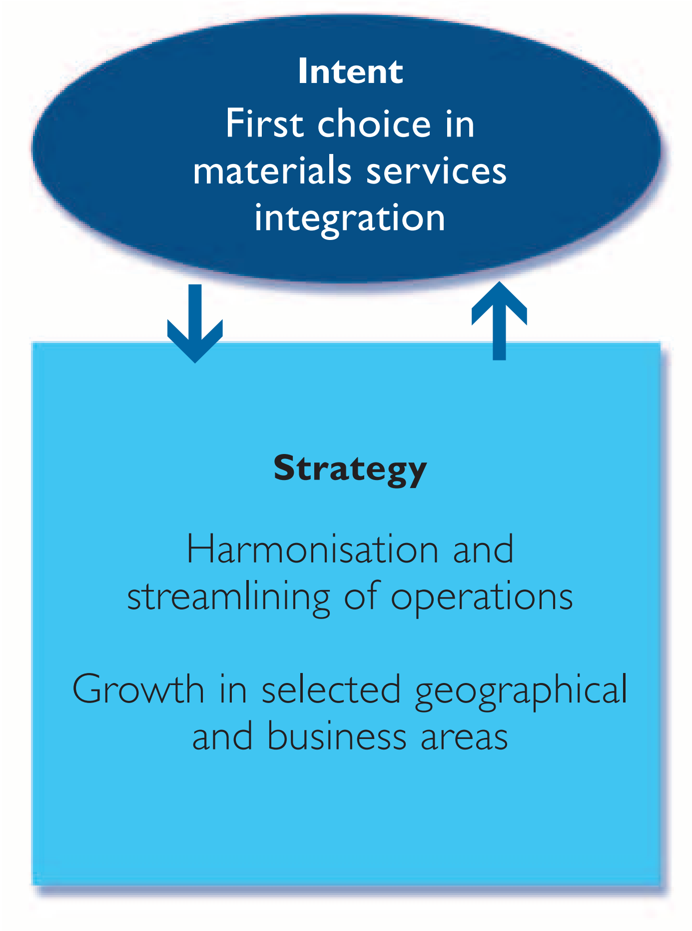
ANNUAL REPORT 2003

onninen


Intent
First choice in materials services integration
Strategy
Harmonisation and streamlining of operations
Growth in selected geographical and business areas

Contents

Onninen in brief

Onninen, a specialist in comprehensive materials services, supplies products, information and distribution services based on customers' needs to contractors, industrial companies, energy plants, public organisations, retailers of technical products and distributors. Onninen aims to achieve and hold the position of "first choice in materials services integration". Onninen operates in Finland, Sweden, Norway, Poland, Russia, Estonia, Latvia and Lithuania.

Onninen focuses on profitable growth in selected business areas and geographical regions. This is done by developing customer relations and by improving market knowledge and operational efficiency.

The structure of the Onninen Group is based on four divisions (Onninen Finland, Onninen Sweden, Onninen Norway and Onninen Wholesale International), five Group functions (Logistics, ICT, Finance, HRD and Communications) and six Group support teams (Electricity, HEP, Ventilation/Refrigeration, Industry, Infra and Retail). Business development is based on the two core processes: business and fulfilment.

Group turnover in 2003 was EUR 1.1 billion. At the end of the year, Onninen had a total of 2,643 employees in eight countries.

Key Figures		2003	2002
Turnover	MEUR	**1,066.4**	930.3
– growth	%	**14.6**	15.7
Earnings before interest, taxes and amortisation of goodwill (EBITA)	MEUR	**28.1**	19.8
– percentage of turnover	%	**2.6**	2.1
Operating profit	MEUR	**17.9**	14.7
– percentage of turnover	%	**1.7**	1.6
Profit before taxes	MEUR	**12.2**	11.5
Return on investment (ROI)	%	**8.1**	8.8
Return on equity (ROE)	%	**9.0**	5.6
Equity ratio	%	**31.5**	29.2
Balance sheet total	MEUR	**334.2**	342.8
Investments	MEUR	**4.8**	63.0
Personnel at year end		**2,643**	2,592

Major events in 2003

Onninen continued to strengthen its competitiveness and to harmonise operations throughout the Group. During the year:

- Onninen crystallised its Group values into three items: Working together, Respecting people and Better than before.
- Onninen continued to develop a customer need-based operating model Group-wide. Major organisational changes took place in Sweden, Norway and Poland.
- As part of the "Group thinking" theme of the year, Onninen adopted certain best practices and concepts, including customer segmentation in four main categories: contractors, industry, infra and retailers, and the core processes divided into two categories: business and fulfilment.
- n Onninen started the planning for its new business development and ERP (Enterprise Resource Planning) system. A contract for the planning and implementation of the new system was signed with Oracle Finland Oy.
- Onninen enlarged its scope of business with the acquisition of Algol Oy's commercial steel business in Finland and Ahlsell AB's electrical wholesale operations in Poland.
- Onninen opened new outlets in the growing markets of Poland, Russia and the Baltic countries. In Poland Onninen utilised its Express concept and was the first one to open cash & carry outlets with both HEPAC and electrical products. In addition, Onninen opened a new distribution centre in Poland to serve the whole country. In Russia, Onninen opened its first outlet in the Asian side of the country.

Challenges for 2004

In line with its strategy, Onninen will continue to strengthen Group profitability, for example, by harmonising business operations in various countries.

The Group theme for 2004 is "Onninen Way" meaning the way the Group operates. The target is to achieve profitable growth by taking advantage of core competence and best practices. Growth may take the form of geographical expansion or by introducing new business areas into the existing operations in various countries.

Success in the planning and implementation of the Group-wide business development and ERP system is one of the major challenges in 2004.

Onninen's goal is to offer its customers the best products, information and distribution services in the market. Progress towards being the first choice as partner in materials services requires:

- appropriate resources
- service-mindedness
- continuous development of know-how and expertise.

Success is all about expertise

Onninen has grown to become an increasingly internationalised Finnish corporation. Our development and success are based on people who know their jobs and on innovative business models.

Purposeful and responsible ownership can only be built lastingly on plain values. I am happy that Onninen's values have always played a strong part in everything it does. They make themselves felt in what is done and in how things are done.

On my personal list of values, ownership with a face and the responsibility and long-term approach that go with it are in first place. Lifelong learning is also important. Expertise is linked both with success in competition and with survival through the changes of business life. For individuals as for a company, safeguarding expertise is a part of development and adaptation to internal and external changes.

Owners are part of the company's everyday life

I am in a fourth-generation family businessperson. This entails both obligations and a facility with getting to grips. The people at Onninen are accustomed to the owners being part of the company's everyday life. This includes close interaction with the Board of Directors, the management and personnel to ensure the company's success. Productive business generates the sound finances that are needed both for corporate continuity and to enable the company to bear its social responsibilities.

Onninen has expressed its determination to its customers and suppliers to become first choice in materials services. This means that the company wants to provide its partners with broader expertise than the familiar services of wholesaling. The company has already done much work towards attaining this goal. For example, the harmonising of operating methods has already increased opportunities for better utilising all-Group advantages of scale, to the advantage of suppliers and customers alike.

Internationalisation demands both vision and courage

Internationalisation is another part of the Onninen Group's development and growth. Operating in new and occasionally very challenging circumstances demands both humility and decisiveness. You need vision and the courage to carry out decisions and a long-term perspective also in relation to expected earnings. It must also be borne in mind that we all have much to learn from one another.

I am convinced that Onninen has excellent prospects to advance towards its intent in all its market areas. The owners support these ambitions, and I myself will do my best to assure the company of what it needs for this.

I thank the employees of the Onninen Group for the good job they have done in 2003. I would also like to express my thanks and best wishes to the company's customers and suppliers as well as to other stakeholders. Our goal in the future as in the past is to be a partner worthy of your trust.

Vantaa, 26. February 2004

Maarit Toivanen-Koivisto

Towards broader materials services

The economic trend continued to be uneven in our operational area last year. In spite of the challenging climate, we succeeded in improving our profits. This was influenced both by action taken to streamline operations and to some extent by demand in Finland, which was better than we forecast.

We carried out structural changes according to plan in different parts of the Group. In Poland, operating as a single company became established in the course of the year and also expanded through the electrical wholesale acquisition in the summer. In the autumn a new distribution centre was opened to serve the whole of Poland. In Sweden and Norway we streamlined operations by merging supporting operations. At the same time, responsibilities for sales and marketing were clarified in both countries. In the Baltic countries and Russia we opened new outlets, and in all countries we expanded and diversified our product range.

At the beginning of the year, we initiated a major ERP project. The aim is to bring online a highly efficient, new, all-Group ERP system gradually in all the countries in which we presently do business by the end of 2006.

Values harmonise our way of working

Our success now and in the future is based on skills and people, each one of whom has his or her own personal values. Similarly, each company has its own common success factors and operating method values which guide its operations. These describe how to act in putting the success factors into practice.

During 2003, we crystallised our Group values into three: Working together, Respecting people and Better than before. These values emerged as the most important ones in discussions held among the employees in different countries. They have the propensity to harmonise our way of doing things in different countries. I believe that they also motivate and help us to commit both to our jobs and to our working community.

We chose "Group thinking" as the theme for last year. We continue to deal with the same things this year, on the theme of the Onninen Way. The goal is to build a multifaceted but also harmonious Onninen culture in all the countries in which we do business. The need for a corporate culture which encourages a more integrated and continuous development was indicated by the Group-wide survey we carried out last year, which measured things including the personnel's satisfaction and commitment. The results show that we have a good foundation but there is still much building to be done. The aim is to both to increase job satisfaction and to give opportunities for ever-improved performance. Getting motivated always means rewards, both for the individual and for the company.

Added value through efficient operations

We want to be our customers' first choice as partner in materials services. This requires our customer service to include accurate anticipation and efficient performance. We need to be able to adapt our activities to the constant changes in our business environment faster and better than our competitors can. In this way, we can offer our customers a chance to enhance their own profitability.

Our shareholders require us to employ all our resources as efficiently as possible. Cost-effectiveness and taking care mean that both the company's operations and its structures are as simple as possible, at the same time safeguarding our capabilities even in economic downswings and maintaining enough resources for the constant improvement of the company.

This year we will continue to develop our core processes and to reinforce our competitiveness. Harmonised working methods and Group thinking are particularly important to us just now as we grow both geographically and at the same time strike out from Onninen's traditional wholesaling towards the broader concept of materials services. Deepening and diversifying our customer services, combined with building and marketing different service packages, can only succeed from a basis of all Onninen employees' skills and enthusiasm.

I thank our personnel for the results obtained in 2003 and particularly for the enthusiasm and flexibility they have shown. I also thank all our customers, suppliers and other partners for the trust they have shown in us.

Vantaa, 26. February 2004

Petteri Walldén

Onninen Finland

Onninen, which has more than 40,000 customers in Finland, is one of the leading companies supplying its customers with one-shop materials services. Onninen Finland's customer base is comprised of contractors in the HEPAC, electricity, ventilation and refrigeration sectors, as well as earthmoving contractors, industry and energy plants, public organisations, and distributors of technical products.

Tuomo Väänänen,
President of Onninen Finland:

"Our goal is to help our customers to cut the overall costs of their operations by developing materials service solutions to fit their needs. We are constantly adding to our expertise in various sectors of materials supply and we work hard to understand the business and processes of our customer segments and suppliers ever better. We upgrade our own operations so that we can provide new opportunities to enhance material operations. Our established market position and our wide range of services give us a good basis for this."

Onninen Finland's turnover grew by 5.6 per cent in 2003, reaching MEUR 511.8 (MEUR 484.6 in 2002). Operational profitability improved. This was influenced particularly by an upturn in demand towards the end of the year, a broader product range than previously, and improvements in internal cost-effectiveness.

At year-end Onninen had 42 outlets in Finland and Onninen Finland together with Logistics had 920 employees (918 at the end of 2002).

Fairly poor market trend bottomed out near the end of the year

The chief characteristics of 2003 were continuing low interest rates, a weakening US dollar, and an unimpressive economic trend in exporting industries' main markets. The overall impression given by the market was of waiting. However, housing construction and particularly renovation continued at a strikingly high level, helping to compensate for low demand in the industrial sector. Towards the end of the year economic expectations and demand went into an upswing. Price competition continued to be intense.

