Financial Statements 2016

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The report of the Board of Directors 2016

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

Market situation

The competitive environment has been intense and active during 2016, characterised by some campaigning and investments in customer acquisition. The smartphone market grew, and the usage of data services continued to evolve favourably. Approximately 93 per cent of the mobile handsets sold in 2016 were smartphones.

Another factor contributing to mobile market growth has been the increased network coverage and capacity of new 4G speeds. The competition in the fixed broadband market has been intense in multi-dwelling units. The number and usage of traditional fixed network subscriptions is decreasing.

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

Revenue, earnings and financial position

REVENUE AND EARNINGS

EUR million	2016	2015	2014
Revenue	1,636	1,569	1,535
EBITDA	563	532	520
Comparable EBITDA (1	564	536	520
EBITDA-%	34.4	33.9	33.8
Comparable EBITDA-%	34.5	34.1	33.8
EBIT	339	312	305
Comparable EBIT (2	349	322	305
EBIT-%	20.7	19.9	19.9
Comparable EBIT-%	21.4	20.5	19.9
Return on equity, %	27.1	27.0	25.6

1) 2016 EBITDA includes transfer tax of EUR 1.7m relating to the Anvia acquisition and a capital gain of EUR 0.6m from the sale of Tansec shares.

2) 2016 EBIT includes, in addition to the preceding, a EUR 9m goodwill impairment write-down relating to the Habbo service.

Revenue increased by 4 per cent. The Anvia consolidation, growth in the mobile service business and equipment sales in both Finland and Estonia, as well as digital services in both customer segments, affected revenue positively.

Lower mobile interconnection and roaming revenue, as well as the decrease in usage and subscriptions of traditional fixed telecom services in both segments, affected revenue negatively.

Reported EBITDA includes a non-recurring item of EUR 1 million, which relates to transfer tax of EUR 1.7 million relating to the Anvia acquisition and a capital gain of EUR 0.6 million from the sale of Tansec shares. Comparable EBITDA increased by 5 per cent, mainly due to the Anvia consolidation, revenue growth and productivity improvement measures. Comparable EBIT increased by 9 per cent. Depreciation includes a non-recurring EUR 9 million goodwill impairment write-down relating to the Habbo service.

Net financial income and expenses decreased to EUR -18 million (-24), mainly due to a non-recurring EUR 3 million return relating to unclaimed shares in Elisa's listing and lower interest rates. Income taxes in the income statement increased to EUR -63 million (-47), mainly due to improved profit before tax and tax asset booking in the previous year. Elisa's net profit was EUR 257 million (244). Comparable net profit was EUR 265 million (246). The Group's earnings per share amounted to EUR 1.61 (1.52) and comparable EPS to EUR 1.66 (1.54).

FINANCIAL POSITION

EUR million	End 2016	End 2015	End 2014
Net debt	1,124	962	1,001
Net debt / EBITDA (1	2.0	1.8	1.9
Gearing ratio, %	115.7	103.9	114.0
Equity ratio, %	38.5	41.4	39.4

EUR million	2016	2015	2014
Cash flow after investments	65	253	185
Cash flow after investments excluding investments in shares (2	281	266	224

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

2) Includes a EUR 167m loan arrangement relating to the Starman acquisition

Cash flow after investments was EUR 65 million (253), and excluding investment in shares it was EUR 281 million (266). Cash flow excluding investments in shares grew, mainly due to increased EBITDA and improved net working capital change.

The financial and liquidity positions are good. Net debt increased to EUR 1,124 (962) million, mainly as a result of a loan arrangement relating to the Starman acquisition. Cash and undrawn committed loans and credit lines totalled EUR 214 (479) million at the end of the year.

Changes in corporate structure

On 29 June, an Extraordinary General Meeting of Anvia Oyj approved the sale of Anvia's ICT businesses to Elisa. The transaction was executed on 1 July 2016, when the acquired companies, Anvia Telecom Oy, Anvia IT-palvelut Oy, Anvia Hosting Oy, Anvia TV Oy and Watson Nordic Oy, were consolidated into Elisa. The acquisition price was EUR 107 million, of which EUR 78 million was paid with Anvia shares, EUR 28 million with cash and EUR 1 million with shares in the subsidiary company Tansec Oy.

Arediv Oy merged into the parent company Elisa Oyj on 30 June 2016.

On 1 July 2016, Elisa sold its fully owned subsidiary Elisa Rahoitus Oy to Aktia Bank plc.

On 13 December 2016, Elisa signed an agreement in which Elisa acquired cable TV operator Starman's Estonian business. The transaction is subject to the approval of the Estonian competition authority as well as other usual terms and conditions related to acquisitions. The Estonian competition authority has opened phase II proceedings. Elisa estimates that the deal will be closed during the first quarter of 2017.

Consumer Customers business

EUR million	2016	2015
Revenue	1,029	983
EBITDA	369	348
Comparable EBITDA	370	349
EBITDA-%	35.9	35.4
Comparable EBITDA-%	35.9	35.5
EBIT	241	221
Comparable EBIT	250	229
CAPEX	126	111

Revenue increased by 5 per cent. Anvia consolidation, mobile services, equipment sales and growth in digital services contributed positively to revenue. The decrease in usage and subscriptions of traditional fixed telecom services affected revenue negatively, as did the lower mobile interconnection and roaming revenue.

Reported EBITDA includes a non-recurring item of EUR 1 million, which relates to Anvia transaction. Comparable EBITDA increased by 6 per cent, mainly due to the Anvia consolidation, revenue growth and productivity improvement measures.

Corporate Customers business

EUR million	2016	2015
Revenue	606	586
EBITDA	194	185
Comparable EBITDA	194	187
EBITDA-%	31.9	31.5
Comparable EBITDA-%	32.0	31.9
EBIT	99	91
Comparable EBIT	99	93
CAPEX	100	85

Revenue increased by 3 per cent. The Anvia consolidation, growth in mobile services and digital services contributed positively to revenue. Lower mobile interconnection and roaming revenue, as well as a decrease in usage and subscriptions of traditional fixed telecom services, affected revenue negatively.

Comparable EBITDA increased by 4 per cent, mainly due to the Anvia consolidation, revenue growth and productivity improvement measures.

Personnel

In 2016, the average number of personnel at Elisa was 4,247 (4,146). Employee expenses increased to EUR 275 million (266), mainly due to the Anvia consolidation and changes in collective labour agreements. Personnel at the end of 2016 amounted to 4,301 (4,083). Personnel by segment at the end of the period:

	End 2016	End 2015
Consumer Customers	2,424	2,290
Corporate Customers	1,877	1,793
Total	4,301	4,083

Investments

EUR million	2016	2015
Capital expenditure, of which	226	196
Consumer Customers	126	111
Corporate Customers	100	85
Shares	108	18
Total	334	213

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

Financing arrangements and ratings

VALID FINANCING ARRANGEMENTS

EUR million	Maximum amount	In use on 31 Dec 2016
Committed credit lines	300	130
Commercial paper programme [1]	150	199
EMTN programme [2]	1,000	600

1) Domestic commercial paper programme, not committed

2) Euro Medium Term Note programme, not committed

LONG-TERM CREDIT RATINGS

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

The Group’s cash and undrawn committed loans and credit lines totalled EUR 214 million (479) on 31 December 2016.

Standard & Poor's affirmed Elisa’s rating as ‘BBB+’ and the outlook as stable on 8 March 2016. Moody's Investors Service affirmed Elisa's rating as Baa2 and the outlook as stable on 20 April 2016.

Shares

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

Trading of shares	2016	2015
Nasdaq Helsinki, millions	105.5	113.3
Other marketplaces, millions [1]	190.6	172.9
Total volume, millions	296.2	286.2
Value, EUR million	9577,1	8,121.2
% of shares	177,0	171,0

Shares and market values	End 2016	End 2015
Total number of shares	167,335,073	167,335,073
Treasury shares	7,715,129	7,851,006
Outstanding shares	159,619,944	159,484,067
Closing price, EUR	30.93	34.79
Market capitalisation, EUR million	5,176	5,822
Treasury shares, %	4.61	4.69

1) Other marketplaces based on the Fidessa Fragmentation Index

Number of shares	Total number of shares	Treasury shares	Outstanding shares
Shares at 31 Dec 2015	167,335,073	7,851,006	159,484,067
Performance Share Plan 29.1.2016 [1]		-134,037	134,037
Restricted Share Plan 7.11.2016 [2]		-1,840	1,840
Shares at 31 Dec 2016	167,335,073	7,715,129	159,619,944

1) Stock exchange bulletin, 29 January 2016

2) Stock exchange bulletin, 7 November 2016

Research and development

The majority of the service development occurs during the ordinary course of business and is accounted for as a normal operating expense. Elisa invested EUR 11 million (EUR 15 million in 2015 and EUR 13 million in 2013) in research and development, corresponding to 0.7 per cent of revenue (0.9 per cent in 2015 and 0.8 per cent in 2014). EUR 10 million of the expenses was capitalised in 2016 (EUR 13 million in 2015 and EUR 11 million in 2014).

Annual General Meeting and Board of Directors' organising meeting

On 31 March 2016, Elisa's Annual General Meeting decided to pay a dividend of EUR 1.40 per share based on the 2015 financial statements. The dividend was paid to shareholders on 12 April 2016.

The Annual General Meeting adopted the financial statements for 2015. The members of the Board of Directors and the CEO were discharged from liability for 2015.

The number of the members of the Board of Directors was confirmed at seven. Mr Raimo Lind, Mr Petteri Koponen, Ms Leena Niemistö, Ms Seija Turunen, Mr Jaakko Uotila and Mr Mika Vehviläinen were re-elected as members of the Board of Directors and Ms Clarisse Berggårdh as a new member of the Board of Directors.

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

Mr Raimo Lind was elected as the Chairman of the Board and Mr Mika Vehviläinen as the Deputy Chairman. Mr Raimo Lind (Chair), Mr Petteri Koponen, Ms Leena Niemistö and Mr Mika Vehviläinen were appointed to the Compensation & Nomination Committee. Ms Seija Turunen (Chair), Ms Clarisse Berggårdh and Mr Jaakko Uotila were appointed to the Audit Committee.

Board of Directors' authorisations

The Annual General Meeting decided to authorise the Board of Directors to resolve to repurchase or accept as pledge the company's own shares. The repurchase may be directed. The amount of shares under this authorisation is 5 million shares at maximum. The authorisation is effective until 30 June 2017.

The Annual General Meeting decided to authorise the Board of Directors to pass a resolution concerning the share issue, the right of assignment of treasury shares and/or the granting of special rights entitling to shares. A maximum aggregate of 15 million of the company's shares can be issued under the authorisation. The authorisation is effective until 30 June 2018.

Elisa Shareholders' Nomination Board

As of 2 September 2016, the composition of Elisa's Shareholders' Nomination Board is as follows:

- Mr Kari Järvinen, CEO, nominated by Solidium Oy
- Mr Reima Rytsölä, Executive Vice-President, nominated by Varma Mutual Pension Insurance Company
- Mr Timo Ritakallio, President and CEO, nominated by Ilmarinen Mutual Pension Insurance Company
- Ms Hanna Hiidenpalo, Director, Chief Investment Officer, nominated by Elo Mutual Pension Insurance Company
- Mr Raimo Lind, Chairman of the Board of Elisa
- The Nomination Board elected Mr Kari Järvinen as the chair.

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

Significant legal and regulatory issues

The new EU "Roam like at Home" regulation is coming into force on 15 June 2017. The EU Commission has adopted a proposal to lower the current maximum wholesale roaming charges. The Commission proposed on 15 June 2016 that the maximum wholesale roaming charges in the

EU would be EUR 0.0085 per MB, EUR 0.04 per minute and EUR 0.01 per SMS. The proposed maximum wholesale charges may still change during the legislative procedure in the EU. On 15 December 2016, the EU Commission decided on the detailed rules of fair usage policy and the sustainability mechanism. These mechanisms are designed to ensure the sustainability of domestic charging models.

The EU has adopted the General Data Protection Regulation (GDPR), which concerns all processing of personal data. The GDPR comes into force on 25 May 2018.

Anvia Oyj's Extraordinary General Meeting in June 2016 approved the sale of Anvia's ICT businesses to Elisa. One private shareholder has brought an action in a district court against Anvia in order to annul the General Meeting's decision.

The auction for the Finnish 700 MHz 4G spectrum ended on 24 November 2016. Elisa won 2×10 MHz of spectrum according to its target. The fee for Elisa's spectrum is EUR 22.0 million and it will be paid in five annual instalments in 2017–2021. The license is valid from 1 February 2017 to 31 December 2033. The 700 MHz frequencies will be in mobile broadband use in 2017.

Substantial risks and uncertainties associated with Elisa's operations

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

Strategic and operational risks

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

The final effects of the new EU regulations regarding roaming and net neutrality are still open, and therefore they may have a financial impact on Elisa's mobile business.

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

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

Hazard risks

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

Financial risks

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

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

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

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

A detailed description of financial risk management can be found in Note 34 to the consolidated financial statements.

Corporate responsibility

Elisa has an important role in society in promoting sustainable digitalisation by continuously improving the reliability, safety, availability and environmental impacts of its services. Elisa is committed to the UN Global Compact and supports the UN Sustainable Development Goals.

Customer demand for environmentally friendly ICT and online services continued to increase in 2016, resulting in a further reduction of our customers' carbon footprint. The total reduction was 37,527 tCO_2 (32,313), being 14 per cent better than 2015.

Elisa is a pioneer in changing working culture and engaging teleworking. In 2016, employees teleworked on average 77 (75) days and participated in 227,556 (211,014) virtual meetings. Modern ways of working and investments in daily management showed as high scores in the Great Place to Work Trust Index and in Elisa's personnel satisfaction survey, which improved once again for the thirteenth year in a row.

As a result of Elisa's energy efficiency initiatives and usage of renewable electricity we achieved savings of 118,560 tCO_2 (41,633). All electricity consumed by Elisa in Finland and Estonia was renewable in 2016. Optimisation, modernisation and virtualisation of mobile networks and data centres resulted in savings of 7,953 tCO_2 (6,919). Elisa saved 937 tCO_2 (914) through e-billing.

Elisa reports its carbon footprint annually in the CDP Climate Change Report. Elisa's climate report for investors and global markets has been annually rated among the best of Nordic telecom companies.

In 2016, Elisa was included in the globally recognised FTSE4Good Index. The index is designed to measure the performance of companies that meet globally acknowledged corporate standards of responsibility in terms of environmental, social and governance (ESG) practices.

Elisa will publish its fourth online responsibility report as part of the Annual Report 2016. The responsibility report is prepared according the GRI G4 Core requirements.

Corporate Governance Statement

Elisa has published a Corporate Governance Statement on 27 January 2017.

Events after the financial period

On 24 January 2017, the Shareholders' Nomination Board announced its proposal to Elisa's board for the notice of the Annual General Meeting. The nomination board proposes that the number of members of the Board of Directors be seven. The Nomination Board also proposes that Mr Raimo Lind, Ms Clarisse Berggårdh, Mr Petteri Koponen, Ms Leena Niemistö,
Ms Seija Turunen and Mr Mika Vehviläinen be re-elected as members of the Board. The Nomination Board proposes further that Mr Antti Vasara is elected as a new member of the Board. Mr Jaakko Uotila has announced that he is not available for re-election at the 2017 Annual General Meeting.

On 19 January 2017, Anvia's Extraordinary General Meeting approved the interim financial statements. Hence, Elisa can carry out the Anvia transaction at the final purchase price with the remaining share transfers.

Outlook and guidance for 2017

The macroeconomic environment in Finland is still expected to be weak in 2017, regardless of some positive developments. Competition in the Finnish telecommunications market also remains challenging.

Full-year guidance does not include the Starman acquisition. Revenue is estimated to be at the same level or slightly higher than in 2016. Mobile data and digital services are expected to increase revenue. Comparable EBITDA is anticipated to be at the same level or slightly higher than in 2016. Capital expenditure is expected to be a maximum of 13 per cent of revenue. The mid-term target of a maximum of 12 per cent is still valid. Elisa's financial position and liquidity are good.

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

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

Profit distribution

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

The Board of Directors proposes to the Annual General Meeting a dividend of EUR 1.50 per share. The dividend payment corresponds to 93 per cent of the financial period's net profit.

Shareholders who are listed in the company's register of shareholders maintained by Euroclear Finland Ltd on 10 April 2017 are entitled to funds distributed by the General Meeting. The Board of Directors proposes that the payment date be 19 April 2017. The profit for the period will be added to retained earnings.

