KASOLA OYJ ANNUAL REPORT 2005 ENGLISH SUMMARY





Review by the Managing Director

The year 2005 was positive for the entire Group. Turnover grew, while profit improved for both the Security Product Sector and the Plastic Product Sector. The long-term, well-organised work over the years has produced the good result achieved last year. Even though the markets are challenging, our well-motivated staff through their active efforts have shown that results will also be attained.

The business environment has changed greatly over the past few years. In all product sectors we are increasingly competing against products made in the Far East or Eastern Europe. Our competitive tools are based on the KASO and PALASET brands, which are trusted as path-breakers in their respective fields in domestic and export markets. It is clear that we cannot be the cheapest on the market in terms of price, but our competitive tools are based on other customer requirements. These comprise such factors as design, quality, technical know-how and the durability of our products. We are striving to meet the challenges of globalisation by continuously upgrading our in-house core processes and outsourcing other activities. To boost our competitiveness we are supplementing our product range by offshoring manufacture of some products, their parts and moulds to the Far East. Logistics is rapidly growing in importance in our operations.

During 2005 we invested in the development of customer relations management in both firms. Personal metrics describe the activity and productivity of our operations in relation to the customer. Customer satisfaction was excellent according to the survey carried out in the autumn.

Only continuous product development will keep us at the forefront of development. The competitiveness of our product lines is being monitored and analysed. In recent years the amount of new products has markedly increased. This trend will continue further.

Prospects in the markets for 2006 are reasonably good. Even though the situation in the markets has been somewhat quieter during the early months of the year, I nevertheless believe that the positive trend will continue in all our units. Our aim is growth in turnover and further improvement in profitability. This requires vigorous effort from everybody. I believe that we are capable of attaining good results together.

I wish to thank all those involved in our activities for the fine cooperation achieved.

Helsinki, March 2006

Jari Bachmann Managing Director

Group Key Figures

	FAS	FAS	FAS	IFRS	IFRS
Operations	2001	2002	2003	2004	2005
Turnover, EUR k	15,498	10,596	9,932	10,311	11,264
change %	-15.6 %	-31.6 %	-6.3 %	+3.8 %	+9.2 %
Operating profit, EUR k % of turnover	-47 -0.3 %	210 2.0 %	-34 -0.3 %	519 5.0 %	980 8.7 %
Profit before financial items, EUR k	- 0.3 % - 497	125	-0.5 % -75	467	1,198
% of turnover	-3.2 %	1.2 %	-7.6 %	4.5 %	10.6 %
Net profit for the year, EUR k	-538	72	-7	344	913
% of turnover	-3.5 %	0.7 %	-0.1 %	3.3 %	8.1 %
Return on equity (ROE), %	-5.7 %	0.8 %	-0.1 %	4.1 %	10.2 %
Return on investment (ROI), %	0.4 %	3.1 %	1.2 %	5.4 %	10.8 %
Equity ratio, %	45.0 % 75.6 %	54.4 %	62.0 % 7.9 %	64.2 % 3.0 %	67.7 %
Net gearing, % Gross investments in fixed assets, EUR k	/5.6 %	25.4 % 1,644	7.9 % 431	3.0 % 234	-11.0 % 311
% of turnover	1,028	1,044	4.3 %	2.3 %	2.8 %
Balance sheet total, EUR k	19,750	15,536	13,222	13,382	13,801
Average staff, persons	168	105	102	91	86
Share related	2001	2002	2003	2004	2005
Earnings per share (EPS), EUR	-0.21	0.03	0.00	0.13	0.36
Shareholders' equity per share, EUR	3.57	3.40	3.31	3.37	3.74
Dividend per share, EUR (adjusted)	0.00	0.08	0.05	0.05	0.12*
Dividend per share, EUR (nominal)	0.00	0.08	0.05	0.05	0.12*
Dividend per profit, %	neg.	266.7 %	62.5 %	37.5 %	13.9 %
Effective dividend yield, %	0.0 %	6.6 %	3.3 %	2.8 %	2.0 %
Price-earnings ratio	neg.	40	1925	14	7
Issue-adjusted average no. of shares	2,530,000	2,530,000 2,530,000	2,530,000 2,530,000	2,530,000	2,501,597
Issue-adjusted yearend no. of shares	2,530,000	2,330,000	2,330,000	2,530,000	2,492,130
Share performance	2001	2002	2003	2004	2005
A-share price on I list, EUR					
– highest share price	2.00	1.66	1.55	2.02	2.50
– lowest share price	1.30	1.00	1.03	1.35	1.81
– average share price	1.55	1.47	1.34	1.76	2.25
– yearend share price	1.50	1.21	1.54	1.80	2.50
Market capitalisation, EUR m, A-shares	3.3	2.7	3.4	4.0	5.5
Trading volume during accounting period					
on I list, no. of shares	70,600	340,180	130,400	271,000	180,702
Trading volume, % of shares	3.2 %	15.3 %	5.8 %	12.2 %	8.2 %
Number of shareholders	350	333	325	295	279

