Saunalahti Group Oyj
INTERNET & TELECOMMUNICATIONS

Number of Saunalahti's
GSM subscriptions over
400,000

Annual Report 2004

Saunalahti’s changeover from a service operator model to a Mobile Virtual Network Operator (MVNO) model in its GSM business began in the last quarter of 2004 and will be seen to completion in the first quarter of 2005.

In practice, customers will perceive this changeover only in the form of new services. Saunalahti has its own core GSM network equipment. This enables the company to develop new services. Moreover, subscriptions can be linked to different radio networks as customer needs and the market situation dictate without having to swap SIM cards.

Saunalahti Group Oyj offers Internet and telecommunications services in Finland for consumer customers under the brand name Saunalahti and for corporate customers under the brand name EUnet Finland.

INFORMATION FOR SHAREHOLDERS

Annual General Meeting

Saunalahti Group Oyj's Annual General Meeting for the 2005 financial year will be held at 10 a.m. on Tuesday, 22 March 2005, in the auditorium of the Alto building in Quartetto Business Park in Espoo. The address is Linnoitustie 4 B, 02600 Espoo.

The right to participate in the Annual General Meeting rests with a shareholder who by 11 March 2005 has been entered as a shareholder in the company's shareholder register that is kept by Finnish Central Securities Depository Ltd. Shareholders who wish to attend the Annual General Meeting must notify the company of their intention to do so by 4 p.m., 17 March 2005, at the latest, either in writing to the address Saunalahti Group Oyj, Linnoitustie 4 B, 02600 Espoo, Finland, by faxing +358 9 4243 0777 or by e-mailing paivi.piironen@saunalahtigroup.com. We request that any proxies be submitted with the notification.

The financial statement documents and the proposals of the Board of Directors, complete with annexes, will be made available for perusal at the company's head office for one week before the Annual General Meeting.

Dividend payout

The Board of Directors will propose to the Annual General Meeting that will be held on 22 March 2005 that a dividend of EUR 0.02 be paid per share for the financial period from 1 January to 31 December 2004. The dividend decided upon by the Annual General Meeting will be paid to shareholders who are entered in the company's shareholder register that is kept by Finnish Central Securities Depository Ltd on the record date, 29 March 2005. The dividend payout date is 5 April 2005.

Financial information

Saunalahti Group Oyj will publish the following Interim Reports in 2005:

Interim Report, January—March, 28 April 2005
Interim Report, January—June, 4 August 2005
Interim Report, January—September, 27 October 2005

The Annual Report and Interim Reports are published in Finnish and English. Interim Reports will not be printed; rather, they will be published as stock exchange releases and on the company's website, www.saunalahtigroup.com. Copies of Interim Reports can be ordered from Saunalahti Group's Communications Unit:

Saunalahti Group Oyj, Communications Unit,
Linnoitustie 4 B, 02600 Espoo, Finland

e-mail: communications@saunalahtigroup.com,
tel. +358 9 4243 0001, fax +358 9 4243 0867

Changes in personal and address information

We request shareholders to inform the book-entry register in which the book-entry account is kept of any changes in personal and address information. If the custodian is Finnish Central Securities Depository Ltd, send such notifications to Finnish Central Securities Depository Ltd, P.O. Box 110, 00131 Helsinki, Finland.

Investor relations

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The best source for the latest news, events and bulletins concerning Saunalahti Group is the Internet site www.saunalahtigroup.com.

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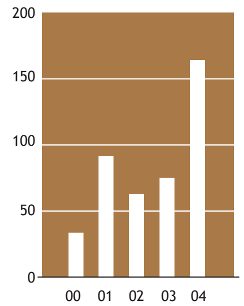
SAUNALAHTI GROUP OYJ IN BRIEF

Saunalahti Group focuses on Internet and teleoperator activities in Finland. The Group offers Internet and telecommunications services for consumer customers under the brand name Saunalahti and for corporate customers under the brand name EUnet Finland. In 2004, the Group's turnover was EUR 160.9 million. At the end of 2004, the Group employed 263 people. Saunalahti Group's share is quoted on the NM list of the Helsinki Stock Exchange with the trading code SAG1V.

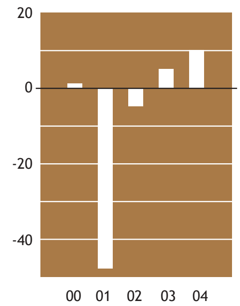
Saunalahti is an Internet and telecom operator offering services for both consumers and small companies. Saunalahti produces and markets its services cost-effectively. This enables it to achieve a competitive service price-quality ratio for its customers. The R&D cycle is fast. Saunalahti reacts rapidly to market changes and launches new products that are in line with its strategy faster than its competitors. Its main distribution channel is the Internet, which is rounded out by its telephone service and a cost-effective retailer network. Saunalahti's business operations are divided into four product lines: Internet services, GSM services, telecom services, and domain and hosting services.

EUnet Finland provides top-notch data communications and telecom solutions for large and medium-sized companies and organisations for whom service reliability is a key criterion. EUnet's service range includes rapid and reliable Internet connections, demanding private network solutions for voice and data communications, high-quality data center and hosting services, end-to-end voice solutions ranging from mobile phones to non-switched telephone connections as well as comprehensive data security solutions. EUnet Finland's products and services utilise EUnet's domestic and international backbone network.

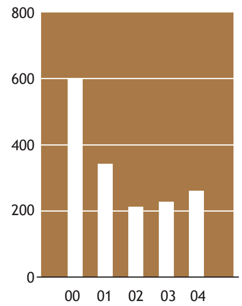
GROUP TURNOVER
EUR million



GROUP OPERATING PROFIT/LOSS
EUR million



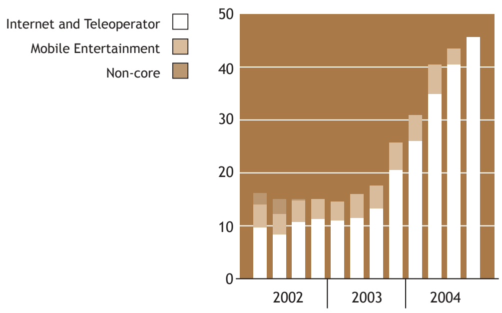
GROUP PERSONNEL
at the end of the financial year



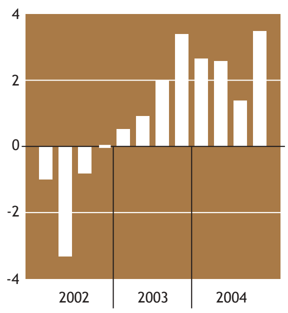
2004 IN BRIEF

- Consolidated turnover amounted to EUR 160.9 million, operating profit to EUR 10.0 million.
- The Group had a total of 263 employees at year's end. The comparable number of Group employees rose primarily due to the bolstering of customer service.
- Saunalahti Group's business strategy was redefined: the company decided to divest itself of its mobile entertainment business and focus on the Internet and teleoperator business.
- Jippii Mobile Entertainment Oy was sold for a selling price of EUR 12 million.
- Saunalahti, which focuses on the consumer market, grew vigorously in the GSM market; the number of subscriptions rose by close to 280,000 and amounted to 419,351 at the end of 2004.
- Saunalahti's own ADSL network, SaunaVerkko, was expanded to improve cost competitiveness.
- EUnet Finland strengthened its position as a supplier of voice and data communications solutions for medium-sized companies.
- A partnership agreement concerning directory services (number 118) was made with Fonecta Oy.
- The Group's operational efficiency increased further as turnover per employee grew.
- The Group's financial position improved substantially and cash assets totalled EUR 11.8 million at the end of 2004.
- Assessments on the transfer of the company on to the Main List of the Helsinki Stock Exchange were started up.

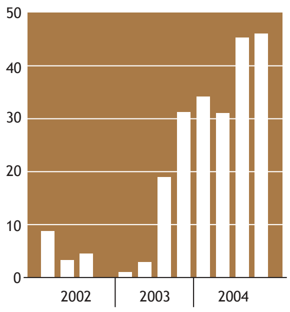
GROUP TURNOVER
per quarter
EUR million



GROUP OPERATING PROFIT/LOSS
per quarter
EUR million

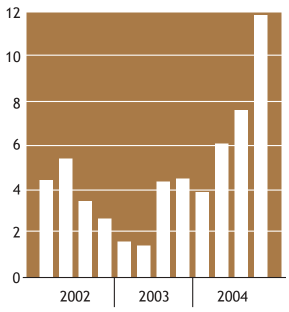


GROUP EQUITY RATIO*
per quarter
%

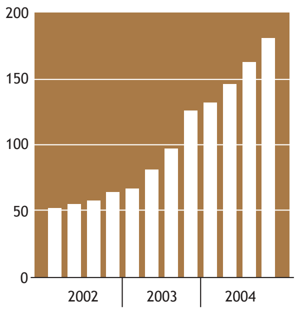


* incl. parent company's capital loans 2002–2003

CASH ASSETS
per quarter
EUR million



TURNOVER/EMPLOYEE
per quarter
EUR 1,000



Competition heated up dramatically in 2004, particularly in the consumer market. Price competition tightened in the GSM business, especially during the last quarter of the year. Towards the end of the year, the price level in sales of new GSM subscriptions declined to under seven cents per call minute. A total of about 1.2 million numbers were ported between operators during the report year, representing about 25% of the total subscription market.

The broadband market continued to see vigorous growth. The price level slid as the year neared its close, with the monthly rates of the cheapest connections dropping below twenty euros. The domestic broadband strategy was redefined, most notably by raising the objectives for broadband subscription capacity.

The major changes at Saunalahti Group Oyj in 2004 comprised focusing on the Internet and teleoperator business, the related divestment of mobile entertainment and the decision to change over from a service operator model to a Mobile Virtual Network Operator model in the GSM business.

The mobile entertainment business was sold in July 2004 at a transaction price of EUR 12 million to iTouch plc, a London Stock Exchange listed company. The terms of the deal also include a potential additional payment of EUR 0—18 million to Saunalahti Group. Due to this divestment, Jippii Mobile Entertainment Oy can now evolve as part of an internationally leading Group that focuses on

Focusing on the Internet and teleoperator business – operating model changeover in the GSM business will improve competitiveness significantly.

mobile value-added services. Moreover, this frees up resources for development efforts, enabling Saunalahti Group to achieve turnover growth and invest in its core business.

Saunalahti, which focuses on the consumer market in the Internet and teleoperator business, saw particularly robust growth in the number of GSM subscriptions. The total number of subscriptions was close to 420,000 at the end of 2004, with net growth of almost 280,000 subscriptions in 2004. Strong growth required Saunalahti to step up customer service continuously.

The changeover to a Mobile Virtual Network Operator model means assuming management and control of the core elements of the mobile network; radio network capacity will be leased from partners. The key elements of the transition will be completed by the end of the first quarter of 2005. By adopting a new operator model, we will achieve not only substantial cost savings and price competitiveness, but also independence in our service development. We significantly bolstered Saunalahti's growth potential in the broadband market by investing in the SaunaVerkko network in the major economic areas: the Greater Helsinki Area, Uusimaa, Turku, the Tampere region and Oulu.

EUnet Finland, which focuses on the corporate market in the Internet and teleoperator business, consolidated its position as a supplier of voice and telecom solutions, especially to medium-sized companies. The unit's service portfolio has expanded from Internet connections to private networks supporting voice and data traffic and closely related data security solutions.

During the year now ended, Saunalahti Group grew into a major Finnish teleoperator player – I would like to thank our demanding customers and our committed and skilled staff for all the work that has been done and the results we have achieved. The objectives for 2005 are to maintain growth, increase cost-effectiveness and ensure customer satisfaction.

Espoo, February 2005

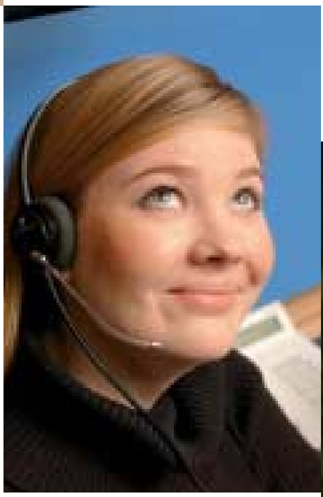
Matti Vikkula
CEO

At the end of 2004, Saunalahti had

419,351 GSM subscriptions and

28,083 broadband subscriptions.

SAUNALAHTI



SAUNALAHTI

Saunalahti is an Internet and telecom operator offering services for both consumers and small companies. Saunalahti produces and markets its services cost-effectively. This enables it to achieve a competitive service price-quality ratio for its customers. The R&D cycle is fast. Saunalahti reacts rapidly to market changes and launches new products that are in line with its strategy faster than its competitors. Its main distribution channel is the Internet, which is rounded out by its telephone service and a cost-effective retailer network. In 2005, the key growth areas will still be GSM and ADSL subscriptions.

