

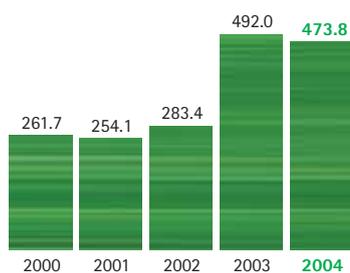
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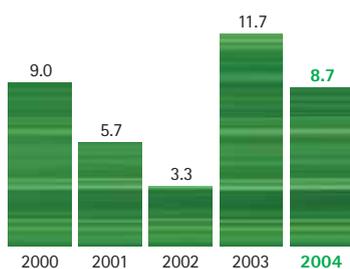
# Key indicators

		2004	2003	2002	2001	2000
Net turnover	EUR mill.	473.8	492.0	283.4	254.1	261.7
Operating profit	EUR mill.	8.7	11.7	3.3	5.7	9.0
Profit before extraordinary items	EUR mill.	7.7	8.4	-0.1	4.8	8.7
Profit before taxes and minority interests	EUR mill.	7.7	8.4	-0.1	4.8	8.7
Return on investment (ROI)	%	6.7	7.7	2.7	6.4	7.9
Equity ratio	%	48.5	39.5	36.5	57.3	51.7
Earnings per share	EUR	0.97	1.11	0.40	0.84	1.34
Dividend per share	EUR	0.65 <sup>1)</sup>	0.65	0.30	0.60	0.84
Average number of personnel		1 072	1 161	993	1 010	1 073

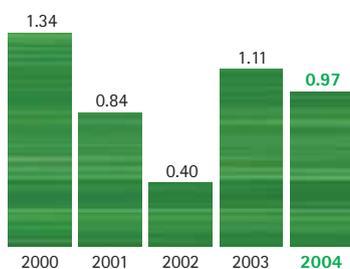
Consolidated net turnover, EUR mill.



Operating profit, EUR mill.



Earnings per share, EUR



# Information for shareholders

## Annual General Meeting

The Annual General Meeting of Lännen Tehtaat plc will be held on Thursday, March 31, 2005 at 2.00 p.m. in the Lännen Tehtaat plc staff restaurant in Säskylä.

Shareholders who are registered as shareholders no later than March 21, 2004 on the Lännen Tehtaat shareholders' register kept by the Finnish Central Securities Depository Ltd may attend the Annual General Meeting.

Shareholders wishing to attend the Annual General Meeting should notify the company by 4.00 p.m. on Tuesday, March 29, 2005, either in writing to Lännen Tehtaat plc, P.O. Box 100, FI-27801 Säskylä, by fax +358 10 402 4022, by telephone +358 10 402 4002/Arja Antikainen or by e-mail [arja.antikainen@lannen.fi](mailto:arja.antikainen@lannen.fi).

## Dividend

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.65 per share be paid for 2004. The Board will also propose to the meeting that April 5, 2005 be set as the record date and April 12, 2005 as the dividend payment date. The dividend will be paid to shareholders who are registered as shareholders on the record date on the Lännen Tehtaat shareholders' register kept by the Finnish Central Securities Depository Ltd.

## Financial information in 2005

Lännen Tehtaat plc will issue the following information on the 2005 financial period:

Financial Statements for 2004	February 24, 2005
Financial Statements and Annual Report	in week 12, 2005
Interim Report for January-March	May 3, 2005
Interim Report for January-June	August 11, 2005
Interim Report for January-September	November 1, 2005

The Annual Report and Interim Reports are published in Finnish and English. A printed version of the Annual Report will be mailed to all shareholders with more than 100 shares. Interim Reports are published as stock exchange releases and on the company web pages at [www.lannen.fi/en/investor\\_information](http://www.lannen.fi/en/investor_information). Financial reports can be ordered from Lännen Tehtaat plc, P.O. Box 100, FI-27801 Säskylä, telephone +358 10 402 00, fax +358 10 402 4022, or by e-mail from [arja.antikainen@lannen.fi](mailto:arja.antikainen@lannen.fi). You can also sign up for the publication mailing list via the company web pages.

## Changes of name or address

Shareholders are asked to notify the bank in which their book-entry accounts are handled of any changes in their name or address.



# Lännen Tehtaat

Lännen Tehtaat plc is a company operating in the food industry and quoted on Helsinki Stock Exchange. The Lännen Tehtaat Group consists of the Food Division and the Agricultural Division.

In the Food Division, Apetit develops, produces and markets frozen foods, jams and marmalades, all from pure, carefully selected raw materials. Apetit is Finland's most important contract farming operator in special crops. Apetit Kala produces fish and fish products for wholesale and retail customers. Lännen Sugar sells sweeteners to Finnish consumers.

In the Agricultural Division, Suomen Rehu with its subsidiaries markets effective, environmentally friendly feeds, compound feeds and safe feeding programmes. Avena Nordic Grain specializes in the domestic and international trade in grains, oil seeds, pulses and raw materials for feeds. Lännen Plant Systems concentrates on seedling technology and complete system packages for nurseries.

Finland constitutes Lännen Tehtaat's primary home market, but the company has extended its operations to the Baltic Rim.



# Vision, goals and values

## Vision

The company's customers, personnel, partners and shareholders all view Lännen Tehtaat as one of the leading Finnish food companies.

Apetit is Finland's leading food product brand dedicated to promoting consumer wellbeing. Lännen Tehtaat has an important role in the Finnish sugar business.

In the agricultural sector, Lännen Tehtaat is the most profitable and supportive animal feeds partner for livestock farms and a major player in the grain trade.

## Goals

- ▶ profitable growth and consolidation of our status as a leading food company in Finland
- ▶ a 40% equity ratio
- ▶ economic value added
- ▶ preconditions for a stable share-price trend



## Values

### Customer focus

We recognize our customers' needs, and we satisfy those needs with quality products and services. We work to build success and wellbeing for our customers, which will, in turn, bring success to the company. We also work to reinforce a favourable image for the company and seek to establish successful partnerships.

### Expertise

Skilled personnel represent the company's most important resource. We aim to ensure that our expertise is maintained at the level necessary to meet today's needs and those of the future. To this end, we cultivate a working climate that encourages learning and we provide opportunities to learn. We encourage each other to improve as employees and as human beings in general. We interact with each other and use our expertise for the common good of the company.

### Renewal

We actively search for new solutions and are ready for change. By helping develop the sector, we contribute to the improvement of our operating environment. We also ensure our operations are constantly kept up to date in order to meet future demands. By innovating, we are able to develop our business and improve our performance, thus ensuring the continuity of our operations.

## President's review

The process of renewal and regeneration under way at Lännen Tehtaat continued during the 2004 financial year. The departure of the Machinium Division brought a significant change to the Group's structure. At the same time, the Food Division grew by almost one third due to the expansion of its fish business through the acquisition of a majority holding in Kuopion Kalatukku Oy.

This is now an opportune time to assess how well the strategic goals set in 2001 have been achieved. The goals included exiting from all but the food business, achieving growth and consolidating the Group's position as a leading Finnish food-sector corporation. The decision was taken to seek growth through corporate acquisitions, targeting food-sector companies with operations in Finland. Net turnover for the Group in 2001 was EUR 254 million; the turnover of the businesses remaining after the divestments of 2002 – 2004 totals about EUR 140 million. By comparison, the pro forma net turnover for the businesses acquired by the Group in the past three years has been about EUR 330 million, and the Group's overall net turnover with its present structure is now about EUR 470 million. The growth in net turnover has proceeded according to plan.

Exiting from the earthmoving and materials handling machinery business has been one of Lännen Tehtaat's goals for several years. In 2004, operations at the long-established Loimaa works, including manufacture of the Lännen backhoe loaders, passed to the ownership of Lännen Tractors Oy. During the year, Suomen Rakennuskone Oy and its subsidiaries in the Baltic States were also transferred to the ownership of Machinium's Japanese minority shareholder, Sumitomo Corporation. I am confident that these businesses will develop well under the guidance of their new owners. Lännen Tehtaat has no holding in either company.

Despite several attempts, no solution was found for the operations of the Machinium Division's Swedish companies, and bankruptcy proceedings were initiated for these companies. This also caused the parent company, Machinium Ltd, to file for bankruptcy. Due to commitments given by Lännen Tehtaat, the exit of Machinium caused a considerable financial loss, the full extent of which has been entered under costs in the 2004 financial statements.

The operating environment of Lännen Tehtaat's Food Division has changed substantially. Retailers' private labels comprise a growing share of the market, and perhaps the fastest growth in this area has been in frozen foods. Right from the start, Lännen Tehtaat chose to forge partnerships with the Finnish retail trade and has been producing private label products as required by retailers. The growth in private labels has weakened the

profitability of the Food Division to a greater extent than was anticipated.

Consumers are placing an increasing emphasis on a healthy diet and weight control. Comfort, enjoyment, health and wellbeing are all set to be watchwords in consumer choices in the years to come. Products that are natural and grown in Finland will also be in demand. Apetit products bring enjoyment and wellbeing to consumers, which is encapsulated in the brand slogan: 'Apetit. The natural taste of life'. The main raw materials in our products are vegetables and fish, both proven to have an inherently positive effect on human wellbeing. During the year, we also placed all our frozen food and fish products under the Apetit brand. Apetit's product groups are divided into series, such as Kesäpöytä, Kalapöytä and Quick&Tasty.

Consumption of fish, especially prepackaged fish, is increasing strongly. During the year, we reinforced the position of the fish business within the Group by acquiring a majority holding in Kuopion Kalatukku Oy through a share exchange. Kuopion Kalatukku Oy and Lännen Tehtaat's Tresko Fish Ltd were combined to form Apetit Kala Oy, now the leading Finnish manufacturer of processed fish products. The growth in fish consumption has been slowed by problems with product availability and by the wish among many consumers for more highly processed fish products. Our aim is to supply products that make it more tempting for consumers to buy fish.

Some 80 per cent of the raw materials used in our frozen food products are grown in Finland in compliance with integrated production (IP) requirements. In IP, farming methods developed on the basis of practical research are used to improve product quality and reduce the adverse environmental effects of farming. Apetit products are all manufactured in Finland in accordance with a certified quality management system. Studies show that Finnish consumers continue to place a high value on product traceability and Finnish materials.

During 2005, the EU will decide on the reform of its sugar regime. In its published statement, the Commission proposes that sugar production should continue to be based on quotas and that EU sugar production should still be protected by import duties. Sugar production will remain part of the EU's agricultural policy. From the viewpoint of Finland's food industry as well as Finnish consumers and the country's public finances, it is essential that the funding we contribute is used to support Finnish production and not, for example, subsidized French exports.

To safeguard the necessary conditions for profitable sugar beet cultivation, growers must be compensated for any loss of income. Retaining Finnish beet sugar production is important for consumers, the food

industry and farmers. Eliminating Finnish production could, in the longer run, lead to higher sugar prices in Finland than elsewhere in Europe. With a few exceptions, the sector of the Finnish food industry that uses materials from Finnish farm production has remained strong. It is important to retain a domestic raw material base.

The reform of the sugar regime is significant for Lännen Tehtaat's business both financially and in operational terms. Sugar is an important product for us on the consumer market, and the by-products of sugar beet, i.e. molasses and pulp, are important raw materials for the animal feed industry. The impact of the reformed sugar regime on Lännen Tehtaat's operating profit is, overall, likely to be detrimental.

**T**he operating environment of the Agricultural Division, too, is changing. Livestock production has been reformed during Finland's EU membership, and the increase in the average size of production units and the reduction in the number of farms will continue. The animal feeds business is a key part of the food chain in terms of production and the quality, purity and health of products. The entire value chain from primary production to the retailer is now in competition with its counterparts abroad.

In 2004, there were strong pressures on the feed industry to become more efficient and reduce costs. Lännen Tehtaat's animal feeds business is committed to playing its part in making the chain more effective. Statutory codetermination talks were begun between staff and management on the company's proposals for reorganizing production with the objective of improving cost-effectiveness. The plans aim at achieving an annual saving of EUR 3 million. If the plans are put into effect, they will unfortunately lead to job losses.

Suomen Rehu Ltd was transferred in full to Lännen Tehtaat during the financial year. With the previous minority holding in Suomen Rehu now removed, the Group has a unified structure, allowing the introduction of common working practices throughout the Group. Suomen Rehu also acquired the minority shares in the Latvian subsidiary Baltic Feed during the year. This enables Baltic Feed to be developed in line with the expectations of the growing Baltic States market.

In the grain, oil seed, pulses and feed raw materials trade, Avena Nordic Grain managed to strengthen its position within the Baltic Sea region during the year.

**W**e have now successfully brought Lännen Tehtaat's business portfolio into line with the Group's goals. By developing our operations and through organic growth, we are in a position to utilize the advantages of the new structure. It is also a good time to begin formulating the next set of strategic goals.



**M**ay I thank all our customers, partners and shareholders for their continued confidence in Lännen Tehtaat, and our contract farmers for their long and enduring partnership. I would also like to extend my warmest thanks to all our staff for the flexibility they have shown and for their strong commitment during a period in which many changes have taken place.

Säkylä, February 2005

Handwritten signature of Erkki Lepistö in red ink.

Erkki Lepistö  
CEO



Lauri Rokka / Gorilla

## Operating policy

Lännen Tehtaat makes every effort to act responsibly and to take full account of the needs and expectations of customers, personnel and society and the demands of the environment. We carefully observe all the legislation and regulations relevant to our operations.

We are constantly developing our operations to meet the needs of the changing business environment. We maintain a management system based on the ISO 9001 and 14001 standards and on the occupational health and safety system OHSAS 18001 specification. The Lännen Tehtaat management has established a set of quality, environmental and safety goals and targets for the Group, in keeping with the principle of continuous improvement. Through managerial reviews, the management ensures that the operating policy is up to date and targets are being achieved, and decides on any changes to be made.

Our employees are aware of the quality, environmental and safety issues related to their own work.

**Lännen Tehtaat's operating policy goals are:**

1. Continuous improvement in customer satisfaction and product safety
2. Continuous improvement in profitability and more efficient use of capital
3. Continuous improvement and updating of personnel skills
4. A safe working environment
5. Reduction of environmental load

# Personnel

The aim of Lännen Tehtaat's human resources policy is to maintain a good level of motivation among the personnel, encourage self-improvement and promote employee wellbeing. Lännen Tehtaat's personnel are committed to the Group's goals and work according to jointly agreed values.

In 2004, the Group had an average of 1,072 (1,161) employees. The acquisitions and other changes in the Group composition were the main factor affecting the change in the number of personnel.

In human resources management, the Group's core corporate value is expertise. Personnel development in 2004 focused on improving management skills and professional competence. In December, 13 supervisory and specialist personnel from different units in the Group received a certificate for completing the Specialist Qualification in Management. At Lännen Rehu the training emphasis was on teamwork, while at Suomen Rehu customer-service training for sales personnel was begun during the year. The sales personnel training at Suomen Rehu will continue in 2005. The special theme of personnel training at Avena Nordic Grain was the ISO 9001:2000 standard and the Coceral European Code of Good Trading Practice.

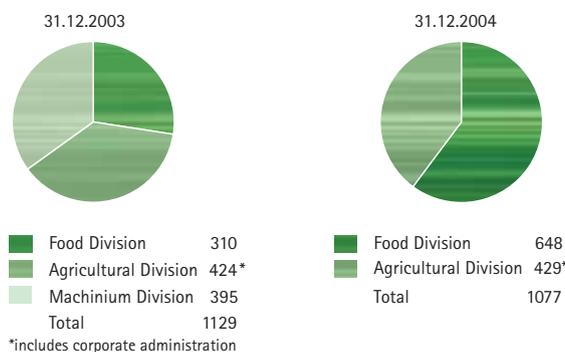
Renewal is another of Lännen Tehtaat's core values, emphasizing the need to ensure the continuity of operations. In the autumn, Lännen Tehtaat held a series of seminars on the theme of potential new business opportunities in the coming years and invited personnel to participate in the search for such opportunities. Active contributions came from dozens of staff members.

Lännen Tehtaat's management systems were certified under the ISO 9001:2000 and 14001 standards during 2004. At the end of the year a decision was made to incorporate occupational health and safety matters into the management system during 2005.

A development project driven by occupational health care needs was undertaken at Apetit's Pudasjärvi factory. Within this project, the work community took a closer look at the work it does, learned to draw up joint plans for introducing changes and adopted new working methods. At the Apetit unit in Säskylä, discussion forums were organized in the frozen food and jam factories under the direction of the work supervisor and an occupational health nurse. The aim of the discussions was to improve cooperation and the flow of information.

In occupational health care, preventive measures were undertaken in different units in accordance with the operating plan. These measures included examinations by age group, work environment risk surveys and distribution of information on the importance of monitoring one's own ability to cope at work. The main emphasis in training was on teaching

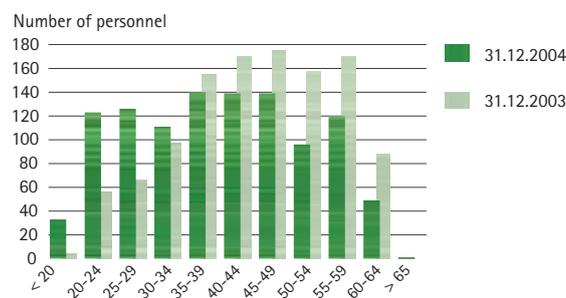
## Number of personnel in the Lännen Tehtaat Group



## Number of personnel by site, December 31, 2004

Säskylä	255	Rest of Finland	477
Turku	136	Baltic States	29
Kuopio	73	Other countries	7
Espoo	52		
Kerava	48	<b>Total</b>	<b>1077</b>

## Age distribution of the Lännen Tehtaat Group personnel



correct working positions, lifting techniques and first-aid skills.

The Apetit, Suomen Rehu, Avena Nordic Grain and Ateriamestarit units, which had all previously operated separately in the Helsinki metropolitan area, moved to joint office premises at Leppävaara, Espoo in November. Altogether, they employ about 60 people. The transfer to the new premises will improve the opportunities for interaction and cooperation between the different units.

### Outlook for 2005

Standardization of operating procedures in dealing with personnel matters and the development of ways to increase the level of interaction and cooperation between the different units will be continued in 2005. Occupational health and safety matters will be incorporated into Lännen Tehtaat's management system.

The next group of personnel to study for the Specialist Qualification in Management will begin studying in the spring. The development of wellbeing in the workplace will be actively continued in 2005 on the basis of the results of questionnaires already undertaken on coping at work and on the working capacity index.

# Environment and quality

Lännen Tehtaat observes the principles of continuous improvement and sustainable development throughout its operations. The company operates in a responsible manner and takes account of social and environmental considerations.

Lännen Tehtaat's management has defined a set of operating policy goals for the company. These include the continuous improvement of customer satisfaction, ensuring product safety and reducing adverse environmental effects. The company is also committed to taking into account the principles of the ICC Business Charter for Sustainable Development throughout its operations.

## Food Division

The Apetit unit produces frozen vegetables, frozen foods and jams at its production facilities in Säskylä, Turku and Pudasjärvi. Apetit's operational management system is based on the ISO 9001 and 14001 standards and is subject to continuous development.

Throughout the chain from field to table, Apetit meets the requirements for producing pure and safe food products. Its Finnish ingredients are procured through contract farming based on integrated production (IP) requirements. Appropriate and timely farming methods are used to improve product quality and reduce the adverse environmental effects of cultivation.

Apetit's operations are consistent with the goals of Lännen Tehtaat's operating programme. In order to reduce adverse environmental effects, a development programme has been drawn up for decreasing the amount of waste, energy consumption and process water in line with the targets set. The new environmental permit application for the Lännen industrial estate at Säskylä is at the evaluation stage. An environmental permit application for Apetit's Turku factory will be submitted before the end of 2006. An environmental notification has been made concerning operations at the Pudasjärvi factory.

Apetit Kala Oy, established in summer 2004, produces fresh and frozen fish products using mainly rainbow trout and salmon. The company's production facilities are in Kuopio, Kustavi and Kerava. Apetit Kala also operates the in-store Kalatori outlets found in major supermarkets throughout Finland. It is currently assembling an operational management system based on the ISO 9001 standard. The Kustavi factory's operational management system is certified under the ISO 9001 and 14001 standards. The Kuopio and Kerava facilities were both granted an environmental permit in 2003. In connection with the Kuopio permit, a flue gas analysis was undertaken in summer 2004 and the results forwarded to the City of Kuopio Environment Centre. The environmental permit application process is under way at the Kustavi factory.

Lännen Sugar is responsible for Finnish retail sales of sugar products made by and imported by Sucros Ltd. It operates a quality management system certified under ISO 9001.

## Agricultural Division

With the aid of feeds and feeding programmes supplied by Suomen Rehu, livestock production is both efficient and in harmony with the environment and ethical values. Emphasis is given to safety and wellbeing. The 'Safe Welfare' principle is emphasized: development focuses on feeds that promote the health and wellbeing of the animals concerned and targeted feeding technologies that reduce adverse environmental effects.

The environmental load associated with grain raw materials has been successfully reduced by following the ISO-VILJA programme, which requires carefully targeting the use of nitrogen and phosphorus fertilizers. Reductions in the environmental impacts of production and transport are achieved by lowering energy consumption. Nitrogen and phosphorus quantities in livestock feeding are also optimized according to need through the use of easily digestible sources of nitrogen and phosphorus. A risk assessment according to the HACCP criteria was made at all the feed production facilities in 2004 with the aim of ensuring product safety. All the companies in the Suomen Rehu Group have quality and environmental management systems certified under the ISO 9001 and 14001 standards.

