

PALOHEIMO GROUP

2002

Paloheimo Oy
Financial Statements 31.12.2002

Business Identity Code 0131546-9
Domicile Loppi
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REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS 2002

GROUP STRUCTURE

The Paloheimo Group is a Finnish diversified group that operates in the international market. The focus of operations is on product solutions related to construction and furnishings. Paloheimo Oy is the parent company of the Group. The Paloheimo Group comprises four mutually complementary divisions: windows, parquet floors, sawmill operations and furnishings. In March a new unit engaged in the property business was set up within the parent company.

In April 2002 Paloheimo Oy sold its 50% holding in Elnova (comprising Uudenmaan Energia Oy and Uudenmaan Sähköverkko Oy) and the district heating utility Riihimäen Kaukolämpö Oy, which are Paloheimo's associated companies that operate in the energy industry. During the past financial year a 32% minority interest in Verkonrakentaja Wire Oy was also divested.

The business functions are organized within their own limited companies. The Fenestra Group manufactures windows, Lundia Oy is a manufacturer of furnishings and Paloheimo Wood Oy is engaged in the sawmill and wood processing and upgrading operations. Some sales functions are handled via the European subsidiaries.

During the financial year the joint venture Gnesta Production AB was founded in Sweden together with Lundqvist Inredningar AB.

The Paloheimo Group comprises the following companies:

Subsidiaries / wholly-owned:

Fenestra Oy and its subsidiaries AS Fenestra, Fenestra Palvelut Oy, Fenestra Fenster GmbH,
Sasmo Ab.
Lundia Oy
Paloheimo Parquets Oy
Paloheimo Deutschland GmbH
Paloheimo Wood Oy
Paloheimo B.V.
Paloheimo S.A.R.L.
Paloheimo Iberica S.A.
Hallikuja Oy
Kiinteistö Oy Hämeenlinnan Laaniitynkatu 2

Subsidiaries / majority holding:

| | The Group's holding |
|--------------------------|---------------------|
| Kiint. Oy Vesimiehentalo | 90 % |

Associated undertakings:

| | |
|------------------------------|------|
| Etelä-Hämeen Kunnossapito Oy | 40 % |
| Gnesta Production AB | 50 % |

PALOHEIMO IN 2002

The Group's structure was streamlined during the financial year and resources were focused on the development of industrial operations. The demand picture for the different industrial divisions showed a dual nature: the volume of the window manufacturing business grew markedly, whereas the situation in the sawmill and furnishing sectors remained unstable. As a consequence of the large-scale capital expenditure programme carried out at Paloheimo Wood Oy, the sawmill's operations were at a standstill in the summer and turnover fell. The winding down of the parquet business went according to plans and the stocks were sold off during the year. Thanks to the disposal of associated companies, both the Group's financial position and its equity ratio rose to an excellent level.

Consolidated turnover was EUR 129.9 million (147.1 million in 2001). Exports and international operations accounted for 33% of turnover (42% in 2001).

| Trend in turnover by product group: | 2002 | 2001 | Change |
|--|--------------------|--------------------|---------------|
| | EUR million | EUR million | % |
| Windows | 72.1 | 63.8 | + 13.0 % |
| Sawn and planed timber | 34.2 | 43.9 | - 22.2 % |
| Lundia furnishings | 10.0 | 11.0 | - 9.6 % |
| Parquets and other floor coverings | 11.1 | 25.4 | - 56.1 % |
| Others | 2.5 | 3.0 | - 15.0 % |
| Total | 129.9 | 147.1 | - 11.7 % |

Depreciation according to plan for the financial year was EUR 5.4 million (6.7 million in 2001). Capital expenditures on fixed assets totalled EUR 9.7 million (2.4 million in 2001). Outlays on research and development were charged to expenses for the year. Net financial expenses came to EUR 1.5 million (1.5 million in 2001).

The Group posted an operating loss of EUR 1.8 million (EUR 10.3 million in 2001).

The Group's accounting net result for the financial year was a profit of EUR 59.6 million (net loss of EUR 18.1 million in 2001). Extraordinary income include large profits gained from sold shares. The return on investment was 1.4% (negative in 2001)

Interest-bearing loans stood at EUR 18.5 million at the end of the year (35.6 million in 2001). Liquid funds diminished by EUR 67 million. The Group's equity ratio was 67.7% (39.2% in 2001).

