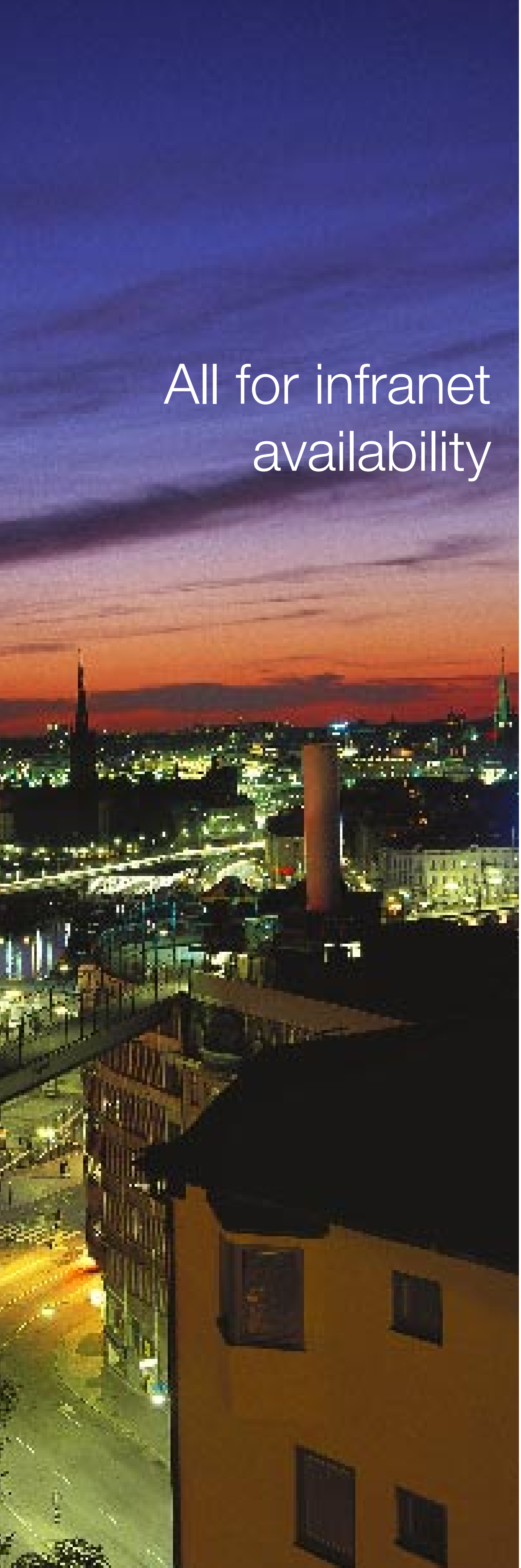
Annual Report 2003



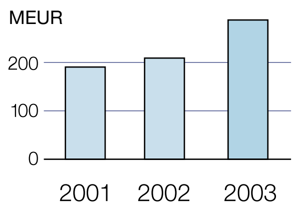
All for infranet availability

Eltel Networks engineers, builds and maintains the life-lines of society: electrical, telecom and mobile networks.

The objective of the Group is to stand out as a preferred partner and provider of services to network owners across Northern and Central Europe.

Eltel – *"the infranet company"* – guarantees uninterrupted network availability and more efficient electricity and signal supply to its customers and their end-users. Eltel is a local operator that stays close to its customers and never ceases to train its personnel.

Group operations reflect the key ethical principles of Integrity, Respect, Openness and Safety.

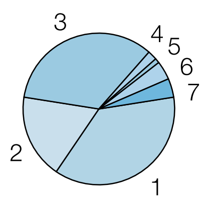


Net sales 2001-2003, MEUR

2001: 192.1

2002: 208.0

2003: 287.8



Net sales by country, %

1: Finland 37%

2: Sweden 18%

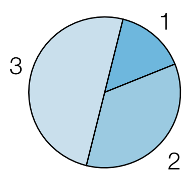
3: Norway 34%

4: Russia 2%

5: Baltic 1%

6: Poland 4%

7: Other 4%



Net sales by Strategic Business Unit 2003, %

1: Mobile Networks 15%

2: Electrification Projects 35%

3: Network Services 50%

Eltel Networks in 2003

Eltel Networks had a successful year in 2003. The service concepts offered attracted customers within the chosen market segments.

Customer partnerships expanded and the outsourcing concepts helped customers to focus on their own core businesses. The build-up of the corporate resource base through active acquisitions during the year added some 108 million euros in new annual sales to the Group.

Operating highlights

> Net sales grew to 288 MEUR, up 40% on the year before, almost two thirds of net sales were generated outside Finland

> Operating profit at 16.6 MEUR improved by 54% and net profit doubled

> Total personnel on December 31, 2003 was 2,162 as compared with 1,613 the year before

Contents

Review by the CEO

Tuomo Rönkkö
President & CEO

"A multi-utility service provider"

"Eltel made steady progress in line with its strategy in 2003. New acquisitions added resources, sales of 108 MEUR, and some 1300 new professionals to the Group. Integration of the acquired companies proceeded smoothly and operational results were satisfactory."

Eltel's markets are undergoing major changes. Electricity and telecommunications infrastructures are usually regional and national and are often run by state- or municipal-owned organisations. Once deregulation and competition started, the need to focus on customers and make efficient use of the asset base became obvious. Asset ownership on the one hand and design, construction and maintenance of these assets on the other hand are now seen as distinct functions. A regional organisation capable of quick response to maintenance requires internal cooperation and multi-skilled personnel. Eltel is in fact a multi-utility service provider.

The life lines of society

Electricity supply and telecommunications are strategic assets in an efficient society. An offer to assume responsibility for the availability and reliability of these networks therefore needs to be extremely credible. To list a few of the key requirements, I would mention transparency, integrity, safety, and above all competence. It is natural that these properties are the key building blocks and core values of the Eltel Networks offering.

Electricity and telecommunications are integrated networks that span from the regional to the global. A service provider is valuable for the expert design of this type of infrastructure but is most needed when and where a malfunction occurs. In response to such needs Eltel empowers its personnel with decision-making authority, provides them with state-of-the-art skills through continuous training, and makes certain that the technology needed for rapid local response is available on a 24 h basis. We take great pride in our field force, the true front-line of the business.

Geared for profitable growth

Eltel Networks, now in its third full year of operations, has performed as expected. We have created an expert organisation that has achieved profitable growth through a demanding build-up period. Our results in 2003 express growth, profitability and solidity. Nevertheless, there is still potential for much more in the sector that we have made ours. We believe that we can expand our volume many times over and that progress towards this goal can be marked by sustained profitability.

I wish to thank our customers for the confidence they have shown in our young, yet professional organisation. We are more than aware that the ultimate success factor in our business is customer satisfaction. Excellence in project management and fast service response are the professional ways to achieve it. Our personnel are highly motivated for a customer service that builds on professionalism and dedication. Success is the driving force behind such an organisation.

Espoo, February 2004

Tuomo Rönkkö
President & CEO

The Eltel approach to Corporate Governance

In its broadest sense, corporate governance means the way in which business is managed and controlled in an enterprise. Corporate governance also defines the rules and incentives that direct the management of the company when maximising profitability and the long-term value of the firm for shareholders while taking into account the interests of other legitimate stakeholders.
Corporate governance is implemented through the Articles of Association, internal policies, procedures and systems consistent with the requirements of the business environment in which the company operates. External sources like legislation, directives and decrees issued by authorities on various levels provide guidelines for internal control. Together these sources stipulate the implementation of corporate governance in the Eltel Networks Group and the framework for *"the Eltel way of doing business"*.
This review is structured in line with the Corporate Governance Recommendation issued by the Helsinki Exchanges, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers on December 2, 2003 and effective for listed companies as of July 1, 2004.

The legal framework

The legal framework of the Eltel Networks Group consists of the parent company Eltel Management Corporation, which coordinates the interests of shareholders and the strategic business targets and operating units through Eltel Networks Corporation, regional network service companies in Finland, and foreign subsidiaries. The Articles of Association of Eltel Networks Corporation was last updated on February 6, 2004. The company's domicile is Helsinki, Finland. Its business ID is 1506086-6 and Trade Register number 745.806.

Board of Directors

Elected by the Annual General Meeting, the Board of Directors of Eltel Management Corporation and Eltel Networks Corporation has the ultimate responsibility for management of the Group. The Board consists of 3 to 7 members, who appoint the Chairman of the Board from among their number. The Chief Executive Officer, elected by the Board of Directors and supported by the Executive Team, is responsible for organising and directing Group operations. As a rule, the other Boards of the Group companies are composed of Eltel Networks Group executives.

The Board of Directors is responsible for the following matters:
> approving the Group's business strategies
> approving the Group's organisational structure
> major investment decisions
> executive contracts with the CEO and members of the Executive Team
> reviewing the CEO's reports on company operations and management
> making proposals to the shareholders' meetings.

In 2003 the Board of Directors convened 10 times.

Board of Directors (from left)

> Sanna Argillander
Board Member since 2001

> Tuomo Rönkkö
Board Member since 2001

> Orvo Siimestö
Chairman
Board Member since 2001

> Tuomo Lähdesmäki
Board Member since 2001

> Matti Ilmari
Board Member since 2003

Chief Executive Officer

The Chief Executive Officer is responsible for corporate management and organising the day-to-day operations of the Group. Business conduct and SBU performance are reviewed on a monthly basis adhering to management policies, board resolutions, proper corporate governance, and rules and regulations set by authorities. The CEO reports on his actions at regular board meetings.