Suomen Rehu's Vaasa factory was granted an environmental permit in November 2004. An environmental permit application for the Kotka factory was submitted in December 2004. The Turku and Seinäjoki feed production facilities already have environmental permits.

Avena Nordic Grain operates in a manner consistent with its corporate responsibilities and focuses on developing the quality of its operations in line with the principle of continuous development. Avena's operating system was certified in 2004. The system meets the requirements of the ISO 9001:2000 standard and the Coceral European Code of Good Trading Practice.

## Lännen Tehtaat's industrial estate at Säskylä

The environmental permit for the Lännen industrial estate at Säskylä lays down conditions concerning the treated wastewater released into the Eurajoki river; these conditions refer to the annual biochemical oxygen demand (BOD) load and phosphorus load and include target values for the BOD and phosphorus and ammonium nitrogen concentrations. All the conditions and targets laid down in the permit have been met.

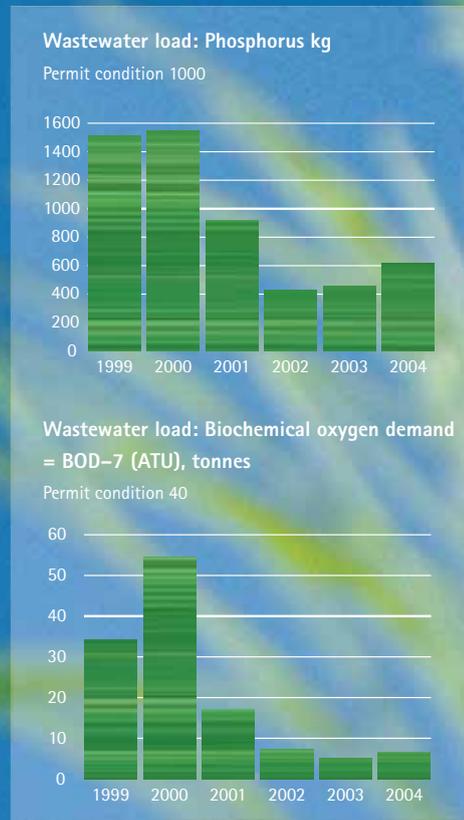
Odours and odour problems at the Säkylä industrial estate and in the area surrounding it were surveyed in 2003-2004 by the Technical Research Centre of Finland (VTT). According to the final report, the estimated detriment to the overall amenity calculated on the basis of one year's odours (production, wastewater treatment and waste management) from operation of the industrial state does not exceed the reference value regarded as representing a problem-free level in the areas surrounding the estate.

The application process for the industrial estate's new environmental permit is expected to be completed in the first half of 2005. Lännen Tehtaat plc applies for an environmental permit for the manufacture of food products, waste management and wastewater treatment. In addition, Lännen Rehu Oy, Voimavasu Oy and Sucros Ltd, which are all located in the industrial estate, have submitted separate applications for their own operations.

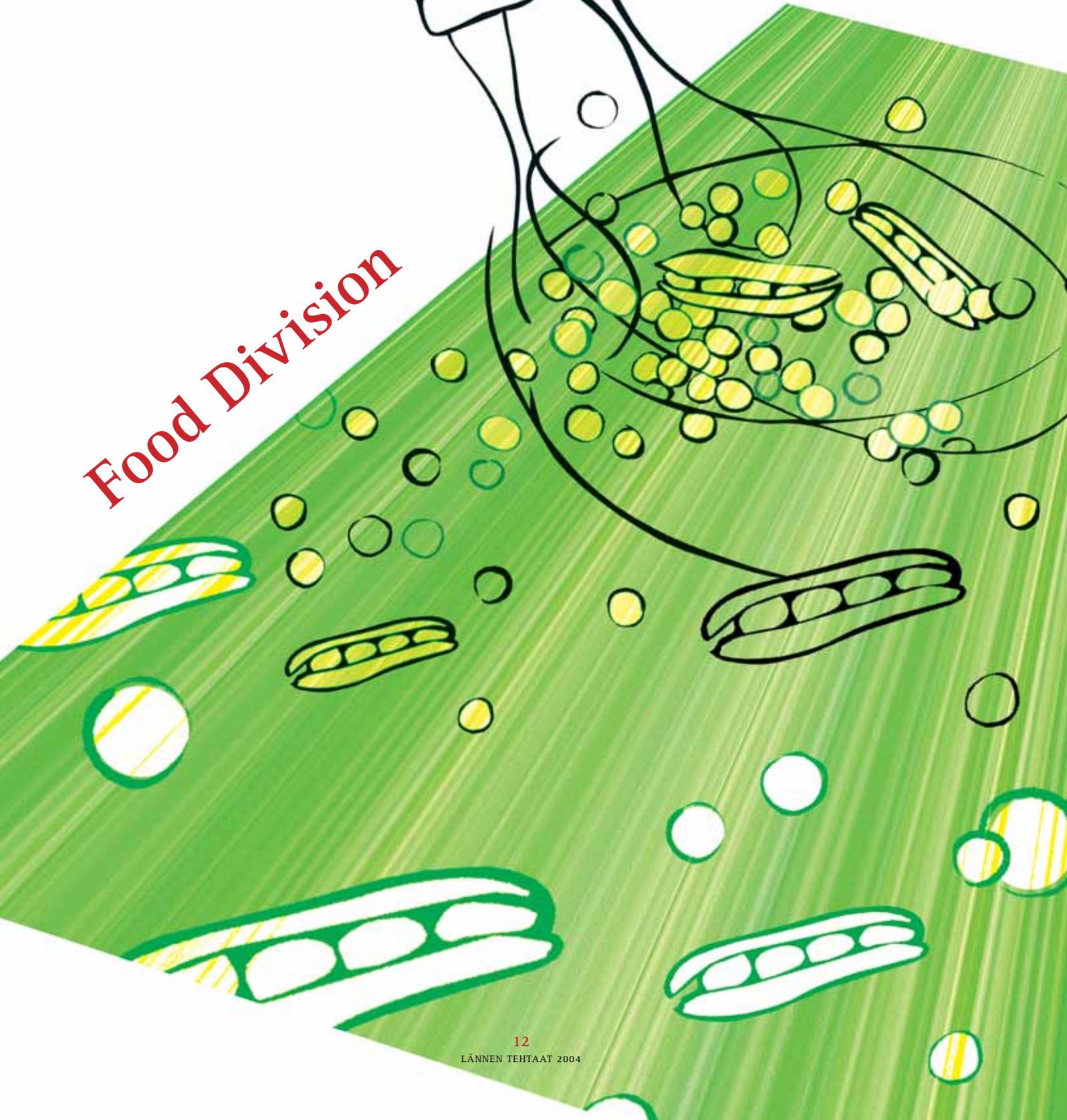
Surveys of the fire, environmental and damage risks at the industrial estate were completed in 2004.

#### Outlook and targets for 2005

The environmental permit application process will continue in those locations where it is still in progress. Occupational health and safety matters will be incorporated into the operational management system. The system will be upgraded to meet the requirements of the new ISO 14001 standard. The emphasis given in environmental training will include the operational impact of changes in the environmental legislation.



# Food Division



The Food Division develops, produces and markets frozen foods, jams, marmalades and fish products, all made from pure, carefully selected raw materials. Most of the raw materials come from professional Finnish contract growers. The Division's product range also includes Sucros Ltd's retail sweeteners. Lännen Tehtaat is Finland's market leader in frozen foods, fish products and jams and marmalades produced for retail sale. The company is also Finland's top contract farming operator in special crops.

The Food Division comprises the Apetit unit, the Apetit Kala Group, Lännen Sugar and the associated companies Sucros Ltd and Ateriamestari Oy.

Apetit develops, manufactures and markets frozen foods, jams and marmalades. It also takes care of the marketing and retail sales of fish products sold under the Apetit Kalapöytä brand.

Apetit Kala develops, manufactures and markets fish products and sells fish, fish products, ready-made foods, meat products and salads through its Kalatori retail outlets.

Lännen Sugar sells sweeteners made by the associated company Sucros Ltd for the Finnish retail market.

Ateriamestari Oy sells and markets Apetit's frozen foods, jams and marmalades to the hotel, restaurant and catering sector.

Apetit Kala Oy (formerly Kuopion Kalatukku Oy) was incorporated into the Food Division at the end of June, after Lännen Tehtaat had acquired a majority holding in Kuopion Kalatukku. The arrangements included adding Lännen Tehtaat plc's subsidiary Tresko Fish Ltd to the Apetit Kala Group. Tresko Fish Ltd was merged with Apetit Kala Oy at the end of 2004.

Net turnover for the Food Division in 2004 totalled EUR 130.6 (114.9) million. The increase on the previous year's figure was a result of the incorporation of Apetit Kala into the Division at the end of June. Net turnover for the Division's other units fell. Apetit's net turnover was down by about 5 per cent on the 2003 figure due to a drop in food-industry sales and exports. The 10 per cent drop in Lännen Sugar's net turnover was attributable

to the poor berry and apple crops and the retail trade's sugar imports.

The Food Division's operating profit amounted to EUR 5.2 (6.5) million, which was below the previous year's figure. Apetit's operating profit was also below the previous year and was less than budgeted, due to a decline in sales and the additional investment made in marketing and product development. Lännen Sugar's operating profit was also below the 2003 level, due to the lower profit contribution of the associated company Sucros. The growth in the Food Division's fish business helped to boost the Division's profits.

The Food Division's investments totalled EUR 5.3 (1.7) million, of which the acquisition of Apetit Kala Oy's shares accounted for EUR 2.6 million. Apetit invested mainly in the development of packaging operations and improvements in freezing efficiency. The biggest single investment was the purchase of a pea harvester. Investment at Apetit Kala consisted primarily of production technology development at Kuopio and Kerava. At Kerava, investment was made in a filleting line and in recovery of fish waste as a raw material for animal feed.

Significant changes are taking place in the operating environment of the Apetit group, which comprises the Apetit unit and Apetit Kala. In food stores, retailers' own private labels are gaining an increasing share of the market. Major international companies are looking to achieve growth for their core product areas through geographical expansion. The importance of retailer chains is growing, and the purchasing units in the trade are looking to increase cooperation with international purchasing organizations.

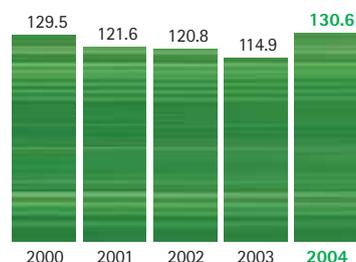
Changes are also occurring among the consumers, where the proportion of older people in the total population is rising and the number of one-person and small households is increasing. Consumer needs and wishes are becoming more diverse, and people are also becoming more health conscious. More attention

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Food Division, EUR mill.	2004	2003
Net turnover	130.6	114.9
Percentage of consolidated net turnover	28%	23%
Operating profit	5.2	6.5
Investments	5.3	1.7
Average personnel	405	331

Net turnover by business unit, EUR mill.	2004	2003
Apetit	53.4	56.0
Apetit Kala Oy as from 1.7.2004	23.4	
Tresko Fish Ltd	6.4	5.7
Lännen Sugar	48.1	53.6
Internal sales	-0.7	-0.4
<b>Total</b>	<b>130.6</b>	<b>114.9</b>

Food Division net turnover, EUR mill.





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is being given to the preventive health effects of food choices, alongside the growing interest in tasty and exciting eating experiences and ease and speed of preparation.

The Apetit group is actively investing in expanding product areas and in the added value of its processed products. Growth is sought through more effective operations as well as through partnerships and corporate restructuring. At the end of the year, common working procedures were introduced throughout the Apetit group, and various operations were rearranged and common concepts developed for marketing.

#### **Mission**

Apetit supplies food products that bring enjoyment and enhance the general wellbeing of consumers.

#### **Vision**

Apetit is a growing and profitable innovator with special expertise in creating new and enjoyable eating experiences that promote wellbeing and are appreciated by consumers and customers.

The Apetit group's branding strategy was renewed during 2004. The common brand name is Apetit, which embodies the company's pledge to provide consumers with enjoyable eating experiences that promote wellbeing.

The following product series names appear in conjunction with the Apetit brand.

#### **Apetit Quick&Tasty**

Ready-made food for one. Tastes good and is ready in minutes.

#### **Apetit Kesäpöytä**

Frozen vegetables and berries, nothing added. The summer's crop fresh from the freezer.

#### **Apetit Kalapöytä**

Easy and quick fresh fish products for everyday use or special occasions.

Apetit jams and marmalades are sold under the Dronningholm brand.

Starting in January 2005, Apetit will take care of product development, marketing and sales for the consumer-packaged fresh fish products made by Apetit Kala. The products will be sold under the Apetit Kalapöytä brand. Apetit Kala will be responsible for sales of non-prepackaged fish, sales of fresh fish products to the hotel, restaurant and catering sector, food industry and the Kalatori retail outlets operating under the shop in shop concept in major supermarkets.

# Apetit

The trend in the frozen foods retail market in 2004 varied considerably according to product group. Overall growth in the market was almost 3 per cent. Sales growth in pizzas and frozen pastries was over 6 per cent and in frozen berry products almost 12 per cent. Demand for frozen vegetables fell by 0.5 per cent, and the decline in the market for frozen fish products accelerated to about 5 per cent. The market for jams grew by about 5 per cent.

Apetit's market share remained very stable despite the strong growth in retailers' private labels. Sales of Apetit's own-brand frozen vegetables fell, while its production of private label products increased.

The net turnover for Apetit's retail sales in 2004 was at the previous year's level. The overall net turnover fell short of the targeted figure because of a drop in food-industry sales and exports. This was reflected in the unit's profitability. Its operating profit for 2004 was also affected by the rise in raw material costs due to the difficult weather conditions during the previous harvest.

Apetit is the market leader in the Finnish retail trade for jams, marmalades and frozen vegetables, and is the joint market leader in frozen foods. Apetit is also the leading Finnish manufacturer of special potato products.

Apetit's frozen foods are produced at Säkylä, Turku and Pudasjärvi, and its jams at Säkylä. Its customers are the retail trade and the Finnish food industry and hotel, restaurant and catering sector.

In 2004, Apetit and Raisio Nutrition Ltd established a joint venture company, Ateriamestarit Oy, for the purpose of managing both the owning companies' hotel, restaurant and catering sector business. Ateriamestarit Oy began operations in May. Its mission is to use its strong sales and marketing organization to offer hotel, restaurant and catering sector customers a full range of healthy, pure and high-quality food products and added value services. Its operations have progressed according to plan.

In the autumn, Apetit launched a new type of vegetable product: one that can be steam-cooked in a microwave oven. The new NeoSteam packaging incorporates a seam that acts as a pressure valve. This lets excess pressure escape while still enabling pressure-based steam-cooking of the product, thereby improving flavour retention and succulence. Cooking this way is easy and convenient. Three new products were launched in this range: Summer vegetables in Béarnaise sauce, Thai vegetables in oriental sauce, and Sliced root vegetables in Hollandaise sauce. Sales of these products have proceeded as planned.

The Apetit series of Quick&Tasty meals was expanded by the addition of three new choices: Fish & Pasta, Sweet Chili Rice and Chicken & Cheese.

At the start of the current year, 2005, Apetit launched a new range of Apetit Quick&Tasty microwave soups. These are in DuoSmart packaging, a new type of

two-layer packaging designed for the microwave. The packaging makes use of the best properties of paper and plastic, allowing the soup to be insulated and kept warm while also imparting a pleasant warmth to the outer part of the container. These products are easy and quick to use, and are designed to be heated and eaten in their own containers: simply remove the lid, add water and heat for five minutes in the microwave. There are three different products available for the retail market: Neapolitan soup, Curry chicken soup and Thai soup.

The range of steam-cooked products has been expanded with three new potato products, each incorporating a sauce: Potato with chives, Potato with dill, and Potato with herbs. Tests show that steam-cooking is the quickest way to cook real potatoes.

In 2005, Apetit plans to invest substantially in marketing its new products and raising the profile of the Apetit brand.

Apetit's net turnover in 2005 is expected to grow, especially due to higher sales of frozen vegetables and other frozen food products. The increasing net turnover of more highly processed products also means that profitability should increase compared with 2004.

## Cultivation

Apetit Cultivation is Finland's most important contract farming operator in special crops. It is responsible for the contract farming of domestic raw materials for Apetit's factories and for most of the contract farming of sugar beet supplied to Sucros Ltd's factory in Säkylä.

Apetit's vegetable products primarily contain high-quality domestic raw materials that are produced by Finnish contract farming operators in accordance with integrated production (IP), baby food and organic quality requirements. The area of contract cultivation for Apetit in 2004 was approximately 1,700 (1,800) hectares. A total of 9,400 (8,900) hectares was under sugar beet cultivation for Sucros in 2004. The area under beet cultivation nationwide was 31,300 hectares.

For farming, 2004 was a very unusual year in many ways. Late winter was mild, which meant the first sowing was carried out exceptionally early in the year. Plant growth was rapid in the mini heatwave at the start of May, but this was then followed by sharp night frosts before the middle of the month, causing substantial damage especially to sugar beet but also to the new vegetable growth. About 700 hectares of beet had to be re-sown on Lännen Tehtaat's contract farming land.

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Harvesting and processing normally begin in mid to late June and the final processing is generally done before Christmas. The processed products are kept in frozen storage. Preparation and packaging are carried out according to sales requirements. A successful autumn harvest will have a significant impact on production costs and Apetit's financial performance during the rest of the period until the next autumn harvest.

Early vegetables, spinach and peas, were harvested a little later than usual. Heavy rain caused considerable crop damage in many areas, though Lännen Tehtaat's main cultivation area, southern Satakunta, was spared the worst of the damage. As a result, the contract crops continued to grow well right up to harvesting time.

The fairly good autumn allowed successful harvesting of Apetit's sown and planted contract

crops and sugar beet. The yields were normal both in quantity and quality. The vegetable target of 26.4 (24.1) million kilos was reached, and the sugar beet yield from Lännen Tehtaat's contract farming land, at 36.5 (28.9) tonnes per hectare, was the second highest figure ever achieved. However, due to the low sugar content (15.65%), the sugar yield remained at normal levels. The operating period of Apetit's factory and the Sucros sugar factory at Säkylä ended before Christmas. The national sugar yield from the 2004 sugar beet crop, plus the carry over sugar, totalled 145.2 (130.3) million kilos; the sugar production quota was 146.1 million kilos.

Apetit's contract farming area will be reduced in 2005 due to a drop in the demand for frozen peas and organic products. By contrast, the area under sugar beet cultivation is expected to be greater than in 2004.

## Apetit Kala

Recognized as a healthy choice, fish is among the fastest growing food product groups, and this high growth rate is expected to continue in the years to come. The market for consumer-packaged fish grew by 18 per cent in 2004. Among the different product groups, the fastest growth is in the consumption of standard-weight packs of fresh and processed fish. Farmed fish is increasingly replacing wild fish in today's market. New fish species are also being introduced in fish farming, alongside the traditionally farmed rainbow trout and whitefish. Fish products are also being sold in more highly processed forms. Concentration is occurring in both the fish processing and retailing sectors.

Apetit Kala's operations cover the entire chain from fish purchasing and processing to wholesaling and retailing. Its range of fish products is diverse and the products are easy and convenient for today's busy consumers. Apetit Kala is the market leader in consumer-packaged fresh fish products and a major supplier in other product areas.

Apetit Kala operates from modern factories in Kuopio, Kerava and Kustavi and has 60 shop in shop Kalatori outlets around the country. Its raw material procurement network extends across all Finland's inland and coastal waters. Together with the company's own importing, this guarantees a wide selection of Finnish and imported fish products all year round.

Apetit Kala's administration and telephone sales are located at its factory site in Kuopio. The factory produces hot- and cold-smoked fish products, fish portions and frozen fish products. At Kerava,

the company has its logistics centre, where its national collection and distribution activities are concentrated. Other operations at Kerava include rainbow trout and salmon filleting, and fresh fish packaging. The Kustavi factory produces fish strips and lightly salted fish products, and the Kaskinen factory is where the associated company Ab Silva Seafood Oy produces its fried fish and Baltic herring products.

Apetit Kala also has over-the-counter retail sales at its Kalatori outlets located in major supermarkets. The product range in these outlets includes not only fish but also ready-made foods, meat products and salads. There are 60 Kalatori outlets, 14 of which operate as franchises. Fish products account for about 70 per cent of Kalatori sales, while other food products account for 30 per cent.

The Kustavi factory of Tresko Fish Ltd, which was merged with Apetit Kala Oy at the end of 2004, is a natural addition to Apetit Kala's operations and



broadens its product range. This range includes a wide variety of fish products that are 'pan ready' and processed for the convenience of today's busy consumers. Apetit Kala's main product groups are hot- and cold-smoked and lightly salted products, fish strips and fish portions, ready-to-eat fish products, Baltic herring products and fresh fish products.

The operational management system was modified at the end of the year, and operations rationalized in production, raw materials purchasing, sales and marketing.

Eight further outlets were added to the Kalatori chain during 2004, and its sales grew at a faster rate than the growth in the retail grocery sector as a whole.

Apetit Kala Oy and Tresko Fish Ltd achieved their net turnover and operating profit targets.

Apetit Kala's operating profit is strongly influenced by the availability and price of the fish used as raw materials. Significant factors in the price of the company's main fish products are the world market price for rainbow trout and salmon in particular and the success of Finnish fish farms. The quarterly distribution of net turnover and profit are related to annual celebrations at different points during the year. A considerable share of Apetit Kala's sales and operating profit depends on the success of Christmas sales.

In 2005, the growth in Apetit Kala's net turnover is expected to be above the market average. Substantial investment will be made in marketing packaged products, and sales by the Kalatori chain are expected to continue growing. The company's operating profit is expected to rise as a result of efficiency improvements in its operations.

