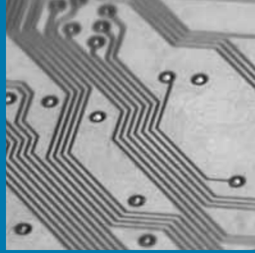



Annual Report 2006

YEAR OF THE FULL WORLDWIDE SERVICE

PKC GROUP

INFORMATION FOR SHAREHOLDERS

GENERAL MEETING OF SHAREHOLDERS

PKC Group Oyj's Annual General Meeting will be held on Thursday 29 March 2007 at 4.00 p.m. at the company's offices in Kempele, at the address Vihikari 10.

A shareholder is entitled to attend the meeting if he or she is listed as a shareholder in the company's shareholder register at Finnish Central Securities Depository Ltd on 19 March 2007 and confirms his or her attendance before 4.00 p.m. on 26 March 2007.

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

DIVIDEND DISTRIBUTION

The Board of Directors proposes that the distribution of dividends for the financial year 2006 be EUR 0.45 per share. The matching date for dividends is 3 April 2007. The payment date for dividends is 12 April 2007.

FINANCIAL REPORTS FOR 2007

PKC Group Oyj will publish its financial reports for 2007 as follows:

Interim Report 1–3/2007
on Friday 20 April 2007 at 8.15 a.m.
Interim Report 1–6/2007
on Friday 13 July 2007 at 8.15 a.m.
Interim Report 1–9/2007
on Friday 19 October 2007 at 8.15 a.m.

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

CHANGE OF ADDRESS

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

GROUP KEY FIGURES	2006	2005	2004	2003	2002
Net sales, EUR million	228.9	198.8	177.7	146.0	134.3
Operating profit, EUR million	24.2	26.7	20.8	18.4	9.4
Profit before extraordinary items, EUR million	22.8	27.3	19.6	18.1	7.6
Return on investment, % (ROI)	24.1	32.3	28.6	36.7	20.6
Equity ratio, %	48.0	55.6	44.2	56.9	46.9
Gross capital expenditure, EUR million	20.0	11.4	13.3	10.2	6.4
Earnings per share, EUR	0.87	1.06	0.75	0.73	0.26
Dividend per share, EUR	0.45 (*	0.45	0.20	0.83	0.15

*) Board's proposal

CONTENTS

PKC GROUP

REVIEW BY THE PRESIDENT AND CEO

The year 2006 was a time of change for the PKC Group. We made progress in several strategically important projects, while at the same time expanding into new market areas and reinforcing our position in our traditional areas of operation.

Our customer sectors, both the automotive and the telecommunications and electronics industries, continued to consolidate as we predicted and this, I believe, will remain the trend in the future as well. Constant changes in our field of competition give us an incentive to develop our operations in order to remain competitive. Globalisation offers opportunities for growth but, at the same time, competition for increasingly larger integrated deliveries is becoming tougher. Small local players are attempting to retain their market share on the changing markets with tough price competition and, consequently, tighter competition has meant weakening results for many contract manufacturers. Even though we have succeeded in maintaining a good level of profitability, we must become more cost-effective in the future. Despite this, operations and systems must also be improved constantly so that we are able to meet the new challenges that expansion brings with it.

The number of commercial vehicles manufactured during 2006 clearly exceeded forecasts. The year also saw quick growth in the electrotechnical industry. For us this meant a large order book and an occasional need for extra capacity which we had to address by making some special arrangements. The quick growth in the world economy also reflected in the price level of raw materials. These factors, combined with costs resulting from the company's development projects, affected our level of profitability especially in the latter half of the year.

The profitability of the Electronics business has improved considerably in the past few years, which is proof of the fact that we chose the correct strategy. The business segment's sales grew by almost a fifth during 2006. We developed our factory in Kostomuksha, Russia and made investments also in our factory in Raahe, Finland to ensure customer deliveries that require a large degree of flexibility. The growth in the share of product development has also had its own effect on the positive trend in the business segment's profitability.

Our expansion into new market areas through the opening of new factories and an acquisition has helped us to bolster our position among international competition. These investments are the building blocks for our future competitiveness which will enable us to better meet the opportunities offered by an international clientele in a changing market. In order to be able to implement all of our planned development projects, we have simultaneously revamped the Group's organisational structure. With a revamped organisation, we will be able to meet the demands of a growing group and to ensure the effective implementation of strategic development projects.

Our objective is to continue to grow more rapidly than the general trend of our sector. As the pace of change in our operating environment keeps accelerating, our target for growth demands that we be ready to react and continue to refine all areas of our operations. Securing the growth of the Group may entail acquisitions in the future as well. Given our good profitability and strong balance sheet and cash flow, all of this is possible.

I would like to thank our partners in co-operation, shareholders and customers for the confidence they have shown towards our company. I also thank all of the PKC Group's personnel for a job well done in 2006.

Mika Kari

EUROPE

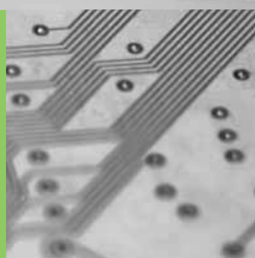
New facilities – new opportunities

All of our factories follow our strategy of closeness to the customer, cost-effectiveness, high quality in products and quick service. The PKC Group's new factory in Pskov, Russia, started its operations in 2006. New production lines reinforce our production capacity in the European and Russian markets.

< The heavy vehicles market enjoyed a more favourable trend than expected. PKC has a long tradition of co-operation with leading European vehicle manufacturers.

> PKC's products can also be found in lifts, forklift trucks, refrigerating machines and snowmobiles.

< The Pskov wiring harnesses factory increases our production capacity in Russia. The Kostomuksha electronics factory almost doubled its production.



VISION, STRATEGY AND VALUES

The PKC Group's strategic process was refined during 2006. The realisation of strategic objectives is monitored using benchmarks based on action plans, and the payment of personnel bonuses is tied to the achievement of these objectives.

MISSION

The PKC Group's mission is to offer its customers the best service, to grow profitably and faster than the average for its business sectors while producing economic added value for its shareholders, and to offer its staff a job that keeps developing.

VISION

The PKC Group's vision is to be a competitively priced, high-quality and co-operative partner, a wiring harness manufacturer with a global service and production network and an efficient electronics contract manufacturer and R&D partner.

STRATEGIC OBJECTIVES

The PKC Group's objective is to grow more rapidly than the market. Growth is sought by deepening present customer relationships, acquiring new customers and possibly carrying out acquisitions.

VALUES

The PKC Group's common values lay the basis for all operations.

PKC is active in meeting its customers' expectations around the world. Production capacity will be increased in lower-cost countries and constantly made more efficient at all production units.

PKC is a cost-effective, flexible and reliable partner in co-operation. The company's efficient production chains improve the management of inventories, quality assurance as well as the company's capability to react quickly to changing customer needs. With a well-planned and well-executed purchasing strategy, PKC can increase its competitiveness and gain advantages from procuring large quantities at a time.

One of the PKC Group's strengths is its skilled personnel. The improvement of the personnel's competence ensures competitiveness in the future as well.

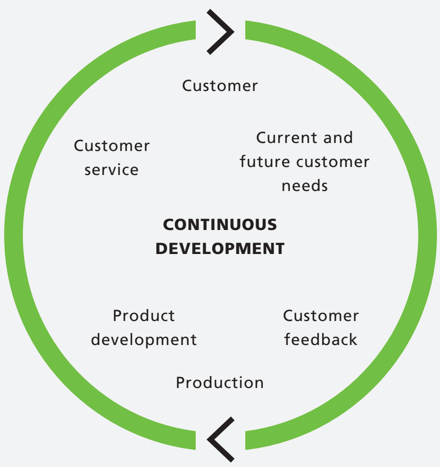
In accordance with the principle of continuous improvement, the company constantly invests in management, strategic planning and cost-effective ways of working.

THE PKC GROUP'S STRENGTHS

- Active and close co-operation with customers and the ability to create added value for them
- Worldwide competence
- A cost-effective and flexible production network that functions according to uniform quality and environmental standards
- A lifecycle concept that encompasses customer-oriented design for electronics products and services, product development, production technology and testing services.

JOINING FORCES TO ENSURE CONTINUED DEVELOPMENT

We are sensitive to our customers' wishes and their changing needs. We focus on constantly developing our services so that we can support our customers in the future with the right solution at the right time.



PERSONNEL

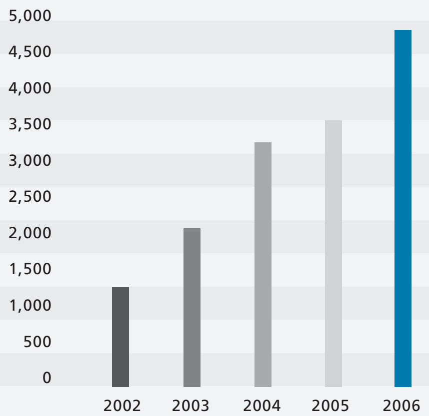
PKC's business strategy is executed with the help of sufficient, competent and motivated personnel. Successful personnel management is based on the needs of business operations and supports the achievement of set targets. Development projects are used to boost the efficiency of the organisation, respond to the future need for competence, create reward systems that provide incentives, reinforce occupational safety and corporate security and improve internal communications. As the PKC Group has become more international, the objective outlined for personnel management is the creation of clear, Group-wide operating models that take local conditions into consideration.

Improvement projects based on the 2005 personnel survey have been continued. Visible results have been achieved in the areas of supervisor competence, internal communications and co-operation between different units, and we expect to accomplish continuous improvement in these areas in the future as well.

Matrix organisation supports internationalisation
The expansion of PKC's operations to different parts of the world requires that the organisation's ways of working be revised. The PKC Group's management system has been made clearer and more efficient with the use of a matrix organisation. The goal is to increase the efficiency of decision-making and the implementation of strategy in the Group as well as to support internationalisation and expansion of clientele.

Strategy underpins the development of competence
Competence is enhanced in accordance with the company's business strategy. As a part of its strategy work, the company examines areas for development and charts various systems for increasing competence. Plans for improvement on the individual level are dealt with in development discussions which are extremely important to the implementation of the company's strategy and the clarification of objectives.

Supervisors play an important role in the motivation of personnel and the management of performance. The company has started a Group-wide training programme for supervisors, in which all supervisors from the senior management of the Group down to foremen in charge of production are participating. Its objective



PERSONNEL IN THE END OF THE YEAR

is to continue to ensure that strategy and values are implemented successfully and with high quality. The training provides the capability and tools for attending to day-to-day supervisory tasks and creates and fosters a unified management culture.

Incentive-based reward system comprises several factors

PKC's incentive-based reward system motivates its personnel to work towards achieving set objectives and improves the company's competitiveness. The system consists of factors related to salaries, benefits, personal development opportunities and the organisation of work. The payment of personnel bonuses is based on the achievement of strategic objectives. PKC has clarified task descriptions and the content of work, improved its personnel's opportunities for development and made progress at different units with projects aimed at developing the organisation's atmosphere.

Labour protection

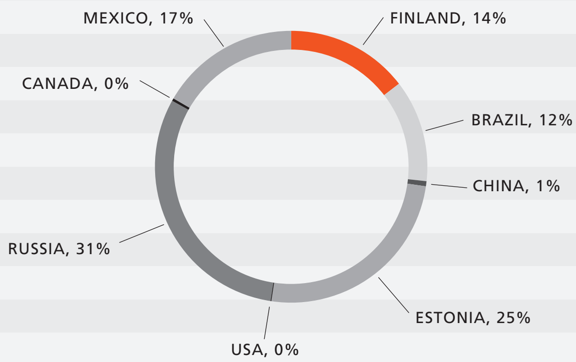
Exercise during breaks at the workplace is a pre-emptive activity that prevents work disability and musculoskeletal diseases. In addition to exercise during breaks, personnel are encouraged to exercise independently.

The development projects of the past year placed a particular emphasis on safety issues as well as ergonomics and its improvement. One of the central ideas promoted in research and development projects is that workers should be able to carry out procedures effortlessly at all work stations. The level of occupational safety and corporate security is constantly monitored, and deficiencies discovered in safety risk evaluations are addressed across the Group.

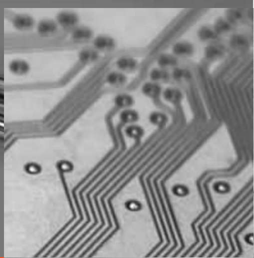
More efficient internal communications

One of the PKC Group's objectives for 2006 was to increase the efficiency of communications between personnel groups and business locations. The company also set up an extensive and effective tool for supporting internal communications, the intranet. The intranet is in use for the most part and will be extended during the current year to all operative Group companies. The communications network between different business locations was also enhanced. The goal is to create a consistent and streamlined communications culture within the Group.

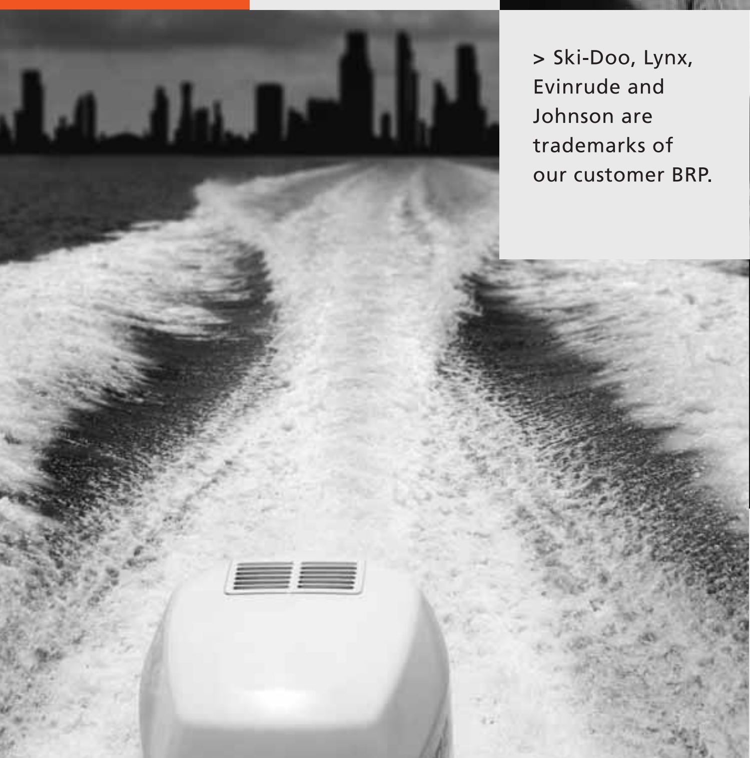
PERSONNEL BY REGION IN THE END OF THE YEAR



< The Electro Canada deal strenghtened our global service in the wiring harnesses market.



> In South America, we deliver wiring harnesses for buses, among others.



> Ski-Doo, Lynx, Evinrude and Johnson are trademarks of our customer BRP.

^ PKC received an award from DaimlerChrysler's Brazilian subsidiary in 2005 in recognition of its co-operation which exceeded the customer's expectations.
↗ Our wiring harnesses factory in Nogales, Mexico.

AMERICAS

Taking long strides towards a worldwide service

In the Americas, our operations expanded from Brazil and USA to Canada and Mexico when PKC acquired the Electro Canada companies. In Brazil, we continued to strengthen our co-operation with several customers.

QUALITY AND THE ENVIRONMENT

Quality management
Quality and its improvement are an inseparable part of the PKC Group's day-to-day operations. We make an effort to anticipate the expectations that our operating environment places on us. Operations are improved in a comprehensive way, while paying attention to the demands of the customer. A committed and motivated personnel is in a key position, and each and every employee has the opportunity to participate in development work.

