PERLOS

SOLUTIONS TO CHALLENGES

Financial information in 2004

Annual General Meeting

Perlos Corporation's Annual General Meeting will be held on Monday, March 29, 2004, from 17:00 onwards in Hall A of the Finlandia Hall, Helsinki. The address is Mannerheimintie 13 e.

Shareholders who have been registered by March 19, 2004, at the latest in the company's Shareholder List, which is kept by Finnish Central Securities Depository Ltd, have the right to attend the Annual General Meeting.

We request participants to register by 12:00 on March 25, 2004, at the latest by notifying us at: Perlos Corporation, Anne Inberg, P.O. Box 178, FIN-01511 Vantaa, tel. +358 9 2500 7255, fax +358 9 2500 7208, or email: agm2004@perlos.com. We request that any proxies be sent to the company's address provided above before the registration deadline.

Dividend

The Board of Directors will propose to the Annual General Meeting that the dividend to be paid for the 2003 financial year be EUR 0.10 per share. The dividend will be paid to shareholders who are registered, on the record date of April 1, 2004, in the company's Shareholder List, which is kept by Finnish Central Securities Depository Ltd. The Board of Directors will propose to the Annual General Meeting that the dividend be paid on April 8, 2004.

Shareholder register

Shareholders are kindly requested to inform the custodian of their book-entry account of any changes in their address, personal information and shareholding.

Investor relations

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Annual reports, interim reports and stock exchange releases are published in Finnish and in English on Perlos' site at www.perlos.com.

Copies of the annual report and Perlos News magazine can be ordered via www.perlos.com or from Perlos' Corporate Communications, tel. +358 9 2500 7327, fax +358 9 2500 7208, e-mail: info@perlos.com.

Interim reports

April 28, 2004 January–March

August 5, 2004 January–June

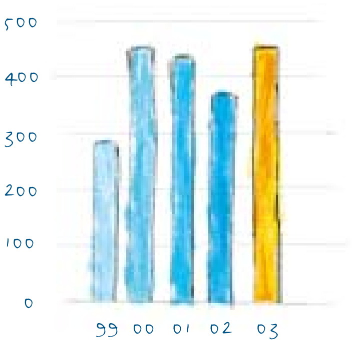
October 27, 2004 January–September

Perlos 2003 Annual Report

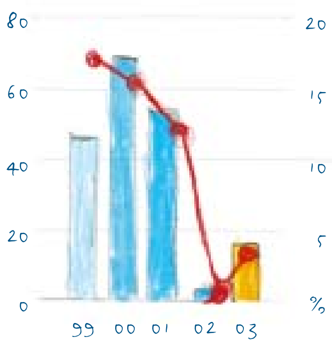
Contents :

Key Graphs

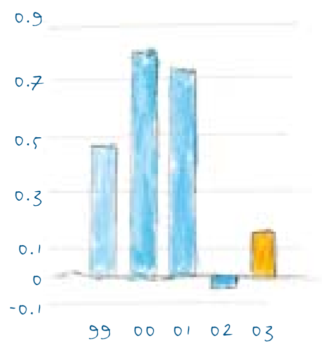
Net sales, EUR million



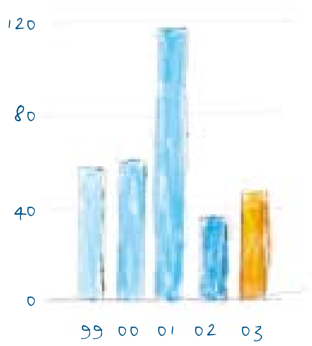
EBIT, EUR million
(% of net sales)



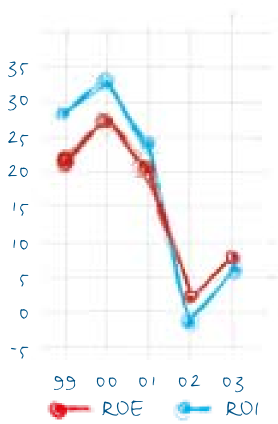
Earnings per share EUR
(diluted)



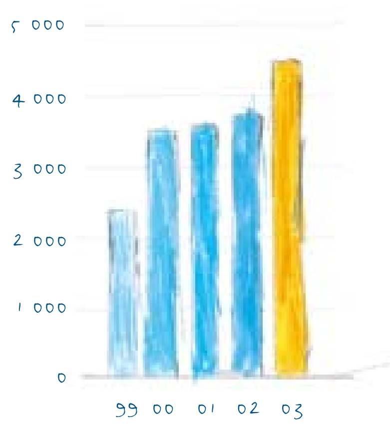
Cash flow from operations,
EUR million



Return on equity (ROE) and
return on investment (ROI), %



Average number
of personnel



Perlos in Brief

Services
The design, manufacture and assembly of mechanical and electronic components for the telecommunications and pharmaceutical industries worldwide.

Customers
The world's leading mobile phone manufacturers and pharmaceutical companies.

Market position
- The world's largest manufacturer of mechanical components and subassemblies for the mobile phone industry
- One of the world's leading manufacturers of dry powder inhalers for the pharmaceutical industry
- Leading supplier of technologies in its own business areas, from R&D to product delivery

Locations
Domicile: Finland
Plants: Finland (5), Hungary (1), UK (1), China (2), United States (1), Brazil (1)
R&D: Finland, Sweden, Singapore

Strategic objectives
Perlos' goal is to achieve profitable growth exceeding that of the market, both organically and by participating in the structural reorganisation of the industry.

Largest shareholders December 31, 2003

Corporations	42.59%
Financial and insurance institutions	14.93%
Public sector organisations	9.48%
Non-profit organisations	4.80%
Households	14.88%
Foreign shareholders	13.32%

Shares
Perlos' share is quoted on the Main List of Helsinki Exchanges under the code POS1V.

Dividends policy
Decisions on dividends shall take into consideration the company's financial and economic position, as well as the investments needed for growth. The goal is to achieve a steady dividend development.

Reviews by the Presidents

Reorganisation of supplier chain continues

In 2003, the reorganisation continued in the supplier chain of the mobile phone industry, and mobile phone manufacturers clearly expressed their desire to centralise their procurement in the hands of fewer suppliers that are able to provide a wider service offering. Perlos has benefited from these changes. After all, we have been providing end-to-end services to our customers for many years now.

After the relatively silent year 2002, the demand for mobile phones picked up in 2003, especially towards the end of the year. Assessments of the global sales volume of mobile phones varied significantly, but we estimate that the volume growth totalled approximately 15% in 2003. The number of mobile phone models manufactured by Perlos alone almost tripled compared with the previous year. At the same time, new models were launched at an unparalleled rate.

The supplier chain of the pharmaceutical industry is also changing. Consolidation has begun and it is expected to strengthen during the next few years. Perlos is seeking co-operation partners from its own field to complement its own expertise.

Revised operational model

The above mentioned changes have brought in new challenges for companies like Perlos. To meet the challenges, the operational model has been thoroughly revised. During the first months of the year 2003, a profit improvement programme was launched within the whole corporation. Many changes were implemented in the production to achieve faster design processes, rapid product ramp-ups and as well as ramp-downs, and to improve the recyclability of production lines. The results of the various development projects became visible after the second quarter in the form of improved efficiency.

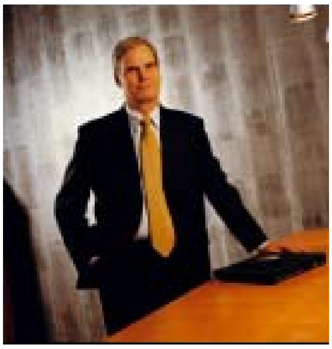
Growth in net sales and profitability improving

Perlos achieved its objective for 2003, growth exceeding that of the market. The net sales in 2003 rose to EUR 425.3 million, up 24% on the previous year. At the same time, the result for 2003 turned positive, amounting to EUR 8.6 million. The net sales were increased especially by sales to new customers.

Perlos made large investments in 2003. Two new plants serving the mobile phone industry were inaugurated, one in Beijing, China, and the other in Manaus, Brazil. In addition, investments were made in the UK, which is a key pharmaceutical market, by converting the Sunderland plant solely into pharmaceutical production. Perlos' production network now covers all the key areas geographically – we have aligned our presence with that of our customers', and are present there, where the greatest growth potential is.

Growth strategy

The strategies of Perlos' business sectors were fine-tuned during 2003. The main objective for the Telecommunications and Electronics sector is to achieve a greater role in the supply chain by becoming the leading solution provider integrating



electronics and mechanics for its selected customer groups. In the Pharma sector, Perlos' objective is to grow into a considerably larger, global manufacturer of drug delivery devices and packaging.

The first concrete steps in the implementation of the Telecommunications and Electronics business sector's updated strategy involved an organisational adjustment: previously production-focused, the revised organisation is now global and based on customer accounts. Customer accounts and sales play the main roles in the new organisation, whereas plants and other functions are resources devoted to serving them. The implementation of the strategy will continue in 2004 throughout the organisation.

New President

Perlos' new President, **Isto Hantila**, started in his position at the beginning of 2004. I am glad and confident when handing over the company and tasks to him. The cornerstones of Perlos' strategy have now been defined and the company is in a good development stage. Perlos' committed and competent management is determined to implement the new strategy.

I would like to extend my warm thanks to our shareholders, customers, co-operation partners and the whole Perlos team who, over the years, have contributed in making Perlos the international corporation it is today.

Timo Leinilä
President until December 31, 2003

Aiming at Rapid and Profitable Growth

Now, at the beginning of 2004, as I am starting in my new position as Perlos' President, the company is in a good development phase. The business is profitable again, the net sales are back on a growth track and the updated strategies of the business segments are being implemented. I have been able to begin my work in line with the operative management's views.

In the future, Perlos' objective is still to exceed the growth of the mobile phone industry and to achieve this objective profitably. The goals may be achieved organically, but the company may also participate in the reorganisation of the industry. Perlos aims at a greater role in the supplier chain and the starting point is favourable - after all, the company already is the largest supplier of mechanical components for the mobile phone industry.

More efficient capacity utilisation

The speed of change on the market is not showing any signs of slowing down. At the same time, the flexibility requirements set by mobile phone and pharmaceutical companies on their partners are increasing. Perlos meets these challenges with a global operating model: standardised processes, but a very strong local customer interface.

Perlos' production network and project management services are already located close to our customers – in the future, it will be vital to utilise the manufacturing capacity even more efficiently. The operational model will be further developed in order to enable a more flexible allocation of product projects and machinery according to changing capacity requirements.

Customers and technology in focus

The systematic expansion of the clientele and the development of the customer accounts are Perlos' key objectives also in 2004. We are seeking for new customers not only from the telecommunications, electronics and pharmaceutical industries, but also from other fields where our processes, technologies and expertise can be utilised.

For a technology company like Perlos, key development areas naturally include new product concepts and technologies. Two of the most important projects that will be carried out this year are the mould manufacturing and modular assembly concepts that will shorten project lead times and improve operational efficiency substantially.

Perlos is in very good position for future growth and development. The company possesses strong expertise that it has accumulated over the decades and has employees that are highly committed to their work. Perlos holds a strong market position and serves leading companies in their fields. Past and future changes within the industry will open up new possibilities.

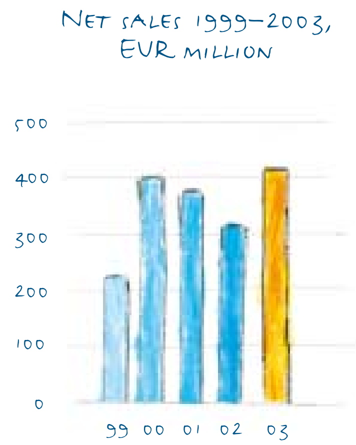
Outlook for 2004

The growth in the mobile phone industry is expected to continue and many mobile phone manufacturers estimate that slightly over 500 million handsets will be sold during 2004. The growth in the pharmaceutical market significant to Perlos is anticipated to continue at a rate of approximately 10 per cent annually.

The Telecommunications and Electronics business sector's net sales are expected to grow at least at the same rate as the global mobile phone market in 2004, and the Pharma business sector's net sales are anticipated to grow slightly in 2004.

In 2004, Perlos Corporation's operating profit and earnings per share are expected to improve compared with the previous year. This is primarily due to the fact that capacity utilisation ratios are expected to improve on the previous year, especially in the first part of 2004. Perlos responds to price competition, which remains fierce, by improving operational efficiency.

Isto Hantila
President as from January 1, 2004



share of Corporation's net sales 91%

Telecommunications and Electronics

Operating environment

The sales of mobile phones picked up in 2003 and it is generally estimated that approximately 470 million mobile phones were sold worldwide last year, up 15% on the previous year. Globally, more growth has been generated in recent years by replacement purchases than by initial purchases. The most important drivers for replacement purchases are the technical development of mobile phone networks enabling improved data transfer, and especially the introduction of new functionalities, such as cameras, in mobile phones.

The combination of voice and data transfer in mobile terminals has led to changes in the manufacturing chain as well. The devices are now more complex and their life cycles are shorter. As the average sales price of mobile phones is constantly falling, price competition is increasing in every part of the supplier chain. To meet these demands, suppliers must be able to offer more standardised, but yet more functional manufacturing solutions.

The importance of consumer segmentation has grown as the mobile phone market has matured. Segmentation has a very strong impact on the entire supplier chain, because the total mobile phone volume is shared between a greater number of phone models, reducing the volume of an individual model. In order to operate in this new environment, suppliers have begun to develop modular and flexible manufacturing and assembly concepts. This is mainly achieved by reducing the number of components, which in turn significantly simplifies the design and assembly processes.