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

Consolidated income statement

EUR million	Note	2016	2015
Revenue	1, 4	1,635.7	1,569.5
Other operating income	5	4.4	4.8
Materials and services	6	-626.4	-609.0
Employee expenses	7, 27	-274.8	-266.3
Other operating expenses	8	-175.9	-166.5
EBITDA	1	563.0	532.5
Depreciation, amortisation and impairment	1, 10	-223.8	-220.4
EBIT	1	339.3	312.1
Financial income	11	6.8	3.6
Financial expenses	11	-24.6	-27.4
Share of associated companies' profit		-1.4	2.3
Profit before tax		320.0	290.6
Income taxes	12	-62.6	-47.1
Profit for the period		257.4	243.5
Attributable to:			
Equity holders of the parent		257.1	243.1
Non-controlling interests		0.3	0.4
		257.4	243.5
Earnings per share (EUR/share):			
Basic	13	1.61	1.52
Diluted	13	1.61	1.52
Average number of outstanding shares (1,000 shares):			
Basic	13	159,608	159,470
Diluted	13	159,608	159,470

Consolidated statement of comprehensive income

EUR million	Note	2016	2015
Profit for the period		257.4	243.5
Other comprehensive income, net of tax			
Items which may be reclassified subsequently to profit or loss:			
Financial assets available-for-sale	19	7.7	12.0
Cash flow hedging		0.5	-0.9
Translation differences		-0.0	0.0
		8.3	11.1
Items which are not reclassified subsequently to profit or loss:			
Remeasurements of the net defined benefit liability	28	-0.3	1.8
Total comprehensive income		265.4	256.5
Total comprehensive income attributable to:			
Equity holders of the parent		265.1	256.1
Non-controlling interests		0.3	0.4
		265.4	256.5

Consolidated statement of financial position

EUR million	Note	31 Dec. 2016	31 Dec. 2015
ASSETS			
Non-current assets			
Property, plant and equipment	14	713.9	677.4
Goodwill	15	879.8	830.1
Other intangible assets	15	160.0	134.8
Investments in associated companies	16, 35	2.2	59.5
Financial assets available-for-sale	17–19	38.9	30.3
Deferred tax assets	21	24.6	23.3
Trade and other receivables	17, 18, 20, 25	74.8	73.7
		1,894.3	1,829.1
Current assets			
Inventories	22	55.0	54.8
Trade and other receivables	23	537.0	333.4
Tax receivables		2.2	0.2
Cash and cash equivalents	24	44.5	29.1
		638.7	417.5
TOTAL ASSETS	1	2,533.0	2,246.6
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital		83.0	83.0
Treasury shares		-142.9	-145.5
Reserve for invested non-restricted equity		90.9	90.9
Contingency reserve		3.4	3.4
Fair value reserve		21.3	13.3
Other funds		381.0	381.0
Retained earnings		534.1	499.3
Equity attributable to equity holders of the parent	26, 27	970.8	925.4
Non-controlling interests		0.5	0.5
TOTAL SHAREHOLDERS' EQUITY		971.3	925.9
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	21	28.5	22.7
Pension obligations	28	16.6	15.6
Provisions	29	3.5	3.4
Financial liabilities	30	827.3	686.0
Trade payables and other liabilities	31	34.0	23.9
		909.8	751.6
Current liabilities			
Trade and other payables	31	307.7	255.5
Tax liabilities		0.0	2.9
Provisions	29	2.9	5.4
Financial liabilities	30	341.2	305.2
		651.9	569.1
TOTAL LIABILITIES		1,561.7	1,320.7
TOTAL EQUITY AND LIABILITIES		2,533.0	2,246.6

Consolidated statement of cash flows

EUR million	Note	2016	2015
Cash flow from operating activities			
Profit before tax		320.0	290.6
Adjustments			
Depreciation, amortisation and impairment	10	223.8	220.4
Financial income (-) and expenses (+)		17.8	23.8
Gains (-) and losses (+) on the disposal of fixed assets		-0.7	-2.9
Increase (+) / decrease (-) in provisions in the income statement		-2.8	2.0
Other adjustments		0.4	-0.2
		238.5	243.0
Change in working capital			
Increase (-) / decrease (+) in trade and other receivables		-3.0	-1.6
Increase (-) / decrease (+) in inventories		0.6	-5.6
Increase (+) / decrease (-) in trade and other payables		11.9	6.9
		9.4	-0.4
Dividends received		3.5	2.9
Interest received		2.2	2.4
Interest paid		-22.0	-23.8
Taxes paid		-65.1	-52.0
Net cash flow from operating activities		486.5	462.8
Cash flow from investing activities			
Investment in shares and business combinations		-25.0	-2.9
Investment in associates		-23.9	-11.1
Contingent consideration of subsidiaries		-0.2	1.3
Capital expenditure		-208.9	-199.8
Proceeds from disposal of subsidiaries and businesses		2.4	
Proceeds from sale of financial assets available-for-sale		0.4	1.5
Proceeds from disposal of tangible and intangible assets		1.0	1.1
Loans granted		-167.0	
Repayment of loan assets			0.1
Net cash flow used in investing activities		-421.3	-209.8
Cash flow before financing activities		65.2	253.0
Cash flow from financing activities			
Proceeds from long-term borrowings		150.0	0.2
Repayment of long-term borrowings		-130.8	-10.7
Increase (+) / decrease (-) in short-term borrowings		158.5	-39.5
Repayment of finance lease liabilities		-4.4	-4.8
Dividends paid		-223.2	-210.3
Net cash used in financing activities		-49.9	-265.2
Change in cash and cash equivalents		15.3	-12.2
Cash and cash equivalents at the beginning of the period		29.1	41.3
Cash and cash equivalents at the end of the period	24	44.5	29.1

Consolidated statement of changes in shareholders' equity

	Equity attributable to equity holders of the parent							
EUR million	Share capital	Treasury shares	Reserve for invested non-restricted equity	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 Jan. 2015	83.0	-148.2	90.9	384.8	467.5	878.0	0.6	878.6
Profit for the period					243.1	243.1	0.4	243.5
Translation differences					0.0	0.0		0.0
Financial assets available-for-sale				12.0		12.0		12.0
Cash flow hedge				-0.9		-0.9		-0.9
Remeasurements of the net defined benefit liability				1.8		1.8		1.8
Total comprehensive income				12.9	243.1	256.1	0.4	256.5
Dividend distribution					-210.5	-210.5	-0.5	-211.0
Share-based compensation		2.7			1.5	4.2		4.2
Other changes					-2.3	-2.3		-2.3
Balance at 31 Dec. 2015	83.0	-145.5	90.9	397.7	499.3	925.5	0.5	925.9
Profit for the period					257.1	257.1	0.3	257.4
Translation differences					0.0	0.0		0.0
Financial assets available-for-sale				7.7		7.7		7.7
Cash flow hedge				0.5		0.5		0.5
Remeasurements of the net defined benefit liability				-0.3		-0.3		-0.3
Total comprehensive income				8.0	257.1	265.1	0.3	265.4
Dividend distribution					-223.5	-223.5	-0.4	-223.9
Share-based compensation		2.7			3.4	6.1		6.1
Other changes					-2.3	-2.3		-2.3
Balance at 31 Dec. 2016	83.0	-142.9	90.9	405.7	534.1	970.9	0.5	971.3

Notes to the consolidated financial statements

Basic information on the Group

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

On 26 January 2017 Elisa's Board of Directors accepted this financial statement for publication. A copy of the consolidated financial statements is available from Elisa's head office at Ratavartijankatu 5, Helsinki, or on the company's website at corporate.elisa.com.

Basis of presentation of financial statements

Elisa's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), including adherence to IAS and IFRS standards and SIC and IFRIC interpretations valid as at 31 December 2016. In the Finnish Accounting Act and the provisions issued pursuant to it, the International Financial Reporting Standards refer to standards and interpretations that have been approved for application in the EU according to the procedures provided for in EU regulation (EC) No. 1606/2002 ("IFRS"). The notes to the consolidated financial statements are also compliant with Finnish accounting and corporate legislation.

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

The preparation of consolidated financial statements in conformity with IFRS requires the application of judgment by the Group management in making estimates and decisions. Information on decisions requiring management judgment on the application of appropriate accounting principles that have a material impact on the consolidated financial statements are presented in the accounting principles under "Accounting policies that require management's judgments and sources of estimation uncertainty".

Applied new and revised standards and interpretations

The Annual Improvements of IFRS standards adopted as of 1 January 2016 did not have an impact on the consolidated financial statement.

Consolidated accounting principles

Combination principles

Subsidiaries

The consolidated financial statements include the parent company, Elisa Corporation, and those subsidiaries in which the Group has control. Control is obtained when the Group is exposed, or has the right, to variable returns through its power over the entity.

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

Changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. As at the date when control is lost, any investment retained in the former subsidiary is recognised at fair value and the difference is recorded through profit or loss. Identifiable assets acquired and assumed liabilities are measured at their fair value as of the acquisition date. Changes in the contingent consideration and acquisition-related expenses are recognised as an expense in the income statement. In a business combination carried out in stages, the previously held equity interest in the acquiree is measured again at its acquisition-date fair value and the resulting gain or loss is recognised in profit or loss. A gain resulting from a bargain purchase is recognised in profit or loss.

Non-controlling interests are measured either at the amount which equals proportionate share of the non-controlling interests in the recognised amounts of the acquiree's identifiable net assets or at fair value. The method to be used is selected on a case-by-case basis. Changes in non-controlling interests are recognised in retained earnings.

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

Associated companies

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

Joint arrangements

Joint arrangements are arrangements over which the Group exercises joint control with one or more parties. A joint arrangement is either a joint operation or a joint venture. A joint venture is a joint arrangement where the Group has rights to the net assets of the arrangement. A joint operation is a joint arrangement where the Group has rights to the assets and obligations for the liabilities relating to the arrangement. The only joint arrangement owned by the Group is a joint operation which is consolidated using the proportional consolidation method.

Conversion of items denominated in a foreign currency

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

Transactions in foreign currencies

Transactions in foreign currencies are translated into the functional currency at the rates of exchange prevailing on the dates of the transactions. Monetary items have been translated into the functional currency using the rates of exchange as at year-end and non-monetary items using the rates of exchange on the dates of the transactions, excluding items measured at fair value, which have been translated using the rates of exchange on the date of valuation. Gains and losses arising from the translation are recognised in profit or loss. Foreign exchange gains and losses from operations are included within the corresponding items above EBIT. Foreign exchange gains and losses from loans denominated in a foreign currency are included within financial income and expenses.

Translation of foreign Group companies' financial statements

The income statements of foreign Group companies are translated into euros using the average rate of exchange of the financial year and the statements of financial position using the rates of exchange as at year-end. Differences resulting from the translation of the result for the period at a different rate on the income statement and in the statement of financial position are recognised in other comprehensive income as translation differences within consolidated shareholders' equity.

Revenue recognition principles

Revenue includes normal sales income from business operations less 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 rewards related to the ownership of the goods have been transferred to the buyer. Service revenue is recognised when it is probable that economic benefit will flow to the Group and when the income and costs associated with the transaction can be measured reliably. Revenue and expenses related to long-term projects are recognised on the basis of the percentage of completion when the final outcome of the project can be estimated reliably. The percentage of completion is determined as a proportion of hours worked to the estimated total number of hours of work. When it is likely that total costs to complete the project will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group revenue consists mainly of income from voice and data traffic, periodic fees, opening fees and maintenance fees, as well as income from equipment sales. Sales are recognised as revenue 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 the time of connection. Revenues from prepaid mobile phone cards are recognised over the period of realised use of the cards. Service fees invoiced from a customer on behalf of a third-party content service provider are not recognised as revenue.

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

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 end of the service period.

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

EBIT

Earnings before interest and taxes ("EBIT") stands for revenue and other operating income less operating expenses (materials and services adjusted by change in inventories, employee expenses and other operating expenses), depreciation and amortisation.

Current taxes and deferred taxes

The tax expense in the income statement comprises current tax and deferred tax. Income taxes for the financial year are calculated from taxable profit with reference to a valid tax rate and are adjusted by any previous years' taxes.

Deferred taxes are calculated from all temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The principal temporary differences arise from tax losses carried forward, depreciation differences and fair value measurements in business combinations. Deferred tax is not recognised on goodwill impairment, which is not deductible for tax purposes. Deferred tax is not recognised on non-distributable profits of subsidiaries as far as there is no profit distribution decision in the foreseeable future. No deferred tax is recognised on valuation differences of shares for which the gain on sale would be tax-deductible.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax liabilities are recognised on the balance sheet in total.

Interest and dividends

Interest income is recognised using the effective interest method, and dividend income is recognised when the right to receive payment is established.

Intangible Assets

Goodwill

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

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

Research and development

Research costs are recorded as an expense in the income statement. Development expenses are recognised in the statement of financial position from the date the product is technically feasible, it can be utilised commercially and future economic benefit is expected from the product. Otherwise development costs are recorded as an expense. Development costs initially recognised as expenses are not capitalised at a later date.

Other intangible assets

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

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

Amortisation periods for intangible assets:

Customer base	4–5 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 statement of financial position at the original cost. Property, plant and equipment are stated at cost less accumulated depreciation and impairments. Depreciation is recorded on a straight-line basis over the useful lives. The residual value and the useful life of an asset is reviewed at year-end and adjusted as necessary.

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

Expected useful lives of property, plant and equipment:

Buildings and constructions	25–40 years
Machinery and equipment in buildings	10–25 years
Telecommunications network (line, backbone, area, subscription, cable TV)	8–15 years
Exchanges and concentrators (fixed and mobile core)	6–10 years
Equipment for the network and exchanges	3–8 years
Telecommunication terminals	1–4 years
Other machinery and equipment	3–5 years

Land areas are not depreciated.

Government grants

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

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

Financial assets and liabilities

Financial assets

The Group classifies its financial assets as financial assets at fair value through profit or loss, loans and receivables and financial assets available-for-sale. The classification of financial assets takes place at initial recognition and depends on the purpose for which the financial assets were acquired. The purchases and sales of financial assets are recognised on the settlement date. Financial assets are derecognised once the contractual rights to the cash flows from the financial asset expire or once all the risks and rewards of ownership of the financial asset have substantially been transferred 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 good credit rating. Both realised and unrealised gains and losses from changes in fair value are recognised in profit or loss during the financial period in which they incur.

Derivatives are recognised at fair value as financial assets or liabilities on the date of acquisition and are subsequently measured again at their fair value. The recognition of changes in the fair value of derivatives depends on the use of the derivative contract. Outstanding derivatives that do not qualify for hedge accounting are recognised at fair value and the changes in fair value are immediately recognised within the financial items in the income statement. The fair value of derivatives is expected to approximate the quoted market price or, if this is not available, fair value is estimated using commonly used valuation methods.

Elisa started hedge electricity purchases by derivatives during 2014. Derivative contracts are treated as cash flow hedges. The effective portion of derivatives that qualify for hedge accounting is recognised in the revaluation reserve of equity (included in the item "Other reserves"). The gains and losses in equity accumulated from the hedging instrument are recognised in the income statement when the hedged item affects the profit or loss. The ineffective portion is recognised in the income statement in other operative income or expenses. The change in the revaluation reserve recognised in equity is presented in the statement of comprehensive income under cash flow hedging. Hedge accounting is discontinued when the hedging instrument expires or is sold or the contract is terminated or exercised. Any cumulative gains or losses existing in equity at that time remain in equity until the predicted transaction has occurred.

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

Financial assets available-for-sale are included in non-current assets. Equity investments, excluding investments in associated companies and mutual real estate companies, are classified as financial assets available-for-sale and are generally measured at fair value. Values of securities that cannot be measured reliably are reported at cost less impairment. Fair values of financial assets available-for-sale are measured either on the basis of the value of comparable companies, using the discounted cash flow method or by using quoted market rates. Changes in the fair value of equity investments are recognised in other comprehensive income. When the equity investment is sold, accumulated changes in fair value are released from shareholders' equity and recognised in profit or loss.

Items measured at fair value are categorised using the three-level value hierarchy. Level 1 includes instruments with quoted prices in active markets. Listed shares owned by the Group are categorised at Level 1. Level 2 includes instruments with observable prices based on market data. The Group's Interest rate and currency swap and electricity derivatives are categorised at Level 2. Level 3 includes instruments with prices that are not based on verifiable market data but instead on the company's internal information, for example. The contingent consideration relating to business combinations are categorised at Level 3. See Note 17.

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 less than three months.

Financial liabilities

Financial liabilities are initially recognised at fair value equalling the net proceeds received. Financial liabilities are subsequently measured at amortised cost by using the effective interest method. Transaction costs are included within the cost of financial liabilities. Financial liabilities are recorded in non-current and current liabilities and they may be non-interest-bearing or interest-bearing.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that an asset is impaired. If such evidence exists, the recoverable amount of the asset is assessed. Regardless of any existence of impairment indications, the recoverable amount of goodwill and intangible assets under construction are also annually assessed. The Group does not have any intangible assets with an indefinite useful life. The need for impairment is assessed at the level of cash-generating units.

The recoverable amount of the asset is its fair value less costs of disposal or its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset item or a cash-generating unit. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. An impairment loss is recognised immediately in the income statement. If an impairment loss is allocated to a cash-generating unit, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit on a pro rata basis. An impairment loss is reversed if there are indications that a change in circumstances has taken place and the asset's recoverable amount has changed since the impairment loss was recognised. However, the reversal of an impairment loss will never exceed the carrying amount of the asset had no impairment loss been recognised. An impairment loss recognised for goodwill is never reversed under any circumstances.

Inventories

Inventories are stated at the cost of an acquisition or at the net realisable value if lower than the cost. The cost is determined using a weighted average price.

Treasury shares

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

Provisions and contingent liabilities

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

Contingent liabilities are possible obligations that arise from past events and their existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent liabilities also include present obligations that arise from past events but where it is not probable that an outflow of resources will be required to settle the obligations or the amount of the obligations cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the statement of financial position. Contingent liabilities are presented in the notes.

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 constructive obligation to pay further contributions if the fund is unable to pay all employees the benefits relating to employee service. The premiums for defined contribution pension plans are recognised as expenses during the financial year in which they incur. A defined benefit plan is a pension plan that is not a defined contribution plan.

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

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

Performance-based bonus scheme and personnel fund

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

Share-based incentives

The aim of the Group's share-based incentive plans is the long-term commitment of senior management to the improvement of the company's value. The amount of the possible award to be paid is tied to the accomplishment of the related targets. Share-based incentive plans are measured at fair value at the date of granting and are charged to the income statement as follows: the cash portion of the reward is allocated until the end of the month preceding the month of the actual payment and the share portion of the reward is allocated over the restriction period. The proportion settled in shares is recognised in equity, while the proportion settled in cash is recognised as a liability. If the assumption regarding the realised number of shares changes, an adjustment is recorded through profit and loss. The fair value of the portion settled in cash shall be reassessed at the end of each financial period until the end of the month preceding the month during which the reward is paid. Transfer restrictions related to the scheme are not taken into account in fair valuation or expense recognition. The plans do not involve any other non-market based terms and conditions.

Leases

The group as a lessee

Leases in which the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

Leases of tangible assets, in which the Group has substantially all the risks and rewards of the ownership, are classified as finance leases. Assets acquired on finance leases are recognised in the statement of financial position at the beginning of the lease period at the lower of the fair value of the leased asset or the present value of future minimum lease payments. Assets acquired under finance leases are depreciated over the useful life of the asset or the lease period, if this is shorter. Minimum lease payments are apportioned between financial expenses and the reduction of the outstanding liability over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance lease liabilities are recognised in interest-bearing liabilities. The Group has primarily leased telecommunications networks and facilities, servers and work stations, videoconferencing equipment and infrastructure under finance leases.

The group as a lessor

The Group acts as a lessor in two different types of lease arrangements that are accounted for operating leases. Rental income from telecom premises and carrier services is recognised as revenue over the lease period. Rental income from apartment leases is recorded in other operating income over the lease period.

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

Accounting policies that require management's judgements and sources of estimation uncertainty

The preparation of financial statements requires the application of judgment in making estimates and assumptions. Actual results may differ from the estimates and assumptions made. In addition, the application of the accounting principles also requires the application of judgment. The estimates are based on the management's best view at the end of the financial period. Any changes in estimates and assumptions are recognised in the financial year during which the estimate or assumption is adjusted and in all subsequent periods.

Impairment testing

Goodwill and intangible assets under construction are tested for impairment annually or more frequently if events or circumstances indicate a potential impairment. The recoverable amount of cash-generating units is determined by calculations based on value in use, the preparation of which requires estimates and assumptions. The main uncertainties are associated with the estimated level of revenue and profitability and the discount rate. Any changes may lead to the recognition of impairment losses. The carrying value of goodwill was EUR 879.8 million on 31 December 2016. See Note 15.

Share-based incentive plans

The expense recognition for the share-based incentive plans is based on an estimate of the fulfilment of the share incentive plan criteria and the development of Elisa's share price. The fulfilment of the share incentive plan criteria and the development of the share price might deviate from the estimates. Share-based compensation expenses were EUR 8.3 million in 2016 and the liability relating to share-based incentive plans as at 31 December 2016 was EUR 10.7 million. See Note 27.

Income and expenses

The measurement and allocation of income and expenses to the appropriate financial period is partially based on estimates from past experience.

Deferred tax assets

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

December 2016, the Group had EUR 24.6 million deferred tax receivables.

Application of new and revised accounting pronouncements under IFRS

On 1 January 2018, the Group will adopt the following new standards, providing these are approved by the EU by the planned date of adoption.

