
elisa
2018
annual report / financials / responsibility / corporate governance

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The Report of the Board of Directors 2018

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	2016
Revenue	1,832	1,787	1,636
EBITDA	640	608	563
Comparable EBITDA [1]	639	613	564
EBITDA-%	34.9	34.0	34.4
Comparable EBITDA-%	34.9	34.3	34.5
EBIT	404	378	339
Comparable EBIT [1]	403	384	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 4.7 million and capital gains of EUR 5.5 million from divested businesses. 2017 excluding restructuring costs of EUR 3.9 million, acquisition costs of EUR 3.1million and a capital gain of EUR 1.5 million from the divested businesses.

For a comprehensive table of financial indicators please refer to Note 9.1 of the consolidated financial statements.

Changes have been calculated with exact figures prior to rounding.

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 capital gain from 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 3 million 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).

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, undrawn committed loans and credit lines totalled EUR 381 (344) million at the end of the year.

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)

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	1–12/2018	1–12/2017
Revenue	1,150	1,125
EBITDA	416	388
Comparable EBITDA	415	391
EBITDA-%	36.2	34.5
Comparable EBITDA-%	36.1	34.8
EBIT	268	247
Comparable EBIT	268	250
CAPEX	166	164

Changes have been calculated using exact figures prior to rounding

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.

Corporate Customers business

EUR million	1–12/2018	1–12/2017
Revenue	681	663
EBITDA	224	219
Comparable EBITDA	224	222
EBITDA-%	32.9	33.1
Comparable EBITDA-%	32.9	33.5
EBIT	135	131
Comparable EBIT	135	134
CAPEX	88	82

Changes have been calculated using exact figures prior to rounding

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.

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	1–12/2018 [1]	1–12/2017
Capital expenditure, of which	254	246
– Consumer Customers	166	164
– Corporate Customers	88	82
Shares	14	104
Total	268	350

[1] Include EUR 26 million 3.5 GHz frequency licence investment

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] Domestic commercial paper programme, 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	1–12/2018	1–12/2017
Nasdaq Helsinki, millions	103.9	104.5
Other marketplaces, millions (1	197.8	151.9
Total volume, millions	301.7	256.5
Value, EUR million	11,003.9	8,627.8
% of shares	180.3	153.3

Shares and market values	31.12.2018	31.12.2017
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.

For more information on shares and management shareholding, please see Shares and Shareholders section and Note 4.1 to the consolidated financial statements.

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 (7). 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 with 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 treasury 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 the other 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 7.1 to the consolidated financial statements.

Corporate responsibility and non-financial reporting

Elisa will publish its sixth verified responsibility report as part of the Annual Report 2018. 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.

Corporate Governance Statement

The Group has published a Corporate Governance Statement on 31 January 2019.

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 remain 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

Consolidated income statement

EUR million	Note	2018	2017
Revenue	2.1, 2.3	1,831.5	1,787.4
Other operating income	2.4	9.8	5.7
Materials and services	2.5	–704.4	–695.6
Employee expenses	4.1	–311.4	–304.0
Other operating expenses	2.5	–185.4	–185.8
EBITDA	2.1	**640.1**	**607.7**
Depreciation, amortisation and impairment	2.1, 5.1	–236.2	–229.7
EBIT	2.1	**403.8**	**378.0**
Financial income	7.3.1	2.4	49.1
Financial expenses	7.3.1	–25.0	–23.9
Share of associated companies' profit		–0.4	0.0
Profit before tax		**381.0**	**403.2**
Income taxes	8.1.1	–65.0	–66.5
Profit for the period		**316.0**	**336.7**
Attributable to			
Equity holders of the parent		315.8	336.6
Non-controlling interests		0.2	0.1
		316.0	336.7
Earnings per share (EUR)			
Basic	2.6	1.98	2.11
Diluted	2.6	1.98	2.11
Average number of outstanding shares (1,000 shares)			
Basic	2.6	159,737	159,607
Diluted	2.6	159,737	159,607

Consolidated statement of comprehensive income

EUR million	Note	2018	2017
Profit for the period		**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		0.5	0.3
Translation differences		–0.1	–0.2
		0.4	–34.6
Items, which are not reclassified subsequently to profit or loss			
Remeasurements of the net defined benefit liability	4.3	0.7	0.3
Total comprehensive income		**317.0**	**302.4**
Total comprehensive income attributable to			
Equity holders of the parent		316.9	302.4
Non-controlling interests		0.2	0.1
		317.0	302.4

Consolidated statement of financial position

EUR million	Note	31 Dec. 2018	31 Dec. 2017
ASSETS			
Non-current assets			
Tangible assets	5.2	751.6	758.1
Goodwill	5.3, 5.3.1	1,020.7	1,013.5
Other intangible assets	5.3	206.7	177.1
Investments in associated companies	8.3.2	2.7	1.9
Other investments	7.3.3, 7.3.4	9.6	7.8
Deferred tax assets	8.1.2	16.5	16.9
Trade and other receivables	6.2.2, 7.3.5	93.8	83.7
		2,101.6	2,058.9
Current assets			
Inventories	6.1	65.4	68.3
Trade and other receivables	6.2.1	416.6	407.6
Tax receivables		4.3	1.2
Cash and cash equivalents	7.3.3	80.9	44.3
		567.2	521.5
TOTAL ASSETS	2.1	2,668.8	2,580.4

Consolidated statement of financial position

EUR million	Note	31 Dec. 2018	31 Dec. 2017
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital		83.0	83.0
Treasury shares		–135.6	–140.2
Reserve for invested non-restricted equity		90.9	90.9
Contingency reserve		3.4	3.4
Fair value reserve		–11.6	–12.8
Other funds		381.0	381.0
Retained earnings		715.2	634.2
Equity attributable to equity holders of the parent	4.2, 7.2	1,126.3	1,039.6
Non-controlling interests		0.5	0.1
TOTAL SHAREHOLDERS' EQUITY		1,126.9	1,039.7
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	8.1.2	25.7	23.5
Pension obligations	4.3	15.2	16.0
Provisions	8.2	2.3	2.5
Financial liabilities	7.3.2, 7.3.4	861.3	939.6
Trade payables and other liabilities	6.3, 7.3.4, 7.3.5	36.3	25.1
		940.8	1,006.8
Current liabilities			
Trade and other payables	6.3, 7.3.4	309.3	349.8
Tax liabilities		1.7	0.1
Provisions	8.2	2.7	6.2
Financial liabilities	7.3.2, 7.3.4	287.4	177.8
		601.1	533.8
TOTAL LIABILITIES		1,541.9	1,540.6
TOTAL EQUITY AND LIABILITIES		2,668.8	2,580.4

Consolidated cash flow statement

EUR million	Note	2018	2017
Cash flow from operating activities			
Profit before tax		381.0	403.2
Adjustments			
Depreciation, amortisation and impairment	5.1	236.2	229.7
Financial income (–) and expenses (+)	7.3.1	22.5	–25.2
Gains (–) and losses (+) on the disposal of fixed assets		–4.1	–2.1
Increase (+) / decrease (–) in provisions in the income statement		-3.6	2.2
Other adjustments		–10.4	–3.6
		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
Dividends received		0.2	0.1
Interest received		2.1	4.2
Interest paid		–19.2	–19.3
Taxes paid		–68.2	–63.6
Net cash flow from operating activities		515.4	500.8

Consolidated cash flow statement

EUR million	Note	2018	2017
Cash flow from investing activities			
Equity investments and business acquisitions	3	–9.8	–35.6
Contingent consideration of subsidiaries			–1.0
Other investments		–0.7	–2.8
Capital expenditure		–235.6	–254.8
Proceeds from disposal of subsidiaries and businesses	3	1.1	
Proceeds from disposal of other investments		0.3	44.4
Proceeds from disposal of tangible and intangible assets		1.6	4.0
Repayment of loan receivables			44.8
Net cash flow 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	3		–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 the period		44.3	44.5
Cash and cash equivalents at the end of the period	7.3.3	80.9	44.3

Consolidated statement of changes in shareholders' equity

	Equity attributable to equity holders of the parent							
EUR million	**Share capital**	**Treasury shares**	**Reserve for invested non-restricted equity**	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2017	83.0	–142.9	90.9	405.7	534.1	970.9	0.5	971.3
Profit for the period					336.6	336.6	0.1	336.7
Translation differences					–0.2	–0.2		–0.2
Other investments				–34.7		–34.7		–34.7
Cash flow hedge				0.3		0.3		0.3
Remeasurements of the net defined benefit liability				0.3		0.3		0.3
Total comprehensive income				–34.1	336.4	302.4	0.1	302.4
Dividend distribution					–239.6	–239.6	–0.3	–240.0
Share-based compensation		2.7			6.7	9.4		9.4
Acquisition of non-controlling interests					–1.1	–1.1	–0.1	–1.2
Other changes					–2.2	–2.2	0.1	–2.1
Balance at 31 December 2017	83.0	–140.2	90.9	371.6	634.2	1,039.6	0.1	1,039.7
Adoption of IFRS 15					7.5	7.5		7.5
Adoption of IFRS 9					4.2	4.2		4.2
Adoption of amendment to IFRS 2					14.5	14.5		14.5
Balance at 1 January 2018	83.0	–140.2	90.9	371.6	660.4	1,065.8	0.1	1,065.9
Profit for the period					315.8	315.8	0.2	316.0
Translation differences					–0.1	–0.1		–0.1
Cash flow hedge				0.5		0.5		0.5
Remeasurements of the net defined benefit liability				0.7		0.7		0.7
Total comprehensive income				1.2	315.7	316.9	0.2	317.0
Dividend distribution					–263.6	–263.6		–263.6
Share-based compensation		4.6			7.6	12.2		12.2
Acquisition of non-controlling interests							0.2	0.2
Other changes					–4.9	–4.9		–4.9
Balance at 31 December 2018	83.0	–135.6	90.9	372.8	715.2	1,126.3	0.5	1,126.9

Notes to the consolidated financial statements

1 General accounting principles

1.1 Basic information about the Group

Elisa Corporation ("Elisa" or "the Group") engages in telecommunications activities and provides ICT and online services in Finland and in selected international market areas. The parent company of the Group is Elisa Corporation ("the parent") domiciled in Helsinki, and its registered address is Ratavartijankatu 5. The shares of the parent company, Elisa Corporation, have been listed on the Nasdaq Helsinki since 1997.

On 30 January 2019, Elisa Corporation's Board of Directors accepted this financial statement for publication. A copy of the consolidated financial statements is available from Elisa's head office at Ratavartijankatu 5, Helsinki, or on the company's website at corporate.elisa.com.

1.2 Basis of presentation of financial statements

Elisa's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), including adherence to IAS and IFRS standards and SIC and IFRIC interpretations valid as at 31 December 2018. In the Finnish Accounting Act and the provisions issued pursuant to it, the International Financial Reporting Standards refer to standards and interpretations that have been approved for application in the EU according to the procedures provided for in EU regulation (EC) No. 1606/2002 ("IFRS"). The notes to the consolidated financial statements are also compliant with Finnish accounting and corporate legislation.

The consolidated financial statements have been prepared under the historical cost convention with the exception of financial assets and liabilities, share-based payments and derivatives recognised at fair value through profit or loss or statement of comprehensive income. The financial statements are presented in EUR million and the figures are rounded to one decimal place.

1.2.1 Accounting principles, structure and presentation of the consolidated financial statements

The structure and presentation of the consolidated financial statements have changed from previous years.

The accounting policies and descriptions of management's judgment-based conclusions are mainly found in the notes to the financial statements, which are listed in the table below. Only some general accounting policies are described in this section.

The order of the notes has also changed. The notes, presented previously aligned with the income statement items order, are now grouped according to the materiality.

Summary of notes, related to accounting principles for the consolidated financial statements of Elisa Group

Accounting principles	Note
Operating Segments	2.1
Revenue recognition	2.3
Other operating income	2.4
Other operating expenses	2.5
Business acquisitions and disposals	3
Share-based incentives	4.2
Pension obligations	4.3
Tangible assets	5.2
Intangible assets	5.3
Goodwill	5.3.1
Inventories, trade and other receivables, trade and other liabilities	6
Financial assets and liabilities	7.3
Derivative instruments	7.3.5
Income taxes	8.1.1
Deferred tax assets and liabilities	8.1.2
Provisions	8.2
Principles of consolidation, subsidiaries	8.3.1
Principles of consolidation, joint arrangements	8.3.2
Operating leases	8.4

The symbols below indicate the figures mentioned in the notes that match the balances in the income statement, statement of financial position and the cash flow statement.

I/S = Income Statement

B/S = Balance Sheet

C/F = Cash Flow Statement

Consolidation principles

The consolidated financial statements include the parent company, Elisa Corporation, subsidiaries, associates and joint arrangements as described in detail in Notes 8.3.1 and 8.3.2.

Foreign currency items

The consolidated financial statements are presented in euros, which is the functional and presentation currency of the parent company.

Transactions in foreign currencies

Foreign currencies transactions are translated into functional at the exchange rates prevailing on the dates of the transactions. Monetary items have been translated into the functional currency at the exchange rates prevailing at the end of the reporting period. Non-monetary items denominated in foreign currencies are translated at the exchange rate at the date of the transaction, excluding items measured at fair value that are translated at the exchange rates prevailing on the valuation date. Gains and losses arising from the currency translations are recognised through profit or loss. Foreign exchange gains and losses resulting from operating activities are included in the respective items above operating profit. Foreign exchange gains and losses from the loans denominated in a foreign currency are included in financial income and expenses.

Translation of foreign Group companies' financial statements

The income statements of foreign Group companies are translated into euros at the average rate of the financial year. Their statements of financial position are translated at the exchange rates prevailing at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and presented under translation differences in consolidated shareholders' equity.

1.2.2. Accounting principles that require management's judgement and key sources of estimation uncertainty

When preparing the financial statements, it is necessary for the management of the company to make estimates and certain assumptions. The actual outcome may differ from the estimates and assumptions made. In addition, judgement in applying the accounting policies is required.The estimates are based on the management's best view at the end of the financial period. Any changes in estimates and assumptions are recordeded for the financial year during which the estimate or assumption was adjusted, and for all subsequent periods.

Significant areas of estimation and uncertainty in applying accounting policies that have the most significant impact on amounts recognised in the financial statements are related to business combinations (3), impairment of intangible assets (5.3.1), share-based payments (4.2) and recognition of deferred tax assets (8.1.2). For detailed information, please refer to the notes indicated above.

1.3 Applied new and revised standards

The Company has adopted new standards with the initial date of application as of 1 January 2018. The impacts of the adopted standards on the consolidated financial statement are presented within the respective notes.

The annual improvements to IFRS standards adopted as of 1 January 2018 did not have an impact on the consolidated financial statements

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

- IFRS 16 Leases. A lessee is required to recognise on 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 lessor, 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 leases previously treated as finance lease agreements will not change at the time of adoption. Going forward, the 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 any prepayments. The Group has made a decision to apply the allowances permitted by the standard to exclude short-term leases and low-value assets from the capitalisation amounts. The rental costs of these contracts will be recognised on a straight-line basis in the income statement also in future.

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 at industry-specific interest rates, 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 business and telecom premises, retail facilities and vehicles.

The adoption of the IFRS16 standard will transfer off-balance sheet liabilities to the balance sheet, resulting to 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 preliminary calculations, on 1 January 2019, the Group will capitalise a EUR 87.0 million lease liability and a corresponding EUR 87.5 million right-of-use asset. The lease liability amount includes a portion of EUR 22.1 million 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. Furthermore, 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 the starting date of 1 January 2019.

The adoption of the standard will affect the income statement by decreasing other operating expenses, as well as by increasing depreciation 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. The total cash flow will not change. The adoption of the standard will improve EBITDA key indicators and have a negative impact on balance sheet-based key indicators, such as the gearing ratio.

Other new or revised accounting standards are not expected to have a material impact on the Company's consolidated financial statements.

2 Operational result

2.1 Operating Segments

The Group has two reporting segments: Consumer Customers and Corporate Customers. The organisational and management structure of Elisa Group is based on a customer-oriented operating model. The reportable segments are based on the internal reporting provided to management.

The Consumer Customers segment provides consumers and households with telecommunications services, such as voice and data services.
The Corporate Customers segment provides corporate and community customers voice and data services and ICT solutions.

Operating segments

2018 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 expenses			-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
Assets	1,680.2	874.7	114.0	2,668.8

2017 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 expenses			-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
Assets	1,657.0	851.2	72.2	2,580.4

Revenue 2018

Consumer Customers 1,150.2
Corporate Customers 681.4

EBIDTA 2018

Consumer Customers 416.1
Corporate Customers 223.9

Geographical segments

2018 EUR million	Finland	Rest of Europe	Other countries	Eliminations	Group total
Revenue	1,633.3	200.7	8.0	–10.4	1,831.5
Assets	2,397.1	270.1	1.6		2,668.8

2017 EUR million	Finland	Rest of Europe	Other countries	Eliminations	Group total
Revenue	1,618.8	176.7	2.0	–10.0	1,787.4
Assets	2,309.7	269.2	1.4		2,580.4

Accounting Principles – Operating Segments:

The segments are controlled by segment-specific performance reporting that includes external revenue, EBITDA, EBIT and investments. Financial items, the share of associated companies' profit and income taxes are not allocated to operating segments. The costs of production and support functions are allocated to operating segments on the matching principle. Operations in Estonia are divided into the Consumer Customers and Corporate Customers operating segments on the basis of customer accounts.

Segment assets consist of intangible and tangible assets, inventories, trade and other non-interest bearing receivables. Deferred tax assets, investments in associated companies, other investments, interest-bearing receivables, financial items and income tax receivables are not included in segment assets. Liabilities are not allocated to operating segments.

The accounting principles of the segments are the same as those used in the preparation of the financial statements.

The reported geographical areas are Finland, Rest of Europe and Other Countries. Revenues are presented on the basis of customer location. Assets are presented on the basis of location.

2.2 Items affecting comparability

Items affecting comparability provide significant additional information regarding possibly eliminated items that are not necessarily accounted for in the Group's results and cash flows. Items affecting comparability are relevant for understanding financial performance when comparing the financial result with the previous periods.

Exceptional transactions outside the ordinary course of business are treated as items affecting comparability. Such items, as identified by the Group, are capital gains and losses from divestments of assets and businesses, acquisition costs of assets and businesses, impairments, restructuring expenses and costs of legislative changes, damages or litigations.

Income statement

EUR million	2018	2017
Capital gains and losses	5.5	1.5
Expenses related to acquisitions of subsidiaries and business combinations		–3.1
Restructuring	–4.7	–3.9
Items affecting comparability in EBITDA and EBIT	0.8	–5.6
Capital gains / losses in financial items		44.8
Items affecting comparability in profit before tax	0.8	39.3
Income taxes	3.6	0.5
Items affecting comparability in profit for the period	4.4	39.8

Items affecting comparability in 2018 include capital gains of EUR 5.5 million (EUR 2.2 million from Habbo and Hideaway businesses and EUR 3.3 million from outsourced customer service and corporate switchboard businesses for Corporate Customers), restructuring costs of EUR 4.7 million and utilisation of confirmed tax losses of EUR 3.3 million.

Items affecting comparability in 2017 include capital gain of EUR 1.5 million from the disposal of Elisa Kassa business, expenses of EUR 3.1 million related to business combinations, restructuring costs of EUR 3.9 million and capital gains from other investments (Comptel Oyj EUR 44.3 million and Länsilinkki EUR 0.5 million).

EUR million	2018	2017
Comparable EBITDA		
I/S EBITDA	640.1	607.7
Items affecting comparability in EBITDA	–0.8	5.6
	639.2	613.3
Comparable EBIT		
I/S EBIT	403.8	378.0
Items affecting comparability in EBIT	–0.8	5.6
	403.0	383.6
Comparable profit before taxes		
I/S Profit before taxes	381.0	403.2
Items affecting comparability in profit before taxes	-0.8	–39.3
	380.2	363.9
Comparable profit for the period		
I/S Profit for the period	316.0	336.7
Items affecting comparability in profit for the period	–4.4	–39.8
	311.6	296.9
Comparable profit for the period attributable to equity holders of the parent		
Comparable profit for the period	311.6	296.9
Non-controlling interests	0.2	0.1
	311.4	296.8
Comparable earnings per share, EUR		
Comparable profit for the period attributable to equity holders of the parent	311.4	296.8
Average number of outstanding shares (1,000 shares), diluted	159,737	159,607
	1.95	1.86

Cash flow

EUR million	2018	2017
Investment in shares and business combinations	10.5	39.5
Loan arrangements		–44.8
Proceeds from disposal of subsidiaries and businesses	–1.1	–48.4
Items affecting comparability in cash flow before financing	9.4	–53.7

Items affecting comparability in 2018 include the following acquisitions: Kepit Systems EUR 2.3 million, Ukkoverkot EUR 1.6 million and Fenix Solutions Oy EUR 3.9 million.

