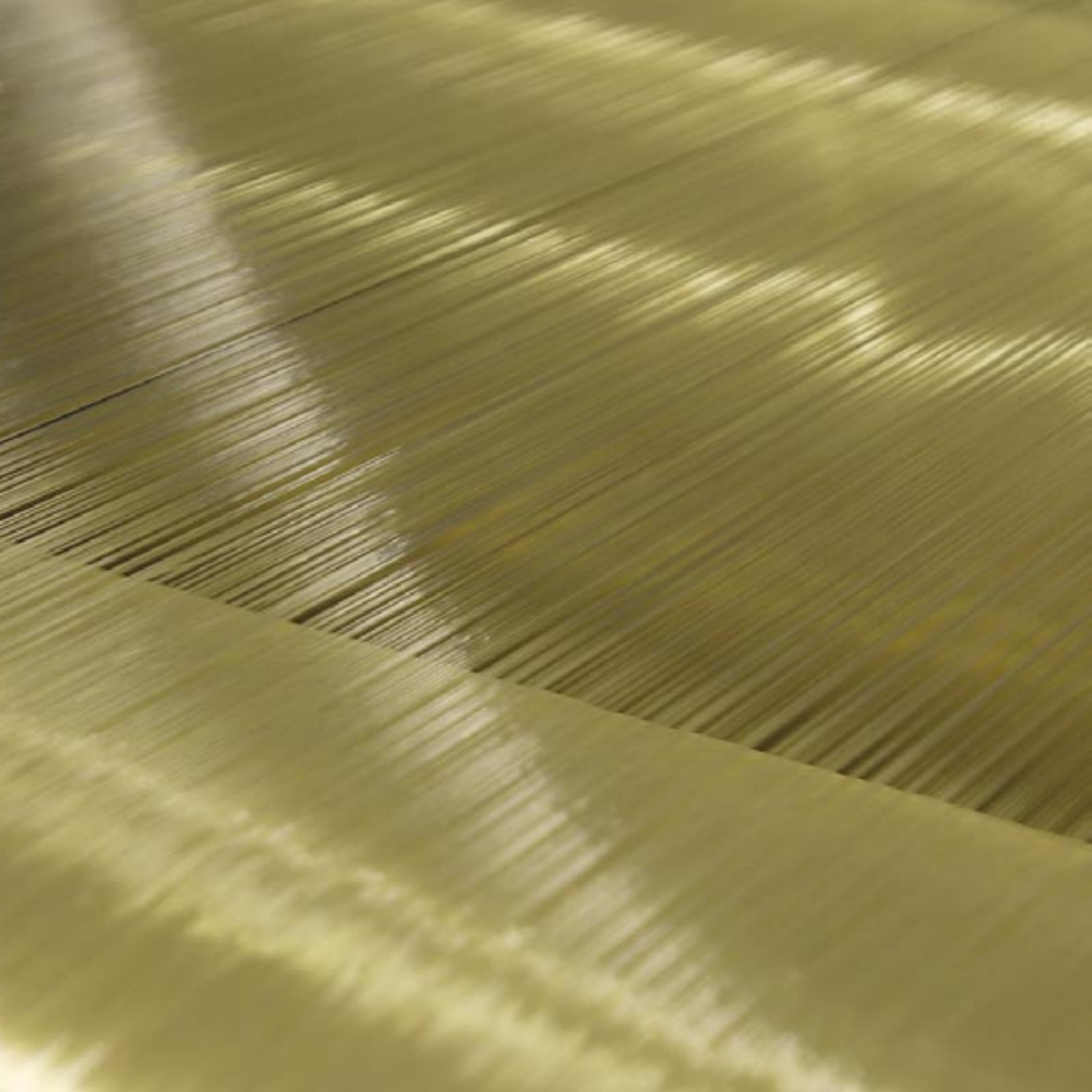




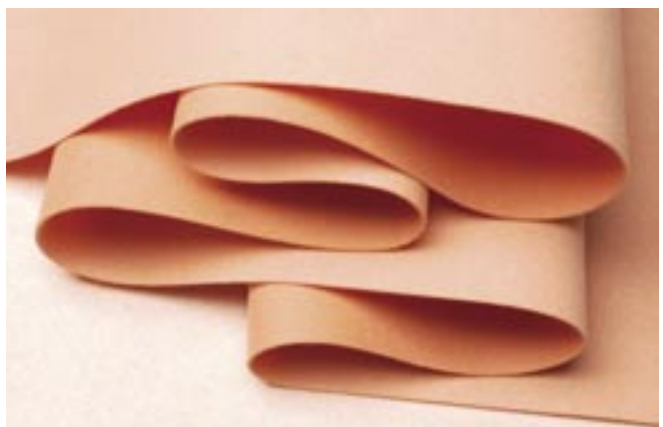
ANNUAL REPORT 2003



COMPANY PROFILE

Tamfelt is one of the world's leading suppliers of technical textiles. The company's main products are paper machine clothing and filter fabrics. In addition to the domestic mills in Tampere and Juankoski, the Group has plants in Portugal, Brazil and China.

Tamfelt is one of the pioneers of Finnish industry. The company was founded in 1797 and the manufacturing of papermakers' felts started in 1882. Today Tamfelt is part of the state-of-the-art Finnish forest cluster.



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The Annual Report is a translation from the original Finnish text.



STOCKHOLDER INFORMATION

ANNUAL GENERAL MEETING

The Annual General Meeting of Tamfelt Corp. will be held at 4.00 p.m. on Thursday, March 18, 2004 at Group Headquarters, Yrittäjänkatu 21, Tampere, Finland.

The right to attend the Annual General Meeting is held by stockholders entered in the register of the Finnish Central Securities Depository on March 8, 2004 at the latest. A stockholder wishing to attend the Annual General Meeting should notify the company by 4.00 p.m. on Tuesday, March 16, 2004. The notifications are requested either by letter addressed to Tamfelt Corp., Stockholder Register, PO Box 427, 33101 Tampere, Finland by telephone +358 3 363 9111/347, or by e-mail to anu.kuukkanen@tamfelt.fi. Proxies, if any, should be mailed at the same time.

The financial records are available at the Headquarters for inspection for a week before the Annual General Meeting.

DIVIDEND AND SHARES

The Board of Directors proposes to the Annual General Meeting that a dividend of 0.48 euro be paid on a common share and 0.50 euro on a preferred share and a bonus dividend of 0.45 euro per share for both common and preferred stock for the fiscal year 2003. The dividend record date is Tuesday, March 23 and the dividend will be paid on Tuesday, March 30, 2004, as proposed by the Board of Directors.

Stockholders are entitled to convert common shares into preferred shares on the terms specified in the Articles of Association.

FINANCIAL REPORTS IN 2004

In addition to Financial Account Statement Bulletin and Annual Report, Tamfelt will release three Interim Reports:

- January-March April 20, 2004
- January-June August 10, 2004
- January-September October 26, 2004

AVAILABILITY OF FINANCIAL REPORTS

The financial reports will be printed in Finnish, Swedish and English. They will also be available on Tamfelt's website at <http://www.tamfelt.fi> in Finnish and English.

A copy of the printed Annual Report will be sent to each stockholder. The Interim Reports will be available in photocopies. All financial reports can be ordered from:

Tamfelt Corp./Anu Kuukkanen
PO Box 427, FI-33101 Tampere
Tel. +358 3 363 9111/347
Fax +358 3 356 0120
E-mail: anu.kuukkanen@tamfelt.fi

CHANGE OF ADDRESS

Stockholders are requested to notify the book-entry securities register of any change of address; the company will be informed accordingly.

INVESTOR RELATIONS

Tamfelt's IR policy has been designed to provide correct and real-time information to all market participants on a regular and equal basis.

Tamfelt observes a two-week silent period prior to the announcement of the company's interim or full-year results, during which the company's representatives refrain from all comment regarding financial accounts.

Any questions about Tamfelt's business activities can be addressed to:

Risto Hautamäki, President & CEO
Tel. +358 3 363 9200
Fax +358 3 363 9209
E-mail: risto.hautamaki@tamfelt.fi

Jyrki Nuutila, Executive Vice President
Tel. +358 3 363 9210
Fax +358 3 363 9209
E-mail: jyrki.nuutila@tamfelt.fi



YEAR 2003 IN BRIEF

TAMFELT IN 2003

The tough business conditions of the first half of 2003 forced the company to readjustments. Towards the end of the year the profit trend improved and productivity increased in all product groups.

NET SALES AND OPERATING INCOME

Tamfelt's consolidated net sales were 125.7 million euro, 0.4% down from the previous year. Operating income was 12.6 million euro, or 10.0% of the net sales. In addition to the business conditions, the Group's financial performance was affected by the weakening dollar rate against euro.

BUSINESS ENVIRONMENT

The forest industry, Tamfelt's biggest customer segment, faced tough market conditions for the third successive year. Operation rates in the paper and board industries were low throughout the year, and production has been curtailed in most countries. On the other hand, output volumes grew in mining, which is another important customer industry for Tamfelt.

START-UP SUPPLIER TO THE WORLD'S BIGGEST NEWSPRINT MACHINE

The world's biggest newsprint machine, Stora Enso Langerbrugge PM4, came on stream in May 2003. It started up with Tamfelt's forming fabrics, and also Tamfelt's dryer fabrics were part of the delivery. The machine width is 11.1 metres.

EXTRAORDINARY GENERAL MEETING

Tamfelt's extraordinary general meeting on December 12, 2003 made a resolution to pay an extra dividend for the financial year 2002.

KEY FIGURES

	2003	2002	Change
Net sales, M €	125.7	126.2	-0.4 %
Income before taxes, M €	12.6	17.0	-25.9 %
Gross investments, M €	3.4	16.4	-79.3 %
Earnings/share, €	0.53	0.72	-26.4 %
Equity/share, €	5.09	6.16	-17.4 %
Dividend/share common, €	0.93	1.61	-
Dividend/share preferred, €	0.95	1.65	-
Return on net assets, %	11.7	14.8	-
Equity/Asset ratio, %	67.8	74.3	-
Personnel, Dec. 31	1,330	1,388	-4.2 %

BASIC INFORMATION ON SHARES

Tamfelt shares are quoted on the main list of the Helsinki Exchanges in 'Other industry'.

Trading code	
common share	TAFKS
preferred share	TAFPS
Trading lot	50 shares for both series
Closing price 2003	
common share	16.80 €
preferred share	13.90 €
Taxation value 2003	
common share	10.50 €
preferred share	9.66 €
Number of votes	
common share	20 votes
preferred share	1 vote



TAMFELT VALUES

Values sum up the company. The values of our established and dynamic company guide our ways to behave, work, and treat customers, colleagues and other interest groups.

SATISFIED CUSTOMER

We supply competitive products and services and are a reliable supplier in every situation. The quality of our products, services and operations meets the needs and expectations of our customers, including internal customers.

GOOD PROFITABILITY

Only a profitable company can make progress and be capable of meeting the expectations of its customers, workforce, owners and other stakeholders. To be profitable, we need to use our resources efficiently and effectively.

OPENNESS AND FAIRNESS

We abide by all applicable regulations and agreements and internally agreed rules. We are open and honest in information and communication – giving and taking feedback. We share our goals. We respect and recognize each other as equal partners. We pursue the principle of fairness.

COMPETENCE AND WORKING ABILITY

We recognize our core competences and continue to enhance our skills. We do our best to create an overall atmosphere which encourages people to learn, cooperate and rotate jobs. All employees are obliged to maintain their job skills and empowered to improve and extend their know-how. We will create a safe working environment. We support our personnel in maintaining and improving their physical and intellectual working capacity and well-being throughout their career.

SUSTAINABLE DEVELOPMENT

We ensure that our operations meet the principles of sustainable development.



Jukka Vesa, Labor Relations Manager, and Soile Kumpulainen, worker at filter fabric department.

FOCUSED PROGRESS

VISION

Tamfelt is globally known as a reliable, innovative and competent supplier of technical textiles. The company's vision is being realized by investing in customer service, human resources, quality, efficient machinery and productivity.

MISSION

The Tamfelt Group's mission is to develop, manufacture and sell paper machine clothing, filter fabrics and other technical textiles and related products and services designed to ensure improved competitiveness for the customer and profitable operation of the Group.

TARGET AND STRATEGIES

Tamfelt's business is focused on market leaders in the paper, board, pulp and mining industries.

Tamfelt's target is an annual internal growth of over 7%, at the same time maintaining good profitability and a high equity/assets ratio.

This will be achieved through innovative R&D, professional customer service and investments in new machinery, equipment and technology. The additional capacity will be used to strengthen the company's position in the domestic European market, but also increasingly in North America and Asia.

By implementing these strategies, Tamfelt will consolidate its position as a key supplier to its major customers.

SUCCESS FACTORS

Tamfelt's success factors include:

- operation as part of the highly appreciated Finnish forest cluster;
- cooperation with customers, machine manufacturers, research institutes and universities;
- comprehensive technical customer service;
- competent personnel;
- active product development;
- technically advanced machinery.



DIVIDEND POLICY

At least 50% of Tamfelt's earnings per share are distributed as dividends provided that this will not jeopardize the company's financial position or development. In the past few years, Tamfelt has followed an active dividend policy.

BOARD OF DIRECTORS



Mikael von Frenckell, Axel Cedercreutz, Martin Lilius, Jouko Oksanen, Martti Karttunen

MIKAEL VON FRENCKELL, born in 1947

Chairman of the Board.

M.Soc.Sc.

Partner, Sponsor Capital Oy.

Tamfelt Corp.: Deputy member of the Board 1979–1983.

Member of the Board since 1983. Deputy Chairman 1990–1995. Chairman since 1995.

Term expiring 2005.

Previous track record: Vice Managing Director and member of Executive Committee of the Union Bank of Finland (1993–1995), Member of the Board of the Union Bank of Finland (1990–1993), Vice Managing Director, Sponsor Oy (1985–1990).

Chairman of Sponsor Capital Oy and Waldemar von Frenckell Foundation.

Vice Chairman of Fiskars Corporation.

Member of the Board of Tamro Corporation.

Member of the Supervisory Board of Sampo Life Insurance Company Limited.

Holds 100,000 common and 100,000 preferred Tamfelt shares.

AXEL CEDERCREUTZ, born in 1939

Deputy Chairman.

M.Sc. (Eng.). D.Sc. (Tech.) (h.c.).

Swedish consul in Tampere.

Tamfelt Corp.: Member of the Board since 1995.

Deputy Chairman since 1995.

Term expiring 2005.

Previous track record: President of Tamfelt Corp. (1986–1995), Executive Vice President of Tamfelt Corp. (1983–1985).

Holds 265,802 common and 59,306 preferred Tamfelt shares.

MARTIN LILIUS, born in 1947

M.Sc. (Eng.).

Senior Consultant at Management Systems Oy.

Tamfelt Corp.: Deputy member of the Board 1986–1994.

Member of the Board since 1994.

Term expiring 2004.

Previous track record: private entrepreneur (1994–1999), Managing Director of Powerpush Oy (1988–1994).

Member of the Board of the Swedish Assembly of Finland and Tamfelt Properties.

Holds 2,798 common and 10 preferred Tamfelt shares.

JOUKO OKSANEN, born in 1951

Chief Financial Officer of Varma Mutual Pension Insurance Company.

M.Sc. (Econ.).

Tamfelt Corp.: Member of the Board since 1995.

Term expiring 2004.

Previous track record: Chief Financial Officer of Fazer Musiikki Oy (1984–1990), Chief Financial Officer of Oy EMI Finland Ab (1980–1984).

Chairman of F-Musiikki Oy and F-Kustannus Oy.

Vice Chairman of the Finnish Diabetes Research Society and Arek Oy.

Member of the Board of Ahlström Capital Oy and

Vasa-Sijoituskiinteistö Oy.

Holds 400 common and 400 preferred Tamfelt shares.

MARTTI KARTTUNEN, born in 1948

Vice President, Quality and Environment, Metso Paper, Inc.

M.Sc. (Eng.).

Tamfelt Corp.: Member of the Board since 2001.

Term expiring 2005.

Previous track record: Metso Paper, Inc., Paper Processing Machinery, Head of product group.

(1994–2003), Managing Director of Wärtsilä Diesel Oy (1990–1994).

Member of the Board of Allimand S.A. and Tampere University of Technology.

Holds no Tamfelt shares.

Shares held on December 31, 2003.



