ANNUAL REPORT

PERLOS

SOLUTIONS TO CHALLENGES

Financial information in 2005

Interim reports
April 27, 2005
Interim report for January-March

July 27, 2005
Interim report for January-June

October 28, 2005
Interim report for January-September

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

Annual General Meeting
Perlos Corporation's Annual General Meeting will be held on Monday, March 30, 2005, from 17:00 onwards in the Helsinki Hall of the Finlandia Hall. The address is Mannerheimintie 13 e, Helsinki.

Shareholders who have been registered by March 20, 2005, at the latest in the company's Shareholder List, which is kept by Finnish Central Securities Depository Ltd, have the right to attend the Annual General Meeting.

We request participants to register by 12:00 on March 23, 2005, at the latest by notifying us at: Perlos Corporation, Anne Inberg, P.O. Box 178, FIN-01511 Vantaa,
tel. +358 9 2500 7255, fax +358 9 2500 7208,
or email: agm2005@perlos.com.

We request that any proxies be sent to the company's address provided above before the registration deadline.

Dividend
The Board of Directors will propose to the Annual General Meeting that the dividend to be paid for the 2004 financial year be EUR 0.20 per share. The dividend will be paid to shareholders who are registered, on the record date of April 4, 2005, in the company's Shareholder List, which is kept by Finnish Central Securities Depository Ltd. The Board of Directors will propose to the Annual General Meeting that the dividend be paid on April 12, 2005.

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

Investor relations
Tage Johansson,
Executive Vice President,
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Copies of the annual report and Perlos News magazine can be ordered via www.perlos.com or from Perlos' Corporate Communications, tel. +358 9 2500 7346, fax +358 9 2500 7208, e-mail: info@perlos.com.

Perlos 2004 Annual Report

Contents

Year 2004 in Brief

- On the whole, 2004 was a very strong year for Perlos. The company set a new net sales record, EUR 561.6 million, up 24% on 2003. Demand for Perlos' services rose steadily during the report year, with the exception of the end of the final quarter.

- Thanks to the steady rise in net sales, profitability also improved significantly compared with the previous year. The result for the year was EUR 55.1 million and earnings per share came in at EUR 1.04.

- Good profitability enabled the company to invest in its future by expanding production capacity in Hungary, Brazil and China. In addition, the company made numerous technology investments, the most notable ones into new painting technologies and in the flexible assembly concept.

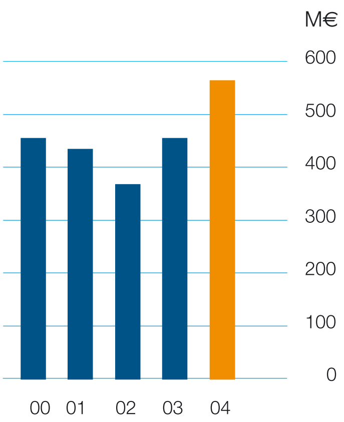
- The cash flow from operations, EUR 97.1 million in 2004, was very strong, and all gross investments, EUR 59.6 million, were financed with the cash flow from operations.

- The company's solvency has remained robust; the equity ratio was 45.8% at year's end.

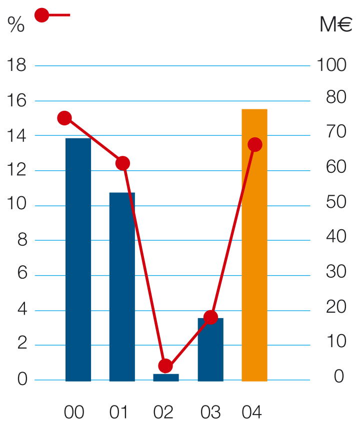
- Co-operation with key customers developed well during the report year and the company acquired new customers in different market areas, such as the Chinese mobile phone and network manufacturer Huawei, the Japanese mobile phone manufacturer NEC, the Finnish sports instrument manufacturer Polar Electro, as well as VTI Technologies, a Finnish company which manufactures accelerometers, and the Canada based wireless handset manufacturer Research In Motion Inc (RIM).

Key Graphs

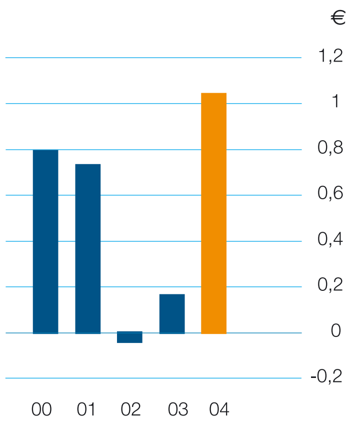
Net Sales, EUR Million



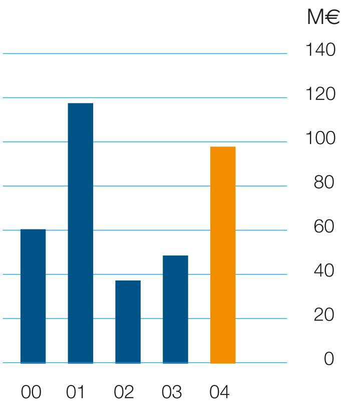
EBIT, EUR Million
(% of Net Sales)



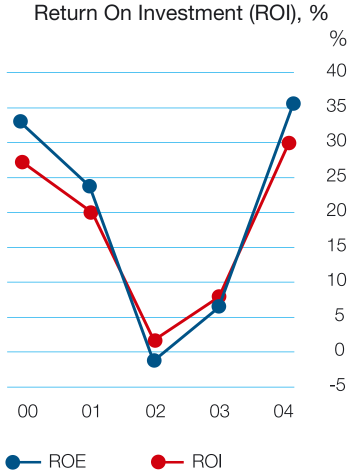
Earnings Per Share,
EUR (Diluted)



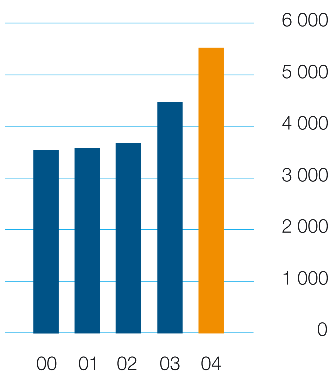
Cash Flow From Operations,
EUR Million



Return On Equity (ROE) And
Return On Investment (ROI), %



Average Number Of Personnel



Perlos in Brief

Net sales of MEUR 561.6 in 2004
6,117 employees at the end of 2004
Approximately 17,000 shareholders
Established in 1953

Services

Perlos is the world's leading supplier of mechanical and electronic modules for the telecommunications, automotive and healthcare industries. Our service portfolio encompasses product design, manufacture, assembly and logistics worldwide. It is a service performance that gives global brand support to our customers when and where they need it.

Customers

The world's leading telecommunications, electronics, automotive and healthcare companies, such as Nokia, Siemens, SonyEricsson, NEC, Huawei, RIM, Polar Electro, Autoliv, AstraZeneca, Sanofi-Aventis and Schering.

Locations

Domicile: Finland
Plants: Finland (5), Hungary (1), UK (1), China (2), United States (1), Brazil (1), Mexico (1) will be inaugurated in 2005
R&D: Finland, Sweden, Singapore
Offices: Japan and Taiwan

Long-term financial goals

Over the next few years, Perlos aims to increase net sales at least in line with the volume growth of the mobile phone market. Over the long term, the target for operating profit is approximately 10% of net sales and for return on investment (ROI) over 20%. Another long-term objective is to have a positive cash flow after investments.

Largest shareholders

December 31, 2004

Corporations	35.13%
Financial and insurance institutions	14.26%
Public sector organisations	9.84%
Non-profit organisations	5.02%
Households	15.84%
Foreign shareholders	19.91%

Shares

Perlos' share is quoted on the Helsinki Stock Exchange under the code POS1V.

Dividends policy

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

Review by the CEO

Growth continues in Perlos' key markets

Growth continued in the mobile phone market in 2004. Approximately 640 million mobile phones were sold worldwide, or a one-fifth more than in 2003. Growth was fuelled by emerging markets, such as those of Eastern Europe, Latin America and Asia, which outperformed expectations. In the mature markets, purchases by consumers looking to change phones also saw higher growth than expected.

Mobile phone manufacturers and operators are coming out with phone models that are more precisely targeted at different consumer groups. Due to the volume growth in the markets and the expanding range of mobile phone models, manufacturing chains must keep shortening their lead times and achieve greater flexibility in manufacturing processes. Customers are centralising their procurements in the hands of ever larger, competent players that are able to offer a great share of the services of the delivery chain. Product design will become increasingly significant in the future. Suppliers are actively setting up new partnerships and forms of co-operation to bolster their position and competitiveness.

In 2004, growth continued in the healthcare market at an annual rate of around 10%. The entire market is in transition. The ageing population structure will increase the total costs of healthcare and the need for care in the future. Stringent regulatory requirements are imposed on products used in diagnosis and healthcare, and the products must be brought to market faster, but without compromising on reliability.

The outsourcing trend experienced in the mobile phone industry will also become more common in healthcare. Healthcare companies are seeking to focus on their core expertise areas, such as product development and marketing. Services for design and manufacture are being outsourced from global partners that operate in line with regulatory requirements. Companies do this in an effort to shorten the time from product concept to launch and to achieve cost benefits in manufacture.

Record-breaking net sales

Year 2004 was exceptionally strong for Perlos in all respects. Net sales hit a record peak, MEUR 561.6, up 24 % on 2003. Net sales were boosted by the exceptionally steady year-long demand in the mobile phone market. This became evident at the very beginning of the year: the post-Christmas season is typically slower for the mobile phone business, but not in 2004. At the beginning of October, Perlos' net sales already equalled full-year net sales for 2003. In the last quarter, rapid growth took place in October and November, but the pace slowed down in December. Nevertheless, the full-year growth target, volume growth outpacing the market, was achieved with flying colours.

Thanks to net sales growth, profitability also improved significantly compared with the previous year. The result for the financial year was MEUR 55.1 million and earnings per share amounted to EUR 1.04.

Good profitability and strong cash flow enabled Perlos to invest in its future by expanding production capacity in Hungary, Brazil and China. In addition, the company made numerous technology investments, the most notable ones into new painting technologies and the flexible assembly concept. The investments could be financed from the cash flow, and thus the company's solvency is robust.

Implementation of strategy proceeds according to plan

In 2004, Perlos made systematic efforts to follow its strategic growth path. Co-operation with key customers developed well. The company gained new customer accounts, developed production technology and expanded global production capacity.

In new technologies, Perlos unveiled the flexible assembly concept in the summer. This concept is based on reducing the product-specific portion of the automation line and increasing the reusable portion in the assembly process. The concept is already being offered for the manufacture of all new products and has been well-received by our customers.

The implementation of the three key processes was continued throughout the corporation. These global processes are concept creation, product creation and product delivery. The same way of working ensures that customers receive our services in an identical form regardless of our location, and enables Perlos' own operations to reach a new level of efficiency.

Perlos expanded its presence on all three of its business continents to bolster its position and made particular outlays on product design. The number of designers has been increased and new, standardised design processes and software have been deployed within the whole corporation.

The strategy of the Healthcare business sector was revised in summer 2004. In many respects, it is similar to the strategy of the Telecommunications and Electronics business sector. The strategy is based on utilising existing strengths, such as integrating mechanics and electronics, in business operations. The business sector is seeking a wider customer base and substantial expansion.

Outlook for 2005

Growth is expected to continue in the mobile phone market in 2005. Many mobile phone manufacturers estimate that approximately 700 million mobile phones will be sold during the present year, up 5-10% on 2004. Annual growth in the healthcare markets that are significant to Perlos is anticipated to continue at a rate of approximately 10%.

Perlos anticipates that the full-year net sales of the Telecommunications and Electronics business sector will increase in line with the volume growth in the mobile phone market.

The net sales of the Healthcare business sector are expected to significantly exceed the growth of the healthcare market.

Both net sales and earnings in 2005 are expected to be heavily focused on the latter half of the year.

The Group's gross investments are anticipated to slightly exceed 10% of net sales.

Long-term financial goals

Over the next few years, Perlos aims to increase its net sales at least in line with the volume growth of the mobile phone market. Over the long term, the target for operating profit is approximately 10% of net sales and for return on investment (ROI) over 20%. Another long-term objective is to have a positive cash flow after investments.

Vantaa, February 9, 2005

Isto Hantila
CEO

Telecommunications and Electronics

Sales of mobile phones surged in 2004. It is generally estimated that approximately 640 million mobile phones were sold worldwide, or about one-fifth more than in 2003. In recent years, global growth has focused on replacement purchases rather than sales to new customers. However, sales in 2004 were also stimulated by sales to new customers in emerging markets, such as those in Eastern Europe, South America and Asia.

Operating environment

The average selling price of mobile phones continued to slide, partly due to strong price competition and partly because cheaper handsets were supplied in greater quantities to emerging markets. In the mature markets, phone models incorporate more functionalities and the life cycles of the products are shortening. These days, the typical life cycle of a single phone model is 12-18 months. In addition, devices are more frequently being personalised, especially by mobile phone operators.

In order to be able to react faster to market changes and focus on their own core competencies, mobile phone manufacturers are outsourcing more of their design and manufacturing functions. At present, only a small share of the phone design and manufacturing process is outsourced.

During last year already, it was evident that mobile phone manufacturers are concentrating their outsourcing in the hands of ever-fewer versatile suppliers. Perlos' competitive position is strong, because the company has focused on the design, manufacture and assembly of electromechanical modules in line with its strategy. By networking with other players in the manufacturing chain, Perlos can offer leading technologies and manufacturing concepts in its field.

