# 2006 Annual Report
# Panostaja Oyj

PANOSTAJA

WE INVEST IN FINNISH ENTREPRENEURSHIP

Alfa-Kem Oy

## Introducing a new area - the technochemical industry

# The successful Alfa-Kem company is the mainstay of Panostaja's new business area

Managing Director Jukkapekka Porali

**In the spring of 2006, Panostaja expanded its business operations by acquiring ownership of Oy Alfa-Kem Ab. This Lahti-based company manufactures and markets technochemical products and is one of the leading companies in its field in Finland. Engineer Jukkapekka Porali, 34, took the reins as leader of the new business area in the autumn, while the company's founder, Harri Porkka, is concentrating on Board and expert work.**

Jukkapekka Porali moved to Alfa-Kem from Lassila & Tikanoja, where he worked as a Customer Accounts Director. 'The fact that you don't have to operate on your own brings security to working as a Business Area Director within Panostaja. One of the rewards of Board work is being able to share your own ideas with other people.

Alfa-Kem has a nationwide channel for marketing industrial chemicals, industrial kitchen detergents and professional cleaning agents, machinery and equipment. Established in 1982, the company currently employs about 40 people. Alfa-Kem's special strength is its own network of service-oriented representatives who sell products direct to users. In addition, Alfa-Kem also arranges product-related services and training for customers.

### The Group creates a strong framework

Panostaja plays an important role in developing Alfa-Kem. 'One of the Group's strengths is its extensive network of experts in different fields. Indeed, we co-operate to seek further growth for the company and we believe that there is also potential beyond Finland in international markets,' explains Mr. Porali.

Alfa-Kem's plans are backed up by Panostaja's aim to build a more extensive business area around the company with a focus on the chemical industry.

### The long-range operating model led to the deal

As part of the business transaction, Alfa-Kem's founder Harri Porkka received a percentage of the purchase price in Panostaja shares, which have already increased significantly in value. The transaction was one of the largest in Panostaja's history and also the first where Panostaja paid a percentage of the purchase price through a private placement. Harri Porkka actually became the sixth largest shareholder in Panostaja.

The satisfied Mr. Porkka underlines the fact that Panostaja's long-range operating model was the decisive factor when he considered selling his company. 'The desire to see Alfa-Kem thrive even in the years ahead led to co-operation with Panostaja. The decision secures the company's opportunities for development and long-term success.

# Contents

# Our goal is to be the leading multi-sector holding company focusing on SMEs in traditional industries.

## Key data 2006

| EUR 1,000 | 2006 | 2005 | Change |
|---|---|---|---|
| Net turnover | 57,755 | 62,201 | -7.2 % |
| Operating profit | 5,476 | 4,398 | 24.5 % |
| Profit before taxes and minority interest | 4,936 | 3,776 | 30.7 % |
| Profit for the financial year | 8,628 | 2,769 | 211.6 % |
| attributable to equity holders of the parent company | 7,457 | 1,867 | 299.4 % |
| minority interest | 1,171 | 902 | 29.9 % |
| Earnings per share, EUR – diluted | 0.24 | 0.07 | 240.8 % |
| Earnings per share, EUR – basic | 0.27 | 0.07 | 360.4 % |
| Equity per share, EUR | 0.68 | 0.37 | 147.1 % |
| Dividend per share, EUR | *0.13 | 0.06 | 116.7 % |
| Equity ratio, % | **43.4 | 33.2 | 30.7 % |
| Gross capital expenditure, MEUR | 4.8 | 2.1 | 124.3 % |
| Number of shares as at 31st October (1,000) | 29,735 | 27,425 | 8.4 % |
| Average number of employees | 526 | 426 | 23.5 % |

* Board proposal to the Annual General Meeting
** Excluding the subordinated loan

# We invest in Finnish entrepreneurship

### 2005/2006 financial year

It is fair to say that Panostaja Group's last financial year 2005/2006 was a successful one. Our net turnover was EUR 57.8 million (EUR 62 million), while operating profit amounted to EUR 5.5 million (EUR 4.4 million). Our earnings per share stood at EUR 0.24 (EUR 0.07), while return on equity was 22.7% (23.1%). We had 526 (426) people on the payroll.

Panostaja's most important investment during the last period was to establish a new business area through the acquisition of Alfa-Kem. In addition, we managed to strengthen our operations, in Suomen Puunjalostus Oy's business area in particular, as a result of a number of acquisitions.

Last year, Panostaja sold its shares in Pajakulma Oy to Raskone Oy and also disposed of its holding in Ekovilla Oy. Both decisions proved successful for the company.

### New resources through acquisitions

Panostaja Oyj's strategic goal is to be Finland's leading multi-sector holding company for SMEs. In addition, the Board of Directors has set a further objective of more than 30% average growth. In order to achieve its aims, the company has started preparing to obtain a convertible subordinated loan at a maximum of EUR 21.3 million from domestic institutional investors.

Panostaja Oyj's Board has decided to acquire sufficient financial resources for the company to achieve its growth targets. The retirement of the baby-boomers will result in a large number of businesses becoming available for purchase over the next few years. Here at Panostaja we want to meet this challenge and offer our own alternative to entrepreneurs thinking about selling their companies. The intention is to achieve future growth mainly through acquisitions. Our aim is to form a total of 10 to 15 business areas that complement each other.

## Panostaja opens doors to entrepreneurship

During the forthcoming financial year, we want to continue supporting Finnish entrepreneurship. Panostaja Oyj has worked for more than two decades to develop Finnish entrepreneurship. Investment in various small and medium-sized enterprises operating in traditional industries continues to be the cornerstone of our operations.

We also want to continue to offer entrepreneurs the opportunity to 'jump onto a moving train' or, in other words, become key people in existing companies. We offer limited entrepreneurial risk, a managerial role in a going concern, competitive pay and the opportunity to gain entrepreneurial profit.

Our goal is to be the leading multi-sector holding company in our field in Finland. This is what we are striving towards, valuing Finnish know-how, long-range operations, commitment and a humane face on ownership.

Finally, I would like to extend my thanks to our staff and shareholders and to Panostaja's other stakeholders for a successful 2006.

Olli Halmevuo
CEO

Chief Executive Olli Halmevuo

# Panostaja in brief

Panostaja Oyj is a multi-sector holding company. The Group invests in Finnish small and medium-sized enterprises operating in traditional industries. Investments are primarily carried out through acquisitions. Panostaja Group focuses business resources and strategic know-how on companies.

The objective is to raise the target company to the top of its field according to a pre-determined schedule. Panostaja aims to guarantee good conditions for the target company to become independent within 5 to 10 years, at which point the enterprise will continue to operate as a growth company.

The objective of the investment stage is to shape the company to become an outstanding representative of its industry, which has matured both in terms of operations and value.

## Stages of the investment process:


### Panostaja's operating method:

- Investment in Finnish companies
- Focus on SMEs in traditional industries
- Majority ownership and 100% commitment
- Investments from the Group's own balance sheet guarantee flexibility

### Current business areas:

- Alfa-Kem manufactures, develops and markets technochemical products for professional purposes.
- Arme carries out industrial insulation, exterior cladding and scaffolding work.
- Lämpö-Tukku is a wholesaler of heating, plumbing and ventilation equipment.
- Suomen Puunjalostus manufactures and sells wooden staircases and interior doors.
- Toimex manufactures and sells heating, plumbing and ventilation supports.
- Vallog specialises in manufacturing metal industry spare parts and in logistics services.

# Highlights of the 2005/2006 financial year

- Net turnover for the financial year was EUR 57.8 million (EUR 62.2 million)
- Profit for the financial year was EUR 8.6 million (EUR 2.8 million)
- Equity ratio stood at 43.4% (33.2%)
- Return on equity was 22.7% (23.1%)
- Panostaja purchased the entire share capital of Oy Alfa-Kem Ab
- Panostaja increased share capital through a share issue relating to the purchase of shares in Oy Alfa-Kem Ab
- The 2004 convertible subordinated loan was used to subscribe for 1,310,000 of Panostaja's new Class B shares
- Panostaja restructured its wooden products business areas
- Panostaja sold its holdings in Pajakulma Oy and Ekovilla Oy
- The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.13 per Class A and B share be distributed for the 2005/2006 financial year

### Business areas

| | |
|---|---|
| 59.7 % | Eurotermo Group |
| 69.9 % | Arme Group |
| 70.0 % | Suomen Puunjalostus Group |
| 70.4 % | Kannake Group |
| 100.0 % | Annektor Group |
| 100.0 % | Vallog Group |

### Associated companies

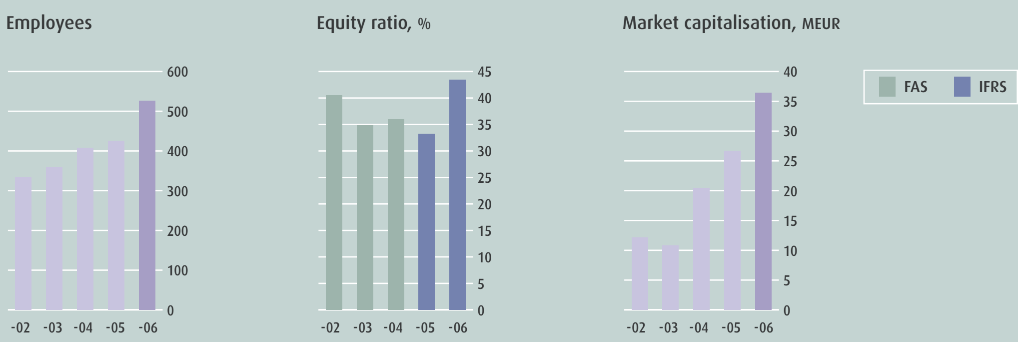
| | |
|---|---|
| 50.0 % | Tampereen Portti Oy |

### Real estate companies

| | |
|---|---|
| 100.0 % | Kiinteistö Oy Lakalaivan Teollisuustalo 1 |

### Former business areas

Suomen Helasto Oyj (1995)
Tilamarkkinat-Yhtiöt Oyj (1996)
Lasi-Koiso Oy (2002)
Pajakulma Oy (2006)



# Vision

Panostaja Oyj's goal is to be the leading multi-sector holding company focusing on SMEs in traditional industries.

# Strategy

Panostaja Oyj pursues clear growth through acquisitions by establishing new business areas and complementing existing business areas.

Panostaja will focus in particular on industries experiencing a period of growth or reorganisation, which involve increased opportunities to achieve synergy benefits through development of the industry or operations.

# Goals

### Operational objectives

Panostaja aims to focus its resources on 10 to 15 business areas that complement each other. The objective of developing selected business areas is for them to achieve a significant market position in their respective industries. The aim is to acquire 2 to 3 new business areas and complement existing areas through acquisitions, while also giving independence to one business area every year.

### Future financial objectives

The Group's long-term objective is to achieve an annual return on equity averaging more than 22%. A further objective is to obtain more than 30% average growth in net turnover, including the impact of new business areas.

Panostaja pursues an equity ratio of more than 40%. The shareholders' equity includes subordinated loans. The aim is to distribute at least half of the Group's profit to shareholders, either as share repurchases and/or dividends.

# Panostaja's operating method

✓ **Selection/acquisition**

Panostaja primarily seeks out and acquires majority holdings in small and medium-sized enterprises operating in trade, services and manufacturing industries, with levels of turnover at EUR 2–10 million. The aim is to shape these into specific business areas for each industry. Panostaja is particularly interested in industries currently experiencing a period of growth or reorganisation.

✓ **Investment**

Panostaja plays an active part in development of each business area by assuming overall responsibility for development of the area in question. In addition to capital investment, the added value offered by Panostaja is usually related to overall financial arrangements, strategic planning, Board operations, growth through acquisitions and development of financial, marketing and management systems as well as industry knowledge.

✓ **Independence**

Panostaja realises the appreciated value of a company at the independence stage, when Panostaja disposes of its interests in the business area. The aim at this exit stage is to achieve the best possible return on investment.

# Panostaja's income generation

Panostaja's income generation can be divided as follows:

**Annual return**

– profits annually accrued by Group companies

**Return on investment on exit**

– the change in valuation of a business area is realised when disposing of the company (gains from the sale of shares)

Investment activities are characterised by quite significant annual fluctuations in income generation. Panostaja aims to focus its resources on 10 to 15 business areas that complement each other, in order to enable annual return when disposing of interests in different areas. Current market conditions have a bearing on the timing and success of the exit stage.

# Panostaja's values

1. Panostaja believes in enterprise. Staff's self-motivated, creative, proactive and persevering work towards achievement of common goals enables the company to carry out planned and profitable operations.

2. Panostaja believes in competence. Special attention is paid to staff's active and continuous training and development with a view to creating an encouraging corporate culture.

3. Panostaja believes in trust. Trust and openness at all levels and between the company and stakeholders is a key instrument for good and constructive co-operation.

4. Panostaja aims to take environmental considerations into account in an ethically sustainable manner. Fulfilment of obligations set out in laws and regulations is the minimum requirement.

Olli Halmevuo, CEO, Member of the Board of Directors. Matti Koskenkorva, Chairman of the Board. Mikko Koskinen, Member of the Board.

## Annual General Meeting

The highest decision-making body within Panostaja Oyj is the Annual General Meeting (AGM). The AGM approves the company's financial statements every year and decides on distribution of dividends and discharge of the Board of Directors and the Chief Executive Officer (CEO) from liability, as well as on election of Directors to the Board and auditors and on their remuneration. The AGM is called by the company's Board of Directors. Pursuant to the Articles of Association, the AGM shall be held by the end of April each year. Invitations to the AGM shall be made available to shareholders no earlier than two months and no later than 17 days prior to the meeting via publication of the invitation in at least one national newspaper as determined by the AGM. The AGM shall be attended by the Chief Executive Officer, the Chairman of the Board of Directors and any person nominated for the first time as a candidate for the Board of Directors, unless they have exceptional grounds for non-attendance.

## Board of Directors

According to Panostaja Oyj's Articles of Association, the Board of Directors consists of no less than three and no more than six permanent members. In the 2005/2006 financial year, the Board had three members. Board members are elected at the Annual General Meeting. The term of office of a Board member shall expire at the end of the first Annual General Meeting following their election.

The Board of Directors shall appoint the Chairman and the Vice-Chairman from among its members. According to a decision taken by the company's Board of Directors, the post of Chairman of the Board is a full-time post. The Board of Directors has confirmed that the Chairman's duties and responsibilities include preparation of the Group's strategic decisions and control of their implementation as well as management of key shareholder and stakeholder relations.

In addition to the duties mentioned in law and in the Articles of Association, the Board of Directors also deals with matters of importance and consequence in terms of the company and the Group, such as long-term strategic goals, the budgets of Group companies as part of the Group's overall budget, the Group's material investments, material expansion or curtailment of business activities, as well as significant acquisitions and disposals of companies and businesses.

The Board of Directors has a written charter that covers its work. The Board of Directors evaluates its performance and working methods on an annual basis. The Board does not have any separate committees.

Panostaja Oyj complies with the Corporate Governance Recommendation for Listed Companies as applicable, due to the company's size range, accepted procedures and control system. In derogation of the Recommendation, it has been deemed, considering the size of the company, that a three-member Board is sufficiently capable of attending to Board duties efficiently. The Board of Directors is not independent of the company's shareholders. The Board has evaluated its independence, concluding that the company's Board of Directors should clearly reflect the company's ownership structure. The aim is to ensure a comprehensive and continuing representation of major shareholders on the Board.

The Annual General Meeting confirms the fees paid to the Board of Directors on an annual basis. During the 2005/2006 period, the Board convened 18 times. The monthly fees paid to the Chairman and other Board members as confirmed at the AGM are EUR 1,500 and EUR 1,000 respectively. In addition to the above-mentioned fees, the annual income and other benefits paid to the full-time Chairman of the Board amounted to EUR 135,360 in the 2005/2006 period. The Chairman of the Board has a written management contract. The term of notice under the management contract is 6 months and severance pay is equivalent to 12 months' salary.

During the financial year, the company paid EUR 8,500 in pension contributions on behalf of the Chairman of the Board. The company has a pension scheme which enables the Chairman of the Board to retire voluntarily at the minimum age of 58. The level of pension will be determined based on contributions made.

**Chief Executive Officer**

The company's Board of Directors appoints the Chief Executive Officer (CEO). The CEO is in charge of the day-to-day management of the company in accordance with instructions and orders given by the Board. The CEO's salary and other benefits are decided by the Board of Directors. The CEO has a written managing director's service contract. The term of notice under the contract is 6 months and severance pay is equivalent to 12 months' salary. During the 2005/2006 period, the CEO's annual income and other benefits amounted to EUR 136,086. In addition, the CEO received a further EUR 12,000 in compensation for his duties as a Board member during the period. The company paid EUR 8,500 in pension contributions on behalf of the CEO during the period. The company has a pension scheme, which enables the CEO to retire voluntarily at the minimum age of 55. The level of pension will be determined based on contributions made.

**Organisation of business**

Panostaja Group's operative business activities are conducted in business areas (subgroups) categorised by industry. The Board of Directors of each business area consists of the Managing Director of the business area as well as the Chief Executive Officer of Panostaja Oyj and a member of Panostaja Oyj's administration. The Board of Directors may also include one or more expert members from outside the Group. Any operational decisions concerning a business area are taken within the business area concerned.

**Control system**

The statutory audit of the annual accounts of Panostaja Group companies is the responsibility of auditors appointed at the Annual General Meeting. During the 2005/2006 financial year, auditors of the parent company and the Group were Mr. Jukka Ala-Mello, Authorised Public Accountant (APA), and PricewaterhouseCoopers Oy, Authorised Public Accountants.

The auditors will submit the statutory Auditor's Report to the company's shareholders in connection with financial statements. For its review of financial statements, Panostaja Oyj's Board of Directors is provided with the responsible auditor's account of performance of and observations made during the audit. Where necessary, auditors attend Board meetings and also report to the Board in other respects. Auditors' remuneration for auditing and other services for the financial year amounted to EUR 41,800 and EUR 7,900 respectively.

Panostaja Group complies with instructions on declarations of insider holdings and on maintenance of public and company-specific insider registers in accordance with the Finnish Securities Market Act (495/1989), as well as with the Guidelines for Insiders adopted by Helsinki Stock Exchange.

