

elisa

Interim Report

1 January 2006 – 31 March 2006

# Q1 2006 Report

President and CEO Veli-Matti Mattila



elisa

# Elisa Q1 2006

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- Q1 2006 and financial highlights
- Review of the mobile and fixed network businesses
- Execution of the strategy
- Outlook for 2006



# Elisa Q1 2006 highlights

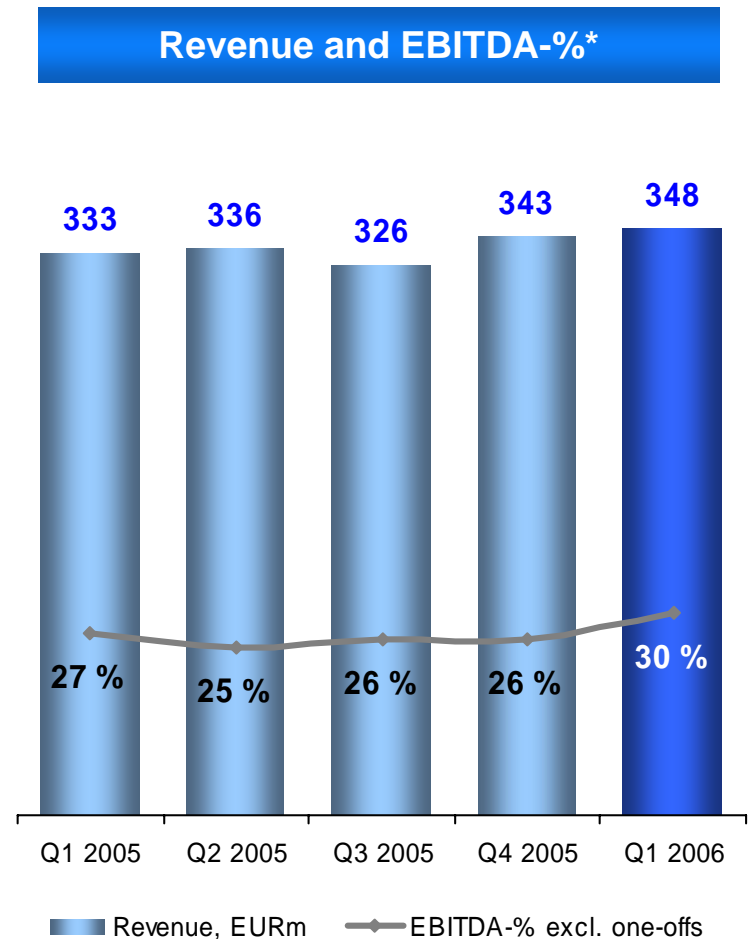
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- Market moving towards service competition
  - operators focus increasingly on existing customers
  - Elisa launched 3G service bundles
- Elisa strengthened its position in the broadband market. Position in the mobile business improved by the Saunalahti acquisition.
- Mobile churn decreased further
- Growth in revenue and improvement in profitability
- Financial position remained stable



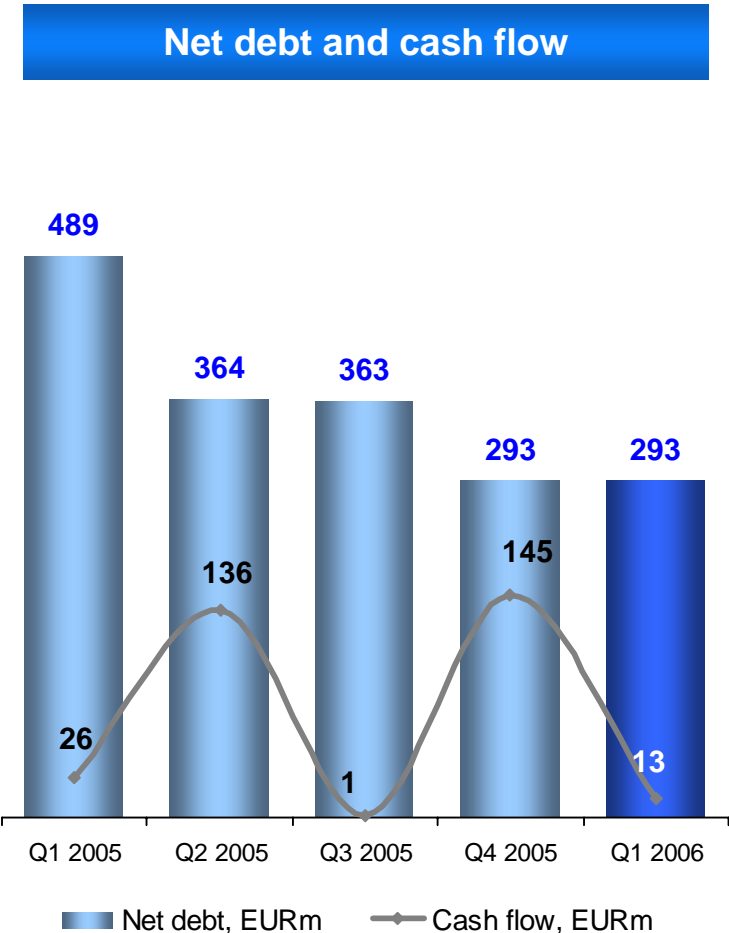
# Growth in revenue, profit met expectations

