

KASOLA OYJ  
ANNUAL REPORT 2006  
ENGLISH SUMMARY



# Review by the Managing Director

The year 2006 was satisfactory for the Group, on the whole, as all set targets were not attained. The growth target for turnover was not met, staying slightly below the level of the previous year. Domestic sales continued to be steady, but targets were not reached in exports. Consequently, net profit was below target. The profit attained can be considered quite satisfactory, however, taking into account the rise in raw material prices and other costs. We have succeeded reasonably well with regard to competition. Long-range, systematic effort, which, in my opinion, will also best produce a good result in the long term, has kept us at the forefront of the competition.

The need for personal security has grown over the past few years. This provides the basis for new products in the household sector, as well. This customer sector has not previously had security products on offer in Finland or indeed anywhere else in the world. We are opening markets for a home security centre. This presents a great challenge to us, also providing great potential, as growth in other customer segments is slowing down, even declining in some. One reason for this, among other factors, is the long useful life of the products.

Competition is also continuously getting harder in the plastics sector. We are increasingly competing with products made in the Far East in these product lines at a time when merchandising space is getting tighter in department stores and speciality shops. The PALASET brand is trusted in domestic and export markets. Even if we are not the cheapest in the market, the design, versatility and quality of our products is everywhere appreciated. Our strengths comprise fast, accurate delivery and flexibility.

Our operations require continuous improvement, while the challenges of globalisation have to be met. This also means that it is not rational to manufacture everything in-house. We should focus on boosting our core processes and try to outsource other activities. This has already meant that some new products and parts have been off-shored. In this way, we have been able to strengthen our competitiveness. This trend will also continue.

Economic prospects for 2007 are, for the main part, favourable even if growth in the world economy may already have passed its peak. Our order book generally extends to only about one month, making it difficult to forecast prospects for the present year. Our aim is to increase turnover in exports, thereby also improving profitability. Achieving this aim requires a large number of new customers, which means greater efforts in export activities. New products are required from product development for us to be able to stay at the forefront of development. This demands commitment and hard work from us all. I believe that together we can attain these aims.

I would like to extend my thanks especially to the entire staff, which has conscientiously attended to its tasks. I also wish to thank all our business associates for their trust and support towards our operations. Let us continue our productive cooperation.

Helsinki, March 2007

**Jari Bachmann**  
Managing Director

# Group Key Figures

	FAS	FAS	IFRS	IFRS	IFRS
	2002	2003	2004	2005	2006
<b>Operations</b>					
Turnover, EUR k	10,596	9,932	10,311	11,264	11,079
Change in turnover, %	-31.6 %	-6.3 %	+3.8 %	+9.2 %	-1.6 %
Operating profit, EUR k	210	-34	519	980	597
as % of turnover	2.0 %	-0.3 %	5.0 %	8.7 %	5.4 %
Profit before financial items, EUR k	125	-75	467	1,198	578
as % of turnover	1.2 %	-7.6 %	4.5 %	10.6 %	5.2 %
Net profit for the year, EUR k	72	-7	344	913	427
as % of turnover	0.7 %	-0.1 %	3.3 %	8.1 %	3.9 %
Return on equity (ROE), %	0.8 %	-0.1 %	4.1 %	10.2 %	4.6 %
Return on investment (ROI), %	3.1 %	1.2 %	5.4 %	10.8 %	5.3 %
Equity ratio, %	54.4 %	62.0 %	64.2 %	67.7 %	71.7 %
Net gearing, %	25.4 %	7.9 %	3.0 %	-11.0 %	-12.9 %
Gross investment in fixed assets, EUR k	1,644	431	234	311	418
as % of turnover	15.5 %	4.3 %	2.3 %	2.8 %	3.8 %
Balance sheet total, EUR k	15,536	13,222	13,382	13,801	13,165
Average staff, persons	105	102	91	86	86
<b>Share related</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Earnings per share (EPS), EUR	0.03	0.00	0.13	0.36	0.17
Shareholders' equity per share, EUR	3.40	3.31	3.37	3.74	3.79
Dividend per share, EUR (adjusted)	0.08	0.05	0.05	0.12	0.12*
Dividend per share, EUR (nominal)	0.08	0.05	0.05	0.12	0.12*
Dividend per profit, %	266.7 %	62.5 %	38.5 %	33.3 %	70.6 %
Effective dividend yield, %	6.6 %	3.3 %	2.8 %	4.8 %	3.0 %
Price-earnings (PE) ratio	40	1 925	14	7	23
Issue-adjusted average no. of shares	2,530,000	2,530,000	2,530,000	2,501,597	2,483,463
Issue-adjusted yearend no. of shares	2,530,000	2,530,000	2,530,000	2,492,130	2,479,130
<b>Share performance</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
A-share price, EUR					
– highest share price	1.66	1.55	2.02	2.50	4.33
– lowest share price	1.06	1.03	1.35	1.81	2.60
– average share price	1.47	1.34	1.76	2.25	3.39
– yearend share price	1.21	1.54	1.80	2.50	4.00
Market capitalisation, EUR m, A-shares	2.7	3.4	4.0	5.5	8.7
Trading volume during accounting period	340,180	130,400	271,000	180,702	756,182
Trading volume, % of shares	15.3 %	5.8 %	12.2 %	8.2 %	34.7 %
Number of shareholders	333	325	295	279	267

