elisa

Annual Report 2008

Content

Shareholder Information

General Meeting of Shareholders

Elisa's 2009 Annual General Meeting will be held at the Helsinki Fair Centre, Messuaukio 1, 00520 Helsinki, at 2:00 pm on Wednesday, 18 March 2009.

Shareholders registered in the company's shareholder register maintained by the Euroclear Finland Ltd by 6 March 2009 are eligible to attend the Annual General Meeting.

Shareholders must announce their intention to attend the meeting by 6:00 pm (Finnish time) 9 March 2009. This should be done either by writing to Elisa, Contact Center Services/Sö A 6223, P.O. Box 30, FI-00061 ELISA, Finland; by telephone: +358 8000 6242 from Monday to Friday from 8:00 am to 6:00 pm; by fax: +358 10 262 2727; or by e-mail: yhtiokokous@yhteyspalvelut.elisa.fi.

Shareholders are entitled to make proposals at the Annual General Meeting and to address the meeting. Shareholders will exercise their voting rights according to their number of shares. Each share carries one vote, and final decisions are made by voting.

Profit distribution policy

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

The Board of Directors proposes to the General Meeting that dividends be distributed to shareholders to the amount of EUR 0.60 per share on the basis of the balance sheet of 31 December 2008 approved by the General Meeting. Shareholders who are listed in the company's register of shareholders maintained by the Euroclear Finland Ltd on 23 March 2009 are entitled to funds distributed by the General Meeting. The Board of Directors proposes that the payment date be 31 March 2009. The profit for the period shall be added to accrued earnings.

Financial information

Elisa will publish an annual report in electronic format and interim reports on 24 April 2009, 17 July 2009 and 23 October 2009. The annual report and interim reports will be published in Finnish and English, and the annual report will be available in electronic format at www.elisa.fi.

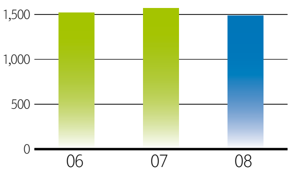
The annual report, interim reports, information about the Annual General Meeting, stock exchange releases and other investor information are also posted on Elisa's website at www.elisa.com under the heading Investors.

The contact person for Elisa's Investor Relations

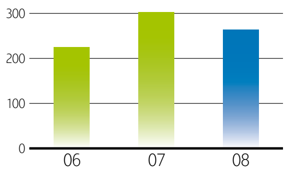
Vesa Sahivirta
Director, IR and Financial Communications
Tel. +358 10 262 3036, +358 50 520 5555
Fax +358 10 262 5723
e-mail vesa.sahivirta@elisa.fi

Elisa provides experiences for people and enhances **productivity for organisations online.**

Revenue
EUR million



EBIT
EUR million



Key figures
EUR million

	2008	2007	2006
Revenue	1,485	1,568	1,518
EBITDA	472	499	434
EBIT	264	302	225
Profit before tax	228	285	212
Net result	177	220	161
Earnings per share, EUR	1.12	1.38	0.97
Research and product development	11	8	6
Investments in shares	15	12	10
Capital expenditures	184	206	207
Equity ratio, %	43	48	63
Gearing, %	93	71	29
Employees, 31 Dec	3,017	3,015	3,592

Elisa in brief

Elisa is a leading Nordic communications services provider with operations in the Nordic countries, the Baltics and Russia. Elisa focuses on developing consumer and corporate ICT and online services. Elisa's global alliance partners are Vodafone and Telenor.

Elisa's business operations comprise consumer business, corporate customer business and Estonian business.

Elisa is the market leader in fixed and mobile broadband as well as new-generation 3G mobile communications services in Finland. Our services are provided under the Elisa and Saunalahti brands.

Elisa in 2008

The global economy witnessed a lot of turbulence in 2008. Governments rescued banks, and state aid packages were created in order to resuscitate economic activity. However, the telecom operator business did not suffer signifi- cant amounts of economic instability during the report year.

Earnings in 2008 were burdened by the introduction of a new invoicing and customer management system early in the year, but as the challenges relating to the deployment of the system were resolved, an obvious improvement in performance was seen towards the end of the year. The streamlining measures moreover enhanced profitability and the EBITDA margin in Q4 already rose to 35 per cent.

Elisa's market position strengthened further in 2008, particularly with regard to 3G services and mobile broadband. During the report year, the 3G market was a good booster for the development of the entire industry.

The number of 3G customers in Finland stood at some 1.7 million at the end of 2008. Elisa has an approximate market share of 50 per cent of 3G users.

An important investment in 2008 was the construction of the 3G network that enables faster mobile broadband. By the end of 2008, Elisa's 3G network covered 250 localities and more than 80 per cent of Finland's population. According to studies, it was the best network in terms of coverage, range and quality.

Elisa's profit distribution in 2008 included a capital repayment and the purchase of treasury shares. The shareholders at Elisa's General Meeting decided that shareholders shall receive a capital repayment of EUR 1.80 per share on the basis of the balance sheet dated 31 December 2007 approved by the General Meeting. In August and September, Elisa acquired three million treasury shares valued at approximately EUR 43 million.

Substantial changes took place in Elisa's shareholding during the operating year. Through a transaction with Novator, Varma Mutual Pension Insurance Company acquired a holding of slightly less than 15 per cent of Elisa's share capital and voting rights. In accordance with a mutual agreement between the Finnish Government and Varma, the Government purchased a portion of the shares involved, bringing the Government holding up to 9.6 per cent and Varma's holding down to 6.1 per cent. Earlier in the summer, the aggregate ownership of DNA Oy, Lännen Puhelin Oy, Oulun Puhelin Holding Oyj, Kuopion Puhelin Sijoitus Oy and PHP Liiketoiminta Oyj exceeded 5 per cent of Elisa's shares and votes.

Veli-Matti Mattila, CEO:

Experiences and productivity in everyday Finnish life

Report of the CEO

Every Elisa employee wants to create experiences and productivity online. We are involved in our customers' everyday life by developing communications services that enable Finns to benefit from fast and reliable data networks in business and leisure. This is our contribution to building a more environmentally friendly and better society.

Our objective is to provide every Finn with access to fast connections and new services. Elisa's continuing investments have created the widest 3G coverage in Finland. According to studies, Elisa's network provides the best coverage and quality in voice as well as data services.

Substantial growth in mobile broadband has also strengthened Elisa's competitive ability. We will continue to build our network in a committed and systematic way.

The Ministry of Transport and Communications has initiated a project to bring ultra-fast broadband access to every Finn. Elisa supports the Ministry's project and contributes to achieving the objective in a way that is beneficial to the national economy.

From strategy to action

We have continued to systematically implement our strategy. Our operations in Finland and Estonia have been steered by the creation of an integrated Elisa and strengthening our market position through an extended service range.

We have put substantial effort into making our operations more efficient and productive. The results of the work are already visible and will open up great opportunities to improve productivity. In addition to economic benefits, our customers have gained advantages through Elisa's harmonised procedures and new services.

Elisa and Saunalahti were the first Finnish providers of mini laptops, which have become hugely popular all around the world. They are particularly suitable for consumers who appreciate a mobile lifestyle and want to have easy and fast access to the Internet. The Saunalahti Kotitotaali broadband package and SaunaVisio set-top box are good examples of innovative broadband use. The set-top box allows programmes to be recorded on a server, with video-on-demand and HDTV available in the living room.

During the year, we made substantial developments in our cable TV services. We converted the entire cable TV network to digital, were the first to introduce freedom of choice regarding the contents of pay TV packages, and screened high-definition broadcasts of the Beijing Olympics.

To develop the competitive ability of our corporate customers, we have introduced several services that improve mobile work and interaction. Many companies have already changed over to online meetings. A flexible service-based virtual conference solution does not require any investments in hardware or software. Enterprises can use interaction services to improve productivity and cost-efficiency through eliminating travel time and saving on expenses. This also benefits the environment.

In 2008 we also took important steps in our strategy's third development area: seeking growth in new services and new markets. Together with our customers, we have developed online communities that utilise wireless local area networks, and introduced a home security service that uses broadband, the Internet and mobile telephony simultaneously. We have also developed well-being services that improve human resource productivity at enterprises.

Better service

We are aware that in addition to a good price/quality ratio, our customers appreciate a wide range of services and high-quality customer service. We are systematically developing these two areas.

The substantial efforts required to introduce a new invoicing and customer management system have mostly been completed. We apologise for the inconvenience to our customers during the system reform in the first half of the year and wish to thank for your patience and confidence in Elisa.

The service level of our customer service has improved significantly. Our customers are also prepared to manage their own services. We have made substantial improvements to the Oma Elisa assistance service, which allows our customers to manage their customer accounts, subscription agreements and invoices at any time they find convenient.

The EPSI Rating customer survey revealed that self-service is considered to be very important. This is also reflected in Saunalahti's top ranking among Finnish mobile telephone operators.

Elisa as a developer of Finnish society

Elisa has a significant role as a developer of communications services for Finnish society. During our history of more than 127 years, we have often been the first one in the world to bring a particular service to our customers.

We live in an information society that requires ubiquitous computing based on the interoperation of wireless networks and a variety of services. From the operator viewpoint, this means that IT and communications services will gradually extend everywhere and to every situation through ICT integration.

An example of this is the mobile transaction certificate, which is a secure and easy-to-use tool for electronic identification and signatures. Mobile identification is expected to become a success through new legislation in 2009.

We will continue our strong development efforts well into the future to make everyday life smoother for our customers with the help of fast and reliable communications services.

Outlook for 2009

Elisa's good profitability in 2008 was the result of our strengthened competitive ability. Elisa's financial position and liquidity are good. The substantial improvement in competitive ability was attributable to the development of an attractive service range and systematic improvements in efficiency.

Our strategy to build an integrated Elisa, improve profitability and provide new services has proven to be beneficial. Our strong position creates prerequisites for the continuing success of our strategy. I wish to thank all of our customers for good co-operation, our shareholders for their trust in Elisa's development and our employees for their contribution to Elisa's success.

Veli-Matti Mattila
Chief Executive Officer

Our customers include Finnish consumers and households, and **our services respond to their electronic communications needs.**

Consumer business

Almost every Finn is an Elisa customer. We know our customers' communications needs and we want to provide them new, easy-to-use subscriptions and services.

Elisa is the market leader in communications services for households. During 2008, Elisa put significant effort into offering more versatile and faster broadband connections profitably in selected areas, and introduced several new services for its customers.

An example of a subscription and related services is the Saunalahti Kotitotaali broadband package that received Mikro PC magazine's Product of the Year award. The super-fast 8 to 24 Mbit/s subscription comes bundled with an unparalleled range of services. Kotitotaali's Internet connection is established through a Wippies Homebox router. The user also becomes a member of the Wippies community. Furthermore, the Kotitotaali package includes a SaunaVisio set-top box that records TV programmes on a server instead of a hard disk and brings video-on-demand and HDTV into the living room.

Elisa's extensive cable-TV network also enables a wide variety of services. Almost a quarter million households are able to get a cable modem broadband connection at speeds up to 100 Mbit/s in addition to TV services. Elisa was the first cable TV operator in Finland to introduce a channel package that allows customers to choose the contents of their pay-TV package.

Saunalahti was the first company to introduce a USB modem that makes 3G connections easier. Elisa Kotikaista offers hassle-free broadband and a secure wireless home network. Setup is easy, thanks to Elisa Kotiboksi included in the service package.

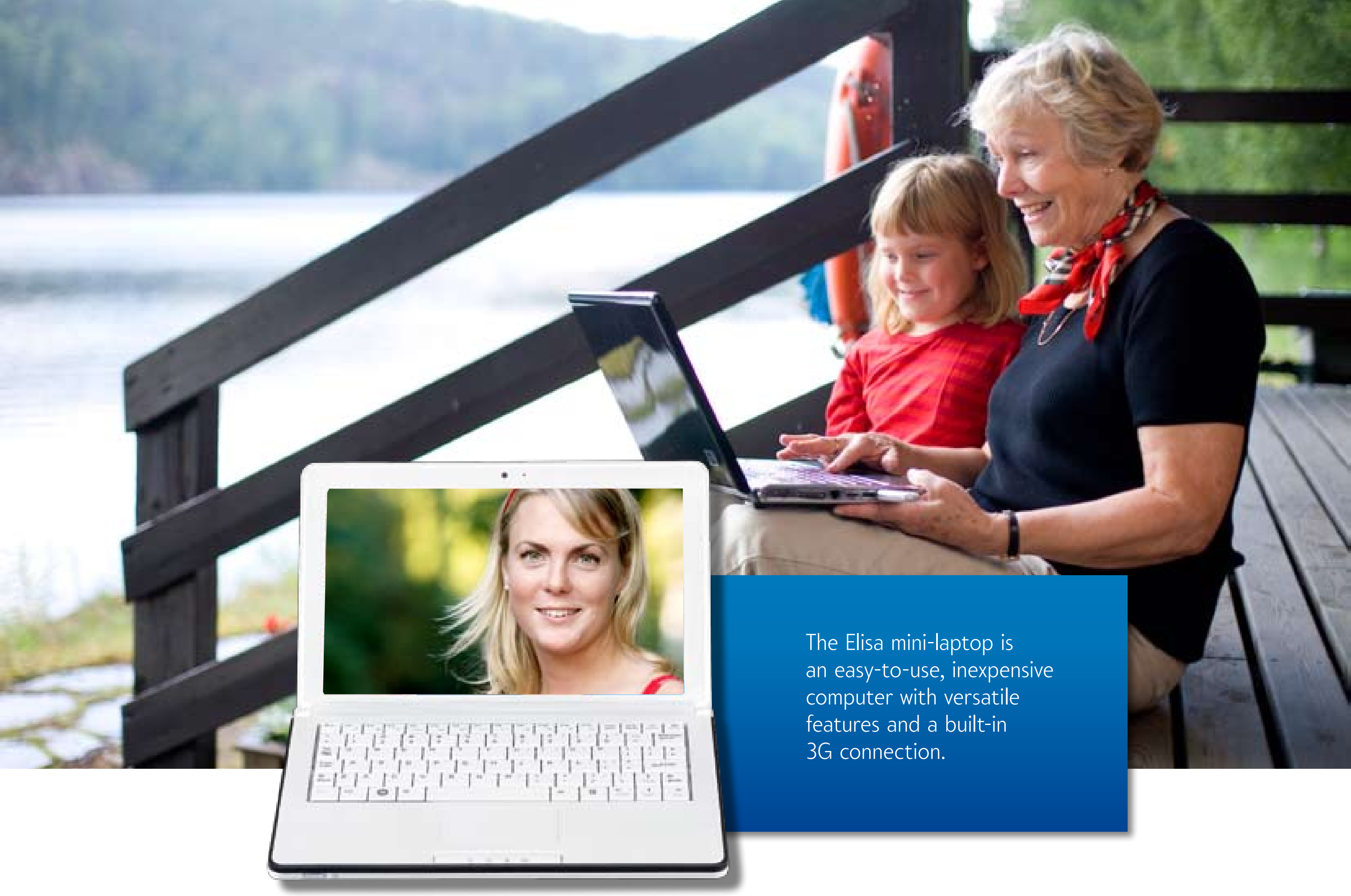
Mini-laptops were the blockbuster product of the autumn, introduced by both Elisa and Saunalahti. Elisa was the first company in Finland to introduce a mini-laptop with a built-in 3G modem. Elisa Mini-laptop's inexpensive price, versatile features and ease of use make it excellent for young people or as a second computer.

Elisa's objective as a pioneer and market leader is to strengthen its service offerings in 2009.

The best 3G network in Finland

Elisa is a mobile communications pioneer in Finland. During the last year, Elisa has made systematic investments in developing its 3G network. According to an independent 3G coverage survey conducted between August and November 2008 by European Communications Engineering (ECE Ltd), Elisa's 3G network still offers the best coverage and quality in Finland. This is true for voice as well as data services. The previous similar study was conducted in January-February 2008.

Elisa's 3G network covered more than 250 locations and more than 80 per cent of Finland's population. Most of Elisa's 3G network supports a data rate of 5 Mbit/s. Finland's best network hosts Elisa's and Saunalahti's subscriptions. In spite of substantial investments in the network, prices for mobile voice and data are among the lowest in Europe. A new product introduced in the autumn was the Saunalahti Edukas subscription with inexpensive per-month and per-minute charges without a fixed agreement term.



The Elisa mini-laptop is an easy-to-use, inexpensive computer with versatile features and a built-in 3G connection.

Elisa's customers had approximately 2.5 million mobile phone subscriptions at the end of 2008. We want to further strengthen our market leadership in mobile communications services in 2009 and offer our customers the best services in Finland's best mobile network.

Market leader succeeding through services

The Consumer Business unit has been successful in the intense competition environment of Finland's communications service market particularly because services have become more important as a competitive factor. We are the market leader in 3G services, broadband services and fixed network voice services. In mobile communications and cable TV services, we are close to the market lead. The unit is also a significant supplier of mobile phones, computers and associated peripherals.

We serve approximately 1.5 million households, which have approximately 2.8 million Elisa mobile communications and fixed network subscriptions.

Our customers had approximately 900,000 fixed network subscriptions at the end of 2008: some 370,000 broadband subscriptions, more than 240,000 cable TV subscriptions and approximately 300,000 voice subscriptions. The average data rate of broadband subscriptions exceeded 2 Mbit/s.

The unit operates nationwide, and almost 80 per cent of our approximately 1,000 employees work in direct customer service and sales tasks. Elisa wants to serve all Finns. We serve our customers at more than 60 Elisa Shopit outlets and through hundreds of representative partners.

We have put substantial effort in developing our customer service, particularly electronic transaction services. In addition to our outlets and contact centre, the use of Oma Elisa and Oma Saunalahti self-service channels has substantially increased. Saunalahti has the most satisfied customers in Finland, and Elisa's customer satisfaction is also on the rise.

We believe that in addition to good customer service, our customers appreciate well-functioning products and services, a network with good quality and coverage, a wide range of distribution channels and the company's service attitude, which is aimed at continuous development of operations in accordance with customer needs.

The starting point for our operations is an understanding of the **communications needs between Finnish corporations and their customers.**

Corporate customers

The starting point for the Elisa Corporate Customers unit's operations is the ability and willingness to understand each customer's communications needs. Our long experience and competence combined with our secure network and service platforms provide us with good starting points for developing new ICT services. Our services help customers improve their productivity and efficiency, both in the domestic market and in an international operating environment.

During 2008 the Corporate Customers unit focused on developing new, innovative ICT services for businesses and public sector organisations. To serve our customers, we implemented virtual collaboration services, mobile work solutions and Elisa OIWA, which is a new type of service package for developing electronic communications for businesses. We also continued the development of the Oma Elisa transaction channel.

Effort was also put into Elisa's security solutions. Together with our customers, we survey, plan and implement secure architectural solutions for management, with new communications technologies playing a central role.

Thanks to new services and efforts, we are ready to respond to upcoming challenges and more intense competition in the Finnish ICT and communications market.

Experiences and productivity with virtual collaboration

Network and communications technologies are ubiquitous. They are transforming into tools that end users use in accordance with their needs, desires and habits, both at work and during leisure time. At the same time, economic fluctuations, ageing of the population and the need to provide well-being services with scarcer resources are a driving force towards more extensive utilisation of new network services.

Virtual collaboration services enable new types of online transactions and the utilisation of expert resources. Collaboration solutions improve interaction across organisational and geographical boundaries while saving costs and the environment.

We help our customers to make new communications solutions an integral part of organisational operations and human interaction. Elisa's core competence involves planning and implementing communications solutions that make interaction more efficient through combining industry-leading applications and technologies into a seamless functional entity, based on the turnkey principle.

Our versatile collaboration solutions improve the productivity of our customers. Online meetings facilitate teamwork, reduce time needed for decision-making and improve the efficiency of communications while reducing travel costs and the carbon footprint. Online meeting services based on application service provision are immediately available, and do not require investments by the customer.

With the click of a button, Elisa's TelePresence virtual presence solution brings people from different locations "to the same table".

Elisa's TelePresence virtual presence solution offers a completely new type of meeting experience. A high-quality feeling of true presence is provided by high-definition video technology, multi-channel audio technology and people appearing in actual size. Elisa can also provide the solution to customers as a service.

Flexibility through mobile work solutions

Ubiquitous communications technology has enabled working independent of place. Elisa's mobile work solutions make it possible to work anywhere at the most convenient time. Mobile work makes work more efficient, provides more leisure time and saves the environment, as well as costs.

Elisa has purposefully introduced new mobile work solutions to respond to customers' increasing needs. More and more corporate customers are utilising Elisa's extensive 3G network and wireless mobile broadband either with a USB modem or a 3G SIM card integrated in a portable computer.

New services to the market

Elisa provides services to approximately 15,000 Finnish organisations in different sectors of business and the public sector. We provide them with communications and collaboration solutions through a nationwide network of 12 sites from Kemijärvi to Helsinki. The Corporate Customers unit employs approximately 800 professionals in tasks related to corporate sales, the product and service range, consultancy, customer service solutions, as well as service production.

During the year, the Elisa Corporate Customers unit also expanded its service offering and strengthened its competence through acquisitions. Electur's service offering, which covers virtualisation, Identity Management consultancy and service platforms, complements the range of e-business solutions for Elisa's corporate customers.

Elisa established the Customer Service Solutions business unit to strengthen its ability to offer customer service solutions as a comprehensive service. The acquisitions of DialMedia Oy and Doneto Oy make Elisa the leading supplier of corporate customer service solutions in Finland.

The acquisition of business operations from Telenor's Finnish company Telenor Oy further improved the coverage of Elisa's corporate network in Finland.

In the present challenging economic situation, organisations are aiming for better productivity. As a competent ICT company and provider of innovative services, Elisa has a lot to offer. We are also strongly involved in the creation of the Finnish information society.

Elisa's strengths are in communications competence and networks, which enable the implementation of new services. Our objective is to strengthen and expand our market position by introducing services that are enabled by new technologies to improve our customers productivity and provide enhanced user experiences on line. We also aim to expand our customer base in Finland and internationally, and to deepen our partnership as a provider of communications solutions for Finnish businesses and the public sector.

The quality of Elisa's customer service in Estonia is ranked very high. A comparison of telecom, media and IT companies **ranked the competence and friendliness of Elisa's customer service as third place.**

Elisa's prepaid service is the market leader among young people. Prepaid subscriptions account for approximately 30 per cent of all mobile subscriptions in Estonia.

Elisa Estonia

Rapid economic growth has enhanced the standard of living in Estonia, changing both people's lifestyles and their living environment since the turn of the millennium. Estonia is at the forefront of European countries in the introduction of both public and commercial e-services. Estonia's rapid economic growth turned to a decline during 2008, a reflection of the global recession.

In spite of the recession, Elisa's business in Estonia continued to increase its profitability in 2008. EBITDA amounted to 37 per cent. Interconnection fees declined by almost 50 per cent at the end of 2007. In spite of the decline in turnover (12 per cent), EBIT improved 5 per cent. Elisa's share of the Estonian mobile communications market is more than 20 per cent.

Comprehensive high-quality service as a competitive advantage

The number of Elisa mobile phone subscriptions increased by 5 per cent to 338,000 subscriptions at year-end. Elisa provides businesses with a complete range of communications services. Mobile services are available nationwide, and fixed network services are available within Elisa's service area in the three largest cities. Elisa is the only company to offer all telecommunications services under a single brand and from a single service point.

Elisa's prepaid service is the market leader among young people. Prepaid subscriptions account for approximately 30 per cent of all mobile subscriptions in Estonia.

Elisa's customer service in Estonia is considered to be of a very high quality. In a comparison of service levels across all enterprises in Estonia, Elisa was ranked eighth, and in another survey comparing telecom, media and IT companies, the competence and friendliness of Elisa's customer service was ranked third.

Elisa has the best mobile networks in Estonia

In recent years, Elisa has made heavy investments particularly in the mobile communications network. According to studies, Elisa's GSM network is the best one in almost all Estonia's largest towns. Elisa's 3G network also provides the best coverage and fastest data rates in the three largest towns. According to measurements carried out by the market regulator in 2007, Elisa's GSM network exhibits the highest quality in the market. Elisa was the first operator in Estonia and the third in Europe to introduce UMTS900 technology. A 3G network operating on lower frequencies allows 3G coverage to be expanded at a cost efficient manner.

Increasing popularity of mobile data allows growth in Estonia

The mobile communications penetration is no longer growing substantially, but growth of the Estonian communications service market is expected to continue in mobile data. However, the rapid downturn in economic growth means that growth rates will not match those of previous years.

Elisa's objective is to further increase its market share in Estonia. The growth target is based on prepaid products, corporate services and mobile data. However, revenue is expected to decline as interconnection fees will become even lower. The decline in interconnection fees will not hamper profitability.

In 2008, work in Elisa was characterised by joint **development of the work community, productivity and procedures.**

Elisa utilises technology solutions for mobile working.

Personnel and the environment

Jointly with its personnel, Elisa is building a work community that attracts active professionals committed to their profession and encourages their development. Elisa has shared company-wide HR practices in the fields of recruitment, promotion of well-being at work, development of the work community, competence development, compensation and incentives.

Work in 2008 was characterised by mutual development of the work community, productivity and procedures.

Work community development and well-being

In a personnel survey conducted in September 2008, employee satisfaction at Elisa had substantially improved in all of the sub-areas surveyed. Groups led by supervisors used the results to draw their own actions for development. The development of crucial sub-areas was monitored quarterly using a resource index.