- Revenue EUR 348m (333)
- EBITDA EUR 99m (97)
  - excluding one-offs EUR 103m (89)
- EBIT EUR 43m (45)
- Pre-tax profit EUR 39m (39)
- EPS EUR 0.18 (0.23)



# Financial position stable

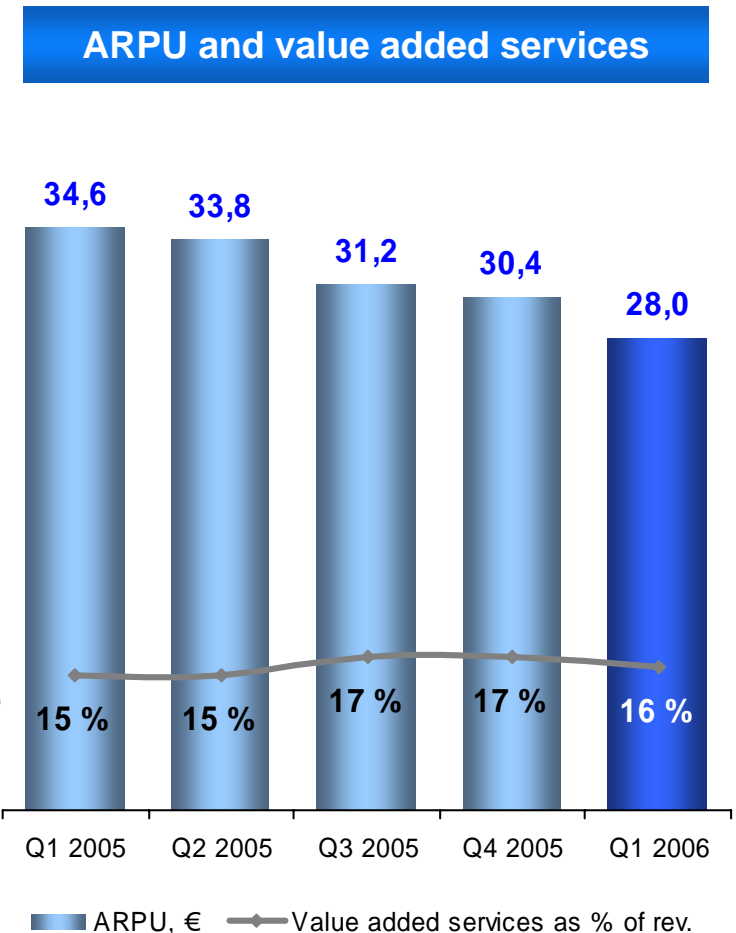
- Cash flow EUR 13m (26)
- Net debt EUR 293m (489)
- CAPEX EUR 43m (42), 12% of revenue (13)
- Equity ratio 62% (49)
- Gearing 23% (55)



# Lower churn and decrease in ARPU

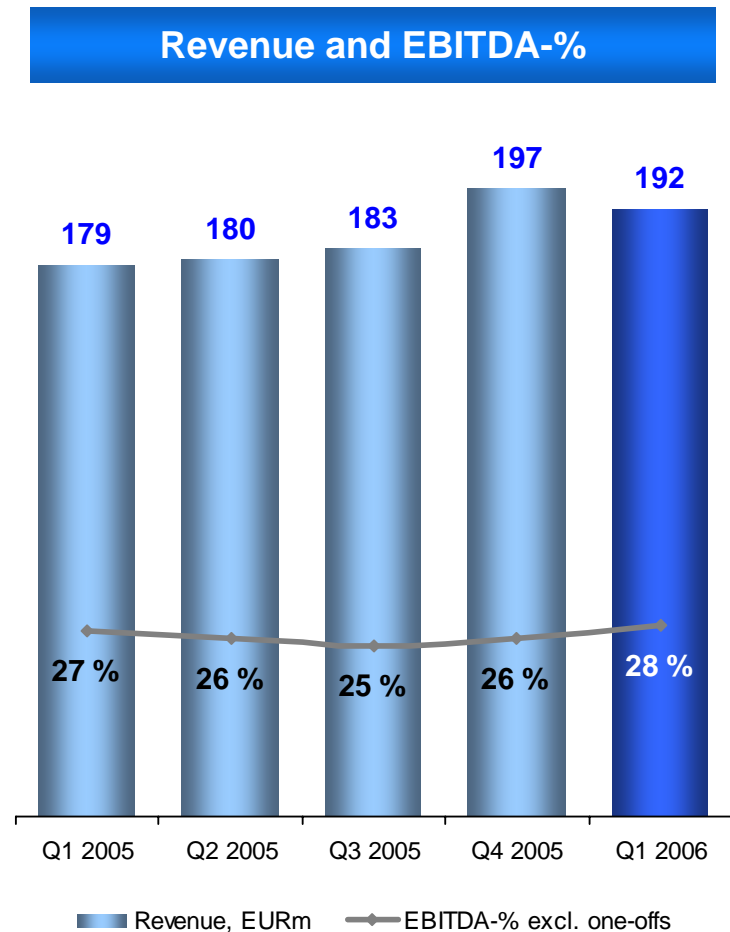
- Towards service competition
  - Churn 19.0% (33.5\*)
- ARPU EUR 28.0 (34.6\*)
  - seasonality, elimination of Saunalahti interconnection revenue
- Subscription growth 22 000 in Q1
- Growth in network usage
  - MOU grew by 52% and SMS 64% due to increased Saunalahti traffic
  - growth in own service providers' numbers 18% and 28%, respectively (2005 figures excluding Saunalahti)