Record-breaking net sales

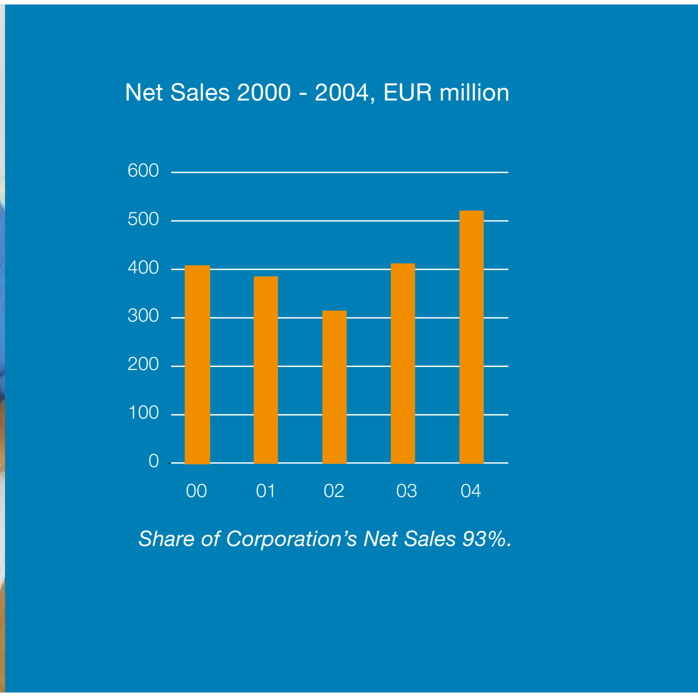
The net sales of Perlos' Telecommunications and Electronics business sector grew buoyantly in 2004. The business sector's net sales hit a record peak, EUR 519.8 million, up 27% on the previous year. Its rate of growth clearly exceeded average volume growth in the mobile phone market. The favourable trend was the result of not only the growth of the mobile phone industry, but also Perlos' ability to react to customers' capacity needs at exactly the right time.

A year of strategy implementation

The new strategy presented in the beginning of 2004 was implemented systematically. The four cornerstones of the strategy comprise the framework for its implementation: acquiring new customers, integrating technology, optimising global processes and enhancing Perlos' position in the value chain.

1. New customers

Perlos has actively screened new customer accounts, not only within its present procuct segments, but also in new segments where Perlos' key competencies can be leveraged. In the spring, the company started co-operation with the Finnish company Polar Electro, which develops and markets sports instruments



Share of Corporation's Net Sales 93%.

and heart rate monitoring technology. Perlos manufactures mechanical modules for Polar Electro's heart rate monitors.

In the autumn, Perlos began co-operation with VTI Technologies, a Finnish company which manufactures accelerometers and pressure sensors. Perlos delivers electromechanical modules for VTI's accelerometers, which are used in automotive electronic stability systems.

In the Asian market, Perlos' customer base is bolstered by co-operation with two new mobile phone manufacturers: the Japan based NEC and the China based Huawei. NEC is the largest mobile phone manufacturer in Japan. Huawei is a manufacturer of terminal devices and also the leading supplier of 3G networks in China. Perlos delivers mechanical modules for the handsets of both manufacturers. In addition, Perlos supplies Huawei with connectors for use in mobile network base stations. All the products are supplied from Perlos' plants in China.

During the report year, Perlos also started co-operation with the Canadian company Research In Motion Inc (RIM). RIM designs, manufactures and markets wireless solutions for the telecommunications market. Perlos manufactures mechanical modules for RIM's BlackBerry wireless devices.

2. Integrating technology

In recent years, Perlos has made a strong commitment to developing proprietary manufacturing technologies. An important result of this work is the flexible assembly concept that was presented in the spring, enabling a number of different products to be manufactured on the same assembly line. Shifting from one product to another can take as little as a few hours, whereas in conventional assembly the same job can take as long as 3-4 months.

Under the flexible assembly concept, the product-specific portion of the line is modular and can be changed easily. The line's capacity utilisation rate increases and it is no longer as dependent on fluctuations in the demand for individual end products. The concept will be deployed as from the beginning of 2005.

In the autumn, Perlos signed a strategic co-operation agreement with the Korean company Mosen Co. Perlos will begin to utilise the IML technology (in-mould labelling) developed by Mosen, which enables the flexible coating and decoration of products already in the injection moulding stage.

The objective is to deploy new technologies with other partners as well.

3. Global processes

The implementation of the three key processes was started throughout the corporation in the spring. This effort will continue in 2005. The processes are concept creation, product creation and product delivery. The same way of working ensures that customers receive our services in an identical form regardless of our location and enables Perlos' own operations to reach a new level of efficiency.

4. Enhancing our position

To bolster our competitive position, increasing global capacity was a particular focus area for Perlos in 2004. In the beginning of the year a decision was made to double the Manaus plant's floorspace to 9,000 square metres.

In the spring, Perlos decided on a EUR 15 million expansion investment at its Komárom plant in Hungary. A new 9,000 square metre factory hall will be built at the plant, bringing the total floor space at the Komárom facility to 21,500 square metres.

In the spring, a decision was made to establish offices in Tokyo, Japan, and Taipei, Taiwan. The offices serve as a base for handling sales and marketing activities and provide product design support and project management services for local customers. The offices also attend to screening and procuring new technologies as well as maintaining contacts with suppliers.

In the autumn, Perlos decided to expand its plant network to Reynosa, Mexico. The Reynosa region is home to an agglomeration of the telecommunications industry in northern Mexico. The Reynosa plant adds to Perlos' presence and service offering in the North and South American market. The new plant will have a surface area of about 15,000 square metres and the investment is valued at about EUR 14 million.

Also in the autumn, a decision was made to extend the Beijing plant. The plant's size will be expanded by 6,400 square metres by leasing suitable facilities in the vicinity of the existing plant. After the extension, the plant size is 17,000 square metres.

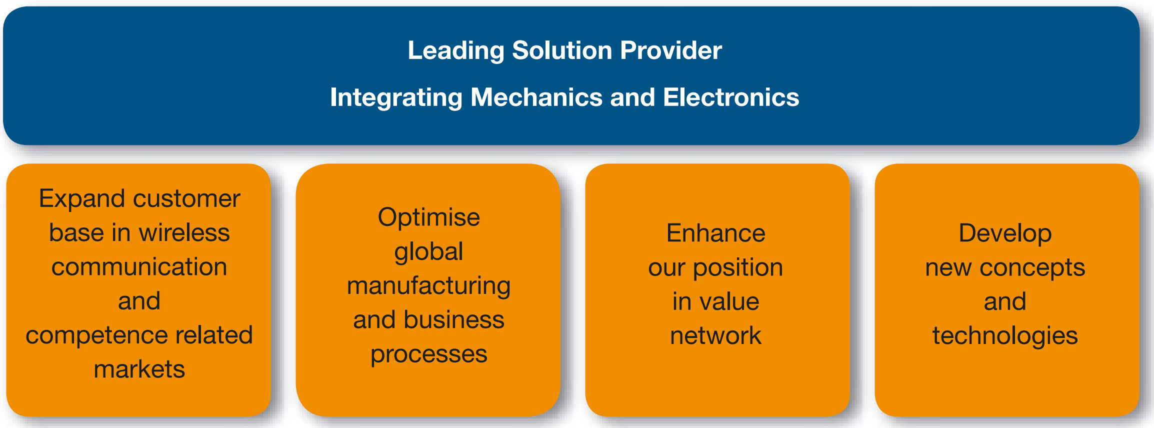
Perlos made a strategic decision a few years ago to make outlays on its design functions to optimise the products for manufacture and meet the customers' need to speed up the time-to-market of their products. In 2004, Perlos hired new designers, built up a network with other companies and developed global design processes that can be used to integrate the company's own expertise and employ resources flexibly. In addition, the company has invested in design tools that facilitate project implementation and support their integration.

Focus areas in 2005

The implementation of the strategy will continue in 2005. One of the key elements in this effort is building new plant capacity in the growth areas of China and Mexico. It is planned that the new production capacity will go on stream starting at the end of 2005, with full deployment being achieved by summer 2006.

In addition, Perlos will make outlays on the full-scale utilisation of its proprietary production concepts, the flexible assembly and rapid tooling. The development of the company's other proprietary technologies will also play an important role in the present year, in line with the technology strategy.

Strategy Cornerstones




NOKIA

Healthcare

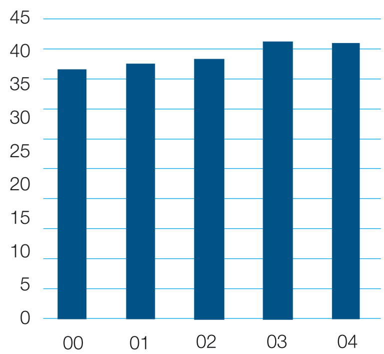
The customer base of the Healthcare business sector comprises manufacturing and marketing companies within the healthcare industry. The field saw further growth in 2004, the pharmaceutical market grew by 10-12% and the market for healthcare equipment and supplies by 7-9%. Lifestyle changes and the ageing of the population were major factors contributing to the growth. Growing therapy areas include the treatment of asthma, COPD (chronic obstructive pulmonary disease), diabetes, cancer and heart disease.

Outsourcing of design and manufacture continues in healthcare

The entire healthcare market is in transition. The costs of healthcare provision are deemed to be too high already. Efforts are being made to diagnose illnesses at the earliest possible stage and patients to be treated, discharged and returned to working life as soon as possible – on the one hand, to save on costs, and on the other, to ensure that care can be provided to the whole population. Patients will have to take on greater personal responsibility for their care. The ageing population contributes to the rise in the total costs of healthcare and the need for care.

In order to meet the challenges of the business environment, even the largest healthcare companies strive to focus on their core competence areas: in product development and marketing. Services for design and manufacture are more frequently being outsourced for international partners that operate in line

Net Sales, EUR million



Share of Corporation's Net Sales 7%.




with official regulations. Healthcare companies do this in an effort to shorten the time from product concept to launch and to achieve cost benefits in manufacture.

As healthcare companies focus on their core competencies, their design and manufacturing partners also seek to expand their own capabilities. Official regulations set stringent requirements on product design and manufacture. This is one reason why company size may become a critical factor. The traditional outsourcing chain has been fragmented. Accordingly, consolidation was seen in the field in 2004, especially in Europe.

Net sales development

In 2004, the Healthcare business sector's net sales amounted to MEUR 41.8 million. Net sales climbed as the year neared its close, reaching their highest level in the last quarter. Net sales were for the most part attributable to the business sector's present key customers in the pharmaceutical industry, such as AstraZeneca and Sanofi-Aventis.

Strategy re-evaluated and retargeted

The strategy of the Healthcare business sector was revised and retargeted during the summer. In connection with the strategy update, the business sector was renamed from Pharma to Healthcare.

In line with its strategy, Perlos intends to grow from its current position, the leading designer and manufacturer of dry powder inhalers, to a larger partner for the healthcare manufacturing and marketing companies in a few years.

This entails taking on a larger role in the design and manufacturing chain. Perlos' service concept includes mechanical product design, the design of production equipment, and the manufacture and assembly of products, all of which are provided in line with stringent regulation and customer requirements.

The main products are drug delivery devices, small equipment, components, subassemblies and consumables used in healthcare and self-care as well as packaging for the pharmaceutical industry and self-care.

Strategic themes

1. Continuous improvement of efficiency

It is typical of the healthcare business environment that although price competition tightens continuously, operational quality is not compromised. The constant upgrading of efficiency ensures that Perlos maintains its price competitiveness and profitability.

2. Broader customer and product portfolio

Perlos aims to expand its operations not only within existing customer accounts, but also with an eye on new customer relationships and new product groups. When rounding out its product portfolio, the company primarily seeks to utilise its present expertise in both design and manufacture.

3. Integrating and developing technologies

Perlos' services comprise the design and manufacture of electromechanical modules. The company can provide these services both on its own and in co-operation with its partners. In its operations, the company harnesses a range of production technologies that are developed actively. In addition, Perlos participates in research projects within the industry.

4. Consistent processes and their optimisation

Perlos intends to have even more efficient, consistent processes: all of Perlos' Healthcare units providing customer service must be equally optimised, no matter in which part of the company's design or production network they are located.

5. Bigger role in value chain

The present service concept will be expanded by incorporating more added value services into product design and both mechanical and electronic design. These services can be provided either by the company itself or in co-operation with partners.

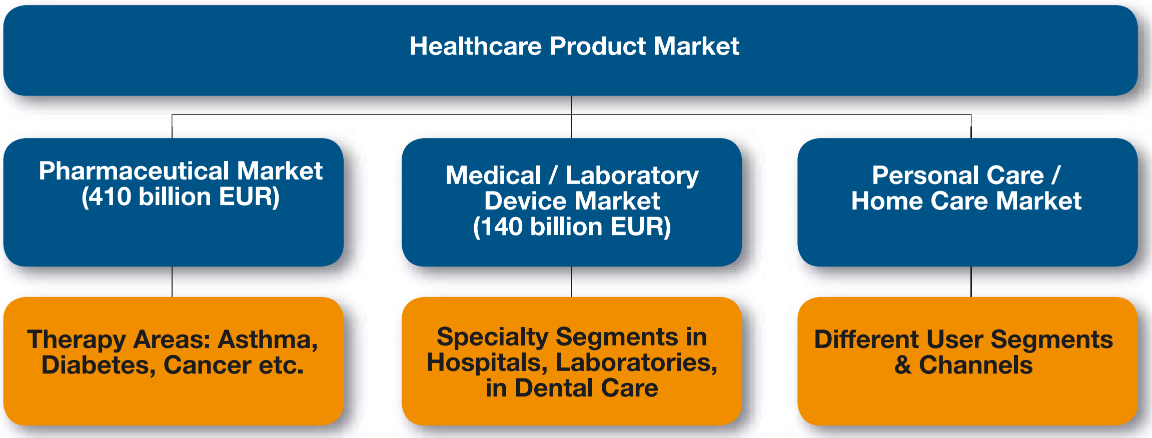
6. Professional team

A professional and motivated team of people is the cornerstone of Perlos' success. The competencies of personnel are evaluated and upgraded constantly.

Key focus areas in 2005

In 2005, the Healthcare business sector will focus on the implementation of its new strategy. Perlos is seeking substantial growth in its business operations with both its present and future customers. Developing the company's present good customer relationships plays a key role in safeguarding Perlos' growth. On the other hand, expansion into selected new healthcare product areas lessens Perlos' dependence on individual product areas, and thus minimises the effects on the company when changes occur in them.

The organisation of the business sector was realigned in 2004. A project aiming at the standardisation of operating processes was started in 2004 and certification is being sought for the renewed processes towards the end of 2005. The company intends to expand geographically by looking for new forms of co-operation with healthcare companies and by participating in the restructuring of the industry when necessary.



The customer base of the Healthcare business sector comprises manufacturing and marketing companies in the healthcare industry. Perlos' customers are operating in a pharmaceutical market of approximately EUR 410 billion, of which EUR 22 billion represents drug delivery devices, and in a healthcare device market about EUR 140 billion.

The business logic and distribution channels vary in different market segments. However, similar regulation and other requirements are imposed on the development, manufacture and product launches in different segments.

Human Resources

Year 2004 was a time of vigorous growth for Perlos. Following the several plant extensions, the number of employees grew by nearly a fifth, with the highest payroll increases being seen in Europe and China. From the point of view of Human Resources, the enlargement of operations was particularly challenging to recruitment activities, both in terms of the number and competence of the employees hired.