- IFRS 15 Revenue from Contracts with Customers. The new standard includes a single, principles-based, five-step model for the recognition of revenue from agreements with customers. According to IFRS 15, sales revenue must be allocated to performance obligations based on relative transaction prices. A performance obligation is defined as a promise to transfer to the customer a goods and/or services. The recognition takes place over time or at a specific point in time, and a key criterion is the passing of control.

  Elisa started preparations for the implementation of the standard in 2015 by preparing a top-level analysis of the key change areas. It has been assessed that the implementation of the standard will have a major impact on data systems and the reporting processes. No major changes in Elisa's financial reporting are to be expected, nor will the implementation of the standard influence the cash flow. Elisa has launched a separate project to manage the planning and implementation of the process changes required due to the standard and the change management.

  No major changes to the current concepts of "goods" and "services" will occur in Elisa due to the identification of the performance obligations. Fixed-term service agreements and service agreements valid until further notice are performance obligations that are recognised over time, and goods are performance obligations that are recognised at a specific point in time.

  According to the current recognition principles, service agreements valid until further notice are recognised monthly, and sales revenue is recognised less any granted discounts. According to the current recognition principles, the opening fees of service agreements valid until further notice and related expenses are recognised at the time when the service is connected.

  Fixed-term service agreements are recognised during the agreement period, and as an exception from the current recognition principles, the opening fees of fixed-term service agreements and related expenses are, in most cases, allocated for the entire agreement period. Discounts on fixed-term service agreements are usually allocated for the entire agreement period.

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

- IFRS 9 Financial Instruments. In accordance with the standard, financial assets are measured at fair value unless certain conditions require measurement at amortised cost. The measurement models have also been simplified. The standard will change hedge accounting and offer a new way of assessing impairments. The recognition of expected impairments happens at the beginning of the contract. The change does not have a significant impact on the Group's financial statements.

On 1 January 2019, the Group will adopt the following new standard, providing it is approved by the EU by the planned date of adoption.

- IFRS 16 Leases. In respect of the lessor, the situation will remain largely unchanged. In respect of the lessee, all leases except short-term (less than a 12-month) contracts and contracts with low value will be recognised on the balance sheet. The change will move off-balance sheet liabilities to the balance sheet and thus increase the amount of lease property and debt. The amount of off-balance sheet liabilities on 31 December 2016 was EUR 93.0 million. The concepts of agreements processed as off-balance sheet liabilities and the concepts used in IFRS 16 are somewhat different from each other, which is why the number of agreements recognised on the balance sheet may differ from the number of off-balance sheet liabilities. The lease contracts recognised on the balance sheet are mainly from business premises and telecom facilities. The change does have a material impact on the Group's financial statements. The change will also affect the key indicators based on the balance sheet, such as gearing.

1. OPERATING SEGMENTS

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

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

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

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

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

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

Operating Segments

2016

EUR million	Consumer Customers	Corporate Customers	Unallocated items	Group total
Revenue	1,029.3	606.4		1,635.7
EBITDA	369.4	193.6		563.0
Depreciation, amortisation and impairment	-128.7	-95.1		-223.8
EBIT	240.7	98.6		339.3
Financial income			6.8	6.8
Financial expenses			-24.6	-24.6
Share of associated companies' profit			-1.4	-1.4
Profit before tax				320.0
Investments	125.7	100.2		226.0
Assets	1,365.9	886.0	281.1	2,533.0

2015

EUR million	Consumer Customers	Corporate Customers	Unallocated items	Group total
Revenue	983.2	586.3		1,569.5
EBITDA	347.7	184.8		532.5
Depreciation, amortisation and impairment	-126.3	-94.2		-220.4
EBIT	221.5	90.6		312.1
Financial income			3.6	3.6
Financial expense			-27.4	-27.4
Share of associated companies' profit			2.3	2.3
Profit before tax				290.6
Investments	110.6	85.2		195.8
Assets	1,271.6	832.1	143.0	2,246.6

Product and service information

2016

EUR million	Mobile communications	Fixed network and other	Group total
Revenue	1,021.3	614.4	1,635.7

2015

EUR million	Mobile communications	Fixed network and other	Group total
Revenue	988.4	581.1	1,569.5

Geographical information

2016

EUR million	Finland	Rest of Europe	Other countries	Eliminations	Group total
Revenue	1,507.1	133.7	4.6	-9.7	1,635.7
Assets	2,447.5	84.0	1.5		2,533.0

2015

EUR million	Finland	Rest of Europe	Other countries	Eliminations	Group total
Revenue	1,437.7	133.9	5.1	-7.2	1,569.5
Assets	2,164.5	80.7	1.4		2,246.6

2. ACQUISITIONS

Acquisitions in 2016

Acquisition of Anvia's ICT companies

Elisa acquired 100 per cent of shares in Anvia Telecom Oy, Anvia IT-Palvelut Oy, Anvia Hosting Oy, Anvia TV Oy and Watson Nordic Oy on 1 July 2016. The acquisition price was EUR 107.5 million, including a capital loan acquired as a part of the acquisition. Elisa paid the acquisition price with shares in Anvia Oyj, cash and shares in the subsidiary Tansec Oy.

Through this acquisition, Elisa strengthens its market position in the field of activity of Anvia's ICT companies.

EUR 7.8 million of the purchase price is allocated to the customer base. EUR 7.1 million of the customer base is allocated to fixed broadband customerships and is amortised over five years, and EUR 0.7 million is allocated to IT customership and is amortised over four years. The acquisition resulted in EUR 59.9 million of goodwill relating to market access in the field of activity of the purchased entities and expected synergy benefits. Goodwill is not tax deductible.

The acquired companies have been consolidated from 1 July 2016 onwards. Revenue after the acquisition was EUR 35.9 million and profit for the period EUR 7.1 million. Had the acquisition been made as of the beginning of the year, the impact on Group revenue and profit for the period would have been EUR 73.3 million and EUR 5.5 million, respectively.

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

Consideration transferred

EUR million	Carrying amount
Anvia Oyj shares	78.3
Tansec Oy shares	1.1
Cash paid	28.2
Total cost of acquisition	107.5

Analysis of net assets acquired

EUR million	
Customer base	7.8
Other intangible assets	0.5
Tangible assets	43.4
Equity investments and funds	1.4
Deferred tax assets	2.9
Inventories	2.2
Trade and other receivables	11.0
Cash and cash equivalents	2.2
Deferred tax liabilities	-4.8
Pension liabilities	-0.4
Provisions	-0.4
Accrued expenses and other liabilities	-18.0
	47.6

Effects of acquisition on cash flow

EUR million	
Purchase price paid in cash	-27.0
Cash and cash equivalents of the acquired entities	2.2
	-24.8

Goodwill arising from business combination

EUR million	
Consideration transferred	107.5
Net assets acquired	47.6
Goodwill	59.9

The acquisition resulted in a EUR 1.7 million expense of transfer tax, which has been recorded in other operating expenses. In addition, a EUR 0.1 million expense of fees for experts and professional advisors is recorded in other operating expenses.

Acquisition of Frandel Oy

On 5 July 2016, Elisa acquired all shares of Frandel Oy. The purchase price was EUR 0.3 million. The business combination resulted in goodwill of EUR 0.1 million. The goodwill writedown is recognised as other operating expenses and is not tax deductible. On 8 September 2016, the business changed its name to Ekaso Oy.

The acquired company is consolidated from 1 July 2016 onwards.

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

Consideration transferred

EUR million	Carrying amount
Cash paid	0.3
Total cost of acquisition	0.3

Analysis of net assets acquired

EUR million	
Equity investments and funds	0.1
Cash and cash equivalents	0.1
	0.2

Effects of acquisition on cash flow

EUR million	
Purchase price paid in cash	-0.3
Cash and cash equivalents of the acquired entity	0.1
	-0.2

Goodwill arising from business combination

EUR million	
Consideration transferred	0.3
Net assets acquired	0.2
Goodwill	0.1

Acquisitions in 2015

Acquisition of Banana Fingers Ltd

Elisa acquired all shares of Banana Fingers Ltd, which is a part of the EpicTV business. The purchase price was EUR 3.3 million, including a contingent consideration of EUR 1.4 million. The business combination resulted in goodwill of EUR 2.9 million. The goodwill resulted from the acquisition of e-commerce know-how and a business concept, and faster access to the sports equipment e-commerce market for consumer customers. Goodwill is not tax deductible.

Banana Fingers is consolidated from 1 January 2015 onwards.

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

Analysis of net assets acquired

EUR million	Carrying amount
Inventories	0.3
Cash and cash equivalents	0.3
Trade payables and other current liabilities	-0.2
	0.4

Effects of acquisition on cash flow

EUR million	
Purchase price paid in cash	-1.9
Cash and cash equivalents of the acquired entity	0.3
	-1.6

Acquisition of Datawell Oy’s MDM (Master Data Management) business

On 31 August 2015, Elisa Appelsiini acquired Datawell Oy's MDM business. The purchase price was EUR 2.0 million. The business combination resulted in goodwill of EUR 0.8 million. The acquisition strengthens the supply of Elisa's digital healthcare services and supports the development of new services. Goodwill is not tax deductible.

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

Analysis of net assets acquired

EUR million	Carrying amount
Contract base	1.5
Current assets	0.1
Deferred tax liabilities	-0.3
Accruals and other current liabilities	-0.1
	1.2

Effects of acquisition on cash flow

EUR million	
Purchase price paid in cash	-2.0

Acquisition of Fonum Oy

On 7 September 2015, Elisa acquired all shares of Fonum Oy. The purchase price was EUR 0.6 million. The business combination resulted in EUR 0.4 million goodwill relating to market access in the mobile phone service and repair business. Goodwill is not tax deductible.

Fonum is consolidated from 1 September 2015 onwards.

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

Analysis of net assets acquired

EUR million	Carrying amount
Intangible assets	0.1
Property, plant and equipment	0.0
Inventories	0.1
Trade and other receivables	0.0
Cash and cash equivalents	0.1
Accruals and other liabilities	-0.2
	0.2

Effects of acquisition on cash flow

EUR million	
Purchase price paid in cash	-0.6
Cash and cash equivalents of the acquired entity	0.1
	-0.5

Acquisition of Livezhat business

On 31 October 2015, Elisa acquired ZEF Oy's Livezhat service business. The purchase price was EUR 0.5 million. The business combination resulted in EUR 0.3 million goodwill relating to the improvement of the range of services for corporate customers. Goodwill is not tax deductible.

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

Analysis of net assets acquired

EUR million	Carrying amount
Customer base	0.2
Deferred tax liabilities	-0.0
	0.2

Effects of acquisition on cash flow

EUR million	
Purchase price paid in cash	-0.5

3. DISPOSALS

Disposals in 2016

Disposal of Tansec Oy

As a part of the Anvia ICT companies acquisition, Elisa divested the fully owned Tansec Oy on 1 July 2016. The sales price was EUR 1.1 million. The divestment resulted in a profit of EUR 0.6 million, recorded in other operating income in the consolidated income statement, and it removed a total of EUR 0.6 million goodwill from the Group. The impact of the result incurred during the period of the ownership by the Group has been taken into account in the profit.

The Group has consolidated the result of Tansec Oy until 30 June 2016.

Net assets of the sold entity

EUR million	Carrying amount
Intangible assets	0.2
Property, plant and equipment	0.1
Inventories	0.1
Trade and other current receivables	0.3
Cash and cash equivalents	0.1
Trade payables and other current liabilities	-0.9
	-0.1

Effects of disposal on cash flow

EUR million	
Sales price received in cash	1.1
Cash and cash equivalents of the sold entity	-0.1
	0.9

Disposal of Elisa Rahoitus Oy

Elisa divested the fully owned Elisa Rahoitus Oy on 1 July 2016. The sales price was EUR 1.6 million. The divestment did not have an impact on the consolidated income statement. The impact of the result incurred during the period of the ownership by the Group has been taken into account in the sales price calculation.

The Group has consolidated the result of Elisa Rahoitus Oy until 30 June 2016.

Net assets of the sold entity

EUR million	Carrying amount
Intangible assets	0.9
Trade and other current receivables	0.3
Cash and cash equivalents	0.6
Trade payables and other current liabilities	-0.2
	1.6

Effects of disposal on cash flow

EUR million	
Sales price received in cash	1.6
Cash and cash equivalents of the sold entity	-0.6
	1.0

Disposal of Multi-function printer business

Elisa Appelsiini divested the Multi-function printer business on 7 December 2016. The sales price was EUR 0,5 million, and the net assets sold were EUR 0.1 million. The divestment resulted in a profit of EUR 0.4 million recorded within other operating income in the consolidated income statement.

Effects of disposal on cash flow

EUR million	
Sales price received in cash	0.5

Disposals in 2015

There were no disposals during 2015.

4. REVENUE

EUR million	2016	2015
Rendering of services	1,408.8	1,354.6
Equipment sales	226.9	214.9
	1,635.7	1,569.5

5. OTHER OPERATING INCOME

EUR million	2016	2015
Gain on disposals of property, plant and equipment	0.7	2.9
Gains on disposal of investments	1.1	
Government grants	0.2	0.1
Other items(1	2.5	1.8
	4.4	4.8

1) Other items include rental income from real estate and other income items not associated with ordinary operating activities.

6. MATERIALS AND SERVICES

EUR million	2016	2015
Purchases of materials, supplies and goods	371.9	363.8
Change in inventories	1.7	2.1
External services	252.8	243.0
	626.4	609.0

7. EMPLOYEE EXPENSES

EUR million	2016	2015
Salaries and wages	215.3	210.4
Share-based compensation	8.3	6.7
Pension expenses – defined contribution plans	35.9	35.6
Pension expenses – defined benefit plans	0.5	0.5
Other employee costs	14.7	13.1
	274.8	266.3
Average number of personnel	4,247	4,146

A more detailed analysis of defined benefit pension plans is included in Note 28.

Management remuneration

EUR million	2016	2015
Managing Directors	2.8	2.3
Members and deputy members of Boards of Directors	0.5	0.5

Managing Directors' pension commitments

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

Employment benefits for key management

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

Benefits paid

EUR million	2016	2015
Board of Directors	0.5	0.5
CEO	0.9	0.8
Executive Board	2.5	2.3
Share-based compensation [1]	3.6	2.6
	7.5	6.2

[1] The award paid to the CEO under the share-based compensation plans was EUR 0.9 (0.7) million and to the Executive Board members EUR 2.7 (1.9) million.

Annual expenses EUR million	2016	2015
Remunerations and other short-term employee benefits	3.9	3.6
Post-employment benefits	0.5	0.3
Share-based compensation [2]	3.2	2.6
	7.6	6.5

[2)] The share-based compensation expenses in 2016 are EUR 8.3 (6.7) million, of which EUR 0.8 (0.8) million is allocated to the CEO and EUR 2.3 (1.9) million to the Executive Board. The terms and conditions of share-based incentive plans are described under Note 27.

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

The period of notice for the CEO is six months from the Group's side and three months from the CEO's side. Should the contract be terminated by the Group, the CEO is entitled to receive a severance payment equalling the total salary of 24 months less the salary for the notice period. The period of notice for other members of the Executive Board is six months from the Group's side. In addition to the notice period salary the members of the Executive Board are entitled to receive a severance payment equalling the total salary of nine months.

The executive agreement with the Group CEO expires at the age of 60. The CEO's pension arrangement is a cash-based plan. The pension benefit includes vested rights. The company is liable for the pension at the age of 60 and 61 and the related accumulated liability EUR 1.0 million is included in pension obligations on the balance sheet. Pension will accrue annually at the rate of 5.1 per cent of the annual income under TyEL (Employees Pensions Act). Starting at the age of 62, the pension will accrue at the rate of 20.7 per cent of the annual income under TyEL in the management's group cash-based supplementary pension insurance.

The executive agreements of the members of the Executive Board, appointed before year 2013, expire at the age of 62, when they have right to retire. The contractual right has been covered with a cash-based supplementary pension insurance including vested rights.

Share-based compensation granted to the management

In 2016, the award paid to the CEO under the 2011 share-based compensation plan's 2013–2015 vesting period equals the value of 28,702 shares and to the Executive Board 79,665 shares.

The maximum award granted to the CEO under the 2011 plan's 2014–16 vesting period equals the value of 83,000 shares and for the rest of the Executive Board 303,000 shares. The award will be paid after the publication of 2016 financial statements.

The maximum award granted to the CEO under the 2014 plan's 2015–2017 vesting period equals the value of 55,000 shares and for the rest of the Executive Board 160,000 shares. The award will be paid after the publication of the 2017 financial statements.

The maximum award granted to the CEO under the 2014 plan's 2016–2018 vesting period equals the value of 42,000 shares and for the rest of the Executive Board 125,000 shares. The award will be paid after the publication of 2018 financial statements.

In 2016, the award paid for the CEO under the committing share-based compensation plan's 2014–2016 vesting period equals the value of 4,000 shares. The maximum award granted for the CEO under the committing share-based compensation plan's 2016–2017 vesting period equals the value of 5,000 shares. The award will be paid at the end of the vesting period in 2017. The maximum award granted for the CEO under the 2016–2018 vesting period equals the value of 5,000 shares. The award will be paid at the end of the vesting period in 2018.

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 related parties held a total of 206,888 shares and votes, corresponding to 0.12 per cent of all shares and votes.

EMPLOYEE BONUS AND INCENTIVE SCHEMES

Performance-based bonus scheme

All employees are included in performance, incentive or commission-based bonus schemes. Rewards are based on financial and operational metrics of Elisa and its units. Targets are set and the maximum amount of reward is confirmed semi-annually. Some of the Group's key personnel were also included in within the share-based compensation plan in 2016.

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 earnings per share (EPS) and revenue increase of new services. 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 include the employees of Elisa, except for the Group's personnel that are included within the scope of either the share incentive plan or the stock option plan. EUR 2.2 (2.0) million was recorded in the personnel fund in 2016.

Share-based incentive plan

On 11 December 2014, Elisa's Board of Directors decided on a share-based incentive plan for key personnel for 2015–2019. On 19 December 2011, Elisa's Board of Directors decided on two share-based incentive plans for key personnel for 2012–2018. The plans are described in Note 27.

8. AUDITOR FEES

EUR million	2016	2015
Auditing	0.3	0.3
Tax advisory services	0.1	0.1
Education services		0.0
Other services	0.2	0.2
	0.6	0.6

9. RESEARCH AND DEVELOPMENT COSTS

EUR million	2016	2015
Research and development costs recognised as expenses	1.6	1.6
Capitalised development costs	9.7	13.2
	11.3	14.8

Focus areas for research and development activities in 2016 included development of customer management and invoicing systems as well as developing a contact centre system.

10. DEPRECIATION, AMORTISATION AND IMPAIRMENT

EUR million	2016	2015
Depreciation of tangible assets		
Buildings and constructions		
Owned buildings and constructions	11.6	11.0
Buildings and constructions on finance lease	0.4	0.4
Telecom devices, machines and equipment		
Owned telecom devices, machines and equipment	156.7	155.3
Assets on finance lease	3.1	3.2
Other tangible assets	0.1	0.1
	171.8	170.0
Amortisation of intangible assets		
Goodwill	9.0	6.0
Customer base	2.3	1.2
Other intangible assets	40.7	43.2
	51.9	50.4
	223.8	220.4

EUR 11.7 (7.0) million in asset impairments was recognised, of which EUR 9.0 (6.0) million related to goodwill.

