

**POWERING YOUR SUCCESS**



 ***EFORE***

**ANNUAL REPORT  
2004**



## Information for shareholders and investors

Efore Plc's registered office is in Espoo, Finland. Its business identity code is 0195681-3.

### Annual General Meeting

The Annual General Meeting of Efore Plc will be held on Thursday, December 16, 2004 at 6.00 pm at the following address: Radisson SAS Royal Hotel, Runeberginkatu 2, 00100 Helsinki, Finland.

Those shareholders who are listed in Efore's shareholders listing in Finnish Central Securities Depository Ltd by December 3, 2004 and who have given notification of their attendance no later than 4.00 pm on Wednesday, December 8, 2004 have the right to attend the Annual General Meeting.

Those intending to attend the Annual General Meeting are asked to notify Efore accordingly: Anu Virokannas, Efore Plc, P.O. Box 260, Quartetto Business Park, Linnoitustie 4A, FI-02600 Espoo, Finland, tel. +358 9 478 466, fax +358 9 478 46500, e-mail: anu.virokannas@efore.fi.

### Annual General Meeting and dividend payment in 2004

Annual General Meeting	December 16, 2004
Dividend ex-day	December 17, 2004
Dividend payment record date	December 21, 2004
Dividend payment	December 29, 2004

### Financial reports for fiscal year November 1, 2004 – October 31, 2005

Annual Report 2004	Week beginning December 13, 2004
Interim Report (3 mths)	Week beginning February 28, 2005
Interim Report (6 mths)	Week beginning May 30, 2005
Interim Report (9 mths)	Week beginning August 29, 2005

### Share data

Exchange listing	Helsinki Stock Exchange, Main List
Corporate identifier	EFO1V
Trading lot	100
Shares (Oct. 31, 2004)	20,149,024 shares



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# 2004 IN BRIEF

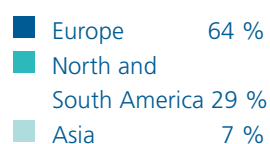
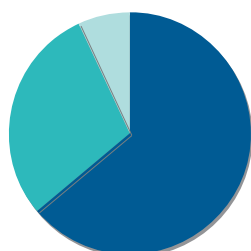
- Increase in net sales and operating profit
- An expanded customer base will ensure strong growth continues in 2005
- Cost-effective in-house production expanded in China and Estonia
- Shares now quoted on the Helsinki Stock Exchange Main List
- Two share issues in spring 2004

## Efore Group key figures

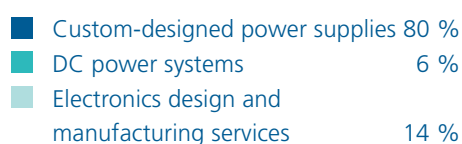
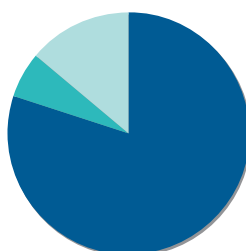
		<b>2004</b>	<b>2003</b>
Net sales	MEUR	73.2	64.3
Operating profit	MEUR	8.0	6.9
- % of net sales	%	10.9	10.8
Profit before extraordinary items	MEUR	7.8	6.8
Profit for the period	MEUR	7.5	7.8
Return on equity (ROE)	%	22.6	47.8
Return on investment (ROI)	%	23.2	37.1
Cash flow from business operations	MEUR	3.6	8.0
Net interest-bearing liabilities	MEUR	-22.3	-3.2
Solvency ratio	%	75.1	49.5
Gearing	%	-49.6	-18.2
Earnings per share, adjusted	EUR	0.39	0.41
Equity per share, adjusted	EUR	2.26	1.11
Dividends per share, adjusted	EUR	0.30 <sup>1)</sup>	0.19
Share price on October 31, adjusted	EUR	6.30	3.47
Market capitalization	MEUR	125.4	54.1
Personnel, average		512	411

<sup>1)</sup> Board proposal to AGM

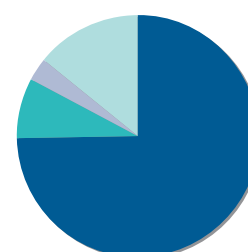
2004 net sales by market area



2004 net sales by product



2004 net sales by customer sector





# MISSION, VISION AND FINANCIAL GOALS

## Mission

Efore's mission is to become a preferred global partner for leading telecommunications, industrial automation, healthcare, engineering, and teleoperator customers by creating and manufacturing highly advanced custom-designed power conversion solutions and providing electronics design and manufacturing services.

## Vision and financial goals

### Efore's vision is:

- ▶ To rank among the world's top ten providers of custom-designed power conversion solutions.
- ▶ To become an established provider of electronics design and manufacturing services (EDMS).

### Efore's financial goals are:

- ▶ To achieve a net sales growth rate clearly above the average for the power supplies market.
- ▶ To continue to invest substantially in product development, aiming at an investment rate of over 5% of net sales.
- ▶ To expand production in countries with low production costs, to a level of over 65% of total production.



Efore's competitiveness is based on customer-focused service, excellence in electronics design, and cost leadership in manufacturing.

## STRATEGY AND VALUES

### Strategy

Efore's strategy is to concentrate on demanding custom-designed power conversion solutions, DC power systems and electronics design and manufacturing services (EDMS). In power supplies we have three main product ranges: 20–150 W, 150–750 W, and over 750 W power supply modules.

Our aim is to create long-term partnerships with customers. Our competitiveness is based on customer-focused service, excellence in electronics design, and cost leadership in manufacturing. As we grow, we will expand our sales network, product development work, and manufacturing facilities, ensuring they are close to our customers in Europe, North and South America, and Asia. This will enable us to serve our customers promptly, flexibly, and in the local language.

We will enhance our technological expertise by investing a substantial proportion of net sales in product development annually. About one fifth of our personnel will focus on developing new products and technologies and on upgrading existing products.

We will maintain and improve the competitiveness of our production by concentrating a majority of our manufacturing in countries with low production costs, such as China and Estonia. We will procure our components internationally and will always use the source with the lowest overall costs.

To balance market fluctuations we will give added weight to the industrial automation, healthcare, and engineering sectors in our business portfolio in addition to the telecommunications sector that dominates our business today.

### Values

The values guiding Efore's global operations are:

▶ **Customer-focused service**

We listen to our customers to understand their needs and solve their problems in a flexible and effective way.

▶ **Cooperation**

We work closely with our partners to achieve the best results and attain our common goals.

▶ **Developing expertise**

An expert and innovative staff who are constantly developing their professional skills is our most valued asset.

▶ **Openness**

Openness between partners is the basis for reliability and trust.

▶ **Profitability**

Our success is derived from our customers' success.







## REVIEW BY THE PRESIDENT AND CEO

Fiscal year 2004 was another year of significant growth for Efore. Net sales were up by 13.9% on the previous year, reaching a new record of EUR 73.2 million. We also increased our market share, which demonstrates correct strategy and successful actions. Alongside our existing world-class customers, we also have many new customers and contracts for new high-volume products. Our position in the power supplies sector is now considerably stronger than a year ago.

Growth has brought with it an improvement in profitability. Operating profit rose to EUR 8.0 million, which, as in the previous fiscal year, was more than 10% of net sales. This percentage was in line with our targets. Despite the strong net sales growth, our cash flow from business operations was again positive, thanks to cost-effective operations and successful management of working capital.

The fiscal year was also a significant one for Efore's shares. In March 2004, we successfully transferred to the Helsinki Stock Exchange Main List. Prior to this the share series were combined and a targeted issue made to the

previous series K shareholders. Later in the spring we organized a second targeted share issue for institutional investors. As a result, Efore is now in a position not only to pursue organic growth but to look at the potential for participating actively in the global consolidation process within the power supplies sector.

The start of the new fiscal year has also been marked by growth. The power supplies market is forecast to grow at an overall rate of 5–10% annually for at least the next five years. The demand for power supplies in telecommunications, which is our most important customer sector, is forecast to grow faster at about 5–15% per annum. The power need in third-generation network technology is almost twice as big as in second-generation technology. In the healthcare sector, the need for power supplies is forecast to grow at an annual rate of more than 10%. In electronics design and manufacturing services we have been successful in focusing on customer sectors with above-average growth. Consequently, I believe that Efore's target of significant net sales growth for fiscal year 2005 is realistic.

With satisfied customers and a range of new customers, as well as strong demand for our products, we are confident that Efore's growth will continue in 2005. The Group's strategy, expertise, and production will ensure that we can provide top-quality service to customers in the main market areas in Europe, North and South America, and Asia.

The strong growth outlook is supported by many other factors as well. After a determined and sustained effort, we have achieved a strong global position in the power supplies market. Market research by IMS in the DC/DC power supplies market shows that Efore is Europe's second largest and the world's tenth largest company. These are power supplies that ensure a suitable DC voltage for equipment. With a market share of about 5%, we are the world's tenth largest company in power supplies for wireless telecommunications networks. When all power supplies are included, Efore is ranked eleventh in Europe and twenty-fourth in the world. These rankings, based on 2003 figures, are likely to be even higher for 2004, due to the already achieved strong growth.

Our customers are world leaders in their own fields. Efore provides them with power supplies and electronics design and manufacturing services in all the main market areas on three different continents. We invest in the growth of our customers, and with excellent products and services we are able to attract new customers all over the world. It is especially gratifying that we were able to begin deliveries of new power supply products to one of the world's leading telecommunications network producers at the end of the fiscal year. This is a customer account that brings opportunities for significant organic growth. Other new contracts, particularly with healthcare equipment manufacturers, will ensure that growth continues, and at the same time will balance the demand fluctuations between the different customer sectors.

In recent years we have succeeded in expanding our production in low-cost countries. Additional investments were made during the 2004 fiscal year by doubling capacity at the Chinese plant and opening a new factory in Estonia. This means that about half of our present production capacity is now located in countries

with emerging markets. We have also continued to enlarge our network of top-quality partners for production, product development, and sales. Our own operations in conjunction with these networks will guarantee flexibility and rapid delivery for customers on three different continents.

Our future success will rely on constant efforts to ensure that Efore's operations continue to take account of the needs of our customers and partners. We will continue to focus on our unique expertise in power conversion solutions and electronics design. The success of this approach has been clearly evident in customer satisfaction surveys. According to the customer views expressed in our fall 2004 survey, we have improved our operations in almost all areas from production to product development and sales. The average ranking given by customers placed Efore above its competitors in eleven of the twelve different areas of operation.

With satisfied customers and a range of new customers, as well as demand for our products, we are confident that Efore's growth will continue in 2005. The Group's strategy, expertise, and production will ensure that we can provide top-quality service to customers in the main market areas. I also believe that net sales growth will ensure our profitability remains good. With growth in mind, March 2005 will be a good time to celebrate Efore's thirtieth anniversary.

May I take this opportunity to thank all our customers, suppliers, personnel, and other partners for their valued cooperation during the year. I would also like to thank our shareholders and backers for the confidence they have shown in Efore.

December 2004

Markku Hangasjärvi



## CUSTOMERS

Throughout its operations, Efore's priority is to provide customer-focused service. The aim is to build and maintain long-term partnerships with customers. Once a promise is given, it is kept. This applies to all offers, design, orders, deliveries, and maintenance, and covers all products and services. Efore's design and manufacturing is based on three continents, thus guaranteeing high-quality service close to the customer. The same high-quality service is provided to customers anywhere in the world.

Efore's products and services are marketed through direct sales, dealer networks, and equipment manufacturers, and via brand label customers seeking to complement their product ranges with Efore's products. Through its sales networks, the Group serves customers in more than 20 countries worldwide.

Efore's power supplies, DC power systems, and electronics design and manufacturing services are provided to customers in the telecommunications, industrial automation, healthcare, and engineering sectors. The Group's customers are international leaders in their respective fields.

Typical applications of Efore's products include mobile-phone base stations and fixed data transmission network exchanges and routers in the telecommunications sector, robots and various automation systems in the industrial sector, and anesthesia equipment and dental x-ray equipment in the healthcare sector.

Efore's customers include Nokia, Ericsson, Alcatel, Siemens, and Tellabs in the telecommunications sector, ABB, Honeywell, and Metso Automation in the industrial automation sector, General Electric, Abbot Laboratories, Thermo, and Planmeca in the healthcare sector, and Kone, Patria, and Wärtsilä in the engineering sector.

In addition to providing customers with new power conversion solutions, Efore also offers upgrading of existing solutions to meet changing requirements, such as new environmental legislation. By operating close to its customers Efore is also able to carry out any local repairs

and maintenance, both quickly and flexibly.

Extensive annual customer satisfaction surveys form part of Efore's service development process. The results of the fall 2004 survey show that, once again, customers highly appreciate Efore's production quality, willingness to serve, accuracy and clarity of offers, technical quality of products, availability of technical support, production flexibility, and product development expertise. The survey also revealed that improvements could be made in keeping to the product development schedule and in elaborating product development documentation further. Based on customer satisfaction survey results, Efore has already started internal development projects to improve and speed up product development processes.





Unequalled product-development expertise in power supplies and electronics is one of Efore's key competitive strengths. This expertise is unique and is the result of thirty years' experience and the highest standard of training.

## PRODUCT DEVELOPMENT

The development of new products and systems is a key investment priority at Efore. In line with the Group's strategy, its investment in product development each year is more than 5 percent of net sales. This ensures that Efore is in a position to provide its customers and partners with state-of-the-art products and solutions.

Efore spent a total of EUR 4,3 million, or 5,9 percent of net sales, on research and product development in 2004. The Group's development work on power supplies and DC power systems is concentrated in Finland, the USA, and China. Power Innovation, the Group's German affiliate company, also carries out some product development work. This allows the special features and requirements relevant in different parts of the world to be taken into account. Having locations close to the customer enables quick and seamless cooperation with customers' own product development organizations, which is essential when designing customer-designed products.

In 2004, Efore employed more than 50 designers and over 30 other professionals in its power electronics product development work.

The Group's solid product development expertise in power supplies and electronics is one of its main competitive strengths. Efore's expertise is unique, the result of thirty years in the business and the continuous acquisition of skills and experience. This conclusion is supported by the results of the fall 2004 customer surveys.

The aim of product development is to enhance the Group's competitiveness and add to the range of products it can offer its customers. The development work also ensures that Efore's new products meet the current and future environmental, seismic, and recycling requirements for electronic equipment.

Efore's research work focuses on new power conversion technology platforms, applications, and materials. Current development projects aim to achieve greater power density, lower voltage levels, and, correspondingly, higher currents. The need for several output voltages has also grown, and the time-to-market for new prod-

ucts has been reduced considerably. The use of materials is minimized in all Efore products. All new products are lead-free and meet the other requirements of the RoHS (Restriction of Hazardous Substances) Directive. In mechanical, thermal, and electronic design, the Group uses 3D CAD equipment and the latest simulation tools.

Most of Efore's product development work is concerned with new customer-specified power conversion solutions, although a significant amount of development work also focuses on new DC power systems. The aim is to continuously bring new products to market and expand Efore's product range. The new EPOS Compact DC power system products were launched during 2004.

Efore has its own product-testing laboratories, in which the success of product designs can be verified. All power supplies and other electronics equipment designed by Efore are type tested in the laboratories; this covers operating tests and safety, environmental conformity, and reliability tests. Electromagnetic compatibility testing is also undertaken. The laboratories are located in Finland, the USA, and China. The Group's German affiliate company, Power Innovation, has its own laboratory.

Following the test results, Efore's laboratories then apply for the relevant international and national electrical equipment approvals for the product designs. Efore's long experience and its very valuable network of partnerships with international approval authorities aid minimization of delays in the approval process.