Quality management systems
The Group has, for a long time, employed quality management systems that comply with international standards. These systems have been continuously developed, taking into account the operating environment's internal and external requirements. The quality of the operations of suppliers and partners in co-operation is being monitored more carefully than before. The strict quality requirements of the automotive industry are taken into consideration in all activities, since we wish to operate according to uniform principles.

The Group's Wiring Harnesses business is certified under the ISO 9001, ISO/TS 16949 and ISO 14001 standards in Europe and Brazil. The Electronics business is certified in accordance with the ISO 9001 and ISO 14001 standards.

The wiring harnesses units in Finland, Russia (Kostomuksha) and Estonia have a joint Group certificate that covers all the aforementioned standards. These units operate on the basis of a unified quality handbook and uniform processes. The quality systems of the units in China and Pskov, Russia, will be built to conform to the Group-wide quality system. The development of these units' ISO/TS 16949 has been started with the goal of certifying the systems during 2007. The wiring harnesses production of the Mexican unit has been certified in accordance with the ISO/TS 16949 standard and its integration into the PKC Group's systems is already underway.

"We recognise our responsibility for the quality of our products and services and we join together to develop even more efficient and flawless operations."

Improving quality
Business processes, manufacturing methods and efficiency can be improved by using feedback and ideas from personnel.

DEVELOPMENT OF PKC'S QUALITY SYSTEM

1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996

1987 – KEMPELE
QUALITY MANUAL BASED ON THE ISO 9000 STANDARD

1989 – KEMPELE
SAAB-VALMET QUALITY AWARD

1991 – KEMPELE
ISO 9003 PROJECT TOGETHER WITH SUPPLIERS

1995 – KEMPELE
ISO 9002 CERTIFICATE

Comparing ways of working, selecting suitable benchmarks and identifying and adopting the best practices play a significant role in the improvement of operations. The Group's quality indicators are monitored regularly and information gathered with their help is used in the evaluation of the efficiency of processes and the further development of operations.

The manufacturing units' independence from the parent company will be increased. At the same time, the responsibility for product quality will be more clearly transferred to the units. Quality assurance measures have been integrated as much as possible in the different stages of production so that faults are detected in time. A safe and pleasant working environment also improves quality. When improving the working environment, PKC pays special attention to safety issues.

Challenges
Rapid growth and expansion into different parts of the world raise new challenges. Uniform and efficient processes are a prerequisite for a cost-effective and high-quality production network. The importance of recruiting and constantly training skilled and motivated staff will continue to grow.

Environmental systems
In line with its environmental policy, the PKC Group is committed to continuously reducing the environmental effects of its operations. The most important area of development is the reduction of harmful substances in components and production. The European Union's RoHS directive is one of the central guiding factors in the fulfilment of environmental objectives. The company monitors the achievement of its environmental objectives on a regular basis.

All of the Group's manufacturing units in Finland, Russia (Kostomuksha), Estonia and Brazil have been certified in accordance with the ISO 14001 standard. Each unit has a separate environmental programme that complies with national statutory requirements. The units are independently responsible for attending to environmental issues in line with the Group's environmental policy. The development of the ISO 14001 systems for the units in China, Mexico and Pskov, Russia, has already been started with the aim of obtaining certificates for these units during 2007.

1997
ESTONIA
ISO 14001 CERTIFICATE

1998

1999
KEMPELE
ISO 9001 AND ISO 14001 CERTIFICATES
BRAZIL
ISO 9002 CERTIFICATE

2000
BRAZIL
ISO 14001 CERTIFICATE

2001

2002
KEMPELE
QS-9000 CERTIFICATE
ESTONIA
ISO 14001 CERTIFICATE
BRAZIL
ISO/TS 16949 CERTIFICATE

2003
ESTONIA
QS-9000 CERTIFICATE

2004
KEMPELE
ISO/TS 16949 CERTIFICATE
RUSSIA
ISO 9001, ISO 14001 AND ISO/TS 16949 CERTIFICATES
ESTONIA
ISO/TS 16949 CERTIFICATE

2005
PKC GROUP
ISO14001 SYSTEMS UPDATE
BRAZIL
DAIMLERCHRYSLER QUALITY AWARD

2006
MEXICO
ISO/TS 16949 CERTIFICATE

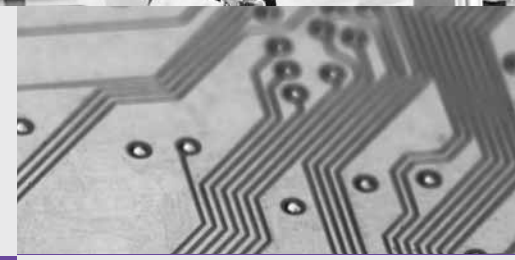
ASIA

In the middle of the world's fastest growing market

PKC strengthened its customer service in Asia by opening a wiring harnesses factory in Suzhou, China, in the summer of 2006. While initially manufacturing products for the telecommunications industry, the unit will also serve the Group's international customers in the automotive industry on the Asian market.

< Expansion into new market areas boosts our competitiveness internationally.

> The Electronics business's production grew and its profitability improved substantially.



< Suzhou's opening ceremony featured traditional Chinese festivities.
> Our products form parts of various other products.

^ Our first factory in Asia began its deliveries to the telecommunications industry.

BUSINESS OPERATIONS

WIRING HARNESSES BUSINESS

The Wiring Harnesses business segment is responsible for the manufacture and development of wiring harnesses and cabling for demanding and tailored solutions used in the automotive, telecommunications and electronics industries. In 2006, the Wiring Harnesses business accounted for 79.5% of consolidated net sales.

The Wiring Harnesses business segment continued its vigorous growth in 2006. In the late summer, the Group expanded into North America with the acquisition of the Electro Canada companies, which included a wiring harnesses factory in Mexico, a head office in Canada and a sales office in the United States. The acquisition strengthened the PKC Group’s clientele significantly. The production capacity of the factory in Mexico will further increase once the extension of the premises has been completed at the start of the current year.

The manufacture of products for the electronics industry was started at the factory in Suzhou, China, in the early summer. In the future, the unit will also serve the Group’s international automotive industry customers on the Asian markets. The unit is set to grow this year with the transfer of production and the start-up of new product groups.

Last spring, PKC established a wiring harnesses factory in Pskov, Russia, which will meet the increased demand for production capacity in Europe and possible demand on the domestic Russian market. Production was started in November.

The organisational revamp that was carried out last year will make the utilisation of resources more efficient and speed up the implementation of decisions and strategy. The adoption of a matrix organisation will enable PKC to become more international and allow resources to be used flexibly and efficiently in order to meet the demands of an expanded clientele.

Logistics and procurement resources were increased with the aim of meeting the challenges posed by the larger clientele and higher raw materials expenses.
The sharp rise in the price of copper in particular had an effect on purchase prices. Resources were also devoted to acquiring new customers and attending to present customer relationships, and sales support functions were developed. PKC will continue to increase technical support in the customer interface in the future.

Production support functions were strengthened and working methods were made more consistent in all subsidiaries. More resources were allocated to rationalisation projects for end products and components. In co-operation with customers, these projects seek more cost-effective product and component solutions and manufacturing methods.

By expanding its production network and making it more uniform, the Group improves its opportunities for participating in worldwide competitive bids and ensures smooth deliveries to customers in its main market areas. In the future, a particular emphasis will be placed on achieving cost savings, better competitiveness and more rapid deliveries to customers.

The heavy vehicles market maintained its high level last year. Production output was considerably higher than predicted and capacity had to be increased using special arrangements as well. In the future, we will build more capacity in lower-cost countries. The objective of the Group’s Wiring Harnesses business is to grow considerably faster than the market. Achieving this objective will require us to devote resources to attracting new customers and, possibly, to carry out acquisitions.

Improving productivity and cost-effectiveness are central objectives this year as well. Efficiency in all areas is particularly important in a situation in which competition is tough and the high world market price of raw materials affects the prices of components.

ELECTRONICS BUSINESS

The Electronics business segment provides electronics manufacturing services (EMS) and original design manufacturing (ODM) to the telecommunications and electronics industries. In 2006, the Electronics business accounted for 20.5% of consolidated net sales.

The Group's electronics manufacturing and product development units are located in Raahe and Kempele, Finland, and in Kostomuksha, Russia. In addition, the Electronics business operates a customer service unit in Suzhou, China.

The Electronics business segment's production output grew considerably during 2006. Despite price erosion, the segment's profitability improved thanks to the growth in production output, the increased share of design services and cost-effectiveness.

During the past year, significant investments in equipment were made at both electronics factories. The Kostomuksha factory mainly procured additional automatic assembly capacity, while the Raahe factory focused on the flexibility of production technology. Co-operation between factories was finetuned by boosting efficiency in production planning, materials control and logistics.

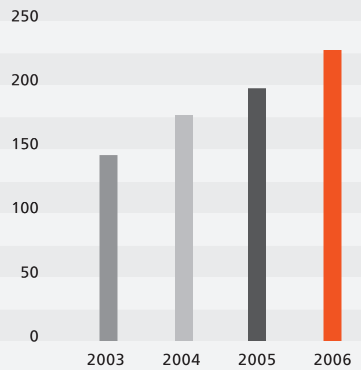
The transfer of production to Kostomuksha continued, leading to the need to adjust operations in Raahe.

The direct exports of electronics products increased in 2006. At the same time, co-operation in product development with customers in Europe, North America and Asia was also intensified. Design and support services for electronic products were launched in Suzhou, China, in November, and the unit will also start the procurement of electronics components. PKC has bolstered its role as an international partner in co-operation for its customers and will continue its work in promoting this role.

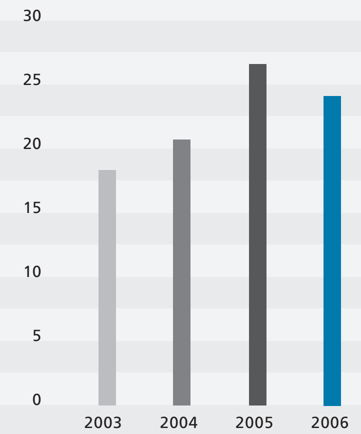
The Finnish units will continue to focus on product design, R&D and the manufacture of products that require particular flexibility and short delivery times. An innovative product design service is one of our key success factors at present and will continue to be so in the future. Due to growth in demand, we increased the resources allocated to electronics product design considerably during the past year. In the future, we will invest in the development of NPI (New Product Introduction) operations in particular as part of our service covering the entire lifecycle of products. Our strategy is to offer customers a comprehensive service, ranging from design to manufacturing and maintenance, that includes all the stages of the product development process.

Production output at the Kostomuksha factory almost doubled during the year. In the future, the factory will supply even greater numbers of volume products manufactured using efficient assembly lines as well as manual assembly and testing services. PKC will also continue to invest in the Electronics business during 2007.

REPORT BY THE BOARD OF DIRECTORS



NET SALES, EUR million



OPERATING PROFIT, EUR million

EARNINGS PER SHARE (EPS), EUR million

Operating environment

The commercial vehicle market remained at a high level in Europe and America compared with the previous year. The Group's sales to the heavy vehicles industry increased along with our customers' volume growth and the start-up of new products. The sales of wiring harnesses for other vehicles developed favourably compared with the previous year. The sales of wiring harnesses and cables to the telecommunications industry remained at their previous level. The sales of electronics contract design and manufacturing showed a positive trend.

Net sales and financial performance

Consolidated net sales totalled EUR 228.9 million (198.8 million), increasing by 15.2% on the previous year. Consolidated operating profit totalled EUR 24.2 million (26.7 million), amounting to 10.6% of net sales (13.4%). Depreciation amounted to EUR 6.3 million (5.5 million). Financial income and expenses were EUR 1.5 million negative (0.5 million positive). The financial items of the comparative period included significant currency exchange gains. Profit before taxes was EUR 22.8 million (27.3 million). Profit for the financial year totalled EUR 15.6 million (EUR 18.8 million). Diluted earnings per share were EUR 0.87 (1.06).

Net sales generated by the Wiring Harnesses business during the report year rose by 14.4% to EUR 182.0 million (159.1 million). The segment's share of consolidated net sales was 79.5% (80.0%). The Wiring Harnesses business segment reported an operating profit of EUR 17.9 million (23.1 million), or 9.8% of the segment's net sales (14.5%).

The Wiring Harnesses business segment's net sales grew thanks to the good demand for the products of our present customers and also as a result of the business acquisition. With customers placing much larger orders than anticipated, PKC had to increase capacity by means of special arrangements which incurred expenses. After the first quarter, the result was significantly burdened by the higher raw materials expenses resulting from the rise in the price of copper. During the second half of the year the operating profit suffered also from expenses resulting from the transfer of operations from Canada to Mexico. The Electro Canada companies, which were acquired during the financial year, had a negative effect on operating profit. The downward trend in prices and expenses related to the start-up of the new factories in Pskov and Suzhou weakened profitability for the full year. The net sales of the Brazilian subsidiary fell slightly short of the previous year, but its profitability remained good.

The Electronics business segment saw its net sales increase by 18.3% to EUR 46.9 million (39.7 million), accounting for 20.5% of consolidated net sales (20.0%). The Electronics business posted an operating profit of EUR 6.4 million (3.6 million), or 13.2% of the segment's net sales (8.9%).

The Electronics business segment's sales in the telecommunications and industrial electronics product groups grew. Transfers of production to the Kostomuksha factory and the growth in the share of contract design and in production volumes coupled with the boosting of production efficiency led to good profitability.

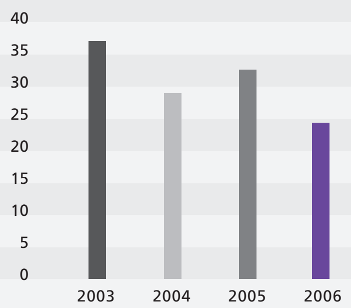
Balance sheet and financing

Consolidated total assets at 31 December 2006 stood at EUR 151.0 million (117.0 million). The acquisition carried out in the third quarter played a major role in the growth in balance sheet items. Interest-bearing liabilities totalled EUR 45.0 million at the close of the report period (25.4 million). The Group's equity ratio was 48.0% (55.6%). Net liabilities totalled EUR 37.0 million (20.6 million) and gearing was 50.9% (31.6%).

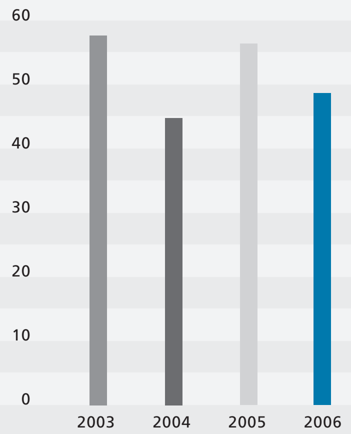
Inventories amounted to EUR 36.6 million (29.7 million). Current receivables totalled EUR 62.7 million (48.8 million). The increase in inventories and receivables was mainly a result of the acquisition of the Electro Canada companies and the growth in volume. Cash flows after investing activities during the period in review were EUR 8.7 million negative (12.4 million positive). Cash in hand and at bank amounted to EUR 8.1 million (4.9 million). In order to ensure financing flexibility, PKC has available credit facilities.