* = proposal

Report by the Board of Directors

For the accounting period 1.1.2005 - 31.12.2005

Group Structure and Business Activities

The Kaso Group's operations are divided into two business sectors:

Security Products (Kaso Oy, Kaipio Oy) Plastic Products (MK-Tresmer Oy)

The parent company, Kasola Oyj, is in charge of Group financial management. In the Security Product Sector Kaipio Oy was merged into Kaso Oy on 31.12.2005. All operations have now been combined under Kaso Oy.

Consolidated turnover amounted to EUR 11,264k, representing a growth of EUR 952k on the previous year. Turnover is divided among the companies as follows:

	EUR k
Kasola Oyj	863
Kaso Oy	8,295
Kaipio Oy	_
MK-Tresmer Oy	2,978
 intragroup turnover 	-872
Consolidated turnover total	11,264

Overseas operations accounted for 30% (30%) of the turnover and the order book at the close of the financial year amounted to EUR 942k (EUR 1,026k).

The Security Product Sector

For the Security Product Sector 2005 was on the whole a good year. Turnover grew by 9.9% on the previous year. Operating profit for 2005 represented 9.5% (7.6%) of turnover with a growth of 37.3% on the previous year. Reasons for the good result comprised long-term, well-organised operations in conjunction with a well-motivated staff. Our operating system has been put in good condition in all processes, which contributes to continuous improvement in our business activities. An active approach towards customer relations and cost-effectiveness in all operations are at a good level. This is a remarkable achievement taking into account the fact that all-round markets for physical security products have not been growing, while the competitive situation with cheap imports has been getting constantly tighter.

We have performed well in domestic markets. Growth in market share has been attained especially in the sale of clothes lockers. The sale of safes has also continued to be strong. Demand from financial institutions has picked up slightly especially in service activities.

Turnover in the export sector has markedly increased for bank security products. Sales of vault doors and safe-deposit boxes, in particular, have experienced a marked growth on the previous year. Even though price competition is hard in all market areas, we have managed to meet the competition well with the aid of the Kaso brand. Kaso strengths continue to be high quality, modern design, best test results, reliability and the light weight of the products. Purchasing from Kaso continues to provide clear added value for the customer.

Product lines have been expanded especially those of fireproof safes. The new fireproof safes and filing cabinets have been well received by the market. The security product line has grown through new Euronorm tested deposit safes. At the end of the year we launched the new household security centre on the market.

Efforts have been continued in developing customer relations management. One of the most important events of the year was the Finnsec exhibition. In addition, we organised a large number of events for a wide range of customers.

Flexibility throughout all our operations is a requirement for a good profit trend. There are great fluctuations in the order book, and sales fore-casting presents a challenge. Our customer base is diverse with no individual customer accounting for over 5% of our turnover.

Turnover amounted to EUR 8,295k (EUR 7,548k) and operating profit to EUR 792k (EUR 577k). Staff numbered 56 (58) at the turn of the financial year.

The Plastic Product Sector

The year 2005 was much better than the previous two years. Turnover attained growth and the result was positive. Domestic sales increased considerably on the previous year, but targets for exports were not fully met. In export markets the results were especially good in the USA, Japan and Central Europe. However, a greater number of new cooperation partners are needed in Nordic countries and the UK.

Results exceeded targets in the last third of the year. Profit was much improved with the growth in turnover. This is also an indication of the efficiency of our production, as even the smallest growth in volume immediately leads to profit.

The price of plastic raw materials has been high throughout the year. Offsetting these costs onto the customer was already started during the previous year. This is never an easy task, but it went well.

