MOODY'S
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CREDIT OPINION
20 April 2018

Update

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RATINGS

Elisa Corporation

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

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

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Elisa Corporation

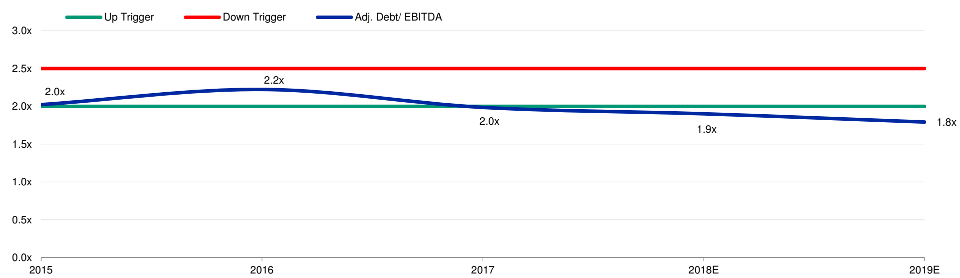
Update to Credit Analysis

Summary

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

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

Exhibit 1
Elisa's is strongly positioned in the rating category, as demonstrated by the projected evolution in Moody's-adjusted debt/EBITDA
Moody's-adjusted debt/EBITDA evolution



Source: Moody's Financial Metrics™

Credit strengths

» A strong market position in Finland

» An integrated business model and moderate technology risk

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

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

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

Credit challenges

» A small scale

» Revenue concentration in Finland, notwithstanding increased exposure to Estonia

» A competitive domestic market, which limits growth opportunities

Rating outlook

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

Factors that could lead to an upgrade

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

Factors that could lead to a downgrade

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

Key indicators

Exhibit 2
Elisa Corporation

	12/31/2019 Proj	12/31/2018 Proj	12/31/2017	12/31/2016	12/31/2015	12/31/2014	12/31/2013
Revenue (USD Billion)	$2.1	$2.1	$2.0	$1.8	$1.7	$2.0	$2.1
Debt / EBITDA	1.8x	1.9x	2.0x	2.2x	2.0x	2.2x	2.4x
RCF / Debt	27.0%	24.9%	25.2%	22.3%	25.1%	21.9%	18.8%
(EBITDA - CAPEX) / Interest Expense	14.9x	13.8x	12.7x	12.4x	10.8x	9.9x	8.5x

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

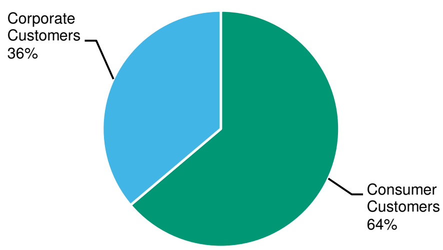
Profile

Elisa is an integrated provider of telecommunication services in Finland, with around 4.7 million mobile and 0.7 million fixed broadband subscriptions as of the end of December 2017. Elisa holds leading positions in Finland, in both mobile and fixed-line segments, with a 40% subscriber market share in mobile and 35% in fixed broadband as of the end of December 2017. The company also operates in Estonia, offering fixed broadband (22% market share), mobile (33%), pay TV (37%) and corporate network services. The Finnish state, through its investment arm, Solidium, owns a 10.0% stake in Elisa. In addition, the State Pension Fund owns a 0.74% stake in the company.

Exhibit 3

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

EBITDA breakdown by segment for the fiscal year ended December 2017

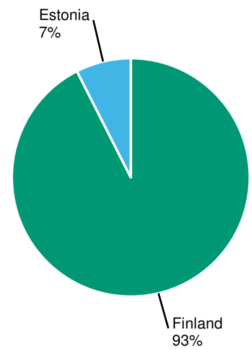


Source: Company reports

Exhibit 4

Elisa's operations are concentrated in Finland, which accounted for 93% of EBITDA in FY 2017

