognition principles, opening fees for fixed-term service agreements and related expenses are allocated for the entire agreement period. Sales commissions and discounts on fixed-term service agreements are also allocated for the entire agreement period. The adjustment to retained earnings of EUR 4.5 million relates to the sales commissions. The adjustment of retained earnings relating to the discounts, opening fees and related expenses is EUR 3.0 million.

According to the IFRS 15 standard and the Group's previous principles, service agreements valid until further notice are recognised over time, and sales revenue is recognised less any discounts granted. The opening fees for service agreements and related expenses are recognised at the time when the service is connected. The change does not impact the revenue recognition of the Group's agreements valid until further notice.

The impact of the IFRS 15 standard on the Group's revenue for 1-12/2018 is EUR 0.2 million and on EBITDA EUR 0.5 million. As at 31 December 2018, contract assets are EUR 10.0 million and contract liabilities EUR 0.2 million. The change to the standard does not influence the cash flow.

• IFRS 9 *Financial Instruments* . The new standard includes guidance on the classification and measurement of financial instruments, including new hedge accounting requirements and a new expected credit loss model for calculating impairment on financial assets.

According to the new standard, in situations where the terms of the financial liability measured at amortised cost change such that the change does not result in derecognition of the financial liability, the Group must still recognise a gain or loss, which is calculated as the difference between the original contractual cash flows and the modified contractual cash flows, discounted at the original effective interest rate. According to the previous IAS 39 standard, the difference between cash flows was amortised over the residual maturity of the financial liability by determining the new effective interest rate.

With the implementation of IFRS 9, the Group's financial assets and liabilities are classified as financial assets and liabilities measured at amortised cost, financial assets and liabilities measured at fair value through other comprehensive income, and financial assets and liabilities measured at fair value through profit or loss. Financial assets and liabilities measured at amortised cost include the fixed-term contracts whose cash flow include payments of principal and interest on the principal amount outstanding. Financial assets and liabilities measured at fair value through other comprehensive income include those financial items that are held with the objective of both collecting contractual cash flows and eventually selling the financial asset or liability. Financial assets and liabilities measured at fair value through profit or loss include items that do not meet the criteria of other groups.

The cumulative effect of EUR 4.2 million arising from the transition is recognised as an adjustment to the opening balance of retained earnings. Of this, EUR -0.5 million is due to the change in bad debt provision and related deferred tax assets, and EUR 4.6 million is due to the change in financial liabilities measured at amortised cost and related deferred tax liabilities.

The change does not have a significant impact on the Group's profit for the period, and it will not influence the cash flow.

• Amendment to IFRS 2 *Share-based Payments* . The amendment concerns incentive schemes with net settlement features to cover withholding tax obligations and where the employer has an obligation to withhold tax from the received benefit on the share-based payment. The previous standard requires the entity to divide the payment into an equity-settled component and a cash-settled component. According to the new IFRS 2, compensation costs will be recognised for such payments based on the entire scheme being an equity-settled payment. Compensation costs are recognised based on the number of gross shares awarded, in spite of the employee ultimately only receiving the net shares and the Group paying the portion required to meet the withholding obligations to the tax authority in cash. The withholding paid by the Group to the tax authority is recognised directly in equity.

The Group's financial statements 2017 included a EUR 14.5 million short-term liability relating to the cash-settled component. Due to the amendment, this portion has been adjusted in the opening balance sheet from liabilities to retained earnings in equity.

**APPLICATION OF NEW AND REVISED ACCOUNTING PRONOUNCEMENTS UNDER IFRS**

The Group will adopt the IFRS 16 standard on 1 January 2019.

• IFRS 16 *Leases* . A lessee is required to recognise in the balance sheet a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. For the lessors, the situation will remain mainly unchanged.

The Group has made a decision to choose a modified retrospective approach, under which the cumulative effect arising from the transition will be recognised as an adjustment to the opening balance of equity on 1 January 2019. An opening balance of a lease liability and right-of-use asset arising from lease agreements previously classified as operating leases are recognised as IFRS 16 leases at the date of initial application.