Items affecting comparability in 2017 include the acquisition of Starman AS EUR 6.5 million and repayment of the loan receivable EUR 44.8 million related to the Starman AS acquisition, acquisitions of Santa Monica Networks Oy and Santa Monica Networks AS for EUR 25.9 million. Proceeds from the disposal of subsidiaries and businesses include capital gains from the sale of Comptel Oyj shares for EUR 43.5 million, Länsilinkki shares for EUR 0.8 million and Elisa's Kassa business for EUR 1.6 million.

Comparable cash flow after investments		
C/F Cash flow before financing	272.2	299.7
Items affecting comparability in cash flow before financing	9.4	–53.7
	281.6	246.0

CALCULATION METHOD USED FOR ALTERNATIVE PERFORMANCE MEASURES

Comparable EBITDA	EBIT + depreciation, amortisation and impairment + /–items affecting comparability	
Comparable EBIT	Profit for the period + income taxes + financial income and expense + share of associated companies´ profit +/–items affecting comparability	
Comparable profit for the period	Profit for the period +/– items affecting comparability	
Comparable EPS	Profit attributable to owners of the parent company +/– items affecting comparability ――――――――― Average number of shares during the period adjusted for the share issues	
Comparable return on equity (ROE), %	Profit for the period +/–items affecting comparability ――――――――― Total shareholders' equity on average	X 100
Comparable return on investment (ROI), %	Profit before taxes + interest and other financial expenses +/– items affecting comparability ――――――――― Total equity + interest bearing liabilities on average	X 100
Comparable cash flow after investments	Net cash flow from operating activities – net cash used in investing activities +/– items affecting comparability	

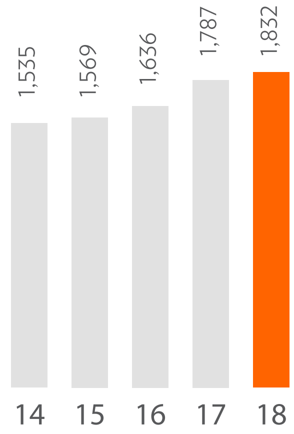
2.3 Revenue

Division of Group's revenue

EUR million	2018	2017
Rendering of services	1,538.1	1,518.2
Equipment sales	293.5	269.2
I/S	1,831.5	1,787.4

EUR million	2018	2017
Mobile telecomunications	1,105.0	1,080.2
Fixed-network broadband and others	726.5	707.3
I/S	1,831.5	1,787.4

Development of revenue, EUR million



Accounting Principles – Adoption of IFRS 15, Revenue from Contracts with Customers:

On 1 January 2018, the Group adopted IFRS 15, Revenue from Contracts with Customers, which replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

Elisa has applied a modified retrospective approach for the contracts that were not completed by 1 January 2018. The cumulative effect of EUR 7.5 million arising from the transition was recognised as an adjustment to the opening balance of retained earnings. The adjustment effect on opening balances of current assets was EUR 10.3 million, on deferred tax assets EUR 0.1 million and on deferred tax liabilities EUR 2.0 million. The comparison year is not restated.

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.

The adoption of IFRS 15 affected particularly the fixed term contracts. According to the IFRS 15, 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 to the entire agreement period. Sales commissions and discounts on fixed-term service agreements are also allocated to the entire agreement period. The adjustment of EUR 4.5 million to retained earnings is related to the sales commissions. The adjustment of retained earnings relating to the discounts, opening fees and related expenses was EUR 3.0 million. 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 was EUR 0.2 million and on EBIT EUR 0.5 million. On 31 December 2018, the balance related to contract assets was EUR 10.0 million and EUR 0.2 million to contract liabilities. The change to the standard did not influence the cash flow.

Accounting Principles – Revenue recognition:

The Group revenue consists mainly of income from voice and data traffic, periodic fees, opening fees and maintenance fees, as well as income from equipment sales. Revenue includes normal sales income from business operations less taxes related to the sales and discounts granted.

The Group recognises revenue over the time or at certain points of time and the key criterion for the revenue recognition is the transfer of control. Revenue is recognised when the company transfers control over a good or service to a customer or over time as the services are provided.

Fixed-term service agreements are recognised during the agreement period and the opening fees of fixed-term service agreements and related expenses are allocated to the entire agreement period. Service agreements valid until further notice are recognised over time. The opening fees of service agreements valid until further notice and related expenses are recognised at the time when the service is connected.A service contract may include the delivery or rendering of a product and a service or access right (service bundle). Sales revenue is allocated in that case to performance obligations based on relative transaction prices.

Service agreements with corporate customers usually meet the IFRS 15 criteria laid down for an agreement negotiated as a single package, when the service agreement will be processed as a single agreement, and the revenue will be allocated to the goods and services based on the prices agreed with each customer. Agreements with consumer customers are usually standard agreements that are not negotiated as a single package in the manner laid down in IFRS 15. Instead, they are processed as separate performance obligations.

Revenue from prepaid mobile phone cards is recognised over the period of realised use of the cards. Service fees invoiced from a customer on behalf of a third-party content service provider are not recognised as revenue.

Customers participating in loyalty programmes are entitled to certain discounts on services and products provided by the Group. Discounts earned by the customers are recognised as reduction of revenue. The Group does not currently have any valid loyalty programmes.

2.4 Other operating income

EUR million	2018	2017
Gain on disposals of property, plant and equipment	1.1	1.2
Gain on disposal of subsidiaries and businesses [1]	5.4	1.5
Other items [2]	3.3	3.0
I/S	9.8	5.7

[1] The reporting period includes a profit of EUR 3.3 million on divestment of outsourced corporate customers' customer service and corporate switchboard businesses for Corporate Customers, and a EUR 2.2 million profit on divestment of Sulake companies. The comparison period includes a EUR 1.5 million profit from the disposal of Elisa Kassa and payment terminals businesses

[2] Other items include rental income from real estate and other income items not associated with ordinary operating activities.

Accounting Principles – Other operating income:

Other operating income includes non-operating income, such as rent income, capital gains on disposal of tangible and intangible assets, subsidiaries and businesses. Government grants associated with development projects are recognised as other operating income when the related costs are recognised as expenses. Government grants associated with capitalised development costs are recorded as a reduction of capital expenditure.

2.5 Other operating expenses

Materials and services

EUR million	2018	2017
Purchases of materials, supplies and goods	446.2	430.9
Change in inventories	5.6	–3.2
External services	252.7	267.9
I/S	704.4	695.6

Gains and losses arising from foreign currency translations are recognised in accordance with their nature either in materials and services or financial income and expenses. Gains and losses arising from foreign currency translations included in Materials and services have been minor.

Employee expenses

More detailed analysis of employee expenses is included in Note 4.

Auditor fees

EUR million	2018	2017
Auditing	0.3	0.4
Tax advisory services	0.1	0.1
Other services	0.1	0.1
	0.4	0.6

Research and development costs

EUR million	2018	2017
Research and development costs recognised as expenses	1.0	1.8
Capitalised development costs	7.5	8.2
	8.4	9.9

Focus area for the research and development activities in 2018 was development of customer relationship management system.

Accounting Principles – Research and development:

Research costs are expensed as they incur, with the exception of development costs, which are capitalised. The capitalisation criteria are met when the product is technically and commercially feasible, and it is expected to generate future economic benefit. In other cases, product development costs are recognised as annual costs.

Development costs initially recognised as expenses cannot be capitalised subsequently.

2.6 Earnings per share

Earnings per share, basic	2018	2017
I/S Net profit for the period attributable to equity holders of the parent (EUR million)	315.8	336.6
Weighted average number of shares outstanding (1,000 shares)	159,737	159,607
Earnings/share, basic (EUR/share)	1.98	2.11

Earnings per share, diluted	2018	2017
I/S Net profit for the period attributable to equity holders of the parent adjusted by dilutive effect (EUR million)	315.8	336.6
Weighted average number of shares outstanding (1,000 shares)	159,737	159,607
Weighted average number of shares outstanding adjusted by dilutive effect (1,000 shares)	159,737	159,607
Earnings/share, diluted (EUR/share)	1.98	2.11

Accounting principles – Earnings per share:

Basic earnings per share are calculated by dividing the net profit for the period attributable to the parent company's equity holders by the weighted average number of shares outstanding during the period.

Diluted earnings per share are calculated on the same basis as earnings per basic share, with the exception of taking into account the dilutive effect of the conversion of all potential dilutive shares into the basic shares.

The Group had no dilutive effect on the number of shares during the financial years 2018 and 2017.

3. Acquisitions and disposals

Acquired businesses in 2018

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 of goodwill relating to strengthening 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 the 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 expense of experts and professionals advisors fees is recorded in other operating expenses.

Acquisition of Ukkoverkot Oy's license and capital stock of Ukkonet Oy

On 30 July 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 took out 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, that consists of the balance sheet value of the acquired company (EUR 1.5) million and, purchase price allocation of EUR 3.3 million. Spectrum will be amortised over 12 years. The purchase price allocation is preliminary, as a 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

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 experts 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 the shares of its managing company, Fenix Enterprise Solutions Oy. The company specialises in automation solutions that support services provided to the clients of the Elisa Corporation's Corporate Customer 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 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 and expected synergy benefits. 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 the 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

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 experts and professional advisors is recorded in other operating expenses.

Disposals of businesses in 2018

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 Sulake Suomi Oy's share stock for a price of EUR 3.0 million. As a result of 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

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

EUR million	
Cash and cash equivalent of a sold entity	–0.6
	–0.6

Effects of disposal on consolidated income statement and balance sheet

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 sale	2.2

[1] As a result of the loss of control, the Group's net assets increased as the net receivables, totalling EUR 1.3 million and previously eliminated as intra-group items, were treated as the 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 sale price was EUR 2.9 million and the net assets sold EUR –0.4 million. The divestment resulted in a profit of EUR 3.2 million, recorded within other operating income. The whole sale price was paid in cash.

Acquired businesses in 2017

Acquisition of AS Starman

On 20 April 2017, Elisa acquired all the shares of AS Starman (currently Elisa Teleteenused AS). The acquisition price was EUR 151.8 million, including EUR 84.1 million loan given to AS Starman at the time of acquisition. The share acquisition price was EUR 67.7 million, icluding EUR 7.1 million portion that was paid in cash. The Group had a loan receivable from the seller at the time of the acquisition. EUR 60.6 million of the share acquisition price was paid by settling the receivable.

Through the acquisition, Elisa strengthened its market position by enabling to expand the service offering in Estonia.

According to the purchase price allocation, EUR 6.8 million of the purchase price is allocated to the customer base, which is amortised over five years. The acquisition resulted in EUR 110.3 million in goodwill relating to expected synergy benefits. Goodwill is not tax deductible.

The acquired company has been consolidated from 1 April 2017 onwards. External revenue after the acquisition was EUR 32.9 million, and the impact on Group profit for the period was EUR 4.2 million. Had the acquisition been made as of the beginning of the year 2017, the impact on Group revenue and profit for the period would have been EUR 43.2 million and EUR 5.9 million, respectively.

Consideration transferred

EUR million	Carrying amount
Settlement of pre-existing relationship	60.6
Cash paid	7.1
Total cost of acquisition	67.7

Analysis of net assets acquired

EUR million	
Customer base	6.8
Other intangible assets	4.5
Tangible assets	28.9
Equity investments and funds	0.0
Inventories	2.3
Trade and other receivables	3.3
Cash and cash equivalents	0.6
Financial liabilities	–84.1
Trade payables and other liabilities	–4.8
	–42.5

Carrying amount

EUR million	
Purchase price paid in cash	–7.1
Cash and cash equivalents of the acquired entity	0.6
	–6.5

Goodwill arising from business combination

EUR million	
Consideration transferred	67.7
Net assets acquired	–42.5
Goodwill	110.3

An EUR 2.7 million expense of expert's and professional advisors fees is recorded in other operating expenses.

Acquisition of Santa Monica Networks Oy and Santa Monica Networks AS

On 20 April 2017, Elisa acquired all the shares of Santa Monica Networks Oy (currently Elisa Santa Monica Oy) and Santa Monica Networks AS. The acquisition price was EUR 31.8 million.

Through the acquisition, Elisa strengthened Corporate Customers segment's market position in the design, construction and maintenance of network solutions on the home markets in Finland and in Estonia.

According to the purchase price allocation, EUR 4.8 million of the purchase price was allocated to customer base, which will be amortised over four years. The business combination resulted in goodwill of EUR 23.5 million, which is related to strengthening the Corporate Customer business and expected synergy benefits. Goodwill is not tax deductible.

The acquired companies have been consolidated from 1 April 2017 onwards. Revenue after the acquisition was EUR 28.4 million and the impact on Group profit for the period was EUR 1.0 million. Had the acquisition been made as of the beginning of the year, the impact on Group revenue and profit for the period would have been EUR 39.5 million and EUR 1.3 million, respectively.

There have been no pre-existing relationships between the Group and the acquired companies at the time of the acquisition that should have been taken into account in the consolidation of business operations.

Consideration transferred

EUR million	Carrying amount
Cash paid	31.8
Total cost of acquisition	31.8

Analysis of net assets acquired

EUR million	
Customer base	4.8
Other intangible assets	0.1
Tangible assets	2.0
Inventories	0.7
Trade and other receivables	13.9
Cash and cash equivalents	3.7
Deferred tax liabilities	–0.6
Financial lease liabilities	–1.1
Other financial liabilities	–0.8
Trade payables and other liabilities	–14.6
	8.3

Effects of acquisition on cash flow

EUR million	
Purchase price paid in cash	–31.8
Cash and cash equivalents of the acquired entities	3.7
	–28.1

Goodwill arising from business combination

EUR million	
Consideration transferred	31.8
Net assets acquired	8.3
Goodwill	23.5

The acquisition resulted in a EUR 0.4 million in expense of transfer tax, which has been recorded in other operating expenses. In addition, a EUR 0.7 million expense for professional advisory services has been recorded in other operating expenses.

Changes in subsidiary ownership
On 30 June 2017 and 27 September 2017, the group acquired in total 36.6 per cent of the shares of Tampereen Tietoverkko Oy. The acquisition price was EUR 1.2 million. After the acquisitions, the share stock owned by Elisa Group, increased to 100 per cent. Due to the acquisitions, the non-controlling interest decreased by EUR 0.1 million, and the Group's equity by EUR 1.1 million.

Divested businesses in 2017

Disposal of Elisa Kassa and payment terminal business

31 December 2017, Elisa Group divested payment terminal business and Elisa Kassa service. The total sale price was EUR 1.6 million, and the net assets sold EUR 0.1 million. The divestment resulted in a profit of EUR 1.5 million, recorded within other operating income. The whole sale price was paid in cash.

Accounting principles – Acquisitions and disposals:

Subsidiaries are consolidated from the date the Group obtains control, and divested companies until the loss of control.

Acquisitions are measured at amortised costs. Identifiable assets acquired and assumed liabilities are measured at their fair value on the acquisition date. Possible investments to non-controlling interests, are measured either at a proportionate share of the acquiree's identifiable net assets or at fair value. The method to be used is selected on a case-by-case basis. Subsequent changes in non-controlling interests are treated as equity transactions. In business combinations carried out in stages previously held equity share in the acquiree is measured at fair value, and the resulting gain or loss is recognised through profit or loss.

The acquisition price consists of the fair value of net assets acquired and the contingent consideration transferred. The amount of the purchase price that exceeds the fair value of the acquired net assets is recognised as goodwill. Additional information regarding valuation and impairment testing of goodwill is available under Note 5.3.1.

The changes in contingent consideration are expensed through profit and loss. Acquisition-related costs, such as consulting fees and transfer tax, are accounted as expenses in the periods, when the costs were incurred and the services received. The costs are presented as Other costs in the income statement.

In connection with loss of control, any investment retained in a former subsidiary is measured at fair value through profit or loss at the date of transaction. Changes in ownership interest that do not result in a loss of control are accounted for as equity transactions.

Accounting policies that require managements judgements – Acquisitions:

The identifiable assets acquired and the consideration transferred in a business combination are measured at fair value. When determining the fair value of the acquired net assets, consideration and estimates may be required. Estimates and judgement are based on the management's best view of the situation at the time of the acquisition.

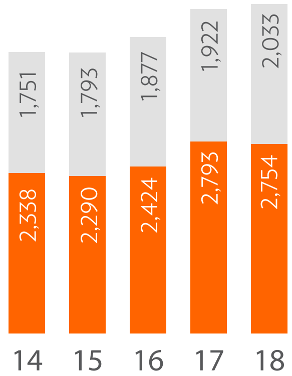
4 Personnel

4.1 Employee expenses

EUR million	2018	2017
Salaries and wages	241.7	235.5
Share-based payments	15.9	15.2
Pension expenses – defined contribution plans	40.1	38.3
Pension expenses – defined benefit plans	0.4	0.6
Other employee costs	13.3	14.3
I/S	311.4	304.0

Number of personnel at the end of the reportig period	2018	2017
Consumer Customers	2,754	2,793
Corporate Customers	2,033	1,922
	4,787	4,715

Number of personnel at the year end



Employee bonus and incentive schemes

All employees are included in the scope of performance-, incentive- or commission-based bonus schemes. The Group also has a personnel fund. The costs of the performance-based bonus scheme and personnel fund are recognised on an accrual basis and the costs are based on the best available estimate of realised amounts.

Performance-based bonus scheme

Rewards are based on financial and operational metrics of Elisa Corporation and its units. Targets are set and the maximum amount of reward is confirmed semi-annually. Some of the Group's key personnel also participated in the share-based compensation plan in 2018.

Personnel fund

The objective of the personnel fund is to secure the commitment of the personnel to Elisa's long-term objectives and to reinforce their interest in the company's financial success and its metrics. The Board of Directors sets the earning criteria for the profit share award annually. The evaluation metrics for the performance-based bonus system is the earnings per share (EPS) and achievement of defined strategic goals. The members of the personnel fund are the employees of Elisa Group, with the exception of those employees who are part of the share incentive plan. In 2018, the Group's personnel fund contribution was EUR 2.3 (2.9) million.

Management remuneration

EUR million	2018	2017
Managing Directors	6.6	3.9
Members and deputy members of Boards of Directors	0.6	0.5

Managing Directors' pension commitments

The retirement age of the Group companies' Managing Directors is 60–65 years.

Employment benefits for key management

Key management consists of Elisa's Board of Directors, the CEO and the Executive Board. Management remuneration is described under parent company's Note 4.

Benefits paid

Annual employee benefits recognised on the income statement

EUR million	2018	2017
Remunerations and other short-term employee benefits	4.2	4.1
Post-employment benefits	0.5	0.5
Share-based compensation [1]	6.5	6.3
	11.2	10.9

[1] In 2018, the share-based compensation expenses were EUR 15.9 (15.2) million, of which EUR 1.6 (1.7) million is allocated to the CEO and EUR 4.9 (4.7) million to the Executive Board. The terms and conditions of share-based incentive plans are described under Note 4.2.

EUR million	2018	2017
Board of Directors	0.6	0.4
CEO	0.8	0.9
Executive Board	2.8	2.7
Share-based compensations (2	7.1	3.5
	11.3	7.5

2) The award paid to the CEO under the share-based compensation plans was EUR 1.9 (1.0) million and to the Executive Board members EUR 5.2 (2.5) million.

If the service contract is terminated by the Group, the period of notice for the CEO is six months and, if the contract is terminated by the CEO, the period of notice is three months. If the service contract is terminated by the Group, the CEO is entitled to a severance payment equalling the total salary for 24 months less the salary for the the period of notice. The period of notice for other members of the Executive Board is six months, if the service contract is terminated by the Group. In addition to the notice period salary, the members of the Executive Board are entitled to a severance payment equalling the total salary for nine months.

The executive agreement with the Group CEO expires at the age of 60, and he/she is entitled to retire according to the agreement. The defined benefit pension plan includes vested rights. The company is liable for the pension at the age of 60–63, and the related accumulated liability of EUR 1.3 million is included in pension obligations on the balance sheet. Pension is accrued annually by 5.1 per cent of the annual income under Employees Pensions Act (TyEL), and annually by EUR 120,000 during period 2017–2020. In the management's cash-based supplementary pension insurance, the pension is accrued from 20.7 per cent of the annual income under the Employees Pensions Act (TyEL) starting at the age of 62. The pension arrangement of the CEO is a cash-based plan, and it covers an increase in the statutory retirement age.

The executive agreements of the Group Management Board members, appointed before the year 2013, expire mainly at the age of 62, when they have the right to retire. Pension provisions are cash-based and they are covered by management supplementary pension insurance, that includes vested rights.

Share-based compensation granted to the management

In 2018, the award paid to the CEO under the 2014 share-based compensation plan's 2015–2017 vesting period equals the value of 46,789 shares and to the Executive Board 146,333 shares.