REVIEW BY THE PRESIDENT

Dear Reader,

In 2003, the market for forest products remained dull and the U.S. dollar declined heavily. For the second year running, Tamfelt had to put up with net sales that failed to grow as expected. Besides, the European demand for paper machine clothing decreased, intensifying competition for orders. When it became evident in the early year that low demand will persist and profitability decline, we cut back on investments and launched a cost-cutting program. Layoffs and terminations of employments and fixed-term contracts could not be avoided. As a consequence of these measures we managed an upswing in the company's cash flow. Streamlined production processes helped improve our productivity towards the end of the year. In fact, the two last quarters showed an operating income better than the corresponding periods of 2002. I am confident that the favorable trend will continue in 2004. The Group's net sales of 125.7 million euro were 0.4% down from the previous year. Our operating income amounted to 12.6 million euro and net income to 9.1 million euro. Earnings/share were 0.53 euro, which is 0.19 euro down from the year before.

Market situation

We were satisfied with our delivery volumes to the forest industry. In particular, the success of our products for the wire and press sections of paper machines exceeded expectations. The sales of filter fabrics to the mining industry remained at the level of the previous year. The market for color and precious metals developed well. So far, however, this development failed to translate into customer investments or boost demand for our mining industry products. Overall, the demand for Tamfelt's products picked up towards the end of the year, which provides a positive outlook for the current year. The Asian market and China, in particular, posed a challenge to Tamfelt in 2003. Many of the fabric suppliers operating on the market benefited from a devalued U.S. dollar, and we were not always able to respond to their competitive edge. Around half of the new capacity to be built for the forest industry in the next few years will be located in China. Thus, Tamfelt's near-future efforts will focus on this growing market.

Share and dividend

Over the year, Tamfelt's common share gained 22.6%, whereas the rate of our preferred share fell 4.4%. Our common share followed the overall market trend and determined the surplus price on the voting stock. The increase of capital stock and doubling of share numbers, implemented in spring 2003, boosted the turnover of our two series of shares. Another proof of keen interest in our company is the 30-% increase in the number of shareholders over the year. The forthcoming change in dividend taxation in 2005 prompted the decision to pay dividends in spring 2003 in excess of the amount stated in Tamfelt's dividend policy and an extra dividend in December 2003. The total distributed dividend amounted to 29.3 million euro. The Board of Directors proposal for a dividend distribution in spring 2004 will practically eliminate the accumulated tax surplus. Tamfelt's equity to assets ratio was 67.8% at the end of the year. The dividend to be paid in spring will reduce the ratio by a few percentage points. Our financial position will remain good and enable investments or other strategic measures.

New recommendation improves transparency

A new recommendation for corporate governance and control systems of listed companies will enter into force in July 2004. We have rewritten the chapter on corporate governance in this Annual Report accordingly. We also strive to amend our Articles of Association by a decision of the Annual General Meeting in line with this recommendation. I hope that all this new real-time information will serve our investors and other interested public in improving the transparency of our company. At the same time we are in the process of introducing the IFRS standard for financial reporting. Our first financial statements based on this new standard will be prepared in 2005, and we work on comparative data already in the current year. We are sure these two future reforms will increase investor confidence in our company.

Short-term goals

The biggest short-term challenge for our company is to find our way back to the seven per cent growth track after two intermediate years. The net sales must grow at a profitable rate for the earnings per share to increase too. Increased earnings per share is a realistic goal. We must focus on the profitable growth of sales volumes. We must improve productivity beyond any cost level increase. Repeatability of quality must be further improved, and successful product application is one more key area. Cycle times must be cut to improve product accessibility and enhance sales prospects. In addition, we must continue a strict cost control in resource application to be able to cut fixed costs. Tamfelt's financial result has deteriorated over 40% in the last two years. The global economic outlook is still marked with uncertainty. However, our goal is to improve financial performance in 2004. I think the recent months have shown that the necessary conditions exist in which our well-motivated employees are able to reach these goals.

Thank you

My thanks are due to our personnel for their excellent achievements in 2003. The early year was not easy, with all the layoffs and readjustments. With joint efforts we succeeded in carrying through the austerity programs. We ended the year with a good capacity utilization rate and faith in future success. On behalf of our entire Group management I thank all our customers for the successful, though hard, year 2003. You have worked with us in intensive cooperation and relied on our competence. I am convinced that we will be able to earn your confidence also in future. Finally, I would like to thank our owners and security market stakeholders for their confidence and increasing interest in our company.

Our goal is to improve financial performance in 2004.

Risto Hautamäki, President & CEO

NEW RECOMMENDATION FOR CORPORATE GOVERNANCE GIVES MORE REAL-TIME INFORMATION ON LISTED COMPANIES

MIKAEL VON FRENCKELL AND PEKKA MERILAMPI

A new recommendation for corporate governance of publicly listed companies will enter into force in July 2004. The recommendation includes provisions for the board of directors, internal control, compensation and communication. The goal is to harmonize the practices of listed companies and improve transparency and the quality of disclosure.

The recommendation constitutes a part of the rules of the Helsinki Exchanges, and it will be applied on the "Comply or Explain" principle – a company deviating from the recommendation shall be obliged to explain why. The Chairman of the working group, **Attorney-at-law Pekka Merilampi** and **Tamfelt's Chairman of the Board Mikael von Frenckell** discussed the application of the new recommendation.

The previous recommendation for corporate governance had been issued in 1997. How acute was the need for a new recommendation and why was it needed?

Mikael von Frenckell: "I think the current recommendation from 1997 worked well. The brief given to the working group was to find out if there was a need for a review. As a result of its survey, the working group ended up in proposing a completely new recommendation."

Pekka Merilampi: "The need for a new recommendation arose for several reasons. The existing provisions were too wide and unspecific, and the general protection of investors had been strengthened in other countries. The unfortunate events that occurred in the United States prompted Americans to tighten their corresponding codes and recommendations. We in Finland had to keep track and prepare a new recommendation to companies listed at the Helsinki Exchanges."

It is a recommendation, not legislation. How well does self-regulation work at the corporate level?

Pekka Merilampi: "Better than ever, I think. But a publicly listed company must comply with the Companies Act, Securities Market Act, Audit Act and Accounting Act, each of which is a part of corporate governance. I was also a member of the Companies Act committee, and our proposition expressly states that no provisions for corporate governance are included in the Companies Act and corporate governance is left to be self-regulated by the Exchanges. And it would be difficult to lay these things down by law, as there are so many different companies.

It is important to communicate company information to investors. The goal of the recommendation is to increase the transparency of operation, harmonize procedures and the information provided to investors and shareholders and improve communication. The idea is to give investors real-time information to help them in investment decisions."

NON-COMPLIANCE MUST BE MOTIVATED

In what kind of situations are companies most likely to deviate from the recommendation?

Pekka Merilampi: "Overall, companies prefer to conform – they do not willingly deviate from the recommendation. Market analysts and business media may react promptly to any non-compliance. But I don't think companies should fear to deviate, if they can properly motivate their behavior. After all, listed companies vary from each other in their ownership structure, line of business, administration and volume. There are a few circumstances in which you might expect a company to deviate. For instance, the company's ownership may influence the dependency or independence of members of the Board of Directors. If the company has one major owner, this owner may find it impossible to elect an independent majority of Board members. There are two kinds of independence - independence from the company and independence from significant shareholders."

Mikael von Frenckell: "If we think of the boards of Finnish companies, a problem bigger than dependency is the fact that some members of the boards feel they are there to promote the interests of the party which they represent. However, each member is a representative of all the shareholders. All members should be independent, but independent of management rather than shareholders. There should be no interdependencies between management and board. One of the responsibilities of the board is to challenge management activities on a continuous but constructive basis.

Apart from independence from management, I think it is good if Board members have invested their own money in the company's shares. Financial interest helps them focus

on the right matters. Overall, a good board consists of members who represent owners as well as outsiders. In certain circumstances it is desirable that the board or a board committee should include a member who is "dependent", as it is defined in the new recommendation. An inspection committee should do well to include a member who has been involved in a particular issue, for instance as the company's financial director or as a consultant.

I think the working group which drafted the recommendation should have been assembled with higher regard for shareholder interest and hands-on experience of corporate governance."

Pekka Merilampi: "Another issue is the term of Board members. The recommendation says that members shall be elected for a term of one year. They can be re-elected, of course. The idea is that the board operates one year, after which its operation can be evaluated by the general meeting, that is, the company's shareholders.

Five members are enough on Tamfelt's board.



The third issue is board committees. The recommendation says that they can be established, but they are not compulsory. It is clear that if a company has a small board, it is less reasonable to establish many committees. It is better if the board deals with all company matters. When it comes to disclosure, information such as the president's salary tends to be a sensitive issue."

Mikael von Frenckell: "Companies live through different situations, and in the beginning they may feel greater need to deviate from the recommendation. Whether they have the courage to do so and justify their action, that is another matter. In a way, non-compliance will label the company.

In big companies, the recommendation does not change anything. But the risk is that some companies may read it too literally and do something which is not so sensible. For example, the recommendation says that the board shall comprise at least five members. This may be interpreted to mean that five is the minimum and it is better to elect six or seven. However, in my experience a small board is seldom a problem - big boards are. When a company faces difficulties, it is easier to deal with them in a small group. Someone, for example the Central Chamber of Commerce, should instruct companies in the interpretation of the new recommendation."

THE RECOMMENDATION ENCOURAGES DISCLOSURE

What do you expect will be the biggest changes required from a listed company?

Pekka Merilampi: "Major upheavals are unlikely. Some smaller listed companies may feel the pressure of added bureaucracy.

The biggest change is that companies now must provide information on themselves. They shall have a website on the Internet, and they shall disclose on the website all the information referred to in the recommendation. Thus, the new recommendation will encourage and harmonize communication and disclosure."

Mikael von Frenckell: "Companies provide information even now. The objective of the recommendation is to improve transparency and communication, which I think is good. A website containing real-time information to investors is a positive development."

There are many different companies listed on the Helsinki Exchanges. How does the new recommendation affect small listed companies?

Pekka Merilampi: "With a smaller organization, of course, the effort required to enforce the recommendation is greater than in big companies. Tamfelt is a good example of a company in which the importance of the new recommendation has been understood and investments have been made in its implementation."

Mikael von Frenckell: "I hope discretion will be exercised in applying the recommendation. For instance, board committees are a phenomenon of the great wide world - in global corporations large boards and committees are appropriate. We have such companies even in Finland, but most of our listed companies are small. It should be remembered that committee work has its disadvantages too - all board members may not feel the need to immerse themselves in the company's matters in the same way. Some may be lulled to think that the others will see to everything.

Nothing prevents a working group from determining over the year how and which parts of the new recommendation should be implemented in various companies. It should be applied on the basis of practical experience."

How would you assess the new corporate governance recommendation? Are you happy with the outcome?

Pekka Merilampi: "We have got positive feedback. I find the recommendation comprehensive and intelligible."

Mikael von Frenckell: "The recommendation should include an encouragement to consider whether it is worthwhile to apply all parts of it in every listed company. It should also contain a definition of the term 'listed company'.

Pekka Merilampi: "I hope the companies understand the purpose of the recommendation - that they see it as something issued in the interest of listed companies rather than as an administrative burden."

FIVE MEMBERS ARE ENOUGH ON TAMFELT'S BOARD

How does the new recommendation affect Tamfelt?

Mikael von Frenckell: "Tamfelt has a five-member board, which has functioned well. I see no reason to divide it into committees in this size of a company. It is better that every Board member is involved in all company affairs.

Our board will propose that the term of members should be altered into one year. Besides, we shall disclose the names of proposed members and auditors in the invitation to convene the annual general meeting of this spring.

We have added some of the recommended information already to the Annual Report 2003 and will focus on our Internet website later this year."

GROUP EXECUTIVE BOARD



Risto Hautamäki, Jyrki Nuutila, Esko Pessi, Seppo Holkko, Hannu Laine

RISTO HAUTAMÄKI, born in 1945

Chairman of the Group Executive Board,
President & CEO.

M.Sc. (Eng.)

In the company and as President since 1995.

Member of the Group Executive Board since 1995.

Previous track record: Managing Director of Valmet Paper Machinery, Inc. (1990–1994), Vice Managing Director of Valmet Paper Machinery, Inc. (1989–1990). Member of the Board of Wärtsilä Corporation.

Holds 10,000 common and 3,000 preferred Tamfelt shares and 60,000 shares of phantom stock.

JYRKI NUUTILA, born in 1948

Executive Vice President and Deputy CEO.

M.Sc. (Econ.)

In the company since 1986; Executive Vice President since 1992.

Member of the Group Executive Board since 1986.

Previous track record: Administrative Director of Tamfelt Corp. (1986–1992), Administrative Director of Huurre Oy (1982–1986).

Chairman of the Board of Alakoski Oy and Pirkanmaan Uusi Panimo – PUP Oy.

Member of the Board of the Federation of Finnish Textile and Clothing Industries.

Holds 32 common and 652 preferred Tamfelt shares and 40,000 shares of phantom stock.

ESKO PESSI, born in 1946

Executive Vice President, Filter Fabric Division.

M.Sc. (Eng.)

In the company since 1987; member of the Group Executive Board since 1987.

Previous track record: Deputy Manager at Rautaruukki Oy (1981–1987), Sales Manager at Rautaruukki Oy (1978–1981).

Holds 1,066 common and 506 preferred Tamfelt shares and 30,000 shares of phantom stock.

SEPPO HOLKKO, born in 1950

Executive Vice President, PMC Division (Paper Machine Clothing).

M.Sc. (Eng.)

In the company since 1998; member of the Group Executive Board since 1998.

Previous track record: Area Manager in Asia for Valmet Corporation (1995–1997), Sales Manager and Plant Manager of Valmet Paper Machinery, Inc. (1983–1995). Chairman of the Board of Paper-Machine Clothing Association (PCA) and Liqum Oy.

Member of the Advisory Board of Tampere Polytechnic, Pulp and Paper Technology.

Holds 832 common Tamfelt shares, 4,000 options and 40,000 shares of phantom stock.

HANNU LAINE, born in 1947

Executive Vice President, Corporate Planning; General Manager of Tamfelt-GMCC (Tianjin) Paper Machine Clothing Co., Ltd.

M.Sc. (Eng.)

In the company since 1979; member of the Group Executive Board since 1990.

Previous track record: President of Tamfelt Inc. (1995–2000), Executive Vice President, Corporate Planning, Tamfelt Corp. (1990–). Vice President of Tamfelt Inc. (1986).

Vice Chairman of Paper Machine Clothing Council.

Holds 896 preferred Tamfelt shares.



Jukka Huhtiniemi, Jarmo Järviö, Pirkko Järvelä, Jaakko Räsänen

JUKKA HUHTINIEMI, born in 1954

Technical Director.
M.Sc. (Eng.)
In the company since 1985; member of the Group Executive Board since 2000.
Previous track record: Production Manager of Tamfelt Corp. (1996–1999), Production Manager of Formtec Inc. (1990–1995).
Holds 266 preferred Tamfelt shares and 20,000 options.

PIRKKO JÄRVELÄ, born in 1947 *

Office Manager, clerical personnel representative, Tampere.
B.Sc. (Econ.)
In the company since 1983; member of the Group Executive Board since 2003.
Previous track record: Office Manager at Sestomarkkinat (1974–1980), Secretary to Stockmann Department Store Manager (1970–1973).
Member of the Board of Sukkamestarit Oy.
Holds 776 preferred Tamfelt shares.

JARMO JÄRVIÖ, born in 1955 *

Machine operator, chief shop steward of the Tampere Plant.
Vocational school: welder.
In the company since 1984; member of the Group Executive Board since 1997.
Holds no Tamfelt shares.

JAAKKO RÄSÄNEN, born in 1947 *

Chief shop steward at the Juankoski Plant.
Primary school.
In the company since 1978; member of the Group Executive Board since 1997.
Member of the Finnish Metalworkers' Union Council.
Holds 400 preferred Tamfelt shares.

*Personnel representatives.
Shares and options held on December 31, 2003.



Executive Board, December 12, 2003.



CORPORATE GOVERNANCE

Tamfelt's corporate governance is based on Finnish law and the company's Articles of Association. Tamfelt follows applicable parts of the recommendation provided by HEX Plc, the Central Chamber of Commerce, and the Confederation of Finnish Industry and Employers for the governance of listed companies, which takes effect on July 1, 2004.

Tamfelt's statutory governing bodies comprise the Annual General Meeting, Board of Directors, and President. Along with the President, the Executive Board is responsible for the operative management of the company.