Focal points in 2008 included the promotion of exercise through the introduction of sports vouchers and pilot projects in the field of well-being guidance and small group activities.

There is a work community development group in Elisa that consists of representatives from the staff, industrial safety and management, and makes proposals for Elisa-wide work community development projects. Occupational health care and work environment groups are involved in promoting the well-being of Elisa employees at every location, supporting all employees and supervisors.

A senior programme aimed at Elisa employees older than 50 involved eight meetings at four locations discussing topical issues related to well-being at work.

Developing the work environment, tools and processes

Elisa invests in flexible solutions for the physical work environment and utilises technology solutions for mobile work. The multi-space office was developed further, and more sites switched over to the multi-space office model. Possibilities for teleworking also improved through a strong introduction of remote meeting facilities.

The objective of a productivity programme launched in 2008 is to improve productivity and customer satisfaction through joint development. Hundreds of Elisa employees participated in projects within the programme, and it will continue in 2009.

Industrial safety and work environment operations

Elisa's joint operating model for industrial safety was developed to better support business. Elisa's joint work environment committee discusses matters such as shared policies for occupational health care and issues related to personnel development and well-being at work. Unit-specific work environment groups look at industrial safety issues from the unit's viewpoint and are the most important users of workplace surveys, for example. Site-specific work environment teams handle issues related to facilities, security and order.

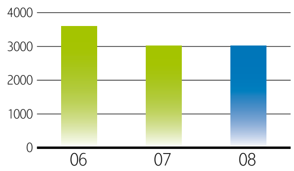
Promoting equality

The Act on Equality between Women and Men was amended on 1 June 2005. According to the Act, employers must carry out actions that promote equality in accordance with a designated equality plan. Elisa has prepared an equality plan annually starting from 2006.

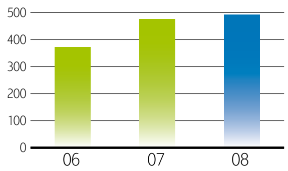
Personnel and the environment

	2008	2007	2006
Total number of the employees	3,017	3,015	3,592
Gross capacity	3,589	3,364	4,094
Male	2,050	1,906	2,239
Female	1,539	1,458	1,855

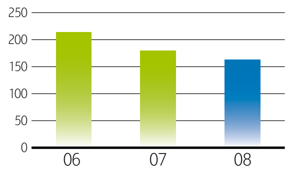
Number of employees



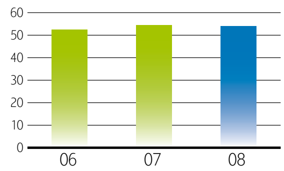
Revenue per employee
EUR 1,000



Personnel costs
EUR million



Personnel costs per employee EUR 1,000



Elisa has an equality group that draws up the equality plan and answers employees' questions related to equality. The equality plan for 2008 focused on the following areas: compensation, career development, forming of groups and the weight of equality issues. The development of each of these has been monitored since 2006. Actions carried out in 2008 included harmonisation of job titles and a reduction in their number. Women have received incentives for career development, and general awareness of equality has been promoted.

Personnel development

Elisa is developing its personnel both by offering development opportunities through new tasks and by providing internal and external training. Training is arranged by individual units as well as HR.

Elisa's traditional long-term training programmes included the Development Centre, (a Developing Manager) training for new managers, Elisa Pro for distinguished salespersons at the customer interface, as well as the Specialist Qualification in Management (JET). New programmes introduced in the autumn include the Specialist Qualification in Product Development and the Further Qualification in Sales. These training programmes, which take more than six months to complete, were attended by almost 200 Elisa employees.

About 180 short-term training events of one-half to two days were arranged internally on a variety of topics. All supervisors were trained in the use of SAP HR. Project managers were trained in two training programmes of different durations. The customer service and sales teams were provided with continuous training on products and operating methods. Units also arranged technology training and their own advanced training for supervisors. The Elisa Academy collected Elisa employees to learn about new trends in technology and business.

The use of real-time online lectures and learning materials distributed through an online learning environment increased substantially, allowing employees to participate in training at their own desks all over the country.

Elisa supports independent study among its personnel, both financially and by allowing the use of working time for studying. In 2008 there were over 35 Elisa employees who qualified for study support.

Cooperation with educational institutions

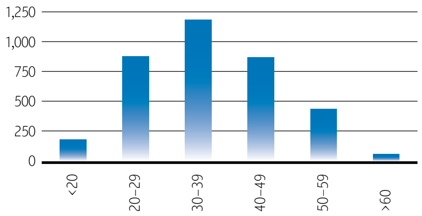
Elisa is actively involved in cooperation with several educational institutions, providing students with different kinds of opportunities for becoming familiar with today's working life. Closer cooperation involved, for example, the HAMK University of Applied Sciences, Helsinki University of Technology and Helsinki School of Economics.

Employer-employee cooperation

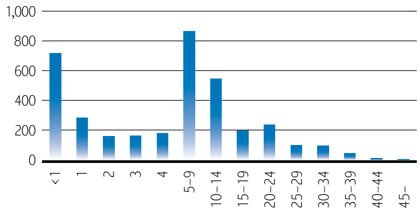
The atmosphere for employer-employee cooperation in the beginning of 2008 was normal. New collective labour contracts for the 2007–2010 period were reached no earlier than in the late autumn of 2007, as prolonged negotiations required dispute resolution by the Conciliator General.

Early in the year, the scale of corporate arrangements and associated cooperation in personnel matters was smaller than previously. Towards the end of the year, Elisa acquired two contact centre companies, DialMedia and Doneto, but they

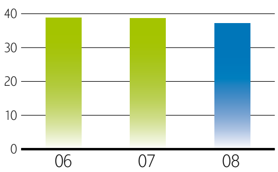
Personnel age structure



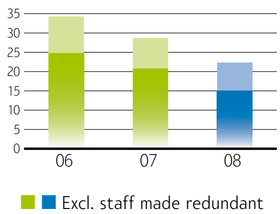
Distribution according to length of employment



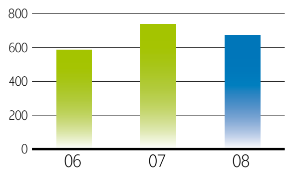
Average age structure



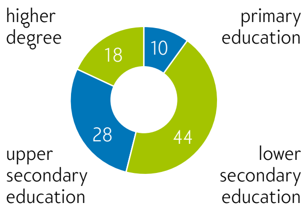
Staff turnover rate %



Training expenditure per employee EUR



Educational structure, %



manage their personnel issues and cooperation as separate independent companies.

The change planning model introduced at Elisa at the beginning of 2007 continued to be applied. According to the model, upcoming changes are prepared and investigated in cooperation with personnel representatives. This has enabled a careful cooperative review of the justification for necessary changes and alternative ways of action before proceeding to actual statutory negotiations.

Elisa has continued to provide support in excess of the statutory requirements for employees who have lost their jobs.

The most significant achievement in employer-employee cooperation in 2008 was the productivity programme jointly planned and prepared by the employer and personnel representatives. Projects within the programme were able to achieve substantial improvement in efficiency and productivity towards the end of the year without any cutbacks in personnel. The most active phase of the productivity programme is estimated to last until September 2009.

Environmental responsibility

Elisa carries out high-quality and environmentally friendly telecommunications services. The utilisation of these services reduces the need to move people and goods around, which leads to a reduction in the environmental burden from traffic.

Elisa monitors the environmental impact of its operations and continuously strives to improve their environmental friendliness. Elisa evaluates suppliers and subcontractors according to environmental criteria.

Basic principles for Elisa's environmental operations:

1) The objective of Elisa's environmental operations is to promote sustainable development on local, national and international levels as part of competitive business operations.
2) Elisa is committed to protecting the environment in areas where its actions may have an impact, and observes environmental, quality and safety considerations in its decision-making and management systems.
3) Elisa complies with national and international environmental regulations.

Elisa's environment group collected data on the environmental load, followed the development in environmental legislation as well as other areas, and increased environmental awareness among the personnel by arranging competitions and providing instructions for those operations that contribute to the environmental load. Subcontractors were given more responsibility for recycling materials returned from the network.

The principal projects in 2008 included: continuing the design of a standardised environmental management system, further development of the environmental load data reporting system, improving waste management and reducing the consumption of paper. The use of disposable cups has been reduced through purchasing coffee mugs.

Multifaceted cooperation with environmental management companies has continued. Elisa is collaborating with Vodafone, the Association for Environmental Management (www.yjy.fi) and the Ekokumppanit Klubi association (based in Pirkanmaa) on environmental issues.

The report of the Board of Directors and financial statements

The report of the Board of Directors for the year 2008

The financial report has been prepared in accordance with the International Financial Reporting Standards (IFRS).

Market situation

The base of mobile communications subscriptions and the use of data services have evolved favourably in Finland with 3G subscriptions comprising a significant proportion of new subscriptions. The use of services made available through 3G subscriptions has also increased. Another factor contributing to the growth has been the use of multiple terminal devices for different purposes, mobile broadband services and prepaid subscriptions. Churn has been at a normal level in relation to the market situation, and competition has been mainly in services and campaigning.

In the fixed network business the number and usage of traditional subscriptions decreased at a slower pace than in the previous year. The fixed broadband market is declining slightly, while the subscription growth is now in mobile broadband.

Revenue, earnings and financial position

EUR million	2008	2007	2006
Revenue	1,485	1,568	1,518
EBITDA	472	499	434
EBITDA-%	31.8	31.8	28.6
EBITDA excluding non-recurring items	478	491	445
EBITDA-% excluding non-recurring items	32.2	31.3	29.3
EBIT	264	302	225
EBIT-%	17.8	19.3	14.8
Return on equity, %	18.5	18.8	12.1
Equity ratio, %	43.3	47.9	63.1

Revenue by segments:

EUR million	2008	2007	2006
Mobile communications	919	980	930
Fixed network	615	642	665
Inter-segment sales	–49	–54	–77
Total	1,485	1,568	1,518

Elisa's revenue decreased by 5 per cent in 2008. Reasons contributing to the reduction included lower mobile interconnection fees both in Finland and Estonia, as well as declined equipment sales and decreases in the number of traditional fixed network subscriptions and the volume of traffic.

EBITDA excluding non-recurring items decreased slightly, but the EBITDA margin improved. The EBITDA margin improvement was attributable to factors such as new services in the mobile communication business, as well as efficiency measures. Also the decreased mobile interconnect revenue and costs improved profitability. The improved profitability of the fixed network business was affected by changes in broadband subscription prices, withdrawing the broadband offering from some less profitable geographical areas and improved cost efficiency.

Financial income and expenses totalled EUR –37 million (–17). Financial income and expenses in 2007 include a EUR 13 million gain on the sale of Comptel shares. The increase on the previous year was mainly attributable to increased net debt. Income taxes in the income statement amounted to EUR –51 million (–65).

Elisa's January-December earnings after taxes were EUR 177 million (220). The Group's earnings per share (EPS) amounted to EUR 1.12 (1.38). At the end of 2008, the Group's equity per share was EUR 5.61 (6.53).

Earnings by segment:

EUR million	2008	2007	2006
Mobile communications			
EBITDA	266	299	259
EBITDA-%	29.0	30.5	27.9
EBITDA excl. non-recurring items	269	300	263
EBITDA-%, excl. non-recurring items	29.3	30.7	28.3
EBIT	151	195	162
Fixed network			
EBITDA	209	206	181
EBITDA-%	33.9	32.1	27.2
EBITDA excl. non-recurring items	212	197	187
EBITDA-%, excl. non-recurring items	34.5	30.7	28.1
EBIT	117	113	71
Corporate functions			
EBITDA	–3	–6	–6
EBIT	–4	–6	–7
Total			
EBITDA	472	499	434
EBITDA-%	31.8	31.8	28.6
EBITDA excl. non-recurring items *	478	491	445
EBITDA-%, excl. non-recurring items	32.2	31.3	29.3
EBIT	264	302	225

* 2008: Restructuring costs EUR –7 million. 2007: Capital gains on real estate EUR 11 million and restructuring costs EUR –3 million. 2006: Restructuring costs EUR –10 million.

The report of the Board of Directors for the year 2008

Financial position:

EUR million	31 Dec 2008	31 Dec 2007	31 Dec 2006
Net debt	812	738	377
Net debt / EBITDA [1]	1.7	1.5	0.9
Gearing ratio, %	92.8	71.3	28.7
Equity ratio, %	43.3	47.9	63.1

EUR million	2008	2007	2006
Cash flow after investments	260	114	118

[1] (interest-bearing debt – financial assets) / (4 previous quarters' EBITDA exclusive of non-recurring items)

The financial position and liquidity remained good. Cash and undrawn committed credit lines totalled EUR 258 million at the end of the year and there are no major refinancing needs expected before the year 2011.

Elisa's net debt increased from EUR 738 million to EUR 812 million mainly due to the capital repayment of EUR 285 million in March 2008.

Cash flow after investments increased clearly on the previous year to EUR 260 million (114) mainly due to the change in net working capital.

Changes in corporate structure

At the end of February, Elisa acquired 51 per cent of Kuntokompassi Oy. This acquisition had no material impact on Elisa's profit or balance sheet. The new name for the company is Excenta Oy.

In June, Elisa acquired 100 per cent of Electur Oy. Electur's core business consists of identity management, one-off registration and entry management. Elisa will develop new solutions for its corporate customers' e-businesses by combining Electur's products and Elisa's ICT-services.

At the end of October, Elisa acquired the business operations of Dialmedia Oy and merged it to Elisa's fully owned subsidiary Lounet Call Center Oy and also acquired 100 per cent of Doneto Oy. Both companies businesses comprise contact centre services.

In November, Elisa acquired 100 per cent of Telenor Oy from Telenor Sverige Ab. The new name for the company is Elisa Links Oy. Elisa Links Oy's business comprises customers, services and network in Finland.

Mobile communication business

Number of subscriptions	31 Dec 2008	31 Dec 2007
Total number of subscriptions	2,879,600	2,657,400
- Subscriptions in Finland	2,541,900	2,334,600
- Subscriptions in Estonia	337,700	322,800

User-specific indicators [1]	10–12/ 2008	10–12/ 2007	1–12/ 2008	1–12/ 2007
Average revenue/subscription, €/ month	26.3	30.1	26.4	30.0
Annualised churn, %	12.0	12.6	13.3	12.2
Outgoing calls, min/subscription/month	213	217	218	218
SMS, message/subscription/month	56	57	56	53
Non-voice services/revenue, %	20	19	20	19

Indicators on network usage [2]	10–12/ 2008	10–12/ 2007	1–12/ 2008	1–12/ 2007
Outgoing calls, million minutes	1,527	1,447	6,031	5,661
SMS, million messages	434	407	1,615	1,550

[1] Elisa's service operators in Finland (excluding prepaid subscriptions)
[2] Elisa's network operator in Finland

Elisa's network operator in Finland increased the number of its subscriptions by some 207,400 in 2008. The increase was markedly due to the success of 3G service bundles, mobile broadband and prepaid subscriptions. The number of subscriptions at the end of the year was approximately 2,541,900. The fourth-quarter increase in Finland was approximately 54,200 subscriptions. In Estonia the number of subscriptions increased by 14,900 in 2008, but in the fourth quarter they decreased by 4,600.

In 2008, the call minutes per subscription of Elisa's own service operators were at the same level and the number of SMS messages increased by approximately 6 per cent on the previous year. Due to the increase in the number of subscriptions of Elisa's service operators, the total call minutes in the network grew by 7 per cent and the number of SMS messages 4 per cent.

Mobile communication revenues decreased by 6 per cent mainly due to reduced interconnection fees both in Finland and Estonia, and equipment sales. Revenue per subscription declined by 12 per cent on the previous year due to lower interconnection fees as of the beginning of the year and lower roaming fees as of September 2007. Also the increase in mobile broadband subscriptions negatively affected revenue per subscription.

In May 2008, Elisa decreased the mobile data roaming fee by approximately 30–50 per cent. The fee reduction concerns internet, MMS and WAP connections.

Elisa and other Finnish mobile operators have agreed on new interconnection fees for 1 January 2009–30 November 2009. This is based on an agreement made by the mobile operators on 19 February 2007. According to the agreement, operator interconnection fees will be gradually equalised during 2007–2009, with the fees being equal effective 1 December 2009.

From 1 January 2009–30 November 2009, Elisa's interconnection fee for the mobile network will be 4.9 cents per minute, in 2008 the fee was 5.1 cents per minute. The equal interconnection price enforced by the operators as of 1 December 2009 will be agreed separately later.

At the end of 2008, Elisa's 3G services covered approximately over 80 per cent of the Finnish population in more than 250 municipalities. UMTS900 technology allows more cost efficient construction of a 3G network in rural areas. This will bring 3G services to all of Finland within a few years. The speed of Elisa's 3G network increased during 2008 and most of the network uses maximum transmission speed of 5 Mbit/s. Mobile broadband will enable remote working almost everywhere in Finland.

Revenue of the mobile communication business in Elisa's Estonian subsidiary has been negatively affected by lower interconnection prices, which were cut in November 2007 and July 2008. These changes did not have any material impact on the result since the interconnection costs declined respectively. Revenue decreased to EUR 98.5 million (113.1), EBITDA increased to EUR 36.7 million (36.2) and EBIT to EUR 25.8 million (25.2). The number of subscriptions stood at 337,700 (322,800) at the end of 2008.

Fixed network business

Number of subscriptions	31 Dec 2008	31 Dec 2007
Broadband subscriptions	501,500	521,800
ISDN channels	54,400	70,800
Cable TV subscriptions	244,200	237,100
Analogue and other subscriptions	447,700	471,500
Total number of subscriptions	1,247,800	1,301,300

Elisa's fixed broadband subscriptions decreased throughout 2008, representing a decline of approximately 20,300 subscriptions or 4 per cent on the previous year. This was mainly due to withdrawing the broadband offering from some less profitable geographical areas and divestment of fixed broadband subscriptions outside of the own network area. Elisa sold 6,500 broadband subscriptions in the Vaasa area to Anvia.

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

On 1 February 2008, wholesale prices levied by telecommunications operators on each other declined by approximately one-third of the previous level.

Elisa launched a full triple-play service called Kotitotaali, under the Saunalahti brand, which offers customers high-speed broadband, television and fixed line telephony services with one single monthly fee.

Cisco granted Elisa the "Service Provider Partner of the Year" prize. Elisa is one of Cisco's biggest partners in Finland and together are devoted to the development of innovative communication solutions.

Personnel

Elisa employed 2,946 people on average in 2008 (2007 average 3,299 people and 2006 average 4,086 people). Employee benefit expenses in 2008 totalled EUR 162 million (2007 EUR 181 million, 2006 EUR 214 million). At the end of 2008 the number of personnel was 3,017 (3,015).

Personnel by segments:

	31 Dec 2008	31 Dec 2007
Mobile communications	1,271	1,252
Fixed network	1,710	1,727
Corporate functions	36	36
Total	3,017	3,015

As of 1 June 2008, Elisa outsourced a part of the planning and documentation of Elisa's fixed network and material delivery to Eltel, Empower and Relacom. This arrangement affected 47 employees.

In December, Elisa's Board of Directors resolved a new share-based incentive plan for the Elisa group key personnel. The aim of the plan is to combine the objectives of the shareholders and the key personnel in order to increase the value of the company, to gain key personnel commitment, and offer them a competitive reward plan based on Elisa shareholdings.

The Plan is directed to approximately 50 people. The rewards to be paid on the basis of the plan will correspond to the value of a maximum total of 2.2 million Elisa shares (including a maximum 1.1 million shares and a portion to be paid in cash).

As part of the incentive programs, Elisa also has a share option program. Approximately 500,000 series 2007A stock options were distributed to 150 key personnel, who do not belong to the share-based incentive plan.

Elisa has a personnel fund for all Elisa employees, except for those who belong to some other incentive programs. Based on the 2008 result no contribution was made to the personnel fund.

Investments

EUR million	10–12/ 2008	10–12/ 2007	1–12/ 2008	1–12/ 2007
Capital expenditures, of which	64	69	184	206
- mobile communication business	38	28	103	91
- GSM leasing liability buy-backs		2	2	2
- fixed network business	26	38	79	113
Shares	2	1	15	12
- of which achieved through an exchange of shares				5
Total	66	70	199	218

The primary investment targets were the expansion of the 3G network and increases in the speed and capacity of the fixed broadband network.

Financing arrangements and ratings

Valid financing arrangements:

EUR million	Maximum amount	In use on 31 Dec 2008
Committed credit limits	300	75
Commercial paper program [1]	250	55.6
EMTN program [2]	1,000	636

[1] The program is not committed

[2] European Medium Term Note program, not committed

The report of the Board of Directors for the year 2008

Long-term credit ratings:

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

Share

Trading of shares	10–12/ 2008	10–12/ 2007	1–12/ 2008	1–12/ 2007
Shares traded, millions	76.1	73.0	338.8	316.0
Volume, EUR million	881.4	1,536.2	5,041.1	6,737.0
% of shares	45.8	43.9	217.7	199.7

Shares and market values	31 Dec 2008	31 Dec 2007
Total number of shares	166,307,586	166,307,586
Treasury shares	10,688,629	8,049,976
Outstanding shares	155,618,957	158,257,610
Closing price, EUR	12.30	21.00
Market capitalisation, EUR million	1,914	3,323
Treasury shares, %	6.43	4.8

At the end of the year, Elisa's total number of shares was 166,307,586 (166,307,568), all within one share series. The closing price was EUR 12.30 (21.00), representing a decrease of 41.4 per cent. The market value of Elisa's outstanding shares at the end of the year was EUR 1,914 million (3,323).

In accordance with the share based incentive program terms, Elisa transferred 361,347 own shares to persons involved in the 2006 incentive program on 2 May 2008.

In August 2008, Elisa received a notification pursuant to Chapter 2, Section 9 of the Securities Markets Act from DNA Oy, Lännen Puhelin Oy, Oulun Puhelin Holding Oyj, Kuopion Puhelin Sijoitus Oy and PHP Liiketoiminta Oyj. According to the notification, the parties jointly held more than one-twentieth (5 per cent) of Elisa's shares and votes. The companies may use their voting rights in mutual understanding.

In October 2008, Elisa received the following three notices: 1. Varma Mutual Pension Insurance Company hold more than 10 per cent of Elisa's shares and votes. 2. Novator Finland Oy's shareholding in Elisa has decreased below one-twentieth (5%) to zero (0%). 3. Varma Mutual Pension Insurance Company hold more than 15 per cent of Elisa's shares and votes.

In December 2008, Elisa received two notifications according to which Varma Mutual Pension Insurance Company sold 16,000,000 Elisa's shares to the Finnish State and their holding in Elisa deceased below 10 per cent of Elisa's shares and votes, and the ownership of the State was 9.62 per cent of Elisa's shares and voting rights.

Based on the decision of the Board of Directors on 18 December 2007, approximately 500,000 series 2007A stock options were distributed to the key personnel in Elisa group. The strike price for series 2007A options is EUR 19.04.

The distribution of shareholdings by type of shareholder and size of holding, as well as major shareholders, are presented in section "Shares and shareholders" within the financial statements.

Elisa shareholders with more than 5 per cent holding	Per cent of the shares and votes
The Finnish State	9.62
Elisa	6.43
Varma Mutual Pension Insurance Company	6.10

Research and development

The Group invested EUR 11 million, of which EUR 2.5 million has been capitalised, in research and development in 2008 (EUR 8 million in 2007 and EUR 6 million in 2006), corresponding to 0.7 per cent of revenue (0.5 per cent in 2007 and 0.4 per cent in 2006). Due to changes in the corporate structure, the figures are not fully comparable with previous years.

Elisa's Annual General Meeting of shareholders

On 18 March 2008, and in accordance with the proposal of the Board of Directors, Elisa's Annual General Meeting decided on the capital repayment to shareholders in the amount of EUR 1.80 per share on the basis of the 31 December 2007 balance sheet approved by the General Meeting.

The Annual General Meeting confirmed the financial statements for the period in question. The members of the Board of Directors and the CEO were discharged from liability for 2007.

The number of the members of the Board of Directors was confirmed at six (6), and members Risto Siilasmaa and Ossi Virolainen were re-elected to the Board of Directors and Mr Tomas Otto Hansson (Director, Novator), Mr Orri Hauksson (Director, Novator Finland), Mr Pertti Korhonen (CEO Elektrobit Corporation) and Ms Eira Palin-Lehtinen (prev. Director in Nordea Bank) were elected as new members.

KPMG Oy Ab, authorised public accountants, with APA Pekka Pajamo as the responsible auditor, was appointed the company's auditor.

The Board of Directors' authorisations

The Annual General Meeting accepted the proposal to authorise the Board of Directors to decide on the distribution of funds out of distributable equity up to a maximum of EUR 250,000,000. The authorization is valid until the commencement of the next Annual General Meeting.

The Annual General Meeting approved the proposal of the Board of Directors to authorise the Board of Directors to issue shares and special rights. The authorisation is valid until 31 March 2010. A maximum aggregate of 50.0 million of the company's shares can be issued under the authorization. A total of 361,347 shares were issued on 2 May 2008.

The Annual General Meeting decided on the authorisation to acquire treasury shares. The amount of shares that may be purchased under the authorisation is maximum 15,000,000 treasury shares. The authorisation is valid until August 31, 2009.