When necessary, the CEO reports to the Chairman of the Board of Directors between board meetings on important matters. The CEO has a valid executive contract specifying the terms of employment.

Operational structure and management

The operational framework of the Group is divided into three Strategic Business Units, *"SBUs"*; Mobile Networks, Electrification Projects and Network Services. Furthermore, each SBU has its own strategic business area structure *"SBA"*.

Worldwide SBUs operate through locally organised business units *"LBUs"* to serve the needs of customers and markets efficiently. More than one LBU may be organised under the same legal entity in a particular country.

Eltel Networks Group also has a country specific organisation that is responsible for arranging and coordinating resources for LBU operations and administrating common services and functions in the country.

Risk management

The Group's accounting currency is the euro. Due to its major involvement in the Nordic and Hanseatic regions, the Group has some currency exposure. The currency risks are hedged as appropriate. The Group's solid financial position limits interest risks to a minimum. Due to the particular and solid nature of the customer base, there are no major commercial risks associated with the Group's operations. The Group carries a global insurance program to further mitigate various business risks.

External and Internal Auditing

The Group's business operations are managed and supervised through internal planning and supervisory systems. The main role of these systems is to support the decision-making of the Board of Directors and Executive Team. Auditors appointed at the Annual General Meeting perform external control of management. The auditors' report includes a declaration concerning accounting, financial statements and corporate governance.

Website

Eltel Networks Corporation maintains the www.eltelnetworks.com website. The site includes relevant and updated corporate and financial information on the Group.

Executive team (standing, from left)

> Jukka Leskinen
Corporate Counsel

> Tuomo Rönkkö
President and CEO

> Heikki Asujamaa
Chief Financial Officer

(sitting, from left)

> Hannu Tynkkynen
President, Mobile Networks

> Juha Luusua
President, Network Services

> Martin Dahlgren
President,
Electrification Projects

Human Resources Empowerment

Eltel Networks has undertaken a commitment to guarantee its customers uninterrupted network availability in what constitutes the lifelines of modern society, electricity and telecommunications, fixed and mobile.

The true test of this commitment is faced in the field, where the company's frontline personnel attend to scheduled network maintenance and special emergency calls. Successful handling of field tests is related to professional competence, close customer contact, and regional empowerment. Attending to society's lifelines with minimal lead-times requires competence, tools, and resources.

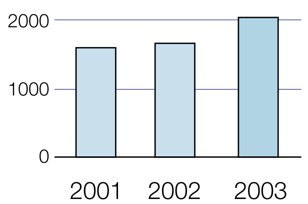
A dimension of equal importance is opening up in the project management of network construction and service calls. For a company that undertakes to service society's lifelines, it is also important that the job is done at competitive costs that still leave a margin for the performer. Long-range commitments require commercial stability to ensure that the duties undertaken can be fulfilled at all times.

Eltel takes pride in empowering its personnel in the field and in the engineering office. Such empowerment is also a hallmark for continuous productivity improvement.

Regional reach

Eltel's international strategic business units operate through locally organised business units, *"LBUs"* to serve the needs of customers and markets efficiently. More than one LBU may be organised under the same legal entity in a particular country.

Eltel also has country-specific organisations that are responsible for arranging and coordinating resources for LBU operations and administrating common in-country services and support functions.

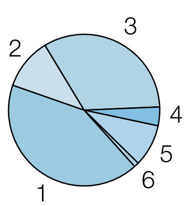


Personnel, average 2001–2003

2001: 1,588

2002: 1,647

2003: 2,023



Personnel by country

1: Finland 42%

2: Sweden 11%

3: Norway 33%

4: Russia 4%

5: Poland 9%

6: Other 1%

Eltel's active acquisition policy is a reflection of the belief that hands-on business is always local and needs a local identity. International concepts cross borders but on-site action always focuses on a given network in a given region. Staffing for local resources is a key strategy as customers trust Eltel with the daily care of their significant capital investments. The efficiency of mobilising maintenance resources is subject to special training carried out in cooperation with customers.

Training for the job

Eltel has created its own training concept called the Eltel Academy. The building of competence is supported by a platform of learning by doing, self education and specific course training. Apprenticeships and work rotation, attendance at public learning institutions as well as tailored-made courses with training partners contribute to building up the competence of personnel.

A special challenge is fostering cross-border and cross-SBU opportunities to develop multi-skilled employees for flexible customer service. Electrical professionals training to become telecom professionals and vice versa add a dimension of efficiency and advanced personal development that becomes capital for Eltel as well as its customers. Multi-competence also has a significant economic implication in allowing a service provider to use the organisation best fitted and closest to the customer to do the job. Developing multi-skilled personnel is therefore an important strategic building block in Eltel's personnel development strategy.

Work safety

Handling on-location construction and maintenance of electrical and telecommunication networks requires impeccable work safety. 2003 was a year marked by special attention to work safety based on a pilot study conducted in parts of the organisation in 2002. The Group has set the objective of zero accidents for all its units. Promotion of this goal includes careful analysis of all close calls registered and advance action to prevent any repetition of incidents. All personnel are charged with the responsibility of promoting the zero-accident objective.

Job satisfaction

Emphasis on personnel well-being is an important element in the development of competencies. The policy of empowerment also includes the conviction that the strongest source for job-satisfaction is the feeling of achievement after a job well done. Professional and financial recognition works hand in hand with broader personal competence.

Mikko Maimonen
Mechanic, Eltel Networks Länsi Oy

Mobile Networks

Hannu Tynkkynen
President, Mobile Networks

"2003 was marked by various specific highlights that affect Mobile Networks. The rollout of 3G-networks in Sweden, growing volumes on the Russian market, and the increased internationalisation of operations stand out among these. The specific aim for 2004 is to expand the current good base of key clients and to speed up profitable growth."

A build-up of competitiveness

Demand in global mobile network markets remained weak in 2003. Regional differences were significant, with Finland in particular suffering from slow demand for exports. Restructuring, including process improvements, continued in Finland, resulting in higher productivity than 12 months ago. More cost-effective product designs and supply chains were also introduced. These improvements leave Mobile Networks well placed in competing for new orders and stronger market positions in 2004.

As operators are becoming more international, so too is Mobile Networks increasingly working across borders. Joint development, sales and rollout projects ensure better performance, and enable the business unit to offer the same high-quality of products and services to all customers.

Regional presence

The market for the construction of new mobile networks is cyclical and follows the investment behaviour of operators. Internationalisation of customers and competition is a clear trend and so is outsourcing of construction and maintenance. The dynamic markets for Mobile Networks in 2003 were Sweden and Russia. In Sweden, the rollout of 3G-networks started and in Russia construction of 2G remained strong. A subsidiary was started up in Moscow to support project activity throughout the Russian Federation. The key market blocks are the Nordic and Baltic area, Russia, and Middle East-Africa.

The market potential in the chosen markets has been forecast on the basis of new sites, upgrades, and maintenance requirements. In the next few years the growth potential is estimated to be up to 50% on the markets to which Mobile Networks is geared. The growth opportunities in the Nordic area are in building up 3G networks and on upgrading existing technologies, expansion of 2G networks in the Russian regions, and further penetration in the Baltic countries and selected export markets.

New markets on the rise

Mobile Networks net sales decreased somewhat in comparison with 2002. This was mainly a reflection of reduced operator demand in Finland and some export markets. This reduction also affected results that remained modest. The markets in Sweden and Russia, on the other hand, showed good growth. The Nordic region was still clearly the biggest market for Mobile Networks with a share of 68%. The growth potential, particularly in Russia, is expected to level that in the next few years, which will bring the combined share of markets outside Scandinavia to around half of net sales. Balanced expansion of the key account base serves the purpose of building up long-range partnerships that will sustain growth.

Solid partnerships

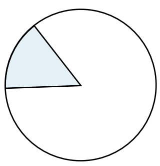
The objective for Mobile Networks is to strengthen its position as a supplier of infrastructure and mast products for mobile networks. The strategy includes the forming of partnerships with leading companies sharing the market priorities and requiring the competencies of Mobile Networks to complement their own project supply. The long-term positions established with several North European operators are also a strong base for this strategy, the aim of which is to achieve major growth in sales and a clear boost for results within the next two years.

The outlook for operator investments and stronger Eltel presence support the growth expectations.

Business description

The Mobile Networks business unit develops and delivers customised solutions for the design, construction and implementation of infrastructure for mobile networks. As a full service supplier, the unit handles planning, localisation, construction, start-up and consultation for mobile networks, transmission masts, base stations and proprietary telecommunications networks. The key success factor is the ability to stand behind customers as a one-stop partner in design, construction and maintenance internationally.

