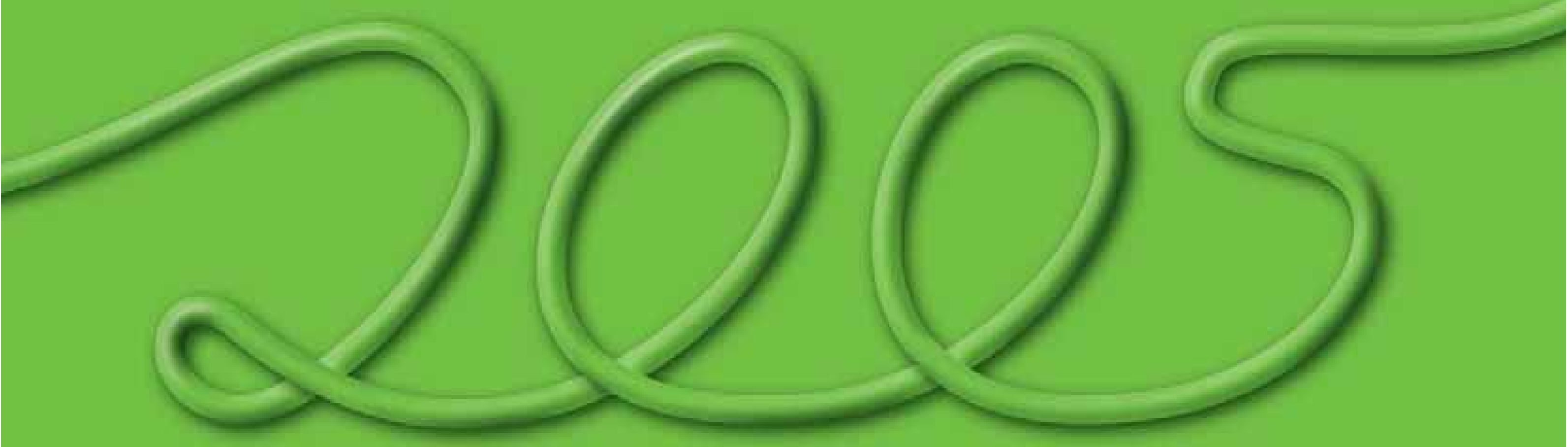
ANNUAL REPORT PKC GROUP



INFORMATION FOR SHAREHOLDERS

GENERAL MEETING OF SHAREHOLDERS

PKC Group Oyj's Annual General Meeting will be held on Thursday 30 March 2006 at 4.00 p.m. at the company's office in Kempele, at the address Vihikari 10.

A shareholder is entitled to attend the meeting if he or she is listed as a shareholder in the company's shareholder register at Finnish Central Securities Depository Ltd on 20 March 2006 and confirms his or her attendance before 4.00 p.m. on 27 March 2006.

Notice of the Annual General Meeting was given in the newspapers Helsingin Sanomat and Kaleva and as Stock Exchange Announcement.

DIVIDEND DISTRIBUTION

The Board of Directors proposes that the distribution of dividends for the financial year 2005 be EUR 0.45 per share. The matching date for dividends is 4 April 2006. The payment date for dividends is 11 April 2006.

FINANCIAL REPORTS FOR 2006

PKC Group Oyj will publish its financial reports for 2006 as follows:

- Interim Report 1–3/2006 on Friday 21 April 2006 at 8.15 a.m.
- Interim Report 1–6/2006 on Friday 14 July 2006 at 8.15 a.m.
- Interim Report 1–9/2006 on Friday 20 October 2006 at 8.15 a.m.

The Interim Reports and Stock Exchange Bulletins will be published in Finnish and English on the company's website at www.pkcgroup.com. The company's annual reports and interim reports will also be available in pdf format on the company's website.

CHANGE OF ADDRESS

Shareholders are kindly requested to notify the book-entry register where their book-entries are kept of any changes in their contact information.

GROUP KEY FIGURES	2005 [1]	2004 [1]	2003 [2]	2002 [2]	2001 [2]
Net sales, EUR million	198.8	177.7	146.0	134.3	125.1
Operating profit, EUR million	26.7	20.8	18.4	9.4	4.1
Profit before taxes, EUR million	27.3	19.6	18.1	7.6	2.6
Return on investment (ROI), %	32.3	28.6	36.7	20.6	9.0
Equity ratio, %	55.6	44.2	56.9	46.9	40.7
Gross capital expenditure, EUR million	11.4	13.3	10.2	6.4	3.8
Earnings per share (EPS), EUR	1.06	0.75	0.73	0.26	0.19
Dividend per share, EUR	0.45 [3]	0.20	0.83	0.15	0.08

1) key figures according to IFRS standars

2) key figures according to Finnish Accounting standards

3) board's proposal

PKC GROUP

CONTENTS

REVIEW BY THE PRESIDENT AND CEO

In 2005, we continued to develop the PKC Group in accordance with our previously chosen strategy. The beginning of the year saw the biggest change in production models in the company's history. New products were started up at both the Estonian and Russian factories for existing and new customers. The primary objectives in production arrangements were to increase cost-effectiveness and competitiveness. The most significant changes were the closing down of the assembly factory in the Netherlands and the expanding of the factories in Russia, Estonia and Brazil. With the expansions, we also transferred the share of the assembly work which was previously carried out through subcontractor to our own factories.

The demand for our products manufactured in Finland has been in constant decline. In the autumn, we had to make some difficult decisions, as operations were adjusted in line with lower demand. This resulted in a reduction in personnel in our Finnish factories.

The year 2005 was financially successful. We succeeded particularly well in increasing the efficiency of production, revamping our organisation and starting up new products. The costs resulting from these measures were lower than we anticipated. Customer orders remained at a good level. The financial situation in Latin America has been favourable, allowing our Brazilian unit to continue to grow and to post a very good result due to its good operational efficiency.

We have reported in different contexts that our current level of profitability can be considered exceptionally good for a subcontractor. This has been made possible by the revamps of our organisation and the good demand in our customer sectors worldwide. As competition tightens, we forecast that our performance will fall from the present level. However, we are still aiming for a solid operating profit level of 10% on a long-term average.

Competition within the subcontracting industry is tight. Landing new products and customers requires competitive and efficient processes. At the cost level of labour in the West the demands of the business sector can not be met in serial production requiring a great deal of manual labour. In order to achieve efficiency targets, we must be able to start producing new products directly at the manufacturing facilities and carry out continuous work to improve methods and productivity. We will continue to implement measures aimed at achieving cost-effective production and a competitive cost structure.

The investments in electronics production in Kostomuksha have now reached the production stage. These investments will continue during the current year. We will ensure the delivery of customers' products with the most critical timetable by making replacement investments in Raahe. The development of volume production in Kostomuksha will make PKC a very competitive electronics contract manufacturer. In fact, the electronics production in Kostomuksha has already aroused interest among the industry's clientele. Approved customer audits have shown that we are on the right track.

In line with our strategy, we will concentrate on strengthening our position in the increasingly global competition. In June last year, we decided to establish a manufacturing unit in China. Production will be started at our business location in Suzhou during 2006. Moreover, we will expand into new market areas in the future. Our customers are increasingly looking for suppliers that can deliver the required products and services anywhere around the world. Many of our customers have considerable production in North America and that is where we must establish ourselves in the future. In order to increase our clientele, we have allocated more resources to the acquisition of new customers. During the past years we have gained new customer relationships and increased deliveries to our existing customers. In the future, the growth we are aiming for will necessitate more investment in this area as well.

Expansion into new market areas places demands on the organisation and our ways of working. The flexible ramp-up of production and increasing the number of products manufactured at different factories require standard and uniform ways of working across the Group. Developing these methods of working has been chosen as one of our main focuses in 2006. The organisation's structure will also be streamlined to meet the demands of the future.

The long-term growth of the company's value is the cornerstone of strategic development. In my view, restructuring will continue in the industry both among customers and competitors. We must track the industry's development at all times and, if needed, be able to partake in its restructuring. In addition to organic growth, achieving our objectives and securing our position may require us to carry out acquisitions. Given our strong balance sheet and positive cash flow from operating activities, we have the capacity to do so.

We forecast that the positive trend in the markets will continue in 2006. The number of commercial vehicles manufactured will remain on the same level as last year, and we expect a slight growth in the electronics business.

I wish to thank the PKC Group's partners in co-operation, shareholders and customers for the past year. In particular, my thanks go to all of the Group's personnel for their work which has made it possible for us to achieve our excellent results.

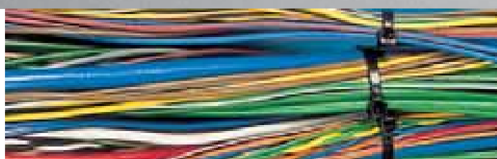
Mika Kari

Heading East.

AFTER RUSSIA OUR NEXT PRODUCTION PLANT WILL BE BUILT IN CHINA.

VEHICLE WIRING HARNESS

> Trucks and Lorries > Tractors > Skidoos
> Forest Machines > Forklift trucks > Buses



STRATEGY

The PKC Group's strategic work is based on the vision and mission approved by the Board of Directors, which form the basis for long-term strategic objectives. Annual action plans and the objectives for business units and support functions are defined in line with the strategic objectives. The payment of personnel bonuses is tied to the achieving of annual objectives.

VISION

The PKC Group's vision is to be

A competitively priced, high-quality and co-operative partner
PKC seeks solutions that will ensure the competitiveness of our products and services also in the years ahead. Operations are organised to bring maximum added value to customers.

A wiring harness manufacturer with global service and production network
PKC seeks an ever stronger foothold as a global wiring harness manufacturer.

An efficient electronics contract manufacturer and R&D partner
PKC's competitive edge lies in the cost-effectiveness of its Russian unit combined with its competence and flexibility in R&D in Finland. The services of the testing and service tool business are developed to meet the clientele's demands.

MISSION

The PKC Group's mission is to

Offer customers the best service
The PKC Group is the best potential partner in co-operation for our customers in terms of its technological expertise, the quality of its operations and its cost-effectiveness. PKC places a value on long-term co-operation.

Grow profitably and faster than the average for the business sectors while producing economic added value for shareholders
The sustained and profitable growth of operations generates increasing shareholder value and brings high-volume benefits.

Offer its staff a job that keeps developing
As a significant international player in its field, the PKC Group strives to offer its employees a rewarding job. By creating opportunities for our employees to develop and advance their careers, we ensure the best resources for our growing company.

STRATEGIC OBJECTIVES

Financial objectives
The PKC Group's objective is to grow profitably and produce economic added value for its shareholders. Growth in net sales is sought from current and, to an ever greater extent, new customer relationships. Growth can also be sought through acquisitions. In order to ensure cost-effectiveness, investments in areas with lower costs will continue.

Objectives connected to customer relationships
PKC is active in meeting customers' expectations around the world. Production capability will be increased in lower-cost countries and made more efficient at all units. Improved cost-effectiveness will also be sought through a worldwide purchasing function.

Objectives connected to internal processes
PKC is cost-effective, flexible and reliable. By shortening its production chain, the Group achieves more efficient management of inventories and better quality assurance for products as well as improves its capability to react to quickly changing customer needs. With a well-planned and executed purchasing strategy, PKC can increase its competitiveness and gain advantages from procuring large quantities at a time.

Objectives connected to personnel and competence
The actions of PKC's personnel are honest and transparent. The improvement of the personnel's competence ensures competitiveness in the future as well.

VALUES

Commitment
We keep the promises we make to customers, partners and co-workers. We want to do our best to achieve our company's objectives and vision.

Quality
We recognise our responsibility for the quality of our products and services and we join together to develop even more efficient and flawless operations. We strive to minimise the environmental impacts of our operations.

Profitability
Our operations must be profitable and cost-effective, with efficient employment of capital and attention to maintaining our company's equity ratio at an adequate level.

Co-operation
Co-operation is a strength and resource for us. Transparency, mutual respect and equal treatment are the way we build up co-operation.

PERSONNEL

Motivated personnel founds success
PKC Group aims to provide motivating and inspiring jobs to its employees. We are constantly developing our operations to meet the challenges of the future: we are investing in the well-being of our employees, the development of the organisation's operations and structure, the improvement of know-how, our reward systems, occupational safety issues as well as internal communications.

Our values guide operations
The Group's values – commitment, quality, profitability and co-operation – are used to steer decision-making and day-to-day operations. New employees are acquainted with these values in their orientation training. The company regularly checks that its values are being implemented.

One of the underlying principles behind our operations is the ability to co-operate successfully. Operations and products are developed in co-operation with the customers. Our corporate culture values the efforts of each and every employee.

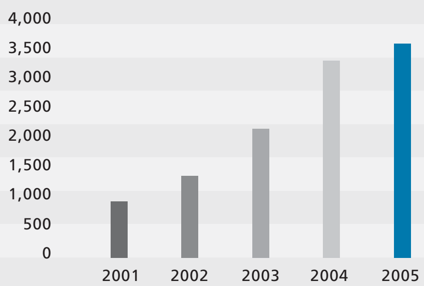
Staff survey forms the basis of development activities
In spring 2005, PKC carried out a large-scale staff survey charting job satisfaction in different areas. The survey included all personnel in the Finnish units and the white-collar employees of the units in Kostomuksha and Estonia.

The survey showed that business operations are strongly customer-orientated. Customers' needs are acknowledged and customer feedback is utilised effectively. Employees were pleased with working conditions and considered their workload to be adequate. Mastery of work tasks and job expertise were considered a strong suit. Employees also believed that operations spread over several countries and factories add an extra challenge to Group-wide co-operation.

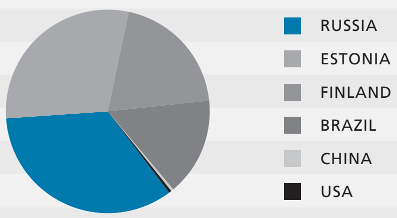
Based on the survey's results, the company created practical action plans together with its personnel, the implementation of which will be monitored. In the future, a wide-ranging staff survey aimed at the entire Group's personnel will be carried out every two years. In addition, job satisfaction will be examined each year using smaller surveys. Gender equality is taken into account in human resources surveys and the implementation of the annually drafted gender equality plan is monitored regularly.

Shaping the organisation to meet the demands of international operations
Our subsidiaries' operations in Estonia, Russia and Brazil continued to grow in 2005. In addition, we established a new subsidiary in China.

The increasingly international operating model places new demands on the organisation. The company has intensified its efforts for the reconciliation of Group-wide



PERSONNEL IN THE END OF THE YEAR



PERSONNEL BY REGION IN THE END OF THE YEAR

ways of working with local characteristics. The aim is to create joint operating models that are defined in more detail. During 2006, we will develop our organisational structure to better support our global operations, among other things.

Improving know-how is based on strategy
The improvement of our personnel's know-how is based on the company's vision and corporate strategy. Identifying the requirement for competence is part of our strategic work. Recognised needs will be compared to the current level of expertise and necessary procedures will be included in the action plans. We are constantly developing our know-how to meet the demands of our business.

The organisation's high-level objectives will be brought to the individual level through performance assessment discussions. These will examine both the objectives and the required competence for each individual. Based on this, personal development and training programmes will be formulated for the coming years. In 2006, the company will further consolidate the performance assessment discussion process and the practices connected to it.

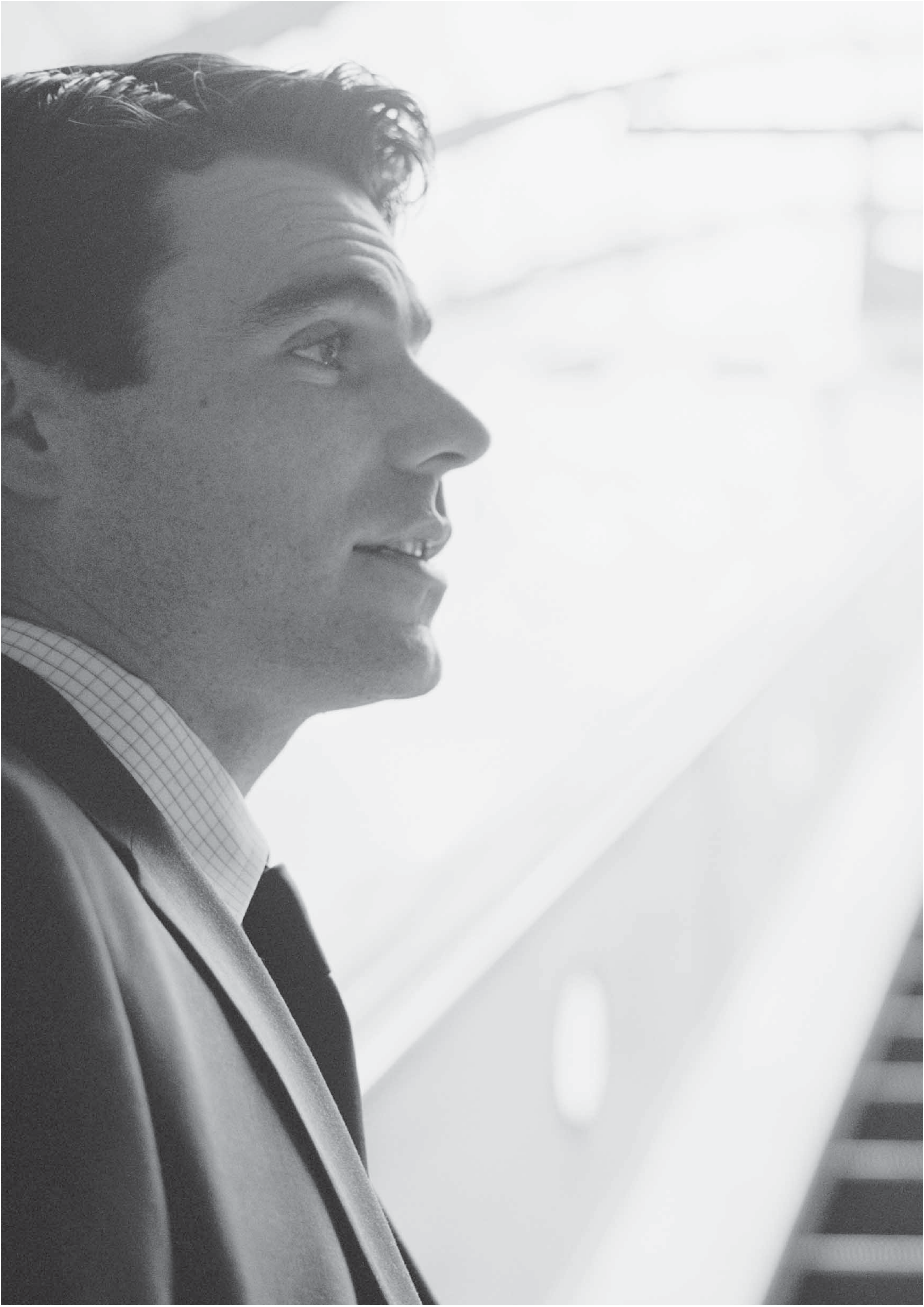
The personnel's know-how is being improved in co-operation with organisations offering training services. The training programme for key personnel launched in 2004 will continue until the spring of 2007. In 2006, we will begin a training programme for foremen in Finland, Russia and Estonia. By strengthening foremen's ability to support the activities of their own team, we will achieve better results and a working atmosphere that offers more incentives.