## Lännen Sugar

Lännen Sugar sells sweeteners made by Sucros Ltd to the Finnish retail sector. Sucros Ltd is a Finnish sugar manufacturer and a member of the Danisco Group. Lännen Tehtaat has a 20 per cent minority shareholding in Sucros Ltd.

Total sugar consumption in Finland in 2004 was at the previous year's level. Sales of Lännen Sugar's consumer products were about 10 per cent down on the 2003 sales, however, due to the higher imports and the relatively poor berry and fruit crops.

Sugar packaged in Estonia and Latvia has been imported to Finland since June, following the Baltic States' accession to the European Union. These imports have had no significant effect on the consumer price of sugar. Sugar imports are expected to continue in 2005.

Additional household uses for sweeteners alongside their traditional use in baking and preserving were developed in 2004. Dansukker launched two completely new Culinary Syrup products for use in cooking. These multipurpose red wine and ginger syrups are easy to use as food flavourings and in marinades and drinks. They can also be used as sauces on ice cream, berries and cheeses, or to accompany desserts.

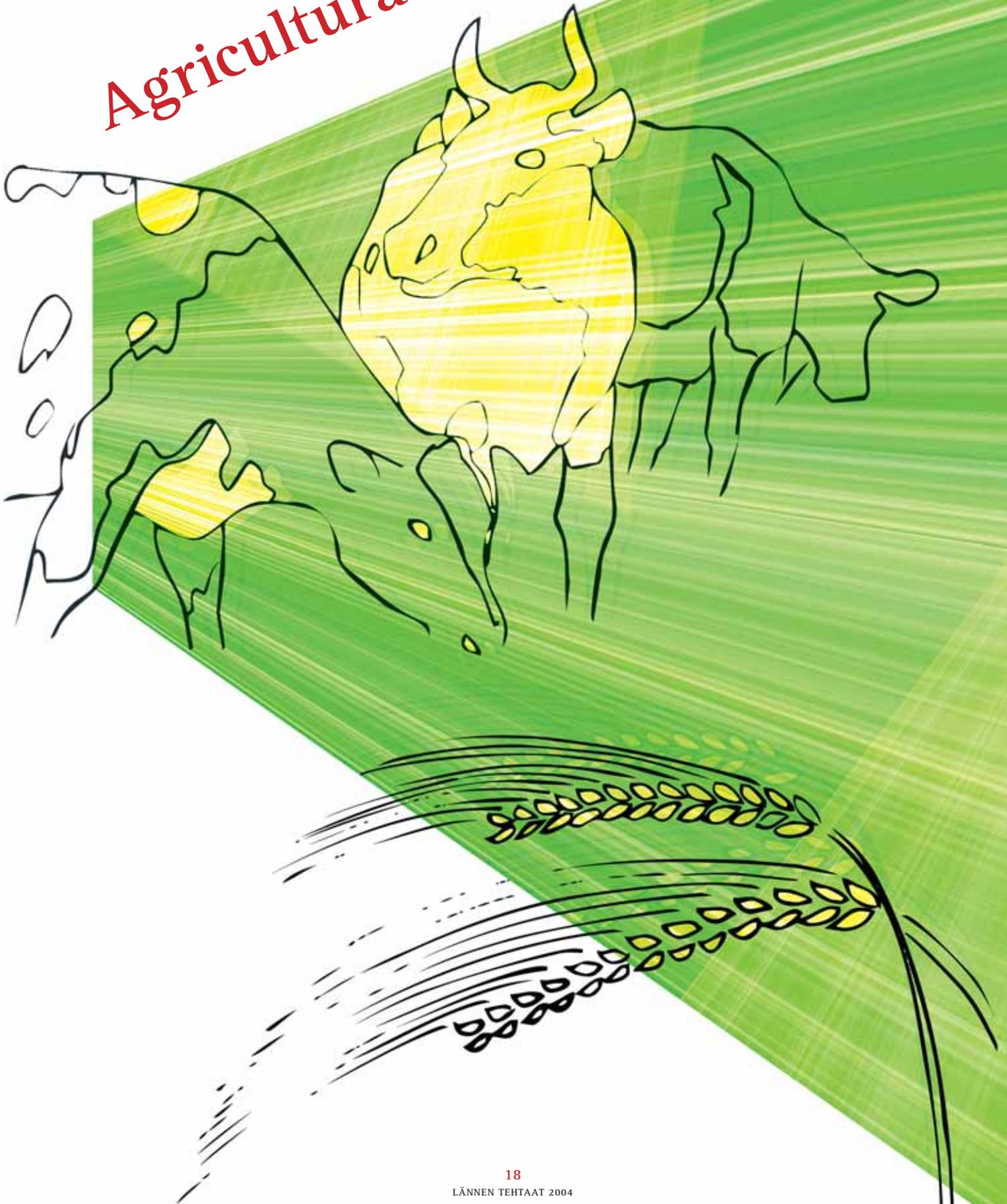
Granulated sugar accounts for the majority (over 70 per cent) of Lännen Sugar's net turnover. The quarterly sales distribution of special sugars and syrups is closely associated with seasonal celebrations, particularly Easter, May Day and Christmas. Seasonal sales of granulated sugar and gelling sugar, both used in preserving, are affected most of all by the autumn's berry and apple crops.

The consumption trend for sugar products is a declining one. The drop in volume is about 3–4 per cent annually. In 2004, Finnish households consumed an average of almost 10 kilos of sugar per capita, which is above the EU average.

Total industrial and household sugar consumption in Finland in 2005 is expected to be at the 2004 level. The market share of Finnish-made sugar is expected to fall.



# Agricultural Division



The operating sectors of the Agricultural Division are the animal feeds industry, the grain trade and plant technology. The companies of the Suomen Rehu Group develop, produce and market effective, safe and environmentally friendly animal feeds and feeding programmes. Avena Nordic Grain specializes in the international and domestic trade in grain, oil seeds, pulses and raw materials for animal feeds. Lännen Plant Systems concentrates on seedling technology and complete system packages for nurseries.

The Agricultural Division includes the Suomen Rehu Group, which comprises parent company Suomen Rehu Ltd, special feeds companies Lännen Rehu Oy and Hiven Oy in Finland and SIA Baltic Feed in Latvia, and sales company Rehu Eesti Oü in Estonia. Associated companies that have important links with Suomen Rehu's operations are the logistics services company Moveere Oy and agricultural portal operator Farmit Website Oy. Avena Nordic Grain Oy and its Russian subsidiary ZAO Avena St. Petersburg, and Lännen Plant Systems and Harviala Oy belong to the Agricultural Division, too.

Lännen Rehu Oy was incorporated into the Suomen Rehu Group at the start of 2004. At the same time, Lännen Tehtaat's ownership in Suomen Rehu Ltd grew from 82 to 88 per cent. In November, Suomen Rehu Ltd acquired AS Tukuma Straume's 25 per cent minority holding in SIA Baltic Feed, following which the latter is now wholly owned by Suomen Rehu Ltd. At the end of 2004, Lännen Tehtaat plc acquired the Suomen Rehu Ltd shares owned by Kemira GrowHow Oyj, which means that Lännen Tehtaat now owns the entire capital stock of Suomen Rehu Ltd.

The Agricultural Division's net turnover in 2004 totalled EUR 294.3 (282.6) million, up by about 4 per cent on the 2003 figure. Net turnover in the animal feeds business fell slightly as a result of the drop in sales volume and raw material prices. Grain trade net turnover was up by 17 per cent. Net turnover for Lännen Plant Systems and Harviala Oy was at the previous year's level.

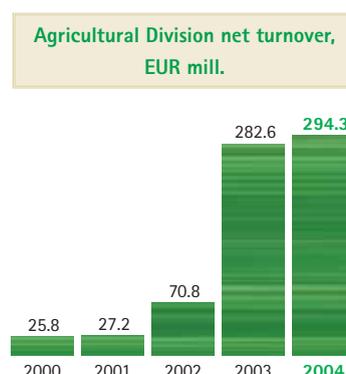
The Agricultural Division's operating profit in 2004 was EUR 8.2 (8.3) million, which was around the same level as the previous year. Operating profit in the animal feeds business fell short of the 2003 level due to a decrease in sales margins. Operating profit for the grain trade business was approximately at the previous year's level. Lännen Plant Systems' operating profit was up on the previous year's figure.

Investment in the Agricultural Division totalled EUR 5.5 (7.1) million. EUR 2.9 million of this was on the purchase of the minority shares in SIA Baltic Feed and Suomen Rehu Ltd. The rest of the investment was in improving the efficiency of animal feed production, product quality improvements and more effective raw material use. The previous year's investment of EUR 7.1 million included a real estate investment of EUR 3.4 million for the corporate administration.

Agricultural Division, EUR mill.	2004	2003
Net turnover	294.3	282.6
Percentage of consolidated net turnover	62%	58%
Operating profit	8.2	8.3
Investments	5.5	7.1
Average personnel <sup>1)</sup>	485	442

<sup>1)</sup> Includes corporate administration

Net turnover by business unit, EUR mill.	2004	2003
Suomen Rehu Ltd	166.8	172.5
Lännen Rehu Oy	24.2	17.5
Hiven Oy	6.6	6.8
SIA Baltic Feed	4.3	3.7
Rehu Eesti Oü	0.0	0.0
Avena Nordic Grain Oy	106.7	91.8
ZAO Avena St. Petersburg	0.9	0.0
Lännen Plant Systems	4.4	4.3
Harviala Oy	2.8	2.8
Other sales	1.6	1.2
Internal sales	-24.0	-18.0
<b>Total</b>	<b>294.3</b>	<b>282.6</b>



# Suomen Rehu

## Mission

Lännen Tehtaat's animal feeds business (Suomen Rehu) supplies a successful range of animal feed products and feeding programmes that support the safe welfare of all animals, customers and personnel, and a safe and healthy environment.

## Vision

Suomen Rehu is the most profitable and supportive animal feeds partner for Finnish livestock farms and a successful operator in the animal feeds business in the Baltic States and Russia.

Suomen Rehu is Finland's leading producer of industrial feeds and health-promoting feeds for livestock and operates on both the domestic and international markets. The company develops, produces and markets effective, safe and environmentally friendly animal feeds and feeding programmes.

Suomen Rehu offers a comprehensive range of cattle, pig and poultry feeds, feeds for fur animals, horses, dogs and reindeer, and special feeds and feed supplements. The company accounts for some 50 per cent of Finland's industrial feed production. In the Baltic States, the Suomen Rehu subsidiary SIA Baltic Feed has its own special feeds factory, while in Scandinavia and Central Europe, Suomen Rehu concentrates on health-promoting feeds and modern, patented solutions. In Russia, the company and its distributors offer new feeding options for large farms and feed producers.

The Suomen Rehu Group comprises the parent company Suomen Rehu Ltd, special feeds companies Lännen Rehu Oy and Hiven Oy in Finland and SIA Baltic Feed in Latvia, and the sales company Rehu Eesti Oü in Estonia. Lännen Rehu Oy was incorporated into the Suomen Rehu Group at the start of 2004. Following the purchase of minority shares at the end of November 2004, SIA Baltic Feed is now wholly owned by Suomen Rehu Ltd.

Suomen Rehu has production facilities in Turku, Seinäjoki, Kotka, Vaasa, Paimio and Säkylä in Finland, and in Tukums in Latvia. The Group also has operations elsewhere in Scandinavia and the Baltic States, and in Russia. Associated companies that have important links with Suomen Rehu's operations are the logistics services company Movere Oy and agricultural portal operator Farmit Website Oy.

The location of the production units and the extensive sales network make it possible for Suomen Rehu to supply its products all over Finland. The products are sold through agricultural supplies outlets supported by Suomen Rehu's marketing organization and consulting sales representatives.

Net turnover for the Suomen Rehu Group in 2004



was EUR 195; the comparable figure for 2003 was EUR 198 million. The drop in net turnover reflects the decrease in raw material prices that began in the second and third quarters. Operating profit in the animal feeds business in 2004 was significantly lower than in 2003, due to the decline in sales margins.

Investment in the animal feeds business in 2004 amounted to EUR 2.7 (2.9) million. EUR 0.5 million of this was for the acquisition of the SIA Baltic Feed minority shares. The rest of the investment was mainly in improving production efficiency and in production line arrangements within the animal feeds business. At Seinäjoki and Turku, new equipment was purchased that allows an increase in the use of oats. Production of feeds for broilers and turkeys in the Ostrobothnia region was concentrated in the Seinäjoki factory during the year.

The overall industrial feed market in Finland in 2004 grew slightly. Cattle feed sales were up by about two per cent, poultry feed sales were unchanged and pig feed sales fell slightly. Lännen Tehtaat's animal feeds business is the market leader in all the major product groups. Its market share is about half in pig and poultry feeds, and more than 40 per cent in cattle feeds.

The growth in cattle feed consumption is expected to continue in the first half of 2005 as a result of the variable quantity and quality of local farm feeds following the poor harvest of autumn 2004. Sales may return to the previous year's level in the autumn. Consumption of pig feeds is expected to grow slightly, while consumption of feeds for broilers and turkeys is expected to be at around the 2004 level.

The structural changes taking place in Finnish farms will continue. The number of farms is expected to decline further and the size of production units to rise. This will mean more automatic feeding systems, and greater emphasis will be placed on management of the overall feeding process. The coming challenges for the animal feeds sector include the new criteria for agricultural support, the EU's planned CAP reforms and the WTO negotiations already under way.

## Safe welfare

At Suomen Rehu, the emphasis in product development is not on individual products but on the creation of

feeding solutions that are best suited to the particular circumstances of farms and their animals. The 'Safe Welfare' principle guiding all of Suomen Rehu's operations is evident throughout product development, especially in feeding that advances the health and welfare of animals, and targeted feeding technologies that improve the profitability of livestock production. The latest developments in feeding technologies used on farms are taken into account in the Group's animal feed development work, and cooperation with equipment manufacturers is being increased.

Suomen Rehu has developed a completely new service for feed ordering, which is designed to make this job much easier on farms. The service is called Signal24. It makes use of SMS text messaging on mobile phones and allows ordering to be done automatically. Using the Signal24 service, orders can be placed easily at any time of the day or night. The order is made by completing and sending a standardized text message, which is then recorded directly in Suomen Rehu's order book. Ordering can also be automated, in which case the feed storage unit is fitted with a sensor, and a signal transmitted from this automatically makes an order when the feed level reaches the predefined reordering point. The user then simply needs to approve the order request that is sent to his/her mobile phone.

The aim of the new EV-Combi feeding programme is to increase the lifetime yield of dairy cows. The programme is based on achieving the right feeding regime for mother and calf during calving. Suomen Rehu's Acetona Dry, a feed that contains Progut, was the only animal feed given three-star new-product approval at the Agromek 2005 trade fair held in Denmark in January.

For broiler hen production, Suomen Rehu has developed a new feeding programme called Kevyt. Experiences with these feeds have been very good.

In the horse feeds Racing series, several new products have been developed for sports horses.

To improve the individualized service and consultancy available for livestock farms, a training programme for sales personnel was launched in 2004 and is to continue in 2005.

Suomen Rehu's net turnover and the profit on its operations are influenced considerably by the main feed raw material prices, i.e. the prices of grain and protein raw material, and by how the price risks are managed. The total animal feed market in Finland is expected to grow slightly in 2005, and the price level is expected to remain stable on account of the moderate price trend in raw materials. Suomen Rehu's net turnover is expected to be at about the 2004 level.

#### Lännen Rehu Oy

Lännen Rehu Oy specializes in developing, producing and marketing cattle feeds. As a subcontractor, the company also produces compound feeds for the retail trade and the feed industry. Lännen Rehu is Finland's

leading producer and marketer of sugar beet pulp and molasses.

Lännen Rehu's investment has focused especially on the development and marketing of component feeding programmes that support the particular activities of each livestock farm. In addition to these products, Lännen Rehu's services include consultancy, user guidance and other forms of support.

Arrangements in manufacture and product sales within the animal feeds business increased Lännen Rehu's net turnover considerably. The good sugar beet crop in 2004 boosted pulp sales compared with the previous year's figures.

#### Hiven Oy

Hiven Oy develops, produces and markets high-quality special products for the livestock and fur-farm industries. The most important product groups are the different vitamin and micronutrient preparations, special feeds and hygiene products.

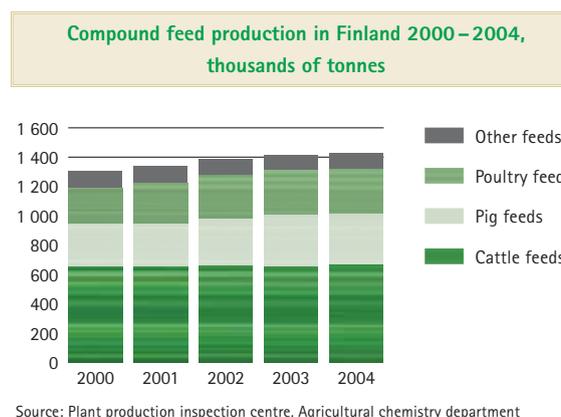
Hiven Oy has a nationwide network of local representatives, through which the company's products can be delivered directly to farm customers. The local representatives also supply important information to the company about the changing needs of customers, which enables Hiven Oy to respond rapidly. Product deliveries can also be made via dairies, abattoirs and special agricultural suppliers and stores.

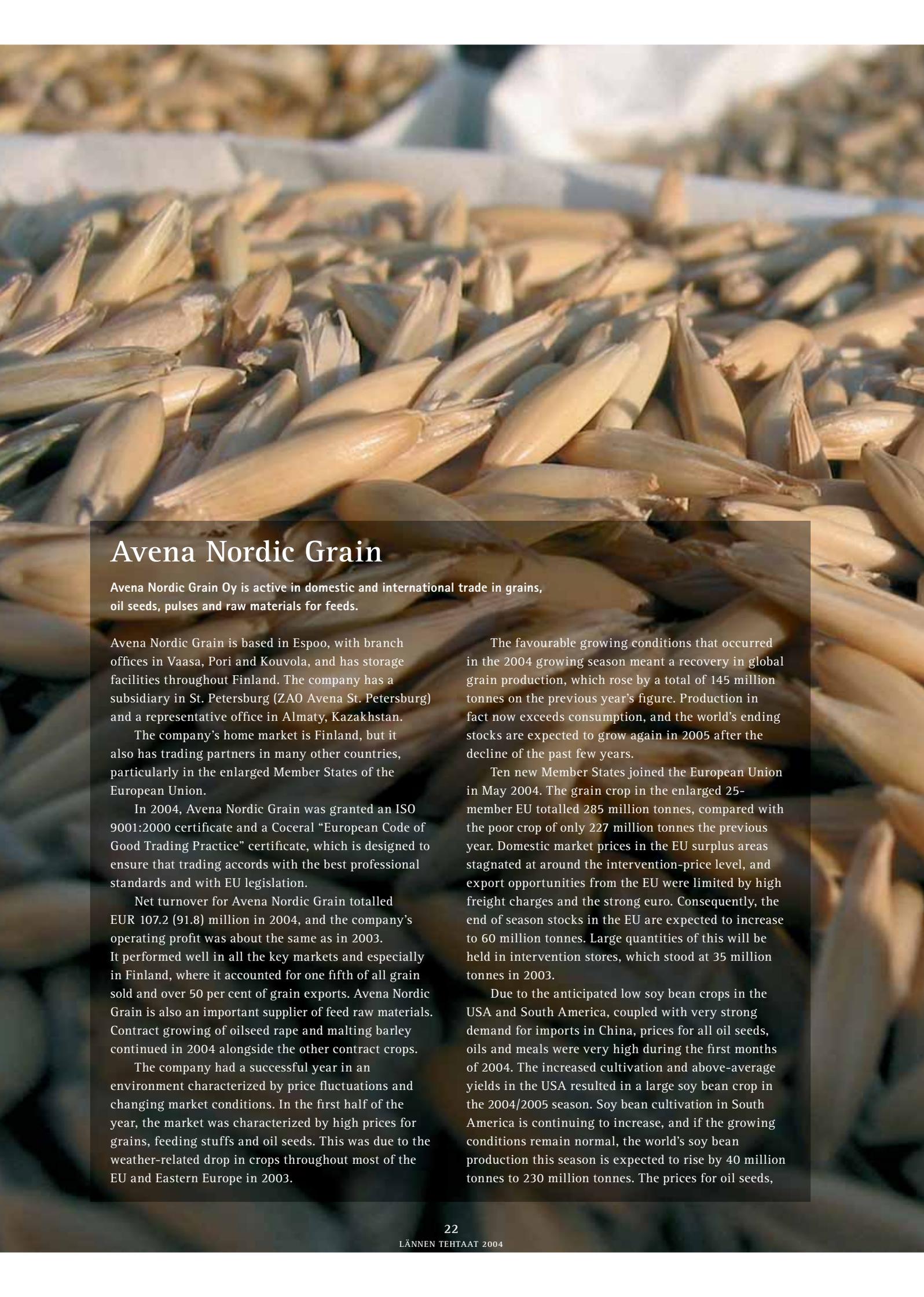
#### SIA Baltic Feed

SIA Baltic Feed is a special feeds company operating in the Baltic States. It produces and sells safe, cost-effective and health-promoting animal feeds for the local market. The product selection includes minerals, semi-manufactured products, concentrates and special products.

SIA Baltic Feed has an animal feed factory in Tukums in Latvia and also a network of sales representatives and a distribution network in Estonia and Lithuania.

Baltic Feed's operations grew in 2004, especially in Latvia and Lithuania. The fastest growing product groups were pre-mixes sold to animal feed factories.