ANNUAL GENERAL MEETING

Tamfelt's Annual General Meeting is the highest decision-making body of the Group. The Annual General Meeting, convened by the Board of Directors, shall be held before the end of each May. The Annual General Meeting shall discuss the matters prescribed by the Companies Act and the Articles of Association. The Articles of Association are found on Tamfelt's website on the Internet at [www.tamfelt.com/Investor Relations](http://www.tamfelt.com/InvestorRelations).

Summons to the Annual General Meeting shall be published once in a Finnish and once in a Swedish newspaper issued in Helsinki and once in a newspaper issued in Tampere, or else sent to the shareholders' addresses, as entered in the share register. The summons is also published on Tamfelt's website on the Internet.

BOARD OF DIRECTORS

The Board of Directors of Tamfelt Corp. shall consist of five to nine ordinary members and a maximum of three deputy members. In 2003 the Board consisted of five members. The members shall be elected by the Annual General Meeting. According to the Articles of Association, the term of the members shall expire at the closing of the second Annual General Meeting following their election. A person turned 70 years shall not be eligible for the Board.

The Board of Directors will propose to the Annual General Meeting 2004 that the term of its members should be altered into one year.

The Board of Directors constitutes a quorum whenever more than half of the ordinary members - of whom one shall be the Chairman or, if the Chairman is prevented from attending, the Deputy Chairman - are present.

The Board of Directors elects a Chairman and a Deputy

Chairman among its members. In 2003, the Board of Directors was chaired by Mikael von Frenckell, with Axel Cedercreutz as Deputy Chairman. The President & CEO is not a member of the Board, but serves as presenter in Board meetings. His Deputy acts as secretary in the meetings.

Resumés of the Directors including details of their financial interest are on page 8 of this Annual Report. The Board of Directors met ten times in 2003. Tamfelt has no board committees.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the management of the company and the proper organization of its activities. The Board of Directors also deals with matters of far-reaching consequence to the Group's activities or issues of principal importance. Such matters and issues include Group strategy, action plan, powers, long-term agreements, budgets, and major investments and their funding. The Board of Directors also has a supervising responsibility. The Board of Directors nominates the President & CEO, Executive Vice President and other Group executives and determines their remuneration and other terms.

PRESIDENT & CEO

The company's President & CEO is appointed and dismissed by the Board of Directors. The terms of the office have been specified in a written agreement approved by the Board of Directors. The President & CEO is in charge of the day-to-day management of the company in compliance with the instructions and orders of the Board of Directors. The company's pension scheme allows the President & CEO to retire on a pension at the age of 60 at the earliest. The company's President & CEO is Risto Hautamäki.

DEPUTY CEO

The company may have a Deputy CEO. Tamfelt's Executive Vice President Jyrki Nuutila serves as Deputy CEO.

EXECUTIVE BOARD

The Group's Executive Board is composed of the President & CEO, Executive Vice President & CFO, the Executive Vice Presidents of PMC Division, Filter Fabric Division, and Corporate Planning, the Technical Director, and three personnel representatives.

The Executive Board is chaired by the President & CEO. The Group Executive Board draws up strategic guidelines, action plans and budgets, prepares



investment plans and monitors their implementation, allocates resources, and decides on key functions, major operative issues, and supervises the enforcement of its decisions.

Major issues dealt with by the Executive Board in 2003 included the reorganization and streamlining of the Group's units and readjustments required by the market situation.

Resumés of the members of the Executive Board including details of their financial interest are on pages 12–13 of this Annual Report.

The Executive Board met 14 times in 2003.

REMUNERATION

According to the resolution of the Annual General Meeting 2003, the monthly remuneration to the Chairman of the Board is 2,200 euros and to the Deputy Chairman and ordinary members 1,200 euros. The Chairman is also paid 450 euros and the members 350 euros for each meeting and a travel allowance.

Decisions on management remuneration are made by the Board of Directors. Apart from monthly salary, the President & CEO and the members of the Executive Board can be paid bonuses, which are determined by the company's profit and management performance. The members of the Executive Board also hold stock options from the scheme of the year 2000 and from the 2002 phantom stock scheme. More information on these option schemes on pages 33–34.

INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

The Board of Directors is responsible for the management of the company and for the proper organization of its activities. The President & CEO together with the Group Executive Board are responsible for the lawfulness and reliability of the company's accounting, asset management and day-to-day management of the company's affairs.

The levels of Tamfelt's net sales and incoming orders are watched daily. The company's other financial trends are monitored by monthly reports on profit, balance sheet and cash flow for all Group units. Further focus areas are the development of key figures and major business events.

The Divisions manage their particular business risks, assisted by the Group management. The parent company is responsible for financial risk management.

Group risk insurance is effected by each unit according to principles established by the parent company.

Tamfelt has no special organization for internal audit function. Internal control is implemented through good planning and supervision in accordance with the given instructions. In subsidiaries, internal control is performed by supervision and also by inspection from the parent company. In certain cases outside experts can be employed for an internal audit.

INSIDERS

Tamfelt applies the Guidelines for Insiders issued by the Helsinki Exchanges. A list of the company's insiders is available on Tamfelt's website at [www.tamfelt.com/Investor Relations](http://www.tamfelt.com/Investor_Relations).

Statutory insiders include the Board of Directors, the President & CEO, the Executive Vice President and auditors. Insiders by definition include the members of the Group Executive Board, other senior managers, management secretaries and persons responsible for the company's accounting and communication. Besides, the company keeps project-specific registers of insiders. The company's Communication Department maintains the registers of insiders.

Information on the current holdings of insiders is available at HexGate in Helsinki (Fabianinkatu 14).

EXTERNAL AUDIT

The company has two auditors and two deputy auditors. All of them shall be authorized public accountants or public accountant companies. Their term expires at the closing of the next Annual General Meeting following their election.

The auditors examine the Group's and the parent company's accounts and bookkeeping and audit the parent company's administration. The Board of Directors hears the auditors at least once a year.

The Annual General Meeting 2003 elected Authorized Public Accountants Jari Paloniemi and Veikko Terho as auditors and Authorized Public Accountants Jukka Lahdenpää and Moore Stephens Rewinet Oy Ab as deputy auditors.

COMMUNICATION AND DISCLOSURE

Key information on corporate governance is published on Tamfelt's website. Current stock exchange releases are also available on the website immediately after publication.



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ANNUAL REPORT

MARKET SITUATION AND CHANGES IN BUSINESS ENVIRONMENT

Tamfelt Group's main products are paper machine clothing and filter fabrics used in the paper, board and pulp industries. Filter fabrics are also supplied to the mining and chemical industries and to waste water treatment plants and commercial laundries.

The forest industry is Tamfelt's biggest customer segment. The market for forest industry products was flat for the third consecutive year. Capacity utilization rates were low in the paper and board industry all year, and production has been curtailed in most countries. In China, however, growth continued at a robust rate. In the Finnish paper industry, machinery was utilized at less than 90%, and production grew approximately 2% from the previous year. Price levels declined for most paper and board grades. In the Finnish pulp manufacture, capacity utilization was somewhat higher than in the paper industry. The trend of pulp price in dollar terms was slightly rising throughout the year. In the mining industry, metal prices and output volumes have grown.

The consumption of clothing per paper ton has diminished. This can be partly attributed to increasingly durable and high-quality fabrics and partly to new machine technologies, which have diminished the consumption of fabrics. The price trend has not stood the pace of production cost increase.

Restructuring among customers as well as clothing suppliers has clarified the market situation in recent years and opened up new opportunities for Tamfelt to increase its presence. The PMC Division (Paper Machine Clothing) contributed as a major supplier for a number of paper machine start-ups and rebuilds worldwide. Tamfelt enjoys an established status as part of the Finnish forest cluster - an asset which has helped the company ensure growth despite the weak economic situation as a supplier to new sophisticated paper and board machines.

The PMC Division's deliveries of paper machine clothing to the forest industry remained at the level of 2002, however European market shares were slightly higher. Domestic deliveries grew in volume in spite of curtailments in the paper industry. In the European market, Tamfelt is a major supplier to paper machines over five meters wide and the market leader in forming fabrics engineered for SC paper machines and gap former positions.

The Filter Fabric Division is a world-class supplier to the mining and chemical industries, pulp mills and commercial laundries. Key market segments also include industrial and municipal waste water treatment and dry filtration. The Division has grown into the biggest supplier of filter fabrics to the forest industry worldwide, with over 20% of the market. Tamfelt supplied original equipment for the start-ups of a number of causticization plants. Filter fabric shipments to the pulp industry reached the record level of the year 2001 thanks to improved business conditions. Deliveries to the mining industry remained at the previous year's level.

SALES AND EARNINGS

The consolidated net sales were 125.7 million euro (down from 126.2). This was 0.4% lower than in 2002 and failed to correspond to the Group's long-term growth targets. The net sales of both the PMC Division and the Filter Fabric Division fell somewhat short of the year before. Foreign operations contributed 60% (down from 62) of the consolidated net sales. Net sales in dollars accounted for 17%.

The Group's operating profit was 12.6 million euro (down from 16.1), corresponding to 10.0% (12.7) of net sales. Consolidated income before extraordinary items was 12.6 million euro (17.0). Net income was 9.4 million euro (12.7). Return on net assets was 11.7% (14.8), return on equity 9.1% (11.2), and equity/assets ratio 67.8% (74.3). Earnings per share were 0.53 euro (0.72).

Group liquidity remained good throughout the year. On the balance sheet date, interest-bearing loans amounted to 13.1 million euro (6.9) and the book value of liquid assets to 13.2 million euro (10.1). The Group's net financial income totaled 0.0 million euro (0.9).

On its main market areas Tamfelt managed to increase its market share in a situation where global paper output volumes grew only slightly. A weaker dollar had a major impact on the company's export prices and profitability. Production was curtailed through readjustments in the early months of the year. In the second half of 2003, demand picked up somewhat, contributing to better profitability.

The net sales of Tamfelt's Chinese joint venture diminished in its third year of operation, and its performance was not yet profitable. The net sales of Tamfelt's North American subsidiaries were somewhat down in euro terms, though the sales of Finnish-made fabrics to a focus customer segment grew in the North American market. The sales volume and profitability of the Brazilian filter fabric operation improved clearly. Laundry felt supplies from Tamfelt's Portuguese subsidiary Fanafel grew further, whereas deliveries of dry filtration media shrank in the tough business environment prevailing in Western Europe. The investments launched at Fanafel in 2003 will allow volume growth and higher manufacturing volumes even for the needs of the Finnish filter fabric unit. Tamfelt's sewing operation will be moved from Finland to Fanafel in 2004.

Tamfelt's order backlog is good and order volumes are higher than in the corresponding period of 2003. The company has a number of spearhead articles, the production machinery is modern, and productivity has advanced to the extent that profitability is expected to improve as soon as business revives.

The parent company's net sales were 107.4 million euro (107.5). Operating income was 7.6 million euro (10.0) and net income before extraordinary items 7.7 million euro (17.9). The parent company's extraordinary items include group contribution from Tamfelt Kiinteistö Oy (Tamfelt Properties). Exports accounted for 53% (55) of the parent company's net sales.

STOCK

Average all-share index prices rose 4.4% on the Helsinki Exchanges. The HEX portfolio index rose 16.2%. Tamfelt's common share rose 22.6% from 13.70 euro to 16.80 euro, and preferred share fell 4.4% from 14.50 euro to 13.90 euro. Trading in Tamfelt stock on the Helsinki Exchanges totaled 36.3 million euro (20.6). Turnover in common shares was 5.8% (3.5) of the company's total common stock. Turnover in preferred shares was 21.7% (11.7) of the total preferred stock. No conversions were made from common to preferred shares in 2003.

Tamfelt's Annual General Meeting 2003 approved the Board of Directors proposal to raise the company's capital stock by a bonus issue, to increase the number of shares without raising the capital stock, and to amend the Articles of Association correspondingly. An extraordinary meeting of shareholders authorized the Board of Directors to decide on the acquisition and conveyance of the company's own shares. The authorizations are valid until December 12, 2004. The extraordinary meeting also decided to pay an extra dividend for the financial period 2002.

In 2003, options from the 1998 and 2000 schemes were exercised to subscribe for a total of 507,976 preferred shares, increasing Tamfelt's capital stock by 507,976.00 euro. The company's capital stock is 18,227,976.00 euro, consisting of 6,746,132 common and 11,481,844 preferred shares.

As previously announced, Tamfelt's Board of Directors has pursued active dividend policy reducing the company's accumulated tax surplus. In line with this policy, the Board of Directors proposes to the Annual General Meeting a dividend payout of 0.48 euro on a common share and 0.50 euro on a preferred share, and a bonus dividend of 0.45 euro per share of each class. The proposed dividend totals 17.2 million euro (16.7 and 12.6) corresponding to 183.0% of the earnings. In their dividend proposals, the Board of Directors has considered the company's tax surplus from previous fiscal years. The Board of Directors has revised its dividend policy to provide that at least 50% of Tamfelt's earnings per share shall be distributed as dividends provided that this will not jeopardize the company's financial position or development.

INTRODUCTION OF IFRS

Preparations for the introduction of the IFRS standard began in 2003. The company's first financial statements on this new standard will be released in 2005. The plan is to base the interim reports of 2005 on the accounting and valuation principles of the new standard.

INVESTMENTS

The Group's gross investments of 3.4 million euro (down from 16.4) remained clearly below the planned depreciation of 8.4 million euro.

The PMC Division invested in the improvement of productivity and quality, in technical support equipment, and in added seaming capacity for forming fabrics.

In the Filter Fabric Division, investments focused on the Portuguese subsidiary Fanafel. Its sewing capacity was increased for the unit to be able to satisfy the needs of the Finnish filter fabric operation.

RESEARCH AND DEVELOPMENT

Tamfelt's R&D function cooperates with customers, material suppliers and paper machine manufacturers as well as universities and research institutions. The joint initiatives aim at improving filtration, paper quality, paper machine runnability and economy. Extensive projects are under way to upgrade fabric structures and raw materials.

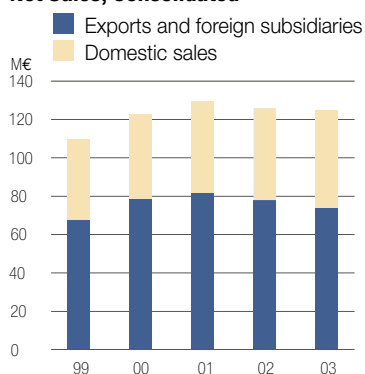
For quality improvement, the company focused on upgrading the SFS-EN ISO 9001 quality system. It was submitted to an external audit in April 2003.

The cost of R&D was 2.8% (2.7) of the Group's net sales. The definition of the R&D cost has been altered to exclude spending in technical support.

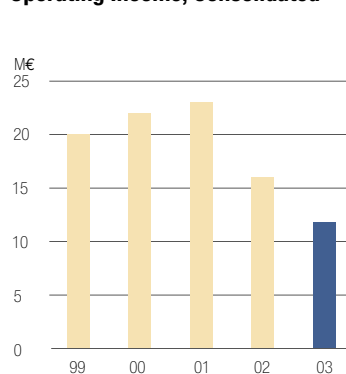
PERSONNEL

Tamfelt Group employment averaged 1,344 people, of whom 1,083 in the parent company. In 2002, Tamfelt Group averaged 1,384 employees and parent company 1,130. On the last day of the year, 1,330 and 1,388 people were on the Group's payroll in 2003 and 2002, respectively. The parent company's employment was 1,058 and 1,134, respectively. The reduction was due to the readjustments made at the Tampere and Juankoski plants over the year.

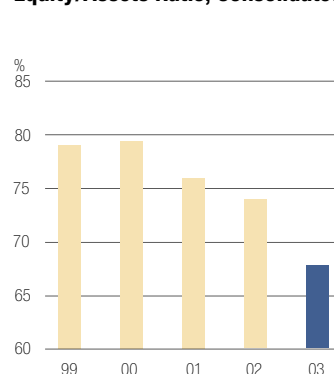
Net Sales, Consolidated



Operating Income, Consolidated



Equity/Assets Ratio, Consolidated



Labor turnover at the Group level was 4.4% (6.7). The average length of employment was 13 years (13). At the end of 2003 the average age of personnel was 42 years (41). In the parent company, external turnover was 3.8% (6.8) and internal turnover 11% (8.6). Absenteeism through sickness was 5.6% (5.7) of the theoretical regular working time and the average pension age was 59 years (57).