The maximum award granted to the CEO under the 2014 plan's 2016–2018 vesting period equals the value of 42,000 shares and for the rest of the Executive Board 134,300 shares. The award will be paid after the publication of the 2018 financial statements.

The maximum award granted to the CEO under the 2014 plan's 2017–2019 vesting period equals the value of 45,000 shares and for the rest of the Executive Board 143,200 shares. The award will be paid after the publication of the 2019 financial statements.

The maximum award granted to the CEO under the 2017 plan's 2018–2020 vesting period equals the value of 39,650 shares and for the rest of the Executive Board 134,350 shares. The award will be paid after the publication of the 2020 financial statements.

The maximum award granted to the CEO under the 2017 plan's 2019–2021 vesting period equals the value of 39,000 shares and for the rest of the Executive Board 128,350 shares. The award will be paid after the publication of the 2021 financial statements.

Within the vesting period 2016–2018, the CEO received a share-based compensation equivalent to 5,000 shares during the financial year 2018.

Elisa shares held by key members of the management

The members of Elisa's Board of Directors, the CEO, the members of the Executive Board and their related parties held a total of 341,858 shares and votes, corresponding to 0.20 per cent of all shares and votes.

4.2 Share-based incentives

The aim of the Group's share-based incentive plans is the long-term commitment of senior management for the improvement of Elisa'svalue. The amount of the possible award to be paid is tied to the accomplishment of the set goals.

On 15 December 2017, Elisa's Board of Directors decided on a share-based incentive plan for key personnel for 2018–2022. On 11 December 2014, Elisa's Board of Directors decided on a share-based incentive plan for key personnel for 2015–2019. On 19 December 2011, Elisa's Board of Directors decided on two committed share-based incentive plans for key personnel for 2012—2018.

4.2.1 Share-based incentive plan 2017

On 15 December 2017, Elisa's Board of Directors decided on the share-based incentive plan for key personnel for 2018–2022.

The new performance-based incentive plan has three vesting periods: the calendar years 2018–2020, 2019–2021 and 2020–2022. The Board of Directors decides the performance criteria for the plan and required performance levels for each criterion at the beginning of a vesting period. After the end of the vesting period, the award is paid as a combination of company shares and cash after the completion of financial statements. The cash portion intends to cover the tax obligations resulting from the share based payment. If the contract of employment is terminated before the payment of the award, as a rule no award shall be paid.

The earnings criteria for the vesting period 2019–2021 are based on earnings per share (EPS), revenues from new businesses and other key objectives. The total maximum amount to be paid for the vesting period 2019–2021 equals the value of 489,895 Elisa shares.

The earnings criteria for the vesting period 2018–2020 are based on earnings per share (EPS), revenues from new businesses and other key objectives. The total maximum amount to be paid for the vesting period 2018–2020 equals the value of 480,700 Elisa shares.

The CEO of the Group and the members of the Board of Directors shall own at the minimum 50.0 per cent of the net shares paid under the share-based incentive plan until share ownership for the CEO reaches 100 per cent of his/her gross yearly income and for the member of the Board of Directors 50 per cent of his/her gross yearly income.

Amount of share incentives and terms and assumptions in the fair value calculation	**Vesting period 2019–2021**	**Vesting period 2018–2020**
Maximum number of shares granted, pcs	489,895	480,700
Grant date	31 Dec. 2018	31 Dec. 2017
Fair value of the share at the grant date, EUR [1]	31.13	28.22
Share price at the grant date, EUR	36.08	32.72
Estimated realisation of share price after vesting period [2]	38.63	35.57
Vesting period starts	1 Jan. 2019	1 Jan. 2018
Vesting period ends	31 Dec. 2021	31 Dec. 2020
Estimated realisation of earnings criteria at the beginning of vesting period, %	74	85
Estimated realisation of earnings criteria at the closing date, %	74	78
Number of participants in the plan at the closing date	189	173

[1] The fair value of the share is the share price at the grant date, less estimated dividend. Estimated dividend used in the calculation equals the previous period dividend.

[2] The estimated realisation of share price is calculated using the CAP model (Capital Asset Pricing Model). The basic variables in the model are interest rate level, general risk premium and the so-called beta risk on the Elisa share. The assumed dividend is the dividend for thr previous period.

4.2.2 Share-based incentive plan 2014

On 11 December 2014, Elisa's Board of Directors decided on the share-based incentive plan for key personnel for 2015–2019.

The performance-based incentive plan has three vesting periods: the calendar years 2015–2017, 2016–2018 and 2017–2019. The Board of Directors will decide on the performance criteria for the plan and required performance levels for each criterion at the beginning of a vesting period. After the end of the vesting period, the award is paid as a combination of company shares and cash after the completion of financial statements. If the contract of employment is terminated before the payment of the award, as a rule no award shall be paid.

The earnings criteria for the vesting period 2017–2019 are based on earnings per share (EPS), revenues from new businesses and other key objectives. The number of key personnel participating in the plan is 157, and the maximum award equals the value of 448,360 Elisa shares.

The earnings criteria for the vesting period 2016–2018 are based on earnings per share (EPS), revenues from new businesses and other key objectives. The number of key personnel participating in the plan is 148, and the maximum award equals the value of 406,450 Elisa shares.

The earnings criteria for the vesting period 2015–2017 plan were based on earnings per share (EPS), revenues from new businesses and other key objectives. The total performance was EUR 17.1 million of which EUR 8.9 million was paid in cash. In accordance with the Board's decision, on 5 February 2018, Elisa transferred 228,543 shares to 143 persons covered by the incentive scheme, of which 69,428 shares to the Executive Board members and 22,224 shares to the CEO.

Amount of share incentives and terms and assumptions in the fair value calculation	Vesting period 2017–2019	Vesting period 2016–2018	Vesting period 2015–2017
Maximum number of awards granted, pcs	448,360	406,450	569,900
Grant date	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014
Fair value of share at the grant date, EUR (1	26.73	30.83	18.71
Share price at the grant date, EUR	30.93	34.79	22.61
Estimated realisation of share price after vesting period (2	34.25	36.69	22.34
Vesting period starts	1 Jan. 2017	1 Jan. 2016	1 Jan. 2015
Vesting period ends	31 Dec. 2019	31 Dec. 2018	31 Dec. 2017
Estimated realisation of earnings criteria at the beginning of vesting period, %	50	50	50
Estimated realisation of earnings criteria at the closing date, %	94	81	
Realisation of earning criteria, %			75
Distributed number			228,543
Volume weighted average share price at distribution date, EUR			35.30
Distributed number out of the maximum number of share awards granted, %			40
Number of participants in the plan at the closing date	157	148	143

1) The fair value of the share is the share price at the grant date, less estimated dividend. Estimated dividend used in the calculation equals the dividend for the previous period.

2) The estimated realisation of share price is calculated using the CAP model (Capital Asset Pricing Model). The basic variables in the model are interest rate level, general risk premium and the so-called beta risk on the Elisa share. The assumed dividend equals the dividend for the previous period.

4.2.3 Commited share-based incentive plan 2011

On 19 December 2011, Elisa's Board of Directors decided on the share-based incentive plan for key personnel for 2012–2018.

The awards granted under the plan have a restriction period of 1–3 years. The potential award is based on the validity of the key person's contract of employment. The maximum amount of awards paid under the plan equals the value of 500,000 Elisa shares.

Amount of share incentives and terms and assumptions in the fair value calculation	Vesting period 2016–2018	Vesting period 2016–2017	Vesting period 2014–2016	Vesting period 2014–2015
Maximum number of awards granted, pcs	5,000	5,000	4,000	4,000
Grant date	16.12.2016	16.12.2016	11.12.2014	11.12.2014
Fair value of share at the grant date, EUR [1]	27.92	29.32	19.29	20.59
Share price at the grant date, EUR	30.72	30.72	21.89	21.89
Estimated realisation of share price after vesting period [2]	32.87	31.70	21.76	21.70
Vesting period started	13.12.2016	13.12.2016	04.11.2014	04.11.2014
Vesting period ended	13.12.2018	13.12.2017	04.11.2016	04.11.2015
Estimated realisation of earnings criteria at the beginning of vesting period, %	100	100	100	100
Estimated realisation of earnings criteria at the closing date, %	100	100	100	100
Realisation of earnings criteria, %				
Distributed number	2,300	2,300	1,840	1,840
Volume weighted average share price at distribution date, EUR	37.55	33.01	29.97	34.49
Distributed number out of the maximum number of share awards granted, %	46	46	46	46
Number of participants in the plan at the closing date	1	1	1	1

[1] The fair value of the share is the share price at the grant date, less estimated dividend. Estimated dividend used in the calculation equals the dividend for the previous period.

[2] The estimated realisation of share price is calculated using the CAP model (Capital Asset Pricing Model). The basic variables in the model are interest rate level, general risk premium and the so-called beta risk on the Elisa share. The assumed dividend equals the dividend for the previous period.

Expenses of share-based incentive plans

In 2018, expenses recognised for share incentive plans were EUR 15.9 (15.2) million.

Accounting principles – Share-based payments:

Share-based in centive plans are measured at the fair value at the grant date. If the assumption regarding the realised number of shares changes, an adjustment will be recorded through profit and loss. The share-based incentive plans do not include any other non-market based terms and conditions. Transfer restrictions related to the share-based incentive plans are out of the scope of the fair value measurement and expense recognition.

In the Group's share-based payment scheme, the total award amount is the gross earning of shares granted minus the applicable withholding tax, with the remaining net amount being paid to the award recipient in shares.

According to the new IFRS 2 amendment (effective for the financial year beginning on or after 1 January 2018), compensation costs for the share-based incentive plans will be entirely recognised as equity-settled arrangements. As a result, share-based incentive costs, recognised in equity, also include a cash component that is equal to the value of the shares paid to cover the taxes and tax-like costs incurred under the award. The Group settles a cash payment of a portion, required to meet withholding tax obligations, to the Tax Administration.

The previous standard required the entity to divide the payment into an equity-settled and a cash-settled components. The Group's 2017 financial statements included a short-term liability of EUR 14.5 million relating to the cash-settled component. On 1 January 2018, according to the IFRS 2 amendment requirements, the cash component was adjusted in the opening balances from the liabilities to the retained earnings in equity.

Accounting policies that require management's judgements – Share-based payments:

The expense recognition for the share-based incentive plans is based on an estimate of the fulfilment of the share incentive plan criteria and the development of Elisa Group's share price. The fulfilment of the share incentive plan criteria and the development of the share price might deviate from the estimates. In 2018, compensation expenses were EUR 15.9 million.

4.3 Pension obligations

The Group's pension obligations are classified as either defined contribution plans or defined benefit plans. Under a defined contribution plan, the Group pays fixed contributions to pension insurance companies. If the pension insurance company does not hold sufficient assets to pay all employees the benefits in question, the Group will have no legal or constructive obligation to pay further contributions. The contributions for defined contribution pension plans are recognised as expenses during the financial year, in which the payment obligation has arised. All other plans not meeting the above criteria are classified as defined benefit plans.

The pension schemes for the Group's personnel in Finland are covered by the Employees Pensions Act (TyEL) and are arranged through pension insurance companies. The Finnish Employees Pensions Act (TyEL) is a defined contribution plan. Supplementary pensions are arranged through life insurance companies. Some supplementary pension plans and pension plans under the responsibility of some group companies have been classified as defined benefit plans. The defined benefit plans are mainly funded by yearly contributions to the insurance companies, based on actuarial valuation. Local tax and other legislation is applied to the pension plans' arrangements. Only Elisa Corporation has the defined benefit plans. The pension plans in foreign subsidiaries are defined contribution plans.

Post-employment benefits of key management are described in Note 4.1.

The net defined benefit related to pension liability

EUR million	2018	2017
Present value of unfunded obligations	−2.6	−2.5
Present value of funded obligations	−63.9	−68.2
Fair value of plan assets	51.3	54.7
B/S Net pension liability (-) / receivable (+) in the statement of financial position	−15.2	−16.0

Pension expenses recognised in the statement of comprehensive income

EUR million	2018	2017
Expense recognised in profit or loss		
Service cost	0.2	0.4
Net interest	0.3	0.2
	0.4	0.6
Remeasurements	−0.9	−0.4
Tax effect of the remeasurements	0.2	0.1
I/S	−0.7	−0.3

Reconciliation of the net defined benefit obligations in the statement of financial position

EUR million	2018	2017
Net defined benefit obligation at the beginning of the period	16.0	16.6
Pension expenses recognised in profit or loss	0.4	0.6
Remeasurements	–0.9	–0.4
Contributions paid by employer	–0.4	–0.8
Net defined benefit obligation at the end of period	15.2	16.0

Changes in the present value of the defined benefit obligations

EUR million	2018	2017
Obligation at the beginning of the period	-70,7	–75.2
Current service cost	-0,2	–0.4
Interest expenses	-1,1	–0.8
Remeasurements		
Actuarial gain (+) or loss (-) arising from changes in economic assumptions	0,0	0.4
Gain (+) or loss (-) arising from experience adjustments	0,5	0.3
Benefits paid	5,0	5.0
Obligation at the end of period	-66,5	–70.7

Changes in the fair value of plan assets

EUR million	2018	2017
Fair value of plan assets at the beginning of the period	54,7	58.6
Interest incomes	0,8	0.6
Remeasurements, gain (+) or loss (-)	0,4	–0.3
Benefits paid	-5,0	–5.0
Contributions paid by employer	0,4	0.8
Fair value of plan assets at the end of period	51,3	54.7

The principal actuarial assumptions used	2018	2017
Discount rate, %	1,60	1.60
Future pension increase, %	1,90	1.90
Inflation, %	1,70	1.70

Sensitivity analysis of net defined benefit obligation

Change in actuarial assumptions	Effect on the net defined benefit obligation, EUR million 2018	2017
Discount rate + 0.5 %	–1.6	–1.3
Future pension increase +0.5 %	4.1	4.3
Expected mortality +1 year	0.4	0.9

When calculating a change in one assumption of the sensitivity analysis, the other assumptions are assumed to remain unchanged. In practice, this is not likely to happen and some changes in the assumptions may correlate with each other. The figures in the sensitivity analysis have been calculated using the same method which is applied when calculating defined benefit obligations.

Defined benefit obligations expose the Group to various risks. Decreases in the gain of corporate bonds, higher inflation and higher expected retirement may predispose the Group to the growth of defined benefit obligations. On the other hand, since the fair value of assets is calculated using the same discount rate which is used when calculating the obligation, the change in the discount rate will only affect the net defined benefit obligation. Similarly, a rise in life expectancy will increase the assets and affect the net defined benefit obligation.

Weighted average duration of the obligation is 14.0 (14.0) years.

The Group expects to contribute EUR 0.3 (0.4) million to defined benefit pension plans in 2019.

The assets of the defined benefit obligations are 100 per cent acceptable insurances.

Accounting principles - Pension obligations:

The Group's defined benefit obligation has been calculated separately from each plan using the projected unit credit method. Pension expenses calculated by authorised actuaries are recognised in profit or loss over the employees' working lives. The r ate used to discount the present value of the defined benefit obligation is determined by reference to market yields of high-quality corporate bonds. I f such information is not available, the market yields on government bonds are used. The maturity of corporate bonds and government bonds are substantially consistent with the maturity of pension obligations. The present value of defined benefit obligation is reduced by the fair value of the plan assets at the end of the reporting period. The net defined benefit pension liability is recognised in the statement of financial position.

Current service cost and net interest of the net defined benefit liability are recorded in employee expenses on the income statement. The remeasurements of the net defined benefit liability, for example actuarial gains a nd losses and the return on plan assets, are recognised in other comprehensive income during the financial period in which they incur.

5 Tangible and intangible assets

5.1 Depreciation, amortisation and impairment

EUR million	2018	2017
Tangible assets		
Buildings and constructions		
Owned buildings and constructions	12.3	11.9
Buildings and constructions under finance lease arrangements	0.4	0.4
Telecom devices, machinery and equipment		
Owned telecom devices, machinery and equipment	174.2	169.5
Assets under finance lease arrangements	3.4	3.4
Other intangible assets	0.0	0.0
	190.3	185.3
Intangible assets		
Customer base	5.0	5.0
Other intangible assets	40.9	39.4
	45.9	44.4
I/S	236.2	229.7

Impairment losses were EUR 0.4 (2.5) million.

5.2 Tangible assets

2018 **EUR million**	**Land and water areas**	**Buildings and constructions**	**Telecom devices, machinery and equipment**	**Other tangible assets**	**Tangible assets under construction**	**Total**
Acquisition cost at 1 Jan. 2018	9.3	271.9	3,420.3	35.7	38.7	3,776.0
Business acquisitions		0.0	0.1		0.0	0.1
Additions	1.0	10.1	159.9		15.0	186.0
Business disposals			–0.1	–0.1		–0.2
Disposals	0.0	1.0	–14.1	0.0		–13.1
Reclassifications	0.4	3.1	18.1		–23.1	–1.5
Translation differences			–0.1			–0.1
Acquisition cost at 31 Dec. 2018	10.7	286.2	3,584.1	35.7	30.6	3,947.3
Accumulated depreciation and impairment at 1 Jan. 2018	0.0	150.8	2,832.1	35.0		3,018.0
Depreciation and impairment		12.7	177.6	0.0		190.3
Accumulated depreciation on disposals and reclassifications		1.5	–13.9			–12.5
Translation differences			–0.1	0.0		–0.1
Accumulated depreciation and impairment at 31 Dec. 2018	0.0	165.0	2,995.6	35.1		3,195.8
B/S Book value at 1 Jan. 2018	9.3	121.1	588.2	0.7	38.7	758.1
B/S Book value at 31 Dec. 2018	10.7	121.1	588.7	0.7	30.6	751.6

2017 **EUR million**	**Land and water areas**	**Buildings and constructions**	**Telecom devices, machinery and equipment**	**Other tangible assets**	**Tangible assets under construction**	**Total**
Acquisition cost at 1 Jan. 2017	9.2	264.1	3,234.6	35.7	32.1	3,575.7
Business acquisitions		1.2	28.9		0.8	31.0
Additions	0.1	7.3	157.4		36.8	201.6
Disposals	-0.1	-3.6	-26.7	0.0		-30.4
Reclassifications	0.1	2.9	26.2		-31.0	-1.7
Translation differences			-0.1	0.0		-0.1
Acquisition cost at 31 Dec. 2017	9.3	271.9	3,420.3	35.7	38.7	3,776.0
Accumulated depreciation and impairment at 1 Jan. 2017		140.9	2,685.9	35.0		2,861.8
Depreciation and impairment		12.4	172.9	0.0		185.3
Accumulated depreciation on disposals and reclassifications		–2.5	–26.6			–29.1
Translation differences			0.0	0.0		0.0
Accumulated depreciation and impairment at 31 Dec. 2017		150.8	2,832.1	35.0		3,018.0
B/S Book value at 1 Jan. 2017	9.2	123.2	548.6	0.7	32.1	713.9
B/S Book value at 31 Dec. 2017	9.3	121.1	588.2	0.7	38.7	758.1

On 31 December 2018, the investment commitments for tangible and intangible assets were EUR 41.7 (49.7) million. Additions in 2018 include EUR 2.3 (2.8) million of property, plant and equipment leased under finance lease arrangements.

Property, plant and equipment include assets leased under finance lease agreements as follows:

2018 **EUR million**	**Buildings and constructions**	**Telecom devices, machinery and equipment**	**Total**
Acquisition cost	17.4	120.1	137.5
Accumulated depreciation	6.6	115.2	121.8
Book value at 31 Dec. 2018	10.8	4.9	15.7

2017 **EUR million**			
Acquisition cost	17.4	120.1	137.5
Accumulated depreciation	6.2	111.8	118.0
Book value at 31 Dec. 2017	11.2	8.3	19.5

Accounting principles - Tangible assets:

Property, plant and equipment are recognised in the statement of financial position at the original cost. Property, plant and equipment are stated at cost less accumulated depreciation and impairments. Depreciation is recorded on a straight-line basis over the useful lives of tangible assets. The residual value and the useful life of an asset is reviewed at year-end and adjusted, if necessary.

Subsequent costs, such as renewals and major renovation projects, are capitalised when it is probable that future economic benefit, associated with the item, will flow to the Group. Ordinary repair, service and maintenance costs are recognised as an expense during the financial period in which they incur.

Expected useful lives of property, plant and equipment:

Buildings and constructions	25–40 years
Machinery and equipment in buildings	10–25 years
Telecommunications network (line, backbone, area, subscription, cable TV)	8–15 years
Exchanges and concentrators (fixed and mobile core)	6–10 years
Equipment for the network and exchanges	3–8 years
Telecommunication terminals	2–4 years
Other machinery and equipment	3–5 years

Land areas are not depreciated.