The reward system provides a tool for steering operations
The reward system is composed of several factors enhancing motivation and commitment. Reward schemes are being continuously developed. Salaries and staff benefits will be kept on a competitive level, and the company will further develop its performance-based bonus system, which was adopted in 2004 and is tied to the strategic objectives. Other matters of importance include the development of job contents and operating processes, occupational improvement opportunities and good supervisory skills, which will be one of PKC's focuses in 2006 as well.

Labour protection and safety
In 2005, the PKC Group strove to offer its employees a wider range of opportunities for maintaining good health and physical fitness. Work on pre-emptive labour protection continued and the company launched various research and development projects in co-operation with occupational healthcare unit and method development. Methods deemed successful will be employed across the entire Group in the future.
The level of safety will be increased at all units and progress on safety issues will be monitored using a safety index adopted in 2005. Staff training plays an important role in occupational safety activities.

Last year, the PKC Group won accolades on the nationwide level in Finland, as it received a Special Award in the Haastamme (We Challenge) working environment competition organised by the Technology Industries of Finland. The award was given in recognition of PKC's development project for improving ergonomics and working conditions on a production line.

Increasing the efficiency of communications
The PKC Group's logo and graphic design were revamped early in the year. In early November, the company's redesigned website was launched in order to improve the company's external communications. Internal communications also became one of the top development priorities following the results of the staff survey.



Still going up.

SUCCESSFUL INVESTMENTS AND ENHANCED PRODUCTIVITY RAISED OUR PROFIT.

ELECTRONICS

> Escalators > Elevators > Air Conditioners
> Base Stations > Paper Machines > Test Devices

QUALITY AND THE ENVIRONMENT

Quality management
Quality is one of the PKC Group's most important values and an integral part of its day-to-day operations. PKC develops its business processes, working methods and systems with an eye to customers' needs and expectations. The entire personnel participates in the improvement of quality. The unified processes and ways of working make it possible to develop operations in an effective manner and achieve set objectives.

Quality management systems
Quality management systems have been employed and refined by the Group for years. Development work that takes into account internal requirements and demands set by the operating environment has also been conducted together with partners in co-operation. The stringent quality requirements of the automotive industry are used to steer the development of the quality management system and business processes. DaimlerChrysler awarded PK Cables do Brasil for operation that exceeded customer expectations in 2005.

The Group's Wiring Harnesses business operates in accordance with a quality system that is certified under the ISO/TS 16949 standard. The wiring harnesses units in Finland, Estonia and Russia which adhere to unified business processes and working methods, have been brought together under one Group-wide certificate covering the ISO 9001, ISO/TS 16949 and ISO 14001 systems. Similar quality and environmental systems will be built at the wiring harnesses unit in China. The Electronics business operates according to systems certified under the ISO 9001 and ISO 14001 standards at the factories in both Finland and Russia.

Improving quality
The Group's quality indicators are monitored regularly. In addition to numerical information, the efficiency and appropriateness of processes and working methods are analysed using internal assessments and benchmarks. The results are utilised at all levels of the organisation. Personnel are encouraged to come forth with suggestions for improving operations.

Product quality assurance measures have been integrated as far as possible into the different stages of the manufacturing process by emphasising preventive action.

DEVELOPMENT OF PKC'S QUALITY SYSTEM

1986	
1987	**KEMPELE** QUALITY MANUAL BASED ON THE ISO 9000 STANDARD
1988	
1989	**KEMPELE** SAAB-VALMET QUALITY AWARD
1990	
1991	**KEMPELE** ISO 9003 PROJECT TOGETHER WITH SUPPLIERS
1992	
1993	
1994	
1995	**KEMPELE** ISO 9002 CERTIFICATE
1996	

The Group is continuously seeking new technical solutions and developing testing methods and data acquisition systems as well as improving the working environment.

Challenges
The expansion of operations to several factories around the world places new demands on the business processes. The coherence, controllability and efficiency of working methods are becoming more and more pivotal. In the futue, the recruitment of competent and motivated personnel and their continuous training will grow in importance particularly at the new units.

Principles of environmental protection and environmental systems
In accordance with its environmental policy, PKC is committed to reducing the environmental impacts resulting from its operations. Care for the environment is an integral part of everyday operations. All the Group's factories have an environmental system that is certified under ISO 14001. Factories attend independently to the management of environmental affairs in accordance with their environmental programmes and local legislation.

Important environmental considerations
The realisation of environmental objectives is measured on a regular basis. The obtained information is utilised in managing environmental affairs and assessing environmental impacts.

Key areas for the management of environmental affairs are reducing the use of harmful substances and efficient waste disposal. The amount of waste generated will be reduced through improved sorting and recycling. The Group has drawn up environmental guides containing information about the key issues concerning environmental protection.

Effects of changes in legislation
In accordance with the requirements set by the European Union's RoHS directive components containing prohibited substances and lead-based processes must be replaced by the deadline specified in the directive. The PKC Group has carried out an appraisal of its processes and shifted to lead-free processes, with most of its products already lead-free.

1997	**ESTONIA** ISO 14001 CERTIFICATE
1998	
1999	**KEMPELE** ISO 9001 AND ISO 14001 CERTIFICATES **BRAZIL** ISO 9002 CERTIFICATE
2000	**BRAZIL** ISO 14001 CERTIFICATE
2001	
2002	**KEMPELE** QS-9000 CERTIFICATE **ESTONIA** ISO 14001 CERTIFICATE **BRAZIL** ISO/TS 16949 CERTIFICATE
2003	**ESTONIA** QS-9000 CERTIFICATE
2004	**KEMPELE** ISO/TS 16949 CERTIFICATE **RUSSIA** ISO 9001, ISO 14001 AND ISO/TS 16949 CERTIFICATES **ESTONIA** ISO/TS 16949 CERTIFICATE
2005	**PKC GROUP** ISO14001 SYSTEMS UPDATE **BRAZIL** DAIMLERCHRYSLER QUALITY AWARD

WIRING HARNESSES BUSINESS

The Wiring Harnesses business segment is responsible for the manufacture and development of wiring harnesses and cabling for demanding and tailored solutions. In 2005, the Wiring Harnesses business accounted for 80% of consolidated net sales.

Operations were developed extensively
During the past year, more resources were allocated particularly to the acquisition of new customers and the maintenance of current customer relationships. In addition, working methods connected with customer management and sales support were finetuned. In the future, we aim to organise our operations in a manner that further improves overall service offered to customers.

Significant changes were made in the PKC Group's production network during the past year. Last spring, production at the Group's factory in the Netherlands was transferred entirely to the factories in Estonia. For the past few years, the factory in the Netherlands employed around 30 people. Co-operation with the Group's external Russian subcontractor, Aspera, ended early in the autumn, when the work assigned to it was transferred to the Group's own facilities.

PKC'S LOCATIONS IN THE END OF THE YEAR 2005

The subcontractor's assembly work employed about 100 people. These arrangements were aimed at achieving savings and better competitiveness.

Operations in Finland were adjusted to meet demand. As a result of co-determination negotiations that were held in the autumn, the PKC Group laid off 131 employees from the Wiring Harnesses business in Kempele. The demand for wiring harnesses produced in Finland has dropped due to their weak competitiveness.

The Group's operations were streamlined by transferring the cutting of wiring, a front-of-line function in the production process, from the factory in Kempele to the one in Kostomuksha. Production capacity was increased by leasing 14,700 square metres of new premises at the factories in Estonia and 3,800 square metres at the factory in Brazil as well as constructing a total of 9,400 square metres of new facilities at the factories in Kostomuksha. The expansion of the factories was accompanied by large-scale investments in production machinery and equipment.

The PKC Group established a subsidiary in China in autumn 2005. The new company provides local services to the Group's

international customers on the Chinese market. The launch of manufacturing operations in China in 2006 will enforce the Group's position as a supplier to the automotive and telecommunications industries.

The PKC Group also actively improved the efficiency of its logistics operations. Direct deliveries of raw materials from goods suppliers to the Group's factories in Estonia increased. Correspondingly, direct deliveries of finished products from the factories in Estonia to customers were started last year, diminishing the role of the Kempele factory as a logistics centre.

Support functions to production, mainly maintenance and servicing operations, were bolstered at the factories in Estonia in particular. During the past year, actions were taken to create more uniform methods and ways of working in production.

The PKC Group's expertise in system design was further improved with the help of a separate system design training programme and by charting the need for investment in design systems. As a result, the R&D organisation was split into the following three groups: vehicle electronics and testing system design, equipment and mechanics design and wiring harnesses design.

All these actions ensured that the manufacture of products was concentrated at suitable factories. Moreover, they enabled the company to increase capacity as a response to growth in deliveries as well as to meet the demands of global cost-effective operations and customer service.

Increasing capacity and improving productivity

The competitive situation in the wiring harnesses business is tight. The Group's objective is to achieve an annual growth in net sales of about 10%, which may require the company to carry out acquisitions. Even though the growth in the commercial vehicles industry began to level out last year, the PKC Group will require additional production capacity in lower-cost Eastern European countries in the near future. In the future, new production capacity will be required in North America as well.

During the current year, new production start-ups will occur at least in Brazil in connection with a customer's new generation of products and in China, when operations at the new factory are started.

One of the main objectives for the current year is a significant improvement in work productivity, especially at the factories in Russia and Estonia, which have grown considerably. This will be particularly important for maintaining good competitiveness.

ELECTRONICS BUSINESS

The Electronics business segment provides design and contract manufacturing services to the telecommunications and electronics industries. In 2005, the Electronics business accounted for 20% of consolidated net sales.

The Group's electronics manufacturing and product development units are located in Raahe, Finland, and Kostomuksha, Russia. In addition, the Electronics business operates a customer services unit in San Diego, the United States.

The Electronics business's production output remained on the previous year's level in 2005, but net sales declined moderately due to a downtrend in the prices of products and the fact that the manufacture of certain product families was discontinued. Last year, boosted by the good competitiveness of the factory in Kostomuksha and successful corporate strategy, the business unit succeeded in acquiring a few new customer relationships and expanding co-operation with its existing customers. At the end of 2005, PKC's Electronics business employed 218 people in Raahe and 129 people in Kostomuksha.

During the past year, resources were particulary devoted to the development of the Kostomuksha factory, the full-scale utilisation of investments made there and the rationalisation of operations in Finland. Entirely new products were started up at the Kostomuksha factory, and some of the production at the Raahe factory was also transferred there. This led to a reorganisation of operations at the Electronics business's units. As a result of the co-determination negotiations that were held last autumn, a total of 34 employees were laid off at the Raahe factory.

Co-operation between factories was finetuned by increasing efficiency in production planning and materials control. In the early summer, a project for the analysis of customer and product-specific profitability and production processes was launched. The project examines all the significant areas in the production chain. The results of this development work were evident during the final quarter, as the Kostomuksha factory's output grew considerably and the entire Electronics business's profitability developed favourably.

The direct exports of electronics products increased in 2005. Co-operation in product development with European, North American and Asian customers was intensified. PKC Group Americas Inc. has supported the running of customer projects and started new projects. PKC has bolstered its role as an international partner in co-operation for its customers and will continue its work in promoting this role.

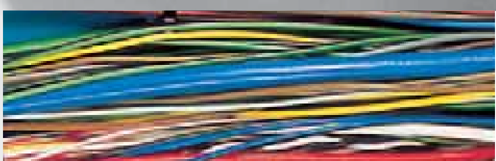
In the future, the Finnish unit will concentrate on product design, R&D and the manufacture of products that demand particular flexibility and short delivery times. The Kostomuksha electronics factory supplies volume products manufactured using efficient automatic assembly lines as well as manual assembly services. During 2006, PKC will invest strongly in increasing capacity at the Kostomuksha factory as well as improving the efficiency and flexibility of the Raahe factory.

Innovative product development is one of the keys to success. PKC increased product development resources for the Electronics business in order to meet higher demand from customers. The strategy is to be more active in offering customers a comprehensive service that encompasses the different stages of the product design process, ranging from design to manufacture and maintenance. This creates new possibilities in the electronics contract design and manufacturing market.

With the help of more active marketing and selling of a comprehensive service concept, the Electronics business aims to increase its net sales and market share, even though demand for electronics contract design and manufacturing in Finland is expected to remain on the same level as last year.

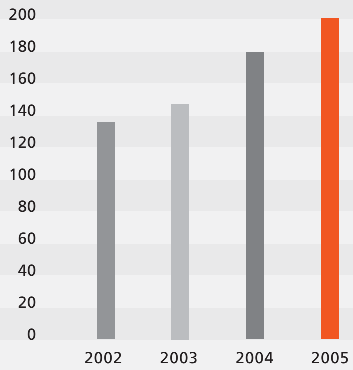
PKC is notably unnoticeable

PKC IS PART OF MANY IMPORTANT MOMENTS IN YOUR EVERYDAY LIFE.

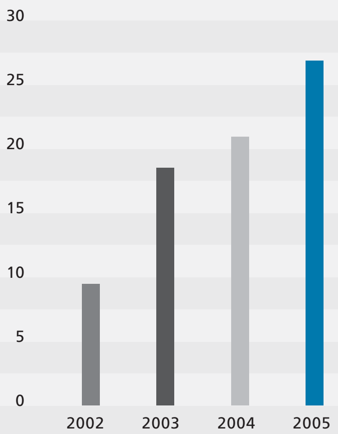


WIRING HARNESS AROUND YOU

> Base stations > Emergency vehicles > X-ray equipments
> Industrial robots > Patient monitoring systems > Elevators



NET SALES, million EUR



OPERATING PROFIT, million EUR

EARNINGS PER SHARE (EPS), million EUR

Operating environment

The commercial vehicle market grew from the previous year in Europe and America, with growth in the market levelling out in the second half. A larger market share was another factor that helped growth in the Group's sales to the heavy vehicle industry during the past year. Sales to the automation industry grew moderately due to a favourable market trend and a larger market share. Deliveries to the highly-competitive telecommunications and electronics industry grew, while net sales declined. The decline was mostly due to more cost-effective product structures in new generations of products, a downtrend in prices and the discontinuation of the manufacture of certain product families.

Net sales and financial performance

Consolidated net sales increased by 11.9% on the previous year to EUR 198.8 million (177.7 million). Consolidated operating profit totalled EUR 26.7 million (20.8 million), amounting to 13.4% of net sales (11.7%). Depreciation amounted to EUR 5.5 million (4.9 million). Financial income and expenses were EUR 0.5 million positive (1.2 million negative). The positive trend in financial items was due primarily to the favourable foreign exchange trend of the Russian rouble and the Brazilian real and to successful hedging of the United States dollar. Profit before taxes was EUR 27.3 million (19.6 million). Profit for the report period rose to EUR 18.8 million (13.2 million). Diluted earnings per share were EUR 1.06 (0.75).

Net sales generated by the Wiring Harnesses business during the report period rose by 17.3% to EUR 159.1 million (135.7 million). Its share of consolidated net sales was 80.0% (76.4%). The Wiring Harnesses business segment reported operating profit of EUR 23.1 million (17.5 million), or 14.5% of net sales inclusive of intersegment sales (12.8%).

During the report period the Wiring Harnesses business segment's net sales grew, bolstered by stronger demand for the products of our present customers. A stable operating environment and well-established products, rationalisation measures and significant growth in delivery volumes led to a clear improvement in profitability, particularly in Brazil. During the third quarter, profitability was down from the first half of the report year and lower than profitability in the fourth quarter due to a downtrend in prices and seasonal variations and lower labour productivity caused by transfers of production and co-determination negotiations.

Last spring, the production operations of the PKC Group's Dutch subsidiary PK Cables Nederland B.V. were transferred entirely to the production facilities of the company's subsidiary in Estonia. The factory in the Netherlands employed about 30 people in the past few years. Long-term co-operation with the Group's external Russian subcontractor also ended in the early autumn. The assembly work performed by the subcontractor employed about 100 people. This manufacturing work has been transferred to the Group's own factories. At the Group's facilities in Keila and Haapsalu, Estonia, about 6,300 square metres of new, leased production space was put into operation. These actions were the final phase in the centralisation of the manufacture of certain products to the factories in Estonia.

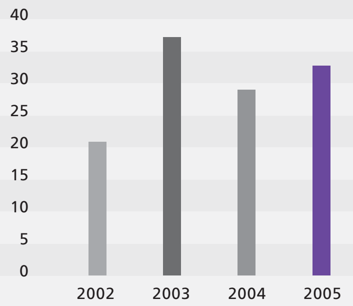
The Electronics business segment saw its net sales decline by 5.6% to EUR 39.7 million (42.0 million), accounting for 20.0% of consolidated net sales (23.6%). The Electronics business segment posted operating profit of EUR 3.6 million (3.4 million), or 8.9% of net sales inclusive of intersegment sales (7.8%).

Net sales of the Electronics business decreased due to a downtrend in prices. The decrease was also due to the fact that the manufacture of certain product families was discontinued. The development of the Kostomuksha electronics factory's operations and the efficient utilisation of investments as well as the reorganisation of the Raahe factory's operations and the improvement of their cost-effectiveness led to a favourable trend in profitability.

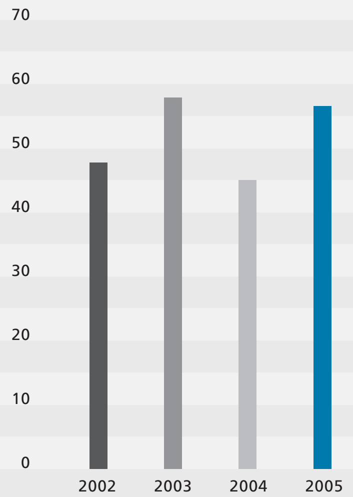
Balance sheet and financing

Consolidated total assets at 31 December 2005 stood at EUR 117.0 million (109.2 million). Interest-bearing liabilities totalled EUR 25.4 million at the close of the report period (35.8 million). The Group's equity ratio rose to 55.6% (44.2%). Net liabilities totalled EUR 20.6 million (30.7 million) and gearing was 31.6% (64.1%).

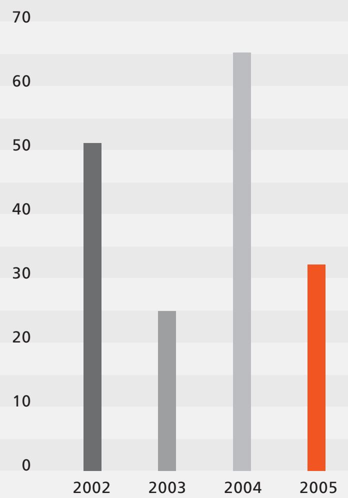
Inventories amounted to EUR 29.7 million (29.6 million). Current receivables totalled EUR 48.8 million (47.1 million). The increase in receivables was mainly a result of higher sales. Cash flows from investing activities were EUR 12.4 million positive (7.1 million negative). Cash in hand and at bank amounted to EUR 4.9 million (5.1 million). In order to ensure financing flexibility, PKC has available credit facilities.



RETURN ON INVESTMENT (ROI), %



EQUITY RATIO, %



GEARING, %

Capital expenditures

During the review period, the Group's gross capital expenditures totalled EUR 11.4 million (13.3 million), amounting to 5.7% of net sales (7.5%). Capital expenditures went mainly for expanded production space at the factory in Russia as well as for machinery and equipment at the factories in Estonia, Russia and Brazil.

