

## Managing Director's Review

Furs can be classified as indulgence products that give delight to, and arouse strong emotions and feelings among, their wearers. Image plays as important a role in the fur business as tangible fur products. A raw-material supplier – an international fur auction house – must react swiftly to ever-changing market challenges and manage both the product and the related image while maintaining close and real-time relationships with the world's fashion community. In this respect, a strong brand is the key to success.

The financial year saw two major events relevant to the fur industry, the first relating to changes in SAGA's ownership base co-existing with an agreement we concluded with Norwegian fur breeders and a local fur auction company for the sale of their furs through Finnish Fur Sales, enabling us to provide added value by offering the world's most versatile range of fur skins at our auctions. Both changes will strengthen the company's position as a leading raw-material supplier to the international fashion industry while also widening and improving our range of services and contributing to the integration of the traditional fur trade and the fashion industry. From December 2004, Finnish Fur Sales will act as the only sales channel for fur skins eligible for the world's most famous fur trademark, SAGA.

We offer our customers all they need on a one-stop shopping basis: the required raw materials including ancillary purchase-related services, SAGA's most recent product innovations and the opportunity to make the most of the international fashion partnership network across the board. One sales channel means lower barriers and smoother interaction, pruning overlaps and providing scope for better-targeted and more effective international marketing efforts. This has also meant better-defined commercial goals. The company's decision to share SAGA

marketing costs in the rollout phase is a strong expression of our commitment: the SAGA brand forms an integral part of our corporate identity.

Encouraged by the one and single sales channel and the new SAGA brand, fur producers – the first link in the distribution chain – will become more deeply involved in the same network, which processes raw material into end-products for consumers. All members of this network ultimately share the same goal: selling products at remunerative prices throughout the chain. In order to ensure the most sustainable basis possible for business operations, it is crucial that we develop products and services that still appeal to people in several years' time.

The SAGA Design Centre has a long history of dedicated efforts in encouraging international fashion houses to make use of fur as a raw material, season after season. This will require constant product development of materials and the search for new applications, for instance, for the footwear, bag and furniture industries. In addition to new business opportunities, new distribution channels will emerge, providing the opportunity to offer furs to a broader customer base. This will benefit all those operating within the industry.

During the last few weeks, the globalisation debate in Finland has speculated over how the EU as a whole, and Finland as part of it, will cope with the invasion of increasingly higher quality and low-cost Chinese products. Faced with this toughening competition, we will succeed only if we focus on expertise development, differentiation and product innovation. Finnish Fur Sales will sharpen its strategy alongside closer SAGA co-operation. Our export product portfolio consists of our versatile expertise in fur skins and our comprehensive range of unique services sold under the SAGA brand on an international scale.

The changes initiated during the financial year 2003/2004 and currently in full swing constitute a process of learning new things not only within Finnish Fur Sales and among its customers, shareholders and staff, but also within the SAGA organisation. Successful partnerships involve the reconciliation of different corporate cultures, working practices, languages and dialects.

It gives me great pleasure to express my warmest thanks to all of you for your dedication and commitment. As we all know, successful co-operation is based on mutual trust, and only mutual trust can create a partnership that goes much deeper than any form of co-operation. As partners, we dare to stay genuinely open with one another.

# **FINNISH FUR SALES**

**Financial Statements for  
1 September 2003–31 August 2004**

## **Board of Directors' Report**

### **Financial Year in Summary**

The financial year's first auction held in September saw sales of fur skins almost double compared to a year ago. Due to the SARS outbreak in Hong Kong/China, the company decided to put 100,000 fewer blue fox skins up for sale than originally planned for the June 2003 auction, postponing offering the remnant until the September auction. This proved a wise decision because, subsequent to the curtailment of the SARS epidemic, the blue fox market perked up quickly and saw a rebound in international prices.

All world-renowned designers exhibited furs in their 2003–2004 collections, and pelt and garment inventories remained at low levels in China and Russia, our main market areas. When the new sales season began in December 2003, the international price level of mink and fox fur skins was 24 per cent and 30 per cent higher than a year ago, respectively, followed by a period of stable fox prices and an upward trend in mink prices towards the end of the financial year, with mink prices reaching an eight-year high. Since the auction-weighted average of the US dollar against the euro was 13 per cent weaker than in the previous financial year, euro-denominated mink fur skin prices rose by 25 per cent and fox fur skins by 5 per cent.

During the financial year, the company took delivery of 4.7 million mink fur skins, a record for almost the last 20 years, of which 4.5 million were sold. Following the successful International Fur and Fashion Fair held early in the spring coupled with an encouraging retail season, the main offering of female mink fur skins was put up for auction in March. Male mink fur skins, which are considerably more versatile than female ones, were on offer at all of the financial year's auctions as of December. Unlike previous financial years, fur skins of spring mink were not offered at the May–June auction, being rescheduled for auction in September 2004.

The volume of fox fur skins auctioned during the report year grew by 550,000, to 2.5 million. Although growing fox fur production in China and fur skin quality improvements there curbed advances in auction prices for blue fox fur skins, their international prices rose by 22 per cent over the previous financial year. Prices of silver fox skins, favoured by European fashion houses, and those of a range of mutation foxes, showed a considerable increase in US dollar terms. A joint blue frost fox product-development project by Finnish Fur Sales and Italian fur dressing firms contributed to increasing the fur industry's level of interest in blue frost fox fur skins.

2003 saw vigorous growth in Finnraccoon production, depressing prices throughout the sales season starting in December. High Finnraccoon

prices during the previous season undermined its use in fashion collections appearing in the spring of 2004. Consequently, weak market conditions made it necessary to switch a greater number of Finn raccoon fur skins than usual to the following financial year's auctions. Maintaining its position as the world's leading supplier of Karakul lamb fur skins, the company sold 439,000 lamb fur skins during the financial year.

Based on a minimum four-year agreement signed by Finnish Fur Sales, Norges Pelsdyrslag (a Norwegian producer association) and its auction house, Oslo Fur Auctions Ltd, on 14 May 2004, Finnish Fur Sales will manage the sale of Norwegian fox and mink fur skins, previously run by Oslo Fur Auctions Ltd, from 1 November 2004. Based on a similar agreement effective from 1983 until 1986, both fur breeders and buyers welcomed this new arrangement.

Following the Danish producer association's withdrawal from SAGA co-operation in the summer of 2003, negotiations were initiated to speed up the withdrawal process, resulting in an agreement whereby the association's departure would be brought forward from the previously agreed end of June 2005 to the end of September 2004. However, the association reserved the right to refer questions related to the ownership of the Saga International Design Centre's real estate to arbitration. Thanks to the agreement Finnish Fur Sales signed with Norges Pelsdyrslag, it has had the exclusive right to sell fur skins under the SAGA trademark since October 2004. Furthermore, the agreement prompted the company to change its storage system for fox fur skins with the aim of making more efficient use of storage capacity, resulting in lower storage costs. The system will be upgraded in two phases, the first being completed during the financial year 2004/2005.

For the fur industry, the financial year was politically stable. In co-operation with the Finnish Fur Breeders' Association and the International Fur Trade Federation (IFTF), Finnish Fur Sales looked after fur-industry interests with a view to preserving the legitimacy of fur farming and trading. Finnish Fur Sales, the Finnish Fur Breeders' Association and Suomen Rehu Oy had a survey conducted among Finnish fur farmers on their future prospects. With almost a thousand respondents, the survey suggested that Finnish fur farmers had relatively strong confidence in future trade: fur skin production is expected to increase during the next six years, although the number of farms will decrease due to the retirement of farmers with no known successors to continue their trade. In the survey's customer satisfaction section, Finnish Fur Sales scored a success in relation to its core business operations, namely collecting and selling fur skins.

## Sales and Auctions

During the financial year, the number of fur skins sold through Finnish Fur Sales came to 7,651,000 (7,243,000 in the previous financial year), the value of sales rising to EUR 297 million from EUR 234 million recorded a year ago.

The sales volume of fur skins of Finnish origin reached 3,682,000 (3,289,000), at a total value of EUR 187 million (EUR 145 million), while the volume of fur skin sales from other Western countries – mostly Central Europe – amounted to 3,052,000 (3,093,000), valued at EUR 95 million (EUR 76 million).

A total of 478,000 fur skins of Eastern European origin were sold for EUR 9 million (EUR 6 million)

In addition, the sales volume of Karakul lamb fur skins from Afghanistan totalled 439,000 (483,000), valued at EUR 6 million (EUR 7 million).