The share repurchases announced by Elisa on 1st August 2008 was completed on 16 September 2008. Elisa purchased 3,000,000 of its own shares on the NASDAQ OMX Helsinki during 8.8–16.9.2008. The average price per share was EUR 14.43 and the total purchase price approximately EUR 43 million. Elisa now holds 10,688,629 treasury shares following these purchases.

Elisa’s Extraordinary General Meeting of shareholders on 21 January 2008

Elisa’s Extraordinary General Meeting was concluded on 22 November 2007 at the request of Novator Finland Oy and held on 21 January 2008. The General Meeting turned down Novator’s proposal of releasing the members of Elisa’s Board of Directors from office.

Significant legal issues

TeliaSonera´s claim for refund of benefit by unjust enrichment due to price difference based on TeliaSonera´s own miscoding of the traffic worth approximately EUR 4 million will be settled in arbitration. Elisa has disputed TeliaSonera's claim in its entirety.

The disputes relating to the implementation and maintenance of Elisa´s billing and CRM system between Elisa and IBM is in Arbitration.

On 31 October 2007, the Helsinki District Court rendered its verdict concerning the stock exchange disclosures of Jippii Group Oyj in 2001 in which no corporate fine or forfeiture was imposed on the company. The prosecutor has appealed against the decision and claims for corporate fine of EUR 800,000 and forfeiture of 215,000.

The Estonian Communications Authority has in 2007 issued a decision on the level of interconnection fees. Elisa has appealed against the decision and the proceedings are still pending. Elion Ettevõtted AS has presented a claim for refunding the excess fees of approximately EUR 2 million. Elisa disputes the refunding obligation.

The Finnish Competition Authority is investigating Elisa´s broadband pricing.

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, insurable 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 business are monitored and regulated by several public authorities. This regulation also affects the price level of some products and services offered by Elisa.

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, which means that growth in subscriptions is limited. Furthermore, the volume of phone traffic in Elisa’s fixed network has decreased in the past few years. These factors may limit the opportunities for growth.

The deterioration of the economic environment may impact the demand for Elisa’s services and products, and therefore growth prospects. However, a good demand for communication services is expected to continue also during a possible recession.

Accident risks

The company’s core operations are covered by insurance against damage and interruptions caused by accidents. Accident risks also include litigations and claims.

Financial risks

In order to manage interest rate risk, the Group’s loans and investments are diversified in fixed- and variable-rate instruments. Interest rate derivatives are used to manage interest rate risk.

As most of Elisa Group’s cash flow is denominated in euros, the exchange rate risk is minor. Elisa's Estonian business, which is approximately 7 per cent of the consolidated revenue is denominated in Estonian crowns.

The objective of liquidity risk management is to ensure the Group’s financing in all circumstances. The Group’s cash and undrawn committed credit lines totalled EUR 258 million at the end of 2008 (317).

Liquid assets are invested within confirmed limits to investment targets with a good credit rating. The business units are liable for credit risk associated with accounts receivable. Credit risk concentrations in accounts receivable are minor as the customer base is wide.

In connection to the counterparty risk hedging Elisa, provided a maximum USD 60 million guarantee for a credit derivative portfolio (CDO). The risk for the guarantee being called has increased due to the credit crisis. The rating of the portfolio has decreased from Aa3 level to B1 level. The guarantee is valid until 15 December 2012. The maximum liability USD 60 million, if realised, would mean cash payments of USD 0.5 million in 2010, USD 33.0 million in 2011 and USD 26.5 million in 2012.

Given the recent financial market turmoil, the banking sector has suffered and the banks’ ability to finance companies have deteriorated, with some capital market activities not operating fully. However, Elisa has cash reserves, committed credit facilities and a sustainable cash flow to cover its foreseeable financing needs.

Environmental issues

Elisa carries out high-quality and environmentally friendly telecommunications services. The utilisation of these services reduces the need to move people and goods around, which leads to a reduction in traffic.

Elisa monitors the environmental impact of its operations and continuously strives to improve their environmental friendliness. Elisa evaluates suppliers and subcontractors according to their environmental criteria, and improves the awareness of environmental issues among the personnel by openly and regularly providing information on their effects.

Elisa’s environment group collected data on the environmental load (energy, water and fuel consumption, waste), followed the development in environmental legislation as well as other areas, and increased environmental awareness among the personnel by directing the operations that contribute to the environmental load.

The report of the Board of Directors for the year 2008

The principal projects in 2008 included: continuing the design of a standardised environmental management system, further development of the environmental load data reporting system, improving waste sorting and developing the production waste processes.

Events after the financial period

Elisa's subsidiary, Tampereen Tietoverkko Oy (TTV), outsourced its whole personnel (19 people) to Elisa with business transfer effective 1 February 2009. In the future, TTV will buy all the business services from Elisa. TTV take care of its own customers and partnerships. Elisa holds approximately 63 per cent of TTV and Alma Media approximately 35 per cent.

Outlook for 2009

The current economic environment and financial market turmoil creates uncertainty for the 2009 outlook. Competition in the Finnish telecommunications market remains challenging.

Our business has so far been impacted only marginally by the worsening general economy. However, Elisa will not be immune to the negative economic development. The visibility of the development of the overall economic situation and its effects to our business is limited.

Revenue is estimated to be at the same or slightly lower level than in 2008. The use of mobile communications and mobile broadband products is continuing to rise. The terminal sales volumes and other sales in some customer segments may decrease. EBITDA excluding non-recurring items is also expected to be at the same or slightly lower level than in 2008. Elisa will determinedly continue to stimulate demand for its services and continue to drive productivity improvements of its operations. Likewise, capital expenditure will be actively controlled to a maximum 12 per cent of revenue, and it may be reduced clearly, if the general economy deteriorates further.

The contributory factors for long-term growth and profitability improvement include the 3G market growth and efficiency measures, which are continuing as expected. Elisa's financial position and liquidity are good. There are no major refinancing needs expected before the year 2011.

Dividend

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

The Board of Directors proposes to the General Meeting an ordinary dividend of EUR 0.60 per share. The dividend payment corresponds to 53 per cent of the period's earnings.

Shareholders who are listed in the company's register of shareholders maintained by the Euroclear Finland Ltd on 23 March 2009 are entitled to funds distributed by the General Meeting. The Board of Directors proposes that the payment date be 31 March 2009. The profit for the period shall be added to accrued earnings.

Furthermore, the Board of Directors decided to propose to the General Meeting that the Board of Directors be authorised to acquire 15 million treasury shares, which corresponds to 9 per cent of the entire stock.

The Board of Directors also decided to propose to the General Meeting that the Board of Directors be authorised to distribute funds out of the retained earnings account or the reserve for invested non-restricted equity to a maximum of EUR 150 million.

The parent company's distributable funds at year-end amounted to EUR 406 million.

BOARD OF DIRECTORS

Consolidated income statement

EUR million	Note	2008	2007
Revenue	4	1,485.0	1,568.4
Other operating income	5	6.5	21.0
Materials and services	6	–652.4	–707.0
Employee expenses	7	–162.5	–181.2
Other operating expenses		–205.0	–201.8
EBITDA		471.6	499.4
Depreciation and amortisation	9	–207.1	–197.4
EBIT		264.5	302.0
Financial income	11	17.1	27.9
Financial expense	11	–54.0	–44.7
Share of associated companies' profit		0.0	0.0
Profit before tax		227.6	285.2
Income taxes	12	–50.6	–64.9
Net profit		177.0	220.3
Attributable to:			
Equity holders of the parent		176.3	219.8
Minority interest		0.7	0.5
		177.0	220.3
Earnings per share (EUR/share) calculated from the profit attributable to equity holders of the parent:			
Basic		1.12	1.38
Diluted		1.12	1.38
Average number of outstanding shares (1,000 shares):			
Basic		157,450	159,417
Diluted		157,450	159,417

Consolidated balance sheet

EUR million	Note	Dec. 31, 2008	Dec. 31, 2007
ASSETS			
Non-current assets			
Property, plant and equipment	14	630.5	637.3
Goodwill	15	778.6	773.6
Other intangible assets	15	177.5	194.5
Investments in associated companies	16	0.1	0.1
Available-for-sale investments	18	29.0	30.9
Receivables	19	12.4	7.3
Deferred tax assets	20	28.3	31.7
		1,656.4	1,675.4
Current assets			
Inventories	21	21.7	28.5
Trade and other receivables	22	318.9	454.6
Tax receivables		0.5	0.2
Financial assets at fair value through profit or loss	23		2.7
Cash and cash equivalents	24	33.0	14.2
		374.1	500.2
TOTAL ASSETS		2,030.5	2,175.6
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		83.0	83.0
Treasury shares		–202.0	–165.8
Contingency reserve		3.4	3.4
Fair value reserve		9.1	19.5
Other funds		381.0	381.0
Reserve for invested non-restricted equity		250.8	535.7
Retained earnings		348.1	176.6
Equity attributable to equity holders of the parent	26	873.4	1,033.4
Minority interest		1.6	2.0
Total shareholders' equity		875.0	1,035.4
Liabilities			
Non-current liabilities			
Deferred tax liabilities	20	30.9	34.9
Pension obligations	28	1.3	2.1
Provisions	29	4.3	5.2
Interest-bearing liabilities	30	672.3	627.3
Other liabilities	31	14.0	24.6
		722.8	694.1
Current liabilities			
Trade and other payables	31	255.5	303.2
Tax liabilities		3.4	10.8
Provisions	29	1.5	4.1
Interest-bearing liabilities	30	172.3	128.0
		432.7	446.1
Total liabilities		1,155.5	1,140.2
TOTAL EQUITY AND LIABILITIES		2,030.5	2,175.6

Consolidated cash flow statement

EUR million	Note	2008	2007
Cash flow from operating activities			
Profit before tax		227.6	285.2
Adjustments			
Depreciation and amortisation	9	205.8	197.4
Financial income and expense		36.9	16.8
Gains and losses on the disposal of fixed assets		–0.7	–14.7
Gains and losses on the disposal of shares			–0.1
Change in provisions in the income statement		–4.3	0.5
Other adjustments		0.2	1.1
		237.9	201.0
Change in working capital			
Change in trade and other receivables		132.5	–116.0
Change in inventories		6.7	10.0
Change in trade and other payables		–56.2	6.5
		83.0	–99.5
Dividends received		1.0	1.2
Interest received		9.8	6.8
Interest paid		–49.6	–26.9
Taxes paid		–59.5	–82.2
Net cash flow from operations		450.2	285.6
Cash flow from investing activities			
Acquisition of subsidiaries net of cash acquired		–2.9	–4.2
Capital expenditure		–179.2	–203.7
Acquisition of available-for-sale investments		–8.7	–2.0
Proceeds from sale of associated companies		0.1	0.3
Proceeds from sale of property, plant and equipment		0.6	23.8
Proceeds from available-for-sale investments		0.1	14.1
Net cash flow used in investing activities		–190.0	–171.7
Cash flow from financing activities			
Purchase of treasury shares	26	–43.3	–85.6
Proceeds from treasury shares			1.7
Proceeds from long-term borrowings		80.0	350.0
Repayment of long-term borrowings		–30.0	–44.2
Change in short-term borrowings		38.6	67.0
Repayment of finance lease liabilities		–4.0	–6.7
Dividends paid		–285.4	–401.4
Net cash used in financing activities		–244.1	–119.2
Change in cash and cash equivalents		16.1	–5.3
Cash and cash equivalents at beginning of period		16.9	22.2
Cash and cash equivalents at end of period	24	33.0	16.9

Consolidated statement of changes in equity

	Equity attributable to equity holders of the parent								
EUR million	Share capital	Share premium	Treasury shares	Other reserves	Reserve for invested non-restricted equity	Retained earnings	Total	Minority interest	Total shareholders' equity
Shareholders' equity at Jan. 1, 2007	83.0	530.4	−81.3	422.1		353.4	1,307.6	4.7	1,312.3
Share premium reduction and transfer		−530.4			530.4				
Available-for-sale investments				−18.2			−18.2		−18.2
Other changes						1.6	1.6		1.6
Items recognised directly in equity		−530.4		−18.2	530.4	1.6	−16.6		−16.6
Profit for the period						219.8	219.8	0.5	220.3
Total recognised income and expense for the period		−530.4		−18.2	530.4	221.4	203.2	0.5	203.7
Acquisitions of subsidiaries					5.3	−0.8	4.5	−2.8	1.7
Dividends						−401.7	−401.7	−0.4	−402.1
Purchase of treasury shares			−85.6				−85.6		−85.6
Sales of treasury shares			1.1			0.4	1.5		1.5
Share-based compensation						3.9	3.9		3.9
Shareholders' equity at Dec. 31, 2007	83.0		−165.8	403.9	535.7	176.6	1,033.4	2.0	1,035.4
Shareholders' equity at Jan.1, 2008	83.0		−165.8	403.9	535.7	176.6	1,033.4	2.0	1,035.4
Available-for-sale investments				−10.4			−10.4		−10.4
Items recognised directly in equity				−10.4			−10.4		−10.4
Profit for the period						176.3	176.3	0.7	177.0
Total recognised income and expense for the period				−10.4		176.3	165.9	0.7	166.6
Capital repayment					−284.9		−284.9		−284.9
Dividends							0.0	−1.1	−1.1
Purchase of treasury shares			−43.3				−43.3		−43.3
Share-based compensation			7.1			−4.8	2.3		2.3
Shareholders' equity at Dec. 31, 2008	83.0		−202.0	393.5	250.8	348.1	873.4	1.6	875.0

Notes to the consolidated financial statements

Basic information on the company

The Elisa Group engages in telecommunications activities, providing data communications services in Finland and select international market areas. The parent company of the Group is Elisa. The domicile of the parent company is Helsinki, and its registered address is Ratavartijankatu 5. The shares of the parent company, Elisa, have been listed on the NASDAQ OMX Helsinki since 1999.

A copy of the consolidated financial statements is available from Elisa's head office at Ratavartijankatu 5, Helsinki, or on the company's website www.elisa.com.

Accounting principles

Basis for accounting

Elisa's consolidated financial statements have been prepared according to the International Financial Reporting Standards, the IAS and IFRS standards and the SIC and IFRIC interpretations valid on 31 December 2008 have been followed in their preparation. The International Financial Reporting Standards refer to standards and interpretations that have been approved for application in the EU in the Finnish Accounting Act and the provisions issued pursuant to it according to the procedures provided for in EU regulation (EC) No. 1606/2002. The Group adopted the IFRS standards for its reporting in 2005.

The financial statement information is based on original acquisition costs, except for investments available for sale, financial assets and liabilities recognised at fair value through profit or loss, share-based payments and derivatives. In the case of business combinations taking place before 2004, the goodwill corresponds to the book value according to the previous financial statements regulations that have been used as the default acquisition cost according to IFRS. The financial statements are presented in EUR million.

As of 1 January 2008 International Accounting Standards Board (IASB) has not issued and European Union adopted new standards, amendments and interpretations relevant to the Group.

The preparation of consolidated financial statements according to the IFRS standards requires the Group management to make estimates and exercise discretion in the application of accounting principles. The estimates and assumptions used are based on the best current view, but it is possible that the realisations differ from the values used in the financial statements. The estimates and assumptions are primarily related to the useful lives of tangible and intangible assets and impairment testing.

Subsidiaries

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

Subsidiaries are consolidated from the time of acquisition. Similarly, divested companies are consolidated on the day of disposal.

The acquisition cost method is used in the elimination of internal ownership. All intra-group transactions, balances and gains on transactions between Group companies have been eliminated.

The profit for the financial year to the shareholders of the parent company and minority interests is presented separately in the income statement, and the share of the minority interest in shareholders' equity is presented as its own component in the consolidated balance sheet.

The acquisition of minority interests is subject to the principle of standard IFRS 3 Business Combinations.

Associates

Associated companies are companies where the Group exercises a considerable influence. A considerable influence is realised when the Group has more than 20 per cent of the voting rights or when the Group otherwise exercises a considerable influence but not authority. Associated companies are consolidated using the equity method. If the Group's share in the loss of an associated company exceeds the holding in the associated company, the investment is recognised on the balance sheet at zero value and any loss in excess of it is not recognised unless the Group has other obligations related to the associated company. Associated companies are consolidated from the day the company becomes an associate. Similarly, divested companies are consolidated on the date of disposal.

Joint ventures

Joint ventures are companies where the Group exercises joint authority with other parties. The asset items under joint authority are consolidated using the proportional consolidation method. Elisa applies the method to the consolidation of mutual real estate companies.

Conversion of items denominated in a foreign currency

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

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

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

Notes to the consolidated financial statements

Recognition principles

Revenue includes normal sales income from business operations deducted by taxes related to sales and discounts granted. Sales are recognised once the service has been rendered to the customer or once the significant risks and benefits related to the ownership of the goods have been transferred to the buyer. Income from services is recognised when it is probable that economic benefit will arise to the Group and when the income and costs associated with the transaction can be reliably determined.

The consolidated revenue consists mainly of voice and data traffic income, periodic fees, opening fees and maintenance fees, as well as equipment sales income. Sales are recognised as income once the service has been rendered either on the basis of realised traffic volumes or the validity of a contract. Opening fees are recognised at connection time. The sales of prepaid mobile phone cards are recognised in accordance with the estimated use of the cards. Service fees invoiced from a customer on behalf of a third-party content service provider are not recognised in income.

A service contract may include the delivery or rendering of a product and a service or access right (service bundle). The share attributable to the device is recognised separately from the service.

Long-term service contracts covering a wide range of communications services for corporate customers are recognised over the term of the contract. Customers are usually not entitled to redeem the equipment at the expiry of a service contract.

Customers belonging to loyalty programmes are entitled to certain discounts on services and products provided by Elisa. The discounts earned by customers are recognised as the deductions of income.

Research and development

Research costs are booked as expenses on the income statement. Product development expenses are recognised on the balance sheet from the date the product is technically feasible, it can be utilised commercially and future economic benefit is expected from the product. In other cases, development costs are recorded as an expense. Development costs previously recognised as expenses are not capitalised later.

Income taxes

The tax expenses in the income statement include current taxes and deferred taxes. The taxes for the financial year are calculated from the taxable profit according to the valid tax rate and are adjusted by the possible taxes related to previous financial years.

Deferred taxes are calculated from all temporary differences arising between carrying amount in consolidated financial statement and tax bases of assets and liabilities. Principal temporary differences arise from tax losses carried forward, depreciation difference and the measurement at fair value in subsidiary acquisitions. Deferred tax is not recognised for value adjustments of goodwill not deductible in taxation. Deferred tax is not recognised for non-distributed profits of subsidiaries insofar as the difference is not likely to be discharged in the foreseeable future. Deferred tax is not recognised for differences in the valuation of shares on which any sales gains are not taxable.

A deferred tax asset has been recognised in the amount that it is likely that taxable income will be generated in the future against which the temporary difference can be utilised.

Interest and dividends

Interest income is recognised using the effective interest method, and dividend income is recognised once the dividend has become vested.

Intangible Assets

Goodwill

That part of the acquisition cost of subsidiaries exceeding shareholders' equity that has not been allocated to asset items acquired is presented as goodwill. In the case of business combinations taking place before 2004, the goodwill corresponds to the book value according to the previous financial statements regulations that have been used as the default acquisition cost according to IFRS. The IFRS 3 Business Combinations standard is applied to acquisitions made after 1 January 2004. The assets, liabilities and conditional liabilities of the company to be acquired that can be itemised are measured at fair value on the acquisition date. Goodwill is the amount by which the acquisition cost of the subsidiary exceeds the fair net value of assets, liabilities and conditional liabilities that can be itemised.

No amortisation is performed on goodwill, but it is tested annually for impairment. For the purpose of testing, goodwill is allocated to cash-generating units that include Saunalahti, Mobile communications and Fixed network. The Saunalahti CGU (cash-generating unit) comprises mobile and fixed network services offered to Saunalahti customers. The Mobile communications CGU comprises mobile voice and data communications services offered to Elisa's consumer, corporate and operator customers. The Fixed network CGU comprises fixed-network voice and data communications services offered to Elisa's consumer, corporate and operator customers. Goodwill is valued at original acquisition cost deducted by impairment.

Other intangible assets

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

In connection with the acquisition of business operations, 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 life.

Amortisation periods for intangible assets:

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

Property, plant and equipment

Property, plant and equipment are recognised in the balance sheet at original acquisition cost. Property, plant and equipment are measured on the balance sheet at acquisition cost less accumulated depreciation and impairment. Depreciation is calculated on the basis of useful life as straight-line depreciation from the original acquisition cost. The residual value of the assets and their useful lives are reviewed at the closing of the accounts and adjusted as necessary.

Costs arising later, such as the costs of renovation and refurbishment projects, are capitalised when it is probable that future economic benefit will flow to the Group. Ordinary repair, service and maintenance costs are booked as expenses in the financial year during which they arise. Interest during building is not capitalised in property, plant and equipment.

Depreciation periods for property, plant and equipment:

Buildings and structures	25–40 years
Machinery and equipment in buildings	10–25 years
Telecommunications network (line, backbone, area, connection, cable TV)	8–15 years
Exchanges and concentrators (fixed and mobile core)	6–10 years
Equipment for the network and exchanges	3–8 years
Telecommunication terminals (rented to customers)	2–5 years
Other machines and equipment	3–5 years

No depreciation is made on land areas.

Public government grants

Government grants related to the acquisition of property, plant and equipment, have been recognised as a deduction in the book value of property, plant and equipment. The grants are recognised as income in the form of smaller depreciations over the useful life of the asset.

Grants for product development projects and the like are recognised under other operating income when the product development costs are recognised as annual expenses. Grants associated with capitalised product development costs reduce the capitalised acquisition cost.

Financial assets and liabilities

Financial assets

The Group's financial assets are classified according to standard IAS 39 Financial Instruments: Recognition and Measurement, upon which financial assets are classified as financial assets recognised at fair value through profit or loss, loans and other receivables, and financial assets available for sale. This classification takes place on the basis of the purpose of the acquisition of the financial assets and they are classified at initial recognition. The purchases and sales of financial assets are recognised on the settlement date. Financial assets are taken off the balance sheet once the Group loses a contractual right to the cash flow or once it has transferred a substantial part of the risks and gains outside the Group.

Financial assets recognised at fair value through profit or loss are included in current assets. This category includes money market funds and commercial paper. Investments in money market funds consist of funds that make investments in high-quality euro-denominated fixed income securities issued by enterprises and public corporations operating in the European Economic Area. Commercial paper consists of debt securities issued by Finnish companies with a good credit rating. Both realised and unrealised gains and losses due to changes in fair value are recognised on the income statement in the financial year during which they arise.

Derivatives are recognised on the balance sheet as financial assets or liabilities upon acquisition and are measured at acquisition cost. Outstanding derivatives are measured at fair value on each closing of the accounts, and their earnings effect is immediately recognised in financial items on the income statement. The fair value used for derivatives is the quoted market price or, if this is not available, the value is calculated using commonly applied valuation methods. Elisa Group has not applied hedge accounting.

Loans and other receivables are valued at amortised acquisition cost and are included in current and non-current financial assets – in the latter if they fall due within more than 12 months. In addition to loan receivables, the category includes accounts receivable and other receivables. Accounts receivable are recognised at the original invoiced amount. The Group recognises an impairment loss on accounts receivable if payment is delayed by more than 90 days or if a sales receivable has been determined as finally lost. To the extent that accounts receivable are sold, the impairment loss is reduced.

Investments available for sale are included in non-current assets. Equity investments, excluding investments in associated companies and mutual real estate companies, are classified as available for sale and are generally measured at fair value. Unlisted equities for which their values cannot be measured reliably are reported at acquisition cost less impairment. Available for sale investments are fair valued either on the basis of the value of comparable companies, the discounted cash flow method or by using quoted market rates. Changes in the fair value of available for sale investments are recognised in shareholders' equity. When an investment is disposed, accumulated changes in fair value are released from shareholders equity and recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, short-term bank deposits and other short-term highly liquid investments with maturity at most three months.

Financial liabilities

Financial liabilities are initially recognised at an amount equal to proceeds received net transaction costs incurred. Later, financial liabilities are measured by the effective interest method at amortised cost. Financial liabilities are separated in non-current and current liabilities and they may be interest-bearing or interest-free.

Notes to the consolidated financial statements

Impairment

Elisa assesses whether there are any indications towards the impairment of an asset item at the time of closing the accounts. If there are such indications, the amount recoverable from the asset item in question is assessed. The recoverable amount is also annually assessed for the following asset items, regardless of whether there are indications of impairment or not: goodwill and incomplete intangible assets. The Group does not have any intangible assets with an indefinite useful life. The need for impairment is examined at the level of cash-generating units.

The recoverable amount is the fair value of the asset item less the costs incurred for assignment, or the service value if it is higher. Service value refers to estimated future net cash flow that can be received from an asset item or a cash-generating unit discounted to present value. An impairment loss is recognised when carrying amount exceeds its recoverable amount. An impairment loss is recognised immediately. If an impairment loss is allocated to a cash-generating unit, it is first allocated to reduce the goodwill allocated to the cash-generating unit and after this to the other asset items of the unit in equal proportions. An impairment loss is cancelled if there are indications that a change in circumstances has taken place and the recoverable amount from the asset has changed since the impairment loss was recognised. However, an impairment loss is never cancelled by more than the original amount of impairment. An impairment recognised as goodwill is not cancelled in any situation.

