ANNUAL REPORT 2007
GLASTON CORPORATION

glaston

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## GLASTON IN BRIEF

Glaston Corporation is a growing, international glass technology company. Glaston is the global market leader in glass processing machines, and the only supplier of comprehensive, One-Stop-Partner, deliveries in its field. The company's product range and service network are the widest on the market.

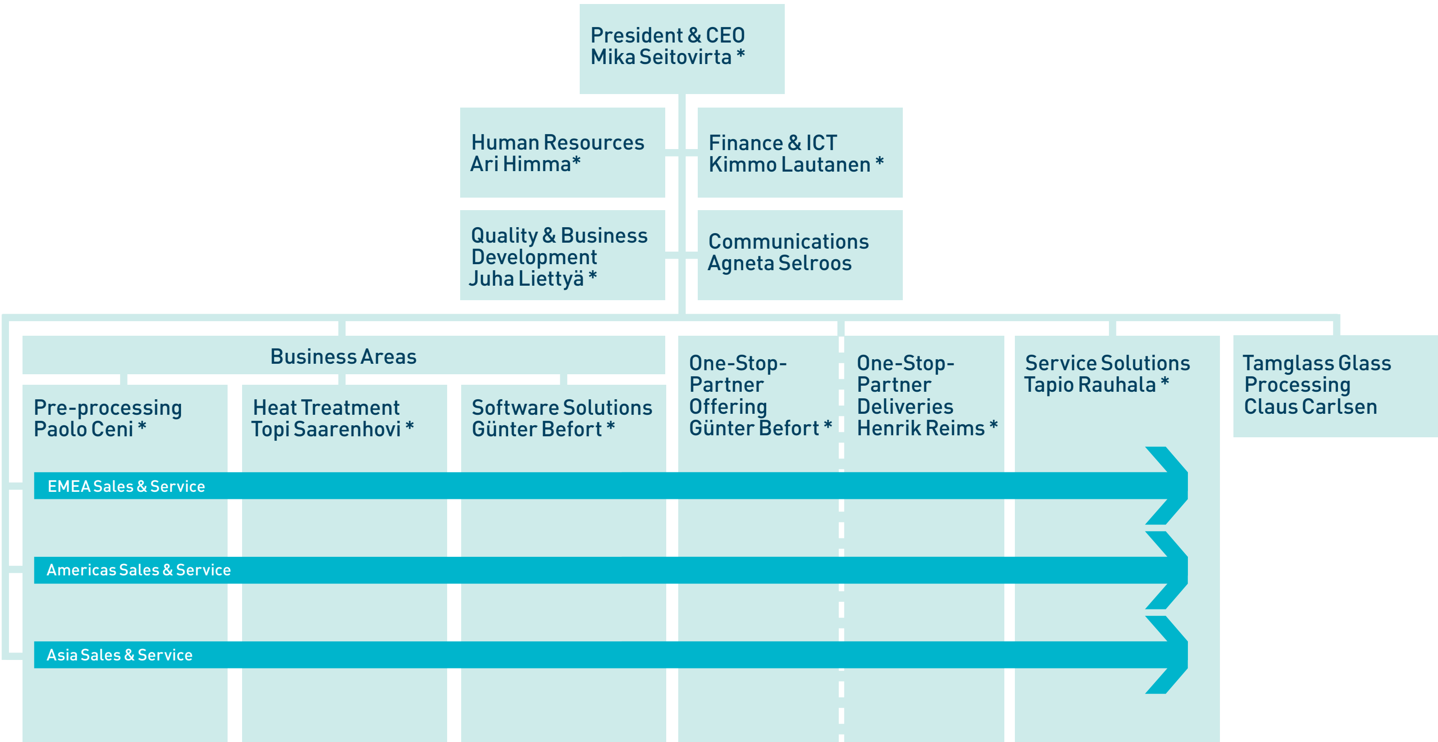
Glaston's Pre-processing Business Area encompasses glass pre-processing machines sold under the Bavelloni brand, maintenance and service operations, and tool manufacturing. The Heat Treatment Business Area consists of glass tempering, bending and laminating machines sold under the Tamglass and Uniglass brands, as well as maintenance and service operations. Glaston manufactures machines in six countries.

The Software Solutions Business Area comprises the operations of the German A+W Software Group, acquired in summer 2007. The company's product offering covers enterprise resource planning systems for the glass industry, software for window and door glass manufacturers, and software for glass processors' integrated line solutions.

Tamglass Glass Processing Ltd is a Glaston Group company and a manufacturer of high quality safety glass products operating in Finland.

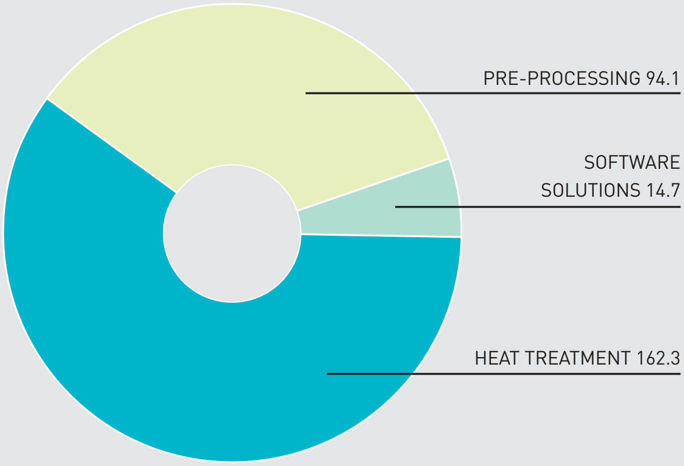
Glaston's extensive customer service network operates in collaboration with a global sales organisation. At the end of 2007, Glaston had service outlets in 27 places around the world and sales companies at more than 30 locations.

Glaston's head office is situated in Tampere, Finland and the company's share (GLA1V) is listed on the OMX Nordic Exchange Helsinki Mid Cap List. Consolidated net sales in 2007 were EUR 269.8 million and Glaston had 1,435 employees at the end of the year.

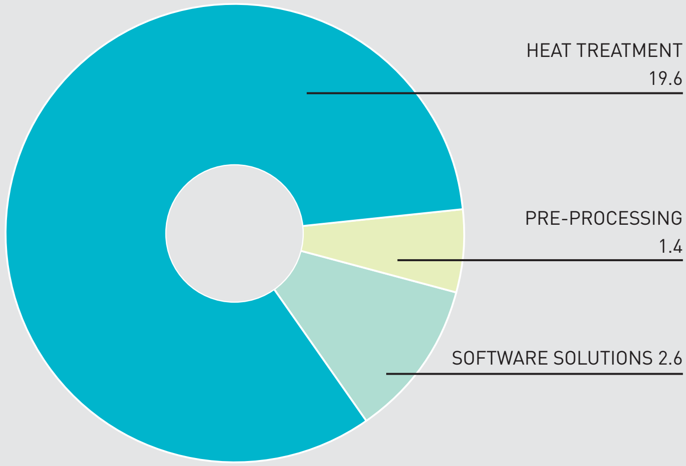



*) Member of Executive Management Group

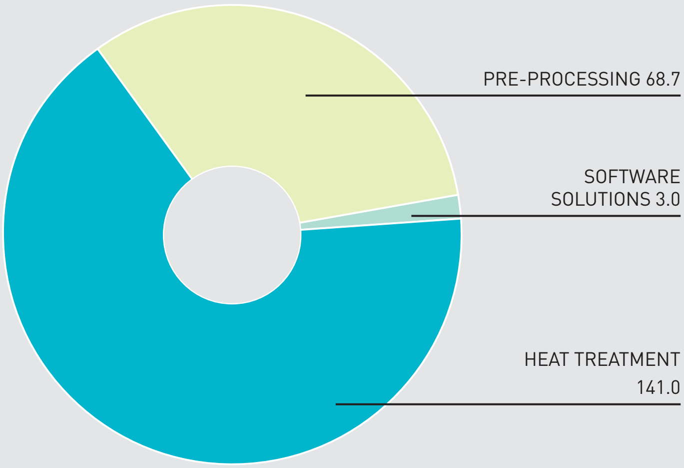
## 2007



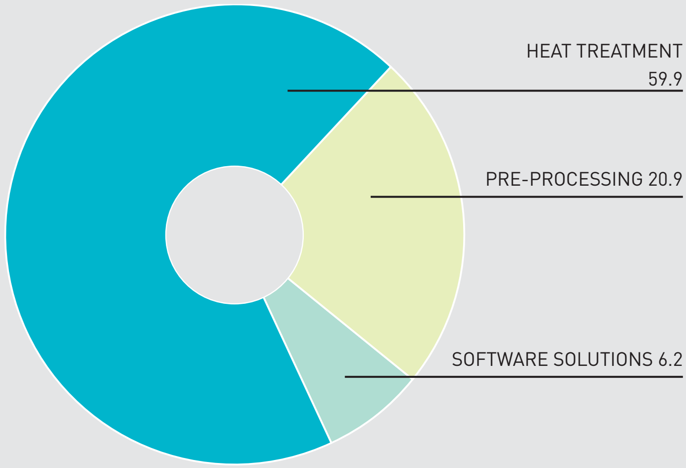

NET SALES BY BUSINESS AREA [MEUR]



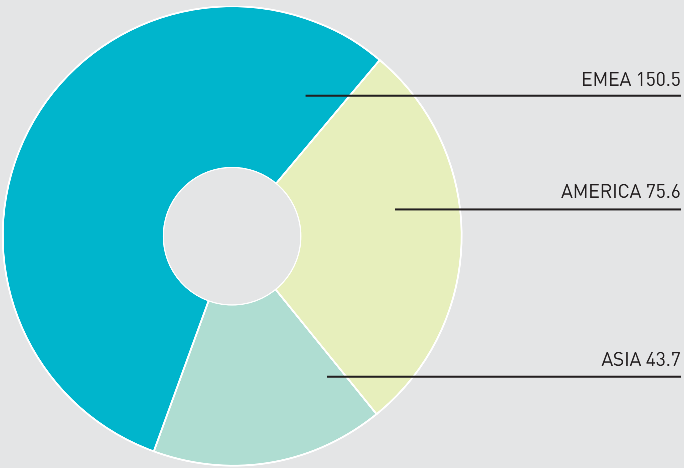

OPERATING PROFIT BY BUSINESS AREA [MEUR]



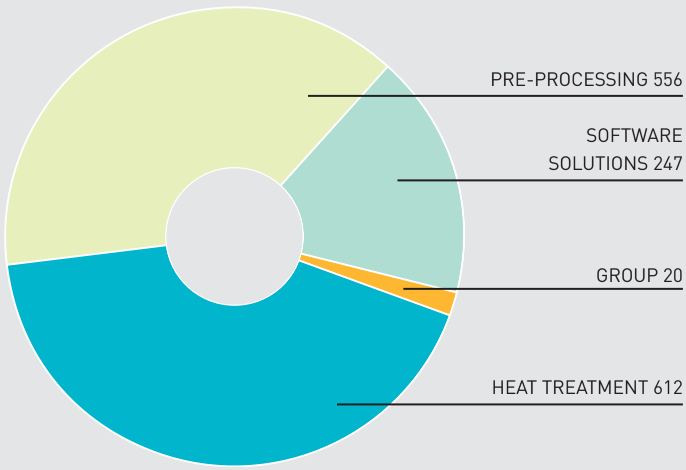

ORDERS RECEIVED BY BUSINESS AREA [MEUR]




ORDER BOOK BY BUSINESS AREA [MEUR]




NET SALES BY MARKET AREA [MEUR]




PERSONNEL AT YEAR END

# PRESIDENT & CEO'S REVIEW

2007 was a year of important changes for Glaston. Efficiency measures were initiated in different parts of the Group worldwide. The Group also received a new name and visual image. The "One Glaston" operating model became the most important factor guiding our operations during the year. The main key figures, such as net sales, operating profit and return on capital employed, all turned to growth.

#### GLASTON'S AGENDA 2007

Our agenda's most important single goal was the improvement of profitability. To achieve this we initiated a number of measures to standardise and streamline operations. Examples of these were the discontinuation of the Cattin unit's product development operations in Switzerland and their centralisation in Finland as well as the merger of the Brazilian production units. In addition, profitability was improved by price increases made during the year, particularly in deliveries that contained a significant level of customisation.

Our second most important goal for 2007 was the development of an integrated Glaston. The new, collective name was the first step towards an organisation in which every employee shares a common agenda and targets. These changes will also facilitate the understanding of our business and organisation structure among our customers and other interest groups.

We strengthened the company's management, particularly in terms of international expertise. A number of new people were appointed to our company's management positions during the year. The work has begun well and it creates a foundation for Glaston's supervisor work worldwide.

During the past year, we also made customer relations a topic of special interest. We strengthened and streamlined our sales organisation and merged our service with sales into a geographical organisation. Now sales and service business has been divided into three areas: EMEA, America and Asia. This will bring us closer to our customers.

To reach our growth targets and supplement our product offering we acquired the German Albat+Wirsam Software Group in the summer. The acquisition was in line with our strategy: it strengthens our company's market leadership and growth of our One-Stop-Partner. Through the acquisition, we gained a significant position as a provider of production management systems to the glass processing industry, and we can offer our customers a unique productivity-improvement package.

#### OUR AGENDA FOR 2008

Based on our strategy work we have added to our agenda for the coming year six important development programmes: quality, supply chain, service business, the One-Stop-Partner concept and China. In addition to these, enhancing Glaston's operating culture is on our agenda as an in-house development area.

Quality means delivery process management in particular: delivering machines and services to our customers on the agreed schedule, within the framework of agreed costs and flawlessly. Glaston's extensive service network is one of the company's most important competitive assets, and we are investing significantly in growing Service Solutions business.

The One-Stop-Partner concept distinguishes us from our competitors. We have strengthened and will develop our organisation further in this respect. In terms of areas, we are looking strongly towards Asia and especially China. Our new factory situated in Tianjin provides a good platform for this.

In Glaston we work as one team. We have a common agenda and common objectives. To support these, we initiated in January 2008 a substantial international training programme, by which we will bring our new operating model to the practical level. Glaston's success is based on expert and motivated personnel.

#### FUTURE OUTLOOK

2007 was a good year for Glaston. I believe that 2008 will also be a year of profitable growth for the Group.

The global energy challenge became the focus of attention during 2007. The trend was clearly evident in our operating environment. Solar energy demand started to grow strongly from the end of 2007 and we in Glaston believe in the rapid development of this market. Glaston is deeply involved in this development and will try to achieve market leadership in this field. Quality energy glass also has a significant role to play in answering the energy challenge. Glaston has strong expertise in this area.

Our objective is to grow faster than the market, while maintaining profitability. We will focus on our core expertise: manufacturing high technology glass processing machines for the architectural glass and solar energy industries.

I would like to express my gratitude to Glaston's shareholders, customers and partners for 2007. Special thanks are due to the Group's employees for their professional work and for their success in the current year.