SAUNALAHTI'S BUSINESS OPERATIONS

Saunalahti's business operations are divided into four product lines: Internet services, GSM services, telecom services, and domain and hosting services. Saunalahti's business support functions are Marketing, Helpdesk as well as Sales and Customer Service.

Internet Services

Saunalahti revised its ADSL market strategy towards the end of 2003 and launched its own ADSL network in Turku and the Greater Helsinki Area. In 2004, the company deployed its own network in Tampere and Oulu as well. The SaunaVerkko network is implemented using Ethernet-based technology, providing significantly higher flexibility in both network construction and management than the older, mainly ATM-based technologies. One of the services enabled by this new technology is the Turbo Button, which allows the customer to speed up their ADSL connection to its theoretical maximum (as high as 8 Mbit/s) for one day. The customer "presses the button" himself via Saunalahti's user administration page, oma.saunalahti.fi, and the order is filled completely automatically.

During the report year, the number of Saunalahti's ADSL subscriptions grew due to lower pricing and the larger coverage area, reaching 24,500 by the end of 2004. Growth during the report year amounted to approximately 200%. The market price of ADSL subscriptions declined by about 50% during the year.

The number of modem subscriptions contracted in 2004. The marketing focus of Saunalahti's Internet subscriptions is non-switched subscriptions; outlays have been centred primarily on the marketing of ADSL subscriptions.

In addition to modem and ADSL subscriptions, Saunalahti offers broadband subscriptions to residential properties (SDSL and HomePNA) and to small enterprises (SDSL and VDSL). Saunalahti's product range also comprises property networks for residential properties. There are hundreds of networked properties and their users number in the thousands. The networks have been set up using HomePNA, Ethernet and ADSL technologies.

GSM Services

At the end of 2004, Saunalahti had close to 420,000 GSM subscriptions. The number of subscriptions grew buoyantly during the entire year. Competition in the GSM subscription market heated up dramatically during the report year as pricing strategies were revised and competitors launched new brands.

In the latter half of 2004, Saunalahti started up a project to realign its GSM operating methods. As a result, the company will change over from its service operator model to a Mobile Virtual Network Operator model (MVNO) by the end of the first quarter of 2005. Saunalahti has invested in the core elements of its own GSM network, such as mobile centres, and consequently the company will in future primarily only lease radio network capacity from the network operator. The changeover will be implemented stage by stage from November 2004 to March 2005. Due to the new model, Saunalahti will be much better poised to respond to price competition and develop its own products.

Saunalahti's primary distribution channels in GSM subscription sales are the Internet, contact center and text messages, enabling the unit to maintain distribution costs at a low level compared with other operators.

Telecom Services

Telecom services include international calls and domestic long-distance calls. Customers do not need to make a separate agreement or register to use them. These calls are invoiced as part of the customer's ordinary telephone bill.

Domain and Hosting Services

Saunalahti is one of the largest providers of domain and webhosting services in Finland. Saunalahti's hosting services provide a platform and domain for the websites of small enterprises. Saunalahti's technical resources, operator-level data center, own backbone network and Network Operations Center comprise a solid foundation for the provision of hosting services. The company maintains about 17,000 domains, of which about 8,000 use web hotel services.

SUPPORT FUNCTIONS

Marketing

The strong marketing outlays made in 2004 reaped positive returns — they not only brought in more customers, but also buffed the Saunalahti brand. According to the Kännykkä (Mobile Phone) study performed by the economic research firm Taloustutkimus Oy, awareness of the Saunalahti brand is approaching that of the two largest operators. The objectives for 2005 are to raise both the company's profile and overall rating above the next-higher ranking competitor and to more clearly differentiate the company from other players.

Advertising design and implementation are primarily managed using Saunalahti's own resources, as is content delivery. Outsourcing has mainly been used in the post-production of TV advertising and, to some extent, in the purchasing of TV advertising slots. This operating model is mainly geared towards speed and cost-effectiveness. It has proven its efficiency — customer acquisition costs are low.

Saunalahti's media outlays are strongly focused on TV. Its share of marketing expenditure was close to 60% in 2004. The next most important medium comprised paid-for and free newspapers. TV will in all likelihood remain the prime medium in 2005. The company also seeks to increase the share of marketing in popular regional newspapers by stepping up the number of publications in which it advertises. Most of the outlays in 2004 focused on the marketing of GSM subscriptions. The company intends to achieve growth in the broadband market. This entails increasing marketing outlays in this product area.

Sales and Customer Service

Customer Service provides advice to customers regarding any questions they may have about Saunalahti's services and is responsible for invoicing, credit monitoring and the management of

From a Service Operator to Mobile Virtual Network Operator

Saunalahti's changeover from a service operator model to a Mobile Virtual Network Operator (MVNO) model reduces subscription-specific costs.

This realignment of operating method (operator change) in Saunalahti's GSM business began in the last quarter of 2004 and will be seen to completion in the first quarter of 2005. Sonera Mobile Networks Oy will stay on as the main partner in network services. In the first stage, roaming was developed with Elisa Matkapuhelinpalvelut Oy. This partnership was extended into radio networks towards the end of 2004; in most GSM subscription types, the customer can opt for Sonera's or Elisa's radio network.

In practice, customers will perceive this changeover only in the form of new services. Saunalahti has its own core GSM network equipment. This enables the company to develop new services. Moreover, subscriptions can be linked to different radio networks as customer needs and the market situation dictate without having to swap SIM cards. Saunalahti's network is connected to other Finnish mobile and fixed networks by means of interconnection and transit agreements.

One of the major advantages of Saunalahti's new operating model is that it enables the company to develop its own value-added services (such as 3G, video calls, mobile office). Saunalahti also prices the terminating traffic on its own. The turnover of the GSM business is generated by traffic invoicing and revenue from terminating traffic.

changes in the services provided to customers. In line with Saunalahti's strategy, order and delivery processes are automated as far as possible. In addition, Saunalahti's customers themselves can manage their services and keep track of how much they have used them by accessing Saunalahti's user administration page.

Due to the growth in customer volumes, Saunalahti's customer service resources were stepped up further in 2004. Full-time equivalent employees working in Sales and Customer Service numbered about 110 at the end of 2004.

Helpdesk

The Helpdesk unit gives Saunalahti customers assistance with the use of the company's services over the phone and e-mail as well as repairs defects found in the services. The unit's number of employees rose slightly to match the growth in ADSL subscriptions and amounted to around 20 people at the end of 2004.

Production

Production attends to GSM subscription fulfilment and the installation of ADSL subscriptions using a network of outsourcers. The unit had about 20 employees at the end of 2004.

OUTLOOK FOR 2005

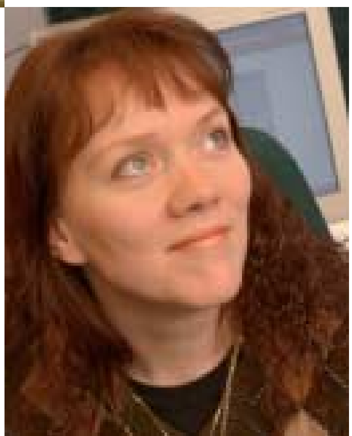
Competition in the GSM market will continue to heat up in 2005. As a Mobile Virtual Network Operator, Saunalahti will be significantly better positioned to meet market challenges.

It is expected that the ADSL subscription market will see further vigorous growth in Finland. The prices of subscriptions implemented using Saunalahti's own network are expected to remain competitive, thus paving the way to success, especially in the largest urban areas. The company will continue to expand the SaunaVerkko network in 2005.

At the end of 2004,

EUnet Finland had **1,344**

private network subscriptions.



EUNET FINLAND

EUnet Finland provides top-notch data communications and telecom solutions for large and medium-sized companies and organisations for whom service reliability is a key criterion. EUnet's service range includes rapid and reliable Internet connections, demanding private network solutions for voice and data communications, high-quality hosting services, end-to-end voice solutions ranging from mobile phones to non-switched telephone connections as well as comprehensive data security solutions.

EUnet's mission is to build high-quality data communications and telecom solutions cost-effectively for customer companies that demand an excellent price-quality ratio. In this effort, EUnet relies on its strong technical expertise and its innovative approach to integrating the company's own and its partners' services and products into attractive and functional service packages. EUnet products are designed to form a seamless service package that is implemented in line with proven, standardised operating models.

The high level of service is ensured with Service Level Agreements (SLA) that set stringent criteria on the usability of the connections supplied by EUnet. EUnet appoints contact persons for each customer, and co-operation with customers is handled both flexibly and efficiently through these persons.

BACKBONE NETWORK

EUnet Finland's products and services utilise EUnet's domestic and international backbone network. The capacity of backbone network connections both within Finland and those linked to Europe's major inter-connection points was increased manyfold in 2004. All connections have been ensured with backup routing. Internationally, EUnet has made inter-connection agreements for thorough worldwide coverage. The international inter-connection points of EUnet's resilient backbone network are located in Helsinki, Stockholm, Copenhagen, Oslo, Tallinn, Hamburg, Frankfurt, Amsterdam, London and New York. Many operators in Finland and the Baltic countries use EUnet's network for transit traffic.

EUnet's backbone network is rounded out by subscriber connections supplied by its partners in areas where it would not be expedient to build backbone connections managed by EUnet. EUnet attends to local maintenance needs by networking with the partners. A closely-knit network of partners ensures a high level of service and short response times, even at the local level, and thus EUnet does not need to maintain an extensive network of local business presences of its own.

In its technical solutions, EUnet always accounts for the fact that in IP connections, bandwidth is only one of the factors affecting the actual connection efficiency. In practice, connection efficiency also depends greatly on usability, transfer delays and packet loss. The redundant backbone connections of EUnet's backbone network have been designed to ensure high connection speeds, first-rate usability of services and low packet loss. EUnet's backbone network also enables a high level of data security because the impact of information security attacks can be minimised efficiently. The voice connections offered by EUnet also make use of the company's own backbone network.

SOLUTION AREAS AND SERVICES

EUnet Finland provides services in four solution areas:

1. Internet Connectivity and Hosting Services

EUnet provides high-calibre InterEUnet Internet connections and hosting services that are designed to meet the needs of corporate customers. The range of Internet connections covers all corporate requirements, from telecommuting to high-capacity Internet connections for large corporations.

Data center and hosting services are provided using EUnet's own, top of the line, resilient 1,300 m^2 server space in Espoo.

2. Private Networks

EUnet's Private Networks comprise a cutting edge and secure means of linking up corporate business locations. By deploying a private network solution, stores, offices, service outlets, production units and telecommuters can share information and use the same applications regardless of where they are located.

The end-to-end solutions range from connecting several business locations to solutions covering hundreds of locations. The service always includes network and service level monitoring. The solutions can also function as a Voice over IP (VoIP) platform.

3. Data Security

Data security is becoming increasingly important as a means of thwarting business risks. EUnet provides comprehensive data security services, from corporate data security assessments to virus prevention at the workstation level.

4. Voice Services

EUnet provides voice solutions that are especially tailored for medium-sized companies, enabling them to improve their own reachability and reduce telephone expenses. The service portfolio includes GSM subscriptions and related services, PRI ISDN connections for wired voice communications and Voice over IP (VoIP) solutions. EUnet Finland also offers affordable international and domestic long-distance calls for its customer companies with its own calling codes – these codes can be programmed directly into the customer company's switchboard.

EUNET FINLAND'S BUSINESS OPERATIONS

EUnet has its own, independent sales, project management, production, installation, network monitoring and helpdesk staff. EUnet's professionals have years of experience in providing data communications connections for different environments and proven ability to carry out even the most challenging projects. In addition to its office in Espoo, EUnet has four regional sales points, which are located in Tampere, Turku, Oulu and Kuopio.

EUnet's major partners are large Finnish and international teleoperators. With its partners, EUnet continuously develops new operating and service models – which EUnet's customers benefit from in the form of even more innovative and efficient solutions. EUnet also offers maintenance services to other operators and co-ordinates the connection solutions of local telecom players.

In installation and maintenance tasks, EUnet relies on not only its own employees, but also local and nationwide companies. In addition, equipment suppliers are significant partners.

OUTLOOK FOR 2005

EUnet Finland's clientele primarily comprises medium-sized and large companies and organisations, both Finnish and those operating in Finland. In 2004, EUnet increased its share as a solution provider particularly for retail and service sector companies. The strongest development and business growth have been seen in Private Networks and Voice Services, which will remain the focus areas of growth in 2005.

In spite of tighter competition, EUnet has held on to its traditionally strong market position as a supplier of Internet connections to companies. In this product area, EUnet will continue to supply top-notch connections and target its services particularly at corporate customers that depend on connection reliability and high capacity.

Data security services are becoming increasingly important in the management of business risks. In the data security sector, demand is expected to grow both in packaged services and company-specific customised solutions.