The carrying amounts of rent agreements previously treated as finance lease agreements will not change at the time of adoption. Going forward, treatment of capitalised lease liabilities will change, as index increases for rental payments will affect the valuation of lease commitments.

The right-of-use asset is initially measured at a value that corresponds to the lease liability, adjusted for possible prepayments. The Group has made a decision to apply the allowances permitted by the standard to exclude the short-term leases and low-value assets from the capitalisation amounts. The rental costs of these contracts will continue to be recognised on a straight-line basis in the income statement.

The right-of-use assets and lease liabilities, presented in the balance sheet, will be measured at present value of future lease payments at the time of initial recognition. After the commencement date, if changes to the lease payments occur, the lease liability will be remeasured by discounting the revised lease payments using a discount rate, relevant to an applicable interest rate, and taking into account the length of the lease contracts. Right-of-use assets will be depreciated, and both the depreciation costs and the interest portion of the lease liabilities will be expensed.

The Group has prepared for the adoption of the standard by carrying out a separate project with the key objectives of process change planning, implementation and change management. The project will be completed during the first quarter of 2019. The lease contracts capitalised on the balance sheet are mostly related to equipment spaces, retail facilities and cars.

The adoption of the IFRS 16 standard transfers off-balance sheet liabilities to the balance sheet, resulting an increase in fixed assets and interesting-bearing liabilities. The amount of off-balance sheet liabilities on 31 December 2018 was EUR 79.0 million.

According to the preliminary calculations, on 1 January 2019, the Group will capitalise an EUR 87.0 million lease liability and a corresponding EUR 87.5 million right-of-use asset. The lease liability amount includes a EUR 22.1 million portion that is related to rental contracts that were previously treated as finance leases. Otherwise, the difference between the capitalised lease liability and the previously reported off-balance sheet operating lease commitments is due to the fact that the lease liability recognised on the balance sheet is based on discounted cash flows, whereas off-balance sheet operating lease commitments are presented at nominal amount. Additionally, short-term leases and low-value assets, included in off-balance sheet commitments, are not capitalised.

The Group has a number of new lease agreements with a starting date of 1 January 2019.

The adoption of the standard will affect the income statement by decreasing other operating expenses and increasing depreciations and financial expenses.

In the cash flow statement, cash payments for the principal portion of the lease liability are presented within financing activities, and for the interest portion of the lease liability within operating cash flows. Previously all lease payments for operating leases were presented in the cash flow from the operating activities. Total cash flow does not change. The adoption of standard will improve EBITDA key indicators and affect negatively balance-sheet-based key indicators, e.g. the gearing rate.

The adoption of other amended standards is not expected to have a material impact on the consolidated financial statements.

## 1. Segment Information

| **10-12/2018**<br>EUR million | Consumer Customers | Corporate Customers | Unallocated Items | Group Total |
|---|---|---|---|---|
| Revenue | 296,3 | 174,3 | | 470,6 |
| EBITDA | 103,7 | 54,4 | | 158,1 |
| Depreciation, amortisation and impairment | -37,3 | -22,4 | | -59,7 |
| EBIT | 66,5 | 32,0 | | 98,4 |
| Financial income | | | 0,6 | 0,6 |
| Financial expense | | | -6,3 | -6,3 |
| Share of associated companies' profit | | | -0,2 | -0,2 |
| Profit before tax | | | | 92,6 |
| Investments | 56,9 | 35,2 | | 92,0 |

| **10-12/2017**<br>EUR million | Consumer Customers | Corporate Customers | Unallocated Items | Group Total |
|---|---|---|---|---|
| Revenue | 294,5 | 178,1 | | 472,5 |
| EBITDA | 96,1 | 55,0 | | 151,2 |
| Depreciation, amortisation and impairment | -36,1 | -22,5 | | -58,6 |
| EBIT | 60,0 | 32,6 | | 92,6 |
| Financial income | | | 0,5 | 0,5 |
| Financial expense | | | -6,4 | -6,4 |
| Share of associated companies' profit | | | -0,1 | -0,1 |
| Profit before tax | | | | 86,6 |
| Investments | 47,5 | 23,4 | | 70,9 |