\* = proposal

The differences between FAS and IFRS affecting the key figures are due to inventory valuation and the treatment of work-related benefits, capital loan and incurred interest, and deferred taxation.

# Report by the Board of Directors

For the accounting period 1.1.2006–31.12.2006

## Business Activities

The Kaso Group's operations are divided into two business sectors, comprising Kaso Oy, which manufactures security products, and MK-Tresmer Oy, which manufactures plastic products. The parent company, Kasola Oyj, is in charge of Group financial management.

Consolidated turnover amounted to EUR 11,079k, representing a drop of EUR 185k from the previous year. Turnover is divided by business sector as follows:

	2006 EUR k	2005 EUR k
Security Products	8,248	8,295
Plastic Products	2,824	2,961
Other	857	863
– intragroup turnover	– 850	– 855
Consolidated turnover total	11,079	11,264

Overseas operations accounted for 29% (30%) of the turnover. The order book at the close of the financial year amounted to EUR 1,291k (EUR 942k).

## Group Structure

Group structure was simplified when MK-Tresmer Oy's minority shareholders sold their entire stake of 5% to Kasola Oyj through a transaction made on 12 October 2006. The transaction has no effect on the company's result. There are no longer any minority shareholders in the Group companies.

## Security Products

The financial year 2006 was on the whole satisfactory for the Security Product Segment even though turnover was to some extent down on the previous year. Domestic turnover was at the level of the previous year, but slightly down in exports. Due to the drop in turnover profitability was down on that of the previous year. The rise in the general level of expenditure weakened the profit trend at the end of the year. Operating profit represented 7.4% (9.5%) of turnover, which is a satisfactory level.

We have managed to hold our position in the domestic market. Market share for both safes and lockers have grown slightly. Efforts were made to expand the domestic dealer network last summer. The results, however, have remained modest. Demand from financial institutions picked up

slightly, but price competition kept the margins narrow. Our service organisation now has seven service technicians, enabling us to serve all customers throughout Finland on a 24-hour basis.

The turnover in exports was slightly down on the previous year. There was a surge in activity last year and new dealers were engaged in a number of areas. We expect to reap the results during the present year. Even though price competition is hard in many market areas, we have managed to meet the competition reasonably well with the aid of good products and the strong KASO brand. Our strengths continue to be high quality, modern design, best test results, reliability and the light weight of the products. Purchasing a Kaso product continues to provide added value for the customer.

Product lines have been expanded for both fire proof and burglar security products. The new KASO PK-400 line of safes has been tested for two hours to fire security class 120 Paper. The safes have been well received on the market. The security product range has expanded through the new Euronorm tested E-400 line of safes and in the banking segment by the new E-300N overnight deposit safes.

The main events in marketing comprised the Finnbuild exhibition in Helsinki and the Essen Security fair in Germany. In addition, we organised our own customer events and burglary and fire displays for a number of important customers.

The Security Segment had a turnover of EUR 8,248k (EUR 8,295k) and an operating profit of EUR 613k (EUR 792k). Staff numbered on average 58 (56) employees.

## Plastic Products

Turnover of the Plastic Product Segment fell slightly from the previous year. Sales in Finland were on target, but in exports were down on the previous year. Increasing turnover with the existing product lines has proved to be most challenging. Apart from Finland, good market areas are the USA, Japan and Switzerland, for example. Despite increased efforts to gain new large customers, the results have partly not been attained. The aim of the present year is to further increase sales efforts, especially in the Nordic countries and the UK.

