



Suomen Osuuskauppojen Keskuskunta  
SOK Corporation

*Annual Report 2003*



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# The S Group

The S Group operates nationwide in the grocery and consumer goods trade, the restaurant business, the service station store and fuel trade, the hotel business as well as the motor trade and the agricultural trade. Comprised of the cooperative societies and SOK Corporation with its subsidiaries, a consolidated entity owned by the cooperative societies, the S Group is a comprehensive organisation that is based on a strong customer-oriented business model that has a regional identity.

The S Group's business idea is to provide services and benefits for its committed customer-owners.

Through its own business operations and partners in co-operation, the S Group offers its customer-owners a wide spectrum of competitive and ever-developing services that are geared to their own needs.

The cooperative company form strengthens the S Group's ability to operate responsibly in the best interests of people and society.

## The S Group's core values

### Excellence

Excellence means valuing good operational and financial performance along with pride of accomplishment.

### Responsibility

Responsibility is reflected in feeling care for the customer-owner, the staff and our own operating environment.

### Renewal

Renewal means ensuring the competitiveness of the S Group's companies and seeing to it that services and benefits for customer-owners are in step with the times.

### Partnership

Partnership springs from a respect for and a grasp of far-reaching and efficient co-operation.

## The S Group's vision

The S Group's objective is to be the leading, ever-renewing Finnish retail group that promotes the well-being of its customer-owners and the local environment.

## The S Group's structure

In order to carry out its business idea, the S Group has organised into a network of companies jointly comprising the regional cooperative societies and SOK. SOK is the Group's strategic decision-making unit and service centre.

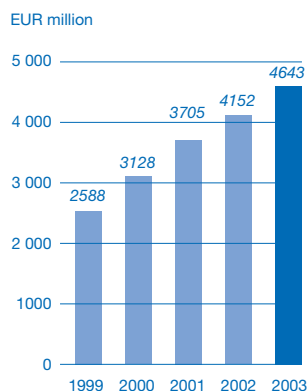
The S Group's owners are the members of the cooperative societies, who influence the entire Group's operations via their own member cooperative society. The most important ways of having a say are voting in the elections for one's own cooperative society's Council of Representatives and standing for election to the administrative bodies of the home cooperative society – the Council of Representatives, the Supervisory Board and the Executive Board – as well as participation in the work of store committees.

The cooperative societies own Suomen Osuuskauppojen Keskuskunta, which is also the parent company of SOK Corporation.

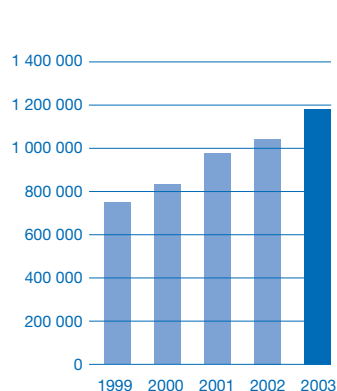
The primary task of the local and regional cooperative societies is to produce for their own customer-owners the services and benefits of the S Group. SOK's task is to carry on business that supplements the services offered to customer-owners in agreed business areas. In addition, the service palette is rounded out by means of partner agreements.

The S Group's structure as a network of companies brings the dual advantage of furthering co-operation between the cooperative societies and SOK and specialisation in the efficient and customer-focused implementation of the S Group's business idea.

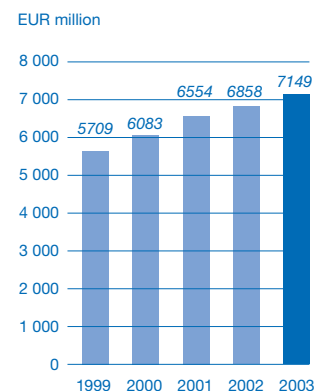
S Group's bonus sales

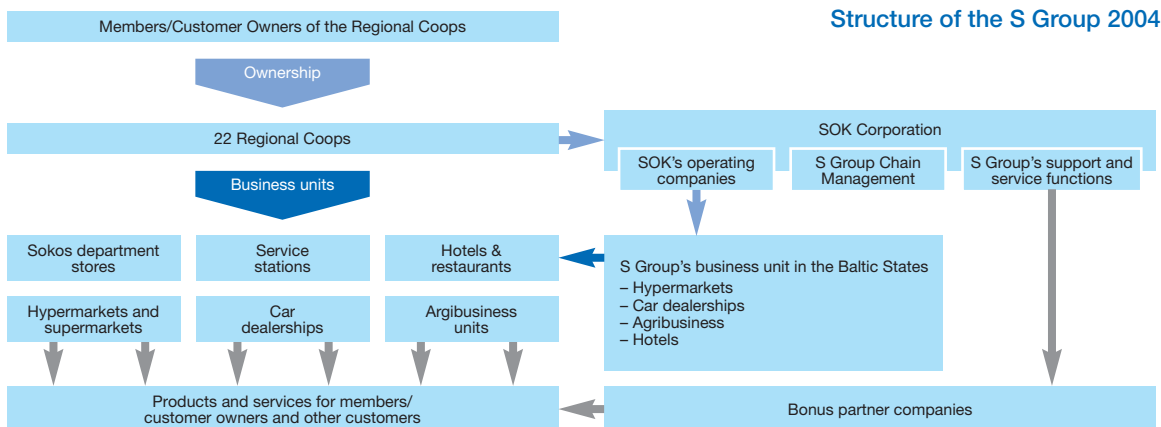


Membership



S Group retail trade





### Regional cooperative societies of the S Group at 1 January 2004

- Cooperative Society Varuboden, Kirkkonummi
- Southern Karelia Cooperative Society, Lappeenranta
- Southern Ostrobothnia Cooperative Society, Seinäjoki
- Helsinki Cooperative Society Elanto, Helsinki
- Cooperative Society Jukola, Nurmes
- Cooperative Society Keskimaa Osk, Jyväskylä
- Koillismaa Cooperative Society, Kuusamo
- Cooperative Society Arina, Oulu
- Cooperative Society Hämeenmaa, Lahti
- Cooperative Society Keula, Rauma
- Cooperative Society KPO, Kokkola
- Cooperative Society Maakunta, Kajaani
- Cooperative Society Osla, Porvoo
- Cooperative Society PeeÄssä, Kuopio
- Cooperative Society Suur-Savo, Mikkeli
- Cooperative Society Ympyrä, Hamina
- Cooperative Society Ympäristö, Kouvola
- Pirkanmaa Cooperative Society, Tampere
- Northern Karelia Cooperative Society, Joensuu

- Satakunta Cooperative Society, Pori
- Suur-Seutu Cooperative Society SSO, Salo
- Turku Cooperative Society, Turku

### Nationwide chain brands

- Prisma, S-market, Sale, Alepa
- ABC
- Sokos, Emotion
- Sokos Hotels, Radisson SAS Hotels
- Rosso, Rosso Express, Fransmanni, Amarillo, Sevilla, Memphis,
- Night, Corner, Coffee House, Presso
- Argimarket

### The S Group: a century in business

Suomen Osuuskauppojen Keskusosuuskunta (the Finnish Cooperative Union), SOK, was founded on 22 March 1904. In the early stages, SOK's task was to obtain consumer goods for the member societies. Operations expanded rapidly and in three short years, SOK was Finland's largest wholesaler in terms of sales.

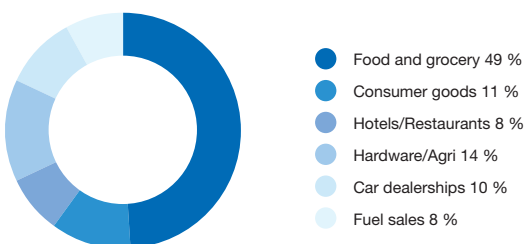
The S Group has developed into a strong opinion-former in the retail trade nationally and locally. Today, the S Group's services and products ensure that customers can find everything for their daily needs and festive occasions.

SOK acts as the S Group's wholesale company that occupies an important position in leading and developing the entire Group and in co-ordinating its operations.

The theme of SOK's centennial is "SOK 100 Years – Onwards Together". The entire S Group and its customer-owners throughout Finland will take part in SOK's centennial festivities.

### S Group retail trade by branch 2003

Total EUR 7,149 million



# CEO's Review

## Success in realising the S Group's business idea

The S Group's business idea defines the goal of the entire S Group's operations. This business idea states that the S Group's objective is to produce services and benefits for committed customer-owners – the members of the S Group's cooperative societies. This is the primary viewpoint for assessing the performance of the entire S Group. When it succeeds in competitively producing services intended for its customer-owners, the S Group and its different operating units achieve good business performance. Carrying out the business idea is thus at the same time the starting point of the S Group's operations and also their goal. The business idea guides the S Group's strategic development, practical business solutions and daily activities at all S Group locations.

The S Group succeeded well in carrying out its business idea in 2003. Customer-owners made an increased proportion of their purchases through the S Group's service units and thereby showed their confidence in the S Group's way of operating even in retail competition conditions that are evolving in new ways. This meant that the aggregate Bonus paid to members during 2003 rose to EUR 132 million, an increase of 14 per cent on the previous year. In addition, a number of cooperative societies will pay out to their members, for the 2003 financial year, dividends and interest on cooperative capital to a total amount of about EUR 15–20 million. The S Group's customer-owners account for a third of the Group's profits before bonus payments. Of the S Group's aggregate sales, bonus sales to customer-owners accounted for 66 per cent, an increase of 2.5 percentage points on the previous year.

The S Group's companies have been involved in a number of ways in important national and regional business, cultural and sports development projects that have furthered the economic, cultural and social well-being of their own territory in accordance with the S Group's operational principles and values. Part of the earnings from operations will be used indirectly on behalf of our membership via the results obtained through these measures. The social responsibility aspect of business operations is an important element of the activities of a cooperative corporate group.

The number of members of the S Group's cooperative societies continued to grow strongly in 2003, increasing by nearly 132,000 new members. At the end of the year the S Group's cooperative societies had a total membership of 1,186,511 people – customer-owners of the cooperative societies. This is over 50 per cent of the number of households in Finland. The S Group's operations and range of services appear to be of interest to Finns.

I warmly thank all the S Group's customer-owners for the confidence you have shown in your own corporate group, the S Group. The growth in the number of customer-owners and their patronage of the S Group's service units in purchasing the goods and services they need contributed importantly to the S Group's success in 2003.

## Sales and financial performance of the S Group and SOK Corporation

The S Group's retail sales in 2003 rose to EUR 7,149 million, an increase of 4.3 per cent on the corresponding figure in the previous

year and outpacing the average retail growth in Finland as a whole. The cooperative societies' share of the S Group's retail sales was EUR 5,894 million, or 82 per cent, and SOK Corporation accounted for 18 per cent. The cooperative societies' retail sales grew in value by 4.5 per cent on the previous year, and the corresponding increase for SOK Corporation was 3.3 per cent.

The S Group's grocery sales increased by 3.2 per cent on 2002 and totalled EUR 3,542 in 2003, representing 49 per cent of the entire S Group's sales. Because the growth in the S Group's grocery sales was slightly stronger than the growth in retail sales in Finland on average, the S Group retained its position in Finland's grocery market as measured against both national and international competitors. Apart from the grocery trade, other S Group business areas that reported fast growth were the motor trade as well as the service station store business area and the sale of fuel. Especially in the service station store and fuel trade, the S Group's ABC service station stores and unmanned petrol stations are now strong players in Finland's retail fuel market.

SOK Corporation posted net turnover in 2003 of EUR 3,112 million, representing growth of 3.8 per cent on the figure a year earlier. Major factors that lifted net turnover were the growth in vehicle sales and the increase in operations in the Baltic countries. SOK Corporation's profit before extraordinary items was EUR 51.8 million and solidly above the budgeted earnings level. SOK Corporation's aggregate return on investment in 2003 was 6.9 per cent, as against 15.0 per cent for the business area companies. SOK Corporation's profitability and financial position remained stable. The equity ratio at the end of the year was 32.9 per cent. SOK Corporation's number of employees at 31 December 2003 was 4,949. The number of employees within the entire S Group in 2003 was 23,437. The number of staff increased on the previous year at both SOK Corporation and in the cooperative societies.

The S Group's gross capital expenditures amounted to EUR 345 million in 2003, of which SOK Corporation accounted for EUR 56 million. Capital expenditures increased significantly from the level a year ago.

The S Group posted aggregate profit before extraordinary items of EUR 281 million, down EUR 7 million on the figure a year earlier. The cooperative societies' aggregate result was EUR 229 million. The result was on a par with the previous year.

Operationally, 2003 was one of the best years in the S Group's history.

## Near-term challenges

In all the S Group's business areas, both domestic and foreign players will step up competition even further over the next few years. The S Group must be ready to meet these new business challenges. During 2003 the strategies of the S Group's business areas and support and service functions have been overhauled in light of the demands of a changing operating environment. Cost-effective business functions, a customer focus in operations, business and support-service processes that are run in a customer-driven and goal-oriented way together with a flexible, versatile and growth-seeking service palette will be the S Group's central strategic emphases over the years ahead. The S Group's service



network will be developed actively all over Finland in order to ensure a wide spectrum of services for customer-owners.

One of the challenges in the years ahead for the S Group's management and operations is the efficient and customer-oriented management of the long value chains that are characteristic of our operational model. Better management of our own operating processes means substantial cost savings and the potential for increased earnings within the S Group's business areas and its support and service functions. For the S Group, general managing through the effective use of information and mission-critical management will be increasingly important factors for achieving success as a service company.

The S Group's different business and support-service units must also be developed so that they have the size necessary for obtaining sufficiently strong economic and competence resources to ensure the S Group's future performance. In the development of management and decision-making systems at the S Group level too, the challenges facing the S Group in coming years will be taken into account.

A strong and shared set of values is an important part of the S Group's corporate culture, which contributes to bolstering our competitiveness. The S Group wants to profile itself as a Finnish, regional and cooperative corporate group that nevertheless has strong international ties. The S Group emphasises a people-first market economy and humane operations on behalf of its members.

It is time to put our strategies into practice over the next few years. The strategies must be made a part of daily operations. The success we have in implementing the strategies will be tested across our business locations in the dealings of our staff with customers. The moment of truth in carrying out our business idea comes in this encounter and in handling it successfully. Our personnel's professional competence, understanding and taking into account the customer's needs as well as a friendly service-mindedness constitute a significant factor of success, especially in the business operations of today and the future. The S Group has a good and skilled staff. I thank all of you most sincerely for your work on behalf of the S Group!

The S Group's corporate governance reflects clearly the democratic and participative decision making that is part of entrepreneurship under the cooperative model, and it is underpinned by a broad examination of matters to be dealt with and a commitment to the decisions taken. The S Group's corporate governance is a pronounced

strength in the S Group's operations. I thank all those who have been involved in administrative tasks for the valuable management work you have done on behalf of the S Group.

My warm thanks also go to our bonus partner companies and other business associates for their good co-operation during 2003.

#### 2004 – SOK's centennial year

This year, Suomen Osuuskauppojen Keskuskunta, SOK, will celebrate the centennial of its founding.

In the space of a hundred years, the wholesale company that was founded by small cooperative societies in Tampere in March 1904 has grown to become a highly regarded and major company within Finnish society and business life.

In line with SOK's centennial festivities, we can also celebrate the centennial of networked co-operation amongst the S Group, SOK and the cooperative societies, because broad and deep is the co-operation between SOK and the cooperative societies within the S Group in realising our joint business idea. The theme of our centennial – "SOK 100 Years – Onwards Together" – thus aptly expresses the view of how the S Group should operate in coming years as well on behalf of its members – customer-owners. The centennial emblem, a modernised version of our decades old Basket-Carriers logo, shows that we revere our traditions, but at the same time the logo also symbolises the message that we pull together, honour equality and believe in a better tomorrow. In the future as in the past, we want to be our customer-owners' Partner in Finland in line with our vision.

Helsinki, 10 February 2004

Kari Neilimo





In 2003 the S Group's  
growth in grocery sales was

**3.2%**



# SOK Corporation

SOK Corporation comprises SOK (Suomen Osuuskauppojen Keskuskunta) and its subsidiaries. SOK assists the cooperative societies in providing services and benefits for their customer-owners by consolidating the process of providing the S Group's joint support and purchasing services within all the S Group's companies and by handling the S Group's joint steering and development tasks.

At the Group level, SOK provides jointly agreed services as well as guides and oversees the effective use of overall resources and the S Group's benefits and operations. In addition, SOK carries on the Group's business operations that have been defined through joint decisions. In line with the S Group's strategy, SOK's subsidiaries and associated companies attend to the hotel and restaurant business, and the motor, department store and agricultural trade.

Operations in nearby areas are developed in the Baltic countries, where SOK is engaged in the supermarket trade, the motor trade, the agricultural trade and the hotel and restaurant business.

## Suomen Osuuskauppojen Keskuskunta – SOK

SOK is the parent company of SOK Corporation. In accordance with its statutes, SOK acts as the central organisation of the S Group, promoting and developing the operations of the cooperative societies and other organisations belonging to the S Group and attending to the management and supervision of the Group's overall resources for maximum efficiency, whilst also monitoring the operations and seeing to the interests of the S Group and its different constituent organisations.

SOK is in charge of the S Group's strategic guidance. Its tasks are to provide the S Group companies with services related to chain management, customer-ownership and marketing along with general chain and corporate services, including development activities connected with these services and the S Group's other operations. Other important services for the S Group's operations are purchasing, rental services and assortment and invoicing services for goods delivered directly from manufacturers to the chain units. Via its nationwide and

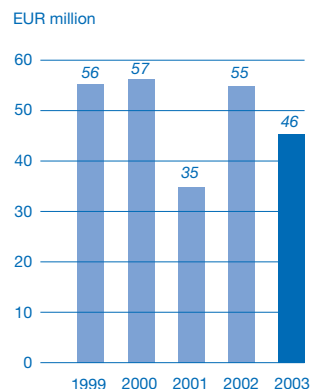
regional subsidiaries, SOK is able to offer its customer-owners a wide spectrum of services in accordance with the decisions taken within the S Group. In addition, in the Baltic area SOK engages in the supermarket and vehicle trade as well as agricultural trade via its subsidiaries.

## SOK – the S Group's wholesaler

SOK is the Group's strategic decision-making unit and its competence and service centre. SOK's Supervisory Board decides on the principles of co-operation for the S Group's operations and on long-term plans. These policy lines form the basis of the S Group's operations.

SOK's Management Team prepares, for presentation to the Executive Board, matters requiring co-ordination in connection with the S Group's and SOK Corporation's business strategies, target levels, operational plans and budgets. SOK's Chain Management and support functions ensure that the entire S Group operates in accordance with joint objectives and that all the Group's different units carry out the Group-wide strategy by implementing their own strategy.

## SOK Corporation operating profit



## SOK Corporation net turnover by business group (EUR million)

	1 Jan.–31 Dec. 2003	1 Jan.–31 Dec. 2002	Change
Agricultural and hardware trade	770	768	0.3
Hotel and restaurant sales	168	160	4.8
Car trade	341	284	20.1
Sokos department stores	134	126	6.0
Market trade	53	32	64.6
Consumer goods sourcing	425	408	4.1
EDI invoicing	1 212	1 211	0.1
Real estate, property leasing and other services	195	187	4.4
Divested and discontinued operations	0	5	
Eliminations	-186	-184	1.5
<b>Total</b>	<b>3 112</b>	<b>2 998</b>	<b>3.8</b>

## SOK Corporation operating profit by business group (EUR million)

	1 Jan.–31 Dec. 2003	1 Jan.–31 Dec. 2002
Agricultural and hardware trade	9.1	9.7
Hotel and restaurant sales	9.9 *)	11.6
Car trade	8.5	4.1
Sokos department stores	-0.5	-0.3
Market trade	0.1	-0.6
Consumer goods sourcing	-0.1	3.7
EDI invoicing	0.5	0.3
Real estate, property leasing and other services	17.8	12.6
Divested and discontinued operations	0.0	-0.5
Share of associated companies' profits	2.1	11.7
Eliminations	-1.0	2.7
<b>Total</b>	<b>46.4</b>	<b>55.0</b>

\*) does not include non-recurring write-downs on intra-Group goodwill

The S Group's strategically important business areas are the supermarket trade, restaurant operations, service station stores and the fuel trade, speciality stores and the department stores, the hotel business, the motor trade and agricultural trade.

The strategies of the regional cooperative societies and SOK Corporation define their role and tasks in carrying out the Group strategy.

### Support and service functions for the S Group and SOK Corporation

SOK's task is to support and serve the cooperative societies and its own operating subsidiaries so that together they are able to provide competitive services and benefits to the S Group's customer-owners.

According to the S Group's division of responsibilities, SOK is in charge of the following joint development and oversight tasks:

- strategic guidance
- chain management and development
- strengthening customer-ownership
- development of new business models
- development for human resources and administrative officers
- monitoring the S Group's operations and best interests.

In addition, SOK is responsible for providing and arranging the procurement and logistics services required by the S Group's businesses by means of its subsidiaries or associated companies. A major part of the purchasing responsibility for groceries is organised within Inex Partners Oy, which is owned on a fifty-fifty basis by SOK and Cooperative Tradeka Corporation. Inex Partners Oy is broadly responsible for the logistics services of the S Group's different business areas.

### Strategic planning

A central task of SOK's development functions and chain management organisations is the development of the competition and support service strategies concerning the entire S Group, putting them into practice and assessing the results which the strategies yield. Strategic decision making concerning the entire S Group takes place within SOK's decision-making organisation.

### Chain Management

SOK's Chain Management furthers the development of the business areas and ensures the good quality of products and services across all the S Group's retail and service chains. Centralised planning and design services, uniform operational models and procurement and logistics services increase the operational efficiency of the chains and bring cost savings. The Chain Management function is described in greater detail in the discussions of the divisions.

The following S Group business areas have their own chain management organisation: supermarket trade, ABC business, hotel and restaurant business, Sokos chain and agricultural trade.

### Field Consulting

The task of the SOK Field Consulting unit is to support the strategic process of the regional cooperative societies and to guide the development of the cooperative society structure. The Field Consulting unit also monitors the financial state and strategic performance of the

cooperative societies and directs the necessary business-improvement measures.

### Customer-Owner and Marketing Services

The task of the Customer-Owner and Marketing Services unit is to see to it that customer-ownership develops and strengthens as a central driver of the S Group's success.

The unit maintains and develops the S Group's joint customer-owner system comprising information systems spanning member-administration, the S Bonus Card, savings fund accounts, the S Benefit Credit facility, Bonus calculations, the management of cooperative capital as well as communications, analysis and identification.

Customer-Owner and Marketing Services assist the chains and cooperative societies in developing the businesses in line with the customer-owner approach by producing customer information services. The unit also guides and develops partner operations.

Customer-Owner and Marketing Services guides and develops the implementation of the customer-owner concept and co-ordinates the planning of customer-owner marketing. The services are produced in answer to assignments commissioned by the chains, the cooperative societies and Bonus partners.

### Accounting

The task of SOK Accounting is to guide, co-ordinate and develop the S Group's accounting, taxation and other financial administration functions, including information systems. In addition, the unit is responsible for implementing SOK Corporation's financial control, accounting and taxation functions as well as for maintaining and developing financial systems.

A central focus of operations in recent years has been the development of the S Group's financial administration processes and related information systems. The objective is to achieve operational efficiency and concrete savings and to promote operational competitiveness across the entire S Group. The overhaul of the accounting systems in use at the S Group's units will be completed for the most part by 2006.

Under the guidance of SOK Accounting, projects preparing for the introduction of IAS accounting regulations within the S Group were launched in 2003.

### Finance

The Finance unit exercises central responsibility for SOK Corporation's funding and relationships with financial institutions, optimising financing costs as well as managing liquidity and financial risks. In addition, the Finance unit purchases electricity for most of SOK Corporation's real-estate properties and is responsible for managing electricity price risks. The unit also manages and develops the S Group's gift cards. A further task of the Finance unit is to provide and develop financing-related services for the S Group.

The Finance unit is made up of SOK's Finance Department along with SOK's wholly-owned subsidiaries SOK-Takauss Oy, S-Etuotto Oy and Rekla Oy, which went into operation on 1 September 2003. SOK Takauss Oy grants guarantees on behalf of the cooperative societies and SOK subsidiaries. S-Etuotto Oy is specialised in man-

aging the S Group's consumer credits. Rekla Oy is a security company that is specialised in cash services and sells its services to the entire S Group.

In accordance with the S Group's new service strategy for the finance function, the development focus in 2003 was on funding, asset management, payment transfer and cash handling services to be offered to the S Group's units, and the operational principles and risk management principles governing the S Group's electricity procurement were defined.

### Information Systems

The priorities for the development of information systems in 2003 were an overhaul of the systems management model and IT strategy, the development of systems for the chains and support functions and increasing the user-friendliness and efficiency of IT services. An IT Board and IT Steering Group in accordance with the chain model were established for Information Systems. Their task is to renew the S Group's IT strategy so that it implements the Group's business strategy and the revamped operational model.

Systems were developed to support the competition and service strategies of the chains and support functions. A priority area was development of the architecture for the IT strategy at the Group level. The serviceability and efficiency of Information Systems were improved by means of both new services supported by the IT infrastructure and an overhaul of operational processes. A focus of the development work was on ensuring the disturbance-free operation of information systems and paying attention to ever-mounting external threats as well as traditional problems.

### Real-Estate Management

SOK Corporation's Real-Estate Management Department is responsible for the Corporation's real-estate property that is in use, the production of facilities services and the development of real-estate holdings. Service offerings at the S Group level are developed under the direction of the S Group's Real-Estate Board.

The main duties of the Property Development unit are the development of new and existing business sites as well as related expert and developer services. The unit offers the S Group's companies a complete range of centralised developer services required for the development of commercial locations, ranging from zoning to property condition assessment and maintenance processes.

The importance of real-estate operations from the standpoint of the S Group's sustainable development and social responsibility is manifested concretely through management of the life cycle of the S Group's network of locations.