Inventories

Inventories are stated at the lower of cost or net realisable value. A weighted average price is used in determination of cost.

Treasury shares

Elisa shares owned by the parent company (treasury shares) are reported as deduction from equity.

Provisions

A provision is recognised when the company has an existing (legal or factual) obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation and reliable estimate of the amount can be made. A restructuring provision is recognised once the Group has prepared a detailed restructuring plan and disclosed it.

Employee Benefits

Pension obligations

Pensions are classified as either defined contribution or defined benefit plans. In a defined contribution plan, the Group has no legal or factual obligation to pay any additional premiums if the party receiving the premiums is unable to pay the pension obligations in question. The premiums for defined contribution pension plans are recognised as expenses on the income statement of the financial year during which they arise. All arrangements that do not fulfil these conditions are considered defined benefit plans.

Actuarial gains and losses exceeding 10 per cent of total of the present value of defined benefit obligations or the fair value of plan assets (which ever is higher) are recorded in the income statement over the employees' excepted average remaining working lives. The liability recognised in the balance sheet is defined benefit obligation at the closing date less the fair value of plan assets, the share of unrecognised actuarial gains and losses, and past service costs.

Performance-based bonus scheme and personnel fund

All personnel are included in a performance or commission-based bonus scheme. Elisa also has a personnel fund. The costs for the performance-based bonus scheme and personnel fund are recognised in accordance with the accrual principle based on the best available estimate of realised amounts.

Share-based incentives

Elisa has a share-based incentive system with the aim of making top management commit to the long-term development of the company's value. Any rewards will be based on the accomplishment of the targets set. The share-based incentive system is measured at fair value at the time of granting and allocated over the vesting period. The proportion settled in shares is recognised in equity, while the proportion settled in cash is recognised as a liability. Elisa estimates the realised number of shares on the basis of the share price at the closing date. The returns on the plan for the remaining vesting period are estimated using the CAP model. If the assumption of the realised number of shares changes, an adjustment is made through profit and loss. The fair value of the portion settled in cash shall be reassessed on each balance sheet date until the end of the vesting period. Transfer restrictions related to the scheme are not taken into account in fair valuation or expense recognition. The scheme does not involve any other terms and conditions not based on market terms.

Stock options

On 18 December 2007, Elisa's Board of Directors decided to grant stock options to the Group's key employees and a fully-owned subsidiary of Elisa Corporation. The grant date was in January 2008, which means that no entries related to the scheme were made in the 2007 financial statements.

Stock options are measured at fair value at the time of granting and are recognised as expenses on the income statement in equal instalments allocated over the period between the time of granting to the time when the right arises. The expense determined at the time of granting is based on the Group's assessment of the number of options that are expected to become vested at the end of the vesting period. The fair value of options is determined on the basis of the Black-Scholes option pricing model. Estimates of the final number of options are updated on each balance sheet date, and the effects of changes in these estimates are recognised in the income statement. When options are exercised, monetary payments received for share subscriptions adjusted by any transaction costs shall be recognised in the reserve for invested non-restricted equity in accordance with the terms and conditions of the scheme.

Leases

Leases where the risks and benefits related to ownership remain with the lessor are classified as operating leases. Lease payments on operating leases are recognised as expenses in the income statement on a straight-line basis over the lease term.

Notes to the consolidated financial statements

Leases on tangible assets in which the Group has substantially all risks and rewards of ownership are classified as finance leases. Assets acquired on finance leases are recognised in the balance sheet at the beginning of the lease period at the fair value of the leased asset, or the present value of minimum rents if lower. Assets acquired on finance leases are depreciated over the useful life of the asset, or the lease period if shorter. Payable leasing rents are divided into financial expenses and the reduction of the liability over the lease period so that the interest rate on the liability remaining in each financial year is equal. Leasing obligations are recognised in interest-bearing liabilities. The company has adopted the interpretation IFRIC 4 Determining Whether an Arrangement Contains a Lease since the preparation of the IFRS comparison data for 2004.

The Group has primarily leased telecommunications networks and facilities and IT servers through finance leases.

Use of estimates

When financial statements are prepared, it is necessary to make estimates and assumptions whose result may deviate from the estimates and assumptions made. In addition, it is necessary to exercise discretion in the application of the accounting principles. The estimates are based on the management's best view at the time of closing the accounts. Any changes in estimates and assumptions are recognised in the financial year during which the estimate or assumption is adjusted and in all subsequent financial years.

Impairment testing

Goodwill and unfinished intangible assets are tested for impairment annually and as necessary when there are indications of such. The recoverable amounts from cash-generating units are determined by calculations based on service value, the preparation of which requires estimates and assumptions. The largest uncertainties are associated with the estimated level of revenue and profitability, investment needs and the discount interest rate. Any changes may lead to the recognition of impairment losses.

Share incentive plans

The expense recognition for the share incentive plans is based on an estimate of the realisation of the share incentive plan criteria and the development of the Elisa share price as well as the calculated value of the granting date of the option. The estimate may deviate from the actual total return for the period. See Note 27.

Income and expenses

The measurement and allocation of income and expenses to the correct financial period is partially based on experienced assessments.

Taxes

Particularly in connection with the closing of the accounts, the Group estimates the probability of subsidiaries accruing taxable income against which unused tax-deductible losses can be utilised. The grounds for recognising other deferred tax assets are also estimated in connection with the closing of the accounts. Changes in the forecast estimates may lead to the recognition of substantial tax expenses.

Guarantee liability

Elisa has provided a guarantee related to the CDO derivative. The movements in the international money market has increased the risk of the quarantee. See Note 33.

New accounting pronouncements under IFRS

On 1 January 2009, Elisa will adopt the following new or amended standards and new interpretations, if they are approved by the EU by the planned date of adoption.

IFRS 8 Operating Segments will change the Group's segment structure and reporting substantially. From the start of the year 2009 the new segments are Consumer customers and Corporate customers.

Revised IAS 23 Borrowing Costs. The amendment concerns the capitalisation of borrowing costs as part of the acquisition cost of an asset. According to the Group's clarification, the amendment will not substantially affect the Group's upcoming financial statements.

Revised IAS 1 Presentation of Financial Statements. The amendments concerning the income statement, balance sheet and presentation of equity will affect the presentation of consolidated financial statements.

Revised IFRS 2 Share-based Payment. The amendment will not change the Group's recognition practice.

IFRIC 13 Customer Loyalty Programmes. According to the Group's clarification, the amendment will not change the Group's recognition practice.

IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The Group will adopt the revised IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements when they come into force.

Notes to the consolidated financial statements

1. Segment information

In accordance with IAS 14, business segments are defined as the Group's primary reporting segments and geographical segments as secondary. Pricing of inter-segment transactions is based on fair value.

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

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

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

Other business involves non-core business activities.

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

The geographical segments are Finland, Rest of Europe and Other countries. The revenue for the geographical segment is presented on the basis of the customer's country. The assets and liabilities are presented by country.

Business segments

2008 EUR million	Mobile communications	Fixed network	Unallocated items	Eliminations	Group total
External sales	904.6	580.4			1,485.0
Inter-segment sales	14.7	34.8		–49.5	0.0
Revenue	919.3	615.2		–49.5	1,485.0
EBITDA	266.3	208.7	–3.4		471.6
EBIT	150.5	117.5	–3.5		264.5
Financial income and expense					–36.9
Share of associated companies' profit					0.0
Profit before tax					227.6
Investments in associated companies			0.1		0.1
Total assets	1,398.7	528.5	103.3		2,030.5
Total liabilities	141.6	137.2	876.7		1,155.5
Investments	105.1	78.8			183.9
Depreciation	115.8	91.2	0.1		207.1
Personnel at year-end	1,271	1,710	36		3,017

2007 EUR million	Mobile communications	Fixed network	Unallocated items	Eliminations	Group total
External sales	959.7	608.7			1,568.4
Inter-segment sales	20.2	33.5		–53.7	0.0
Revenue	979.9	642.2		–53.7	1,568.4
EBITDA	299.5	206.0	–6.1		499.4
EBIT	194.8	113.4	–6.2		302.0
Financial income and expense			–16.8		–16.8
Share of associated companies' profit					0.0
Profit before tax					285.2
Investments in associated companies			0.1		0.1
Total assets	1,516.6	571.9	87.1		2,175.6
Total liabilities	174.9	162.3	803.0		1,140.2
Investments	92.8	113.6			206.4
Depreciation	104.7	92.6	0.1		197.4
Personnel at year-end	1,252	1,727	36		3,015

Geographical segments

2008 EUR million	Finland	Rest of Europe	Other countries	Eliminations	Group total
Revenue	1,342.3	150.7	5.1	–13.1	**1,485.0**
Total assets	1,960.6	69.9			**2,030.5**
Investments	168.7	15.2			**183.9**

2007 EUR million	Finland	Rest of Europe	Other countries	Eliminations	Group total
Revenue	1,406.0	170.2	7.9	–15.7	1,568.4
Total assets	2,115.8	59.8			2,175.6
Investments	193.5	12.9			206.4

2. Acquisitions

Acquisitions in 2008

The Group did not make any significant acquisitions in 2008.

Acquisition of Kuntokompassi Oy, Electur Oy, Doneto Oy and Elisa Links Oy in 2008

Elisa acquired 50,98 per cent of Kuntokompassi Oy in February 2008. Kuntokompassi is a Finnish fitness training company founded in year 2000. Kuntokompassi was consolidated with the Group since February 2008. The new name for the company is Excenta Oy.

Elisa acquired all shares of Electur Oy in June 2008. Electur was founded in year 2001 and it's core business consists of identity management, one-off registration and entry management. Electur Oy was consolidated with the Group since July 2008.

Elisa acquired all shares of Doneto Oy in October 2008. Doneto Oy's business comprise contact centre services. Doneto Oy was consolidated with the Group since November 2008.

Elisa acquired all shares of Telenor Oy in November 2008. The new name for the company is Elisa Links Oy. Elisa Links Oy's business comprises customers, services and network in Finland. Elisa Links was consolidated with the Group since February 2008.

If the acquisitions had been made as of the beginning of the financial period 2008, it would not have had any major impact in Group's revenue or earnings for the period.

Components of acquisition cost

EUR 1.2 million of the acquisition costs in 2008 was allocated to immaterial rights, and EUR 0.5 million to the customer base. The business combinations resulted in goodwill of EUR 4.6 million and in negative goodwill of EUR 1.3 million. The negative goodwill has been recognised within the acquisition as other operating income. The goodwill resulted from the purchase of know-how.

EUR million	
Cash paid	6.0
Fair value of issued shares	0.1
Total cost of acquisition	6.1
Fair value of net assets acquired	2.8
Goodwill	3.3

Analysis of net assets acquired	Recognised fair values	Book values before consolidation
Cash and cash equivalents	1.7	0.0
Intangible Assets	0.7	0.7
Tangible assets	2.1	2.1
Receivables	0.7	0.7
Liabilities	–2.4	–1.9
Net assets acquired	2.8	1.6

Effects of acquisitions on cash flow

Cash paid	–3.0
Expenses allocated to the acquisition	–0.1
Cash and cash equivalents of the acquired subsidiary	0.7
Cash flow	–2.4

Acquisitions in 2007

The Group did not make any significant acquisitions in 2007.

Acquisition of First Orange Oy in 2007

Elisa acquired all shares of First Orange Contact Oy from its executive management and Aura Capital Oy in February 2007. First Orange Contact Oy was a Finnish software house that designed, implemented and sold systems and services for contact control and management. First Orange Contact Oy was consolidated with the Group since February 2007 and merged with the parent company on August 31, 2007. If the acquisition had been made as of the beginning of the financial period 2007, it would not have had any major impact in Group's revenue or earnings for the period.

Acquisition of a minority in Lounet Oy in 2007

At the beginning of 2007, Elisa's holding in Lounet Oy was 80.2 %. As a consequence of additional purchases during the year and a merger plan approved by Lounet Oy's General Meeting and Elisa's Board of Directors on July 5, 2007, the holding increased to 100 %. According to the merger plan, new Elisa shares were issued to Lounet shareholders. 0.07 Elisa shares were issued in exchange for each Lounet share. In the acquisition, the issued shares were measured at the share price of 28 September 2007. The merger was registered on September 30, 2007.

Lounet Group constituted the parent company Lounet Oy and its subsidiaries Lounet Oy Call Center, Kiinteistö Oy Paimion Puhelimenkulma and Kiinteistö Oy Brahenkartano. Lounet Oy was engaged in telecommunications operations in Southwest Finland and southern Satakunta, focusing on the Turku region. The company's service and product range covered all of the telecommunications needs of households and businesses.

Components of acquisition cost

EUR 5.1 million of the acquisition costs in 2007 was allocated to acquired technology, and EUR 1.0 million to the customer base. The business combinations resulted in goodwill of EUR 1.1 million.

EUR million	
Cash paid	5.2
Fair value of issued shares	5.3
Total cost of acquisition	10.5
Fair value of net assets acquired	9.4
Goodwill	1.1

Analysis of net assets acquired	Recognised fair values	Book values before consolidation
Cash and cash equivalents	2.3	2.3
Intangible Assets	6.1	0.0
Tangible assets	3.5	3.2
Receivables	0.8	0.8
Liabilities	–3.3	–2.0
Net assets acquired	9.4	4.3

Effects of acquisitions on cash flow

Cash paid	–4.4
Cash and cash equivalents of the acquired subsidiary	0.5
Cash flow	–3.9

3. Disposals

Disposals in 2008 and 2007

There were no disposals in 2008 and 2007.

4. Revenue

EUR million	2008	2007
Rendering of services	1,403.3	1,467.1
Sale of goods	81.7	101.3
Total revenue	1,485.0	1,568.4

Notes to the consolidated financial statements

5. Other operating income

EUR million	2008	2007
Gain on disposals of property, plant and equipment	0.7	14.6
Gain on disposal of shares		0.1
Public subsidies	0.3	0.5
Others [1]	5.5	5.8
Total	6.5	21.0

[1] Other income items includes rental income of real estate, received indemnities, mixcellaneous other operating income and negative goodwill resulted from acquisition.

6. Materials and services

EUR million	2008	2007
Purchases of materials, supplies and goods	118.4	148.3
Change in inventories	6.6	9.8
External services	527.4	548.9
Total	652.4	707.0

7. Employee expenses

EUR million	2008	2007
Salaries and wages	130.3	139.2
Share-based compensation expenses	0.6	9.2
Pension expenses – defined contribution plans	20.9	21.9
Pension expenses – defined benefit plans	0.1	0.5
Other statutory employee costs	10.6	10.4
Total	162.5	181.2

A more detailed analysis of defined benefit plans are shown in Note 28, Pension obligations.

Management remuneration

EUR million	2008	2007
Managing Directors and deputies [1]	0.9	2.0
Members and deputy members of Boards of Directors	0.5	0.5

[1] The salary cost includes EUR –0.0 million of share-based compensation expenses in 2008 (EUR 0.8 million).

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

Personnel of the Group on average	2,946	3,299

Employment benefits for key management

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

EUR million	2008	2007
Board of Directors	0.5	0.5
Managing Director	0.7	0.8
Executive Board	1.4	2.3
Termination benefits		0.4
Share-based compensation expenses [1]	–0.4	5.0
	2.2	9.0

[1] The share-based compensation expenses in 2008 is EUR –0.5 million (EUR 9.2 million), of which EUR –0.4 million (EUR 5.0 million) is allocated to the CEO and Executive Board. The terms and conditions of share-based incentive plans are described under Note 27, Share-based payments.

Management remuneration is descibed under parent company's Note 4, Personnel expenses.

The period of notice for the CEO is six months from Elisa's side and three months from the CEO's side. Should the contract be terminated by Elisa, the Chief Executive Officer is entitled to receive a severance payment equalling the total salary of 24 months minus his salary of the period of notice. The period of notice for other members of the Executive Board is six months from Elisa's side. Besides the salary of the period of notice the members of the Executive Board are entitled to receive the severance payment equalling the total salary of 9 months.

Elisa's CEO is entitled to retire at the age of 60 on the basis of supplementary pension insurance. Other members of the Executive Board are entitled to retire at the age of 62 on the basis of group supplementary pension insurance.

Share-based compensation granted to the management
The maximum award granted for the Executive Board within the share-based compensation 2009 equals 350,000 shares, of which 80,000 shares is the maximum award of the CEO.

Elisa shares held by the key management
The members of Elisa's Board of Directors, the CEO, the members of the Executive Board and their family members held a total of 211,978 shares and votes, corresponding to 0.13% of all shares and votes.

Employee bonus and incentive schemes

Performance-based bonus scheme

All personnel is included in performance, incentive or commission-based bonus scheme. Rewards are based on the financial and operational metrics of the Elisa and units. Targets are set and the maximum amount of reward is confirmed semiannually. Some of the Group's key personnel were within the share-based compensation and stock option plan in 2008.

Personnel fund

The objective of the personnel fund is to secure the commitment of the personnel to Elisa's long-term objectives and to reinforce their interest in the company's financial success and its metrics.

The evaluation tool for the performance-based bonus system is the adjusted earnings per share (EPS), based on Elisa Group's audited performance and calculated in the manner defined by the Board of Directors. The Board of Directors makes annual decisions on the performance-based bonus scheme and defines the values that determine the reward amount.

The members of the personnel fund are the employees of Elisa except the Group's key personnel, who are within some other rewarding scheme.

There were no bookings in the personnel fund on the basis of the 2008 earnings (EUR 4.3 million in 2007).

Share-based incentive plan

On 18 December 2008, Elisa's Board of Directors decided on a share-based incentive plan for key personnel for 2009–2011. At the same time the share incentive plan for 2006 was reversed. The plans are described under Note 27, Share-based payments.

Stock option plan

On December 18, 2007, Elisa's Board of Directors decided to offer a maximum of 2,550,000 stock options for subscription by Elisa Group's key personnel and a fully-owned subsidiary of Elisa Corporation. The plan is described in detail under Note 27, Share-based payments.

8. Research and development costs

EUR million	2008	2007
Research and development costs recognised as expenses	8.4	7.5
Capitalised development costs	2.5	0.0

Focal areas for research and development in 2008 included service solutions improving the efficiency of mobile work and availability, as well as new service opportunities related to the home digitalization, health and positioning ability of the mobile network.

9. Depreciation and amortisation

EUR million	2008	2007
Amortisation of intangible assets		
Customer base	14.7	14.5
Other intangible assets	28.5	24.0
Total	43.2	38.5
Depreciation of tangible assets		
Buildings and constructions		
Owned buildings and constructions	8.7	8.5
Buildings and constructions on finance lease	0.4	0.7
Telecom devices, machines and equipment		
Owned telecom devices, machines and equipment	150.3	141.3
Assets on finance lease	3.4	6.9
Other tangible assets	1.1	1.5
Total	163.9	158.9
Total depreciation and amortisation	207.1	197.4

No impairments were made on the assets in 2007–2008.

10. Auditor's fee

EUR million	2008	2007
Auditing	0.2	0.2
Tax advisory services	0.0	0.1
Other services	0.8	0.5
	1.0	0.8

11. Financial income and expense

EUR million	2008	2007
Financial income		
Dividend income from available-for-sale investments	1.0	1.2
Interest and financial income from loans and other receivables	2.3	3.2
Interest and financial income from assets recognised at fair value through profit or loss	0.4	2.0
Interest income from derivatives	7.1	6.0
Financial income from QTE arrangement	2.7	1.3
Other financial income	0.6	0.3
Gain on disposals of available-for-sale investments		13.2
Gains/losses of financial assets at fair value through profit or loss, derivatives not in hedge accounting	3.0	0.7
Total	17.1	27.9

EUR million	2008	2007
Financial expense		
Interest expenses on financial liabilities measured at amortised cost	–44.3	–34.1
Other financial expenses on financial liabilities measured at amortised cost	–1.2	–0.4
Interest expenses on derivatives	–7.7	–5.9
Financial expense from QTE arrangement	–0.3	–0.2
Other interest expenses	–0.4	
Other financial expenses	–0.1	–1.1
Gains/losses of financial liabilities at fair value through profit or loss, derivatives not in hedge accounting		–3.0
Total	–54.0	–44.7

Exchange rate gains and losses included in EBIT have been minimal.

12. Income taxes

EUR million	2008	2007
Taxes for the period	–50.9	–63.7
Taxes for previous periods	–0.8	–0.4
Deferred taxes	1.1	–0.4
Deferred taxes for previous periods		–0.4
Total	–50.6	–64.9

Reconciliation of the tax expense in the income statement and taxes calculated at the statutory tax rate (26%) in the Group's country of incorporation:

EUR million	2008	2007
Profit before tax	227.6	285.2
Tax according to the domestic tax rate	–59.2	–74.2
Tax effects of the following:		
Tax-free gains/losses on the disposal of shares	1.8	3.5
Non-deductible expenses	–0.2	–0.8
Tax effects of foreign subsidiaries	7.0	6.6
Other items	0.8	0.8
Taxes for previous periods	–0.8	–0.8
Taxes in the income statement	–50.6	–64.9
Effective tax rate	22.2 %	22.8 %

13. Earnings per share

Undiluted earnings per share are calculated by dividing the profit for the period attributable to the equity holders of the parent by the weighted average number of shares outstanding during the financial year.

	2008	2007
Profit for the period attributable to the equity holders of the parent (EUR million)	176.3	219.8
Weighted average number of shares during the financial year (1,000)	157,450	159,417
Undiluted earnings per share (EUR/share)	1.12	1.38

The calculation of earnings per share adjusted for dilution takes the diluting effect of the conversion of all potential ordinary shares into account in the weighted average number of shares. The Group does not have any instruments that would increase the number of ordinary shares.

	2008	2007
Profit for the period attributable to the equity holders of the parent (EUR million)	176.3	219.8
Profit for the period for the purpose of calculating EPS adjusted for dilution (EUR million)	176.3	219.8
Weighted average number of shares during the financial year (1,000)	157,450	159,417
Weighted average number of shares for the purpose of calculating EPS adjusted for dilution (1,000)	157,450	159,417
Earnings per share adjusted for dilution (EUR/share)	1.12	1.38

14. Property, plant and equipment

2008 EUR million	Land and water areas	Buildings and constructions	Machinery and equip-ment	Other tangible assets	In progress and pre-payments	Total
Acquisition cost at Jan 1, 2008	6.3	185.9	1,913.1	36.7	29.8	2,171.8
Additions	0.2	6.5	128.8		23.3	158.8
Acquisitions of subsidiaries			0.8			0.8
Disposals		–0.8	–10.4			–11.2
Reclassifications	0.1	3.8	20.8		–24.6	0.1
Acquisition cost at Dec 31, 2008	6.6	195.4	2,053.1	36.7	28.5	2,320.3
Accumulated depreciation and impairment at Jan 1, 2008		61.7	1,440.9	31.9		1,534.5
Depreciation		9.1	153.7	1.1		163.9
Accumulated depreciation on disposals and reclassifications		–0.5	–8.1			–8.6
Accumulated depreciation and impairment at Dec 31, 2008		70.3	1,586.5	33.0		1,689.8
Book value at Jan 1, 2008	6.3	124.2	472.2	4.8	29.8	637.3
Book value at Dec 31, 2008	6.6	125.1	466.6	3.7	28.5	630.5

2007 EUR million	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	In progress and pre-payments	Total
Acquisition cost at Jan 1, 2007	6.5	208.0	1,765.2	36.5	46.4	2,062.7
Additions	0.1	9.4	133.3	0.1	28.1	171.0
Disposals	–0.4	–39.1	–22.4			–61.9
Reclassifications	0.1	7.6	37.0	0.1	–44.7	0.1
Acquisition cost at Dec 31, 2007	6.3	185.9	1,913.1	36.7	29.8	2,171.8
Accumulated depreciation and impairment at Jan 1, 2007		73.9	1,312.8	30.5		1,417.2
Depreciation		9.2	148.2	1.5		158.9
Accumulated depreciation on disposals and reclassifications		–21.4	–20.1	–0.1		–41.6
Accumulated depreciation and impairment at Dec 31, 2007		61.7	1,440.9	31.9		1,534.5
Book value at Jan 1, 2007	6.5	134.1	452.4	6.0	46.4	645.5
Book value at Dec 31, 2007	6.3	124.2	472.2	4.8	29.8	637.3

Commitments to purchase property, plant and aquipment and intangible assets at 31 Dec. 2008 were EUR 2.3 million (2007: EUR 24.2 million). The additions in 2008 include EUR 4.7 million (2007: EUR 2.7 million) property, plant and equipment leased under finance lease agreements.