| **1-12/2018**<br>EUR million | Consumer Customers | Corporate Customers | Unallocated Items | Group Total |
|---|---|---|---|---|
| Revenue | 1 150,2 | 681,4 | | 1 831,5 |
| EBITDA | 416,1 | 223,9 | | 640,1 |
| Depreciation, amortisation and impairment | -147,7 | -88,5 | | -236,2 |
| EBIT | 268,4 | 135,4 | | 403,8 |
| Financial income | | | 2,4 | 2,4 |
| Financial expense | | | -25,0 | -25,0 |
| Share of associated companies' profit | | | -0,4 | -0,4 |
| Profit before tax | | | | 381,0 |
| | | | | |
| Investments | 166,1 | 88,3 | | 254,4 |
| Total assets | 1 680,2 | 874,7 | 114,0 | 2 668,8 |

| **1-12/2017**<br>EUR million | Consumer Customers | Corporate Customers | Unallocated Items | Group Total |
|---|---|---|---|---|
| Revenue | 1 124,9 | 662,6 | | 1 787,4 |
| EBITDA | 388,5 | 219,2 | | 607,7 |
| Depreciation, amortisation and impairment | -141,5 | -88,2 | | -229,7 |
| EBIT | 247,0 | 131,0 | | 378,0 |
| Financial income | | | 49,1 | 49,1 |
| Financial expense | | | -23,9 | -23,9 |
| Share of associated companies' profit | | | 0,0 | 0,0 |
| Profit before tax | | | | 403,2 |
| | | | | |
| Investments | 164,3 | 82,2 | | 246,4 |
| Total assets | 1 657,0 | 851,2 | 72,2 | 2 580,4 |

## 2. Acquisitions and disposals

### Acquisition of Kepit Systems Oy

On 26 April 2018, Elisa acquired 70 per cent of the shares of Kepit Systems Oy. The acquisition price was EUR 3.2 million, including a contingent consideration of EUR 0.7 million.

According to the preliminary purchase price allocation, the acquisition resulted in EUR 2.6 million in goodwill relating to strengthening the Group's market position in offering streaming services and e-commerce solutions. Goodwill is not tax-deductible. The purchase price allocation is preliminary, as the verification of net assets acquired is not yet fully completed. Possible adjustments are not expected to have a material impact on the purchase price allocation.

The acquisition generated a non-controlling interest amounting to EUR 0.2 million, which is included in the non-controlling interest balance sheet item. The non-controlling interest is measured at a proportionate share of the acquiree's identifiable net assets.

The acquired company has been consolidated from 1 May 2018 onwards. External revenue after the acquisition was EUR 1.5 million, and the impact on Group profit was EUR 0.6 million. Had the acquisition been made as of beginning of the year 2018, the impact on Group revenue and profit for the period would have been EUR 1.9 million and EUR 0.8 million, respectively.

**Consideration transferred**

| EUR million | Preliminary |
|---|---|
| Cash paid | 2,5 |
| Contingent consideration | 0,7 |
| Total cost of acquisition | 3,2 |

**Analysis of net assets acquired**

| EUR million | |
|---|---|
| Tangible assets | 0,1 |
| Trade and other receivables | 0,6 |
| Cash and cash equivalents | 0,3 |
| Trade payables and other liabilities | -0,2 |
| | 0,8 |

**Effects of acquisition on cash flow**

| EUR million | |
|---|---|
| Purchase price paid in cash | -2,5 |
| Cash and cash equivalents of the acquired entities | 0,3 |
| | -2,3 |

**Goodwill arising from business combination**

| EUR million | |
|---|---|
| Consideration transferred | 3,2 |
| Identifiable net asset acquired | 0,8 |
| Non controlling interests of the identifiable net assets | -0,2 |
| Goodwill | 2,6 |

A EUR 0.1 million expense of transfer tax and fees for experts and professional advisors is recorded in other operating expenses.

