

KASOLA OYJ

**Annual Report
English Summary
2004**

Review by the Managing Director

We have been market leader for physical security products in Finland for many years. Even though our market share has even risen over the past few years, the problem persists that total markets have not started to grow.

On the contrary, markets have declined in a longer time perspective, being just a fraction of what they were in the seventies and eighties. The same trend has been visible in other parts of the world, too.

In this business environment Kaso has nevertheless performed reasonably well. Our strength has comprised long-range, systematic operations in all areas of business. The Kaso brand is deemed by domestic and export customers to be a powerful enhancement in terms of the high quality and modern design of the products. They comprise the basic factors through which greater success will be gained in export markets.

During 2004 all manufacturing of security sector products was concentrated on Kaso Oy's facilities in Helsinki. Operating with two units, in Helsinki and Tampere, was not financially profitable, as both locations had large spare capacity. Relocating production to the Helsinki plant has gone well. Efficiency has risen through increased volume, which is also visible in the result of the security product sector. We endeavour to focus to a greater extent on volume products in our manufacturing activities while outsourcing other parts of our production. We shall also improve our competitiveness by offshoring Kaso products elsewhere. This means new challenges both in our product development activities and logistic processes.

Operations in the plastic product sector have had a declining turnover for several years now. The one-time largest product line, Palaset money boxes, has considerably declined, while we have not made the necessary investment to reverse this trend. In this niche product line we have lost our market leader position in the world. The main focus of our activities over the past years has been on the Palaset Desktop and clothes hanger product lines where results have been better.

I believe that at MK-Tresmer we have performed outstandingly in production activities as well as product development. Offshoring manufacture of some Palaset products and tool-making to the Far East has been successful. For many years now the major challenges in our operations have been focused on sales and marketing where we shall also boost our efforts during the present year as well. Even the slightest increase in turnover makes an immediate improvement in profitability.

Prospects in the market for the current year are on the whole reasonable. Even though the situation in the markets has been a little slower during the opening months of the year, I believe that it will improve in the coming months. Results ultimately come about through the activities of us all. Only through doing work is it possible to achieve results.

I wish to thank all those involved in our activities.

Helsinki, March 2005

Group Key Figures

Operations	2000	2001	2002	2003	2004
Turnover, EUR k	18 368	15 498	10 596	9 932	10 311
change %	+17.6%	-15.6%	-31.6%	-6.3%	+3.8%
Operating profit, EUR k	1 303	-47	210	-34	519
% of turnover	7.1 %	-0.3%	2.0%	-0.3%	5.0%
Profit before extraordinary items, EUR k	990	-497	125	-75	433
% of turnover	5.4%	-3.2%	1.2%	-7.6%	4.2%
Profit before appropriations and taxes, EUR k	990	-497	125	-75	459
% of turnover	5.4%	-3.2%	1.2%	-7.6%	4.5%
Profit before extraordinary items ./taxes, EUR k	727	-538	72	-7	277
% of turnover	4.0%	-3.5%	0.7%	-0.1%	2.7%
Return on Equity (ROE), %	7.6%	-5.7%	0.8%	-0.1%	3.3%
Return on Investment (ROI), %	7.2%	0.4%	3.1%	1.2%	5.1%
Equity ratio, %	46.7%	45.0%	54.4%	62.0%	65.2%
Net gearing, %	55,6%	75,6%	25,4%	7.9%	0.7%
Gross investments in fixed assets, EUR k	1 244	1 628	1 644	431	234
% of turnover	6.8%	10.5%	15.5%	4.3%	2.3%
Consolidated balance sheet total, EUR k	20 731	19 750	15 536	13 222	12 925
Average number of personnel	183	168	105	102	91
Share related	2000	2001	2002	2003	2004
Earnings / share (EPS), EUR	0.29	-0.21	0.03	0.00	0.11
Shareholders' equity / share, EUR	3.83	3.57	3.40	3.31	3.37
Dividend / share, EUR (adjusted)	0.10	0.00	0.08	0.05	0.05*
Dividend / share, EUR (nominal)	0.10	0.00	0.08	0.05	0.05*
Dividend / profit, %	35.1%	neg.	266.7%	62.5%	45.5%
Effective dividend yield, %	6.7%	0.0%	6.6%	3.3%	2.8%
Price / earnings ratio, (P/E)	5	neg.	40	1925	17
Issue-adjusted average no. of shares, k	2 530	2 530	2 530	2 530	2 530
Issue-adjusted year end no. of shares, k	2 530	2 530	2 530	2 530	2 530
Share performance	2000	2001	2002	2003	2004
A-share price on the I-list, EUR					
-highest share price	2.00	2.00	1.66	1.55	2.02
-lowest share price	1.25	1.30	1.06	1.03	1.35
-average share price	1.54	1.55	1.47	1.34	1.76
-year end share price	1.50	1.50	1.21	1.54	1.80
Market capitalization, EUR m , A-share	3.3	3.3	2.7	3.4	4.0
Trading volume of shares during accounting period on the I-list	208 785	70 600	340 180	130 400	271 000
Trading volume of shares, %	9.3%	3.2%	15.3%	5.8%	12.2%
Number of shareholders	361	350	333	325	295

