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The official Financial Statements will also  
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Investor Information section of the  
Company's website, [www.okmetic.com](http://www.okmetic.com).

Graphs are not a part of the official  
Financial Statements.

As illustrations, the Annual Report 2003 uses photographs of Okmeticicians in different stages  
of the silicon wafer production process:

Page 4: Pirjo Laasanen, Janne Mäkelä and Sami Simula

Page 7: Anne Pulkkinen

Page 11: Inga Magga

Page 12: Okmeticicians in the light well of the Vantaa Plant

Page 13: Kirsi Juntunen, Anna-Riikka Vuorikari-Antikainen, Janne Mäkelä, Pirjo Vilja and Sami Simula

Page 14: Tuomo Rimpi

Page 19: Timo Liuhanen

Page 54: Inga Magga

Front cover: Tapio Hyvärinen and Zarela Perez-Kuusisto

Translation from Finnish to English.



Silicon wafers are needed for the construction of almost every electronic device. Silicon wafers are used as base for microcircuits in the electronics industry. In addition, silicon wafers are used by the sensor industry. Okmetic's wafers are used amongst other applications in the automotive industry, telecommunications and consumer electronics.

In 2003 the Company manufactured silicon wafers for three core product areas, which are micromechanical sensor wafers (MEMS), power semiconductor silicon (POWER) and application specific wafers (ICprime).

The most important market areas of Okmetic's silicon wafers are North America, Western Europe and the Far East, and 96 percent of turnover comes from exports and foreign activities.

In 2003, Okmetic had production facilities in Espoo and Vantaa in Finland and in Allen, Texas in the United States. A subsidiary specialising in the development of silicon carbide wafers is located in Linköping in Sweden. During 2004 the Company will centralise its operations in Vantaa and Allen, and the Espoo plant will be closed down.

Okmetic is quoted on the main list of the Helsinki Stock Exchange under "Telecommunications and Electronics" as OKM1V.

## Mission

Okmetic aims to grow and to develop into the world's leading provider of silicon wafers and silicon-based solutions in its chosen areas within the semiconductor and sensor industries.

## Defined Strategy

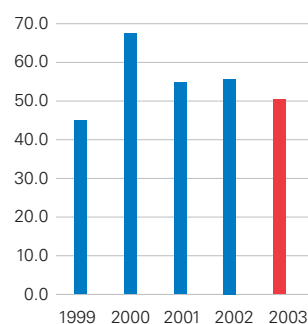
According to the strategy defined at the beginning of 2004, Okmetic will in the future concentrate on the MEMS and POWER segments, which have the highest levels of competitiveness and the best growth potential, and especially on the DSP, SOI and EPI product areas. Okmetic is the global market leader in supplying MEMS sensor silicon. With regard to other wafers the company is planning to begin subcontracting from the Far East. Crystals are grown at the Vantaa plant.

According to the new strategy, the structural change within the Group will be primarily implemented during 2004. The delivery capacity and growth potential of the Group will remain unchanged despite the change process. Okmetic estimates that the annual increase in turnover will be 5 – 15 percent during the next five years.

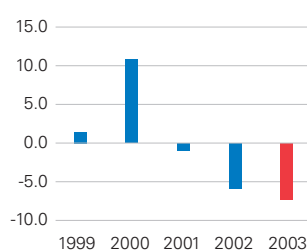
*Okmetic manufactures and processes high-quality silicon wafers for semiconductor and sensor industries.*

1,000 euro	2003	2002	2001
Turnover	50.1	57.7	57.3
Exports and Foreign Activities, %	95.9	95.5	96.3
Personnel at the End of the Year	456	515	510

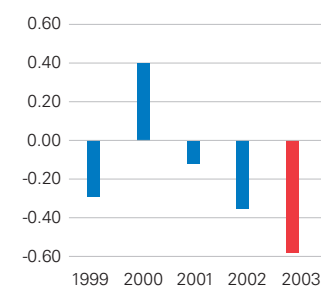
Turnover, million euro



Operating profit/loss, million euro



Earnings per share, euro



## The Year in Brief



The recession that has plagued the semiconductor industry since 2001 began to show signs of giving way towards the end of the year under review. Global sales increased by almost 20 percent in comparison with the previous year.

The global sales of silicon wafers increased by approximately five percent. The total amount of wafers, when measured in surface area, increased by 10 percent. The growth of the silicon wafer markets was most prominent with regard to wafers with the largest diameters. The markets for Okmetic's product segments – the smaller wafers – weakened. Fierce competition reduced the prices of wafers further.

The turnover of the Okmetic Group decreased by 13 percent from the previous year and amounted to 50.1 million euro (2002: 57.7 million euro).

The share of MEMS wafers of Okmetic's deliveries increased by 4 percent according to the Company's strategy and therefore reached 29 percent. The share of POWER wafers increased to 35 percent and the share of ICprime wafers decreased to 36 percent.

Okmetic activities and the number of personnel were adjusted to the demand. The personnel's multiple skills were added to through training.

### Market Projections

The demand of silicon wafers is expected to develop positively. According to a forecast by Gartner Dataquest in December 2003 the sales of silicon wafers will increase by 18 percent in 2004. The increase is expected

to show most prominently in relation to large wafer sizes. As for Okmetic's product segments – the smaller wafers – the growth is expected to remain moderate in 2004.

Okmetic's MEMS products are expected to come up against increasing competition in the future years.

As the new generation of sensors become better known, Okmetic will concentrate heavily on producing SOI (Silicon on Insulator) wafers.

The market projections of the highly processed special products of the POWER application area show promise for the near future.

The future of ICprime products is uncertain but the recovery of demand is expected to stop the decrease in prices in the US and European markets as well as to slowly stabilise the markets.

### **Honeywell awarded Okmetic**

*The Sensing & Control unit of Honeywell, the world leader in automation systems, awarded Okmetic as the best customer service provider and the most responsible supplier.*

*The award was handed out to Okmetic in Minneapolis in June 2003.*



## ► Important Events

### **January**

*Antti Rasilo, M.Sc. (Tech.) was appointed as President of Okmetic Oyj from 1 January 2003 onwards. President Seppo Isoherranen, M.Sc. (Tech.) retired in January 2003.*

(Stock Exchange Release 31 October 2002)

*Markus Virtanen, M.Sc. (Tech.) was appointed Senior Vice President, Human Resources and member of the Executive Management Group.*

(Stock Exchange Release 17 January 2003)

*As a result of the personnel negotiations, 31 blue-collar employees were temporarily dismissed from the Espoo and Vantaa plants, 11 temporary contracts were not continued and 9 white-collar employees were made redundant.*

(Stock Exchange Release 28 January 2003)

*The responsibility for the production of the Finnish plants was centralised to one production manager as Timo Koljonen, Lic. (Tech.) was appointed Senior Vice President, Production.*

### **March**

*The review of President Antti Rasilo in the Annual General Meeting reflected that the uncertainty in the markets was to continue. Esa Lager, Executive Vice President – Finance and Administration, from Outokumpu Oyj was elected as a new member of the Board of Directors. Seppo Isoherranen, M.Sc. (Tech.) resigned from the Board.*

(Stock Exchange Release 27 March 2003)

### **August**

*Okmetic strengthened its sales organisation. Juha Saksi, M.Sc. (Tech.) was appointed as Senior Vice President, Sales & Marketing and a member of the Executive Management Group. Executive Vice President Asko Vehanen, D.Sc. (Tech.) was appointed to lead the New Business Development function. The sales organisation was also strengthened by appointing new Account Managers for the European and Far Eastern market areas.*

(Stock Exchange Release 25 August 2003)

### **September**

*As a result of personnel negotiations six blue-collar employees were made redundant and 13 were temporarily dismissed from the Espoo and Vantaa plants.*

(Stock Exchange Release 15 September 2003)

### **November**

*Okmetic will draft its Consolidated Financial Statements for the financial year of 1 January – 31 December 2005 according to IFRS standard.*

(Interim Report 7 November 2003)

*As a result of personnel negotiations production in the Finnish plants was shut down for two weeks. The shutdown was realised principally through rearranging working hours and winter holidays and partially through temporary dismissals.*

(Stock Exchange Release 28 November 2003)

## President's Review



### Dear Shareholder,

The operating environment of Okmetic is challenging and cyclical. Silicon wafer manufacturers operate at the very source of the world's electronics industry. The raw material of silicon wafers is highly processed pure silicon. Okmetic's customer base comprises the semiconductor and sensor industries, which supply the manufacturers of electronic appliances with the most essential and valuable components.

The year under review was tough for Okmetic. The deep recession of the electronics and semiconductor industries, which began after the record year of 2000, continued. The demand of silicon wafers decreased and the price competition of the wafer manufacturers became increasingly fierce. Over capacity dominated the industry and market development was weaker than expected. During the year, the Company adjusted its operations and its number of personnel to correspond to demand.

The demand for semiconductors began to recover during the second half of 2003. The demand of silicon wafers increased accordingly, although the growth concentrated on large wafer sizes. With regard to smaller wafer sizes, and therefore Okmetic's product segments, the weak market situation continued. The market prices of all silicon wafers decreased. The weakening of the value of the US dollar decelerated the result production of European companies, in particular. Several wafer factories were closed down in Europe and the US, and production was shipped from the Western countries to the Far East.

### Specialisation as Okmetic's strength

Okmetic's strength lies in its expertise in the chosen customer segments. We are the global market leader in relation to MEMS sensor wafers. During the year under review, we increased the share of the MEMS segment to 29 percent of turnover in accordance with the Company strategy.

During the year, Okmetic achieved a clearly positive cash flow from operating activities despite the turmoil of the industry. Significant savings were made through the development of production process control and the organisation as well as through intensifying working methods. Despite positive results, we did not reach our profitability objective due to fierce competition, the decrease in prices and the weakening of the US dollar. The share of

depreciations grew to 27 percent of turnover. The profitability estimates of major plant investments came true only partially.

### Through new strategy to better profitability

In January 2004, the Board of Directors of Okmetic approved a proposal by the Executive Management Group concerning a strategic plan for the next few years. In the future, we will concentrate our operations strongly in our specialist segments. We will reorganise our sales and product development to better serve the MEMS and POWER product segments, and especially the SOI and EPI product areas. The Company's production will be centralised in the Vantaa plant in Finland and in the Allen plant in Texas, US. In the development and manufacturing processes concerning production technology, we will concentrate on crystal growth and special products. In terms of other wafers, we will gradually begin to sub-contract from the Far East.

The completion of the structural change is expected to take approximately one year. Despite the uncertainty of the markets, we believe that the demand of our selective customer base will grow and we are prepared for the changes taking place in our customer segments. We will be able to maintain our current delivery capacity and to improve our growth potential despite the lightening of the cost structure. In the long-term we will be developing new technologies that will provide our customers with a higher level of added value than that supplied by our competitors.

Through the structural change we also aim to create prerequisites for profitability and the ability to pay dividends.

I would like to express my gratitude to our customers, our shareholders and our other interest groups for the year 2003. I would especially like to thank Okmetic personnel for their readiness to change and to be flexible in the challenging turns of the year.

*Antti Rasilo*



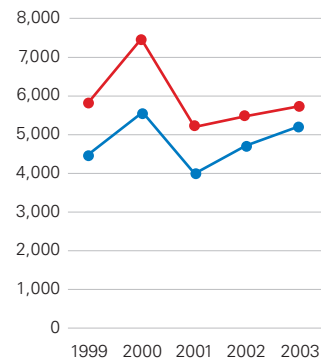
# Market Situation and Prospects for Business Sectors

## Semiconductor markets recovering

The products manufactured by the electronics industry use various kinds of semiconductors: integrated circuits, discrete components and micromechanical sensors. The electronics industry, which is one of the largest industries in the world in terms of turnover, has been suffering from the deepest and longest recession in its history during the recent years.

Towards the end of the year signs of the recovery of demand began to show in the semiconductor industry. Among other things, this was brought about by the recovery of digital consumer electronics markets, which has been expected for a long time. The global sales of the semiconductor industry increased by 18 percent in comparison with the previous year.

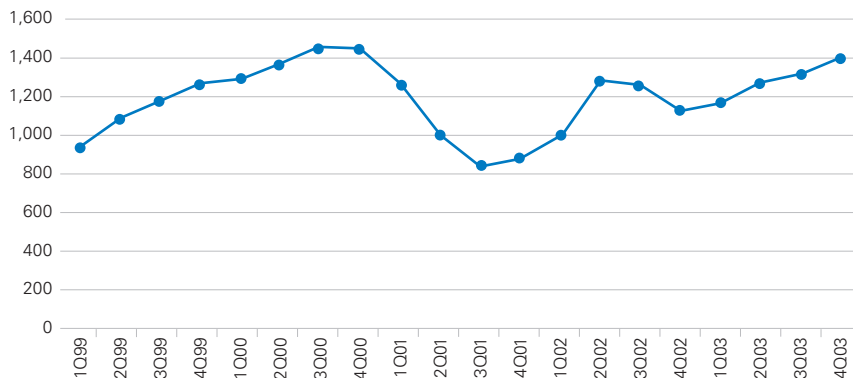
Yearly Supply of Silicon Wafers 1999 - 2003



- Million US dollars
- Million Square Inches

*Semiconductors that are made of Okmetic's silicon wafers are used e.g. in information technology and telecommunications, the automotive industry, industrial process control, medical instruments and domestic electrical appliances.*

Quarterly Supply of Silicon Wafers 1999 - 2003 (MSI)



Semiconductor markets are expected to grow by 20 - 30 percent in 2004 (e.g. SIA, Gartner Dataquest). In terms of products, growth is expected in the markets of mobile phones, computers, digital TVs and cameras and DVD players.

## Market projections for silicon wafers

Silicon wafer markets grew notably more slowly than semiconductor sales. In terms of surface area, wafer deliveries increased by 10 percent (SEMI). The sales of small wafer sizes decreased in comparison with the previous year. Due to fierce competition the prices of wafers decreased and the market situation remained challenging. The total sales of the silicon wafer industry amounted to 5.8 billion dollars. The increase from the previous year was only approximately five percent (SEMI).

The demand of silicon wafers is expected to develop positively in future years as the semiconductor markets grow. According to a forecast by Gartner Dataquest in December 2003 the sales of silicon wafers will increase by 18 percent in 2004. The increase is expected to show most prominently in relation to large wafer sizes. The demand for smaller wafer sizes is expected to grow moderately.

## Okmetic's specialist product areas

Okmetic does not operate in the mass market of silicon wafers (memory circuits, microprocessors), where the fluctuations in demand are characteristically more significant than in the application sectors served by Okmetic.

According to the strategy that was redefined at the beginning of 2004, Okmetic will concentrate its activities on the specialised MEMS and POWER segments, and especially on the DSP, SOI and EPI product areas. The competitiveness and the growth potential of the Company are best in these areas.

Micromechanical sensors are used e.g. in car manufacturing, medical instruments, industrial process control and consumer applications. The extent of automotive electronics increased yet again and the significance of MEMS sensors in car electronics became increasingly essential. The entire microsensor industry developed positively achieving growth of approximately 30 percent.

Power semiconductors are used for the power adjustment of almost all electronic appliances. The discrete semiconductor is a significant type of power semiconductor, the markets of which depend on the development



of the sales of consumer electronics. The increase of demand in this sector was 6 percent to 13 billion dollars.

ICprime silicon wafers are typically used in the analogue and MOS logic circuits. The combined sales of these sectors amounted to approximately 62 billion dollars, which represented an increase of 13 percent from the previous year.

▶ *Okmetic supplies silicon wafers for three different application sectors: micromechanical silicon wafers (MEMS) for sensor applications, highly doped wafers for manufacturers of power and discrete semiconductors (POWER) and application specific wafers for manufacturing circuits (ICprime).*

### Okmetic turnover and deliveries

The Group turnover in 2003 was 50.1 million euro (2002: 57.7 million euro), which indicates a decrease of 13 percent from the previous year. The global turnover in silicon wafers increased by five percent. The growth of the silicon wafer markets concentrated on product groups with diameters of 150 mm or more and the share of such products in Okmetic's sales is small. Okmetic maintained its market share in wafer sizes of 100 mm, 125 mm and 150 mm.