## Acquisition of Ukkoverkot Oy's licence and capital stock of Ukkonet Oy

On 30 June 2018, Elisa acquired from Ukkoverkot Oy Band 38 of the 2.6 GHz spectrum, as well as all shares of its managing company Ukkonet Oy. Elisa uses the spectrum to increase mobile network capacity.

The share acquisition price was EUR 2.7 million. In addition to that, Elisa acquired a loan of EUR 1.5 million. The net assets of the acquired company were EUR 0.1 million. According to the preliminary purchase price allocation, EUR 3.3 million was allocated to the spectrum and EUR 0.7 million to deferred tax liabilities. The balance sheet value of the spectrum is EUR 4.8 million, which consists of the balance sheet value of the acquired company, EUR 1.5 million, and a purchase price allocation of EUR 3.3 million. The spectrum will be amortised over 12 years. The purchase price allocation is preliminary, as the verification of net assets acquired is not yet fully finalised. No material impact is expected.

The acquired company has been consolidated from 1 July 2018 onwards. External revenue after the acquisition was EUR 0.0 million, and the impact on Group profit was EUR -0.1 million. Had the acquisition been made as of beginning of the year 2018, the impact on Group revenue and profit for the period would have been EUR 0.2 million and EUR -0.2 million, respectively.

**Consideration transferred**

| EUR million | Preliminary |
|---|---|
| Cash paid | 1,7 |
| Settlement of pre-existing relationship | 0,5 |
| Consideration to be settled | 0,5 |
| Total cost of acquisition | 2,7 |

**Analysis of net assets acquired**

| EUR million | |
|---|---|
| Spectrum | 4,8 |
| Trade and other receivables | 0,1 |
| Cash and cash equivalents | 0,0 |
| Financial liabilities | -1,4 |
| Deferred tax liabilities | -0,7 |
| Trade payables and other liabilities | -0,1 |
| | 2,7 |

**Effects of acquisition on cash flow**

| EUR million | |
|---|---|
| Purchase price paid in cash | -1,7 |
| Loan paid in connection with acquisition | -1,5 |
| Cash and cash equivalents of the acquired entities | 0,0 |
| | -3,3 |

A EUR 0.1 million expense of transfer tax and fees for expert's and professional advisors is recorded in other operating expenses.

## Acquisition of Fenix Solutions Oy

On 1 October 2018, Elisa acquired 100 per cent of Fenix Solutions Oy and all shares of its managing company Fenix Enterprise Solutions Oy. The company specialises in automation solutions that support services provided to the clients of Elisa's Corporate Customers segment.

The share acquisition price was EUR 5.6 million, including a contingent consideration of EUR 0.9 million. According to the preliminary purchase price allocation, EUR 0.8 million of the purchase price is allocated to the customer base, which is amortised over three years. The acquisition results in EUR 4.6 million in goodwill relating to strengthening the Corporate Customers business. Goodwill is not tax-deductible. The purchase price allocation is preliminary, as the verification of net assets acquired is not yet fully finalised. No material impact is expected.

The acquired company has been consolidated from 1 October 2018 onwards. External revenue after the acquisition was EUR 0.6 million, and the impact on Group profit was EUR 0.1 million. Had the acquisition been made as of beginning of the year 2018, the impact on Group revenue and profit for the period would have been EUR 2.5 million and EUR 0.4 million, respectively.