PKC expanded to North America through acquisition and strengthened its customer base

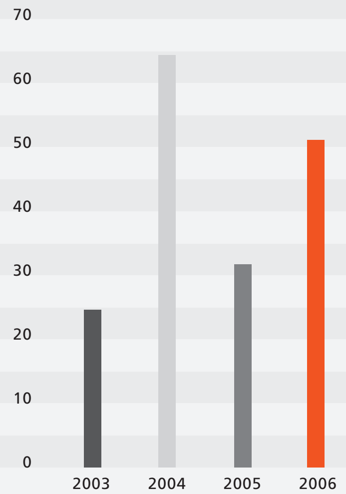
On 1 August 2006, the PKC Group purchased the business of Electro Canada Limited and the shares of Electro Canada SA de CV and Electro USA Inc. Electro Canada Limited is a private company with over 40 years' experience in the manufacture of wiring harnesses for vehicles and electrotechnical equipment. The acquisition included a head office in Toronto, Canada, a wiring harnesses factory in Nogales, Mexico, and a sales office in Nogales, USA. Electro Canada's operations in Canada are continued by



RETURN ON INVESTMENT (ROI), %



EQUITY RATIO, %



GEARING, %

PKC Group Canada Inc., a new subsidiary that has already been incorporated. The combined net sales of the acquired companies totalled about EUR 22 million in 2005.

The acquisition significantly strengthened the customer base and made the PKC Group the main global supplier of wiring harnesses to Bombardier Recreational Products. PKC had already been a supplier of wiring harnesses to BRP in Europe.

The North American operations and especially the factory in Mexico will enable the PKC Group to participate in competitive bids requiring worldwide services and to make deliveries to North American customers requiring short delivery times.

The purchased business has been included in PKC's consolidated financial statements as from 1 August 2006.

New factory established in Russia

On 5 May 2006, the PKC Group established a new wiring harnesses factory in Pskov, Russia, near the Estonian border. The new factory will meet the increased demand for production capacity, and is intended to serve the central European and Russian markets. Production was started at the end of 2006. The total capital expenditure by the end of 2007 is estimated to be about EUR 2–3 million.

Capital expenditures

During the review period, the Group's gross capital expenditures totalled EUR 20.0 million (11.4 million), amounting to 8.7% of net sales (5.7%). The acquisition cost of the Electro Canada companies, a total of EUR 10.7 million, made up a significant share of gross capital expenditures. The largest single capital expenditure on machinery and equipment was the procurement of an automated assembly line for the Kostomuksha electronics factory.

Research & development

Research and development expenditure totalled EUR 4.9 million (3.8 million), representing 2.1% (1.9%) of consolidated net sales. At the end of the report year, 80 (54) people were employed in product development. The growth in the number of personnel is mainly due to the strengthening of design services in accordance with strategy.

Personnel

During the review period, the Group had an average payroll of 4,013 employees (3,506). The Group's staff at the end of the report period numbered 4,779 employees (3,570), of whom 4,084 (2,851) worked abroad and 695 (719) in Finland. The growth in the number of personnel is mainly due to the acquisition of the Electro Canada companies, the transfer of production from Canada to Mexico and the growth in production volume.

Quality and the environment

The Group's Wiring Harnesses business operates in accordance with a quality system that is certified under the ISO 9001, ISO/TS 16949 and ISO 14001 standards at the Curitiba, Kempele, Kostomuksha, Keila and Haapsalu wiring harnesses factories. The Electronics business is certified under the ISO 9001 and ISO 14001 standards. The wiring harnesses factories in Finland, Estonia and Kostomuksha, Russia, have a joint Group-wide certificate that covers the aforementioned standards and these units operate on the basis of a uniform quality manual and processes.

The operations of the new subsidiaries in Pskov and Suzhou will also be brought under the Group's quality and environmental systems. The objective is to certify these units in accordance with the ISO/TS 16949 standard by the end of 2007. The Canadian and Mexican operations which were acquired in August are certified in accordance with the ISO/TS 16949 standard. The integration of these units' quality systems with those of the PKC Group and the building of an environmental system for North American units is underway.

The development of business processes was continued during 2006 in accordance with the Group's quality strategy and action plans based on it. The focus of development was on quality assurance methods, the working environment and the production process. Results and the effectiveness of measures have been gauged and analysed regularly using internal reviews and indicators.

Although environmental risks resulting from the PKC Group's operations are relatively minor, the development work in accordance with the environmental policy has continued by constantly minimising the environmental impacts of its operations. By improving manufacturing methods, co-operating with suppliers and complying with statutory regulations, the PKC Group has constantly striven to cut down the amount of waste generated and to reduce the usage of components containing harmful substances. A directive concerning this issue took force in July 2006. Careful preparation lasting almost two years and development work especially in the Electronics business ensured a smooth, stage-by-stage transition to manufacturing processes and products that comply with the new requirements.

Risk management

The risk management section in the company's Corporate Governance guidelines lays out in detail the principles, objectives and organisation of risk management as well as key risk areas. Major risks are divided into those connected with operations, finances, strategy, quality and the environment, personnel, occupational safety and corporate security as well as information security and information systems. The Corporate Governance guidelines are available on the company's website, www.pkcgroup.com, and the key sections of the guidelines are described in the company's Annual Report.

Management and auditors

PKC Group Oyj's Board of Directors was composed of the following members: Harri Suutari (Chairman), Juhani Koskinen (until 30 March 2006), Matti Eestilä (as from 30 March 2006), Jaakko Niemelä (as from 30 March 2006), Leo Ojala (until 30 March 2006), Endel Palla, Veikko Ravaska (until 30 March 2006), Matti Ruotsala (as from 30 March 2006), Risto Suonio and Jyrki Tähtinen.

Mika Kari served as the company's President and CEO.

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

Management changes

The PKC Group has streamlined the Group's management system by revising the Management Teams of the Group and the business segments and by adopting a matrix organisation as from 1 September 2006. The aim of these changes is to boost the efficiency of the utilisation of resources, the decision-making process, the implementation of strategy as well as the Group's internationalisation and the expansion of its customer base. In addition, these measures will strengthen the implementation of uniform ways of working in a Group with international operations.

Mika Rytky, who formerly held the position of Business Development Director of the Wiring Harnesses business, was appointed as Vice President, Wiring Harnesses, and Electronics Business Unit Director Jarmo Rajala was appointed as Vice President, Electronics.

The Corporate Management Team comprises President and CEO Mika Kari (Chairman), Vice President Mika Rytky, Vice President Jarmo Rajala and CFO Marko Karppinen.

Corresponding changes have also been made to the company's Corporate Governance guidelines.

Outlook for the future

The European commercial vehicle market is expected to continue its growth over last year. Other deliveries of wiring harnesses for vehicles are also predicted to increase, whereas deliveries of wiring harnesses to the telecommunications industry are estimated to remain at their previous level. As the trend of consolidation in the sector continues, the competitive situation is expected to become even tougher.

The competitive situation in the electronics contract manufacturing market is estimated to remain tight. The Electronics business segment's net sales are expected to continue to grow during the current year as well.

Consolidated comparable net sales are expected to grow over last year. The downtrend in selling prices entails gradual decrease of relative profitability even though the operative profitability is forecast to remain at a good level.

1,000 EUR	Notes	2006	2005
NET SALES	2, 4	**228,928**	**198,789**
Increase (+) / decrease (-) in stocks of			
finished goods and work in progress		-339	-1,253
Other operating income	5	1,136	1,172
Raw materials and services	6	122,549	100,719
Staff expenses	7	51,898	46,323
Depreciation	8	6,310	5,520
Other operating expenses	9	24,719	19,418
OPERATING PROFIT	2	**24,249**	**26,728**
Financial income and expenses	10	-1,498	530
PROFIT BEFORE TAXES		**22,751**	**27,258**
Income taxes	11,19	-7,044	-8,112
PROFIT FOR THE FINANCIAL YEAR		**15,708**	**19,146**
Attributable to:			
Shareholders of the parent company		15,552	18,813
Minority interest		155	333
Total		15,708	19,146
From profit attributable to shareholders of the parent company			
Basic earnings per share (EPS), EUR	12	0.88	1.07
Diluted earnings per share (EPS), EUR	12	0.87	1.06

1,000 EUR	Notes	31.12.2006	31.12.2005
ASSETS			
NON-CURRENT ASSETS			
Goodwill	13	5,723	2,386
Other intangible assets	13	3,330	1,305
Tangible assets	14	31,468	28,285
Available-for-sale investments	15	15	16
Deferred tax assets	18,19	2,486	1,595
Other receivables	18	625	100
Non-current assets total		**43,647**	**33,687**
CURRENT ASSETS			
Inventory	17	36,589	29,694
Receivables	18		
Trade receivables		55,557	43,692
Other non interest-bearing receivables		7,163	5,071
Receivables total		62,720	48,763
Cash and cash equivalents	20	8,060	4,889
Current assets total		**107,369**	**83,347**
ASSETS TOTAL		**151,016**	**117,034**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	21	5,983	5,952
Share premium account		4,862	4,452
Reserve fund		166	262
Translation differences		-403	0
Share-based payments	22	222	0
Retained earnings		45,516	34,965
Profit for the financial year		15,552	18,813
Minority interest		**646**	**593**
EQUITY TOTAL		**72,544**	**65,036**
LIABILITIES			
Non-current liabilities			
Interest-bearing liabilities	23,25,26	18,947	14,633
Non interest-bearing liabilities	23	112	220
Provisions	23,27	223	235
Deferred tax liabilities	19,23	658	400
Non-current liabilities total		19,941	15,487
Current liabilities			
Interest-bearing liabilities	24,25	26,068	10,807
Trade payables	24	18,394	12,801
Other non interest-bearing liabilities	24	14,068	12,901
Current liabilities total		58,531	36,510
Liabilities total		**78,472**	**51,997**
EQUITY AND LIABILITIES TOTAL		**151,016**	**117,034**

1,000 EUR	2006	2005
Cash flows from operating activities		
Cash receipts from customers	217,714	198,087
Cash receipts from other operating incomes	1,070	1,154
Cash paid to suppliers and employees	-199,711	-167,957
Cash flows from operations before financial income and expenses and taxes	**19,074**	**31,284**
Interest paid	-2,413	-578
Interst received and other financial income	2,086	627
Income taxes paid	-8,766	-7,813
Net cash from operating activities (A)	**9,980**	**23,520**
Cash flows from investing activities		
Purchase of tangible and intangible assets	-9,237	-11,306
Proceeds from sale of tangible and intangible assets	534	218
Investments	-9,985	0
Loans granted	-12	-25
Amortisation of loan received	14	28
Dividends received	1	1
Net cash used in investing activities (B)	**-18,685**	**-11,084**
Cash flows from financing activities		
Share issue	441	1,177
Drawing of credits	25,393	0
Amortisation of credits	-5,891	-10,287
Dividends paid	-8,068	-3,513
Net cash used in financing activities (C)	**11,876**	**-12,623**
Net increase (+) or decrease (-) in cash and equivalents (A+B+C)	**3,171**	**-187**
Cash and cash equivalents at beginning of period	**4,889**	**5,076**
Cash and cash equivalents at end of period	**8,060**	**4,889**
Change	**3,171**	**-187**

1,000 EUR	Share capital	Share premium account	Other reserves	Retained earnings	Equity attributable to shareholders of the parent	Minority interest	Equity total
Shareholders' equity 1.1.2005	**5,903**	**3,327**	**170**	**38,555**	**47,954**	**284**	**48,238**
Profit for the financial year	-	-	-	18,813	18,813	333	19,146
Dividends	-	-	-	-3,497	-3,497	-24	-3,521
Equity share options used	49	1,125	-	-	1,174	-	1,174
Transfer from unrestricted to restricted capital	-	-	92	-92	-	-	-
Shareholders' equity 31.12.2005	**5,952**	**4,452**	**262**	**53,778**	**64,444**	**593**	**65,036**
Shareholders' equity 1.1.2006	**5,952**	**4,452**	**262**	**53,778**	**64,444**	**593**	**65,036**
Profit for the financial year	-	-	-	15,552	15,552	155	15,708
Dividends	-	-	-	-7,971	-7,971	-97	-8,068
Equity share options used	31	410	-	-	441	-	441
Transfer from restricted to unrestricted capital	-	-	-96	96	-	-	0
Share-based payments	-	-	-	222	-	-	222
Translation difference	-	-	-	-790	-790	-5	-795
Shareholders' equity 31.12.2006	**5,983**	**4,862**	**166**	**60,887**	**71,898**	**646**	**72,544**

Dividend was paid 0.45 EUR per share according to annual general meeting's decision in 2006 and 0.20 EUR per share in 2005.

CORPORATE INFORMATION

The PKC Group offers design and contract manufacturing services for wiring harnesses, cabling and electronics to the commercial vehicles, telecommunications and electronics industry. The Group has production facilities in Finland, Estonia, Russia, Brazil, Mexico and China, and it employs about 4,800 people. The parent company of the Group, PKC Group Oyj, is listed on the Helsinki Stock Exchange and it is domiciled in Kempele. Visiting address: Vihikari 10, FIN-90440 Kempele, Finland.

1. ACCOUNTING PRINCIPLES FOR THE CONSOLIDATED ACCOUNTS

General

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared in compliance with IAS and IFRS standards as well as the SIC and IFRIC interpretations that came into force on 31 December 2006.

The consolidated financial statements have been prepared on a historical cost basis and are presented in euros, rounded to the nearest thousand except when otherwise indicated. Available-for-sale investments, cash and cash equivalents as well as financial assets recognised at fair value through profit and loss are presented at fair value.

Basis of consolidation

The consolidated financial statements include, in addition to the parent company, the companies in which the parent company holds, directly or indirectly, over 50 percent of voting rights or which it otherwise controls at the end of the financial period. Divested companies are included in the income statement until the time of sale or control ceases. Subsidiaries are fully consolidated from the date of acquisition, which is the date when the Group has obtained control. Holdings in associated companies are presented using the equity method. Joint ventures are presented using the Group's proportionate holding. The Group had neither holdings in associates nor joint ventures in the current or previous financial periods.

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

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

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

Foreign subsidiaries and foreign currency items

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

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

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

Translation differences arising from the non-current loans of subsidiaries that are equity items because of their actual nature are also recognised as translation differences in equity. When a subsidiary is sold, possible translation differences are recognised in the income statement as a part of the gain or loss on the sale.

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

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

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

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

Amortisation periods for intangible assets are:

Purchased software licences	4–5 years
Customer relationships	5 years.

Research and development costs
Research expenses are expensed as they are incurred. Development expenses are recognised as intangible assets when they fulfil the terms of development cost capitalisation according to IAS 38. Development expenses are expensed as they have been incurred in the current and previous period because of insufficient indication of future economic benefits in the development phase of projects.

Tangible assets
Tangible assets are initially measured at cost. Following initial recognition, tangible assets are carried at cost less any accumulated depreciations and any accumulated impairment losses. Subsequent expenses are added to the carrying amount of the assets when they add to the future economic benefits of the asset. Depreciation is calculated according to a predefined depreciation plan on the basis of estimated service durations. The depreciation method used is straight-line depreciation.

Depreciation periods for tangible assets are:

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

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

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

Operating lease payments are recognised as income or expenses in the income statement on a straight-line basis. The Group has not had finance leases in the current or previous period.

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

Impairments of assets

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

An impairment loss is recognised when the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. An impairment loss shall be recognised as a reduction in the carrying value in the balance sheet, which is expensed in the income statement. The impairment loss of a cash-generating unit is recognised firstly as a reduction in the carrying value of the goodwill allocated to the cash-generating unit and secondly proportionally as a reduction in the other assets of the cash-generating unit. Details about the impairment test are presented in note 16.

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

Inventories

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

Trade receivables

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

Financial assets, financial liabilities and derivatives

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

Financial assets are classified after initial recognition in four categories: financial assets at fair value through profit and loss, held-to-maturity investments, available-for-sale investments and to loans and receivables. Transaction costs are included in the initial carrying amount of the financial asset. Financial assets at fair value through profit and loss are measured at fair value through profit and loss. Held-to-maturity investments are carried at amortised cost.