NEAR-TERM OUTLOOK

Overall economic uncertainty continues to overshadow the demand outlook in the main markets in Europe as well as in the USA and Japan.

The construction outlook in Finland is moderate, but changes can happen, even fairly quickly. The price trend in the sawn goods markets and the price of sawlogs still pose a factor of uncertainty.

The structural changes carried out in 2002 lay a good foundation for the Group's further development.

THE GROUP'S MAIN AREAS OF OPERATIONS

Fenestra Group

Window production in Finland grew by about 7%, especially owing to the increase in renovations. Fenestra Oy's turnover grew and it reported a profit. The result of Estonia-based Fenestra AS also improved markedly. The entire Fenestra Group generated turnover of EUR 72.2 million (64.0 million in 2001). The central objective in 2003 is to improve profitability further.

Lundia Oy

The company's turnover was EUR 10.0 million (11.0 million in 2001). The joint production unit that was established in Sweden together with Lundqvist Inredningar AB suffered from operational difficulties during the start-up phase. Because of this and due to a decline in turnover, the operational result fell into the red. In 2003 the emphasis will be on marketing measures aiming at increasing turnover and improving profitability.

Paloheimo Wood Oy

The company's future operating fundamentals were improved through a large-scale capital expenditure programme that was geared principally to modernizing the sawmill line and the drying kilns. As a consequence of the investment shutdown, turnover fell substantially, to EUR 35.7 million (48.9 million in 2001). The price of logs remained at the previous year's level and the fall in selling prices largely came to a halt. Owing to a temporary drop in turnover and the difficult market situation in the USA, the company reported an operating loss. The objective in 2003 is a return to profit by means of improved management of market factors and a substantial boost in production efficiency.

OPERATIONS OF THE PARENT COMPANY, PALOHEIMO OY

Operations of the new Property Business unit got started on 1 March 2002 and they have been outsourced to YIT Rapido Property Management Services Ltd. The unit manages and develops the Paloheimo Group's real-estate assets.

The company had turnover of EUR 4.9 million (9.9 million in 2001). Turnover consisted of restaurant operations and administrative services as well as occupational health activities and property management.

Depreciation according to plan booked in the company's financial statements amounted to EUR 0.9 million. Booked to extraordinary income was about EUR 80 million of capital gains on the sale of shares. The company posted a profit of EUR 39 million.

At an extraordinary general meeting of shareholders held on 8 November 2002, the company passed a resolution to demerge into two separate companies, one of which will engage in industrial operations and the other in investment and real-estate development operations. The demerger will enter into force in spring 2003.

COMPANY MANAGEMENT AND AUDITORS

Board of Directors

Martti Paloheimo, M.Sc.(Econ.), Chairman

Arvi Paloheimo, LL.M., Vice Chairman

Felix Björklund, B.Sc.(Econ.)

Olli Paloheimo, student

Teppo Taberman, M.Sc.(Econ.)

Petri Yrjö-Koskinen, M.Sc.(Pol.Sc.)

Lauri Ratia from 29.4.2002

Managing Director

Juha Järvinen, M.Sc. (Econ.)

Auditors

Oy Joe Sundholm & Co Ab, Authorized Public Accountants

PALOHEIMO GROUP
CONSOLIDATED INCOME STATEMENT

| | | 1.1.–31.12.2002 | 1.1.–31.12.2001 |
|--|---------|------------------------|------------------------|
| | | EUR | EUR |
| Turnover | (2.1.) | 129 942 788.83 | 147 148 481.19 |
| Change in stocks of completed products and work in process | | -4 312 423.77 | -2 292 357.67 |
| Production for own use (+) | | 70 819.28 | 18 000.14 |
| Other income from operations | (2.2.) | 2 764 733.72 | 835 736.51 |
| Raw materials and services | (2.3.) | 65 527 844.10 | 81 150 702.07 |
| Staff expenses | (2.4.) | 29 998 745.21 | 32 253 599.57 |
| Depreciation and reduction in value | (2.5.) | 5 371 989.24 | 6 686 075.02 |
| Other operating expenses | (2.6.) | 29 393 559.92 | 35 918 709.30 |
| Operating loss (profit) | | -1 826 220.40 | -10 299 225.79 |
| Share of the results of associated undertakings | | -68 555.50 | 2 638 627.04 |
| Financial income and expenses | (2.7.) | 1 469 683.42 | -1 457 885.88 |
| Loss (profit) before extraordinary items | | -425 092.49 | -9 118 484.63 |
| Extraordinary items +/- | (2.8.) | 73 907 439.68 | -11 090 118.60 |
| Loss (profit) before taxes | | 73 482 347.19 | -20 208 603.23 |
| Direct taxes | (2.10.) | -13 898 942.51 | 2 073 257.56 |
| Minority interest | | 0.20 | 0.05 |
| Net profit (loss) for the financial year | | 59 583 404.47 | -18 135 345.72 |