Sales by auction:

Auction	<b>Sales 1,000 items 2003/20 04</b>	Sales 1,000 items 2002/2003	<b>Value EUR 1,000 2003/2004</b>	Value EUR 1,000 2002/2003
September	<b>649</b>	333	<b>27,518</b>	17,064
December	<b>1,413</b>	934	<b>46,225</b>	29,413
January–February	<b>1,233</b>	1,308	<b>52,994</b>	47,984
April	<b>2,169</b>	2,195	<b>84,643</b>	74,654
June	<b>2,131</b>	2,299	<b>84,141</b>	58,431
Reported private treaty sales	<b>56</b>	173	<b>1,211</b>	6,783
<b>Total</b>	<b>7,651</b>	7,243	<b>296,732</b>	234,327

Half of the almost half-a-million blue fox fur skins on offer at the first financial year's auction on **16 and 17 September 2003** were regular-grade skins, their auction price averaging EUR 49.24. The September auction also included 100,000 blue fox fur skins, whose auction the company had, in the spring, decided to postpone until this auction, due to marketing problems caused by the SARS outbreak. All of the fox fur skins, coupled with a small selection of mink fur skins on offer, were purchased by Chinese, Russian, Turkish and Western European customers. Attracting 200 customers, the auction generated total sales of EUR 27.5 million.

The blue fox auction price at the **20–22 December 2003** auction, which opened the 2003/2004 sales season, averaged EUR 55.96, 100 per cent of the 230,000 skins on offer being sold to Russia and China.

Euro-denominated prices rose by 10 per cent from September, whereas, due to the weaker US dollar, international blue fox prices were 20 per cent higher than in September. Practically all of the 700,000 or so mink fur skins offered at the auction were sold to Russian, Greek, Italian and Hong Kong/Chinese buyers for advancing prices. Smallish lots of fur skins of rare mutation foxes were sold to European and North American fashion houses for an average of EUR 106–117 per skin. The per-skin auction price of the 13,000 Finnracons on offer averaged EUR 86.15, while the average price of all mink fur skins sold came to EUR 26.67 and that of fox fur skins to EUR 59.03. Attended by 300 buyers, the auction generated a total sales value of EUR 46.2 million.

Almost all of the 800,000 or so male mink fur skins offered at the auction held during **1–3 February 2004** were sold at prices slightly higher than in December, with major buyers coming from Russia, Hong Kong/China and Greece. The average auction price of the mink fur skins on offer was EUR 32.59. Half of the season's first offering of silver fox fur skins were sold at the auction, the average price of those of Finnish origin coming to EUR 117.52. Growth in production restrained demand for Finnracons and blue frost foxes. The auction price of the 350,000 blue fox fur skins on offer averaged EUR 56.39, and these were sold out, with major buyers coming from China, Russia, Japan and Italy. The average price of all of the fox fur skins sold at the auction amounted to EUR 59.97. Attracting 300 buyers, the three-day auction recorded sales of EUR 53.0 million.

The **26–29 March 2004** auction, the most diverse in terms of fur skin variety and range, offered 1.5 million mink fur skins and almost 600,000 fox fur skins, blue foxes accounting for 400,000. With prices of mink fur skins advancing in both the primary colour shades and a variety of mutation mink fur skins, all of the skins on offer were sold to customers from Hong Kong/China, Greece, Russia and Italy. The average price of all male mink fur skins sold was EUR 38.02 and EUR 22.85 for female mink fur skins. Buyers paid high prices for silver foxes and rare mutation foxes, whose main offering the company focused on this auction. The average auction price of blue foxes came to EUR 56.56, their major buyers coming from Hong Kong/China, Russia and Turkey. The price of Finnish fox skins sold at the auction averaged EUR 62.82. Attracting 350 buyers, the four-day auction posted sales of EUR 84.6 million.

The financial year's final auction of **4–8 June 2004** offered over 1.4 million mink fur skins and almost 700,000 fox fur skins, with blue foxes representing more than half a million skins, and almost all of the skin offerings being sold. Major mink fur skin buyers came from Hong Kong/China, Greece, Russia and Italy, while the price of the sold mink averaged EUR 25.49 and that of regular mink fur skins (accounting for

half a million fur skins) EUR 28.98. Almost all fox and Finn raccoon fur skins were sold. The average price of regular blue fox fur skins – accounting for over 360,000 of the blue fox offering – came to EUR 59.98, the majority of them sold to Hong Kong/Chinese and Turkish buyers. The price of regular fox fur skins sold averaged EUR 62.18. Attracting over 300 buyers, the five-day auction generated sales of EUR 84.1 million.

## **Financial Performance and Capital Expenditure**

### *Financial Performance*

Total sales posted by Finnish Fur Sales rose by 27 per cent, to EUR 297 million, while the sales volume of fur skins grew to 7.7 million, or by 6 per cent. The Group posted a consolidated turnover of EUR 32.6, up 24 per cent year on year, and other operating income of EUR 350,000.

Operating expenses remained at the previous financial year's level, or EUR 28.7 million. Consolidated operating profit totalled EUR 4.3 million, accounting for 13 per cent of turnover, showing a year-on-year improvement of EUR 6.5 million.

Net financial income was EUR 2.8 million, representing 9 per cent of turnover, while it amounted to EUR 2.5 million a year ago, accounting for 10 per cent of turnover. Consolidated profit before appropriations and taxes totalled EUR 7.0 million, up EUR 6.8 million from the previous financial year.

Equity-to-assets ratio fell to 54 per cent (62 per cent), due to growth in accounts receivable and consignor receivables, which, in turn, increased the need for borrowings. Liquidity remained at a healthy level throughout the financial year.

### *Capital Expenditure*

Gross capital expenditure for the financial year totalled EUR 1.3 million (EUR 2.4 million), 40 per cent being spent on intangible assets, consisting mainly of IT application development, 50 per cent on parent-company tangible assets and 10 per cent on subsidiaries' tangible assets. The beginning of the sorting season 2003/2004 saw the adoption of an optical sizing machine for mink fur skins.

## **Human Resources**

The number of Group employees remained at the previous financial year's level, the majority of them working on a fixed-term basis in a variety of duties related to fur skin processing.

Based on the volume of fur skins collected and the return-on-equity ratio, the company used an employee bonus system during the financial year, covering its permanent staff and long-standing seasonal employees.

Spring 2004 saw the completion of a two-year management-training programme (Specialist Qualification in Management) aimed at strengthening management and leadership skills, with seven employees from the grading, storage, loading-room and cleaning departments earning the diploma. With the aim of promoting its employees' working capacity, the company supported independent keep-fit training, staged info briefings and provided the opportunity to participate in the ASLAK rehabilitation project.

The table below shows the number of employees by parent company and Group (previous financial year's figures in brackets):

	Parent company	Group
Average number of employees	261 (255)	305 (305)
– permanent staff	94 (95)	112 (116)
– seasonal staff	167 (160)	193 (189)
Number of permanent staff		
31 Aug. 2004 (31 Aug. 2003)	97 (97)	116 (118)

The number of Finnish Fur Sales' employees reached its peak in December 2003 when the parent company had a total maximum staff of 566, of which 93 represented permanent employees, 306 seasonal employees and 167 auction assistants employed on a fixed-term basis. The average age of the permanent employees was 46 and their average years of service 15.

Wages and salaries paid by the parent company during the financial year totalled EUR 7,986,107.73, the Board of Directors, the Managing Director and her deputy accounting for EUR 281,692.00, while the respective figures paid by the Group were EUR 9,200,398.98 and EUR 456,881.26.

Finnish Fur Sales' organisation underwent changes on 1 December 2003 when Kaj Eklund, Deputy Managing Director, resigned, reducing the members of the Management Group by one. At the same time, Management Group members' responsibilities were re-organised. The Board of Directors appointed Pertti Fallenius, Marketing Director, as Deputy Managing Director, succeeding Mr Eklund.

## **Group Administration**

### *Annual General Meeting*

The Annual General Meeting of Finnish Fur Sales on 23 January 2004 decided to distribute a per-share dividend of EUR 0.60 and enter EUR 20,000 in the contingency fund, as proposed by the Board of Directors.

The Board of Directors has no valid authorisation to issue shares, convertible bonds or bonds with warrants, or buy back own shares.