Okmetic's supply volumes were divided into segments as indicated in the picture on page 10. There were no significant changes compared to the previous year. The share of MEMS wafers increased by one percentage point to 29 percent. The share of POWER wafers remained at 35 percent and that of ICprime wafers decreased to 36 percent.

### Silicon wafers for global markets

Okmetic has its primary markets in North America, Western Europe and the Far East. Sales to the US developed positively during the year, amounting to 50 percent of the Group's turnover. The Far Eastern markets

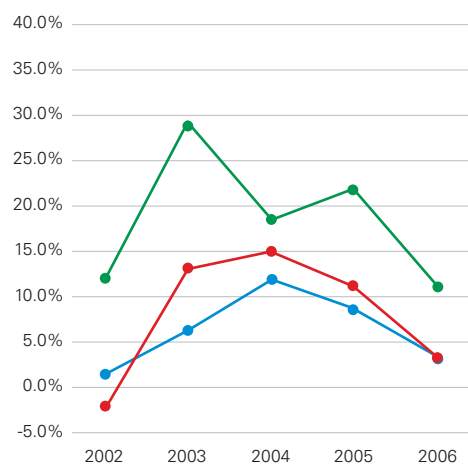
were strained by an aggressive competition over market shares and the resulting significant decrease in prices.

### Micromechanical applications

The industry concerned with the construction of micromechanical components requires highly specified silicon wafers. Acceleration, pressure and angular velocity sensors amongst others measure and process physical variations in the environment. Inertia sensors in cars, micromechanical switches in mobile phones and actuators for the exact measurement of medical dosages are examples of rapidly growing markets.

Okmetic has been supplying silicon material for the manufacturers of MEMS sensors for over a decade and holds the world's leading position as a supplier of MEMS sensor silicon. The sales of MEMS silicon wafers have remained stable and the potential for increases is still considerable. However, the competition is expected to toughen in the next few years.

Okmetic has invested strongly in the development of SOI (Silicon On Insulator) wafers for new sensor generations. The SOI wafer produced by Okmetic is used for example in the most advanced MEMS components in the automotive industry and optical data transfer. The markets of SOI wafers are only at the beginning of their life cycle but they are rapidly developing from research and product development towards high volume production of new applications. SOI wafer customers are expected to represent a significant customer segment for Okmetic in the near future.

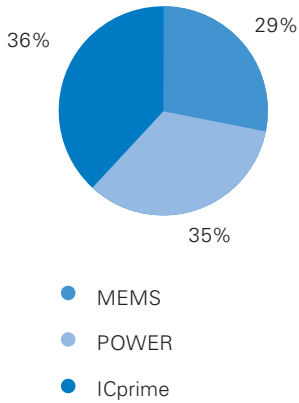


The change during 2003 in the semiconductor markets regarding Okmetic's three operating sectors and the forecast for the next few years (SIA, November 2003).

"Pressure & Acceleration Sensors" indicates the demand for MEMS silicon wafers, "Analogue + MOS Logic" the demand for ICprime silicon wafers, and "Discretes" the demand for POWER silicon wafers.

- Pressure & Acceleration Sensors
- Analog + MOS Logic
- Discretes

Sales by Product Groups

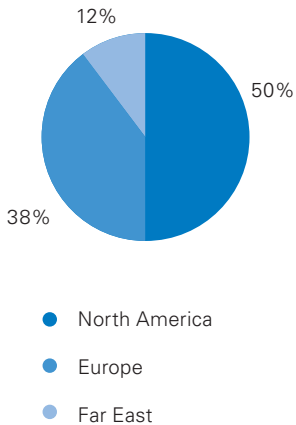


### Semiconductor applications

Okmetic produces specialised silicon wafers with very high electrical conductivity for applications using power semiconductors and discrete components. Portable electronic equipment, and especially their power adjustment and power saving requirements, create abundant demand in this application area.

POWER business showed clear signs of recovery towards the end of the year under review, although the decrease in prices continued strongly in the Far Eastern and European markets. Strong growth is expected for this product group in the future. The demand for silicon wafers that are equipped with an epitaxial layer, in particular, increased significantly towards the end of the year. The market projections for the advanced special products in the POWER application areas are especially promising. The further development of these products is one of the main focuses in the R&D work of the Company.

Sales by Main Market Areas



### Application specific ICprime wafers

The market of ICprime wafers is dominated by consumer electronics and wireless telecommunications. Okmetic cooperates with the customer in manufacturing and customising ICprime silicon wafers to suit the requirements of the circuit being constructed. The development of the product area has reached a mature stage and the growth of the markets is expected to concentrate almost fully on large wafers with diameters in excess of 150 mm.

The global demand for application specific wafers remained weak during the year. The prices of application specific wafers decreased as a consequence of the fierce competition over market shares between the Far Eastern suppliers. The global production capacity of silicon wafers in this product segment was clearly above the level of demand during the year under review. Several wafer manufacturers communicated an intention to reduce their production capacity.

The projections for the near future of the ICprime product group remain uncertain, but the recovery of demand is expected to stop the decrease of prices in the US and European markets and to slowly stabilise the markets.

## Research and Development

Ever since its launch the Company has invested heavily on the research of silicon material and the related production process. According to its basic philosophy the Company aims at using its expertise in silicon applications to benefit its customers. The research and development activities of Okmetic guarantee the technological and economical competitiveness of the Company as well as its continuous regeneration.

Okmetic invests approximately 7 percent of its turnover in research and development activities. In 2003, R&D expenditure amounted to 3.4 million euro.

During the year under review, Okmetic's own R&D activities focused on the development of MEMS and POWER wafers, and especially in SOI and SiC (silicon carbide) product areas. The unit also concentrated on developing processes that would reduce production costs and achieved positive results especially with regard to the MEMS wafer process. With the financial help of the National Technology Agency of Finland, development work regarding a new kind of product in the SOI wafer group was launched in cooperation with the customer, the Technical Research Centre of Finland and the Helsinki University of Technology.

In addition to its own research and development work, Okmetic participated in the product development of its customers by customising and optimising products to suit the processes of the customers. The Company aims at participating in the material development from the product development idea of the customer to prototypes and all the way to end products. Close cooperation has been made possible through reliable, long-term customer relations.

During the year under review, Okmetic's research and development personnel cooperated with several institutes of higher education and national research institutes, especially with regard to the development of the materials and processes used in connection with the MEMS product group.

### Future Projections in R&D

In 2004, the focus of R&D activities will be on MEMS, POWER and EPI products, on developing new products and on improving the properties of products in mass production. Due to fierce competition, the product and process development will continue to pursue reduced production costs.



## Personnel and Expertise



The implementation of Okmetic strategy and the success of the Company depend on skilled and motivated personnel. Developing expertise was one of the focus areas of 2003. Know-how is also one of the Okmetic values defined in 2002.

**OKMETIC VALUES**

- Profitability*
- Know-how*
- Customer Orientation*
- Continuous Improvement*
- Cooperation*

The average age of the personnel was 38 years and the average length of employment was approximately 6 years.

Two personnel surveys were conducted during the year. In May, the effects of operational changes, which were implemented during the spring, were mapped. The questionnaire indicated that the level of leadership had increased since the previous year. The personnel negotiations were reflected in the working atmosphere in a slightly negative way. The work atmosphere study that was conducted in December indicated that despite difficult decisions the work atmosphere had remained at a reasonable level. A positive outcome was that the personnel were willing to increase their skills by learning new tasks. Leadership challenges include maintaining the trust of the entire personnel in the future success of the Company.

### Training and Development

Training topics for the year under review include process-like operation, leadership, performance appraisal interviews and cooperation regarding workers' protection.

A total of 190 training days for blue-collar employees was recorded. In terms of white-collar employees, a total of 414 training days were recorded. The effectiveness of training was measured primarily through self-assessment questionnaires conducted at training sessions.

Skills monitoring system was completed internally during the year under review, and the system will be used for mapping the skills profile of the employees in the first stage. Measurements are used in drafting training and development plans.

The Finnish plants of Okmetic participated in the "MET haastamme" ("we challenge") work atmosphere competition organised by Technology Industries of Finland, aiming at developing the profitability, safety and comfort of the Company.

### Remuneration

The remuneration of Okmetic employees is based on the level of difficulty of the tasks. During the year under review, all employee groups were covered by an incentive scheme in relation to either profit or production. The criteria for rewards were deduced from either operational or economic goals.

In 2003, focus areas of organisational development also included the strengthening of the sales organisation and the development of the production organisation towards becoming more process-like. Flexibility was increased through developing the multiple skills of the personnel.

During the year under review, Okmetic continued to adjust the number and skills of its personnel according to the requirements of profitable business activities. Difficult adjustment measures were negotiated with the personnel in March and August.

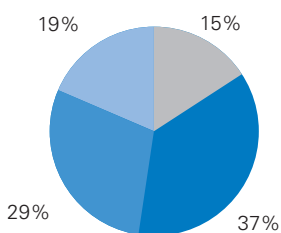
Internal online magazine Okmetic News, which is published in Finnish and English, supported internal communication.

### Okmetic Experts

At the end of the year the Company had a total of 456 employees. The parent company employed a total of 403 people at the end of the year.

The average number of employees in the Group was 477 during 2003. Of the personnel, 69 percent were male and 31 percent female. White-collar employees amounted to an average of 36 percent and blue-collar employees totalled 64 percent. The parent company employed 132 white-collar employees and 292 blue-collar employees.

Education of Group Management and upper level employees in the parent company



- Doctors and Licentiatees
- Higher Academic Degrees
- Lower Academic Degrees
- Other Degrees

n=93

## We Value

### **Customer-orientation**

– If we understand the different needs of our customers we can develop our products and solutions towards the right direction. We always do what we have promised.

### **Continuous Improvement**

– Our strict quality requirements ensure that we have to continuously update our own expertise. Average solutions are not accepted.

### **Profitability**

– Our owners have not only invested their resources in us but also their trust and they expect their investment to yield results. We hold the meeting of these expectations as a matter of honour.

### **Know-how**

– Diligence, a healthy respect for work and the willingness to always be learning new things form the basis for our success and our continuous development. Our wide-ranging multi-disciplinary expertise enables the high quality of Okmetic products and activities.

### **Cooperation**

– Well working cooperation is one of our greatest internal strengths. Okmetic experts work in close cooperation with customers and various scientific organisations. We want to be the best possible partner for each of our customers.

	1999	2000	2001	2002	2003
Espoo	226	236	226	208	133
Vantaa	193	248	235	233	236
Allen (Okmetic Inc.)	18	43	36	39	38
Linköping (Okmetic AB)	7	7	13	15	15
<b>Total</b>	<b>444</b>	<b>534</b>	<b>510</b>	<b>495</b>	<b>422</b>

Number of personnel at work at the end of the year  
(the available labour capacity)



## Production and Quality

The year 2003 brought many changes to Okmetic's production. At the beginning of the year the responsibility for the production of both Finnish plants was centralised to one production manager. The initial stages of the production process from cylindrical grinding to edge-rounding were moved from Espoo to the Vantaa plant. The utilisation rate of both Finnish plants was low. The central objectives of the year included the lowering of variable costs and the increasing of flexibility. Variable costs per production unit decreased significantly from the previous year, the growth of fixed costs stopped and the flexibility of activities increased.

In terms of production, the changes outlined in the redefined strategy of Okmetic will be mainly implemented during 2004. The Espoo plant will be closed down and the Finnish production of silicon wafers will be

centralised in the Vantaa plant. The entire EPI further processing activities of the Group will be centralised in the Allen plant in the United States.

High quality is one of the most important prerequisites for success and profitability in the semiconductor industry. Okmetic has systematically developed its quality management principles and procedures. Year 2003 saw the launching of a move towards a process-like operational procedure. The change created conditions for increasingly cost-effective and high quality activities and cooperation throughout the Group.

Okmetic's quality system is currently in compliance with the requirements of the QS-9000 system, which is required from suppliers of the US automotive industry. The operational systems of Okmetic's plants will be updated to comply with the new process-based ISO 9000 standard by summer 2004. At the same time, the Company aims at acquiring approval for the use of the ISO/TS16949 certificate, which is required by the international automotive industry.

Environmental issues are considered in the everyday activities of Okmetic. The Finnish plants of the Company have a certified environmental system. Okmetic actively monitors the consumption of raw materials, water and electricity, the use of inorganic chemicals and the amount of waste. The quality of wastewater and the gas emissions are also monitored at regular intervals.

Reducing the consumption of water and electricity is integrated into the environmental plan of the Company for 2004. Okmetic evaluates the risks caused by its activities to the health and safety of people and to the environment through the SARA system. Okmetic also concentrates on measures that promote sustainability for the environment when developing future products and solutions.



# The Tale of the Silicon Wafer

Silicon is the second most common element in the earth's crust, an age-old, multi-purpose material. Throughout its history, man has used silicon in the manufacture of tools and weapons and as flint for lighting a fire. Nowadays, we are surrounded by products that are made of silicon. The applications of silicon include well-being and environmental technology, sensors and communications.

## The second coming of silicon

Silicon wafers were first used as base of microcircuits in the electronics industry. Almost all electronic devices include microcircuits. At the next stage, silicon was used in the manufacture of sensors. Micromechanical sensors are used in the automotive industry, medical instruments, industrial process control and consumer applications.

## First the crystal is grown

Crystal growth is one of the most critical stages in the manufacturing process of silicon wafers. Very pure, semiconductor grade silicon is melted in a furnace and any necessary compounds are then added to it (boron, phosphorous, antimony, arsenic). A cylindrical silicon crystal is grown from the molten silicon by lifting it upwards slowly. The growth process of the crystal rod in the furnace takes 1 - 2 days. The process is mathematically patterned on a computer screen at Okmetic.

## The initial process is mechanical

The two-metre long, cylindrical silicon crystal is cut into sections for further processing. Physical and chemical properties vary between different parts of the rod, consequently only the part of the rod corresponding to the analysed customer specifications is cut for further processing. The rod is ground to an exact diameter and then cut using a diamond saw into thin wafers that usually have a thickness of 0.5 - 1.0 mm.

The edge of the sawn silicon wafer is shaped in the edge-rounding process. After the automatic edge-rounding, the wafers are ground in a chemical-mechanical process to arrive at a uniform thickness. The thickness in a silicon wafer may not vary by more than 0.001 millimetres.

## Etching, inspection and polish

The wafers are etched in acidic or caustic solutions in order to remove possible damage

or surface faults produced during mechanical processing.

The surface of a silicon wafer must be even and flawless so that the customer can make sensors and microcircuits on the wafer. Wafers are selected for polishing during the interim inspection. Polishing is carried out mechanically in the clean room. The surface finish is achieved by using different kinds of cloths and chemicals. Depending on the intended use, the wafer is polished on either one or both sides.

## Finishing in the clean room

Before dispatching to customers, the wafers are measured, washed and inspected in the clean room facilities. The air in the clean room is one million times cleaner than the air found in offices or living areas. Protective clothing, which is washed daily, is used for working in the clean room. The clean room is entered through an airlock in which blowers remove any particles of dust from clothing. The air in the clean room is constantly circulated through filters so that all the particles emanating from employees are removed with the air.

After cleaning, sorting and inspection, the wafers are packed in cassettes filled with shielding gas and either sent directly to the customer or to the epitaxial plant in Allen for further processing. The process of making epiwafers involves growing a thin layer of silicon onto the surface of the wafer in an epitaxial reactor. The epitaxial layer is generally used to contribute to the electrical properties of the wafer. In principle, an epitaxial coating can be laid on all wafers regardless of the intended application.

## The future of the silicon wafer

Silicon can be used for almost anything. As an example, pacemakers are equipped with an acceleration sensor that identifies whether the person fitted with the pacemaker is resting or on the move. This way, the pacemaker can adjust its functioning to the level of activity. Automotive sensors can recognise other cars from far away and adjust the speed to the change in distance. New buildings can be equipped with silicon-based carbon dioxide sensors that recognise when a person enters the room and then switch on the air-conditioning. Thanks to the use of nanotechnology, in the future all information throughout the world can be saved onto a computer the size of a mobile phone...



## The Board of Director's Report

The recession that has plagued the semiconductor industry since 2001 began to show signs of giving way towards the end of the year. Compared to the previous year, the sales of the semiconductor industry increased by 18 percent. Nevertheless, sales remained far behind the record year of 2000.