## PRODUCTION

The Group's strategy is to manufacture Efore-designed products and systems primarily in its own production plants. However, to ensure the flexibility of operations, some production is outsourced to Efore's subcontractor partners. Both in-house and outsourced production has been deliberately expanded in Estonia, and China, as they are all countries with low labor costs. Product quality is monitored against the same requirements and criteria, regardless of whether the products are manufactured by Efore or outsourced.

Efore has production facilities in Saarijärvi (Finland), Pärnu (Estonia), Irving (Texas, USA), and Suzhou (China). Efore-designed products are also manufactured by the Group's German affiliate company Power Innovation, and manufacturing partners in Estonia, China, and Brazil.

In 2004, Efore's new production plant in Estonia began operating, and production in China was increased by doubling both the factory size and the production equipment. Production capacity in the United States was also expanded. In Finland, production investment focused on raising the level of automation.

Efore's production plants all have similar production facilities. Each factory has modern production lines based on automatic surface-mounting and wave-soldering technologies, as well as automatic testing lines. Efore's products are also standardized, making the manufacture of all its products and systems possible at any of the Group's production plants. This enables flexible production close to the customer and allows production to be optimized. If necessary, production capacity can also be increased rapidly and at reasonable cost.

Efore's strategy is to arrange production in such a way that major product series and products requiring a higher input of manual work are made in China and Estonia, while the role of the Saarijärvi plant is to develop and manufacture demanding new products and DC power systems for European markets. The Irving plant has the same role on the American market. Common to

all of Efore's production plants is a high degree of cost-consciousness and a determined effort to maintain cost leadership in production.

Following completion of the necessary development work, nearly all of Efore's production plants and subcontractor partners already now meet the requirements of the RoHS (Restriction of Hazardous Substances) Directive, which will enter into force throughout the EU in 2006. Under the Directive, production processes will have to be lead-free. By meeting the Directive's requirements early, Efore has a significant competitive edge over other companies in the sector.

Global expertise in materials procurement is essential for the cost-effective production of power supplies, DC power systems and other electronics. As material prices constantly change, stock turnover is important. With Asia being the global focus of electronic component manufacturing, Efore's Chinese subsidiary has a key role in materials procurement for the entire Group.



Efore is already equipped for lead-free production under the EU's RoHS Directive.

## QUALITY AND ENVIRONMENT

One of Efore's key competitive advantages is the high quality of its products. The Group has an ISO-9001/2000 quality certificate for all its business locations. It also has ISO 14001 certification for its environmental management system in Finland and China, and the same certification should also apply to Efore's other business locations by the end of 2004. In addition to Efore's internal auditing, a number of customers also audit our operations.

Efore's quality policy sets out goals that include world-class operation, responsibility and accountability, transparent cooperation, and continuous development. These are all in line with the Group's corporate values.

Efore considers environmental requirements throughout its operations, as set out in the Group's environmental management policy. The main environmental consideration is the recycling of electronics waste. This is done in partnership with companies that specialize in electronics waste recycling and in accordance with the EU's WEEE (Waste from Electrical and Electronic Equipment) Directive. Under the Directive, manufacturers and importers are responsible for waste management costs.

The EU's RoHS (Restriction of Hazardous Substances) Directive represents a new challenge. This restricts use of the following hazardous substances: lead, mercury, cadmium, hexavalent chromium, brominated fire retardants, polybrominated biphenyl (PBB), and polybrominated diphenyl ether (PBDE). The Directive will particularly affect the solder-joint technology and soldering materials used in manufacturing.

Efore's environmental goals include minimizing harmful substances in line with the RoHS Directive and recycling electronics waste under the WEEE Directive. In 2003, Efore launched a Group-wide program to ensure that all operations conform to the RoHS and WEEE Directives by the end of 2005. The Directives will enter into force on July 1, 2006.

In practice, nearly all of Efore's production plants are already equipped for lead-free production under the

RoHS Directive. We are also working in close cooperation with our suppliers and customers to improve environmental expertise throughout the entire chain.

Efore's environmental policy and the Group's corporate values form the foundation for supporting and guiding the actions of all Efore personnel. The details of the environmental policy can be viewed in full on the Efore website.

In 2004, Efore updated its risk management system as a Group-wide tool. The system now covers all operations. The updating of the system also covered occupational safety matters.





## PRODUCTS AND SERVICES

Efore's products are supplied to leading companies in the telecommunications, industrial automation, healthcare, and engineering sectors. The Group's products and services can be divided into three areas: custom-designed power supplies, DC power systems and standard products, and electronics design and manufacturing services (EDMS). All three areas make use of the Group's product development, manufacturing, and logistics expertise.

Power supplies are needed for AC and DC conversion and for power input in all kinds of electrical and electronics equipment. DC power systems convert the alternating current of the power grid into direct current suitable for use in electronics equipment. Inverters convert direct current from batteries into alternating current. Efore's power supply units are often used as components in equipment manufactured by customers. In these cases, the power supply unit takes care of the power input requirements and enables the equipment to function. The majority of net sales are derived from custom-designed power supplies.

In power supplies, Efore concentrates on three product ranges: 20–150 W, 150–750 W, and over 750 W power supply modules. Efore does not manufacture products such as battery rechargers for mobile phones or power supplies for desktop or portable computers.

### Custom-designed power supplies

Custom-designed power supplies are tailored precisely to the customer's needs, and cope with any special conditions in which the equipment is to be used. The key factors are high quality, short design-to-delivery time, flexibility, and competitive prices.

Design of a new power supply begins with a product development project undertaken jointly with the customer and continues with a production and maintenance contract covering the entire lifecycle of the product. Production quantities of custom-designed power supplies vary according to the product and customer, but will be in the range 1,000–100,000 units annually.

Efore constantly has product design projects in progress for dozens of customers, each project incorporating the latest technology. The power rating of these products varies in the range 20–6,000 W. In custom-designed DC power systems, the power rating can even exceed 100 kW. Seamless coordination between Efore's and the customer's product development, manufacturing, and logistics processes guarantees benefits and cost efficiency for both parties.

### DC power systems

Efore's DC power systems and standard products include an extensive selection of AC/DC rectifiers, DC/DC converters, and DC/AC inverters in different power classes. The product group also includes digital controllers, power distribution units, and cooling fans. A common technology base between Efore's custom-designed and standard power supplies allows considerable synergy benefits in design, component procurement, and manufacturing.

Power supplies are designed at Efore's design centers and manufactured in Efore's production plants or by its subcontractor partners. Some products are designed and manufactured at Efore's German affiliate company, Power Innovation.

DC power systems contain both an AC/DC power supply and a battery system for ensuring DC power input for the customer's equipment during any power interruption. DC power systems are used in, for example, mobile network base stations, power stations, and power transmission grids, and for various industrial applications. Inverter systems include equipment for obtaining AC power from the system's batteries, thus ensuring electrical supply for AC-powered equipment during power interruptions.

In spring 2004, Efore launched its new EPOS Compact DC power system range. These are the most efficient and most compact units on the market and have the greatest power density. Efore's competitive product range will allow it to meet the growing demand in the telecommunications sector in particular.



Our key strengths include high quality, short design-to-delivery time, flexibility, and competitive prices.

The DC power systems are designed and assembled as standard modules. The mechanical parts for the systems are also standardized. This allows customer-specific requirements to be taken into account in a flexible and cost-effective way. Adding necessary modules easily upgrades the power class of systems. The key features are the products' operating reliability, precise technical specifications, rapid delivery to the customer, and competitive prices.

### Electronics design and manufacturing services (EDMS)

Efore offers its customers a range of electronics design and manufacturing services. Solid expertise in product development and testing is one of Efore's key strengths and is particularly valued by customers that wish to outsource part of their production or are transferring to more demanding systems. A further strength is the Group's ability to serve customers on three different continents and especially in China.

Efore's electronics design service is based on its profound knowledge of component and production technologies, allowing equipment manufacture to be carried out cost effectively. Besides electronics design, Efore's services include software and mechanical design. Where necessary, Efore can also use the services of its subcontractor partners specializing in electronics design services. These partners are committed to Efore's quality standards and have worked successfully with Efore for many years. In addition, it is now possible for customers to arrange for the redesign of electronic equipment already in production, and Efore can also provide customers with a locally based equipment-maintenance service.

With its comprehensive expertise, Efore is able to design, manufacture, and test a wide variety of products. There are currently dozens of different products being manufactured, ranging from surface-mounted circuit boards and motherboards to controllers, frequency converters, and system products. Annual pro-

duction volumes for Efore's EDMS products are typically in the range 1,000–100,000 units. By contrast, production of consumer electronics products (which Efore neither designs nor manufactures) often runs to millions of units annually.

In electronics design and manufacturing services, Efore normally procures the materials needed for products, assesses the manufacturing impact of possible modifications, and carries out product maintenance and any redesigning during the entire product lifecycle. This allows customers to focus on improving the competitiveness of their own core operations and on growth opportunities.

In EDMS it is essential that the design and manufacture of products are carefully tailored to produce the desired properties for the end product, and that deliveries are punctual, quality is high, and prices competitive.







# PERSONNEL

The Efore Group's personnel totaled 567 (458) on October 31, 2004, and the average number of personnel during the fiscal year was 512 (411). The year-end total increased by 109 on the previous year's figure. In addition to its own employees, the Group also employed a total of 121 contract personnel at the end of the fiscal year. The geographical distribution of Efore's personnel on October 31, 2004 was as follows: Europe 381 (317), North and South America 102 (154), and Asia 205 (52). These figures include contract personnel.

## Personnel policy

Efore's personnel policy is based on the following shared values: customer-focused service, cooperation, developing expertise, openness, and profitability. The expertise of personnel, the maintenance of a good working atmosphere, and the Group's attraction as an employer are all a key part of Efore's personnel policy, which is set out in full on the Group's website.

## Personnel development

A personnel survey was conducted during the year to assess personnel development needs and to draw up plans based on these needs. In addition, supervisors were given training to enable them to communicate the company's strategy within their own units. Future personnel surveys will be timed in connection with the strategy review process. This will allow supervisors the opportunity to take into account any new emphases in the strategy as the result of the surveys are discussed within the teams. Personnel training was given on the subject of personal development reviews, because these are seen as the best tool for human resources management and supervisory work.

## Rewards and incentives

The Group's remuneration policy includes incentive based rewards. Efore's reward systems will ensure that all personnel are covered. These systems aim not only at improving financial performance but also at gaining the commitment of the personnel and reducing staff turnover.

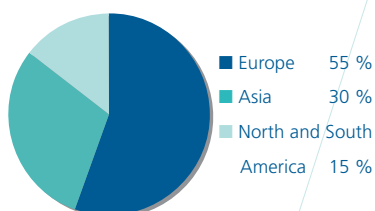
## Wellbeing at work and occupational safety

The working capacity and health of Efore's personnel are supported through cooperation with occupational healthcare staff. Workplace ergonomics have been studied by the occupational health service and Efore is constantly making improvements in this area to reduce the incidence of musculoskeletal diseases, which are typical in this sector. The company encourages its personnel to maintain and improve their physical fitness by subsidizing the costs of independent fitness activities and by organizing various sports events. Occupational health and safety is a key priority. No serious accidents occurred during 2004.

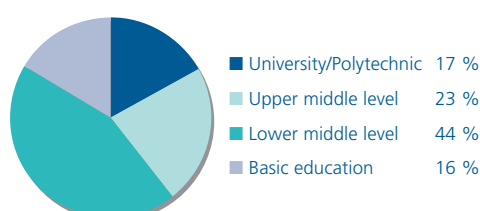
## Recruitment and job rotation

All Group vacancies are announced to existing employees and every effort is made to fill vacancies internally. Efore recruits personnel with the right professional skills and expertise needed for the job, as well as, the appropriate education and training, and good communication skills. To broaden the expertise of employees, job rotation is practiced both within and between units and by posting specialists to units for a fixed period.

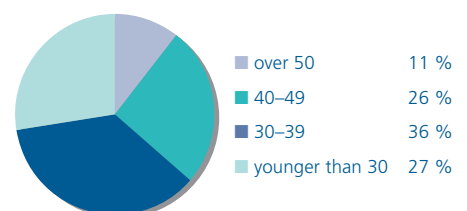
Personnel by region



Educational standard of personnel



Age structure of personnel



# BOARD OF DIRECTORS' REPORT

## GENERAL FEATURES OF EFORE GROUP

Efore Group's business consists of the design, manufacturing and marketing of power supplies and electronic products. Efore's operations are divided into custom-designed power supplies, DC power systems, and electronics design and manufacturing services (EDMS). The main market areas are Europe, North and South America, and Asia. Efore Group's parent company is Efore Plc. Its wholly owned subsidiaries are: Efore (UK) Ltd, Efore (USA), Inc., Efore (Suzhou) Electronics Co., Ltd. in China, Efore Ltda. in Brazil, and Efore AS in Estonia. Efore has a 25% minority holding in the German power electronics company Power Innovation GmbH. In addition, Efore has sales offices in Sweden and Germany.

At the end of the 2003 fiscal year, it was decided to concentrate the Group's Finnish operations under the parent company. As a consequence, it was decided to dissolve Efore Power Design Oy, a wholly owned subsidiary of Efore Plc. These actions were completed during the 2004 fiscal year.

## NET SALES AND FINANCIAL PERFORMANCE

Net sales for the fiscal year totaled EUR 73.2 million (EUR 64.3 million), representing a year-on-year increase of 13.9%. Net sales growth has been strong. Quarterly year-on-year net sales growth has been consistently positive for the past two fiscal years. The reasons for this include the recovery in the telecommunications network market and the signing of new customer agreements for custom-designed power supplies, DC power systems, and electronics design and manufacturing services (EDMS).

The distribution of fiscal year net sales by market area was as follows: Europe 63.5% (68.4%), North and South America 29.4% (28.5%), and Asia 7.1% (3.0%). Net sales distribution by customer sector was as follows: telecommunications 74.2% (77.2%), industrial automation 8.4% (9.7%), healthcare 3.3% (3.5%), and engineering 14.1% (9.5%). Net sales distribution by product category was as follows: custom-designed power supplies 80.0% (85.5%), DC power systems 6.3% (6.7%), and EDMS 13.7% (7.8%).

Operating profit for the fiscal year totaled EUR 8.0 million (EUR 6.9 million), which was in line with the target. Operating profit was affected slightly by the one-time costs incurred in the start-up of the new Estonian factory and the doubling of capacity at the Chinese factory. The impact of these costs was felt especially during the third quarter. Operating profit was then boosted in the final quarter by the changeover to a new inventory valuation principle: Acquisition cost of inventories now includes the fixed costs of procurement and manufacture. This change in the valuation principle improved the operating profit for the fiscal year by a one-time figure of EUR 0.6 million.

Profit before extraordinary items was EUR 7.8 million (EUR 6.8 million). A total of EUR 1.0 million was entered as financial expenses for combining the share series, transferring to the Helsinki Stock Exchange Main List, and conducting the share issues, which were all carried out during the fiscal year. Without this entry, the consolidated profit before extraordinary items would have been EUR 8.8 million (EUR 6.8 million).

The net profit for the fiscal year was EUR 7.5 million (EUR 7.8 million). This included tax receivables totaling EUR 0.7 million (EUR 1.5 million), of which EUR 0.5 million (EUR 1.4 million) is entered under extraordinary income. The consolidated return on investment was 23.2% (37.1%) and the return on equity 22.6% (47.8%). These two percentages were affected significantly by the share issues made during the fiscal year, which resulted in new capital totaling EUR 23.0 million.