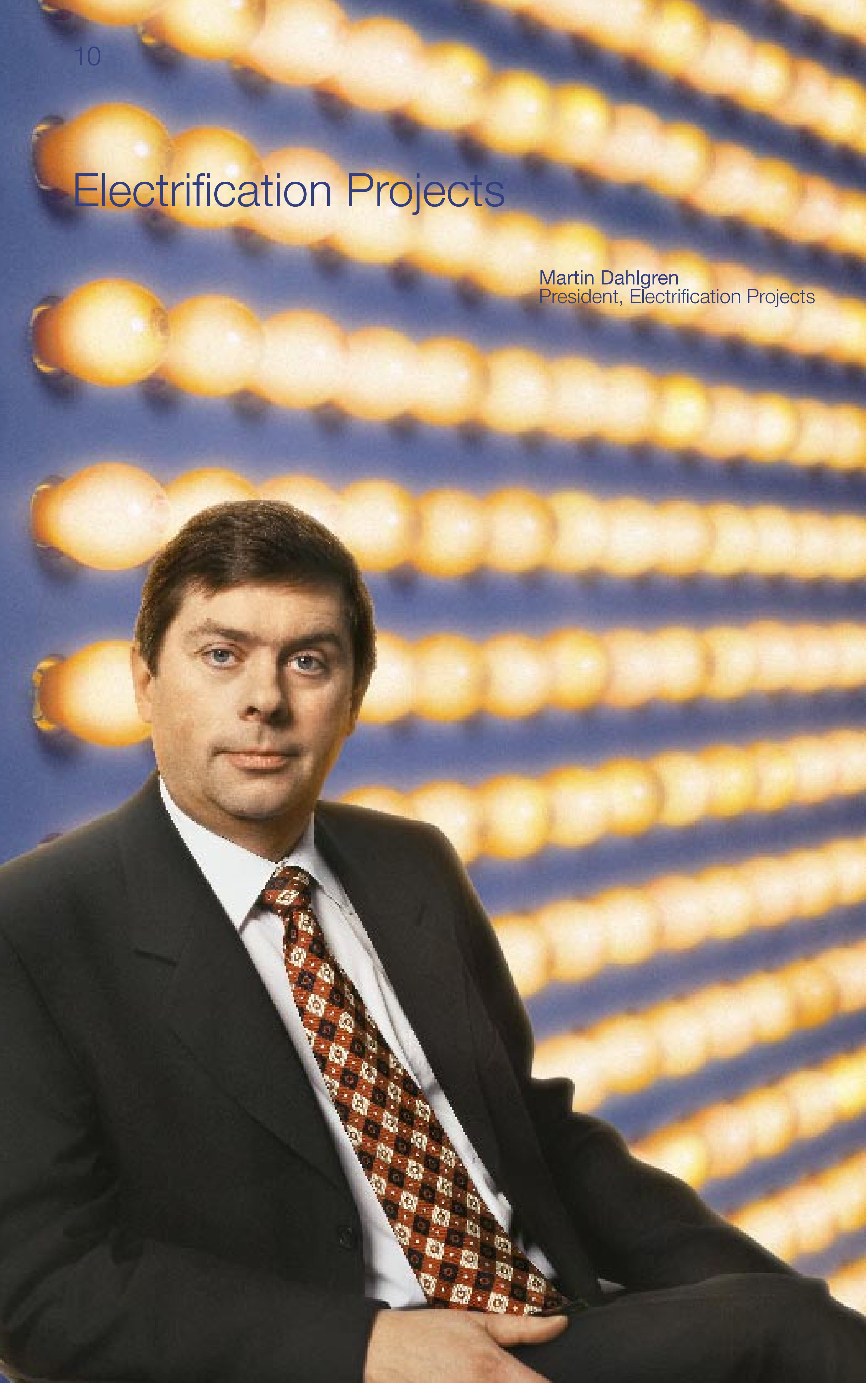
Key figures, MEUR	2003	2002	Change
Net sales	46	50	-8%
Personnel, 31.12.	264	284	-20



Share of consolidated net sales, 15%

Electrification Projects

Martin Dahlgren
President, Electrification Projects



"2003 was a good year for Electrification Projects. Orders, net sales and personnel grew strongly as a result of acquisitions. Results were affected by one-time costs following reorganisation and by the timing of export projects. The structural development of the business unit provides a solid platform for growth in 2004."

Increased market presence

The business operations of Electrification Projects were boosted by two major acquisitions. The project division of Statnett in Norway, Statnett Entreprenör AS, was acquired and combined with Eltel Transmission Norway in April. ZWSE Olsztyn S.A. in Poland was brought into the organisation of the business unit in July. New business models were introduced in the railway electrification business in Sweden.

Transmission leads the way

The power transmission markets in the Nordic countries, the main operational environment of Electrification Projects, are mature markets. The customer base is made up of local governments or state-owned companies that are responsible for power grids in their national environment. Demand is driven by their investment priorities and the projects implemented generally have a lifespan of some 40 years. Although the markets are mature they are far from static. The business cycles in the main customer countries are phased differently and therefore complement one another. The market continued to be marked by strong price sensitivity. The Finnish market is expected to grow as a result of the new nuclear power project under way. In Sweden the market has remained weak. The Norwegian market is characterised by growth and increased international competition. The same also applies to Poland.

Expansion ahead

Investment in railway electrification is growing in Sweden. At the same time the supplier market is undergoing restructuring and the maintenance sector is opening up to increased outsourcing and competition. In Finland, the other main railway electrification market for Eltel, the investment level has stayed low and the opening of the maintenance market has been postponed. Major growth is foreseen, however, in future years.

2003 was a low-point for the export of electrification projects. These projects are operated through the development aid organisations in the Nordic countries and follow the timing of the lead organisations. Scheduled upcoming projects should, however, generate major growth in this sector as early as 2004.

Strong order book

Electrification Project's net sales in 2003 grew by 68%. Finland was the largest individual market with a share of 35%, while Norway accounted for 32%, Sweden for 23% and Poland for 10%. Order bookings exceed net sales and the order book for 2004 provides a sound basis for continued growth. Transmission is the biggest business area of Electrification Projects. Together, Transmission and Railway Electrification account for three quarters of net sales.

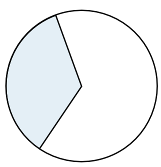
Outlook for growth

The outlook for 2004 is marked by growth. The specific goal of Transmission is to expand market shares in Poland and compete effectively for keeping the current leading positions on other markets while at the same time boosting results. In Railway Electrification and Exports opportunities to build market volume through new projects and organic growth look good. The overall ambition is to win new business with highly competitive bids, expert capacity, solid resources and highly efficient project management.

Business description

The Electrification Projects business unit manages the implementation of large infrastructure projects in the electricity sector. Its key competencies are the construction of power lines, installation of optical fibre systems on power lines, and railway electrification. The business unit also handles power transmission and distribution projects in developing countries. The key success factors are professional management of complex projects with long implementation times and a strong resource network on key markets.

Key figures, MEUR	2003	2002	Change
Net sales	109	65	+68%
Personnel, 31.12.	538	210	+328



Share of consolidated net sales, 35%

Network Services

Juha Luusua
President, Network Services

"In 2003 Network Services continued to build up its regional organisations to strengthen its local service offering. This expansion was based both on acquisitions and outsourcing arrangements with customers and boosted work-force personnel by some 30%. The long-term framework agreements with customers contribute to an order base that extends over several years."

Resources expand

Network Services continued to build up its strong regional presence by acquiring major companies on all its key markets in Finland, Sweden, Norway, and Estonia. In Finland, Eltel acquired Kymertek, a company responsible for the construction and maintenance of the electricity distribution network in South-Eastern Finland. Ratel Entreprenad in Sweden and Elkom Entreprenör in Norway focus on the construction and maintenance of electricity distribution networks. The acquisitions of Tel-Nett and Statnett Entreprenör in Norway brought significant new maintenance openings to the business unit. In Estonia, Eltel acquired a 49% share in AS Connecto, a company specialising in the construction and maintenance of telecommunications networks. Operationally, AS Connecto is an integrated part of the Eltel Group.

Field force on location

The trend towards opening of competition in the telecommunications and electricity distribution network infrastructures has provided a powerful boost for Network Services. Finland has pioneered this development and given Eltel the benefit of a strong domestic market. In Sweden, competition for electricity distribution services continues to be strong among the major network owners that look for effective ways to administer their assets. Norway places strong focus on local service availability and Eltel's organisational expansion in 2003 provides a strong bridgehead for operations on that market. The national grids in the Baltic countries are functional but face expansion following overall economic growth. Eltel is well positioned to participate in upcoming investment programmes in this region.

The branded maintenance contracts offered by Network Services proved their worth in 2003. In Finland, as an example, severe storms lead to extensive repair activity and some 10,000 service calls were handled within the prescribed lead-time of 24 hours. New legislation on compensation liability for interrupted electricity supply added value to Eltel's offering.

Telecom markets open up

The opening of telecommunications markets continues in the Nordic and Baltic region. Prospects in Norway are now rapidly opening up and Eltel is in an excellent position to take advantage of this opportunity. The acquisition of Connecto in Estonia will provide major opportunities in the Baltic region.

Mobile network operators have gone through a period of low investment activity following a gradual saturation, particularly of the Nordic market. The added-value maintenance concepts offered by Network Services have, however, led to some major new contracts. In the beginning of 2004, Eltel made an agreement with TeliaSonera for the maintenance of some 5,200 base stations in Finland.

Profitable growth

Network Services net sales in 2003 grew by 49%. Despite the strong build-up of the business unit, operational results improved. Finland continued to be the main single market for Network Services and accounted for about half of net sales and personnel.

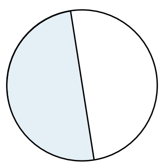
Multi-skills and customer satisfaction

Network Services continues to build up its regional resources and profile on its major markets. In 2004, the emphasis will be on effective management and integration of the new acquisitions into the corporate structure and of broadening the multi-skills of personnel. The objective is to improve lead-times for maintenance action even further and ensure high-level customer satisfaction.

Business description

The Network Services business unit provides added-value maintenance services to power distribution, transmission and telecommunications network owners as well as local construction activities. The unit assists customers in developing their own core business by offering outsourcing concepts for the operation of local network infrastructures. The key success factors lie in strong regional organisations that offer customers effective long-term partnership agreements.