#### *Board of Directors and Auditors*

The Board of Directors comprised the following members until 23 January 2004:

Ordinary members:

**Jorma Kauppila**

*b. 1961, fur farmer*

*Chairman*

**Markku Koski**

*b. 1948, fur farmer*

*Vice-Chairman*

**Erik Karls**

*b. 1947, fur farmer*

**Pentti Lipsanen**

*b. 1963, fur farmer*

**Pentti Rantakangas**

*b. 1940, fur farmer*

**Pirkko Rantanen-Kervinen**

*b. 1949, M.Sc. (Econ. & Bus. Adm.)*

*Managing Director of Finnish Fur Sales*

Personal deputy members:

Martti Ollila

*b. 1946, fur farmer*

Ulf Enroth

*b. 1949, fur farmer*

Stefan Wik

*b. 1954, fur farmer*

Leena Pitkänen

*b. 1947, fur farmer*

Jorma Eilonen

*b. 1969, fur farmer*

Kaj Eklund

*b.1941*

*Deputy Managing Director of Finnish Fur Sales*

The Board of Directors has comprised the following members since 23 January 2004:

Ordinary members:

**Jorma Kauppila**

*Chairman*

**Markku Koski**

*Vice-Chairman*

**Erik Karls**

**Pentti Lipsanen**

**Pentti Rantakangas**

**Pirkko Rantanen-Kervinen**

*Managing Director of Finnish Fur Sales*

Personal deputy members:

Martti Ollila

Ulf Enroth

Stefan Wik

Leena Pitkänen

Jorma Eilonen

Pertti Fallenius

*b.1962*

*Deputy Managing Director of Finnish Fur Sales*

Juha Huttunen acts as the Board's secretary. The Board of Directors held 17 meetings during the financial year.

**Ernst & Young Oy** was the company's auditor, with Risto Järvinen, Lic.Sc. (Econ. & Bus. Adm.) and Authorised Public Accountant, acting as the principal auditor.

#### *Adoption of IFRS (IAS)*

Finnish Fur Sales will prepare its consolidated financial statements based on IFRS as of the financial year starting on 1 September 2005.

### **Shareholding**

SHAREHOLDING BY SECTOR, BASED ON SHAREHOLDERS' REGISTER ON 5 NOVEMBER 2004:

	No. of shareholder s	% of shareholders	% of shares	% of votes
Finnish non-banking corporate sector	269	13.9 %	8.8%	2.3%
Financial institutions and insurance companies	6	0.3%	2.8%	0.8%
Public-sector organisations	2	0.1%	0.1%	0.0%
Households	1,633	84.6%	19.7%	5.7%
Non-profit organisations	16	0.8%	56.0%	87.7%
Foreigners	5	0.3%	10.6%	2.8%
Not entered in the book-entry securities register			2.1%	0.7%
<b>Total</b>	<b>1,931</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0 %</b>

SHAREHOLDING BY NUMBER OF SHARES HELD, BASED ON  
SHAREHOLDERS' REGISTER ON 5 NOVEMBER 2004:

	No. of shareholder s	% of shareholder s	% of shares	% of votes
1-10	66	3.4%	0.0%	0.0%
11-100	706	36.6%	1.0%	0.3%
101-1,000	988	51.2%	9.9%	2.8%
1,001-10,000	145	7.5%	10.7%	3.2%
10,001-100,000	20	1.0%	15.0%	7.0%
100,001-1,000,000	5	0.3%	31.2%	24.4%
Over 1,000,001	1	0.1%	30.0%	61.7%
Not entered in the book-entry securities register			2.1%	0.7%
<b>Total</b>	<b>1,931</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

LARGEST SHAREHOLDERS BY VOTE, BASED ON SHAREHOLDERS'  
REGISTER ON 5 NOVEMBER 2004:

	Votes	% of votes
Finnish Fur Breeders' Association	8,333,085	61.7 %
Uudenmaan-Hämeen Turkiseläinten Kasvattajat	1,054,342	7.8%
Lounais-Suomen Turkiseläinten Kasvattajat	737,013	5.5%
Svenska Österbottens Pälstdjursodlarförening r.f.	585,643	4.3%
Pohjois-Suomen Turkiseläinten Kasvattajat	576,585	4.3%
Odin Finland	340,800	2.5%
Satakunnan Turkiseläinten Kasvattajat	194,187	1.4%
Ålands Pälstdjursodlarförening r.f.	155,505	1.2%
Savo-Karjalan Turkistarhaajat	147,336	1.1%
Tapiola General Mutual Insurance Company	80,000	0.6%
Veikko Laine Oy	75,300	0.6%
Vitapol Oy Ab	53,800	0.4%
Koivisto Timo	46,116	0.3%
Carafe Investment Company Ltd.	39,118	0.3%

Liikesivistysrahaston Kannatusyhdistys r.y.	30,000	0.2%
Ab Farmanda Oy	20,000	0.1%
Nordea Bank Finland Plc, nominee registered	18,290	0.1%
Ukko-Hanni Oy	15,000	0.1%
Laakkonen Reino Olavi	14,900	0.1%
Pälsfarm Ab Stig Grankull	14,068	0.1%

LARGEST SHAREHOLDERS BY HOLDING, BASED ON SHAREHOLDERS' REGISTER ON 5 NOVEMBER 2004:

	No. of shares	% of shares
Finnish Fur Breeders' Association	1,080,950	30.3 %
Odin Finland	340,800	9.5%
Pohjois-Suomen Turkiseläinten Kasvattajat	233,605	6.5%
Svenska Österbottens Pälsdjursodlarförening r.f.	232,433	6.5%
Uudenmaan-Hämeen Turkiseläinten Kasvattajat	201,567	5.6%
Lounais-Suomen Turkiseläinten Kasvattajat	115,293	3.2%
Tapiola General Mutual Insurance Company	80,000	2.2%
Veikko Laine Oy	75,300	2.1%
Vitapol Oy Ab	53,800	1.5%
Satakunnan Turkiseläinten Kasvattajat	41,727	1.2%
Carafe Investment Company	39,118	1.1%
Liikesivistysrahaston Kannatusyhdistys r.y.	30,000	0.8%
Ålands Pälsodlarförening r.f.	28,785	0.8%
Savo-Karjalan Turkistarhaajat	24,576	0.7%
Ab Farmanda Oy	20,000	0.6%
Nordea Bank Finland Plc, nominee registered	18,290	0.5%
Ukko-Hanni Oy	15,000	0.4%
Laakkonen Reino	14,900	0.4%
Pälsfarm Ab Stig Grankull	14,068	0.4%
Mussalo Terho	14,000	0.4%

Finnish Fur Sales' Board of Directors, Managing Director and Deputy Managing Director hold a total of 2,802 company shares, accounting for 0.08 per cent of the share capital and 0.02 per cent of votes.

**Business Prospects for 2004/2005**

World mink fur skin production will grow slightly, whereas fox fur skin production will remain lower than in the previous year. Increasing fur skin production in China will intensify competition, particularly in blue fox markets. Since price competition with Chinese fur production is inconceivable, European fur producers must place a particular emphasis on quality production and their own trademarks.

SAGA's new ownership structure took effect on 1 October. The new sales season will start with the theme 'SAGA Furs – Exclusively at Finnish Fur Sales' i.e., fox and mink fur skins eligible for the SAGA trademark will be available solely at Finnish Fur Sales. The inclusion of Finn raccoon fur in marketing under the SAGA trademark is expected to have a favourable effect on SAGA sales. It will be necessary to encourage fashion designers to opt for fur as a raw material in order to strengthen its position among the variety of clothing raw materials. SAGA's new ownership base will enable the company to make use of the entire international SAGA organisation, further consolidating the company's position as a raw-material supplier to the world's fashion community.

The change in the SAGA capital base requires an increase of SAGA fees paid by farm breeders from one per cent to 1.5 per cent, with the aim of maintaining SAGA brand visibility and ensuring product development at the SAGA Design Centre. At the same time, Finnish Fur Sales will lower its commissions due to the competitive environment. This reorganisation has simplified the division of responsibilities and enabled streamlining within different organisations. The company is confident that SAGA's strong position in international fur trade and the auction marketplace's exclusive right to the SAGA trademark will give a boost to the volume of fur skins offered by the company. The quantity of fur skins will also grow due to the agreement the company concluded with Norges Pelsdyrslage and Oslo Fur Auctions Ltd., with the result that the majority of Norway's 345,000 fox fur skins and 330,000 mink fur skins will be sold through the company.

Following brisk demand for fur skins at the first financial year's auction in September, dressing firms were hit by capacity constraints, bogging down the release of fox fur skins. Fur trimmings and a range of combined garments have started to sell well and retail stocks are at low levels. However, increasing raw-material prices and international trade barriers will discourage trade in the most significant market areas. In order for the fur retailing business to continue its successful performance, cold weather will be required during the next few weeks. If fur retailing proves a success during the autumn, US dollar-based fur skin prices for most mink and fox types are likely to remain stable. However, the US dollar's performance against the euro will play a crucial role in euro-denominated prices of fur skins. Despite the probable increase in fur skin volumes to be offered, the Group expects to show a fall in profitability but to make a

marked operating profit. Net profit for the financial year is expected to be lower than in the previous year.