Business operations

In 2004, Saunalahti Group focused on the development of its core business by bolstering the potential for profitable growth in its Internet and teleoperator business in Finland.

Saunalahti's changeover from a service operator model to a Mobile Virtual Network Operator (MVNO) model in its GSM business began in the last quarter of 2004. Sonera Mobile Networks Oy stayed on as the main partner in network services. In the first stage, roaming was developed with Elisa Matkapuhelinpalvelut Oy. Towards the end of 2004, in the second stage, this partnership was extended into radio networks.

The GSM operator's realignment began in the last quarter of 2004 and will be seen to completion in the first quarter of 2005. It is estimated that the ensuing cost savings will be achieved as from the beginning of the second quarter of 2005.

Saunalahti, which focuses on the consumer market, grew buoyantly in the GSM market. Its number of subscriptions rose by close to 280,000 and amounted to 419,351 at the end of 2004, corresponding to a market share of about 9 per cent. The number of broadband customers almost tripled to 28,083 and the SaunaVerkko network was expanded to improve cost competitiveness.

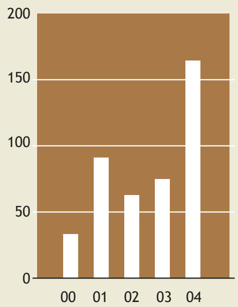
EUnet Finland's business operations focused on maintaining the unit's market position as a provider of Internet connections for large and medium-sized companies and expanding its service portfolio to new Internet-based communications solutions: information network and voice products. In the case of networks, the unit's operations primarily rely on leased capacity.

In March 2004, Saunalahti Group Oyj acquired 25% of Suomen Numerot Numpac Oy, which provides mobile phone number portability services to operators in Finland. Suomen Numerot Numpac Oy is a management company established by Finland's mobile phone operators to attend to the administration of the Master system that is required for mobile phone number portability.

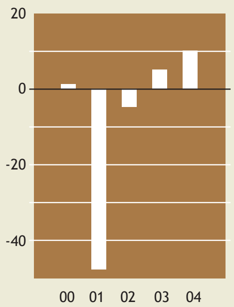
In April 2004, Saunalahti Group Oyj made an agreement with Fonecta Oy, whereby the rights and obligations related to the management of 118 directory services for Saunalahti Group subscription customers were transferred to Fonecta. Fonecta paid a lump compensation of EUR 2.0 million to Saunalahti for the transfer of 118 directory services, and will pay additional compensation during the next three years as the service volume grows.

With an agreement signed on 21 July 2004, Saunalahti Group Oyj sold the shares outstanding in its wholly-owned subsidiary Jippii Mobile Entertainment Oy and

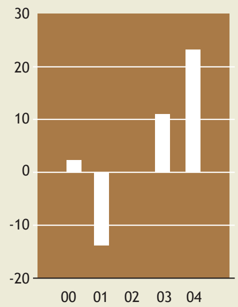
GROUP TURNOVER
EUR million



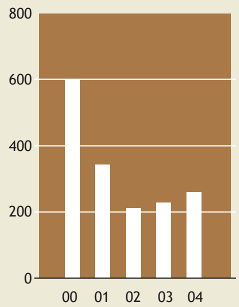
GROUP OPERATING PROFIT/LOSS
EUR million



CASH FLOW FROM OPERATIONS
EUR million



GROUP PERSONNEL
at the end of the financial year



the subgroup it comprises. The buyer was iTouch plc, a London Stock Exchange listed company that specialises in mobile value-added services. The agreement came into force on 31 August 2004.

The total selling price was EUR 30 million at the most, consisting of a fixed payment of EUR 12 million and an additional selling price tied to the EBITDA of the Jippii Mobile Entertainment Group in the period between October 2004 and September 2005, amounting to EUR 18 million at the most. In accordance with the terms of the deal, the fixed selling price of EUR 12 million was paid in cash. The possible additional selling price will be paid in iTouch plc shares or as a combination of cash and shares.

Turnover and earnings trends in 2004

In 2004, the Group had turnover of EUR 160.9 million (2003: 74.8). Of this figure, 4.7% was generated abroad (14.0%).

The Group's depreciation and value adjustments during the financial year amounted to EUR 13.4 million (2003: 8.3). The Group's operating profit in 2004 was EUR 10.0 million (6.9), representing 6.2% of turnover (9.2%).

EUR 2.4 million in other operating income and EUR 0.1 million in non-recurring expenses were recorded for the second quarter of 2004. EUR 0.2 million in other operating income and EUR 0.3 million in non-recurring expenses were recorded for the third quarter. Other operating income of EUR 1.7 million was recorded for the fourth quarter.

The Group's net financial expenses during the financial period amounted to EUR 0.4 million (2003: 1.7).

The Group's profit before extraordinary items was EUR 9.6 million (2003: 5.2). The Group's net profit for the period was EUR 19.0 million (5.0).

Breakdown of turnover and profit by business area (EUR million)

Business area	Turnover	Operating result
Internet and Teleoperator	147.9	12.6
Mobile Entertainment*	13.2	0,0
Expenses of Administration (net)		-2.6
Elimination of inter-company business transactions	-0.2	0.0
Total	**160.9**	**10.0**

* Mobile Entertainment: until 31 August 2004

In November 2004, Saunalahti Group Oyj and the Foundation for Student Housing in the Helsinki Region (Hoas) reached an agreement in their legal dispute regarding the Internet connections and networking of Hoas student apartments. On the basis of the agreements that were made, the parties do not have claims against each other, and Saunalahti Group recorded EUR 0.9 million in other operating income in the last quarter from the compensation received.

With an agreement signed in December 2004, Saunalahti Group Oyj sold its holding in the UK-based Active Corporation Ltd. The sale of the shares resulted in a capital gain of about EUR 0.7 million for Saunalahti Group Oyj. It was booked to improve operating profit in the financial year now ended.

Investments

The Group's gross investments in fixed assets in the balance sheet during the report period were EUR 27.2 million (2003: 8.6), representing 16.9% of turnover (11.5%). Of this amount, EUR 20.1 million (7.0) were intangible investments and EUR 7.1 million (1.6) were tangible investments. Investments exceeded depreciation by EUR 13.8 million. Net investments during the financial year amounted to EUR 15.5 million.

Some of the Internet and Teleoperator unit's customer acquisition expenses have been allocated to intangible assets in the balance sheet as from the beginning of the 2003 financial year. During the report period, a total of EUR 10.2 million in customer acquisition expenses were set up as intangible assets in the balance sheet, of which EUR 4.6 million were marketing expenses and EUR 5.6 million other direct expenses. The depreciation periods are 18 months for GSM subscriptions and 36 months for data connections. Depreciation on these capitalised items amounted to EUR 6.2 million in 2004. Likewise, the customer acquisition expenses capitalised in the last quarter of 2004 amounted to EUR 2.6 million and depreciation to EUR 2.1 million.

In the Group, financial leasing agreements have been capitalised within fixed assets in the balance sheet, in accordance with the instructions specified in a resolution of the Ministry of Trade and Industry.

Financing

During the 2004 financial year, income financing from business operations was EUR 23.0 million (2003: 11.3).

The Group's interest-bearing liabilities declined significantly in 2004. On 31 December 2004, the Group's interest-bearing capital loans amounted to EUR 0.0 million (1.7), interest-bearing long-term liabilities to EUR 4.5 million (5.1) and interest-bearing short-term liabilities to EUR 2.5 million (5.4). The amount of interest-bearing liabilities, including capital loans, declined by EUR 5.2 million to EUR 7.0 million.

Saunalahti Group Oyj's shareholders' equity

Saunalahti Group's net profit for the financial period was EUR 19.0 million and shareholders' equity amounted to EUR 33.9 million at the end of the period. The parent company's net profit for the period was EUR 18.2 million and shareholders' equity amounted to EUR 32.1 million at the end of the period. The Group's equity ratio was 45.8% (2003: factoring in the parent company's capital loans, 31.7%) on 31 December 2004.

On 29 January 2004, Saunalahti Group Oyj's Board of Directors approved the conversion of Convertible capital loan 2002 II into shares. On the basis of the conversion, 3,400,000 new shares were issued in accordance with the terms and conditions of the loan at a price of EUR 0.51. The company's share capital was increased by EUR 34,000. The increase in the share capital was registered on 16 February 2004. After this conversion, Convertible capital loan 2002 II has been fully converted into shares.

On the basis of the conversion, the total number of shares rose from 129,960,738 to 133,360,738 and the share capital from EUR 1,299,607.38 to EUR 1,333,607.38. The conversion decreased the interest-bearing capital loan by EUR 1.7 million.

Saunalahti Group Oyj's Annual General Meeting held on 2 April 2004 decided to increase the company's share capital from EUR 1,333,607.38 to EUR 6,668,036.90 by means of a bonus issue of EUR 5,334,429.52, without changing the number of shares. The bonus issue was implemented by transferring EUR 5,334,429.52 from the share premium fund to the share capital. As a result of the raising of the share capital, the accounting countervalue of the share rose from one cent to five cents per share. The increase in the share capital was registered on 16 April 2004.

In December 2004, 3,000,000 new Saunalahti Group Oyj shares were subscribed for at a per-share subscription price of EUR 0.80 on the basis of the options in the share option programme dated 2 July 2002. 29,750 new Saunalahti Group Oyj shares were subscribed for with the share options of the I/2003 share option programme at a subscription price of EUR 0.51 per share. On the basis of the subscriptions, Saunalahti Group Oyj's shareholders' equity rose by a total of EUR 2,415,172.50. After the increases, Saunalahti

Group Oyj's registered share capital amounts to EUR 6,819,524.40 and its number of shares to 136,390,488. The increases in the share capital were registered on 31 December 2004 and 27 January 2005.

Solvency

At the end of the financial year, the Group's cash and bank receivables amounted to EUR 11.8 million (2003: 4.3). The Group's solvency improved during the financial year due to the cash payments received from the sale of Jippii Mobile Entertainment Oy, better cash flow from operations and the shares subscribed for with share options towards the end of 2004.

Saunalahti Group Oyj's share

Saunalahti Group Oyj's share is quoted on the NM List of the Helsinki Stock Exchange.

Saunalahti Group Oyj's share turnover in 2004 totalled 91,763,376 shares. The highest price in trading in 2004 was EUR 1.79 and the lowest was EUR 0.95, with the closing rate being EUR 1.65. Market capitalisation on 30 December 2004 amounted to EUR 220.0 million.

In September 2004, Saunalahti Group Oyj decided to start assessing the transfer of the company's share on to the Main List of the Helsinki Stock Exchange. The prerequisites and scheduling of the possible transfer on to the Main List are being evaluated. The assessment is expected to be finalised in the early part of 2005.

The Series A options of Saunalahti Group Oyj's I/2003 share option programme went into public trading on the Helsinki Stock Exchange as from 1 December 2004. There are a total of 1,500,000 Series A options in the I/2003 share option programme. Each share option entitles the holder to subscribe for one Saunalahti Group Oyj share (SAG1V). A total of 1,500,000 shares at most can be subscribed for with the Series A options of the I/2003 share option programme. The subscription price of the shares with the Series A options is EUR 0.51 per share. The share subscription period with the Series A options began on 1 December 2004 and ends on 30 November 2008. Shares subscribed for with the share options entitle the holder to a dividend for the financial year during which the shares were subscribed for.

The Board of Directors has decided to prepare a proposal to the Annual General Meeting to the effect that the subscription price of the shares that can be subscribed for with the share options issued by the company would be adjusted downwards by the amount of the proposed dividend by amending the terms and conditions of the share options.

Number of shares

The average number of shares in 2004 was 132,924,126.

A total of 4,775,750 new Saunalahti Group Oyj shares were entered in the Trade Register in 2004. Of these shares, 1,375,750 were entered in the Trade Register on 31 December 2004 and went into trading on 3 January 2005.

On 31 December 2004, the number of shares was 134,736,488 and the number of shareholders was 20,910.

After the end of the report period, a total of 1,654,000 new Saunalahti Group Oyj shares were entered in the Trade Register on 27 January 2005. They went into trading on 28 January 2005. After the raising of the share capital, Saunalahti Group Oyj's registered share capital amounts to EUR 6,819,524.40 and its number of shares to 136,390,488.

Changes in the corporate structure

With an agreement signed on 21 July 2004, Saunalahti Group Oyj sold the shares outstanding in its wholly-owned subsidiary Jippii Mobile Entertainment Oy and the subgroup it comprises. The buyer was iTouch plc, a London Stock Exchange listed company that specialises in mobile value-added services. The agreement came into force on 31 August 2004.

Four foreign companies were wound down during the financial year. The companies in the Czech Republic, Latvia, the UK and Portugal will be closed during the present financial year. In addition, the Group company Supertel Oy's merger into the parent company is being planned.

With a deal made in December 2004, Saunalahti Group Oyj sold its holding in the UK company Active Corporation Ltd.