The fierce competition in the silicon wafer industry reduced prices. Despite the increase in terms of surface area, the growth of turnover and profitability remained modest.

The slower than average recovery of demand in the industries of Okmetic's customers had a strong negative effect on the result of the Group, as did the strong decreasing of the value of the US dollar. The turnover of the Group was 50.1 million euro, which was less than in the previous year. Significant improvements and savings were achieved in operations, but they were not sufficient to counterbalance the influence of the negative factors. The Group suffered an operating loss of 7.7 million euro. The cash flow from operating activities was 4.3 million euro. Equity ratio and the financial position of the Group remained good.

### Silicon wafer markets began to improve

The year 2003 was clearly split both in the semiconductor industry and the world economy as a whole. During the first half of the year, the demand suffered from the culmination of the conflict in the Middle East as well as the threat of the break-out of an extensive virus epidemic in the Far East. The situation improved at the beginning of the autumn, when the demand of many new electronic appliances finally took a strong upward turn.

The utilisation rates of the production capacity of semiconductors took an upward turn towards the end of the year but this did not have enough time to have a crucial impact

on the average prices of the components. The investments aiming at building new capacity had not recovered significantly by the end of the year.

The different market areas showed uniform behaviour. Growth began towards the end of the summer simultaneously in America, Europe and Asia. To begin with, the increase of demand in the semiconductor industry was most prominent in memory circuits and microprocessors. The recovery of the markets has as yet not affected Okmetic's customers' behaviour.

The most prominent trend of the silicon wafer industry was the constant decrease of average prices. The total surface area of delivered wafers remained low throughout the year. An exception arose in the form of an increase in demand for large wafer sizes towards the end of the year. The total volume of global wafer deliveries increased by 10 percent compared to 2002, when measured in terms of surface area. The production capacity of silicon wafer production plants was constantly under-utilised and the media reported frequently on the closing down of plants and the temporary dismissals of personnel.

Okmetic markets its products under product names MEMS, POWER and ICprime. The main customer of the Company's MEMS wafers is the automotive industry, where the importance of microsensors is constantly growing. POWER wafers are used especially in the power adjustment of electronic appliances. The sales of discrete components, which form a part of the market, increased by 6 percent during the year. The typical users of Okmetic's ICprime wafers are manufacturers of analogue and MOS logic circuits. The global sales of these application areas of semiconductors grew by 13 percent from the previous year (SIA).

### The division of the Group's deliveries by product groups was as follows:

	2003	(average 2002)
<b>MEMS</b> (sensor wafers)	29%	(25%)
<b>POWER</b> (power and discrete semiconductor wafers)	35%	(28%)
<b>ICprime</b> (application specific wafers)	36%	(47%)



### Turnover decreased

The turnover of the Okmetic Group was 50.1 million euro (2002: 57.7 million euro). The development was a result of the decrease in silicon wafer prices due to fierce competition and the significant weakening of the US dollar.

According to its strategy, the Group continued to implement the move towards the most challenging MEMS and POWER wafers, in which the Company specialises.

The combined share of the exports from the Finnish plants and the business activities abroad amounted to 96 percent of the Group's turnover (2002: 96%). The significance of the United States as a market area increased. One half of the Group's turnover originated from these markets. The sales were divided by main geographical market areas as follows: North America 50 percent (2002: 46%), Europe 38 percent (2002: 40%) and the Far East 12 percent (2002: 14%).

### Profitability was low

The Okmetic Group suffered an operating loss of -7.7 million euro (2002: -6.2 million euro). The operating loss of 2002 included a 2.4 million euro non-recurring item, which was recorded as other income from operating activities and which improved the result. The most prominent reasons for the loss were the low sales and production volumes and the resulting unsatisfactory development of profitability. The substantial development and saving measures and the temporary dismissals and redundancies that were implemented during the year were not sufficient in compensating for the negative cost effect resulting from the decreasing prices, the US dollar and the low volumes. Depreciations amounted to 26.9 percent of turnover and their negative effect on the result was significant.

The operating loss of the Group before extraordinary items was -9.3 million euro (2002: -8.1 million euro). The parent company expensed 2.7 million euro (2002: 6.1 million euro) worth of depreciation difference accumulated during the previous years. As a result, a total of 0.8 million euro (2002: 1.8 million euro) of imputed financing of tax debt was recorded during the financial year. In addition, 1.2 million euro of deferred tax income was written down as depreciation from the result of the subsidiary. The operating result of the Group was a loss of -10.0 million euro (2002: -6.3 million euro). The result per

share was -0.59 euro (2002: 0.37 euro) and the return on investment -6.1 percent (2002: -4.9%). A significant proportion of the production machinery was under-utilised and the relation of turnover to invested capital was extraordinarily low.

The turnover of Okmetic Oyj was 45.9 million euro (2002: 54.5 million euro) and the operating loss was -8.3 million euro (2002: -4.6 million euro).

The Finnish plants operated at a loss. The turnover of the US plant increased and the profitability improved. The plant was achieving positive operating results towards the end of the year.

Okmetic AB, the unit in Linköping, Sweden that develops SiC wafers, continued its research and development work successfully. The company was awarded a grant of 12.0 million Swedish kronor by the Swedish government. In accordance with the agreement between the companies in the Okmetic Group, Okmetic Oyj covered the product development costs of the subsidiary that were not already covered by funding from other parties.

### No significant changes in the financing situation

The cash flow from operating activities of the Group was 4.3 million euro (2002: 4.4 million euro). The change in net working capital followed the patterns of the changes in the turnover.

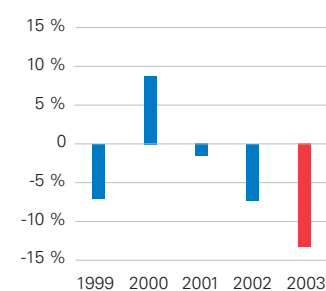
The equity ratio was 54.9 percent (2002: 57.9%) at the end of the year and the equity per share was 3.92 euro (2002: 4.66 euro). At the end of the year the Company had 6.6 million euro worth of unpaid equity loans. The payments and interests of equity loans could not be paid in the absence of distributable funds.

The Group's liquidity remained good throughout the year. At the end of the year there were 5.0 million euro (2002: 3.8 million euro) worth of total cash and cash equivalents. A total of 19.0 million euro of the agreed credit facility of 25.0 million euro was in use at the end of the year. Net debt with interest was 39.8 million euro (2002: 43.1 million euro) at the end of the year. A net value of 2.0 million euro worth of debt was paid back.

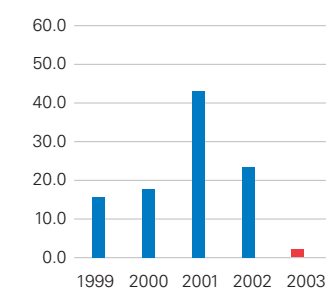
### Risk management was intensified

The Group has continued dollar-denominated hedging of sales through currency forwards and options. The time span was 6 months at

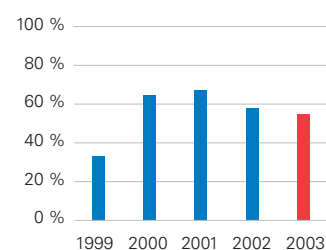
Return on equity, %



Investments, million euro



Equity ratio, %



the end of 2003. Interest rate hedging has been increased. The hedging covers the majority of liabilities. In addition, Okmetic Oyj has begun to hedge production costs against the changes in electricity prices. The time span is just over one year.

#### Investment plan was completed

The fixed assets investments of the Group were 1.9 million euro (2002: 24.7 million euro), i.e. 3.8 percent of turnover. The investments were allocated to the completion of the projects commenced during the previous year. The initial stages of wafer production were centralised at the Vantaa plant in Finland.

#### R&D concentration to MEMS and POWER product groups

The gross costs of the research and development activities of the Group formed 6.7 percent (2002: 7.0%) of turnover during the year. The costs take into account long-term projects of a minimum duration of three years.

The most significant of these was the development project of the production process of the Okmetic AB silicon carbide wafers. A total of 1.1 million euro (2002: 0.7 million euro) was received as financial grants for long-term projects.

During the year the research and development activities concentrated on the MEMS and POWER wafers and especially the SOI (Silicon On Insulator) products. Other significant development projects involved the production process and cost savings. Several successes were achieved in connection with the projects.

The product development work on silicon carbide wafers (SiC) was continued in Linköping, Sweden and preparations for industrialising the project were continued.

#### Quality of operations was improved

The level of quality of the products of the Group remained good. The certified quality systems of the Espoo, Vantaa and Allen plants were developed further. During the year under review the authorities and certain customers audited the operative system several times. The findings of the inspections were good all-round.

#### Environmental issues as part of everyday activities

The ISO certificate authorities audited the functioning of the ISO 14001 certified environ-

ment system of Okmetic Oyj twice during the year. Throughout the year, targets set for development were pursued and met. The Company monitors the consumption of raw materials that have significant environmental effects as well as the accumulation of waste. One of the most significant targets was the collection of silicon slurry, which is used as raw material for production, from wastewater.

#### Personnel was developed and the number of personnel adjusted

Organisational development focused on strengthening the sales organisation and developing the production organisation towards becoming more process-like. Training emphasised project work and leadership. The flexibility of operations was increased through developing the multiple skills of employees.

Okmetic continued to match the number of personnel and the amount of expertise to the requirements of profitable business activities. During the year, the number of personnel was adjusted in Finland through temporary dismissals and 15 redundancies as well as by discontinuing 11 temporary contracts. The operations in the Finnish plants were shut down between Christmas and the 6th of January.

At the end of the year the Group employed 456 people (2002: 515) and the parent company 403 people (2002: 460).

At the end of the year Okmetic Inc. employed 38 people and Okmetic AB 15.

A total of 36 percent of the Group's personnel were white-collar employees and 64% were blue-collar employees.

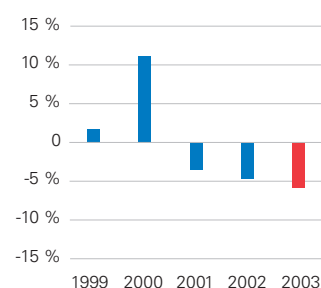
#### Remuneration of personnel

The remuneration of Okmetic employees is based on the level of difficulty of the tasks. During the year under review, all employee groups were covered by an incentive scheme in relation to either profit or production. The criteria for rewards were deduced from either operational or economic goals.

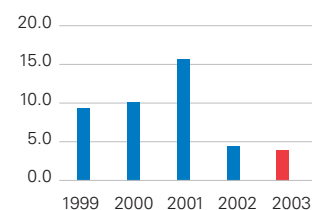
#### Exchange rates and trading of shares

The trading of shares between 1st January and 31st December 2003 amounted to 3.6 million shares, which corresponds to 21.5 percent of the total amount of 16.9 million shares. The price of a share has increased considerably during the year. The lowest quotation was 1.45 euro and the highest quotation was 3.77 euro per share with the average

Return on capital employed, %



Cash provided by operating activities



being 2.43 euro. The closing share price for the year was 3.30 euro. The market capitalisation was 55.7 million euro.

During the year, the Board of Directors did not take advantage of the authority granted to it by the Annual General Meeting on 27 March 2003 to increase capital stock by new issue, to grant right of options or to take out convertible debenture loans. Options were not converted into shares during the year.

#### Move to IFRS reporting

The Board of Directors of Okmetic Oyj has decided that the Company shall draft its financial statements according to the IFRS standards for the first time for the financial year of 1 January – 31 December 2005. Interim reports for the financial year of 1 January – 31 December 2005 will also be drafted in accordance with the IFRS standards.

#### Significant events after the end of the financial year

##### Strategy

On 21 January 2004, the Board of Directors of Okmetic Oyj approved a proposal by the Executive Management Group regarding the strategy of the future years as well as an intensive structural change programme related to it.

The strategy aims at strengthening the position of the MEMS and POWER product segments as areas of focus in business activities. Attracting new customers and developing new technology will concentrate on these product segments. Business activities will also continue with regards to the ICprime product segment.

Two important aspects of the strategy are the development of a cost-effective production process, which will be based on own core

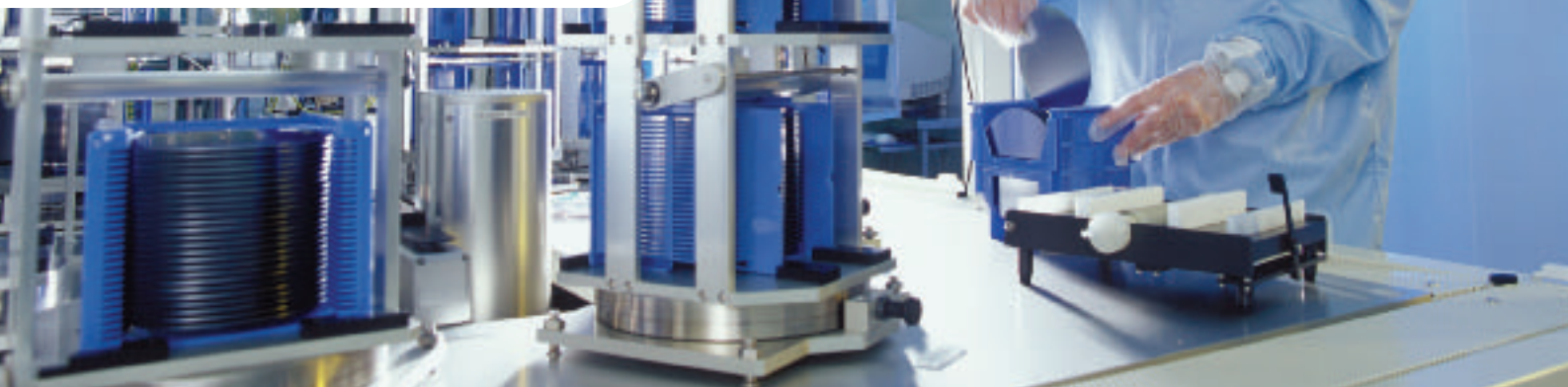
expertise, and the launch of sub-contracting operations. The central objectives of the future years also include the building of strategic cooperation with partners.

Silicon carbide (SiC) represents strategic business potential for the company. Okmetic will continue to develop silicon carbide towards commercialisation.

#### Structural change

Through structural change Okmetic aims to significantly lighten its cost structure. Production will be concentrated in the Vantaa and Allen plants so that delivery capacity and growth potential are maintained. The Espoo plant will be closed down in 2004.

The structural change will be primarily implemented during 2004.



The number of personnel in the Group will be dimensioned to correspond to the strategy. The Finnish personnel will be cut down by no more than 90 people. The number of personnel at the end of the year was 403, with 11 of these being temporarily dismissed. Personnel negotiations regarding the Finnish plants were commenced on 21 January 2004.

During the first quarter of 2004, 3.5 million euro will be allocated to the implementation of the structural change, which the Board of Directors of the Company approved on 21 January 2004. A total of 25.0 million euro worth of assets relating to the structural change will be written off as depreciation during the first quarter of 2004.

#### Loan negotiations

The company has launched negotiations with credit institutions in order to revise the loan terms due to the weak result of the Group, the structural change that will be implemented at the beginning of 2004 and the resulting depreciation. The negotiations are not expected to affect the financial position of the Company.

#### The proposals of the Board of Directors to the Annual General Meeting of 25 March 2004

The Board of Directors will propose to the Annual General Meeting on 25 March 2004 that the Board of Directors should be granted the authority from 25 March 2004 until the following Annual General Meeting, although for no longer than one year from the Annual General Meeting, to decide on the increasing of capital stock by new issue, granting rights of options or taking out convertible debenture loans in bulk or in several instalments in such a way that no more than a total of 3,377,500 new shares will be subscribed in relation to any new issues, granting of rights of options or taking out convertible debenture loans. Capital stock can be increased by no more than 2,364,250 euro by authorisation.

The authorisation includes the right to deviate from the shareholders' pre-emptive subscription rights, if the deviation is justified by an important financial reason for the Company.