MIKA SEITOVIRTA
PRESIDENT AND CEO

# 2007 IN BRIEF

The words 'change', 'reform' and 'centralisation' describe Glaston's year in 2007. During the year a significant company acquisition was made and, following the sale of the energy business, Glaston today is a company focused purely on the glass processing industry. The company structure also received a new, more integrated form and image. The changes implemented during 2007 create a strong foundation for Glaston's future growth and development, and strengthen the company's cooperation with customers.

### GROUP KEY FIGURES

- Net sales EUR 269.8 million (restated 1-12/2006: 218.9).
- Operating profit excluding non-recurring items EUR 16.6 million (comparable restated 10.9)
- Return on capital employed (ROCE) 12.1 % (8.8)
- Result for the financial year EUR 10.6 million (restated 8.9).
- Earnings per share EUR 0.14 (0.11)
- Order book at year end EUR 87.0 million (97.8)
- Gearing 7.4% (-1.9).
- Number of employees at year end 1,435 (1,189)
- Board of Directors' dividend proposal EUR 0.10 (0.09) per share

### BUSINESS OPERATIONS AND CAPITAL EXPENDITURE

The general market situation for glass processing machines was positive throughout the year everywhere in the world, except for North America, where demand was burdened by unfavourable economic development, general economic uncertainty and housing loan market problems. This had an impact, particularly on the development of the Heat Treatment Business Area's order book.

The Heat Treatment Business Area's sales developed favourably during the year. Net sales grew to EUR 162.3 million. Strongest growth was in the Middle East, Eastern Europe and China. The Pre-processing Business Area's sales also developed well in North America, despite the general market situation. Pre-processing's net sales totalled EUR 94.1 million in 2007. The integration of the Software Solutions Business Area progressed more quickly than expected. The Business Area's net sales were EUR 14.7 million (7-12/2007).

One Stop Partner sales grew better than anticipated and during the year Glaston booked two very significant OSP orders. In June the company received its biggest order ever (EUR 15.5 million), which, after completion, will be an entire glass processing factory supplying architectural glass. In July Glaston received its second biggest order (EUR 11.0 million), to which a follow-up order valued at around EUR 8.0 million was received in November.

Service business developed favourably. Sales grew, particularly in the EMEA area and North America. Tamglass Glass Processing Ltd focused on implementing a rationalisation programme already initiated. The company's immediate focus is improving profitability. Tamglass Glass Processing's Lempäälä unit was expanded during the year.

In 2007 the Glaston's capital expenditure, excluding company acquisitions, totalled EUR 11.3 million. Company acquisitions totalled EUR 21.3 million. A total of EUR 4.2 million was spent on the acquisition of production machines and EUR 2.0 million on an extension to Tamglass Glass Processing's Lempäälä factory. A total of EUR 6.3 million was invested in product development. Other capital expenditure during the year consisted of routine repair and maintenance investment.

### CHANGES IN COMPANY STRUCTURE

During the second quarter, Glaston's company structure was streamlined to support the new business strategy better. Following the sale of the energy business, the structure was strengthened with the formation of the Heat Treatment and Pre-processing Business Areas. After the acquisition of the German A+W Software Group was completed in July 2007, a third Business Area, Software Solutions, was formed as of the third quarter.

Service business was made into a matrix organisation together with sales. The new unit responsible for services, Service Solutions, is not reported as a separate Business Area; its earnings are included in the reporting Business Areas.

### CHANGES IN EXECUTIVE MANAGEMENT GROUP

Glaston's Executive Management Group was strengthened during the year with a number of appointments. A new President & CEO, Mika Seitovirta, was appointed at the beginning of the year. Other new members of the Executive Management Group are SVP, Human Resources Ari Himma, Chief Financial Officer Kimmo Lautanen and the SVPs of the new Business Areas, Topi Saarenhovi, Paolo Ceni and Günter Befort. In connection with the division of the One-Stop-Partner unit in November 2007, Günter Befort was assigned responsibility for the new OSP Offering unit. He took up the position on 7 January 2008. In the same context, Henrik Reims joined Glaston's Executive Management Group and took up the position of SVP, OSP Delivery on 7 January 2008. Mauri Leponen, previously SVP, OSP and member of the Executive Management Group will leave the company on 1 April 2008.

**A complete collection of stock exchange releases published by Glaston during the year can be found at the address www.glaston.net ‹ News**

VOITTO NIEMELÄ

ARCADA POLYTECHNIC,
HELSINKI, FINLAND

# GLASTON'S MISSION AND BUSINESS STRATEGY

Glaston's new strategy and financial targets were announced in January 2008. During 2007 the Group's organisation was significantly restructured to support the realisation of the new strategy. The architectural glass segment, supported by the solar energy market, creates a foundation for the Group's future growth. Glaston's objective is to act as an integrator of the architectural glass industry value chain.

Glaston promotes the development of a pleasant, safe and energy-efficient residential and working environment by utilising highly developed and innovative glass technology. By sharing its expertise and developing new, advanced and energy-saving glass solutions, Glaston is committed to building a sustainable future.

### BUSINESS STRATEGY

Glaston operates as an integrator of the architectural glass industry value chain. Architectural glass segment is the foundation for Glaston's profitable growth.

For Glaston, operating as an integrator of the architectural glass value chain means that the company utilises its best expertise and market position in a customer sector which is large, has high growth expectations and whose expansion is driven by clear growth factors. In this market Glaston has what it takes to succeed.

The architectural glass market is expected to grow at an annual rate of 6–8% until 2010. For Glaston, this customer segment has the greatest growth potential, and in this area the company can exploit its already strong market position and expertise. The architectural glass segment is expanding through growth of commercial and residential construction, particularly in the Middle East, China and South America as well as Russia and Eastern Europe. In construction, use of safety glass and energy glass is growing, which is boosting demand for Glaston's machines. Glaston estimates that around 70 per cent of raw glass worldwide is used in the construction industry, but only 30 per cent of the glass used in construction is safety glass.

Of the customer segments, the architectural glass industry is supported by the developing solar energy market as well as the appliance and automotive industries. Glaston is already operating in the solar energy market and the company's goal is to become the market leader in this field. Glaston aims to achieve market leadership by keeping one step ahead of its competitors, utilising its excellent market knowledge as well as its existing technology, which is suitable for this sector. The glass processing market serving the appliance and automotive industries is smaller than the architectural glass market and growth expectations are not as high. Because of this, in this segment Glaston is focusing on improving profitability and cash flow.

Tamglass Glass Processing Ltd, which operates mainly in Finland, has been defined as outside Glaston's core business in the new strategy. Glaston is analysing future strategic options. Now Tamglass Glass Processing Ltd is focusing on enhancing operational efficiency, improving profitability, and reorganisation.

### ONE-STOP-PARTNER CONCEPT DISTINGUISHES GLASTON FROM ITS COMPETITORS.

Due to its critical size, Glaston can offer its customers comprehensive solutions. This distinguishes the company from its competitors in the sector. Customers' operational efficiency requirements are increasing. The operation and volume of a single machine are no longer the determining factors; efficiency requirements now centre on the entire process and its management. By offering comprehensive solutions via the OSP concept, Glaston is aiming to serve customers so that their operations are as efficient as possible and their competitiveness grows.

### GLASTON'S GOAL IS TO BUILD A STRONG MARKET POSITION IN CHINA AND ELSEWHERE IN ASIA.

China is not only a big market; it also has the biggest growth expectations in the world. China's glass demand alone represents around one third of the whole sector's demand worldwide. Glaston has made strategic investments in China during 2006 and 2007. The Tianjin factory, which opened in May 2007, is intended to strengthen the company's market position in China and neighbouring areas. The potential of Asia and the APAC area is significant.

### FURTHER DEVELOPMENT OF SERVICE BUSINESS IS A CORNERSTONE OF THE COMPANY'S GROWTH AND MARKET LEADERSHIP.

In addition to the high technology of its machines, Glaston is focusing strongly on serving its customers. Reliability, quality and service are the company's three key messages. In the service business, the biggest competition currently comes from customers who service their machines themselves. This represents a big growth opportunity for Glaston. In the coming years, maintenance and service business will focus on developing service sales and on covering those geographical areas where there is not yet sufficient service coverage in terms of the number of machines installed. In addition, services will be productised further and possibilities explored to include competitors' machines in the maintenance service offering.

### GLASTON WILL MAKE, IF NECESSARY, ACQUISITIONS TO STRENGHTEN ITS OFFERING

In addition to organic growth, Glaston will make, if necessary, carefully considered company acquisitions to strengthen or supplement its technological expertise, product offering or geographical market position. A precondition of acquisitions is that they are in line with the company's strategy, increase the company's value, offer clear and significant synergies, and that the management of the acquired company is capable of managing the business as part of an international Group. Acquisitions must also support the company's financial targets.

The Group's financial targets are outlined on page 42 of this annual report.

## CASE: ONE-STOP-PARTNER CONCEPT

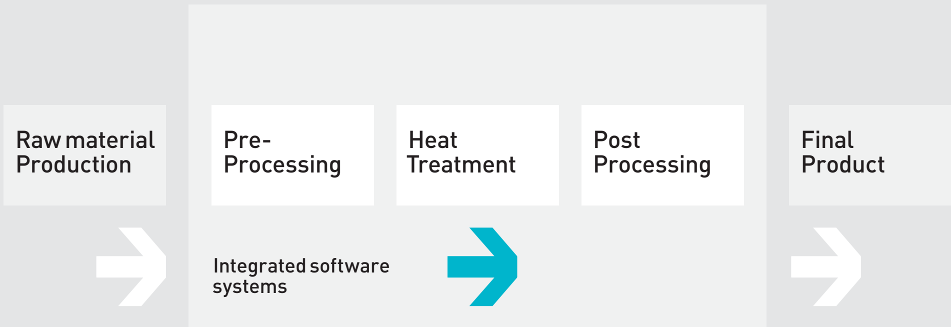
Sales of the One-Stop-Partner concept, launched in 2003, grew to a new record in 2007. Deals made during the year and their successful implementation also create a foundation for Glaston's success in the future. For this reason, the One-Stop-Partner unit was decided at the end of the year to divided the One-Stop-Partner unit into two parts: Offering and Deliveries. This will give a boost to deliveries and the further development of production lines to meet the needs of different market areas and customer groups. The objective is to further develop Glaston's delivery process.

The goal of the One-Stop-Partner (OSP) concept is to ensure that the customer receives the best possible products and related services from one place, from one supplier. Then all of the machines ordered by the customer work at the best possible capacity and operational efficiency. Combining machine deliveries and integrating lines substantially reduce the need for glass handling and intermediate storage; all the necessary solutions can be obtained at the same time from one supplier. All this is a response to customers' increasing demands for production efficiency and flexibility. Glaston's customers have shown that they are ready to order comprehensive solutions instead of single machines.

Glaston's OSP deliveries range from medium-sized to large partial lines or line configurations all the way to factory deliveries. New customers who are investing in the business typically order whole factory solutions. They are seeking a reliable partner who is known to be a responsible equipment supplier. Customers already operating in the sector generally order various line solutions either to expand their operations or to improve their efficiency. The two biggest orders in Glaston's history, which the company received in summer 2007, were pre-processing, grinding and heat treatment comprehensive deliveries, of which the larger order, after its completion, will be a whole glass processing factory supplying architectural glass.

Order received in 2007 included pre-processing, heat treatment and maintenance services configurations. The software and enterprise resource planning systems of A+W Software Group, acquired by the Group during the year, were developed in parallel with Glaston's machine offerings. "A comprehensive solution like this was presented at the Vitrum fair in Italy last October and comprehensive solutions were already being sold by the end of the 2007," says Günter Befort, who has been responsible for the OSP Offering unit since 7 January 2008. "A&W's software represents a significant addition to the One-Stop-Partner concept. They will facilitate the optimisation of the customer's order stream – just-in-time production at maximum capacity," he continues. Of the product areas, the most significant and popular line configurations were integrated during the year, and line development work will be expanded and continued further in 2008.

New orders of OSP deals in 2007 totalled EUR 47.7 million.



## BUSINESS ENVIRONMENT

Glaston operates in growing markets. Geographical areas differ greatly from each other, but generally the trend everywhere is towards increasingly demanding glass applications. Extensive geographical presence, diversity of customer sectors, complementary cycles of renovation and new construction plus service operations smooth out the cyclical variations in Glaston's business.

Glaston operates in glass machine markets worldwide and serves glass processors by delivering machines, tools, software and enterprise resource planning systems intended for glass treatment and processing as well as related services. Although demand for processed glass is fairly uniform worldwide, demand for machines varies both geographically and between Business Areas.

In recent years, glass demand has been driven by the growing use of glass, particularly in public construction and architecture. For this reason, the development of both new and renovation construction is also driving demand for Glaston's machines more strongly than before. Moreover, the size of the glass used has grown. In addition, increasing environmental awareness means that energy-saving targets are growing, which impacts on demand for energy glass: by using the right kind of glass, energy consumption can be reduced significantly, and as a result energy glass demand has grown strongly over the years. Various safety regulations in construction are contributing to the growth of energy glass use. The increasing use of glass and growth in the proportion of safety glass also have a positive impact on demand for Glaston's machines. Currently, an estimated 40% of all glass manufactured is processed into safety glass, but only around 30% of glass used in construction is safety glass. Safety glass use is expected to grow by around 7–10% per year.

Through general economic growth, use of energy glass is also increasing in developing markets, as end customers get the opportunity to use further processed, more expensive glass and to exploit the energy-saving potential they offer. Use of energy glass in developing markets is not, however, as common as elsewhere. Generally the trend is everywhere the same: glass size and coating requirements are growing. In all geographical areas, the trend is towards more demanding glass applications.

The areas of use for safety glass are public construction, the automotive industry, and appliance industry. Glaston considers that most growth potential lies in architectural glass, and the company expects that demand for glass processing machines serving this segment will grow by 6–8% per year until 2010. Demand for glass processing machines serving the automotive industry is expected to grow at an annual rate of 5–6% and demand based on the appliance industry by 3–5% per year. Demand for services is expected to grow by over 10% per year, at least for the following three years. The worldwide glass machine market, including services, was an estimated EUR 1.7 billion euros in 2005.

Demand for glass processing machines from glass processors serving solar energy suppliers has grown significantly in recent times. Demand for solar energy, in turn, is being increased not only by growing environmental awareness but also by various emissions restrictions, such as the Kyoto Protocol.

## MARKET AREAS

#### EMEA AREA

The EMEA area consists of Western, Central and Eastern Europe, Africa and the Middle East. The company's market position in the EMEA area is particularly strong. In the Middle East and Russia, new investments and demand for comprehensive solutions played an important role in 2007, whereas elsewhere in Europe replacement investments drove demand. Demand in the solar energy sector also grew in the area. The comprehensive service offering is a very important factor when competing for customers in the EMEA area.