## Avena Nordic Grain

Avena Nordic Grain Oy is active in domestic and international trade in grains, oil seeds, pulses and raw materials for feeds.

Avena Nordic Grain is based in Espoo, with branch offices in Vaasa, Pori and Kouvola, and has storage facilities throughout Finland. The company has a subsidiary in St. Petersburg (ZAO Avena St. Petersburg) and a representative office in Almaty, Kazakhstan.

The company's home market is Finland, but it also has trading partners in many other countries, particularly in the enlarged Member States of the European Union.

In 2004, Avena Nordic Grain was granted an ISO 9001:2000 certificate and a Coceral "European Code of Good Trading Practice" certificate, which is designed to ensure that trading accords with the best professional standards and with EU legislation.

Net turnover for Avena Nordic Grain totalled EUR 107.2 (91.8) million in 2004, and the company's operating profit was about the same as in 2003. It performed well in all the key markets and especially in Finland, where it accounted for one fifth of all grain sold and over 50 per cent of grain exports. Avena Nordic Grain is also an important supplier of feed raw materials. Contract growing of oilseed rape and malting barley continued in 2004 alongside the other contract crops.

The company had a successful year in an environment characterized by price fluctuations and changing market conditions. In the first half of the year, the market was characterized by high prices for grains, feeding stuffs and oil seeds. This was due to the weather-related drop in crops throughout most of the EU and Eastern Europe in 2003.

The favourable growing conditions that occurred in the 2004 growing season meant a recovery in global grain production, which rose by a total of 145 million tonnes on the previous year's figure. Production in fact now exceeds consumption, and the world's ending stocks are expected to grow again in 2005 after the decline of the past few years.

Ten new Member States joined the European Union in May 2004. The grain crop in the enlarged 25-member EU totalled 285 million tonnes, compared with the poor crop of only 227 million tonnes the previous year. Domestic market prices in the EU surplus areas stagnated at around the intervention-price level, and export opportunities from the EU were limited by high freight charges and the strong euro. Consequently, the end of season stocks in the EU are expected to increase to 60 million tonnes. Large quantities of this will be held in intervention stores, which stood at 35 million tonnes in 2003.

Due to the anticipated low soy bean crops in the USA and South America, coupled with very strong demand for imports in China, prices for all oil seeds, oils and meals were very high during the first months of 2004. The increased cultivation and above-average yields in the USA resulted in a large soy bean crop in the 2004/2005 season. Soy bean cultivation in South America is continuing to increase, and if the growing conditions remain normal, the world's soy bean production this season is expected to rise by 40 million tonnes to 230 million tonnes. The prices for oil seeds,



oils and meals have declined substantially since summer 2004, due to the prospects of large supplies and record high end of season stocks.

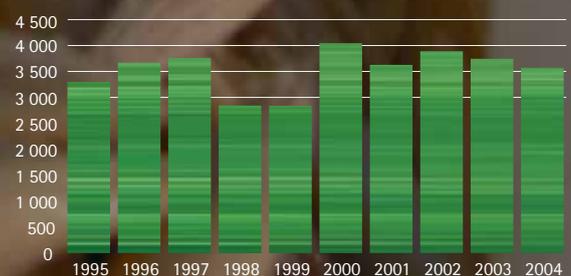
According to figures from the Ministry of Agriculture and Forestry's Information Centre, the 2004 grain crop in Finland was 3.6 million tonnes, down 4.5 per cent on the previous year. The increase in wheat cultivation led to the largest wheat crop in the country's history, almost 0.8 million tonnes. However, most of the wheat was harvested in unfavourable conditions, which resulted in losses and a reduction in quality. Almost half of Finland's wheat crop failed to meet the quality criteria for the milling industry and will have to be used for animal feed. A certain amount of milling wheat will have to be imported to cover the needs of the milling industry. Most of the oat crop was of good quality, and shipments to European mills are progressing as normal. In September, the European Commission issued an invitation to tender for the export of oats to third countries, but trade got under way slowly on account of the record-high freight charges.

Operations at Avena Nordic Grain Oy will be further developed during 2005, both within the EU single market and with third countries. The company's net turnover will depend on the size and quality of the season's crop in the main markets. Its operating profit is expected to be up due especially to performance in the second half of the financial year.

Grain exports and imports during crop seasons 95/96–03/04, thousands of tonnes



Crops in Finland 1995–2004, thousands of tonnes



# Lännen Plant Systems

**Lännen Plant Systems develops, produces and markets seedling technology and complete seedling propagation and planting solutions for nurseries and planters worldwide. Seedling production is based on the use of containerized technology for forest seedlings, vegetables and ornamentals. The unit's product range includes seedling trays and machinery and equipment developed for filling, sowing, watering and transfer, and for planting seedlings and lifting root crops.**

Lännen Plant Systems is the market leader in seedling trays and production systems for containerized seedlings. It is also the principal supplier of nursery and planting systems in Finland, Russia and the main vegetable-growing regions of Central Europe. In the United States, Lännen Plant Systems is the biggest supplier of automatic planting machines, while in Australia it is a major supplier in the vegetable and forest seedling nursery sectors.

Wood production as a raw material for the pulp and paper industries is becoming concentrated in regions of the world with the most rapid tree growth. It is therefore essential that Lännen Plant Systems should invest above all in the Far East, in China, Australia and New Zealand. The concentration trend does not affect wood production for other processing purposes.

Net turnover for Lännen Plant Systems in 2004 was EUR 4.4 (4.3) million, of which exports accounted for EUR 3.0 (2.8) million. The company's principal export markets were Central and Southern Europe, Russia and Australia and New Zealand. Net turnover and operating profit were in line with expectations.

The company's working methods and organizational structure have been further developed through improved partnership activities in production and distribution. The aim is to achieve closer cooperation so that the company can meet the changing needs of the market more rapidly.

The new seedling tray filling line developed in 2003 entered production during the year. The filling line has significantly improved consistency in the quality of planting and has been well received. In vegetable production, planting has also been improved through the 2004 launch of a new automatic planting machine.

This has already been supplied to European vegetable growers, and exports to New Zealand will begin in 2005. The traditional RT-2 and SK-100 planting machines were also upgraded in 2004 and given new product names: RT-20 and SK-10.

A new type of planting machine for forest seedlings is also being developed by Lännen Plant Systems in cooperation with the Finnish Forest Research Institute and UPM.

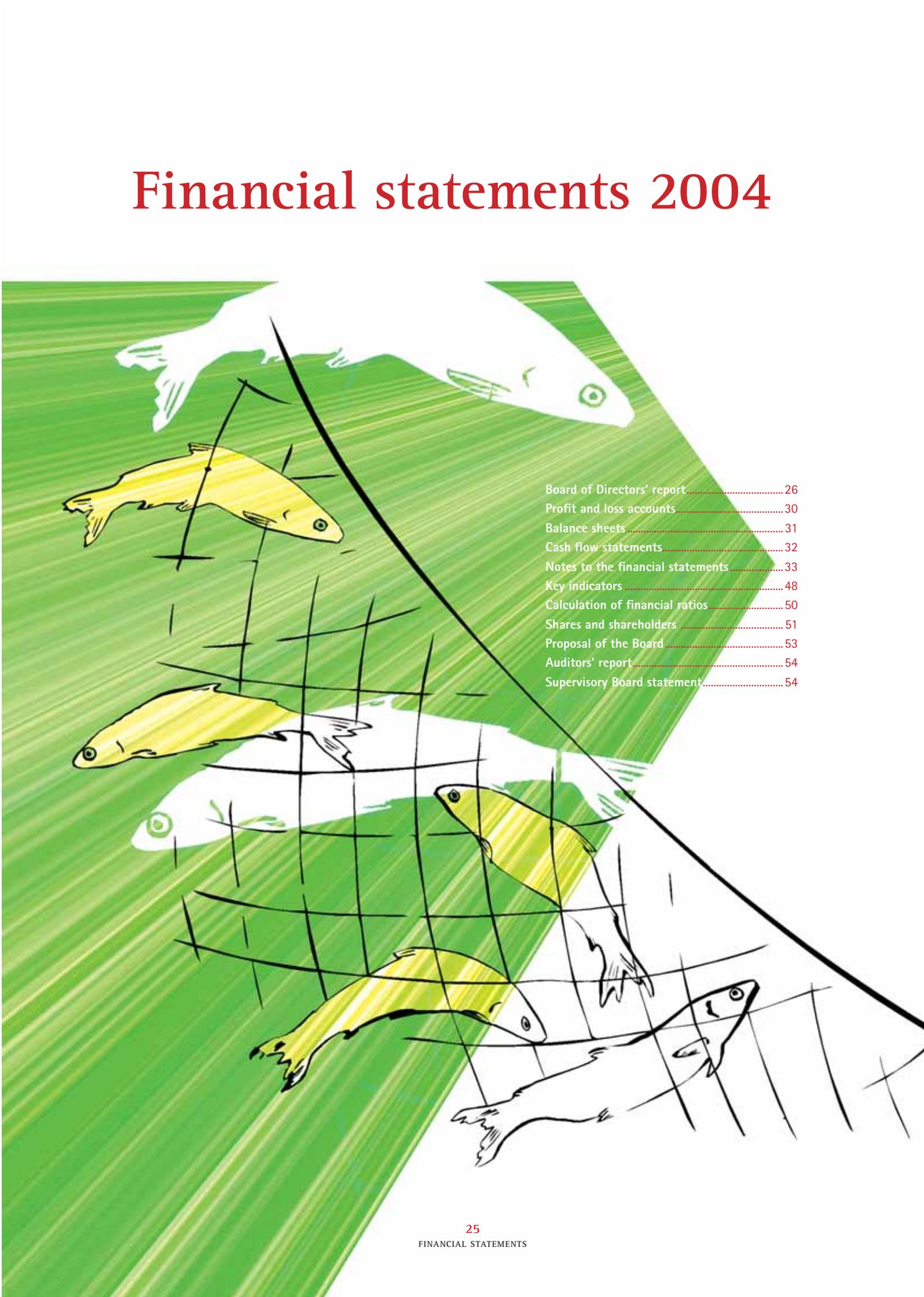
A new generation of seedling trays was developed for the Finnish and Baltic States markets to replace older seedling trays which are to be discontinued. Following the 2003 launch of a new carrot-lifting machine, a further addition was made to the range of machinery for carrot production: a processing line for washing and size grading carrots. A fully automatic watering gantry for ornamentals has also been developed.

In addition to Finland and the Baltic States, Lännen Plant Systems is directing its attention to other European markets and Asia. In Finland, the increasing use of mechanical tree-planting equipment is being closely monitored with the aim of producing machinery for this purpose.

At the end of 2004, Lännen Plant Systems signed an agreement for supplying seedling production equipment to the world's largest forest seedling nursery in Thailand. The nursery plans to produce 150 million eucalyptus seedlings per year. This figure is equivalent to the entire annual production of seedlings in Finland. The value of this deal is approximately EUR 1 million.

Net turnover and operating profit for Lännen Plant Systems in 2005 are expected to be at the same level as in 2004.

# Financial statements 2004

An illustration of several fish, some yellow and some white, swimming in a green, textured water environment. A black grid representing a fishing net is overlaid on the scene, with a thick black line representing the net's edge. The fish are shown in various positions, some appearing to be caught or near the net.

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# Board of Directors' report 2004

## Operating environment

According to advance information released by Statistics Finland, the country's industrial output was back on a growth track in 2004 after three lacklustre years. The year's growth amounted to 4.8% (2003: 0.7%). Growth in the Finnish food industry's output was just 0.3% (0.5). Retail sales of frozen products were up by 2.8% (2.0) excluding ice cream. In the animal feeds industry, preliminary figures indicate that production of compound feeds was up by 1.2% (1.2).

## Group structure

Several changes occurred in the Group structure during 2004. The most significant of these were the acquisition of a majority holding in Kuopion Kalatukku Oy and its incorporation into the Group in June, and the exit of the Machinium Division from the Group in July, when Machinium Ltd and its Swedish subsidiaries filed for bankruptcy. Ateriamestari Oy, the joint venture set up with Raisio Nutrition Ltd, began operations in May. At the end of the year, the Group acquired the external minority shareholdings in its Agricultural Division's animal feeds business: the 25.0% minority holding in SIA Baltic Feed was acquired in late November, and the 12.1% minority holding in the Suomen Rehu Group was acquired in late December. Following this, the Suomen Rehu Group is now wholly owned by Lännen Tehtaat.

The Food Division consists of Apetit and Lännen Sugar, both units of Lännen Tehtaat plc, and Apetit Kala Oy (formerly Kuopion Kalatukku Oy), which was incorporated into the Division in June. At the end of the year, Tresko Fish Ltd and Kalatori Foods Oy were merged into Apetit Kala Oy.

The Agricultural Division consists of the following companies: Suomen Rehu Ltd and its subsidiary companies Lännen Rehu Oy and Hiven Oy in Finland, SIA Baltic Feed in Latvia and Rehu Eesti Oü in Estonia; Avena Nordic Grain Oy and its Russian subsidiary ZAO Avena St. Petersburg; and Lännen Plant Systems and Harviala Oy.

Of the associated companies, Sucros Ltd, Ateriamestari Oy and Ab Silva Seafood Oy belong to

the Food Division, while Movere Oy and Farmit Website Oy are part of the Agricultural Division.

The Machinium Division, which was disengaged from the Lännen Tehtaat Group in July, comprised Machinium Ltd as the parent company and the following subsidiaries: Lännen Engineering Oy and Suomen Rakennuskone Oy in Finland; SMA Construction AB and SMA Maskin AB, plus its subsidiary SMA Maskinuthyrning AB, in Sweden; AS Balti Ehitusmasin-Baltem in Estonia; SIA BCM Baltijas Celtniecibas Masina in Latvia; and UAB Baltijos Statybines Masinos in Lithuania.

## Net turnover

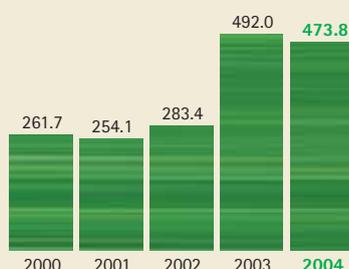
The Lännen Tehtaat Group's consolidated net turnover totalled EUR 473.8 (2003: EUR 492.0) million. The Food Division accounted for 28% (23) of this figure, the Agricultural Division for 62% (58) and the Machinium Division for 10% (19).

The Food Division's net turnover was EUR 130.6 (114.9) million. The increase on the previous year's net turnover was entirely due to the addition of Apetit Kala to the Division in June. Sales of Apetit's retail products were up slightly on the 2003 figure, whereas food-industry sales and exports were down on the previous year's figures. From June onwards, sales of sugar manufactured in Finland fell below their previous year's level. This was due to imports of sugar for the Finnish retail trade from the Baltic States, following their accession to the European Union in May.

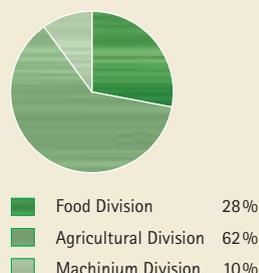
Net turnover for the Agricultural Division was EUR 294.3 (282.6) million. Net turnover in the animal feeds business was below the previous year's level and fell slightly short of the targeted figure. Grain trade net turnover for Avena Nordic Grain was considerably higher than in 2003. Other operations in the Agricultural Division accounted for only a minor proportion of the Division's net turnover.

For the period up to its exit from the Lännen Tehtaat Group, the Machinium Division's net turnover totalled EUR 48.9 million (2003 full year: EUR 94.5 million).

Consolidated net turnover, EUR mill.



Net turnover by business segment



Net turnover for the parent company Lännen Tehtaat plc was EUR 107.5 (115.0) million.

### Profits

The consolidated operating profit for 2004 was EUR 8.7 (11.7) million and profit before extraordinary items EUR 7.7 (8.4) million. These figures were affected by the provision of EUR 4.0 million entered in June to cover the realization of liabilities and other losses in the bankruptcy of Machinium Ltd.

Direct taxes recorded in the profit and loss account came to EUR 1.4 (2.6) million.

After taxes and minority interests, the Group's profit for the financial year came to EUR 6.0 (6.7) million.

The Food Division's operating profit amounted to EUR 5.2 (6.5) million in 2004. Apetit's profitability fell short of the previous year's level due to low sales prices, higher raw material costs and the lower margins resulting from the lower net turnover for food-industry sales and exports. Profits were also affected by the lower profit contribution (EUR 0.8 million) of the associated company Sucros. The Division's operating profit was boosted by Apetit Kala during the second half of the year.

The Agricultural Division's operating profit amounted to EUR 8.2 (8.3) million. Profitability in the animal feeds business was almost at the targeted level but was below the previous year's figure. Profitability was weakened by the drop in sales margins in the second and third quarters as a result of high raw material prices. Grain trade profitability was at the 2003 level.

The Machinium Division recorded an operating loss for the year: EUR -4.7 (-3.1) million.

### Fourth-quarter net turnover and operating profit

Net turnover in October–December was EUR 112.4 (129.2) million, of which the Food Division accounted for EUR 37.8 (27.3) million and the Agricultural Division for EUR 74.6 (73.4) million. The Machinium Division's fourth-quarter net turnover in 2003 was EUR 28.5 million.

Lännen Tehtaat's fourth-quarter operating profit was EUR 5.2 (3.3) million and its profit before

extraordinary items EUR 5.2 (2.4) million. The Food Division accounted for EUR 1.9 (1.8) million and the Agricultural Division for EUR 3.3 (2.7) million of the operating profit. In the fourth quarter of 2003, the Machinium Division made an operating loss of EUR -1.2 million.

### Financing

The Group's financing position changed significantly following the exit of Machinium. Interest-bearing liabilities totalled EUR 46.2 (73.7) million at the end of the year, and financial assets amounted to EUR 10.2 (13.1) million. At the end of the financial year, commercial papers totalling EUR 13.0 (15.0) million had been issued for short-term financing. Liquidity was secured by long-term committed credit facilities; no credit facilities were used during the year. Net financial expenses came to EUR 1.1 (3.3) million. The reduction on the previous year's figure was due to the repayment of high-interest shareholder loans, the reduction in other debt capital, and the increase in dividend yields. The equity ratio was 49% (40) at the end of the year.

### Annual General Meeting, share capital and shares

Lännen Tehtaat plc's Annual General Meeting on March 24, 2004 decided to distribute a dividend of EUR 0.65 (0.30) per share.

The Annual General Meeting authorized the Board of Directors to decide on increasing the share capital through a new issue and/or by taking a convertible loan in one or more tranches. In the new issue and/or new issue based on a convertible bond, the share capital may be increased by a maximum of EUR 1,222,514, which would mean a maximum of 611,257 shares for subscription. The authorization remains valid for one year from the date of the AGM. Increasing the share capital and/or taking a convertible bond is permitted as an exception to the shareholders' right of pre-emption provided that there is a weighty financial reason for such an exception.

In June, the Board of Directors used the authorization given by the AGM to increase the company's

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share capital. The increase took the form of a targeted share issue in which Antti Räsänen subscribed 195,000 Lännen Tehtaat plc shares in return for a contribution in kind. The increase in share capital was entered in the Trade Register on June 22, 2004. The new total number of shares is 6,317,576 and the share capital EUR 12,635,152. Trading in the new shares on the Helsinki Stock Exchange began on June 23, 2004.

The AGM also authorized the Board of Directors to decide on the surrender of Lännen Tehtaat plc shares. Under this authorization, the Board may surrender 65,000 previously purchased Lännen shares. The shares may be surrendered in connection with corporate acquisitions or for a similar purpose, or sold in public trading on the Helsinki Stock Exchange. The authorization is valid for one year from the date of the AGM.

The Board has not yet made use of the authorization. The 65,000 Lännen Tehtaat plc shares in the company's possession represent 1.0% of the total share capital and total votes.

#### Investment

Gross investment in non-current assets came to EUR 11.1 (9.5) million. Investment by the Food Division totalled EUR 5.3 (1.7) million, and by the Agricultural Division EUR 5.5 (7.1) million. The most significant investments were the acquisition of a majority holding in Apetit Kala Oy (formerly Kuopion Kalatukku Oy) through a share exchange in June, and the minority shareholding purchase in connection with Suomen Rehu Group. The purchase price of the Apetit Kala Oy shares was EUR 2.6 million, and the price of the minority shares in the animal feeds business totalled EUR 2.9 million. The Group's other investments were in productivity and replacement equipment.

Investment by the Machinium Division amounted to EUR 0.3 (0.7) million up to the time it was disengaged from the Group.

#### R&D

The Group's product development expenses accounted for 0.6% (0.7) of net turnover. In animal feeds,

the emphasis in 2004 was on the development of feeding that advances animal health and wellbeing, feeding technologies that improve the profitability of livestock production, and the special feeds business.

In food products, the development focus was on the Apetit products. A new series of vegetable products designed to be steam-cooked in a microwave was launched in the autumn. The Quick&Tasty fast-food range, containing plenty of vegetables but little fat, was expanded to include several new products, such as soups.

#### Environmental matters

Environmental protection and development expenses have been charged to the profit and loss account.

#### Reform of the EU's sugar regime

In July 2004, the European Commission published its plans for changes to the EU sugar regime. The proposed reform would lead to a cut in sugar quotas, a reduction in sugar and sugar beet prices, and the abandonment of country-specific quotas. The aim of the reform is to cut sugar overproduction and reduce sugar prices in the EU. In the form proposed, the plan is a threat to sugar beet growing and the beet sugar industry in peripheral regions of the EU, including Finland.

Together with ten other EU Member States, Finland has proposed changes to the Commission's plan that would take better account of the Union's peripheral regions. The EU will also have to take into consideration its own commitment to the impoverished ACP countries and India. Sugar imported from these countries is given Community Preference in the EU, and a higher price is given for their sugar than on the world market. The reform would therefore also have a damaging effect on the economies of developing countries.