The results for the end of the year were again better than for the beginning. The target for turnover

was almost attained and the result was better than in the opening months. Our production warrants special mention concerning our strengths with top-of-the-class delivery assurance and efficiency. We have managed to keep margins at an excellent level despite increased prices in plastic raw-materials and great fluctuations in the level of business. Reorganisation measures could not be completely avoided last year, however, and some of the production staff were laid off.

Profitable business can only be attained through growth in turnover. This is based on winning new customers and extending the range of products. During the present year we are going to focus more heavily on the PALASET Desktop range, which will include larger products, and the PALASET Hangers range, which will be supplemented with wooden hangers, among other products.

Turnover of the Plastic Products Segment dropped 5% from that of the previous year to EUR 2,824k (EUR 2,961k). Profitability also weakened and was clearly down on the previous year. Operating profit amounted to EUR 100k (EUR 192k), representing 3.5% (6.5%) of turnover. Staff numbered on average 24 (27) employees.

#### Research and Product Development

Group product development was focused on both new products and the continuous improvement of existing products.

The most important product development projects in the security segment comprised the new KASO PK-400 and E-400 lines of safes and rollout of the E-300N overnight deposit safe. Planning was also started on the new home security centre (KodinTurvaKeskus). Efforts in the plastic products segment were focused on extending the PALASET-Desktop line and new materials for hangers.

	2006	2005
	EUR k	EUR k
R&D expenditure	304	256
as % of turnover	2.7%	2.3%

#### Profitability and Financing

The Kaso Group's profitability was markedly down on the previous year. Costs were not in relation to the reduced turnover. In addition, the overall rise in the level of expenditure weakened profitability. Operating profit amounted to EUR 597k (EUR 980k) and net profit for the year to EUR 427k (EUR 913k). The financial items of the previous year included non-recurring financial income of EUR 220k.

The Group's financial position is excellent. Financial expenditure amounted to EUR 89k (EUR 97k). Interest-bearing liabilities decreased by EUR 449k to EUR 1,764k (EUR 2,212k) at yearend. The equity ratio was 71.7% (67.7%) with equity per share at EUR 3.79 (EUR 3.74) and return on equity at 4.6% (10.2%).

#### Investments

Investments for 2006 totalled EUR 418k (EUR 311k). No major investments were made in machinery and equipment. The largest investments were focused on renewing ADP hardware and Kaso Oy's switching over to use of natural gas. Investment requirements for machinery and equipment in the coming years will mainly be in the nature of replacements, as production capacity can be increased without major additional investments. Consequently, depreciation for the following years will stay at the present level.

#### Staff

Group staff numbered on average 86 (86) employees with 4 (3) at the parent company. Wages, salaries and fees for the accounting period amounted to EUR 3,157k (EUR 3,137k), of which salaries and fees paid to managing directors and members of the boards of the parent company and subsidiaries came to EUR 307k (EUR 197k).

#### Corporate Governance

The Annual General Meeting of Kasola Oyj, held on 21 April 2006, elected Kirta Forsström, Juha Oikarinen, Markku Uotinen and Jari Bachmann as members of the board of directors. The board elected Juha Oikarinen from their number as chairman. The company's managing director is Jari Bachmann. The auditors are the authorised public accounting firm, Tilintarkastustoimisto Idman & Vilén Oy with Matti Pettersson, authorised public accountant, as the responsible auditor.

Kasola Oyj applied the recommendations for the listed companies' best practice governance and management scheme, issued by the Helsinki Stock Exchange, the Central Chamber of Commerce and the Confederation of Finnish Industry (EK). The principles accepted by the company's board of directors can be seen at [www.kasola.fi](http://www.kasola.fi).

#### Shares and Share Capital

The trading volume of shares during 2006 was 756,182, which represents 34.7% of total shares. Trading volume in terms of value amounted to EUR 2,543k. The lowest share price was EUR 2.60 per share and the highest EUR 4.33 per share. The closing share price for the accounting period was EUR 4.00 per share with the market capitalisation of A-list shares at EUR 8,717k. The number of

shareholders at the end of the accounting period amounted to 267.