11. FINANCIAL INCOME AND EXPENSE

EUR million	2016	2015
Financial income		
Dividend income from financial assets available-for-sale	0.5	0.5
Interest and financial income from loans and other receivables	2.2	2.3
Gains on disposal of investments	0.5	
Other financial income (1	3.7	0.8
	6.8	3.6
Financial expense		
Interest expenses on financial liabilities measured at amortised cost	-22.4	-24.0
Other financial expenses on financial liabilities measured at amortised cost	-1.5	-1.6
Loss on disposal of investments	-0.1	-0.8
Other interest expenses	0.0	-0.3
Impairment of financial assets available-for-sale		0.0
Other financial expenses	-0.5	-0.7
	-24.6	-27.4

1) Includes returns of EUR 3.4 million from shares that have not been transferred to the owners book-entry account

Foreign exchange rate gains and losses included in EBIT are not material.

12. INCOME TAXES

EUR million	2016	2015
Taxes for the period	-60.2	-55.9
Taxes for previous periods	0.1	0.2
Deferred taxes	-2.5	8.7
	-62.6	-47.1

Income taxes recognised directly in comprehensive income:

	2016			2015		
EUR million	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
Remeasurements of the net defined benefit liability	-0.3	0.1	-0.3	2.3	-0.5	1.8
Cash flow hedge	0.7	-0.1	0.5	-1.1	0.2	-0.9
	0.3	-0.1	0.3	1.2	-0.2	0.9

The other comprehensive income items consist of changes in the fair value of financial assets available-for-sale and translation differences. Other comprehensive income items do not include taxes. The change in fair value do not include taxes because the Group's ownership of the company exceeds 10 per cent.

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

EUR million	2016	2015
Profit before tax	320.0	290.6
Tax according to the domestic tax rate	-64.0	-58.1
Tax effects of the following:		
Tax-free income	0.6	0.1
Non-deductible expenses	-2.9	-1.7
Tax effects of foreign subsidiaries	5.2	4.1
Tax losses for which no deferred tax assets was recognised	-1.4	1.4
Deferred tax asset for tax losses carry-forward		6.1
Taxes for previous periods	0.1	0.2
Other items	-0.1	0.8
Taxes in the income statement	-62.6	-47.1
Effective tax rate, %	19.6	16.2

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.

	2016	2015
Profit for the period attributable to the equity holders of the parent (EUR million)	257.1	243.1
Weighted average number of shares during the financial year (1,000 pcs)	159,608	159,470
Undiluted earnings per share (EUR/share)	1.61	1.52

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.

	2016	2015
Profit for the period for the purpose of calculating EPS adjusted for dilution (EUR million)	257.1	243.1
Weighted average number of shares during the financial year (1,000 pcs)	159,608	159,470
Impact of stock options (1,000 pcs)		
Weighted average number of shares for the purpose of calculating EPS adjusted for dilution (1,000 pcs)	159,608	159,470
Earnings per share adjusted for dilution (EUR/share)	1.61	1.52

14. PROPERTY, PLANT AND EQUIPMENT

2016

EUR million	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Tangible assets under construction	Total
Acquisition cost at 1 Jan. 2016	7.9	253.4	3,066.8	35.7	23.0	3,386.8
Business acquisitions	1.2	2.5	35.9	0.0	3.7	43.4
Additions	0.1	6.6	133.5		25.7	165.8
Business disposals			0.4			0.4
Disposals	0.0	-0.1	-19.8			-19.9
Reclassifications	0.0	1.8	17.6		-20.3	-0.9
Translation differences			0.2	-0.0		0.1
Acquisition cost at 31 Dec. 2016	9.2	264.1	3,234.6	35.7	32.1	3,575.7
Accumulated depreciation and impairment at 1 Jan. 2016		128.8	2,545.7	34.9		2,709.4
Depreciation and impairment		12.0	159.8	0.1		171.8
Accumulated depreciation on disposals and reclassifications		0.1	-19.7			-19.5
Translation differences			0.1	0.0		0.1
Accumulated depreciation and impairment at 31 Dec. 2016		140.9	2,685.9	35.0		2,861.8
Book value at 1 Jan. 2016	7.9	124.6	521.1	0.8	23.0	677.4
Book value at 31 Dec. 2016	9.2	123.2	548.6	0.8	32.1	713.9

2015

EUR million	Land and water areas	Buildings and constructions	Machinery and equipment	Other tangible assets	Tangible assets under construction	Total
Acquisition cost at 1 Jan. 2015	7.7	242.7	2,950.4	35.7	20.5	3,257.1
Business acquisitions			0.0			0.0
Additions	0.2	8.4	124.6	0.0	22.5	155.6
Disposals	0.0	0.0	-25.5			-25.6
Reclassifications	0.0	2.3	17.3		-19.9	-0.3
Translation differences		0.0	0.0		0.0	0.0
Acquisition cost at 31 Dec. 2015	7.9	253.4	3,066.8	35.7	23.0	3,386.8
Accumulated depreciation and impairment at 1 Jan. 2015		117.4	2,412.9	34.9		2,565.1
Depreciation and impairment		11.4	158.5	0.1		170.0
Accumulated depreciation on disposals and reclassifications		0.0	-25.6			-25.7
Translation differences			0.0			0.0
Accumulated depreciation and impairment at 31 Dec. 2015		128.8	2,545.7	34.9		2,709.4
Book value at 1 Jan. 2015	7.7	125.3	537.5	0.9	20.5	692.0
Book value at 31 Dec. 2015	7.9	124.6	521.1	0.8	23.0	677.4

Commitments to purchase property, plant and equipment and intangible assets at 31 December 2016 were EUR 47.2 (46.1) million.

Additions in 2016 include EUR 2.5 (1.8) million of property, plant and equipment leased under finance lease agreements.

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

2016

EUR million	Buildings and constructions	Machinery and equipment	Total
Acquisition cost	17.4	116.1	133.6
Accumulated depreciation	5.8	108.4	114.2
Book value at 31 Dec. 2016	11.7	7.7	19.4

2015

EUR million	Buildings and constructions	Machinery and equipment	Total
Acquisition cost	17.4	113.6	131.0
Accumulated depreciation	5.3	105.3	110.6
Book value at 31 Dec. 2015	12.1	8.3	20.4

15. INTANGIBLE ASSETS

2016

EUR million	Goodwill	Customer base	Other intangible assets	Intangible assets under construction	Total
Acquisition cost at 1 Jan. 2016	836.1	89.4	524.0	24.8	1,474.4
Business acquisitions	59.9	7.8	0.5		68.3
Additions			32.4	27,7 [2]	60.1
Business disposals	-0.9		-1.1		-2.0
Disposals			-1.3		-1.3
Reclassifications			15.9	-15.2	0.7
Translation differences	-0.4		0.0		-0.4
Acquisition cost at 31 Dec. 2016	894.8	97.2	570.4	37.3	1,599.7
Accumulated amortisation and impairment at 1 Jan. 2016	6.0	85.4	417.9	0.1	509.5
Amortisation and impairment	9.0	2.3	40.6	0.0	51.9
Accumulated amortisation on disposal and reclassifications			-1.5		-1.5
Translation differences			0.0		0.0
Accumulated amortisation and impairment at 31 Dec. 2016	15.0	87.7	457.1	0.1	560.0
Book value at 1 Jan. 2016	830.1	4.0	106.1	24.7	964.9
Book value at 31 Dec. 2016	879.8	9.5	113.3 [1]	37.2	1,039.8

2015

EUR million	Goodwill	Customer base	Other intangible assets	Intangible assets under construction	Total
Acquisition cost at 1 Jan. 2015	831.5	87.7	493.2	15.7	1,428.1
Business acquisitions	4.6	1.7	0.1		6.4
Additions			23.9	16.3	40.2
Disposals			-0.3	0.0	-0.3
Reclassifications			7.1	-7.2	-0.1
Translation differences			0.0		0.0
Acquisition cost at 31 Dec. 2015	836.1	89.4	524.0	24.8	1,474.4
Accumulated amortisation and impairment at 1 Jan. 2015		84.2	375.4		459.6
Amortisation and impairment	6.0	1.2	43.1	0.1	50.4
Accumulated amortisation on disposal and reclassifications			-0.6		-0.6
Translation differences			0.0		0.0
Accumulated amortisation and impairment at 31 Dec. 2015	6.0	85.4	417.9	0.1	509.5
Book value at 1 Jan. 2015	831.5	3.5	117.8	15.7	968.5
Book value at 31 Dec. 2015	830.1	4.0	106.1 [1]	24.7	964.9

[1] Includes IT software for a book value of EUR 74.6 (55.5) million.

[2] Includes the Finnish 700 MHz spectrum license in the carrying amount of EUR 22.0 million.

Goodwill impairment testing

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

EUR million	2016	2015
Consumer Customers	530.9	500.3
Corporate Customers	348.9	329.8
	879.8	830.1

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

The Group does not have any other intangible assets with an indefinite useful life.

Recognised impairment losses:

In addition to the annual impairment test, a separate impairment test was performed on Sulake Corporation Oy's Habbo Hotel business in the Consumer Customer unit as part of a valuation of strategic alternatives. Based on the separate impairment test, a EUR 9.0 million impairment of goodwill was recognised in 2016 and EUR 6.0 million in 2015.

Sulake Corporation Oy was acquired in 2013, and the business combination resulted in goodwill of EUR 15.0 million. After the recognition of the impairment writedown, there is no remaining goodwill.

Based on the impairment test, a EUR 2.0 million impairment writedown was recognised in Sulake Corporation's development costs. After the recognition of the impairment writedown, there are no remaining development costs.

The main cause of the impairment was a lower future revenue than previously expected.

Impairment testing:

In annual impairment tests the recoverable amount of the segments is determined based on the value in use, which is calculated on the basis of projected discounted cash flows (DCF model). The cash flows projections are based on plans approved by the management covering a five-year period. The projections are mostly consistent with information from external sources and reflect actual development. The discount rate used is 5.22 per cent. Cash flows after five years have been projected by estimating the change in future cash flows as zero.

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.

Sensitivity analysis

Projection parameters applied	Consumer Customers 2016	Corporate Customers 2016	Consumer Customers 2015	Corporate Customers 2015
Amount in excess of CGU carrying value, EUR million	3,908 (2	1,809	2,811 (2	1,238
EBITDA margin on average, % (1	36.9	33.4	36.8	32.9
Horizon growth, %	0.0	0.0	0.0	0.0
Pre-tax discount rate, %	5.2	5.2	6.4	6.4

1) On average during a five-year projection period

2) After the goodwill writedown, relating to Habbo Hotel business, the amount with which the Consumer Customers units book value is exceeded is EUR 3,917 (2,817) million.

Change in projection parameters that makes the fair value equal to book value	Consumer Customers 2016	Corporate Customers 2016	Consumer Customers 2015	Corporate Customers 2015
EBITDA margin on average, %	-19,8 (3	-14.7	-18,1 (3	-12.1
Horizon growth, %	-42,9 (3	-27.6	-37,9 (3	-19.5
Pre-tax discount rate, %	19,1 (3	15.3	17,6 (3	12.3

3) After the writedown of the goodwill relating to the Habbo Hotel business the change in EBITDA margin should be approximately -19.8 (-18.1) per cent, the change in horizon growth -44.0 (-38.6) per cent, and the change in pre-tax discount rate 19.3 (17.7) per cent.

16. INVESTMENTS IN ASSOCIATED COMPANIES

EUR million	2016	2015
At the beginning of the period	59.5	48.8
Share of periods profit	-1.4	2.3
Dividends received	-3.1	-2.4
Additions	25.2	11.0
Disposals	-77.9	-0.2
Reclassification	-0.0	
At the end of period	2.2	59.5

Elisa's holdings in associates are presented under Note 35.

Anvia Oyj has been consolidated as an associated company until 30 June 2016. Elisa sold the shares of Anvia Oyj as a part of the acquisition of Anvia's ICT companies.

Softera Oy was divested on 3 February 2016.

17. FINANCIAL ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE

EUR million	2016	Level 1	Level 2	Level 3
Financial assets/liabilities recognised at fair value [1]	-0.8		-0.8	
Financial assets available-for-sale [2]	33.9	33.9		
Other liabilities [3]	-1.2			-1.2
	31.9	33.9	-0.8	-1.2

EUR million	2015	Level 1	Level 2	Level 3
Financial assets/liabilities recognised at fair value [1]	-1.9		-1.9	
Financial assets available-for-sale [2]	26.2	26.2		
Other liabilities [3]	-1.8			-1.8
	22.5	26.2	-1.9	-1.8

1) Interest rate and currency swap and electricity derivatives. Fair values are quoted market prices or if those are not available, the value is determined by using common valuation methods.

2) Listed shares. Fair value is determined by the transactions made in active markets.

3) The contingent consideration relating to business combinations.

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

Level 3 reconciliation

Other liabilities

EUR million	2016	2015
At the beginning of the period	1.8	1.2
Increase of contingent consideration	0.0	1.6
Payment of contingent consideration	-0.4	-1.0
Translation differences	-0.2	
At the end of the period	1.2	1.8

Level 3 includes contingent considerations relating to business combinations. Changes in the fair value of contingent considerations are recognised in other operating expenses.

According to management estimation, if the information which defines the fair value of Level 3 financial instruments is changed to a possible alternative hypothesis, it would not outstandingly change the fair values of Level 3 items at fair values considering the small amount of liabilities.

18. CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

2016

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 value	Fair value	Note
Non-current financial assets							
Financial assets available-for-sale	5.0		33.9		38.9	38.9	19
Trade and other receivables		74.8			74.8	74.8	20
Current financial assets							
Trade and other receivables		537.0			537.0	537.0	23
	5.0	611.9	33.9		650.7	650.7	
Non-current financial liabilities							
Financial liabilities				827.3	827.3	878.8	30
Trade payables and other liabilities (2			0.8	28.0	28.8	28.8	31
Current financial liabilities							
Financial liabilities				341.2	341.2	341.2	30
Trade and other payables (2			1.2	302.4	303.6	303.6	31
			2.0	1,499.0	1,500.9	1,552.4	

1) Assets classified as such at initial recognition

2) Excluding advances received

2015

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 value	Fair value	Note
Non-current financial assets							
Financial assets available-for-sale	4.1		26.2		30.3	30.3	19
Trade and other receivables		73.7			73.7	73.7	20
Current financial assets							
Trade and other receivables		333.4			333.4	333.4	23
	4.1	407.1	26.2		437.4	437.4	
Non-current financial liabilities							
Financial liabilities				686.0	686.0	731.8	30
Trade payables and other liabilities (2			3.6	14.8	18.5	18.5	31
Current financial liabilities							
Financial liabilities				305.2	305.2	305.2	30
Trade and other payables (2				251.6	251.6	251.6	31
			3.6	1,257.6	1,261.2	1,307.1	

1) Assets classified as such at initial recognition

2) Excluding advances received

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

19. FINANCIAL ASSETS AVAILABLE-FOR-SALE

EUR million	2016	2015
Publicly listed shares	33.9	26.2
Unlisted shares	5.0	4.1
	38.9	30.3

The publicly listed shares are recognised at fair value. The unlisted equity investments are recognised at acquisition cost less possible impairment because the fair value of the equity investments cannot be determined reliably.

Changes in the fair value of listed shares EUR 7.7 (12.0) million have been recognised in other comprehensive income.

20. NON-CURRENT RECEIVABLES

EUR million	2016	2015
Loan receivables	0.1	0.1
Receivables from associated companies		0.6
Trade receivables	60.3	55.7
Finance lease receivables	4.7	6.1
Prepayments and accrued income	9.6	9.6
Other non-current receivables	0.2	1.6
	74.8	73.7

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

Gross finance lease receivables –maturity of minimum lease payment receivables

EUR million	2016	2015
Not later than one year	5.6	9.1
Later than one year not later than five years	4.7	6.1
Later than five years	0.0	0.2
	10.3	15.4
Unearned finance income	0.0	-0.6
Present value of finance lease receivables	10.2	14.9

Maturity of present value of future minimun lease payment receivables

EUR million	2016	2015
Not later than one year	5.6	8.7
Later than one year not later than five years	4.7	5.9
Later than five years	0.0	0.2
	10.2	14.9

Elisa acts as a lessor in finance lease arrangements concerning videoconference equipment. Lease periods vary from one to ten years and conditions vary in terms of index clauses.

21. DEFERRED TAX ASSETS AND LIABILITIES

The change in deferred tax assets and liabilities during 2016

Deferred tax assets

EUR million	1 Jan. 2016	Recognised in income statement	Recognised in consolidated statement of comprehensive income	Business combinations	31 Dec. 2016
Provisions	1.8	-0.5			1.3
Tax losses carry-forward	6.1	-2.2			3.9
Finance lease agreements	4.2	2.5			6.6
Internal margins	3.5	-0.2			3.3
Share-based incentive plans	2.2	1.4			3.6
Fair value measurement of tangible and intangible assets in business combinations		-1.5		2.9	1.4
Pension obligations	3.7	-0.1	0.1		3.7
Other temporary differences	2.0	-0.8	-0.1		1.0
	23.3	-1.5	-0.1	2.9	24.6

Deferred tax liabilities

EUR million	1 Jan. 2016	Recognised in income statement	Business combinations	31 Dec. 2016
Fair value measurement of tangible and intangible assets in business combinations	1.0	-0.5	1.6	2.1
Accumulated depreciation differences	17.6	-0.9	3.3	19.9
Finance lease agreements	2.9	2.3		5.1
Other temporary differences	1.3	-0.0		1.3
	22.7	0.9	4.8	28.5

Deferred income tax assets recognised for tax losses carry forward to the extent that realisation of the related tax benefit through future profits is probable. Deferred tax assets were EUR 3.9 million (6.1) on 31 December 2016, and these relate to losses carried forward that expire in 2021–2024.

The Group had EUR 23.0 (22.3) million of unused tax losses at 31 December 2016, for which no tax assets have been recognised. These losses expire in 2017–2025.

No tax liability has been recognised for the untaxed retained earnings EUR 211.3 million of the Estonian subsidiary, as no profit distribution decision or plans for profit distribution exist for the time being.

Deferred tax liabilities and assets are not offset.

The change in deferred tax assets and liabilities during 2015

Deferred tax assets

EUR million	1 Jan. 2015	Recognised in income statement	Recognised in consolidated statement of comprehensive income	31 Dec. 2015
Provisions	1.4	0.5		1.8
Tax losses carried forward		6.1		6.1
Finance lease agreements	0.9	3.3		4.2
Internal margins	3.8	-0.3		3.5
Share-based incentive plans	1.3	0.8		2.2
Pension obligations	4.1		-0.5	3.7
Other temporary differences	2.1	-0.3	0.2	2.0
	13.5	10.0	-0.2	23.3

Deferred tax liabilities

EUR million	1 Jan. 2015	Recognised in income statement	Business combinations	31 Dec. 2015
Fair value measurement of tangible and intangible assets in business combinations	1.6	-1.0	0.4	1.0
Accumulated depreciation differences	16.9	0.7		17.6
Finance lease agreements	1.2	1.7		2.9
Other temporary differences	1.3	0.0		1.3
	21.0	1.4	0.4	22.7

22. INVENTORIES

EUR million	2016	2015
Materials and supplies	13.1	9.9
Finished goods	42.0	44.9
	55.0	54.8

An impairment of EUR 0.8 (4.5) million on inventories was recognised during the period.