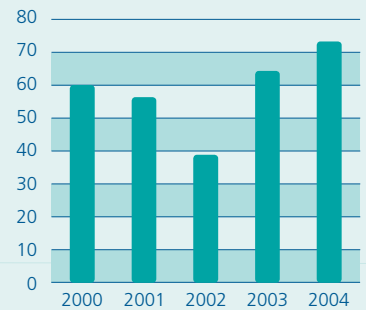
## BUSINESS OPERATIONS

### Sales and marketing

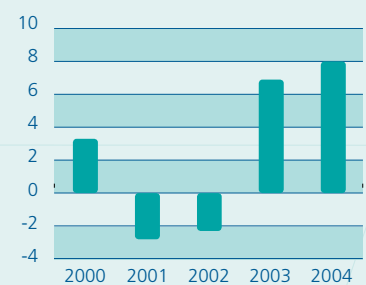
The growth in the market led to sales growth in custom-designed power supplies, DC power systems, and EDMS, and in all customer sectors.

Negotiations were conducted and contracts signed for a number of new products during the fiscal year, with both existing and new customers. Efore's market position as a supplier for the

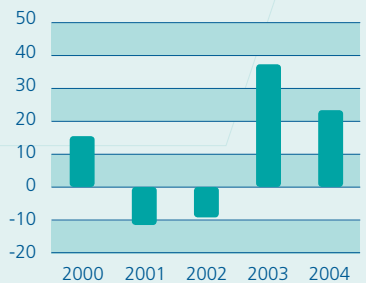
Net sales MEUR



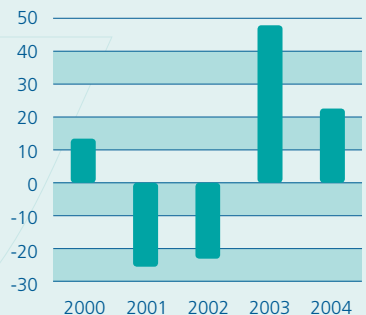
Operating profit MEUR



Return on investment (ROI) %



Return on equity (ROE) %



leading mobile phone network producers strengthened significantly.

In the engineering sector, cooperation was expanded in China, the United States, and Europe, with Kone Corporation in particular. Deliveries of a new, high-volume power electronics product used in elevators began during the second half of the 2004 fiscal year.

In the industrial automation sector, cooperation was expanded with, for example, the ABB Group.

The most important new customer agreements in the healthcare sector were signed with the Finnish company Planmeca and the American companies Abbott Laboratories and Thermo Corporation. The healthcare customer sector is expected to account for a higher proportion of net sales in the 2005 fiscal year.

In DC power systems, new customer agreements included those with the Greek broadband operator Teledome S.A. and the Hungarian company Pannon GSM (via a distributor).

To further the drive for new customers, Efore opened a sales office in central Germany in August 2004, which will be responsible for sales and marketing throughout the German-speaking regions of Central Europe. Additional sales personnel were also recruited in China, the United States, and Finland. The distributor and representative networks for DC power systems sold under Efore's own brand name were also expanded, particularly in Asia and the Middle East.

## Product development

A record number of new product development projects were launched during the fiscal year. The new products are expected to have a major impact on net sales growth in the current and subsequent fiscal years. A considerable number of these new products are concerned with the new 2.5G and 3G base station products and the fast-growing broadband solutions. Various products are also being planned for the healthcare, industrial automation, and engineering sectors.

Product development resources were increased, particularly in Finland and China. As recognition of the expansion of product development operations in China, Efore (Suzhou) Electronics Co., Ltd was granted the status of High Technology Company in Jiangsu Province. Product development in Finland, the United States, and China focused not only on creating new custom-designed power supplies but also, for example, developing new power supply technology platforms and lead-free and other products under the RoHS (Restriction of Hazardous Substances) Directive, as well as materials selection for these products. Investment in product development was also targeted at the design of the new EPOS Compact DC power system products. The first of these EPOS Compact products were released on the market in May 2004. Efore sells these products under its own brand name directly to telecommunications operators and other customers, which is a departure from the Group's other sales operations.

A total of EUR 4.3 million (EUR 3.8 million) was spent on developing new products and technology solutions during the fiscal year. At year's end there were 54 employees engaged in product development work and an additional 35 engaged in work directly assisting product development. In the past five fiscal years the Group has invested an average of 7% of net sales in product development.

## Improving cost-effectiveness

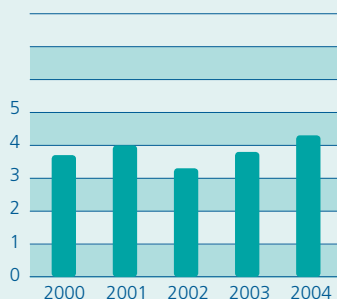
In the work to continuously enhance competitiveness, the main emphasis was on the cost-effectiveness of production, the transfer of production to countries with low production costs, materials procurement, control of working capital, and personnel development.

The doubling of production capacity at Suzhou in China was achieved as planned. A new production line based on automatic surface-mounting technology suitable for large series was introduced in August 2004, along with production testing equipment. The production floorspace was also doubled. This expansion of production in China is based on the growth in demand for Efore's products and services, the good availability of electronics components, and the advantageous cost structure. In terms of the total number of production personnel at year's end, China accounted for 34.3% (7.9%) of the Group's production.

Efore's competitiveness was also improved in Europe with the opening of a new factory at Pärnu in Estonia. The factory's first deliveries to customers were made in May 2004. In common with Efore's other production plants, the Pärnu plant is able to produce any of Efore's products.

With the expansion of production in China and volume production in Estonia, it is estimated that in the first six months of the 2005 fiscal year over half of Efore's products will already

Product development expenditures MEUR



be manufactured in countries with low production costs. Alongside Efore's in-house production, cooperation will also be developed with manufacturing partners located in countries with low production costs, including China, Russia, Estonia and Brazil. Efore's production strategy is based on operating its own production units while also making considerable use of manufacturing partners.

## INVESTMENT

There was a marked increase in investment in fixed assets during the fiscal year, totaling EUR 5.0 million (EUR 2.7 million), of which EUR 1.3 million (EUR 1.0 million) consisted of capitalization of product development costs. The increased level of investment was primarily due to the equipment needed and the modification of production facilities for the expansion of Efore's own production in China, Estonia, and the United States, and the new testing equipment at Efore's Saarijärvi plant in Finland. Investment was also made in the modifications required at Efore's new head office, principally concerning the product development laboratory.

In the 2005 fiscal year, Efore has decided to look at the scope for further expanding production capacity in Estonia and China. This will involve examining the options for obtaining additional facilities at Pärnu and at Suzhou and the investment required for the necessary new production and testing equipment.

The Group's aim of keeping investment at or below the level of planned depreciation will remain unchanged in the next few years.

## FINANCIAL POSITION

The Group's financial position during the fiscal year was good. Consolidated net financial expenses totaled EUR -0.2 million (EUR -0.1 million). A total of EUR 1.0 million was entered as financial expenses for the costs of combining the share series, the transfer to the Main List, and the share issues made. The Group's solvency ratio at the end of the fiscal year was 75.1% (49.5%) and its gearing was -49.6% (-18.2%). Consolidated net interest-bearing liabilities totaled EUR -22.3 million (EUR -3.2 million), indicating that the Group's interest-bearing cash reserves exceeded its interest-bearing liabilities by EUR 22.3 million.

Cash flow from business operations was EUR 3.6 million (EUR 8.0 million), and the change in cash flow amounted to an increase of EUR 17.4 million (EUR 3.3 million increase). Cash flow after investment amounted to EUR -1.7 million (EUR 6.1 million). Cash flow from financing activities, totaling EUR 19.1 million, consisted of EUR 23.0 million from the February and April share issues which raised the Group's shareholders' equity, share subscriptions with warrants totally EUR 0.5 million less EUR 3.0 million in dividend payments and EUR 1.5 million in non-current loan installments.

Liquid funds excluding undrawn credit facilities at year's end totaled EUR 24.4 million (EUR 7.2 million). The balance sheet total was EUR 60.3 million (EUR 35.5 million). The financial indicators for the fiscal year were greatly affected by the share issues of February and April 2004.

Consolidated working capital in the fiscal year amounted to 14.8% (9.6%) of net sales. The Group's aim is to ensure that this percentage remains below 10% in the near future.

## TAXATION

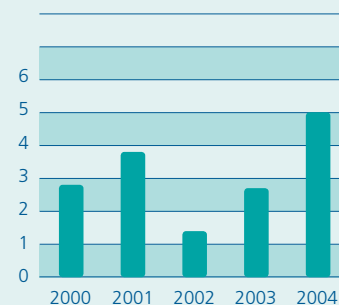
Consolidated taxes include the taxes payable on each separate company's taxable income for the fiscal year. Deferred tax receivables totaling EUR 0.7 million have been entered in the financial statements, of which EUR 0.5 million is entered under extraordinary items.

The Group's tax rate for the current and coming fiscal years is expected to remain significantly below the Finnish tax rate, particularly because of the low tax rates for the Chinese and Estonian subsidiaries.

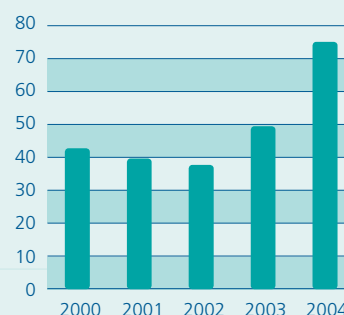
## PERSONNEL

The number of Group personnel averaged 512(411) during the fiscal year and totaled 567(458) at the end of the year. The number of personnel increased by 109 during the fiscal year. In addition to its own employees, the Group's contract personnel numbered 121 at the end of the fiscal year, an increase of 55 during the year. The geographical distribution of Efore's personnel at year's end was as follows: Europe 381 (317), North and South America 102 (154), and Asia 205 (52). These figures include contract personnel.

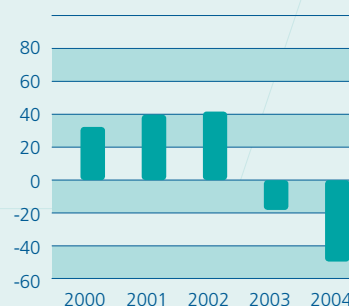
Gross investments MEUR



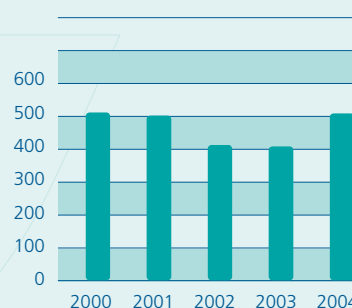
Solvency ratio %



Gearing %



Personnel, average



## ENVIRONMENTAL POLICY AND ENCUMBRANCES

The development of Efore's environmental systems is based in Finland on the international standard ISO 14001. It is the standard for all operations. Standard certification is valid in Finland and China facilities. The aim is to apply it to other facilities, too.

The recycling of electronics waste is done in partnership with specialized companies. The goal is to comply with the EU's WEEE (Waste Electrical and Electronic Equipment) Directive before it enters into force on July 1, 2006.

In practice, all Efore's production plants are already equipped for lead-free planning and production in accordance with EU's RoHS (Restriction of Certain Hazardous Substances) Directive.

The Board of Directors is not aware of any environmental risks or responsibilities having an impact on company's financial position.

## GROUP STRUCTURE AND ORGANIZATION

The reorganization of the Group took effect August 2004. The aim is to ensure more effective implementation of Group's strategy and to improve decision-making, as well as improving financial performance monitoring and the level of cooperation between the Group's different functions and geographical regions.

Efore has a matrix organizational structure in which its operations are divided into three geographical regions (Europe, North and South America, and Asia) and five customer-specific business units. The operations of the geographical regions and the business units are supported by a range of Group functions. These global functions, which are common to all parts of the Group are; supply management and sourcing, manufacturing operations, technology development, financing, information management, human resources, process development, and quality issues.

## BOARD OF DIRECTORS AND PRESIDENT AND CEO

The Efore Plc Annual General Meeting, held on February 3, 2004, elected five members and one deputy member to the company's Board of Directors: Hannes Fabritius, Timo Syrjälä, Matti Tammivuori, Veijo Komulainen, and Heikki Marttinen as members, and Pirkko Fabritius as deputy member. These persons all held the same positions on the Board in the previous fiscal year.

At its inaugural meeting following the AGM, the Board of Directors elected Hannes Fabritius as its chairman and Heikki Marttinen as deputy chairman. The Board convened 24 times during the fiscal year.

Markku Hangasjärvi continued as Efore's President and CEO during the 2004 fiscal year.

Efore complies with the corporate governance recommendation for Finnish listed companies by HEX Group, the Central Chamber of Commerce of Finland, and the Confederation of Finnish Industry and Employers.

## AUDITORS

The AGM appointed Authorized Accounting Firm Ernst & Young Oy as Efore's auditors, with Authorized Public Accountant Juha Nenonen as principal auditor.

## SHARES AND SHAREHOLDERS

The total number of Efore Plc shares at the end of the fiscal year, on October 31, 2004, was 20,149,024. On the same day, Efore's registered share capital was EUR 17,126,670.40.

In the first two quarters of the fiscal year, the company combined its share series and conducted a stock split and two targeted share issues. The Efore Plc Articles of Association were amended accordingly. In addition, the share capital was increased by EUR 92,820 (corresponding to 108,600 shares) during the fiscal year, on the basis of subscriptions under option rights.

The highest split-adjusted share price during the fiscal year was EUR 8.35 and the lowest price was EUR 3.37. The average price during the year was EUR 5.91 and the closing price was EUR 6.3. The market capitalization calculated at the final trading price of the shares was EUR 125.4 million.

The total number of Efore Plc shares traded on the Helsinki Stock Exchange during the fiscal year was 14.9 million and their turnover value was EUR 115.9 million. This amounted to 73.9% of the total number of shares at the end of the fiscal year. The number of shareholders grew significantly, totaling 3,329 (1,340) at the close of the fiscal year.

Efore Plc share quotation was transferred to Helsinki Stock Exchange Main List since March 1, 2004.

## EFORE SHARES HELD BY THE COMPANY

In previous fiscal years the company has purchased Efore shares in public trading, with the authorization of the Annual General Meeting. At the close of the fiscal year, the company held 238,400 Efore shares, with an equivalent book value of EUR 202,640 and a market value of EUR 1,501,920 calculated at the closing price for the period. A total of EUR 481,237.83 was paid for the shares. The Efore shares held by the company accounted for 1.2% of the share capital and votes at the end of the fiscal year.

## VALID AUTHORIZATIONS OF THE BOARD OF DIRECTORS

Following the share issue of April 2004, the company's Board of Directors is still authorized under the terms of an authorization decision made by the AGM of February 3, 2004 to increase the share capital through a new issue and/or to surrender Efore



shares held by the company, where the combined total of new shares subscribed and/or shares surrendered does not exceed 14,041 and their equivalent book value does not exceed a total of EUR 11,934.85. The Board of Directors has no valid authorization to purchase Efore shares.

## ADOPTION OF IFRS STANDARDS

Efore Plc's first financial statements based on the IFRS standards will be for the fiscal year beginning November 1, 2005. The reference year used will be the fiscal year beginning November 1, 2004. A preliminary study of the effects of the changes in accounting principles was made in 2002-2003, under the direction of an outside expert. The IFRS project itself was begun during the 2004 fiscal year. As the project progresses, the differences between the current accounting principles and the accounting principles for financial statements under the IFRS standards will be analyzed and new IFRS accounting principles determined for the consolidated financial statements. The project also includes analysis of the effects of the changes in accounting practice on the reference year opening balance sheet at November 1, 2004, and on the key figures and ratios. The project work is divided among different working groups, which have been given specific matters and standards to examine. To support the changeover process the company has also acquired a new information management system, which was introduced in autumn 2004.