PALOHEIMO GROUP
CONSOLIDATED BALANCE SHEET

| ASSETS | | 31.12.2002 | 31.12.2001 |
|---|---------|-----------------------|----------------------|
| | | EUR | EUR |
| Non-current assets | | | |
| Intangible assets | (3.1.) | 586 956.02 | 583 740.38 |
| Consolidated goodwill | (3.1.) | 0.00 | 59 817.51 |
| Tangible assets | (3.1.) | 47 026 355.91 | 43 342 930.52 |
| Investments | (3.2.) | 695 835.24 | 3 844 510.56 |
| Shares in associated undertakings | | 266 338.69 | 11 678 767.51 |
| Non-current assets, total | | 48 575 485.86 | 59 509 766.48 |
| Current assets | | | |
| Stocks | (3.3.) | 13 142 094.83 | 18 933 048.76 |
| Non-current receivables | (3.4.) | 0.00 | 52 655.34 |
| Current receivables | (3.5.) | 10 556 929.40 | 18 854 534.55 |
| Securities held as financial fixed assets | (3.6.) | 67 058 814.19 | 845 276.77 |
| Cash in hand and at banks | | 2 102 480.89 | 1 357 646.25 |
| Current assets, total | | 92 860 319.31 | 40 043 161.67 |
| ASSETS, TOTAL | | 141 435 805.17 | 99 552 928.15 |
| LIABILITIES | | | |
| Capital and reserves (3.7.) | | | |
| Share capital | | 1 072 170.00 | 901 630.25 |
| Share issue | | 0.00 | 4 353.40 |
| Revaluation fund | | 10 113 662.68 | 10 124 784.93 |
| Retained earnings | | 23 999 104.15 | 45 246 748.11 |
| Net loss (profit) for the year | | 59 583 404.47 | -18 135 345.72 |
| Capital loan | | 0.00 | 2 522 818.90 |
| Capital and reserves, total | | 94 768 341.30 | 40 664 989.88 |
| Minority interest | | 31.48 | 31.27 |
| Obligatory provisions | (3.9.) | 2 627 294.49 | 5 633 108.58 |
| Liabilities | | | |
| Imputed deferred tax liability | (3.10.) | 1 472 547.00 | 917 384.24 |
| Non-current liabilities | (3.11.) | 11 934 618.65 | 23 443 643.62 |
| Current liabilities | (3.12.) | 30 632 972.25 | 28 893 770.56 |
| Liabilities, total | | 44 040 137.90 | 53 254 798.42 |
| LIABILITIES, TOTAL | | 141 435 805.17 | 99 552 928.15 |

PALOHEIMO GROUP**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

| | Financial year 1.1.–31.12.2002 EUR 1000 | Previous financial year 1.1.–31.12.2001 EUR 1000 |
|---|--|---|
| Cashflow from business operations: | | |
| Loss (profit) before extraordinary items | -425 | -9 118 |
| Adjustments | 1 751 | 5 654 |
| Cashflow before change in working capital | 1 326 | -3 464 |
| Change in working capital | 8 425 | 4 611 |
| Cashflow from operations before financial items and taxes | 9 750 | 1 147 |
| Interest paid and payments from other financial expenses | -1 649 | -2 998 |
| Dividends received from operations | 1 348 | 1 535 |
| Interest received from operations | 1 821 | 755 |
| Taxes paid | -25 | 42 |
| Cashflow before extraordinary items | 11 246 | 481 |
| Cashflow (net) from extraordinary items | -895 | -456 |
| Cashflow from business operations | 10 351 | 25 |
| Cashflow from investments: | | |
| Investments in tangible and intangible assets | -9 701 | -2 334 |
| Income from disposal of tangible and intangible assets | 992 | 548 |
| Other investments | -218 | 0 |
| Repayments of capital loan receivables | 2 523 | 0 |
| Repayments of loan receivables (+) | 53 | 0 |
| Income from disposal of other investments | 85 624 | 17 |
| Cashflow from investments | 79 272 | -1 805 |
| Cashflow from financing: | | |
| Short-term loans drawn | 6 000 | 1 682 |
| Repayments on short-term loans | -11 033 | 0 |
| Long-term loans drawn | 249 | 6 975 |
| Repayments on long-term loans | -12 409 | -6 947 |
| Dividends paid and other profit distribution | -2 948 | -1 352 |
| Capital loan increase (+) / decrease (-) | -2 523 | 0 |
| Cash flow from financing | -22 665 | 357 |
| Increase (+) / decrease (-) in liquid assets | 66 958 | -1 424 |
| Liquid assets at 1 January | 2 203 | 3 627 |
| Liquid assets at 31 December | 69 161 | 2 203 |