IFRS implementation project and transition schedule

In 2003, the company initiated assessments of the differences between IFRS (International Financial Reporting Standards) and Finnish Accounting Standards insofar as they apply to the accounting policy applied in Saunalahti Group Oyj's annual accounts. The assessment process continued in 2004. In order to better meet the greater requirements imposed on the presentation of annual accounts, the company has implemented the required changes to its systems and acquired a system to support IFRS reporting. The latter system was deployed in 2004.

In its interim report for January—June 2004, the company outlined the most significant adjustments to the opening IFRS balance sheet for the transition date, 1 January 2004, in accordance with the regulations in force in August 2004. This information has not changed significantly.

Saunalahti Group Oyj will draft its first IFRS annual accounts for 2005. Prior to the first IFRS interim report in 2005, Saunalahti Group will publish a separate stock exchange release on or about 14 February 2005 which will present the accounting principles under IFRS as well as reference values and balancing calculations to the Finnish Accounting Standards for 2004.

Effect of the adoption of IFRS on the accounting principles

Saunalahti Group Oyj's accounting principles will change particularly with respect to deferred tax assets and the booking of other capitalised expenditure. Changes will also be made to the treatment of goodwill, employee benefits, share options and the capital loan.

According to IAS 12 Income Taxes, deferred tax assets are recognised for unused tax losses to the extent to which future taxable income is probable.

On the basis of IAS 38 Intangible Assets, the company will not capitalise customer acquisition costs or subscription activation and connection fees in its annual accounts under IFRS. In addition, modernisation expenses that had been treated as other capitalised expenditure will be treated as tangible assets as per IAS 16 Property, Plant and Equipment.

In accordance with IFRS 3 Business Combinations, goodwill is not amortised regularly; rather, goodwill is annually tested for impairment in accordance with IAS 36 Impairment of Assets. At the time of transition, the company applies the exemption permitted under IFRS 1 First-time Adoption of International Financial Reporting Standards, whereby goodwill items can be included as is in the opening IFRS balance sheet, in which case they must be subjected to an impairment test. On the basis of the impairment test carried out at the time of transition, there were no grounds for recognising impairment.

Defined benefit plans as specified in IAS 19 Employee Benefits and option schemes as specified in IFRS 2 Share-based Payment will be recorded in the annual accounts. In accordance with IAS 32 Financial Instruments: Disclosure and Presentation, the quasi-equity capital loan will be divided between shareholders' equity and liabilities.

Board of Directors and CEO

Saunalahti Group Oyj's Annual General Meeting held on 2 April 2004 re-elected Matti Hietala, Kai Mäkelä, Jukka Peltola, Rauno Puolimatka, Pekka Vennamo and Ahti Vilppula to Saunalahti Group's Board of Directors. Rauno Puolimatka was re-elected as the Chairman and Pekka Vennamo as the Vice Chairman of the Board of Directors.

Matti Vikkula serves as the company's CEO.

Personnel and organisation

In 2004, the Group employed 264 people on average (2003: 197). At the end of the financial year, the number of employees was 263 (222). In comparable terms, the payroll rose by 89 people, mainly due to the increase in customer service staff in the Saunalahti unit.

Jukka Peltola serves as the Director of the Internet and Teleoperator unit and Panu Lehti as COO. The Group's CFO is Timo Lehtinen.

Auditors

Saunalahti Group Oyj's Annual General Meeting held on 2 April 2004 re-elected KPMG Wideri Oy Ab, Authorised Public Accountants, as the company's auditor, with Reino Tikkanen, Authorised Public Accountant, as chief auditor.

Outlook for 2005

The Group's long-term objective is to grow at a rate outpacing market growth in the field and to achieve a market share of 10—20 per cent in its core business areas.

In the present market conditions, the company's objective for 2005 is to keep increasing the number of GSM subscriptions significantly. The company will step up its outlays on subscription growth in broadband services and the expansion of the SaunaVerkko network.

In the last quarter of the year now ended, price competition heated up significantly in both GSM subscriptions and broadband products. The company expects that price competition will remain tough. This may reduce the comparable turnover per subscription.

During the first quarter of the present year, calls from the fixed network to the mobile network will be opened to competition. It is expected that this will change the price level of such calls and enable the sale of new services.

Consolidated turnover in the 2005 financial year is expected to increase by 40—50%. Comparable operating profit is anticipated to be substantially higher than in the previous year. During the first quarter, turnover is forecast to be EUR 48—52 million.

The Board of Directors' proposal to the Annual General Meeting

The Board of Directors proposes that a dividend of EUR 0.02 be paid per share.

Espoo, 7 February 2005

Saunalahti Group Oyj

Board of Directors

PROFIT AND LOSS ACCOUNT

		GROUP		PARENT COMPANY	
1,000 €	Note	1 Jan.—31 Dec. 2004	1 Jan.—31 Dec. 2003	1 Jan.—31 Dec. 2004	1 Jan.—31 Dec. 2003
Turnover	**1.1; 1.2**	**160,899**	**74,799**	**147,503**	**55,547**
Share in associated company profit		-	-23		
Other operating income	1.3	4,334	2,872	4,451	2,705
Operating expenses					
Materials and services	1.4	116,390	42,491	110,005	34,640
Personnel expenses	1.5	11,146	9,296	9,388	6,882
Depreciation and value adjustments	1.7	13,364	8,270	11,602	4,953
Other operating expenses		14,357	10,693	10,504	7,214
Operating expenses, total		155,257	70,750	141,500	53,689
Operating profit		**9,976**	**6,898**	**10,455**	**4,564**
Financial income and expenses	1.8	-355	- 1,732	-534	-2,048
Profit before extraordinary items and income taxes		**9,621**	**5,166**	**9,921**	**2,516**
Extraordinary items	1.9	9,545	-	8,310	887
Profit before taxes		**19,166**	**5,166**	**18,230**	**3,403**
Income taxes	1.10	-118	-143	-	-
Minority interest		-1	-1		
Net profit		**19,047**	**5,022**	**18,230**	**3,403**

BALANCE SHEET

		GROUP		PARENT COMPANY	
1,000 €	Note	31 Dec. 2004	31 Dec. 2003	31 Dec. 2004	31 Dec. 2003
ASSETS					
Fixed assets					
Intangible assets	2.1	19,762	8,767	22,124	11,521
Goodwill on consolidation	2.1	2,042	2,607		
Tangible assets	2.1	13,178	10,473	9,744	5,857
Investments	2.2				
Shares in subsidiaries				702	894
Shares in associated companies				43	-
Other investments		366	326	325	326
Receivables, Group companies				-	1,918
Investments, total		366	326	1,070	3,138
Fixed assets, total		**35,348**	**22,173**	**32,939**	**20,516**
Current assets					
Inventories	2.5	138	110	138	110
Long-term receivables	2.6	432	758	432	1,597
Current receivables	2.6; 2.8	30,517	14,611	30,439	12,670
Cash and bank receivables		11,791	4,270	11,716	3,102
Current assets, total		**42,878**	**19,749**	**42,726**	**17,479**
ASSETS, TOTAL		**78,226**	**41,922**	**75,665**	**37,994**
SHAREHOLDERS' EQUITY AND LIABILITIES					
Shareholders' equity	2.9				
Share capital		6,820	1,300	6,820	1,300
Share premium fund		7,022	10,722	7,022	10,722
Accumulated loss/retained earnings		1,042	-6,337	-	-5,732
Net profit for the period		19,047	5,022	18,230	3,403
Capital loans		-	1,734	-	1,734
Shareholders' equity, total		**33,931**	**12,441**	**32,072**	**11,427**
Minority interest		**1**	**1**		
Obligatory provisions	2.11	**345**	**535**	**345**	**532**
Liabilities					
Long-term liabilities	2.12	4,619	6,018	3,976	5,488
Short-term liabilities	2.13; 2.14	39,330	22,927	39,271	20,548
Liabilities, total		**43,949**	**28,945**	**43,247**	**26,035**
SHAREHOLDERS' EQUITY AND LIABILITIES, TOTAL		**78,226**	**41,922**	**75,665**	**37,994**

CASH FLOW STATEMENT

	GROUP		PARENT COMPANY	
1,000 €	1 Jan.—31 Dec. 2004	1 Jan.—31 Dec. 2003	1 Jan.—31 Dec. 2004	1 Jan.—31 Dec. 2003
Cash flow from operations				
Operating profit	9,976	6,898	10,455	4,564
Depreciation according to plan and value adjustments	13,364	8,270	11,602	4,953
Net capital gains and losses from sales of fixed assets, shares and business functions	-	-29	-	-24
Adjustments to operating profit	119	145	130	733
Change in net working capital	-124	-2,645	160	-1,024
Dividend income	-	-	-	20
Interest received	187	94	116	71
Interest paid	-505	-1,019	-453	-818
Other financial items	23	-240	29	-588
Taxes	-63	-143	-	-
Extraordinary items	-	-	-	887
Cash flow from operations	**22,977**	**11,331**	**22,039**	**8,774**
Investments				
Investments in shares and capital loan receivables	-43	-4	-43	-800
Sales of subsidiaries, less the cash assets of sold subsidiaries	11,729	-	12,639	-
Investments in fixed assets	-27,153	-8,606	-26,191	-8,355
Capital gains from sales of fixed assets	-	309	-	24
Cash flow from investments	**-15,467**	**-8,301**	**-13,595**	**-9,131**
Cash flow before financing	**7,510**	**3,030**	**8,444**	**-357**
Financing				
Increase in long-term liabilities	851	-	-	-
Decrease in long-term liabilities	-3,447	-3,948	-2,805	-3,257
Increase/decrease in long-term receivables (-/+)	7	78	-	801
Increase/decrease in short-term financing (+/-)	185	-1,633	562	542
Share issue*	2,415	4,183	2,413	4,185
Cash flow from financing	**11**	**-1,320**	**170**	**2,271**
Change in cash assets	7,521	1,710	8,614	1,914
Cash assets at beginning of period	4,270	2,560	3,102	1,188
Cash assets at end of period	**11,791**	**4,270**	**11,716**	**3,102**

* The share issue in the 2003 financial year includes the offsetting of EUR 0.7 million in liabilities.

Accounting principles employed in the consolidated accounts

Accounting principles

Saunalahti Group Oyj's consolidated accounts have been drawn up in accordance with the Finnish Accounting Act and Finnish GAAP.

Principles of consolidation

The consolidated accounts include Saunalahti Group Oyj and subsidiaries that it owns either directly or indirectly (over 50% of the votes). Subsidiaries acquired during the report year are consolidated as from the time of acquisition. Companies sold during the report year are consolidated until the time of sale. All intra-Group transactions are eliminated during consolidation. Minority interest is separated from earnings and is presented as a separate item in the profit and loss account. Minority interest is also presented as a separate item in the balance sheet. Inter-company share ownership is eliminated using the acquisition cost method. In the calculation of goodwill, the Group's share of the shareholders' equity in the acquired companies is deducted from the acquisition cost. Goodwill is amortised according to plan on a straight-line basis over its economic life. The amortisation period is five years provided that the economic life does not exceed five years, but shall not exceed 10 years.

Investments in other companies (voting rights of less than 20%) and the investment in Suomen Numerot Numpac Oy are booked at the acquisition cost. The acquisition cost-based book value of these shares is written down to correspond to their market value, provided that the write-down of their value is not temporary.

Transactions denominated in a foreign currency

Transactions denominated in a foreign currency are recorded using the exchange rate in force on the date of the transaction. Receivables and liabilities denominated in a foreign currency which remained unsettled at the close of the financial period are valued using the exchange rates in force at the end of the year.

Foreign Group companies

In the consolidated accounts, the profit and loss accounts of foreign Group companies are translated into euros using the average monthly rates during the report year. All items in the balance sheet are translated into euros using the exchange rates in force at the end of the year. Translation differences due to the use of the acquisition cost method and the translation difference arising from the translation of the profit and loss account and balance sheet using different exchange rates are treated as an item adjusting the consolidated shareholders' equity.

Recognition of income

Indirect taxes and discounts granted have been deducted from sales revenue when calculating turnover. Sales revenue is recorded as income in accordance with its nature either on delivery or over time.

Research and development expenditures

Research and development expenditures are recorded as expenses in the financial period during which they were incurred.

Pensions and covering pension liabilities

The pension security of the personnel of the Group's Finnish companies has been attended to by outside pension insurance companies.

Fixed assets and depreciation

The values of fixed assets are based on the original purchase price. Depreciation on fixed assets subject to wear and tear is calculated on a straight-line basis over the estimated economic lifetime of the assets. The depreciation periods are as follows:

Goodwill	5–10 years
Intangible rights	3–10 years
Other capitalised expenditure	3–10 years
Machinery and equipment	3–10 years

Other capitalised expenditure also includes the costs of customer acquisition. The depreciation periods are 18 months in the case of GSM subscriptions and 36 months in the case of broadband connections.