Panostaja Oyj's public insiders comprise members of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer and the auditors. The company's permanent insiders include certain people within financial administration, but their shareholdings are not in the public domain. A project-specific insider register is kept for each significant project. Panostaja Oyj's insider register is available for inspection on the Internet via the NetSire service made available by Finnish Central Securities Depository Ltd. and on Panostaja's own website under Sijoittajatietoa > Sisäpiirirekisteri (Investors > Insider Register), which is currently available in Finnish.

**Internal control and risk management**

The company's core business involves various risks which may affect its business activities and financial performance. The company's Board of Directors has divided risk management into the following sectors:

- Acquisitions and disposals of companies
- Business risks involved in the business areas
- Risks relating to key people
- Insurable risks
- Financial risks
- Risks relating to capital adequacy
- Foreign exchange risks
- Legal, fiscal and regulatory risks.

Changes made to Finnish tax legislation may affect taxation of the proceeds and/or losses involved in the disposal of subsidiaries. Due to altered interpretation of legislation, the company's management cannot predict for certain how the Group will be treated from a tax point of view.

Risk management aims to guarantee conditions for achievement of business objectives and continuity of operations. The Group does not have a separate internal audit system.

# Oy Alfa-Kem Ab – technochemical experts


Managing Director Jukkapekka Porali

Oy Alfa-Kem Ab manufactures, develops and markets technochemical products for professional purposes, such as industrial chemicals, cleaning agents and industrial kitchen agents. In addition to its own products, the company's product range also covers cleaning equipment and machinery as well as industrial and sanitary tissues.

Established in 1982, this Lahti-based company serves its customers by means of a nationwide sales organisation of 30 people. Alfa-Kem's customers include cleaning and property maintenance firms, local authorities, hospitals and other care institutions, industrial kitchens and restaurants, the mechanical engineering industry, repair shops and the processing industry.

The company's operational cornerstones include fast deliveries, flawless operations, financial profitability and efficient use of resources. The aim is to offer products that conform to customer requirements, have a good price/quality ratio and are as environmentally friendly as possible.

Oy Alfa-Kem Ab passed into Panostaja Oyj's ownership during the last financial year. Panostaja aims to develop and increase the company's operations and form a new technochemical industry business area around its core.

Operating profit for the last financial year was good, while net turnover increased by more than 6%. Growth could mainly be attributed to industrial chemicals and trading products, while sales of cleaning and industrial kitchen chemicals remained unchanged.

The objective for the next financial year is to grow organically by increasing and focusing the sales organisation's resources. Another aim is to further develop specific product and service packages for different customer segments.

Key data

| EUR 1,000 | 2006 IFRS |
|---|---|
| Net turnover | 1,735 |
| Operating profit | 472 |
| Employees | 38 |
| Holding as at 31st Oct. 2006 | 100 % |


ALFA·KEM OY·AB

# Arme – a pioneer in its field

Managing Director Jukka Pyykönen

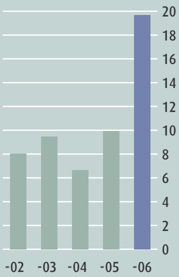
Arme Oy specialises in industrial and building insulation and scaffolding work. The company started trading in 1974 and is still one of the leading experts in its field. In addition to Arme Oy, Arme Group includes Renetor Oy and Renetor Grupp Oü. Through its subsidiaries, the subgroup can also extend its services to cover the shipbuilding and house building industries.

The company employs more than 250 professionals. Arme's headquarters are in Porvoo and its other units are located in Naantali and Kouvola. Project activities cover the whole of Europe.

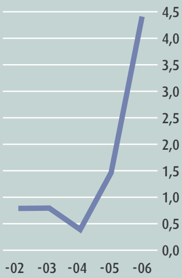
Demand for services provided by Arme Group during the last period was considerably higher than expected. Staff's ability to work under considerable pressure and the flexibility of good partners made it possible to carry out high-quality subcontracting safely. Renetor Oy's versatile professional expertise and competence played a major role in project implementation.

Arme Oy's aim for the forthcoming financial year is to diversify the services offered by the subgroup. In terms of the core business, operations will be developed with a view to retaining a good competitive edge in the tightening market.

**Net turnover**
**MEUR**




**Operating profit**
**MEUR**




Key data

| EUR 1,000 | 2002 | 2003 | 2004 | 2005 IFRS | 2006 IFRS |
|---|---|---|---|---|---|
| Net turnover | 8,041 | 9,487 | 6,670 | 9,919 | 19,684 |
| Operating profit | 789 | 795 | 390 | 1,453 | 4,409 |
| Employees | 104 | 131 | 109 | 118 | 156 |
| Holding as at 31st Oct. 2006 | | | | | 69.9 % |


ARME

# Lämpö-Tukku – service-oriented wholesale

Managing Director Jouko Tyrkkö

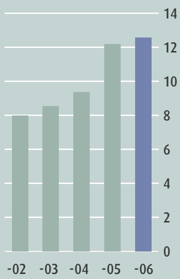
Lämpö-Tukku Oy, established in 1956, is an import and wholesale business operating in the heating, plumbing and ventilation sector. The company has grown over the years to become a wholesale business offering a wide range of products. Strong growth in the company's own imports has further consolidated its market independence.

Lämpö-Tukku Oy caters for heating, plumbing and ventilation installation firms as a cash-and-carry wholesaler with an extensive product range. The company's special strengths include cash-and-carry warehouses designed to maximise efficiency, flexible and customer-focused operating methods complete with skilled and committed personnel. Its own fleet ensures timely deliveries to customer sites throughout Finland.

The company has outlets in Helsinki, Espoo, Vantaa and Tampere. Development of the Tampere outlet has been favourable and operations were moved to spacious new premises in August 2006. Conversion of the Vantaa outlet into a logistics central warehouse was completed in the spring of 2006.

During the last financial year, Lämpö-Tukku Oy's net turnover developed moderately. This could partially be attributed to extensive investments, the change in the operating model and a reduction in new construction activities compared with the previous year. Changes in structural operating models are actually expected to influence future development of growth in net turnover.

**Net turnover**
MEUR




**Operating profit**
MEUR


Key data

| EUR 1,000 | 2002 | 2003 | 2004 | 2005 IFRS | 2006 IFRS |
|---|---|---|---|---|---|
| Net turnover | 7,985 | 8,555 | 9,365 | 12,229 | 12,560 |
| Operating profit | 432 | 390 | 363 | 369 | 240 |
| Employees | 19 | 19 | 21 | 29 | 31 |
| Holding as at 31st Oct. 2006 | | | | | 59.7 % |


LÄMPÖ-TUKKU

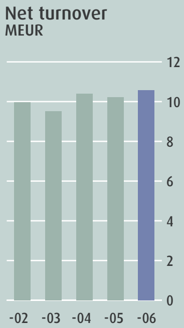
# Suomen Puunjalostus – expertise and trends in interior building design

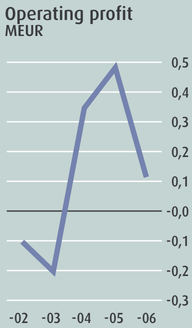

Managing Director Tapani Harjunen

Suomen Puunjalostus supplies interior doors and staircases for new construction and renovation projects. The subgroup offers its customers new trends in interior design, well-known brands and superior technical expertise simultaneously. The company's products go by the brands Matti-Ovi (Ovimestari), Keiteleen Porras, Messuporras and Nikkaristo. The raw material used for products is Finnish wood.

The company employs 92 people. Its market area covers the whole of Finland, while its interior doors are also sold in many other European countries. During the current financial year, Suomen Puunjalostus has made significant arrangements to increase the efficiency of its production plants and organisation. The subgroup increased capacity during the financial year, while also expanding its product ranges through the acquisitions of Nikkaristo Oy and Messuporras Oy.

The company focused resources on its core business by selling its overhead door business operating under the Masa-Door name in September. In March, the company opened Finland's largest staircase showroom and a door showroom covering its entire range in Petikko, Vantaa. For the forthcoming financial year, Suomen Puunjalostus expects the volume of construction to continue at a high level, even though the growth rate is projected to slow down gradually.



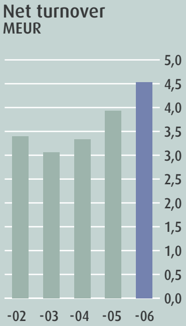

Key data

| EUR 1,000 | 2002 | 2003 | 2004 | 2005 IFRS | 2006 IFRS |
|---|---|---|---|---|---|
| Net turnover | 9,959 | 9,510 | 10,407 | 10,218 | 10,583 |
| Operating profit | -103 | -203 | 346 | 482 | 114 |
| Employees | 105 | 86 | 82 | 82 | 92 |
| Holding as at 31st Oct. 2006 | | | | | 70.0 % |

MATTI

# Toimex invests in exports

Managing Director Kalervo Pentti





Toimex Oy is Kannake Group's operating company with specialist expertise in manufacturing and marketing pipe supports for the heating, plumbing and ventilation sector. The company has a production plant in Tampere and a sales office in Helsinki. The company was established in 1974.

Toimex Oy's customer base comprises heating, plumbing and ventilation wholesalers. In addition to its own comprehensive product range, the company acts as an agent for several top brands in its field. Product applications include residential, public and industrial construction projects.

During the last period, development of the company's profitability exceeded expectations. Future growth is expected to come from residential construction in particular. The company's exports have also surpassed expectations and it will remain confident of growth in the future as well, since the Baltic countries and Russia are investing heavily in infrastructure.

In the forthcoming financial year, Toimex will seek opportunities to increase volumes through new operating methods expressly on the export market. The company has budgeted controlled growth for the new period and expects profitability and financial performance to develop in an increasingly favourable direction.

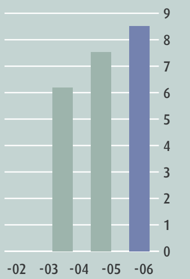
Key data

| EUR 1,000 | 2002 | 2003 | 2004 | 2005 IFRS | 2006 IFRS |
|---|---|---|---|---|---|
| Net turnover | 3,396 | 3,063 | 3,329 | 3,931 | 4,533 |
| Operating profit | 292 | 273 | 446 | 590 | 618 |
| Employees | 22 | 20 | 17 | 17 | 17 |
| Holding as at 31st Oct. 2006 | | | | | 70.4 % |

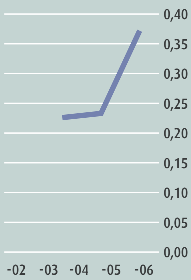
# Vallog – a firm grip on growth


Managing Director Kimmo Alho

Net turnover
MEUR




Operating profit
MEUR




Vallog Oy specialises in logistics services for the metal industry, small series production of metal parts and basic repair services as well as outsourcing services related to these functions. In particular, the company caters for customers' spare parts business and project delivery functions.

Vallog was established when Kone Corporation outsourced its lift spare parts manufacturing and logistics functions to the company in Hyvinkää. Ever since, the company has expanded its customer base and service provision. In addition to Hyvinkää, the company also has offices in Tampere and Hämeenlinna. The company employs just under 90 people.

Vallog Group's turnover continued to grow by just above 10% compared with the previous period. Regardless of project customers' healthy volumes, the subgroup's growth was limited by more stable development in the spare parts business.

All units started new projects for existing customers, while also expanding their customer base on the previous year. In early 2006, the subgroup purchased the share capital of Tampereen Metallirakenne Oy. The Tampere logistics functions will be moving to more modern facilities in the Rusko industrial area at the beginning of 2007.

Profit for the financial year was satisfactory, although material-intensive projects with low margins slightly increased their share of net turnover. Net turnover is projected to increase during the forthcoming financial year, provided that there are no negative changes in customers' market situations. The logistics removal project in Tampere will incur extra costs in the new period, but the company will nevertheless pursue a satisfactory profit level. Vallog continues its efforts to consolidate co-operation with existing customers, while also actively searching for new customers and partners in order to expand service provision.

Key data

| EUR 1,000 | 2003 (4 kk) | 2004 | 2005 IFRS | 2006 IFRS |
|---|---|---|---|---|
| Net turnover | 1,502 | 6,191 | 7,525 | 8,511 |
| Operating profit | 79 | 226 | 233 | 372 |
| Average number of employees | 54 | 80 | 71 | 84 |
| Holding as at 31st Oct. 2006 | | | | 100 % |


Vallog

# Pajakulma grew to be independent

In the autumn of 2006, Panostaja disposed of Pajakulma Oy, one of the oldest companies it has owned. The independence stage was achieved through persistence and on Pajakulma's own terms. Panostaja's clear operating model made it possible for both companies to achieve their common goals.

Pajakulma Oy supplies and services load-handling equipment for heavy-duty vehicles and expertise also covers vehicle spring services and road maintenance products. When Panostaja acquired the company back in 1988, its net turnover amounted to FIM 14 million (EUR 2.4 million). Over the years, turnover grew to exceed EUR 18 million, while operations expanded from two to eight locations. Pajakulma has also established subsidiaries in Estonia and Latvia.

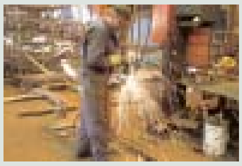
The independence stage set out in Panostaja's operating model was achieved in autumn 2006, when Panostaja sold its shares in Pajakulma to the state-controlled Raskone Oy.

## Development work and staff enabled growth

Pajakulma is a company with a payroll of 90 people that has recently emerged as a leading player in its field in Finland. According to Panostaja's CEO Olli Halmevuo, continuing development work and committed staff facilitated the company's strong growth.

'Pajakulma developed from being a local district distributor to become a leading nationwide chain. The company's positive development has created unique expertise, which will be further utilised as part of Raskone Group's larger organisation,' explains Mr. Halmevuo.

PAJAKULMA

## The operating model reaped the right rewards

Pajakulma Oy's current Managing Director, Risto Kuusisto, joined the company in 1994 and will continue in his position. According to Mr. Kuusisto, the years spent at Panostaja have shown that development work at Pajakulma has been fruitful.

'Panostaja people can be demanding, but they also give power and responsibility to the entrepreneur while doing so. Panostaja did not succumb to short-sighted profit maximisation but allowed our company to grow on its own terms.'

Mr. Kuusisto states that a company developed over a longer time span makes more sense both for the manager and the employees. 'In our case, this Panostaja operating model reaped the right rewards,' says Mr. Kuusisto in a satisfied tone.

**Pajakulma's history:**

| | |
|---|---|
| 1988 | Pajakulma acquired by Panostaja |
| 1991 | Jyväskylä regional unit established |
| 1993 | A subsidiary founded in Estonia |
| 1997 | Lahti regional unit and the rolling stock sector |
| 1998 | Kemi regional unit and Russian exports unit |
| 1999 | Vaasa regional unit |
| 2000 | Oulu regional unit |
| 2002 | Vantaa regional unit |
| 2006 | Pajakulma achieves independence and becomes part of Raskone Group |

# Financial statements for 2005/2006

## Consolidated financial statements for 2005/2006, IFRS



## Parent company's financial statements for 2005/2006, FAS

# Directors report

## IFRS REPORTING

Panostaja Group shifted from a system of Finnish Accounting Standards (FAS) to International Financial Reporting Standards (IFRS) as from the beginning of the financial year that started on 1st November 2005. The comparative amounts used in these financial statements are the IFRS-compliant figures from 2005.

## THE GROUP'S FINANCIAL PERFORMANCE

Panostaja Group's net turnover was EUR 57.8 million (EUR 62.2 million). The net turnover increased in all business segments, but the Group's net turnover decreased by 7.2% due to the fact that Pajakulma's turnover was no longer included in the consolidated year-end results. Pajakulma's net turnover for the comparative period was EUR 18.2 million. Panostaja Group sold its shares in Pajakulma Oy in October.

The Group's operating profit increased by 24.5% from the previous year's EUR 4.4 million to EUR 5.5 million, while profit before taxes grew by 30.7% from EUR 3.8 million to EUR 4.9 million. Profit for the financial year was EUR 8.6 million (EUR 2.8 million), with EUR 3.7 million and EUR 4.9 million attributable to continuing and discontinued operations respectively. In total, profit for the financial year increased by 211.6% on the previous year. Profit from discontinued operations consisted of proceeds from the sale of shares in Pajakulma Oy and Ekovilla Oy. Proceeds from the sale of shares have been treated as a tax-free capital gain. The disposal of Pajakulma Oy includes a conditional additional purchase price and normal obligations involved in business transactions of this nature.

The Group's average number of employees during the financial year was 526 (426). The payroll at year-end included 425 employees.

Parent company Panostaja Oyj's net turnover amounted to EUR 0.02 million (EUR 0.02 million). Due to the disposal of Pajakulma, other operating income amounted to EUR 4.68 million (EUR 0.03 million).

Operating profit was EUR 3.61 million (the previous year showed a loss of EUR 0.85 million). The parent company's profit before appropriations and taxes stood at EUR 5.17 million (EUR 0.37 million). The parent company's profit for the financial year amounted to EUR 5.17 million (loss of EUR 0.35 million).

## PANOSTAJA GROUP'S BUSINESS SEGMENTS

### Industrial construction

The industrial construction segment comprises Arme Group, which is a subgroup operating in Kulloo, Naantali and Kouvola, carrying out industrial insulation, exterior cladding, construction sheet-metal panelling and scaffolding work. Panostaja Oyj's holding in Arme Oy is 69.9%. The company's Managing Director is Jukka Pyykkönen. The subgroup comprises Renetor Oy and Estonian-based Renetor Oü, which provide industrial insulation and scaffolding installation services.

The industrial construction segment's net turnover increased during the financial year to EUR 19.7 million (EUR 9.9 million) and operating profit stood at EUR 4.4 million (EUR 1.5 million). The average number of employees during the financial year was 156 (118). The 98.4% increase in net turnover resulted from significant investment decisions by industries operating in Finland. These decisions have had a major impact on the industrial insulation sector. The segment's net turnover is anticipated to decrease, but profitability is expected to remain at a good level in 2007.

