# 2006
# FINANCIAL STATEMENTS

KYRO TECHNOLOGIES

# Report of the board of directors

## KYRO GROUP STRUCTURE

Kyro's business areas are Glaston Technologies and Energy. The main business area, Glaston Technologies, consists of the Glass Machinery Group and Tamglass Glass Processing Ltd.

The Glass Machinery Group is the world market leader in glass processing machines. The Glass Machinery Group's products are glass pre-processing machines as well as safety glass machines for the architectural and automotive industries. The group consists of Tamglass, the technology and market leader in safety glass machines; Uniglass, which manufactures flat tempering machines; the leading supplier of glass pre-processing machines Bavelloni, which also produces stone processing machines; and DiaPol, which manufactures tools for glass and stone pre-processing.

Tamglass Glass Processing focuses on markets in Finland and neighbouring countries and is the leading comprehensive supplier of glass processing products in Finland. Its safety and insulating glass products sold under the Tamglass brand as well as its balcony systems are supplied to the building, window and door industries, specialty vehicle manufacturers and construction projects.

Kyro's second business area is Energy, which consists of the electricity and heat generating gas-fired combi power plant of Kyro Power Oy.

## THE GROUP'S EFFICIENCY PROGRAMMES

In 2006 the Group initiated efficiency programmes which Kyro now estimates will have a positive impact on profits of EUR 4.5 million in the current year. To support future growth, it was decided to increase Bavelloni's maintenance and service personnel at the end of the year, as a result of which the net personnel reductions of Bavelloni's efficiency programme are smaller than anticipated. The estimated six million euros in savings, therefore, have been adjusted downward. The costs of the measures, EUR 5.3 million, were recognised in full during 2006. The related provisions were 1.6 EUR million.

In September, Bavelloni began a programme to boost the efficiency of its Italian operations, which led, among other things, to the closure of the Bergamo assembly plant. The programme also includes other productivity-raising operational and process changes, with arrangements affecting personnel. The outcome of negotiations relating to these measures was a reduction of 59 jobs, mainly in connection with the factory closure. As part of the programme, the distribution logistics in Europe of Bavelloni's tools and spare parts were enhanced. The area's three tool and spare parts warehouses were centralised in Italy, from where they can be delivered to European customers more quickly than before.

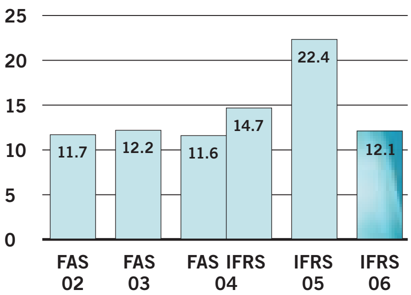
Measures taken in the Glass Processing Group included the restructuring of Tamglass Finton, the merger of three Glass Processing Group companies into one company, and the personnel reductions, a total of 36 employees, that followed from these.

## NET SALES AND PROFIT

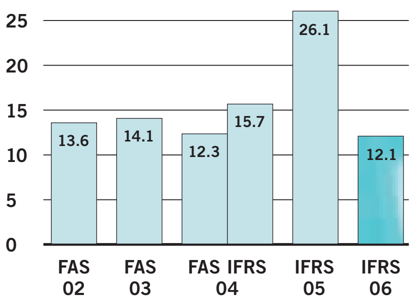
The Kyro Group's net sales were EUR 268.9 (266.7) million in 2006. The Group's comparable operating profit was EUR 22.0 (23.0) million, representing 8.2% (8.6%) of net sales.

Comparable operating profit does not include non-recurring items totalling EUR 5.6 million recognised in 2006 for the above-mentioned efficiency programmes. They consist

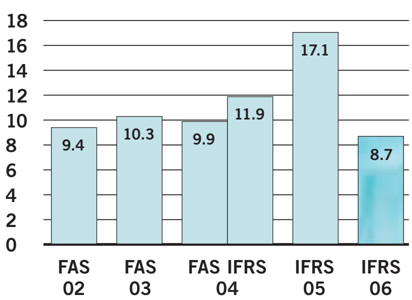
**PROFIT OF THE YEAR, EUR MILLION**




**RETURN ON INVESTED CAPITAL, %**




**RETURN ON EQUITY, %**



of EUR 1.3 million for the Glass Processing Group restructuring and EUR 4.0 million for the Bavelloni efficiency programme. In addition, a non-recurring item of EUR 0.3 million was recognised for the Energy business area's Partner project.

Comparable profit before taxes was EUR 22.3 (21.9) million, representing 8.3% (8.2%) of net sales.

Taking into account the recognised non-recurring items, profit before taxes was EUR 16.7 (34.2) million. Profit for the financial period was EUR 12.1 (22.4) million. This includes a EUR 1.8 million tax refund from previous years. Return on invested capital was 12.1% (26.1%). Earnings per share were EUR 0.15 (0.28) and equity per share was EUR 1.75 (1.76).

Net financial items totalled EUR 0.3 (–1.2) million. This includes interest, dividend and other financial income of EUR 2.2 (2,4) million, and interest and other financial expenses of EUR –1.9 (–3.7) million.

The Group's order book on 31 December 2006 was EUR 127.5 (140.7) million.

In 2006 Kyro, commenting on its future prospects, stated that both the previous year's net sales and comparable operating profit were expected to grow. After the third quarter, the estimate was adjusted by mentioning that certain significant delivery projects had been postponed to 2007 and that realising the target level would be substantially decided by other orders in the latter part of the year. Kyro increased its net sales, but comparable operating profit fell slightly from the previous year, as the profitability of the above-mentioned other orders at the end of the year proved to be weaker than expected.

## FINANCING

The Group's financial standing is good. Equity ratio on 31 December 2006 was 62.2% (64.4%). Cash flow from business operations was EUR –0.4 (22.6) million. Cash flow from investments was EUR 8.0 million. The most significant item of cash flow from financing was a total of EUR 13.4 (5.6) million in dividends paid in the spring. Cash flow also includes EUR 7.3 million in taxes for 2005 paid in 2006, including e.g. EUR 2.9 million taxes on capital gains from the sale of hydropower operations in December 2005.

The Group's liquid funds on 31 December 2006 totalled EUR 10.5 (26.3) million. Interest-bearing net liabilities amounted to EUR –3.0 (–24.7) million (assets greater than interest-bearing liabilities). Gearing stood at –2.2% (–17.7%).

## MANAGEMENT OF BUSINESS RISKS

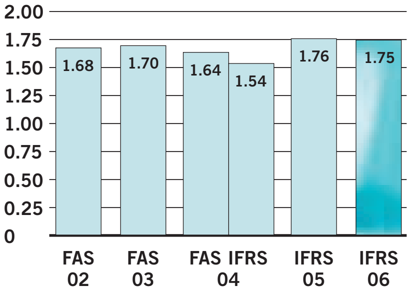
### World economy and customer structure

Cyclical fluctuations in the world economy have a rather minor impact on the machine sales of Kyro's main business area, because the geographical diversification of operations means that economic conditions in Europe, Asia and America even each other out. In addition, cyclical economic conditions for different end-customers, such as the building, automotive and furniture industries, balance each other. Growing building renovation business evens out cyclical variations in the construction sector.

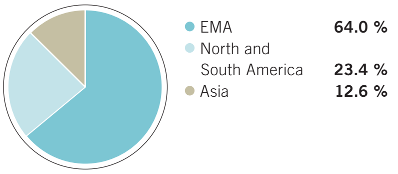
Maintenance business of the main business area Glaston is growing and this helps smooth out fluctuations in machine sales.

Owing to the above factors, customer structure is strongly diversified and no single customer contributes more than a few per cents to Glaston's total annual turnover.

**EQUITY PER SHARE, EUR**




**GEOGRAPHICAL DISTRIBUTION OF NET SALES 2006**



# Report of the board of directors

## MARKETS SITUATION AND COMPETITION

Glaston is a leading supplier in a sector that is expanding globally. The proportion of safety glass used in construction is continually growing. Tightening official regulations are driving growth in safety glass sales still further. Environmental questions such as the energy efficiency of buildings and the high added value glass products associated with it also represent a development trend that supports growth in Glaston's high technology machines.

Glaston's machine manufacturing units are located in Finland, Italy, the United States, China and Brazil. In terms of Finland, Italy and United States the political risk is low, while China and Brazil are clearly countries where the political risk is higher. At the end of 2006, Kyro was not aware of any political risk that could have a substantial impact on its operations.

As the technology and market leader in safety glass machines, the Group is in a strong competitive position in all of its main market areas. Glaston continually develops its operations and products in order to remain competitive also in the more inexpensively priced segment of the machine market.

In terms of pre-processing machines, the competitive situation is noticeably more uniform, because the market is highly fragmented.

## PRODUCTION

The Group's production is structured so as to be flexible. Machine manufacturing is based on own product development, assembly and a strong subcontracting network, which can adjust capacity flexibly. In production, materials and components that have several suppliers are used in order to minimise availability risks. A common model has also been introduced through company acquisitions into other units e.g. in Italy.

## FINANCING

The Group's strong financial position represents a good foundation for the management of financial risks. To ensure the availability of funding, the Group has adequate credit facilities for its business operations, which can be called upon if necessary. Most of the Group's net sales and costs are euro-denominated, so the direct foreign exchange risk is small relative to total net sales. The proportion of net sales and costs in US dollars has fallen significantly in recent years, which in turn has reduced the Group's foreign exchange risk.

The Group hedges all operational foreign exchange risks as they arise. In addition, significant foreign currency equity items of subsidiaries are hedged. The main objectives of foreign currency hedging are safeguarding earnings and cash flow as well as ensuring predictability. Indirect foreign exchange risks may arise as the euro strengthens against other currencies, such as the US dollar. Price competition in markets outside the eurozone is growing and might impact negatively on the profitability of products being offered for sale. Some of the risks have been covered through the diversification of production over different foreign exchange areas.

In long-term contracts concluded by the Energy business area, deliveries have been hedged by linking them to fuel costs. In electricity hedging, the Group's main principle has been to hedge each open position for a period of 12 months.

## RISK OF LOSS OR DAMAGE

The Group's parent company is responsible for

**BUSINESS AREAS´NET SALES, OPERATING PROFIT AND ORDER BOOK, EUR MILLION**

| | Net sales | Net sales | Operating profit | Operating profit | Order book | Order book |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Glaston Technologies | 234.7 | 238.9 | 18.1 | 22.1 | 111.2 | 108.8 |
| Energy | 34.1 | 27.6 | 6.5 | 6.4 | 16.3 | 31.9 |
| Non-recurring items | | | –5.6 | 12.5 | | |
| Parent company, other operations and eliminations | 0.1 | 0.2 | –2.5 | –5.5 | | |
| **Group total** | **268.9** | **266.7** | **16.5** | **35.5** | **127.5** | **140.7** |

the insurance cover of Group units. Insurance is used to eliminate potential losses resulting from the realisation of disruption, fire and similar risks. Risks relating to transport and installation have been insured like the other product liabilities of products sold. To minimise risks, the Group has comprehensive insurance cover, which is re-examined annually.

**CAPITAL EXPENDITURE**

The Kyro Group's capital expenditure totalled 12.0 (11.4) million in 2006. This includes the construction costs of a factory in China and the extension of the head office in Finland (totalling c. EUR 4.0 million), obligatory product development capitalisations under IFRS (EUR 3.4 million) as well as normal repair and maintenance investments.

**ORGANISATION AND PERSONNEL**

In October 2006 Kyro announced that Kyro's President and CEO Pentti Yliheljo was to retire. Mika Seitovirta succeeded Yliheljo as President and CEO of Kyro and Tamglass on 1 January 2007. Pentti Yliheljo's expertise will be continue to available to the Group until 30 June 2007.

The Kyro Group had 1,211 (1,222) employees on 31 December 2006. The number of Group employees working in Finland was 427 (441), while the number working abroad was 784 (781). The average number of employees was 1,264 (1,218), with the growth in personnel being due mainly to recruitment of maintenance and installation staff in the early part of the year.

**SHARES AND SHARE PRICES**

A total of 6,978,316 (18,054,297) Kyro Corporation (KRO1V) shares were traded in the period January-December, representing 8.8% (22.8%) of the total number of shares. The lowest price paid for a share on the Helsinki Stock Exchange was EUR 3.75 and the highest price EUR 4.84. The average price during the period was EUR 4.33.

**ACQUISITION AND DISPOSAL OF OWN SHARES**

The Annual General Meeting on 16 March 2006 authorised the Board of Directors to acquire the company's own shares for the purpose of using them as consideration in possible acquisitions, to finance investments or other industrial arrangements or to be disposed of in other ways or to be invalidated.

According to the authorisation the Board of Directors may acquire the company's own shares using assets available for distribution of profits, provided that the combined nominal value of the acquired shares together with any shares already in the possession of the company corresponds to a maximum of 10 per cent of the company's total share capital at the moment of acquisition. Shares can be acquired or sold in public trading on the Helsinki Stock Exchange at the market value of the shares at the time in question.

Authorisations to acquire and dispose of the company's own shares are valid for a period of one year from the decision of the Annual General Meeting on 16 March 2006. On 31 December 2006, Kyro Corporation held a total of 329,904 (329,904) of its own shares, acquired on the basis of earlier authorisations. The company did not exercise the authorisation in 2006.

**GLASTON TECHNOLOGIES – NET SALES, OPERATING PROFIT AND ORDER BOOK**

Glaston Technologies' net sales totalled EUR

**PERSONNEL**

| | 31.12.2006 | 31.12.2005 | 31.12.2004 |
|---|---|---|---|
| Glaston Technologies | 1 180 | 1 191 | 1 175 |
| Energy | 22 | 24 | 23 |
| Kyro Corporation | 9 | 7 | 10 |
| Kyro Group | 1 211 | 1 222 | 1 208 |
| Salaries and bonuses, EUR million | 44.6 | 43.3 | 41.7 |

# Report of the board of directors

234.7 (238.9) million in January-December. Comparable operating profit was EUR 18.1 (22.1) million, representing 7.7% (9.3%) of net sales. Comparable operating profit does not include the non-recurring items totalling EUR 5.3 million recognised in the period under review for the business area.

Glaston received new machine orders totalling EUR 175.9 (177.8) million. The order book was EUR 111.2 (108.8) million at the end of the year. The order book for pre-processing machines grew slightly compared to the previous year, and the order book for safety glass machines correspondingly fell slightly.

Sales of safety glass machines, as expected, were strongest in the final quarter. However, the volume of safety glass machines delivered was lower than the previous year, which reduced the Glass Machinery Group's net sales and profitability. In safety glass machines, unanticipated costs arising from new products and product series contributed to weakening the profitability of deliveries made. In the final quarter, Tamglass initiated a programme of measures, which continues still, to improve the efficiency of delivery processes and to minimise their cost in future.

Tamglass Glass Processing's net sales grew slightly from the previous year. Its profitability improved, but remained unsatisfactory. This was due in particular to European-wide delivery difficulties with raw glass at the end of the year. A rise in the price of raw glass and uneven availability caused a rise in Tamglass Glass Processing's costs.

## GLASTON TECHNOLOGIES - GLASS MACHINERY GROUP

### Market and sales

Overall, the general market situation for glass processing machines was positive in 2006. The number of new pre-processing machine orders grew in the EMA, the Asia-Pacific area and in South America. The volume of safety glass machine orders was slightly lower than the previous year in all the main market areas, except for South America. In the fourth quarter, sales in the EMA area and Asia grew strongly.

Investment decisions on safety glass machines were postponed, particularly in Europe at the beginning of the year. Although the number of new orders grew towards the end of the year, the total was less than the previous year. The volume of new orders for pre-processing machines grew slightly. The offer book, i.e. demand, for both pre-processing machines and safety glass machines was high throughout the year.

Safety glass machine orders in the architectural segment picked up after a lacklustre start to the year. New orders for safety glass machines in the automotive segment grew towards the end of year, but overall their sales fell clearly short of the previous year's level.

Sales of joint deliveries and combinations of pre-processing and safety glass machines (the One-Stop-Partner concept) exceeded targets by the third quarter as well as the previous year's level, and totalled EUR 12 million. The OSP order intake at the end of the year totalled EUR 18.8 million. Most OSP orders were received from the Middle East.

The volume of new orders received by Uniglass, which focuses on flat tempering machines, was on the previous year's level in 2006.

### New products

The first deliveries of products launched in 2005, such as Bavelloni's new pre-processing lines, were scheduled for late 2006.

The most significant new products of the year were presented at Düsseldorf's Glasstec Fair in October. Tamglass launched a new Sonic flat tempering machine as well as APC, the industry's first fully automatic process control system for flat tempering machines. Bavelloni launched a series of modular cutting lines, a high-capacity CNC centre called NRG, and the super-fast PowerSeam edge grinding machine. All products were very well received, and the EUR 27.8 million sales at the fair were a Glaston record.

### Maintenance and service business, and tools

In 2006 the following areas of Glaston Technologies' maintenance and service business grew: maintenance agreements, modernisations and accessories, and spare parts. Sales of used machines were low and, when these are included, the overall growth in maintenance and service business was less than one per cent. Excluding sales of used machines, however, overall growth was eight per cent. The maintenance contract book for safety glass machines grew by 16%. Growth in maintenance and service business for pre-processing machines was over 19%.