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

2008 EUR million	Buildings and constructions	Machinery and equipment	Total
Acquisition cost	17.4	89.4	106.8
Accumulated depreciation	2.3	82.0	84.3
Book value at Dec 31, 2008	15.1	7.4	22.5
2007			
Acquisition cost	17.4	88.9	106.3
Accumulated depreciation	1.9	80.8	82.7
Book value at Dec 31, 2007	15.5	8.1	23.6

15. Intangible assets

2008 EUR million	Goodwill	Customer base	Other intangible assets	In progress and pre-payments	Total
Acquisition cost at Jan 1, 2008	773.6	73.2	227.7	52.2	1 126.7
Additions	0.4		8.8	15.8	25.0
Acquisitions of subsidiaries	4.6	0.5	1.2		6.3
Reclassifications			28.5	–28.6	–0.1
Acquisition cost at Dec 31, 2008	778.6	73.7	266.2	39.4	1 157.9
Accumulated amortisation at Jan 1, 2008		32.5	126.1		158.6
Amortisation		14.7	28.5		43.2
Accumulated amortisation at Dec 31, 2008		47.2	154.6		201.8
Book value at Jan 1, 2008	773.6	40.7	101.6	52.2	968.1
Book value at Dec 31, 2008	778.6	26.5	111.6 [1)]	39.4	956.1

Notes to the consolidated financial statements

2007 EUR million	Goodwill	Customer base	Other intangible assets	In progress and pre-payments	Total
Acquisition cost at Jan 1, 2007	772.3	72.2	167.5	71.6	1,083.6
Additions			24.2	16.9	41.1
Acquisitions of subsidiaries	1.1	1.0			2.1
Disposals			–0.4		–0.4
Reclassifications	0.2		36.4	–36.3	0.3
Acquisition cost at Dec 31, 2007	773.6	73.2	227.7	52.2	1,126.7
Accumulated amortisation at Jan 1, 2007		18.0	102.9		120.9
Amortisation		14.5	24.0		38.5
Accumulated amortisation on disposals and reclassifications			–0.8		–0.8
Accumulated amortisation at Dec 31, 2007		32.5	126.1		158.6
Book value at Jan 1, 2007	772.3	54.2	64.6	71.6	962.7
Book value at Dec 31, 2007	773.6	40.7	101.6 [1]	52.2	968.1

[1] Includes IT software for a book value of EUR 78.2 million (EUR 58.6 million) and brand for a book value of EUR 27.3 million (31.2 million).

Impairment testing of goodwill

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

EUR million	2008	2007
Mobile communications	712.9	712.9
Fixed network	61.1	56.1
Saunalahti	4.6	4.6
Total	778.6	773.6

The Fixed network CGU corresponds to the fixed network business according to primary segment reporting. Mobile communications corresponds to the mobile communications business according to primary segment reporting without Saunalahti Group Plc, which as a legal company is a separate CGU.

Elisa does not have any other intangible assets with an unlimited useful life.

In impairment tests the recoverable amount of the segments is determined based on the value in use, which is calculated on the basis of projected discounted cash flows (DCF model). The cash flows projections are based on plans approved by the management covering a five-year period. The projections are mostly uniform with information from external sources and reflect actual development. The discount rate used is 12.69% to 14.21% depending on the segment. Cash flows after five years have been projected by estimating the change in future cash flows either as 0.5% or decreasing on a straight-line basis. As a result of the performed impairment tests, there is no need for impairment of the segments' goodwill. Use of the DCF model requires forecasts and assumptions concerning market growth, prices, volume development, investment needs and general interest rate. The major sensitivities in the performance are associated with the forecast revenue and profitability levels and investment needs.

Sensitivity analysis

	Mobile communications		Fixed network		Saunalahti	
Projection parameters applied	2008	2007	2008	2007	2008	2007
Amount in excess of book value, EUR million	1,325	1,456	368	202	93	288
EBITDA margin on average, % (*	38.7	39.3	34.2	28.2	9.2	17.4
Investments on average, % of revenue (*	9.2	8.9	17.2	16.1	0.7	1.3
Horizon growth, %	0.5	0.0	–2.0	–2.0	0.5	0.0
General interest rate level, %	3.9	4.3	3.9	4.3	3.9	4.3

*) On average during five-year projection period

Percentage change in crucial projection parameters that makes the fair value equal to book value (*	Mobile communications 2008	Mobile communications 2007	Fixed network 2008	Fixed network 2007	Saunalahti 2008	Saunalahti 2007
EBITDA margin on average, %	–16.2	–17.4	–7.5	–4.8	–4.4	–11.4
Investments on average, % of revenue	12.0	12.8	5.5	4.5	3.2	8.4
Horizon growth, %	–24.2	–32.0	–22.7	–7.0	–14.1	–335.0
General interest rate level, %	10.9	12.6	9.8	4.5	7.6	22.9

*) Change in a single parameter while the others remain unchanged

16. Associates and joint ventures

Associates

EUR million	2008	2007
At beginning of period	0.1	0.4
Share of associated companies' profit		0.0
Reclassifications		–0.2
Changes in corporate structure		–0.1
At end of period	0.1	0.1

Goodwill of associates on the balance sheet at Dec. 31, 2008 was EUR 0.1 million (EUR 0.1 million).

Elisa's holdings in associates are presented under Note 35, Related party transactions.

Joint ventures

At the end of 2008 Elisa had two mutual real estate companies, which have been consolidated corresponding to the Group's ownership interest. Elisa's holding in Kiinteistö Oy Paimion Puhelinkulma was 77 % and in Kiinteistö Oy Brahenkartano 60%.

17. Book values of financial assets and liabilities by measurement groups

2008 EUR million	Financial assets available for sale	Loans and receivables	Financial assets/ liabilities recognised at fair value through profit or loss (1	Financial liabilities measured at amortised cost	Book values	Fair values	Note
Non-current financial assets							
Available-for-sale investments	29.0				29.0	29.0	18
Receivables		11.4	1.0		12.4	12.4	19
Current financial assets							
Trade and other receivables		318.9			318.9	318.9	22
	29.0	330.3	1.0		360.3	360.3	
Non-current financial liabilities							
Interest-bearing liabilities				672.3	672.3	616.1	30
Other liabilities				14.0	14.0	14.0	31
Current financial liabilities							
Interest-bearing liabilities				172.3	172.3	172.3	30
Trade and other payables				255.5	255.5	255.5	31
				1,114.1	1,114.1	1,057.9	

1) Assets defined as such at initial recognition

2007 EUR million	Financial assets available for sale	Loans and receivables	Financial assets/ liabilities recognised at fair value through profit or loss [1]	Financial assets/ liabilities recognised at fair value through profit or loss [2]	Financial liabilities measured at amortised cost	Book values	Fair values	Note
Non-current financial assets								
Available-for-sale investments	30.9					30.9	30.9	18
Receivables		6.3		1.0		7.3	7.3	19
Current financial assets								
Trade and other receivables		454.6				454.6	454.6	22
Financial assets at fair value through profit or loss			2.7			2.7	2.7	23
	30.9	460.9	2.7	1.0		495.5	495.5	
Non-current financial liabilities								
Interest-bearing liabilities					627.3	627.3	616.1	30
Other liabilities				3.0	21.6	24.6	24.6	31
Current financial liabilities								
Interest-bearing liabilities					128.0	128.0	128.0	30
Trade and other payables					303.2	303.2	303.2	31
				3.0	1,080.1	1,083.1	1,071.9	

1) Held for trading
2) Assets defined as such at initial recognition

The fair values of each financial asset and liability item are presented in more detail at the specified note number.

18. Available-for-sale investments

EUR million	2008	2007
Publicly listed shares	9.9	20.3
Unlisted shares	19.1	10.6
Total	29.0	30.9

Changes in the fair value of listed shares EUR –10.4 million (EUR –4.9 million) have been recognised in equity.

19. Non-current receivables

EUR million	2008	2007
Loan receivable	0.1	0.1
Prepayments and accrued income	10.4	5.0
Derivatives	1.0	1.0
Other non-current receivables	0.9	1.2
Total	12.4	7.3

Derivatives are classified under Financial assets/liabilities recognised at fair value through profit or loss. Other non-current receivables are classified under Loans and receivables.

The effective interest rate on receivables (current and non-current) was 0 (0).

Notes to the consolidated financial statements

20. Deferred tax receivables and liabilities

The change in deferred tax receivables and liabilities during the 2008 is divided as follows:

Deferred tax receivables EUR million	1 Jan. 2008	Recognised in income statement	Reclassifi- cations	Recognised in equity	Acquired/ sold subsidiaries	31 Dec. 2008
Provisions	2.9	–1.3				1.6
Unused tax losses	7.1					7.1
Finance lease agreements	3.2					3.2
Negative depreciation difference	4.8	1.0				5.8
Internal margins	10.0	–1.1				8.9
Share-based incentive plan, part payable in cash	3.1	–1.8				1.3
Other temporary differences	0.6	–0.2				0.4
Total	31.7	–3.4				28.3

Deferred tax liabilities EUR million	1 Jan. 2008	Recognised in income statement	Reclassifi- cations	Recognised in equity	Acquired/ sold subsidiaries	31 Dec. 2008
Fair value measurement of tangible and intangible assets in acquisition	20.1	–5.3			0.4	15.2
Accumulated depreciation difference	13.3	0.8				14.1
Other temporary differences	1.5	0.1				1.6
Total	34.9	–4.4			0.4	30.9

The Group had EUR 5.8 million (EUR 5.8 million) of unused tax losses at December 31, 2008, which have not been recognised in tax receivables. These losses expire in 2009–2017. No tax liability has been recognised for the untaxed retained earnings of the Estonian subsidiary as no profit distribution decision or plans for profit distribution exist for the time being.

The change in deferred tax receivables and liabilities during the 2007 is divided as follows:

Deferred tax receivables EUR million	1 Jan. 2007	Recognised in income statement	Reclassifi- cations	Recognised in equity	Acquired/ sold subsidiaries	31 Dec. 2007
Provisions	2.5	0.2		0.2		2.9
Unused tax losses	10.8	–3.7				7.1
Finance lease agreements	3.2	0.3	–0.3			3.2
Negative depreciation difference	6.3	–1.5				4.8
Internal margins	10.2	–1.5		1.3		10.0
Share-based incentive plan	0.7	2.4				3.1
Other temporary differences		0.8	–0.2			0.6
Total	33.7	–3.0	–0.5	1.5		31.7

Deferred tax liabilities EUR million	1 Jan. 2007	Recognised in income statement	Reclassifi- cations	Recognised in equity	Acquired/ sold subsidiaries	31 Dec. 2007
Fair value measurement of tangible and intangible assets in acquisition	24.1	–5.3			1.3	20.1
Accumulated depreciation difference	10.9	2.4				13.3
Finance lease agreements	0.3		–0.3			0.0
Other temporary differences	1.0	0.7	–0.2			1.5
Total	36.3	–2.2	–0.5		1.3	34.9

21. Inventories

EUR million	2008	2007
Materials and supplies	8.2	9.7
Work in progress	1.2	1.2
Finished products/goods	12.3	17.6
Total	21.7	28.5

An impairment of EUR 1.6 million (EUR 1.5 million) on inventories was recognised during the period.

22. Trade and other receivables

EUR million	2008	2007
Trade receivables	293.7	436.0
Prepayments and accrued income	14.6	13.3
Other receivables	10.6	5.3
Total	318.9	454.6

Prepayments and accrued income includes interest receivables and accruals from operating activities.

Total receivables by age

EUR million	2008	2007
Not due	226.5	353.8
Overdue less than 30 days	49.6	58.0
Overdue 31–60 days	6.1	10.6
Overdue 61–90 days	2.9	5.5
Overdue more than 90 days	8.6	8.1
Total	293.7	436.0

The book value of trade receivables is a reasonable estimate of their fair value. The credit risk on trade receivables is described in Note 34.

23. Financial assets at fair value through profit or loss

EUR million	2008	2007
Commercial paper	–	2.7
Total	–	2.7

24. Cash and cash equivalents

EUR million	2008	2007
Cash assets	18.1	13.6
Cash at bank	14.9	0.6
Total	33.0	14.2

The effective interest rate of bank deposits was 1.76% and the average maturity 2 days.

Cash and cash equivalents on the cash flow statement is as follows:

EUR million	2008	2007
Cash assets and cash at bank	33.0	14.2
Commercial paper		2.7
Total	33.0	16.9

25. Derivative instruments

Nominal values of derivatives			2008			2007
EUR million	Period of validity less than 1 year	1–5 years	Over 5 years	Period of validity less than 1 year	1–5 years	Over 5 years
Interest rate swaps			150.0			150.0
Credit default swaps (CDS) *			47.4			45.6
Total			197.4			195.6

Fair values of derivatives			2008			2007
EUR million	Positive fair value	Negative fair value	Total	Positive fair value	Negative fair value	Total
Interest rate swaps	1.0		1.0		–3.0	–3.0
Credit default swaps (CDS) *				1.0		1.0
Total	1.0	0.0	1.0	1.0	–3.0	–2.0

*) CDS is related to hedging the guarantor bank risk for the QTE agreement. In 2008 Elisa wrote down the fair value of the CDS agreement.

Determination of fair value

The fair value of derivative instruments is determined using market prices quoted on a functional market, the cash flow discounting method or option pricing models.

26. Equity

Share capital, share premium and treasury shares

EUR million	Number of shares (thousands)	Share capital	Share premium	Treasury shares	Total
Jan. 1, 2007	166,066	83.0	530.4	–81.3	532.1
Purchase of treasury shares				–85.6	–85.6
Disposal of treasury shares				1.1	1.1
Share issue	242				
Reclassifications			–530.4		–530.4
Dec. 31, 2007	166,308	83.0		–165.8	–82.8
Purchase of treasury shares				–43.3	–43.3
Share-based compensation				7.1	7.1
Dec. 31, 2008	166,308	83.0		–202.0	–119.0

The company's paid share capital registered in the Trade Register stood at EUR 83,033,008 at the end of the period (EUR 83,033,008).

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

Treasury shares include the acquisition cost of treasury shares held by the Group. Elisa acquired a total of 3,000,000 treasury shares during 2008. The acquisition price was EUR 43.3 million, which is reported as a deduction of equity. Elisa transferred 361,347 shares held by the Group as payment for share-based compensation plan. The acquisition price EUR 7.1 million was transferred into retained earnings.

Treasury shares

	Shares pcs	Accounting counter-value EUR	Holding, % of shares and votes
Treasury shares held by the Group/Elisa Corporation at Dec. 31, 2007	8,049,976		
Transferred, Share incentive Plan A	–361,347		
Purchased from Aug. 8 to Sept. 16	3,000,000		
Treasury shares held by the Group/Elisa Corporation at Dec. 31, 2008	10,688,629	5,336,552	6.43

Other funds

EUR million	Contingency reserve	Fair value reserve	Other reserves	Reserve for invested non-restricted equity	**Total**
Jan. 1, 2007	3.4	37.7	381.0		**422.1**
Available-for-sale investments		–18.2			**–18.2**
Acquisitions of subsidiaries				5.3	**5.3**
Transfer from share premium				530.4	**530.4**
Dec. 31, 2007	3.4	19.5	381.0	535.7	**939.6**
Available-for-sale investments		–10.4			**–10.4**
Capital repayment				–284.9	**–284.9**
Dec. 31, 2008	3.4	9.1	381.0	250.8	**644.3**

The EUR 3.4 million contingency reserve includes the amount transferred from the distributable equity under the Articles of Association or by a decision by the General Meeting. The fair value reserve of EUR 9.1 million includes changes in the fair value of the available-for-sale investments. The other reserves of EUR 381.0 million were formed through the use of an equity issue in acquisitions. Translation differences are minimal, less than EUR 0.1 million.

The reserve for invested non-restricted equity includes the proportion of share subscription prices not recognised in equity in accordance with share issue decisions.

Notes to the consolidated financial statements

27. Share-based payments

Share incentive plan for 2009–2011

On 18 December 2008, Elisa's Board of Directors decided on a new share-based incentive plan. Under the plan, members of key management are eligible to receive shares in the Elisa as a reward for their performance over an earnings period of three calendar years. The earning periods are calendar years 2009, 2010 and 2011.

The Board of Directors decides earnings criteria and their targets separately for each earnings period. The earnings criteria for 2009 are earnings per share and the development of revenue. The amount of the award to be paid out of the share option plan is tied to the accomplishment of the targets set. The award will be paid within one month after each earning periods financial statement have been closed as a combination of company shares and cash. The amount of the cash award paid will be, at maximum, the value of the shares at the moment of transfer. The maximum award of the plan is 1,000,000 shares. The maximum amount of the award equals the value of 2,200,000 shares of Elisa. Elisa's Board of Directors has decided on the persons involved in the plan only for 2009.

No award will be paid if individuals's employment terminates before payment. The CEO must hold one-half of the shares received under the plan for as long as he serves as the CEO. Others must hold all shares received under the plan for one year and two-thirds of the shares for two years after the end of each earning period.

Share incentive plan for 2009

Amount of share incentives and terms and assumptions in the fair value calculation	2008
Maximum level, pcs	688 000
Number of instruments granted	634 000
Granting date	31.12.2008
Fair value of share at date of granting, EUR [1]	11.50
Share price at end of period, EUR	12.30
Estimated realisation of share price [2]	12.87
Earnings period starts	1.1.2009
Earnings period ends	31.12.2009
Restriction period ends	31.12.2011
Estimated realisation of earnings criteria	67%
Persons covered by plan	47

[1] The fair value of the share is granting date's share price minus estimated dividend.

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

Notes to the consolidated financial statements

In 2008, the share incentive plan for 2006 was terminated

Under the terminated plan, members of key management are eligible to receive shares in the Elisa as a reward for their performance over an earnings period of two calendar years. The amount of the award to be paid out of the share option plan is tied to the total return on the Elisa's share over the earnings period. The earnings periods were from March 2, 2006 to March 31, 2008 for Plan A and from January 1, 2008 to March 31, 2010 for Plan B. The amount of the award for both plan A and B equals, at minimum, the value of 172,800 Elisa shares and, at maximum, the value of 1,612,800 Elisa shares. If Elisa's share price adjusted for dividends paid during the earnings period had been less than EUR 16.00, no share-based incentive had been distributed for Plan A, and if the price were less than EUR 20.81, no incentive were distributed for Plan B. In December 2008, Elisa's Board of Directors and beneficiaries decided on a mutual agreement to terminate Plan B. Expenses recognised for Plan B in 2008 was EUR 0.9 million in 2008 (EUR 0.0 million).

The payment for Plan A, determined by the average share price in March 2008 and weighted by trading volume, was EUR 14.54. The payment totalled EUR 11.7 million, by which EUR 6.4 million was paid in cash. On 2 May, 2008, based on the Board of Directors desicion, Elisa transferred 361,347 shares to the 49 persons involved in the plan, of which 142,053 shares to the members of the Executive Board and 31,923 shares to the CEO. Incomes recognised for Plan A was EUR 1.4 million in 2008 (expenses EUR 9.2 million).

Members of the Executive Board must hold one-half of the shares received under the plan for a minimum of two years. The CEO must hold one-half of the shares received under the plan for as long as he serves as the CEO.

	2008		2007	
Calculation of fair value of share incentives	**A**	**B**	**A**	**B**
Share price on closing date, EUR			21.00	21.00
Distributed amount, pcs	361,347			
Estimated realisation, pcs			874,136	
share price, EUR			21.56	
total return, % (*			67.3%	
Fair value of portion paid in shares, EUR			6,993,090	
Fair value of portion paid in cash, EUR			9,178,431	
Fair value of share incentive plan, EUR			16,171,521	
Distributed amount			78%	68%
Persons covered by plan	49		46	39

[1] increase in value and dividends during the earnings period

The estimated realisation is calculated using the CAP model (Capital Asset Pricing Model). The basic variables in the model are the interest rate level, general risk premium and the so-called beta risk on the Elisa share.

Stock option plan 2007

On December 18, 2007, Elisa's Board of Directors decided to issue stock options to the Group's key employees and a fully-owned subsidiary of the company. The stock option scheme is targeted at approximately 150 key employees who are not included in the share-based incentive plan for senior management. The stock options are granted without consideration.

At time of issuance, all stock options 2007B and 2007C, as well as those stock options 2007A that are not distributed to key personnel, are given to a subsidiary that may distribute stock options to the Group's existing key personnel or those recruited later subject to the Board of Director's decision.

The stock options entitle to the subscription of a total of 2,550,000 new shares or treasury shares. The options are divided into options 2007A, 2007B and 2007C, 850,000 in each series.

Stock option plan 2007A

Granting date	Granted amount	Share price at date of granting
31 Jan. 2008	500,500	19.02
30 Apr. 2008	4,000	14.46
31 Aug. 2008	6,000	14.58
31 Nov. 2008	2,000	11.29
31 Dec. 2008	5,000	12.30
Number of in instruments granted	517,500	
Number of in instruments returned	–16,150	

Terms of arrangement	2007A	2007B	2007C
Subscription price	EUR 19,04[1)]	EUR 11,89[2)]	[3)]
Validity period (years)	3.5	3.5	-
Subscription period	1.12.2009–31.5.2011	1.12.2010–31.5.2012	1.12.2011–31.5.2013
Terms and conditions of vesting			

[1)] Average price weighted by trading volume at the NASDAQ OMX Helsinki from November 1 to November 30, 2007 deducted by the amount of capital repayment EUR 1.8.
[2)] Average price weighted by trading volume at the NASDAQ OMX Helsinki from November 1 to November 30, 2008.
[3)] Average price weighted by trading volume at the NASDAQ OMX Helsinki from November 1 to November 30, 2009.

Fair values of options

Elisa uses the Black-Scholes model to determine fair value on the granting date. The fair value is allocated as an expense over the earnings period. Expenses recognised for stock option plan was EUR 1.1 million in 2008 (EUR 0.0 million).

28. Pension obligations

Pension schemes for Elisa's personnel in Finland are arranged through pension insurance companies for both statutory pension insurance (TyEL) and supplementary pension cover. The Finnish TyEL system is a defined contribution plan. Some supplementary pension plans and pension plans under the responsibility of Elisa have been classified as defined benefit plans.

The pension plans of foreign subsidiaries are defined contribution plans.

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

EUR million	2008	2007
Present value of unfunded obligations	0.9	1.2
Present value of funded obligations	51.0	56.7
Fair value of plan assets	–49.3	–54.9
Deficit/excess	2.6	3.0
Unrecognised actuarial gains (+) / losses (–)	–1.3	–0.9
Pension liability in the balance sheet	1.3	2.1

Changes in the present value of the obligation:

EUR million	2008	2007
Obligation at beginning of period	57.9	61.3
Service cost	0.1	0.4
Interest expenses	2.7	2.6
Actuarial losses (+) and gains (–)	–0.3	–2.4
Benefits paid	–4.0	–4.0
Gains (–) and losses (+) on curtailment	–4.5	
Obligation at end of period	51.9	57.9

Changes in the fair value of plan assets:

EUR million	2008	2007
Fair value of plan assets at beginning of period	54.9	58.1
Expected return on plan assets	2.7	2.5
Benefits paid	–4.0	–4.0
Actuarial gains (+) and losses (-)	–0.7	–2.3
Contributions paid by employer	0.8	0.6
Losses/gains on curtailment	–4.4	
Fair value of plan assets at end of period	49.3	54.9

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

EUR million	2008	2007
Current service cost	–0.1	–0.2
Past service cost		–0.2
Interest costs	–2.7	–2.6
Expected return on plan assets	2.7	2.5
Losses/gains on curtailment		
	–0.1	–0.5

Actual return on plan assets was EUR 2.0 million in 2008 (EUR 0.2 million in 2007).

The principal actuarial assumptions used:

	2008	2007
Discount rate	5.00%	5.00%
Expected return on plan assets	5.00%	5.00%
Future salary increase	3.30%	3.30%
Future pension increase	2.10%	2.10%

The amounts for the period and the previous period are as follows:

EUR million	2008	2007	2006
Present value of obligation	51.9	57.9	61.3
Fair value of plan assets	–49.3	–54.9	–58.1
Excess (+) / deficit (–)	–2.6	–3.0	–3.2
Experience-based adjustments to plan assets	–0.7	–2.3	–0.2
Experience-based adjustments to plan liabilities	–0.3	–0.5	–0.6

The Group expects to contribute EUR 0.4 million to defined benefit pension plans in 2009.

Notes to the consolidated financial statements

29. Provisions

EUR million	Restructuring	Other	Total
Jan. 1, 2008	6.4	2.9	9.3
Increases in provisions	7.9		7.9
Used provisions	–10.8	–0.6	–11.4
Dec. 31, 2008	3.5	2.3	5.8

EUR million	2008	2007
Long-term provisions	4.3	5.2
Short-term provisions	1.5	4.1
Total	5.8	9.3

Restructuring provision

As part of the Group's rationalisation Elisa has carried out statutory employee negotiations leading to personnel reductions in 2008. The restructuring provision includes provisions for both unemployment pensions and other expenses due to redundancies. The provision associated with redundancies will be realised in 2009, and the provision associated with unemployment pensions will be realised in 2009–2011.

Other provisions

Other provisions consist of a provision for vacant premises and an environmental provision made for telephone poles.

30. Interest-bearing liabilities

		2008		2007
EUR million	Balance sheet values	Fair values	Balance sheet values	Fair values
Non-current				
Bonds	570.1	536.6	604.1	592.8
Loans from financial institutions	80.2	80.3	0.3	0.3
Finance lease liabilities	22.0	22.0	22.9	23.0
	672.3	638.9	627.3	616.1
Current				
Bonds	36.0	36.2	30.0	30.0
Loans from financial institutions	75.1	75.1	0.1	0.1
Finance lease liabilities	5.1	5.1	5.4	5.4
Commercial paper	55.6	55.6	92.0	92.0
Other current liabilities	0.5	0.5	0.5	0.5
	172.3	172.5	128.0	128.0
Total	844.6	811.4	755.2	744.1

Interest bearing liabilities include a total of EUR 27.1 million (EUR 28.4 million) of secured liabilities (leasing liabilities). In substance the finance lease liabilities are secured liabilities, since rights to the leased property will revert to the lessor if payments are neglected.