5.3 Intangible assets

2018 EUR million	Goodwill	Customer base	Other intangible assets	Intangible assets under construction	Total
Acquisition cost at 1 Jan. 2018	1,028.5	108.8	640.9	15.2	1,793.5
Business acquisitions	7.2	0.8	4.8 (1	0.0	12.9
Additions			65.9 (2	2.5	68.4
Business disposals	–0.2		0.0	0.0	–0.3
Disposals			–0.2		–0.2
Reclassifications			5.8	–4.3	1.5
Translation differences	0.0		0.0		0.0
Acquisition cost at 31 Dec. 2018	1,035.5	109.6	717.2	13.5	1,875.8
Accumulated amortisation and impairment at 1 Jan. 2018	15.0	92.7	494.6	0.7	603.0
Depreciation and impairment	0.0	5.0	40.9	0.0	45.9
Accumulated amortisation on disposal and reclassifications	–0.2		–0.2		–0.4
Translation differences					0.0
Accumulated depreciation and impairment at 31 Dec. 2018	14.8	97.7	535.3	0.7	648.5
Book value at 1 Jan. 2018	1,013.5	16.2	146.3	14.6	1,190.6
Book value at 31 Dec. 2018	1,020.7	12.0	181.9 (3	12.8	1,227.4

2017 **EUR million**	**Goodwill**	**Customer base**	**Other intangible assets**	**Intangible assets under construction**	**Total**
Acquisition cost at 1 Jan. 2017	894.8	97.2	570.4	37.3	1,599.7
Business acquisitions	133.8	11.6	3.9	0.7	150.0
Additions			36.7	8.1	44.9
Business disposals				0.0	0.0
Disposals			–1.5		–1.5
Reclassifications			31.4	–30.8	0.6
Translation differences	–0.1		0.0		–0.1
Acquisition cost at 31 Dec. 2017	1,028.5	108.8	640.9	15.2	1,793.5
Accumulated depreciation and impairment at 1 Jan. 2017	15.0	87.7	457.1	0.1	560.0
Depreciation and impairment		5.0	38.8	0.6	44.4
Accumulated depreciation on disposals and reclassifications			–1.4		–1.4
Translation differences					
Accumulated depreciation and impairment at 31 Dec. 2017	15.0	92.7	494.6	0.7	603.0
Book value at 1 Jan. 2017	879.8	9.5	113.3	37.2	1,039.8
Book value at 31 Dec. 2017	1,013.5	16.2	146.3 [3]	14.6	1,190.6

[1] 2.6 GHz Band 38 spectrum licence acquired in connection with the acquisition of Ukkonet Oy.
[2] Includes Finnish 3.5 GHz spectrum licence in carrying amount of EUR 26.3 million.
[3] Includes IT software in carrying amount of EUR 92.5 (83.2) million.

Accounting principles - Intangible assets:

An intangible asset is recognised only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Subsequent costs related to the intangible assets are capitalised only if the future economic benefits that will flow to the Group exceed the level of performance originally assessed. In other cases, the costs are recognised as an expense as incurred.

In connection with the business combinations, intangible assets (such as customer base and brand) are measured at fair value. Other intangible assets are measured at original acquisition cost and amortised on a straight-line basis over their estimated useful lives.

Amortisation periods for intangible assets:

Customer base	4–5 years
Brand	10 years
Development expenses	3 years
IT software	5 years
Other intangible assets	3–10 years

Research costs are recorded as expenses in the income statement. Development expenses are recognised on the statement of financial position from the date the product is technically feasible, it can be utilised commercially and the asset is expected to generate future economic benefit. Otherwise, development costs are recorded as an expense. Development costs initially recognised as expenses cannot be capitalised subsequently.

Government grants related to the acquisition of property, plant and equipment are recorded as a reduction of the carrying value of property, plant and equipment. The grants are recognised in income as lower depreciation charges over the useful life of the asset.

Government grants associated with development projects, are recognised as other operating income when the related costs are recognised as expenses. Government grants, associated with capitalised development costs are recorded as a reduction of cost.

The Group assesses at the end of each reporting period, whether there is objective evidence that an asset is impaired. If such evidence exists, the recoverable amount of the asset is assessed. Additionally, regardless of any existence of impairment indications, the recoverable amount of intangible assets under construction is assessed annually. The Group does not have any intangible assets with an indefinite useful life.

The recoverable amount of the asset is its fair value less costs of disposal or its value in use, if it is higher. Value in use is a discounted present value of future net cash flows expected to be derived from an asset. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. An impairment loss is recognised immediately in the income statement. An impairment loss is reversed, if there are indications that a change in circumstances has taken place, and the asset's recoverable amount has changed since the impairment loss was recognised. However, the reversal of an impairment loss will never exceed the carrying amount of the asset had no impairment loss been recognised.

5.3.1 Goodwill

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

EUR million	2018	2017
Consumer Customers	643.5	640.9
Corporate Customers	377.1	372.5
B/S	1,020.7	1,013.5

The reported operating segments based on the Elisa organisational and management structure are Consumer Customers and Corporate Customers.

Impairment testing:

In annual impairment tests, the recoverable amount of the segments is determined based on the value in use, which is calculated on the basis of projected discounted cash flows (DCF model). Covering a five-year period, the cash flow projections are based on plans approved by the management. The projections are mostly consistent with information from external sources and reflect actual development. The used discount rate before taxes is 7.1 per cent (7.8 per cent for Consumer Customers and 8.0 per cent for the Corporate Customers in comparison period). Cash flows after five years have been projected by estimating the change in future cash flows as 2.0 per cent growth.

As a result of the performed impairment tests, there is no need for impairment of the segments' goodwill in 2018 and 2017.

Usage of the DCF model requires forecasts and assumptions, concerning market growth, prices, volume development, investment needs and general interest rate. The major sensitivities in the performance are associated with forecast revenue and profitability levels.

Sensitivity analysis Projection parameters applied	Consumer Customers 2018	Corporate Customers 2018	Consumer Customers 2017	Corporate Customers 2017
Amount in excess of CGU carrying value, EUR million	4,440	2,727	3,537	2,312
EBITDA margin on average, % [1]	36.9	33.3	36.7	33.2
Horizon growth, %	2.0	2.0	2.0	2.0
Pre-tax discount rate, %	7.1	7.1	7.8	8.0

[1] On average during a five-year projection period

Change in projection parameters that makes the fair value equal to book value	Consumer Customers 2018	Corporate Customers 2018	Consumer Customers 2017	Corporate Customers 2017
EBITDA margin on average, %	–18.7	–18.3	–17.9	–17.8
Horizon growth, %	–29.4	–48.2	–25.7	–53.4
Pre-tax discount rate, %	16.9	20.4	15.6	25.2

Accounting principles - Goodwill:

Goodwill arising from business combinations prior to 2004 is accounted for in accordance with the previous financial statements regulations and the book value is the assumed IFRS acquisition cost. Business combinations incurring between 1 January 2004 and 31 December 2009 have been accounted for in accordance with IFRS 3 (2004). Goodwill arising from business combinations incurred after 1 January 2010 represents the excess of the consideration transferred over the Group's interest in the net fair value of the identifiable net assets acquired and the amount of non-controlling interest, and in a business combination achieved in stages, the acquisition-date fair value of the equity interest.

Goodwill is not amortised. Goodwill is tested for impairment annually or more frequently, if events or circumstances indicate a potential impairment. For the purpose of impairment testing, goodwill is allocated to the cash-generating units (CGU's) - Consumer Customers and Corporate Customers. Goodwill is carried at its cost less any accumulated impairment losses.

An impairment loss is recognised, when the carrying amount of an asset exceeds its recoverable amount. An impairment loss is recognised immediately in the income statement. If an impairment loss is allocated to a cash-generating unit, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to the other assets of the unit on a pro rata basis. An impairment loss, recognised for goodwill, is never reversed under any circumstances.

Accounting policies that require management's judgements - Goodwill impairment testing:

The recoverable amount of cash-generating units is determined by calculations based on value in use, the preparation of which requires estimates and assumptions. The main uncertainties are associated with the estimated level of revenue, profitability and the discount rate. Any changes may lead to the recognition of impairment losses. On 31 December 2018, the carrying value of goodwill was EUR 1,020.7 million.

6 Inventories, trade and other receivables, trade and other liabilities

6.1 Inventories

EUR million	2018	2017
Materials and supplies	15.7	18.6
Finished goods	49.7	49.7
B/S	65.4	68.3

An impairment on inventories of EUR 2.4 (0.3) million was recognised during the financial period.

6.2 Trade and other receivables

6.2.1 Current receivables

EUR million	2018	2017
Trade receivables	349.5	352.7
Impaired trade receivables [1]	-9.1	-6.6
Contract assets, from costs [2]	5.9	
Contract assets, from revenue[2]	4.1	
Prepayments and accrued income	47.8	47.3
Finance lease receivables	10.9	6.6
Loan receivables	0.1	1.4
Receivables from associated companies	0.9	0.1
Other receivables	6.6	6.1
B/S	416.6	407.6

[1]The adjustment effect on opening balances of trade receivables, related to the adoption of IFRS 9, was EUR -0.7 million. Please refer to the Accounting principles at the end of Note 6.

[2] The adjustment effect on opening balances related to the adoption of IFRS 15, Revenue from Contracts with Customers, on the contract assets, associated with the costs, was EUR 6.3 million, and on contract assets, associated with the revenue, was EUR 3.9 million. The effect of the initial application of IFRS 15 on the Group's revenue from contracts with customers is described in note 2.3. During the financial year, assets of EUR 0.5 million have been recognised in the income statement, of which the tax impact was EUR -0.1 million.

Prepayments and accrued income include interest receivables and accruals from the operating activities.

Aging of trade receivables

EUR million	2018 Nominal value	2018 Impairment	2018 Book value	2017 Book value
Not past due	296.5	-0.1	296.5	299.7
Past due				
Past due less than 30 days	34.9	-0.2	34.7	37.0
Past due 31-60 days	5.1	-0.5	4.5	6.4
Past due 61-90 days	3.2	-0.5	2.6	2.3
Past due 91-180 days	3.9	-2.4	1.5	0.7
More than 180 days past due	6.0	-5.4	0.6	
	349.5	-9.1	340.4	346.1

The book value of trade receivables approximates their fair value. The credit risk associated with trade receivables is described in Note 7.1. The maximum exposure to credit risk is the carrying amount of the trade receivables on the closing date, EUR 340.4 million.

According to the IFRS 9 requirement, an aging of provisions for impairment losses of trade receivables shall be presented. The aging of impairment provisions related to the comparison period is not available.

6.2.2 Non-current receivables

EUR million	2018	2017
Loan receivables	0.1	0.1
Trade receivables	76.5	67.6
Finance lease receivables	6.5	7.4
Prepayments and accrued income	8.5	8.1
Non-current derivatives	0.4	
Other non-current receivables	1.9	0.4
B/S	93.8	83.7

The effective interest rate on receivables (current and non-current) was 0.00 (0.00) per cent.

Gross finance lease receivables
- maturity of minimum lease payment receivables

EUR million	2018	2017
Not later than one year	11.1	7.9
Later than one year, not later than five years	6.6	6.4
Later than five years		0.1
	17.7	14.4
Future finance income	-0.4	-0.3
Present value of finance lease receivables	17.4	14.0

Maturity of present value of future minimum lease payment receivables

EUR million	2018	2017
Not later than one year	10.9	6.6
Later than one year, not later than five years	6.5	7.3
Later than five years		0.1
	17.4	14.0

Lease periods vary from one to five years, and conditions vary in terms of index clauses.

6.3 Trade and other liabilities

EUR million	2018	2017
Non-current		
Trade payables [1]	24.6	13.2
Advances received	4.9	5.0
Derivative instruments	0.0	0.2
Other liabilities	6.8	6.6
B/S	36.3	25.1
Current		
Trade payables [1]	162.5	193.6
Advances received	5.7	6.3
Contract liabilities, from revenue [2]	0.2	
Accrued employee-related expense	46.9	47.5
Share-based payments [3]		14.5
Other accruals	19.1	21.9
Liabilities to associated companies	0.0	0.1
Other liabilities [4]	74.9	65.9
B/S	309.3	349.8
	345.5	374.9

[1] Non-current trade payables include liabilities for a 700 MHz spectrum license, EUR 8.8 million, and for a 3540 - 3670 MHz spectrum licence, EUR 15.8 million. Current trade payables include liabilities for a 700 MHz spectrum licence of EUR 4.4 (4.4) million, and for a 3540 - 3670 MHz spectrum licence, EUR 5.3 million.

[2] The adjustment effect on the opening balance of liabilities, related to the adoption of IFRS15 Revenue from contracts with Customers, was EUR 0.8 million, of which EUR -0.6 million has been recognised in the income statement during the financial year.

[3] The adjustment effect on the opening balance of accrued employee expenses, related to the adoption of an amendment to IFRS 2, Share-based Payments, was EUR 14.5 million. The cash component of the share-based incentive schemes, included in the short-term liabilities the Group's 2017 financial statements, was adjusted to the retained earnings in equity.

[4] Other liabilities of the comparison period include a contingent consideration from the business acquisitions EUR 1.6 (1.2) million.

Accounting principles - Inventories, trade and other receivables, trade payables and other liabilities:

Inventories:
Inventories are measured at their costs of purchase or at their net realisable value, if lower than the cost. The cost is determined using a weighted average price.

Receivables:
Receivables are valued at amortised cost and are recognised at the original invoiced amount. The Group records the provision for the impairment losses arising from trade receivables based on historical default rates over the expected life and recognises the impairment loss when the trade receivables are stated as lost. The impairment loss is adjusted by the amount of factored receivables.

On 1 January 2018, the Group initially applied IFRS 9. The Group records the provisions for the impairment of trade receivables based on the expected credit loss model introduced by the standard. According to the previous practice, the Group recorded an impairment loss on trade receivables when the payment was delayed by more than 90 days. On 1 January 2018, the adjustment effect on the opening balances related to the adoption of IFRS 9, on trade receivables was EUR -0.7 million, on retained earnings EUR -0.5 million, and on deferred tax assets EUR 0.3 million.

Trade receivables and other receivables are classified as long-term receivables, if they mature in more than 12 months. If trade receivables mature in less than 12 moths, they are classified as short-term receivables.

Finance lease receivables:
The Group acts as a lessor in the lease arrangements for video conferencing equipment, which is accounted for as finance leases. At the time of the sale of the equipment, the proceeds are recorded as revenue and a receivable at present value. Rental income is recorded as financial income and as a reduction of the receivable over the lease period, reflecting a constant periodic rate of return on the net investment.

Trade payables:
The current value of trade payables and other liabilities is a reasonable estimate of their fair value. The time of payment for the Group's trade payables corresponds to conventional corporate terms of payment. Other accruals include accruals of interest expenses and other regular expenses.

7 Capital structure

7.1 Financial risk management

Financial risk management is carried out by a central treasury department, which identifies, evaluates and hedges financial risks, such as exchange rates, interest rates, liquidity and refinancing risks for the entire Group. The principles for overall risk management, as well as financing policies covering funding and investment principles, are annually discussed and ratified by the Audit Committee of the Board of Directors. Funding risks are monitored as a part of the regular business monitoring procedure.

Market risks

Interest rate risk

Elisa is exposed to interest rate risk mainly through its financial liabilities. In order to manage interest rate risk, the Group's borrowings and investments are diversified in fixed- and variable-rate instruments. Derivative financial instruments may also be used in managing interest rate risk. The purpose is to minimise the negative effects caused by changes in the interest rate level.

Timing of interest rate changes for interest-bearing financial liabilities (EUR million), 31 Dec. 2018, at nominal value

Time of interest rate change	Less than a year	Between 1 and 5 years	Over 5 years	Total
Variable-rate financing instruments				
Commercial paper loans	107.0			107.0
Bank loans	100.0			100.0
Finance lease liabilities	2.9			2.9
Fixed-rate financing instruments				
Bonds	180.0	300.0	300.0	780.0
Bank loans		150.0		150.0
Finance lease liabilities		5.0	16.9	21.8
	389.9	455.0	316.9	1,161.7

On 31 December 2018, the Group's interest-bearing financial assets consisted of commercial papers and bank deposits amounting to EUR 0.0 million and cash in bank amounting to EUR 80.9 million.

The sensitivity analysis includes the financial liabilities at the balance sheet date. It is estimated that an increase of one percentage point in the interest rate would affect the Group's profit before taxes. The interest rate position is assumed to include interest-bearing financial liabilities and receivables, as well as interest rate swaps on the balance sheet date, assuming that all the contracts will be valid and stay unchanged for the entire year.

	2018		2017	
EUR million	Income statement	Shareholders' equity	Income statement	Shareholders' equity
Change in interest rate level +/- 1%	+0.5/–2.1		+/- 1.8	

Exchange rate risk

Most of Elisa Group's cash flows are denominated in euros, which means that the company's exposure to exchange rate risk (economic risk and transaction risk) is low. Exchange rate risks associated with business arise from international interconnection traffic and, to a minor extent, acquisitions. In addition to Euro (EUR), the most essential currencies are the US dollar (USD), the British pound (GBP), the International Monetary Fund's Special Drawing Rights (SDR), the Russian rouble (RUB), the Norwegian Krone (NOK) and the Swedish Krona (SEK);. The impact of other currencies is insignificant. No exchange rate hedging was used during the reporting period. The company's financial liabilities do not involve exchange rate risk.

The translation difference exposure for foreign subsidiaries included in consolidated equity is minor. The translation difference exposure has not been hedged during the reporting period.

Foreign exchange exposure on 31 December 2018

EUR million	Trade receivables	Trade payables
USD	1.6	6.5
GBP	0.0	0.3
SDR	0.8	0.8
RUB	0.1	0.0
NOK	0.1	0.0
SEK	0.0	0.1

Foreign exchange exposure on 31 December 2017

EUR million	Trade receivables	Trade payables
USD	1.2	7.4
GBP	0.2	0.1
SDR	0.6	0.8
RUB	0.0	
NOK	0.3	0.0
SEK	0.0	0.1

A change of twenty percentage points in USD would impact consolidated profit before tax by EUR +/- 1.6 (+/- 1.2) million, EUR +/- 0.6 (+/- 0.0) million for GBP, EUR +/- 0.3 (+/- 0.0) million for SDR, EUR +/- 0.0 (+/- 0.0) million for RUB, EUR +/- 0.0 (+/-0.1) million for NOK and EUR +/- 0.0 (+/-0.0) million for SEK.

Liquidity risk

The objective of liquidity risk management is to ensure the Group's financing under all circumstances. The Group's most important financing arrangement is an EMTN programme of EUR 1,500 million, under which the Company issued bonds for EUR 780.0 million. Furthermore, the Company has a EUR 350 million commercial paper programme and committed credit limit of EUR 300 million, out of which EUR 170 million will fall due on 7 July 2022 and EUR 130 million credit limit will fall due on 11 June 2021. Both credits were fully undrawn on 31 December 2018. The loan margin is determined based on the Company's credit rating. On 12 December 2018, the Company signed a EUR 100 million loan agreement with the Nordic Investment Bank. The loan was withdrawn on 14 December 2018.

As part of ensuring its financing, Elisa has acquired international credit ratings. Moody's Investor Services have rated Elisa's long-term commitments as Baa2 (outlook stable). Standard & Poor's has rated the company's long-term commitments as BBB+ (outlook stable) and short-term commitments as A-2.

Cash and undrawn committed limits

EUR million	2018	2017
Cash and cash equivalents	80.9	44.3
Credit limits	300.0	300.0
	380.9	344.3

On 31 December 2018, cash and cash equivalents, as well as undrawn committed credit limits less commercial papers issued by Elisa, were EUR 273.9 (229.3) million.

Contract-based cash flows for financial liabilities are presented under Note 7.3.2.

Credit risk

Financial instruments contain an element of risk of the respective parties failing to fulfil their obligations. Liquid assets are invested within confirmed limits in investment targets with good credit ratings. Investments and the limits specified for them are reviewed annually or more often, if necessary. Derivative contracts are only signed with the Finnish and foreign banks with good credit ratings.

The business units are liable for credit risk associated with trade receivables. The units have written credit policies that are mainly consistent with uniform principles. The credit ratings of new customers are always reviewed from external sources when selling products or services invoiced in arrears. In case of additional sales to existing customers, creditworthiness is reviewed on the basis of the company's own accounts. The Group may also collect advance or guarantee payments in accordance with its credit policy.

Credit risk concentrations in trade receivables are minor, as the Group's customer base is wide; the ten largest customers represent approximately 6 per cent of customer invoicing. EUR 9.1 (6.6) million of uncertain receivables have been deducted from consolidated trade receivables. The Group's previous experience in the collection of trade receivables corresponds to the recognised impairment. Furthermore, the Group regularly sells the trade receivables of defined customer groups. Based on these facts, the management is confident that the Group's trade receivables do not involve any substantial credit risk. The maximum credit risk as of 31 December 2018 is the value of trade receivables — EUR 340.4 million. The aging of trade receivables is described in Note 6.2.1.