Available-for-sale investments are measured at fair value with gains and losses being recognised in equity until the investment is derecognised, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Available-for-sale investments whose fair value cannot be determined reliably shall be measured at acquisition cost less any accumulated impairment. Unrealized gains and losses on available-for-sale investments are recognised in equity until the investments are sold, at which time the cumulative gains and losses are recognised in the income statement.

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

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

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

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

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

Cash and cash equivalents

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

Own shares

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

Interest-bearing loans

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

Pension arrangements

Pension arrangements are classified either as defined benefit pension plans or defined contribution pension plans according to IFRS. Pension systems in all of the Group companies are defined contribution plans.

In defined contribution plans, pension payments are paid to insurance companies and recognised immediately as an expense in the income statement, after which the Group has no further liabilities.

Share-based payments

The Group has applied IFRS 2 Share-Based Payments to the option scheme which was approved March 30th, 2006. Expenses of option schemes prior to this have not been presented in the income statement according to transitional provisions of the standard. Option rights are measured at fair value at the time they are granted and entered as an expense in the income statement in even instalments during the vesting period. The expense determined is based on the defined fair value of the stock options as well as on management's estimate of the amount of options to which the employee will be entitled at the end of the vesting period. The fair value of the options is determined on the basis of the Black-Scholes pricing model. The Group updates the assumptions concerning the final amount of stock options at each balance sheet date. Changes in the estimates are recorded in the income statement. When options are exercised, the cash payments received on the basis of share subscriptions that are adjusted for any transaction expenses, are entered in the share capital and in the share premium reserve.

Provisions

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

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

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

Net sales

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

Revenue recognition
Revenue is recognised when the significant risks and rewards of ownership, possession rights and true authority of goods and services have passed to the buyer. Mainly, revenue is recognised when products are supplied in accordance with the terms of the sales contract. The revenue of services are recognised at the date of completion.

Returns from long term projects are recognised by state of completeness when their outcome can be assessed reliably. If the outcome cannot be assessed reliably, its margin will not be recognised. The state of completeness of a project is determined by comparing the work input used for the project with the total work input required for it.

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

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

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

Borrowing costs
Borrowing costs are recognised as an expense when incurred.

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

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

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

The significant temporary differences in the Group arise from depreciation differences. Deferred tax assets and liabilities are presented in more detail in note 19.

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

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

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

Significant accounting assumptions and estimates
The preparation of financial statements according to IFRS has required management to make assumptions and estimates that have affected the values presented in the balance sheet and notes to the financial statements. The assumptions and estimates used are based on historical experience and the circumstances and outlooks prevailing at the balance sheet date.

The execution of the annual impairment test has required management to make assumptions and estimates to measure the value in use of cash-generating units. According to management's estimation, values in use exceed the carrying amounts of all cash-generating units to such a significant extent that allocated goodwill or other intangible and tangible assets hold no significant risk for impairment in the current period.

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

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

Application of new or revised IFRS standards
The Group will apply the following standards and IFRIC interpretations, published by the IASB in 2005, from 1st of January 2007:

- IFRS 7 Financial Instruments: Disclosures
  The Group estimates that the adoption of the revised standard will have no significant impact on its forthcoming financial statements.
- Adements to IAS 1 standard – Presentation of Financial Statements – Capital Disclosures
  The Group estimates that the adoption of the adements will have only impact on the notes of the forthcoming financial statements.
- IFRIC 8 – Scope of IFRS 2
  The Group estimates that the adoption of the revised standard will have no significant impact on its forthcoming financial statements.
- IFRIC 9 – Reassessment of Embedded Derivatives
  The Group estimates that the adoption of the revised standard will have no significant impact on its forthcoming financial statements.
- IFRIC 10 – Interim Financial Reporting and Impairment
  The Group estimates that the adoption of the revised standard will have no significant impact on its forthcoming financial statements.
- IFRIC 11 – IFRS 2 Group and Treasury Share Transactions
  The Group estimates that the adoption of the revised standard will have no significant impact on its forthcoming financial statements.
- IFRIC 12 – Service Concession Arrangements
  The Group estimates that the adoption of the revised standard will have no significant impact on its forthcoming financial statements.

The Group will apply the following standard, published by the IASB in 2005, from 1st of January 2009:

- IFRS 8 Operating segments
  The Group estimates that the adoption of the standard will have only impact on the notes of the forthcoming financial statements.

2. SEGMENT INFORMATION

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

BUSINESS SEGMENTS

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

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

GEOGRAPHICAL SEGMENTS

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

2. SEGMENT INFORMATION

BUSINESS SEGMENTS 1,000 EUR	Wiring Harnesses	Electronics	Eliminations	Group Total
2006				
Sales to external customers	182,006	46,922	0	228,928
Sales to other segments	155	1,112	-1,267	0
NET SALES	**182,161**	**48,034**	**-1,267**	**228,928**
Depreciation	5,320	990	0	6,310
OPERATING PROFIT	**17,899**	**6,350**	**0**	**24,249**
Goodwill	4,514	1,209	0	5,723
Other assets of segment	116,356	20,370	-3,281	133,445
Unallocated assets	0	0	0	11,847
ASSETS TOTAL	**120,870**	**21,579**	**-3,281**	**151,016**
Segment's liabilities	22,861	10,734	-3,603	29,992
Unallocated liabilities	0	0	0	48,480
LIABILITIES TOTAL	**22,861**	**10,734**	**-3,603**	**78,472**
Capital expenditures	6,501	2,781	0	9,282
2005				
Sales to external customers	159,127	39,662	0	198,789
Sales to other segments	147	986	-1,133	0
NET SALES	**159,274**	**40,648**	**-1,133**	**198,789**
Depreciation	4,747	773	0	5,520
OPERATING PROFIT	**23,126**	**3,602**	**0**	**26,728**
Goodwill	1,177	1,209	0	2,386
Other assets of segment	90,532	18,119	-754	107,897
Unallocated assets	0	0	0	6,750
ASSETS TOTAL	**91,709**	**19,328**	**-754**	**117,034**
Segment's liabilities	17,988	8,348	-2,350	23,986
Unallocated liabilities	0	0	0	27,777
LIABILITIES TOTAL	**17,988**	**8,348**	**-2,350**	**51,763**
Capital expenditures	10,977	432	0	11,410

1,000 EUR	2006	2005
GEOGRAPHICAL SEGMENTS		
NET SALES		
by market areas		
Finland	47,824	45,034
Other Europe	128,484	114,533
North America	16,534	4,819
South America	29,149	29,762
Other countries	6,937	4,642
Total	**228,928**	**198,789**
ASSETS		
by location of assets		
Finland	86,464	78,138
Estonia	7,072	5,851
Russia	26,707	20,324
Brazil	14,448	12,301
Mexico	9,646	0
Other countries	6,679	419
Total	**151,016**	**117,034**
CAPITAL EXPENDITURES		
by location of assets		
Finland	3,259	1,722
Estonia	611	884
Russia	2,325	6,978
Brazil	1,019	1,622
Mexico	1,593	0
Other countries	475	204
Total	**9,282**	**11,410**

3. BUSINESS COMBINATIONS

On 1 August 2006, the PKC Group purchased the business of Electro Canada Limited and all the shares of Electro Canada SA de CV and Electro USA Inc. The Electro Canada companies manufacture wiring harnesses for vehicles and electrotechnical equipment. The acquisition included a head office in Toronto, Canada, a wiring harnesses factory in Nogales, Mexico, and a sales office in Nogales, USA. The purchase cost was EUR 10.7 million and it was paid in cash. Purchase cost included fees of lawyers and financial experts that totalled EUR 734 thousand. The acquisition has been included in the PKC Group's consolidated financial statements as from 1 August 2006 using the purchase method of accounting. The acquisition did not include interest-bearing liabilities. As from the date of acquisition, the Electro Canada companies' effect on operating profit has been EUR 1.5 million negative. If the business had been integrated at the start of the year, the PKC Group's net sales would have amounted to EUR 246 million and the operating profit EUR 24.4 million. The EUR 3.3 million goodwill booked from the integration of the businesses includes synergy and other benefits. The latter include additional sales generated for the Group, and materials procurement benefits expected to be gained from the integration of funds and functions.

From the acquisition, the following assets and liabilities where recorded according to provisional acquisition cost calculation.

1,000 EUR	**Fair values booked at the date of the combination of the businesses**	**Carrying amounts prior to the acquisition**
Intangible rights, customer relationships	1,125	0
Tangible assets	1,655	1,655
Inventory	3,546	3,546
Deferred tax assets	333	0
Trade receivables and other non interest-bearing receivables	3,544	3,544
Total	10,203	8,745
Other liabilities	2,456	2,456
Deferred tax liability	333	0
Total	2,789	2,456
Net assets	7,414	6,289
Goodwill	3,316	
Total acquisition cost	10,730	

The above mentioned acquisition cost and the fair values of net assets at the date of acquisition are provisional and may change in the final acquisition cost calculation.

4. LONG TERM PROJECTS

Consolidated net sales in 2006 included EUR 149,000 in returns booked from long term projects (EUR 0 in 2005). The consolidated income statement included EUR 39,000 in returns booked from uncompleted long term projects at 31 December 2006 (EUR 0 at 31 December 2005). No advance payments have been booked from uncompleted long term projects during the report period or the previous period.

1,000 EUR	2006	2005
5. OTHER OPERATING INCOME		
Other income	1,136	1,172
Total	**1,136**	**1,172**
6. MATERIALS AND SERVICES		
Raw materials and consumables		
Purchases during the finacial period	124,450	100,660
Increase (+) or decrease (-) in stocks	-3,010	-1,430
Outsourced services	1,108	1,489
Total	**122,549**	**100,719**

1,000 EUR	2006	2005
7. STAFF EXPENSES		
Wages and salaries	40,501	37,097
Defined pension contribution plans	4,743	4,311
Other social expenses	6,433	4,915
Share-based payments	222	0
Total	**51,898**	**46,323**
Salaries and fees to Board and management		
Salaries and fees to Board members		
Eestilä Matti, member from 30.3.2006	15	0
Tom Hakalax, member until 30.3.2006	0	5
Koskinen Juhani, member until 30.3.2006	5	17
Niemelä Jaakko, member from 30,.3.2006	15	0
Ojala Leo, member until 30.3.2006	5	17
Palla Endel	20	17
Ravaska Veikko, member until 30.3.2006	5	20
Ruotsala Matti, member from 30.3.2006	15	0
Suonio Risto	20	17
Suutari Harri	39	20
Tähtinen Jyrki	29	24
Total	166	134
Salaries and fees to Presidents (*		
Kari Mika	190	163
Suutari Harri	0	113
Share-based payments to Presidents (*		
Kari Mika	37	0
Total	227	275
Salaries and fees to other members of corporate management team	390	884
Share-based payments to other members of corporate management team	49	0
Total	**783**	**1,293**

*) Mika Kari was appointed PKC Group Oyj's president and CEO as from 1.9.2005. At the same time Harri Suutari has been appointed Chairman of the Board.

Salaries, remuneration and other benefits
In 2006 the AGM resolved to pay Board members EUR 20,000 per term, Vice-Chairman EUR 30,000 per term and Chairman EUR 40,000 per term as well as travel and accommodations expenses. In 2005 it was decided to pay the Chairman EUR 36,000 per term, Vice Chairman EUR 27,000 per term and other members EUR 18,000 per term.

In 2006 the Presidents' (Harri Suutari and Mika Kari) salaries and other benefits totalled EUR 189,989, of which bonuses EUR 41,600 (21.9% of the total salary). Mika Kari´s service contract has provision for 3 months notice period from the President´s part and 6 months from company´s part and also, when the company ends the contract, for a monetary compensation corresponding to 15 months total salary, including salary for the period of notice as well as, in conjunction with the adoption of financial statements, prorated part of the bonus corresponding to the period of working in full months during the financial year in question. The retirement age is statutory and no voluntary insurance policies have been taken. At the end of financial year 2006 the President had 30,000 option holdings.

In year 2006 the corporate management teams', excluding the presidents, salaries and other benefits totalled EUR 389,915 of which bonuses EUR 59,695 (15.3% of the total salaries). Meeting fees are not paid to the Corporate Management Team. The members of corporate management team have employment contracts valid for indefinite period, with 3 months notice period from the members' part and 6 months from company´s part and without separate severance payment or other compensation. The retirement age is statutory and no voluntary insurance policies have been taken. The members of the Corporate Management Team are included in the year 2006 Stock Option Scheme. At the end of the financial year 2006 the other members of Corporate Management Team had 40,000 option holdings.

1,000 EUR	2006	2005
Average number of personnel		
Clerical employees	898	650
Employees	3,115	2,856
Total	**4,013**	**3,506**

8. DEPRECIATION

Intangible assets		
Purchased software licenses	499	377
Customer relationships	94	0
Tangible assets		
Buildings and constructions	755	441
Machinery and equipment	4,816	4,619
Other tangible assets	146	83
Total	**6,310**	**5,520**

9. OTHER OPERATING EXPENSES

Other operating expenses	24,719	19,418
Total	**24,719**	**19,418**

10. FINANCIAL INCOME AND EXPENSES

Financial income		
Profit on exchange	993	2,792
Dividend yields	1	1
Other interest and financial income	94	91
Change in fair value of assets recognised at fair value through profit and loss	0	101
Total	**1,088**	**2,986**
Financial expenses		
Exchange loss	-1,275	-1,500
Other interest and financial espenses	-1,210	-956
Change in fair value of assets recognised at fair value through profit and loss	-101	0
Total	**-2,586**	**-2,456**
Financial income and expenses total includes net exchange rate differences	**-275**	**1,291**
Financial income and expenses total	**-1,498**	**530**

1,000 EUR	2006	2005
11. INCOME TAXES		
Income taxes from actual operations	7,568	9,545
Income taxes from previous years	1	-70
Other taxes	82	28
Change in deferred tax assets and liabilities	-607	-1,391
Total	**7,044**	**8,112**
Definition of tax expense		
Income taxes according to Finland's tax rate	5,911	7,087
Effects of different tax rates in foreign subsidiaries	321	691
Tax-free income and non-deductible costs	456	-187
Other items	355	521
Total	**7,044**	**8,112**

1,000 EUR	2006	2005
12. EARNINGS PER SHARE		
Basic		
Profit for the financial year	15,552	18,813
Average share issue-adjusted number of shares, 1,000 shares	17,757	17,607
Basic earnings per share (EPS), EUR	**0.88**	**1.07**
Diluted		
Profit for the financial year	15,552	18,813
Average share issue-adjusted number of shares, 1,000 shares	17,757	17,607
Diluting effects of options outstanding, 1,000 shares	18	58
Diluted average share issue-adjusted number of shares, 1,000 shares	17,774	17,665
Diluted earnings per share (EPS), EUR	**0.87**	**1.06**

1,000 EUR

13. INTANGIBLE ASSETS	Purchased sofware licenses	Goodwill	Customer relationships	Advance payments	Total
Acquisition cost 1.1.2006	**2,106**	**6,791**	**0**	**236**	**9,133**
+ Increases	1,334	3,337	1,125	159	5,956
Acquisition cost 31.12.2006	**3,441**	**10,128**	**1,125**	**395**	**15,089**
Accumulated depreciation and impairments 1.1.2006	-1,037	-4,404	0	0	-5,441
- Accumulated depreciation of decreases and transfers	-1	0	0	0	-1
- Depreciation	-499	0	-94	0	-593
Accumulated depreciation 31.12.2006	**-1,538**	**-4,404**	**-94**	**0**	**-6,036**
Book value 31.12.2006	**1,903**	**5,723**	**1,032**	**395**	**9,053**
Book value 31.12.2005	**1,069**	**2,386**	**0**	**236**	**3,691**

14. TANGIBLE ASSETS	Land areas	Buildings and cons-tructions	Machinery and equipments	Other tangible assets	Advance payments and acquistions in progress	Total
Acquisition cost 1.1.2006	**119**	**14,078**	**37,102**	**1,402**	**0**	**52,701**
+ Increases	0	37	8,179	105	740	9,062
- Decreases	0	0	-1,286	0	0	-1,286
Other changes	0	151	89	0	0	240
Acquisition cost 31.12.2006	**119**	**14,267**	**44,083**	**1,507**	**740**	**60,717**
Accumulated depreciation and impairments 1.1.2006	0	-1,496	-22,099	-806	0	-24,401
- Accumulated depreciation of decreases and transfers	0	-3	832	41	0	870
- Depreciation	0	-755	-4,816	-146	0	-5,717
Accumulated depreciation 31.12.2006	**0**	**-2,254**	**-26,082**	**-912**	**0**	**-29,249**
Book value 31.12.2006	**119**	**12,013**	**18,001**	**595**	**740**	**31,468**
Book value 31.12.2005	**119**	**12,582**	**15,003**	**581**	**0**	**28,285**

15. AVAILABLE-FOR-SALE INVESTMENTS	Other Shares and similar rights of ownership
Acquistition cost 1.1.2006	**16**
- Decreases	-1
Acquisition cost 31.12.2006	**15**
Book value 31.12.2006	**15**
Book value 31.12.2005	**16**

16. PROCEDURES AND RESULTS OF IMPAIRMENT TESTING

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

The Group has allocated goodwill to cash-generating units that comprise one or more business units. The impairment of a cash-generating unit (CGU) is tested for impairment by comparing its recoverable amount to its carrying amount. The recoverable amounts of all of the cash-generating units are determined by their values in use, which are based on the present value of their future cash flows. The estimates of the cash flows are based on continuing use of assets and on 3-year financial forecasts by business management, which are also used to extrapolate the fourth and fifth year. Net sales estimates used in the forecasts are based on customer-specific estimates, future outlooks and knowledge from previous experience. Gross margins used in the forecasts are based on historical actual results and cautious assumptions about changes occurring in the future. The used terminal value's growth rate is 2% per annum.