### Wholesale trade

The wholesale trade segment consists of Eurotermo Group, which is a wholesaler of heating, plumbing and ventilation equipment operating in Helsinki, Espoo, Vantaa and Tampere. Panostaja Group owns 59.7% of Eurotermo Oy. In all, Eurotermo Oy has more than 400 shareholders. The subgroup's operating company is Lämpö-Tukku Oy, which is 100% owned by Eurotermo Oy. The company's Managing Director is Jouko Tyrkkö.

During the last financial year, the wholesale trade segment's net turnover increased to EUR 12.6 million (EUR 12.2 million), while operating profit for the period stood at EUR 0.2 million (EUR 0.4 million). The average number of employees during the financial year was 31 (29). The relocation of the Tampere outlet and concentration of logistics functions in the Helsinki Metropolitan Area had a negative effect on profit for the financial year. The segment's net turnover and operating profit are expected to grow during the 2006/2007 period.

### Joinery industry

Panostaja Oyj restructured its joinery-related business operations in June. The Suomen Puuporras and Matti-Ovi groups, which had previously operated as separate business areas, were merged to create a single new business unit, the joinery industry segment. The company operating as the parent for the entire joinery industry segment is Suomen Puunjalostus Oy. The Managing Director of all companies within the Suomen Puunjalostus Group is Tapani Harjunen. Suomen Puunjalostus is a subsidiary in which Panostaja Oyj holds a 70% share.

Suomen Puuporras and Matti-Ovi are subsidiaries in which Suomen Puunjalostus Oy holds a 70% share. Suomen Puuporras Group is a subgroup manufacturing and marketing wooden staircases in Kausala, Tampere and Imatra. The subgroup includes subsidiaries Keiteleen Porras Oy and Messuporras Oy, which are

100% owned by Suomen Puuporras Oy, and Nikkaristo Oy, which is a subsidiary 100% owned by Keiteleen Porras Oy. Matti-Ovi Group operates in Laitila and Polvijärvi, manufacturing and marketing solid-wood interior doors. The subgroup also includes Finnfutter Oy, which is 100% owned by Matti-Ovi. The joinery industry segment has a joint sales office and showroom in Vantaa. The group structure was simplified and streamlined through restructuring, with a view to improving growth opportunities within the business segment.

The joinery industry segment's net turnover was EUR 10.6 million (EUR 10.2 million), while operating profit amounted to EUR 0.1 million (EUR 0.5 million). The average number of employees was 92 (85). Suomen Puuporras acquired the entire share capital of Nikkaristo Oy in February and Messuporras Oy in May. In September 2006, Matti-Ovi Oy sold its overhead door business.

The segment's operating profit is anticipated to improve due to the restructuring measures taken during the last financial year.

### Industrial services

The industrial services segment comprises Vallog Group, which consists of two operating companies. Vallog Oy operates in Hyvinkää and Tampere, mainly focusing on spare parts production and logistics. Vallog Logistiikkapalvelut Oy provides logistics and distribution services in Hämeenlinna. In addition, the subgroup's core competence covers supply of metal parts and components and distribution and storage services. Vallog Group Oy is a subsidiary in which Panostaja Oyj holds a 100% share.

The segment's net turnover for the financial year was EUR 8.5 million (EUR 7.6 million). The subgroup's operating profit amounted to EUR 0.5 million (EUR 0.5 million). The subgroup's average payroll included 84 (71) people.

The segment's net turnover is expected to grow, but increasing manufacturing costs are threatening the development of profitability, which has so far continued to be favourable.

### Other business operations

The other business operations segment consists of Kannake and Annektor groups, parent company Panostaja Oyj and Panostaja Oyj's investment properties. In addition to business operations, other items reported under this segment include unallocated items and intra-group eliminations.

Kannake Group is a subgroup manufacturing and marketing heating, plumbing and ventilation supports and operating in Tampere and Helsinki, in which Panostaja holds a 70% share. In addition to Kannake Oy, the subgroup includes Toimex Oy, its operating company. The company's Managing Director is Kalervo Pentti.

Annektor Group is a Lahti-based technochemical industry subgroup, in which Panostaja holds a 100% share. In addition to Annektor Oy, the subgroup includes Oy Alfa-Kem Ab, its operating company. The company's Managing Director is Jukkapekka Porali.

Tampereen Portti Oy is an associated company owned equally by Panostaja Oyj and YIT Corporation, which owns a land area in Lahdesjärvi in the Lakalaiva district of the City of Tampere. The permitted building volume confirmed for the area covers about 41,000 floor square metres. The area is being developed to create a high-quality office and industrial site. Panostaja Oyj still holds the share capital in the Kiinteistö Oy Lakalaivan Teollisuustalo I real estate company, which was set up during the first construction stage.

The net turnover of the other business operations segment increased to EUR 6.4 million (EUR 4.0 million). The segment's operating profit was EUR 0.2 million (previous year's loss EUR 0.1 million). The average number of employees during the financial year was 62 (22). The profitability of Kannake and Annektor groups is also expected to remain at a good level.

## FINANCING

For the 2004/2005 period, the company distributed EUR 1.6 million in dividends to parent company shareholders (dividends paid to minority shareholders in subsidiaries during the period amounted to EUR 0.4 million). The amount of the Group's interest-bearing liabilities at year-end amounted to EUR 10.8 million (EUR 10.4 million), excluding the convertible subordinated loan.

Cash flow from operating activities remained at a good level throughout the period. The Group's equity ratio stood at 43.4% (33.7%), meaning 30.7% growth, while the gearing ratio was 3.1% (71.8%). Return on equity was 22.7% (23.1%). Return on investment stood at 16.1% (18.1%).

## INVESTMENTS AND R&D ACTIVITIES

The Group's investments for the financial year amounted to EUR 4.8 million (EUR 2.1 million). The most significant investments included the acquisitions of Oy Alfa-Kem Ab, Nikkaristo Oy and Messuporras Oy. The Group does not have any expenses classified as being research and development costs.

## RISKS

The Group takes controlled risks in order to make the most of available business opportunities. The Group's normal business risks are related to the market and competitive situations of the Group's different industries as well as to business acquisitions and disposals.

The Group's six business areas operate in different industries. In general terms, the Groups' financial performance is not materially dependent on the development and performance of any single

business area, but if a business area becomes significant in terms of the entire Group, this may also play an important role. The Group's financial performance and development are not normally dependent on a single customer, but loss of one or more significant customers may have financial effects on an individual business area.
General economic developments may have a significant impact on the Group's financial performance and development, which are also influenced by seasonal factors. The effect of seasonal business fluctuations is such that the first half of the year is generally weaker than the latter half. Continuing changes in the competitive situation, such as tightening competition, may also have a bearing on the Group's financial performance and development, although the Group and its business areas aim to develop their operations so as to reduce such effects. In addition, risks relating to the prices and availability of raw materials used by the Group's different industries in their operations may have considerable effects on the financial performance and development of an individual business area, but these do not normally affect the whole Group's performance and development to any significant extent.

Exchange rate, interest rate, financial and credit risks do not normally have any significant bearing on the whole Group's financial performance and development, but these may have a considerable impact on the financial performance and development of an individual business area. The Group and its different business areas have endeavoured to hedge such risks in different ways, but this is not always possible.

Risks relating to the availability of staff for the Group may affect the financial performance and development of the Group and its business areas in the event of failure to recruit key personnel and other staff.

Risks relating to the environment may affect the financial performance and development of the Group and its business areas in the event of failure to manage such risks. The Group aims to take special care to respect legislation governing environmental considerations and to operate in an ethically sustainable manner in other respects as well. The Group is not aware of any significant environmental risks at the present time. The Group has extensive insurance cover against material damage as per policy conditions. The insurance level of property risks is monitored on a regular basis. Risks relating to warranties and repairs may affect the financial performance and development of the Group and its business areas in the event of failure to manage such risks. Group companies aim to take precautions against these risks by investing in operational quality and product development, while some risks are also covered by insurance, where possible.

Risks relating to acquisitions and disposals of companies may affect the financial performance and development of the Group and its business areas in the event of failure to manage such risks. The Group also aims to grow through company acquisitions. Goodwill on acquisitions recognised in the consolidated balance sheet amounts to about EUR 2 million. Since the company started IFRS reporting, goodwill is no longer amortised regularly on an annual basis. Instead, it is tested for impairment at least annually or whenever there is any indication of impairment. Values are usually reviewed during the latter half of the year as part of the budgeting process.

Official regulations may affect the financial performance and development of the Group and its business areas. The Group and its different business areas follow amendments to regulations and aim to react to these in advance, if possible.

**GROUP STRUCTURE**

The following changes were made to the Group's structure. In March, Suomen Eristyskehitys Oy, in which Panostaja Group holds an 89.75% share, sold its 33.3% holding in Ekovilla Oy. Ekovilla Oy redeemed the shares at a purchase price of EUR 1.2 million.

In April, Panostaja Group acquired the entire share capital of Oy Alfa-Kem Ab. The purchase price paid for the company was EUR 4,000,000 and 1,000,000 Panostaja Oyj new Class B shares. The total purchase price amounted to EUR 5.2 million. A demerger process has been initiated within Annektor Oy, the parent company of Oy Alfa-Kem Ab. The demerger is expected to be complete by the end of the calendar year.

At the end of May, Suomen Puuporras Oy acquired the entire share capital of Messuporras Oy, a manufacturer of wooden staircases. Messuporras Oy's net turnover for the last financial year amounted to EUR 0.8 million. In addition to Messuporras Oy, Suomen Puuporras Group includes Keiteleen Porras Oy and Nikkaristo Oy. Suomen Puuporras Oy increased its holding in Keiteleen Porras Oy to 100% in June. Keiteleen Porras Oy purchased the share capital of Nikkaristo Oy in February. Nikkaristo is an Imatra-based staircase manufacturer with an annual net turnover of about EUR 0.3 million. Panostaja Oyj's holding in the share capital of Suomen Puuporras Oy stands at 70%.

Panostaja Oyj restructured its joinery-related business operations in June. The Suomen Puuporras and Matti-Ovi groups, which had previously operated as separate business areas, were merged to create the joinery industry business area, with Suomen Puunjalostus Oy as the parent company.

In October, Panostaja Oyj sold its shares in Pajakulma Oy (70.06% of

Pajakulma Oy's share capital).

**ADMINISTRATION AND ANNUAL GENERAL MEETINGS**

The Annual General Meeting was held on 19th December 2005 and the shareholders elected Olli Halmevuo, Matti Koskenkorva and Mikko Koskinen to the Board of Directors. The AGM further appointed Mr. Jukka Ala-Mello, APA, and Pricewaterhouse-Coopers Oy, APA, as auditors. In addition, the AGM approved the financial statements, discharged the members of the Board and the CEO from liability and agreed to distribute a dividend of EUR 0.06 per share. The record date for dividend payment was 22nd December 2005 and the payment date was as from 30th December 2005.
In addition, the Annual General Meeting authorised the Board of Directors to decide on an increase of share capital by the maximum amount of EUR 7,200,000 through one or more rights issues on a pre-emptive basis; authorised the Board to decide on an increase in share capital through one or more new share issues or on issuance of one or more convertible bonds or options or bonds with warrants, such that the share capital may be increased disapplying the shareholders' pre-emption rights through new share issues, conversion of convertible bonds or subscription of shares conforming to the terms and conditions of such options or bonds with warrants by the maximum amount of EUR 658,122; and authorised the Board to decide on acquisition of no more than 1,725,655 and 1,016,795 of the company's own Class A and B shares respectively. The Board was also authorised to decide on disposal of the company's own shares. Board authorisations are valid for one year as from the AGM decision.

The Board exercised its authorisation to increase share capital through a new share issue disapplying the shareholders' pre-emption rights. As part of this private placement, the seller of the share capital of Oy Alfa-Kem Ab, Harri Porkka, subscribed for 1,000,000 Panostaja new Class B shares. The Board did not exercise any other authorisations during the financial year.

**SHARE CAPITAL AND THE CONVERTIBLE SUBORDINATED LOAN**

At the end of the financial year, Panostaja Oyj's share capital amounted to EUR 3,568,148.64 and the number of shares was 29,734,572. The numbers of issued Class A and B shares amounted to 17,256,595 and 12,477,977 respectively. The amount of the 2004 convertible subordinated loan outstanding on the balance sheet date totals EUR 2,370,200, entitling holders to subscribe for 3,386,000 new Class B shares.

During the 2005/2006 financial year, Panostaja Oyj's convertible subordinated loan of 2004 was used to subscribe for 1,310,000 new Panostaja Class B shares. The shareholders' rights attached to the shares subscribed for with convertible bonds include voting rights in accordance with the Articles of Association and other rights, except for the rights to receive dividends. The new shares will confer the right to receive dividends for the first time for the financial year during which they are converted. New Panostaja Class B shares were consolidated into existing Class B shares on 1st November 2006.

**PROPOSAL OF THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING**

The Board of Directors proposes that profit for the financial year be transferred to the retained earnings account as an increase and that a dividend of EUR 0.13 per Class A and B share be distributed from retained earnings.

**EVENTS SUBSEQUENT TO THE FINANCIAL YEAR**

In November 2006, Panostaja Oyj's Board of Directors started preparing to obtain a convertible subordinated loan at a maximum of EUR 21,250,000 from domestic institutional investors. The loan would be raised to finance future Panostaja Oyj acquisitions. In addition, the Board of Directors proposes that the company's key personnel be granted option rights as part of their incentive scheme.

The Board has drawn up a proposal on more specific loan and option terms for the Annual General Meeting due to convene on 15th December 2006.

**OUTLOOK FOR THE FORTHCOMING FINANCIAL YEAR**

Panostaja Group will focus on the business idea in alignment with its core business strategy and on development of the business areas. In addition, the company aims to dispose of assets not related to its core business. The retirement of the baby-boomers will result in a large number of businesses becoming available for purchase over the next few years. In order to be able to meet this challenge, the company has started to raise capital with a view to building up its financial resources. The increasing supply of companies will also enable expansion into new business areas. Panostaja's objectives for the current financial year are to seek business growth through acquisition of SMEs operating in traditional industries and to increase the number of business areas by 2–3 new areas per year as well as to complement existing business areas through acquisitions.

Domestically, the economic situation is expected to remain favourable. The economic outlook for the business areas' industries is positive. It is fair to expect that the consolidated net turnover will grow and that results will remain at a good level, provided that there are no material changes in the economic situation.

# Consolidated income statement

| (EUR 1,000) | Note | Year ended 31/10/2006 | Year ended 31/10/2005 |
|---|---|---|---|
| **Net turnover** | | 57,755 | 62,201 |
| Other operating income | 10 | 772 | 308 |
| Share of profit of associates | 11 | 86 | 181 |
| Raw materials and services | | 26,940 | 33,716 |
| Staff expenses | 12 | 15,541 | 15,629 |
| Depreciation, amortisation and impairment | 13 | 1,209 | 1,120 |
| Other operating expenses | 14 | 9,448 | 7,827 |
| **Operating profit** | | 5,476 | 4,398 |
| Financial income and expenses | 15,16 | -540 | -622 |
| **Profit before taxes** | | 4,936 | 3,776 |
| Income taxes | 17 | 1,210 | -1,007 |
| **Profit from continuing operations** | | 3,725 | 2,769 |
| Profit from discontinued operations | | 4,903 | |
| **Profit for the financial year** | | 8,628 | 2,769 |
| | | | |
| Attributable to: | | | |
| Equity holders of the parent company | | 7,457 | 1,867 |
| Minority interest | | 1,171 | 902 |
| | | | |
| Earnings per share on continuing operations, EUR | 18 | | 0.071 |
| Basic | | 0.092 | |
| Diluted | | 0.085 | |
| Earnings per share on discontinued operations, EUR | 18 | | |
| Basic | | 0.176 | |
| Diluted | | 0.157 | |
| Earnings per share on continuing and discontinued operations, EUR | 18 | | 0.071 |
| Basic | | 0.268 | |
| Diluted | | 0.242 | 0.071 |

# Consolidated balance sheet

| (EUR 1,000) | Note | 31/10/06 | 31/10/05 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 19 | 1,977 | 1,003 |
| Other intangible assets | 19 | 234 | 281 |
| Property, plant and equipment | 20 | 9,654 | 9,116 |
| Interests in associates | 21, 22 | 894 | 1,597 |
| Other non-current assets | 23 | 127 | 176 |
| Interest-bearing receivables | | 15 | 15 |
| Total non-current assets | | 12,900 | 12,188 |
| **Current assets** | | | |
| Stocks | 25 | 7,941 | 9,362 |
| Trade and other receivables | 26 | 14,360 | 11,602 |
| Short-term investments | 27 | 2,222 | 1,714 |
| Cash and cash equivalents | 27 | 10,207 | 3,239 |
| Total current assets | | 34,730 | 25,917 |
| **Total assets** | | 47,631 | 38,105 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent company** | | | |
| Share capital | 28 | 3,568 | 3,291 |
| Share premium account | 28 | 2,683 | 882 |
| Retained earnings | | 11,909 | 6,098 |
| Total | | 18,160 | 10,271 |
| **Minority interest** | | 2,154 | 2,277 |
| **Total equity** | | 20,314 | 12,548 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 24 | 309 | 111 |
| Loans from financial institutions | 30 | 8,837 | 8,570 |
| Convertible loan | 32 | 2,316 | 3,195 |
| Other non-current liabilities | 30 | 556 | 330 |
| Total non-current liabilities | | 12,018 | 12,206 |
| **Current liabilities** | | | |
| Interest-bearing liabilities | 30 | 1,896 | 1,869 |
| Trade payables and other non-interest-bearing liabilities | 31 | 13,402 | 11,482 |
| Total current liabilities | | 15,298 | 13,351 |
| **Total liabilities** | | 27,316 | 25,557 |
| **Total equity and liabilities** | | 47,631 | 38,105 |