Commodity risks and their sensitivity analysis

Elisa hedges electricity purchases with physical purchase agreements and derivatives. The electricity price risk is assessed for a five-year period. Hedge accounting is applied to contracts hedging future purchases. The effective portion of derivatives that qualify for hedge accounting is recognised in the revaluation reserve of equity and the ineffective portion is recognised in the income statement under other operative income or expenses. The change in the revaluation reserve, recognised in equity, is presented in the statement of comprehensive income under cash flow hedge.

At the end of the year, the ineffective portion of hedge accounting was EUR 0.0 (0.1) million.

The hedging rate for purchases in the following years,%	2018	2017
0-1 years	88.5	81.3
1-2 years	54.3	41.8
2-3 years	0.0	0.0
3-4 years	0.0	0.0
4-5 years	0.0	0.0

If the market price of electricity derivatives changes by +/- 10 per cent from the balance sheet date (31 December 2018), it would contribute EUR +/- 0.1 (0.2) million to equity. The impact has been calculated before tax.

Notes on the capital structure

Elisa's capital consists of equity and liabilities. To develop its business, Elisa may carry out expansion investments and acquisitions that may be financed through equity or liabilities, directly or indirectly.

The target for the company's equity ratio is over 35 per cent and comparable net debt / EBITDA 1.5 to 2.0.

The company's distribution of profit to shareholders consists of dividends, capital repayment and purchase of treasury shares. Effective profit distribution is 80 per cent to 100 per cent of profit for the period. Furthermore, additional profit distribution to the shareholders may occur. When proposing or deciding on the distribution, the Board takes into account the company's financial position, future financing needs, and the set financial objectives.

Capital structure and key indicators

EUR million	2018	2017
Interest-bearing net debt	1,067.8	1,073.1
B/S Total equity	1,126.9	1,039.7
Total capital	2,194.7	2,112.9
Gearing ratio, %	94.8	103.2
Net debt / EBITDA	1.7	1.8
Equity ratio, %	42.4	40.5

Available sources of financing

With regard to capital financing, the company's objective is to maintain sufficient flexibility for the Board of Directors to issue shares. The Annual General Meeting decides the amount of the share issue authorisation. In 2018, the authorisation has been used in executing share-based incentive plans.

Shareholders' equity	2018	2017
Treasury shares, 1,000	7,612	7,801
Share issue authorisation, 1,000	14,998	14,863

On 31 December 2018, the maximum amount of the share issue authorisation at the share closing price was EUR 541.1 (486.3) million.

With regard to capital financing, the company maintains loan programmes and credit arrangements that allow quick issuance. The arrangements are committed and non-committed, and allow issuances for different maturities.

Debt capital	2018	2017
Commercial paper programme (non-committed) (1	243.0	235.0
Revolving credits (committed) (2	300.0	300.0
EMTN programme (non-committed) (3	720.0	220.0
Total, EUR million	1,263.0	755.0

On the closing date, the share issue authorisation as well as committed and non-committed credit arrangements totalled to EUR 1,804.1 (1,241.3) million.

1) The commercial paper programme amounted to EUR 350 million, of which EUR 107.0 million was in use on 31 December 2018.

2) Elisa has two committed revolving credit facilities of EUR 300 million in total. Both credits were undrawn on 31 December 2018

3) Elisa has a European Medium Term Note programme (EMTN) for a total of EUR 1,500 million. EUR 780.0 million was in use on 31 December 2018. The programme was updated on 14 August 2018, and it is valid for one year as of the update.

7.2 Equity

Share capital and treasury shares EUR million	Number of shares (thousands)	Share capital	Treasury shares
1 Jan. 2017	167,335	83.0	–142.9
Disposal of treasury shares			2.7
B/S 31 Dec. 2017	167,335	83.0	–140.2
Disposal of treasury shares			4.6
B/S 31 Dec. 2018	167,335	83.0	–135.6

At the end of the reporting period, the company's paid-in share capital registered in the Trade Register was EUR 83,033,008 (83,033,008).

According to its Articles of Association, Elisa Corporation has only one series of shares, each share entitling to one vote. In accordance with the Articles of Association, the maximum number of shares is 1,000 (1,000) million shares. All issued shares have been paid for. Shares do not have a nominal value.

Treasury shares include the acquisition cost of treasury shares, held by the Group, and they are deducted from shareholder's equity in the consolidated financial statements.

Treasury shares	Shares pcs	Accounting counter-value EUR	Holding, % of shares and votes
Treasury shares held by the Group at 1 Jan. 2017	7,715,129	3,828,309	4.61
Disposal of treasury shares	–135,626		
Transfer from unallocated account	221,894		
Treasury shares held by the Group at 31 Dec. 2017	7,801,397	3,871,116	4.66
Disposal of treasury shares	–230,843		
Transfer from unallocated account	41,267		
Treasury shares held by the Group at 31 Dec. 2018	7,611,821	3,777,047	4.55

Dividends

The Annual General Meeting has proposed a total dividend of EUR 1.75 per share to be paid for the 2018 result. A dividend of EUR 1.65 per share was paid for the 2017 result.

Other reserves **EUR million**	**Reserve for invested non-restricted equity**	**Contingency reserve**	**Fair value reserve**	**Other reserves**	**Total**
1 Jan. 2017	90.9	3.4	21.3	381.0	496.6
Other investments			–34.7		–34.7
Remeasurements of the net defined benefit liability			0.3		0.3
Cash flow hedge			0.3		0.3
B/S 31 Dec. 2017	90.9	3.4	–12.8	381.0	462.5
Remeasurements of the net defined benefit liability			0.7		0.7
Cash flow hedge			0.5		0.5
B/S 31 Dec. 2018	90.9	3.4	–11.6	381.0	463.7

The reserve for invested non-restricted equity includes the proportion of share subscription prices that was not recognised as share capital in accordance with the share issue terms.

A EUR 3.4 million contingency reserve includes the amount transferred from distributable equity under the Articles of Association or by General Meeting decision. The fair value reserve of EUR -11.6 million includes changes in the fair value of other investments, the remeasurements of the net defined benefit liability and the effective portion of the changes in the fair values of derivatives designated as cash flow hedges. The other reserves of EUR 381.0 million were formed through equity issues in business acquisitions.

7.3 Financial assets and liabilities

7.3.1 Financial income and expenses

EUR million	2018	2017
Financial income		
Dividend income from other investments	0.1	0.1
Interest and financial income from loans and other receivables	2.0	3.8
Gains on disposal of investments [1]	0.0	44.8
Other financial income	0.2	0.4
I/S	2.4	49.1
Financial expenses		
Interest expenses on financial liabilities measured at amortised cost	–23.2	–21.9
Other financial expenses on financial liabilities measured at amortised cost	–1.3	–1.5
Loss on disposal of investments	0.0	0.0
Other interest expenses	–0.1	–0.1
Other financial expenses	–0.4	–0.3
I/S	–25.0	–23.9

[1] The comparison year includes the gain from the sale of Comptel Oyj shares for EUR 44.3 million.

Foreign exchange rate gains and losses have been recognised using the effective interest rate method, and the dividend income, when the right to dividend is incurred.

Currency exchange rate gains and losses were recognised in accordance with their nature either in materials and services or in financial income and expenses. Foreign exchange rate gains and losses included in EBIT were not material.

7.3.2 Financial liabilities

	2018		2017	
EUR million	**Balance sheet values**	**Fair values**	**Balance sheet values**	**Fair values**
Non-current				
Bonds [1]	589.4	613.1	767.3	807.2
Bank loans	250.0	250.0	150.1	150.1
Finance lease liabilities	21.8	21.8	22.2	22.2
B/S	861.3	884.9	939.6	979.5
Current				
Bonds [1]	177.5	183.1		
Bank loans	0.0	0.0	59.2	59.2
Finance lease liabilities	2.9	2.9	3.7	3.7
Commercial paper	107.0	107.0	115.0	115.0
B/S	287.4	293.0	177.8	177.8
	1,148.7	1,177.9	1,117.4	1,157.3

Interest-bearing liabilities include a total of EUR 24.7 (25.9) million of secured liabilities (finance lease liabilities). In practice, the finance lease liabilities are secured liabilities, as the rights to the leased property will revert to the lessor, if the payments are neglected.

All financial liabilities are denominated in euros. Financial liabilities are measured at amortised cost. The fair values of financial liabilities are based on quoted market prices, or are calculated by discounting the related cash flows using market interest rate, valid on the balance sheet date.

The average maturity of non-current liabilities was 3.6 (4.3) years and the effective average interest rate was 1.6 (1.8) per cent.

[1] The adjustment effect of the adoption of IFRS 9, Financial Instruments, on opening balance of bonds was EUR -5.8 million, on retained earnings EUR 4.6 million and on deferred tax liabilities EUR 1.2 million. According to the previously applicable standard, IAS 39, the difference between the cash flows was accrued for the residual maturity of the debt by redefining the effective interest rate.

Contract-based cash flows on the repayment of financial liabilities and costs

2018 **EUR million**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024–**	**Total**
Bonds	194.9	10.9	310.9	2.6	2.6	302.6	824.5
Financial costs	14.9	10.9	10.9	2.6	2.6	2.6	44.5
Repayments	180.0		300.0			300.0	780.0
Bank loans	0.9	0.9	0.8	0.8	150.8	101.0	255.3
Financial costs	0.8	0.8	0.8	0.8	0.8	1.0	5.2
Repayments	0.0	0.0			150.0	100.0	250.1
Commercial paper	107.0						107.0
Financial costs	0.2						0.2
Repayments	106.8						106.8
Finance lease liabilities	4.6	3.8	2.8	2.4	2.4	47.0	63.0
Financial costs	1.8	1.7	1.6	1.6	1.5	30.1	38.3
Repayments	2.9	2.1	1.2	0.9	0.9	16.9	24.7
Electricity derivatives	–0.4						–0.4
Expected payments	–0.4						–0.4
Trade payables	162.5						162.5
Total	469.5	15.5	314.5	5.9	155.8	450.7	1,411.8
Financial costs	17.3	13.4	13.3	5.0	4.9	33.8	87.8
Repayments	452.2	2.1	301.2	0.9	150.9	416.9	1,324.1

2017 **EUR million**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023–**	**Total**
Bonds	14.9	194.9	10.9	310.9	2.6	305.3	839.5
Financial costs	14.9	14.9	10.9	10.9	2.6	5.3	59.5
Repayments		180.0		300.0		300.0	780.0
Bank loans	60.2	0.7	0.7	0.6	0.6	150.6	213.4
Financial costs	1.0	0.6	0.6	0.6	0.6	0.6	4.2
Repayments	59.2	0.0	0.0			150.0	209.2
Commercial paper	115.0						115.0
Financial costs	0.2						0.2
Repayments	114.8						114.8
Finance lease liabilities	5.5	4.7	3.7	2.3	1.6	47.7	65.5
Financial costs	1.9	1.7	1.6	1.5	1.4	31.5	39.6
Repayments	3.7	3.0	2.1	0.8	0.1	16.2	25.9
Electricity derivatives	0.0	0.1					0.2
Expected payments	0.0	0.1					0.2
Trade payables	193.6						193.6
Total	389.2	200.4	15.3	313.7	4.8	503.6	1,427.0
Financial costs	18.0	17.4	13.1	13.0	4.7	37.4	103.6
Repayments	371.2	183.0	2.2	300.8	0.1	466.2	1,323.5

Future financial costs of variable-rate financial liabilities as well as interest rate and currency swaps have been calculated at the interest rate prevailing on the period end date.

The company has EUR 300 million in credit facilities, of which EUR 170 million matures in 2022 and EUR 130 million in 2021. Both credits were undrawn on 31 December 2018.

Bonds

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

	31 Dec. 2018					
	Fair value EUR million	Balance sheet value EUR million	Nominal value EUR million	Nominal interest rate, %	Effective interest rate, %	Maturity date
EMTN programme 2001 / EUR 1,000 million						
I/2012	183.1	177.5	180.0	2.250	2.403	4.10.2019
I/2013	314.6	299.5	300.0	2.750	2.785	22.1.2021
I/2017	298.5	289.9	300.0	0.875	1.032	17.3.2024
	796.1	767.0	780.0			

The fair value of bonds is based on market quotes.

Gross finance lease liabilities –maturity of minimum lease payments

EUR million	2018	2017
Not later than one year	4.6	5.5
Later than one year, but not later than five years	12.2	12.2
Later than five years	46.1	47.7
	63.0	65.5
Future financial charges	–38.3	–39.6
Present value of finance lease liabilities	24.7	25.9

Maturity of present value of finance lease liabilities

EUR million	2018	2017
Not later than one year	2.9	3.7
Later than one year, but not later than five years	5.0	6.0
Later than five years	16.9	16.2
	24.7	25.9

7.3.3 Cash and cash equivalents, other investments

Cash and cash equivalents

EUR million	2018	2017
Cash assets	80.9	44.3
B/S	80.9	44.3

Cash and cash equivalents consist of cash, short-term bank deposits and other highly liquid short-term investments with a maximum maturity of three months.

Other investments

EUR million	2018	2017
Unlisted equity investments	9.6	7.8
B/S	9.6	7.8

7.3.4 Financial assets and liabilities recognised at fair value

Carrying amounts of financial assets and liabilities by category

2018 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	Note
Non-current financial assets						
Other investments [1]			9.6	9.6	9.6	7.3.3
Trade and other receivables		0.4	93.4	93.8	93.8	6.2.2
Current financial assets						
Trade and other receivables			416.6	416.6	416.6	6.2.1
		0.4	519.6	520.0	520.0	
Non-current financial liabilities						
Financial liabilities			861.3	861.3	884.9	7.3.2
Trade and other payables [2]			31.4	31.4	31.4	6.3
Current financial liabilities						
Financial liabilities			287.4	287.4	293.0	7.3.2
Trade and other payables [2]	1.6		302.0	303.5	303.5	6.3
	1.6		1,482.1	1,483.6	1,512.8	

[1] Other investments contains the Group's unlisted equity investments.

[2] Excluding advances received .

2017 **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**	**Note**
Non-current financial assets						
Other investments [1]			7.8	7.8	7.8	7.3.3
Trade and other receivables			83.7	83.7	83.7	6.2.2
Current financial assets						
Trade and other receivables			407.6	407.6	407.6	6.2.1
			499.1	499.1	499.1	
Non-current financial liabilities						
Financial liabilities			939.6	939.6	979.5	7.3.2
Trade and other payables [2]		0.2	19.8	20.1	20.1	6.3
Current financial liabilities						
Financial liabilities			177.8	177.8	177.8	7.3.2
Trade and other payables [2]			343.5	343.5	343.5	6.3
		0.2	1,480.8	1,481.0	1,520.9	

[1] Other investments contains the Group's unlisted equity investments

[2] Excluding advances received

The fair values of financial asset and liability items are presented in detail under the specified note number.

Financial assets and liabilities recognised at fair value

EUR million	2018	Level 1	Level 2	Level 3
Financial assets and liabilities measured at fair value through other comprehensive income				
Electricity derivatives	0.4		0.4	
Financial assets and liabilities measured at fair value through profit or loss				
Contingent considerations in business combinations	–1.6			–1.6
	–1.2		0.4	–1.6

EUR million	2017	Level 1	Level 2	Level 3
Financial assets and liabilities measured at fair value through other comprehensive income				
Electricity derivatives	–0.2		–0.2	
	–0.2		–0.2	

Items measured at the fair value are categorised using a the three-level value hierarchy. Level 1 includes instruments, with quoted prices in active markets. Listed shares owned by the Group are categorised at Level 1. Level 2 includes instruments with observable prices based on market data. The Group's electricity derivatives are categorised at Level 2. Level 3 includes instruments with prices that are not based on observable market data, but instead, on the company's internal information, for example. Contingent considerations, relating to business combinations, are categorised at Level 3.

Level 3 reconciliation

Contingent considerations related to business acquisitions

EUR million	2018	2017
At the beginning of the period	0.0	1.2
Increase of contingent consideration	1.6	
Payment of contingent consideration		–1.1
Reversal of contingent consideration		–0.1
Translation differences		0.0
At the end of the period	1.6	0.0

Changes in fair value of contingent considerations are recognised in other operating expenses.

According to the the management's estimation for the financial instruments valued at Level 3, replacing one or more of the pieces of fair value measurement data with a possible alternative assumption would not significantly change the fair value of the items within Level 3, considering the small total amount of underlying liabilities.

Accounting principles - Financial assets and liabilities:

Financial assets and other investments:
Purchases and sales of financial assets are recognised on the settlement date. The Group derecognises financial assets when its contractual rights to the cash flows from the financial asset expire or when it has transferred substantially all the risks and rewards to an external party.

Equity investments, excluding investments in associated companies and mutual real estate companies, are classified as other investments, and are generally measured at fair value. Investments in unlisted companies are recorded at original acquisition cost less any impairment. Such investments are measured at fair value either on the basis of the value of comparable companies, the discounted cash flow method or available market rates. Equity investments in the shares of listed companies are measured at fair value and are included in non-current assets.

Financial liabilities:
Financial liabilities are initially recognised at fair value equalling the net proceeds received. Subsequently, financial liabilities are measured at amortised cost using the effective interest method. Directly attributable transaction costs are included in the original cost of financial liabilities. Financial liabilities are recorded in non-current and current liabilities, and they may be non-interest-bearing or interest-bearing.

In cases where the terms of the financial liability measured at amortised cost are amended in a way that the change does not result in derecognition of the liability from the balance sheet, the Group must recognise the profit or loss in the income statement. It is calculated as the difference between the original contractual cash flows and the cash equivalents, discounted at the original effective interest rate of amended agreements.

On 1 January 2018, the Group introduced new rules for recognising bond liabilities in accordance with the requirements IFRS 9. The adjustment effect on the opening balances, related to the adoption of IFRS 9 on bond liabilities was EUR -5.8 million, on retained earnings EUR 4.6 million and on deferred tax liabilities EUR 1.2 million.

Finance lease liabilities:
The Group has primarily leased under finance lease arrangements telecom facilities, telecom connections, workstations and network terminal devices, as well as servers. The contractual terms vary in terms of purchase options/redemption clauses, index clauses and lease periods.

Leases of tangible assests where the Group carries a significant part of the risks and benefits from ownership are classified as finance lease arrangements. Assets leased under finance leases are recognised in the statement of financial position at the beginning of the lease period at the fair value of the leased asset or the present value of future minimum lease payments, whichever is lower. Assets leased under finance leases are depreciated over the useful lives, or over the lease period, whichever is shorter. The lease payments are apportioned between finance costs and the amortisation of lease liability over the lease period in a manner that retains the periodical interest rate on the remaining liability balance constant. The associated lease payment obligations are recognised in interest-bearing liabilities.

On 1 January 2019, the Group will adopt IFRS 16, Leases. Please refer for details to Note 1.3, Applied new and revised standards.

Classification of assets and liabilities:

After 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 the cash flow of which include payments of principal and interest on the principal amount 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 the other groups.

The Group categorises electricity derivatives that qualify for hedge accounting as financial assets or liabilities measured at fair value through other comprehensive income. Contingent considerations in the business combinations and listed equity investments are recognised as financial assets or liabilities measured at fair value through profit or loss.

The adjustment effect related to the implementation of the IFRS 9 standard was recorded in retained earnings. The Group has restated the comparative figures for 2017.

7.3.5 Derivative instruments

Nominal values of derivatives

	2018			2017		
	Period of validity			Period of validity		
EUR million	**Less than 1 year**	**1-5 years**	**Over 5 years**	**Less than 1 year**	**1-5 years**	**Over 5 years**
Electricity derivatives	2.5			1.4	1.0	

Fair values of derivatives

	2018			2017		
EUR million	**Positive fair value**	**Negative fair value**	**Total**	**Positive fair value**	**Negative fair value**	**Total**
Electricity derivatives	0.4		0.4		-0.2	-0.2

Determination of fair value and categorisation

The fair value of derivative instruments is determined using quoted prices in active markets, the rates, derived from the prevailing market rates for identical assets or liabilities or the cash flow discounting method. The Group recognises the derivative instruments at the fair value hierarchy Level 2. Please see Note 7.3.4.

Accounting principles - Derivative instruments:

The Group adopted the IFRS 9 hedge accounting requirements on 1 January 2018. The change had no impact on the consolidated financial statements.

Derivatives are recognised at fair value as financial assets or liabilities on the date of acquisition. Gains and losses arising from the fair value remeasurements are recognised in accordance with the nature of derivative contracts. Outstanding derivatives that do not qualify for hedge accounting are measured at the end of the reporting period at fair value and fair value changes are immediately recognised in financial items on the income statement. The fair value of derivatives is expected to approximate the quoted market prices or, if the quoted market prices are not available, the value is estimated using commonly used valuation methods.