The preliminary study concluded that the most important changes in adopting the IFRS standards in comparison with Efore's current reporting will be related primarily to the treatment of unrealized exchange rate differences on non-current loan receivables and financial leasing agreements, and to segment reporting.

## EVENTS FOLLOWING THE CLOSE OF THE FISCAL YEAR

At its meeting on November 25, 2004, the Board of Directors approved the share subscriptions that had been made for the company under option rights in October 2004 and which were still unapproved. The increase in Efore's share capital is EUR 39,100, corresponding to 46,000 shares, and this is scheduled for entry in the Trade Register on December 2, 2004. The shares subscribed give entitlement to any dividend paid on the 2004 fiscal year.

At the meeting of November 25, 2004, the Board of Directors proposed that the Annual General Meeting of December 16, 2004 increase the company's share capital through a bonus issue, in which one old share would confer entitlement, free of charge, to one new share of accounting counter value EUR 0.85. Following the bonus issue the company's share capital would be EUR 33,926,260.80 and the new total number of shares would be 39,913,248, on the assumption that the Efore shares held by the company are annulled in accordance with the proposal to be put to the AGM. It is also proposed that an amount corresponding to the increase in share capital be transferred from the premium fund to the share capital.

The Board of Directors proposed that the AGM annul a maximum of 238,400 Efore shares held by the company. It also proposed that the combined value of the shares to be annulled, which is a maximum of EUR 202,640.00, be transferred from the share capital to the premium fund, thus avoiding any reduction in shareholders' equity.

## OUTLOOK

Growth in the power supplies market is forecast to be 5–10% annually over at least the next five years. The demand for power supplies in the telecommunications sector, which is Efore's most important customer sector, is expected to grow even faster, at about 5–15% per annum. One of the reasons for this is that the new third-generation WCDMA network technology requires more power and therefore more power supplies. Other reasons include the construction and expansion of GSM and EDGE networks in, for example, China, India, Thailand, Russia, and South America. Investment in the fixed network and especially in broadband networks will also increase. In the healthcare sector the power supplies market is forecast to grow at an annual rate of over 10%, while in the industrial automation and engineering sectors, growth in the demand for power supplies is expected to average about 5%.

Efore aims to grow at a rate significantly higher than that of the power supplies market in general. According to the most recent estimates, the overall value of the global power supplies market was about USD 11.7 billion in 2003, indicating that there is ample scope for growth. Growth above the market average will be based on successful acquisition of new customers and an increase in market shares.

The short-term growth prospects for the EDMS market are also good, as customers continue to outsource their activities. The sector is forecast to grow overall by an annual 20–30% in the next few years. Efore's aim in the EDMS market is to achieve a growth rate, which is at least equal to the market average.

With new products and new customers, net sales growth in the current fiscal year is forecast to accelerate to a level significantly above that of the previous year. This growth expectation is due especially to deliveries of new volume products to the telecommunications sector, and to the growth levels expected for various existing and new customers. Sales growth and cost-effective operations should also mean an improvement in profitability. With this in mind, the fiscal year operating profit and earnings per share are forecast to be up on the figures for the 2004 fiscal year.

In addition to expanding its existing business, Efore is investigating the possibility to participate in the consolidation process within the power supplies sector.

## PROFIT AND LOSS STATEMENT 1,000 EUR

		Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
	Notes to the financial statements				
<b>NET SALES</b>	(1)	<b>73,208</b>	<b>64,267</b>	<b>61,226</b>	<b>55,963</b>
Change in stocks of finished and unfinished goods		1,183	502	696	616
Other operating income		306	397	487	545
Share of result of associated companies		6	0	0	0
Raw materials and services					
Raw materials and consumables					
Purchases during the financial year		40,963	36,116	40,481	37,421
Change in inventories		-970	-1,713	501	-163
Raw materials and consumables in total		39,993	34,402	40,982	37,258
External charges		1,997	1,764	1,104	794
		41,990	36,166	42,086	38,052
Personnel costs	(2)				
Wages, salaries and fees		13,366	12,120	8,598	7,583
Social security expenses					
Pension expenses		1,769	1,583	1,358	1,234
Other social security expenses		1,132	1,237	517	512
		16,267	14,940	10,473	9,329
Reduction in value	(3)				
Depreciation according to plan		2,508	2,157	2,817	2,109
Depreciation on Group Goodwill		16	16	0	0
		2,524	2,173	2,817	2,109
Other operating expenses	(4)	5,941	4,958	4,886	4,323
Share of loss of participating interests		0	17	0	0
<b>OPERATING PROFIT</b>		<b>7,982</b>	<b>6,910</b>	<b>2,146</b>	<b>3,311</b>
Financial income and expenses	(5)				
Income from group undertakings		0	0	1,263	0
Income from other investments and fixed assets		31	8	31	8
Other interest and financial income		1,116	306	1,187	225
Decrease in value of inv. held as non-curr.assets		0	0	0	-350
Interest expenses and other financial expenses		-1,314	-414	-1,282	-395
		-167	-101	1,200	-512
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>		<b>7,815</b>	<b>6,810</b>	<b>3,346</b>	<b>2,799</b>
Extraordinary items					
Extraordinary income	(6)	479	1,426	0	0
<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>		<b>8,294</b>	<b>8,236</b>	<b>3,346</b>	<b>2,799</b>
Appropriations					
Decrease in accelerated depreciation		0	0	377	-71
Income taxes					
Income taxes for the period		-968	-232	-511	-89
Income taxes for previous years		-6	-288	-6	0
Change in deferred tax liability		183	80	0	0
		-791	-439	-516	-89
<b>PROFIT FOR THE PERIOD</b>		<b>7,503</b>	<b>7,796</b>	<b>3,207</b>	<b>2,639</b>

## CASH FLOW STATEMENT 1,000 EUR

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Cash flow from business operations				
Payments from sales	71,177	62,422	58,918	54,852
Payments from other operating income	251	166	496	281
Costs of business operations	-65,275	-54,136	-55,634	-47,481
Cash flow from business operations before financing items and taxes	6,153	8,452	3,781	7,652
Paid interests on business operations	-1,301	-498	-1,273	-465
Received interests on business operations	-83	124	1,159	175
Paid direct taxes	-1,194	-145	-1,066	0
Cash flow before extraordinary items	3,575	7,933	2,601	7,362
Cash flow from extraordinary business operations	0	0	0	0
Cash flow from business operations (A)	3,575	7,933	2,601	7,362
Cash flow from investments				
Received cash in merger	0	0	300	0
Investments on tangible and intangible assets	-5,312	-3,013	-4,178	-3,027
Income from sale of tangible and intangible assets	24	1,182	24	1,013
Increase in other investments	0	-51	-26	-51
Interest income from investments	31	8	31	8
Dividend income from investments	1	4	1	4
Cash flow from investments (B)	-5,256	-1,870	-3,849	-2,052
Cash flow from financing				
Directed share issue and subscription of shares with warrants	23,545	0	23,545	0
Decrease in current liabilities	0	-883	0	-883
Decrease in non-current liabilities	-1,509	-1,926	-1,509	-1,926
Dividends paid	-2,966	0	-2,966	0
Cash flow from financing (C)	19,070	-2,809	19,070	-2,809
Change in cash flow (A+B+C): increase (+), decrease (-)	17,389	3,254	17,822	2,501
Cash in hand and at banks on Nov. 1, 2003	7,204	3,588	5,336	2,473
Non-monetary changes	-154	362	0	362
Cash in hand and at banks on Oct. 31, 2004	24,439	7,204	23,158	5,336
	17,389	3,254	17,822	2,501

## BALANCE SHEET 1,000 EUR

	Notes to the financial statements	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
(7)					
Intangible assets					
Development expenses		2,401	1,948	4,564	3,789
Intangible rights		160	130	146	115
Group Goodwill		38	53	0	0
Other capitalized long-term expenses		465	64	1,502	64
		3,064	2,195	6,212	3,968
Tangible assets					
Machinery and equipment		5,948	4,890	3,383	3,276
Other tangible assets		573	362	29	9
Advance payments and constructions in progress		138	237	138	237
		6,659	5,489	3,550	3,522
Financial assets					
(8)					
Holdings in Group companies		0	0	1,071	3,110
Receivables from Group companies		0	0	5,357	5,854
Holdings in participating interests		77	71	361	361
Receivables from participating interests		102	102	102	102
Other shares and similar rights of ownership		30	32	30	30
		210	205	6,922	9,457
<b>CURRENT ASSETS</b>					
Stocks					
Raw materials and consumables		7,941	6,971	3,353	3,854
Work in progress		647	209	261	145
Finished goods		2,364	1,616	1,872	1,291
Advance payments		0	3	0	0
		10,952	8,799	5,485	5,290
Non-current receivables					
(9)					
Prepayments and accrued income		76	0	0	0
Deferred tax assets		1,877	1,450	0	0
		1,953	1,450	0	0
Current receivables					
Trade receivables		8,480	6,441	6,060	4,938
Receivables from Group companies		0	0	3,066	705
Receivables from participating interests		79	84	79	84
Loan receivables		1	0	0	0
Other receivables		312	1,951	312	1,925
Prepayments and accrued income		4,148	1,728	3,816	1,500
		13,021	10,204	13,334	9,152
Investments					
(10)					
Own shares		481	481	481	481
Other shares and similar rights of ownership		432	22	432	22
Other securities		590	542	590	542
		1,503	1,045	1,503	1,045
Cash in hand and at banks		22,936	6,159	22,136	4,291
<b>TOTAL ASSETS</b>		<b>60,297</b>	<b>35,546</b>	<b>59,142</b>	<b>36,725</b>

## BALANCE SHEET 1,000 EUR

	Notes to the financial statements	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
<b>LIABILITIES</b>					
<b>SHAREHOLDERS' EQUITY</b>					
	(11)				
Share capital		17,127	13,830	17,127	13,830
Premium fund		20,078	1	20,077	0
Other funds					
Fund of own shares		481	481	481	481
Reserve fund		167	167	0	0
Other funds		130	77	0	0
Retained earnings		-85	-4,517	2,829	3,155
Profit (loss) for the period		7,503	7,796	3,207	2,639
		45,401	17,835	43,721	20,105
<b>APPROPRIATIONS</b>					
	(12)				
Depreciation		0	0	0	377
		0	0	0	377
<b>CREDITORS</b>					
	(14)				
<b>Non-current creditors</b>					
Loans from credit institutions		892	1,372	892	1,372
Pension loans		0	681	0	681
Liabilities to Group companies		0	0	0	137
Deferred tax liability	(13)	0	109	0	0
		892	2,162	892	2,190
<b>Current creditors</b>					
Loans from credit institutions		1,265	1,626	480	766
Pension loans		0	374	0	374
Trade payables		8,436	9,035	4,674	5,813
Liabilities to Group companies		0	0	5,643	3,503
Liabilities to associated companies		137	51	137	51
Other liabilities		526	418	516	245
Accruals and deferred income		3,641	4,045	3,080	3,301
		14,005	15,549	14,530	14,053
<b>TOTAL LIABILITIES</b>		<b>60,297</b>	<b>35,546</b>	<b>59,142</b>	<b>36,725</b>



# ACCOUNTING PRINCIPLES

Efore Group's consolidated financial statements have been prepared in accordance with accounting principles defined in the Finnish Accounting Act, which came into effect in 1998.

## Scope of the consolidation and accounting principles applied

The consolidated financial statements cover the parent company Efore Plc and all the enterprises in which the parent company held, directly or indirectly, more than 50% of the votes conferred by shares or holdings at the close of the fiscal year.

The consolidated accounts have been compiled using the acquisition cost method. The amount of the acquisition cost of the subsidiaries in excess of their shareholders' equity at the time of acquisition is shown on the balance sheet as a separate item under Group goodwill and has been amortized according to plan over a period of five years. All intracompany transactions, unrealized margins on internal deliveries, receivables and liabilities, and internal profit distribution have been eliminated.

The affiliated company Power Innovation GmbH has been consolidated using the equity method.

## Translation of the financial statements of foreign subsidiaries

In the consolidated accounts the balance sheet items of the foreign subsidiaries have been translated into euros using the European Central Bank middle rates quoted on the balance sheet date. The profit and loss statements have been translated into euros using the average rates of exchange for the fiscal year calculated on the basis of the European Central Bank middle rates for each month. The translation differences arising from this, as with the translation differences for shareholders' equity, are presented in the balance sheet liabilities under the item 'retained earnings'.

## Foreign currency items

Transactions in foreign currencies have been recorded at the rate of exchange prevailing on the date of transaction. The outstanding receivables and liabilities in foreign currencies at the end of the fiscal year have been valued using the middle rates of exchange published by the European Central Bank on the balance sheet date. Exchange rate gains and losses relating to ordinary business operations have been adjusted against sales and purchases. Exchange rate gains and losses from financ-

ing have been entered under financial income and financial expenses. Unrealized exchange rate losses from non-current loan receivables have been entered in the 'prepayments and accrued income' item under assets in the balance sheet. The exchange rate differential of hedged items under assets has been corrected using the exchange rate differentials for derivatives taken to hedge currency positions.

## Fixed assets

The values of fixed assets are based on their historical cost. For physical fixed assets, straight-line depreciation according to plan is used, which is based on expected useful lifetime. Profit and loss from the sale of fixed assets are included in the operating result.

The expected useful lifetimes of different commodity groups are as follows:

Development expenses	3–5 years
Intangible rights	5 years
Other capital expenditure	5–10 years
Group goodwill	5 years
Buildings and constructions	15 years
Machinery and equipment	3–10 years
Other tangible assets	5–20 years

## Inventories

The value of inventories in all Group companies includes not only variable costs but also part of the purchasing and manufacturing fixed costs. The weighted average cost was used in valuation of the raw materials included in inventories. Non-marketability deductions have been made on obsolete and slow-moving materials in stock based on the Group's value adjustment principles.

## Current investments

Securities held in current assets have been valued at acquisition cost or, if lower, at the market value on the balance sheet date.

## Own shares

The company's own shares have been entered in the balance sheet as current investments. The shares have been valued at acquisition cost or, if lower, at the market value on the balance sheet date. In the calculation of key figures, Efore's own shares have been eliminated from the shareholders' equity and from the total number of shares.

## Appropriations and deferred tax liabilities and assets

The appropriations in the consolidated balance sheet, consisting of accelerated depreciation, have been divided into shareholders' equity and deferred tax liability. The deferred part of the changes in depreciation reserve for fixed assets in the profit and loss statements of Group companies has been separated as a tax item for the period in the consolidated financial statements. Under the Companies Act, the appropriations included in the Group shareholders' equity are not distributable shareholders' equity.

The consolidated profit and loss statement includes an entry under extraordinary income for deferred tax assets amounting to EUR 0.5 million arising from previous fiscal years' eliminations of internal transactions affecting income, and an amount of EUR 0.2 million from the 2004 fiscal year, which was entered in income taxes. The non-current receivables in the consolidated balance sheet include a total of EUR 1.9 million in deferred tax assets arising from previous years' losses, eliminations of internal transactions affecting income, and timing differences.

## Net sales

In calculating net sales, indirect sales taxes and sales discounts as well as exchange rate losses arising from conversion of trade receivables in foreign currencies have been deducted from sales revenue.

## Product development expenses

Development expenses accruing income over three or more years, in the case of the largest individual projects, have been capitalized under intangible assets and amortized over 3–5 years. In this way, the company can more accurately divide development expenses over the fiscal years in which it accrues income. In capitalizing product development expenditure, the company has complied with the Ministry of Trade and Industry's decision on capitalizing development expenses in balance sheets. The capitalized direct product development expenditure for the Group amounts to EUR 2.4 million.