# Consolidated cash flow statement

| | Note | 2006 | 2005 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit | | 5,476 | 4,398 |
| Adjustments to operating profit | | 1,209 | 1,120 |
| Change in net working capital | | 792 | -451 |
| Interest paid | | -408 | -766 |
| Dividends received | | 68 | 115 |
| Interest received | | 136 | 29 |
| Taxes | | -1,210 | -1,007 |
| Net cash from operating activities | | 6,062 | 3,438 |
| | | | |
| **Investments** | | | |
| Investments in tangible and intangible assets | | -3,161 | -2,456 |
| Proceeds from disposal of tangible and intangible assets | | 198 | 1,362 |
| Acquisition of subsidiaries, net of cash and cash equivalents | 7 | -1,626 | 0 |
| Disposal of business operations | 8 | 6,378 | 0 |
| **Net cash from (used in) investing activities** | | 1,788 | -1,094 |
| | | | |
| **Financing** | | | |
| Proceeds from issue of share capital | | 2,078 | 887 |
| Increase (+) or decrease (-) in long-term borrowings | | -386 | 1,966 |
| Increase (+) or decrease (-) in short-term borrowings | | 27 | -324 |
| Acquisition of own shares | | 0 | -70 |
| Dividends paid | | -2,094 | -2,508 |
| **Net cash used in financing activities** | | -374 | -48 |
| | | | |
| Change in cash and cash equivalents | | 7,476 | 2,296 |
| | | | |
| Cash and cash equivalents at the beginning of the year | | 4,953 | 2,657 |
| Cash and cash equivalents at the end of the year | | 12,429 | 4,953 |

# Consolidated statement of changes in equity

| (EUR 1,000) | Share capital | Share premium account/ Share issue | Own shares | Retained earnings | Minority interest | Total equity |
|---|---|---|---|---|---|---|
| **Shareholders' equity as at 31/10/2004** | 3,286 | 0 | -584 | 7,235 | 1,534 | 11,471 |
| Acquisition and cancellation of own shares | | | 584 | -653 | | -69 |
| Profit for the financial year | | | | 1,867 | 902 | 2,769 |
| Dividends paid | | | | -2,351 | -158 | -2,508 |
| Change in share capital | 5 | 882 | | | | 887 |
| **Shareholders' equity as at 31/10/2005** | 3,291 | 882 | 0 | 6,098 | 2,277 | 12,548 |
| Profit for the financial year | | | | 7,457 | 1,171 | 8,628 |
| Dividends paid | | | | -1,646 | -448 | -2,094 |
| Items recognised directly in equity | | | | | | |
| Disposal of business operations | | | | | | |
| Elimination of minority interest | | | | | -846 | -846 |
| Change in share capital | 277 | 1,801 | | | | 2,078 |
| **Shareholders' equity as at 31/10/2006** | 3,568 | 2,683 | 0 | 11,909 | 2,154 | 20,314 |

# Notes to the consolidated financial statements

## 1. BASIC COMPANY INFORMATION

Panostaja Oyj is a Finnish public limited company operating under Finnish law. The company's shares were quoted on the Brokers' List from 1989 to 1998 and on the Helsinki Stock Exchange I List from 1998 to 2006. Since the list was reformed on 2nd October 2006, the company's shares have been quoted on the OMX Nordic Exchange in Helsinki. The company's registered office is in Tampere and the headquarters address is Postitorvenkatu 16, FI-33840 Tampere, Finland.

Panostaja Oyj is a multi-sector holding company. The company invests in Finnish small and medium-sized enterprises operating in traditional industries. The company operates in six business areas. Oy Alfa-Kem Ab manufactures and markets industrial chemicals, cleaning agents and institutional kitchen detergents. Arme Oy carries out industrial insulation, exterior cladding and scaffolding work. Lämpö-Tukku Oy specialises in wholesale of heating, plumbing and ventilation equipment. Suomen Puunjalostus Oy operates in the joinery industry, with solid-wood interior doors and wooden staircases as its main products. Toimex Oy manufactures and sells heating, plumbing and ventilation supports. Vallog Oy specialises in metal industry manufacturing and logistics services. Panostaja Group's main market area is Finland.

The Board of Directors approved publication of these financial statements on 8th December 2006.

## 2. ACCOUNTING POLICIES

### Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, complying with the International Accounting Standards (IAS) and the SIC and IFRIC interpretations effective as of 31st October 2006. In addition, the comparative amounts from the previous financial year have been converted to comply with these standards and interpretations. During the financial year ended 31st October 2006, the Group shifted to a system of International Financial Reporting Standards (IFRS), applying the IFRS 1 standard, First-time Adoption of International Financial Reporting Standards, in this context. The transition date was 1st November 2004. Any differences arising from adoption of IFRS have been presented in the reconciliations included in Note No. 5 below.

The consolidated financial statements have been prepared on the historical cost basis of accounting, with the exception of financial assets and liabilities, which are recognised at fair value through profit or loss. In terms of business combinations carried out prior to 2004, goodwill is equivalent to its carrying amount under previous GAAP, which has been used as its deemed cost under IFRS. The classification or treatment of these acquisitions has not been adjusted in the financial statements when preparing the opening IFRS balance sheet. Preparation of financial statements in accordance with IFRS requires the Group's management to make certain estimates and to use their discretion when applying accounting policies. For information on discretion used by management when applying the accounting policies adopted by the Group for preparing financial statements, with major impact on amounts presented in the financial statements, please refer to Note No. 4, Accounting policies requiring management discretion and key sources of estimation uncertainty.

### Subsidiaries

Subsidiaries are companies in which the Group has a controlling interest. A controlling interest exists when the Group holds more than half of the voting rights or has otherwise obtained control. Intra-group share ownership has been eliminated by means of the purchase method. Acquired subsidiaries are included in the consolidated financial statements from the time when the Group obtained control, and disposed subsidiaries up to the time when control ceases. Any intra-group transactions, receivables, liabilities and profits are eliminated when preparing the consolidated financial statements. Unrealised losses are not eliminated where such losses are due to impairment. The distribution of profit or loss for the financial year attributable to equity holders of the parent company and to minority interest is presented as part of the income statement and minority interest in equity is included in the balance sheet as a separate tem under equity.

### Associated companies

Associated companies (associates) are companies over which the Group holds considerable influence. Considerable influence is established when the Group holds more than 20% of a company's voting rights or can otherwise exercise considerable influence, but not control, over the company. Associated companies have been included in the consolidated financial statements using the equity method.

### Segment reporting

A business segment provides products or services which are subject to risks and returns that are different from those of other business segments. The Group's primary reporting segments are business segments. The Group does not have a secondary reporting segment. The Group's net turnover consists of domestic sales.

### Foreign currency items

The consolidated financial statements are presented in euros, which is the functional and presentation currency of the Group's parent company. Any transactions in foreign currencies are translated into the functional currency using the exchange rate valid on the date of the transaction. Monetary assets and liabilities are translated using the closing rate on the balance sheet date. Any exchange differences arising from the translation are reflected in the income statement. Foreign exchange gains and losses on operating activities are included in equivalent items above operating profit.

### Net turnover and recognition principles
Revenue is recognised at the fair value of consideration received or receivable, usually on the date of delivery. In terms of long-term projects, the company complies with the recognition rules for construction contracts. Revenue and expenses associated with a construction contract are recognised according to the stage of completion of the contract. The stage of completion is determined on the basis of the proportion of contract costs incurred by the balance sheet date to the estimated total contract costs. Items such as indirect taxes and discounts are deducted from sales when calculating net turnover.

### Pension obligations
The Group's pension schemes are classified as being defined contribution plans. Contributions made to defined contribution plans are recognised as expenses in the income statement for the period to which they relate.

### Provisions
Provisions are recorded when the company has a legal or constructive present obligation as a result of a past event, when it is probable that the obligation will have to be settled and when a reliable estimate can be made of the amount of the obligation. The amount to be recognised as a provision is equivalent to the best estimate of the expenditure required to settle the present obligation on the balance sheet date. The Group does not have any provisions.

### Borrowing costs
Borrowing costs are recognised as an expense in the period in which they are incurred. Transaction expenses directly attributable to acquisition of a specific loan are included in other non-current liabilities as a reduction in the cost of the loan and spread over the effective life of the loan as interest expenses.

### Income taxes
Items recognised as taxes in the consolidated income statement include current taxes based on Group companies' profit or loss for the financial year, as well as adjustments to taxes for previous periods and changes in deferred taxes.

Deferred tax assets and liabilities are recognised for all temporary differences between the tax bases of assets and liabilities and their carrying amounts using the liability method. Deferred tax is recorded using the tax rates effective on the balance sheet date.

Principal temporary differences arise from fixed assets, appropriations and unused tax losses. A deferred tax asset is recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised. Deferred taxes are not recognised for goodwill which is not deductible for tax purposes.

### Non-current assets held for sale and discontinued operations
Non-current assets held for sale are included in property, plant and equipment and in interests in associates (investment properties). These are measured at the lower of book value and fair value less costs to sell.

Gains or losses on disposal of discontinued operations are presented as a separate item in the income statement.

### Intangible assets
#### Goodwill
Goodwill arising on acquisitions made on or after 1st November 2004 is equivalent to any excess of the acquisition cost over the Group's interest in the fair value of the net assets of the acquired company at the time of acquisition. Goodwill arising on acquisitions made prior to 1st November 2004 is equivalent to its carrying amount under previous GAAP on the transition date. This amount has been used as the deemed cost of goodwill on the date of transition to IFRS.

Goodwill is tested for impairment annually and measured at cost less any impairment losses. For the purposes of impairment testing, goodwill has been allocated to cash-generating units. (For further information on testing, see Note No. 19.)

### Research and development costs
Research costs are recognised as an expense in the income statement for the period in which they are incurred. Development costs are capitalised when the company is capable of verifying the technical feasibility and commercial applications of the product being developed and when its cost can be measured reliably. Other development costs are recognised as an expense. The nature of the company's current development work has been such that it has not satisfied the capitalisation criteria and, consequently, development costs are recognised as an expense when incurred.

### Other intangible assets
Any intangible assets with finite useful lives are included in the balance sheet and recognised in the income statement as an expense on a straight-line basis over the course of their useful lives. Intangible assets have not included any assets assigned with infinite useful lives.

Amortisation periods for intangible assets:
Intangible rights 3 years
Other capitalised long-term expenditure 5–10 years

**Property, plant and equipment**

Property, plant and equipment (tangible assets) are measured at historical cost less any depreciation and impairment losses. Assets are depreciated on a straight-line basis during their estimated useful lives. Land is not depreciated.

Estimated useful lives are as follows:
Buildings 20–25 years
Machinery and equipment 3–5 years
Other tangible assets 3–10 years

**Investment properties**

Investment properties include investments in properties held to earn rent or for capital appreciation or both. Investment properties are treated as long-term investments and measured at historical cost. Depreciation is calculated on a straight-line basis and carrying amounts are adjusted for any impairment losses. Useful lives are the same as those determined for property, plant and equipment.

**Leases**

Any leases where the lessor receives substantially all the risks and rewards arising from ownership are classified as operating leases. Those leases where the lessee receives substantially all the risks and rewards arising from ownership are classified as finance leases. Minor finance leases are presented under operating leases in Note No. 33. The Group has several leases classified as operating leases and the rents payable on the basis of these are recognised as an expense in the income statement on a straight-line basis over the lease term.

**Impairment**

The carrying amounts of assets are tested on the balance sheet date for indications of any possible impairment. If such indications are identified, an estimate will be determined of the recoverable amount of the asset concerned. An impairment loss is recognised if the balance sheet value of an asset or a cash-generating unit exceeds the recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses for a cash-generating unit are first allocated to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the unit on a pro-rata basis.

The recoverable amounts of intangible and tangible assets are determined at the higher of fair value less costs to sell and value in use. When determining value in use, estimated future cash flows are discounted to their present value based on discount rates that reflect the average pre-tax cost of capital of the cash-generating unit concerned. The discount rates applied are determined before taxes and also account for special risks associated with the cash-generating units concerned.

Impairment losses relating to property, plant and equipment and to intangible assets, other than goodwill, are reversed if there has been a change in the estimates used to determine the recoverable amount of an asset. An impairment loss is reversed no more than up to the carrying amount that would have been determined for the asset (net of amortisation or depreciation) had no impairment loss been recognised in previous years. An impairment loss recognised for goodwill is not reversed.

**Stocks**

Stocks are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The value of stocks is determined using the FIFO formula and includes all direct costs incurred in acquisition of the stocks and any other indirectly attributable costs. The cost of produced items of stock includes a proportion of production overheads as well as the costs of materials, direct labour and other direct costs, but excludes selling and financing costs. An allowance has been made for obsolescent items of stock.

**Trade and other receivables**

Trade and other receivables are initially measured at cost. If there is sound evidence that the Group will not be able to recover a specific receivable on its original terms, the amount in doubt is recognised as a credit loss in the income statement.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, bank demand deposits and other short-term, highly liquid investments (shares in bond funds).

## 3. FINANCIAL RISK MANAGEMENT

### 1) Financial risks

The objective of the Group's risk management is to minimise any adverse effects of fluctuations in the financial market on the Group's results. Primary financial risks include exchange rate risks, credit risks, liquidity risks and interest rate risks.

#### Exchange rate risks

The Group mainly operates within the euro area and therefore only has limited exposure to exchange rate risks arising from variations in exchange rates.

#### Credit risks

Group companies verify their customers' creditworthiness when establishing customer relationships. In order to minimise credit risks, they aim to obtain sufficient security where a customer's credit rating so requires. The Group has long-standing and established business relations with its key customers and there have been no significant credit losses on trade receivable accounts. The Group does not have any significant concentrations of credit risk.

#### Liquidity risks

The Group estimates and monitors the amount of financing required for business operations on a continuous basis, in order to ensure sufficient liquid assets to finance operations and make loan repayments. The Group strives to safeguard the availability and flexibility of its financial resources through adequate credit lines and by using several sources and forms of financing.

#### Interest rate risks

The Group's income and operating cash flows are mostly independent of variations in market interest rates. The Group's interest rate risks mainly consist of loans, which have been diversified into variable and fixed-rate loans.

### 2) Derivative instruments and hedging

Some of the Group's subsidiaries use derivative instruments to hedge interest rate risks.

### 3) Determining fair values

The balance sheet values of financial assets and liabilities are considered to correspond to fair values in all material respects.

## 4. ACCOUNTING POLICIES REQUIRING MANAGEMENT DISCRETION AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The estimates and discretion used are based on prior experience and other factors, such as assumptions about future events. Such estimates and discretion are revised on a regular basis. The following sections describe key areas where estimates and discretion have been used.

#### Cost allocation

IFRS 3 requires an acquirer to recognise an intangible asset separately from goodwill if the asset satisfies the recognition criteria. Recognising an intangible asset at fair value requires the company's management to make estimates on future cash flows. As far as possible, the management has used available market values as the basis for cost allocation when determining fair values. Where this is not possible, which is typical of intangible assets in particular, measurement is based on the asset's historical returns and intended use in future operations. Measurements are based on discounted cash flows and estimated net realisable values or replacement costs and require the management to make estimates and assumptions on the future use of assets and their effects on the company's financial position. Changes of focus and alignment in the company's business operations may result in changes to initial measurements in the future (Note No. 19).

#### Impairment testing

The Group tests goodwill and assets with infinite useful lives annually for impairment. The recoverable amounts determined for cash-generating units are based on value in use calculations. Preparation of such calculations requires estimates to be made. Even though the management considers the assumptions used to be appropriate, the estimated recoverable amounts may differ materially from actual future amounts (Note No. 19).

#### Revenue recognition

The Group uses the percentage of completion method to recognise revenue and expenses associated with construction contracts. The percentage of completion method is based on estimates of a contract's expected revenue and costs as well as on determining its stage of completion. The amounts of revenue and profit originally recognised may be subject to change upon subsequent revision of estimates of total contract costs and revenue. The cumulative effects of revised estimates are recognised in the period when a change becomes likely and can be estimated reliably.

#### Measurement of stocks

One management principle is to recognise an impairment loss for slow-moving and obsolescent items of stock, based on the management's best estimate of the quantity of any possible unusable stocks held on the balance-sheet date. The management bases its estimates on systematic and continuous monitoring and assessment.

## 5. MAJOR EFFECTS OF IFRS REPORTING ON THE RECONCILIATIONS OF THE BALANCE SHEET AS AT 1ST NOVEMBER 2004 AND 31ST OCTOBER 2005 AND OF THE INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31ST OCTOBER 2005

a) Amortisation of goodwill
Goodwill has been reviewed for impairment in the transition date balance sheet in accordance with IFRS. Impairment losses have been allocated to goodwill in the opening balance sheet. The entire goodwill of the Estonian subsidiary belonging to Arme Group (EUR 39,390) and the goodwill relating to Keiteleen Porras Oy (EUR 102,542) have been amortised on the basis of impairment testing. Goodwill is tested annually and whenever there is any indication of possible impairment and, where necessary, any impairment is recognised according to IFRS. Subsequent to the IFRS transition date, amortisation of goodwill made under FAS (EUR 136,299) has been reversed.

b) Other intangible assets
Assets have been reclassified so as to comply with IFRS. Major improvement costs of leasehold property, which are tangible in nature, have been transferred from intangible assets to property, plant and equipment. In addition, professional fees relating to the subordinated loan have been removed from intangible assets and recorded under other non-current liabilities.

c) Tangible assets
Assets have been reclassified so as to comply with IFRS. Assets of tangible nature have been transferred from intangible assets to buildings. A one-time write-off of EUR 886,753.38 has been made on equipment owned by Matti-Ovi Group within the joinery industry segment, in order for the carrying value of equipment to correspond to its fair value estimated under IFRS. Profit for the financial year includes reversal of machinery depreciation (EUR 144,092).

d) Stocks
The costs of conversion of stocks also include a systematic allocation of fixed and variable production overheads incurred when converting materials into finished goods (EUR 127,833).

e) Change in shareholders' equity and minority interest
Minority interest in equity has been calculated on the basis of equity under IFRS and the change has been recognised as an increase in minority interest.

f) Own shares
In the opening balance as at 1st November 2004, the company's own shares at EUR 583,876 have been deducted from restricted equity and assets and added to retained earnings as a separate item.

| EUR 1,000 | Note | 01/11/04 | 31/10/05 |
|---|---|---|---|
| **Retained earnings under FAS** | | 7,503 | 6,824 |
| Effects of transition to IFRS | | | |
| Impairment losses | (a, c) | -1,029 | -748 |
| Interests in associates | (a, i) | 59 | -61 |
| Measurement of stocks | (d) | 128 | 103 |
| Deferred tax liabilities | (h, i) | 6 | 13 |
| Minority interest | | -16 | -32 |
| Own shares | (f) | 584 | 0 |
| **Retained earnings under IFRS** | | 7,235 | 6,098 |
| **DIFFERENCE** | | -268 | -726 |

g) Convertible subordinated loan
The convertible subordinated loan raised by Panostaja Oyj on 15th November 2004 is included in equity under FAS. The subordinated loan has been recognised under other non-current liabilities in accordance with IAS 32. In addition, according to IFRS, professional fees relating to the subordinated loan are recognised under other non-current liabilities as a reduction in the cost of the loan. No portion of the convertible subordinated loan has been presented as a separate equity component, because it would have been insignificant.

h) Deferred tax liabilities
The increase in deferred tax liabilities is due to inclusion of fixed and variable production overheads in the costs of conversion of stocks.

i) Investments in associates
In the FAS-compliant financial statements for the year ended 31st October 2004, an associated company named Ekovilla Oy was consolidated on the basis of its primary financial statements as at 29th February 2004. In the IFRS-compliant financial statements, Ekovilla's consolidation has been carried out on the basis of interim financial statements prepared for reporting purposes on 31st October 2004. As a result, the value of the associated company has increased by EUR 125,702.35 in the opening balance. Consolidations of 31st October 2005 have been carried out on the basis of the same date in both FAS and IFRS compliant financial statements. The treatment of Tampereen Portti Oy as an associated company has been revised to comply with IFRS requirements, which reduces the Group's net equity by EUR 22,104.73.