## Cash Flow Statement

	<b>Group</b>	Group	<b>Parent</b>	Parent
	<b>2003/04</b>	2002/03	<b>company</b>	company
	<b>EUR</b>	EUR	<b>2003/04</b>	2002/03
			<b>EUR</b>	EUR
<i>Cash flow from operating activities:</i>				
Income from sales	<b>18,023,872</b>	42,227,732	<b>16,386,342</b>	40,683,184
Cash receipts from other operating income	<b>259,110</b>	235,259	<b>332,928</b>	309,076
Cash paid to suppliers and employees	<b>-29,196,860</b>	-37,274,969	<b>-27,959,702</b>	-35,567,830
Cash flow from operating activities before financial items and taxes	<b>-10,913,877</b>	5,188,021	<b>-11240432</b>	5,424,430
Interest and other financial Expenses	<b>-897,396</b>	-1,333,970	<b>-873,326</b>	-1,325,289
Interest and other financial Income	<b>3,152,645</b>	4,384,105	<b>3,118,943</b>	4,364,289
Dividends received	<b>1,014</b>	192	<b>191,155</b>	192
Income taxes paid	<b>-1,315,695</b>	-54,213	<b>-1,327,557</b>	-14,924
Net cash from operating activities	<b>-9,973,310</b>	8,184,135	<b>-10131216</b>	8,448,697
<i>Cash flow from investing activities:</i>				
Purchase of tangible and intangible assets	<b>-1,300,326</b>	-2,430,312	<b>-1,164,038</b>	-1,701,804
Proceeds from sale of tangible and intangible assets	<b>84,892</b>	23,520	<b>29,235</b>	22,805
Purchase of investments	<b>0</b>	0	<b>-403,334</b>	0
Net cash flow from investing activities	<b>-1,215,434</b>	-2,406,792	<b>-1,538,137</b>	-1,678,998
<i>Cash flow from financing activities:</i>				
Proceeds from short-term	<b>13,925,637</b>	0	<b>14,279,312</b>	0
Repayment of short-term Borrowings	<b>0</b>	-5,641,367	<b>0</b>	-5,995,042
Change in conversion difference	<b>-643</b>	-49	<b>0</b>	0
Dividends paid	<b>-2,117,261</b>	-2,292,025	<b>-2,117,022</b>	-2,292,010
Group contributions	<b>0</b>	0	<b>-70,000</b>	-412,000
Net cash flow from financing activities	<b>11,807,733</b>	-7,933,440	<b>12,092,289</b>	-8,699,051
Change in cash flows (A+B+C)	<b>618,989</b>	-2,156,097	<b>422,935</b>	-1,929,352
Liquid assets 31 Aug.	<b>3,470,197</b>	2,851,209	<b>3,125,197</b>	2,702,262
Liquid assets 1 Sept.	<b>-2,851,209</b>	-5,007,305	<b>-2,702,262</b>	-4,631,614
Change in liquid assets	<b>618,989</b>	-2,156,097	<b>422,935</b>	-1,929,352

## KEY PERFORMANCE FIGURES

	<b>2003/04</b>	2002/03	2001/02	2000/01	1999/00
	<b>12 months</b>	12 months	12 months	12 months	12 months
Total sales (EUR)	<b>296,732,309</b>	234,326,998	346,092,996	329,391,671	252,243,667
Net turnover (EUR)	<b>32,619,144</b>	26,226,336	30,463,037	27,936,490	26,056,098
Operating profit/loss (EUR)	<b>4,250,966</b>	-2,280,683	2,605,361	5,219,248	4,803,783
% of turnover	<b>13.0%</b>	-8.7%	8.6%	18.7%	18.4%
Profit/loss before extraordinary items, appropriations and taxes (EUR)	<b>7,039,804</b>	232,085	5,802,158	9,098,746	6,662,600
% of turnover	<b>21.6%</b>	0.9%	19.0%	32.6%	25.6%
Profit/loss before appropriations and taxes (EUR)	<b>7,039,804</b>	232,085	5,802,158	9,098,746	6,662,600
% turnover	<b>21.6%</b>	0.9%	19.0%	32.6%	25.6%
Return on equity (%)	<b>9.5%</b>	0.2%	7.5%	12.4%	9.7%
Return on invested capital (%)	<b>8.2%</b>	1.5%	7.0%	11.8%	10.3%
Gearing ratio (%)	<b>53.9%</b>	61.8%	52.9%	57.2%	63.5%
Gearing	<b>0.83</b>	0.54	0.87	0.68	0.58
Gross capital expenditure (EUR)	<b>1,300,326</b>	2,430,314	5,438,930	3,079,616	3,274,054
% of turnover	<b>4.0%</b>	9.7%	17.9%	11.0%	12.6%
Average personnel	<b>305</b>	305	298	267	280

Return on equity (%) = (profit/loss before extraordinary items, reserves and taxes – taxes, incl. change in deferred tax liability) x 100/ (shareholders' equity + depreciation difference – deferred tax liability)\*)

Return on invested capital (%) = (profit/loss before extraordinary items, reserves and taxes + interest income + other financial expenses) x 100/ (balance sheet total average – non-interest-bearing short-term liabilities average)\*)

Gearing ratio (%) = (shareholders' equity + depreciation difference – deferred tax liability) x 100/ (balance sheet total – advances received)

Gearing = (Interest-bearing liabilities – cash and bank, and marketable securities)/(shareholders' equity + voluntary reserves + depreciation difference – deferred tax liability)

\*) The ratios' divisor is based on an average of the balance sheet values calculated for the financial year and the previous financial year.

## PER-SHARE FIGURES AND RATIOS

	2003/04 12 months	2002/03 12 months	2001/02 12 months	2000/01 12 months	1999/00 12 months
Earnings per share (EUR)	<b>1.44</b>	0.03	1.13	1.79	1.28
Equity per share (EUR)	<b>15.51</b>	14.68	15.31	14.98	13.72
Dividend per share (EUR)					
A Series	<b>0.65</b>	0.60	0.65	0.80	0.60
C Series	<b>0.65</b>	0.60	0.65	0.80	0.60
Payout ratio					
A Series	<b>45.1%</b>	2,000%	57.5%	44.7%	46.9%
C Series	<b>45.1%</b>	2,000%	57.5%	44.7%	46.9%
Effective dividend yield					
A Series	<b>8.2%</b>	8.6%	7.8%	10.0%	8.0%
C Series	<b>8.2%</b>	8.6%	7.8%	10.0%	8.0%
Price/earnings ratio (P/E)	<b>5.5</b>	233.3	7.4	4.5	5.8
Highest quotation (EUR)	<b>8.25</b>	9.00	10.00	8.00	8.50
Lowest quotation (EUR)	<b>6.70</b>	5.00	7.70	6.51	6.00
Average quotation (EUR)	<b>7.52</b>	6.57	8.61	7.09	7.00
Market capitalisation (EUR)	<b>28,620,000</b>	25,200,000	30,132,000	28,800,000	26,856,000
Trading volume of C shares	<b>368,214</b>	310,008	193,659	141,364	415,570
Proportion of C shares	<b>13.6%</b>	11.5%	7.2%	5.2 %	15.4%
Average number of shares during financial year					
A Series	<b>900,000</b>	900,000	900,000	900,000	900,000
C Series	<b>2,700,000</b>	2,700,000	2,700,000	2,700,000	2,700,000
Number of shares at period-end					
A Series	<b>900,000</b>	900,000	900,000	900,000	900,000
C Series	<b>2,700,000</b>	2,700,000	2,700,000	2,700,000	2,700,000

Earnings per share	=	(profit/loss before extraordinary items, reserves and taxes – taxes, incl. change in deferred tax liability) / average no. of issue-adjusted shares for the period
Equity per share	=	(shareholders' equity + voluntary reserves + depreciation difference – deferred tax liability) / no. of issue-adjusted shares on the balance sheet date
Dividend per share	=	dividend for the period / no. of issue-adjusted shares
Effective dividend yield	=	dividend per share / trade-weighted average price of a share on the closing date of the financial year
P/E ratio	=	trade-weighted average price of an issue-adjusted share on the closing date of the financial year
Market capitalisation	=	trade-weighted average price of an issue-adjusted share on the closing date of the financial year for x no. of shares