#### AMERICA

The North American area consists of the USA, Canada and Mexico. As markets, the USA and Canada do not differ from each other, but Mexico is still behind the two main markets. In the USA and Canada, the most significant factor driving sales in public construction is energy efficiency and local building regulations. For example, hurricane resistance requirements have been set for glass in Atlantic and Gulf of Mexico coastal areas. The market for low emissivity glass is growing in the area at an annual rate of 6–9%. In 2007 residential construction, however, suffered from unfavourable economic development, economic uncertainty and problems in the housing loan market. On the other hand, the solar energy market, previously almost untouched in the area, is developing quickly and will open new opportunities in the future. Mexico for its part is enjoying rapid growth in the construction market, but energy glass and energy-saving issues there are not yet as important as in the USA and Canada. Due to production efficiency requirements, the service offering occupies a key position. Glaston is the leading equipment supplier in North America.

South America is divided into three subareas: in Brazil the market has developed well and is competitive. Old, less-developed markets (Argentina, Chile,

HOTEL BURJ AL ARAB,
DUBAI, UNITED ARAB EMIRATES

Colombia, Peru, Venezuela and Ecuador) together hold great market potential for Glaston. Paraguay, Bolivia, Uruguay and other smaller countries, including the Caribbean area market, are still fairly undeveloped. The biggest drivers of growth in the area are residential construction, architectural development, vehicles and solar panels. Legislation supports the use of safety glass. The Brazilian market is expected to continue growing at an annual rate of 14-17% at least for the next 2–3 years, and the market is currently characterised by excess demand for raw glass.

Glaston's market position in South America is strong. Especially in Brazil, Glaston has, for the last six years, been the market leader in the supply of machines necessary for safety glass production. The sometimes delicate political situation in South America, on the other hand, causes fluctuations in demand. In recent years, the economies of a number of countries has developed positively. This, however, has increased competition, particularly from Chinese operators. In addition, two local equipment manufacturers have appeared in Brazil. Energy efficiency still plays a minor role in the area. A comprehensive service offering is one of Glaston's biggest competitive assets.

**ASIA**

The most significant market in North Asia is clearly China. The Chinese market is characterised by vigorous construction boosted by a strong economy. In addition, sales of new cars are very buoyant. Local legislation supports greater use of both energy glass and safety glass, so high technology glass processing machines are needed to an increasing extent. Market growth has brought along with it greater local competition, which is also internationalising. Glaston's competitive assets are strong technological expertise and quality. Although price is one important factor influencing purchasing decisions, the Chinese also place a high value on experience and a strong brand. Glaston's competitiveness is supported by an increase of resources in the area as well as the extended product offering of the Tianjin factory. Demand for automation is growing in North Asia, so the acquisition of the A+W Software Group will support Glaston's market position particularly in this area.

China and Taiwan are similar to each other as markets, as are correspondingly Korea and Japan. A characteristic of the

Japanese market is that Low-E glass, demand for which is growing in all other markets, is simply not used there. Japan, on the other hand, uses a lot of super-tempered fire-rated glass, for which there is no demand elsewhere in the world due to its high price.

The APAC area is divided into three subareas: the Indian subcontinent, SEA (the most important countries being Thailand, Malaysia, the Philippines and Indonesia) and Oceania (Australia and New Zealand). In terms of their business environment, the areas differ slightly from one another. In certain countries, quality requirements are growing and energy glass production is gradually increasing; in others, price is the most important factor influencing the purchasing decision. The strength of the euro might support the position of those competitors who operate in a currency other than the euro. Sales of services in the APAC area lagged behind Glaston's other market areas, as the service culture in the area is to some extent still developing. This creates growth potential for the future. The competitive situation is tight, but it is eased by the excellent awareness of the Tamglass and Bavelloni brands in the area.

## CYCLES AND ECONOMIC CONDITIONS

Glaston's business is subject to the normal swings in the economic climate. In conditions of growth, companies invest more and machine sales increase. In an economic downturn or recession, the amount of investment falls, but correspondingly demand for services, machine updates and optional accessories grows. Glaston's comprehensive service offering and predictive maintenance thus contribute to balancing out the seasonal and economic fluctuations in machine sales.

Glaston's three strong geographical market areas – EMEA, Asia and America – also help to dampen the cyclical fluctuations arising from changes in economic conditions. Moreover, Glaston has a number of different customer groups, which means that the economic cycles of the construction, automotive and furnishing industries tend to balance each other out. Renovation construction for its part balances the cyclical swings of the construction industry in terms of Glaston's business. Glaston's customer structure is diversified.

Annually, the volume of orders received by Glaston is typically weighted towards the end of the year. Generally more orders are placed in the third and fourth quarters than in the other quarters.

## COMPETITIVE SITUATION AND GLASTON'S COMPETITIVE ASSETS

In the Heat Treatment Business Area, Glaston is the clear market leader worldwide. In this Business Area, Glaston is able to offer its customers the widest product range and service offering on the market.

Glaston's biggest competitors in the Heat Treatment Business Area come from Italy, the USA, China, Taiwan and elsewhere in Europe. Glaston's size, however, distinguishes it from the other operators in the sector, because the sector is still fragmented. Chinese competitors are gradually also entering Europe and North America, but for now they are strongest in their home market. The Chinese operators have brought price competition along with them, but Glaston strives to compete with the technological quality of its products, its comprehensive service offering and by being geographically close to its customers.

In the Pre-processing Business Area, Glaston is one of the world's leading operators. In this Business Area the most significant competitors come from Italy or elsewhere in Central Europe and to some extent from China. In addition, the pre-processing machine market has a large number of small, local companies that focus on only one product group. In the Pre-processing Business Area, Glaston is strong, particularly in grinding machines and tools, and is very strong compared with its competitors where machine reliability and productivity are concerned.

The Software Solutions Business Area has only one competitor that is able to offer software covering the whole sector worldwide. Other competitors are either local or tied to a certain make of machine. The Business Area's competitive assets are independence of equipment brand, innovation, and comprehensive understanding of its customers' field of operation and business processes. Technological special expertise is strongest in the optimisation field.

One of the company's biggest competitive assets is its ability to offer comprehensive deliveries. This is one of the advantages brought by the critical mass that Glaston has achieved. Glaston is able to offer its customers whole factory and line solutions that competitors cannot necessarily offer due to their size. A comprehensive maintenance and service network close to the customer is also one of Glaston's key competitive assets.

The brands have great significance in a competitive situation: Glaston's key brands – Tamglass, Uniglass and Bavelloni – are known in the industry all over the world, and to customers they represent quality and reliability. The importance of brands is emphasised particularly during an economic downturn, when Glaston's position typically strengthens, due to its leading market position.

Demand for large architectural glass machines continued to grow strongly, supported by growth of the construction industry all over the world. In North America, the architectural glass processor market, i.e. public construction, again grew strongly. Apartment block construction weakened to some extent, while one-family home construction weakened significantly.

Owing to rising oil prices and greater restrictions on emissions, demand for solar energy clearly grew in 2007. This has a positive impact on demand for the solar panels needed for solar energy production, and manufacturing investments for equipment designed for solar energy recovery grew during 2007. Glaston supplies the glass machines and processing lines needed for these solutions, and demand clearly grew in a number of geographical areas, such as the EMEA area, North and South America, and China.

Demand for comprehensive deliveries also grew, as customers to an increasing extent concentrated their machine acquisitions on one supplier, due to constraints on their time and increasing efficiency requirements. Customers' need to improve productivity and reduce costs is also an important factor driving growth in demand for services. Customers are seeking to maximise production and at the same time to minimise unplanned production breaks.

## MOST SIGNIFICANT BUSINESS RISKS

There are always risk factors attached to business, but by monitoring and controlling them a company can control the level of risk. The most significant risks to Glaston's business are outlined below.

### STRATEGIC RISK FACTORS

Glaston operates globally and the strategic risks of its operating environment include the development of the world economy and general economic growth as well as cyclical fluctuations. Moreover, large changes in customers' operating environments, political risks as well as possible terrorist attacks and armed conflict in certain countries or geographical areas could affect Glaston's business development unfavourably, slow sales growth or weaken profitability. Glaston aims to grow its business, particularly in developing markets such as China. This is both a risk and an opportunity. There are also risks associated with possible company acquisitions in future.

### MARKET RISKS

Glaston has chosen as its strategic focus of growth the architectural glass market and the solar energy market. Significant unfavourable changes in the construction cycle, especially in public construction, or slower than expected take-off of growth in the solar energy market are the primary threats to the development of Glaston's business in line with expectations. Possible increasing price competition in China or from Asian competitors elsewhere in the world might also impact on Glaston's expected growth and profitability. A strong euro, moreover, can have an unhelpful effect on the development of the competitive climate. The impact of oil price fluctuations is twofold. A high price of oil has a negative influence on economic prospects and weakens Glaston's sales and profitability. On the other hand, a high price of oil accelerates development of alternative forms of energy, such as solar energy, and thus improves Glaston's market outlook in that segment.

### OPERATIONAL RISKS

Glaston's most significant operational risks include management of large customer projects, availability and price development of raw materials and components, management of the subcontractor network, and the availability and permanence of personnel. These are critical preconditions for business activity and can, in an unfavourable situation, cause problems in the company's delivery reliability and schedules or bring about a rise in cost levels. Moreover, failure to implement the company's strategic or integration projects according to planned schedules might cause the company's sales and profitability to deteriorate.

### FINANCIAL RISKS

Financial risks such as foreign exchange, interest rate, financing and credit risks are associated with Glaston's business activity. The nature of international business means that the company has transaction and translation risks arising from fluctuations in foreign exchange rates. The effects of interest rate changes on the value of interest-bearing liabilities and receivables in various foreign currencies creates an interest rate risk. Credit risk consists of payments on trade receivables that come from customers. The Group's treasury unit manages financial risk centrally in accordance with the treasury policy approved by the Board of Directors.

VOITTO NIEMELÄ

**VUOTALO, VUOSAARI,**
HELSINKI, FINLAND

# BUSINESS AREA PRE-PROCESSING

Glaston is one of the world's leading glass pre-processing machine manufacturers. The Pre-processing Business Area's net sales grew in 2007 to EUR 94.1 million. Due to the effective actions implemented last year the operating profit turned positive. The production of the Chinese factory, which opened during the year, will support the market position of Glaston Pre-processing machines in Asia.

#### PRODUCTS, CUSTOMERS AND PRODUCTION

The Pre-processing Business Area manufactures glass pre-processing machines and stone processing machines under the Bavelloni brand. The product range covers machines for glass cutting and drilling all the way to edge processing and grinding. In addition, the Business Area manufactures and supplies tools, and offers machine maintenance services. The tool brands are Bavelloni and DiaPol. Pre-processing's products cover solutions for a single machine to a whole production line, including training, maintenance and services.

The Business Area's end customer segments are the architectural and construction industries as well as the appliance industry. Its customers are mainly small and medium-size glass processing companies, but they also include large glass manufacturing customers who have expanded into glass processing. Pre-processing has customers all over the world. The most significant geographical areas are the EMEA area and North America.

Pre-processing manufactures and assembles its machines in three locations: Italy, Brazil and China, where production is steadily increasing.

#### STRATEGIC SIGNIFICANCE

The Pre-processing Business Area is an important part of the comprehensive solution offered by Glaston. In 2007 it accounted for 35 per cent of Glaston's net sales. Due to the effective actions implemented during 2007 Pre-processing's operating profit turned positive and accounted for 8 per cent of the Group's operating profit. Glaston is one of the world's leading manufacturers of pre-processing machines, with an estimated market share of 10–15 per cent. The Bavelloni brand is particularly known for its bevelling and edge grinding machines as well as its tools. Historically, Bavelloni was one of the first companies in the glass processing machine market to believe in the importance of a global product and service offering.

#### 2007 AND THE OUTLOOK FOR 2008

The Pre-processing Business Area's market situation was good throughout the year. Net sales in 2007 were EUR 94.1 million (EUR 89.1 million in 2006) and growth was 5.6 per cent. The order book at the end of the year was EUR 20.9 million (19.9), almost on the same level as the previous year. The most active market areas were North Asia and also, in contrast with the Heat Treatment Business Area, North America. South American sales developed better than expected.

One of the most significant events of 2007 was the start-up of production at the factory in Tianjin, near Beijing in China, in May 2007. The factory is a complete modern facility and it has been built to meet growing demand in China and Asia. In addition, a tool business operation started up in China during the year. Deliveries of integrated production lines played a key role in 2007.

In Italy manufacturing was reorganised and centralised, with Bergamo production operations being transferred to Bregnano. Measures aimed at improving production efficiency included the merger of the Pre-processing factory and the Heat Treatment production in Brazil. Due to the efficiency measures, the Pre-processing Business Area achieved a positive result in 2007.

The Pre-processing Business Area obtained a new management group in 2007. In June Paolo Ceni was appointed SVP for the Business Area. Management will be strengthened further in 2008 in order to fulfil the overall plan, consistent with the Glaston strategy.

In 2008 the focus will be on the Business Area's geographical sales development for machines and tools, on technology in the form of new machines available for the customers, and on improving profitability. Growth is expected from China, South America and the EMEA area, particularly Eastern Europe, Russia and the Middle East. Service sales are also expected to grow.

| | 2007 | 2006 | CHANGE% |
|---|---|---|---|
| NET SALES [MEUR] | 94.1 | 89.1 | 5.6 |
| OPERATING PROFIT [MEUR] | 1.4 | 0.3 | 366.7 |
| AS PERCENTAGE OF NET SALES | 1.5 | 0.3 | |
| ORDER BOOK [MEUR] | 20.9 | 19.9 | 5.0 |
| PERSONNEL AT YEAR END | 556 | 590 | |

# BUSINESS AREA HEAT TREATMENT

Glaston Heat Treatment's product offering is widest on the market, and in this Business Area the company is the clear market leader in the world, with an estimated market share of over 40 per cent. The Heat Treatment Business Area's net sales grew in 2007 to EUR 162.3 million and the operating result was EUR 19.6 million. Growing interest in solar energy production increased demand for machines suitable for manufacturing the glass used in solar energy panels and mirror collectors. Development was evident in a number of market areas and it is expected to grow in future.

### PRODUCTS, CUSTOMERS AND PRODUCTION

The Heat Treatment Business Area's product offering covers the machines with which glass is processed using heat. With the machines, glass can be flat tempered, bent, bent-tempered and laminated. Flat tempering machines are Business Area's most significant product group. They are sold under the Tamglass and Uniglass brands. The Business Area's other safety glass machines are made under the Tamglass brand. In addition, customers are offered various services from introductory training to regular servicing and predictive maintenance.

The Business Area has focused in serving three customer segments: glass processors supplying glass products to the architectural and construction industry, the automotive industry, and appliance industry. Architectural and construction glass customer relationships account for the largest proportion of these. A new, quickly expanding customer segment is represented by manufacturers of solar energy solutions.

Heat Treatment's customers are found all over the world. Currently the most significant geographical region is the EMEA area. The clientele consists of glass processing companies of different sizes, all the way from large global players to small and medium-sized enterprises and family businesses.

Heat Treatment's machines are manufactured at five plants.

### STRATEGIC SIGNIFICANCE

The Business Area is of key strategic significance to Glaston and it has been one of Glaston's cornerstones and the core business of Tamglass since the 1970s. Glaston Heat Treatment's product offering is widest on the market, and in this Business Area the company is the clear market leader in the world, with an estimated market share of over 40 per cent. In 2007 the Heat Treatment Business Area accounted for 60 per cent of Glaston's net sales.