23. TRADE AND OTHER RECEIVABLES

EUR million	2016	2015
Trade receivables	316.4	302.0
Impaired trade receivables	-6.5	-5.7
Finance lease receivables	5.6	8.7
Prepayments and accrued income	27.9	22.3
Loan receivables [1]	168.7	1.6
Receivables from associated companies	0.2	0.2
Other receivables	24.8	4.3
	537.0	333.4

1) Includes a EUR 167.0 million loan receivable relating to the Starman acquisition.

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

Trade receivables by age

EUR million	2016	2015
Not due	283.2	263.0
Overdue		
Less than 30 days	21.2	24.8
31–60 days	3.5	4.7
61–90 days	1.4	2.3
More than 90 days	0.6	1.6
	309.9	296.3

The book value of trade receivables approximates their fair value. The credit risk on trade receivables is described in Note 34. The maximum credit risk is the value of trade receivables on the closing of the accounts, EUR 309.9 million.

24. CASH AND CASH EQUIVALENTS

EUR million	2016	2015
Cash assets	44.5	29.1
	44.5	29.1

25. DERIVATIVE INSTRUMENTS

Nominal values of derivatives

	2016			2015		
	Period of validity			Period of validity		
EUR million	Less than 1 year	1–5 years	Over 5 years	Less than 1 year	1–5 years	Over 5 years
Interest rate and currency swap				1.5		
Electricity derivatives	2.1	2.2		0.9	4.7	

Fair values of derivatives

	2016			2015		
EUR million	Positive fair value	Negative fair value	Total	Positive fair value	Negative fair value	Total
Interest rate and currency swap					-0.1	-0.1
Electricity derivatives		-0.8	-0.8		-1.8	-1.8

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.

Elisa's derivative instruments are categorized at the fair value hierarchy Level 2. See Note 17.

26. EQUITY

Share capital and treasury shares

EUR million	Number of shares (thousands)	Share capital	Treasury shares
1 Jan. 2015	167,335	83.0	-148.2
Disposal of treasury shares			2.7
31 Dec. 2015	167,335	83.0	-145.5
Disposal of treasury shares			2.7
31 Dec. 2016	167,335	83.0	-142.9

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

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 (1,000) million shares. All issued shares have been paid. Shares do not have a nominal value.

Treasury shares include the acquisition cost of treasury shares held by the Group.

Treasury shares	Shares pcs	Accounting counter-value EUR	Holding, % of shares and votes
Treasury shares held by the Group at 1 Jan. 2015	7,986,043	3,962,734	4.77
Disposal of treasury shares	-135,037		
Treasury shares held by the Group at 31 Dec. 2015	7,851,006	3,895,732	4.69
Disposal of treasury shares	-135,877		
Treasury shares held by the Group at 31 Dec. 2016	7,715,129	3,828,309	4.61

Other reserves

EUR million	Reserve for invested non-restricted equity	Contingency reserve	Fair value reserve	Other reserves	Total
1 Jan. 2015	90.9	3.4	0.4	381.0	475.7
Financial assets available-for-sale			12.0		12.0
Remeasurements of the net defined benefit liability			1.8		1.8
Cash flow hedge			-0.9		-0.9
31 Dec. 2015	90.9	3.4	13.3	381.0	488.6
Financial assets available-for-sale			7.7		7.7
Remeasurements of the net defined benefit liability			-0.3		-0.3
Cash flow hedge			0.5		0.5
31 Dec. 2016	90.9	3.4	21.3	381.0	496.6

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

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 21.3 million includes changes in the fair value of the financial assets available-for-sale, the remeasurements of the net defined benefit liability and the effective portion of the change in the fair value of derivatives designated as cash flow hedges. The other reserves of EUR 381.0 million were formed through the use of an equity issue in acquisitions.

27. SHARE-BASED PAYMENTS

Share-based incentive plan 2014

On 11 December 2014, Elisa's Board of Directors decided on the implementation of a share-based incentive plan.

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

The earnings criteria for the vesting period 2017–2019 are based on earnings per share (EPS), on the new business revenue and on other essential goals. The number of key personnel participating in the plan is 166, and the maximum award equals the value of 495,664 Elisa shares.

The earnings criteria for the vesting period 2016–2018 are based on earnings per share (EPS), on the new business revenue and on other essential goals. The number of key personnel participating in the plan is 157, and the maximum award equals the value of 438,350 Elisa shares.

The earnings criteria for the vesting period 2015–2017 plan are based on earnings per share (EPS), on the new business revenue and on other essential goals. The number of key personnel participating in the plan is 145, and the maximum award equals the value of 617,000 Elisa shares.

Amount of share incentives and terms and assumptions in the fair value calculation	**Vesting period 2017–2019**	**Vesting period 2016–2018**	**Vesting period 2015–2017**
Maximum number of awards granted, pcs	495,664	438,350	617,000
Grant date	31.12.2016	31.12.2015	31.12.2014
Fair value of share at the date of grant, EUR [1]	26.73	30.83	18.71
Share price at the date of grant, EUR	30.93	34.79	22.61
Estimated realisation of share price after vesting period [2]	34.25	36.69	22.34
Vesting period starts	1.1.2017	1.1.2016	1.1.2015
Vesting period ends	31.12.2019	31.12.2018	31.12.2017
Estimated realisation of earnings criteria at the beginning of vesting period, %	50	50	50
Estimated realisation of earnings criteria at the closing date, %	50	50	73
Number of participants in the plan at the closing date	166	157	145

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

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

Share-based incentive plan 2011

The second performance-based share incentive plan has three vesting periods: calendar years 2012–2014, 2013–2015 and 2014–2016. The maximum award of the plan equals the value of 3,315,000 Elisa shares. The Board of Directors decides the earnings criteria and the targets separately for each plan in the beginning of the vesting period. After the end of each vesting period, the award is paid as a combination of company shares and cash within one month following the completion of financial statements. If the contract of employment is terminated before the payment of the award, no award shall mainly be paid.

The earnings criteria for the 2012–2014 vesting period were based on revenue growth of new business operations and earnings per share. The total award amounted to EUR 6.6 million, of which EUR 3.4 million was paid in cash. In accordance with the decision of the Board of Directors, Elisa transferred 133,197 shares to 136 persons covered by the incentive scheme on 4 February 2015, of which 38,103 shares were transferred to members of the Management Board and 12,002 shares were transferred to the CEO.

The earnings criteria for the 2013–2015 vesting period were based on revenue growth of new business operations and earnings per share. The total award amounted to EUR 9.5 million, of which EUR 4.9 million was paid in cash. In accordance with the decision of the Board of Directors, Elisa transferred 134,037 shares to 139 persons covered by the incentive scheme on 29 January 2016, of which 37,838 shares were transferred to members of the Management Board and 11,733 shares were transferred to the CEO.

The earnings criteria for the 2014–2016 vesting period are based on revenue growth of new business operations and earnings per share. The number of key personnel participating in the 2014–2016 plan is 139, and the maximum award equals the value of 996,500 Elisa shares.

Amount of share incentives and terms and assumptions in the fair value calculation	**Vesting period 2014–2016**	**Vesting period 2013–2015**	**Vesting period 2012–2014**
Maximum number of awards granted, pcs	996,500	983,500	983,000
Grant date	31.12.2013	31.12.2012	31.12.2011
Fair value of share at the date of grant, EUR (1	15.36	12.83	12.23
Share price at the date of grant, EUR	19.26	16.73	16.13
Estimated realisation of share price after vesting period (2	19.54	16.24	16.16
Vesting period starts	1.1.2014	1.1.2013	1.1.2012
Vesting period ends	31.12.2016	31.12.2015	31.12.2014
Estimated realisation of earnings criteria at the beginning of vesting period, %	50	50	72
Estimated realisation of earnings criteria at the closing date, %	27		
Realisation of earnings criteria, %		29	29
Distributed number		134,037	133,197
Share price, EUR		33.23	23.34
Distributed number of shares out of the maximum number of share awards granted, %		14	14
Number of participants in the plan at the closing date	139	139	136

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

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

Committing share-based incentive plan 2011

The third committing share incentive plan covers calendar years 2012–2018. The awards granted under the plan have a restriction period of 1–3 years. The potential award is based on the validity of the key person's contract of employment. The maximum amount of awards paid under the plan equals the value of 500,000 Elisa shares.

Amount of share incentives and terms and assumptions in the fair value calculation	Restriction period 2016–2018	Restriction period 2016–2017	Restriction period 2014–2016	Restriction period 2014–2015
Maximum number of awards granted, pcs	5,000	5,000	4,000	4,000
Grant date	16.12.2016	16.12.2016	11.12.2014	11.12.2014
Fair value of share at the date of restriction period, EUR (1	27.92	29.32	19.29	20.59
Share price at the date of restriction period, EUR	30.72	30.72	21.89	21.89
Estimated realisation of share price after restriction period (2	32.87	31.70	21.76	21.70
Restriction period starts	13.12.2016	13.12.2016	4.11.2014	4.11.2014
Restriction period ends	13.12.2018	13.12.2017	4.11.2016	4.11.2015
Estimated realisation of earnings criteria at the beginning of restriction period, %	100	100	100	100
Estimated realisation of earnings criteria at the closing date, %	100	100		
Realisation of earnings criteria, %			100	100
Distributed number			1,840	1,840
Share price, EUR			29.97	34.49
Distributed number out of the maximum number of share awards granted, %			46	46
Number of participants in the plan	1	1	1	1

1) The fair value of the share is the share price at the point of restriction less estimated dividend. Estimated dividend used in the calculation equals the previous period dividend.

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

Expenses of share-based incentive plans

Expenses recognised for share incentive plans was EUR 8.3 (6.7) million in 2016.

28. PENSION OBLIGATIONS

Pension schemes for Elisa's personnel in Finland are arranged through pension insurance companies for statutory pension insurance (TyEL) and mainly through life insurance companies for 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 plans are mainly funded by yearly payments to insurance companies based on actuarial calculation. Local tax and other laws are applied to the pension plans. Only Elisa Corporation and Anvia Telecom (acquired in 2016) have defined benefit plans.

The pension plans of foreign subsidiaries are defined contribution plans.

An amendment of the statutory employee pension arrangements (Employees Pensions Act) that entered into force on 1 January 2017 will gradually raise the retirement age from 63 to 65 years, depending on the employee’s year of birth. Elisa has decided to refrain from compensating the increase in the statutory retirement age with additional pension.

The net defined benefit obligation recognised in the statement of financial position is determined as follows:

EUR million	2016	2015
Present value of unfunded obligations	-2.4	-2.1
Present value of funded obligations	-72.8	-68.0
Fair value of plan assets	58.6	54.5
Net pension liability (-) / receivable (+) in the statement of financial position	-16.6	-15.6

Pension expenses recognised in the statement of comprehensive income:

EUR million	2016	2015
Expense recognised in profit or loss		
Service cost	0.2	0.3
Net interest	0.3	0.4
Settlements	0.0	-0.1
	0.5	0.5
Remeasurements	0.3	-2.3
Tax effect of the remeasurements	-0.1	0.5
	0.3	-1.8

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

EUR million	2016	2015
Net defined benefit obligation at the beginning of the period	15.6	18.2
Pension expenses recognised in the statement of comprehensive income	0.5	0.5
Remeasurements	0.3	-2.3
Contributions paid by employer	-0.4	-0.8
Business acquisitions	0.4	
Net defined benefit obligation at the end of period	16.6	15.6

Changes in the present value of the obligation:

EUR million	2016	2015
Obligation at the beginning of the period	-70.1	-76.0
Current service cost	-0.2	-0.3
Interest expenses	-1.4	-1.6
Remeasurements		
Actuarial gain (+) or loss (-) arising from changes in demographic assumptions	0.0	1.4
Actuarial gain (+) or loss (-) arising from changes in economical assumptions	-6.8	1.5
Gain (+) or loss (-) arising from experience adjustments	-1.0	-0.7
Benefits paid	5.1	5.1
Settlements	0.0	0.4
Business acquisitions	-0.8	
Obligation at the end of period	-75.2	-70.1

Changes in the fair value of plan assets:

EUR million	2016	2015
Fair value of plan assets at the beginning of the period	54.5	57.9
Interest incomes	1.1	1.2
Remeasurements, gain (+) or loss (-)	7.4	0.1
Benefits paid	-5.1	-5.1
Contributions paid by employer	0.4	0.8
Settlements	0.0	-0.3
Business acquisitions	0.4	
Fair value of plan assets at the end of period	58.6	54.5

The principal actuarial assumptions used:	2016	2015
Discount rate, %	1.10	2.00
Future salary increase, %	2.70	2.70
Future pension increase, %	1.60	1.70

Sensitivity analysis of net defined benefit obligation:

	Effect on the net defined benefit obligation, EUR million	
Change in actuarial assumptions	2016	2015
Discount rate + 0.5 %	-1.6	-1.3
Future pension increase +0.5 %	4.9	4.1
Expected mortality +1 year	1.0	0.8

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

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

Weighted average duration of the obligation is 14.7 (14.6) years.

The Group expects to contribute EUR 0.4 (0.8) million to defined benefit pension plans in 2017.

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

29. PROVISIONS

EUR million	Termination benefits	Other	Total
1 Jan. 2015	4.4	2.5	6.8
Increases in provisions	5.6		5.6
Reversals of unused provisions	-0.3		-0.3
Utilised provisions	-3.0	-0.4	-3.4
31 Dec. 2015	6.8	2.1	8.9
Increases in provisions	2.8		2.8
Business acquisitions		0.3	0.3
Reversals of unused provisions	-1.5		-1.5
Utilised provisions	-3.9	-0.0	-4.0
31 Dec. 2016	4.1	2.3	6.4

EUR million	2016	2015
Long-term provisions	3.5	3.4
Short-term provisions	2.9	5.4
	6.4	8.9

Termination benefits

As a part of the Group's rationalisation Elisa has carried out statutory employee negotiations leading to personnel reductions in 2016. The restructuring provision includes provisions for both unemployment pensions and other expenses due to redundancies. The provisions associated with redundancies will be realised in 2017, and the provision associated with unemployment pensions will be realised in 2017–2019.

Other provisions

Other provisions include environmental provisions made for telephone poles and sold properties.

30. FINANCIAL LIABILITIES

EUR million	2016 Balance sheet values	2016 Fair values	2015 Balance sheet values	2015 Fair values
Non-current				
Bonds	594.5	646.0	592.5	638.4
Bank loans	209.2	209.2	68.5	68.5
Loans from pension funds	1.0	1.0	1.0	1.0
Capital loans	0.1	0.1	0.1	0.1
Finance lease liabilities	22.5	22.5	23.9	23.9
	827.3	878.8	686.0	731.8
Current				
Bank loans	139.2	139.2	130.7	130.7
Finance lease liabilities	3.1	3.1	3.9	3.9
Commercial paper	199.0	199.0	170.5	170.5
	341.2	341.2	305.2	305.2
	1,168.6	1,220.1	991.1	1,037.0

Interest-bearing liabilities include a total of EUR 25.6 (27.8) million of secured liabilities (finance lease 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 financial liabilities are denominated in euros. Financial liabilities are measured at amortised cost. The fair values of financial liabilities are based on quoted market prices or 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 (4.2) years and the effective average rate of interest was 2.1 (2.3) per cent.

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

2016 EUR million	2017	2018	2019	2020	2021	2022-	Total
Bonds	15.0	15.0	315.0	8.3	308.3		661.5
Financial costs	15.0	15.0	15.0	8.3	8.3		61.5
Repayments			300.0		300.0		600.0
Bank loans	10.4	60.3	0.7	0.7	0.6	151.2	223.9
Financial costs	1.2	1.2	0.6	0.6	0.6	1.2	5.5
Repayments	9.1	59.1	0.0	0.0		150.0	218.3
Committed credit limits	130.0						130.0
Financial costs	0.0						0.0
Repayments	130.0						130.0
Commercial paper	199.0						199.0
Financial costs	0.4						0.4
Repayments	198.6						198.6
Loans from pension funds	0.0	0.1	0.1	0.1	0.1	0.7	1.2
Financial costs	0.0	0.0	0.0	0.0	0.0	0.1	0.2
Repayments		0.1	0.1	0.1	0.1	0.6	1.0
Capital loans	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Financial costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments						0.1	0.1
Finance lease liabilities	5.1	3.8	3.5	3.1	2.2	49.5	67.2
Financial costs	2.0	1.6	1.7	1.6	1.5	33.2	41.6
Repayments	3.1	2.2	1.8	1.5	0.7	16.3	25.6
Electricity derivatives	0.0	0.1	0.2				0.3
Expected payments		0.1	0.2				0.3
Trade payables	150.5						150.5
Financial costs	18.7	17.9	17.6	10.5	10.4	34.6	109.5
Repayments	491.4	61.4	301.9	1.6	300.8	167.0	1,324.2
Total	510.0	79.3	319.5	12.1	311.2	201.6	1,433.7

2015 EUR million	2016	2017	2018	2019	2020	2021-	Total
Bonds	15.0	15.0	15.0	315.0	8.3	308.3	676.5
Financial costs	15.0	15.0	15.0	15.0	8.3	8.3	76.5
Repayments				300.0		300.0	600.0
Bank loans	133.7	9.9	59.7	0.0	0.0		203.3
Financial costs	3.0	0.6	0.6	0.0	0.0		4.2
Repayments	130.6	9.3	59.1	0.0	0.0		199.1
Committed credit limits	0.1						0.1
Repayments	0.1						0.1
Commercial paper	170.5						170.5
Financial costs	0.4						0.4
Repayments	170.1						170.1
Loans from pension funds	0.0	0.1	0.1	0.1	0.1	0.7	1.2
Financial costs	0.0	0.0	0.0	0.0	0.0	0.1	0.2
Repayments		0.1	0.1	0.1	0.1	0.6	1.0
Capital loans						0.1	0.1
Repayments						0.1	0.1
Finance lease liabilities	6.1	4.4	3.1	3.1	3.1	51.7	71.5
Financial costs	2.1	2.0	1.6	1.7	1.6	34.7	43.7
Repayments	3.9	2.4	1.5	1.4	1.5	17.1	27.8
Electricity derivatives	0.0	0.2	0.2	0.2			0.6
Expected payments	0.0	0.2	0.2	0.2			0.6
Interest rate and currency swap	0.0						0.0
Trade payables	130.5						130.5
Financial costs	20.6	17.8	17.3	17.0	9.9	43.0	125.6
Repayments	435.2	11.8	60.8	301.5	1.6	317.7	1,128.7
Total	455.9	29.6	78.1	318.5	11.5	360.8	1,254.3

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

The company has EUR 300 million in credit facilities, of which EUR 170 million matures in 2018 and EUR 130 million in 2019.

At the end of the year, EUR 130 million was drawn with less than one year maturity with floating interest.