In order to adapt to the changes in the business environment, Original Equipment Manufacturers (OEMs) are outsourcing a growing share of their functions for Electronic Manufacturing Service Providers (EMSs) and Original Design Manufacturers (ODMs). At the same time, they are clearly centralising their procurements by relying on fewer suppliers that are able to offer a broader service concept. With the help of outsourcing, mobile phone companies can focus on their own core functions, such as brand management, product design and marketing. In addition, smaller manufacturers in particular are able to achieve economies of scale, complement their product range and shorten lead times.

Net sales on growth track

In 2003, Perlos' largest business sector, Telecommunications and Electronics, returned onto a strong growth track. The previous year's downturn in the net sales turned around in the very first quarter of 2003 and the growth accelerated further during the year. The full-year net sales amounted to EUR 410,4 million, up 26% on the previous year. The growth clearly exceeded the average volume growth of the industry.

The positive trend is the outcome of not only the recovery of the mobile phone industry itself, but also of Perlos' determined work: the profit improvement programme initiated in the beginning of the year and the systematic acquisition of new customers. The most significant new customer is Siemens, for which Perlos provides component design, manufacturing and assembly for various phone models.

Service concept development begins

In 2003, Perlos began to develop and market its services more clearly as an end-to-end service. In the first half of the year, the service offering was defined as a System Level Packaging concept. The concept emphasises Perlos' role from component design to manufacturing, assembly and global deliveries. The antenna manufacturing, previously a stand alone business, was integrated into Perlos' service concept.

During the year, the organisation was realigned to better support business operations by changing over to an operating model based on customer accounts and global processes. Perlos' geographical presence improved when the new plants in Manaus, Brazil, and Beijing, China, were inaugurated towards the end of the year.

Updated strategy

The business sector's strategy was updated during 2003. Perlos aims at a greater role in the supplier chain by focusing on the design, manufacture and assembly of integrated electromechanical components for seleceted customer groups. By networking with other companies in the manufacturing chain, Perlos is able to offer leading technologies and manufacturing concepts in its field.

Cornerstones of strategy implementation

The four cornerstones in the implementation of the new strategy are new customer acquisition, optimising global processes, strengthening Perlos' position in the value chain and developing new technologies.

1. New customers

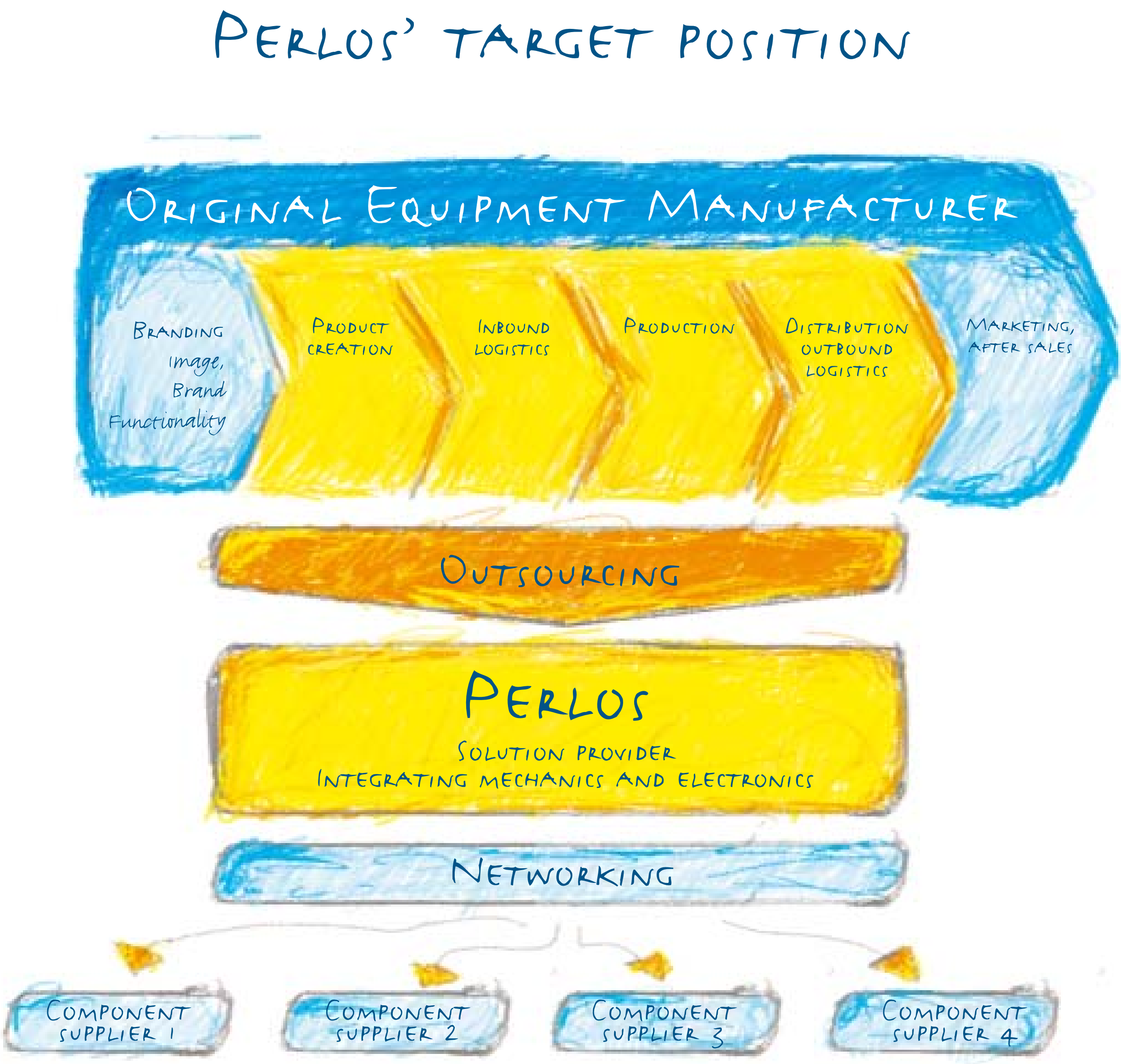
Perlos' objective is to significantly increase the proportion of new customers in the customer portfolio. New customers are acquired also outside the telecommunications industry in fields where Perlos' expertise and services can be utilised.

2. Global processes

Perlos is determined to improve cost-efficient and flexible operating models within the entire corporation. The profit improvement programme will continue, and other key development areas include product design, flexible assembly, rapid mould deliveries and production efficiency.

3. Stronger position in the value chain

Perlos already holds a strong position within the customer and supplier network. The company aims at strengthening its position by searching for new forms of co-operation with different companies e.g. in the development of new technologies, their testing and commercialisation.



4. New technologies

Perlos aims at a more independent and proactive role as a developer of new technologies. The objective is to become the leading technology company in its field with IPRs of its own.

Product design, research and product development

In line with the strategy, the product design, research and product development functions focus on manufacturing solutions and technologies, which enable Perlos to integrate mechanics and electronics in its service concepts. The objective is to reduce the number of individual components by combining them already in the manufacturing stage, which in turn improves the efficiency of production processes and shortens lead times.

In 2003, Perlos continued to further develop functional mobile phone cover concepts, and focused on the integration of various functionalities into covers and into other mechanical components. This objective was also supported by the work of Perlos' associated R&D company Asperation, which showcased its first prototype in 2003, a speaker that is fully integrated into the phone cover.

The development of a flexible assembly concept continued during 2003. The concept enables faster time-to-market and improves the capacity utilisation ratio. Another strategically important project that serves the same purpose is the development of the design and manufacturing processes of injection moulds.

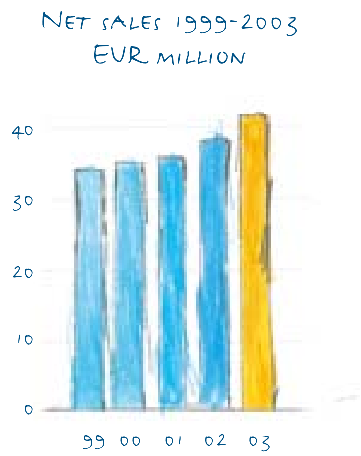
Pharma

Operating environment

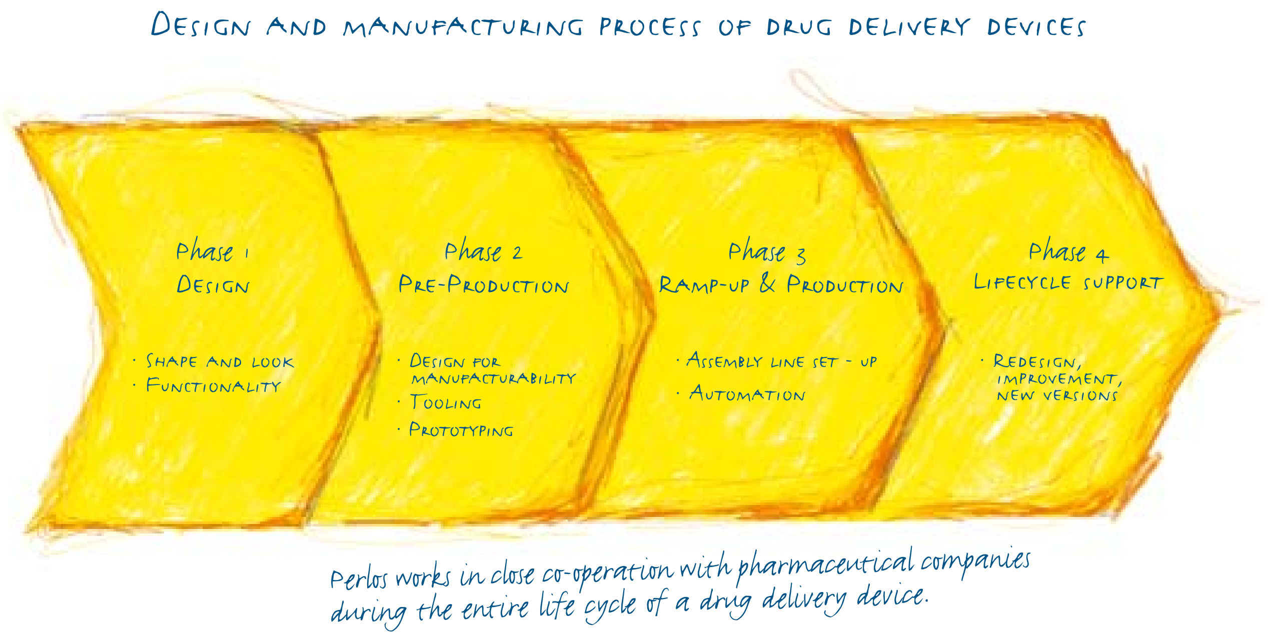
The global pharmaceutical product market is expected to total EUR 800 billion in 2005. Drug delivery devices are estimated to amount to EUR 1.5–2.5 million of the total market. The growth in the demand for drug delivery devices is accelerated by numerous drivers, the most significant of which is the increase in chronic illnesses, such as diabetes, asthma and COPD (chronic obstructive pulmonary disease). Other factors increasing the demand for such devices are the higher market penetration of generic drugs, the use of drug delivery devices as a means of extending the life cycle of pharmaceutical products and the higher prevalence of patient home care.

Drug delivery devices are becoming increasingly significant criteria when choosing between competing brands. The packaging and its contribution to the user's experience of the product are now becoming important factors in product differentiation.

As product development costs continue to grow, pharmaceutical companies need to concentrate on their core functions. The outsourcing of non-core functions is continuing. Such functions include the design of drug delivery devices, as well as their development, manufacture and assembly.



share of Corporation's net sales 9%



Pharmaceutical companies aim to centralise their outsourcing in the hands of few partners that can offer an international manufacturing network, proactive R&D and related design services, as well as product testing and validation. The supplier chain is still fragmented, as it is composed of many small suppliers, and the consolidation trend is ongoing.

Net sales improve on the previous year

In 2003, as in the previous year, the trend in Perlos' Pharma business sector was characterised by strong fluctuations in the net sales from quarter to quarter. However, the full-year growth target – growth matching that of the market – was achieved and the sector recorded a net sales of EUR 41.9 million. Net sales variations are primarily due to changes in stock levels in the distribution chain, which has an impact on companies like Perlos in the form of strong fluctuations in demand.

Sunderland plant is completed

During 2003, the conversion of the Sunderland plant in the UK was completed, and the plant now specialises in serving the pharmaceutical industry. The plant, built in 1999, previously served the telecommunications and automotive industries. The conversion included the construction of a new clean room unit. The clean room is similar to the facilities located in Kontiolahti, Finland, and thus Perlos can offer services meeting the same quality requirements to all its pharmaceutical customers, regardless of their location.

Fine-tuned strategy

The business sector's strategy was updated in 2003. Perlos' objective is to grow the business sector into a considerably larger, global manufacturer of drug delivery devices and packaging, which serves the world's leading pharmaceutical companies. In line with the strategy, the business sector focuses on the design and manufacture of demanding, high-volume drug delivery devices. The products are targeted especially at the home care of patients, in which the ease of use, reliability and safety of the products are critical features for pharmaceutical companies.