## Leasing

Leasing charges are treated as rent expenses.

## Pension costs

Pension costs have been charged against income in the

results, each in accordance with the appropriate practice of the countries concerned. The pension cover of the company's Finnish employees has been arranged through pension insurance policies.

## Income taxes

The consolidated financial statements include income taxes calculated on the basis of Group company results for the fiscal year and local tax regulations, and corrections for previous years' taxes. In the consolidated profit and loss statement, the change in deferred tax liabilities and assets for the period is included under taxes.

**NOTES TO THE FINANCIAL STATEMENTS**  
**OCTOBER 31, 2004 1,000 EUR**

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
<b>1. Turnover in market areas</b>				
by customers				
Finland	18,550	18,586	18,467	18,487
European Union	26,258	30,254	25,678	29,361
USA	18,484	9,164	12,607	4,722
Other countries	9,916	6,263	4,475	3,393
<b>Total</b>	<b>73,208</b>	<b>64,267</b>	<b>61,226</b>	<b>55,963</b>
<b>2. Personnel costs</b>				
Wages, salaries and fee	13,366	12,120	8,598	7,583
Pension costs	1,769	1,583	1,358	1,234
Other social security expenses	1,132	1,237	517	512
<b>Presented in the profit and loss account</b>	<b>16,267</b>	<b>14,940</b>	<b>10,473</b>	<b>9,329</b>
Management salaries and fees				
Members of the Boards of Directors, President and CEO, and Presidents	888	804	491	307
The President and CEO, Presidents and the members of the Board of Directors employed by the company are covered by an optional pension scheme.				
Total personnel, average				
Hourly paid	311	249	211	190
Salaried	201	162	83	72
<b>Total</b>	<b>512</b>	<b>411</b>	<b>294</b>	<b>262</b>
<b>3. Depreciation</b>				
Depreciation according to plan:				
Development expenses	843	584	1,527	1,070
Intangible assets	64	97	52	85
Group goodwill	16	16	0	0
Other capitalized expenditure	42	13	392	13
Buildings and constructions	0	11	0	11
Machinery and equipment	1,409	1,349	841	926
Other tangible assets	151	103	5	4
<b>Total</b>	<b>2,524</b>	<b>2,173</b>	<b>2,817</b>	<b>2,109</b>
<b>4. Other operating expenses</b>				
Other operating expenses are normal expenses.				
<b>5. Financial income and expenses</b>				
Income from group undertakings (dividend)				
From Group companies	0	0	1,263	0
	0	0	1,263	0
Interest income from non-current investments				
From others	31	8	31	8
	31	8	31	8
Income from non-current investments in total	31	8	1,294	8
Other interest and financial income				
From Group companies	0	0	141	0
From others	1,116	306	1,046	225
	1,116	306	1,187	225
Value reductions in non-current assets				
Value reductions in group holdings	0	0	0	-350
	0	0	0	-350

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Interest expenses and other financial expenses				
For Group companies	0	0	-2	-2
Others	-1,314	-414	-1,280	-393
	-1,314	-414	-1,281	-395
Financial income and expenses in total	-167	-101	1,200	-512
The item 'financial income and expenses' includes exchange rate gains/losses, net	-9	122	-1	122
<b>6. Extraordinary items</b>				
Extraordinary income				
Change in deferred tax assets	479	1,426	0	0
	479	1,426	0	0
<b>7. Non-current assets</b>				
Intangible assets				
Development expenses				
Acquisition cost on Nov. 1	3,990	2,991	7,234	5,329
Increases Nov. 1 - Oct. 31	1,346	1,051	2,428	2,032
Decreases Nov. 1 - Oct. 31	-50	-52	-125	-127
Acquisition cost on Oct. 31	5,286	3,990	9,536	7,234
Accumulated planned depreciation on Nov. 1	2,042	1,459	3,444	2,374
Depreciations Nov. 1 - Oct. 31	843	584	1,527	1,070
Accumulated planned depreciation on Oct. 31	2,885	2,042	4,972	3,444
Balance sheet value on Oct. 31	2,401	1,948	4,564	3,789
For the largest individual projects, product development costs accruing income for three or more years have been capitalized as development expenses. For the Group, capitalized direct development expenditure totals 2.4 MEUR.				
Intangible rights				
Acquisition cost on Nov. 1	624	581	462	422
Increases Nov. 1 - Oct. 31	94	42	83	40
Acquisition cost on Oct. 31	718	624	545	462
Accumulated planned depreciation on Nov. 1	494	396	347	262
Depreciations Nov. 1 - Oct. 31	64	97	52	85
Accumulated planned depreciation on Oct. 31	558	494	399	347
Balance sheet value on Oct. 31	160	130	146	115
Group goodwill				
Acquisition cost on Nov. 1	3,205	3,205	0	0
Acquisition cost on Oct. 31	3,205	3,205	0	0
Accumulated planned depreciation on Nov. 1	3,152	3,136	0	0
Depreciations Nov. 1 - Oct. 31	16	16	0	0
Accumulated planned depreciation on Oct. 31	3,167	3,152	0	0
Balance sheet value on Oct. 31	38	53	0	0
Other non-current investments				
Acquisition cost on Nov. 1	202	224	103	125
Increases Nov. 1 - Oct. 31	443	71	1,830	71
Decreases Nov. 1 - Oct. 31	0	-93	0	-93
Acquisition cost on Oct. 31	645	202	1,933	103
Accumulated planned depreciation on Nov. 1	139	132	39	32
Accumulated depreciation on decreases	0	-6	0	-6
Depreciations Nov. 1 - Oct. 31	42	13	392	13
Accumulated planned depreciation on Oct. 31	180	139	431	39
Balance sheet value on Oct. 31	465	64	1,502	64

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
<b>Tangible assets</b>				
<b>Land</b>				
Acquisition cost on Nov. 1	0	173	0	173
Decreases Nov. 1 - Oct. 31	0	-173	0	-173
Acquisition cost on Oct. 31	0	0	0	0
Balance sheet value on Oct. 32	0	0	0	0
<b>Buildings and constructions</b>				
Acquisition cost on Nov. 1	0	947	0	535
Decreases Nov. 1 - Oct. 31	0	-471	0	-471
Acquisition cost on Oct. 31	0	477	0	64
Accumulated planned depreciation on Nov. 1	0	477	0	64
Accumulated depreciation on decreases	0	-11	0	-11
Depreciations Nov. 1 - Oct. 31	0	11	0	11
Accumulated planned depreciation on Oct. 31	0	477	0	64
Balance sheet value on Oct. 31	0	0	0	0
<b>Machinery and equipment</b>				
Acquisition cost on Nov. 1	14,857	14,443	9,817	9,569
Translation difference	-289	-473	0	0
Increases Nov. 1 - Oct. 31	2,579	1 001	960	332
Decreases Nov. 1 - Oct. 31	-17	-114	-17	-84
Acquisition cost on Oct. 31	17,130	14,857	10,760	9,817
Accumulated planned depreciation on Nov. 1	9,967	8,978	6,541	5,635
Translation difference	-189	-323	0	0
Accumulated depreciation on decreases	-5	-36	-5	-20
Depreciations Nov. 1 - Oct. 31	1,409	1,349	841	926
Accumulated planned depreciation on Oct. 31	11,182	9,967	7,377	6,541
Balance sheet value on Oct. 31	5,948	4,890	3,383	3,276
<b>Other tangible assets</b>				
Acquisition cost on Nov. 1	1,302	1,109	660	661
Translation difference	-52	-66	0	0
Increases Nov. 1 - Oct. 31	387	263	26	3
Decreases Nov. 1 - Oct. 31	0	-4	0	-4
Acquisition cost on Oct. 31	1,636	1,302	686	660
Accumulated planned depreciation on Nov. 1	940	919	652	648
Translation difference	-28	-82	0	0
Depreciations Nov. 1 - Oct. 31	151	103	5	4
Accumulated planned depreciation on Oct. 31	1,063	940	657	652
Balance sheet value on Oct. 31	573	362	29	9
<b>Advance payments and work in progress</b>				
Acquisition cost on Nov. 1	237	0	237	0
Increases Nov. 1 - Oct. 31	-100	237	-100	237
Acquisition cost on Oct. 31	138	237	138	237
Balance sheet value on Oct. 31	138	237	138	237
<b>Financial assets</b>				
<b>Holdings in Group companies</b>				
Shares on Nov. 1	0	0	3,109	3,459
Increases Nov. 1 - Oct. 31	0	0	26	0
Decreases Nov. 1 - Oct. 31	0	0	-2,064	0
Reductions in value Nov. 1 - Oct. 31	0	0	0	-350
Balance sheet value on Oct. 31	0	0	1,071	3,109
<b>Receivables from Group companies</b>				
Receivables on Nov. 1	0	0	5,854	5,002
Increases Nov. 1 - Oct. 31	0	0	0	1,605
Decreases Nov. 1 - Oct. 31	0	0	-497	-752
Balance sheet value on Oct. 31	0	0	5,357	5,854



	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003	
<b>Holdings in participating interests</b>					
Shares on Nov. 1	361	262	361	262	
Translation difference	3	3	0	0	
Increases Nov. 1 - Oct. 31	0	99	0	99	
Accrued adjustment in the shareholders' equity of the participating interests on Oct. 31	-293	-276	0	0	
Share of result of participating interests	6	-17	0	0	
Balance sheet value on Oct. 31	77	71	361	361	
<b>Receivables from participating interests</b>					
Receivables on Nov. 1	102	102	102	102	
Balance sheet value on Oct. 31	102	102	102	102	
<b>Other shares and similar rights of ownership</b>					
Shares on Nov. 1	31	32	30	31	
Decreases Nov. 1 - Oct. 31	-1	-1	0	-1	
Balance sheet value on Oct. 31	30	31	30	30	
<b>Summary of fixed assets</b>					
Acquisition cost on Nov. 1	24,912	24,070	28,034	25,670	
Translation difference	-338	-536	0	0	
Increases Nov. 1 - Oct. 31	4,849	2,488	5,352	4,419	
Decreases Nov. 1 - Oct. 31	-455	-925	-2,803	-1,704	
Reductions in value of inv. held as non-current assets	0	0	0	-350	
Acquisition cost on Oct. 31	28,967	25,099	30,583	28,034	
Accumulated planned depreciation on Nov. 1	16,733	15,495	11,088	9,016	
Translation difference	-217	-406	0	0	
Accumulated depreciation on decreases	-6	-53	-5	-37	
Depreciations Nov. 1 - Oct. 31	2,524	2,173	2,817	2,109	
Accumulated planned depreciation on Oct. 31	19,035	17,210	13,900	11,088	
Balance sheet value on Oct. 31	9,932	7,889	16,683	16,947	
Book value on Oct. 31					
Production machinery and equipment	5,060	4,174	2,838	2,795	
<b>8. Shares and similar rights of ownership</b>					
	<b>Nominal value</b>	<b>Pcs</b>	<b>Group holding</b>	<b>Shareholders' equity held by Group 1,000 EUR</b>	<b>Book value 1,000 EUR</b>
<b>Subsidiary companies</b>					
FI-Systems Oy, Espoo	3,363.75 EUR	20	100 %	4	3
Efore (UK) Ltd., United Kingdom	25,000 GBP	25,000	100%	11	28
Efore (USA), Inc., Texas, USA	100 USD	10,000	100%	-694	0
Efore (Suzhou) Electronics Co., Ltd., China	1,050,000 USD		100%	5,362	705
Efore (Ltda.), Brazil	472,000 BRL		100%	319	309
Efore AS, Estonia	400,000 EEK	4,000	100%	-272	26
<b>Affiliated companies</b>					
Power Innovation GmbH, Germany	500,000 EUR	1	25%	77	361
<b>Other shares and similar rights of ownership owned by parent company</b>					
Book value (1,000 EUR)	30		30		
<b>Other shares and similar rights of ownership owned by subsidiaries</b>					
Book value (1,000 EUR)	0		1		

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
<b>9. Receivables</b>				
Non-current debtors				
Prepaid expenses and accrued income	76	0	0	0
Deferred tax assets	1,877	1,450	0	0
	1,953	1,450	0	0
Non-current receivables in total	1,953	1,450	0	0
Current receivables				
Trade receivables	8,480	6,441	6,060	4,938
Loan receivables	1	0	0	0
Other receivables	312	1,951	312	1,925
Prepaid expenses and accrued income	4,148	1,728	3,816	1,500
	12,942	10,120	10,189	8,363
Current receivables from Group companies				
Trade receivables	0	0	2,208	628
Loan receivables	0	0	700	0
Prepaid expenses and accrued income	0	0	158	77
	0	0	3,066	705
Current receivables from participating interests				
Trade receivables	0	7	0	7
Loan receivables	77	77	77	77
Prepaid expenses and accrued income	2	0	2	0
	79	84	79	84
Current receivables in total	13,021	10,204	13,334	9,151
Prepaid expenses and accrued income				
Group and parent company prepaid expenses and accrued income include the following key items:				
Distribution of personnel costs	131	92	53	61
Distribution of financial income	2	1	2	1
Income taxes	552	1	534	0
Income from company tax credit	1,144	0	1,144	6
Group companies	0	0	158	77
Associated companies	2	0	2	0
Capitalized exchange rate losses of long-term investments	1,580	1,084	1,580	1,084
Other items	814	549	502	349
	4,226	1,727	3,977	1,577
<b>10. Investments</b>				
Market value	2,582	1,416	2,582	1,416
Corresponding book value	1,503	1,045	1,503	1,045
Difference	1,079	371	1,079	371
<b>11. Shareholders' equity</b>				
Share capital on Nov. 1	13,830	13,830	13,830	13,830
Increase in share capital from 1998 option rights	93	0	93	0
Increase (direct share issue) February, 27	450	0	450	0
Increase (direct share issue) April, 30	2,754	0	2,754	0
Share capital on Oct. 31	17,127	13,830	17,127	13,830
Premium fund on Nov. 1	1	1	0	0
Increase in share capital from 1998 option rights	313	0	313	0
Increase (direct share issue) April, 30	19,764	0	19,764	0
Premium fund on Oct. 31	20,078	1	20,077	0
Fund for own shares on Nov. 1	481	119	481	119
Increases Nov. 1 - Oct. 31	0	362	0	362
Fund for own shares on Oct. 31	481	481	481	481

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
Reserve fund on Nov. 1	167	167	0	0
Reserve fund on Oct. 31	167	167	0	0
Other funds on Nov. 1	77	92	0	0
Other changes	52	-15	0	0
Other funds on Oct. 31	130	77	0	0
Retained earnings on Nov. 1	3,278	-4,788	5,795	3,155
Dividend distribution	-2,966	0	-2,966	0
Translation and exchange differences	-397	270	0	0
Retained earnings on Oct. 31	-85	-4,517	2,829	3,155
<b>Result for the financial year</b>	<b>7,503</b>	<b>7,796</b>	<b>3,207</b>	<b>2,639</b>

Shareholders' equity total 45,401 17,835 43,721 20,106

#### Calculation of distributable earnings

Retained earnings	-85	-4,517	2,829	3,155
Result for the financial year	7,503	7,796	3,207	2,639
Equity share of accelerated depreciation	0	-268	0	0
Distributable earnings from shareholders' equity	7,418	3,011	6,036	5,795

Parent company share capital is divided by share category as follows:

	2004 Pcs	EUR	2003 Pcs	EUR
Shares:	20,149,024	17,126,670.40		
Series A (1 vote/share)			7,605,488	12,929,329.60
Series K (20 votes/share)			529,616	900,347.20

The AGM of Feb. 3, 2004 took the decision to remove the distinction between the company's series A and K shares and to combine them into a single share series.