During the Glasstec fair, Bavelloni introduced its first maintenance agreement model, which means that Glaston now offers maintenance agreements for both pre-processing and safety glass machines. Easy Life, a maintenance and service concept offered by Tamglass and Bavelloni, is the only one of its kind in the business and thus a significant competitive advantage. Bavelloni's sales of spare parts and other maintenance products grew during the year.

Glaston's tool sales grew slightly. Glaston's market share grew, and it launched a number of new tool products during the year. Manufacturing in Brazil began in line with targets. Manufacturing will also begin in China in 2007. Measures will be taken to improve local service levels and cost-effectiveness.

## GLASTON TECHNOLOGIES - TAMGLASS GLASS PROCESSING LTD

### Market and sales

Tamglass Glass Processing's market situation was positive throughout the year mainly due to an active construction sector in Finland. Volumes remained good and grew towards the end of the year.

Project sale references in the final quarter included the Prisma shopping centre in Lohja, the apartment block company Villa Aquarius in Tampere and the real-estate company Airport in Vantaa.

## RESTRUCTURING AND DEVELOPMENT PROJECTS

Tamglass Finton's balcony systems sales and installation business was transferred to partners, after which Tamglass Safety Glass Ltd, Tamglass Insulating Glass Ltd and Tamglass Finton Oy were merged into a single, legally distinct company at the turn of the year. At the same time the Glass Processing Group changed its name to Tamglass Glass Processing Ltd. The company's new business areas are Architectural Glass, Window and Furniture Glass, and Special Automotive Glass.

Tamglass Glass Processing will continue developing its operations, for example, by refining its production processes and supplementing its machine stock during 2007. The measures will boost the group's efficiency and improve its reference value as a Glass Machinery Group customer.

## ENERGY

### Net sales, operating profit and order book

The net sales of the Energy business area totalled EUR 34.1 (27.6) million in 2006. Comparable operating profit was EUR 6.5 (6.4) million, representing 18.9% (23.2%) of net sales. Both net sales and operating profit were again boosted mainly by a rise in energy prices.

Kyro Power's order book was EUR 16.3 (31.9) million on 31 December 2006. The halving of the order book is explained by the expiry in summer 2007 of significant delivery agreements that are included in the order book.

### Development of the energy market

The year under review was, due to weather conditions – a dry summer and a warm rainy autumn and winter – very volatile in the energy market. Prices of electricity and emissions rights fluctuated from record highs to very low levels.

### Energy production

Kyro Power's gas-fired combi power plant operated without interruption throughout the entire year.

### Development of operations

At the end of September, Kyro signed with M-real Corporation an agreement by which Kyro has the right to sell and M-real the right to buy Kyro Power's gas-fired combi power plant and associated business operations in summer 2007 when the current deliver contract ends. If the deal is implemented, it will not, despite a positive non-recurring cash flow, have any direct financial impact.

## EVENTS AFTER THE REVIEW PERIOD

Bavelloni's Managing Director Paolo Sandri resigned for personal reasons in January. Sandri's duties will be handled for the time being by Kaj Appelberg, who is Glaston's President of Sales.

Kyro has decided to establish in China two joint ventures with a local company, NST, to manufacture glass pre-processing machine tools.

Kyro appointed Ari Himma as its Vice President, Human Resources.

All events after the review period have been communicated in January.

## FUTURE PROSPECTS

The industry's most extensive customer service network, widest product range and the One-Stop-Partner concept create for Glaston Technologies good opportunities to fulfil customers' needs better than before. Glaston Technologies is the world technology and market leader in a growing sector.

At the beginning of 2007, the level of Glaston's order book is good. Based on positive market prospects and savings generated by the previous year's efficiency measures, Kyro is again aiming to increase the net sales and comparable operating profit of Glaston, its main business area.

Helsinki, 7 February 2007

Kyro Corporation

Board of Directors

# Shares and shareholders

**SHARE CAPITAL**
The total number of Kyro Corporation shares in circulation is 79,350,000. The nominal value of each share is EUR 0.16. The company's share capital is EUR 12,696,000. The company's minimum share capital is EUR 4 million and the maximum share capital is EUR 16 million, within which limits the share capital can be increased and decreased without amending the company's Articles of Association.

**VOTING RESTRICTIONS**
Shareholders are entitled to one vote per share in votes and elections held at the Annual General Meeting. No individual shareholder is entitled to vote at the Annual General Meeting using more than one fifth of the combined votes of the shares represented at the meeting (Articles of Association, Article 13).

**TRADING ON THE HELSINKI STOCK EXCHANGE**
Kyro Corporation's shares are listed on the Helsinki Stock Exchange (Helsinki Pörssi Oy/ Helsinki Stock Exchange Ltd). The quotation of the shares began on 2 April 2001.

During the period 1 January 2006 to 31 December 2006, a total of 6,978,316 Kyro Corporation shares were traded on the Helsinki Stock Exchange, equivalent to 8.8 per cent of the total number of shares.

At the end of the year, the market value of the company's shares was EUR 329,302,500. On the same date, the company had 3,603 shareholders listed in the book-entry system.

**SHARE PRICE DEVELOPMENT**
The highest price paid for a Kyro Corporation share on the Helsinki Stock Exchange was EUR 4.84 and the lowest price EUR 3.75. The average price during the period under review was EUR 4.33.

**MANAGEMENT OWNERSHIP OF SHARES**
The members of the Board of Directors and the President and CEO owned a total of 1,118,600 shares on 31 December 2006. These shares account for 1.4% of the company's shares.

**MANAGEMENT INCENTIVE SCHEMES**
The Group operates a management incentive scheme, approved in 2002, which covers key individuals of the Tamglass Group and Kyro's management. By the end of 2005, 23,250 A share options, with an exercise period of 1 May 2005 to 31 May 2009, had been awarded and 21,750 B share options, with an exercise period of 1 May 2007 to 31 May 2009.

In accordance with a restriction in the incentive scheme, share subscription by exercising the options is possible only with the permission of Kyro Corporation, but the options may be sold to Kyro Corporation during their exercise period at a price which is defined as the difference between the imputed value of the share and the subscription price. Two thirds of the imputed value of the share is based on the results of the Tamglass and Kyro Groups and one third on the development of the Kyro share price. The total value of share options at the time of realisation cannot exceed 15% of the Kyro Group's net result, starting from the financial year 2002.

The incentive scheme is treated as a synthetic option scheme, because the Group can choose whether to make the payment in cash or in the form of equity instruments, and payment in cash has been the practice of the Group.

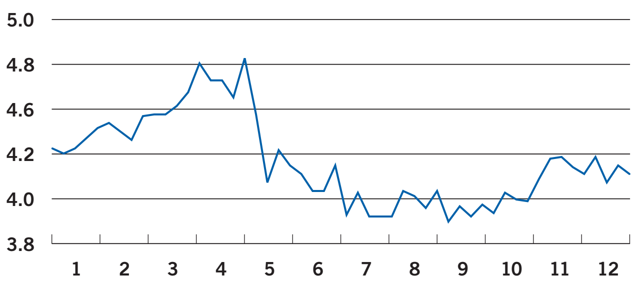
The incentive scheme will have no impact on expenses in the current year. An obligation for the incentive scheme amounted to EUR 6.1 million in Kyro's balance sheet on 31 December 2006.

Kyro Corporation's Chief Executive Officer Pentti Yliheljo has been granted 8,000 A options and 8,000 B options.

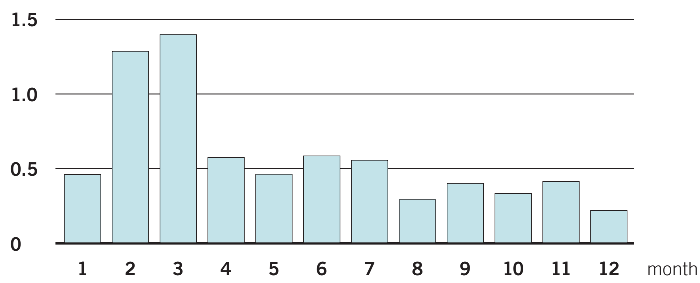
**SHAREHOLDER AGREEMENTS**
The company is unaware of any shareholder agreements which would substantially affect the ownership of Kyro Corporation's shares or the exercise of votes within the company.

**BOOK-ENTRY SYSTEM**
On 31 December 2006 a total of 77,373,178 of the company's shares were registered in the book-entry system maintained by the Finnish Central Securities Depository (APK).

**KYRO´S AVERAGE SHARE PRICE 1.1.2006–31.12.2006, EUR**




**MONTHLY KYRO SHARE TRADING VOLUME 2006, 1 000 000 PCS**



### BOARD AUTHORISATIONS

The Board of Directors has no authorisations to change the share capital.

On 16 March 2006, the Annual General Meeting of Kyro Corporation authorised the Board of Directors to acquire the company's own shares, provided that the combined nominal value of the acquired shares together with any shares already in the possession of the company corresponds to a maximum of 10% of the company's total share capital at the time of acquisition. The company's own shares may be used as consideration in possible future business acquisitions, to finance investments and in other industrial arrangements in a way and scope determined by the Board of Directors.

The Annual General Meeting authorised the Board of Directors to decide on the transfer of own shares acquired for the company. The company's own shares may be transferred for use as consideration in possible business acquisitions, to finance investments and in other industrial arrangements or otherwise transferred or cancelled.

During the financial year, the company did not exercise the authorisations it has received.

On 31 December 2006, Kyro Corporation possessed a total of 329,904 of its own shares, acquired at a price of EUR 950,240.69. The shares constitute 0.4% of all votes and shares.

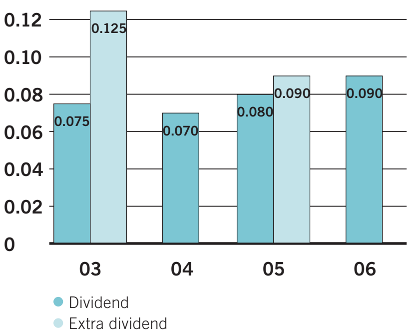
### DISTRIBUTION OF SHARE OWNERSHIP

The ownership of Kyro Corporation shares was distributed on 31 December 2006 as follows:

| Number of shares | Number of owners | % of shares | Number of shares | % of shares |
|---|---|---|---|---|
| 1–100 | 178 | 4.94 | 10 748 | 0.01 |
| 101–1000 | 1 989 | 55.20 | 1 078 310 | 1.36 |
| 1 001–10 000 | 1 144 | 31.75 | 3 504 388 | 4.42 |
| 10 001–100 000 | 201 | 5.58 | 7 653 560 | 9.65 |
| 100 0001–1 000 000 | 80 | 2.22 | 24 384 895 | 30.73 |
| Over 1 000 001 | 11 | 0.31 | 42 642 899 | 53.74 |
| Total | 3 603 | 100.00 | 79 274 800 | 99.91 |
| Nominee-registered, total | | | 75 200 | 0.09 |
| **Total number of issued shares** | | | **79 350 000** | **100.00** |

| LARGEST SHAREHOLDERS ON 31 DECEMBER 2006 | Shares | % |
|---|---|---|
| GWS Trade Oy | 13 466 700 | 16.9 |
| G.W.Sohlberg Corporation | 12 819 400 | 16.2 |
| Henning Sumelius | 3 642 600 | 4.6 |
| Svenska Litteratursällskapet i Finland | 2 205 000 | 2.8 |
| Oy Investsum Ab | 1 820 000 | 2.3 |
| The estate of Helena Suutarinen | 1 802 400 | 2.3 |
| Charlie von Christierson | 1 600 000 | 2.0 |
| Maria Sumelius | 1 569 400 | 2.0 |
| Bjarne Sumelius | 1 430 000 | 1.8 |
| Nordea Life Assurance Finland Ltd | 1 193 399 | 1.5 |
| Birgitta Sumelius-Fogelholm | 1 114 000 | 1.4 |
| Marianne Storhannus | 934 195 | 1.2 |
| Svenska Handelsbanken Ab | 868 308 | 1.1 |
| Christer Sumelius | 803 800 | 1.0 |
| Huber Karin | 800 800 | 1.0 |
| Sumelius-Koljonen Barbro | 785 600 | 1.0 |
| Nominee-registered shares | 1 901 622 | 2.4 |
| Other | 30 262 872 | 38.1 |
| Own shares in the company's possession | 329 904 | 0.4 |
| **Total** | **79 350 000** | **100.0** |

### DIVIDEND, EUR




### OWNERSHIP BY SECTOR, %

# Key indicators per share

| | IFRS 2006 | IFRS 2005 | IFRS 2004 | FAS 2004 | FAS 2003* | FAS 2002* |
|---|---|---|---|---|---|---|
| Earnings per share, EUR | **0.15** | 0.28 | 0.18 | 0.15 | 0.155 | 0.150 |
| Equity per share, EUR | **1.75** | 1.76 | 1.54 | 1.64 | 1.700 | 1.680 |
| Dividend per earnings, % | **60.0** ** | 60.7 | 38.9 | 46.7 | 129.0 | 96.8 |
| Dividend per shares, EUR | **0.09** ** | 0.08 | 0.07 | 0.07 | 0.075 | 0.075 |
| Extra dividend per share, EUR | | 0.09 | | | 0.125 | 0.075 |
| Effective dividend yield, % | **2.2** ** | 4.2 | 1.7 | 1.7 | 5.1 | 4.7 |
| P/E ratio | **27.7** | 14.5 | 22.8 | 27.3 | 25.5 | 20.5 |
| Number of shares, 1 000 pcs | | | | | | |
| average | **79 020** | 79 020 | 79 020 | 79 020 | 78 776 | 76 321 |
| at the end of year | **79 020** | 79 020 | 79 020 | 79 020 | 79 020 | 76 382 |
| **) Board´s proposal | | | | | | |
| | | | | | | |
| Share price trend | | | | | | |
| average price | **4.33** | 4.25 | 3.92 | 3.92 | 3.580 | 3.125 |
| lowest price | **3.75** | 3.79 | 3.40 | 3.40 | 2.700 | 2.500 |
| highest price | **4.84** | 4.60 | 4.16 | 4.16 | 4.100 | 3.675 |
| Share price at the end of the year, EUR | **4.15** | 4.06 | 4.10 | 4.10 | 3.950 | 3.170 |
| Market capitalisation of all shares at the end of the year, EUR million | **329.3** | 322.16 | 325.30 | 325.30 | 313.40 | 251.5 |
| Turnover, number of shares | **6 978 316** | 18 054 297 | 15 424 328 | 15 424 328 | 6 232 942 | 6 168 378 |
| Turnover, % of the total number | **8.8** | 22.8 | 19.4 | 19.4 | 7.9 | 7.8 |
| Turnover, EUR million | **30.2** | 79.0 | 60.5 | 60.5 | 22.3 | 19.3 |

*) The number of the Group's shares and share capital was raised by a capitalisation issue in December 2004. The number of shares doubled from 39 675 000 shares to 79 350 000 shares. The prior years' key indicators have been adjusted correspondingly.

# Financial performance indicators

| Eur million | IFRS | IFRS | IFRS | FAS | FAS | FAS |
|---|---|---|---|---|---|---|
| | **2006** | **2005** | **2004** | **2004** | **2003** | **2002** |
| **Consolidated income statement** | | | | | | |
| Net sales | **268.9** | 266.7 | 231.4 | 231.7 | 226.7 | 144.3 |
| change, % | **0.8** | 15.2 | | 2.2 | 57.1 | -1.8 |
| Exports and international operations | **216.5** | 220.1 | 187.3 | 187.0 | 181.4 | 112.1 |
| as % of net sales, % | **80.5** | 82.6 | 80.9 | 80.7 | 80.0 | 77.7 |
| Depreciation | **7.3** | 8.7 | 8.4 | 6.9 | 6.8 | 5.2 |
| Operating profit | **16.5** | 35.5 | 20.5 | 21.8 | 22.9 | 18.9 |
| as % of net sales, % | **6.1** | 13.3 | 8.8 | 9.4 | 10.1 | 13.1 |
| Goodwill amortisation (FAS) | | | | 2.9 | 3.1 | 0.2 |
| Operating profit | **16.5** | 35.5 | 20.5 | 18.8 | 19.8 | 18.7 |
| as % of net sales, % | **6.1** | 13.3 | 8.8 | 8.1 | 8.7 | 13.0 |
| Net financial items | **0.3** | -1.3 | 2.1 | 2.1 | 0.6 | -0.6 |
| Profit before taxes | **16.7** | 34.2 | 22.5 | 21.0 | 20.4 | 18.1 |
| as % of net sales, % | **6.2** | 12.8 | 9.7 | 9.1 | 9.0 | 12.5 |
| Income tax | **-4.6** | -11.9 | -7.9 | -7.5 | -6.7 | -5.7 |
| Profit for the period | **12.1** | 22.4 | 14.7 | 11.6 | 12.2 | 11.7 |
| Attributable to: | | | | | | |
| Equity holders to the parent | **12.1** | 22.4 | 14.5 | 9.7 | 10.7 | 11.1 |
| Minority interest | **0.0** | 0.0 | 0.2 | 1.9 | 1.5 | 0.6 |
| | **12.1** | 22.4 | 14.7 | 11.6 | 12.2 | 11.7 |
| **Balance sheet** | | | | | | |
| Non-current assets | **115.5** | 112.8 | 122.9 | 111.4 | 118.6 | 73.6 |
| Current assets | | | | | | |
| Inventories | **54.7** | 59.6 | 63.3 | 34.7 | 32.2 | 15.7 |
| Deferred tax assets | **7.7** | 8.5 | 10.2 | 5.7 | 8.3 | 6.1 |
| Receivables | **67.7** | 75.7 | 51.5 | 73.7 | 86.9 | 91.7 |
| Equity attributable to equity holders of the parent | **138.0** | 139.0 | 121.6 | 130.5 | 135.9 | 137.1 |
| Minority interest | **0.0** | 0.0 | 0.5 | 4.1 | 2.2 | 0.7 |
| Total equity | **138.0** | 139.0 | 122.2 | 134.6 | 138.1 | 137.9 |
| Provisions | | | | | | |
| Liabilities | **13.7** | 9.8 | 7.6 | 5.9 | 5.6 | |
| Interest-bearing liabilities | **8.0** | 2.9 | 20.3 | 19.8 | 33.4 | 3.7 |
| Non-interest-bearing liabilities | **78.6** | 97.2 | 90.0 | 58.1 | 60.6 | 38.7 |
| Deferred tax liability | **7.3** | 7.6 | 7.8 | 7.2 | 8.4 | 6.9 |
| Balance sheet total | **245.6** | 256.5 | 248.0 | 225.6 | 246.1 | 187.0 |
| Return on capital invested, % | **12.1** | 26.1 | 15.7 | 12.3 | 14.1 | 13.6 |
| Return on equity, % | **8.7** | 17.1 | 11.9 | 9.9 | 10.3 | 9.4 |
| Equity ratio, % | **62.2** | 64.4 | 59.3 | 62.6 | 58.6 | 77.1 |
| Gearing, % | **-2.2** | -17.7 | 7.1 | 6.1 | 3.2 | -40.5 |
| Interest-bearing net liabilities, EUR million | **-3.0** | -24.7 | 8.7 | 8.2 | 4.4 | -52.2 |
| as % of net sales, % | **-1.1** | -9.3 | 3.8 | 3.5 | 1.9 | -36.2 |
| Gross investments | **12.0** | 11.4 | 6.8 | 4.6 | 62.7 | 6.8 |
| as % of net sales, % | **4.8** | 4.3 | 2.9 | 2.0 | 27.7 | 4.7 |
| Research and development | **5.5** | 7.3 | 7.1 | 9.4 | 9.8 | 6.6 |
| as % of net sales, % | **2.0** | 2.7 | 3.1 | 4.0 | 4.3 | 4.6 |
| Order book | **127.5** | 140.7 | 135.5 | 86.7 | 81.4 | 67.4 |
| Personnel, average | **1264** | 1 218 | 1 175 | 1 175 | 1 150 | 536 |
| Personnel at year end | **1211** | 1 222 | 1 208 | 1 208 | 1 127 | 531 |
| in Finland | **427** | 441 | 433 | 433 | 421 | 370 |