The most important capital expenditure of the review period has been the enlargement of the PKC Group's production facility in Kostomuksha by 9,400 square metres. The new production facilities have been put into operation during the third quarter of the report year.

Research & development

Research and development expenditure totalled EUR 3.8 million (4.0 million), representing 1.9% (2.3%) of consolidated net sales. At the end of the report period, 54 (55) people were employed in product development.

Personnel

During the past year, the PKC Group adjusted its operations in Finland in line with demand. Demand for wiring harnesses and electronics produced in Finland has declined due to their weak competitiveness. As a result of the co-determination negotiations that ended in September, the PKC Group laid off a total of 165 people in Finland, 131 from the Wiring Harnesses business in Kempele and 34 from the Electronics business in Raahe. The lay-offs were largely carried out in September. In addition, the pension plans, reassignments and changes in job positions that were agreed as well as expiring fixed-term jobs will be enough to cover the need for a reduction in staff.

The Group had an average payroll during the report period of 3,506 employees (2,742). The Group's staff at the end of the report period numbered 3,570 employees (3,285), of whom 2,851 (2,426) worked abroad and 719 (859) in Finland. PKC's personnel strength has grown, especially at the factories in Estonia, Russia and Brazil.

The strong growth in the number of personnel is due both to the increase in delivery volumes and the temporary drop in labour productivity resulting from start-ups of the manufacture of new and transferred products.

Quality and the environment

The Group's Wiring Harnesses business operates in accordance with a quality system that is certified under the ISO 9001, ISO/TS 16949 and ISO 14001 standards at all its factories. The wiring harnesses factories operate on the basis of a uniform quality manual and processes. The factory in Brazil received DaimlerChrysler's award for best supplier of the year in recognition of its operation that exceeded the customer's expectations. The entire Electronics business operates in accordance with systems certified under the ISO 9001 and ISO 14001 standards.

The company invested heavily in the improvement of quality in 2005. The efficiency of processes is analysed and monitored using Group-wide quality indicators and internal assessments. The development of business processes has continued in line with action plans. Focuses of development included quality assurance methods, the working environment and production processes.

In accordance with its environmental policy, the PKC Group is reducing the environmental impacts resulting from its operations. During 2005, the company's environmental system was updated and certified under the new ISO 14001:2004 standard across the entire Group. The development of environmental affairs focuses on creating joint environmental objectives and targets for the entire Group. The key environmental issue from the point of view of the PKC Group's operations is reducing the amount of waste generated and the use of substances harmful to the environment. The Group constantly keeps up to date with changes in legislation affecting operations and takes necessary actions based on these changes.

Transition to IFRS accounting standards

The Group has adopted IFRS reporting standards as from 1 January 2005. The first IFRS year-end financial statements have been prepared for the 2005 financial year. Prior to the introduction of IFRS, PKC Group Oyj prepared its consolidated financial statements in accordance with Finnish Accounting Standards (FAS).

Corporate governance

PKC Group Oyj's Board of Directors has made modifications to the company's Corporate Governance guidelines in accordance with the new Securities Market Act. In future the company will maintain a public and company-specific insider register as well as insider registers for individual projects. The publicly disclosed insiders include the previous statutory insiders and, of the specified insiders, the members of the Corporate Management Team. The changes regarding insider registers and the requirements for publicly disclosing insiders' securities trades as prescribed by the Securities Market Act have been implemented during the past year.

The risk management section in the company's Corporate Governance guidelines lays out in detail the principles, objectives and organisation of risk management as well as the most important risk areas. Major risks are divided into those connected with operations, finances, strategy, quality and the environment, personnel, occupational safety and corporate security as well as information security and information systems.

The Corporate Governance guidelines are available on the company's website, www.pkcgroup.com, and the key sections of the guidelines are described in the company's Annual Report.

Changes in the group's structure

PKC Group Oyj established a subsidiary in China in October 2005. The company is aiming to serve the Group's international customers locally in the Chinese market, as elsewhere. The objective is to start production during 2006. The capital expenditure over the next few years is estimated to total about three million euros.

Management and auditors

During the year in review, PKC Group Oyj's Board of Directors was composed of the following members: Tom Hakalax (Chairman and member until 22 March 2005), Juhani Koskinen, Leo Ojala, Endel Palla, Veikko Ravaska (Vice Chairman 22 March–31 August 2005), Risto Suonio, Harri Suutari (member as from 22 March 2005; Chairman as from 1 September 2005) and Jyrki Tähtinen (Chairman 22 March–31 August 2005; Deputy Chairman 1 January–21 March 2005 and as from 1 September 2005).

The Board of Directors has set up from amongst its members a Working Committee whose task is to prepare matters related to strategy and business development. During the financial year, the Working Committee was chaired by Harri Suutari and the other members were Veikko Ravaska and Endel Palla.

Harri Suutari served as the company's President and CEO until 31 August 2005, after which Mika Kari took over as from 1 September 2005. Prior to this Kari had served as Vice President in charge of the Wiring Harnesses business and Deputy CEO.

The authorised public accounting firm Ernst & Young Oy carried out the company's audit, with Rauno Sipilä, Authorised Public Accountant, acting as the principal auditor.

Events after the close of the financial year

Jarkko Ojala, 32, M.Sc. (Econ.), has been appointed the Managing Director of PKC Eesti AS as from 27 January 2006. Before taking over his new position, he served as a business controller with PK Cables do Brasil. Jaan Murdla, who was previously the Managing Director of PKC Eesti AS, has been appointed the company's Development Director.

Outlook for the future

We expect the commercial vehicle industry to grow moderately compared to last year. Thanks to new product start-ups, our deliveries to the commercial vehicle industry are expected to slightly outpace the market. We predict that the Group's deliveries of wiring harnesses to other customer sectors will develop favourably. Despite the downtrend in prices, the annual net sales of the Wiring Harnesses business will grow from the previous year.

We estimate that the Finnish electronics contract manufacturing market will remain on its present level. The Electronics business's net sales are expected to grow moderately from last year due to the good competitiveness of the Kostomuksha factory.

Consolidated net sales are expected to slightly top last year's figures. The consolidated relative profitability is estimated to fall slightly from last year's level, while nevertheless remaining good.

1,000 EUR	Notes	2005	2004
NET SALES	2	**198,789**	**177,697**
Increase (+) / decrease (-) in stocks of			
finished goods and work in progress		-1,253	-1,493
Production for own use		0	517
Other operating income	3	1,172	535
Raw materials and services	4	100,719	91,877
Staff expenses	5	46,323	42,269
Depreciation	6	5,520	4,858
Other operating expenses	7	19,418	17,455
OPERATING PROFIT	2	**26,728**	**20,799**
Financial income and expenses	8	530	-1,237
PROFIT BEFORE TAXES		**27,258**	**19,562**
Income taxes	9,17	-8,112	-6,335
PROFIT FOR THE FINANCIAL YEAR		**19,146**	**13,227**
Attributable to:			
Shareholders of the parent company		18,813	13,177
Minority interest		333	49
Total		19,146	13,227
From profit attributable to shareholders of the parent company			
Basic earnings per share (EPS), EUR	10	1,07	0,76
Diluted earnings per share (EPS), EUR	10	1,06	0,75

1,000 EUR	Notes	31.12.2005	31.12.2004
ASSETS			
NON-CURRENT ASSETS			
Goodwill	11	2,386	2,386
Other intangible assets	11	1,305	1,057
Tangible assets	12	28,285	23,143
Available-for-sale investments	13	16	15
Deferred tax assets	16,17	1,595	752
Other receivables	16	100	100
Non-current assets total		**33,687**	**27,454**
CURRENT ASSETS			
Inventory	15	29,694	29,586
Receivables	16		
Trade receivables		43,692	42,528
Other non interest-bearing receivables		5,071	4,567
Receivables total		48,763	47,095
Cash and cash equivalents	18	4,889	5,076
Current assets total		**83,347**	**81,757**
ASSETS TOTAL		**117,034**	**109,210**
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT			
Share capital	19	6,118	5,903
Share premium account		4,286	3,327
Reserve fund		262	170
Retained earnings		34,965	25,377
Profit for the financial year		18,813	13,177
Minority interest		**593**	**284**
EQUITY TOTAL	20	**65,036**	**48,238**
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	21,23,24,25	14,633	20,550
Non interest-bearing liabilities	21	220	93
Provisions	21,26	235	
Deferred tax liabilities	17,21	400	952
Non-current liabilities total		15,487	21,595
Current liabilities			
Interest-bearing liabilities	22,23,25	10,807	15,234
Trade payables	22	12,801	13,123
Other non interest-bearing liabilities	22	12,901	11,028
Current liabilities total		36,510	39,384
Liabilities total		**51,997**	**60,979**
EQUITY AND LIABILITIES TOTAL		**117,034**	**109,217**

1,000 EUR	2005	2004
Cash flows from operating activities		
Cash receipts from customers	198,087	165,952
Cash receipts from other operating incomes	1,154	544
Cash paid to suppliers and employees	-167,957	-153,682
Cash flows from operations before financial income and expenses and taxes	**31,284**	**12,815**
Interest paid	-578	-1,196
Interst received and other financial income	627	87
Income taxes paid	-7,813	-5,628
Net cash from operating activities (A)	**23,520**	**6,077**
Cash flows from investing activities		
Purchase of tangible and intangible assets	-11,306	-13,247
Proceeds from sale of tangible and intangible assets	218	40
Investments	0	-6
Proceeds from sale of investments	0	14
Loans granted	-25	-35
Amortisation of loan receivables	28	39
Dividends received	1	7
Net cash used in investing activities (B)	**-11,084**	**-13,190**
Cash flows from financing activities		
Share issue	1,177	1,484
Drawing of creditors	0	25,316
Amortisation of creditors	-10,287	-2,939
Dividends paid	-3,513	-14,469
Net cash used in financing activities (C)	**-12,623**	**9,391**
Net increase (+) or decrease (-) in cash and equivalents (A+B+C)	**-187**	**2,279**
Cash and cash equivalents at beginning of period	**5,076**	**2,797**
Cash and cash equivalents at end of period	**4,889**	**5,076**
Change	**-187**	**2,279**

1,000 EUR	Share capital	Share premium account	Other reserves	Retained earnings	Equity attributable to shareholders of the parent	Minority interest	Equity total
Shareholders' equity 1.1.2004	**1,940**	**5,806**	**168**	**39,839**	**47,753**	**258**	**48,012**
Profit for the financial year	-	-	-	13,177	13,177	49	13,226
Dividends	-	-	-	-14,460	-14,460	-24	-14,484
Bonus issue of share capital	3,916	-3,916	-	-	-	-	-
Equity share options used	46	1,438	-	-	1,484	-	1 484
Transfer from unrestricted to restricted capital	-	-	2	-2	-	-	-
Shareholders' equity 31.12.2004	**5,903**	**3,327**	**170**	**38,555**	**47,954**	**284**	**48,238**
Shareholders' equity 1.1.2005	**5,903**	**3,327**	**170**	**38,555**	**47,954**	**284**	**48,238**
Profit for the financial year	-	-	-	18,813	18,813	333	19,146
Dividends	-	-	-	-3,497	-3,497	-24	-3,521
Equity share options used	215	958	-	-	1,174	-	1,174
Transfer from unrestricted to restricted capital	-	-	92	-92	-	-	-
Shareholders' equity 31.12.2005	**6,118**	**4,286**	**262**	**53,778**	**64,444**	**593**	**65,036**

A dividend of EUR 0.20 per share was paid according to annual general meeting's decision in 2005 and EUR 0.83 per share in 2004.

CORPORATE INFORMATION

The PKC Group offers design and contract manufacturing services for wiring harnesses, cabling and electronics to the commercial vehicle, telecommunications and electronics industry. The Group has production facilities in Finland, Estonia, Russia and Brazil, and it employs about ,600 people. The parent company of the Group, PKC Group Oyj, is listed on the Helsinki Stock Exchange and it is domiciled in Kempele. Visiting address: Vihikari 10, FIN-90440 Kempele.

1. ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED ACCOUNTS

General

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared in compliance with IAS and IFRS standards as well as the SIC and IFRIC interpretations that came into force on 31 December 2005.

The Group has adopted IFRS as from the beginning of 2005 and applied IFRS 1 (First-time Adoption of IFRS) in the transition. The date of transition was 1 January 2004. The effects of IFRS transition are presented in the reconciliations included in note 32. Comparative information for 2004 has been restated to comply with IFRS.

The consolidated financial statements have been prepared on a historical cost basis and are presented in euros, rounded to the nearest thousand except when otherwise indicated.

Available-for-sale investments, cash and cash equivalents as well as financial assets recognised at fair value through profit and loss are presented at fair value.

Basis of consolidation

The consolidated financial statements include, in addition to the parent company, the companies in which the parent company holds, directly or indirectly, over 50 percent of voting rights or which it otherwise controls at the end of the financial period. Divested companies are included in the income statement until the time of sale or control ceases. Subsidiaries are fully consolidated from the date of acquisition, which is the date when the Group has obtained control.

Holdings in associated companies are presented using the equity method. Joint ventures are presented using the Group's proportionate holding. The Group had neither holdings in associates, joint ventures, new business combinations nor sale of subsidiaries in the current or previous financial periods.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business acquisition to the fair value of the assets acquired and liabilities assumed at the date of acquisition. Any excess is recorded as goodwill. Goodwill is not amortised but instead annually tested for impairment on a cash-flow basis according to IAS 36. Impairment losses are recognised immediately as a loss in the income statement.

According to the exemption permitted under IFRS 1, business acquisitions prior to the date of transition to IFRS are not restated to comply with IFRS but are instead treated at deemed acquistition cost, valued according to Finnish GAAP.

All intra-group transactions, receivables and liabilities, unrealised margins and intra-group dividends have been eliminated in full. Profit for the financial period has been divided between profit for the financial period attributable to shareholders of the parent company and minority interest. Minority interest is presented as a separate item in equity.

Foreign subsidiaries and foreign currency items

The Group's income statement is presented in euros, which is the functional currency of the parent company. The functional currency has been determined for each subsidiary in the Group. The functional currency of Group companies in Finland, Brazil, Russia, Estonia and China is the euro in both the current and previous period. The functional currency of the other companies in the Group is determined to be the local currency. The only company whose functional currency is its local currency is located in the United States of America.

In the consolidated financial statements, foreign currency transactions are recorded at the functional currency rate at the date of the transactions or using the approximately equivalent weighted average exchange rate for the month in question. Monetary assets and liabilities are recorded in the functional currency rate ruling at the balance sheet date. All differences are taken to the income statement.

The financial statements of Group subsidiaries whose functional currency is not the euro are translated to euro amounts by using the weighted average exchange rate for income statement items and by using the translation rate ruling at the balance sheet date for balance sheet items. Any translation difference that arises is recognised in equity. The amount of translation differences recognised in equity in the current and previous financial period is insignificant.

Translation differences arising from the non-current loans that are equity items because of their actual nature are also recognised as translation differences in equity. The Group has not had such loans in the current or previous period. When a subsidiary is sold, possible translation differences are recognised in the income statement as a part of the gain or loss on the sale.

Cumulative translation differences that have arisen before the date of the transition to IFRS are recognised in retained earnings according to the exemption permitted under IFRS 1. The amount of cumulative translation differences at the date of transition to IFRS was insignificant.

Foreign transactions are recorded in euros at the exchange rate at the date of the transaction in question. Balance sheet items that are open on the balance sheet date are recorded in euros using the rate on the balance sheet date. Differences are recognised in the income statement.

Goodwill

Goodwill is recognised in the amount of the excess of the cost of the business acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill is allocated to cash-generating units, whose value is tested annually for impairment.

Other intangible assets

Intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisations and any accumulated impairment losses. Subsequent expenses are added to the carrying amount of the assets when they add to the future economic benefits of the asset. Amortisation is calculated according to a predefined amortisation plan on the basis of estimated service durations. The amortisation method used is straight-line amortisation. Intangible assets with indefinite useful lives are not amortised but tested annually for impairment.

Amortisation periods for intangible assets are:

Purchased software licences	4–5	years.

Research and development costs

Research expenses are expensed as they are incurred. Development expenses are recognised as intangible assets when they fulfil the terms of development cost capitalisation according to IAS 38.

Development expenses are expensed as they have been incurred in the current and previous period because of insufficient indication of future economic benefits in the development phase of projects.

Tangible assets

Tangible assets are initially measured at cost. Following initial recognition, tangible assets, are carried at cost less any accumulated depreciations and any accumulated impairment losses. Subsequent expenses are added to the carrying amount of the assets when they add to the future economic benefits of the asset. Depreciation is calculated according to a predefined depreciation plan on the basis of estimated service durations. No depreciation is made from land and water areas. The depreciation method used is straight-line depreciation.

Depreciation periods for property, plant and equipment are:

Buildings and constructions	5–20	years
Machinery and equipment	3–10	years
Other tangible assets	5–10	years.

Leases

Leases that transfer to the Group substantially all the risks and benefits incidental to ownership are classified as finance leases and recognised as a non-current asset at the inception of the lease at fair value of the leased property or, if lower, at the present value of minimum lease payments and depreciated over the economic life. Commitments of lease payments are recognised as non-current and current interest-bearing liabilities.

Leases that transfer from the Group substantially all the risks and benefits incidental to ownership are classified as finance leases and recognised as a receivable in the balance sheet. The receivable is measured at present value and it is recognised as rental income over the lease term.

Operating lease payments are recognised as income or expenses in the income statement on a straight-line basis. Finance leases had only a minor effect in financial statements.

Investment properties

The Group has not had assets that could be classified as investment properties either in the current or previous period.

Impairments of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less cost to sell and its value in use. In addition, goodwill and other intangible assets with indefinite useful lives are tested for impairment annually.

An impairment loss is recognised when the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. An impairment loss shall be recognised as a reduction in the carrying value in the balance sheet, which is expensed in the income statement. The impairment loss of a cash-generating unit is recognised firstly as a reduction in the carrying value of the goodwill allocated to the cash-generating unit and secondly proportionally as a reduction in the other assets of the cash-generating unit. Details about the impairment test are presented in note 14.

An impairment loss for goodwill shall not be reversed. A previously recognised impairment loss for assets other than goodwill shall be reversed only if there has been a positive change in the estimates used to determine the asset's recoverable amount. An impairment loss can be reversed to the amount that would have been the carrying value of the asset, had no impairment loss been recognised.

Inventories

Inventories are valued at acquisition cost or the lower net realisable value. Cost of the inventory is determined on the basis of the weighted average cost formula and it includes all of the direct costs and a proportional amount of indirect manufacturing costs. The net realisable value is the sales price less estimated costs to finish and sell the product.

Trade receivables

Trade receivables are recognised at value based on the invoiced amount less uncertain receivables and compensations. Deductions for uncertain trade receivables are evaluated on a case-by-case basis. Credit losses are recognised in the income statement. There were no significant credit losses in the current and previous period.

Financial assets, financial liabilities and derivatives

Financial assets and liabilities are initially measured at acquisition cost, which is the value on the transaction date.

Financial assets are classified after initial recognition in four categories: financial assets at fair value through profit and loss, held-to-maturity investments, available-for-sale investments and to loans and receivables

Transaction costs are included in the initial carrying amount of the financial asset.