#### Future projections and objectives

The market projections for 2004 are expected to develop in a positive way from Okmetic's

point of view. Based on the orders received during the first quarter, the demand for Okmetic's products, which target the needs of e.g. telecommunications, the automotive and the pharmaceutical industries, seems to be recovering.

The recovery of the semiconductor industry that began towards the end of the year 2003 is expected to continue strong throughout the year 2004. The prices of semiconductors are also expected to slowly rise, as the utility rates of capacity increase.

The development of the semiconductor markets and especially the production amounts of the circuits and components has direct consequences on the demand of silicon wafers. The silicon wafer markets are expected to develop positively in the future years. The predictions made regarding the development of the industry have all communicated a two-figure growth percentage (SEMI, Gartner Dataquest).

Okmetic's strong expertise lies in the production of the MEMS and POWER wafers and within these growing product areas the Company believes that it can further increase its customer base. Thanks to its modern production machinery and the structural change that will be implemented during 2004, Okmetic estimates further increase in its competitiveness. The Company will continue its determined development of new products in accordance with its long-term strategic plan.

The result of 2004 will be heavily negative due to the costs incurred in relation to the structural change and due to the write offs. The changes implemented in relation to operations will increase profitability, however. The exchange rate of the US dollar has an important effect on the result development of Okmetic. The production arrangements, once implemented, will reduce the significance of the exchange rate variation.

#### The Board of Directors

Members of the Board of Directors in 2003:

*Mikko J. Aro*, Chairman  
*Juho Mäkinen*, Vice Chairman  
*Heikki Huomo*  
*Seppo Isoherranen*, until 27 March 2003  
*Esa Lager*, from 27 March 2003  
*Pekka Paasikivi*  
*Pekka Salmi*

*Antti Rasilo*, M.Sc. (Tech.) has been the President of Okmetic Oyj as of 1 January 2003.



# Consolidated Income Statement

1,000 euro		1.1. - 31.12.2003	1.1. - 31.12.2002
<b>Net Sales</b>	(1)	<b>50,117.0</b>	<b>57,737.6</b>
Cost of Sales		-51,743.5	-59,519.6
<b>Gross Margin</b>		<b>-1,626.5</b>	<b>-1,782.0</b>
Sales and Marketing Expenses		-2,402.1	-2,599.6
Administration Expenses		-3,692.6	-4,334.9
Other Operating Income		26.5	2,684.8
Other Operating Expenses		-22.1	-119.5
<b>Operating Profit/Loss</b>	(2,3)	<b>-7,716.8</b>	<b>-6,151.2</b>
Financial Income and Expenses	(4)	-1,607.6	-1,969.4
<b>Profit/Loss before Extraordinary Items</b>		<b>-9,324.4</b>	<b>-8,120.6</b>
Extraordinary Items		-	-
<b>Profit/Loss before Taxes</b>		<b>-9,324.4</b>	<b>-8,120.6</b>
<b>Income Taxes</b>	(6)	<b>-631.3</b>	<b>1,802.1</b>
<b>Net Income</b>		<b>-9,955.7</b>	<b>-6,318.5</b>

Numbers in brackets refers to notes on pages 30 - 38.

# Consolidated Balance Sheet

1,000 euro	31.12.2003	31.12.2002
<b>Assets</b>		
<b>Fixed Assets</b>	(7)	
<b>Intangible Assets</b>		
Other Long-term Expenses	639.8	1,015.2
Goodwill	7.6	28.2
Goodwill on Consolidation	51.6	128.9
	<b>699.0</b>	<b>1,172.3</b>
<b>Tangible Assets</b>		
Land	1,863.8	2,045.1
Buildings	22,420.6	24,221.1
Machinery and Equipment	74,157.5	85,588.8
Construction in Progress	615.8	1,203.3
	<b>99,057.7</b>	<b>113,058.3</b>
<b>Investments</b>		
Other Long-term Equity Investments	(9) 6.3	6.3
Other Receivables	238.0	238.0
	<b>244.3</b>	<b>244.3</b>
<b>Total Fixed Assets</b>	<b>100,001.0</b>	<b>114,474.9</b>
<b>Current Assets</b>		
<b>Inventories</b>		
Raw Materials	4,005.9	4,503.7
Work in Progress	937.0	1,278.7
Finished Products	2,818.5	2,862.7
	<b>7,761.4</b>	<b>8,645.1</b>
<b>Receivables</b>		
Accounts Receivable	6,754.8	7,379.5
Other Receivables	1,009.7	1,290.0
Prepayments and Accrued Income	(10) 320.8	550.1
	<b>8,085.3</b>	<b>9,219.6</b>
<b>Cash and Cash Equivalents</b>	<b>4,959.0</b>	<b>3,750.8</b>
<b>Total Current Assets</b>	<b>20,805.7</b>	<b>21,615.5</b>
	<b>120,806.7</b>	<b>136,090.4</b>

# Consolidated Balance Sheet

1,000 euro		31.12.2003	31.12.2002
<b>Shareholders' Equity and Liabilities</b>			
<b>Shareholders' Equity</b>	(11)		
Share Capital		11,821.3	11,821.3
Premium Fund		71,055.8	71,055.8
Retained Earnings		-6,704.2	2,080.9
Net Income for the Year		-9,955.7	-6,318.5
		<b>66,217.2</b>	<b>78,639.5</b>
Subordinated Loans	(12)	6,620.0	6,597.7
<b>Total Shareholders' Equity</b>		<b>72,837.2</b>	<b>85,237.2</b>
<b>Liabilities</b>			
Deferred Tax Liability	(14)	645.5	14.2
<b>Long-term Liabilities</b>			
Loans from Financial Institutions	(16)	14,098.8	18,816.8
Other Liabilities		183.5	367.0
		<b>14,282.3</b>	<b>19,183.8</b>
<b>Short-term Liabilities</b>			
Loans from Financial Institutions		23,653.5	20,856.0
Advances Received		229.3	160.9
Accounts Payable		3,576.1	5,050.2
Other Liabilities		739.4	898.6
Accruals and Deferred Income	(17)	4,843.4	4,689.5
		<b>33,041.7</b>	<b>31,655.2</b>
<b>Total Liabilities</b>		<b>47,969.5</b>	<b>50,853.2</b>
<b>Total Shareholders' Equity and Liabilities</b>		<b>120,806.7</b>	<b>136,090.4</b>

# Consolidated Statement of Cash Flow

1,000 euro	1.1. - 31.12.2003	1.1. - 31.12.2002
<b>Operating Activities</b>		
Operating Profit/Loss	-7,716.8	-6,151.2
Adjustments to Operating Profit/Loss		
Depreciation	13,486.7	13,432.3
Other Adjustments	262.7	138.6
Change in Net Working Capital	165.7	-1,218.5
Interest Received	44.0	143.8
Interest Paid	-1,393.0	-1,699.5
Other Financial Items	-583.2	-214.4
<b>Cash Provided by Operating Activities</b>	<b>4,266.1</b>	<b>4,431.1</b>
<b>Investing Activities</b>		
Capital Expenditure	-1,880.2	-24,742.3
<b>Cash Provided by Investing Activities</b>	<b>-1,880.2</b>	<b>-24,742.3</b>
<b>Financing Activities</b>		
Increase (+) / Decrease (-) in Long-term Loans	-5,022.4	2,405.3
Increase (+) / Decrease (-) in Short-term Loans	3,000.0	16,000.0
Other Financial Activities	844.7	287.5
<b>Cash Provided by Financing Activities</b>	<b>-1,177.7</b>	<b>18,692.8</b>
Increase (+) / Decrease (-) in Cash and Cash Equivalents	1,208.2	-1,618.4
Cash and Cash Equivalents on 1 January	3,750.8	5,369.2
<b>Cash and Cash Equivalents on 31 December</b>	<b>4,959.0</b>	<b>3,750.8</b>



# Parent Company's Income Statement

Euro		1.1. - 31.12.2003	1.1. - 31.12.2002
<b>Net Sales</b>	(1)	<b>45,912,401.60</b>	<b>54,540,134.29</b>
Cost of Sales		-48,447,350.67	-55,155,841.03
<b>Gross Margin</b>		<b>-2,534,949.07</b>	<b>-615,706.74</b>
Sales and Marketing Expenses		-2,240,420.61	-2,484,288.22
Administration Expenses		-3,476,116.35	-3,851,976.92
Other Operating Income		19,866.03	2,453,567.73
Other Operating Expenses		-22,065.70	-88,813.44
<b>Operating Profit/Loss</b>	(2,3)	<b>-8,253,685.70</b>	<b>-4,587,217.59</b>
Financial Income and Expenses	(4)	-1,198,339.31	-1,459,741.49
<b>Profit/Loss before Extraordinary Items</b>		<b>-9,452,025.01</b>	<b>-6,046,959.08</b>
Extraordinary Items		-	-
<b>Profit/Loss before Appropriations and Taxes</b>		<b>-9,452,025.01</b>	<b>-6,046,959.08</b>
<b>Increase (-) / Decrease (+) in Untaxed Reserves</b>			
Depreciation Difference	(5)	2,656,587.24	6,050,382.46
<b>Net Income</b>		<b>-6,795,437.77</b>	<b>3,423.38</b>

# Parent Company's Balance Sheet

Euro	31.12.2003	31.12.2002
<b>Assets</b>		
<b>Fixed Assets</b>	(7)	
<b>Intangible Assets</b>		
Other Long-term Expenses	473,514.87	722,548.74
<b>Tangible Assets</b>		
Land	977,081.45	977,081.45
Buildings	8,361,367.32	8,889,579.34
Machinery and Equipment	64,060,894.59	72,768,849.24
Construction in Progress	482,513.42	1,033,631.54
	<b>73,881,856.78</b>	<b>83,669,141.57</b>
<b>Investments</b>		
Shares in Subsidiaries	(8) 28,073,507.20	28,073,507.20
Other Long-term Equity Investments	(9) 6,281.82	6,281.82
Other Receivables	130,239.30	130,239.30
	<b>28,210,028.32</b>	<b>28,210,028.32</b>
<b>Total Fixed Assets</b>	<b>102,565,399.97</b>	<b>112,601,718.63</b>
<b>Current Assets</b>		
<b>Inventories</b>		
Raw Materials	3,262,250.15	3,899,371.33
Work in Progress	937,007.24	1,278,712.87
Finished Products	2,529,514.08	2,588,990.80
	<b>6,728,771.47</b>	<b>7,767,075.00</b>
<b>Receivables</b>		
Accounts Receivable	5,938,523.30	6,761,303.60
Other Receivables	11,585,889.45	11,399,036.28
Prepayments and Accrued Income	(10) 288,986.84	464,791.46
	<b>17,813,399.59</b>	<b>18,625,131.34</b>
<b>Cash and Cash Equivalents</b>	<b>4,046,081.09</b>	<b>3,359,936.05</b>
<b>Total Current Assets</b>	<b>28,588,252.15</b>	<b>29,752,142.39</b>
<b>Total Assets</b>	<b>131,153,652.12</b>	<b>142,353,861.02</b>

# Parent Company's Balance Sheet

Euro		31.12.2003	31.12.2002
<b>Shareholders' Equity and Liabilities</b>			
<b>Shareholders' Equity</b>	(11)		
Share Capital		11,821,250.00	11,821,250.00
Premium Fund		71,055,849.80	71,055,849.80
Retained Earnings		5,117,585.24	5,114,161.86
Net Income for the Year		-6,795,437.77	3,423.38
		<b>81,199,247.27</b>	<b>87,994,685.04</b>
Subordinated Loans	(12)	6,620,024.31	6,597,684.48
<b>Total Shareholders' Equity</b>		<b>87,819,271.58</b>	<b>94,592,369.52</b>
<b>Untaxed Reserves</b>			
Depreciation Difference	(5)	-	2,656,587.24
<b>Liabilities</b>			
<b>Long-term Liabilities</b>			
Loans from Financial Institutions	(16)	11,741,919.57	14,964,426.09
<b>Short-term Liabilities</b>			
Loans from Financial Institutions		22,157,972.55	19,360,448.57
Advances Received		229,284.43	160,922.23
Accounts Payable		2,879,397.57	4,138,304.76
Other Liabilities		1,651,392.71	2,012,617.90
Accruals and Deferred Income	(17)	4,674,413.71	4,468,184.71
		<b>31,592,460.97</b>	<b>30,140,478.17</b>
<b>Total Liabilities</b>		<b>43,334,380.54</b>	<b>45,104,904.26</b>
<b>Total Shareholders' Equity and Liabilities</b>		<b>131,153,652.12</b>	<b>142,353,861.02</b>

## Parent Company's Cash Flow

1,000 euro	1.1. - 31.12.2003	1.1. - 31.12.2002
<b>Operating Activities</b>		
Operating Profit/Loss	-8,253.7	-4,587.2
Adjustments to Operating Profit/Loss		
Depreciation	10,852.8	10,350.2
Other Adjustments	262.7	138.6
Change in Net Working Capital	174.7	-4,471.1
Interest Received	216.3	143.7
Interest Paid	-1,148.9	-1,342.1
Other Financial Items	-592.4	-63.7
<b>Cash Provided by Operating Activities</b>	<b>1,511.5</b>	<b>168.4</b>
<b>Investing Activities</b>		
Capital Expenditure	-1,374.9	-22,144.3
<b>Cash Provided by Investing Activities</b>	<b>-1,374.9</b>	<b>-22,144.3</b>
<b>Financing Activities</b>		
Increase (+) / Decrease (-) in Long-term Loans	-3,343.4	4,084.3
Increase (+) / Decrease (-) in Short-term Loans	3,000.0	16,000.0
Other Financial Activities	893.0	177.9
<b>Cash Provided by Financing Activities</b>	<b>549.6</b>	<b>20,262.2</b>
Increase (+) / Decrease (-) in Cash and Cash Equivalents	686.2	-1,713.7
Cash and Cash Equivalents on 1 January	3,359.9	5,073.6
<b>Cash and Cash Equivalents on 31 December</b>	<b>4,046.1</b>	<b>3,359.9</b>

# Notes to the Financial Statements

## ACCOUNTING PRINCIPLES

**The Consolidated Financial Statements** • The Consolidated Financial Statements cover all the Group companies, i.e. the Parent Company, Okmetic AB, Okmetic Inc., Okmetic Invest Oy and Kiinteistö Oy Piitalot.

The Consolidated Financial Statements are drawn up as a combination of the Parent Company's and subsidiaries' income statements, balance sheets and notes. Prior to the consolidation of the Consolidated Financial Statements, the Group companies' separate financial statements were adjusted to comply with the Group's uniform accounting principles.

The Group companies' internal income, expenses and margins as well as intercompany receivables and liabilities are eliminated in the consolidation.

Intercompany ownership has been eliminated by means of the acquisition method. The elimination difference between the acquisition of the subsidiaries' shares and the shareholders' equities at the time when the subsidiary was acquired was allocated primarily to those assets and liabilities in the Consolidated Balance Sheet that caused the elimination difference.

The conversion differences due to changes in exchange rates which emerged in the elimination of intercompany share ownership are entered under shareholders' equity.

The minority interests in the results and shareholders' equity are shown as separate items in the Income Statement and the Balance Sheet.

### Items and derivative instruments denominated in foreign currency •

Business transactions denominated in foreign currency are valued at the current rate on the date of the transaction. At closing, the receivables and debts denominated in foreign currency are translated into euros at the average rate quoted by the European Central Bank on the closing day. Advances received are entered in the Balance Sheet at the rate on the date of payment.

The exchange rate differences of business receivables and debts are offset against sales and purchases in the Income Statement.

The exchange rate profits and losses from the translation of receivables and debts and financing activities are entered in the Income Statement in the category of financial income and expenses.

The derivative contracts made for hedging against exchange rate risks are entered as affecting income so that interest is periodised as interest income or interest expenses and the exchange rate differences are entered against the hedged item when the contracts mature either as exchange rate differences in sales or purchases.

The interest difference on interest rate swap agreements covering interest risks is offset against interest expenses in the Income Statement.

The foreign subsidiaries' income statements are translated into euros at the average rate for the financial period and their balance sheets at the rate valid on the closing day.

**Fixed assets** • The balance sheet values of fixed assets are based on the original acquisition costs.

Rental expenditure on operational lease agreements is entered as rental costs, and the assets are not entered as fixed assets. The liability for these is stated in the notes.