# Consolidated income statement

| 1000 EUR IFRS | Note | 1.1.–31.12.2006 | % | 1.1.–31.12.2005 | % |
|---|---|---|---|---|---|
| **Net sales** | **1** | **268 888** | **100.0** | **266 656** | **100.0** |
| Other operating income | 2 | 6 994 | | 14 916 | |
| Change in inventories of finished products and work in progress | | 5 962 | | –7 705 | |
| Production for own use | | 1 114 | | 1 777 | |
| Raw materials and consumables used | | 102 565 | | 89 017 | |
| Employee benefit expense | 3,21 | 57 581 | | 56 731 | |
| Depreciation and amortisation | 4 | 7 318 | | 8 696 | |
| Other operating expenses | 5 | 87 092 | | 85 697 | |
| **Operating profit** | | **16 480** | **6,1** | **35 502** | **13,3** |
| **Financial income** | 6 | 2 167 | | 2 428 | |
| **Financial expense** | **7** | **–1 912** | | **–3 698** | |
| | | 255 | | –1 271 | |
| **Profit before taxes** | | **16 735** | **6,2** | **34 231** | **12,8** |
| Income taxes | 8 | –4 639 | | –11 867 | |
| **Profit for the period** | | **12 096** | **4,5** | **22 365** | **8,4** |
| Attributable to: | | | | | |
| Equity holders of the parent | | 12 091 | | 22 361 | |
| Minority interest | | 6 | | 4 | |
| | | 12 096 | | 22 365 | |
| Earnings per share calculated from the profit attributable to equity holders of the parent (EUR) | 9 | 0.15 | | 0.28 | |

# Consolidated balance sheet

| 1000 EUR IFRS | Assets | Note | 31.12.2006 | 31.12.2005 |
|---|---|---|---|---|
| | **Non-current assets** | | | |
| | Tangible assets | 10 | 43 270 | 42 811 |
| | Goodwill | 11 | 53 179 | 53 121 |
| | Other intangible assets | 11 | 15 849 | 10 294 |
| | Available-for-sale financial assets | 16 | 512 | 3 365 |
| | Deferred tax assets | 12 | 7 703 | 8 475 |
| | Other receivables | 13 | 2 683 | 3 201 |
| | **Total non-current assets** | | **123 197** | **121 269** |
| | **Current assets** | | | |
| | Inventories | 14 | 54 729 | 59 553 |
| | Trade and other receivables | 15 | 57 057 | 49 288 |
| | Financial assets at fair value through profit of loss | 16 | 80 | 135 |
| | Cash and cash equivalents | 17 | 10 528 | 26 276 |
| | **Total current assets** | | **122 394** | **135 253** |
| | **TOTAL ASSETS** | | **245 591** | **256 521** |
| | **Equity and liabilities** | | | |
| | **Equity attributable to equity holders of the parent** | 18 | | |
| | Share capital | | 12 696 | 12 696 |
| | Share premium fund | | 25 270 | 25 270 |
| | Treasury shares | | –950 | –950 |
| | Translation reserve | | 424 | 1 531 |
| | Fair value and other reserves | | –169 | –1 556 |
| | Retained earnings | | 100 684 | 102 027 |
| | | | 137 955 | 139 018 |
| | Minority interest | | 21 | 16 |
| | **Total equity** | | **137 976** | **139 034** |
| | **Non-current liabilities** | | | |
| | Deferred tax liabilities | 12 | 7 319 | 7 592 |
| | Employee benefit obligations | 19 | 6 422 | 6 567 |
| | Provisions | 20 | 1 381 | 1 186 |
| | Non-current interest-bearing liabilities | 21 | 858 | 1 222 |
| | Other non-current liabilities | | 50 | 225 |
| | | | 16 031 | 16 793 |
| | **Current liabilities** | | | |
| | Trade and other payables | 22 | 75 720 | 90 120 |
| | Provisions | 20 | 6 149 | 2 043 |
| | Current tax liabilities | 22 | 2 564 | 6 851 |
| | Interest-bearing current liabilities | 21 | 7 151 | 1 681 |
| | | | 91 584 | 100 695 |
| | **Total liabilities** | | **107 615** | **117 487** |
| | **TOTAL EQUITY AND LIABILITIES** | | **245 591** | **256 521** |

# Group sources and application of funds

| CASH FLOW FROM BUSINESS OPERATIONS (IFRS), EUR 1,000 | 2006 | 2005 |
|---|---|---|
| **Profit for the period** | **12 096** | **22 365** |
| Adjustments: | | |
| Depreciations and amortisations | 7 318 | 8 696 |
| Financial income and expenses | 84 | –951 |
| Non-cash transactions | –5 738 | 9 881 |
| Cash flow before change in working capital | 13 759 | 39 990 |
| Change in working capital | | |
| Change in inventories | 4 845 | 3 780 |
| Change in current non-interest-bearing receivables | –3 651 | –11 404 |
| Change in current non-interest-bearing liabilities | –11 907 | –10 294 |
| Change in provisions | 3 869 | 2 146 |
| Cash flow from business operations before financial items and taxes | 6 915 | 24 217 |
| Interest and payments paid for other financing of business operations | | |
| Interest paid | –1 021 | –1 255 |
| Dividends received from business operations | 1 | 369 |
| Interest received from business operations | 849 | 1 205 |
| Direct taxes paid | –7 182 | –1 986 |
| Cash flow from business operations | –439 | 22 551 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Investments in tangible and intangible assets | –10 998 | –10 296 |
| Proceeds from disposal of tangible and intangible assets | 2 753 | 25 733 |
| Proceeds from sale of other investments | 3 201 | |
| Taxes relating in proceeds from disposal of energy business in 2005 | –2 932 | |
| **Cash flow from investing activities** | **–7 977** | **15 437** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Change in receivables | 1 050 | |
| Withdrawals of current loans | 5 638 | |
| Repayments of current loans | | –16 788 |
| Repayments of non-current loans | –600 | –985 |
| Dividends paid | –13 421 | –5 653 |
| Other financing activities | | 5 531 |
| **Cash flow from financing activities** | **–7 333** | **–17 894** |
| Change in cash and cash equivalents | –15 748 | 20 094 |
| Cash and cash equivalents at the beginning of the period | 26 276 | 6 183 |
| Cash and cash equivalents at the end of the period | 10 528 | 26 276 |
| | **–15 748** | **20 094** |

There are no substantial difference between the cash flow statement according to IFRS standards and that according to Finnish accounting standards.

# Statement of changes in the group's equity

| EUR 1,000 | Share capital | Share premium fund | Fair value and other reserves | Translation reserve | Treasury shares | Retained earnings | Total | Minority interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Equity attributable to equity holders of the parent | | | | | | | | |
| **Equity at 31 Dec 2004** | **12 696** | **25 270** | | **–109** | **–950** | **84 733** | **121 639** | **550** | **122 189** |
| The impact of adopting IAS 32 and 39 | | | 473 | | | 465 | 939 | –538 | 401 |
| **Adjusted equity at 1 Jan 2005** | **12 696** | **25 270** | **473** | **–109** | **–950** | **85 198** | **122 578** | **12** | **122 590** |
| Cash flow hedges, net of tax: | | | | | | | | | |
| Gains and losses taken to equity | | | –2 029 | | | | –2 029 | | –2 029 |
| Translation differences | | | | 1 640 | | | 1 640 | | 1 640 |
| Profit for the period | | | | | | 22 361 | 22 361 | 4 | 22 365 |
| **Total recognised income and expense for the period** | | | **–2 029** | **1640** | | **22 361** | **21 971** | **4** | **21 971** |
| Dividends | | | | | | –5 531 | –5 531 | | –5 531 |
| **Equity at 31 Dec 2005** | **12 696** | **25 270** | **–1 556** | **1 531** | **–950** | **102 027** | **139 018** | **16** | **139 034** |
| Cash flow hedges, net of tax: | | | | | | | | | |
| Gains and losses taken to equity | | | 1 387 | | | | 1 387 | | 1 387 |
| Translation differences | | | | –1 433 | | | –1 433 | –1 | –1 433 |
| Gains and losses from hedge of net investments in foreign operations, net of tax | | | | 326 | | | 326 | | 326 |
| Profit for the period | | | | | | 12 091 | 12 091 | 6 | 12 096 |
| **Total recognised income and expense for the period** | | | 1 387 | –1 107 | | 12 091 | 12 371 | 6 | 12 376 |
| Dividends | | | | | | –13 433 | –13 433 | | –13 433 |
| **Equity at 31 Dec 2006** | **12 696** | **25 270** | **–169** | **424** | **–950** | **100 684** | **137 955** | **21** | **137 976** |

# Accounting principles of group financial statements

## SIGNIFICANT ACCOUNTING POLICIES

Kyro Group is organised in two business areas. The main business area, Glaston Technologies, consists of the Glass Machinery Group, which operates worldwide, and the Glass Processing Group, which focuses on markets in Finland and neighbouring countries. The Glass Machinery Group's products are glass pre-processing machines as well as safety glass machines for automotive, architectural and furnishing industries. The Glass Processing Group's products are safety and insulating glasses as well as railings and balconies and their installations. Energy business area includes a gas-fired power plant producing heat and electricity. Energy business area disposed of a hydropower plant and a district heating distribution company in December 2005. The two business areas constitute the business segments of the Group.

The parent company of the Group is Kyro Oyj Abp. The parent company is domiciled in Hämeenkyrö, Finland, and its registered address is Vehmaistenkatu 5, 33730 Tampere.

## BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) complying with the IAS- and IFRS-standards as well as the SIC- and IFRIC-interpretations effective at 31 December 2006. In the Finnish Accounting Act and ordinances based on the provisions of the Act, IFRSs refer to the standards and to their interpretations adopted in accordance with the procedures laid down in regulation (EC) No 1606/2002 of the European parliament and of the Council. Also the notes to the consolidated financial statements are in accordance with the requirements of the Finnish Accounting and Companies Acts.

The consolidated financial statements are prepared on the historical cost convention except that the following items are stated at their fair value: investments classified as available-for-sale, financial assets at fair value through profit or loss and derivative financial instruments. Also the liability arising from cash-settled share-based payments and the liability arising from the obligation to redeem the minority shares with cash are both stated at fair value.

The Group has applied the following amended standard from 1 January 2006:

Amendment to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures. The amendment has increased the amount of disclosures. The adoption of amendment to standard affects only the notes to the consolidated financial statements, for the Group has not changed the recognition principle of actuarial gains and losses. The amendment has not had an effect on the earnings per share -figure.

The amortisation periods of development expenditure have been specified during the annual period 2006, which has been reported in more detail in the accounting policies for intangible assets. As distinct from what has been announced earlier, the Group applies the IFRS 7 Financial Instruments: Disclosures -standard as of 1 January 2007.

## USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting principles, the reported amounts of assets and liabilities in the balance sheet, the disclosure of contingent assets and liabilities as well as income and expenses. In addition, management's judgments are required in applying the accounting policies. The estimates are based on the management's best present estimates and therefore actual results may differ from these estimates.

Management's estimations have been used in determining the amounts reported in the consolidated financial statements, among others in determining the realisability of certain assets and the useful lives of both tangible and intangible assets. Measurement of the pension obligation and the plan assets is based on several actuarial assumptions made by the management. These include the discount rate used in calculating the present value of the obligation, future salary and pension levels, the expected rate of return on plan assets and rates of employee turnover concerning the employees participating in the plan, among others. The Group management also assesses in preparing the financial statement whether there is any indication of impairment of tangible assets, goodwill or other intangible assets. Goodwill is tested every year for impairment regardless of there being indication of impairment or not. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is based on management's estimations on future sales and selling prices, production costs and discount rate, among others. The amounts of the provisions are estimated in compliance with the applicable legislation or interpretations of the authorities.

## PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the parent company Kyro Oyj Abp and all subsidiaries in which over 50 % of the voting rights are hold directly or indirectly by the parent company, or the parent company has otherwise the power to govern their financial and operating policies so as to obtain benefits from their activities. The subsidiaries are listed in Note 26.

The mutual shareholding has been eliminated by the purchase method of accounting. The acquired subsidiaries are includ¬ed in the consolidated financial statements from the date that the Group's control commences until the date that control ceases. Intragroup transactions, receivables, liabilities and unrealised gains, as well as intragroup distribution of profits, are eliminated. Unrealised losses are eliminated only to the extent that there is no evidence of impairment. The allocation of profit to the parent company equity holders and minority interest is presented on the face of the income statement. In the balance sheet, the minority interest is presented as a separate item in total equity. In case the Group has a contractual obligation to redeem the minority shareholding with cash or cash equivalents, minority interest is classified as a financial liability.

## ITEMS DENOMINATED IN FOREIGN CURRENCIES

The consolidated financial statements are presented in euro, which is the functional currency of the parent company. Functional currencies of other Group companies are determined by the primary economic environment in which they operate.

Transactions in foreign currencies are translated at the average rate which approximates the foreign exchange rate ruling at the date of the transaction. Monetary items denominated in foreign currencies are translated at the balance sheet date exchange rate. Non-monetary items are translated at the average rate which approximates the exchange rate ruling at the date of transaction. Foreign exchange differences arising on translation are recognised in the income statement. Foreign exchange gains and losses related to sales, purchases and other operating expenses are treated as adjustments to respective items and included in the operating profit. Exchange rate differences related to financing are included in the financial income and expenses.

In the consolidated financial statements, the income statements of foreign subsidiaries have been translated to euro using the average exchange rates for the accounting period. The balance sheets of foreign subsidiaries have been translated to euro using the exchange rates ruling at the balance sheet date. Exchange differences arising from the translation of the income statements and balance sheets with different exchange rates are entered in translation reserve, a separate component of shareholders' equity. Exchange differences arising from the trans¬lation of the net investment in foreign subsidiaries are also taken to translation reserve. When a subsidiary is disposed of, the accumulated translation differences are recognised in the income statement as a part of the gain or loss on the sale.

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated in the balance sheet at historical cost less accumulated depreciation and impairment losses.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. When an asset consists of major components with different useful lives, they are accounted for as separate items. The major inspection and maintenance costs of Energy segment are capitalised as a part of the power plant machinery and equipment, and depreciated over their useful lives. Ordinary repairs and maintenance costs are recognised in the income statement as an expense as incurred. Other subsequent expenditure is capitalised only when it increases the future economic benefits in excess of the originally assessed standard of performance of the existing asset and the cost can be measured reliably.

Depreciation on property, plant and equipment is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are:

- Buildings and structures 25–40 years
- Heavy machinery 10–40 years
- Other machinery and equipment 3–5 years
- IT equipment 3–10 years
- Other tangible assets 5–40 years

Land is not depreciated. The tunnel and dam structures of the hydropower plant for which the estimated useful life is 40 years, are included in the other tangible assets until December 2005.