According to market statistics, Onninen held its position as the leading player in the Finnish market. Onninen is the market leader in heating, plumbing, ventilation and refrigeration contractor business, one of the top three suppliers of materials to electrical contractors, and one of the leading materials service companies for industry and infrastructure construction. Onninen has also grown to become a significant partner for distributors of technical products.

Constant change in business climate

Mergers among the customers and between suppliers showed that the process of consolidation in the sector is continuing. Consolidation increases Onninen's opportunities to provide significant partnerships benefiting customers and to provide service models that are integrated with the customer's own business processes.

As the baby-boom generation heads for retirement in the next few years, there will be a handover to a new generation among several of Onninen's customer companies. At the end of 2003, Onninen held seminars on succession for its customers, at which specialists discussed matters concerning the trans-

Onninen's head office and its Vantaa distribution centre are between the Lahti motorway and the old Lahti main road, close to Helsinki Ring Road III. Good transport connections are an essential part of materials service.

fer of business operations and assets. The feedback received from the attendees was positive and it is intended to continue to hold seminars during 2004.

Operations expanding and diversifying

In the beginning of 2003, the sales of the Express cash-and-carry and self-service outlets were combined with other sales to streamline services and responsibilities for customers.

During the year, resources were beefed up to improve services related to materials operations.

A new computer system for delivery chain management and product range analysis and simulation came into service, and a large proportion of the staff took part in an extensive development and training programme for materials management. Training was also reinforced with tailored courses on subjects including business economics in general, subdivisions of sales, and stock management.

The quality system was updated in line with the new ISO 9001 standard, and Lloyds' Register approved the functions covered by the new standard.

The product range was expanded, particularly in electrical and steel products. Onninen acquired commercial steel business from Algol Oy with a turnover of approximately MEUR 15. The transaction reinforced Onninen's position as a broad-based materials supplier for industry and construction.

Electronic trading grew substantially. At the end of the year, about 50 per cent of the purchase order lines of the stock order book were processed fully automatically. The number of sales order lines received through various e-business applications such as EDI (electronic data interchange) and Onninen WebShop grew by about 30 per cent.

During the year, arrangements were made which underpinned Onninen's registered trademark Onnline. Onninen also brought out its new Opal trademark intended for distributor customers.

Heating and plumbing products are needed in many places. Children have their own needs for hygiene products. The picture shows a daycare centre in the Itä-Hakkila district of Vantaa.

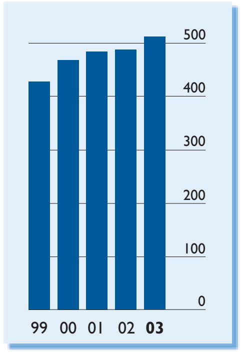
A customer-based service model

Onninen Finland is divided into six strategic business units (SBUs). This organisational model creates a good basis for serving each customer group expertly and with due consideration for its specific business logistics. To create significant new materials service solutions that yield savings, Onninen needs profound understanding of its customers' operating methods and processes.

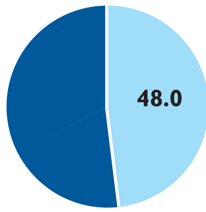
Electricity

Turnover of the Electricity SBU grew relative to the previous year's figure, rising to MEUR 80.5 (MEUR 74.9 in 2002).

Turnover, EUR million



Share of Group's turnover, %



Onninen markets HEPAC, refrigeration and electrical products under its Opal trademark to self-service customers both at its own Express outlets and through numerous distributors.

During the year, Onninen greatly augmented its provision of electrical products. The staff's sales skills and other expertise were developed with a number of different training programmes. An increase in networking with electrical designers, started in the course of the year, will in the future open up new opportunities for further improving services for construction and building services contractors.

The SBU's customer event in Tallinn was attended by a total of a thousand customers from Finland, Russia and the Baltic countries.

Heating/Plumbing

Turnover of the Heating/Plumbing SBU grew relative to the previous year's figure, rising to MEUR 164.8 (MEUR 154.1 in 2002).

The SBU continued to develop new service concepts for its various customer groups. New fields staked out included product distribution solutions to improve job site logistics which substantially reduce overall costs, particularly on large sites.

Express sales of plumbing and heating products took a very favourable track.

Hanakat operations, which started in Onninen's Tampere district in the 1970s, marked their 30th year. Hanakat is Finland's leading HEPAC service chain, to which HEPAC firms in more than 70 different locations belong. The chain's operation was very active and fruitful during the year. In addition to quality products, Hanakat outlets also supply services related to design, installation, advice on operation, and maintenance.

Air/Refrigeration

Turnover of the Air/Refrigeration SBU decreased on the previous year and was MEUR 60.9 (MEUR 62.0 in 2002).

During the year, a programme to step up the Refrigeration unit's personnel resources was brought to completion, thus making it possible to develop additional services on a customer-oriented basis. The Air-conditioning unit focused on services generating clear added value for customers.

The Refrigeration unit's sales were stimulated by increased trading through distribution centres. In the spring, collaboration began with the world's biggest manufacturer of air-conditioning and refrigeration equipment, LG Electronics. A three-week interactive road show

of the new brand, which took it close to the customers, received positive feedback.

Industry

Turnover of the Industry SBU grew relative to the previous year's figure, rising to MEUR 97.2 (MEUR 94.4 in 2002).

A dearth of investment and a low capacity utilisation rate reduced the demand for industrial products. The only more significant new investment project started among the customers was the Wisa Forest project in Pietarsaari. Onninen was one of the main suppliers for this.

During the year, Onninen developed its Logistics & Leasing service and expanded its product range with items including structural steels, industrial lubricants, and maintenance chemicals for industry. The Steel Service Centre in Hyvinkää started up a new washing and cutting line for precision tubes in the summer. The investment doubled the sawing lines' production capacity and diversified the services offered to customers.

Infra

Turnover of the Infra unit grew relative to the previous year's figure, rising to MEUR 88.9 (MEUR 82.5 in 2002).

The SBU particularly increased services for energy plants. Electricity plant business grew rapidly. The unit also substantially boosted its deliveries of pumping stations. New legislation on waste disposal in thinly populated areas had a favourable impact on deliveries even in 2003.

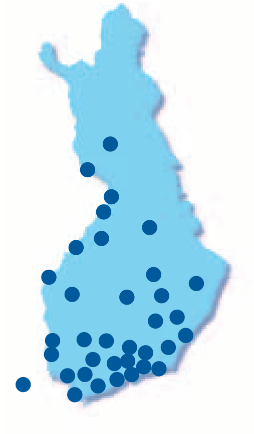
Retail

Turnover of the Retail SBU was MEUR 19.5 (MEUR 16.7 in 2002).

During the year, the prime spheres of emphasis were starting up the SBU's operations, building service concepts and developing the product range in collaboration with the main Finnish and foreign suppliers in the sector. In addition, packaging of IP-packed products for self-service customers was modernised. Cooperation with the major retail chains proceeded favourably.

Delivery of materials for the Kirkkonummi water utility's southern transfer sewer project began in 2003. The transfer sewer, with a total length of more than 20 km, is one of the main infrastructural building projects currently in progress in Southern Finland.

Onninen's outlets in Finland



In the second half of the year, the new trademark Opal was brought out on the market. The trademark's ranges are part of the HEPAC, refrigeration and electrical products aimed at retailer customers. The Opal trademark is being adopted in the other countries served by Onninen in addition to Finland.

Outlook for 2004

Onninen forecasts that economic uncertainty will continue. The likely recovery in the main export regions should have a positive impact on the trend in exports and thus on industrial capacity utilisation rates. The construction of a new nuclear power plant in Finland will entail opportunities of work for the subcontracting industries and for subcontractors.

Onninen foresees only slight growth in its market in 2004. However, construction is likely to remain on a very satisfactory level, principally due to residential building and renovation. Continuing low interest rates will contribute to industry's willingness to invest. The expanded product range is also forecast to increase trade.

In this situation and business climate, Onninen is paying particular attention to the efficiency of its operations. It also remains to be seen to what extent the forecast shortage of skilled personnel in the building industry will affect the behaviour of the market in the future.

In the beginning of 2004, Onninen had one or more outlets at the following locations in Finland:

Espoo, Forssa, Helsinki, Hyvinkää, Hämeenlinna, Imatra, Joensuu, Jyväskylä, Kajaani, Kokkola, Kotka, Kouvola, Kuopio, Lahti, Lappeenranta, Lohja, Mariehamn, Mikkeli, Mäntsälä, Oulu, Pori, Raahe, Raisio, Rauma, Rovaniemi, Salo, Savonlinna, Seinäjoki, Tampere, Tornio, Turku, Vaasa, Vantaa, Varkaus and Ylivieska.

The automatic cutting and washing line for precision tubes installed in September 2003 doubled production capacity and diversified customer services at the Hyvinkää Steel Service Centre.

Onninen has 36 Express outlets serving self-service and cash-and-carry customers in Finland.

Onninen Sweden

Onninen Sweden serves four customer segments; contractors, infrastructure, industry and retail. Main services are related to HEPAC, utilities, electrical and refrigeration products and information, as well as logistical services for suppliers.

Helge Sæthershagen,
President of Onninen Sweden:

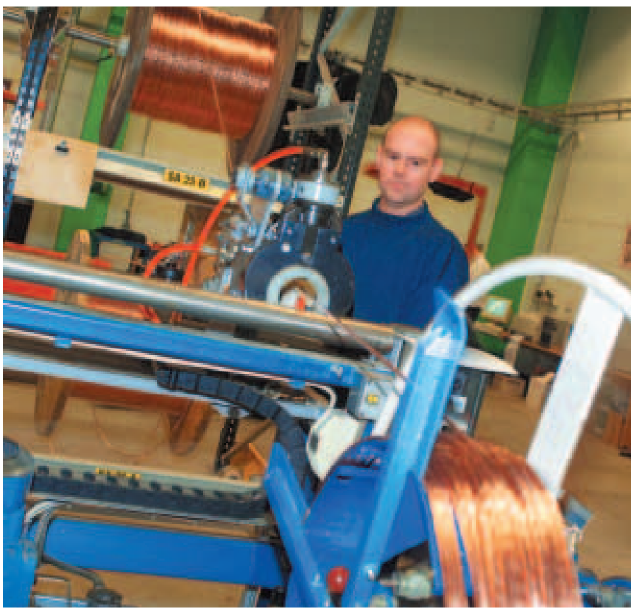
"The Onninen Group is undergoing a major transformation from a highly Finland-oriented, traditional wholesale company to a truly multinational materials services integrator. We have worked hard on both the Group and the national level to set the right strategies and to ensure the resources needed. Our business is no longer just about the products that our customers get through us from product suppliers. It is also about people, their know-how, and the various businesses to which we can offer the best possible product, services and information solutions. This means that we have to be able to integrate our processes with those of our suppliers and our customers. We look forward to creating long-term relationships based on trust with our customers and suppliers and, at the same time, we continue to develop our materials, logistics and information services for them."

● *Onninen was again the leader of the Swedish electrical utility market in 2003.*

In 2003, the turnover of Onninen Sweden increased by 3.7 per cent to EUR 208.8 million (MEUR 201.4 in 2002). Profitability, which was adversely affected by the reorganisation costs, was a distinct improvement on the previous year.

At the end of the year, Onninen had a total of 21 outlets in Sweden, including 16 Express outlets and two distribution centres, one in Karlskoga and the other in Pilängen, Örebro. At the end of the year, Onninen Sweden had 428 employees (444 in 2002).

The customer base in Sweden is dominated by the contractor segment (50 per cent of total sales), and infrastructure & institutions (40 per cent of total sales). In addition, customer segments in Sweden include industry and retail.



Major restructuring and operational changes

Due to unsatisfactory profitability over a period of years, there were major changes in the operation in 2003. Onninen Sweden moved from being a product-oriented organisation to a customer- and process-oriented organisation. The restructuring is a step towards a more efficient and profitable company.

In June, Mr Helge Saethershagen started as Managing Director of Onninen Sweden. He also continues as Managing Director of Onninen Norway. The new Onninen management team for Sweden was appointed on 1 September, and the rest of the new organisation was in place by the end of the year.

Throughout the year, Onninen increased its cooperation with customers and suppliers, and harmonised its operational model by departing from orientation towards business units and products and establishing a customer team-based geographical responsibility. At the same time, work was continued on defining and adopting best practices, both from own operations and from other parts of the Onninen Group.

During the second half of 2003, electrical wholesale within the contractor segment was downsized, and Onninen started projects to improve the quality of its distribution. Towards the end of the year, there were already clear signs of quality improvement both in overall efficiency and in the quality of distribution.