Personnel development schemes focused on technology and quality knowhow and on supervisory and leadership skills. Tamfelt joined the Tampere Business Campus initiative, in which businesses network to increase learning through interaction, improve skills management and acquire staff development programs.

The cost-cutting measures and readjustments carried out over the year, together with tough profit and performance targets, posed a heavy challenge to the workforce. This prompted a higher spending on individual and group-specific guidance in well-being at work.

Together with the University of Tampere and five other local companies, Tamfelt takes part in a three-year project for the promotion of equality at work. The project was launched in the spring with a questionnaire to be filled in by the personnel. An equal opportunities plan will be prepared on the basis of the results.

ENVIRONMENT

Tamfelt's environmental management system under the SFS-EN ISO 14001 standard covering the Tampere and Juankoski plants was certified in 1998. The level of Tamfelt's environmental protection fulfils the current statutory requirements.

The goals and targets to support sustainable development have been published in Tamfelt's environmental policy. The company's manufacturing processes do not discharge any significant amounts of pollutants to environment. The key objectives of Tamfelt's environmental management program are to cut back the amounts of raw material and slow-decaying landfill waste and to avoid unnecessary use of water and energy.

The total amount per production ton of the parent company's landfill waste was reduced, and the recycling of cloth waste stayed at the level of 2002. The targets set for raw material reuse have yet to be met.

Tamfelt publishes an annual environmental report, which contains detailed information on the company's environmental performance.

DIVISIONS

Tamfelt's operations have been separated into two divisions. The PMC Division (Paper Machine Clothing) consists of the Finnish PMC unit, Tamfelt's North American operations, and the Chinese joint venture. The Filter Fabric Division comprises the Finnish unit, Fanafel Lda. in Portugal, and the Brazilian unit.

PMC DIVISION

Finnish PMC unit

The product range (PMC products) comprises forming fabrics, press felts, dryer fabrics and shoe press belts for the paper, board and pulp industries. High-quality technical expertise, customer service and laboratory services back up the supplies.

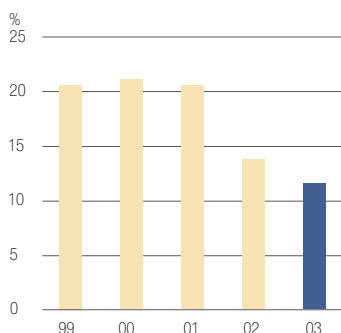
Weak economic growth continued, notably in the unit's main market Western Europe, keeping the operating rates low for most paper and board grades. The North American market managed a moderate growth, and Asia grew at a robust rate. In these areas, the rapidly falling dollar harmed European exporters. In addition, SARS restricted movement and made business more difficult in Asia in the early year.

Towards the end of the year, the economy began to pick up slowly, and growth predictions for 2004 added optimism. With just a small increase in the global market for paper and board, the overall demand for paper machine clothing grew only slightly. The trend varied according to geography - declining in North America, flat in Europe, and rising in Asia.

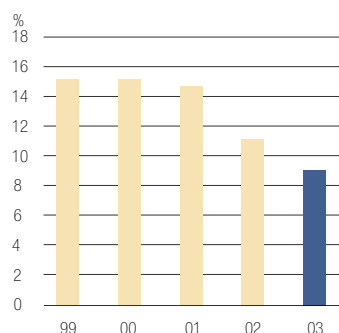
Because of the tough market conditions, it became necessary to curtail production in all PMC product groups in spring. This led to temporary lay-offs and reductions in workforce. The total decrease in the number of workers and salaried staff was about 50. Still, Tamfelt was able to increase sales volumes of both forming fabrics and press felts to some extent. This was achieved by stock curtailment and improved productivity.

The PMC unit's net sales were slightly down from the previous year; dryer fabrics being the most affected

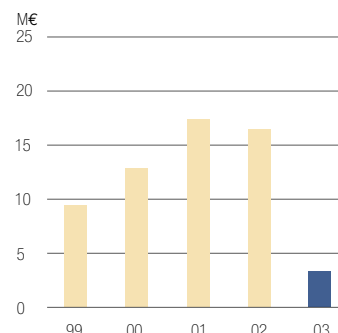
Return on Net Assets, Consolidated



Return on Equity, Consolidated



Investments, Consolidated



group of products. Domestic sales grew slightly in all PMC product groups, and Scandinavia and Western Europe were the best developing export markets. Exports to Asia diminished. Shipments to new market areas Australia and New Zealand got off to a good start. Major start-up orders for clothing to new paper and board machines as well as rebuilds came from Finland, China and Western Europe. Economic growth took a slight upturn late last year, and this came through as a growing number of new orders.

In terms of investments, 2003 was a gap year. The focus was on productivity improving programs and on the planning of new investments. Now that the market seems to be picking up, investments in production have been resumed. The highest expenditure will be on the improvement of press felt needling and heat-setting processes and the seaming of forming and dryer fabrics. Belt production capacity will also be increased.

Chinese joint venture

For Tamfelt's Chinese joint venture in Tianjin, 2003 was the third full year in operation. Net sales were down from the previous year and the unit produced another loss. The personnel number was kept at 30. The second phase of the unit's establishment project is now being planned.

Tamfelt PMC, Inc.

The U.S. sales company exceeded its financial target. It managed to expand its customer base and achieve higher shares as a supplier to the select market of large and high-speed paper machines. Customer service resources were improved and further personnel training was provided in an effort to satisfy increasing market requirements.

FILTER FABRIC DIVISION

Finnish Filter Fabric unit

The unit produces filter fabrics for applications in the forest, mining and chemical industries. Fabrics for municipal and industrial waste water treatment are another line of production. Industries supplying filtration equipment for these purposes are yet another important customer segment.

A recession in the unit's customer industries eased up in 2003. The consumption of filter fabrics in the forest industry returned to normal, lifting sales to the record level of 2001. Deliveries to the mining industry remained flat. Shipments to waste water treatment plants were down owing to the conditions of the U.S. market.

The unit's net sales remained at the level of the previous year. Exports accounted for 80% of the net sales. Half of the exports went to countries outside Europe.

Inter-unit operations were reorganized in order to increase effectiveness of the activities. Sewing has been increasingly concentrated at Fanafel and will be completely transferred to the Portuguese unit in 2004.

Fanafel Lda.

Fanafel is the leading manufacturer and supplier of commercial laundry felts worldwide. Its next most important production line makes dry filtration fabrics for applications in environmental protection and in processing industries. The company is a major supplier to this customer segment in Portugal and the near markets. The company is also a distributor of Finnish-made PMC products in the Portuguese market and sews articles for the Finnish Filter Fabric unit.

The unit's net sales and profitability remained good. The supplies of laundry felts were up, whereas those of dry filtration fabrics were clearly lower than the year before owing to the difficult market situation prevailing in Western Europe. Exports accounted for 80% of the sales.

Fanafel is investing in added sewing capacity, which will enable sales growth and supplies to the Finnish Filter Fabric unit.

Tamfelt Tecnologia em Filtração Ltda.

Operating in Brazil since 1999, the company exceeded its sales target and recorded good profitability for 2003. The country's export-oriented mining industry was operating at a remarkably high rate, boosting the demand for filter fabrics. Sales to the pulp industry began in 2003 and met the set targets. By now, a good third of the sales is entirely of Brazilian origin.

OUTLOOK

Economic growth is anticipated to continue in the United States and Southeast Asia, and the European market is expected to recover as well. The growth is predicted to increase demand for paper. In the mining industry, the market trend has improved for iron and, in particular, colour metals and favorable development is expected to continue in 2004.

Tamfelt's customer industries anticipate growing output volumes in the latter half of the current year. This is expected to encourage demand for paper machine clothing and filter fabrics. As a result of improved market outlook, Tamfelt's investment outlay will rise from last year's low level. However, the investments of 2003 and 2004 will not exceed the aggregate scheduled depreciation of these years. Effective capital spending and cash flow will remain the focus of attention.

If the conditions of the forest and mining industries evolve as anticipated and no unforeseen changes occur in global economy or currency rates, Tamfelt's net sales are expected to grow and the results are predicted to improve slightly.

CONSOLIDATED STATEMENT OF INCOME

Jan. 1 - Dec. 31 (1 000 €)

	Note	Consolidated				Parent company			
		2003	%	2002	%	2003	%	2002	%
NET SALES	1.	125 698	100	126 206	100	107 360	100	107 500	100
Change in finished goods inventory and work in progress +/-		-3 083		-967		-3 684		-1 402	
Other operating income	2.	569		456		569		234	
Materials and services	3.	25 323		25 902		17 994		18 132	
Personnel expenses	4.	52 721		53 199		47 694		48 463	
Depreciation and write-downs	5.	8 404		7 826		7 253		6 739	
Other operating expenses		24 128		22 692		23 735		22 980	
		<u>-110 576</u>		<u>-109 619</u>		<u>-96 676</u>		<u>-96 314</u>	
OPERATING INCOME		12 608	10	16 076	13	7 569	7	10 018	9
Financial income and expenses	6.	10		929		172		7 915	
INCOME BEFORE EXTRAORDINARY ITEMS		12 618	10	17 005	13	7 741	7	17 933	17
Extraordinary items	7.	-		-		1 860		2 114	
INCOME BEFORE APPROPRIATIONS AND TAXES		12 618	10	17 005	13	9 601	9	20 047	19
Appropriations		-		-		3 351		-3 062	
Direct taxes	8.	-3 362		-4 455		-3 869		-5 064	
Minority interest		132		198		-		-	
NET INCOME FOR THE YEAR		<u>9 388</u>	7	<u>12 748</u>	10	<u>9 083</u>	8	<u>11 921</u>	11

CONSOLIDATED BALANCE SHEET

Dec. 31 (1 000 €)

	Note	Consolidated				Parent company			
		2003	%	2002	%	2003	%	2002	%
ASSETS									
FIXED AND OTHER LONG-TERM ASSETS									
	9.								
Intangible assets		4 154		4 480		3 999		4 301	
Tangible assets		66 456		71 321		54 458		59 003	
Long-term investments		195		220		36 526		36 551	
		<u>70 805</u>	52	<u>76 021</u>	52	<u>94 983</u>	67	<u>99 855</u>	67
INVENTORIES AND CURRENT ASSETS									
Inventories	10.	29 624		34 407		23 234		26 759	
Long-term receivables	11.	141		303		141		303	
Short-term receivables	12.	23 302		26 694		19 905		22 185	
Short-term investments	13.	4 199		621		–		–	
Cash and bank		9 006		9 456		3 847		195	
		<u>66 272</u>	48	<u>71 481</u>	48	<u>47 127</u>	33	<u>49 442</u>	33
		<u>137 077</u>	100	<u>147 502</u>	100	<u>142 110</u>	100	<u>149 297</u>	100
STOCKHOLDERS' EQUITY AND LIABILITIES									
STOCKHOLDERS' EQUITY									
	14.								
Capital stock		18 228		14 901		18 228		14 901	
Share premium account		4 430		–		4 430		–	
Contingency reserve		–		2 217		–		2 217	
Retained earnings		60 742		79 227		35 130		53 135	
Net income for the year		9 388		12 748		9 083		11 921	
		<u>92 788</u>	68	<u>109 093</u>	74	<u>66 871</u>	47	<u>82 174</u>	55
Minority interest		162		334		–		–	
APPROPRIATIONS									
		–		–		25 973	18	29 324	20
STATUTORY RESERVES									
	15.	771		–		771	1	–	
LIABILITIES									
Imputed tax liability	16.	9 077		10 082		–		–	
Long-term liabilities	17.	11 783		4 928		10 289		4 027	
Short-term liabilities	18.	22 496		23 065		38 206		33 772	
		<u>43 356</u>	32	<u>38 075</u>	26	<u>48 495</u>	34	<u>37 799</u>	25
		<u>137 077</u>	100	<u>147 502</u>	100	<u>142 110</u>	100	<u>149 297</u>	100

CONSOLIDATED STATEMENT OF CASH FLOWS

Jan. 1 - Dec. 31 (1 000 €)

	Consolidated		Parent company	
	2003	2002	2003	2002
CASH FLOW FROM OPERATING ACTIVITIES				
Cash from sales	126 877	130 994	107 265	113 152
Cash from other operating income	637	95	637	232
Operating expenses	-103 387	-104 570	-90 197	-90 608
Cash before financing activities and taxes	24 127	26 519	17 705	22 776
Financing activities	13	791	202	5 633
Taxes	523	-4 802	942	-4 118
Cash flow from operating activities before extraordinary items	24 663	22 508	18 849	24 291
Cash flow from extraordinary items	-	-	1 860	2 114
Net cash from operating activities	24 663	22 508	20 709	26 405
CASH FLOW FROM INVESTING ACTIVITIES				
Investment in tangible and intangible assets	-3 298	-16 718	-2 406	-13 903
Other investments	91	176	-64	148
Net cash used in investing activities	-3 232	-16 542	-2 470	-13 755
CASH FLOW FROM FINANCING ACTIVITIES				
Capital stock increase	4 938	-	4 938	-
Withdrawal of long-term loans	7 151	5 627	7 095	5 109
Repayment of long-term loans	-896	-876	-896	-480
Net change in short-term loans	-	-	3 600	-1 782
Change of minority interest	-172	-297	-	-
Dividends paid	-29 324	-16 699	-29 324	-16 699
Net cash used in financing activities	-18 303	-12 245	-14 587	-13 852
Net increase (+)/decrease (-) in cash	3 128	-6 279	3 652	-1 202
Cash at beginning of year	10 077	16 356	195	1 397
Cash at end of year	13 205	10 077	3 847	195

SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated accounts cover the parent company and those companies in which Tamfelt Corp., directly or indirectly, holds over 50% of the voting stock. Associated undertakings have been consolidated according to their capital contribution.

The acquisition method has been adopted for consolidation.

A surplus of the purchase price of shares in the subsidiary company over their underlying net worth at the date of acquisition is shown in the consolidated accounts as goodwill, amortized over five years using the straight line method.

All inter-group transactions, pending margins, internal balances, and internal profits have been eliminated. The resulting tax claims and liabilities have been imputed. In the consolidated accounts, imputed tax claims have been presented as a deduction of imputed tax liability. Minority interests are deducted in the statement of income as an item of net income, and in the balance sheet as an item of stockholders' equity.

The income statements of the foreign Group companies have been translated into euro at the average exchange rate for the year. Their balance sheets have been translated at the average official rate of the balance sheet date. The resulting two-rate differences, together with the conversion adjustments resulting from the elimination of equity, and the exchange rate differences of equity-ranked inter-Group loans, are dealt with as translation adjustment in the stockholders' equity.

Change in accelerated depreciation has been split between change in imputed tax liability and income for the year. Total accelerated depreciation has been divided between equity and the imputed tax liability included in liabilities.

NET SALES

For the computation of net sales, indirect taxes, discounts, and exchange rate differences have been deducted from the sales revenue.

RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCIES

The parent company receivables and liabilities are booked at the average official exchange rate of the balance sheet date. Current hedging instruments for foreign denominated items are entered at the value of the date, including the effect of interest. Hedging instruments to cover the order-book backlog are entered applying the prudence concept.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated in the balance sheet at acquisition cost less annual depreciation according to plan. Total accelerated depreciation is recorded in the parent company as a separate item in appropriations.

Planned depreciation is computed using the straight line method over the useful economic life of the asset. The most common periods are:

Intangible rights	3 to 10 years
Consolidated goodwill	5 years
Other long-term expenditure	10 years
Buildings	25 to 40 years
Machinery and equipment	3 to 15 years
Other tangible assets	10 years

INVENTORIES

Inventories are valued at lower of cost or market, at either the purchase price, or estimated net realizable value, whichever is lower. The purchase price is defined using the direct cost of acquisition or manufacture on the FiFo principle.

For foreign subsidiaries, inventories are valued in accordance with local practice and also include indirect costs of production.

SHORT-TERM INVESTMENTS

Bonds are entered in assets at acquisition cost, allocating the difference between acquisition cost and nominal value as an increase or decrease of acquisition cost, according to maturity. In the final accounts, however, they are not valued higher than the market price. Shares and holdings are stated at the acquisition cost or market price, whichever is lower.

Nominal interest income from bonds is booked in interest income. The difference between acquisition cost and nominal value is allocated as an increase or decrease of interest income. If bonds are sold in advance of maturity date, a gain is entered in other financial income and a loss in other financial expenses.