## CONSOLIDATED PROFIT AND LOSS ACCOUNT (1 Sept. 2003–31 Aug. 2004)

(EUR)	Note	<b>2003/2004</b> <b>12 months</b>	2002/2003 12 months
NET TURNOVER	2	<b>32,619,143.90</b>	26,226,336.20
Other operating income		<b>350,035.79</b>	240,241.86
Materials and services			
Raw materials and consumables			
Purchases during the period		<b>-1,134,327.56</b>	-1,084,780.04
Variation in inventory		<b>-4,418.44</b>	-65,868.04
External services		<b>-21,964.89</b>	-51,404.96
Personnel expenses	3,4		
Wages and salaries		<b>-9,679,345.93</b>	-9,022,579.85
Social expenses			
Pensions	5	<b>-1,423,243.48</b>	-1,433,879.06
Other social expenses		<b>-828,739.70</b>	-868,112.75
Depreciation and writedowns	7		
Depreciation according to plan		<b>-3,783,367.66</b>	-3,974,780.04
Other operating expenses	8	<b>-11,842,805.91</b>	-12,245,856.45
<b>OPERATING PROFIT/LOSS</b>		<b>4,250,966.12</b>	-2,280,683.13
Financial income and expenses	10		
Other interest and financial income		<b>3,714,177.98</b>	3,722,678.02
Other interest and financial expenses		<b>-925,339.91</b>	-1,209,909.74
<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>		<b>7,039,804.19</b>	232,085.15
Change in deferred tax liability		<b>235,919.19</b>	-9,414.37
Income taxes		<b>-2,097,131.20</b>	-102,012.32
<b>NET PROFIT/LOSS FOR THE FINANCIAL YEAR</b>		<b><u>5,178,592.18</u></b>	<u>120,658.46</u>

## CONSOLIDATED BALANCE SHEET (31 Aug. 2004)

(EUR)

ASSETS	Note	31 Aug. 2004	31 Aug. 2003
<b>Fixed assets</b>			
Intangible assets	11		
Other long-term expenditures		<b>2,521,372.23</b>	4,174,618.67
Advance payments		<b>125,620.41</b>	0.00
		<b>2,646,992.64</b>	4,174,618.67
Tangible assets	12		
Land and water		<b>1,595,871.98</b>	1,595,871.98
Buildings and structures		<b>21,688,654.36</b>	22,352,821.88
Machinery and equipment		<b>4,101,510.12</b>	4,609,719.03
Advance payments construction in progress		<b>344,560.59</b>	191,837.20
		<b>27,730,597.05</b>	28,750,250.09
Long-term investments	13		
Shares and investments		<b>283,602.25</b>	283,602.94
<b>Current assets</b>			
Stocks			
Materials and supplies		<b>430,597.28</b>	384,489.72
Fur skins		<b>10,753.00</b>	61,279.00
		<b>441,350.28</b>	445,768.72
Receivables			
Accounts receivable	14	<b>51,655,757.06</b>	31,350,768.49
Consignor receivables	15	<b>25,584,424.39</b>	22,043,012.09
Loan receivables		<b>19,415.28</b>	51,974.45
Other receivables		<b>756,909.25</b>	494,519.71
Pre-payments and Accrued income		<b>1,857,222.90</b>	800,420.54
		<b>79,873,728.88</b>	54,740,695.28
Cash and bank		<b>3,470,197.37</b>	2,851,208.52
<b>TOTAL ASSETS</b>		<b><u>114,446,468.47</u></b>	<b><u>91,246,144.22</u></b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 Aug. 2004	31 Aug. 2003
<b>Shareholders' equity</b>	16		
Share capital		<b>7,200,000.00</b>	7,200,000.00
Share premium account		<b>254,264.40</b>	254,264.40
Revaluation reserve		<b>3,128,295.43</b>	3,128,295.43
Legal reserve		<b>11,375,000.00</b>	11,355,000.00
Conversion difference		<b>59,214.05</b>	59,857.46
Retained earnings		<b>28,657,072.05</b>	30,716,651.69
Profit/loss for the financial year		<b>5,178,592.18</b>	120,658.46
		<b>55,852,438.11</b>	52,834,727.44
<b>Liabilities</b>	17		
Deferred tax liability	18	<b>1,893,982.79</b>	2,129,901.98
Short-term liabilities			
Loans from financial institutions		<b>18,198,390.90</b>	4,801,996.86
Advances received	14	<b>10,773,055.25</b>	5,671,627.65
Trade creditors		<b>1,233,400.00</b>	419,704.81
Payables to consignors	19	<b>17,296,175.27</b>	17,889,594.04
Other short-term liabilities		<b>6,198,607.59</b>	5,294,597.75
Accrued expenses and deferred income		<b>3,000,418.56</b>	2,203,993.69
		<b>56,700,047.57</b>	36,281,514.80
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>114,446,468.47</u></b>	<b><u>91,246,144.22</u></b>

**PARENT COMPANY PROFIT AND LOSS ACCOUNT (1 Sept. 2003–31 Aug. 2004)**

(EUR)	Note	<b>2003/2004 12 months</b>	2002/2003 12 months
NET TURNOVER	2	<b>30,985,618.62</b>	24,668,904.73
Other operating income		<b>423,853.43</b>	314,059.50
Materials and services			
Raw materials and consumables			
Purchases during the period		<b>-611,662.52</b>	-503,622.02
Variation in inventory		<b>793.87</b>	-91,671.10
Personnel expenses	3,4		
Wages and salaries		<b>-8,368,167.85</b>	-7,746,755.00
Social expenses			
Pensions	5	<b>-1,321,019.26</b>	-1,221,850.18
Other social expenses		<b>-765,948.31</b>	-776,309.97
Depreciation and write downs	7		
Depreciation according to plan		<b>-3,304,838.27</b>	-3,503,375.67
Other operating expenses	8	<b>-12,792,348.22</b>	-13,075,123.98
<b>OPERATING PROFIT/LOSS</b>		<b>4,246,281.49</b>	-1,935,743.69
Financial income and expenses	10		
Income from Group undertakings		<b>190,140.85</b>	0.00
Other interest and financial income			
From Group companies		<b>173,899.96</b>	231,870.88
From other companies		<b>3,506,576.25</b>	3,470,990.73
Interest expenses and other financial expenses			
Other interest and financial expenses		<b>-901,269.11</b>	-1,201,229.08
<b>PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS</b>		<b>7,215,629.44</b>	565,888.84
Extraordinary expenses			
Group contribution		<b>-70,000.00</b>	-412,000.00
<b>PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES</b>		<b>7,145,629.44</b>	153,888.84
Appropriations			
Change in depreciation difference		<b>170,669.25</b>	74,847.41
Income taxes		<b>-2,108,993.01</b>	-48,281.07
<b>NET PROFIT/LOSS FOR THE FINANCIAL YEAR</b>		<b><u>5,207,305.68</u></b>	<u>180,455.18</u>

## PARENT COMPANY BALANCE SHEET (31 Aug. 2004)

(EUR)

ASSETS	Note	31 Aug. 2004	31 Aug. 2003
<b>Fixed assets</b>			
Intangible assets	11		
Other long-term expenditures		<b>2,385,227.80</b>	3,991,963.46
Advance payments		<b>125,620.41</b>	0.00
		<b>2,510,848.21</b>	3,991,963.46
Tangible assets	12		
Land and water		<b>1,183,017.90</b>	1,183,017.90
Buildings and structures		<b>19,103,930.27</b>	19,547,262.77
Machinery and equipment		<b>2,872,747.41</b>	3,256,943.54
Advance payments and construction in progress		<b>308,028.65</b>	148,766.19
		<b>23,467,724.23</b>	24,135,990.40
Long-term investments	13		
Shares in group undertakings		<b>3,401,427.77</b>	2,998,093.54
Other investments		<b>283,087.94</b>	283,087.94
		<b>3,684,515.71</b>	3,281,181.48
<b>Current assets</b>			
Stocks			
Materials and supplies		<b>337,124.94</b>	285,805.07
Fur skins		<b>10,753.00</b>	61,279.00
		<b>347,877.94</b>	347,084.07
Receivables			
Accounts receivable	14	<b>51,635,852.71</b>	31,326,859.46
Consignor receivables	15	<b>20,805,239.93</b>	17,644,539.70
Intra-Group receivables		<b>6,574,800.18</b>	6,295,945.17
Loans receivable		<b>19,415.28</b>	51,974.45
Other receivables		<b>522,288.17</b>	354,640.55
Pre-payments and accrued income		<b>1,804,429.73</b>	779,286.18
		<b>81,362,026.00</b>	56,453,245.51
Cash and bank		<b>3,125,197.20</b>	2,702,261.76
<b>TOTAL ASSETS</b>		<b><u>114,498,189.29</u></b>	<b><u>90,911,726.68</u></b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 Aug. 2004	31 Aug. 2003
<b>Shareholders' equity</b>	16		
Share capital		7,200,000.00	7,200,000.00
Share premium account		254,264.40	254,264.40
Revaluation reserve		3,128,295.43	3,128,295.43
Legal reserve		11,375,000.00	11,355,000.00
Retained earnings		23,061,398.85	25,060,943.67
Profit/loss for the financial year		5,207,305.68	180,455.18
		<b>50,226,264.36</b>	47,178,958.68
<b>Accumulated appropriations</b>			
Accumulated depreciation in excess of plan		7,606,087.61	7,776,756.86
<b>Liabilities</b>	17		
Short-term liabilities			
Loans from financial institutions		18,198,390.90	4,448,321.96
Advances received	14	10,773,055.25	5,671,627.65
Trade creditors		1,176,978.56	408,470.22
Payables to Group companies		250,865.22	322,066.94
Payables to consignors	19	17,296,175.27	17,889,594.04
Other short-term liabilities		6,157,292.73	5,203,916.06
Accrued expenses and deferred income		2,813,079.39	2,012,014.27
		<b>56,665,837.32</b>	35,956,011.14
<b>LIABILITIES AND TOTAL SHAREHOLDERS' EQUITY</b>		<b><u>114,498,189.29</u></b>	<b><u>90,911,726.68</u></b>