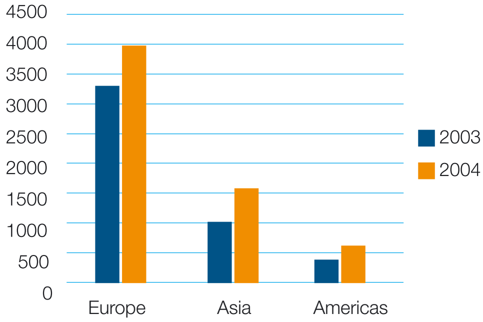
Perlos employees are young and well-educated

The average age of Perlos employees was approximately 30 years at the end of last year. About 80% of the payroll are workers, while around 20% are clerks. Perlos' staff are well-educated. Typically, workers have completed vocational basic education, while clerks and supervisors hold a college or a university degree.

Personnel strategy emphasises ability to change

In 2004, Perlos' personnel strategy was updated to support business' needs. The focus areas of Human Resources in the years ahead will be to develop flexibility and the ability to change, achieve higher efficiency in resource planning, further upgrade global personnel processes as well as systematically develop the competencies and leadership skills of key employees. One of the key issues in the ability to change is the development of flexible working time solutions.

Personnel by Region 2003-2004



Improvement in job satisfaction

During October and November, Perlos conducted a corporation-wide personnel satisfaction survey. Personnel satisfaction has been monitored systematically every second year.

The current survey assessed many factors, such as satisfaction with one's own job and the workplace atmosphere, leadership, performance appraisals, training opportunities, orientation, communications and rewarding.

Job satisfaction has improved slightly compared with the results of the previous study. Perlos employees are most satisfied with matters related to their work, working environment, workplace atmosphere and supervisory work. There is room for improvement mainly in orientation, communications and rewarding.

Rewarding system development

In 2004, all of Perlos' units in Finland had a performance bonus system for all employees. Units in other countries still use their own bonus systems. A global pay level study and a project to develop the bonus system were started in 2004. The aim is to establish a global pay policy and bonus system for the clerks on the basis of the position and competence requirements.

Leadership and project management are key competencies

In 2004, the key development areas from the perspective of competencies included leadership and project management skills. During the report year, numerous studies were made to assess the competence of Perlos employees. On the basis of the results, training plans were made for all the levels of the organisation, from the senior executives to the plant floor. A network of internal trainers was developed in 2004. Numerous training programmes drew on the expertise of this network.

Many projects were also ongoing in occupational well-being. The major projects pertained to the development of supervisory work, vocational development and training and flexible working time arrangements.

Sustainable Development

Perlos applies international quality and environmental systems in its operations. We are committed to the continuous development of our operations in environmental protection, occupational health and safety alike. The impacts of our operations on the environment, people and society are both ecologically and ethically acceptable.

The environmental systems of Perlos' plants are ISO 14 001 certified. In terms of environmental policy, we aim at an economical use of materials and energy and at minimising emissions and waste. Objectives have been specified on a unit-specific level and they are monitored regularly.

Reuse of waste improved

In 2004, the average recycling rate at all of Perlos' production plants was 61%. The reuse of waste was developed further, for example, Perlos recycles almost 90% of its plastic waste. Of the total amount of waste, 29% is delivered to landfills as mixed waste, and 10% is hazardous waste that is disposed of in accordance with strict official regulations.

Tough on emissions

In Perlos' production processes, hazardous waste and environmental emissions are primarily generated by component painting processes, which result in paint dregs and volatile organic compound (VOC) emissions. Perlos has adopted a stricter policy on VOC emissions than required under legislation. The company has seen to the safety of the environment by installing a treatment facility at every painting line, thanks to which about 98% of VOC emissions can be eliminated. The company purifies the wastewater from the chemical surface treatment process used for metals at its own wastewater treatment facility before discharging it into the public sewerage system.

Among the first to implement the RoHS Directive

The European Union approved the RoHS Directive (Restriction of the use of certain hazardous substances in electrical and electronic equipment) in 2003 and it will come into force at the beginning of July 2006.

At Perlos, the Directive mainly affects choices of materials. Perlos will adapt all its manufacturing processes and products for compliance with the RoHS Directive in 2005.

Towards zero work accidents

At Perlos, occupational safety issues are based on "zero accidents" thinking, and the company's aim is to rank amongst the safest companies in the world. To this end, the company engages in regular activities promoting occupational safety. This effort is supported by means such as global occupational safety benchmarking.

In terms of accident frequency, Perlos represents the solid Finnish standard. In 2004, the number of accidents leading to a leave of over three days was nine per one million working hours, slightly fewer than in the previous year.

The Board's Report

Net sales and result

Perlos achieved the goals set for 2004. Net sales grew by 24% to EUR 561.6 million (EUR 452.3 million in 2003).

In spite of the tough price competition, profitability developed favourably. Operating profit for 2004 increased to EUR 77.1 million from last year's figure of EUR 17.3 million, and represented 13.7% (3.8%) of net sales. Operating profit for 2004 was not burdened by the depreciation of goodwill (EUR 22.6 million) that had affected the profitability in previous years.

Profit for the financial year amounted to EUR 55.1 million (EUR 8.6 million), i.e. 9.8% (1.9%) of net sales, and earnings per share (diluted) were EUR 1.04 (EUR 0.16).

The cash flow from operations before investments improved compared with the previous year and amounted to EUR 97.1 million (EUR 47.7 million). The cash flow after investments also improved significantly, totalling EUR 38.7 million (EUR –2.6 million).

Of the Group's net sales, 68% (74%) came from Europe and 17% (13%) from North and South America. Asia accounted for 15% (13%) of net sales.

Telecommunications and Electronics

The Telecommunications and Electronics business sector's objective for 2004 was to increase net sales in line with the growth of the mobile phone market. This objective was achieved and net sales grew by 27% compared with the previous year. The sales volume of mobile phones is generally estimated to have increased by approximately one fifth in 2004.

The net sales of the Telecommunications and Electronics business sector amounted to EUR 519.8 million (EUR 410.4 million) in 2004, representing 93% (91%) of consolidated net sales. Net sales grew during all of 2004, with each quarter improving on both the previous quarter and the corresponding period of the previous year.

Perlos has summarised its strategy implementation in the form of four cornerstones: expanding the customer base, optimising global processes, integrating technologies and strengthening Perlos' position in the value chain.

In 2004, Perlos screened new customer accounts, not only within its present business segments, but also in new product segments, where Perlos' key competencies can be leveraged.

The new customers acquired during the financial year include the Chinese mobile phone and network manufacturer Huawei, the Japanese mobile phone manufacturer NEC, the Finnish sports instrument manufacturer Polar Electro as well as the Finnish VTI Technologies, which manufactures accelerometers.

Regarding global processes, the implementation of the three key processes was continued. The processes are concept creation, product creation and product delivery.

Perlos develops manufacturing technologies both independently and in co-operation with its partners. In summer 2004, Perlos presented a flexible assembly concept that enables the manufacture of many different products on the same production line. The concept will be deployed from early 2005 onwards. In autumn 2004, Perlos signed a strategic co-operation agreement with the Korean company Mosen Co. Perlos will begin to utilise the IML technology (in-mould labelling) developed by Mosen, which enables the flexible coating of the product already in the injection moulding stage.

In order to bolster its competitive position, Perlos expanded its global production network during the report year. During the first months of the year, a decision was made to double the size of the Manaus plant, and the capacity of the Beijing plant was also increased by means of investments in machinery and equipment. In addition, significant machinery and equipment investments have been carried out at many other plants, increasing capacity and production efficiency.

In June, a decision was made to set up offices in Tokyo, Japan, and Taipei, Taiwan. In September, Perlos decided to expand its plant network to Reynosa, Mexico. The Reynosa plant adds to Perlos' presence and service offering in the North and South American market.

During the report year, Perlos also made outlays on its design functions e.g. by hiring new designers and networking with other companies. In addition, Perlos invested in design tools that facilitate project implementation and support the integration of design processes into Perlos' other processes.

Healthcare

In 2004, the Healthcare business sector's net sales amounted to EUR 41.8 million (41.9 million), representing 7% (9%) of consolidated net sales.

The strategy of the Healthcare business sector was updated during summer 2004. In connection with the strategy update, the business sector was renamed from Pharma to Healthcare.

Perlos aims to expand its clientele in the healthcare market to become the leading designer and manufacturer of drug delivery devices in Europe in a few years. In addition, Perlos will by then have consolidated its position as a designer and manufacturer of healthcare and laboratory equipment and accessories in Europe and/or Asia. Perlos will possibly also have started similar operations in North America.

Product area expansions are sought not only in the framework of existing customer accounts, but also with an eye on new customer relationships and new product groups in fields where Perlos' strengths and expertise can be utilised.

Investments

The Group's gross investments in 2004 amounted to EUR 59.6 million (EUR 50.7 million), representing 10.6% (11.2%) of net sales. The major investments were the extensions of the Komárom and Manaus plants, the extension of the Lehmonharju plant's painting line, machinery and equipment investments at the Beijing plant, and investments to enhance overall production efficiency.

The extension of the Komárom plant will be completed for production use on schedule during the first quarter of 2005. The Reynosa plant in Mexico is estimated to go on stream towards the end of 2005.

The new offices in Tokyo and Taipei are now in operation. Both employ approximately 10 people. The offices serve as a base for handling sales and marketing and provide product design support and project management services for local customers.

The Group's investments in research and development amounted to about 0.9% of net sales in 2004.

Financing

The Group's financial position has remained good. Liquid assets at the end of the review period amounted to EUR 52.0 million (EUR 15.4 million) and unused committed credit limits to EUR 173.6 million (EUR 132.4 million). The Group's net gearing ratio was 0.31 (0.63) and the equity ratio was 45.8% (43.2%). At the end of the report period, interest-bearing liabilities amounted to EUR 106.6 million (EUR 99.2 million), of which short-term liabilities accounted for EUR 21.6 million (EUR 44.2 million) and long-term liabilities for EUR 85.0 million (EUR 55.0 million). The net interest-bearing liabilities were EUR 54.5 million (EUR 83.8 million). The interest cover ratio (EBITDA/ net financial expenses) was 24.4 (13.2).

Associated companies

Asperation Oy, a research and development company jointly owned by Perlos Corporation and Aspocomp Group Oyj, focuses on developing, patenting and commercialising technologies for use in the mobile phone and electronics industry. In

2004, Asperation's operations measured up to its objectives.

EPE Design Oy, which is jointly owned by Perlos Corporation and Etteplan Oyj, specialises in providing design services that are needed in the development and manufacture of new products as well as the design of assembly automation and injection moulds. Operations in 2004 were in line with the objectives.

Changes in the organisation and Group structure

The President of the Healthcare business sector changed in the spring, when M.Sc. (Eng.), M.Sc. (Econ.) Kari Sainio resigned from his position. Jouni Pohjonen, M.Sc. (Eng.), started out as the new President of the business sector and as a member of the Group's Management Board on April 1, 2004.

Harri Vartiainen, who has served as Executive Vice President, Human Resources and Administration on the Group's Management Board since 1995, resigned on May 1, 2004. Due to his resignation, Perlos reorganised the Group's personnel functions. Tage Johansson, Master of Laws, eMBA, is responsible for personnel development functions, and Juha Torniainen, M.Sc. (Econ.), is responsible for personnel administration. Both are also continuing in their current positions in Perlos' Corporation management.

In 2004 Perlos Corporation's wholly owned subsidiaries Wild NRGS Oy Ltd, Oy Salo NRGS Ltd and C3 Suunnittelu Oy were dissolved by means of a voluntary liquidation process.

Personnel

In 2004, Perlos Corporation employed 5,494 people (4,437) on average. At year's end, the number of employees was 6,117 (4,657), of whom 3,957 were working in Europe (3,284), 1,560 in Asia (1,006) and 600 (367) in North and South America. The payroll grew by 1,460 employees during the report year.

CEO and the Board of Directors

Isto Hantila, M.Sc. (Eng.), was appointed Perlos' CEO as of January 1, 2004.

As decided at the Annual General Meeting held on March 29, 2004 Kari O. Sohlberg, M.Sc. (Econ.), will continue as the Chairman of the Board, and the Board of Directors elected Heikki Mairinoja, B.Sc. (Econ.), M.Sc. (Eng.), as Vice Chairman from amongst its number. The other members re-elected to the Board are Matti Aura, Master of Laws, Matti Kavetvuo, B.Sc. (Econ.), M.Sc. (Eng.), Teppo Taberman, M.Sc. (Econ.), and Anni Vepsäläinen, M.Sc. (Ind. Eng.). Timo Leinilä, M.Sc. (Eng.), was elected as a new Board member.

Options and changes in the share capital

At the end of 2004, Perlos Corporation had two share option programmes. The A and C warrants (options) attached to the bond loan with warrants issued in 1999 are listed on the Main List of the Helsinki Stock Exchange. The 2002 share option programme, whose subscription period begins on April 1, 2005, has not been listed.

All the warrants (options) attached to the bond loans with warrants issued in 1997 and 1998, which matured on April 1, 2004, have been used; the shares subscribed for by the last day of subscription during the review period, a total of 745,260, were registered on April 30, 2004. A total of 3,660,000 shares were subscribed for with the warrants attached to the 1997 bond loan and 90,000 with the warrants attached to the 1998 bond loan. No shares were subscribed for with the warrants attached to the 1999 bond loan. Perlos' registered share capital was EUR 31,850,007.60, or 53,083,346 shares, at the end of the review period. Each share has a nominal value of EUR 0.60.

In accordance with the decision of the Annual General Meeting held on March 29, 2004, all Perlos shares owned by the company at that time, 1,168,300 shares, were annulled and the reduction in the share capital was registered on April 23, 2004. The share capital was decreased by the total nominal value of the shares, EUR 700,980, by transferring the amount by which the share capital was decreased into the premium fund.

On December 31, 2004, the company owned a total of 315,000 of its own shares, representing 0.59% of the company's shares outstanding. On December 31, 2004, the nominal value of the Perlos shares held by the company totalled EUR 189,000 and their purchase price totalled EUR 3,973,540.77.

Events after the end of the review period

On January 20, 2005, Perlos initiated statutory negotiations concerning layoffs at the Lehmonharju plant due to the weakening of the plant's near-future outlook. As a result of the negotiations, a prior notice of lay-offs was given to 140 production employees for no longer than 90 days to be initiated during spring 2005.