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

The average maturity of non-current liabilities was 3.9 (5.4) years and effective average rate of interest 5.1% (5.2%).

Notes to the consolidated financial statements

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

2008

EUR million	2009	2010	2011	2012	2013	2014–	Total
Bonds	63.7	75.0	250.4	14.5	14.4	314.4	**732.4**
Financial costs	27.7	25.0	24.5	14.5	14.4	14.4	**120.5**
Repayments	36.0	50.0	225.9			300.0	**611.9**
Bank loans	4.5	33.6	3.0	3.0	3.0	59.0	**106.2**
Financial costs	4.4	3.5	3.0	3.0	3.0	9.0	**25.9**
Repayments	0.0	30.0	0.0	0.0	0.0	50.0	**80.3**
Committed credit limits	75.2						**75.2**
Financial costs	0.2						**0.2**
Repayments	75.0						**75.0**
Commercial paper	55.6						**55.6**
Financial costs	1.1						**1.1**
Repayments	54.5						**54.5**
Finance lease liabilities	7.3	4.3	2.9	2.2	1.8	62.5	**81.1**
Financial costs	2.2	1.9	1.7	1.6	1.6	45.0	**54.0**
Repayments	5.1	2.4	1.2	0.6	0.2	17.5	**27.1**
Other liabilities	0.5						**0.5**
Financial costs	0.0						**0.0**
Repayments	0.5						**0.5**
Interest rate swap	1.2	1.2	1.2	1.2	1.2	1.2	**7.3**
Financial costs	36.8	31.6	30.4	20.4	20.3	69.6	**209.0**
Repayments	171.2	82.5	227.1	0.6	0.3	367.6	**849.3**
Total	208.0	114.1	257.5	21.0	20.6	437.2	**1,058.3**

2007

EUR million	2008	2009	2010	2011	2012	2013–	Total
Bonds	60.7	64.9	76.5	248.8	14.4	316.8	782.1
Financial costs	30.7	28.9	26.5	22.9	14.4	16.8	140.2
Repayments	30.0	36.0	50.0	225.9	0.0	300.0	641.9
Bank loans	0.1	0.1	0.1	0.1			0.4
Financial costs	0.0	0.0	0.0	0.0			0.0
Repayments	0.1	0.1	0.1	0.1			0.4
Commercial paper	92.0						92.0
Financial costs	0.4						0.4
Repayments	91.6						91.6
Finance lease liabilities	7.5	5.1	2.6	2.3	2.2	63.9	83.6
Financial costs	2.1	1.8	1.8	1.7	1.8	46.1	55.3
Repayments	5.4	3.3	0.8	0.6	0.4	17.8	28.3
Other liabilities	0.5						0.5
Financial costs	0.0						0.0
Repayments	0.5						0.5
Interest rate swap	0.6	0.6	0.6	0.6	0.6	0.6	3.6
Financial costs	33.8	31.3	28.9	25.2	16.8	63.5	199.5
Repayments	127.6	39.4	50.9	226.6	0.4	317.8	762.7
Total	161.4	70.7	79.8	251.8	17.2	381.3	962.1

Upcoming financial costs on variable-rate financial liabilities and interest rate swaps have been calculated at the interest rate valid on the balance sheet date.

Elisa has finance lease agreements concerning telecom facilities, GSM and optic fibre networks and servers. The conditions vary in terms of purchase options/redemption clauses, index clauses and lease periods.

Notes to the consolidated financial statements

Bonds

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

	Dec. 31, 2008 Fair value EUR million	Dec. 31, 2008 Balance sheet value EUR million	Dec. 31, 2008 Nominal value EUR million	Nominal interest rate	Dec. 31, 2008 Effective interest	Maturity date
EMTN programme 2001 / EUR 1,000 million						
III/2002	20.1	20.0	20.0	6-month euribor + 1.02%	6.439%	8.4.2009
V/2002	6.0	6.0	6.0	6-month euribor + 1.00%	6.419%	8.4.2009
VI/2002	10.1	10.0	10.0	6-month euribor + 1.00%	6.419%	8.4.2009
IX/2004	217.4	220.7	225.9	4.375%	5.226%	22.9.2011
I/2007	49.2	50.0	50.0	3-month euribor + 0.22%	4.036%	3.3.2010
II/2007	270.0	299.4	300.0	4.750%	4.789%	3.3.2014
Total	572.8	606.1	611.9			

The fair value of bonds is based on market quotes.

31. Trade payables and other liabilities

EUR million	2008	2007
Non-current		
Advances received	7.0	7.2
Derivatives		3.0
Other liabilities	7.0	14.4
	14.0	24.6
Current		
Trade payables	145.2	168.9
Advances received	4.1	5.2
Accrued employee-related expenses	27.3	33.3
Other accruals	38.6	42.6
Other liabilities	40.3	53.2
	255.5	303.2
Total	269.5	327.8

The current value of non-interest bearing liabilities is a reasonable estimate of their fair value. The payment times for the Group's trade payables correspond to conventional corporate terms of payment. Other accruals include interest expenses and other regular expenses.

32. Operating leases

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

EUR million	2008	2007
Within one year	22.2	20.6
Later than one year and up to five years	36.8	42.6
Later than five years	15.2	21.1
Total	74.2	84.3

Elisa's operating leases include business premises, telecom facilities, office equipment, cars etc. The lease periods range from 3 to 6 years for office equipment and cars to more than 50 years for telecom facilities.

33. Collateral, commitments and other liabilities

EUR million	2008	2007
Mortagages		
For own and group companies	0.4	
Pledges given		
Bank deposits given for own debt	0.8	1.3
Guarantees given		
For others *)	44.3	42.3
Total	45.5	43.6

*) Elisa has guaranteed small short-term loans of less than EUR 20,000 for personnel. The maximum amount of the guarantee limit was EUR 0.5 million on December 31, 2008 (EUR 0.5 million). The guarantee for EUR 43.1 million relates to the QTE arrangement described below.

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

EUR million	2008	2007
Total value of the arrangement	–	137.9
Risk of interruption	–	14.5

In September 1999, Elisa signed a leaseback agreement (a so-called QTE facility) with U.S.-based financial institutions. The arrangement concerned certain parts of the telecommunication network to which Elisa group companies retain the title in accordance with the agreement. The overall value of the arrangement was approximately EUR 145,8 million (approximately USD 203 million). The overall leasing assets and liabilities arising from the arrangement were paid at the time the facility was arranged, and the companies received net compensation of approximately EUR 13 million. The QTE facility is recognised in the balance sheet at net value on the basis of the interpretation SIC 27 issued by the IASB. According the original plan, the compensation was to be recorded in full within ten years of the agreement having been signed. Elisa was entitled to terminate the agreement free of cost in 2014 at the earliest, but the parties in the agreement terminated the QTE Facility in November 2008. The Group recorded EUR 2.3 million of the compensation as other financial income in 2008 (EUR 1.3 million in 2007).

In relation to the arrangement, Elisa had a counterparty risk of approximately USD 66 million which is included in the total value of the QTE facility. In 2007 Elisa signed a credit risk derivative contract (CDS) equal to the counterparty risk and valid until 2012 with European bank concerning the finance company to diversify its counterparty risk. In 2008 Elisa wrote down the fair value of the CDS since the finance company that was the counterparty in the QTE facility fully paid its liabilities at the time the QTE Facility was terminated. The Group recorded EUR 1,0 million of the compensation as other financial cost in 2008 (EUR 1.0 million financial income in 2007).

In the same connection in 2007 Elisa provided a guarantee for a European bank for a credit derivative portfolio (CDO) of approximately USD 60 million consisting of approximately 125 sovereign and corporate issuers. The reason for the derivative arrangements was to diversify the counterparty risk from one issuer to several counterparties.

The risk of the guarantee for the CDO portfolio has increased through the financial market turbulence. The Credit rating for the CDO portfolio has been downgraded from Aa3 to B1 based on Moody's rating scale. The guarantee is valid until 15.12.2012. The maximum liability USD 60 million if realised would mean cash payments of USD 0.5 million in 2010, USD 33 million in 2011 and USD 26.5 million in 2012.

	EUR million	USD million
Nominal value of CDS agreement related to the arrangement (1	–47.4	–66.0
Nominal value of CDO portfolio guarantee related to the arrangement (2	43.1	60.0

1) Also presented in Note 25

2) Also presented under "Guarantees given"

Other contractual obligations

EUR million	2008	2007
Repurchase commitments	0.1	0.2

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

Real estate investments

Real estate investments VAT refund liability is EUR 16.8 million at 31 December 2008.

34. Financial risk management

The objective of Elisa's economic risk management is to identify risks affecting business.

The main principle for risk management is that risks are managed at business units in accordance with the origination principle. Business risk management is a part of continuous business and strategy planning. The Group's financing unit prepares an overall risk survey annually. The financing unit also works in close co-operation with the business units and coordinates insurance plans, for example.

Elisa Corporation's centralised financing function is responsible for exchange rate, interest rate, liquidity and refinancing risks for the entire Group.

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 borrowing and investments are diversified in fixed- and variable-rate instruments. Derivative financial instruments may be used in managing interest rate risk. The aim is to hedge the negative effects caused by changes in the interest rate level. Hedge accounting is not applied to the derivatives.

Times of interest rate changes for interest-bearing financial liabilities (EUR million), Dec 31, 2008, at nominal value

Time of interest rate change	less than 1 year	1 to 5 years period	Over 5 years period	Total
Variable-rate financing instruments				
Commercial paper loans	55.6			55.6
Bonds	86.0			86.0
Committed credit limits	75.0			75.0
Liabilities to financial institutions	80.0			80.0
Finance lease	5.1			5.1
Other	0.5			0.5
Fixed-rate financing instruments				
Bonds		225.9	300.0	525.9
Finance lease		4.4	17.5	21.9
Other		0.3		0.3
Effect of derivatives	150.0		–150.0	0.0
Total	452.2	230.6	167.5	850.3

Times of interest rate changes for interest-bearing investments (EUR million), Dec 31, 2008, at nominal value

Variable-rate financing instruments		
Money market investments	14.9	14.9
Total	14.9	14.9

The sensitivity analysis includes financial liabilities in the balance sheet of December 31, 2008 (December 31, 2007). The change in the interest rate level is assumed to be one percentage point. 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 contracts would be valid unchanged for the entire year.

	2008		2007	
EUR million	Income statement	Shareholders' equity	Income statement	Shareholders' equity
Change in interest rate level +/– 1%	+/– 4.3		+/–2.7	

Exchange rate risk

Most of Elisa Group's cash flows are denominated in euro, which means that the company's exposure to exchange rate risk (economic risk and transaction risk) is minor. Exchange rate risks associated with business arise from international interconnection traffic and, to a minor extent, acquisitions. The most important currencies are the International Monetary Fund's Special Drawing Rights (SDR), the US dollar (USD) and the Estonian kroon (EEK). No exchange rate hedging was used during the 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 period.

Elisa's CDS and CDO arrangements described under Note 33 is based on US dollars. Elisa's risks and liabilities presented in euro will thereby change with the EUR/USD exchange rate.

Elisa's foreign exchange exposure December 31, 2008

EUR million	Trade receivables	Trade payables	Net investments in foreign subsidiaries
SDR	4.7	9.4	
USD		0.5	
EEK			60.7

Elisa's foreign exchange exposure December 31, 2007

EUR million	Trade receivables	Trade payables	Net investments in foreign subsidiaries
SDR	0.6	10.6	
USD	0.4	1.0	
EEK			33.7

A change of twenty percentage points would impact consolidated equity by EUR 12.1 million (EUR 6.7 million) and profit before tax by EUR 1.1 million (EUR 2.1 million).

Liquidity risk

The objective of liquidity risk management is to ensure the Group's financing in all circumstances. The company's most important financing arrangement is an EMTN programme of EUR 1,000 million, under which bonds have been issued for EUR 636 million. The company also has a EUR 250 million commercial paper programme and committed credit limits of EUR 300 million. The EUR 170 million limit is unused and valid until 17 June 2012. The EUR 130 million limit is valid until 21 November 2014. One of these limits, for EUR 75 million, was in use as of 31 December 2008. The margin of the limits is determined by the Groups' credit rating.

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 in hand and at banks, and unused committed limits

EUR million	2008	2007
Cash and bank	33.0	16.9
Credit limits	225.0	300.0
Total	258.0	316.9

Contract-based cash flows for interest-bearing liabilities are presented under Note 30.

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 to investment targets with a good credit rating. Investments and the limits specified for them are reviewed annually, or more often if necessary. In 2008 investments and the limits have been reviewed due to the unstable situation in money market. Investment activities are monitored, and the outstanding investments are not expected to result in credit losses. Derivative contracts are only signed with Finnish and foreign banks with good credit ratings.

See Note 33 for the USD 60 million guarantee risk associated with Elisa's credit derivative agreement.

The business units are liable for credit risk associated with accounts receivable. The units have credit policies prepared in writing that are mainly consistent with uniform principles. The credit ratings of new customers are reviewed from external sources always 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. Elisa may also collect advance or guarantee payments in accordance with its credit policy.

Credit risk concentrations in accounts receivable are minor as the Group's customer base is wide; the 10 largest customers represent approximately 7 % of customer invoicing. EUR 11.7 million (EUR 12.5 million) of uncertain receivables have been deducted from consolidated accounts receivable. The Group's previous experience in the collection of trade receivables corresponds to the recognised impairment. Since 2007, the Group has sold its trade receivables that are overdue by an average of 136 days. Based on these facts, the management is confident that the Group's trade receivables do not involve any substantial credit risk. The age distribution of trade receivables is described in Note 22.

Elisa's available-for-sale investments consist mostly of publicly listed shares in Comptel Corporation. The sensitivity analysis includes shares in the balance sheet of December 31, 2008 (December 31, 2007). The analysis assumes a change of twenty percentage points in the share price.

	2008		2007	
EUR million	Income statement	Shareholders' equity	Income statement	Shareholders' equity
Change in Comptel share price +/– 20 %	+/– 0	+/– 2,0	+/– 0	+/– 4,1

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 through liabilities directly or indirectly.

The target for the company's capital structure is a gearing ratio of 50% to 100% and net debt / EBITDA 1.5 to 2.0. The net debt / EBITDA indicator is calculated exclusive of non-recurring items.

The company's distribution of profit to shareholders consists of dividends, capital repayment and purchase of treasury shares. The long-term profit distribution target is 40% to 60% of profit for the period. Deviations from the profit distribution target can be made in the short term in accordance with the capital structure targets.

Capital structure and key indicators

	31 Dec. 2008	31 Dec. 2007
Interest-bearing net debt	811.6	738.4
Total equity	875.1	1 035.4
Total capital	1 686.7	1 773.8
Gearing ratio	92.7%	71.3%
Net debt / EBITDA	1.7	1.5
Equity ratio	43.3%	47.9%

Available sources of financing

With regard to equity financing, the company's objective is to maintain sufficient flexibility for the Board of Directors to issue shares. The General Meeting decides the amount of the share issue authorisation. The authorisation has been used mainly in connection with mergers and acquisitions.

Shareholders' equity	31 Dec. 2008	31 Dec. 2007
Treasury shares, 1,000	10,689	8,049
Share issue authorisation, 1,000 [1]	49,639	27,208
Maximum total, 1,000 [2]	49,639	27,208
Share price	12.30	21.00
Total, EUR million	610.6	571.4

With regard to liability 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	31 Dec. 2008	31 Dec. 2007
Commercial paper programme (non-committed) [3]	194.4	158.0
Revolving credits (committed) [4]	225.0	300.0
EMTN programme (non-committed) [5]		333.9
Total	419.4	791.9
Total equity and debt capital	1,030.0	1,363.3

[1] Share issue authorisation 50,000,000. The authorisation has been used for 361,347 shares in connection with the share-based payment.

[2] The authorisation to issue shares at December 31, 2008 amounted to a maximum of 49,638,653 shares. This may be effected through an issue of new shares or sale of treasury shares.

[3] The commercial paper programme amounts to EUR 250 million, of which EUR 55.6 million was in use at December 31, 2008.

[4] Elisa has two committed revolving credit arrangements to a total of EUR 300 million. EUR 75 million of these arrangements were in use at December 31, 2008.

[5] Elisa has an European Medium Term Note programme (EMTN) to a total of EUR 1,000 million. EUR 636 million was in use at December 31, 2008. New issuances require updating the programme. The company estimates that the update will take place during the first half-of 2009.

Notes to the consolidated financial statements

35. Related party transactions

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

The parent company of the Group is Elisa.

The Group's subsidiaries	Domicile	31 Dec. 2008 Group's ownership, %
Dial Media Oy	Helsinki	100%
Doneto Oy	Helsinki	100%
Ecosite Oy	Espoo	100%
Electur Oy	Helsinki	100%
Elisa Eesti As	Tallinn	100%
Elisa Links Oy	Helsinki	100%
Excenta Oy	Pori	51%
Fiaset Oy	Jyväskylä	100%
Fonetic Oy	Jyväskylä	100%
JMS Group Oy	Helsinki	100%
Kiinteistö Oy Brahenkartano	Turku	60%
Kiinteistö Oy Paimion Puhelimenkulma	Paimio	77%
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%
Saunalahti Group Plc	Espoo	100%
Helsingin Netti Media Oy	Helsinki	100%
Supertel Oy	Helsinki	100%
SIA Radiolinja Latvija	Riga	100%
Tampereen Tietoverkko Oy	Tampere	63%
UAB Radiolinja	Vilnius	100%

The Group's associates		
City-Suvanto Oy	Joensuu	33%
Kiinteistö Oy Herrainmäen Luolasto	Tampere	50%
Kiinteistö Oy Lauttasaarentie 19	Helsinki	42%
Kiinteistö Oy Runeberginkatu 43	Helsinki	30%
Kiinteistö Oy Stenbäckinkatu 5	Helsinki	40%
Suomen Numerot NUMPAC Oy	Helsinki	33%
Vantaan Yhteisverkko Oy	Vantaa	24%

Significant changes in ownership are presented in Notes 2, Acquisitions and 3, Divestments.

The following transactions have been carried out with related parties:

Related party purchases:

EUR million	2008	2007
Associates and joint ventures	0.4	0.6
Total	0.4	0.6

Employee benefits to key management are presented in Note 7.

36. Events after the balance sheet date

There have been no significant events after the balance sheet date.

Key indicators

Key indicators describing the Group's financial development

	IFRS 2008	IFRS 2007	IFRS 2006
INCOME STATEMENT			
Revenue, EUR million	1,485	1,568	1,518
Change of revenue, %	–5.3%	3.3%	13.5%
EBITDA (EUR million)	472	499	434
EBITDA as % of revenue	31.8%	31.8%	28.6%
EBIT, EUR million	264	302	225
EBIT as % of revenue	17.8%	19.3%	14.8%
Profit before tax, EUR million	228	285	212
Profit before tax as % of revenue	15.3%	18.2%	13.9%
Return on equity (ROE), %	18.5%	18.8%	12.1%
Return on investment (ROI), %	15.6%	18.3%	13.2%
Research and development costs, EUR million	11	8	6
Research and development costs as % of revenue	0.7%	0.5%	0.4%
BALANCE SHEET			
Gearing ratio, %	92.8	71.3%	28.7%
Current ratio	0.9	1.1	1.0
Equity ratio, %	43.3%	47.9%	63.1%
Non-interest bearing liabilities, EUR million	311	385	380
Balance sheet total, EUR million	2,030	2,175	2,091
INVESTMENTS IN SHARES			
Purchases of shares, EUR million	15	12	10
of which paid in equity issue		5	
CAPITAL EXPENDITURES			
investments, EUR million	184	206	207
investments as % of revenue	12.4%	13.2%	13.7%
PERSONNEL			
Average number of employees during the period	2,946	3,299	4,086
Revenue/employee, EUR 1,000	504	475	372

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

Key indicators

Per-share indicators [1]

	IFRS 2008	IFRS 2007	IFRS 2006
Share capital, EUR	83,033,008.00	83,033,008.00	83,033,008.00
Number of shares at year-end	155,618,957	158,257,610	161,941,016
Average number of shares	157,449,911	159,417,319	165,416,720
Number of shares at year-end, diluted	155,618,957	158,257,610	161,941,016
Average number of shares, diluted	157,449,911	159,417,319	165,416,720
Market capitalisation, EUR million [2]	1,914	3,323	3,360
Earnings per share (EPS), EUR	1.12	1.38	0.97
Dividend per share, EUR	0.60[*]		2.50
Payout ratio, %	53%		250.3%
Capital repayment per share, EUR		1.80	
Capital repayment as % of earnings		129.6%	
Equity per share, EUR	5.61	6.53	8.07
P/E ratio	11.0	15.2	21.4
Effective dividend yield, %	4.88%		12.05%
Effective capital repayment yield, %		8.57%	
Share performance on the NASDAQ OMX Helsinki			
Mean price, EUR	15.02	21.31	17.06
Closing price at year-end, EUR	12.30	21.00	20.75
Lowest price, EUR	9.85	18.63	14.00
Highest price, EUR	22.18	24.41	20.76
Trading of shares			
Total trading volume, 1,000 shares	338,825	316,087	247,303
Percentage of shares traded [3]	218%	200%	150%

[*] The Board of Directors proposes a dividend payment of EUR 0.60 per share.

[1] The numbers of shares are presented without treasury shares held by Elisa Group. Treasury shares have been accounted for in the calculation of the indicators.

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

[3] Calculated in proportion to the average number of shares for the period.

Key indicators

Formulae for financial summary indicators

EBITDA = EBIT + depreciation, amortisation and impairment

Return on equity (ROE), %

$$\frac{\text{Profit for the period}}{\text{Total shareholders' equity (on average during the year)}} \times 100$$

Return on investment (ROI), %

$$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Total equity + interest bearing liabilities (on average during the year)}} \times 100$$

Gearing ratio, %

$$\frac{\text{Interest-bearing liabilities – Cash and cash equivalents and financial assets at fair value through profit or loss}}{\text{Total shareholders' equity}} \times 100$$

Current ratio

$$\frac{\text{Current assets}}{\text{Current liabilities – advance payments received}}$$

Equity ratio, %

$$\frac{\text{Total shareholders' equity}}{\text{Balance sheet total – advance payments received}} \times 100$$

Formulae for pre-share indicators

Earnings per Share (EPS)

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

Dividend per share *)

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

Effective dividend yield *)

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

Payout ratio as percentage *)

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

Equity per share

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

P/E ratio (Price/Earnings)

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

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

Income statement, parent company, FAS

EUR million	Note	1.1.–31.12. 2008	1.1.–31.12. 2007
Revenue	1	1,296.2	1,353.7
Change in inventories		–0.1	0.3
Other operating income	2	11.6	23.2
Materials and services	3	–570.3	–617.4
Personnel expenses	4	–157.9	–153.7
Depreciation and amortisation	5	–233.7	–221.0
Other operating expenses		–178.9	–179.7
Operating profit/loss		166.9	205.4
Financial income and expenses	7	–34.9	–7.0
Profit/loss before extraordinary items		132.0	198.4
Extraordinary items	8	–4.1	–13.2
Profit/loss after extraordinary items		127.9	185.2
Appropriations	9	–2.0	–6.4
Income taxes	10	–48.6	–62.4
Profit/loss for the period		77.3	116.4

Balance sheet, parent company, FAS

EUR million	Note	31 Dec. 2008	31 Dec. 2007
ASSETS			
Fixed assets			
Intangible assets	11	651.3	726.4
Tangible assets	11	489.8	497.8
Investments	12	84.8	74.4
		1,225.9	1,298.6
Current assets			
Inventories	13	18.2	23.2
Non-current receivables	14	17.0	13.3
Current receivables	15	297.1	439.9
Marketable securities	16		2.7
Cash and bank		24.8	6.9
		357.1	486.0
TOTAL ASSETS		1,583.0	1,784.6
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	17		
Share capital		83.0	83.0
Treasury shares		–201.9	–165.6
Contingency reserve		3.4	3.4
Reserve for invested non-restricted equity		248.9	533.8
Retained earnings		281.9	172.5
Profit/loss for the period		77.3	116.4
		492.6	743.5
Accumulated appropriations		11.7	9.7
Provisions for liabilities and charges	18	5.0	8.8
Liabilities			
Non-current liabilities	19	663.0	618.3
Current liabilities	20	410.7	404.3
		1,073.7	1,022.6
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,583.0	1,784.6

Cash flow statement, parent company, FAS

EUR million	2008	2007
Cash flow from operating activities		
Profit before extraordinary items	132.0	198.4
Adjustments:		
Depreciation and amortisation	233.7	221.0
Financial income and expense	35.3	20.2
Gains and losses on the disposal of fixed assets	–0.6	–15.3
Gains and losses on the disposal of shares	0.0	–12.8
Change in provisions in the income statement	–3.8	0.1
Other adjustments	0.4	–0.7
Cash flow before change in working capital	397.0	410.9
Change in working capital	89.0	–113.3
Cash flow before financial items and taxes	486.0	297.6
Dividends received	3.0	1.8
Interest received	16.9	5.9
Interest paid	–53.0	–25.0
Income taxes paid	–56.8	–79.9
Net cash flow from operating activities	396.1	200.4
Cash flow from investing activities		
Capital expenditure	–150.9	–178.8
Proceeds from sale of property, plant and equipment	0.4	24.3
Investments in shares and other financial assets	–7.2	–6.7
Proceeds from sale of shares and other financial assets	0.2	13.6
Loans granted	–7.2	–11.4
Repayment of loan receivables	22.2	62.9
Net cash flow used in investing activities	–142.5	–96.1
Cash flow after investing activities	253.6	104.3
Cash flow from financing activities		
Purchase of treasury shares	–43.3	–85.6
Proceeds from long-term borrowings	80.0	350.0
Repayment of long-term borrowings	–30.0	–44.2
Change in short-term borrowings	39.1	66.5
Dividends paid	–284.2	–400.3
Group contributions given		–0.4
Net cash flow used in financing activities	–238.4	–114.0
Change in cash and cash equivalents	15.2	–9.7
Cash and cash equivalents at beginning of period	9.6	9.6
Cash and cash equivalents transferred for merger/business transfer		9.7
Cash and cash equivalents at end of period	24.8	9.6

Notes to the financial statements of the parent company

Accounting principles

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

Comparability with previous year

When the information for the financial year is compared with the previous financial year, it must be taken into account that mergers of Group companies with the parent company and several outsourcings have taken place during the previous year. In addition, one-off items are included in the financial statements both during the year 2007 and 2008.