The EU has appealed against the decision of the WTO's Dispute Settlement Body concerning the trade dispute between the EU and the main sugar-producing countries outside the EU. The EU is not likely to issue proposals for new sugar regulations before the appeal process has been concluded. New proposals



are, however, likely to be issued before the WTO's ministerial conference in December 2005.

Reform of the sugar regime in one form or another will probably be introduced for the 2006 harvest. A drop in the price of sugar will have a detrimental effect on the financial performance of the sugar sector, including Lännen Tehtaat, in the years to come.

#### Transition to IFRS reporting

In 2005, the Lännen Tehtaat Group will begin reporting its financial statements in accordance with the IFRS standards. This also applies to the interim reports for 2005. The first-quarter interim report will be published on May 3, 2005. In April, the Group will publish its 2004 figures recalculated and presented in accordance with the IFRS standards. This will include the 2004 profit and loss account, balance sheet and the transition calculations for the changeover from financial statements produced under Finnish Accounting Standards (FAS) to the IFRS financial statements.

IFRS reporting will be based on the consolidated balance sheet at January 1, 2004, including the adjustments required for the IFRS standards. The main impact on the Group's opening balance sheet concerns the entry of Machinium's financial leasing agreements and the capitalization of fixed costs of goods acquisition and manufacture under valuation of inventories. The adjustments will increase the opening balance sheet total by about 10%. There will be no significant change in shareholders' equity.

The transition to IFRS reporting will have some effect on the operating profit of the Lännen Tehtaat Group. The most significant change is the elimination of goodwill amortization in the IFRS accounting. The amount of goodwill amortization under the FAS reporting was EUR 3.1 million in 2004. The present value of cash flows generated via impairment testing exceeds the book value of asset items that are subject to testing. The profit effect of the other IFRS changes will be smaller than that of eliminating goodwill amortization.

The timing of profit accrual will also change. Under the IFRS rules, Lännen's profits will primarily

be generated in the final quarter, when its harvested raw materials are processed into stocks of finished and semi-finished goods. With prices of products held in stock being higher than before, the sales margin for the first three quarters will be reduced. This will affect the Group's food industry business and partly also its animal feeds business, and especially the associated company Sucros.

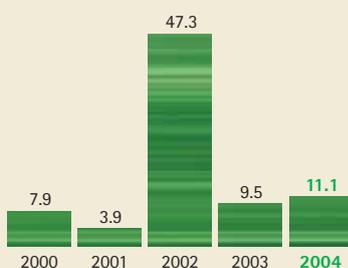
#### Outlook for 2005

The Food Division's net turnover will be up in 2005 because it will include the full year's turnover for Apetit Kala. Frozen food sales as a whole are expected to be in line with the general trend in the market. However, sales of vegetables and frozen ready-made foods are expected to grow. There will be no growth in the overall consumption of sugar, and Sales of Lännen Sugar's consumer products are likely to be no higher than the 2004 level, due to sugar imports.

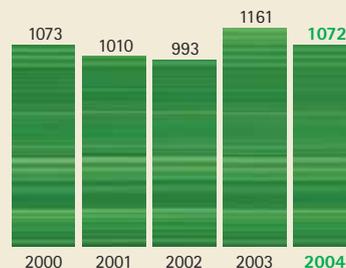
Net turnover in the animal feeds business is expected to be up on the 2004 level. A reorganization is planned in animal feed production, which will give rise to non-recurring write-offs in 2005. The benefits of this reorganization will be seen from 2006 onwards. Grain trade net turnover will depend on the amount and quality of this year's crops in the main market areas.

The Lännen Tehtaat Group's net turnover for 2005 is expected to be at the 2004 level. The transfer to IFRS reporting will affect the consolidated balance sheet and operating profit, as well as the timing of profit accrual. Operating profit for the first quarter will be very modest, at around the same level as in 2004. Operating profit for the full year is expected to be better than in 2004, despite the costs of reorganizing animal feeds production.

Gross investments, EUR mill.



Average number of personnel



## Profit and loss accounts

EUR 1000		Consolidated		Parent company		
		2004	2003	2004	2003	
	Net sales	(1)	473 795	492 015	107 544	115 041
	Variation in stocks of finished goods and in work in progress		-15 687	-940	138	137
	Other operating income	(2)	3 411	2 123	1 099	605
	Raw materials and services	(3)	-340 702	-364 751	-79 015	-86 023
	Personnel expenses	(4)	-43 300	-47 344	-14 307	-13 375
	Depreciation	(5)	-11 534	-11 793	-4 114	-4 184
	Other operating charges		-59 714	-60 772	-18 197	-11 436
	Share of profits of associated undertakings	(6)	2 453	3 156		
	<b>Operating profit/loss</b>	(7)	<b>8 722</b>	<b>11 694</b>	<b>-6 853</b>	<b>765</b>
	Financial income and expenses	(8)	-1 070	-3 326	3 359	139
	<b>Profit/loss before extraordinary items</b>		<b>7 652</b>	<b>8 368</b>	<b>-3 494</b>	<b>904</b>
	Extraordinary items	(9)			1 400	5 694
	<b>Profit/loss before appropriations, taxes and minority interests</b>		<b>7 652</b>	<b>8 368</b>	<b>-2 094</b>	<b>6 598</b>
	Appropriations	(10)			580	677
	Income taxes	(11)	-1 438	-2 625	-195	-1 472
	Minority interests		-240	988		
	<b>Profit/loss for the financial year</b>		<b>5 974</b>	<b>6 731</b>	<b>-1 709</b>	<b>5 803</b>

# Balance sheets

EUR 1000	Consolidated		Parent company		
	2004	2003	2004	2003	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	(12)	16 594	21 591	1 177	2 190
Tangible assets	(13)	69 398	65 596	27 422	28 599
Investments in Group undertakings	(14,15)			19 232	17 249
Receivables from Group undertakings	(14,15)			9 430	9 430
Holdings in associated and participating interest undertakings	(14,15)	21 371	20 424	11 799	11 773
Own shares	(14)	778	778	778	778
Other investments	(14,15)	1 420	1 443	1 242	1 267
		<u>109 561</u>	<u>109 832</u>	<u>71 080</u>	<u>71 286</u>
<b>Current assets</b>					
Stocks	(16)	45 951	80 245	12 024	12 274
Long-term receivables	(17)			1 404	1 204
Deferred tax receivable	(22)	659	420	655	290
Current receivables	(18)	37 032	46 162	45 913	57 391
Marketable securities		508	509	508	510
Cash and cash equivalents		9 741	12 549	6 162	4 695
		<u>93 891</u>	<u>139 885</u>	<u>66 667</u>	<u>76 364</u>
		<u>203 452</u>	<u>249 717</u>	<u>137 746</u>	<u>147 650</u>
<b>LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	(19)	12 635	12 245	12 635	12 245
Share premium account		23 391	21 443	23 391	21 441
Reserve for own shares		778	778	778	778
Capital reserve account		24	59		
Contingency reserve		7 232	7 232	7 232	7 232
Retained earnings		47 457	44 882	31 751	29 886
Profit/loss for the financial year		5 974	6 731	-1 709	5 803
Preferred capital loans			1 682		
		<u>97 491</u>	<u>95 052</u>	<u>74 079</u>	<u>77 385</u>
Minority interest		1 616	4 915		
Accumulated appropriations	(20)			7 872	8 453
Provisions	(21)	2 095	2 059	2 095	1 000
<b>Liabilities</b>					
Deferred tax liability	(22)	4 114	4 375		
Long-term liabilities	(23)	23 104	43 889	12 800	19 200
Current liabilities	(23)	75 032	99 427	40 900	41 612
		<u>203 452</u>	<u>249 717</u>	<u>137 746</u>	<u>147 650</u>

# Cash flow statements

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>Operations</b>				
Operating profit	8 722	11 694	-6 853	765
Adjustments:				
Share of profits of associated companies	-2 453	-3 156		
Depreciation according to plan	11 534	11 793	4 114	4 184
Other adjustments	1 061	4 384	3 017	482
Financial income and expenses	-1 070	-3 326	3 359	3 139
Extraordinary items			1 400	3 400
Direct taxes	-1 438	-2 625	-195	-1 472
Cash flow from operations	16 356	18 764	4 842	10 498
Change in working capital				
Change in current receivables	9 200	4 704	11 478	-20 734
Change in inventories	34 294	1 670	250	3 012
Change in non-interest-bearing current liabilities	-19 474	-14 619	1 288	-14 650
Change in long-term receivables		731	-565	215
	24 020	-7 514	12 451	-32 157
<b>Net cash flow from operations (A)</b>	<b>40 376</b>	<b>11 250</b>	<b>17 293</b>	<b>-21 659</b>
<b>Investments</b>				
Investments in tangible and intangible assets	-6 454	-9 486	-2 072	-5 747
Proceeds from sales of tangible and intangible assets	496	306	137	1 563
Tangible and intangible assets of acquired Group undertakings	-6 277			
Tangible and intangible assets of relinquished subgroup	1 602			
Other investments	-40		-5 131	-3 662
Decreases of other investments and proceeds from sales of other investments	287	1 154	1 237	22 288
<b>Net cash flow from investments (B)</b>	<b>-10 386</b>	<b>-8 026</b>	<b>-5 829</b>	<b>14 442</b>
<b>Financing</b>				
Share issue	2 340		2 340	
Change in preferred capital loans	-1 682			
Change in minority interests	-3 299	-1 186		
Change in current loans	-4 921	17 551	-2 000	15 000
Change in long-term loans	-21 046	-20 586	-6 400	-6 400
Dividend distribution	-3 937	-1 817	-3 937	-1 817
Other changes in capital and reserves	-255	-1 105		
<b>Net cash flow from financing (C)</b>	<b>-32 800</b>	<b>-7 143</b>	<b>-9 997</b>	<b>6 783</b>
<b>Changes in liquid assets (A+B+C)</b>	<b>-2 810</b>	<b>-3 919</b>	<b>1 467</b>	<b>-434</b>
Liquid assets on January 1	13 058	16 977	5 203	5 637
Liquid assets on December 31	10 248	13 058	6 670	5 203

# Notes to the financial statements 2004

## ACCOUNTING PRINCIPLES

### Extent of consolidated financial statements

*Group structure.* The consolidated financial statements of the Lännen Tehtaat Group include the parent company Lännen Tehtaat plc and those companies in which the parent company holds over 50% of the voting rights directly or indirectly on December 31, 2004. The associated companies in which the Group has a 20–50% holding have been combined using the share of equity method.

Further information about the Group holdings in subsidiaries and associated companies is given below in section 15 'Shares and holdings'.

*Changes in Group structure.* Machinium Ltd, the parent company of the earthmoving and materials handling division, and its Swedish subsidiaries SMA Construction AB, SMA Maskin AB, and SMA Maskinuthyrning AB, a subsidiary of SMA Maskin AB, filed for bankruptcy during the financial period. Due to the bankruptcy of Machinium Ltd, all the companies in the Machinium subgroup exited from the Lännen Tehtaat Group during the third quarter. Machinium subgroup has been included in the income statement of the Group until June 30, 2004.

Lännen Tehtaat plc acquired the majority of the shares in Kuopion Kalatukku Oy. The name of the acquired company was changed to Apetit Kala Oy. Apetit Kala Oy is included in the consolidated statements as of June 30, 2004. As an intra-group arrangement Lännen Tehtaat plc sold the shares of Tresko Fish Ltd to Apetit Kala Oy. Tresko Fish Ltd was merged with Apetit Kala Oy on December 31, 2004. At the same date, Kalatori Foods Oy, the other subsidiary of Apetit Kala Oy, was merged with its parent company.

Also as an intra-group arrangement Lännen Rehu Oy's shares were transferred using a share exchange from Lännen Tehtaat plc to Suomen Rehu Ltd at the beginning of the financial year 2004. Following the arrangement Lännen Tehtaat plc's share of ownership increased to 87.9% (82.1%). At the end of the financial period Lännen Tehtaat plc acquired 12.14% of Suomen Rehu Ltd's shares from the minority owner. Subsequent to the purchase Lännen Tehtaat owns all the shares in Suomen Rehu Ltd. Suomen Rehu Ltd acquired 25% of the shares in its Latvian subsidiary SIA Baltic Feed. Subsequent to the purchase, Suomen Rehu owns all the shares in SIA Baltic Feed.

Lännen Tehtaat plc started a joint venture (Ateriamestariit Oy) with Ravintoraisio Oy.

### Accounting principles for consolidated financial statements

*Mutual shareholdings.* The consolidated financial statements have been drawn up according to the acquisition cost method. The price paid for subsidiary companies in excess of their shareholders' equity has been allocated to fixed assets and goodwill on consolidation.

The consolidation liability arising from the acquisition of the subsidiaries has been allocated to buildings. At the end of 2004, EUR 2.3 million remained of the goodwill on consolidation allocated to buildings and EUR 5.1 million remained of the consolidation liability reducing the building value. The goodwill allocated to buildings will be depreciated and the consolidation liability reducing the building value will be reduced according to the depreciation plan for buildings.

The depreciation period for consolidated goodwill varies: prior to the acquisition of Avena in 2002, the depreciation period for consolidated goodwill was normally 5 years. Because of the long-term effect of acquisitions on income, however, the depreciation period for consolidated goodwill is 8 years in the Avena Group acquired in 2002, and 10 years in the Suomen Rehu subgroup.

*Internal transactions and margins.* Internal transactions, unrealized margins from internal transactions, internal receivables and liabilities and internal distribution of profit have been eliminated.

*Minority interest.* Minority interest is shown separately from consolidated shareholders' equity and from the profit for the financial period.

*Translation differences.* The figures from the balance sheet statements of foreign Group companies have been translated into euros at the European Central Bank middle rate on the closing day. The figures from the profit and loss statements of foreign Group companies have been translated into euros at the middle rate for the whole year. The translation difference arising from the elimination of these companies' shareholders' equity has been recorded under retained earnings.

*Associated undertakings.* The associated undertakings have been combined according to the equity method. The Group's share of the profits or losses for the financial period of the associated companies have been entered before operating profit because the business of these companies is directly related to the business of the Group.

### Valuation of fixed assets

Fixed assets have been capitalized at their acquisition cost. Fixed assets have been depreciated on a straight line basis according to plan, based on useful economic life. Publicly quoted fixed asset shares have been valued at historical cost.

### Valuation of inventories

The balance sheet value of inventories is the lowest of variable acquisition cost, repurchase price or probable market value.

### Foreign currency items

Receivables and payables denominated in foreign currencies have been translated into the local currency at the middle rate of the Central Bank in the country of each Group company on the date of closing, in Finnish companies into euros at the European Central Bank middle rate on the closing day.

Exchange rate differences caused by current receivables and liabilities have been charged to the profit and loss account. Likewise, unrealised exchange rate losses of long-term receivables and liabilities have also been charged to the profit and loss account. Unrealised exchange rate gains have been charged to the profit and loss account, but only up to the amount of loss from the same currency.

### Deferred tax receivables and liabilities

In the consolidated financial statements, deferred tax liabilities and receivables are calculated on the basis of the timing differences between the closing date and the taxation date, using the tax rate for subsequent years confirmed on the closing date.

### Derivative contracts

In line with its risk management policy, Lännen Tehtaat uses a variety of derivatives for hedging against a number of risks arising from foreign currencies, interest rates and commodity prices. The market values of derivatives are entered under derivative contracts in the other notes to the accounts and indicate what the result would have been if the derivative position had been closed at market prices on the date of closing of the accounts.

Swap contracts and cap agreements have been used against interest risks in variable-rate long-term loans. The income or expenses from the contracts are recorded on accrual basis under other financial income or expenses.

Forward currency contracts have been used to hedge against exchange rate risks in foreign-currency sales and purchases in the Group. Any related income or expenses are booked under adjustments to sales or purchases when the consignment hedged is delivered.

The Group has raw material derivative contracts to hedge against price risks in grain and animal feed raw material trading agreements. The impact on profit is booked under adjustments to sales or purchases when the grain or raw material consignment hedged is delivered.

### Pension arrangements

Statutory pension coverage for corporate personnel is covered by pension insurance. Special pension insurance policies provide additional pension coverage under the Trust rules for former employees and retired staff previously covered by the Lännen Staff Pension Trust.

The retirement age for the parent company's President has been set at 60 years.

# Notes to the financial statements (1 – 4)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>1. NET TURNOVER BY BUSINESS SEGMENT AND BY MARKET AREA</b>				
<b>Net turnover by business segment</b>				
Food Division	130 596	114 862	101 516	109 548
Agricultural Division	294 245	282 659	6 028	5 493
Machinium Division	48 954	94 494		
Total	473 795	492 015	107 544	115 041
Exports from Finland	48 467	48 565	4 126	4 655
<b>Net turnover by market area</b>				
Finland	383 158	377 507	103 418	110 410
European Union	59 558	72 239	2 081	2 321
Rest of Europe	21 286	34 097	1 252	1 752
Other	9 793	8 172	793	558
Total	473 795	492 015	107 544	115 041
<b>2. OTHER OPERATING INCOME</b>				
Gains from sales of non-current assets	1 687	56	605	39
Rental income	880	895	264	156
Payments received	368	670	139	404
Other	476	502	91	6
Total	3 411	2 123	1 099	605
<b>3. RAW MATERIALS AND SERVICES</b>				
<b>Raw materials and consumables</b>				
Purchases during the financial year	325 202	350 198	77 804	85 106
Variation in stocks	3 126	627	394	123
External services	12 374	13 926	817	794
Total	340 702	364 751	79 015	86 023
<b>4. PERSONNEL EXPENSES AND NUMBER OF PERSONNEL</b>				
<b>Personnel expenses</b>				
Wages and salaries	33 827	36 416	11 331	10 546
Pension expenses	5 751	6 269	1 982	1 780
Other social security expenses	3 722	4 659	994	1 049
Total	43 300	47 344	14 307	13 375
<b>about which salaries and fees to the corporate management; the members of the Supervisory Board and the Board of Directors and the Managing Directors</b>				
	1 214	1 352	381	252
<b>Average number of personnel</b>				
Food Division	405	331	297	308
Agricultural Division	485	442	64	57
Machinium Division	182	388		
Total	1 072	1 161	361	365
about which personnel abroad	140	252		
<b>The commitments of the retirement for the members of the Board of Directors and the President</b>				
The retirement age for the parent company's President has been set at 60 years.				