At its meeting on February 8, 2005, Perlos' Board of Directors decided on two extension investments in China. A new plant will be established in the XingWang industrial park in Beijing. In the first stage, it will have a floor space of approximately 9,000 square metres. It is anticipated that the plant will be in production use in the spring of 2006. Investments of the plant are approximately EUR 13 million.

In addition, a new plant measuring about 10,000 square metres will be built in the proximity of the Guangzhou plant. It is expected to be ready to go on stream in the beginning of 2006. Investments in the new plant are forecast to amount to about EUR 17 million.

Outlook for 2005

Growth is expected to continue in the mobile phone market in 2005. Many mobile phone manufacturers estimate that approximately 700 million mobile phones will be sold during 2005, up 5-10% on 2004. Annual growth in the healthcare markets that are significant to Perlos is anticipated to continue at a rate of approximately 10%.

Perlos anticipates that the full-year net sales of the Telecommunications and Electronics business sector will increase in line with the volume growth of the mobile phone market.

The net sales of the Healthcare business sector are expected significantly exceed the growth of healthcare market.

Both net sales and profit in 2005 are expected to be heavily focused on the latter half of the year.

The Group's gross investments are anticipated to slightly exceed 10% of net sales.

Long-term financial goals

Over the next few years, Perlos aims to increase net sales at least in step with unit growth in the mobile phone market. Over the long term, the target for operating profit is about 10% of net sales and for return on investment (ROI) over 20%. Another long-term objective is to have a positive cash flow after investments.

Dividends

The calculation of the company's distributable funds is presented in the notes to the annual accounts.

The Board of Directors proposes that a dividend of EUR 0.20 be paid per share.

Income Statement

EUR 1 000	Note	Consolidated 2004	2003	Parent company 2004	2003
Net sales	2.1	**561 574**	452 319	**337 220**	266 392
Purchasing and manufacturing expenses		-436 837	-373 816	-280 748	-235 143
Gross operating margin		**124 737**	78 503	**56 472**	31 249
Sales and marketing expenses		-13 194	-11 945	-7 744	-6 882
Administration expenses		-31 080	-24 388	-16 616	-13 893
Other operating income		1 017	2 351	4 462	3 164
Other operating expenses		-4 427	-4 647	-457	-62
Depreciation of goodwill			-22 602		-22 602
Operating profit / loss	2.2, 2.3	**77 053**	17 272	**36 117**	-9 026
Share of associates' net income		-1 146	-788		
Financial income and expenses	2.4	-4 528	-5 265	13 101	23 799
Profit / loss before extraordinary items, appropriations and taxes		**71 379**	11 219	**49 218**	14 773
Extraordinary income and expenses	2.5				-12 563
Appropriations	2.6				142
Direct taxes	2.7	-16 243	-2 595	-7 199	3 837
Net profit / loss for the period		**55 136**	8 624	**42 019**	6 189

Balance Sheet

EUR 1 000

Assets	Note	**Consolidated 31.12.2004**	31.12.2003	**Parent company 31.12.2004**	31.12.2003
Fixed assets					
Intangible assets	3.1. 3.4	22 444	26 107	13 328	14 897
Tangible assets	3.2. 3.5	170 967	145 138	82 326	74 520
Investments	3.3. 3.6. 3.7	4 561	8 238	53 779	51 195
		197 972	179 483	149 433	140 612
Current assets					
Inventories	3.8	63 265	46 147	36 236	26 591
Non-current receivables	3.9	151	4 317	13	4 143
Current receivables	3.10	86 246	80 745	87 592	77 224
Liquid assets securities		28 593		28 593	
Cash and bank accounts		23 423	15 363	12 498	11 156
		201 678	146 572	164 932	119 114
Assets, total		**399 650**	326 055	**314 365**	259 726
Liabilities and shareholders' equity					
Shareholders' equity					
Share capital		31 850	32 007	31 850	32 007
Share issue			235		235
Premium fund		48 694	47 163	48 694	47 163
Reserve for own shares		3 974	7 677	3 974	7 677
Profit / loss for previous financial periods		40 573	45 534	13 024	16 042
Profit / loss for the financial period		55 136	8 624	42 019	6 189
	3.11	180 227	141 240	139 561	109 313
Provisions	3.12	845	872	845	872
Liabilities					
Deferred tax liability	3.13	1 071	1 484		
Long-term liabilities	3.14	85 000	55 324	85 000	55 000
Short-term liabilities	3.15	132 507	127 135	88 959	94 541
		218 578	183 943	173 959	149 541
Liabilities and shareholders' equity, total		**399 650**	326 055	**314 365**	259 726

Source and Application of Funds

EUR 1 000

	Consolidated 2004	2003	Parent company 2004	2003
Cash flow from operations				
Operating profit / loss	77 053	17 272	36 117	-9 026
Adjustments to operating profit / loss	33 132	52 795	17 601	38 859
Change in working capital	3 958	-10 219	-1 045	3 075
Interest expenses	-6 316	-10 398	-5 646	-9 247
Dividends received	64	58	17 054	27 990
Interest income	1 724	5 075	1 693	5 056
Taxes paid	-12 512	-6 896	-3 056	-306
Net cash flow from operations	**97 103**	47 687	**62 718**	56 401
Cash flow from investments				
Investments in subsidiaries		-55	-5 138	-12 287
Investments in associated companies	-1 150	-570	-1 150	-570
Acquisition of intangible and tangible assets	-58 473	-50 081	-24 867	-22 842
Sales of intangible and tangible assets	1 272	415	1 003	3 011
Net cash flow from investments	**-58 351**	-50 291	**-30 152**	-32 688
Cash flow before financing	**38 752**	-2 604	**32 566**	23 713
Cash flow from financing				
Loans raised	52 170	13 657	45 000	10 866
Repayments of loans	-45 100	-15 846	-41 448	-15 584
Interest bearing receivables, increase/decrease	-1 101		1 885	-19 289
Share issue	1 140	1 616	1 140	1 616
Purchases of own shares	-3 974		-3 974	
Dividends	-5 234	-11 271	-5 234	-11 271
Net cash flow from financing	**-2 099**	-11 844	**-2 631**	-33 662
Liquid assets, increase/decrease	**36 653**	-14 448	**29 935**	-9 949
Liquid assets, Jan. 1	15 363	29 811	11 156	21 105
Liquid assets, Dec. 31	**52 016**	15 363	**41 091**	11 156

Supplementary Information and Notes

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

Use of estimates in the annual accounts

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

Principles of valuation and periodisation

Valuation of fixed assets

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

The periods for depreciation according to plan are as follows:

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

Goodwill consists of high-quality technological expertise and long-term, partnership-orientated customer relationships acquired in connection with the acquisition of business activities, and which are considered to have an economic life of at least seven years. For this reason, the purchase price of goodwill is amortised on a straight-line basis over seven years. Goodwill has been depreciated fully during the year 2003.

Valuation of inventories

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

R&D expenditure

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

Incorporation expenditure

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

Recognition of net sales

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

Maintenance and repairs

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

Leasing

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

Periodisation of pension costs

Pension costs have been stated in compliance with the legislation of each country. The parent company is responsible for EUR 845 426 in pension liabilities, which are recorded under compulsory provisions.

Foreign currency denominated items

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

Appropriations

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

Income taxes

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

Principles for the Preparation of the consolidated Annual Accounts

Scope of the consolidated annual accounts

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

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

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

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

Internal shareholding

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

Inter-company transactions and margins

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

Translation differences

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

2. Notes to the Income Statement

EUR 1 000	Consolidated 2004	2003	Parent company 2004	2003
2.1 Net sales				
Net sales by industry segment				
Telecommunications and electronics industry	519 756	410 392	299 716	227 480
Healthcare	41 818	41 927	37 504	38 912
	561 574	452 319	**337 220**	266 392
Net sales by market area				
Finland	131 987	145 504	119 608	141 108
Other European countries	249 896	190 333	168 090	103 542
Americas	94 559	59 192	20 063	7 695
Other countries	85 132	57 290	29 459	14 047
	561 574	452 319	**337 220**	266 392

2.2 Personnel costs and number of personnel

Personnel costs	Consolidated 2004	2003	Parent company 2004	2003
Wages and salaries	-115 221	-97 276	-81 378	-66 182
Pension costs	-14 911	-12 097	-12 197	-10 115
Other personnel costs	-11 379	-12 135	-4 744	-5 375
	-141 511	-121 508	**-98 319**	-81 672

Salaries and remunerations paid to management

The salaries and remunerations of the Parent Company CEO were EUR 239 400 (EUR 265 697).

The salaries and remunerations of the Group managing directors were EUR 1 142 203 (EUR 1 193 493).

The remunerations of the members of the Board were EUR 160 000 (EUR 100 000) in the Group and in the parent company.

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

	Consolidated 2004	2003	Parent company 2004	2003
Salaried employees	1 279	1 055	689	652
Employees	4 215	3 382	2 024	1 711
	5 494	4 437	**2 713**	2 363

Pension commitments of the members of the Board and managing directors

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

2.3 Activity-based depreciation

	Consolidated 2004	2003	Parent company 2004	2003
Purchasing and manufacturing	-29 344	-25 946	-16 332	-15 310
Sales and marketing	-382	-386	-268	-235
Administration	-2 152	-2 537	-1 196	-829
Goodwill on consolidation	-1 582	-1 627		
Amortisation of goodwill		-22 602		-22 602
	-33 460	-53 098	**-17 796**	-38 976

EUR 1 000	Consolidated 2004	2003	Parent company 2004	2003
2.4 Financial income and expenses				
Dividend income				
Dividend income belonging to the same Group			16 990	27 932
From others	64	58	64	58
Dividend income, total	**64**	58	**17 054**	27 990
Other interest and financial income				
From companies belonging to the same Group			1 095	700
From others	1 724	5 075	3 979	4 356
Other interest and financial income, total	**1 724**	5 075	**5 074**	5 056
Interest expenses and other financial expenses				
To companies belonging to the same Group			-9	-15
To others	-6 316	-10 398	-9 018	-9 232
Interest and other financial expenses, total	-6 316	-10 398	-9 027	-9 247
Financial income and expenses, total	**-4 528**	-5 265	**13 101**	23 799
Financial income and expenses includes exchange gains and losses (net)	906	-504	-30	-87
2.5 Extraordinary income and expenses				
Write downs on shares				-12 563
Extraordinary income and expenses				-12 563
2.6 Appropriations				
Difference between depreciation according to plan and taxation				142
2.7 Direct taxes				
Taxes for the period				
Finnish Group companies	-2 878	-310	-3 056	-306
Overseas Group companies	-7 507	-6 890		
Deferred taxes				
Included in the annual accounts of Group companies				
Finnish Group companies	-4 143	4 143	-4 143	4 143
Overseas Group companies	-1 715	421		
Taxes based on appropriations				
Finnish Group companies		41		
Taxes, total	**-16 243**	-2 595	**-7 199**	3 837

3. Notes to the Balance Sheet

EUR 1 000

Fixed assets and other long-term investments

Group

3.1 Intangible assets

	Incorporation expenditure	Intangible rights	Goodwill	Group goodwill	Other long-term expenditure	Advances and purchase in progress	Total
Acquisition cost, 1 Jan.	1 645	1 059	158 211	13 776	25 951	2 898	203 540
Translation difference					-923		-923
Increases and transfers		1 547			7 879	733	10 159
Acquired subsidiaries							
Decreases		-16			-179	-2 898	-3 093
Acquisition cost, 31 Dec.	1 645	2 590	158 211	13 776	32 728	733	209 683
Accumulated depreciation, 1 Jan.	1 645	183	158 211	5 866	11 528		177 433
Acquired subsidiaries							
Translation difference					-215		-215
Depreciation of decreases					-88		-88
Other changes		-10			2 664		2 654
Depreciation during the financial year		352		1 582	5 521		7 455
Accumulated depreciation, 31 Dec.	1 645	525	158 211	7 448	19 410		187 239
Book value, 31 Dec.		2 065		6 328	13 318	733	22 444

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

3.2 Tangible assets

	Land	Buildings	Machinery and equipment	Other tangible assets	Advances and purchases inprogress	Total
Acquisition cost, 1 Jan.	1 345	41 264	202 620	3 133	8 294	256 656
Translation difference	-1	-10	-3 331	-84	-60	-3 486
Increases and transfers	748	3 062	33 657	1 625	17 760	56 852
Acquired subsidiaries						
Decreases		-464	-5 685		-3 326	-9 475
Acquisition cost, 31 Dec.	2 092	43 852	227 261	4 674	22 668	300 547
Accumulated depreciation, 1 Jan.		6 334	103 223	1 961		111 518
Acquired subsidiaries						
Translation difference		-470	-1 376	-56		-1 902
Depreciation of decreases			-1 833			-1 833
Other changes			-4 861	653		-4 208
Depreciation during the financial year		1 266	24 298	441		26 005
Book value, 31 Dec.		7 130	119 451	2 999		129 580
Accumulated depreciation, 31 Dec.	2 092	36 722	107 810	1 675	22 668	170 967
Book value of production machinery and equipment						91 954

3.3 Investments

	Own shares	Associates shares	Other shares	Total
Book value, 1 Jan.	7 677	531	31	8 239
Translation difference				
Increases	3 974	1 150	21	5 145
Decreases	-7 677			-7 677
Book value, 31 Dec.	3 974	1 681	52	5 707
Share of associates' net income		-1 146		-1 146
Book value, 31 Dec.	3 974	535	52	4 561

EUR 1 000

Parent company

3.4 Intangible assets

	Incorporation expenditure	Intangible rights	Goodwill	Other long-term expenditure	Advance and purchases in progress	Total
Acquisition cost, 1 Jan.	1 645	1 045	158 211	18 728	2 898	182 527
Increases and transfers		1 547		3 500	733	5 780
Decreases				-179	-2 898	-3 077
Acquisition cost, 31 Dec.	1 645	2 592	158 211	22 049	733	185 230
Accumulated depreciation, 1 Jan.	1 645	175	158 211	7 599		167 630
Depreciation of decreases				-88		-88
Depreciation during the financial year		352		4 008		4 360
Accumulated depreciation, 31 Dec.	1 645	527	158 211	11 519		171 902
Book value, 31 Dec.		2 065		10 530	733	13 328