### Administrative Services

The Administrative Services unit is in charge of producing centralised office and administrative services for the units operating within the Ässäkeskus.

The service activities cover such as security and access monitoring, telephone switchboard services, lunch, entertainment and guest services through the personnel canteen as well as cleaning services.

Administrative Services' tasks also include inviting competitive bids and making agreements concerning security services, telecommunications agreements and office supplies at the S Group level.

### Legal Affairs

The Legal Affairs unit has a centralised responsibility for SOK Corporation's legal affairs and it assists the cooperative societies in issues requiring legal expertise. The main aspects of the Legal Affairs unit's activities are various business agreements and other business law matters. During the year the drafting of agreements dealt primarily with acquisitions and divestments, mergers of cooperative societies, real-estate arrangements and procurement activities as well as operations in the Baltic countries, and the unit handled matters connected with competition law issues.

### Communications and Publications

Communications and Publications were organised as a support and service unit reporting to the chief executive beginning in 2003, and in June 2003 a director of Corporate Communications was appointed to head the unit, with the task of managing, developing and co-ordinating the communications of the S Group and SOK Corporation. SOK's Supervisory Board approved the S Group's communications strategy in March 2003.


SOK's Communications and Publications were reorganised as from 1 January 2004. The previous division into S publications and communications was dismantled and communications functions were divided into four areas: development and co-ordination of communications; internal communications; external communications and the publications *Yhteishyväl/Samarbete*. Co-ordination at the Group level has been ensured by organising the communications functions in line with the S Group's chain operations model.

Activities are presently being developed within a number of projects with the objective of unifying the content and visual appearance of communications as well as the operational models. The goal is to integrate communications into the S Group's business operations and to create for the retail group a unified and goal-oriented way of communicating.

### Contacts with international organisations

Contacts with international cooperative organisations were handled, up to the end of 2003, in the name of the Finnish Consumer Cooperative Union (FCCU). The union has been a member of the International Cooperative Alliance (ICA) and Eurocoop, a Brussels-based lobby organisation for consumer cooperatives. From the beginning of 2004, SOK ry will represent the S Group and be a member in the above-mentioned international unions. ICA has 236 member societies in over 100 countries and the member societies have a total membership of over 760 million. The organisation is the world's second-largest such body after the United Nations.

The consumer cooperative businesses of 15 European countries are members of Eurocoop. Eurocoop represents a total of more than 3,200 cooperative societies and their 21 million members. Eurocoop has EU status, and its prestige as a body that issues statements and exercises influence in Brussels is growing strongly. Anne Santamäki, SOK's director for contacts with organisations, is the vice chairman of both ICA Europe (ICA's European organisation) and Eurocoop.



*The S Group's  
ABC chain comprises  
42 service station stores  
and 140 unmanned  
stations*



# Review of the business areas

## Review of SOK Corporation's business areas

SOK Corporation's business areas are the hotel and restaurant business, the motor trade, the department store trade and agricultural trade in Finland as well as the supermarket trade, hotel business, motor trade and agricultural trade in the Baltic countries. SOK's Chain Management operates within the supermarket trade, service station store and fuel trade, the restaurant and hotel business, the department store trade as well as the agricultural trade.

SOK Corporation's net turnover in 2003 totalled EUR 3,112 million (2,998 million in 2002), an increase of 3.8 per cent on the previous year. SOK Corporation's profit before extraordinary items was EUR 51.8 million (55.2). The figure includes other operating income, a share of the associated companies' profits, write-downs on fixed and other non-current assets and investments, including reversals on them, and the change in obligatory reserves. SOK Corporation's operational result, which does not include the above-mentioned items, improved on the previous year's earnings. SOK Corporation's investments amounted to EUR 56 million (43 million). The most important investments last year were the purchase of the Hotel Viru business and the refurbishing of the Radisson SAS Seaside and Sokos Hotel Helsinki hotel premises. Other outlays were made on service facilities for different businesses and on moving ahead with the implementation of information system projects serving the businesses.

SOK Corporation had a payroll of 4,949 employees in 2003 (4,645).

## Review of the business areas

### Supermarkets

The S Group carries on supermarket trade using three store concepts: hypermarkets (Prisma), supermarkets (S Market) and grocery stores (Sale, Alepa). The supermarket chains comprised 593 locations (585). SOK Corporation is engaged in the supermarket trade in Estonia through the AS Prisma Peremarket chain.

The S Group's supermarkets had retail sales in 2003 of EUR 4,160.1 million, an increase of 3.1 per cent on the previous year. The supermarket trade occupies a central position in serving the S Group's customer-owners. Over 75 per cent of customer-owners' purchases within the S Group is made at the supermarket locations.

Grocery sales grew by 3.2 per cent and the grocery markets' consumer goods sales by 4.5 per cent.

The competitive situation in the sector changed considerably during the past year. Tighter competition was caused by both domestic companies and also international players. All the S Group's chains reported a profit. The biggest increase in sales was registered by the S Markets. Despite the strongly changed market situation in the supermarket sector, the S Group retained its market share.

The increased activity of domestic and foreign competitors meant more competition for the best business sites. The competition also led to higher marketing inputs. Price became an ever stronger factor determining the choice of where to make purchases. Customers' mobility and tendency to change stores became more pronounced, particularly in high-volume weekend sales during 2003. Population ageing and the shrinking size of households were reflected in trends such as a strengthening in the position of neighbourhood stores operating according to varying business concepts.

The S Group's market share of the grocery trade was 31.1 per cent in 2003.

### Chain management and development of the supermarkets

The Market Chain Management unit has operational responsibility for the development and management of the S Group's market chain operations. The Market Chain Management unit's organisation comprises the chain managers, the category planning and control functions for the grocery and consumer goods trade, store and site planning as well as information management. In accordance with a decision by SOK's Executive Board, a project organisation for developing the S Group's entire hardware store trade was set up within Market Chain Management and it went into operation in August. The competitive strategy for the supermarket trade was updated in 2002 to cover the period 2003–2005. During 2003 an update of business ideas and concepts was launched across all the chains to ensure compatibility with the strategy.

The development emphasis during 2003 was on the entire value chain in the supermarket trade and on efficiency-boosting projects relating to its processes, including ancillary support systems.

The focus within system support was on things that customers notice: a better assortment and better shelf availability.



Part of the development of the operational model for the supermarket trade is an extensive training programme requiring an outlay of 3,800 working days and EUR 0.6 million in 2003. The S Group both launched and continued transformation processes across the purchasing and distribution channels, with an emphasis on strengthening the internationalisation process. Projects for developing co-operation processes with the retail trade and industry were carried out as well.

**Development of supermarket chain operations**

The S Markets are still both the S Group’s and the country’s largest chain of grocery markets. At the end of the year they numbered 347 locations, an increase of eight locations compared with last year. The chain’s retail sales amounted to EUR 2,066.7 million, up 4.0 per cent on the figure a year earlier. The chain’s increase in grocery sales was 4.2 per cent.

The Prisma chain is Finland’s leading hypermarket chain. The chain had sales of EUR 1,700.2 million, an increase of 2.9 per cent on the previous year. Grocery sales grew by 1.5 per cent and consumer goods sales by 5.0 per cent. The Prisma chain comprised 41 units in Finland. In addition, four Prismas were operating in Tallinn.

The Sale chain had 159 locations, which registered sales of EUR 237.3 million, an increase of 2.6 per cent on the previous year.

Sales of the Alepa chain totalled EUR 136.5 million, down 2.9 per cent on the previous year. There were 46 sites at the end of the year.

According to price comparison surveys, the S Group’s supermarket chains still ranked the best. Image studies reported that the S Market was at the top of the supermarket series and the Prisma chain ranked first among the hypermarkets.

**Service-station stores and fuel sales**

Last year the S Group beefed up its service station store and fuel sales network energetically, strengthening its market position.

The service-station stores and fuel stations reported retail sales across the S Group of EUR 665.1 million, up 12.4 per cent on the previous year (the figure includes sales by the unmanned petrol pumps at the supermarket units). The S Group’s market share within petrol sales rose by 3.7 per cent to 14.2 per cent, up 0.5 percentage point on the previous year. The growth was mainly attributable to the nationwide expansion of the ABC network and the fact that customer-owners made more of their fuel purchases than ever before through the S Group’s fuel-selling units.

To strengthen the business area’s competitive position, SOK established North European Oil Trade Oy, a fuel procurement company. In spring 2003, 34 per cent of the company’s shares outstanding were sold to Greeni Oy. Fuel deliveries to the cooperative societies started at the beginning of 2004.

With the aim of developing HOK Elanto’s ABC service-station stores, a company named Uudenmaan ABC Oy was established, with SOK holding a 90 per cent stake and Helsinki Cooperative Society Elanto 10 per cent.

**ABC Chain Management**

ABC Chain Management is the development unit for the S Group’s service-station store business and fuel trade. Its central task is to develop the business’s competitive strategy and chain business ideas as well as to assist the local cooperative societies and provide guidance in the development of the business area.

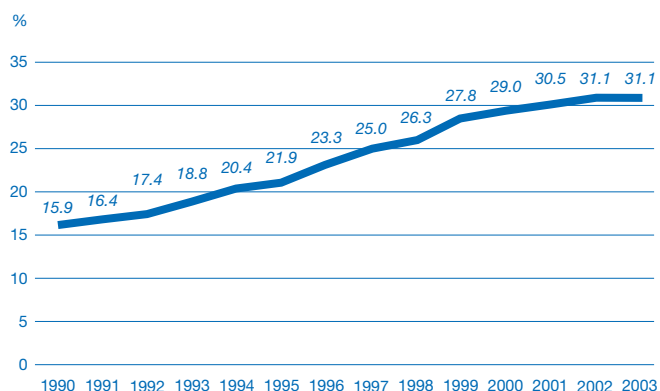
Chain Management operations centred on concept-driven planning, implementation and operations control for the ABC service-station stores and ABC unmanned stations and it furthermore was in charge of acquiring new business locations.

**Development of the ABC chain’s operations**

The ABC chain comprises 42 service-station stores located along traffic arteries and in densely populated areas as well as 140 ABC unmanned stations that operate primarily at the Prismas, S Markets and Sale stores. The main services offered by the chain of ABC service-station stores are versatile café, restaurant, supermarket and convenience store services as well as fuels. The ABC chain of unmanned stations focuses on selling fuels. The ABC network is already in operation in the area of 21 regional cooperative societies and 4 local cooperative societies. The S Group’s cooperative societies had a total of 253 fuel-selling units at the end of 2003. Of these, 87 were service-station stores, the remaining 166 units consisting mainly of unmanned petrol stations. The net increase on the previous year was 19 units.

The ABC chain continued its strong growth in 2003. The chain’s units were opened in different parts of Finland, and nationwide availability improved significantly. During the year, 9 ABC service station stores and 41 ABC unmanned petrol stations were opened. The chain will continue to expand strongly in 2004. The number of units will go over the two hundred mark during the first half of the year.

**The S Group’s market share of the grocery trade**



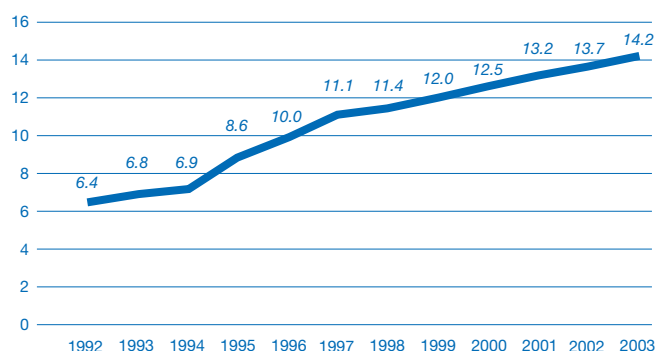
## Hotel and restaurant business

The S Group's hotel and restaurant business consists of a comprehensive network of 46 hotels located around Finland as well as just under 400 restaurants, 270 of which operate as stand-alone restaurants and the remainder in hotels. Of the hotels, 37 belong to the Sokos Hotels chain, and 6 to the Radisson SAS chain. In addition to these, the Group has 3 hotels that do not operate according to the chain concept. Of the restaurant units, 182 serve customer-owners in line with the chain business concept. In addition, the S Group carries on hotel and restaurant operations in Estonia, where it has one hotel with restaurants, and a restaurant world that is part of the Sikupilli Prisma Shopping Centre.

About half of the net turnover from the S Group's restaurant business consists of sales by the chain restaurants. The biggest restaurant chains are Rosso, Fransmanni, the Night nightclubs and restaurants, Amarillo, Memphis and Public Corner. The café and fast food chains are Coffee House, Presso and Rosso Express. In addition, co-operation in the hamburger restaurant business is carried on together with the Hesburger chain.

Ownership of the business is divided between SOK Corporation and the regional cooperative societies. SOK Corporation's Hotel and Restaurant Division comprises SOK's operating subsidiaries Sokotel Oy and Estonia-based AS Sokotel as well as the S Group's hotel and restaurant management and support units that operate within SOK. The hotel and restaurant units owned by the regional cooperative societies account for about 65 per cent of the S Group's aggregate net turnover in the sector.

The S Group's market share of petrol sales



## Development of the hotel and restaurant business

The S Group's hotel and restaurant business had sales in 2003 of EUR 538.9 million, an increase of 2.7 per cent on the figure a year earlier. The S Group's growth outstripped the average for the sector. The S Group's market share measured in terms of net turnover by the hotels was 22 per cent, making the S Group Finland's largest individual hotel operator. The proportion of sales of leisure services to customer-owners has increased year by year at the S Group's hotels. The occupancy rate of the S Group's hotels was 61 per cent, whereas occupancy rates throughout Finland fell to just over 47 per cent.

The 16 per cent market share in the restaurant business was also the largest in Finland, measured in terms of sales by restaurants with licences to sell mild and strong alcoholic beverages.

The hotel and restaurant sector in Finland reported zero-level sales growth in 2003. All in all, volumes were down, but thanks to price changes, the value of sales remained on a par with the previous year. The number of overnight stays grew by about 2 per cent, but in the restaurant business, sales of alcoholic beverages showed a further notable decline. Of the restaurants, those specialising in fast food increased their sales, whereas sales by the others fell below last year's level.

## Hotel and restaurant Chain Management

The business's Ässäravintolat management and support units as well as the Sokos Hotels Chain Management unit are responsible for the chain management of the S Group's chain restaurants and Sokos Hotels as well as for the development of business ideas. The support and service units operate within Sokotel Oy. Sales and Marketing and the Service Centre (finance and information technology, logistics/projects) offer centralised services for the entire S Group's hotel and restaurant business.

The Sokos Hotels Chain Management unit manages and develops the operations of the Sokos Hotels chain. Chain Management attends to the development of the business idea and the competitiveness and profit-making ability of the hotel concepts. In 2003 a decision was taken on a new competitive strategy for sales of leisure services. In line with this, the Sokos Hotels Viru, Tahkovouri and Koli became part of the chain from the beginning of 2004.

The Radisson SAS hotel chain is a worldwide premium chain that is specialised in serving business travellers and catering for meeting and conference guests. SOK has an exclusive right to operate under the Radisson SAS emblem in Finland. Chain management of the Radisson SAS hotels is handled from the chain's headquarters in Brussels.

Ässäravintolat oversees the S Group's chain restaurants and develops their business ideas, monitors the profitability and competitiveness of the restaurant chains and maintains and develops the dynamism driving the brands. 2003 saw the start-up of a new logistics operational model and the information system project for it.



The S Group  
has a 16 per cent  
market share of Finland's  
restaurant business



### Development of the Sokotel Oy business

Sokotel Oy is SOK's wholly-owned subsidiary that is responsible for SOK Corporation's hotel and restaurant business in Finland. Sokotel Oy's business consists of the operations of 14 Sokos Hotels and 6 Radisson SAS hotels in 10 cities in Finland. Both hotel brands function as the company's separate business areas and have their own distinct concepts.

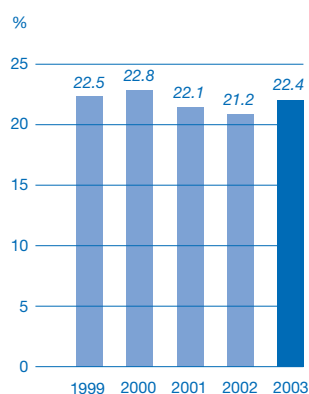
The company's strategic objectives for 2003 were development of the network of locations, carrying through several large expansion and renovation projects and boosting operational efficiency. In addition, Sokotel Oy, acting in accordance with the S Group's competitive strategy for the hospitality trade, sought to develop new offerings for the leisure segment. In conjunction with this, it will start hotel and restaurant operations in the Baltic countries.

Sokotel Oy achieved its strategic objectives for the network of business locations and capital expenditures. Sokotel's operational efficiency improved markedly on the previous year as measured in terms of the gross margin and staff efficiency.

On balance, Sokotel Oy's operations in 2003 developed in line with plans. Measured in terms of net turnover and profits, the hospitality business clearly exceeded its targets, but the restaurant business followed the general trend in the sector and fell short of the target for both net turnover and profits. Sokotel Oy had net turnover of EUR 164 million (160 million), an increase of 2.2 per cent on the previous year. The company employed an average of 1,058 people in 2003 (1,126).

The Radisson SAS Seaside was opened in the first part of the year, the Radisson SAS Hotel Hesperia closed its doors in November and Sokos Hotel Vaasan Vaakuna was transferred to Cooperative Society KPO at the beginning of 2004.

### Market share of the S Group's hotel room sales



### Department store trade and speciality stores

The S Group has 19 Sokos department stores and 7 Emotion stores that are specialised in cosmetics and ladies' lingerie. In addition, the S Group's speciality palette includes 6 Pukumies men's apparel stores and 6 other speciality stores.

Retail sales by the S Group's department stores and speciality stores totalled EUR 299.2 million last year, representing growth of 4.9 per cent, which corresponded to the overall trend in the sector. Within consumer goods sales by the department stores and hypermarkets, the Sokos department stores had a market share of 9.9 per cent, coming in at nearly the previous year's level. In the speciality store bracket, international chains have gained an increased share, and their fast-paced operational model has created new challenges for the S Group's department store and speciality store business, as for other retailers.

In 2003 the Sokos chain was the S Group's fifth largest chain, after the market chains and service station stores, as measured in terms of customer-owner purchases and the fourth largest by the amount of the Bonus paid out.

SOK Corporation ran the Sokos business through the companies that are jointly owned by SOK and the regional cooperative societies: Helsingin Sokos Oy, Tampereen Sokos Oy, Turun Sokos Oy and Porin Sokos Oy. SOK has a 90 per cent holding in the above-mentioned companies.

SOK Corporation's Speciality Stores Division comprises the above-mentioned Sokos companies together with Netista Oy, which was engaged in online sales of consumer goods, and the Sokos and Emotion chain-managed stores.

### Sokos Chain Management

The tasks of the Sokos Chain Management unit are to define the category structure and sales assortment of the Sokos department stores and the Emotion speciality stores as well as to develop and maintain the chains' business ideas, concepts and information systems. Chain Management provides the agreed marketing, logistics and information system services and it prepares policy proposals guiding the operations of the chains for presentation to their decision-making bodies.

### Trend in the operations of the Sokos companies owned by SOK Corporation

In 2003 the Sokos companies operated six Sokos department stores and, for part of the year, two Emotion speciality stores. Except for Tampereen Sokos Oy, the grocery trade in Sokos locations is operated by the local regional co-op businesses. According to plans, the business of the Sokos companies is being transferred to the regional cooperative societies. So far, a decision has been taken only on transfer of the business of the Pori company, and this was carried out on 1 January 2004. The Sokos companies had net turnover of EUR 134.0 million, an increase of 6.0 per cent on the previous year.

The Sokos companies reported an operating loss of EUR 0.5 million (profit of 0.3 million in 2002). The companies had an average payroll of 588 employees in 2003 (567).



### Sokos department stores

The 19 Sokos department stores reported sales of EUR 262.8 million, up 3.8 per cent on the previous year.

Purchases by customer-owners at the Sokos department stores grew in step with the increase in the number of customer-owners. The trend in sales of ladies' indoor apparel in the second half of the year was clearly better than the average. In lower price groups too, there was a marked increase in goods offered. The department stores in Lahti and Kuopio were refurbished completely, and in addition, a number of department stores underwent partial refurbishment. Feedback indicates that customers were pleased with the changes.

The Sokos chain posted an operating profit on sales of consumer goods, improving on the previous year's result. The Sokos locations were well into the black and their result improved somewhat on the figures a year ago.

### Emotion chain

The units in the Emotion chain are speciality stores that are located in large shopping centres and the larger town centres and offer cosmetics and ladies' lingerie. The stores round out the S Group's palette of consumer goods in their localities. There were seven Emotion stores at the end of 2003 and their aggregate sales amounted to EUR 9.2 million, representing an increase of 43.3 per cent due to changes in the network. The units that operated for the full calendar year in 2002 and 2003 reported sales growth of 5.5 per cent.

### Netista Oy

It was decided to wind up Netista Oy, which operated as a stand-alone online channel for consumer goods. Each chain and division will now develop their online operations as part of their own multichannel business.

### Motor trade

Peugeot is the S Group's own imported marque. The S Group's market share of new vehicle sales was just under 11 per cent last year. Peugeot had a share of 6.7 per cent, an increase of 0.1 percentage point. The motor trade represented 10 per cent of the S Group's retail sales. The S Group retained its market position in new car sales. In addition to SOK Corporation, 14 regional cooperative societies were engaged in vehicle sales. SOK Corporation's motor trade consisted of the Maan Auto Group and Kommest Auto Group. At the end of the year the S Group had a total of 43 car dealerships (41). The dealerships represented 18 different makes of car.

The S Group's retail car sales totalled EUR 690.5 million, up 14.6 per cent. The overall market growth was 14.5 per cent, with 26 per cent more new cars being sold than in the previous year. Sales of new vehicles reached 147,405 units. The number of private cars registered grew by 31 per cent, whereas sales of company cars grew more slowly than the overall market. The number of used cars that were imported individually totalled 31,994.

SOK Corporation's net turnover from vehicle sales was EUR 341 million (284 million), up 20.1 per cent on the figure a year ago. Operating profit was EUR 8.5 million, an improvement of EUR 4.4 million on the previous year. The average number of employees in the motor trade was 523 (454).

### Operating environment


The operating environment in the motor trade changed when the EU's Block Exemption came into force, after a one-year transition period, on 1 October 2003. It went a long way towards releasing vehicle dealerships from various competition restrictions in respect of both new vehicles and sales of repair services and spare parts for them. The changes in the taxation of used imported vehicles also altered the market situation, leading to a considerable increase in imports of used vehicles. It is to be expected that further changes will take place in the sector, especially in the area of servicing and spare parts functions.

The amendment to the Car Tax Act that entered into force in 2003 was the first step towards transparent car taxation based on consumer prices. It lowered the taxes on new cars and ushered in more straightforward taxation of used imported cars. Car prices declined on average by 7–8 per cent, but there were large differences between makes and models. The lowering of the car tax also showed up in prices of trade-in vehicles. Prices of low-mileage used cars declined in proportion to the drop in prices of new vehicles.

The reduction in the car tax increased sales of new vehicles substantially. The growth in sales created more new jobs in the sector. Companies in the motor trade are investing heavily in developing their staffs and in quality assurance programmes.

The EU Commission's new Block Exemption Regulation, which sets the rules for competition in the motor trade, came into force on 1 October 2003. The regulation concerning sales and servicing of new vehicles as well as the sale of spare parts led to a consolidation among car dealerships and changes in the makes of vehicle they represent. The greatest pressures for change will probably be directed towards servicing and repair operations in the future, because the regulation lifts restrictions on vehicle servicing and repair operations.





The S Group's service network  
comprises 19 Sokos department  
stores and 7 Emotion stores

### The Maan Auto Group

Maan Auto Oy is SOK's subsidiary that imports into Finland and markets Peugeot vehicles, spare parts and accessories through its own network, its subsidiary Hämeen Leijona Auto Oy and the rest of the nationwide dealer network. Maan Auto's distributor network comprised 36 full-service car dealerships, 5 of which were owned and operated by Maan Auto itself, 16 by the regional cooperative societies, with 13 owned by private entrepreneurs.

On 1 October 2003, Maan Auto Oy established a subsidiary named Hämeen Leijona Auto Oy, which operates as a Peugeot dealer in Lahti and Hämeenlinna, having purchased the Peugeot businesses in these localities.

On 31 December 2003, Maan Auto Oy purchased the entire shares outstanding in Oy Motortrans Ab. The company operates in Hanko as an importing and servicing company for vehicles. The company's main line of business was the pre-delivery inspection of imported Peugeot vehicles.

With the entry into force of the new Block Exemption Regulation on 1 October 2003, Automobiles Peugeot is requiring that the importation and retail sales of its vehicles be carried on through separate companies. Accordingly, a decision was taken on incorporating Maan Auto's own retail sales as the company Automaa Oy as from 1 January 2004.

9,839 Peugeot passenger cars were registered, an increase of 27.3 per cent on the previous year. Peugeot cars had a market share of 6.7 per cent, an increase of 0.1 percentage point. The growth in market share was primarily due to the well-received Peugeot 206 and 307 models. Registration of Peugeot vans rose by 8.5 per cent and amounted to 891 vehicles. The market share in vans grew from 4.6 per cent to 4.9 per cent.

Retail sales of Peugeot vehicles and servicing for them were carried on at Automaa's own dealerships in Helsinki, Espoo, Vantaa, Tampere and Turku. Market growth in Automaa's territory was smaller than nationwide growth within new vehicles. Automaa delivered 4,474 Peugeot vehicles, an increase of 30.7 per cent. 4,383 trade-in vehicles were sold.

The earnings trend of the Automaa outlets was positive, driven especially by the increased volume of new vehicles as well as by the Leijona trade-in vehicle programme that is in use. Customer-owner bonuses were earned through the vehicle sales, servicing and spare parts outlets. Customer-owners accounted for 70 per cent of the retail customers for new vehicles and for 40 per cent of the trade-in sales.