PALOHEIMO GROUP

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICY

Paloheimo Oy is the parent company of the Paloheimo Group and the company is domiciled in Loppi. A copy of the consolidated financial statements can be obtained from the company's head office at the address Maantie 1, Riihimäki.

1.1. SCOPE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements comprise, apart from the parent company, Paloheimo Wood Oy, Paloheimo Parquets Oy, Lundia Oy, Hallikuja Oy, KOY Vesimiehentalo, KOY Hämeenlinnan Laaniitynkatu 2, the Fenestra Group, Paloheimo S.A.R.L. (France), Paloheimo B.V. (the Netherlands), Paloheimo Deutschland GmbH (Germany) and Paloheimo Iberica S.A. (Spain).

The associated undertakings in the consolidation are Etelä-Hämeen Kunnossapito Oy and Gnesta Production AB.

Separate consolidated financial statements are prepared for the Fenestra Group and these are consolidated within the Paloheimo Group.

1.2. ACCOUNTING PRINCIPLES APPLIED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared using the acquisition cost method, but associated undertakings have been consolidated according to the equity method.

Intra-Group transactions, unrealized margins on internal deliveries, internal receivables and debts as well as internal distribution of profit have been eliminated.

Minority interests have been separated out from the consolidated shareholders' equity, reserves and profit for the year and stated as a separate item.

The income statements and balance sheets of foreign Group companies have been redenominated in euros at the exchange rate on the balance sheet date.

Differences arising in the translation as well as translation differences of shareholders' equity amounts have been stated in the item "Retained earnings".

1.3. PRINCIPLES OF VALUATION

Valuation of fixed assets

Fixed assets are entered in the balance sheet at the direct acquisition cost less depreciation according to plan. Depreciation according to plan is calculated on a straight-line basis according to the estimated economic life of the asset.

The depreciation periods are:

| | |
|---|-------------|
| Other capitalized long-term expenditure | 3–10 years |
| Goodwill and consolidated goodwill | 5 years |
| Buildings | 20–50 years |
| Structures | 20 years |

Other fixed assets:

| | |
|-------------------------|------------|
| Fleet and furnishings | 3–5 years |
| Machinery and equipment | 5–20 years |
| Other tangible assets | 5–20 years |

Valuation of stocks

Stocks have been valued at variable cost or the probable market value, whichever is lower, using the average price in the stocks of raw materials and supplies or the variable expenses due to the procurement in accordance with the fifo principle. In stocks of finished goods, the valuation is according to the average manufacturing cost of the financial year ended or the probable market price, whichever is lower.

Valuation of financial assets

Mutual fund investments included in securities held as current financial assets have been valued at their acquisition cost.

Items denominated in foreign currency

Receivables and debts denominated in foreign currency have been translated into euro amounts at the official exchange rate on the balance sheet date.

Periodization of pension expenditure

The Group's statutory pensions and, from the beginning of 1997, the supplementary pensions that were previously covered by the pension foundation have been handled via pension insurance companies.

1.4. RECOGNITION OF INCOME ON PROJECTS

Projects in progress are credited to income when the projects are handed over.