Bonds

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

	31 Dec. 2016					
	Fair value EUR million	Balance sheet value EUR million	Nominal value EUR million	Nominal interest rate-%	Effective interest-%	Maturity date
EMTN programme 2001 / EUR 1,000 million						
I/2012	316.9	295.2	300.0	2.250	2.403	4.10.2019
I/2013	329.1	299.3	300.0	2.750	2.785	22.1.2021
	646.0	594.5	600.0			

The fair value of bonds is based on market quotes.

Gross finance lease liabilities –maturity of minimum lease payments

EUR million	2016	2015
Not later than one year	5.1	6.1
Later than one year but not later than five years	12.9	14.0
Later than five years	49.2	51.5
	67.2	71.5
Future financial charges	-41.6	-43.7
Present value of finance lease liabilities	25.6	27.8

Maturity of present value of finance lease liabilities

EUR million	2016	2015
Not later than one year	3.1	3.9
Later than one year but not later than five years	6.3	6.8
Later than five years	16.3	17.1
	25.6	27.8

The Group leases telecom facilities, mobile and optical fibre networks, servers and workstations as well as videoconferencing equipment and infrastructure under finance lease arrangements. The conditions vary in terms of purchase options/redemption clauses, index clauses and lease periods.

31. TRADE PAYABLES AND OTHER LIABILITIES

EUR million	2016	2015
Non-current		
Advances received	5.2	5.4
Derivative instruments	0.8	3.6
Other liabilities (1	28.0	14.8
	34.0	23.9
Current		
Trade payables (1	150.5	130.5
Advances received	4.1	3.9
Accrued employee-related expenses	55.2	54.8
Other accruals	18.5	15.9
Liabilities to associated companies	0.5	0.3
Other liabilities	78.8	50.1
	307.7	255.5
	341.7	279.4

1) Includes non-current liabilities of EUR 0.0 (6.7) million related to the 800 MHz spectrum license and EUR 17.6 (0.0) million related to the 700 MHz spectrum license. The current liability of EUR 11.1 (6.7) million related to the licenses is included in current trade payables.

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

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

32. OPERATING LEASES

Group as a lessee

Future minimum lease payments under non-cancellable operating leases:

EUR million	2016	2015
Not later than one year	29.6	29.0
Later than one year but not later than five years	36.7	42.3
Later than five years	26.6	28.0
	93.0	99.4

Elisa's operating leases include mainly business premises and locations, telecom facilities and cars. The lease periods range from one month to more than 50 years for telecom facilities.

A total of EUR 56.3 (55.8) million was paid as lease expenses on the basis of other lease contracts and recognised through profit or loss in 2016.

Group as a lessor

Future minimum lease payments under non-cancellable operating leases:

EUR million	2016	2015
Not later than one year	2.9	2.7
Later than one year but not later than five years	0.5	0.4
	3.4	3.2

Elisa acts as a lessor for conventional lease contracts of real estates and lease contracts for telecom premises and equipment space. The lease contract periods are mainly short, with durations of 1–6 months.

33. COLLATERAL, COMMITMENTS AND OTHER LIABILITIES

EUR million	2016	2015
On behalf of own commitments		
Mortgages	1.2	2.3
Pledged securities	0.1	0.1
Deposits	0.7	0.7
Guarantees	1.1	1.1
On behalf of others		
Guarantees[1]	0.5	0.5
Other	0.0	
	3.6	4.8
Other contractual obligations		
Repurchase obligations	0.0	0.1
Letter of credit	0.1	0.1
Unrecognised interest payable on capital loan	0.0	0.0

1) 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 (0.5) million on 31 December 2016.

Real estate investments

Real estate investments VAT refund liability is EUR 30.5 (31.7) million at 31 December 2016.

34. FINANCIAL RISK MANAGEMENT

Elisa Corporation's centralised financing function is responsible for exchange rate, interest rate, liquidity, and refinancing risks for the entire Group. The principles of financing policy, such as funding and investment principles, are annually discussed and ratified by the Audit Committee of the Board of Directors. Funding risks are monitored as a part of the regular business monitoring procedure.

Market risks

Interest rate risk

Elisa is exposed to interest rate risk mainly through its financial liabilities. In order to manage interest rate risk, the Group's borrowing and investments are diversified in fixed- and variable-rate instruments. Derivative financial instruments may also 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.

Timing of interest rate changes for interest-bearing financial liabilities (EUR million), 31 Dec. 2016, 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	199.0			199.0
Bank loans	198.3			198.3
Finance lease liabilities	3.1			3.1
Fixed-rate financing instruments				
Bonds		600.0		600.0
Bank loans			150.0	150.0
Loans from pension funds	1.0			1.0
Capital loans	0.1			0.1
Finance lease liabilities		6.3	16.3	22.5
	401.5	606.3	166.3	1,174.0

The Group's interest-bearing financial assets as at 31 December 2016 consisted of commercial papers and bank deposits amounting to EUR 0.0 million and cash in bank amounting to EUR 44.5 million.

The sensitivity analysis includes financial liabilities at the balance sheet date. 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 and stay unchanged for the entire year.

	2016		2015	
EUR million	Income statement	Shareholders' equity	Income statement	Shareholders' equity
Change in interest rate level +/- 1%	+/- 4,0		+/- 2,5	

Exchange rate risk

Most of Elisa Group's cash flows are denominated in euros, which means that the company's exposure to exchange rate risk (economic risk and transaction risk) is minor. Exchange rate risks associated with business arise from international interconnection traffic and, to a minor extent, acquisitions. The most important currencies are the US dollar (USD), the British pound (GBP), the International Monetary Fund's Special Drawing Rights (SDR), the Russian ruble (RUB) and the Swedish Krona (SEK), the impact of other currencies is not material. 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.

Foreign exchange exposure 31 December 2016

EUR million	Trade receivables	Trade payables
USD	0.6	2.6
GBP	0.7	0.2
SDR	0.5	0.7
RUB	0.1	
SEK	0.1	0.1

Foreign exchange exposure 31 December 2015

EUR million	Trade receivables	Trade payables
USD	0.6	2.0
GBP	0.8	0.3
SDR	0.4	0.8
RUB	0.2	
SEK	0.3	0.0

A change of twenty percentage points in USD would impact consolidated profit before tax by EUR +/- 0.4 (+/- 0.3) million, EUR +/- 0.1 (+/- 0.1) million for GPB, EUR +/- 0.0 (+/- 0.1) million for SDR, EUR +/- 0.0 (+/- 0.0) million for RUB, and EUR +/- 0.0 (+/-0.1) million for SEK.

Liquidity risk

The objective of liquidity risk management is to ensure the Group's financing under 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 600.0 million. Furthermore, the company has a EUR 250 million commercial paper programme and committed credit limits of EUR 300 million: EUR 130 million had been raised from a credit limit of EUR 170 million that will fall due on 3 June 2018, and a EUR 130 million credit limit that will fall due on 11 June 2021 was fully unclaimed on 31 December 2016. The loan margin is determined based on the company's 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	2016	2015
Cash in hand and at bank	44.5	29.1
Credit limits	170.0	450.0
	214.5	479.1

Cash in hand and at bank as well as unused committed credit limits less commercial papers issued by Elisa amounted to EUR 15.5 (308.6) million on 31 December 2016.

Contract-based cash flows for financial 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 in investment targets with good credit ratings. Investments and the limits specified for them are reviewed annually, or more often if necessary. Derivative contracts are only signed with Finnish and foreign banks with good credit ratings.

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 always reviewed from external sources when selling products or services invoiced in arrears. In case of additional sales to existing customers, creditworthiness is reviewed on the basis of the company's own accounts. The Group may also collect advance or guarantee payments in accordance with its credit policy.

Credit risk concentrations in accounts receivable are minor as the Group's customer base is wide; the ten largest customers represent approximately 6 per cent of customer invoicing. EUR 6.5 (5.7) 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. Furthermore, the Group sells the trade receivables of defined customer groups 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 maximum credit risk as at 31 December 2016 is the value of trade receivables: EUR 309.9 million. The age distribution of trade receivables is described in Note 23.

Commodity risks and their sensitivity analysis

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

At the end of the year, the ineffective portion of hedge accounting was EUR 0.4 (0.1) million.

The hedging rate for purchases in the following years,%

	2016	2015
0–1 years	91.3	62.9
1–2 years	46.6	43.2
2–3 years	17.5	24.7
3–4 years	0.0	18.5
4–5 years	0.0	0.0

If the market price of electricity derivatives changes by +/- 10 per cent from the balance sheet date (31 December 2016),
it would contribute EUR +/- 0.0 (0.0) million to the 2017 income statement and EUR +/- 0.4 (0.6) million to equity. The impact has been calculated before tax.

Other price risk

Elisa's financial assets available-for-sale consist mostly of publicly listed shares in Comptel Corporation. The sensitivity analysis includes shares at the balance sheet date. The analysis assumes a change of twenty percentage points in the share price.

	2016		2015	
EUR million	Income statement	Shareholders' equity	Income statement	Shareholders' equity
Change in Comptel share price +/- 20%		+/- 3,4		+/- 5,2

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 equity ratio is over 35 per cent 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. Effective profit distribution is 80 per cent to 100 per cent of profit for the period. Furthermore, additional profit distribution to the shareholders may occur. When proposing or deciding on the distribution, the Board takes into account the company's financial position, future financing needs, and the set financial objectives.

Capital structure and key indicators

EUR million	2016	2015
Interest-bearing net debt	1,124.1	962.0
Total equity	971.3	925.9
Total capital	2,095.4	1,887.9
Gearing ratio, %	115.7	103.9
Net debt / EBITDA	2.0	1.8
Equity ratio, %	38.5	41.4

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 Annual General Meeting decides the amount of the share issue authorisation. In 2016, the authorisation has been used in executing share based incentive plans.

Shareholders' equity	2016	2015
Treasury shares, 1,000	7,715	7,851
Share issue authorisation, 1,000	14,998	14,865
Share price	30.93	34.79
Total, EUR million	463.9	517.2

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	2016	2015
Commercial paper programme (non-committed) [1]	51.0	79.5
Committed credit limits [2]	170.0	300.0
Bank loans unused (committed) [3]	0.0	150.0
EMTN programme (non-committed) [4]	400.0	400.0
Total, EUR million	621.0	929.5
Total equity and debt capital	1,084.9	1,446.7

1) The commercial paper programme amounts to EUR 250 million, of which EUR 199.0 million was in use at 31 December 2016.

2) Elisa has two committed revolving credit facilities to a total of EUR 300 million, of which EUR 170 million was undrawn at 31 December 2016.

3) On 6 October 2015, Elisa signed a EUR 150 million loan agreement with the European Investment bank. The whole loan was drawn on 6 September 2016.

4) Elisa has a European Medium Term Note programme (EMTN) for a total of EUR 1,000 million. EUR 600.0 million was in use at 31 December 2016. The programme was updated on 15 June 2016, and it is valid for one year as of the update.

35. RELATED PARTY TRANSACTIONS

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

The Elisa Group structure was as follows on 31 December 2016:

The parent company of the Group is Elisa Corporation.

Subsidiaries	Domicile	Group's ownership,%
Anvia Hosting Oy	Vaasa	100
Anvia IT-Palvelut Oy	Vaasa	100
Anvia Telecom Oy	Vaasa	100
Anvia TV Oy	Seinäjoki	100
Ekaso Oy	Helsinki	100
Elisa Appelsiini Oy	Helsinki	100
Elisa Eesti As	Tallinn	100
Elisa Hong Kong Limited	Hong Kong	100
Elisa Videra Ltd	Helsinki	100
Elisa Videra Spain S.L	Madrid	100
Elisa Videra UK Ltd.	London	100
Videra Norge As	Oslo	100
Enia Oy	Helsinki	100
Epic TV SAS	Chamonix Mont Blanc	100
Fiaset Oy	Helsinki	100
Fonetic Oy	Jyväskylä	100
Fonum Oy	Helsinki	100
Gisforest Oy	Kajaani	100
Helsingin Netti Media Oy	Helsinki	100
JMS Group Oy	Helsinki	100
Karelsat Oy	Joensuu	100
Kiinteistö Oy Raision Luolasto	Espoo	100
Kiinteistö Oy Rinnetorppa	Kuusamo	80
Kiinteistö Oy Tapiolan Luolasto	Espoo	100
Kotkan Tietoruutu Oy	Kotka	100
Kympnet Oy	Kotka	100
Kymtel Oy	Kotka	100
LNS Kommunikation AB	Stockholm	100
Planetmedia Oy	Kotka	100
Preminet Oy	Helsinki	100
OOO LNR	St. Petersburg	100
Videra LLC	St. Petersburg	100
Sulake Corporation Oy	Helsinki	100
Habbo Hotel S.L (Spain)	Madrid	100
Sulake Brasil	Sao Paolo	100
Sulake Inc	Los Angeles	100
Sulake Suomi Oy	Helsinki	100
Sulake UK Ltd	London	100
Banana Fingers Limited	London	100
Tampereen Tietoverkko Oy	Tampere	63
Telcont Oy	Kotka	100
Watson Nordic Oy	Vaasa	100

Joint ventures		
Kiinteistö Oy Brahenkartano	Turku	60

Associates	Domicile	Group's ownership,%
FNE-Finland Oy	Kontiolahti	46
Kiinteistö Oy Helsingin Sentnerikuja 6	Helsinki	50
Kiinteistö Oy Herrainmäen Luolasto	Tampere	50
Kiinteistö Oy Lauttasaarentie 19	Helsinki	42
Kiinteistö Oy Pohjanplassi	Lapua	39
Kiinteistö Oy Riihimäen Maisterinkatu 9	Riihimäki	35
Kiinteistö Oy Runeberginkatu 43	Helsinki	30
Kiinteistö Oy Stenbäckinkatu 5	Helsinki	40
Länsilinkki Oy	Turku	20
Suomen Numerot NUMPAC Oy	Helsinki	33
Tele Scope Oy	Espoo	22

Significant changes in ownership of subsidiaries are presented in Notes 2 and 3 and changes in ownership of associates in Note 16.

Other changes in the Group structure are described below.

Arediv Oy merged into the parent company Elisa Oyj on 30 June 2016. The merger does not affect the consolidated financial statements.

One Conference Ab, the subsidiary of Elisa Videra, was liquidated on 16 August 2016. The liquidation resulted in a loss of EUR 0.2 million recorded in other operating expenses, and it removed a total of EUR 0.3 million goodwill from the Group.

Sulake Danmark ApS, the subsidiary of Sulake, was liquidated on 14 June 2016. The liquidation does not affect the consolidated financial statements.

Elisa divested its ownership in Kiinteistö Oy Kiihtelysvaaran Oravanpyörä on 12 December 2016. The divestment resulted in a loss of EUR 0.1 million.

As a part of Anvia ICT companies acquisition, Kiinteistö Oy Pohjanplassi, Länsilinkki Oy and Tele Scope Oy became associated companies of the Group.

Joint arrangements

Kiinteistö Oy Brahenkartano owns and manages a building and a site in Turku. Elisa is entitled to manage office and telecom facilities with the shares owned.

60 per cent of the assets, liabilities, income and expenses of the joint operation are consolidated to the Group's financial statements with the proportionate method.

Associates

Associated companies are consolidated in accordance with the equity method of accounting.

On 31 December 2016, the Group had no significant associated companies. On 31 December 2015, the Group had one significant associated company: Anvia Plc. Anvia Plc was consolidated as an associated company until 30 June 2016, when Elisa divested its shares as a part of the Anvia ICT companies acquisition. At the time of the divestment, the Group owned 42 (30 on 30 December 2015) per cent of all shares of Anvia Plc.

The earnings effect of the divestment, EUR +0.3 million, is included in financial income on the income statement. The company’s result accrued during the term as an associated company has been taken into account in the sales income. The Group’s share of the result of Anvia Corporation up until 30 June 2016, EUR -1.4 million, is included on the income statement under “Share of associated companies’ profit”. Dividends of EUR 2.8 million were received from Anvia Corporation during the financial period.

Elisa divested its ownership in Softera Oy on 3 February 2016. The divestment resulted in a profit of EUR 0.2 million recorded in the financial income in the income statement. The impact of the result incurred during the period of the ownership by the Group has been taken into account in the profit.

The table shows the associated companies consolidated amount of profit according to the Group's accounting principles.

Financial information of a material associate

Anvia Plc

EUR million	2016	2015
Revenue	68.1	130.7
Profit for the period	-3.4	7.4
Group's share of profit	-1.4	2.2
Non-current assets		117.5
Current assets		54.7
Non-current liabilities		25.4
Current liabilities		34.0
Provisions		0.2
Net assets		112.7
Group's share of net assets		33.9
Goodwill		25.9
Dividends received		-2.3
Carrying amount of Group's interest		57.5

Aggregated financial information of non-material associates

EUR million	2016	2015
Group's share of profit	0.0	0.1
Carrying amount of Group's interest in the associates	2.2	1.9

The Group's share of the associated companies and changes during 2015. See Note 16.

Transactions carried out with related parties:

EUR million 2016	Sales	Purchases	Receivables	Liabilities
Associates and joint arrangements	0.5	3.0	0.2	0.5
2015				
Associates and joint arrangements	0.4	2.7	0.8	0.3

Employee benefits to key management are presented under Note 7.

36. EVENTS AFTER THE BALANCE SHEET DATE

The Shareholders' Nomination Board of Elisa Corporation proposes to the Annual General Meeting of 6 April 2017 that the number of members of the Board of Directors be seven (7). The Nomination Board proposes that Mr Raimo Lind, Ms Clarisse Berggårdh, Mr Petteri Koponen, Ms Leena Niemistö, Ms Seija Turunen and Mr Mika Vehviläinen be re-elected as members of the Board. The Nomination Board proposes further that Mr Antti Vasara is elected as a new member of the Board.

On 19 January 2017, Anvia's Extraordinary General Meeting approved the interim financial statements. Hence, Elisa can carry out the Anvia transaction at the final purchase price with the remaining share transfers.