### Agricultural trade, hardware and gardening trade

The S Group's agricultural trade business area comprises agricultural trade, machinery sales, hardware sales and the gardening/horticultural trade. The sales of agricultural products comprised plant nutrients, plant protection products, feeds, farm implements, fuels and lubricants as well as seeds and grain. The machinery trade comprises tractors, combine harvesters, grounds maintenance, turf and environmental machines, spare parts, machinery consumables and contract machinery servicing. An important emphasis in the hardware trade is the development of farm construction services. The gardening business offers products for gardening enthusiasts.

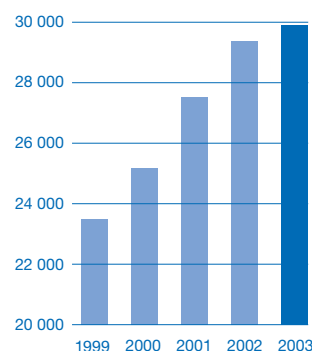
The S Group's agricultural trade is carried on by 139 Agrimarkets, 7 machine centres and 1 John Deere Centre within the Agrimarket chain, which is made up of Hankkija-Maatalous Oy together with Southern Ostrobothnia Cooperative Society, Suur-Seutu Cooperative Society and Kymenlaakso Agrimarket Oy. The Agrimarket chain has a total of 30,000 Agribonus customers.

The S Group retained its market leader's position within the agricultural trade, with a share of 42 per cent of the market.

The S Group's hardware and agricultural retail sales totalled EUR 954 million, a decrease of 0.2 per cent. In 2003 the Agrimarket chain had retail sales of EUR 669 million, an increase of 2 per cent. Thanks to the outlays on developing farm construction, the chain's hardware sales outpaced the overall sector, registering a market share gain of about 2 per cent. Positions in the gardening/horticultural trade remained unchanged.

The total agricultural market in Finland remained at the previous year's level of about EUR 1,900 million. Total demand in the retail hardware trade grew by about 7 per cent, whereas growth in gardening/horticultural supplies was at the level of 5 per cent. Demand for the production inputs used on farms remained nearly unchanged, though there was slight growth in the total market for industrial feeds.

### The Agrimarket chain's Loyal Customer membership



Technological advances in agricultural machinery and strong growth in efficiency are contributing to maintaining the volume of work machine sales at the level of previous years.

Because of the sweeping structural change in the farm sector, the unit size of farms grew further. Large farms are increasingly adopting the practice of inviting competitive bids for the products and services they purchase.

Competition within the agricultural trade led to a decrease in gross margins on the main product groups in 2003. The competitive situation got tougher, especially within sales of mass goods. EU negotiations on lowering farmers' support level and the decisions resulting from them acted as a drag on year-end sales and large investments.

The hardware trade moved ahead with the development of product ranges to make them more in line with demand from customer-owners. The units specialising in gardening and horticultural supplies offered a comprehensive assortment of plants, supplies, machinery and tools for people who want to fix up their yards. Customer-owners' purchases in these areas increased a good deal during the year.

Within the newest product group, environmental and golf course machines, measures aiming at strengthening customer relationships were beamed at specific target groups.

### **Hankkija-Maatalous Oy**

In line with its strategy, SOK's wholly-owned subsidiary Hankkija-Maatalous Oy offers services for its customer-owners and people who live in rural areas. Hankkija-Maatalous Oy had net turnover in 2003 of EUR 686 million (684 million), up 0.3 per cent on the previous year. Hankkija-Maatalous Oy had a share of 81 per cent of the Agrimarket chain's net turnover.

The total market for tractors increased by 232 units from the previous year, with 5,353 tractors sold. The position of Hankkija-Maatalous Oy exclusive sales brand, John Deere, strengthened during the year and its market share at the end of the year was 16.5 per cent.

Nearly 500 combine harvesters were sold in Finland in 2003, and 60 per cent of them were Sampo Rosenlew combine harvesters that were delivered by the Agrimarket chain. The sales targets set for the grounds care and golf course machine business were reached.

The arrangements for transferring Hankkija-Maatalous Oy's logistics functions to Movere Oy were carried out when Hankkija-Maatalous Oy purchased a third of Movere Oy's shares outstanding. A total of EUR 2.1 million was invested in the service network and information systems during the year.

In the summer Hankkija-Maatalous Oy acquired the entire shares outstanding in Agribalt Oy, which carried on agricultural trade in Latvia and Estonia. Towards the end of the year, Hankkija-Maatalous Oy purchased the agricultural business operations of Cooperative Society Osla Handelslaget. The transfer was finalised on 1 January 2004.

Hankkija-Maatalous Oy had operating profit of EUR 7.7 million (EUR 8.7 million). The company employed an average of 869 people in 2003 (836).

### **Procurements and logistics**

Within the S Group, product procurement and logistics are handled by the procurement and logistics companies, acting on instructions from the retail units of the chain-managed businesses and the S Group.

#### **Intrade Partners Oy**

Intrade Partners Oy is the S Group's procurement and logistics company. Its purchasing responsibility encompasses primarily the apparel, cosmetics, leisure and household product areas. The company's largest customer chains are the Prisma, Sokos, S Market and Agrimarket chains. It serves smaller customer chains as well: Sale, Alepa and the ABC service station chain. In addition to consumer goods, Intrade Partners Oy supplies store furnishings and fixturing to the S Group's sites. The task of Intrade Partners Oy is to bring added value to its customer chains through an appropriate product range in line with their business idea, by means of an efficient operational process that is integrated into the customer chains and backed up by information systems and by achieving high-volume advantages through centralised purchases. During 2003 consumer goods sales by Intrade Partners Oy's customer chains developed favourably despite the very tight competitive situation.

Operational processes were developed in close co-operation with the customer chains and suppliers during 2003. The focus in dealings with the largest suppliers was on improving availability. The work carried out has brought positive results in this area.

Intrade Partners Oy had net turnover of EUR 425.1 million (408.3 million), representing growth of 4.1 per cent on the previous year. Intrade Partners Oy posted an operating loss of EUR 0.1 million (profit of 3.7 million in 2002). The company employed an average of 234 people in 2003 (243).

The outlook for 2004 is positive and growth is expected in the current financial year, particularly due to the boost from four new Prisma units.

#### **Rainex Yrityspalvelu Oy**

Rainex Yrityspalvelu Oy has six sales outlets: in Helsinki, Jyväskylä, Kuopio, Oulu, Tampere and Turku. The company's head office and administration are based in Helsinki (Pukinmäki). The warehouses are located in Vantaa (Hakkila and Maantiekylä), Oulu and Turku.

In 2003 Rainex Yrityspalvelu Oy made further outlays on EDI-based electronic invoicing, or online bills. The taking in of invoices in electronic form was started in 2003.

The company had net turnover of EUR 84.0 million, an increase of 0.6 per cent on the figure a year earlier. Operating profit was EUR 1.5 million (1.1 million). The company employed an average of 43 people in 2003 (43).

The hardware trade is expected to grow slightly in 2004, driven mainly by single-family home construction and renovation work.

#### **Inex Partners Oy Group**

The Inex Partners Oy Group is a half-owned associated company of SOK. At the close of 2003 the Group comprised the parent company



Inex Partners Oy and its wholly-owned subsidiary Meira Nova Oy. Inex Partners Oy is owned on a 50–50 basis by SOK and Tradeka (Cooperative Tradeka Corporation). Frozen foods logistics is handled in co-operation with the associated company Finnfrøst Oy.

The Inex Group's operations developed well in 2003. This was attributable to the good performance of the customer chains and to Inex's own profitable operations. The added value generated by the company's operations has had a direct impact on strengthening the competitiveness of the customer chains.

The Inex Group's sales were up 5 per cent on the previous year, rising to EUR 1,839 million. The prevailing trend in the sales of Inex Partners Oy, Meira Nova Oy and Finnfrøst Oy is still higher than the general trend in the sector. Consequently, Inex's purchasing and logistics position has strengthened.

The development of operations centred on product assortments, the store's own brands, international procurement co-operation, operating processes, information technology, equipment and the personnel. The Group generated a profit and came in ahead of its targets. The Group's financial position was good.

Last year saw continuing good performance by Inex Partners Oy, which produces assortment, purchasing and logistics services for the grocery and speciality trade. The company had sales of EUR 1,649 million, up 4 per cent on the previous year. Development projects were carried out better than had been planned. This enabled the company to improve efficiency, operational reliability, quality and earnings. The company's competitive benefits for customers and its position in the markets strengthened. The financial performance of Inex Partners Oy exceeded the targets set.

Continued strong performance in 2003 was also reported by Meira Nova Oy, which produces assortment, purchasing and logistics services for the HoReCa sector. Sales totalled EUR 196 million, increasing by 15 per cent on the year-ago figure. Meira Nova's share of the delivery wholesale trade in the HoReCa sector is about 25 per cent.

Finnfrøst Oy, the associated company that provides purchasing and logistics services for frozen foods, report excellent sales figures of EUR 165 million, up 9 per cent.

The good trend of the Inex Group and its client chains will continue for the most part in 2004. The competitive factors of primary importance are price-competitiveness, cost-effectiveness, delivery reliability – especially the store's own brands – as well as the efficiency of the value chain extending from the consumer to the production operation.

Inex Group had a payroll of 2,214 employees at the end of 2003.

### North European Oil Trade Oy

North European Oil Trade Oy (NEOT) is a fuel procurement company that is jointly owned by SOK and Greeni Oy. Having its own procurement company will strengthen the S Group's position in obtaining fuels in both the domestic and foreign markets.

NEOT Oy started fuel deliveries on 1 February 2004. The company's customers are the S Group's ABC chain and Greeni Oy's St1 chain.

### Neighbouring countries

The S Group operates in the Baltic countries within the supermarket trade, the hotel and restaurant business, the motor trade and the agricultural trade.

SOK's Supervisory Board confirmed a new neighbouring countries strategy for the S Group. Accordingly, SOK will be responsible for the S Group's operations in nearby areas. The capital expenditures that have been made will create a foundation for the further expansion of business in the Baltic area, with outlays centring on the supermarket trade.

On the basis of the strategy, SOK's Executive Board adopted a new organisation for business operations in the Baltic area. The Baltic operations will be a part of the Field Division. Responsibility for sales and profits in the Baltic area will rest with the country manager.

Baltic area strategy and investment planning within the supermarket, motor and agricultural trade as well as hotel operations was continued in 2003.

SOK's first hotel investment in the Baltic area was carried out by purchasing Tallinn-based Hotel Viru's business operations for SOK's subsidiary AS Sokotel.

Baltic operations achieved the targets set for them in the financial year.

### AS Prisma Peremarket

Prisma Peremarket AS, a wholly-owned subsidiary of SOK, is engaged in the retail trade in Tallinn at Prisma hypermarkets located in three different shopping centres in the Sikupilli, Kristiine and Mustamäe town districts. In addition, the chain comprises the Prisma owned by ETK's subsidiary Ramare AS, which operates in Tallinn's Rocca al Mare shopping centre in the Haabersti district under a chain and management agreement. The Prismas had a market share of about 22 per cent of chain sales in Tallinn.


The company also carries on restaurant operations in line with the Rosso, Rosso Express, Coffee House and Hesburger concepts in a food court-type restaurant that operates within the Prisma in the Sikupilli Shopping Centre.

AS Prisma Peremarket had net turnover in 2003 of EUR 52.7 million (32.0 million) and posted operating profit of EUR 0.07 million (a loss of 0.6 million in 2002).

The company employed an average of 372 people in 2003 (277).

### AS Sokotel

AS Sokotel is SOK's wholly-owned subsidiary which bought the Hotel Viru business in Tallinn by way of an agreement signed in June 2003. The business was handed over to SOK's subsidiary on 1 September 2003. The company serves the S Group's customer-owners, business travellers and other customers in Estonia's largest hotel. In spring 2004, following the completion of an enlargement, the hotel has 513 rooms, five restaurants and various conference facilities.



The occupancy rate  
of the S Group's hotels  
was 61 per cent  
in 2003



Hotel Viru is the first foreign unit in the Sokos Hotels chain. Sokos Hotel Viru will expand the S Group's leisure offerings and open up a new market area for the hotel and restaurant business.

AS Sokotel's net turnover and result for the first four months of operation exceeded the target. Net turnover was EUR 4.1 million and the operating result was a loss of EUR 0.4 million.

The company employed an average of 251 people in 2003.

Expectations for 2004 are good, thanks to Estonia's membership of the EU, even though competition is hotting up.

### AS Kommest Auto Group

AS Kommest Auto is SOK's subsidiary that has dealership rights for Peugeot vehicles in Estonia and Latvia as well as in the St Petersburg area. SOK has a 90 per cent holding in the company. Of Kommest Auto's wholly-owned subsidiaries, AS Lauva Auto operates as a sales company in Latvia and ZAO Kom-Motors acts as an importer of Peugeot vehicles in St Petersburg. Kom-Motors' operations as an importer were wound up on 31 December 2003 because Automobiles Peugeot will start its own importing operations in the entire Russian area during 2004.

With the accession of the Baltic countries to membership of the EU, import and retail sales operations will be turned into separate companies in Estonia and Latvia too. Accordingly, the Kommest Auto and Lauva Auto retail sales outlets were incorporated as wholly-owned subsidiaries of the importing companies. Beginning on 1 May 2004, retail vehicle sales will be carried on by OÜ Kommest Autokeskused in Estonia and by SIA Lauva Autocenters in Latvia.

The total market for vehicles in Estonia in 2003 was 17,951 new cars and vans, representing growth of 7.7 on the previous year. Latvia's total market was 9,777 passenger cars and vans, an increase of 9.2 per cent on the previous year.

At the end of the year, the Kommest Auto Group had five car dealerships of its own, two of which are in Tallinn, one in Tartu and two in Riga. During the year the car dealership in Pärnu was sold and a new dealership was built in Tallinn.

Kommest Auto sold a total of 2,282 Peugeot vehicles in Estonia and 851 in Latvia. The market share of Peugeot passenger cars in Estonia was 11.7 per cent and in Latvia 8.3 per cent. The market share of vans in Estonia was 19.8 per cent and in Latvia 13.1 per cent. The share for Peugeot vehicles fell from 15.1 per cent to 12.7 per cent in Estonia and in Latvia the market position was retained. Kommest Auto delivered 2,318 vehicles to dealers.

The Kommest Auto Group had net turnover in 2003 of EUR 73.7 million (58.8 million), an increase of 25.4 per cent on the previous year. The Group posted operating profit of EUR 1.6 million (1.6 million).

The Group employed an average of 195 people in 2003 (180).

### Agribalt Oy

The Agribalt Oy Group, which is engaged in the agricultural supply and machine trade, comprises AS Agribalt, which is based in Paide, Estonia, and SIA Agribalt, which operates in Jelgava, Latvia.

SOK's subsidiary Hankkija-Maatalous Oy redeemed from the Lännen Tehtaat plc Group its 50 per cent stake in Agribalt Oy. The deal gave SOK a 100 per cent holding in the company via Hankkija Maatalous Oy.

The Agribalt Group reported net turnover in 2003 of EUR 14.1 million (8.5 million). Operating profit was EUR 0.3 million (a loss of 0.4 million in 2002).

# Corporate governance within SOK Corporation

The corporate governance of Suomen Osuuskauppojen Keskuskunta, SOK, is based on the Cooperative Societies Act, which came into force on 1 January 2002. SOK's revised Statutes based on this act were adopted at the General Meeting of the cooperative society on 23 April 2003 and entered in the Trade Register on 14 May 2003.

The other principles and rules of procedure underlying SOK Corporation's corporate governance are

- the rules of procedure of SOK's Supervisory Board
- the rules of procedure of the Committee of Presiding Officers of SOK's Supervisory Board
- the rules of procedure of SOK's Executive Board
- SOK's Corporation-wide principles

## Customer-owner's role

Customer-owners are members of the cooperative societies that make up the S Group. Members have the right to participate in the administration of their cooperative society. A customer-owner can participate in the cooperative society's administration by voting at elections of the Council of Representatives and/or by standing for election to the Council of Representatives or other administrative bodies.

## General Meetings of the cooperative society

The highest decision-making body of Suomen Osuuskauppojen Keskuskunta is the Cooperative Meeting.

Each cooperative society is entitled to send to a Cooperative Meeting a number of representatives equal to its total votes, and they have the right to speak but only one of them has the right to vote. The maximum number of representatives is five. The representatives who participate in meetings of Suomen Osuuskauppojen Keskuskunta are elected by the Supervisory Board of each cooperative society.

The Cooperative Meeting confirms the income statement and balance sheet as well as the consolidated income statement and balance sheet and decides on the measures that are required in accordance with the profit or loss shown in the confirmed parent company balance sheet and consolidated balance sheet. The meeting decides the emoluments of the chairman and vice chairmen of the Supervisory Board as well as the auditors. The meeting also decides on the number of members of the Supervisory Board and auditors and elects the necessary members to the Supervisory Board as well as the auditors and the administrative auditors.

## Cooperative bodies

### Supervisory Board

The Supervisory Board comprises 12–25 members, about a third of whom are due to resign each year. The term of office of members of the Supervisory Board is three years. Two personnel representatives furthermore have seats on the Supervisory Board. A person elected to the Supervisory Board must be a Finnish citizen, a member of a cooperative society and under 65 years of age.

The Supervisory Board oversees that the administration of the cooperative society and SOK Corporation is attended to in accordance with the law, the Statutes, decisions of the Cooperative Meeting and the Supervisory Board as well as the cooperative society's best interests. The Supervisory Board accepts and expels members of the cooperative society and appoints and dismisses the chief executive and other members of the Executive Board as well as decides the remuneration of Executive Board members other than those who are employed by the cooperative society. The Supervisory Board also confirms the Executive Board's proposals concerning the candidates for seats on the Supervisory Boards and Executive Boards of subsidiaries and associated companies as well as of the corresponding co-operation bodies of the chains.

In addition, the Supervisory Board decides on the principles of co-operation for the S Group's operations and on long-term plans. These decisions form the basis of the S Group's operations.

The Supervisory Board had 25 members in 2003 as well as two personnel representatives.

The Supervisory Board met 6 times in 2003.

### Chairman of the Supervisory Board

The task of the chairman is, in particular, to prepare and oversee matters that are to be dealt with by the Supervisory Board. Together with the vice chairmen of the Supervisory Board, the chairman decides on the chief executive's compensation and, upon a proposal by the chief executive, on the compensation of members of the Executive Boards who are in the cooperative society's employ. The chairman and vice chairmen of the Supervisory Board can, at their discretion, be present as necessary at meetings of the Executive Board and exercise their right of speech at them.

The chairman of the Supervisory Board in 2003 was Otto Mikkonen.

### Executive Board

The Executive Board is comprised of the cooperative society's chief executive and a minimum of three and a maximum of eight other members, who are elected for one year at a time. The Executive Board represents the cooperative society and attends to its administration and the due organisation of its operations within the framework of the law and the Statutes.

The Executive Board confirms matters such as the objectives of the subsidiaries, the operational plan and the allocation of resources, and oversees the implementation of related decisions. The Executive Board oversees the operations of the associated companies to ensure the best interests of SOK Corporation and the S Group. The Executive Board also monitors the savings fund activities of the cooperative societies.

Upon a proposal by the chief executive, the Executive Board decides on setting up a Management Team, on the appointments and compensation of members of the Management Team who do not belong to the Executive Board as well as on other management appointments in accordance with the principles it has defined.

A member of the Executive Board who is an employee of the cooperative society or exercises a position of trust within it does not participate in the preparation of decisions concerning the auditors and audit of cooperative societies or their decision making or the monitoring of the cooperative societies' savings fund activities.

The Executive Board had 8 members in 2003 and met 13 times during the year.

### Chief Executive Officer

The chief executive officer serves as chairman of the Executive Board. His duty is to manage the operations of the Executive Board and the cooperative society in accordance with the relevant act, the Statutes and the decisions of the governing bodies.

The chief executive officer is Kari Neilimo, D.Sc. (Econ.).

### Executive Board of the subsidiaries

The chairman of the Executive Board of a subsidiary is as a rule a member of the Executive Board or Management Team who is responsible for the subsidiary's operations and is employed by SOK. The subsidiary's Executive Board decides on the company's strategy, operational plans and budget as well as the hiring, terms of employment and dismissal of the managing director. In its decisions, the Executive Board takes into account the Corporation-wide principles and the decisions of SOK's Executive Board concerning the company's objectives, operational plans and allocation of resources.

### Chain Management

The Chain Management organisation is the central commercial joint organisation of the cooperative societies and SOK Corporation. It comprises the Chain Board, the Chain Steering Groups, SOK's Chain Management unit as well as the permanent or temporary working groups that are set up for different purposes.

The Chain Boards are made up of the managing directors of the cooperative societies, the business area directors as well as persons employed by SOK. The chairman of the Chain Board is as a rule a member of the Executive Board or Management Team and is employed by SOK.

The decisions of the Chain Board are binding, under a Chain Agreement, on all units belonging to said chain. The Chain Board decides on the division of responsibility between the different parts of the Chain Management organisation and on their authorities and budgets. Upon a proposal by the Chain Board, SOK's Executive Board decides on the competitive strategies and allocation of resources, and these are confirmed by the Supervisory Board. SOK's Executive Board confirms the budgets and key resource appointments.

### Management Team

The task of the Management Team is to assist the chief executive and the Executive Board in accordance with the framework determined by the Executive Board. The Management Board prepares matters which are to be presented to the Executive Board and require co-ordination, such as the S Group's and SOK Corporation's business strategies, target levels, operational plans and budgets.

## Control system

### General and administrative audit

Each year SOK's Cooperative Meeting elects a minimum of two and a maximum of three auditors and two administrative auditors for the next financial year. The administrative auditors also participate in the audit of SOK Corporation.

The Audit Committee functions alongside the auditors as part of SOK Corporation's owner-oversight. The task of the committee is to direct attention to the overall implementation of SOK Corporation's audit function, the decisions of SOK Corporation's bodies and their implementation within the S Group. The committee also assesses the level of results obtained through the S Group's strategy.

### Controller functions and internal audit

The Controller functions report to SOK Corporation's chief executive as an independent, business-oriented operational supervision, control and analysis unit. The task of the Controller functions is to support SOK Corporation's and the S Group's organisations in achieving their strategies and objectives and in carrying out their operational plans. The purpose of the function is to safeguard SOK Corporation's best interests, assets and monitoring of risk management as well as conformity with its operational strategy. The unit assists the Corporation's management and external audit in internal monitoring activities and financial statement audits.

The unit pursues a forward-looking objective centring on the preventive mapping out of risks and ensuring that development measures are launched.

SOK Corporation also has a comprehensive financial reporting system as well as a set of Group-wide and merger and acquisition principles set out by the Executive Board, which determine, for example, investments, disposals and, in particular, the order of priority for decision making concerning the S Group's internal business transfers.

