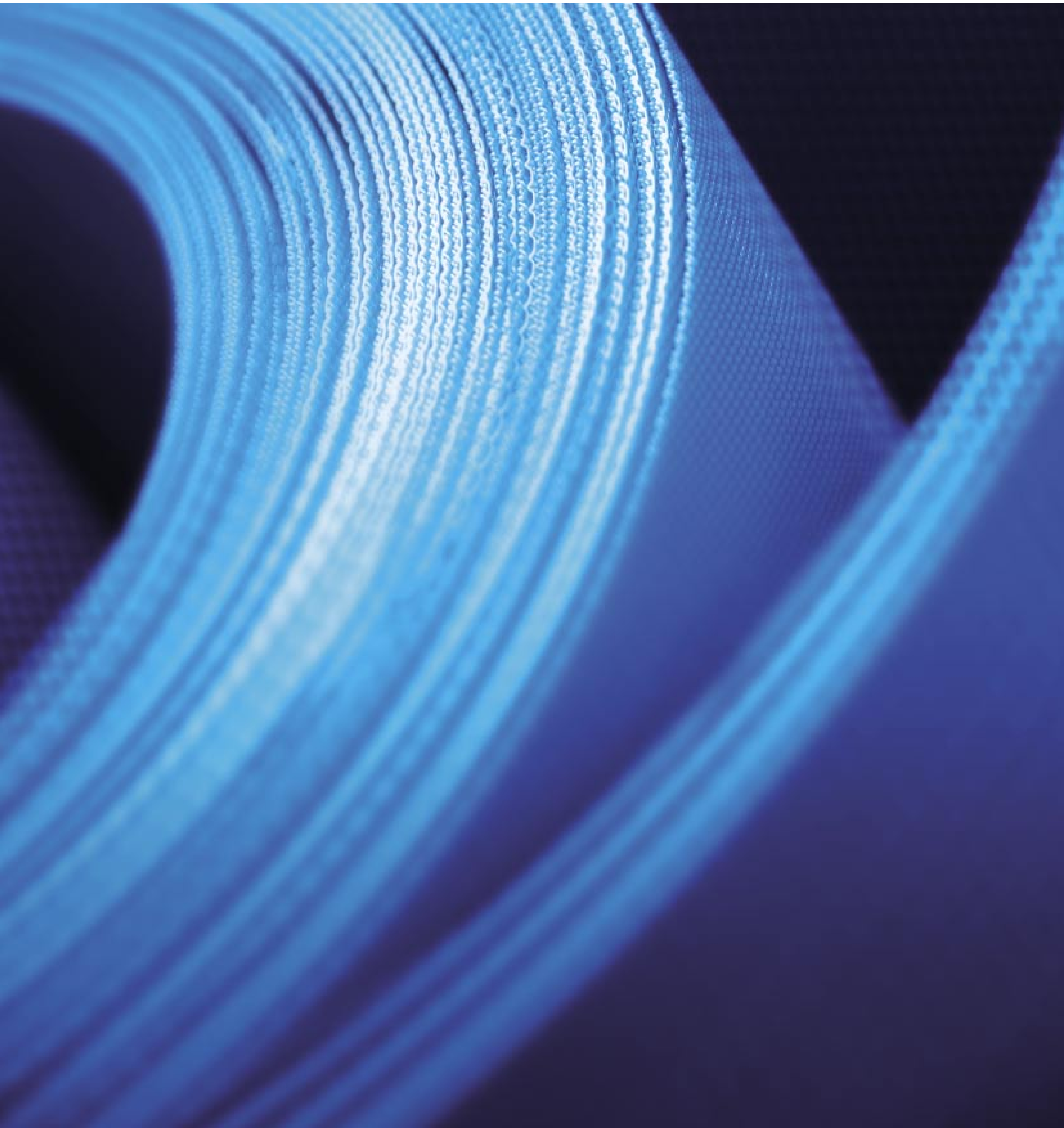
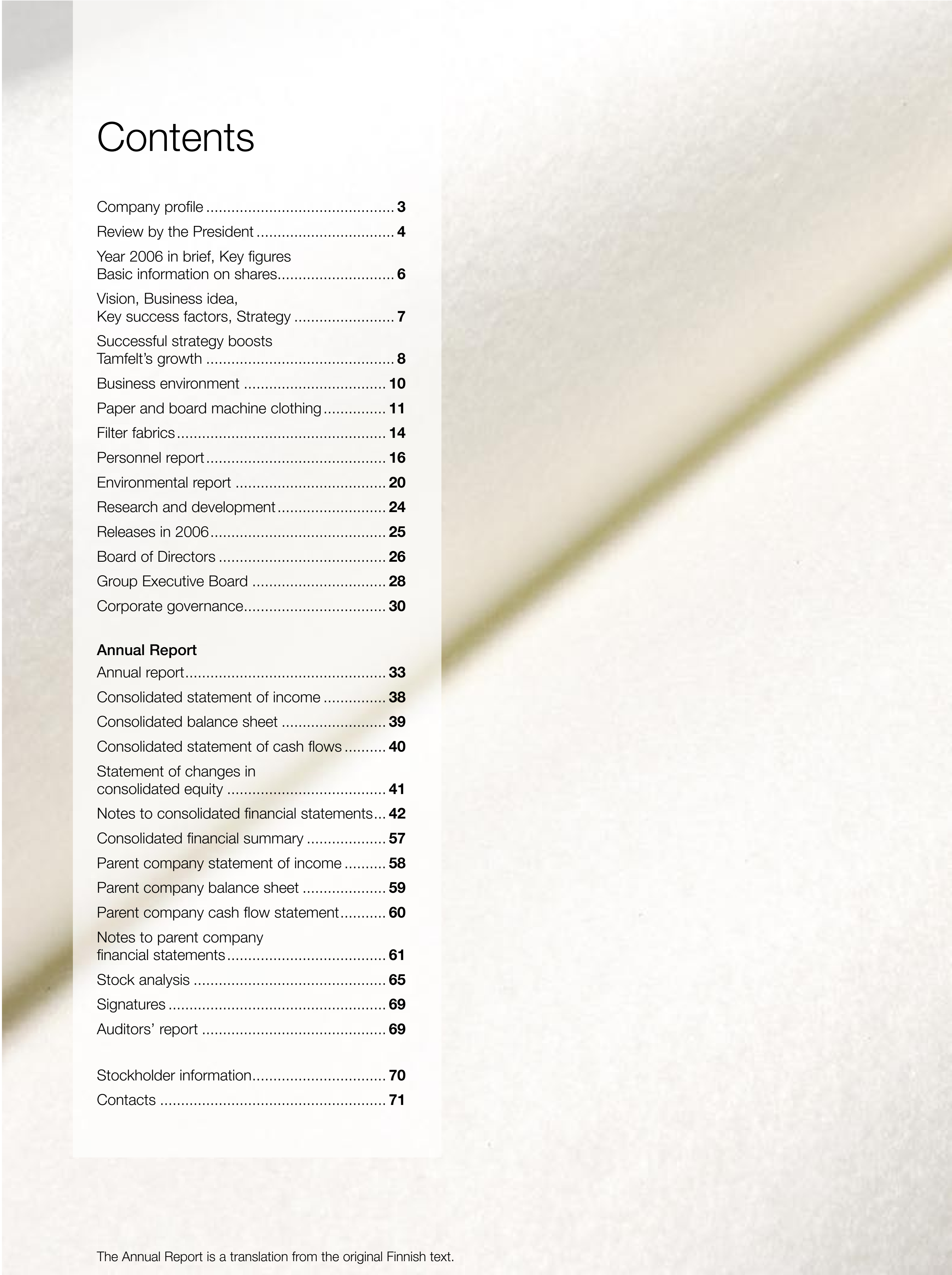
# Annual Report 2006

TAMFELT



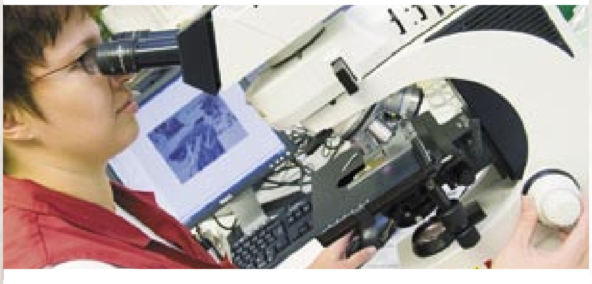





# Contents



The Annual Report is a translation from the original Finnish text.



# Company profile

Tamfelt is one of the world's leading suppliers of technical textiles. The company's main products are paper machine clothing and filter fabrics. In addition to the domestic mills in Tampere and Juankoski, the Group has plants in Portugal, Poland, Brazil and China.

Founded in 1797, the company is one of the pioneers of Finnish industry. The manufacturing of paper machine clothing started in 1882. Today Tamfelt is part of the state-of-the-art Finnish forest cluster.

> Strong focus and customer-driven way of working are the key.

# Review by the President

## Dear Reader,

The year 2006 will be recorded in Tamfelt's history as a year of significant growth and development. In terms of production and financial performance, the year was one of our best ever. Good market situation contributed to profitable growth. The volumes and capacity utilization rates of the forest and mining industries – our most important customer segments – were high the world over, and the demand for paper machine clothing and filter fabrics was brisk as well.

Tamfelt's consolidated revenue was up 11 per cent, and the Group's operating income improved clearly ahead of the previous year. Tamfelt's growth exceeded the average growth of the industry, which means that we strengthened our market position both in paper machine clothing and in filter fabrics. The highest growth came from Europe. South America and Southeast Asia were other important growth areas.

Major forest industry operators have continued to concentrate purchases on fewer clothing suppliers in an effort to gain better terms and to reduce capital tied in clothing. Keen competition reduced the average prices of clothing towards the end of the year.

## Successful choice of strategy

Tamfelt has chosen to concentrate on products and business areas in which we can demonstrate the highest competence. Thus, our strategy is to focus on the clothing of large, high-speed and modern paper machines and on challenging applications in both wet and dry filtration. This has proved a successful strategy – growth in our selected target areas is clearly higher than the average growth of the field. Besides strong focusing, the cornerstones of our industrial business expertise include a customer-driven and innovative way of working, in which improved productivity and quality are key.

All our product groups have managed to introduce spearhead products that differ from competing articles. This has been made possible by our solid professional expertise and innovation. Spearhead products, which are engineered collectively with customers, partners and research institutes, help us expand market shares and improve profitability.

## International presence and big investment decisions

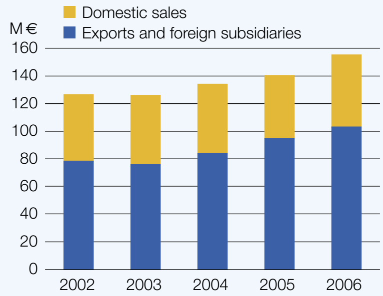
The current year 2007 is Tamfelt's 210th year in operation. Our long history provides a solid basis of expertise, but it is vital for us to face up to future challenges. Our long-established national industry has rapidly evolved into an increasingly global operator. Our customer companies grow, go global and move their manufacture to locations such as Southeast Asia and South America. Following this trend we continue to extend our presence and production into markets where our customers strengthen their position. International presence and growth are the best ways of making profitable development happen across our company.

We made some consequential investment decisions in 2006 to achieve our growth and profitability targets. An investment spending of over 10 million euros in a needling machine for the Tampere plant was approved in spring. This means a sizable increase in our press felt capacity and improved delivery performance. Also in 2006 we decided to found two manufacturing plants in China – a filter fabric factory in the Shanghai area and a forming and dryer fabric plant in the Tianjin area. Heavy growth of industrial production and tightening environmental standards provide good growth potential for filter fabric business in China. Over 50% of new paper and board machines in our focus area are being built in China, and the clothing market is growing fast. The filter fabric factory came on stream at the beginning of 2007, and production in the forming and dryer fabric line is scheduled to start at the beginning of 2008.

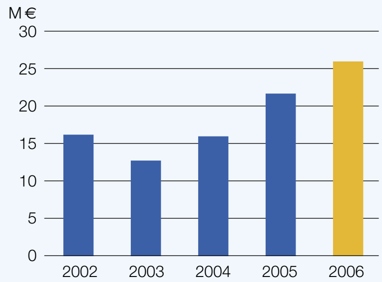
The successful year 2006 ensured us a favorable market position and laid a firm foundation for our efforts to reach our business objectives for 2007. My thanks go to our customers, partners and owners for their good cooperation and confidence in Tamfelt. I very much appreciate the performance of our employees over 2006 and extend warm thanks to the entire personnel for their excellent and competent contribution.

Jyrki Nuutila, President and CEO

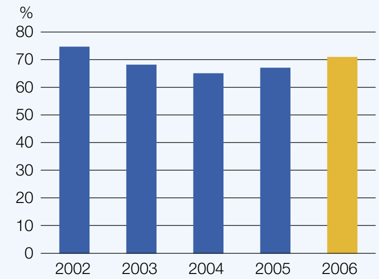
Net Sales, consolidated



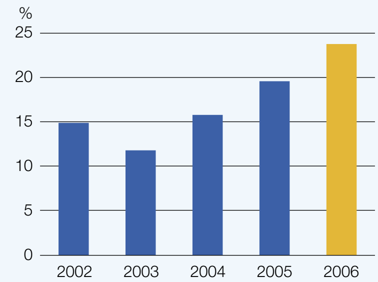

Operating Income, consolidated



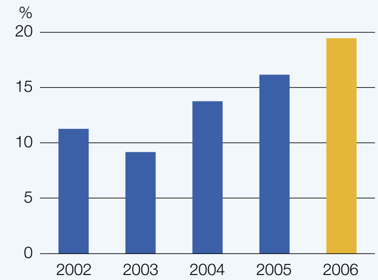

Equity/Asset ratio, consolidated




Return on Net Assets, consolidated




Return on Equity, consolidated



# Year 2006 in brief

## Net sales and operating profit

Tamfelt's consolidated net sales were 155.0 million euros and operating profit was 25.9 million euros. The net sales were up 10.6 per cent and the operating profit was up 19.9 per cent. Net profit for the year rose 31.4 per cent to 20.1 million euros.

## Business environment

The market for paper machine clothing as well as the demand for filter fabrics for the paper and pulp industries grew at the rate of the long-term average. Fabric consumption per ton of paper produced continued to decline slightly. Filter fabrics used in the mining industry were in good demand. High-quality filter fabrics will be required in increasing quantities as stricter environmental standards are put in place. Competition from Asia has tightened the situation in certain markets. Price competition sharpened towards the end of the year.

## A year of investment

Tamfelt made three major investment decisions in 2006:

- Increase of press felt manufacture at the Tampere plant. A new needling line will be completed in late 2007. The investment will significantly increase the company's press felt capacity.
- Foundation of a filter fabric factory in Shanghai, China to sell and process filter fabrics made by Tamfelt's other sites. The operation came on stream in the beginning of 2007.
- Building of a modern forming and dryer fabric operation in Tianjin, China, scheduled to start in the beginning of 2008.

## Improvement of resource planning

The Group's adopted resource planning system was rolled out to more subsidiaries. The shared system will improve business planning, monitoring and intelligence.

## Disposal of Alakoski Oy

In October 2006 Tamfelt sold its share in the hydroelectric power plant Alakoski Oy in Tampere. Tamfelt was one of the co-founders of the plant, which has been in operation since 1936. Tamfelt's ownership share was 38.89 per cent.

## Key figures

| | **2006** | 2005 | Change, % |
|---|---|---|---|
| Net sales, M € | 155.0 | 140.1 | 10.6 |
| Income before taxes, M € | 26.2 | 20.8 | 26.0 |
| Gross investment, M € | 11.5 | 10.2 | 12.7 |
| Earnings/Share, € | 0.73 | 0.56 | 30.4 |
| Equity/Share, € | 3.90 | 3.60 | 8.3 |
| Dividend/Share | | | |
| common, € | 0.59* | 0.39 | - |
| preferred, € | 0.61* | 0.41 | - |
| Return on net assets, % | 23.7 | 19.5 | - |
| Equity/Assets ratio, % | 70.6 | 66.7 | - |
| Personnel, Dec. 31 | 1,443 | 1,401 | 3.0 |

* Board of Directors' proposal

## Basic information on shares December 31, 2006

Tamfelt's shares are quoted on the main list of the OMX Nordic Exchange in 'Industrials'.

| | |
|---|---|
| Trading code | |
| common share | TAFKS |
| preferred share | TAFPS |
| Number of shares | |
| common share | 10,119,198 |
| preferred share | 17,444,766 |
| Closing price | |
| common share | 10.62 € |
| preferred share | 10.65 € |
| Number of votes | |
| common share | 20 votes |
| preferred share | 1 vote |
| Total capital stock | 27,563,964.00 € |
| Total number of votes | 219,828,726 votes |


# Innovatively towards the vision.

## Vision

Tamfelt is a leading supplier of paper machine clothing and filter fabrics to the company's chosen market segments. Our specialized total service, superb products and long-term partnerships have earned us the trust and confidence of our customers.

## Business idea

Tamfelt Group develops, manufactures and sells paper machine clothing, filter fabrics, other technical textiles and associated products and services. The target is to improve the customer's competitive position and ensure profitable operation of the Group.

## Key success factors

### Tamfelt's key success factors in implementing the strategy include:

- competent and motivated personnel
- customer-oriented operation
- innovative product development
- continuous improvement of productivity
- cooperation with customers, machine manufacturers, research institutes and universities
- technically advanced machinery and efficient production units
- own textile, paper and filtration laboratories
- information systems supporting our business and decision making
- operation as part of the highly appreciated Finnish forest cluster.

## Strategy

Tamfelt's target is internal growth ahead of the market while maintaining good profitability and a high equity/assets ratio. Acquisitions are an option only if there is a company whose products and manufacturing technologies are close to Tamfelt's core competence.

### Clear focus

Profitable growth is ensured by concentration on focused target segments, in which we can capitalize on our recourses to an optimal degree. Our chosen market segments are clothing for large and high-speed paper and board machines and filter fabrics for major forest, mining and chemical industry plants worldwide.

### Competent total service

We offer our customers competent total service. Besides innovative, reliable and high-quality products, this includes expertise in sales and customer service, technical support, and long-term partnership to improve the customer's process and competitiveness.

### Efficient and innovative approach

Meeting the target requires solid investments in research and development. The key to successful R&D is understanding the customer's process and awareness of the customer's needs and expectations. Profitable business also requires continuous improvement of productivity and efficiency. The impact of small but innovative improvements is being emphasized in our operations. Our investments are focused on improving our capacity utilization and consolidating our position in the growing target markets.

# Successful strategy boosts Tamfelt's growth

The forest industry has been in the grip of change in Finland and abroad. This change and future challenges were the topics of discussion when Chairman Rainer Häggblom from Pöyry Industry Consulting Oy met with Tamfelt's President & CEO Jyrki Nuutila. They began with a review of 2006.

**Rainer Häggblom:** "In the forest industry, 2006 was a year when, at last, we saw some light at the end of the tunnel. In Western Europe, overcapacity began to discharge, capacity utilization rates improved, and paper prices rose. Cash flows and profitability started to improve. The pull from Asia remains strong – economic growth has been robust there, as has the growth of paper consumption."

**Jyrki Nuutila:** "The consumption of clothing increased in the forest industry – even beyond the long-term average. It was a good year in the mining industry too, as was seen in brisker demand for filter fabrics. And the future outlook is good. We also supply filter fabrics for the purposes of environmental technology, which certainly has great growth potential."

**Jyrki Nuutila**

**Future markets are in Asia. How does the growth of the Chinese market show in the development of the forest industry and the business of clothing suppliers overall?**

**Rainer Häggblom:** "China is key in the global forest industry. The ongoing strong growth of paper consumption is expected to continue in China. In mature markets, the annual growth rate is around one per cent, while in China it varies from 6 to 10 per cent.

To be able to retain their leading position, Nordic forestry companies must invest in China. We are not able to sustain competitive exports of paper from here to Asia. In this century, 50 per cent of new paper machine investments have been made in China, so the new machinery is quite modern there. The market for clothing is growing even faster than that for paper."

**Jyrki Nuutila:** "All major forest industry operators are already present or in the process of investing in the Chinese market, which means that the clothing supplier must be there as well. It is not logistically viable to try to cater to the Chinese market operating from Europe. Apart from cost, time is a crucial factor. The way of working is more hectic in China than in the West.

Modern high-speed paper machines are our target market. Some hundred of China's several thousand paper machines are in Tamfelt's focus area. China offers huge growth potential over the next five to ten years. Even for filter fabrics, the Chinese market is growing fast, both for wet and dry filtration products."

**Tamfelt is already present in the Chinese market, and in 2006 the company made a decision to increase its investment in China. What are the key factors in becoming established in China?**

**Rainer Häggblom:** "The essential thing is to find the growth centers that offer both competence and future prospects and where we can grow along with the customers. Finding good workers is vital, and there are enough of well-educated people in China. The third requirement is to determine the overall efficiency of the investment. China is a sophisticated market that requires a very good service concept and high technology. Competition is tight in the Chinese market."

**Jyrki Nuutila:** "In China, much can be done to improve productivity through management actions. The European level of productivity can be achieved very fast. The production process is extremely efficient."

**How will Chinese investments be reflected in Tamfelt's business in future years?**

**Jyrki Nuutila:** ”China has grown into a significant market for us in the last five to six years. Customer industry is growing faster in China than anywhere else. It is crucial for our existence and growth to be present where we have a growing customer base. The capital expenditure required for an increased investment in China is high for a company of our size, but we must have the courage to proceed if we intend to become a stronger player in the Asian market.”

**In Europe and North America, the prospects of the forest industry have looked bleaker than in the developing markets. What is the outlook now?**

**Rainer Häggblom:** ”Europe and North America are very different markets. Both are mature markets but, unlike North America, Europe has kept investing in modern machinery.

The problem in Europe has been overcapacity, which is currently being discharged. But we still have the cost problem, which we have been trying to solve with various austerity programs. One difficult issue remains: energy costs. In Europe, energy costs have risen along with the market situation and the requirements of the Kyoto protocol.

”In North America, market growth is nearing zero and production technology is decayed in comparison with Europe. Major investments are not being made. Factories are being run down.”

**Jyrki Nuutila:** ”Return on capital has not been high for decades in the forest industry. In North America, the capital intensive forest industry has taken second place to other investments.”

**What are the competitive edges that the Finnish forest industry needs to cope with the structural change?**

**Rainer Häggblom:** ”I refuse to give in to pessimism about the Finnish paper industry, because most of the cost components are under control and our capital is tied up in modern plants. Paper industry will survive in Finland, but we must keep it in shape. I hope decision makers will keep in mind that energy costs must be competitive.”

**How do the difficulties faced by the forest industry in the mature markets show in Tamfelt's activities?**

**Jyrki Nuutila:** ”Given the present market situation and trends, our strategic choice, made years ago, was exactly right. We have invested in high-speed and modern

Rainer Häggblom

paper machines that are rarely subject to run-down. Our market share of wide machines has been steadily on the increase and we have remained on growth track fairly well.”

**Tamfelt's strategy is organic growth ahead of the market. What kind of requirements does this impose on the organization and R&D?**

**Jyrki Nuutila:** ”We must be an innovative trailblazer in our own narrow area. Each of our product groups runs a few spearhead products that help us grow our markets. Price erosion has been relatively high. New innovations help us combat price erosion to some extent. Our position as part of the world's most progressive forest cluster provides an excellent starting point.

It is important for us to have a multicultural organization. We must understand how we should go about working in different cultures and know how to do business on the customer's terms. Tamfelt hires employees from various cultures - we cannot manage with Finnish resources only.“

**What type of competence is emphasized in future?**

**Jyrki Nuutila:** ”We need people who are able to assimilate new things and work in a multicultural environment. Judgment and courage are necessary requirements. It is vital that people in the different units are able to communicate and network with each other.”

**Rainer Häggblom:** ”The management should create an atmosphere that favors communication and networking. In the process of internationalization it is important to take charge of Finnish competitiveness, including people.”

# Business environment

## Customers

Tamfelt is a supplier of technical textiles to various industries worldwide. The key customer group is the paper and pulp industry, which uses both paper machine clothing and filter fabrics made by Tamfelt. The company also supplies filter fabrics to customers in the mining, chemical, food, building and energy industries, and ironer felts to commercial and institutional laundries. Tamfelt's products can make a crucial impact on the customer's process and competitive ability. Appropriate clothing plays a vital role in improving the efficiency of filters and paper and board machines. The most suitable clothing in each paper machine position ensures higher running speed, improves net efficiency, helps achieve savings and enhances paper quality. Local customer service resources with good understanding of the customer's processes and requirements combined with special expertise available the world over is one of Tamfelt's strengths that customers have learned to appreciate.

## Clothing market

The main factors affecting the market for Tamfelt's products are economic cycles, customer's business trends, and the company's relative competitiveness.

The annual worldwide market for paper clothing is currently estimated at 2 billion euros. The trend follows the evolution of the paper market. The demand for clothing, however, lags slightly behind that of paper, owing to decreasing specific consumption (consumption per paper ton produced). The paper industry is estimated to grow at the annual rate of 2.5 per cent over the next three years. Tamfelt's target market of wide and high-speed machines is expected to grow ahead of the average rate. Most new paper machines are being built in Tamfelt's target market, whereas shutdowns mainly occur out of the company's focus area.

The aggregate market for filter fabrics is currently estimated at one billion euros, and it is growing at an average rate of seven per cent a year. The demand is boosted by heavily growing customer industries, increasing environmental awareness, tightening environmental standards and high energy prices.

## Market position

Tamfelt has established a global presence in all central market areas through an extensive sales and customer service network. The company serves customers in roughly 70 countries. Of the 2006 net sales, 34 per cent came from the domestic market, 42 per cent from the rest of Europe and 24 per cent from other countries.