By the end of October, 2004, the Parent Company Efore Plc had with the Board's authorization repurchased 238,400 of its own shares at a total acquisition cost of 481,237.83 EUR, equivalent book value 202,640 EUR, book value 481,237.83 EUR.

#### 1998 option rights program

The AGM of 1998 approved an option rights program totaling 120,000 option rights, which, after the bonus issue of 2001, doubled to 240,000. After the share split of 2004 each option right gives entitlement to subscribe two shares, due to which a maximum of 480,000 Efore Plc shares can be subscribed with option rights. The subscription period ends on December 31, 2004. At the end of the fiscal year the subscription price was EUR 3.71 per share, and it will decrease by eventual dividend decided by the AGM of December 16, 2004.

#### 12. Appropriations

Accumulated difference between depreciation according to plan and depreciation allowance

Intangible rights	0	0	0	423
Machinery and equipment	0	0	0	-50
Other tangible assets	0	0	0	4
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>377</b>

#### 13. Deferred tax liabilities and receivables

Deferred tax liabilities

Accelerated depreciation	0	109	0	0
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#### 14. Liabilities

Non-current loans

Loans from credit institutions	892	1,371	892	1,371
Pension loans	0	681	0	681
Deferred tax liability	0	109	0	0
	892	2,162	892	2,053

Non-current liabilities to Group companies

Other liabilities	0	0	0	137
	0	0	0	137

Non-current liabilities in total 892 2,162 892 2,190

	Group 2004	Group 2003	Parent Company 2004	Parent Company 2003
<b>Current liabilities</b>				
Loans from credit institutions	1,265	1,626	480	766
Pension loans	0	373	0	373
Accounts payable	8,436	9,035	4,674	5,813
Other liabilities	526	418	516	245
Accruals and deferred income	3,641	4,045	3,080	3,301
	<b>13,868</b>	<b>15,498</b>	<b>8,750</b>	<b>10,499</b>
<b>Current liabilities to Group companies</b>				
Accounts payable	0	0	5,509	3,482
Other liabilities	0	0	5	7
Accruals and deferred income	0	0	128	15
	<b>0</b>	<b>0</b>	<b>5,643</b>	<b>3,503</b>
<b>Current liabilities to associated companies</b>				
Accounts payable	137	51	137	51
	<b>137</b>	<b>51</b>	<b>137</b>	<b>51</b>
<b>Current liabilities in total</b>	<b>14,005</b>	<b>15,549</b>	<b>14,530</b>	<b>14,053</b>
<b>Accruals and deferred income</b>				
Group and parent company accruals and deferred income include the following key items:				
Distribution of holiday pay	1,632	1,396	1,433	1,073
Distribution of other personnel costs	754	1,124	754	854
Distribution of financial expenses	24	27	22	22
Group companies	0	0	129	15
Income taxes from the period	138	89	118	89
Other items	1,092	1,410	753	1,263
	<b>3,641</b>	<b>4,045</b>	<b>3,209</b>	<b>3,316</b>
<b>15. Security, contingent liabilities and other commitments given</b>				
<b>Security given on own behalf</b>				
Corporate mortgages	6,740	6,740	6,572	6,572
Pledges given	67	10	11	2
Other contingent liabilities	130	127	130	127
<b>Security given on behalf of group companies</b>				
Corporate mortgages	0	0	168	168
Guarantees	0	0	953	1,040
<b>Securities given in total</b>				
Corporate mortgages	6,740	6,740	6,740	6,740
Pledges given	67	10	11	3
Guarantees	0	0	953	1,040
Other contingent liabilities	130	127	130	127
<b>Corporate mortgages as security for loans</b>				
Pension loans	0	1,055	0	1,055
Mortgages given	3,208	3,208	3,208	3,208
Loans from credit institutions	1,626	2,071	841	1,211
Mortgages given	3,532	3,532	3,364	3,364
<b>Mortgages as security for loans in total</b>	<b>6,740</b>	<b>6,740</b>	<b>6,572</b>	<b>6,572</b>
<b>Rent and leasing commitments on own behalf</b>				
Payable in current period	1,841	1,482	1,189	889
Payable later	2,936	760	2,318	343
<b>Other contingent liabilities</b>				
<b>Derivative contracts</b>				
Forward currency contracts:				
Fair value	1,570	2,323	1,570	2,323
Nominal value of underlying instruments	1,631	2,415	1,631	2,415

## EFORE GROUP KEY FIGURES

	2004	2003	2002	2001	2000
Net sales, MEUR	73.2	64.3	38.8	56.3	60.0
change, %	13.9	65.4	-31.1	-6.1	23.0
Operating profit (loss), MEUR	8.0	6.9	-2.3	-2.8	3.3
of net sales, %	10.9	10.8	-5.9	-5.0	5.5
Profit (loss) before extraordinary items, MEUR	7.8	6.8	-2.4	-3.5	3.2
of net sales, %	10.7	10.6	-6.1	-6.2	5.4
Profit (loss) before appropriations and taxes, MEUR	8.3	8.2	-2.4	-3.5	3.2
of net sales, %	11.3	12.8	-6.1	-6.2	5.4
Net profit (loss), MEUR	7.5	7.8	-2.4	-3.5	2.1
of net sales, %	10.3	12.1	-6.2	-6.2	3.4
Gross investments, MEUR	5.0	2.7	1.4	3.8	2.8
of net sales, %	6.8	4.2	3.6	6.7	4.6
Non-current assets, MEUR	9.9	7.9	8.3	9.4	8.4
Inventories, MEUR	11.0	8.8	6.6	7.9	11.2
Receivables, MEUR	14.9	11.7	6.2	6.6	12.8
Cash in hand and at banks, MEUR	24.4	7.2	3.6	5.1	4.3
Share capital, MEUR	17.1	13.8	13.8	13.8	6.9
Other shareholders' equity, MEUR	28.3	4.0	-4.4	-2.0	9.1
Non-current liabilities, MEUR	0.9	2.2	3.9	6.4	4.8
Current liabilities, MEUR	14.0	15.5	11.4	10.9	15.9
Balance sheet total, MEUR	60.3	35.5	24.7	29.0	36.7
Return on equity (ROE), %	22.6	47.8	-23.0	-25.4	13.4
Return on investment (ROI), %	23.2	37.1	-9.2	-11.5	15.4
Net interest bearing liabilities, MEUR	-22.3	-3.2	3.9	4.5	5.1
Gearing, %	-49.6	-18.2	41.6	39.7	32.2
Current ratio	3.46	1.69	1.44	1.80	1.78
Solvency ratio, %	75.1	49.5	37.8	39.7	42.8
Personnel, average	512	411	415	505	515
Product development expenditure (booked as costs), MEUR	3.0	2.8	2.4	3.1	3.1
of net sales	4.1	4.4	6.2	5.5	5.2
Product development expenditure (capitalized in balance sheet), MEUR	1.3	1.0	0.9	0.9	0.6
of net sales	1.8	1.6	2.3	1.6	1.0

## KEY FINANCIAL INDICATORS PER SHARE

	2004	2003	2002	2001	2000
Earnings per share, adjusted, EUR	0.39	0.41	-0.15	-0.22	0.13
Diluted earnings per share, adjusted, EUR	0.38	0.41	-0.15	-0.22	0.13
Dividend per share for the financial year, adjusted, EUR	0.30 *	0.19	0.00	0.00	0.10
Dividend per share, EUR	0.30 *	0.37	0.00	0.00	0.20
Dividend payout ratio, %	76.7	46.8	0.0	0.0	39.1
Effective dividend yield, %	4.8	5.5	0.0	0.0	2.8
Shareholders' equity per share, adjusted, EUR	2.26	1.11	0.60	0.74	0.98
Adjusted share price, October 31, EUR	6.30	3.47	0.51	0.93	1.85
P/E ratio	16.10	8.49	-3.34	-4.17	14.08
Market capitalization, MEUR	125.4	54.1	8.1	14.4	29.3
Dividend distribution, MEUR (for shares in circulation)	6.0 *	3.0	0.0	0.0	0.8
Shares traded (1,000 shares)	14,887	4,522	980	1,760	4,174
Value of trading, MEUR	115.9	13.4	1.5	6.6	28.6
Number of shares adjusted (1,000 shares)					
- average number	18,187	15,814	15,814	15,814	15,814
- actual number of shares on October 31	20,149	15,814	15,814	15,814	15,814
- actual number of shares excl. own shares	19,911	15,582	15,582	15,582	15,633
- diluted number of shares on October 31	19,978	15,582	15,582	15,582	15,633
Adjusted share price, EUR					
lowest	3.37	0.37	0.42	0.52	1.03
highest	8.35	3.55	1.32	2.16	3.33
at the end of fiscal year	6.30	3.47	0.51	0.93	1.85
average	5.91	1.24	0.77	1.29	1.92

In calculation of key figures and key indicators own shares have been excluded from number of shares and the fund of own shares has been excluded from shareholders' equity.

\* Proposal by the Board of Directors



# CALCULATION OF KEY FIGURES AND RATIOS

Return on investment (ROI), %	=	$\frac{\text{Profit before extraordinary items+interest and other financial expenses}}{\text{Balance sheet total-interest - free liabilities (average for fiscal year)}} \times 100$
Return on Equity (ROE), %	=	$\frac{\text{Profit before extraordinary items - income taxes}}{\text{Shareholders' equity + minority interests (average for fiscal year)}} \times 100$
Current ratio	=	$\frac{\text{Liquid asset + inventories}}{\text{Current liabilities}}$
Solvency ratio, %	=	$\frac{\text{Shareholders' equity+minority interests}}{\text{Balance sheet total - advance payments received - own shares}} \times 100$
Net interest-bearing debt	=	Interest-bearing debt - cash in hand and at bank and financial assets
Gearing, %	=	$\frac{\text{Net interest-bearing debt}}{\text{Shareholders' equity + minority interest - own shares}} \times 100$
Earnings per share	=	$\frac{\text{Profit before extraordinary items - income taxes } \pm \text{ minority interests}}{\text{Adjusted average number of shares - own shares}}$
Adjusted dividend per share	=	$\frac{\text{Dividend for the financial year}}{\text{The adjustment coefficients of the share issues that have been taken place during or after the end of fiscal year}}$
Dividend payout ratio, %	=	$\frac{\text{Adjusted dividend per share}}{\text{Earnings per share}} \times 100$
Effective dividend yield, %	=	$\frac{\text{Adjusted dividend per share}}{\text{Adjusted share price at balance sheet date}} \times 100$
Shareholders' equity per share	=	$\frac{\text{Shareholders' equity-own shares}}{\text{Adjusted average number of shares at balance sheet date}}$
P/E-ratio	=	$\frac{\text{Adjusted share price at balance sheet date}}{\text{Earnings per share}}$
Market capitalization =	=	Adjusted share price at balance sheet date x actual number of shares at balance sheet date

# SHARES AND SHAREHOLDERS

## Share capital and shares

Efore shares are quoted on the Helsinki Stock Exchange Main List under the code EFO1V. The trading lot is 100 shares. The total number of Efore shares is 20,149,024, and the equivalent book value of each share is EUR 0.85. Efore's registered share capital on October 31, 2004 was EUR 17,126,670.40. The shares are entered in the book-entry securities system.

## Targeted issue for series K shareholders, combining of share series, and stock split

The Annual General Meeting of February 3, 2004 took the decision to remove the distinction between the company's series A and K shares and to combine them into a single share series. As part of this process, a targeted share issue was made for series K shareholders, and the share capital was increased by EUR 450,173.60. The AGM also decided to conduct a stock split to double the number of Efore shares without increasing the share capital, and to remove the nominal value of the shares. These changes were entered in the Trade Register on February 27, 2004.

## Transfer to the Main List

The listing of Efore's shares was transferred from the Helsinki Stock Exchange I list to the Main List on March 1, 2004.

## Targeted share issue

Based on the authorization granted by the Annual General Meeting on February 3, 2004, the Board of Directors decided on April 28, 2004 to increase the company's share capital by EUR 2,754,000, or a total of 3,240,000 shares. The subscription price of the shares was set at EUR 6.95. The share issue was oversubscribed by a factor of about 1.8. The subscribers included more than 30 institutions. Approximately 62% of the shares were allocated to Finnish investors and the remainder to foreign investors. The increase in share capital was entered in the Trade Register on April 30, 2004.

## Increase in share capital from option rights subscription

During the fiscal year ended on October 31, 2004 the company's share capital was increased by EUR 92,820, corresponding to 108,600 shares, from option rights subscription.

## Share prices and trading

The highest issue-adjusted and split-adjusted share price during the fiscal year was EUR 8.35, the lowest price EUR 3.37, and the average price EUR 5.91. The closing price was EUR 6.30. The market capitalization calculated at the final trading price was EUR 125.4 million.

The total number of Efore shares traded during the fiscal year was 14.9 million, representing 73.9% of the total num-

ber of shares on October 31, 2004. The turnover value in the fiscal year amounted to EUR 115.9 million.

## Efore shares held by the company

In previous fiscal years the company has purchased Efore shares in public trading, with the authorization of the Annual General Meeting. At the close of the fiscal year, the company held 238,400 Efore shares, with an equivalent book value of EUR 202,640 and a book value of EUR 481,237.83. The Efore shares held by the company accounted for 1.2% of the share capital and votes at the end of the fiscal year. These shares do not confer any voting entitlement at shareholders' meetings and no dividend is paid on them.

## 1998 option rights program

The 1998 Annual General Meeting decided to award option rights to the management and to a broad range of salaried employees of Efore and its Finnish subsidiaries. A total of 120,000 option rights were issued free of charge, and this doubled to 240,000 as a result of the 2001 bonus issue. With the stock split, two shares can be subscribed with each option right. A maximum of 480,000 shares can be subscribed. The option rights entitle their holders to subscribe shares until December 31, 2004. The subscription price on October 31, 2004 was EUR 3.71 per share. The subscription price will be decreased by the amount of potential dividend decided by the AGM on December 16, 2004.

The Board of Directors proposes to the Annual General Meeting to be held on December 16, 2004, that the Company's share capital be increased by a bonus issue, in which each share entitles its holder to receive one new share with equivalent book value of EUR 0.85. In case the AGM approves the proposal of the Board of Directors, after the bonus issue each option right entitles to subscribe four new shares, and the subscription price will change accordingly. Provided that the AGM approves the Board of Directors' proposal for dividend EUR 0.30 per share, the new subscription price will be EUR 1.70 per share.

The option rights are quoted on the Helsinki Stock Exchange under the trading code EFO1VEW198. The trading lot is 100 shares.

## Shareholdings of Efore management

The total share ownership (as defined in Chapter 1, section 5 of the Securities Markets Act) of Efore Plc's Board members, President and CEO, and Deputy to President and CEO stood at 3,116,192 on October 31, 2004. This is equivalent to 15.5% of the total number of shares and votes. The shareholding of President and CEO, and Deputy to President and CEO, amounts to 0.1% of all shares and votes.