SOK Corporation organisation 2004



- EB** Member of the Executive Board
- MT** Member of the Management Team
- Executive Board Chairman
- Managing Director

**Inex Partners Oy**  
Marti Haaman ••  
up to 30 April 2004  
Risto Pyykönen ••  
as from 1 May 2004



## SOK Supervisory Board 2003

**Otto Mikkonen** (born 1949)  
Joensuu  
Chairman  
Managing Director,  
KM-Yhtymä Oy  
Chairman, Supervisory Board,  
North Karelia Cooperative Society  
Retiring in 2004

**Håkan Smeds** (born 1948)  
Espoo  
First Vice Chairman  
Managing Director,  
Cooperative Society Varuboden  
Retiring in 2004

**Eino Laaksonen** (born 1936)  
Oulu  
Second Vice Chairman  
until 23 April 2003  
Principal, Pohjankartano  
Upper Secondary School  
Chairman, Supervisory Board,  
Cooperative Society Arina  
Retiring in 2004

**Max van der Pals** (born 1945)  
Lohja  
Second Vice Chairman  
from 23 April 2003  
Farmer  
Chairman, Supervisory Board,  
Cooperative Society Seutu  
Retiring in 2004

**Arto Arvonen** (born 1944)  
Salo  
Managing Director, Salo District  
Cooperative Society  
(until 31 December 2002)  
Until 23 April 2003

**Esko Hakala** (born 1952)  
Kajaani  
Managing Director,  
Cooperative Society Maakunta  
Until 23 April 2003

**Jukka Huiskonen** (born 1945)  
Mikkeli  
LL. M.  
J. Huiskonen, Attorneys-at-Law  
Chairman, Supervisory Board,  
Cooperative Society Suur-Savo  
Until 23 April 2003

**Jouko Härkönen** (born 1939)  
Farmer  
Chairman, Supervisory Board,  
Cooperative Society Maakunta  
From 23 April 2003  
Retiring in 2006

**Heikki Ikonen** (born 1943)  
Nurmes  
Farmer  
Chairman, Supervisory Board,  
Cooperative Society Jukola  
Retiring in 2005

**Pekka Kangasmäki** (born 1945)  
Porvoo  
B.Sc. (Econ.)  
Managing Director,  
Cooperative Society Osla  
Retiring in 2006

**Kimmo Koivisto** (born 1956)  
Farmer  
Chairman, Supervisory Board,  
Salo District Cooperative Society  
From 23 April 2003  
Retiring in 2005

**Simo Kutinlahti** (born 1957)  
Keuruu  
Farmer  
Chairman, Supervisory Board,  
Cooperative Society Keskimaa Osk  
Retiring in 2004

**Leo Laukkanen** (born 1947)  
Managing Director,  
Cooperative Society Suur-Savo  
From 23 April 2003  
Retiring in 2006

**Jouko K. Leskinen** (born 1943)  
Helsinki  
LL. M.  
Chairman, Supervisory Board,  
Helsinki Cooperative Society  
Retiring in 2005

**Maija-Liisa Lindqvist** (born 1951)  
Lahti  
Member of Parliament  
Chairman, Supervisory Board,  
Cooperative Society  
Hämeenmaa  
Retiring in 2005

**Seppo Linjakumpu** (born 1958)  
Kuusamo  
Agronomist  
Chairman, Supervisory Board,  
Cooperative Society Koillismaa  
Retiring in 2006

**Ahti Manninen** (born 1950)  
Lappeenranta  
Managing Director, South  
Karelia Cooperative Society  
Retiring in 2006

**Jorma Niiniaho** (born 1945)  
M.Sc. (Econ.)  
Managing Director,  
Cooperative Society Ympyrä  
Retiring in 2006

**Matti Ojanperä** (born 1941)  
Pori  
Managing Director,  
Cooperative Society Satakunta  
Until 31 December 2003

**Jorma Sieviläinen** (born 1954)  
Rauma  
M.Sc.  
Managing Director,  
Cooperative Society Keula  
Retiring in 2005

**Timo Sonninen** (born 1948)  
Iisalmi  
Entrepreneur  
Chairman, Supervisory Board,  
Cooperative Society PeeÄssä  
Retiring in 2005

**Antero Taanila** (born 1941)  
Kokkola  
Administrative Director,  
Outokumpu Zinc Oy  
Chairman, Supervisory Board,  
Cooperative Society KPO  
Retiring in 2005

**Ulla-Maija Tolonen** (born 1951)  
Tampere  
M.Sc.  
Managing Director,  
Pirkanmaa Cooperative Society  
Retiring in 2005

**Eeva Ukkola** (born 1941)  
Anjalankoski  
Farmer  
Chairman, Supervisory Board,  
Cooperative Society Ympäristö  
Retiring in 2004

**Hanna Valtari** (born 1948)  
Seinäjäki  
Training Director,  
Seinäjäki Vocational  
Training Institution  
Vice Chairman, Supervisory  
Board, South Ostrobothnia  
Cooperative Society  
Retiring in 2004

**Matti Vanto** (born 1945)  
Raisio  
LL. M.  
Lawyer, Naantali Town  
Chairman, Supervisory Board,  
Turku Cooperative Society  
Retiring in 2004

## Personnel Representatives

**Tapani Tikkala** (born 1947)  
Helsinki  
Project Manager,  
SOK Customer-owner Services  
Retiring in 2005

**Annikki Heikkinen** (born 1942)  
Helsinki  
Secretary, SOK Real-Estate  
Maintenance  
Retiring in 2005

## SOK Executive Board 2003

**Kari Neilimo** (born 1944)  
Chief Executive Officer as from  
1 August 2002  
D.Sc. (Econ.)  
Professor of Business Administration,  
Tampere University, University of  
Lapland and Lappeenranta University  
of Technology, 1983–2002  
Managing Director of  
Neiconsulting Oy, 1991–2002  
Member of the Executive Board of  
Pirkanmaa Cooperative Society,  
1988–1991, and Chairman of the  
Supervisory Board, 1992–2002  
Chairman of SOK's Supervisory  
Board, 1991–2002

**Jukka Salminen** (born 1947)  
CEO's deputy  
Titular Commercial Counsellor  
M.Sc. (Econ.)  
Various positions in SOK since 1974  
Director of SOK's Administrative  
Division and member of the  
Executive Board since 1988

**Esko Hakala** (born 1952)  
Managing Director of  
Cooperative Society Maakunta  
Member of SOK's Executive Board  
since 1 August 2003

**Arto Hiltunen** (born 1958)  
M.Sc. (Econ.)  
Managing Director of Helsinki  
Cooperative Society Elanto  
Member of SOK's Executive Board,  
2000–2001, since 2003

**Kalle Lähdesmäki** (born 1952)  
MBA  
Managing Director of Southern  
Ostrobothnia Cooperative Society  
from 1 July 1985 to 31 July 2003  
Director of SOK's Field Division  
as from 1 August 2003  
Member of SOK's Executive Board  
since 2001

**Reijo Lähteenmäki** (born 1941)  
Titular Commercial Counsellor  
M.Sc. (Soc.Sc.)  
Various positions in SOK since 1985  
Director of SOK's Field Division and  
member of the Executive Board  
from 1999 up to 31 July 2003

**Kuisma Niemelä** (born 1958)  
M.A.  
Managing Director of Cooperative  
Society Keskimaa Osk  
Member of SOK's Executive Board  
since 2002

**Eero Saukkonen** (born 1947)  
M.Sc. (Econ.)  
Titular Commercial Counsellor  
Managing Director of  
Cooperative Society PeeÄssä  
Member of SOK's Executive Board  
since 2002

**Jouko Vehmas** (born 1956)  
M.Sc. (Econ.)  
Managing Director of  
Cooperative Society Ympyrä  
Member of SOK's Executive Board  
since 2001



SOK Executive Board 2003. Jukka Salminen (from the left), Jouko Vehmas, Arto Hiltunen, Kari Neilimo, Eero Saukkonen, Kuisma Niemelä, Esko Hakala and Kalle Lähdesmäki. Absent from the photograph is Reijo Lähteenmäki (Executive Board member up to 31 August 2003).

## SOK Management Team 2003



**Kari Neilimo**

Born 1944  
Chairman and CEO  
M.Sc. (Econ.), University of Tampere, 1969  
D.Sc. (Business Administration), University of Tampere, 1975  
Member of SOK's Executive Board since August 2002  
Member of the Management Team since August 2002



**Jukka Salminen**

Born 1947  
Senior Vice President  
SOK Administrative Division  
M.Sc. (Econ.)  
Member of SOK's Executive Board since 1988  
Member of the Management Team since 1998



**Kalle Lähdesmäki**

Born 1952  
Senior Vice President  
SOK Field Division  
M.Sc. (Econ.)  
Member of SOK's Executive Board since 2001  
Member of the Management Team since August 2003



**Taavi Heikkilä**

Born 1962  
Senior Vice President  
SOK Strategic and Business Development Division (until 31 May 2004)  
M.Sc. (Econ.)  
Member of the Management Team since 2000



**Ensio Hytönen**

Born 1952  
Managing Director  
Hankkija-Maatalous Oy  
Licentiate in Agriculture and Forestry  
Member of the Management Team since 2003



**Reijo Kaltea**

Born 1946  
Director of Chain Management  
SOK Speciality Stores Division  
B.Sc. (Econ.)  
Member of the Management Team since April 2002



**Suso Kolesnik**

Born 1961  
Senior Vice President,  
SOK Communications and Publications  
M.Sc. (Soc.Sc.)  
Member of the Management Team since June 2003



**Matti Pulkki**

Born 1947  
Senior Vice President  
SOK Hotel and Restaurant Division  
B.Sc. (Econ.), MBA  
Member of the Management Team since September 2002



**Antti Sippola**

Born 1955  
Director of Chain Management  
SOK Market Chain Management  
M.Sc. (Econ.)  
Member of the Management Team since 2003



**Heikki Strandén**

Born 1954  
Director of Chain Management  
SOK ABC Chain Management  
Member of the Management Team since October 2003



**Aino Toikka**

Born 1947  
Senior Vice President  
SOK Human Resources and Training  
M.A.  
Member of the Management Team since 1998

## SOK Auditors 2003

Regular auditors

**Tomi Englund**

M.Sc. (Econ.)

Authorised Public Accountant

**Tapani Rotola-Pukkila**

M.Sc. (Econ.)

Authorised Public Accountant

**Juhani Heiskanen**

D.Sc. (Econ.)

Authorised Public Accountant

Deputies

**Ernst & Young Oy**

**Eero Huusko**

M.Sc. (Econ.)

Authorised Public Accountant

## SOK Audit Committee 2003

Management Auditors

**Kristina Dufholm**

LL.M.

The Chairman of the Cooperative Society Varuboden until 31 December 2003

**Matti Suokas**

Finance Director

Approved Auditor

Deputies

**Mikko Ruohonen**

Professor

Member of the Salo District Cooperative Society Executive Board

**Risto Tuori**

Lawyer

SOK auditors are also members of the audit committee.

## Corporate security and risk management

The goal of corporate security activities and risk management is to support the continuity of the S Group's central operations and processes in order to achieve its business strategy objectives.

The aim is to safeguard personnel, customers, assets, the unhindered continuity of operations, information on the S Group and customers as well as the environment against damage, accidents and crime.

The corporate security policy, steering model and model for managing corporate security within the S Group were approved by SOK's Executive Board on 12 June 2003. SOK's Corporate Security unit went into operation on 1 January 2003.

### Controlling corporate security activities and responsibilities within the S Group

The Executive Boards of the cooperative societies and SOK are responsible for the corporate security activities and risk management of their own organisations. The S Group's Financial Functions Board guides and oversees the implementation of the approved strategy, policy and principles within the S Group and furthermore approves the objectives, plans, resources and budgets connected with the development of corporate security activities.

SOK's Corporate Security unit develops and defines the principles, rules of the game and objectives of corporate security activities as well as supports, manages and monitors their application and implementation within the S Group.

The cooperative societies together with SOK's subsidiaries and units appoint a person in charge of corporate security activities, whose main task is to carry out the S Group's corporate security management model and programme within his own organisation.

The S Group's personnel receive orientation, training and instructions familiarising them with job-related safety procedures and how to act in emergency situations.

### Development of corporate security and risk management in 2003

Activities in the area of security management centred on handling crisis situations and developing the management of data security. The security programmes of SOK Corporation's companies and units moved ahead according to plans.

The handling of crisis situations was developed by introducing a system for managing special and anomalous situations at the Group's different companies. Security audits were carried out at the regional cooperative societies and SOK's subsidiaries and units as well as in planning new business operations. A tool that was developed for identifying and analysing business risks was used in business risk analyses at Cooperative Society Arina and Hankkija-Maatalous Oy.

Personal security within the S Group was ensured through training and store opening courses at the Jollas Institute. The store opening courses run by the ABC chain and Helsinki Cooperative Society Elanto formed a major part of the training.



In the area of anti-crime security, the S Group continued inspections of the safety level at its locations in connection with the Safety-Protected campaign that is being run by the Federation of Finnish Commerce and Trade. Towards the end of the year there were 210 locations which were approved and found to comply with the requirements.

In the area of security of property and business premises, the Corporate Security unit participated in the planning of the new chain locations that are to be built.

Within rescue operations, co-operation with the authorities was developed. A co-operation agreement was signed with the City of Helsinki Rescue Department in January 2004. The agreement covers locations of SOK and HOK-Elanto in Helsinki.

Within the data security the emphasis was on developing data security instructions and procedures. Special focus areas were the provision of guidelines for the personnel's data security activities and observance of the requirements set by the Act on the Protection of Privacy in Working Life .

Occupational safety activities were developed at SOK's subsidiaries and units. Occupational safety was highlighted within safety training, and an S Group Occupational Safety Card was modelled in co-operation with the Jollas Institute.

Operational security was developed by drawing up new safety instructions for the personnel.

Corporate safety web pages were opened within the Sintra online service. Planning of the transfer of control and management functions that are central for the S Group and located at the Ässäkeskus was continued with the aim of safeguarding the continuity of operations. An element of this project is the identification and analysis of threats to the S Group's operations and allocation of responsibility for risks.

The security of functions abroad in neighbouring countries was developed by updating the Crisis Management organisation and instruction material as well as by organising an annual field exercise. At the Sokos Hotel Viru, a safety audit was carried out and a corporate security development plan was drawn up.

Environmental protection and safety were developed in co-operation with SOK Corporation's environmental experts. A central focus of the co-operation was on improving the ABC chain's environmental safety.

Within co-operation with stakeholders, SOK has participated actively in the work of the Safety Committee of the Federation of Finnish Commerce and Trade, the Finnish Risk Management Association, the working group that is developing safety procedures for shopping centres as well as the Secman security forum.

## Development initiatives

The S Group's Corporate Security programme for the period 2004–2006 was approved by the S Group's Financial Board on 10 November 2003.

The principles and management model of the S Group's corporate security policy are already being implemented comprehensively within SOK Corporation, and the aim is to gain the commitment of the entire S Group to carrying out these activities during 2004–2006. How well the programme is being implanted will be monitored by using a specific benchmark.

The main development projects for 2004 are

- implementing the projects included within the Corporate and Data Security programme in 2004
- setting out SOK's risk management strategy, roles and responsibilities
- identifying and analysing the S Group's risks of loss (incl. data security and information risks)
- implementing the co-operation agreement with the City of Helsinki Rescue Department and the measures included in the 2004 action programme
- continuity planning for SOK's central control and management functions based on the S Group's requirements.

# The S Group's social accountability

In November 2002 SOK's Executive Board approved the principles of social accountability for the S Group that had been drafted on the basis of the S Group's environmental policy that was approved in 1999. The principles encompass the economic, social and environmental dimensions of social responsibility.

The S Group's first Social Accountability Report will be published in 2004. In the long term, reporting on social accountability issues is to be made a part of normal annual reporting. The amount and extent of the information to be collected will change somewhat in step with the development of information systems and information needs.

Social accountability is viewed as a natural part of the S Group's set of core values, and the principles are put into practice by means of action plans carried out by the operating units. The objective is to develop the management of economic, social and environmental information so as to produce added value for the S Group's business operations and, further along, for its committed customer-owners.

In January 2003 SOK was admitted as a member of Finnish Business & Society, an association, which was founded on 4 November 2002. Amongst the founding members were the Helsinki Cooperative Society (HOK) and Inex Partners Oy. The purpose of the society is to promote corporate social responsibility by means of a network involving companies, the public sector as well as consumers and citizens.

## The S Group's personnel

The S Group's renewed human resources strategy that is based on the Group's business idea, vision and values was approved by the Supervisory Board in March 2003.

The S Group seeks to be a competitive service sector employer where competent and committed staff work in a stimulating job environment – openly, interactively and with an unfailing attention to the customer's needs. Within the S Group, the staff are managed in accordance with the Group's core values, and good performance is rewarded.

The objective of the HR strategy is to turn our personnel into a unique competitive advantage, whilst supporting and ensuring the implementation of competitive strategies via human resources and the S Group's ways of working.

## Organisation and development of the HR function

The HR function was organised in accordance with the chain management model. Activities are co-ordinated and overseen by an HR Board and HR Steering Group, which are made up of representatives from the regional cooperative societies and SOK Corporation.

A year-long HR training course targeted at the S Group's HR professionals got started in autumn 2003 with the aim of mobilising the HR strategy, developing joint operational models and creating an efficient HR network.

Information on personnel matters was stepped up by means of electronic tools. The electronic HR desk on the intranet offers guidelines, operational models, forms and other useful aids. The HR

forum, a discussion channel for human resources professionals, was opened on the internal network.

In the area of personnel surveys, in 2003 the S Group went over to using a Group-wide "Good S Group Workplace" model questionnaire. Results are divided into four subcategories: the regional cooperative societies / SOK Corporation as an employer; goal-orientation in the workplace; supervisor work; personal development and learning. The survey will yield comparison material that will aid in identifying the best practices for use in supporting long-term development. The results of the personnel survey are part of the S Group's Balanced Scorecard.

2003 saw the start-up of the HR system project that aims at putting in place an HR system across the S Group.

## Employer image and recruitment

A key priority for the S Group's HR strategy is to ensure the Group's competitiveness as an employer and to enable it to recruit capable employees. The employer image is also one of the S Group's key benchmarks.

In 2003 the S Group participated in the Universum study that measured college and university students' perceptions of employers. According to the results of the study, the S Group's strengths included business success, a strong corporate culture, internal development possibilities and a reputation as a solid employer.

During 2003 a pilot employer image study was carried out at two regional cooperative societies. Pilot studies are used in developing follow-up surveys.


SOK Corporation went over to using an electronic recruitment management tool that steps up the recruitment process significantly and strengthens SOK's good employer image.

SOK's Human Resources Administration and Development unit recruited two field training groups in co-operation with the regional cooperative societies: 14 trainees for the university-level commercial field training group that started out in February and 15 trainees for the vocational polytechnic group launched in June. Field training programmes are used to ensure access to key employees and the necessary know-how in the S Group's different business areas and localities.

## Compensation and incentives

Bonus schemes were applied widely across the S Group. The objective of bonus schemes is to support the implementation of operational plans, whilst encouraging and rewarding staff for good performance and developing their competence.

SOKTA association is the S-Group's employers' organisation, which operates alongside SOK's Human Resources functions, was responsible for the S Group's labour market co-operation and representing the Group in the employer federations. The focuses of development included a collective bargaining agreement for S Group supervisors in the retail trade as well as a collective bargaining agreement that can be applied to the ABC service station stores.



Registrations of  
Peugeot cars totalled  
9,839 in 2003

### Workplace healthcare across the S Group

The S Group's workplace healthcare has been arranged primarily by means of its own occupational health units and units operated jointly by Group companies. Occupational healthcare consists of general practitioner-level medical treatment and treatment with an occupational healthcare emphasis. Occupational healthcare is also in charge of Job Verve activities that serve a preventive purpose and develop job well-being.

### The Jollas Institute

The Jollas Institute is the S Group's training and learning centre. The institute is a special vocational institute that trains the personnel of SOK Corporation and the regional co-operative societies under the S Group. The Jollas Institute provides coaching and training services for all the chains and personnel groups of the S Group. The main emphasis of the activities, in line with the S Group's HR strategy, was on developing competence in order to ensure the competitiveness of business operations.

Activities in 2003 were geared towards training programmes for supervisors, with the aim of strengthening implementation and interactive skills. The advances in technology in the retail trade are leading to a renewal of the roles and responsibilities of different players across the entire retail value chain. From the standpoint of training, this places an emphasis on the efficient utilisation of information systems as well as interactive skills among the parties who operate in the value chain.

The *For You, Our Customer 2002* training programme that was built around the theme of strengthening customer-ownership as a competitive advantage came to an end in June.

Technology development has also boosted the effectiveness of training. Online study is applied at the S Jollas Institute to areas such as orientation for new personnel and for interaction in study groups between study cycles.

### Outlook for 2004

The priority for 2004 in the Jollas Institute's activities is again the development of supervisor capabilities. The *For You, Our Customer 2004* training programme will support supervisors' capabilities of developing efficient activities for their own working group and for enhancing the customer's service experience. The training periods for the S Group's shop stewards, which were renewed during 2003, will get started in February 2004. The training periods highlight the development of knowledge and skills that every shop steward needs in taking part in the S Group's decision making, for example, as a member of the Executive Board or Supervisory Board of a cooperative society.

### The S Group's environmental compliance

This report focuses on environmental management, the environmental competence of employees, properties, energy and water consumption, sourcing and logistics, the product range, packaging, waste management, recycling services for customers, environmental communications and co-operation with interest groups. Whereas the focus in 2002 was on renewing the petrol pump areas of the service stations, in 2003 the S Group concentrated on formulating and introducing life cycle objectives for developer construction projects.

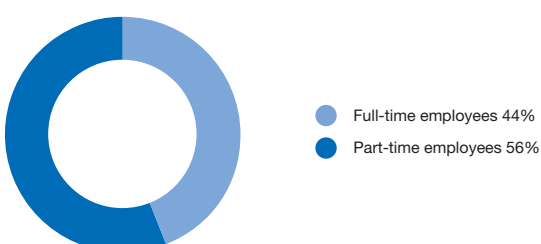
### Environmental management

The main principles of environmental policy are continuous improvement together with maintenance and development of the staff's environmental knowledge. The overriding objective is to develop the S Group's operations according to the principles of sustainable development. Within environmental management in 2003 the S Group continued to put into practice its environmental policy that was updated in 1999.

Within the S Group, attending to environmental compliance and implementing environmental policy in the field is the responsibility of both the units of SOK Corporation and the co-operative societies. It is SOK's task to co-ordinate environmental activities and to provide related expert services for all S Group staff. Within SOK's Strategic and Business Development Division, experts in this field are the environmental manager and an environmental expert. In addition, at every business unit of SOK Corporation one person has been appointed to take charge of environmental issues. At some units, there is furthermore a separate environmental working group or environmental issues are dealt with by the Management Group. The Environmental Co-ordination Working Group – comprising the persons in charge of environmental issues at the units and the Corporation's environmental experts – plays a key role in the development of environmental compliance. In 2003, the Working Group convened 4 times.

Systematic environmental work is based on a uniform way of working. This has led to the creation of a shared and easily understood environmental language. SOK's Strategic and Business Development Division is responsible for guiding the introduction of environmental

### Employment relations in S Group 31.12.2003





policy into the day-to-day operations of the various business units. To achieve environmental objectives, unit-specific schedules have been provided, including the designated responsible persons and the measures that have been decided. This systematic operating model integrates environmental issues into the day-to-day decision-making process.

Development work on environmental auditing at the S Group level was started in 2002. The focus in 2003 was on defining indicators of environmental responsibility and drawing up auditing rules.

At SOK Corporation's different units, environmental programmes and a number of environmental projects based on them have laid a solid foundation for the systematic management of environmental affairs. Although the international ISO 14001 standard is observed in complying with environmental requirements, certification of the environmental system is nevertheless not the primary objective. Seeking certification makes sense if it brings substantial added value to our operations. In 1999 Hankkija Maatalous Oy's seed and grain trade received a quality system certificate and, similarly, Hankkija's seed production was granted a quality and environmental system certificate in 2000. The Inex Group has environmental systems in accordance with the ISO 14001 standard at Inex Partners Oy's logistics centres in Espoo's Kilo district and Hakkila in Vantaa as well as at Meira Nova's logistics centre in Vantaa's Piispankylä district.

### Environmental competence of employees

In 2003, operations focused strongly on increasing and maintaining the environmental awareness of personnel. Information was supplied to employees through training, seminars, communications, reporting, pilot projects and co-operation with the authorities. Training in environmental compliance has been carried out in co-operation between the Jollas Institute and the S Group's units. At the Jollas Institute, environmental issues have been included in store opening training, management training days, commercial field training, management group seminars and vocational degrees in sales and service-station store sales. Environmental and safety training intended for ABC service station attendants was started in 2003. This has proved to be very necessary in view of the ABC chain's strong growth.

In addition, S Group units have carried out their own internal training by means such as co-operating with goods suppliers and other interest groups. Environmental issues have been marketed to employees in the *Ässä* magazine, the company's Internet site and SOK Corporation's environmental report. Trade magazines, guidebooks, brochures, concepts, fairs and working groups have also served as important sources of information.

### Real estate

Taking environmental matters into consideration has figured prominently in the work going on at new building and renovation sites set up by the S Group's real-estate arm as well as in the development of maintenance and servicing functions. SOK's Real-Estate Management has participated in pioneering programmes in the property and construction field. The ProGresS environmental programme worked out

definitions for sectoral and company-specific indicators. The PromisE system which can be used for classifying and comparing the environmental characteristics of buildings went into pilot use in 2002. In future, property owners, users and investors will be able to use PromisE to assess and compare the environmental characteristics of properties. SOK's Real-Estate Management has taken part in the work of the Project Steering Group as an expert in the area of retail properties. Towards the end of 2002 the Prisma hypermarket operated by Seutu Cooperative Society in Nummela, Vihti, was test classified and in 2003 this was done at the Mylly Shopping Centre in Raisio.

In 2002 life cycle targets for developer construction, which also serves as a design tool in developer building, were drawn up for the Sokos Hotels and ABC chains. The life cycle targets are defined for the construction site, the building and the construction process. Within the Sokos Hotels chain, life cycle targets have been applied in practice in the Sokos Hotel Arina construction project in Oulu and in Sokos Hotel Vantaa expansion project in Tikkurila, Vantaa. The ABC Piihovi service station operated by Salo Cooperative Society (SSO), which was opened in November 2003, is serving as a pilot project for the ABC chain's life cycle objectives.

The preparation of life cycle objectives for retail buildings was started in 2003. The objectives have been developed as part of the REM pilot project that aims to develop eco-efficiency and life cycle benchmarks. The project is headed by Confederation of Finnish Construction Industries. The pilot project is the Suur-Seutu Cooperative Society SSO's Prisma hypermarket that is to be built in the centre of Lohja.

The Mylly Shopping Centre took part in the Environmental Project of the Year competition that was arranged by the real-estate and construction cluster and for which a total of 14 proposals were submitted. Mylly did nicely by placing fourth and was the best of the environmental projects in the retail field.

### Energy and water consumption

SOK Real Estate is a party to the voluntary energy conservation agreement of the property and construction industry (KRESS). The agreement stipulates that a company must analyse its energy consumption, make plans for achieving higher efficiency in energy use, take steps to carry out these plans and engage in annual reporting.

Extending joint electricity procurement to the entire retail group will call for the monitoring of hour-level consumption readings at individual sites. Towards the end of 2003 a project was started that aims to explore the possibilities of centrally providing electricity consumption information directly from the S Group's locations. Providing electricity consumption information on a centralised basis will serve not only joint procurement objectives but also social accountability reporting and especially the mandatory requirements of the energy efficiency directive that will come into force in a few years.

### Sourcing and logistics

Over half of the daily consumer goods sold by the S Group's chains are transported to the stores by means of the sourcing, storage and dis-

tribution services provided by Inex Partners Oy. Environmental co-operation between the S Group and Inex Partners is an important aspect of the entire logistics chain. A good example of successful co-operation is the Transbox, a recyclable plastic crate for perishable goods. The goods are delivered in the crate from the supplier to the store via the transport chain. At the store, the crates can be placed on the counters without any unnecessary further handling. The introduction of the Transbox has resulted in less packaging waste, easier handling and time-savings. It has also helped to reduce deterioration in the quality of perishable goods.

Intrade Partners Oy acts as the procurement and logistics company of the S Group. Its main task is to provide products boasting competitive price/quality ratios and high-quality operations-related service for its customer chains.

Packaging requirements stress the need to avoid overpackaging or the importance of using packaging materials that can be utilised in other ways. It will be attempted to eliminate entirely the use of PVC plastic in packaging, whilst seeking to minimise the use of EPS plastic and to replace it with fibre-based packaging solutions. PVC or EPS plastic are not used in the packaging of the customer chains' own brands. Packaging materials and their recyclability must be marked in accordance with EU practices. Products that place a lower burden on the environment must feature a nationally or internationally approved environmental label. The company's instructions set environmental and ethical requirements for goods suppliers. These guidelines are taken into consideration when evaluating a new supplier.