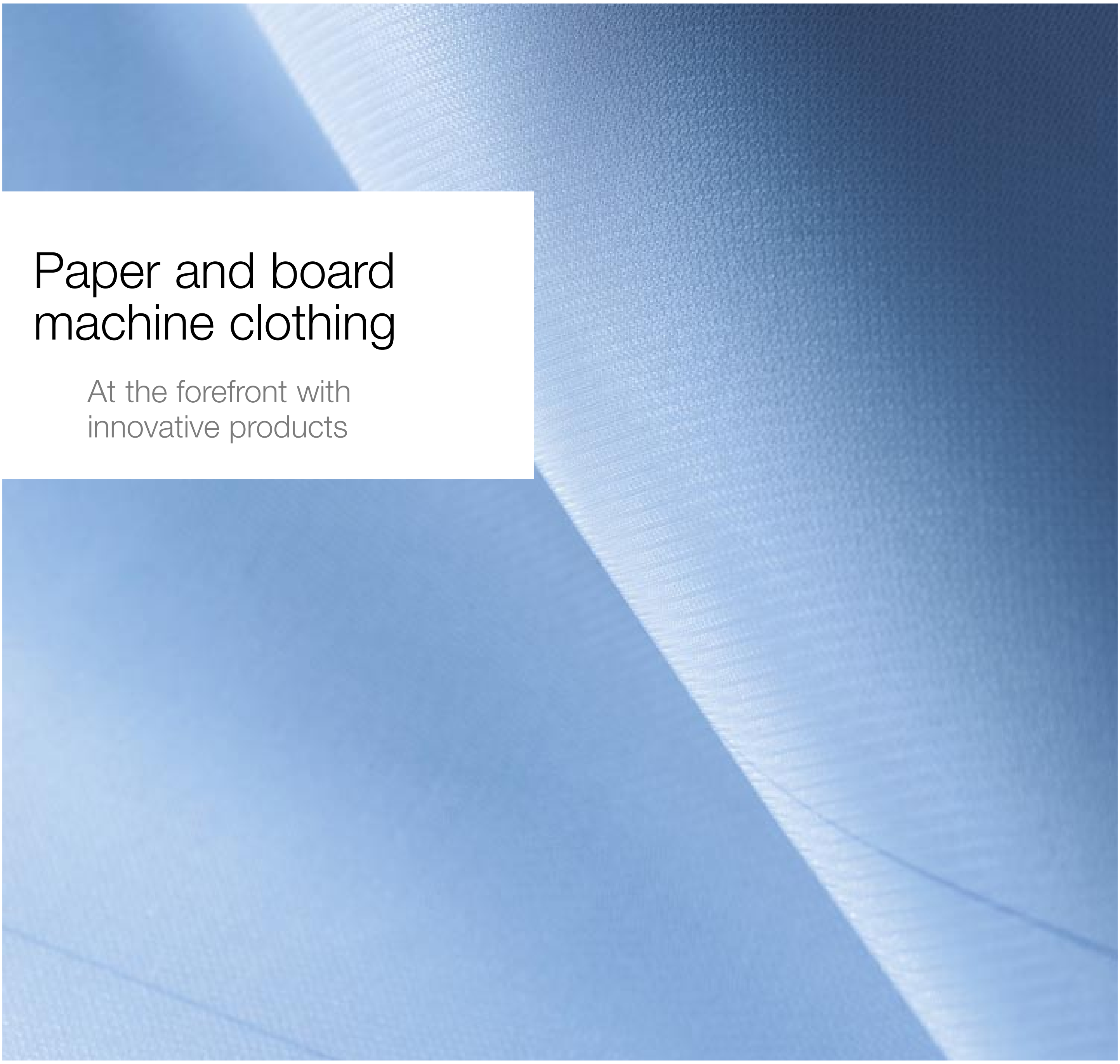
Tamfelt's share of the global market for paper machine clothing is approximately 5 per cent. While it holds a 13-per cent share of the main market in Europe, Tamfelt accounts for 20 per cent of clothing supply to the target market of wide machines. With strong competence in certain special areas of filter fabrics, Tamfelt is the leading supplier of filter fabrics for the causticization processes of pulp mills and for iron processing plants and the leading supplier of ironer felts for commercial laundries.

## Trends

In the next few years, the market for paper clothing will grow fastest in China and elsewhere in Asia. The biggest future growth will come from Eastern Europe and Latin America. In recent years, more than half of new paper machine investments have been made in China. The size of Tamfelt's target market in China already equals the size of the company's domestic target market. The Chinese market is expected to almost triple over the next ten years. The demand for filter fabrics will also grow rapidly in China. Other growth areas for filter fabrics include India, Eastern Europe and South America.

A thorough understanding of the customer's process will be increasingly important for a supplier to be able to offer solutions that improve the customer's competitive position. Collaboration with customers, machine manufacturers and research bodies will be ever more emphasized. Process efficiencies continue to improve and customers will specify growing demands for reliable operation. Uniform quality is yet another requirement that is increasingly relevant. As new filtration equipment and machine concepts impose growing demands on clothing suppliers, close partnership with customers is necessary from the very beginning of product development.

Price competition is fierce in Tamfelt's line of business. The company is responding to falling price levels by engineering new products with so much added value that the customer is willing to pay more. Focus remains on applications that require high-quality products and special competence.



# Paper and board machine clothing

## At the forefront with innovative products

Tamfelt is a world-leading supplier of paper and board machine clothing. All products are tailored to meet the specific requirements of the particular machine and position. We work in intensive cooperation with customers, machine and equipment manufacturers, material suppliers and research institutes.

Paper machine clothing (forming fabrics, press felts and fabrics, shoe press belts and dryer fabrics) are key elements of the paper manufacturing process. Their role is to support and transport the paper web through the process and to remove water. The purpose is to ensure a trouble-free process enabling customers to produce high-quality paper and board economically and efficiently.

The constantly advancing technology of large and high-speed paper machines presents a growing challenge to clothing suppliers. As a full-line supplier Tamfelt tackles this challenge with the help of focused R&D, professional workforce and innovative approach. We provide solutions in which products and technical services form a comprehensive package. Correctly chosen fabrics ensure substantial energy savings, better runnability and higher paper quality. The expertise and experience acquired over the years are the keystones of our company's authority in the business.

Tamfelt has proven its expertise as a start-up supplier for large and high-speed SC, LWC, newsprint, fine paper and board machines. Besides clothing, we also provide comprehensive expert assistance. We have engineered a start-up support concept, which is widely acknowledged by customers. At the commissioning stage, our experts team up with the customer and the machine supplier to ensure a successful start.

## Forming fabrics

Forming fabrics are woven from thin synthetic yarns and processed through heat-setting and seaming. The key requirements for forming fabrics are excellent runnability, even dewatering capability and consistently reliable quality. Most forming fabrics are woven in double-layer or triple-layer applications. The share of triple-layer fabrics has steadied at 70 per cent of all forming fabrics made by Tamfelt.

Tamfelt's **Gapmaster** is the leading SSB triple-layer range of the industry. The patented Gapmaster style has contributed to excellent machine performance, and it has been specially praised for stability, good runnability and high wear resistance.

Our latest innovation **HiSpeed** is currently being introduced to the market. The triple-layer style has been specially developed for high-speed paper machines. The patented warp design, which differs from conventional forming fabrics, combines the excellent performance of triple-layer fabrics and the thinness and high dewatering capacity of double-layer styles. On a test machine, the fabric has achieved good results even at 2,255 m/min. The first HiSpeed fabrics have already been run and the results are highly promising.

The **Packmaster** fabrics have been specially designed to boost the efficiency of packaging paper and board machines and to improve product quality.

Other Tamfelt forming fabrics include Hifi, Multistar, Optistar and Champion.

## Press felts and fabrics

Press felts are produced from synthetic yarns and fibres in a weaving and needling process. The key requirements for press felts are repeatable quality, fast start-up, high dewatering performance and, above all, good runnability to ensure achievement of the targeted lifetime.

**Transmaster Open** (TMO) has continued to increase its market share. Tamfelt was the first in the world to introduce in 2002 a product which combines the best of permeable felt and impermeable transfer belt. The benefits of TMO include fast start-up, excellent runnability of the press section, high dry content of paper after the press section and, in many cases, superior smoothness of paper or board. TMO has helped

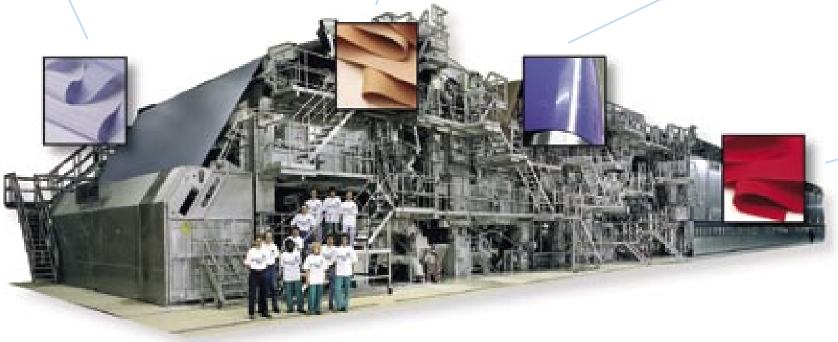
## What fabrics do in a paper machine

**Forming fabrics**
The pulp sprayed on the wire section contains 99% water and 1% fibres. Most of the water is removed on the wire section. A paper web is formed by filtering water through the fabric. Thus the fibres stay on top of the fabric.

**Press felts**
From the wire section the web is conducted to the press section, whose main function is to remove water. The web is pressed between rolls and felt. This increases water pressure and makes the water flow into the felt.

**Belts**
On a shoe press the press time is essentially longer than on a conventional roll press. Thus much more water can be pressed out of the web. A shoe press is operated with a belt.

**Dryer fabrics**
On the dryer section, the dry content of the web is further increased by evaporation. The dryer fabric presses the web against the surface of steam-heated drying cylinders. As web temperature rises, water is effectively evaporated through a porous dryer fabric into the air.



> Tamfelt's fabrics contributed to a number of new world record speeds on paper machines.
>
> Seppo Holkko
> Executive Vice President,
> PMC Division

improve the performance of a number of high-speed and wide paper machines. The Transmaster range also includes a seamed version, **SeamMaster Open** (SMO), which, apart from all the good properties of Transmaster Open, is easily seamable. This allows a swift change of fabric even at unexpected shutdowns. Another seamed press fabric style is **Tamseam**. The delivery volumes of seamed press felts and fabrics continue to grow at a steady rate both in Finland and in other parts of the world.

**Aquastar** is yet another press fabric, which excels in the fastness of start-up and non-marking structure. Aquastar features a non-woven base without any mark-sensitive knuckles.

Tamfelt runs the most comprehensive range of press felts in the market. A suitable product will be found for any press position. Other press felt products include Ecostar, Laminet, Ecoaqua, Tambat and Streamstar.

## Shoe press belts

**Tambelts** are made by casting cylindrical roller jackets of polyurethane, which are reinforced with yarns. The volumes have grown heavily, and the customers have reported good results. Belts are either smooth (**Tambelt S**), semigrooved (**Tambelt SG**), or grooved (**Tambelt V**). The latest development is **Tambelt 3G** (patent pending). In this new product, a third layer of reinforcing yarns makes the belt structure yet stronger. The key requirements for belts are excellent wear resistance, non-stretchability, low friction, and superb dewatering capacity. Tamfelt's belts are also delivered to Metso Paper under the trade name Metso Belt.

## Dryer fabrics

Tamfelt's dryer fabrics are woven from synthetic yarns and processed through heat-setting and seaming. Their essential requirements are good support to the paper or board web, maximum evaporation capacity, non-marking process, high wear resistance and anti-dirt properties.

We have extended the **Tamstar** product family to comprise four types of fabrics, each one with different functional properties. **Tamstar** is the right choice for positions which require good runnability and steerability as well as excellent wear resistance. **Tamstar HS High Speed** has been engineered for machines with modern web control equipment and **Tamstar HP High Perm** for two-tier sections that require high dryer efficiency and relatively high air penetration. **Tamstar HC High Contact** has been designed for machines requiring good support of the paper web.

Our patented **Unistar SL** is designed to improve machine runnability in the first groups of the dryer section, in unirun positions, in particular. Unistar SL has contributed to outstanding performance of paper and board machines.

Tamfelt's dryer fabrics also include Tamdry, Saunastar and Silverstar.

### Tamfelt fabrics at SAICA 4 PM 10 start up

SAICA 4 PM 10 in Spain started up successfully in March 2006. Both the forming and the press section were 100% Tamfelt-clothed. Tamfelt's start-up delivery also contained dryer fabrics and Tambelt shoe press belts. "The atmosphere before a start-up is always a little tense and challenging, but after a successful start the feeling is great. Close co-operation between the customer, machine manufacturer, and clothing supplier is essential", says Juan Manuel Martin, Tamfelt's sales and service engineer who carried the main responsibility of Tamfelt's extensive start-up support. PM 10 makes fluting and testliner. The wire width is 8.55 m and design speed 1,800 m/min.

# Filter fabrics

Success and growth through specialization

Tamfelt specializes in filter fabrics for the forest, mining and chemical industries, for sewage treatment plants, energy production and the building materials industry. The other special line of production comprises ironer felts for commercial and institutional laundries.

In terms of filtration technology, our filter fabrics are divided in wet and dry filtration products and ironer felts. We offer expert know-how in the choice of individual filter fabrics and in technical solutions for comprehensive filtering processes.

## Filter fabrics for the pulp and paper industries

Tamfelt has two major advantages as a filter fabric supplier to the pulp and paper industry: firstly, our location in Finland, a world leading country in papermaking technology, and, secondly, our close partnership with leading filter manufacturers.

Filter fabrics are used in the manufacture of pulp and paper in a high number of different filtering equipment and washers. Pulp cooking chemicals are removed in post-cooking washers. In the bleaching process, pulp is washed several times over and water is removed in filtering. The same principle applies to the manufacture of mechanical pulp and the reuse of fibre recovered from recycled paper.

Tamfelt is the world leading supplier of filter fabrics for causticization processes in pulp mills. Our position is strengthened by new causticization plants starting up with our fabrics in various parts of the world.

Tightening environmental standards boost the demand for high-quality filter fabrics.

Heikki Rehakka
Executive Vice President,
Filter Fabric Division

The biggest product groups are:
- shrink fabrics for drum filters
- disc filter bags
- lime mud filter bags
- filter fabrics for white or green liquor and dregs
- dewatering wires

Our patented disc filter bag **WellBag** has proved a success in delivering 15 to 25 per cent higher filtering capacities compared with ordinary products. The unique weave structure forms a wavy surface when the bag shrinks. This provides a larger filtration surface than a conventional weave. WellBags are already being installed as original equipment on new filters.

Waste water from pulp and paper plants is filtered before it is discharged into waterways. The compacted dry slurry is acceptable for incineration.

## Filter fabrics for the mining and chemical industries

Tamfelt supplies filter fabrics to various processes employed in concentrating plants and in the metallurgical and chemical industries. Fabrics for the treatment of community and industrial waste water are also included in our programme. High process temperatures, complex chemical environments and the variety of sludge set high special requirements on the fabrics.

The biggest product groups are:
- cloths for automatic chamber filters
- disc filter bags and plastic sectors
- cloths and fabrics for horizontal belt filters
- fabrics for press filter presses
- press filter cloths
- drum filter cloths
- cloths for electrolysis

The **StrongMax** fabric has been developed for horizontal belt filters and belt filter presses in the mining and chemical industries. The new polymer material improves filtering performance and extends fabric life. The product has delivered very good results. A new area where StrongMax has proved its excellent filtering properties is desulphurization of flue gases. As environmental regulations tighten, increasing numbers of desulphurization units are being deployed worldwide, which ensures strong growth potential for our StrongMax products.

## Filter fabrics for energy production

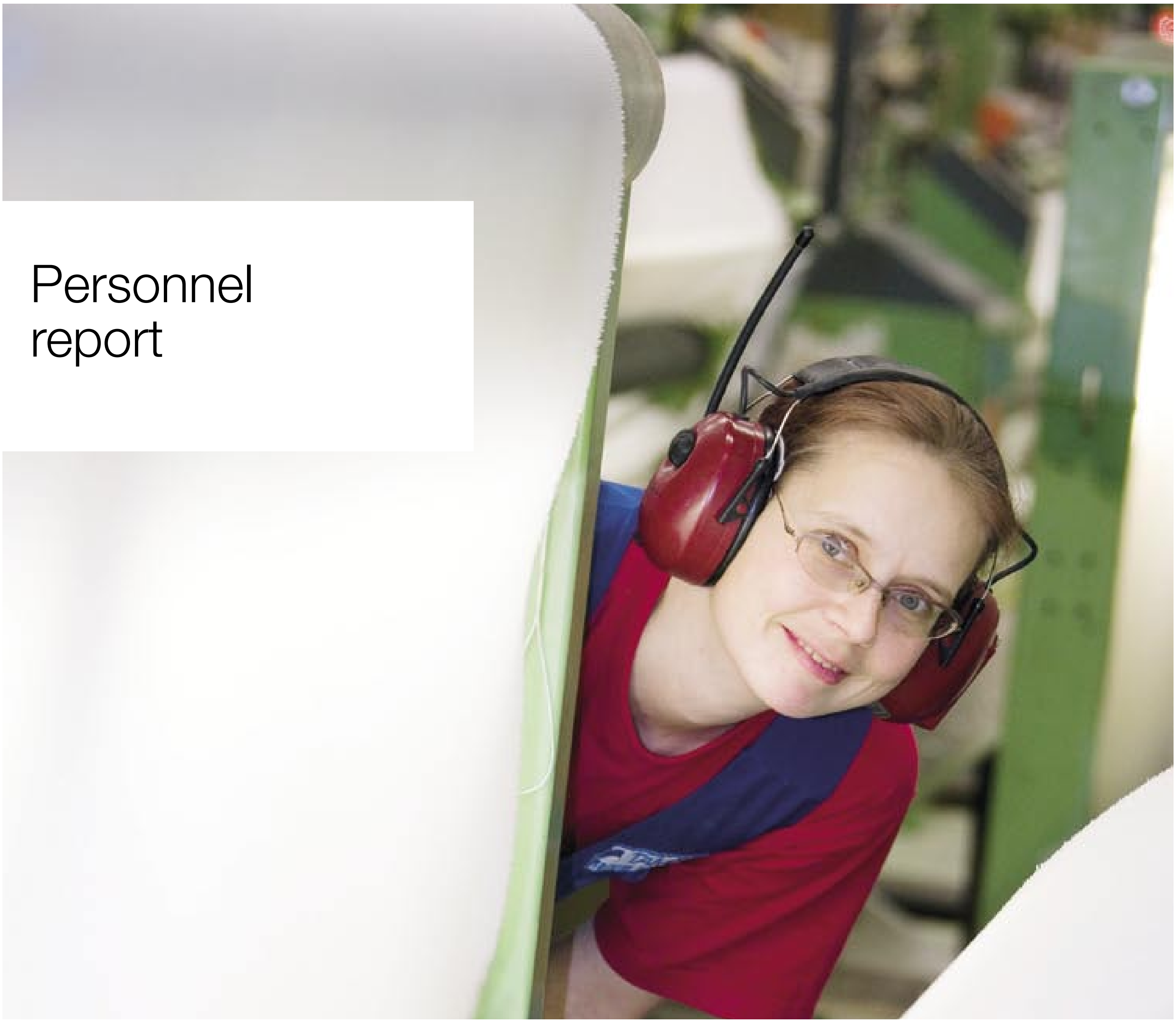
The use of coal as energy source will increase as oil prices rise. To cut emissions from coal burning, high-quality filter fabrics are key. Also the growing production of biofuels requires filtration equipment. Increasing volumes of sophisticated filter fabrics are required to reduce air pollution. The filtering of flue gases and exhaust air from industrial plants and thermal power stations is an important sector of air pollution control. Solid particles are either returned to the process, converted into energy by incineration, or taken to a landfill site. The filters use bags or sleeves made of various types of felt.

## Ironer felts

Commercial and institutional laundries provide their customers with clean and dry textiles. The ironers use special felts that are installed around rotating rolls. They make the textiles smooth and give them a pleasant feel. The felt is highly permeable in order to absorb moisture from the fabric. The types of felts needed depend on ironer technology and the customer's requirements for the end product. Ironer felts must be highly resistant to abrasion, heat and moisture.

### Best results with close co-operation

Close co-operation between Tamfelt, the customer, and filter equipment manufacturer has yielded excellent results. This is true, for example, in Trzebionka, Poland, zink concentrator plant where Tamfelt's filter cloth was run in a Larox filter for a record 11 months. This is an outstanding result in the demanding conditions in the plant, and a perfect example of a good long-term relationship between the parties.



# Personnel report

At the end of 2006, the Group employed 1,443 people (up from 1,401 in 2005), a quarter of these in Tamfelt's foreign subsidiaries. The growth, 42 people, was distributed among the Tampere plant and the Shanghai facility and other foreign operations. The parent company employed 1,045 people (1,040) at the end of the year, 745 (729) at Tampere and 300 (311) at Juankoski.

## Personnel structure

There was little change in the personnel structure. The average employee age at year-end was 41 years and the average length of employment was 13 years at the Group level. In the parent company, the average employee age remained at 42 years and the average length of employment was 14 years (13). The percentage of shop-floor workers remained at 71 and that of office staff at 29. Women accounted for 47 per cent (48) and men for 53 per cent (52) of Tamfelt's personnel. Of Group personnel, 24 per cent (23) had been at Tamfelt for less than five years and 31 (31) per cent for 20 years or longer. The corresponding figures in the parent company were 18 (19) and 37 (33), respectively. In Tamfelt Group, thirty per cent (30) were younger than 35 and 24 per cent (24) were over 50. In the parent company, the figures were 30 (29) and 26 (27) per cent, respectively.

The employments were permanent and full-time. At the end of the year, 94 per cent (96) of the staff were employed until further notice and 6 per cent (4) for a fixed term. Full-time employees accounted for 97 per cent (97) and part-time employees for 3 per cent (3). Fixed-term employments were held equally by men and women. Part-time jobs were held by 4 per cent (4) of women and one per cent (1) of men.

## Labor turnover

External labor turnover, which measures movement of people in and out of the company, was 7.6 per cent at the Group level. The parent company figure was 8.1 per cent (4.4). The parent company hired 95 new people (45), of whom 71 (30) for the shop floor and 24 (15) for office jobs. Tamfelt was a preferred place of work. Good employer image ensured a large number of job seekers for all vacancies at the domestic plants. Eighty-four employments (73) terminated during the year; of these 61 (52) were workers and 23 (21) clerical personnel; eight were retiring employees.

Internal labor turnover, reflecting the versatility of skills and cumulative competence, was 10 per cent (9). In the parent company, 104 people (94) moved to new jobs. Work periods abroad are more and more common. During the year, 12 employees (8) acquired expatriate experience from Germany, Portugal, Australia, China or Poland. A groundbreaking secondment to the opposite direction was taken by a representative from Tamfelt's subsidiary in Brazil, who spent a year in Tampere getting acquainted with the development and marketing of filter fabrics.

Students bring a noteworthy contribution to labor turnover. Over the year, 134 summer trainees (108) from vocational colleges and universities worked in the parent company, as well as 32 (29) younger students being introduced to the world of work. Cooperation with vocational institutions continued with Tamfelt offering internships to their students. Fresh views were brought by the 18 students (11) who were preparing their academic degree papers on subjects related to Tamfelt's current development projects.

At the end of the year, 65 per cent (60) of shop floor workers and 94 per cent (93) of clerical personnel held professional degrees. The percentage of office staff with post-secondary level education was 28 (29); college engineers accounted for 29 per cent (31) and 34 per cent (33) held university degrees.

Flexibility in working life is appreciated as an important factor of well-being at different stages of the life cycle. During the year, 23 individuals (37) benefited their option to full-time and 7 (9) to part-time child-care leave, and 30 (26) took job alternation or study leave.

The average age of retirement was 61 years (62). Again, musculoskeletal diseases were the number one reason for retirement on a disability pension. At the end of the year, 15 people (12) were on part-time pension or part-time disability pension.

## Competence development

International outlook, practicality and interaction were emphasized in competence development programs. The training focused on deepening and extending professional competence, supervisory skills, interaction, understanding overall contexts, and language skills.

Tamfelt values:

- Satisfied customer
- Good profitability
- Openness and fairness
- Competence and working ability
- Sustainable development

A bonus system designed to reward the completion of degree-oriented development programs was adopted at the end of 2006.

A good example of competence development programs is the introduction of the SAP resource planning system in Tamfelt's Portuguese subsidiary, accomplished as a joint project by the parent company and Fanafel's own experts. As a result, Fanafel and the parent company now share the resource planning system and a number of proven procedures.

The aspects of successful multicultural cooperation were on the agenda when representatives from foreign subsidiaries met with teams from the parent company. Multicultural resources are an important asset in the development of global business. Employees sent on foreign assignments, including their family members, were prepared for challenges ahead on training courses dealing with the culture and practices of the destination.

The basic program employed by Tamfelt for the improvement of managerial and supervisory skills is the specialist leadership qualification program (JET), as well as the TBC Leader program and MBA programs for senior executives. These long-term programs are followed up and updated at theme events and on explicit training courses.

Experience sharing, sparring, team learning, and the design of new ways of learning continued in the networks of Tampere Business Campus.

A weaving improvement program, which has been taken by 150 employees and supervisors over the course of 2.5 years, was now completed at the Tampere mill. The program was designed to share and pass on experience-based knowledge and best practices. The skills required in weaving jobs were identified and the current level of competence was analyzed. In the spring

22 employees holding different weaving jobs embarked on studies preparing for further vocational qualification in clothing technology.

## Monitoring and enhancing well-being at work

The percentage of sick absences of the theoretical regular working hours was 6.1 (6.2) in the parent company, while the overall industrial average in 2005 was 6.2 per cent. At Tampere, 41 per cent (33) of absenteeism through sickness was attributed to musculoskeletal diseases, 16 per cent (15) to injuries, 14 per cent (16) to respiratory disorders, 8 per cent (11) to disorders of mental health, and 21 per cent (23) to other illnesses.