## Accounting Principles

### Fixed Assets and Depreciation

Fixed assets are capitalised at cost and valued at cost less planned depreciation, but to the extent that the balance sheet value of buildings and structures includes revaluation stated in Note 12. Planned depreciation is recorded on a straight-line basis over the expected useful lives of the assets. The parent company applies the following depreciation periods:

Buildings	50 years
Equipment within buildings	20 years
Warehouse and office equipment	10 years
Computer hardware and office IT	3 years
Vehicles	5 years
Other non-current assets	5 years

### Inventories

Under the parent company's terms of sale, fur skins are included in the fur producer's inventories – not in the Group's inventories – directly entered in the buyer's inventories upon transaction. Fur skins entered in the Group's inventories are those bought by Finnish Fur Sales.

Inventories are stated at the lower of cost or likely net realisable value.

### Pensions

Pension expenses are presented in compliance with each country's legislation. Statutory employee pension schemes for the Group's companies in Finland are funded through contributions to Turkistarhaajien Eläkekassa (Finnish Fur Breeders' Pension Fund).

## Comparability of Figures

On 1 December 2004, or the beginning of the 2003/2004 sales season, the buyer commission structure changed to the extent that the marketing fee payable to the International Fur Trade Federation (IFTF) became included in the buyer commission collected by Finnish Fur Sales shown in turnover, instead of showing it separately on a sales invoice. The amount payable to the IFTF is included in other operating expenses. Appropriate measures have been taken to make the figures of the previous financial year's financial statements comparable.

## Items Denominated in Foreign Currencies

Parent company receivables and liabilities denominated in foreign currencies are translated into euros at the rate quoted by the European Central Bank on the balance sheet date, with the exception of those receivables which have been hedged based on forward contracts. These are presented at forward rates. Exchange rate differences are entered in the profit and loss account.

## Consolidated Financial Statements

The consolidated financial statements include the accounts of all Finnish Fur Sales' subsidiaries. More detailed information on Group companies is available below under 'Group Companies' in Notes to the Profit and Loss Account. Finnish Fur Sales Group has no associated companies.

Foreign subsidiaries' accounts are translated into euros at the official rate quoted by the European Central Bank on the balance sheet date. Using this official rate for translating profit-and-loss-account items into euros instead of the average rate for the financial year does not generate a fundamentally different result. The acquisition cost method is used to eliminate intra-Group shareholdings and the resulting exchange-rate differences are stated as conversion differences under shareholders' equity on the consolidated balance sheet. The consolidation difference allocated to the site amounted to EUR 90,000 and that allocated to the buildings and structures EUR 1.1 million. The consolidation difference allocated to buildings will be amortised as planned on a 5-per-cent basis. Intra-Group transactions and receivables and liabilities are eliminated during the preparation of the financial statements.

## Notes to the Profit and Loss Account

### 1. Total sales of Finnish Fur Sales by market area

	Parent company 2003/2004 EUR 1,000	%	Parent company 2002/2003 EUR 1,000	%
Far East	151,775	51%	119,315	51%
Europe	85,254	29%	79,877	34%
North America	17,202	6%	17,351	7%
Other (incl. Russia)	42,502	14%	17,784	8%
	296,732	100%	234,327	100%

## 2. Turnover

	<b>Group</b>	Group	<b>Parent company</b>	Parent company
	<b>2003/04</b>	2002/03	<b>2003/2004</b>	2002/2003
Commission income				
Consignor commissions	<b>10,609,612</b>	9,618,285	<b>10,609,612</b>	9,618,285
Buyer commissions	<b>20,315,099</b>	15,006,499	<b>20,315,099</b>	15,006,499
Other commissions	<b>19,197</b>	14,407	<b>14,575</b>	14,407
Total commission income	<b>30,943,908</b>	24,639,191	<b>30,939,286</b>	24,639,191
Fur skin sales	<b>46,333</b>	29,714	<b>46,333</b>	29,714
Pelting services	<b>1,253,329</b>	1,120,447	<b>0</b>	0
Other lines of business	<b>375,574</b>	436,985	<b>0</b>	0
Total turnover	<b>32,619,144</b>	26,226,336	<b>30,985,619</b>	24,668,905

## 3. Managing Director's and Deputy Managing Director's Remuneration and Board Emoluments

	<b>Group</b>	Group	<b>Parent company</b>	Parent company
	<b>2003/2004</b>	2002/2003	<b>2003/2004</b>	2002/2003
Managing Director's and Deputy Managing Director's remuneration and Board emoluments	<b>456,882</b>	449,241	<b>281,682</b>	279,035

## 4. Average Number of Group and Parent Company Employees

	<b>Group</b>	Group	<b>Parent company</b>	Parent company
	<b>2003/04</b>	2002/03	<b>2003/04</b>	2002/03
Permanent employees	<b>112</b>	116	<b>94</b>	95
Seasonal employees	<b>193</b>	189	<b>167</b>	160
	<b>305</b>	305	<b>261</b>	255

## 5. Board Members' and Managing Director's Pension Commitments

The agreed retirement age of 60–67 applies to the Group companies' managing directors. The parent company's Managing Director and Deputy Managing Director may retire at the age of 60, as agreed.

## 6. Loans to Immediate Circle

No loans have been made to the company's and the Group's immediate circle.

## 7. Depreciation and Writedowns

<b>Group</b>	Group	<b>Parent</b>	Parent company
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	<b>2003/2004</b>	2002/2003	<b>company 2003/04</b>	2002/03
Depreciation on tangible assets and amortisation on intangible assets				
Buildings	<b>-664,168</b>	-664,086	<b>-443,333</b>	-443,251
Machinery and equipment	<b>-1,074,642</b>	-1,099,935	<b>-868,017</b>	-901,267
Other non-current assets	<b>-2,044,558</b>	-2,210,758	<b>-1,993,488</b>	-2,158,857
	<b>-3,783,368</b>	-3,974,780	<b>-3,304,838</b>	-3,503,376

## 8. Other Operating Expenses

	<b>Group 2003/04</b>	Group 2002/03	<b>Parent company 2003/04</b>	Parent company 2002/03
Rental expenses	<b>-669,892</b>	-964,845	<b>-800,041</b>	-1,089,012
Property expenses	<b>-1,498,066</b>	-1,600,662	<b>-1,291,384</b>	-1,377,623
SAGA marketing	<b>-1,995,509</b>	-2,612,050	<b>-1,995,509</b>	-2,612,050
Other expenses	<b>-7,679,338</b>	-7,068,300	<b>-8,705,413</b>	-7,996,439
	<b>-11,842,805</b>	-12,245,857	<b>-12,792,348</b>	-13,075,124

## 9. SAGA Marketing

Since its foundation, Saga Furs of Scandinavia (SAGA) has acted as a co-operative society, initially jointly owned by four Nordic fur producer central organisations, responsible for managing mink and fox fur skin marketing to consumers and various fur-trade distribution channels. Within the framework of the so-called SAGA agreement, Nordic fur auction houses agree to finance the co-operative's business. Any of the central organisations or fur auction houses may be discharged from contractual obligations to SAGA at two years' notice from the closing date of the SAGA financial year (1 July–30 June).

At the end of June 2003, KF, Denmark's fur-producer association, gave notice on the SAGA agreement until 30 June 2005. Subsequently, negotiations were initiated to speed up KF's withdrawal process with the result that June 2004 saw the conclusion of an agreement whereby the association's departure would be brought forward to the end of September 2004. However, KF reserved the right to refer questions related to the ownership of the Saga International Design Centre real estate to arbitration.

In May 2004, SPR, Sweden's fur-producer association, gave notice on the SAGA agreement until 30 June 2006.

Finnish Fur Sales' preliminary contribution to SAGA during the SAGA financial year of 1 July 2004–30 June 2005 amounts to DKK 21.9 million, which will be fully recognised for the company's financial year starting on 1 September 2004. Finnish Fur Sales' preliminary contribution to SAGA during the SAGA financial year of 1 July 2005–30 June 2006 amounts to DKK 26.8 million.