RESEARCH AND DEVELOPMENT

The R&D expenditure is booked as expenses of the financial period during which it arose, with the exception of research equipment, which is depreciated according to plan over five years by the straight line method.

TAXES

Computed estimates of taxes are entered in the statement of income of the domestic Group companies. Foreign subsidiary taxes are presented in the consolidated statements as booked in their respective original accounts. Entries resulting from internal integration are stated as imputed tax liability. Change in imputed tax liability comprises entries which relate to internal integration or incompatible periods of accounting and taxation.

The imputed tax liability entered in the balance sheet includes such imputed tax liability as is unrelated to internal integration, reperiodization, or appropriations.

OPTION SCHEMES

Option rights are valued at the difference between the market value of the preferred share at the balance sheet date and the subscription price of the preferred share at the balance sheet date. A social security tax is entered on the portion of this taxable benefit which entitles to subscription at the balance sheet date.

PENSION LIABILITY IN FINLAND

Liability for working employees is covered by pension insurance corporations. Future expenditure in old-age pensions is booked in statutory reserves. The parent company is responsible for voluntary, unregistered old-age pensions. This liability is recorded as expenses.

ENVIRONMENTAL EXPENDITURE

Environmental expenditure is booked as expenses of the financial period during which it arose, with the exception of machinery and equipment, which is depreciated according to plan over 3-5 years by the straight line method.

FINANCIAL DATA, NOTES

STATEMENT OF INCOME (1000 €) (Tamfelt's line of business is technical textiles.)

	Consolidated				Parent company			
	2003	%	2002	%	2003	%	2002	%
1. NET SALES IN THE VARIOUS MARKET AREAS								
Nordic countries	62 819	50	60 897	48	62 283	58	60 170	56
Other Europe	38 343	30	37 100	29	26 661	25	24 896	23
North America	10 809	9	12 027	10	7 785	7	8 367	8
Far East	9 604	8	12 162	10	8 201	8	11 353	11
Other countries	4 123	3	4 020	3	2 430	2	2 714	2
Total	125 698	100	126 206	100	107 360	100	107 500	100
2. OTHER OPERATING INCOME								
Gains on the disposal of fixed assets	401		–		401		–	
Rental income	25		23		110		106	
Other	143		433		58		128	
Total	569		456		569		234	
3. MATERIALS AND SERVICES								
Purchases during the year	23 911		26 124		17 249		17 802	
Change in inventories	722		-630		-158		-195	
Outsourced and subcontracted services	690		408		903		525	
Total	25 323		25 902		17 994		18 132	
4. PERSONNEL EXPENSES								
Remunerations to directors and presidents	660		597		318		317	
Other remunerations	39 920		41 868		36 393		38 232	
Pension expenses	7 914		6 629		7 402		6 140	
Other social expenses	4 227		4 105		3 581		3 774	
Total	52 721		53 199		47 694		48 463	
NUMBER OF EMPLOYEES								
Average	1 344		1 384		1 083		1 130	
Year-end	1 330		1 388		1 058		1 134	

	Consolidated		Parent company	
	2003	2002	2003	2002
5. PLANNED DEPRECIATION				
Intangible rights	560	540	560	540
Consolidated goodwill	20	20	-	-
Other long-term expenditure	177	161	70	70
Buildings	582	550	125	125
Machinery, equipment and furniture	6 923	6 479	6 356	5 928
Other tangible assets	142	76	142	76
Total	8 404	7 826	7 253	6 739
6. FINANCIAL INCOME AND EXPENSES				
Dividend income	134	125	829	7 687
Interest income from long-term investments	13	20	13	20
Other interest and financial income				
From Group companies	-	-	-	81
From others	382	1 145	234	1 058
Impairment of financial instruments	42	51	-	-
Interest expenses and other financial expenses				
To Group companies	-	-	-466	-656
To others	-561	-412	-438	-275
Total	10	929	172	7 915
7. EXTRAORDINARY ITEMS				
Group subsidies	-	-	1 860	2 114
8. DIRECT TAXES				
Taxes for the year	4 360	3 713	3 870	5 050
Taxes for previous years	-1	14	-1	14
Change in imputed tax liability*	-997	728	-	-
Total	3 362	4 455	3 869	5 064
* Change in imputed tax liability				
Reperiodizing	-231	-259		
Integration	114	-54		
Appropriations	-880	1 041		

BALANCE SHEET (1 000 €)

9. FIXED AND OTHER LONG-TERM ASSETS

2003

	Acquisition cost through Jan. 1	Increase Jan. 1 through Dec. 31	Decrease Jan. 1 through Dec. 31	Translation differences	Acquisition cost according to Dec. 31	Accumulated depreciation plan. Dec. 31	Book value Dec. 31
CONSOLIDATED							
<u>Intangible assets</u>							
Intangible rights	7 533	329			7 862	-4 152	3 710
Consolidated goodwill	1 059				1 059	-1 019	40
Other long-term expenditure	1 350	104		-10	1 444	-1 040	404
<u>Tangible assets</u>							
Land and water	942				942		942
Buildings	20 362	179			20 541	-9 482	11 059
Machinery, equipment and furniture	137 589	2 395	-175	-219	139 590	-87 171	52 419
Other tangible assets	1 512	68			1 580	-324	1 256
Advance payments and construction in progress	457	780	-457		780		780
<u>Investments</u>							
Shares and holdings	219		-25		194		194
Shares and holdings in associated companies	1				1		1
Total	171 022	3 855	-657	-229	173 991	-103 188	70 805
Machinery and equipment							49 519

PARENT COMPANY

<u>Intangible assets</u>							
Intangible rights	8 217	329			8 546	-4 836	3 710
Other long-term expenditure	890				890	-601	289
<u>Tangible assets</u>							
Land and water	767				767		767
Buildings	4 888				4 888	-735	4 153
Machinery, equipment and furniture	121 042	1 745	-96		122 691	-75 013	47 678
Other tangible assets	1 512	68			1 580	-324	1 256
Advance payments and construction in progress	271	604	-271		604		604
<u>Investments</u>							
Shares and holdings in Group companies	35 641				35 641		35 641
Shares and holdings in associated companies	1				1		1
Other shares and holdings	217		-25		192		192
Other receivables from Group companies	692				692		692
Total	174 138	2 746	-392	0	176 492	-81 509	94 983
Machinery and equipment							45 364

2002

CONSOLIDATED							
<u>Intangible assets</u>							
Intangible rights	6 813	760	-40		7 533	-3 593	3 940
Consolidated goodwill	1 059				1 059	-999	60
Other long-term expenditure	1 315	112	-55	-22	1 350	-870	480
<u>Tangible assets</u>							
Land and water	942				942		942
Buildings	18 877	1 488		-3	20 362	-8 898	11 464
Machinery, equipment and furniture	121 228	16 511	-3	-147	137 589	-80 461	57 128
Other tangible assets	458	1 054			1 512	-182	1 330
Advance payments and construction in progress	3 840	457	-3 840		457		457
<u>Investments</u>							
Shares and holdings	219				219		219
Shares and holdings in associated companies	1				1		1
Total	154 750	20 382	-3 938	-172	171 022	-95 003	76 021
Machinery and equipment							51 711

PARENT COMPANY

<u>Intangible assets</u>							
Intangible rights	7 497	760	-40		8 217	-4 276	3 941
Other long-term expenditure	890				890	-530	360
<u>Tangible assets</u>							
Land and water	767				767		767
Buildings	4 888				4 888	-610	4 278
Machinery, equipment and furniture	105 390	15 652			121 042	-68 685	52 357
Other tangible assets	458	1 054			1 512	-182	1 330
Advance payments and construction in progress	3 794	272	-3 795		271		271
<u>Investments</u>							
Shares and holdings in Group companies	35 641				35 641		35 641
Shares and holdings in associated companies	1				1		1
Other shares and holdings	217				217		217
Other receivables from Group companies	692				692		692
Total	160 235	17 738	-3 835	0	174 138	-74 283	99 855
Machinery and equipment							49 454

	Consolidated		Parent company	
	2003	2002	2003	2002
10. INVENTORIES				
Raw materials and consumables	8 257	8 970	6 559	6 400
Work in progress	10 721	10 769	10 372	10 507
Finished products	10 646	14 668	6 303	9 852
Total	29 624	34 407	23 234	26 759
11. LONG-TERM RECEIVABLES				
Loans receivable from associated companies	–	66	–	66
Other loans receivable	141	237	141	237
Total	141	303	141	303
12. SHORT-TERM RECEIVABLES				
Accounts receivable	21 388	22 631	18 339	18 328
Loans receivable from associated companies	65	65	65	65
Other loans receivable	197	126	183	126
Prepaid expenses and accrued income*	1 652	3 872	1 318	3 666
Total	23 302	26 694	19 905	22 185
Receivables from Group companies				
Accounts receivable	–	–	1 437	1 901
* Material items of short-term prepaid expenses and accrued income				
Periodization of personnel expenses	678	135	672	135
Periodization of taxes	86	2 923	76	2 797
Other periodization	888	814	570	734
Total	1 652	3 872	1 318	3 666
13. SHORT-TERM INVESTMENTS				
Other shares	704	621		
Other securities	3 495	–		
Total	4 199	621	–	–
Replacement price of short-term investments	4 335	661		
Book value of short-term investments	4 199	621		
Difference	136	40	–	–

	Consolidated		Parent company	
	2003	2002	2003	2002
14. STOCKHOLDERS' EQUITY				
Capital stock Jan. 1	14 901	14 901	14 901	14 901
Bonus issue	2 819	–	2 819	–
Subscriptions against options	508	–	508	–
Capital stock Dec. 31	18 228	14 901	18 228	14 901
Share premium account Jan. 1.				
Subscriptions against options	4 430	–	4 430	–
Share premium account Dec. 31	4 430	–	4 430	–
Contingency reserve Jan. 1	2 217	2 217	2 217	2 217
Bonus issue	-2 217	–	-2 217	–
Contingency reserve Dec. 31	0	2 217	0	2 217
Retained earnings from previous years Jan. 1	91 975	97 116	65 056	69 834
Bonus issue	-602	–	-602	–
Dividend	-29 324	-16 699	-29 324	-16 699
Change in translation adjustment	-1 307	-1 190	–	–
Retained earnings from previous years Dec. 31	60 742	79 227	35 130	53 135
Net income for the year	9 388	12 748	9 083	11 921
Total stockholders' equity	92 788	109 093	66 871	82 174
STATEMENT OF DISTRIBUTABLE EARNINGS DEC. 31				
Contingency reserve	–	2 217	–	2 217
Profit for previous years	60 742	79 227	35 130	53 135
Net profit for the year	9 388	12 748	9 083	11 921
- Portion of accumulated depreciation entered in stockholders' equity	-20 361	-22 499	–	–
Total	49 769	71 693	44 213	67 273

PARENT COMPANY CAPITAL STOCK AND CLASSES OF SHARES

	2003		2002	
	Number of shares	€	Number of shares	€
Common stock (20 votes/share)	6 746 132	6 746 132	3 373 066	5 673 090
Preferred stock (1 vote/share)	11 481 844	11 481 844	5 486 934	9 228 360
Total	18 227 976	18 227 976	8 860 000	14 901 450

	Consolidated		Parent company	
	2003	2002	2003	2002
15. STATUTORY RESERVES				
Provisions for pensions	771	–	771	–
16. IMPUTED TAX LIABILITY				
For appropriations	9 077	10 082	–	–

	Consolidated		Parent company	
	2003	2002	2003	2002
17. LONG-TERM CREDITORS				
Other long-term liabilities	11 783	4 928	10 289	4 027
Instalment plan for 2005-2008 (2004-2007)	11 765	4 520	10 271	3 619
18. SHORT-TERM CREDITORS				
Loans from financial institutions	513	1 113	–	63
Pension loans	833	833	833	833
Advance received	31	141	31	141
Accounts payable	2 482	4 632	2 125	4 039
Other liabilities	3 300	3 633	17 360	13 799
Accrued liabilities and deferred income*	15 337	12 713	17 857	14 897
Total	22 496	23 065	38 206	33 772
Liabilities to Group companies				
Accounts payable			104	138
Other liabilities			14 600	11 000
Accrued liabilities and deferred income			3 764	3 369
Total	–	–	18 468	14 507
* Material items of short-term accrued liabilities and deferred income				
Periodization of personnel expenses	8 958	7 718	8 396	7 298
Other periodizations	6 379	4 995	9 461	7 599
Total	15 337	12 713	17 857	14 897
Liabilities without interest				
Long-term	9 077	10 082	–	–
Short-term	21 150	21 119	22 772	21 876
Total	30 227	31 201	22 772	21 876
Liabilities with interest				
Long-term	11 783	4 928	10 289	4 027
Short-term	1 346	1 946	15 433	11 896
Total	13 129	6 874	25 722	15 923
CONTINGENT LIABILITIES				
a) Other securities given				
Mortgages in real estate	84	84	84	84
b) For others				
Guarantees	–	34	–	34
c) Other own liabilities				
Bill liabilities	9	3	–	–
Leasing liabilities	169	193	169	193
Total	262	314	253	311
DERIVATIVE CONTRACTS				
Currency terms current value	5 811	524	5 811	524

SHARES AND HOLDINGS OWNED BY THE GROUP AND THE PARENT COMPANY

GROUP COMPANIES	Percentage of group ownership	Percentage of parent company ownership
Fanafel - Fábrica Nacional de Feltros Industriais Lda.	100	73.8
Tamfelt (UK) Ltd.	100	100
Tamfelt - GMCC (Tianjin) Paper Machine Clothing Co, Ltd.	60	60
Tamfelt Canada, Inc.	100	100
Tamfelt, Inc.	100	0
Tamfelt Kiinteistö Oy	100	100
Tamfelt PMC, Canada Inc.	100	100
Tamfelt PMC, Inc.	100	100
Tamfelt Tecnologia em Filtração Ltda.	99.99	99.99
Tampereen Verkatehdas Oy	100	100
ASSOCIATED COMPANIES		
Alakoski Oy	39	39

OTHER NOTES

FINANCIAL RISK MANAGEMENT

The means of hedging against currency risks include cash flow matching, forward contracts, and options.

The parent company has no liabilities denominated in foreign currency. Subsidiary liabilities are in the currency of the particular country. Current risk positions result only from foreign exchange purchases and sales within operating activities and from inter-group financial arrangements.

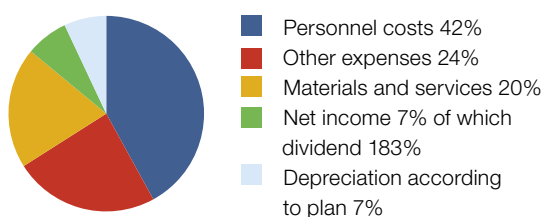
The current exchange rate risk involved in sales and purchases is mainly covered by forward contracts. In certain cases, even current foreign exchange positions

arising from unfilled orders or pending offers are hedged against. The exchange rate differences related to hedging are presented in financial items.

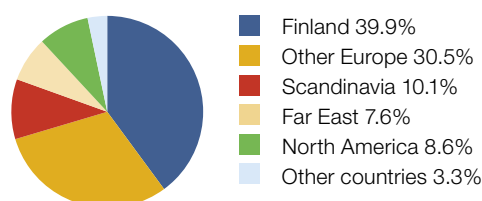
The Group does not cover subsidiary equity or currency risks involved in equity-ranked loans.

In liquid fund investments, Tamfelt avoids risks. The company invests mainly in money market instruments. Limited amounts of liquid funds can be placed in shares. The Board of Directors has confirmed principles for the taking of investment risks and risks with partners.

Distribution of Income 2003, Consolidated



Net Sales in Various Market Areas 2003, Consolidated



CONSOLIDATED FINANCIAL SUMMARY (1 000 €)

	2003	2002	2001	2000	1999
Net sales	125 698	126 206	130 525	123 910	109 801
Change, %	-0.4	-3.3	5.3	12.9	6.1
Exports and foreign subsidiaries	75 607	78 119	82 231	79 331	68 487
% of net sales	60.1	61.9	63.0	64.0	62.4
Operating income	12 608	16 076	22 708	22 361	19 970
% of net sales	10.0	12.7	17.4	18.0	18.2
Net income before extraordinary items, taxes and minority interest	12 618	17 005	24 064	23 549	21 151
% of net sales	10.0	13.5	18.4	19.0	19.3
Net income before taxes and minority interest	12 618	17 005	19 880	23 549	21 511
% of net sales	10.0	13.5	15.2	19.0	19.6
Return on equity, %	9.1	11.2	14.8	15.3	15.2
Return on net assets, %	11.7	14.8	20.7	21.1	20.9
Equity/assets ratio, %	67.8	74.3	76.1	79.6	79.0
Gearing, %	-0.1	-2.9	-12.5	-20.6	-21.3
Gross investment	3 398	16 444	17 355	12 833	9 389
% of net sales	2.7	13.0	13.3	10.4	8.6
R&D expenditure*	3 578	3 366	3 300	2 912	2 644
% of net sales	2.8	2.7	2.5	2.4	2.4
Average employment during the period	1 344	1 384	1 362	1 324	1 288

* The definition of the R&D cost was altered for 2003 to exclude spending in technical support. Figures for previous years were revised correspondingly.