The improvement and monitoring of equality continued in line with the company's equality plan. An enquiry made at the Tampere plant revealed that attitudes are now more positive than three years ago when it comes to the functioning of the immediate working community, participation in decision making, access to information, and improving professional competence. Women remain more critical than men of the status of equal opportunities.

Part of the personnel had an opportunity to assess their own well-being at work in a pilot project implemented as an Internet enquiry. The test dealt with visual ergonomics, sleep, food, weigh control, physical condition, life management, stress and work load. The idea was to encourage people's own interest in their coping and well being.

## Safety and accidents

Accidents accounted for 0.3 per cent (0.4) of the theoretical regular working time; the industrial average for 2005 being 0.4. There were 79 (84) accidents at work in the parent company, resulting in 586 (860) days lost. Eight (4) lost-time accidents occurred at Juankoski and 48 (54) at Tampere. The number of accidents involving more than three days away from work was 35 (26) in the parent company, causing a loss of 352 (408) days altogether. The number of accidents requiring more than three days of lost work time per one million worked hours was 22 (16) in the parent company.

Risk identification and risk assessment are employed in an effort to eliminate and reduce the causes of accidents. Near miss incident reports provide information that is shared to encourage safe behaviors in the workplace.

Noise measurement and hearing protection were improved. The anti-noise statute effective from February 2006 requires employers to take proactive measures to reduce exposure to occupational noise.

The Tampere plant and Tamfelt's insurance company teamed up in September for an extensive exercise including accident, first aid, fire and evacuation drills. In a feedback session, the course of the exercise and performance were analyzed in terms of patient care, evacuation and internal and external crisis communication. The drill was deemed a success, and Tamfelt's first aid team has continued the debriefing for training purposes.

## Personnel structure, Dec. 31

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | consolidated | parent | consolidated | parent |
| | number | number | number | number |
| Wage-earners | 1,013 | 742 | 985 | 729 |
| Salaried employees | 430 | 303 | 416 | 311 |
| Total | 1,443 | 1,045 | 1,401 | 1,040 |
| | % | % | % | % |
| Wage-earners | 70 | 71 | 70 | 71 |
| Salaried employees | 30 | 29 | 30 | 29 |
| Labour turnover | 7.6 | 8.1 | | 4.4 |

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | consolidated | parent | consolidated | parent |
| | years | years | years | years |
| Average age | 41 | 42 | | 42 |
| Average employment | 13 | 14 | | 13 |

First aid training has been upgraded by the company's own health care staff.

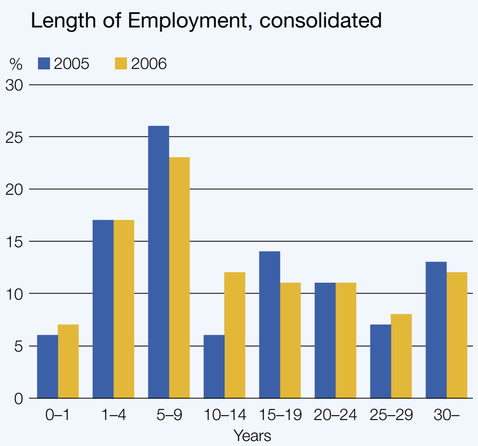
The entire parent company is required to do a training course leading to qualification for a "safety card". The program has already been completed at Juankoski and will soon be at Tampere too. In future, the training will be provided to new employees and for updating, whenever required.

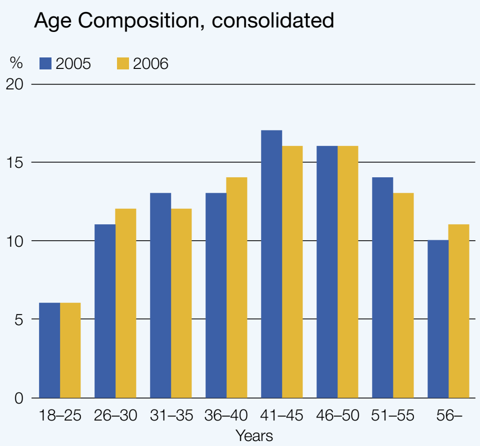
## Suggestion schemes

The suggestions submitted in the parent company were increasingly focused on the enhancement of production and profitability. The number of contributions fell slightly, but the amount paid as rewards was higher than in the previous year. Some 10 per cent of employees used the opportunity to share their ideas. Suggestion campaigns were conducted at both plants.

## Human Resources Account 1.1.–31.12.

| **Parent company** 1000 € | **2006** | % | **2005** | % |
|---|---|---|---|---|
| **Net sales** | **128,770** | 100 | **118,973** | 100 |
| Personnel expenses | -54,239 | 42 | -49,590 | 42 |
| Payroll for regular worktime | -35,702 | 28 | -33,031 | 28 |
| Payments for results | -3,627 | 3 | -3,097 | 3 |
| Payments for overtime | -1,765 | 1 | -1,719 | 1 |
| Personnel renewal | | | | |
| Recruiting and job orientation | -851 | 1 | -659 | 1 |
| Vacation payments | -7,270 | 6 | -6,971 | 6 |
| Other holiday payments | -2,607 | 2 | -2,459 | 2 |
| Personnel development | | | | |
| Training | -484 | 0 | -488 | 0 |
| Other measures to maintain and improve working ability | -395 | 0 | -384 | 0 |
| Sick payments | -994 | 1 | -1,227 | 1 |
| Disability pension expenses | -56 | 0 | 1,257 | -1 |
| Other pension expenses | -93 | 0 | -425 | 0 |
| Other personnel expenses | -395 | 0 | -386 | 0 |
| Outsourced services | -3,103 | 2 | -2,982 | 3 |
| Other costs and expenses | -52,448 | 38 | -52,439 | 44 |
| Financing items | 1,642 | | -223 | |
| Extraordinary items | 2,050 | | 2,140 | |
| Taxes | -4,793 | | -3,865 | |
| **Net income for the year** | **17,879** | 14 | **12,014** | 10 |



# Environmental report

## Environmental policy

**Sustainable development**
Adherence to the adopted environmental management system and continuous improvement of the defined environmental policy ensure the optimal use of natural resources and sustainable development.

**Compliance with laws and regulations**
Tamfelt operates in compliance with environmental legislation, regulations and official guidelines.

**Efficient use of material and energy**
Raw material and energy are used efficiently. Tamfelt's products are engineered in cooperation with customers to be competitive and ecological. Unnecessary use of electricity, water and heat is avoided.

**Reduction and recycling of waste**
Efforts are made to reduce waste and to improve waste recycling. Waste is sorted and sent for recycling or further processing.

**Continuous improvement**
Tamfelt sets annual environmental targets for the company's activities. Specific programs are implemented to focus resources in optimal ways to ensure that the targets will be reached. Tamfelt's management sets the targets, provides the necessary resources and monitors compliance.

**Personnel commitment**
Tamfelt's environmental work is based on competent and motivated employees, who are actively involved in the planning and improvement of environmental behavior. Each employee and each partner is responsible for performing in a way that ensures the achievement of environmental targets.

Tamfelt operates on the principles of sustainable development. The company's environmental policy is adopted as a basis for all decision-making involving environmental considerations of products and activities.

## Environmental issues in 2006

The main environmental initiatives in 2006 included waste reduction, improved recycling, measures required by the environmental permit granted to the Tampere plant, upgrading and certification of the environmental management system, efficient energy use and emissions trading.

Carbon dioxide emissions were reported for emissions trading for the first time in 2006. Some 13,000 emission allowances were freed up from the Tampere plant.

## Environmental policy and environmental management system

Tamfelt's environmental policy and environmental management system have been designed in consideration of the environmental impacts of the Juankoski and Tampere plants and statutory requirements.

The goal is to use raw materials as effectively as possible and to avoid unnecessary consumption of energy and water. Efforts are made to reduce waste from operations and to improve waste recycling. Waste hazardous to health or the environment is sent to the appropriate disposal contractor.

Tamfelt's environmental management system is based on the ISO 14001 standard, and the parent company was certified on March 2, 1998. The environmental management system was upgraded and re-certified in 2006 without any deviations from international requirements.

The company's senior management is responsible for the improvement and enforcement of the environmental management system.

## Environmental risks

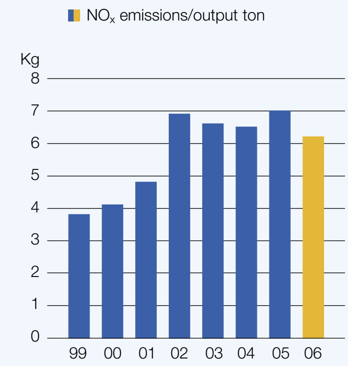
Environmental risks are low from Tamfelt's activities. The hot oil system and the partial location of the Tampere facility in a watershed area of lake Kaukajärvi are potential risks, whereas hardly any risks are found at the Juankoski plant.

An earlier investigation revealed small amounts of metals at the bottom of the Tampere plant's equalizing reservoir. The reservoir was removed from use in 2006. Test drillings were conducted, soil samples were analyzed and the degree of pollution was determined. The polluted soil will be removed for further treatment in 2007 according to a permit granted by the regional environment center.

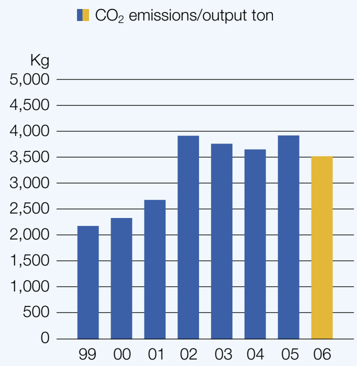
## Major environmental impacts and their trends

The Tampere plant pumps service water from the nearby lake Kaukajärvi. The water has an important role in cooling the plant especially in summer. The hot summer of 2006 reduced the water level in the lake until in August it was below the specification of the permit conditions. The company took action to restrict the use of water and applied for an exceptional permit from the Western Finland Environmental Permit Authority. The permit was granted.

Nitrogen Oxide Emissions, Tampere plant




Carbon Dioxide Emissions, Tampere plant



Tamfelt attends to the impounding dam of the lake outlet, which helps regulate the water level. The environmental permit allows the company to lead water used for air conditioning back to the lake. In 2006 Tamfelt started the design of a return pipe, which has been scheduled to be built in 2007.

From the Tampere plant, wastewater is discharged direct into the municipal sewage system. The concentration of the discharged waste water remained within the limits of the environmental permit. Wastewater quality is regularly monitored by the company's own spot checks and sampling by a non-company laboratory.

The heating station of the Tampere facility is fueled by natural gas. The consumption of natural gas per output ton decreased slightly. This was partly attributed to mild weather conditions and consequent lower need for heating in the winter. The Tampere plant joined the emissions trading scheme on January 1, 2005. The granted emission permit and emission allowances cover the years 2005 through 2007. In 2005 Tamfelt requested a revision of the allocation because of a boiler rebuild. SFS-Inspecta Sertifiointi was chosen as the accredited verifier of the company's emissions trading accounts.

Tamfelt continued to contribute to an air-quality monitoring scheme run by the city of Tampere. An updated agreement was signed in 2005.

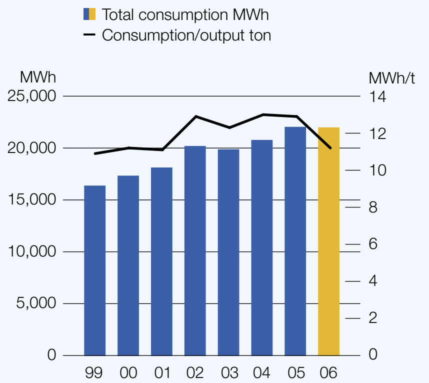
The consumption of electricity per output ton was slightly lower in proportion to that of the previous year at both domestic plants.

Most of the waste from the two plants consists of raw material residue. At Tampere, the amount of landfill waste per output kilo remained at the level of 2005, whereas the corresponding percentage of the Juankoski plant fell by 70 per cent. The reduction was attributed to more effective reclamation of raw material and improved recycling. The percentage of waste recycling was 55 at Tampere and 90 at Juankoski.

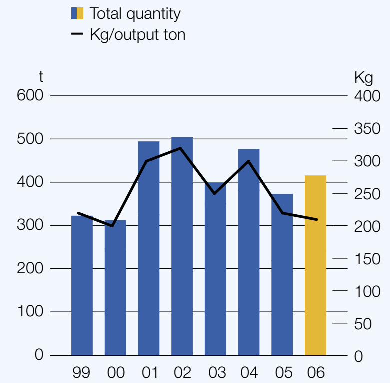
Hazardous waste was treated by the appropriate disposal contractor. The amount of hazardous waste from both facilities is low. The amount generated by the Tampere plant has been growing in recent years with increasing use of harmful chemicals in the manufacturing process.

The targets set for raw material utilization and recycling of cloth waste were not reached at the Group level. Raw material utilization was up three per cent and

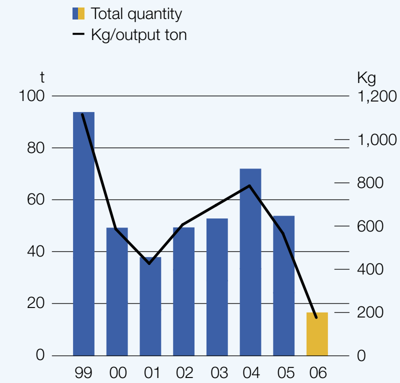
Electricity Consumption, Tampere plant




Landfill Waste, Tampere plant




Landfill Waste, Juankoski plant



cloth waste recycling five per cent. The recycling of cloth waste improved through increased cooperation with cloth residue users. Tamfelt is actively looking into opportunities to increase the utilization of cloth waste.

More than 90% of packaging of products supplied by Tamfelt is reused.

## Waste as energy

The kinds of waste that serve no production purposes but can be burned are referred to separate collection. This "energy fraction", in the case of the Tampere plant, consists of raw material waste, contaminated board, plastic and wood. It must not contain organic waste, metals or PVC; these are collected separately.

Energy fraction can replace coal or peat as fuel. In heating value, the energy waste generated at Tampere equals to coal and slightly exceeds peat. Its ash content is below 1 per cent of dry solids, while that of coal is 10 to 18 per cent. The contents of sulphur and chlorine are also low. Burning waste helps reduce atmospheric releases from energy production plants compared to fuels such as coal.

Waste as fuel reduces the load on landfill sites and the cost of waste treatment is cut to almost a half of the cost of landfilling.

Finnish legislation concerning waste burning will be amended in the next few years. Tamfelt keeps track with the legislative process.

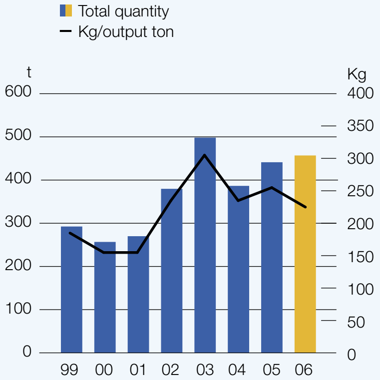
## Stakeholder relations

Tamfelt is in regular dialogue with public authorities on issues related to the environmental permit. The company has also actively collaborated with its neighbourhood in environmental issues.

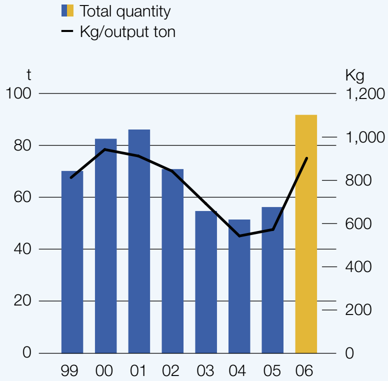
Tamfelt's personnel are willing to contribute to the improvement of the environmental program. They integrate environmental considerations into their daily work and have proposed a number of measures to reduce the company's adverse environmental impact.

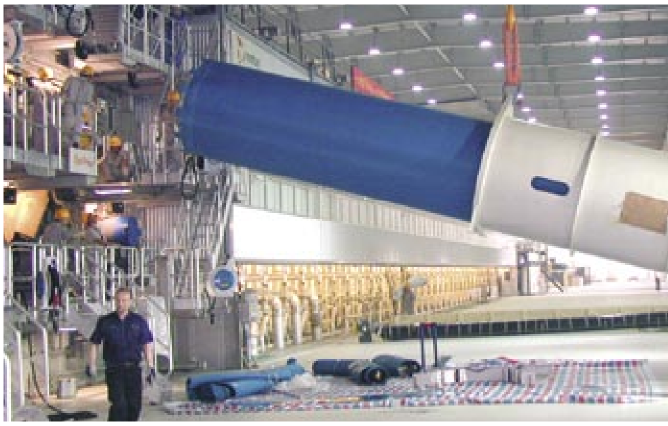
Tamfelt's customers have approached the company with assessments and questions about environmental issues. They have found the management of environmental affairs to be at a high level.

Recovered Material, Tampere plant




Recovered Material, Juankoski plant





# Research and development

Intensive cooperation with customers, machine and equipment manufacturers and material suppliers is the basis of successful R&D.

## Research and development

Tamfelt's R&D is conducted in cooperation with customers, material suppliers, process equipment suppliers, notably paper machine and filter manufacturers, as well as universities and research institutes. The work is focused on the engineering of new products and continuous upgrading of existing products as required by changing customer needs. Tamfelt submits about five patent applications yearly.

R&D is controlled by Tamfelt's quality and environmental management systems. Since 1992 our company has been certified with the SFS-EN ISO 9001 quality standard, which was upgraded in 2003 to correspond to ISO 9001:2000. We are committed to high quality and sustainable development in everything that we do.

The R&D expenses were 2.8 per cent of the Group's net sales in 2006.

## Laboratory

The Tampere and Juankoski plants have their respective modern textile and paper laboratory facilities. Tampere operates also filtration test equipment, and laboratory tests on filter fabrics are also run at the Portuguese, Brazilian and Polish units.

Analyses of both raw materials and completed products are an important part of our activities. Incoming raw materials and supplies are tested before use. Measurements and examinations are carried out throughout the manufacturing process to ensure that the products meet all quality requirements.

The laboratories also examine used paper machine clothing and filter fabrics and analyse paper and board on a large scale. The results are extensively exploited in product development and customer service.

The filtration test equipment is used to find an optimum solution to the requirements of each particular customer. Filtration tests are an essential part of the development of a new product.

Tamfelt has developed special simulators to monitor the behavior of fabrics on paper and machines. The laboratories employ:

- contamination and abrasion simulators
- press simulators
- dewatering simulators
- forming fabric cleaning simulators

## Technical support

Tamfelt's technical support provides expert services both during the customer's production process and during shutdowns. Monitoring, follow-up, measurements, analyses and reporting are an integral part of our technical service.

Tamfelt's technical experts provide the following services:

- support to the customer in optimizing processes and running practices by the right choice of clothing
- support to the customer in solving paper machine or filter problems and help in quality or runnability problems
- provision of special measurements
- joint projects with customers
- development of new customer service measurements and equipment.

Measurements during production help improve the runnability of paper machines and optimize paper quality. During shutdowns, various sections of the machine and clothing can be checked in order to optimize running time and to avoid the risk of damage. Regular monitoring extends the life of the clothing and improves cost efficiency.

The results of measurements and laboratory analyses are an integral part of product application. They provide important information on fabric behavior in the customer's process and help Tamfelt make any modifications that may be needed to the next product supplied to the customer. Each fabric is tailored to the specific requirements of the particular position.

We invest in start-up cooperation. Our experts attend the start-ups of every new machine or rebuild, for which the company has supplied the fabrics. They train the machine crew, they discuss suitable fabric options with the customer and the machine supplier, they participate in trial runs, and, most importantly, they are there to ensure that the fabrics work well and the running conditions are optimal as the machine goes on stream.

Innovative high-performance products and competent technical support are the key to successful long-term cooperation with the customer.

# Releases in 2006

In 2006 Tamfelt published 12 stock exchange releases or announcements, which can all be found in the company's web pages at www.tamfelt.com/news. Here is a summary of the key releases of the past year:

**February 9, 2006**
Tamfelt Group's net sales in 2005 were up 4.7% at 140.1 million euros. Operating profit increased 36.1% to 21.6 million euros. Profit for the period was 15.3 million euros.

**March 17, 2006**
At the Annual General Meeting of Tamfelt Corp. the year-end accounts were adopted and the Board of Directors and the President & CEO were absolved from their fiduciary liability for the fiscal year ending on December 31, 2005. The Board of Directors' dividend proposal – 0.39 euros for a common share and 0.41 euros for a preferred share – was endorsed. Mikael von Frenckell, Axel Cedercreutz, Martin Lilius, Jouko Oksanen, Vesa Kainu and Niklas Savander were re-elected as the members of the Board of Directors. Carl-Magnus Cedercreutz was elected as a deputy member.

**April 27, 2006**
In January-March, Tamfelt's net sales were 39.3 million euros and operating profit was 5.9 million euros. Both the net sales and operating profit were ahead of the corresponding period of 2005. In connection with the interim report, Tamfelt announced an investment in press felt manufacture in Tampere as well as in a new processing unit for filter fabrics in China.

**August 9, 2006**
In January-June, Tamfelt's net sales were 79.3 million euros and operating profit was 11.7 million euros. Both figures were ahead of the performance recorded a year earlier.

**August 9, 2006**
Tamfelt announced an investment in a new fabric factory in China. The new plant is scheduled to come on stream in the beginning of 2008. This investment will improve Tamfelt's delivery performance and logistics.

**October 13, 2006**
Tamfelt disposed of its 38.89-per cent share in Alakoski Oy in Tampere. Tamfelt was one of the co-founders of the hydroelectric power plant, which has been in operation since 1936.

**October 26, 2006**
In January-September, Tamfelt's net sales were 115.8 million euros and operating profit was 18.3 million euros, both ahead of the previous year.

A year of
big decisions.

# Board of Directors Dec. 31, 2006

**MIKAEL VON FRENCKELL**
born in 1947
Chairman of the Board.
M.Soc.Sc.
Commercial Counsellor
Partner, Sponsor Capital Oy.

**Tamfelt Corp.:**
Deputy member of the Board 1979–1983. Member of the Board since 1983. Deputy Chairman 1990–1995. Chairman since 1995.

**Previous track record:**
Executive Vice President and member of the Executive Committee of the Union Bank of Finland (1993–1995), Member of the Board of the Union Bank of Finland (1990–1993), Executive Vice President of Sponsor Oy (1985–1990).

**Chairman of the Board:**
Sponsor Capital Oy and Waldemar von Frenckell Foundation.

**Vice Chairman of the Board:**
Neste Oil Corporation.

**Member of the Board:**
Tamro Corporation.

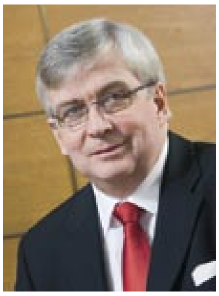
**Tamfelt shares:**
150,000 common and 150,000 preferred shares.

**AXEL CEDERCREUTZ**
born in 1939
Deputy Chairman of the Board.
M.Sc. (Eng.). D.Sc. (Tech.) (h.c.).
Swedish consul in Tampere.

**Tamfelt Corp.:**
Member of the Board and Deputy Chairman since 1995.

**Previous track record:**
President of Tamfelt Corp. (1986–1995), Executive Vice President of Tamfelt Corp. (1983–1985).

**Tamfelt shares:**
397,203 common and 63,959 preferred shares.



**MARTIN LILIUS**
born in 1947
M.Sc. (Eng.).
Senior Consultant at Management Systems Oy.

**Tamfelt Corp.:**
Deputy member of the Board 1986–1994.
Member of the Board since 1994.

**Previous track record:**
Private entrepreneur (1994–1999), Managing Director of Powerpush Oy (1988–1994).

**Member of the Board:**
Tamfelt Properties and Swedish Assembly of Finland.

**Deputy member of the Board:**
Pohjola-Norden ry.

**Tamfelt shares:**
14,517 common and 447 preferred shares.

Shares held on December 31, 2006 include also the holdings of the persons closely associated with insider and of controlled corporations.

## JOUKO OKSANEN

born in 1951
Chief Financial Officer of Varma Mutual Pension Insurance Company.
M.Sc. (Econ.).

### Tamfelt Corp.:
Member of the Board since 1995.

### Previous track record:
Chief Financial Officer of Mutual Insurance Company Pension-Varma (1990–1998), Chief Financial Officer of Fazer Musiikki Oy (1984–1990).

### Chairman of the Board:
F-Kustannus Oy and F-Musiikki Oy.

### Vice Chairman of the Board:
Arek Oy and the Finnish Diabetes Research Society.

### Member of the Board:
Ahlström Capital Oy.

### Tamfelt shares:
600 common shares.

## VESA KAINU

born in 1947
President, Metso Ventures.
B.Sc. (Eng.).

### Tamfelt Corp.:
Member of the Board since 2005.
Member of the Board (1995–2000).

### Previous track record:
Executive Vice President of Metso Minerals, Inc. (2001–2003), President of Metso Paper, Inc. Service (1999–2001).

### Member of the Board:
Avantone Oy and Exel Oyj.

### Tamfelt shares:
750 preferred shares.

## NIKLAS SAVANDER

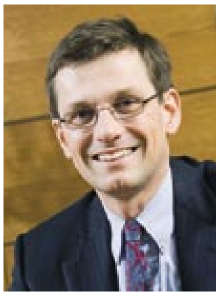
born in 1962
Executive Vice President, Nokia Technology Platforms.
M.Sc. (Eng.), M.Sc. (Econ.)

### Tamfelt Corp.:
Member of the Board since 2005.

### Previous track record:
Senior Vice President and General Manager of Nokia Enterprise Solutions, Mobile Devices Business Unit (2003–2006); Senior Vice President, Nokia Mobile Software, Market Operations (2002–2003).