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

3.5 Tangible assets

	Land	Buildings	Machinery and equipment	Other tangible assets	Advances and purchases in progress	Total
Acquisition cost, 1 Jan.	685	31 205	101 673	1 539	5 149	140 251
Increases and transfers	34	2 684	13 419		5 847	21 984
Decreases			-2 720		-7	-2 727
Acquisition cost, 31 Dec.	719	33 889	112 372	1 539	10 989	159 508
Accumulated depreciation, 1 Jan.		5 405	59 106	1 220		65 731
Depreciation of decreases			-1 983			-1 983
Depreciation during the financial year		1 003	12 200	231		13 434
Accumulated depreciation, 31 Dec.		6 408	69 323	1 451		77 182
Book value, 31 Dec.	719	27 481	43 049	88	10 989	82 326
Book value of production machinery and equipment						40 824

3.6 Investments

	Own shares	Shares in Group companis	Assiciates shares	Other shares	Total
Book value, 1 Jan.	7 677	41 813	1 675	31	51 196
Increases	3 974	5 778	1 150	21	10 923
Decreases	-7 677	-663			-8 340
Book value, 31 Dec.	3 974	46 928	2 825	52	53 779
Write downs					0
Book value, 31 Dec.	3 974	46 928	2 825	52	53 779

3.7 Group companies	Group's share		Parent's share	
	2004	2003	**2004**	2003
Perlos Ltd; Washington, the UK	100 %	100 %	100 %	100 %
Perlos Holding, Inc; USA	100 %	100 %	100 %	100 %
Perlos (Texas), Inc; Fort Worth, USA	100 %	100 %		
Perlos Precision Plastics Moulding Limited Liability Company; Komárom, Hungary	100 %	100 %	100 %	100 %
Perlos (Guangzhou) Engineering Plastics Company Ltd.; Guangzhou, China	100 %	100 %	100 %	100 %
Perlos (Beijing) Electric and Telecommunication Components Co., Ltd., Beijing, China	100 %	100 %	100 %	100 %
Perlos Finance Holding Oy, Finland	100 %	100 %	100 %	100 %
Wild NRGS Oy Ltd, Finland		100 %		100 %
Oy Salo NRGS Ltd, Finland		100 %		100 %
Perlos AB, Sweden	100 %	100 %	100 %	100 %
gigaAnt AB, Sweden	100 %	100 %		
gigaAnt Asia PTE Ltd, Singapore	100 %	100 %		
Moteco Telecommunication Equipment Co. Ltd, China	100 %	100 %	100 %	100 %
Perlos Malaysia SDN. BHD, Malesia	100 %	100 %		
Perlos Asia PTE Ltd, Singapore	100 %	100 %		
Perlos Ltda, Brazil	100 %	100 %	100 %	100 %
C3 Suunnittelu Oy, Finland		100 %		100 %
Associated companies				
Asperation Oy, Finland	50 %	50 %	50 %	50 %
EPE Design Oy, Finland	50 %	50 %	50 %	50 %

EUR 1 000

3.8 Inventories	Consolidated		Parent's share	
	2004	2003	**2004**	2003
Materials and supplies	21 714	18 984	9 624	8 824
Semifinished products	13 575	8 269	8 678	4 964
Finished products/goods	20 546	14 319	13 008	9 585
Advances	7 430	4 575	4 926	3 043
Advances from Group Companies				175
Total	**63 265**	46 147	**36 236**	26 591

3.9 Long-term receivables

Other long-term receivables	151	4 317	13	4 143

Other long-term receivables consisted mainly of deferred tax receivables in 2003.

3.10 Short-term receivables	Consolidated		Parent's share	
	2004	2003	**2004**	2003
Receivables from companies belonging to the same group				
Accounts receivable			5 313	3 719
Loan receivables			24 963	27 949
Other short-term receivebles			556	671
Prepaid expenses and accrued income			288	218
			31 120	32 557
Receivables from others				
Accounts receivable	70 917	74 710	45 223	42 181
Loan receivable	1 101		1 101	
Other short-term receivables	10 502	1 662	7 330	953
Prepaid expenses and accrued income	3 726	4 373	2 818	1 533
	86 246	80 745	**56 472**	44 667
Short-term receivables, total	**86 246**	80 745	**87 592**	77 224

EUR 1 000

3.11 Shareholders' equity	Consolidated 2004	2003	Parent company 2004	2003
Share capital, Jan. 1	32 242	31 439	32 242	31 439
Share issue	309	568	309	568
Rights issue		235		235
Own shares cancelled	-701		-701	
Share capital, Dec. 31	**31 850**	32 242	**31 850**	32 242
Premium fund, Jan. 1	47 163	46 349	47 163	46 349
Share issue	830	814	830	814
Own shares cancelled	701		701	
Premium fund, Dec. 31	**48 694**	47 163	**48 694**	47 163
Reserve for own shares Jan. 1	7 677	7 677	7 677	7 677
Increases	3 974		3 974	
Decreases	-7 677		-7 677	
Reserve for own shares Dec. 31	**3 974**	7 677	**3 974**	7 677
Profit / loss from previous financial years, Jan. 1	54 158	63 680	22 231	27 313
Dividends	-5 233	-11 271	-5 233	-11 271
Transfers to reserve for own shares	-3 974		-3 974	
Translation difference	-4 378	-5 775		
Other changes		-1 100		
Profit / loss from previous financial years, Dec. 31	**40 573**	45 534	**13 024**	16 042
Profit / loss for the period	55 136	8 624	42 019	6 189
Shareholders equity, total	180 227	141 240	139 561	109 313

The Group has acquired 315 000 own shares year 2004. The nominal value of these is 189 000 euros and the book value is 3 973 541 euros.

	Consolidated 2004	2003	Parent company 2004	2003
Schedule of distributable funds, Dec. 31				
Profit / loss from previous financial years	40 573	45 534	13 024	16 042
Profit / loss for the period	55 136	8 624	42 019	6 189
- Capitalised incorporation expenditure				
- Share of appropriations recorded in shareholders' equity				
- Other non-distributable items	-3 562	-2 143		
	92 147	52 015	**55 043**	22 231

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

3.12 Provisions

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

3.13 Deferred tax receivables and liabilities	Consolidated 2004	2003	Parent company 2004	2003
Deferred tax reveivables				
From temporary differences		4 143		4 143
		4 143		**4 143**
Deferred tax liabilities				
From temporary differences	1 071	1 484		
	1 071	1 484		

EUR 1 000

3.14 Long-term liabilities

Loans denominated in euros accounted for 100 % of loans from financial institutions and bonds and depentures at the end of year 2004. The average interest rate of long-term loans was 4.43 %.

	Consolidated		**Parent company**	
	2004	2003	**2004**	2003
Loans from financial institutions	40 000	55 324	40 000	55 000
Bonds and depentures	45 000		45 000	
Other long-term debts	1 071			
	86 071	**55 324**	**85 000**	**55 000**

Group's repayment schedule of long-term loans from financial institutions and bonds and depentures at 31 December 2004.

	2006	2007	2008	2009	2010
Repayments	16 071	25 000			45 000

Repayments that will be made in 2005 have been transferred to short-term liabilities in the balance sheet. The Group does not have any long term loans which would expire later than year 2010.

3.15 Short-term liabilities	**Consolidated**		**Parent company**	
	2004	2003	**2004**	2003
Loans from financial institutions	21 564	44 169	15 000	41 431
Advances received	10 502	8 961	7 809	6 508
Accounts payable	56 086	44 903	32 581	23 657
Other short-term liabilities	4 803	3 542	3 257	1 939
Accrued liabilities	39 552	25 560	25 980	17 366
Liabilities to companies belonging to the same Group				
Loans			758	791
Advances received			18	448
Accounts payable			3 551	1 266
Other short-term liabilities				1 101
Accrued liabilities			5	34
	132 507	127 135	**88 959**	94 541

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

4. Other supplementary information

4.1 Pledges given	**Consolidated**		**Parent company**	
	2004	2003	**2004**	2003
Loans for which real-estate has been mortgaged as collateral				
Loans from financial institutions		210		210
Mortgages given	353	353	353	353
Loans for which corporate mortgages have been given as collateral				
Loans from financial institutions		30 000		30 000
Mortgages given		42 047		42 047
Mortgages given as collateral, total	353	42 400	353	42 400

All pledges given are collateral for the parent company loans.

4.2 Leasing and rental commitments

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

Payments to be made on leasing and rental agreements				
During the financial year now begun	7 836	7 063	3 908	3 484
To be paid later	23 129	29 162	11 424	10 258
	30 965	36 225	**15 332**	13 742

EUR 1 000	Consolidated		Parent company	
	2004	2003	**2004**	2003
4.3 Commitments on behalf of companies in the same Group				
Guarantees on behalf of Group companies			21 623	21 391
4.4 Commitments on behalf of other parties				
Guarantees on behalf of other parties	6 181	1 443	6 181	1 443
4.5 Derivative contract's				
FX forwards				
Nominal amount	36 766	21 209	34 416	21 209
Fair value	1 441	929	1 704	929
Interest rate swaps				
Nominal amount	40 000	40 000	40 000	40 000
Fair value	-795	-1 037	-795	-1 037

The nominal amounts are presented as net values.
The fair value indicates the result that would be realised, if the derivative contracts were closed on thereporting date.

4.6 Share option programmes

At the end of year 2004, Perlos had two open share option programmes, as well as two share option programmes, whose subscription period ended during the financial year 2004.
The warrants attached to Option Programmes 1 and 2 entitled the bearers to subscribe for a total of 3.750,000 new shares during the period from 1 April 2000 to 1 April 2004. The total nominal amount of new shares was equal to EUR 2.250,000. By the end of year 2004, 3.750.000 new shares had been subscribed with the warrants, 745,260 of them during the accounting period. The original share subscription price was EUR 2.24 for Option Programme 1 and EUR 4.48 for Option Programme 2. Dividens paid after the date the price has been specified were deducted from the subscription prices. At the end of the subscription period, 1 April 2004, the dividend-corrected subscription prices were EUR 1.46 and EUR 3.70 respectively.
The A, B and C warrants attached to Option Programme 3 entitle the bearers to subscribe for a total of 1.100,000 new shares during the period from 1 June 2001 to 30 June 2005. The total nominal amount of new shares is EUR 660,000. By the end of year 2004, no shares had been subscribed for with the warrants. The original share subscription price with the A warrant is EUR 14.56, with the B warrant EUR 35.97 and with the C warrant EUR 10.10. Dividens paid after the date when the price is specified are deducted from the subscription prices. At the end of year 2004 the dividend-corrected subscription prices were EUR 13.78 for the A warrant, EUR 35.19 for the B warrant and EUR 9.52 for the C warrant.
The A, B and C warrants attached to Option Programme 4 entitle the bearers to subscribe for a total of 750,000 new shares during the period from 1 April 2005 to 30 April 2008. The nominal amount of new shares is EUR 450,000. The share subscription price with the A warrant is the trade volume weighted average price of the company's share on Helsinki Stock Exchange in August 2002 plus 14% (EUR 5.25), the share subscription price with the B warrant is the trade volume weighted average price of the company's share on Helsinki Stock Exchange in August 2003 plus 14% (EUR 5,56) and the share subscription price with the C warrant is the trade volume weighted average price of the company's share on Helsinki Stock Exchange in August 2004 plus 14% (EUR 9.84). Dividens paid after the date when the price is specified are deducted from the subscription prices. However, the subscription price will always be at least the nominal value of the share. At the end of year 2004 the dividend-corrected subscription price of the A warrant were EUR 4.93 and with the B warrant EUR 5.46.

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

The Annual General Meeting of Perlos Corporation on 29 March 2004 resolved, in accordance with the proposals of the Board of Directors (a) to authorise the Board of Directors to decide upon the increase of the Company's share capital by a maximum of EUR 6.280.570,20 by issuing new shares, by issuing option rights or by taking out a convertible loan; and to cancel similar authorisation granted for a period of one year at the Annual General Meeting on 14 April 2003, (b) to authorise the Board of Directors to decide upon the acquisition of a maximum of 2.616.904 of the Company's own shares, (c) to convey a maximum of 2.616.904 of the Company's own shares in the Company's possession, and to authorise the Board of Directors to decide upon the conveyance of a maximum of 2.616.904 of the Company's own shares in the Company's possession, and (d) to decrease the Company's share capital by the total nominal value of the Company's own shares in the Company's possession (1.168.300 shares), i.e. EUR 700.980, through a cancellation of the said shares and a transfer of the decrease in the share capital to the premium fund.

Vantaa, 8 February, 2005

Kari O. Sohlberg
Chairman of the Board of Directors

Heikki Mairinoja
Vice Chairman of the Board of Directors

Anni Vepsäläinen
Member of the Board

Matti Aura
Member of the Board

Matti Kavetvuo
Member of the Board

Teppo Taberman
Member of the Board

Timo Leinilä
Member of the Board

Isto Hantila
CEO

Auditors’ Statement

To the shareholders of Perlos Corporation

We have audited the accounting records, the financial statements and the administration of Perlos Corporation for the financial period 1.1.2004 - 31.12.2004. The financial statements which include the report of the Board of Directors, the consolidated and parent company income statement, balance sheet and notes to the financial statements, have been prepared by the Board of Directors and the CEO. Based on our audit we express an opinion on these financial statements and on the administration.

We have conducted our audit in accordance with the Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used as well as evaluating the overall financial statement presentation. The pourpose of our audit of the administration is to examine that the members of the Board Directors and the CEO have legally complied with the rules of the Finnish Companies Act.

In our opinion the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company’s result of operations as well as the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the CEO, all of the parent company, can be discharged from liability for the financial period audited by us. The proposal by the Board of Directors on the disposal of distributable funds is in compliance with the Companies Act.