\* excluding Saunalahti



# Profitability improving

- Revenue EUR 192m (179)
  - growth due to increased Saunalahti traffic
- EBITDA EUR 53m (49), 28% of revenue (27)
- EBIT EUR 30m (27), 16% of revenue (15)

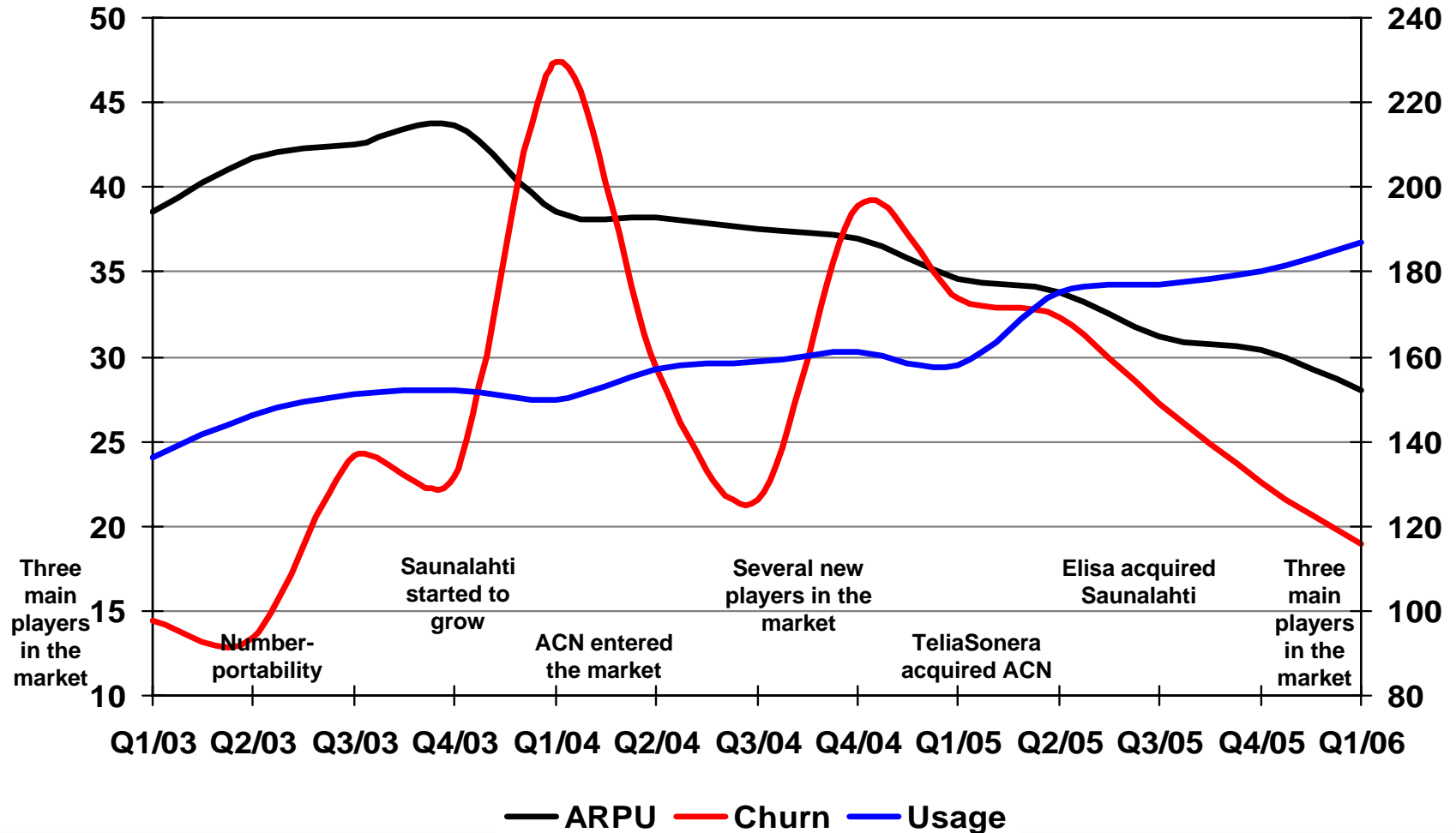




# No changes in recent trends

ARPU (EUR) and churn (%)

Usage (min/sub/month)