2. NOTES TO THE INCOME STATEMENT

2.1. TURNOVER

| | 2002 | 2001 |
|---------------------------------|-----------------|-----------------|
| | EUR 1000 | EUR 1000 |
| Turnover by sectors | | |
| Sawn and planed timber | 34 172 | 43 938 |
| Parquets and other floorings | 11 124 | 25 357 |
| Windows and facade structures | 72 146 | 63 844 |
| Lundia shelving | 9 974 | 11 039 |
| Other | 2 526 | 2 971 |
| Total | <u>129 943</u> | <u>147 148</u> |
| Turnover by market areas | | |
| Finland | 87 475 | 84 944 |
| Exports to EU areas | 24 205 | 37 900 |
| Other exports | 18 262 | 24 304 |
| Total | <u>129 943</u> | <u>147 148</u> |

2.2. OTHER OPERATING INCOME

| | | |
|-----------------------------------|--------------|------------|
| Gains on the sale of fixed assets | 2 427 | 393 |
| Other | 338 | 443 |
| Total | <u>2 765</u> | <u>836</u> |

2.3. RAW MATERIALS AND SERVICES

| | | |
|---------------------------------------|---------------|---------------|
| Raw materials and consumables (goods) | | |
| Purchases during the financial year | 57 469 | 71 742 |
| Change in inventories | 921 | 1 622 |
| | <u>58 390</u> | <u>73 363</u> |
| External services | 7 138 | 7 787 |
| | <u>65 528</u> | <u>81 151</u> |

2.4. NOTES ON STAFF AND ADMINISTRATIVE BODIES

| | | |
|--------------------------------|---------------|---------------|
| Staff expenses | | |
| Wages and salaries | 24 588 | 26 105 |
| Pension expenses | 3 625 | 4 039 |
| Other social security expenses | 1 786 | 2 110 |
| Total | <u>29 999</u> | <u>32 254</u> |

Salaries and remuneration paid to management

| | | |
|--|-----|-----|
| Managing directors and members of the Board of Directors | 934 | 955 |
|--|-----|-----|

The Group and parent company payroll during the financial year included on average

| | | |
|--------------------|------------|--------------|
| Salaried employees | 238 | 278 |
| Workers | 739 | 882 |
| Total | <u>977</u> | <u>1 160</u> |

2.5. DEPRECIATION AND REDUCTION IN VALUE

| | 2002 | 2001 |
|---|-----------------|-----------------|
| | EUR 1000 | EUR 1000 |
| Depreciation on tangible and intangible assets | 5 223 | 6 686 |
| Write-downs on fixed assets and non-current investments | 149 | 0 |
| Total | <u>5 372</u> | <u>6 686</u> |

A breakdown of depreciation according to balance sheet items is given in the section "Fixed assets".

2.6. OTHER OPERATING INCOME

| | | |
|----------------|---------------|---------------|
| Sales expenses | 7 907 | 9 854 |
| Rents | 3 702 | 2 178 |
| Other expenses | 17 784 | 23 887 |
| Total | <u>29 394</u> | <u>35 919</u> |

2.7. FINANCIAL INCOME AND EXPENSES

| | | |
|---|--------------|--------------|
| Income from non-current investments | | |
| Dividend income from others | 1 771 | 35 |
| Interest income on non-current investments | | |
| from Group undertakings | 0 | 252 |
| from others | 247 | 0 |
| Income on non-current investments, total | <u>2 018</u> | <u>287</u> |
| Other interest and financial income | | |
| from others | 1 250 | 503 |
| Total | <u>1 250</u> | <u>503</u> |
| Interest income on non-current investments and other interest and other financial income, total | 3 268 | 790 |
| Write-downs on investments | 191 | 0 |
| Reductions in value, total | <u>191</u> | <u>0</u> |
| Interest expenses and other financial expenses to others | 1 607 | 2 248 |
| Total | <u>1 607</u> | <u>2 248</u> |
| Interest income and expenses, total | 1 470 | -1 458 |
| Losses on foreign exchange included in financial income and expenses (net) | -124 | -13 |

2.8. EXTRAORDINARY ITEMS

| | | |
|--|---------------|---------------|
| Income | | |
| Capital gains on disposals of associated companies | 70 848 | 0 |
| Discharged expense provisions for the parquet business in previous years | 2819 | 0 |
| Income from loan receivables written down in previous years | 0 | 457 |
| Extraordinary income | 270 | 0 |
| Total | <u>73 937</u> | <u>457</u> |
| Expenses | | |
| Expenses of winding up the parquet business | 30 | 10 547 |
| Provision for restructuring | 0 | 1000 |
| Total | <u>30</u> | <u>11 547</u> |

2.10. DIRECT TAXES

| | | |
|--|---------------|---------------|
| Income taxes on extraordinary items | 13 344 | -3 216 |
| Income taxes on ordinary operations | 0 | 2 821 |
| Change in imputed deferred tax liability | 555 | -1 678 |
| Total | <u>13 899</u> | <u>-2 073</u> |