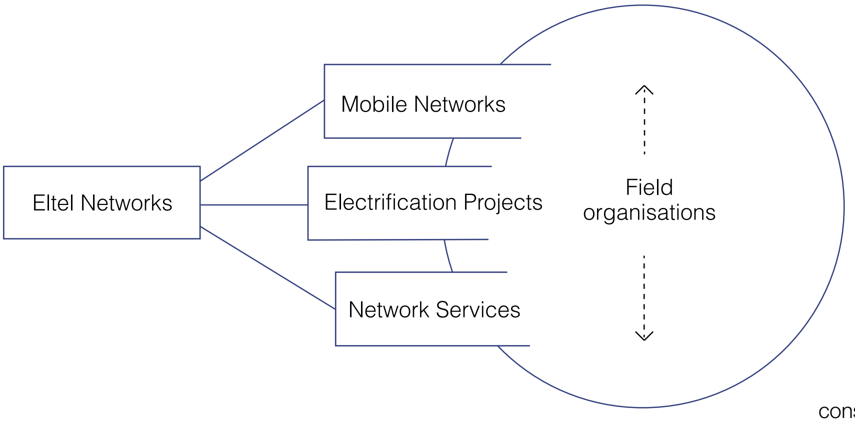
Key figures, MEUR	2003	2002	Change
Net sales	149	100	+49%
Personnel, 31.12.	1,321	1,095	+226



Share of consolidated net sales, 50%

Review by the Board of Directors

for the fiscal year January 1 – December 31, 2003



2003 was the second full year of operations for the Eltel Networks Group. The Group was formed in June 2001 when Eltel Management Corporation, the new parent company of the Group, acquired all the shares of IVO Transmission Engineering from Fortum Engineering Oy.

Business description

The Group consists of three strategic business units, Mobile Networks, Electrification Projects and Network Services.

The parent company of the Group, Eltel Management Corp., which manages the Group, determines corporate strategy, supervises and develops strategic business units and subsidiaries, and coordinates the business plans for different operations within the Group.

The Mobile Networks strategic business unit provides planning, construction, site acquisition, rollout, and consultancy services for mobile and telecommunications networks, antenna masts and base stations.

The Electrification Projects strategic business unit constructs power transmission networks, installs optical fibres in power transmission networks, and undertakes outdoor lighting projects, and railway electrification, power transmission and distribution projects for developing countries, for which it also provides consultancy and planning services.

The Network Services strategic business unit provides construction, maintenance, design and consultancy services for power transmission and distribution networks as well as fixed and wireless telecommunications networks. The unit also assists customers in enhancing their own core businesses by outsourcing their non-core operations to the unit.

Changes in the corporate structure

In 2003, significant changes were effected in corporate structure through acquisitions and divestments.

> Statnett Entreprenör AS (Norway) was acquired, operations focus on the construction and maintenance of transmission lines.

> Ratel Entreprenad AB (Sweden) was acquired, operations focus on the construction and maintenance of electricity distribution networks.

> AS Connecto (Estonia), a 49% share was acquired, operations focus on the construction and maintenance of telecom networks. The agreement includes an option to purchase the balance of the shares in 2005.

> ZWSE Olsztyn S.A. (Poland), a share of 91.8% was acquired, operations focus on the construction of transmission lines.

> Tel-Nett Gruppen AS (Norway), a share of 72% was acquired, operations focus on the construction and maintenance of telecom networks. The agreement includes an option to acquire the balance of the shares by 2007.

> Elkom Entreprenör AS (Norway) was acquired, operations comprise the construction and maintenance of electricity distribution networks.

> Kymertek Oy (Finland), a share of 95% was acquired, operations focus on the construction and maintenance of electricity distribution networks.

> Eltel Networks AS (Estonia) was sold to AS Connecto, an associated company to the Eltel Group.

> Linjebygg Offshore AS and Maintech AS (Norway) were sold. The divested companies operate in service and maintenance assignments for the Norwegian offshore industry.

In the beginning of 2004, the remaining 5% share in Kymertek Oy was acquired and the 50% holding in Verkonrakentaja Wire Oy was sold.

The annual net sales of the acquired companies is 108 MEUR and total personnel is around 1,300. The annual net sales of the divested companies is around 24 MEUR and their personnel around 190.

Financial position

Consolidated net sales in 2003 were 287.8 MEUR (208 MEUR in 2002), operating profit (before goodwill amortisation, financial items and taxes) was 16.6 MEUR (10.8 MEUR), and net profit 7.8 MEUR (3.9 MEUR).

Consolidated equity on December 31, 2003 was 32.8 MEUR (31.2 MEUR), interest-bearing debt 22.5 MEUR (23.4 MEUR) and cash and cash equivalents 27.0 MEUR (27.5 MEUR). The balance sheet total was 136.0 MEUR. (109.4 MEUR).

The parent company had no net sales in 2003, the operating loss was -1.1 MEUR and the net loss -1.3 MEUR. Equity in the parent company was 15.9 MEUR.

The figures for consolidated and parent company equity include subordinated capital loans of 14.6 MEUR (19.6 MEUR in 2002).

Investments and development

Gross investments in the fiscal year were 24.8 MEUR, of which acquisitions accounted for 21.9 MEUR. Group investments in R & D in 2003 were not significant and they were entered as costs.

Personnel

During the year, the Group had an average of 2,023 employees and on December 31, 2003 total personnel was 2,162 (1,613 in 2002). Of all personnel 42% worked in Finland, 11% in Sweden, 33% in Norway, 9% in Poland, 4% in Russia and the headcount in associated companies in Finland and Estonia was 827.

Annual General Meeting, Board of Directors and Auditors

The Annual General Meeting on March 4, 2003 approved the financial statements for 2002 and discharged those accountable from liability. No dividend was declared for 2002. The Board Members were re-elected. Orvo Siimestö acted as Chairman of the Board during 2003 and the other Board Members were Sanna Argillander, Tuomo Lähdesmäki and Tuomo Rönkkö. On December 1, 2003 Matti Ilmari was elected to the Board of Eltel Networks Corporation for the first time. Esko Aho was appointed Advisor to the Board.

Tuomo Rönkkö acted as Managing Director of the company during 2003.

The auditors are PricewaterhouseCoopers Oy and Pekka Kaasalainen, APA, is the responsible auditor.

Shares

The number of shares in Eltel Management Corporation was 74,963 on December 31, 2003. Private equity funds managed by CapMan Capital Management Oy held 85% of the shares and key management 15%. The company has a mezzanine-financing loan of 7,000,000 euros and this loan entitles to the subscription of 6,735 new shares. The company has an option programme directed at key employees. On the basis of this programme 3,875 new shares can be subscribed. The option programme includes terms that are linked to the financial performance of the Group. Based on the option programme, 783 shares were subscribed in 2003. The terms of the option programme are described in more detail in the notes to the financial statements.

Outlook 2004

The acquisitions during 2003 and the organic development of the Group form a basis for the favourable development of net sales and financial performance in 2004. Market developments such as progress in the construction of 3G mobile networks, outsourcing of service and maintenance functions in electricity and telecom operator companies, and the implementation of planned construction projects for transmission lines and railway electrification will affect the overall performance of the Group.

The Board's Proposal for the Allocation of Profits

Distributable consolidated earnings on December 31, 2003 were 18.0 MEUR and the corresponding amount in the parent company was 1.1 MEUR. The Board proposes to the Annual General Meeting that the parent company's net loss of 1.3 MEUR be covered by retained earnings and that no dividend be declared.

Espoo, 24 February 2004

Orvo Siimestö Chairman	Sanna Argillander
Tuomo Lähdesmäki	Tuomo Rönkkö President & CEO

Consolidated income statement

EUR 1,000	Note	1.1.–31.12.2003	1.1.–31.12.2002
Net sales	2.1	287,781	208,044
Cost of goods sold		-249,076	-175,274
Gross margin		38,705	32,770
Sales and marketing expenses		-5,120	-3,860
Administrative expenses		-23,847	-19,952
Other operating income	2.2	5,768	1,356
Other operating expenses		-125	-218
Share of profits of associated companies		1,199	678
Operating profit before amortisation of goodwill and negative goodwill		16,580	10,774
Amortisation of goodwill and negative goodwill	2.4	-1,400	-1,191
Operating profit		15,180	9,583
Financial income and expenses	2.6		
Income from other long-term investments		4	15
Other interest and financial income		734	731
Exhange rate differences		-225	-307
Interest and other financial expenses		-2,837	-3,310
		-2,324	-2,871
Profit before taxes and minority interests		12,856	6,712
Income taxes	2.8	-4,216	-2,181
Minority interests		-859	-602
Net profit		7,781	3,929