**Balance sheet reconciliation, 1st November 2004 and 31st October 2005**

| | | 31/10/04 | | 01/11/04 | 31/10/05 | | 31/10/05 |
|---|---|---|---|---|---|---|---|
| **CONSOLIDATED BALANCE SHEET** | | | IFRS | | | IFRS | |
| EUR million | Note | FAS | effects | IFRS | FAS | effects | IFRS |
| **VARAT** | | | | | | | |
| **Pitkäaikaiset varat** | | | | | | | |
| Goodwill | (a) | 1,061 | -142 | 919 | 1,008 | -5 | 1,003 |
| Other intangible assets | (b) | 341 | -36 | 305 | 385 | -104 | 281 |
| Property, plant and equipment | (c) | 10,267 | -851 | 9,416 | 9,847 | -730 | 9,116 |
| Own shares | (f) | 584 | -584 | 0 | 0 | 0 | 0 |
| Interests in associates | (i) | 1,267 | 195 | 1,463 | 1,522 | 75 | 1,597 |
| Available-for-sale financial assets | | 135 | 0 | 135 | 176 | 0 | 176 |
| Interest-bearing receivables | | 15 | 0 | 15 | 15 | 0 | 15 |
| Total | | 13,670 | -1,417 | 12,253 | 12,953 | -765 | 12,188 |
| | | | | | | | |
| **Current assets** | | | | | | | |
| Stocks | (d) | 9,621 | 128 | 9,749 | 9,259 | 103 | 9,362 |
| Trade and other non-interest-bearing receivables | (i) | 9,136 | -137 | 8,999 | 11,739 | -137 | 11,602 |
| Short-term investments | | 0 | 0 | 0 | 1,714 | 0 | 1,714 |
| Cash and cash equivalents | | 2,657 | 0 | 2,657 | 3,239 | 0 | 3,239 |
| Total | | 21,414 | -9 | 21,405 | 25,951 | -34 | 25,917 |
| Total assets | | 35,084 | -1,426 | 33,658 | 38,904 | -799 | 38,105 |
| | | | | | | | |
| **EQUITY AND LIABILITIES** | | | | | | | |
| **Equity attributable to equity holders of the parent company** | | | | | | | |
| Share capital | | 3,286 | 0 | 3,286 | 3,291 | 0 | 3,291 |
| Share premium account | | 0 | 0 | 0 | 882 | 0 | 882 |
| Own shares | (f) | 584 | -1,168 | -584 | 0 | 0 | 0 |
| Equity component of | | | | | | | |
| convertible loan | (g) | 0 | 0 | 0 | 3,287 | -3,287 | 0 |
| Retained earnings | (e) | 7,503 | -268 | 7,235 | 6,824 | -726 | 6,098 |
| Total | | 11,373 | -1,436 | 9,937 | 14,284 | -4,013 | 10,271 |
| **Minority interest** | (e) | 1,518 | 16 | 1,534 | 2,245 | 31 | 2,277 |
| **Total equity** | | 12,891 | -1,420 | 11,471 | 16,529 | -3,982 | 12,548 |
| | | | | | | | |
| **Non-current liabilities** | | | | | | | |
| Deferred tax liabilities | (h,i) | 126 | -6 | 120 | 124 | -13 | 111 |
| Interest-bearing liabilities | | 10,129 | 0 | 10,129 | 8,900 | 0 | 8,900 |
| Convertible loan | (g) | 0 | 0 | 0 | 0 | 3,195 | 3,195 |
| Total | | 10,255 | -6 | 10,249 | 9,024 | 3,182 | 12,206 |
| | | | | | | | |
| **Current liabilities** | | | | | | | |
| Interest-bearing liabilities | | 2,193 | 0 | 2,193 | 1,869 | 0 | 1,869 |
| Trade payables and other non-interest-bearing liabilities | | 9,745 | 0 | 9,745 | 11,482 | 0 | 11,482 |
| Total | | 11,938 | 0 | 11,938 | 13,351 | 0 | 13,351 |
| Total liabilities | | 22,193 | -6 | 22,187 | 22,375 | 3,182 | 25,557 |
| Total equity and liabilities | | 35,084 | -1,426 | 33,658 | 38,904 | -799 | 38,105 |

Reconciliation of the income statement for the year ended 31st October 2005

| **CONSOLIDATED INCOME STATEMENT**<br>EUR, million | Note | FAS | IFRS effects | **IFRS** |
|---|---|---|---|---|
| **Net turnover** | | 62,201 | 0 | 62,201 |
| Changes in stocks of finished goods | | | | |
| and work in progress | (d) | -9 | -25 | -34 |
| Production for own use | | 25 | 0 | 25 |
| Other operating income | | 308 | 0 | 308 |
| Share of profit/loss of associates | (i) | 302 | -120 | 182 |
| Raw materials and services | | | | |
| Raw materials and consumables | | -31,633 | 0 | -31,633 |
| External services | | -2,083 | 0 | -2,083 |
| Staff expenses | | -15,629 | 0 | -15,629 |
| Depreciation, amortisation and impairment | (a,b,c) | -1,400 | 280 | -1,120 |
| Other operating expenses | | -7,817 | 0 | -7,817 |
| **Operating profit** | | 4,264 | 135 | 4,398 |
| Other financial expenses (net) | | -622 | 0 | -622 |
| **Profit before taxes** | | 3,642 | 135 | 3,776 |
| Income taxes | | -1,014 | 6 | -1,008 |
| **Profit for the financial year** | | 2,628 | 141 | 2,769 |
| | | | | |
| **Attributable to:** | | | | |
| Minority interest | | 886 | 15 | 902 |
| Equity holders of the parent company | | 1,742 | 126 | 1,867 |
| | | | | |
| **Earnings per share attributable to equity holders** | | | | |
| **of the parent company, EUR** | | 0.066 | | 0.071 |
| Earnings per share (EPS), EUR – diluted | | 0.066 | | 0.071 |

| Reconciliation of equity | | 01/11/04 | 31/10/05 |
|---|---|---|---|
| Equity under FAS | | 12,891 | 16,529 |
| Own shares | ( f) | -1,168 | |
| Convertible loan | ( g) | | -3,287 |
| Retained earnings | ( e) | -268 | -726 |
| Minority interest | | 16 | 32 |
| Total IFRS adjustments | | -1,420 | -3,981 |
| Equity under IFRS | | 11,471 | 12,548 |

## 6. SEGMENT INFORMATION

The Group's primary reporting segments are business segments. A business segment provides products and services which are subject to risks and returns that are different from those of other business segments. For the last financial year, the Group is reporting on five business segments. The Group does not have a secondary reporting segment.

### Business segments

- Industrial services: Segment revenue is mostly generated by selling various metal industry services and products to corporate clients. In addition, the segment provides logistics and repair services.
- Joinery industry: Segment revenue is mostly generated by manufacturing joinery industry products.
- Industrial construction: Segment revenue is mostly generated by providing various services for the construction and processing industries.
- Wholesale trade: Segment revenue is mostly generated by selling and importing products.
- Other business operations: Items reported under this segment include the Group's other business operations, unallocated items and intra-group eliminations.

### Business segments 2006

| (EUR 1,000) | Industrial services | Joinery industry | Industrial construction | Wholesale trade | Other | Group total |
|---|---|---|---|---|---|---|
| Total net turnover | 8,521 | 10,583 | 19,684 | 12,560 | 6,554 | 57,902 |
| Internal net turnover | -7 | 0 | 0 | 0 | -140 | -147 |
| External net turnover | 8,514 | 10,583 | 19,684 | 12,560 | 6,414 | 57,755 |
| Operating profit | 463 | 114 | 4,409 | 240 | 249 | 5,476 |
| Assets | 5,956 | 7,901 | 11,314 | 7,006 | 15,453 | 47,631 |
| Liabilities | 3,303 | 8,399 | 6,878 | 6,072 | 2,664 | 27,316 |
| Investments | 606 | 1,155 | 1,189 | 217 | 1,623 | 4,790 |
| Depreciation and amortisation | 116 | 480 | 265 | 169 | 179 | 1,209 |
| Employees | 84 | 92 | 156 | 31 | 62 | 425 |

### Business segments 2005

| (EUR 1,000) | Automotive construction | Industrial services | Joinery industry | Industrial construction | Wholesale trade | Other | Group total |
|---|---|---|---|---|---|---|---|
| Total net turnover | 18,233 | 7,558 | 10,218 | 9,919 | 12,229 | 4,172 | 62,329 |
| Internal net turnover | -15 | 0 | 0 | 0 | -34 | -79 | -128 |
| External net turnover | 18,218 | 7,558 | 10,218 | 9,919 | 12,195 | 4,093 | 62,201 |
| Operating profit/loss | 1,710 | 519 | 482 | 1,453 | 369 | -135 | 4,398 |
| Assets | 9,435 | 4,135 | 5,778 | 5,309 | 5,902 | 7,546 | 38,105 |
| Liabilities | 6,563 | 2,172 | 6,700 | 3,118 | 4,939 | 2,065 | 25,557 |
| Investments | 900 | 58 | 442 | 311 | 210 | 220 | 2,141 |
| Depreciation and amortisation | 170 | 117 | 368 | 191 | 120 | 154 | 1,120 |
| Employees | 101 | 71 | 85 | 118 | 29 | 22 | 426 |

## 7. ACQUIRED BUSINESSES

Acquisitions in the 2005/2006 period

The following acquisitions were made within the joinery industry segment during the financial year: The Group acquired the entire share capital of Nikkaristo Oy in February and Messuporras Oy in May. Both companies manufacture wooden staircases. In addition to a cash consideration, the cost of acquiring Messuporras Oy included professional fees. The fair values of machinery and equipment recognised in consolidation were determined on the basis of revenue estimates and the Group did not recognise any goodwill resulting from acquisitions. The following acquisition was made in the other business operations segment during the financial year: In April 2006, the Group acquired the entire share capital of Oy Alfa-Kem Ab, a technochemical company. The purchase price paid for the company was EUR 4,000,000 and 1,000,000 Panostaja Oyj new Class B shares. The total purchase price amounted to EUR 5.2 million. In addition to a cash consideration, the cost of the acquisition included professional fees. The fair values of machinery and equipment recognised in consolidation were determined on the basis of carrying amounts. Land and buildings were measured at fair value based on revenue estimates and unused building rights. Stocks were valued at selling prices less costs to sell. Net assets measured at fair value fell below the cost of shares and the resulting goodwill at EUR 1.4 million was included in the consolidated balance sheet. The consolidated income statement includes Nikkaristo Oy's nine-month results, Messuporras Oy's six-month results and Oy Alfa-Kem Ab's seven-month results, totalling EUR 0.3 million. If the acquired companies had been consolidated at the beginning of the 2005/2006 period, the Group's net turnover and profit for the financial year would have amounted to approximately EUR 59.5 million and EUR 9.0 million respectively.

**Analysis of net assets acquired**
(EUR 1,000)

| | Fair values recognised in consolidation | Carrying amounts prior to consolidation |
|---|---|---|
| Intangible assets | 14 | 14 |
| Property, plant and equipment | 1,378 | 696 |
| Stocks | 526 | 448 |
| Receivables | 397 | 397 |
| Cash and cash equivalents | 3,062 | 3,062 |
| Liabilities | -950 | -821 |
| Net assets acquired | 4,427 | 3,796 |

**Composition of cost**
(EUR 1,000)

| | |
|---|---|
| Paid in cash | 4,575 |
| Paid in shares | 1,180 |
| Expenses directly attributable to acquisitions | 113 |
| Total cost | 5,868 |
| Fair values of net assets acquired | 4,427 |
| Goodwill | 1,441 |
| Cash considerations | -4,575 |
| Cash and cash equivalents in acquired subsidiaries | 3,062 |
| Cash flow effect | -1,513 |

## 8. DISPOSALS OF SUBSIDIARIES AND BUSINESSES

Panostaja Oyj sold its shares in Pajakulma Oy (70.06% of share capital) to Raskone Oy on 31st October 2006. In addition, Suomen Eristyskehitys Oy, in which Panostaja Group holds an 89.75% share, sold its 33.3% holding in Ekovilla Oy. The effects of disposals on consolidated balance sheet items are shown in the following table:

| | |
|---|---|
| Intangible assets | 470 |
| Property, plant and equipment | 2,274 |
| Shares in associates | 731 |
| Stocks | 3,382 |
| Receivables | 2,723 |
| Cash and cash equivalents | 605 |
| Liabilities | -6,285 |
| Net assets disposed of | 3,900 |
| Sale price paid in cash | 6,984 |
| Cash and cash equivalents disposed of | -605 |
| Cash flow effect | 6,378 |

The effect of the disposal of Pajakulma Oy is included under profit from discontinued operations in the consolidated income statement (EUR 4.9 million). The figure also includes the Group's gains resulting from disposal of the associated company named Ekovilla Oy, amounting to EUR 0.44 million. Pajakulma Oy's figures have been combined with equivalent items from the comparative period in the consolidated income statement on a line-by-line basis. Pajakulma Oy's profit for the financial year amounted to EUR 1.2 million in the comparative period.

| **9. CONSTRUCTION CONTRACTS** (EUR 1,000) | 2006 | 2005 |
|---|---|---|
| Contract revenue recognised as income for the period | 2,445 | 538 |
| Gross amount due from customers presented in accrued income | 2,709 | 264 |
| Gross amount due to customers presented in advances received | 1,323 | 84 |

| **10. OTHER OPERATING INCOME** (EUR 1,000) | 2006 | 2005 |
|---|---|---|
| Proceeds on disposal of tangible assets | 61 | 135 |
| Rental income | 1 | 1 |
| Insurance indemnities | 1 | 7 |
| Other income | 709 | 165 |
| **Total** | 772 | 308 |

| **11. SHARE OF PROFIT OF ASSOCIATES** | | |
|---|---|---|
| | 86 | 181 |

Information on associated companies is presented in Note No. 21, Investments in associates.

The figures presented allow for the Group's share of Ekovilla Oy's profit. In March 2006, Suomen Eristyskehitys Oy, in which Panostaja Group holds an 89.75% share, sold its 33.3% holding in Ekovilla Oy. Ekovilla Oy's share of the profit of associates for the 2005/2006 period was EUR 88,757.87.

| 12. STAFF EXPENSES (EUR 1,000) | 2006 | 2005 |
|---|---|---|
| Wages and salaries | 12,555 | 12,511 |
| Pension expenses – defined contribution plans | 2,179 | 2,231 |
| Other social security expenses | 807 | 887 |
| **Total** | 15,541 | 15,629 |

The Group has pension schemes classified as being defined contribution plans, where contributions are recognised in the income statement for the period to which they relate. Information on employee benefits for key management personnel is presented in Note No. 35, Related party transactions.