Three main players in the market

Number-portability

Saunalahti started to grow

ACN entered the market

Several new players in the market

TeliaSonera acquired ACN

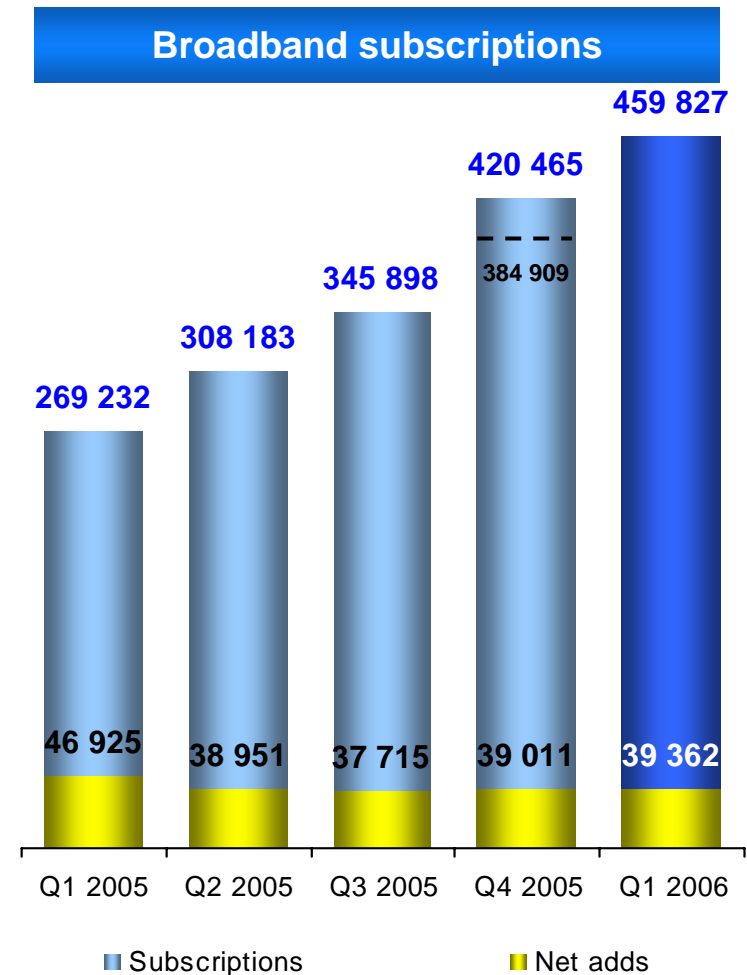
Elisa acquired Saunalahti

Three main players in the market



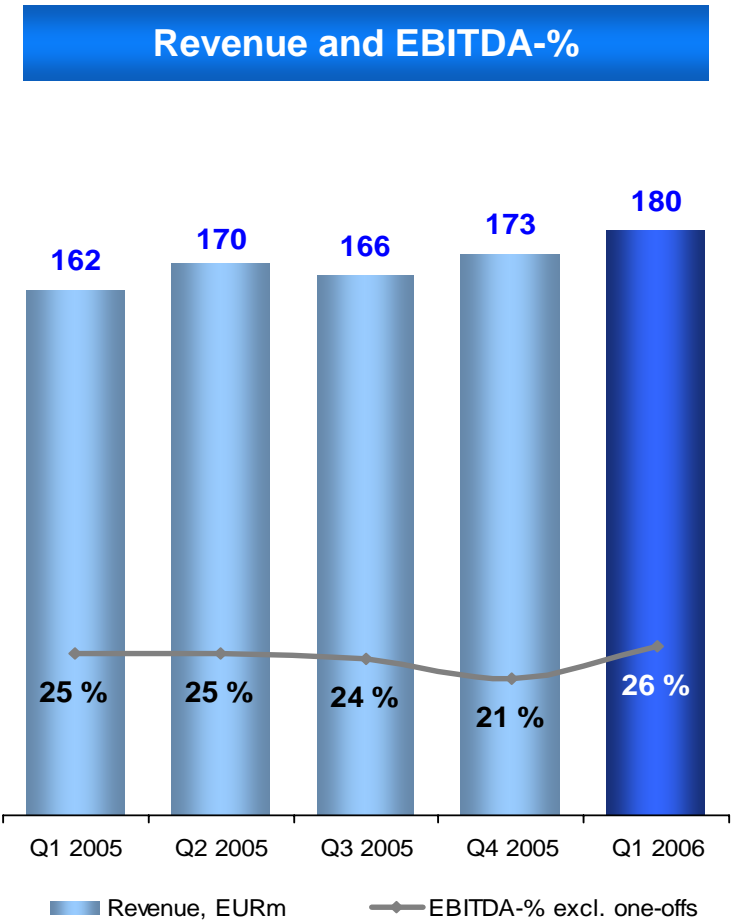
# Market leadership in broadband strengthened

- ADSL subscriptions growth 71% y-o-y
- Organic growth almost 40,000 subscriptions in Q1
- Elisa strengthened its market position
- Decrease in analogue lines continued
  - analogue lines decreased by 11% and ISDN channels by 19%