There were large monthly fluctuations in our business activities and prospects have been uncertain due to a short order book. Reorganisation measures could not be avoided last year either and some of our production staff have been temporarily laid off. Growth in turnover is based on winning new customers. This also requires new products for existing as well as new customers. The most important new products in 2005 were the Multimediabox for CDs and DVDs, belonging to the Palaset Desktop range; the Ella outdoor-clothes hanger, belonging to the Palaset Hangers range, and the Dreambox moneybox, belonging to the Palaset Moneybox range.

Turnover grew by 7.4% on the previous year to EUR 2,961k (EUR 2,756k). Profitability was much better than for the previous year with operating profit amounting to EUR 192k (EUR –59k). Staff numbered 27 (30) at the end of the financial year.

Profitability and Financing

The Kaso Group's profitability improved on the previous year. Operating profit amounted to EUR 980k (EUR 559k) and profit for the year to EUR 913k (EUR 344k). Financial items include one-off financial income of EUR 220k.

The Group's financial position is good. Financial expenditure amounted to EUR 97k. Interestbearing liabilities fell by EUR 721k, amounting to EUR 2,213k (EUR 2,934k) at yearend. The equity ratio was 68% (64%) and equity per share EUR 3.74 (EUR 3.37).

Investments

Investments for 2005 totalled only EUR 311k (EUR 234k). No major investments in machinery or equipment were made. Investment requirements for machinery and equipment in the coming years will mainly be in the nature of replacements, as production capacity can be increased without major additional investments. Consequently, depreciation for the following years will drop slightly.

Staff

Group staff numbered on average 86 (91) with 3 (3) at the parent company. Wages, salaries and fees for the accounting period amounted to EUR 3,136k (EUR 3,129k), of which salaries and fees attributable to the managing director and members of the board of directors came to EUR 197k (EUR 189k).

Corporate Governance

The Annual General Meeting was held on 8 April 2005. Kirta Forsström, Juha Oikarinen, Markku Uotinen and Jari Bachman were elected to the parent company's board of directors. The board elected Juha Oikarinen from their number as chairman. The company's managing director is Jari Bachman. The auditors are the authorised public accounting firm, Tilintarkastustoimisto Idman & Vilén Oy, with Matti Pettersson, authorised public accountant, as the responsible auditor.

Kasola Oyj applied the recommendations issued during 2005 by the listed companies' best practice governance and management scheme. The principles accepted by the company's board of directors can be seen at www.kasola.fi.

Decrease in Share Capital

The company's share capital was decreased in accordance with a resolution of the AGM of 8 April 2005 by EUR 64,379.00 through the cancellation of 37,870 Kasola Oyj A-list shares held by the company. This action was registered with the trade register on 3 May 2005.

Board Authorisations

The AGM of 8 April 2005 authorised the board of directors to decide on the acquisition and conveyance of a maximum of 120,000 of the company's own A-list shares and to sell a maximum of 2,357 shares not transferred to the book-entry system. By 31 December 2005 the company had bought, under these authorisations, 5,000 A-list shares at an average share price of EUR 2.00 per share, which represents some 0.2% of the company's shares outstanding and 0.2% of the voting rights.

Adoption of IFRS

The Group changed over to IFRS in its accounting and financial statements on 1.1.2005. Interim reports in 2005 were prepared under IFRS principles.

Risk management

Flexibility throughout our operations is a requirement for a good profit trend. There are large fluctuations in the order book, and sales forecasting presents a challenge. Our customer base is diverse with no individual customer accounting for over 5% of our turnover.

Financial risk at Group level is managed according to the financial policy adopted by the board of directors of Kasola Oyj. The financial position is good. On the whole, the foreign exchange, interest and credit risks are assessed to be minor.

Raw material price risks are quite limited in the Group. The relative cost of raw materials in MK-Tresmer's products is considerable.

Outlook for the Future

Domestic markets are expected to remain stable. We have good possibilities to increase turnover in exports. The competition for customers, however, is tightening with new competitors emerging from neighbouring countries and the Far East.

Increasing turnover and keeping profitability at a good level continue to be our main aims. Even though we have not met sales targets for the beginning of the present year, we nevertheless believe that the positive trend will continue throughout all our operations.

The Board's Proposal for the Disposal of Earnings

The Group's disposable funds total EUR 2,130k (EUR 1,389k), while those of the parent company amount to EUR 1,693k, of which net profit for the year is EUR 564k. The board proposes to the Annual General Meeting that a dividend of EUR 0.12 per share be distributed for the accounting period, totalling EUR 299k.

KASO-GROUP

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