RETURN ON EQUITY, %

$$\frac{\text{Net income before extraordinary items, taxes and minority interest - taxes}}{\text{Equity + minority interest (average)}} \times 100$$

RETURN ON NET ASSETS, %

$$\frac{\text{Net income before extraordinary items, taxes and minority interest + interest and other financial expenses}}{\text{Balance sheet total - interest-free liabilities (average)}} \times 100$$

EQUITY/ASSETS RATIO, %

$$\frac{\text{Equity + minority interest}}{\text{Balance sheet total - advance received}} \times 100$$

GEARING, %

$$\frac{\text{Interest-bearing liabilities - cash, bank and short-term investments}}{\text{Equity + minority interest}} \times 100$$

STOCK ANALYSIS

CAPITAL STOCK AND CLASSES OF SHARES

The capital stock of Tamfelt Corp. consists of common stock and preferred stock. The accounting par value is 1.00 euro for each class of share. Whenever the Annual General Meeting decides that a dividend be distributed, each preferred share shall collect a two percentage units higher dividend than a common share; however, when the dividend collected by a preferred share is rounded to whole cents, it shall always be rounded up to the nearest whole cent. A common share carries twenty votes and a preferred share one vote. If requested by the holder, a common share can be converted into a preferred share on conditions specified in the Articles of Association.

The company's capital stock is 18,227,976.00 euros. The capital stock consists of 6,746,132 common shares and 11,481,844 preferred shares. The total number of shares is 18,227,976 and the total number of votes is 146,404,484.

In 2003, options from the 1998 and 2000 schemes were exercised to subscribe for a total of 507,976 preferred shares, which increased Tamfelt's capital stock by 507,976.00 euros. Under these option schemes a maximum of 148,024 preferred shares remain for subscription, corresponding to a maximum increase of 148,024.00 euros of the capital stock. The maximum increase in the number of votes can be 148,024, corresponding to 0.1% of the new total number of votes and the maximum increase in the number of shares can be 0.8% of the new number of shares.

Subscription under the 1998 option A began on November 1, 2000 and option B on November 1, 2002, and will expire on March 31, 2004 for both. The subscription price on December 31, 2003 was 8.975 euros. The price will be reduced by the amount of dividends to be paid before the subscription. Subscription under the 2000 option C began on November 1, 2002. Subscription under option D will begin on November 1, 2004. Both will expire on March 31, 2006. The subscription price for the year 2000 option scheme was 9.80 euros on December 31, 2003, from which prior-subscription dividends will be deducted. The options are covered by a stock-holding plan, whereby the holder agrees to invest 10% of derived gross benefit in the company's stock. The company also operates an incentive plan based on a phantom stock program including a stock ownership program. Altogether, 170,000 shares of phantom stock, divided in A, B, C, and D units, have been given to top executives at Tamfelt according to the decision of the Board of Directors. The potential yield will be paid in the years 2004, 2005, 2006 and 2007 provided that the person is still employed by the Group.

Tamfelt's Annual General Meeting held on March 12, 2003 approved the proposal made by the Board of Directors to increase the company's capital stock by a bonus issue, to increase the number of shares without raising the capital stock, and to amend the Articles of Association correspondingly.

An extraordinary meeting of shareholders held on December 12, 2003 authorized the Board of Directors to resolve to acquire the company's own shares. The maximum acquisition can comprise 337,306 common shares and 574,092 preferred shares. The extraordinary meeting of shareholders also authorized the Board of Directors to resolve to convey shares thus acquired. The Board of Directors may decide on conveyance departing from the shareholders' primary right to subscription. The authorizations are valid until December 12, 2004.

TRENDS AND TRADE VOLUMES

The HEX all-share index rose 4.4% and the HEX portfolio index rose 16.2% in 2003. Tamfelt common share rose 22.6% and preferred share fell 4.4%.

Trading in Tamfelt common shares on the Helsinki Exchanges amounted to 5.4 million euro (3.2 million in 2002) and in preferred shares to 31.0 million euro (17.4 million in 2002). The numbers traded were 393,278 (234,342) common shares and 2,386,051 (1,288,298) preferred shares.

Turnover in common shares was 5.8% (3.5) of the company's total common stock. Turnover in preferred shares was 21.7% (11.7) of the total preferred stock.

The highest quotation for a common share in 2003 was 16.80 euro and the lowest 10.45 euro. The highest quotation for a preferred share was 15.25 euro and the lowest 11.00 euro. The closing rate for the common share at the year-end was 16.80 euro and for the preferred share 13.90 euro. The market value of the company's total stock at the end of 2003 was 272,932,650.00 euro.

DIVIDEND POLICY

According to Tamfelt's dividend policy, at least 50% of the company's earnings per share shall be distributed as dividend provided that this will not jeopardize the company's financial position or development. The Board of Directors will propose to the Annual General Meeting 2004 that a dividend of 0.48 euro be paid on a common share and 0.50 euro on a preferred share and a bonus dividend of 0.45 euro per share on both common and preferred stock. The proposed dividend totals 17.2 million euro (16.7 and 12.6), corresponding to 183.0% of earnings. In their proposals, the Board of Directors has considered tax surplus from previous fiscal years.

CAPITAL STOCK IN 2003

	Common shares total	Preferred shares total	Capital stock €
Capital stock December 31, 2002	3,373,066	5,486,066	14,901,450.28
Bonus issue March 28, 2003	3,373,066	5,486,066	17,720,000.00
Split March 31, 2003 (1:2)	6,746,132	10,973,868	17,720,000.00
Subscriptions against options		+ 507,976	18,227,976.00
Capital stock December 31, 2003	6,746,132	11,481,844	18,227,976.00

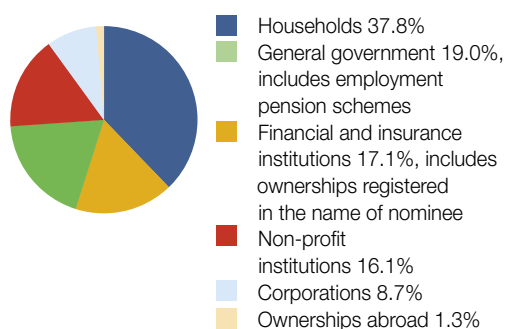
CAPITAL STOCK OWNERSHIP

At the end of 2003 (2002) the company had 2,521 (1,932) stockholders and two (one) ownership registrations in the name of a nominee. The number of shares registered in the name of a nominee was 22,828 (23,290). The number of shares yet to be transferred to the book-entry securities system was 3,538 (3,538), or 0.02% (0.02). The company's Directors, President & CEO and Deputy CEO held a total of

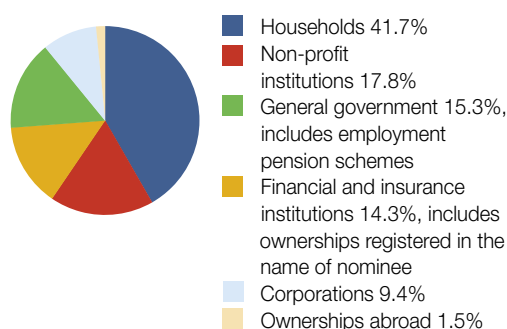
379,032 (380,032) common and 163,368 (175,368) preferred shares corresponding to 3.0% (3.1) of the capital stock and a 5.3% (5.3) voting power. The President & CEO and Deputy CEO held no options at the end of the year. The total number of share units held by the President & CEO and his Deputy in phantom stock was 100,000.

STOCK OWNERSHIP ON THE BASIS OF CLASSIFICATION OF INSTITUTIONAL SECTORS DEC. 31, 2003

Stock Ownership by Shares



Stock Ownership by Votes



STOCK OWNERSHIP BY SIZE DEC. 31, 2003

Number of shares	Ownerships	%	Shares	%	Votes	%
1 – 500	1,190	47.2	282,229	1.6	1,165,007	0.8
501 – 5 000	1,023	40.5	1,625,300	8.9	9,161,897	6.3
5 001 – 10 000	115	4.6	807,449	4.4	5,366,575	3.7
10 001 – 50 000	135	5.4	3,088,632	17.0	23,646,765	16.1
50 001 – 100 000	24	0.9	1,804,768	9.9	14,712,152	10.0
100 001 –	34	1.4	10,616,060	58.2	92,329,208	63.1
Total	2,521	100.0	18,224,438	100.0	146,381,604	100.0
Shares not transferred to book-entry system			3,538	0.0	22,880	0.0
Issued number			18,227,976	100.0	146,404,484	100.0

STOCK ANALYSIS

LARGEST OWNERSHIP REGISTRATIONS BY VOTING POWER ON DEC. 31, 2003 (DEC. 31, 2002)

	%	
1. (1.) Varma Mutual Pension Insurance Company	7.5	(9.1)
2. (2.) Sampo Life Insurance Company Limited	5.3	(5.3)
3. (7.) Ilmarinen Mutual Pension Insurance Company	5.0	(2.8)
4. (3.) If P&C Insurance Company Ltd	4.8	(5.1)
5. (4.) Metso Corporation	4.5	(4.5)
6. (5.) Waldemar von Frenckell Foundation	4.0	(4.0)
7. (6.) Cedercreutz, Axel	3.7	(3.7)
8. (7.) Samfundet Folkhälsan i Svenska Finland r.f.	2.5	(2.5)
9. (8.) Snäll, Clara	2.5	(2.2)
10. (23.) Svenska litteratursällskapet i Finland r.f.	1.9	(0.9)
TOTAL	41.7	(40.1)

LARGEST OWNERSHIP REGISTRATIONS BY NUMBER OF SHARES ON DEC. 31, 2003 (DEC. 31, 2002)

	%	
1. (1.) Ilmarinen Mutual Pension Insurance Company	8.6	(6.2)
2. (2.) Varma Mutual Pension Insurance Company	6.1	(6.1)
3. (4.) Kaleva Mutual Insurance Company	4.5	(4.6)
4. (5.) Sampo Life Insurance Company Limited.....	3.4	(3.5)
5. (3.) If P&C Insurance Company Ltd	2.7	(5.0)
6. (6.) Metso Corporation	2.7	(2.7)
7. (7.) Waldemar von Frenckell Foundation	2.6	(2.7)
8. (9.) Samfundet Folkhälsan i Svenska Finland r.f.	2.2	(2.3)
9. (8.) Tapiola General Mutual Insurance Company	2.2	(2.3)
10. (11.) Cedercreutz, Axel	1.8	(1.9)
TOTAL	36.8	(37.3)

If Skadeförsäkring Holding Ab (publ) disclosed on October 29, 2003 that If P&C Insurance Company Ltd's portion of Tamfelt Corp.'s voting power fell below 5%.

Ilmarinen Mutual Pension Insurance Company disclosed on December 16, 2003 that its portion of Tamfelt Corp.'s voting power reached 1/20.

STOCK SUMMARY

The key figures have been adjusted for share issue.

	2003	2002	2001	2000	1999
Earnings/share, undiluted, €	0.53	0.72	0.96	0.95	0.86
Earnings/share, diluted, €	0.53				
Equity/share Dec. 31, undiluted, €	5.09	6.16	6.45	6.39	5.92
Equity/share Dec. 31, diluted, €	5.09				
DIVIDEND					
Dividend, M€	17.2*	29.3	16.7	11.4	8.73
Dividend/share, €					
common	0.93*	1.61	0.93	0.63	0.48
preferred	0.95*	1.65	0.95	0.65	0.50
Dividend/earnings, %	183.0*	230.0	98.3	67.6	57.3
Effective dividend yield Dec. 31, %					
common	5.5*	11.8	7.2	6.9	4.2
preferred	6.8*	11.4	7.2	7.2	4.4
P/E ratio Dec. 31, undiluted					
common	31.7	19.0	13.6	9.6	13.4
preferred	26.2	20.1	13.8	9.5	13.1
TRENDS AND TRADING					
Trading price at year-end, €					
common	16.80	13.70	13.00	9.12	11.50
preferred	13.90	14.50	13.25	8.99	11.25
Change of trading price, %					
common	22.6	5.38	42.47	-20.65	10.3
preferred	-4.4	9.43	42.39	-20.08	7.0
Highest trading price, €					
common	16.80	14.90	13.00	11.45	12.00
preferred	15.25	14.50	13.25	11.75	12.00
Lowest trading price, €					
common	10.45	12.57	8.75	9.00	10.00
preferred	11.00	12.65	8.75	8.65	9.25

* Board of Directors' proposal

STOCK SUMMARY

	2003	2002	2001	2000	1999
Trading volume, M€					
common	5.4	3.2	2.1	3.2	1.4
preferred	31.0	17.4	16.4	7.4	6.5
Trading volume (number of shares)					
common	393 278	234 342	204 496	306 000	129 844
preferred	2 386 051	1 288 298	1 651 830	714 310	619 300
Trading volume/total stock, %					
common	5.8	3.5	3.0	4.5	1.9
preferred	21.7	11.7	15.1	6.5	5.6
CAPITAL STOCK AND NUMBER OF SHARES					
Capital stock Dec. 31, M€	18.2	14.9	14.9	14.9	14.9
common	6.7	5.7	5.7	5.7	5.7
preferred	11.4	9.2	9.2	9.2	9.2
Market capitalization Dec. 31, M€	272.9	251.5	233.1	160.2	201.0
Number of shares Dec. 31 (1,000)	18 228	17 720	17 720	17 720	17 720
common	6 746	6 746	6 746	6 746	6 746
preferred	11 482	10 974	10 974	10 974	10 974
Average number of shares (1,000) undiluted	17 763	17 720	17 720	17 720	17 720
Average number of shares (1,000) diluted	17 781				
Number of shares Dec. 31 (1,000) undiluted	18 228	17 720	17 720	17 720	17 720
Number of shares Dec. 31 (1,000) diluted	18 246				
Number of shareholders Dec. 31	2 521	1 933	1 857	1 836	1 788
Nominee-registered ownerships Dec. 31	2	1	1	1	2

EARNINGS/SHARE

Net income before extraordinary items, taxes and minority interest - taxes - minority interest

Average number of shares diluted/undiluted for issue during the fiscal period

EQUITY/SHARE

Equity

Year-end number of shares diluted/undiluted for issue

PRICE/EARNINGS (P/E)

Year-end trading price undiluted for issue

Earnings/share (EPS)

INVESTMENT ANALYSES

Investment analyses of the Tamfelt Group have been made by companies including Conventum Securities Ltd • FIM Securities Ltd • Nordea Securities Oyj • Seligson & Co.

Tamfelt shall not be held accountable for the assessments.

BOARD OF DIRECTORS' PROPOSAL TO AGM AND AUDITORS' REPORT

BOARD OF DIRECTORS' PROPOSAL TO ANNUAL GENERAL MEETING

Consolidated distributable earnings total	49,769,333.54 €
Parent company's distributable earnings	
Retained earnings from previous years	35,129,972.88 €
Net income for the year	<u>9,083,006.47 €</u>
	<u>44,212,979.35 €</u>

The Board proposes that this sum be appropriated as follows:

- a dividend of 0.48 € a share paid on 6,746,132 common shares, totaling	3,238,143.36 €
- a dividend of 0.50 € a share paid on 11,481,844 preferred shares, totaling	5,740,922.00 €
- a bonus dividend of 0.45 € a share paid on 18,227,976 preferred and common shares, totaling	<u>8,202,589.20 €</u>
Dividend, total	17,181,654.56 €
To be kept in contingency reserve	<u>27,031,324.79 €</u>
	<u>44,212,979.35 €</u>

Helsinki, February 11, 2004

Mikael von Frenckell
Martin Lilius
Martti Karttunen

Axel Cedercreutz
Jouko Oksanen

Risto Hautamäki
President and CEO

AUDITORS' REPORT

to the shareholders of Tamfelt Corp.

