

9 November 2020 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has confirmed the unsolicited corporate issuer and issue rating of Elisa Oyj at BBB+. The outlook remains stable.

Creditreform Rating (CRA) has confirmed the rating of the unsolicited corporate issuer rating of Elisa Oyj as well as the unsolicited corporate issue rating of long-term local currency senior unsecured notes issued by Oyj at BBB+. The outlook remains stable.

Elisa Oyj (hereinafter also referred to as 'the Company' or 'Elisa') is an integrated fixed-line and mobile telecommunications and digital services company which operates mainly in Finland and Estonia. The Company has over 6.3 million subscriptions serving 2.8 million private, corporate, and public administration customers. Elisa is the market leader in Finland in terms of mobile and fixed network subscriptions; in Estonia it is the second largest operator. Along with wireless, wireline telephony and broadband services, the Group is active in other internet and digital services such as pay TV, videoconferencing and cloud-based IT solutions. In addition to its domestic market and the Estonian market, the Company provides digital services internationally.

In 2019 the Company, with approximately 4,800 employees, achieved revenues amounting to EUR 1,843.5 million (2018: EUR 1,831.5 million) and an EAT of EUR 303.2 million (2018: EUR 316.0 million).

Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

- Strong market and leading position in Finland
- Stable operating results for the business year 2019 and 3Q 2020
- Commercial launching of 5G and introduction of new products based on 5G
- Implementation of structural and process improvements
- Stable and predictable financial policy
- Good access to financial markets
- High pay-out ratio

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Elisa Oyj we have not identified any ESG factor with significant influence.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

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Rating result

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating outside of the indicated range.

The current rating of **BBB+** attests Elisa Oyj a highly satisfactory level of creditworthiness, representing a low to medium default risk. The rating result is based on the strong profile of the financial ratios and a stable earnings capacity which is sufficient to cover the company's investment and dividend payments, as well as sufficient liquidity reserves. Elisa has an established position in the telecommunications market in Finland and Estonia, countries with well-developed regulatory frameworks and stable political and economic conditions. The company pursues a plausible strategy with a prudent financial policy. We see it as positive that the company's strategic goals include clear financial targets for maintaining a solid financial structure.

We take a critical view of the fact that both of the Company's key markets are already saturated and have a high penetration rate in both mobile telephony and broadband, thus limiting its growth potential. The intense competition on the Finnish telecommunications market, with its three major players, puts additional pressure on our rating.

Outlook

The one-year outlook of the rating is stable, reflecting our expectation that Elisa will be able to maintain its position in the relevant market due to its size and financial strength. We expect a steady development for Elisa according to its plan for 2020 with stable earnings, consistently strong EBITDA, and a well-balanced assets and liabilities structure.

Best-case scenario: **BBB+**

In our best-case scenario for one year, we assume a rating of **BBB+**. Despite the strong financial profile, limited size, diversification and the competitive tensions, we believe that an upgrade within the time horizon of one year is unlikely. In addition, the current global situation with regard to COVID-19 and the associated uncertainty regarding economic recovery could have negative effects on the Company.

Worst-case scenario: **BBB**

In our worst-case scenario for one year, we assume a rating of **BBB**. This could be the case if the earnings capacity deteriorates substantially following increased termination rates, or in the case of increased investment necessity associated with a significant increase of debt.

Business development and outlook

In the financial year 2019, Elisa achieved an increase in revenue by 0.7% to EUR 1,843.5 million (2018: EUR 1,831.5 million). This modest increase was driven by growth in mobile and digital services, equipment sales, the Polystar acquisition, and Estonian business. At the same time, lower mobile interconnection and roaming revenue, as well as the decrease in usage and subscriptions of traditional fixed telecom services and divestments, negatively affected revenues. Despite the Polystar transaction costs and restructuring costs in connection with staff reductions, EBITDA rose by 3.2% to EUR 660.8 million (2018: EUR 640.2 million). The decisive factors here were measures to improve productivity, such as increasing automation and data analytics in processes such as customer interaction, network operations and delivery, as well as increased depreciation due to effects of applying IFRS 16. While the net financial result remained unchanged at EUR -23.0 million (2018: EUR -23.0 million), income taxes rose from EUR 65.0 million to EUR 68.7 million. EAT amounted to EUR 303 million, which corresponds to a decrease of 4.3% compared to the previous year (2018: EUR 316.0 million).