The planned depreciation of fixed assets is based on the original acquisition cost and estimated economic life of the assets. The depreciation is calculated by means of straight-line depreciation. The estimated economic lives for the different assets are

• Intangible rights	5 years
• Goodwill and the goodwill on consolidation	5 years
• Other long-term expenses	3 - 10 years
• Buildings	25 years
• Machinery and equipment	3 - 15 years

Depreciation of office premises and goodwill on consolidation are included in the costs arising from acquisition and manufacturing.

**Current assets** • Stock is valued using the FIFO principle and at the lower of cost or market.

The cost of stock only includes the variable costs arising from acquisition and manufacturing.

**Cash and cash equivalents** • Cash and cash equivalents includes cash, bank accounts and deposits of less than three months.

**Net sales** • The net sales include revenue from goods sold less sales related taxes and discounts.

**Research and product development costs** • The costs of research and development are expensed as incurred. The costs are included in the Income Statement as costs arising from acquisition and manufacturing.

**Other operating income and expenses** • Other operating income and expenses include income and expenses generated outside normal business activities, such as capital gains and losses on fixed assets, as well as scrapping and credit losses.

**Contingent losses** • Provisions are made for any contingent losses the future realisation of which is known with reasonable certainty and of which the amount can be estimated with sufficient accuracy.

**Pension plans** • The pension coverage for the Group's Finnish personnel has been provided by pension insurance.

The pension arrangements of the foreign subsidiaries are arranged according to local practice. The pension liability has also been arranged for those companies.

**Extraordinary items** • Extraordinary items include significant transactions outside the scope of the Group's core business activities.

**Untaxed reserves** • In the Consolidated Balance Sheet the untaxed reserves (depreciation difference) of the Group companies are divided into the shareholders' equity and the deferred tax liability. Correspondingly, the change in the untaxed reserves that occurred during the period has been divided in the Consolidated Income Statement between the net income for the period and the change in the deferred tax liability.

Under the Companies Act, the untaxed reserves included in the Group's shareholders' equity do not constitute distributable shareholders' equity.

**Income taxes** • The estimated taxes on the results of the Group companies for the financial period and adjustments of taxes for earlier periods are entered in the Income Statement as income tax. The deferred tax liability is also shown in the Consolidated Income Statement.

**Deferred tax liability** • The deferred tax liability or receivable has been calculated for the timing differences between taxation and the financial statements using the tax rates for the following years confirmed at the closing of the accounts. The Consolidated Balance Sheet includes the deferred tax liability in its entirety. The deferred tax receivable, other than for the subsidiary's loss, is presented in the notes as the amount of the estimated probable tax benefit. The probable tax benefit from the subsidiary's loss has been taken into consideration in the Group's results.

# Notes to the Financial Statements

	<b>Group</b>		<b>Parent Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	1,000 euro	1,000 euro	euro	euro
<b>1. Net Sales by Market Area</b>				
Market Area				
North America	24,884.9	26,884.4	23,932,707.83	26,252,117.69
Europe	19,118.3	22,932.5	16,227,165.70	20,556,086.97
Far East	6,113.8	7,920.7	5,752,528.08	7,731,929.63
<b>Total</b>	<b>50,117.0</b>	<b>57,737.6</b>	<b>45,912,401.61</b>	<b>54,540,134.29</b>
<b>2. Personnel Expenses</b>				
Wages and Salaries	14,905.9	17,746.4	12,831,131.40	15,883,139.05
Pension Costs	2,116.7	2,307.5	2,054,009.31	2,268,498.60
Other Personnel Costs	1,790.0	2,581.6	1,169,938.04	1,431,925.28
<b>Total</b>	<b>18,812.6</b>	<b>22,635.5</b>	<b>16,055,078.75</b>	<b>19,583,562.93</b>
Remuneration of the Board	116.1	107.8	116,050.00	107,775.00
<p>Accrual-based salaries include not only salaries paid for time at work but also salaries paid for holiday time, days off and sick leave as well as holiday pay and fees for years of service etc.</p> <p>Separate remuneration is not paid to the President or the Executive Management Group for membership on the Boards of Subsidiary Companies or for acting as President.</p> <p>The retirement age of the President of Okmetic Oyj is 65 years.</p>				
<b>Number of Personnel</b>				
White Collar Employees	168	211	132	174
Blue Collar Employees	309	358	292	341
<b>Average</b>	<b>477</b>	<b>569</b>	<b>424</b>	<b>515</b>
<b>31 December</b>	<b>456</b>	<b>515</b>	<b>403</b>	<b>460</b>
<b>3. Depreciation</b>				
Depreciation According to Plan				
Goodwill	17.7	21.0		
Goodwill on Consolidation	77.3	576.0		
Other Long-term Expenses	359.2	395.5	249,033.87	269,528.86
Buildings	1,391.2	1,398.3	543,856.27	535,653.38
Machinery and Equipment	11,641.4	11,041.5	10,059,942.35	9,545,047.31
<b>Total</b>	<b>13,486.8</b>	<b>13,432.3</b>	<b>10,852,832.49</b>	<b>10,350,229.55</b>
Depreciation by Category of Expenses				
Cost of Sales	13,323.3	13,212.3	10,827,691.19	10,284,340.38
Sales and Marketing	0.5	0.6	489.03	627.22
Administration	163.0	219.4	24,652.27	65,261.95
	<b>13,486.8</b>	<b>13,432.3</b>	<b>10,852,832.49</b>	<b>10,350,229.55</b>

	<b>Group</b>		<b>Parent Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	1,000 euro	1,000 euro	euro	euro
<b>4. Financial Income and Expenses</b>				
Interest from Short-term Investments				
From Group Companies			174,325.42	221,527.55
From Others	41.2	100.3	40,283.92	96,935.76
	<b>41.2</b>	<b>100.3</b>	<b>214,609.34</b>	<b>318,463.31</b>
Interest Expenses				
To Group Companies			-	-62,051.57
To Others	-2,155.1	-2,148.1	-1,916,808.27	-1,800,000.40
	<b>-2,155.1</b>	<b>-2,148.1</b>	<b>-1,916,808.27</b>	<b>-1,862,051.97</b>
Other Financial Income and Expenses				
To/From Others	506.3	78.4	503,859.62	83,847.17
<b>Total</b>	<b>-1,607.6</b>	<b>-1,969.4</b>	<b>-1,198,339.31</b>	<b>-1,459,741.49</b>
<b>5. Changes in Untaxed Reserves</b>				
Change in Depreciation Difference				
Buildings			205,639.10	144,989.02
Machinery and Equipment			-2,939,453.90	-6,136,268.08
Intangible Assets			77,227.56	-59,103.40
<b>Total</b>			<b>-2,656,587.24</b>	<b>-6,050,382.46</b>
Accumulated Depreciation Reserve				
Buildings			863,282.67	657,643.57
Machinery and Equipment			-961,313.69	1,978,140.21
Intangible Assets			98,031.02	20,803.46
<b>Total</b>			<b>0.00</b>	<b>2,656,587.24</b>
<b>6. Income Taxes</b>				
Deferred Tax from Subsidiary's Result	-1,243.0	198.4		
Change in Deferred Tax Liability	611.7	1,603.7		
<b>Taxes for the Period</b>	<b>-631.3</b>	<b>1,802.1</b>		
<b>7. Fixed Assets</b>				
See following page 32				

## 7. Fixed Assets

<b>Group</b> 1,000 euro	<b>Acquisition Cost</b> 1.1.2003	<b>Translation</b> <b>Differences</b>	<b>Additions</b>
<b>Intangible Assets</b>			
Goodwill	107.5	-5.7	-
Goodwill on Consolidation	885.3	-	-
Other Long-term Expenses	4,352.8	88.3	-
	<b>5,345.6</b>	<b>82.6</b>	<b>-</b>
<b>Tangible Assets</b>			
Land	2,180.7	-316.9	-
Buildings	32,157.9	-833.5	72.9
Machinery and Equipment *	139,433.9	-2,516.9	962.1
Construction in Progress	1,307.5	-102.8	107.7
	<b>175,080.0</b>	<b>-3,770.1</b>	<b>1,142.7</b>
<b>Investments</b>			
Other Long-term Equity Investments	6.3	-	-
Other Receivables	238.0	-	-
	<b>244.3</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>180,669.9</b>	<b>-3,687.5</b>	<b>1,142.7</b>

\* Balance Sheet Value of Production Machinery and Equipment

<b>Parent Company</b> Euro	<b>Acquisition Cost</b> 1.1.2003	<b>Translation</b> <b>Differences</b>	<b>Additions</b>
<b>Intangible Assets</b>			
Other Long-term Expenses	3,567,602.29		-
	<b>3,567,602.29</b>		<b>-</b>
<b>Tangible Assets</b>			
Land	977,081.45		-
Buildings	12,586,605.88		15,644.25
Machinery and Equipment *	121,966,877.05		749,542.21
Construction in Progress	1,033,631.54		56,437.25
	<b>136,564,195.92</b>		<b>821,623.71</b>
<b>Investments</b>			
Shares in Subsidiaries	28,073,507.20		-
Other Long-term Equity Investments	6,281.82		-
Other Receivables	130,239.30		-
	<b>28,210,028.32</b>		<b>-</b>
<b>Total</b>	<b>168,341,826.53</b>		<b>821,623.71</b>

\* Balance Sheet Value of Production Machinery and Equipment



Disposals	Transfers between Items	Accumulated Depreciation 1.1.2003	Accumulated Depreciation of Transfers and Disposals	Depreciation for Financial Year 1.1. - 31.12.2003	Balance Sheet Value 31.12.2003
-	-	76.5	-	17.7	7.6
-	-	756.4	-	77.3	51.6
65.2	-	3,442.1	65.2	359.2	639.8
65.2	-	4,275.0	65.2	454.2	699.0
-	-	-	-	-	1,863.8
-	-	7,585.5	-	1,391.2	22,420.6
585.0	696.6	52,771.7	579.9	11,641.4	74,157.5
-	-696.6	-	-	-	615,8
585.0	-	60,357.2	579.9	13,032.6	99,057.7
-	-	-	-	-	6,3
-	-	-	-	-	238,0
-	-	-	-	-	244,3
650.2	-	64,632.2	645.1	13,486.8	100,001.0
					71,932.8

Disposals	Transfers between Items	Accumulated Depreciation 1.1.2003	Accumulated Depreciation of Transfers and Disposals	Depreciation for Financial Year of 1.1. - 31.12.2003	Balance Sheet Value 31.12.2003
65,182.54	-	2,845,053.55	65,182.54	249,033.87	473,514.87
65,182.54	-	2,845,053.55	65,182.54	249,033.87	473,514.87
-	-	-	-	-	977,081.45
-	-	3,697,026.54	-	543,856.27	8,361,367.32
584,990.27	607,555.37	49,198,027.81	579,880.39	10,059,942.35	64,060,894.59
-	-607,555.37	-	-	-	482,513.42
584,990.27	-	52,895,054.35	579,880.39	10,603,798.62	73,881,856.78
-	-	-	-	-	28,073,507.20
-	-	-	-	-	6,281.82
-	-	-	-	-	130,239.30
-	-	-	-	-	28,210,028.32
650,172.81	-	55,740,107.90	645,062.93	10,852,832.49	102,565,399.97
					62,139,067.75

	<b>Group</b>		<b>Parent Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	1,000 euro	1,000 euro	euro	euro
<b>8. Subsidiaries on 31 December 2003</b>				
Name of Company or Corporation			<b>Registered Office</b>	<b>Ownership Share Parent and Group</b>
Okmetic AB			Ekerö, Sweden	100
Okmetic Inc.			Dallas, United States	100
Okmetic Invest Oy			Vantaa, Finland	100
Kiinteistö Oy Piitalot			Vantaa, Finland	100
<b>9. Other Long-term Equity Investments</b>				
The book value of shares in other companies owned by the Parent Company and the Group amounts to 6,281.82 euro and the market value amounts to 14,310.00 euro.				
<b>10. Prepayments and Accrued Income</b>				
Essential Items Included in Prepayments and Accrued Income				
Pension Accruals	216.4	338.3	216,386.78	338,303.01
Others	104.4	211.8	72,600.06	126,488.45
<b>Total</b>	<b>320.8</b>	<b>550.1</b>	<b>288,986.84</b>	<b>464,791.46</b>
<b>11. Shareholders' Equity</b>				
Share Capital				
1 January	11,821.2	11,821.2	11,821,250.00	11,821,250.00
<b>31 December</b>	<b>11,821.2</b>	<b>11,821.2</b>	<b>11,821,250.00</b>	<b>11,821,250.00</b>
Premium Fund				
1 January	71,055.9	71,055.9	71,055,849.80	71,055,849.80
<b>31 December</b>	<b>71,055.9</b>	<b>71,055.9</b>	<b>71,055,849.80</b>	<b>71,055,849.80</b>
Retained Earnings				
1 January	2,080.9	6,539.8	5,114,161.86	5,528,998.07
Translation Difference	-2,466.6	-2,849.9		
Net Income from the Previous Period	-6,318.5	-1,609.0	3,423.38	-414,836.21
<b>31 December</b>	<b>-6,704.2</b>	<b>2,080.9</b>	<b>5,117,585.24</b>	<b>5,114,161.86</b>
<b>Net Income for the Period</b>	<b>-9,955.7</b>	<b>-6,318.5</b>	<b>-9,452,025.01</b>	<b>3,423.38</b>
Subordinated Loans				
1 January	6,597.7	6,576.4	6,597,684.48	6,576,421.56
Increase	22.3	21.3	22,339.83	21,262.92
<b>31 December</b>	<b>6,620.0</b>	<b>6,597.7</b>	<b>6,620,024.31</b>	<b>6,597,684.48</b>
<b>Total Shareholders' Equity on 31 December</b>	<b>72,837.2</b>	<b>85,237.2</b>	<b>85,162,684.34</b>	<b>94,592,369.52</b>

	Group		Parent Company	
	2003	2002	2003	2002
	1,000 euro	1,000 euro	euro	euro
<b>12. Subordinated Loans</b>				
Due date 31 December 2003, interest 7.0 %				
The Finnish National Fund for Research and Development SITRA	97.6	91.3	97,659.40	91,270.41
Due date 31 December 2003, interest 7.0 %				
The Finnish National Fund for Research and Development SITRA	164.4	148.4	164,399.84	148,449.00
Loan Period 1996 - 2006 *)				
Conventum Securities Limited, Helsinki	101.4	101.4	101,424.05	101,424.05
Tapiola Mutual Pension Insurance Company	33.3	33.3	33,334.85	33,334.85
Tapiola Mutual Insurance Company	33.3	33.3	33,334.85	33,334.85
Nordea Capital Oy	504.3	504.3	504,281.22	504,281.22
Insurance Company Sampo Life	672.4	672.4	672,374.96	672,374.96
Oras Oy	1,008.6	1,008.6	1,008,562.45	1,008,562.45
The Finnish National Fund for Research and Development SITRA	404.3	404.3	404,276.68	404,276.68
Finnish Industrial Investment Ltd	605.7	605.7	605,705.27	605,705.27
	<b>3,363.3</b>	<b>3,363.3</b>	<b>3,363,294.33</b>	<b>3,363,294.33</b>
Loan period 1999 - 2009, interest 6.0 % **)				
Nordea Capital Oy	196.9	196.9	196,846.41	196,846.41
Insurance Company Sampo Life	338.7	338.7	338,691.61	338,691.61
Oras Oy	392.2	392.2	392,245.42	392,245.42
Outokumpu Oyj	1,660.2	1,660.2	1,660,167.88	1,660,167.88
The Finnish National Fund for Research and Development SITRA	144.7	144.7	144,740.01	144,740.01
PCA Corporate Finance Oy	262.0	262.0	261,979.41	261,979.41
	<b>2,994.7</b>	<b>2,994.7</b>	<b>2,994,670.74</b>	<b>2,994,670.74</b>
<b>Total</b>	<b>6,620.0</b>	<b>6,597.7</b>	<b>6,620,024.31</b>	<b>6,597,684.48</b>

#### Principle Terms of Loans:

The capital, interest and other remuneration must, upon the dissolution of the Company or in the bankruptcy of the Company, be paid subordinated to all other debts. The capital may otherwise be refunded only if the restricted shareholders' equity and the other non-distributable items according to the Balance Sheet to be adopted for the Company, or if the Company is a parent company, for the Group, for the financial year last ended are fully covered thereafter. Interest or other remuneration may be paid only if the amount payable may be used for the distribution of profit in accordance with the Balance Sheet to be adopted for the Company, or if the Company is a parent company, for the Group, for the financial year last ended. If interest cannot be paid according to agreement, it will be cumulated. There is no interest not entered as expense at the time of the closing of the accounts. \*) The loan will be converted by 31 March 2000 into restricted shareholders' equity or, in special circumstances, refunded in three equal instalments annually starting on 31 December 2003. The interest on the loan until 1 April 2000 will be 2% and

subsequently 8%. Following payment of an instalment on the loan, the Group's equity-to-assets ratio must be a minimum of 40%. The loan was not converted into restricted shareholders' equity by 31 March 2000. \*\*) Each bond with a par value of FIM 8,605.85 (EUR 1,447.40) entitles its holder to obtain in exchange for the bond one share with an accounting par value of EUR 0.7. The exchange ratio is 1:8.60586. The number of the Company's shares can increase as a consequence of subscriptions of all loans taken out at the same time by a maximum of 524,000. The share subscription can occur 30 June 2001 - 30 November 2001, 8 April 2002 - 29 November 2002, 8 April 2003 - 28 November 2003, 8 April 2004 - 30 November 2004, 8 April 2005 - 30 November 2005, 8 April 2006 - 30 June 2006. The company's share capital can increase in this bond exchange by a maximum of EUR 366,800.00. On 30 June 2001 the number of shares involved in the conversion of bonds was 6,750. If the remaining loan is converted in full, 517,250 new shares will be issued and the share capital of the company will be increased by EUR 362,075.