We have audited the bookkeeping, the financial statements and the administration of Tamfelt Corp. for the financial year 2003. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statement, balance sheet, cash flow statement and notes to the financial statement, have been prepared by the Board of Directors and President. Based on our audit we express an opinion on these financial statements and on administration.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management as well as evaluating the

overall financial statement presentation. The purpose of our audit of administration is to examine that the members of the Board of Directors and President have legally complied with the rules of the Companies Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position.

The financial statements with the consolidated financial statement can be adopted and the members of the Board of Directors and President can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Companies Act.

Helsinki, February 11, 2004

Jari Paloniemi
Authorized Public Accountant

Veikko Terho
Authorized Public Accountant



Juha Pöllänen, worker at finishing department.

*Promotion of well-being
is a part of daily work.*



COMPETENT PEOPLE - FACTORS OF SUCCESS

Parent company personnel report

Tamfelt's human resources management focuses on long-term investment in the personnel's competence, safety and well-being.

PERSONNEL

At the end of the year, the parent company employed 1,058 people (down from 1,134), of whom 734 (down from 787) worked at Tampere and 324 (down from 347) at Juankoski. The decrease was due to the readjustments made at the Tampere and Juankoski plants over the year. The percentage of workers was 71% and that of salaried staff 29%. Women accounted for 52% and men 48% of workers, and 43% and 57% of salaried staff, respectively.

External labor turnover was 3.8% (6.8% in 2002). The parent company hired 43 new people: 30 wage earners and 13 salaried employees, 65% of them women and 35% men. Over the year, 125 employments terminated - 90 on the shop floor and 35 in the offices. Internal labor turnover, reflecting the personnel's versatile skills, was 11% (8.6% in the previous year). Altogether, 118 people moved to new jobs within the company.

Personnel structure changed little in 2003. The average length of employment in the parent company remained at 13 years. One fourth of the parent company's employments had lasted less than five years, and 28% had been at Tamfelt for 20 years or more. The average employee age at year-end was 42 (41 in 2002).

The percentage of fixed-term staff was down from 8% to 4%. Part-time employees accounted for 3% (down from 4%). At year-end, 21 people were on part-time pension or part-time disability pension (33 a year before).

Job skills, competence and aptitude are the key requirements for eligibility for an employment at Tamfelt. Equal opportunities are considered in recruitment. At year-end, 60% of workers and 93% of salaried staff held professional degrees. The percentage of salaried employees with a university degree was 32% (34% in 2002); 30% (28%) held engineering diplomas, and employees with post-secondary level education accounted for 30% (29%).

Absenteeism through sickness counted on the theoretical regular working time was 5.6% (5.7%), while the average industrial figure is 5.8% according to the latest statistics. Of sickness days 30% were attributed to musculoskeletal disorders, 20% to respiratory

disorders, 15% to injuries, a good 10% to mental disorders, and 25% to other illnesses.

The average age of retirement rose from 57 to 59 years. Musculoskeletal disorders and cardiovascular diseases were the most common reasons for retirement.

SYSTEMATIC AND LONG-TERM DEVELOPMENT OF PERSONNEL COMPETENCE

As provided by Tamfelt's renewed quality system, a survey of employee competence requirements began in 2003 based on the strategic plans of the company, divisions and units. The survey will be completed by 2005 and it will be followed by personal development reviews to prepare group-specific or individual development plans throughout the organization.

LEARNING THROUGH WORK, APPRENTICESHIPS AND NETWORKING

Continuous self-development is important to working capacity. In 2003, learning was mostly done at the workplace. Information systems knowledge as well as production and quality knowhow, in particular, were advanced by learning through work. The new resource planning system was put to use in daily resource planning and business planning. The use of information systems on the shop floor increased significantly.

Apprenticeship training increased with around 50 long-term apprenticeship programs in operation in the parent company. They aim at specialist qualification in leadership or technology and the further vocational qualification of mechanical fitter. Austerity measures prevented full implementation of the training budget.

Tamfelt joined the Tampere Business Campus (TBC) initiative, in which companies network to increase learning through interaction, to acquire high-quality and cost-effective staff development programs for their specific needs and to gain tools for better tapping staff knowhow.

A specialist leadership qualification program tailored for the needs of TBC companies began in the fall of 2003 and was attended by six Tamfelt employees. The next steps will be development programs in well-being at work and in competence leadership.



PROMOTION OF WELL-BEING IS A PART OF DAILY WORK

Tamfelt invested in individual and group-specific guidance in well-being at work. Surveys in ergonomics and risk assessments continued and plans were produced as to how working conditions should be enhanced. All this work goes on and the implementation of proposals will be accelerated.

Shift-work systems will be developed on the basis of research knowledge and industrial experience. First experiments with a rapid clockwise shift rotation system were put to work at the end of the year.

Leadership and daily supervision are key to a well-functioning working community. A total of 32 superiors and project experts have completed or are in the process of completing a specialist qualification in leadership.

The austerity measures and readjustments implemented over the year, together with tough profit and performance targets, posed a challenge to personnel well-being. Employee participation and opportunities to influence enhance well-being at work.

In addition to joint consultations, special meetings were arranged between management and staff, in which the management replied questions which employees had submitted in advance. In the fall, feedback sessions were held between personnel group representatives and management to discuss how readjustments had been felt, which lessons had been learned, and how to proceed. At the end of the year, personnel group representatives and management met to discuss ways to facilitate change management and continue to promote personnel well-being.

Equal opportunities were included as a focus area, and measures to improve work culture were under discussion. Together with five other local companies, Tamfelt takes part in a project of the University of Tampere Work Research Centre on the promotion of equality at work. The project was launched in the spring with a questionnaire filled in by the personnel. The objective was to identify needs to improve the equal opportunity system and to inspire debate on equality.

The results of the survey were reported in the fall and they led to the setting up of a working party to draw up an equality plan for the Tampere and Juankoski plants. The implementation of the plan will be regularly monitored.

Among free-time activities provided by the company, yoga and gym classes were popular. Volleyball club and dancing club were the most active clubs, and fishing is a perennial favorite at Juankoski. Tamfelt's gyms were well visited throughout the year.

SUGGESTION SCHEME REORGANIZED

The suggestion scheme system at Tampere was reorganized by appointing responsible persons for each product group to boost the cycle time. The number of suggestions and the total amount of rewards were lower than in the previous year. About 10 per cent of employees submitted ideas for consideration. In December the company's suggestion scheme committee awarded prizes for the year's best suggestions. The highest reward paid in 2003 was 1,020 euros for a contribution in the Dryer Fabrics unit.

ACCIDENTS ON DECLINE

A favorable trend continued at the Juankoski plant: the number of accidents was down from 15 to 13 and no serious accidents occurred. Employees were prompted to report on risk situations, and 11 reports were submitted over the year. At the Tampere plant the number of accidents fell from 90 to 66, and no serious accidents beyond fractures occurred. The number of days lost from work due to accidents (per one million worked hours) was 389 (459) at Tampere and 276 (237) at Juankoski.

The rate of accidents involving more than three days lost from work (number of accidents per one million worked hours) was 27 (28) at Tampere and 7 (11) at Juankoski. The corresponding latest industrial average was 31. The rate of all incidents was 57 (71) and 27 (48), respectively.

Risk assessment training continued and the theme of health and safety training for production superiors was H&S responsibility. A decision was made to invest in implementing and regular monitoring of the improvement measures. The risk assessment groups are provided an opportunity for further training.

HUMAN RESOURCES ACCOUNT

JAN. 1 – DEC. 31 (1 000 €)

	2003	%	2002	%
NET SALES	107,360	100	107,500	100
Personnel expenses	47,885	45	48,893	46
Payroll for regular worktime	31,963	30	32,724	30
Payments by results	1,307	1	738	1
Payments for overtime	1,301	1	1,939	2
Personnel renewal				
Recruiting and job orientation	638	1	994	1
Vacation payments	6,440	6	6,823	6
Other holiday payments	2,515	2	2,549	2
Personnel development				
Training	401	.	712	1
Other measures to maintain and improve working ability	232	.	325	.
Sick payments	884	1	839	1
Disability pension expenses	1,025	1	656	1
Other pension expenses	787	1	136	.
Other personnel expenses	392	.	457	.
Outsourced services	1,791	2	1,366	1
Other costs and expenses	46,764	44	47,223	44
Financing items	172		7,915	
Extraordinary items	1,860		2,114	
Appropriations and taxes	-3,869		-8,126	
NET INCOME FOR THE YEAR	9,083	8	11,921	11

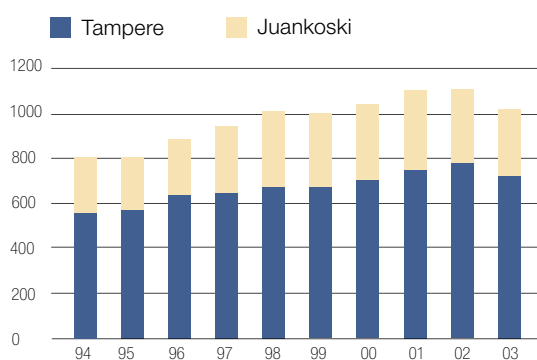
PERSONNEL STRUCTURE, PARENT COMPANY

	2003 number	2002 number
Wage-earners	753	804
Salaried employees	305	330
Total	1,058	1,134
	%	%
Wage-earners	71	71
Salaried employees	29	29
Men	51	51
Women	49	49
Permanently employed	96	92
Fixed-term	4	8

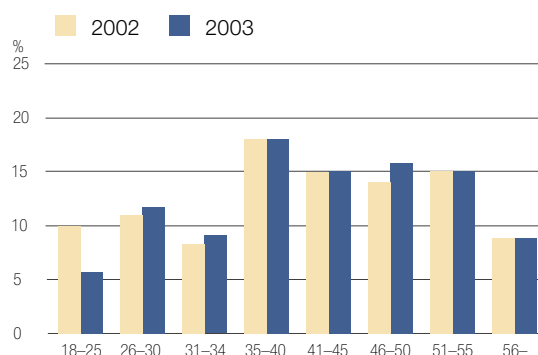
	2003 %	2002 %
Full-time employees	97	96
Part-time employees	3	4
Absenteeism through sickness	5.6	5.7
Labour turnover	3.8	6.8

	years	years
Average age	42	41
Average employment	13	13
Average retirement age	59	57

Personnel, 1994-2003



Age Composition





*More effective recycling –
energy out of waste.*



OUR WAY OF SUSTAINABLE DEVELOPMENT

Parent company environmental report

Tamfelt operates on the principles of sustainable development. The company's defined environmental policy is adopted as a basis for all decision-making involving environmental considerations of Tamfelt's products and activities.

ENVIRONMENTAL POLICY AND ENVIRONMENTAL MANAGEMENT SYSTEM

Tamfelt's environmental policy has been designed in consideration of the environmental impacts of the Juankoski and Tampere plants and the requirements of environmental legislation. The Group's Executive Board and the representatives of personnel groups endorsed the policy in August 1997.

The goal is to avoid unnecessary use of energy, electricity and water and to save natural resources by efficient use of raw materials. Efforts are made to reduce waste and to step up the reuse of materials. Waste hazardous to the environment or human health is transported to a plant specializing in the treatment of such wastes.

Tamfelt's environmental management system is based on the SFS-EN ISO 14001 standard, and the parent company was certified on March 2, 1998.

The company's top management is responsible for the development and implementation of the environmental management system.

ENVIRONMENTAL RISKS

Environmental risks are low from Tamfelt's activities. The hot oil system and the partial location of the Tampere plant in a watershed area provide potential risks, whereas hardly any environmental risks are posed by the Juankoski plant.

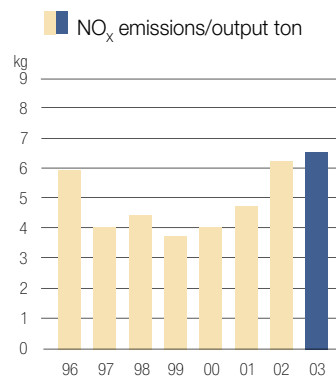
Investigations made together with the regional environmental center revealed that the sediment deposited at the bottom of the Tampere plant's equalizing basin contains small amounts of metals. A joint project was launched with Ekokem Oy to treat the sediment.

MAJOR ENVIRONMENTAL IMPACTS AND THEIR TRENDS

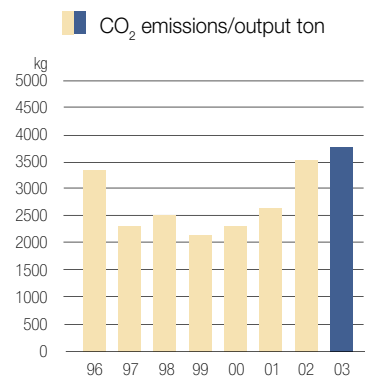
The Tampere plant takes in its service water from the nearby lake Kaukajärvi. A long hot summer followed by a dry fall drove the water to an abnormally low level, as it did in 2002, and water supply to the plant caused some problems. Tamfelt had to apply for and was granted a special permission to ensure its water intake. In summer, 80% of the water intake is consumed for air conditioning of the plant premises. An application has been filed for an environmental permit to return this clean water to the lake and thus reduce the likelihood of exceptionally low water levels.

The contents and amounts of waste water discharged into the municipal sewerage system through the equalizing tank were below the licensed rates.

Nitrogen Oxide Emissions, Tampere plant



Carbon Dioxide Emissions, Tampere plant





Tamfelt continued to take part in an air-quality monitoring scheme run by the city of Tampere. The boiler plant of the Tampere facility is fueled by natural gas. The consumption of natural gas per output ton was at the level of the previous year. Thus also the emissions of nitrogen oxide and carbon dioxide remained close to the levels of the 2002.

The total consumption of electricity was slightly reduced, even when computed per output ton.

At the two plants, more than half of the waste consists of raw material residue. The amount of landfill waste per output ton from the Tampere plant fell by 23%. This was partly thanks to a new application found to cloth waste and the delivery of burnable waste for energy use. The Tampere plant recycled 58% of waste. At Juankoski, the amount of landfill waste increased 14%, mainly because the agreement of cooperation with a recycling company expired. The percentage of waste recycling at the Juankoski plant was 48.

All hazardous waste was sent to the appropriate disposal contractor. At the Tampere plant, the amount of hazardous waste is still low, although per output ton the amount almost doubled from the level of the previous years. The change was due to the increased use of harmful chemicals in the manufacturing process.

All product groups failed to reach their set targets for raw material reuse. The recycling of cloth waste at both plants stayed at the level of 2002. The Tampere plant channeled 30% of cloth waste to secondary use.

90% of packing supplied by Tamfelt is reused. The amount of packing material was 280 kg per output ton. The reuse of packing cases was increased in 2003.

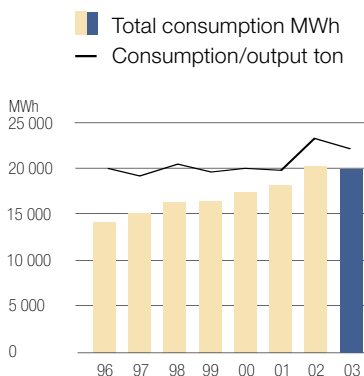
WASTE AS ENERGY

The kinds of waste that serve no production purposes but can be burned are referred to separate collection. This "energy fraction", in the case of the Tampere plant, typically contains raw material waste, contaminated board, plastic and wood. It must not contain organic waste, metals or PVC; they are collected separately.

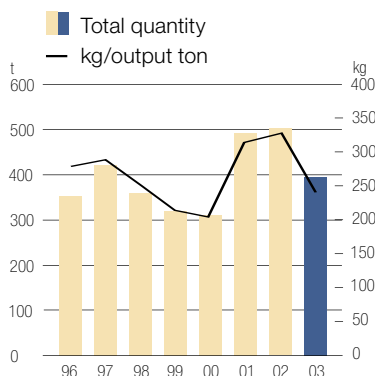
Energy fraction can be used as fuel instead of coal or peat. In heating value, the energy waste produced by the Tampere plant equals to coal and slightly exceeds peat. Its ash content is below 1% of dry solids, while that of coal is 10-18%. The contents of sulphur and chlorine are very low. Burning of waste helps reduce atmospheric releases from energy production plants compared to fuels such as coal.