Consolidated cash flow statement

EUR 1,000	1.1.–31.12.2003	1.1.–31.12.2002
Operating activities		
Operating profit	15,180	9,583
Adjustments		
Depreciation, amortisation and write-downs	5,090	4,670
Gains on sales of fixed assets and shares	-4,576	-1,007
Other adjustments	-846	-553
Other financial income and expenses, net	-105	-90
Cash flow before change in working capital	14,743	12,603
Change in working capital		
Inventories, increase (-), decrease (+)	3,756	-1,122
Interest-free trade and other short-term receivables, increase (-)	-16,214	-432
Interest-free short-term liabilities, increase (+)	14,844	8,170
	2,386	6,616
Cash generated from operations	17,129	19,219
Interest expenses paid, net	-2,542	-1,271
Realised foreign exchange gains and losses	-225	-305
Income taxes paid	-2,067	-3,674
Cash flow from operating activities	12,295	13,969
Investing activities		
Capital expenditures	-2,875	-4,213
Investments in shares	-21,945	-1,977
Cash in acquired and divested companies	8,475	0
Proceeds from sales of fixed assets	10,885	3,059
	-5,460	-3,131
Cash flow before financing	6,835	10,838
Financing activities		
Share issue	115	978
Dividends paid	-923	-435
Payments of capital loans	-5,000	0
Proceeds from long-term liabilities	0	14
Payments of long-term liabilities	-1,887	-1,041
Payments of (-), proceeds from (+) short-term borrowings	873	-434
Change in loans receivable	38	1,952
	-6,784	1,034
Net increase (+) in cash and cash equivalents	51	11,872
Adjustments	-518	-18
Change in cash and cash equivalents increase (+), decrease (-)	-467	11,854
Cash and cash equivalents at the beginning of period	27,486	15,632
Cash and cash equivalents at the end of period	27,019	27,486

Consolidated balance sheet

Assets

EUR 1,000	Note	31.12.2003	31.12.2002
Fixed assets and other non-current assets			
Intangible assets	3.1		
Intangible rights		54	46
Goodwill		988	1,143
Goodwill on consolidation		17,099	12,600
Other long-term investments		250	467
		18,391	14,256
Tangible assets	3.1		
Land and water areas		455	79
Buildings and structures		2,624	1,647
Machinery and equipment		8,240	7,650
Other tangible assets		7	19
Advances paid		42	55
		11,368	9,450
Investments	3.2		
Shares in associated companies		7,781	2,204
Other shares and holdings		883	1,268
Other receivables		916	1,313
		9,580	4,785
Fixed assets and other non-current assets total		39,339	28,491
Current assets			
Inventories			
Materials and supplies		6,155	5,356
Finished goods		9	0
Work in progress		5,279	7,445
Advances paid		666	1,061
		12,109	13,862
Receivables			
Long-term receivables			
Loans receivable		293	356
Other receivables		79	98
		372	454
Deferred tax receivables	3.10	470	550
Short-term receivables			
Trade receivables		45,113	27,016
Receivables from associated companies	3.3	69	5
Loans receivable		740	590
Other receivables		2,673	2,635
Prepaid expenses and accrued income	3.4	8,120	8,311
		56,715	38,557
Marketable securities			
Other shares and holdings		0	25
		0	25
Cash and cash equivalents		27,019	27,461
Current assets total		96,685	80,909
Total assets		136,024	109,400

Shareholders' equity and liabilities

EUR 1,000	Note	31.12.2003	31.12.2002
Shareholders' equity	3.6		
Share capital		75	74
Share issue		22	0
Additional paid-in capital		74	0
Profit from previous years		10,279	7,561
Profit for the financial year		7,781	3,929
Capital loans		14,594	19,594
		32,825	31,158
Minority interests		2,717	2,136
Provisions	3.9	5,364	1,172
Liabilities			
Long-term liabilities	3.11		
Loans from financial institutions		2,999	4,616
Pension loans		163	293
Other long-term liabilities		17,000	17,000
Accrued expenses and prepaid income		52	106
		20,214	22,015
Deferred tax liabilities	3.10	1,181	603
Short-term liabilities			
Loans from financial institutions		2,499	936
Advances received		12,956	15,033
Trade payables		16,046	7,898
Liabilities to associated companies	3.12	163	0
Other short-term liabilities		12,002	8,053
Accrued expenses and prepaid income	3.13	30,057	20,396
		73,723	52,316
Total shareholders' equity and liabilities		136,024	109,400

Parent company financial statements

Income statement

EUR	Note	1.1.–31.12.2003	1.1.–31.12.2002
Net sales		0	0
Cost of goods sold		0	0
Gross margin		0	0
Sales and marketing expenses		0	0
Administrative expenses		-1,454,215	-1,451,994
Other operating income		344,078	0
Operating loss		-1,110,137	-1,451,994
Financial income and expenses	2.6		
Income from group shares		559,340	6,197,183
Other interest and financial income			
from group companies		37,591	190,394
from other companies		122	3,791
Interest and other financial expenses			
to other companies		-1,973,294	-2,581,147
		-1,376,241	3,810,221
Profit (loss) before extraordinary items, appropriations and taxes		-2,486,378	2,358,227
Extraordinary items	2.7	1,165,000	2,750,000
Profit (loss) before appropriations and taxes		-1,321,378	5,108,227
Income taxes	2.8	0	-1,006,912
Net profit (loss)		-1,321,378	4,101,315

Cash flow statement

EUR 1,000	1.1.–31.12.2003	1.1.-31.12.2002
Operating activities		
Operating loss	-1,110	-1,452
Dividends received	397	4,400
Other financial income and expenses, net	-1	-1
Cash flow before change in working capital	-714	2,947
Change in working capital		
Interest-free trade and other short-term receivables, decrease (+)	14	30
Interest-free short-term liabilities, increase (+)	46	97
	60	127
Cash generated from operations	-654	3,074
Interest expenses paid, net	-2,504	-1,074
Cash flow from operating activities	-3,158	2,000
Investing activities	0	0
Cash flow before financing	-3,158	2,000
Financing activities		
Share issue	97	0
Payments of capital loans	-5,000	0
Group contributions	2,750	0
	-2,153	0
Net increase (+), decrease (-) in cash and cash equivalents	-5,311	2,000
Change in cash and cash equivalents increase (+), decrease (-)	-5,311	2,000
Cash and cash equivalents at the beginning of period	6,550	4,550
Cash and cash equivalents at the end of period	1,239	6,550

Balance sheet

EUR	Note	31.12.2003	31.12.2002
Assets			
Fixed assets and other non-current assets			
Investments	3.2		
Investments in subsidiaries		31,644,392	31,644,392
Current assets			
Receivables			
Short-term receivables			
Receivables from Group companies	3.3/ 3.4	2,407,098	9,315,369
Other receivables		24,931	37,663
Prepaid expenses and accrued income	3.4	952,479	791,617
		3,384,508	10,144,649
Total		35,028,900	41,789,041

Balance sheet

EUR	Note	31.12.2003	31.12.2002
Shareholders' equity and liabilities			
Shareholders' equity	3.6		
Share capital		74,963	74,180
Share issue		21,600	0
Additional paid-in capital		74,187	0
Profit (loss) from previous years		2,460,941	-1,640,374
Profit (loss) for the financial year		-1,321,378	4,101,315
Capital loans		14,593,820	19,593,820
		15,904,133	22,128,941
Liabilities			
Long-term liabilities	3.11		
Other long-term liabilities		17,000,000	17,000,000
Short-term liabilities			
Trade payables		11,158	15,997
Liabilities to Group companies	3.12	15,860	21,609
Other short-term liabilities		26,545	24,656
Accrued expenses and prepaid income	3.13	2,071,204	2,597,838
		2,124,767	2,660,100
Total		35,028,900	41,789,041

Notes to the financial statements

1.Accounting policies and principles

The financial statements of Eltel Networks are prepared in accordance with Finnish Accounting Standards -FAS.

A copy of Eltel Networks consolidated financial statements is available at the head office of Eltel Management Corporation, Komentajankatu 5, 02600 ESPOO, Finland.

1.1 Consolidation

1.1.1 Consolidated subsidiaries and associated companies

The consolidated financial statements include all subsidiaries in which, at the end of the financial year, the parent company held, directly or indirectly, more than 50% of the voting rights attached to the shares, and all the operating associated companies in which the parent company held, directly or indirectly, between 20% and 50% of the voting rights attached to the shares and in which it held, directly or indirectly, a minimum of 20% of the shares.

More detailed information on Group shares and holdings will be given later in the Notes to the balance sheet, in Investments.

1.1.2 Principles of consolidation

The financial statements have been consolidated according to the purchase method. The acquisition cost of the subsidiaries' shares has been eliminated against the shareholders' equities in the balance sheet at the time of acquisition. The difference between the acquisition cost of subsidiaries and shareholders' equity at the time acquisition has been entered as group goodwill or negative goodwill in the consolidated balance sheet. Group goodwill is amortised over its estimated useful life as a straight-line depreciation. The negative goodwill on consolidation, is entered as income at the time of acquisition.

All intercompany transactions, receivables and liabilities, internal margins, and intercompany profit allocation have been eliminated.

Minority interests has been separated from Group equity, from those reserves and depreciation difference reserve from which tax liabilities have been deducted, and from the result. They have been presented as a separate item in the income statements and balance sheets.

The income statements of foreign subsidiaries have been translated into the euro at the average rates for the accounting period and the balance sheets have been translated at the exchange rate of the balance sheet date quoted by the European Central Bank.

The accumulated depreciation difference from which tax liabilities have been deducted, have been presented in the Group's equity. The deferred tax liabilities is a separate item in the liabilities in Group's balance sheet. The change in depreciation difference for the financial period deducted with tax liabilities has been included in the net profit for the period. The change in deferred tax liabilities has been included in the income taxes in the income statement.

The associated companies have been consolidated using the equity method. The Group's share of the profits and losses of the associated companies has been presented separately and included in the operating profit in the income statement.

1.2 Allocation and valuation

1.2.1 Fixed assets and depreciation

Intangible and tangible assets are stated at cost, less accumulated depreciation. Depreciation and amortisation according to plan is calculated as straight-line depreciation over the expected useful lives of the assets as follows:

	Years
Intangible rights	10
Other long-term expenditure	3–5
Goodwill	5–10
Buildings and structures	15–40
Machinery and equipment	3–10

1.2.2 Inventory

Inventories are stated at the lower of cost, replacement cost or net realisable value. Variable costs have been included in the inventory values.