EBITDA breakdown by geography for the fiscal year ended December 2017



Source: Company reports

Detailed credit considerations

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

With annual revenue of €1.79 billion and EBITDA of €608 million in 2017, Elisa is a relatively small incumbent telecom operator in Europe. The company's operations are concentrated in Finland, which accounted for 91% of its revenue in 2017, and where it holds leadership positions in mobile and fixed broadband. In Estonia, which accounted for 8% of Elisa's revenue in 2017, the company historically operated as a wireless network operator. However, the acquisitions of Starman (announced in December 2016) and Santa Monica (announced in March 2017) significantly improved Elisa's competitive positioning in Estonia, creating an integrated operator offering fixed broadband, mobile and pay TV services. In the near term, we expect Elisa's management to remain focused on building its competitive position in its core markets, Finland and Estonia. Equally, we expect a conservative M&A policy focused on small bolt-on acquisitions designed to strengthen the company's market position in strategic segments such as the digital services business.

An integrated business model and moderate technology risk

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

We view Elisa's technology risk as moderate, given its leading position in 4G networks, in terms of both coverage and speed. The company has made heavy investments in its 4G LTE network, reaching over 99% coverage in Finland and 98% coverage in Estonia as of the end of December 2017. Elisa's 4G network is the fastest in Finland, according to the European Communications Engineering Oy, and the company's network carries the fourth-largest volume of data in Europe. Elisa has also started testing 5G technology - in 2017 it became the first operator to test 5G terminals in Helsinki City area in 5G preliminary standard 3.5 Ghz frequency band- and expects to have a mass-market product 2020 and beyond. In addition, in recent years, Elisa has placed strong focus on improving the quality of its network, using predictive fault detection techniques to reduce network incidents that have had an adverse impact on the operations of some of its peers.

Because of its large spectrum ownership (Elisa won part of the new spectrum auction for 700 megahertz frequencies in November 2016) and the low population density in Finland, the company has more spectrum per capita than other European operators. As a result, Elisa is one of the few European companies that differentiate their offers by speed rather than the size of data buckets.

Stable market structure supports a rational pricing environment

Elisa is one of the more stable operators in the European telecom peer group in terms of operating performance and cash flow generation. This stability derives from a favourable operating environment where the three established national operators, Elisa, Telia Company AB (Telia, Baa1 stable) and DNA, own fixed broadband and mobile assets, and try to take their fair share of modest market growth, with no major shifts in market position. As a result, service revenue of the Finish mobile market has grown at a compound annual growth rate of 4% over 2012-17, and average revenue per user (ARPU) has been on an increasing trend over the past five years. In addition, average prices are relatively low by European market standard, leaving little room for discounted offers by mobile virtual network operators, which only have 1%-2% share of the market.

The mobile market remains dominated by Elisa, which had a 40% market share in terms of subscribers as of the end of December 2017, followed by Telia with 32% and DNA with 28%. In fixed broadband, Elisa had a leading position with a 35% market share, followed by Telia with 29%, DNA with 26% and Finnet with 8% as of the end of December 2017.

While mobile competition has increased to some extent since the first half of 2017, driven by greater promotional activity by companies such as Telia and DNA, Elisa's market share remained broadly stable in 2017 compared with that in 2016 (mobile subscriptions were down 0.3% in 2017 from that a year earlier). Elisa believes that its ability to continue to defend its market share rests on its superior network quality, its wider portfolio of digital services businesses, its premium packages that are unique to the market and its lean cost structure, which provides it with the capacity to invest more in customer acquisitions if required.

Upselling to higher speeds supported strong operating performance in 2017

Elisa's operating performance has been solid compared to its European peers, with revenue and comparable EBITDA up 9.3% and 8.7%, respectively, in 2017. Revenue growth has been driven by (1) higher mobile service revenue (up 5.7% in 2017, among the fastest growth rates in Europe), (2) growth in its digital service business in the corporate segment, (3) the recent economic recovery in Finland (GDP growth of 3.5% in 2017; 2016: 1.9%), (4) organic service revenue growth in Estonia, and (5) the impact of recent acquisitions in Estonia. EBITDA was driven by top-line growth, ongoing efficiency improvements and the favourable impact from operating leverage.