Since the beginning of 2004, the business structure at Onninen Sweden has included the core processes of Business and Fulfilment. The Business process, including sourcing and product management, is the same for both Onninen Sweden and Onninen Norway, while sales and marketing are managed locally in both countries. Onninen Sweden has a geographic sales organisation divided into three regions; Southern Sweden, Northern Sweden and the Stockholm area. The Fulfilment process includes directing the product and information flows, the management of distribution centres, and everyday operations for both Sweden and Norway. The two core processes are supported locally by the Finance, ICT and HR functions in Sweden.

Uneven market development

According to the Swedish Wholesale Federation, Onninen's overall market share increased in the HEP wholesale market and in the refrigeration wholesale market. In the electrical wholesale market, Onninen continued to strengthen its market leader position in the electrical utility segment.

Onninen enjoyed marked growth in HEP sales volumes, margins and profitability in 2003. The company has two big Swedish competitors and the customers seem to welcome a third player. Other reasons for the positive trend include improved use of pricing tools, more

direct warehouse deliveries, use of a new warehouse management tool, success of the Onniflex service concept, and growth in the retail market.

In its services to the public sector, Onninen did not attain its targeted increase or an improved profitability level, mainly due to the declining market.

In the refrigeration market, Onninen increased its market share despite the market decline by 15 per cent, and, at the same time, to kept its profitability at the previous year's level. This was mainly due to increased HEP product sales to refrigeration contractors, as well as a new agreement including OEM products to heating pump manufactures.

In the declining electrical utility market, Onninen succeeded in increasing both its market share and margins with the help of its strong brand, its in-house concepts and its good knowledge of the market. At the same time, in the telecom sector, 2003 meant a marked downturn both in sales volumes and in margins, mainly due to low demand and increasing competition.

At the end of the year, Onninen was the number-three player in the Swedish HEP market serving contractors, public services and industrial customers. In the electrical utility market, Onninen held its position as market leader.

Restructuring the outlet network

In 2003, Onninen opened a new sales office and an Express outlet at Umeå, moved the sales operation in Sundsvall to a new combined Express outlet and sales office, and closed two outlets to consolidate operations and boost efficiency. The former Värnamo outlet HEP customers are now served from Växjö, and the former Norrköping refrigeration and HEP customers are

● *Onninen's position as a major actor and partner on the Swedish heating and plumbing market was reinforced in all customer segments in 2003.*

now served from Linköping.

As part of the harmonisation of operations, identical conditions for product return and transport were adopted throughout the Swedish operations, and Key Account and team organisation were introduced in all customer segments. Onninen also improved its relations with certain key customers from annual contracts towards agreements based on long-term partnership.

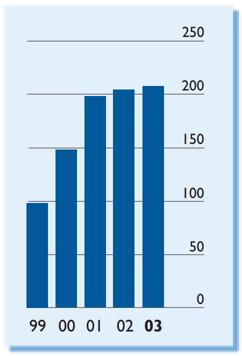
Outlook for 2004

Onninen does not forecast growth in its markets in Sweden in 2004. The company's focus will continue to be on the consolidation of its organisation and business in order to maintain its sales volumes, to increase its service quality, and to improve operational efficiency. ●

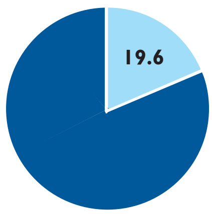
Onninen outlets in Sweden

In the beginning of 2004, Onninen had one or more outlets in the following locations in Sweden: Borås, Falkenberg, Gothenburg, Helsingborg, Karlskoga, Karlstad, Kristianstad, Linköping, Mjölby, Mölndal, Skellefteå, Stockholm, Sundbyberg, Sundsvall, Umeå, Västerås, Växjö and Örebro.

Turnover, EUR million



Share of Group's turnover, %



Onninen Norway

Onninen Norway is the leader in the Norwegian electrical materials market. Onninen in Norway provides its contractor, infrastructure, offshore, industry and retail customers with materials and services, and it offers logistical and other services to suppliers of products and information.

Helge Sæthershagen,
President of Onninen Norway:

"Being part of the Onninen Group has opened up new opportunities for business also in Norway. We are part of an expanding multinational materials services company, with both the capacity and the ability to further develop our operations. This is very important right now, when traditional wholesale business is beginning to change and tomorrow's winners need new capabilities. In the future, availability, lead times and knowledge of both customer and supplier processes will be among the factors of competitive edge. This means that the traditional 'products from places' thinking will be less important. In 2003, we used a lot of time to improve our own processes and competence both in Norway and at the Group level to be able to offer our customers the best possible materials services and our suppliers the best possible distribution services."

In 2003, the total electrical materials market declined by some two per cent in Norway, and Onninen more or less followed this trend. However, the market share of Onninen Norway remained at approximately 29 per cent. Turnover was MEUR 227.7 (MEUR 250.9 in 2002). Net profit reflects the reduced turnover but this was partly compensated for by improved performance on the cost side.

At the end of the year, Onninen had a total of 24 outlets in Norway, including the distribution centre at Gjelleråsen Næringspark near Oslo, and Onninen Norway had 379 employees (383 at the end of 2002).

In the beginning of July, the former name of the company, Eilag Teknikk AS, was officially changed to Onninen AS.

Market leader

The customer segments in Norway include electrical wholesale and other services for contractors, infrastructure and institutions, industry and the offshore sector, and retail.

Onninen held its position in the contractor segment with an approximately 35 per cent market share. The infrastructure segment showed significant growth, while the market position in industry, the offshore sector and retail remained at the same level as in 2002.

Onninen's intent – to be first choice in materials services integration – is interpreted in Norway also by the slogan "Time to Improve". This means that Onninen aims to help both its customers and its suppliers to focus on their core business. Onninen wants to be the partner who offers the best cooperation, both technically and in terms of partnership.

Onninen kept its overall market leadership in the Norwegian electrical market. However, the business environment during 2003 was increasingly competitive, which put considerable pressure on margins.

Changes in strategy and organisation

In 2003, Onninen consolidated its operation in Norway by centralising administrative tasks, establishing a virtual project office, and simplifying the sales organisation. Overall, this led to a much more focused sales force, thus allowing more time

The name of Onninen became better known on the Norwegian electrical market after the Norwegian subsidiary changed its name officially to Onninen in the beginning of July 2003.

to interact with customers.

Since midsummer, Onninen Norway has worked together with Onninen Sweden to merge the sourcing and fulfilment organisations of the two countries. The merger took place at the end of December. Onninen also reorganised infrastructure operations and started cooperation with Onninen Sweden in this segment.

During the year, Onninen opened two new Express outlets in Bergen, one at Åsane and one at Nesstun. During the year, three outlets were closed, one in Sarpsborg, Stavanger and Trondheim. To serve its customers, suppliers and other parties better with information about the company and its products and services, Onninen opened its Norwegian website at www.onninen.no.

As of the beginning of 2004, the new Onninen Norway organisation is based on the following four segments: contractors, infrastructure, industry/offshore and retail, and on a regional organisation with four regions.

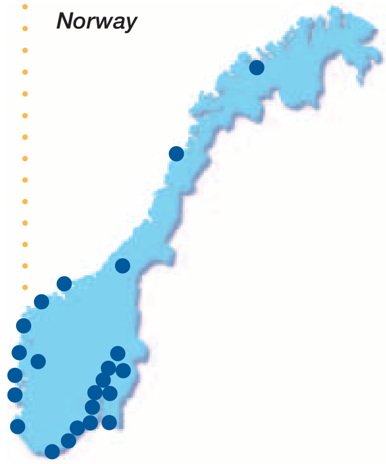
Outlook for 2004

Onninen forecasts no growth in the electrical materials market in Norway in 2004 as compared with 2003. At the same time, the market will continue to change. It is Onninen's goal to help its customers to focus on their core businesses.

Onninen will continue to develop its competence and services to further strengthen its market position in Norway as elsewhere. The company aims to be the best; to have the best competence and systems, and the ongoing ability to meet its customers' needs.

The Norwegian distribution centre near Oslo has the best efficiency figure in the Onninen Group. The picture shows the centre's continuously moving paternoster elevator area.

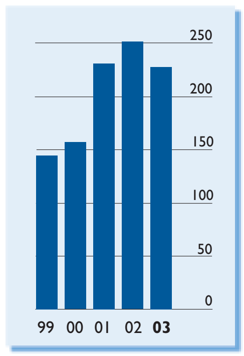
Onninen outlets in Norway



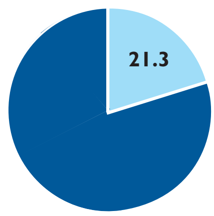
In the beginning of 2004, Onninen had one or more outlets in the following locations in Norway:

Arendal, Bergen, Bodø, Bærum, Bergen, Haugen, Florø, Fredrikstad, Gjelleråsen, Hamar, Haugesund, Kjeller, Kristianstad, Larvik, Odda, Oslo, Porsgrunn, Skien, Stavanger, Stord, Tromsø, Trondheim, Tønsberg and Ålesund.

Turnover, EUR million



Share of Group's turnover, %



Onninen Wholesale International

Onninen Wholesale International is responsible for Onninen's operations in Poland, Russia and the Baltic countries as well as for project exports from Finland to Russia.

Arto Kumpulainen,
President of Onninen Wholesale International:

"In the future, Onninen's growth in its existing markets will be fastest in Poland, Russia and the Baltic countries. We see major opportunities for services expansion both geographically, especially in Russia, and by gaining new business opportunities in Poland, Estonia, Latvia and Lithuania. A lot will happen in the new EU member states, including Poland and all the Baltic countries, during the next few years. There is a need for rapid development in various areas and we have much to offer for the projects that will be started within infrastructure-building, the construction business, and retailing various technology products and materials."

In 2003, the turnover of Onninen Wholesale International increased by 4.8 per cent to MEUR 118.1 million (MEUR 112.7 in 2002). Profitability remained at an unsatisfactory level, mainly due to merger and continuing weak demand in the Polish market.

At the end of the year, Onninen had a total of 42 outlets in Poland, Russia and the Baltic countries, and Onninen Wholesale International had 864 employees (776 at the end of 2002).

Poland

Stabilising operations after the merger

Onninen Sp. z o.o. was established at the end of 2002 as a result of a merger of six companies in Poland owned by Onninen. In 2003, turnover in Poland decreased by 1.6 per cent to MEUR 68.1 (MEUR 69.3 in 2002). Onninen failed to book a net profit in Poland in 2003.

At the end of 2003, Onninen had a total of 32 outlets in Poland, including 10 Express outlets, 20 sales points and the distribution centre, and a total of 594 employees (550 at the end of 2002).

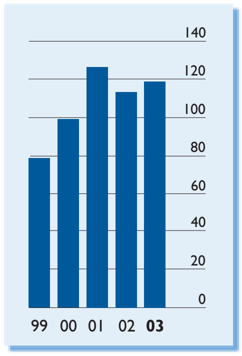
Downturn in the market

In 2003, the downturn in the building services market continued in Poland for the fourth consecutive year, affecting sales to all of Onninen's major customer segments, including installation companies, construction companies and retailers. The Polish marketplace continued to be relatively fragmented. At the same time, competition led to strong pressure on prices.

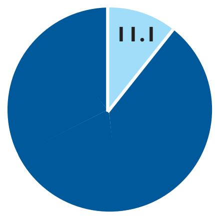
At the end of the year, market statistics suggested that Onninen is the fourth-biggest player in the heating and plumbing product market and in the electricity product market.


The new distribution centre in Lódz, which serves the whole of Poland, was inaugurated in early autumn 2003. It will be fully operational in March 2004.

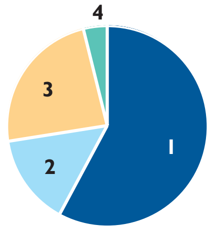
Turnover, EUR million



Share of Group's turnover, %



Distribution of turnover



1 Poland, 58%
2 Russia, 14%
3 The Baltic countries, 24%
4 Project sales, 4%

The new distribution centre in Lódz, which serves the whole of Poland, was inaugurated in early autumn 2003. It will be fully operational in March 2004.

Building presence and image

Onninen continued to build its image with the aim of establishing a solid position as one of Poland's leading wholesale suppliers of high-quality technical products. In June, Onninen and the Swedish company Ahlsell AB made an agreement on a transaction whereby the business interests of Ahlsell's Polish subsidiary Elwar Sp. z o.o. became the property of Onninen from the beginning of July. Elwar's operations were merged with Onninen Sp. z o.o.