Leasing

Operating lease payments are treated as rental costs. Financial leasing agreements are treated as fixed assets in the consolidated accounts and as rental costs in the separate accounts.

Inventories

In accordance with the FIFO principle, inventories are presented in the balance sheet at the acquisition and manufacturing cost or the market cost, whichever is lower. In addition to the acquisition cost, the indirect costs of production are not included in the value of inventories.

Income taxes

The consolidated accounts include taxes calculated from the Group companies' financial results for the period in line with local tax legislation and in accordance with the tax rate in force on the date of closing. The deferred tax asset, based on the confirmed losses for previous financial years, has not been recorded, in accordance with Finnish accounting practices and conservative accounting practices. Likewise, the deferred tax liability incurred from the handling of financial leasing agreements has not been presented in the consolidated balance sheet. Deferred tax assets and liabilities have not been recorded in the separate profit and loss accounts.

Social security contribution commitments arising from the granting of share options

The imputed social security costs that might result from the share options granted to personnel and members of the Board of Directors are not recorded in the annual accounts, but are reported as commitments in the notes to the accounts.

Derivative contracts

The Group has no derivative contracts.

Comparability

The information on Saunalahti Group and Saunalahti Group Oyj for 2003 and 2004 is not fully comparable due to the refocusing of business operations and corporate realignments implemented in 2004.

1,000 €	GROUP 2004	GROUP 2003	PARENT COMPANY 2004	PARENT COMPANY 2003
1.1 Turnover by business unit				
Internet and Teleoperator	147,710	56,603	147,503	55,547
Mobile Entertainment	13,189	18,196	-	-
Total	**160,899**	**74,799**	**147,503**	**55,547**
1.2 Turnover by country				
Finland	153,285	64,321	147,503	55,547
EU	1,091	5,946	-	-
Other	6,523	4,532	-	-
Total	**160,899**	**74,799**	**147,503**	**55,547**
1.3 Other operating income				
Invoicing of Group companies			133	473
Capital gains	3,072	29	3,072	24
Other income	1,262	2,843	1,246	2,208
Total	**4,334**	**2,872**	**4,451**	**2,705**
1.4 Materials and services				
Materials and supplies				
Purchases during review period	110,417	38,786	103,439	29,143
Change in inventories	-28	23	-28	23
Material and services, total	**110,389**	**38,809**	**103,411**	**29,166**
External services	6,001	3,682	6,594	5,473
Total	**116,390**	**42,491**	**110,005**	**34,639**
1.5 Personnel expenses				
Salaries, wages and remuneration	9,026	7,458	7,596	5,496
Pension expenses	1,501	1,191	1,294	919
Other social expenses	619	647	498	466
Total	**11,146**	**9,296**	**9,388**	**6,881**
Salaries, remuneration and benefits paid to the Group's presidents and the members of the Board of Directors	496	492	329	216
1.6 Average number of personnel				
Average number of personnel	264	197	228	146
1.7 Depreciation and value adjustments				
Intangible rights	528	561	455	365
Goodwill	204	213	934	736
Other capitalised expenditure	7,934	2,022	7,886	1,972
Goodwill on consolidation	566	867		
Machinery and equipment	4,072	4,301	2,270	1,857
Other tangible assets	1	-	-	-
Depreciation on intangible and tangible assets, total	**13,305**	**7,964**	**11,545**	**4,930**
Goodwill	-	158	-	-
Other capitalised expenditure	-	23	-	23
Machinery and equipment	59	125	59	-
Value adjustments of fixed assets and long-term investments, total	**59**	**306**	**59**	**23**
Total	**13,364**	**8,270**	**11,604**	**4,953**
1.8 Financial income and expenses				
Dividend income	-	20	-	20
Interest and other financial income				
From Group companies			99	323
From others	493	194	281	158
Interest and other financial income, total	**493**	**194**	**380**	**481**

	GROUP		PARENT COMPANY	
1,000 €	2004	2003	2004	2003
Value adjustments				
Value adjustments of shares in subsidiaries			-62	-567
Value adjustments of Group loan receivables			-111	-436
Value adjustments, total			**-173**	**-1,003**
Interest expenses	-565	-1,586	-513	-1,385
Other financial expenses	-283	-360	-229	-161
Interest and other financial expenses, total	**-848**	**-1,946**	**-742**	**-1,546**
Financial income and expenses, total	**-355**	**-1,732**	**-535**	**-2,048**
Other financial income and expenses include gains/losses on foreign exchange (net), total	-12	-131	-9	29
1.9 Extraordinary items				
Extraordinary income	9,545	-	8,310	887
Total	**9,545**	**-**	**8,310**	**887**

Extraordinary income in the 2004 financial year came from the share deal in which the company sold to iTouch plc, by means of an agreement signed on 21 July 2004, the shares outstanding in its fully-owned subsidiary Jippii Mobile Entertainment Oy and the subgroup it comprises. The agreement came into force on 31 August 2004. The company has not recorded the possible additional selling price as income.

1.10 Income taxes				
Income taxes on ordinary income	-118	-143	-	-

1,000 €	Acquisition cost, 1 Jan. 2004	Increase	Decrease	Transfers between items and other changes	Acquisition cost, 31 Dec. 2004	Accumulated depreciation and value adjustments, 31 Dec. 2004	Book value, 31 Dec. 2004
2.1 Intangible and tangible assets							
PARENT COMPANY							
Intangible assets							
Intangible rights	1,995	4,690	-227	-	6,458	-1,196	5,262
Goodwill	5,570	-	-	-	5,570	-2,953	2,617
Other capitalised expenditure	11,867	15,346	-870	-	26,343	-12,098	14,245
Intangible assets, total	**19,432**	**20,036**	**-1,097**	**-**	**38,371**	**-16,247**	**22,124**
Tangible assets							
Machinery and equipment	13,153	5,829	-1,650	-	17,332	-7,916	9,416
Advance payments and uncompleted purchases	-	329	-	-	329	-	329
Tangible assets, total	**13,153**	**6,158**	**-1,650**	**-**	**17,661**	**-7,916**	**9,745**
GROUP							
Intangible assets							
Intangible rights	2,863	4,690	-793	-12	6,748	-1,486	5,262
Goodwill	1,135	-	-	-	1,135	-637	498
Other capitalised expenditure	13,865	15,407	-1,142	12	28,142	-14,140	14,002
Intangible assets, total	**17,863**	**20,097**	**-1,935**	**-**	**36,025**	**-16,263**	**19,762**

1,000 €	Acquisition cost, 1 Jan. 2004	Increase	Decrease	Transfers between items and other changes	Acquisition cost, 31 Dec. 2004	Accumulated depreciation and value adjustments 31 Dec. 2004	Book value, 31 Dec. 2004
Goodwill on consolidation	8,703	-	-44	-	8,659	-6,617	2,042
Tangible assets							
Machinery and equipment	25,315	6,728	-2,601	-4	29,438	-16,589	12,849
Advance payments and uncompleted purchases	-	329	-	-	329	-	329
Tangible assets, total	**25,315**	**7,057**	**-2,601**	**-4**	**29,767**	**-16,589**	**13,178**

2.2 Investments

PARENT COMPANY

Shares, Group companies	3,582	-	-192	-	3,390	-2,688	702
Shares, other	326	43	-1	-	368	-	368
Receivables, Group companies	3,148	-	-1,918	-	1,230	-1,230	-
Total	**7,056**	**43**	**-2,111**	**-**	**4,988**	**-3,918**	**1,070**

Merged companies have been accounted for as increases and decreases in investments.
Associated companies are accounted for in "shares, other".

GROUP

Shares, associated companies	-	43	-	-	43	-	43
Shares, other	326	-	-1	-	325	-	325
Total	**326**	**43**	**-1**	**-**	**368**	**-**	**368**

2.3 Group companies

	Group's holding, %	Parent company's holding, %	Domicile	
AS Saunalahti, in liquidation (Latvia)	100.0%	100.0%	Riga	a)
Helsingin Netti Media Oy (Finland)	100.0%	100.0%	Helsinki	
Jippii Czech Republic S.r.o., in liquidation	100.0%	100.0%	Prague	a)
Jippii Internet Services Unipessoal LDA (Portugal)	100.0%	100.0%	Lisbon	a)
Jippii UK Plc	100.0%	100.0%	London	a)
Supertel Oy (Finland)	99.2%	99.2%	Helsinki	a)

a) Companies to be wound up/merged in 2005.

Group companies merged/wound up/sold in the 2004 financial year:

Crazy Mobile Oy (Finland)
Iceland Interactive EHF
Jippii Belgium S.A
Jippii Chile Limitada
Jippii Estonia AS
Jippii Holding BV (Holland)
Jippii Hong Kong Ltd
Jippii Internet Services UAB (Lithuania)
Jippii Italy S.r.l.
Jippii Mobile Entertainment Oy (Finland)
Jippii Netherlands BV
Jippii Poland Sp. Z O.O.
Jippii Schweiz AG (Switzerland)
Jippii Spain S.L.
Jippii Sweden AB
ZAO Jippii Russia

2.4 Associated companies

Suomen Numerot Numpac Oy (Finland), holding 25.0%

Associated companies sold in the 2004 financial year:

Active Corporation Ltd (UK), holding 35.0%

	GROUP		PARENT COMPANY	
1,000 €	2004	2003	2004	2003
2.5 Inventories				
Materials and goods	138	110	138	110
2.6 Receivables				
LONG-TERM RECEIVABLES				
Receivables from Group companies				
Loan receivables			-	949
Total			**-**	**949**
Receivables from others				
Loan receivables	-	7	-	-
Other receivables	432	751	432	648
Total	**432**	**758**	**432**	**648**
LONG-TERM RECEIVABLES, TOTAL	**432**	**758**	**432**	**1,597**
CURRENT RECEIVABLES				
Receivables from Group companies				
Accounts receivable			-	214
Loan receivables			-	897
Prepayments and accrued income			7	-
Total			**7**	**1,111**
Receivables from associated companies				
Loan receivables	6	85	6	85
Total	**6**	**85**	**6**	**85**
Receivables from others				
Accounts receivable	26,066	12,860	26,037	10,375
Loan receivables	1	2	1	2
Other receivables	783	459	749	155
Prepayments and accrued income	3,661	1,205	3,640	942
Total	**30,511**	**14,526**	**30,427**	**11,474**
CURRENT RECEIVABLES, TOTAL	**30,517**	**14,611**	**30,440**	**12,670**

2.7 Deferred tax assets and liabilities
At the end of 2004, the parent company had EUR 43.7 million in confirmed losses in its tax assessment (31 Dec. 2003: EUR 56.9 million). A tax agent has demanded that the taxable income for 2002 be increased by EUR 1.6 million. The remaining deferred tax asset has not been recorded, in accordance with Finnish accounting standards and conservative accounting practices.

2.8 Prepayments and accrued income				
Prepaid expenses	276	305	276	158
Mobile inter-connection revenue	1,756	-	1,756	-
Refunding of number portability payments	376	419	376	419
Other	1,253	361	1,232	365
Total	**3,661**	**1,205**	**3,640**	**942**
2.9 Shareholders' equity				
Share capital, 1 Jan.	1,300	5,370	1,300	5,370
From share issue	5,486	93	5,486	93
From convertible bonds	34	133	34	133
To cover losses	-	-4,296	-	-4,296
Share capital, 31 Dec.	6,820	1,300	6,820	1,300
Share premium fund, 1 Jan.	10,722	2,999	10,722	2,999
From share issue	2,263	4,092	2,263	4,092
From convertible bonds	1,700	6,630	1,700	6,630
Bonus issue	-5,334	-	-5,334	-
To cover accumulated losses	-2,329	-2,999	-2,329	-2,999
Share premium fund, 31 Dec.	7,022	10,722	7,022	10,722

	GROUP		PARENT COMPANY	
1,000 €	2004	2003	2004	2003
Accumulated loss/retained earnings, 1 Jan.	-1,315	-13,775	-2,329	-12,573
Losses covered from the share premium fund	2,329	2,999	2,329	2,999
Covered losses	-	4,296	-	4,296
Loss on merger			-	-454
Translation difference, 31 Dec.	28	143	-	-
Accumulated loss/retained earnings, 31 Dec.	1,042	-6,337	-	-5,732
Net profit	19,047	5,022	18,230	3,403
Capital loans, 1 Jan.	1,734	5,437	1,734	5,437
Increase	-	-	-	-
Conversion of capital loans into equity	-1,734	-3,703	-1,734	-3,703
Capital loans, 31 Dec.	-	1,734	-	1,734
Shareholders' equity, total	**33,931**	**12,441**	**32,072**	**11,427**

In the 2002 financial year, the parent company received EUR 5.1 million in interest-bearing convertible capital loans. At the beginning of the 2004 financial year, EUR 1.7 million of the interest-bearing convertible capital loan remained. During the 2004 financial year, EUR 1.7 million of the capital loan was converted into shares. Thus the capital loan has now been fully converted into shares.