Financial assets at fair value through profit and loss are measured at fair value through profit and loss.

Held-to-maturity investments are carried at amortised cost.

Available-for-sale investments are measured at fair value with gains and losses being recognised in equity until the investment is sold, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Available-for-sale investments whose fair value cannot be determined reliably shall be measured at acquisition cost less any accumulated impairment.

Unrealised gains and losses on available-for-sale investments are recognised in equity until the investments are sold, at which time the cumulative gains and losses are recognised in the income statement.

Loans and receivables are carried at amortised costs using the effective interest rate method.

Derivatives to which hedge accounting is not applied are also classified as held for trading. Currency forward contracts are measured at fair value on the basis of the difference between the contractual rate and the rate of the balance sheet date. Currency options are measured at fair value with the Black&Scholes valuation model. The Group had no derivatives to which hedge accounting is not applied either in the current or the previous period.

Financial liabilities are classified as financial liabilities at fair value through profit and loss and other financial liabilities. Financial liabilities at fair value through profit and loss are measured at fair value. Other financial liabilities are carried at amortised cost.

The Group assesses at each reporting date whether the financial assets or liability is impaired and recognises possible impairment losses in financial expenses in the income statement.

A financial asset is derecognised when the Group no longer has contractual rights to receive cash flow or it has transferred the risks and rewards outside the group.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

Own shares

Purchases of own shares including costs are deducted from equity. No own shares were purchased in the current or previous period.

Interest-bearing loans

Interest-bearing loans are measured at amortised cost using the effective interest method. Gains and losses arising from differences between amortised cost using the effective interest method and initially recognised acquisition cost are recognised in net profit or loss throughout the amortisation process. Used credit limits are included in current interest-bearing liabilities.

Pension arrangements

Pension arrangements are classified either as defined benefit pension plans or defined contribution pension plans according to IFRS. Pension systems in foreign subsidiaries are defined contribution plans. Also, the Finnish Employee Pension Act (TEL) system is classified as a defined contribution pension plan. In 2004, an event that leads to an obligation under the disability pension of the Finnish TEL system is interpreted to be an event that causes a long-term disability. In accordance with the base calculation changes approved by the Ministry of Social Affairs and Health in December 2004, the Finnish TEL insurance policy's disability pension part that is handled by insurance companies is also classified as a defined contribution plan. In defined contribution plans, pension payments are paid to insurance companies and recognised immediately as an expense in the income statement, after which the Group has no further liabilities.

Share-based payments

The Group has one stock option scheme directed to key personnel in 2000 that is aimed at committing the key personnel to the company and supporting long-term work to increase the company's value. Payments received from share subscriptions are recognised in share capital and the share premium reserve. The Group has no other effective share-based incentive programs. No option expense is recognised in the income statement in accordance with the transitional provisions of IFRS 2.

Provisions

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that it entails future expenses and a reliable estimate can be made of the amount of the obligation. Provisions are measured at present value of the costs necessary to settle the obligation.

A restructuring provision is recognised in the balance sheet only when a detailed and formal plan is prepared and its main features are announced to those affected by it.

On the balance sheet date, the need for a guarantee provision is estimated on the basis of past experience of guarantee costs. When necessary, a guarantee provision is recognised in the balance sheet and measured on the basis of sold products with guarantee terms in the financial period. Past experience on the balance sheet date and previous balance sheet date did not require the recognition of a guarantee provision.

Net sales

Net sales include the total invoiced value of products sold and services provided less sales tax and given discounts.

Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership, possession rights and true authority of goods and services have passed to the buyer.

Mainly, revenue is recognised when products are supplied in accordance with the terms of the sales contract. The revenue of services are recognised at the date of completion.

The Group had no construction contracts, that are recognised by state of completeness in the current period or previous periods.

Other operating income and expenses

Other operating income comprises gains on sales of assets and other income not related to actual operations.

Other operating expenses comprise losses on sales of assets and other indirect costs, such as research and development expenses.

Interest and dividend income

Interest revenue is recognised by using the effective interest method. Dividend revenue is recognised when the Group's right to receive payment is established.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Government grants

Received government grants are recognised as income over the period necessary to match the costs that they are intended to compensate.

Income taxes

The income taxes presented in the consolidated financial statements are the income taxes calculated according to the local tax rules of the Group companies, non-essential corrections to taxes from previous periods, and the change in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised on all of the temporary differences between the carrying amounts and taxable value of balance sheet items. The amount of deferred tax assets and liabilities are measured using the tax base that is in force or has been enacted by the balance sheet date.

The significant temporary differences in the Group arise from depreciation differences. Deferred tax assets and liabilities are presented in more detail in note 17.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Non-current assets held for sale and discontinued operations

Operations are classified as discontinued at the date when they fulfil the terms to be classified as non-current assets held for sale or when disposed. For this to be the case, the asset's sale must be highly probable.

Gains and losses from sales of discontinued operations are presented separately from continuing operations in the income statement without tax effect. The Group had no operations to be classified as discontinued in the current or previous period.

Estimates

The preparation of financial statements according to IFRS has required assumptions and estimates from management that have affected the values presented in the balance sheet and notes to the financial statements. The assumptions and estimates used are based on historical experience and the circumstances and outlooks prevailing at the balance sheet date. The execution of the annual impairment test has required assumptions and estimates from management to measure the value in use of cash-generating units. According to management's estimation, values in use exceed the carrying amounts of all cash-generating units to such a significant extent that allocated goodwill or other intangible and tangible assets hold no significant risk for impairment in the current period.

Assumptions and estimates used in the comparative period are based on the circumstances and outlooks that prevailed on the previous period's balance sheet date.

Although all estimates are based on management's best knowledge of current events and actions, the actual result may differ from the estimates.

Future changes in accounting policies

The Group will apply the following standard, published by the IASB in 2005, from 1 of January 2007:

- IFRS 7 Financial Instruments: Disclosures

The Group estimates that the adoption of the revised standard will have no significant impact on its forthcoming financial statements.

2. SEGMENT INFORMATION

The Group's primary reporting segments are business segments. The secondary information is reported geographically. Transfer prices between business segments are based on market prices. Segments' assets and liabilities include only assets and liabilities that can be directly allocated. Business segments' common items are included in unallocated assets and liabilities.

BUSINESS SEGMENTS

Wiring Harnesses

The Wiring Harnesses business manufactures and develops wiring harnesses and cabling for demanding and tailored solutions.

Electronics

The Electronics business provides design and contract manufacturing services to the telecommunications and electronics industries.

GEOGRAPHICAL SEGMENTS

Net sales are presented by geographical location of customers that are: Finland, other EU-countries, other Europe, South-America and other countries. Correspondingly, assets and capital expenditures are presented by geographical location of assets that are: Finland, Estonia, Russia, Brazil and other countries.

2. SEGMENT INFORMATION

BUSINESS SEGMENTS 1,000 EUR	Wiring Harnesses	Electronics	Eliminations	Group Total
2005				
Sales to external customers	159,127	39,662	0	198,789
Sales to other segments	147	986	-1,133	0
NET SALES	**159,274**	**40,648**	**-1,133**	**198,789**
Depreciation	4,747	773	0	5,520
OPERATING PROFIT	**23,126**	**3,602**	**0**	**26,728**
Goodwill	1,177	1,209	0	2,386
Other segment's assets	90,532	18,119	-754	107,897
Unallocated assets	0	0	0	6,750
ASSETS TOTAL	**91,709**	**19,328**	**-754**	**117,034**
Segment's liabilities	17,988	8,348	-2,350	23,986
Unallocated liabilities	0	0	0	27,777
LIABILITIES TOTAL	**17,988**	**8,348**	**-2,350**	**51,763**
Capital expenditure	10,977	432	0	11,410
2004				
Sales to external customers	135,703	41,994	0	177,697
Sales to other segments	170	789	-959	0
NET SALES	**135,873**	**42,783**	**-959**	**177,697**
Depreciation	3,361	1,498	0	4,859
OPERATING PROFIT	**17,448**	**3,351**	**0**	**20,799**
Goodwill	1,177	1,209	0	2,386
Other segment's assets	85,228	15,455	-238	100,444
Unallocated assets	0	0	0	6,386
ASSETS TOTAL	**86,405**	**16,664**	**-238**	**109,217**
Segment's liabilities	17,117	6,715	-593	23,239
Unallocated liabilities	0	0	0	37,740
LIABILITIES TOTAL	**17,117**	**6,715**	**-593**	**60,979**
Capital expenditure	12,752	569	0	13,321

GEOGRAPHICAL SEGMENTS

NET SALES

By market areas	**2005**	**2004**
Finland	45,034	45,303
Other EU-countries	114,408	104,141
Other Europe	125	164
South America	29,762	20,634
Other countries	9,461	7,456
Total	**198,789**	**177,697**

ASSETS

By location of assets	**2005**	**2004**
Finland	78,138	80,990
Estonia	5,851	5,626
Russia	20,324	12,789
Brazil	12,301	9,428
Other countries	419	384
Total	**117,034**	**109,217**

CAPITAL EXPENDITURES

By location of assets	**2005**	**2004**
Finland	1,722	3,568
Estonia	884	3,082
Russia	6,978	6,162
Brazil	1,622	509
Other countries	204	0
Total	**11,410**	**13,321**

1,000 EUR	**GROUP 2005**	**GROUP 2004**
3. OTHER OPERATING INCOME		
Other income	1,172	535
Total	1,172	535
4. MATERIALS AND SERVICES		
Raw materials and consumables		
Purchases during the finacial period	100,660	93,966
Increase (+) or decrease (-) in stocks	-1,430	-4,001
Outsourced services	1,489	1,911
Total	**100,719**	**91,877**
5. STAFF EXPENSES		
Wages and salaries	37,097	33,160
Defined pension contribution plans	4,311	4,319
Other social expenses	4,915	4,790
Total	46,323	42,269
Salaries and fees to Board and management		
Salaries and fees to Board members		
Tom Hakalax	5	17
Jyrki Tähtinen	24	11
Juhani Koskinen	17	12
Leo Ojala	17	12
Endel Palla	17	12
Veikko Ravaska	20	12
Risto Suonio	17	11
Harri Suutari	20	0
Total	134	85
Salaries and fees to Presidents (*		
Mika Kari	163	130
Harri Suutari	113	156
Total	275	286
Salaries and fees to other parent company's management team members	884	912
Total	**884**	**912**

*) Mika Kari was appointed PKC Group Oyj's president and CEO as from 1 September 2005. At the same time Harri Suutari has been appointed Chairman of the Board. Before appointment Mika Kari has been as Vice President and CEO's deputy.

Salaries, remuneration and other benefits

In 2005 the Annual General Meeting (AGM) resolved to pay Board members EUR 18,000 per term, Vice Chairman EUR 27,000 per term and Chairman EUR 36,000 per term as well as travel and accommodations expenses. In 2004 it was decided to pay the Chairman EUR 18,000/term and other members EUR 12,000/term.

In 2005 the Presidents' (Harri Suutari and Mika Kari) salaries and other benefits totalled EUR 275,411, of which bonuses EUR 72,929 (26.5% of the total salary). Harri Suutari's service contract had provision for 6 months notice period without separate severance payment or other compensation. Mika Kari's service contract has provision for 3 months notice period from the President's part and 6 months from company's part. Also, when the company ends the contract, President is entitled to a monetary compensation corresponding to 15 months total salary, which includes salary for the period of notice as well as prorated part of the objective-based bonus corresponding to the period of working in full months during the financial year in question. The retirement age is statutory and no voluntary insurance policies have been taken.

In year 2005 the Corporate Management Team's, excluding the presidents, salaries and other benefits totalled EUR 883,812 of which bonuses EUR 103,991 (11.8% of the total salaries). Meeting fees are not paid to the Corporate Management Team. The directors of business units and functions have employment contracts valid for indefinite period, with 3 months notice period from the director's part and 6 months from company's part and without separate severance payment or other compensation. The retirement age is statutory and no voluntary insurance policies have been taken. The members of the Corporate Management Team were included in the already ended year 1998 Stock Option Scheme and are included in the year 2000 Stock Option Scheme. At the end of the financial year 2005 the Corporate Management Team does not have option holdings.

	GROUP 2005	GROUP 2004
Average number of personnel		
Clerical employees	650	494
Employees	2,856	2,248
Total	**3,506**	**2,742**

6. DEPRECIATION		
Intangible assets		
Purchased software licenses	377	324
Tangible assets		
Buildings and constructions	441	217
Machinery and equipment	4,619	4,072
Other tangible assets	83	245
Total	**5,520**	**4,858**

7. OTHER OPERATING EXPENSES		
Other operating expenses	19,418	17,455
Total	**19,418**	**17,455**

8. FINANCIAL INCOME AND EXPENSES		
Financial income		
Interest income	91	96
Dividend yields	1	2
Change in fair value of assets recognised at fair value through profit and loss	101	0
Total	**194**	**98**
Financial expenses		
Interest expenses	-956	-1,087
Change in fair value of assets recognised at fair value through profit and loss	0	-248
Total	**-956**	**-1,335**
Financial income and expenses total	**-762**	**-1,237**
Financial income and expenses total includes net exchange rate differences	**1,291**	**-55**

9. INCOME TAXES

	GROUP 2005	GROUP 2004
Income taxes from actual operations	9,545	5,532
Income taxes from previous years	-70	0
Other taxes	28	10
Change in deferred tax assets and liabilities	-1,391	794
Total	**8,112**	**6,335**
Definition of tax expense		
Income taxes according to Finland's tax rate	7,087	5,673
Effects of different tax rates in foreign subsidiaries	691	145
Tax-free income and non-deductible costs	-187	590
Effects of tax rate change	0	-40
Other items	521	-33
Total	**8,112**	**6,335**

10. EARNINGS PER SHARE

	GROUP 2005	GROUP 2004
Basic		
Profit for the financial year	18,813	13,177
Average share issue-adjusted number of shares, 1,000 shares	17,607	17,417
Basic earnings per share (EPS), EUR	**1.07**	**0.76**
Diluted		
Profit for the financial year	18,813	13,177
Average share issue-adjusted number of shares, 1,000 shares	17,607	17,417
Diluting effects of options outstanding, 1,000 shares	58	67
Diluted average share issue-adjusted number of shares, 1,000 shares	17,665	17,484
Diluted earnings per share (EPS), EUR	**1.06**	**0.75**

11. INTANGIBLE ASSETS	Purchased software licenses	Goodwill	Advance payments	Total
Acquisition cost 1.1.2005	**1,858**	**6,791**	**21**	**8,669**
+ Increases	467	0	215	682
- Decreases	-219	0	0	-219
Acquisition cost 31.12.2005	**2,106**	**6,791**	**236**	**9,133**
Accumulated amortisation and impairments 1.1.2005	-660	-4,404	0	-5,065
- Amortisation	-377	0	0	-377
Accumulated amortisation 31.12.2005	**-1,037**	**-4,404**	**0**	**-5,441**
Book value 31.12.2005	**1,069**	**2,386**	**236**	**3,691**
Book value 31.12.2004	**1,036**	**2,386**	**21**	**3,443**

12. TANGIBLE ASSETS	Land areas	Buildings and constructions	Machinery and equipments	Other tangible assets	Advance payments and acquisitions in progress	Total
Acquisition cost 1.1.2005	**26**	**8,571**	**31,591**	**663**	**1,376**	**42,228**
+ Increases	93	5,641	6,246	709	-1,376	11,312
- Decreases	0	-134	-735	0	0	-869
Acquisition cost 31.12.2005	**119**	**14,078**	**37,102**	**1,371**	**0**	**52,670**
Accumulated depreciation and impairments 1.1.2005	0	-1,139	-17,827	-146	0	-19,112
Accumulated depreciation of decreases and transfers	0	84	347	-561	0	-129
- Depreciation	0	-441	-4,619	-83	0	-5,143
Accumulated depreciation 31.12.2005	**0**	**-1,496**	**-22,099**	**-790**	**0**	**-24,385**
Book value 31.12.2005	**119**	**12,582**	**15,003**	**582**	**0**	**28,285**
Book value 31.12.2004	**26**	**7,696**	**13,778**	**267**	**1,376**	**23,143**

13. AVAILABLE-FOR-SALE INVESTMENTS	Other Shares and similar rights of ownership
Acquisition cost 1.1.2005	**15**
+ Increases	1
Acquisition cost 31.12.2005	**16**
Book value 31.12.2005	**16**
Book value 31.12.2004	**15**

14. PROCEDURES AND RESULTS OF IMPAIRMENT TESTING

Goodwill and other intangible assets with indefinite useful lives are tested annually for impairment. The Group's intangible assets with indefinite useful lives at balance sheet date comprised only goodwill.

The Group has allocated goodwill to cash-generating units that comprise one or more business units. The impairment of a cash-generating unit (CGU) is tested for impairment by comparing its recoverable amount to its carrying amount. The recoverable amounts of all of the cash-generating units are determined by their values in use, which are based on the present value of their future cash flows. The estimates of the cash flows are based on continuing use of assets and on 3-year financial forecasts by business management, which are also used to extrapolate the fourth and fifth year. The used terminal value's growth rate is 2% per annum.

Discount rates were determined separately for each business unit, reflecting the effects of different business and economic areas on the expected return of equity. The cost of capital was determined using the capital asset pricing model (CAPM). The cost of debt was determined on the basis of the current credit portfolio of the parent company. In the determination of the weighted average cost of capital, the target equity ratio and the effect of indebtedness to the cost of equity have been taken into consideration.

The range of used discount rates varied between 6.69 to 10.35% depending on the CGU.

The results of the impairment testing indicated that the recoverable amount of all CGUs' exceeded their corresponding carrying values. The Group shall not recognise impairment loss for the current period accordingly to the results of the impairment test.

As an independent expert, Pro Value Corporate Finance Oy has stated in the separate Fairness Opinion statements that the impairment testing of the previous and transition period satisfies the requirements of the IFRS standards in form and content.