Based on the Group intent – to be first choice in materials services integration – Onninen began to change its operating model in Poland from product-orientation towards a customer-focused operating model. Onninen also continued to build and to strengthen the new one-company business structure with centralised administration and management. Onninen's Polish website at www.onninen.pl was opened for customers and information services in July.

During 2003, Onninen completed major changes at a total of three outlets, which were converted into Express outlets according to the Onninen concept, and in its distribution chain in Poland. At the end of the year, a total of six Express outlets served heating, plumbing and electrical contractors offering both HEPAC and electricity products and four served either HEPAC or electrical contractors. In July, a new distribution centre was opened for country-wide operations at Teolin near Lódz, which is geographically in the very centre of the country.

In Warsaw, Onninen opened its new headquarters and an outlet serving both HEPAC and electricity customers. The Express outlet in Czestochowa was relocated. Through the acquisition of Elwar's operations, Onninen acquired two new Express outlets in Warsaw, an Express outlet serving both HEPAC and electricity customers in Lódz, and an Express outlet serving electricity customers in Piaseczno, Grodzisk Mazowiecki and Ozarów Mazowiecki. During the year, Onninen restructured its expanded service chain by closing a total of nine outlets in Poland.

Outlook for 2004

Onninen foresees no significant changes in the size of the technical wholesale market in Poland in 2004. However, the shakeout in the market will continue and Poland's accession to the EU will open up new opportunities for Onninen's information, materials and other services related to infrastructure and other construction. During the year, Onninen will continue to build up its customer relations as well as relations with suppliers and other business partners.

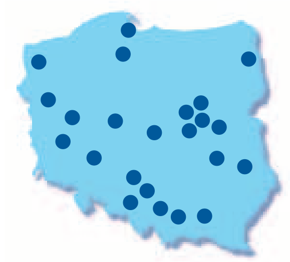
● Competition is hotting up on the Russian market for building materials. Among Onninen's main customer segments are heating & plumbing and electrical contractors, industry, infrastructure and technical product distributors. The photo shows the centre of St Petersburg.

Russia

Expanding and deploying Group concepts

In 2003, turnover in Russia increased by 19.0 per cent to MEUR 17.3 (MEUR 14.6 in

Onninen outlets in Poland



In the beginning of 2004, Onninen had one or more outlets in the following locations in Poland:

Bialystok, Bydgoszcz, Cracow, Czestochowa, Dabrowa, Gdansk, Gliwice, Gorzow, Grodzisk Maz., Katowice, Koszalin, Legnica, Leszno, Lódz, Lubin, Lublin, Opole, Ozarow Maz., Piaseczno, Poznan, Radom, Szczecin, Warsaw and Wroclaw

Onninen outlets in Russia

In the beginning of 2004, Onninen had one or more outlets in the following locations in Russia:

Moscow, St Petersburg (in the picture) and Yekaterinburg that situates approximately 1,400 km east from Moscow.

2002). Profitability remained at a good level.

At the end of 2003, Onninen had five outlets in Russia, including three sales outlets and two distribution centres, with a total of 121 employees (89 at the end of 2002).

Fragmented market

Russia continued to be a fragmented market for Onninen. In 2003, the state of the market was affected to some extent by the opening of some do-it-yourself building supermarkets, especially in the Moscow area. At the same time, the focus of competition was shifting from major cities to the regions, putting some pressure on margins. Onninen succeeded in maintaining its market share in the northwest region and it increased its market share in Moscow.

At the end of 2003, market information suggested that Onninen had slightly increased its overall share of the Russian technical wholesale market.

Building a wider market presence

The main customer segments in Russia continued to consist of heating, plumbing and electrical contractors, industry and retailers. In 2003, strategic developments included changes to the organisational structure as well as regional development of operations. In addition, Onninen implemented a new IT system in Russia and started to plan for the deployment of the Onninen Express concept.

Onninen opened a new outlet in Yekaterinburg, and it found suitable premises for the first two Express outlets, one in Ryazan southeast of Moscow and one in St Petersburg. In Yekaterinburg, key customers now include contractors for both HEPAC and electricity as well as retailers of technical products. In addition, Onninen started a project to move its distribution centre in St Petersburg to new premises.

Outlook for 2004

Onninen's target is to become the supplier of choice for engineering materials for its present customers as well as a growing number of new customers in various parts of Russia.

The Baltic countries

Sales up through organic growth

In 2003, turnover in the Baltic countries increased by 26.1 per cent to MEUR 28.0 (MEUR 22.2 in 2002).

At the end of 2003, Onninen had a total of five outlets in the Baltic countries and a total of 134 employees (120 at the end of 2002).

Profitability remained at approximately the same level as in the previous year.

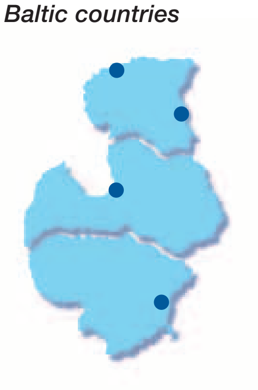
Positive market development

The market in the Baltic countries was positively influenced by the decision taken in each of the countries to join the EU in the beginning of May 2004. Stable growth continued in these economies, with rapid growth in the building sector, especially in Lithuania. The decline in bank interest rates was followed by very rapid growth in housing construction.

Onninen's main customer segments in all Baltic countries include installation companies, resellers and industrial enterprises. Onninen aims to be more than a traditional wholesaler to all of these customer segments. In practice this means, among other things, the ability to offer the best service solutions for each customer segment and a partnership, as well as being an integrating link between customers and suppliers.

The operational organisation for the Baltic countries includes four sales divisions:

Onninen outlets in the Baltic countries



In the beginning of 2004, Onninen had one or more outlets in the following locations in the Baltic countries:

Estonia: Tallinn and Tartu
Latvia: Riga
Lithuania: Vilnius

The Estonian distribution centre's 2.3 hectare plot in Tallinn has 3,200 square metres of heated warehouse space. There are also plenty of products in outdoor storage.

HEP (heating and plumbing), AC (ventilation and refrigeration), EL (electricity) and I&I (industry and infra).

Market share competition

In 2003, bigger companies continued to increase their size while smaller companies lost market share throughout the Baltic region. Companies are now fighting for their position in the future, and expanded market share is the focus of many competitors. With no official statistics available, company statistics suggest that Onninen's market growth exceeded the average rate for the market, increasing its market share in each of the Baltic countries.

At the end of 2003, Onninen had established a position as one of the leading technical wholesale companies in all the Baltic countries – Estonia, Latvia and Lithuania.

Outlook for 2004

Onninen forecasts growth in its sales volumes based on growing market demand, new outlets, and increased sales personnel and customer care. In 2004, Onninen will begin operating in the refrigeration business in Latvia and Lithuania. Onninen also forecasts good opportunities in the industrial sector in Lithuania with increases in both personnel and product sortiment.

Estonia

At the end of 2003, Onninen had three outlets in Estonia, where it had a total of 61 employees (48 in 2002). In 2003, sales personnel were increased in the heating and plumbing, electricity and industry segments.

In June, Onninen opened its third outlet in Estonia in Tallinn. The new outlet is also Onninen's second Express outlet in Estonia.

Onninen has operated in Latvia since 1994. Both construction and renovation are in full swing there. The picture shows the old centre of Riga.

In addition, the Express outlet in Tartu moved into new, larger premises. Introducing the Onninen Express concept in Estonia enhanced the scope for providing customers with fast service and enhanced product visibility.

The most important customer groups in Estonia include installation companies, resellers (especially in the Tartu area), and real estate servicing companies.

Latvia

At the end of 2003, Onninen had one outlet and a total of 37 employees (36 in 2002) in Latvia.

In 2003, Onninen started a project to open a new distribution centre in Riga in May 2004.

Lithuania

At the end of 2003, Onninen had one outlet and employed a total of 36 employees (32 in 2002) in Lithuania.

Onninen succeeded in expanding its customer base in all of its major customer segments in Lithuania during 2003. During the year, competition increased in the heating and plumbing sector, especially for tenders, followed by falling price margins.

Onninen introduced a new IT system in its operations in Lithuania.

Project sales

The Project Sales unit, which is part of the Onninen Wholesale International division, is responsible for Onninen's project sales to Russia. In addition, the unit markets certain solutions, including the OnHeat boiler plant, also in other markets.

In 2003, project sales increased on the previous year, totalling MEUR 4.6. At the end of 2003, the Project Sales unit had six employees (five at the end of 2002).

In 2003, the Project Sales unit's main deliveries included HEPAC and electrical materials to a growing number of customers in various parts of Russia, also now including the Sakhalin region in eastern Russia. Major new projects were started with existing customers, including Quattrogemini. During the year, a total of three boiler plants were delivered to the Chanty Mansien autonomous region of Siberia.

Onninen's Vilnius distribution centre and outlet are serving the whole of Lithuania. There are plans to extend operations to the provinces in the next few years.

ICT

Group ICT - Information and Communication Technology - is one of the five Onninen Group functions. Group ICT has responsibility for the ICT related operations in Finland and for the strategy and development of them for the entire Group.

It is Onninen's intention to adopt a new enterprise resource planning (ERP) system in all Onninen countries by the end of 2006. Many Onninen people took part in defining the OnWay system together with specialists from the partners Oracle and BearingPoint at the project facilities in Sundbyberg near Stockholm.

With the Group intent to be the first choice in materials services integration, Onninen initiated major projects to advance away from traditional thinking focused on wholesale products and prices towards process-based thinking and operation. In January, Onninen started a project to choose its partners to plan for and implement a future Group-wide ERP (Enterprise Resource Planning) system. The goal is to replace the existing ERP systems with a new Group-wide system gradually in all current Onninen countries by the end of 2006.

In October, Onninen and Oracle Finland Oy, a subsidiary of Oracle, signed an agreement for the implementation of OnWay, Onninen's future business development and ERP system. During the OnWay definition and start-up phase, Onninen is also working together with BearingPoint Inc.

Group ICT actively participated in the project to find the future ERP solution for the Onninen Group. The big challenge for the year 2004 is to find the partners needed for hosting the OnWay ERP solution and also to decide on the hardware platform. The first deployment of OnWay will begin in Norway during the first half of 2004.

The OnWay ERP solution is designed to handle business operations, including sales, logistics and purchasing. The solution will enable internet-based functions enhancing capabilities for flexible cooperation within the Group as well as with customers and suppliers in the various countries served by Onninen.

Onninen will connect all the Group's existing data networks to a Group-wide data network with enhanced capacity. A shared network with harmonised IP addresses is a prerequisite for the OnWay centralised ERP solution. With shared data networks and harmonised IP addresses, Onninen will be able to develop both its Group intranet and various extranet services in partnership with customers and suppliers.

During 2003, Group ICT started its regular Managers' Meetings to discuss Group-wide ICT issues. In Finland, Onninen signed a service contract for the outsourcing of basic computer hardware and data service centres to Fujitsu Finland. Onninen also signed a contract with TeliaSonera Group, for its data networks operation in Finland.

In Norway, Onninen made a broad contract with Telenor for data and telecom services as well as basic data technology.

Logistics

Well-functioning logistics is the back-bone of Onninen´s services to its customers and suppliers. For customers, logistical services mean materials availability with a variety of lead time options based on various customer needs. For suppliers, Onninen offers a products and information delivery chain within eight countries.

Traditional wholesale including buying, storing and selling of products continues to be part of the Onninen services. However, the company wants to offer its customers more - best possible solutions for materials services and best possible distribution chain. First class planning and managing of the materials and information flows offers to Onninen´s partners added value to their business operation by decreasing any unnecessary operation and making it possible to avoid partial service optimisation.

