

KASOLA OYJ

**Annual Report
English Summary
2002**

Review by the Managing Director

In 2002 the Group's operations were reduced to two business sectors. There was no recovery in the turnover of our US subcontracting unit following the closedown of its biggest customer during the previous year. Orders from new customers were few and business showed a loss. Fab-Tech Ind.Inc. led for Chapter 11 at the beginning of autumn and for bankruptcy at the end of the year, as it was not possible to turnaround the situation.

Our operations in the USA started in the beginning of the 1980s with safes. The sales office, established in Miami, marketed our safes largely for the jewellery business. Markets were not so large, but our market share in the mid-eighties was in the region of 30%. The sharp weakening of the dollar at the end of the eighties made exports unprofitable. In 1988 Kasola Oyj acquired Fab-Tech Ind.Inc. where the manufacture of safes was started. Business did not turn out to be profitable and the manufacture of safes was discontinued in financial year 1995-96.

The company focused increasingly on subcontracting in the metal sector and automated storage systems, which were Fab-Tech Ind.Inc.'s original product lines. There were heavy investments in machinery and equipment to develop the business. Fab-Tech Ind.Inc.'s profit trend varied considerably from one year to the next; neither did its business support Group strategy. Attempts were made in vain to sell off the company over a number of years. When our largest customer wound up in autumn 2000, this was the final setback for Fab-Tech Ind.Inc.. Turnover fell by over 60%, which was impossible to recover. The bankruptcy process is still proceeding, but total losses, estimated at EUR 1.3m, have been entered in the accounts for 2002.

A change of generation is taking place at Kasola Oyj, as Heikki Bachmann will transfer his entire shareholding to his three children.

The marks made by Counsellor of Trade Heikki Bachmann's pathbreaking and successful life's work can be seen both in Kaso Oy and in the entire Group. Increasing market share in Finland and the expansion of business into export markets and completely new business sectors took place under his leadership. With vigorous growth occurring in domestic banking during the seventies and eighties, Kaso Oy was able to build up solidity to such a good level that the company dealt with the years of recession during the early nineties respectably. Business has stabilised over the past few years, but the seeds of growth are already germinating. We, the third generation, will face a great challenge, mapped out by tradition, as we assume the reins of leadership of the firm.

The market prospects for the year underway are uncertain. Consumer behaviour has for the moment remained stable, but there has been a fall in investment by firms. We are one of the best firms in Europe in the security sector. With a decline in the market for security products our turnover has also fallen. Despite that we have managed to keep profitability at a good level. Long-range, systematic operations show results even during a period of economic downturn. This is also the case with the plastic product sector, which has at last managed to turn its profit trend around through a new mode of operation.

Thanks are extended to all participants in our operations.

Helsinki, March 2003

Jari Bachmann
Managing Director

Group Key Figures

Operations	1998	1999	2000	2001	2002
Turnover, EUR k	19 278	15 621	18 368	15 498	10 596
change %	-3.2%	-19.0%	+17.6%	-15.6%	-31.6%
Operating profit, EUR k	1 206	544	1 303	-47	210
% of turnover	6.3%	3.5%	7.1 %	-0.3%	2.0%
Profit before extraordinary items, EUR k	712	238	990	-497	125
% of turnover	3.7%	1.5%	5.4%	-3.2%	1.2%
Profit before appropriations and taxes, EUR k	712	332	990	-497	125
% of turnover	3.7%	2.1%	5.4%	-3.2%	1.2%
Profit before extraordinary items ./taxes, EUR k	521	97	727	-538	72
% of turnover	2.7%	0.6%	4.0%	-3.5%	0.7%
Return on Equity (ROE), %	6.0%	1.1%	7.6%	-5.7%	0.8%
Return on Investment (ROI), %	7.4%	3.1%	7.2%	0.4%	3.1%
Equity ratio, %	45.5%	46.4%	46.7%	45.0%	54.4%
Net gearing, %	68.7%	61.4%	56.2%	75.6%	25.4%
Gross investments in fixed assets, EUR k	1 293	702	1 244	1 628	1 644
% of turnover	6.7%	4.5%	6.8%	10.5%	15.5%
Consolidated balance sheet total, EUR k	19 207	19 831	20 731	19 750	15 536
Average number of personnel	231	182	183	168	105
Share related	1998	1999	2000	2001	2002
Earnings / share (EPS), EUR	0.21	0.04	0.29	-0.21	0.03
Shareholders' equity / share, EUR	3.45	3.59	3.83	3.57	3.40
Dividend / share, EUR (adjusted)	0.08	0.08	0.10	0.00	0.08*
Dividend / share, EUR (nominal)	0.08	0.08	0.10	0.00	0.08*
Dividend / profit, %	41.0%	217.4%	35.1%	neg.	266.7%
Effective dividend yield, %	5.3%	6.5%	6.7%	0.0%	6.6%
Price / earnings ratio, (P/E)	8	34	5	neg.	40
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	1998	1999	2000	2001	2002
A-share price on the I-list, EUR					
-highest share price	3.90	2.10	2.00	2.00	1.66
-lowest share price	1.43	1.15	1.25	1.30	1.06
-average share price	3.01	1.50	1.54	1.55	1.47
-year end share price	1.60	1.30	1.50	1.50	1.21
Market capitalization, EUR m , A-share	3.6	2.9	3.3	3.3	2.7
Trading volume of shares during accounting period on the I-list	543 846	262 850	208 785	70 600	340 180
Trading volume of shares, %	24.2%	11.8%	9.3%	3.2%	15.3%
Number of shareholders	422	387	361	350	333