1,000 EUR	**2005**	**2004**
15. INVENTORIES		
Raw materials and supplies	19,074	17,644
Work in progress	5,300	6,166
Finished goods	5,208	5,596
Advance payments	112	182
Total	**29,694**	**29,588**

1,000 EUR	**2005**	**2004**
16. RECEIVABLES		
Non-current receivables		
Non-current interest-bearing receivables		
Loan receivables	100	100
Non-current interest-bearing receivables total	100	100
Non-current non interest-bearing receivables		
Deferred tax assets	1,595	752
Non-current non interest-bearing receivables total	1,595	752
Total	**1,695**	**852**
Current receivables		
Current interest-bearing receivables		
Loan receivables	3	6
Current interest-bearing receivables total	3	6
Current non interest-bearing receivables		
Trade receivables	43,692	42,528
Financial assets at fair value through profit and loss	101	0
Other receivables	3,246	3,010
Prepayments and accrued income	1,720	1,556
Current non interest-bearing receivables total	48,759	47,095
Total	**48,763**	**47,101**
Receivables total	**50,458**	**47,953**

17. DEFERRED TAX ASSETS AND LIABILITIES

	1.1.2005	Recognised in income statement	Recognised in equity	31.12.2005
Deferred tax assets				
Accumulated depreciation differences	537	304	0	841
Unused tax-deductible losses from previous periods	148	254	0	403
Provisions	34	231	0	265
Other items	32	50	5	87
Total	**752**	**839**	**5**	**1,595**
Deferred tax liabilities				
Allocation of production fixed expenses	422	-141	0	281
Undistributed unrestricted capital	244	-244	0	0
Accumulated depreciation differences	211	-146	0	65
Finance leases	75	-75	0	0
Other items	0	53	0	53
Total	**952**	**-552**	**0**	**400**

	1.1.2004	Recognised in income statement	31.12.2004
Deferred tax assets			
Accumulated depreciation differences	677	-140	537
Unused tax-deductible losses from previous periods	614	-466	148
Provisions	103	-70	34
Other items	0	32	32
Total	**1,394**	**-643**	**752**
Deferred tax liabilities			
Allocation of production fixed expenses	580	-158	422
Undistributed unrestricted capital	19	225	244
Accumulated depreciation differences	157	54	211
Finance leases	43	32	75
Total	**798**	**154**	**952**

18. CASH AND CASH EQUIVALENTS

	2005	2004
Cash and cash equivalents	4,889	5,076
Total	**4,889**	**5,076**

19. SHARE CAPITAL

Share capital (1,000 EUR)	Number of shares (1,000 pcs)	Share Capital	Share premium account	Reserve fund
1.1.2004	5,748	1,940	5 806	170
Bonus issue	11,640	3,916	-3 916	0
Equity share options used	72	18	1 437	0
31.12.2004	**17,461**	**5,875**	**3 327**	**170**
1.1.2005	17,461	5,875	3 327	170
Equity share options used	191	234	959	92
Unregistered share capital	24	9	0	0
31.12.2005	**17,676**	**6,118**	**4 286**	**262**

20. CALCULATION OF DISTRIBUTABLE FUNDS	2005	2004
Retained earnings	34,965	25,377
Profit for the financial year	18,813	13,177
Accumulated depreciation differences and untaxed reserves recognised in equity	-818	0
Distributable funds 31.12.2005	**52,960**	**38,554**

21. NON-CURRENT LIABILITIES	2005	2004
Non-current interest-bearing liabilities		
Loans from financial institutions	14,462	20,340
Pension loans	172	186
Other liabilities	0	25
Non-current interest-bearing liabilities total	14,633	20,550
Non-current non interest-bearing liabilities		
Deferred tax liabilities	400	952
Trade payables	220	93
Provisions	235	0
Non-current non interest-bearing liabilities total	854	1045
Total	**15,487**	**21,595**

22. CURRENT LIABILITIES	2005	2004
Current interest-bearing liabilities		
Loans from financial institutions	10,794	15,189
Finance leases liabilities	0	31
Pension loans	14	14
Current interest-bearing liabilities total	10,807	15,234
Current non interest-bearing liabilities		
Advances received	5	22
Trade payables	12,801	13,123
Other liabilities	2,722	2,684
Accruals and deferred income	10,174	8,322
Current interest-bearing liabilities total	25,702	24,150
Total	**36,510**	**39,384**

Accruals and deferred income		
Staff expenses	7,436	6,634
Financial instruments recognised at fair value through profit and loss	0	248
Financial items	130	205
Taxes	1,929	938
Others	679	297
Total	**10,174**	**8,322**

23. FAIR VALUES OF INTEREST-BEARING LIABILITIES	2005	2004
Non-current interest-bearing liabilities		
Loans from financial institutions	13,995	19,869
Pension loans	174	192
Other liabilities	0	25
Non-current interest-bearing liabilities total	14,169	20,086
Current interest-bearing liabilities		
Loans from financial institutions	11,416	15,720
Finance leases liabilities	0	31
Pension loans	20	21
Current interest-bearing liabilities total	11,436	15,772
Total	**25,605**	**35,858**

24. MATURITY TABLE OF NON-CURRENT INTEREST-BEARING LIABILITIES

	Loans from financial institutions	Pension loans	Total
2007	5,878	12	5,890
2008	3,571	11	3,582
2009	3,571	10	3,581
2010	1,071	10	1,081
2011–	370	129	499
Total	**14,462**	**172**	**14,633**

25. FINANCE LEASES	2005	2004
Group as a lessee		
Total minimum lease payments		
not later than one year	0	39
later than one year and not later than five years	0	4
Total	0	43
Present value of minimum lease payments		
not later than one year	0	39
later than one year and not later than five years	0	4
Total	0	43
Finance leases total	**0**	**43**

26. PROVISIONS

Provision for pension expenses	
1.1.2005	0
Increases in provisions	235
Provisions 31.12.2005	**235**

As provision for pension expenses is recognised the estimated own cost for 2007–2009 of the unemployment pensions of the persons laid off after co-determination negotiations.

27. DERIVATES	2005	2004
Nominal values		
Currency derivates		
Forward agreements	5,742	5,607
Option agreements		
• Call	0	561
• Put	0	281
Total	**5,742**	**6,449**
Fair values		
Currency derivates		
Forward agreements	101	-248
Option agreements		
• Call	0	2
• Put	0	-5
Total	**101**	**-251**

Currency derivates are used only in hedging currency risks. PKC Group does not apply hedge accounting to derivate instruments according to IAS 39.
Fair values of the derivates are recognised through profit and loss account.

28. COLLATERAL AND CONTINGENT LIABILITIES	2005	2004
Rental collateral	0	133
Total	**0**	**133**

29. OPERATING LEASES		
Group as a lessee		
not later than one year	1,639	1,638
later than one year and not later than five years	2,813	4,192
later than five years	2,238	3,053
Total	**6,690**	**8,882**

Income statement in 2005 includes EUR 1.5 million rental payments of operating leases that mainly consist of rental payments for business premises.

30. RELATED PARTY DISCLOSURES

A party is related to an entity if it controls, is controlled by, or is under common control with, the entity; or it has an interest in the entity that gives it significant influence over the entity; or has joint control over the entity. The Group's related party comprises of the Group companies, parent company's board of directors and parent company's Corporate Management Team. There were no related party transactions in the current period or previous period.

31. FINANCIAL RISK MANAGEMENT

The company's Board of Directors has ratified the Group's financing risk management policy. The objective of financing risk management is to protect the Group against unfavourable changes in the financial markets and thus, for its part, secure the Group's earnings trend, shareholders' equity and liquidity. The Group's financing and financing risk management have been centralised within the parent company's financing function. The aims of centralising are effective risk management, cost savings and optimisation of cash flow.

Currency risk

As the Group operates in the international markets, it is exposed to currency risks caused by exchange rate fluctuations. Sales and purchases in foreign currencies (transaction risk) as well as balance sheet items investments in and loans to foreign subsidiaries (valuation risk) create currency risk. Currency risks are hedged by using internal netting out, foreign currency loans, forward exchange agreements and currency options. However, currency options may be used at the most in half of the derivative agreements. Derivatives are used only for hedging purposes. Currency risks are also hedged by the currency clauses in sales agreements. The majority of product sales and purchases of materials are conducted in euros.

Interest risk

Interest risk is involved mainly in interest-bearing liabilities in the balance sheet. The financing function monitors the interest risk of the loan portfolio and, when necessary, changes the interest rate maturity by means of forward rate agreements, options and interest rate swaps. At the end of 2005, 10% of the loan portfolio of the Group consisted of fixed interest loans. The counterpart risk involved in loans is minimised by making loan agreements with at least three accepted parties.

Credit risk

Credit risks involved in investments in the financial markets are minimised by making contracts with sufficiently many leading and solvent banks, financial institutions and other parties. Credit risks involved in sales receivables are managed by only granting customary payment periods to customers. Loans are not granted to parties outside the Group, nor are collateral, contingent liabilities or other obligations assumed as security for their liabilities. The same applies to parties closely associated with the company.

Liquidity risk

Liquidity risk means the risk of obtaining financing at any given time. The parent company's financing function is responsible for the Group's liquidity and adequacy of financing. Sufficient liquidity is maintained by means of efficient cash management. At the balance sheet date, the Group had a total of EUR 25 million credit and financing limits, of which EUR 20 million was unused. The majority of the parent company's interest-bearing loans included agreement terms stating that the Group's audited equity ratio must remain above 35 percent.

32. THE EFFECTS OF TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Group has adopted IFRS as from 1 January 2005. The first closing of the books according to IFRS has been prepared from the financial period of 2005. Before the transition, the Group has prepared its financial statements according to Finnish Accounting Standards (FAS).

In the transition to IFRS, the Group has applied the exemptions permitted under IFRS 1 to the retrospective application of individual standards.

The most significant differences between IFRS and FAS arise from capitalisation of indirect manufacturing costs to inventories, replacement of goodwill amortisation with annual impairment testing and treatment of deferred tax assets and liabilities.

Inventories

Inventories are measured according to IAS 2, where the proportional amount of indirect purchasing and manufacturing costs and depreciation is allocated to inventories.

Goodwill

Annual amortisation of goodwill is replaced with annual impairment testing. Impairment tests executed in the previous comparative period and in the transition did not indicate recognition of impairment loss.

Deferred tax assets

The Group has recognised deferred tax assets in the balance sheet on all of the temporary differences between the carrying amount and taxable value of balance sheet items, to the extent that it is probable that deferred tax assets can be utilised in future financial periods. The majority of temporal differences arise from unused tax losses and from depreciation differences between the parent company's accounting depreciation and the depreciation allowed in taxation.

The amount of equity in PKC Group's balance sheet has increased mainly due to the capitalisation of indirect manufacturing costs. Also, the amount of equity has increased due to the treatment of deferred tax assets and slightly due to the treatment of finance leases.

Pension arrangements

The PKC Group's pension systems are handled by insurance companies. Pension systems in foreign subsidiaries are defined contribution plans, and the pension-debt booking procedure concerning the disability pension employed within Finland's current employees' pension insurance has, in practical terms, been interpreted as corresponding to current FAS (Finnish Accounting Standards) practice. According to IAS 19 (Employee Benefits), a disability pension is defined as an other long-term employee benefit, the level of which does not depend on the duration of employment at a company that prepares its final accounts in accordance with IFRS. The rule stated in IAS 19.130 specifies that in the case of the disability/incapacity component, the so-called event that leads to an obligation is an event of disability/incapacity. Costs and debt charges are made after an event of this type has occurred.

Other changes

The treatment of financial lease agreements (raising depreciation, reducing other operating costs as a result of cancelling rental payments, and increasing financing charges) has a minor positive effect on the earnings of the PKC Group.

CONSOLIDATED INCOME STATEMENT	**IFRS**	Effects of IFRS	**FAS**
1,000 EUR	**2004**	adoption	**2004**
NET SALES	**177,697**	**0**	**177,697**
Increase (+) / decrease (-) in stocks of			
finished goods and work in progress	-1,493	-237	-1,255
Production for own use	517	0	517
Other operating income	535	0	535
Raw materials and services	91,877	-20	91,897
Staff expenses	42,269	0	42,269
Depreciation	4,858	-1,448	6,306
Other operating expenses	17,455	-142	17,597
OPERATING PROFIT	**20,799**	**1,372**	**19,427**
Financial income and expenses	-1,237	-4	-1,233
PROFIT BEFORE TAXES	**19,562**	**1,368**	**18,194**
Income taxes	-6,335	-953	-5,382
PROFIT FOR THE FINANCIAL YEAR	**13,227**	**415**	**12,812**
Attributable to:			
Shareholders of the parent company	13,177	415	12,762
Minority interest	49	0	49
	13,227	415	12,812
From profit attributable to shareholders			
of the parent company			
Basic earnings per share (EPS), EUR	0.76	0.03	0.73
Diluted earnings per share (EPS), EUR	0.75	0.02	0.73

CONSOLIDATED BALANCE SHEET		Effects			Effects	
	IFRS	of IFRS	FAS	IFRS	of IFRS	FAS
1,000 EUR	**31.12.2004**	adoption	**31.12.2004**	**1.1.2004**	adoption	**31.12.2003**
ASSETS						
NON-CURRENT ASSETS						
Goodwill	2,386	1,357	1,029	2,386	-243	2,629
Other intangible assets	1,057	-149	1,206	952	-72	1,024
Tangible assets	23,143	754	22,389	15,561	912	14,649
Available-for-sale investments	15	-223	239	100	-231	331
Deferred tax assets	752	588	165	1,394	1,394	0
Other receivables	100	0	100	100	0	100
Non-current assets total	**27,454**	**2,326**	**25,127**	**20,493**	**1,760**	**18,733**
CURRENT ASSETS						
Inventory	29,586	1,758	27,828	26,994	1,977	25,017
Receivables						
Trade receivables	42,528	0	42,528	0	0	0
Other non interest-bearing receivables	4,573	6	4,567	33,026	10	33,016
Receivables total	47,101	6	47,095	33,026	10	33,016
Cash and cash equivalents	5,076	0	5,076	2,797	0	2,797
Current assets total	**81,763**	**1,764**	**79,999**	**62,817**	**1,987**	**60,830**
ASSETS TOTAL	**109,216**	**4,090**	**105,126**	**83,310**	**3,747**	**79,563**
EQUITY AND LIABILITIES						
EQUITY ATTRIBUTABLE TO SHAREHOLDERS						
OF THE PARENT						
Share capital	5,903	0	5,903	1,940	0	1,940
Share premium account	3,327	0	3,327	5,806	0	5,806
Reserve fund	170	0	170	168	0	168
Retained earnings	25,377	2,693	22,683	39,839	14,721	25,118
Profit for the financial year	13,177	415	12,762	0	-12,026	12,026
Minority interest	**284**	**0**	**284**	**258**	**0**	**258**
EQUITY TOTAL	**48,238**	**3,108**	**45,129**	**48,011**	**2,695**	**45,316**
LIABILITIES						
Non-current liabilities						
Interest-bearing liabilities	20,550	-4,391	24,941	10,260	43	10,217
Non interest-bearing liabilities	93	0	93	0	0	0
Deferred tax liabilities	952	945	7	808	798	10
Non-current liabilities total	21,595	-3,446	25,042	11,068	841	10,227
Current liabilities						
Interest-bearing liabilities	15,234	4,426	10,807	3,864	201	3,663
Trade payables	13,123	0	13,123	11,090	0	11,090
Other non interest-bearing liabilities11,028	-4	11,032	9,277	0	9,277	
Current liabilities total	39,384	4,422	34,962	24,231	201	24,030
Liabilities total	**60,979**	**976**	**60,004**	**35,299**	**1,042**	**34,257**
EQUITY AND LIABILITIES TOTAL	**109,217**	**4,084**	**105,133**	**83,310**	**3,737**	**79,573**

Statement of changes in equity 1,000 EUR	Share capital	Share premium account	Other reserves	Retained earnings	Profit for the financial year	Equity attributable to shareholders of the parent	Minority interest	Equity total
Shareholders' equity 1.1.2004 (FAS)	**1,940**	**5,806**	**168**	**37,144**	**0**	**45,058**	**258**	**45,316**
Effects of IFRS adoption								
IAS 2 – Inventories	0	0	0	1,976	0	1,976	0	1,976
IAS 12 – Income Taxes	0	0	0	596	0	596	0	596
IAS 17 – Leases	0	0	0	147	0	147	0	147
Other IFRS-standards	0	0	0	-26	0	-26	0	-26
Effects of IFRS adoption total	0	0	0	2,693	0	2,693	0	2,693
Shareholders' equity 1.1.2004 (IFRS)	**1,940**	**5,806**	**168**	**39,839**	**0**	**47,753**	**258**	**48,011**
Shareholders' equity 31.12.2004 (FAS)	**5,903**	**3,327**	**170**	**22,683**	**12,762**	**44,845**	**284**	**45,129**
Effects of IFRS adoption								
IFRS 3 – Business Combinations	0	0	0	0	1,600	1,600	0	1,600
IAS 2 – Inventories	0	0	0	1,976	-216	1,760	0	1,760
IAS 12 – Income Taxes	0	0	0	596	-954	-358	0	-358
IAS 17 – Leases	0	0	0	147	-	147	0	147
Other IFRS-standards	0	0	0	-26	-15	-41	0	-41
Effects of IFRS adoption total	0	0	0	2,693	415	3,108	0	3,108
Shareholders' equity 31.12.2004 (IFRS)	**5,903**	**3,327**	**170**	**25,377**	**13,177**	**47,954**	**284**	**48,238**

Statement of changes in net profit 1,000 EUR	1–3/2004	1–6/2004	1–9/2004	1–12/2004
Profit for the financial year (FAS)	**3,167**	**5,747**	**8,808**	**12,762**
Effects of IFRS adoption				
IFRS 3 – Business Combinations	400	800	1,200	1,600
IAS 2 – Inventories	-171	-98	20	-217
IAS 12 – Income Taxes	-326	-445	-639	-954
IAS 17 – Leases	18	37	52	-6
Other IFRS-standards	41	27	10	-8
Effects of IFRS adoption total	-38	321	644	415
Profit for the financial year (IFRS)	**3,129**	**6,068**	**9,452**	**13,177**

1,000 EUR	Notes	2005	2004
NET SALES	1	**129,683**	**146,893**
Increase (+) / decrease (-) in stocks of finished goods and work in progress		-1,722	-1,211
Other operating income	2	1,835	1,269
Raw materials and services	3	79,397	88,578
Staff expenses	4	21,740	28,445
Depreciation and value adjustments	5	1,707	3,957
Other operating expenses	6	8,175	12,104
OPERATING PROFIT		**18,776**	**13,866**
Financial income and expenses	7	536	-1,004
PROFIT BEFORE EXTRAORDINARY ITEMS		**19,312**	**12,862**
Extraordinary items total	8	3,540	0
PROFIT BEFORE TAXES		**22,852**	**12,862**
Appropriations	9	-693	0
Income taxes	10	-5,795	-4,281
PROFIT FOR THE FINANCIAL YEAR		**16,364**	**8,581**

1,000 EUR	Notes	31.12.2005	31.12.2004
ASSETS			
NON-CURRENT ASSETS			
Other intangible assets	11	1,145	858
Tangible assets	12	2,695	4,982
Available-for-sale investments	13		
Deferred tax assets		18,458	15,871
Other receivables		235	235
Non-current assets total		**22,534**	**21,945**
CURRENT ASSETS			
Inventories	14	16,355	16,820
Non-current receivables	15	20,629	14,876
Current receivables	15	38,526	40,406
Cash and cash equivalents		2,037	404
Current assets total		**77,547**	**72,507**
Assets total		**100,080**	**94,452**
LIABILITIES			
SHAREHOLDERS' EQUITY	16,17		
Share capital		5,962	5,903
Share premium account		4,442	3,327
Reserve fund		166	166
Retained earnings		28,939	23,867
Profit for the financial year		16,364	8,581
Shareholders' equity total		**55,872**	**41,844**
APPROPRIATIONS	18	693	0
PROVISIONS	19	**183**	**0**
CREDITORS	20		
Non-current liabilities total		15,427	24,942
Current liabilities total		27,905	27,667
Creditors total		**43,332**	**52,609**
Liabilities total		**100,080**	**94,453**

1,000 EUR	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	129,030	141,405
Cash receipts from other operating incomes	543	710
Cash paid to suppliers and employees	-106,440	-134,201
Cash flow from operations before financial income and expenses and taxes	**23,133**	**7,913**
Interest paid	-413	-781
Interst received and other financial income	958	105
Income taxes paid	-4,215	-5,196
Cash flow from operations before extraordinary items	**19,463**	**2,041**
Net cash from operating activities (A)	**19,463**	**2,041**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of tangible and intangible assets	-1,397	-4,212
Proceeds from sale of tangible and intangible assets	1,480	1,518
Investments	0	-6
Proceeds from sale of investments	0	10
Loans granted	-8,865	-8,078
Amortisation of loan receivables	3,165	630
Acquisition of subsidiaries	-2,587	-1,948
Dividends received	497	6
Net cash used in investing activities (B)	**-7,708**	**-12,080**
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issue	1,174	1,484
Drawing of creditors	0	25,327
Amortisation of creditors	-10,287	-2,939
Dividends paid	-3,509	-14,445
Group contributions received	2,500	0
Net cash used in financing activities (C)	**-10,122**	**9,427**
Net increase (+) or decrease (-) in cash and equivalents (A+B+C)	**1,633**	**-613**
Cash and cash equivalents at beginning of period	**404**	**1,017**
Cash and cash equivalents at end of period	**2,037**	**404**
Change	**1,633**	**-613**

Foreign currency items

Business transactions in foreign currencies have been entered during the financial period by using the exchange rate on the transaction date. Balance sheet items open on the closing date of the financial period have been valued using the average rate on the date of closing the accounts. The exchange rate differences have been stated in the profit and loss account.

