



ANNUAL *Report*
2003



Corporate PROFILE

- The Group's main goal is to become one of the world's leading operators in our line of business.
- We work in a multinational business environment and our people serve customers through a network of Oras-owned national subsidiaries.
- Production plants in Finland, Norway, and Poland ensure fast and reliable deliveries.
- Water and energy saving along with complete environmental concern are key issues in everything we do.
- Oras Multi-technology together with in-house R & D and our multinational personnel guarantee added value for both current and future customers.
- The Oras Group is a family-owned business.



Core VALUES

- Customer satisfaction
- We act openly with honesty and commitment
- We understand and respect individuality and different cultures
- We develop our individual capability
- ORAS quality
- Entrepreneurship



THE ORAS GROUP 2001–2003

		2003	2002	2001
Net sales	EUR million	118.0	113.0	115.1
Change in net sales	%	4.4	- 1.8	3.0
International operations	%	51.7	53.5	54.1
Operating profit	EUR million	21.0	15.3	13.9
	%	17.8	13.6	12.0
Profit for the period	EUR million	15.6	9.3	10.3
	%	13.2	8.2	8.9
Return on invested capital (influence of non-operational investments excluded)	%	41.5	25.8	21.7
Shareholders' equity	EUR million	67.5	61.5	68.8
Equity/total capital	%	71.7	66.8	58.3
Investments	EUR million	2.6	2.1	5.1
Average personnel employed		1042	1045	1103

The figures above are based on Consolidated Financial Statements prepared in accordance with the Finnish Accounting legislation, and thus based on appropriate EU directives.





CHIEF EXECUTIVE'S REVIEW

The year of 2003 saw no change in the instability of the world economy. Thanks to the low interest rate, however, construction activities picked up last year. Sales in our field were lifted particularly by an increase in house-building and renovation projects.

For Oras, the development of net sales in the main market areas varied. In the Nordic countries, our net sales increased more than expected, while in Central Europe the development followed the expected volumes, with the exception of Germany. In Eastern Europe, our sales did not develop as much as we had hoped initially, but there, as well as in Poland and Russia, a turn for the better has taken place in the last quarter of the year.

The net sales of the Oras Group increased by 4.4% from EUR 113 million to EUR 118 million. The strong decline of the Polish and Norwegian currencies influenced both our result and the growth of net sales. In comparable currency

terms, the increase of net sales would have been over 6%. In all market areas, growth was mainly derived from sales of electronic and design faucets.

Operating profit (EBIT) also increased from 13.6% in 2002 to 17.8% in 2003. The project for the improvement of internal efficiency, started in 2002, has already clearly contributed to the 2003 result: indirect, variable and fixed costs decreased despite the increase in net sales. The Group's profit for the period grew from EUR 9.3 million to EUR 15.6 million.

Key figures in 2003:

- Net sales were EUR 118.0 million (113.0)
- EBIT was EUR 21.0 million (15.3) representing 17.8% of sales (13.6%)
- Return on invested operational capital was 41.5% (25.8)
- Shareholders' equity was 71.7% (66.8)
- Investments were EUR 2.6 million (2.1)
- Profit for the period was EUR 15.6 million (9.3)

Product innovations and investments

As stated in our strategy of recent years, we have focused investment on design product lines. Last year our emphasis was on the efficient manufacture and sale of these products. In addition, we achieved considerable improvements in the volume product segment by upgrading one of our main products and by shortening the throughput times of existing products. In total, investments in 2003 amounted to EUR 2.6 million.

In-house efficiency

We started several new projects in 2002 in order to improve the efficiency of production, administration and marketing activities. All the projects were ongoing in 2003. It has been evident that the changes made within the organisation in 2002 have resulted in the decision-making and leadership processes being clearer and more effective.

Future

The economic prospects continue to be very unstable in Europe. The stronger Euro influences the economies of several European countries. Still, provided the interest rate remains at the levels of 2003, the demand in construction-related fields will probably also continue in 2004 at least at the level of last year.

I, therefore, believe that we at Oras have every possibility to strengthen our position in our main market areas. We will further increase the level of collaboration with our existing customers and



will serve our quality-conscious end-user customers by providing better services and ever better products to them.