In the mobile segment, Elisa has been successful in upselling higher speeds (mobile data consumption increased 42.3% in 2017 from that a year earlier) to customers at higher prices (post-paid ARPU increased 6.3% in 2017 from that a year earlier). The shift to higher speeds has been accelerated by the rapid uptake of smartphones in Finland (79% of Elisa's customers used 3G- and 4G-capable smartphones in Q4 2017 compared with 74% in Q4 2016), greater demand for online TV and videos and the company's unlimited mobile data pricing model, among others. In addition, Elisa recorded good uptake of the premium subscriptions it launched in summer 2017, designed to capture customers who are already in 4G (50 megabit speed levels).

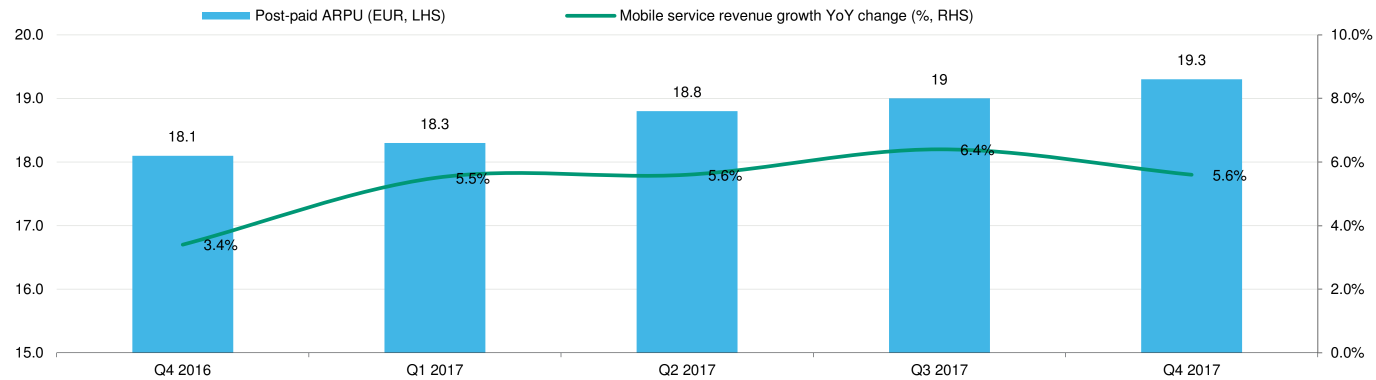
In 2018, Elisa is conservatively guiding its revenue and EBITDA at the same level or slightly higher than that in 2017. We believe the guidance reflects uncertainties regarding the evolution in the competitive environment, given greater promotional activity since H1 2017 than in the past few years. Increased competitive pressure, coupled with selective price increases in some service categories, had an adverse impact on post-paid voice churn of up to 19.5% in Q4 2017 (Q4 2016: 15.8%).

In the next 12-18 months, we expect mobile service revenue growth to continue, although at a slower rate of 3%-5% per year as per Elisa's guidance range while the reported EBITDA margin trends towards 37%. Earnings growth should be supported by (1) continued upselling of customers from 3G to 4G (Elisa's 4G penetration of its subscriber base is only about 54%) and 4G customers to premium subscriptions; (2) growth in digital services revenue (currently margin dilutive as the business is in the development phase); (3) further productivity improvements amid Elisa's track record in improving its reported EBITDA margin; and (4) synergies of about €4 million-€6 million by the end of 2019 from the acquisition of Starman and Santa Monica, and of €5 million-€8 million from Anvia in 2018.

Exhibit 5

Mobile service revenue growth has been robust compared with that of peers, driven by upselling customers to 4G and growth in premium subscriptions

Evolution of mobile service revenue growth and post-paid ARPU



Source: Company data

Predictable financial policies drive stable and conservative credit metrics

Elisa has a track record of maintaining a stable financial policy. The company's medium-term financial targets include (1) reported net debt/EBITDA of 1.5x-2.0x (Q4 2017: 1.8x), (2) net debt/EBITDA equity above 35%, and (3) a maximum capital spending/sales of 12% (although it temporarily increased in 2017 to 13% of sales because of the Anvia integration). Elisa's capital spending intensity is lower than the European average of around 15%, which management attributes to the company's strict capital spending policy, its lean strategy focused on market demands and its effectiveness at actively managing its network.