Non-current assets

Non-current Assets have been stated at their acquisition costs. Depreciation on fixed assets is calculated according to predefined depreciation plan. The depreciation period based on estimated service duration are as follows

Intangible rights	4–5 years
Goodwill	5–8 years
Other long-term expenditures	3–10 years
Buildings and constructions	5–20 years
Machinery and equipment	3–10 years
Other tangible assets	5–10 years.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of the inventories is determined on the basis of the weighted average cost formula and, in contrast to previous accounting practise, it includes all of the direct costs and a proportional amount of indirect manufacturing costs. The net realisable value is the sales price less estimated costs to finish and sell the product.

Net sales

Net sales have been calculated from the Group's total revenue obtained from products produced, from which discounts and VAT have been deducted.

Research and development costs

Research and development costs have been entered as expenses for the financial period during which they were incurred.

Rent for leased assets

The rent for leased assets was entered as a cost in the income statement.

Pension costs

The retirements plans for employees are provided by external insurance companies. Pension insurance payments have been entered in the financial statements on accrual basis corresponding with salaries.

Direct taxes

Direct taxes for the financial period have been entered in the profit and loss account on accrual basis.

Comparability of the income statement

The income statement for the period ending 31 December 2005 is not comparable with the income statement from the previous period. Closing of the books for the period ending 31 December 2005 includes the financial statement of the electronics business until 1 October 2004, the date of when the electronics business was incorporated.

1,000 EUR	Parent company 2005	Parent company 2004
1. NET SALES BY BUSINESS SEGMENTS AND MARKET AREAS		
Net sales by business segments		
Wiring harnesses	129,683	116,100
Electronics	0	30,793
Total	**129,683**	**146,893**
Net sales by market areas		
Finland	14,872	37,065
Other EU Countries	109,804	103,016
Rest of Europe	125	156
South-America	148	827
Others	4,734	5,829
Total	**129,683**	**146,893**
2. OTHER OPERATING INCOME		
Income from sales of non-current assets	6	0
Other income	1,829	1,269
Total	**1,835**	**1,269**
3. MATERIALS AND SERVICES		
Raw materials and consumables		
Purchases during the financial period	62,233	74,873
Increase (+) or decrease (-) in stocks	-213	-3,873
Outsourced services	17,378	17,579
Total	**79,397**	**88,578**

1,000 EUR	Parent company 2005	Parent company 2004
4. STAFF EXPENSES		
Wages and salaries	17,614	22,901
Defined pension contribution plans	2,676	3,624
Other social expenses	1,450	1,921
Total	**21,740**	**28,445**
Salaries and fees to Board and management		
Salaries and fees to Board members		
Tom Hakalax	5	17
Jyrki Tähtinen	24	11
Juhani Koskinen	17	12
Leo Ojala	17	12
Endel Palla	17	12
Veikko Ravaska	20	12
Risto Suonio	17	11
Harri Suutari	20	0
Total	134	85
Salaries and fees to Presidents (*		
Mika Kari	163	130
Harri Suutari	113	156
Total	275	286
Salaries and fees to other Corporate Management Team members	884	912
	884	912
Salaries and fees to management total	**1,293**	**1,282**

*) Mika Kari was appointed PKC Group Oyj's president and CEO as from 1 September 2005. At the same time Harri Suutari has been appointed Chairman of the Board.

Average number of personnel		
Clerical employees	176	162
Employees	392	435
Total	**568**	**597**

1,000 EUR	Parent company 2005	Parent company 2004
5. DEPRECIATION AND VALUE ADJUSTMENTS		
Depreciation according to plan	1,707	3,957
Total	**1,707**	**3,957**
6. OTHER OPERATING EXPENSES		
Other operating expenses	10,516	12,104
Reversal from write-down of sales receivable (*	-2,340	0
Total	**8,175**	**12,104**

*) Write-down of sales receivable from Brazilian subsidiary was recorded in 2001.

1,000 EUR	Parent company 2005	Parent company 2004
7. FINANCIAL INCOME AND EXPENSES		
Dividend yields		
From Group companies	496	0
From others	0	2
Total	**496**	**2**
Income from other investments held as fixed assets		
From others	1	4
Total	**1**	**4**
Other interest and financial income		
From Group companies	614	199
From others	303	14
Total	**916**	**213**
Interest and other financial expenses		
From others	-878	-1,223
Total	**-878**	**-1,223**
Financial income and expenses total	**536**	**-1,004**
Financial income and expenses total includes net exchange rate differences	**278**	**-323**

1,000 EUR	Parent company 2005	Parent company 2004
8. EXTRAORDINARY ITEMS		
Extraordinary income		
From Group companies/Group contributions received	2,500	0
Capitalisation of fixed costs within inventories	1,040	0
Total	**3,540**	**0**
9. CHANGE IN APPROPRIATIONS		
Accrued tax from capitalisation of fixed costs within inventories	-693	0
Total	**-693**	**0**
10. INCOME TAXES		
Income taxes from actual operations	-5,873	-4,281
Change in deferred tax assets and liabilities	79	0
Total	**-5,795**	**-4,281**

11. INTANGIBLE ASSETS

	Intangible rights	Other long-term expenditures	Advance payments	Total
Acquisition cost 1.1.2005	**1,573**	**1,370**	**21**	**2,964**
+ Increases	351	62	236	649
- Decreases	-205	0	-21	-226
Acquisition cost 31.12.2005	**1,718**	**1,432**	**236**	**3,387**
Accumulated amortisation and impairments 1.1.2005	-768	-1,339	0	-2,107
- Amortisation	-126	-9	0	-135
Accumulated amortisation 31.12.2005	**-894**	**-1,348**	**0**	**-2,242**
Book value 31.12.2005	**824**	**84**	**236**	**1,145**
Book value 31.12.2004	**805**	**31**	**21**	**858**

12. TANGIBLE ASSETS

	Buildings and constructions	Machinery and equipments	Other tangible assets	Advance payments and acquisitions in progress	Total
Acquisition cost 1.1.2005	**1,552**	**13,746**	**209**	**278**	**15,785**
+ Increases	0	804	0	0	804
- Decreases	0	-4 452	0	-278	-4,730
Acquisition cost 31.12.2005	**1,552**	**10,099**	**209**	**0**	**11,860**
Accumulated depreciation and impairments 1.1.2005	-660	-10,003	-140	0	-10,804
Accumulated depreciation of decreases and transfers	0	3,031	0	0	3,031
- Depreciation	-82	-1,280	-30	0	-1,392
Accumulated depreciation 31.12.2005	**-742**	**-8,252**	**-170**	**0**	**-9,165**
Book value 31.12.2005	**810**	**1,846**	**39**	**0**	**2,695**
Book value 31.12.2004	**892**	**3,743**	**70**	**278**	**4,982**

13. INVESTMENTS

	Holdings in Group companies	Other Shares and similar rights of ownership	Other receivables	Total
Acquisition cost 1.1.2005	**15,871**	**188**	**48**	**16,106**
+Increases	2,785	0	0	2,785
- Decreases	-198	0	0	-198
Acquisition cost 31.12.2005	**18,458**	**188**	**48**	**18,693**
Book value 31.12.2005	**18,458**	**188**	**48**	**18,693**
Book value 31.12.2004	**15,871**	**188**	**48**	**16,106**

SHARES AND SIMILAR RIGHTS OF OWNERSHIP

Group companies	Group's ownership, %	Parent company's ownership, %
PKC Eesti AS	100	100
PK Cables do Brasil Industria e Comercio Ltda.	97	97
PK Cables Nederland B.V.	100	0
PKC Netherlands Holding B.V.	100	100
Carhatec Oy	100	100
TKV-sarjat Oy	100	0
Carhatest Oy	80	0
OOO Karhakos	100	0
OOO AEK	100	0
PKC Group Americas Inc.	100	0
PKC Electronics Oy	100	0
OOO Elektrokos	100	0
OOO Elektromeka	100	0
PKC Wiring Harness (Suzhou) Co., Ltd.	100	0

1,000 EUR	2005	2004
14. INVENTORIES		
Raw materials and supplies	10,865	10,603
Work in progress	1,979	2,397
Finished goods	3,508	3,820
Advance payments	4	0
Total	**16,355**	**16,820**
15. RECEIVABLES		
Non-current receivables		
Receivables from Group companies		
Non-current interest-bearing receivables	20,529	14,776
Total	**20,529**	**14,776**
From others		
Loan receivables	100	100
Total	**100**	**100**
Non-current receivables total	**20,629**	**14,876**
Current receivables		
Receivables from Group companies		
Trade receivables	2,219	4,294
Loan receivables	1,507	1,557
Prepayments and accrued income	68	134
Total	**3,793**	**5,985**
From others		
Trade receivables	33,038	32,234
Loan receivables	3	6
Other receivables	1,225	1,602
Prepayments and accrued income	467	579
Total	**34,733**	**34,421**
Current receivables total	**38,526**	**40,406**

1,000 EUR	2005	2004
Prepayments and accrued income		
From Group companies		
Financial items	55	103
Others	13	31
Total	**68**	**134**
From others		
Staff expenses	106	128
Financial items	12	3
Taxes	0	266
Others	348	181
Total	**467**	**579**
16. SHARE CAPITAL		
Share capital 1.1.	5,903	1,940
Increase in share capital	215	18
Bonus issue	0	3,916
Share capital 31.12.	**6,118**	**5,875**
Unregistered share capital	9	28
Share premium account 1.1.	3,327	5,806
Change	1,115	-2,478
Profit for the financial year	**4,442**	**3,327**
Other accounts 1.1.	166	166
Other accounts 31.12.	**166**	**166**
Retained earnings 1.1.	32,448	38,311
Dividend distribution	-3,509	-14,445
Retained earnings 31.12.	**28,939**	**23,867**
Profit for the financial year	**16,364**	**8,581**
Total shareholders' equity	**56,029**	**41,844**
17. CALCULATION OF DISTRIBUTABLE FUNDS		
Retained earnings	28,939	23,867
Profit for the financial year	16,364	8,581
Distributable funds 31.12.	**45,302**	**32,448**
18. APPROPRIATIONS		
Untaxed reserves	693	0
Total	**693**	**0**

Untaxed reserves are subject to a deterred tax liability of EUR 180,000.

1,000 EUR	2005	2004
19. PROVISIONS		
Provisions for pensions	183	0
Total	**183**	**0**

1,000 EUR	2005	2004
20. CREDITORS		
Non-current liabilities		
Amounts owed to Group companies		
Other liabilities	793	0
Total	**793**	**0**
Debts to others		
Loans from financial institutions	14,462	24,735
Pension loans	172	186
Other liabilities	0	21
Total	**14,633**	**24,942**
Non-current liabilities total	**15,427**	**24,942**
Current liabilities		
Amounts owed to Group companies		
Accounts payable	1,565	1,715
Accruals and deferred income	2	137
Total	**1,568**	**1,852**
Debts to others		
Loans from financial institutions	10,794	10,794
Pension loans	14	14
Advances received	0	22
Accounts payable	8,395	8,803
Other liabilities	841	1,367
Accruals and deferred income	6,294	4,816
Total	**26,338**	**25,816**
Current receivables total	**27,905**	**27,667**
Accruals and deferred income		
Amounts owed to Group companies		
Financial items	1	0
Others	1	0
Total	**2**	**0**
To others		
Staff expenses	4,743	4,330
Financial items	130	457
Taxes	831	26
Others	591	141
Total	**6,294**	**4,953**
Loans falling due later than five years from now		
Loans from financial institutions	286	0
Pension loans	128	139
Total	**414**	**139**

Bond loans with option warrants

The bond loan with option warrants issued to key personnel in 2000 has been wholly paid back on 20.5.2003. The share subscription period is from 2003 to 2006. The share subscription price is EUR 6.93 until the next matching date for the dividend distribution, after which the subscription price will diminish by the amount of dividends to be paid out. A total of 68,100 shares can be subscribed for with the option rights (total book equivalent counter value EUR 22,912.23).

21. LIABILITIES INVOLVING MORTGAGES AS SECURITY		
Pledges given on behalf of Group companies	0	133

22. COMMITMENTS AND OTHER LIABILITIES		
Amount to be paid for leasing commitments		
For the current financial period	90	104
Falling due at a later date	74	76
Total	**164**	**180**
Contingent liabilities		
For the current financial period	1,522	1,502
Falling due at a later date	4,938	7,165
Total	**6,460**	**8,667**
Liabilities for currency derivates		
Liabilities for currency derivates, nominal value	4,281	6,449
Fair value	49	-248

Currency derivates are used only in hedging currency risks.

Share and share capital
PKC Group Oyj has only one series of shares and each share is entitled to one vote at the general meeting of shareholders. The company's shares are entered into the book-entry securities system maintained by the Finnish Central Securities Depository Ltd. In order to be entitled to participate in a general meeting and to vote, the shareholder must be listed in the shareholders' register maintained by the central depository.

During the financial year, the share capital was increased through the exercise of stock options from the year 2000 as follows:

I) by EUR 28,110.37 for 83,550 shares subscribed for in December 2004. The increase was entered in the Trade Register on 12 January 2005, after which the company's registered share capital was EUR 5,902,697.98 and was divided into 17,544,072 shares;

II) by EUR 23,921.57 for 71,100 shares subscribed for in May 2005. The increase was entered in the Trade Register on 7 June 2005, after which the company's registered share capital was EUR 5,926,619.55 and was divided into 17,615,172 shares.

III) by EUR 24,981.39 for 74,250 shares subscribed for in August 2005. The increase was entered in the Trade Register on 30 August 2005, after which the company's registered share capital was EUR 5,951,600.94 and was divided into 17,689,422 shares.

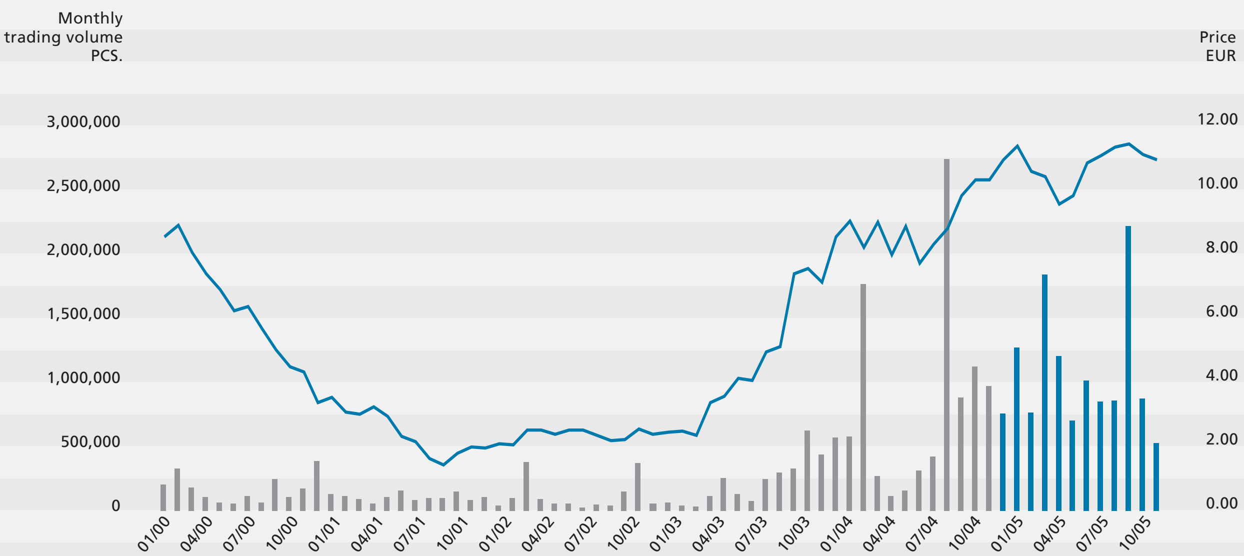
At the close of the financial year, the company's share capital entered in the Trade Register was EUR 5,951,600.94 and it was divided into 17,689,422 shares. The accounting countervalue of the share is about EUR 0.34.

After the close of the financial year, the share capital was increased through the exercise of stock options for the year 2000 by a further EUR 8,074.79 for 24,000 shares that were subscribed for in December 2005. The increase was entered in the Trade Register on 17 January 2006, after which the company's registered share capital was EUR 5,959,675.73 and was divided into 17,713,422 shares.

The Board of Directors does not have a valid authorisation to buy back the company's own shares and the company does not have own shares in its possession.

Share turnover and shareholders
PKC Group Oyj's share turnover on the Helsinki Stock Exchange from 1 January to 31 December 2005 was 12,797,037 shares (22,999,320 shares), representing 72.7% of the average total number of shares (132.0%). Shares were traded to a total value of EUR 137.7 million (176.8 million). The low during the report period was EUR 9.21

SHARE PRICE AND MONTHLY TRADING VOLUME 1.1.2000 – 30.12.2005



(7.06) and the high EUR 12.25 (10.67). The closing price on the last trading day of the report period was EUR 10.90 (10.25) and the average price during the period was EUR 10.73 (7.65). The company's market capitalisation at 31 December 2005 was EUR 192.8 million (179.0 million).

Shares held or represented by Board members accounted for 5.8% (5.9%) of the total number of shares at the end of the report period. The members of the Corporate Management Team held 0.02% (2.6%) of the Group's share capital. PKC Group Oyj had 5,093 shareholders (4,713) at the end of the year. The proportion of shares held by foreigners and by way of nominee registrations at 31 December 2005 was 26.8% of the shares outstanding (24.9%).

During the financial year, no notifications have been made under the Securities Market Act, Chapter 2, Section 9, according to which the shareholding of a party has reached or exceeded the statutory limit or fallen below it.

As from 1 November 2005, PKC Group Oyj's GICS classification has been Industrials (20), Capital Goods (2010), Electrical Equipment (201040), Electrical Components & Equipment (20104010).

Taxation value of the shares

For the purposes of Finnish taxation for the year 2005, the value of PKC Group Oyj shares is EUR 7.63.