### Product ranges

The number of environmental-labelled products in the assortments is growing continuously. Organic products have consolidated their position in the food sector. At the end of 2003, the product range of the nationwide chain featured about 200 organic products. At its best, the volume of organic products offered at Group locations has topped the 400 mark.

In the case of non-food consumer goods, environmentally-labelled products comprise products marked with the Nordic Swan, the EU Flower and the FSC Forest Certificate. In 2003 nearly 1,000 products in the textile assortments bore the "Safe textile: non-toxic certified" product safety emblem in accordance with the Öko-Tex 100 standard. Today it is common practice to deliver building materials that display the relevant environmental specifications.

Since autumn 1999, Fair Trade products have been available on the market. The best-known criterion of a Fair Trade product is the prohibition against using child labour. There are also stringent environmental criteria for products bearing the Fair Trade mark. The use of pesticides must be kept to a minimum, and both water systems and the soil are to be protected in accordance with strict regulations. Some Fair Trade products also meet the criteria set for organic products, for which farmers are paid more. In 2003 the market stores stocked Fair Trade coffee, tea, cocoa, honey, chocolate, sugar and bananas. In autumn 2003 the elephant emblem gave way to the new pan-European Fair Trade logo.

In addition to ordinary plastic and paper bags, the S Group has started to sell biodegradable shopping carrier bags and fruit and vegetable bags made of cornstarch.

In the agricultural business, the Agrimarket chain offers an assortment of planting seeds that are chemically treated with Cedemon, a biological supplement. These seeds are suitable for both ordinary and organic farming. The assortments include I-Seed, a product jointly developed with Kemira. I-Seed is based on the idea of a quick-start fertiliser that surrounds the seed and makes possible the efficient use of nutrients. Sales of wood pellets, which were started by the Agrimarket chain in 2001, have continued to grow. Wood pellets marketed by VAPO Oy Energy are a domestic, environmentally friendly and economical fuel made from cutter chips, grinding dust and sawdust. Wood pellets are sold mainly to single-family homes and to farms. The growth in sales of wood pellets has also increased the demand for pellet burners and fireplaces.

### Waste management

Wastes generated by the retail sector primarily comprises packaging waste. Packaging wastes can be prevented from arising and their amount can be reduced by means such as developing and placing in use reusable transport conveyances (roll containers, pallets, crates). Packaging wastes are consigned for recycling or other types of reuse whenever possible. Well-run waste management entails reducing the amount of waste destined for landfills to under 10 per cent of the entire volume of waste generated. At best, it has been possible to reduce the amount of waste sent to landfills to five per cent. Meeting this aim entails having motivated employees, good instructions, efficient societal co-operation and potential recycling and waste utilisation solutions. One reason behind the higher rate of waste utilisation is that plastic and wood packages are sorted into energy fractions that are used to manufacture recycled fuels for energy generation. The focus in the sorting of wastes generated by the retail sector is on four main types of waste: biowaste, cardboard, energy waste and landfill waste.

The sorting of wastes generated by the S Group's own operations has been developed in compliance with municipality-specific waste management regulations. The best utilisation rate has been reached with corrugated cardboard, which accounts for about 50 per cent of all wastes generated by the Prisma hypermarkets and S supermarkets. Sokotel Oy has seen to it that the utilisation rate of the wastes produced by its hotels and restaurants is on average 60 per cent. At the best, a utilisation rate of up to 80 per cent has been reached. The Sokos department store chain had a waste utilisation rate that averaged 58 per cent.

At the Mylly Shopping Centre that was opened in Raisio in October 2001, a pilot project was run to explore a new type of centralised waste management system in which all waste management services are purchased from a single operator. The operational model that was tested at Mylly and observed to be good has expanded during 2003 to about 60 of Cooperative Society Arina's outlets in different parts of northern Finland. In December 2003 Hankkija Maatalous

Oy agreed on a similar environmental management service at over 100 locations in the Agrimarket chain.

A centralised process of setting out products for sale is another way of preventing wastes from arising, reducing waste volumes and stepping up the rate of utilisation. In the Greater Helsinki area, the setting out of consumer goods for sale has been handled at Inex Partners Oy's logistics centre in Hakkila, Vantaa.

Changes in waste disposal legislation mean stricter local regulations, and thus new challenges for the S Group. During 2003 the S Group's different business areas prepared to comply with the measures required by the Animal By-products Regulation and the directives concerning waste from electrical and electronics equipment and end-of-life vehicles.

### Recycling services for customers

The best-known recycling service for customers is the bottle and can recycling system. Collection is mainly handled using automated bottle and can collection machines. Over 95 per cent of glass and plastic deposit bottles are returned, while over 90 per cent of aluminium cans are returned. Other recycling services are related to recycling points and tyre recycling. Within SOK Corporation, Hankkija Maatalous Oy and Maan Auto Oy have entered into an agreement with Finnish Tyre Recycling Ltd. Used tyre recycling is funded by way of a recycling charge that is collected when the customer buys new tyres.

### Communications

Environmental information targeted at interest groups has been disseminated through the SOK Environmental Report, the environmental pages of the Annual Report and the S Group's Internet site. The Internet option for accessing the report has proved to be very popular.

Environmental information has been provided to households through the *Yhteishyvä* magazine. The regional co-operatives have disseminated information using brochures, ecological experts, bulletin boards and various events. The internal communications tools of the S Group are the *Ässä* magazine and the S Intranet.

### Interest groups


SOK has continued actively to contribute to discussions relating to international environmental co-operation, particularly within EuroCoop's Environmental Working Group and EuroCommerce's Environmental and Logistics Committee. Central themes have been the EU's sustainable development strategy, the sustainable use of plant protection substances, the recycling of electrical and electronics junk, and issues relating to environmental marking and the utilisation of packaging. SOK has actively headed the work of the Environmental Committee of the Federation of Finnish Commerce and Trade (FFCT). SOK has also been represented in the following working groups: the Ministry of the Environment's waste management committee, the environmental management system working group of the Ministry of Agriculture and Forestry's foodstuffs quality strategy group, and the project management group of the Recycling Technologies and Waste Management project (a.k.a. Streams, a new technology programme initiated by TEKES, the National Technology Agency).

### Voluntary responsibility

During 2003 sponsoring was given a strong social responsibility emphasis in line with the S Group's sponsoring strategy. The S Group concluded a major three-year agreement with the Finnish Red Cross. Co-operation with the Mannerheim League for Child Welfare was continued. The most visible element of the co-operation was the "A Good Start to Schooldays" campaign that was targeted at all first-graders.

Co-operation was also carried out with organisations such as Finnish National Opera, Pori Jazz, Art Centre Salmela, Neste Rally Finland, Circus Finlandia and the Finnish Freestyle national team. The freestyle team again racked up excellent results, with Mikko Ronkainen winning the world championship in moguls and Janne Lahtela in dual moguls. The S Group's financial support made it possible for 18 freestyle schools to operate all winter long in different parts of Finland.

At the turn of the year, a three-year co-operation agreement covering the years 2004–2006 was signed with Svenska Teatern. The aim of the agreement was also to take into account the S Group's Swedish-speaking customer-owners.

A pair of brown and yellow work gloves is positioned on a white plastic bag. The bag features red text and a logo. The gloves have yellow palms and fingers, and brown backs and wrists. The bag's text includes a claim about market leadership and a 42% market share.

THE B GROUP'S AGRICULTURAL TRADE IS

**THE MARKET LEADER**

WITH A 42 PER CENT MARKET SHARE



# Executive Board Report on Operations

## Retail operating environment in 2003

The growth in the world economy picked up during 2003. The easing of international tensions and the stimulatory fiscal policy that was implemented in different countries strengthened world economic growth in the latter half of the year. The year-end thrust of economic growth points to an upswing during 2004. Growth accelerated above all in the United States and Asia. In the eurozone, growth has got off to a slower start. The eurozone has in practice been in recession, but in the third quarter of last year the economy swung to slow growth.

Finland's gross domestic product registered growth of 1.5 per cent in January–September. National output has been maintained and boosted by household consumption. Investments have remained below the previous year's level and the annual change in the volume of industrial output is likely to be only 0.7 per cent. The trend in foreign trade has been modest in both the export and import sectors. The fall in export prices has exceeded the volume growth in exports. The trend in the value of goods exports remained slightly negative by the end of October. The export figures for September–October were nevertheless significantly better than expectations and last year's figures. Employment weakened slightly in 2003.

Consumer confidence has held up at a good level and even improved slightly. Consumer confidence is at a clearly better level than confidence in the Finnish economy. Consumers are pessimistic about the unemployment situation. Industry's confidence in the future improved during the year, though it is still below the long-term average. Growth in private consumption held up well. The growth in the value of consumption during the three quarters ended 30 September was 5.5 per cent. The strong growth in the consumption of consumer durables in January–September – over 13 per cent – was supported by the low level of interest rates that persisted all year long. Semi-durable consumer goods grew by 3.6 per cent and consumer non-durables by 6.8 per cent. Consumption of services grew at a rate of 3.4 per cent.

The average rate of inflation in 2003 was 0.9 per cent. The higher cost of food, especially vegetables and dairy products, raised consumer prices the most: 0.3 percentage point. The rise in the price of electricity added 0.2 percentage point to inflation and higher restaurant prices and healthcare costs lifted it by nearly the same amount. The biggest damper on inflation was the fall in interest rates, which had an effect of 0.6 percentage point, and the decrease in car prices, which knocked off 0.3 percentage point.

Retail sales gained pace over the year, mainly owing to the faster tempo in the motor trade. According to Statistics Finland, the value of retail sales grew by 4.1 per cent in January–November compared with the same period a year earlier. The growth in the motor trade during the same period was 14.5 per cent. New car sales were up 26 per cent on the previous year. The appliance trade reached an increase of more than ten per cent by the end of October. The hardware trade reported growth of 9.4 per cent. Grocery sales are estimated to grow by just under 3 per cent.

The agritrade in Finland remained roughly unchanged, with a sales volume of about EUR 1.9 billion. Trade in the production inputs used on farms remained nearly unchanged, though there was slight growth in the total market for industrial feeds. The overall market for tractors grew by 5 per cent, but sales of agricultural machinery remained at the level of previous years. About half of the 3.8 billion kilo grain harvest in Finland will be brought to market.

Guests at Finland's hotels, motels and inns stayed the night 13.8 million times by the end of October, a decrease of two per cent on the figure a year earlier. The hotel occupancy ratio declined slightly and was 48.6 per cent. Restaurant sales showed only a marginal increase.

## Changes in the Group structure

### Changes during the report period

At the beginning of 2003, SOK founded North European Oil Trade Oy, whose task will be the centralised procurement of fuels for the S Group's ABC chain of service station stores and unmanned stations. At the end of April, SOK sold a 34 per cent stake in the company to Greeni Oy, which is engaged in wholesale fuel sales.

In February, SOK's two real-estate subsidiaries sold their commercial properties located in the territory of Cooperative Society Hämeenmaa to Cooperative Society Hämeenmaa, which uses them as business premises.

In March, SOK sold to a construction company the entire shares in a subsidiary that owns builder development land in Helsinki's Jollas district. A real-estate subsidiary was established to hold the shoreline property remaining in SOK's ownership.

In the first part of the year, SOK divested the shares in its associated real-estate companies in Nurmes, Raisio and Tampere. In June, SOK sold the shares it owned in the associated real-estate company located in Valkeakoski to Pirkanmaa Cooperative Society, which uses the company's premises for its operations.

In April, Hankkija-Maatalous Oy acquired a stake in the logistics company Movere Oy through a payment in kind, whereby it became a shareholder in the company, holding an equal stake together with Suomen Rehu Oy and Kemira GrowHow Oy.

Merikampin Hotelli Oy, whose hotel business in Helsinki has been merged into Sokotel Oy, was dissolved in May. Tenco Eesti AS, which carried on department store trade in Tallinn, Estonia, was dissolved at the end of June.

Hankkija-Maatalous Oy purchased a 50 per cent interest in Agribalt Oy, which is engaged in the agribusiness in the Baltic countries, from Lännen Tehtaat plc in June. Following the transaction, Hankkija-Maatalous Oy will own the entire shares outstanding in Agribalt Oy as from 1 July 2003.

In a transaction made in June, the business operations of Tallinn-based Hotel Viru were transferred as from the beginning of September to an Estonian subsidiary AS Sokotel, which was established by SOK.

In August SOK purchased the operations and business property of the cash services company Rekla Oy for the account of companies that have been established. The company provides cash counting services for the S Group's companies.

In August three real-estate subsidiaries were dissolved and Kuusinen Oy was merged into SOK. These companies' operations were wound up in 2002.

The Kiinteistö Oy Asematie 8 property company became an associated company of SOK through a purchase of shares made in September. The purchase of the company's shares is connected with the expansion project for the Prisma hypermarket in Tikkurila, which is to be carried out in co-operation with HOK Liiketoiminta Oy.

At the end of October, SOK and HOK established Uudenmaan ABC Oy for the purpose of developing service station trade in HOK-Elanto's area of operations.

At the beginning of October, Maan Auto Oy established Hämeen Leijona Auto Oy. The company will act as a retail car dealer in Hämeenlinna and Lahti. In December Maan Auto Oy purchased the entire shares outstanding in Oy Motortrans Ab. The company is engaged in servicing imported vehicles and dealing in accessories as well as in reconditioning related to the transit trade in Hanko.

### Changes after the close of the report period

In transactions carried out at the beginning of the year, the business operations of the Sokos in Pori were transferred to Satakunta Cooperative Society and the Sokos Hotel Vaakuna Vaasa business of Sokotel Oy was transferred to Cooperative Society KPO.

With the entry into force of the new Block Exemption, Automobiles Peugeot is requiring that the importation and retail sales of Peugeot vehicles in all European Union member countries be carried on through separate companies. From the early part of the year, the dealership operations of Maan Auto Oy, Estonia-based Kommest Auto AS and Latvia-based Lauva Auto A/S will be transferred to the subsidiaries that have been established by the companies for the purpose.

The consumer goods online store Netista.com will be wound up at the turn of March-April and online sales of the products will be started gradually within the Sokos.fi service.

### Net turnover

SOK Corporation had net turnover of EUR 3,112 million, up 3.8 per cent on the previous year. The motor trade reported robust net turnover growth at the dealerships in both Finland and Estonia. Net turnover generated by the Prisma business in Tallinn also grew significantly. SOK's net turnover does not include the EDI-based invoicing that was sent via SOK by the associated company Inex Partners Oy.

Aggregate net turnover generated by the agricultural and hardware trade grew by 0.3 per cent. Hankkija-Maatalous Oy had net turnover in 2003 of EUR 686 million, representing growth of 0.3 per cent on the previous year. The sales trend in different product groups

was uneven. The biggest growth was in sales of oil and hardware products. The grain and seed trade product groups reported lower sales than in previous years.

Within SOK Corporation, Sokotel Oy's hotel and restaurant business reported an increase in net turnover of 2.2 per cent. Growth was lifted by the network changes that were carried out. The trend in like-for-like net turnover was nevertheless down slightly on the previous year. This was due mainly to the fall in restaurant net turnover around Finland as well as the drop in the Radisson SAS chain's comparable turnover in the Greater Helsinki area and in Oulu. The bulk of the Radisson SAS chain's net turnover comes from foreign business travel, which has been in decline since 2001. Despite the drop in net turnover, the efficiency of the company's operations rose in step with an improvement in gross profit, staff efficiency and cost control. The occupancy rate of the company's hotels and the yield per room were on a par with last year and exceeded the national averages by a clear margin. The number of the company's hotels remained unchanged because the Radisson SAS Seaside hotel that was added to the Radisson SAS chain was opened in the first part of the year and the Radisson SAS Hesperia was closed at the end of November.

Net turnover deriving from the Corporation's motor trade increased by 20.1 per cent compared with the figure in 2002. Net turnover grew well at the dealerships in both Finland and Estonia. Net turnover of the dealership in Latvia, however, fell slightly. At the beginning of 2003, vehicle imports in Russia were started for the account of AS Kommest Auto's subsidiary. The market share of Peugeot cars imported by Maan Auto Oy grew from 6.6 per cent to 6.7 per cent and Peugeot vans increased their share from 5.1 per cent to 5.3 per cent. The net turnover of the vehicle dealerships in Estonia, Latvia and Russia totalled EUR 86 million, representing growth of 23.4 per cent. The market share of the companies' Peugeot vehicles declined somewhat in Estonia and Latvia and was 12.2 per cent in Estonia and 8.8 per cent in Latvia.

SOK Corporation ran Sokos operations through the companies which it owns jointly with the regional cooperative societies, these being located in Helsinki and Tapiola, near Helsinki, as well as in Turku, Pori and Tampere. During the year a decision was taken to sell the Porin Sokos Oy business to Satakunta Cooperative Society on 1 January 2004. The trend in the companies' net turnover was 6.0 per cent, which was on budget and better than the trend in the sector.

### Financial performance

SOK Corporation's profit before extraordinary items was EUR 51.8 million, as against EUR 55.2 million a year ago. The figure includes other operating income, a share of the associated companies' profits, write-downs on fixed and other non-current assets and investments, including reversals on them, and the change in obligatory reserves. SOK Corporation's operational result, which does not include the above-listed items, improved on the previous year. SOK Corporation's return on investment was 6.9 per cent (8.4 per cent in 2002).

The biggest factor affecting profit before extraordinary items was the share of the associated companies' profits, which diminished by EUR 9.6 million. The decrease was attributable nearly entirely to the capital gain which Inex Partners Oy realised last year on the disposal of the Meira Oy business.

Write-downs on non-current assets were mainly write-downs on buildings and constructions.

SOK Corporation's net financial income and expenses were in the black, as in the previous year, and were up EUR 5.2 million on the year-ago figure.

Operating profit generated by the agriculture and hardware business was on budget and at a moderate level, though somewhat below the figure a year earlier. The hotel and restaurant business reported below-budget operating profit that was slightly down on the previous year. Operating profit from vehicle sales came in ahead of budget and the previous year's level. The aggregate operating profit of the Sokos companies was below budget and smaller than a year ago. The property business and other service operations reported operating profit that was above budget and better than in the previous year.

## Operations of SOK

SOK is the parent company of SOK Corporation. In accordance with its statutes, SOK acts as the central organisation of the S Group, promoting and developing the operations of the cooperative societies and other organisations belonging to the S Group and attending to the management and supervision of the Group's overall resources for maximum efficiency, whilst also monitoring the operations and seeing to the interests of the S Group and its different constituent organisations.

SOK is in charge of the S Group's strategic guidance. Its tasks are to provide the S Group companies with services related to chain management, customer-ownership and marketing along with general chain and corporate services, including development activities connected with these services and the S Group's other operations. Other important services for the S Group's operations are purchasing, rental services and assortment and invoicing services for goods delivered directly from manufacturers to the chain units. Via its nationwide and regional subsidiaries, SOK is able to offer its customer-owners a wider spectrum of services in accordance with the decisions taken within the S Group. In addition, in the Baltic area SOK engages in the supermarket and vehicle trade as well as agricultural trade via its subsidiaries.

SOK's net turnover totalled EUR 1,693 million, increasing by 1.5 per cent on the figure a year earlier. SOK's profit before extraordinary items was EUR 28 million, against the previous year's profit of EUR 4 million. The improved profit was attributable primarily to the growth in the positive net result of financial income and expenses.

The rents included in other operating expenses consist primarily of the rental expenses of SOK Corporation or for premises that have been sublet to other S Group companies.

## Capital expenditures and disposals of fixed assets

SOK Corporation's purchases booked in non-current assets, i.e. capital expenditures on fixed assets, amounted to EUR 56 million. The most important investments last year were the purchase of the Hotel Viru business and the refurbishing of the Radisson SAS Seaside and Sokos Hotel Helsinki hotel premises. Other outlays were made on service facilities for different businesses and moving ahead with the implementation of information system projects serving the businesses.

By contrast, disposals of non-current assets and businesses totalled EUR 25 million. The largest disposals were the construction plot that was sold in Helsinki's Jollas district as well as the sale of the Valkeakoski business centre properties to Pirkanmaa Cooperative Society.

## Financing

Short-term interest rates in the eurozone fell in the first half of the year, but the decline evened out during the latter part of the year and rates ended at a markedly lower level than a year ago. The fall in long-term rates, which has continued for over a year, came to a halt in June and they headed upward, closing out the year at nearly the year-ago level.

The cash flow before financial items according to SOK Corporation's cash flow statement was EUR 55.8 million in the black.

SOK Corporation's liquidity remained good throughout 2003. Liquid cash assets and money market investments totalled EUR 503.7 million at the end of the year. In addition, SOK Corporation had EUR 177.4 million of undrawn binding credit facilities, of which EUR 126.1 million were long-term.

SOK Corporation's equity ratio remained good and in May SOK exercised its right to repay prematurely the EUR 20.2 million capital loan which it issued in 1996. The original maturity date of the loan was 22 May 2006.

SOK Corporation's net debt declined further during the financial year, with the gearing ratio improving from 10 to minus 2. At the end of the financial year, the net amount of interest-bearing liabilities and financial assets was EUR 8.9 million in the black, an improvement of EUR 52.5 million on the previous year.

SOK Corporation's net financial income and expenses, not counting write-downs on investments held in non-current assets, amounted to EUR 2.4 million, an improvement of EUR 3.1 million on the year-ago figure.

## Personnel

The average number of SOK Corporation employees, converted to full-time staff, was 4,557 during the financial year. SOK Corporation's number of personnel at the end of 2003 was 4,949 employees, of whom 538 (10.9%) were SOK staff and 4,411 (89.1%) employees of

the subsidiaries. The number of personnel increased by 304 from the previous year (6.5%). A total of 914 employees worked at sites abroad at the end of the year.

The number of employees was increased by the transfer of Agribalt Oy, Hämeen Leijona Auto Oy, Sokos Hotel Viru and Rekla Oy to SOK Corporation's ownership during 2003.

By contrast, the number of staff was reduced by the winding up of the Hotelli Hesperia business by Sokotel Oy when the lease agreement expired.

### SOK's management and auditors

CEO Kari Neilimo has served as chairman of SOK's Executive Board. In addition to the CEO, the other members of the Executive Board in 2003 were Jukka Salminen, director of SOK's Administrative Division, Managing Director Arto Hiltunen, Managing Director Kalle Lähdesmäki, Reijo Lähteenmäki, director of SOK's Field Division (retired on 31 July 2003), Managing Director Esko Hakala (as from 1 August 2003), Managing Director Kuisma Niemelä, Managing Director Eero Saukkonen and Managing Director Jouko Vehmas. Kalle Lähdesmäki took over as the new director of SOK's Field Division on 1 August 2003 after Reijo Lähteenmäki retired. Mr Lähdesmäki was previously the managing director of Southern Ostrobothnia Cooperative Society and he will remain on the Executive Board.

The Corporation's auditors in 2003 were the Authorised Public Accountants Tomi Englund, Juhani Heiskanen and Tapani Rotola-Pukkila.

SOK's Supervisory Board has appointed the following persons to a one-year term on SOK's Executive Board starting on 1 January 2004: CEO Kari Neilimo, chairman, Jukka Salminen, director of SOK's Administrative Division, Managing Director Esko Hakala, Managing Director Arto Hiltunen, Kalle Lähdesmäki, director of SOK's Field Division, Managing Director Kuisma Niemelä, Managing Director Veli-Matti Puutio and Managing Director Eero Saukkonen.

SOK's chief executive has been assisted in the strategic management of SOK Corporation and the S Group by SOK's Management Team, whose members during the year were Jukka Salminen, director of the Administrative Division, Reijo Lähteenmäki, director of the Field Division (retired on 31 July 2003), Kalle Lähdesmäki, director of SOK's Field Division (as from 1 August 2003), Taavi Heikkilä, director of the Strategic and Business Development Division, Managing Director Ensio Hytönen, Reijo Kaltea, director of the Speciality Stores Division, Risto Mäkeläinen, director of the Automotive Division (retired on 1 February 2003), Managing Director Matti Pulkki, Antti Sippola, director of Market Chain Management, Heikki Strandén, director of the ABC chain, Aino Toikka, director of Human Resources and Suso Kolesnik, director of Corporate Communications (as from 1 June 2003).

### Outlook for the current financial year

The economic outlook for 2004 is more positive than it has been for the two previous years. The latest forecasts point to bright near-term prospects for the world economy. Over the longer term, the outlook is still characterised by a large measure of uncertainty. The mounting indebtedness of the United States' economy is unchecked, and over the next few years there will be a great need to restore the health of the public sector in many countries. Finland's gross domestic product is expected to grow at just under three per cent. Private consumption is forecast to grow at a rate of 2.6 per cent.

On a European yardstick, consumer confidence is still strong. Households' disposable income is estimated to grow this year by up to four per cent. The savings rate will remain at a very low level. The Federation of Finnish Commerce and Trade forecasts retail growth of 1.5 per cent this year, excluding the motor trade. The growth forecast is held down by the anticipated zero growth in the grocery trade. Factors bearing on the forecast are both a lowering in prices and the estimated effect of EU enlargement. Growth of 3-5 per cent is expected in the motor trade. Growth forecasts for the speciality goods trade are a percentage point below the estimate for the motor trade.

In the early part of the year, changes in tax rates will have a strong impact on inflation. The lowering of taxes on alcoholic beverages means that the annual change in the consumer price index will be close to zero in a number of months. When the effect of taxation and other temporary factors dissipates, inflation is expected to accelerate to an annual rate of one per cent.

SOK Corporation's operational result is estimated to come in lower than the 2003 earnings figure. The result of the operating companies is expected to be nearly on a par with last year. The Sokos business is expected to have a positive earnings trend thanks to a step-up in process efficiency. Earnings derived from vehicle sales are estimated to fall short of the figures for the past years owing to additional strategic inputs. The result of hotel and restaurant operations is expected to be on a par with 2003. Earnings generated by the agricultural trade are estimated to grow slightly on the figure a year earlier. The result of operations in the Baltic area is expected to be unchanged. The fuel procurement company is estimated to achieve competitive advantage in retail fuel sales and to post positive earnings right in its first actual year in business. The earnings level of SOK's support and service functions is estimated to weaken from 2003 owing to the inputs into systems and competition strategy that are being made with the aim of developing the S Group's operational model and processes.



