KASOLA OYJ

Annual Report
English Summary
2003

Review by the Managing Director

The year 2003 was challenging to the Group´s security product and plastic product sectors.
The beginning of the year was marked by the Iraq War, which weakened demand for our products in the markets. The plastic product sector had to carry out redundancies and lay-offs. Operations of the security product sector were centralised at Kaso Oy at the end of the summer when the business activities of Kaipio Oy were sold to Kaso Oy. The aim was to gain benefits in marketing and management. Since demand continued to decrease especially from domestic financial institutions, it was decided to close down the Tampere production unit. The Group´s result was pushed into the red due to winding up the Tampere unit and the weak profit trend experienced by the plastic product sector.

Kaipio Oy was founded in 1891 and the company´s history covered years of success and of loss. As a result of the corporate acquisition made in 1978, Kaipio Oy joined the Kaso Group. I addition to safes and bank security products, the firm´s production programme also included such items as the bodywork of buses. With the discontinuation of Kaipio Oy´s production, one of the oldest manufacturing firms in Finland slips into history.

The generation change at the Kaso Group was concluded in autumn 2003. Heikki Bachmann´s shareholding was transferred in its entirity to his three children. Responsibility for running the business now belongs to the third generation. Withdrawal from USA operations was also finally brought to a conclusion at the end of last year on completion of the sale of real estate.

The turnover of all our operations has been in decline over the past years. In the security product sector we have aimed to focus our activities on the manufacture of fire and burglar tested products, whose markets have been shrinking. Despite the fact that we are at the forefront of security product manufacture, even this has not been enough in competition. In the plastic product sector we have also been operating with a narrow product range where especially piggy-bank markets have markedly declined. Even though we have managed rather well to adjust our operations to meet market trends, it is nevertheless essential in running a firm to attain growth in business. As markets have shrunk and changed in our business sectors, growth will now require new and more radical solutions with respect to both products and the customer phase.

Market prospects for the present year have slightly improved. On the other hand, there are great challenges to productive business activities in Finland. Growing price competition from neighbouring countries continues with no easy solutions to be found. The price level of basic products is constantly falling, requiring us to make our own products respond to the prevalent price level. The best option for us is to provide customers with added value through continuous improvement in our product range. In both the security product and the plastic product sectors we are leaders in the technical development of products. Price differences among products are also increasing similar to household wealth. The significance of a brand is even further emphasised, which improves our competitiveness.

I continue to hold the firm belief that long-range and systematic operations will provide results in a changing world, but this will require of us all an openness to things that are new, to change and to developments. In-house efficiency in our operations is good, which gives us the possibility to take on new challenges. We must now show what we can do.

Thank you to all those involved in our activities.

Helsinki, March 2004

Jari Bachmann
Managing Director

Group Key Figures

Operations	**1999**	**2000**	**2001**	**2002**	**2003**
Turnover, EUR k	15 621	18 368	15 498	10 596	9 932
change %	-19.0%	+17.6%	-15.6%	-31.6%	- 6.3%
Operating profit, EUR k	544	1 303	-47	210	- 34
% of turnover	3.5%	7.1 %	-0.3%	2.0%	- 0.3%
Profit before extraordinary items, EUR k	238	990	-497	125	- 75
% of turnover	1.5%	5.4%	-3.2%	1.2%	- 7.6%
Profit before appropriations and taxes, EUR k	332	990	-497	125	- 75
% of turnover	2.1%	5.4%	-3.2%	1.2%	- 7.6 %
Profit before extraordinary items ./.taxes, EUR k	97	727	-538	72	- 7
% of turnover	0.6%	4.0%	-3.5%	0.7%	- 0.1%
Profit before extraordinary items ./. taxes +/- minority interests, EUR k	92	727	- 536	68	2
% of turnover	0,6%	4,0%	- 3,5%	0,6%	0,0%
Return on Equity (ROE), %	1.1%	7.6%	-5.7%	0.8%	- 0.1%
Return on Investment (ROI), %	3.1%	7.2%	0.4%	3.1%	1.2%
Equity ratio, %	46.4%	46.7%	45.0%	54.4%	62.0%
Net gearing, %	61.4%	56.2%	75.6%	25.4%	7.9 %
Gross investments in fixed assets, EUR k	702	1 244	1 628	1 644	431
% of turnover	4.5%	6.8%	10.5%	15.5%	4.3%
Consolidated balance sheet total, EUR k	19 831	20 731	19 750	15 536	13 222
Average number of personnel	182	183	168	105	102