Vantaa, 8 February, 2005

PricewaterhouseCoopers Oy
Authorised Public Accountants

Kari Lydman, Authorised Public Accountant

Group Financial Data

Income statement and profitability	**2004**	**2003**	**2002**	**2001**	**2000**
Net sales, EUR million	**561,6**	452,3	364,6	431,6	452,3
EBITDA *), EUR million	**110,5**	70,4	53,3	102,2	110,4
EBITDA (% of net sales)	**19,7**	15,6	14,6	23,7	24,4
EBITA **), EUR million	**77,1**	39,9	24,0	75,8	91,3
EBITA (% of net sales)	**13,7**	8,8	6,6	17,6	20,2
EBIT, EUR million	**77,1**	17,3	1,4	53,2	68,7
EBIT (% of net sales)	**13,7**	3,8	0,4	12,3	15,2
Profit / loss before income taxes, EUR million	**71,4**	11,2	-4,5	47,9	62,3
Profit / loss before income taxes (% of net sales)	**12,7**	2,5	-1,2	11,1	13,8
Profit / loss for the financial period, EUR million	**55,1**	8,6	-2,1	39,8	43,1
Profit / loss for the financial period (% of net sales)	**9,8**	1,9	-0,6	9,2	9,5
Return on equity, %	**35,6**	6,3	-1,3	23,7	33,0
Return on investment, %	**30,1**	7,9	1,7	19,9	27,2
Interest margin, %	**24,4**	13,2	9,7	9,6	17,4
Cash flow					
Cash flow from operations, EUR million	**97,1**	47,7	36,6	116,8	59,7
Operational gross investment, EUR million	**59,6**	50,7	40,9	37,3	68,8
Operational gross investment (% of net sales)	**10,6**	11,2	11,2	8,6	15,2
Balance sheet and solidity					
Shareholders equity, EUR million	**180,2**	141,2	149,1	184,2	151,1
Provisions, EUR million	**0,8**	0,9	0,9	0,9	0,8
Total liabilities, EUR million	**218,7**	183,9	172,4	146,5	224,9
Total shareholders' equity and liabilites, EUR million	**399,7**	326,1	322,5	331,6	376,9
Interest-bearing liabilities, EUR million	**106,6**	99,2	101,7	72,0	129,4
Net debts, EUR million	**54,5**	83,8	71,9	46,8	114,0
Gearing	**0,31**	0,63	0,51	0,25	0,75
Equity ratio, %	**45,8**	43,2	46,3	59,6	43,3
Personnel					
Personnel, average	**5 494**	4 437	3 641	3 538	3 503
Personnel at the end of the period	**6 117**	4 657	3 974	3 334	3 860
Exhange rates					
The most important currencies (Dec. 31)	**EUR**	EUR	EUR	EUR	EUR
USD	**1,3621**	1,2630	1,0487	0,8813	0,9305
GBP	**0,7051**	0,7048	0,6505	0,6085	0,6241
CNY	**11,2734**	10,3426	8,6266	7,2943	7,7021
SEK	**9,0206**	9,0800	9,1528	9,3012	8,8313
BRL***)	**3,6177**	3,6051	2,8051		

*) Earnings before interest, taxation, depreciation and amortisation of goodwill.
**) Earnings before interest, taxation and amortisation of goodwill.
***) Perlos LTDA, Brazil has been established in 2002.

Share Related Data

		2004	2003	2002	2001	2000
Earnings per share	EUR	**1,04**	0,17	-0,04	0,77	0,84
Earnings per share (diluted)	EUR	**1,04**	0,16	-0,04	0,73	0,79
Cash flow per share	EUR	**1,84**	0,93	0,71	2,25	1,16
Cash flow per share (diluted)	EUR	**1,84**	0,91	0,69	2,15	1,09
Shareholders' equity per share	EUR	**3,34**	2,55	2,76	3,55	2,91
Shareholders' equity per share (diluted)	EUR	**3,34**	2,54	2,69	3,40	2,76
Dividend per share	EUR	**0,20**	0,10	0,22	0,26	0,20
Dividend pay-out ratio	%	**19,23**	58,82	neg.	33,77	24,11
Effective dividend yield	%	**1,70**	1,58	3,66	2,23	0,91
Price /earning ratio (P/E)		**11,3**	37,7	neg.	15,13	26,19
Share prices						
Lowest share price	EUR	**6,39**	2,96	3,92	5,60	18,70
Highest share price	EUR	**13,14**	6,92	12,55	23,01	49,20
Average share price	EUR	**9,56**	4,97	7,54	12,08	33,30
Share price at the end of the period	EUR	**11,77**	6,33	6,01	11,65	22,00
Trading volumes						
Number of shares	No.	**57 486 456**	38 740 918	32 100 915	40 422 424	40 361 867
Number of shares in relation to the weighted average number of shares	%	**108,9**	75,3	62,3	77,8	78,3
Number of shares(*						
At the end of the period	No.	**52 768 346**	52 338 086	51 230 786	51 758 140	51 931 765
Average during the period	No.	**52 809 914**	51 420 718	51 504 737	51 956 112	51 562 373
Average during the period (diluted)	No.	**52 932 203**	52 518 852	53 158 216	54 225 331	54 722 955
Market capitalization at the end of the period	MEUR	**621**	331	308	603	1 142

(* Excluding own shares in the company's possession.

Formulas for the Indicators

Financial indicators

EBITDA = operating profit + depreciation

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

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

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

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

$$\text{Interest margin \%} = \frac{\text{EBITA}}{\text{net financial expenses}}$$

Per-share indicators

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

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

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

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

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

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

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

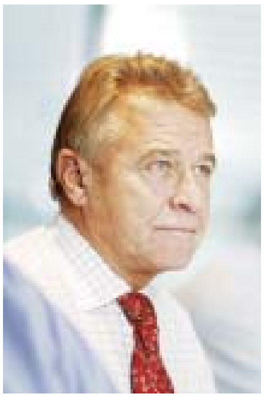
$$\text{Effective dividend yield, \%} = \frac{\text{dividend/share}}{\text{share price at the end of the year}} \times 100$$

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

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

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

Board of Directors



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

Chairman of the Board of Directors:
The Finnish Fair Corporation,
Association for Promoting Voluntary National Defense of Finland and
Päivikki and Sakari Sohlberg Foundation

Member of the Board of Directors:
ADR-Haanpää Oy,
G.W. Sohlberg Corporation and Varma Mutual Pension Insurance Company

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

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

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

Member of the Board of Directors:
Catella Property Oy,
Elisa Corporation,
Harjavalta Oy and
The Finnish Maritime Administration

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

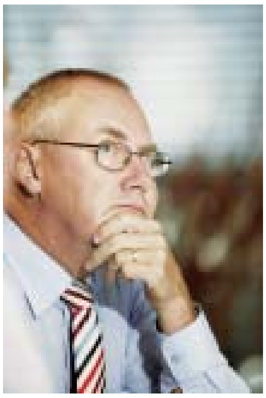
Chairman of the Board of Directors:
Metso Corporation,
Suominen Corporation
and Orion Group

Vice Chairman
of the Board of Directors:
Kesko Corporation

Member of the Board of Directors:
Alma Media Corporation,
KCI Konecranes Plc and
Marimekko Corporation

Timo Leinilä
born 1950
M.Sc. (Eng.)

Member of the Board of Directors:
Evac Oy,
Incap Corporation
and Salcomp Oy



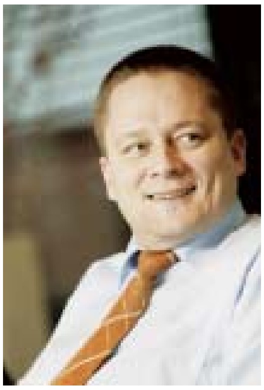
Teppo Taberman
born 1944
M.Sc. (Econ.)

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

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

Member of the Board of Directors:
GSM Association CEO Board
and The Central Chamber of
Commerce

Corporation Management

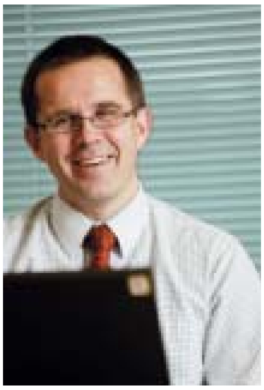


Isto Hantila
born 1958
CEO
M.Sc. (Eng.)

In Perlos' employ since 2004

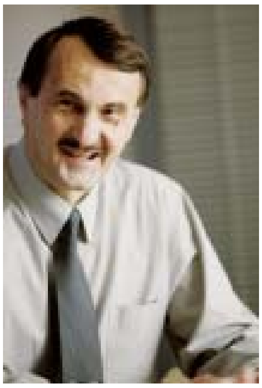
Tage Johansson
born 1959
Executive Vice President,
Corporate Development
Master of Laws, eMBA

In Perlos' employ since 1998



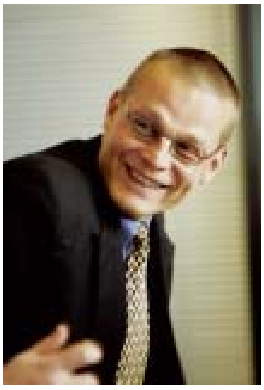
Jouni Pohjonen
born 1962
President, Healthcare
M.Sc. (Eng.)

In Perlos' employ since 2004



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

In Perlos' employ since 2002



Juha Torniainen
born 1966
CFO
M.Sc. (Econ.)

In Perlos' employ since 2000

Jari Laaninen
born 1967
Vice President,
Treasury and
Investor Relations
Secretary of the Corporation
Management
M.Sc. (Econ.)

In Perlos' employ since 1999

Corporate Governance

Perlos Corporation's corporate governance and administrative procedures primarily comply with the guidelines on the administration of public limited companies which were laid down by the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers and published in December 2003. The statement on the review of the administration is included in the Auditors' Report on page 32.

Annual General Meeting

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

Board of Directors

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

The majority of all members of the Board shall be independent of the company. In addition, at least two of the members representing this majority shall be independent of significant shareholders in the company. The CEO of Perlos Corporation is not a Board member.

The Board has approved written rules of procedure in which the responsibilities, composition, tasks and practices of the Board are specified. According to the rules of procedure, the Board is responsible for the due organisation of the governance and operations of the company. Furthermore, the Board is responsible for matters that are of strategic or financial significance or important in principle.

The main tasks of the Board:

Strategy
- *decide on the company's vision and values and oversee their realisation,*
- *decide on the corporate strategy,*
- *monitor the implementation of strategic plans and assess the results achieved and, if necessary, decide on revising plans and goals,*
- *confirm the strategic plans and budgets of the company and the business units.*

Organisation
- *decide on the corporate structure and organisation,*
- *appoint the company's CEO and decide on his perquisites,*
- *decide on appointing a deputy for the CEO,*
- *decide on bonus and incentive schemes for the corporate management.*

Finance and control
- *confirm the corporate financing policy,*
- *oversee and develop corporate governance, the business organisation, bookkeeping and financial management,*
- *confirm corporate level risk management and reporting procedures,*
- *follow up and monitor the resources that affect the results of business units,*
- *decide on major investments, recruitments, acquisitions and the restructuring of business operations,*
- *specify the rules for decision-making and authorisation procedures, including euro-denominated limits,*
- *approve company policies and instructions for major areas of administration and control,*
- *draft the dividends policy and assume responsibility for the trend in shareholder value,*
- *prepare annual accounts, interim reports and approve the annual report and its related financial information.*

Other
- *develop the ownership structure of the company,*
- *prepare the agenda for the Annual General Meeting and oversee the implementation of the resolutions of the meeting,*
- *assume responsibility for all other such duties as have been stipulated for Boards of Directors in the Companies Act and elsewhere.*

The Board shall assess its performance and rules of procedure once a year. This assessment can be conducted by the Board by means of self-assessment or by an external party. Improvement measures are decided on the basis of the results of the assessment.

The Board of Directors convenes approximately 10 times a year and, if necessary, when called to do so by the Chairman.

In 2004, the Board of Directors convened 16 times and the average attendance of directors at the Board meetings was 93%.

Audit Committee

The Audit Committee's primary purpose is to assist the Board in overseeing:

- *The integrity of the company's annual accounts,*
- *The company's compliance with legal and regulatory requirements,*
- *The external auditors' competence and independence,*
- *The performance of the company's Internal Audit function and external auditor,*
- *The company's system of internal controls and ethics that have been established by management and the Board,*
- *The adequacy of risk management policies and procedures.*

The Board of Directors elects the Chairman and members of the Audit Committee at its annual organisational meeting. The Audit Committee is comprised of at least three persons appointed by the Board. All Audit Committee members shall have the financial and accounting competence and experience necessary to attend to the responsibilities of the Audit Committee. The Audit Committee convenes at least four times annually, or more frequently as circumstances dictate.

In 2004, the Audit Committee consisted of the following directors: Teppo Taberman, Matti Aura, and Kari O. Sohlberg. Executive Vice President, CFO Juha Torniainen served as the secretary of the Audit Committee.

CEO and the Management Board

The Board of Directors elects the company's CEO. The principal terms and conditions pertaining to his employment are specified in writing in the CEO's agreement. The CEO performs his duties in accordance with Finnish law and especially with the provisions of the Companies Act, Perlos' Articles of Association, the rules of procedure of the Board of Directors and in accordance with such general and special directions and instructions which may be given to him or her by the Board. The CEO is not a Board member.

Isto Hantila has been the company's CEO since January 1, 2004.

Perlos' Management Board assists the CEO in operative management. The Management Board meets regularly to discuss matters related to the company's operative business activities. The members of the Management Board are presented on pages 38-39.

Internal Audit

Internal Audit's mission is to oversee the company's operations and in doing so generate added value for management and the Board of Directors. It is an independent function that, among other duties, evaluates the company's risk management, internal controls and business processes. In addition, Internal Audit disseminates accumulated knowledge of the best operational and control practices amongst all of the company's business units.

Internal Audit reports to the Audit Committee of the Board of Directors. Its day-to-day operations are co-ordinated by the CEO. As from May 2004, internal auditing has been purchased as an outsourced service.

Audit

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

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

Insider regulations

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

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

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

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

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

Share option programme for key employees

At the end of 2004, Perlos had two share option programs under the company's incentive scheme for its management and key personnel. The A and C warrants attached to the bond loan with warrants from 1999 are quoted on the Main List of the Helsinki Stock Exchange. The 2002 share option programme, whose subscription period begins on April 1, 2005, has not been listed for the time being.

Perlos' extraordinary general meeting held on June 3, 1999, decided to issue a bond loan with warrants directed at the company's management (the 1999 bond loan). The loan amounted to EUR 740,026.88. The loan was interest-free and was repaid in one lot on July 2, 2001. The A, B and C warrants attached to the bonds entitle the bearers to subscribe for a total of 1,100,000 new shares during the period from June 1, 2001, to June 30, 2005. The original share subscription price was EUR 14.66 with the A warrant, EUR 35.97 with the B warrant, and EUR 10.10 with the C warrant. The subscription price will be reduced annually in accordance with the dividends paid. By the end of 2004, the dividend-corrected subscription prices were EUR 13.78 with the A warrant, EUR 35.19 with the B warrant, and EUR 9.52 with the C warrant.