The company's share capital was decreased by EUR 22,100,000 in accordance with a resolution of the AGM of 21 April 2006 through the cancellation of 13,000 of Kasola Oyj A-list shares held by the company. This action was registered with the trade register on 10 May 2006.

#### **Board Authorisations**

The AGM of 21 April 2006 authorised the board of directors to decide on the acquisition and conveyance of a maximum of 200,000 of the company's own A-list shares. By 31 December 2006 the company had bought, under these authorisations, 700 A-list shares at an average share price of EUR 3.50 per share, which corresponds to some 0.03% of the company's shares outstanding and 0.01% of the voting rights.

#### **Risk Management**

Kasola Oyj's board of directors is responsible for the strategy and principles of the Group's risk management. The aim is that the targets set for business activities and profit-making capability can be assured in various situations. Management is responsible for the observance of these principles as a component of internal supervision. The company does not have a separate internal audit unit. Risks can be divided into strategic, operational, financial and hazard risks.

#### **Strategic risks**

Demand for security products has remained quite steady over the past few years. Rapid changes in the field are not foreseen in the short run. The products have been tested to Euronorm standards, which have been valid for over a decade. Demand for tested products is focused on lower security classes, which means a drop in the average prices of security products. More commercial operators are entering the markets from new EU countries and from outside the EU. This means increasingly harder price competition and it may increase the market share of so-called untested products. Kaso Oy's aim is to maintain the company's competitive edge through its strong brand, which is based on innovative product development, tests, design and quality.

The markets for plastic products are regarded as stable concerning office supplies and clothes hangers. On the other hand, the markets for money-boxes continue to decline. Price competition has become harder in all product categories due to products made in the Far East. Competition is not only with products made of plastic raw materials, but also with corresponding, substitute products that are made of wood, metal or other materials.

Increased competition among suppliers promoted by larger customers has led to products becoming cheaper. The position of Palaset in the market is based on it being an established brand, conveying versatility, durability and quality of all products.

For both product sectors the significance of the brand is extremely great. The customer base is diverse with no individual customer accounting for over 5% of our turnover.

#### **Operational risks**

Our operations are mainly based on customised manufacture to order. There are large fluctuations in the order book, which means that flexibility throughout all our activities is of prime importance. Fluctuations in demand are offset by flexible working hours.

As a small firm our dependence on key staff is more acute, the same as for other similarly sized firms. Even though operations are carried out by teams with use made of a staff backup system, special competences may hinge on one person. We are making efforts to identify these areas and set up backup plans.

The share of raw materials in our products is rather large, so rapid rises in costs affect margins and they cannot always be transferred to prices in a short timescale. The share of energy costs is not significant.

We also have backup for almost all our suppliers. However, quickly finding a substitute for some suppliers presents a challenge.

#### **Financial risks**

Financial risks connected to the Group are managed by the Kasola Oyj's board of directors in line with an adopted financial policy.

On the whole, exchange, interest and liquidity risks are deemed to be very small and credit risk quite small.

#### **Hazard risks**

Risks connected to staff, property, the concentration of operations and product liability have been covered by appropriate insurance.

#### **Environment**

Group companies attend to the necessary sorting and further treatment of waste and problem waste.

#### **Outlook for the Future**

With the continuation of economic growth, domestic markets are expected to remain stable in both the security and plastic sectors. Heightened activi-

ty in exports provides opportunities to increase turnover. However, the competition for customers is hard, yet we have no desire to embark on pure price competition. Our aim is to provide added value to our customers through our products and thus maintain a better price level in the markets.

Our main aims at the start of the year are to increase both turnover and profit.

The plastic sector's result for the opening months of the year tends to show a loss, while the closing months are generally much better. Seasonal fluctuations in the security sector are generally not so large. We believe in a positive trend throughout our operations.

### **The Board's Proposal for the Distribution of Earnings**

The parent company's unrestricted shareholders' equity as at 31 December 2006 totals EUR 1,456,096.13, of which net profit for the year amounts to EUR 98,051.63. The board proposes to the Annual General Meeting that a dividend of EUR 0.12 per share be distributed for the accounting period, totalling EUR 297,495.60. There have not been any material changes in the financial position of the company after the close of the accounting period. The company's liquidity is good. In the view of the board of directors the proposed distribution of earnings does not jeopardise the solvency of the company.



## KASO-GROUP

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