The success of the fiscal year 2003 was based on the competence of our employees and I would like to take this opportunity to thank them very much for their commitment and good performance. I would also like to express my thanks to our customers, suppliers and partners for their confidence and good cooperation.

A handwritten signature in black ink, reading "Jari Paasikivi". The signature is fluid and cursive.

Jari Paasikivi, CEO
March 2004



The Oras Aventa has a number of special functions to make kitchen work a little easier. The pull-out spray makes it easy to rinse vegetables, tableware and the sink itself. The spout is so high that there is plenty of room for even the largest pans. You can adjust the volume and temperature of the water with one hand – which can be very practical.

ANNUAL REPORT

HUMAN RESOURCES

In 2003, the key themes relating to human resources included the increase of staff well-being, the long-term development of competencies and the focusing of attention on occupational safety issues.

In pursuit of staff well-being

In 2003, we focused efforts on investigating in more detail the reasons for absenteeism due to ill health and on what action would be required to help maintain the increased levels of our staff health and to promote their active interest in their own health. The objective of the We 2005 project has, all along, been to improve both the mental and physical well-being of the personnel, but the results, so far, have failed to meet our expectations. We are continuing a more detailed cause-consequence analysis started in

2003 to produce a clearer idea of actions required now and in the future.

In June 2003, we adopted a programme for systematic monitoring of absenteeism in the Finnish unit. The purpose of the programme is to ensure that employees returning to work after an absence due to ill health receive appropriate attention so that the recurrence of the illness can be prevented. As part of the We 2005 project, we also aim at ensuring swift planning and implementation of any required ergonomic adjustments, changes in job description or working hours as well as any rehabilitation measures. New procedures were also introduced in the Norwegian unit to reduce effects of ill health. Further, in addition to occupational health services, Oras provided a wide variety of activities designed to

help maintain both mental and physical work ability, as well as recreational activities. A good example of these recreational activities was the excursion of the staff of the Norwegian Unit and their partners to Rauma in September.

In 2003, we also carried out an inquiry into resources as well as occupational sight tests. The results of these will be utilised in defining the sight requirements to be adopted in the future. We are convinced that this will ensure a healthier and more satisfied staff and also an even higher product quality.

Safe and efficient work place

A safe work place is also an efficient work place. In 2003, new instructions were drawn up for the use of personal safety equipment.



– We are proud to say that the quality produced by the Polish plant is of the same high Oras quality level as in the Rauma plant, says Marcin Kolodziejczyk, Managing Director of Oras Olesno z o.o. – Proof of this can be found in the ISO 9001 and ISO 14000 quality and environmental certificates awarded to us some years ago. The committed involvement of the personnel in the development of quality also deserves our compliments.

Oras Oy Rauma Plant and Pentik Oy were the recipients of the Ministry of Labour's "Good Employer of the Year 2003 Award". The Award is given to companies that show a favourable development and growth of business activities, thereby creating new employment opportunities. The photo shows (left to right) Keijo Huunonen, Sirkka Malmstén and Jari Paasikivi as representatives of Oras at the Award Ceremony.



The effort towards an even safer working environment will be continued in all of our units.

Staff well-being is also influenced by a higher work competence. Our long-term projects for the development of competencies include clearer job descriptions for team leaders as well as completion of various vocational degrees.

Our future challenges are to a great extent connected with recruitment as well as the maintenance and development of competencies, as a large part of our senior age groups will be leaving working life in the next few years. We have actively focused efforts on encouraging the more senior employees to stay on in working life. At Oras, permanent

employment contracts are much more common than fixed term ones, and, traditionally, our employees have worked for Oras for very long periods. All in all, staff turnover in 2003 was very low.

The average number of personnel was 1105 in 2003, 743 of these in Finland and 362 in our international units.



– Oras Manufacturing is continuously focusing on improving activities in all core areas, says Timo Rautarinta, Manufacturing Director of the Oras Group. He further continues: – The improvement in productivity, process yield and human resource-related subjects such as absenteeism, ergonomics and safety result in even higher manufacturing performances, at the same time gaining greater employee satisfaction ensuring our continuing journey "Towards World Class".