# Consolidated Income Statement

EUR million	Ref.	1.1.–31.12.2003		1.1.–31.12.2002	
<b>Net turnover</b>	(1)	<b>3 111.5</b>		2 997.8	
Other operating income	(2)	<b>11.0</b>		9.5	
<b>Materials and services</b>					
Raw materials and consumables	(3)	<b>2 620.2</b>		2 529.2	
External services		<b>88.2</b>	<b>2 708.4</b>	85.4	2 614.7
<b>Staff costs</b>					
Wages and salaries		<b>119.9</b>		114.9	
Social security costs	(4)	<b>29.0</b>	<b>149.0</b>	27.9	142.8
Depreciation and value adjustments	(5)	<b>34.2</b>		34.6	
<b>Other operating expenses</b>					
Rents		<b>66.8</b>		60.5	
Other expenses	(6)	<b>119.8</b>	<b>186.6</b>	111.3	171.8
Share of associated companies' profits (+/-)		<b>2.1</b>		11.7	
<b>Operating profit</b>	(1)	<b>46.4</b>		55.0	
Share of associated companies' profits (+/-)		<b>-0.0</b>		-0.1	
Financial income and expenses (+/-)	(8)	<b>5.4</b>		0.3	
<b>Profit before extraordinary items</b>		<b>51.8</b>		55.2	
Extraordinary items (+/-)	(9)				
<b>Profit before taxes</b>		<b>51.8</b>		55.2	
Income taxes (+/-)	(11)	<b>-16.7</b>		-10.7	
Minority interest (+/-)		<b>0.2</b>		-0.3	
<b>Profit for the financial year</b>		<b>35.3</b>		44.2	

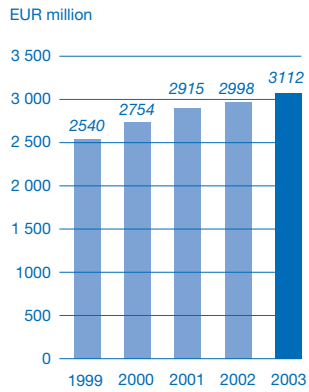
# Consolidated Balance Sheet

<b>ASSETS</b> EUR million	Ref.	<b>31.12.2003</b>		31.12.2002	
<b>NON-CURRENT ASSETS</b>					
Intangible assets	(12)	<b>59.7</b>		47.3	
Group goodwill	(12)	<b>1.2</b>		0.8	
Tangible assets	(12)	<b>302.9</b>		327.8	
Shares in associated companies	(13)	<b>72.5</b>		78.0	
Other investments	(13)	<b>36.6</b>	<b>472.9</b>	42.6	496.5
<b>CURRENT ASSETS</b>					
Stocks	(15)	<b>134.8</b>		133.2	
Long-term debtors	(16)	<b>3.8</b>		7.7	
Deferred tax assets	(17)	<b>4.4</b>		8.4	
Short-term debtors	(18)	<b>329.0</b>		305.5	
Securities	(19)	<b>478.1</b>		402.7	
Cash in hand and at banks		<b>25.7</b>	<b>975.8</b>	18.2	875.7
			<b>1 448.7</b>		1 372.1
<b>LIABILITIES</b> EUR million					
		<b>31.12.2003</b>		31.12.2002	
<b>CAPITAL AND RESERVES</b> (20)					
Cooperative capital		<b>68.6</b>		65.8	
Supplementary cooperative capital		<b>14.8</b>		12.6	
Revaluation reserve		<b>51.5</b>		77.6	
Legal reserve		<b>12.8</b>		11.8	
Supervisory Board's disposal fund		<b>0.2</b>		0.4	
Profit brought forward		<b>261.4</b>		224.3	
Profit for the financial year		<b>35.3</b>		44.2	
Capital loan	(21)		<b>444.6</b>	20.2	456.8
<b>MINORITY INTEREST</b>					
			<b>17.0</b>		16.8
<b>PROVISIONS</b> (23)					
			<b>9.2</b>		11.8
<b>CREDITORS</b>					
Long-term creditors	(24)	<b>32.0</b>		39.9	
Deferred tax liability	(25)	<b>10.4</b>		9.7	
Short-term creditors	(26)	<b>935.5</b>	<b>978.0</b>	837.1	886.8
			<b>1 448.7</b>		1 372.1

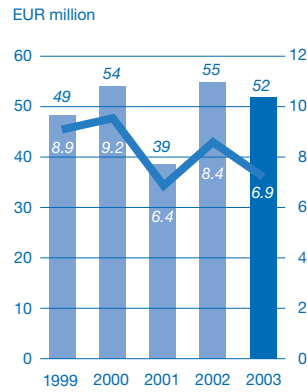
# Consolidated Cash Flow Statement

EUR million	Ref.	1.1.–31.12.2003	1.1.–31.12.2002
<b>BUSINESS OPERATIONS</b>			
Operating profit		46.4	55.0
Adjustments to operating profit	(1)	21.7	10.3
Change in working capital	(2)	21.3	-16.4
<b>Cash flow from business operations before financing and taxes</b>		<b>89.3</b>	<b>49.0</b>
Interest paid and other financial expenses		-13.9	-17.0
Interest received and other financial income		15.1	21.6
Dividends received from business operations		3.5	2.2
Direct taxes paid		-13.0	-0.3
<b>Cash flow from business operations</b>		<b>81.0</b>	<b>55.4</b>
<b>INVESTMENTS</b>			
Subsidiary shares purchased		-1.5	-1.1
Acquisition of other fixed assets		-54.9	-41.4
Subsidiary shares sold		6.1	18.4
Sale of other fixed assets		18.4	8.9
Change in other long-term investments		5.1	1.8
Adjustment of items booked on an accrual basis		0.2	-2.2
Liquid assets of subsidiaries sold and acquired		0.4	1.8
Dividends received from investments		0.9	0.9
<b>Cash flow from investments</b>		<b>-25.3</b>	<b>-12.9</b>
<b>FINANCING</b>			
Increase in long-term creditors		1.5	20.7
Decrease in long-term creditors		-39.8	-47.8
Increase (+)/decrease (-) in short-term creditors		66.5	76.2
Increase (-)/decrease (+) in short-term debtors		0.1	0.0
Change in short-term investments		-10.0	
Minority interest in group companies		0.1	0.3
Increase in cooperative capital and supplementary cooperative capital		5.0	10.5
Interest paid on the cooperative capital and supplementary cooperative capital		-5.9	-5.4
Decrease in capital and reserves		-0.4	-0.1
<b>Cash flow from financing</b>		<b>17.1</b>	<b>54.4</b>
<b>Increase (+)/decrease (-) in liquid funds</b>		<b>72.9</b>	<b>96.9</b>
<b>Liquid funds at the beginning of the year</b>		<b>420.9</b>	<b>324.0</b>
<b>Liquid funds at the end of the year</b>		<b>493.7</b>	<b>420.9</b>
Adjustments to operating profit	(1)		
Gains (-) and losses (+) from the sale of fixed assets		-8.6	-8.0
Depreciation and value adjustments		34.2	34.6
Income and expenses which do not involve payment		-4.0	-16.3
		21.7	10.3
Change in working capital	(2)		
Change in trade debtors		-15.2	22.2
Change in stocks		0.0	-4.7
Change in short-term interest-free creditors		36.5	-33.9
		21.3	-16.4

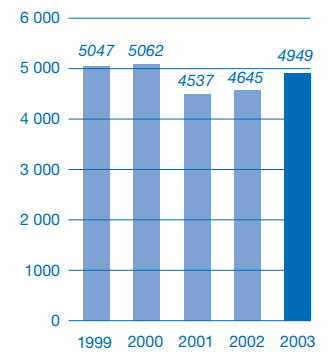
**SOK Corporation net turnover 1999–2003**



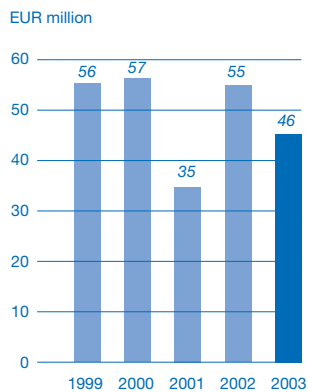
**Profit before extraordinary items Return on investment %**



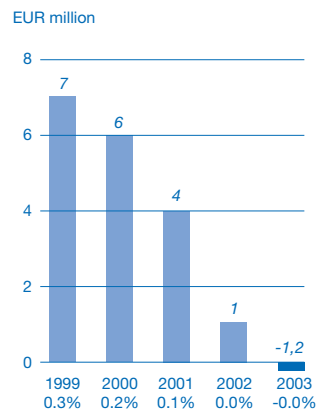
**Personnel at 31.12. 1999–2003**



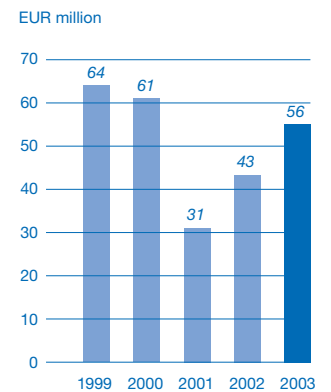
**Operating profit 1999–2003**



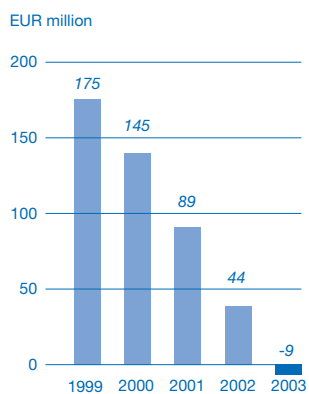
**Net interest payable 1999–2003 (% of net turnover)**



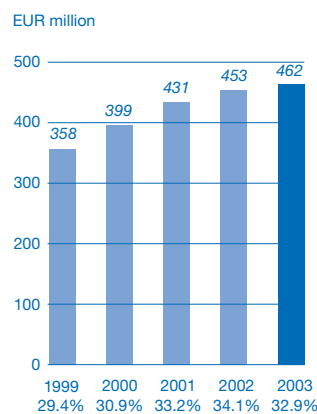
**Gross investment in fixed assets 1999–2003**



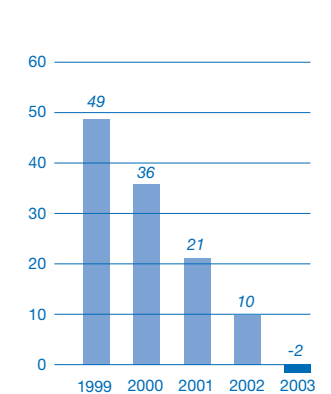
**Interest-bearing net liabilities at 31.12. 1999–2003**



**Capital and reserves\* at 31.12. 1999–2003 (Equity ratio, %)**



**Gearing, % 1999–2003**



\* Excluding capital loan



# SOK Income Statement

EUR million	Ref.	1.1. – 31.12.2003		1.1. – 31.12.2002	
<b>Net turnover</b>	(1)	<b>1 693.0</b>		1 668.4	
Other operating income	(2)	<b>3.8</b>		3.5	
<b>Materials and services</b>					
Raw materials and consumables	(3)	<b>1 533.6</b>		1 523.5	
External services		<b>36.9</b>	<b>1 570.5</b>	35.4	1 559.0
<b>Staff costs</b>					
Wages and salaries		<b>21.9</b>		20.6	
Social security costs	(4)	<b>6.4</b>	<b>28.3</b>	5.8	26.4
Depreciation and value adjustments	(5)	<b>4.8</b>		5.0	
<b>Other operating expenses</b>					
Rents		<b>58.1</b>		57.7	
Other expenses	(6)	<b>28.5</b>	<b>86.7</b>	26.2	83.9
<b>Operating profit (loss)</b>	(1)	<b>6.5</b>		-2.4	
Financial income and expenses (+/-)	(8)	<b>21.3</b>		6.6	
<b>Profit before extraordinary items</b>		<b>27.8</b>		4.2	
Extraordinary items (+/-)	(9)	<b>5.2</b>		15.1	
<b>Profit before appropriations and taxes</b>		<b>33.0</b>		19.3	
Appropriations (+/-)	(10)	<b>-0.5</b>		0.0	
Income taxes (+/-)	(11)	<b>-10.0</b>		-5.1	
<b>Profit for the financial year</b>		<b>22.5</b>		14.2	

# SOK Balance Sheet

<b>ASSETS</b> EUR million	Ref.	<b>31.12.2003</b>		31.12.2002	
<b>NON-CURRENT ASSETS</b>					
Intangible assets	(12)	<b>22.4</b>		11.5	
Tangible assets	(12)	<b>9.5</b>		9.9	
Shares in group companies	(13)	<b>256.9</b>		253.0	
Other investments	(13)	<b>245.4</b>	<b>534.2</b>	237.0	511.4
<b>CURRENT ASSETS</b>					
Stocks	(15)	<b>14.1</b>		8.3	
Long-term debtors	(16)	<b>2.4</b>		2.4	
Short-term debtors	(18)	<b>258.2</b>		257.4	
Securities	(19)	<b>496.6</b>		421.9	
Cash in hand and at banks		<b>8.1</b>	<b>779.4</b>	7.0	697.0
			<b>1 313.6</b>		1 208.4
<b>LIABILITIES</b> EUR million					
			<b>31.12.2003</b>		31.12.2002
<b>CAPITAL AND RESERVES</b> (20)					
Cooperative capital		<b>68.6</b>		65.8	
Supplementary cooperative capital		<b>14.8</b>		12.6	
Legal reserve		<b>12.8</b>		11.8	
Supervisory Board's disposal fund		<b>0.2</b>		0.4	
Profit brought forward		<b>303.8</b>		296.6	
Profit for the financial year		<b>22.5</b>		14.2	
Capital loan	(21)		<b>422.7</b>	20.2	421.6
<b>ACCUMULATED APPROPRIATIONS</b>	(22)		<b>3.4</b>		2.9
<b>PROVISIONS</b>	(23)		<b>6.1</b>		8.9
<b>CREDITORS</b>					
Long-term creditors	(24)	<b>9.6</b>		17.7	
Short-term creditors	(26)	<b>871.9</b>	<b>881.5</b>	757.4	775.1
			<b>1 313.6</b>		1 208.4

# SOK Cash Flow Statement

EUR million	Ref.	1.1.–31.12.2003	1.1.–31.12.2002
<b>BUSINESS OPERATIONS</b>			
Operating profit		6.5	-2.4
Adjustments to operating profit	(1)	-0.6	-1.7
Change in working capital	(2)	1.1	-24.1
<b>Cash flow from business operations before financing and taxes</b>		<b>7.0</b>	<b>-28.2</b>
Interest paid and other financial expenses		-12.8	-16.4
Interest received and other financial income		20.9	28.0
Dividends received from business operations		3.5	2.2
Direct taxes paid		-11.6	-0.1
<b>Cash flow before extraordinary items</b>		<b>7.0</b>	<b>-14.4</b>
Cash flow from the extraordinary items of business operations		-0.7	0.0
<b>Cash flow from business operations</b>		<b>6.3</b>	<b>-14.4</b>
<b>INVESTMENTS</b>			
Acquisition of fixed assets		-20.6	-11.8
Sale of fixed assets		12.7	18.2
Change in other long-term investments		-14.5	8.3
Adjustment of items booked on accrual basis		0.0	2.4
Dividends received from investments		3.7	1.7
<b>Cash flow from investments</b>		<b>-18.7</b>	<b>18.8</b>
<b>FINANCING</b>			
Increase in long-term creditors		0.0	13.7
Decrease in long-term creditors		-31.4	-41.8
Increase (+)/decrease (-) in short-term creditors		104.9	123.3
Increase (-)/decrease (+) in short-term debtors		0.0	-0.1
Change in short-term investments		-10.0	0.0
Increase in cooperative capital and supplementary cooperative capital		5.0	10.5
Interest paid on the cooperative capital and supplementary cooperative capital		-5.9	-5.4
Decrease in capital and reserves		-0.4	0.0
Group contributions received		29.1	0.0
Contributions paid by the Corporation		-13.3	-1.2
Liquid funds from merger		0.0	0.0
<b>Cash flow from financing</b>		<b>78.1</b>	<b>99.0</b>
<b>Increase (+)/decrease (-) in liquid funds</b>		<b>65.7</b>	<b>103.4</b>
<b>Liquid funds at the beginning of the year</b>		<b>429.0</b>	<b>325.6</b>
<b>Liquid funds at the end of the year</b>		<b>494.7</b>	<b>429.0</b>
Adjustments to operating surplus	(1)		
Gains (-) and losses (+) from the sale of fixed assets		-2.6	-2.4
Depreciation and value adjustments		4.8	5.0
Income and expenses which do not involve payment		-2.8	-4.3
		-0.6	-1.7
Change in working capital	(2)		
Change in trade debtors		-10.2	10.4
Change in stocks		-5.8	-2.0
Change in short-term interest-free creditors		17.1	-32.5
		1.1	-24.1

# Notes to the Financial Statements

## Accounting Policy

In accordance with SOK's statutes, the name SOK Corporation is used for the SOK Group. SOK Corporation comprises SOK (Suomen Osuuskauppojen Keskuskunta) and its subsidiaries.

SOK's financial statements and consolidated financial statements have been prepared in the manner prescribed by Finnish legislation governing the preparation of financial statements (Finnish Accounting Act). The cash flow statement has been prepared in accordance with the general recommendations of the Finnish Accounting Standards Board, applying the indirect form of cash flow statement.

### Scope of the consolidated financial statements

The consolidated financial statements include the parent cooperative and all the companies in which the parent cooperative held, at the close of the financial year, either directly or through its subsidiaries, more than half of the voting rights conferred by the shares. Of the above-mentioned companies, four subsidiaries operate in Estonia, two in Latvia and one in Russia.

The financial statement information of the associated companies (voting rights of 20%–50%) are included in the consolidated financial statements.

Of the subsidiaries, two dormant companies have been omitted from the consolidated financial statements. In addition, excluded from the consolidation are five housing corporations, four of which are subject to State Housing Board regulations. The exclusion of the above-mentioned subsidiaries and associated companies does not have a material effect on the consolidated result and shareholders' equity.

### Principles of consolidation

The consolidated financial statements have been prepared by combining SOK Corporation's consolidated companies' income statements and balance sheets as well as the notes to them. The financial statements of SOK Corporation's companies are for the period 1 January – 31 December 2003. Companies acquired or formed during the financial year have been consolidated from the date of acquisition or formation. Divested subsidiaries or associated companies have been consolidated up to the date of sale.

### Shareholdings within the Corporation

The Corporation's holdings in subsidiaries have been eliminated using the acquisition cost method. Shareholdings within the Corporation have been eliminated by subtracting their acquisition cost as well as, from the shareholders' equity of the subsidiaries, an amount corresponding to the Corporation's holding in them. The shareholders' equity of subsidiaries acquired after the beginning of the 1998 financial year also includes accelerated depreciation and voluntary provisions less the deferred tax liability. Differences arising in the eliminations, to the extent that they are due to differences between the current and book values of properties, have been allocated to the relevant fixed assets and the remaining part is stated as goodwill on consolidation in the balance sheet.

Goodwill on consolidation attributable to buildings has been amortised in line with the depreciation plan for the building in question. Goodwill on consolidation is amortised over a period of 5 years on a straight-line basis.

### Transactions and margins within SOK Corporation

When preparing the consolidated financial statements, all intra-Corporation income and expenses, distribution of profits, receivables and debts as well as unrealised profit margins from intra-Corporation transactions have been eliminated.

### Minority interests

Minority interests in the profit for the financial year is shown as a separate item in the income statement. The minority interest in capital and reserves is also shown as a separate item in the consolidated balance sheet.

### Translation differences

The financial statements of foreign subsidiaries have been translated into euros at the exchange rate on the balance sheet date. Translation differences arising from the elimination of shareholders' equity have been entered under profit brought forward in the consolidated balance sheet.

### Associated companies

Associated companies have been consolidated using the equity method. SOK Corporation's share of the associated companies' profit for the financial year, in accordance with the Corporation's proportional holdings and adjusted for any amortisation of goodwill and dividends received, is shown in the consolidated income statement after operating profit. By contrast, the result of the associated companies that carry on SOK Corporation's mainline business are included in the operating profit calculations and stated on the previous line. Inex Partners Oy's EDI invoicing through SOK is not included in SOK's net turnover.

In the consolidated balance sheet, the acquisition cost of associated companies and SOK Corporation's shareholders' equity includes the Corporation's post-acquisition share of an associated company's accumulated net assets, inclusive of total appropriations and less the deferred tax liability.

Profit margins within SOK Corporation arising in transactions between the Corporation's companies and associated companies have been eliminated in proportion to each party's holdings. Such margins have been subtracted from the Corporation's profit brought forward and from the cost of acquiring the shares in associated companies. Eliminated capital gains are recognised as income in step with depreciation.

### Items in foreign currency and derivative contracts

Transactions in foreign currency have been booked at the exchange rate on the date of the transaction. Foreign currency receivables and



liabilities that are open at the end of the financial year have been translated into euros at the exchange rate quoted by the European Central Bank on the closing day of the financial year and the exchange rate differences have been booked as a credit or charge to income.

### Derivative contracts taken out for hedging purposes

#### Forward exchange contracts

Interest rate differences on forward exchange contracts have been periodised over the contract period as interest expenses or adjustments thereto. Exchange rate differences on forward contracts taken out for hedging purposes have been entered as a credit or charge to income against the exchange rate difference arising from the hedged item in the course of the financial year during which the exchange rate difference of the hedged item was entered. Unrealised foreign exchange gains are entered as a credit to earnings to a maximum of the amount of a loss arising from the hedged item and the proportion in excess of this is booked to a balance sheet account. Unrealised foreign exchange losses on derivatives hedging balance sheet items are booked to the full amount as a charge to earnings. Unrealised foreign exchange differences on forward exchange contracts hedging future cash flows are booked to the balance sheet.

#### Forward rate agreements and interest rate swaps

Unrealised changes in the value of forward rate agreements are booked to the balance sheet, whereas realised changes in value are periodised over the contract period as a credit or charge to earnings. The financial statements contain no open forward rate agreements taken out for hedging purposes.

The interest on interest rate swaps has been periodised over the contract period to adjust interest income or expense. Changes in value of interest rate swaps taken out for hedging purposes are booked to a balance sheet account.

#### Equity forwards

Realised gains and losses are booked as a credit or charge to earnings. Equity derivatives are valued at the stock exchange prices on the last stock exchange day of the financial year. The valuation profit on equity forwards has been recognised as income to a maximum of the amount of a loss charged to expense for the hedged item, and the proportion in excess of this is booked to the balance sheet. Negative changes in value have been booked to a balance sheet account up to the unbooked valuation gain on the hedged item, and the proportion in excess of this has been entered as a charge to earnings. The financial statements contain no open equity forwards.

#### Interest rate, foreign currency, equity and share index options

Received and paid option premiums have been entered under advances paid and received. Premiums on interest rate options and realised gains or losses have been periodised over the contract period to adjust entered, hedged interest. Unrealised changes in value have been entered in the balance sheet. Exchange rate differences of foreign currency options have been entered as credits or charges to income against the exchange rate difference caused by the hedged item for the financial year during which the exchange rate difference of the hedged item has arisen. The valuation profit on equity and equity index options has been recognised as income to a maximum of the amount of a loss charged to expense for the hedged item, and the proportion in excess

of this has been booked to a balance sheet account. Negative changes in value have been booked to a balance sheet account up to the unbooked valuation gain on the hedged item, and the proportion in excess of this has been entered as a charge to earnings. The financial statements contain no open option contracts taken out for hedging purposes.

#### Electricity derivatives

Electricity derivatives are used mainly for hedging the price risks of electricity. The premiums on the electricity option contracts taken out for hedging purposes have been entered as advances paid and subsequently periodised over the contract period to adjust electricity prices entered. Unrealised changes in value from electricity options, forwards and futures have been entered in the balance sheet, and the realised changes in value have been periodised over the contract period.

### Derivative contracts for purposes other than hedging

Derivative contracts are taken out mainly for hedging purposes. Non-hedging derivative contracts may only be taken out within the risk limits specified in the Corporation's risk management regulations which are approved by SOK's Executive Board. Negative changes in the value of outstanding derivative contract positions other than for hedging have been charged as expenses. Valuation profits on outstanding positions have only been recognised as income to an extent corresponding to the losses entered earlier for the contracts included in the position, and the proportion in excess of this has been entered in a balance sheet account. Changes in the value of closed positions have been entered as a credit or charge to income at December 31, 2003. The fair value of outstanding contracts made for purposes other than hedging at December 31, 2003 was EUR 43,000 negative.

### Fixed assets and depreciation

In the balance sheet, fixed assets have been valued at cost less accumulated planned depreciation. Furthermore, certain land areas and buildings include undepreciated revaluations made in previous years. In preparing the financial statements, revaluations of EUR 26.1 million have been reversed in line with the depreciation schedule. The revaluation reserve in the consolidated balance sheet at December 31, 2003 amounts to EUR 51.5 million.

Depreciation according to plan has been calculated on the original acquisition cost of the fixed assets in accordance with an advance schedule and on a straight line basis. Depreciation has been calculated from the beginning of the month after the asset was placed in use. Depreciation periods, which are based on the expected useful life of the assets, are shown in the notes to the income statement under "Depreciation."

### Stocks

Stocks are entered in the balance sheet on a *fifo* basis at the acquisition cost or repurchase price or probable market price, whichever is the lowest.

### Financial assets

Securities held as financial assets are valued at acquisition cost or the market price, whichever is the lower.

## Leasing

Leasing payments are shown as rent expenses in the income statement.