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

The range of used discount rates varied between 8.67 to 12.92% depending on the CGU.

The results of the impairment testing indicated that the recoverable amount of all CGUs' exceeded their corresponding carrying values. The Group shall not recognise impairment loss for the current period accordingly to the results of the impairment test. According to a sensitivity analysis, possible changes to any crucial variables, reasonably estimated, will not lead to a situation in which the recoverable amounts of cash-generating units are less than the units' carrying amounts.

1,000 EUR	**2006**	**2005**
17. INVENTORIES		
Raw materials and supplies	25 192	19 074
Work in progress	4 146	5 300
Finished goods	7 113	5 208
Advance payments	137	112
Total	**36 589**	**29 694**
18. RECEIVABLES		
Non-current receivables		
Non-current interest-bearing receivables		
Loan receivables	100	100
Non-current interest-bearing receivables total	100	100
Non-current non interest-bearing receivables		
Other receivables	525	0
Deferred tax assets	2,486	1,595
Non-current non interest-bearing receivables total	3,011	1,595
Total	**3,111**	**1,695**
Current receivables		
Current interest-bearing receivables		
Loan receivables	1	3
Current interest-bearing receivables total	1	3
Current non interest-bearing receivables		
Trade receivables	55,557	43,692
Financial assets at fair value through profit and loss	0	101
Other receivables	4,560	3,246
Prepayments and accrued income	2,602	1,720
Current non interest-bearing receivables total	62,718	48,760
Total	**62,720**	**48,763**
Receivables total	**65,830**	**50,458**

1,000 EUR

19. DEFERRED TAX ASSETS AND LIABILITIES

	1.1.2006	Recognised in income statement	31.12.2006
Deferred tax assets			
Accumulated depreciation differences	841	-13	828
Unused tax-deductible losses from previous periods	403	678	1,080
Depreciation differences of goodwill recognised in business combination	0	0	307
Provisions	265	-11	254
Other items	87	-70	17
Total	**1,595**	**584**	**2,486**
Deferred tax liabilities			
Allocation of production fixed expenses	281	-141	141
Undistributed unrestricted capital	0	49	49
Accumulated depreciation differences	65	64	130
Depreciation differences of intangible assets recognised in business combination	0	0	307
Other items	53	-21	32
Total	**400**	**-48**	**658**

	1.1.2006	Recognised in income statement	Recognised in equity	31.12.2006
Deferred tax assets				
Accumulated depreciation differences	537	304	0	841
Unused tax-deductible losses from previous periods	148	254	0	403
Provisions	34	231	0	265
Other items	32	50	5	87
Total	**751**	**839**	**5**	**1,595**

	1.1.2005	Recognised in income statement	31.12.2005
Deferred tax liabilities			
Allocation of production fixed expenses	422	-141	281
Undistributed unrestricted capital	244	-244	0
Accumulated depreciation differences	211	-146	65
Finance leases	75	-75	0
Other items	0	53	53
Total	**952**	**-552**	**400**

1,000 EUR	**2006**	**2005**
20. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	8,060	4,889
Total	**8,060**	**4,889**

21. SHARE CAPITAL	**Number of shares (1,000 pcs)**	**Share Capital**	**Share premium account**	**Reserve fund**
1.1.2005	17 544	5 903	3 327	170
Equity share options used	145	49	1 125	92
31.12.2005	**17 689**	**5 952**	**4 452**	**262**
1.1.2006	17 689	5 952	4 452	262
Transfer from unrestricted to restricted capital	0	0	0	-96
Equity share options used	92	31	410	0
31.12.2006	**17 782**	**5 983**	**4 862**	**166**

22. SHARE BASED PAYMENTS

The Board of Directors of PKC Group Oyj has on 20 April 2006, in accordance with the Annual General Meeting's stock option decision on 30 March 2006, distributed the stock options directed to the key personnel of the Group and to Carhatec Oy, a wholly-owned subsidiary of the company. Total of 180,000 stock options 2006A, were distributed to the key personnel of PKC Group Oyj. The rest of the stock options 2006A as well as stock options 2006B and 2006C were granted to Carhatec Oy, to be further distributed to the present and future key personnel of the Group. A share ownership plan, in which the key personnel is obliged to subscribe for company's shares with 20% of the gross income earned from stock options and own these shares for two years, is incorporated to the stock options 2006. The Company's President and CEO must own these shares as long as his service in the Group continues.

Stock option plan	**Share-based options, granted to key personnel of the Group**
Nature of arrangement	Granted share-options
Grant date	20.04.2006
Number of instruments granted, 1,000 pcs	180
Exercise price, EUR	11.54
Share price at the grant date, EUR	12.25
Contractual life for the share options, years	5.1
Vesting conditions	
Settle method	Shares
Expected volatility, %	39
Expected contractual life of the option, years	5.1
Risk-free interest rate, %	3.66
Dividend yield, %	0
Expected personnel reductions (at grant date)	0
Expected realisation of result-based vesting condition (at grant date)	-
Fair value of the instrument (at grant date), EUR	5.19
Option pricing model	Black-Scholes

		2006		**2005**
	Weighted average exercise price per share, EUR	**Number of options (1,000 pcs)**	**Weighted average exercise price per share, EUR**	**Number of options (1,000 pcs)**
Outstanding at 1 January	6.93	68	7.13	237
Granted during the year	11.54	180	0	0
Forfeited during the year	0	0	0	0
Exercised during the year	6.48	68	6.93	169
Expired during the year	0	0	0	0
Outstanding at 31 December	11.54	180	6.93	68
Exercisable at 31 December	11.54	180	6.93	68

1,000 EUR	2006	2005
23. NON-CURRENT LIABILITIES		
Non-current interest-bearing liabilities		
Loans from financial institutions	18,786	14,462
Pension loans	162	172
Non-current interest-bearing liabilities total	18,947	14,633
Non-current non interest-bearing liabilities		
Deferred tax liabilities	658	400
Trade payables	112	220
Provisions	223	235
Non-current non interest-bearing liabilities total	993	854
Total	**19,941**	**15,487**

1,000 EUR	2006	2005
24. CURRENT LIABILITIES		
Current interest-bearing liabilities		
Loans from financial institutions	26,057	10,794
Pension loans	11	14
Current interest-bearing liabilities total	26,068	10,807
Current non interest-bearing liabilities		
Advances received	8	5
Trade payables	18,394	12,801
Other liabilities	4,360	2,722
Accruals and deferred income	9,700	10,174
Current interest-bearing liabilities total	32,463	25,702
Total	**58,531**	**36,510**
Accruals and deferred income		
Staff expenses	6,658	7,436
Financial items	366	130
Taxes	1,691	1,929
Others	985	679
Total	**9,700**	**10,174**

1,000 EUR	2006	2005
25. FAIR VALUES OF INTEREST-BEARING LIABILITIES		
Non-current interest-bearing liabilities		
Loans from financial institutions	16,593	13,995
Pension loans	87	174
Non-current interest-bearing liabilities total	16,680	14,169
Current interest-bearing liabilities		
Loans from financial institutions	27,836	11,416
Pension loans	21	20
Current interest-bearing liabilities total	27,857	11,436
Total	**44,536**	**25,605**

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

	Loans from financial institutions	**Pension loans**	**Total**
2008	5,286	11	5,297
2009	5,286	12	5,298
2010	2,786	13	2,799
2011	2,000	14	2,014
2012–	3,429	111	3,540
Total	**18,786**	**162**	**18,947**

27. PROVISIONS

Provision for pension expenses	
1.1.2005	0
Increases in provisions	235
1.1.2006	235
Decreases in provisions	-11
Provisions 31.12.2005	**223**

Provisions for pensions is recognised from the Group's liability part of the unemployment pensions between 2007–2009 of the persons dismissed by co-determination negotiations.

28. DERIVATES

1,000 EUR	2006	2005
Nominal values		
Currency derivates		
Forward agreements	5,917	5,742
Option agreements		
• Call	0	0
• Put	0	0
Total	**5,917**	**5,742**
Fair values		
Currency derivates		
Forward agreements	-38	101
Option agreements		
• Call	0	0
• Put	0	0
Total	**-38**	**101**

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

29. OPERATING LEASES

1,000 EUR	2006	2005
Group as a lessee		
0–1 years	1,140	1,639
1–5 years	4,164	2,813
later than 5 years	1,607	2,238
Total	**6,911**	**6,690**

30. RELATED PARTY DISCLOSURES

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

31. FINANCIAL RISK MANAGEMENT

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

Currency risk

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

Interest risk

Interest risk is involved mainly in interest-bearing liabilities in the balance sheet. The financing function monitors the interest risk of the loan portfolio and, when necessary, changes the interest rate maturity by means of forward rate agreements, options and interest rate swaps. At the end of 2006, 3% of the loan portfolio of the Group consisted of fixed interest loans. The counterpart risk involved in loans is minimised by making loan agreements with at least three accepted parties.

Credit risk

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

Liquidity risk

Liquidity risk means the risk of obtaining financing at any given time. The parent company's financing function is responsible for the Group's liquidity and adequacy of financing. Sufficient liquidity is maintained by means of efficient cash management. At the balance sheet date, the Group had a total of EUR 25 million credit, of which EUR 6 million was unused. The majority of the parent company's interest-bearing loans included agreement terms stating that the Group's audited equity ratio must remain above 30% or 35%, depending on the contract.

1,000 EUR	Notes	2006	2005
NET SALES	1	**142,588**	**129,683**
Increase (+) / decrease (-) in stocks of finished goods and work in progress		-184	-1,722
Other operating income	2	1,818	1,835
Raw materials and services	3	99,414	79,397
Staff expenses	4	18,808	21,740
Depreciation and value adjustments	5	1,199	1,707
Other operating expenses	6	9,430	8,175
OPERATING PROFIT		**15,370**	**18,776**
Financial income and expenses	7	1,358	536
PROFIT BEFORE EXTRAORDINARY ITEMS		**16,728**	**19,312**
Extraordinary items total	8	1,250	3,540
PROFIT BEFORE TAXES		**17,978**	**22,852**
Appropriations	9	347	-693
Income taxes	10	-4,196	-5,795
PROFIT FOR THE FINANCIAL YEAR		**14,129**	**16,364**

1,000 EUR	Notes	31.12.2006	31.12.2005
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	11	1,955	1,145
Tangible assets	12	2,398	2,695
Available-for-sale investments	13		
Deferred tax assets		20,686	18,458
Other receivables		235	235
Non-current assets total		**25,274**	**22,534**
CURRENT ASSETS			
Inventory	14	17,992	16,355
Non-current receivables	15		
Other receivables		35,600	20,629
Current receivables	15		
Trade receivables		42,085	35,256
Other receivables		6,650	3,270
Cash and cash equivalents		437	2,037
Current assets total		**102,764**	**77,547**
Assets total		**128,038**	**100,080**
LIABILITIES			
SHAREHOLDERS' EQUITY	16,17		
Share capital		5,983	5,952
Share premium account		4,862	4,452
Reserve fund		166	166
Retained earnings		37,331	28,939
Profit for the financial year		14,129	16,364
Shareholders' equity total		**62,471**	**55,872**
APPROPRIATIONS	18	**347**	**693**
PROVISIONS	19	**171**	**183**
CREDITORS			
Non-current liabilities	20		
Other liabilities		19,687	15,427
Current liabilities	20		
Trade payables		12,910	9,961
Other liabilities		32,452	17,945
Creditors total		**65,049**	**43,332**
Liabilities total		**128,038**	**100,080**

1,000 EUR	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	135,769	129,030
Cash receipts from other operating incomes	3,443	543
Cash paid to suppliers and employees	-130,643	-106,440
Cash flows from operations before financial income and expenses and taxes	**8,569**	**23,133**
Interest paid	-1,090	-413
Interst received and other financial income	805	958
Income taxes paid	-6,116	-4,215
Cash flows from operations before extraordinary items	**2,168**	**19,463**
Net cash from operating activities (A)	**2,168**	**19,463**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of tangible and intangible assets	-1,836	-1,397
Proceeds from sale of tangible and intangible assets	396	1,480
Loans granted	-18,342	-8,865
Amortisation of loan received	3,052	3,165
Acquisition of subsidiaries	-2,228	-2,587
Dividends received	2,175	497
Net cash used in investing activities (B)	**-16,782**	**-7,708**
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issue	441	1,174
Drawing of creditors	26,435	0
Amortisation of creditors	-5,891	-10,287
Dividends paid	-7,971	-3,509
Group contributions received	0	2,500
Net cash used in financing activities (C)	**13,015**	**-10,122**
Net increase (+) or decrease (-) in cash and equivalents (A+B+C)	**-1,599**	**1,633**
Cash and cash equivalents at beginning of period	**2,037**	**404**
Cash and cash equivalents at end of period	**437**	**2,037**
Change	**-1,599**	**1,633**

Foreign currency items

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

Non-current assets

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

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

Inventories

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

Net sales

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

Research and development costs

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

Rent for leased assets

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

Pension costs

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

Direct taxes

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

1,000 EUR	Parent company 2006	Parent company 2005
1. NET SALES BY BUSINESS SEGMENTS AND MARKET AREAS		
Net sales by business segments		
Wiring harnesses	142,588	129,683
Total	**142,588**	**129,683**
Net sales by market areas		
Finland	12,598	14,872
Other Europe	122,540	109,929
North America	4,428	2,359
South America	103	148
Others	2,919	2,375
Total	**142,588**	**129,683**
2. OTHER OPERATING INCOME		
Income from sales of non-current assets	130	6
Grants	96	0
Other income	1,592	1,829
Total	**1,818**	**1,835**
3. MATERIALS AND SERVICES		
Raw materials and consumables		
Purchases during the financial period	76,736	62,233
Increase (+) or decrease (-) in stocks	-1,812	-213
Outsourced services	24,490	17,378
Total	**99,414**	**79,397**

1,000 EUR	Parent company 2006	Parent company 2005
4. STAFF EXPENSES		
Wages and salaries	15,304	17,614
Defined pension contribution plans	2,562	2,676
Other social expenses	941	1,450
Total	**18,808**	**21,740**
Salaries and fees to Board and management		
Salaries and fees to Board members		
Eestilä Matti, member from 30.3.2006	15	0
Hakalax Tom, membership ended 30.3.2005	0	5
Koskinen Juhani, member until 30.3.2006	5	17
Niemelä Jaakko, member from 30.3.2006	15	0
Ojala Leo, member until 30.3.2006	5	17
Palla Endel	20	17
Ravaska Veikko, member until 30.3.2006	5	20
Ruotsala Matti, member from 30.3.2006	15	0
Suonio Risto	20	17
Suutari Harri	39	20
Tähtinen Jyrki	29	24
Total	166	134
Salaries and fees to Presidents (*		
Kari Mika	190	163
Suutari Harri	0	113
Total	190	275
Salaries and fees to other members of corporate management team	390	884
Salaries and fees to management total	**746**	**1,293**

*) Mika Kari was appointed PKC Group Oyj's president and CEO as from 1.9.2005. At the same time Harri Suutari has been appointed Chairman of the Board.