3. NOTES TO THE BALANCE SHEET

FIXED ASSETS AND OTHER CAPITALIZED LONG-TERM EXPENSES

| 3.1. FIXED ASSETS (EUR 1000) | Intangible assets (EUR 1000) | | | Tangible assets (EUR 1000) | | | |
|---|------------------------------|--|--------------|-----------------------------|-------------------------|--|--------------|
| | Intangible rights | Other long-term expenses | Total | Buildings | Machinery and equipment | Other tangible assets | Total |
| Acquisition cost, 1 Jan. 2002 | 284 | 2 241 | | 18 870 | 39 268 | 896 | |
| Increases | 30 | 262 | | 1 718 | 7 389 | 145 | |
| Decreases | -114 | -1 258 | | -760 | -8 589 | -392 | |
| Acquisition cost, 31 Dec. 2002 | 200 | 1 246 | | 19 828 | 38 068 | 649 | |
| Accumulated depreciation, 1 Jan. 2002 | -155 | -1 787 | | -8 265 | -21 722 | -492 | |
| Decreases and transfers, accumulated depreciation | 86 | 1 252 | | 588 | 8 248 | 391 | |
| Depreciation for the year | -71 | -209 | | -680 | -4 261 | -96 | |
| Accumulated depreciation, 31 Dec. 2002 | -141 | -745 | | -8 356 | -17 735 | -196 | |
| Book value, 31 Dec. 2002 | 60 | 501 | 561 | 11 471 | 20 333 | 453 | 32 257 |
| | Consolidated goodwill | Advance payments and procurements in progress | Total | | Land areas | Advance payments and procurements in progress | Total |
| Book value, 1 Jan. 2002 | 60 | 6 | | | 14 321 | 475 | |
| Increases | | 217 | | | 57 | 9 376 | |
| Decreases | | -196 | | | -159 | -9 301 | |
| Total | 60 | 26 | | | 14 219 | 550 | |
| Depreciation for the year | -60 | | | | -1 | | |
| Book value, 31 Dec. 2002 | 0 | 26 | 26 | | 14 219 | 550 | 14 769 |
| Book value, intangible assets | | | 587 | Book value, tangible assets | | | 47 026 |

| | | |
|---|-----------------|-----------------|
| Undepreciated portion of production machinery and equipment included in fixed assets | 2002 | 2001 |
| | EUR 1000 | EUR 1000 |
| | 18 317 | 16 760 |

| Revaluations | Value | Revaluations | Discharge of revaluation | Arvo |
|---------------------|-----------------|------------------------|-------------------------------------|-------------------|
| | 1.1.2002 | 1.1.–31.12.2002 | 1.1.–31.12.2002 | 31.12.2002 |
| | EUR 1000 | EUR 1000 | EUR 1000 | EUR 1000 |
| Land areas | 10 074 | 0 | 11 | 10 063 |
| Shares | 50 | 0 | 0 | 50 |
| Total | | | | 10 114 |

| 3.2. INVESTMENTS (EUR 1000) | Shares Holdings in Group undertakings | Others | Receivables Holdings in Group undertakings | Total |
|------------------------------------|--|---------------|---|--------------|
| Book value 1 Jan. 2002 | 11 679 | 1 322 | 2 523 | 15 523 |
| Increases | 218 | 0 | 0 | 218 |
| Decreases | -11 630 | -435 | -2 523 | -14 588 |
| Total | 266 | 887 | 0 | 1 153 |
| Write-downs | 0 | -191 | 0 | -191 |
| Book value 31 Dec. 2002 | 266 | 696 | 0 | 962 |

| | Group holding, % | Parent company's holding, % |
|---|-----------------------------|--|
| Group undertakings | | |
| Paloheimo Wood Oy, Riihimäki | 100 | 100 |
| Lundia Oy, Riihimäki | 100 | 100 |
| Paloheimo Parquets Oy, Riihimäki | 100 | 100 |
| Fenestra Oy, Forssa | 100 | 100 |
| Paloheimo B.V., Netherlands | 100 | 100 |
| Paloheimo S.A.R.L., France | 100 | 99.8 |
| Paloheimo Deutschland GmbH, Germany | 100 | 100 |
| Paloheimo Iberica S.A., Spain | 100 | 100 |
| Kiint. Oy Hml:n Laaniitynkatu 2, Helsinki | 100 | 100 |
| Hallikuja Oy, Riihimäki | 100 | 100 |
| Kiint. Oy Vesimiehentalo, Riihimäki | 90 | 90 |
| Associated undertakings | | |
| Etelä-Hämeen Kunnossapito Oy, Riihimäki | 40 | 40 |
| Kiint. Oy Riihenperä, Riihimäki | 49.3 | 49.3 |
| Gnesta Production AB, Sweden | 50 | 0 |

Associated undertakings have been consolidated according to the equity method. The consolidated financial statements include all the associated undertakings, with the exception of Kiinteistö Oy Riihenperä.