## 10. Financial Income and Expenses

	<b>Group</b>	Group	<b>Parent</b>	Parent
	<b>2003/04</b>	2002/03	<b>company</b>	company
			<b>2003/04</b>	2002/03
<b>Interest income and other financial income</b>				
Dividend income from Group companies	0	0	190,141	0
Interest income from Group companies	0	0	173,900	231,871
Interest income from other short-term investments	3,139,168	3,469,490	2,931,566	3,217,802
Exchange rate gains	516,021	175,937	516,021	175,937
Other financial income	58,989	77,251	58,989	77,251
Total financial income	3,714,178	3,722,678	3,506,576	3,470,991
Total financial income	3,714,178	3,722,678	3,870,617	3,702,862
<b>Impairment of investments</b>				
Credit losses	-21,817	0	-21,817	0
<b>Interest expenses and other financial expenses</b>				
Interest expenses to Group companies	0	0	0	0
Other interest expenses	-734,876	-1,127,493	-710,805	-1,118,812
Other financial expenses	-168,647	-82,417	-168,647	-82,417
	-903,523	-1,209,910	-879,452	-1,201,229
Total financial expenses	-925,340	-1,209,910	-901,269	-1,201,229

## Notes to the Balance Sheet

	<b>Group</b>	Group	<b>Parent</b>	Parent
	<b>2003/04</b>	2002/03	<b>company</b>	company
			<b>2003/04</b>	2002/03
<b>11. Intangible assets</b>				
<b>Other non-current assets</b>				
Acquisition cost 1 Sept.	<b>13,411,934</b>	12,382,378	<b>13,144,402</b>	12,218,025
Increase 1 Sept.–31 Aug.	<b>391,313</b>	1,029,557	<b>386,753</b>	926,376
Conversion difference	<b>0</b>	–1	<b>0</b>	0
Acquisition cost 31 Aug.	<b>13,803,247</b>	13,411,934	<b>13,531,154</b>	13,144,402
Accrued amortisation 1 Sept.	<b>–9,237,316</b>	–7,026,558	<b>–9,152,438</b>	–6,993,581
Amortisation 1 Sept.–31 Aug.	<b>–2,044,558</b>	–2,210,758	<b>–1,993,488</b>	–2,158,857
Conversion difference	<b>0</b>	0	<b>0</b>	0
Accrued amortisation 31 Aug.	<b>–11,281,874</b>	–9,237,316	<b>–11,145,927</b>	–9,152,438
Book value 31 Aug.	<b>2,521,372</b>	4,174,618	<b>2,385,228</b>	3,991,963
<b>Advances paid</b>				
Advances paid 1 Sept.	<b>0</b>	57,078	<b>0</b>	21,063
Increase 1 Sept.–31 Aug.	<b>125,620</b>	0	<b>125,620</b>	0
Entry in other non-current assets 1 Sept.–31 Aug.	<b>0</b>	–57,078	<b>0</b>	–21,063
Advances paid 31 Aug.	<b>125,620</b>	0	<b>125,620</b>	0
<b>12. Tangible assets</b>				
<b>Land and water</b>				
Acquisition cost 1 Sept.	<b>1,595,872</b>	1,595,872	<b>1,183,018</b>	1,183,018
Increase 1 Sept.–31 Aug.	<b>0</b>	0	<b>0</b>	0
Book value 31 Aug.	<b>1,595,872</b>	1,595,872	<b>1,183,018</b>	1,183,018
<b>Building and structures</b>				
Acquisition cost 1 Sept.	<b>26,250,899</b>	26,247,657	<b>22,003,285</b>	22,000,044
Increase 1 Sept.–31 Aug.	<b>0</b>	3,241	<b>0</b>	3,241
Acquisition cost 31 Aug.	<b>26,250,899</b>	26,250,899	<b>22,003,285</b>	22,003,285
	<b>Group</b>	Group	<b>Parent</b>	Parent
	<b>2003/04</b>	2002/03	<b>2003/04</b>	2002/03
Accrued depreciation 1 Sept.	<b>–11,971,097</b>	–11,307,010	<b>–10,529,042</b>	–10,085,791
Depreciation 1 Sept.–31 Aug.	<b>–664,168</b>	–664,086	<b>–443,333</b>	–443,251
Accrued depreciation 31 Aug.	<b>–12,635,265</b>	–11,971,097	<b>–10,972,374</b>	–10,529,042

Revaluation 1 Sept.–31 Aug.	<b>8,073,020</b>	8,073,020	<b>8,073,020</b>	8,073,020
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Book value 31 Aug.	<b>21,688,654</b>	22,352,822	<b>19,103,931</b>	19,547,263
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#### **Machinery and equipment**

Acquisition cost 1 Sept.	<b>13,805,047</b>	11,646,854	<b>11,975,629</b>	10,574,248
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Increase 1 Sept.–31 Aug.	<b>630,669</b>	2,181,718	<b>492,402</b>	1,424,186
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Deductions	<b>-84,892</b>	-23,520	<b>-29,235</b>	-22,806
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Conversion difference	<b>6</b>	-5	<b>0</b>	0
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Acquisition cost 31 Aug.	<b>14,350,831</b>	13,805,047	<b>12,438,796</b>	11,975,629
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Accrued depreciation 1 Sept.	<b>-9,195,328</b>	-8,098,214	<b>-8,718,685</b>	-7,820,235
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Accrued depreciation on	<b>20,654</b>	2,817	<b>20,654</b>	2,817
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Dépèciation 1 Sept.–31 Aug.	<b>-1,074,642</b>	-1,099,935	<b>-868,017</b>	-901,267
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Conversion difference	<b>-5</b>	4	<b>0</b>	0
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Accrued depreciation 31 Aug.	<b>-10,249,321</b>	-9,195,328	<b>-9,566,049</b>	-8,718,685
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Book value 31 Aug.	<b>4,101,510</b>	4,609,719	<b>2,872,747</b>	3,256,943
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#### **Advances paid and construction in progress**

Advances paid 1 Sept.	<b>191,837</b>	935,835	<b>148,766</b>	796,577
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Increase 1 Sept.–31 Aug.	<b>344,561</b>	177,899	<b>308,029</b>	134,828
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Entry in machinery and				
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Equipment 1 Sept.–31 Aug.	<b>-191,837</b>	-905,023	<b>-148,766</b>	-765,765
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Entry in annual expenses	<b>0</b>	-16,874	<b>0</b>	-16,874
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Advances paid and construction in progress 31 Aug	<b>344,561</b>	191,837	<b>308,029</b>	148,766
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#### **Revaluation**

Buildings and structures				
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1 Sept.–31 Aug.	<b>8,073,020</b>	8,073,020	<b>8,073,020</b>	8,073,020
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Revaluation criteria have been revised on the basis of square-metre costs related to expansion investment completed in August 1997, taking account of the differences between the premises by age and end-use. The previous revaluation reversals amounted to EUR 36 million and EUR 31 million on the balance sheet dates of 31 August 1995 and 31 August 1996, respectively. Should the building subject to revaluation be sold, the company would incur a capital gains tax of EUR 2.3 million, based on the amount of revaluation.

	<b>Group</b>	Group	<b>Parent</b>	Parent
	<b>2003/04</b>	2002/03	<b>company</b>	company
			<b>2003/04</b>	2002/03
<b>13. Long-term investments</b>				
Intra-Group holdings				
Book value 1 Sept.			<b>2,998,094</b>	2,998,094
Increase 1 Sept.–31 Aug.			<b>403,334</b>	0
Book value 31 Aug			<b>3,401,428</b>	2,998,094
<b>Other shares and holdings</b>				
Acquisition cost	<b>283,602</b>	283,602	<b>283,088</b>	283,088
Increase 1 Sept.–31 Aug.	<b>0</b>	0	<b>0</b>	0
Deductions 1 Sept.–31 Aug.	<b>0</b>	0	<b>0</b>	0
Book value 31 Aug	<b>283,602</b>	283,602	<b>283,088</b>	283,088

On the balance sheet date, the fair value of Elisa Corporation shares held by the parent company came to EUR 162,504 while their book value was EUR 59,645.