1.2.3 Marketable securities

Marketable securities have been valued at the original acquisition price or at the lower probable sales price.

1.2.4 Foreign currency items

Transaction in foreign currencies is recorded at the rates of exchange prevailing at the date of the transaction. At the end of the accounting period, unsettled foreign currency transaction balances are valued at the rates of exchange prevailing at the balance sheet date.

1.2.5 Income recognition of long-term contracts

Income from long-term contracts is recognised according to the percentage of completion method. The percentage of completion has been defined by calculating the proportional share of actual costs against the estimated total costs of the contract. A provision has been made for expected losses from long-term contracts, as well as for costs arising during the warranty period.

1.2.6 Research and development expenditure

Research and development expenditure are expensed in the financial period during which they have occurred with the exception of investment in equipment and machinery.

1.2.7 Pension costs

The pension liabilities are fully covered and recorded as pension costs in the income statement.

2. Notes to the income statement (EUR 1,000)

2.1 Net Sales

	Group 2003	Group 2002
Net sales by market area		
Finland	105,307	99,553
Sweden	52,100	33,509
Norway	98,770	44,453
Baltic countries	2,330	2,740
Poland	10,754	0
Russia	6,452	6,250
Other Western European countries	1,218	335
South America	944	2,247
Middle East	233	869
Asia	6,155	10,847
Africa	3,083	6,753
Other countries	435	488
Net sales total	287,781	208,044

Effect on net sales of percentage of completion	Group 2003	Group 2002
Net sales according to percentage of completion in the financial period	75,166	34,827

Net sales from contracts in progress entered as income according to percentage of completion	Group 2003	Group 2002
for the financial period	75,166	34,827
for previous financial periods	24,391	3,887
Total	99,557	38,714
Net sales from contracts in progress to be entered as income for next financial periods	137,216	63,116

2.2 Other operating income

	Group 2003	Group 2002	Parent company 2003	Parent company 2002
Gain on sales of fixed assets	4,637	1,094	0	0
Other	1,131	262	344	0
	5,768	1,356	344	0

2.3 Number of employees and personnel expenses

	Group 2003	Group 2002	Parent company 2003	Parent company 2002
Average number of employees				
White collar	718	648	6	6
Blue collar	1,305	999	0	0
	2,023	1,647	6	6
Personnel expenses				
Wages and salaries	77,582	61,230	858	850
Pension costs	8,193	7,946	230	222
Other indirect employee costs	12,634	5,107	39	19
	98,409	74,283	1,127	1,091
Salaries and remunerations of Presidents and members of the Board	2,090	1,661	467	407

2.4 Depreciation and amortisation according to plan

	Group 2003	Group 2002
Intangible assets	237	262
Goodwill	202	274
Tangible assets	3,511	3,192
Total	3,950	3,728
Goodwill on consolidation	1,919	1,688
Amortisation on negative goodwill on consolidation	-721	-771
Total	1,198	917
Depreciation and amortisation according to plan, total	5,148	4,645

Specification by balance sheet item has been included in the note 3.1. Intangible and tangible assets

2.5 Change in provisions

	Group 2003	Group 2002
Provisions 1.1.	1,172	1,486
Change	4,192	-314
Provisions 31.12.	5,364	1,172

2.6 Financial income and expenses

	Group 2003	Group 2002	Parent company 2003	Parent company 2002
Income from Group shares	0	0	559	6,197
Income from other long-term investments	4	15	0	0
Other interest and financial income				
from Group companies	0	0	38	190
from other companies	734	731	0	4
	734	731	38	194
Exhange rate differences				
from other companies	-225	-307	0	0
	-225	-307	0	0
Interest expenses				
to other companies	-2,712	-3,155	-1,972	-2,580
	-2,712	-3,155	-1,972	-2,580
Other financial expenses				
to other companies	-125	-155	-1	-1
	-125	-155	-1	-1
Financial income and expenses, total	-2,324	-2,871	-1,376	3,810

2.7 Extraordinary items

	Group 2003	Group 2002	Parent company 2003	Parent company 2002
Group contribution received	0	0	1,165	2,750

2.8 Income taxes

	Group 2003	Group 2002	Parent company 2003	Parent company 2002
Taxes on ordinary operations	2,479	1,622	-338	209
Taxes on extraordinary items	0	0	338	798
Change in deferred tax liabilities	1,737	559	0	0
	4,216	2,181	0	1,007

3. Notes to the balance sheet (EUR 1,000)

3.1 Intangible and tangible assets

		Group 2003		Group 2002
Intangible rights				
Acquisition cost 1.1.		102		71
Exchange rate differences and other adjustments	+/-		+/-	
Increases	+	31	+	
Decreases	-		-	5
Transfers between categories	+/-		+/-	36
= Acquisition cost 31.12.	=	133	=	102
Accumulated depreciation, amortisation and write-downs 1.1.		56		17
Exchange rate differences and other adjustments	+/-		+/-	
Accumulated depreciation, amortisation and write-downs of decreases and transfers	+/-		+/-	20
Depreciation and amortisation for the period	+	23	+	19
Write-downs for the period	+		+	
Reversals of write-downs	+		+	
= Accumulated depreciation, amortisation and write-downs 31.12	=	79	=	56
Revaluations	+		+	
= Balance sheet value 31.12.	=	54	=	46
Goodwill				
Acquisition cost 1.1.		2,101		939
Exchange rate differences and other adjustments	+/-	4	+/-	-6
Increases	+	178	+	1,168
Decreases	-		-	
Transfers between categories	+/-		+/-	
= Acquisition cost 31.12.	=	2,283	=	2,101
Accumulated depreciation, amortisation and write-downs 1.1.		958		688
Exchange rate differences and other adjustments	+/-	135	+/-	-4
Accumulated depreciation, amortisation and write-downs of decreases and transfers	+/-		+/-	
Depreciation and amortisation for the period	+	202	+	274
Write-downs for the period	+		+	
Reversals of write-downs	+		+	
= Accumulated depreciation, amortisation and write-downs 31.12	=	1,295	=	958
Revaluations	+		+	
= Balance sheet value 31.12.	=	988	=	1,143
Goodwill on consolidation				
Acquisition cost 1.1.		16,099		16,099
Exchange rate differences and other adjustments	+/-		+/-	
Increases	+	6,427	+	
Decreases	-	41	-	
Transfers between categories	+/-		+/-	
= Acquisition cost 31.12.	=	22,485	=	16,099
Accumulated depreciation, amortisation and write-downs 1.1.		3,499		1,795
Exchange rate differences and other adjustments	+/-		+/-	16
Accumulated depreciation, amortisation and write-downs of decreases and transfers	+/-	-32	+/-	
Depreciation and amortisation for the period	+	1,919	+	1,688
Write-downs for the period	+		+	
Reversals of write-downs	+		+	
= Accumulated depreciation, amortisation and write-downs 31.12	=	5,386	=	3,499
Revaluations	+	0	+	0
= Balance sheet value 31.12.	=	17,099	=	12,600

3.1 Intangible and tangible assets

		Group 2003		Group 2002
Negative goodwill on consolidation				
Acquisition cost 1.1.		5,612		4,841
Exchange rate differences and other adjustments	+/-		+/-	
Increases	+	721	+	771
Decreases	-		-	
Transfers between categories	+/-		+/-	
= Acquisition cost 31.12.	=	6,333	=	5,612
Accumulated amortisation 1.1.		5,612		4,841
Exchange rate differences and other adjustments	+/-		+/-	
Accumulated amortisation of decreases and transfers	+/-		+/-	
Amortisation for the period	+	721	+	771
= Accumulated amortisation 31.12.	=	6,333	=	5,612
= Balance sheet value 31.12.	=	0	=	0
Other long-term investments				
Acquisition cost 1.1.		1,215		1,238
Exchange rate differences and other adjustments	+/-		+/-	
Increases	+	38	+	105
Decreases	-	280	-	92
Transfers between categories	+/-		+/-	-36
= Acquisition cost 31.12.	=	973	=	1,215
Accumulated depreciation, amortisation and write-downs 1.1.		748		561
Exchange rate differences and other adjustments	+/-		+/-	
Accumulated depreciation, amortisation and write-downs of decreases and transfers	+/-	-239	+/-	-56
Depreciation and amortisation for the period	+	214	+	243
Write-downs for the period	+		+	
Reversals of write-downs	+		+	
= Accumulated depreciation, amortisation and write-downs 31.12.	=	723	=	748
Revaluations	+		+	
= Balance sheet value 31.12.	=	250	=	467
Land and water areas				
Acquisition cost 1.1.		79		577
Exchange rate differences and other adjustments	+/-	-9	+/-	15
Increases	+	435	+	
Decreases	-	50	-	513
Transfers between categories	+/-		+/-	
= Acquisition cost 31.12.	=	455	=	79
Accumulated write-downs 1.1.				
Exchange rate differences and other adjustments	+/-		+/-	
Accumulated write-downs of decreases and transfers	+/-		+/-	
Write-downs for the period	+		+	
Reversals of write-downs	+		+	
= Accumulated write-downs 31.12.	=	0	=	0
Revaluations	+		+	
= Balance sheet value 31.12.	=	455	=	79