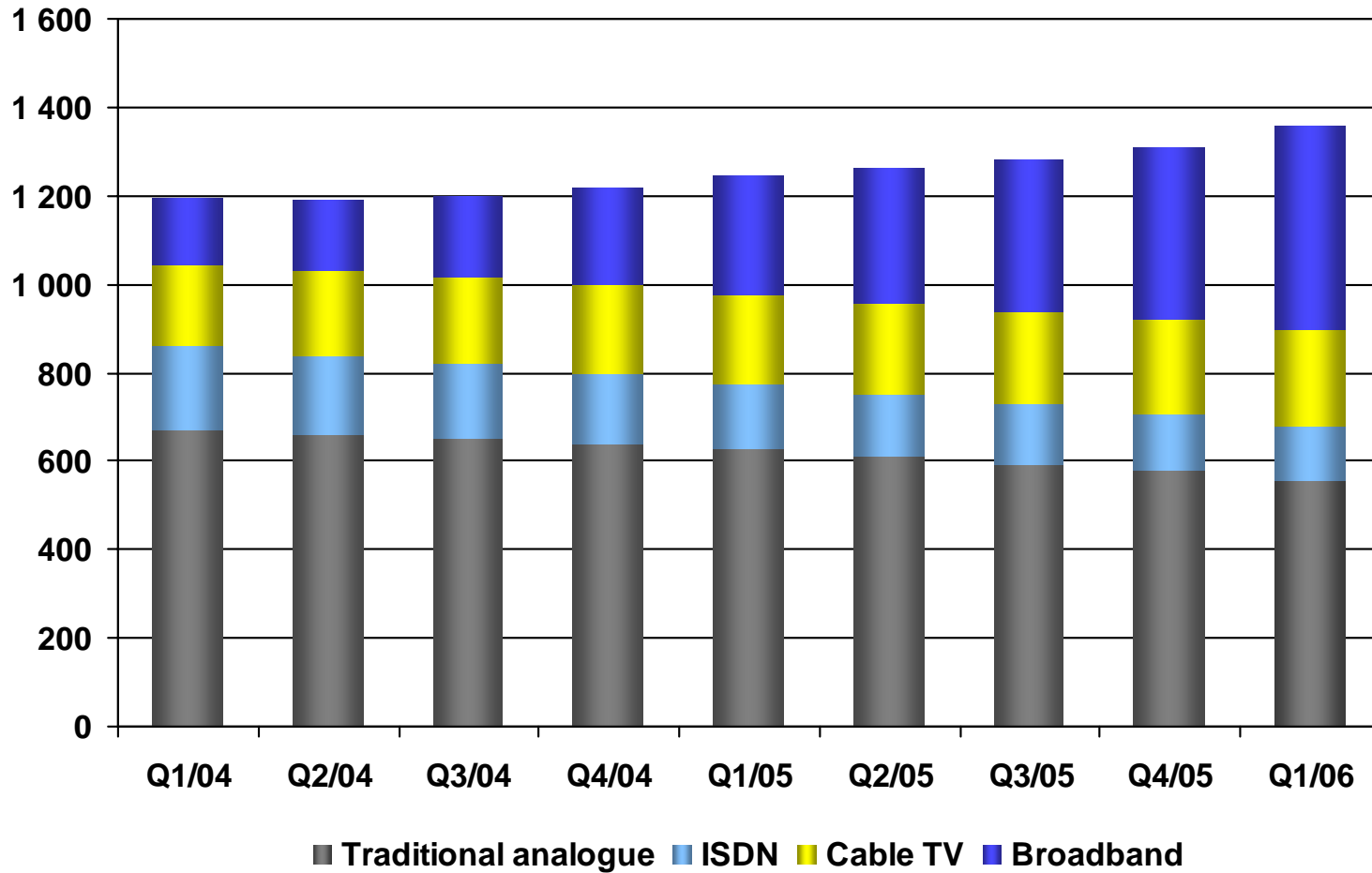
# Broadband sales increased revenue

- Revenue EUR 180m (162)
- EBITDA EUR 46m (40), 26% of revenue (25)
  - revenue growth
  - lower costs
- EBIT EUR 15m (13), 8% of revenue (8)



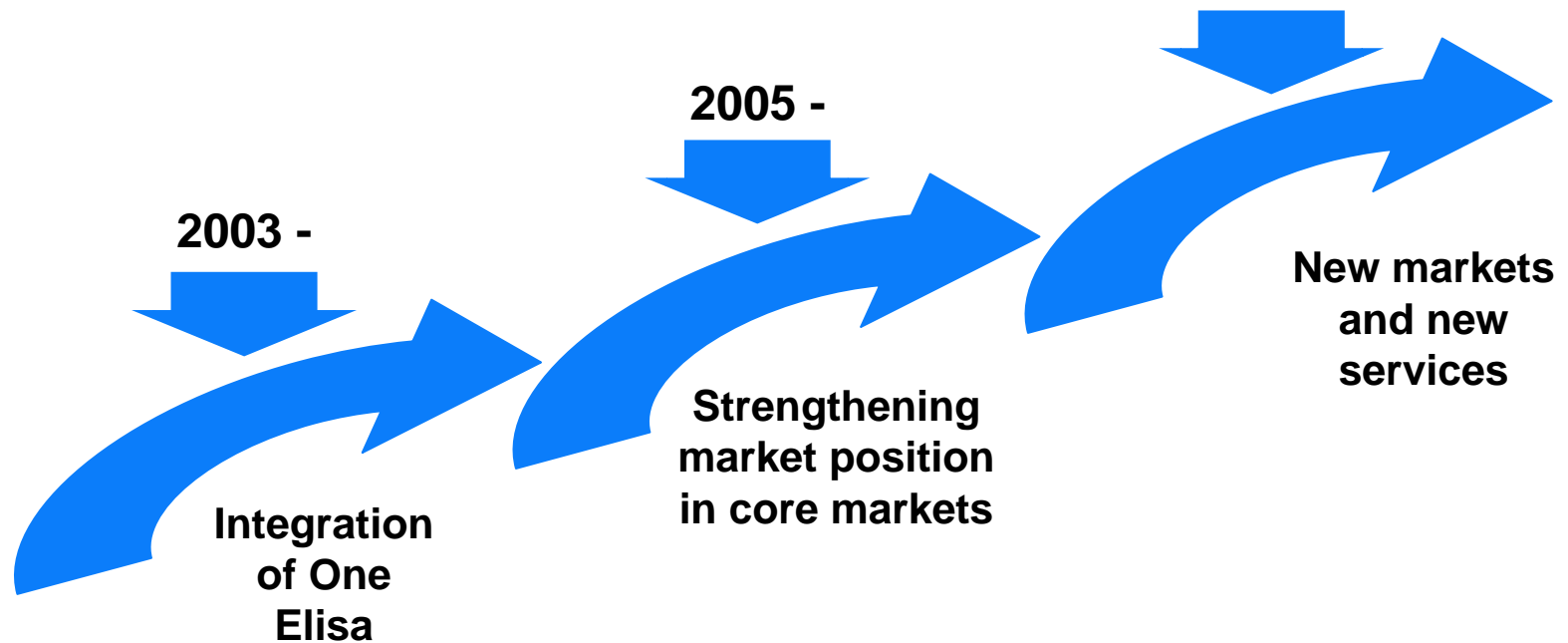
# Broadband and cable-TV account half of subs