Average number of personnel		
Clerical employees	175	176
Employees	278	392
Total	**453**	**568**

1,000 EUR	2006	2005
5. DEPRECIATION AND VALUE ADJUSTMENTS		
Depreciation according to plan	1,199	1,707
Total	**1,199**	**1,707**

1,000 EUR	2006	2005
6. OTHER OPERATING EXPENSES		
Other operating expenses	9,430	10,516
Reversal from write-down of sales receivable (*	0	-2,340
Total	**9,430**	**8,175**

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

1,000 EUR	2006	2005
7. FINANCIAL INCOME AND EXPENSES		
Dividend yields		
From Group companies	2,174	496
Total	**2,174**	**496**
Income from other investments held as fixed assets		
From others	1	1
Total	**1**	**1**
Other interest and financial income		
From Group companies	1,068	614
From others	237	477
Total	**1,305**	**1,091**
Interest and other financial expenses		
From others	-2,122	-1,052
Total	**-2,122**	**-1,052**
Financial income and expenses total	**1,358**	**536**
Financial income and expenses total includes net exchange rate differences	**-787**	**278**

1,000 EUR	2006	2005
8. EXTRAORDINARY ITEMS		
Extraordinary income		
From Group companies/ Group contributions received	1,250	2,500
Capitalisation of fixed costs within inventories	0	1,040
Total	**1,250**	**3,540**

1,000 EUR	2006	2005
9. CHANGE IN APPROPRIATIONS		
Accrued tax from capitalisation of fixed costs within inventories	0	-693
Total	**0**	**-693**

1,000 EUR	2006	2005
10. INCOME TAXES		
Income taxes from actual operations	-4,195	-5,873
Change in deferred tax assets and liabilities	-1	79
Total	**-4,196**	**-5,795**

1,000 EUR

11. INTANGIBLE ASSETS	Intangible rights	Other long-term expenditures	Advance payments	Total
Acquisition cost 1.1.2006	**1,718**	**1,433**	**236**	**3,387**
+ Increases	1,023	23	159	1,206
- Decreases	0	-1,334	0	-1,334
Acquisition cost 31.12.2006	**2,742**	**122**	**395**	**3,258**
Accumulated depreciation and impairments 1.1.2006	-894	-1,348	0	-2,242
- Accumulated depreciation of decreases	0	1,334	0	1,334
- Depreciation	-372	-23	0	-395
Accumulated depreciation 31.12.2006	**-1,267**	**-37**	**0**	**-1,304**
Book value 31.12.2006	**1,475**	**85**	**395**	**1,955**
Book value 31.12.2005	**824**	**84**	**236**	**1,145**

12. TANGIBLE ASSETS	Buildings and constructions	Mchinery and equipments	Other tangible assets	Advance payments and acquisitions in progress	Total
Acquisition cost 1.1.2006	**1,552**	**10,099**	**209**	**0**	**11,861**
+ Increases	0	426	0	305	731
- Decreases	0	-698	0	0	-698
Acquisition cost 31.12.2006	**1,552**	**9,827**	**209**	**305**	**11,894**
Accumulated depreciation and impairments 1.1.2006	-742	-8,253	-170	0	-9,165
- Accumulated depreciation of decreases and transfers	0	473	0	0	473
- Depreciation	-82	-702	-19	0	-804
Accumulated depreciation 31.12.2006	**-824**	**-8,482**	**-190**	**0**	**-9,496**
Book value 31.12.2006	**728**	**1,345**	**20**	**305**	**2,398**
Book value 31.12.2005	**810**	**1,846**	**39**	**0**	**2,695**

13. INVESTMENTS	Holdings in Group companies	Others shares and similar rights of ownership	Other receivables	Total
Acquisition cost 1.1.2006	**18,458**	**188**	**48**	**18,694**
+ Increases	2,228	0	0	2,228
Acquisition cost 31.12.2006	**20,686**	**188**	**48**	**20,921**
Book value 31.12.2006	**20,686**	**188**	**48**	**20,921**
Book value 31.12.2005	**18,458**	**188**	**48**	**18,694**

SHARES AND SIMILAR RIGHTS OF OWNERSHIP

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

1,000 EUR	2006	2005
14. INVENTORIES		
Raw materials and supplies	12,677	10,865
Work in progress	1,480	1,979
Finished goods	3,823	3,508
Advance payments	12	4
Total	**17,992**	**16,355**
15. RECEIVABLES		
Non-current other receivables		
Receivables from Group companies		
Non-current interest-bearing receivables	35,500	20,529
Total	**35,500**	**20,529**
From others		
Loan receivables	100	100
Total	**100**	**100**
Non-current receivables total	**35,600**	**20,629**

1,000 EUR	2006	2005
Current receivables		
Current trade receivables		
From Group companies	2,871	2,219
From others	39,214	33,038
Total	**42,085**	**35,256**
Other current receivables		
Other receivables from Group companies		
Loan receivables	1,507	1,507
Prepayments and accrued income	1,920	68
Total	**3,426**	**1,574**
From others		
Loan receivables	1	3
Other receivables	1,781	1,225
Prepayments and accrued income	1,442	467
Total	**3,224**	**1,695**
Current receivables total	**48,735**	**38,526**
Prepayments and accrued income		
From Group companies		
Financial items	561	55
Others	1,359	13
Total	**1,920**	**68**
From others		
Staff expenses	94	106
Financial items	6	12
Taxes	606	0
Others	736	348
Total	**1,442**	**467**
16. SHARE CAPITAL		
Share capital 1.1.	5,952	5,903
Increase in share capital	31	49
Share capital 31.12.	**5,983**	**5,952**
Unregistered share capital	0	9
Share premium account 1.1.	4,452	3,327
Change	410	1,125
Profit for the financial year	**4,862**	**4,452**
Reserve fund 1.1.	166	166
Reserve fund 31.12.	**166**	**166**
Retained earnings 1.1.	45,302	32,447
Dividend distribution	-7,971	-3,509
Retained earnings 31.12.	**37,331**	**28,939**
Profit for the financial year	**14,129**	**16,364**
Total shareholders' equity	**62,471**	**55.872**

1,000 EUR	2006	2005
17. CALCULATION OF DISTRIBUTABLE FUNDS		
Retained earnings	37,331	28,939
Profit for the financial year	14,129	16,364
Distributable funds 31.12.	**51,460**	**45,302**
18. APPROPRIATIONS		
Untaxed reserves	347	693
Total	**347**	**693**

Untaxed reserves are subject to a deferred tax liability of EUR 90,220.

1,000 EUR	2006	2005
19. PROVISIONS		
Provisions for pensions	171	183
Total	**171**	**183**

Provision for pensions are subject to a deferred tax assets of EUR 44,460.

1,000 EUR	2006	2005
20. CREDITORS		
Non-current liabilities		
Non-current other liabilities		
Amounts owed to Group companies	740	793
Total	**740**	**793**
Debts to others		
Loans from financial institutions	18,786	14,462
Pension loans	162	172
Total	**18,947**	**14,633**
Non-current liabilities total	**19,687**	**15,427**
Current liabilities		
Accounts payable		
amounts owed to Group companies	2,393	1,565
To others	10,518	8,395
Total	**12 910**	**9,961**
Current other liabilities		
Amounts owed to Group companies		
Accruals and deferred income	11	2
Total	**11**	**2**
Debts to others		
Loans from financial institutions	27,548	10,794
Pension loans	11	14
Accruals and deferred income	4,188	6,294
Other liabilities	693	841
Total	**32,441**	**17,942**
Current receivables total	**45,362**	**27,905**

1,000 EUR	2006	2005
Accruals and deferred income		
Amounts owed to Group companies		
Financial items	7	1
Others	4	1
Total	**11**	**2**
To others		
Staff expenses	3,666	4,743
Financial items	366	130
Taxes	3	831
Others	153	591
Total	**4,188**	**6,294**
Loans falling due later than five years from now		
Loans from financial institutions	3,429	286
Pension loans	120	128
Total	**3,549**	**414**

Bond loan with option warrants

The subscription period for shares to be subscribed for under the bond loan with option warrants issued to key personnel in 2000 ended on 30 April 2006. The stock option scheme comprised a total of 111,000 option rights.

All the stock options were used up. During the subscription period, a total of 325,000 shares were subscribed for, with a corresponding increase in share capital of EUR 109,346.16.

1,000 EUR	2006	2005
21. COMMITMENTS AND OTHER LIABILITIES		
Amount to be paid for leasing commitments		
For the current financial period	102	90
Falling due at a later date	83	74
Total	**185**	**164**
Liabilities related to current premises		
For the current financial period	1,015	1,522
Falling due at a later date	5,668	4,938
Total	**6,683**	**6,460**
Contingent liabilities		
Liabilities for currency derivates		
Nominal value	3,990	4,281
Fair value	2	49

Currency derivates are used only in hedging currency risks.

Share turnover and shareholders

PKC Group Oyj's share turnover on the Helsinki Stock Exchange from 1 January to 31 December 2006 was 11,402,932 shares (12,797,037 shares), representing 64.2% of the average number of shares (72.7%). Shares were traded to a total value of EUR 133.2 million (137.7 million). The low during the report year was EUR 10.02 (9.21) and the high was EUR 14.08 (12.25). The closing price on the last trading day of the report period was EUR 12.25 (10.90) and the average price during the period was EUR 11.69 (10.73). The company's market capitalisation at 31 December 2006 was EUR 217.8 million (192.8 million).

Shares held by Board members, their related persons and corporations in which they have a controlling interest accounted for 3.5% (5.8%) of the total number of shares at the end of the report year. PKC Group Oyj had 5,998 shareholders (5,093) at the end of the period. The proportion of shares held by foreigners and by way of nominee registrations at 31 December 2006 was 29.5% of the shares outstanding (26.8%).

Share capital

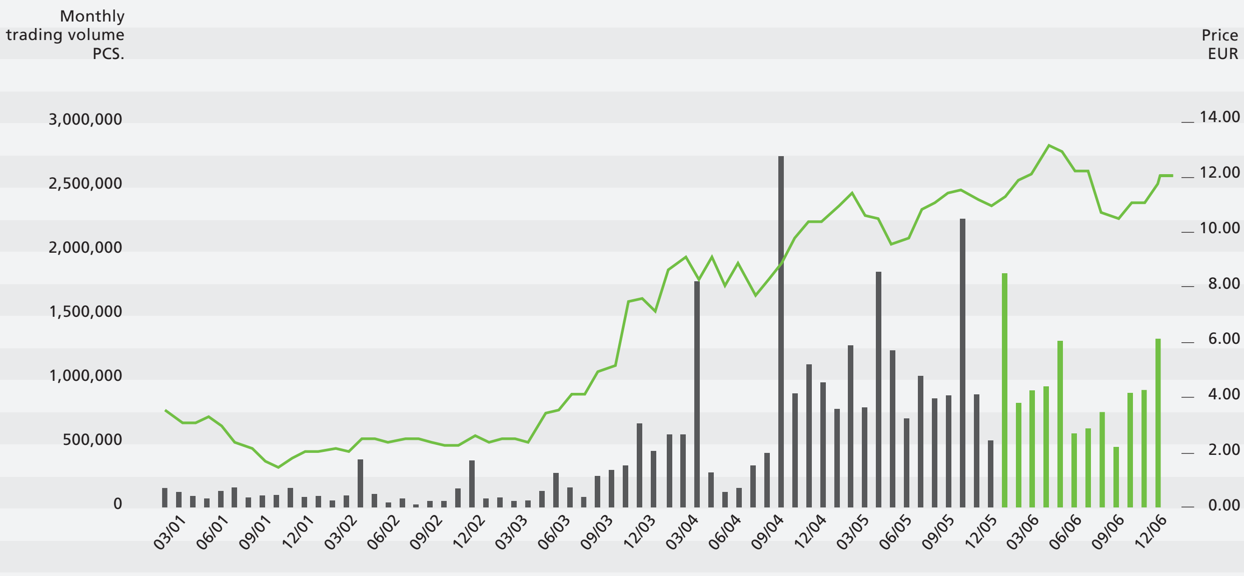
In the report period, the share capital was increased through the exercise of stock options for the year 2000 as follows:

I) by EUR 8,074.79 for 24,000 shares subscribed for in December 2005. The increase was entered in the Trade Register on 17 January 2006, after which the company's registered share capital was EUR 5,959,675.73 and was divided into 17,713,422 shares.

II) by EUR 22,912.23 for 68,100 shares subscribed for in April 2006. The increase was entered in the Trade Register on 9 May 2006, after which the company's registered share capital was EUR 5,982,587.96 and was divided into 17,781,522 shares.

The Board of Directors has authorisation granted by the Annual General Meeting on 30 March 2006 to decide on the increase of the share capital by issuing new shares and/or taking convertible loans in one or more instalments. On the basis of the authorisation, the share capital may be increased at most by an amount corresponding to a maximum of one-fifth of the registered share capital and the aggregate number of votes at the time of the Annual General Meeting's authorisation decision and the Board of Directors' decision to increase the share capital. The authorisation gives the Board of Directors the power to decide on those entitled to subscribe, on the subscription price and the terms of subscription – including the fact that shares may be subscribed against payment in kind, by exercising right of set-off or otherwise on special

SHARE PRICE AND MONTHLY TRADING VOLUME 2.1.2001–29.12.2006



terms and conditions – as well as on other terms and conditions concerning a share issue and a convertible loan. Shareholders' pre-emptive right of subscription may be deviated provided that the company has weighty financial reasons for doing so. The authorisation will remain in force up to 30 March 2007.

The Board of Directors does not have a valid authorisation to repurchase the company's own shares and the company does not have own shares (treasury shares) in its possession.

Stock option schemes

The subscription period for shares to be subscribed for under the bond loan with option warrants issued to key personnel in 2000 ended on 30 April 2006. The stock option scheme comprised a total of 111,000 option rights. All the stock options were used up. During the subscription period, a total of 325,000 shares were subscribed for, with a corresponding increase in share capital of EUR 109,346.16.