Perlos Corporation's Annual General Meeting on April 11, 2002 resolved, as proposed by the Board of Directors, to issue a maximum of 750,000 option rights. The A, B and C warrants attached to the option rights entitle the bearers to subscribe for a total of 750,000 new shares during the period from April 1, 2005, to April 30, 2008. The subscription price of the shares to be subscribed for on the basis of the warrants is the average market price of the Perlos Corporation share weighted in accordance with share turnover on the Helsinki Stock Exchange in the August of each year plus 14 per cent. The subscription price will be reduced on the record date of each payment of dividends with the amount of dividends paid after the period of determining the subscription price and before the subscription for shares. However, the subscription price shall always be at least the nominal value of the share. The original subscription price was EUR 5.25 with the A warrant, EUR 5.56 with the B warrant and EUR 9.84 with the C warrant. At the end of June 2004, the dividend-corrected subscription price was EUR 4.93 with the A warrant, EUR 5.46 with the B warrant and EUR 9.84 with the C warrant.

At the end of 2004, a total of 58 key employees were covered by the share option programs.

Bonus scheme

Perlos' management is entitled to a bonus scheme. Bonuses are paid on the basis of targets set for net sales, return on investment (ROI) and cash flow after investments.

Annual salaries and remuneration paid to management

In 2004, the salaries and remuneration paid to the Board of Directors and the CEO amounted to:

Chairman of the Board:
Total gross salaries and remuneration: EUR 40,000, including 1,828 Perlos shares, net (at EUR 8.75/share). Other out-of-pocket expenses are reimbursed against expense receipts.

Other members of the Board:
Total gross salaries and remuneration: EUR 20,000 euros, including 914 Perlos shares, net (at EUR 8.75/share). Other out-of-pocket expenses are reimbursed against expense receipts.

The members of the Board of Directors were paid a total of EUR 160,000 in salaries and remuneration in 2004.

CEO:
The annual salary of the CEO is EUR 239,400 (excluding bonuses). Bonuses are paid on the basis of targets set for net sales, return on investment (ROI) and cash flow after investments. The CEO is entitled to participate in the company's share option programme. The CEO currently holds 150,000 shares under the 2002 share option programme.

The CEO is entitled to retire at the age of 60. The period of notice is six months. In the event that the CEO's employment contract is terminated without proper cause by the company, the severance payment is six months' base salary.

Management's shareholding

The members of the company's Board of Directors and the CEO owned a total of 19,962 shares at the end of 2004, representing 0.04% of the shares and votes.

The shares subscribed for on the basis of the options, remaining subscriptions and their dilution effect in relation to the shares outstanding (53,083,346 shares) on December 31, 2004:

	Shares subscribed	Remaining	Dilution effect
Bond loan 1999	0	1 100 000	2,1 %
Option programme 2002	0	750 000	1,4 %
Total	0	2 850 000	3,5 %

Risk Management

The purpose of Perlos' risk management is to support the business functions and facilitate the attainment of business goals. By means of systematic risk management, the company seeks to identify the risks threatening business goals, evaluate their significance and manage them cost-effectively.

A risk is considered to be anything that may impede or enhance the company's ability to achieve its current or future business objectives.

The aim of risk management is to protect the level of shareholder value embodied in the business plan. In addition, risk management enables calculated risk taking when exploiting business opportunities.

Perlos' risk management responsibilities and principles are defined in the Perlos Risk Management Policy, which is approved by the Board of Directors. The Board of Directors and Management Board are responsible for the strategy and policy of risk management and internal control. The corporation's Management Board is responsible for the organisation of risk management and the development of related operating procedures.

The Perlos Risk Management Policy requires employees to continuously evaluate their objectives, and particularly the impact of both internal and external changes. This evaluation includes the identification of the risks arising from these changes and an assessment of the impact of the changes. Employees then need to ensure that best practice controls and processes are put in place to manage the major risks. In addition, objectives, risks and controls should be aligned. This process ensures that the impacts of any changes on the organisation's processes are monitored continuously.

The Perlos Risk Management Policy classifies risks into four categories: Strategic, Operational, Financial and Hazard.

Strategic risks

Strategic risks relate to the attainment of the company's long-term goals and vision. Strategic risks include, for example, changes in customers' operations, changes in the market for the company's products or the competitive arena, supplier-related risks, development of production and materials technology and R&D matters. Administrative and legal risks are also included in this category.

Operational risks

Operational risks relate to the attainment of the company's strategic goals. Operational risks involve, for example, the company's reporting and control systems, key employees, the delivery chain, fraud and the company's reputation.

Financial risks

Financial risks also have a bearing on attaining strategic goals. Financial risks include changes in the company's economic situation due to fluctuations in exchange or interest rates, credit risks, refinancing risks, changes in the prices and availability of raw materials and goods, and changes in the cash flow or the company's financial position.

Hazard risks

Hazard risks include accidents, damage to property or damage due to the interruption of operations. Security and environmental risks are also included in this category, as are liability risks.

Strategic, operational and financial risks may benefit or harm the company. However, if a hazard risk occurs, the company always takes a financial loss to some degree. The aim of risk management is to restrict possible losses and facilitate tapping into opportunities in line with the company's objectives.

Management of financial risks

The management of financial risks is centralised within the corporation's finance unit, which is responsible for the management of financial risks in accordance with the policy approved by the Board of Directors.

In order to improve the efficiency of risk management, financial risks have been divided into five categories.

1. Credit risks

Credit risks occur when the counterparty cannot fulfil its contractual obligations in whole or in part. The risk may be incurred from a hedging arrangement, an investment or a loan. The credit risk might occur due to the bankruptcy of the counterparty or if its creditworthiness is downgraded.

The management of credit risks aims to minimise the probability of a loss and thus restrict possible negative effects on the company's cash flow. The means used in this are setting minimum requirements on the counterparty's creditworthiness and specifying maximum limits for each counterparty. The limits set on each counterparty are approved by the company's Board of Directors. The corporation's finance unit attends to maintaining limits.

2. Refinancing risks

Refinancing risks occur when such a large share of the company's loans mature in such a short time that refinancing is either costly or not available. The aim is to restrict the funding-related refinancing risks by staggering the repayment of the non-current loan portfolio into different maturities. The non-current loan portfolio comprises a five-year syndicated loan worth EUR 55 million that was made in 2002 and two six-year bond loans totalling EUR 45 million that were issued in spring 2004.

3. Liquidity risks

Liquidity risks occur when the company's financial assets and sources of finance do not suffice to cover business needs, or arranging them would cause the company to incur significant additional costs.

Perlos seeks to restrict its liquidity risks by maintaining sufficient cash assets and committed credit limits. At the end of 2004, Perlos' cash assets amounted to MEUR 52,016. For an eventual need of additional funding, Perlos agreed on a five-year syndicated credit limit of MEUR 170 in summer 2004. It was wholly unused at the end of 2004. In addition, Perlos has at its disposal a domestic commercial paper programme worth MEUR 100. This programme was also wholly unused at the end of 2004.

4. Interest rate exposure

Interest rate exposure refers to changes in the company's cash flows or the value of its assets and liabilities due to interest rate movements. Interest rates affect the value of both business operations and financial items. The change in the value of financial items is directly linked to interest rate movements, while the latter have an indirect effect on business operations. At Perlos, the management of interest rate exposure is based on the management of the interest rate exposure of financial items.

Interest rate exposure is divided into two factors: the interest flow risk and price risk. The former refers to the sensitivity of interest expenses to interest rate movements. The interest flow risk is assessed using the average interest rate maturity of financial assets and liabilities. The average interest rate maturity indicates the time over which interest rate movements are fully reflected in interest expenses. The shorter the interest rate maturity of loans, the faster the movements in interest rates affect interest expenses.

The price risk indicates the effect of interest rate movements on the value of the net loan portfolio. The price risk is measured using the modified duration. The longer the duration, the greater the effect of interest rate movements on the value of the net loan portfolio.

The optimisation of financial expenses is the primary goal of Perlos' management of interest rate exposure. Hedging actions are based on an analysis of the development of the global economy and its anticipated effect on interest rates and the company's earnings. The management of interest rate exposure is guided by the assumption that the premature repayment of loans is not probable and that exceptionally large cash flows are transient in nature.

Risk limits of interest rate exposure

The average interest rate maturity of the net loan portfolio must be at least three months and no longer than five years. In addition, the duration of investments may not exceed 18 months. At the end of 2004, the interest rate maturity of the net loan portfolio was 36 months and the duration of investments was one month.

5. Foreign exchange exposure

Foreign exchange exposure refers to changes in the value of cash flows, the balance sheet or competitive position due to exchange rate movements. Perlos' foreign exchange exposure is divided into transaction, translation and economic exposure. As these exposures are different in nature, they are managed as separate entities.

Transaction exposure refers to the possibility of changes in the value of an agreed foreign-currency cash flow due to foreign exchange movements. Transaction exposure includes all contractual items denominated in a foreign currency and part of the expected future cash flows.

The company's competitiveness in relation to its competitors may be affected by a long-term change in exchange rates. This risk is referred to as economic exposure. Perlos' economic exposure is similar to that of most of its major competitors.

Translation exposure refers to the impact of exchange rate movements on the consolidated balance sheet. Assets, shareholders' equity or liabilities in the consolidated balance sheet may change due to exchange rate movements. Exchange rate movements may impact on not only balance sheet values, but also certain indicators, such as the equity ratio and gearing ratio.

Perlos primarily manages its foreign exchange exposure by way of its business operations. The procurement of production inputs and sales of products are primarily carried out in the local currencies of the corporation's companies. Exceptions are components obtained from Japanese suppliers, where the Japanese Yen is the agreed currency of purchase. Perlos primarily uses currency forwards in the hedging of its currency position. Derivatives are used solely for hedging purposes.

Risk limits in foreign exchange exposure

In the case of the transaction exposure, Perlos' principle is to hedge all major foreign currency items agreed on and part of the predicted cash flows. The business units may deviate from this principle such that, following a non-recurring change of 10% in exchange rates, the value of the unhedged position can change by no more than 5% of predicted net profits at the annual level. In addition, the open transaction exposure of the corporation's finance unit may not exceed EUR 5 million.

Risk limits are not applied to currencies that do not have functional derivative markets.

Perlos does not hedge translation or economic exposure with financial instruments.

IFRS Transition Project

Current situation

Perlos has adopted IAS/IFRS standards in its financial reporting as from January 1, 2005. For calculating the comparative quarterly information for 2004, the time of transition to IFRS was January 1, 2004. Perlos will publish its 2004 comparative information as well as explanations concerning the changes in respect of previous practice before the first Interim Report for 2005.

The transition project has gone according to plans and project progress has been reported on regularly to the company's Board of Directors. The existing standards have been analysed and their impacts on the company's accounting policies have been dealt with. The necessary changes to the accounting system will be completed before the first Interim Report for 2005.

Principal effects on the accounting policies applied in consolidated financial statements

Leasing

According to IFRS, lease agreements booked under property, plant and equipment, in which substantially all the risks and rewards incident to ownership are transferred to the Group are classified as finance lease agreements. Finance lease agreements are entered in the balance sheet at the time of commencement of the lease period at the lower of the fair value of the leased asset or the present value of minimum rents. On assets acquired under a finance lease agreement, depreciation is entered for the asset's economic life or a shorter lease period. Lease obligations are included in interest-bearing non-current and current liabilities. In finance lease calculations, the discount rate applied is the Group's average interest rate on external loans at the time of entering into the lease agreements.

Pension arrangements

The Group's pension arrangements are mainly defined contribution plans. A special exception is the treatment of the disability element under the Finnish TEL (Employees' Pensions Act) pension scheme. During the transition project, it was generally interpreted as being a defined-benefit plan and accordingly it is treated as such in the balance sheet at the transition time, January 1, 2004. In December 2004, the Ministry of Social Affairs and Health approved certain changes to the calculation bases of disability pension liabilities under the Finnish TEL employment pensions system. The changes will come into force on January 1, 2006. Following the changes, the TEL disability element will be treated as a defined-contribution scheme in the IFRS financial statements. As a consequence of this, the bulk of the liability entered, which reduces shareholders' equity in the balance sheet at the time of transition, will be recognised as income in the fourth-quarter IFRS comparative information for 2004.

Financial instruments

The Group will treat derivative contracts in its IFRS reporting in the manner specified in IAS 39 Financial Instruments, Recognition and Measurement. Derivative agreements are recognised in the accounts originally at the acquisition cost, which corresponds to their fair value. After they are acquired, derivative contracts are measured at their fair value and the gains and losses arising from measurement of the fair value are treated in the accounting in the manner determined by the usage purpose of the derivative contract. When a derivative contract is entered into, the Group treats it either as a hedge of the fair value of the receivables, liabilities or firm commitments, a hedge of the forecast cash flow from a highly probable future transaction, a hedge of a net investment in a foreign unit or as derivative contracts that do not meet the criteria for hedge accounting. Changes in the fair value of derivatives that meet the criteria of an effective hedge of fair value are recognised in the income statement against the change in the fair value of the assets or liabilities hedged. Changes in the fair value of derivatives meeting the criteria for effective and cash flow hedges are recorded in the revaluation fund under shareholders' equity. Accumulated gains or losses on a derivative recorded in shareholders' equity are recorded in the income statement as income or expenses of the financial period when the underlying asset of the hedge is recorded in the income statement.

If the hedged forecast transaction leads to the recording of an asset that is not included in financial assets, the gains and losses recorded in shareholders' equity are transferred from shareholders' equity and recorded as the acquisition cost of said asset or liability. When a hedging instrument that is acquired to hedge a cash flow fall due, is sold or the criteria of hedge accounting are no longer met, the gain or loss resulting from the hedging instrument remains in shareholders' equity until the forecast transaction is carried out. However, if the forecast transaction is no longer assumed to be completed, the cumulative gain or loss that is recognised in equity is entered immediately under financial income and expenses in the income statement.

Any ineffective portion of a financial contract that is excluded from a hedge relationship is recorded in other operating income and expenses. The fair values of publicly traded derivatives, including available-for-sale investments, are based on verifiable market prices at the balance sheet date. The fair values of interest rate swaps are calculated as the present value of future cash flows. Foreign exchange forward contracts are measured at the balance sheet date, applying the foreign exchange rates in effect at the balance sheet date.

Goodwill

In accordance with IAS 36, goodwill is not amortised but is assessed by means of an impairment test. Impairment tests are performed at the level of cash flow-generating units at the time of transition and annually thereafter as well as when a special reason becomes apparent. The recoverable amount of the cash flow-generating unit is compared with its carrying amount and the impairment is recognised if the recoverable amount is smaller than the carrying amount. The impairment loss is recorded in the income statement. Perlos' Consolidated Balance Sheet at December 31, 2003 contains EUR 7.9 million of goodwill on the acquisition of Moteco AB Group.