## Future expenses and losses

Future expenses and losses representing a commitment of the company or which are likely to materialise are charged as expenses under the relevant expense item. In the balance sheet these provisions for expenses are stated in the item "Compulsory provisions."

## Deferred taxes

In the consolidated balance sheet, the accumulated appropriations shown in individual financial statements have been divided into a deferred tax liability, shareholders' equity and minority interest. Any changes in these items are shown in the consolidated income statement. Depreciation not deducted in taxation is taken into account as a reducing factor in calculating the deferred tax liability. Deferred tax assets arising from the Corporation's companies' compulsory provisions and confirmed losses are shown

in the consolidated balance sheet, whereas the change in the deferred tax assets is shown in the consolidated income statement.

The deferred tax liabilities and assets arising on consolidation are included in the deferred tax liabilities and assets shown in the consolidated balance sheet, and any change therein is included in the change in deferred tax liabilities and assets shown in the consolidated income statement.

In line with conservative accounting practice, the consolidated balance sheet shows the deferred tax liability in its entirety and deferred tax assets as the estimated and probable amount. The deferred tax liabilities and assets were calculated applying the confirmed tax rate, which is 29%.

## Pension arrangements

The pension liabilities of SOK Corporation companies have been insured through external pension insurance companies. A supplementary pension policy has been taken out for the former Elonvara members who are employed by SOK Corporation. The policy provides coverage for the earned and future pension benefits corresponding to the rules and regulations of the pension fund.

## Management of financial risks and electricity price risk in 2003

SOK's Finance unit has central responsibility for managing SOK Corporation's treasury operations and financial risks. The SOK Executive Board has confirmed SOK Corporation's guidelines for financial policy, strategy and the management of financial risks. These guidelines define the principles of managing financial risks and the maximum amounts of financial risks. Furthermore, numerical targets have been set for the different subareas of treasury operations in order to assure the adequacy, balance and affordability of financing under all circumstances.

### Liquidity risk

SOK Corporation seeks to minimise liquidity and refinancing risks by means of a balanced distribution of loan maturities and sufficient financial reserves. Adequate liquidity is maintained through cash, overdraft accounts, liquid money-market investments and long-term binding credit facilities. In accordance with its financing strategy, SOK Corporation strives to maintain an amount of liquid funds and undrawn long-term binding credit facilities that is at least 10% of its total assets plus the amount of the undrawn credit facilities. Liquid funds at the end of the year totalled EUR 503.7 million and undrawn long-term binding credit facilities amounted to EUR 126.1 million, for a total of 40 %. The Quick ratio target has been set at more than 1, including long-term undrawn credit facilities. At the end of the year the quick ratio calculated in the above manner was 1.09.

### Interest rate risk

SOK Corporation's interest rate risk is reviewed over 12-month and three-year periods. A linear change of one percentage point in the level of market interest rates must not cause an increase of more than 0.5 percentage point in the interest rate level of SOK Corporation's average interest-bearing net liabilities.

### Foreign exchange risk

SOK Corporation's net turnover is generated largely in Finland. SOK Corporation's commercial foreign exchange risks are the responsibility of the unit closing the business deal. During the year SOK's loans taken out in foreign currency were used solely to finance equity investments in Baltic subsidiaries. SOK's Finnish subsidiaries did not have loans denominated in foreign currency. The extent of the foreign exchange risk for the balance sheets of the Baltic subsidiaries is examined on the basis of balance sheet source-application analysis. The foreign exchange risk is reduced primarily by financing the companies' operations in the same currency in which the money is spent and secondarily by means of derivatives.

### Credit risk

The management of credit risks connected with commercial activities is part of the business units' operations. Investments and trade in derivatives can only be undertaken with counterparties approved by SOK's Executive Board, within the limits approved by the Executive Board.

### Electricity price risk

SOK Corporation evaluates the price risks of electricity for a three-year period. The minimum hedging degrees for each succeeding year are defined in the guidelines for managing electricity price risk, which have been approved by SOK's Executive Board. Of the estimated consumption, 100% has been hedged for the next calendar year after the closing date of the accounts, 40% for the year after that and 20% for the third year. The hedging instruments that can be used are fixed-price delivery contracts, futures, forward contracts, options or other similar electricity derivatives.

## Notes to the Accounts

EUR million	SOK CORPORATION		SOK	
	2003	2002	2003	2002
<b>NOTES CONCERNING THE INCOME STATEMENTS</b>				
<b>1a. Net turnover by sector</b>				
Agricultural and hardware trade	769.8	767.6		
Hotel and restaurant business	167.9	160.3		
Car trade	341.0	284.0		
Sokos department stores	134.0	126.4		
Grocery trade	52.7	32.0		
Consumer goods sourcing	425.1	408.3		
EDI invoicing *)	1 539.2	1 524.9	1 539.2	1 524.9
Real estate and property leasing and other services	195.2	187.0	153.8	143.4
Divested and discontinued operations	0.0	5.0		
Eliminations *)	-513.4	-497.7		
<b>Total</b>	<b>3 111.5</b>	<b>2 997.8</b>	<b>1 693.0</b>	<b>1 668.4</b>
*) includes EUR 327 million of intra-Group EDI invoicing (prev. yr. EUR 314 million)				
<b>Domestic business operations constitute 95.4 % of the turnover.</b>				
<b>1b. Operating profit by business area</b>				
Agricultural and hardware trade	9.1	9.7		
Hotel and restaurant business *)	9.9	11.6		
Car trade	8.5	4.1		
Sokos department stores	-0.5	-0.3		
Grocery trade	0.1	-0.6		
Consumer goods sourcing	-0.1	3.7		
EDI invoicing	0.5	0.3	0.5	0.3
Real estate and property leasing and other services	17.8	12.6	6.1	-2.7
Divested and discontinued operations	0.0	-0.5		
Share of associated companies' profits	2.1	11.7		
Eliminations	-1.0	2.7		
<b>Total</b>	<b>46.4</b>	<b>55.0</b>	<b>6.5</b>	<b>-2.4</b>
*) does not include non-recurring amortisation of goodwill within the Corporation in 2003				
<b>2. Other operating income</b>				
Profits on sale of fixed assets	10.0	9.0	2.5	3.3
Goodwill income			1.2	
Other operating income	1.0	0.5	0.1	0.2
<b>Total</b>	<b>11.0</b>	<b>9.5</b>	<b>3.8</b>	<b>3.5</b>
<b>3. Raw materials and consumables</b>				
Purchases during the financial year	2 622.1	2 532.8	1 539.4	1 525.5
Change in stocks (+/-)	-1.9	-3.6	-5.8	-2.0
<b>Total</b>	<b>2 620.2</b>	<b>2 529.2</b>	<b>1 533.6</b>	<b>1 523.5</b>
<b>4. Staff costs</b>				
Wages and salaries	119.9	114.9	21.9	20.6
Pension costs	19.6	18.8	4.6	4.0
Other social security costs	9.5	9.1	1.8	1.8
<b>Total</b>	<b>149.0</b>	<b>142.8</b>	<b>28.3</b>	<b>26.4</b>

Information concerning the staff and members of the boards is contained under item 27.

EUR million	SOK CORPORATION		SOK	
	2003	2002	2003	2002
<b>5. Depreciation and value adjustments</b>				
Depreciation according to plan	33.8	32.4	4.8	4.3
Value adjustments on non-currents assets	0.4	2.2		0.6
Total	34.2	34.6	4.8	5.0
The itemised specifications of the change in depreciation and accelerated depreciation are included under fixed assets and accumulated appropriations in the notes to the balance sheet.				
Planned depreciation is calculated on a straight-line basis so as to write off the cost of fixed assets over their expected useful lives. Revaluations have not written down. Planned depreciation is as follows:				
		Year		
Buildings		30–35		
Light constructions and building equipment		10–15		
Office and warehouse fixtures		10		
Warehouse, servicing and processing machinery		7		
Restaurant and hotel furnishings		5–10		
Shop furnishings		5–7		
Motor vehicles and computer hardware (other than PCs)		5		
Goodwill		5–10		
Other tangible and intangible assets		as permitted by taxation laws		
<b>6. Other operating expenses</b>				
Other operating expenses	118.3	110.3	27.5	25.3
Losses on sale of fixed assets	1.5	1.0	1.0	0.9
Total	119.8	111.3	28.5	26.2
<b>Rents are presented as a separate item in the income statement.</b>				
<b>7. Increase (-)/decrease (+) in provisions for liabilities and charges</b>				
Increases related to partially vacant premises	-1.5	-2.1	-1.4	-2.1
Decreases related to partially vacant premises	2.8	3.6	2.8	3.2
Increase in other future expenses and losses	-2.3	-1.6	-0.0	
Decrease in other future expenses and losses	3.6	9.3	1.4	2.8
Total	2.6	9.3	2.8	3.9
<b>8. Financial income and expenses</b>				
Dividend income from group companies			3.9	1.2
Dividend income from participating interest companies			4.9	3.1
Dividend income from others	1.3	1.2	1.2	1.2
<b>Total dividend income on financial assets</b>	<b>1.3</b>	<b>1.2</b>	<b>10.0</b>	<b>5.5</b>
<b>Interest income on other financial assets</b>				
From group companies			9.9	10.7
From others	0.9	1.0	0.8	0.9
<b>Other interest and financial income</b>				
From group companies			1.9	2.1
From others	16.4	16.7	10.5	11.0
<b>Total interest and other financial income</b>	<b>17.3</b>	<b>17.7</b>	<b>23.2</b>	<b>24.6</b>
<b>Value adjustments of investments on non-current assets</b>		0.0	1.4	11.1
<b>Reversed value adjustments of investments on non-current assets</b>	<b>-3.0</b>	<b>-0.9</b>	<b>-4.0</b>	<b>-6.1</b>
<b>Value adjustments of other securities from group companies held in current assets</b>	<b>0.0</b>		<b>0.0</b>	<b>0.1</b>
<b>Interest and other financial expenses</b>				
To group companies			1.2	1.3
To others	16.1	19.5	13.4	17.0
<b>Total interest and other financial expenses</b>	<b>16.1</b>	<b>19.5</b>	<b>14.6</b>	<b>18.3</b>
<b>Total financial income and expenses</b>	<b>5.4</b>	<b>0.3</b>	<b>21.3</b>	<b>6.6</b>



EUR million	SOK-YHTYMÄ		SOK	
	2003	2002	2003	2002
<b>9. Extraordinary items</b>				
<b>Extraordinary income</b>				
Group contribution received			13.8	29.1
Merger profit			0.1	
Total			13.8	29.1
<b>Extraordinary expenses</b>				
Merger loss			0.7	1.5
Group contributions given			7.9	12.4
Total			8.6	14.0
<b>Total extraordinary items</b>			<b>5.2</b>	<b>15.1</b>
<b>10. Appropriations</b>				
Increase (-)/decrease (+) in accelerated depreciation			-0.5	0.0
<b>11. Income taxes</b>				
Income taxes on ordinary operations for the year	10.1	6.3	4.1	-0.7
Income taxes on ordinary operations for the previous year	4.8	0.8	4.4	1.0
Income taxes on extraordinary items	-0.4		1.5	4.8
Effect of consolidation	-2.5	-1.3		
Change in deferred tax liability/assets	4.7	4.9		
Total	16.7	10.7	10.0	5.1

## NOTES CONCERNING ASSETS IN THE BALANCE SHEET

### 12. SOK Corporation's intangible and tangible assets, EUR million

Intangible assets	Intangible rights	Goodwill	Other capitalised expenditure	Advance payments	Total intangible assets	Group goodwill	Group reserve
Acquisition cost at 1.1.2003	52.0	16.7	37.6	1.7	108.0	19.1	2.3
Increase	4.5	5.7	1.7	14.6	26.5	0.9	
Decrease	-4.3	-0.3	-5.8		-10.4	-0.3	
Transfers	1.6		2.8	-4.4	0.0		
Acquisition cost at 31.12.2003	53.8	22.1	36.3	11.9	124.0	19.7	2.3
Accumulated depreciation at 1.1.2003	27.3	9.8	23.7		60.7	18.3	
Companies acquired	0.0				0.0		
Accumulated depreciation on decreases and transfers	-4.2	-0.3	-5.3		-9.8	-0.3	
Depreciation for the financial year	7.9	1.9	3.7		13.5	0.4	
Value adjustments	0.0				0.0		
Accumulated depreciation at 31.12.2003	31.0	11.3	22.0		64.4	18.4	
Accumulated income entries at 1.1.2003							2.3
Accumulated income entries at 31.12.2003							2.3
Book value at 31.12.2003	22.8	10.8	14.3	11.9	59.7	1.2	0.0
Book value at 31.12.2002	24.7	7.0	13.9	1.7	47.3	0.8	0.0

**Tangible assets**

	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total tangible assets
Acquisition cost at 1.1.2003	30.2	283.5	107.5	3.5	4.7	429.4
Increase	1.8	2.3	24.6	0.3	17.2	46.2
Decrease	-1.4	-6.5	-59.9	-0.1	-4.4	-72.3
Transfers	0.0	10.0	3.3		-13.3	0.0
Acquisition cost at 31.12.2003	30.7	289.4	75.5	3.7	4.1	403.3
Accumulated depreciation and value adjustments at 1.1.2003	1.9	105.0	72.3	0.8		180.0
Companies acquired		0.0	0.0	0.0		0.1
Accumulated value adjustments on decreases and transfers	-0.0	-3.8	-44.0	-0.0		-47.8
Depreciation for the financial year		9.4	10.2	0.3		19.9
Value adjustments		0.4	0.0			0.4
Accumulated depreciation at 31.12.2003	1.9	111.0	38.5	1.2		152.7
Revaluations at 1.1.2003	38.7	39.7				78.4
Decrease	-13.5	-12.6				-26.1
Revaluations at 31.12.2003	25.1	27.1				52.2
Book value at 31.12.2003	53.9	205.4	36.9	2.5	4.1	302.9
Book value at 31.12.2002	67.0	218.2	35.2	2.7	4.7	327.8

Share of machinery in the book value of machinery and equipment EUR 0.4 million (2002 EUR 0.5 million)

**13. SOK Corporation's investments assets, EUR million**

	Shares in participating interest companies	Other shares and member- ships	Total shares
Acquisition cost at 1.1.2003	80.0	37.1	117.0
Increase	0.7	0.0	0.7
Decrease	-7.1	-27.9	-35.0
Transfers	0.2	-0.4	-0.2
Acquisition cost at 31.12.2003	73.8	8.7	82.5
Accumulated value adjustments at 1.1.2003	2.0	25.1	27.0
Accumulated value adjustments on decreases and transfers	-0.6	-24.4	-25.1
Reversed value adjustments		-0.5	-0.5
Accumulated value adjustments at 31.12.2003	1.3	0.2	1.5
Book value at 31.12.2003	72.5	8.5	81.0
Book value at 31.12.2002	78.0	12.0	90.0

Undepreciated part of group goodwill due to associated companies EUR 1.7 million (2002 EUR 1.0 million).

Unentered part of group reserves due to associated companies EUR 0.0 million (2002 EUR 0.0 million).

	Capital loan debtors from participating interest companies	Debtors from participating interest companies	Capital loan debtors from others	Other debtors from others	Total other financial assets
Amount at 1.1.2003	3.4	2.2	6.0	21.6	33.2
Increase				0.9	0.9
Decrease	-2.5	-0.7	-3.4	-0.0	-6.6
Transfers	0.7				0.7
Amount at 31.12.2003	1.6	1.5	2.6	22.5	28.2
Accumulated value adjustments at 1.1.2003	2.5		0.0		2.5
Reversed value adjustments	-2.5				-2.5
Accumulated value adjustments at 31.12.2003	0.0		0.0		0.0
Book value at 31.12.2003	1.6	1.5	2.6	22.5	28.1
Book value at 31.12.2002	0.9	2.2	5.9	21.6	30.7
Total financial assets of SOK Corporation 31.12.2003					109.1
Total financial assets of SOK Corporation 31.12.2002					120.6

## 12. SOK's intangible and tangible assets, EUR million

### Intangible assets

	Intangible rights	Other capitalised expenditure	Advance payments	Total intangible assets
Acquisition cost at 1.1.2003	19.7	5.6	1.1	26.4
Increase	3.8	0.0	10.7	14.5
Decrease	-2.6	-0.6		-3.3
Transfers	1.5	0.8	-2.4	0.0
Acquisition cost at 31.12.2003	22.4	5.8	9.5	37.7
Accumulated depreciation at 1.1.2003	11.5	3.4		15.0
Accumulated depreciation on decreases and transfers	-2.6	-0.6		-3.3
Depreciation for the financial year	3.3	0.3		3.6
Accumulated depreciation at 31.12.2003	12.2	3.1		15.3
Book value at 31.12.2003	10.2	2.7	9.5	22.4
Book value at 31.12.2002	8.2	2.1	1.1	11.5

### Tangible assets

	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total tangible assets
Acquisition cost at 1.1.2003	2.5	11.5	12.5	0.3		26.9
Increase	0.0		0.8	0.0	0.0	0.9
Decrease		-0.9	-1.5			-2.4
Acquisition cost at 31.12.2003	2.5	10.6	11.9	0.3	0.0	25.4
Accumulated depreciation and value adjustments at 1.1.2003	0.1	7.6	9.3	0.0		16.9
Accumulated depreciation on decreases and transfers		-0.9	-1.4			-2.3
Depreciation for the financial year		0.3	0.9	0.0		1.2
Accumulated depreciation at 31.12.2003	0.1	7.0	8.8	0.0		15.8
Book value at 31.12.2003	2.4	3.6	3.2	0.3	0.0	9.5
Book value at 31.12.2002	2.4	4.0	3.3	0.3	0.0	9.9

<b>13. SOK's investments assets, EUR million</b>	Shares in group companies	Shares in participating interest companies	Other shares and member- ships	Total shares			
Acquisition cost at 1.1.2003	248.6	64.4	38.5	351.5			
Increase	4.6	0.6	0.0	5.2			
Decrease	-3.9	-5.2	-27.9	-36.9			
Transfers		0.4	-0.4	0.0			
Acquisition cost at 31.12.2003	249.4	60.2	10.2	319.8			
Accumulated value adjustments at 1.1.2003	23.5	8.5	24.9	56.8			
Accumulated value adjustments on decreases and transfers	-1.8	-0.6	-24.4	-26.9			
Reversed value adjustments	-0.8		-0.5	-1.2			
Accumulated value adjustments at 31.12.2003	20.9	7.8	0.0	28.7			
Book value at 31.12.2003	228.5	52.4	10.2	291.1			
Book value at 31.12.2002	225.1	55.9	13.6	294.6			
	Capital loan debtors from group companies	Debtors from group companies	Capital loan debtors from participating interest companies	Debtors from participating interest companies	Capital loan debtors from others	Other debtors from others	Total other financial assets
Amount at 1.1.2003	39.4	137.2	3.3	2.0	6.0	21.6	209.4
Increase	3.4	54.7				0.9	59.0
Decrease		-37.8	-2.5	-0.7	-3.4	-0.0	-44.4
Transfers	-1.7	1.7					0.0
Amount at 31.12.2003	41.1	155.7	0.8	1.3	2.6	22.5	223.9
Accumulated value adjustments at 1.1.2003	11.5		2.5		0.0		14.1
Value adjustments	1.4						1.4
Reversed value adjustments	-0.3		-2.5				-2.8
Accumulated value adjustments at 31.12.2003	12.6		0.0		0.0		12.7
Book value at 31.12.2003	28.4	155.7	0.8	1.3	2.6	22.5	211.3
Book value at 31.12.2002	27.8	137.2	0.8	2.0	5.9	21.6	195.4
Total financial assets of SOK 31.12.2003							502.3
Total financial assets of SOK 31.12.2002							490.0
Liabilities to secure group companies loans EUR 55,4 million							

<b>14. Companies owned by SOK Corporation and SOK 31.12.2003</b>		Registered office	share-holding %	Corporation's voting rights %	SOK's share-holding %
<b>Group companies</b>					
<b>Commercial</b>					
AS Kommest Auto Group	Estonia		90.0	90.0	90.0
AS Sokotel	Estonia		100.0	100.0	100.0
Hankkija-Maatalous Oy Group	Helsinki		100.0	100.0	100.0
Helsingin Sokos Oy	Helsinki		90.0	90.0	90.0
Intrade Partners Oy	Helsinki		100.0	100.0	100.0
Jollas-Opisto Oy	Helsinki		100.0	100.0	100.0
Maan Auto Oy Group	Helsinki		100.0	100.0	100.0
Netista Oy	Helsinki		100.0	100.0	100.0
North European Oil Trade Oy	Helsinki		66.0	66.0	66.0
Porin Sokos Oy	Pori		90.0	90.0	90.0
Prisma Peremarket AS	Estonia		100.0	100.0	100.0
Rainex Yrityspalvelu Oy	Helsinki		100.0	100.0	100.0
Rekla Oy	Helsinki		100.0	100.0	100.0
S-Etuluotto Oy	Helsinki		100.0	100.0	100.0
SOK-Business Oy	Helsinki		100.0	100.0	100.0
SOK-Invest Oy	Helsinki		100.0	100.0	100.0
Sokotel Oy Group	Helsinki		100.0	100.0	100.0
SOK-Takaus Oy	Helsinki		99.9	99.9	99.9
Tampereen Sokos Oy	Tampere		90.0	90.0	90.0
Turun Sokos Oy	Turku		90.0	90.0	90.0
Uudenmaan ABC Oy	Helsinki		90.0	90.0	90.0
Real estate companies (22 pcs)					
Real estate companies under stocks (14 pcs)					
Total group companies 65 pcs					
<b>Participating interest companies</b>					
<b>Associated companies</b>					
Asunto Oy Kauniaisten Kirkkomäki	Kauniainen		38.6	38.6	38.6
Elielin Pysäköinti Oy	Helsinki		22.2	22.2	22.2
Hotelli Joensuun Kimmel Oy	Joensuu		33.0	33.0	
Hotellipankki Oy	Helsinki		33.3	33.3	
Inex Partners Oy Group	Helsinki		50.0	50.0	50.0
Kauppakeskus Mylly Oy	Turku		50.0	50.0	50.0
Keskuskorttelin Huolto Oy	Vaasa		31.5	31.5	31.5
Kiinteistö Oy Asematie 8	Vantaa		42.5	42.5	42.5
Kiinteistö Oy Pysäköintiveturi	Tampere		49.7	40.2	49.7
Kiinteistö Oy Rytilahden Maja	Helsinki		40.0	40.0	40.0
Kiinteistö Oy Turun Brahenkatu 8	Turku		50.0	50.0	50.0
Kiinteistö Oy Turun Toripaikoitus	Turku		38.6	38.6	28.6
Kiinteistö Oy Vainihaka	Rauma		50.0	50.0	50.0
Malmintorin Kiinteistö Oy	Helsinki		40.0	40.0	40.0
Movere Oy	Lahti		33.3	33.3	
Oy Realinvest Ab Group	Helsinki		21.9	21.9	21.9
Tullin Parkki Oy	Tampere		45.1	30.0	45.1
Associated companies under stocks (1 pcs)					
Total Associated companies 18 pcs					
<b>Other shares owned by the Parent company</b>					
Sato-Yhtymä Oyj	Helsinki		8.7		8.7



EUR million	SOK CORPORATION		SOK	
	2003	2002	2003	2002
<b>15. Stocks</b>				
Goods	133.3	131.5		
Other stocks	0.4	0.4	14.1	8.3
Advance payments	1.1	1.3		
Total	134.8	133.2	14.1	8.3
<b>16. Long-term debtors</b>				
Trade debtors	3.8	7.7	2.4	2.4
Prepayments and accrued income	0.1	0.1		
Total long-term debtors	3.8	7.7	2.4	2.4
<b>17. Deferred tax asset</b>				
Temporary differences	3.6	5.2		
From consolidation	0.8	3.2		
Total	4.4	8.4		
The deferred tax asset due to temporary differences has been consolidated and is shown in the consolidated balance sheet, but not in the group company balance sheet.				
<b>18. Short-term debtors</b>				
Trade debtors	242.6	230.2	188.3	179.7
<b>Amounts owed by group companies</b>				
Trade debtors			4.0	4.8
Loan receivables			2.5	2.0
Other receivables				29.1
Prepayments and accrued income			18.8	2.8
Total			25.3	38.7
<b>Amounts owed by participating interest companies</b>				
Trade debtors	0.7	0.4	0.5	0.2
Loan receivables	2.8	1.5		
Prepayments and accrued income	25.0	23.6	25.0	23.5
Total	28.5	25.5	25.4	23.8
Loan receivables	20.2	20.8	4.0	3.6
Other debtors	12.6	8.1	0.0	0.3
Prepayments and accrued income	25.2	20.9	15.1	11.4
Total short-term debtors	329.0	305.5	258.2	257.4
<b>Specification of prepayments and accrued income</b>				
Financial items	6.3	4.5	5.9	4.0
Other	44.0	40.1	52.9	33.8
Total prepayments and accrued income	50.2	44.6	58.8	37.8
<b>19. Investments</b>				
Other shares and participations	10.0		10.0	
Other securities from group companies			18.5	19.3
Money market securities	468.1	402.7	468.1	402.7
Total	478.1	402.7	496.6	421.9

## NOTES CONCERNING LIABILITIES IN THE BALANCE SHEETS

EUR million	SOK CORPORATION		SOK	
	2003	2002	2003	2002
<b>20. Capital and reserves</b>				
Cooperative capital at 1 Jan.	65.8	58.7	65.8	58.7
Increase	2.8	7.1	2.8	7.1
Cooperative capital at 31 Dec.	68.6	65.8	68.6	65.8
Supplementary cooperative capital at 1 Jan.	12.6	9.3	12.6	9.3
Increase	2.2	3.4	2.2	3.4
Supplementary cooperative capital at 31 Dec.	14.8	12.6	14.8	12.6
Revaluation reserve at 1 Jan.	77.6	104.5		
Decrease	-26.1	-26.9		
Revaluation reserve at 31 Dec.	51.5	77.6		

The hotel and department store buildings that have been revalued are located in the centre of Helsinki, and the logistics centre is located in Espoo. All the above-mentioned buildings have been rented for use that serves the operations of SOK Corporation or the S Group directly or indirectly. In accordance with a decision that has been taken, the revaluations will be reversed in their entirety when going over to the acquisition cost principle of valuation of fixed assets. Revaluations have been reversed in these financial statements to the amount of EUR 26.1 million.