### Member of the Board:
Waldemar von Frenckell Foundation.

### Tamfelt shares:
3,250 preferred shares



## CARL-MAGNUS CEDERCREUTZ

born in 1964
Director, Nokia Networks
M.Sc. (Eng.), MBA.

### Tamfelt Corp.:
Deputy member of the Board since 2006.

### Previous track record:
Director of Nokia Business Infrastructure (2002-2004), Director of Nokia Networks Services (1997-2002).

### Tamfelt shares:
3,630 common shares.

The Executive Board had 15 meetings in 2006.

# Group Executive Board Dec. 31, 2006

**JYRKI NUUTILA**
born in 1948
Chairman of the Group Executive Board, President & CEO.
M.Sc. (Econ.)

Tamfelt Corp.:
in the company since 1986; President & CEO since 2005. Member of the Group Executive Board since 1986.

Previous track record:
Executive Vice President of Tamfelt Corp. (1992–2005), Administrative Director of Tamfelt Corp. (1986–1992).

Deputy Chairman:
the Board of the Federation of Finnish Textile and Clothing Industries.

Tamfelt shares and stock options:
346 common, 1,628 preferred shares, 60,000 options and 15,000 shares of phantom stock

**SEPPO HOLKKO**
born in 1950
Executive Vice President, PMC Division (Paper Machine Clothing) and Deputy to the CEO.
M.Sc. (Eng.)

Tamfelt Corp.:
in the company since 1998; member of the Group Executive Board since 1998.

Previous track record:
Area Manager in Asia for Valmet Corporation (1995–1997), Sales Manager and Plant Manager of Valmet Paper Machinery, Inc. (1983–1995).

Member of the Board:
Paper-Machine Clothing Association (PCA). Member of the Advisory Board of Tampere Polytechnic, Pulp and Paper Technology.

Tamfelt shares and stock options:
2,048 preferred shares, 40,000 options and 15,000 shares of phantom stock.

**HEIKKI REHAKKA**
born in 1958
Executive Vice President, Filter Fabric Division.
M.Sc. (Eng.)

Tamfelt Corp.:
in the company since 1987; member of the Group Executive Board since 2005.

Previous track record:
Vice President, Filter Fabrics Finland at Tamfelt Corp. (2002–2005), Vice President, Press Felts at Tamfelt Corp. (1997–2002).

Tamfelt shares and stock options:
2,000 common shares and 35,000 options.

Shares and options held on December 31, 2006 include also the holdings of the persons closely associated with insider and of controlled corporations.

### JUKKA HUHTINIEMI
born in 1954
Technical Director.
M.Sc. (Eng.)

**Tamfelt Corp.:**
in the company since 1985; member of the Group Executive Board since 2000.

**Previous track record:**
Production Manager of Tamfelt Corp. (1996–1999), Production Manager of Formtec Inc. (1990–1995).

**Tamfelt shares and stock options:**
3,099 preferred shares and 6,000 options.

### HANNU LAINE
born in 1947
Executive Vice President, Corporate Planning;
General Manager of Tamfelt Tianjin PMC Co., Ltd.
M.Sc. (Eng.)

**Tamfelt Corp:**
in the company since 1979; member of the Group Executive Board since 1990.

**Previous track record:**
General Manager of Tamfelt-GMCC (Tianjin) Paper Machine Clothing Co., Ltd. (2003–2005); President of Tamfelt Inc. (1995–2000).

**Tamfelt shares and options:**
1,648 preferred shares and 35,000 options.

### KIMMO PÄRSSINEN
born 1963
Chief Financial Officer
M.Sc. (Econ.)

**Tamfelt Corp:**
in the company since 1995; member of the Group Executive Board since 2005.

**Previous track record:**
Business Development Manager of Tamfelt Corp. PMC Division (2002–2005), Business Controller of Tamfelt Corp. (1995–2002).

**Tamfelt shares and stock options:**
825 preferred shares and 35,000 options.

### PIRKKO JÄRVELÄ*
born in 1947
Office Manager.
Clerical personnel representative, Tampere.
B.Sc. (Econ.)

**Tamfelt Corp.:**
in the company since 1983; member of the Group Executive Board since 2003.

**Previous track record:**
Office Manager at Sestomarkkinat (1974–1980), Secretary to Stockmann Department Store Manager (1970–1973).

**Member of the Board:**
Sukkamestarit Oy.

**Tamfelt shares and stock options:**
1,164 preferred shares and 14,000 options.

### JAAKKO RÄSÄNEN*
born in 1947
Chief shop steward at the Juankoski Plant.
Primary school.

**Tamfelt Corp.:**
in the company since 1978; member of the Group Executive Board since 1997.

**Tamfelt shares:**
750 preferred shares.

### JARMO JÄRVIÖ*
born in 1955
Machine operator.
Chief shop steward at the Tampere Plant.
Vocational school: welder.

**Tamfelt Corp.:**
in the company since 1984; member of the Group Executive Board since 1997.

**Tamfelt shares:**
holds no Tamfelt shares.

* Personnel representatives.

# Corporate governance

Tamfelt Corp.'s corporate governance is based on Finnish law and the company's Articles of Association. Tamfelt follows the Corporate Governance Recommendation for Listed Companies issued by the Helsinki Exchanges, the Central Chamber of Commerce, and the Confederation of Finnish Industry and Employers, which took effect on July 1, 2004, as well as the rules and instructions of the Helsinki Exchanges.

## Annual General Meeting

Tamfelt's Annual General Meeting is the supreme decision-making body of the Group. Convened by the Board of Directors, the Annual General Meeting shall be held each year before the end of May. The Board of Directors may convene the Annual General Meeting of its own accord, but it is obliged to convene the Annual General Meeting if this is required by the company's auditors or by shareholders owning at least ten per cent of the company's stock. The Annual General Meeting deals with the issues prescribed in the Companies Act and Tamfelt's Articles of Association. The most important issues submitted to the Annual General Meeting include amendments to the Articles of Association, increase or decrease of the share capital, election of Board members and auditors, adoption of the financial statements, and the distribution of dividend. A shareholder is entitled to have a matter discussed by the Annual General Meeting by submitting a written request thereof to the Board of Directors early enough to enable the matter to be included in the summons. The Articles of Association are found on Tamfelt's website at www.tamfelt.com/investors.

Pursuant to the Articles of Association, summons to the Annual General Meeting shall be published once in a Finnish-language and once in a Swedish-language newspaper issued in Helsinki and once in a newspaper issued in Tampere, or else sent to the shareholders' addresses, as they are entered in the share register, not earlier than two (2) months before the latest day of registration provided in Section 4 of the Articles of Association and not later than one (1) week before the date prescribed in Chapter 3a Section 11 of the Finnish Companies Act. The summons is also published as a stock exchange release and on Tamfelt's website on the Internet.

## Supervisory board

Tamfelt has no supervisory board.

## Board of Directors

Tamfelt's Board of Directors consists of five to nine ordinary members and no more than three deputy members. The members are elected by the Annual General Meeting. As provided in the Articles of Association, the term of Board members terminates at the closing of the first Annual General Meeting following their election. This means that all Board members are elected in every Annual General Meeting. A person turned 70 years is not eligible for the Board of Directors. In 2006 the Board of Directors consisted of six ordinary members and one deputy member.

The Board elects a Chairman and a Deputy Chairman from among its members. The President & CEO is not a member of the Board of Directors but serves as presenter in Board meetings.

**Rule of procedure for Board work**

The Board of Directors has adopted a rule of procedure that defines its responsibilities and working principles.

The responsibilities and liabilities of the Board of Directors are determined by the Finnish Companies Act and other applicable legislation. The Board of Directors is responsible for the management of the company and the proper organization of the company's activities. The Board of Directors also makes the decisions on matters of far-reaching consequence to the Group's activities and on issues of principal importance. Such matters and issues include Group strategy, action plan, powers, long-term agreements, budgets, and major investments and their funding. The Board of Directors also has a supervising role including a responsibility to monitor and assess the Group's financial position on a continuous basis and to organize reporting on these assessments. The Board of Directors appoints the President & CEO, Deputy to the CEO and other Group executives and determines their remuneration and other terms. Moreover, the Board of Directors prepares matters to be discussed at the Annual General Meeting, decides on the summoning of the meeting, and ensures that the resolutions passed at the meeting are executed. The duty of the Board of Directors is to promote the interest of the company and all its shareholders.

**Board meetings**

The Board of Directors holds scheduled meetings. It can also have non-scheduled meetings. A meeting can be arranged as a teleconference. The Executive Board met eight times in 2006. The average participation rate of the members was 98%.

The Board of Directors constitutes a quorum if more than half of the ordinary members - of whom one shall be the Chairman, or in the Chairman's absence the Deputy Chairman - are present. An opinion that has been supported by more than half of the members present constitutes the resolution of the Board of Directors. In the case of a tie, the vote of the Chairman shall be decisive.

At the meetings, the Board of Directors is updated on the Group's business, finances and risks. The Board is given fresh reports on the company's performance and financial position and a review of the current affairs of the company and the business environment. The reporting shall be extensive enough to allow the Board of Directors to exercise financial supervision of the company.

The Board of Directors makes an annual internal assessment of its performance.

### Election of the Board of Directors

The names of candidates announced to the Board of Directors are published in the summons to the Annual General Meeting, subject to their nomination being supported by shareholders representing at least 10 % of the voting power and provided that the candidate has given his or her consent to serve in the Board. The names of candidates that may be nominated after the publication of the summons will be announced separately.

A person nominated for the first time shall attend the Annual General Meeting in which the election is made, unless there is a weighty reason to excuse his or her absence.

### Board of Directors in 2006

The 2006 Board of Directors was chaired by Mikael von Frenckell, with Axel Cedercreutz as Deputy Chairman. The other ordinary members were Martin Lilius, Jouko Oksanen, Vesa Kainu and Niklas Savander. Carl-Magnus Cedercreutz acted as a deputy member of the Board of Directors since the Annual General Meeting.

According to the Corporate Governance Recommendation, a majority of the members of the Board of Directors must be independent of the company. Besides, at least two members of the Board of Directors included in the majority must be independent of the company's major shareholders. According to this definition, all the members of Tamfelt's Board are independent of the company and its shareholders.

Résumés of the members of the Board of Directors, including details of their shareholdings, are on pages 26-27 of this Annual Report.

### Board committees

Considering the extent of the company's business, the number of matters to be discussed, and the small size of the Board, the Board of Directors has found it unnecessary to establish any committees.

## President & CEO

Tamfelt's President & CEO is appointed and dismissed by the Board of Directors. The terms of the office are specified in a written agreement approved by the Board of Directors. The President & CEO is in charge of the day-to-day management of the company in compliance with the instructions and orders of the Board of Directors. If the President & CEO is prevented from attending to his duties, his place shall be taken by his Deputy. Jyrki Nuutila serves as the President & CEO of Tamfelt Corp., and Seppo Holkko, Executive Vice President, PMC Division, serves as Deputy to the CEO.

## Executive Board

The Group's Executive Board is composed of the President & CEO, the Executive Vice Presidents of PMC Division, Filter Fabric Division and Corporate Planning, the Technical Director, the Financial Director and three personnel representatives.

The Executive Board is chaired by the President & CEO. The Executive Board assists the President & CEO in the management of the company, prepares matters submitted to the Board of Directors and the President & CEO, and serves as an advisor to the President & CEO. The Group Executive Board draws up strategic guidelines, action plans and budgets, prepares investment plans and monitors their implementation, allocates resources, and decides on key functions, major operative issues, and supervises the enforcement of its decisions.

### Executive Board meetings

The Executive Board meets about once monthly. Major issues dealt with by the Executive Board in 2006 included readjustment of strategic lines, issues of globalization, investments, corporate agreements, shortening of delivery times, and productivity improvement.

The Executive Board met 15 times in 2006. Résumés of the members of the Executive Board, including details of their shareholding, are on pages 28-29 of this Annual Report.

## Remuneration

### Remuneration to the Board of Directors

By a resolution of the Annual General Meeting 2006, the monthly remuneration to the Chairman of the Board is 3,000 euros and to the Deputy Chairman and ordinary members 1,500 euros. The Chairman is also paid 500 euros and a member 400 euros for each meeting and a refund of travel expenses. The members of the Board of Directors receive no remuneration in the form of shares, and they are not covered by option schemes. In 2006 a total remuneration of 153,800 euros was paid to the members of the Board of Directors.

### Salaries and remunerations to the President & CEO and the Executive Board

Decisions on management remuneration are made by the Board of Directors. On top of a monthly salary, the President & CEO and the members of the Executive Board are paid bonuses, which are determined by the company's profit as well as individual targets that have been agreed in advance. The members of the Executive Board hold a total of 112,500 E options and 112,500 F options from the 2005 stock option scheme and 30,000 share units from the 2002 phantom stock scheme. Details of the Tamfelt shares and stock options held by the President & CEO and the members of the Executive Board are on pages 28-29 of this Annual Report.

The President & CEO's salary including perquisites and bonuses was 313,546 euros in 2006. The President & CEO held 15,000 shares of phantom stock and 60,000 options from the 2005 scheme. The President & CEO's pension will be 60% of his earnings under the Finnish TEL insurance scheme. Tamfelt's pension system enables the President & CEO to retire on an old-age pension earliest at the age of 60. The period of notice to resign is twelve months if given by the company, or six months if given by the President & CEO. The remuneration paid in case of a notice given by the company equals to the salary payable for the period of notice.

## Internal control, risk management and internal audit

The Board of Directors is responsible for the management of the company and for the proper organization of the company's activities. The President & CEO together with the Group Executive Board ensure the lawfulness and reliability of accounting, asset management and day-to-day management of corporate affairs. Internal control is implemented according to the internal structure of the Group, employing appropriate monitoring and reporting systems. Financial performance is monitored in monthly reports on profit, balance sheet and cash flow. Further focus areas are the trends of key figures as well as major business events and contracts. The monitoring system covers not only actual realized data but also updated forecasts for the current year.

The company's Board of Directors controls and monitors risk management to ensure that it is efficiently organized. The President & CEO and the Executive Board are responsible for the planning and implementation of risk management. The Divisions, assisted by the Group management, are responsible for the identification, assessment and management of their particular business risks. The parent company is responsible for financial risk management. Group risk insurance is effected by each unit according to principles established by the parent company.

Tamfelt has no special organization for internal audit function. The President & CEO and the Group Executive Board ensure compliance with current laws and regulations, the company's rules, guiding principles and instructions and the decisions of the Board of Directors. Internal control is implemented through good planning, supervision and audit visits from the parent company. In certain cases outside experts can be employed for an internal audit.

## Insider administration

Tamfelt applies the Guidelines for Insiders issued by the Helsinki Exchanges. Insiders are required to trade in Tamfelt's securities only at times when the market is as fully aware as possible of circumstances affecting the share value. Insiders are forbidden to trade in Tamfelt's securities within 14 days before the publication of the company's interim reports or annual accounts.

Tamfelt also complies with Standard 5.3. of the Financial Supervision Authority on declarations of insider holdings and insider registers. Tamfelt's public insiders comprise the Board of Directors, President & CEO, his Deputy, auditors, and members of the Group Executive Board. Tamfelt's company-specific insiders include other senior managers, management secretaries and persons responsible for the company's accounting and communication. Project-specific insider registers are established whenever necessary. The insider registers are maintained by the department in charge of Tamfelt's investor relations.

Tamfelt's register of public insiders is available on Tamfelt's website at www.tamfelt.com/investors. The register is also available at the customer service desk of the Finnish Central Securities Depository in Helsinki (Urho Kekkosen katu 5 C, 8th floor).

## External audit

Tamfelt's Annual General Meeting elects two auditors and two deputy auditors. All of these shall be authorized public accountants or public accountant companies. Proposals concerning the election of auditors, which have come to the notice of the Board of Directors before the Annual General Meeting, are published in the summons to Annual General Meeting whenever the proposal is backed by at least 10 % of the number of votes yielded by the company's stock and the person in question agrees to the proposal. The term of auditors expires at the closing of the first Annual General Meeting following their election.

The auditors examine the Group's and the parent company's accounts and bookkeeping and audit the parent company's administration. They submit the statutory audit report to the company's shareholders on the annual financial statements. The Board of Directors hears the auditors at least once a year.

The Annual General Meeting 2006 elected Authorized Public Accountants Jari Paloniemi and Veikko Terho as auditors and Authorized Public Accountant Jukka Lahdenpää and Authorized Public Accountant Company Moore Stephens Rewinet Oy Ab as deputy auditors.

All Group auditors were paid a total remuneration of 115,086 euros in 2006. This amount includes consultation fees unrelated to auditing accounted for 18,806 euros.

## Communication

Key information on corporate governance is published on Tamfelt's website at www.tamfelt.com. The company's stock exchange releases are also available on the website immediately after publication.

# Annual Report

## Business environment

Tamfelt is a world-leading supplier of technical textiles. The Group's main products are fabrics for the paper and pulp, mining and chemical industries. Other products include ironer felts and dry filtration products. Tamfelt's biggest customer segment is the paper and pulp industry.

In 2006, the demand for paper and board grew slightly beyond the long-term average rate, with most paper and board machines reporting capacity utilization rates higher than in the previous year. Output volumes grew most in Asia, notably in China, but also in Europe. Volumes were slightly up in the United States and Japan, too but slumped in Canada. The prices of pulp and several grades of paper and board rose slightly during the year. Most investments in new paper and board manufacturing capacity are still being made in China and elsewhere in Asia. Pulp industry is investing heavily in South America. The conditions in the metal market affect the demand for filter fabrics consumed in the mining industry. The demand and prices for metals were at a good level, though prices were affected by short-term fluctuations.

The demand for paper machine clothing exceeded the long-term average growth. The demand increased especially in China and elsewhere in Asia. The market for press felts showed the strongest growth. Specific consumption – the consumption of clothing per paper ton produced – continued to decline slightly, especially in forming and dryer fabrics. For filter fabrics, favorable market situation continued in the mining industry, and the demand from the paper and pulp industries exceeded the normal average. Oil price fluctuation will increase the use of coal as energy source. To cut emissions from coal burning, high-quality filter fabrics are key. Also the growing production of biofuels requires filtration equipment. Stricter environmental standards overall have boosted the demand for filter fabrics – a trend that will continue to the foreseeable future. Competition from Asia has tightened the situation in some markets. The continuing weakness of the dollar against the euro affected the profitability of exports from Western Europe to North America and Asia.

Having remained fairly stable in 2006, the prices of paper machine clothing fell slightly towards the end of the year. Customers continue to consolidate purchases and work with fewer suppliers in an effort to cut their stocks. This means that they require prompter deliveries from suppliers. Undisturbed operation of paper machine clothing and the achievement of budgeted life cycle are vital as customers seek to improve their performance. Successful cooperation with customers and machine suppliers to reach these aims ensures the clothing supplier an opportunity to strengthen market position.

Clothing suppliers are building new capacity in China and closing down inefficient operations in North America. In Western Europe, capacity is consolidated through investments in large and high-performing production lines while smaller units are being shut down. Filter fabric manufacturers continue to move their operations to Eastern Europe and China, where production costs are lower and markets are growing faster than average.

## Profit performance and financial position

The Group's net sales grew 10.6 per cent to 155.0 million euros (140.1 in 2005). Net sales increased in all major markets. Foreign operations contributed 66.3 per cent (67.5) of the consolidated net sales.

Tamfelt Group's consolidated operating profit was also ahead year-on-year. Operating profit was 25.9 million euros (up from 21.6), corresponding to 16.7 per cent (15.4) of the net sales. Profit for the period amounted to 20.1 million euros (15.3). Return on net assets was 23.7 per cent (19.5) and return on equity was 19.4 per cent (16.1). Earnings per share were up at 0.73 euro (0.56).

The improvement was attributed to higher sales volumes and good productivity trend. Sales growth is the result of successful long-term R&D and Tamfelt's customer-driven policies. Productivity has been enhanced through timely investments and improved work procedures. Focusing on selected segments has also helped increase profitability.

The consolidated balance sheet total was 153.6 million euros (up from 149.4). Consolidated equity was 107.8 million euros (99.4), corresponding to 3.90 euros (3.60) per share. Equity/assets ratio was 70.6 per cent (66.7). Gearing was -4.3 per cent (6.5). On the balance sheet date, interest-bearing loans amounted to 5.2 million euros (14.1) and the book value of liquid assets to 9.8 million euros (7.7). The Group's net financial items totaled 0.3 million euros (-0.8). The order backlog is good, though the orders are not evenly distributed on the different product groups.

The parent company's net sales were 128.8 million euros (119.0). Operating profit was 19.3 million euros (16.3) and profit for the period 17.9 million euros (12.0). Exports accounted for 59.5 per cent (61.7) of the parent company's net sales.

## Business operations and key events

Tamfelt is a manufacturer of technical textiles for the paper and pulp industries, mining and chemical industries, energy industry, and for commercial laundries and wastewater treatment plants. Tamfelt focuses on selected segments, namely clothing for large and high-speed paper and board machines and niche areas of the filter fabrics market, such as products for the causticization process and iron pelletizing plants.

Paper machine clothing (PMC) comprises forming fabrics, press felts and fabrics, shoe press belts and dryer fabrics. High-quality technical expertise, customer support and laboratory services back up the supplies. Tamfelt is one of the leading suppliers of paper machine clothing to wide and high-speed paper machines in Europe. This is a target segment in which Tamfelt's market shares are growing also in North America and Asia.

Tamfelt enjoys a strong position in the filter fabric market for the paper and pulp industries. As a filter fabric supplier to the mining industry, Tamfelt concentrates on certain types of filters and has earned a significant presence in the market. Tamfelt is the world leading supplier of ironer felts for commercial laundries.

The company runs manufacturing operations in Finland, Portugal, Brazil, China and Poland. Tamfelt's domestic plants are located in Tampere and Juankoski. The Tampere operation produces press felts and fabrics, dryer fabrics, shoe press belts and filter fabrics. Forming fabrics are made at Juankoski. The Portuguese plant concentrates on dry filtration products and ironer felts. Tamfelt's Brazilian operation produces filter fabrics for the pulp and mining industries. In the Chinese joint venture at Tianjin, forming and dryer fabrics receive a finishing treatment. A processing facility for filter fabrics started up in Shanghai in the beginning of 2007. The Polish plant is a manufacturer of filter fabrics for wet and dry filtration. Tamfelt operates sales companies in the United States and Canada.

Tamfelt's strengthening market position – both in paper machine clothing and in filter fabrics – was reflected in growing net sales, clearly beyond the average growth of the industry. Net sales were up in all main market areas. Exports and foreign operations improved most in Western and Eastern Europe. In North America, labor disputes in a few paper mills affected the demand for Tamfelt's products. Successful investments in production bottlenecks and focused productivity improving measures helped increase delivery volumes. All the manufacturing units reached new production records.

The market was particularly good for Tamfelt's press felts, filter fabrics and shoe press belts. The demand for press felts has been stimulated by Tamfelt's successful supplies to press sections of paper machines representing cutting-edge technology. The sales of the Group's dry filtration products grew sharply after the adoption of a new marketing strategy.

Tamfelt continued to contribute as clothing supplier for a number of start-ups of new or rebuilt paper and board machines. Major start-up orders were received from Asia and Western Europe. Tamfelt's clothing helped achieve new world record speeds on SC, LWC and fine paper machines.

The SAP resource planning system was rolled out to more subsidiaries. The shared system will improve business planning, monitoring and intelligence.

In October 2006 Tamfelt signed an agreement to sell its 38.89-per cent share in the hydroelectric power plant Alakoski Oy in Tampere to Koskienergia Oy and Liljeroos Oy. The effect of the transaction to Tamfelt's earnings per share in 2006 was approximately 0.07 euros.

## Investments

The Group's gross investments were 11.5 million euros (10.2). Three major investment decisions were taken in 2006.

The volume of press felt manufacturing at the Tampere plant will be increased by an investment of over 10 million euros. The expenditure includes a state-of-the-art needling machine as well as rebuilds of weaving looms and finishing equipment.

The two other new investments will be made in China. A decision to build a new filter fabric factory in Shanghai was made in April. The new facility, which started up in the beginning of 2007, makes and sells fabrics for wet and dry filtration in the Southeast Asian market.

In August Tamfelt's Board decided to found a fabric fabric at Tianjin in China. The investment, in line with the company's long-term strategy, is to enhance Tamfelt's competitiveness by improving Tamfelt's delivery performance and logistics. It will enable the company to supply Chinese-made dryer and forming fabrics to high-speed and wide paper and board machines in China and the Pacific area. The new line is scheduled to come on stream in the beginning of 2008.

## Research and development

The cost of research and development in 2006 was 2.8 per cent (2.3) of Tamfelt's net sales. The company's R&D is conducted in cooperation with customers, material suppliers, paper machine and filter manufacturers as well as universities and research institutes. Joint initiatives are designed to improve filtration, paper quality, paper machine runnability and economy. Extensive projects are under way to upgrade fabric structures, raw materials and processes.

## Risks and uncertainty factors

Tamfelt takes out insurances to cover the risk of damage involved in its activities, as far as this is deemed motivated financially or otherwise. The coverage includes insurance against material damage and business interruption as well as product liability and completed operations liability coverage. Tamfelt focuses on identifying and reducing risks and risk-related damages. However, Tamfelt's business environment involves risks that cannot be covered by insurances or eliminated by other means.

The paper and board industries are growing fastest in Southeast Asia and China, while the mining industry is growing fastest in South America. Tamfelt's customers are increasingly relocating their production capacities to these areas. Clothing suppliers, as well, are shifting operations to countries where cost levels are lower. Tamfelt improves performance, cost structure and productivity in order to stay competitive. Tamfelt is increasingly operating in the South American and Southeast Asian markets, where the risk of credit loss is higher. Accelerating consolidation of customer base and declining specific consumption will tighten competition and exert a continuous pressure on product prices. There are uncertainties related to the availability, price and quality of raw materials, especially as Tamfelt is in some materials dependent on a small number of suppliers. A more detailed account of the management of financial risks is in section 24 of the Notes.