Stock option scheme initiated in 2000

The stock option scheme comprised a total of 111,000 option rights. As a consequence of the bonus issue according to the resolution passed by PKC Group Oyj's extraordinary General Meeting held on 20 September 2004, the subscription proportion and price of the shares that can be subscribed for with the stock options issued in 2000 was changed in accordance with the terms and conditions of the bond loan with option warrants such that after the record date for the bonus issue, each warrant will entitle its holder to subscribe for three shares instead of the previous one share. The subscription period for the A warrants commenced on 1 April 2004 and for the B warrants on 1 April 2005 and will end for all the warrants on 30 April 2006. The subscription price for exercising the warrants for the year 2000 is EUR 6.93 up to the next record date for the dividend payout, after which the subscription price will diminish by the amount of dividends to be paid out. As a consequence of subscriptions to be made with the warrants, the company's share capital can be increased by a further maximum of 68,100 shares and EUR 22,912.23.

Dividends for the 2004 financial year

The Annual General Meeting on 22 March 2005 passed a resolution to pay a dividend of EUR 0.20 per share for the year 2004, or a total of about EUR 3.5 million. The dividend was paid out on 5 April 2005.

MAJOR SHAREHOLDERS ON 31.12.2005	Pcs.	% of shares and votes
1. AS Harju Elekter	1,830,003	10.3
2. Tapiola Mutual Pension Insurance Company	709,600	4.0
3. Eestilä Matti	558,400	3.2
4. Ravaska Veikko	550,200	3.1
5. Investment Fund OP-Suomi Kasvu	502,200	2.8
6. Odin Norden	454,850	2.6
7. Investment Fund Sampo Suomi Osake	402,000	2.3
8. FIM Forte Investment Fund	264,900	1.5
9. Laakkonen Mikko	240,000	1.4
10. Suutari Harri	237,800	1.3
11. Investment Fund Mandatum Suomi Kasvuosake	213,650	1.2
12. Investment Fund Nordea Fennia Plus	197,600	1.1
13. Luostarinen Risto	180,800	1.0
14. Investment Fund Tapiola Instituutio	156,750	0.9
15. FIM Fenno Investment Fund	149,500	0.8
15 Major holders total	**6,648,253**	**37.5**
Nominee registered	2,229,478	12.6
Others	8,811,691	49.9
Total	**17,689,422**	**100.0**

SHARES HELD BY THE BOARD AND MANAGEMENT ON 31.12.2005

Board of Directors	Number of shares	% of shares and votes	Ownership of close persons and controlled corporations, pcs.
Ojala Leo	124,500	0.7	0
Palla Endel	110,000	0.6	0
Ravaska Veikko	550,200	3.1	0
Suonio Risto	3,000	0	0
Suutari Harri	237,800	1.3	57,600
Corporate Management Team			
Kari Mika	1,000	0	0
Karppinen Marko	3,000	0	0
Total	**1,029,500**	**5.8**	**57,600**

Other members of the Board and Corporate Management team do not own shares. Board and Management team do not own option rights.

DISTRIBUTION OF SHARE OWNERSHIP BY OWNER CATEGORIES ON 31.12.2005

	% of shares and votes
Households and private investors	42.3
Public Institutions	6.0
Non-profit organisations	4.8
Financial institutions and insurance companies	13.4
Domestic companies	6.7
Foreign investors (including nominee registered shares)	26.8
Total	100.0

DISTRIBUTION OF SHARE OWNERSHIP BY SIZE OF SHAREHOLDING ON 31.12.2005

Shares per shareholder	Shareholders		Shares		Votes	
	Pcs.	%	Pcs.	%	Pcs.	%
1–100	392	7.7	31,096	0.2	31,096	0.2
101–500	2,052	40.3	640,668	3.6	640,668	3.6
501–1 000	1,317	25.9	969,958	5.5	969,958	5.5
1 001–5 000	1,066	20.9	2,224,645	12.6	2,224,645	12.6
5 001–10 000	140	2.8	1,003,598	5.7	1,003,598	5.7
10 001–50 000	83	1.6	1,784,266	10.1	1,784,266	10.1
50 001–100 000	16	0.3	1,090,470	6.1	1,090,470	6.1
100 001–500 000	20	0.4	3,893,226	22.0	3,893,226	22.0
500 001–	7	0.1	6,051,495	34.2	6,051,495	34.2
Total,	**5,093**	**100.0**	**17,689,422**	**100.0**	**17,689,422**	**100.0**
of which nominee registered	5		2,229,478	12.6		

Return on equity (ROE), %	100 x	Profit before extraordinary items - taxes / Shareholders equity + minority interest (average)
Return on investments (ROI), %	100 x	Profit before extraordinary items + interest and other financial expenses / Balance sheet total - interest free liabilities (average)
Gearing, %	100 x	Interest-bearing liabilities - cash in hand and at banks and investments / Shareholders equity + minority interest
Equity ratio, %	100 x	Shareholders equity + minority interest / Balance sheet total - advance payments received
Quick ratio		Receivables and cash in hand and at banks / Current creditors - advance payments received
Current ratio		Receivables and cash in hand and at banks + inventories / Current creditors
Earnings per share (EPS), EUR		Profit before extraordinary items - income taxes +/- minority interest / Average share issue-adjusted number of shares
Shareholders' equity per share, EUR		Shareholders equity / Share issue-adjusted number of shares on the date of the financial statement
Dividend per share, EUR		Dividend paid for financial year / Share issue-adjusted number of shares on the date of the financial statement
Dividend per earnings, %	100 x	Dividend per share / Earnings per share
Effective dividend yield, %	100 x	Share issue-adjusted dividend per share / Share issue-adjusted average share price at the closing date
Price per earnings (P/E)		Share issue-adjusted average share price at the closing date / Earnings per share
Market capitalisation		Number of shares at the end of the financial year x the last trading price of the financial year

	IFRS (1 2005	IFRS (1 2004	2003	2002	2001
FINANCIAL KEY INDICATORS					
Net sales, 1,000 EUR	198,789	177,697	146,048	134,306	125,122
Change in net sales, %	11.9	21.7	8.8	7.3	-2.7
Operating profit, 1,000 EUR	26,728	20,799	18,428	9,365	4,131
% of net sales	13.4	11.7	12.6	7.0	3.3
Profit before extraordinary items, 1,000 EUR	27,258	19,562	18,070	7,624	2,628
Profit before taxes, 1,000 EUR	27,258	19,562	18,070	8,113	2,628
Net profit, 1,000 EUR	18,813	13,177	12,026	4,526	2,945
% of net sales	9.5	7.4	8.2	3.4	2.4
Return on equity, % (ROE)	33.8	27.5	31.9	14.8	11.4
Return on investment, % (ROI)	32.3	28.6	36.7	20.6	9.0
Gearing, %	31.6	64.1	24.5	50.2	73.0
Equity ratio, %	55.6	44.2	56.9	46.9	40.7
Quick ratio	1.5	1.3	1.5	1.4	1.1
Current ratio	2.3	2.4	2.5	2.2	2.1
Gross capital expanditure, 1,000 EUR	11,410	13,321	10,210	6,406	3,767
% of net sales	5.7	7.5	7.0	4.8	3.0
R&D expenses, 1,000 EUR	3,800	4,034	3,230	3,044	3,451
% of net sales	1.9	2.3	2.2	2.3	2.8
Personnel, average	3,506	2,742	1,723	1,146	1,052
KEY INDICATORS FOR SHARES					
Earnings per share (EPS), EUR	1.07	0.76	0.73	0.26	0.19
Earnings per share (EPS), diluted, EUR	1.06	0.75	- (3	-	-
Shareholders' equity per share, EUR	3.64	2.75	2.61	1.90	1.67
Dividend per share, EUR (2	0.45	0.20	0.83	0.15	0.08
Dividend per earnings, % (2	42.06	27.3	113.5	57.7	44.8
Effective dividend yield, % (2	4.1	2.0	11.7	6.3	4.3
Price/earnings ratio (P/E)	10.2	14.0	7.7	9.1	10.4
Share price at the end of the year, EUR	10.90	10.25	7.07	2.37	1.93
Lowest share price during the year, EUR	9.21	7.06	2.25	1.93	1.34
Highest share price during the year, EUR	12.25	10.67	7.77	2.70	3.83
Average share issue-adjusted number of shares, 1,000 shares	17,607	17,417	16,385	15,990	15,825
Share issue-adjusted number of shares at the end of the financial year, 1,000 shares	17,689	17,461	17,245	16,154	15,825
Market capitalisation, 1,000 EUR	192,815	178,970	121,862	38,232	30,595
Dividend, 1,000 EUR (2	7,971	3,509	14,469	2,433	1,319

1) The figures for 2004 and 2005 have been prepared according to IFRS standards, figures for 2001, 2002 and 2003 have been prepared in accordance with Finnish Accounting Standards.

2) The figure for 2005 is Board of Directors' proposal and the 2003 figure includes, in addition to the dividend decided by the annual general meeting, also the extra dividend of EUR 0.50.

3) Diluted EPS for 2003 is not presented because it would be better than undiluted EPS.

1,000 EUR	IFRS [1] 2005	IFRS [1] 2004	2003	2002	2001
FIVE YEAR REVIEW					
CONSOLIDATED PROFIT AND LOSS ACCOUNT					
Net sales	198,789	177,697	146,048	134,306	125,122
Operating profit	26,728	20,799	18,428	9,365	4,131
Profit before taxes	27,258	19,562	18,070	8,113	2,628
Profit for the financial year	18,813	13,177	12,026	4,526	2,945
CONSOLIDATED BALANCE SHEET					
ASSETS					
Non-current assets	33,687	27,453	18,633	14,992	16,275
Current assets	83,347	81,764	60,940	49,592	48,372
Total assets	117,034	109,217	79,573	64,583	64,647
LIABILITIES					
Shareholders' equity	65,036	48,238	45,058	30,284	26,286
Minority interest	593	284	258	0	26
Non-current creditors	15,487	21,595	10,228	12,056	14,833
Current creditors	36,510	39,384	24,029	22,243	23,529
Total liabilities	117,034	109,217	79,573	64,583	64,647

The Group's distributable funds are EUR 52,960,228. The parent company's distributable funds are EUR 45,302,407, of which the net profit for the financial year is EUR 16,363,861.

The Board of Directors proposes to the Annual General Meeting that the distributable funds be disposed as follows:

- pay a dividend of EUR 0.45 per share totalling	EUR 7,971,040
- transfer to shareholders' equity	EUR 37,331,367
in total	EUR 45,302,407.

The matching date for the dividend distribution is 4 April 2006. The dividend will be paid out on 11 April 2006.

Kempele, 7 February 2006

Harri Suutari Chairman of the Board	Juhani Koskinen Board Member	Leo Ojala Board Member
Endel Palla Board Member	Veikko Ravaska Board Member	Risto Suonio Board Member
Jyrki Tähtinen Board Member	Mika Kari President and CEO	

TO THE SHAREHOLDERS OF PKC GROUP OYJ

We have audited the accounting records, the financial statements and the administration of PKC Group Oyj for the period 1.1.–31.12.2005. The Board of Directors and the CEO have prepared the Report of the Board of Directors and the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that includes parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's 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 the management as well as evaluating the overall financial statement presentation. The purpose of our audit of administration is to examine that the members of the Board of Directors and the CEO of the parent company have complied with the rules of the Companies' Act.

Consolidated financial statements

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

Parent company's financial statements and administration

In our opinion the parent company's 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 Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the result from the distribution of retained earnings is in compliance with the Companies' Act.

Oulu, 7 February 2006

ERNST & YOUNG OY
Authorized Public Accounting Firm

Rauno Sipilä
Authorized Public Accountant

CORPORATE GOVERNANCE

PKC Group Oyj complies with the recommendations issued by Hex Oyj, the Finnish Central Chamber of Commerce and the Confederation of Finnish Industry and Employers. The key sections of the Company's Corporate Governance Guidelines ratified by the Board of Directors are described in the Annual Report. The guidelines are published in their entirety on the company's Internet site.

GENERAL MEETING

The highest power of decision is vested in the General Meeting. Each shareholder is entitled to participate in the General Meeting and to exercise the right to speak and to vote, with each share carrying one vote. In order to realise interaction between shareholders and the company's governing bodies, as well as the right of shareholders to ask questions, the president, chairman of the Board of Directors, and a sufficient number of Board members shall be present at the General Meeting, along with, if necessary, the auditor and such persons as have been proposed for Board membership for the first time. The Annual General meeting is held, upon completion of the financial statements, on the day specified by the Board of Directors, no later than by the end of June. In 2005 the Annual General Meeting was held on 22 March 2005.

BOARD OF DIRECTORS

The Board of Directors is responsible for the company's administration and the due organisation of operations. The Board's liabilities include the duties appointed to it in the Companies Act and in the Articles of Association. The Board's main duties include confirming strategy and budget, approving the principles of risk management and ensuring the proper operation of the management system.

The Board of Directors has drafted a written charter for its operations. It defines the key tasks and operating principles of the Board of Directors. The charter is published in its entirety on the company's Internet site and its key content is described herein.

The Annual General Meeting elects 5–7 members to the Board for a term ending at the next Annual General Meeting. As Board members are elected persons who have the required competence for the task so that they represent both a wide range of expertise and the viewpoint of shareholders. The majority of the Board members must be independent of the company and at least two of said majority must be independent of the company's significant shareholders. The Board of Directors evaluates the independence of its members annually and the independence is reported in the Annual Report and on company's Internet site under the Board members' presentation.

In 2005 The Annual General Meeting elected seven Board members, who are presented in the Annual Report. The Board elects from amongst its members a Chairman, who according to the Articles of Association cannot be the company's President. After the 2005 Annual General Meeting Jyrki Tähtinen was appointed as the Chairman of the Board and Veikko Ravaska as Vice-Chairman. As of September 1, 2005 the Chairman has been Harri Suutari and Vice-Chairman Jyrki Tähtinen. The duties and responsibilities of the Board members and the chairman are not designated specifically. In 2005 the Board held 15 meetings, of which five were telephone meetings. The average attendance of Board members at the meetings was 95%.

In its organisational meeting on 22 March 2005 the Board of Directors resolved to establish a Working Committee. The Board has approved the working committee's essential tasks and working methods in a written charter. The working committee's task is to prepare matters for the Board concerning the company's strategy and business development. The committee has no autonomous decision-making power and the Board makes collectively the decisions pertaining to it. The committee is convened by its chairman when necessary and it reports to the Board. No separate fees are paid for committee work. In 2005 the working committee was chaired by Harri Suutari and its other members were Veikko Ravaska and Endel Palla. In 2005 the working committee held three meetings, of which one was telephone meeting. The average attendance of Committee members at the meetings was 100%.

Each year, the Board independently evaluates the effectiveness of its performance and working methods with an eye on development opportunities. The evaluation has been conducted, for the first time, for year 2004.

PRESIDENT

The company's President since September 1, 2005 has been Mika Kari who became the President after Harri Suutari who had held the position since March 13, 2003 took over as the Chairman of the Board. The President's duties include operational management, informing the Board, presenting matters over which the Board has the power of decision, implementing the decisions of the Board, ensuring the legality of business operations, as well as investor relations.

The Board appoints the company's President and specifies his service terms and conditions in writing. The service contract of Mika Kari is valid indefinitely.

OTHER MANAGEMENT

The task of PKC's Corporate Management Team is to deal with matters of vital importance for the Group's operations and to communicate information between the different functions. The Corporate Management Team meets on average quarterly and the President acts as its chairman. The Corporate Management Team consists of the directors of the business units and support operations under the President's direct supervision and other persons appointed by the President. The profile of the Corporate Management Team is presented in the Annual Report.

The Group's operations are divided into two business segments corresponding to its core competence areas: wiring harnesses and electronics. The wiring harness and electronics management teams organised under these business segments convene regularly. The organisation is divided into five business units on the basis of customer relationships. The units are responsible for R&D, production and marketing in their own customer segments. The remainder of the organisation supporting the business units and serving the whole Group is divided operationally. The company's directors are responsible, to the extent agreed, for supervising and directing the operations within their areas of responsibility, and they report regularly to the President.

The Presidents and Boards of Directors of the subsidiaries decide on operational policy lines and strategies within the framework approved by PKC' Group Oyj's Board of Directors. The Boards of Directors of the subsidiaries consist mainly of representatives of the management of both the parent company and the subsidiary in question.

AUDIT

The company's auditor must be an auditor approved by the Central Chamber of Commerce (Authorised Public Accountant). The Authorised Public Accounting Firm Ernst & Young Oy, with Rauno Sipilä, Authorised Public Accountant, acting as responsible auditor, carries out the company's audit. The auditor's term of office ends at the conclusion of the next Annual General Meeting following his election.

SALARIES AND REMUNERATION

Board of Directors
The Annual General Meeting confirms the remuneration to the Board of Directors. In 2005 it was decided to pay the Chairman EUR 36,000/term, the Vice Chairman EUR 27,000/term and other members EUR 18,000/term as well as travel and accommodations expenses. The fees paid to Board members for year 2005 are presented in notes to the accounts.

The company does not pay the Board members fees on any other basis, nor does it grant them loans or give guarantees on their behalf.

President

The Board of Directors confirms the President's salary and other benefits. President is included in the Group's bonus system, with a maximum annual bonus of four months salary depending on the achievement of the objectives set for each year. Harri Suutari's service contract had provision for 6 months notice period for both parties without separate severance payment or other compensation. Mika Kari's service contract has provision for 3 months notice period from the President's part and 6 months from company's part. Also, when the company ends the contract, President is entitled to a monetary compensation corresponding to 15 months total salary, which includes salary for the period of notice as well as prorated part of the objective-based bonus corresponding to the period of working in full months during the financial year in question. The retirement age is statutory and no voluntary insurance policies have been taken. The salaries and bonuses paid to Presidents for year 2005 are presented in notes to the accounts.

The President has not been granted shares or share-related rights in compensation (The options granted to Mika Kari before his presidency were based on his prior position). The company does not pay the President fees on any other basis, nor does it grant him loans or give guarantees on his behalf.

Other Management

The President decides on the salaries and benefits of the Corporate Management Team and other senior management in accordance with the general principles approved by the Board of Directors. In line with the principles approved by the Board of Directors, the Group has adopted company, business unit and operation specific bonuses that depend on the achievement of the set objectives. The management's bonus is dependant on the achievement of the annual objectives set for the result and effectiveness and/or matter-related targets. The maximum bonus is three months salary. The directors of business units and functions have employment contracts valid for indefinite period, with 3 months notice period from the director's part and 6 months from company's part and without separate severance payment or other compensation. The retirement age is statutory and no voluntary insurance policies have been taken. Meeting fees are not paid to members of the Management Teams. The salaries and bonuses paid to the Corporate Management Team for year 2005 are presented in notes to the accounts separately from Presidents' information.

The members of the Corporate Management Team are included in the year 2000 Stock Option Scheme. At the end of the financial year the Corporate Management Team did not hold options.

The company does not pay the members of the Corporate Management Team fees on any other basis, nor does it grant them loans or give guarantees on their behalf.

Auditor

For year 2005 the auditor was paid fees from the parent company totalling EUR 96,171, of which fees for non-audit services were EUR 44,678. (For the whole Group the auditing fees totalled EUR 192,144, of which fees for non-audit services were EUR 99,730).