## Notes to the financial statements (5 – 7)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>5. DEPRECIATION</b>				
Depreciation according to plan has been calculated from the original acquisition cost on a straight line basis based on the probable economic life of the asset as follows.				
Formation expenses	5	years		
Intangible rights	5	or 10		
Goodwill	10	years		
Goodwill on consolidation	5 – 10	years		
Other capitalized long-term expenses	5	or 10		
Buildings, made of stone and wood	20 – 40	years		
Other buildings and constructions	5	or 10		
Machinery and equipment	5	or 10		
Other tangible assets	5	or 10		
<b>Depreciation according to plan</b>				
Formation expenses	4	7		
Intangible rights	571	571	466	469
Goodwill	2 372	2 489	370	414
Other capitalized long-term expenses	677	811	124	100
Buildings	2 578	2 396	1 198	1 196
Machinery and equipment	4 470	4 634	1 956	2 005
Other tangible assets	43			
Total	10 715	10 908	4 114	4 184
Goodwill on consolidation	819	885		
Total	11 534	11 793		
<b>6. SHARE OF PROFIT/LOSS OF ASSOCIATED UNDERTAKINGS</b>				
Performed before operating profit				
Sucros Group	2 407	3 242		
Other	46	-86		
Total	2 453	3 156		
<b>7. OPERATING PROFIT/LOSS BY BUSINESS SEGMENT</b>				
Food Division	5 208	6 496		
Agricultural Division	8 214	8 298		
Machinium Division	-4 700	-3 100		
Total	8 722	11 694		

## Notes to the financial statements (8 – 11)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>8. FINANCIAL INCOME AND EXPENSES</b>				
<b>Dividend income</b>				
From Group undertakings				1 455
From associated undertakings			1 540	1 799
From others	665	313	380	221
Avoir fiscal income	271	119	784	1 412
Total	936	432	2 704	4 887
<b>Interest income from long-term investments</b>				
From Group undertakings			717	89
From others	16		16	
Total	16		733	89
<b>Other interest and financial income</b>				
From Group undertakings			881	702
From others	902	2 746	640	569
Total	902	2 746	1 521	1 271
<b>Financial income, total</b>	<b>1 854</b>	<b>3 178</b>	<b>4 958</b>	<b>6 247</b>
<b>Reduction in value of investments</b>				
Reduction in value of holdings in Group undertakings				3 000
<b>Interest expenses and other financial expenses</b>				
To Group undertakings			90	258
To others	2 924	6 504	1 509	2 850
Total	2 924	6 504	1 599	3 108
<b>Financial income and expenses, total</b>	<b>-1 070</b>	<b>-3 326</b>	<b>3 359</b>	<b>139</b>
<b>9. EXTRAORDINARY ITEMS</b>				
Group contributions			1 400	3 400
Profit of merger				2 294
Total			1 400	5 694
<b>10. APPROPRIATIONS</b>				
<b>Depreciation in excess of or less than plan</b>				
Intangible rights			1	2
Other capitalized long-term expenses			-21	-9
Buildings			314	290
Machinery and equipment			286	394
Total			580	677
<b>11. INCOME TAXES</b>				
For the financial year	2 122	1 584	520	1 654
For the previous years	37	119	40	108
Change in deferred tax receivable	-315	718	-365	-290
Change in deferred tax liability	-406	204		
Total	1 438	2 625	195	1 472

## Notes to the financial statements (12)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>12. INTANGIBLE ASSETS</b>				
<b>Formation expenses</b>				
Acquisition cost Jan. 1	37	37		
Discontinuing operations, original acquisition cost	-37			
<b>Acquisition cost Dec. 31</b>		37		
Accumulated depreciation	-33	-26		
Discontinuing operations, accumulated depreciation	37			
Depreciation for the year	-4	-7		
<b>Accumulated depreciation Dec. 31</b>		-33		
<b>Book value Dec. 31</b>		4		
<b>Intangible rights</b>				
Acquisition cost Jan. 1	6 298	6 285	5 103	5 105
Difference on translation	-2	-5		
Acquired companies, original acquisition cost	118			
Increases	87	49		18
Decreases	-2 881	-31	-2 881	-20
<b>Acquisition cost Dec. 31</b>	<b>3 620</b>	6 298	<b>2 222</b>	5 103
Accumulated depreciation	-4 507	-3 956	-3 809	-3 348
Difference on translation	1	12		
Acquired companies, accumulated depreciation	-11			
Accumulated depreciation on decreases	2 828	8	2 828	8
Depreciation for the year	-571	-571	-466	-469
<b>Accumulated depreciation Dec. 31</b>	<b>-2 260</b>	-4 507	<b>-1 447</b>	-3 809
<b>Book value Dec. 31</b>	<b>1 360</b>	1 791	<b>775</b>	1 294
<b>Goodwill</b>				
Acquisition cost Jan. 1	26 878	26 799	6 334	6 334
Difference on translation	-5	79		
Discontinuing operations, original acquisition cost	-575			
<b>Acquisition cost Dec. 31</b>	<b>26 298</b>	26 878	<b>6 334</b>	6 334
Accumulated depreciation	-14 857	-12 273	-5 964	-5 550
Difference on translation	11	-95		
Discontinuing operations, accumulated depreciation	569			
Depreciation for the year	-2 372	-2 489	-370	-414
<b>Accumulated depreciation Dec. 31</b>	<b>-16 649</b>	-14 857	<b>-6 334</b>	-5 964
<b>Book value Dec. 31</b>	<b>9 649</b>	12 021		370

## Notes to the financial statements (12)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>Goodwill on consolidation</b>				
Acquisition cost Jan. 1	9 823	9 823		
Increases	79			
Discontinuing operations, original acquisition cost	-2 890			
<b>Acquisition cost Dec. 31</b>	<b>7 012</b>	9 823		
Accumulated depreciation	-4 255	-3 370		
Discontinuing operations, accumulated depreciation	2 407			
Depreciation for the year	-819	-885		
<b>Accumulated depreciation Dec. 31</b>	<b>-2 667</b>	-4 255		
<b>Book value Dec. 31</b>	<b>4 345</b>	5 568		
<b>Consolidation reserve</b>				
Accumulated decreases		-5 456		
Balanced against buildings		5 326		
<b>Acquisition value Dec. 31</b>		-130		
Accumulated decreases		130		
<b>Accumulated decreases Dec. 31</b>		130		
<b>Book value Dec. 31</b>				
<b>Other capitalized long-term expenses</b>				
Acquisition cost Jan. 1	4 853	4 422	984	776
Difference on translation	-1	1		
Acquired companies, original acquisition cost	84			
Increases	537	471	162	249
Discontinuing operations, original acquisition cost	-1 141			
Decreases	-3	-41	-3	-41
Transfers between items	-64		-64	
<b>Acquisition cost Dec. 31</b>	<b>4 265</b>	4 853	<b>1 079</b>	984
Accumulated depreciation	-2 745	-2 000	-556	-390
Difference on translation	-1			
Acquired companies, accumulated depreciation	-59			
Discontinuing operations, accumulated depreciation	456			
Accumulated depreciation on decreases	2	66	3	-66
Depreciation for the year	-677	-811	-124	-100
<b>Accumulated depreciation Dec. 31</b>	<b>-3 024</b>	-2 745	<b>-677</b>	-556
<b>Book value Dec. 31</b>	<b>1 241</b>	2 109	<b>402</b>	428
<b>Advance payments</b>				
Acquisition cost Jan. 1	98		98	
Increases	24	126	24	126
Decreases	-122	-28	-122	-28
<b>Acquisition cost Dec. 31</b>		98		98
<b>Intangible assets, total</b>	<b>16 594</b>	<b>21 591</b>	<b>1 177</b>	<b>2 190</b>

## Notes to the financial statements (13)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>13. TANGIBLE ASSETS</b>				
<b>Land and waters</b>				
Acquisition cost Jan. 1	4 376	4 376	2 494	2 495
Acquired companies, original acquisition cost	164			
Increases	4			
Decreases	-4		-3	-1
<b>Book value Dec. 31</b>	<b>4 540</b>	<b>4 376</b>	<b>2 491</b>	<b>2 494</b>
<b>Buildings</b>				
Acquisition cost Jan. 1	58 631	59 225	29 468	28 435
Difference on translation	-33	-43		
Acquired companies, original acquisition cost	4 630			
Increases	1 300	4 775	300	3 740
Transfer from consolidation liability		-5 326		
Discontinuing operations, original acquisition cost	-226			
Discontinuing operations, cancellation of internal margin	1 094			
Decreases	-139		-110	-2 707
Transfers between items	-360			
<b>Acquisition cost Dec. 31</b>	<b>64 897</b>	<b>58 631</b>	<b>29 658</b>	<b>29 468</b>
Accumulated depreciation	-18 606	-16 224	-10 819	-10 992
Difference on translation	54	14		
Acquired companies, accumulated depreciation	-162			
Discontinuing operations, accumulated depreciation	126			
Discontinuing operations, accumulated corrections of depreciation on internal margin	-456			
Accumulated depreciation on decreases	76		76	1 370
Depreciation for the year	-2 621	-2 396	-1 198	-1 197
Transfers between items	189			
<b>Accumulated depreciation Dec. 31</b>	<b>-21 400</b>	<b>-18 606</b>	<b>-11 941</b>	<b>-10 819</b>
<b>Book value Dec. 31</b>	<b>43 497</b>	<b>39 854</b>	<b>17 717</b>	<b>18 649</b>
<b>Machinery and equipment</b>				
Acquisition cost Jan. 1	51 761	49 730	26 331	27 861
Difference on translation	-40	-5		
Acquired companies, original acquisition cost	2 481			
Increases	4 633	3 566	1 750	1 990
Discontinuing operations, original acquisition cost	-3 288			
Decreases	-475	-1 530	-166	-3 520
<b>Acquisition cost Dec. 31</b>	<b>55 072</b>	<b>51 761</b>	<b>27 915</b>	<b>26 331</b>
Accumulated depreciation	-31 297	-27 853	-18 953	-19 974
Difference on translation	20	48		
Acquired companies, accumulated depreciation	-892			
Discontinuing operations, accumulated depreciation	1 752			
Accumulated depreciation on decreases	227	1 142	144	3 026
Depreciation for the year	-4 470	-4 634	-1 956	-2 005
<b>Accumulated depreciation Dec. 31</b>	<b>-34 660</b>	<b>-31 297</b>	<b>-20 765</b>	<b>-18 953</b>
<b>Book value Dec. 31</b>	<b>20 412</b>	<b>20 464</b>	<b>7 150</b>	<b>7 378</b>
<b>Share of machinery and equipment in book value Dec. 31</b>	<b>19 880</b>	<b>18 354</b>	<b>6 471</b>	<b>6 539</b>

## Notes to the financial statements (13)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>Other tangible assets</b>				
Increases	37			
Decreases	-4			
Transfers between items	424		64	
<b>Acquisition cost Dec. 31</b>	<b>457</b>		<b>64</b>	
Depreciation for the year	-43			
Transfers between items	-187			
<b>Accumulated depreciation Dec. 31</b>	<b>-230</b>			
<b>Book value Dec. 31</b>	<b>227</b>		<b>64</b>	
<b>Advance payments and construction in progress</b>				
Acquisition cost Jan. 1	812	323	44	1
Acquired companies, original acquisition cost	563			
Increases	3 054	3 126	1 547	1 289
Decreases	-3 707	-2 637	-1 591	-1 246
<b>Book value Dec. 31</b>	<b>722</b>	<b>812</b>	<b>44</b>	<b>44</b>
<b>Tangible assets, total</b>	<b>69 398</b>	<b>65 596</b>	<b>27 422</b>	<b>28 599</b>
<b>Revaluation</b>				
Land and waters Jan. 1 and Dec. 31	1 850	1 850	1 850	1 850
Buildings Jan. 1 and Dec. 31	812	812	812	812

## Notes to the financial statements (14)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>14. INVESTMENTS</b>				
<b>Holdings in Group undertakings</b>				
Acquisition cost Jan. 1			17 249	46 113
Increases			5 107	13 929
Decreases			-3 124	-42 793
<b>Book value Dec. 31</b>			<b>19 232</b>	<b>17 249</b>
<b>Holdings in associated and participating interest undertakings</b>				
Holdings in associated undertakings				
Acquisition cost Jan. 1	19 332	18 906	11 773	11 773
Increases	930	1 627	26	
Acquired companies, original acquisition cost	17			
Decreases		-1 201		
<b>Book value Dec. 31</b>	<b>20 279</b>	<b>19 332</b>	<b>11 799</b>	<b>11 773</b>
Holdings in participating interest undertakings				
Acquisition cost Jan. 1	1 092	1 092		
<b>Book value Dec. 31</b>	<b>1 092</b>	<b>1 092</b>		
<b>Holdings in associated and participating interest undertakings total</b>	<b>21 371</b>	<b>20 424</b>	<b>11 799</b>	<b>11 773</b>
<b>Own shares</b>				
Acquisition cost Jan. 1	778	778	778	778
<b>Book value Dec. 31</b>	<b>778</b>	<b>778</b>	<b>778</b>	<b>778</b>
<b>Receivables from Group undertakings</b>				
Acquisition cost Jan. 1			9 430	
Increases				9 430
<b>Book value Dec. 31</b>			<b>9 430</b>	<b>9 430</b>
<b>Other shares and holdings</b>				
Acquisition cost Jan. 1	1 443	1 470	1 267	1 161
Acquired companies, original acquisition cost	1			
Increases	7			133
Decreases, discontinuing operations	-7			
Other decreases	-9	-27	-9	-27
Transfers between items	-329		-329	
<b>Book value Dec. 31</b>	<b>1 106</b>	<b>1 443</b>	<b>929</b>	<b>1 267</b>
<b>Other receivables</b>				
Acquisition cost Jan. 1		8		
Transfers between items	329		329	
Decreases	-15	-8	-15	
<b>Book value Dec. 31</b>	<b>314</b>		<b>314</b>	
<b>Other investments, total</b>	<b>1 420</b>	<b>1 443</b>	<b>1 242</b>	<b>1 267</b>
<b>Investments total</b>	<b>23 569</b>	<b>22 645</b>	<b>42 481</b>	<b>40 497</b>

## Notes to the financial statements (15)

	Group holding-%	Parent company holding-%	
<b>15. SHARES AND HOLDINGS</b>			
<b>Group undertakings</b>			
<b>Owned by the parent company</b>			
Suomen Rehu Ltd, Helsinki	100.00		100.00
Avena Nordic Grain Oy, Helsinki	100.00		100.00
Apetit Kala Oy, Kuopio	50.91		50.91
Harviala Oy, Janakkala	100.00		100.00
Cibarius Oy, Turku	100.00		100.00
7 non-operative companies, Säköylä	100.00		100.00
<b>Owned by other Group undertakings</b>			
Lännen Rehu Oy, Säköylä	100.00		
Hiven Oy, Paimio	100.00		
SIA Baltic Feed, Latvia	100.00		
Rehu Eesti Oü, Estonia	100.00		
ZAO Avena St. Petersburg, Russia	100.00		
<b>Associated and participating interest undertakings</b>			
<b>Associated undertakings</b>			
Sucros Ltd, Helsinki	20.00		20.00
Ateriamestarit Oy, Raisio	50.00		50.00
Movere Oy, Helsinki	33.33		
Farmit Website Oy, Helsinki	50.00		
Ab Silva Seafood Oy, Kaskinen	10.18		
<b>Participating interest undertakings</b>			
Lannen Polska Sp. z o.o., Poland	19.00		19.00
Mildola Oy, Kirkkonummi	17.50		
<b>Other shares and holdings and connection charges owned by the parent company</b>			
	Number of shares	Book value of shares EUR 1 000	Market value of shares EUR 1 000
<b>Shares of listed companies</b>			
Kesko Corporation, B, Helsinki	100 000	709	1 795
OMX AB (publ), Stockholm	37 800	15	357
Raisio Group plc, K, Raisio	6 000	10	11
Neomarkka plc, B, Helsinki	280	2	2
Elisa Communications Corporation, A, Helsinki	1 185	4	14
<b>Other</b>			
Shares and holdings		188	
Connection charges		314	
<b>Total</b>		<b>1 242</b>	

## Notes to the financial statements (16 – 18)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>16. STOCKS</b>				
Raw materials and consumables	18 266	21 085	2 135	2 384
Work in progress	906	2 492	140	123
Finished products/goods	26 773	56 630	9 743	9 767
Advance payments	6	38	6	
Total	45 951	80 245	12 024	12 274
<b>17. LONG-TERM RECEIVABLES</b>				
Loans receivable from Group undertakings			1 404	1 204
<b>18. CURRENT RECEIVABLES</b>				
Accounts receivable	30 764	37 774	9 397	10 427
<b>Amounts owed by the Group undertakings</b>				
Accounts receivable			261	524
Loans receivable			30 951	38 593
Prepayments and accrued income			1 510	4 251
Total			32 722	43 368
<b>Amounts owed by the associated and participating interest undertakings</b>				
Accounts receivable	2 406	1 102	2 320	1 080
Loans receivable	62			
Prepayments and accrued income	79	51	79	
Total	2 547	1 153	2 399	1 080
Other receivables	527	1 918		93
<b>Prepayments and accrued income</b>				
Raw materials and services	594	711		
Warranty indemnities		337		
Insurance indemnities	252			
Pension assurance and other legal assurances	374	744	355	489
Tax compensation receivables	1 228	1 813	784	1 512
Other	745	1 713	256	424
Total	3 193	5 318	1 395	2 425
<b>Current receivables total</b>	<b>37 032</b>	<b>46 162</b>	<b>45 913</b>	<b>57 391</b>

## Notes to the financial statements (19)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>19. CHANGES IN CAPITAL AND RESERVES</b>				
Share capital Jan. 1	12 245	12 245	12 245	12 245
Targeted share issue	390		390	
Share capital Dec. 31	12 635	12 245	12 635	12 245
Share issue premium account Jan. 1	21 443	21 443	21 441	21 441
Share issue premium	1 950		1 950	
Deduction of share issue premium account	-2			
Share issue premium account Dec. 31	23 391	21 443	23 391	21 441
Reserve for own shares Jan. 1	778	778	778	778
Reserve for own shares Dec. 31	778	778	778	778
Capital reserve account Jan. 1	59	45		
Transfer from retained earnings	16	14		
Deduction of capital reserve account	-51			
Capital reserve account Dec. 31	24	59		
Contingency reserve Jan. 1	7 232	7 232	7 232	7 232
Contingency reserve Dec. 31	7 232	7 232	7 232	7 232
Retained earnings Jan. 1	44 881	45 402	29 886	30 318
Transfer from previous year profit	6 731	2 415	5 803	1 385
Dividend distribution	-3 937	-1 817	-3 937	-1 817
Transfer to capital reserve account	-16	-14		
Changes and translation differences during elimination	-202	-1 105		
Retained earnings Dec. 31	47 457	44 881	31 752	29 886
Profit/loss for the financial year	5 974	6 731	-1 709	5 803
Preferred capital loans Jan. 1	1 682	1 682		
Decrease of preferred capital loans	-1 682			
Preferred capital loans Dec. 31		1 682		
<b>Capital and reserves Dec. 31</b>	<b>97 491</b>	<b>95 052</b>	<b>74 079</b>	<b>77 385</b>
<b>Distributable funds</b>				
Contingency reserve	7 232	7 232	7 232	7 232
Retained earnings	47 457	44 882	31 752	29 886
Profit/loss for the financial year	5 974	6 731	-1 709	5 803
./.Activated formation expenses		-4		
./.Balance sheet provisions included in capital and reserves	-8 230	-7 448		
./.Balance sheet provisions of associated undertakings included in capital and reserves	-3 872	-3 895		
<b>Distributable funds Dec. 31</b>	<b>48 561</b>	<b>47 498</b>	<b>37 275</b>	<b>42 921</b>

## Notes to the financial statements (20 – 22)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>20. ACCUMULATED APPROPRIATIONS</b>				
Accumulated depreciation in excess of plan	15 824	15 086	7 872	8 453
Share of capital and reserves	11 709	10 711		
-transferred to minority interest	-128	-638		
-utilized to elimination of subsidiary holdings	-3 352	-2 624		
Including in capital and reserves	8 229	7 449		
<b>21. PROVISIONS</b>				
Guarantee provision		151		
Provision for expenses incurred by Machinium Group	2 095	1 908	2 095	1 000
Total	2 095	2 059	2 095	1 000
<b>22. DEFERRED TAX RECEIVABLES AND DEFERRED TAX LIABILITY</b>				
<b>Deferred tax receivables</b>				
From accruals	659	420	655	290
<b>Deferred tax liability</b>				
From appropriations	4 114	4 375		

## Notes to the financial statements (23)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>23. LIABILITIES</b>				
<b>Long-term liabilities</b>				
Loans from credit institutions	23 104	34 797	12 800	19 200
Pension loans		6 749		
Other liabilities		2 343		
Total	23 104	43 889	12 800	19 200
<b>Debts falling due after five or more years</b>				
Loans from credit institutions	3 025			
<b>Current liabilities</b>				
Loans from credit insitutions	10 157	11 977	6 400	6 400
Pension loans		1 101		
Advances received	54	2 447	27	38
Accounts payable	24 207	36 537	5 495	5 951
Total	34 418	52 062	11 922	12 389
<b>Amounts owed to Group companies</b>				
Accounts payable			26	13
Other liabilities			63	63
Accruals and deferred income			6 460	3 576
Total			6 549	3 652
<b>Amounts owed to associated and participating interest undertakings</b>				
Accounts payable	6 829	8 393	5 071	5 961
<b>Other current liabilities</b>				
<b>Accrued expenses and deferred income</b>				
Holiday pay reserve including social security expenses	4 817	5 649	1 692	1 608
Other salaries and fees including social security expenses	1 158	1 522	699	448
Raw materials and services	3 100	3 109	88	554
Interests on the loans	320	503	245	309
Income taxes	1 438	1 912	554	687
Other	3 689	4 947	202	233
Total	14 522	17 642	3 480	3 839
<b>Current liabilities, total</b>	<b>75 032</b>	<b>99 427</b>	<b>40 900</b>	<b>41 612</b>

## Notes to the financial statements (24)

EUR 1000	Consolidated		Parent company	
	2004	2003	2004	2003
<b>24. CONTINGENT LIABILITIES</b>				
<b>Debts against which mortgages have been given</b>				
Pension loans		7 850		
Loans from credit institutions	31 683	46 609	19 200	25 600
<b>Mortgages given for debts</b>				
Real estate mortgages	34 916	32 546	18 888	18 888
Corporate mortgages	51 407	76 021	30 071	30 071
Shares pledged	3 600	3 600	3 600	3 600
<b>Other securities given</b>				
Corporate mortgages	177	6 939		
Pledges	5	8	4	4
<b>Leasing liabilities</b>				
Falling due during the following year	534	978	196	322
Falling due at later date	446	1 074	219	222
<b>Contingent liabilities for own commitments</b>				
Guarantees			420	340
Repurchasing commitments	158	18 995	158	358
Other commitments	471	2 430		
<b>Contingent liabilities on behalf of the Group companies</b>				
Guarantees			11 986	18 698
<b>Contingent liabilities on behalf of the associated undertakings</b>				
Guarantees	210			
<b>Other contingent liabilities</b>				
Redemption liability of leased buildings	2 472	2 613	2 472	2 613
<b>Outstanding derivative instruments</b>				
Forward currency contracts				
Market value	84	-300		
Value of underlying instruments	3 306	9 456		
Interest rate swaps				
Market value	-653	-271	-653	-271
Value of underlying instruments	25 000	25 000	25 000	25 000
Raw material futures				
Market value	117	-469		
Value of underlying instruments	4 134	10 646		