The interest on the loan which has been recorded as expenses in 2004 amounts to EUR 0.1 million. The unpaid interest, a total of EUR 0.6 million, has been recorded under other short-term liabilities in the parent company's balance sheet.

Main terms of the convertible capital loan:
1) The capital may be paid only if the non-distributable equity and other non-distributable items are fully covered in the balance sheet adopted by Saunalahti Group Oyj and its Group for the preceding financial year.
2) The interest may be paid only if the paid amount can be used for the distribution of profits in line with the balance sheet adopted by Saunalahti Group Oyj and its Group for the preceding financial year.
3) Interest of seven (7) per cent and additional interest of two (2) per cent will be paid on the unpaid interest on the loan.

2.10 Distributable funds, 31 Dec.				
Distributable funds	20,089	-	18,230	-
2.11 Obligatory provisions				
Other obligatory provisions	345	535	345	532

Obligatory provisions are related to the settlement reached in 2003 concerning a legal dispute on a long-term lease agreement. The additional commitments noted during the financial year have been recorded under other operating expenses.

2.12 Long-term liabilities				
Loans from financial institutions	3,599	3,215	3,599	2,962
Other long-term liabilities	1,020	2,803	369	2,518
Long-term liabilities to Group companies	-	-	8	8
Long-term liabilities, total	**4,619**	**6,018**	**3,976**	**5,488**
Of which interest-bearing liabilities	4,520	5,067	3,869	4,528
2.13 Short-term liabilities				
Loans from financial institutions	1,271	3,582	1,271	3,582
Advances received	4,165	2,721	4,158	2,712
Accounts payable	11,006	9,698	10,924	9,121
Other liabilities	4,351	4,238	3,977	3,001
Accrued liabilities	18,537	2,688	18,529	1,690
Total	**39,330**	**22,927**	**38,859**	**20,106**
Liabilities to Group companies				
Accounts payable			-	14
Accrued liabilities			-	8
Other short-term liabilities			413	420
Total			**413**	**442**
Short-term liabilities, total	**39,330**	**22,927**	**39,272**	**20,548**
Of which interest-bearing liabilities	2,529	5,437	2,169	4,693

	GROUP		PARENT COMPANY	
1,000 €	2004	2003	2004	2003
2.14 Accrued liabilities				
Periodisation of salaries and social expenses	1,687	1,406	1,687	1,087
Interest expenses	120	108	133	106
Traffic payments	10,001	-	10,001	-
Accounts payable	6,193	-	6,193	-
Other	536	1,307	515	497
Total	**18,537**	**2,821**	**18,529**	**1,690**
3.1 Liabilities with corporate mortgages as collateral				
Loans from financial institutions	4,869	5,988	4,869	5,988
Leasing agreements with corporate mortgages as collateral	1,113	268	1,113	268
Mortgages given as collateral for loans and leasing agreements	12,668	12,668	12,668	12,668
Mortgages given as collateral for other commitments	6,000	-	6,000	-
Mortgages given as collateral, total	**18,668**	**12,668**	**18,668**	**12,668**
3.2 Other collateral				
Pledges	310	794	310	719
3.3 Contingent liabilities on behalf of Group companies				
Guarantees	-	-	-	253
3.4 Leasing commitments				
Payable during the next financial year	760	1,381	760	1,339
Payable later	1,110	374	1,110	333
Total	**1,870**	**1,755**	**1,870**	**1,672**

The company's leasing agreements do not include a purchase obligation.

EUR 3.4 million in assets possessed by the company through financial leasing agreements are entered in "machinery and equipment" in the consolidated balance sheet. EUR 0.7 million in contractual long-term liabilities and EUR 0.4 million in contractual short-term liabilities are booked in the consolidated balance sheet.

3.5 Other commitments
The imputed social security liabilities related to the company's share options amount to EUR 0.1 million, which has not been recorded as expenses.

The unsettled leasing liability on the business premises used by the Group was EUR 1.5 million at the end of the 2004 financial year, of which the parent company's share was EUR 1.5 million.

3.6 Legal disputes
The bankruptcy trustee of Jippii GmbH, which went bankrupt in 2001, has presented claims to the company to the effect that Saunalahti Group Oyj is still liable for the debts of Jippii GmbH on the basis of the letter of support (Patronatserklärung) given. The claims of the bankruptcy trustee have been contested by statements from experts, as in the company's view it has made all the remittances and discharged all the liabilities of Jippii GmbH that it could be held responsible for on the basis of said letter of support. Saunalahti Group Oyj has paid to Jippii GmbH, or on its behalf, remittances exceeding the maximum amount of the letter of support, DEM 12,000,000, in 2000 and 2001. To date, no outcome has been reached in the settlement negotiations, and thus the matter is still legally uncertain. The company has not made provisions in the financial statements.

The company is aware of an ongoing preliminary investigation by the police into its corporate communications in 2001. According to the information received from the police, the preliminary investigation is expected to be completed in 2005.

In connection with the share transaction that came into force at the end of August 2004, iTouch plc has pressed claims against the company regarding the net working capital of Jippii Mobile Entertainment Oy. The amount of capital gains recognised as income has been reduced to the extent that the company considers the claims substantiated.

THE GROUP'S FINANCIAL INDICATORS

1,000 €, financial period ended on 31 Dec.	2004	2003	2002	2001	2000
The Group's financial indicators					
Turnover	160,899	74,799	61,622	87,250	34,656
Growth in turnover, %	115.1%	21.4%	-29.4%	151.8%	166.3%
Operating profit/loss	9,976	6,898	-5,254	-47,005	708
% of turnover	6.2%	9.2%	-8.5%	-53.9%	2.0%
Profit/loss before extraordinary items, provisions and taxes	9,621	5,166	-7,335	-49,413	467
% of turnover	6.0%	6.9%	-11.9%	-56.6%	1.3%
Profit/loss before appropriations and taxes	19,166	5,166	-5,582	-49,820	560
% of turnover	11.9%	6.9%	-9.1%	-57.1%	1.6%
Net profit/loss	19,047	5,022	-5,119	-53,002	21
% of turnover	11.8%	6.7%	-8.3%	-60.7%	0.1%
Return on equity, %	42.6%	189.5%	- [1]	-440.3%	-0.3%
Return on investment, %	31.7%	32.1%	-30.1%	-160.8%	3.9%
Net gearing, %	-14.0%	74.4%	- [2]	- [2]	23.1%
Equity ratio, %	45.8%	27.3%	-17.3%	-14.3%	46.2%
Price/earnings (P/E) ratio	23	23	- [3]	- [3]	- [3]
Gross investments in fixed assets	27,196	8,606	4,985	20,654	32,408
% of turnover	16.9%	11.5%	8.1%	23.7%	93.5%
Research and development expenses	- [4]	- [4]	- [4]	- [4]	- [4]
% of turnover	- [4]	- [4]	- [4]	- [4]	- [4]
Per-share indicators					
Earnings per share, EUR	0.07	0.05	-0.07	-0.73	0.00
Earnings per share, diluted, EUR	0.07	0.04	-0.06	-0.72	0.00
Equity per share, EUR	0.25	0.08	-0.05	-0.08	0.46
Dividend/share, EUR	0.02 [5]	0.00	0.00	0.00	0.00
Share issue adjusted number of shares at end of period	136,390,488 [6]	129,960,738	107,400,738	90,539,168	67,269,106
Share issue adjusted number of shares during the period, weighted average	133,015,184 [6]	111,312,902	99,763,628	72,688,712	62,803,518
Share issue adjusted number of shares at end of period (diluted)	138,355,771 [6]	131,784,162	124,060,738	91,229,068	68,974,343
Share issue adjusted number of shares during the period, weighted average (diluted)	134,980,467 [6]	112,946,297	120,003,419	73,715,254	64,468,685
Share issue adjusted closing price at end of period, EUR	1.65	1.05	0.27	0.28	3.38
Market capitalisation at end of period, EUR	220,045,218	136,458,775	28,998,199	25,350,967	227,369,578

[1] Return on equity has not been presented, as the numerators and nominators of the indicators are negative.
[2] Net gearing is not presented, because shareholders' equity has been negative.
[3] P/E ratios for earlier years have not been presented because the results were in the red.
[4] Research and development expenses have not been presented, because they are not recorded separately in accounting.
[5] The dividend of EUR 0.02, a total of EUR 2,727,809.76, is the Board of Directors' proposal to the Annual General Meeting.
[6] The number of shares includes the new shares entered in the Trade Register on 27 January 2005.

FORMULAS FOR THE INDICATORS

Return on equity, % (ROE)

$$\frac{\text{Profit/loss before extraordinary items - taxes x 100}}{\text{Shareholders' equity + minority interest (average)}}$$

Return on investment, % (ROI)

$$\frac{\text{Profit/loss before extraordinary items + interest expenses and other financial expenses x 100}}{\text{Balance sheet total - non-interest bearing liabilities (average)}}$$

Net gearing, %

$$\frac{\text{Interest-bearing liabilities - liquid financial assets x 100}}{\text{Shareholders' equity + minority interest}}$$

Equity ratio, %

$$\frac{\text{Shareholders' equity + minority interest x 100}}{\text{Balance sheet total - advances received}}$$

Price/earnings (P/E) ratio

$$\frac{\text{Share price on closing date}}{\text{Earnings per share}}$$

Earnings per share (EPS)

$$\frac{\text{Profit/loss before extraordinary items +/- minority interest from profit/loss for the period - taxes}}{\text{Average share issue adjusted number of shares}}$$

Earnings per share (EPS), diluted

$$\frac{\text{Profit/loss before extraordinary items +/- minority interest from profit/loss for the period - taxes}}{\text{Average share issue adjusted number of shares (diluted)}}$$

Equity per share

$$\frac{\text{Shareholders' equity}}{\text{Share issue adjusted number of shares at end of period}}$$

Dividend per share

$$\frac{\text{Dividend for the period}}{\text{Share issue adjusted number of shares at end of period}}$$

SHARES AND SHARE CAPITAL

Saunalahti Group Oyj has one series of shares. The accounting countervalue of the shares is EUR 0.05. The company's shares are included in the book-entry system. At the end of the financial year, the company's registered share capital amounted to EUR 6,736,824.40, which is divided into 134,736,488 shares. In addition to the shares recorded in the Trade Register, an increase of the company's share capital was pending on 31 December 2004. The increase was based on shares subscribed for on the basis of the share options. The share subscriptions that had been approved but not recorded in the Trade Register on 31 December 2004 numbered 1,654,000 shares, corresponding to share capital of EUR 82,700.00. The raising of the share capital was recorded in the Trade Register on 27 January 2005.

Changes in the company's share capital during the financial year

On the basis of the convertible capital loan floated by the Extraordinary General Meeting held on 8 February 2002, the company's share capital was raised as follows in 2004:

Convertible capital loan 2002 II

Convertible capital loan 2002 II was offered for subscription by certain investors selected by the Board of Directors, deviating from shareholders' pre-emptive right to subscribe for shares. The investors subscribed for a total of EUR 5,100,000 of Convertible capital loan 2002 II. 100 loan shares (notes) with a nominal value of EUR 51,000 each were issued on the loan amount. The loan period was 22 February 2002 to 22 February 2007. Each note of EUR 51,000 entitled the noteholder to convert it into 100,000 Saunalahti Group Oyj shares. By 31 December 2003, EUR 3,366,000 of Convertible capital loan 2002 II had been converted into shares.

At its meeting on 29 January 2004, the company's Board of Directors approved the partial conversion of Convertible capital loan 2002 II into shares representing equity of EUR 1,734,000. On the basis of the conversion, 3,400,000 new shares were issued and the company's share capital was increased by EUR 34,000. The increase in the share capital was entered in the Trade Register on 16 February 2004. The shares subscribed for entitle their owners to an equal right to a dividend when the company pays dividends.

After the conversion in January, Convertible capital loan 2002 II has been fully converted into shares.

Bonus issue

The company's Annual General Meeting held on 2 April 2004 decided, in accordance with the proposal by the Board of Directors, to increase the company's share capital from EUR 1,333,607.38 to EUR 6,668,036.90 by means of a bonus issue of EUR 5,334,429.52, without changing the number of shares.

The bonus issue was implemented by transferring EUR 5,334,429.52 from the share premium fund to the share capital. As a result of the raising of the share capital, the accounting countervalue of the share rose from one cent to five cents per share. The raising of the share capital was recorded in the Trade Register on 16 April 2004.

Shares subscribed for with options

3,000,000 new Saunalahti Group Oyj shares were subscribed for at a per-share subscription price of EUR 0.80 on the basis of the options in the share option programme dated 2 July 2002. 29,750 new Saunalahti Group Oyj shares were subscribed for with the share options of the I/2003 share option programme at a subscription price of EUR 0.51 per share. On the basis of the subscriptions, Saunalahti Group Oyj's shareholders' equity rose by a total of EUR 2,415,172.50. After the increases, Saunalahti Group Oyj's registered share capital amounts to EUR 6,819,524.40 and its number of shares to 136,390,488. The increases in the share capital were registered on 31 December 2004 and 27 January 2005.