The Group's average number of employees during the financial year was 526 (426). The payroll at year-end included 425 employees.

| 13. DEPRECIATION AND AMORTISATION (EUR 1,000) | 2006 | 2005 |
|---|---|---|
| Depreciation/amortisation by class of assets: | | |
| Property, plant and equipment | | |
| Buildings | 285 | 313 |
| Machinery and equipment | 822 | 705 |
| Other tangible assets | 16 | 16 |
| Intangible assets | | |
| Intangible rights | 6 | 10 |
| Other capitalised long-term expenditure | 80 | 76 |
| **Total** | 1,209 | 1,120 |

| 14. OTHER OPERATING EXPENSES (EUR 1,000) | 2006 | 2005 |
|---|---|---|
| Loss on sales of tangible and intangible assets | 0 | 14 |
| Rental expenses | 1,900 | 1,744 |
| Administrative expenses | 1,638 | 1,428 |
| Marketing and promotional expenses | 569 | 648 |
| Other items of expense | 5,341 | 3,993 |
| Total | 9,448 | 7,827 |

| 15. FINANCIAL INCOME (EUR 1,000) | 2006 | 2005 |
|---|---|---|
| Dividend income | 0 | 0 |
| Interest income | 0 | 0 |
| Other financial income | 172 | 144 |
| Total | 172 | 144 |

| 16. FINANCIAL EXPENSES (EUR 1,000) | 2006 | 2005 |
|---|---|---|
| Interest expenses | 598 | 679 |
| Exchange rate losses | 0 | 3 |
| Other financial expenses | 114 | 84 |
| Total | 712 | 766 |
| Foreign exchange gains and losses included in the financial statements | | |
| Net turnover | 0 | 26 |
| Expenses | 0 | 0 |
| Financial items | 0 | -3 |
| | 0 | 23 |

| 17. INCOME TAXES (EUR 1,000) | 2006 | 2005 |
|---|---|---|
| Direct taxes | 1,475 | 998 |
| Deferred taxes | -265 | 9 |
| Income taxes, total | 1,210 | 1,007 |

Reconciliation between tax expense in the income statement and taxes calculated at domestic corporate tax rate (26% in 2005 and 2006):

| | 2006 | 2005 |
|---|---|---|
| Profit before taxes | 4,936 | 3,776 |
| Income tax on consolidated pre-tax profit at Finnish tax rate | 1,283 | 982 |
| Non-deductible expenses | 73 | 25 |
| Taxes in the income statement | 1,210 | 1,007 |

**18. EARNINGS PER SHARE**

Basic earnings per share (EPS) are calculated by dividing the profit for the period attributable to equity holders of the parent company by the weighted average number of shares outstanding during the period. For the purpose of calculating diluted earnings per share, the parent company's convertible loan and share issue have been taken into account as dilutive effects. In terms of the convertible loan, bonds have been deemed to be convertible as from the date of entry in the Trade Register. Profit for the period has been adjusted for interest expenses of the convertible loan less tax effects.

| | 2006 | 2005 |
|---|---|---|
| Profit for the financial year attributable to equity holders of the parent company, EUR 1,000 | 7,457 | 1,867 |
| Number of shares outstanding at year-end | 29,735 | 27,425 |
| Weighted average number of shares outstanding, 1,000 | 27,839 | 27,425 |
| Weighted average number of shares outstanding, diluted | 31,224 | 31,122 |
| EPS on continuing operations | | 0.071 |
| Basic | 0.092 | |
| Diluted | 0.085 | |
| EPS on discontinued operations | | |
| Basic | 0.176 | |
| Diluted | 0.157 | |
| EPS on continuing and discontinued operations | | 0.071 |
| Basic | 0.268 | |
| Diluted | 0.242 | 0.071 |

## 19. INTANGIBLE ASSETS

| (EUR 1,000) | Goodwill | Intangible rights | Other capitalised long-term expenditure | Total |
|---|---|---|---|---|
| Acquisition cost 01/11/2005 | 1,480 | 38 | 1,070 | 2,588 |
| Additions | 1,448 | 10 | 149 | 1,607 |
| Disposals | -475 | | -120 | -595 |
| Acquisition cost 31/10/2006 | 2,453 | 48 | 1,099 | 3,600 |
| | | | | |
| Accumulated amortisation and impairment 01/11/2005 | -477 | -27 | -800 | -1,304 |
| Amortisation and impairment for the period | 0 | -6 | -80 | -86 |
| Accumulated amortisation and impairment 31/10/2006 | -477 | -33 | -880 | -1,390 |
| | | | | |
| **Book value 31/10/2006** | 1,977 | 15 | 219 | 2,210 |
| | | | | |
| Acquisition cost 01/11/2004 | 1,396 | 55 | 1,024 | 2,475 |
| Additions | 84 | 5 | 220 | 309 |
| Disposals | 0 | -22 | -174 | -196 |
| Transfers between items | | | | |
| Acquisition cost 31/10/2005 | 1,480 | 38 | 1,070 | 2,588 |
| | | | | |
| Accumulated amortisation and impairment 01/11/2004 | -477 | -15 | -724 | -1,216 |
| Amortisation and impairment for the period | | -12 | -76 | -88 |
| Accumulated amortisation and impairment 31/10/2005 | -477 | -27 | -800 | -1,304 |
| | | | | |
| **Book value 31/10/2005** | 1,003 | 11 | 270 | |

### Impairment testing of goodwill

Goodwill has been allocated to the following cash-generating units (or groups of such units):

| EUR million | 2006 | 2005 |
|---|---|---|
| Alfa-Kem (other business operations segment) | 1.4 | |
| Vallog (industrial services segment) | 0.5 | 0.5 |
| Total | 1.9 | 0.5 |

For the purposes of impairment testing, the recoverable amounts of business operations are determined by means of value in use. Cash flow projections are based on the Group management's views on the outlook for the next three years. Cash flows for years subsequent to the forecasting period have been extrapolated using a 2% growth assumption.

The key variables used when calculating value in use are budgeted net turnover and budgeted operating profit. Operating profit encompasses any cost savings and other benefits from restructuring measures already implemented or committed to. These restructuring measures do not involve future cash outflows subsequent to the period.

The pre-tax discount rates used in calculations are 10.7% for Alfa-Kem and 11.0% for Vallog.

According to the test, the value in use of both tested units exceeds their carrying amounts. Moreover, any conceivable changes in key assumptions used in calculations would not result in a situation where the carrying amounts of the assets would exceed their recoverable amounts.

**20. PROPERTY, PLANT AND EQUIPMENT**

| (EUR 1,000) | Land | Buildings | Machinery and equipment | Other tangible assets | Total |
|---|---|---|---|---|---|
| Acquisition cost 01/11/2005 | 693 | 10,022 | 10,025 | 246 | 20,986 |
| Additions | | 553 | 2,540 | 90 | 3,183 |
| Disposals | -60 | -1,100 | -361 | -2 | -1,523 |
| Acquisition cost 31/10/2006 | 633 | 9,475 | 12,204 | 334 | 22,646 |
| | | | | | |
| Accumulated depreciation and impairment 01/11/2005 | | -4,658 | -7,011 | -201 | -11,870 |
| Depreciation for the period | | -285 | -822 | -16 | -1,123 |
| Accumulated depreciation and impairment 31/10/2006 | | -4,943 | -7,833 | -217 | -12,993 |
| | | | | | |
| **Book value 31/10/2006** | 633 | 4,532 | 4,371 | 117 | 9,654 |
| | | | | | |
| Acquisition cost 01/11/2004 | 775 | 10,187 | 9,191 | 305 | 20,458 |
| Additions | 46 | 1,008 | 1,082 | 11 | 2,147 |
| Disposals | -128 | -1,173 | -248 | -70 | -1,619 |
| Acquisition cost 31/10/2005 | 693 | 10,022 | 10,025 | 246 | 20,986 |
| | | | | | |
| Accumulated depreciation and impairment 01/11/2004 | | -4,432 | -6,306 | -185 | -10,923 |
| Accumulated depreciation of disposals and transfers | | 87 | 87 | | |
| Depreciation for the period | | -313 | -705 | -16 | -1,034 |
| Accumulated depreciation and impairment 31/10/2005 | | -4,658 | -7,011 | -201 | -11,870 |
| | | | | | |
| **Book value 31/10/2005** | 693 | 5,364 | 3,014 | 45 | 9,116 |

**21. INVESTMENT PROPERTIES**

| (EUR 1,000) | 2006 | 2005 |
|---|---|---|
| Acquisition cost 01/11 | 3,401 | 3,305 |
| Additions/Disposals | 0 | 96 |
| Acquisition cost 31/10 | 3,401 | 3,401 |
| | | |
| Accumulated depreciation 01/11 | 1,297 | 1,272 |
| Depreciation | 45 | 25 |
| Accumulated depreciation 31/10 | 1,342 | 1,297 |
| | | |
| Book value 01/11 | 2,104 | 2,129 |
| Book value 31/10 | 2,059 | 2,104 |

Investment properties are measured applying the cost model. The fair values of investment properties are based on estimates given by external parties. The fair value of investment properties as at 31st October 2006 amounted to EUR 4.0 million. Investment properties are not presented in the balance sheet separately, but they are included under property, plant and equipment instead.

| Amounts included in the income statement | | |
|---|---|---|
| Rental income | 274 | 264 |
| Direct operating expenses | -99 | -101 |

There are no contractual obligations relating to future repairs.

## 22. INVESTMENTS IN ASSOCIATES

| (EUR 1,000) | 2006 |
|---|---|
| Book value 01/11/2005 | 1,597 |
| Additions | 7 |
| Disposals | -710 |
| **Book value 31/10/2006** | 894 |
| **Book value 31/10/2005** | 1,597 |

| **Associated company as at 31/10/2006** | Registered office | Holding | Book value | Assets | Liabilities | Net turnover | Loss |
|---|---|---|---|---|---|---|---|
| Tampereen Portti Oy | Tampere | 50.0 % | 717 | 1,631 | 66 | 1 | -5 |

The figures are presented according to Tampereen Portti Oy's balance sheet date at 31st December 2005.

## 23. OTHER NON-CURRENT ASSETS

| | 2006 | 2005 |
|---|---|---|
| Other non-current assets | 127 | 176 |

Other non-current assets (such as shares in housing companies and connection charges) are presented at cost, because reliable estimates of their fair values are not available.

## 24. DEFERRED TAX ASSETS AND LIABILITIES

(EUR 1,000)

| Changes in deferred taxes during the 2005/2006 period: | | | |
|---|---|---|---|
| Deferred tax assets: | 01/11/2005 | Included in income | 31/10/2006 |
| Property, plant and equipment | 0 | 102 | 102 |
| Internal profit/loss on stocks | 0 | 0 | 0 |
| Losses verified in taxation | 0 | 0 | 0 |
| Other temporary differences | 166 | 361 | 527 |
| Total | 166 | 463 | 629 |
| Deferred tax liabilities: | | | |
| Property, plant and equipment | 40 | 0 | 40 |
| Other temporary differences | 71 | 198 | 269 |
| Total | 111 | 198 | 309 |

| Changes in deferred taxes during the 2005/2006 period: | | | |
|---|---|---|---|
| Deferred tax assets: | 01/11/2004 | Included in income | 31/10/2005 |
| Property, plant and equipment | 0 | 0 | 0 |
| Internal profit/loss on stocks | 0 | 0 | 0 |
| Losses verified in taxation | 0 | 0 | 0 |
| Other temporary differences | 166 | 0 | 166 |
| Total | 166 | 0 | 166 |
| Deferred tax liabilities: | | | |
| Property, plant and equipment | 40 | 0 | 40 |
| Other temporary differences | 80 | -9 | 71 |
| Total | 120 | -9 | 111 |

As at 31st October 2006, the Group had verified losses that were not recognised as deferred tax assets, because it is unlikely that the Group will accrue sufficient taxable profit against which the losses could be utilised prior to their expiration.

| 25. STOCKS | 2006 | 2005 |
|---|---|---|
| (EUR 1,000) | | |
| Raw materials and consumables | 1,029 | 4,452 |
| Work in progress | 1,058 | 565 |
| Finished goods and goods for resale | 5,812 | 4,309 |
| Other stocks | 4 | 6 |
| Prepayments | 37 | 30 |
| **Total** | 7,941 | 9,362 |

| 26. TRADE AND OTHER RECEIVABLES | | |
|---|---|---|
| (EUR 1,000) | | |
| Trade receivables | 10,067 | 9,771 |
| Loans receivable | 60 | 222 |
| Accrued income | 4,027 | 1,446 |
| Other receivables | 206 | 163 |
| **Total** | 14,360 | 11,602 |
| | | |
| **Material items included in accrued income** | | |
| Wages, salaries and social security contributions | 224 | 181 |
| Accrued taxes | 361 | 85 |
| Annual discounts | 277 | 247 |
| Advances received | 2,789 | 616 |
| Others | 376 | 317 |
| **Total** | 4,027 | 1,446 |

The balance sheet values of receivables correspond to their fair values in all material respects.

| 27. CASH AND CASH EQUIVALENTS | | |
|---|---|---|
| (EUR 1,000) | | |
| Cash in hand and at bank | 10,207 | 1,714 |
| Short-term investments | 2,222 | 3,239 |
| **Total** | 12,429 | 4,953 |

The fair values of cash and cash equivalents do not differ materially from balance sheet values. Investments consist of shares in bond funds.

## 28. SHARE CAPITAL AND SHARE PREMIUM ACCOUNT

| | Number of shares at year-end, 1,000 | Share capital EUR 1,000 | Share premium account EUR 1,000 | Own shares EUR 1,000 | Total EUR 1,000 |
|---|---|---|---|---|---|
| 01/11/2004 | 26,211 | 3,286 | 0 | -584 | 2,702 |
| 31/10/2005 | 27,425 | 3,291 | 882 | 0 | 4,173 |
| 31/10/2006 | 29,735 | 3,568 | 2,683 | 0 | 6,251 |

According to Panostaja Oyj's Articles of Association, the company's minimum and maximum share capital shall be EUR 1,500 and EUR 80,000, respectively, within the limits of which share capital may be increased or decreased without amendment to the Articles of Association. The company's share capital, paid and entered in the Trade Register, equated to EUR 3,568,148.64 and the number of shares was 29,734,572 at year-end. Shares are divided into Class A and Class B shares, both conferring equal rights to receive dividends. At General Meetings, Class A and B shares carry twenty (20) votes and one (1) vote respectively. The nominal value of a share is EUR 0.12. According to the Shareholder Register as at 31st October 2006, the company has 814 (744) shareholders.

As at 31st October 2006, company shares owned by the company's Board of Directors and CEO total 9,077,648 shares (8,863,648 shares), representing 30.5% (32.3%) of shares and 37.8% (38.0%) of voting rights.

During the financial year, the 2004 convertible subordinated loan was used to subscribe for 1,310,000 (1,304,000) new Panostaja Class B shares. In addition, based on the authorisation given at the Annual General Meeting, the Board of Directors decided to increase the company's share capital by issuing 1,000,000 new Class B shares. In total, share capital was increased by EUR 277,200 over the course of the financial year. The issue price in excess of share capital (EUR 0.12 per share) has been included in the share premium account.

The company did not acquire any of its own shares during the 2005/2006 period. During the 2004/2005 period, the company acquired 90,776 own shares, valued at EUR 69,616.78. The share capital was decreased by EUR 151,406.88 during the same period by cancelling all own shares held by the company. The amount of decrease in share capital was transferred to the share premium account.

## 29. SHARE-BASED PAYMENTS

The Group does not have any share-based incentive schemes.

| **30. INTEREST-BEARING LIABILITIES** | **2 006** | **2005** |
|---|---|---|
| (EUR 1,000) | | |
| Non-current | | |
| Loans from financial institutions | 8,837 | 8,570 |
| Pension loans | 6 | 6 |
| Other loans | 2,866 | 3,519 |
| **Total** | 11,709 | 12,095 |

Other non-current loans include the parent company's convertible subordinated loan. See Note No. 32, Convertible loans.

| Current | | |
|---|---|---|
| Loans from financial institutions, current portion | 1,579 | 1,591 |
| Current loans from financial institutions | 317 | 278 |
| Other current liabilities | 13,402 | 11,482 |
| Total | 15,298 | 13,351 |

**Maturity dates of non-current liabilities**

| | Loans from financial institutions | | Other loans | |
|---|---|---|---|---|
| Repayments | 2006 | 2005 | 2006 | 2005 |
| 2006 (2005) | 1,579 | 1,591 | 20 | 12 |
| 2007 (2006) | 2,282 | 1,785 | 24 | 22 |
| 2008 (2007) | 1,923 | 1,685 | 21 | 29 |
| 2009 (2010) | 1,775 | 1,521 | 10 | 26 |
| 2010 (2011) | 849 | 936 | 212 | |
| 2011- (2010-) | 2,008 | 2,643 | 2,809 | 3,430 |

All interest-bearing liabilities are other than those held for dealing or trading purposes as referred to in IAS 39. Bank and pension loans are in euros. The weighted average of interest rates as at 31st October 2006 stood at 4.03%. The balance sheet values of loans are considered to correspond to fair values in all material respects.

| **31. TRADE PAYABLES AND OTHER CURRENT LIABILITIES** | 2 006 | 2005 |
|---|---|---|
| (EUR 1,000) | | |
| Trade payables | 4,757 | 4,901 |
| Accrued expenses | 5,351 | 3,708 |
| Other current liabilities | 3,294 | 2,873 |
| Total | 13,402 | 11,482 |

| Material items included in accrued expenses | | |
|---|---|---|
| Holiday pay incl. social security expenses | 1,272 | 1,366 |
| Accrued wages and salaries | 819 | 563 |
| Accrued interest | 167 | 249 |
| Accrued taxes | 879 | 456 |
| Accrued employee pension benefits under Employees' Pensions Act TEL | 370 | 192 |
| Other items | 1,844 | 882 |
| Total | 5,351 | 3,708 |

### 32. CONVERTIBLE LOANS

Based on a decision taken at the Extraordinary General Meeting on 25th October 2004, Panostaja Oyj offered a convertible subordinated loan to the public at a maximum total of EUR 4,200,000. Each of the EUR 1,400 bonds entitles the holder to convert the share of the loan into 2,000 Panostaja Class B shares. During the financial year, the 2004 convertible subordinated loan was used to subscribe for 1,310,000 (1,304,000) new Panostaja Class B shares. The outstanding loan amounts to EUR 2,370,200 (EUR 3,287,200).

The loan period runs from 15th November 2004 to 1st March 2010. The loan will be repaid in one instalment on 1st March 2010, provided that the conditions of repayment according to Chapter 5 of the Companies Act and those mentioned in the terms of the loan are fulfilled. No portion of the convertible subordinated loan has been presented as a separate equity component, because it would have been insignificant.

Under the conditions determined in the terms of the loan, Panostaja is entitled to repay the entire loan principal early at a rate of one hundred (100) per cent, plus interest accrued up until the date of payment.

In the event that the loan cannot be repaid on the date of maturity, the amount of interest payable on the outstanding loan principal will be two (2) percentage points over and above the confirmed annual interest.

The share conversion rate is EUR 0.70. The conversion period of loan bonds began on 1st December 2004 and is due to end on 31st January 2010. As a result of conversions, the company's share capital and the number of Class B shares may increase by EUR 563,250 and 4,696,000 new shares respectively. New shares will immediately carry all rights with the exception of rights to dividends for the financial year.

The shares converted on the basis of the convertible subordinated loan will account for no more than 17.1% of the company's shares and 1.3% of voting rights subsequent to a possible increase in share capital.

In addition, Vallog Oy's Managing Director is able to convert his convertible bonds in Solikko Oy's subsidiary, Vallog Group Oy, amounting to EUR 80,000 into Vallog Group Oy shares by 29th June 2009 (10.75% of Vallog Group Oy's shares and votes), as well as his convertible bonds in Vallog Group Oy held by Oy K. Alho-Finance Ltd Oy owned by him, amounting to EUR 37,500, into Vallog Group shares by 29th June 2009 (3.25% of Vallog Group Oy's shares and votes), which enables him to increase his ownership in Vallog Group Oy to 13.98%.