Residual values and expected useful lives of property, plant and equipment are reassessed at each balance sheet date and where they differ from previous estimates, depreciation periods are changed accordingly. Non-current assets classified as held for sale are no longer depreciated according to the IFRS 5 standard.

Capital gains and losses arising from disposals of property, plant and equipment are recognised in other operating income or expenses.

## BORROWING COSTS

Borrowing costs are recognised as an expense in the period in which they are incurred.

## INTANGIBLE ASSETS

Intangible asset is recognised in the balance sheet if its cost can be measured reliably and it is probable that the expected future economic benefits attributable to the asset will flow to the Group. Intangible assets are stated at cost and amortised on a straight line basis over their estimated useful lives. Intangible assets with indefinite useful life are not amortised, but tested annually for impairment.

The estimated useful lives for intangible assets are as follows:

- Computer software, patents, licences, trademarks 3–10 years
- Development expenditure 5–7 years
- Other intangible assets 5–10 years

The amortisation period of development expenditure is redefined to better correspond their useful life. The amortisation period has been extended from 3-5 years to 5-7 years depending on the asset item. The new convention has been applied as of the year 2006.

### Goodwill

After 1 January 2004, goodwill represents the difference between the acquisition cost and the Group's share of the fair value of the net identifiable assets acquired. In respect of acquisitions prior the IFRS transition, goodwill is included in the financial statements on the basis of its deemed cost, which represents the amount recorded under previous GAAP, in accordance with the exemption defined in IFRS 1.

Goodwill is an intangible asset with indefinite useful life and it is not amortised but tested annually for impairment. For this purpose, goodwill has been allocated to cash-generating units or groups of them. Goodwill is measured at cost less any accumulated impairment losses.

### Research and development expenditure

Research expenditure is recognised in the income statement as an expense as incurred. Expenditure on development activities is capitalised in the balance sheet if the product is technically and commercially feasible, and it is expected to generate economic benefits. Amortisation of the capitalised expenditure starts when the asset is available for use. The intangible assets not yet available for use are tested for impairment. Research expenditure and development expenditure not qualifying for IAS 38 are recognised in other operating expenses.

### Emission allowances

Emission allowances are initially recorded in the balance sheet at fair value. Subsequently the allowances are recorded at historical cost. No amortisation is made for allowances as their residual value is equal to their initially recorded value. Allowances are derecognised when the actual emission obligation is settled. Potential gains on sales of excess emission allowances are presented in other operating income.

## IMPAIRMENT

At each balance sheet date, the carrying amounts of the Group's assets are reviewed to determine whether there is any indication of impairment.

# Accounting principles of group financial statements

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an assets' fair value less costs to sell and its value in use. The value in use represents the discounted future net cash flows expected to be derived from an asset or a cash-generating unit. Kyro Group's calculations are mainly based on value in use.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed if a positive change in circumstances leads to a revised estimate of the asset's or cash-generating unit's recoverable amount. An impairment loss in respect of goodwill is not reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net depreciation and amortisation, if no impairment loss had been recognised.

**LEASES**

Leases in terms of which the Group assumes substantially all risks and rewards incidental to the ownership are classified as finance leases. At the inception of the lease term, a finance lease is recognised as an asset at the amount equal to the lower of its fair value and the present value of the minimum lease payments. Asset acquired under finance lease is depreciated over the shorter of the useful life and the lease period. The Group has acquired a production plant, and machinery and equipment under finance lease.

Leases where the lessor retains the risks and rewards of the ownership are classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the lease periods.

**INVENTORIES**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle. In the case of manufactured inventories and work in progress, cost includes materials, direct labour, other direct costs and a systematically allocated appropriate share of variable and fixed production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses..

**EMPLOYEE BENEFITS**

The Group attends to both defined contribution and defined contribution pension plans. Contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

The Group's net obligation in respect of each defined benefit pension plan is calculated separately and using the projected unit credit method. Pension expenses are recognised to periods of service according to actuarial calculations prepared by authorised actuaries. The amount recognised as a defined benefit liability or receivable comprises the net total of the following: the present value of the defined benefit obligation, the fair value of the plan assets, past service cost, and actuarial gains and losses. The discount rate for the defined benefit obligation is the yield on the highest credit quality or the interest rate on government bonds that have maturity dates approximating to the terms of the Group's obligations.

Actuarial gains and losses arising in calculating the Group's obligation in respect of a plan, to the extent that they exceed 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. All actuarial gains and losses as at 1 January 2004, the date of transition to IFRSs, were recognised in the opening balance sheet according to the IFRS 1 exemption.

The Group also recognises a liability for a post-employment defined benefit plan in foreign Group companies.

**SHARE-BASED PAYMENT TRANSACTIONS**

The Group applies IFRS 2 to a share-based payment program granted after 7 November 2002. The applicable share-based payment program grants key management share appreciation rights which the Group will settle in cash. The fair value of the amount payable is recognised as an employee benefit expense and spread over the period during which the persons become entitled to the payment. The corresponding liability is recognised initially at the fair value of the share appreciation rights and remeasured at each reporting date until settled. Any changes in the fair value are recognised as an employee benefit expense.

The fair value measurement for the profit related component is based on the terms and conditions of the program. For the share value related component an applicable valuation technique is used.

The redemption of 18 % interest in Diapol S.r.l. which was incorporated form Z. Bavelloni S.p.a in Italy in the beginning of 2006 includes a cash-settled share-based put option based on the financial statements for the years 2006, 2008 and 2010 as well as on a condition concerning the person's employment. The arrangement has been interpreted as a share-based transaction and the liability arising from this arrangement is measured at fair value at each balance sheet date and expensed during the vesting period.

**PROVISIONS**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the future the expected future cash flows, when appropriate.

A provision for warranties is recognised when the underlying products are sold. The provision is estimated on the basis of historical warranty data. A provision for carbon dioxide emissions is recognised as they are released.

A restructuring provision is recognised when a detailed plan for restructuring is prepared by the Group and the implementation of the plan has either commenced or the plan has been announced to the persons it concerns. A restructuring plan includes at least the following information: the business which the restructuring concerns, the principal locations affected, the location, function and approximate number of employees who will be compensated for terminating their services, the expenditure which will be undertaken and when the plan will be implemented. No provision is recognised for the expenditure arising from the Group's continuing operations.

**INCOME TAXES**

Income taxes in the consolidated income statement include current tax based on taxable income for the financial period, adjustments to prior periods' taxes and changes in deferred taxes. Current income tax based on taxable income is calculated according to the local tax regulations. The deferred tax effects related to the items recognised directly in shareholders' equity are recognised in the same way.

Deferred tax assets and liabilities are recognised using the balance sheet liability method for all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The most significant temporary differences arise from share-based payment transactions, tax losses carried forward and depreciations and amortisations of tangible and intangible assets. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred taxes are not provided for undistributed profits of subsidiaries if it is probable that the temporary difference will not reverse in the foreseeable future.

The enacted tax rates of the balance sheet date are used as the tax rate.

## REVENUE RECOGNITION

Revenue is recognised after the risks and rewards of owner¬ship of the goods have been transferred to the buyer. Normally, revenue recognition takes place at the date of delivery in accordance with the delivery terms. Construction contracts are recognised after buyer has accepted the delivery of goods and installation. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction. Sales are presented net of indirect taxes, discounts and annual rebates.

## OPERATING PROFIT

The Group has defined operating profit as follows: operating profit is the net amount of net sales and other operating income less costs of finished goods and work in process adjusted with the change in inventories, employee benefits, depreciation, amortisation and impairment losses, and other operating expenses. Exchange rate differences related to normal business operations are included in operating profit; otherwise they are taken to financial income and expenses.

## GOVERNMENT GRANTS

Government or other grants are recognised in the income statement in the same periods in which the corresponding expenses are incurred. The deferred income from the government grant is amortised over the period for which emission allowances were allocated.

## FINANCIAL INSTRUMENTS

### Financial assets and liabilities

The Group has classified the financial assets according to IAS 39 as financial assets at fair value through profit or loss, available-for-sale investments and loans and receivables. Classification is made on initial recognition and is based on the nature of the item. The purchases and sales of financial assets are accounted for at trade date. A financial asset is derecognised when the Group has lost its contractual rights to the cash flows from the financial asset or when it has transferred substantially all the significant risks and rewards of ownership of the financial asset to an external party. Transaction costs are included in the initial measurement of financial assets that are not measured at fair value through profit or loss.

### Financial assets at fair value through profit or loss

The category includes the financial assets held for trading and financial assets designated by the Group at the initial recognition as measured at fair value through profit or loss. Financial assets held for trading are mainly held to generate profits from short-term market price changes. The category also includes derivative instruments not qualifying for IAS 39 hedge accounting. The assets belonging to the category are measured at fair value on the balance sheet date which is based on their current market bid price. The assets held for trading and the assets due within 12 months are included in the balance sheet current assets. Unrealised and realised gains and losses due to fair value adjustments are recognised in profit or loss in the period they occur.

### Available-for-sale investments

Available-for-sale investments category includes unlisted securities. They are measured at fair value. If their fair value cannot be measured reliably, they are stated at lower of cost and probable value. Unrealised gains and losses on remeasurement are recognised directly in equity deducted with the associated tax effect. Amounts recognised in equity are transferred to profit or loss when the asset is sold. Significant impairment losses of available-for-sale assets for which there is objective evidence, are immediately recognised in the income statement. Normally, available-for-sale investments are included in non-current assets unless the Group has the intention to hold them for less than 12 months after the balance sheet date.

### Loans and receivables

Loans and receivables arise when money, goods or services are delivered to a debtor. They are not quoted in an active market and payments related to them are either fixed or determinable. Loans and receivables granted by the Group are measured at amortised cost. They are included in current or non-current assets in accordance with their maturity.

### Financial liabilities

Financial liabilities include loans from financial institutions, trade payables and other financial liabilities. On initial recognition a loan is measured at its fair value that is based on the consideration received, transaction costs included. Subsequent to initial recognition, these liabilities are stated at amortised cost calculated using the effective interest method.

### Cash and cash equivalents

Cash and cash equivalents constitute cash, bank accounts and other short-term highly liquid investments.

### Derivative instruments and hedge accounting

Derivative instruments are recognised on the trade date at cost which equals to their fair value, and subsequently measured at fair value at each balance sheet date. Gains and losses arising from remeasurement

# Accounting principles of group financial statements

are accounted for based on the purpose of the instrument. The Group uses derivative instruments to hedge the exposure to changes of fair value of recognised asset or liability, the exposure to variability in foreign currency cash inflows attributable to unrecognised firm commitments, and the exposure to changes of electricity prices.

For IAS 39 hedge accounting purposes the Group documents the relationship between the hedged item and the hedging instrument, the risk management objectives and strategy. The effectiveness of a hedging instrument is tested both prospectively and retrospectively. A hedge is effective, if hedging instrument offsets the changes in the fair value or cash flows of the hedged item.

A derivative instrument effectively hedging the fair value of assets and receivables is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value is recognised in profit or loss adjusting the gain or loss on the hedged item attributable to the hedged risk. The ineffective part of the hedging instrument measurement is recognised in financial income or expenses.

When a derivative financial instrument is designated as hedging the variability in the cash flows of firm commitments, the effective portion of change in instrument's fair value is recognised directly in equity. The cumulative unrealised gain or loss recognised in equity is taken to the income statement in the same period which the hedged transaction affects profit or loss. When a hedging instrument expires or is sold or no longer qualifies for hedge accounting, the cumulative gain or loss at that point remains in equity and is recognised when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

The Group hedges the net investment in the USA from currency risk with forward contracts. The fair value of the forward contracts is entirely included in the hedge relationship (the spot exchange rate and the effect of interest points of the forward contract). Fair value changes of the effective portion are recognised directly in the hedging reserve in equity and the ineffective portion is recognised in the income statement. The associated cumulative gains and losses are removed from equity and recognised in the income statement as an adjustment of the profit or loss from the disposal in the same period with the disposal of the net investment.

Some derivative instruments do not meet the criteria for IAS 39 hedge accounting, even if they are economical hedges according to the Group risk management policy. Changes in fair values of these derivatives are recognised in the income statement.

The fair values of derivative instruments have been determined on the basis of market prices or balance sheet date rates.

### TREASURY SHARES

When share capital recognised as equity is repurchased, the consideration paid including directly attributable transaction costs is recognised as a deduction from equity.

### DIVIDENDS

The dividends proposed by the Board of Directors are recognised as a deduction from retained earnings after they have been approved by the shareholders at the Annual General Meeting.

### NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The below described standards, interpretations and their amendments have been published but they are not yet effective and the Group does not apply them before they are mandatory. The Group will apply in the financial year 2007 the following new or amended standards and interpretations published by the IASB in 2005 and 2006:

- IFRS 7 Financial Instruments: Disclosures (effective on annual periods beginning on 1 January 2007). The standard requires more extensive disclosures on the effects of financial instruments on the Group's financial position and performance as well as the Group's exposure on risks arising from financial instruments. The standard requires qualitative and quantitative disclosures on the nature and extent of risks and it includes the minimum requirements for disclosures on credit, liquidity and market risks. According to the Group's estimate the adoption of IFRS 7 will mainly affect the notes to the financial statements, such as disclosures on the sensitivity of market risks.
- Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective on annual periods beginning on 1 January 2007). The amended standard includes requirements for quantitative disclosures about the amount of entity's capital and capital management during the financial period. The Group estimates the amended standard will mainly affect on the notes to the financial statements.
- IFRIC 8 Scope of IFRS 2 (effective on annual periods beginning on 1 May 2006). IFRIC 8 is applied to such transactions which embody granting equity instruments and the received identified consideration is lower than the fair value of the granted equity instruments. In such situations it should be considered whether the arrangement is in the scope of IFRS 2. The Group assesses the interpretation will have no effect on the consolidated financial statements.
- IFRIC 9 Reassessment of Embedded Derivatives (effective on annual periods beginning on 1 June 2006). IFRIC 9 requires that the entity assesses whether embedded derivative should be separated from the underlying host contract and treat as a derivative, as the entity becomes a contracting party. The reassessment cannot be made later unless the terms of contract are changed in such way that the original cash flows of the contract are significantly changed. According to the Group's current estimate the adoption of the new interpretation will have no effect on the consolidated financial statements.
- IFRIC 10 Interim Financial Reporting and Impairment (effective on annual periods beginning on 1 November 2006). IFRIC 10 prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. The Group assesses the interpretation will have no effect on the consolidated financial statements.

# Notes to the consolidated financial statements

### 1. SEGMENT INFORMATION

In segment reporting, the business segment is defined as primary segment and the geographical segment as secondary segment.

The segments presented correspond to the company's internal reporting structure.

The assets and liabilities of segments include items directly attributable to the segment as well as those that can be allocated to the segments on a reasonable basis.

Unallocated income statement items include expenses of the parent company and the Group. Unallocated assets and liabilities include receivables, shares, loans and tax liabilities relating to the Group's administration.

No inter–segment transactions exists.

**Business segments**

**Glaston Technologies:** The segment's income comprise of the Glass Machinery and Glass Processing Groups. The Glass Machinery Group's products are glass pre–processing machines plus safety glass machines for architectural and automotive industries. The Glass Processing Group's products are tempered and laminated safety glasses, balcony glazing and insulating glass elements.

**Energy**: This segment consists of the heat– and energy–producing power plant of Kyro Power Oy.

| BUSINESS SEGMENTS 2006 | Glaston Technologies | Energy | Unallocated and eliminations | Total |
|---|---|---|---|---|
| External net sales of goods | 228 830 | 34 082 | 116 | 263 028 |
| External net sales of services | 5 860 | | | 5 860 |
| Total net sales | 234 690 | 34 082 | 116 | 268 888 |
| Operating profit [1]) | 12 829 | 6 446 | –2 795 | 16 480 |
| Unallocated items | | | –4 390 | –4 390 |
| Profit for the period | | | | 12 090 |
| Assets | 132 380 | 31 757 | 81 454 | 245 591 |
| Liabilities | 126 390 | 6 717 | –25 492 | 107 615 |
| Investments | 11 762 | 50 | 181 | 11 994 |
| Depreciation and amortisation | 5 182 | 1 954 | 181 | 7 318 |

| Business segments 2005 | Glaston Technologies | Energy | Unallocated and eliminations | Total |
|---|---|---|---|---|
| External net sales of goods | 232 353 | 27 555 | 222 | 260 129 |
| External net sales of services | 6 527 | | | 6 527 |
| Intragroup sales | 9 | 0 | –10 | 0 |
| Total net sales | 238 889 | 27 555 | 212 | 266 656 |
| Operating profit [1]) | 22 130 | 18 893 | –5 521 | 35 502 |
| Unallocated items | | | –13 137 | –13 137 |
| Profit for the period | | | | 22 365 |
| Assets | 210 088 | 32 543 | 13 890 | 256 521 |
| Liabilities | 88 972 | 8 961 | 19 555 | 117 487 |
| Investments | 11 162 | 41 | 248 | 11 452 |
| Depreciation and amortisation | 5 763 | 2 677 | 256 | 8 696 |

[1]) Group contributions granted by Energy for Glaston Technologies and Kyro have been reversed into Energy's operating profit.