Stock options

Perlos will apply the IFRS 2 Share-based Payment standard to all stock option schemes in which the options have been granted after November 7, 2002 and which do not vest before January 1, 2004. Stock options are measured at fair value at the time they are granted and, they are expensed on a straight-line basis in the income statement over the period from the date they were granted to commencement of the right to exercise them. The expense determined at the moment of granting the options is based on an estimate of the number of options that will vest at the time of commencement of the right to exercise them. The fair value of the options is determined on the basis of the Black-Scholes pricing model. Estimates of the final amount of options are updated on each balance sheet date and the effects of changes in estimates of them are recorded in the income statement. When stock options are exercised, the cash payments received on the basis of share subscriptions (adjusted for any transaction expenses) are recognised in equity (par value) and in the share premium fund.

Deferred taxes

Deferred taxes are calculated on all temporary differences between a carrying amount and the taxable value. The largest temporary differences arise from the remeasurement of derivative contracts, defined-benefit pension arrangements and unused tax losses. Deferred taxes are calculated by applying the statutory tax rates by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be generated, against which the temporary difference can be utilised.

According to preliminary calculations, the adoption of IFRS will have only minor effects on the quarterly results compared with previously published information in accordance with Finnish Accounting Standards, except for the above-discussed effect of the treatment of the disability element under the Finnish TEL Employees' Pensions Act.

Preliminary calculation of the effects of adopting IFRS reporting

Shareholders' equity according to Finnish Accounting Standards (FAS), December 31, 2003 EUR million	141.2
Own shares (treasury shares)*	-7.7
Pension liabilities**	-6.6
Finance leases	-1.2
Financial instruments	-0.7
Other items	-0.3
Shareholders' equity according to IFRS standards, January 1, 2004 EUR million	124.7

** According to IAS 32 and SIC 16, treasury shares are not recorded in balance sheet assets and in the treasury shares fund. According to Finnish Accounting Standards, treasury shares are stated in assets and in the treasury shares fund but were not included in shareholders' equity or in total assets in calculating key ratios.*

*** The bulk of the disability pension liability under the Finnish TEL scheme is recognised as income in the last quarter of 2004.*

Information on Perlos' Shares and Shareholders

General

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

Shares and share capital

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

According to the Articles of Association, the company's minimum share capital shall be EUR 30,600,000 and its maximum share capital EUR 122,400,000, within which limits the share capital may be increased or decreased without amending the Articles of Association. Perlos' registered share capital was EUR 31,850,007.60 or 53,083,346 shares, on December 31, 2004. Each share has a nominal value of EUR 0.60. Each share entitles the bearer to one vote at a general meeting of shareholders. All shares entitle the bearer to a dividend for the financial period that began on January 1, 2004.

Share quotation, price trend and turnover

The share price was EUR 11.77 at the end of the year, or 96% higher than at the end of 2003. The highest price of the company's share in trading was EUR 13.14 and the lowest was EUR 6.39. During the financial year, the turnover of Perlos' shares on the Helsinki Stock Exchange amounted to EUR 549.4 million and 57.5 million shares, which represents 108% of the shares outstanding. The company's market capitalisation on the last day of the year, as calculated from the closing quotation of EUR 11.77, was EUR 624.8 million.

Options and share capital

At the end of 2004, Perlos Corporation had two share option programmes. The A and C warrants (options) attached to the bond loan with warrants issued in 1999 are listed on the Main List of the Helsinki Stock Exchange. The 2002 share option programme, whose subscription period begins on April 1, 2005, has not been listed.

A total of 1,100,000 shares can be subscribed for on the basis of the 1999 bond loan with warrants and 750,000 shares on the basis of the 2002 share option programme. No shares had been subscribed for on the basis of these warrants by the end of the financial year.

The A, B and C warrants (options) attached to the bond loans with warrants issued in 1997 and 1998 matured on April 1, 2004. A total of 3,660,000 shares were subscribed for with the warrants attached to the 1997 bond loan, of which 700,260 were subscribed for during 2004. A total of 90,000 shares were subscribed for with the warrants attached to the 1998 bond loan, of which 45,000 were subscribed for during the financial year. As a result of these subscriptions, the share capital rose by EUR 447,156.

In accordance with the decision of the Annual General Meeting held on March 29, 2004, all Perlos shares owned by the company at that time, 1,168,300 shares, were annulled and the reduction in the share capital was registered on April 23, 2004. The share capital was decreased by the total nominal value of the shares, EUR 700,980, by transferring the amount by which the share capital was decreased into the premium fund.

Authorisations of the Board

In accordance with the resolutions of the Annual General Meeting held on March 29, 2004, Perlos' Board of Directors has an authorisation (a) to decide on increasing the company's share capital through a rights issue, granting share option rights or issuing convertible bonds to a maximum amount of EUR 6,280,570.20, (b) to decide upon the acquisition of a maximum of 2,616,904 of the company's own shares and (c) to decide on the conveyance of a maximum of 2,616,904 of the company's own shares. The authorisation is valid until the Annual General Meeting that will be held on March 30, 2005.

During the financial year, the company bought 315,000 of its own shares. Accordingly, at year's end, the Board of Directors was still authorised to acquire a maximum of 2,301,904 more of its own shares. During the financial year, the Board of Directors did not use any of the other authorisations granted by the Annual General Meeting.

Composition of the Board of Directors and the auditor

At Perlos Corporation's Annual General Meeting on March 29, 2004, Kari O. Sohlberg, Heikki Mairinoja, Matti Aura, Anni Vepsäläinen, Matti Kavetvuo, Teppo Taberman and Timo Leinilä were elected as members of the Board of Directors. Kari O. Sohlberg was elected as the Chairman of the Board. Heikki Mairinoja was elected as the Vice Chairman of the Board at the organisation meeting of the Board of Directors held after the Annual General Meeting, where the Board also appointed an Audit Committee consisting of the following Board members: Matti Aura, Kari O. Sohlberg, and Teppo Taberman.

The Annual General Meeting resolved, as proposed by the Board of Directors, to amend Sections 5 and 12 of the Articles of Association of the company in order to change the number of ordinary members of the Board of Directors from six to between five and eight.

The company's auditor is SVH PricewaterhouseCoopers Oy, Authorised Public Accountants, with Kari Lydman, Authorised Public Accountant, as chief auditor.

Registered shares and share capital, Dec. 31

	2004	2003	2002	2001	2000	1999
Share capital, EUR 1000	31,850	32,007	31,439	31,603	31,159	30,732
Number of shares, 1000	53,083	53,346	52,399	52,672	51,932	51,220
Shares held by the company, 1000	315	1,168	1,168	914	-	-
Number of registered shareholders [1)]	15,037	14,160	13,548	12,603	11,367	9,094

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

Largest shareholders as of 31 December 2004

		Numbers of shares and votes	% of shares and votes
1	G.W. Sohlberg Corporation	15 425 000	29.06
2	Foreign Shareholders	10 568 016	19.91
3	Ilmarinen Mutual Pension Insurance Company	1 533 080	2.89
4	OP-Delta Investment Fund	839 300	1.58
5	Varma Mutual Pension Insurance Company	777 824	1.47
6	FIM Forte Investment Fund	755 900	1.42
7	Finnish Government Pension Fund	650 000	1.22
8	OP-Suomi Kasvu Investment Fund	641 250	1.21
9	FIM Fenno Investment Fund	615 150	1.16
10	The Local Government Pensions Institution	453 000	0.85
11	Tapiola Mutual Insurance Company	444 000	0.84
12	Tapiola Mutual Pension Insurance Company	414 900	0.78
13	Päivikki and Sakari Sohlberg Foundation	369 550	0.70
14	Gyllenberg Finlandia Investment Fund	335 000	0.63
15	Perlos Corporation	315 000	0.59
16	Nordea Life Assurance Finland Ltd	307 450	0.58
17	OP-Focus Investment Fund	302 900	0.57
18	Central Church Fund	270 550	0.51
19	Tapiola Mutual Life Insurance Company	256 300	0.48
20	Mandatum Suomi Kasvuosake Investment Fund	238 660	0.45
Total		**35 512 830**	**66.90**
	Other shareholders	17 570 516	33.10
Total number of shares		**53 083 346**	**100.00**

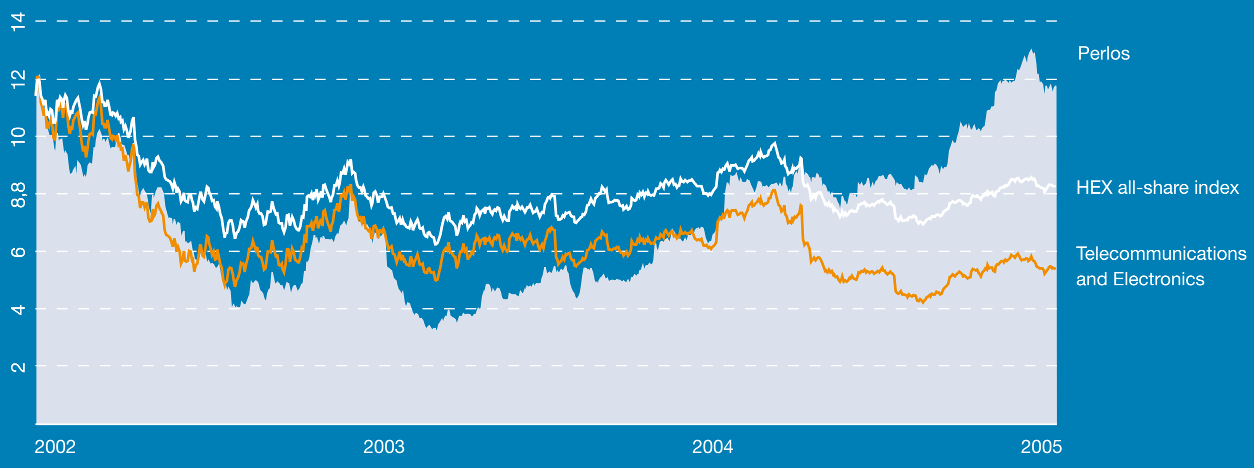
Shareholders by group as of 31 December 2004

	Number os shares and votes	% of shares and votes	Number of shareholders	% of shareholders
Companies	18 646 349	35.13	1 080	7.19
Financial and insurance institutions	7 571 550	14.26	96	0.64
Public sector organisations	5 221 899	9.84	52	0.35
Non-profit organisations	2 665 332	5.02	146	0.97
Households	8 410 200	15.84	13 586	90.42
Foreign shareholders	10 568 016	19.91	77	0.44
Total	**53 083 346**	**100.00**	**15 037**	**100,00**

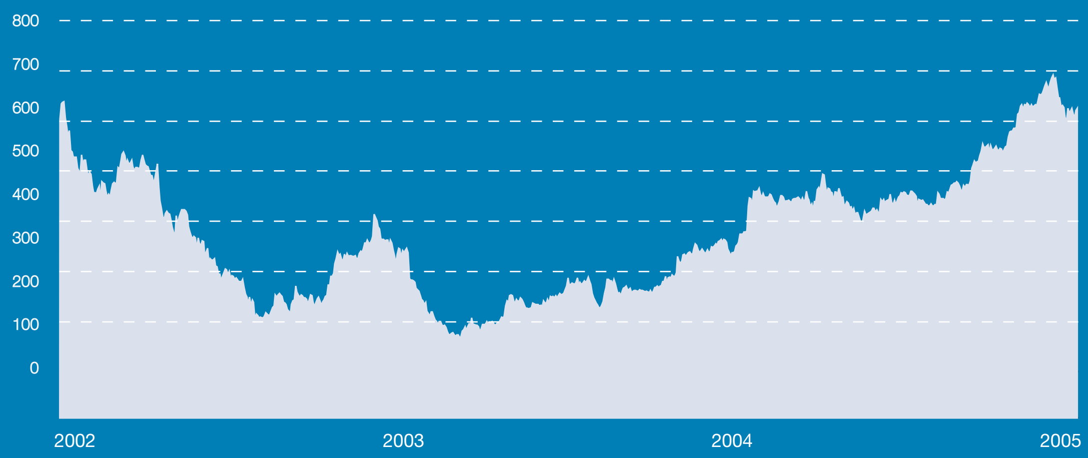
Breakdown of share ownership as of 31 December 2004

Number of shares	Number of shareholders	% of shareholders	Number of shares and votes	% of shares and votes
1 - 100	4 683	31.14	334 084	0.63
101 - 500	6 152	40.91	1 731 678	3.26
501 - 5 000	3 828	25.46	5 328 363	10.04
5 001 - 100 000	325	2.16	6 593 884	12.42
100 001 - 500 000	40	0.27	8 663 149	16.32
500 001 -	9	0.06	30 432 188	57.33
Total	**15 037**	**100.00**	**53 083 346**	**100.00**

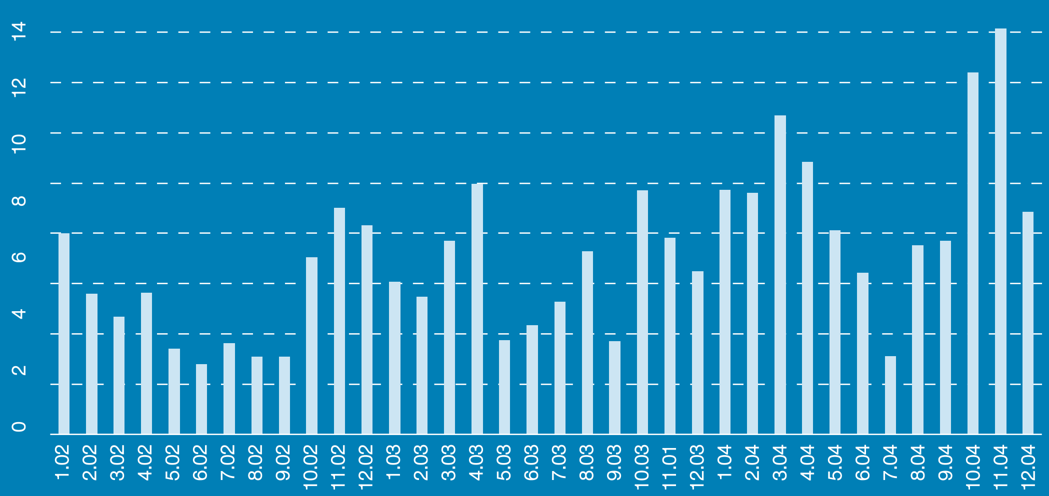
Perlos' share performance and relative indices of reference, EUR, 2002-2004



Perlos' market capitalisation, EUR million, 2002-2004



Perlos' share turnover, number of shares (million), 2002-2004



Source: Helsinki Stock Exchanges

Analyst Coverage

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

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