### 33. COLLATERAL AND CONTINGENT LIABILITIES

(EUR 1,000)

| | 2006 | 2005 |
|---|---|---|
| Collateral given on behalf of group companies | | |
| Mortgages | 6,130 | 5,459 |
| Floating charges | 3,460 | 6,999 |
| Pledges given | 6,325 | 4,912 |
| Rental liabilities | 1,185 | 0 |
| Other liabilities | 13 | 231 |

The Group has entered into interest rate swaps at a nominal value of EUR 1.2 million. The interest rate swaps are presented at nominal value on the balance sheet date, because the effect of fair value would be insignificant.

Liabilities have been measured at the nominal or book value of collateral.

| | 2006 | 2005 |
|---|---|---|
| Amounts payable under operating leases | | |
| Payable within one year | 334 | 331 |
| Payable after one year but within five years | 481 | 375 |
| Total | 815 | 706 |
| | | |
| Loans from financial institutions, total | 10,733 | 10,439 |

### 34. DIVIDENDS

For the 2004/2005 period, the company distributed EUR 1.64 million in dividends (EUR 0.06 per share) to parent company shareholders (dividends paid to minority shareholders in subsidiaries amounted to EUR 0.4 million). During the 2003/2004 period, dividends totalled EUR 2.51 million.

### 35. RELATED PARTY TRANSACTIONS

The Group's related parties comprise members of the Board of Directors, the Chief Executive Officer and the Chief Financial Officer. There have been no transactions between related parties during the 2005/2006 and 2004/2005 periods, nor have related parties been granted any loans or guarantees or other collateral.

| **Employee benefits for key management personnel** (EUR 1,000) | 2006 | 2005 |
|---|---|---|
| Salaries and other short-term employee benefits | 419 | 384 |

During the financial year, salary and other benefits paid to the CEO totalled EUR 148,086. The monthly fees paid to the Chairman and other Board members as confirmed at the AGM are EUR 1,500 and EUR 1,000 respectively. Agreements are in place to cover the retirement age of the CEO of the parent company and some Managing Directors of Group operating companies, allowing them to retire at the age of 55–60. Liability relating to entitlement to early retirement pension is accrued, recognised and paid for during each financial period.

### 36. SUBSIDIARIES AS AT 31/10/2006

Group's parent-subsidiary relationships

| | Registered office | Group's holding,% | Share of votes | Parent company's holding,% |
|---|---|---|---|---|
| Parent company | | | | |
| Panostaja Oyj | Tampere | | | |
| Subsidiaries | | | | |
| Eurotermo Oy | Helsinki | 59.7 | 59.7 | 59.7 |
| Arme Oy | Porvoo | 69.9 | 69.9 | 69.9 |
| Kannake Oy | Tampere | 70.4 | 70.4 | 70.4 |
| Solikko Oy | Tampere | 100.0 | 100.0 | 100.0 |
| Annektor Oy | Tampere | 100.0 | 100.0 | 100.0 |
| Suomen Puunjalostus Oy | Tampere | 100.0 | 100.0 | 100.0 |
| Ki Oy Lakalaivan Teollisuustalo 1 | Tampere | 100.0 | 100.0 | 100.0 |

| **Other operating companies owned by the Group** | Group's holding,% |
|---|---|
| Lämpötukku Oy, Helsinki | 59.7 |
| Kiint Oy Viikintien Teollisuustalo, Helsinki | 59.7 |
| Finnfutter Oy Polvijärvi | 7.0 |
| Renetor Öu, Viro | 69.9 |
| Renetor Oy, Porvoo | 69.9 |
| Suomen Puuporras Oy, Tampere | 70.0 |
| Matti-Ovi Oy, Laitila | 70.0 |
| Multivator Oy | 70.0 |
| Keiteleen Porras Oy, Keitele | 70.0 |
| Nikkaristo Oy | 70.0 |
| Messuporras Oy | 70.0 |
| Toimex Oy, Tampere | 70.4 |
| Kiint Oy Hepolamminkatu 15, Tampere | 70.4 |
| Suomen Eristyskehitys Oy | 89.75 |
| Vallog Group Oy, Tampere | 100.0 |
| Vallog Oy, Hyvinkää | 100.0 |
| Lahdesjärven Kiinteistöjalostus Oy,Tampere | 100.0 |
| Vallog Logistiikkapalvelut Oy, Hyvinkää | 100.0 |

### 37. EVENT SUBSEQUENT TO THE FINANCIAL YEAR

In November 2006, Panostaja Oyj's Board of Directors started preparing to obtain a convertible subordinated loan at a maximum of EUR 21,250,000 from domestic institutional investors. The loan would be raised to finance future Panostaja Oyj acquisitions. In addition, the Board of Directors proposes that the company's key personnel be granted option rights as part of their incentive scheme.

The Board has drawn up a proposal on more specific loan and option terms for the Annual General Meeting due to convene on 15th December 2006.

# Group financial indicators

| (EUR million) | IFRS 2006 | 2005 | FAS 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|
| Net turnover, MEUR | 57.8 | 62.2 | 62.2 | 52 | 45.4 | 43.7 |
| Operating profit, MEUR | 5.5 | 4.4 | 4.3 | 3.6 | 1.9 | 1.9 |
| % of net turnover | 9.5 | 7.1 | 6.9 | 6.9 | 4.1 | 4.4 |
| Profit before taxes, MEUR | 4.9 | 3.8 | 3.6 | 3.1 | 1.3 | 1.6 |
| % of net turnover | 8.6 | 6.1 | 5.9 | 5.9 | 3 | 3.6 |
| Return on equity (ROE), % | 22.7 | 23.1 | 20.1 | 18.8 | 7.9 | 8.9 |
| Return on investment (ROI), % | 16.1 | 18.1 | 16.8 | 14.6 | 8.3 | 9.6 |
| Equity ratio, % | 43.4 | 33.2 | 34.3 | 36 | 34.8 | 40.5 |
| Gearing ratio | ****3.1 | 71.8 | 68.7 | 71.7 | 94.8 | 74.2 |
| Current ratio | 2.27 | 1.93 | 1.93 | 1.8 | 1.9 | 2.1 |
| Gross capital expenditure, MEUR | 4.8 | 2.1 | 2.1 | 1.6 | 4.5 | 1.2 |
| % of net turnover | 8.3 | 3.4 | 3,4 | 3.1 | 9.9 | 2.7 |
| Average number of Group employees | 526 | 426 | 426 | 408 | 359 | 333 |
| Earnings per share (EPS), EUR | ***0.24 | 0.07 | 0.07 | 0.08 | 0.02 | 0.03 |
| Equity per share, EUR | 0.68 | 0.37 | 0.4 | 0.41 | 0.38 | 0.4 |
| Dividend per share, EUR | *0.13 | 0.06 | 0.06 | **0.09 | 0.035 | 0.04 |
| Dividend payout ratio, % | 53.7 | 84.4 | 90.5 | 52.6 | 148.4 | 140.8 |
| Effective dividend yield for Class A share, % | 10.5 | 6.1 | 6.1 | 4.7 | 9.1 | 9.5 |
| Effective dividend yield for Class B share, % | 10.8 | 6.3 | 6.3 | 5.3 | 9.0 | 9.5 |
| Price per earnings, P/E (Class A share) | 5.1 | 13.9 | 14.9 | 11.2 | 16.3 | 14.8 |
| Price per earnings, P/E (Class B share) | 5.0 | 13.4 | 14.3 | 10.0 | 16.5 | 14.8 |
| Average no. of shares during the period, 1,000 | 27,839 | 26,275 | 26.275 | 26,707 | 28,478 | 27,342 |
| Number of shares at year-end, 1,000 | 29,735 | 27,425 | 27.425 | 26,211 | 27,802 | 28,822 |
| Price of Class A share at year-end, EUR | 1.24 | 0.99 | 0.99 | 0.85 | 0.39 | 0.42 |
| Price of Class B share at year-end, EUR | 1.20 | 0.95 | 0.95 | 0.76 | 0.39 | 0.42 |
| Average price of Class A share during the period, EUR | 1.08 | 0.82 | 0.82 | 0.51 | 0.36 | 0.41 |
| Average price of Class B share during the period, EUR | 1.05 | 0.84 | 0.84 | 0.47 | 0.35 | 0.41 |
| Market capitalisation, MEUR | 36.4 | 26.7 | 26.7 | 20.5 | 10.8 | 12.1 |

* Board proposal
** Additional dividend of EUR 0.05
*** Diluted figures
**** Liabilities include the convertible subordinated loan

# Calculation of financial indicators

Financial indicators used in the Annual Report have been calculated using the following formulae:

| | |
|---|---|
| Return on equity (ROE), % = | profit/loss before extraordinary items - taxes / equity*) + minority interest + untaxed reserves and accelerated depreciation less deferred tax liability (average) x 100 |
| Return on investment (ROI), % = | profit/loss before extraordinary items + interest and other financial expenses / balance sheet total*) - non-interest-bearing liabilities (average) x 100 |
| Equity ratio, % = | equity*) + minority interest + untaxed reserves and accelerated depreciation less deferred tax liability / balance sheet total*) - advances received x 100 |
| Gearing ratio, % = | interest-bearing liabilities - cash and bank and marketable securities / equity*) + minority interest x 100 |
| Earnings per share (EPS) = | profit/loss before extraordinary items +/- minority interest - taxes / adjusted average number of shares*) for the financial year |
| Equity per share = | equity*) / adjusted number of shares*) on the balance sheet date |
| Dividend per share = | dividends paid for the period / adjusted number of shares on the balance sheet date |
| Dividend payout ratio, % = | dividend per share / earnings per share (EPS) x 100 |
| Effective dividend yield, % = | dividend per share / share price at year-end x 100 |
| Price per earnings, P/E = | share price at year-end / earnings per share (EPS) |
| Average share price = | total trading in shares in euros over the period / number of shares traded over the period |
| Market capitalisation = | share price at year-end x number of shares*) |
| Current ratio = | current assets / non-current liabilities |

# Parent company income statement

| | Year ended 31/10/06 | Year ended 31/10/05 |
|---|---|---|
| **NET TURNOVER** | 19 | 19 |
| Other operating income | 4,684 | 31 |
| **Staff expenses** | | |
| Wages and salaries | -486 | -466 |
| Pension expenses | -94 | -93 |
| Other social security expenses | -21 | -20 |
| | -601 | -579 |
| **Depreciation, amortisation and impairment** | | |
| Planned depreciation and amortisation | -46 | -39 |
| **Other operating expenses** | -443 | -283 |
| **OPERATING PROFIT/LOSS** | 3,613 | -851 |
| **Financial income and expenses** | | |
| Dividend income from Group companies | 1,011 | 311 |
| Interest and financial income from Group companies | 384 | 358 |
| Other interest and financial income | 377 | 106 |
| Interest expenses to Group companies | 0 | 0 |
| Other interest and financial expenses | -212 | -258 |
| | 1,560 | 517 |
| **PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS** | 5,173 | -334 |
| Extraordinary items | 0 | 0 |
| Extraordinary income | 0 | 0 |
| Extraordinary expenses | 0 | 0 |
| **PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES** | 5,173 | -334 |
| Appropriations | 0 | -17 |
| Income taxes | 0 | 0 |
| **PROFIT/LOSS FOR THE FINANCIAL YEAR** | 5,173 | -351 |

# Parent company cash flow statement

| | Year ended 31/10/06 | Year ended 31/10/05 |
|---|---|---|
| **Cash flow operating activities** | | |
| Operating profit/loss | 3,613 | -851 |
| Adjustments to operating profit/loss | -4,617 | 12 |
| Change in net working capital | -660 | 770 |
| Financial items, total | 1,560 | 517 |
| Extraordinary items | 0 | 0 |
| Taxes | 0 | 0 |
| **Net cash from (used in) operating activities** | -104 | 448 |
| **Cash flow from investing activities** | | |
| Purchase of/increase in shares | -494 | 0 |
| Purchase of other fixed assets | -55 | -236 |
| Disposal of/decrease in shares | 6,709 | 0 |
| Disposal of/decrease in other fixed assets | 71 | 112 |
| **Net cash from (used in) investing activities** | 6,231 | -124 |
| **Cash flow before financing** | 6,127 | 324 |
| **Cash flow from financing activities** | | |
| Long-term loans drawn | 0 | 0 |
| Long-term loans repaid | 0 | 0 |
| Change in long-term receivables | -1,347 | -337 |
| Change in subordinated loan | -917 | 3,287 |
| Dividends paid | -1,645 | -2,351 |
| Share issue | 2,097 | 913 |
| Acquisition of own shares | 0 | -70 |
| Net cash from (used in) financing activities | -1,812 | 1,442 |
| **Change in cash and cash equivalents** | 4,315 | 1,766 |
| **Cash and cash equivalents at the beginning of the year** | 2,779 | 1,013 |
| **Cash and cash equivalents at the end of the year** | 7,094 | 2,779 |

## Parent company balance sheet

| ASSETS | 31/10/06 | 31/10/06 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| **Intangible assets** | | |
| Intangible rights | 3 | 1 |
| Other capitalised long-term expenditure | 90 | 129 |
| | 93 | 130 |
| **Tangible assets** | | |
| Machinery and equipment | 202 | 229 |
| **Investments** | | |
| Subordinated loans receivable from Group companies | 342 | 342 |
| Holdings in Group companies | 4,002 | 5,552 |
| Participating interests | 717 | 717 |
| Other shares and holdings | 6 | 6 |
| | 5,067 | 6,616 |
| **CURRENT ASSETS** | | |
| **Debtors** | | |
| Long-term | | |
| Trade receivables from Group companies | 232 | 253 |
| Amounts owed by Group companies | 6,690 | 5,322 |
| Amounts owed by participating interest undertakings | 33 | 33 |
| | 6,955 | 5,608 |
| Short-term | | |
| Trade debtors | 350 | 1 |
| Trade receivables from Group companies | 448 | 301 |
| Loans receivable from Group companies | 0 | 60 |
| Other debtors | 80 | 75 |
| Prepayments and accrued income | 232 | 253 |
| | 1,110 | 689 |
| **Investments** | | |
| Other investments | 1,016 | 1,693 |
| **Cash in hand and at bank** | 6,078 | 1,086 |
| | **20,521** | **16,052** |

## Parent company balance sheet

| EQUITY AND LIABILITIES | 31/10/06 | 31/10/05 |
|---|---|---|
| **CAPITAL AND RESERVES** | | |
| Subscribed capital | 3,568 | 3,291 |
| Share premium account | 2,728 | 908 |
| Retained earnings | 6,223 | 8,219 |
| Profit/loss for the financial year | 5,173 | -351 |
| Subordinated loans | 2,370 | 3,287 |
| | 20,062 | 15,354 |
| **APPROPRIATIONS** | | |
| Cumulative accelerated depreciation | 69 | 69 |
| **CREDITORS** | | |
| **Long-term** | | |
| Trade payables to Group companies | 1 | 1 |
| Amounts owed to Group companies | 17 | 14 |
| Other creditors | 42 | 44 |
| | 60 | 59 |
| **Short-term** | | |
| Trade payables to Group companies | 7 | 0 |
| Trade creditors | 62 | 7 |
| Other creditors | 93 | 266 |
| Accruals and deferred income | 168 | 297 |
| | 330 | 570 |
| **Creditors, total** | 390 | 630 |
| | **20,521** | **16,052** |

# Notes to the parent company's financial statements as at 31st October 2006

**Measurement principles**
Tangible fixed assets are included in the balance sheet at cost less planned depreciation.

**Depreciation and amortisation**
Planned depreciation and amortisation on non-current assets is calculated at original cost based on expected useful life.

Periods of planned depreciation are:

| | |
|---|---|
| Intangible rights | 5 yrs. |
| Other capitalised long-term expenditure | 5 yrs. |
| Machinery and equipment | 5 yrs. |

| Notes to the income statement | 2006 | 2005 |
|---|---|---|
| **1. Net turnover** | | |
| Administrative expenses charged to Group companies | 19 | 19 |
| **2. Other operating income** | | |
| Gains on sale of fixed assets | 4,666 | 27 |
| Other items | 18 | 4 |
| | 4,684 | 31 |
| **3. Notes about employees** | | |
| Wages and salaries | 486 | 466 |
| Pension expenses | 94 | 93 |
| Other social security expenses | 21 | 20 |
| | 601 | 579 |
| Average number of employees during the financial year | 6 | 5 |
| **4. Depreciation and amortisation** | | |
| Planned depreciation and amortisation | | |
| Intangible rights | 1 | 0 |
| Other capitalised long-term expenditure | 1 | 2 |
| Machinery and equipment | 44 | 37 |
| | 46 | 39 |

Depreciation and amortisation do not include impairment of fixed or financial assets and other long-term investments.