# Notes to the consolidated financial statements

**Geographical segments**

EMA (including Europe, the Middle East and Africa)

North and South America

Asia (including Japan, Australia and New Zealand)

Segment income is based on customers' geographical location. Segment assets are divided according to the geographical location of the assets.

| Geographical segments 2006 | EMA | North and South America | Asia | Total |
|---|---|---|---|---|
| Net sales | 172 006 | 63 033 | 33 849 | 268 888 |
| Assets | 198 120 | 36 652 | 10 818 | 245 591 |
| Investments | 9 570 | 174 | 2 250 | 11 994 |

| Geographical segments 2005 | EMA | North and South America | Asia | Total |
|---|---|---|---|---|
| Net sales | 158 461 | 63 039 | 45 156 | 266 656 |
| Assets | 233 451 | 25 466 | 7 604 | 265 521 |
| Investments | 9 109 | 555 | 1 788 | 11 452 |

**2. DISPOSAL OF SUBSIDIARIES AND BUSINESS OPERATIONS**

| | 2005 |
|---|---|
| | Carrying amounts of sold balance sheet itemst |
| Tangible assets | 12 799 |
| Intangible assets | 1 037 |
| Inventories | 17 |
| Trade and other receivables | 156 |
| Cash and cash equivalents | 78 |
| **Total assets** | **14 087** |
| | |
| Interest–bearing liabilities | 1 050 |
| Trade and other payables | 162 |
| **Total liabilities** | **1 212** |
| | |
| **Net assets** | 12 876 |
| Consideration received in cash | 25 811 |
| Cash disposed of | –78 |
| **Net cash inflow** | **25 733** |

**2. OTHER OPERATING INCOME**

| | 2006 | 2005 |
|---|---|---|
| Gains from disposal of tangible and intangible assets | 938 | 12 650 |
| Gains on sale of available–for–sale investments | 364 | |
| Income from emission allowances | 4 379 | 2 013 |
| Other income | 1 313 | 254 |
| **Total** | **6 994** | **14 916** |

**3. EMPLOYEE BENEFIT EXPENSES**

| | 2006 | 2005 |
|---|---|---|
| Wages, salaries and bonuses | 44 649 | 40 991 |
| Cash–settled share–based transactions | | 2 285 |
| Pensions | | |
| Defined benefit plans | 113 | 60 |
| Defined contribution plans | 3 890 | 3 804 |
| Other personnel expenses | 8 180 | 8 594 |
| | | |
| Other post–employment benefits | 748 | 996 |
| **Total** | **57 581** | **56 731** |

Management employee benefits and loans are presented in Note 26 Related party transactions.

**Average number of group employees during the financial period**

| | | |
|---|---|---|
| Management and administrative personnel | 668 | 665 |
| Workers | 596 | 553 |
| **Total** | **1 264** | **1 218** |

**4. DEPRECIATION AND AMORTISATION**

**Depreciation by asset class**

| | | |
|---|---|---|
| Intangible assets | | |
| Capitalised development expenditure | 1 248 | 1 822 |
| Other intangible assets | 606 | 952 |
| Tangible assets | | |
| Buildings and structures | 1 128 | 1 355 |
| Machinery and equipment | 4 153 | 4 127 |
| Other tangible assets | 182 | 440 |
| **Total** | **7 318** | **8 696** |

**5.OTHER OPERATING EXPENSES**

| | | |
|---|---|---|
| Research and development expenses | 4 325 | 6 073 |
| Rentals | 3 559 | 4 332 |
| Subcontracting, service and maintenance | 33 874 | 36 887 |
| Other operating expenses | 45 334 | 38 405 |
| **Total** | **87 092** | **85 697** |

**6. FINANCIAL INCOME**

| | | |
|---|---|---|
| Dividend income | 5 | 369 |
| Interest income | 685 | 662 |
| Foreign exchange gains | 1 469 | 311 |
| Gains from sale of assets recognised at fair value through profit and loss | 8 | 1 043 |
| Other financial income | | 42 |
| **Total** | **2 167** | **2 428** |

### 7. FINANCIAL EXPENSES

| | 2006 | 2005 |
|---|---|---|
| Interest expenses | –436 | –665 |
| Foreign exchange losses | –1 252 | –1 697 |
| Losses from sale of assets recognised at fair value through profit or loss | 0 | –1 188 |
| Other financial expenses | –224 | –148 |
| **Total** | **–1 912** | **–3 698** |

### FOREIGN EXCHANGE GAINS AND LOSSES INCLUDED IN THE FINANCIAL STATEMENTS

| | | |
|---|---|---|
| Net sales | –360 | –924 |
| Expenses | 57 | 1 023 |
| Financial items | 217 | –1 386 |
| | **–86** | **–1 286** |

### 8. INCOME TAXES

| | | |
|---|---|---|
| Current tax | 4 768 | 9 813 |
| Deferred tax | –129 | 2 053 |
| **Total income taxes** | **4 639** | **11 867** |

The current tax differs from the income tax calculated using the tax rate for Finnish companies (26%) as follows:

| | 2006 | 2005 |
|---|---|---|
| Profit before taxes | 16 735 | 34 231 |
| Income tax according to the Finnish tax rate on the Group's profit before taxes | 4 351 | 8 900 |
| Effect of different tax rates of foreign subsidiaries | 1 059 | 2 305 |
| Tax–free income | –528 | –585 |
| Non–deductible expenses in taxation | 1 057 | 1 020 |
| Deferred tax asset on previous years' losses | –147 | |
| Taxes for previous financial periods | –1 124 | –70 |
| Other items | –29 | 297 |
| **Tax in income statement** | **4 639** | **11 867** |

### 9. EARNINGS PER SHARE

| | | |
|---|---|---|
| Profit for the period attributable to the equity holders of the parent | 12 090 576 | 22 360 777 |
| Weighted average number of shares outstanding | 79 020 096 | 79 020 096 |
| Earnings per share, euros | 0.15 | 0.28 |

### 10. TANGIBLE ASSETS

| | Land and water areas | Buildings | Machinery and equipment | Other tangible assets | Capital investments in progress | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost 1 Jan 2006** | 1 875 | 24 591 | 54 093 | 2 320 | 2 589 | 85 468 |
| Exchange rate difference | 19 | –21 | –57 | –27 | –80 | –165 |
| Additions | 322 | 1 724 | 3 080 | 63 | 2 860 | 8 049 |
| Disposals | –154 | –2 270 | –336 | –43 | | –2 803 |
| Transfers between items | 0 | 1 439 | –24 | 70 | –1 485 | 0 |
| Acquisition cost 31 Dec 2006 | 2 062 | 25 463 | 56 756 | 2 384 | 3 884 | 90 461 |
| Accumulated depreciations 1 Jan 2006 | | –11 456 | –29 451 | –1 750 | | –42 657 |
| Exchange rate difference | | –11 | 23 | 12 | | 24 |
| Accumulated depreciations of disposals and transfers | | 458 | 237 | | | 695 |
| Depreciation for the period | | –1 069 | –4 001 | –182 | | –5 253 |
| Accumulated depreciations 31 Dec 2006 | | –12 078 | –33 193 | –1 921 | | –47 191 |
| **Carrying amount 31 Dec 2006** | **2 062** | **13 385** | **23 564** | **464** | **3 884** | **43 270** |

| | Land and water areas | Buildings | Machinery and equipment | Other tangible assets | Capital investments in progress | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost 1 Jan 2005** | 3 402 | 27 994 | 55 354 | 7 573 | 669 | 94 993 |
| Exchange rate difference | 11 | 0 | 262 | 28 | 0 | 302 |
| Additions | 192 | 64 | 2 849 | 142 | 3 717 | 6 965 |
| Disposals | –1 731 | –3 508 | –6 017 | –5 424 | | –16 679 |
| Transfers between items | | 40 | 1 645 | 113 | –1 798 | 0 |
| Acquisition cost 31 Dec 2005 | 1 875 | 24 591 | 54 094 | 2 320 | 2 589 | 85 468 |
| Accumulated depreciations 1 Jan 2005 | | –10 918 | –27 089 | –2 476 | | –40 482 |
| Exchange rate difference | | –52 | –254 | –10 | | –316 |
| Accumulated depreciations of disposals and transfers | | 870 | 2 019 | 1 175 | | 4 064 |
| Depreciation for the period | | –1 355 | –4 127 | –440 | | –5 922 |
| Accumulated depreciations 31 Dec 2005 | | –11 456 | –29 451 | –1 750 | | –42 657 |
| **Carrying amount 31 Dec 2005** | **1 875** | **13 135** | **24 642** | **570** | **2 589** | **42 811** |

# Notes to the consolidated financial statements

| | 2006 | 2 005 |
|---|---|---|
| Carrying amount of Group's production machinery and equipment | 20 806 | 24 293 |

**Finance lease agreements**

Tangible fixed assets include the following assets leased by finance lease agreements:

| | Buildings | Machinery and equipment | Total |
|---|---|---|---|
| Acquisition cost 1 Jan 2006 | 427 | 957 | 1 384 |
| Additions | | 340 | 340 |
| Acquisition cost 31 Dec 2006 | 427 | 1 297 | 1 723 |
| Accumulated depreciations 1 Jan 2006 | –118 | –376 | –494 |
| Depreciation for the period | –59 | –151 | –210 |
| Accumulated depreciations 31 Dec 2006 | –177 | –527 | –704 |
| **Carrying amount 31 Dec 2006** | **250** | **769** | **1 020** |

| | Buildings | Machinery and equipment | Total |
|---|---|---|---|
| Acquisition cost 1 Jan 2005 | 427 | 957 | 1 384 |
| Additions | | 40 | 40 |
| Disposals | | –39 | –39 |
| Acquisition cost 31 Dec 2005 | 427 | 957 | 1 384 |
| Accumulated depreciations 1 Jan 2005 | –59 | –169 | –227 |
| Depreciation for the period | –59 | –174 | –233 |
| Accumulated depreciations of disposals and transfers | | –33 | –33 |
| Accumulated depreciations 31 Dec 2005 | –118 | –376 | –494 |
| **Carrying amount 31 Dec 2005** | **309** | **581** | **890** |

**11. INTANGIBLE ASSETS**

| | Capitalised development expenditure | Intangible rights | Goodwill | Group goodwill | Other intangible assets | Capital invest-ments in progress | Total |
|---|---|---|---|---|---|---|---|
| Acquisition cost 1 Jan 2006 | 9 599 | 7 819 | 0 | 53 121 | 4 539 | 2 338 | 77 415 |
| Exchange rate difference | | –40 | | | | 334 | 294 |
| Additions | 1 302 | 5 501 | | 58 | 30 | 1 705 | 8 596 |
| Disposals | | –1 427 | 0 | | –15 | | –1 442 |
| Transfers between items | 91 | | | | 19 | –110 | 0 |
| Acquisition cost 31 Dec 2006 | 10 992 | 11 853 | 0 | 53 179 | 4 573 | 4 267 | 84 864 |
| Accumulated amortisations 1 Jan 2006 | –5 170 | –4 758 | 0 | 0 | –4 071 | | –14 000 |
| Exchange rate difference | 0 | 11 | | | 0 | | 11 |
| Amortisation for the period | –1 248 | –558 | | | –41 | | –1 847 |
| Accumulated amortisations 31 Dec 2006 | –6 418 | –5 305 | | 0 | –4 112 | | –15 836 |
| **Carrying amount 31 Dec 2006** | **4 573** | **6 548** | **0** | **53 179** | **461** | **4 267** | **69 028** |

| | Capitalised development expenditure | Intangible rights | Goodwill | Group goodwill | Other intangible assets | Capital invest-ments in progress | Total |
|---|---|---|---|---|---|---|---|
| Acquisition cost 1 Jan 2005 | 5 382 | 5 659 | 1 152 | 52 481 | 5 020 | 2 710 | 77 815 |
| Exchange rate difference | | 107 | | | 89 | | 196 |
| Additions | 3 319 | 2 063 | | 641 | 70 | 527 | 6 618 |
| Disposals | | –10 | –1 152 | | –640 | | –1 935 |
| Transfers between items | 899 | | | | | –899 | 0 |
| Acquisition cost 31 Dec 2005 | 9 599 | 7 819 | 0 | 53 121 | 4 539 | 2 338 | 77 415 |
| Accumulated amortisations 1 Jan 2005 | –3 348 | –4 104 | | | –4 376 | | –11 829 |
| Exchange rate difference | | –48 | | | –52 | | –100 |
| Accumulated amortisations of disposals and transfers | | 8 | | | 712 | | 719 |
| Amortisation for the period | –1 822 | –614 | | | –355 | | –2 791 |
| Accumulated amortisations 31 Dec 2005 | –5 170 | –4 758 | | | –4 071 | | –14 000 |
| **Carrying amount 31 Dec 2005** | **4 429** | **3 060** | **0** | **53 121** | **467** | **2 338** | **63 415** |

The increase in goodwill results from redemption of minority interest as well as classification of minority interest as a financial asset, which has been valued at fair value.

### Emission allowances of Kyro Power Oy

The intangible rights include 194.848 emission allowances received as a grant. The allowances have been measured to their fair value at the acquisition date, the fair value being EUR 22,35 per allowance and in total EUR 4.4 million. The corresponding grant of EUR 4.4 million is included in the other operating expenses. The prior year's unused emission allowances totalled 1.021 their acquisition cost being EUR 0.009 million.

During the year 2006 the company has used 193.335 emission allowances and based on this it has recognised a provision of EUR 4.3 million which has been presented as the use of material and supplies in the income statement. In addition, the company has sold 3.000 emission allowances during the accounting period and purchased 5.000 emission allowances. The gain of EUR 0,08 million on the sales of emission allowances has been presented in the other operating income.

At the balance sheet date the company has 4.525 unused emission allowances, whose market value at 31 December 2006 is EUR 0.03 million.

### Capitalised development expenditure

The amortisation period for the capitalised development expenditure has been redefined to better correspond their useful life. The amortisation period has been extended from 3–5 years to 5–7 years depending on the asset item.

The change in the amortisation period had an effect of EUR 0.7 million in the annual period 2006

### Impairment testing

The goodwill is tested annually for impairment in accordance with the IFRSs. The goodwill is monitored for impairment at business segment level in the Group.

The impairment test is performed by comparing the recoverable amount of the cash–generating unit to its carrying amount. The recoverable amount of the cash–generating unit has been determined based on discounted future cash flows. The cash flows are based on the management's five–year estimates which take into account only the unit's organic growth. An annual growth rate of two per cent has been used as a long–term growth.

The goodwill has been allocated to Glaston Technologies –segment. Based on the impairment tests the recoverable amount of the segment exceeds the corresponding carrying amounts and therefore the Group has not recognised an impairment loss in respect of goodwill.

**The key assumptions used in the impairment test, Glaston Technologies**

| | |
|---|---|
| Net sales growth | ca. 10 % |
| Change in profitability | improves significantly |
| Discount rate after tax | 8,8 % |
| Discount rate before tax | 11,7 % |
| Long–term growth | 2 % |
| Allocated goodwill, millions of euro | 54,2 |
| Carrying amount, millions of euro | 198,9 |
| Result of the impairment test (exceeding the carrying amount) | Exceeds clearly |

The changes in the Group's markets, international economy and interest rates reflect to the business units' growth and profitability estimates, as well as the related risk and return requirement.

The assumptions used in the impairment tests are based on the management's view at the balance sheet date for the future periods. The estimates and other assumptions are reviewed constantly and they may change.

### Sensitivity analysis regarding the operating margin (2007–2011) and cost of capital:

Change in operating margin (2007–2011)

| | Cost of capital | | | | |
|---|---|---|---|---|---|
| | –2 % | –1 % | 8,76 % | + 1 % | +2 % |
| 50 % | Exceeding | Exceeding | Exceeding | Exceeding | Exceeding |
| 40 % | Exceeding | Exceeding | Exceeding | Exceeding | Exceeding |
| 30 % | Exceeding | Exceeding | Exceeding | Exceeding | Exceeding |
| 10 % | Exceeding | Exceeding | Exceeding | Exceeding | Exceeding |
| 0 % | Exceeding | Exceeding | Exceeding | Exceeding | Exceeding |
| –10 % | Exceeding | Exceeding | Exceeding | Exceeding | Exceeding |
| –20 % | Exceeding | Exceeding | Exceeding | Exceeding | Impairment loss |
| –30 % | Exceeding | Exceeding | Impairment loss | Impairment loss | Impairment loss |
| –40 % | Impairment loss | Impairment loss | Impairment loss | Impairment loss | Impairment loss |
| –50 % | Impairment loss | Impairment loss | Impairment loss | Impairment loss | Impairment loss |

Also the unfinished intangible assets have been tested and no demand for an impairment loss has arisen.

# Notes to the consolidated financial statements

### 12. DEFERRED TAXES

| | 2006 | 2005 |
|---|---|---|
| Deferred tax assets | | |
| Tangible assets | 327 | 299 |
| Inventories | 794 | 922 |
| Share–based payments | 1 650 | 1 650 |
| Change in principle of revenue recognition | | 333 |
| Tax losses carried forward | 4 822 | 4 613 |
| Changes in fair value | 56 | 534 |
| Other temporary differences | 53 | 124 |
| **Total** | **7 703** | **8 475** |
| | | |
| Deferred tax liabilities | | |
| Depreciation differences and other optional provisions | 4 088 | 3 876 |
| Fair value changes | 8 | 6 |
| Other temporary differences | 3 222 | 3 710 |
| **Total** | **7 319** | **7 592** |

An amount of –0.1 million euros has been booked in the income statement and –0.4 million euros directly into equity regarding the change of the deferred taxes.