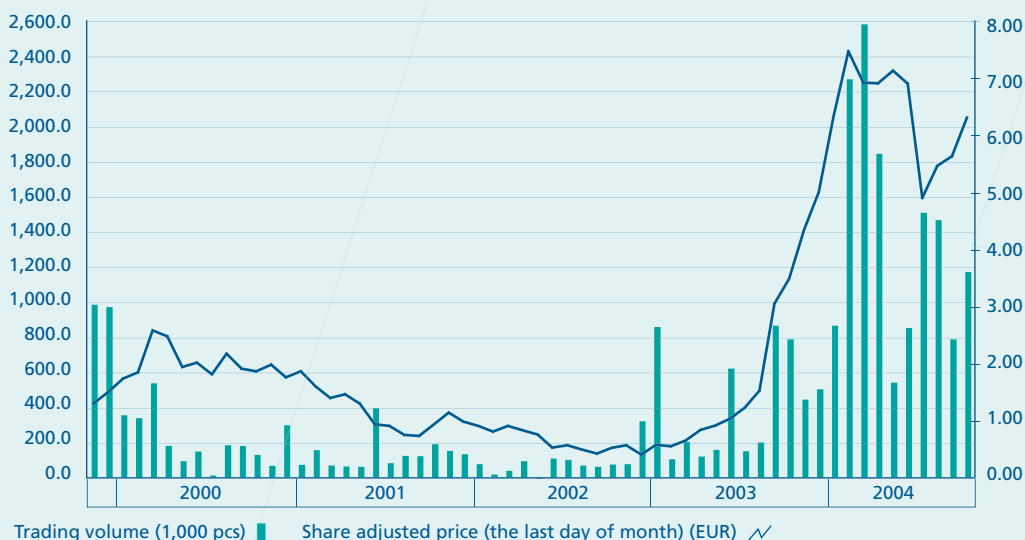
## DISTRIBUTION OF SHAREHOLDINGS BY SIZE OF HOLDING, OCTOBER 31, 2004

Shares	Number of shareholders pcs	Proportion of shareholders %	Total number of shares and votes pcs	Proportion of shares and votes %
1-100	322	9.67	270,43	0.13
101-500	1,237	37.16	396,037	1.97
501-1,000	676	20.31	553,596	2.75
1,001-5,000	838	25.17	1,982,660	9.84
5,001-10,000	127	3.82	946,519	4.70
10,001-100,000	99	2.97	2,723,724	13.52
100,001-999,999	30	0.90	13,517,049	67.09
<b>TOTAL</b>	<b>3,329</b>	<b>100.00</b>	<b>20,146,628</b>	<b>99.99</b>
of which nominee registered	6		2,528,193	12.55
In joint account			1,652	0.01
In special accounts			744	0.00
<b>NUMBER ISSUED</b>			<b>20,149,024</b>	<b>100.00</b>

## INCREASES IN SHARE CAPITAL, 1997-2004

Year	Subscription-share relationship	Subscription/registering time	Subscription price, EUR	New shares pcs	Increase 1,000 EUR	New share capital 1,000 EUR	Dividend right
1997	Merger consideration	10.1.1997		255,000	429	3,170	1997
1997	Bonus issue, 10A:K, 1A:K	1.4.-30.4.1997		180,618	304	3,342	1997
1998	Bonus issue, 1A:1A;1K:1K	1.4.-30.4.1998		1,986,811	3,342	6,684	1998
1999	On basis of options	1.7.1999	7.11	11,000	19	6,702	2000
2000	On basis of options	14.4.2000	7.11	82,930	139	6,841	2000
2000	Bonus issue (Change of nominal value into euros)				74	6,915	
2001	Bonus issue, 1A:1A;1K:1K	9.3.2001		4,067,552	6,915	13,830	2001
2004	On basis of options	23.1.2004	7.79	600	1	13,831	2004
2004	Exchange and targeted issue for K-shareholders, 1K:1.5A	27.2.2004	0.85	529,616	450	14,281	2004
2004	Split 1:1, gratuitous	27.2.2004		8,135,704		14,281	2004
2004	On basis of options	21.4.2004	3.71	2,400	2	14,283	2004
2004	Targeted share issue	30.4.2004	6.95	3,240,000	2,754	17,037	2004
2004	On basis of options	22.6.2004	3.71	47,200	40	17,077	2004
2004	On basis of options	27.8.2004	3.71	11,000	9	17,086	2004
2004	On basis of options	28.10.2004	3.71	47,400	40	17,127	2004

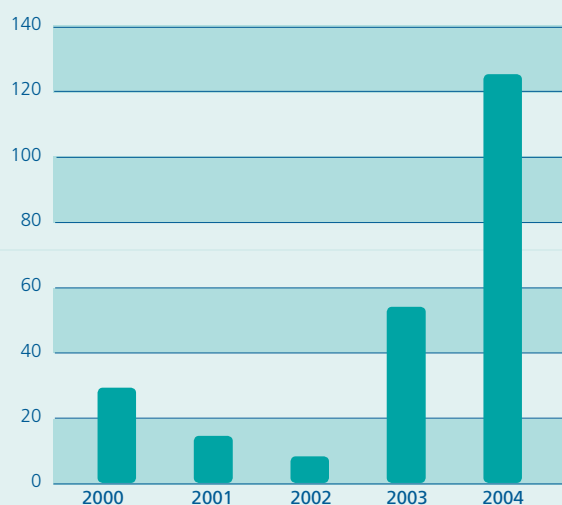
## EFORE PLC SHARE PRICES AND TRADING, 2000-2004



## DISTRIBUTION OF SHAREHOLDINGS BY SHAREHOLDER CATEGORY, OCTOBER 31, 2004

	Shareholders pcs	Proportion of shareholders %	Shares pcs	Proportion of shares and votes %
<b>ENTERPRISES</b>				
Finnish enterprises	266		2,794,912	
<b>ENTERPRISES TOTAL</b>	266	7.99	2,794,912	13.87
<b>FINANCIAL- AND INSURANCE INSTITUTIONS</b>				
Deposit banks	9		194,100	
of which nominee registered	1		2,511,343	
Financial auxiliaries	5		332,700	
Insurance Companies	3		38,505	
Other financial institutions	17		3,149,456	
<b>FINANCIAL- AND INSURANCE INSTITUTIONS, TOTAL</b>	34	1.02	6,226,104	30.90
<b>PUBLIC ENTITIES</b>				
Municipalities	4		25,010	
Other social security funds	1		12,100	
Employment pension institutions	12		1,086,100	
<b>PUBLIC ENTITIES TOTAL</b>	17	0.51	1,123,210	5.58
<b>NON-PROFIT ORGANIZATIONS</b>				
Non-profit organizations	35		1,158,420	
<b>NON-PROFIT ORGANIZATIONS TOTAL</b>	35	1.05	1,158,420	5.75
<b>HOUSEHOLDS</b>				
Entrepreneurs	438		407,229	
Wage earners	2,133		7,400,197	
Other households	392		599,928	
<b>HOUSEHOLDS TOTAL</b>	2,963	89.01	8,407,354	41.73
<b>OUTSIDE FINLAND TOTAL</b>				
	14	0.42	436,628	2.17
In joint account			1,652	0.01
In special accounts			744	
<b>TOTAL</b>	3,329	100.00	20,149,024	100.00

## MARKET CAPITALIZATION, MEUR



## EFORE PLC'S 20 LARGEST SHAREHOLDERS, OCTOBER 31, 2004

	Shares pcs	Proportion of shares and votes %
EVLI Bank Plc	1,179,800	5.86
Tammivuori Esko	894,796	4.44
Fabritius Hannes	868,828	4.31
Tammivuori Matti	792,700	3.93
Tammivuori Leena	772,500	3.83
Syrjälä & Co	547,840	2.72
Varma Mutual Pension Insurance Company	540,000	2.68
O&A Consulting Oy	519,200	2.58
FIM Fenno Mutual Fund	508,900	2.53
Fabritius Pirkko	467,616	2.32
Mutual Insurance Company Pension-Fennia	413,700	2.05
OP-Finland Small Firm Fund	374,800	1.86
Placeringsfonden Gyllenberg Finlandia	354,100	1.76
Royal Skandia Life Assurance Ltd	326,700	1.62
FIM Forte Mutual Fund	210,000	1.04
Ingman Finance Oy Ab	200,000	0.99
Maijos Oy	200,000	0.99
Syrjälä Timo	200,000	0.99
Rausanne Oy	196,300	0.97
Svenska Handelsbanken Ab (Publ)	183,900	0.91
<b>TOTAL</b>	<b>9,751,680</b>	<b>48.40</b>
Nominee registered, Nordea Bank Finland Plc	2,453,413	12.18
Efore Plc's shares on company's possession	238,400	1.18

## BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF RETAINED EARNINGS

According to the financial statements at October 31, 2004, the parent company's distributable shareholders' equity stood at EUR 6,036,164.60, and the Group's total distributable shareholders' equity at EUR 7,417,909.77.

At the Annual General Meeting of December 16, 2004, the Board of Directors will propose that the AGM approves a dividend of EUR 0.30 per share for the fiscal year November 1, 2003–October 31, 2004 totaling EUR 5,986,987.20.

Espoo, 25 November, 2004

**Hannes Fabritius**

Chairman

**Heikki Marttinen**

Deputy Chairman

**Veijo Komulainen**

**Matti Tammivuori**

**Timo Syrjälä**

**Pirkko Fabritius**

Deputy Member

**Markku Hangasjärvi**

President and CEO

## AUDITORS' REPORT

### To the shareholders of Efore Plc

We have audited the accounting, the financial statements and the administration of Efore Plc as of and for the 12-month period ended 31 October 2004. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on the administration of the parent company.

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

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distribution of retained earnings is in compliance with the Finnish Companies Act.

Espoo, 30 November 2004

ERNST & YOUNG OY

Authorised Public Accounting Firm

Juha Nenonen

Authorised Public Accountant



# RISK MANAGEMENT

The purpose of risk management is to identify the strategic, operational and financial risks faced by the company and any conventional risks of loss. The risks that Efore takes in its operations are a natural part of its strategy and goals. Risk management seeks to control these risks in a preventive and comprehensive manner. The measures taken can include risk avoidance, risk reduction, and risk transfer by insurance or agreement.

In accordance with risk management principles, risk management forms an integral part of Efore's business processes in all its units. The Efore Group and its operating units assess the risks of their own operations, prepare risk management plans, and report risks in accordance with the organizational structure.

Efore's units have an active, long-established training and development program for reducing occupational accidents and improving overall safety levels. Environmental management systems based on the ISO 14001 standard and quality management tools based on ISO 9001/2000 are applied in the Group's different business locations and form the basis for the management of environmental risks.

There are separate guidelines for data and corporate security. Risk management in procurement is based on harmonized purchasing guidelines, contract clauses, and advanced data systems.

## MANAGEMENT OF FINANCING RISKS

The management of financing risks aims at avoiding risks altogether and at having cost-effective arrangements for protecting the Group from factors that may affect performance and cash flow.

Only financing instruments with market value and risk profiles that can be reliably monitored are used by the Efore Group for exchange-rate and interest-rate hedging.

### Exchange-rate risks

The aim of exchange-rate risk management is to control risks resulting from currency fluctuations so that they do not affect business performance or Group solvency.

During the 2004 fiscal year, 82% of the Efore Group's sales and 64% of its operating expenses were in euros. Most of the remaining foreign currency denominated sales and operating expenses were in US dollars or in currencies closely tied to the US dollar.

The subsidiaries manage their own exchange-rate risks in local currencies and their business operations are mainly in the currencies of the countries in which they are located or in currencies closely tied to them. Thus, the parent company bears most of the exchange-rate risks. The principal subsidiary companies are in the United States, China, Estonia, and Brazil.

The policy of the Group is to hedge the main foreign currency surpluses and deficits of commercial value and fixed purchase and sales contracts. Hedging is carried out with cur-

rency derivatives, such as forward currency contracts, currency options, and foreign currency loans. Most currency derivatives have a duration of less than one year. The instruments used for hedging against exchange-rate risks and their nominal values at the end of the fiscal year are itemized in the notes to the financial statements on page 32.

### Liquidity risks

A liquidity risk arises when the company does not have enough liquid funds or is unable to borrow enough money to cover its operational funding requirements, or when acquiring funds becomes unreasonably costly. Liquidity risks are managed by having a well-balanced loan maturity distribution and sufficient cash reserves, and by making appropriate loan arrangements.

The liquidity of the Efore Group remained good and was further improved by the share issues conducted in spring 2004, through which the company obtained new capital totaling EUR 23.0 million. At the end of the fiscal year, the Group's net interest-bearing liabilities stood at EUR -22.3 million (EUR -3.2 million), which means that the Group's cash reserves exceeded its interest-bearing liabilities.

### Interest-rate risks

Interest-rate risks are caused by interest-rate fluctuations affecting the loan portfolio and cash reserves, and are also affected by whether the interest-bearing liabilities are fixed-interest or floating rate. Interest-rate risks are managed by making the right decisions on loan interest periods and by using different types of interest-rate derivative instruments.

At the end of the fiscal year, the interest-bearing liabilities of the Efore Group totaled EUR 2.2 million (EUR 4.1 million), which were tied to floating market rates of less than one year. At the time of the closing of the books, the Group did not have any open interest-rate hedges.

### Credit and other counter party risks

Management of credit risks is primarily the responsibility of each unit. Credit risk management accords with the Group's credit policy and the aim is to obtain sufficient security if the customer's creditworthiness so requires. The Group has no outstanding long-term delivery credits. The trade receivables of the Group companies at the closing of the books did not contain any uncertain items.

The credit risks related to investment of liquid assets and derivative contracts are minimized by setting credit limits for the counter parties and by concluding agreements only with the leading domestic and foreign banks and financial institutions.

## MANAGING THE RISK OF LOSS

Efore aims to prevent losses by observing the highest standards in its operations and taking predictive risk management measures. Risks that are beyond Efore's control are insured. The aim is to have appropriate insurance cover for all risks of loss, such as those concerning assets, business interruption, and operational and product liability.

# CORPORATE GOVERNANCE

The obligations of Efore's decision-making bodies are defined in accordance with Finnish legislation and the principles established by the Board of Directors. Efore's corporate governance complies with the provisions of the Companies Act.

The Group operates in accordance with the listed companies' corporate governance and control recommendation issued by the Helsinki Stock Exchange, the Central Chamber of Commerce, and the Confederation of Finnish Industry and Employers, which took effect on July 1, 2004, and with the insider trading instructions issued by the Helsinki Stock Exchange.

## Group structure

Efore Group consists of the parent company, Efore Plc, and its wholly owned subsidiaries, Efore (USA), Inc. in the United States, Efore (Suzhou) Electronics Co., Ltd. and Efore (Suzhou) Technologies Co., Ltd. in China, Efore AS in Estonia, Efore Ltda. in Brazil, Efore (UK) Ltd in the United Kingdom, and FI-Systems Oy in Finland.

The governance and operations of the Group are the responsibility of the parent company's decision-making bodies, which are the Annual General Meeting, Board of Directors, President and CEO, and Deputy to President and CEO. The President and CEO is assisted by the Senior Executive Committee and the Corporate Executive Conference. The operations of the subsidiaries are the responsibility of their respective Boards of Directors, which include the Group's President and CEO and other representatives of the Group's senior management. The Group's President and CEO is also chairman of the Board of Directors of each of the subsidiaries. The President of each subsidiary reports to the Group's President and CEO. Efore Plc provides the subsidiaries with joint Group services and is also responsible for its strategic planning and finances.

Reorganization of the Group's operational structure took effect on August 1, 2004 and is now based on three geographical areas (Europe, North and South America, and Asia) and five customer-focused business units, each responsible globally for their own specified customers' sales and product development. The global functions common to the Group are supply management and sourcing, manufacturing, technology development, finance, human resources, and process development and quality management.

## Shareholders' meeting

The functions of a shareholders' meeting as the company's supreme decision-making authority are defined in the Companies Act and Efore's Articles of Association. In addition to the Annual General Meeting, extraordinary shareholders' meetings may also be organized. At shareholders' meetings, shareholders are able to exer-

cise their right to speak and vote.

The entire Board of Directors, including the deputy member, and the President and CEO were present at the Annual General Meeting held on February 3, 2004.