Elisa shows an adequate capital structure and stable financial strength. On the balance sheet date for 2019, the Company had an appropriate analytical equity ratio of 27.35% (2018: 29.18%) and a gearing ratio of 2.57 (2018: 2.30). The change in these two ratios was negatively influenced by the increase in net debt by EUR 116 million to EUR 1,184 million (2018: 1,068 million), mainly due to the acquisition of Polystar and the amendment to IFRS 16. The leverage ratio improved to 3.54 (2018: 3.65). Although the EBIT interest coverage ratio fell by 2.5 to 13.6, this ratio is nevertheless well above the average for the industry, which means that the Company is able to generate sufficient operating resources to service its debt.

Table 1: Financials of Elisa Oyj (Group) | Source: Elisa Financial Statements 2019, standardized by CRA

Elisa Oyj Selected key figures of the financial statement analysis Basis: Consolidated Financial Statements of 31.3. (IFRS, Group)	CRA standardized figures ¹	
	2018	2019
Sales (million EUR)	1,831.5	1,843.5
EBITDA (million EUR)	640.2	660.8
EBIT (million EUR)	404.0	395.0
EAT (million EUR)	316.0	303.2
EAT after transfer (million EUR)	315.8	303.0
Total assets (million EUR)	2,141.2	2,255.3
Equity ratio (%)	29,2	27,4
Capital lock-up period (days)	37.3	38.2
Short-term capital lock-up (%)	19.9	13.0
Net total debt / EBITDA adj. (factor)	2.3	2.4
Ratio of interest expenses to total debt (%)	1.7	1.8
Return on Investment (%)	15.9	14.5

As part of its strategic goal to expand its digital business internationally, Elisa signed an agreement with the owners of the Swedish Polystar Instruments AB on 10 June 2019, in which Elisa acquires 100 percent of the shares in Polystar OSIX AB and affiliated companies. Polystar OSIX is a global provider of analytics, assurance and monitoring software solutions for mobile operators. This transaction will enable Elisa to increase the efficiency of its results in the areas of customer experience management, big data analytics, service assurance, network monitoring, and service enablement. In addition it may enable the development of new and innovative services on an international level. The acquisition price was EUR 77.6 million (Cash and Debt EV), to be paid by Elisa in cash. The agreement includes also a contingent consideration of EUR 5 million if the growth targets are achieved. This acquisition will not affect Elisa's medium-term financial targets or dividend payment capabilities.

Finland enjoys one of the highest mobile and broadband penetration rates in the world and is a pioneer in adopting 5G technology. Since the beginning of 2019 Elisa has been operating a commercial 5G network. Since then, the 5G network has grown and currently encompasses around 50 Finnish cities, covering over 1.6 million people. Use of the 5G standard will enable a

¹ For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally-generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

number of new services through new technologies such as IoT, Virtual Reality, Augmented Reality and applications with low latency, and will create additional competitive opportunities for Elisa. For this purpose, Elisa has already signed new 5G agreements with Nordic vendors Ericsson and Nokia. In our opinion, these partnerships provide the Company with additional growth potential and strengthen the Company's established market position.

The effects of the COVID-19 pandemic on the Group has remained limited. Primarily, global travel restrictions had a negative impact on mobile service revenue and income from Pay-TV content in sports. In addition, uncertainties in corporate business have increased. To ensure smooth operation and the safety of its customers and employees, Elisa has adapted its processes and taken many proactive measures. Despite a difficult market environment, the Company recorded stable business development in the third quarter. Due to expanded network capacity and growing demand for higher 4G and 5G speeds, the use of IT and IPTV entertainment services increased.

Due to the growth of digital services, equipment sales, and the growth of its business in Estonia, revenues increased by 0.6% year-on-year to EUR 467.5 million. As a result of efficiency improvement measures, EBITDA increased by 0.8% to EUR 180.0 million. EAT amounted to EUR €88.9 million, which corresponds to an increase of 5.5% compared to the previous year.

Table 2: The development of business of Elisa Oyj (Group) | Source: Elisa Interim Report 3Q 2020

Elisa Oyj				
In million EUR	3Q 2019	3Q 2020	Δ	Δ %
Revenues	464.9	467.5	2.6	0,6
EBITDA	178.5	180.0	1.5	0.8
EBITDA adj.	178.5	180.0	1.5	0.8
EBIT	112.5	111.9	-0.6	-0,5
EBT	106.6	108.3	1.7	1.6
EAT	84.3	88.9	4.6	5.5

Liquidity at the end of September 2020 was sufficient: as of 30 September 2020, the Company disposed over cash and cash equivalents of EUR 303 million. Furthermore, Elisa had the following financing arrangements: EUR 300 million in committed credit lines, which remained undrawn as of 30 September 2020; a commercial paper programme with a total amount of EUR 350 million, of which EUR 152 million had been used; and an EMTN programme with a total volume of EUR 1,500 million, of which EUR 1074 million have been used. These sources, together with the expected annual funds from operating activities of around EUR 550 million to EUR 560 million, will more than cover Elisa's cash needs and investments of around EUR 200 million, and dividends of around EUR 300 million over the next year.