**Consideration transferred**

| EUR million | Preliminary |
|---|---|
| Cash paid | 4,7 |
| Contingent consideration | 0,9 |
| Total cost of acquisition | 5,6 |

**Analysis of net assets acquired**

| EUR million | |
|---|---|
| Customer base | 0,8 |
| Tangible assets | 0,0 |
| Trade and other receivables | 0,4 |
| Cash and cash equivalents | 0,7 |
| Financial liabilities | -0,4 |
| Deferred tax liabilities | -0,2 |
| Trade payables and other liabilities | -0,4 |
| | 1,0 |

**Effects of acquisition on cash flow**

| EUR million | |
|---|---|
| Purchase price paid in cash | -4,7 |
| Cash and cash equivalents of the acquired entities | 0,7 |
| | -3,9 |

**Goodwill arising from business combination**

| EUR million | |
|---|---|
| Consideration transferred | 5,6 |
| Net asset acquired | 1,0 |
| Goodwill | 4,6 |

A EUR 0.1 million expense of transfer tax and fees for expert's and professional advisors is recorded in other operating expenses.

## Disposal of Habbo and Hideaway businesses

On 6 June 2018, the Group's ownership in Sulake Suomi Oy (currently Sulake Oy) decreased to 49 per cent in a share issue where Orangegames Holding B.V., a Dutch company which specialises in digital content, subscribed for 51 per cent of the share stock of Sulake Suomi Oy for a price of EUR 3.0 million. As a result of the share issue, control of the Habbo and Hideaway businesses transferred to Orangegames Holding B.V., and Elisa became a minority shareholder of the company. Through the divestment, Elisa gained a partner and Sulake Suomi Oy an owner that has a strong understanding and experience of the game design business.

As a result of the share issue, Elisa's ownership of Sulake Suomi Oy and its subsidiaries (Sulake Spain S.L.U, Sulake Brasil and Sulake UK Ltd) decreased to 49 per cent, and Elisa lost control of the companies. The change in ownership was recorded in the Group as a sale of a subsidiary, and it resulted in a profit of EUR 2.2 million, recorded in other operating income.

The Group has consolidated the result of the companies as a subsidiary until 31 May 2018 and, starting from 1 June 2018, as an associated company.

| **Net assets of the sold entity**<br>EUR million | Carrying amount |
|---|---|
| Long term trade and other receivables | 0,1 |
| Deferred tax assets | 0,1 |
| Trade and other receivables | 1,1 |
| Cash and cash equivalents | 0,6 |
| Trade payables and other liabilities | -1,5 |
| | 0,4 |

| **Effects of disposal on cash flow**<br>EUR million | |
|---|---|
| Cash and cash equivalent of a sold entity | -0,6 |
| | -0,6 |

| **Effects of disposal on consolidated income statement and balance sheet**<br>EUR million | |
|---|---|
| Investments in associated companies | 1,2 |
| Net assets of a sold entity | -0,4 |
| Pre-existing relationships between the Group and the sold entity [1] | 1,3 |
| Profit from the sales | 2,2 |

[1] As a result of the loss of control, the Group's net assets increased as the net receivables totalling to EUR 1.3 million, previously eliminated as intra-group items, are treated as external receivables.

## Disposal of customer service and corporate switchboard businesses

On 2 May 2018, Elisa Group divested the outsourced customer service and corporate switchboard businesses for corporate customers to Oy Eniro Finland Ab. The total sales price was EUR 2.9 million, and the net assets were EUR -0.4 million. The divestment resulted in a profit of EUR 3.3 million, recorded as other operating income. The whole sale price was paid in cash.