The Group applies hedge accounting for electricity price risk and treats electricity derivative contracts as cash flow hedges. The change in fair value of effective portion of derivatives that qualify for hedge accounting is recognised in other comprehensive income and presented in the equity hedge revaluation reserve (as a part of "Other reserves"). Gains or losses on derivative instruments accumulated in equity are expensed when any hedged item affects profit or loss. The ineffective portion is recognised in other operative income and expenses on the income statement. The hedge accounting is discontinued when the hedge contract is expired, sold, terminated or completed. Any cumulative gain or loss arising from the hedge instrument remains in equity until the expected transaction is realised.

8 Other notes

8.1 Taxes

8.1.1 Income taxes

EUR million	2018	2017
Taxes for the period	–66.5	–64.4
Taxes for previous periods	0.0	–0.1
Deferred taxes	1.5	–2.1
I/S	–65.0	–66.5

Income taxes recognised directly in comprehensive income:

EUR million	2018 Before taxes	2018 Tax effect	2018 After taxes	2017 Before taxes	2017 Tax effect	2017 After taxes
Remeasurements of the net defined benefit liability	0.9	–0.2	0.7	0.4	–0.1	0.3
Cash flow hedge	0.6	–0.1	0.5	0.4	–0.1	0.3
	1.5	–0.3	1.2	0.8	–0.2	0.7

The changes in fair value of other investments recognised in other comprehensive income do not include taxes as the Group's holdings in the company have been over 10 per cent. Translation differences do not include a tax effect.

Reconciliation of the tax expense on income statement and taxes calculated at the Group's domestic statutory tax rate 20 (20):

EUR million	2018	2017
I/S Profit before tax	381.0	403.2
Tax according to the domestic tax rate	–76.2	–80.6
Tax effects of the following:		
Tax-free income	0.7	9.3
Non-deductible expenses	–0.3	–2.0
Tax effect related to foreign subsidiaries	6.6	5.9
Tax losses, for which no deferred tax asset was recognised	0.0	–0.2
Usage of tax losses, for which no deferred tax was recognised	3.5	0.8
Taxes for previous periods	0.0	–0.1
Other items	0.8	0.3
I/S Taxes on the income statement	–65.0	–66.5
Effective tax rate, %	17.1	16.5

Accounting principles - Income taxes for the period and deferred taxes:

The taxes recognised on the income statement include current and deferred taxes. Income taxes for the financial year are calculated on the net profit for the period at the current tax rate and are adjusted by prior period taxes.

Deferred taxes are calculated from all temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Please refer to the next Note 8.1.2 for details.

8.1.2 Deferred tax assets and liabilities

The change in deferred tax assets and liabilities during 2018

Deferred tax assets

EUR million	1 Jan. 2018	Recognised on the income statement	Recognised in consolidated statement of comprehensive income	31 Dec. 2018
Provisions	1.8	–0.7		1.0
Tax losses carry-forward	0.9	–0.9		0.0
Finance lease agreements	1.1	0.2		1.3
Internal margins	3.0	–0.3		2.7
Share-based incentive plans	5.7	1.4		7.0
Pension obligations	3.6	0.0	-0.2	3.4
Customer contracts	0.1	–0.1		0.0
Impairment of trade receivables	0.2	–0.2		0.0
Other temporary differences	0.9	0.2	–0.1	1.1
B/S	17.2	–0.3	–0.3	16.5

Deferred tax liabilities

EUR million	1 Jan. 2018	Recognised on the income statement	Business combinations	31 Dec. 2018
Fair value measurement of tangible and intangible assets in business combination	2.0	–0.7	0.8	2.1
Accumulated depreciation differences	19.8	–1.2		18.6
Finance lease agreements	0.5	0.1		0.6
Customer contracts	2.0	–0.1		1.9
Bond valuations according to IFRS 9 requirements	1.2	–0.4		0.8
Other temporary differences	1.3	0.5		1.8
B/S	26.7	–1.9	0.8	25.7

Deferred income tax assets recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future profits is probable. No deferred tax assets were recorded on 31 December 2018 (EUR 0.9 million, 31 December 2017). On 31 December 2018, the Group had EUR 7.7 (26.3) million of unused tax losses for which no tax assets have been recognised. These losses will expire during period 2023–2027.

On 1 January 2018, the adjustment effect on the opening balance related to the adoption of IFRS 15 was EUR 0.1 million on deferred tax assets and EUR 2.0 million on deferred tax liabilities. The changes relate to the timing differences arising from the revenue and costs from the contracts with the customers. During the financial year, taxes of EUR 0.0 million were recognised in profit and loss.

On 1 January 2018 the adjustment effect on the opening balance related to the adoption of IFRS 9 was EUR 0.2 million on deferred tax assets and EUR 1.2 million on deferred tax liabilities. The changes in deferred tax assets relate to a new calculation method for the impairment of trade receivables. The changes in deferred tax liabilities relate to a change in the measurement principles of financial liabilities. During the financial year, taxes of EUR 0.2 million were recognised in profit and loss.

The change in deferred tax assets and liabilities during 2017

Deferred tax assets EUR million	1 Jan. 2017	Recognised on the income statement	Recognised in consolidated statement of comprehensive income	31 Dec. 2017
Provisions	1.3	0.4		1.8
Tax losses carry-forward	3.9	-3.0		0.9
Finance lease agreements	6.6	-5.5		1.1
Internal margins	3.3	-0.3		3.0
Share-based incentive plans	3.6	2.1		5.7
Fair value measurement of tangible and intangible assets in business combinations	1.4	-1.4		0.0
Pension obligations	3.7	0.0	-0.1	3.6
Other temporary differences	1.0	0.0	-0.1	0.9
B/S	24.6	-7.6	-0.2	16.9

Deferred tax liabilities EUR million	1 Jan. 2017	Recognised on income statement	Business combinations	31 Dec. 2017
Fair value measurement of tangible and intangible assets in business combinations	2.1	-0.7	0.6	2.0
Accumulated depreciation differences	19.9	-0.1		19.8
Finance lease agreements	5.1	-4.7		0.5
Other temporary differences	1.3	0.0		1.3
B/S	28.5	-5.5	0.6	23.5

Accounting principles - Deferred tax assets and liabilities:

Deferred taxes are calculated from all temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The principal temporary difference arises from depreciation differences. Deferred tax is not recognised on goodwill impairment, which is not deductible for tax purposes. No deferred tax is recognised on valuation differences of shares for which the capital gain would be tax-deductible.

Deferred income tax assets are recognised only to the extent that it is probable that they can be utilised against future taxable income. Deferred tax liabilities are recognised on the balance sheet in total with the exception of Estonian subsidiaries, where no tax liability has been recognised for the untaxed retained earnings EUR 216.2 million, as no profit distribution decision or plans for profit distribution exist for the time being.

Deferred tax liabilities and assets are not offset.

Accounting policies that require management's judgements - Deferred tax assets:

Particularly at the end of each financial period, the Group assesses the probability of subsidiaries generating taxable income against which unused tax losses can be utilised. The appropriateness for recognising other deferred tax assets is also determined at the end of each financial period. Changes in the estimates may lead to the recognition of significant tax expenses. On 31 December 2018, the Group had EUR 16.5 million of deferred tax receivables.

8.2 Provisions

EUR million	Termination benefits	Other	Total
1 Jan. 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 Dec. 2017	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 Dec. 2018	3.4	1.7	5.0

EUR million	2018	2017
B/S Long-term provisions	2.3	2.5
B/S Short-term provisions	2.7	6.2
	5.0	8.7

Termination benefits

As a part of the Group's rationalisation Elisa has carried out statutory employee negotiations leading to personnel reductions in 2018. The restructuring provision includes provisions for both unemployment pensions and other expenses due to redundancies. The provisions associated with redundancies will be realised in 2019 and the provision associated with unemployment pensions will be realised in 2019-2021.

Other provisions

Other provisions include environmental provisions made for telephone poles.

Accounting principles - Provisions and contingent liabilities:

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Contingent liabilities are potential liabilities that arise from past events or that may occur depending on the outcome of uncertain future events which are beyond the control of the Group. Contingent liability is also a present obligation that is unlikely to require settlement of a payment obligation or the amount of which cannot be reliably measured. Contingent liabilities are not recognised in the statement of financial position, but are presented in the notes.

8.3 Related party details

The Group's related parties consist of the parent company, subsidiaries, associates and joint ventures, as well as Elisa's Board of Directors, the CEO and the Executive Board.

Transactions carried out with related parties:

2018 EUR million	Sales	Purchases	Receivables	Liabilities
Associates and joint arrangements	0.5	1.1	0.9	0.0

2017 EUR million	Sales	Purchases	Receivables	Liabilities
Associates and joint arrangements	0.5	1.4	0.1	0.1

The employee benefits of the Group's related parties are presented in Note 4.1.

8.3.1 Group companies

The parent company of the Group is Elisa Corporation.

Subsidiaries	Domicile	Group's ownership,%
Banana Fingers Ltd.	Bristol	100
Ekaso Oy	Helsinki	100
Elisa Finance Oü	Tallinn	100
Elisa Hong Kong Limited	Hong Kong	100
Elisa Santa Monica Oy	Helsinki	100
Elisa Teleteenused AS	Tallinn	100
Elisa Eesti As	Tallinn	100
Santa Monica Networks AS	Tallinn	100
Elisa Videra Oy	Helsinki	100
Elisa Videra Inc.	Los Angeles	100
Elisa Videra Italy S.r.l	San Genesio	100
Elisa Videra Singapore PTE LTD	Singapore	100
Elisa Videra Spain S.L	Madrid	100
Elisa Videra UK Ltd.	London	100
Elisa Videra Norge As	Oslo	100
Enia Oy	Helsinki	100
Epic TV SAS	Sallanches	100
Fenix Enterprise Solutions Oy	Turku	100
Fenix Solutions Oy	Turku	100
Fonum Oy	Helsinki	100

Subsidiaries	Domicile	Group's ownership,%
Karelsat Oy	Joensuu	100
Kepit Systems Oy	Vaasa	70
Kiinteistö Oy Raision Luolasto	Espoo	100
Kiinteistö Oy Rinnetorppa	Kuusamo	80
Kiinteistö Oy Tapiolan Luolasto	Espoo	100
LNS Kommunikation AB	Stockholm	100
Preminet Oy	Helsinki	100
OOO LNR	St. Petersburg	100
Sulake Prepaid Oy	Helsinki	100
Ukkonet Oy	Helsinki	100
Watson Nordic Oy	Vaasa	100
Joint arrangements		
Kiinteistö Oy Brahenkartano	Turku	60

Significant changes in ownership of subsidiaries are presented in Notes 3. Other changes in the Group structure are described below.

On 1 March 2018, Tampereen Tietoverkko Oy merged with Elisa Corporation and on 31 December 2018, Elisa Appelsiini Oy merged with Elisa Corporation.

Starman AS changed its name to Elisa Teleteenused AS on 22 January 2018. Elisa Eesti AS and Santa Monica Networks AS became a part of Elisa Teleteenused Group. A new subsidiary, Elisa Eesti Finanace Oü, was established on 30 July 2018.

On 26 April 2018, Sulake Inc. changed its name to Elisa Videra Inc. and starting from 1 July 2018 became part of Elisa Videra Group. On 22 May 2018, Santa Monica Networks Oy changed its name to Elisa Santa Monica Oy. On 13 July 2018, Sulake Corporation Oy changed its name to Sulake Prepaid Oy.

Accounting principles - Principles of consolidation, subsidiaries:

The consolidated financial statements include the parent company, Elisa Corporation, and those subsidiaries over which the Group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated from the date the Group obtains control and divested companies until the loss of control. The acquisition method is used in the accounting for the elimination of internal ownership. All intra-group transactions, gains on the sale of inventories and fixed assets, intra-group receivables, payables and dividends are eliminated.

Profit for the period attributable to the equity holders of the parent and non-controlling interests is presented separately in the consolidated income statement. Non-controlling interests are presented separately from the equity of the owners of the parent in the consolidated statement of financial position. Losses exceeding the share of ownership are allocated to non-controlling interests.

Accounting principles - Principles of consolidation, joint arrangements:

Joint arrangements — are the arrangements over which the Group exercises joint control with one or more parties. A joint arrangement is either a joint operation or a joint venture. A joint venture is a joint arrangement, where the Group has rights to the net assets of the arrangement. A joint operation is a joint arrangement where the Group has rights to the assets and obligations for the liabilities relating to the arrangement.

The only joint arrangement owned by the Group, Kiinteistö Oy Brahenkartano, is a joint operation, which is consolidated using the proportional consolidation method. 60 per cent of the assets, liabilities, income and expenses of the joint operation are consolidated to the Group's financial statements. The company owns and manages a building and a site in Turku. Elisa is entitled to manage office and telecom facilities with the shares owned.

8.3.2 Investments in associated companies

Aggregated financial information of associates

EUR million	2018	2017
I/S Group's share of profit	–0.4	0.0
B/S Transactions carried out with related parties	2.7	1.9

EUR million	2018	2017
Balance at the beginning of the period	1.9	2.2
Share of profits for the period	–0.4	0.0
Dividends received	0.0	0.0
Reclassifications	1.2	
Disposals		–0.3
B/S Balance at the end of the period	2.7	1.9

On 1 June 2018, Sulake Suomi Oy, Sulake Spain S.L.U, Sulake Brazil and Sulake UK Ltd changed their status from subsidiaries to associated companies. 13 July 2018, the associated company - Sulake Suomi Oy changed its name to Sulake Oy.

Elisa divested its ownership in Länsilinkki Oy in comparison period 2017. The divestment resulted in a profit of EUR 0.5 million recorded as financial income on the income statement.

Associates	Domicile	Group's ownership,%
FNE-Finland Oy	Kontiolahti	46
Kiinteistö Oy Helsingin Sentnerikuja 6	Helsinki	50
Kiinteistö Oy Herrainmäen Luolasto	Tampere	50
Kiinteistö Oy Lauttasaarentie 19	Helsinki	42
Kiinteistö Oy Pohjanplassi	Lapua	39
Kiinteistö Oy Riihimäen Maisterinkatu 9	Riihimäki	35
Kiinteistö Oy Runeberginkatu 43	Helsinki	30
Kiinteistö Oy Stenbäckinkatu 5	Helsinki	40
Sulake Oy	Helsinki	49
Sulake Brasil	Sao Paolo	49
Sulake Spain S.L.U	Madrid	49
Sulake UK Ltd	London	49
Suomen Numerot NUMPAC Oy	Helsinki	33
Tele Scope Oy	Espoo	22

Accounting principles - Principles of consolidation, associated companies:

Associated companies are entities over which the Group exercises significant influence. Significant influence is presumed to exist when the Group owns over 20 per cent of the voting rights of the company or when the Group otherwise exercises significant influence, but does not exercise control. Associated companies are consolidated in accordance with the equity method. If the Group's share of losses of an associated company exceeds its interest in the associated company, the investment is recognised on the balance sheet at zero value and the Group discontinues recognising its share of further losses unless the Group has other obligations for the associated company. Associated companies are consolidated from the date the Group obtains significant influence and divested companies are consolidated until the loss of significant influence.

8.4 Operating leases and other commitments

Operating leases

Group as a lessee

Future minimum lease payments under non-cancellable operating leases:

EUR million	2018	2017
Not later than one year	28.2	28.9
Later than one year but not later than five years	36.4	39.4
Later than five years	14.4	18.4
	79.0	86.7

A total of EUR 57.5 (55.4) million was paid as lease expenses on the basis of other lease contracts and recognised through profit or loss in 2018.

Group as a lessor

Future minimum lease payments under non-cancellable operating leases:

EUR million	2018	2017
Not later than one year	3.0	2.7
Later than one year, but not later than five years	0.5	0.3
	3.5	3.0

Accounting principles - Leases:

Leases in which the risks and rewards of ownership are retained by the lessor are classified as operating leases.

The group as a lessee
The Group's operating leases include mainly retail premises and locations, telecom facilities and vehicles.

The lease periods for telecom facilities vary from one month to more than 50 years.

Payments made under operating leases are expensed on the income statement on a straight-line basis over the term of the lease.

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

On 1 January 2019, the Group will adopt IFRS 16, Leases. Please refer for details to Note 1.3, Applied new and revised standards.

The group as a lessor
The Group acts as a lessor in two different types of lease arrangements that are accounted for as operating leases. Rental income from telecom premises and carrier services is recognised as revenue over the lease period. The lease contract periods are mainly short with durations of 1–6 months.

Rental income is recognised over the lease period.

Collateral, commitments and other liabilities

EUR million	2018	2017
On behalf of 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 obligation	2.3	3.3
Repurchase obligations		0.0
Letter of credit	0.1	0.1

Real estate investments
VAT refund liability for real estate investments indicates the amount that may become completely non tax-deductible, if the intended use of the property was to change.
On 31 December 2018, VAT refund liability for real estate investments was EUR 28.8 (29.2) million.

8.5 Events after the balance sheet date

There were not significant events after the balance sheet date.

9 Key indicators

9.1 Key indicators describing the Group's financial development

	2018	2017	2016	2015	2014
INCOME STATEMENT					
Revenue, EUR million	1,832	1,787	1,636	1,569	1,535
Change of revenue,%	2.5	9.3	4.2	2.2	–0.8
EBITDA, EUR million	640	608	563	532	520
EBITDA as % of revenue	34.9	34.0	34.4	33.9	33.8
EBIT, EUR million	404	378	339	312	305
EBIT as % of revenue	22.0	21.2	20.7	19.9	19.9
Profit before tax, EUR million	381	403	320	291	278
Profit before tax as % of revenue	20.8	22.6	19.6	18.5	18.1
Return on equity (ROE),%	29.2	33.5	27.1	27.0	25.6
Return on investment (ROI),%	18.3	19.9 [1]	17.0	16.5	15.7
Research and development costs, EUR million	8	10	11	15	13
Research and development costs as % of revenue	0.5	0.6	0.7	0.9	0.8
BALANCE SHEET					
Gearing ratio,%	94.8	103.2	115.7	103.9	114.0
Current ratio	1.0	1.0	1.0	0.7	0.9
Equity ratio,%	42.4	40.5	38.5	41.4	39.4
Non-interest bearing liabilities, EUR million	393	423	393	330	322
Interest bearing net debt	1,068	1,073	1,124	962	1,001
Balance sheet total, EUR million	2,669	2,580	2,533	2,247	2,243
INVESTMENTS					
Investments in shares and business combinations, EUR million	14	104	108	18	43
CAPITAL EXPENDITURES					
Investments, EUR million	254	246	226	196	191
Investments as % of revenue	13.9	13.8	13.8	12.5	12.5
PERSONNEL					
Average number of employees during the period	4,814	4,614	4,247	4,146	4,138
Revenue/employee, EUR 1,000	380	387	385	379	371

The order book is not presented, as the information is not relevant due to the nature of the Group's business.
[1] Corrected figure

FORMULAE FOR FINANCIAL SUMMARY INDICATORS

EBITDA	EBIT + depreciation, amortisation and impairment	
EBIT	Profit for the period + income taxes + financial income and expenses + share of associated companies' profit	
Return on equity (ROE),%	Profit for the period / Total shareholders' equity on average	X 100
Return on investment (ROI),%	Profit before taxes + interest and other financial expenses / Total equity + interest bearing liabilities on average	X 100
Gearing ratio,%	Interest-bearing liabilities – Cash and cash equivalents and financial assets at fair value through profit or loss / Total shareholders' equity	X 100
Current ratio	Current assets / Current liabilities – advance payments received	
Equity ratio,%	Total shareholders' equity / Balance sheet total – advance payments received	X 100

9.2 Comparable per-share indicators [1]

	2018	2017	2016	2015	2014
INCOME STATEMENT					
Comparable EBITDA, EUR million	639	613	564	536	520
Comparable EBITDA as % of revenue	34.9%	34.3%	34.5%	34.1%	33.8%
Comparable EBIT, EUR million	403	384	349	322	305
Comparable EBIT as % of revenue	22.0%	21.5%	21.4%	20.5%	19.9%
Comparable profit before tax, EUR million	380	364	327	300	278
Comparable profit before tax as % of revenue	20.8%	20.4%	20.0%	19.1%	18.1%
Comparable return on equity (ROE), %	28.8%	29.5%	27.9%	27.3%	25.6%
Comparable return on investment (ROI), %	18.3%	18.0%	17.3%	17.0%	15.7%
Comparable earnings per share (EPS)	1.95	1.86	1.66	1.54	1.41

[1] other than the financial indicators defined by IFRS

FORMULAE FOR COMPARABLE PER-SHARE INDICATORS

Comparable EBITDA	EBIT + depreciation, amortisation and impairment + /-items affecting comparability
Comparable EBIT	Profit for the period + income taxes +/- financial income and expenses + share of associated companies' profit +/- items affecting comparability
Comparable profit for the period	Profit for the period +/- items affecting comparability
Comparable EPS	(Profit attributable to owners of the parent company +/- items affecting comparability) / Average number of shares during the period adjusted for the share issues
Comparable return on equity (ROE), %	(Profit for the period +/- items affecting comparability) / Total shareholders' equity on average x 100
Comparable return on investment (ROI), %	(Profit before taxes + interest and other financial expenses +/- items affecting comparability) / Total equity + interest bearing liabilities on average x 100
Comparable cash flow after investments	Net cash flow from operating activities – net cash used in investing activities +/- items affecting comparability

9.3. Per-share indicators [1]

	2018	2017	2016	2015	2014
Share capital, EUR	83,033,008	83,033,008	83,033,008	83,033,008	83,033,008
Number of shares at year-end	159,723,252	159,533,676	159,619,944	159,484,067	159,349,030
Average number of shares	159,736,826	159,606,603	159,607,755	159,469,737	159,349,030
Number of shares at year-end, diluted	159,723,252	159,533,676	159,619,944	159,484,067	159,349,030
Average number of shares, diluted	159,736,826	159,606,603	159,607,755	159,469,737	159,349,030
Market capitalisation, EUR million [2]	6,037	5,475	5,176	5,822	3,783
Earnings per share (EPS), EUR	1.98	2.11	1.61	1.52	1.41
Dividend per share, EUR	1.75 [5]	1.65	1.50	1.40	1.32
Payout ratio,%	88.5	78.2	93.1	91.8	93.5
Equity per share, EUR	7.05	6.52	6.08	5.80	5.51
P/E ratio	18.2	15.5	19.2	22.8	16.0
Effective dividend yield,% [2]	4.9	5.0	4.8	4.0	5.8
Share performance on Nasdaq Helsinki					
Mean price, EUR	36.34	33.74	32.27	28.37	20.93
Closing price at year-end, EUR	36.08	32.72	30.93	34.79	22.61
Lowest price, EUR	31.68	30.42	28.40	22.10	18.19
Highest price, EUR	41.95	36.94	35.80	35.99	24.04
Trading of shares on Nasdaq Helsinki [3]					
Total trading volume, 1,000 shares	104,879	104,467	105,663	113,312	112,729
Percentage of shares traded [4]	63	62	63	68	67

1) The numbers of shares are presented without treasury shares held by Elisa Group. Treasury shares have been included in calculations of indicators.
2) Calculated on the basis of the closing price on the last trading day of the year.
3) Elisa share is also traded in alternative marketplaces. According to the Fidessa Fragmentation report, the trading volumes in these markets in 2018 were approximately 190 (145) per cent of the Nasdaq Helsinki.
4) Calculated in proportion to the average number of shares for the period.
5) The Board of Directors proposes a dividend payment of EUR 1.75 per share.