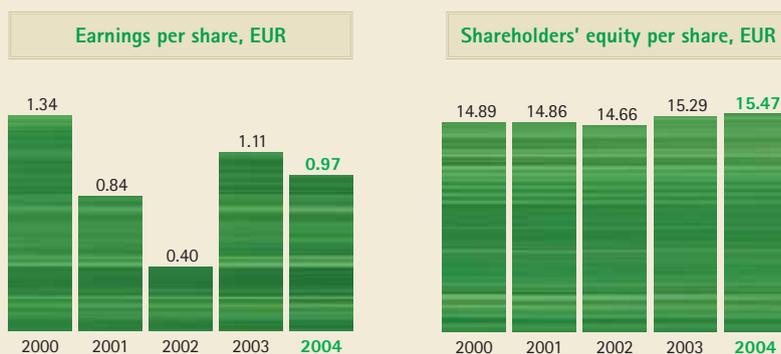
# Key indicators

Financial indicators	2004	2003	2002	2001	2000
<b>Scope of operations</b>					
Net turnover, EUR 1000	473 795	492 015	283 418	254 118	261 680
Change, %	-3.7	93.6	11.5	-2.9	16.0
Food Division, %	27.6	23.4	42.6	47.9	49.5
Agricultural Division, %	62.1	57.4	25.0	10.7	9.8
Machinium Division, %	10.3	19.2	32.4	41.4	40.7
Exports from Finland, EUR 1000	48 467	48 565	26 823	13 627	15 617
Export share of net turnover, %	10.2	9.9	9.5	5.4	6.0
Gross investments in non-current assets, EUR 1000	11 072	9 547	47 287	3 880	7 888
% of net turnover	2.3	1.9	16.7	1.5	3.0
R & D expenses, EUR 1000	3 059	3 216	1 713	1 522	1 428
% of net turnover	0.6	0.7	0.6	0.6	0.5
Average number of personnel	1 072	1 161	993	1 010	1 073
Net turnover/employee, EUR 1000	442	424	285	252	244
Financial income/expenses(-), net, EUR 1000	-1 070	-3 326	-3 241	-861	-376
<b>Profitability</b>					
Operating profit, EUR 1000	8 722	11 694	3 326	5 691	9 026
% of net turnover	1.8	2.4	1.2	2.2	3.4
Profit before extraordinary items, EUR 1000	7 652	8 368	-86	4 830	8 728
% of net turnover	1.6	1.7	0.0	1.9	3.3
Profit before taxes and minority interests, EUR 1000	7 652	8 368	-86	4 830	8 728
% of net turnover	1.6	1.7	0.0	1.9	3.3
Profit for the financial year, EUR 1000	5 974	6 731	2 415	5 067	8 181
% of net turnover	1.3	1.4	0.9	2.0	3.1
Return on equity, % (ROE)	6.4	6.0	0.5	3.4	7.2
Return on investment, % (ROI)	6.7	7.7	2.7	6.4	7.9
<b>Financial and economic status</b>					
Current ratio	1.3	1.4	1.6	2.2	1.9
Equity ratio, %	48.5	39.5	36.5	57.3	51.7
Net gearing, %	35.9	65.4	75.4	4.0	15.1
Non-current assets, EUR 1000	109 561	109 832	112 028	66 826	70 170
Current assets, EUR 1000	93 891	139 885	150 910	101 363	120 455
Capital and reserves, EUR 1000	97 491	95 052	91 243	92 500	92 710
Distributable funds, EUR 1000	48 561	47 498	47 357	47 981	48 315
Liabilities, EUR 1000	102 250	147 691	165 345	70 024	90 334
Interest-bearing liabilities, EUR 1000	46 172	73 650	83 888	24 887	45 626
Balance sheet total, EUR 1000	203 452	249 717	262 938	168 189	190 625

# Key indicators

Share data	2004	2003	2002	2001	2000
<b>Earnings and dividend</b>					
Earnings per share, EUR	0.97	1.11	0.40	0.84	1.34
Nominal dividend per share, EUR	0.65 <sup>1)</sup>	0.65	0.30	0.60	0.84
Adjusted dividend per share, EUR	0.65	0.65	0.30	0.60	0.84
Dividend per earnings, %	67.0	58.5	75.2	71.8	62.9
Effective dividend yield, %	5.4	5.5	2.9	5.1	6.6
P/E ratio	12.4	10.6	25.6	14.0	7.2
<b>Shareholders' equity per share, EUR</b>	<b>15.47</b>	<b>15.29</b>	<b>14.66</b>	<b>14.86</b>	<b>14.89</b>
<b>Share performance, EUR</b>					
Adjusted closing price	12.05	11.75	10.20	11.70	12.80
Lowest price during the year	11.00	8.20	8.60	9.66	10.22
Highest price during the year	14.50	12.14	11.90	12.50	13.50
Average price during the year	12.57	10.18	10.54	10.61	11.93
<b>Share turnover</b>					
Share turnover, 1000 pcs	1 779	345	340	381	347
Turnover ratio, %	28.6	5.6	5.6	6.2	5.4
<b>Share capital, EUR 1000</b>	<b>12 635</b>	<b>12 245</b>	<b>12 245</b>	<b>12 245</b>	<b>10 297</b>
<b>Market capitalization, EUR 1000</b>	<b>76 127</b>	<b>71 940</b>	<b>62 450</b>	<b>71 634</b>	<b>78 374</b>
<b>Dividends, EUR 1000</b>	<b>4 064<sup>1)</sup></b>	<b>3 937</b>	<b>1 817</b>	<b>3 635</b>	<b>5 113</b>
<b>Number of shares</b>					
Number of shares	6 317 576	6 122 576	6 122 576	6 122 576	6 122 576
Average adjusted number of shares	6 160 151	6 057 576	6 057 576	6 061 711	6 121 061
Adjusted number of shares at the end of the financial year	6 252 576	6 057 576	6 057 576	6 057 576	6 079 976

1) Board of Directors' proposal



# Calculation of financial ratios

## Financial indicators

Return on equity, % (ROE)	=	$\frac{\text{Profit/loss before extraordinary items less taxes} \\ + \text{ tax on extraordinary items}}{(\text{Shareholders' equity} - \text{own shares} - \text{preferred} \\ \text{capital loans} + \text{minority interest}) \text{ average}}$	x 100
Return on investment, % (ROI)	=	$\frac{\text{Profit/loss before extraordinary items} \\ + \text{ interest paid and other financial expenses}}{\text{Capital employed (average)}}$	x 100
Capital employed	=	Balance sheet total - own shares - interest-free accounts payable and accrued liabilities, advance payments received, deferred tax liability, obligatory provisions	
Current ratio	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$	
Equity ratio, %	=	$\frac{\text{Shareholders' equity} - \text{own shares} \\ - \text{preferred capital loans} + \text{minority interest}}{\text{Balance sheet total} - \text{own shares} - \text{advance payments received}}$	x 100
Net gearing ratio, %	=	$\frac{\text{Interest-bearing net liabilities}}{\text{Shareholders' equity} - \text{own shares} - \text{preferred capital loans}}$	x 100
Interest-bearing net liabilities	=	Interest-bearing liabilities - interest-bearing deposits and receivables	

## Share data

Earnings per share	=	$\frac{\text{Profit/loss before extraordinary items less taxes} \\ + \text{ tax on extraordinary items} + \text{ minority interest}}{\text{Average number of shares (adjusted for share issues)}}$	
Adjusted dividend per share	=	$\frac{\text{Dividend for the financial year}}{\text{Share issue coefficient}}$	
Dividend per earnings, %	=	$\frac{\text{Adjusted dividend}}{\text{Earnings per share}}$	x 100
Effective dividend yield, %	=	$\frac{\text{Adjusted dividend}}{\text{Adjusted share price}}$	x 100
Price/earnings ratio (P/E)	=	$\frac{\text{Adjusted share price}}{\text{Earnings per share}}$	
Shareholders' equity per share	=	$\frac{\text{Shareholders' equity} - \text{own shares} - \text{preferred capital loans}}{\text{Number of shares on Dec. 31, adjusted for share issues}}$	
Adjusted share price	=	$\frac{\text{Closing price on Dec. 31}}{\text{Share issue coefficient}}$	
Market capitalization	=	Number of shares x adjusted share price	

# Shares, share capital and shareholders

## Registration and share quotation

Lännen Tehtaat plc's shares are in the book-entry system and have been quoted on Helsinki Stock Exchange since 1989. The symbol for the shares is LTE1S and trading lot is 50 shares.

## Shares and voting rights

The shares of Lännen Tehtaat plc are all in one series. All shares carry the same voting and dividend rights. The Articles of Association prescribe that the number of votes a shareholder is entitled to exercise cannot exceed one tenth of the votes represented at a shareholders' meeting.

## Share capital

The minimum share capital is EUR 10,000,000 and the maximum EUR 40,000,000. The shares have a nominal value of EUR 2 each. Share capital at the beginning of the financial year was EUR 12,245,152 and there were 6,122,576 shares.

The Annual General Meeting of Lännen Tehtaat plc, held on March 24, 2004, authorized the Board of Directors to decide on increasing the share capital through a new issue and/or by taking a convertible loan in one or more tranches. In the new issue and/or new issue based on a convertible bond, the share capital may be increased by a maximum of EUR 1,222,514, which would mean a maximum of 611,257 shares for subscription. The authorization remains valid for one year from the date of the AGM. Increasing the share capital and/or taking a convertible bond is permitted as an exception to the shareholders' right of pre-emption provided that there is a weighty financial reason for such an exception.

In June, the Board of Directors used the authorization given by the AGM to increase the company's share capital. The increase in share capital took the form of a targeted share issue in which Antti Räsänen subscribed 195,000 Lännen Tehtaat plc shares in return for a contribution in kind. The subscription price was EUR 12.00. The increase in share capital was entered in the Trade Register on June 22, 2004, and trading in the new shares on the Helsinki Stock Exchange began on June 23, 2004.

Following the increase in share capital, the new total number of shares at the end of the financial year was 6,317,576 and the share capital EUR 12,635,152.

## Own shares

At the end of the financial period the company held 65,000 company shares acquired in 2000-2001, representing 1.0% of total share capital and votes. Their acquisition cost in the Lännen Tehtaat plc balance sheet is EUR 778,475, i.e. EUR 11.98 per share. These shares carry no voting rights and no dividend is paid on them.

Lännen Tehtaat plc's Annual General Meeting on March 24, 2004, authorized the Board to decide to surrender these shares, which number 65,000 in all. This can be done in connection with corporate acquisitions or other arrangements, or for some other similar purpose, or they can be sold in public trading on Helsinki Stock Exchange. The authorization is valid for one year as of the AGM.

The authorization to surrender the company's own shares had not been exercised by February 15, 2005.

## Lännen Tehtaat plc's share options

The targeted warrant bond to the Group's management and the management of its different units made in May 1997 was repaid on April 30, 2002. The validity period of the share options associated with the warrant bond expired on October 31, 2004. No options were used to subscribe shares.

## Flagging notices

May 28, 2004: Sampo Life Insurance Company Ltd reported a change in its shareholding in Lännen Tehtaat plc. Sampo Life Insurance Company Ltd now holds 4.44% of Lännen Tehtaat plc's total share capital and total votes.

June 24, 2004: Tapiola General Mutual Insurance Company and Tapiola Mutual Life Assurance Company, whose shareholdings are calculated together under the flagging regulations, reported a change in their shareholding on June 23, 2004. They now hold 8.6% of Lännen Tehtaat plc's total share capital and total votes. Tapiola General Mutual Insurance Company holds 5.91% of Lännen Tehtaat plc's votes and shares, and Tapiola Mutual Life Assurance Company holds 2.69% of Lännen Tehtaat plc's votes and shares.

November 5, 2004: Tapiola General Mutual Insurance Company and Tapiola Mutual Life Assurance Company, whose shareholdings are calculated together under the flagging regulations, reported a change in their shareholding on November 4, 2004. They now hold 7% of Lännen Tehtaat plc's total share capital and total votes. Tapiola General Mutual Insurance Company holds 4.3% of Lännen Tehtaat plc's votes and shares, and Tapiola Mutual Life Assurance Company holds 2.7% of Lännen Tehtaat plc's votes and shares.

## Dividend policy

The aim of the Lännen Tehtaat plc Board is to ensure that the share generates a good return and retains its value. Dividend policy supports this goal. At least half of earnings per share (EPS) is distributed as annual dividend. >>

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## Shares and shareholders

### Shareholders on February 11, 2005

Major shareholders	Number of shares	%	Number of votes	%
Raisio Group plc	477 500	7.6	477 500	7.6
Esko Eela	387 348	6.1	387 348	6.2
Valio Ltd	327 912	5.2	327 912	5.2
Pohjola Finland Value	250 000	4.0	250 000	4.0
Tapiola General Mutual Insurance Company	198 650	3.1	198 650	3.2
Ilmarinen Mutual Pension Insurance Company	153 800	2.4	153 800	2.5
Etra-Invest Oy	150 000	2.4	150 000	2.4
Antti Räsänen	130 000	2.1	130 000	2.1
Tapiola Mutual Life Assurance Company	129 600	2.1	129 600	2.1
Central Union of Agricultural Producers and Forest Owners (MTK)	125 485	2.0	125 485	2.0
Nominee-registered shares	462 169	7.3	462 169	7.4
Other shareholders	3 460 112	54.7	3 460 112	55.3
External ownership total	6 252 576	99.0	6 252 576	100.0
Owned by the company	65 000	1.1		
	6 317 576	100.0		

### Shares owned by corporate management

Regular and deputy members of the Supervisory Board and members of the Board of Directors and the President owned a total of 20,366 shares on February 11, 2005. This corresponds to 0.3% of share capital and voting rights.

### Distribution of shareholdings on February 11, 2005

Shares	Number of shareholders	% of shareholders	Number of shares	% of shares
1 – 100	3 898	46.8	173 698	2.7
101 – 1 000	3 983	47.8	1 305 028	20.7
1 001 – 10 000	404	4.9	912 091	14.4
10 001 – 40 000	19	0.2	351 926	5.6
40 001 –	23	0.3	3 512 851	55.6
Joint account			61 982	1.0
Total	8 327	100.0	6 317 576	100.0

### Distribution of ownership on February 11, 2005

	% of shareholders	% of shares
Companies	1.7	23.6
Financial and insurance institutions	0.4	11.3
Public organizations	0.6	8.3
Non-profit organizations	1.3	6.2
Private households	96.0	42.3
Foreign and nominee-registered		7.3
Joint account		1.0
Total	100.0	100.0

# Proposal of the Board for the distribution of profit

The Group's distributable funds totalled EUR 48,561,485.99 on December 31, 2004.

The Parent company's distributable funds were EUR 37,274,985.19.

The Board of Directors proposes that Lännen Tehtaat plc pay a dividend of EUR 0.65 per share, a total of EUR 4,064,174.40.

Helsinki, February 23, 2005

Tom v. Weymarn

Hannu Simula

Harri Eela

Aappo Kontu

Matti Lappalainen

Soili Suonoja

Erkki Lepistö

# Auditors' report

*To the shareholders of Lännen Tehtaat plc*

We have audited the accounting records, financial statements and administration of Lännen Tehtaat plc for the financial year 1 January – 31 December 2004. The financial statements prepared by the Board of Directors and the President, contain the Board's report, and the consolidated and parent company profit and loss accounts, balance sheets and notes to the financial statements. Based on our audit we express an opinion on these financial statements and administration.

We have conducted our audit in accordance with generally accepted auditing standards in Finland. These standards require that we conduct a sufficient examination of the annual accounts, as well as the accounting principles, disclosures and presentation of the financial statements, to obtain reasonable assurance that the financial statements are free of material misstatement. The purpose of our audit of the administration is to establish that the Supervisory Board, the Board of Directors and the President have complied with the rules of the Finnish Companies' Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations and financial position. The financial statements, including the consolidated statements, may be adopted, and the members of the Supervisory Board and the Board of Directors, and the President, may be discharged from liability for the financial period audited by us. The proposal of the Board of Directors concerning the disposal of the distributable funds is in compliance with the Finnish Companies' Act.

Säkylä, February 25, 2005

PricewaterhouseCoopers Oy  
Authorized Public Accountants

Kauko Lehtonen  
Authorized Public Accountant

Hannu Pellinen  
Authorized Public Accountant

# Supervisory Board statement

The Supervisory Board of Lännen Tehtaat plc has today examined the parent company and consolidated financial statements for 2004 and studied the Auditors' report. The Supervisory Board has no comments on the financial statements for 2004.

The following members of the Supervisory Board are in turn for retirement; Heikki Ellilä, Mari Kiviniemi, Hannu Lamminen, Juha Nevavuori and Helena Walldén. Paavo Mäkinen has resigned from his position as a member of the Supervisory Board as of March 1, 2005.

Säkylä, March 8, 2005

For the Supervisory Board

Tom Liljesteröm  
Chairman

Asmo Ritala  
Secretary



# Corporate governance

## Shareholders' meeting

The shareholders' meeting is the company's highest decision-making organ. The Annual General Meeting is held by the end of May each year. Shareholders' meetings are convened at the invitation of the company's Supervisory Board.

Lännen Tehtaat plc has one series of shares carrying one vote each at shareholders' meetings. The Articles of Association, however, limit the right of a single shareholder to exercise voting powers representing more than one tenth of the votes at any meeting.

## Supervisory Board

The Board of Directors and the President are in charge of corporate management, under the supervision of the Supervisory Board. The Supervisory Board comprises a minimum of 15 and a maximum of 20 members elected by the shareholders' meeting. Persons 65 years of age or older are no longer eligible. The term of the members of the Supervisory Board is three years and ends at the close of the third AGM following election. The terms of one third (or the number nearest to it) must end each year. Apart from this, the permanent corporate personnel may elect a maximum of four members, with personal deputies, from among themselves. The Supervisory Board currently has 19 members elected by the shareholders' meeting and 4 personnel representatives.

The function of the Supervisory Board is

- ▶ to supervise corporate management by the Board of Directors and the President
- ▶ to decide on the number of members of the Board, to elect the members of the Board and to fix the fees and other remuneration payable to the members of the Board
- ▶ to elect a chairman and deputy chairman from among the members of the Board
- ▶ to elect the President and to decide his/her salary and other benefits
- ▶ to decide on any substantial changes in the company's business
- ▶ to issue an opinion on the financial statements and the auditors' report
- ▶ to convene shareholders' meetings and to prepare the issues to be dealt with there.

The other duties of the Supervisory Board are prescribed in the Companies Act.

The Supervisory Board usually meets three times a year. In 2004, the Supervisory Board met three times.

## Board of Directors

The Board of Directors bears the general responsibility for corporate management in keeping with the law and the Lännen Tehtaat plc Articles of Association. In accordance with a decision made by the Supervisory

Board, the Board of Directors comprises a minimum of four and a maximum of seven members, one of them the President. A member must not be 65 or older at the time of election. The current Board has seven members.

The Board members are elected for one year. The term of a Board member comes to an end at the close of the Supervisory Board meeting convened following the AGM that follows the election.

The Board usually meets once a month. In 2004, the Board met 12 times. The average attendance rate of members was 98.4%.

## President and Deputy President

The President is elected by the Supervisory Board. The President may have one or more deputies appointed by the Board of Directors.

Erkki Lepistö has been President from April 1, 2001. The key conditions of the President's terms of service are defined in his contract. The agreed retirement age for the President is 60 and the period of notice is six months. Should the President be given notice by the company, he will be entitled to a severance package equivalent to 12 months' pay. The President was paid a total of EUR 270,282 in 2004 in the form of salary and other remuneration.

## Auditors

In accordance with the Articles of Association, Lännen Tehtaat plc has a minimum of two and a maximum of three auditors, who must be Authorized Public Accountants or Accounting Companies.

Lännen Tehtaat's 2004 Annual General Meeting decided to elect two auditors for the company. The auditors chosen were Kauko Lehtonen, APA, and PricewaterhouseCoopers Oy Authorized Public Accountants, with Hannu Pellinen APA as the auditor with principal responsibility. Auditors for the Lännen Tehtaat Group's subsidiaries are normally member firms of PricewaterhouseCoopers or auditors working for such firms.

The auditors report their observations to the Board of Directors at least once a year and issue an auditors' report to the company's shareholders in conjunction with the annual financial statements.

The auditors in Finland and elsewhere were paid a total of EUR 174,575 in 2004 for their auditing of the Lännen Tehtaat Group companies' accounts. In addition to the auditors' fees, companies belonging to PricewaterhouseCoopers were paid a total of EUR 33,992 in consultancy fees.

## Salaries and remuneration

The Annual General Meeting decides on the fees paid to the Supervisory Board. As decided by the AGM on March 24, 2004, monthly fee paid to the Supervisory Board's chairman is EUR 350, and to the deputy

chairman EUR 300. The meeting allowance paid to the chairman and the members of the Supervisory Board is EUR 200. The members of the Supervisory Board were paid in 2004 a total of EUR 30,679 in allowances.

The Supervisory Board decides on the fees for Board meetings and any other remuneration, including the President's salary and other benefits. As decided by the Supervisory Board on June 16, 2004, the monthly fee paid to the chairman of the Board of Directors is EUR 2,000, and to the Board members EUR 1,250. In 2004, the members of the Board of Directors received a total of EUR 80,136 in allowances.

### Corporate Management

The Lännen Tehtaat plc Board of Directors appoints the members of the Corporate Management and also approves the main terms of the employment contracts of the Corporate Management members. The Corporate Management members are responsible for drawing up strategy options and for implementing the strategies chosen by the Board of Directors. The Corporate Management members are also responsible for the operational planning of Lännen Tehtaat's business units and Group companies within the framework of the targets set by the President, and for implementation of the operational plans.

### Insider issues

The members and deputy members of the company's Board of Directors and Supervisory Board, the President, deputy President and auditors, including the auditing firm's auditor with principal responsibility for Lännen Tehtaat, are all categorized as permanent

insiders of Lännen Tehtaat plc by virtue of the Securities Markets Act. In accordance with the decision of the company, those persons categorized as insiders on the basis of their duties are the Corporate Management members, IT Director, Head of Finance, Financial Manager, Director of Business Development, Corporate Counsel and Executive Secretaries. In all, the company has about 50 permanent insiders.