Elisa's stable financial policy provides good cash flow visibility and supports a generous dividend policy aimed at distributing 80%-100% of net profit, provided net debt/EBITDA remains within 1.5x-2.0x. Given that the vast majority of excess cash flow is distributed to shareholders, this policy leaves little capacity to accommodate extraordinary capital spending plans (beyond Elisa's 12% capital spending/sales target) or sizeable debt-financed M&A. Equally, in light of its generous dividend policy, we expect Elisa to continue to exhibit credit metrics most closely associated with a Baa2 rating; its RCF/debt was 25.2% as of the end of December 2017, at the midpoint of the range established for its rating category (20%-30%).

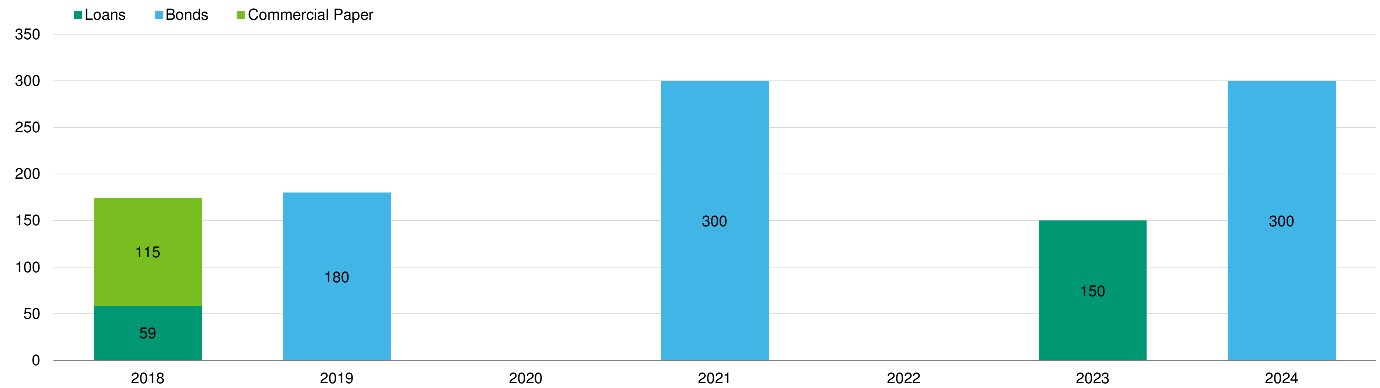
Liquidity analysis

Elisa's liquidity is adequate, supported by cash and cash equivalents of €44 million as of the end of December 2017 and full availability under its €300 million committed revolving credit facilities maturing in 2021 (€130 million) and 2022 (€170 million). These sources, together with expected annual funds from operations of around €550 million, will more than cover Elisa's cash needs over the next 12-18 months, including €115 million in commercial paper maturities, €59 million in bank loans, around €225 million in capital spending and around €250 million in dividends. The next large debt maturity is a €180 million bond due in 2019, but we expect Elisa to refinance the bond in the next 12 months.

Exhibit 6

We expect internal sources of liquidity to more than cover €354 million of debt maturing over 2018-19

Debt maturity profile as of 31 December 2017 (€ millions)



Source: Company reports

Rating methodology and scorecard factors

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

Exhibit 7

Methodology grid

Telecommunications Service Providers Industry Grid [1][2]	Current FY 12/31/2017		Moody's 12-18 Month Forward View As of 4/12/2018 [3]	
Factor 1 : Scale (12.5%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$2.0	B	$2.1	B
Factor 2 : Business Profile (27.5%)				
a) Business Model, Competitive Environment and Technical Positioning	Baa	Baa	Baa	Baa
b) Regulatory Environment	Ba	Ba	Ba	Ba
c) Market Share	Baa	Baa	Baa	Baa
Factor 3 : Profitability and Efficiency (10%)				
a) Revenue Trend and Margin Sustainability	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (35%)				
a) Debt / EBITDA	2.0x	A	1.8x - 1.9x	A
b) RCF / Debt	25.2%	Baa	25% - 27%	Baa
c) (EBITDA - CAPEX) / Interest Expense	12.7x	Aaa	13.8x - 14.9x	Aaa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned				Baa2