The growth in the net sales is sought not only from new and present customers, but also by participating in the reorganisation of the industry and by seeking new forms of co-operation with other companies in the field. In addition to growth, another strategic objective is the continuous development of the service concepts. The aim is to develop high-quality service concepts that can be implemented rapidly, and which can be flexibly applied for many different customers. The new concepts are more frequently applicable also for electronic components.

Perlos' service concept

Perlos offers a complete solution for the development and manufacture of drug delivery devices, including in-house mould production and assembly line set-up. In design services, Perlos co-operates with design engineering companies.

The development process of a new drug may take over 10 years, from pre-clinical testing to product commercialisation. This long process is regulated mainly by the stringent requirements of the US Food and Drug Administration's (FDA) approval process. Companies like Perlos typically become involved in the process in its initial phase.

Human Resources

Challenging changes in business environment

The year 2003 was a period of a constant change for Perlos. Business operations continued to be brisk in Finland, new plants were inaugurated in China and Brazil, and some plants were extended. The challenge was to acquire competent personnel both locally and through international job rotation. The UK plant was converted from a telecommunications plant to pharmaceutical production in 2003, which was challenging from the viewpoint of competence as well.

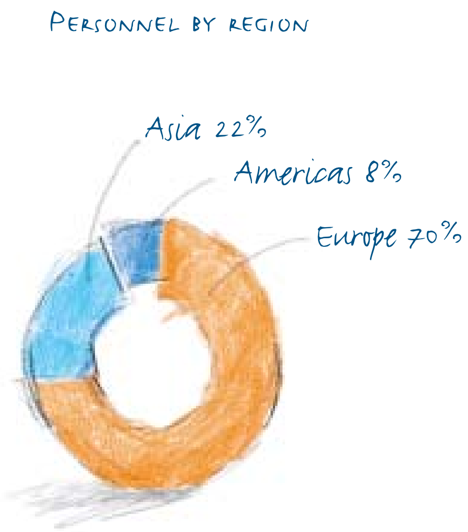
The seasonal variations affecting Perlos' business operations and the consequent rapid changes in production pose particular challenges for the management of the number of personnel. During 2003, the company sought to meet these challenges by developing new types of working time solutions and by training personnel to have a greater breadth of professional skills.

Payroll rises

In 2003, Perlos had 4 657 employees, up 683 on the year 2002. The greatest increase in personnel was seen in Brazil and China, where new plants were inaugurated.

Bonus systems introduced at plants

The bonus system covering all Perlos employees was revised insofar as it applies to production employees. The system, which was piloted at the Lehmonharju plant in Northern Karelia, proved to be viable. The new system was introduced



in all production units in Finland. The systems in use at the other business locations will be structurally standardised to correspond to the newly-introduced system.

Focus on change management and versatile skills

In line with the business strategy, Perlos will focus on strengthening its core competence areas, such as the development of new technologies and project management skills. The important focus areas in the coaching of supervisors in 2003 were change management and the development of supervisory work. Regarding personnel development, the focus was on expanding professional skills. Perlos' close co-operation with vocational schools and colleges also continued and several students worked at the company's units.

Many projects to develop job satisfaction

Perlos regards job satisfaction as a very important issue and seeks for means of its constant development. On the basis of internal job satisfaction surveys, Perlos is currently focusing especially on the development of supervisory work in the form of three separate projects.

The aim of the supervisory work project is to develop, on the basis of the day-to-day experiences of supervisors, leadership practices that can be implemented throughout Perlos. The performance appraisal project develops performance appraisal practices, and the third project assesses the present state of job satisfaction in order to identify the affecting factors and applicable development practices.

Sustainable Development and Environment

Perlos applies international quality and environmental systems in its operations. The company complies with the principles of sustainable development and is committed to the continuous development of its operations in environmental protection, occupational health and safety alike.

The impacts of Perlos' operations on the environment, people and society are both ecologically and ethically acceptable. The company complies with the laws and regulations of the countries it operates in and respects local and traditional values.

Most of Perlos' plants apply the ISO 14 001 certified environmental system. In terms of environmental policy, the company aims at an economical use of materials and energy and at minimising emissions and waste. Objectives have been specified on a unit-specific level and they are monitored regularly.

In 2003, Perlos focused on achieving a greater efficiency in recycling by engaging in closer co-operation with recycling companies. The aim is to reduce the amount of waste deposited into landfills and to use more recycled material.

Perlos approved in sustainable development index

In 2003, Perlos was approved in Kempen Capital Management and SNS Asset Management's Kempen/SNS Smaller SRI (Socially Responsible Investment) Europe Index. Only companies, whose business ethics, management and environmental responsibility meet the criteria, are approved in the index.

Towards zero work accidents

At Perlos, occupational safety issues are based on "zero accidents" thinking. To this end, the company engages in regular activities promoting occupational safety. Perlos aims at achieving the zero accidents level by regular risk assessments, by analysing reports on dangerous situations, by learning from accidents and by active occupational safety activities covering all employees.

In terms of accident frequency, Perlos represents the solid Finnish standard. In 2003, the number of accidents leading to a leave of over three days was 11.2 per one million working hours.

Risk management as part of safety management

Risk management is an integral aspect of safety management at Perlos. At three-year intervals, Perlos carries out extensive asset and interruption risk audits at all plants. In 2003, risk management actions included workplace, asset and interruption risk audits as well as occupational safety risk audits.

Financial Statement 2003

The Board's Report

Net sales and result

At the beginning of 2003, Perlos set the objective of increasing its net sales and improving profitability. The objective was reached and net sales grew by 24% in 2003 and amounted to EUR 452.3 million (EUR 364.6 million in 2002).

Profitability improved in spite of fierce price competition. As capacity utilisation ratio improved during the second half of the year, the net result turned into the black. In addition, in line with the profit improvement programme that was launched at the beginning of 2003, operational efficiency was improved by streamlining and standardising global processes. Operating profit grew to EUR 17.3 million in 2003 from the previous year's figure of EUR 1.4 million and represented 3.8% of the net sales (0.4%).

The result for the period amounted to EUR 8.6 million (a loss of EUR 2.1 million), i.e. 1.9% of net sales (-0.6%), and earnings per share (diluted) were EUR 0.16 (EUR -0.04).

74% (75%) of the group's the net sales came from Europe, 13% (14%) from North and South America and 13% (11%) from Asia and other countries.

The net sales of components manufactured by Perlos, design and assembly services and other services increased by 21% compared with the previous year and represented 81% of the net sales (83%). The manufacture of numerous new products was started up in 2003 and consequently the net sales generated by injection moulds and assembly automation rose by a total of 40% compared with the previous year. Their share of the net sales was 19% (17%).

Due to the strong growth in the net sales, the amount of working capital rose by EUR 10.2 million in 2003. In spite of this, cash flow from operations before investments improved compared with the previous year, amounting to EUR 47.7 million (EUR 36.6 million). Cash flow after investments also registered a slight improvement and was EUR –2.6 million (EUR -2.8 million).

The parent company's result for the year 2003 was burdened by the write-downs that were made on the shares in subsidiaries, totalling EUR 12.6 million. The write-downs had no effect on the consolidated balance sheet.

Telecommunications and Electronics

The Telecommunications and Electronics business sector's objective for 2003 was to increase the net sales at a rate exceeding the growth of the mobile phone market. This objective was achieved and in 2003 net sales grew by 26% compared with the previous year. The sales volume of mobile phones is generally estimated to have increased by about 15% in 2003.

The business sector's net sales in 2003 were EUR 410.4 million (EUR 326.2 million), representing 91% (89%) of the group's net sales. The net sales grew during 2003, with each quarter improving on both the preceding quarter and the corresponding period of the previous year. The net sales were increased especially by deliveries to new mobile phone customers.

In recent years, there have been strong seasonal changes in the mobile phone business. The first quarter of the year is typically the least active in terms of operations, while the last quarter is the busiest. This is true for Perlos, too; the company achieved record performance at the end of 2003, with net sales in the October-December period growing by 78% compared with the first quarter.

The strategy of the business sector was updated in 2003. In Telecommunications and Electronics, Perlos aims to take on a greater role in the manufacturing chain. As mobile phone companies outsource larger parts of their functions and centralise their procurement by relying on ever-fewer versatile suppliers, Perlos will focus on the worldwide design, manufacture and assembly of electromechanical components. By networking with other companies in the manufacturing chain, Perlos can offer leading technologies and manufacturing concepts in its field.

The four cornerstones in the implementation of the new strategy are acquiring new customers, optimising global processes, strengthening Perlos' position in the value chain and developing new technologies.

Pharma

The objective set for the Pharma business sector at the beginning of 2003 was to achieve growth corresponding to that of the pharmaceutical industry, that is, about 10% per year. The net sales grew by 9% compared with the previous year, in line with the objective, even though there were dramatic changes from quarter to quarter. The business sector's net sales amounted to EUR 41.9 million (EUR 38.4 million), representing 9% (11%) of the corporation's net sales.

During 2003, the entire Sunderland plant in the UK was converted to meet the requirements of the pharmaceutical industry. The plant, built in 1999, previously made products primarily for the telecommunications and automotive industries. The conversion included the construction of a new clean room unit.

The strategy of the Pharma business sector was also updated in 2003. In Pharma, Perlos' objective is to grow into a considerably larger, global manufacturer of drug delivery devices and packaging. Net sales growth is sought not only from the company's present and new customers, but also by participating in structural reorganisation within the industry.

Investments

In 2003, Perlos' gross investments amounted to EUR 50.7 million (EUR 40.9 million), or 11.2% of the net sales (11.2%). The main investments comprised of investments in equipment for the new plants, improving production performance and new production technologies.

The Manaus plant in Brazil commenced production during the first half of 2003 and the capacity was increased with investments in equipment during the year. Significant investments in equipment were also made at the plant in Komárom, Hungary, and in Beijing, China, where the new plant was inaugurated in 2003.

The plants in Brazil, Hungary and China primarily serve the mobile phone industry.

The most substantial single investment made by the Pharma business sector was the total conversion of the Sunderland plant in the UK to specialise in serving the pharmaceutical industry.

The Corporation's investments in research and development amounted to 1.1% of the net sales in 2003.

Financing

Perlos has retained a sound financial position. At the end of the period under review, liquid assets were EUR 15.4 million (EUR 29.8 million) and unused committed credit facilities were EUR 132.4 million (EUR 132.5 million). The net gearing ratio was 0.63 (0.51) and the equity ratio was 43.2% (46.3%). At the end of the period under review, interest-bearing liabilities amounted to EUR 99.2 million (EUR 101.7 million), of which short-term liabilities accounted for EUR 44.2 million (EUR 15.8 million) and long-term liabilities for EUR 55.0 million (EUR 85.9 million). Net interest-bearing liabilities amounted to EUR 83.8 million (EUR 71.9 million), while the interest cover ratio (EBITDA/net financial expenses) was 13.2 (9.7).

Associated companies

Asperation Oy, a research and development company jointly owned by Perlos Corporation and Aspocomp Group Oyj, unveiled its first new product concepts in 2003: a speaker and a microphone integrated into the cover of a mobile phone. The advantages of these concepts include their light weight, thinness, acoustic quality and competitive production costs as well as greater freedom and flexibility in product design. The company has applied for patents for the basic principles, structures and manufacturing processes of the solutions.

The operations of EPE Design Oy, which is jointly owned by Perlos Corporation and Etteplan Oyj, have measured up to the objectives. The company specialises in providing design services that are needed in the development and manufacture of new products as well as the design of assembly automation and injection moulds.

Organisational changes

At the beginning of 2003, the company initiated preparations for incorporating its business functions. The advantages and disadvantages of the incorporation were analysed during 2003 and it was concluded that, at the present time, it is not expedient to carry out a legal incorporation of the business functions. The Telecommunications and Electronics and Pharma business sectors are, however, managed in the manner of independent companies.

The rationalisation of the antenna business was continued in 2003 and the mass production of antennas at the plant in Johor Bahru, Malaysia, was transferred to the plant in Guangzhou, China, and the manufacture of prototypes and small series to the Singapore business location. Production at the Malaysian plant was terminated towards the end of 2003.

Perlos (Beijing) Electronic and Telecommunication Components Co., Ltd, a fully-owned subsidiary of Perlos Corporation, was established in China in 2003. In addition, Moteco Telecommunication Equipment Co. Ltd was transferred from Moteco AB's ownership to Perlos Corporation in 2003, the operations of Moteco Inc. ended in the United States, Moteco AB was renamed Perlos AB and Moteco Asia PTE Ltd was renamed Perlos Asia PTE Ltd.

Personnel

In 2003, Perlos Corporation employed an average of 4 437 people (3 641). At the end of the year, the number of employees was 4 657 (3 974), of whom 2 251 (2 339) worked in Finland and 2 406 (1 635) for subsidiaries abroad. The payroll grew by 683 employees during 2003.

President and Board of Directors

In the autumn of 2003, Timo Leinilä, M.Sc. (Eng.), who had served as the company's President since 1997, requested to be relieved of his duties. The Board of Directors approved his request at its meeting on November 17, 2003, and appointed Isto Hantila, M.Sc. (Eng.), as the company's new President. Leinilä remained in his position until the end of the year and Isto Hantila started out as Perlos' new President on January 1, 2004. Hantila served previously as a Division Head for the Ascom Group and as a member of its Executive Board. The Ascom Group is a Swiss conglomerate.

At the Annual General Meeting held on April 14, 2003, Matti Kavetvuo and Teppo Taberman were elected as new members of the Board of Directors. Mikael Lilius and Sten-Olof Hansen left the Board.