## Appointing Board members

The Annual General Meeting elects the members and a deputy member of the Board of Directors by simple majority vote for a term of office that ends with the close of the next AGM following their election. The Board of Directors elects from amongst its members a chairman and deputy chairman. Board member nominations to be proposed at the AGM which are notified to the Board will be published in the AGM invitation, provided that the proposal is supported by at least 10% of the total votes of the company.

## Board of Directors

As set out in Efore's Articles of Association, the Board of Directors shall have no less than five and no more than seven members, and no more than one deputy member. The Board currently has five members and one deputy member. The company's President and CEO is not a member of the Board of Directors.

## Duties and responsibilities of the Board

The Board of Directors has general decision-making authority in all company matters that are not stipulated by law or under the Articles of Association for the decision or action of another party. The Board is responsible for the governance of the company and for duly organizing its operations. It also approves the corporate strategy, the risk management principles, the Group's corporate values, operational plans, the annual budget, and major investments.

The main duties and operating principles of the Board of Directors are set out in the working order. These refer to the declaration of a quorum at meetings, the writing and approval of minutes, and the preparations needed on matters for decision. The Board of Directors met 24 times during the fiscal year. The participation rate of members in the Board meetings was 97%. Those Board members who are independent of the company and of its main shareholders are Heikki Marttinen, Veijo Komulainen, and Timo Syrjälä.

The Board of Directors reviews its own working procedures through an annual self-evaluation process.

## Board fees and other benefits

The Annual General Meeting decides annually on the Board of Directors' fees and on the criteria for compensation of Board expenses. Board members' fees are paid in the form of monetary reimbursement. No separate fee

is paid for work on Board committees.

By decision of the Annual General Meeting of February 3, 2004, the chairman and members of the Board of Directors are paid a fee of EUR 1,500 per month for their Board work, and a meeting fee of EUR 500 per Board meeting. The meeting fee does not apply to teleconferencing, as this is included within the monthly fee. Board members are also reimbursed for travel expenses in accordance with the Finnish Tax Administration's approved maximum limits for travel compensation in each case.

In the fiscal year ended October 31, 2004, the chairman and members of the Board of Directors were paid a total of EUR 145,400 in monthly and meeting fees. Board members were not awarded options or Efore shares as fees for their Board work.

Board chairman Hannes Fabritius was employed by the company until June 30, 2004, when he retired. On the basis of his employment relationship, the Board chairman was paid a total of EUR 39,922.40 in salary and fringe benefits during the fiscal year, of which he received EUR 33,422.40 as regular monetary salary and EUR 6,500 in the form of fringe benefits. The Board chairman was not awarded shares or share derivatives as fees.

## Board committees

The Board of Directors has three committees that assist in its work: the Nomination Committee, the Audit Committee, and the Compensation Committee. The committees' working orders set out the duties and operating principles for each committee. The committees report their work to the Board of Directors on a regular basis.

The Chairman of the Nomination Committee was Hannes Fabritius, and the committee members were Matti Tammivuori and Timo Syrjälä. The main duties of the Nomination Committee are as follows: to prepare matters for the Annual General Meeting concerning Board members and remuneration; to prepare matters for the Board concerning the Board chairman, deputy chairman, and Secretary, and the Board Committees; and to deal with matters concerning the Board's annual review process. The committee met once during the fiscal year.

The chairman of the Audit Committee was Heikki Marttinen, and the committee members were Timo Syrjälä and Veijo Komulainen. The main duties of the Audit Committee are to examine the company's finances; oversee compliance with the law and the relevant standards; evaluate the company's internal supervision and risk management; and evaluate the company's internal auditing and its auditors. The committee met once during the fiscal year.

The chairman of the Compensation Committee was Veijo Komulainen, and the committee members were Timo Syrjälä and Pirkko Fabritius. The main duties of the Compensation Committee are to prepare for remuneration matters concerning the company's President

and CEO, his direct subordinates, and other managerial personnel, and to prepare for matters concerning the company's remuneration systems. The committee met five times during the fiscal year.

## President and CEO and Deputy to President and CEO

The Board of Directors appoints the company's President and CEO and Deputy to President and CEO and supervises their actions. Central terms and conditions governing their appointment are detailed in written contracts. The President and CEO manages and supervises Group business operations within the guidelines and directives issued by the Board of Directors, and ensures that the company's accounting accords with the law and that the financial management system is reliable. When the President and CEO is temporarily prevented from performing his duties, the Deputy to President and CEO assumes the powers of President and CEO.

President and CEO Markku Hangasjärvi was paid a total of EUR 219,117.39 in salary, performance-related pay and fringe benefits during the fiscal year ended October 31, 2004; regular monetary salary accounted for EUR 135,710.52 of this total, performance-related pay from the 2003 fiscal year for EUR 74,390, and fringe benefits for EUR 9,016.87.

The President and CEO's performance-related pay is based on achievement of the Group's net profit targets. This performance-related pay is permitted to be no more than 60% of his regularly monetary salary in the fiscal year in question. The President and CEO's performance-related pay from 2003 corresponded to 55% of his regular salary.

As part of the management remuneration system, the President and CEO was awarded 15,000 Efore A/B/C/D options from the 1998 option rights program during the fiscal year ended October 31, 2004. In previous fiscal years, the President and CEO has been awarded 11,100 A/B/C/D options from the 1998 option rights program. The amount of income comparable to earned income received by the President and CEO from the sale and/or subscription of option rights from the 1998 option rights program totaled EUR 120,435 during the fiscal year ended October 31, 2004.

Efore does not operate an incentive system that pays fees to managerial personnel in the form of the company's own shares.

The President and CEO has an optional pension insurance policy. The annual contribution for this policy must not exceed the amount of the tax-free optional pension contribution specified by the tax authorities valid at the particular time. No specific age limit for early old-age pension or for resignation has been defined for the President and CEO.

The period of notice to be observed in the President and CEO's employment contract is 6 months. In the event that notice is given by the company, the President

and CEO shall be paid a discharge fee corresponding to 12 months' salary.

### **Senior Executive Committee, Corporate Executive Conference, and Management Teams for the geographical areas**

The reorganization concerning the Senior Executive Committee, Corporate Executive Conference, and Management Teams for the geographical areas came into effect on August 1, 2004.

The President and CEO chairs, and is assisted by, the Senior Executive Committee and the Corporate Executive Conference. The Senior Executive Committee comprises the chairman, the Group's CFO, and the Vice Presidents of the North and South America, and Asia. The Group's President and CEO performs the role of Vice President, Europe in addition to his regular duties.

The Senior Executive Committee's main responsibilities include drafting the broad outline of the Group's strategy, and monitoring and securing the Group's financial performance. The Committee met 12 times during the fiscal year.

The Corporate Executive Conference comprises the Senior Executive Committee members, senior management representatives responsible for the customer-specific business units, and senior management representatives responsible for supply management and sourcing, manufacturing, technology development, human resources, and process development and quality. The Corporate Executive Conference concentrates on implementation of the Group's strategy and maintaining global consistency in the Group's operations. The Corporate Executive Conference was held nine times during the fiscal year.

The duties of the Management Teams for the geographical areas (Europe, North and South America, and Asia) are to implement the Group's strategy at regional level and to secure and monitor sales growth, manufacturing, quality, and financial performance.

### **Remuneration system for the President and CEO and the company's other senior management**

The principles of the performance-related pay system for the Group's senior management are drafted by the Board's Compensation Committee and then submitted for the approval of the Efore Plc Board of Directors. The Board-approved upper limits for performance-related pay are in the range 20–60% of annual earnings, depending on the position in question. The criteria used for assessing this are the Group-level performance requirements and those applying to the person's own sphere of responsibility, and other measures of operational activity. Approximately 15 Efore Group management personnel are covered by the senior management performance-related pay system.

## **Governance of insider activity**

Efore Plc's permanent insiders are the members and deputy member of the Board of Directors, the President and CEO, the Deputy to President and CEO, the company's auditors, the members of the Senior Executive Committee and Corporate Executive Conference, the company's lawyer, and the executive assistant. The insider register is maintained by the company's lawyer under the supervision of the President and CEO.

Efore Plc complies with the insider trading instructions approved by the Helsinki Stock Exchange, on the basis of which the company's Board of Directors has approved a set of internal guidelines on insider trading. According to these guidelines, investments made by insiders must be long-term investments and trading must always take place at a time when the market's information on factors affecting the share value is as complete as possible. The period closed to trading by insiders is a minimum of 14 days before publication of interim reports or the financial statements bulletin. Trading can also be prohibited for special reasons outside the closed period, in which case all insiders entered in the register will be informed accordingly.

## **Supervision**

The Group has financial reporting systems for supervising its business operations and financial management. The Board of Directors has approved the Group's management organization and governing principles, decision-making authority and approval procedures, administrative operating policies, financial planning and reporting, and remuneration principles. Internal auditing is a part of Group's finance administration. The management of the finance administration reports the findings of internal auditing to President and CEO and Audit Committee.

Efore Plc's principal auditor is responsible for auditing instructions, and coordination. The principal auditor and the company management jointly draw up an auditing plan each year. The auditing fee for the financial year totaled EUR 77,000. The fees paid to the Authorized Public Accountant Firms for other service totaled EUR 76,000.

As required by law, the auditors provide the company's shareholders with an auditors' report at the time of the annual financial statements. The auditors also report their findings to the Audit Committee.





Veijo Komulainen

Pirkko Fabritius

Matti Tammivuori

Hannes Fabritius

Heikki Marttinen

Kuvasta puuttuu Timo Syrjälä

## BOARD OF DIRECTORS

### **Hannes Fabritius**, b. 1942

B.Sc. (Eng), MBA  
 Chairman since 1994  
 Board member since 1979  
 Founding shareholder of Efore Plc  
 Efore Plc, Managing Director until 1994  
 868,828 shares

### **Heikki Marttinen**, b. 1946

M.Sc. (Econ. & Bus. Adm.)  
 Deputy Chairman since 2003  
 Board member since 2002  
 Kamensky Consulting Oy, partner  
 Eimo Corporation, President and CEO 2002–2003  
 Fortum Corporation, President and CEO 1998–2000  
 Imatran Voima Oy, Chairman and CEO 1996–1998  
 0 shares

### **Veijo Komulainen**, b. 1954

M.Sc. (Eng)  
 Board member since 2002  
 VIA Group, Senior Consultant  
 Savcor Group, Chief Operating Officer 2001–2002  
 Fortum Engineering, Vice President 1995–2001  
 Polartest Oy, Managing Director 1989–1994  
 2,500 shares

### **Timo Syrjälä**, b. 1958

M.Sc. (Econ. & Bus. Adm.)  
 Board member since 2001  
 Syrjälä & Co Oy, Management Consultant  
 947,840 shares

### **Matti Tammivuori**, b. 1957

Matriculated business college graduate  
 Board member since 1999  
 Tamcor Ky, Managing Director, since 1985  
 Perlasoft Oy, Board member  
 Virtaankosken Voima Oy, Board member  
 Pienvesivoimayhdistys ry, Chairman  
 800,204 shares

### **Pirkko Fabritius**, b. 1943

Diploma in Business Administration  
 Deputy board member since 2002  
 Board member 1979–1990 and 1996–2002  
 Founding shareholder of Efore Plc  
 Efore Plc, board-appointed Controller 1997–2004  
 Efore Plc, Managing Director 1996–1997  
 Efore Plc, Director of Finance until 1995  
 Osakesäästäjien Keskusliitto ry, Deputy board member  
 467,616 shares



## SENIOR EXECUTIVE COMMITTEE

### Markku Hangasjärvi

M.Sc. (Eng), b. 1966  
 Committee Chairman  
 President and CEO since employed by Efore in 2001  
 Executive Vice President, Europe (in addition to regular duties)  
 Fortum Engineering, Vice President 2000–2001  
 IVO International Ltd., Vice President, Marketing 1996–2000  
 Finnish Energy Conservation Group, Managing Director 1992–1996  
 5,000 shares, 0 share options

### Vesa Vihavainen

B.Sc. (Econ), MBA, b. 1962  
 Deputy Chairman  
 Employed by Efore since 1997  
 Deputy to President and CEO since 2000  
 Senior Executive Vice President, North and South America  
 President of Efore (USA), Inc.  
 Muuntolaite Oy, Managing Director 1997–2000  
 Lundia Oy, Managing Director 1994–1997  
 Plandent S.R.O., Managing Director 1993–1994  
 Plandent Praha, Regional Director 1991–1993  
 Planmeca GmbH, Regional Sales Manager 1989–1991  
 Procons Oy, Controller 1988–1989  
 16,700 shares, 0 share options

### Jorma Lappalainen

B.Sc. (Econ), b. 1950  
 Employed by Efore since 2000  
 Executive Vice President since 2001  
 CFO  
 Mercantile Oy Ab, Finance Director 1996–2000  
 Helvar Oy Ab, Finance Director 1981–1996  
 Rocla Oy, Finance Manager 1973–1981  
 35,400 shares, 1,000 share options

### Khalid Hafeez

M.S. (Eng), Tech. Lic., MBA, b. 1950  
 Employed by Efore since 2002  
 Executive Vice President, Asia Pacific  
 President of Efore (Suzhou) Electronics Co., Ltd.  
 Nokia Networks, Director Sales & Marketing 2001–2002  
 Nokia Networks, General Manager, Professional Mobile Radio, Greater China Area 1998–2001  
 Nokia Networks, General Manager, Sales & Marketing, Radio Access System, India, South Asia, Gulf 1996–1997  
 Nokia Networks, Sales Manager & Marketing Manager 1987–1996  
 Nokia Networks, Customer Training Manager 1983–1987  
 13,000 shares, 3,400 share options



# OTHER SENIOR MANAGEMENT

## Corporate Executive Conference (as of October 31, 2004):

(in addition to members of the Senior Executive Committee)

### Jukka Jokinen

B.Sc. (Eng), b. 1957  
Employed by Efore since 1999  
Vice President, Business Unit OEM1  
13,400 shares, 0 share options

### Håkan Povenius

B.Sc. (Eng), b. 1955  
Employed by Efore since 1996  
Vice President, Business Unit OEM2  
0 shares, 1,200 share options

### Cary Kilpinen

Electronics fitter, b. 1959  
Employed by Efore since 1997  
Vice President, Business Unit OEM3  
0 shares, 3,800 share options

### Scott Vartija

MBA, B.A., Certified General Accountant, b. 1949  
Employed by Efore since 2001  
Vice President, Business Unit OEM4  
0 shares, 0 share options

### James Kang

B.Sc. (MechEng), B.Sc. (CompSci), b. 1969  
Employed by Efore since 2004  
Vice President, Business Unit OEM5  
0 shares, 0 share options

### Panu Kaila

B.Sc. (Eng), b. 1955  
Employed by Efore since 2004  
Vice President, Manufacturing Operations and Information Management  
4,700 shares, 0 share options

### Esko Yliportimo

B.Sc. (Eng), b. 1947  
Employed by Efore since 2001  
Vice President, Supply Management and Sourcing  
15,700 shares, 0 share options

### Mika Sippola

D.Sc. (Tech), b. 1971  
Employed by Efore since 2004  
Vice President, Technology  
0 shares, 0 share options

### Juhani Vuola

M.Sc. (Eng), b. 1966  
Employed by Efore since 1996  
Vice President, Process Development and Quality  
4,400 shares, 7,000 share options

### Riitta Kirjalainen

B.Sc. (Econ), b. 1946  
Employed by Efore since 1995  
Vice President, Human Resources  
1 040 shares, 0 share options

The business unit abbreviation OEM stands for Original Equipment Manufacturer referring to Efore's key accounts.  
Shareholdings as of Oct. 31, 2004.

## Efore Group

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