On 30 March 2006, the Annual General Meeting resolved to issue stock options free of charge to the key personnel of the PKC Group. The maximum total number of stock options to be issued is 697,500 and they are divided into A, B and C warrants. The share subscription period shall take place between 2009 and 2013. The share subscription price for stock options shall be the volume-weighted average quotation of the PKC Group Oyj share on the Helsinki Stock Exchange with dividend adjustments as defined in the stock option terms (currently EUR 11.54 for stock options 2006A). As a result of share subscriptions with the 2006 stock options, the share capital of PKC Group Oyj may be increased by a maximum total of 697,500 new shares and EUR 234,673.67. On 20 April 2006, in accordance with stock option terms, the Board of Directors decided to issue stock options to the Group's key personnel. Key personnel were issued a total of 180,000 stock options 2006A. All remaining stock options were issued to the company's wholly-owned subsidiary Carhatec Oy for later distribution to the Group's current or future key personnel. Stock options 2006 are subject to a share ownership plan. Key personnel are obliged to subscribe for company shares with 20% of the gross income earned from stock options and to own these shares for two years. The company's President and CEO is obliged to own these shares for the duration of his service.

Dividends for the 2005 financial year

The Annual General Meeting held on 30 March 2006 passed a resolution to pay a dividend of EUR 0.45 per share for the year 2005, or a total of about EUR 8.0 million. The dividend was paid out on 11 April 2006.

MAJOR SHAREHOLDERS ON 31.12.2006	**Pcs.**	**% of shares and votes**
1. As Harju Elekter	1,800,003	10.1
2. Tapiola Mutual Pension Insurance Company	809,600	4.6
3. Odin Norden	659,050	3.7
4. Ravaska Veikko	500,200	2.8
5. Sampo Suomi Osake Mutual Fund	417,700	2.4
6. Op-Suomi Pienyhtiöt	398,942	2.2
7. Nordea Life Assurance Company Finland Ltd	369,750	2.1
8. Eestilä Matti	300,000	1.7
9. FIM Forte Mutual Fund	264,900	1.5
10. Mandatum Suomi Kasvuosake Mutual Fund	228,650	1.3
11. Laakkonen Mikko	180,000	1.0
12. Suutari Harri	177,800	1.0
13. FIM Fenno Mutual Fund	152,450	0.9
14. Mutual Insurance Company Eläke-Fennia	150,000	0.8
15. Finish National Fund for Research and Development	140,600	0.8
15 Major holders total	**6,549,645**	**36.9**
Nominee registered	2,574,128	14.5
Others	8,657,749	48.6
Total	**17,781,522**	**100.0**

SHARES AND OPTIONS HELD BY THE BOARD AND MANAGEMENT ON 31.12.2006

Board of Directors	Number of shares	% of shares and votes	Ownership of close persons and controlled corporations, pcs.	Options, pcs.
Eestilä Matti	300,000	1.7	0	0
Palla Endel	112,000	0.6	0	0
Suonio Risto	3,000	0	0	0
Suutari Harri	177,800	1.0	22,769	0
Corporate Management Team				
Kari Mika	1,000	0	0	30,000
Karppinen Marko	3,000	0	0	15,000
Rajala Jarmo	0	0	0	10,000
Rytky Mika	0	0	0	15,000

DISTRIBUTION OF SHARE OWNERSHIP BY OWNER CATEGORIES ON 31.12.2006	% of shares and votes
Domestic companies	5.9
Financial institutions and insurance companies	12.7
Public institutions	6.9
Non-profit organisations	5.8
Households and private investors	39.2
Foreign investors (including nominee registered shares)	29.5
Total	**100.0**

DISTRIBUTION OF SHARE OWNERSHIP BY SIZE OF SHAREHOLDING ON 31.12.2006

Shares per shareholders	Shareholders		Shares		Votes	
	Pcs.	%	Pcs.	%	Pcs.	%
1–100	643	10.7	51,195	0.3	51,195	0.3
101–500	2,562	42.7	797,618	4.5	797,618	4.5
501–1,000	1,427	23.8	1,092,090	6.1	1,092,090	6.1
1,001–5,000	1,123	18.7	2,363,858	13.3	2,363,858	13.3
5,001–10,000	130	2.2	945,375	5.3	945,375	5.3
10,001–50,000	74	1.2	1,555,680	8.8	1,555,680	8.8
50,001–100,000	11	0.2	715,862	4.0	715,862	4.0
100,001–500,000	22	0.4	4,430,566	24.9	4,430,566	24.9
500,001–	6	0.1	5,829,278	32.8	5,829,278	32.8
Total,	**5,998**	**100.0**	**17,781,522**	**100.0**	**17,781,522**	**100.0**
of which nominee registered	8		2,574,128	14.5		

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

	IFRS (1 2006	IFRS (1 2005	IFRS (1 2004	2003	2002
FINANCIAL KEY INDICATORS					
Net sales, 1,000 EUR	228,928	198,789	177,697	146,048	134,306
Change in net sales, %	15.2	11.9	21.7	8.8	7.3
Operating profit, 1,000 EUR	24,249	26,728	20,799	18,428	9,365
% of net sales	10.6	13.4	11.7	12.6	7.0
Profit before extraordinary items, 1,000 EUR	22,751	27,258	19,562	18,070	7,624
Profit before taxes, 1,000 EUR	22,751	27,258	19,562	18,070	8,113
Net profit, 1,000 EUR	15,552	18,813	13,177	12,026	4,526
% of net sales	6.8	9.5	7.4	8.2	3.4
Return on equity (ROE), %	22.8	33.8	27.5	31.9	14.8
Return on investment (ROI), %	24.1	32.3	28.6	36.7	20.6
Gearing, %	50.9	31.6	64.1	24.5	50.2
Equity ratio, %	48.0	55.6	44.2	56.9	46.9
Quick ratio	1.2	1.5	1.3	1.5	1.4
Current ratio	1.8	2.3	2.4	2.5	2.2
Gross capital expanditure, 1,000 EUR	20,018	11,410	13,321	10,210	6,406
% of net sales	8.7	5.7	7.5	7.0	4.8
R&D expenses, 1,000 EUR	4,906	3,800	4,034	3,230	3,044
% of net sales	2.1	1.9	2.3	2.2	2.3
Personnel, average	4,013	3,506	2,742	1,723	1,146
KEY INDICATORS FOR SHARES					
Earnings per share (EPS), EUR	0.88	1.07	0.76	0.73	0.26
Earnings per share (EPS), diluted, EUR (3	0.87	1.06	0.75		
Shareholders' equity per share, EUR	4.04	3.64	2.75	2.61	1.90
Dividend per share, EUR (2	0.45	0.45	0.20	0.83	0.15
Dividend per earnings, % (2	51.1	42.1	27.3	113.5	57.7
Effective dividend yield, % (2	3.7	4.1	2.0	11.7	6.3
Price/earnings ratio (P/E)	13.9	10.2	14.0	7.7	9.1
Share price at the end of the year, EUR	12.25	10.90	10.25	7.07	2.37
Lowest share price during the year, EUR	10.02	9.21	7.06	2.25	1.93
Highest share price during the year, EUR	14.08	12.25	10.67	7.77	2.70
Average share issue-adjusted number of shares, 1,000 shares	17,756	17,607	17,417	16,385	15,990
Share issue-adjusted number of shares at the end of the financial year, 1,000 shares	17,782	17,689	17,461	17,245	16,154
Market capitalisation, 1000 EUR	217,824	192,815	178,970	121,862	38,232
Dividend, 1,000 EUR (2	8,002	7,971	3,509	14,469	2,433

1) The figures of 2004, 2005 and 2006 are prepared according to IFRS standards. Previous years 2002–2003 are prepared according to Finnish GAAP.

2) The figures of 2006 are based on the Board of Director's proposal. The figure of 2003 includes surplus dividend of EUR 0.5 in addition to the dividend decision of the annual general meeting.

3) Earnings per share (EPS), diluted is not presented in 2003 because it would exceed the undiluted earnings per share (EPS).

1,000 EUR	IFRS (1 2006	IFRS (1 2005	IFRS (1 2004	2003	2002
FIVE YEAR REVIEW					
CONSOLIDATED PROFIT AND LOSS ACCOUNT					
Net sales	228,928	198,789	177,697	146,048	134,306
Operating profit	24,249	26,728	20,799	18,428	9,365
Profit before taxes	22,751	27,258	19,562	18,070	8,113
Profit for the financial year	15,552	18,813	13,177	12,026	4,526
CONSOLIDATED BALANCE SHEET					
ASSETS					
Non-current assets	43,647	33,687	27,453	18,633	14,992
Current assets	107,369	83,347	81,764	60,940	49,592
Total assets	151,016	117,034	109,217	79,573	64,583
LIABILITIES					
Shareholders' equity	72,544	65,036	48,238	45,058	30,284
Minority interest	646	593	284	258	0
Non-current creditors	19,941	15,487	21,595	10,228	12,056
Current creditors	58,531	36,510	39,384	24,029	22,243
Total liabilities	151,016	117,034	109,217	79,573	64,583

The parent company's distributable funds are EUR 51,460,040, of which net profit for the financial year is EUR 14,128,673.

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

- a dividend of EUR 0.45 per share be paid, totalling	EUR	8,001,685
- a transfer be made to shareholders' equity of	EUR	43,458,355
in total	EUR	51,460,040.

The record date for the dividend payout is 3 April 2007. The dividend will be paid out on 12 April 2007.

The company's liquidity is good and, in the view of the Board of Directors, the proposed dividend payout will not put the company's liquidity at risk.

Kempele, 7 February 2007

Harri Suutari
Chairman of the Board

Matti Eestilä
Board Member

Jaakko Niemelä
Board Member

Endel Palla
Board Member

Matti Ruotsala
Board Member

Risto Suonio
Board Member

Jyrki Tähtinen
Board Member

Mika Kari
President and CEO

TO THE SHAREHOLDERS OF PKC GROUP OYJ

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

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

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

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

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

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

In Oulu, 7 February 2007

Ernst & Young Oy
Authorized Public Accountant Firm

Rauno Sipilä
Authorized Public Accountant

CORPORATE GOVERNANCE

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

GENERAL MEETING

The highest power of decision is vested in the General Meeting. Each shareholder is entitled to participate in the General Meeting and to exercise the right to speak and to vote, with each share carrying one vote. In order to realise interaction between shareholders and the company's governing bodies, as well as the right of shareholders to ask questions, the President, the Chairman of the Board of Directors, and a sufficient number of Board members shall be present at the General Meeting, along with, if necessary, the auditor and such persons as have been proposed for Board membership for the first time. The Annual General meeting is held, upon completion of the financial statements, on the day specified by the Board of Directors, no later than by the end of June. In 2006, the Annual General Meeting was held on 30 March 2006.

BOARD OF DIRECTORS

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

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

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

In 2006, the Annual General Meeting elected seven Board members who are presented in the Annual Report. The Board elects from amongst its members a Chairman, who according to the Articles of Association cannot be the company's President. After the 2006 Annual General Meeting, Harri Suutari was appointed as the Chairman of the Board and Jyrki Tähtinen as the Vice Chairman. The duties and responsibilities of the Board members and the Chairman are not designated specifically. In 2006, the Board held 16 meetings, of which 6 were telephone meetings. The average attendance of Board members at the meetings was 97%.

The Board of Directors has on 30 March 2006 resolved to discontinue the Working Committee because a separate working committee for preparing matters for the Board concerning the company's strategy and business development was deemed unnecessary. Moreover, the Board has not deemed it necessary to establish other committees, since, taking into account the scope and nature of the company's operations as well as the Board's working methods, the Board is able to handle matters effectively without such committees. Each year, the Board of Directors assesses the effectiveness of its work and the quality of its task completion and can, if it so wishes, set up committees and working groups within the Board for various purposes.

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

PRESIDENT

The company's President since 1 September 2005 has been Mika Kari. The President's duties include operational management, informing the Board, presenting matters over which the Board has the power of decision, implementing the decisions of the Board, ensuring the legality of business operations, as well as investor relations.

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

OTHER MANAGEMENT

PKC has a Corporate Management Team whose task is to improve operations, carry out strategic work and monitor the realisation of the objectives and action plans set in strategic work as well as deal with other matters of vital importance for the company's operations. The Corporate Management Team comprises the President and CEO (Chairman), the Vice Presidents of business segments and the CFO. The Corporate Management Team convenes monthly. The profile of the Corporate Management Team is presented in the Annual Report.

The Group's operations are divided into two business segments corresponding to its core competence areas: Wiring Harnesses and Electronics. The Wiring Harness and Electronics management teams organised under these business segments convene monthly. Their task is to handle operative issues and assess the development needs and future requirements of the business segment in question. The management team of each business segment comprises the Vice President of the business segment (Chairman) and the account directors and managers of the business segment and relevant functions.

In a matrix organisation, operations are divided into plants, customer accounts and Group-wide functions, which are production, logistics and procurements, technology and quality development as well as finance and administration.

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

AUDIT

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

SALARIES AND REMUNERATION

Board of Directors
The Annual General Meeting confirms the remuneration to the Board of Directors. In 2006, it was decided to pay the Chairman EUR 40,000 per term, the Vice Chairman EUR 30,000/term and other members EUR 20,000 per term as well as travel and accommodation expenses. The fees paid to Board members for the year 2006 are presented in the notes to the accounts.

The company does not pay the Board members fees on any other basis, nor does it grant them loans or give guarantees on their behalf. Board members are not included in the company's 2006 Stock Option Scheme.

President
The Board of Directors confirms the President's salary and other benefits. The President is included in the Group's bonus system, with a maximum annual bonus of four months' salary depending on the achievement of the objectives set for each year. The President's service contract has a provision for a notice period of 3 months on the President's part and 6 months on the company's part. Moreover, if the contract is terminated by the company, the President is entitled to a monetary compensation corresponding to 15 months' total salary, which includes the salary for the period of notice as well as a prorated share of the objective-based bonus corresponding to the period of employment in full months during the financial year in question. The retirement age is statutory and no voluntary insurance policies have been taken. The salaries and bonuses paid to the President for the year 2006 are presented in the notes to the accounts.

The President is included in the year 2006 Stock Option Scheme. In 2006, the President was granted a total of 30,000 options. The President has not been granted shares or other share-related rights as compensation. The company does not pay the President fees on any other basis, nor does it grant him loans or give guarantees on his behalf.

Other Management

The Board of Directors confirms the salaries and benefits of the members of the Corporate Management team in accordance with the general principles approved by the Board of Directors. Salaries are set in accordance with the demands of the job and the responsibilities, professional skills and expertise it entails. Salaries may comprise cash salaries and benefits. The salaries are reviewed annually by the Board of Directors. In line with the principles approved by the Board of Directors, the Group has adopted a bonus system. The bonus is dependent on the achievement of annual objectives set for the result and the effectiveness of the Group and each responsibility area and/or matter-related targets. The maximum bonus is three months' salary. The members of the corporate management team have employment contracts valid until further notice, with a notice period of 3 months on a member's part and 6 months on the company's part, and without separate severance payment or other compensation. The retirement age is statutory and no voluntary insurance policies have been taken. Meeting fees are not paid to members of the Management Teams.

The members of the Corporate Management Team are included in the year 2006 Stock Option Scheme. In 2006, the Corporate Management Team, including the President, were granted a total of 70,000 options. The company has not granted shares as compensation. The company does not pay the members of the Corporate Management Team fees on any other basis, nor does it grant them loans or give guarantees on their behalf.

Auditor

In 2006, the Annual General Meeting resolved to pay the auditor's fees and travel expenses in accordance with reasonable invoices. For the year 2006, the auditor was paid fees totalling EUR 164,703, of which EUR 64,082 was paid for fees for non-audit services.