*= proposal

Report by the Board of Directors

For the accounting period 1.1.2002-31.12.2002

GROUP STRUCTURE AND BUSINESS

ACTIVITIES

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

Security Products (Kaso Oy, Kaipio Oy)
Plastic Products (MK-Tresmer Oy)

During the financial year subcontracting and storage systems activities were discontinued by the Group after Fab-Tech Ind.Inc. filed a petition for bankruptcy.

The parent company, Kasola Oyj, is responsible for financial management of the Group. Consolidated turnover amounted to EUR 10.6 m, marking a drop of EUR 4.9 m from the previous year. The drop in turnover is primarily due to winding up our operations in the USA.

Turnover by company is divided as follows:

	<u>2002</u>	<u>2001</u>
Kasola Oyj	746	731
Kaso Oy	5,737	6,053
Kaipio Oy	1,938	2,141
MK-Tresmer Oy	3,446	3,653
Fab-Tech Ind.Inc.	-	4,103
- internal turnover	<u>-1,271</u>	<u>-1,183</u>
Consolidated turnover total	10,596	15,498

Overseas activities accounted for 31% (48%) of turnover and the orderbook at the close of the financial year amounted to EUR 1.2m (EUR 1.5m).

THE SECURITY PRODUCT SECTOR

Domestic markets slowed down towards the summer, but the situation improved somewhat during the autumn. Domestic sales achieved a satisfactory result. Service operations managed to grow and have been profitable. Price competition has markedly increased in declining markets, and an increase in market share is only possible through lowering prices. However, we have not had to engage in this price competition.

In export markets we have started cooperation with several new dealers, whose sales results have been promising. The most important event in exports was ORGATEC exhibition held in Cologne in October where we introduced the new Kaso E-300 line of safes to our dealers. This new product line has been much appreciated by our customers. Its

successful design gives the safe much greater added value in the view of the customers. We consider ourselves to be pathbreakers in the development of a new generation of safes.

Sales of Kaso clothing cabinets developed favourably. The company won a new supply contract for military lockers in competitive tendering arranged by the armed forces. The most important product development project has been putting the E-300 safe series into production and further developing new burglary grades. The burglary tests for Euronorm Security Classes III and IV were passed during autumn 2002.

The main aim is to boost throughput in production of the new safes and continue development of the E-300 series. During the summer we successfully tested new element vaults, part of which are intended for use in archive applications. Investments were low, as major investment in machinery and equipment had already been carried out during the previous year.

In the spring Kaipio Oy sold off industrial real estate owned by the company and the company relocated to new rented facilities in February 2003.

The Security Product sector had a turnover of EUR 7.2m (EUR 7.7m) and an operating profit of EUR 0.5 m (EUR 0.8m). Staff averaged 64 (67).