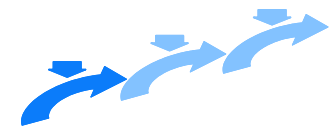
Thousands



# Strategy execution

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# Productivity improvement

**Significant profitability improvement**

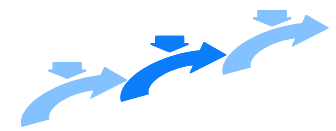
- Reduction in personnel costs
- Outsourcing of outbound telemarketing activities
- Outsourcing of order processing and invoicing activities
- Sale of real estate

**Customer orientation**

- 3G service bundles based on customer demand
- Mobile value added services – entertainment services in addition to news and data
- Over 1 Mb speed in mobile network first in the Nordic countries

**Simplification of structure**

- Ownership in Saunalahti 100 per cent
- Renewal of CRM and billing systems

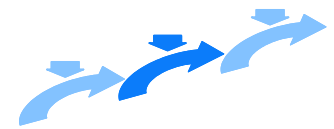


# Good start for 3G

- Good start for 3G service bundles
- 3G terminals doubled in April in Finland
- 3G service bundles enable easy adaptation of new services
  - video calls, high speed data, mobile TV, e-mail ...

Ad example: Nokia N70 including 400 minutes per month + data and SMS

The advertisement is a horizontal banner with a blue background. On the left, there is a silver Nokia N70 mobile phone with the 'elisa' logo on the screen. To its right, the text reads 'Nokia N70' and 'Nopeita yhteyksiä ja lisäsovelluksia tukeva älypuhelin vaativaan käyttöön. Ilman liittymää 495 €'. Below this, it says 'Heti omaksi'. A large white plus sign is positioned between the phone and the 'Elisa Puhepaketti 400' text. The 'Elisa Puhepaketti 400' text includes 'Sisältää puheaittaa 400 min/kk, 0,045€/min, paketin yli menevät: 0,09€/min'. Below this is a blue 'elisa' logo. The central part of the ad is an orange box with the text 'Täyden palvelun Elisa Paketti = 34,90 €/kk' and '24 kk:n sopimus, puhelin on sim-lukittu'. To the right of the orange box are two green boxes: 'Elisa Datapaketti 4 €/kk' (Sisältää 25 Mt kotimaan datasiirtoa. 1. kk maksuton. Datapaketti mahdollistaa nopean internet-selailun ja sähköpostin käytön kiinteään kuukaushintaan.) and 'Elisa Tekstari-paketti 100 2,99 €/kk' (Sisältää tekstiviestejä 100 kpl/kk).



# Elisa as a forerunner in service development

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- Accelerated renewal of the mobile terminal base due to well adopted 3G service bundles
- Development of mobile value added services
- Comprehensive managed services of mobile handset for corporate customers
- In April, Elisa first to triple the mobile network speed (HSDPA) in the Nordic countries
- Elisa invests in new broadband and backbone networks – ADSL speeds up to 24 Mb/s



# Outlook for 2006

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- Market
  - Competition remains challenging
  - More focus on services
- Financial position
  - Revenue will clearly grow
  - EBITDA and EBIT excluding non-recurring items will improve
- CAPEX and cash flow
  - CAPEX 13-15 per cent of revenue
  - Cash flow clearly positive