In the photo Rautarinta is seen with Keijo Huunonen, chief shop steward at the faucet plant in Rauma.

Maintenance of health, promotion of job motivation and happiness in work, as well as successful integration of work, family life and social activities are key factors in preventing work fatigue. People of different ages working together generate good performances with the long-term know-how of the more experienced blending happily with the new ideas and competencies of the younger ones.

In the photo Eira Luntamo (left) and Heli Starck.



QUALITY AND ENVIRONMENT



Quality goes over and above the surface of the faucet or its technical features. In August 2003, Oras Armatur AS, Leksvik Fabrikker received the "Supplier of the Year" Award (Årets Leverandør 2003) for good co-operation, from our important customers, the Bademiljø and Comfort chains. The photo shows proud sales personnel from Oras: Eli Vold, Kjetil B. Skistad, Arve Killingberg, Stein M. Olsen and Kåre Thomassen.

High quality is one of the core values of Oras, and good management of environmental issues is an essential part of Oras quality. Our objective is to develop user-friendly products paying attention also to the environmental impact of the product during its life cycle. The life cycle analyses performed indicate that the impact of our products' water and energy consumption during their service life exceeds the impact of their production several times over. The reduction of consumption during the products' service life, therefore, plays a crucial role in product design. Oras faucets combine low water consumption, and thereby also low energy consumption, with user-friendliness.

In compliance with these objectives our products are continually being designed with user-friendliness and optimum water consumption in every application in mind.

Quality systems and environmental systems

Regular audits required to maintain both ISO 9001:2000 quality system and ISO 14001 environmental system were carried out in the Rauma plant in 2003.

The quality system at the Polish plant was updated to meet the requirements of ISO 9001:2000 and the new certificate was granted in October 2003. A regular audit was carried out on the environmental system.

Development of activities

The quality project started in 2001 to ensure comprehensive development of all activities was continued in 2003 and completed towards the end of the year. The focal areas of the project included improvement of delivery reliability, reduction of complaints, and reduction of stock levels, without compromising the excellent level of delivery reliability, improvement of delivered quality, reduction

of internal reject costs and development of productivity. Six Sigma, which is a systematic method for the improvement of activities, was also continued.

More with less

Environmental management is based on environmental aspects, which have to be taken into consideration by Oras. We have defined environmental objectives, which are based on these significant aspects, such as energy savings, lower water consumption, waste, residential comfort in the surrounding area, the impact of our operation on the soil as well as hazardous waste.

Our objective is to make more with less, which involves also the monitoring of the consumption of energy, materials and supplies as well as of the development of lower waste and emission volumes.

Water

In the casting process, the running water cooling system of the core-moulding machines was replaced by a closed system. With the implementation of this system, the entire cooling system of the casting process is now based on closed circulation, which has a significant impact on the total water consumption in the production process.

Waste

Special attention has been paid to the effective re-use of waste, with the aim of continuously reducing

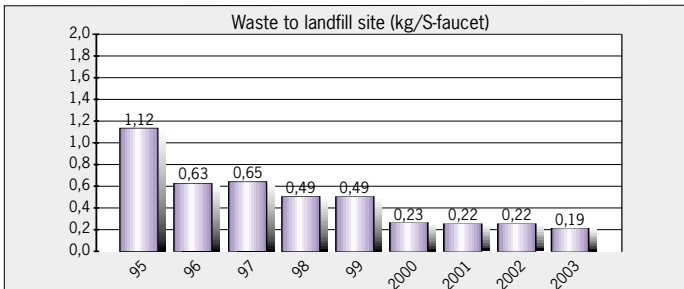
the amount of both landfill waste and hazardous waste.

In the machining department, the first stage of a new machining emulsion recycling system was installed. The new system is expected to extend the useful life of the emulsion and thereby reduce the amount of hazardous waste significantly. It is also planned that similar systems will be installed for all of the machining units in the near future.