INSIDER ISSUES

The company complies with the Helsinki Exchanges' Insider Guidelines. Company's public insider register includes the President, Board members, the auditor and the employer of an audit organisation with main responsibility for the audit. In addition the company has defined the members of the Corporate Management Team as persons subject to the disclosure requirement under public insider register. Company's internal, non-public company-specific insiders include persons who regularly handle, during the performance of their duties, unpublished information that may affect share value. When major projects are ongoing, project-specific insider registers are also used.

The company recommends that the insiders acquire securities issued by the company as long term investments and don't participate in active trading. It is also recommended to schedule the trading after the publication of financial reports, taking, however, into account the restrictions that possible insider information imposes. The insiders may not trade in Company's shares or share-related rights within the 30-day period prior to the publication of an interim report and financial statement bulletin of the company.

The changes to insider registers and to the publication requirements of insiders' trading information required by the Securities Markets Act have been implemented in 2005.

INTERNAL SUPERVISION AND RISK MANAGEMENT

The purpose of internal supervision and risk management is to ensure the effective and successful operation of the company, reliable information and compliance with the relevant regulations and operating principles.

Risk management is part of the company's control system and its key principles are presented in the Corporate Governance guidelines, which are available on the company's website, www.pkcgroup.com. The PKC Group employs a Group-wide risk management policy confirmed by the parent company'S Board of Directors on 13 December 2005. The risk management policy sets such goals for risk management that the overall risk level across the Group is evaluated systematically and comprehensively in order to achieve the business objectives.

INTERNAL SUPERVISION

The Board of Directors is responsible for internal supervision, whereas the president is responsible for the practical arrangements concerning supervision. The Board of Directors oversees that the president attends to the day-to-day administration of the company in accordance with the Board's instructions and orders. The Board will also make sure that the monitoring of the company's accounting and administration of finances has been adequately arranged.

Internal supervision methods include internal guidelines, reporting and various technical systems related to operations. Because the company does not have a separate internal audit organisation, special attention has been paid to the organisation of functions, the professional skill of employees, operating instructions, reporting and the extent of the audit. The company has taken a decision to strengthen internal supervision by setting up an internal audit function for the Group.

PRINCIPLES AND ORGANISATION OF RISK MANAGEMENT

Risk management consists of daily activities with the aim of increasing corporate security and facilitating the achievement of business objectives. The aim is to create the kind of operational circumstances in which business risks are contained comprehensively and systematically at all levels. The company strives to identify all risks and evaluate their significance, while at the same time defining procedures for minimising risks and taking decisions on the implementation of these procedures and the monitoring of their effects.

The parent company's Board of Directors determines the Group's risk exposure level, decides whether strategic risks should be taken and is responsible for the constant monitoring of risk management and the evaluation of the functionality of risk management processes. The PKC Group has formed a risk management team in charge of Group-level risk management procedures and principles and of monitoring their implementation within the framework provided by the Board. The risk management process supports the strategic and planning process, decision-making, the continuity of operations and reporting on every level of the organisation.

KEY RISK AREAS

The PKC Group's Corporate Governance guidelines divide risks into those connected with operations, strategy, quality and the environment, personnel, occupational safety, information security and information systems and financing. Financial risks are described in the notes to the financial statements.

OPERATIONAL RISKS

Operational risks comprise all the factors that may jeopardise or prevent the achievement of set business objectives. The main responsibility for hedging operational risks is held by the directors in charge of business units and operations. Group administration co-ordinates and advises in risk management matters as well as decides on the Group's joint or major risk management issues. The effect of various disturbance situations has been evaluated and continuity plans have been drafted as a safeguard against them. The continuity plans aim to secure substitute resources to personnel, premises, production machinery and equipment, materials and raw materials and transportation, among other things.

Business environment and business cycle risks

Business cycles in the world economy and trends in the market for heavy trucks and other commercial vehicles as well as the electronics and telecommunications industry affect demand for the products of PKC's customers and thus also, to some extent, demand for the products manufactured by PKC, influencing its financial position in the short term. The long-term effects are evened out by the wide geographical spread of the operations of PKC's customers, the ability to operate in different customer industries, long-term co-operation with our main customers and the continuous stepping up of the efficiency of operations.

Market and customer risks

The Group's operations depend significantly on the trend in the businesses of a few internationally operating customers and on agreements concluded with them. In order to reduce this risk resulting from a narrow customer base, the Group focuses on its core areas of expertise and on developing its skills and know-how. This enables PKC to maintain and deepen its present customer relationships. In addition, the Group seeks to expand the clientele in its present business areas. In the Company's estimation, there is no immediate danger of losing the present key customers.

Typically, the industry is subject to a continuous downward trend in prices. Cost-effectiveness is improved by means of product development, rationalising operations, seeking out more flexible ways of working, inviting competitive bids from suppliers of materials and moving production to countries with lower cost level.

Purchasing and logistics risks

The parent company's purchasing function is responsible for managing risks connected to procurements and logistics on a centralised basis on the Group level. Materials account for an important share in the overall costs of end products. Purchasing prices are negotiated on a centralised basis, suppliers are asked to submit competitive bids and alternative suppliers are sought continually, whilst also developing the purchasing function further.

Disturbances in the delivery or transportation of raw materials can cause interruptions to both PKC's and its customers' production. Alternative suppliers cannot be found quickly for all components. The means of limiting this risk include finding alternative suppliers, supplier audits, good co-operation with customs officials, maintaining a high level of skill among the employees of its logistics function and, to a certain extent, buffer stocks.

The trend in the world economy may affect the prices and availability of raw materials. Risks related to copper price can be hedged through purchasing agreements and by means of raw materials futures and options. Similarly, changes in the prices of oil and metals can indirectly hamper the Group's operations if price fluctuations lead to a drop in demand for its customers' products. Price fluctuations of electric energy do not have an essential effect on the Group's result.

Rapid changes in forecasts submitted by customers, short delivery times and suppliers' fairly long delivery times as well as the short life cycles of products pose challenges for inventory management. The control of materials flows is via an operations control system covering the entire production network.

Risks related to the manufacturing process
Internal assessments are used to track the efficiency and appropriateness of processes and ways of working. The company utilises these results for continuously improving its operations as well as achieving better response times in method development and the utilisation of new technologies, among other things. As the subsidiaries take on a greater share of the manufacturing processes, the coherence, functionality, controllability and efficiency of business processes are becoming more and more pivotal.

The monitoring and development of the efficiency of production include aspects such as developing the working environment, keeping production machinery up to date, operational reliability and the degree of automation, maintenance programmes and the availability of spare parts and factors relating to the personnel's work.

Contract and liability risks
It is possible that the PKC Group may face demands arising from the defectiveness of products. The Group seeks to limit the liabilities arising from these factors by means of agreements and by taking out comprehensive insurance coverage. In addition, product-related liability risks are warded off in advance by applying the procedures described in the quality system. PKC has prepared for property, business interruption, transport and liability risks (incl. product liability, operational liability and management liability) by means of insurance programmes covering the entire Group and through local policies supplementing them. Despite the preventive and restrictive means PKC may face damages that fall beyond the scope of the insurance coverage due to the scope or nature of damages. The insurance coverage is being monitored actively and developed together with experts.

Written agreements have been drawn up with all major customers, suppliers and co-operation partners. An electronic register is kept of the company's agreements, and the agreements themselves are stored carefully. The agreements are used to determine operating procedures and conditions to prevent the materialisation of risks, to divide responsibilities and to minimise any damage that may occur.

There are no pending litigation, arbitration, tax or other administrative proceedings against the company, which might cause the Company to incur material financial obligations, nor, to the best of the Company's knowledge, are its operations threatened by proceedings of the above-mentioned kind.

Political, cultural and legislative risks
The PKC Group's production is spread out over a wide geographical area, as is that of PKC's main customers. Unfavourable political, economical and legislative changes may impair PKC's cost-effectiveness and/or be detrimental to its operations in some countries. The risk connected with emerging countries is reduced by decentralising production across different countries, by complying with each country's legislation, through functional co-operation networks, and by means of continuity plans. The Group administration is responsible for attending to Group- and company-level legal affairs. The business units and departments are responsible for legal issues related to business operations and different functions, with the assistance of Group administration. Legislative development and changes are monitored continuously.

STRATEGIC RISKS

Parent company's Board of Directors makes decisions on taking strategic risks, such as strategically significant acquisitions and property deals as well as other measures that are extraordinary or of far-reaching in terms of the scope and nature of the company's operations.

Decisions to take strategic risks are made after carrying out diligent and comprehensive preparation, which may include e.g. various assessments, examining alternatives, risk analyses and possible due diligence.

QUALITY AND ENVIRONMENTAL RISKS

The uncompromising quality of products and operations is one of the most important values guiding the Group's operations. Quality risks affecting the customer's operations can be eliminated by means of continuous inputs into developing quality. In starting up new units and products as well as transferring production, particular attention is paid to quality assurance. Operational processes are described and implemented on the basis of pre-defined and tried-and-true methods.

Even though the environmental impacts of its business are slight, the Group strives to minimise such effects. This takes place in co-operation with the entire chain of delivery and in accordance with the principle of continuous improvement.

Quality and environmental policies are approved by the Corporate Management Team. The Group's quality and environmental system has been built with the aim of achieving the objectives set and to serve as a tool for developing the quality and efficiency of processes, products and services. The Group has certified quality and environmental systems, which are developed constantly.

PERSONNEL RISKS

The personnel's importance to the company's development and competitiveness is crucial. The objective of the Group's human resources strategy is to create an efficient and competent workplace where personal well-being thrives.

The areas of focus are developing competence, commitment and well-being at work. Development of competence is based on the company's business strategies. Plans include a definition of the required competence and the means to secure such competence. A personal development plan taking into account future competence requirements is drafted for each employee in annual development discussions. Deputy systems guarantee that if any employee is prevented from working or if their employment comes to an end, this will not cause irreplaceable gaps in the Company's overall competence or interruptions in its operations. In addition to improvements in job well-being, employees are offered competitive fringe benefits and they are encouraged to develop their own professional skills.

LABOUR PROTECTION AND CORPORATE SECURITY RISKS

The company has drafted a labour protection and occupational safety programme encompassing both the physical and psychosocial working environment. Labour protection is systematic and based on the assessment of workplace risks, jointly formulated plans and practices that are observed by the entire personnel. Working conditions and the level of occupational safety are monitored continuously using regular workplace inspections and atmosphere questionnaires. Maintaining the health of employees, preventing accidents and sickness and the safe and ergonomic operation of production machinery are key elements in supporting PKC's business operations and the improvement of both quality and productivity.

The Group's business location specific safety plans aim to achieve operational conditions in which the company's safety risks are on an acceptable level and accidents and damage are prevented efficiently. The business location specific safety organisations seek to prevent accidents and, should an accident occur, to prevent or limit harm to people and assets as well as to ensure the continuity of operations. The safety plans set out operational models for different types of exceptional and disturbance situations and the means of limiting such risks.

INFORMATION SECURITY AND INFORMATION SYSTEMS RISKS

The Group's information security policy specifies minimum-level procedures and working instructions for ensuring and maintaining information security.

Electronic and real-time information transfer between customers, suppliers and the Group's various manufacturing units is an absolute must for guaranteeing smoothly running production operation. The way the automotive industry operates, especially the requirement of short delivery times, places special demands on telecommunications solutions. Disturbances in telecommunications and deficient capacity are a major risk for efficient business operations. PKC aims to minimise this risk by means of doubled connections. New alternatives for communications links are explored continuously with different partners in co-operation. PKC has taken steps to implement alternative solutions when and if necessary.

Operations control, optimisation and monitoring are carried out by means of information systems. PKC is adopting an integrated production and logistics control system covering the entire production network.

By means of continuous monitoring as well as surveying more effective solutions that provide greater information security, the Group endeavours to ensure that the information security of applications remains at an acceptable level. A recovery plan is in place to ensure that operations can be continued should any failure or disturbance occur.

BOARD OF DIRECTORS ON DECEMBER 31, 2005

HARRI SUUTARI b. 1959

Chairman since September 1, 2005 | Member of the Board of Directors from 2005 | Engineer | Previously President and CEO at PKC Group Oyj (March 13, 2002–August 31, 2005), Ponsse Oyj (1994–2000) and Kajaani Automatiikka Oy (1984–1996) | Member of the Board of Directors at Alma Media Oyj | Not independent of the company (service relationship with the company during the last three years prior to the inception of the board membership).

JUHANI KOSKINEN b. 1946

Member of the Board of Directors from 2002 | M.Sc. (Tech.) | Consultant 30 years experience in vehicle industry´s duties, latest as Valmet Automotive Oy´s Director of Supplier Management (1999–2003), Materials Director (1981–1999), Market Director (1979–1981) and before that in various management duties at Valmet and other companies | Independent of the company and of its significant shareholders.

LEO OJALA b. 1950

Member of the Board of Directors 1994–1995 and from 1997 | Commercial College Graduate | LO-Invest Oy´s Chairman of the Board of Directors | Founding member of PKC Group Oyj | Previously with PKC Group Oyj and companies preceding it from 1973, latest as CFO (1996–2003), Financial Manager (1990–1996) and before that in other financial duties | Member of Waratah OM Oy´s and Outokummun Metalli Oy´s Board of Directors | Not independent of the company (employment relationship with the company during the last three years prior to the inception of the board membership).

ENDEL PALLA b. 1941

Member of the Board of Directors from 1994 | Electronics Engineer | AS Harju Elekter Ltd´s Chairman of the Supervisory Board and Development Director | With AS Harju Elekter from 1983, latest as Development Director (1999–), Managing Director (1991–1999) and before that in management duties of electrotechnical division at AS Harju KEK | Chairman or the board member of the Supervisory Boards of AS Harju Elekter and its subsidiaries and affiliated companies as well as member of the Supervisory Boards of AS Harju KEK, AS Kelmo and AS Laagri Vara | Not independent of the company (Chairman of the Supervisory Board and Development Director in AS Harju Elekter that is a lessor of PKC's subsidiary and PKC's significant shareholder).

VEIKKO RAVASKA b. 1951
Member of the Board of Directors from 1995 (Vice-Chairman from March 22 to August 31, 2005) | Engineer | Founding member of PKC Group Oyj | Previously with PKC Group Oyj and companies preceding it from 1978, latest as Logistics Manager (1999–2000), Materials Manager (1994–1999), Development Manager (1993–1994) and before that in various duties in production management | Member of Muoviura Oy´s Board of Directors | Independent of the company and of its significant shareholders.

RISTO SUONIO b. 1942
Member of the Board of Directors from 1994 | M.Sc. (Tech.) | Independent Investor | Almost 40 years experience in cable industry´s duties, latest as Nokia Oyj´s Director, Strategic Planning (Cable and Mechanical Industry Group) (1990–2001), Türkkablo A.O.´s Managing Director (1996–1999), Nokia´s Director, Strategic Planning, Cable Group (1988–1989), Director, Special Cables (1983–1985), Director, Energy Cables (1983–1985), Sales Director (1981–1983) and before that in various management and sales duties at Nokia and its subsidiaries | Independent of the company and of its significant shareholders.

JYRKI TÄHTINEN b. 1961
Vice-Chairman since September 1, 2005 (Chairman from March 22 to August 31, 2005) | Member of the Board of Directors from 1999 | LL.M, MBA, Attorney at Law | Attorneys at Law Borenius & Kemppinen Ltd´s President and CEO | Practising law since 1983, latest as Attorneys at Law Borenius & Kemppinen Ltd´s President and CEO (1997–), partner (1991–) and before at the employ of other law firms and City of Helsinki | Member of the Board of Directors at Muoviura Oy, JSH Capital Oy, Spiceboys Oy and Girasole Oy | Independent of the company and of its significant shareholders.

CORPORATE MANAGEMENT TEAM ON DECEMBER 31, 2005

MIKA KARI b. 1969

President & CEO | M.Sc. (Tech.) | With the company from 1996 and member of the Corporate Management Team from 1997 | PKC Group´s President & CEO (September 1, 2005–), Vice President and CEO's deputy (2004–2005), Business Development Director (2001–2004), before that in quality management.

JUKKA FEIRING b. 1949

Business Unit Director | Undergraduate of philosophy | With the company from 1979 and member of the Corporate Management Team from 2002 | PKC Group´s Business Unit Director (2002–), Sales Manager (1993–2002), before that in production development and sales duties.

TAPIO FRANTTI b. 1967

Technical Director | M.Sc. (Tech.) | With the company and member of the Corporate Management Team from 2002 as Technical Director | Previously ADC Telecommunication Inc.´s Product Development Manager (2001–2002), Project Manager (1999–2000), Rautaruukki Oyj´s Design/Development Engineer (1996–1999), Etteplan Oy´s Areal Manager (1994–1996).

OLLI-PEKKA HÄKKILÄ b. 1963

Logistics Director | Technician | With the company and member of the Corporate Management Team from 2005 as Logistics Director | Previously with Nokia Oyj from 1993, latest as Business Unit Sourcing Manager (2004–2005), Materials Manager and Head of China Sourcing (2002–2003), Global Sourcing Manager (1999–2000) and in other materials management duties (1993–1999), Finnyards Rauma's Supervisor (1991–1993).

MARKO KARPPINEN b. 1971

CFO & Administrative Director | M.Sc. (Econ.) | With the company and member of the Corporate Management Team from 2003 | PKC Group´s CFO & Administrative Director (2005–), CFO (2003–2005) | Previously Finnforest Oyj´s Chief Business Controller (2002–2003), Ponsse Oyj´s CFO (1996–2001), Financial Manager (1995–1996), Accounting Manager (1994).

JYRI KONTIO b. 1974
Business Unit Director | L.Sc. (Tech.) | With the company from 1998 and member of the Corporate Management Team from 2005 | PKC Group´s Business Unit Director (2005–), Operational Manager (2003–2005), Production Manager (2000–2002), Development Engineer (1998–2000).

PEKKA KORKALA b. 1969
Business Unit Director | M.Sc. (Tech.) | With the company from 1998 and member of the Corporate Management Team from 2002 | PKC Group´s Business Unit Director (2002–), Brazilian Unit´s Business Controller (1999–2002), before that in production management | Previously Rannikon Konetekniikka Oy´s Production Manager (1995–1998).

JANNE LAMPELA b. 1971
Business Unit Director | Engineer | With the company from 1999 and member of the Corporate Management Team from 2002 | PKC Group´s Business Unit Director (2002–), Sales Manager (2000-2002), Sales Engineer (1999–2000) | Previously in product development and import duties outside of the company (1995–1999).

JARMO RAJALA b. 1962
Business Unit Director | M.Sc. (Econ.) | Member of the Corporate Management Team from 2005 as Business Unit Director | Previously Cybelius Software Oy´s Sales Director (2003–2005), Tammerneon Oy´s Hungarian subsidiary´s Managing Director (1998–2003), Finnish Trade Center Budapest, Trade Commissioner (1997), Vaasa University´s Liaison Officer/Project Manager (1991–1996).

MIKA RYTKY b. 1971
Business Development Director | M.Sc. (Eng.) | With the company from 2000 and member of the Corporate Management Team from 2004 | PKC Group´s Business Development and Quality Director (2004–), Sales Manager (2000–2004). | Previously Control CAD´s Product Manager (1999–2000), Pohto's consultant (1995–1999).

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