# Financial performance

CFO Jari Kinnunen



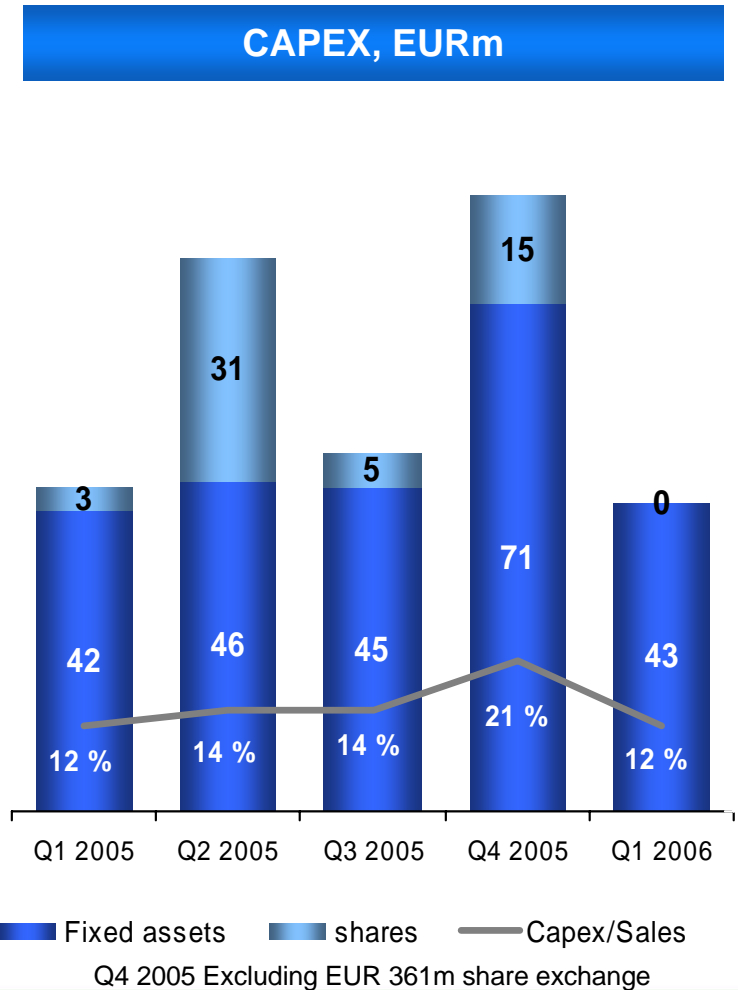
# Income statement

EUR million	Q1 2006	Q1 2005	2005
<b>Revenue</b>	<b>348</b>	<b>333</b>	<b>1 337</b>
Revenue growth, y-o-y	5%		-1%
Other income from operations	3	11	114
Operating expenses	-253	-247	-1 005
<b>EBITDA</b>	<b>99</b>	<b>97</b>	<b>446</b>
<i>EBITDA-%</i>	<i>28%</i>	<i>29%</i>	<i>33%</i>
<b>EBITDA excluding one-offs</b>	<b>103</b>	<b>89</b>	<b>346</b>
<i>EBITDA-% excluding one-offs</i>	<i>30%</i>	<i>27%</i>	<i>26%</i>
Depreciations	-55	-52	-213
<b>EBIT</b>	<b>43</b>	<b>45</b>	<b>233</b>
<i>EBIT-%</i>	<i>12%</i>	<i>13%</i>	<i>17%</i>
<b>Pre-tax profit</b>	<b>39</b>	<b>39</b>	<b>212</b>
Taxes	-9	-6	-34
<b>Net result</b>	<b>30</b>	<b>33</b>	<b>178</b>
<b>EPS, EUR</b>	<b>0,18</b>	<b>0,23</b>	<b>1,22</b>



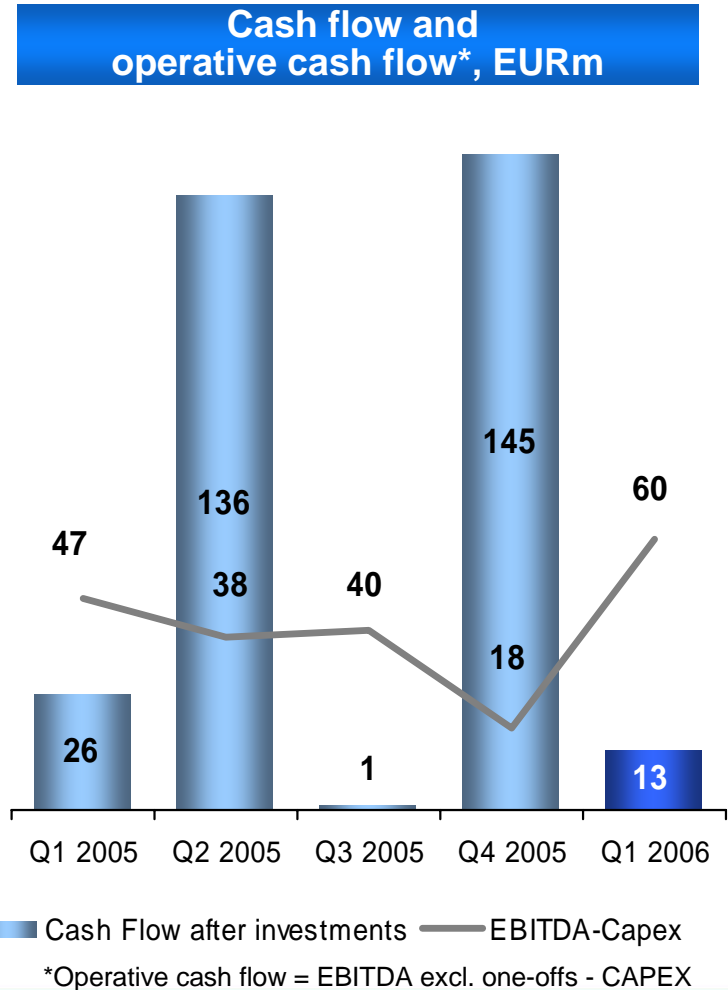
# CAPEX

- Q1 CAPEX includes
  - investments in new broadband infrastructure
  - capacity increase
    - in mobile network
  - new billing, CRM and network management systems
- Investments in fixed assets
  - Mobile EUR 17m
  - Fixed network EUR 26m