### 2007 AND THE OUTLOOK FOR 2008

The Business Area's market situation was good overall. Demand for safety glass machines grew, particularly in the Middle East, Eastern Europe, China and South America. Net sales in 2007 were EUR 162.3 million (131.3), representing growth of 24 per cent. The order book at the end of 2007 was EUR 59.9 million (77.9). The order book was affected by financial market instability and a rapid slowdown in US residential construction. The Heat Treatment Business Area's operating profit developed positively compared with the previous year and was EUR 19.6 million (13.5).

One of the most significant events of 2007, also in the Heat Treatment Business Area, was the start-up in May 2007 of production at the new factory in China. The factory will meet growing demand in China and Asia. Finnish factory delivery capacity was also increased during the year to meet high demand from the EMEA area. Due to the challenging economic situation in the USA, the capacity of the US factory was reduced to correspond better to the market situation. Heat Treatment's organisational structure was reshaped and the management group reshuffled.

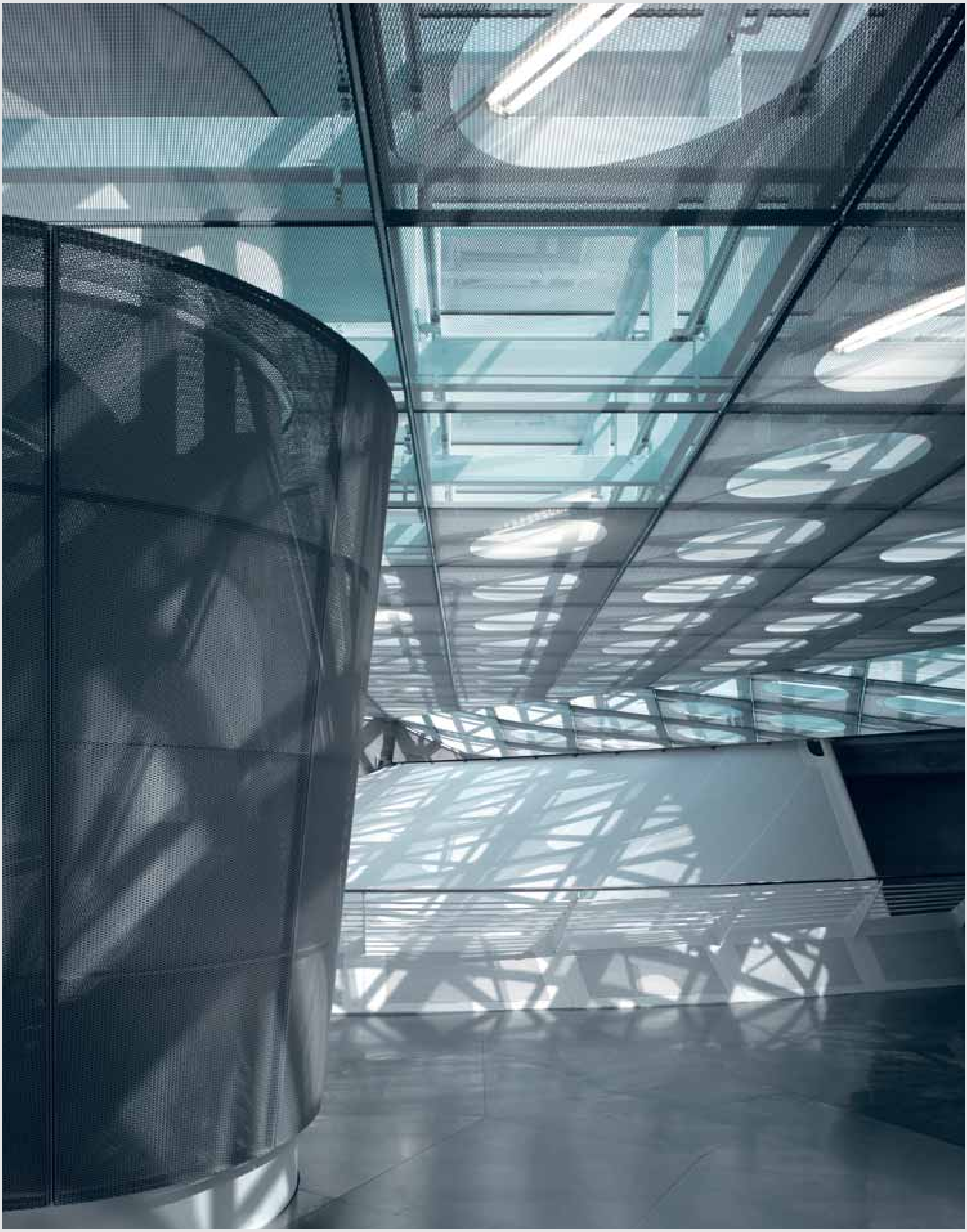
Of Heat Treatment's products, demand grew for flat tempering machines and machines used in the manufacture of solar energy panels and mirrors. This demand is expected to grow further in 2008. Demand for solar energy solutions also grew.

During the year Glaston focused on growing the sales and market position of products launched in 2006, including the Tamglass Sonic flat tempering machine. In this the company was successful. The Cattin unit's safety glass machine product development was discontinued in Switzerland and the operations in question centralised in Finland. The unit was closed during the third quarter.

In 2008 the focus will be on boosting profitability, developing the product offering and improving market position in new markets and among new customer groups. Demand is expected to continue to be buoyant in all market areas except for North America.

| | 2007 | 2006 | CHANGE% |
|---|---|---|---|
| NET SALES [MEUR] | 162.3 | 131.3 | 23.6% |
| OPERATING PROFIT [MEUR] | 19.6 | 13.5 | 45.2% |
| AS PERCENTAGE OF NET SALES | 12.1 | 10.3 | |
| ORDER BOOK [MEUR] | 59.9 | 77.9 | -23.1 |
| PERSONNEL AT YEAR END | 612 | 590 | |

MERCEDES-BENZ MUSEUM,
STUTTGART, GERMANY



MERZEDES-BENZ MUSEUM, 2006, UNSTUDIO © CHRISTIAN RICHTERS

MERCEDES-BENZ MUSEUM,
STUTTGART, GERMANY

# BUSINESS AREA SOFTWARE SOLUTIONS

In summer 2007 Glaston made a significant acquisition in Germany, purchasing the Albat+Wirsam Software Group, the world's leading supplier of glass industry software as well as enterprise resource planning and reporting systems for glass industry. Now Glaston can offer its customers an even more comprehensive product range, enabling them to acquire a whole production line or factory through a single supplier. The Software Solutions Business Area's net sales were EUR 14.7 million for the period July-December 2007.

#### PRODUCTS, CUSTOMERS AND PRODUCT DEVELOPMENT

The Software Solutions Business Area comprises the German A+W Software Group. The Business Area's software product range consists of production management systems for float glass manufactures as well as three software product groups: sales process management from order processing to invoicing, production planning from cost accounting to material management, and detailed production optimisation, monitoring and control. The software products give float glass manufacturers, as well as glass processors that supply the door and window industry, comprehensive control of their processes

The Software Solutions' customers are mainly European. Other important areas are North America, the APAC area and North Asia (Japan, Korea, Taiwan and China). The typical customer to date has been a glass processor whose production is not based on long production series, but who manufactures customer-tailored products generally with technologically up-to-date machines. Customer-specific tailoring places high demands on the system that controls the production process and automation.

Software development work takes place in Linden, Germany. In addition to sales staff who work in Germany, the A+W Software Group has 15 sales outlets around the world. Products are also sold through agents in certain areas, e.g. in Australia and Japan.

#### STRATEGIC SIGNIFICANCE

The Software Solutions Business Area unifies the machines offered by Glaston into one comprehensive solution. Previously Glaston acted as a consultant to its customers in matters relating to optimising the production of a single machine – now it is able to offer optimisation of the entire production process all the way from the interoperability of machines to sales management. The A+W Software Group combines software expertise with a comprehensive understanding of the glass and window industry and manufacturing .

#### 2007 AND THE OUTLOOK FOR 2008

The Business Area's market situation was good throughout the year. The Eastern Europe area and Russia grew strongly, as did the Middle East. For the period July to December 2007 net sales were EUR 14.7 million and the operating profit was EUR 2.6 million (consolidated from July 2007). The North American market situation had no impact on Software Solutions' sales, because a number of large glass manufacturers are investing in new software solutions.

In 2007 the most significant single event was the A+W Software Group becoming part of Glaston, together with the significant integration process that followed. Integration has succeeded more quickly than expected. Product development has focused on optimisation, and products such as DynOpt and XOPTON Dynamic sold well during the year.

In 2008 the Business Area will concentrate on the wider integration of the product range with Glaston's machines. Software Solutions' software products will also be offered as a component of One Stop Partner deliveries. Growth is expected, particularly from the Eastern Europe area, the Middle East, the APAC area and North Asia.

| | 7-12/2007 | 2006 | CHANGE% |
|---|---|---|---|
| NET SALES [MEUR] | 14.7 | – | – |
| OPERATING PROFIT [MEUR] | 2.6 | – | – |
| AS PERCENTAGE OF NET SALES | 17.8 | – | – |
| ORDER BOOK [MEUR] | 6.2 | – | – |
| PERSONNEL AT YEAR END | 247 | – | – |

## CASE: SERVICE SOLUTIONS

Glaston's comprehensive service network is one of the company's most important competitive assets. Service Solutions covers all of Glaston's machine types and main market areas. The service and maintenance business helps balance Glaston's seasonal fluctuations and promotes customer satisfaction. The business is being developed and expanded further.

The Glaston's Service Solutions service offering includes a number of different service products. A large proportion of customers belong to a continuous maintenance contract service based on predictive and regular maintenance. In this way they try to maximise machine utilisation and reliability and minimise unforeseen production breaks. The customer's production efficiency requirements are also one of the biggest drivers of service business growth. In addition, customers receive an agreed amount of guidance and consultancy help per year. Maintenance sales based on annual contracts grew during the year by 17.7% among both Heat Treatment and Pre-processing customers.

Other services offered by Service Solutions include emergency and repair visits. In addition, the Business Area performs various kinds of predictive and repair maintenance that do not fall within the sphere of the maintenance contract service. The unit's tasks also encompass installation and commissioning services, machine accessories, updates, spare parts, remote monitoring and diagnostics, as well as consulting and training services.

Glaston's service network is extensive, with maintenance outlets in 27 places around the world at the end of 2007.

"When a certain area reaches a sufficiently large stock of installed machines, it is sensible to set up a maintenance organisation close to the customer," says Senior Vice President Service Solutions, Tapio Rauhala. Most competition as far as the maintenance and service business is concerned comes from customers who have become accustomed to maintaining their machines themselves. This represents a growth opportunity for Glaston.

In 2007 the service business was divided geographical as follows: EMEA area 56%, South and North America 30%, Asia around 14%. Globally, the buying and selling of services is still very different depending on the geographical area. "Predictive maintenance demand models present good growth possibilities. Asia in particular is a potential area for Service Solutions business growth, because predictive maintenance of machines is not yet common there", continues Tapio Rauhala.

The biggest adjustment during 2007 in terms of the service offering was changing the organisation into a matrix organisation. All personnel working at the customer interface are now in a geographical organisation together with sales. This change has resulted in tighter cooperation with the sales organisation and has brought customer responsibility still closer to customers. The EMEA area and North America were the strongest growth areas for the service business during 2007.

VOITTO NIEMELÄ

**TELIA-SONERA FINLAND,**
**HEADQUARTERS,**
HELSINKI, FINLAND

# PRODUCTS

Glaston's product offering is the widest in the industry and it covers machines ranging from glass pre-processing to heat treatment and lamination. In addition, Glaston offers enterprise resource planning systems and software products that facilitate the optimisation of customers' production all the way from a single machine to an entire production line.

## PRODUCT OFFERING

The Pre-processing Business Area's range of machines is divided into product families, namely glass cutting, grinding and CNC machines, and complete lines. The product range also includes machines for stone processing. The Pre-processing Business Area offers dozens of different machine combinations and line solutions, from which customers can choose the one that best suits their production needs. The Business Area's offering also includes tools for glass and stone grinding and polishing. Glaston offers pre-processing machines under the Bavelloni brand and tools under the Bavelloni and DiaPol brands.

The Heat Treatment Business Area's products, on the other hand, are divided into the flat tempering, bending, bending-tempering and laminating product families. The Heat Treatment Business Area also offers dozens of options for customers' needs. The machines are made mainly under the Tamglass brand and the offering is complemented by Uniglass flat tempering machines. In flat tempering machines Glaston occupies the leading market position in the world.

The products of the Software Solutions Business Area are software as well as extensive enterprise resource planning (ERP) systems. The software product offering includes ERP-systems for glass processors and the needs of the door and window industry, production planning, monitoring and control software for both customer segments, order processing and management software for medium-sized companies, and the production optimisation product family. In addition, the Business Area offers CAD software for geometric control of glass. The Business Area's well-known brands include ALCIB, ALFAK, ALCIM, CANTOR and XOPT.

## ADDED VALUE FOR CUSTOMERS AND END-USERS

Raw glass comes to glass processors as large 3.2 x 6.0 metre glass sheets. Glass processing begins by cutting the raw glass on a cutting table or line to a size and shape suitable for the purpose. After cutting the glass edges are usually ground. Various techniques can be used for this, and each has its own machines. Other possible pre-processing stages are, for example, drilling, machining on a CNC machine, various kinds of edge processing, and cleaning. Sometimes glass pre-processing may in itself be sufficient for the customer, but the further processing of glass into safety glass also requires pre-processing. The particular strengths of Glaston's pre-processing machines are end-product quality and flexibility between different parts of production.

Heat treatment of glass may mean the tempering of glass into either flat or bent safety glass, bending into various shapes, or lamination. In the tempering process, the glass is heated in a tempering machine almost to melting point and then cooled quickly, whereupon a compression stress is created in the surface of the glass that makes the glass five times stronger. In the event of tempered glass breaking, it disintegrates into small, harmless pieces. The potential uses of tempered glass are diverse and, flat or bent, it is used particularly in construction, household appliances and vehicles.

Safety glass can be made through lamination. In the lamination process, glass sheets are bonded together with a plastic film on a laminating line. Laminated glass stays attached to the plastic film when it breaks. Such glass is used in, among other things, vehicle windscreens as well as in security glasses, for example in locations that require burglary prevention and bullet proofing.

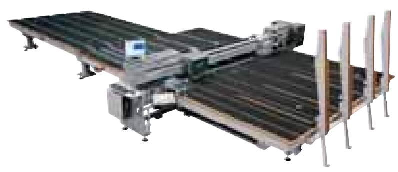
The surface of energy glass generally has a nearly invisible metallic film that reflects thermal radiation. Due to this metal film, the heat treatment of energy glass is challenging, and the manufacturing of such glass places great demands also on glass pre-processing machines. Energy glass can be further processed into safety glass or bent into curved glass surfaces using Glaston's high-technology glass processing machines. Energy glass is used mainly in buildings, various refrigeration appliances and to an increasing extent also in vehicles.