## Personnel

The average Group employment was 1,415 (1,333) people. The parent company employed an average of 1,036 (1,032) people. On the last day of the year, the Group employed 1,443 (1,401) and the parent company 1,045 (1,040) people. The Group employment grew by 42 people.

The average length of employment in the Group was 13 years (13). At the end of 2006, the average age of personnel was 41 years (42). Labor turnover at the Group level was 7.6 per cent (6.8). During the year over a hundred employees moved to new jobs within the parent company. The parent company hired numerous students for summer jobs and internships. Cooperation with schools comprised internships all around the year and themes for degree projects for many university students.

In the parent company, absenteeism through sickness was 6.1 per cent (6.2) of theoretical regular working time. The average pension age was 61 years (62). Long-term cooperation for the improvement of personnel well-being and safety continued according to the annual action plan.

Tamfelt's annually published personnel report provides more specific information on the company personnel

## Environment

Tamfelt's environmental management system under the SFS-EN-ISO 14001 standard covering the Tampere and Juankoski plants was certified in 1998 and updated in 2006. The level of Tamfelt's environmental protection fulfils the current statutory requirements.

The goals and targets to support sustainable development have been published in Tamfelt's environmental policy. The company's manufacturing processes do not discharge any significant amounts of pollutants to the environment. The key objectives of Tamfelt's environmental management program are to cut back the amounts of raw material and slow-decaying landfill waste and to avoid unnecessary use of water and energy.

The major environmental initiatives of 2006 focused on waste reduction, recycling and efficient energy use at the Tampere and Juankoski facilities. Increasing amounts of cloth waste were channeled for processing by the plastic industry. Carbon dioxide emissions were reported for the first time in 2006 for the purposes of emissions trading. Tamfelt freed up 13,000 emission allowances for trading. The environmental expenditure was 0.2 per cent of the net sales.

Tamfelt's annual environmental report provides detailed information on the company's environmental performance.

## Foreign branches

In China, Tamfelt's business is supported by Tamfelt Shanghai Representative Office.

## Changes in share capital

At the end of 2006, Tamfelt's share capital stood at 27,563,964.00 euros. The aggregate number of shares was 27,563,964, of which 10,119,198 were common shares and 17,444,766 preferred shares. The share capital was increased by 12,000 euros in 2006. The increase was related to subscriptions made in December 2005 under the option scheme of the year 2000. The subscription period of the 2000 scheme expired on March 31, 2006.

The Annual General Meeting of March 10, 2005 passed a resolution to grant options to the company's key executives. The 2005 scheme entitles the option holders to subscribe for a total of 437,000 preferred shares, representing a maximum of 1.6 per cent of Tamfelt's share capital and 0.2 per cent of the voting power at the end of the year. Under the 2005 scheme, Tamfelt's share capital can rise by a maximum of 437,000.00 euros. Subscription under this scheme begins for E options on November 1, 2007 and for F options on November 1, 2009.

## Own shares

The company held no own shares in 2006. The Board of Directors holds no current authorization to decide on the acquisition or conveyance of the company's own shares.

## Board of directors, auditors and executive board

Tamfelt Corp.'s Annual General Meeting of March 16, 2006 elected Mikael von Frenckell, Axel Cedercreutz, Martin Lilius, Jouko Oksanen, Vesa Kainu and Niklas Savander to continue as ordinary members of the Board of Directors. Carl-Magnus Cedercreutz was elected as a deputy member to the Board. At the organization meeting, Mikael von Frenckell was elected to continue as Chairman and Axel Cedercreutz as Deputy Chairman.

Authorized Public Accountants Jari Paloniemi and Veikko Terho were elected to continue as the company's auditors and Authorized Public Accountant Jukka Lahdenpää and authorized public accounting company Moore Stephens Rewinet Oy Ab as deputy auditors.

Jyrki Nuutila served as the company's President & CEO and Chairman of the Group Executive Board. Seppo Holkko, Executive Vice President of the PMC Division, served as Deputy to the CEO. In addition to the above, the Group's Executive Board consisted of Heikki Rehakka, Executive Vice President of the Filter Fabric Division, Kimmo Pärssinen, Chief Financial

Officer, Jukka Huhtiniemi, Technical Director, Hannu Laine, Executive Vice President of Corporate Planning, and, as personnel representatives Jarmo Järviö, Chief shop steward at the Tampere plant, Jaakko Räsänen, Chief shop steward at the Juankoski plant, and Pirkko Järvelä, clerical personnel representative.

## Outlook for 2007

Good global economic growth is expected to continue in 2007, even if the momentum will slow down. Forest industry output is estimated to grow slightly beyond the long-term average volume. The rate of growth, however, will remain below that of 2006. In the mining industry, the market trend is expected to remain positive for iron and color metals, increasing the demand for filter fabrics. Keener environmental awareness and more stringent environmental standards worldwide will open up new opportunities to expand the market for filter fabrics.

Tamfelt has an extensive investment program underway. A new press felt needling line, scheduled to be completed at Tampere in late 2007, will add significant new capacity to the product group. A modern forming and dryer fabric facility will be built in China in 2007, and it is scheduled to be operational in early 2008. Investments will continue in the Chinese filter fabric plant commissioned in the beginning of 2007. Special attention will be paid in working capital management and productivity improvement. The balance sheet structure is expected to remain strong despite high investment spending.

Customer corporations keep consolidating their purchases with fewer suppliers, and price competition has tightened to the extreme in paper machine clothing. However, Tamfelt's net sales are expected to grow in 2007 and the return on equity and operative results are predicted to remain at a good level, provided that the conditions of the forest and mining industries evolve as anticipated and no unforeseen changes occur in global economy.

## Board of directors' proposal for the distribution of profit

The Board proposes to the Annual General Meeting that a dividend of 0.41 euros be paid on a common share and 0.43 euros on a preferred share and an extra dividend of 0.18 euros be paid on both classes of shares to improve the capital structure and return on equity. The extra dividend includes the capital gain from the disposal of Alakoski Oy.

No significant changes have taken place in the company's financial position after the closing of the financial year. The company's cash position is good and, according to the view of the Board of Directors, the proposed distribution of dividend will not endanger the company's solvency.

# Consolidated statement of income

| 1,000 € | Ref. | 2006 Jan. 1 – Dec. 31 | % | 2005 Jan. 1 – Dec. 31 | % |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| **Net sales** | 1. | **154,972** | 100 | **140,087** | 100 |
| **Operating profit** | 2.–5. | **25,877** | 17 | **21,574** | 15 |
| Financial income | 6. | 1,157 | | 555 | |
| Financial expenses | 7. | -831 | | -1,351 | |
| Share of the profit of associates | 12. | | | 23 | |
| **Profit before tax** | | **26,203** | | **20,801** | |
| Income taxes | 8. | -6,059 | | -5,475 | |
| **Profit for the period** | | **20,144** | 13 | **15,326** | 11 |
| | | | | | |
| Attributable to: | | | | | |
| Equity holders of the parent | | 20,196 | | 15,439 | |
| Minority interest | | -52 | | -113 | |
| | | **20,144** | 13 | **15,326** | 11 |
| Earnings per share calculated on profit attributable to equity holders of the parent (euro), continuing operations | 9. | | | | |
| Basic | | 0.73 | | 0.56 | |
| Diluted | | 0.73 | | 0.56 | |

# Consolidated balance sheet

| 1,000 € | Ref. | Dec. 31, 2006 | % | Dec. 31, 2005 | % |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 10. | 75,751 | | 73,284 | |
| Goodwill | 11. | 287 | | 287 | |
| Other intangible assets | 11. | 4,033 | | 4,199 | |
| Investment in associates | 12. | | | 291 | |
| Other financial assets | 13. | 1,791 | | 2,217 | |
| Deferred tax assets | 14. | 648 | | 561 | |
| | | **82,510** | 54 | **80,839** | 54 |
| **Current assets** | | | | | |
| Inventories | 15. | 32,087 | | 32,195 | |
| Trade and other receivables | 16. | 29,191 | | 28,661 | |
| Financial assets at fair value through profit or loss | 25. | 1,751 | | 1,290 | |
| Tax assets based on taxable income for the period | | 16 | | | |
| Cash and cash equivalents | 17. | 8,028 | | 6,386 | |
| | | **71,073** | 46 | **68,532** | 46 |
| **Total assets** | | **153,582** | 100 | **149,371** | 100 |
| **Equity and liabilities** | | | | | |
| **Issued capital and reserves attributable to equity holders of the parent** | | | | | |
| Share capital | 18. | 27,564 | | 27,552 | |
| Share premium | 18. | 1,015 | | 960 | |
| Translation differences | 18. | -495 | | 60 | |
| Fair value reserve | 18. | 508 | | 822 | |
| Retained earnings | | 78,989 | | 69,762 | |
| | | **107,581** | | **99,156** | |
| Minority interest | | 229 | | 270 | |
| **Total equity** | | **107,810** | 70 | **99,426** | 67 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 14. | 10,850 | | 10,957 | |
| Interest-bearing liabilities | 22. | 1,830 | | 5,357 | |
| | | **12,680** | 8 | **16,314** | 11 |
| **Current liabilities** | | | | | |
| Trade and other payables | 23. | 28,883 | | 23,929 | |
| Tax liabilities based on taxable income for the period | | 845 | | 405 | |
| Provisions | 21. | 42 | | 528 | |
| Current interest-bearing liabilities | 22. | 3,322 | | 8,769 | |
| | | **33,092** | 22 | **33,631** | 23 |
| **Total liabilities** | | **45,772** | | **49,945** | |
| **Total equity and liabilities** | | **153,582** | 100 | **149,371** | 100 |

# Consolidated statement of cash flows

| 1,000 € | Ref. | 2006 Jan. 1 – Dec. 31 | 2005 Jan. 1 – Dec. 31 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| **Profit for the period** | | **20,144** | **15,326** |
| Adjustments to profit | 26. | 12,631 | 15,192 |
| Change in working capital | | | |
| Change in trade and other receivables | | -530 | -3,238 |
| Change in inventories | | 108 | -778 |
| Change in trade and other payables | | 5,394 | 785 |
| Change in provisions | | -485 | -243 |
| Interest received | | 225 | 148 |
| Interest paid | | -563 | -595 |
| Other financial items, net | | 357 | -302 |
| Taxes paid | | -5,581 | -3,934 |
| **Net cash flow from operating activities** | | **31,700** | **22,361** |
| **Cash flow from investing activities** | | | |
| Acquisition of subsidiaries less cash and cash equivalents at acquisition date | | | -787 |
| Investment in property, plant and equipment | | -10,835 | -8,996 |
| Investment in intangible assets | | -704 | -382 |
| Disposal of associates | | 2,295 | |
| **Net cash flow from investing activities** | | **-9,244** | **-10,165** |
| **Cash flow from financing activities** | | | |
| Subscription for stock options | | 67 | 1,091 |
| Withdrawal of loans | | | 1,587 |
| Repayment of loans | | -8,974 | -2,827 |
| Dividends paid | | -11,099 | -9,372 |
| **Net cash flow from financing activities** | | **-20,006** | **-9,521** |
| **Change in cash and cash equivalents** | | **2,450** | **2,675** |
| Cash and cash equivalents at the beginning of the period | | 7,676 | 4,947 |
| Effect of exchange rate changes | | -160 | -129 |
| Effect of changes in the fair value of investment | | -187 | 183 |
| **Cash and cash equivalents at the end of the period** | | **9,779** | **7,676** |

# Statement of changes in consolidated equity

| | Issued capital and reserves attributable to equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1,000 € | Share capital | Share premium | Translation differences | Fair value reserve and other reserves | Retained earnings | Total | Minority interest | Total equity |
| **Equity Dec. 31, 2004** | **27,355** | **66** | **-509** | | **63,691** | **90,603** | **177** | **90,780** |
| Translation differences | | | 569 | | | **569** | 25 | **594** |
| Change of fair value, financial assets available for sale | | | | 1,111 | | **1,111** | | **1,111** |
| Tax on equity items | | | | -289 | | **-289** | | **-289** |
| Counter entry of share-based payments | | | | | 4 | **4** | | **4** |
| Profit for the period | | | | | 15,439 | **15,439** | -113 | **15,326** |
| **Total recognized income and expenses for the period** | | | **569** | **822** | **15,443** | **16,834** | **-88** | **16,746** |
| Dividends | | | | | -9,372 | **-9,372** | | **-9,372** |
| Exercised stock options | 197 | 894 | | | | **1,091** | | **1,091** |
| Acquisition of subsidiaries | | | | | | | 181 | **181** |
| **Equity Dec. 31, 2005** | **27,552** | **960** | **60** | **822** | **69,762** | **99,156** | **270** | **99,426** |
| Translation differences | | | -555 | | | **-555** | 11 | **-544** |
| Change of fair value, financial assets available for sale | | | | -425 | | **-425** | | **-425** |
| Tax on equity items | | | | 111 | | **111** | | **111** |
| Counter entry of share-based payments | | | | | 130 | **130** | | **130** |
| Profit for the period | | | | | 20,196 | **20,196** | -52 | **20,144** |
| **Total recognized income and expenses for the period** | | | **-555** | **-315** | **20,326** | **19,457** | **-41** | **19,416** |
| Dividends | | | | | -11,099 | **-11,099** | | **-11,099** |
| Exercised stock options | 12 | 55 | | | | **67** | | **67** |
| **Equity Dec. 31, 2006** | **27,564** | **1,015** | **-495** | **508** | **78,989** | **107,581** | **229** | **107,810** |

# Notes to consolidated financial statements

## Company profile

Tamfelt Group's main products are technical textiles used in the paper, board and pulp industries, mining and chemical industries, and in wastewater treatment plants and commercial laundries. The biggest customer segment is the paper and pulp industry. Technical textiles make up the primary business segment. Geographic division is the secondary segment. The Group's manufacturing operations are concentrated on Finland, Portugal, Brazil, China and Poland.

The Group's parent company is Tamfelt Corp. The parent company's registered place of business is Tampere and its registered address is Yrittäjänkatu 21, 33710 Tampere, Finland.

Copies of the consolidated statements can be ordered at www.tamfelt.com or from the parent company at Yrittäjänkatu 21, 33710 Tampere, Finland.

The Board of Tamfelt Corp. has approved the release of these financial statements at a meeting on February 7, 2007. According to the Finnish Companies Act, shareholders have the opportunity to approve or disapprove the financial statements at the Annual General Meeting held after the release. The Annual General Meeting is also entitled to amend the financial statements.

## Significant accounting policies

**Basis of preparation**

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). Statements are based on the IAS and IFRS standards and the SIC and IFRIC interpretations effective on December 31, 2006. International Financial Reporting Standards refer to standards and interpretations that are based on the procedure adopted for application in the E.U. according to E.C. regulation No. 1606/2002. Notes to Consolidated Statements also comply with Finnish accounting legislation and other legislation relating to financial statements.

The financial statements are based on the historical cost convention, excluding financial assets available for sale or held for trading and certain other financial receivables that are measured at fair value. Share-based payments are measured at fair value at the grant date. Goodwill for business combinations that took place before 2004 corresponds to goodwill based on the previous accounting standards, which is used as a deemed cost under IFRS. The classification and treatment of these acquisitions are not restated for the opening IFRS balance sheet. Monetary disclosures are in thousand euros.

The preparation of financial statements in conformity with IFRS requires Group management to make certain estimates and judgments regarding the application of accounting policies. Information on judgment that the management has exercised in applying the accounting policies and that has a significant effect on the disclosure is presented in "Accounting policies requiring management judgment and key uncertainty factors".

## Significant accounting policies for consolidated statements

**Subsidiaries**

The consolidated statements comprise the parent company Tamfelt Corp. and all its subsidiaries. Subsidiaries are entities over which the Group exercises control. Control is based on the Group's holding more than half of the voting rights or other governing power. The existence of potential voting rights that are currently exercisable is considered when assessing the terms of control. Control means the right to govern the financial and operating policies of a company for the purpose of gaining benefit from the company's operations.

Mutual stockholding is eliminated by the purchase method. Subsidiaries are consolidated from the date on which control is transferred to the Group and deconsolidated from the date on which control ceases. Inter-company transactions, balances, unrealized gains and internal profits are eliminated. Unrealized losses are not eliminated if they result from an impairment of the asset. Distribution of profit between parent company shareholders and minority shareholders is presented in connection with the income statement, and minority interest in equity is presented in the balance sheet as a separate component of equity. Minority interest in cumulative loss is recognized in the consolidated accounts up to the invested amount at the maximum.

**Associated companies**

Associated companies are entities over which the Group has significant influence. Significant influence is based on the Group's holding more than 20 per cent of the company's voting right or exercising other significant influence but not control. Associates are consolidated by the equity method. If the Group's share of losses in an associate exceeds the carrying amount of the investment, the investment is recognized in the balance sheet at zero, and losses exceeding the carrying amount are not consolidated, unless the Group has incurred an obligation on behalf of the associate. Unrealized gains between the Group and its associates are eliminated in proportion to the Group's interest in the associate. The Group's investment in associates includes goodwill identified on acquisition. The Group's share in associate profit for the period is shown as a separate item after operating profit.

**Joint ventures**
Joint ventures are entities which the Group controls jointly with other venturers. The Group's interests in joint ventures are consolidated proportionally on a line by line basis. Consolidated statements include the Group's share in the joint venture's assets, liabilities, income and expenses.

**Foreign currency translation**
The results and financial position of all Group entities are measured in the currency of the primary economic environment in which the entity operates (functional currency). Consolidated statements are presented in euro, which is the functional and presentation currency of the parent company.

**Foreign currency transactions**
Foreign currency transactions are translated into functional currency applying the exchange rates prevailing at the date of the transaction; in practice often the rate which approximately corresponds to the rate of the transaction date. Monetary items denominated in foreign currency are translated into functional currency using the exchange rates of the balance sheet date. Foreign currency denominated non-monetary items that are measured at fair value are translated into functional currency applying the exchange rates of the measurement date. Other non-monetary items are measured at the rate of the transaction date. Gains and losses on foreign currency transactions and translation of monetary items are recognized in the income statement. Exchange gains and losses related to business operations are included in the corresponding items above the operating profit line. Exchange gains and losses on foreign currency denominated loans are included in financial income and expenses, excluding loans which are designated as hedges of foreign net investments and perform effectively. Translation differences on such loans are recognized in equity.

**Translation of foreign Group company statements**
The income statements of foreign Group companies are translated into euros applying the weighted average rate of the period, and their balance sheets are translated at the rates of the closing date. The translation of net profit at different rates in the income statement and balance sheet produces a translation difference, which is recognized in equity. Translation differences arising from the elimination of cost of foreign subsidiaries or from post-acquisition movements in equity as well as changes in spot value of forward exchange contracts hedging a net investment are recognized in equity. Translation differences on the disposal of a subsidiary or a part of it are recognised in the income statement as a component of capital gain or loss. Translation differences arising before January 1, 2004 are recorded in retained earnings at the transition to IFRS, as permitted by the IFRS standard 1, and will not be recognized in the income statement on the disposal of a subsidiary. Translation differences arising on and after the transition date are recognized as a separate component of consolidated equity.

Since January 1, 2004, goodwill on acquisitions of foreign entities and subsequent fair value adjustments in the carrying amount of assets and liabilities of these acquisitions are treated as assets and liabilities of these foreign entities and translated into euro using the exchange rates of the closing date. Goodwill on acquisitions made before January 1, 2004 and corresponding fair value adjustments are recorded in euro.

## Property, plant and equipment

Items of property, plant and equipment are measured at their historical cost less accumulated depreciation and impairment. If an item of property, plant or equipment consists of several components with varying useful lives, each component is treated as a separate asset. In this case the cost of replacement is capitalized. In other cases subsequent costs are included in the asset's carrying amount only when it is probable that the future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. Other repair and maintenance costs are charged to the income statement as they are incurred. Depreciation on assets is calculated using the straight-line method over their estimated useful lives. Land is not recognized as a depreciable asset. The estimated useful lives are the following:

| | |
|---|---|
| Buildings | 25 to 40 years |
| Machinery and equipment | 3 to 15 years |

Residual values and useful lives are reviewed at each balance sheet date and, if appropriate, adjusted to reflect any changes in the expectation of economic benefit. Depreciation on property, plant and equipment ceases when the asset is classified as held for sale according to IFRS Standard 5 *Non-Current Assets Held for Sale and Discontinued Operations*. Capital gain or loss on the decommissioning and disposal of property, plant or equipment are included in other operating income or expenses.

### Borrowing costs

Borrowing costs are expensed in the period in which they are incurred. Direct transaction costs associated with a certain borrowing are included in the amortized original cost of the borrowing.

### Government grants

Government grants, such as grants for the purchase of property, plant or equipment, are recognized as deduction of the carrying amounts of these assets. Government grants are recognized as income in the form of lower depreciation over the useful life of the asset.

### Investment property

The Group holds no property for the purpose of earning rental income or increment.

## Intangible assets

Intangible assets are only recorded in the balance sheet when the cost of the asset can be measured reliably and it is probable that the future economic benefit associated with the item will flow to the Group. Patents, trademarks, and licenses with a limited useful life are stated in the balance sheet at original cost and charged to the income statement using the straight-line method over their known or estimated useful lives. Intangible assets with an indefinite useful life are not depreciable; instead, they are tested annually for impairment.

The useful lives of the assets are the following:

| | |
|---|---|
| Patents | 10 years |
| R&D expenses | 5 years |
| Computer software | 3 to 10 years |
| Other | 5 to 10 years |

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets at acquisition of a company purchased after January 1, 2004. Goodwill on earlier business combinations corresponds to the carrying amount determined according to the previous accounting standards and used as deemed cost. The classification or treatment of these acquisitions is not adjusted for the opening IFRS balance sheet.

Goodwill (and other intangible assets with indefinite useful life) is not depreciable as regulated; instead, these assets are tested annually for impairment. For this purpose, goodwill is focused on entities producing cash flow or, in the case of an associate, goodwill is included in the cost of the associate. Goodwill is carried at original cost less impairment.

### Research and development

Research expenditure is recognized as an expense in the income statement. Development expenditure of new or improved products is recognized as intangible assets in the balance sheet from the date on which the product is technically feasible and commercially viable and is expected to bring future economic benefit. Development costs previously recognized as an expense are not recognizable as an asset in a subsequent period. The asset is depreciated over its useful life commencing from the time it is ready for use. Assets not ready for use are tested annually for impairment. The useful life of capitalized R&D expenditure is five years, over which period capitalized assets are amortized on a straight-line basis.

## Inventories

Inventories are stated at the lower of cost or probable net realizable value. The cost is determined using the FIFO method. The cost of finished goods and work in progress comprises raw materials, direct labor costs, other direct costs and an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business less estimated expenses required to finish the product and selling expenses.

## Leases

The Group has no tangible assets under lease agreements in which the Group has an essential share of ownership-related risks or benefits.

## Impairment of assets

At each balance sheet date, the Group determines whether there is any indication of impairment of an asset. If any such indication exists, the asset's recoverable amount is estimated. Besides, recoverable amounts of the following assets are estimated annually regardless of whether there is any indication of impairment: goodwill, intangible assets with indefinite useful life, and semi finished intangible assets.

The need for impairment is reviewed at the level of cash generating units, that is, the lowest unit level that is mostly independent of other units and whose cash flows can be identified separately from other cash flows.

Recoverable amount is the higher of the fair value of the asset less costs to sell, or the value in use. Value in use means the estimated future net cash flows obtainable from the asset or a cash-generating unit, which are discounted to their present value. The recoverable amount of financial assets is either the fair value or the present value of expected future cash flows discounted at the original effective interest rate. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. An impairment loss is immediately recognized in the income statement. If an impairment loss is recognized for a cash-generating unit, the loss is first allocated to reduce goodwill on the cash-generating unit and then to reduce other assets of the unit on a pro-rata basis. An impairment loss is reversed if there is a change of circumstances and the recoverable amount has changed since the last impairment loss for the asset was recognized. However, the reversal does not exceed the carrying amount the asset would have if an impairment loss had not been recognized. An impairment loss for goodwill is never reversed. Nor is any impairment loss reversed on equity investments classified as financial assets available for sale. Interest income is accrued after impairment recognition on receivables measured at amortized cost according to IAS 39 at the rate that was applied as discount interest rate for impairment calculation.

## Employee benefits

**Pension liabilities**
Pension schemes are classified as defined benefit plans and defined contribution plans. Contributions are charged to the income statement in the period to which the contributions relate. The Group's few defined benefit plans are recognized as expenses in the income statement and the liability is shown in the balance sheet.

**Share-based payments**
The Group has applied the IFRS 2 *Share-based Payments* standard to all stock options granted after November 7, 2002 and not vested before January 1, 2005. Any earlier option schemes are not expensed in the income statement. Stock options are recognized at fair value at the grant date and expensed on a straight-line basis over the vesting period. The expense determined at the grant date is based on the Group's estimate of the number of options which are assumed to vest at the end of the vesting period. Fair value is determined by the Black-Scholes option pricing model. The impacts of non-market conditions (including profitability and a certain profit growth target) are not included in the determination of the fair value of the stock option. Such impacts are included in assumptions about the number of options that are expected to become exercisable at the end of the vesting period. The Group updates the assumption of the final number of options on each balance sheet date. Changes in the assumptions are recognized in the income statement. As stock options are exercised, settlements received from subscriptions (adjusted with transaction expenses, if any) are recognized in equity (nominal value) and share premium.

## Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of past events, payment is probable, and a reliable estimate can be made of the amount of the obligation. If some of the obligation is expected to be reimbursed by a third party, the reimbursement is recognized as a separate asset, but only when it is virtually certain that reimbursement will be received. Provisions are measured at the present value of the expenditure required to settle the obligation. The discount rate chosen to determine the present value reflects current market assessments of the time value of money at the time of review and the risks involved in the obligation.