## 3. Property, plant and equipment and intangible assets

| **31.12.2018**<br>EUR million | Property plant and equipment | Goodwill | Other intangible assets |
|---|---|---|---|
| Acquisition cost at 1 January 2018 | 3 776,0 | 1 028,5 | 765,1 |
| Additions | 186,0 | | 68,4 [1] |
| Business acquisitions | 0,1 | 7,2 | 5,6 [2] |
| Disposals | -13,1 | | -0,2 |
| Business disposals | -0,2 | -0,2 | 0,0 |
| Reclassifications | -1,5 | | 1,5 |
| Translation differences | -0,1 | 0,0 | 0,0 |
| Acquisition cost at 31 December 2018 | 3 947,3 | 1 035,5 | 840,4 |
| | | | |
| Accumulated depreciation, amortisation and impairment at 1 January 2018 | 3 018,0 | 15,0 | 588,0 |
| Depreciation, amortisation and impairment | 190,3 | | 45,9 |
| Accumulated depreciation and amortisation on disposals and reclassifications | -12,5 | -0,2 | -0,2 |
| Translation differences | -0,1 | | 0,0 |
| Accumulated depreciation, amortisation and impairment at 31 December 2018 | 3 195,8 | 14,8 | 633,7 |
| | | | |
| Book value at 1 January 2018 | 758,1 | 1 013,5 | 177,1 |
| Book value at 31 December 2018 | 751,6 | 1 020,7 | 206,7 |

| **31.12.2017**<br>EUR million | Property plant and equipment | Goodwill | Other intangible assets |
|---|---|---|---|
| Acquisition cost at 1 January 2017 | 3 575,7 | 894,8 | 705,0 |
| Additions | 201,6 | | 44,9 |
| Business acquisitions | 31,0 | 133,8 | 16,2 |
| Disposals | -30,4 | | -1,5 |
| Business disposals | | | 0,0 |
| Reclassifications | -1,7 | | 0,6 |
| Translation differences | -0,1 | -0,1 | 0,0 |
| Acquisition cost at 31 December 2017 | 3 776,0 | 1 028,5 | 765,1 |
| | | | |
| Accumulated depreciation, amortisation and impairment at 1 January 2017 | 2 861,8 | 15,0 | 544,9 |
| Depreciation, amortisation and impairment | 185,3 | | 44,4 |
| Accumulated depreciation and amortisation on disposals and reclassifications | -29,1 | | -1,4 |
| Translation differences | 0,0 | | 0,1 |
| Accumulated depreciation, amortisation and impairment at 31 December 2017 | 3 018,0 | 15,0 | 588,0 |
| | | | |
| Book value at 1 January 2017 | 713,9 | 879,8 | 160,0 |
| Book value at 31 December 2017 | 758,1 | 1 013,5 | 177,1 |

[1] Includes Finnish 3.5 GHz spectrum licence in a carrying amount of EUR 26.3 million.

[2] Includes 2.6 GHz spectrum licence, EUR 4.8 million, acquired in connection with the acquisition of Ukkonet Oy.
Commitments to purchase property, plant and equipment and intangible assets amounted to EUR 41.7 million (49.7) on 31 December 2018.

## 4. Carrying amounts of financial assets and liabilities by category

| **31 December 2018**<br>EUR million | Financial liabilities measured at fair value through profit or loss | Financial assets/liabilities measured at fair value through other comprehensive income | Financial assets/liabilities measured at amortised cost | Book values | Fair values |
|---|---|---|---|---|---|
| Non-current financial assets | | | | | |
| Other investments [1] | | | 9,6 | 9,6 | 9,6 |
| Trade and other receivables | | 0,4 | 93,4 | 93,8 | 93,8 |
| Current financial assets | | | | | |
| Trade and other receivables | | | 416,6 | 416,6 | 416,6 |
| | | 0,4 | 519,6 | 520,0 | 520,0 |
| Non-current financial liabilities | | | | | |
| Financial liabilities | | | 861,3 | 861,3 | 884,9 |
| Trade and other payables [2] | | | 31,4 | 31,4 | 31,4 |
| Current financial liabilities | | | | | |
| Financial liabilities | | | 287,4 | 287,4 | 293,0 |
| Trade and other payables [2] | 1,6 | | 302,0 | 303,5 | 303,5 |
| | 1,6 | | 1 482,1 | 1 483,6 | 1 512,8 |