*= proposal

Report by the Board of Directors

For the accounting period 1.1.2004-31.12.2004

GROUP STRUCTURE AND BUSINESS

ACTIVITIES

The Kaso Group's operations are divided into two business sectors:

Security Products (Kaso Oy, Kaipio Oy)

Plastic Products (MK-Tresmer Oy)

The parent company, Kasola Oyj, is in charge of Group financial management.

The beginning of the financial year was marked by the closure of manufacturing at the Tampere plant, which was completed early summer. All manufacturing activities related to the Security Product Sector are now based in Kaso Oy's facilities in Helsinki.

Consolidated turnover amounted to EUR 10,331 k, representing a growth of 3.8% on the previous year. Turnover is divided among the companies as follows:

	<u>2004</u>	<u>2003</u>
Kasola Oyj	869	886
Kaso Oy	7,548	6,381
Kaipio Oy	-	956
MK-Tresmer Oy	2,759	2,863
- intragroup turnover	- 865	-1,154
Consolidated turnover total	10,311	9,932

Overseas activities accounted for 30 % (30%) of turnover and the orderbook at the close of the financial year amounted to EUR 1,026 k (EUR 985 k).

THE SECURITY PRODUCT SECTOR

The Security Product Sector attained a slight growth in turnover, while profitability showed a clear improvement on the previous year. This is a fine achievement, bearing in mind the decline in total markets for physical security products and the substantial price rises in raw materials, especially steel. Market share for safes and clothes lockers noticeably grew in Finland. On the other hand, demand for bank security products continued to be weak. The share of exports in turnover has also grown. Even though price competition has become fiercer in many market areas, we have managed well in our response to competition, especially from products made in Eastern Europe, thanks to the Kaso brand. This is shown by the rise in our exports, especially to the Baltic countries and Russia.

Kaso's strengths continue to be high quality, best test results, modern design and the lightness of our safes. Through these strengths we have been able to keep prices at a good level.

The product lines have been expanded across the board.

The E-300 series of safes won the design series prize in the Plootu Fennica competition organised by Teknologiateollisuus ry (the Association of the Technological Industry). We also received an honourable mention for the unique design of the safe. The weight of the safe is but a fraction of similar products on the market.

We have increased marketing efforts and reinforced the organisation through the newly established post of marketing director. Several exhibitions and meetings with customers have been important events in the launch of new products. Turnover amounted to EUR 7,548k (EUR 7,071k) and operating profit to EUR 516k (EUR 110k). Staff numbered on average 58 (66).

THE PLASTIC PRODUCT SECTOR

The year 2004 was another unsatisfactory year for the Plastic Product Sector. The decline in turnover continued, while the result showed a loss. Despite major investments at the beginning of the year export growth was nevertheless much weaker than forecast. Even if Palaset products have been well received on the market, there were no new orders from customers to meet expectations. Sales to existing customers have, nonetheless, continued to be good. Reorganisation measures could not be avoided, however, and some of the production staff have been temporarily laid off. The price rises for plastic raw materials were exceptionally large last year. Passing them on to customers was only carried out in the final months of the year. The end of the year was much better than the beginning due to efficiency measures.