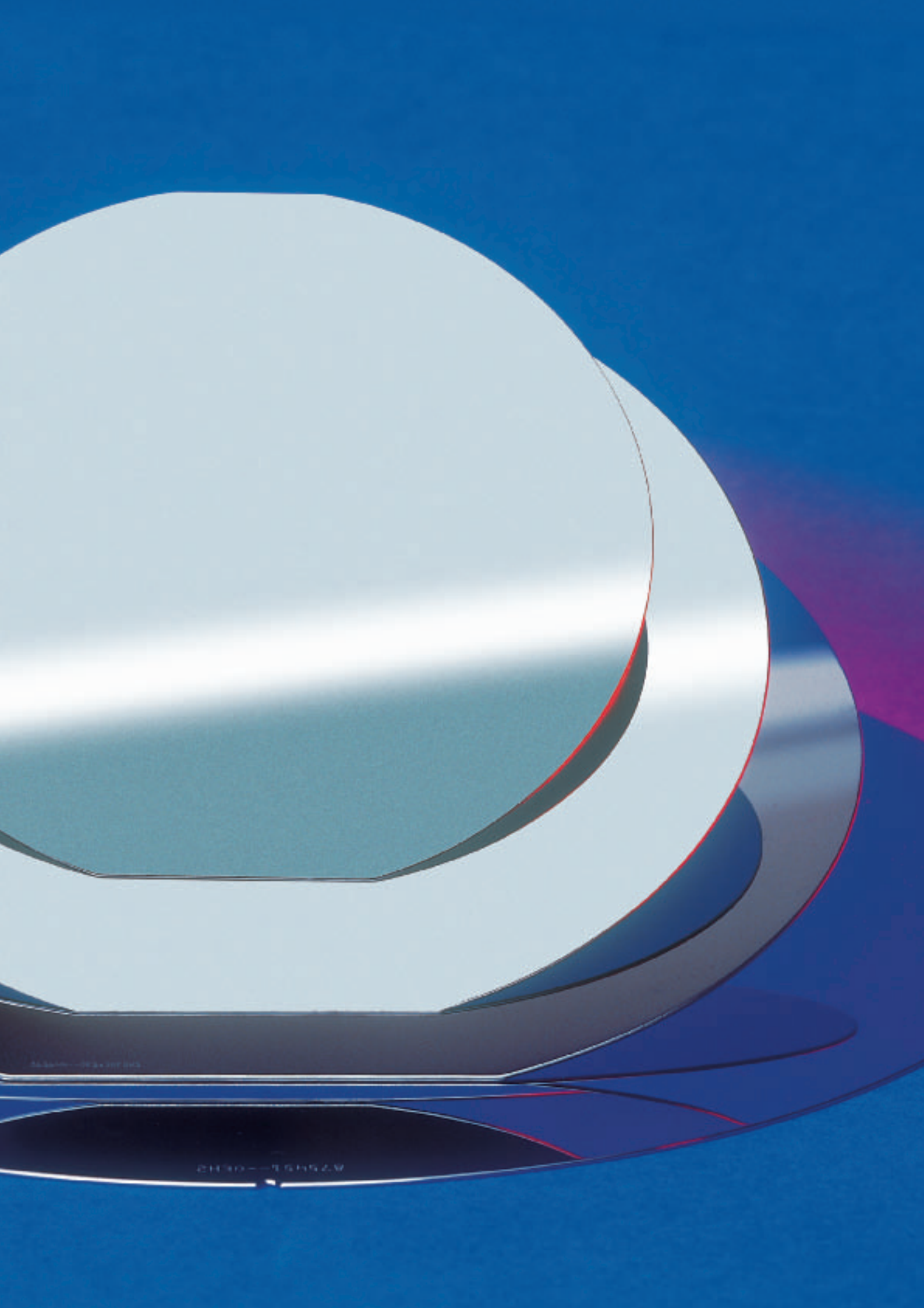
	<b>Group</b>		<b>Parent Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	1,000 euro	1,000 euro	euro	euro
<b>13. Retained Earnings</b>				
Accumulated Profit	-6,704.2	2,080.9	5,117,585.24	5,114,161.86
Net Income for the Period	-9,955.7	-6,318.5	-6,795,437.77	3,423.38
Capitalisation of Founding				
Expenses of Subsidiary	-51.6	-128.9		
Equity Share of Untaxed Reserves	-1,580.4	-3,078.0		
<b>Total</b>	<b>-18,291.9</b>	<b>-7,444.5</b>	<b>-1,677,852.53</b>	<b>5,117,585.24</b>
<b>14. Deferred Tax Liability</b>				
Total Deferred Tax Liability on 1 January	1,257.2	2,860.9		
Change during the Period				
Presented in the Income Statement	-611.7	-1,603.7		
Deferred Tax Income from Subsidiary's Loss	1,243.0	-198.4		
Deferred Tax Liability Presented in the Balance Sheet on 31 December				
Deferred Tax Liability from Untaxed Reserves	645.5	1,257.2		
Deferred Tax Income from Subsidiary's Loss	-	-1,243.0		
<b>Total</b>	<b>645.5</b>	<b>14.2</b>		
<b>15. Deferred Tax Receivables</b>				
Total Deferred Tax Receivable Presented in the Balance Sheet on 1 January		196.3		157,796.18
Change during Period Presented on the Income Statement		-5.3		-5,250.65
Deferred Tax Receivable Presented in the Balance Sheet on 31 December		191.0		152,545.53
<b>16. Liabilities</b>				
Loans due in Five or More Years:				
Loans from Financial Institutions	2,575.0	3,975.0	2,500,000.00	3,750,000.00

	<b>Group</b>		<b>Parent Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	1,000 euro	1,000 euro	euro	euro
<b>17. Accruals and Deferred Income</b>				
Essential Items Included in Accruals and Deferred Income				
Salaries and Related Expenses	2,607.4	2,789.5	2,462,038.17	2,716,238.53
Accrued Interest	2,036.8	1,318.9	2,011,657.48	1,282,998.78
Others	199.2	581.0	200,718.06	468,947.40
<b>Total</b>	<b>4,843.4</b>	<b>4,689.5</b>	<b>4,674,413.71</b>	<b>4,468,184.71</b>
<b>18. Receivables and Liabilities from Group Companies</b>				
Other Receivables			10,641,447.96	10,172,737.47
Other Liabilities			1,237,913.90	1,437,549.44
<b>19. Pledges, Contingent Liabilities and Other Commitments</b>				
<b>Pledges Given on 31 December</b>				
Mortgages on Land and Buildings				
Capital of Loans from Financial Institutions	36,985.2	38,310.8	32,765,845.80	32,412,523.75
Mortgages:				
Mortgages on Property	16,314.2	16,314.2	6,222,953.01	6,222,953.01
Mortgages on Business	28,087.4	28,760.1	28,087,383.72	28,760,135.42
Book Value of Pledged Shares	8,908.1	8,908.1	8,908,125.47	8,908,125.47
<b>Total</b>	<b>53,309.7</b>	<b>53,982.4</b>	<b>43,218,462.20</b>	<b>43,891,213.90</b>
The lease rights for the site are also pledged as security for loans in the Group.				
<b>Commitments Relating to Current Rental and Leasing Agreements on 31 December</b>				
To Be Paid in the Following Year	771.1	1,119.9	575,671.16	831,034.99
To Be Paid Subsequently	1,660.2	2,328.7	764,229.37	1,147,153.65
<b>Total</b>	<b>2,431.3</b>	<b>3,448.6</b>	<b>1,339,900.53</b>	<b>1,978,188.64</b>
The leasing agreements are mainly five-year agreements with no redemption clauses.				
<b>Derivative Contracts on 31 December:</b>				
<b>Currency Forwards Agreements</b>				
Contract Value	4,086.7	17,517.9	4,086,669.82	17,517,882.42
Market Value	3,167.1	15,257.0	3,167,062.55	15,256,984.84
Hedging on 31 December (+ Profit, - Loss)	919.6	2,260.9	919,607.27	2,260,897.58

The company has hedged its net incoming cash flow in dollars with derivative contracts. The derivative contracts have been extended up to the end of April 2004.

	<b>Group</b>		<b>Parent Company</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	1,000 euro	1,000 euro	euro	euro
<b>Currency Options</b>				
Bought:				
Contract Value	1,678.90	-	1,678,912.33	-
Market Value	95.40	-	95,381.06	-
Issued:				
Contract Value	1,818.20	-	1,818,181.82	-
Market Value	-	-	-	-
The given market value of the option is the value of the contract calculated with the closing quotation of the financial year.				
<b>Interest Rate Swap Agreements</b>				
Contract Value	23,190.9	8,408.9	19,338,530.32	3,061,020.25
Market Value	-283.0	-139.3	-215,018.98	-63,632.70
The market value of interest rate swap agreements is calculated as the difference in interest flow of undiscounted interest rate swaps by using the floating interest market rate on 31.12.2003. The value of the underlying commodity is shown as the amount of the loan capital under the interest rate swap.				
<b>Electricity Derivatives</b>				
Contract Value	1,022.4	-	1,022,367.01	-
Market Value	1,053.1	-	1,053,052.55	-
Hedging at the End of the Financial Year (+ Profit, - Loss)	30.7	-	30,685.54	-

Sales of electricity derivatives are carried out for hedging purposes.



# Key Figures and Calculation

## KEY FIGURES SHOWING FINANCIAL PERFORMANCE 1)

1,000 euro, Financial Period 1 January - 31 December

	2003	2002	2001	2000	1999
Net Sales	50,117	57,738	57,305	68,561	45,844
Net Sales, Change, %	-13.2	0.8	-16.4	49.6	32.9
Export and Foreign Operations					
Share of Net Sales, %	95.9	95.5	96.3	96.8	94.7
Operating Profit/Loss	-7,717	-6,151	-784	10,873	1,217
% of Net Sales	-15.4	-10.7	-1.4	15.9	2.7
Profit/Loss before Extraordinary Items	-9,324	-8,121	-2,063	7,444	-2,253
% of Net Sales	-18.6	-14.1	-3.6	10.9	-4.9
Profit/Loss before Taxes	-9,324	-8,121	-2,063	6,164	-2,253
% of Net Sales	-18.6	-14.1	-3.6	9.0	-4.9
Return on Equity (ROE), %	-13.7	-7.3	-1.8	8.2	-7.1
Return on Investment (ROI), %	-6.1	-4.9	-3.6	10.7	1.6
Non-interest Bearing Net Liabilities	9,850	10,630	15,638	15,875	11,567
Net Debt to Net Equity (Net Gearing), %	60.1	54.8	24.2	5.4	127.6
Equity Ratio, %	54.9	57.9	68.3	65.5	36.5
Capital Expenditure	1,880	24,742	43,748	16,059	15,894
% of Net Sales	3.8	42.9	76.3	23.4	34.7
Depreciation	13,487	13,432	9,758	8,500	7,160
Research and Development Expenses 2)	3,355	4,060	3,627	2,702	2,103
% of Net Sales	6.7	7.0	6.3	3.9	4.6
Personnel on Average	477	569	550	516	430
Personnel at the End of the Period	456	515	510	534	444

## KEY FIGURES OF THE GROUP PER SHARE

Euro, Financial Period 1 January - 31 December

	2003	2002	2001	2000	1999
Income per Share Undiluted, euro	-0.59	-0.37	-0.10	0.40	-0.30
Income per Share Diluted, euro	-0.60				
Shareholders' Equity per Share, euro	3.92	4.66	5.20	4.98	3.09
Dividend per Share, euro	0.00	0.00	0.00	0.00	0.00
Dividend per Earnings, %	-	-	-	-	-
Price per Earnings (P/E)	-5.6	-6.1	-49.9	13.2	
Development of Share Price					
Average Trading Price	2.43	3.71	5.43	6.63	
Lowest Trading Price	1.45	1.90	2.80	4.82	
Highest Trading Price	3.77	5.99	7.38	8.20	
Trading Price at the End of the Period	3.30	2.30	4.80	5.16	
Market Capitalisation at the End of the Period 1,000 euro	55,729	38,841	81,060	82,461	



Euro, Financial Period 1 January - 31 December	2003	2002	2001	2000	1999
Development in Trading Volume					
Trading Volume, transactions	3,630,769	4,097,207	5,480,099	3,486,339	
In Relation to Weighted Average Number of Shares, %	21.5	24.3	32.8	27.7	
Trading Volume, euro	8,819,587	15,202,025	29,756,672	23,097,345	
Adjusted Average Number of Shares during the Period 3)	16,887,500	16,887,500	16,718,947	12,580,476	7,613,250
Adjusted Number of Shares at the End of the Period 3)	16,887,500	16,887,500	16,887,500	15,980,750	9,135,750
Adjusted Average Number of Shares during the Period Including the Dilution Due to the Convertible Loans and Options	16,360,784	16,099,136	16,741,199	13,356,274	8,064,039
Adjusted Average Number of Shares at the End of the Period Including the Dilution Due to the Convertible Loans and Options	16,360,784	16,099,136	16,909,752	16,738,716	9,918,932

1) Other financial data of the Company and the Group are presented on pages 16 - 38.

2) Research and development expenditure has been presented in gross figures and only long-term projects based on research programs have been taken into account.

3) Per share figures have been adjusted in accordance with the guidelines issued by the Finnish Accounting Board (KILA) no 390/1999 and have been adjusted to correspond to the current number of shares in the Company. As the Company does not have a market price for 1996 - 1999, the adjusted average number of shares after the issue of shares has been calculated by using the shareholder's equity per share at the end of the quarter closest to the share issue as the price of an old share and the subscription price as the price of a new share.