FORMULAE FOR PER-SHARE INDICATORS

Earnings per share (EPS)

$$\frac{\text{Profit for the period attributable to the equity holders of the parent}}{\text{Average number of shares during the period adjusted for share issues}}$$

Dividend per share [1]

$$\frac{\text{Dividend adjusted for issues}}{\text{Number of shares at the balance sheet date adjusted for share issues}}$$

Effective dividend yield, % [1]

$$\frac{\text{Dividend per share}}{\text{Share price at the balance sheet date adjusted for share issues}} \text{ X 100}$$

Payout ratio, % [1]

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \text{ X 100}$$

Equity per share

$$\frac{\text{Equity attributable to equity holders of the parent}}{\text{Number of shares at the balance sheet date adjusted for share issues}}$$

P/E ratio (Price/Earnings)

$$\frac{\text{Share price on the balance sheet date}}{\text{Earnings per share}}$$

1) The calculation formulas apply also to the capital repayment indicators.

Income statement, parent company, FAS

EUR million	Note	2018	2017
Revenue	1	1,508.3	1,451.9
Other operating income	2	8.9	10.6
Materials and services	3	–580.7	–583.0
Personnel expenses	4	–216.8	–199.0
Depreciation and amortisation	5	–254.5	–239.4
Other operating expenses		–161.0	–155.4
Operating profit		304.3	285.7
Financial income and expenses	7	379.6	6.8
Profit before appropriations and taxes		684.0	292.5
Appropriations	8	2.7	9.1
Income taxes	9	–64.4	–62.0
Profit for the period		622.2	239.6

Balance sheet, parent company, FAS

EUR million	Note	31 Dec. 2018	31 Dec. 2017
ASSETS			
Fixed assets			
Intangible assets	10	431.5	433.3
Tangible assets	10	664.1	660.2
Investments	11	816.7	428.2
		1,912.3	1,521.6
Current assets			
Inventories	12	46.7	50.6
Non-current receivables	13	92.4	83.5
Current receivables	14	367.4	351.3
Cash and bank receivables		69.7	32.9
		576.2	518.2
TOTAL ASSETS		2,488.5	2,039.9
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	15		
Share capital		83.0	83.0
Treasury shares		–135.4	–140.0
Reserve for invested non-restricted equity		77.8	77.8
Contingency reserve		3.4	3.4
Retained earnings		111.6	139.8
Profit for the period		622.2	239.6
		762.6	403.6
Accumulated appropriations		86.9	92.5
Provisions for liabilities and charges	16	5.6	9.0
Liabilities			
Non-current liabilities	17	881.4	949.8
Current liabilities	18	752.0	585.0
		1,633.3	1,534.8
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		2,488.5	2,039.9

Cash flow statement, parent company, FAS

EUR million	2018	2017
Cash flow from operating activities		
Profit before appropriations and taxes	684.0	292.5
Adjustments:		
Depreciation and amortisation	254.5	239.4
Other income and expenses with no payment relation	0.7	1.5
Other financial income (-) and expenses (+)	20.8	27.8
Gains (-) and losses (+) on the disposal of fixed assets	−0.9	−0.4
Gains (-) and losses (+) on the disposal of investments	−400.4	−34.6
Change in provisions in the income statement	−3.4	3.1
Cash flow before changes in working capital	555.2	529.2
Change in working capital		
Increase (-) / decrease (+) in trade and other receivables	−1.6	−24.7
Increase (-) / decrease (+) in inventories	5.0	−7.4
Increase (+) / decrease (-) in trade and other payables	−23.0	28.4
Cash flow before financial items and taxes	535.6	525.5
Dividends received	0.2	0.7
Interest received	1.5	5.1
Interest paid	−19.8	−21.4
Income taxes paid	−67.5	−62.8
Net cash flow from operating activities	449.9	447.1

Cash flow statement, parent company, FAS

EUR million	2018	2017
Cash flow from investing activities		
Capital expenditure	–222.3	–225.4
Proceeds from disposal of tangible and intangible assets	1.0	2.9
Equity and other investments	–13.1	–49.0
Proceeds from disposal of shares and other investments	0.0	43.6
Loans granted	–3.1	–26.6
Repayment of loan receivables	4.0	140.1
Net cash flow used in investing activities	–233.5	–114.3
Cash flow after investing activities	216.5	332.8
Cash flow from financing activities		
Increase in long-term borrowings (+)	100.0	289.3
Decrease in long-term borrowings (-)	–59.1	–156.2
Increase (+) / decrease (-) in short-term borrowings	37.7	–256.7
Group contributions received (+) / paid (-)	6.7	6.8
Dividends paid	–263.1	–239.2
Net cash flow used in financing activities	–177.8	–356.0
Change in cash and cash equivalents	38.6	–23.2
Cash and cash equivalents at the beginning of the period	32.9	34.6
Cash from business transfers and mergers	–1.8	21.5
Cash and cash equivalents at the end of the period	69.7	32.9

Notes to the financial statements of the parent company

Accounting principles

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

Foreign currency items

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing on the dates of transactions. At year-end, assets and liabilities denominated in foreign currencies are valued at the average rate quoted by the European Central Bank at year-end.

Fixed assets

The carrying value of intangible and tangible assets is stated at cost less accumulated depreciation, amortisation and impairments. Internally generated fixed assets are measured at variable costs. .

The difference between depreciation according to plan and total depreciation is presented under appropriations in the parent company's income statement and the accumulated depreciation difference is presented under accumulated appropriations in shareholders' equity and liabilities on the balance sheet. Depreciation according to plan is recognised on a straight-line basis over the useful lives from the original acquisition cost.

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

Intangible rights	3–5 years
Goodwill	5–20 years
Other expenditure with long-term effects	5–10 years
Buildings and constructions	25–40 years
Machinery and equipment in buildings	10–25 years
Equipment for the network and exchanges	6–10 years
Cable network	8–15 years
Telecommunication terminals	2–4 years
Other machines and equipment	3–5 years

Inventories

Inventories are stated at the lowest of variable cost, acquisition price or the likely disposal, or repurchase price. Cost is determined using a weighted average price.

Marketable securities

Investments in money market funds are recognised at the repurchase price. Investments in certificates of deposit and commercial paper are recognised at the acquisition cost, as the difference between the repurchase price and cost of acquisition is not significant.

Revenue recognition principles

Revenue from deliverables is recognised at the time of ownership transfer and revenue from services is recognised when the services have been performed.

Interconnection fees that are invoiced from the customer sand paid as such to other telephone companies are presented as a deduction item under sales income (Finnish Accounting Standards Board 1995/1325).

The profit from the sale of business operations and fixed assets, subsidies received and rental income from premises are presented under other operating income. The loss from the sale of fixed assets is presented under other operating expenses. The profit or loss from the sale of shares is presented in financial income and expenses.

Research and development

Research costs are expensed as they incur, with the exception of development costs, which are capitalised. The capitalisation criteria are met when the product is technically and commercially feasible, and it is expected to generate future economic benefit. Development costs initially recognised as expenses cannot be capitalised subsequently.

Government grants associated with development projects are recognised as other operating income when the related costs are recognised as expenses. Government grants, associated with capitalised development costs, are recorded as a reduction of cost.

Future expenses and losses

Probable future expenses and losses related to the current or a prior financial period without corresponding income are recognised in the income statement. Such items are recognised in the balance sheet under provisions if a reliable estimate of the amount or timing of the obligation cannot be made. Otherwise the obligation is recognised in accruals.

Income taxes

Income taxes for the financial year are recognised in the income statement. No deferred tax liabilities or receivables have been recognised in the financial statements.

1. Revenue

EUR million	2018	2017
Revenue	1,571.4	1,515.3
Interconnection fees and other adjustments	–63.2	–63.4
	1,508.3	1,451.9
Geographical distribution		
Finland	1,478.6	1,427.6
Rest of Europe	27.0	22.8
Other countries	2.7	1.6
	1,508.3	1,451.9

2. Other operating income

EUR million	2018	2017
Gain on disposals of fixed assets	4.1	2.4
Other items [1]	4.8	8.2
	8.9	10.6

[1] Other operating income items mainly include rental income from real estate, management fee income charged from subsidiaries and other income items not associated with ordinary operating activities.

3. Materials and services

EUR million	2018	2017
Materials, supplies and goods		
Purchases	252.1	248.4
Change in inventories	4.5	–7.4
	256.5	241.0
External services	324.1	342.0
	580.7	583.0

4. Personnel expenses

EUR million	2018	2017
Salaries and wages	181.1	164.7
Pension expenses	31.5	29.0
Other statutory employee expenses	4.2	5.3
	216.8	199.0
Personnel on average	2,921	2,625

CEO remuneration, EUR	2018	2017
Fixed salaries	543,360.00	542,100.00
Performance-based bonus	281,734.20	332,937.00
Fringe benefits	12,929.44	13,974.82
Share-based payments [1]	1,853,342.72	956,768.69
	2,691,366.36	1,845,780.51

1) The maximum award allocated to the CEO under the share-based compensation plans equals the value of 165,650 shares. The details related to the share-based compensations are disclosed in Note 4.1 of the consolidated financial statements.

The executive agreement with the Group CEO expires at the age of 60, and he is entitled to retire according to the agreement. The pension benefit plan follows the defined contribution plan. The defined benefit pension plan includes vested rights. Please refer to Note 4.1 of the the consolidated financial statements.

The remuneration of the Board members, EUR	2018	2017
Petteri Koponen	68,700.00	68,500.00
Clarisse Berggårdh	70,600.00	68,000.00
Raimo Lind	117,200.00	116,500.00
Leena Niemistö	69,200.00	68,000.00
Jaakko Uotila		16,500.00
Anssi Vanjoki	63,100.00	
Seija Turunen	81,900.00	80,000.00
Antti Vasara	70,600.00	51,500.00
Mika Vehviläinen	19,500.00	78,500.00
	560,800.00	547,500.00

For year 2018, following compensations were determined by the Annual General Meeting to the Members of the Board: fee for the chairman EUR 108,000, for the vice chairman and chairman of the Audit Committee EUR 72,000, and for the other members of the Board EUR 60,000. The fees for January–March were used on 24 April 2018 to acquire Elisa's shares based on a decision made by the Annual General Meeting on 6 April 2017. On 24 April 2018, the fees for April–December period were used to acquire Elisa's shares based on a decision made by the Annual General Meeting on 12 April 2018. The outstanding remuneration was paid net of tax, 60 per cent. Shares acquired prior to 2014 have a four-year transfer restriction which will expire at the end of the Board service, however. In January–March, the Board remuneration was EUR 500 and in April–December EUR 700.

5. Depreciation and amortisation

EUR million	2018	2017
Intangible assets	81.6	78.5
Tangible assets	172.8	160.9
	254.5	239.4

Specifications of depreciation by balance sheet item are presented in Note 10.

6. Auditor fees

EUR million	2018	2017
Auditing	0.1	0.1
Tax advisory services	0.1	0.1
Other services	0.0	0.1
	0.2	0.3

7. Financial income and expenses

EUR million	2018	2017
Interest income and other financial income		
Dividends received		
From Group companies		0.6
From associated companies	0.0	0.0
From others	0.1	0.1
	0.2	0.7
Other interest and financial income		
From the Group companies	0.1	2.3
Capital gains from investments [1]	400.4	34.6
From others	1.5	3.3
	402.1	40.2
	402.2	40.9
Interest costs and other financial expenses		
To the Group companies	–2.5	–4.6
Impairment of investments to subsidiaries	0.8	–8.2
To others	–20.8	–21.3
Impairments		0.0
	–22.6	–34.1
	379.6	6.8

[1]) Include mainly the intra-group transactions. The comparison year includes the sale of Comptel Oyj shares.

8. Appropriations

EUR million	2018	2017
Change in depreciation difference	5.6	2.4
Group contributions received	18.0	8.7
Group contributions given	–20.9	–2.0
	2.7	9.1

9. Income taxes

EUR million	2018	2017
Income taxes on ordinary activities	–64.5	–62.0
Taxes for prior years	0.0	0.0
	–64.4	–62.0

10. Intangible and tangible assets

	Intangible Assets					
2018 EUR million	Development costs	Intangible rights	Goodwill	Other intangible assets	Intangible assets under construction	Total
Acquisition cost at 1 Jan. 2018	29.1	108.8	868.2	440.2	11.9	1,458.2
Transferred in merger	8.9	0.9	3.0	0.7	1.5	15.1
Additions	3.3	29.5	9.3	29.4	1.1	72.6
Disposals	0.0					0.0
Reclassifications	1.1	0.3		2.7	–1.9	2.2
Acquisition cost at 31 Dec. 2018	42.5	139.5	880.5	473.0	12.6	1,548.0
Accumulated depreciation at 1 Jan. 2018	25.8	55.4	581.5	362.2		1,024.9
Transferred in merger	5.8	0.8	2.7	0.7		10.0
Depreciation for the period	2.6	6.3	45.8	27.0		81.6
Accumulated depreciation at 31 Dec. 2018	34.2	62.5	629.9	389.9		1,116.6
Book value at 31 Dec. 2018	8.2	77.0	250.6	83.1	12.6	431.5

	Tangible Assets					
2018 **EUR million**	**Land and water**	**Buildings and constructions**	**Machinery and equipment**	**Other tangible assets**	**Tangible assets under construction**	**Total**
Acquisition cost at 1 Jan. 2018	8.2	185.5	3,262.4	35.1	35.5	3,526.8
Transferred in merger			26.4		0.0	26.4
Additions	1.0	8.0	155.4	0.0	11.3	175.7
Disposals	0.0	−0.4	−8.3			−8.7
Reclassifications	0.4	2.5	12.7		−17.8	−2.2
Acquisition cost at 31 Dec. 2018	9.6	195.6	3,448.6	35.1	29.1	3,718.0
Accumulated depreciation at 1 Jan. 2018		107.9	2,724.3	34.4		2,866.6
Transferred in merger			23.1			23.1
Accumulated depreciation on disposals and reclassifications		−0.4	−8.3			−8.6
Depreciation for the period		9.1	163.7	0.0		172.8
Accumulated depreciation at 31 Dec. 2018		116.6	2,902.9	34.5		3,053.9
Book value at 31 Dec. 2018	9.6	79.0	545.8	0.7	29.1	664.1

2017 EUR million	Intangible Assets: Development costs	Intangible rights	Goodwill	Other intangible assets	Intangible assets under construction	Total
Acquisition cost at 1 Jan. 2017	26.8	76.1	812.0	408.7	33.4	1,356.9
Transferred in merger		9.1		0.2		9.3
Additions	2.0	1.8	56.2	25.4	6.1	91.4
Disposals	–0.1	0.0			–0.3	–0.5
Reclassifications	0.5	21.9		5.8	–27.2	1.0
Acquisition cost at 31 Dec. 2017	29.1	108.8	868.2	440.2	11.9	1,458.2
Accumulated depreciation at 1 Jan. 2017	23.6	40.7	543.3	336.0		943.5
Transferred in merger		3.1		0.1		3.2
Accumulated depreciation on disposals and reclassifications		0.0		0.0		0.0
Depreciation for the period	2.3	11.6	38.3	26.1		78.2
Accumulated depreciation at 31 Dec. 2017	25.8	55.4	581.5	362.2		1,024.9
Book value at 31 Dec. 2017	3.3	53.4	286.7	78.0	11.9	433.3

2017 EUR million	Tangible assets: Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Tangible assets under construction	Total
Acquisition cost at 1 Jan. 2017	6.7	177.2	3,058.9	35.1	27.0	3,305.0
Transferred in merger	1.2	2.9	50.2		1.9	56.2
Additions	0.1	4.9	149.0	0.0	25.1	179.1
Disposals	0.0	–1.6	–10.9			–12.5
Reclassifications	0.2	2.1	15.1		–18.5	–1.0
Acquisition cost at 31 Dec. 2017	8.2	185.5	3,262.4	35.1	35.5	3,526.8
Accumulated depreciation at 1 Jan. 2017		99.2	2,565.3	34.4		2,698.9
Transferred in merger		0.6	17.4			18.0
Accumulated depreciation on disposals and reclassifications		–0.6	–10.5			–11.2
Depreciation for the period		8.7	152.2	0.0		160.9
Accumulated depreciation at 31 Dec. 2017		107.9	2,724.3	34.4		2,866.6
Book value at 31 Dec. 2017	8.2	77.6	538.1	0.7	35.5	660.2

11. Investments

2018 EUR million	Shares Group companies	Shares Associated companies	Shares Other companies	Receivables Group companies	Receivables Others	Total
Acquisition cost at 1 Jan. 2018	405.2	6.2	14.4	6.7	0.1	432.7
Transferred in merger			0.0			0.0
Additions	447.7		3.8			451.5
Disposals	-62.7		-0.2	0.0		-63.0
Acquisition cost at 31 Dec. 2018	790.2	6.2	18.0	6.7	0.1	821.2
Impairment at 1 Jan. 2018	-0.4		-4.1			-4.5
Impairment at 31 Dec. 2018	-0.4		-4.1			-4.5
Book value at 31 Dec. 2018	789.8	6.2	13.9	6.7	0.1	816.7

A list of Group companies and associates is available under Note 8.3 of the consolidated financial statements.