A restructuring provision is recognized when the Group has prepared a detailed restructuring plan and began its implementation or notified thereof. A restructuring plan includes the following information at least: the business subject to restructuring, principal places of business affected, the location, functions and estimated number of employees who will be paid benefits upon termination, costs involved, and the time of implementation of the plan.

Provisions will be recognized for loss-making contracts when the necessary expenses required for the fulfilment of obligations exceed the benefits received from the contract.

A provision for obligations regarding decommissioning or environmental rehabilitation is recognized when the Group is under obligation based on environmental legislation or the Group's environmental responsibility policies regarding the decommissioning of a plant, remedy of environmental damage, or relocation of equipment.

## Income taxes

The tax expense of the income statement consists of tax based on taxable profit for the period and deferred tax. The tax expense is recognized in the income statement, with the exception of items recognized directly in equity, in which case the corresponding tax effect is also recognized as part of equity. The tax based on taxable profit for the period is calculated on taxable income applying the effective tax rate of each particular country. The tax is adjusted with prior year taxes, if any.

Deferred income tax is calculated on all temporary differences between the carrying amount and tax base. The biggest temporary differences arise from the depreciation of property, plant and equipment, revaluation of derivative financial instruments, defined benefit pension plans, unused tax losses, and fair value measurement at acquisition.

Deferred income tax is not provided on non-deductible impairment of goodwill. Deferred income tax is not provided on retained subsidiary earnings to the extent that the difference is unlikely to reverse in the foreseeable future. Deferred income tax is computed using tax rates enacted by the balance sheet date. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

## Revenue recognition

**Sales of goods and services**

Revenue from the sales of goods is recognized when significant risks and rewards of ownership of goods have been transferred to the buyer. Revenue from the sale of services is recognized when the service has been rendered.

**Construction contracts**

The Group has no construction contracts referred to in IAS 11.

**Interest and dividend**

Interest income is recognised using the effective interest method and dividend income is recognized when the right to receive dividend is established.

**Financial assets and liabilities**

The Group has applied the IAS 39 standard *Financial Instruments: Recognition and Measurement* (amended in 2004) since January 1, 2004. Transaction costs are included in the original carrying amount of financial assets, when the item in question is not measured at fair value through profit or loss. All acquisitions and sales of financial assets are booked on the trade date.

Financial assets are derecognized when the Group has lost a contractual right to cash flows or transferred substantial risks and benefits out of the Group.

The category Financial assets stated at fair value through profit or loss is divided in two subcategories: financial assets held for trading and financial assets designated at fair value through profit or loss at inception. Financial assets held for trading are usually acquired for the purpose of short-term profit taking from changing market prices. Derivative contracts that do not meet the terms of hedge accounting are classified as being held for trading. Financial assets held for trading and financial assets expiring within 12 months are included in current assets. The items of this category are recognized at fair value, and the fair values of all investments of this category are based on current bid prices quoted in active markets at the balance sheet date. Both unrealized and realized gains and losses arising from changes in fair value are recognized in the income statement in the period in which they arise.

Held-to-maturity-investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. They are recognized at amortized cost in non-current assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not held for trading. This category includes the Group's financial assets arising from the transfer of cash, goods or services to a debtor. They are recognized at amortized cost in current or non-current financial assets; in the latter if they expire in over 12 months.

Available-for-sale financial assets are non-derivatives that are specifically designated in this category or not classified in any of the other categories. They are included in non-current assets, unless they are intended to be disposed of within 12 months of the balance sheet date, in which case they are recorded in current assets. Available-for-sale financial assets may comprise shares and interest-bearing investments, and they are recognized at fair value. As a rule, the fair value of the investments of this category is based on current bid prices quoted in active markets at the balance sheet date. Changes in the fair value of available-for-sale financial assets are recognized in equity in fair value reserve including tax effect. Changes in fair value are removed from equity and recognized in the income statement upon disposal or impairment of the investment to the extent that an impairment loss has to be recorded.

Cash and cash equivalents comprise cash in hand, bank deposits held at call, and other highly liquid short-term investments. Items classified as cash or cash equivalents mature within three months or less from the date of acquisition.

Financial liabilities are initially measured at the fair value of consideration received. Transaction costs are included in the original carrying amount of financial liabilities. Financial liabilities may include current and non-current liabilities, which can be interest-bearing or interest-free.

## Derivative financial instruments and hedge accounting

The Group has not applied IFRS-based hedge accounting to derivative financial instrument which hedge currency-denominated items or probable future cash flows, even if they are acquired for hedging purposes. Forward exchanges are the principal hedging instrument for the Group's commercial cash flow. Non-hedging derivative financial instruments are measured at fair value and recognized in financial income and expenses.

In the balance sheet, non-hedging derivatives are included in other current receivables. The Group does not hold derivative financial instruments for speculation purposes.

The parent company Tamfelt Corp. has signed electricity forward contracts to even out the effects of fluctuating electricity rates in the company's units in Finland. The contracts are charged to the income statement as they mature. Liability for non-mature electricity forward contracts is presented in the Notes.

## Operating profit

The IAS 1 *Presentation of Financial Statements* does not define the concept 'operating profit'. The Group has defined the concept as follows: operating profit is the net total which is formed when other operating income is added to net sales and the following items are detracted: the cost of purchase adjusted by change in the inventory of finished goods and work in progress, as well as the cost of work performed by the company and capitalized, the cost of employee benefits, depreciation, loss of impairment and other operating expenses. All other items of the income statement are presented below the operating profit line. Exchange differences are included in operating profit, if they arise from business-related items; otherwise they are recorded in financial items.

## Accounting policies requiring management judgment and key uncertainty factors

The preparation of financial accounts requires the management to make estimates and assumptions concerning future events, which require judgment in the application of accounting policies. The estimates are based on the management's best judgment at the time of statement release. Changes, if any, to the estimates and assumptions are recognized during the period in which the change is made and in all subsequent periods.

**Impairment testing**

The Group conducts annual impairment testing on goodwill, semi finished intangible assets and intangible assets with infinite useful life, and assesses whether there is any indication of impairment as provided above in Significant Accounting Policies. Recoverable amounts of cash-generating units are determined based on value-in-use calculations. The calculation requires the use of estimates.

## Application of new or amended IFRS standards

In 2007 the Group will adopt the following new or renewed standards and interpretations published by IASB in 2005 and 2006:

IFRS 7 *Financial Instruments. Disclosures*. The Group assumes that the new standard will mostly influence the future presentation of Notes to Consolidated Statements.

IAS 1 *Presentation of Financial Statements. Capital disclosures*. The Group assumes that the new standard will mostly influence the future presentation of Notes to Consolidated Statements.

IFRIC 8: IFRS 2 *Scope*. The Group assumes that the new interpretation has no effect on future consolidated statements.

IFRIC 9 *Reassessment of embedded derivatives*. According to the Group's current assumption, this interpretation will have no effect on consolidated statements, because no Group company has changed the contract terms referred to in the interpretation.

IFRIC 10 *Interim Financial Reporting and Impairment*. The Group assumes that the new interpretation has no effect on future consolidated statements.

## 1. Segment information

Segment information is presented according to the Group's business and geographical segments. The Group's primary segment is technical textiles. The services and products included in this segment do not differ from each other in terms of financial risks or profitability to the extent that they would warrant separate identification.

The Group's secondary segment, geographical segment, is divided in Finland, other Europe, and other countries. The net sales of the geographical segments are recognized according to customer location and the assets are stated according to their location. Inter-segment pricing is determined by current market prices. The assets and liabilities of the segment are operating items that the segment uses in its business operations or that can be allocated to the segment on a reasonable basis. Unallocated items contain tax and financial items as well as items that relate jointly to the whole company. Investments consist of increases of property, plant and equipment and intangible assets that are used over more than one financial period.

Information on the primary segment is presented in the consolidated income statement and balance sheet.

### Geographical segments

| 1,000 € | **2006** | 2005 |
|---|---|---|
| **Net sales** | | |
| Finland | 53,649 | 46,759 |
| Other Europe | 67,548 | 57,689 |
| Other countries | 45,727 | 48,761 |
| Elimination | -11,952 | -13,122 |
| **Consolidated** | **154,972** | 140,087 |
| | | |
| **Investments** | | |
| Finland | 9,214 | 8,139 |
| Other Europe | 527 | 1,802 |
| Other countries | 1,798 | 224 |
| **Consolidated** | **11,539** | 10,165 |
| | | |
| **Assets** | | |
| Finland | 126,420 | 126,346 |
| Other Europe | 19,294 | 17,459 |
| Other countries | 13,214 | 11,906 |
| Elimination | -5,346 | -6,340 |
| **Consolidated** | **153,582** | 149,371 |

## 2. Other operating income

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Gain on disposal of property, plant and equipment | 2,030 | 128 |
| Rent income | 23 | 19 |
| Other | 90 | 93 |
| | **2,143** | 240 |

## 3. Operating costs

**Materials, services and other operating expenses**

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Change in the inventory of finished goods and work in progress | -3 | 490 |
| Purchases during the period | 32,212 | 28,689 |
| Change in inventories | 466 | -1,138 |
| Rent expenses | 381 | 348 |
| Outsourced and subcontracted services | 559 | 892 |
| Loss on disposal and scrapping of property, plant and equipment | 47 | 21 |
| Other expense items | 26,992 | 25,497 |
| | **60,654** | 54,799 |

**Expenses from employee benefits**

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Payroll | | |
| Members of the Boards of Directors and Presidents | 1,052 | 768 |
| Other salaries | 47,535 | 44,419 |
| | **48,587** | 45,187 |
| | | |
| Pension expenses | 7,696 | 5,805 |
| Granted stock options settled in equity or in cash | 130 | 4 |
| Other social expenses | 5,085 | 4,086 |
| | **61,498** | 55,082 |
| Number of employees | | |
| Average | 1,415 | 1,333 |
| At the end of the period | 1,443 | 1,401 |

Information on management benefits and loans is presented in Note 29. Related-party transactions.

## 4. Depreciation and impairment

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Depreciation per asset groups | | |
| Property, plant and equipment | | |
| Buildings | 678 | 675 |
| Machinery and equipment | 7,530 | 7,296 |
| Other tangible assets | 13 | 13 |
| Intangible assets | | |
| Other intangible assets | 865 | 888 |
| | **9,086** | 8,872 |

## 5. Research and development costs

In 2006 the consolidated R&D cost was 4,381,000 euros (3,289,000 in 2005).

## 6. Financial income

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Interest income | 225 | 148 |
| Dividend income | 101 | 88 |
| Exchange rate gains | 442 | 37 |
| Remeasurement of forward exchanges, held for trading | 80 | |
| Gain on disposal of financial assets, held for trading | 122 | 99 |
| Change in fair value of the financial assets at fair value through profit or loss | 187 | 183 |
| | **1,157** | 555 |

Items above the operation profit include -1,090,000 euros of exchange rate gains/losses in 2006 (645,000 euros in 2005).

## 7. Financial expenses

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Interest expenses | 592 | 642 |
| Exchange rate losses | 230 | 605 |
| Remeasurement of forward exchanges, not in hedge accounting | | 84 |
| Loss on disposal of financial assets held for trading | | 20 |
| Change in fair value of the financial assets at fair value | 9 | |
| | **831** | 1,351 |

## 8. Income tax

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Tax based on taxable income for the period | 6,014 | 4,753 |
| Taxes for prior periods | 127 | -25 |
| Deferred taxes | -82 | 747 |
| | **6,059** | 5,475 |

Reconciliation between income statement tax expenses and taxes computed at the Group's domestic tax rate (26%).

| 1,000 € | **2006** | 2005 |
|---|---|---|
| **Profit before tax** | **26,203** | 20,801 |
| Taxes computed at domestic tax rate | 6,813 | 5,408 |
| Taxes for prior periods | 127 | -25 |
| Different tax rates in foreign subsidiaries | 106 | 114 |
| Taxfree income | -784 | -126 |
| Non-deductible expenses | 68 | 86 |
| Use of previously unrecorded fiscal losses | -258 | -195 |
| Change in deferred taxes | -13 | 213 |
| **Taxes in the income statement** | **6,059** | 5,475 |

## 9. Earnings per share

Basic earnings/share are computed by dividing profit attributable to equity holders of the parent by the weighted average number of outstanding shares in the period.

| | **2006** | 2005 |
|---|---|---|
| Profit for the period attributable to equity holders of the parent, continuing operations (1,000 €) | 20,196 | 15,439 |
| Weighted average number of shares in the period (1,000) | 27,564 | 27,388 |
| Basic earnings per share (euro), continuing operations | 0.73 | 0.56 |

In the computation of diluted earnings per share, the weighted average number of shares includes the dilutive effect following from the conversion into shares of all diluting potential shares. In the Group, stock options are an instrument increasing the number of shares. Stock options have a dilutive effect when the subscription price is lower than the fair value of the share. Dilutive effect is the number of shares which must be issued without consideration because the proceeds received from exercised stock options would not enable the Group to issue the same number of shares at fair value. The fair value of a share is based on the average price of shares during the period.

| | **2006** | 2005 |
|---|---|---|
| Profit for the period attributable to equity holders of the parent, continuing operations (1,000 €) | 20,196 | 15,439 |
| Weighted average number of shares in the period (1,000) | 27,564 | 27,388 |
| Effect of stock options (1,000) | 20 | 0 |
| Weighted average number of shares for the calculation of diluted earnings per share (1,000) | 27,584 | 27,388 |
| Diluted earnings per share (euro), continuing operations | 0.73 | 0.56 |

## 10. Property, plant and equipment

| 1,000 € | Land | Buildings | Machinery and equipment | Other tangible assets | Pre-payments | **Total** |
|---|---|---|---|---|---|---|
| Cost Jan. 1, 2006 | 942 | 24,036 | 159,317 | 474 | 268 | **185,037** |
| Increase | | 128 | 3,424 | | 7,542 | **11,094** |
| Decrease | | | -1,046 | | -259 | **-1,305** |
| Exchange differences | | | -115 | | | **-115** |
| **Cost Dec. 31, 2006** | **942** | **24,164** | **161,580** | **474** | **7,551** | **194,711** |
| | | | | | | |
| Depreciation and impairment Jan. 1, 2006 | | -10,773 | -100,630 | -351 | | **-111,754** |
| Depreciation | | -678 | -7,530 | -13 | | **-8,221** |
| Decrease | | | 921 | | | **921** |
| Exchange differences | | | 94 | | | **94** |
| | | | | | | |
| **Depreciation and impairment Dec. 31, 2006** | | **-11,451** | **-107,145** | **-364** | | **-118,960** |
| | | | | | | |
| Carrying amount Jan. 1, 2006 | 942 | 13,263 | 58,687 | 123 | 268 | **73,284** |
| Carrying amount Dec. 31, 2006 | 942 | 12,713 | 54,435 | 110 | 7,551 | **75,751** |
| Machinery and equipment, undepreciated portion Dec. 31, 2006 | | | | | | **52,536** |
| | | | | | | |
| Cost Jan. 1, 2005 | 942 | 23,564 | 149,423 | 469 | 1,664 | **176,062** |
| Increase | | 199 | 10,188 | 5 | 254 | **10,646** |
| Acquisition of subsidiary | | 273 | 128 | | | **401** |
| Decrease | | | -583 | | -1,650 | **-2,233** |
| Exchange differences | | | 161 | | | **161** |
| **Cost Dec. 31, 2005** | **942** | **24,036** | **159,317** | **474** | **268** | **185,037** |
| | | | | | | |
| Depreciation and impairment Jan. 1, 2005 | | -10,098 | -93,711 | -338 | | **-104,147** |
| Depreciation | | -675 | -7,296 | -13 | | **-7,984** |
| Decrease | | | 502 | | | **502** |
| Exchange differences | | | -125 | | | **-125** |
| **Depreciation and impairment Dec. 31, 2005** | | **-10,773** | **-100,630** | **-351** | | **-111,754** |
| | | | | | | |
| Carrying amount Jan. 1, 2005 | 942 | 13,472 | 55,704 | 132 | 1,664 | **71,914** |
| Carrying amount Dec. 31, 2005 | 942 | 13,263 | 58,687 | 123 | 268 | **73,284** |
| Machinery and equipment, undepreciated portion Dec. 31, 2005 | | | | | | **56,010** |

## 11. Intangible assets

| 1,000 € | Goodwill | Other intangible assets | **Total** |
|---|---|---|---|
| Cost Jan. 1, 2006 | 1,346 | 11,127 | **12,473** |
| Increase | | 704 | **704** |
| Exchange differences | | -5 | **-5** |
| **Cost Dec. 31, 2006** | **1,346** | **11,826** | **13,172** |
| | | | |
| Depreciation and impairment Jan. 1, 2006 | -1,059 | -6,928 | **-7,987** |
| Depreciation | | -865 | **-865** |
| **Depreciation and impairment Dec. 31, 2006** | **-1,059** | **-7,793** | **-8,852** |
| | | | |
| Carrying amount Jan. 1, 2006 | 287 | 4,199 | **4,486** |
| Carrying amount Dec. 31, 2006 | 287 | 4,033 | **4,320** |
| | | | |
| Cost Jan. 1, 2005 | 1,059 | 10,751 | **11,810** |
| Increase | | | **382** |
| Acquisition of subsidiary | | | **287** |
| Exchange differences | | | **-6** |
| **Cost Dec. 31, 2005** | **1,346** | **11,127** | **12,473** |
| | | | |
| Depreciation and impairment Jan. 1, 2005 | -1,059 | -6,041 | **-7,100** |
| Depreciation | | -888 | **-888** |
| Exchange differences | | 1 | **1** |
| **Depreciation and impairment Dec. 31, 2005** | **-1,059** | **-6,928** | **-7,987** |
| | | | |
| Carrying amount Jan. 1, 2005 | | 4,710 | **4,710** |
| Carrying amount Dec. 31, 2005 | 287 | 4,199 | **4,486** |

By December 31, 2006 the Group has been issued 19,000 emission allowances, of which 13,000 are estimated to be set free for sale.The monetary value of these was about 35,000 euros on the balance sheet date.

## 12. Investment in associates

| 1,000 € | **2006** | 2005 |
|---|---|---|
| At the beginning of the period | 291 | 269 |
| Share of profit for the period | | 23 |
| Decrease | -291 | |
| At the end of the period | | 291 |

Details of associates including their combined assets, liabilities, net sales and loss/profit:

Alakoski Oy, domicile Tampere

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Assets | | 1,141 |
| Liabilities | | 51 |
| Net sales | | 216 |
| Profit/loss | | 59 |
| Shareholding (%) | | 38.89 |

The Group sold its share in the hydroelectric power plant Alakoski Oy by an agreement signed on October 13, 2006.

## 13. Other financial assets

The Group did not sell equity investments during the period. Change in the fair value of available-for-sale financial assets is recognized in the fair value reserve in equity.

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Publicly quoted equity investments | 1,604 | 2,030 |
| Non-quoted equity investments | 187 | 187 |
| | **1,791** | 2,217 |

## 14. Deferred tax assets and liabilities

**Change in deferred tax in 2006**

| 1,000 € | Jan. 1, 2006 | Charged to income statement | Charged to equity | Dec. 31, 2006 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Internal margin in inventories | 534 | -22 | | 512 |
| Amortization differences | 27 | 109 | | 136 |
| | **561** | **86** | | **648** |
| | | | | |
| **Deferred tax liabilities** | | | | |
| Cumulative depreciation difference | 8,815 | 64 | | 8,879 |
| Fair value measurement of other investments | 289 | | -111 | 178 |
| Fair value measurement of derivatives | | 21 | | 21 |
| Acquisition of subsidiaries | 40 | | | 40 |
| Other remeasurement differences | 726 | 32 | | 758 |
| Amortization differences | 1,087 | -113 | | 974 |
| | **10,957** | **4** | **-111** | **10,850** |

**Change in deferred tax in 2005**

| 1,000 € | Jan. 1, 2005 | Charged to income statement | Charged to equity | Dec. 31, 2005 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Internal margin in inventories | 503 | 31 | | 534 |
| Amortization differences | | 27 | | 27 |
| | **503** | **58** | | **561** |
| | | | | |
| **Deferred tax liabilities** | | | | |
| Accumulated depreciation difference | 8,153 | 662 | | 8,815 |
| Fair value measurement of other investments | | | 289 | 289 |
| Fair value measurement of derivatives | 22 | -22 | | |
| Acquisition of subsidiaries | | | | 40 |
| Other remeasurement differences | 707 | 19 | | 726 |
| Amortization differences | 941 | 146 | | 1,087 |
| | **9,823** | **805** | **289** | **10,957** |

## 15. Inventories

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Materials and supplies | 10,125 | 10,195 |
| Work in progress | 9,124 | 9,424 |
| Finished products | 12,838 | 12,576 |
| | **32,087** | 32,195 |

Expenses recognized on the carrying amount of inventories were 1,220,000 euros (1,077,000 in 2005).

## 16. Trade and other receivables

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Trade receivables | 27,828 | 27,282 |
| Accrued income | 1,018 | 1,088 |
| Loan assets | 361 | 291 |
| | **29,207** | 28,661 |

Significant items related to accrued income consist of personnel-associated amortization. The Group recognized no loss on trade receivables (loss 516,000 euros in 2005).

## 17. Cash and cash equivalents

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Cash on hand and in banks | 5,168 | 4,736 |
| Certificates of deposit | 2,860 | 1,650 |
| | **8,028** | 6,386 |

## 18. Equity

| 1,000 € | Qty (1,000) | Share capital | Share premium |
|---|---|---|---|
| Jan. 1, 2005 | 27,355 | 27,355 | 66 |
| Exercised stock options | 197 | 197 | 894 |
| **Dec. 31, 2005** | 27,552 | 27,552 | 960 |
| | | | |
| Exercised stock options | 12 | 12 | 55 |
| **Dec. 31, 2006** | 27,564 | 27,564 | 1,015 |

Minimum share capital according to Tamfelt Corp. Articles of Association is 10,000,000 euros and maximum share capital 80,000,000 euros. On December 31, 2006 the company's share capital was 27,563,964 euros and the number of shares was 27,563,964. The shares were divided as follows:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | Quantity | EUR | Quantity | EUR |
| Common share (20 votes/share) | 10,119,198 | 10,119,198 | 10,119,198 | 10,119,198 |
| Preferred share (1 vote/share) | 17,444,766 | 17,444,766 | 17,432,766 | 17,432,766 |
| | **27,563,964** | **27,563,964** | 27,551,964 | 27,551,964 |

### Dividends

The Board of Directors proposes to the Annual General Meeting that dividend should be distributed as follows:

| | |
|---|---|
| Common share | 0.59 euros/share |
| Preferred share | 0.61 euros/share |

### Description of reserves

Translation differences

Translation difference reserve contains differences arising from the translation of the statements of foreign entities. In the opening IFRS balance sheet, accumulated translation differences of foreign entities were recognised as zero.

Fair value reserve and other reserves

Fair value reserve consists of the difference between the fair value and the carrying value of financial assets available-for-sale adjusted by deferred tax liability.

### Mandatory redemption clause

A shareholder whose percentage of the company's aggregate share capital or number of votes equals or exceeds 33 $^1/_3$ per cent shall be liable to redeem the shares held by other shareholders or securities entitling thereto, irrespective of the class of share, in so far as other shareholders demand their rights of redemption, on the conditions detailed in Article 12 of the Articles of Association.

Detailed information on shares is presented in Stock analysis.

## 19. Share-based payments

The Group has run stock option schemes since April 1, 1998. Options granted after November 7, 2002 and not vested before January 1, 2005 are recognized according to IFRS 2 *Share-based Payments*. In Tamfelt's statements for 2006 this applies only to E and F options of the year 2005. The E options vest at November 1, 2007 and the F options at November 1, 2009 and both mature at May 30, 2011. The 2005 options expire also if the holder's employment at Tamfelt ends before November 1, 2009 for a reason other than death or retirement on a pension.

Other key conditions of stock options effective during the year are presented in the table on the table below.

**Option scheme**

| | **Share-based E options, granted to key executives** | **Share-based F options, granted to key executives** |
|---|---|---|
| Nature of the scheme | Granted stock options | Granted stock options |
| Grant date | May 10, 2005 | May 10, 2005 |
| Number of granted instruments | 218,500 | 218,500 |
| Exercise price, euro | 9.20 | 9.20 |
| Share price at grant date, euro | 8.10 | 8.10 |
| Agreed term in years | 5.10 | 5.10 |
| Expected volatility, % | 20.95 | 20.95 |
| Time to maturity, years | 6.1 | 6.1 |
| Risk-free interest, % | 2.87 | 2.87 |
| Fair value of instrument at grant date, euro | 1.81 | 1.81 |
| Valuation model | Black-Scholes | Black-Scholes |

The management has reassessed share volatility. The option expenses recognized in employee benefits in the previous period were 79,000 euros too low.

Changes and weighted average redemption prices of the stock options during the period are:

| | **2005 E options** | | **2005 F options** | |
|---|---|---|---|---|
| | **Exercise price as weighted average euro/share** | **Quantity** | **Exercise price as weighted average euro/share** | **Quantity** |
| At the beginning of the period | - | - | - | - |
| Granted new options | 9.20 | 218,500 | 9,20 | 218,500 |
| Forfeited options | - | - | - | - |
| Exercised options | - | - | - | - |
| Expired options | - | - | - | - |
| Exercisable options at the end of the period | 9.20 | 218,500 | 9,20 | 218,500 |

The redemption prices and deadlines of options outstanding on the accounting date are the following:

| **Maturity year** | **2006 Exercise price (euro)** | **2006 Quantity** |
|---|---|---|
| 2007 | 9.20 | 218,500 |
| 2009 | 9.20 | 218,500 |

Fair value of shares in option schemes under which shares are granted is based on quoted share price. Dividends are not included in the calculation of fair value of stock options.

## 20. Pension liabilities

Pension plans for the Group companies are operated by insurance corportions, and most of them are defined contribution plans. A few foreign Group companies run defined benefit plans, in which case the liability is presented in the balance sheet and change for the period as an expense in the income statement. In defined contribution plans, contributions are made to the insurance corporation, after which the company has no other payment liabilities. The Group's payments to the defined contribution plans are recognized as an expense for the period which the charge relates to.