In solar energy production, depending on the technology in question, either flat glass is used to protect the solar cells or parabolic bent glass is processed into mirrors to direct the solar rays for the recovery of thermal energy.

The particular strengths of Glaston's flat tempering, bending, bending-tempering and laminating machines are high end-product quality, production flexibility and suitability for line solutions.

## CUTTING FLOAT GLASS

## CUTTING LAMINATED GLASS



## EDGING

## DOUBLE-EDGING

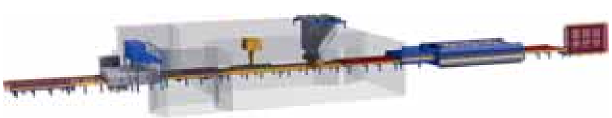
## SEAMING

## BEVELLING

## DRILLING

## CNC

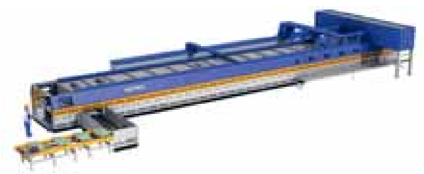
## FLAT LAMINATING



## FLAT TEMPERING

## BENDING AND TEMPERING

## BENDING



## SOFTWARE SOLUTIONS

# PRODUCT DEVELOPMENT

Glaston's customers operate in markets where the special requirements and characteristics of glass are continually growing. For this reason, product development has great strategic significance for Glaston. Glaston offers its customers modern machines and lines that fulfil the customers' needs and facilitate the manufacture of increasingly higher quality and demanding end products.

The focus of Glaston's product development in recent years has been on heat treatment and technologies required by various coatings. Glass energy efficiency is also one of the biggest drivers of growth in the sector. Various coatings make glass processing and the maintenance of optical quality increasingly demanding, but production efficiency requirements are growing at the same time. Increasingly high quality and demanding end products must be manufactured more quickly and cost-effectively than ever before. Moreover, the energy consumption of glass processing machines must be taken into consideration. Growth in the size of glass surfaces as well as glass bendability have also become key technical requirements, for example for architects who increasingly want to use design glass to enhance the attractiveness of work and living environments.

Glaston's product development is centralised in two locations: machines offered by the Heat Treatment Business Area are developed in Finland and Pre-processing's machines in Italy. Customisation is done in Glaston's other operating locations, but development work on new products, and on product and product-maintenance features, only takes place in Finland and Italy. Safety glass product development of the Cattin unit in Switzerland was discontinued during the year and relocated to Finland. The A+W Software Group's software development is done in Linden, Germany.

Glaston has particularly strong competence in the Heat Treatment Business Area, namely in heating and cooling technology, and in related automation expertise. In the Pre-processing Business Area, strong areas of competence include numerical control, control automation and tool technology. The A+W Software Group's areas of special expertise are glass-cutting and production stream optimisation as well as related algorithms and software.

Glaston cooperates in product development work with a number of local research institutes and technical colleges both in Finland and Italy. Cooperation also takes place with customers and glass manufacturers to ensure that equipment features are suited to customer and market needs.

Product development is long-term work and the product development cycle of a new device or product range e.g. for the Heat Treatment Business Area – from conception to the possible introduction of the device – lasts on average one to three years. Developing a new feature for an existing device takes on average six to eight months.

### PRODUCT DEVELOPMENT IN 2007

Glaston spent EUR 6.3 million on product development in 2007, representing around 2.2 per cent of net sales. In the Heat Treatment Business Area, the focus of product development was on developing software and automation technology for measuring glass quality. In addition, there was an emphasis on design relating to line and factory deliveries as well as on synchronising production between pre-processing and heat treatment machines. In the Pre-processing Business Area the development focus was also on integrated lines. In addition, there was an emphasis on developing both the grinding product range and new, advanced cutting machines.

In 2007 Glaston organised a Glass Performance Days event in Tampere. The event, which is held every other year, is also significant for the development of the global glass industry. The event attracts experts from the whole industry and, at seminars held at the same time, specialists present the latest knowledge on architecture and technical fields. The Glass Performance Days help Glaston follow from close at hand the latest technological trends in the industry as well as customers' expectations and requirements.

In 2008 the focus of product development will be on supplementing the line solution offering as well as further development of software that optimises and enhances the interoperability of Heat Treatment and Pre-processing products.

NIGEL YOUNG / FOSTER + PARTNERS

**BRITISH MUSEUM,**
LONDON, UNITED KINGDOM

## CASE: TAMGLASS GLASS PROCESSING LTD

Tamglass Glass Processing Ltd is Finland's leading comprehensive supplier of architectural glass. The company also has a role as a Glaston customer and in the product development of glass processing machines. Glass processing, however, is not Glaston's core business, for which reason the Group, in line with its new strategy, is analysing strategic options with respect to this business in future.

From the beginning of 2007, Tamglass Glass Processing Ltd.'s business has been divided into three different subareas: window, door and furnishing glass; architectural and shipbuilding glass as well as single projects, and automotive glass. The company's customers include glazing firms, the window, door and furnishing industry, and automotive and household appliance manufacturers.

The company's production is centralised in two locations in Finland, Tampere and Lempäälä, where the factory was expanded in 2007. During the year, projects were also initiated to extend production to Pihtipudas and Akaa. The Pihtipudas production unit will focus on the manufacturing of window, door and furnishing glass, and the Akaa factory on architectural glass and special projects. The Pihtipudas factory opened in February 2008, while production will begin in Akaa in May 2008.

Tamglass Glass Processing Ltd's role is to operate within the Group and also to support Glaston's product development. Cooperation takes place on two fronts:

**THINK TANK,**
**MAIN POST OFFICE OF SWEDEN,**
SOLNA, SWEDEN

Tamglass Glass Processing's production units act when necessary as test locations for Glaston's new machines. In addition, the company's long-serving glass processing experts and machine operators can participate in the product development process either as consultants in special questions or as members of a product development team.

"We obtained for Lempäälä a new Glaston pre-processing machine from Italy – one of the first in a series. On the machine, we processed nearly one million square metres of glass in the final development stage before launching the machine on to the market, and we submitted feedback and proposals for finishing the machine. It is quite rare for a sector operator to have a similar opportunity to test its new machines in practice to such an extent," says Tamglass Glass Processing Ltd's Managing Director Claus Carlsen.

Tamglass Glass Processing's immediate focus is on implementing a rationalisation programme and on improving the company's profitability. Strategic options for the future are being studied within Glaston.

In 2008 the business focus will be on window, door and furnishing glass. In addition, Tamglass Glass Processing Ltd will strive to increase its market share in single projects.

# CORPORATE SOCIAL RESPONSIBILITY

2007 was of far-reaching significance for Glaston in terms of both environmental and social issues. The global energy challenge became the focus of attention for companies, states and citizens. Quality energy glass has an important role in answering the energy challenge. As far as social responsibility is concerned, Glaston's reorganisation has presented the company with an opportunity to build its human resources administration in an internationally integrated direction.

OUR CORPORATE SOCIAL RESPONSIBILITY IS BUILT ON the three supporting columns of sustainable development, namely the environment, social issues and financial responsibility. The basic principle of Glaston's corporate social responsibility reporting is to communicate the essential issues for business and the surrounding community.

Operating policies and principles relating to every employee are the basis of our operations. For these we build management systems, such as the ISO 14001 environmental management system for Glaston's Tampere production plant. In all of our activities we adhere to laws and statutes, but we try to do more whenever possible. In practice, this means examining all of our operations from the perspective of sustainable development. Glaston is also committed to complying with the principles of the UN Declaration on Human Rights.

### GLASTON'S ROLE IN SOCIETY

Glaston's products are typically long-term, whether the products in question are the company's own machines or the end products produced by them – i.e. special glasses. Our impact on the surrounding society arises therefore from two quarters: our own operations, and when our products and services are used by our corporate customers and, in turn, by their customers.

In terms of Glaston's own operations, life cycle management of its machines has a key role. According to the Group's principles, Glaston's goods and services are acquired in compliance with valid laws, decrees and statutes, general good practice and high moral standards. The principles of honesty, equality and non-discrimination are also applied. Procurement activity must always comply with Glaston's environmental policy, and environmental, health and safety perspectives are actively emphasised in relationships with suppliers. Glaston does not use child labour nor does it work with subcontractors or goods suppliers that use child labour.

GLASTON
STAKEHOLDER
CHAIN

01
## MACHINE PRODUCTION
BY GLASTON

02
## GLASS PROCESSING
BY CUSTOMERS OF GLASTON

03
## RULES AND REGULATIONS
BY AUTHORITIES AND POLITICIANS

04
## BUILDING PROCESS
BY VARIOUS PROFESSIONALS

05
## WORKING AND LIVING
BY PEOPLE

Glaston is a part of a chain consisting of several key stakeholders. The chain is devoted to produce good spaces for living and working for everyone of us.

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## ENVIRONMENT

In respect of energy consumption, we minimise the energy consumption both of our own and our customers' machines. We carry out energy measurements at key consumption points at Glaston's Tampere production plant, in cooperation with Motiva, which promotes energy efficiency. Moreover, in the machines delivered to customers we have managed to raise the heat transfer coefficient for energy into glass. Our customers can produce more glass with a lower energy consumption.

### GLASS AND BUILDINGS' ENERGY CONSUMPTION

The heating and cooling of buildings accounts for around half of the world's energy consumption. Changing one old window pane to energy glass reduces the carbon dioxide load resulting from heating and cooling by around 90 kilos each year. The carbon dioxide load arising from the manufacture of the same window pane, however, is a one-off event and in quantitative terms only around 25 kilos.

In the EU area alone, changing old window glass to energy glass would bring an annual reduction in carbon dioxide load of over 600 million tonnes. In China, on the other hand, the construction industry accounts for 75 per cent of the country's energy consumption. In China it takes two-three times more energy to heat buildings than in developed countries, taking climatic conditions into account. According to WWF estimates, one 1,000 megawatt coal-fired power plant loads the atmosphere with 5.6 million tonnes of carbon dioxide per year.

### GLASTON IN THE SOLAR ENERGY VALUE CHAIN

A significant new area of expertise for Glaston is the offering of machines, technology and services to glass manufacturers that produce special glass for energy companies' solar energy projects. The glass surfaces of solar cells set exacting requirements, for example with respect to curved surfaces. Glaston has the necessary product range, know-how and experience to serve the needs of growing solar energy production in terms of glass manufacturing.

### RECYCLING WORKS

Glaston continually develops its processes taking the principles of sustainable development into account. The recycling of materials is important, particularly in connection with maintenance and components that are frequently changed. In handling our own waste, our goal is to minimise the amount of waste created. In Finland, glass waste arising in production is completely recycled. The glass is mostly crushed and delivered as raw material for glass wool, while some of the glass is used as raw material for new float glass.

### ATTRACTIVENESS AND SAFETY IN GLASS CONSTRUCTION

In addition to energy consumption, glass also plays a key role in relation to comfort and attractiveness at home and work, not to mention safety. The popularity of glass in construction as well as advanced glass processing technologies have opened up totally new dimensions to architects. The amount of light increases the attractiveness of workplaces and homes.

One example is the testing of fireproof glass initiated at the end of 2006 in collaboration with the Tampere University of Technology (TTY). This testing aims to find a fire class for normal window types also in the larger size categories. Fireproof glass must withstand a certain minimum heat intensity without breaking when a property burns, thus allowing people to make a safe exit.

### GLASTON'S PERSONNEL

The change of company structure implemented in Glaston also means big changes on the human resources side. Development work began in summer 2007, and by 2010 everyone in the company worldwide will be working according to the same principles. At the end of 2007, the Group had 1,435 employees.

Glaston's objective is be recognised as a reliable operator and partner, who sees things through to the end. Delivering on what have been agreed and keeping to schedule are the responsibility of all employees. Uniform operating principles will create a Glaston 'can-do' culture.

The most important elements of Glaston's human resources strategy are management development, creating a common operating culture, and safeguarding high quality expertise. Systematic and future-oriented personnel management will create a solid foundation for Glaston's success and will increase job satisfaction.

### EXPERTISE

Glaston's success is based on expert and motivated personnel. All employees have a clear job description and clear, measurable targets. Work performance is monitored systematically and skills are developed through on-the-job learning and training courses. A large proportion of training in 2007 was in-house, provided by Glaston's own staff.

Glaston's own in-house training programme, the Glass Processing Academy, helps ensure that personnel have sufficient knowledge in all Business Areas. The training programme covers product and production expertise as well as the skills necessary for personnel and business management. In 2007 the programme's priority areas were Glaston's own products and processes. This year, the focus will be on maintenance training as well as risk training for Business Areas' sales personnel to ensure sellers' competence in different product areas.

### MANAGEMENT

Glaston has defined detailed management practices by which the company operates at both the individual and the organisational level. Personnel management is expert, open and visible in a concrete way.

The development appraisal practice has been extended to the whole global organisation and it is now known as the Performance Dialogue (PD). In each dialogue the employee's personal targets and development plans are discussed, and work performance assessed. Every year the organisation conducts a personnel survey to help direct the company's development measures.

In 2008 a new worldwide management training programme will be initiated. The programme will be attended by 130 people in the first year. The aim of the programme is to ensure common operating practices and a high level of expertise at all of the company's operating locations.