| | | |
|---|---|---|
| **5. Appropriations** | | |
| Change in accelerated depreciation: | | |
| Machinery and equipment | 0 | -17 |
| Increase (-)/decrease (+) in accelerated depreciation | 0 | -17 |
| **6. Taxes** | | |
| Taxes for the financial year | 0 | 0 |

| Notes to the balance sheet | 2006 | 2005 |
|---|---|---|
| **1. Intangible and tangible assets** | | |
| Intangible assets | | |
| Intangible rights | | |
| Acquisition cost 01/11 | 1 | 2 |
| Additions 01/11–31/10 | 3 | 1 |
| Disposals 01/11–31/10 | 0 | -2 |
| Acquisition cost 31/10 | 4 | 1 |
| Planned accumulated amortisation 01/11 | 0 | 0 |
| Planned amortisation 01/11–31/10 | -1 | 0 |
| Book value 31/10 | 3 | 1 |
| Other capitalised long-term expenditure | | |
| Acquisition cost 01/11 | 161 | 99 |
| Additions 01/11–31/10 | 0 | 116 |
| Disposals 01/11–31/10 | -38 | -55 |
| Acquisition cost 31/10 | 122 | 161 |
| Planned accumulated amortisation 01/11 | -31 | -29 |
| Planned amortisation 01/11–31/10 | -1 | -2 |
| Book value 31/10 | 90 | 129 |
| Intangible assets, total | | |
| Acquisition cost 01/11 | 162 | 101 |
| Additions 01/11–31/10 | 3 | 117 |
| Disposals 01/11–31/10 | -38 | -57 |
| Acquisition cost 31/10 | 127 | 162 |
| Planned accumulated amortisation 01/11 | -32 | -29 |
| Planned amortisation 01/11–31/10 | -2 | -2 |
| Book value 31/10 | 93 | 130 |
| Tangible assets | | |
| Machinery and equipment | | |
| Acquisition cost 01/11 | 486 | 395 |
| Additions 01/11–31/10 | 52 | 119 |
| Disposals 01/11–31/10 | -35 | -28 |
| Acquisition cost 31/10 | 503 | 486 |
| Planned accumulated depreciation 01/11 | -257 | -220 |
| Planned depreciation 01/11–31/10 | -44 | -37 |
| Book value 31/10 | 202 | 229 |
| Accumulated difference between total and planned depreciation 01/11 | 69 | 52 |
| Increase in accelerated depreciation 01/11–31/10 | 0 | 17 |
| Decrease in accelerated depreciation 01/11–31/10 | 0 | 0 |
| Accumulated difference between total and planned depreciation 31/10 | 69 | 69 |
| Tangible assets, total | | |
| Acquisition cost 01/11 | 486 | 395 |
| Additions 01/11–31/10 | 52 | 119 |
| Disposals 01/11–31/10 | -35 | -28 |
| Acquisition cost 31/10 | 503 | 486 |
| Planned accumulated depreciation 01/11 | -257 | -220 |
| Planned depreciation 01/11–31/10 | -44 | -37 |
| Book value 31/10 | 202 | 229 |

| 2. Investments | 2006 | 2005 |
|---|---|---|
| Holdings in Group companies | | |
| Book value 01/11 | 5,552 | 5,552 |
| Additions 01/11–31/10 | 0 | 0 |
| Disposals 01/11–31/10 | -1,550 | 0 |
| Book value 31/10 | 4,002 | 5,552 |
| Participating interests | | |
| Book value 01/11 | 717 | 717 |
| Additions 01/11–31/10 | 0 | 0 |
| Disposals 01/11–31/10 | 0 | 0 |
| Book value 31/10 | 717 | 717 |
| Other shares and holdings | | |
| Book value 01/11 | 6 | 6 |
| Additions 01/11–31/10 | 0 | 0 |
| Disposals 01/11–31/10 | 0 | 0 |
| Book value 31/10 | 6 | 6 |
| Parent's own shares | | |
| Book value 01/11 | 0 | 583 |
| Additions 01/11–31/10 | 0 | 70 |
| Disposals 01/11–31/10 | 0 | -653 |
| Book value 31/10 | 0 | 0 |
| Subordinated loans receivable from Group companies | | |
| Book value 01/11 | 342 | 342 |
| Additions 01/11–31/10 | 0 | 0 |
| Disposals 01/11–31/10 | 0 | 0 |
| Book value 31/10 | 342 | 342 |
| Investments, total | | |
| Book value 01/11 | 6,617 | 7,200 |
| Additions 01/11–31/10 | 0 | 70 |
| Disposals 01/11–31/10 | -1, 550 | -653 |
| Book value 31/10 | 5,067 | 6,617 |

| 3. Capital and reserves | 2006 | 2005 |
|---|---|---|
| Movements in capital and reserves | | |
| Share capital 01/11 | 3,291 | 3,286 |
| - reduction of share capital | 0 | -151 |
| - increase in share capital | 277 | 156 |
| Share capital 31/10 | 3,568 | 3,291 |
| Share premium account 01/11 | 908 | 0 |
| - reduction of share capital | 0 | 151 |
| - increase in share capital | 1,820 | 757 |
| Share premium account 31/10 | 2,728 | 908 |
| Reserve for own shares 01/11 | 0 | 584 |
| - acquisition of own shares | 0 | 70 |
| - cancellation of own shares | 0 | -654 |
| Reserve for own shares 31/10 | 0 | 0 |
| Retained earnings 01/11 | 7,868 | 10,639 |
| Dividends paid | -1,645 | -2,350 |
| Acquisition of own shares | 0 | -70 |
| Retained earnings 31/10 | 6,223 | 8,219 |
| Profit/loss for the financial year | 5,173 | -351 |
| Distributable funds | | |
| Retained earnings 31/10 | 6,223 | 8,219 |
| Profit/loss for the financial year | 5,173 | -351 |
| | 11,396 | 7,868 |

| 4. Creditors | 2006 | 2005 |
|---|---|---|
| Non-interest-bearing liabilities | 373 | 615 |
| Material items included in accruals and deferred income | | |
| Holiday pay incl. social security expenses | 47 | 42 |
| Accrued wages and salaries | 0 | 24 |
| Accrued interest | 101 | 203 |
| Accrued employee pension benefits under Employees' Pensions Act TEL | 18 | 26 |
| Accrued taxes | 0 | 0 |
| Other items | 2 | 2 |
| | 168 | 297 |

**5. Creditors and debtors**

| | | |
|---|---|---|
| Amounts owed by Group companies | | |
| Long-term | | |
| Subordinated loans receivable | 342 | 342 |
| Trade debtors | 232 | 253 |
| Loans receivable | 6,691 | 5,322 |
| Short-term | | |
| Trade debtors | 447 | 301 |
| Loans receivable | 0 | 60 |
| Amounts owed to Group companies | | |
| Long-term | | |
| Trade creditors | 0 | 1 |
| Amounts owed to Group companies | 17 | 14 |
| Short-term | | |
| Trade creditors | 7 | 0 |

Investments consist of shares in bond funds.

**6. Collateral, contingent liabilities and other commitments**

| | | |
|---|---|---|
| For own and group companies | | |
| Guarantees given | 3,968 | 2,204 |
| Lease liabilities | | |
| Payable during the current period | 0 | 1 |
| Payable during the subsequent period | 0 | 0 |

Liabilities have been measured at the nominal or book value of collateral.

# Information on shares

### Shares and share capital

According to Panostaja Oyj's Articles of Association, the company's minimum and maximum share capital shall be EUR 1,500,000 and EUR 80,000,000 respectively, within the limits of which share capital may be increased or decreased without requiring amendment to the Articles of Association.

At the end of the financial year, Panostaja Oyj's share capital amounted to EUR 3,568,148.64. The nominal value of a share is EUR 0.12. The company's shares are divided into Class A and Class B shares. Both A and B shares confer equal rights to receive dividends. At General Meetings, Class A and B shares carry twenty (20) votes and one (1) vote respectively.

Panostaja Oyj's shares were quoted on the Brokers' List from 1989 to 1998 and on the Helsinki Stock Exchange I List from 1998 to 2006. Since the list was reformed on 2nd October 2006, the company's shares have been quoted on the OMX Nordic Exchange in Helsinki.

According to the Shareholder Register as at 31st October 2006, the company has 814 (744) shareholders. Company shares owned by the Company's Board of Directors and CEO total 9,077,648 shares, representing 30.5% of shares and 37.8% of voting rights.

Based on a decision taken at the Extraordinary General Meeting on 25th October 2004, the company offered a convertible subordinated loan to the public at a maximum total of EUR 4,200,000. Each of the EUR 1,400 bonds entitles the holder to convert the share of the loan into 2,000 Panostaja Class B shares. During the financial year, the 2004 convertible subordinated loan was used to subscribe for 1,310,000 new Panostaja Class B shares. In addition, the Board of Directors exercised the authorisation given at the Annual General Meeting on 19th December 2005 to launch a new share issue disapplying the shareholders' pre-emption rights. In this issue, the company offered 1,000,000 new Class B shares at a nominal value of EUR 0.12 each. In total, share capital was increased from EUR 3,290,948.64 to EUR 3,568,148.64 over the course of the financial year.

### Share trading

The numbers of Panostaja Oyj Class A and B shares traded over the 2005/2006 period amounted to 507,956 and 999,167 shares respectively. The trading volume equated to 5.1% of the share capital. The company's total market capitalisation stood at EUR 36.4 million at the end of October. Over the period, prices of Class A and B shares varied between EUR 0.94 and EUR 1.24 and between EUR 0.92 and EUR 1.20 respectively. The year-end closing prices for A and B shares were EUR 1.24 and EUR 1.20 respectively.

### Trading and quotation on the I list

| A share | lowest, EUR | highest, EUR | Adjusted trading, no. of shares | % of shares |
|---|---|---|---|---|
| **2002** | 0.30 | 0.49 | 1,375,232 | 7.2 |
| **2003** | 0.25 | 0.42 | 2,189,014 | 11.5 |
| **2004** | 0.35 | 0.85 | 2,410,488 | 13.4 |
| **2005** | 0.59 | 1.06 | 1,353,791 | 7.8 |
| **2006** | 0.94 | 1.24 | 507,956 | 2.9 |

| B share | lowest, EUR | highest, EUR | Adjusted trading no. of shares | % of shares |
|---|---|---|---|---|
| **2002** | 0.30 | 0.49 | 812,420 | 8.3 |
| **2003** | 0.25 | 0.41 | 1,127,072 | 11.5 |
| **2004** | 0.37 | 0.76 | 2,213,432 | 23.7 |
| **2005** | 0.65 | 1.09 | 949,059 | 9.3 |
| **2006** | 0.92 | 1.20 | 999,167 | 8.7 |

Top ten shareholders by number of shares as at 31st Oct. 2006:

| | | A shares no. | B shares no. | Total no. | % of shares |
|---|---|---|---|---|---|
| 1 | Matti Koskenkorva, Tampere | 3,312,624 | 1,351,668 | 4,664,292 | 15.69 |
| 2 | Maija Koskenkorva, Tampere | 1,122,788 | 1,982,904 | 3,105,692 | 10.44 |
| 3 | Olli Halmevuo, Tampere | 2,232,832 | 506,352 | 2,739,184 | 9.21 |
| 4 | Mikko Koskinen, Tampere | 1,088,436 | 585,736 | 1,674,172 | 5.63 |
| 5 | Mauno Koskenkorva, Seinäjoki | 1,536,480 | 13,392 | 1,549,872 | 5.21 |
| 6 | Harri Porkka, Lahti | 0 | 1,000,000 | 1,000,000 | 3.36 |
| 7 | Mikko Koskenkorva, Tampere | 690,708 | 290,040 | 980,748 | 3.30 |
| 8 | Hanna Malo, Tampere | 549,072 | 197,124 | 746,196 | 2.51 |
| 9 | Minna Kumpu, Tampere | 240,000 | 501,432 | 741,432 | 2.49 |
| 10 | Tapiola General Mutual Insurance Company, Helsinki | 0 | 714,000 | 714,000 | 2.40 |
| | | 10,772,940 | 7,142,648 | 17,915,588 | 60.24 |
| | Other shareholders | 6,483,655 | 5,335,329 | 11,818,984 | 39.76 |
| | Total | 17,256,595 | 12,477,977 | 29,734,572 | 100.00 |

Top ten shareholders by number of votes as at 31st Oct. 2006:

| | | A shares no. | B shares no. | Total no. | % of voting rights |
|---|---|---|---|---|---|
| 1 | Matti Koskenkorva, Tampere | 3,312,624 | 1,351,668 | 4,664,292 | 18.90 |
| 2 | Olli Halmevuo, Tampere | 2,232,832 | 506,352 | 2,739,184 | 12.63 |
| 3 | Mauno Koskenkorva, Seinäjoki | 1,536,480 | 13,392 | 1,549,872 | 8.60 |
| 4 | Maija Koskenkorva, Tampere | 1,122,788 | 1,982,904 | 3,105,692 | 6.83 |
| 5 | Mikko Koskinen, Tampere | 1,088,436 | 585,736 | 1,674,172 | 6.25 |
| 6 | Mikko Koskenkorva, Tampere | 690,708 | 290,040 | 980,748 | 3.94 |
| 7 | Tapiola General Mutual Insurance Company, Helsinki | 625,000 | 0 | 625,000 | 3.50 |
| 8 | Karri Koskenkorva, Helsinki | 564,012 | 59,914 | 623,926 | 3.17 |
| 9 | Hanna Malo, Tampere | 549,072 | 197,124 | 746,196 | 3.13 |
| 10 | Satu Koskenkorva, Helsinki | 546,026 | 83,914 | 629,940 | 3.08 |
| | | 12,267,978 | 5,071,044 | 17,339,022 | 70.03 |
| | Other shareholders | 4,988,617 | 7,406,933 | 12,395,550 | 29.97 |
| | Total | 17,256,595 | 12,477,977 | 29,734,572 | 100.00 |

Breakdown of shareholding by amount category as at 31st Oct. 2006:

| Number of shares | Share-holders no. | % | Shares no. | % | Voting rights no. | % |
|---|---|---|---|---|---|---|
| 1-1000 | 291 | 35.75 | 179,123 | 0.6 | 1,441,426 | 0.4 |
| 1001-10000 | 381 | 46.81 | 1,466,228 | 4.93 | 10,064,203 | 2.81 |
| 10001-100000 | 111 | 13.64 | 2,956,618 | 9.94 | 19,945,373 | 5.58 |
| 100001-1000000 | 26 | 3.19 | 11,189,907 | 37.63 | 134,981,291 | 37.75 |
| 1000001- | 5 | 0.61 | 13,733,212 | 46.19 | 190,303,252 | 53.22 |
| Total | 814 | 100.00 | 29,525,088 | 99.29 | 356,735,545 | 99.76 |
| of which nominee-registered | 4 | | 45,602 | 0.15 | | |
| In joint accounts | | | 209,484 | 0.71 | 874,332 | 0.244 |
| Number of shares issued | | | 29,734,572 | 100.00 | 357,609,877 | 100.00 |

Breakdown of shareholding by sector as at 31st Oct. 2006:

| Category of sector: | Share-holders no. | % | Shares no. | % | Voting rights no. | % |
|---|---|---|---|---|---|---|
| Enterprises | 58 | 7.16 | 1,365,930 | 4.59 | 9,858,626 | 2.76 |
| Finance and insurance companies | 6 | 0.74 | 1,689,060 | 5.68 | 13,723,060 | 3.84 |
| Private households | 743 | 91.28 | 26,379,495 | 88.72 | 332,549,656 | 92.99 |
| Non-profit making | | | | | | |
| organisations | 3 | 0.37 | 43,001 | 0.15 | 552,201 | 0.15 |
| Foreign | 4 | 0.49 | 2,000 | 0.01 | 52,002 | 0.01 |
| Total | 814 | 100.00 | 29,479,486 | 99.14 | 356,735,545 | 99.76 |
| of which nominee-registered | 4 | | 45,602 | 0.15 | | |
| In joint accounts | | | 209,484 | 0.7 | 874,332 | 0.24 |
| Number of shares issued | | | 29,734,572 | 100.00 | 357,609,877 | 100.00 |

**Average share prices 11/2001–10/2006**

# Proposal by the parent company’s Board of Directors regarding results for the financial year and distribution of profits

Panostaja Oyj’s distributable funds, plus profit for the financial year at EUR 5,173,405.42, amount to EUR 11,396,006.53.

The Board of Directors proposes to the Annual General Meeting that:

- the profit for the financial year be transferred to the retained earnings account
- a dividend of EUR 0.13 per share be paid for Class A and B shares

Tampere, 8th December 2006

| | | |
|---|---|---|
| Matti Koskenkorva<br>Chairman | Mikko Koskinen | Olli Halmevuo<br>CEO |

# Auditors’ report

**To the shareholders of Panostaja Oyj**
We have audited the accounting records, the financial statements and the administration of Panostaja Oyj for the period from 1st November 2005 to 31st October 2006. The Board of Directors and the Chief Executive Officer have prepared the report of the Board of Directors and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the parent company’s financial statements in accordance with prevailing regulations in Finland, which include the parent company’s balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express our opinion on the consolidated financial statements, on the parent company’s financial statements, Directors’ report and on 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 report from the Board of Directors and the financial statements are free of material misstatement. An audit includes examination on a test basis of evidence supporting the amounts and disclosures in the report of the Board of Directors and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluation of the overall financial statement presentation. The purpose of our audit of administration is to examine whether members of the Board of Directors and the Chief Executive Officer of the parent company have complied with the rules of the Companies Act.

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

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

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

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

Tampere, 8th December 2006

PricewaterhouseCoopers Oy, Authorised Public Accountants

| | |
|---|---|
| Janne Rajalahti | Jukka Ala-Mello |

# Shareholder information

### Interim reports

Panostaja Group will publish three interim reports during the period from 1st November 2006 to 31st October 2007. Interim reports for the periods from 1st November 2006 to 31st January 2007, from 1st November 2006 to 30th April 2007, and from 1st November 2006 to 31st July 2007 will be published on 12th March 2007, 7th June 2007 and 10th September 2007 respectively. The annual report, interim reports and releases are also made available on the company's website at www.panostaja.fi.

### Share Register

Panostaja Oyj shares are included in the book-entry system. The company's Shareholder Register is kept by Finnish Central Securities Depository Ltd.

### Annual General Meeting

Panostaja Oyj's Annual General Meeting will be held on Friday, 15th December 2006, starting at 10 am EET, in the Tampereen Portti building, at Postitorvenkatu 16, Tampere. Participation in the Annual General Meeting is open to shareholders whose names appear on the Shareholder Register kept by Finnish Central Securities Depository Ltd. no later than 5th December 2006.

Any shareholders whose shares have not been transferred to the book-entry system are also entitled to attend the Annual General Meeting, provided that they were included in the company's Share Register prior to 12th March 1999. In such cases, shareholders must bring to the meeting their share certificates or some other evidence that ownership of their shares has not been transferred to a book-entry account.

Shareholders wishing to attend the Annual General Meeting are required to notify the company of their registration in advance, no later than 3 pm EET on Thursday, 14th December 2006, in writing to Panostaja Oyj, P.O. Box 783, FI-33101 Tampere, Finland, by fax to +358 (0)3 263 4343, or by phoning Ms. Sari Tapiola on +358 (0)3 263 4300. Written notifications must arrive prior to the expiration of the registration period. It is requested that any possible proxies be delivered at the same time as registration.

### Dividends paid

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.13 per share be paid for Class A and B shares for the period from 1st November 2005 to 31st October 2006. The Board proposes that the record date for dividend payment be 20th December 2006 and that dividends be paid out as from 29th December 2006. Those who are included in the Shareholder Register kept by Finnish Central Securities Depository Ltd. on the dividend record date are entitled to receive dividends.

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