No tax liability is recognised for the undistributed retained earnings of foreign subsidiaries, because the assets are considered to be invested permanently in these countries or no tax receivables arises from asset transfers to the parent company. The most substantial tax at source liability, EUR 0.8 million (2005 EUR 0.5 million), which has not been recognised on the basis of the above, relates to undistributed retained earnings of US subsidiaries.

The Group has recognised a tax refund of approximately EUR 2 million after having received an affirmative decision according to which the expenses arising from the management incentive scheme of the Group are deductible in taxation. The tax authorities of the Tax Office for Major Corporations have appealed against the decision to the Administrative Court of Helsinki. It is considered in the Group that the earlier decision on the expenditure arising from the incentive arrangement is valid.

### 13. NON–CURRENT RECEIVABLES

| | | |
|---|---|---|
| Trade receivables | 2 340 | 2 103 |
| Loan receivables | | 750 |
| Other receivables | 343 | 348 |
| **Total** | **2 683** | **3 201** |

Non–current receivables are discounted and interest income recognised by the effective interest rate method.

### 14. INVENTORIES

| | | |
|---|---|---|
| Materials and supplies | 11 356 | 13 463 |
| Work in progress | 30 151 | 32 163 |
| Finished products/goods | 13 221 | 13 927 |
| **Total inventories** | **54 729** | **59 553** |

In the period an expense of EUR 0.4 million was recognised by which the carrying amount of inventories was impaired to correspond with its net realisable value (EUR 0.8 in 2005).

### 15. CURRENT RECEIVABLES

| | 2006 | 2005 |
|---|---|---|
| Trade receivables | 48 667 | 40 931 |
| Loan receivables | 85 | 384 |
| Other receivables | 2 305 | 1 499 |
| Prepaid expenses and accrued income, income taxes | 908 | 2 561 |
| Other prepaid expenses and accrued income | 5 092 | 3 914 |
| **Total** | **57 057** | **49 288** |

During the period the Group has recognised credit losses EUR 0.5 million (2005 EUR 0.4 million) on its trade receivables.

There are no significant concentrations of credit risk relating to receivables.

The most substantial items of other prepaid expenses and accrued income relate to indirect taxes of EUR 2.0 million (2005 EUR 2.5 million).

### 16. OTHER FINANCIAL ASSETS

**Non–current Available–for–sale financial assets**

| | | |
|---|---|---|
| Investments in unlisted shares | 512 | 3 365 |

Kyro Oyj Abp sold all its shares of Pohjolan Voima Oy during the accounting period. The gain on the sales of the shares has been recognised in the other operating income.

**Current Financial assets measured at fair value through profit or loss**

| | | |
|---|---|---|
| Investments in listed shares | 80 | 135 |

### 17. CASH AND CASH EQUIVALENTS

| | | |
|---|---|---|
| Cash and bank deposits | 10 528 | 11 303 |
| Commercial papers | | 14 973 |
| | **10 528** | **26 276** |

Cash flow statement cash and cash equivalents correspond to balance sheet cash and cash equivalents.

### 18. EQUITY

**Reconciliation of the number of shares**

| | Number of shares (1000) | Share capital 1000 EUR | Share premium fund 1000 EUR | Treasury shares 1000 EUR | Total 1000 EUR |
|---|---|---|---|---|---|
| 1.1.2005 | 79 350 | 12 696 | 25 270 | | 37 966 |
| Held by Group | –330 | | | –950 | |
| 31.12.2005 | 79 020 | 12 696 | 25 270 | –950 | 37 966 |
| 31.12.2006 | 79 020 | 12 696 | 25 270 | –950 | 37 966 |

The nominal value of shares is EUR 0.16 per share and the Group's maximum share capital is EUR 16 million. All shares issued have been fully paid.

Treasury shares include the EUR 950.241 acquisition cost of treasury shares held by the Group. The shares were acquired in 2001. The acquisition cost of treasury shares is presented as a reduction in equity.

The translation reserve includes translation differences arising from the translation of foreign entities' financial statements. Also the gains and losses arising from the net investment hedges are included in the translation reserve when the criteria for hedge accounting are met.

The fair value and other reserves include two sub–reserves: fair value reserve for the available–for–sale financial assets and hedging reserve for the changes in fair values of derivative instruments used for cash flow hedges.

Distributable assets totaled 64.746.666 euros.

After the closing date, the Board of Directors has proposed a dividend of EUR 0.09 per share to be distributed.

### 19. OBLIGATIONS ARISING FROM EMPLOYEE BENEFITS

The Group has statutory defined benefit severance pay schemes in Italy and in Mexico and voluntary defined benefit pension plans in Finland in certain Group companies. Pension expenses are recognised as an expense on the basis of actuarial calculations.

In calculations the amount of employee benefits is determined on the basis of certain factors e.g. salary and years of service.

#### Finnish voluntary pension plans

| | 2006 | 2005 |
|---|---|---|
| **Employee benefit obligation** | | |
| Present value of unfunded obligations | 201 | 214 |
| Present value of funded obligations | 335 | 290 |
| Fair value of plan assets | –269 | –254 |
| Deficit/surplus | 267 | 250 |
| Unrecognised actuarial gains (+) and losses (–) | –37 | –29 |
| Net liability | 230 | 220 |
| Amounts in the balance sheet | | |
| Liabilities | 230 | 220 |
| Receivable | | |
| **Net liability** | **230** | **220** |
| | | |
| Current service cost | 109 | 97 |
| Interest cost | 27 | 26 |
| Expected return on plan assets | –14 | –8 |
| Past service cost | | –55 |
| Total | 122 | 60 |
| **Actual return on plan assets** | **7** | **23** |

| | 2006 | 2005 |
|---|---|---|
| **Changes in the present value of the obligation:** | | |
| Defined benefit obligation at 1 Jan | 504 | 420 |
| Current service cost | 109 | 97 |
| Interest cost | 27 | 26 |
| Actuarial gains (–) and losses (+) | 1 | 44 |
| Benefits paid | –28 | –28 |
| Past service cost | | –55 |
| Settlement | –76 | 0 |
| Defined benefit obligation at the end | 536 | 504 |
| | | |
| **Movements in fair value of the plan assets** | | |
| Fair value of plan assets at 1 Jan | 254 | 105 |
| Expected return on plan assets | 14 | 8 |
| Actuarial gains (–) and losses (+) | –7 | 15 |
| Contributions by employer | 36 | 153 |
| Benefits paid | –28 | –28 |
| Fair value of plan assets at the end of | 269 | 254 |
| | | |
| **The amount the company expects to contribute into its defined pension plans during 2007** | **89** | |

Information on asset categories is not available

| | 2006 | 2005 |
|---|---|---|
| **Principal actuarial assumptions:** | | |
| Discount rate | 4,50 % | 4,50 % |
| Expected return on plan assets | 4,50 % | 4,50 % |
| Expected rate of future salary | 3,30 % | 3,30 % |
| Expected rate of future pension | 2,10 % | 2,10 % |
| Inflation rate | 2,00 % | 2,00 % |
| | | |
| **Five–year overview (as of 1 Jan 2005)** | | |
| Present value of the obligation | –536 | –504 |
| Fair value of plan assets | 269 | 254 |
| Deficit/surplus | –267 | –250 |
| Experience adjustments to plan assets | 7 | –15 |
| | | |
| Experience adjustments to plan liabilities | | |

#### Italian and Mexican statutory severance pay scheme

| | 2006 | 2005 |
|---|---|---|
| **Employee benefit obligation** | | |
| Present value of unfunded obligations | 6 193 | 6 346 |
| Losses (–) | –1 | |
| Net liability | 6 192 | 6 346 |
| | | |
| **Amounts in the balance sheet** | | |
| Liabilities | 6 192 | 6 346 |
| Receivable | | |
| Net liability | 6 192 | 6 346 |

# Notes to the consolidated financial statements

| | 2006 | 2005 |
|---|---|---|
| **The amount recognised in profit or loss** | | |
| Current service cost | 526 | 538 |
| Interest cost | 222 | 236 |
| Actuarial gains and losses | 0 | |
| Losses/gains on curtailments | | 223 |
| Past service cost | 50 | |
| | 798 | 996 |

**Actual return on plan assets**

| **Changes in the present value of the obligation:** | | |
|---|---|---|
| Defined benefit obligation at 1 Jan | 6 346 | 5 686 |
| Current service cost | 649 | 538 |
| Interest cost | 250 | 236 |
| Actuarial gains (–) and losses (+) | –365 | |
| Past service cost | 48 | |
| Gains (–) and losses (+) on curtailments | | 223 |
| Benefits paid | –736 | –336 |
| Obligation at the end of the period | 6 193 | 6 346 |

| | | |
|---|---|---|
| **The amount the company expects to contribute into its defined pension plans during 2007** | **409** | |
| Discount rate | 4,60 % | 4,00 % |
| Assumed future pension increases | 3,00 % | 3,00 % |
| Inflation rate | 1,90 % | 1,90 % |

| **Five–year overview (as of 1 Jan 2005)** | | |
|---|---|---|
| Present value of the obligation | –6 193 | –6 346 |
| Fair value of plan assets | | |
| Deficit/surplus | –6 193 | –6 346 |

**20. PROVISIONS**

| | Environmental provision | Guarantee provision | Restructuring | Other provisions |
|---|---|---|---|---|
| 1 Jan 2006 | 1 418 | 1 485 | | 326 |
| Increase in provisions | 4 321 | 1 749 | 1 504 | |
| Used provisions | –1 418 | –1 855 | | |
| 31 Dec 2006 | 4 321 | 1 378 | 1 504 | 326 |

**Environmental provision**

Environmental provision comprise of carbon dioxide emissions for the financial period and it is settled by 30 April annually by reversing a corresponding amount of emission allowances presented in the intangible rights into emission trade register.

**Guarantee provision**

The Group admits for its machine deliveries a guarantee period of 1 to 2 years. The Group defrays expenses from repairing the defects in the products noticed during the guarantee period. The guarantee provisions are expected to be used during the two next years.

**Restructuring programs**

During 2006 Kyro started a rationalisation program relating to Glaston Technologies industry.

In July Bavelloni started a program for rationalisation of Italian activities and European network of maintenance and sales offices. Assembly plant in Bergamo, Italy was shut and the program comprised also other changes of processes and activities for increasing the productivity, including personnel arrangements. The amount of personnel decreased by 59 employees.

In the program of Glass Processing Group, the glass processing companies merged into one company and the activities were rationalised. The amount of personnel decreased by 36 employees.

The provisions relating to the restructuring comprise of notice and pension costs EUR 1.3 millions and other costs EUR 0.2 millions.

**21. INTEREST–BEARING LIABILITIES**

| | 2006 | 2005 |
|---|---|---|
| Non–current | | |
| Other loans | 319 | 747 |
| Finance lease liabilities | 539 | 476 |
| **Total** | **858** | **1 222** |
| Current | | |
| Current portion of repayments of loans from financial institutions | **6 990** | **1 535** |
| Current portion of finance lease liability repayments | **161** | **146** |
| Other current loans | | |
| **Total** | **7 151** | **1 681** |

Increase in the interest–bearing liabilities is due to financing of working capital of foreign subsidiaries.

| Repayments | Loans from financial institutions | Finance lease liabilities | Other loans |
|---|---|---|---|
| 2007 | 6 990 | 161 | |
| 2008 | | 169 | 288 |
| 2009 | | 167 | 31 |
| 2010 | | 147 | |
| 2011 | | 54 | |
| 2012 | | 2 | |

| **Finance lease liabilities** | | |
|---|---|---|
| Total amount of minimum lease payments | | |
| Up to 1 year | 212 | 193 |
| 1–5 years | 625 | 571 |
| More than 5 years | 2 | 27 |
| **Total** | **839** | **791** |

| | 2006 | 2005 |
|---|---|---|
| **Present value of minimum lease payments** | | |
| Up to 1 year | 161 | 146 |
| 1–5 years | 538 | 444 |
| More than 5 years | 2 | 31 |
| **Total** | **700** | **621** |
| | | |
| Unaccrued financial expenses | 139 | 170 |

### 22. TRADE PAYABLES AND OTHER LIABILITIES

| | | |
|---|---|---|
| Trade payables | 21 882 | 18 421 |
| Other current liabilities | 30 372 | 46 105 |
| Interest expenses and other financial liabilities | 55 | 207 |
| Salary and social cost allocations | 10 338 | 8 982 |
| Accrued expenses and deferred income, income taxes | 2 564 | 6 851 |
| Other accrued expenses and deferred income | 13 074 | 16 404 |
| **Total** | **78 284** | **96 971** |

Cost provisions for machine deliveries EUR 6.4 million (2005 EUR 5.0 million) are the most substantial items of other accrued expenses and deferred income.

### 23. RISK MANAGEMENT

**Financial risk**

The Group's financial risks consist of currency, interest rate and liquidity risks. The principle of the Group is to hedge against the negative impact of risks on the result and balance sheet. The management of currency and counterparty risks relating to transactions is part of Group companies' operational activity. In other respects the Group's financial functions have been centralised in the parent company, which is responsible for bank relations, long-term financing of schemes, investment of assets and the allocation of the Group's internal financing according to the liquidity needs of Group companies.

The Group has no foreign currency loans in Finland. The working capital credit limits of foreign subsidiaries are in the currency of the country in question. Foreign currency positions consist of receivables and liabilities in each currency as well as foreign currency income and expenses based on binding orders. Net positions are hedged mainly with forward contracts up to a maximum of 12 months. Currency rate risk is mainly due to fluctuations between dollar and euro. Net positions by currency vary considerably by company. The position for 2006 has been hedged on average for 4–6 months forward.

In the Group the equity of foreign subsidiaries has not been hedged except for equity hedge of USD 12 million in an US subsidiary.

Liquid assets are invested avoiding risk so that readiness for investment and acquisitions is maintained. The investments are money market deposits and long–term convertible bonds. The parent company's Board of Directors has approved the investment principles and risk limits.

**Electricity price risk**

The Group company Kyro Power Oy operates in the free electricity market as an independent party and with its power plants it produces electricity, process steam and district heat. Uncertainty relating to the sale and production cost of electricity is managed by the management of Kyro Power Oy according to operating principles approved by Kyro Power's Board of Directors with the aim of ensuring the good profitability of operations. The selling price risk of electricity is managed with long–term electricity supply contracts and electricity derivative contracts. On 31 December 2006 Kyro Power Oy had electricity finance contracts for 80.2 GWh (2005: 239.7 GWh). Kyro Power Oy's sales of electricity in 2006 were 411 GWh (2005: 379 GWh).

### 24. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Nominal values and fair values of derivate contracts

| | 2006 | 2005 |
|---|---|---|
| **Currency derivatives** | | |
| Forward contracts | | |
| Nominal value | 17 281 | 14 127 |
| Positive fair value | 304 | 9 |
| Negative fair value | –90 | –262 |
| Electricity forwards | | |
| Nominal value | 2 987 | 9 619 |
| Positive fair value | 0 | 4 |
| Negative fair value | –217 | –2 060 |

The fair values of currency forwards are based on the difference between the contract price and the closing date price.

The fair values of electricity forwards are based on the market prices on the closing date.

Other financial assets and liabilities are mainly current. Their balance sheet value is considered essentially to correspond to their fair value.

### 25. GUARANTEES AND CONTINGENT LIABILITIES ON OWN BEHALF

| | | |
|---|---|---|
| **Mortgages as security for loans** | | |
| Loans from financial institutions | 17 | 26 |
| Company mortgages | 168 | 168 |
| | | |
| **Contingent liabilities and liabilities not included in the balance sheet** | | |
| Pledges | | |
| On own behalf | 2 034 | 2 308 |
| Repurchase obligations | | 1 591 |
| Other liabilities | 3 539 | 3 212 |

A customer of US subsidiary Tamglass Tempering Systems has made a claim of USD 10 millions due to a sale of machine over two years ago. Regarding the Group's opinion, the claim is unfounded.