2017 EUR million	Shares Group companies	Shares Associated companiest	Shares Other companies	Receivables Group companies	Receivables Others	Total
Acquisition cost at 1 Jan. 2017	339.1	5.9	20.0	7.0		372.1
Transferred in merger		0.3	0.5			0.8
Additions	171.8		2.9	0.0		174.6
Disposals	-105.7		-8.9	-0.3		-114.9
Reclassifications					0.1	0.1
Acquisition cost at 31 Dec. 2017	405.2	6.2	14.4	6.7	0.1	432.7
Impairment at 1 Jan. 2017	-0.5		-4.1	-0.1		-4.7
Additions	0.0					0.0
Disposals	0.2			0.1		0.2
Impairment at 31 Dec. 2017	-0.4		-4.1	0.0		-4.5
Book value at 31 Dec. 2017	404.8	6.2	10.3	6.7	0.1	428.2

12. Inventories

EUR million	2018	2017
Materials and supplies	11.0	14.5
Finished goods	35.7	36.1
	46.7	50.6

13. Non-current receivables

EUR million	2018	2017
Receivables from Group companies		
Loan receivables	3.4	1.8
Receivables from others		
Trade receivables	71.2	62.5
Prepayments and accrued income (1	16.0	19.0
Other receivables	1.8	0.2
	89.0	81.7
	92.4	83.5

1) Breakdown of prepayments and accrued income		
Rent advances	8.3	8.0
Transaction costs and losses related to loan issuance	7.4	10.5
Others	0.4	0.5
	16.0	19.0

14. Current receivables

EUR million	2018	2017
Receivables from Group companies		
Loan receivables	5.8	9.5
Trade receivables	2.7	5.8
Prepayments and accrued income	0.9	1.1
Other receivables	18.0	10.5
	27.5	26.9
Receivables from associated companies		
Trade receivables	0.0	0.1
	0.0	0.1
Receivables from others		
Trade receivables	293.0	282.3
Loan receivables	0.0	1.3
Prepayments and accrued income [1]	42.0	35.8
Other receivables	4.9	4.9
	339.9	324.3
	367.4	351.3

[1] Breakdown of prepayments and accrued income		
Interest	0.0	0.1
Rent advances	1.6	1.6
Transaction costs and losses related to loan issuance	3.2	3.6
Taxes	3.9	0.8
Other business expense advances	33.3	29.6
	42.0	35.8

15. Shareholders' equity

EUR million	2018	2017
Share capital at 1 Jan.	83.0	83.0
Share capital at 31 Dec.	83.0	83.0
Treasury shares at 1 Jan.	-140.0	-142.7
Disposal of treasury shares	4.6	2.7
Treasury shares at 31 Dec.	-135.4	-140.0
Reserve for invested non-restricted equity at 1 Jan.	77.8	77.8
Reserve for invested non-restricted equity at 31 Dec.	77.8	77.8
Contingency reserve at 1 Jan.	3.4	3.4
Contingency reserve at 31 Dec.	3.4	3.4
Retained earnings at 1 Jan.	379.3	381.6
Dividend distribution	-263.6	-239.6
Withdrawal of dividend liabilities	0.5	0.5
Disposal of treasury shares	-4.6	-2.7
Retained earnings at 31 Dec.	111.6	139.8
Profit for the period	622.2	239.6
Total shareholder's equity	762.6	403.6
Distributable earnings		
Retained earnings	111.6	139.8
Treasury shares	-135.4	-140.0
Reserve for invested non-restricted equity	77.8	77.8
Development costs	-13.9	-8.2
Profit for the period	622.2	239.6
	662.3	309.0

16. Provisions

EUR million	2018	2017
Provision for unemployment pensions	2.9	2.8
Other provisions [1]	2.7	6.2
	5.6	9.0

[1] Other provisions consist of salaries, including related statutory employee costs for employees not required to work during their severance period, and a provision for other operating expenses.

Provisions of EUR 5.2 (3.6) million were used and EUR 3.6 (1.7) million were reversed as unused in 2018.

17. Non-current liabilities

EUR million	2018	2017
Interest-bearing		
Liabilities to others		
Bonds	600.0	780.0
Loans from financial institutions	250.0	150.0
	850.0	930.0
Non-interest bearing		
Liabilities to others		
Trade payables	24.6	13.2
Accruals and deferred income [1]	6.8	6.6
	31.4	19.8
	881.4	949.8
Liabilities maturing after five years		
Bonds	300.0	300.0
Loans from financial institutions	100.0	150.0
	400.0	450.0
[1] Breakdown of accruals and deferred income		
Rent advances	6.8	6.6

18. Current liabilities

EUR million	2018	2017
Interest-bearing		
Liabilities to Group companies		
Group account	174.2	102.5
Other liabilities		26.2
	174.2	128.7
Liabilities to others		
Loans from financial institutions		59.1
Bonds	180.0	
Commercial paper	107.0	115.0
	287.0	174.1
	461.2	302.7
Non-interest bearing		
Liabilities to Group companies		
Trade payables	6.3	14.5
Accruals and deferred income	0.0	0.0
Other liabilities	20.9	2.1
	27.2	16.6
Liabilities to Associated companies		
Trade payables	0.0	0.1
	0.0	0.1
Liabilities to others		
Advances received	0.6	0.7
Trade payables	144.4	162.6
Accruals and deferred income [1]	55.3	50.3
Other liabilities	63.3	51.9
	263.6	265.5
	290.8	282.2
	752.0	585.0

[1] Breakdown of accruals and deferred income	2018	2017
Employee benefit expenses	40.3	37.4
Interest	11.0	11.1
Direct taxes	1.6	0.1
Rent advances	1.2	1.2
Advance income	0.5	0.5
Others	0.6	0.1
	55.3	50.3

19. Collateral, commitments and other liabilities

Collateral

EUR million	2018	2017
On behalf of own commitments		
Bank deposits	0.3	2.3
On behalf of others		
Guarantees		0.5
	0.3	2.8

Lease and rental liabilities

EUR million	2018	2017
Lease liabilities on telecom networks [1]		
Due within one year	0.2	0.2
Due later than one year and up to five years	0.2	0.3
	0.3	0.5
Other lease liabilities [2]		
Due within one year	4.7	5.7
Due later than one year and up to five years	8.1	8.3
	12.8	14.0
Repurchase obligations		0.0
Letter of credit	0.1	0.1
Real estate leases [3]		
Due within one year	23.7	24.4
Due later than one year and up to five years	38.5	40.5
Due later than five years	83.7	87.7
	145.9	152.6
Total lease liabilities	159.1	167.1

1) Consists of certain individualised mobile network equipment and access fees for backbone connections.

2) Consist mainly of car and IT equipment leases.

3) Real estate leases comprise rental agreements relating to business, office and telecom premises.

Real estate leases are presented at nominal amounts.

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

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Derivative instruments

EUR million	2018	2017
Electricity derivatives		
Nominal value	2.5	2.4
Fair value recognised on the balance sheet	0.4	−0.2

Elisa hedges electricity purchases through physical purchase agreements and derivatives. The electricity price risk is assessed for a five-year period. Electricity derivatives are subject to hedge accounting.

The hedging rate for electricity purchases in the following years,%	2018	2017
0–1 years	88.5	81.3
1–2 years	54.3	41.8
2–3 years	0.0	0.0
3–4 years	0.0	0.0
4–5 years	0.0	0.0

If the market price of electricity derivatives changes by +/- 10 per cent from the balance sheet date of 31 December 2018, it would contribute EUR +/- 0.1 (+/-0.2) million to 2018 equity. The impact has been calculated before tax.

Real estate investments

On 31 December 2018, VAT refund liability related to real estate investments was EUR 28.8 (29.2) million.

Shares and shareholders

1. Share capital and shares

The company's paid-up share capital registered in the Trade Register stood at EUR 83,033,008 at the end of the financial year.

According to the Articles of Association, the minimum number of shares is 50,000,000 and the maximum is 1,000,000,000. At the end of the financial year, the number of Elisa Corporation shares was 167,335,073, all within one share series.

2. Authorisations of the Board of Directors

On 12 April 2018, the Annual General Meeting authorised the Board of Directors to decide on a new share issue, transfer of treasury shares owned by the company and/or granting of special rights referred to in Chapter 10, Section 1 of the Finnish Companies Act subject to the following: The authorisation allows the Board of Directors to issue a maximum of 15,000,000 shares in one or several issues. The share issue and shares granted by virtue of special rights are included in the aforementioned maximum number. The maximum number is approximately 9 per cent of the entire stock. The share issue can be free or for consideration and can also be directed to the Company itself. The authorisation entitles the Board to make a directed issue. The authorisation may be used for making acquisitions or implementing other arrangements related to the Company's business, to finance investments, to improve the Company's financial structure, or for other purposes decided by the Board of Directors. The Board of Directors shall have the right to decide on all other matters related to the share issue. The authorisation shall be in force until 30 June 2020 and it annuls the authorisation given by the Annual General Meeting to the Board of Directors on 31 March 2016.

On 12 April 2017, the Annual General Meeting authorised the Board of Directors to decide on the acquisition of treasury shares subject to the following: The Board of Directors may decide to acquire or pledge on non-restricted equity a maximum of 5,000,000 treasury shares. The acquisition may take place as one or several blocks of shares. The consideration payable for the shares shall not be more than the ultimate market price. In purchasing the Company's own shares derivative, share lending and other contracts customary in the capital market may be concluded pursuant to law and the applicable legal provisions. The authorisation entitles the Board of Directors to pass a resolution to purchase the shares by making an exception to the purchase of shares relative to the current holdings of the shareholders. The treasury shares may be used for making acquisitions or implementing other arrangements related to the Company's business, to finance investments, to improve the Company's financial structure, to be used as part of the incentive compensation plan, or for the purpose of otherwise assigning or cancelling the shares. The Board of Directors shall have the right to decide on all other matters related to the purchase of the Company's own shares. The authorisation is in force until 30 June 2019, and it annuls the authorisation given by the Annual General Meeting to the Board of Directors on 6 April 2017.

3. Treasury shares, share issues and cancellations

At t he beginning of the financial period, Elisa held 7,801,397 treasury shares.

The Annual General Meeting held on 12 April 2018 authorised the Board of Directors to acquire and assign treasury shares. The authorisation applies to a maximum of 5,000,000 treasury shares. On the basis of the authorisation, Elisa has not acquired any treasury shares.

A total of 230,843 treasury shares were disposed of and 41,267 shares were transferred from the unallocated account during the financial year.

At the end of the financial period, Elisa held 7,611,821 treasury shares.

The Elisa shares held by Elisa do not have any substantial impact on the distribution of holdings and votes in the Company. They represent 4.55 per cent of all shares and votes.

4. Management interests

The aggregate number of shares held by Elisa's Board of Directors and the CEO on 31 December 2018 was 139,046 shares and votes, which represented 0.08 per cent of all shares and votes.

5. Share performance

The Elisa share closed at EUR 36,08 on 31 December 2018. The highest quotation of the year was EUR 41,95 and the lowest EUR 31,68. The average price was EUR 36,34. Information is based on the share trades made on Nasdaq Helsinki stock exchange.

At the end of the financial year, the market capitalisation of Elisa's outstanding shares was EUR 6,037.4 million.

6. Quotation and trading

The Elisa share is quoted on the Main List of the Nasdaq Helsinki with the ticker ELISA. The aggregate volume of trading on the Nasdaq Helsinki between 1 January and 31 December 2018 was 104,878,940 shares for an aggregate price of EUR 3,811 million. The trading volume represented 62.7 per cent of the outstanding number of shares at the end of the financial year.

7. Distribution of holding by shareholder groups at 31 December 2018

		Number of shares	Proportion of all shares, %
1	Private companies	4,389,973	2.62
2	Financial and insurance institutions	3,446,141	2.06
3	Public corporations	28,802,750	17.21
4	Non-profit organisations	6,051,993	3.62
5	Households	41,581,866	24.85
6	Foreign	1,834,248	1.10
7	Nominee registered	73,616,281	43.99
	Elisa Corporation, treasury shares	7,611,821	4.55
		167,335,073	100.00

8. Distribution of holding by amount at 31 December 2018

Size of holding	Number of shareholders	%	Number of shares	%
1–100	37,603	20.06	1,881,109	1.12
101–1 000	144,872	77.29	31,550,924	18.85
1,001–10,000	4,687	2.50	11,079,645	6.62
10,001–100,000	251	0.13	6,350,008	3.79
100,001–1,000,000	27	0.01	6,860,755	4.10
1,000,001–	6	0.00	28,244,370	16.88
Nominee registered			73,616,281	43.99
	187,446	100.00		
Elisa Common Clearing account (1			140,160	0.08
Elisa Corporation, treasury shares			7,611,821	4.55
Issued amount			167,335,073	100.00

1) Shares on the Common Clearing account include shares that had not been transferred to the share owners' book-entry accounts at the time of, or subsequent to, entering the shares into the Finnish book-entry system

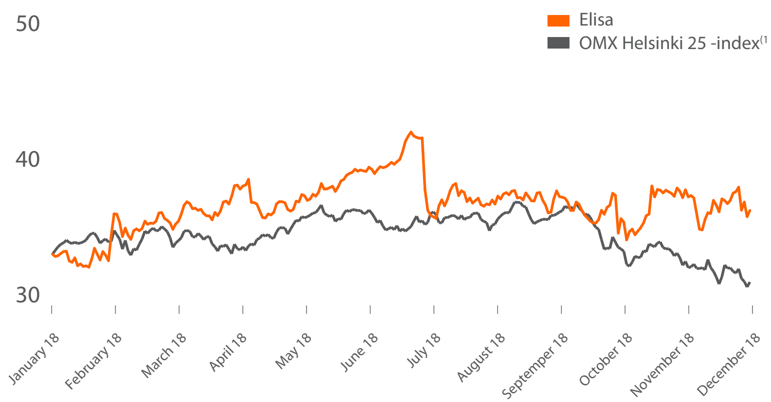
9. Largest shareholders at 31 December 2018

	Name	Number of shares	%
1	Solidium Oy	16,802,800	10.04
2	Varma Mutual Pension Insurance Company	5,181,976	3.10
3	Ilmarinen Mutual Pension Insurance Company	3,060,941	1.83
4	Swiss National Bank	1,239,047	0.74
5	State Pension Fund	1,130,000	0.68
6	City of Helsinki	1,124,690	0.67
7	Elo Mutual Pension Insurance Company	678,000	0.41
8	Åbo Akademi University Foundation sr	518,200	0.31
9	OP-Finland mutual fund	490,000	0.29
10	The Society of Swedish Literature in Finland	480,300	0.29
11	Föreningen Konstsamfundet r.f.	464,000	0.28
12	Nordea Pro Finland Fund	454,735	0.27
13	Sigrid Juselius Foundation	352,000	0.21
14	Nordea Finnish Passive Fund	338,057	0.20
15	Samfundet Folkhälsan i Svenska Finland rf	315,263	0.19
16	City of Vantaa	258,738	0.15
17	Seligson & Co Equity Fund	257,525	0.15
18	KPY Sijoitus Oy	257,163	0.15
19	OP Life Assurance Company Ltd	220,798	0.13
20	Odin Finland	212,227	0.13
		33,836,460	20.22
	Elisa Corporation, treasury shares	7,611,821	4.55
	Elisa Personnel Fund	114,146	0.07
	Elisa Common Clearing account [1]	140,160	0.08
	Nominee registered	73,616,281	43.99
	Shareholders not specified above	52,016,205	31.09
		167,335,073	100.00

[1] Shares on Common Clearing account include shares which have not been transferred to the share owners' book-entry accounts at the time of, or subsequent to, entering the shares into the Finnish book-entry system.

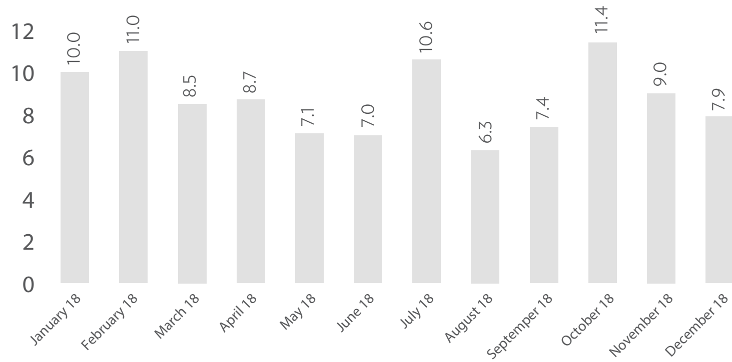
On 27 February 2017, BlackRock, Inc gave a notice in accordance with Chapter 9, Section 5 of the Finnish Securities Market Act, that the direct share ownership of Elisa Corporation shares owned by BlackRock, Inc. was 8,533,440 and by its funds 1,232,577 shares, totaling 9,766,017 shares, which was 5.84 per cent of Elisa Corporation's entire stock.

10. Daily price development
Closing price in EUR



[1] Rebalanced to Elisa share

11. Trading volume
Shares per month (million)



Share trading volumes are based on the trades made on Nasdaq Helsinki.

Elisa share is also traded in alternative marketplaces.

Board's proposal for distribution of profits

According to the consolidated balance sheet of 31 December 2018, the parent company's shareholders' equity is EUR 762,626,415.95 ,of which distributable funds account for EUR 662,285,973.46.

The parent company's profit for the period from 1 January to 31 December 2018 was EUR 622,182,957.33.

The Board of Directors proposes to the General Meeting of Shareholders that the distributable funds be used as follows:

- a dividend of EUR 1.75 per share shall be paid for a total of EUR 279,515,691.00
- no dividend shall be paid on shares in the parent company's possession
- EUR 382,770,282.46 shall be retained in shareholders' equity.

SIGNATURES TO THE BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Helsinki, 30 January 2019

Raimo Lind
Chairman of the Board of Directors

Clarisse Berggårdh

Petteri Koponen

Leena Niemistö

Seija Turunen

Anssi Vanjoki

Antti Vasara

Veli-Matti Mattila
President and CEO

Auditor's Report

TO THE ANNUAL GENERAL MEETING OF ELISA CORPORATION

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Elisa Corporation (business identity code 0116510-6) for the year ended 31 December 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU,
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We onducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 2.5 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Impairment of goodwill, € 1 021 million (Consolidated accounting principles 1.2 and note 5.3)	
• The goodwill balance in the consolidated statement of financial position is significant due to the acquisitions carried out in the previous years. As regard to the amount, the goodwill balance is comparable to the consolidated equity. • Goodwill is tested for impairment annually and the company prepares impairment tests for the financial statements or when needed on a discounted cash flow basis with sensitivity analyses. • Estimating future cash flows underlying the impairment tests involves a significant amount of management judgment, particularly in respect of growth in net sales, profitability and discount rates. • Due to management judgments about the estimates used in the impairment tests, as well as the significant carrying amount involved, impairment of goodwill is considered a key audit matter.	• We assessed critically those management judgments and the assumptions made, which were used to prepare the cash flow projections for the coming years. In addition, we compared previous years' estimates to the actual amounts to be able to evaluate the reliability of the estimating methods applied. • We used KPMG valuation specialists when considering the appropriateness of the discount rate used and the technical correctness of the calculations, as well as comparing the assumptions used to market and industry-specific information. • In addition, we assessed the adequacy of the sensitivity analyses and the appropriate presentation of the notes related to impairment tests in the consolidated financial statements.

Revenue recognition, € 1 832 million
(Consolidated accounting principles 1.2 and note 2.3)

- Revenues are recognized once the service has been rendered to the customer or once the significant risks and rewards related to the ownership of the goods have been transferred to the buyer.
- The IT system environment related to billing transactions is complex and the volume of billing data is large containing wide variety of different products. The industry is also marked by price and contract changes in the short run.
- Due to large volumes of data, revenue recognition involves the risk of revenue being recognized in an incorrect period.
- Revenue recognition accrual is partially based on estimates from the management's past experience.

- We evaluated the sales-related IT control environment and the key controls in the billing process over the completeness and accuracy of revenue.
- The majority of the company's billing data is processed in a single IT system. We evaluated the reliability of the associated IT control environment by assessing, among others, the processes related to the user authorization management and back-up and recoveries, as well as by testing the key application controls over the billing process.
- We also evaluated the company's internal control procedures over the control environment in the billing process, as well as assessed the company's monthly revenue monitoring procedures at business unit level.
- In addition to control testing, we performed substantive procedures to sales accruals to assess the completeness and the accuracy of the recognized revenues.

Capital expenditures
(Consolidated accounting principles 1.2 and note 5)

- The company invests heavily especially in its own telecommunication network and IT environments to remain competitive.
- The company's capital expenditures amount to over € 200 million annually, and therefore capital expenditures comprise a significant part of the consolidated statement of financial position.

- We observed the company's investment budget for the year 2018 and followed up developments quarterly.
- We evaluated the company's internal control environment. We also tested the controls over the approval of investment projects; over the authorization process when placing individual orders under an investment project; over the associated approval process when approving purchase invoices; and over recording transactions in the asset register (for property, plant and equipment and intangible assets).
- Our substantive procedures focused on assessing the appropriateness of the accounting treatment in respect of the most significant investment projects. In addition, we tested whether the assets under construction met the capitalization requirements and assessed whether they were disclosed appropriately in the financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements..

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 31 March 2004, and our appointment represents a total period of uninterrupted engagement of 15 years. The current auditor in charge, Toni Aaltonen, Authorised Public Accountant, KHT, was elected on 6 April 2017.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 30 January 2019
KPMG Oy Ab

TONI AALTONEN
Authorised Public Accountant, KHT