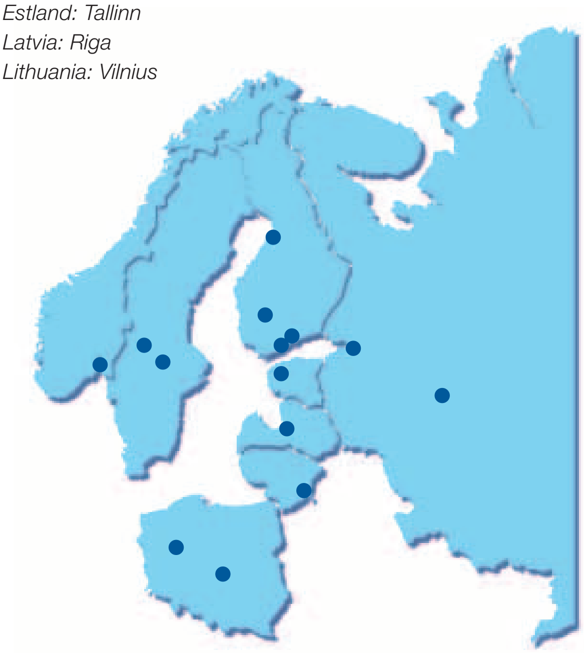
During 2003, Onninen Logistics started to take steps to develop the company´s logistical services from traditional wholesale operations including warehousing and transportation towards wider supply chain management. This means i.e. strengthening process focus, and including purchasing within frame agreement and inventory steering into the logistics process.

To serve both its existing and new customers more efficiently, Onninen opened in Poland a new distribution centre near Lódz with a modern centralised distribution model. A new distribution centre was opened also at Yekaterinburg in Russia. In Finland, distribution centre facilities were expanded at Hyvinkää, and work to develop new customer service concepts was started. In addition, pin-pack operation to serve retail customers was integrated into the logistics chain in Finland. In Sweden, Logistics operation focused in raising the service quality levels.

At the end of 2003, Onninen had a total of 15 distribution centres in eight countries, including five distribution centres that serve as central warehouses and ten regional distribution centres. In addition, Onninen had more than 120 Express and other outlets, which offer a basic product assortment for pick-up and other customers.

Onninen distribution centres

Finland: Hyvinkää, Oulu, Tampere, Vantaa
Sweden: Karlskoga, Örebro
Norway: Gjelleråsen
Poland: Lódz, Poznan
Russia: Moscow, St Petersburg, Yekaterinburg
Estland: Tallinn
Latvia: Riga
Lithuania: Vilnius



Personnel

Onninen´s success is based on skilled personnel constantly developing the company´s operations to meet the customer and supplier expectations in the best possible way.

At the end of 2003, Onninen employed 2 643 people in a total of eight countries (2 592 at the end of 2002).

Learning best Onninen practices

In 2003, Onninen continued to build on the Group-oriented foundation that was laid the previous year. The streamlining of structures continued especially in Sweden and Norway. From the beginning of 2004, Onninen Sweden and Onninen Norway operate with a new organisation and have shared Management Team. Group thinking, the Group theme for 2003, helped in harmonising of operations during the year. The target is to learn across both business and geographical borders and to find and take into use best Onninen practices in all countries.

Onninen realises that it can only achieve its Intent and other goals through good leadership and management, and the commitment of its whole personnel. Leadership and communication in all units is based on mutual openness. Annual development discussions between employees and their superiors as well as yearly opinion surveys are illustrations of this. A clear understanding of individual work goals and areas of responsibility, a well as overall knowledge of Onninen´s development help each employee to feel committed and motivated. In practice this means that the strategy work, as well as setting of targets and actions, must happen in active co-operation with employees. It also means that results must be followed and measured for feed-back and rewards for good performance.

During the year, Onninen continued to offer several training programs and courses to various personnel groups throughout the Group. Special attention was given to the improvement of IT skills.

Each year Onninen holds many briefings and discussion sessions as well as seminars dealing with issues of importance to the entire Group. The photo is from the Group Management Summit seminar in December 2003.

Onninen values

Throughout its history, Onninen´s actions have been based on certain values, including integrity, ethical behaviour, customer care, humility and constant improvement. In 2003, these values were crystallised in a process that was run across the Group.

The Group values can be described as the standards of behaviour expected from all Onninen employees. They motivate and help each employee to commit to their own responsibilities and to the entire working community. The values also help to fulfil Onninen´s social responsibilities in an uncompromisingly ethical manner.

The Group values are: Working together, Respecting People, and Better than before.

Employee satisfaction

Onninen carried out an extensive employee opinion survey in all Group countries during 2003. This exercise, which will take place annually, gives valuable feed-back on how Onninen employees value the company and the way it operates. It also helps to clarify the employees opinion and development suggestions concerning the strengths and weaknesses of the organisation, information and atmosphere at the workplace.

Based on the surveys, the most important strengths in the internal company image at Group level included good flow of information within own unit, acknowledgement of the superiors for work well done, efficiency and quality in operations within own unit and enjoying one´s own work.

Employees also expressed their views on areas in which they look forward to seeing further improvements made. These include need for a better organised and more open internal communications. Employees also suggested that there could be more internal cooperation.

Strengthening internal communications

Onninen´s first Group-level internal newsletter appeared in April 2003, and its following issues in June, September and December. During the year Group Communications also delivered project information about the future Group-level enterprise resource planning (ERP) solution to all Onninen countries. The project newsletters appeared both in English and in various local languages.

During 2003, Onninen opened intranet services in Poland and started to publish a regular internal information bulletin in Russia.

Group-wide cooperation

The people responsible for human resource development in the Onninen Group continued their cooperation that was started in 2002. Certain best-practise-models for HRD were already taken into use, and Onninen made plans to start its first Group-wide e-learning training in 2004. ●

Onninen personnel by country 31. Dec. 2003

Finland	987
Sweden	428
Norway	379
Poland	594
Russia	121
Estonia	61
Latvia	37
Lithuania	36

Onninen values

- *Working together*
- *Respecting People*
- *Better than before*

● *The definition of the new enterprise resource planning system kept a number of Onninen people busy already in 2003. The job continues with the building of the OnWay system and its start-up, beginning in Norway in summer 2004.*

Report by the Board of Directors 1 January – 31 December 2003

Market trend

In Finland, there was a slight overall downturn in the amount of construction output, but this bottomed out towards the autumn. The most upbeat trend was in housing construction and renovation, as a result of which Onninen's contractor customers continued to have a good backlog of orders. The wholesale market for heating and plumbing grew by about 7%, the wholesale market for air conditioning products by some 10% and the electrical wholesale market by roughly 2%. Infrastructural construction was also on the increase. Industrial investment rates continued to be low, causing demand for industrial investment products to continue to be weak. Industrial demand also deteriorated because of a downturn in exporters' competitiveness due to a slide in the value of the dollar.

In Sweden, the market trend was uneven. HEPAC demand grew by roughly 4% on the previous year, but demand for refrigeration products declined by almost 16%. Demand for energy plant products also fell.

In Norway, the overall economic trend continued to be uncertain. Interest rates declined markedly and the Norwegian crown fell in value. There was a further deterioration in the electrical wholesale market. The decline was roughly two per cent.

In Poland, the market for building services continued to decline. However, the overall economic trend went into a slight rise, which over a period will have a stimulating effect on construction. In Russia, economic growth continued and demand for building services products remained good. The market also continued to take a healthy track in the Baltic countries, and demand for building services products grew. Growth was particularly brisk in Lithuania.

Events in the financial year

At the beginning of the year, a project was initiated to select a Group-wide enterprise resource planning (ERP) system. In the course of the project, the need for upgrades in the Group's data systems over the next few years was checked out thoroughly, as were the products of the main suppliers and the applicability of these to Onninen's current and future business requirements. After negotiations, a contract for the supply of a system was signed in the autumn with Oracle Finland Oy. Oracle's partner in the system specification and start-up phase will be BearingPoint Inc. The ERP system specification project, dubbed OnWay, got started in mid-September. The aim is to put the system into operation in autumn 2004, at first in Norway. The goal is to have the new system running in all Onninen countries by the end of 2006.

In Finland, Onninen made a contract with Fujitsu Services Oy for outsourcing computer technology and related operation and management services. As a result of the contract, twelve people became employees of Fujitsu.

In June, Onninen made a contract with Algol for the acquisition of commercial steel business interests. The deal substantially increased Onninen's range of steel products. The annual turnover of the business acquired is in excess of MEUR 15, and the number of employees transferred to Onninen was 24. The transfer to Onninen took place on 22 September 2003. The business is part of the Industry unit.

In Sweden, a decision was made to reorganise electrical wholesale. Electrical wholesale as an independent SBU was terminated and sales of electrical installation products was transferred to other SBUs. The decision reduced the number of employees by 22.

A new Express outlet was started in Umeå. The Sundsvall outlet moved into new premises. The outlets in Värnamo and Norrköping were closed and their customers are now served from Växjö and Linköping.

The President of the Swedish subsidiary changed in June. In September, operations in Sweden and Norway were reorganised. Norwegian and Swedish operations now have a joint Management Team, sales and finance administration are country-specific and the management for purchasing and logistics is shared. These actions are intended to cut down on duplicated effort and to make control of operations more efficient. The organisation within both countries was streamlined by merging a greater number of functions. This resulted in a reduction in the number of personnel, particularly in Sweden.

In Norway, the Express network was expanded with the opening of two new outlets in Bergen and outlets in Åsane and Nesstun. The small Express outlets in Trondheim, Stavanger and Sarpsborg, which were near to other outlets, were closed.

In Poland, Onninen acquired the business interests of Ahlsell AB's subsidiary Elwar Sp. z o.o. Elwar's annual turnover had been in the region of MEUR 9. Elwar's nine outlets and roughly 70 employees were transferred to Onninen on 1 July 2003. Elwar's operations have been merged into those of Onninen Sp. z o.o.

Two new outlets were opened in Poland, one in Warsaw and the other in Lódz. The Czestochowa outlet moved into new premises. During the year, three of the outlets transferred from Elwar and six other outlets were closed.

Progress was made in expanding the outlets' array of products to include both electrical and heating and plumbing products as well as in converting outlets to match the Express concept. At the end of the year, ten out of a total of thirty sales outlets had been converted to the Onninen Express concept.

In Lódz, a new distribution centre was completed in the autumn. The gradual introduction of this has proceeded according to plan, and the new distribution centre will be fully in play by March 2004.

In Russia, a new outlet was opened in Yekaterinburg in September. A decision was also made to open Express outlets in Ryazan and St Petersburg in the first half of 2004.

In Estonia, a new Express outlet was opened in Tallinn, and the Tartu outlet moved into new premises. In Latvia, a lease was signed on a new distribution centre in Riga and construction work on this was started.

Group structure

Eilag Teknikk AS, which was acquired in 2002, changed its name to Onninen AS on 1 July 2003. The company has a wholly owned subsidiary, Sörmaskin SWT AS.

The Polish company Glob96 S.A., whose business operations were wound up in December 2002, was merged with Onninen Oy's wholly owned company Onninen Sp. z o.o.

Onninen Oy's other wholly owned, operational subsidiaries are Onninen AB in Sweden, OOO Onninen in Russia, AS Onninen in Estonia, SIA Onninen LAT in Latvia, and UAB Onninen LIT in Lithuania.

Turnover

The Group's turnover was MEUR 1,066.4 (MEUR 930.3 in 2002). Turnover grew 14.6%. The increase was primarily due to the inclusion of Onninen's Norwegian operation in the figures for 2002 only from 1 July 2002.

Onninen Finland's turnover expanded by 5.6% and was MEUR 511.8 (MEUR 484.6 in 2002).

Onninen Sweden's turnover expanded by 3.7% and was MEUR 208.8 (MEUR 201.4 in 2002).

Onninen Norway's turnover was MEUR 227.7, which is 9.3% lower than its whole-year turnover for 2002 (MEUR 250.9 in 2002).

Onninen Wholesale International's turnover expanded by 4.8% and was MEUR 118.1 (MEUR 112.7 in 2002). Turnover grew in Russia and all the Baltic countries. In Poland, turnover declined by 1.6%.

For the first time, international operations accounted for more than half of the Group's turnover. International operations accounted for 52.0% (47.9% in 2002).

Financial result

The Group's operating profit was MEUR 17.9 (MEUR 14.7 in 2002). Operating profit relative to turnover was 1.7% (1.6% in 2002). In the financial statements, the remaining goodwill and consolidated goodwill related to the Polish operation, totalling MEUR 5.5, has been booked as an expense in its entirety. An accelerated depreciation of MEUR 3.5 has been applied to the Polish operation's goodwill depreciation from the previous depreciation plan. The Group's earnings before interest, taxes and amortisation of goodwill (EBITA) was MEUR 28.1 (MEUR 19.8 in 2002). In proportion to turnover, this was 2.6% (2.1% in 2002).

Profit before taxes was MEUR 12.2 (MEUR 11.5 in 2002). Profit after taxes was MEUR 9.2 (MEUR 5.5 in 2002). Return on investment was 8.1% (8.8% in 2002).