Board of Directors' authorisation to issue shares

On 23 April 2004, the follow-up meeting of the Annual General Meeting authorised the company's Board of Directors to decide, by 23 April 2005, on raising the share capital by means of a rights issue, granting share options or floating a convertible bond in one or more lots. On the basis of the authorisation, the share capital can be increased by a maximum of EUR 1,000,000, or 20,000,000 new shares. The authorisation includes the right to deviate from shareholders' pre-emptive right to subscribe for shares. This authorisation was not used during the report year, and thus was fully unused on 31 December 2004.

At the end of the report year, the company's Board of Directors did not have valid authorisations to purchase its own shares (share buyback).

SHARE OPTION PROGRAMMES

The company has share option programmes as part of its incentive scheme for management and personnel.

Personnel share option programme 2001

In the share option programme targeted at personnel in 2001, a total of 370,000 share options were issued. The share subscription period with the Series A options of this programme ended on 31 May 2003 and that of the Series B options ended on 31 May 2004. The unused Series A and B options have expired. There were a total of 148,000 Series A options and 111,000 Series B options. In the share option programme, 111,000 Series C options remain unused; they entitle their holders to subscribe for 111,000 new shares at a subscription price of EUR 4.50.

The share subscription period with the Series C options began on 1 June 2004 and will end on 31 May 2005. No shares had been subscribed for under this share option programme by 31 December 2004.

Share option programme for management and personnel 2002

On 5 August 2003, the company's Board of Directors decided to annul the share options in the share option programme targeted at management and personnel in 2002 which had been returned to the company or remained unoffered. A total of 5,233,232 share options were annulled. A total of 766,768 share options remain from the 2002 share option programme; they entitle their holders to subscribe for a total of 766,768 new shares at a subscription price of EUR 0.80 per share.

The share subscription period with the 354,770 Series A options began on 1 June 2003. The share subscription period with the 205,999 Series B options began on 1 June 2004. The share subscription period with the 205,999 Series C options will begin on 1 June 2005. The share subscription periods of all the share option series end on 31 May 2007. No shares had been subscribed for under this share option programme by 31 December 2004.

Share option programme 2 July 2002

On the basis of the options in the share option programme targeted at the company's partners in 2002, 3,000,000 shares could be subscribed for at a subscription price of EUR 0.80 from 21 October 2002 to 31 December 2004. By 31 December 2004, all the shares had been subscribed for under this share option programme.

Share option programme for management and personnel 2003

The company's Annual General Meeting held on 11 April 2003 decided to grant share options to the company's management and employees. A total of 3,000,000 share options were granted and all of them were subscribed for. At the end of the financial year, 362,345 of the share options were held by the subsidiary Helsingin Netti Media Oy. Share option programme I/2003 included a total of 3,000,000 share options that entitle their holders to subscribe for a maximum of 3,000,000 new shares at a subscription price of EUR 0.51 per share. The subscription period with the Series A options and their public listing began on 1 December 2004, while the subscription period with the Series B options will begin on 1 December 2005. The share subscription period ends on 30 November 2008 in the case of both option series. On the basis of the Series A options in this share option programme, 29,750 shares had been subscribed for by 31 December 2004.

Earlier share option programmes

The share subscription period of the share option programmes granted in 1999 and 2000 ended on 31 May 2003. The unused options have expired.

MANAGEMENT'S SHAREHOLDINGS AND SHARE OPTIONS

On 31 December 2004, Saunalahti Group Oyj's Board members, CEO and entities in which they have a controlling interest owned a total of 26,288,328 shares, representing 19.5% of the company's shares.

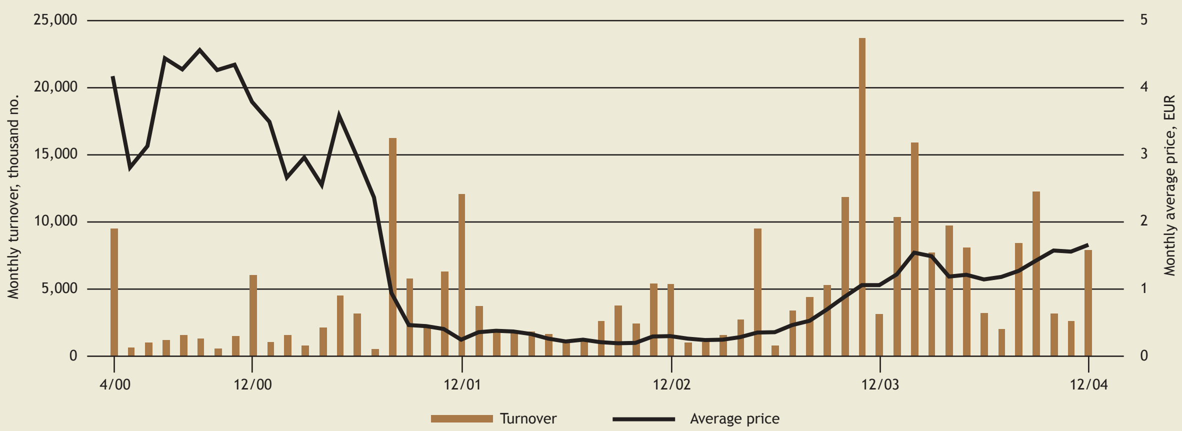
On 31 December 2004, Saunalahti Group Oyj's Board members, CEO and entities in which they have a controlling interest owned a total of 1,159,500 share options, which may be used to subscribe for 1,159,500 shares, representing a 0.9% holding after the subscription.

SHARE PRICE TREND

The average price of the share in trading in 2004 was EUR 1.38. The highest share price was EUR 1.79 and the lowest was EUR 0.95. Share turnover during the report year amounted to 91,763,376 shares.

The diagram below shows Saunalahti Group Oyj's share price trend and turnover since the company's listing on the stock exchange in April 2000. The average monthly prices indicated in the Helsinki Stock Exchange's statistics are used in the diagram. Share prices predating the bonus issue on 16 October 2000 have been divided by two so that they are comparable with later share prices.

SHARE TURNOVER AND AVERAGE PRICE 10 APR. 2000—30 DEC. 2004



Largest shareholders as at 31 December 2004

Shareholder	Number of shares	Holding, %
1. Auratum International S.A.	21,603,540	16.03
2. Oy Herttaässä Ab*	14,977,237	11.12
3. Evli Bank Plc	9,724,071	7.22
4. Auria Oy	7,337,174	5.45
5. Ajanta Oy	6,226,320	4.62
6. Moncheur & Cie SA	6,188,202	4.59
7. Auratum Oy	4,899,820	3.64
8. Rausanne Oy**	3,798,000	2.82
9. Mandatum Stockbrokers Ltd.	3,528,450	2.62
10. Tietoklusteri Oy	2,742,092	2.04
11. FIM Fenno Mutual Fund	2,540,200	1.89
12. Nordea Bank Finland Plc	2,503,000	1.86
13. PSS-Trade Oy	2,439,572	1.81
14. FIM Forte Mutual Fund	1,983,700	1.47
15. Salmivuori Ari	1,399,820	1.04
16. Aura Capital Oy	1,221,444	0.91
17. Risni-Yhtiö Oy	1,006,858	0.75
18. TeliaSonera Finland Oyj	1,000,000	0.74
19. Helsingin Mekaanikontalo Oy***	974,691	0.72
20. OP-Suomi Kasvu Mutual Fund	762,600	0.57
Nominee-registered shares		
Nordea Bank Finland Plc	8,481,414	6.29
OKO Bank	250,000	0.19
Svenska Handelsbanken	63,000	0.05
Clearstream Banking AG	40,500	0.03
Others	17,220	0.01
Other shareholders, total	29,027,563	21.54
Total	**134,736,488**	**100.00**

Shareholders by group as at 31 December 2004

Shareholder	Number of shares	Holding, %
Companies	51,859,564	38.49
Financial and insurance institutions	28,338,955	21.03
Public sector entities	110,000	0.08
Non-profit institutions	4,075,650	3.02
Households	22,064,535	16.38
Foreign owners	28,287,784	20.99
On the grand total account	0	0.00
Total	**134,736,488**	**100.00**

*) Board member Kai Mäkelä has a majority stake in the company Oy Herttaässä Ab, which is one of the ten largest shareholders.

**) Board member Rauno Puolimatka owns 100% of the company Rausanne Oy, which is one of the ten largest shareholders.

***) Procomex SA, a company fully owned by Board member Ahti Vilppula, owns 100% of the company Helsingin Mekaanikontalo Oy, which is one of the twenty largest shareholders.

Distribution of shareholdings by size class as at 31 December 2004

Number of shares	Number of shareholders	Proportion of shareholders, %	Number of shares	Proportion of shares, %
1—100	1,364	6.52	95,513	0.07
101—500	14,659	70.11	2,958,101	2.20
501—1,000	1,899	9.08	1,598,977	1.19
1,001—10,000	2,677	12.80	8,770,460	6.51
10,001—100,000	261	1.25	6,630,517	4.92
100,001—1,000,000	32	0.15	12,082,006	8.97
over 1,000,000	18	0.09	102,600,914	76.15
On the grand total account			0	0.00
On the clearing list of the book-entry register			0	0.00
Total			**134,736,488**	**100.00**
Of which nominee-registered shares			8,852,134	6.57

PROPOSAL ON THE DISPOSAL OF EARNINGS

According to the financial statements at 31 December 2004, the parent company's distributable equity amounted to EUR 18,230,499.56 and the Group's distributable equity to EUR 20,089,000.

The Board of Directors will propose to the Annual General Meeting that will be held on 22 March 2005 that a dividend of EUR 0.02 be paid per share for the financial period from 1 January to 31 December 2004, to a total of EUR 2,727,809.76, and the remainder of the distributable funds be transferred to accumulated loss/retained earnings.

Helsinki, 7 February 2005

Rauno Puolimatka
Chairman

Matti Hietala

Kai Mäkelä

Jukka Peltola

Pekka Vennamo

Ahti Vilppula

Matti Vikkula
CEO

AUDITOR'S REPORT

To the shareholders of Saunalahti Group Oyj

We have audited the accounting, the financial statements, as well as the administration by the Board of Directors and the CEO of Saunalahti Group Oyj for the period 1 January to 31 December 2004. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statement, balance sheet and notes to the financial statements, have been prepared by the Board of Directors and the CEO. Based on our audit we express an opinion on these financial statements and the company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. 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 the administration is to examine that the members of the Board of Directors and the CEO have legally complied with the rules of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and 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 CEO of the parent company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors regarding the distribution of the retained earnings is in compliance with the Finnish Companies Act.

Espoo, 11 February 2005

KPMG Oy Ab

Reino Tikkanen
Authorised Public Accountant

BOARD OF DIRECTORS

Rauno Puolimatka

Pekka Vennamo

Matti Hietala

Kai Mäkelä

Jukka Peltola

Ahti Vilppula

Chairman
Rauno Puolimatka

(born 1957), BBA, is the Chairman of Auratum Oy and the Managing Director of Auratum Oy's major owner, Rausanne Oy. He is the Chairman or member of many Auratum Group companies, such as Aura Capital Oy and Auratum Kiinteistöt Oy. Puolimatka also serves as a member of the Boards of Holiday Club Finland Oy, Turun Arvokiinteistöt Oyj and numerous real-estate companies. Since 27 December 2004, he has served as a member of the Board of Efore Plc. He is a member of Hallitusammattilaiset ry (Association of Finland's Board Professionals) and the lobbying working group of Family Business Network Finland as well as a partner of Boardman Oy. Rauno Puolimatka has been a member of the Board of Saunalahti Group Oyj since 28 September 2001 and its Chairman since 11 April 2003. On 31 December 2004, Puolimatka owned a total of 3,807,395 Saunalahti Group Oyj shares directly and through a corporation in which he has a controlling interest. He also owned 206,000 Saunalahti Group Oyj share options on 31 December 2004.

Vice Chairman
Pekka Vennamo

(born 1944), technology student, is the Chairman and CEO of Sijoitus Oy, of which he owns 100%. Previously, he has served as an MP, Second Minister of Finance and Minister of Transport and Communications. After leaving politics, he has worked as the Director General of Posti-Tele and then Sonera Oyj. Vennamo also serves as the Chairman of the Boards of Aldata Solution Oyj, Soprano Oyj and Plusdial Oy, a member of the Boards of Teleste Oyj and Videra Oy as well as a partner of Boardman Oy. In addition, Vennamo counsels numerous small and medium-sized companies. Pekka Vennamo was the Chairman of Saunalahti Group Oyj's Board of Directors from 28 September 2001 to 11 April 2003; he has been the Vice Chairman since 11 April 2003. On 31 December 2004, Vennamo owned 23,900 shares in Saunalahti Group Oyj. He also owned 274,666 Saunalahti Group Oyj share options on 31 December 2004.