## EXECUTIVE MANAGEMENT GROUP

**ARI HIMMA**
B. 1959
SENIOR VICE PRESIDENT, HUMAN RESOURCES
M.POL.SC.
EMPLOYED BY GLASTON SINCE 2007
NO SHARES
**PRIMARY WORKING EXPERIENCE:**
SVP, HUMAN RESOURCES, M-REAL CORPORATION 2001-2007,
SVP, HUMAN RESOURCES, METSO AUTOMATION OY, 1999-2001
SVP, HUMAN RESOURCES NELES CONTROLS OY, 1995-1999
SVP, HUMAN RESOURCES MACGREGOR OY, 1994-1995
HUMAN RESOURCES POSITIONS KONE OYJ 1987-1994

**JUHA LIETTYÄ**
B. 1958
SENIOR VICE PRESIDENT, QUALITY AND BUSINESS DEVELOPMENT
B.SC.(ENG)
EMPLOYED BY GLASTON SINCE 1986
NO SHARES
**PRIMARY WORKING EXPERIENCE:**
GLASTON TECHNOLOGIES GROUP, VP TECHNOLOGY, 2003-2007
TAMGLASS LTD, VP PRODUCTION AND R&D, 1999-2003
TAMGLASS ENGINEERING OY, SERVICE ENGINEER AND INSTALLATION SUPERVISION, 1986-1999
DESIGN AND PROJECT ENGINEER, INSINÖÖRITOIMISTO KUPARI OY, 1984-1986

**MAURI LEPONEN**
B. 1962
SENIOR VICE PRESIDENT, ONE-STOP-PARTNER UNTIL 7.1.2008
M.SC.(ENG)
EMPLOYED BY GLASTON SINCE 1989
SHARE OWNERSHIP AT 31.12.2007: 4,000 SHARES
**PRIMARY WORKING EXPERIENCE:**
PROJECT MANAGER, HOLLMING ELECTRONICS LTD. OY (LATER PATRIA OYJ) 1986-1989, PROJECT PLANNING DUTIES, NELES OY (LATER METSO CORPORATION) 1984-1986

**TOPI SAARENHOVI**
B. 1967
SENIOR VICE PRESIDENT, HEAT TREATMENT
M.SC.(ENG)
EMPLOYED BY GLASTON SINCE 2007
NO SHARES
**PRIMARY WORKING EXPERIENCE:**
MANAGING DIRECTOR AMOMATIC OY 2004-2007
DIRECTOR,AMOMATIC OY, 2003-2004
PLANT MANAGER, WÄRTSILÄ OYJ, TURKU, 2002-2003
PRODUCTION MANAGEMENT POSITIONS WÄRTSILÄ OYJ, TURKU, 1996-2001

**MIKA SEITOVIRTA**
B. 1962
PRESIDENT & CEO
M.SC.(ECON)
EMPLOYED BY GLASTON SINCE 2007
NO SHARES
**PRIMARY WORKING EXPERIENCE:**
MANAGING DIRECTOR, OY HARTWALL AB, 2003-2006
PRESIDENT, VOLVO AUTO OY AB, 1998-2003
FINANCE DIRECTOR, VOLVO DEUTSCHLAND GMBH, 1995-1998
VARIOUS MANAGERIAL POSITIONS, VOLVO AUTO OY AB, 1990-1995
BUSINESS DEVELOPMENT MANAGER, ARO-YHTYMÄ OY, 1989-1990
**POSITIONS OF TRUST:**
SVENSKA HANDELSBANKEN AB (PUBL), BRANCH OPERATION IN FINLAND, 2003-
ARO-YHTYMÄ OY, 2006-
THE ASSOCIATION OF FINNISH ADVERTISERS, VICE CHAIRMAN, 2002-

**PAOLO CENI**
B. 1960
SENIOR VICE PRESIDENT, PRE-PROCESSING
B.SC.(ENG)
EMPLOYED BY GLASTON SINCE 2007
NO SHARES
**PRIMARY WORKING EXPERIENCE:**
MANAGING DIRECTOR, CMS GROUP 2001-2007
CONSULTANT, PARTNER, GALGANO GROUP, 1990-2000

**GÜNTER BEFORT**
B. 1954
SENIOR VICE PRESIDENT, SOFTWARE SOLUTIONS AND ONE-STOP-PARTNER OFFERING
B.SC.(ENG)
EMPLOYED BY GLASTON SINCE 2007
NO SHARES
**PRIMARY WORKING EXPERIENCE:**
MORE THAN 35 YEARS IN THE GLASS INDUSTRY,
20 YEARS WITH A+W SOFTWARE GROUP

**KIMMO LAUTANEN**
B. 1959
CHIEF FINANCIAL OFFICER
M.SC.(ECON)
EMPLOYED BY GLASTON SINCE 2007
SHARE OWNERSHIP AT 31.12.2007: 1,465 SHARES
**PRIMARY WORKING EXPERIENCE:**
FINANCE DIRECTOR, OY HARTWALL AB, 2003-2007
FINANCE DIRECTOR, CIBA SPECIALITY CHEMICALS, JAPAN, FRANCE
1996 -2003
FINANCE DIRECTOR, CIBA-GEIGY, FINLAND, SOUTH KOREA
1988-1996
FINANCIAL MANAGEMENT POSITIONS, KEMIRA OYJ
1986-1988

**TAPIO RAUHALA**
B. 1961
SENIOR VICE PRESIDENT, SERVICE SOLUTIONS
B.SC.(ENG)
EMPLOYED BY GLASTON SINCE 1999
NO SHARES
**PRIMARY WORKING EXPERIENCE:**
VICE PRESIDENT, CUSTOMER SERVICE, VALMET AUTOMATION 1997-1999,
MAINTENANCE MANAGER, FINLAND 1991-1997,
VALMET AUTOMATION PROJECT ENGINEER, VALMET AUTOMATION, 1987-1991

**HENRIK REIMS**
B.1968
SENIOR VICE PRESIDENT, ONE-STOP-PARTNER DELIVERIES AS OF 7.1.2008
M.SC.(ENG)
EMPLOYED BY GLASTON SINCE 2008
NO SHARES
**PRIMARY WORKING EXPERIENCE:**
GLOBAL ACOUNT MANAGER, IBM FINLAND, 2006-2007
MANAGING CONSULTANT, IBM FINLAND, 2002-2006
SENIOR CONSULTANT, MECRASTOR PRICEWATERHOUSECOOPERS OY, 1999-2002
PROJECT MANAGER, ABB FINLAND, 1997-1999

# BOARD OF DIRECTORS

**KLAUS CAWÉN**
B. 1957, LL.M.
MEMBER OF THE BOARD SINCE 2004
SHARE OWNERSHIP AT 31.12.2007: 6,000 SHARES
**MAIN OCCUPATION:** MEMBER OF THE EXECUTIVE MANAGEMENT GROUP, KONE PLC – M&A AND STRATEGIC ALLIANCES, RUSSIA AND LEGAL AFFAIRS
**PRIMARY WORK EXPERIENCE:** EMPLOYED BY KONE PLC SINCE 1983. KONE PLC'S EXECUTIVE MANAGEMENT GROUP SINCE 1991
**KEY POSITIONS OF TRUST:** MEMBER OF THE BOARD OY KARL FAZER AB AND TOSHIBA ELEVATOR AND BUILDING SYSTEMS CORPORATION (JAPAN)

**CHRISTER SUMELIUS**
B. 1946, M.SC.(ECON.)
DEPUTY CHAIRMAN OF THE BOARD, MEMBER SINCE 1995
SHARE OWNERSHIP AT 31.12.2007: 803,800 SHARES
**MAIN OCCUPATION:** CHAIRMAN OF THE BOARD, OY INVESTSUM AB SINCE 1984
**PRIMARY WORK EXPERIENCE:** MANAGING DIRECTOR, SE-CENTER OY 1987-2007, DIRECTOR, GRAPHEX GMBH 1979-1988, CHAIRMAN, PYRAMID ADVERTISING CO. LTD. (LAGOS), 1983-1985, MANAGING DIRECTOR PYRAMID PAPER PRODUCTS LTD. (LAGOS) 1982-1984, DIRECTOR, PYRAMID INKS MANUFACTURING CO. LTD. (LAGOS) 1981-1985, AREA REPRESENTATIVE, FINNPAP (SINGAPORE) 1980-1981
**KEY POSITIONS OF TRUST:** TECNOMEN CORPORATION, HALLITUSAMMATTILAISET RY, CHEMDYES SDN. BHD. PENANG (MALAYSIA)

**JAN HASSELBLATT**
B. 1964, M.SC.(ECON.)
MEMBER OF THE BOARD SINCE 2006
SHARE OWNERSHIP AT 31.12.2007: NO SHARES
**MAIN OCCUPATION:** DIRECTOR, UPM RAFLATAC, FILMS BUSINESS
**PRIMARY WORK EXPERIENCE:** MANAGING DIRECTOR RAFLATAC BENELUX B.V, SALES DIRECTOR HACKMAN METOS, SALES MANAGER FINNPAP
KEY POSITIONS OF TRUST: G.W. SOHLBERG CORPORATION

**ANDREAS TALLBERG**
B. 1963, M.SC.(ECON.)
CHAIRMAN OF THE BOARD SINCE 2007
SHARE OWNERSHIP AT 31.12.2007: NO SHARES
**MAIN OCCUPATION:** G.W. SOHLBERG CORPORATION, CEO
**PRIMARY WORK EXPERIENCE:** EQT, SENIOR PARTNER 1997-2006, MACANDREW & FORBES 1992-1995, AMER GROUP 1987- 1991
**KEY POSITIONS OF TRUST:** DETECTION TECHNOLOGY OY, FINN-POWER OY, MYLLYKOSKI OY, PERLOS OYJ, SALCOMP OYJ

**CARL-JOHAN ROSENBRÖIJER**
B. 1964, DR.SC.(ECON.)
MEMBER OF THE BOARD SINCE 1996
SHARE OWNERSHIP AT 31.12.2007: 12,600 SHARES
**MAIN OCCUPATION:** SENIOR TEACHER, ARCADA NYLANDS SVENSKA YRKESHÖGSKOLA
**PRIMARY WORK EXPERIENCE:** SVENSKA HANDELSHÖGSKOLAN, UNIVERSITY OF OULU, HEAD CONSULTING OY
**KEY POSITIONS OF TRUST:** CHAIRMAN OF THE BOARD EKONOMISKA SAMFUNDET I FINLAND

**CLAUS VON BONSDORFF**
B. 1967, M.SC.(ENG.), M.SC.(ECON.)
MEMBER OF THE BOARD SINCE 2006
SHARE OWNERSHIP AT 31.12.2007: 122,600 SHARES
**MAIN OCCUPATION:** SVP STRATEGY, BUSINESS DEVELOPMENT AND MARKETING, NOKIA SIEMENS NETWORKS, CUSTOMER AND MARKET OPERATIONS
**PRIMARY WORK EXPERIENCE:** EXPERT AND MANAGEMENT POSITIONS, NOKIA PLC SINCE 1994, INCL. STRATEGY, SALES, MARKETING, PRODUCT DEVELOPMENT, PRODUCT MANAGEMENT, LOGISTICS AND PRODUCTION OPERATIONS

# CORPORATE GOVERNANCE

Glaston's principles of corporate governance follow the provisions of Finnish legislation, the rules of OMX Nordic Exchange Helsinki as well as the recommendation on the corporate governance of listed companies.

### GROUP AND BUSINESS STRUCTURE

The Glaston Group's Business Areas are Pre-Processing, Heat Treatment and, as of the third quarter 2007, Software Solutions. The Energy Business Area, sold to M-real Corporation in July 2007, was officially separated from the Group on 1 July 2007.

Glaston Group consists of Glaston Corporation and its subsidiaries. Glaston Corporation's task is to be responsible for and maintain financial and administration services, to own and manage real-estate, shares and other securities, to rent real-estate and other properties, and to act as the parent company of the Group. Each Business Area is responsible for its own business and its result.

### PRINCIPLES OF CORPORATE GOVERNANCE

Glaston Corporation's principles of corporate governance follow the provisions of the Finnish Companies Act, Securities Markets Act and Accounting Act, the company's Articles of Association and the rules of OMX Nordic Exchange Helsinki. Glaston applies the recommendation on the corporate governance of listed companies issued by OMX, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers, with the exception that in 2007 the company had no committees set up by the Board of Directors. Glaston also applies the OMX guidelines for insiders and the Financial Supervision Authority's Standard 5.3 on insider declarations and registers.

### ANNUAL GENERAL MEETING

Glaston Corporation's Annual General Meeting (AGM) is the company's ultimate decision-making body. The AGM is called by the company's Board of Directors. The AGM decides on, among other things, the adoption of the financial statements, the distribution of profits, the discharge of Board members and the President & CEO from liability, and the election and remuneration of the Board of Directors and auditor. In accordance with the Articles of Association, the AGM is held by the end of May each year. In 2007 the Annual General Meeting was held on 13 March 2007.

An Extraordinary Meeting of Shareholders is convened when the Board of Directors considers it necessary or when one must be convened by law.

An Annual General Meeting  is called by publishing an Invitation to an Annual General Meeting as a stock exchange release at the OMX Nordic Exchange Helsinki and by announcing the meeting in one Finnish- and one Swedish-language newspaper of the Board's choice.

At the Annual General Meeting, each shareholder has one vote per share. No-one, however, may vote with more than one fifth of the total number of shares represented at the meeting.

### BOARD OF DIRECTORS

Duties and responsibilities

The Board of Directors' duties and responsibilities are determined primarily by the Finnish Companies Act and the company's Articles of Association. The Board of Directors is responsible for the administration of the company and the appropriate organisation of its operations. The Board also directs and supervises the company's operational management. The main duties and operating principles of the Board of Directors and its appointed committees are defined in rules of procedure approved by the Board. The Board of Directors decides on far-reaching and fundamentally important issues affecting the Group. Such issues include the Group's strategy and objectives, the Group's budgets and operating plans, significant Group-level financial arrangements, the financial statements and annual report, the interim reports, company acquisitions and other significant investments, the Group's operational structure, management incentive schemes and principles of risk management. The Board of Directors appoints the President & CEO and decides on his salary and other conditions of employment.

The President & CEO, or another member of the company management designated by him, acts as the presiding officer at Board meetings.

### MEMBERS OF THE BOARD OF DIRECTORS

The Annual General Meeting elects the members of the Board of Directors. According to the Articles of Association, the Board of Directors consist of minimum of five and a maximum of nine members. The term of office of members of the Board of Directors expires at the end of the Annual General Meeting that follows their election. A person who has reached 67 years of age cannot be elected a member of Board. The Board of Directors elects from among its members a Chairman and a Deputy Chairman for one year at a time.

On 13 March 2007, the Annual General Meeting elected to Glaston's Board of Directors six members, who are Andreas Tallberg, Christer Sumelius, Claus von Bonsdorff, Klaus Cawén, Jan Hasselblatt, and Carl-Johan Rosenbröijer. At its organisation meeting on 13 March 2007, the Board of Directors elected amongst its members Andreas Tallberg as Chairman of the Board and Christer Sumelius as Deputy Chairman. The Board of Directors met nine times in 2007. The average attendance was 100%. In 2007 the activities of the Board of Directors were evaluated by any external party. Information about the members of the Board of Directors and their shareholdings in the company can be found on pages 36-37.

All six members of the Board of Directors are independent of the company. Apart from Andreas Tallberg and Jan Hasselblatt, all the members of the Board are independent of the company's most significant shareholders, as none of the other members of the Board nor anyone belonging to the close circle of a member of the Board had more than a ten per cent holding of the company's shares or total number of votes at the end of 2007.

#### COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors annually appoints the necessary number of committees to prepare matters that are the Board's responsibility. In spring 2007 the Board of Directors elected at the Annual General Meeting decided not to set up any committees.

From 1 January – 13 March 2007 the members of the Audit Committee were Carl-Johan Numelin (Chairman), Heikki Mairinoja and Carl-Johan Rosenbröijer. The task of the Audit Committee was to handle matters relating to financial statements, auditing, financial reports, the company's internal monitoring and other matters relating to the Group's risk management. The Audit Committee met once in the period 1 January–13 March 2007.

From 1 January – 13 March 2007 the members of the Remuneration Committee were Carl-Johan Numelin (Chairman), Klaus Cavén, Christer Sumelius and Andreas Tallberg. The task of the Remuneration Committee is to prepare for the Board of Directors a proposal on the company's senior management appointments and remuneration principles. The Remuneration Committee met once in the period 1 January-13 March 2007.

#### PRESIDENT & CEO

The Board of Directors of Glaston Corporation appoints the company's President & CEO, whose key terms and conditions of employment are specified in a written contract. The President & CEO is responsible for the operational management of Glaston Group in accordance with the Finnish Companies Act and instructions given by the Board. Mika Seitovirta became the President & CEO of Glaston Corporation and Glaston Services Ltd. Oy on 1 January 2007. Information about the President &CEO and his shareholding in the company can be found on pages 34-35.