## CALCULATION OF KEY FIGURES

Return on Equity % (ROE)	=	$\frac{\text{Profit/Loss before Extraordinary Items - Taxes} \times 100}{\text{Shareholders' Equity - Subordinated Loans} + \text{Minority Interest (Average for the Year)}}$
Return on Investment % (ROI)	=	$\frac{\text{Profit/Loss before Extraordinary Items} + \text{Interest and Other Financial Expenditure} \times 100}{\text{Balance Sheet Total} - \text{Non-interest Bearing Liabilities (Average for the Year)}}$
Equity Ratio (%)	=	$\frac{\text{Shareholders' Equity} - \text{Subordinated Loans} + \text{Minority Interest} \times 100}{\text{Balance Sheet Total} - \text{Advance Payments Received}}$
Net Debt to Equity (Net Gearing) %	=	$\frac{\text{Interest Bearing Liabilities} - \text{Cash and Cash Equivalents} \times 100}{\text{Shareholders' Equity} - \text{Subordinated Loans} + \text{Minority Interest}}$
Earnings per Share	=	$\frac{\text{Earnings before Extraordinary Items} - \text{Taxes} +/- \text{Minority Interest}}{\text{Adjusted Average Number of Shares}}$
Shareholders' Equity per Share	=	$\frac{\text{Shareholders' Equity} - \text{Subordinated Loans}}{\text{Adjusted Average Number of Shares at the End of the Financial Year}}$
Price/Earnings Ratio (P/E)	=	$\frac{\text{Adjusted Trading Price at the End of the Financial Year}}{\text{Earnings per Share}}$

# The Shares and Shareholders of Okmetic Oyj



## Shares and Share Capital

Okmetic Oyj has issued a total of 16,887,500 shares. The equivalent book value of each share is 0.7 euro. According to the Articles of Association, Okmetic Oyj's minimum share capital is 6,000,000 euro and the maximum share capital is 24,000,000 euro, within which limits the share capital can be increased or decreased without amending the Articles of Association. The Company's registered share capital is 11,821,250 euro. Each share gives one vote in the General Meeting. The Company has one class of shares. The ownership of the Company's shares is registered in the Finnish book-entry securities system.

## Quotation of the Shares

Okmetic Oyj's shares have been quoted on the main list of the Helsinki Stock Exchange since 3 July 2000, under the trading code OKM1V.

## The Authorisation of the Board of Directors for Increasing the Share Capital

The Annual General Meeting held on 26 March 2002 authorised the Board of Directors to increase the Company's share capital by a new issue or by issuing options or convertible bonds in one or more tranches for a period commencing on the 27 March 2002 and ending on the date of the next Annual General Meeting, however, not exceeding one year of the date of the Annual General Meeting so that the new issue or the convertible bonds or the option rights shall give the right to subscribe to a maximum of 2,000,000 new shares. Under this authorisation, it was possible to increase the share capital by a maximum of 1,400,000 euro. The authorisation included the right to deviate from the shareholders' pre-emptive subscription rights, if the deviation is justified by an important financial reason for the Company.

This authorisation was not utilised.

The Annual General Meeting held on 27 March 2003 authorised the Board of Directors to increase the Company's share capital by a new issue or by issuing options or convertible bonds in one or more tranches for a period commencing on 27 March 2003 and ending on the date of the next Annual General Meeting, however, not exceeding one year of the date of the Annual General Meeting.

The aggregate maximum number of shares to be issued in the new issue or to be offered for subscription pursuant to options or convertible bonds shall be 2,000,000 new shares. Pursuant to this authorisation, the share capital of the Company may be increased by a maximum of 1,400,000 euro. The authorisation includes the right to deviate from the shareholders' pre-emptive subscription rights, if the deviation is justified by an important financial reason for the Company.

This authorisation was not utilised by 31 December 2003.

In its meeting held on 12 February 2004 the Board of Directors decided to propose to the Annual General Meeting to be held on 25 March 2004 that the Board be authorised to increase the Company's share capital by a new issue or by issuing options or convertible bonds in one or more tranches for a period commencing on 25 March 2004 and ending on the date of the next Annual General Meeting, however, not exceeding one year of the date of the Annual General Meeting. The aggregate maximum number of shares to be issued in the new issue or to be offered for subscription pursuant to options or convertible bonds shall be 3,377,500 new shares. Pursuant to this authorisation, the share capital of the Company may be increased by a maximum of 2,364,250 euro. The authorisation shall include the right to deviate from the shareholders' pre-emptive subscription rights, if the deviation is justified by an important financial reason for the Company.

## Convertible Bonds

The Company's Extraordinary General Meeting held on 28 June 1999 decided to issue a convertible subordinated bond of 3,363,757.76 euro (then FIM 19,999,995.40) and offer it for subscription to the shareholders registered in the Company's Share Register on 28 June 1999 so that the Shareholders are entitled to subscribe for one bond valued at FIM 8,605.85 for each 10,483,219 shares owned. A total of 2,096 bonds were subscribed at 3,033,750.54 euro (then FIM 18,037,861.60). The conversion ratio is 1:8.60585 whereupon a maximum of 2,096 shares can be subscribed under the bonds. In accordance with the terms of the loan, the Board of Directors gave one outside subscriber the right to subscribe for the bonds that were not subscribed for by the shareholders. According to the terms of

the loan, the Company's Board of Directors is entitled to make the changes required by the General Meeting of Shareholders in the terms of the loan and the terms for conversion of the bonds into shares which shall not prejudice the position of the holder of the bonds if a General Meeting of Shareholders decides that the Company's share capital and the nominal value of the shares shall be denominated in euro or decides to abandon the nominal value of the shares and replace the nominal value with an equivalent book value. Increasing the number of shares from 36,543 to 9,135,750 means that the number of shares that may be subscribed under the bonds shall increase from 2,096 shares to 524,000 shares and the subscription price shall change from 1,447.40 euro (not exact) to 5.79 euro (not exact). The share capital of the Company may increase as a result of subscribing under all the loans taken simultaneously by a maximum of 366,800 euro, which represents approximately 3.28 percent of the Company's share capital and voting rights. The number of shares in the Company may increase by a maximum of 524,000 shares if the bonds are converted. The conversion of the bonds may take place during the following periods:

30.6.2001 - 30.11.2001; 8.4.2002 - 29.11.2002; 8.4.2003 - 28.11.2003; 8.4.2004 - 30.11.2004; 8.4.2005 - 30.11.2005 and 8.4.2006 - 30.6.2006.

One of the shareholders used their right of conversion on 30 June 2001. The amount of the converted bond was 39,079.80 euro and the number of shares involved was 6,750.

#### **Own Shares**

The Company has not acquired its own shares, nor does the Company's Board of Directors have a valid authorisation to acquire or dispose of the Company's own shares.

#### **Subordinated Loans**

At the Company's Extraordinary General Meeting held on 9 August 1996, the subscribers for the increase of the share capital i.e. Oras Oy, the Finnish National Fund for Research and Development SITRA, Nova Life Insurance Company (later Sampo Life Insurance Company Limited), Tapiola Mutual Insurance Company, Tapiola Mutual Pension Insurance Company, Arctos Capital Oy (later Conventum Oy), Merita Capital Oy (later Nordea Capital Oy)

and Finnish Industrial Investment Ltd granted to the Company a convertible subordinated loan of 3,363,294.33 euro (then FIM 19,997,240). According to the terms of the loan, the loan would have been converted into shares by 31 March 2000 if the Company had achieved the set earnings targets. The loan was not converted because the Company did not achieve the set earnings targets.

Furthermore, the Company has taken two subordinated loans from the Finnish National Fund for Research and Development SITRA, with capitals of 97,659.40 euro and 164,399.84 euro. The due date for both subordinated loans is 31 December 2003.

The subordinated loans are described in section 12 of the Notes to the Financial Statements. See also the above section "Convertible Bonds".

#### **The Option Programme for Personnel**

The Extraordinary General Meeting held on 23 May 2000 decided, deviating from the pre-emptive rights of shareholders, to offer for subscription to the personnel of the Company and its Swedish Subsidiary a maximum of 512,000 option rights which entitle the holders to subscribe for a maximum of 512,000 shares of the Company. The option rights were fully subscribed.

Under the authorisation given by the Extraordinary General Meeting on 23 May 2000, the Board of Directors offered 43,200 option rights, deviating from the pre-emptive rights of shareholders, to the three agents, citizens of the United States, engaged by the Company's US Subsidiary located in the United States and to the employees of the Subsidiary. A total of 42,800 option rights were subscribed for.

The subscription period for these option rights was 14 August - 8 September 2000. The Board of Directors of Okmetic Oy accepted the above mentioned personnel subscriptions for option rights in its meeting held on 18 September 2000 under the "Option Programme 2000". The option rights were recorded under the book-entry securities system. There were no options in the book-entry securities system of Okmetic Invest Oy on 31 December 2003.

Each option right entitles the holder to subscribe for one (1) share in the Company. Half of the option rights are marked with the letter A and half with the letter B. Subscriptions for shares under the A option right started on 3 December 2001 and subscriptions under the B option right on 2 May 2003.



On 2 May 2003, option classes were combined into one option series of the A/B options of 2000. Each option right entitles the holder to subscribe for one share in the Company with an equivalent book value of 0.7 euro. In consequence of subscriptions, the Company's share capital may increase by a maximum of 554,800 new shares i.e. by no more than 388,360 euro. Shares would then contribute 3.2 percent to the entire share capital. The subscription period for shares under option rights shall end on 31 May 2007. Option rights are freely transferable.

The subscription price for the shares is 7.00 euro each. The subscription price for the shares shall be lowered after the subscription price determination period and before the subscription for the shares is made with the amount of the cash dividends to be distributed according to the date of record for each dividend. No dividends were paid by 31 December 2003. The subscription price for the share is, however, always at least the equivalent book value of the share.

The shares entitle the holder to receive dividends for the financial period during which the shares have been subscribed. Other shareholder rights start when the increase in share capital has been registered in the Trade Register.

The Company's A options have been quoted on the main list of the Helsinki Exchanges since 3 December 2001 and the B options have been quoted together with the A options since 2 May 2003.

No options were exchanged for shares by 31 December 2003.

#### **Option Rights Received by JDS Uniphase Corporation**

The Board of Directors decided in its meeting held on 9 March 2001 to grant a total of 500,000 option rights, which entitle the holder to subscribe for a total of 500,000 of the Company's shares. The option rights were marked with the letter C. The option rights were issued free of charge.

The options conferred a right to subscribe to 500,000 shares of Okmetic Oyj until and including the 23 May 2003 at 12 euro per share. In consequence of subscriptions, the company's share capital could have been increased by a maximum of 350,000 euro, had the option rights been used in their entirety.

No shares were subscribed under the option rights by their dissolution.

#### **The Management's Share Ownership**

On 31 December 2003 the members of the Board of Directors and the President of Okmetic Oyj possessed a total of 10,500 shares i.e. 0.06 percent of the Company's share capital and voting rights. In addition, the President was entitled to 30,000 shares under the personnel option programme. If this option right were to be fully utilised, the President's share of the Company's share capital and voting rights would be 0.2 percent. Option rights correspond to 5.4 percent of the total amount of warrants issued by the Company.

#### **Insider Rules**

In its meeting held on 16 August 2000, the Board of Directors of Okmetic Oyj approved the insider rules to be observed in the Group. The rules take into consideration legislation regulating securities markets, the regulations and instructions of the Helsinki Stock Exchange and the recommendations given by the Finnish Association of Securities Dealers.

#### **Share Price Developments and Trading**

The trading volume of the Company's shares between 1 January and 31 December 2003 amounted to 3.6 million shares, which corresponds to 21.5 percent of the total number of 16.9 million shares. The price of the share rose significantly during the year. The lowest quotation during the period under review was 1.45 euro and the highest was 3.77 euro per share, with the average price being 2.43 euro. The closing quotation at the end of the year was 3.30 euro. The market value of the entire share capital was 55.7 million euro.

#### **Flagging**

Etra Invest Oy gave notice on 11 July 2003 that the company's share of Okmetic Oyj's share capital and voting rights had on 9 July 2003 risen to 870,200 shares, which corresponds to 5.15 percent of the Company's share capital.

Share price and trading developments and the key figures for the shares over five years are shown on page 40.

### Shares and shareholders on 31 December 2001

Shareholders	Shares, pcs	Share, %
Outokumpu Oyj	5,410,000	32.0
The Finnish National Fund for Research and Development SITRA	1,291,500	7.6
Oras Oy	1,066,500	6.3
Insurance Company Sampo Life	872,250	5.2
Etra-Invest Oy	870,200	5.1
Finnish Industrial Investment Ltd	639,750	3.8
Pohjola Finland Value Sijoitusrahasto	550,000	3.3
Nordea Capital Oy	533,250	3.2
Ilmarinen Mutual Pension Insurance Company	449,300	2.7
Onninen-Sijoitus Oy	220,00	1.3
Nominee accounts held by custodian banks	899,108	5.3
Other shareholders	4,085,642	24.2
<b>Total number of shares</b>	<b>16,887,500</b>	<b>100.0</b>

### Shareholders by group on 31 December 2003

Shareholder group	Shares, pcs	Share, %
Private companies	9,319,850	55.2
Public companies	45,100	0.3
Financial and insurance institutions	2,864,850	16.9
Public organisations	536,300	3.2
Non-profit organisations	1,332,650	7.9
Households/private persons	1,855,742	11.0
International shareholders	933,008	5.5
<b>Total</b>	<b>16,887,500</b>	<b>100.0</b>

### Distribution of shareholdings on 31 December 2003

Number of shares	Number of shareholders	% of shareholders	Total shares	% of share capital	Average shareholding
1-100	267	11.7	24,633	0.2	92
101-500	1,273	55.8	377,504	2.2	297
501-1000	298	13.1	255,051	1.5	856
1001-10 000	384	16.8	1,176,154	7.0	3,063
10 001-100 000	42	1.9	1,306,700	7.7	31,112
100 001-1 000 000	14	0.6	5,080,350	30.1	362,882
yli 1 000 000	3	0.1	7,768,000	46.0	2,589,333
	<b>2,281</b>	<b>100.0</b>	<b>15,988,392</b>	<b>94.7</b>	<b>7,009</b>
Nominee accounts held by custodian banks			899,108	5.3	
<b>Total</b>			<b>16,887,500</b>	<b>100.0</b>	

### Increase in share capital 1996-2003 by date of registration

	Number of shares	Share capital euro
Share capital on 1 Jan 1996	14,884	2,503,309.10
New issues on 12 Dec 1996 and on 11 June 1997	+ 9,479	4,097,562.45
Redenomination into euro, abolishing nominal value, new issue on 20 Oct 1999	+12,180	6,146,091.39
Bonus issue on 5 June 2000		6,395,025.00
Increase in the number of shares, public limited company on 5 June 2000	+ 9,099,207	6,395,025.00
New issue at listing on 29 June 2000	+ 6,395,000	10,871,525.00
Additional shares on 19 July 2000	+ 450,000	11,186,525.00
Directed issue to JDS Uniphase Corporation 9 March 2001	+ 900,000	11,816,525.00
Convertible bonds converted into shares on 27 Sept 2001	+ 6,750	11,821,250.00
<b>Share capital on 31 Dec 2003</b>	<b>16,887,500</b>	<b>11,821,250.00</b>

### The proposal of the Board of Directors for measures concerning the retained earnings

The proposals of the Board of Directors to be presented to the Annual General Meeting on 25 March 2004: according to the financial statements of 31 December 2003, neither the parent company nor the Group has dividable assets. The Board of Directors proposes to the Annual General Meeting that no dividend be paid and that the result of the financial year -6,795,437.77 euro will be reduced from the accounted retained earnings.

Vantaa, 12 February 2004

*Mikko J. Aro*  
Chairman

*Juho Mäkinen*  
Vice Chairman

*Heikki Huomo*  
Board Member

*Esa Lager*  
Board Member

*Pekka Paasikivi*  
Board Member

*Pekka Salmi*  
Board Member

*Antti Rasilo*  
President

## To the shareholders of Okmetic Oyj

We have audited the accounting, the financial statements and the corporate governance of Okmetic Oyj for the period 1.1. - 31.12.2003. 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 President. 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 President

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 President of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable assets is in compliance with the Companies' Act.

Vantaa, 25th February 2004

PricewaterhouseCoopers Oy  
Authorised Public Accountants

*Markku Marjomaa*  
Authorised Public Accountant

# The Board of Directors and Company Management

## Board of Directors



**Mikko J. Aro**, 1945,  
B.Sc. (Econ.)

Chairman of the Board of Directors since 2001, member of the Board of Directors since 1999. Member of Board Professionals Association (Hallitusammattilaiset ry).



**Heikki Huomo**, 1958,  
M.Sc. (Tech.)

Member of the Board of Directors since 2001. Director, Future Personal Communication Systems, Nokia Ventures Organization.



**Esa Lager**, 1959,  
M.Sc. (Econ.), LL.M.

Member of the Board of Directors since 2003. Executive Vice President, Finance and Administration, Outokumpu Oyj, and a member of the Group's Executive Committee.