In our opinion Elisa has strong earnings power, evidenced by its financial figures such as Net total debt / EBITDA adj. of 2.41 and original Net debt / EBITDA of 1.8 as of 31 December 2019 (1.8 as of 3Q 2020). The Company's cash generation capacity with revenues of about EUR 1.8 billion and EBITDA of over EUR 661 million are sufficient to cover the Company's necessary capex and to pay dividends according to the declared volume of 80% to 100 % of the annual result.

For the 2020 financial year, Elisa expects stable business development. The annual revenues, as well as the comparable EBITDA, should be the same or slightly above the level of the previous year. The strict investment policy (12% of revenues) will be retained. Despite strict regulatory

requirements, ongoing intense competition, and the challenging global market situation due to the COVID-19 pandemic, we consider Elisa to be well positioned on the Finnish and Estonian markets. With a strong financial profile, good access to capital markets, and a well-established market position, we expect a stable development of the Company.

Issue rating

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in euro, issued by Elisa Oyj (issuer) which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The notes have been issued under the EMTN programme with its latest prospectus from 23 July 2020. This EMTN programme amounts to EUR 1.5 billion. The notes and coupons under the EMTN programme constitute direct, unconditional, unsubordinated, unsecured obligations of the Issuer, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision, a change of control clause, and a cross default mechanism.

Corporate issue rating result

We have provided the debt securities issued by Elisa Oyj with a rating of **BBB+**. The rating is based on the corporate rating of Elisa Oyj. Other types of debt instruments or issues denominated in other currencies of the issuer have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Overview

Table 4: Overview of CRA Ratings | Source: CRA

Rating objects	Details	
	Date	Rating
Elisa Oyj (Issuer)	09.11.2020	BBB+ / stable
Long-term Local Currency (LT LC) Senior Unsecured Issues	09.11. 2020	BBB+ / stable
Other	--	n.r.

Table 5: Overview of 2020 Euro Medium Note Programme | Source: Elisa Oyj, Base Prospectus dated 23 July 2020

Overview 2020 EMTN Programme			
Volume	EUR 1,500,000,000	Maturity	Depending on the respective bond
Issuer	Elisa Oyj	Coupon	Depending on the respective bond
Arranger	Nordea Bank Abp	Currency	Depending on the respective bond
Credit enhancement	none	ISIN	Depending on the respective bond

All future LT LC senior unsecured Notes that will be issued by Elisa Oyj and that have similar conditions to the current EMTN programme, denominated in euros and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current

LT LC senior unsecured notes issued under the EMTN programme. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programmes (such as commercial paper programme) and issues not denominated in euro will not be assessed. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Appendix

Rating history

The rating history is available under:

<https://www.creditreform-rating.de/en/ratings/published-ratings.html>

Table 3: Corporate issuer rating of Elisa Oyj | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial Rating	11.06.2019	27.06.2019	Withdrawal of the rating	BBB+ / stable

Table 5: LT LC senior unsecured issues by Elisa Oyj | Source: CRA

Event	Rating date	Publication date	Monitoring period	Result
Initial rating	11.06.2019	27.06.2019	Withdrawal of the rating	BBB+ / stable

Regulatory requirements

The present rating is an unsolicited rating in the regulatory sense. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

With Rated Entity or Related Third Party Participation	No
With access to Internal Documents	No
With Access to Management	No

The rating was conducted based on the following information.

List of documents

Accounting and controlling

- Annual report Elisa 2019
- Interim report Elisa Q3 2020
- Elisa operational data Q3 2020
- Analyst presentation material

Finance

- Elisa EMTN Base Prospectus dated 23 July 2020
- Final terms of the outstanding notes

Additional documents

- Press releases

A management meeting did not take place within the framework of the rating process.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date	Website
Corporate Ratings	2.3	29.05.2019	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Corporate%20Ratings.pdf
Non-financial Corporate Issue Ratings	1.0	October 2016	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Non-Financial%20Corporate%20Issue%20Ratings.pdf
Rating Criteria and Definitions	1.3	January 2018	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/CRAG%20Rating%20Criteria%20and%20Definitions.pdf

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Natallia Berthold	Lead analyst	N.Berthold@creditreform-rating.de
Holger Becker	Analyst	H.Becker@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Rudger van Mook	PAC	R.vanMook@creditreform-rating.de

On 9 November 2020 the analysts presented the rating to the rating committee, and the rating was determined. The rating result was communicated to the Company on 9 November 2019. There has been no subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring if changes occur in crucial assessment parameters.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

Conflicts of interest

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used the following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings, are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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