Share related	**1999**	**2000**	**2001**	**2002**	**2003**
Earnings / share (EPS), EUR	0.04	0.29	-0.21	0.03	0.00
Shareholders´equity / share, EUR	3.59	3.83	3.57	3.40	3.31
Dividend / share, EUR (adjusted)	0.08	0.10	0.00	0.08	0,05*
Dividend / share, EUR (nominal)	0.08	0.10	0.00	0.08	0,05*
Dividend / profit, %	217.4%	35.1%	neg.	266.7%	6250%
Effective dividend yield, %	6.5%	6.7%	0.0%	6.6%	3.3%
Price / earnings ratio, (P/E)	34	5	neg.	40	1925
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	**1999**	**2000**	**2001**	**2002**	**2003**
A-share price on the I-list, EUR					
-highest share price	2.10	2.00	2.00	1.66	1.55
-lowest share price	1.15	1.25	1.30	1.06	1.03
-average share price	1.50	1.54	1.55	1.47	1.34
-year end share price	1.30	1.50	1.50	1.21	1.54
Market capitalization, EUR m , A-share	2.9	3.3	3.3	2.7	3.4
Trading volume of shares during accounting period on the I-list	262 850	208 785	70 600	340 180	130 400
Trading volume of shares, %	11.8%	9.3%	3.2%	15.3%	5.8 %
Number of shareholders	387	361	350	333	325

*= proposal

Report by the Board of Directors

For the accounting period 1.1.2003-31.12.2003

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)

Kaso Oy acquired the business activities of its subsidiary, Kaipio Oy on 1.9.2003 and in December it was decided to close down Kaso´s Tampere plant. The manufacture of bank security products will be transferred to Kaso´s Helsinki plant by April 2004.

The parent company, Kasola Oyj, is responsible for the financial management of the Group.

Consolidated turnover amounted to EUR 9,932 k, down by EUR 664 k from the previous year. Turnover is divided among the companies as follows:

	2003	2002
Kasola Oyj	**886**	**746**
Kaso Oy	**6,381**	**5,737**
Kaipio Oy	**956**	**1,938**
MK-Tresmer Oy	**2,863**	**3,446**
- intragroup turnover	**- 1,154**	**- 1,271**
Consolidated turnover total	**9,932**	**10,596**

Overseas operations accounted for 30% of the turnover (31%) and the orderbook at the close of the financial year amounted to EUR 985 k (EUR 1,167 k).

THE SECURITY PRODUCT SECTOR

The security product sector did not attain targets for turnover or profitability. Turnover dropped by 1.1%, while profitability was weaker than for the previous year. Across-the board markets for tangible security products have shrunk further, which is especially apparent in the weakened demand for bank security products. In addition, security requirements are diminishing with hardly any new projects in sight in the bank sector. Markets for safes and clothes lockers have not substantially grown in domestic markets. By focusing on marketing and product development we have nevertheless managed to hold our good position and even increase our market share slightly.

Targets were not met in export markets. In many market areas price competition hardened largely due to manufacturers from Eastern Europe bringing greater quantities of more cheaply manufactured products to market. This has weakened our position, as price has been the most important purchasing criterion to the customer. Kaso´s strengths, however, comprise positive aspects connected to our product range, such as high quality, best test results, modern design and lightness. Through these strengths we have interested new dealers in our products.

Product models have been extended. The most important new products to be transferred to serial production were the Z-model locker doors. In addition, the E-300 safe series and the VD archive and vault doors have been supplemented with new models.

Kaso Oy´s quality management is based since 1995 on the ISO 9001 quality system, which was recertified last year in accordance with the newer ISO 9001:2000 standard.

At the end of summer it was decided to centralise all security product operations at Kaso Oy. Kaso Oy acquired the business activities of its subsidiary, Kaipio Oy, with some of the staff transferring to Kaso Oy as so-called old employees. The aim in centralising operations was to gain benefits mainly in marketing and management.

During the autumn demand for security products further weakened in Finland, which meant that profitable business at the two manufacturing units was no longer possible. With no sign of a market recovery, redundancy negotiations were initiated in November concerning the closure at Kaso´s Tampere plant. The outcome of these negotiations was that all manufacturing activities would be discontinued at Kaso´s Tampere plant. On the other hand, sales, marketing, maintenance and installation would continue as normal. Turnover amounted to EUR 7,076 k (EUR 7,154 k) and operating profit to EUR 110 k (EUR 479 k). Staff numbered 66 (64) on average.