**Juho Mäkinen**, 1945,  
D.Sc. (Tech.)

Vice Chairman of the Board of Directors and member of the Board since 2001. Executive Vice President, R&D, Environment, Health and Safety, Outokumpu Oyj, and a member of the Group's Executive Committee.



**Pekka Paasikivi**, 1944,  
Engineer

Member of the Board of Directors since 1996. Chairman of the Board of Directors, Oras Oy.



**Pekka Salmi**, 1961,  
Lic.Sc. (Tech.)

Member of the Board of Directors in 1999 - 2000 and again since 2002. Sector Director, the Finnish National Fund for Research and Development SITRA.

## Shares Owned by the Board of Directors and the President

At the end of the year, the members of the Board of Directors and the President of Okmetic Oyj governed a total of 10,500 shares, which corresponds to 0.06 percent of the share capital and votes of the Company.



## Management

*Antti Rasilo*, 1950, M.Sc. (Tech.)  
President since 2003.

*Timo Koljonen*, 1966, Lic.Sc. (Tech.)  
Joined the Company in 1994.  
Senior Vice President, Production since 2003.  
Area of Responsibility: Production, i.e. the Order-Delivery process.

*Juha Saksi*, 1963, M.Sc. (Tech.)  
Senior Vice President, Sales and Marketing since September 2003.  
Area of Responsibility: Sales, i.e. the Sales & Marketing process.

*Esko Sipilä*, 1948, M.Sc. (Econ.)  
Senior Vice President, Finance since 1996.  
Area of Responsibility: Finance, IT and Communications.

*Markku Tilli*, 1950, M.Sc. (Tech.)  
Joined the Company in 1985.  
Senior Vice President, R&D since 1996.  
Area of Responsibility: Product Development, i.e. the Product Engineering process.

*Asko Vehanen*, 1951, D.Sc. (Tech.)  
Joined the Company in 1994.  
Executive Vice President since 1996.  
President, Okmetic AB.  
Area of Responsibility: New Business Development.

*Markus Virtanen*, 1962, M.Sc. (Tech.)  
Joined the Company in 1999.  
Senior Vice President, Human Resources since 2003.  
Area of Responsibility: Human Resources.

In addition, operative management groups, which also include personnel representation, support the operations and administration of the Group.

From left: Timo Koljonen, Asko Vehanen, Esko Sipilä, Antti Rasilo, Markus Virtanen, Juha Saksi and Markku Tilli.



# Corporate Governance

The ultimate control and management of the Group is divided between the shareholders at the Annual General Meeting, the Board of Directors and the President of the Company.

## Annual General Meeting

The shareholders assemble at the Annual General Meeting, which takes place on a date set by the Board of Directors before the end of June. The Annual General Meeting can be held either in Vantaa, Helsinki or Espoo. The Annual General Meeting will confirm the income statement and the balance sheet of the company, decide on the distribution of the retained earnings and appoint members of the Board of Directors as well as auditors.

## The Board of Directors

The Board of Directors is elected in the Annual General Meeting for a term expiring at the end of the first Annual General Meeting subsequent to the election. Therefore the entire Board of Directors is always elected at the Annual General Meeting. The Board of Directors consists of no less than three and no more than eight members. In addition, up to eight substitute members can be elected. The Board of Directors appoints its own Chairman and Vice-Chairman. In 2003 the Board of Directors comprised six members.

The Board of Directors is responsible for the Company's management and the appropriate organisation of operations, and makes decisions on matters that the President presents to it and that either by the Articles of Association, law or other rules require the decision of the Board. In addition, the Board of Directors, by its agenda, decides on the strategy of the company, approves strategic plans and objectives and supervises their implementation. The Board of Directors approves the budget, the finance plan and the total amount of investments as well as deciding on business acquisitions and large, strategically significant investments and divestments. The Board of Directors determines the dividend policy of the company and makes proposals to the Annual General Meeting on the amount of dividends to be paid each year. The Board of Directors also confirms the main outline of the organisational structure of the Group, the composition of the Executive Management Group and the contents of the personnel incentive scheme, and appoints and defines the remuneration of the President and the Deputy President. In addition, the Board of Directors deals with questions relating risk control and internal supervision.

The Board of Directors meets five to ten times each year. In 2003 the Board held 10 meetings. The Board meetings are usually held at the Company's headquarters in Vantaa.

## President

The duty of the President is to manage the day-to-day business operations in accordance with instructions and regulations issued by the Board of Directors. The acting President is Antti Rasilo. The retirement age of the president is 65 years.

The President appoints an Executive Management Group, which assists him in his tasks by

attending to the preparation of strategic policies, the preparation and monitoring of strategic projects, directing resources, supervision of key activities and important operative decisions and matters relating to the preparation and implementation of Board meetings. In 2003 the Executive Management Group consisted of seven members.

## Remuneration of the Management

The Executive Management Group of the company falls under the same incentive scheme as the rest of the personnel and there are no separate remuneration for the Management.

## Salaries and Remuneration of the Management and the Board of Directors

The Annual General Meeting confirms the remuneration of the members of the Board of Directors for each year in advance. In 2003, the Board of Directors was remunerated a total of 116,050 euro.

## Management

The control and supervision of the Group's business activities is realised through the administration and management system described above. The Company has the necessary reporting systems for monitoring business activities and supervising financial administration.

As the parent company, Okmetic Oyj is responsible for the Group's management, strategic planning, production, research and development as well as accounting and financing, communications and IT services.

The operations of the company as well as supervision of such operations are also undertaken by other management groups.

The auditors of the Companies in the Group are PricewaterhouseCoopers Oy, Authorised Public Accountants, with Markku Marjomaa, APA, as the auditor in charge.

The audit programme of the Group and the Company is defined jointly by the appointed auditor and the Executive Management Group of Okmetic Oyj on an annual basis. The plan takes into account the absence of a separate internal audit function for the Company.

## Insiders

In accordance to the Securities Markets Act, the Company maintains insider register data regarding 31 insiders in the SIRE system of the Finnish Central Securities Depository Ltd. The names of the persons defined as insiders are published in the Company website at [www.okmetic.com](http://www.okmetic.com).

## Annual General Meeting

The shareholders of Okmetic Oyj are invited to the Annual General Meeting, which is to be held on Thursday, 25 March 2004 at 2.00pm in the auditorium of the Finnish Aviation Museum at Helsinki-Vantaa Airport, Tietotie 3, Vantaa. Registration of participants and the circulation of voting tickets will begin at 1.00pm.

All shareholders, who have by no later than 17 March 2004 been recorded as shareholders in the list of owners of the Finnish Central Securities Depository, have the right to attend the meeting. Shareholders who wish to attend the meeting should inform the head office of Okmetic Oyj thereof by 19 March 2004 at Piitie 2, Vantaa, room 5.1.29, during office hours from Monday to Friday between 8.00am and 4.00pm. Registration is also possible via email at [osakkaat@okmetic.com](mailto:osakkaat@okmetic.com), by telephone on +358 9 5028 0406 or by post to Okmetic Oyj, Share Register, P.O. Box 44, FI-01301 Vantaa, Finland. Registration by post requires that the letter arrive before the end of the registration period.

Should the participant be a legal representative whom a shareholder has given the right to vote by proxy, this should be disclosed in connection with registration and the proxy statement should be left or supplied to the same place within the duration of the registration period.

## Payment of Dividends

The Board of Directors has decided to propose to the Annual General Meeting that no dividends shall be paid for the year 2003.

## Shares

The Company has issued a total of 16,887,500 shares. The equivalent book value of each share is 0.70 euro. Okmetic Oyj's shares have been quoted on the main list of the Helsinki Stock Exchange since 3 July 2000 under the trading code OKM1V. Detailed information on Okmetic's shares can be found on page 40.

## Financial Data

Okmetic's financial reviews are published in Finnish and English. They can be ordered from Okmetic Oyj, Communications, Piitie 2, 01510 Vantaa, Finland, by telephone +358 9 502 800 or fax +358 9 5028 0500 or via email [viestinta@okmetic.com](mailto:viestinta@okmetic.com).

The most essential investor information on the Okmetic website ([www.okmetic.com](http://www.okmetic.com)) can be found under "Investor Information". Stock Exchange Releases, Interim Reports, Annual Reports and the Financial Statements are updated on the site in real-time. The pages also contain a company introduction, which is updated in connection with the publication of financial reports. On the website, under "Investor Information" there is an Information Service, where you can register to subscribe to electronic bulletins. The bulletins are sent via email as soon as they are issued.

## Okmetic's Financial Reviews in 2004

<b>Thursday 12 February</b>	Financial Statements for 2003
<b>Week 11</b>	Financial Statements for 2003 (Annual Report)

Okmetic will also publish its Annual Report on the Internet. The printed version of the Company's Annual Report for 2003 will be posted to all registered shareholders on week 11.

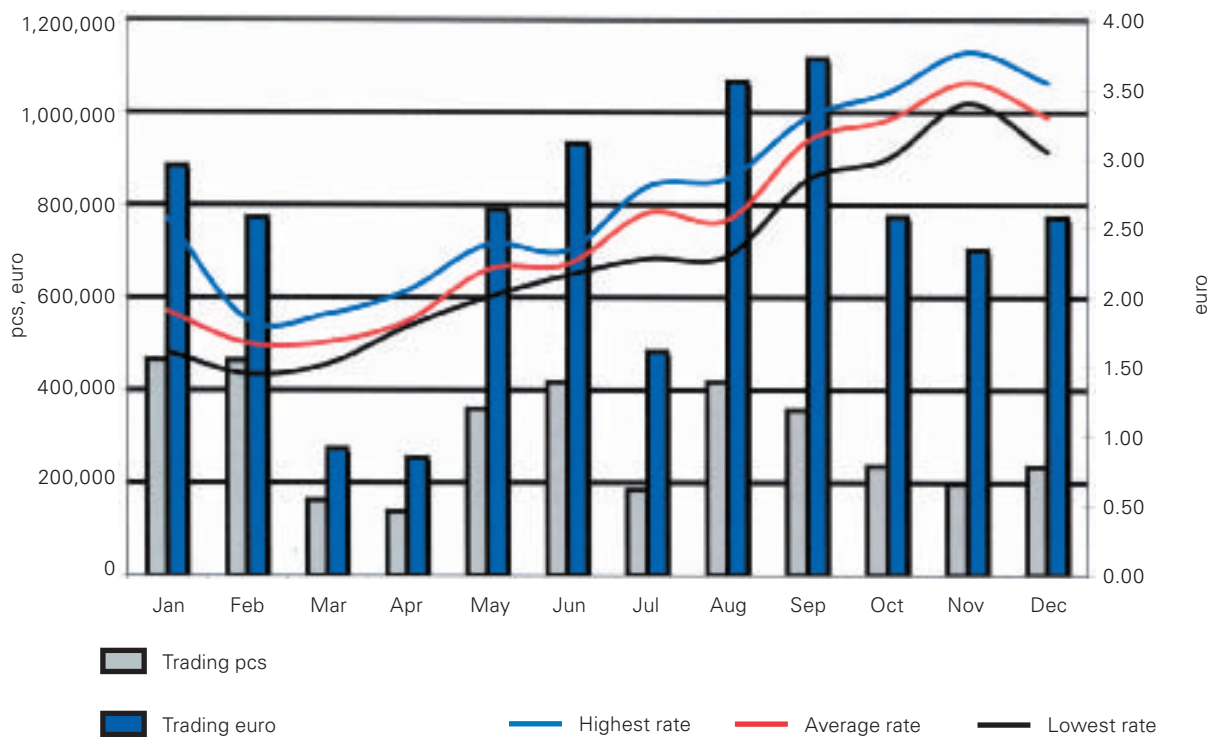
<b>Thursday 6 May</b>	Interim Report January-March
<b>Tuesday 10 August</b>	Interim Report April-June
<b>Tuesday 2 November</b>	Interim Report July-September.

# Share Price Development and Trading

## Share price development



## Trading and rates





## Contact Information



### Headquarters and Management

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Okmetic Oyj  
Domicile Vantaa, Finland  
Business ID 0596885-4



**Actuator** • a micromechanical device used in automatic medication dosage that activates the dosage and controls it

**BSOI** • a value-added silicon wafer, a subgroup of SOI wafers (BSOI = Bonded SOI)

**Chip** • A piece of silicon detached from a silicon wafer, which has semiconductor functions

**Crystal yield** • Indicates the quantity of crystal material ready for slicing in relation to raw material used in the crystal growth process

**Discrete semiconductor** • A semiconductor consisting of a single component (e.g. a single transistor), as distinct from an integrated circuit which incorporates several or even millions of transistors

**Electronic grade silicon** • Extremely pure silicon used for manufacturing silicon wafers

**Epiwafer (EPI)** • A silicon wafer with a thin epitaxial layer of silicon grown on the surface

**Gartner Dataquest** • An international consultancy company that monitors the electronics industry

**Highly doped wafer** • A silicon wafer with extremely high electrical conductivity, containing a high degree of doping element

**HTCVD** • A high temperature chemical vapour deposition process patented by Okmetic for growing an epitaxial layer on SiC crystals

**ICprime** • An application specific silicon wafer for IC manufacturing

**IFRS** • International Financial Reporting Standards that all public companies in the European Union must follow starting from the year 2005 at the latest

**IGBT circuit** • Isolated Gate Bipolar Transistor, a power transistor

**Inertia sensor** • a term commonly used in the industry for all motion sensors

**Integrated circuit** • IC, a semiconductor component in which several electronic functions are integrated on a single silicon chip

**ISO 14001** • An international standard for the management of environmental matters

**ISO 9001** • An international standard for the management of the quality system used in the Company

**ISO 9001:2000** • An international standard for the management of the quality system system used in the Company

**LED** • Light Emitting Diode, a light emitting semiconductor component

**Low conductivity wafer** • A silicon wafer that contains only a little doping to achieve low electrical conductivity

**MEMS wafer** • A silicon wafer used for manufacturing sensors (MEMS = MicroElectroMechanical Systems)

**MESFET-transistor** • Metal Semiconductor Field Effect Transistor. High frequency and high power density are achieved simultaneously with the SiC-MESFET transistor.

**Microcircuit** • Means the same thing as an integrated circuit

**Optoelectronic** • A semiconductor producing light

**Polysilicon** • The raw material for silicon wafers, polycrystalline silicon

**POWER** • A highly doped silicon wafer marketed by Okmetic for power and discrete semiconductors

**Power semiconductor** • A semiconductor component that is manufactured for use in power electronics

**QS-9000** • A quality standard that the automotive industry has developed for its entire subcontracting chain

**RF-circuit** • An integrated circuit that operates at GHz frequency e.g. in mobile telephones and base stations

**SARA** • Risk analysis for random emissions; risk analysis method created by the Technical Research Centre of Finland for assessing environmental and safety risks at plants that use chemicals in their operations

**SEMI** • Semiconductor Equipment and Materials International, an international umbrella organisation of the semiconductor material and equipment industry. Okmetic is a member of the organisation.

**Sensor** • A component that measures a variable or discerns changes in it (an inertia sensor, for example, is used to trigger the airbag in a car)

**SIA** • Semiconductor Industry Association, an international umbrella organisation of semiconductor manufacturers

**SiC, Silicon carbide** • A semiconductor material; a compound of silicon and carbon

**Silicon** • An element in the fourth main group, the most common raw material for semiconductors

**Silicon wafer** • A round, thin wafer made from a single crystal of silicon in sizes of 100, 125, 150, 200 or 300 mm, usually mirror finished either on one side or both sides.

**SIRE** • the SIRE system (Insider Register System) is operated by the Finnish Central Securities Depository

**SOI wafer** • A value added silicon wafer (SOI = Silicon On Insulator) with a sandwich structure: an oxide layer on the silicon wafer, and a thin silicon film on the oxide layer

**Transistor** • A basic component in the semiconductor industry on which the operation of most electronic equipment is presently based

**TS-16949** • A quality standard that the automotive industry has developed for its entire subcontracting chain

**Yield** • A ratio that indicates how much of the material put into production comes out according to specifications

**Wafer yield** • Indicates the number of approved wafers in relation to the number of sliced wafers in the manufacturing process.