The significance of the environment is constantly emphasised as a factor of our global well-being. At the same

time, tighter requirements are introduced. Good management of environmental issues requires continuous monitoring of the requirements and their integration in the operation of the company. Environmental issues must also play an important role in the assessment of external activities, such as suppliers and service providers. Our environmental-checking system produces necessary information both for our customers' needs and for various authorities.

Following the new Law on Environmental Protection brought in in 2000, Oras applied for a new environmental permit for the Isometsä plant before the end of 2003. The drawing up of the application was in fact one of the most extensive environmental management tasks in 2003. The application was filed with the environmental authorities in December 2003.



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– We always want to keep our co-operation partners aware of the suitability of our new products and solutions to various applications and to focus efforts on product training, says Business Manager *Anni Kallioniemi*. In the photo she is seen with *Juhani Karhula* and *Sirkku Söderström*, whose job it is to strengthen our customer service and develop our product training.



The Oras faucet plant in Rauma, Finland







The clear-cut design of the international faucet line Il Bagno Alessi by Oras makes the faucets ideal in many different bathroom environments. In answer to requests from bathroom interior designers, Oras has now completed the line: the basin faucet is available with the Bidetta hand shower.

TECHNOLOGY

Main areas of focus

The focal areas in 2003 included product development activities for new products as well as improvement of efficiency in production.

The production development programme has the objectives of improved efficiency, quality, delivery capacity and throughput times, and the activities required to achieve these objectives.

During the year, a new system for the assembly of the Oras Vega basin faucet was introduced. The new technology improves both productivity and quality.

One of the continuous processes in the production sector is the "Fixing the basics" programme that aims at improvements in leadership and occupational safety.

New products

An example of new products launched in 2003, is the upgraded version of the Oras Optima, the most popular automatic faucet in Finland. A lot of thorough preparation work was required to realise the change of a large-volume, main product in production in one operation. Other innovations introduced in 2003, amongst others, were the Oras Fontana shower set and the Oras Aventa kitchen faucet. Together with electronically-controlled faucets, the focus was on both supplementing the selection and developing of new technological solutions. The Oras Efecta launched towards the end of the year is a wireless system for the individual measurement of water consumption.

Future challenges

The universal phenomenon of price pressure caused by cheap production regions creates more technological challenges. As well as this, with the share of products in the upper segments increasing, versatility of production technology becomes crucial, usually requiring new investment in production. Production investments cannot be made without critical evaluation and identification of risk factors. The development of technology and productivity as such is not, in itself, sufficient to ensure long-term development of business. In order to retain competitiveness in the market, we should also take into consideration other factors that enable the profit-making potential to be achieved in and beyond the knowledge-based society. With this in mind, it is of critical importance that manufacturing costs be kept at a competitive level.



ORAS CONSOLIDATED FINANCIAL STATEMENTS

1000 EUR

Income Statement

	2003	2002
Net sales	117,983	112,975
Other operating income	946	760
Expenses	- 93,740	- 93,780
Depreciation	- 4,192	- 4,637
Operating profit	20,997	15,318
Financial income and expenses	1,516	- 1,875
Profit before taxes	22,513	13,443
Direct taxes	- 6,916	- 4,184
Profit for the financial year	15,597	9,259

Balance sheet

ASSETS

LONG-TERM ASSETS

Intangible and tangible assets	27,459	30,176
Investments	23,946	23,939
TOTAL LONG-TERM ASSETS	51,405	54,115

CURRENT ASSETS

Inventories	12,625	12,288
Cash and accounts receivable	30,117	25,719
TOTAL CURRENT ASSETS	42,742	38,007
	94,147	92,122

SHAREHOLDERS' EQUITY AND LIABILITIES

SHAREHOLDERS' EQUITY

Share capital	2,959	2,959
Restricted funds	2,224	1,243
Retained earnings	46,679	48,084
Net income for the year	15,597	9,259
TOTAL SHAREHOLDERS' EQUITY	67,459	61,545

LIABILITIES

Long-term loans	8,759	10,349
Current liabilities	17,929	20,228
TOTAL LIABILITIES	26,688	30,577
	94,147	92,122

These Consolidated Financial Statements include Oras Ltd and its subsidiaries. The statements are prepared in accordance with Finnish Accounting legislation and thus based upon appropriate EU directives.

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