One-off items during the year 2008
- expenses due to redundancies EUR 6.6 million

One-off items during the year 2007:
- merger losses EUR 12.8 million
- sales gains on real estate EUR 12.7 million
- restructuring provision for expenses due to redundancies EUR 2.6 million
- sales gain on Comptel Corporation shares EUR 13.1 million

Items denominated in foreign currencies

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

Fixed assets

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

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

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

Intangible rights	3–5 years
Other expenditure with long-term effects	5–10 years
Buildings and constructions	25–40 years
Machinery and equipment in buildings	10–25 years
Telephone exchanges	6–10 years
Cable network	8–15 years
Telecommunication terminals (rented to customers)	2–5 years
Other machines and equipment	3–5 years

Valuation principles of current assets

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

Recognition principles

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

Interconnection fees that are invoiced from the customer and 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 sales of business operations, shares and fixed assets, subsidies received and rental income from premises are presented under other operating income.

Research and development costs

Research costs are booked as expenses on the income statement. Product development expenses are recognised on the balance sheet from the date the product is technically feasible, it can be utilised commercially and future financial benefit is expected from the product. In other cases, development costs are booked under annual expenses. Development costs previously recognised as expenses are not capitalised later.

Public subsidies for product development projects and the like are recognised under other operating income when the product development costs are recognised as annual expenses. If a public subsidy is associated with capitalised product development costs, the subsidy reduces the capitalised acquisition cost.

Future expenses and losses

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

Extraordinary income and expenses

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

Income taxes

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

Notes to the financial statements of the parent company

1. Revenue

EUR million	2008	2007
Sales	1,370.8	1,433.7
Interconnection fees and other adjustments	–74.6	–80.0
Total revenue	1,296.2	1,353.7
Geographical distribution		
Finland	1,247.8	1,299.7
Rest of Europe	43.3	46.1
Other countries	5.1	7.9
Total	1,296.2	1,353.7

2. Other operating income

EUR million	2008	2007
Gain on disposal of fixed assets	0.5	13.4
Gain on disposal of shares and business	1.0	2.0
Others [1)]	10.1	7.8
Other operating income total	11.6	23.2

[1)] Other income items mainly include rental income of real estate, management fee income charged from subsidiaries, indemnities received and miscellaneus other operating income

3. Materials and services

EUR million	2008	2007
Materials, supplies and goods		
Purchases	66.9	71.9
Change in inventories	5.0	8.2
	71.9	80.1
External services	498.4	537.3
Materials and services total	570.3	617.4

4. Personnel expenses

EUR million	2008	2007
Salaries and wages	128.4	124.9
Pension costs	20.9	20.9
Other statutory employee costs	8.6	7.9
Personnel expenses total	157.9	153.7
Personnel on average	2,567	2,765

CEO remuneration, EUR

	2008	2007
Fixed salary	486,080.00	462,920.00
Performance-based bonus	155,719.64	310,713.00
Fringe benefits	16,213.00	15,923.66
Share-based payments *	1,031,467.60	257,134.34
	1,689,480.24	1,046,691.00

*) In 2008, according to the 2006 share-based payment plan, CEO Veli-Matti Mattila received 31,923 shares of Elisa Oyj, with a value of EUR 464,160.42 and related cash payment EUR 567,307.18. In 2007, the reward was based on a deposit made under the 2004 incentive plan.

The CEO is entitled to retirement at 60 years of age with a total pension corresponding to 60 per cent.

The Board of Directors' remuneration, EUR	2008	2007
Risto Siilasmaa	112,000.00	51,000.00
Tomas Otto Hansson	53,500.00	
Orri Hauksson	53,500.00	
Pertti Korhonen	53,000.00	
Eira Palin-Lehtinen	54,000.00	
Ossi Virolainen	87,000.00	80,200.00
Pekka Ketonen	34,000.00	113,040.00
Mika Ihamuotila	24,000.00	79,200.00
Lasse Kurkilahti	20,500.00	65,600.00
Matti Manner	21,000.00	67,000.00
	512,500.00	456,040.00

The following compensation determined by the General Meeting was paid to the Members of the Board: monthly remuneration fee for the Chairman EUR 9,000 per month: monthly remuneration fee for the Deputy Chairman and chairman of the Committee for Auditing EUR 6,000 per month, monthly remuneration fee for the Members EUR 5,000 per month, and meeting remuneration fee EUR 500/meeting/participant. The monthly remuneration fees (deducted by tax withheld at the rate of 60 per cent) are used purchase Elisa shares every quarter. The shares are subject to a transfer restriction of four years.

5. Depreciation and amortisation

EUR million	2008	2007
Amortisation of intangible assets	98.4	94.9
Depreciation of tangible assets	135.3	126.1
Total	233.7	221.0

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

Notes to the financial statements of the parent company

6. Auditor's fees

EUR million	2008	2007
Auditing	0.2	0.2
Tax advisory services	0.0	0.0
Other services	0.7	0.5
	0.9	0.7

7. Financial income and expenses

EUR million	2008	2007
Interest income and other financial income		
Dividends received		
from Group companies	2.0	3.1
from others	1.1	1.2
Total dividends received	3.1	4.3
Capital gains on investments		13.2
Other interest and financial income		
from Group companies	1.9	3.4
from others	11.9	11.0
Other interest and financial income, total	13.8	14.4
Interest income and other financial income, total	16.9	31.9
Interest costs and other financial expenses		
to Group companies	–0.3	–0.5
to others	–51.5	–38.4
Interest costs and other financial expenses, total	–51.8	–38.9
Financial income and expenses, total	–34.9	–7.0

8. Extraordinary items

EUR million	2008	2007
Extraordinary expenses		
Merger loss		–12.8
Group contributions paid	–4.1	–0.4
Extraordinary items total	–4.1	–13.2

9. Appropriations

EUR million	2008	2007
Change in depreciation difference	–2.0	–6.4
Appropriations, total	–2.0	–6.4

10. Income taxes

EUR million	2008	2007
Income tax on regular business	–47.8	–62.0
Income tax for previous periods	–0.8	–0.4
Income taxes, total	–48.6	–62.4

11. Intangible and tangible assets

	Intangible Assets				
EUR million	Intangible rights	Goodwill	Other intangible assets	In progress	Total
Acquisition cost at 1 Jan. 2008	11.9	769.1	170.8	52.2	1,004.0
Additions	1.0		7.6	14.1	22.7
Reclassifications	0.7		28.6	–28.5	0.8
Acquisition cost at 31 Dec. 2008	13.6	769.1	207.0	37.8	1,027.5
Accumulated amortisation at 1 Jan. 2008	6.6	161.2	109.8		277.6
Accumulated amortisation of disposals and reclassifications			0.2		0.2
Amortisation for the period	2.0	77.2	19.2		98.4
Accumulated amortisation at 31 Dec. 2008	8.6	238.4	129.2		376.2
Book value at 31 Dec. 2008	5.0	530.7	77.8	37.8	651.3

EUR million	Land and water	Buildings and constructions	Tangible assets Machinery and equipment	Other tangible assets	In progress	Total
Acquisition cost at 1 Jan. 2008	5.2	55.8	1 681.5	34.6	25.9	1,803.0
Additions		2.0	110.7		15.5	128.2
Disposals	–0.1	–0.7	–0.3			–1.1
Reclassifications		0.8	16.3		–17.8	–0.7
Acquisition cost at 31 Dec. 2008	5.1	57.9	1,808.2	34.6	23.6	1,929.4
Accumulated depreciation at 1 Jan. 2008		25.1	1,249.4	30.7		1,305.2
Accumulated depreciation of disposals and reclassifications		–0.6	–0.3			–0.9
Depreciation for the period		3.0	131.4	0.9		135.3
Accumulated depreciation at 31 Dec. 2008		27.5	1,380.5	31.6		1,439.6
Book value at 31 Dec. 2008	5.1	30.4	427.7	3.0	23.6	489.8

12. Investments

EUR million	Shares Group companies	Associated companies	Other companies	Receivables Group companies	Total
Acquisition cost at 1 Jan. 2008	54.2	5.3	13.4	1.8	74.7
Additions	6.2		3.3	1.1	10.6
Sales/disposals		–0.1	–0.1		–0.2
Acquisition cost at 31 Dec. 2008	60.4	5.2	16.6	2.9	85.1
Impairment at 1 Jan. 2008			–0.3		–0.3
Impairment at 31 Dec. 2008			–0.3		–0.3
Book value at 31 Dec. 2008	60.4	5.2	16.3	2.9	84.8

At 31 December 2008, the repurchase price of publicly quoted shares was EUR 9.7 million higher than the book value of the owner company (EUR 20.1 million higher).

Notes to the financial statements of the parent company

13. Inventories

EUR million	2008	2007
Materials and supplies	7.5	9.6
Work in progress	1.0	1.2
Finished products/goods	9.7	12.4
Inventories total	18.2	23.2

14. Non-current receivables

EUR million	2008	2007
Receivables from Group companies		
Loans receivable	6.5	1.8
Receivables from others		
Loan receivables [1]	0.1	0.1
Other receivables	0.5	1.0
Prepayments and accrued income [2]	9.9	10.4
Non-current receivables total	17.0	13.3

[1] In 2008, loan receivables include EUR 0.1 million receivable from Sofia Digital Oy.
[2] In 2008, prepayments and accrued income include EUR 3.5 million bond issue loss allocations (EUR 5.2 million) and EUR 6.4 million rent advances (EUR 5.0 million).

15. Current receivables

EUR million	2008	2007
Receivables from Group companies		
Trade receivables	21.0	22.0
Loan receivables	35.8	45.3
Prepayments and accrued income	0.2	1.6
	57.0	68.9
Receivables from associates		
Prepayments and accrued income	0.0	0.1
	0.0	0.1
Receivables from others		
Trade receivables	222.9	356.3
Other receivables	1.7	1.0
Prepayments and accrued income [1]	15.5	13.6
	240.1	370.9
Total	297.1	439.9

[1] The most substantial accruals are interest receivables, EUR 8.4 million (9.8) and conventional allocations of business expenses.

16. Marketable securities

Securities mainly comprise investments in money market funds and short-term certificates of deposit and commercial paper. 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. There were no financial securities at the balance sheet date 31 December 2008 (in year 2007 EUR 2.7 million).

17. Shareholders' equity

EUR million	2008	2007
Share capital at 1 Jan.	83.0	83.0
Share capital at 31 Dec.	83.0	83.0
Share premium at 1 Jan.		530.4
Transfer to reserve for invested non-restricted equity		–530.4
Share premium at 31 Dec.		
Treasury shares at 1 Jan.	–165.6	–79.4
Acquisition of treasury shares	–43.3	–86.2
Share-based payment	7.0	
Treasury shares reserve at 31 Dec.	–201.9	–165.6
Contingency reserve at 1 Jan.	3.4	3.4
Contingency reserve at 31 Dec.	3.4	3.4
Reserve for invested non-restricted equity at 1 Jan.	533.8	
Transfer from share premium		530.4
Directed issue		3.4
Capital repayment	–284.9	
Reserve for invested non-restricted equity at 31 Dec.	248.9	533.8
Retained earnings at 1 Jan.	288.9	573.9
Dividend distribution		–401.4
Share-based payment	–7.0	
Retained earnings at 31 Dec.	281.9	172.5
Profit for the period	77.3	116.4
Total shareholders' equity	492.6	743.5
Distributable earnings		
Retained earnings	281.9	172.5
Treasury shares	–201.9	–165.6
Reserve for invested non-restricted equity	248.9	533.8
Profit for the period	77.3	116.4
Distributable funds at 31 Dec., total	406.2	657.1

Notes to the financial statements of the parent company

18. Provisions

EUR million	2008	2007
Provision for unemployment pensions	3.5	4.7
Other provisions for liabilities and charges [1]	1.5	4.1
Provisions for liabilities and charges, total	5.0	8.8

[1] Other provisions includes provision for salaries, including related statutory employee costs, for employees not required to work during their severance period and provision for vacant premises.

Provisions of EUR 11.7 million were recognised as income in 2008 (EUR 6.1 million).

19. Non-current liabilities

EUR million	2008	2007
Interest-bearing		
Bonds	575.9	611.9
Loans from financial institutions	80.0	
Non-interest bearing		
Other liabilities	7.1	6.4
Non-current liabilities, total	663.0	618.3
Liabilities maturing after five years		
Bonds	300.0	300.0

20. Current liabilities

EUR million	2008	2007
Interest-bearing		
Liabilities to Group companies		
Group account	13.5	2.1
	13.5	2.1
Liabilities to others		
Bonds	36.0	30.0
Loans from financial institutions	75.0	
Other liabilities	56.1	92.5
	167.1	122.5
Interest-bearing, total	180.6	124.6
Non-interest bearing		
Liabilities to Group companies		
Trade payables	4.9	6.0
Other liabilities	4.7	
Accruals and deferred income		0.1
	9.6	6.1
Liabilities to others		
Advances received	1.7	3.4
Trade payables	120.4	138.9
Other liabilities	40.9	54.3
Accruals and deferred income [1]	57.5	77.0
	220.5	273.6
Non-interest bearing, total	230.1	279.7
Current liabilities, total	410.7	404.3

[1] Major accruals and deferred income consist of the following: holiday pay, performance-based bonuses and related statutory employee costs, EUR 26 million (EUR 33 million), interest expenses, EUR 20 million (EUR 19 million), income taxes, EUR 3 million (EUR 11 million) and other regular accruals, mainly of advance income, EUR 9 million (EUR 14 million).

21. Collateral, commitments and other liabilities

EUR million	2008	2007
Pledges given		
Bank deposits given for own debt	0.5	1.3
Guarantees given		
For others [1]	44.3	42.3
Total	44.8	43.6

[1] The guarantee for EUR 43.1 million relates to the QTE arrangement described below. Presented in detail under Group's Note 33.

Notes to the financial statements of the parent company

Leasing and rental liabilities

EUR million	2008	2007
Leasing liabilities on telecom networks [1]		
Due within one year	2.7	3.7
Due later than one year and up to five years	3.1	6.4
Due later than five years	1.3	1.7
	7.1	11.8
Other leasing liabilities [2]		
Due within one year	8.9	3.9
Due later than one year and up to five years	9.1	5.9
	18.0	9.8
Total repurchase liabilities [3]	1.1	3.2
Real estate leases [4]		
Due within one year	15.1	15.5
Due later than one year and up to five years	40.9	46.0
Due later than five years	104.1	111.7
	160.1	173.2
Leasing and rental liabilities, total	186.3	198.0

[1] Consists of certain individualised GSM network equipment and access fees for backbone connections.

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

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

[4] Real estate leases comprise rental agreements relating to business, office and telecom premises. Real estate leases are presented at nominal prices.

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

EUR million	2008	2007
Total value of the arrangement	–	137.9
Risk of interruption, due later (more than 5 years)	–	14.5

In September 1999, Elisa signed a leaseback agreement (a so-called QTE facility) with U.S.-based capital investors. The arrangement concerned telecom network equipment to which Elisa retains the title in accordance with the agreement. The overall leasing assets and liabilities arising from the arrangement were paid at the time the facility was arranged, and the company received net compensation of approximately EUR 13 million. The arrangement was terminated in November 2008. The effect to the Group's financial income and expense was EUR 2.3 million in 2008 (EUR 1.3 million in 2007).

Derivative instruments

EUR million	2008	2007
Interest rate swap		
Nominal value	150.0	150.0
Fair value recognised in the balance sheet	1.0	–3.0
Credit default swaps [*]		
Nominal value	47.4	45.6
Fair value recognised in the balance sheet	–	1.0

[*] Credit risk derivative contract (CDS) is related to the counterparty risk of QTE facility. In 2008, Elisa wrote down the fair value of the CDS.

Real estate investments

VAT refund liability of real estate investments is EUR 15 million at 31 December 2008.

Environmental costs

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

Shares and shareholders

1. Share capital and shares

The company's paid 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 166,307,586, all within one share series.

2. Authorisations of the Board of Directors

The Annual General Meeting of Shareholders on 18 March 2008 authorised the Board of Directors to decide on issuing new shares, transferring treasury shares possessed 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 50,000,000 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 30 per cent of the entire stock. The share issue can be free or for consideration and can be directed to the Company itself subject to the terms and conditions defined by law.

The authorisation shall be in force until 31 March 2010. The authorisation entitles the Board to make an exemption to the pre-emptive right of the shareholders to subscribe to new shares subject to the terms and conditions defined by law. 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, to be used as part of the incentive compensation plan, or for other purposes decided by the Board of Directors.

The authorisation includes the right to pass a resolution as to how the subscription price is entered in the Company's balance sheet. The subscription price may be paid with money or partly or in full with other assets (subscription in kind) or by using the receivables due to the subscriber to offset the subscription price. The Board of Directors shall have the right to decide on other matters related to the share issue.

The General Meeting also 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 a maximum of 15,000,000 treasury shares. The number is approximately 9 per cent of the entire stock. The authorisation shall be in force until 31 August 2009. The authorisation covers the purchase of shares in the course of public trading on the NASDAQ OMX Helsinki in accordance with its rules. The consideration payable for the shares shall be based on the 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 subject to the provisions of the applicable law. 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 other matters related to the purchase of the Company's own shares.

3. Treasury shares

At the beginning of the financial period, Elisa held 8,049,976 treasury shares, in addition to which Elisa's subsidiary Lounet Oy held 125,000 Elisa shares. Lounet Oy sold its holdings during the first half of the year, and when Lounet Oy merged with Elisa on 30 September 2007, 49,976 Elisa shares were transferred to Elisa.

The Annual General Meeting held on 18 March 2008 authorised the Board of Directors to acquire and assign treasury shares. The authorisation applies to a maximum of 15,000,000 treasury shares. On the basis of the authorisation, Elisa acquired 3,000,000 treasury shares through stock exchange trading between 8 August and 17 September 2008. According to the decision of the Board of Directors Elisa transferred a total of 361,467 shares to the personnel under the share incentive plan for 2006.

At the end of the financial period, Elisa held 10,688,629 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 6,43 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 2008 was 82,602 shares and votes, which represented 0.05 per cent of all shares and votes.

5. Share performance

The Elisa share closed at EUR 12.30 on 31 December 2008. The highest quotation of the year was EUR 22.18 and the lowest EUR 9,85. The average price was EUR 15.02.

At the end of the financial year, the market capitalisation of Elisa's outstanding shares was EUR 1,914 million.

6. Quotation and trading

The Elisa share is quoted on the Main List of the NASDAQ OMX Helsinki with the ticker ELI1V. The aggregate volume of trading on the NASDAQ OMX Helsinki between 1 January and 31 December 2008 was 338,824,976 shares for an aggregate price of EUR 5,041 million. The trading volume represented 217.7 per cent of the outstanding number of shares at the closing of the financial year.

Shares and shareholders

7. Distribution of holding by shareholder groups at 31 December 2008

	Shares	Proportion of all shares %
1. Companies	16,532,563	9.94
2. Financial and insurance institutions	7,282,143	4.38
3. Public corporations	36,398,633	21.89
4. Households	41,147,817	24.74
5. Non-profit organisations	2,753,797	1.66
6. Foreign	1,425,472	0.86
7. Special accounts	419,536	0.25
Nominee registered	49,658,996	29.86
Elisa Group	10,688,629	6.43
Total	166,307,586	100.00

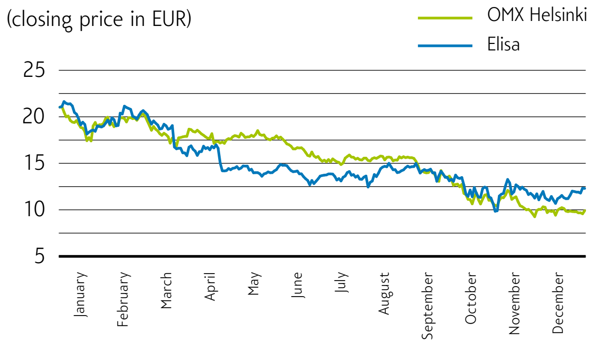
8. Distribution of holding by amount at 31 December 2008

Size of holding	Number of share-holders %	%	Number of shares	%
1–100	28,105	12.48	1,452,023	0.87
101–1 000	194,088	86.17	38,124,493	22.92
1 001–10 000	2,798	1.24	6,490,870	3.90
10 001–100 000	195	0.09	5,806,615	3.49
100 001–1 000 000	39	0.02	9,572,477	5.76
1 000 001–	16	0.01	93,752,943	56.37
Grand total	225,241	100.00	155,199,421	93.32
In special accounts			419,536	0.25
Elisa Group			10,688,629	6.43
Issued amount			166,307,586	100.00

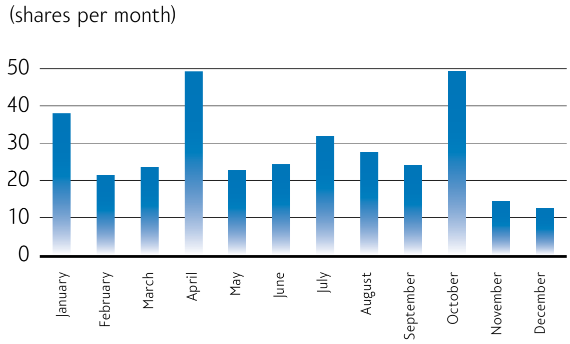
9. Largest shareholders at 31 December 2008

Name	Shares	%
1 Prime Minister's Office	16,006,000	9.62
2 Varma Mutual Pension Insurance Company	10,151,976	6.10
3 Ilmarinen Mutual Pension Insurance Company	3,697,788	2.22
4 Dna Oy	2,952,111	1.78
5 State Pension Fund	2,150,000	1.29
6 OP-Delta Mutual Fund	1,591,656	0.96
7 Lännen Teletieto Oy	1,480,757	0.89
8 Kuopion Puhelin Sijoitus Oy	1,475,556	0.89
9 Oulun Puhelin Holding Oyj	1,475,556	0.89
10 Php Liiketoiminta Oyj	1,475,556	0.89
11 Folketrygdfondet	1,192,441	0.72
12 City of Helsinki	1,124,690	0.68
13 Etera Mutual Pension Insurance Company	738,799	0.44
14 Gyllenberg Finlandia Mutual Fund	490,841	0.30
15 Danske Finlandia Mutual Fund	480,118	0.29
16 Säästöpankki Kotimaa Mutual Fund	460,000	0.28
17 Council Pension Fund	391,856	0.24
18 OP-Focus Special Mutual Fund	385,000	0.22
19 Svenska Handelsbanken Ab (publ), Filialverksamheten I Finland	334,903	0.20
20 Nordea Pro Suomi Mutual Fund	323,082	0.19
Total	48,378,686	29.09
Elisa Group total	10,688,629	6.43
Elisa Group Personnel Fund	136,600	0.08
Nominee registered	49,658,996	29.86
Shareholders not specified here	57,444,675,	34.54
Total	166,307,586	100.00

10. Daily price development (closing price in EUR)



11. Trading volume



Board’s proposal concerning the disposal of profits

According to the consolidated balance sheet of 31 December 2008, the parent company’s shareholders’ equity is EUR 492,645,016.11 of which distributable funds account for EUR 406,230,071.84.

The parent company’s profit for the period 1 January to 31 December 2008 was EUR 77,310,300.99.

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

– capital repayment shall be distributed out of the reserve for invested non-restricted equity for EUR 0.60 per share, totalling EUR 93,371,374.20
– no capital repayment shall be distributed for shares in the parent company’s possession
– EUR 399,273,641.91 shall be retained in shareholders’ equity.

Helsinki, 12 February 2009

Risto Siilasmaa
Chairman of the Board of Directors

Tomas Otto Hansson

Orri Hauksson

Pertti Korhonen

Eira Palin-Lehtinen

Ossi Virolainen

Veli-Matti Mattila
President and CEO

Auditors' report

To the Annual General Meeting of Elisa Corporation

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Elisa Corporation for the year ended on December 31, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

The responsibility of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the President and CEO shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditors' responsibility

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with professional ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors and the President and CEO have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

The audit has been performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements, together with the consolidated financial statements included therein, and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the company in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, February 12, 2009

KPMG OY AB

Pekka Pajamo
Authorized Public Accountant

Corporate Governance

Elisa observes the Corporate Governance Code of the Finnish Securities Market Association. The Code is available for viewing on the Association's website at www.arvopaperimarkkinayhdistys.fi. Elisa departs in no respect from the recommendations of the Code.