Investigations into the usability for energy of the Tampere plant's landfill waste were completed in 2002. Separate collection of energy waste from production was organized in early 2003, which substantially reduced the need for landfilling. Unexpected difficulties arose in finding a suitable crusher for cloth waste, in particular, which interrupted the delivery of cloth waste into energy use. Efforts to increase the energy use of waste will be continued in 2004.

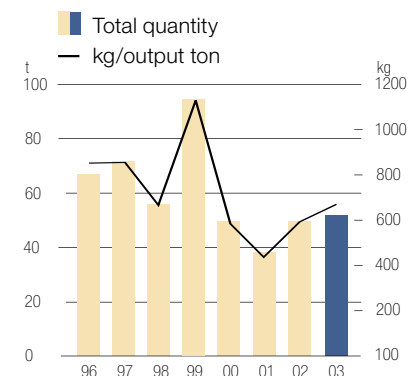
Electricity Consumption, Tampere plant



Landfill Waste, Tampere plant



Landfill Waste, Juankoski plant





ENVIRONMENTAL POLICY

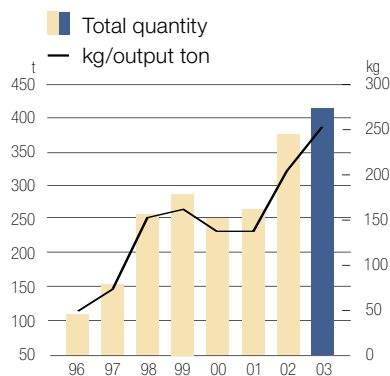
1. Tamfelt pursues sustainable growth in an environmentally sound manner. Products, processes and procedures are developed applying the best available technologies.
2. Tamfelt seeks to make use of all the raw material supplied. The percentage of raw material utilization will be increased to over 90%.
3. Energy use will be improved. Unnecessary consumption of electricity, water and heating energy will be reduced to a minimum.
4. The amount of waste will be reduced annually by 10%. The most important goal is to reduce the amount of slowly decaying wastes.
5. At least 70% of waste will be reclaimed.
6. All hazardous waste will be appropriately disposed of.
7. Tamfelt does not use environmentally hazardous substances in production.
8. Tamfelt observes environmental legislation, rules and regulations in all activities.

Waste as fuel reduces the load on landfill sites and the cost of waste treatment is cut to almost a half of the cost of landfilling.

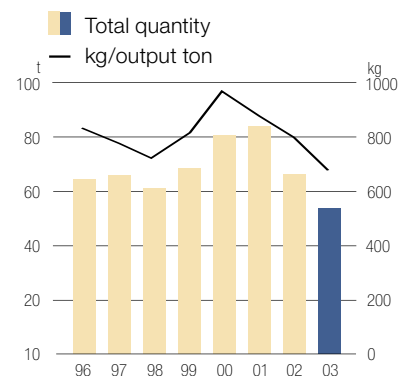
STAKEHOLDER RELATIONS

Public officials had no objections to Tamfelt's environmental performance in 2003. Water intake from lake Kaukajärvi was subject to a special permission later in the year, but there were no changes in other licenses. The company's employees have actively contributed to upgrading the environmental program. They are committed to the policy and they are invited to express their opinions, for example, through the company's suggestion scheme. Tamfelt's customers have also asked questions about the management of environmental issues in the company and found it to be at a high level.

Recovered Material, Tampere plant



Recovered Material, Juankoski plant





Quality products, expert technical service, and close cooperation with customers and machinery manufacturers are our keys to success.



Riikka Halla, warper.

PRODUCT INNOVATIONS ENSURE GLOBAL LEAD

Tamfelt is a world leading supplier of technical textiles. The PMC Division (Paper Machine Clothing) produces paper and board machine clothing. The Filter Fabric Division makes filter fabrics for the forest, mining and chemical industries as well as dry filtration fabrics and ironer felts. All the products are tailored to meet the specific needs of each individual customer and the requirements of the particular machine and position.

PAPER MACHINE CLOTHING

In paper manufacturing, clothing (forming fabrics, press felts, shoe press belts and dryer fabrics) is used to transport the web of paper through the process and to remove water. The purpose is to ensure a trouble-free process, which enables customers to produce high-quality paper and board economically and efficiently. The constantly advancing technology of large and high-speed paper machines presents a growing challenge to clothing suppliers. Tamfelt tackles this challenge with the help of focused R&D, professional workforce and innovative approach. A full-line supplier, Tamfelt provides solutions for the entire machine, with products and technical services forming a comprehensive package. Correctly chosen paper

machine clothing results in substantial energy savings, better runnability and higher paper quality. Tamfelt has proven its expertise as a start-up supplier for large and high-speed SC, LWC, newsprint, fine paper and board machines. An example of these is the start-up of the world's largest newsprint machine, Stora Enso Langerbrugge PM4 in spring 2003.

We work in close cooperation with customers, paper machine manufacturers, raw material suppliers and research institutes.

FORMING FABRICS

Tamfelt's forming fabrics are produced at the Juankoski facility. They are woven from synthetic yarns and processed through heat-setting and seaming. The key requirements for forming fabrics are excellent runnability, even dewatering capability and repeatable quality.

The market for triple-layer applications has grown strongly. The flagship of this range is **Gapmaster**, engineered for high-speed paper machines and/or for the manufacture of the most elaborate paper grades. The patented new style has contributed to extraordinary machine performance, and it has been specially praised for high wear resistance. Gapmaster is the only forming

Forming fabrics

The pulp sprayed on the wire section contains 99% water and 1% fibers. Most of the water is removed on the wire section. A paper web is formed by filtering water through the fabric. Thus the fibers stay on top of the fabric.

Press felts

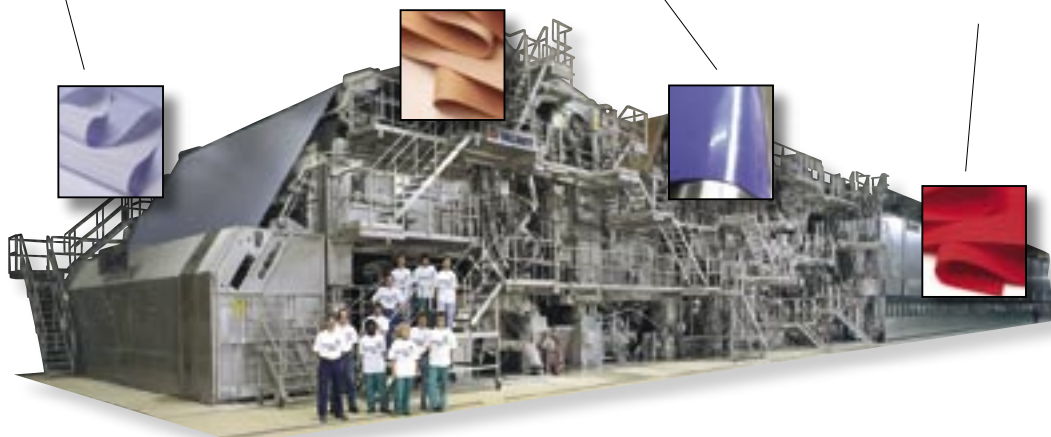
From the wire section the web is conducted to the press section, whose main function is to remove water. The web is pressed between rolls and felt. This increases water pressure and makes the water flow into the felt.

Belts

On a shoe press the press time is essentially longer than on a conventional roll press. Thus much more water can be pressed out of the web. A shoe press is operated with a belt.

Dryer fabrics

On the dryer section, the dry content of the web is further increased by evaporation. The dryer fabric presses the web against the surface of steam-heated drying cylinders. As web temperature rises, water is effectively evaporated through a porous dryer fabric into the air.





fabric of the SSB-style (Sheet Support Binder), which is available in four alternative structures to meet the demands of various positions. Other forming fabrics of the product group are Hifi, Multistar, Optistar, ISD, Durastar and Champion.

PRESS FELTS

Press felts are produced at the Tampere facility from synthetic yarns and fibers in a weaving and needling process. The key requirements for press felts are repeatable quality, good start-up and high dewatering performance.

Transmaster Open (TMO), launched in 2002, has established a foothold in the market. Tamfelt was the first in the world to introduce a product, which combines the best of permeable felt and impermeable belt. The benefits of TMO include fast start-up, high dry content of paper after the press section and superior paper smoothness. The product has obtained excellent results and excited keen interest among customers. The Transmaster range also includes a seamed version, **SeamMaster Open** (SMO), which, besides the above benefits, is easily seamable to allow a swift change of fabric even at unexpected shutdowns. The production volumes of seamed press felts have continued to grow. Another seamed press felt style is Tamseam. A patent is pending on the products of the Transmaster range.

The **Ecostar** press felts have contributed to a number of world record speeds of printing paper machines and they have also gained a strong position on new press concepts employed in paper machines.

Other press felt products include Laminet, Topstar, Tambat, Streamstar, Aquanet and Aquaduct.

SHOE PRESS BELTS

Tambelts are made at the Tampere facility by casting cylindrical roller jackets of polyurethane, which are then reinforced with yarns. Their production volumes have grown evenly, and the customers have reported positive results. Belt manufacturing capacity will be increased in 2004. Belts are either smooth (**Tambelt S**) or grooved (**Tambelt V**). The key requirements for belts are high wear resistance, non-stretchability, low friction and high dry content in paper. The product has been patented.

DRYER FABRICS

Tamfelt's dryer fabrics are produced at the Tampere facility from synthetic yarns in a weaving, heat-setting

and seaming process. The essential requirements are good support to the paper or board web, maximum evaporation capacity and non-marking process.

Our patented **Unistar SL** was designed to improve machine runnability in the first groups of the dryer section. The product's smooth surface and a high number of contact points ensure even pressure against paper. This keeps the product cleaner and provides maximum support in uniron positions. Unistar SL has contributed to outstanding performance on paper and board machines.

The newly launched style **Tamdry DC** is a new-generation flat-yarn dryer fabric, engineered for positions requiring an extra high evaporation capacity. Other products of the dryer fabric group include Tamstar, Optimax, Tamsol, Tamfil, Silverstar, Thermax and carrier ropes.

FILTER FABRICS

The Filter Fabric Division specializes in filter fabrics for pulp and paper, mining and chemical industries and for sewage treatment plants. By focusing on these areas, Tamfelt has acquired invaluable expertise and know-how in wet filtration. The various units of the Division cooperate closely in sales, R&D and production. The fastest growing product groups are filtration media for the forest industry and ironer felts.

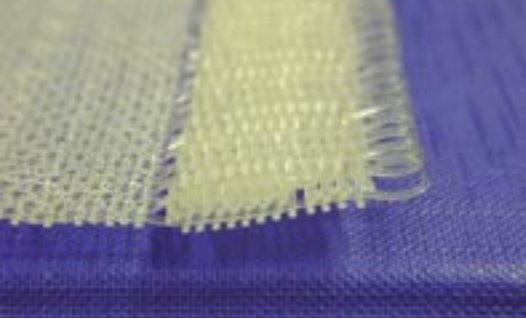
We offer expert know-how in the choice of filtration media and in technical solutions for comprehensive filtering processes.

PRODUCTS FOR THE FOREST INDUSTRY

Tamfelt has two major advantages as a filter fabric supplier to the pulp and paper industries: firstly, the company's location in Finland, which is a world leading country in wood processing technology, and, secondly, close cooperation with leading filter manufacturers.

Filter fabrics are used in the manufacture of pulp and paper in several positions. Pulp cooking chemicals are removed in post-cooking washers. In the bleaching process, pulp is washed several times and water is removed by filtering. The same principle applies to the manufacture of mechanical pulp and the reuse of fiber recovered from recycled paper.

In the causticization process of a pulp mill, cooking chemicals are recycled and cleaned to be returned to



cooking. This process includes the filtration of green or white liquor and lime mud. Tamfelt is the leading supplier of filter fabrics for causticization processes. Tamfelt's position has been strengthened by many start-ups of new causticization plants, for which we have supplied all start-up fabrics.

Fiber emissions from paper machines and filters are filtered before they are discharged into waste water. The resulting slurry is filtered and dried for incineration or transportation to a landfill site.

The biggest product groups are:

- shrink fabrics for drum filters
- disc filter bags
- lime mud filter fabrics
- filter fabrics for white or green liquor and dregs
- double press filter fabrics.

PRODUCTS FOR THE MINING AND CHEMICAL INDUSTRIES

Tamfelt supplies filter fabrics to various processes employed in concentrating plants and in the metallurgical and chemical industries. We also produce fabrics for the treatment of community and industrial waste water.

High process temperatures, complex chemical environments and the variety of sludges set high special requirements on the fabrics.

The biggest product groups are:

- cloths for automatic pressure filters
- disc filter bags and plastic sectors
- cloths and fabrics for horizontal belt filters
- fabrics for belt filter presses
- press filter cloths
- drum filter cloths
- cloths for electrolysis.

The new product **StrongMax** was developed for horizontal belt filters employed in the mining and chemical industries. Highly resistant to mechanical wear, StrongMax provides long filter life and has delivered very good filtering results.

DRY FILTRATION PRODUCTS

Dry filtration products are used to separate solids from gases. The filtering of flue gases and exhaust air from industrial plants and thermal power stations is an important part of air pollution control. Solid particles are

either returned to the process, converted into energy by incineration, or taken to a landfill site. The filters use cassettes, cylinders and bags made of various types of felt. Tamfelt's dry filtration products are made at the Fanafel plant in Portugal.

IRONER FELTS

Commercial and institutional laundries provide their customers with clean and dry textiles. The dryers use ironer felts, which are installed around rotating rolls. They make the textiles smooth and give them a pleasant feel. The felt also absorbs moisture from the fabric. The types of felts needed depend on dryer technology and the customer's requirements for the end product. Ironer felts must be highly resistant to abrasion, heat and moisture. Tamfelt's ironer felts are produced at the Fanafel plant.

The novelties and reference positions of PMC and Filter Fabrics divisions are presented in the two annual issues of Tamfelt's customer magazine **Innofabrics Now**.



GROUP RESEARCH AND DEVELOPMENT

RESEARCH AND DEVELOPMENT

Tamfelt's R&D is conducted in cooperation with customers, material suppliers, process equipment suppliers, such as paper machine manufacturers, as well as universities and research institutes. The work is focused on the engineering of new products and the upgrading of existing products as required by customer needs. Tamfelt submits five to ten patent applications yearly.

R&D is controlled by Tamfelt's quality and environmental management systems. Since 1992 Tamfelt has been certified with the SFS-EN ISO 9001 quality standard, which was upgraded in 2003 to correspond to ISO 9001:2000. We are committed to high quality and sustainable development in everything that we do.

Laboratory analyses of raw materials and finished goods are an essential part of our activities. All materials are tested as they arrive. In the course of production, fabrics are measured and inspected to ensure their compliance with the defined quality requirements.

The cost of R&D was 2.8% of the Group's net sales in 2003.

LABORATORY

The Tampere and Juankoski plants have their respective modern textile and paper laboratory facilities. Laboratory analyses and measurements are an important part of our total service. They include examinations of used cloths and paper and board.

Tamfelt has developed special simulators to monitor the behavior of fabrics on the paper machine. The laboratories employ:

- contamination and abrasion simulators
- press simulators
- dewatering simulators
- forming fabric cleaning simulators.

TECHNICAL SUPPORT

Our technical support provides expert services both during the customer's production process and during shutdowns. Monitoring, follow-up, measurements, analyses and reporting are an integral part of our technical services.

Measurements during production help improve the runnability of paper machines and optimize paper quality. During shutdowns, various sections of the machine or clothing can be checked in order to optimize running time and to avoid the risk of damage. Regular monitoring extends the life of the clothing and improves cost efficiency.

Tamfelt's technical experts provide the following services:

- optimization of customer's processes, clothing, and running practices
- solutions to paper machine problems
- help in paper quality or runnability problems
- special measurements
- joint projects.

In addition, technical experts are responsible for the acquisition and upgrading of customer service equipment.

The results of measurements and laboratory analyses are an integral part of product application. They provide important information on fabric behavior on the machine and help us make adjustments, if necessary, to further products we supply to the customer. Each fabric is tailored to the specific requirements of the particular position.

Tamfelt invests in start-up cooperation. Our experts attend every start-up of a new machine or a rebuild, for which Tamfelt has supplied the fabrics. Our experts assist in training the machine crew, they discuss suitable fabric options with the customer and the machine supplier, they participate in trial runs, and, above all, they are there to ensure that the fabrics work well and the running conditions are optimal as the machine goes on stream. Excellent fabrics and a well-managed start-up are the key to long-term cooperation.



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