3.1 Intangible and tangible assets

		Group 2003		Group 2002
Buildings and structures				
Acquisition cost 1.1.		3,390		4,930
Exchange rate differences and other adjustments	+/-	-436	+/-	302
Increases	+	3,626	+	37
Decreases	-	3,237	-	1,879
Transfers between categories	+/-		+/-	
= Acquisition cost 31.12.	=	3,343	=	3,390
Accumulated depreciation, amortisation and write-downs 1.1.		1,743		1,932
Exchange rate differences and other adjustments	+/-	-237	+/-	139
Accumulated depreciation, amortisation and write-downs of decreases and transfers	+/-	-944	+/-	-433
Depreciation and amortisation for the period	+	157	+	105
Write-downs for the period	+		+	
Reversals of write-downs	+		+	
= Accumulated depreciation, amortisation and write-downs 31.12.	=	719	=	1,743
Revaluations	+		+	
= Balance sheet value 31.12.	=	2,624	=	1,647
Machinery and equipment				
Acquisition cost 1.1.		19,193		20,593
Exchange rate differences and other adjustments	+/-	-835	+/-	437
Increases	+	9,632	+	2,619
Decreases	-	2,869	-	5,385
Transfers between categories	+/-		+/-	929
= Acquisition cost 31.12.	=	25,121	=	19,193
Accumulated depreciation, amortisation and write-downs 1.1.		11,543		11,166
Exchange rate differences and other adjustments	+/-	-683	+/-	316
Accumulated depreciation, amortisation and write-downs of decreases and transfers	+/-	2,699	+/-	-3,013
Depreciation and amortisation for the period	+	3,322	+	3,074
Write-downs for the period	+		+	
Reversals of write-downs	+		+	
= Accumulated depreciation, amortisation and write-downs 31.12.	=	16,881	=	11,543
Revaluations	+		+	
= Balance sheet value 31.12.	=	8,240	=	7,650
Other tangible assets				
Acquisition cost 1.1.		37		15
Exchange rate differences and other adjustments	+/-	-2	+/-	-1
Increases	+	341	+	23
Decreases	-	35	-	
Transfers between categories	+/-		+/-	
= Acquisition cost 31.12.	=	341	=	37
Accumulated depreciation, amortisation and write-downs 1.1.		18		6
Exchange rate differences and other adjustments	+/-	-3	+/-	-1
Accumulated depreciation, amortisation and write-downs of decreases and transfers	+/-	287	+/-	
Depreciation and amortisation for the period	+	32	+	13
Write-downs for the period	+		+	
Reversals of write-downs	+		+	
= Accumulated depreciation, amortisation and write-downs 31.12.	=	334	=	18
Revaluations	+		+	
= Balance sheet value 31.12.	=	7	=	19

3.1 Intangible and tangible assets

		Group 2003		Group 2002
Advances paid				
Acquisition cost 1.1.		55		386
Exchange rate differences and other adjustments	+/-		+/-	
Increases	+	42	+	598
Decreases	-	55	-	
Transfers between categories	+/-		+/-	-929
= Acquisition cost 31.12.	=	42	=	55

3.2 Investments

		Group 2003		Group 2002	Parent Company 2003	Parent Company 2002
Shares in Group companies						
Acquisition cost 1.1.					31,644	31,644
Exchange rate differences and other adjustments						
Increases						
Decreases						
Transfers between categories						
= Acquisition cost 31.12.					31,644	31,644
Accumulated write-downs 1.1.						
Exchange rate differences and other adjustments						
Accumulated write-downs of decreases and transfers						
Write-downs for the period						
Reversals of write-downs						
= Accumulated write-downs 31.12.					0	0
Revaluations						
= Balance sheet value 31.12.					31,644	31,644
Shares in associated companies						
Acquisition cost 1.1.		1,867		1,877		
Exchange rate differences and other adjustments	+/-		+/-			
Increases	+	4,355	+			
Decreases	-		-	10		
Transfers between categories	+/-	330	+/-			
= Acquisition cost 31.12.	=	6,552	=	1,867		
Accumulated write-downs 1.1.						
Exchange rate differences and other adjustments	+/-		+/-			
Accumulated write-downs of decreases and transfers	+/-		+/-			
Write-downs for the period	+		+			
Reversals of write-downs	+		+			
= Accumulated write-downs 31.12.	=	0	=	0		
Revaluations	+		+			
= Acquisition cost 31.12.	=	6,552	=	1,867		
Retained earnings in associated companies		1,229		337		
= Balance sheet value 31.12.		7,781		2,204		

3.2 Investments

		Group 2003		Group 2002
Other shares and holdings				
Acquisition cost 1.1.		1,268		920
Exchange rate differences and other adjustments	+/-	-40	+/-	21
Increases	+	1	+	330
Decreases	-	16	-	3
Transfers between categories	+/-	-330	+/-	
= Acquisition cost 31.12.	=	883	=	1,268
Accumulated write-downs 1.1.				
Exchange rate differences and other adjustments	+/-		+/-	
Accumulated write-downs of decreases and transfers	+/-		+/-	
Write-downs for the period	+		+	
Reversals of write-downs	+		+	
= Accumulated write-downs 31.12.	=	0	=	0
Revaluations	+		+	
= Balance sheet value 31.12.	=	883	=	1,268
Other receivables				
Acquisition cost 1.1.		1,313		1,404
Exchange rate differences and other adjustments	+/-	-143	+/-	115
Increases	+		+	
Decreases	-	254	-	206
Transfers between categories	+/-		+/-	
= Acquisition cost 31.12.	=	916	=	1,313
Accumulated write-downs 1.1.				
Exchange rate differences and other adjustments	+/-		+/-	
Accumulated write-downs of decreases and transfers	+/-		+/-	
Write-downs for the period	+		+	
Reversals of write-downs	+		+	
= Accumulated write-downs 31.12.	=	0	=	0
Revaluations	+		+	
= Balance sheet value 31.12.	=	916	=	1,313

Group shares and holdings

December 31, 2003

Group companies

	Domicile	Group holding %
Eltel Networks Oy	Finland	100.0%
Eltel Networks Länsi Oy	Finland	79.0%
Eltel Networks Pohjoinen Oy	Finland	60.0%
Eltel Networks Kaakko Oy (until January 6, 2004 Kymertek Oy)	Finland	95.0%
Eltel Networks Etelä Oy	Finland	100.0%
Eltel Networks Keski Oy	Finland	100.0%
Eltel Networks AS	Norway	100.0%
AS Linjebygg	Norway	100.0%
Linjebygg Centroamerica SA	Costa Rica	100.0%
Eltel Services AS	Norway	100.0%
Lillesand Offshore AS	Norway	100.0%
Elkom Entreprenör AS	Norway	100.0%
Tel-Nett Gruppen AS	Norway	72.0%
Tel-Nett Region Öst AS	Norway	72.0%
Tel-Nett Region Vest AS	Norway	67.6%
Tel-Nett Region Nord AS	Norway	65.5%
Eltel Networks TE AB	Sweden	100.0%
Eltel Networks Kraftkonsult AB	Sweden	100.0%
Transelectric Vägbelysning AB	Sweden	100.0%
Eltel Networks Skog & Mark AB	Sweden	100.0%
Transelectric AB	Sweden	100.0%
Eltel Networks Öst AB	Sweden	100.0%
Eltel Networks S.A.	Poland	96.2% *
Eltel Networks Olsztyn S.A.	Poland	88.6% **
Transmast SPb	Russia	100.0%
Eltel Networks SIA	Latvia	100.0%
Transmast Technique Ltd	Thailand	49.0% *
Transmast Phils. Inc.	Philippines	40.0% *
Eltel Networks UAB	Lithuania	100.0%
OOO Eltel Networks	Russia	100.0%

**Group share of votes 100%*

***Group share of votes 91.8%*

Associated companies

	Domicile	Group holding %
Verkonrakentaja Wire Oy	Finland	50.0%
Voimatel Oy	Finland	35.0%
AS Connecto	Estonia	49.0%

3.3 Receivables

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Short-term receivables				
Receivables from Group companies				
Loans receivable	0	0	1,239	6,550
Prepaid expenses and accrued income	0	0	1,168	2,765
	0	0	2,407	9,315
Receivables from associated companies				
Trade receivables	69	5	0	0
Trade receivables total	45,182	27,021	0	0

3.4 Prepaid expenses and accrued income

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Short-term				
Uninvoiced net sales	5,793	5,733	0	0
Accrued taxes	423	1,750	952	790
Group contribution receivables	0	0	1,165	2,750
Other	1,904	828	3	17
	8,120	8,311	2,120	3,557

3.5 Percentage of completion

	Group 2003	Group 2002
All contracts in progress are netted in the balance sheet on a project basis.		
Net:		
Accrued income	3,637	4,733
Advances received	8,236	10,389
Gross:		
Accrued income	99,557	38,714
Advances received	104,156	44,370

3.6 Shareholders' equity

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Share capital as of 1 January	74	74	74	74
Share issue	1	0	1	0
Share capital as of 31 December	75	74	75	74
Share issue as of 1 January	0	0	0	0
Share issue	22	0	22	0
Share issue as of 31 December	22	0	22	0
Additional paid-in capital 1 January	0	0	0	0
Share premium	74	0	74	0
Additional paid-in capital 31 December	74	0	74	0
Translation differences	-943	268	0	0
Profit/loss from previous years	11,222	7,293	2,461	-1,640
Profit/loss for the financial year	7,781	3,929	-1,321	4,101
Capital loans	14,594	19,594	14,594	19,594
	32,654	31,084	15,734	22,055
Shareholders' equity as of 31 December	32,825	31,158	15,904	22,129
Share of accumulated depreciation differences and voluntary reserves entered into shareholders' equity	48	434	0	0
Distributable earnings as of 31 December	18,012	11,056	1,140	2,461

	Parent Company 2003	Parent Company 2002
Share capital of the parent company by class of shares		
One share entitles to one vote, number of shares	74,963	74,180

3.7 Option rights

Eltel Management Corporation has a mezzanine loan amounting to 7,000,000 euros and this loan entitles to the subscription of 6,735 new shares, nominal value totalling 6,735 euros. Subscription for shares may be done in the period between 29 June 2001 and 31 December 2008. The loan is included in other long-term liabilities in the balance sheet.