#### Group Companies

	Group	Based on previous financial statements		
	holding	Parent		
	%	company	Shareholders'	Profit/
		holding %	equity	loss
FFS International A/S, Denmark	100%	100%	988,726	35,308
Finnish Fur Sales International BV, Netherlands	100%	100%	42,321	0
Saga-Systems Oy, Helsinki	100%	100%	43,024	-13
Ab Finnish Fur Center Oy, Vantaa	100%	100%	198,435	35,514
Kiinteistö Oy T, Vantaa	100%	100%	1,210,742	0
Furfix Oy, Kaustinen	100%	100%	52,244	6,483

#### 14. Accounts receivable and advances received

Under Finnish Fur Sales' terms of sale, a 21-day interest-free grace period applies to buyers as of the auction closing date. For each auction, Finnish Fur Sales renders accounts to fur producers for sales in one or several instalments within a month or so of the auction closing date, irrespective of whether the buyer has or has not paid for the fur skins. Any unpaid fur skins remain with the company in security for accounts receivable until the payment is settled or the company receives a commitment to pay from the buyer.

On the balance sheet date, accounts receivable related to auction sales accounted for 17 per cent (13 per cent) of all auction sales. Advances received in security for accounts receivable accounted for 21 per cent (18 per cent) of all accounts receivable. Some accounts receivable have also been collateralised.

Accounts receivable reached their peak, EUR 127.5 million (EUR 143.5 million in April 2003), in June 2004.

## 15. Consignor receivables

Finnish Fur Sales Group concludes consignment agreements with both Finnish and foreign fur producers who undertake to supply an agreed quantity of fur skins for sale for the following sales season. The fur producer receives advance financing as early as the breeding phase against this agreement and any collateral, under the terms agreed at the time. The fur farmer may also receive advance financing upon the delivery of fur skins to Finnish Fur Sales. The company sets off advances received against rendered consignment accounts at auctions, subject to an interest charge based on three-month market rates fixed in advance.

## 16. Shareholders' equity

	<b>Group 2003/04</b>	Group 2002/03	<b>Parent company 2003/04</b>	Parent company 2002/03
Share capital				
1 Sept.–31 Aug.	<b>7,200,000</b>	7,200,000	<b>7,200,000</b>	7,200,000
Share premium account				
1 Sept.–31 Aug.	<b>254,264</b>	254,264	<b>254,264</b>	254,264
Revaluation fund				
1 Sept.–31 Aug.	<b>3,128,295</b>	3,128,295	<b>3,128,295</b>	3,128,295
Contingency fund				
1 Sept.	<b>11,355,000</b>	10,940,000	<b>11,355,000</b>	10,940,000
Transfer from retained earnings	<b>20,000</b>	415,000	<b>20,000</b>	415,000
Contingency fund 31 Aug.	<b>11,375,000</b>	11,355,000	<b>11,375,000</b>	11,355,000
Conversion difference				
1 Sept.	<b>59,857</b>	59,906	<b>0</b>	0
Change	<b>-643</b>	-49	<b>0</b>	0
Conversion difference 31 Aug.	<b>59,214</b>	59,857	<b>0</b>	0
Retained earnings				
1 Sept.	<b>30,837,310</b>	33,471,667	<b>25,241,399</b>	27,815,944
Conversion difference	<b>-237</b>	-14	<b>0</b>	0
Dividend distribution	<b>-2,160,000</b>	-2,340,000	<b>-2,160,000</b>	-2,340,000
Transfer to contingency fund	<b>-20,000</b>	-415,000	<b>-20,000</b>	-415,000
Retained earnings 31 Aug.	<b>28,657,073</b>	30,716,652	<b>23,061,399</b>	25,060,944
Net profit/loss for the financial year	<b>5,178,592</b>	120,658	<b>5,207,306</b>	180,455
Total shareholders' equity	<b>55,852,438</b>	52,834,727	<b>50,226,264</b>	47,178,958
	<b>Group 2003/04</b>	Group 2002/03	<b>Parent company 2003/04</b>	Parent company 2002/03

### Calculation of distributable retained profits

Retained earnings	<b>28,657,073</b>	30,716,652	<b>23,061,399</b>	25,060,944
Net profit for the financial year	<b>5,178,592</b>	120,658	<b>5,207,306</b>	180,455
Conversion difference	<b>38,754</b>	38,795	<b>0</b>	0
Transfer to contingency fund	<b>-520,731</b>	-18,046	<b>-520,731</b>	-18,046
Amount due to depreciation difference entered in shareholders' equity	<b>-5,734,079</b>	-5,647,786	<b>0</b>	0
Distributable retained profits 31 Aug.	<b>27,619,610</b>	25,210,273	<b>27,747,974</b>	25,223,353

Parent-company share capital by class of shares:

	31 Aug. 2004		31 Aug. 2003	
	No.	EUR	No.	EUR
A Series (12 votes/share)	<b>900,000</b>	<b>1,800,000</b>	900,000	1,800,000
C Series (1 vote/share)	<b>2,700,000</b>	<b>5,400,000</b>	2,700,000	5,400,000
	<b>3,600,000</b>	<b>7,200,000</b>	3,600,000	7,200,000

## 17. Liabilities

The Group and the parent company have no long-term loans with a maturity of 5 years or beyond.

The Board of Directors has no valid authorisation to issue shares, convertible bonds or bonds with warrants.

## 18. Deferred tax liability

Deferred tax liability results from the depreciation difference being entered in shareholders' equity and deferred tax liability.

## 19. Payables to consignors

Under its sales terms, Finnish Fur Sales renders accounts to fur producers for auction sales at the due date agreed separately for each auction, irrespective of whether the buyer has or has not paid for fur skins. However, Finnish Fur Sales has provided Finnish fur producers with the opportunity, at their own discretion, to deposit their settled accounts or part of them with the company. Finnish Fur Sales pays interest on such deposited money, based on the short-term market rates valid at the time.

## Other Notes

### 20. Pledges, guarantees and other contingent liabilities

	Group	Group	Parent company	Parent company
	2003/04	2002/03	2003/04	2002/03
<i>Mortgages given and receivables pledged in security for debt</i>				
Loans from financial institutions	<b>18,198,391</b>	4,801,997	<b>18,198,391</b>	4,448,322
Mortgage on property	<b>54,071,678</b>	54,071,678	<b>50,876,107</b>	50,876,107
Mortgage on company assets	<b>2,690,996</b>	2,690,996	<b>2,690,996</b>	2,690,996
Pledged receivables	<b>13,014,650</b>	11,930,859	<b>13,014,650</b>	11,930,859
Total mortgages given as security	<b>56,762,674</b>	56,762,674	<b>53,567,103</b>	53,567,103

*Security given on behalf of Group companies*

Guarantee liabilities			<b>537,779</b>	538,640
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*Leasing liabilities*

Payable in the following financial year	<b>129,682</b>	129,682	<b>129,682</b>	129,682
Payable in subsequent financial years	<b>108,068</b>	237,750	<b>108,068</b>	237,750

*Derivative contracts*

Forward contracts	<b>24,441,999</b>	22,238,492	<b>24,441,999</b>	22,238,492
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The position is closed for the parent company's forward contracts effective on the balance sheet date.

## Proposal for Profit Allocation

The distributable retained earnings on the consolidated balance sheet total EUR 27,619,609.54. Finnish Fur Sales' separate balance sheet shows the following distributable retained earnings:

- Retained earnings	23,061,398.85
- Net profit for the financial year	5,207,305.68
- Entry in the contingency fund, under the Articles of Association	-520,730.57
	<hr/>
	27,747,973.96

The Board of Directors proposes to the Annual General Meeting (AGM) that

- A total per-share dividend of EUR 0.65 be paid in two instalments to shareholders for the financial year 1 September 2003–31 August 2004, totalling EUR 2,340,000.00. The record date of the first instalment, EUR 0.14 per share, is 21 December 2004 and the dividend payment date is 29 December 2004. The proposed record date of the second instalment, EUR 0.51 per share, is 11 January 2005 and the dividend payment date is 18 January 2005.

In addition, the Board proposes that

- EUR 530,000.00 be entered in the contingency fund and
- The remainder remain in retained earnings.

Should the AGM approve the Board's proposal, the company's shareholders equity after the dividend distribution will be as follows:

Share capital	7,200,000.00
Share premium account	254,264.40
Revaluation fund	3,128,295.43
Contingency fund	11,905,000.00
Retained earnings	25,398,704.53
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	47,886,264.36

Vantaa, 17 November 2004  
Board of Directors

## **AUDITORS' REPORT**

### **To the Shareholders of Finnish Fur Sales**

We have audited the accounting, the financial statements and the corporate governance of Finnish Fur Sales for the financial year 1 September 2003–31 August 2004. Prepared by the Board of Directors and the Managing Director, the financial statements include the Board of Directors' report, consolidated and parent-company profit and loss accounts, balance sheets and notes to the financial statements. Based on our audit, we express our opinion of these financial statements and corporate governance.

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

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

Vantaa, 25 November 2004

ERNST & YOUNG OY  
Authorised Public Accountants

Risto Järvinen  
Authorised Public Accountant