Options and changes in share capital

The A, B and C warrants (options) attached to Perlos Corporation's bonds with warrants issued in 1997 and 1998 and the A warrants attached to the bonds with warrants issued in 1999 are listed on the Main List of Helsinki Exchanges.

By the end of the financial year, 2 959 740 shares had been subscribed for with the options attached to the bond with warrants issued in 1997, of which 1 107 300 were subscribed for during 2003. No shares were subscribed for with the options attached to the bonds with warrants issued in 1998 and 1999. By the end of the review period, 45 000 shares had been subscribed for with the options attached to the bonds worth warrants issued in 1998. The company's registered share capital was EUR 32 007 351.60, or 53 345 586 shares, at the end of the review period. Each share has a nominal value of EUR 0.60.

At the Annual General Meeting held on April 14, 2003, the Board of Directors was authorised to decide on: (a) the increase of the company's share capital by a maximum of EUR 6 287 890.20 by issuing new shares, by issuing option rights or by taking out a convertible loan; (b) the acquisition of a maximum of 2 619 954 own shares of the company; and (c) the conveyance of a maximum of 2 619 954 own shares in the company's possession.

On December 31, 2003, the company owned a total of 1 168 300 of its own shares, representing 2.2% of the company's shares outstanding. On December 31, 2003, the nominal value of the Perlos shares held by the company totalled EUR 700 980 and their purchase price totalled EUR 7 676 569.

Changeover to International Financial Reporting Standards (IFRS) in Accounting

In 2003, Perlos commenced preparations for changing over to International Financial Reporting Standards (IFRS). Numerous project groups were established to handle the preparations. Among their tasks have been to assess the effects of the changeover to IFRS on Perlos' reporting, accounting practices, the content of the annual accounts and the treatment of financial instruments. External experts and auditors have been used for consultation in the projects.

Perlos aims to release its first IFRS-compliant interim report for the first quarter of 2005. IFRS-compliant comparison figures for the financial quarters of 2004 will be presented in the same report at the very latest.

According to preliminary assessments, the major changes to Perlos' current reporting that will arise due to the changeover to IFRS are primarily related to the accounting policies applied to financial leasing agreements, financial instruments and goodwill.

From 2005 onwards, Perlos will include both leasing assets and liabilities in its balance sheet in the case of financial leasing. Perlos uses currency and interest rate derivatives in the management of financial risks. The fair values of derivatives will be included in the balance sheet from 2005 onwards. In the case of interest rate derivatives, Perlos plans to use hedge accounting. In accordance with the new IFRS valuation rules for acquired companies, annual impairment testing will be applied to goodwill instead of regular amortisation.

The changeover to IFRS will also have other effects on Perlos' accounting principles and reporting. Perlos will release more in-depth information on both these and the quantitative effects of the changeover in the accounts for 2004 at the latest.

Events after the End of the Review Period

Perlos will expand its plant in Manaus, Brazil, during the first half of 2004. The size of the plant will be almost doubled to about 9 000 square metres by building a new production hall adjacent to the present one. The extension is expected to be ready for production at the beginning of the second half of the year.

A new painting line, which can be used to make extremely high-quality products that meet the new market requirements, will be built at the Lehmonharju plant in Finland, which serves the telecommunications and electronics industry. It is planned that the new painting line will be ready to go into production use in the third quarter of 2004. At the same time, the plant area will be expanded by approximately 2 000 square metres from its current size of 15 000 square metres.

Outlook for 2004

Mobile phone sales recovered in 2003 and it is generally estimated that worldwide sales of mobile handsets exceeded 470 million last year, which is approximately 15% more than in the previous year. Growth is expected to continue and many mobile phone manufacturers estimate that slightly over 500 million handsets will be sold during 2004. Annual growth in the pharmaceutical markets that are significant to Perlos is anticipated to continue at a rate of approximately 10%.

The Telecommunications and Electronics business sector's net sales are expected to grow at least at the same rate as the global mobile phone market in 2004, and the Pharma business sector's net sales are anticipated to grow slightly in 2004.

In 2004, Perlos Corporation's operating profit and earnings per share are expected to improve compared with the previous year, primarily because the capacity utilisation ratios are anticipated to be better than in 2003, especially in the first part of the year. The company seeks to respond to price competition, which remains tight, by improving operational efficiency.

Dividend Payout

The calculation of the company's distributable funds is presented in the notes to the annual accounts. The Board of Directors proposes that a dividend of EUR 0.10 be paid per share.

Income Statement

EUR 1 000	Note	Consolidated 2003	2002	Parent company 2003	2002
Net sales	2.1	**452 319**	364 638	**266 392**	231 920
Purchasing and manufacturing expenses		-373 816	-309 852	-235 143	-212 102
Gross operating margin		**78 503**	54 786	**31 249**	19 818
Sales and marketing expenses		-11 945	-10 593	-6 882	-6 061
Administration expenses		-24 388	-19 039	-13 893	-9 533
Other operating income		2 351	5 068	3 164	6 799
Other operating expenses		-4 647	-6 223	-62	-341
Depreciation of goodwill		-22 602	-22 602	-22 602	-22 602
Operating profit / loss	2.2, 2.3	**17 272**	1 397	**-9 026**	-11 920
Share of associates' net income		-788	-356		
Financial income and expenses	2.4	-5 265	-5 535	23 799	23 300
Profit / loss before extraordinary items, appropriations and taxes		**11 219**	-4 494	**14 773**	11 381
Extraordinary income and expenses	2.5			-12 563	
Appropriations	2.6			142	9 982
Direct taxes	2.7	-2 595	2 418	3 837	-77
Net profit / loss for the period		**8 624**	-2 076	**6 189**	21 285

Balance Sheet

EUR 1 000		Consolidated		Parent company	
Assets	Note	**31.12.2003**	31.12.2002	**31.12.2003**	31.12.2002
Fixed assets					
Intangible assets	3.1, 3.4	26 107	47 600	14 897	35 557
Tangible assets	3.2, 3.5	145 138	133 641	74 520	72 744
Investments	3.3, 3.6, 3.7	8 238	8 626	51 195	51 069
		179 483	189 867	140 612	159 370
Current assets					
Inventories	3.8	46 147	45 947	26 591	33 694
Non-current receivables	3.9	4 317	121	4 143	5 721
Current receivables	3.10	80 745	56 726	77 224	43 726
Liquid assets securities			15 590		15 590
Cash and bank accounts		15 363	14 221	11 156	5 515
		146 572	132 605	119 114	104 246
Assets, total		**326 055**	322 472	**259 726**	263 616
Shareholders' equity and liabilities					
Shareholders' equity					
Share capital		32 007	31 439	32 007	31 439
Share issue		235		235	
Premium fund		47 163	46 349	47 163	46 349
Reserve for own shares		7 677	7 677	7 677	7 677
Profit / loss for previous financial periods		45 534	65 756	16 042	6 028
Profit / loss for the financial period		8 624	-2 076	6 189	21 285
	3.11	141 240	149 145	109 313	112 778
Appropriations	3.12				142
Provisions	3.13	**872**	896	**872**	896
Liabilities					
Deferred tax liability	3.14	1 484	1 642		
Long-term liabilities	3.15	55 324	85 909	55 000	85 375
Short-term liabilities	3.16	127 135	84 880	94 541	64 425
		183 943	172 431	149 541	149 800
Shareholders' equity and liabilities, total		**326 055**	322 472	**259 726**	263 616

Source and Application of Funds

EUR 1 000	Consolidated		Parent company	
	2003	2002	2003	2002
Cash flow from operations				
Operating profit / loss	17 272	1 397	-9 026	-11 920
Adjustments to operating profit / loss	52 795	53 620	38 859	37 442
Change in working capital	-10 219	-10 403	3 075	-14 422
Interest expenses	-10 398	-8 748	-9 247	-8 391
Dividends received	58	56	27 990	28 536
Interest income	5 075	3 157	5 056	3 155
Taxes paid	-6 896	-2 500	-306	-78
Net cash flow from operations	**47 687**	36 579	**56 401**	34 322
Cash flow from investments				
Investments in subsidiaries	-55	-1 535	-12 287	-6 143
Investments in associated companies	-570	-1 104	-570	-1 104
Acquisition of intangible and tangible assets	-50 081	-38 301	-22 842	-17 987
Sales of intangible and tangible assets	415	1 530	3 011	3 647
Net cash flow from investments	**-50 291**	-39 410	**-32 688**	-21 587
Cash flow before financing	**-2 604**	-2 831	**23 713**	12 735
Cash flow from financing				
Loans raised	13 657	55 000	10 866	55 000
Repayments of loans	-15 846	-25 278	-15 584	-25 090
Interest bearing receivables, increase/decrease			-19 289	469
Share issue	1 616	1 355	1 616	1 355
Purchases of own shares		-10 244		-10 244
Dividends	-11 271	-13 381	-11 271	-13 381
Net cash flow from financing	**-11 844**	7 452	**-33 662**	8 109
Liquid assets, increase/decrease	**-14 448**	4 621	**-9 949**	20 844
Liquid assets, Jan. 1	29 811	25 190	21 105	261
Liquid assets, Dec. 31	**15 363**	29 811	**11 156**	21 105

Principles for the Preparation of the Annual Accounts

The annual accounts have been prepared in accordance with the Finnish Accounting Act and other statutes and regulations applying to the preparation of annual accounts.

Use of estimates in the annual accounts

When annual accounts are prepared in accordance with generally accepted accounting principles, the management of the company has to make estimates and assumptions that have an effect on the reported amounts of assets and liabilities on the closing date and the amounts of revenues and expenses reported for the financial reporting period. The estimates and assumptions are made with due prudence. The final figures may deviate from these estimates.

Principles of valuation and periodisation

Valuation of fixed assets

Tangible and intangible assets have been recorded in the balance sheet at their original acquisition cost less depreciation according to plan. Depreciation according to plan has been calculated on a straight-line basis from the original acquisition cost according to the useful life of the assets.

The periods for depreciation according to plan are as follows:

	Years
Incorporation expenditure	5
Intangible rights	5-10
Goodwill	7
Goodwill on consolidation	5-20
Other long-term expenditure	5-10
Buildings	40
Building movable property	10
Machinery and equipment	3-10
Other tangible assets	5

Goodwill consists of high-quality technological expertise and long-term, partnership-orientated customer relationships acquired in connection with the acquisition of business activities, and which are considered to have an economic life of at least seven years. For this reason, the purchase price of goodwill is amortised on a straight-line basis over seven years.

Valuation of inventories

Inventories are presented according to the FIFO principle at acquisition cost or at the replacement cost on the closing date or the market price, whichever is lower. The value of inventories includes their share of fixed purchasing and manufacturing costs in addition to variable costs in all Corporation companies.

R&D expenditure

R&D expenditure has been recorded as annual expenses for the year during which the expenditure occurred.

Incorporation expenditure

The fees of external experts involved in the incorporation process have been capitalised as incorporation expenditure, which will be amortised over five years.

Recognition of net sales

When calculating net sales, indirect taxes on sales, the exchange rate differences relating to sales, and discounts are all deducted from sales revenues. Sales of goods and services are recognised as income when delivered.

Maintenance and repairs

Maintenance and repair costs are recorded as expenditure for the financial year. The leasehold improvement costs are capitalised in long-term expenditure and are amortised on a straight-line basis.

Leasing

Leasing payments are treated as rental expenditures. The Corporation does not have any significant financial lease agreements.

Periodisation of pension costs

Pension costs have been stated in compliance with the legislation of each country. The parent company is responsible for EUR 872 038 in pension liabilities, which are recorded under compulsory provisions.

Foreign currency denominated items

Receivables and liabilities denominated in foreign currency have been translated into euro amounts at the rate quoted by the European Central Bank on the closing date and the non-convertible currencies at the rate quoted by a commercial bank. The most important currencies are presented with the financial data.

Appropriations

On the basis of local legislation and accounting practice, companies in Finland can record in appropriations items that have an effect on taxation. To be eligible for deduction, these deductions must also be made in the annual accounts. The appropriations consist of accelerated depreciation over and above Perlos Corporation's depreciation according to plan. In the consolidated annual accounts, the appropriations are divided between shareholders' equity and the deferred tax liability in the balance sheet.

Income taxes

The consolidated annual accounts include those taxes which are calculated on the basis of the Corporation companies' financial results for the period and the local tax legislation as well as deferred taxes arising from the appropriations and timing differences between the annual accounts and taxation. In the income statement, the change in deferred tax liability is presented as deferred taxes.

Principles for the preparation of the consolidated annual accounts

Scope of the consolidated annual accounts

The consolidated annual accounts include the parent company and all the companies in which the parent company holds over half of the voting rights either due to its direct ownership stake or with its subsidiaries.

All corporate companies have been included in the consolidated annual accounts: Perlos Corporation, the parent company, and its 100%-owned subsidiaries Perlos Ltd, UK, and Perlos Holding Inc., USA, Perlos (Guangzhou) Engineering Plastics Company Ltd, China, Perlos Plastics Moulding Limited Liability Company, Hungary, Perlos (Beijing) Electric Telecommunication Components Co., Ltd China and Perlos Finance Holding Oy, Finland, Wild NRGS Oy Ltd, Finland, Oy Salo NRGS Ltd, Finland, C3 Suunnittelu Oy, Finland, Perlos Ltda, Brazil, Perlos AB, Sweden, and its subsidiaries, as well as Perlos (Texas), Inc., USA, an operative subsidiary which is wholly owned by Perlos Holding, Inc.