Growth in turnover requires new products for both existing and new customers. New product development projects are to a great extent based on the needs of our existing customers. In 2004 Base Set, which belongs to the Palaset Home Office Collection series, was introduced to the market. Other significant new products are Ronda and Tiina coat hangers and patterned Palaset products.

This year almost ten new Palaset products have been added to the Desktop, clothes hanger and savings box product families, which is much more than for decades. This has been enabled by our active operations in the Far East concerning tooling and Palaset products requiring a lot of manual work.

Our operational efficiency-boosting requirements lie mainly in sales and marketing. Our production efficiency is excellent, while we have made great strides in our product development. Even the smallest growth in turnover will enable a rapid improvement in the result of our business.

Turnover fell by 3.4% from the previous year, amounting to EUR 2,759k (EUR 2,856k). Profitability was poor and operating loss came to - EUR 99k (-EUR 144k). Staff numbered on average 30 (33).

clear improvement on the previous year. Operating profit was EUR 519k (-EUR 34k). Depreciations decreased from the previous year, amounting to EUR 697k (EUR 878k). The Group's financial position is good. Financial expenditure came to EUR 86k (EUR 42k). Interest-bearing liabilities fell by EUR 588k, amounting to EUR 2,743k at yearend (EUR 3,331k). The equity ratio was 65% (62%) and equity per share EUR 3.37 (EUR 3.31).

INVESTMENTS

Investments for 2004 totalled only EUR 234k (EUR 431k). Investment requirements for machinery and equipment over the coming years will continue to be low. Consequently, depreciation for the following years will continue to fall.

STAFF

Group staff numbered on average 91 (102) with 3 (3) at the parent company. Wages and salaries and fees for the accounting period totalled EUR 3,240k (EUR 3,337k), of which salaries and fees attributable to the managing director and members of the board of directors amounted to EUR 189k (EUR 196k).

CORPORATE GOVERNANCE

The Annual General Meeting was held on 23 April 2004. Kirta Forsström, Juha Oikarinen, Markku Uotinen and Jari Bachmann were elected to the parent company's 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, with Matti Pettersson, authorised public accountant, as the responsible auditor.

BOARD AUTHORISATIONS

The Annual General Meeting of 23 April 2004 authorised the board of directors to decide on the acquisition and conveyance of a maximum of 126,500 of the company's own A-list shares and to sell a maximum of 2,357 of shares not transferred to the book-entry system. On 31 December 2004 the company bought 32,870 A-list shares at an average share price of EUR 1.75 (nominal value EUR 1.70), which represents some 1.3% of the company's shares outstanding and 0.4% of the voting rights.

ADOPTION OF IFRS

At the beginning of 2005 Kasola Oyj is changing over to IFRS. Interim reports for 2005 will be prepared using IFRS principles. In May 2005, that is before the first interim report, Kasola Oyj will issue a release, giving a detailed explanation of the effects on the company's financial information due to the changeover to IFRS and will publish IFRS comparable figures for 2004.

MARKET SURETY CONTRACT

Kasola Oyj has terminated the market surety contract held with Nordea Pankki Suomi Oyj, effective from 31 December 2004. Since then a new Liquidity Providing Contract has not been made.

FUTURE OUTLOOK

Domestic markets are expected to remain stable. We have good possibilities to increase turnover in exports. The competition for customers, however, is tightening with new competitors emerging from neighbouring countries and the Far East.

Increasing turnover and improving profitability continue to be our main aims. Sales for the beginning of the current year have been below targets. Even if the result for the first four months shows a loss, we nevertheless believe we shall attain a positive full-year result.

BOARD'S PROPOSAL FOR THE DISPOSAL OF EARNINGS

The company's distributable funds amount to EUR 1,389k (EUR 1,299k). The parent company's net profit for the year is EUR 136k. The board proposes to the Annual General Meeting that a dividend of EUR 0.05 per share be distributed for the accounting period, totalling EUR 126k.