#### EXECUTIVE MANAGEMENT GROUP

On 31 December 2007, the Group's Executive Management Group comprised, in addition to the President & CEO , SVP Pre-Processing (Glaston Italy S.p.a) Paolo Ceni, SVP Heat Treatment Topi Saarenhovi (Glaston Finland Oy), Mauri Leponen (One-Stop-Partner), Tapio Rauhala (Service Solutions), SVP Software Solutions Günter Befort, Kimmo Lautanen (Finance and Information Management), Ari Himma (Human Resources) and Juha Liettyä (Quality and Business Development). After the end of the financial year, as of 7 January 2008, the One-Stop-Partner unit was divided into: OSP Delivery and OSP Offering. On the same date Henrik Reims was appointed SVP, OSP Deliveries and member of Glaston's Executive Management Group. Mauri Leponen, previously SVP One-Stop-Partner, will leave Glaston on 1 April 2008.

The members of the Executive Management Group report to President & CEO and assist him in implementing the company's strategy, operational planning and management, and in reporting the development of business operations. Information about the members of the Group's Executive Management Group and their shareholdings in the company can be found on page 34-35.

#### BOARDS OF DIRECTORS OF SUBSIDIARIES

The boards of directors of subsidiaries consist of management from the Glaston Group's parent company and subsidiaries as well as expert members from outside the companies.

### REMUNERATION

#### REMUNERATION PRINCIPLES

The remuneration of the members of the Board of Directors is decided by shareholders in the Annual General Meeting. The company's Board of Directors decides on the terms and conditions and other compensation of the President & CEO. The company's Board of Directors also decides on remuneration of the Executive Management Group.

#### REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

In accordance with a decision of the Annual General Meeting, held on 13 March 2007, the annual fee of the Chairman of Glaston's Board of Directors is EUR 40,000, the fee of the Deputy Chairman EUR 30,000 euros and fee of Members of the Board EUR 20,000. In addition to the annual fee, the members of the Board are paid a meeting fee for every Board and Committee meeting that a member attends. The meeting fee is 800 euros for the Chairman and 500 euros for a Member of the Board. In financial year 2007, a total of EUR 179,100 was paid in remuneration to Members of the Board of Directors that took office on 13 March 2007. Members of the Board were not awarded remuneration in the form of shares or share derivatives during the financial year.

Employees of the Group who serve on the boards of directors of Group companies do not receive separate remuneration.

#### MANAGEMENT REMUNERATION AND OTHER BENEFITS

Remuneration of members of the Executive Management Group consists of a fixed monthly salary, a performance bonus and a share-based incentive scheme intended as a long-term reward. The performance bonus is determined on the basis of the Group result, Business Area and business unit results, and personal targets.

President & CEO Mika Seitovirta's salary with fringe benefits in 2007 totalled EUR 382,304. The President & CEO was not awarded remuneration in the form of shares or share derivatives during the financial year. A total of EUR 1,538,246 in salaries and fringe benefits was paid to members of the Executive Management Group in 2007.

The Group's President & CEO has the right to retire on reaching 62 years of age. Deviating from statutory pension rights, the pensionable age of managers in certain Group companies is 60 or 62 years.

When notice of termination of employment is given, the President & CEO's term of notice is three months. The President & CEO has the right to receive one-off compensation amounting to 15 months' cash salary in the event of the company terminating his contract of employment.

#### INCENTIVE SCHEMES

On 9 May 2007, Glaston's Board of Directors decided on a new share-based incentive scheme for the Group's key personnel. The scheme has three one-year performance periods, namely the calendar years 2007, 2008 and 2009. Bonuses will be paid in 2008, 2009 and 2010 in company shares and cash. The proportion to be paid in cash will cover taxes and tax-related costs arising to key personnel from the bonus. Shares cannot be disposed of within two years of the bonus being awarded. The potential bonus from the scheme for the 2007 performance period was based on growth of the Group's operating profit and net sales. A total of 26 key employees belonged to the target group of the scheme in the performance period 2007.

If the targets established for the performance criteria of the incentive scheme for the years 2007-2009 are attained in full, the bonuses to be paid on the basis of the scheme will correspond in gross value (including the portion paid in cash) to approximately 1,305,000 Glaston Corporation shares. A total of 217,500 shares were awarded based on the scheme in 2007.

Glaston Services Ltd. Oy has an old long-term management incentive scheme. In 2007, a total of EUR 5.8 million was paid in bonuses from this incentive scheme.

The incentive schemes are outlined in note 33.

Various units of Group companies have their own short-term incentive schemes, which follow the practices of the location country and whose terms and conditions are decided by each company's President & CEO.

#### AUDITING

Under the Articles of Association the company has one auditor, which must be an auditing firm approved by the Finnish Central Chamber of Commerce. The auditor's term of office covers the financial year during which it is elected and ends at the conclusion of the Annual General Meeting that follows its election. The 2007 Annual General Meeting elected as auditor the authorised public accounting firm KPMG Wideri Oy Ab, with the responsible auditor being Sixten Nyman APA, who is responsible for directing and coordinating auditing for the entire Group.

In 2007 the auditors of all the Group companies were paid a total of MEUR 0.386 for statutory auditing. A total of MEUR 0.218 was paid to KPMG in fees unconnected with auditing in 2007.

#### INTERNAL SUPERVISION AND AUDITING

Overall responsibility for supervising accounting and asset management rests with the Board of Directors. The President & CEO is responsible for ensuring that the accounting complies with statutory requirements and that the management of funds is arranged in a reliable manner.

The company uses a Group-wide internal reporting system for supervising business operations and monitoring the management of assets. The fulfilment of set targets is monitored monthly using the company's internal reporting system. In addition to actual figures, forecasts of the Group's financial state are reported quarterly for the current year.

The company has no separate internal auditing organisation. The Group's auditor assesses the effectiveness of the Group's internal monitoring system as part of its statutory monitoring of operations. In addition, the company gives, when necessary, separate assignments to external experts to carry out internal auditing.

#### RISK MANAGEMENT

Risks of property, consequential and liability losses arising from the Group's operations have been covered by appropriate insurance, and management of financial risks is the responsibility of the Finance Department in the Group's parent company.

#### INSIDERS

Glaston has insider guidelines, which comply with the OMX Nordic Exchange Helsinki insider guidelines.

The members of the company's Board of Directors, management and auditor are considered to be insiders with a duty to disclose. Due to their positions, members of executive management group as well as individuals responsible for the Glaston Group's finance and communications are also considered to be insiders with a duty to disclose. Under the above standard, the company also maintains a company-specific register of insiders. Information about the company's insiders with a duty to disclose as well as their shareholdings is available from the SIRE system of the Finnish Central Securities Depository and from Glaston Corporation's website.

Glaston Corporation does not arrange investor meetings during the three weeks preceding the publication of financial statements or interim reports.

#### COMMUNICATION

The objective of the company's external communications is to support the correct price formation of the company's securities by giving the market sufficient information about the company's business structure, its financial position, the development of the market, and the company's objectives and its strategy for achieving those objectives.

The company publishes a printed annual report and three interim reports. Key information on the company's corporate governance as well as information that must be declared under listed companies' duty to disclose is published on the company's website at the address www.glaston.net. In addition, key management presentation material can be viewed on the company's website after publication.

# CONTENTS

# GREETINGS FROM THE CHIEF FINANCIAL OFFICER

KIMMO LAUTANEN
CHIEF FINANCIAL OFFICER

I joined Glaston in March 2007, and now I have a fascinating year of structural changes behind me. Much has happened, but in the right direction – also in terms of profitability.

Glaston increased its net sales by 23 per cent in 2007, of which most was due to organic growth; the contribution of company acquisitions was 5 per cent The operating profit represented 6.2 per cent of net sales, an improvement on the previous year's 5.0 per cent. The company's balance sheet is still very strong, as cash flow also turned in a positive direction.

Glaston's market situation remained good throughout the year, excluding North America, where the outlook for the Heat Treatment business area in particular weakened during the year. Net sales of Service business, which balance out cyclical fluctuations, developed very well and rose to EUR 45.9 million. Growth since 2006 is 40 per cent, of which half is organic.

Delivery process development, restructuring measures and numerous internal projects aimed at improving operational efficiency have produced results. The positive impact of the implemented changes will continue into 2008.

In 2007 Glaston listed as risks primarily the development of the US market as well as the availability of components and raw materials, especially in Finland. The downturn in the USA during the year was in line with expectations. In Finland the situation remained under control, thanks to our subcontractor network and the joint efforts of the whole Group.

Glaston also managed to turn its cash flow for the better after a weak 2006. Moreover, return on capital employed (ROCE) improved and was 12.1 (8.8) per cent. Despite the acquisition of A+W Software Group, gearing stayed very low and was at 7.4 (-1.9) per cent at the end of the year.

At the beginning of 2008, the company announced its new strategy, which it had updated during 2007, as well as its financial targets. The financial targets are:

- Annual growth of net sales over 8%
- Operating profit (EBIT) at least 10%
- Return on capital employed (ROCE) at least 20%

These targets are challenging, but I believe that Glaston will reach the set targets within three years. The sector and Glaston's strong market position offer significant growth potential and, to exploit this, we will continue operational efficiency measures and investments in line with the new strategy.

| | 2007 | 2006 | CHANGE % |
|---|---|---|---|
| NET SALES | 269.8 | 218.9 | 23.3 |
| OPERATING PROFIT* | 16.6 | 10.9 | 52.3 |
| RETURN ON CAPITAL EMPLOYED [%] | 12.1 | 8.8 | – |
| GEARING [%] | 7.4 | -1.9 | – |

* EXCLUDING NON-RECURRING ITEMS

# INFORMATION FOR SHAREHOLDERS

## ANNUAL GENERAL MEETING

The Annual General Meeting of Glaston Corporation will be held on Tuesday, 11 March 2008 at 4 p.m. at the Kalastajatorppa Hotel in Helsinki.

Shareholders entered in the company's register of shareholders maintained by Finnish Central Securities Depository Ltd on 29 February 2008 are entitled to attend the Annual General Meeting.

Shareholders who wish to attend the Annual General Meeting must notify their intention to attend at the latest by 4 p.m. on 6 March 2008:

- in writing to the address Glaston Corporation, PO Box 25, FI-33731 Tampere,
- by telephone to number +358 40 543 7621 or
- by e-mail to the address terttu.uusitalo@glaston.net

## DIVIDEND

Glaston's Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.10 per share, a total of EUR 7.8 million, be distributed for financial year 2007. The dividend will be paid to shareholders who are entered in the company's register of shareholders maintained by Finnish Central Securities Depository Ltd on the date of record, which is 14 March 2008. In accordance with the Board of Directors' proposal, the dividend will be paid on 25 March 2008.

## GLASTON CORPORATION'S FINANCIAL REPORTING SCHEDULE DURING 2008

The financial statements were published on 6 February 2008. The annual report will be published in Week 9.

The annual report and interim reports will be published in Finnish and English.

## INTERIM REPORTS WILL BE PUBLISHED AS FOLLOWS:

- Interim report January-March 23 April 2008
- Interim report January-June 14 August 2008
- Interim report January-September 29 October 2008

Briefings for analysts and the press will be arranged on the date of publication of each interim report at a time to be announced separately.

## ORDERING OF BULLETINS AND PUBLICATIONS

Glaston's annual reports and interim reports can be ordered by telephone from +358 10 500 500 or through the company's website **www.glaston.net ‹ Contacts.**

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#### MARKETS
Glaston's markets developed favourably during the financial year, except for North America. Public construction continued to be strong in all market areas. In the residential construction market, on the other hand, there were large differences between areas.

In the developed markets and particularly in the EMEA area, Glaston's One-Stop-Partner concept, namely the combination and joint delivery of pre-processing and safety glass machines and now as well production management systems, was well received. In summer 2007, Glaston received two significant orders, the larger of which, after its completion, will be a complete glass processing factory producing architectural glass.

#### PRE-PROCESSING
The market situation of the Pre-processing business area was good throughout the year. Net sales in 2007 were EUR 94.1 million (89.1), representing growth of 5.6 per cent and operating profit EUR 1.4 (0.3) million. The order book at the end of the year was EUR 20.9 million (19.9). The most active market areas were South America and, in contrast with the Heat Treatment business area, North America.

Due to efficiency measures as well as steps to enhance the delivery process, the Pre-processing business area achieved a positive, if still modest, result in 2007.

In Italy, manufacturing was reorganised and production was moved from Bergamo and centralised in Bregnano. Efficiency measures included the merger of Pre-processing production with Heat Treatment in Brazil. The Pre-processing business area received a new management team in 2007.

#### HEAT TREATMENT
The market situation of the Heat Treatment business area was generally good. Demand for safety glass machines grew, particularly in the Middle East, Eastern Europe, China and South America. Net sales in 2007 were EUR 162.3 million (131.3), representing growth of 24 per cent and operating profit EUR 19.6 (13.5) million. The order book at the end of the year was EUR 59.9 million (77.9). The order book level was influenced particularly by weaker demand in North America and the transfer of a number of orders to the beginning of 2008.

Heat Treatment focused on growing the sales and market position of products launched in 2006. Demand for comprehensive solutions grew in 2007, as did demand coming from manufacturers of solar energy panels and mirrors.

The Cattin unit's safety glass machine product development was discontinued in Switzerland and the operations in Finland. The unit was closed during the third quarter. Production at the new factory in China began in May 2007, and it will answer growing demand in China and Asia. Finnish factory delivery volume was also increased to meet high demand from the EMEA area. The Heat Treatment business area's management team was renewed in 2007.

#### SOFTWARE SOLUTIONS
The market situation of the Software Solutions business area was good throughout the year. The Eastern Europe area and Russia grew strongly, as did the Middle East. Net sales in 2007 (7-12/2007) were EUR 14.7 million and operating profit EUR 2.6 million. The North American market situation has not affected the Software Solutions business area's sales, because a number of large glass manufacturers are investing in new software solutions.

In 2007 the most significant single event was the A+W Software Group's incorporation into Glaston and the substantial integration process that followed it. Integration has proceeded faster than expected.

#### SERVICE SOLUTIONS
Service Solutions unit's net sales were EUR 45.9 million, representing 40 per cent growth from the previous year. Half of this growth was organic. The unit is not reported as a separate business area; its earnings are included in the reporting business areas.

Service solutions business grew during the financial year, especially in the EMEA area and North America. In the final quarter of the year, there was particular demand for options and spare parts. In the USA, where new investments by glass processors have slowed down, Glaston's customers opted instead for software updates and options.