Subsidiaries acquired or established during the report year have been included from the date of acquisition or founding. Sold companies are included in the income statement until the date of sale.

Associated companies, in which the Group holds a considerable interest (20-50%), have been included in the consolidated financial statements using the equity method of accounting. The Group's proportionate share of the associated companies' net income for the financial year has been calculated based on Group interest and is stated as a separate item in the consolidated income statement.

Internal shareholding

The consolidated annual accounts have been drawn up in accordance with the acquisition cost method. The difference between the price paid for the shares in subsidiaries and the shareholders' equity corresponding to the acquired holding has been recorded in goodwill on consolidation, which is amortised over 5-20 years.

Inter-company transactions and margins

Inter-company transactions, unrealised margins on inter-company deliveries, receivables and payables, and profit distribution have been eliminated in the consolidated annual accounts.

Translation differences

The income statements of overseas Corporation companies have been translated into euro amounts at the average rate for the financial period and the balance sheets have been translated at the rate at the closing date. These translation differences as well as the translation differences arising from shareholders' equity have been recorded in "Profit/loss for previous financial periods" in the consolidated annual accounts.

2. Notes to the Income Statement

EUR 1 000	Consolidated		Parent company	
	2003	2002	**2003**	2002
2.1 Net sales				
Net sales by industry segment				
Telecommunications and electronics industry	410 392	326 205	227 480	194 145
Pharmaceutical industry	41 927	38 433	38 912	37 775
	452 319	364 638	**266 392**	231 920
Net sales by market area				
Finland	145 504	141 796	141 108	138 725
Other European countries	190 333	130 819	103 542	75 683
Americas	59 192	51 225	7 695	2 211
Other countries	57 290	40 798	14 047	15 301
	452 319	364 638	**266 392**	231 920
2.2 Personnel costs and number of personnel				
Personnel costs				
Wages and salaries	-97 276	-84 689	-66 182	-57 836
Pension costs	-12 097	-10 489	-10 115	-9 307
Other personnel costs	-12 135	-10 279	-5 375	-4 814
	-121 508	-105 457	**-81 672**	-71 957

Salaries and remunerations paid to management

The salaries and remunerations of the Parent Company managing director were EUR 265 697 (EUR 242 091).
The salaries and remunerations of the Group managing directors were EUR 1 193 493 (EUR 1 113 480 in the previous year).
The remunerations of the members of the Board were EUR 100 000 (EUR 93 750) in the Group and in the parent company.

The average number of personnel employed by the Group and the parent company was:

	Consolidated		Parent company	
	2003	2002	**2003**	2002
Salaried employees	1 055	890	652	601
Employees	3 382	2 751	1 711	1 697
	4 437	3 641	**2 363**	2 298

Pension commitments of the members of the Board and managing directors

The agreed retirement age for the managing directors of Group companies is 60 years.

2.3 Activity-based depreciation				
Purchasing and manufacturing	-25 946	-24 031	-15 310	-14 204
Sales and marketing	-386	-404	-235	-210
Administration	-2 537	-1 753	-829	-688
Other operating depreciation		-54		-54
Goodwill on consolidation	-1 627	-3 053		
Amortisation of goodwill	-22 602	-22 602	-22 602	-22 602
	-53 098	-51 897	**-38 976**	-37 758

	Consolidated		Parent company	
	2003	2002	**2003**	2002
2.4 Financial income and expenses				
Dividend income				
Dividend income belonging to the same Group			27 932	28 480
From others	58	56	58	56
Dividend income, total	**58**	56	**27 990**	28 536
Other interest and financial income				
From companies belonging to the same Group			700	351
From others	5 075	3 157	4 356	2 804
Other interest and financial income, total	**5 075**	3 157	**5 056**	3 155
Interest expenses and other financial expenses				
To companies belonging to the same Group			-15	-47
To others	-10 398	-8 748	-9 232	-8 344
Interest and other financial expenses, total	-10 398	-8 748	-9 247	-8 391
Financial income and expenses, total	**-5 265**	-5 535	**23 799**	23 300
Financial income and expenses includes exchange gains and losses (net)	-504	-1 606	-87	-1 458
2.5 Extraordinary income and expenses				
Write downs on shares			-12 563	
Extraordinary income and expenses			-12 563	

	Consolidated		Parent company	
2.6 Appropriations	**2003**	2002	**2003**	2002
Difference between depreciation according to plan and taxation			142	9 982
2.7 Direct taxes				
Taxes for the period				
Finnish Group companies	-310	-77	-306	-77
Overseas Group companies	-6 890	-955		
Deferred taxes				
Included in the annual accounts of Group companies				
Finnish Group companies	4 143		4 143	
Overseas Group companies	421	555		
Taxes based on appropriations				
Finnish Group companies	41	2 895		
Taxes, total	**-2 595**	2 418	**3 837**	-77

3. Notes to the Balance Sheet

EUR 1 000

Fixed assets and other long-term investments

Group

3.1 Intangible assets

	Incorporation expenditure	Intangible rights	Goodwill	Group goodwill	Other long-term expenditure	Advances and purchases in progress	Total
Acquisition cost, 1 Jan.	1 645	359	158 211	13 790	21 994	1 115	197 114
Translation difference		-1		-14	-1 077		-1 092
Increases		701			4 526	2 009	7 236
Acquired subsidiaries							
Decreases and transfers					508	-226	282
Acquisition cost, 31 Dec.	1 645	1 059	158 211	13 776	25 951	2 898	203 540
Accumulated depreciation, 1 Jan.	1 645	61	135 609	4 239	7 960		149 514
Acquired subsidiaries							
Translation difference					-559		-559
Depreciation of decreases							
Other changes					12		12
Depreciation during the financial year		122	22 602	1 627	4 115		28 466
Accumulated depreciation, 31 Dec.	1 645	183	158 211	5 866	11 528		177 433
Book value, 31 Dec.		876		7 910	14 423	2 898	26 107

Other long-term expenditure consists mainly of leasehold improvements and enterprise resource planning system.

3.2 Tangible assets

	Land	Buildings	Machinery and equipment	Other tangible assets	Advances and purchases in progress	Total
Acquisition cost, 1 Jan.	1 067	35 111	170 006	2 380	16 621	225 185
Translation difference	-9	-94	-9 794	-4	-289	-10 190
Increases	287	2 916	22 764	687	16 196	42 850
Acquired subsidiaries						
Decreases and transfers		3 331	19 644	70	-24 234	-1 189
Acquisition cost, 31 Dec.	1 345	41 264	202 620	3 133	8 294	256 656
Accumulated depreciation, 1 Jan.		5 169	85 026	1 349		91 544
Acquired subsidiaries						
Translation difference			-3 513	-109		-3 622
Depreciation of decreases			-625			-625
Other changes			-549	138		-411
Depreciation during the financial year		1 165	22 884	583		24 632
Accumulated depreciation, 31 Dec.		6 334	103 223	1 961		111 518
Book value, 31 Dec.	1 345	34 930	99 397	1 172	8 294	145 138
Book value of production machinery and equipment						91 568

3.3 Investments

	Own shares	Associates' shares	Other shares	Total
Acquisition cost, 1 Jan.	7 677	749	200	8 626
Translation difference				
Increases		569		569
Decreases			-169	-169
Acquisition cost, 31 Dec.	7 677	1 318	31	9 026
Share of associates' net income		-788		-788
Book value, 31 Dec.	7 677	530	31	8 238

EUR 1 000

Parent company

3.4 Intangible assets

	Incorporation expenditure	Intangible rights	Goodwill	Other long-term expenditure	Advances and purchases in progress	Total
Acquisition cost, 1 Jan.	1 645	344	158 211	15 902	1 097	177 199
Increases		701		2 332	1 969	5 002
Decreases and transfers				494	-168	326
Acquisition cost, 31 Dec.	1 645	1 045	158 211	18 728	2 898	182 527
Accumulated depreciation, 1 Jan.	1 645	61	135 609	4 327		141 642
Depreciation of decreases				-15		-15
Depreciation during the financial year		114	22 602	3 287		26 003
Accumulated depreciation, 31 Dec.	1 645	175	158 211	7 599		167 630
Book value, 31 Dec.		870		11 129	2 898	14 897

Other long-term expenditure consists mainly of leasehold improvements and enterprise resource planning system.

3.5 Tangible assets

	Land	Buildings	Machinery and equipment	Other tangible assets	Advances and purchases in progress	Total
Acquisition cost, 1 Jan.	685	30 503	89 507	1 539	4 833	127 067
Increases		702	16 368		2 803	19 873
Decreases and transfers			-4 202		-2 487	-6 689
Acquisition cost, 31 Dec.	685	31 205	101 673	1 539	5 149	140 251
Accumulated depreciation, 1 Jan.		4 420	48 959	944		54 323
Depreciation of decreases			-1 564			-1 564
Depreciation during the financial year		985	11 711	276		12 972
Accumulated depreciation, 31 Dec.		5 405	59 106	1 220		65 731
Book value, 31 Dec.	685	25 800	42 567	319	5 149	74 520
Book value of production machinery and equipment						40 893

3.6 Investments	Own shares	Shares in Group companies	Associates' shares	Other shares	Total
Acquisition cost, 1 Jan.	7 677	42 089	1 104	199	51 069
Increases		12 287	570		12 857
Decreases				-168	-168
Acquisition cost, 31 Dec.	7 677	54 376	1 674	31	63 758
Write downs		-12 563			-12 563
Book value, 31 Dec.	7 677	41 813	1 674	31	51 195

3.7 Group companies

	Group's share		Parent's share	
	2003	2002	**2003**	2002
Perlos Ltd; Washington, the UK	100%	100%	100%	100%
Perlos Holding, Inc; USA	100%	100%	100%	100%
Perlos (Texas), Inc; Fort Worth, USA	100%	100%		
Perlos Precision Plastics Moulding Limited Liability Company; Komarom, Hungary	100%	100%	100%	100%
Perlos (Guangzhou) Engineering Plastics Company Ltd.; Guangzhou, China	100%	100%	100%	100%
Perlos (Beijing) Electric and Telecommunication Components Co., Ltd., Beijing, China	100%			
Perlos Finance Holding Oy, Finland	100%	100%	100%	100%
Wild NRGS Oy Ltd, Finland	100%	100%	100%	100%
Oy Salo NRGS Ltd, Finland	100%	100%	100%	100%
Perlos AB, Sweden	100%	100%	100%	100%
gigaAnt AB, Sweden	100%	100%		
gigaAnt Asia PTE Ltd, Singapore	100%	100%		
Moteco Inc, USA		100%		
Moteco Telecommunication Equipment Co. Ltd, China	100%	100%	100%	
Perlos Malaysia SDN. BHD, Malaysia	100%	100%		
Perlos Asia PTE Ltd, Singapore	100%	100%		
Perlos Ltda, Brazil	100%	100%	100%	100%
C3 Suunnittelu Oy, Finland	100%	100%	100%	100%
Associated companies				
Asperation Oy, Finland	50%	50%	50%	50%
EPE Design Oy, Finland	50%	50%	50%	50%

3.8 Inventories

	Consolidated		Parent company	
	2003	2002	**2003**	2002
Materials and supplies	18 984	15 422	8 824	9 081
Semifinished products	8 269	12 309	4 964	9 735
Finished products/goods	14 319	13 645	9 585	10 848
Advances	4 575	4 571	3 043	3 919
Advances from Group Companies			175	111
Total	**46 147**	45 947	**26 591**	33 694

3.9 Long-term receivables

Loan receivables from companies belonging to the same group				5 721
Other long-term receivables	4 317	121	4 143	

Other long-term receivables consist of deferred tax receivables.

3.10 Short-term receivables

	Consolidated		Parent company	
	2003	2002	**2003**	2002
Receivables from companies belonging to the same group				
Accounts receivable			3 719	3 956
Loan receivables			27 949	2 939
Other short-term receivebles			671	2 265
Prepaid expenses and accrued income			218	19
			32 557	9 179
Receivables from others				
Accounts receivable	74 710	47 373	42 181	27 807
Other short-term receivables	1 662	4 094	953	2 446
Prepaid expenses and accrued income	4 373	5 259	1 533	4 294
	80 745	56 726	**44 667**	34 547
Short-term receivables, total	80 745	56 726	77 224	43 726

3.11. Shareholders' equity

	Consolidated		Parent company	
	2003	2002	2003	2002
Share capital, Jan. 1	31 439	31 602	31 439	31 602
Share issue	568	561	568	561
Rights issue	235		235	
Own shares cancelled		-724		-724
Share capital, Dec. 31	**32 242**	31 439	**32 242**	31 439
Premium fund, Jan. 1	46 349	44 829	46 349	44 829
Share issue	814	796	814	796
Own shares cancelled		724		724
Premium fund, Dec. 31	**47 163**	46 349	**47 163**	46 349
Reserve for own shares Jan. 1	7 677	7 350	7 677	7 350
Increases		10 244		10 244
Decreases		-9 917		-9 917
Reserve for own shares Dec. 31	**7 677**	7 677	**7 677**	7 677
Profit / loss from previous financial years, Jan. 1	63 680	100 409	27 313	29 653
Dividends	-11 271	-13 381	-11 271	-13 381
Transfers to reserve for own shares		-10 244		-10 244
Translation difference	-5 775	-9 494		
Other changes	-1 100	-1 534		
Profit / loss from previous financial years, Dec. 31	**45 534**	65 756	**16 042**	6 028
Profit / loss for the period	8 624	-2 076	6 189	21 285
Shareholders' equity, total	141 240	149 145	109 313	112 778

The Group has acquired 1 168 300 own shares year 2002. The nominal value of these is 700 980 euros and the book value is 7 676 596 euros.