# Notes to the consolidated financial statements

## 26. RELATED PARTY TRANSACTIONS

| GROUP'S PARENT COMPANY AND SUBSIDIARY RELATIONSHIPS | Company's domicile | Group ownership% | Group share of votes % |
|---|---|---|---|
| **Parent company Kyro Corporation** | Hämeenkyrö | | |
| Kyro Power Oy | Hämeenkyrö | 100,0% | 100,0% |
| **Uniglass Engineering Oy** | Tampere | 100,0% | 100,0% |
| Glaston Estonia Oü | Tallinn, Estonia | 100,0% | 100,0% |
| **Tamglass Ltd. Oy** | Tampere | 100,0% | 100,0% |
| Tamglass Engineering Ltd. Oy | Tampere | 100,0% | 100,0% |
| Tamglass Glass Processing Ltd. | Tampere | 100,0% | 100,0% |
| Tamglass EMA Sales Ltd. Oy | Tampere | 100,0% | 100,0% |
| Tamglass America, Inc. | Pittsburgh, PA, USA | 100,0% | 100,0% |
| Tamglass Tempering Systems, Inc. | Cinnaminson, N.J., USA | 100,0% | 100,0% |
| Tamglass-Bavelloni North America (USA) Inc. | Greensboro NC, USA | 100,0% | 100,0% |
| Tamglass-Bavelloni Europe (UK) Ltd. | Nottinghamshire, United Kingdom | 100,0% | 100,0% |
| Tamglass-Bavelloni Europé (FR) S.A.R.L. | Chassieu, France | 99,8% | 99,8% |
| Tamglass-Bavelloni Europe (GE) GmbH | Nürnberg, Germany | 100,0% | 100,0% |
| Tamglass Japan, Inc. | Osaka, Japan | 100,0% | 100,0% |
| Tamglass Project Development Oy | Tampere | 100,0% | 100,0% |
| Tamglass-Bavelloni Singapore Pte. Ltd. | Singapore | 100,0% | 100,0% |
| Cattin Machines, S.A. | La Chaux–de–Fonds, Switzerland | 100,0% | 100,0% |
| Tamglass South America Ltda. | São Paulo , Brazil | 99,0% | 100,0% |
| Tamglass Middle East | Dubai, United Arab Emirates | 100,0% | 100,0% |
| Tamglass-Bavelloni (Tianjin) Co. Ltd | Tianjin, China | 100,0% | 100,0% |
| Tamglass–Bavelloni (Shanghai) Machinery Trading Co. Ltd. | Shanghai, China | 100,0% | 100,0% |
| Tamglass–Bavelloni China | Tianjin, China | 100,0% | 100,0% |
| OOO "Tamglass–Bavelloni", Russia | Moscow, Russia | 100,0% | 100,0% |
| Glaston Australia Pty Ltd. | Queensland, Australia | 100,0% | 100,0% |
| Z. Bavelloni Mexico S.A. de C.V. | Jalisco, Mexico | 100,0% | 100,0% |
| Z. Bavelloni Servicios S.A. de C.V. | Jalisco, Mexico | 100,0% | 100,0% |
| Z. Bavelloni South América | São Paulo , Brazil | 100,0% | 100,0% |
| Glasto Holding BV | Sittard, Netherlands | 100,0% | 100,0% |
| Tamglass–Bavelloni Europe (NL) BV | Hoensbroek, Netherlands | 100,0% | 100,0% |
| Z. Bavelloni S.p.A. | Bregnano, Italy | 100,0% | 100,0% |
| DiaPol S.r.l | Bregnano, Italy | 100,0% | 100,0% |
| Kiint. Oy Kauppilaisenkatu 2 | Tampere | 100,0% | 100,0% |
| Kiint. Oy Alhonmetsä | Tampere | 100,0% | 100,0% |

| Management employee benefits | 2006 | 2005 |
|---|---|---|
| Salaries and employee benefits | 3 206 | 2 849 |
| Share–based payments | | 2 285 |
| | 3 206 | 5 134 |
| **Management salaries and bonuses** | | |
| **President and CEO Pentti Yliheljo,** | | |
| salary | 414 | 386 |
| bonus | 386 | 381 |
| **Board of Directors, Total bonuses** | | |
| Carl–Johan Numelin | 66 | 51 |
| Christer Sumelius | 42 | 35 |
| Lars Hammarén | 27 | 25 |
| Barbro Koljonen | 8 | 23 |
| Carl–Johan Rosenbröijer | 30 | 23 |
| Heikki Mairinoja | 32 | 26 |
| Klaus Cawén | 33 | 25 |
| Claus von Bonsdorff | 19 | |
| Jan Hasselblatt | 19 | |
| Andreas Tallberg | 24 | |
| **Other Group management** | | |
| salary | 2 031 | 1 728 |
| bonus | 77 | 147 |

The option scheme for Tamglass Ltd. Oy's key personnel and Kyro management is a share–based incentive scheme according to the IFRS 2 standard, and will be paid in cash. Share options have been recognised in personnel expenses and in accrued liabilities and deferred income for performance period of the option scheme.

The parent company's President and CEO until 31 Dec 2006 has the right to retire on 55 years of age.

The pensionable age of managers of certain Group companies is 60 or 62 years.

Voluntary pension insurance accruing from Board remuneration has been taken for the members of the Board of Directors of the parent company.

| Business transactions and open balances with related parties | | |
|---|---|---|
| Rental expenses | | |
| Interest expenses | 1 402 | 1 342 |
| | | |
| Loan receivables | 84 | 84 |
| Deposit | 366 | |
| Liabilities to related parties | 750 | 808 |

The parent company's President and CEO until 31 Dec 2006 has been granted a loan of EUR 84,093.96. The interest rate on the loan is the base rate confirmed by the Ministry of Finance. The liability to the company's management has arisen as a consequence of a company acquisition. The interest rate is on market terms.

In addition, the Group has rented premises as a consequence of an acquisition from companies owned by individuals belonging to the company's management. The rent payable for these premises corresponds with the local level of rents.

## 27. SHARE–BASED PAYMENTS

### Management incentive scheme

The Group operates a management incentive scheme, approved in 2002, which covers key Tamglass personnel and Kyro's management. By the end of 2006, 23,250 A options, with an exercise period of 1 May 2006 to 31 May 2009, and 21,750 B options with an exercise period of 1 May 2007 to 31 May 2009, had been awarded. During the financial period 4.000 A options, totaled EUR 0.5 millions, were paid to three persons. 375 B options expired.

In accordance with a restriction in the incentive scheme, share subscription by exercising the options is possible only with the permission of Kyro Corporation, but the options may be sold to Kyro Corporation during their exercise period at a price which is defined as the difference between the imputed value of the share and the subscription price. Two thirds of the imputed value of the share is based on the results of the Tamglass and Kyro Groups and one third on the development of the Kyro share price. The total value of the options at the time of realisation must not exceed 15% of the Kyro Group's net result starting from 2002.

The incentive scheme is treated as a synthetic option scheme, because the Group can choose whether to make the payment in cash or as instruments on equity terms and the Group's practice has been cash payments.

The the incentive scheme had no impact on expenses of  in the current financial year.

The obligation from the incentive scheme in Kyro's balance sheet on 31 December 2006 is a total of EUR 6.1 million.

Kyro Corporation's President and CEO until 31 Dec 2006, Pentti Yliheljo, has been granted 8,000 A series options and 8,000 B series options.

## 28. ADJUSTMENT TO CASH FLOWS FROM BUSINESS OPERATIONS

| | 2006 | 2005 |
|---|---|---|
| Depreciation | 7 318 | 8 696 |
| Financial items | 84 | –951 |
| Taxes | –5 475 | 6 851 |
| Others | –257 | 3 030 |
| **Total** | **1 669** | **17 626** |

## 29. OPERATING LEASES

| | | |
|---|---|---|
| Up to 1 year | 2 391 | 2 439 |
| 1 – 5 years | 3 382 | 5 153 |
| More than 5 years | 41 | 12 |

The 2006 income statement includes rental expenses of EUR 3.6 million (2005: EUR 4.3 million) paid on the basis of operating leases.

# Parent company income statement

| EUR 1,000 | Note | 1.1.–31.12.06 | 1.1.–31.12.05 |
|---|---|---|---|
| **Net sales** | | **794** | **967** |
| Other operating income | 1 | 544 | 5 |
| Personnel expenses | 2 | 2 068 | 1 997 |
| Depreciation | 3 | 271 | 384 |
| Other operating expenses | 4 | 2 641 | 2 653 |
| **Operating profit** | | **–3 641** | **–4 063** |
| Net financial income | 5 | 3 162 | 4 265 |
| **Profit before extraordinary items** | | **–479** | **202** |
| Extraordinary items | 6 | 11 450 | 22 500 |
| **Profit before appropriations and taxes** | | **10 971** | **22 702** |
| Appropriations | 7 | 65 | 72 |
| Income tax | 8 | –2 828 | –5 773 |
| **PROFIT FOR THE FINANCIAL YEAR** | | **8 209** | **17 000** |

# Parent company balance sheet

| EUR 1,000 | | Viite | 31.12.2006 | 31.12.2005 |
|---|---|---|---|---|
| **Assets** | **Fixed assets** | | | |
| | Intangible assets | 9 | 294 | 240 |
| | Tangible assets | 9 | 2 489 | 4 509 |
| | Investments | 10,11 | 61 571 | 70 851 |
| | **Fixed assets, total** | | **64 354** | **75 600** |
| | **Current assets** | | | |
| | Long-term receivables | 12 | 18 915 | 29 712 |
| | Short-term receivables | 12 | 40 801 | 19 815 |
| | Cash at bank and in hand | | 2 890 | 16 438 |
| | **Current assets, total** | | **62 607** | **65 965** |
| | | | **126 960** | **141 565** |
| **Equity and liabilities** | **Shareholders' equity** | | | |
| | Share capital | 13 | 12 696 | 12 696 |
| | Share premium fund | 13 | 25 270 | 25 270 |
| | Retained earnings | 13 | 56 538 | 52 943 |
| | Profit for the financial year | 13 | 8 209 | 17 000 |
| | **Shareholders' equity, total** | | **102 712** | **107 909** |
| | **Accumulated appropriations** | 14 | **13** | **78** |
| | Liabilities | | | |
| | Short-term liabilities | 15 | 24 235 | 33 578 |
| | **Liabilities, total** | | **24 235** | **33 578** |
| | | | **126 960** | **141 565** |

# Parent company sources and application of funds

| EUR 1,000 | | 2006 | 2005 |
|---|---|---|---|
| **Cash flow from business operations** | Profit of the financial year | 8 209 | 17 000 |
| | Adjustments: | | |
| | Depreciation according to plan | 271 | 384 |
| | Financial income and expenses | –224 | 674 |
| | Other adjustments | –6 942 | –16 799 |
| | Cash flow before change in working capital | 1 314 | 1 259 |
| | Change in working capital | | |
| | Change in short-term interest-free receivables | 2 005 | –2 317 |
| | Change in short-term interest-free liabilities | –6 315 | –3 525 |
| | Cash flow from business operations before financial items and taxes | –2 996 | –4 582 |
| | Interests and payments paid for other financing of business operations | | |
| | Interest paid | –326 | –1 056 |
| | Dividends received from business operations | 1 235 | 2 029 |
| | Interest received from business operations | 2 477 | 2 618 |
| | Direct taxes paid | –7 915 | –29 |
| | Cash flow from business operations before extraordinary items | –7 525 | –1 021 |
| | Cash flow from business operations resulting from extraordinary items | 1 000 | 32 600 |
| | **Cash flow from business operations** | **–6 525** | **31 579** |
| **Cash flow from investments** | Investments in tangible and intangible assets | –382 | –196 |
| | Proceeds from the disposal of tangible and intangible assets | 2 235 | |
| | Capital refunds received | 6 444 | |
| | Profit from sales of other investments | 3 201 | 3 |
| | **Cash flow from investments** | **11 497** | **–193** |
| **Cash flow from financing** | Change in loan receivables | 1 050 | |
| | Change in short-term Group receivables | –1 914 | –5 985 |
| | Withdrawals of short-term Group loans | –4 234 | 5 131 |
| | Withdrawals of short-term loans | | |
| | Repayments of short-term loans | 0 | –15 000 |
| | Dividends paid | –13 421 | –5 585 |
| | Other financing activity items | | 4 600 |
| | **Cash flow from financing** | **–18 520** | **–16 840** |
| | **Change in cash and equivalents** | **–13 548** | **14 546** |
| | Cash and equivalents at beginning of financial year | 16 438 | 1 891 |
| | Cash and equivalents at end of financial year | 2 890 | 16 438 |
| | | **–13 548** | **14 546** |

# Accounting principles of parent company

The parent company's financial statements have been prepared according to the Finnish Accounting Act (1997/1336), Accounting Ordinance (1997/1339) and other laws and regulations relating to financial statements.

**FOREIGN CURRENCY ITEMS**

Receivables and liabilities denominated in foreign currency have been translated into euros at currency rates quoted on the closing date. Translation differences arising from financial activity have been recognised in financial income and expenses.

**NET SALES**

Net sales includes the Group's income from administration services and rental income.

**LEASING**

Leasing payments have been treated as rental expenses. Outstanding leasing payments have been presented in the financial statements as liabilities.

**VALUATION OF FIXED ASSETS**

Fixed assets have been valued in the balance sheet at original acquisition cost less accrued depreciation according to plan. Planned depreciation has been calculated on a straight-line basis over the economic life of the fixed asset items.

Planned depreciation periods for various fixed asset items::

| | |
|---|---|
| • Intangible rights | 5 years |
| • Other capitalised expenses | 5–10 years |
| • Buildings and structures | 10–25 years |
| • Light machinery and equipment | 3–5 years |
| • IT equipment and systems | 3–5 years |
| • Other tangible assets | 5–10 years |

**OWN SHARES**

In consequence of an amendment of the Companies Act, the own shares held by the company are no longer presented in balance sheet fixed assets and in the own shares reserve. The comparison year has been changed accordingly.

# List of accounting books used

Day ledger CD
General ledger CD
Cost accounting, as computer lists
Fixed asset accounting, as computer lists
Balance sheet book, as bound book

# List of voucher types used

Cash vouchers, as paper receipts
Accounts payable ledger vouchers, as paper receipts/electronic records
Accounts receivable ledger vouchers, as paper receipts
Memo vouchers, as paper receipts

# Notes to parent company financial statements

## INCOME STATEMENT

### 1. OTHER OPERATING INCOME

| EUR 1.000 | 2006 | 2005 |
|---|---|---|
| Sales revenue from selling fixed | 135 | |
| Myyntituotot muista sijoituksista | 364 | |
| Other income | 46 | 5 |
| **Other operating income, total** | **544** | **5** |

### 2. PERSONNEL EXPENSES

| | | |
|---|---|---|
| Salaries and fees | 1 683 | 1 590 |
| Pension expenses | 251 | 326 |
| Other personnel expenses | 134 | 82 |
| **Total** | **2 068** | **1 997** |
| Salaries and remuneration paid to members of the Board and Managing Director | 1 098 | 974 |

The pension liability of Pentti Yliheljo, who served as the parent company's President & CEO until the end of 2006, has been covered.

The retirement age of the managers of certain Group companies is set at 60–62 years.

The members of the Board are covered by voluntary pension insurance accrued from board membership fees.

The president of the Parent Company has been granted a loan of EUR 84,093. The interest rate charged on the loan is the basic rate confirmed by the Ministery of Finance.

**Parent Company employees during financial year, average**

| | | |
|---|---|---|
| Management and administrative personnel | 9 | 7 |
| **Total** | **9** | **7** |

### 3. DEPRECIATION AND AMORTISATION

**Depreciation according to plan**

| | | |
|---|---|---|
| Intangible assets | | |
| Intangible rights | 76 | 32 |
| Other capitalised expenditures | 0 | 2 |
| Tangible assets | | |
| Buildings and structures | 129 | 298 |
| Machinery and equipment | 46 | 34 |
| Other tangible assets | 19 | 19 |
| **Depreciation according to plan, total** | **271** | **384** |

### 4. OTHER OPERATING EXPENSES

| | | |
|---|---|---|
| Fixed assets sales loss | | |
| Rents | 144 | 139 |
| Other expenses | 2 497 | 2 514 |
| **Other operating expenses, total** | **2 641** | **2 653** |

### 5. NET FINANCIAL ITEMS

| | 2006 | 2005 |
|---|---|---|
| **Dividend income** | | |
| from Group companies | 1 235 | 1 792 |
| from others | 2 | 271 |
| **Dividend income, total** | **1 236** | **2 062** |
| **Interest income from long-term investments from Group companies** | | |
| Other interest and financial income from Group companies | 2 138 | 1 854 |
| from others | 336 | 1 147 |
| **Interest income, total** | **2 474** | **3 001** |
| **Interest income from long-term investments and other interest and financial income, total** | **3 710** | **3 001** |
| **Investment depreciation write downs** | | |
| Depreciation on securities carried as current assets | | –243 |
| **Depreciations total** | | **–243** |
| **Interest and other financial expenses** | | |
| to group companies | –279 | –218 |
| to others | –269 | –337 |
| **Interest expenses, total** | **–548** | **–556** |
| **Interest and other financial expenses, total** | **–548** | **–798** |
| **Net financial items, total** | **3 162** | **4 265** |
| Other financial income and expenses include foreign exchange gains (net) | –174 | 53 |

### 6. EXTRAORDINARY INCOME

| | | |
|---|---|---|
| Received Group contributions | 11 450 | 22 500 |
| **Extraordinary income and expenses, total** | **11 450** | **22 500** |

### 7. FINANCIAL STATEMENT TRANSFERS

| | | |
|---|---|---|
| Difference between depreciation according to plan and actual depreciation in taxation | –65 | –72 |
| **Total** | **–65** | **–72** |

# Notes to parent company financial statements

## 8. INCOME TAXES

| | 2006 | 2005 |
|---|---|---|
| Income tax for extraordianary items | 2 977 | 5 850 |
| Income taxes for actual business operations | –149 | –77 |
| **Total** | **2 828** | **5 773** |

## 9. FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS

| | Intangible rights | Other capitalised long-term expenses | Total |
|---|---|---|---|
| **Intangible assets** | | | |
| Cost basis 1 January 2006 | 414 | 180 | 594 |
| Increase | 130 | | 130 |
| Acquisition cost 31 December 2006 | 545 | 180 | 724 |
| Accrued depreciation 1 January 2005 | –175 | –179 | –354 |
| Depreciation during the fiscal year | –76 | 0 | –76 |
| Accrued depreciation 31December 2005 | –250 | –180 | –430 |
| **Book value 31 December 2006** | **294** | **0** | **294** |
| Book value 31 December 2005 | 240 | 0 | 240 |

| | Land and water areas | Buildings | Machinary and equipment | Other tangible assets | Total |
|---|---|---|---|---|---|
| **Tangible assets** | | | | | |
| Acquisition cost 1 January 2006 | 1 639 | 3 313 | 450 | 425 | 5 828 |
| Increase | | 200 | 51 | 1 | 252 |
| Decrease | –106 | –2 247 | –46 | | –2 398 |
| Acquisition cost 31 December 2006 | 1 533 | 1 266 | 455 | 426 | 3 681 |
| Accumulated depreciation 1 January 2006 | | –654 | –325 | –339 | –1 319 |
| Accumulated depreciation from deductions and transfers | | 298 | 23 | | 321 |
| Depreciation during the fiscal year | | –129 | –46 | –19 | –194 |
| Accumulated depreciation 31 December 2006 | | –485 | –349 | –358 | –1 192 |
| **Book value 31 December 2006** | **1 533** | **781** | **106** | **68** | **2 489** |
| Book value 31 December 2005 | 1 639 | 2 659 | 125 | 86 | 4 509 |