Key indicators

KEY INDICATORS DESCRIBING THE GROUP'S FINANCIAL DEVELOPMENT

	2016	2015	2014	2013	2012
INCOME STATEMENT					
Revenue, EUR million	1,636	1,569	1,535	1,547	1,553
Change of revenue,%	4.2	2.2	-0.8	-0.4	1.5
EBITDA (EUR million)	563	532	520	491	501
EBITDA as % of revenue	34.4	33.9	33.8	31.7	32.3
EBIT, EUR million	339	312	305	281	299
EBIT as % of revenue	20.7	19.9	19.9	18.1	19.2
Profit before tax, EUR million	320	291	278	255	269
Profit before tax as % of revenue	19.6	18.5	18.1	16.5	17.3
Return on equity (ROE),%	27.1	27.0	25.6	22.9	24.7
Return on investment (ROI),%	17.0	16.5	15.7	15.3	17.4
Research and development costs, EUR million	11	15	13	10	9
Research and development costs as % of revenue	0.7	0.9	0.8	0.6	0.6
BALANCE SHEET					
Gearing ratio,%	115.7	103.9	114.0	112.6	99.3
Current ratio	1.0	0.7	0.9	1.0	1.0
Equity ratio,%	38.5	41.4	39.4	37.3	42.3
Non-interest bearing liabilities, EUR million	393	330	322	353	285
Interest bearing net debt	1,124.1	962.0	1,001.5	971.2	838.6
Balance sheet total, EUR million	2,533	2,247	2,243	2,324	2,009
INVESTMENTS					
Investments in shares and business combinations, EUR million	108	18	43	150	
CAPITAL EXPENDITURES					
Investments, EUR million	226	196	191	240	193
Investments as % of revenue	13.8	12.5	12.5	15.5	12.5
PERSONNEL					
Average number of employees during the period	4,247	4,146	4,138	4,320	3,973
Revenue/employee, EUR 1,000	385	379	371	358	391

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

FORMULAE FOR FINANCIAL SUMMARY INDICATORS

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

PER-SHARE INDICATORS[1

	2016	2015	2014	2013	2012
Share capital, EUR	83,033,008	83,033,008	83,033,008	83,033,008	83,033,008
Number of shares at year-end	159,619,944	159,484,067	159,349,030	159,349,030	156,879,666
Average number of shares	159,607,755	159,469,737	159,349,030	157,269,132	156,548,402
Number of shares at year-end, diluted	159,619,944	159,484,067	159,349,030	159,349,030	157,016,312
Average number of shares, diluted	159,607,755	159,469,737	159,349,030	157,269,132	156,685,047
Market capitalisation, EUR million [2	5,176	5,822	3,783	3,223	2,797
Earnings per share (EPS), EUR	1.61	1.52	1.41	1.25	1.33
Dividend per share, EUR	1,50 [5	1.40	1.32	1.30	1.30
Payout ratio,%	93.1	91.8	93.5	104.0	97.5
Equity per share, EUR	6.08	5.80	5.51	5.41	5.37
P/E ratio	19.2	22.8	16.0	14.8	12.6
Effective dividend yield,% [2	4.8	4.0	5.8	6.7	7.8
Share performance on Nasdaq Helsinki					
Mean price, EUR	32.27	28.37	20.93	16.15	16.61
Closing price at year-end, EUR	30.93	34.79	22.61	19.26	16.73
Lowest price, EUR	28.40	22.10	18.19	13.37	14.84
Highest price, EUR	35.80	35.99	24.04	19.49	17.97
Trading of shares on Nasdaq Helsinki [3					
Total trading volume, 1,000 shares	105,663	113,312	112,729	128,100	116,534
Percentage of shares traded [4	63	68	67	77	70

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) Elisa share is also traded in alternative marketplaces. According to the Fidessa Fragmentation report, the trading volumes in these markets in 2016 were approximately 180 (153) per cent of the Nasdaq Helsinki.

4) Calculated in proportion to the average number of shares for the period.

5) The Board of Directors proposes a dividend payment of EUR 1.50 per share.

FORMULAE FOR PER-SHARE INDICATORS

Earnings per share (EPS)

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

Dividend per share [1]

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

Effective dividend yield, %

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

Payout ratio, % [1]

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

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)

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

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

Income statement, parent company, FAS

EUR million	Note	2016	2015
Revenue	1	1,387.9	1,368.3
Other operating income	2	8.8	7.3
Materials and services	3	-551.4	-548.2
Personnel expenses	4	-189.0	-188.4
Depreciation and amortisation	5	-219.2	-216.2
Other operating expenses		-151.6	-144.9
Operating profit		285.4	278.0
Financial income and expenses	7	-26.7	-23.2
Profit before appropriations		258.7	254.9
Appropriations	8	7.3	-9.5
Income taxes	9	-59.7	-55.4
Profit for the period		206.3	190.0

Balance sheet, parent company, FAS

EUR million	Note	31 Dec. 2016	31 Dec. 2015
ASSETS			
Fixed assets			
Intangible assets	10	413.4	421.5
Tangible assets	10	606.1	611.5
Investments	11	367.4	340.2
		1,386.8	1,373.2
Current assets			
Inventories	12	43.0	41.9
Non-current receivables	13	137.3	119.4
Current receivables	14	510.4	323.5
Cash and bank		34.6	9.3
		725.3	494.2
TOTAL ASSETS		2,112.1	1,867.4
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	15		
Share capital		83.0	83.0
Treasury shares		-142.7	-145.4
Reserve for invested non-restricted equity		77.8	77.8
Contingency reserve		3.4	3.4
Retained earnings		175.2	211.0
Profit for the period		206.3	190.0
		403.1	419.9
Accumulated appropriations		79.6	80.1
Provisions for liabilities and charges	16	5.5	7.9
Liabilities			
Non-current liabilities	17	861.2	762.0
Current liabilities	18	762.7	597.5
		1,623.9	1,359.5
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		2,112.1	1,867.4

Cash flow statement, parent company, FAS

EUR million	2016	2015
Cash flow from operating activities		
Profit before appropriations	258.7	254.9
Adjustments:		
Depreciation and amortisation	219.2	216.2
Other income and expenses with no payment relation	0.8	1.9
Other financial income (-) and expenses (+)	21.9	22.2
Gains (-) and losses (+) on the disposal of fixed assets	-0.6	-2.8
Gains (-) and losses (+) on the disposal of investments	4.8	1.0
Change in provisions in the income statement	-2.4	1.3
Cash flow before changes in working capital	502.5	494.6
Increase (+) / decrease (-) in working capital	18.6	-22.6
Cash flow before financial items and taxes	521.1	472.0
Dividends received	1.7	1.8
Interest received	1.9	3.0
Interest paid	-23.9	-24.5
Income taxes paid	-64.5	-51.4
Net cash flow from operating activities	436.4	400.9
Cash flow from investing activities		
Capital expenditure	-206.1	-182.6
Proceeds from disposal of tangible and intangible assets	1.4	1.5
Investments in shares and other financial assets	-40.3	0.2
Proceeds from disposal of shares and other financial assets	3.1	5.5
Loans granted	-185.7	-19.6
Repayment of loan receivables	2.6	7.0
Net cash flow used in investing activities	-425.0	-188.0
Cash flow after investing activities	11.4	212.9
Cash flow from financing activities		
Repayment of long-term borrowings (+)	150.0	
Change in short-term borrowings (-)	-156.6	-10.6
Increase (+) / decrease (-) in short-term borrowings	242.7	-24.2
Group contributions received (+) / paid (-)	0.6	12.1
Dividends paid	-222.8	-209.8
Net cash flow used in financing activities	13.9	-232.6
Change in cash and cash equivalents	25.3	-19.6
Cash and cash equivalents at the beginning of the period	9.3	29.0
Cash and cash equivalents at the end of the period	34.6	9.3

Notes to the financial statements of the parent company

Accounting principles

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

Items denominated in foreign currencies

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

Fixed assets

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

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

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

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

Inventories

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

Marketable securities

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

Revenue recognition principles

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

Research and development

Research costs are charged to expenses in 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 recognised as an expense. Development costs previously recognised as expenses are not capitalised later.

Government grants 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 government grant is associated with capitalised product development costs, the grant reduces the capitalised acquisition cost.

Future expenses and losses

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

Income taxes

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

1. REVENUE

EUR million	2016	2015
Sales	1,450.5	1,439.9
Interconnection fees and other adjustments	-62.6	-71.6
	1,387.9	1,368.3
Geographical distribution		
Finland	1,362.0	1,340.9
Rest of Europe	23.2	24.3
Other countries	2.7	3.2
	1,387.9	1,368.3

2. OTHER OPERATING INCOME

EUR million	2016	2015
Gain on disposal of fixed assets	0.6	2.8
Others (1	8.2	4.5
	8.8	7.3

1) Other operating income items mainly include rental income of real estate, management fee income charged from subsidiaries and miscellaneous other operating income.

3. MATERIALS AND SERVICES

EUR million	2016	2015
Materials, supplies and goods		
Purchases	218.5	200.7
Change in inventories	-1.1	-3.7
	217.4	197.0
External services	334.0	351.1
	551.4	548.2

4. PERSONNEL EXPENSES

EUR million	2016	2015
Salaries and wages	154.8	154.1
Pension expenses	27.1	28.0
Other statutory employee expenses	7.2	6.3
	189.0	188.4
Personnel on average	2,563	2,606

CEO remuneration, EUR	2016	2015
Fixed salary	546,781.84	536,640.00
Performance-based bonus	351,261.00	261,340.00
Fringe benefits	9,132.16	19,130.04
Share-based payments [1]	947,863.00	732,815.43
	1,855,038.00	1,549,925.47

1) The maximum award allocated to the CEO under the share-based compensation plans equals the value of 248,131 shares. See Note 7 in the consolidated financial statements.

The executive agreement with the Group CEO expires at the age of 60, and he is entitled to retire according to the agreement. See Note 7 in the consolidated financial statements.

The Board of Directors' remuneration, EUR	2016	2015
Petteri Koponen	69,000.00	68,000.00
Clarisse Berggårdh	54,000.00	
Raimo Lind	117,000.00	115,000.00
Leena Niemistö	69,000.00	67,000.00
Eira Palin-Lehtinen		18,500.00
Jaakko Uotila	70,500.00	68,000.00
Seija Turunen	82,500.00	77,000.00
Mika Vehviläinen	80,500.00	79,000.00
	542,500.00	492,500.00

The following compensation determined by the Annual 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 fees of EUR 500 per meeting per participant. The monthly remuneration fees (deducted by tax) are used to purchase Elisa shares at the end of every quarter. The shares purchased before 2014 are subject to a transfer restriction of four years during the term of Board service. The restriction is lifted when Board membership ends.

5. DEPRECIATION AND AMORTISATION

EUR million	2016	2015
Intangible assets	65.9	63.4
Tangible assets	153.3	152.8
	219.2	216.2

Specification of depreciation by balance sheet items is included in Note 10.

6. AUDITOR FEES

EUR million	2016	2015
Auditing	0.2	0.2
Tax advisory services	0.0	0.1
Education services		0.0
Other services	0.2	0.2
	0,5	0,5

7. FINANCIAL INCOME AND EXPENSES

EUR million	2016	2015
Interest income and other financial income		
Dividends received		
from Group companies	0.7	0.9
from associated companies	0.6	0.4
from others	0.5	0.5
	1.7	1.8
Other interest and financial income		
from Group companies	1.2	1.3
from others	1.9	1.4
	3.0	2.6
	4.7	4.4
Interest costs and other financial expenses		
to Group companies	-3.8	-3.1
to others	-27.6	-24.3
Impairments		-0.2
	-31.4	-27.6
	-26.7	-23.2

8. APPROPRIATIONS

EUR million	2016	2015
Change in depreciation difference	0.5	-3.9
Group contributions received	10.6	10.4
Group contributions given	-3.8	-16.1
	7.3	-9.5

9. INCOME TAXES

EUR million	2016	2015
Regular business	-59.7	-55.5
Previous period taxes	0.0	0.1
	-59.7	-55.4

10. INTANGIBLE AND TANGIBLE ASSETS

Intangible Assets

2016

EUR million	Development costs	Intangible rights	Goodwill	Other intangible assets	Under construction	Total
Acquisition cost at 1 Jan. 2016	25.1	73.0	809.9	368.8	22.4	1,299.2
Additions	1.3	3.7	2.1	25.1	24.8	57.0
Disposals		-0.0		-0.0	-0.0	-0.1
Reclassifications	0.4	-0.6		14.8	-13.8	0.7
Acquisition cost at 31 Dec. 2016	26.8	76.1	812.0	408.7	33.4	1,356.9
Accumulated amortisation at 1 Jan. 2016	20.9	34.2	508.8	313.8		877.6
Amortisation for the period	2.7	6.6	34.5	22.2		65.9
Accumulated amortisation at 31 Dec. 2016	23.6	40.7	543.3	336.0		943.5
Book value at 31 Dec. 2016	3.2	35.3	268.7	72.8	33.4	413.4

Tangible assets

2016

EUR million	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Under onstruction	Total
Acquisition cost at 1 Jan. 2016	6.6	171.5	2,932.6	35.1	21.4	3,167.2
Additions	0.1	4.6	123.5		20.7	148.9
Disposals	-0.0	-0.0	-10.4			-10.4
Reclassifications	0.0	1.2	13.1		-15.1	-0.7
Acquisition cost at 31 Dec. 2016	6.7	177.2	3,058.9	35.1	27.0	3,305.0
Accumulated depreciation at 1 Jan. 2016		90.6	2,430.8	34.3		2,555.7
Accumulated depreciation of disposals and reclassifications		-0.0	-10.1			-10.1
Depreciation for the period		8.6	144.6	0.0		153.3
Accumulated depreciation at 31 Dec. 2016		99.2	2,565.3	34.4		2,698.9
Book value at 31 Dec. 2016	6.7	78.0	493.6	0.8	27.0	606.1

Intangible Assets

2015

EUR million	Development costs	Intangible rights	Goodwill	Other intangible assets	Under construction	Total
Acquisition cost at 1 Jan. 2015	22.2	69.6	809.4	349.8	11.9	1,263.0
Additions	2.2	4.9	0.5	14.5	13.1	35.2
Disposals				-0,0	-0.1	-0.1
Reclassifications	0.7	-1.5		4.6	-2.6	1.1
Acquisition cost at 31 Dec. 2015	25.1	73.0	809.9	368.8	22.4	1,299.2
Accumulated amortisation at 1 Jan. 2015	17.4	28.3	474.4	294.2		814.3
Amortisation for the period	3.5	5.8	34.3	19.6		63.3
Accumulated amortisation at 31 Dec. 2015	20.9	34.2	508.8	313.8		877.6
Book value at 31 Dec. 2015	4.2	38.8	301.1	55.0	22.4	421.5

Tangible assets

2015

EUR million	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Under construction	Total
Acquisition cost at 1 Jan. 2015	6.6	164.5	2,813.4	35.1	19.2	3,038.9
Additions	0.0	5.8	117.7	0.0	17.2	140.8
Disposals	-0,0	-0,0	-11.3			-11.3
Reclassifications	0.0	1.2	12.7		-15.0	-1.1
Acquisition cost at 31 Dec. 2015	6.6	171.5	2,932.6	35.1	21.4	3,167.2
Accumulated depreciation at 1 Jan. 2015		82.2	2,297.3	34.3		2,413.7
Accumulated depreciation of disposals and reclassifications		-0,0	-10.8			-10.8
Depreciation for the period		8.5	144.3	0.1		152.8
Accumulated depreciation at 31 Dec. 2015		90.6	2,430.8	34.3		2,555.7
Book value at 31 Dec. 2015	6.6	80.9	501.9	0.8	21.4	611.5

11. INVESTMENTS

	Shares			Receivables	
2016					
EUR million	**Group companies**	**Associated companies**	**Other companies**	**Group companies**	**Total**
Acquisition cost at 1 Jan. 2016	304.7	13.2	20.0	7.0	344.9
Additions	46.8	8.6	0.0	2.0	57.3
Disposals	-14.3	-15.8	-0.0	-0.0	-30.1
Reclassifications	2.0	-0.0	0.0	-2.0	
Acquisition cost at 31 Dec. 2016	339.1	5.9	20.0	7.0	372.1
Impairment at 1 Jan. 2016	-0.5		-4.1	-0.1	-4.7
Impairment at 31 Dec. 2016	-0.5		-4.1	-0.1	-4.7
Book value at 31 Dec. 2016	338.6	5.9	15.9	7.0	367.4

A list of the Group and associated companies is available under Note 35 in the consolidated financial statements.

	Shares			Receivables	
2015					
EUR million	**Group companies**	**Associated companies**	**Other companies**	**Group companies**	**Total**
Acquisition cost at 1 Jan. 2015	283.2	17.7	22.1	10.0	333.0
Additions	0.8	0.0		0.0	0.8
Disposals		-4.5	-2.1		-6.6
Reclassifications	20.7			-3.0	17.7
Acquisition cost at 31 Dec. 2015	304.7	13.2	20.0	7.0	344.9
Impairment at 1 Jan. 2015	-0.5		-4.1	-0.1	-4.7
Impairment at 31 Dec. 2015	-0.5		-4.1	-0.1	-4.7
Book value at 31 Dec. 2015	304.2	13.2	15.9	7.0	340.2

12. INVENTORIES

EUR million	2016	2015
Materials and supplies	8.3	6.3
Finished goods	34.7	35.6
	43.0	41.9

13. NON-CURRENT RECEIVABLES

EUR million	2016	2015
Receivables from Group companies		
Loan receivables	68.1	50.7
Receivables from associated companies		
Prepayments and accrued income		0.6
Receivables from others		
Loan receivables	0.1	0.1
Trade receivables	55.7	51.3
Prepayments and accrued income (1	13.3	15.3
Other receivables		1.4
	69.2	68.1
	137.3	119.4
1) Breakdown of prepayment and accrued income		
Rent advances	9.1	9.0
Transaction costs and losses related to loan issuance	4.2	6.3
	13.3	15.3

14. CURRENT RECEIVABLES

EUR million	2016	2015
Receivables from Group companies		
Loan receivables	18.6	19.7
Trade receivables	6.4	14.2
Prepayments and accrued income	1.9	1.2
Other receivables	10.6	10.8
	37.5	45.9
Receivables from associated companies		
Trade receivables	0.2	0.0
Prepayments and accrued income		0.1
	0.2	0.2
Receivables from others		
Trade receivables	261.8	256.5
Loan receivables	168.6	1.6
Prepayments and accrued income (1	23.6	17.2
Other receivables	18.6	2.2
	472.7	277.5
	510.4	323.5
1) Breakdown of prepayment and accrued income		
Interest	0.2	0.1
Rent advances	1.8	1.8
Transaction costs and losses related to loan issuance	2.2	2.2
Taxes	1.9	
Other business expense advances	17.5	13.0
	23.6	17.2

15. SHAREHOLDERS' EQUITY

EUR million	2016	2015
Share capital at 1 Jan.	83.0	83.0
Share capital at 31 Dec.	83.0	83.0
Treasury shares at 1 Jan.	-145.4	-148.1
Disposal of treasury shares	2.7	2.7
Treasury shares at 31 Dec.	-142.7	-145.4
Reserve for invested non-restricted equity at 1 Jan.	77.8	77.8
Reserve for invested non-restricted equity at 31 Dec.	77.8	77.8
Contingency reserve at 1 Jan.	3.4	3.4
Contingency reserve at 31 Dec.	3.4	3.4
Retained earnings at 1 Jan.	401.0	423.9
Dividend distribution	-223.5	-210.5
Withdrawal of dividend liabilities	0.4	0.4
Disposal of treasury shares	-2.7	-2.7
Retained earnings at 31 Dec.	175.2	211.0
Profit for the period	206.3	190.0
	403.1	419.9
Distributable earnings		
Retained earnings	175.2	211.0
Treasury shares	-142.7	-145.4
Reserve for invested non-restricted equity	77.8	77.8
Development costs	-3.2	
Profit for the period	206.3	190.0
	313.5	333.5

16. PROVISIONS

EUR million	2016	2015
Provision for unemployment pensions	3.2	3.1
Other provisions [1]	2.4	4.8
	5.5	7.9

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

Provisions of EUR 3.3 (3.1) million were used and EUR 1.3 (0.6) million were cancelled in 2016.