INSIDER ISSUES

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

The company recommends that the insiders acquire company's shares as long-term investments and do not participate in active trading. It is also recommended to schedule the trading within 30 days after the publication of financial reports, taking, however, into account the restrictions that possible insider information imposes. The insiders may not trade in the company's shares or share-related rights within the 30-day period prior to the publication of the company's interim reports or the financial statement bulletin, and this closed window ends on the day following the publication of financial results.

Comprehensive risk management is an essential part of the overall management of the PKC Group's business operations and the Group's management system. The Group's risk management policy sets targets and operating principles for risk management. Information gained from the processes of risk management supports both operative and strategic decision-making. The PKC Group systematically evaluates the overall level of risk in order to ensure that objectives set for business operations are met.

INTERNAL SUPERVISION

The Board of Directors is responsible for internal supervision, while the President and CEO is responsible for the practical arrangements concerning supervision. The Board of Directors oversees that the President and CEO attends to the day-to-day administration of the company in accordance with its instructions and orders. The Board also makes sure that adequate arrangements exist for monitoring the company's accounting and the administration of its finances.

Internal supervision methods include internal guidelines, reporting and various technical systems related to operations. Special attention is paid to the organisation of functions, the professional skill of employees, operating instructions, reporting and the extent of the audit. The organisation and ways of working of the company's internal audit have been further developed.

PRINCIPLES AND ORGANISATION OF RISK MANAGEMENT

Risk management consists of daily activities that aim at increasing corporate security and facilitating the achievement of business objectives. The objective of risk management is to create the kind of operational circumstances in which business risks are contained comprehensively and systematically at all levels of the organisation. According to the principle of risk management, the company identifies all risks, evaluates their extent and significance, defines the procedures for minimising risks and takes decisions on the implementation and monitoring of these procedures as well as the responsibilities related to them.

The Board of Directors determines the Group's risk exposure level, decides whether strategic risks should be taken and is responsible for the constant monitoring of the procedures and results of risk management and the evaluation of the functionality of risk management processes. The risk management team is responsible for risk management procedures and principles and for monitoring their implementation within the framework provided by the Board. The directors of relevant functions are responsible for the implementation of risk management processes globally.

OPERATIONAL RISKS

Operational risks comprise all the factors that may jeopardise or prevent the achievement of set business objectives. The main responsibility for hedging operational risks lies with the different functions. Group administration co-ordinates and advises on risk management matters as well as decides on the Group's joint or major risk management issues. Evaluations are carried out on the effect of various disturbance situations on operations. Continuity plans aim at securing substitute resources for personnel, premises, production machinery and equipment, raw and other materials and transportation, among other things.

Business environment risks and business cycles

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

Market and customer risks

The Group's operations depend greatly on the trend in the businesses of a few internationally operating customers and on agreements concluded with them. In order to reduce the risk resulting from this narrow customer base, the Group focuses on its core areas of expertise and on developing its skills and know-how in order to ensure that its present customer relationships are maintained and deepened. In addition, the Group seeks to expand its clientele in the present business areas.

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

Purchasing and logistics risks

Raw materials account for an important share of the overall costs of end products. Risks connected with procurements and logistics are managed on a centralised basis at the Group level. Purchasing prices are also negotiated on a centralised basis, suppliers are asked to submit competitive bids and efforts are made to find alternative suppliers. The purchasing function is continuously being developed.

Disturbances in the delivery or transportation of raw materials which are due to goods suppliers can cause interruptions to both PKC's and its customers' production. Alternative suppliers cannot be found quickly for all components. The company seeks to limit this risk by means of finding alternative suppliers, supplier audits, good co-operation with customs officials, maintaining a high level of skill among the employees of its logistics function and, to a certain extent, buffer stocks. Risks connected with interruptions and transportation have been hedged with Group-wide insurance programmes and supplementary local insurance policies.

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

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

Risks related to the manufacturing process

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

PKC ensures the efficiency of its production by, among other things, developing the working environment, keeping production machinery up-to-date and increasing operational reliability and the degree of automation.

Liability risks

PKC is prepared for property, loss-of-profits, transport and liability risks (incl. product liability, operational liability and management liability) by means of insurance programmes covering the entire Group and through supplementary local insurance policies. Despite the preventive and restrictive measures, PKC may face damages claims that are not covered by insurance policies due to the extent or nature of the damages. The scope of insurance coverage is actively monitored and developed together with experts.

It is possible that the PKC Group may face demands arising from the defectiveness of products. The Group seeks to limit the liabilities arising from these factors through agreements and by taking out comprehensive insurance coverage. In addition, product-related liability risks are warded off in advance by applying the procedures described in the quality system.

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

Political, cultural and legislative risks

PKC's production operations are spread out over a wide geographical area, as are those of PKC's main customers. Unfavourable political, economical and legislative changes may impair PKC's cost-effectiveness and/or be detrimental to its operations in some countries. The risk connected with emerging countries is reduced by decentralising production across different countries, by complying with each country's legislation, through functional co-operation networks, and by means of continuity plans. Legislative development and changes are monitored constantly.

STRATEGIC RISKS

The parent company's Board of Directors determines the Group's risk exposure level and makes decisions on taking strategic risks, such as considerable single investments, acquisitions and real estate deals as well as other measures that are extraordinary or have far-reaching effects in terms of the scope and nature of the company's operations. Decisions to take strategic risks are made after carrying out diligent and comprehensive preparation, which may include, for example, various assessments, the charting of different options, risk analyses and possible due diligence. Responsible persons and experts from within the company as well as possible external experts are used during the preparation stage.

QUALITY AND ENVIRONMENTAL RISKS

Investment in the quality of products and operations is a cornerstone of and an absolute requirement for the company's operations, with uncompromising quality being one of the most important values that guide the Group's operations. Quality risks affecting customers' operations can be eliminated by means of continuous inputs into developing the quality of products and operations. Particular attention is paid to quality assurance when starting up new units and products as well as transferring production. Operational processes are described and implemented on the basis of pre-defined and tried-and-true methods.

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

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

PERSONNEL RISKS

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

In accordance with the human resources strategy, the management of personnel risks focuses on developing competence, commitment and well-being at work. The development of competence is based on the company's business strategies. These strategies include a definition of the required competence and the means to secure such competence. A personal development plan taking into account future competence requirements is drafted for each employee. Deputy systems guarantee that if any employee is prevented from working or if their employment comes to an end, this will not cause irreplaceable gaps in the company's overall competence or interruptions in its operations. The company works on improving job well-being in co-operation with the occupational healthcare unit, the labour protection organisation and the human resources management. Employees are offered competitive fringe benefits and they are encouraged to develop their own professional skills.

LABOUR PROTECTION AND CORPORATE SECURITY RISKS

The company's labour protection and occupational safety programme encompasses both the physical and psychosocial working environment. Effective labour protection is systematic and based on the assessment of working environment risks, jointly formulated plans and practices that are observed by all personnel. Working conditions and the level of occupational safety are monitored continuously. Labour protection that aims at maintaining the health of employees, preventing accidents and sickness and the safe and ergonomic operation of production machinery is a key element in supporting PKC's business operations and the improvement of both quality and productivity.

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

INFORMATION SECURITY AND INFORMATION SYSTEMS RISKS

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

Effective information systems and telecommunications connections as well as real-time information transfer between customers, suppliers and the Group's various manufacturing units are an absolute must for business operations. The way the automotive industry operates, especially the requirement of short delivery times, places special demands on telecommunications solutions. Disturbances in telecommunications and deficient capacity are a major risk for efficient business operations. PKC strives to minimise this risk by using doubled connections. New alternatives for communications links are explored continuously with different partners in co-operation. If necessary, alternative solutions may be adopted.

The control, optimisation and monitoring of operations are carried out with the help of information systems. New business locations and companies are integrated to use a single production and logistics control system covering the entire production network.

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

FINANCIAL RISKS

Financial risks are described in the notes to the financial statements.

BOARD OF DIRECTORS ON DECEMBER 31, 2006

Harri Suutari | Matti Ruotsala, Endel Palla | Jyrki Tähtinen, Risto Suonio | Jaakko Niemelä, Matti Eestilä

BOARD OF DIRECTORS ON DECEMBER 31, 2006

Harri Suutari b. 1959
Chairman since September 1, 2005. Member of the Board of Directors from 2005. Engineer. Previously President and CEO at PKC Group Oyj (March 13, 2002–August 31, 2005), Ponsse Oyj (1994–2000) and Kajaani Automatiikka Oy (1984–1996). Member of the Board of Directors at Alma Media Oyj. Member of the Board of Directors at Tiivituote Oy. Not independent of the company (service relationship with the company during the last three years prior to the inception of the board membership).

Matti Eestilä b. 1949
Member of the Board of Directors from 2006. Engineer Entrepreneur. Previously Betonimestarit Oy´s CEO (1988–2000) and Lujabetoni Oy´s concrete element division´s director (1973–1988). Independent of the company and of its significant shareholders.

Jaakko Niemelä b. 1963
Member of the Board of Directors from 2006. Dr. (Econ.). Pro Value Corporate Finance Oy´s CEO. Previously Mandatum Stockbrokers Ltd´s CEO (1999–2003) and head-analyst (1998–1999) and prior this analyst/head-analyst in stockbroker companies Opstock and Protos (1994–1998). Independent of the company and of its significant shareholders.

Endel Palla b. 1941
Member of the Board of Directors from 1994. Electronics Engineer. AS Harju Elekter Ltd´s Chairman of the Supervisory Board and Development Director. With AS Harju Elekter from 1983, latest as Development Director (1999–), Managing Director (1991–1999) and before that in management duties of electrotechnical division at AS Harju KEK. Chairman or the board member of the Supervisory Boards of AS Harju Elekter and its subsidiaries and affiliated companies as well as member of the Supervisory Boards of AS Harju KEK, AS Kelmo and AS Laagri Vara. Not independent of the company (Chairman of the Supervisory Board and Development Director in AS Harju Elekter that is a lessor of PKC's subsidiary and PKC's significant shareholder).

Matti Ruotsala b. 1956
Member of the Board of Directors from 2006. M.Sc.(Eng.). AGCO Corporation's Vice President and Valtra Oy Ab's Managing Director. Previously KCI Konecranes Plc´s Chief Operating Officer and Deputy CEO (2001–2004), KCI Konecranes Plc´s Technical Director and Commercial Director (1995–2000) and Kone Corporation´s crane business' Asia Pacific Area Director (1991–1994). Member of the Board of Directors at Larox Oyj. President of the European Committee of Association of Agricultural Machinery (CEMA). Independent of the company and of its significant shareholders.

Risto Suonio b. 1942
Member of the Board of Directors from 1994. M.Sc. (Tech.). Independent Investor. Almost 40 years experience in cable industry´s duties, latest as Nokia Oyj´s Director, Strategic Planning (Cable and

CORPORATE MANAGEMENT TEAM ON DECEMBER 31, 2006

Mika Rytky Jarmo Rajala Marko Karppinen Mika Kari

Mechanical Industry Group) (1990–2001), Türkkablo A.O.´s Managing Director (1996–1999), Nokia´s Director, Strategic Planning, Cable Group (1988–1989), Director, Special Cables (1983–1985), Director, Energy Cables (1983–1985), Sales Director (1981–1983) and before that in various management and sales duties at Nokia and its subsidiaries. Independent of the company and of its significant shareholders.

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

CORPORATE MANAGEMENT TEAM ON DECEMBER 31, 2006

Mika Kari b. 1969
President & CEO. M.Sc. (Tech.). With the company from 1996 and member of the Corporate Management Team from 1997. PKC Group´s President & CEO (September 1, 2005–), Vice President and CEO's deputy (2004–2005), Business Development Director (2001–2004), before that in quality management.

Marko Karppinen b. 1971
CFO. M.Sc. (Econ.). With the company and member of the Corporate Management Team from 2003. PKC Group´s CFO (2003–). Previously Finnforest Oyj´s Chief Business Controller (2002–2003), Ponsse Oyj´s CFO (1996–2001), Financial Manager (1995–1996), Accounting Manager (1994).

Jarmo Rajala b. 1962
Vice President, Electronics. M.Sc. (Econ.). Member of the Corporate Management Team from 2005. PKC Group's Business Unit Director (2005–2006). Previously Suomen 3C Oy's Business Unit Director (2005), Cybelius Software Oy´s Sales Director (2003–2005), Tammerneon Oy´s Hungarian subsidiary´s Managing Director (1998–2003), Finland Trade Center Budapest, Trade Commissioner (1997), Vaasa University´s Liaison Officer/Project Manager (1991–1996).

Mika Rytky b. 1971
Vice President, Wiring Harnesses. M.Sc. (Eng.). With the company from 2000 and member of the Corporate Management Team from 2004. PKC Group´s Business Development and Quality. Director (2004–2006), Sales Manager (2000–2004). Previously Control CAD´s Product Manager (1999–2000), Pohto's consultant (1995–1999).

CONTACT INFORMATION

FINLAND

Head office and
Wiring harness factory

PKC Group Oyj
Visiting address:
Vihikari 10
90440 Kempele, Finland
Tel. +358 20 175 2111
Fax +358 20 175 2211

Postal address:
PKC Group Oyj
P.O. Box 174
FI-90401 Oulu, Finland

Electronics factory
PKC Electronics Oy
Pajuniityntie 43
FI-92120 Raahe, Finland
Tel. +358 8 210 3111
Fax +358 8 210 3201

Testing products
Carhatest Oy
Tehtaantie 11
FI-91500 Muhos, Finland
Tel. +358 8 533 4859
Fax +358 8 533 4869

BRAZIL

Wiring harness factory
PK Cables do Brasil Ltda.
Rua Estrada da Graciosa
803 - Atuba
82840 - 360 - Curitiba
- PR - Brazil
Tel. + 55 41 2109 9778
Fax + 55 41 2109 9780

ESTONIA

Wiring harness factory
PKC Eesti AS
Paldiski mnt. 31
76606 Keila, Estonia
Tel. +372 674 7435
Fax +372 674 7432

Wiring harness factory
PKC Eesti AS
Tööstuse 9
90506 Haapsalu, Estonia
Tel. +372 473 4774
Fax +372 472 0880

USA

Key account support
PKC Group Americas Inc.
101 South La Canada Drive
Suite 38, Green Valley
Arizona 85614, USA
Tel. +1 858 674 6610
Fax +1 858 674 6619

RUSSIA

Wiring harness factory
OOO AEK
Shosse Gornjakov, 34
186930, Kostomuksha
Karelia, Russia
Tel./fax + 7 814 59 42 354

Electronics factory
OOO Elektrokos
Shosse Gornjakov, 34
186930, Kostomuksha
Karelia, Russia
Tel./fax + 7 814 59 23 019

Wiring harness factory
OOO PKC Group Pskov
Pozhigovskaya, 6
180021, Pskov, Russia
Tel. +7 811 2790 000

CHINA

Wiring harness factory
PKC Wiring Harness
(Suzhou) Co., Ltd.
Building 13CD,
Suchun Industrial Square
428 Xinglong Street,
SIP Suzhou
P.R. China, 215024

CANADA

Sales and administration office
PKC Group Canada Inc.
30 Tycos Drive
Toronto, Ontario
Canada M6B 1V9

MEXICO

Wiring harness factory
Electro Canada SA de CV
Prolongacion Avenida
Hidalgo 16
Parque Industrial San Carlos
Nogales, Sonora 84094

www.pkcgroup.com

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PKC GROUP OYJ / P.O. Box 174 / FI-90401 Oulu / Finland / Tel. +358 20 175 2111 / *www.pkcgroup.com*

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