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Defined benefit-based pension liability in balance sheet | 621 | 576 |

## 21. Provisions

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Pension provision | 42 | 528 |

## 22. Interest-bearing liabilities

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Non-current | | |
| Pension loans | 1,583 | 4,750 |
| Other loans | 247 | 607 |
| | **1,830** | 5,357 |
| Short-term | | |
| Pension loans | 3,167 | 3,167 |
| Other loans | 155 | 602 |
| Bank loans | | 5,000 |
| | **3,322** | 8,769 |

**Maturity dates of long-term loans**

**Year 2006**

| 1,000 € | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|
| Pension loans | 3,167 | 1,583 | | |
| Other loans | 155 | 225 | 11 | 11 |
| | **3,322** | **1,808** | **11** | **11** |

**Year 2005**

| 1,000 € | **2006** | **2007** | **2008** |
|---|---|---|---|
| Pension loans | 3,167 | 3,167 | 1,583 |
| Other loans | 602 | 509 | 98 |
| | **3,769** | **3,676** | **1,681** |

All interest-bearing long-term liabilities are in euro.

## 23. Trade and other payables

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Short-term | | |
| Trade payables | 5,910 | 3,483 |
| Advances received | 913 | 240 |
| Accrued liabilities | 17,706 | 16,268 |
| Other liabilities | 4,354 | 3,938 |
| | **28,883** | 23,929 |

Significant items of accruals consist of staff costs and amortized taxes.

## 24. Financial risk management

The objective of the Group's financial risk management is hedging against the impact of unfavorable changes in the financial market. The goals and limits of the Group's financial operations are defined in the financial policy adopted by the company's Board of Directors. Currency risk is the primary financial risk.

**Currency risk**

Some 24 per cent of the Group's sales and 1.4 per cent of purchases are conducted in foreign currencies. The U.S. dollar is the principal sales currency. As a rule, the currency-specific net position is reviewed in one-year term, and the Group's policy is to hedge this position. The main hedging instruments are 1 to 2-month forward exchange contracts that are not covered by cash flow hedging. Currency risk related to the equity of foreign subsidiaries is not hedged. The Group has no liabilities denominated in foreign currency.

**Interest risk**

Current money market investments expose the Group to cash flow interest rate risk, but the overall impact is not significant. Most of the Group's income and operative cash flows are independent of the fluctuations of the market rate of interest. The Group is most exposed to fair value interest risk, which is mainly associated with the loan portfolio. On the balance sheet date 99.9% of loans were fixed-rate loans with the duration of 1.6 years. The Group may take out loans at fixed or variable interest rates and use interest rate swaps to achieve the goals of its financing policy. The Group had no open interest rate swaps on the balance sheet date. Changes in the fair values of derivative interest-rate contracts are immediately recognized in the income statement.

**Investment market risk**

In liquid fund investments, Tamfelt avoids risks. The company invests mainly in money market instruments. Limited amounts of liquid funds can be placed in shares. According to principles confirmed by the Board of Directors, investment risks and counterparty risks can only be taken with counterparties of certain level of creditworthiness, whose market value and risk profile can be monitored regularly and reliably.

**Price risk**

The risk involved in the price of electricity required by the manufacturing process of the Group's domestic units is hedged with electricity derivatives.

**Cash flow and fair value credit risks**

The Group financial policy determines requirements of creditworthiness for customers, investment transactions and derivative contracts and for investment policy. The Group's customer base is spread worldwide and does not entail any significant concentration of credit risk. Customer's credit limits and financial standing are continuously monitored. The Group's maximum credit risk is the carrying amount of financial assets at December 31 less cash in hand and in bank and secured receivables.

**Liquidity risk**

The Group is committed to regular assessment and monitoring of the level of financing to ensure the adequacy of liquid assets. The availability and flexibility of financing is guaranteed by unwithdrawn portions of credit limits and by relying on several banks and financing forms for funding. The amount of unwithdrawn portion of credit limit at December 31, 2006 was 20 million euros.

## 25. Fair values of financial assets and liabilities

Financial derivatives are recognized in the balance sheet at fair value, which is determined as the price at which parties would be willing to trade them in an ongoing event other than liquidation or forced sale. Fair values of forward exchange contracts are based on the prices of the balance sheet date. Commodity derivatives are measured at the market price of the balance sheet date.

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Financial assets at fair value through profit or loss | | |
| Fair value | 1,751 | 1,290 |
| Carrying amount | 1,751 | 1,290 |
| Forward exchanges, not in hedge accounting | | |
| Fair value | 5,015 | 6,375 |
| Value of underlying asset | 4,935 | 6,545 |
| Electricity derivatives | | |
| Fair value | 1,994 | 799 |
| Trading value | 2,015 | 505 |

## 26. Adjustment of cash flows from operations

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Income from the disposal of associates | -2,003 | |
| Other financial items net | -325 | 773 |
| Depreciation | 9,086 | 8,872 |
| Employee benefits | 130 | 4 |
| Exch. diff. of working cap. and fin. items | -368 | -22 |
| Minority interests | 52 | 113 |
| Taxes for the period | 6,059 | 5,475 |
| Share of the profit of associates | | -23 |
| | **12,631** | 15,192 |

## 27. Other rental agreements

The Group has no non-cancellable operating leases referred to in IAS 17.35a-d or IAS 17.56a-c.

## 28. Collaterals and contingent liabilities

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Collaterals on own behalf | | |
| Mortgages on real estate | | 84 |
| Deposit guarantee | 20 | |
| Other contingent liabilities | | |
| Operational lease liabilities, maturity in 12 months | 151 | 107 |
| Operational lease liabilities, maturity in over 12 months | 175 | 212 |
| | **346** | 403 |

## 29. Related-party transactions

The Group's parent company/subsidiary relations are the following:

| Company | Country of domicile | Share-holding (%) | Share of voting power (%) |
|---|---|---|---|
| Parent company Tamfelt Corp. | Finland | | |
| Fanafel – Fábrica Nacional de Feltros Industriais Lda. | Portugal | 100 | 100 |
| Tamfelt (UK) Ltd. | U.K. | 100 | 100 |
| Tamfelt – GMCC (Tianjin) Paper Machine Clothing Co. Ltd | China | 60 | 60 |
| Tamfelt, Inc. | U.S.A. | 100 | 100 |
| Tamfelt Properties | Finland | 100 | 100 |
| Tamfelt PMC Canada, Inc. | Canada | 100 | 100 |
| Tamfelt PMC, Inc. | U.S.A. | 100 | 100 |
| Tamfelt Special Textiles (Shanghai) Co. Ltd. | China | 100 | 100 |
| Tamfelt Tianjin PMC Co. Ltd. | China | 100 | 100 |
| Tamfelt Tecnologia em Filtração Ltda. | Brazil | 99.99 | 99.99 |
| Totaltex Sp. z o.o. | Poland | 80 | 80 |
| Tampereen Verkatehdas Oy | Finland | 100 | 100 |

The following transactions were carried out with related parties:

| 1,000 € | **2006** | 2005 |
|---|---|---|
| a) **Purchase of services** | | |
| Associated companies | | 65 |
| b) **Employee benefits to executives in the Executive Board** | | |
| Salaries and other current benefits | 1,071 | 1,092 |
| Share-based payments | | 194 |
| Salaries and fees | | |
| President & CEO | 314 | 257 |
| Board members and deputy members | | |
| Cedercreuz, Axel | 20 | 18 |
| Cedercreuz, Carl-Magnus | 16 | |
| von Frenckell, Mikael | 38 | 32 |
| Kainu, Vesa | 20 | 14 |
| Karttunen, Martti | | 5 |
| Lilius, Martin | 20 | 18 |
| Oksanen, Jouko | 20 | 18 |
| Savander, Niklas | 20 | 14 |

The President & CEO and Deputy CEO as well as executives who were members of the Executive Board as of January 1, 2005 can retire on an old-age pension earliest at the age of 60. The costs of reduced retirement age and other supplements to statutory pension security are covered by voluntary pension insurances.

In addition to salary and bonuses, the members of the Executive Board are entitled to stock option benefits. The members of the Executive Board hold options from the 2002 phantom stock scheme and the 2005 option scheme. The management or other related parties have not been granted loans, guarantees or collaterals.

The President & CEO's period of notice to resign is twelve months if given by the company or six months if given by himself. The remuneration paid in case of a notice given by the company equals the salary payable for the period of notice.

# Consolidated financial summary

| 1,000 € | IFRS **2006** | IFRS 2005 | IFRS 2004 | FAS 2003 | FAS 2002 |
|---|---|---|---|---|---|
| Net sales | 154,972 | 140,087 | 133,760 | 125,698 | 126,206 |
| Change, % | 10.6 | 4.7 | 6.4 | -0.4 | -3.3 |
| Exports and foreign subsidiaries | 102,814 | 94,556 | 83,692 | 75,607 | 78,119 |
| % of net sales | 66.3 | 67.5 | 62.6 | 60.1 | 61.9 |
| Operating profit | 25,877 | 21,574 | 15,854 | 12,608 | 16,076 |
| % of net sales | 16.7 | 15.4 | 11.9 | 10.0 | 12.7 |
| Profit before extraordinary items, taxes and minority interest | 26,203 | 20,801 | 16,282 | 12,618 | 17,005 |
| % of net sales | 16.9 | 14.8 | 12.2 | 10.0 | 13.5 |
| Profit before taxes and minority interest | 26,203 | 20,801 | 16,282 | 12,618 | 17,005 |
| % of net sales | 16.9 | 14.8 | 12.2 | 10.0 | 13.5 |
| Return on equity, % | 19.4 | 16.1 | 13.7 | 9.1 | 11.2 |
| Return on net assets, % | 23.7 | 19.5 | 15.7 | 11.7 | 14.8 |
| Equity/assets ratio, % | 70.6 | 66.7 | 64.7 | 67.8 | 74.3 |
| Gearing, % | -4.3 | 6.5 | 11.5 | -0.1 | -2.9 |
| Gross investment | 11,539 | 10,165 | 15,379 | 3,398 | 16,444 |
| % of net sales | 7.4 | 7.3 | 11.5 | 2.7 | 13.0 |
| R&D expenditure | 4,381 | 3,289 | 3,593 | 3,578 | 3,366 |
| % of net sales | 2.8 | 2.3 | 2.7 | 2.8 | 2.7 |
| Average employment during the period | 1,415 | 1,333 | 1,325 | 1,344 | 1,384 |

## Return on equity, %

$$\frac{\text{Profit before extraordinary items, taxes and minority interest - taxes}}{\text{Equity + minority interest (average)}} \times 100$$

## Return on net assets, %

$$\frac{\text{Profit before extraordinary items, taxes and minority interest + interest and other financial expenses}}{\text{Balance-sheet total - interest-free liabilities (average)}} \times 100$$

## Equity/assets ratio, %

$$\frac{\text{Equity + minority interest}}{\text{Balance sheet total - advances received}} \times 100$$

## Gearing, %

$$\frac{\text{Interest-bearing liabilities - cash, bank and short-term investments}}{\text{Equity + minority interest}} \times 100$$

# Parent company statement of income

| 1,000 € | Ref. | 2006 Jan. 1 – Dec. 31 | % | 2005 Jan. 1 – Dec. 31 | % |
|---|---|---|---|---|---|
| **Net sales** | 1. | **128,770** | 100 | **118,973** | 100 |
| | | | | | |
| Change in finished goods inventory and work in progress | | -318 | | -518 | |
| Other operating income | 2. | 2,508 | | 274 | |
| | | | | | |
| Materials and services | 3. | -22,313 | | -21,092 | |
| Personnel expenses | 4. | -53,899 | | -49,283 | |
| Depreciation and impairment | 5. | -7,861 | | -7,566 | |
| Other operating expenses | | -27,587 | | -24,498 | |
| | | -111,660 | | -102,439 | |
| | | | | | |
| **Operating profit** | | **19,300** | 15 | **16,290** | 13 |
| | | | | | |
| Financial income and expenses | 6. | 1,642 | | -223 | |
| **Profit before extraordinary items, appropriations and taxes** | | **20,942** | 16 | **16,067** | 14 |
| Extraordinary items | 7. | 2,050 | | 2,140 | |
| **Profit before appropriations and taxes** | | **22,992** | 18 | **18,207** | 15 |
| Appropriations | | -320 | | -2,328 | |
| Direct taxes | 8. | -4,793 | | -3,865 | |
| **Profit for the period** | | **17,879** | 14 | **12,014** | 10 |

# Parent company balance sheet

| 1,000 € | Ref. | Dec. 31, 2006 | % | Dec. 31, 2005 | % |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 10. | 4,131 | | 4,238 | |
| Tangible assets | 11. | 58,947 | | 58,100 | |
| Investment | 12. | 40,470 | | 38,603 | |
| | | **103,548** | 69 | **100,941** | 68 |
| **Current assets** | | | | | |
| Inventories | 13. | 21,939 | | 21,987 | |
| Long-term receivables | 14. | 163 | | 140 | |
| Short-term receivables | 15. | 21,958 | | 23,599 | |
| Cash and bank | | 3,118 | | 1,265 | |
| | | **47,178** | 31 | **46,991** | 32 |
| **Assets total** | | **150,726** | 100 | **147,932** | 100 |
| **Liabilities and shareholders' equity** | | | | | |
| **Equity** | 16. | | | | |
| Share capital | | 27,564 | | 27,552 | |
| Share premium | | 1,015 | | 960 | |
| Equity issue | | | | 67 | |
| Retained earnings | | 24,140 | | 23,225 | |
| Profit for the period | | 17,879 | | 12,014 | |
| | | **70,598** | 47 | **63,818** | 43 |
| **Accumulated appropriations** | 18. | **30,856** | 20 | **30,536** | 21 |
| **Statutory provisions** | 19. | **42** | 0 | **528** | 0 |
| **Liabilities** | | | | | |
| Long-term liabilities | 20. | 1,681 | | 4,933 | |
| Short-term liabilities | 20., 21. | 47,549 | | 48,117 | |
| | | **49,230** | 33 | **53,050** | 36 |
| **Liabilities and shareholders' equity total** | | **150,726** | 100 | **147,932** | 100 |

# Parent company cash flow statement

| 1,000 € | 2006 Jan. 1 – Dec. 31 | 2005 Jan. 1 – Dec. 31 |
|---|---|---|
| **Cash flow from operating activities** | | |
| **Operating profit** | **19,300** | **16,290** |
| Adjustments to profit* | 5,352 | 7,566 |
| Change in working capital | | |
| Change in trade and other receivables | 1,618 | -3,495 |
| Change in inventories | 48 | 196 |
| Change in trade and other payables | 2,691 | -1,064 |
| Change in provisions | -486 | -243 |
| Interest received | 115 | 66 |
| Interest paid | -1,027 | -1,098 |
| Other financial items, net | 2,768 | 809 |
| Taxes | -4,353 | -3,460 |
| **Net cash flow from operating activities** | **26,026** | **15,567** |
| **Cash flow from investing activities** | | |
| Investment in property, plant and equipment | -8,008 | -7,724 |
| Investment in intangible assets | -705 | -380 |
| Other investments | -2,560 | -1,165 |
| Receivables from Group companies | 592 | |
| Gain on disposal of property, plant and equipment | 214 | |
| Gain on disposal of other fixed assets | 2,295 | |
| **Net cash flow from investing activities** | **-8,172** | **-9,269** |
| **Cash flow from financing activities** | | |
| Subscription for stock options | | 1,158 |
| Withdrawal of loans | 1,300 | 2,717 |
| Repayment of loans | -8,252 | -2,137 |
| Dividends paid | -11,099 | -9,372 |
| Group subsidy received | 2,050 | 2,140 |
| **Net cash flow from financing activities** | **-16,001** | **-5,494** |
| **Change in cash and cash equivalents** | 1,853 | 804 |
| Cash and cash equivalents at the beginning of the period | 1,265 | 461 |
| **Cash and cash equivalents at the end of the period** | **3,118** | **1,265** |

* Gain and depreciation on the disposal of property, plant and equipment

# Notes to parent company financial statements

## Significant accounting policies

The statements are prepared in compliance with the accounting standards applicable at the beginning of the financial period.

## Net sales

For the calculation of net sales, indirect taxes, discounts and exchange rate differences were deducted from sales revenue.

## Receivables and liabilities in foreign currencies

Foreign currency denominated receivables and liabilities are recognized at the average official exchange rate of the balance sheet date. Current hedging instruments for foreign-denominated items are recognized at the value of the date, including the effect of interest. Hedging instruments to cover the order backlog are valued applying the prudence concept.

## Measurement of non-current assets

Non-current assets are recognized in the balance sheet at acquisition cost less annual depreciation according to plan. Difference between total accelerated depreciation and planned depreciation is recognized as a separate item in appropriations.

Planned depreciation is calculated using the straight-line method over the useful life of the asset. The most common periods are:

| | |
|---|---|
| Intangible rights | 3 to 10 years |
| Other long-term expenditure | 10 years |
| Buildings | 25 to 40 years |
| Machinery and equipment | 3 to 15 years |
| Other tangible assets | 10 years |

## Inventories

Inventories are valued at lower of cost or market, at either the purchase price, or estimated net realizable value, whichever is lower. The cost of inventories is defined using the direct cost of purchase or manufacture on the FIFO principle.

## Current investments

Certificates of claim are entered in assets at acquisition cost, allocating the difference between cost and nominal value as an increase or decrease of cost, according to maturity. In the final accounts, however, they are not valued higher than the market price. Shares and interests are stated at cost or market price, whichever is lower.

Nominal interest income from certificates of claim is booked in interest income. The difference between cost and nominal value is allocated as an increase or decrease of interest income. If certificates of claim are sold in advance of maturity date, a gain is recorded in other financial income and a loss in other financial expenses.

## Research and development expenditure

The R&D expenditure is recognized as expenses of the financial period during which it arose, with the exception of research equipment, which is depreciated according to plan over five years by the straight-line method.

## Taxes

Calculated estimates of taxes are recognized in the income statement.

## Pension liabilities in Finland

Liability for working employees is covered by insurances with pension insurance corporations. Future expenditure in old-age pensions is booked in statutory provisions. The parent company is responsible for voluntary, unregistered old-age pensions. This liability is recorded as an expense.

## Environmental expenditure

Environmental expenditure is recognized in the financial period during which it arose, with the exception of machinery and equipment, which are depreciated according to plan over 3 to 5 years on a straight-line basis.

## 1. Net sales

(Tamfelt's line of business: technical textiles)

Net sales per segments

| 1,000 € | **2006** | % | 2005 | % |
|---|---|---|---|---|
| Finland | 52,158 | 41 | 45,531 | 38 |
| Other Europe | 48,197 | 37 | 44,495 | 37 |
| Other countries | 28,415 | 22 | 28,947 | 24 |
| | **128,770** | **100** | 118,973 | 100 |

## 2. Other operating income

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Gain on the disposal of property, plant and equipment | 2,321 | 95 |
| Rent income | 110 | 105 |
| Other | 77 | 74 |
| | **2,508** | 274 |

## 3. Materials and services

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Purchases during the period | 20,772 | 19,634 |
| Change in inventories | -270 | -322 |
| Outsourced and subcontracted services | 1,811 | 1,780 |
| | **22,313** | 21,092 |

## 4. Personnel expenses

| 1,000 € | **2006** | 2005 |
|---|---|---|
| President & CEO | 314 | 257 |
| Members of the Board of Directors | 154 | 120 |
| Other salaries and fees | 42,346 | 40,410 |
| Pension costs | 6,905 | 5,187 |
| Other social expenses | 4,181 | 3,309 |
| | **53,899** | 49,283 |
| | | |
| Employment | | |
| Average | 1,036 | 1,032 |
| At the end of the period | 1,045 | 1,040 |

## 5. Planned depreciation

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Intangible rights | 614 | 607 |
| Other long-term expenditure | 198 | 202 |
| Buildings | 125 | 125 |
| Machinery and equipment | 6,911 | 6,619 |
| Other tangible assets | 13 | 13 |
| | **7,861** | 7,566 |

Information on related-party transactions is presented in Note 29.

## 6. Financial income and expenses

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Dividend income | | |
| Dividend income from Group companies | 2,397 | 1,363 |
| From others | 38 | 32 |
| | 2,435 | 1,395 |
| | | |
| Interest income on long-term investment | | 3 |
| Other interest and financial income from others | 233 | 67 |
| Financial income total | 2,668 | 1,465 |
| | | |
| Interest expenses and other financial expenses | | |
| to Group companies | -522 | -456 |
| To others | -504 | -1,232 |
| Financial expenses total | -1,026 | -1,688 |
| | **1,642** | -223 |

Interest and financial income include exchange gain (+) or loss (-) of 120,000 euros net (-588,000 in 2005).

## 7. Extraordinary items

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Group subsidies | 2,050 | 2,140 |

## 8. Direct taxes

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Income tax on extraordinary items | 533 | 556 |
| Income tax on regular operations | 4,260 | 3,309 |
| | **4,793** | 3,865 |

## 9. Environmental costs

Environmental costs have no significant impact on the view given by the financial statements.

## 10. Intangible assets

| 1,000 € | **2006** | 2005 |
|---|---|---|
| **Intangible rights** | | |
| Cost Jan. 1 | 9,263 | 8,883 |
| Increase | 510 | 380 |
| **Cost Dec. 31** | **9,773** | 9,263 |
| | | |
| Accumulated depreciation and impairment Jan. 1 | -6,022 | -5,415 |
| Depreciation | -614 | -607 |
| **Accumulated depreciation and impairment Dec. 31** | **-6,636** | -6,022 |
| | | |
| Carrying amount Dec. 31 | 3,137 | 3,241 |
| | | |
| **Other long-term expenditure** | | |
| Cost Jan. 1 | 2,001 | 2,001 |
| Transfer between items | 195 | |
| **Cost Dec. 31** | **2,196** | 2,001 |
| | | |
| Accumulated depreciation and impairment Jan. 1 | -1,005 | -803 |
| Depreciation | -198 | -202 |
| **Accumulated depreciation and impairment Dec. 31** | **-1,203** | -1,005 |
| | | |
| Carrying amount Dec. 31 | 994 | 997 |

## 11. Tangible assets

| 1,000 € | **2006** | 2005 |
|---|---|---|
| **Land** | | |
| Cost Jan. 1 | 767 | 767 |
| **Cost Dec. 31** | **767** | 767 |
| **Carrying amount Dec. 31** | 767 | 767 |
| **Buildings** | | |
| Cost Jan. 1 | 4,888 | 4,888 |
| **Cost Dec. 31** | **4,888** | 4,888 |
| Accumulated depreciation and impairment Jan. 1 | -984 | -859 |
| Depreciation | -125 | -125 |
| **Accumulated depreciation and impairment Dec. 31** | **-1,108** | -984 |
| **Carrying amount Dec. 31** | **3,780** | 3,904 |
| **Machinery and equipment** | | |
| Cost Jan. 1 | 140,751 | 131,781 |
| Increase | 2,752 | 9,120 |
| Decrease | -995 | -150 |
| **Cost Dec. 31** | **142,508** | 140,751 |
| Accumulated depreciation and impairment Jan. 1 | -87,713 | -81,236 |
| Depreciation | -6,911 | -6,619 |
| Decrease | 883 | 142 |
| **Accumulated depreciation and impairment Dec. 31** | **-93,741** | -87,713 |
| **Carrying amount Dec. 31** | **48,767** | 53,038 |
| **Carrying amount of production machinery Dec. 31** | **46,943** | 51,145 |
| **Other tangible assets** | | |
| Cost Jan. 1 | 474 | 469 |
| Increase | | 5 |
| **Cost Dec. 31** | **474** | 474 |
| Accumulated depreciation and impairment Jan. 1 | -351 | -338 |
| Depreciation | -13 | -13 |
| **Accumulated depreciation and impairment Dec. 31** | **-365** | -351 |
| **Carrying amount Dec. 31** | **109** | 123 |
| **Advances paid and construction in progress** | | |
| Cost Jan. 1 | 268 | 1,664 |
| Increase | 5,515 | 236 |
| Decrease | -259 | -1,632 |
| **Cost Dec. 31** | **5,524** | 268 |
| **Carrying amount Dec. 31** | **5,524** | 268 |

## 12. Investment

| 1,000 € | **2006** | 2005 |
|---|---|---|
| **Shares in Group companies** | | |
| Cost Jan. 1 | 36,806 | 35,641 |
| Increase | 2,560 | 1165 |
| **Cost Dec. 31** | **39,366** | 36,806 |
| **Carrying amount Dec. 31** | **39,366** | 36,806 |
| **Shares in associates** | | |
| Cost Jan. 1 | 1 | 1 |
| Decrease | -1 | |
| **Cost Dec. 31** | | 1 |
| **Carrying amount Dec. 31** | | 1 |

Group companies and associates are detailed in Notes 13 and 29.

| 1,000 € | **2006** | 2005 |
|---|---|---|
| **Other shares** | | |
| Cost Jan. 1 | 1,104 | 1,104 |
| **Cost Dec. 31** | **1,104** | 1,104 |
| **Carrying amount Dec. 31** | **1,104** | 1,104 |
| **Receivables from Group companies** | | |
| Cost Jan. 1 | 692 | 692 |
| Decrease | -692 | |
| **Cost Dec. 31** | | 692 |
| **Carrying amount Dec. 31** | | 692 |

## 13. Inventories

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Materials and supplies | 8,127 | 7,858 |
| Work in progress | 8,894 | 9,038 |
| Finished products | 4,918 | 5,091 |
| **Total** | **21,939** | 21,987 |

## 14. Long-term receivables

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Other loan assets | 163 | 140 |

## 15. Short-term receivables

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Trade receivables from others | 19,969 | 19,407 |
| Trade receivables from Group companies | 1,329 | 3,319 |
| Other loan assets | 130 | 113 |
| Accrued income | 530 | 759 |
| | **21,958** | 23,598 |
| Significant items in accrued income | | |
| Staff-related amortization | 142 | 308 |
| Tax amortization | | 123 |
| Other amortization | 388 | 328 |
| | **530** | 759 |

## 16. Equity

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Share capital Jan. 1 | 27,552 | 27,355 |
| Subscriptions under stock options | 12 | 197 |
| **Share capital Dec. 31** | **27,564** | 27,552 |
| Share premium Jan. 1 | 960 | 66 |
| Subscriptions under stock options | 55 | 894 |
| **Share premium Dec. 31** | **1,015** | 960 |
| **Unregistered subscriptions under stock options** | | **67** |
| Retained earnings Jan. 1 | 35,239 | 32,597 |
| Dividend | -11,099 | -9,372 |
| **Retained earnings Dec. 31** | **24,140** | 23,225 |
| **Net profit for the period** | **17,879** | 12,014 |
| **Total equity** | **70,598** | 63,818 |

## 17. Statement of distributable assets

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Retained earnings | 24,140 | 23,225 |
| Net profit for the period | 17,879 | 12,014 |
| | **42,019** | 35,239 |

## 18. Accumulated appropriations

Accumulated appropriations consist of accumulated depreciation difference.