The option program for the key personnel of Eltel Networks Group includes the right to subscribe 3,875 new Eltel Management Corporation ordinary shares nominal value totalling 3,875 euros. Options are divided into A- and B-series. Series A includes the right to subscribe 1,938 shares in the period between 31 March 2003 and 30 April 2007. Series B includes the right to subscribe 1,937 shares in the period between 31 March 2004 and 30 April 2007. The terms of the option rights include restrictions for subscriptions related to the financial performance of the Eltel Networks Group in the years 2002 and 2003. Based on the option programme a total of 783 shares were subscribed in 2003.

3.8 Capital loans

The loan period for the capital loans is 8 years. The capital loans can be repaid under the condition that the restricted equity and non-distributable earnings of the parent company and the Group are fully covered in the latest financial year. The prepayment of the loans is permitted under the condition prescribed above. In 2003 the amount of the capital loans prepaid was 5,000,000 euros. Interest is paid only if the amount can be paid out of distributable earnings according to the financial statements for the period. Unpaid accumulated interest is recorded as financial expenses and accrued expenses.

3.9 Provisions

	Group 2003	Group 2002
Pension provisions	4,401	351
Guarantee reserve	918	794
Other provisions	45	27
	5,364	1,172

3.10 Deferred tax liabilities and receivables

	Group 2003	Group 2002
Deferred tax liabilities		
Temporary differences	154	-514
Appropriations	1,027	1,117
	1,181	603
Deferred tax receivables		
Temporary differences	470	550
	470	550

3.11 Long-term liabilities due after five years

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Loans from financial institutions	0	934	0	0
Pension loans	163	293	0	0
Other long-term liabilities	7,000	7,000	7,000	7,000
Capital loans	14,594	19,594	14,594	19,594
	21,757	27,821	21,594	26,594

3.12 Short-term liabilities

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Liabilities to Group companies				
Trade payables	0	0	16	22
Liabilities to associated companies				
Trade payables	163	0	0	0
Trade payables, total	16,209	7,898	27	38

3.13 Accrued expenses and prepaid income

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
Accrued taxes	790	187	0	0
Accrued wages, salaries and indirect employee costs	16,517	14,952	313	278
Accrued interests	1,738	2,375	1,737	2,320
Other accruals	11,012	2,882	21	0
	30,057	20,396	2,071	2,598

3.14 Pension commitments to corporate management and loans receivable from corporate management

The CEO of the parent company and the Managing Directors of the largest subsidiaries are eligible for retirement at the age of 60 years.

The Managing Directors of the largest subsidiaries have been granted loans amounting approx. 50,000 euros.
The loans fall due for settlement when the employment contracts end.
The CEO of the parent company or the members of the Board of Directors have not been granted any loans.

3.15 Contingent liabilities

Eltel Networks Group

	Group 2003	Group 2002
Own debt secured by real estate mortgages		
Loans from financial institutions	297	1,292
Real estate mortgages	541	3,821
Own debt secured by floating charges		
Loans from financial institutions	68	884
Floating charges	7,131	13,745
Own debt secured by general collaterals		
Loans from financial information	5,210	4,231
Off balance sheet liabilities secured by general collaterals		
Guarantees	22,844	12,161
Other liabilities	250	0
General collaterals given		
Pledges	6,022	5,664
Real estate mortgages	574	0
Floating charges	74,734	60,000
Guarantees	44,389	44,870
Undertakings and other contingent liabilities		
Leasing liabilities		
Due within a year	2,845	1,415
Due after a year	4,560	3,088
Total	7,405	4,503
Undertakings on own behalf		
Guarantees	15,281	13,057
Undertakings on behalf of others		
Guarantees	0	255

Derivatives	Contract value	Fair value	Contract value	Fair value
Currency derivatives				
Forward contracts	4,699	18	1,355	64
Currency swaps	7,041	134	16	0

Eltel Management Corporation

	Parent Company 2003	Parent Company 2002
Leasing liabilities		
Due within a year	31	35
Due after a year	0	29
Total	31	64
Undertakings on behalf of group companies		
Guarantees	10,593	10,477

Auditors' report

To the shareholders of Eltel Management Corporation

We have audited the accounting records, the financial statements and the corporate governance of Eltel Management Corporation for the period 1.1.–31.12.2003. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies' Act.

In our opinion, the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and the parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the result of the accounting period is in compliance with the Companies Act.

Espoo, 27 February 2004

PricewaterhouseCoopers Oy
Authorised Public Accountants

Pekka Kaasalainen
Authorised Public Accountant

Key data 2001–2003

Key Financial Data 2001-2003	2001*	2002	2003
Net sales, MEUR	192.1	208.0	287.8
Change in net sales, %	2.4	8.3	38.4
Operating profit (EBITA), MEUR	7.1	10.8	16.6
Share of net sales, %	3.7	5.2	5.8
Return on capital employed, %	15.2	21.4	31.0
Equity/assets ratio, %	41.2	40.8	32.6
Gearing, %	29.8	-12.2	-12.7

*Pro forma

Calculation of key ratios

Return on capital employed, % =

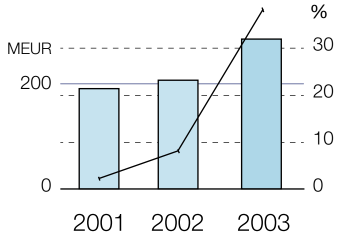
$$\frac{\text{Profit before extraordinary items and taxes} + \text{interest and other financial expenses} + \text{goodwill depreciation}}{\text{Total assets} - \text{interest free liabilities (average)}} \times 100$$

Equity/assets ratio, % =

$$\frac{\text{Shareholders` equity} + \text{minority interests} + \text{mezzanine loans}}{\text{Total assets} - \text{advances received} + \text{leasing commitments}} \times 100$$

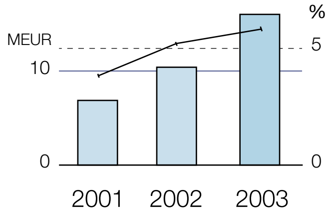
Gearing, % =

$$\frac{\text{Interest bearing loans} - \text{cash and cash equivalents}}{\text{Shareholders' equity} + \text{minority interests}} \times 100$$



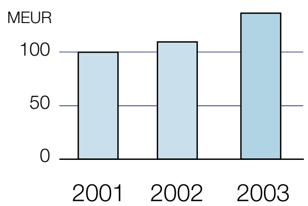
Net sales 2001–2003, MEUR	Change in net sales, %
2001*: 192.1	2.4
2002: 208.0	8.3
2003: 287.8	38.4

*Pro forma 2001



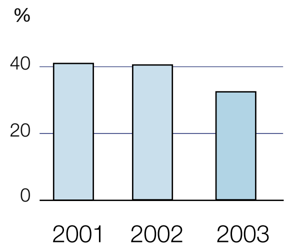
Operating profit 2001–2003, MEUR	Of net sales, %
2001*: 7.1	3.7
2002: 10.8	5.2
2003: 16.6	5.8

*Pro forma 2001



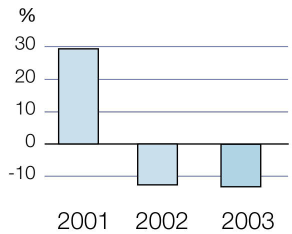
Balance sheet total 2001–2003, MEUR

2001: 100.0
2002: 109.4
2003: 136.0



Equity/assets ratio 2001–2003, %

2001: 41.2
2002: 40.8
2003: 32.6



Gearing 2001–2003, %

2001: 29.8
2002: -12.2
2003: -12.7

Return on capital employed, ROCE, 2001–2003, %

2001*: 15.2
2002: 21.4
2003: 31.0

*Pro forma 2001

Main business contacts

< Base station in Caylabne Bay Resort,
Luzon, Philippines.

www.eltelnetworks.com

ELTEL Networks Corporation
POB 50
FI-02611 Espoo
Finland
Tel. +358 20 411 211
firstname.lastname@eltelnetworks.com

ELTEL Networks TE AB
Isafjordsgatan 35
SE-164 40 Kista
Sweden
Tel. +46 8 588 909 00

ELTEL Networks AS
Stanseveien 21, POB 17
Kalbakken
NO-0901 Oslo
Norway
Tel. + 47 93 09 70 00

AS Connecto
from May 2004 ELTEL Networks AS
Pärnu mnt 139c
EE-11317 Tallinn
Estonia
Tel. +372 606 3100

Eltel Networks Olsztyn S.A.
Gutkowo 81 d
PL-11-041 Olsztyn
Poland
Tel. +48 89 522 2500

OOO ELTEL Networks
Lesnaya Str. 15, 2nd floor
RU-125047 Moscow
Russia
Tel. +7 095 972 4650

ELTEL Networks/Transmast SPb
Zhukovskogo str. 10, off. 9
RU-191104 St. Petersburg
Russia
Tel. +7 812 272 1754

www.eltelnetworks.com