## 10. INVESTMENTS

| | Shares, Group companies | Shares, others | Total |
|---|---|---|---|
| Acquisition cost 1 January 2006 | 67 547 | 3 303 | 70 851 |
| Decrease | –6 444 | –2 836 | –9 280 |
| Acquisition cost 31 December 2006 | 61 104 | 467 | |
| **Book value 31 December 2006** | **61 104** | **467** | **61 571** |
| Book value 31 December 2005 | 67 547 | 3 303 | 70 851 |

### 11. OTHER SHARES AND HOLDINGS OWNED BY THE PARENT COMPANY

| | Ownership-% | Number | Nominal value, 1000 EUR | Book value, 1000 EUR |
|---|---|---|---|---|
| Kyro Power Oy | 100.0% | 1 505 500 | 3 011 | 3 026 |
| Uniglass Engineering Oy | 100.0% | 20 000 | 400 | 6 351 |
| Tamglass Ltd Oy | 100.0% | 1 800 000 | 3 600 | 51 726 |
| | | | | 61 104 |
| **Other shares and holdings** | | | | |
| Kiinteistö Oy Torikyrö | 63.4% | 804 | 0,084 | 240 |
| Other housing companies | | | | 194 |
| Other shares and holdings | | | | 33 |
| **Total** | | | | **467** |

### 12. RECEIVABLES

| | 2006 | 2005 |
|---|---|---|
| Loan receivables | | 750 |
| | | 750 |
| **Receivables from Group companies** | | |
| Loan receivables | 18 915 | 28 962 |
| **Long-term receivables, total** | **18 915** | **29 712** |

Division of accounts receivable into short- and long-term receivables has been adopted by the Group. The corresponding data has been changed accordingly.

| | 2006 | 2005 |
|---|---|---|
| **Short-term receivables** | | |
| Accounts receivable | 3 | 3 |
| Loan receivables | 84 | 384 |
| Prepaid expenses and accrued income | 1 091 | 1 527 |
| | 1 178 | 1 914 |
| **Receivables from Group companies** | | |
| Accounts receivable | 129 | 237 |
| Loan receivables | 26 653 | 14 379 |
| Prepaid expenses and accrued income | 12 841 | 3 285 |
| | 39 623 | 17 901 |
| **Short-term receivables, total** | **40 801** | **19 815** |
| **Prepaid expenses and accrued income** | | |
| Personnel expenses | 156 | 5 |
| Interest income | 1 385 | 1 572 |
| Income taxes | 528 | 1 041 |
| Indirect taxes | 392 | 431 |
| Group contribution | 11 450 | 1 000 |
| Others | 20 | 763 |
| **Prepaid expenses and accrued income, total** | **13 931** | **4 812** |

### 13. SHAREHOLDERS´ EQUITY

| | 2006 | 2005 |
|---|---|---|
| Share capital 1 January | 12 696 | 12 696 |
| Share capital 31 December | 12 696 | 12 696 |
| | | |
| Share premium account 1 January | 25 270 | 25 270 |
| Share premium account 31 December | 25 270 | 25 270 |
| | | |
| Retained earnings 1 January | 69 943 | 58 474 |
| Dividends | –13 433 | –5 531 |
| Dividends not drawn | 28 | |
| Retained earnings 31 December | 56 538 | 52 943 |
| | | |
| Profit for the financial year | 8 209 | 17 000 |
| | | |
| Shareholders equity on 31 December | 102 712 | 108 869 |
| | | |
| **Account of distributable funds, 31 December** | | |
| Retained earnings | 56 538 | 52 943 |
| Profit for the financial year | 8 209 | 17 000 |
| Distributable funds | 64 747 | 69 943 |

### 14. ACCUMULATED APPROPRIATIONS

| | 2006 | 2005 |
|---|---|---|
| Accumulated depreciation difference 1 January | 78 | 150 |
| Increase (+). Decrease (–) | | –72 |
| Accumulated depreciation difference 31 December | 13 | 78 |

Accumulated appropriations in the Parent Company consist of accumulated depreciation difference.

## 15. SHORT-TERM LIABILITIES

| | 2006 | 2005 |
|---|---|---|
| **Loans from financial institutions** | | |
| Other liabilities | 169 | 160 |
| Accrued liabilities and deferred income | 1 060 | 7 011 |
| Accounts payable | 352 | 160 |
| **Short-term liabilities, total** | **1 582** | **7 330** |
| | | |
| **Liabilities to Group companies** | | |
| Accounts payable | 97 | 9 |
| Other liabilities | 22 501 | 26 203 |
| Accrued liabilities and deferred income | 55 | 35 |
| **Liabilities to Group companies, total** | **22 653** | **26 247** |
| | | |
| **Short-term liabilities, total** | **24 235** | **33 578** |
| | | |
| **Accrued liabilities and deferred income** | | |
| Salary and other periodised personnel | 940 | 922 |
| Interest | 19 | 20 |
| Direct taxes | | 5 769 |
| Other | 156 | 335 |
| **Accrued liabilities and deferred income, total** | **1 115** | **7 046** |

## 16. CONTINGENT LIABILITIES

| | 2006 | 2005 |
|---|---|---|
| **Contingent liabilities and liabilities not included in the balance sheet** | | |
| Leasing liabilities | | |
| With due date in the current financial year | 28 | 7 |
| With a later due date | 27 | |
| **Total** | **55** | **7** |

Normal conditions apply to the leasing agreements.

| | 2006 | 2005 |
|---|---|---|
| **Pledges** | | |
| On behalf of Group companies | 4 137 | 4 852 |
| | | |
| Repurchase obligations | | 1 591 |
| | | |
| Other liabilities | 10 | 23 |

## 17. VALUES OF THE UNDERLYING INSTRUMENTS OF DERIVATIVE CONTRACTS

| | 2006 | 2005 |
|---|---|---|
| **Currency derivatives** | | |
| Forward agreements | | |
| Market value | 7 082 | 5 001 |
| Positive fair value | 94 | |
| Negaitive fair value | –26 | –162 |

# Calculation of key ratios

**Equity ratio, % =** $\frac{\text{Equity}}{\text{Balance sheet total – advances received}}$ X 100

**Gearing, % =** $\frac{\text{Net interest-bearing liabilities}}{\text{Equity}}$ X 100

**Net interest-bearing liabilities =** Interest-bearing liabilities – interest-bearing receivables – cash and other liquid financial assets

**Return on equity (ROE) =** $\frac{\text{Profit of the period}}{\text{Equity}}$ X 100

**Return on invested capital (ROI) =** $\frac{\text{Profit of the period + interest and other financial expenses}}{\text{Balance sheet total – non-interest bearing liabilities (average)}}$ X 100

**Earnings per share (EPS) =** $\frac{\text{Profit of the period attributable to parent company´s shareholders}}{\text{Average number of shares for period excluding treasury shares}}$

**Equity per share =** $\frac{\text{Equity}}{\text{Number of shares outstanding at the end of period}}$

**Dividend per share =** $\frac{\text{Dividend distribution for the period}}{\text{Number of shares outstanding at the end of period}}$

**Dividend-to-earnings ratio, % =** $\frac{\text{Dividend per share}}{\text{Earnings per share}}$ x 100

**Effective dividend yield =** $\frac{\text{Dividend per share}}{\text{Share price at the end of period}}$ x 100

**Price/earning (P/E) ratio =** $\frac{\text{Share price at the end of period}}{\text{Earnings per share}}$

**Market capitalisation =** Total number of shares x share price at the end of period.

# Board's proposal to the annual general meeting

According to the consolidated balance sheet on 31 Dec 2006, equity amounts to EUR 64,746,666 of which distributable assets amount to EUR 64,746,666.

On 6 February 2007, dividend-entitling shares numbered 79,020,096.

The Board proposed to the Annual General Meeting a dividend of EUR 0.09 per share, that is, a total of EUR 7,111,809.32. This leaves EUR 57,634,857 of unused profit funds at the Parent Company

No substantial changes in the company's financial position have taken place after the closing date. The company's liquidity is good, and in the view of the Board of Directors the proposed dividend distribution does not threaten the company's solvency.

Helsinki 6 February 2007

| | |
|---|---|
| Carl-Johan Numelin | Christer Sumelius |
| Lars Hammarén | Carl-Johan Rosenbröijer |
| Heikki Mairinoja | Klaus Cawén |
| Claus von Bonsdorff | Jan Hasselblatt |
| Andreas Tallberg | |

Mika Seitovirta, President

The preceding financial statements have been prepared in accordance with Finnish Standards of Auditing. A separate Auditor´s Report concerning the performed auditing has been submitted today.

Helsinki, 6 February 2007

KPMG Oy Ab
Sixten Nyman, APA

# Auditors' report

**TO THE SHAREHOLDERS OF KYRO CORPORATION**

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Kyro Corporation for the period 1.1. – 31.12.2006. The Board of Directors and the President and Chief Executive Officer have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

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

**CONSOLIDATED FINANCIAL STATEMENTS**

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

**PARENT COMPANY'S FINANCIAL STATEMENTS, REPORT OF THE BOARD OF DIRECTORS AND ADMINISTRATION**

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

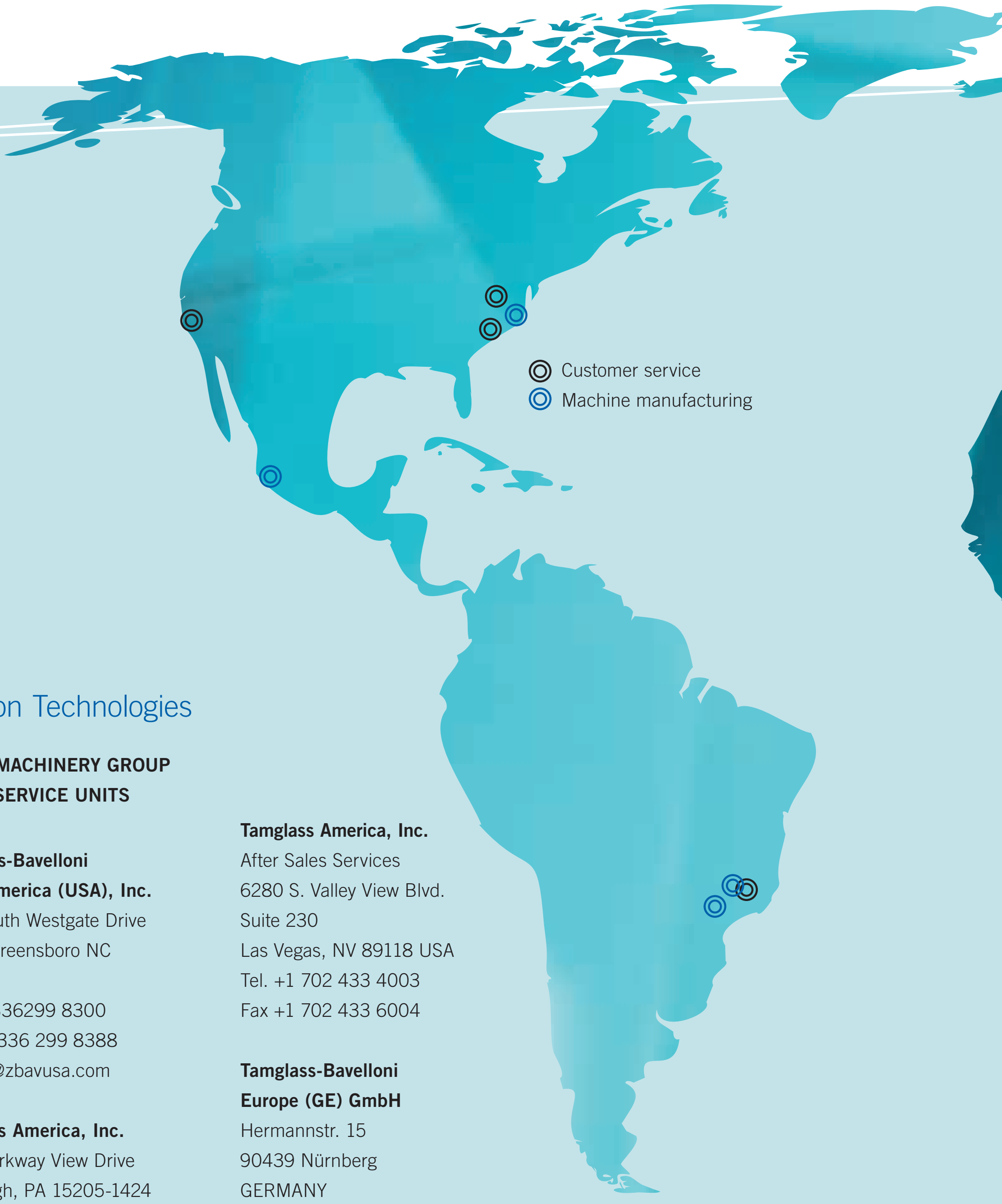
In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the President and Chief Executive Officer of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Helsinki 6 February 2007

KPMG Oy Ab
Sixten Nyman
Authorized Public Accountant

# Locations and addresses

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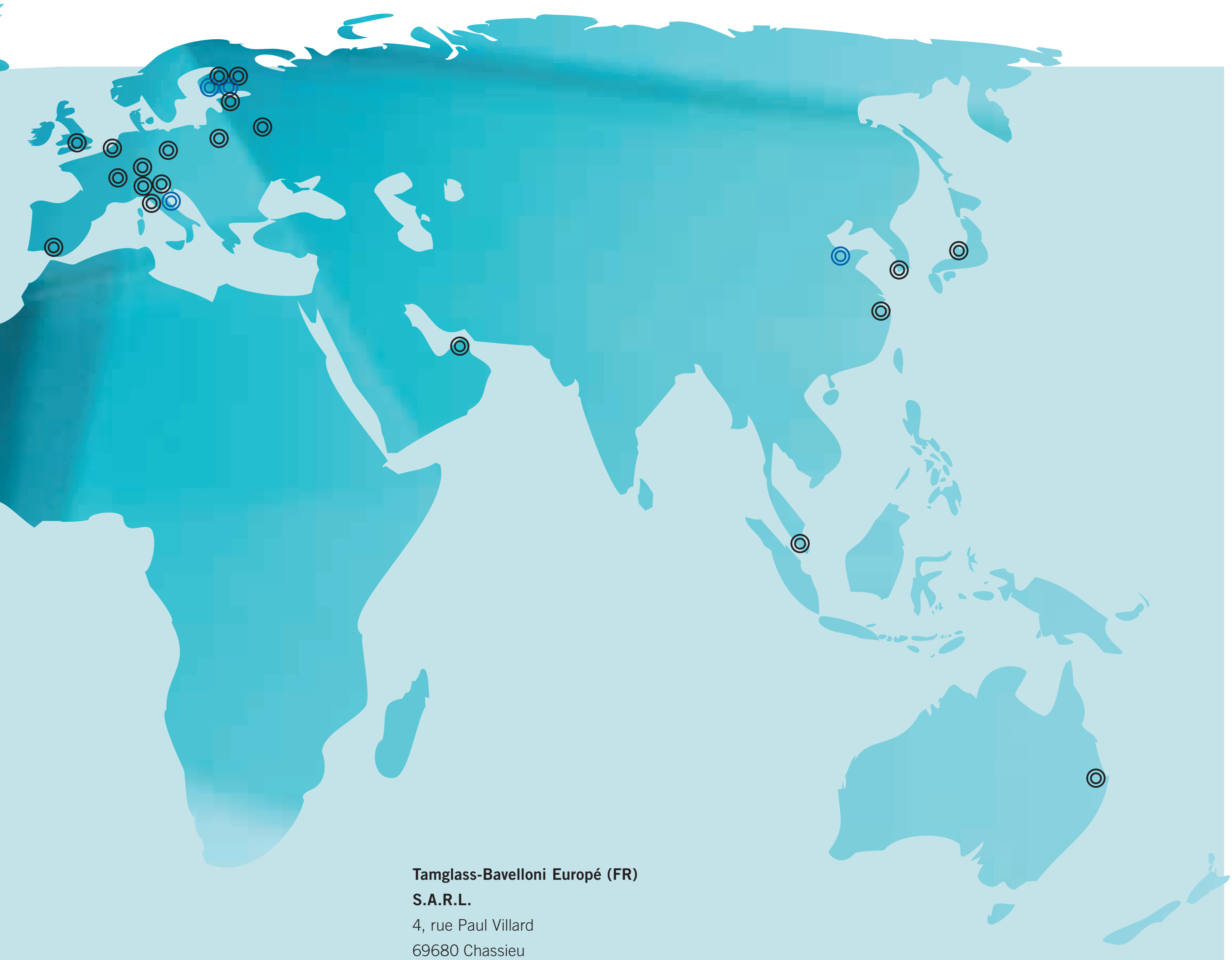

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