3.3. STOCKS

| | 2002 | 2001 |
|-------------------------------|-----------------|-----------------|
| | EUR 1000 | EUR 1000 |
| Raw materials and consumables | 3 569 | 4 490 |
| Work in progress | 319 | 1 281 |
| Finished products/goods | 6 179 | 9 084 |
| Other stocks | 1 282 | 1 727 |
| Advance payments | 1 793 | 2 351 |
| | <hr/> 13 142 | <hr/> 18 933 |

DEBTORS

3.4. NON-CURRENT DEBTORS

| | | |
|------------------------------------|---------|----------|
| Amounts owed by Group undertakings | <hr/> 0 | <hr/> 52 |
| Non-current debtors, total | 0 | 52 |

3.5. CURRENT DEBTORS

| | | |
|--|-------------|-------------|
| Trade debtors | 8 684 | 13 871 |
| Amounts owed by Group undertakings | | |
| Trade debtors | 450 | 8 |
| Loan receivables | 66 | 0 |
| Prepayments and accrued income | 0 | 255 |
| | <hr/> 516 | <hr/> 263 |
| Loan receivables | 17 | 24 |
| Other debtors | 519 | 1 617 |
| Prepayments and accrued income | 822 | 3 079 |
| | <hr/> 1 358 | <hr/> 4 721 |
| Current debtors, total | 10 557 | 18 855 |
| Essential items in prepaid expenses and accrued income | | |
| Corporate tax credits | 0 | 2 306 |
| Receivables from statutory social insurance policies | 544 | 118 |
| Social Insurance Institution compensation for occupational health care | 148 | 165 |
| Credit insurance receivable | 23 | 104 |
| Others | 108 | 641 |
| Total | <hr/> 823 | <hr/> 3 334 |

3.6. SECURITIES HELD AS FIXED FINANCIAL ASSETS

Securities held as current financial assets include publicly traded mutual fund investments.

| | | |
|-------------------|-----------|---------|
| Repurchase prices | 67 955 | 853 |
| Book value | 67 059 | 845 |
| Difference | <hr/> 896 | <hr/> 8 |

3.7. CAPITAL AND RESERVES

| | 2002 | 2001 |
|--|-----------------|-----------------|
| | EUR 1000 | EUR 1000 |
| Capital and reserves, 1 Jan. | 902 | 902 |
| Share issue | 171 | 0 |
| Capital and reserves, 31 Dec. | <u>1 072</u> | <u>902</u> |
| Share issue, 1 Jan. | 4 | 0 |
| Addition | -4 | 4 |
| Share issue, 31 Dec. | <u>0</u> | <u>4</u> |
| Revaluation fund, 1 Jan. | 10 125 | 10 127 |
| Deduction in connection with sale of fixed assets | -11 | -2 |
| Revaluation fund, 31 Dec. | <u>10 114</u> | <u>10 125</u> |
| Total | 11 020 | 11 031 |
| Retained earnings, 1 Jan. | 27 111 | 46 619 |
| Dividend distributed | -2 948 | -1 352 |
| Translation difference | 2 | -16 |
| Transfer to share capital/bonus issue | -166 | -4 |
| Retained earnings, 31 Dec. | <u>23 999</u> | <u>45 247</u> |
| Net loss (profit) for the financial year | 59 583 | -18 135 |
| Total | 83 749 | 27 111 |
| Capital loans | 0 | 2 523 |
| Capital and reserves, total | 94 768 | 40 665 |
| Proportion of accumulated depreciation difference and voluntary reserves entered in capital and reserves | 3 604 | 8 732 |
| Funds distributable from non-restricted equity | 79 979 | 18 379 |

3.9. COMPULSORY PROVISIONS

| | | |
|---|--------------|--------------|
| Provision for pensions | 506 | 591 |
| Provision for future guarantee expenses | 1 091 | 1 223 |
| Provision for expenses of winding up the parquet business | 30 | 2 819 |
| Provision for restructuring | <u>1 000</u> | <u>1 000</u> |
| | 2 627 | 5 633 |

3.10. IMPUTED DEFERRED TAX LIABILITY

| | | |
|--------------------------------|--------------|------------|
| Imputed deferred tax liability | <u>1 473</u> | <u>917</u> |
| From appropriations | 1 473 | 917 |

The imputed deferred tax liability of EUR 10.1 million due to revaluations (EUR 2.9 million) is not stated in the balance sheet.