THE PLASTIC PRODUCT SECTOR

The year 2003 was not entirely satisfactory for the plastic product sector. The drop in turnover continued, while the result showed a loss. It was tried to adjust production by means of greater flexibility in working hours in line with the reduced orderbook. Adjustment measures could not, however, avoid a negative result. The situation was especially difficult in the spring and some of the production staff had to be laid off during the March-June period. The result improved slightly in the latter part of the year, which nevertheless did not cover the losses incurred in the beginning of the year. Sales efforts in Central Europe did not meet expectations, which resulted in the closure of the Paris office in the summer.

On the other hand, sales were reinforced by hiring a new export manager in Helsinki. The results of the customer satisfaction survey conducted in the summer were most positive with regard to both products and customer service. The Palaset brand is still viable and we can build our operations around it.

One of the most important events in marketing was the "Palaset Scene 2003" design competition targeted at young design professionals and students. The aim was to find new, versatile, quality products starting from a product series originally designed by Ristomatti Ratia. As many as 195 works took part in the competition. The result was announced at the Habitare exhibition where the panel of judges highly commended the standard of the competition. The first work from the competition will be introduced to the market during spring 2004.

Production efficiency has remained outstanding despite the drop in turnover and numerous lay-offs. Even the slightest rise in turnover will enable the company to make quick results, as there is spare capacity available. Delivery assurance is still top-class.

The most important product development project was concluded in the summer with the rollout of the Milli-volume hanger. Turnover decreased by 17 % from the previous year to EUR 2,856 k (EUR 3,441 k). Profitability turned to loss with an operating loss of EUR -144 k (EUR 212 k). Staff numbered on average 33 (37).

PROFITABILITY AND FINANCING

The Kaso Group´s profitability on operations was weaker than for the previous year for both the security product and the plastic product sectors.

Operating profit was - EUR 34 k in the red (EUR 210 k). All the final details concerning activities in the USA, including the sale of real estate, were concluded during last year and charged to extraordinary expenditure at EUR 26 k. Depreciations decreased from the previous year, amounting to EUR 878 k (EUR 1,001 k). The Group´s financial situation is good. Financial expenditure clearly dropped from the previous year. Interest-bearing liabilities dropped by EUR 1,800 k to EUR 3,331 k (EUR 5,131 k) at year end. The equity ratio was 62.0 % (54.4 %) and equity per share EUR 3.31.

INVESTMENTS

Investments totalled EUR 431 k (EUR 1,644 k) in 2003. In the near future investment requirements for machinery and equipment will be slight, as production capacity can be increased even without any further substantial investments. Consequently, depreciation for the following years will continue to fall.

ADOPTION OF IAS / IFRS STANDARDS

In autumn 2003 a study was started on the effect of the IAS standard on the principles for the preparation of consolidated accounts. The project has progressed on schedule and Kasola Oyj´s first official IAS/IFRS financial statements will be drawn up for the accounting period beginning 1.1.2005.

GOVERNANCE

The Annual General Meeting was held on 4 April 2003. Jari Bachmann, Kirta Forsström, Juha Oikarinen and Markku Uotinen were elected to the parent company´s Board of Directors. The Board elected Juha Oikarinen as Chairman. The company´s managing director is Jari Bachmann. The auditors are the authorized public accounting firm, Tilintarkastustoimisto Idman & Vilén Oy, with Matti Pettersson, authorized public accountant, as the responsible auditor.

BOARD AUTHORISATIONS

The Board has no currently valid authorisation concerning increasing share capital, granting option rights, taking out convertible debentures or the acquisition or transfer of its own shares.

FUTURE OUTLOOK

The drop in overall demand in the market seems to have stopped and the economic outlook has slightly improved. This will, we believe, be reflected in our business environment. Competition for customers is further tightening with the advent of new competitors from neighbouring countries and also the Far East.

The main aim of our operations is to increase turnover and improve profitability over the present level. We are trying to attain this aim by fine-tuning customer segments and by boosting the acquisition of new customers especially in export markets. In addition, the focus of our operations is to improve price competitiveness through product development and by reducing the cost of products through increased subcontracting.