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
(2) As of 04/12/2018.
(3) This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions or divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 8

Peer snapshot: Elisa Corporation - December 2017 (last 12 months)

	Elisa Corporation Baa2 Stable			Telia Company AB Baa1 Stable			Telenor ASA A3 Stable			Koninklijke KPN N.V. Baa3 Stable			TDC A/S Baa3 RUR-DNG		
(in US millions)	FYE Dec-16	FYE Dec-17	LTM Dec-17	FYE Dec-16	FYE Dec-17	LTM Dec-17	FYE Dec-16	FYE Dec-17	LTM Dec-17	FYE Dec-16	FYE Dec-17	LTM Dec-17	FYE Dec-16	FYE Dec-17	LTM Dec-17
Revenues	$1,810	$2,020	$2,020	$9,846	$9,362	$9,362	$14,930	$15,102	$15,102	$7,525	$7,341	$7,341	$3,125	$3,079	$3,079
EBITDA	$688	$749	$749	$3,235	$3,128	$3,128	$5,806	$6,715	$6,715	$2,977	$2,877	$2,877	$1,342	$1,298	$1,298
Total Debt	$1,458	$1,581	$1,581	$12,784	$11,459	$11,459	$12,197	$11,582	$11,582	$10,348	$10,793	$10,793	$4,537	$4,800	$4,800
Cash & Cash Equivalents	$47	$53	$53	$3,140	$4,213	$4,213	$2,811	$2,785	$2,785	$1,366	$1,286	$1,286	$239	$285	$285
EBITDA Margin	38.0%	37.1%	37.1%	32.9%	33.4%	33.4%	38.9%	44.5%	44.5%	39.6%	39.2%	39.2%	42.9%	42.1%	42.1%
(EBITDA-CAPEX) / Interest Exper	12.4x	12.7x	12.7x	2.8x	2.5x	2.5x	7.1x	10.5x	10.5x	2.8x	3.2x	3.2x	3.5x	3.8x	3.8x
Debt / EBITDA	2.2x	2.0x	2.0x	4.2x	3.5x	3.5x	2.2x	1.7x	1.7x	3.6x	3.5x	3.5x	3.5x	3.5x	3.5x
FCF / Debt	4.0%	0.5%	0.5%	-6.4%	-2.0%	-2.0%	1.7%	10.2%	10.2%	1.8%	2.9%	2.9%	7.8%	6.2%	6.2%
RCF / Debt	22.3%	25.2%	25.2%	10.5%	21.5%	21.5%	26.4%	31.9%	31.9%	15.9%	18.9%	18.9%	24.2%	21.4%	21.4%

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

Exhibit 9

Moody's-adjusted debt breakdown

Elisa Corporation

(in EUR Millions)	FYE Dec-12	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17
As Reported Debt	**878.5**	**1,109.0**	**1,042.8**	**991.1**	**1,168.6**	**1,117.5**
Pensions	6.7	12.9	17.1	14.6	15.4	14.8
Operating Leases	160.8	175.2	171.3	167.4	168.9	166.2
Non-Standard Adjustments	0.5	27.2	20.5	13.8	29.2	18.1
Moody's-Adjusted Debt	**1,046.5**	**1,324.3**	**1,251.7**	**1,186.9**	**1,382.1**	**1,316.6**

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

Exhibit 10

Moody's-adjusted EBITDA breakdown

Elisa Corporation

(in EUR Millions)	FYE Dec-12	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17
As Reported EBITDA	**499.2**	**491.8**	**519.1**	**535.3**	**566.1**	**654.9**
Pensions	0.1	0.3	0.4	-0.1	0.0	0.0
Operating Leases	53.6	58.4	57.1	55.8	56.3	55.4
Unusual	2.6	-1.0	-4.1	-2.1	-2.2	-47.5
Non-Standard Adjustments	-0.1	0.0	0.1	-2.3	1.4	0.0
Moody's-Adjusted EBITDA	**555.4**	**549.5**	**572.6**	**586.6**	**621.6**	**662.8**

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

Ratings

Exhibit 11

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

Source: Moody's Investors Service

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