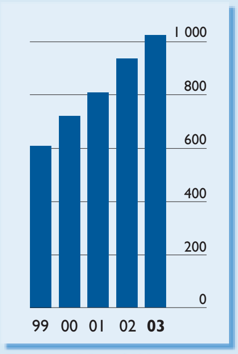
Onninen Finland continued to post good results. This was influenced by a favourable level of demand and by keeping costs to the previous year's level.

Onninen Sweden's results were an improvement on the previous year's, but it still posted a net loss. The principal reasons for this were the costs of winding up business operations and the additional costs of reorganisation.

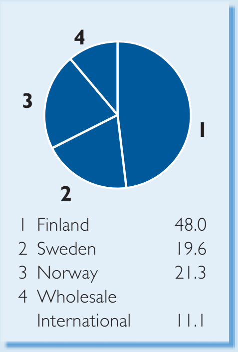
Onninen Norway's results were slightly down on the previous year's figure. Cost-cutting made it possible partly to compensate for the effect of lower demand.

Onninen Wholesale International's results were on a par with the previous year's, and it again posted a net loss. A drag on profits

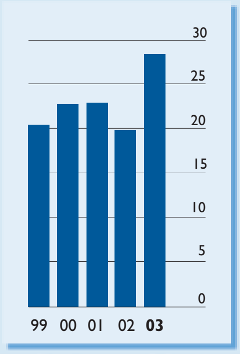
Turnover, EUR million



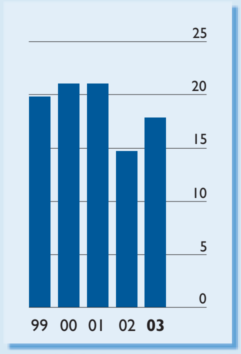
Distribution of turnover, %



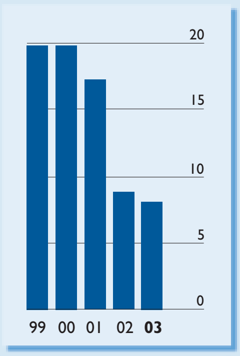
Earnings before interest, taxes and amortisation of goodwill (EBITA), EUR million



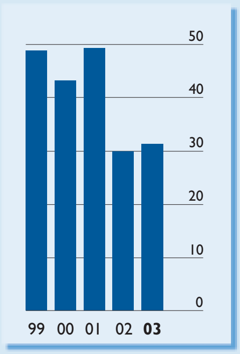
Operating profit, EUR million



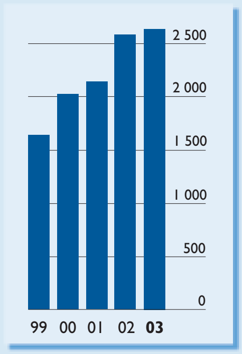
Return on investment, %



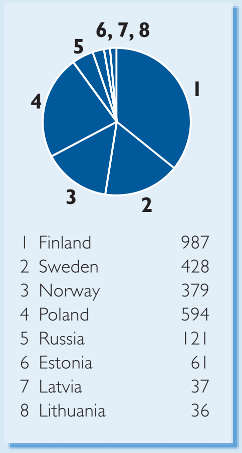
Equity ratio, %



Personnel at end of year



Personnel by country at end of year



Report by the Board of Directors

was exerted in particular by the continuing weak state of the Polish market and by the restructuring measures effected.

Finances

The Group's equity ratio was 31.5% (29.2% in 2002). Net financing expenses were MEUR 5.7 (MEUR 3.2 in 2002). The total of interest-bearing liabilities was MEUR 127.9, a decrease during the year of MEUR 16.0.

The increase in interest expenses is due to the fact that the financing expenses for the acquisition of the Norwegian operation affected the figures for 2002 only from the end of September.

In 2003, the cash flow from business activities was good in Finland, Sweden and Norway. Bank loans were repaid ahead of schedule in both Sweden and Norway. A new bank loan was taken for the Polish subsidiary.

Of the Group's interest-bearing liabilities, MEUR 36.1 is internal financing by the Onvest Group and MEUR 91.8 is non-Group financing from banks. The terms of the Onvest Group's financing are market-based. The interest rate of Group loans is based on the Euribor rate plus an agreed margin. Correspondingly, agreement has been reached on the interest paid on Onvest Oy's Group deposits.

Onninen Oy's loans are denominated in euros. The foreign subsidiaries' loans have mostly been taken in local currency. Of the Group's loans, 53.9% were taken in Norwegian currency, 23.1% in euros, 18.1% in Swedish and 4.9% in Polish currency.

Investments

The Group's investments were MEUR 5.6 (MEUR 7.2 in 2002 net of the Eilag Teknikk AS acquisition). The main investments were computer software and hardware, and fittings for warehouses and cash-and-carry outlets.

Premises

The Group companies operate mainly in rented premises. The Onninen Group owns only four buildings. These are outside Finland and have mostly come into the possession of the Group through corporate acquisitions.

Most of the premises used by Onninen in Finland have been leased from Onvest Oy. In Sweden, Onninen AB has leased the distribution centre building in Örebro from Onvest Sverige. In Poland a new distribution centre building, owned by Onvest Polska, was completed for the use of Onninen Sp. z o.o. The Onvest Polska-owned distribution centre building in Poznan formerly used by Onninen will no longer be needed in spring 2004 and efforts are being made to find a new user for it.

The leases with Onvest are market-based and 3-10 years in duration.

In Norway, the lease on the distribution centre and office premises in Gjelleråsen which was made as part of the acquisition of the shares in Onninen AS, lasts until 2007 and the lease on nine warehouse and office facilities in various parts of Norway lasts until 2014. The other business premises in Finland and abroad have been leased from non-Group parties on normal lease agreements of different durations.

Personnel

At year-end, the Group had 2,643 employees, an increase of 51 since the beginning of the year. The number of personnel in Finland was 987, in Sweden 428, in Norway 379 and in Poland, Russia and the Baltic countries a total of 849.

The Group's personnel averaged 2,616 (2,416) and the parent company had an average of 991 (1,021) employees.

Corporate governance

The Chairman of the company's Board of Directors is Maarit Toivanen-Koivisto. The other members of the Board are Tapio Hintikka, Eero Eloranta and Karsten Slotte.

The company's President and CEO is Petteri Walldén, M.Sc. (Eng.).

The company's auditors are Göran Lindell, Authorised Public Accountant, and PricewaterhouseCoopers Oy, an APA firm, whose designated auditor in charge is Kaija Leppinen, APA.

Share capital and shareholders

Onninen Oy's share capital is MEUR 20.0. The company has 10,000,000 shares, all of which are held by Onvest Oy.

Outlook for 2004

Forecasts of growth in construction volume in Finland are cautious. However, the prospects are good for housing construction. Demand for infrastructural products is estimated to remain good and demand for industrial products is expected to pick up markedly.

In Sweden and Norway, the construction market is expected to hold more or less steady on the level of the previous year. Growth in demand is not expected in the sectors of products and services provided by Onninen.

In Poland, the economy has bottomed out after a prolonged downswing. The rise is expected to continue, influenced by Poland's accession to the EU in May. The more favourable trend is expected to have a gradual effect also in the form of greater activity in construction.

EU membership will have a stimulating effect on the economies of the Baltic countries, which are expected to continue to grow in 2004. The economic trend in Russia is also forecast to continue to be favourable and the relatively strong growth is expected to continue.

Onninen forecasts that its turnover will grow particularly in Poland, the Baltic countries and Russia. This will be influenced by the favourable trend in the market combined with the expansion of the Group's network of outlets. The growth targets in Sweden and Norway are very modest. Some growth is expected in the turnover of Finnish operations, mainly due to brisker demand for the products of the steel business interests acquired from Algol in September 2003 and for industrial products.

The entire Group's turnover is forecast to grow by approximately 5%. The Group's net profit is expected to improve.

Consolidated Profit and Loss Account

EUR million	Note		Jan. 1– Dec.31, 2003	%		Jan. 1– Dec.31, 2002	%
TURNOVER	2. 1.		**1,066.4**	**100.0**		930.3	100.0
Other operating income			**1.1**			0.1	
Materials and services	2. 2.		**853.9**			751.6	
Personnel expenses	2. 3.		**89.6**			78.9	
Depreciation			**17.2**			11.2	
Other operating expenses	2. 4.		**88.9**			74.0	
OPERATING PROFIT			**17.9**	**1.7**		14.7	1.6
Financial income and expenses:	2. 5.						
Interest and similar income							
From Group companies		**0.2**					
From others		**1.2**			1.6		
Interest and similar expenses							
To Group companies		**–1.2**			–0.4		
To others		**–5.9**	**–5.7**		–4.4	–3.2	
PROFIT BEFORE TAXES			**12.2**	**1.1**		11.5	1.2
Direct taxes	2. 7.		**–3.0**			–6..0	
GROUP PROFIT FOR THE YEAR			**9.2**	**0.9**		5.5	0.6

Consolidated Balance Sheet

EUR million	Note	Dec. 31. 2003		Dec. 31. 2002	
ASSETS					
FIXED AND OTHER LONG-TERM ASSETS	3. 1.				
Intangible assets					
Intangible rights		**0.7**		1.0	
Goodwill		**0.2**		1.5	
Group goodwill		**34.3**		48.7	
Other long-term assets		**3.8**		2.3	
Investments in progress		**0.6**	**39.6**		53.5
Tangible assets					
Land		**0.8**		0.7	
Buildings		**3.5**		3.7	
Machinery and equipment		**12.4**	**16.7**	17.4	21.8
Financial investments					
Other shares and holdings			**0.8**		0.9
CURRENT ASSETS					
Inventories					
Goods in stock			**122.6**		118.1
Receivables	3. 2.				
Long-term					
Loans receivable			**3.3**		3.3
Deferred tax receivable			**1.7**		3.2
Short-term					
Accounts receivable		**103.7**		104.6	
Receivables from Group companies		**8.2**		3.2	
Loans receivable		**0.4**		0.1	
Other receivables		**4.3**		3.9	
Deferred receivables		**20.8**	**137.4**	20.5	132.3
Cash and bank deposits			**12.1**		9.7
			334.2		342.8

EUR million	Note	**Dec. 31. 2003**		Dec. 31. 2002	
SHAREHOLDERS' EQUITY AND LIABILITIES					
SHAREHOLDERS' EQUITY	3. 3.				
Share capital		**20.0**		20.0	
Share premium account		**35.1**		35.1	
Other reserves		**0.2**		0.2	
Retained earnings		**40.4**		38.8	
Profit for the year		**9.2**	**104.9**	5.5	99.6
PROVISIONS	3. 4.		**0.3**		0.3
LIABILITIES	3. 5.				
Deferred tax liability			**0.3**		0.4
Long-term liabilities					
Loans from financial institutions		**76.9**		90.5	
Payables to Group companies		**36.1**		33.0	
Other long-term liabilities		**9.1**	**122.1**	7.8	131.3
Short-term liabilities	3. 6.				
Loans from financial institutions		**6.3**		13.2	
Advances received		**0.6**		1.4	
Accounts payable		**69.7**		67.0	
Payables to Group companies		**0.0**		0.1	
Other short-term liabilities		**11.3**		9.0	
Deferred payables		**18.7**	**106.6**	20.5	111.2
			334.2		342.8

Cash Flow Statements

	GROUP		PARENT COMPANY	
EUR million	2003	2002	2003	2002
CASH FLOW FROM OPERATIONS				
Operating profit	17.9	14.7	22.5	18.7
Depreciation	17.2	11.2	2.6	2.7
Other adjustments	–0.1	–0.1	–0.1	–0.1
Cash flow before change in working capital	35.0	25.8	25.0	21.3
Change in working capital:				
Change in non-interest-bearing receivables	–3.4	–43.9	–2.9	–3.9
Change in inventories	–9.5	–33.1	–8.1	–3.4
Change in non-interest-bearing liabilities	6.1	24.1	–2.0	4.1
Cash flow before financial items and taxes	28.2	–27.1	12.0	18.1
Cash flow from financial expenses	–6.2	–4.9	–0.9	–0.4
Dividends received	0.0	0.0	0.0	0.4
Cash flow from financial income	1.5	1.5	0.7	0.9
Tax payments	–6.4	–6.8	–6.1	–5.8
TOTAL CASH FLOW FROM OPERATIONS (A)	17.1	–37.3	5.7	13.2
CASH FLOW FROM INVESTMENTS				
Fixed asset investments	–4.8	–63.0	–1.2	–36.2
Sales in fixed assets	0.6	0.8	0.1	0.2
Change in loans receivable	–5.6	–5.9	–7.2	0.6
Change in minority interest		–3.3		
TOTAL CASH FLOW FROM INVESTMENTS (B)	–9.8	–71.4	–8.3	–35.4
CASH FLOW FROM FINANCING				
Change in short-term loans	–6.0	–0.6	0.0	–4.8
Change in long-term loans	2.2	117.4	3.1	26.4
Dividends paid to minority		–0.1		
Others	–1.1	–1.5		
TOTAL CASH FLOW FROM FINANCING (C)	–4.9	115.2	3.1	21.6
CHANGE IN LIQUID FUNDS (A+B+C)	2.4	6.5	0.5	-0.6
Liquid funds Jan. 1	9.7	3.2	0.5	1.1
Liquid funds Dec. 31	12.1	9.7	1.0	0.5