	Consolidated		Parent company	
	2003	2002	**2003**	2002
Schedule of distributable funds, Dec. 31				
Profit / loss from previous financial years	45 534	65 756	16 042	6 028
Profit / loss for the period	8 624	-2 076	6 189	21 285
- Capitalised incorporation expenditure				
- Share of appropriations recorded in sharehold-ers' equity		-101		
- Other non-distributable items	-2 143	-1 096		
	52 015	62 483	**22 231**	27 313

The Finnish Companies Act allows the parent company to distribute a dividend that does not exceed the distributable funds of the parent company or the Group, whichever is lower.

3.12 Appropriations

Appropriations of the parent company consist of the accumulated depreciation difference year 2002.

3.13 Provisions

The provisions included in the consolidated and Parent company's balance sheet consist of pension liabilities.

3.14 Deferred tax receivables and liabilities

	Consolidated		Parent company	
	2003	2002	**2003**	2002
From temporary differences	4 143		4 143	
	4 143		**4 143**	
From temporary differences	1 484	1 601		
From appropriations		41		
	1 484	1 642		

1 000 €

3.15 Long-term liabilities

Loans denominated in euros accounted for 99.4 % of loans from financial institutions at the end of year 2003, and loans denominated in Hungarian forint accounted for 0.6 %. The average interest rate of long-term loans raised from financial institutions was 4.2 %.

	Consolidated		Parent company	
	2003	2002	**2003**	2002
Loans from financial institutions	55 324	85 909	55 000	85 375
	55 324	85 909	**55 000**	85 375

Group's repayment schedule of long-term loans from financial institutions at 31 December 2003

	2005	2006	2007
Repayment of loans from financial institutions	15 291	15 033	25 000

Repayments that will be made in 2004 have been transferred to short-term liabilities in the balance sheet.

The Group does not have any long term loans which would expire later than year 2007.

3.16 Short-term liabilities

Loans from financial institutions	44 169	15 774	41 431	15 774
Advances received	8 961	9 026	6 508	7 546
Accounts payable	44 903	31 466	23 657	19 768
Other short-term liabilities	3 542	4 041	1 939	4 114
Accrued liabilities	25 560	24 573	17 366	15 254
Liabilities to companies belonging to the same Group				
Loans			791	775
Advances received			448	248
Accounts payable			1 266	746
Other short-term liabilities			1 101	200
Accrued liabilities			34	
	127 135	84 880	**94 541**	64 425

Accrued liabilities primarily consist of wages, salaries and provisions for staff social costs.

4. Other supplementary information

	Consolidated		Parent company	
4.1 Pledges given	**2003**	2002	**2003**	2002
Loans for which real-estate has been mortgaged as collateral				
Loans from financial institutions	210	631	210	631
Mortgages given	353	2 237	353	2 237
Loans for which corporate mortgages have been given as collateral				
Loans from financial institutions	30 000	45 000	30 000	45 000
Mortgages given	42 047	42 047	42 047	42 047
Mortgages given as collateral, total	42 400	44 284	42 400	44 284

All pledges given are collateral for the parent company loans.

4.2 Leasing and rental commitments

The Group has rented office, factory and storage buildings for its own use. The rental agreements are fixed-term, and some can be renewed for periods of varying duration.

Payments to be made on leasing and rental agreements				
During the financial year now begun	7 063	5 516	3 484	2 787
To be paid later	29 162	27 790	10 258	10 957
	36 225	33 306	**13 742**	13 744

4.3 Commitments on behalf of companies in the same Group

Guarantees on behalf of Group companies			21 391	14 952

	Consolidated 2003	2002	Parent company 2003	2002
4.4 Commitments on behalf of other parties				
Guarantees on behalf of other parties	1 443	1 059	1 443	1 059
4.5 Derivative contracts				
Foreign exchange forwards				
Nominal amount	21 209	7 257	21 209	7 257
Fair value	929	-236	929	-236
Foreign exchange options				
Nominal amount		7 000		7 000
Fair value		-175		-175
Interest rate swaps				
Nominal amount	40 000	40 000	40 000	40 000
Fair value	-1 037	-576	-1 037	-576

The nominal amounts are presented as net values.

The fair value indicates the result that would be realised, if the derivative contracts were closed on the reporting date.

4.6 Share option programmes

At the end of year 2003, Perlos had four share option programmes. The warrants attached to Option Programmes 1 and 2 entitle the bearers to subscribe for a total of 3 750 000 new shares during the period from 1 April 2000 to 1 April 2004. The total nominal amount of new shares is EUR 2 250 000. By the end of year 2003, 3 004 740 new shares had been subscribed with the warrants, 1 107 300 of them during the accounting period. The share subscription price is EUR 2.24 for Option Programme 1 and EUR 4.48 for Option Programme 2. Dividens paid after the date when the price is specified are deducted from the subscription prices. At the end of 2003 the dividend-corrected subscription prices were EUR 1.46 and EUR 3.70.

The A, B and C warrants attached to Option Programme 3 entitle the bearers to subscribe for a total of 1 100 000 new shares during the period from 1 June 2001 to 30 June 2005. The total nominal amount of new shares is EUR 660 000. By the end of year 2003, no shares had been subscribed with the warrants. The share subscription price with the A warrant is EUR 14.56, with the B warrant EUR 35.97 and with the C warrant EUR 10.10. Dividens paid after the date when the price is specified are deducted from the subscription prices. At the end of year 2003 the dividend-corrected subscription prices were EUR 13.88 for the A warrant, EUR 35.29 for the B warrant and EUR 9.62 for the C warrant.

The A, B and C warrants attached to Option Programme 4 entitle the bearers to subscribe for a total of 750 000 new shares during the period from 1 April 2005 to 30 April 2008. The nominal amount of new shares is EUR 450 000. The share subscription price with the A warrant is the trade volume weighted average price of the company's share on Helsinki Stock Exchange in August 2002 plus 14 % (EUR 5.25), the share subscription price with the B warrant is the trade volume weighted average price of the company's share on Helsinki Stock Exchange in August 2003 plus 14 % (EUR 5.56) and the share subscription price with the C warrant is the trade volume weighted average price of the company's share on Helsinki Stock Exchange in August 2004 plus 14 %. Dividens paid after the date when the price is specified are deducted from the subscription prices. However, the subscription price will always be at least the nominal value of the share. At the end of year 2003 the dividend-corrected subscription price of the A warrant were EUR 5.03.

4.7 Authorisations to issue new shares, option rights and convertible bond

The Annual General Meeting of Perlos Corporation on 14 April 2003 resolved, as proposed by the Board of Directors, to authorise the Board of Directors to decide a) upon the increase of the Company's share capital by issuing new shares, by issuing option rights and/or by taking out a convertible bond. On the basis of the authorisation, the Company's share capital may be increased by a maximum of EUR 6 287 890.20 b) the acquisition of a maximum of 2 619 954 own shares of the Company and c) the conveyance of a maximum of 2 619 954 own shares in the Company's position. The authorisation shall be in force until 29 March 2004.

Vantaa, February 9, 2004

Kari O. Sohlberg
Chairman of the Board of Directors

Heikki Mairinoja
Vice Chairman of the Board of Directors

Anni Vepsäläinen
Member of the Board

Matti Aura
Member of the Board

Matti Kavetvuo
Member of the Board

Teppo Taberman
Member of the Board

Isto Hantila
Managing Director

Auditors' Statement

To the shareholders of Perlos Corporation

We have audited the accounting records, the financial statements and the administration of Perlos Corporation for the financial period 1.1.2003 – 31.12.2003. The financial statements which include the report of the Board of Directors, the consolidated and parent company income statement, balance sheet 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 the administration.

We have conducted our audit in accordance with the 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 as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine that the members of the Board of Directors and the President have legally complied with the rules of the Finnish Companies Act.

In our opinion the financial statements have been prepared in accordance with the Finnish 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 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, all of the parent company, can be discharged from liability for the financial period audited by us. The proposal by the Board of Directors on the disposal of distributable funds is in compliance with the Companies Act.

Vantaa, February 9, 2004

PricewaterhouseCoopers Oy, Authorised Public Accountants

Kari Lydman, Authorised Public Accountant

Group Financial Data

Income statement and profitability		2003	2002	2001	2000	1999
Net sales	EUR million	**452.3**	364.6	431.6	452.3	281.5
EBITDA *)	EUR million	**70.4**	53.3	102.2	110.4	81.7
EBITDA	% of net sales	**15.6**	14.6	23.7	24.4	29.0
EBITA **)	EUR million	**39.9**	24.0	75.8	91.3	68.8
EBITA	% of net sales	**8.8**	6.6	17.6	20.2	24.5
EBIT	EUR million	**17.3**	1.4	53.2	68.7	46.2
EBIT	% of net sales	**3.8**	0.4	12.3	15.2	16.4
Profit / loss before income taxes	EUR million	**11.2**	-4.5	47.9	62.3	39.2
Profit / loss before income taxes	% of net sales	**2.5**	-1.2	11.1	13.8	13.9
Profit / loss for the financial period	EUR million	**8.6**	-2.1	39.8	43.1	25.8
Profit / loss for the financial period	% of net sales	**1.9**	-0.6	9.2	9.5	9.2
Return on equity	%	**6.3**	-1.3	23.7	33.0	27.3
Return on investment	%	**7.9**	1.7	19.9	27.2	21.4
Cash flow						
Cash flow from operations	EUR million	**47.7**	36.6	116.8	59.7	58.0
Operational gross investment	EUR million	**50.7**	40.9	37.3	68.8	42.8
Operational gross investment	% of net sales	**11.2**	11.2	8.6	15.2	15.2
Balance sheet and solidity						
Shareholders´ equity	EUR million	**141.2**	149.1	184.2	151.1	109.6
Provisions	EUR million	**0.9**	0.9	0.9	0.8	0.8
Total liabilities	EUR million	**183.9**	172.4	146.5	224.9	192.3
Total shareholders' equity and liabilites	EUR million	**326.1**	322.5	331.6	376.9	302.7
Interest-bearing liabilities	EUR million	**99.2**	101.7	72.0	129.4	119.7
Net debts	EUR million	**83.8**	71.9	46.8	114.0	101.1
Gearing		**0.63**	0.51	0.25	0.75	0.92
Equity ratio	%	**43.2**	46.3	59.6	43.3	38.9
Personnel						
Personnel, average		**4 437**	3 641	3 538	3 503	2 378
Personnel at the end of the period		**4 657**	3 974	3 334	3 860	2 925
Exhange rates						
The most important currencies (Dec. 31)		**EUR**	EUR	EUR	EUR	EUR
USD		**1.2630**	1.0487	0.8813	0.9305	1.0046
GBP		**0.7048**	0.6505	0.6085	0.6241	0.6217
CNY		**10.3426**	8.6266	7.2943	7.7021	8.3175
SEK		**9.0800**	9.1528	9.3012	8.8313	8.5625

*) Earnings before intrest, depreciation and amortisation of goodwill
**) Earnings before intrest, taxation and amortisation of goodwill

Share Related Data*

		2003	2002	2001	2000	1999
Earnings per share	EUR	**0.17**	-0.04	0.77	0.84	0.50
Earnings per share (diluted)	EUR	**0.16**	-0.04	0.73	0.79	0.47
Cash flow per share	EUR	**0.93**	0.71	2.25	1.16	1.13
Cash flow per share (diluted)	EUR	**0.91**	0.69	2.15	1.09	1.06
Shareholders' equity per share	EUR	**2.55**	2.76	3.55	2.91	2.14
Shareholders' equity per share (diluted)	EUR	**2.54**	2.69	3.40	2.76	2.00
Dividend per share	EUR	**0.10**	0.22	0.26	0.20	0.10
Dividend pay-out ratio	%	**58.82**	neg.	33.77	24.11	19.90
Effective dividend yield	%	**1.58**	3.66	2.23	0.91	0.29
Price /earning ratio (P/E)		**37.7**	neg.	15.13	26.19	69.40
Share prices						
Lowest share price	EUR	**2.96**	3.92	5.60	18.70	11.20
Highest share price	EUR	**6.92**	12.55	23.01	49.20	36.30
Average share price	EUR	**4.97**	7.54	12.08	33.30	12.43
Share price at the end of the period	EUR	**6.33**	6.01	11.65	22.00	35.00
Trading volumes						
Number of shares	No.	**38 740 918**	32 100 915	40 422 424	40 361 867	51 365 900
Number of shares in relation to the weighted average number of shares	%	**75.3**	62.3	77.8	78.3	100.5
Number of shares**						
At the end of the period	No.	**52 338 086**	51 230 786	51 758 140	51 931 765	51 220 000
Average during the period	No.	**51 420 718**	51 504 737	51 956 112	51 562 373	51 116 329
Average during the period (diluted)	No.	**52 518 852**	53 158 216	54 225 331	54 722 955	54 866 329
Market capitalization at the end of the period	MEUR	**331**	308	603	1 142	1 793

*) Share data reflects per share data adjusted for the 3:1 stock split, which took place on 11 May 1999.
**) Excluding own shares in the company's possession.