Board of Directors and Board committees

Board of Directors

According to the Articles of Association, Elisa's Board of Directors comprises a minimum of five and a maximum of nine members. The members of the Board are appointed at the Annual General Meeting for a one-year term of office starting at the close of the relevant General Meeting, and ending at the close of the next General Meeting after the new appointments are made. The Board of Directors elects a chairman and deputy chairman from among its members.

At present, the Board of Directors comprises six members. The Annual General Meeting elected to the Board on 18 March 2008: Mr Risto Siilasmaa (chairman), Mr Ossi Virolainen (deputy chairman), Mr Tomas Otto Hansson, Mr Orri Hauksson, Mr Pertti Korhonen and Ms Eira Palin-Lehtinen.

All Board members have been independent of the company. Board members Siilasmaa, Virolainen, Korhonen and Palin-Lehtinen have been independent of the company's major shareholders throughout their term of office, while Mr Tomas Otto Hansson and Mr Orri Hauksson have been independent of the company's major shareholders since 13 October 2008, after Novator Finland Oy sold its holding in Elisa Corporation.

In its organising meeting, the Board of Directors annually decides upon committees, their chairmen and members. In 2008, the acting committees were: the Committee for Remuneration Evaluation and Appointments and the Committee for Auditing. The duties and charters of the committees are adopted by the Board of Directors.

Information on current Board members

Mr. Risto Siilasmaa,

(1966) Studies at Helsinki University of Technology, Department of Industrial Engineering and Management, Chairman of the Board, member since 2007.
- Key employment history: Founder and CEO of F-Secure Corporation, from 1988 to 2006.
- Main occupation and main Board memberships and public duties currently undertaken: Chairman of the Board of F-Secure Corporation and Fruugo Oy, deputy chairman of the Federation of Finnish Technology Industries, Member of the Boards of Nokia Corporation, Blyk Ltd, Ekahau Inc, Nexit Ventures Oy, Efekte Corporation, Valimo Wireless Oy, Connected Day Oy and the Confederation of Finnish Industries EK, member of the Investment Council of Finnish Industry Investment Ltd, member of the Ministry of Transport and Communication's Advisory Board for Communications Administration, and member of the Advisory Boards of Helsinki School of Economics and Helsinki University of Technology.

Mr. Ossi Virolainen

(1944), M.Sc. (Econ.), LL.M, Deputy Chairman of the Board, member since 1997.
- Key employment history: CEO of Avesta-Polarit Oyj from 2001 to 2003. Employed by Outokumpu Oyj from 1967 to 2001; Deputy Chief Executive from 1992 to 2001 and member of the Management Group from 1983 to 2001.
- Main Board memberships and public duties currently undertaken: Member of the Board: Kuusakoski Group Oy, Kuusakoski Oy, Alteams Oy, Oy Langh Ship Ab and Hans Langh Pesupalvelu Oy.

Mr. Tomas Otto Hansson

(1965), B.Sc. Economics, University of Iceland, M.Phil. Economics and Finance, New York University, member since 2008.
- Main occupation: Chief Executive Officer, Novator
- Key employment history: Has led a number of investment projects in the telecom industry including: Bulgarian Telecom – BTC in Bulgaria, Ceské Radiokomunikace – CRa in the Czech Republic, QXL in the UK and Nova 3G in Iceland. With Novator since 2002. MBA Project Instructor at Reykjavik University. Previously acted as Deputy Managing Director at Glitnir Bank.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Directors: Novator Ehf. and Nova Ehf.; member of the Board: Oy Novator Finland, Hf Eimskipafelag Islands and Carrera Global Investment Ltd.

Mr. Orri Hauksson

(1971), MBA, Harvard Business School, M.Sc (Mechanical Engineering)degree (University of Iceland), member since 2008.
- Main occupation: Deputy Director, Novator Finland Oy
- Key employment history: Vice President responsible for business development and M&A at Síminn (Icelandic telecoms operator) from 2003 to 2007. Board member, Straumur (Icelandic investment bank) from 2004 to 2005. Political advisor to the Prime Minister of Iceland from 1997 to 2000.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Directors: Taeknivörur EHF; member of the Board:HF Eimskipafelag Islands; deputy member of the Board: Oy Novator Finland.

Mr. Pertti Korhonen

(1961), M.Sc. (Tech), member since 2008.
- Main occupation: CEO, Elektrobit Corporation, 2006-
- Key employment history: Nokia Group, Executive Board member from 2002 to 2006, Chief Technology Officer from 2004 to 2006, head of Nokia Mobile Software unit from 2002 to 2004.
- Main Board memberships and public duties currently undertaken: Member of the Board of Veho Group Oy.

Elisa's Board of Directors: Risto Siilasmaa, Ossi Virolainen, Tomas Otto Hansson, Orri Hauksson, Pertti Korhonen and Eira Palin-Lehtinen

Ms. Eira Palin-Lehtinen

(1950), LL.M. trained on the bench, member since 2008.

- Key employment history: Executive Vice President for Nordea with responsibility for Nordic private banking business and wealth management until the end of 2007.
- Main Board memberships and public duties currently undertaken: Member of the Board of Sampo plc, member of the Board and finance committee of the Sigrid Juselius Foundation, member of the Board of three Luxembourg-domiciled Nordea funds (Nordea Alternative Investment, Nordea Fund of Funds, Sicav and Nordea I Sicav).

Charter of the Board

The Board attends to the administration and proper organisation of the company's operations in accordance with the Finnish Limited Liability Companies Act and other regulations. The Board decides on matters which under law are subject to decision by the Board. The company's Board of Directors has adopted a charter for itself.

In the charter, the Board is tasked with determining the company's strategic guidelines and the operative targets for Elisa's management and with monitoring the achievement of these. The Board shall also appoint the CEO and decide on the members of the Executive Board on the CEO's proposal. The Board regularly monitors financial performance and the development of the company's financial standing on the basis of management reports. The Board also supervises the compliance of Elisa's administration and the management of business and other risks. The Board addresses major investments and disposals of businesses or assets, and also sets the boundaries for the company's management in executing operative investments and financial arrangements.

According to the charter, the following are particularly subject to the Board's decision:

- Elisa's strategic guidelines;
- Distribution of profit policy;
- Convening and submitting proposals to General Meetings
- Matters having to do with Elisa's stock and Elisa shareholders;
- Major mergers and acquisitions;
- Major new businesses;
- Financial statements and interim reports;
- Appointment and dismissal and terms of employment of the CEO and members of the Executive Board

The charter also specifies other matters to be addressed by the Board, such as adopting the annual financial plan, the principles of the company's organisation and the main business policies. The Board conducts an annual self-evaluation of its activities executed in the form of a questionnaire.

Corporate Governance

Meetings and remuneration

The Board of Directors normally convenes monthly.

In 2008, the members of the Board were paid the following emoluments, which were decided upon and set by the Annual General Meeting:

- monthly remuneration fee for the Chairman EUR 9,000 per month
- monthly remuneration fee for the Deputy Chairman and chairman of the Committee for Auditing EUR 6,000 per month
- monthly remuneration fee for the Members EUR 5,000 per month
- meeting remuneration fee EUR 500/meeting/participant.

The monthly remuneration fees (deducted by tax withheld at the calculated rate of 60 per cent) are used for purchases of Elisa shares every quarter. The shares are subject to a transfer restriction of four years during the term of Board service. The restriction is lifted when Board membership ends.

In 2008, Chairman of the Board Risto Siilasmaa (since 18 March 2008) received 2,890 Elisa shares in fees, former Chairman of the Board Pekka Ketonen (until 18 March 2008) 666 shares, Deputy Chairman (since 18 March 2008) and Chairman of the Committee for Auditing Ossi Virolainen 2,123 shares and former Deputy Chairman Mika Ihamuotila (until 18 March 2008) 444 shares. Other Board members combined received 6,336 shares in Elisa. The shares purchased for the current members of Elisa's Board of Directors on 30 December 2008 were not registered in the members' book-entry accounts until 7 January 2009 and are thus not included in the figures below.

Elisa Board members' shareholdings in Elisa, (companies under the member's control)	Number of shares, 31 Dec 2008
Mr Risto Siilasmaa, Chairman of the Board	7,865
Mr Ossi Virolainen, Deputy Chairman	10,287
Mr Tomas Otto Hansson, member	912
Mr Orri Hauksson, member	912
Mr Pertti Korhonen, member	912
Ms Eira Palin-Lehtinen, member	912

In 2008, the Board of Directors convened 26 times. The average attendance rate at Board meetings was 87 per cent.

Committee for Remuneration Evaluation and Appointments

According to its charter, the Committee for Remuneration Evaluation and Appointments deals with and prepares the appointment and dismissal of persons within management, matters associated with long-term incentive schemes and other matters relating to the remuneration of management.

The Committee shall also ensure that a proposal on the composition of the Board is prepared for the General Meeting. This preparation is conducted in consultation with the company's largest shareholders.

In 2008, the Committee for Remuneration Evaluation and Appointments comprised Chairman of the Board Risto Siilasmaa (Committee Chairman) and members Pertti Korhonen and Tomas Otto Hansson. In 2008, the Committee for Remuneration Evaluation and Appointments convened seven times and the attendance rate was 95 per cent.

Committee for Auditing

The Committee for Auditing is tasked with supervising the proper organisation of the company's accounting and financial administration, internal and financial auditing and risk management.

According to the charter, the following in particular shall be addressed and prepared by the Committee for Auditing:

- significant changes in recognition principles;
- significant changes in items measured in the balance sheet;
- financial statements and interim reports;
- risk reports and organisation of risk management;
- organisation of financial administration and financing.

The Committee also regularly reviews reports from internal auditing and the financial auditors and prepares a proposal on auditor election for the General Meeting.

In 2008, the Committee was chaired by Mr Ossi Virolainen with Mr Orri Hauksson and Ms Eira Palin-Lehtinen as Committee members. In 2008, the Committee for Auditing convened five times and the attendance rate was 100 per cent. The principal auditor also attends Committee meetings.

Chief Executive Officer

Elisa's Chief Executive Officer (CEO) is responsible for the day-to-day business activities and administration of the company in accordance with instructions and orders from the Board of Directors and with the Finnish Limited Liability Companies Act. The CEO is appointed by the Board of Directors. The CEO is also responsible for ensuring that the company's accounting practices comply with the law and that financial matters are handled in a reliable manner. Mr Veli-Matti Mattila served as CEO in 2008.

Corporate Governance

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

- Main occupation: Chief Executive Officer
- Key employment history: CEO of Oy L M Ericsson Ab from 1997 to 2003. Has held various positions in the Ericsson Group in Finland and the USA since 1986. Mr Mattila's previous career also includes expert advisory tasks in Swiss Ascom Hasler AG.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Directors of the Confederation of Telecommunications and Information Technology (FiCom ry), member of the Board of Directors of the Central Chamber of Commerce, member of the Supervisory Board of the Finnish Fair Cooperative and member of the Council for Security of Supply and Infrastructure.

The total salary paid to CEO Veli-Matti Mattila in the financial year was EUR 1,689,480.24. The figure is made up of fixed salary including taxable benefits for the use of a company-owned car and telephone as well as medical insurance (EUR 502,293.00), a performance-based bonus (EUR 155,719.64) and the sum of 1,031,467.60 paid on the basis of plan A of the 2006 management bonus and incentive scheme, of which shares in Elisa Corporation accounted for EUR 464,160.42 (31,293 shares).

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

Elisa's CEO is entitled to retire at the age of 60 with a total pension corresponding to 60 per cent. The annual contribution to the CEO's supplementary pension insurance was EUR 94,657.56.

CEO Veli-Matti Mattila held 60,802 Elisa shares at 31 December 2008.

Other information on company administration

General Meeting of Shareholders and Articles of Association

The General Meeting of Shareholders is Elisa's highest decision-making body, which approves, among other things, the consolidated income statement and balance sheet. It also declares the dividend to be paid at the Board of Directors' proposal, appoints members to the Board of Directors, appoints the auditors, and approves the discharge of the members of the Board of Directors and the CEO from liability.

Notices of General Meetings of Shareholders are given by announcement in two Finnish newspapers no later than seventeen days prior to the meeting, as required in the Articles of Association. A stock exchange release is also issued on each notice and made available on Elisa's website (www.elisa.fi). The agenda of the meeting is specified in the notice. Proposals of the Board of Directors to be submitted to the meeting may be viewed on Elisa's website prior to the meeting.

Elisa's Articles of Association may be examined on Elisa's website (www.elisa.fi). Any decisions to amend the Articles of Association are taken by a General Meeting of Shareholders.

Elisa's 2009 Annual General Meeting will be held on 18 March 2009 at 2:00 pm at the Helsinki Fair Centre, Messuaukio 1, Helsinki.

Elisa's Executive Board

Elisa's Executive Board prepares the company strategy, monitors the development of results and deals with issues having substantial financial or other impacts on Elisa. The following table presents the composition of the Executive Board and the members' holdings (at 31 December 2008).

Elisa Executive Board's holdings in Elisa	Number of shares 31 Dec 2007
Mr Veli-Matti Mattila, CEO	60,802
Mr Asko Känsälä, Executive Vice President, Consumer Business unit	27,114
Mr Panu Lehti, Executive Vice President, Products (Consumer Business unit)	17,857
Mr Pasi Mäenpää, Executive Vice President, Corporate Customers	17,557
Mr Timo Katajisto, Executive Vice President, Production	19,153
Mr Jari Kinnunen, Chief Financial Officer	14,222
Mr Jukka Peltola, Executive Vice President, Development	17,557
Ms Katiye Vuorela,Vice President, Corporate Communications	0
Mr Sami Ylikortes, Executive Vice President, Administration	15,331

Elisa's Executive Board from the left: Asko Känsälä, Timo Katajisto, Katiye Vuorela, Panu Lehti and Veli-Matti Mattila

Information on Executive Board members

Mr. Veli-Matti Mattila

(1961), M.Sc. (Tech.), MBA, joined the company in 2003.

- Main occupation: Chief Executive Officer
- Key employment history: CEO of Oy L M Ericsson Ab from 1997 to 2003. Has held various positions in the Ericsson Group in Finland and the USA since 1986. Mr Mattila's previous career also includes expert advisory tasks in Swiss Ascom Hasler AG.
- Main Board memberships and public duties currently undertaken: Chairman of the Board of Directors of the Confederation of Telecommunications and Information Technology (FiCom ry), member of the Board of Directors of the Central Chamber of Commerce, member of the Supervisory Board of the Finnish Fair Cooperative and member of the Council for Security of Supply and Infrastructure.

Mr. Asko Känsälä

(1957), M.Sc. (Tech.), joined the company in 2003.

- Main occupation: Executive Vice President, Consumer Business unit
- Key employment history: Sales Director for the Nordic and Baltic sales unit of the Ericsson Group, member of the management group from 2001 to 2003; Sales Director of Oy LM Ericsson Ab from 1996 to 2001; Tekes, the Finnish Funding Agency for Technology and Innovation, Head of Japan's industrial secretariat from 1993 to 1996; Sales Manager at Hewlett Packard Oy from 1987 to 1993.

Mr. Panu Lehti

(1970), technology and M.A. student, joined the company in 2005.

- Main occupation: Executive Vice President, Products (Consumer Business unit)
- Key employment history: Joined Saunalahti Group Oyj in 2000 as Chief Technology Officer; since July 2002 Chief Operating Officer of the Internet and Teleoperator Unit. Previously, Managing Director of NIC Data Networks Ltd and Sales Manager for Nortel Networks Oy.

Mr. Pasi Mäenpää

(1965), Diploma in Computer Science, MBA, joined the company in 2006.

- Main occupation: Executive Vice President, Corporate Customers
- Key employment history: CEO of Cisco Systems Finland Oy from 2002 to 2006; Regional Manager for Central Europe at Netigy Corporation from 2000 to 2002; Vice President, Sales for Europe and the USA at Fujitsu from 1999 to 2000; Sales and Country Manager at Oracle Corporation in Northern, Central and Eastern Europe from 1990 to1999.

Mr. Timo Katajisto

(1968), M.Sc. (Tech.), joined the company in 2008.

- Main occupation: Executive Vice President, Production
- Key employment history: Member of the Executive Board of Nokia Siemens Networks in 2007, Strategic Projects and Quality. Member of the Executive Board of Nokia Networks from 2005 to 2007, Production and Network Instal-

Jukka Peltola, Jari Kinnunen, Pasi Mäenpää and Sami Ylikortes

lation. Various positions in Nokia Networks and its predecessor Nokia Telecommunications from 1992 to 2005.
- Main Board memberships and public duties currently undertaken: Member of the Board of Directors and Executive Committee of the Employers' Association TIKLI.

Mr. Jari Kinnunen
(1962), M.Sc. (Econ. & Bus. Adm.), joined the company in 1999.
- Main occupation: Chief Financial Officer
- Key employment history: CEO and President of Yomi Plc in 2004, CFO of Elisa Kommunikation GmbH in Germany from 1999 to 2004, Managing Director of Polar International Ltd from 1996 to 1999 and Controller from 1990 to 1996; Controller in Oy Alftan Ab from 1987 to 1990.
- Main Board memberships and public duties currently undertaken: Member of the Finance and Tax Committee of the Confederation of Finnish Industries EK as of 1 January 2009.

Mr. Jukka Peltola
(1970), M.A. student, joined the company in 2005.
- Main occupation: Executive Vice President, Development
- Key employment history: Managing Director and Member of the Board of Directors of PSS-Trade Oy, Director of Internet and Teleoperator business of Saunalahti Group Oyj since 2002.
- Main Board memberships and public duties currently undertaken: Member of the Board of Directors of Finncomm Oy, Seicapital Oy and SmartIT Finland Oy.

Ms. Katiye Vuorela
(1968), M.Sc. (Econ. & Bus. Adm.), joined the company on 13 October 2008.
- Main occupation: Executive Vice President, Corporate Communications
- Key employment history: Paroc Group Holding Oy, Vice President, Communications from 2000 to 2008, Lotus Development Finland Oy, an IBM subsidiary, Marketing and Communications Manager from 1998 to 2000, Nokia Telecommunications (the predecessor of Nokia Siemens Networks), Dedicated Networks business unit, Marketing Communications Manager from 1994 to 1998.

Mr. Sami Ylikortes
(1967), M.Sc. (Econ. & Bus. Adm.), LL.M, joined the company in 1996.
- Main occupation: Executive Vice President, Administration
- Key employment history: Executive Vice President, Administration, since 2000. Secretary to the Board of Directors from 1998 to 2007. Positions in accounting management in Unilever Finland Oy from 1991 to 1996.
- Main Board memberships and public duties currently undertaken: Member of the Board of Directors of Employers' Association TIKLI.

Elisa's Executive Board furthermore comprised members Mr Tapio Karjalainen and Ms Anne Korkiakoski in 2008.

Corporate Governance

Executive Board incentive plan

The members of the Executive Board are paid a total salary which includes salary in money and taxable benefits for the use of a company-owned car and telephone.

In addition, the members of the Executive Board are paid a performance-based bonus based on financial targets set by the company's Board of Directors.

Elisa's Executive Board is covered by the company's long-term share-based incentive scheme.

The salaries paid to Executive Board members in the financial year came to EUR 5,868,606.56. The figure is made up of fixed salary including taxable benefits for the use of a company-owned car and telephone as well as medical insurance (EUR 1,640,173.23), performance-based bonus (EUR 202,891.00) and the sum of EUR 4,590,030.82 paid based on plan A of the 2006 management bonus and incentive scheme, of which shares in Elisa Corporation accounted for EUR 2,065,450.62 (142,053 shares). One member of the Executive Board has been paid consultancy fees in the amount of EUR 127,490 in lieu of fixed salary.

The members of Elisa's Executive Board with the exception of the CEO are entitled to retire at the age of 62 with a total pension corresponding to 60 per cent. The annual supplementary pension insurance contribution in respect of the Executive Board was EUR 109,106.82.

The salaries and other remuneration of the CEO and other members of the Executive Board as well as their long-term incentive schemes are decided by the Board of Directors.

Share-based incentive system

On 12 December 2008, Elisa's Board of Directors decided on a new share-based incentive system for key personnel in the Elisa Group. The system is designed to align the goals of shareholders and key personnel in increasing the value of the company, to secure the commitment of key employees to the company and to offer them a competitive compensation scheme based on shareholding in the company.

The system consists of three earning periods: the calendar years 2009, 2010 and 2011. Any bonus through the system for the 2009 earning period is based on the Elisa Group's earnings per share (EPS) and revenue. The possible bonus for the 2009 earning period will be paid in 2010 partly as company shares and partly in cash. The portion payable in cash will cover the taxes and tax-like charges arising from the bonus. The shares will be subject to a lock-up period of two years following the earning period, during which time transfer restrictions are in effect. In the event that the employment of a key employee ends during the lock-up period, the shares subject to transfer restriction shall be returned to the company without consideration.

The system covers approximately fifty employees. The bonuses payable based on the system equal at maximum the value of some 2.2 million shares in Elisa Corporation (including not more than 1.1 million shares and the cash portion).

Remuneration and incentive plans applicable to management are described in more detail under Notes 7 and 27 in the consolidated financial statements and under Note 4 in the financial statements of the parent company.

Risk management

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, insurable and financial risks.

The Board of Directors' Committee for Auditing ensures that risk management has been duly organised. The company's strategy process includes risk monitoring as well as assessing the scale, potential and feasibility of accepting the identified risks. Strategic goals are achieved by steering operative activities through both a company and unit-specific basis and by setting personal objectives.

Operational policies, instructions and risk monitoring ensure that measures conform to the goals.

Risks to be insured by Elisa are managed via an external insurance broker.

Corporate Governance

Internal auditing

The purpose of internal auditing is to assist the organisation in achieving its goals by evaluating and investigating its functions and by monitoring compliance with corporate regulations. For this purpose, internal auditing produces analyses, assessments, recommendations and information for use by the company's senior management. Reports on completed audits are submitted to the CEO and the management of the unit audited. International internal auditing standards (IIA) form the foundation for internal auditing.

Internal auditing is independent of the rest of the organisation. The starting point for internal auditing is business management and the work is coordinated with financial auditing. An annual auditing plan and auditing report are presented to the Board of Directors' Committee for Auditing. Internal auditing may also carry out separately agreed audits on specific issues at the request of the Board of Directors and Elisa's Executive Board.

Auditors

The auditors' principal duty is to ensure that the financial statements have been prepared in accordance with the valid regulations, so that the statements give a true and fair view of the company's performance and financial position as well as other necessary information to the company's stakeholders.

Other key goals are: to ensure that internal auditing and risk management has been duly organised and the organisation operates in compliance with instructions and within the framework of issued authorisations. The mutual division of labour between external and internal auditing is organised so that internal auditing will ensure that the organisation operates in accordance with the company's internal guidelines.

The company employed one external authorised auditing company in 2008. The auditing company must be duly authorised by the Central Chamber of Commerce. The auditors' term of office is the current financial period for which they are appointed. The duties of the auditors end at the close of the first Annual General Meeting following the expiration of their term of office.

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

For the 2008 financial period, the auditing fees of the Finnish group companies totalled EUR 193,000, of which the share of the parent company accounted for EUR 150,000. The auditing fees for the foreign group companies were EUR 42,000.

The auditing firm has been paid fees of EUR 786,146 for services not associated with auditing. These services had to do with subjects such as mergers and acquisitions, tax services, a review of regulation accounting and other expert services.

Company insiders and insider administration

Elisa has adopted the Insider Guidelines prepared by the NASDAQ OMX Helsinki, which entered into force on 1 January 2006.

In accordance with the Securities Markets Act, Elisa's public insiders include the members of Elisa's Board of Directors and Chief Executive Officer, and the principal auditor for the company within the auditing firm. The public insiders also include the members of Elisa's Executive Board. Information concerning insiders as required by law is published in Elisa's public insiders register. This information also includes persons closely associated with the public insiders, i.e. related parties, and corporations which are controlled by the related parties or in which they exercise an influence. Information about the holdings of public insiders is available on the Internet and can be accessed from Elisa's Web site at www.elisa.fi.

Elisa also has a number of company-specific insiders consisting of other management and financial administration personnel. Project-specific insiders have also been defined where necessary.

Elisa's Legal Affairs monitors compliance with the insider regulations and maintains the company's insider registers together with Euroclear Finland Ltd. Insider information is reviewed at least once a year. When trading in Elisa's securities, permanent insiders should consider its timing to ensure it will not weaken the trust of the general public in the securities markets. Permanent insiders are not allowed to trade in the company's securities during the 14 days preceding the publication of the company's interim report or annual accounts (= closed window). It is advisable for insiders only to make long-term investments in Elisa and conduct their trading within the 14 days following the publication of Elisa's financial results. In addition, those involved in any insider projects must not trade in the company's securities during the project.

Elisa
Registered domicile Helsinki
Business ID 0116510-6
Ratavartijankatu 5, Helsinki
P.O. Box 1, 00061 FI-ELISA, Finland
Telephone +358 102 6000
www.elisa.com

Design and layout: Kreab Gavin Anderson
Photos: Suvi Laine, Getty Images and photograph archives of Elisa, Elektrobit and Novator.