| **31 December 2017**<br>EUR million | Financial liabilities measured at fair value through profit or loss | Financial assets/liabilities measured at fair value through other comprehensive income | Financial assets/liabilities measured at amortised cost | Book values | Fair values |
|---|---|---|---|---|---|
| Non-current financial assets | | | | | |
| Other investments [1] | | | 7,8 | 7,8 | 7,8 |
| Trade and other receivables | | | 83,7 | 83,7 | 83,7 |
| Current financial assets | | | | | |
| Trade and other receivables | | | 407,6 | 407,6 | 407,6 |
| | | | 499,1 | 499,1 | 499,1 |
| Non-current financial liabilities | | | | | |
| Financial liabilities | | | 939,6 | 939,6 | 979,5 |
| Trade payables and other liabilities [2] | | 0,2 | 19,8 | 20,1 | 20,1 |
| Current financial liabilities | | | | | |
| Financial liabilities | | | 177,8 | 177,8 | 177,8 |
| Trade and other payables [2] | | | 343,5 | 343,5 | 343,5 |
| | | 0,2 | 1 480,8 | 1 481,0 | 1 520,9 |

1) Other investments contains groups' unlisted equity investments

2) Excluding advances received

With the implementation of IFRS 9, the Group's financial assets and liabilities are classified as financial assets and liabilities measured at amortised cost, financial assets and liabilities measured at fair value through other comprehensive income, and financial assets and liabilities measured at fair value through profit or loss. Financial assets and liabilities measured at amortised cost include fixed-term contracts whose cash flow includes payments of principal and interest on the principal outstanding. Financial asset and liabilities measured at fair value through other comprehensive income include those financial items that are expected both to collect contractual cash flows and to sell financial assets. Financial assets and liabilities measured at fair value through profit or loss include items that do not meet the criteria of other groups.

The Group categorises the hedge accounting of electricity derivatives as financial liabilities measured at fair value through other comprehensive income, and contingent considerations in the business combinations as financial liabilities measured at fair value through profit or loss.

## 5. Financial assets and liabilities recognised at fair value

| EUR million | **31.12.2018** | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets/liabilities measured at fair value through other comprehensive income | | | | |
| Electricity derivatives | 0,4 | | 0,4 | |
| Financial assets/liabilities measured at fair value through profit or loss | | | | |
| Contingent considerations relating to business combinations. | -1,6 | | | -1,6 |
| | -1,2 | | 0,4 | -1,6 |

| EUR million | **31.12.2017** | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Financial assets/liabilities recognised at fair value through other comprehensive income | | | | |
| Electricity derivatives | -0,2 | | -0,2 | |
| | -0,2 | | -0,2 | |

Level 1 includes instruments with quoted prices in active markets. Level 2 includes instruments with observable prices based on market data. Level 3 includes instruments with prices that are not based on verifiable market data, but instead on the company's internal information, for example.

## 6. Equity

| | Number of shares pcs | Treasury shares pcs | Holding, % of shares and votes |
|---|---|---|---|
| Shares at 31 December 2017 | 167 335 073 | 7 801 397 | 4,66 % |
| Disposal of treasury shares | | -230 843 | |
| Transfer from unallocated account | | 41 267 | |
| Shares at 31 December 2018 | 167 335 073 | 7 611 821 | 4,55 % |

**Dividend**

On 12 April 2018, Elisa's Annual General Meeting decided on a dividend of EUR 1.65 per share. The total dividend amounts to EUR 263.6 million, and payment started on 24 April 2018.