17. NON-CURRENT LIABILITIES

EUR million	2016	2015
Interest-bearing		
Liabilities to Group companies		
Other liabilities	26.0	78.0
Liabilities to others		
Bonds	600.0	600.0
Loans from financial institutions	209.1	68.2
Loans from pension funds	1.0	1.0
	810.1	669.2
	836.1	747.2
Non-interest bearing		
Liabilities to others		
Trade payables	17.6	6.7
Accruals and deferred income [1]	7.5	8.2
	25.1	14.8
	861.2	762.0
Liabilities maturing after five years		
Bonds		300.0
Loans from financial institutions	150.0	
Loans from pension funds	0.6	1.0
	150.6	301.0
[1] Breakdown of accruals and deferred income		
Rent advances	7.5	8.2

18. CURRENT LIABILITIES

EUR million	2016	2015
Interest-bearing		
Liabilities to Group companies		
Group account	145.2	61.0
Other liabilities	26.0	
	171.2	61.0
Liabilities to others		
Loans from financial institutions	139.1	130.6
Commercial paper	199.0	170.5
	338.1	301.1
	509.3	362.1
Non-interest bearing		
Liabilities to Group companies		
Advances received		0.0
Trade payables	8.7	8.9
Accruals and deferred income	0.1	0.1
Other liabilities	3.8	16.5
	12.5	25.5
Liabilities to associated companies		
Trade payables	0.4	0.3
	0.4	0.3
Liabilities to others		
Advances received	1.3	1.1
Trade payables	130.8	114.2
Accruals and deferred income [1]	46.9	50.8
Other liabilities	61.4	43.5
	240.4	209.6
	253.4	235.4
	762.7	597.5
[1] Breakdown of accruals and deferred income		
Holiday pay, performance-based bonuses and related statutory employee costs	34.6	34.9
Interest	9.8	9.8
Direct taxes		2.9
Rent advances	1.3	1.4
Advance income	1.0	1.5
Others	0.3	0.3
	46.9	50.8

19. COLLATERAL, COMMITMENTS AND OTHER LIABILITIES

Collateral

EUR million	2016	2015
On behalf of own commitments		
Bank deposits	0.5	0.6
Guarantees	1.1	1.1
Pledged securities	0.1	0.1
On behalf of others		
Guarantees	0.5	0.5
	2.2	2.3

Leasing and rental liabilities

EUR million	2016	2015
Leasing liabilities on telecom networks (1		
Due within one year	0.2	0.3
Due later than one year and up to five years	0.5	0.7
Due later than five years		0.1
	0.8	1.0
Other leasing liabilities (2		
Due within one year	5.7	5.8
Due later than one year and up to five years	10.3	11.1
Due later than five years		0.6
	16.1	17.5
Repurchase obligations (3	0.0	0.0
Letter of credit	0.1	0.1
Real estate leases (4		
Due within one year	24.7	25.1
Due later than one year and up to five years	37.8	43.8
Due later than five years	97.6	102.5
	160.1	171.4
	177.0	190.0

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

2) Leasing liabilities consist mainly of leases of cars and IT equipment.

3) Repurchase obligations are mainly related to leasing liabilities on telecom networks and terminals devices bought by customers with leasing liabilities from financing institutions.

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

Real estate leases are presented at nominal amounts.

Derivative instruments

EUR million	2016	2015
Interest rate and currency swap		
Nominal value		1.5
Fair value recognised on the balance sheet		-0.1
Electricity derivative		
Nominal value	4.3	5.6
Fair value recognised on the balance sheet	-0.8	-1.8

Elisa hedges electricity purchases with physical purchase agreements and derivatives. The electricity price risk is assessed at five-year intervals. Hedge accounting is applied to contracts hedging future purchases.

The hedging rate for purchases in the following years,%

	2016	2015
0–1 years	91.3	62.9
1–2 years	46.6	43.2
2–3 years	17.5	24.7
3–4 years	0.0	18.5
4–5 years	0.0	0.0

If the market price of electricity derivatives changes by +/- 10 per cent from the balance sheet date of 31 December 2016, it would contribute EUR +/- 0.4 (0.4) million to the 2017 income statement. The impact has been calculated before tax.

Real estate investments

The VAT refund liability of real estate investments was EUR 30.5 (31.7) million at 31 December 2016.

Shares and shareholders

1. Share capital and shares

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

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

2. Authorisations of the Board of Directors

On 31 March 2016, the Annual General Meeting authorised the Board of Directors to decide on a new share issue, transfer of treasury shares owned by the company and/or granting of special rights referred to in Chapter 10, Section 1 of the Finnish Companies Act subject to the following: The authorisation allows the Board of Directors to issue a maximum of 15,000,000 shares in one or several issues. The share issue and shares granted by virtue of special rights are included in the aforementioned maximum number. The maximum number is approximately 9 per cent of the entire stock. The share issue can be free or for consideration and can also be directed to the Company itself. The authorisation entitles the Board to make a directed issue. The authorisation may be used for making acquisitions or implementing other arrangements related to the Company's business, to finance investments, to improve the Company's financial structure, or for other purposes decided by the Board of Directors. The Board of Directors shall have the right to decide on all other matters related to the share issue. The authorisation shall be in force until 30 June 2018 and it annuls the authorisation given by the Annual General Meeting to the Board of Directors on 2 April 2014.

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

Annual General Meeting to the Board of Directors on 26 March 2015.

3. Treasury shares, share issues and cancellations

At the beginning of the financial period, Elisa held 7,851,006 treasury shares.

The Annual General Meeting held on 31 March 2016 authorised the Board of Directors to acquire and assign treasury shares. The authorisation applies to a maximum of 5,000,000 treasury shares. On the basis of the authorisation, Elisa has not acquired any treasury shares.

A total of 135,877 treasury shares were disposed of during the financial year.

At the end of the financial period, Elisa held 7,715,129 treasury shares.

The Elisa shares held by Elisa do not have any substantial impact on the distribution of holdings and votes in the Company. They represent 4.61 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 2016 was 97,254 shares and votes, which represented 0.06 per cent of all shares and votes.

5. Share performance

The Elisa share closed at EUR 30,93 on 31 December 2016. The highest quotation of the year was EUR 35,80 and the lowest EUR 29,05. The average price was EUR 32,27.

At the end of the financial year, the market capitalisation of Elisa's outstanding shares was EUR 5,175.7 million.

6. Quotation and trading

The Elisa share is quoted on the Main List of the Nasdaq Helsinki with the ticker ELISA. The aggregate volume of trading on the Nasdaq Helsinki between 1 January and 31 December 2016 was 105,662,729 shares for an aggregate price of EUR 3,409 million. The trading volume represented 63.1 per cent of the outstanding number of shares at the end of the financial year.

7. DISTRIBUTION OF HOLDING BY SHAREHOLDER GROUPS AT 31 DECEMBER 2016

		Number of shares	Proportion of all shares, %
1	Private companies	22,467,956	13.43
2	Financial and insurance institutions	2,353,872	1.41
3	Public corporations	12,959,610	7.74
4	Non-profit organisations	5,206,141	3.11
5	Households	44,397,102	26.53
6	Foreign	2,497,518	1.49
7	Nominee registered	69,737,747	41.68
	Elisa Group	7,715,129	4.61
		167,335,073	100.00

8. DISTRIBUTION OF HOLDING BY AMOUNT AT 31 DECEMBER 2016

Size of holding	Number of shareholders	%	Number of shares	%
1–100	36,436	18.33	1,868,808	1.12
101–1 000	157,047	79.01	34,017,336	20.33
1 001–10 000	4,995	2.51	11,855,203	7.08
10 001–100 000	261	0.13	6,647,836	3.97
100 001–1 000 000	26	0.01	5,445,567	3.25
1 000 001–	6	0.00	29,539,240	17.65
Nominee registered			69,737,747	41.68
	198,773	100.00		
Elisa Common Clearing account (1			508,207	0.30
Elisa Group			7,715,129	4.61
Issued amount			167,335,073	100.00

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

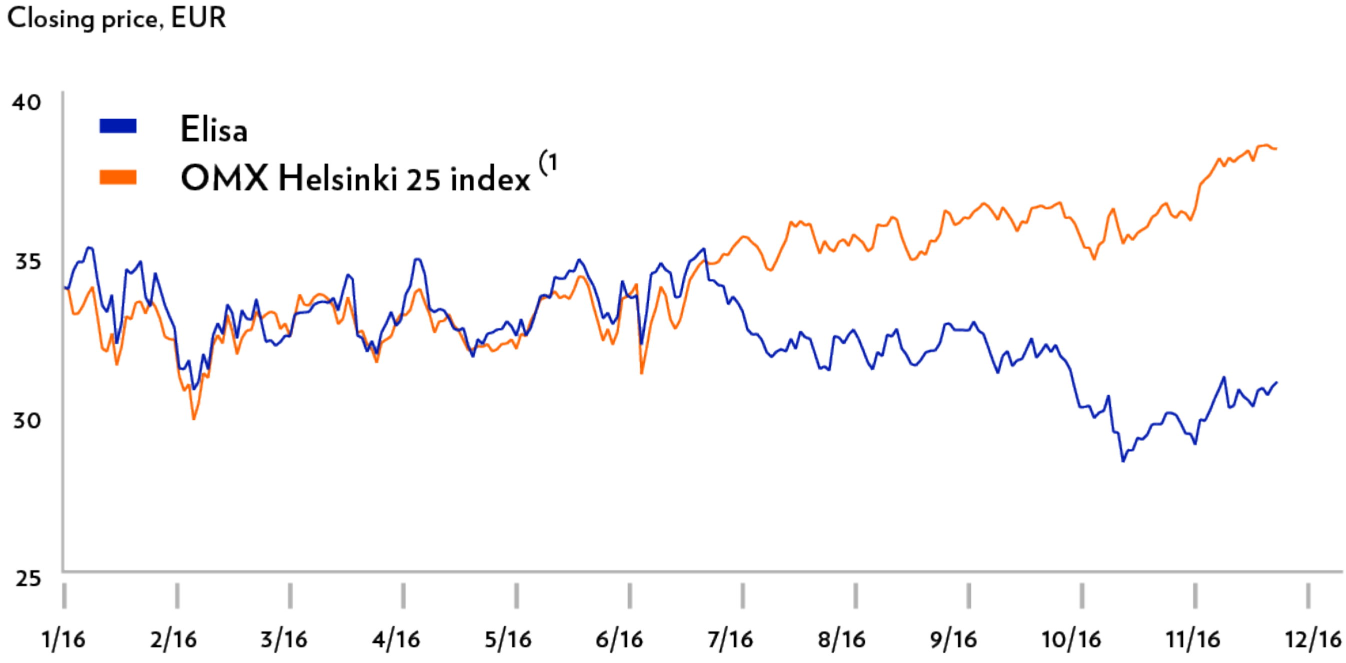
9. LARGEST SHAREHOLDERS AT 31 DECEMBER 2016

	Name	Number of shares	%
1.	Solidium Oy	16 801 000	10.04
2.	Varma Mutual Pension Insurance Company	6 711 976	4.01
3.	Ilmarinen Mutual Pension Insurance Company	2 014 304	1.20
4.	Swiss National Bank	1 641 988	0.98
5.	State Pension Fund	1 330 000	0.79
6.	City of Helsinki	1 124 690	0.67
7.	Elo Mutual Pension Insurance Company	493 000	0.29
8.	KPY Sijoitus LLC	457 163	0.27
9.	Sigrid Juselius Säätiö	352 000	0.21
10.	Åbo Akademi University Foundation sr	342 900	0.20
11.	OP Life Assurance Company Ltd	318 902	0.19
12.	Samfundet Folkhälsan i Svenska Finland rf	315 263	0.19
13.	Danske Invest Suomi Yhteisöosake	298 607	0.18
14.	City of Vantaa	258 738	0.15
15.	Seligson & Co Equity Fund	254 000	0.15
16.	Verdipapirfondet Odin Finland	232 788	0.14
17.	Andra AP-fonden	202 672	0.12
18.	Föreningen Konstsamfundet R.F.	190 000	0.11
19.	Orionin Eläkesäätiö	173 300	0.10
20.	Stiftelsen Brita Maria Renlunds Minne	153 300	0.09
		33 666 591	20.12
	Elisa Group	7 715 129	4.61
	Elisa Personnel Fund	85 489	0.05
	Kotkan Puhelinyhdistys Pension Fund	6 336	0.00
	Elisa Common Clearing account [1)]	508 207	0.30
	Nominee registered	69 737 747	41.68
	Shareholders not specified here	55 615 574	33.24
		167,335,073	100.00

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

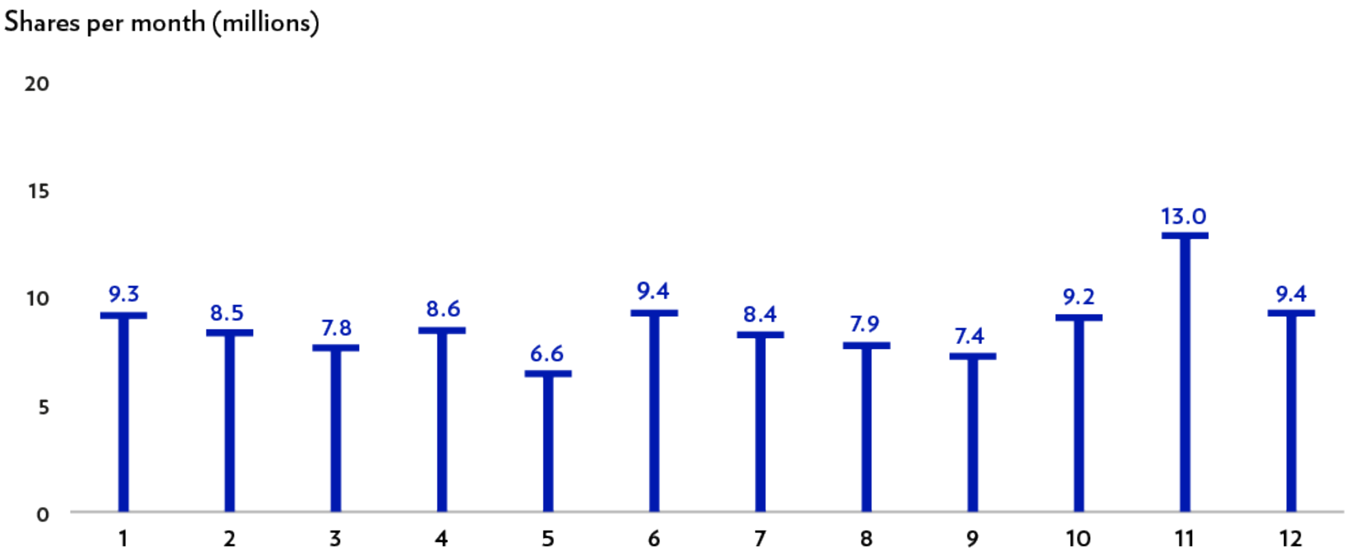
BlackRock Inc gave notice in accordance with Chapter 9, Section 5 of the Finnish Securities Market Act that the direct share ownership of Elisa Corporation shares owned by BlackRock, Inc. was 8,934,243 and by its funds was 392,352, totaling 8,479,441 shares which was 5,57 per cent of Elisa Corporation’s entire stock.

10. DAILY PRICE DEVELOPMENT



1) Rebalanced to Elisa share

11. TRADING VOLUME



Share trading volumes are based on the trades made in NASDAQ OMX Helsinki.
Elisa share is also traded in alternative marketplaces.

Board's proposal concerning the disposal of profits

According to the consolidated balance sheet of 31 December 2016, the parent company's shareholders' equity is EUR 403,144,713.66 of which distributable funds account for EUR 313,529,045.18.

The parent company's profit for the period 1 January to 31 December 2016 was EUR 206,340,370.02.

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

- a dividend of EUR 1.50 per share shall be paid for a total of EUR 239,429,916.00
- no dividend shall be paid on shares in the parent company's possession
- EUR 74,099,129.18 shall be retained in shareholders' equity.

Signatures to the Board of Directors' report and financial statements

Helsinki, 26 January 2017

Raimo Lind
Chairman of the Board of Directors

Clarisse Berggårdh

Petteri Koponen

Leena Niemistö

Seija Turunen

Jaakko Uotila

Mika Vehviläinen

Veli-Matti Mattila
President and CEO

Auditor´s report

To the Annual General Meeting of Elisa Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Elisa Corporation (business identity code 0116510-6) for the year ended 31 December 2016. The financial statements comprise the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, cash flow statement and notes.

In our opinion

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

Basis for Opinion

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

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

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

Materiality

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Impairment of goodwill € 880 million (Consolidated accounting principles and note 15)	
– The goodwill balance in the consolidated statement of financial position is significant due to the acquisitions carried out in the previous years. As regard to the amount, the goodwill balance is comparable to the consolidated equity. – Goodwill is tested for impairment annually and the company prepares impairment tests for the financial statements on a discounted cash flow basis with sensitivity analyses. – Estimating future cash flows underlying the impairment tests involves a significant amount of management judgment, particularly in respect of growth in net sales, profitability and discount rates. – Due to management judgments about the estimates used in the impairment tests, as well as the significant carrying amount involved, impairment of goodwill is considered a key audit matter.	– We assessed critically those management judgments and the assumptions made, which were used to prepare the cash flow projections for the coming years. In addition, we compared previous years' estimates to the actual amounts to be able to evaluate the reliability of the estimating methods applied. – We used KPMG valuation specialists when considering the appropriateness of the discount rate used and the technical correctness of the calculations, as well as comparing the assumptions used to market and industry-specific information. – In addition, we assessed the adequacy of the sensitivity analyses and the appropriate presentation of the notes related to impairment tests in the consolidated financial statements.

**Revenue recognition € 1,636 million
(Consolidated accounting principles and note 1)**

– Revenues are recognized once the service has been rendered to the customer or once the significant risks and rewards related to the ownership of the goods have been transferred to the buyer.
– The IT system environment related to billing transactions is complex and the volume of billing data is large containing wide variety of different products. Industry is also marked by price and contract changes in the short run.
– Due to large volumes of data, revenue recognition involves the risk of revenue being recognized in the incorrect period.

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

Capital expenditures Consolidated accounting principles and notes 14 and 15)	
– The company invests heavily especially in its own telecommunication network and IT environments to remain competitive. – The company's capital expenditures amount to over € 200 million annually, and therefore capital expenditures comprise a significant part of the consolidated statement of financial position.	– We observed the company's investment budget for the year 2016 and followed up developments quarterly. – We evaluated the company's internal control environment. We also tested the controls over the approval of investment projects; over the authorization process when placing individual orders under an investment project; over the associated approval process when approving purchase invoices; and over recording transactions in the asset register (for property, plant and equipment and intangible assets). – Our substantive procedures focused on assessing the appropriateness of the accounting treatment in respect of the most significant investment projects. In addition, we tested whether the assets under construction met the capitalization requirements and assessed whether they were disclosed appropriately in the consolidated financial statements.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

Other Information

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

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

If, based on the work we have performed on the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 26 January 2017

KPMG OY AB

Esa Kailiala

Authorized Public Accountant, KHT