Formulas for the Indicators

Financial indicators

EBITDA = operating profit + depreciation

Return on investment (ROI), %
$$= \frac{\text{profit before extraordinary items + interest and other financial expenses}}{\text{total assets – non-interest-bearing liabilities (average for the period)}} \times 100$$

Return on equity (ROE), %
$$= \frac{\text{profit before extraordinary items – taxes}}{\text{shareholders' equity + minority interest (average for the period)}} \times 100$$

Equity ratio, %
$$= \frac{\text{shareholders' equity + minority interest}}{\text{total assets – advance payments received}} \times 100$$

Gearing ratio
$$= \frac{\text{interest-bearing liabilities – liquid assets}}{\text{shareholders' equity}}$$

Per-share indicators

Earnings/share, EUR
$$= \frac{\text{profit before extraordinary items – taxes +/- minority interest}}{\text{average number of shares during the period}}$$

Earnings per share, accounting for dilution, EUR
$$= \frac{\text{Profit before extraordinary items – taxes +/- minority interest}}{\text{adjusted number of shares (accounting for dilution)}}$$

Equity/share, EUR
$$= \frac{\text{shareholders' equity}}{\text{number of shares at the end of the year}}$$

Dividend/share, EUR
$$= \frac{\text{dividend for the period}}{\text{number of shares at the end of the year}}$$

Dividend/share, %
$$= \frac{\text{dividend per share}}{\text{earnings/share}} \times 100$$

Net cash flow from operations/share, EUR
$$= \frac{\text{net cash flow from operations}}{\text{average number of shares during the period}}$$

Net cash flow from operations/share accounting for dilution, EUR
$$= \frac{\text{net cash flow from operations}}{\text{adjusted number of shares (accounting for dilution)}}$$

Effective dividend yield, %
$$= \frac{\text{dividend/share}}{\text{share price at the end of the year}} \times 100$$

P/E multiple
$$= \frac{\text{share price at the end of the year}}{\text{earnings/share (exclusive of extraordinary items)}}$$

Market capitalisation = number of shares at the end of the year x share price at the end of the year

Average share price
$$= \frac{\text{total value of share turnover during the year}}{\text{number of shares traded during the period}}$$

Board of Directors

Chairman
Kari O. Sohlberg
b. 1940
M.Sc. (Econ.)

Chairman of the Board of Directors:
ADR-Haanpää Oy, Association for Promoting Voluntary National Defense of Finland, The Finnish Fair Corporation

Member of the Board of Directors:
G.W. Sohlberg Corporation, Varma Mutual Pension Insurance Company

Vice Chairman
Heikki Mairinoja
b. 1947
B.Sc. (Econ.), M.Sc. (Eng.)
President and CEO, G.W. Sohlberg Corporation

Member of the Board of Directors:
Ensto Oy, Kyro Corporation, Suominen Corporation

Matti Aura
b. 1943
Master of Laws
Managing Director, Finnish Port Association

Member of the Board of Directors:
Catella Property Consultants Ltd, Elisa Corporation, Gummerus Oy, Harjavalta Oy

Matti Kavetvuo
b. 1944
B.Sc. (Econ.), M.Sc (Eng.)

Chairman of the Board of Directors:
Metso Corporation, Suominen Corporation

Deputy Chairman of the Board of Directors:
Kesko Corporation

Member of the Board of Directors:
Alma Media Corporation, KCI Konecranes Plc., Marimekko Corporation, Lännen Tehtaat Corporation

Member of the Supervisory Board:
Finland Post Corporation

Teppo Taberman
b. 1944
M.Sc. (Econ.)

Member of the Board of Directors:
Ingman Group, Larox Corporation, Lemminkäinen Corporation, G.W. Sohlberg Corporation, Oy Rettig Ab, SKS-tekniikka Oy

Anni Vepsäläinen
b. 1963
M.Sc. (Ind. Eng.)
President, TeliaSonera Finland Oyj

Member of the Board of Directors:
Suomen Erillisverkot Oy

Corporation Management

Isto Hantila
President
M.Sc (Eng.)
b. 1958

In Perlos' employ since 2004

Tage Johansson
Executive Vice President,
Treasury and Corporate
Strategy
Master of Laws, eMBA
b. 1959

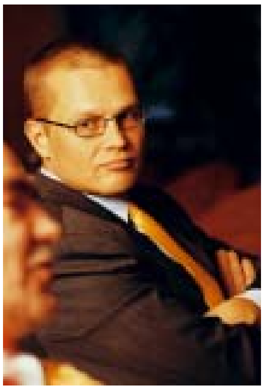
In Perlos' employ since 1998

Ismo Rautiainen
President, Telecommunications and Electronics
M.Sc. (Econ.), eMBA
b. 1952

In Perlos' employ since 2002

Kari Sainio
President, Pharma
M.Sc. (Econ.), M.Sc. (Tech.)
b. 1954

In Perlos' employ since 2002



Juha Torniainen
Executive Vice President, Finance and Information Management
M.Sc. (Econ.)
b. 1966

In Perlos' employ since 2000

Harri Vartiainen
Executive Vice President, Human Resources & Administration
B.Sc. (Eng.)
b. 1947

In Perlos' employ since 1995

Jari Laaninen
Director, Group Treasury and Investor Relations,
Secretary of the Management Board
M.Sc. (Econ.)
b. 1967

In Perlos' employ since 1999

Corporate Governance

Perlos Corporation's corporate governance and administrative procedures primarily comply with the guidelines on the administration of public limited companies which were laid down by the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers and published in February 1997. The statement on the review of the administration is included in the Auditors' Report on page 34.

Annual General Meeting

The Annual General Meeting is the company's highest decision-making body. Among other tasks, it annually confirms the company's income statement and balance sheet as well as decides on dividends and the election of Board members and auditors. Perlos' Annual General Meeting is convened by the company's Board of Directors. The Annual General Meeting must be held annually by the end of June.

Board of Directors

As specified in the Articles of Association, Perlos Corporation's Board of Directors includes six ordinary members who are elected by the Annual General Meeting. A member's term of office begins after the end of the Annual General Meeting at which he or she was elected, and continues to the end of the next Annual General Meeting. The members of the Board of Directors are presented on page 38.

The Board of Directors attends to the company's administration and sees to it that operations are organised appropriately. The Board of Directors deliberates on and takes decisions on issues that have a bearing on the Corporation's operations in principle and financially.

The task of Perlos Corporation's Board of Directors is to:

- decide on the corporate strategy
- confirm the corporate action plan and budget
- deliberate on and approve interim reports, the consolidated annual accounts and the Board's report
- confirm the corporate investment plan
- decide on individual investments, acquisitions or divestments and contingent liabilities that are strategically or financially significant
- approve the corporate financing policy
- confirm corporate level risk management and reporting procedures
- decide on bonus and incentive schemes for the corporate management
- decide on the corporate structure and organisation
- draft the dividends policy and assume responsibility for the trend in shareholder value
- appoint the company's President and decide on his perquisites
- decide on appointing a deputy for the President
- assume responsibility for all other such duties as have been stipulated for Boards of Directors in the Companies Act and elsewhere.

The Board of Directors convenes approximately 10 times a year and, if necessary, when called to convene by the Chairman. In 2003, the Board of Directors convened 16 times.

President

The Board of Directors elects a President for the company. The principal terms and conditions pertaining to his employment relationship are specified in writing in the President's agreement. The President attends to the operative management of the company in line with legislation as well as the instructions and mandate provided by the Board of Directors. The President is not a Board member. Timo Leinilä served as the company's President from 1997 to 2003. After Timo Leinilä requested, in November 2003, to be relieved of his duties, Isto Hantila became the company's new President on January 1, 2004. Isto Hantila is presented on page 40.

Audit

The Articles of Association specify that the company shall have one to two regular auditors. The regular auditor must be a corporation of independent public accountants that is authorised by the Central Chamber of Commerce. The regular auditor is elected at the Annual General Meeting. An auditor's term of office lasts until the end of the next Annual General Meeting.

The auditor elected by the Annual General Meeting is PricewaterhouseCoopers Oy, Authorised Public Accountants, with Kari Lydman, Authorised Public Accountant, acting as chief auditor.

Insider regulations

As from March 1, 2000, Perlos has complied with insider regulations that are in line with the Guidelines for Insiders issued for listed companies by Helsinki Exchanges. In some respects, the company's own insider regulations are more detailed than Helsinki Exchanges' Guidelines for Insiders.

In accordance with Perlos' insider regulations, three main rules apply to permanent insiders when trading securities issued by Perlos and derivatives entitling the holder to Perlos shares. Firstly, trading without express permission is permitted only in the four-week period that begins on the trading day following the publication of the annual accounts or an interim report ("open window"). Secondly, trading may be permitted outside of the open window if permission to do so is granted by the person responsible for Perlos' insiders. Permission may be granted in exceptional situations in which it can be assured that the person in question does not have insider information. Thirdly, trading is always prohibited in the 14 days preceding the release of the annual accounts or an interim report ("closed window") and on the days on which annual accounts or interim reports are released.

According to the Securities Market Act, the company's Statutory Insiders are the members and secretary of the Board of Directors, the President and the chief auditor.

In addition to the Statutory Insiders, the group of permanent insiders includes salaried employees of the Corporation who regularly through their work obtain insider information concerning the Corporation (Insiders by Definition). The Insiders by Definition in Perlos Corporation include the members of the Corporation's management board and some of the personnel from the finance, treasury and communications units.

The updated holdings of insiders are available for inspection at the office of Finnish Central Securities Depository Ltd in Helsinki. The address is Fabianinkatu 14, ground floor (HEX Gate).

Share option programme for key employees

At the end of 2003, Perlos had four share option programmes which it granted as bond loans with warrants under the company's incentive scheme for its management and key personnel.

Perlos' extraordinary general meeting held on May 15, 1997, decided to issue the first bond loan with warrants (the 1997 bond loan), and a decision to issue the second (the 1998 bond loan), was taken on October 21, 1998. The 1997 bond loan amounts to EUR 820 757 08 and the 1998 bond loan to EUR 20 182 55. The loans were interest-free and they were repaid in one lot on June 9, 2000. The bonds carry A, B and C warrants. The warrants entitle the bearers to subscribe for a total of 3 750 000 new shares during the period from April 1, 2000 to April 1, 2004. The original share subscription price is EUR 2.24 for the first loan and EUR 4.48 for the second loan. The subscription price will be reduced annually in accordance with the dividends paid. At the end of 2003, the dividend-corrected subscription prices were EUR 1.46 and EUR 3.70.

Perlos' extraordinary general meeting held on June 3, 1999, decided to issue a bond loan with warrants directed at the company's management (the 1999 bond loan). The loan amounted to EUR 740 026 88. The loan was interest-free and was repaid in one lot on July 2, 2001. The A, B and C warrants attached to the bonds entitle the bearers to subscribe for a total of 1 100 000 new shares during the period from June 1, 2001, to June 30, 2005. The original share subscription price is EUR 14.66 for the A warrant, EUR 35.97 for the B warrant, and EUR 10.10 for the C warrant. The subscription price will be reduced annually in accordance with the dividends paid. By the end of 2003, the dividend-corrected subscription prices were EUR 13.88 for the A warrant, EUR 35.29 for the B warrant, and EUR 9.62 for the C warrant.

Perlos Corporation's Annual General Meeting on April 11, 2002 resolved, as proposed by the Board of Directors, to issue a maximum of 750 000 option rights to key persons in the Perlos Corporation Group. The A, B and C warrants attached to the option rights entitle the bearers to subscribe for a total of 750 000 new shares during the period from April 1, 2005, to April 30, 2008. In accordance with the terms and conditions of the option programme, the subscription price of the shares to be subscribed on the basis of warrants is the average market price of the Perlos Corporation share weighted in accordance with share turnover on Helsinki Exchanges in the August of each year plus 14 per cent. The subscription price of the A warrant was determined as EUR 5.25 in August 2002 and that of the B warrant was determined as EUR 5.56 in August 2003. The subscription price of the C warrant will be determined in August 2004. The subscription price will be reduced on the record date of each payment of dividends with the amount of dividends paid after the period of determining the subscription price and before the subscription for shares. However, the subscription price will always be at least the nominal value of the share. At the end of 2003, the dividend-corrected subscription price with the A warrant was EUR 5.03.

At the end of 2003, a total of 67 key employees and members of the Board of Directors were covered by the share option programmes.

Management's shareholding

The members of the company's Board of Directors and the President owned a total of 30 840 shares at the end of 2003, representing 0.06 % of the share capital and votes. As the situation stood at the end of 2003, the members of the company's Board of Directors and the President can subscribe for a maximum of 177 000 shares in the company on the basis of the 1997 bond loan, or 0.31 % of the company's shares and votes (assuming that all shares are subscribed for on the basis of the bond loans with warrants).

The shares subscribed for on the basis of the options, remaining subscriptions and their dilution effect in relation to the shares outstanding (53 345 586 shares) on December 31, 2003:

	Shares subscribed	Remaining	Dilution effect
Bond loans 1997 and 1998	3 004 740	745 260	1.4 %
Bond loan 1999	0	1 100 000	2.1 %
Option programme 2002	0	750 000	1.4 %
Total	3 004 740	2 595 260	4.9 %

Risk Management

Perlos' risk management aims at ensuring that the company attains its business goals. Risk management supports business operations and generates added value for the managers in charge of them. Risk management is based on Perlos' key business goals and processes.