Parent Company Profit and Loss Account

EUR million	Note		Jan. 1– Dec.31. 2003	%		Jan. 1– Dec.31. 2002	%
TURNOVER	2. 1.		**530.2**	**100.0**		502.6	100.0
Other operating income			**0.1**			0.1	
Materials and services	2. 2.		**431.6**			411.2	
Personnel expenses	2. 3.		**39.2**			39.0	
Depreciation			**2.6**			2.7	
Other operating expenses	2 .4.		**34.4**			31.1	
OPERATING PROFIT			**22.5**	**4.2**		18.7	3.7
Financial income and expenses:	2. 5.						
Income from financial investments							
from Group companies						0.4	
Interest and similar income							
From Group companies		**0.2**			0.1		
From others		**0.4**			0.6		
Write-down of financial investments		**–16.9**					
Interest and similar expences							
To Group companies		**–0.9**			–0.3		
To others		**–0.1**	**–17.3**		–0.1	0.7	
PROFIT BEFORE APPROPRIATIONS AND TAXES			**5.2**	**1.0**		19.4	3.9
Appropriations	2. 6.		**0.5**			0.6	
Direct taxes	2. 7.		**–1.8**			–6.0	
PROFIT FOR THE YEAR			**3.9**	**0.7**		14.0	2.8

Parent Company Balance Sheet

EUR million	Note	Dec. 31. 2003		Dec. 31. 2002	
ASSETS					
FIXED AND OTHER LONG-TERM ASSETS	3. 1.				
Intangible assets					
Intangible rights		**0.7**		0.9	
Other long-term assets		**0.6**		1.1	
Investments in progress		**0.5**	**1.8**		2.0
Tangible assets					
Buildings		**0.2**		0.1	
Machinery and equipment		**4.4**	**4.6**	4.9	5.0
Financial investments					
Shares in Group companies		**51.3**		69.0	
Other shares and holdings		**0.1**	**51.4**	0.2	69.2
CURRENT ASSETS					
Inventories					
Goods in stock			**60.1**		52.0
Receivables	3. 2.				
Long-term					
Receivables from Group companies		**1.6**			
Loans receivable		**0.0**	**1.6**	0.0	0.0
Short-term					
Accounts receivable		**38.2**		34.1	
Receivables from Group companies		**14.3**		6.0	
Loans receivable				0.0	
Other receivables		**2.3**		2.1	
Deferred receivables		**7.4**	**62.2**	7.3	49.5
Cash and bank deposits			**1.0**		0.5
			182.7		178.2

EUR million	Note	Dec. 31. 2003		Dec. 31. 2002	
SHAREHOLDERS' EQUITY AND LIABILITIES					
SHAREHOLDERS' EQUITY	3. 3.				
Share capital		**20.0**		20.0	
Share premium account		**35.1**		35.1	
Retained earnings		**52.8**		38.8	
Profit for the year		**3.9**	**111.8**	14.0	107.9
ACCUMULATED EXCESS					
DEPRECIATION			**0.9**		1.4
PROVISIONS	3. 4.		**0.3**		0.3
LIABILITIES	3. 5.				
Long-term liabilities					
Payables to Group companies		**29.5**		26.4	
Other long-term liabilities		**0.5**	**30.0**	0.5	26.9
Short-term liabilities	3. 6.				
Advances received		**0.0**		0.9	
Accounts payable		**23.9**		23.5	
Payables to Group companies		**0.3**		0.2	
Other short-term liabilities		**7.3**		7.2	
Deferred payables		**8.2**	**39.7**	9.9	41.7
			182.7		178.2

Notes to the Financial Statements

1. NOTES TO THE FINANCIAL STATEMENTS

1.1. Introduction

The company belongs to the Onvest Group. The Onvest Group's parent company is Onvest Oy, domiciled in Helsinki. A copy of the Onvest Group's consolidated financial statements is available at the Onvest Group's head office, Mittalinja 1, FIN-01260 Vantaa.

1.2. Valuation policies

1.2.1. Valuation of fixed assets

Fixed assets have been capitalised at the immediate acquisition cost. Depreciation according to plan is based on the economic life of the asset and has been calculated using the straight-line method.

Depreciation periods:

Intangible rights	5 years
Goodwill	5 years
Group goodwill	5–10 years
Other long-term expenditure	3–5 years
Buildings	10–25 years
Machinery and equipment	3–12 years

1.2.2. Valuation of inventories

Inventories have been valued on the FIFO principle at the acquisition cost or the repurchase price or probable selling price, whichever is the lower.

1.2.3. Accrual of pension expenses

Pension expenses have been presented in accordance with local legislation in each country. Insurance has been arranged with pension insurance companies. Direct liabilities for pensions are included in the liabilities in the balance sheet.

1.3. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

1.4. Consolidated financial statements

The consolidated financial statements have been prepared according to the acquisition cost method. The consolidated financial statements include the parent company and all its subsidiaries.

The difference between the acquisition cost of subsidiaries and the acquired holding in shareholders' equity is presented as Group goodwill.

Internal Group transactions, margins, receivables and debts have been eliminated

The financial statements of the foreign subsidiaries have been translated and grouped to meet the requirements of Finnish accounting legislation. The profit and loss accounts of foreign subsidiaries have been translated into euros at the average for the financial year. The balance sheets have been translated at the year-end rate. The translation adjustments arising from this, like the translation adjustments arising from shareholders' equity, are presented in the item for retained profits from previous years.

1.5. Deferred tax assets and liabilities

In the consolidated financial statements, the accumulated depreciation difference has been divided between deferred tax and shareholders' equity.

There are no deferred tax liabilities due to matching differences. Tax assets arising from matching differences have been included as deferred tax assets. Those tax assets arising from tax losses which are not considered likely to fall due in the next few years have not been included.

1.6. Group's cash flow statement

There is a change in presentation of exchange differences in the cash flow statement.

Exchange differences arising from translation of each item in the cash flow statement are included in the respective item. Comparative figures have been adjusted to conform with the change in presentation in the current year.

2. NOTES TO THE PROFIT AND LOSS ACCOUNT (EUR million)

	GROUP		PARENT COMPANY	
	2003	2002	**2003**	2002
2.1. Turnover				
Turnover total	**1,066.4**	930.3	**530.2**	502.6
Sales to Group companies	**10.1**	8.9	**23.1**	23.4
Turnover by divisions				
Onninen Finland	**511.8**	484.6	**511.8**	484.6
Onninen Sweden	**208.8**	201.4		
Onninen Norway	**227.7**	131.6		
Onninen Wholesale International	**118.1**	112.7	**4.6**	3.0
Intra-Group sales			**13.8**	15.0
	1,066.4	930.3	**530.2**	502.6
2.2. Materials and services				
Materials				
Purchases during the year	**863.4**	757.9	**439.6**	414.6
Change in inventories	**–9.5**	–6.3	**–8.0**	–3.4
	853.9	751.6	**431.6**	411.2
2.3. Personnel expenses and average personnel				
Personnel expenses				
Wages and salaries	**70.5**	59.8	**32.1**	31.6
Pension expenses	**8.7**	8.5	**5.4**	5.6
Other personnel expenses	**10.4**	10.6	**1.7**	1.8
	89.6	78.9	**39.2**	39.0
Salaries and bonuses to the Managing Directors and Board Members	**0.7**	1.4	**0.3**	0.3
Average personnel				
Finland	**991**	1,021	**991**	1,004
Sweden	**446**	432		
Norway	**386**	208		
Wholesale International countries	**793**	755		
	2,616	2,416	**991**	1,021
Personnel at year-end				
Finland	**987**	1,006	**987**	989
Sweden	**428**	444		
Norway	**379**	383		
Wholesale International countries	**849**	759		
	2,643	2,592	**987**	1,006

Notes to the Financial Statements

	GROUP 2003	GROUP 2002	PARENT COMPANY 2003	PARENT COMPANY 2002
2.4. Other operating expenses				
Property-related costs	**21.6**	17.7	**8.2**	7.7
Delivery and transport costs	**29.2**	23.9	**9.4**	8.3
Administrative expenses	**22.5**	18.1	**9.8**	8.1
Other operating expenses	**15.6**	14.3	**7.0**	7.0
	88.9	74.0	**34.4**	31.1
2.5. Financial income and expenses				
Interest and similar income from others				
includes exchange rate gains (net)				0.1
Interest and similar expenses to others				
includes exchange rate losses (net)	**–0.2**	–0.0	**–0.1**	
2.6. Appropriations				
Excess depreciation (tax-based depreciation – planned depreciation)			**0.5**	0.6
2.7. Direct taxes				
Coprorate income tax	**–2.1**	–6.7	**–1.8**	–6.0
Change in deferred tax liability	**–0.9**	0.7		
	–3.0	-6.0	**–1.8**	–6.0

3. NOTES TO THE BALANCE SHEET (EUR million)

3.1. Fixed and other long-term assets

Group	Intangible assets: Intangible rights	Intangible assets: Goodwill	Group goodwill	Other long-term assets	Investments in progress	Total
Acquisition cost Jan. 1, 2003	2.1	4.6	55.4	3.8		65.9
Currency-related conversions	–0.0	–0.2	–5.1	0.2		–5.1
Increase	0.2			0.7	0.6	1.5
Decrease	–0.2	–0.0	–0.8	–0.2	–0.2	–1.4
Transfers between items				2.9	0.2	3.1
Acquisition cost Dec. 31, 2003	2.1	4.4	49.5	7.4	0.6	64.0
Accumulated depreciation Jan. 1, 2003	1.1	3.1	6.7	1.5		12.4
Currency-related conversions	–0.0	–0.1	–0.5	–0.1		–0.7
Accumulated depreciation on deductions and transfers	–0.1			0.8		0.7
Depreciation from the period	0.4	1.2	9.0	1.4		12.0
Accumulated depreciation Dec. 31, 2003	1.4	4.2	15.2	3.6		24.4
Book value Dec. 31, 2003	0.7	0.2	34.3	3.8	0.6	39.6

Group	Land	Tangible assets Buildings	Machinery and equipment	Total
Acquisition cost Jan. 1, 2003	0.7	4.3	38.3	43.3
Currency-related conversions	0.0	–0.1	–1.5	–1.6
Increase		0.2	3.8	4.0
Decrease		–0.0	–2.8	–2.8
Transfer between items	0.1	0.0	–3.2	–3.1
Acquisition cost Dec. 31, 2003	0.8	4.4	34.6	39.8
Accumulated depreciation Jan. 1, 2003		0.6	20.9	21.5
Currency-related conversions		0.0	–0.4	–0.4
Accumulated depreciation on deductions and transfers		–0.0	–3.2	–3.2
Depreciation from the period		0.3	4.9	5.2
Accumulated depreciation Dec. 31, 2003		0.9	22.2	23.1
Book value Dec. 31, 2003	0.8	3.5	12.4	16.7

Parent company	Intangible assets Intangible rights	Other long-term assets	Investments in progress	Total	Tangible assets Buildings	Machinery and equipment	Total
Acquisition cost Jan. 1, 2003	1.4	2.2		3.6		17.6	17.6
Increase	0.2	0.0	0.5	0.7	0.1	1.2	1.3
Decrease	–0.0	–0.0		0.0		–1.9	–1.9
Transfers between items		–0.1		–0.1	0.2		0.2
Acquisition cost Dec. 31, 2003	1.6	2.1	0.5	4.2	0.3	16.9	17.2
Accumulated depreciation Jan. 1, 2003	0.5	1.1		1.6		12.6	12.6
Accumulated depreciation on deductions and transfers	–0.0	–0.0		0.0	0.0	–1.9	–1.9
Depreciation from the period	0.4	0.4		0.8	0.1	1.8	1.9
Accumulated depreciation Dec. 31, 2003	0.9	1.5	0.0	2.4	0.1	12.5	12.6
Book value Dec. 31, 2003	0.7	0.6	0.5	1.8	0.2	4.4	4.6