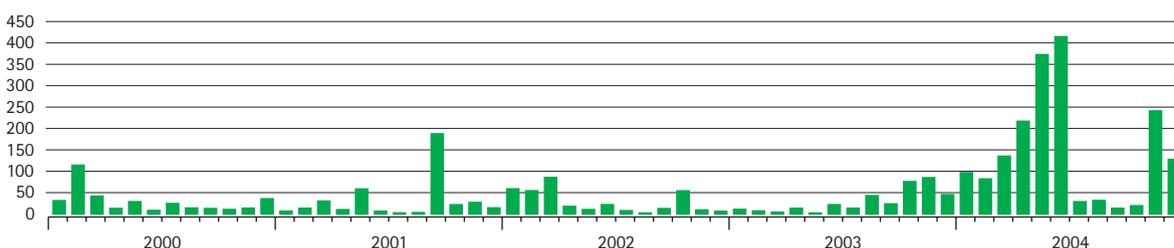
Lännen Tehtaat plc's insider trading regulations approved by the Board of Directors came into effect on December 21, 2004. They are based on the Guidelines for Insider Trading approved on October 28, 1999 by the Board of Directors of Helsinki Stock Exchange. The regulations include guidance for permanent and project-specific insiders and on the organization and procedures concerning insider administration.

A trading restriction is in force within the company, which forbids the company's permanent insiders to trade in Lännen shares 21 days prior to publication of Lännen Tehtaat's interim reports and its financial statements release.

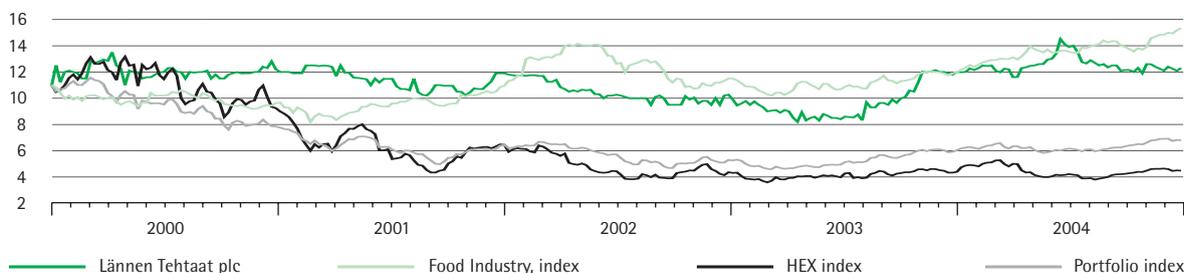
The names of those persons listed as company insiders can be viewed on the company web pages at [www.lannen.fi/en/investor\\_information](http://www.lannen.fi/en/investor_information) (under 'Corporate Governance').

Lännen Tehtaat plc's corporate governance arrangements are being amended to comply with the Corporate Governance Recommendation for Listed Companies, which came into effect on July 1, 2004. The revised version of Lännen Tehtaat plc's Corporate Governance is available on the Lännen Tehtaat website at [www.lannen.fi/en/investor\\_information](http://www.lannen.fi/en/investor_information) (under 'Corporate Governance').

### Share trading, 1000 shares



### Share performance, EUR



# Risk management

## Financial risks

Financial risks are the risks that the company's financial performance or its cash flow could weaken due to unfavourable changes in the financial markets. The aim in managing financing risks is to ensure, by means of financing, that the Lännen Tehtaat Group's financial performance meets the targets set and to safeguard the Group's liquidity in all situations. Financing and risk management are the responsibility of the Financing Department, which operates under the Director of Finance.

### Liquidity risk

The liquidity risk is the risk that the company may not have enough liquid funds or be unable to acquire enough funds to meet the needs of its business operations. The aim of liquidity risk management is to maintain sufficient liquid funds and credit facilities to ensure that there is always enough financing for the Group's business operations. The cash flows of the Group companies are netted with aid of the Group's internal bank and Group accounts. To manage liquidity, the Group has a commercial paper programme worth EUR 50 million and also long-term binding credit facilities agreed with financial institutions; a total of EUR 23 million was available in credit on December 31, 2004. The total amount of commercial papers issued was EUR 13 million. Liquidity risk management is the responsibility of the parent company's Financing Department.

### Interest-rate risk

To manage interest-rate risks, the Group's borrowing is spread between fixed and floating interest-rate instruments with the aid of derivative contracts. The aim of interest-rate risk management is to hedge against the adverse effects of a rise in interest rates. All the Group's interest-rate risks are hedged by the Lännen Tehtaat plc Financing Department. The instruments available in interest-rate risk management are forward-rate agreements, interest-rate options and interest-rate swaps.

### Exchange-rate risk

The Group's exchange-rate risks mainly arise from its commercial accounts payable and sales receivable. The US dollar represents the most significant exchange-rate risk. All the Group's financially significant currency positions are hedged. Currency hedging can also be made against a probable future open currency position. The instruments available in currency hedging are forward currency contracts, currency options and currency swaps. The Group's Financing Department is responsible for currency risk hedging, with the

exception of the grain trade business, for which there are separate currency hedging arrangements related to commercial agreements. The grain trade currency hedges are conducted in accordance with the risk management policy specifically defined for the purpose, and this is monitored by the Group's Financing Department.

### Counterparty risk

With financial instruments the risk is that the counterparty may be unable or unwilling to meet its obligations. The Lännen Tehtaat Group follows the principle that derivative contracts should be made only with domestic or foreign banks that have a good credit standing. Raw material derivative contracts can be made through the applicable commodity exchanges. Within confirmed limits, liquid funds are invested in investment targets with a good credit standing. The credit standing assessment of investments is the responsibility of the Group's Financing Department.

## Other risk management

### Raw material risk

The price risk with raw materials lies in the uncertainty associated with the difference in the timing of raw material purchases and their use or sale. The management of commodity-price risks is the responsibility of the Group companies and is conducted in accordance with the risk management policies set for them. Raw material hedges can be made using raw material futures and options quoted on the exchanges. The Group companies report on their raw material positions regularly to their own Board of Directors and to the parent company's Financing Department. The Financing Department ensures that open positions and hedges are in accordance with the risk management principles set for the Group companies.

### Electricity price risk

The Lännen Tehtaat Group hedges against price variations in the electricity it purchases by agreeing power supply and electricity derivative contracts of different lengths. Management of the electricity risk is governed by the Group's separate risk policy on electricity supply.

### Damage and loss risks

The aim of the Group's management of damage and loss risks is to hedge against damage and loss risks that are insurable, with the purpose of safeguarding the continuity of the Group companies' operations. The damage and loss risks and the insurance coverage are assessed annually through risk surveys.

# Supervisory Board and Auditors

## Supervisory Board, December 31, 2004

### Members elected by the Shareholders' meeting

**Tom Liljeström**, b. 1959

Group Director of The Tapiola Group  
Chairman since 1996, member since 1994

*Other positions of trust:*

Vice Chairman of the Board: Tapiola Mutual Pension Insurance Company, Tapiola Mutual Life Assurance Company, Tapiola General Mutual Insurance Company, Tapiola Corporate Life Insurance Company Ltd, Metsä Tissue Corporation

Member of the Board: Finntemet Oy, Tapiola Asset Management Ltd, Tapiola Bank Ltd

Shareholding in Lännen Tehtaat: – (change in 2004: –)

**Juha Nevavuori**, b. 1942

Deputy Chairman since 2003, member since 1973,  
Shareholding in Lännen Tehtaat: 646 shares (change in 2004: –)  
In turn to resign

**Antti Bärlund**, b. 1945

Member since 1995

**Heikki Ellilä**, b. 1945

Member since 1996  
In turn to resign

**Matti Eskola**, b. 1950

Member since 1991

**Heikki Halkilahti**, b. 1947

Member since 1990

**Jussi Hantula**, b. 1955

Member since 1995

**Börje Helenelund**, b. 1951

Member since 1998

**Pasi Jaakkola**, b. 1941

Member since 1982

**Jouni Kaitila**, b. 1963

Member since 1991

**Mari Kiviniemi**, b. 1968

Member since 1996  
In turn to resign

**Hannu Lamminen**, b. 1951

Member since 1996  
In turn to resign

**Markku Länninki**, b. 1949

Member since 2003

**Ilkka Markkula**, b. 1960

Member since 2003

**Paavo Mäkinen**, b. 1955

Member since 2002  
Resigned on March 1, 2005

**Samu Pere**, b. 1968

Member since 1998

**Esa Ruohola**, b. 1946

Member since 1998

**Mikko Soro**, b. 1950

Member since 1998

**Helena Walldén**, b. 1953

Member since 1996  
In turn to resign

### Personnel representatives

**Aila Koivuniemi**, b. 1944

Member since 2000  
(personal deputy member Marja-Liisa Marttila)

**Paula Paasonen**, b. 1953

Member since 2003  
(personal deputy member Timo Kaila)

**Esa Paganus**, b. 1963

Member since 1997  
(personal deputy member Harri Ollonquist)

**Marja Rusi**, b. 1966

Member since 2004

### Auditors

**Kauko Lehtonen**

Authorized Public Accountant

PricewaterhouseCoopers Oy

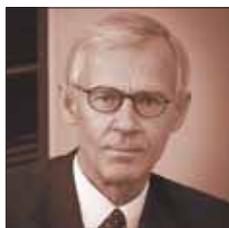
Authorized Public Accountants

Auditor with principal responsibility

**Hannu Pellinen**

Authorized Public Accountant

## Board of Directors, December 31, 2004



**Tom v. Weymarn, b. 1944**

Chairman since 2003, member since 1999

*Other positions of trust:*

Chairman of the Board: TeliaSonera AB

Member of the Board: CPS Color Group Oy, Boardman Oy, Hydrios Biotechnology Ltd, Telko Oy

Member of the Advisory Board: Industri Kapital, Summa Capital Oy

Shareholding in Lännen Tehtaat: 2 250 shares (change in 2004: -)



**Hannu Simula, b. 1947**

Farmer

Vice Chairman since 2003, member since 1998

*Other positions of trust:*

Member of the Board: Sucros Ltd

Shareholding in Lännen Tehtaat: 850 shares (change in 2004: -)

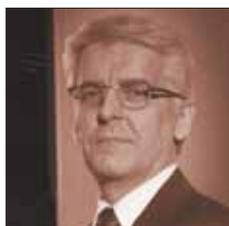


**Harri Eela, b. 1960**

Export Manager, Metso Panelboard Oy

Member since 2004

Shareholding in Lännen Tehtaat: - (change in 2004: -)



**Aappo Kontu, b. 1952**

President, Empower Oy

Member since 2004

*Other positions of trust:*

Member of the Board: Empower Oy, Headpower Oy, Vahterus Oy

Shareholding in Lännen Tehtaat: - (change in 2004: -)



**Matti Lappalainen, b. 1948**

Managing Director, Vaasan Et Vaasan Oy

Member since 2003

*Other positions of trust:*

Member of the Board: Finnish Food and Drink Industries' Federation, Vaasan Et Vaasan Oy

Shareholding in Lännen Tehtaat: 1 000 shares (change in 2004: -)



**Erkki Lepistö, b. 1955**

CEO, Lännen Tehtaat plc

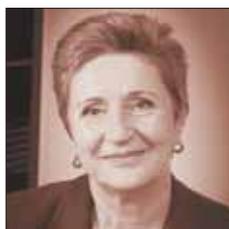
Member since 2001

*Other positions of trust:*

Member of the Supervisory Board: Tapiola General Mutual Insurance Company

Member of the Board: Finnish Food and Drink Industries' Federation, Finfood – Finnish Food Information Service

Shareholding in Lännen Tehtaat: 1 150 shares (change in 2004: +100)



**Soili Suonoja, b. 1944**

Professional board-member

Member since 2003

*Other positions of trust:*

Member of the Board: Alko Inc., Keski-Uusimaa Oy, Lassila Et Tikanoja plc, Nurmijärven Linja Oy, Outokumpu Oyj, Finland Post Corporation, The Finnish Road Enterprise

Shareholding in Lännen Tehtaat: 200 shares (change in 2004: -)

# Corporate Management, December 31, 2004



**Erkki Lepistö, b. 1955**  
CEO of Lännen Tehtaat plc since 2001  
Shareholding in Lännen Tehtaat: 1 150 shares  
(change in 2004: +100)



**Jukka Haikonen, b. 1955**  
President of Suomen Rehu Ltd  
since 2002, Director since 1996  
Shareholding in Lännen Tehtaat: -  
(change in 2004: -)



**Antti Kerttula, b. 1956**  
Director of Apetit since 1997, Director  
since 1994  
Shareholding in Lännen Tehtaat: -  
(change in 2004: -)



**Stina Hakulin, b. 1957**  
Director since 1999  
Shareholding in Lännen Tehtaat: -  
(change in 2004: -)



**Antti Räsänen, b. 1966**  
Managing Director of Apetit Kala Oy  
since 2004  
Shareholding in Lännen Tehtaat:  
130 000 shares  
(change in 2004: +130 000)



**Riitta Jaakkola, b. 1950**  
Director of Finance since 1998  
Shareholding in Lännen Tehtaat:  
200 shares (change in 2004: -)



**Jorma Salo, b. 1944**  
Director since 2004  
Shareholding in Lännen Tehtaat:  
54 shares (change in 2004: -)



**Ilkka Jaskari, b. 1947**  
Director of Lännen Sugar since 1988  
Shareholding in Lännen Tehtaat:  
80 shares (change in 2004: -)



**Kaija Viljanen, b. 1952**  
Managing Director of Avena Nordic  
Grain Oy since 1995  
Shareholding in Lännen Tehtaat: -  
(change in 2004: -)

# Addresses

## Lännen Tehtaat plc

Head Office  
Maakunnantie 4  
P.O. Box 100, FI-27801 Säköylä, Finland  
Tel. +358 10 402 00  
Fax +358 10 402 4022  
E-mail: [firstname.surname@lannen.fi](mailto:firstname.surname@lannen.fi)  
Internet: [www.lannen.fi](http://www.lannen.fi)

Domicile: Säköylä  
Business ID: 0197395-5

## Lännen Tehtaat plc units

### Apetit Säköylä

P.O. Box 130, FI-27801 Säköylä, Finland  
Tel. +358 10 402 4300  
Fax +358 10 402 4322  
[www.apetit.fi](http://www.apetit.fi)

### Apetit Espoo

Upseerinkatu 1  
P.O. Box 403, FI-02601 Espoo, Finland  
Tel. +358 10 402 00  
Fax +358 10 402 4455

### Apetit Turku

Iso-Heikkiläntie 6  
P.O. Box 32, FI-20201 Turku, Finland  
Tel. +358 10 402 00  
Fax +358 10 402 4622

### Apetit Pudasjärvi

Teollisuustie 3, FI-93100 Pudasjärvi, Finland  
Tel. +358 10 402 00  
Fax +358 10 402 4666

### Apetit Cultivation

P.O. Box 160, FI-27801 Säköylä, Finland  
Tel. +358 10 402 4400  
Fax +358 10 402 4422

### Räpi Experimental Farm

Huhdintie 32, FI-27710 Köyliö, Finland  
Tel. +358 10 402 4431

### Lännen Sugar

P.O. Box 110, FI-27801 Säköylä, Finland  
Tel. +358 10 402 4100  
Fax +358 10 402 4133  
[www.lannen.fi](http://www.lannen.fi)

### Lännen Plant Systems

P.O. Box 170, FI-27801 Säköylä, Finland  
Tel. +358 10 402 4700  
Fax +358 10 402 4722  
[www.lannenplantsystems.com](http://www.lannenplantsystems.com)

## Subsidiaries

### Apetit Kala Oy

Administration and production plant  
Mastotie 7, FI-70460 Kuopio, Finland  
Tel. +358 10 402 4500  
Fax +358 10 402 4520  
[www.apetit.fi](http://www.apetit.fi)

### Apetit Kala Oy

Production plant  
Vuosnaistentie 593 A, FI-23360 Kustavi,  
Finland  
Tel. +358 10 402 4500  
Fax +358 10 402 4588

### Apetit Kala Oy

Logistics centre  
Sementtitehtaankatu 5, FI-04260 Kerava,  
Finland  
Tel. +358 10 402 4500  
Fax +358 10 402 4573

### Suomen Rehu Ltd

Management and administration  
Rydönnotko 4  
P.O. Box 702, FI-20361 Turku, Finland  
Tel. +358 10 402 04  
Fax +358 10 402 7006  
[www.suomenrehu.com](http://www.suomenrehu.com)

### Suomen Rehu Ltd

Management and administration  
Upseerinkatu 1  
P.O. Box 401, FI-02601 Espoo, Finland  
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Fax +358 10 402 7103

### Suomen Rehu Ltd

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### Suomen Rehu Ltd

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P.O. Box 420, FI-65101 Vaasa, Finland  
Tel. +358 10 402 04  
Fax +358 10 402 7403

### Suomen Rehu Ltd

Päivölänkatu 40  
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Tel. +358 10 402 04  
Fax +358 10 402 7373

### Lännen Rehu Oy

P.O. Box 120, FI- 27801 Säköylä, Finland  
Tel. +358 10 402 7600  
Fax +358 10 402 7622  
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### Hiven Oy

Yrittäjätie 1  
FI-21531 Paimio, Finland  
Tel. +358 10 402 7700  
Fax +358 10 402 7752  
[www.hiven.fi](http://www.hiven.fi)

### SIA Baltic Feed

P.O. Box 70a, LV-3101 Tukums, Latvia  
Tel. +371 318 1127  
Fax +371 318 1132  
[www.balticfeed.com](http://www.balticfeed.com)

### Rehu Eesti Oü

Kadaka tee 76 A, EE-12618 Tallinn, Estonia  
Tel. +372 504 2142  
Fax +372 650 4795

### Avena Nordic Grain Oy

Upseerinkatu 1  
P.O. Box 402, FI-02601 Espoo, Finland  
Tel. +358 10 402 02  
Fax +358 10 402 2500  
[www.avena.fi](http://www.avena.fi)

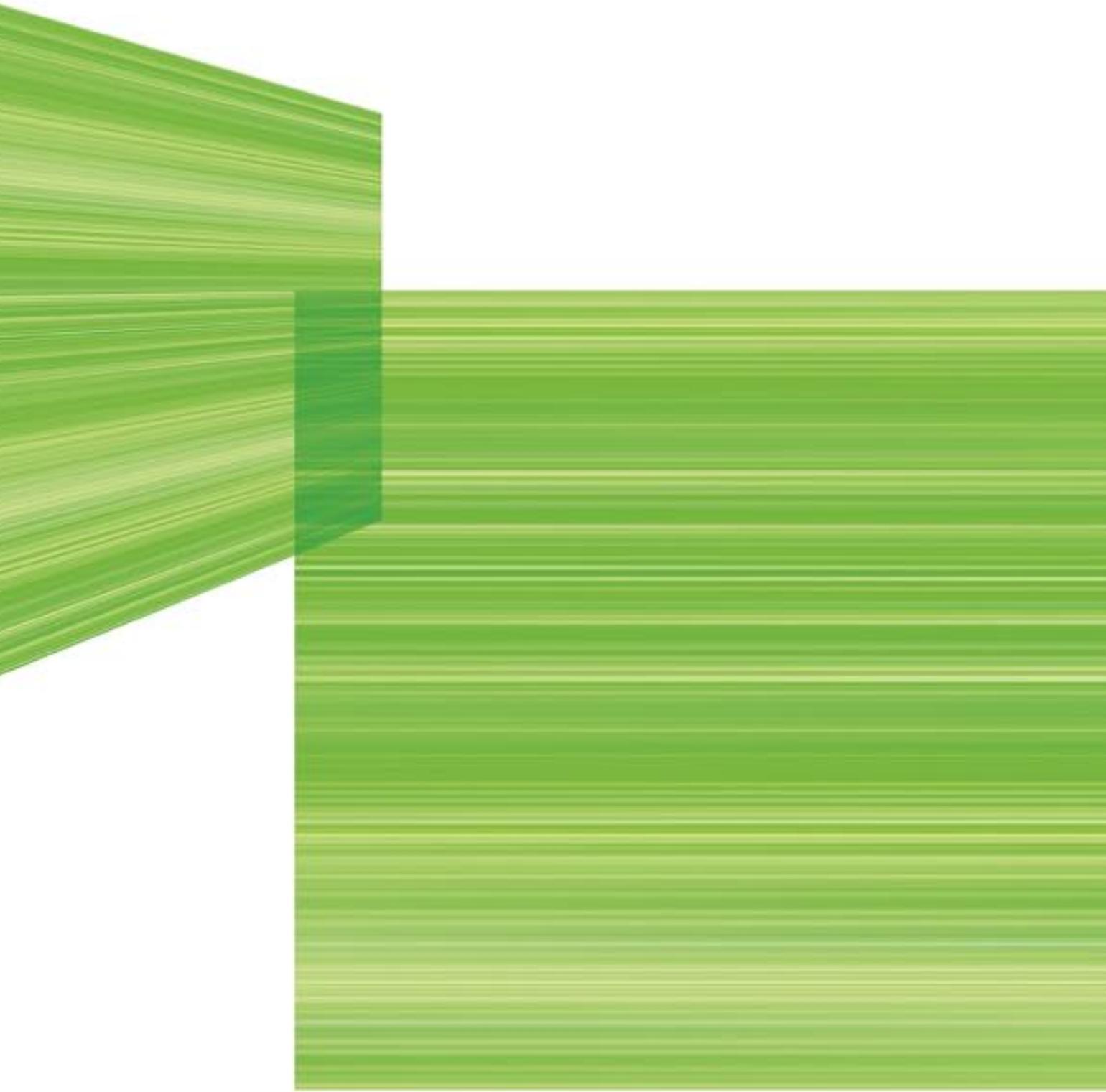
### ZAO Avena St. Petersburg

1 Artillerijskaja str., Europa House  
192204 St. Petersburg, Russia  
Tel. +7 812 279 3085  
Fax +7 812 279 3086

### Harviala Oy

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Tel. +358 10 402 6520  
Fax +358 10 402 6522

Updated contact information on our web pages at [www.lannen.fi/en](http://www.lannen.fi/en) under Contact information.



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lannen.tehtaat@lannen.fi  
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