Risk identification, reporting and management are improved continuously as part of the systematic development of Perlos' functions. Risk management emphasises cost-efficient administration and the regular re-evaluation of the major risks. Risk management is based on the documentation of Perlos' business goals and the monitoring of related changes. Steps are taken to identify risks that threaten to undermine the objectives, and such risks are monitored and evaluated continuously. Perlos regularly carries out audits focusing on accident prevention in its production facilities with the help of external experts.

Management of financial risks

In the case of financial risks, Perlos strives to limit known risks primarily by way of its business operations. The remaining risks are hedged in line with the policy approved by the Board of Directors.

Perlos has made efforts to restrict its funding-related refinancing risks by staggering the repayment of its non-current loan portfolio into different maturities. The syndicated loan worth EUR 75 million made in 1999 and the syndicated four-year loans worth EUR 55 million made in 2002 form the bulk of Perlos' non-current loans. The annual amortisation of the non-current loans will amount to EUR 15–30 million over the next four years. For an eventual need of additional funding, Perlos had, at the end of 2003, at its disposal committed credit facilities amounting to EUR 132.5 million and a domestic commercial paper programme worth EUR 100 million.

The optimisation of net financial expenses is emphasised in the management of interest rate risks. Hedging actions are based on an analysis of the development of the global economy and its anticipated effect on interest rates and the company's earnings performance. The key risk benchmark is the average reset period of the interest rates of the loan portfolio, which was 14.5 months at the end of 2003.

Perlos primarily manages its foreign exchange exposure by way of its business operations. The procurement of production inputs and sales of products are primarily carried out in the local currencies of the Corporation's companies. Exceptions are components obtained from Japanese suppliers, where the Japanese Yen is the agreed currency of purchase. Perlos primarily uses currency forwards in the hedging of its currency position. Derivatives are used solely for hedging purposes. Funding is primarily performed in the home currency. At the turn of the year, almost all of the Corporation's current and non-current interest-bearing loans were denominated in the euro.

Information on Perlos' Shares and Shareholders

General

Perlos Corporation is a public limited company as defined in Finnish legislation. The company was registered in the Trade Register, which is maintained by the National Board of Patents and Registration of Finland, on October 22, 1996.

Shares and share capital

Perlos Corporation's shares are quoted on the Main List of Helsinki Exchanges (POS1V) and they are entered in the book-entry system maintained by Finnish Central Securities Depository Ltd. The round-lot of Perlos' shares is 50 shares.

According to the Articles of Association, the company's minimum share capital shall be EUR 30 600 000 and its maximum share capital EUR 122 400 000, within which limits the share capital may be increased or decreased without amending the Articles of Association. The company's registered share capital was EUR 32 007 351.60 or 53 345 586 shares, on December 31, 2003. Each share has a nominal value of EUR 0.60. Each share entitles the bearer to one vote at a general meeting of shareholders. All shares entitle the bearer to a dividend for the financial period that began on January 1, 2003.

Share quotation, price trend and turnover

The share price was EUR 6.33 at the end of the year, or 5 % higher than at the end of 2002. The highest price of the company's share in trading was EUR 6.92 and the lowest was EUR 2.96. During the financial year, the turnover of Perlos' shares on Helsinki Exchanges amounted to EUR 192.7 million and 38.7 million shares, which represents 74 % of the shares outstanding. The company's market capitalisation on the last day of the year, as calculated from the closing quotation of EUR 6.33, was EUR 331 million.

Options and changes in the share capital

The A, B and C warrants (options) attached to Perlos Corporation's bond loans with warrants issued in 1997 and 1998 and the A warrants attached to the bond loan with warrants issued in 1999 are listed on the Main List of Helsinki Exchanges. By the end of the financial year, 3 004 740 shares had been subscribed for with the warrants attached to the 1997 bond loan, of which 1 107 300 shares were subscribed for during 2003. As a result of these subscriptions, Perlos' share capital rose by a total of EUR 664 380 during the financial year. No shares were subscribed for with the A warrants attached to the 1998 bond loan in 2003. By the end of the review period, 45 000 shares had been subscribed for with these warrants. No shares were subscribed for with the warrants attached to the 1999 and 2002 share option programmes.

At the Annual General Meeting held on April 14, 2003, the Board of Directors was authorised to decide on: (a) the increase of the company's share capital by a maximum of EUR 6 287 890.20 by issuing new shares, by issuing option rights or by taking out a convertible loan; (b) the acquisition of a maximum of 2 619 954 own shares of the company; and (c) the conveyance of a maximum of 2 619 954 own shares in the company's possession.

Composition of the Board of Directors and the auditor

At Perlos Corporation's Annual General Meeting on April 14, 2003, Kari O. Sohlberg, Heikki Mairinoja, Matti Aura, Anni Vepsäläinen, Matti Kavetvuo and Teppo Taberman were elected as members of the Board of Directors. Kari O. Sohlberg was elected as chairman of the Board. Heikki Mairinoja was elected vice chairman of the Board at the organisation meeting held after the Annual General Meeting.

PricewaterhouseCoopers Oy, Authorised Public Accountants, was elected as the company's auditor, with Kari Lydman, Authorised Public Accountant, as chief auditor.

Share capital and shares, December 31

	2003	2002	2001	2000	1999
Share capital and shares, Dec. 31	32 007	31 439	31 603	31 159	30 732
Share capital, EUR 1 000	53 346	52 399	52 672	51 932	51 220
Shares held by the company, 1 000	1 168	1 168	914	-	-
Number of registered shareholders 1)	14 160	13 548	12 603	11 367	9 094

1) in the case of nominee-registered shares, each nominee-register custodian has been counted as one registered shareholder

Largest shareholders as of December 31, 2003

		Number of shares and votes	% of shares and votes
1	G.W. Sohlberg Corporation	18 370 000	34.44
2	Foreign Shareholders	7 104 625	13.32
3	Perlos Corporation	1 168 300	2.19
4	Varma-Sampo Mutual Pension Insurance Company	1 120 674	2.10
5	Finnish Government Pension Fund	1 000 000	1.87
6	FIM Fenno Investment Fund	519 550	0.97
7	Gyllenberg Finlandia Investment Fund	500 000	0.94
8	Sohlberg P and S foundation	491 250	0.92
9	Tapiola Mutual Insurance Company	444 000	0.83
10	The Local Government Pensions Institution	435 400	0.82
11	Tapiola Mutual Pension Insurance Company	406 400	0.76
12	FIM Forte Investment Fund	386 400	0.72
13	OP-Delta Investment Fund	382 450	0.72
14	Suomi Mutual Life Insurance Company	330 000	0.62
15	Nordea Nordic Small Cap Investment Fund	321 170	0.60
16	OP-Suomi Kasvu Investment Fund	316 600	0.59
17	Ilmarinen Mutual Pension Insurance Company	292 980	0.55
18	The Finnish National Fund for Research and Development (Sitra)	279 265	0.52
19	Nordea Fennia Investment Fund	278 730	0.52
20	Tapiola Mutual Life Insurance Company	256 300	0.48
	Total	**34 404 094**	**64.49**
	Other shareholders	18 941 492	35.51
	Total number of shares	**53 345 586**	**100.00**

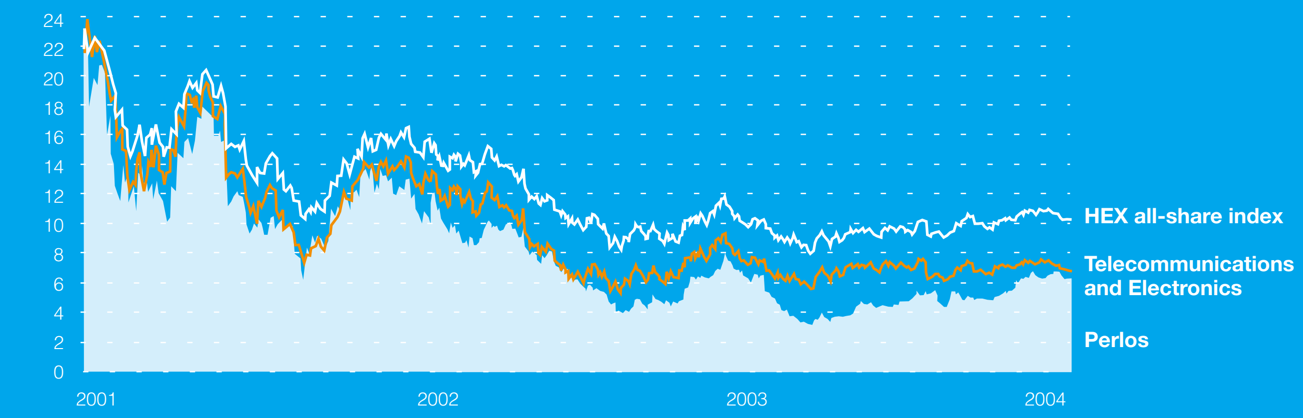
Shareholders by group as of December 31, 2003

	Number of shares and votes	% of shares and votes	Number of shareholders	% of shareholders
Companies	22 720 556	42.59	1 056	7.46
Financial and insurance institutions	7 962 471	14.93	115	0.81
Public sector organisations	5 057 742	9.48	57	0.40
Non-profit organisations	2 560 259	4.80	130	0.92
Households	7 939 933	14.88	12 721	89.91
Foreign shareholders	7 104 625	13.32	81	0.49
Total	**53 345 586**	**100.00**	**14 160**	**100.00**

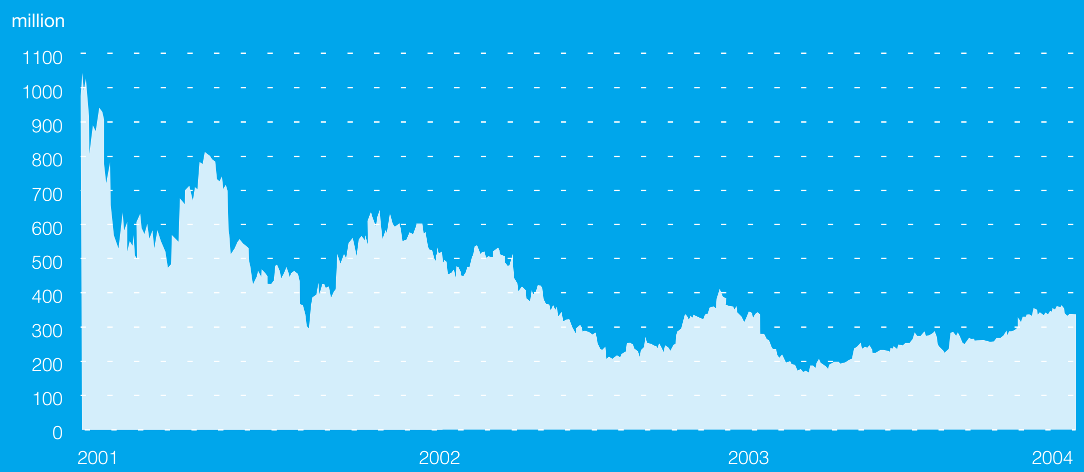
Breakdown of share ownership as of December 31, 2003

Number of shares	Number of shareholders	% of shareholders	Number of shares and votes	% of shares and votes
1-100	4 750	33.55	336 993	0.63
101-500	5 677	40.09	1 559 784	2.92
501-5 000	3 303	23.33	4 778 561	8.96
5 001-100 000	378	2.67	7 727 148	14.49
100 001-500 000	45	0.32	10 575 653	19.83
500 001-	7	0.05	28 367 447	53.18
Total	**14 160**	**100.00**	**53 345 586**	**100.00**

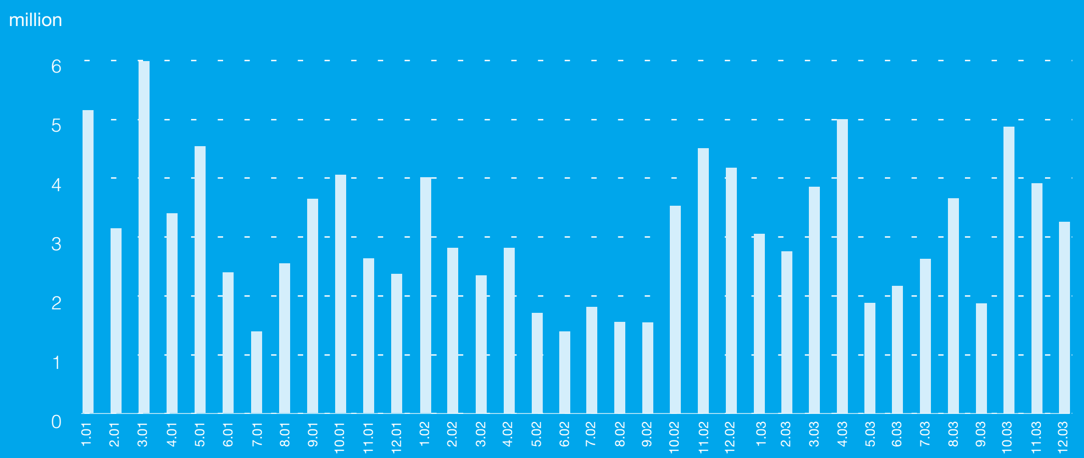
Perlos' share performance and relative indices of reference, EUR



Perlos' market capitalisation, EUR million



Perlos' share turnover, number of shares (million)



Source: Helsinki Exchanges

Analyst Coverage

The brokerage firms listed below actively monitor Perlos Corporation as an investment. Perlos Corporation can not be held responsible for the ratings or recommendations published by them.

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