## 7. Issuance and repayment of debt securities

The unused amount of the EUR 1,500 million EMTN program is EUR 720 million as of 31 December 2018.

| EUR million | **31.12. 2018** | 31.12. 2017 |
|---|---|---|
| Issued bonds, nominal value | **780,0** | 780,0 |
| Issued commercial papers | **107,0** | 115,0 |
| Withdrawn committed credit lines | **0,0** | 0,0 |

## 8. Provisions

| EUR million | **Termination benefits** | **Other** | **Total** |
|---|---|---|---|
| 1 January 2018 | 7,0 | 1,7 | 8,7 |
| Increases in provisions | 5,6 | | 5,6 |
| Reversals of unused provisions | -4,2 | | -4,2 |
| Utilised provisions | -4,9 | | -4,9 |
| 31 December 2018 | 3,4 | 1,7 | 5,0 |

| EUR million | **Termination benefits** | **Other** | **Total** |
|---|---|---|---|
| 1 January 2017 | 4,3 | 2,1 | 6,4 |
| Increases in provisions | 8,5 | | 8,5 |
| Reversals of unused provisions | -1,5 | | -1,5 |
| Utilised provisions | -4,3 | -0,4 | -4,7 |
| 31 December 2017 | 7,0 | 1,7 | 8,7 |

## 9. Operating Lease Commitments

**The future minimum lease payments under non-cancellable operating leases:**

| EUR million | **31.12. 2018** | 31.12. 2017 |
|---|---|---|
| Not later than one year | **28,2** | 28,9 |
| Later than one year not later than five years | **36,4** | 39,4 |
| Later than five years | **14,4** | 18,4 |
| | **79,0** | 86,7 |

Rental liabilities are exclusive of value added tax, except vehicle leasing liabilities.

## 10. Contingent Liabilities

| EUR million | **31.12. 2018** | 31.12. 2017 |
|---|---|---|
| For our own commitments | | |
| Mortgages | **2,0** | 2,0 |
| Guarantees | **0,1** | |
| Deposits | **0,4** | 2,5 |
| On behalf of others | | |
| Guarantees | | 0,5 |
| | **2,5** | 5,0 |
| | | |
| Other contractual obligations | | |
| Venture Capital investment commitment | **2,3** | 3,3 |
| Repurchase obligations | | 0,0 |
| Letter of credit | **0,1** | 0,1 |

## 11. Derivative Instruments

| EUR million | **31.12. 2018** | 31.12. 2017 |
|---|---|---|
| Nominal values of derivatives | | |
| Electricity derivatives | **2,5** | 2,4 |
| | **2,5** | 2,4 |
| | | |
| Fair values of derivatives | | |
| Electricity derivatives | **0,4** | -0,2 |
| | **0,4** | -0,2 |

## 12. Related party transactions

Elisa Group's related parties include the parent company, subsidiaries, associates, joint ventures and key management. Key management consists of Elisa's Board of Directors, the CEO and the Executive Board, and closely associated parties.

| Related party transactions with associated companies<br>EUR million | **1-12<br>2018** | 1-12<br>2017 |
|---|---|---|
| Sales | **0,5** | 0,5 |
| Purchases | **1,1** | 1,4 |
| Receivables | **0,9** | 0,1 |
| Liabilities | **0,0** | 0,1 |

There were no related party transactions with the key management.
The salaries and remuneration paid to the management of Elisa Group will be published in the annual consolidated financial statements.

## 13. Key Figures

| EUR million | **1-12<br>2018** | 1-12<br>2017 |
|---|---|---|
| Shareholders' equity per share, EUR | **7,05** | 6,52 |
| Interest bearing net debt | **1 067,9** | 1 073,1 |
| Gearing, % | **94,8** | 103,2 |
| Equity ratio, % | **42,4** | 40,5 |
| Return on investment (ROI), % *) | **18,3** | 19,9 |
| Gross investments in fixed assets | **254,4** | 246,4 |
| of which finance lease investments | **2,3** | 2,8 |
| Gross investments as % of revenue | **13,9** | 13,8 |
| Investments in shares and business combinations | **13,6** | 103,7 |
| Average number of employees | **4 814** | 4 614 |

*) Rolling 12 months' profit preceding the reporting date. Comparison figure corrected.

## Financial Calendar

| | |
|---|---|
| Interim Report Q1 2019 | 17 April 2019 |
| Half-Year Report 2019 | 12 July 2019 |
| Interim Report Q3 2019 | 17 October 2019 |

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