Financial investments

Group	Other shares and holdings Shares in affiliated companies	Other shares and holdings	Total
Acquisition cost Jan. 1, 2003	0.6	0.3	0.9
Currency-related conversions	–0.1	–0.0	–0.1
Increase	0.1	0.0	0.1
Decrease	–0.0	–0.1	–0.1
Acquisition cost Dec. 31, 2003	0.6	0.2	0.8
Book value Dec. 31, 2003	0.6	0.2	0.8

Notes to the Financial Statements

Parent company	Shares in group companies	Other shares and holdings Shares in affiliated companies	Other shares and holdings	Total
Acquisition cost Jan. 1, 2003	69.0	0.0	0.2	0.2
Increase				0.0
Decrease	-0.8		-0.1	-0.1
Acquisition cost Dec. 31, 2003	68.2	0.0	0.1	0.1
Write-downs	16.9			
Accumulated depreciation Dec. 31, 2003	16.9			
Book value Dec. 31, 2003	51.3	0.0	0.1	0.1

	Group's holdings %	Parent company's holdings %
Group companies		
Onninen AB, Örebro	100.0	100.0
AS Onninen, Tallinn	100.0	100.0
OOO Onninen, S:t Petersburg	100.0	100.0
SIA Onninen LAT, Riga	100.0	100.0
UAB Onninen LIT, Vilnius	100.0	100.0
Onninen Sp. z o.o., Warsaw	100.0	100.0
Onninen AS, Nittedal	100.0	100.0
Eilag Teknikk AS, Nittedal	100.0	
Sörmaskin SWT AS, Kristiansand	100.0	
Dormant companies	100.0	100.0
Affiliated companies		
Suomen LVIS-tietoverkko Oy, Helsinki	20.0	20.0
Dyrud Elektro AS, Seljord	34.0	
Eltron AS, Tynset	34.0	

All associated companies outside Finland have been consolidated using the equity method. Financial income includes EUR 0,1 million as the share in associated companies' profits. The effect of the associated companies owned by the parent company on the Group's net profit and shareholders' equity is so small that it has not been included in the consolidated profit and loss account and balance sheet.

	GROUP		PARENT COMPANY	
	2003	2002	**2003**	2002
3.2. Receivables				
Long-term receivables				
Receivables from Group companies				
Loans receivable			**1.6**	
Deferred tax receivable				
From allocations	**1.7**	3.2		
Short-term receivables				
Receivables from Group companies				
Accounts receivable	**0.7**	0.6	**5.7**	3.1
Loans receivable	**7.5**	2.6	**8.6**	2.9
	8.2	3.2	**14.3**	6.0
Deferred receivables				
Annual discount receivables	**14.0**	18.2	**2.9**	6.8
Tax receivable	**4.2**		**4.2**	
Others	**2.6**	2.3	**0.3**	0.5
	20.8	20.5	**7.4**	7.3

	GROUP		PARENT COMPANY	
	2003	2002	**2003**	2002
3.3. Shareholders' equity				
Share capital Jan. 1	**20.0**	20.0	**20.0**	20.0
Share capital Dec. 31	**20.0**	20.0	**20.0**	20.0
Share premium account Jan. 1	**35.1**	35.1	**35.1**	35.1
Share premium account Dec. 31	**35.1**	35.1	**35.1**	35.1
Other reserves Jan. 1	**0.2**	0.3		
Retained earnings transfer to other reserves		–0.1		
Exchange difference	**–0.0**	0.0		
Other reserves Dec. 31	**0.2**	0.2		
Retained earnings Jan. 1	**44.3**	40.3	**52.8**	38.8
Transfer of profit to other reserves		0.1		
Dividends paid		–0.1		
Conversions and other adjustments	**–3.9**	–1.5		
Retained earnings Dec. 31	**40.4**	38.8	**52.8**	38.8
Profit for the year	**9.2**	5.5	**3.9**	14.0
Shareholders' equity total	**104.9**	99.6	**111.8**	107.9
Distributable earnings				
Retained earnings	**40.4**	38.8	**52.8**	38.8
Profit for the year	**9.2**	5.5	**3.9**	14.0
Share of accumulated excess depreciation held in equity account	**–0.6**	–1.0		
	49.0	43.3	**56.7**	52.8

Notes to the Financial Statements

	GROUP 2003	GROUP 2002	PARENT COMPANY 2003	PARENT COMPANY 2002
3.4. Provisions	**0.3**	0.3	**0.3**	0.3
3.5. Long-term liabilities				
Deferred tax liability				
From appropriations	**0.3**	0.4		
Payables to Group companies				
Long-term liabilities	**36.1**	33.0	**29.5**	26.4
Liabilities due after five years or longer				
Other long-term liabilities	**0.3**	0.3	**0.3**	0.3
3.6. Short-term liabilities				
Payables to Group companies				
Accounts payable	**0.0**	0.1	**0.2**	0.1
Other short-term liabilities			**0.1**	0.1
	0.0	0.1	**0.3**	0.2
Deferred payables				
Personnel-related expenses	**13.0**	13.0	**7.2**	6.8
Others	**5.7**	7.5	**1.0**	3.1
	18.7	20.5	**8.2**	9.9
3.7. Leasing liabilities and contingent liabilities				
Leasing liabilities				
Due in current period	**1.9**	1.5	**0.7**	0.6
Due later	**2.0**	1.4	**0.7**	0.6
	3.9	2.9	**1.4**	1.2
Contingent liabilities				
Guarantees and securities given on behalf of Group companies			**93.7**	109.0
Guarantees and securities given on behalf of others	**0.4**	1.5	**0.4**	1.5
Rental liabilities	**23.0**	22.0	**1.8**	0.7

In respect of non-Group long-term leases, an amount equivalent to a maximum of three years' rent has been included as rental liabilities. This is based on the assumption that if the premises are left vacant, the maximum expense to the Group will be this amount.

The Board's proposal for the disposal of profits

The Group's distributable assets are MEUR 49.0. The parent company's distributable assets are MEUR 56.7, of which the net profit for the financial year is MEUR 3.9.

The Board of Directors propose that a dividend of EUR 0.45 per share be paid, being a total of MEUR 4.5 After the dividend payment, MEUR 52.2 will be left in the parent company's retained earnings account.

Vantaa, 26 February 2004

Maarit Toivanen-Koivisto
Chair of the Board

Tapio Hintikka

Eero Eloranta

Karsten Slotte

Petteri Walldén
CEO

Auditor's Report

To the shareholders of Onninen Oy

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

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

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

Vantaa, 26 February 2004

PricewaterhouseCoopers Oy
Authorised Public Accountants

Göran Lindell
Authorised Public Accountant

Kaija Leppinen
Authorised Public Accountant

Five-year review

	2003	2002	2001	2000	1999
Turnover, EUR million	**1,066**	930	804	710	601
growth, %	**14.6**	15.7	13.2	18.3	4.2
Turnover of international operations, EUR million	**555**	446	323	245	174
growth %	**24.4**	37.8	31.9	40.6	19.6
percentage of turnover, %	**52.0**	47.9	40.2	34.5	29.0
Earnings before interest, taxes and amortisation of goodwill (EBITA), EUR million	**28**	20	23	23	20
percentage of turnover, %	**2.6**	2.1	2.8	3.2	3.4
Operating profit, EUR million	**18**	15	21	21	19
percentage of turnover, %	**1.7**	1.6	2.6	3.0	3.2
Net from financing, EUR million	**–6**	–3	–1	–1	–0
percentage of turnover, %	**–0,5**	–0.3	–0.1	–0.1	–0.0
Profit before extraordinary items, EUR million	**12**	11	20	21	19
percentage of turnover, %	**1.1**	1.2	2.4	2.9	3.2
Profit before taxes, EUR million	**12**	11	20	21	12
percentage of turnover, %	**1.1**	1.2	2.4	2.9	1.9
Group profit for the year, EUR million	**9**	6	13	14	6
percentage of turnover, %	**0.9**	0.6	1.6	2.0	1.1
Return on investment (ROI), %	**8.1**	8.8	17.1	19.7	19.8
Return on equity (ROE), %	**9.0**	5.6	14.0	16.6	16.7
Equity ratio, %	**31.5**	29.2	48.8	42.6	48.5
Interest-bearing net liabilities, EUR million	**116**	134	24	27	18
Balance sheet total, EUR million	**334**	343	204	216	162
Investments, EUR million	**5**	63	7	15	6
Average personnel	**2,616**	2,416	2,150	1,833	1,665
Personnel at year-end	**2,643**	2,592	2,140	2,029	1,651

Formulas for the Indicators

Return on investment (ROI), %

$$\frac{\text{(Profit before extraordinary items + interest and similar expenses)}}{\text{Total assets – interest-free liabilities (average for the beginning and end of the financial year)}} \times 100$$

Return on equity (ROE), %

$$\frac{\text{(Profit before extraordinary items – adjusted taxes)}}{\text{Shareholders' equity + minority interest (average for the beginning and end of financial year)}} \times 100$$

Equity ratio, %

$$\frac{\text{(Shareholders' equity + minority interest)}}{\text{Total assets – advances received}} \times 100$$

Interest-bearing net liabilities: Interest-bearing liabilities – cash and bank deposits

Board of Directors, 26 February, 2004

The governance of Onninen Oy and the proper arrangement of its business are the responsibility of the Board of Directors, which has 3–6 ordinary members. The members of the Board have a term of office which ends at the closing of the annual general meeting after the one at which they were elected. The Board of Directors choose their chair from among their number. In 2003, the Board had four members and it was chaired by Maarit Toivanen-Koivisto. The Board convened 9 times.

Chair

Maarit Toivanen-Koivisto
born 1954, M.Sc. (Econ.), member of the Board since 1998, has chaired the Board since 2000

Managing Director of Onvest

Eero Eloranta
born 1950, D.Sc. (Tech.), member of the Board since 2000

Professor of the Helsinki University of Technology Department of Manufacturing Economics

Tapio Hintikka
born 1942, M.Sc. (Eng.), member of the Board since 2000

Karsten Slotte
born 1953, M.Sc. (Econ.), member of the Board since 2001

President and CEO of Cloetta Fazer AB

Group Management Team, 26 February 2004

Onninen Oy´s Group Management Team is comprised of the President Petteri Walldén plus the Directors in charge of the company´s four divisions, the five Group-wide functions and business development. The purpose of the Team is to assist the President in decision making.

Front row, from left: Heikki Ala-Ilkka, Anne Kariniemi, Arto Kumpulainen, Helge Sæthershagen, Tuomo Väänänen and Petteri Walldén.
Back row: Karola Söderman, Seppo Ojaluoma and Marja-Terttu Verho.

Chairman
Petteri Walldén
born 1948, M.Sc. (Eng.),
President & CEO
Has served Onninen since 2001

Heikki Ala-Ilkka
born 1952, M.Sc. (Econ.),
CFO,
Group Finance
Has served Onninen since 1996

Anne Kariniemi
born 1970, M.Sc. (Eng.),
Senior Vice President,
Group Logistics
Has served Onninen since 2002

Arto Kumpulainen
born 1952, M.Sc. (Eng.),
Group Executive Vice President,
President, Onninen Wholesale International
Has served Onninen since 1994

Seppo Ojaluoma
born 1947, Graduate Engineer,
Senior Vice President,
Group Business Development
Has served Onninen since 2002

Helge Sæthershagen
born 1955, M.Sc. (Econ.),
Group Executive Vice President,
President, Onninen Sweden and Onninen Norway
Has served Onninen since 2002

Karola Söderman
born 1956, M.Sc. (Econ.),
CIO,
Group ICT
Has served Onninen since 2002

Marja-Terttu Verho
born 1947, M.Sc. (Social Sciences),
Senior Vice President,
Group Communications & HRD
Has served Onninen since 2002

Tuomo Väänänen
born 1956, M.Sc. (Eng.),
Group Executive Vice President,
President, Onninen Finland
Has served Onninen since 1997

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