## 19. Statutory provisions

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Pension provision | 42 | 528 |

## 20. Interest-bearing liabilities

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Long-term | | |
| Pension loans | 1 583 | 4 750 |
| Other loans | 98 | 183 |
| | **1 681** | 4 933 |
| Short-term | | |
| Pension loans | 3 167 | 3 167 |
| Other loans | 85 | 85 |
| Bank loans | | 5 000 |
| Other loans from Group companies | 20 000 | 18 700 |
| | **23 252** | 26 952 |

Maturity dates of long-term loans

| **Year 2006** | **2007** | **2008** | **2009** | **2010** |
|---|---|---|---|---|
| Pension loans | 3,167 | 1,583 | | |
| Other loans | 85 | 76 | 11 | 11 |
| | **3,252** | **1,659** | **11** | **11** |

| **Year 2005** | **2006** | **2007** | **2008** |
|---|---|---|---|
| Pension loans | 3,167 | 3,167 | 1,583 |
| Other loans | 85 | 85 | 98 |
| | **3,252** | **3,252** | **1,681** |

## 21. Trade and other payables

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Short-term | | |
| Advances received | 157 | 240 |
| Advances received from Group companies | 174 | |
| Trade payables | 3,902 | 2,448 |
| Trade payables to Group companies | 98 | 277 |
| Other liabilities | 3,057 | 2,907 |
| Accrued liabilities | 16,909 | 15,294 |
| | **24,297** | 21,166 |
| Significant items in accrued liabilities | | |
| Personnel expenses amortization | 11,127 | 9,856 |
| Other amortization | 5,782 | 5,438 |
| | **16,909** | 15,294 |

## 22. Collaterals and contingent liabilities

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Collaterals on own behalf | | |
| Mortgages on real estate | | 84 |
| Deposit guarantee | 20 | |
| Other contingent liabilities | | |
| Operational lease liabilities, maturity within 12 months | 151 | 107 |
| Operational lease liabilities, maturity within over 12 months | 175 | 212 |
| | **346** | 403 |

## 23. Derivative financial instruments

| 1,000 € | **2006** | 2005 |
|---|---|---|
| Forward exchange contracts | | |
| Fair value | 5,015 | 6,375 |
| Value of underlying asset | 4,935 | 6,545 |
| Electricity derivatives | | |
| Fair value | 1,994 | 799 |
| Trading value | 2,015 | 505 |

# Stock analysis

## Share capital and classes of shares

The share capital of Tamfelt Corp. consists of common shares and preferred shares. The accounting par value of a share is 1.00 euro. Whenever the Annual General Meeting decides that a dividend be distributed, each preferred share shall collect a two percentage units higher dividend than a common share, calculated on the accounting par value. A common share carries twenty votes and a preferred share carries one vote. If requested by the holder, a common share can be converted into a preferred share on the conditions specified in Article 3a of the Articles of Association. Both classes of shares are quoted on the OMX Nordic List at "Industrials".

Tamfelt's registered share capital at the end of the financial period was 27,563,964.00 euros. The share capital consisted of 10,119,198 common shares and 17,444,766 preferred shares. The aggregate stock was 27,563,964 shares and the aggregate vote 219,828,726. The company's minimum share capital is 10,000,000.00 euros and maximum share capital 80,000,000.00 euros. Within these limits the share capital can be increased or decreased without amending the Articles of Association.

## Option schemes

Subscription under the year 2000 option scheme expired on March 31, 2006. The total number of C and D options granted under the 2000 scheme was 88,000, which entitled to the subscription of 264,000 preferred shares. All shares subscribable under this scheme were subscribed for by December 31, 2005.

Tamfelt Corp.'s Annual General Meeting held on March 10, 2005 decided to grant options to the company's key executives. The number of options granted under the 2005 scheme was 437,000; of these 218,500 were marked "E" and 218,500 "F". Each option entitles its holder to subscribe for one preferred share in Tamfelt Corp. The subscription price is the volume-weighted average price of the preferred share on the Helsinki Exchanges between February 1 and March 9, 2005, added by 0.35 euros and rounded up to the nearest ten cents. The subscription price will be reduced at the dividend record date by the amount of dividend to be paid before the subscription. However, the minimum subscription price will not fall below the accounting par value of the share. The subscription price of December 31, 2006 was 8.79 euros.

Subscription for shares under the E option rights begins on November 1, 2007 and under the F option rights on November 1, 2009. The subscription for both expires on May 31, 2011. The E and F options entitle to the maximum subscription of 437,000 preferred shares, which corresponds to 1.6 per cent of the company's share capital and 0.2 per cent of the voting power. The maximum increase of the share capital with the 2005 stock options is 437,000.00 euros. The terms and conditions of the option scheme are presented on the company's web pages at www.tamfelt.com.

The company also operates an incentive scheme from the year 2002 based on phantom stock plan, which is also covered by a shareholding plan. Altogether, 255,000 shares of phantom stock, divided in A, B, C and D units, have been given to Tamfelt's key executives according to a resolution by the Board of Directors. The yield on the A units was paid in 2004, the yield on the B units in 2005, and the yield on the C units in 2006. The potential yield on the D units will be paid in 2007 provided that the executive is still employed by the Group.

The option schemes are a part of the company's key executive incentive scheme. In 2006, altogether 22 persons were covered by the 2005 option scheme and the incentive scheme based on phantom stock.

## Trends and trade volumes

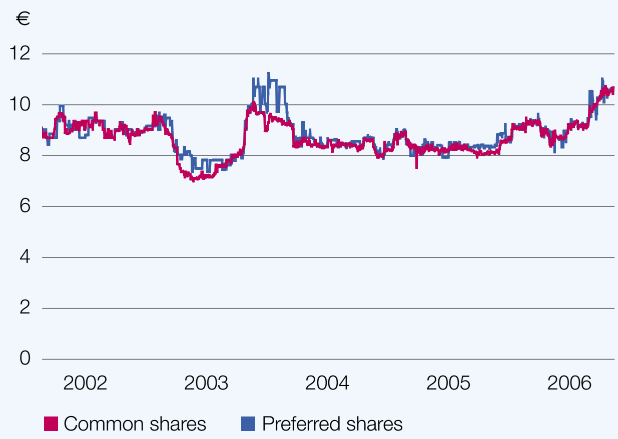
The OMX Helsinki all-share index rose 17.9 per cent and the OMX Helsinki Cap portfolio index rose 25.2 per cent in 2006. The rate of Tamfelt's common share was up 23.5 per cent and the rate of Tamfelt's preferred share was up 32.3 per cent.

Trading in Tamfelt common shares on the Helsinki Exchanges in 2006 amounted to 2.5 million euros (3.4 million euros in 2005) and in preferred shares to 25.3 million euros (25.3 ). The units traded were 278,561 (393,079) common shares and 2,737,413 (2,999,371) preferred shares.

Turnover in 2006 (2005) in common shares was 2.8 per cent (3.9) of the company's total common stock. Turnover in preferred shares was 15.7 per cent (17.4) of the total preferred stock.

The highest quotation for a common share in 2006 was 10.99 euros and the lowest 8.11 euros. The highest quotation for a preferred share was 11.99 euros and the lowest 8.13 euros. The closing rate for the common share at the year-end was 10.62 euros and for the

### Share price development 2002–2006



preferred share 10.65 euros. The average rate of the common share was 9.11 euros. The average rate of the preferred share was 9.23 euros. The market capitalization of the company's total stock at the end of 2006 was 293,252,640.66 euros.

## Dividend policy and proposed dividend for 2006

According to Tamfelt's dividend policy, at least 50 per cent of the company's earnings per share shall be distributed as dividend provided that this will not jeopardize the company's financial position or development. Tamfelt's Board of Directors will propose to the 2007 Annual General Meeting that a dividend of 0.41 euros be paid on a common share and 0.43 euros on a preferred share and an extra dividend of 0.18 euros be paid on both classes of shares The aggregate proposed dividend is 16.6 million euros corresponding to 82.3 per cent of the earnings. The dividend record date is March 23, 2007 and the payment date is March 30, 2007.

## Share capital ownership

At the end of 2006 the company had 3,194 (3,099) shareholders and two (two) ownership registrations in the name of a nominee. Domestic ownership accounts for 95.0 per cent of the share capital; of this 39.9 per cent are private investors. The number of shares registered in the name of a nominee was 756,496 (890,934).

## Flagging announcements in 2006

There were no flaggings in 2006.

## Own shares and authorities of the Board of Directors

Tamfelt does not hold its own shares, and the Board of Directors has no authorization to acquire or redeem its own shares.

## Shareholder agreements

The company is not aware of any current agreements on share ownership or the use of voting power.

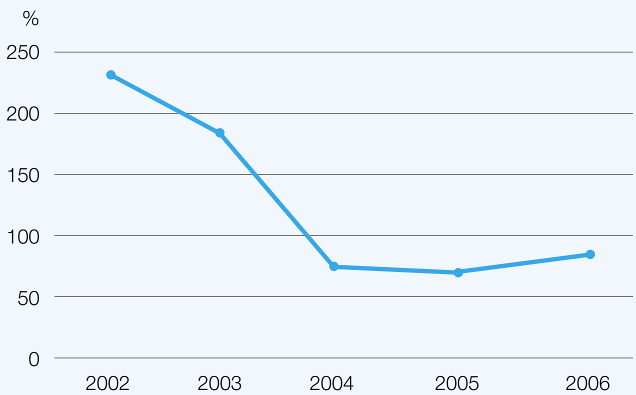
## Mandatory redemption

Tamfelt Corp.'s Articles of Association include an article concerning liability to redeem shares. The article provides that a shareholder whose percentage of the company's aggregate stock or number of votes equals or exceeds 33 1/3 per cent shall be liable to redeem the shares held by other shareholders, irrespective of the class of share, in so far as other shareholders demand their right of redemption, on the conditions detailed in Article 12 of the Articles of Association.

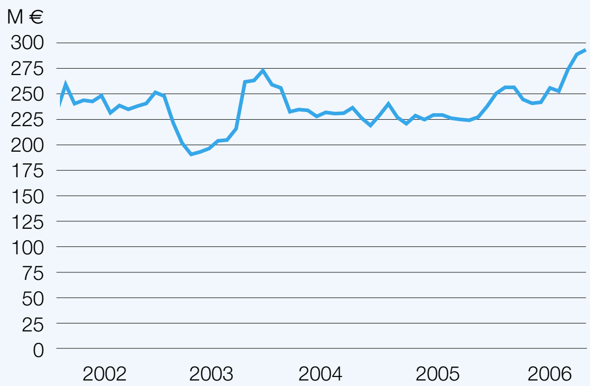
## Management shareholding

On December 31, 2006 the company's Directors, President & CEO, and Deputy to the CEO (including the holdings of closed associated persons) held a total of 566,296 (562,666) common and 222,082 (230,432) preferred shares corresponding to 2.9 per cent (2.9) of the share capital and a 5.3 per cent (5.2) voting power. The President & CEO and the Deputy to the CEO held a total of 100,000 options at the end of the year. These options entitle them to subscribe for maximum 100,000 preferred shares altogether, corresponding to 0.4 per cent of the company's entire stock and 0.1 per cent of the total voting power on December 31, 2006. The total number share units in phantom stock held by the President & CEO and his Deputy was 30,000. The share ownership of the company's Board of Directors and senior management is detailed on pages 26 to 29 of this Annual Report.

### Dividend/earnings 2002–2006




### Total market capitalization 2002–2006



## Largest ownership registrations by voting power Dec. 31, 2006 (Dec. 31, 2005)

| | | | % | |
|---|---|---|---|---|
| 1. | (1.) | Varma Mutual Pension Insurance Company | 7.5 | (7.5) |
| 2. | (2.) | Sampo Life Insurance Company Limited | 7.2 | (7.2) |
| 3. | (3.) | Waldemar von Frenckell Foundation | 5.7 | (5.7) |
| 4. | (4.) | Ilmarinen Mutual Pension Insurance Company | 4.6 | (4.6) |
| 5. | (5.) | Metso Corporation | 4.5 | (4.5) |
| 6. | (6.) | Cedercreutz, Axel | 3.6 | (3.6) |
| 7. | (7.) | Svenska Litteratursällskapet i Finland r.f. | 3.4 | (3.2) |
| 8. | (8.) | Kaleva Mutual Insurance Company | 2.9 | (3.2) |
| 9. | (9.) | Samfundet Folkhälsan i Svenska Finland r.f. | 2.5 | (2.5) |
| 10. | (10.) | Snäll, Clara | 2.3 | (2.3) |
| | | **Total above** | **44.2** | **(44.3)** |
| | | Ownership registered in the name of nominee | 1.0 | (1.0) |
| | | Other | 54.8 | (54.7) |
| | | **Total** | **100.0** | **(100.0)** |

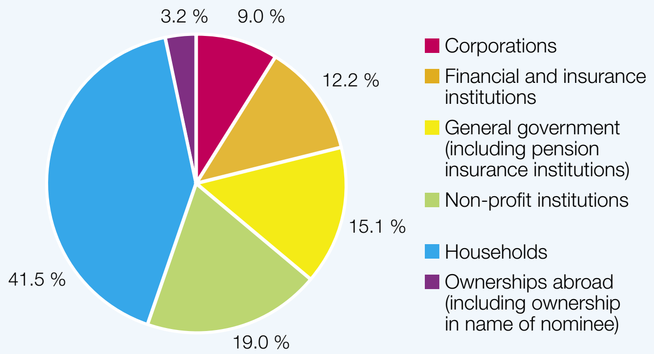
## Largest ownership registrations by number of shares Dec. 31, 2006 (Dec. 31, 2005)

| | | | % | |
|---|---|---|---|---|
| 1. | (1.) | Ilmarinen Mutual Pension Insurance Company | 7.4 | (7.7) |
| 2. | (2.) | Varma Mutual Pension Insurance Company | 5.9 | (5.9) |
| 3. | (10.) | Tapiola Mutual Pension Insurance Company | 3.2 | (2.1) |
| 4. | (9.) | Svenska Litteratursällskapet i Finland r.f. | 2.9 | (2.2) |
| 5. | (4.) | Sampo Life Insurance Company Limited | 2.9 | (2.9) |
| 6. | (5.) | Metso Corporation | 2.6 | (2.6) |
| 7. | (6.) | Waldemar von Frenckell Foundation | 2.6 | (2.6) |
| 8. | (8.) | Samfundet Folkhälsan i Svenska Finland r.f. | 2.2 | (2.2) |
| 9. | (12.) | Juselius Sigrid Stiftelse | 2.1 | (1.6) |
| 10. | (11.) | Cedercreutz, Axel | 1.7 | (1.7) |
| | | **Total above** | **33.5** | **(31.5)** |
| | | Ownership registered in the name of nominee | 2.7 | (3.2) |
| | | Other | 63.8 | (65.3) |
| | | **Total** | **100.0** | **(100.0)** |

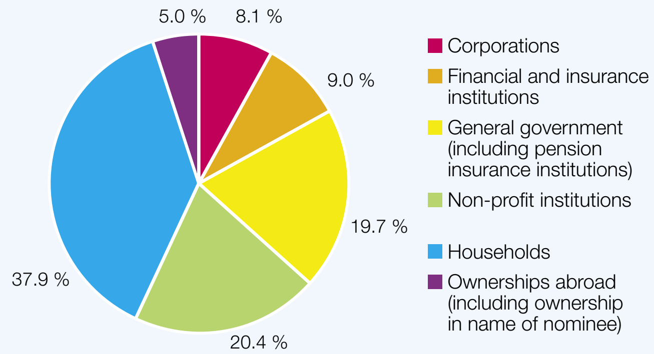
## Share ownership by size Dec. 31, 2006

| Shares | Ownership | % | Shares | % | Votes | % |
|---|---|---|---|---|---|---|
| 1 – 500 | 1,289 | 40.4 | 315,425 | 1.1 | 1,433,404 | 0.7 |
| 501 – 5,000 | 1,472 | 46.1 | 2,527,951 | 9.2 | 11,533,191 | 5.2 |
| 5,001 – 10,000 | 169 | 5.3 | 1,187,878 | 4.3 | 6,563,377 | 3.0 |
| 10,001 – 50,000 | 185 | 5.8 | 4,220,161 | 15.3 | 30,745,282 | 14.0 |
| 50,001 – 100,000 | 29 | 0.9 | 2,049,331 | 7.4 | 13,705,109 | 6.2 |
| 100,001 – | 50 | 1.6 | 17,263,218 | 62.6 | 155,848,363 | 70.9 |
| Total | 3,194 | 100.0 | 27,563,964 | 100.0 | 219,828,726 | 100.0 |
| Issued units | | | 27,563,964 | 100.0 | 219,828,726 | 100.0 |

## Share ownership by voting power




## Share ownership by number of shares



# Stock summary

The key figures have been adjusted for share issue.

| | IFRS **2006** | IFRS 2005 | IFRS 2004 | FAS 2003 | FAS 2002 |
|---|---|---|---|---|---|
| Earnings/share, basic, € | 0.73 | 0.56 | 0.47 | 0.34 | 0.47 |
| Earnings/share, diluted, € | 0.73 | 0.56 | 0.46 | 0.34 | 0.47 |
| Equity/share Dec. 31, basic, € | 3.90 | 3.60 | 3.31 | 3.39 | 3.99 |
| Equity/share, Dec. 31, diluted, € | 3.90 | 3.60 | 3.31 | 3.39 | 3.99 |
| **Dividend** | | | | | |
| Dividend, million € | 16.6* | 11.1 | 9.4 | 17.2 | 29.3 |
| Dividend/share, € | | | | | |
| common | 0.59* | 0.39 | 0.33 | 0.62 | 1.07 |
| preferred | 0.61* | 0.41 | 0.35 | 0.64 | 1.11 |
| Dividend/earnings, % | 82.3* | 71.9 | 73.7 | 183.0 | 230.0 |
| Effective dividend yield Dec. 31, % | | | | | |
| common | 5.6* | 4.5 | 4.1 | 5.5 | 11.8 |
| preferred | 5.7* | 5.1 | 4.4 | 6.8 | 11.4 |
| P/E ratio Dec. 31, basic | | | | | |
| common | 14.5 | 15.4 | 17.3 | 31.7 | 19.0 |
| preferred | 14.6 | 14.4 | 17.2 | 26.2 | 20.1 |
| **Trends and trade volumes** | | | | | |
| Trading price at year-end, € | | | | | |
| common | 10.62 | 8.60 | 8.05 | 11.20 | 9.13 |
| preferred | 10.65 | 8.05 | 7.98 | 9.27 | 9.67 |
| Change of trading price, % | | | | | |
| common | 23.49 | 6.83 | -28.13 | 22.63 | 5.38 |
| preferred | 32.30 | 0.88 | -13.88 | -4.14 | 9.43 |
| Highest trading price, € | | | | | |
| common | 10.99 | 9.00 | 11.20 | 11.20 | 9.93 |
| preferred | 11.99 | 9.00 | 9.67 | 10.17 | 9.67 |
| Lowest trading price, € | | | | | |
| common | 8.11 | 7.90 | 7.83 | 7.33 | 8.38 |
| preferred | 8.13 | 7.50 | 7.81 | 6.97 | 8.43 |
| Medium trading price, € | | | | | |
| common | 9.11 | 8.63 | 8.42 | 9.09 | 9.01 |
| preferred | 9.23 | 8.42 | 8.69 | 8.65 | 9.00 |
| Trading volume/total stock, % | | | | | |
| common | 2.8 | 3.9 | 11.2 | 5.8 | 3.5 |
| preferred | 15.7 | 17.4 | 18.1 | 20.7 | 11.7 |
| **Share capital and number of shares** | | | | | |
| Share capital Dec. 31, million € | 27.6 | 27.6 | 27.3 | 18.2 | 14.9 |
| common | 10.1 | 10.1 | 10.1 | 6.7 | 5.7 |
| preferred | 17.4 | 17.4 | 17.2 | 11.4 | 9.2 |
| Market capitalization Dec. 31, million € | 293.3 | 227.4 | 219.0 | 272.9 | 251.5 |
| Number of shares Dec. 31 (1,000) | 27,564 | 27,552 | 27,355 | 18,228 | 17,720 |
| common | 10,119 | 10,119 | 10,119 | 6,746 | 6,746 |
| preferred | 17,445 | 17,433 | 17,236 | 11,482 | 10,974 |
| Average number of shares, (1,000) basic | 27,564 | 27,388 | 27,342 | 17,763 | 17,720 |
| Average number of shares (1,000) diluted | 27,584 | 27,388 | 27,360 | 17,763 | 17,720 |
| Number of shares Dec. 31, basic (1,000) | 27,564 | 27,552 | 27,355 | 18,228 | 17,720 |
| Number of shares Dec. 31, diluted (1,000) | 27,584 | 27,552 | 27,374 | 18,228 | 17,720 |
| Number of shareholders Dec. 31 | 3,194 | 3,099 | 2,948 | 2,521 | 1,933 |
| Nominee-registered ownerships Dec. 31 | 2 | 2 | 2 | 2 | 1 |

* Board of Directors proposal

# Signatures to the annual report and the financial statements

Helsinki, February 7, 2007

Mikael von Frenckell
Martin Lilius
Vesa Kainu

Axel Cedercreutz
Jouko Oksanen
Niklas Savander

Jyrki Nuutila
President & CEO

# Auditors' report

## To the shareholders of Tamfelt Corp.

We have audited the accounting records, the annual report of the Board of Directors, the financial statements and the administration of Tamfelt Corp. for the period January 1 – December 31, 2006. The Board of Directors and the President & 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 annual 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. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the President & 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 annual report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The annual report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the President & 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 distribution of retained earnings is in compliance with the Companies Act.

Helsinki, February 7, 2007

Jari Paloniemi
Authorized Public Accountant

Veikko Terho
Authorized Public Accountant

# Stockholder information

**Annual General Meeting**
The Annual General Meeting of Tamfelt Corp. will be held at 4.00 p.m. on Tuesday, March 20, 2007 at Group Headquarters, Yrittäjänkatu 21, Tampere, Finland.

The right to attend the Annual General Meeting is held by stockholders entered in the register of the Finnish Central Securities Depository on March 9, 2007.

A stockholder wishing to attend the Annual General Meeting should notify the company by 4.00 p.m. on Friday, March 16, 2007. The notifications are requested either by letter addressed to Tamfelt Corp., Stockholder Register, P.O. Box 427, 33101 Tampere, Finland, by telephone +358 10 404 9000/9343, or by e-mail to mirja.takatalo@tamfelt.com. Proxies, if any, should be delivered at the same time.

The financial records are available at the Headquarters for inspection for a week before the Annual General Meeting.

**Dividend and shares**
The Board of Directors proposes to the Annual General Meeting that a dividend of 0.41 euros be paid on a common share and 0.43 euros on a preferred share and an extra dividend of 0.18 euros be paid on both classes of shares for the fiscal year 2006. The dividend is payable to shareholders entered in the register of the Finnish Central Securities Depository on the dividend record date, Friday March 23, 2007. The dividend will be paid on Friday, March 30, 2007, as proposed by the Board of Directors.

Stockholders are entitled to convert common shares into preferred shares on the terms specified in the Articles of Association.

**Financial reports in 2007**
In addition to Financial Account Statement Bulletin and Annual Report for the year 2006, Tamfelt will release three Interim Reports:
- January-March April 26, 2007
- January-June August 9, 2007
- January-September October 25, 2007.

**Availability of financial reports**
The financial reports will be published in Finnish, Swedish and English. They will also be available on Tamfelt's website at www.tamfelt.com in Finnish and English.

A copy of the printed Annual Report will be sent to each stockholder. The Interim Reports will be available in photocopies. All financial reports can be ordered from:
Tamfelt Corp./Mirja Takatalo
P.O. Box 427, 33101 Tampere, Finland
Tel. +358 10 404 9000/9343
Fax +358 10 404 9209
E-mail: mirja.takatalo@tamfelt.com

**Change of address**
Stockholders are requested to notify the book-entry securities register of any change of address; the company will be informed accordingly.

**Investor relations**
Tamfelt's IR policy has been designed to provide correct and real-time information to all market participants on a regular and equal basis.

Tamfelt observes a two-week silent period prior to the announcement of the company's interim or full-year results, during which the company's representatives refrain from all comment regarding financial accounts.

Any questions about Tamfelt's business activities can be addressed to:

**Jyrki Nuutila**, President & CEO
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**Investment analyses**
Investment analyses of Tamfelt have been made by companies including
Evli Bank Plc • FIM Securities Ltd • Seligson & Co. • E. Öhman J:or Fondkommission AB

Tamfelt shall not be held accountable for the assessments.

# Contacts

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Design Imageneering. Photos Sami Helenius, Tuulikki Holopainen, Jorma Rajamäki and Tamfelt. Printing Esa Print.

Innovation adds performance.

TAMFELT