Matti Hietala

(born 1949), M.Sc. (Eng.), is the President and CEO of Aldata Solution Oyj. Previously, he was a partner in Helmet Business Mentors Oy. He served as the Managing Director of Oy Unisys Ab from 1991 to 2002. Before that, he worked for Hewlett-Packard as Marketing Director in Finland and as Regional Manager in Amsterdam and Geneva for twelve years. Hietala has been a member of the Board of Saunalahti Group Oyj since 28 September 2001. On 31 December 2004, Hietala owned 95 shares in Saunalahti Group Oyj. He also owned 51,500 Saunalahti Group Oyj share options on 31 December 2004.

Kai Mäkelä

(born 1947), M.Sc. (Econ.), approved auditor, is the Chairman of the Board and Managing Director of the investment company Oy Herttaässä Ab, which he owns. He is a member of the Board of Ruukki Group Oyj as well as a member of Hallitus-ammattilaiset ry (Association of Finland's Board Professionals) and a partner of Boardman Oy. Mäkelä has been a member of the Board of Saunalahti Group Oyj since 30 May 2002. On 31 December 2004, Mäkelä owned a total of 14,984,632 Saunalahti Group Oyj shares directly and through a corporation in which he has a controlling interest. He also owned 45,778 Saunalahti Group Oyj share options and a corporation in which he has a controlling interest owned 150,000 on 31 December 2004.

Jukka Peltola

(born 1970), M.A. student, is the Managing Director and member of the Board of PSS-Trade Oy and Director of Internet and Teleoperator activities of Saunalahti Group Oyj. He is also a member of the Boards of Finnish Commuter Airlines Oy, Seicapital Oy and SmartIT Finland Oy. Peltola has been a member of the Board of Saunalahti Group Oyj since 11 April 2003. On 31 December 2004, Peltola owned 131,115 shares in Saunalahti Group Oyj. He also owned 45,778 Saunalahti Group Oyj share options on 31 December 2004.

Ahti Vilppula

(born 1959), is Director and member of the Board of Procomex SA. He was the Chairman of the Board of Jippii Mobile Entertainment Oy from 2003 to 2004 and has been a member of its Board since 2004. Vilppula has been a member of the Board of Saunalahti Group Oyj since 11 April 2003. On 31 December 2004, Vilppula owned a total of 7,128,591 Saunalahti Group Oyj shares directly and through a corporation in which he has a controlling interest. He also owned 45,778 Saunalahti Group Oyj share options on 31 December 2004.

MANAGEMENT

Matti Vikkula

Panu Lehti

Timo Lehtinen

Jukka Peltola

CEO
Matti Vikkula

(born 1960), M.Sc. (Econ.), Saunalahti Group Oyj's CEO since 13 December 2001. Among other positions, he has previously worked as a business management consulting partner at PwC Consulting. In addition, he is the Chairman of the Board of Kristina Cruises Oy. On 31 December 2004, Vikkula owned 212,600 Saunalahti Group Oyj shares. He also owned 340,000 Saunalahti Group Oyj share options on 31 December 2004.

Panu Lehti

(born 1970), technology and M.A. student, has been employed by Saunalahti Group Oyj since 6 July 2000, first as CTO and, since July 2002, as COO in charge of the Internet and Teleoperator unit. He has previously worked, among others, as Managing Director of NIC Tietoverkot Oy and Sales Manager of Nortel Networks Oy. Lehti is also a member of the Board of Suomen Numerot Numpac Oy. On 31 December 2004, Lehti owned 13,194 shares in Saunalahti Group Oyj through underage children in his custody. He also owned 171,650 Saunalahti Group Oyj share options on 31 December 2004.

Timo Lehtinen

(born 1964), M.Sc. (Econ.), Saunalahti Group Oyj's CFO since 1 November 2003. He has previously worked as CFO at Auria Oy. Lehtinen did not own Saunalahti Group Oyj shares on 31 December 2004. He owned 100,000 Saunalahti Group Oyj share options on 31 December 2004.

Jukka Peltola

(born 1970), M.A. student, is the Director of Internet and Teleoperator activities of Saunalahti Group Oyj and the Managing Director and member of the Board of PSS-Trade Oy. Peltola has been employed by Saunalahti Group Oyj since 24 June 2002. He is also a member of the Boards of Finnish Commuter Airlines Oy, Seicapital Oy and SmartIT Finland Oy. Peltola has been a member of the Board of Saunalahti Group Oyj since 11 April 2003. On 31 December 2004, Peltola owned 131,115 shares in Saunalahti Group Oyj. He also owned 45,778 Saunalahti Group Oyj share options on 31 December 2004.

CORPORATE GOVERNANCE

The governance of Saunalahti Group is based on the Finnish Companies Act and the Articles of Association. Authority, supervision and management have been divided between the General Meeting, the Board of Directors and the CEO in accordance with these regulations. Saunalahti Group Oyj complies with the Corporate Governance Recommendation for Listed Companies that was released by the Helsinki Stock Exchange, the Central Chamber of Commerce and the Confederation of Finnish Industries EK (formerly the Confederation of Finnish Industry and Employers TT), which came into force on 1 July 2004. A detailed report on compliance with the recommendation is provided on the company's Internet site at www.saunalahtigroup.com.

GENERAL MEETINGS

Saunalahti Group Oyj's General Meeting is the Group's highest decision-making body. General Meetings take decisions on such matters as are specified as being the business of General Meetings in the Finnish Companies Act. The most important of these matters include amending the Articles of Association, approving the financial statements, deciding on the payment of dividends, authorising the Board of Directors to issue shares and share options, releasing the Board members and the CEO from liability, and electing the Chairman of the Board, the Board members and auditors.

The CEO and the Chairman or the Vice Chairman of the Board of Directors always attend General Meetings. If the matters to be dealt with so require or in the case of an Annual General Meeting, most of the members of the Board of Directors are present. Persons proposed as members of the Board of Directors for the first time shall attend the General Meeting so they can be introduced to the shareholders.

BOARD OF DIRECTORS

Election of the members of the Board of Directors and its composition

According to Saunalahti Group Oyj's Articles of Association, the company shall have a Board of Directors including a minimum of three and a maximum of eight members who are elected at the Annual General Meeting. The company aims to ensure that the Board of Directors always has at least five members. The term of the members of the Board of Directors shall end at the conclusion of the Annual General Meeting following the meeting at which they were elected. The number of the terms of office of Board members is not limited. The Chairman of the Board is elected by the General Meeting. The Chairman of the Board of Directors is not a full-time Chairman. The Board of Directors appoints the Vice Chairman from amongst its number.

At present, the Board of Directors has six members. The company's CEO is neither a member of the Board nor its Chairman.

Duties and responsibilities of the Board of Directors

The Board of Directors holds the highest responsibility for the Group's operations, compliance with the principles of governance and the proper organisation of operations. The Board of Directors decides on the key goals of the Group and the strategies drafted to achieve them, operating instructions and other matters that are of far-reaching significance to operations, including the budgets and operating plans of the business areas, acquisitions, the operational structure of the Group and the personnel compensation policy.

The Board of Directors directs and supervises the company's operative management, appoints and discharges the CEO, approves the company's principles of risk management as well as ensures the performance of the management system. It is the duty of the Board of Directors to promote the interests of the company and all its shareholders. The company's Board of Directors has a written charter to guide its operations. In the company, the members of the Board of Directors do not represent the parties who proposed them as members.

The company's Board of Directors has performed an overall evaluation of all its members. In the evaluation, the total amount of remuneration received by each member, their shareholdings, share options, the financial standing of each person in other respects as well as practical experience of their work in the company's Board of Directors have been taken into consideration. In the overall evaluation, the conclusion was that Rauno Puolimatka, Ahti Vilppula, Kai Mäkelä, Pekka Vennamo and Matti Hietala are independent of the company. Of this majority of the Board of Directors, Pekka Vennamo and Matti Hietala are also independent of significant shareholders in the company.

Fees and other benefits of the Board of Directors

At the company's Annual General Meeting, which was held on 2 April 2004, it was decided that during the term starting from the Annual General Meeting, the Chairman of the Board of Directors would be paid an annual fee of EUR 18,000 and each full member of the Board of Directors would be paid an annual fee of EUR 12,000. A separate meeting fee is not paid. In deviation from the Corporate Governance Recommendation for Listed Companies, all members of the company's Board of Directors are included in the company's share option programmes. The company has no other share-related compensation systems.

It was decided that the annual fees of the Chairman and each member of the Board of Directors would be paid partly in Saunalahti Group Oyj shares such that an amount of shares corresponding to approximately 40 per cent of the entire annual Board fee would be acquired for them. On the basis of the authorisation, shares for each member of the Board of Directors were acquired directly in public trading on the Helsinki Stock Exchange between 7 and 14 May 2004.

Board committees

Separate work groups or Board committees have not been formed within the Board of Directors. The Board of Directors annually and independently evaluates the effectiveness of its work and how well it has performed its duties. If the effectiveness of work so requires the Board of Directors may form work groups for different purposes from amongst its number.

CEO

The Board of Directors elects the company's CEO and decides on his salary and other benefits. The CEO's task is to manage and supervise the company's business operations in accordance with the objectives and instructions laid down by the Board of Directors. The CEO may undertake measures that are unusual or of far-reaching consequence in terms of the scope and nature of the company's operations only with the authorisation of the Board of Directors. The CEO attends to the legality of the company's accounting and the reliable organisation of treasury management.

In 2004 the remuneration paid to CEO Matti Vikkula totalled EUR 249,935.49, of which amount his cash salary represented EUR 201,138.01, bonuses EUR 37,842.00 and fringe benefits EUR 10,955.48. The remuneration was not paid in the form of shares. The CEO has been granted share options under the I/2003 share option programme to the amount decided on by the Annual General Meeting held on 11 April 2003, that is, 340,000 options. Ordinary terms are applied to the CEO's retirement and dismissal.

MANAGEMENT

In addition to the CEO, the Group's management comprises the Director of the Internet and Teleoperator business, the Director of the Internet and Teleoperator unit and the Group's CFO.

The management of the Internet and Teleoperator unit comprises the Management Boards of Saunalahti, EUnet Finland and project administration. Group administration has its own Management Board.

The Chairman of each Management Board is the business unit's Director or CFO. Their members are the Managers/Directors responsible for the line operations of the units and the CFO of the Group's parent company.

The Management Boards' task is to follow and oversee the realisation of the important business objectives that have been set for them and direct resources so that the objectives can be achieved.

REMUNERATION FOR SENIOR MANAGEMENT

The Annual General Meeting confirms the remuneration to be paid to Board members. The Board of Directors confirms the salaries and other benefits of the CEO and the Group's management. At present, the CEO, the Group's management, the members of the Management Boards and the company's key employees are covered by a share option scheme.

FINANCE

The parent company's Finance & Accounting Department is responsible for the Group's internal and external accounting and for preparing the financial information of the business areas and confirming the veracity of said information. The Finance & Accounting Department specifies the Group's accounting principles and the accounting policy applied in the financial statements as well as carries out Group-level and business area consolidation and prepares the related additional information. The Group companies report to the parent company in accordance with the issued instructions.

TREASURY

The Group's treasury function is centralised within the parent company. The Group's external long-term loan arrangements are passed to the Board of Directors for approval.

SUPERVISION SYSTEMS

The company's Board of Directors confirms the operating principles of internal supervision and decides on the principles and procedures used in risk management. The company has identified and assessed its business risks and methods for managing them as well as created systematic means of supervising and managing risks. The company's Board of Directors has done assessment and preparatory work on the basis of which it decided on the due organisation of the internal audit. It has been decided to separate the internal audit from the external audit. The company's internal audit will be conducted by Tuokko Tilintarkastus Oy.

INSIDER REGULATIONS

The company has its own insider guidelines. The company's internal insider guidelines and the Guidelines for Insiders released by the Helsinki Stock Exchange for listed companies on 1 March 2000 are in agreement on the restrictions on the trading of the parent company's shares.

The company's CEO, members of the Board of Directors and auditor are statutory insiders. The Directors and members of the Management Boards of the business units, secretary of the Board of Directors, company's legal counsel, CFO, Financial Manager, Accounting Manager, HR Director, Communications Manager and CEO's assistant are insiders by definition.

AUDIT

The Group has one auditor that must be a firm of auditors approved by the Central Chamber of Commerce. The auditor is elected until further notice. The company announces the name of the auditor proposed by the Board of Director in the Notice of Meeting.

In 2004, the company paid KPMG Wideri Oy Ab a total of EUR 60,232.44 (VAT 0%) in audit fees. KPMG Wideri Oy Ab was paid EUR 97,448.24 (VAT 0%) in non-audit fees.

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