Legal reserve at 1 Jan.	11.8	11.8	11.8	11.8
Increase	1.0		1.0	
Legal reserve at 31 Dec.	12.8	11.8	12.8	11.8
Supervisory Board's disposal fund at 1 Jan.	0.4	0.3	0.4	0.3
Increase	0.2	0.2	0.2	0.2
Decrease	-0.4	-0.0	-0.4	-0.0
Supervisory Board's disposal fund at 31 Dec.	0.2	0.4	0.2	0.4
Profit brought forward at 1 Jan.	268.4	229.9	310.8	302.1
Transfer to legal reserve	-1.0		-1.0	
Transfer to Supervisory Board's disposal fund	-0.2	-0.2	-0.2	-0.2
Interest on cooperative capital and supplementary cooperative capital	-5.9	-5.4	-5.9	-5.4
Translation difference	-0.0	-0.0		
Profit brought forward at 31 Dec.	261.4	224.3	303.8	296.6
Profit for the financial year	35.3	44.2	22.5	14.2
Capital loan		20.2		20.2
<b>Total capital and reserves</b>	<b>444.6</b>	<b>456.8</b>	<b>422.7</b>	<b>421.6</b>
<b>Distributable funds at 31 Dec.</b>				
Profit brought forward	261.4	224.3	303.8	296.6
Profit for the financial year	35.3	44.2	22.5	14.2
Minimum amount to be transferred to the reserve fund in accordance with the company statutes	-0.4	-0.3	-0.4	-0.3
Share transferred to shareholders' equity from the accrued appropriations	-30.9	-28.9		
<b>Total</b>	<b>265.4</b>	<b>239.2</b>	<b>326.0</b>	<b>310.5</b>

**21. Capital loan****1996 Debenture Loan**

In May 2003, SOK exercised its right to repay prematurely the EUR 20.2 million subordinated debenture that it had issued in 1996. The original due date of the debenture was on 22 May 2006. The debenture paid interest of 9.75%. SOK repaid the debenture at its face value, including accrued interest.

**22. Accumulated appropriations****Accelerated depreciation**

Intangible rights			1.8	1.7
Other capitalised expenditure			0.7	0.4
Buildings and constructions			0.4	0.4
Machinery and equipment			0.4	0.4
Other tangible assets				0.0
<b>Total</b>			<b>3.4</b>	<b>2.9</b>

EUR million	SOK CORPORATION		SOK	
	2003	2002	2003	2002
<b>23. Provisions</b>				
Partially vacant premises	5.8	7.1	5.6	7.1
Other future expenses	3.4	4.6	0.5	1.8
<b>Total</b>	<b>9.2</b>	<b>11.8</b>	<b>6.1</b>	<b>8.9</b>
<b>24. Long-term creditors</b>				
Bonds	5.8	5.8		
Loans from financial institutions	18.6	21.7	2.7	5.6
Pension loans	0.4			
Trade creditors	0.3	0.3		
Other long-term creditors	6.9	12.0	6.9	12.0
Accruals and deferred income		0.1		0.1
<b>Total long-term creditors</b>	<b>32.0</b>	<b>39.9</b>	<b>9.6</b>	<b>17.7</b>
<b>Bond issued by Prisma Peremarket AS:</b>				
Main terms and conditions of the bond:				
• Capital: EEK (Estonian kroons) 90 million				
• Drawdown date: 27 September 2002				
• Date of maturity: 27 September 2005				
• Interest fixed at 4.75%				
• Secured by an SOK guarantee				
<b>25. Deferred tax liability</b>				
Appropriations	11.1	10.3		
Temporary differences	-0.7	-0.5		
Included in group companies' own balance sheets	-	-		
<b>Total</b>	<b>10.4</b>	<b>9.7</b>		
<b>26. Short-term creditors</b>				
Loans from financial institutions	2.7	6.7		1.2
Pension loans	0.0			
Advances received	44.5	40.6	6.3	5.7
Trade creditors	254.9	237.8	121.3	108.9
<b>Amounts owed to group companies</b>				
Trade creditors			26.1	27.9
Other short-term creditors			146.2	117.3
Accruals and deferred income			7.7	2.6
<b>Total</b>			<b>180.1</b>	<b>147.8</b>
<b>Amounts owed to participating interest companies</b>				
Trade creditors	55.4	49.6	53.5	48.4
Other short-term creditors	7.7	7.6	7.7	7.6
Accruals and deferred income	0.0	0.0	0.0	0.0
<b>Total</b>	<b>63.1</b>	<b>57.2</b>	<b>61.1</b>	<b>56.1</b>
Other short-term creditors	480.2	413.0	454.9	392.5
Accruals and deferred income	90.0	81.8	48.2	45.1
<b>Total short-term creditors</b>	<b>935.5</b>	<b>837.1</b>	<b>871.9</b>	<b>757.4</b>
<b>Specification of accruals and deferred income</b>				
Staff costs	26.3	25.3	5.3	5.1
Financial items	10.2	8.0	6.9	5.1
Other	53.6	48.6	43.8	37.6
<b>Total accruals and deferred income</b>	<b>90.0</b>	<b>81.9</b>	<b>55.9</b>	<b>47.8</b>

**NOTES CONCERNING INCOME TAXES**

See 11 above.

**NOTES CONCERNING THE STAFF AND BOARD MEMBERS**

EUR million	SOK CORPORATION		SOK	
	2003	2002	2003	2002
<b>27 a. Average staff numbers by group</b>				
Agricultural and hardware trade	950	879		
Hotels and restaurant business	1 309	1 126		
Car trade	523	454		
Sokos department stores	588	567		
Grocery trade	372	277		
Consumer goods sourcing	234	243		
Real estate and property leasing and other services	581	533		
Divested and discontinued operations		47		
<b>Total</b>	<b>4 557</b>	<b>4 126</b>		
<b>SOK</b>	<b>496</b>	<b>483</b>		
<b>Subsidiaries</b>	<b>4 061</b>	<b>3 643</b>		
<b>Total</b>	<b>4 557</b>	<b>4 126</b>		

The average number of personnel has been calculated as the average of the personnel at the end of each month and converted to full-time staff. The number of staff at sites abroad at 31 Dec. 2003 was 877.

**27 b.**

Salaries and remunerations:

CEO and members of the Executive Board	3.0	2.6	1.1	1.1
Members of the Supervisory Board	0.1	0.1	0.1	0.1

Management pension liabilities:

For those members of the Executive Board in the employ of SOK and for certain of the subsidiaries' managing directors, the retirement age is 60–63 years.

**SECURED ASSETS AND CONTINGENT LIABILITIES****28. Contingent liabilities****Pledges and contingent liabilities****Loans secured by mortgages**

Loans from financial institutions				
Mortgages	7.8	7.8		
<b>Total mortgages given as security</b>	<b>7.8</b>	<b>7.8</b>		

**Loans secured by pledges**

Loans from financial institutions	0.1	0.4		
Pledged hire purchase agreements	3.0	9.1		
Other creditors	1.7	1.7	1.7	1.7
Book value of pledged shares	1.9	1.9	1.9	1.9
<b>Total pledges given as security</b>	<b>4.9</b>	<b>11.0</b>	<b>1.9</b>	<b>1.9</b>

EUR million	SOK CORPORATION		SOK	
	2003	2002	2003	2002
<b>Loans secured by guarantees</b>				
Loans from financial institutions	16.7	20.5		
Guarantees given	16.7	20.5		
<b>Guarantees given: total</b>	<b>16.7</b>	<b>20.5</b>		
<b>General security for liabilities</b>				
Mortgages	37.9	37.8		
<b>Other security given</b>				
Pledges	0.4	0.6	0.4	0.5
Mortgages	13.5	13.5		
Guarantees	55.2	41.8		
<b>Total</b>	<b>69.0</b>	<b>55.9</b>	<b>0.4</b>	<b>0.5</b>
<b>Security given on behalf of Group companies</b>				
Guarantees			56.9	44.3
<b>Security given on behalf of others' liabilities</b>				
Guarantees given on behalf of associated company's liabilities	5.2	4.8		
Guarantees given on behalf of cooperative society's liabilities	6.1	8.5		
Guarantees given on behalf of other's liabilities	0.2	0.2	0.2	0.2
<b>Total</b>	<b>11.5</b>	<b>13.5</b>	<b>0.2</b>	<b>0.2</b>
<b>Security given on behalf of others</b>				
Guarantees for liabilities of the cooperative societies	0.2	0.2		
<b>Other contingent liabilities</b>				
Repurchasing liabilities:				
Hire purchase liabilities	97.4	77.0		
Other purchase liabilities	71.2	70.1	37.0	36.6
<b>Total</b>	<b>168.6</b>	<b>147.1</b>	<b>37.0</b>	<b>36.6</b>
Leasing liabilities:				
Payable next year	5.1	4.9	1.8	1.7
Payable in more than one year	11.6	12.8	1.5	3.2
<b>Total</b>	<b>16.7</b>	<b>17.7</b>	<b>3.3</b>	<b>4.9</b>

**Rental liabilities:**

Rented business facilities used by the S Group are regularly secured with long-term contracts, for which the SOK Corporation bears rental liabilities.

**Other financial liabilities:**

The basic improvements and new structures in respect of the properties of Group companies involve a reduced value added tax return liability in accordance with Section 33 of the Value Added Tax Act. The return liability materialises if the premises for which reductions have been made are removed from the use entitling them to said reduction within the 5-year period specified by said act.



## SOK CORPORATION

	Value of underlying assets	Of which value of underlying instruments of open agreements	Value of underlying assets	Of which value of underlying instruments of open agreements
<b>Liability under derivative contracts, value of underlying assets, EUR million</b>	31.12.2003	31.12.2003	31.12.2002	31.12.2002
<b>Interest derivatives</b>				
Forward rate agreements	80.8	20.8	188.8	188.8
Interest options				
Purchased	42.0	0.0	92.0	0.0
Written	42.0	0.0	92.0	0.0
Interest rate swaps	221.3	149.5	186.4	143.4
<b>Currency forwards</b>				
Forward rate agreements	29.4	24.4	26.5	26.3
Currency options				
Purchased	2.0	2.0		
<b>Electric forwards</b>				
Forward rate agreements	13.4	4.3	11.3	5.6
<b>Liability under derivative contracts, market value, EUR million</b>				
	Market value	Of which market value of open agreements	Market value	Of which market value of open agreements
	31.12.2003	31.12.2003	31.12.2002	31.12.2002
<b>Interest derivatives</b>				
Forward rate agreements	-0.0	-0.0	-0.9	-0.9
Interest options				
Purchased	0.0	0.0	0.1	0.0
Written	-0.0	0.0	-0.1	0.0
Interest rate swaps	-0.6	-0.6	-0.7	-0.7
<b>Currency forwards</b>				
Forward rate agreements	-0.3	-0.3	0.2	0.2
Currency options				
Purchased	0.0	0.0		
<b>Electric forwards</b>				
Forward rate agreements	0.6	0.4	2.6	2.7

## SOK

<b>Liability under derivative contracts, value of underlying assets, EUR million</b>	Value of	Of which value	Value of	Of which value
	underlying assets 31.12.2003	of underlying instruments of open agreements 31.12.2003	underlying assets 31.12.2002	of underlying instruments of open agreements 31.12.2002
<b>Interest derivatives</b>				
Forward rate agreements	80.8	20.8	194.8	182.8
Interest options				
Purchased	42.0	0.0	92.0	0.0
Written	42.0	0.0	92.0	0.0
Interest rate swaps	221.3	149.5	186.4	143.4
<b>Currency forwards</b>				
Forward rate agreements	49.3	8.1	45.4	7.4
Currency options				
Purchased	2.0	2.0		
<b>Electric forwards</b>				
Forward rate agreements	13.4	4.3	11.3	5.6
<b>Liability under derivative contracts, market value, EUR million</b>				
	Market	Of which	Market	Of which
	value 31.12.2003	market value of open agreements 31.12.2003	value 31.12.2002	market value of open agreements 31.12.2002
<b>Interest derivatives</b>				
Forward rate agreements	-0.0	-0.0	-0.9	-0.9
Interest options				
Purchased	0.0	0.0	0.1	0.0
Written	-0.0	0.0	-0.1	0.0
Interest rate swaps	-0.6	-0.6	-0.7	-0.7
<b>Currency forwards</b>				
Forward rate agreements	-0.1	-0.1	0.0	0.0
Currency options				
Purchased	0.0	0.0		
<b>Electric forwards</b>				
Forward rate agreements	0.6	0.4	2.6	2.7

In examining the overall risk position, the position of the balance sheet items that are to be hedged must be taken into account in addition to derivatives. The derivative contracts that were open at the end of the financial year have been used primarily to manage the Group's foreign exchange, interest rate and price risks. The open interest rate swaps are 1–5 years in length. Open foreign currency and electricity forwards will fall due within the next 2 years. Other open derivative contracts are under a year in length.

The fair values of derivatives are based on market values or the present values of future cash flows.

# SOK Corporation Key Ratios 1999–2003

	1999	2000	2001	2002	2003
<b>Net turnover</b>	2 540	2 754	2 915	2 998	<b>3 112</b>
<b>Operating profit</b>					
EUR million	56	57	35	55	<b>46</b>
% of net turnover	2.2	2.1	1.2	1.8	<b>1.5</b>
<b>Profit/loss before extraordinary items</b>					
EUR million	49	54	39	55	<b>52</b>
% of net turnover	1.9	2.0	1.3	1.8	<b>1.7</b>
<b>Profit/loss before appropriations and taxes</b>					
EUR million	49	52	33	55	<b>52</b>
% of net turnover	1.9	1.9	1.1	1.8	<b>1.7</b>
<b>Return on equity, %</b>	12.0	10.2	7.5	9.9	<b>7.0</b>
<b>Return on investment, %</b>	8.9	9.2	6.4	8.4	<b>6.9</b>
<b>Equity ratio, %</b>	29.4	30.9	33.2	34.1	<b>32.9</b>
<b>Gross investment in fixed assets</b>					
EUR million	64	61	31	43	<b>56</b>
% of net turnover	2.5	2.2	1.1	1.4	<b>1.8</b>
<b>Gearing, %</b>	49	36	21	10	<b>-2</b>
<b>Average number of personnel during the financial year</b>	5 043	5 075	4 657	4 638	<b>4 843</b>
<b>Payroll, converted to full-time staff</b>		4 500	4 203	4 126	<b>4 557</b>

## CALCULATION OF KEY RATIOS

$$\text{Return on equity, \%} = \frac{\text{Profit/loss after financial items + value adjustments on investments (nett) - income taxes}}{\text{Capital and reserves + minority interest, average}} \times 100$$

$$\text{Return on investment, \%} = \frac{\text{Profit/loss after financial items + interest and other financial expenses + value adjustments on investments (nett)}}{\text{Total assets - non-interest-bearing liabilities - provisions, average}} \times 100$$

	1999	2000	2001	2002	2003
Non-interest-bearing liabilities	398	425	472	442	483

$$\text{Equity ratio \%} = \frac{\text{Capital and reserves + minority interest}}{\text{Total assets - advances received}} \times 100$$

$$\text{Gross investment in fixed assets} = \text{Acquisition costs of subsidiary shares and other fixed assets}$$

$$\text{Gearing, \%} = \frac{\text{Interest-bearing liabilities - liquid assets}}{\text{Capital and reserves + minority interest}} \times 100$$

**Average number of personnel during the financial year** Calculated as the monthly average number of employment relationships. In addition, in 2000–2003 the calculation comprises the average number of employees converted to full-time staff.

# Executive Board's Proposal

## for the Disposal of SOK's Profit for the Year

Surplus indicated in the income statement	EUR	22,542,257.63
Surplus from the previous financial years	EUR	303,772,225.33
Total	EUR	326,314,482.96

The Executive Board proposes that the profit for the financial year of EUR 22,542,257.63 be used as follows:

– to be transferred to the reserve fund in accordance with the company status	EUR	2,000,000.00
– paid as interest on the supplementary cooperative capital	EUR	529,023.87
– distributed as 9 % interest on the cooperative participation share paid by the cooperative societies by the beginning of the financial year	EUR	5,920,499.28
– transferred to the supervisory board's disposal fund	EUR	500,000.00
– left in the profit account	EUR	13,592,734.48

Providing that the Meeting of the Cooperative Society approves the above proposal SOK's capital and reserves will be:

Cooperative capital	EUR	68,615,500.00
Supplementary cooperative capital	EUR	14,790,000.00
Legal reserve	EUR	14,773,154.85
Supervisory board's disposal fund	EUR	693,949.97
Profit account	EUR	317,364,959.81
Total	EUR	416,237,564.63

Helsinki, 11 February 2004



Kari Neilimo



Jukka Salminen



Esko Hakala



Arto Hiltunen



Kalle Lähdesmäki



Kuisma Niemelä



Veli-Matti Puutio



Eero Saukkonen

# Auditors' Report

## To the members of Suomen Osuuskauppojen Keskuskunta SOK

We have audited the accounting records, the financial statements, and the administration of Suomen Osuuskauppojen Keskuskunta SOK for the period of 1 January – 31 December 2003. The financial statement drafted by the Executive Board includes the report on operations, the income statement, balance sheet, cash flow statement, and notes to the financial statements both for the Corporation and the Cooperative. Based on our audit we submit a statement on the financial statement and administration.

The audit has been conducted in accordance with sound auditing procedure. The accounting records as well as the accounting principles and the content and presentation of the financial statement have been examined to an extent sufficient to determine that there are no relevant errors or defects. In auditing the administration, we have

examined the lawfulness of the activities of the Supervisory Board and the Members of the Executive board in accordance with the regulations provided by the Cooperative Societies' Act.

We express as our opinion that the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations concerning the drafting of financial statements. The financial statements provide correct and sufficient information, as intended in the Accounting Act, on the results of the Corporation's and the Cooperative's activities and their financial standing. The financial statements and the consolidated financial statements may be approved and the Members of the Supervisory Board and the Executive Board can be discharged from liability for the period audited by us. The proposal made by the Executive Board on accumulated profit is in compliance with the Cooperative Societies' Act and the Cooperative's Rules.

Helsinki, 11 March 2004

Tomi Englund  
Authorised Public Accountant

Tapani Rotola-Pukkila  
Authorised Public Accountant

Juhani Heiskanen  
Authorised Public Accountant

# Statement of the Supervisory Board

In accordance with Item 2, Paragraph 1 of Section 13 of the Statutes of Suomen Osuuskauppojen Keskuskunta SOK, the Supervisory Board has today examined the financial statements and consolidated financial statements prepared by the Executive Board for the 2003 financial year and acquainted itself with the Auditors' Report.

The Supervisory Board presents as its statement to the Annual Cooperative Meeting that the financial statements and consolidated financial statements be confirmed and that the Executive Board's proposal concerning the profit for the financial year and shareholders' equity be approved.

The members of the Supervisory Board due to resign are Eino Laaksonen, Otto Mikkonen, Simo Kutinlahti, Hanna Valtari, Matti Vanto, Max van der Pals, Eeva Ukkola and Håkan Smeds. In place of the above-listed persons, it is proposed that at the Annual Cooperative Meeting a corresponding number of members be elected for the next three-year term of office. In addition, Matti Ojanperä's membership of the Supervisory Board ended on 31 December 2003 on his resignation, and Kimmo Koivisto has requested to resign from membership of the Supervisory Board.

Helsinki, 1 April 2004

SUOMEN OSUUSKAUPPOJEN  
KESKUSKUNTA  
For the Supervisory Board

Otto Mikkonen  
Chairman

Markku Viljanen  
Secretary



# S Group Key Figures 1999–2003

EUR million	1999	2000	2001	2002	2003	± %
<b>SOK CORPORATION</b>						
Net turnover	2 540	2 754	2 915	2 998	3 112	3.8
Depreciation	38	32	35	35	34	-1.1
Operating profit	56	57	35	55	46	-15.7
Financial income and expenses (without value adjustments)	-6	-5	-3	-1	2	3 EUR million
Profit/loss before extraordinary items, appropriations and taxes	49	54	39	55	52	-3 EUR million
Profit/loss for the financial year	40	39	32	44	35	-9 EUR million
Total assets	1 247	1 327	1 337	1 372	1 449	5.6
Fixed assets	524	542	530	496	473	-4.7
Stocks	141	140	129	133	135	1.2
Current assets (without stocks)	581	645	678	742	841	13.3
Capital and reserves (incl. capital loan)	362	403	435	457	445	-2.7
Minority interest	15	16	16	17	17	1.0
Provisions for liabilities and charges	28	20	21	12	9	-22.1
Creditors	841	887	865	887	978	10.3
Interest-bearing creditors	463	482	413	465	495	6.5
Liquid funds	288	337	324	421	504	19.7
Net interest-bearing creditors	175	145	89	44	-9	-53 EUR million
Personnel at 31 Dec.	5 047	5 062	4 537	4 645	4 949	6.5
<b>SOK</b>						
Sales (excl. VAT)	1 111	1 230	1 494	1 669	1 693	1.5
Sales to cooperative societies	991	1 118	1 399	1 579	1 597	1.1
Operating profit before extraordinary items, appropriations and taxes	6	10	-9	4	28	24 EUR million
Profit/loss for the financial year	11	15	11	14	23	8 EUR million
Personnel at 31 Dec.	406	401	494	505	538	6.5
<b>COOPERATIVE SOCIETIES + SUBSIDIARIES</b>						
Sales	4 488	4 790	5 340	5 640	5 894	4.5
Number of societies	44	43	43	43	43	0.0
Membership	746 183	854 067	987 037	1 078 649	1 187 074	10.1
Personnel at 31 Dec.	16 228	16 817	18 078	18 169	18 488	1.8
<b>S GROUP</b>						
Retail sales	5 709	6 083	6 554	6 858	7 149	4.2
Outlets	1 209	1 177	1 216	1 222	1 252	2.5
Personnel at 31 Dec.	21 275	21 879	22 615	22 814	23 437	2.7

## CALCULATION OF KEY RATIOS

**Liquid funds** = Cash in hand and at banks + investments

**Net interest-bearing creditors** = Interest-bearing creditors – liquid funds

# Statistics

## S Group Retail Outlets, 31 December, 2003

	Outlets		Retail Sales
	Number	Change	EUR million
Prisma Hypermarkets	41	-1	1 700.2
S-markets	347	8	2 066.7
Alepa Stores	46	-1	136.5
Sale Stores	159	2	237.3
<b>Total Market Outlets</b>	<b>585</b>	<b>8</b>	<b>4 140.7</b>
<b>Other Market Outlets and Neighbourhood Stores</b>	<b>27</b>	<b>-4</b>	<b>19.5</b>
Sokos Department Stores	19	-	262.7
Emotion Speciality Shops	8	2	9.2
Other Consumer Goods Outlets	12	1	27.3
<b>Total Department Stores and Consumer Goods Outlets</b>	<b>39</b>	<b>3</b>	<b>299.2</b>
Sokos Hotels	35	1	231.0
Radisson SAS Hotels	6	-	70.5
Other Hotels	4	-1	8.2
Restaurants	171	-1	209.3
Cafés	26	-	19.9
<b>Total Hotels and Restaurants</b>	<b>242</b>	<b>-1</b>	<b>538.9</b>
<b>Agrimarkets, Machine Centres, Hardware and Agricultural Locations</b>	<b>153</b>	<b>1</b>	<b>954.3</b>
<b>Car Dealerships</b>	<b>43</b>	<b>2</b>	<b>690.5</b>
<b>Service Stations and Fuel Sales*</b>	<b>152</b>	<b>21</b>	<b>499.2</b>
<b>Other Services</b>	<b>3</b>	<b>-</b>	<b>6.9</b>
<b>TOTAL</b>	<b>1 252</b>	<b>30</b>	<b>7 149.2</b>

\* Also 101 unmanned petrol stations attached to stores

## Selected S Group Data 1930–2003

Year			S Group Business Outlets			Total
			Retail Outlets	Service Operations <sup>1</sup>	Production Plants	
1930	Cooperatives	Members	2 406	79	85	2 570
1940	368	295 224	2 999	186	146	3 331
1950	376	484 011	4 074	273	165	4 512
1960	364	488 268	5 483	355	125	5 963
1970	274	572 610	4 220	557	70	4 847
1975	220	674 701	3 476	644	58	4 178
1980	202	682 651	2 801	504	38	3 343
1981	193	666 957	2 548	464	35	3 047
1982	183	661 295	2 405	436	34	2 875
1983	178	645 564	2 316	422	30	2 768
1984	92	636 354	2 208	325	30	2 563 <sup>2</sup>
1985	82	637 248	1 790	277	26	2 093
1986	81	616 262	1 586	274	26	1 886
1987	79	610 638	1 453	273	24	1 750
1988	77	591 345	1 340	276	19	1 635
1989	76	573 642	1 228	288	17	1 533
1990	67	542 455	1 071	302	16	1 389
1991	57	459 247	908	296	15	1 219
1992	47	418 990	838	288	12	1 138
1993	46	403 631	929	286	7	1 222
1994	46	429 325	916	268	6	1 190
1995	44	479 087	922	263	6	1 191
1996	44	543 521	916	267	6	1 189
1997	44	607 008	937	263	5	1 205
1998	44	673 520	947	255	1	1 203
1999	44	763 282	952	255	2	1 209
2000	43	854 043	937	238	2	1 177
2001	43	987 037	967	247	2	1 216
2002	43	1 078 649	978	243	1	1 222
2003	43	1 186 511	1 009	242	1	1 252

<sup>1</sup> Since 1980 only accommodation and catering. <sup>2</sup> Classification changed in 1984. Comparable decrease 136.

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