SUBCONTRACTING AND AUTOMATED STORAGE SYSTEMS

As a result of the collapse in turnover, operations for the entire year ran at a clear loss. New customer orders did not provide a noticeable improvement in business. On account of this Fab-Tech Ind.Inc. filed for Chapter 11 in September 2002 and for bankruptcy at the end of the year. The bankruptcy process is still in progress. Estimated costs for bankruptcy amount to EUR 1.3 m. This includes a compulsory reserve of EUR 0.03 m and a write-down of EUR 0.2 m, which are considered to be adequate to cover final costs.

Kasola Oyj has industrial real estate left over from the bankruptcy in the USA, which is up for sale.

THE PLASTIC PRODUCT SECTOR

The main aim of the Plastic Product Sector was to attain a positive result during the year. Despite a drop in turnover and a change of sales staff, the run of losses over many years was finally halted. The entire staff was committed to targets, which was visible in all operations.

The improvement in result exceeded expectations. The new management team determinedly continued with development activities set out in the firm's new strategy in collaboration with the staff.

One of the most important events in marketing was the "100 million Piggy bank" campaign. In this campaign hundreds of customers, who have been the cornerstone of MK-Tresmer's operations, were reactivated. Follow-up of the campaign is still in progress, but we have had a lot of positive feedback from it.

The marketing focus for the Palaset product line was on exports. Operations of a sales office in Paris were started at the turn of the previous year with the aim of increasing sales in Europe. Results are still modest, but a number of new contacts are in the pipeline. The third product line is subcontracted manufacturing where we have not yet managed to find new customers.

Production efficiency was considerably improved last year by boosting factory operations and fine-tuning sourcing competitiveness. Delivery assurance was top-class. There were no new machinery investments. The main focus in product development has been developing a new "volume clothes hanger".

Turnover fell by 6% from the previous year to EUR 3.4m (EUR 3.7 m). Profitability improved substantially on the previous year's figure with operating profit amounting to EUR 0.2 m (- EUR 0.2 m). Staff averaged 37 (51).

PROFITABILITY AND FINANCING

Operational profitability was good in both the Security Product Sector and the Plastic Product Sector. However, the Group's result was impaired by the bankruptcy of Fab-Tech Ind.Inc., which lowered the result by EUR 1.3 m. This figure includes a write-down of EUR 0.2 m for doubtful accounts receivable. In addition, Kaipio's result was negatively affected by the EUR 0.05 m compulsory reserve attributable to relocation in spring 2003. The result was, however, improved by the profit of EUR 0.5 m on the sales of real estate by Kaipio Oy. Consolidated operating profit amounted to EUR 0.2 m, whereas it was -EUR 0.0 m for the previous year. Depreciations totalled EUR 1.0 m (EUR 1.3 m).

The Group's financial situation is good. Financial expenditure showed a marked fall on the previous year. Interest-bearing liabilities stood at EUR 5.1 m (EUR 8.5 m) at the end of the year. The equity ratio was 54.4% (45.0%) and shareholders' equity per share EUR 3.40 (EUR 3.57).

INVESTMENTS

Investments totalled EUR 1.6 m (EUR 1.6 m). Of this sum real estate in the USA accounts for EUR 1.4 m.

Investment by the Security Product Sector on machinery and equipment was completed in the previous year. Last year was devoted to their efficient deployment, which will also continue this year. Investment requirements for the coming years on machinery and equipment will be low. The Plastics Product Sector did not acquire new machinery last year, either. Production efficiency was raised through upgrading operations. Investment on machinery and equipment for the coming years will very much depend on trends in the market situation.

Investment for the next few years will clearly be at a lower level than for the previous few years.

ADMINISTRATION

The Parent Company's Board of Directors comprises Heikki Bachmann (Chairman), Claes Charpentier, Juha Oikarinen, Markku Uotinen and Jari Bachmann. Jari Bachmann is the Managing Director. The auditors are Tilintarkastustoimisto Idman & Vilén Oy, authorized public accountants with Matti Pettersson, authorized public accountant, as the auditor in charge.

BOARD AUTHORISATION

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

FUTURE PROSPECTS

Global economic prospects are uncertain, which is also reflected in our business environment. Even though growth in markets is not at present visible, we believe we will maintain our position and be able to improve our profitability.

We believe the Group's result for this year will turn to positive.