3.11. NON-CURRENT CREDITORS

| | 2002 | 2001 |
|-------------------------------------|-----------------|-----------------|
| | EUR 1000 | EUR 1000 |
| Loans from financial institutions | 5 137 | 15 162 |
| Pension loans | 6 798 | 8 274 |
| Other non-current liabilities | 0 | 8 |
| Total | <u>11 935</u> | <u>23 444</u> |
| Non-current creditors, total | 11 935 | 23 444 |

Non-current creditors falling due in five years or more

| | | |
|-----------------------------------|--------------|--------------|
| Loans from financial institutions | 50 | 50 |
| Pension loans | 3 055 | 3 409 |
| Total | <u>3 105</u> | <u>3 460</u> |

3.12. CURRENT CREDITORS

| | | |
|-----------------------------------|---------------|---------------|
| Loans from financial institutions | 5 189 | 11 339 |
| Pension loans | 1 409 | 943 |
| Advances received | 1 376 | 2 434 |
| Trade creditors | 3 478 | 4 420 |
| Accruals and prepaid income | 16 783 | 6 597 |
| Other current creditors | 2 157 | 2 876 |
| Total | <u>30 391</u> | <u>28 609</u> |

Debts to Group undertakings

| | | |
|-----------------------------|------------|------------|
| Trade creditors | 241 | 285 |
| Accruals and prepaid income | 1 | 0 |
| Total | <u>242</u> | <u>285</u> |

Current creditors, total

30 633 **28 894**

Essential items in accrued expenses and prepaid income

| | | |
|--|---------------|--------------|
| Salary and personnel social cost liabilities | 4 529 | 4 377 |
| Deferred taxes | 10 461 | 0 |
| Others | 1 792 | 2 220 |
| Total | <u>16 783</u> | <u>6 597</u> |

4. OTHER NOTES TO THE FINANCIAL STATEMENTS

| Security-pledged, contingent liabilities and other commitments | Security pledged 2002 EUR 1000 | Security pledged 2001 EUR 1000 |
|---|---|---|
| On behalf of own and Group undertakings | | |
| Real-estate mortgages pledged as security | | |
| Loans from pension and financial institutions | 3 504 | 10 259 |
| Other security pledged | | |
| Mortgages on company assets | 20 033 | 27 415 |
| Securities pledged | 2 124 | 2 203 |
| Leasing commitments | | |
| Amounts unpaid on leasing agreements | | |
| Payable during the 2003 financial year | 306 | 137 |
| Payable thereafter | 323 | 159 |
| Total | 629 | 296 |
| Contingent liabilities | | |
| Guarantees | 902 | 137 |
| Leasing commitments | 4 343 | 4 141 |
| Other commitments | 11 | 11 |

BOARD PROPOSAL FOR THE DISPOSAL OF PROFITS

The distributable capital and reserves of Paloheimo Oy are EUR 55 477 231.37. The Group's distributable equity and reserves are EUR 79 978 678.62, subtracting from the Group's non-restricted equity the proportion which has been deducted from voluntary provisions and the depreciation difference and allocated to equity and reserves and less the other non-distributable items.

The company's net profit for the financial year is EUR 39 005 068.59. The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 2 948 467.50 be distributed.

Martti Paloheimo

Arvi Paloheimo

Felix Björklund

Olli Paloheimo

Teppo Taberman

Petri Yrjö-Koskinen

Lauri Ratia

Juha Järvinen, Managing Director

AUDITORS' REPORT

To the shareholders of Paloheimo Oy

We have audited the accounting, the financial statements and the corporate governance of Paloheimo Oy for the period 1.1. - 31.12.2002. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those 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 overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the Managing Director have legally 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. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies Act.

Helsinki, 13 February 2003

OY JOE SUNDHOLM & CO AB
Authorised Public Accountants