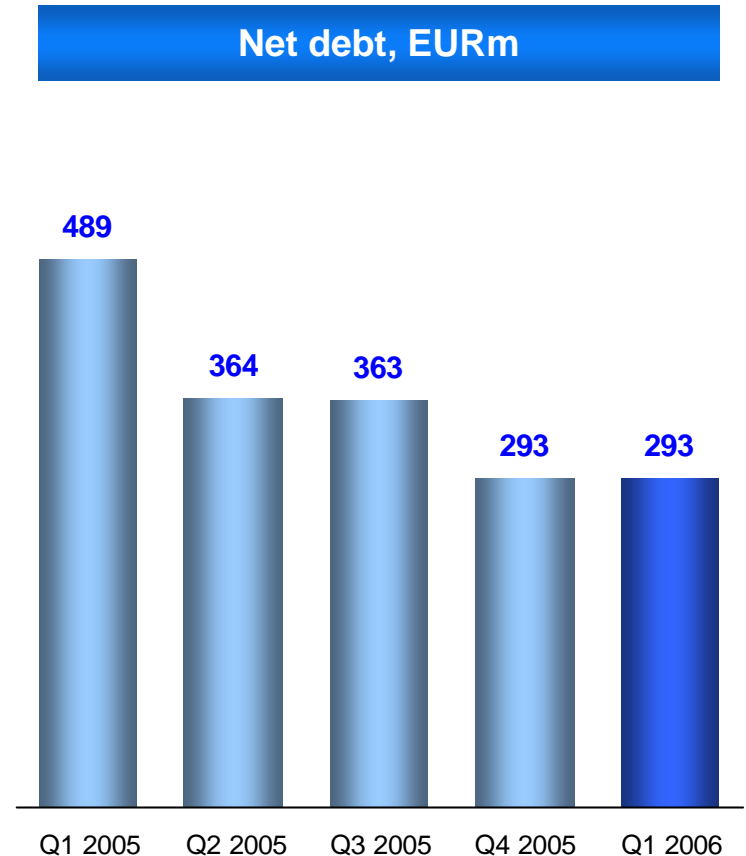
# Cash flow

- Positive cash flow EUR 13m in Q1
- Change in net working capital EUR -40m
  - Front end pension payments
  - Seasonality effect in fixed line billing
  - Inventories increased through 3G bundling



# Net debt

- Cash flow EUR 13m in Q1
- Saunalahti's squeeze out of EUR 9m becomes interest bearing liability
- Bond buybacks EUR 25m
- EUR 98m bond redemption in January
- Net debt after dividend payment in April 2006 EUR 409m



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# Consolidated Cash flow statement

EUR million	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
<b>Cash flow from operating activities</b>									
Profit before tax	39	33	28	113	39	65	50	41	56
Adjustments to profit before tax	59	57	53	-11	47	34	57	46	62
Change in working capital	-40	14	-19	8	-26	18	-16	27	-24
Cash flow from operating activities	59	103	62	109	60	117	92	114	95
Received dividends and interests and interest paid	-6	2	-12	-4	-7	-5	-11	-8	-23
Taxes paid	-1	-1	-1	-2	-1	-5	0	-6	-5
Net cash flow from operating activities	52	105	49	103	53	107	81	101	67
<b>Cash flow in investments</b>									
Capital expenditure	-43	-71	-45	-38	-41	-54	-41	-33	-43
Investments in shares and other investments	-3	13	-4	-14	1	-2	0	-8	0
Proceeds from asset disposal	7	98	2	85	13	6	31	29	-15
Net cash used in investment	-39	40	-48	33	-27	-50	-10	-13	-58
<b>Cash flow after investments</b>	13	145	1	136	26	57	71	88	9
<b>Cash flow in financing</b>									
Sales of treasury shares	1	1				6			
Change in interest-bearing receivables		0	1	0	0	-1	0	25	0
Repayment of long-term debt	-122	-15	-2	-70	-15	-110		-1	
Change in short-term debt		-8	-9	-2	1	0	0	-14	-2
Repayment of financing leases	-3	-4	-4	-4	-4	-5	-6	-4	-7
Dividends paid	-5	-62	0	-5	-55	-3	0	-9	
Cash flow in financing	-129	-89	-14	-82	-74	-112	-6	-3	-8
<b>Change in cash and cash equivalents</b>	<b>-116</b>	<b>56</b>	<b>-13</b>	<b>54</b>	<b>-48</b>	<b>-55</b>	<b>65</b>	<b>85</b>	<b>1</b>



# Financial situation

## Financial situation (million euros)

	31 March 2006	31 December 2005	30 September 2005	30 June 2005	31 March 2005
<b>Interest-bearing debt</b>					
Bonds and notes	326	446	455	458	463
Commercial Paper	0			0	64
Loans from financial institutions	0			1	0
Financial leases	51	56	59	63	61
Committed credit line 1)	0			0	0
Others 2)	13	4	4	13	15
<b>Interest-bearing debt, total</b>	<b>390</b>	<b>506</b>	<b>519</b>	<b>534</b>	<b>604</b>
Security deposits	1	1	1	1	1
Securities	41	177	122	139	67
Cash and bank	55	34	33	30	48
<b>Interest-bearing receivables</b>	<b>96</b>	<b>213</b>	<b>156</b>	<b>170</b>	<b>115</b>
<b>Net debt 3)</b>	<b>293</b>	<b>293</b>	<b>363</b>	<b>364</b>	<b>489</b>

1) The committed credit line is a joint EUR 170 million revolving credit facility with five banks, which

Elisa Corporation may flexibly use on agreed pricing. The loan arrangement is valid until 17 June 2012.

2) Redemption liability for minority shareholders in Radiolinja (EUR 0.5m), Saunalahti (EUR 8.9m) and Yomi (EUR 3.1m)

3) Net debt is interest-bearing debt less cash and interest-bearing receivables.