#### ONE-STOP-PARTNER
Total One-Stop-Partner sales, namely joint deliveries and combinations of pre-processing and safety glass machines as well as production management systems, were EUR 47.7 million (18.8) during the financial year. Earnings from OSP operations are officially included in the reporting segments. Completed orders have focused on systems producing solar energy as well as glass processing factories manufacturing architectural glass. Strongest growth was in

| GEOGRAPHICAL DISTRIBUTION OF ORDERS RECEIVED, MEUR | 1-12/2007 | 1-12/2006 | CHANGE, % |
|---|---|---|---|
| EMEA | 134.4 | 108.7 | +24 |
| AMERICA | 44.0 | 58.4 | -25 |
| ASIA | 34.3 | 28.4 | +21 |
| TOTAL | 212.7 | 195.5 | +9 |

| ORDER BOOK, MEUR | 31.12.2007 | 31.12.2006 |
|---|---|---|
| PRE-PROCESSING | 20.9 | 19.9 |
| HEAT TREATMENT | 59.9 | 77.9 |
| SOFTWARE SOLUTIONS | 6.2 | – |
| TOTAL | 87.0 | 97.8 |

the EMEA area and the North Asian market, which together represented 85 per cent of OSP sales.

#### ORDERS RECEIVED

Glaston received orders during the financial year amounting to EUR 212.7 (195.5) million, representing growth of 9 per cent from the previous year.

In the final quarter of the year, order intake was EUR 42.0 (10-12/2006: 57.6) million.

#### ORDER BOOK

Glaston's order book on 31 December 2007 was EUR 87.0 million (31.12.2006: 97.8). The Heat Treatment business area accounted for EUR 59.9 million of the order book, Pre-processing for EUR 20.9 million and Software Solutions for EUR 6.2 million.

#### NET SALES AND OPERATING PROFIT

Glaston's net sales in the financial year grew by 23 per cent to EUR 269.8 (restated 1-12/2006: EUR 218.9) million. In the final quarter of the year, net sales totalled EUR 88.8 million (restated 10-12/2006: 64.0). Pre-processing's net sales in October-December were EUR 28.5 million (10-12/2006: 26.6), Heat Treatment's net sales were EUR 52.8 million (38.6) and Software Solution's net sales were EUR 7.9 million.

The company's comparable operating profit excluding non-recurring items was EUR 16.6 million (restated 1-12/2006: 10.9), i.e. 6.2 (5.0) per cent of net sales. In the final quarter of the year, operating profit was EUR 7.1 million (restated 10-12/2006: 5.5), i.e. 8.0 (8.5) per cent of net sales. The Pre-processing business area accounted for EUR 0.2 million of the fourth-quarter operating profit, Heat Treatment for EUR 7.7 million and Software Solutions for EUR 1.0 million.

Pre-processing's operating profit improved during the financial year, although the level was still unsatisfactory. Heat Treatment's operating profit developed well during 2007. The result, however, was burdened by the Tamglass Glass Processing result, which clearly fell short of set targets. Tamglass Glass Processing's rationalisation programme will be forcefully continued during 2008. Software Solutions' result, consolidated since the third quarter, was very good.

Profit for the financial year was EUR 10.6 million (8.9). Return on capital employed was 12.1 (8.8) per cent. Earnings per share were EUR 0.14 (0.11).

Taxes for the financial year totalled EUR 5.2 million (1.7), representing 43 per cent of the result before taxes. Taxes for the comparison period included tax refunds of EUR 1.8 million from previous years, so the comparable effective tax rate was 59 per cent.

Non-recurring items for the financial year totalled EUR 4.6 million (5.2). In the second quarter, the company recognised EUR 7.3 million in project post-delivery costs and for business restructuring measures. In the final quarter of the year, the company recognised a EUR 2.8 million capital gain from the sale of fixed assets not belonging to business operations.

#### FINANCING AND CASH FLOW

The Group's financial position was good. The equity ratio on 31 December 2007 was 55.4 (61.9) per cent. Glaston Continuing Operations' cash flow from business operations was EUR 8.7 million (–5.2) and cash flow from investments was EUR –27.3 million (–6.9). Cash flow from investments includes the cash for acquisition of Albat+Wirsam shares, namely EUR 17.7 million.

Cash flow from financing in January-December was EUR 1.5 million (–8.4), including dividends paid in the financial year of EUR 7.1 million (13.4) and an increase in short-term loans of EUR 11.2 million. The growth in borrowing related to financing the acquisition of Albat+Wirsam shares. Discontinued Operations' cash flow was EUR 18.3 million (4.8).

The Group's cash and cash equivalents on 31 December 2007 totalled EUR 11.3 (EUR 10.5) million. Interest-bearing net debt was EUR 10.4 million (–2.7). The ratio of net debt to shareholders' equity (gearing) was 7.4 (–1.9) per cent.

#### ACQUISITIONS

In May, Glaston Corporation signed an agreement to acquire the German Albat+Wirsam Software Group. The deal was finalised on 2 July 2007 and the acquisition price was EUR 21.3 million. The company

| NET SALES, MEUR | 1-12/2007 | 1-12/2006 |
|---|---|---|
| PRE-PROCESSING | 94,1 | 89,1 |
| HEAT TREATMENT | 162,3 | 131,3 |
| SOFTWARE SOLUTIONS | 14,7 | – |
| PARENT COMPANY, ELIMINATIONS | -1,3 | -1,5 |
| TOTAL | 269,8 | 218,9 |

| OPERATING PROFIT, MEUR | 1-12/2007 | 1-12/2006 |
|---|---|---|
| PRE-PROCESSING | 1,4 | 0,3 |
| HEAT TREATMENT | 19,6 | 13,5 |
| SOFTWARE SOLUTIONS | 2,6 | – |
| PARENT COMPANY, ELIMINATIONS | -7.0 | -5,2 |
| OPERATING PROFIT, TOTAL | 16,6 | 10,9 |
| NON-RECURRING ITEMS | -4,6 | -5,2 |
| GROUP TOTAL | 12,0 | 5,6 |

has 247 employees. The acquisition cost calculation for the shares is stated in the notes to this bulletin.

The Energy business area, sold by the company to M-real Corporation in the spring, was officially separated from the Group on 1 July 2007. The value of the deal to Glaston was EUR 15.4 million. The result and impact of the Energy business on the Group financial position is described in the notes to this bulletin in the section 'Discontinued Operations'.

#### RESEARCH AND DEVELOPMENT

Research and development expenditure totalled EUR 6.3 million (5.5), representing 2.2 per cent of net sales. Research and development expenditure includes the further development of products already on the market as well as the development of new machines and models.

In the Heat Treatment business area, the focus of product development was on developing software and automation technology for measuring glass quality. In addition, there was an emphasis on design relating to line and factory deliveries as well as on synchronising production between pre-processing and heat treatment machines. In the Pre-processing business area the development focus was also on integrated lines. In addition, there was an emphasis on developing both the grinding product range and new, advanced cutting machines. The focus of development in the Software Solutions business area was on optimisation. New systems, such as DynOpt and XOPTON Dynamic, sold well during the year.

#### CAPITAL EXPENDITURE

The Group's capital expenditure during the financial year, excluding acquisitions, totalled EUR 11.3 (12.0) million. The most significant individual projects in 2007 were a EUR 4.2 million investment to production machines as well as a EUR 2.0 million extension to Tamglass Glass Processing's Lempäälä factory. Capitalised product development was EUR 2.5 million. During 2007, the company initiated a major global ERP project to harmonise internal processes and boost operational efficiency.

#### ENVIRONMENT

Energy efficiency and alternative energy sources are significant environmental trends for Glaston. Through increasing environmental awareness, energy-saving targets will grow. This will generate demand for energy glass, because using the right kind of glass, energy consumption can be reduced significantly. Solar energy production will grow strongly in the coming years, and demand for solar energy panels and mirrors has grown during 2007. Glaston has the necessary product range to serve solar energy production needs in the field of glass manufacturing.

Glaston's products are typically long-term, whether the products in question are the company's own machines or the end products produced by them – i.e. special glasses. In terms of Glaston's own operations, life cycle management of its machines has a key role. According to the Group's principles, Glaston's raw-materials and services are purchased in compliance with valid laws, decrees and statutes, as well as general good business practice. Production plants are responsible for local environmental issues. Environmental issues are coordinated at Group level.

#### RISK MANAGEMENT

Glaston operates globally and changes in the development of the world economy affect the company's operations. The company's most significant operational risks include management of large projects, availability and price development of raw materials and components, management of the subcontractor network, and the availability and permanence of personnel.

Financial risks such as foreign exchange, interest rate, financing and credit risks are associated with Glaston's business activity. The Group's treasury unit manages financial risk centrally in accordance with the treasury policy approved by the Board of Directors.

#### ORGANISATION AND PERSONNEL

The Group's new organisational structure came into effect in July. During the summer, both the parent company Kyro Corporation and most of the Group's subsidiaries changed their legal names to Glaston. In June, the Group decided to centralise its safety glass machine product development operations in Finland and to discontinue its Cattin unit in Switzerland. The unit's operational activity ceased in September, with personnel reductions affecting 12 employees. The merger in Brazil of Tamglass and Bavelloni production operations, initiated in March, was completed in the final quarter of the year. The legal merger of the company is planned to take place during 2008. Personnel reductions related to the merger affected nine employees.

At the end of the financial year, Glaston had 1,435 (31.12.2006: 1,189) employees. This number includes Albat+Wirsam's personnel, a total of 247 employees. Of the Group's personnel, 29.6 per cent were in Finland and 49.3 per cent elsewhere in Europe. The proportion of Group employees working in Asia was 7.5 per cent and in the Americas 13.6 per cent. The average number of employees was 1,350 (2006: 1,241).

#### CHANGES IN COMPANY MANAGEMENT

Mika Seitovirta became the Group's new President and CEO on 1 January 2007. Two new members were appointed Glaston's Executive Management Group in March. Kimmo Lautanen was appointed Chief Financial Officer and Ari Himma Senior Vice President, Human Resources.

Paolo Ceni was appointed SVP, Pre-processing and member of the Executive Management Group in April.

Topi Saarenhovi was appointed SVP, Heat Treatment and member of the Executive Management Group in May.

Günter Befort, Managing Director of Albat+Wirsam Software Group, was appointed SVP, Software Solutions and member of the Executive Management Group in July.

### SHARES AND SHARE DEVELOPMENT

Glaston's share capital on 31 December 2007 was EUR 12,696,000. A total of 78,436,500 shares were in circulation on the last day of 2007. During the financial year, a total of 7,993,461 shares were traded, representing 10.1 per cent of the total number of shares. The lowest price paid for a share was EUR 2.70 and the highest price EUR 4.53. The average price during the period was EUR 3.84.

### INCENTIVE SCHEME

On 9 May 2007, Glaston's Board of Directors decided on a new share-based incentive scheme for the Glaston Group's key personnel. The scheme has three one-year performance periods, namely the calendar years 2007, 2008 and 2009. Bonuses will be paid in 2008, 2009 and 2010 in company shares and cash. The proportion to be paid in cash will cover taxes and tax-related costs arising to key personnel from the bonus. Shares cannot be disposed of within two years of the bonus being awarded.

The potential bonus from the scheme for the 2007 performance period will be based on growth of the Group's profit and net sales. If the targets established for the performance criteria of the incentive scheme for the years 2007-2009 are attained in full, the bonuses to be paid on the basis of the scheme will correspond in gross value (including the portion paid in cash) to approximately 1.305.000 Glaston Corporation shares.

Glaston's Board of Directors confirmed the incentive scheme return for 2007 as 65.8 per cent. The impact on the result for 2007 is EUR 0.2 million.

### DECISIONS OF THE ANNUAL GENERAL MEETING

The company's Annual General Meeting was held on 13 March 2007. The meeting approved the financial statements for 2006 and released the Board of Directors and the President from liability for the financial year.

The meeting also approved the Board of Directors' proposal to pay a dividend of EUR 0.09 per share, a total of EUR 7.1 million.

The Annual General Meeting authorised the Board of Directors to acquire the company's own shares up to a maximum of 7.605.096 shares. The shares can be acquired to develop the company's capital structure, in financing or implementing possible company acquisitions or other arrangements, as part of the company's or its subsidiaries' incentive schemes or to be retained by the company or otherwise disposed of or invalidated.

The Annual General Meeting also decided to authorise the Board of Directors to decide on the issuing of new shares and/or the disposal of own shares in the company's possession either against payment or without payment.

By virtue of the authorisation, the Board of Directors shall be entitled to decide on the issuing of a maximum of 7,935,000 new shares and/or the disposal of a maximum of 7.935.000 own shares possessed by the company, yet so that the total number of shares issued and/or disposed of can be a maximum of 7,935,000 shares.

The authorisation is valid until the end of the 2009 Annual General Meeting.

### DISPOSAL AND ACQUISITION OF OWN SHARES

As part of the Glaston and Albat+Wirsam Software Group deal, it was agreed that Albat+Wirsam's founder, Dr Wirsam, would purchase 329,904 own shares in Glaston's possession (treasury shares) at a price of EUR 3.99.

Glaston's Board of Directors decided to exercise the authority granted by the Annual General Meeting to acquire the company's own shares. In 2007 the company acquired 913,500 of its own shares at a price of EUR 4.30 per share, a total of EUR 3.9 million. The shares have been acquired to hedge the cash flow risk relating to the incentive scheme. The authorisation remains unexercised in respect of 7.021.500 shares. At the end of the financial period, Glaston held a total of 913.500 treasury shares, corresponding to 1.15 per cent of the total number of the company's shares, with an accounting counter value of EUR 4.30 per share, a total of EUR 3.9 million.

During the final quarter, the company did not acquire its own shares.

### BOARD OF DIRECTORS' PROPOSAL ON PROFIT DISTRIBUTION

The parent company's unrestricted shareholders' equity according to the balance sheet on 31 December 2007 is EUR 63.4 million, of which distributable funds total EUR 63.4 million.

On 5 February 2008, the number of shares entitled to a dividend was 78,436,500.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.10 per share, a total of EUR 7.8 million, be distributed. After this, the parent company will have EUR 55.6 million in uncommitted retained earnings.

The date of record for the proposed dividend is 14 March 2008. The dividend payment date is 25 March 2008. All shares outstanding on the date of record, excluding treasury shares held by the parent company, are entitled to a dividend for 2007.

### EVENTS AFTER THE REVIEW PERIOD

In order to develop Glaston's comprehensive deliveries and to accelerate OSP product integration, the One-Stop-Partner unit was divided into two as of 7 January 2008: an OSP Delivery unit and an OSP Offering unit. Henrik Reims was appointed SVP, OSP Deliveries and member of Glaston's Executive Management Group as of 7 January 2008. SVP, Software Solutions Günter Befort is responsible for developing Glaston's OSP Offering unit as of 7 January 2008. SVP, One-Stop-Partner Mauri Leponen will leave Glaston on 1 April 2008.

To streamline Finnish operations, Glaston Services Ltd's business operations were transferred on 1 January 2008 to Glaston Finland Ltd. Oy. The transfer has no impact on the number of personnel.

In January, Glaston announced its new strategy and financial targets. The architectural glass segment, supported by the solar energy market, sets the base for future growth. The company's One-Stop-Partner concept is a strategic strength, and it distinguishes Glaston from its competitors. In automotive and appliance industry machines, the focus is on achieving good profitability and cash flow. Investments in service business activity will be increased significantly.

Tamglass Glass Processing, which operates mainly in the Finnish market, has been defined in the new strategy to be outside Glaston's core operations. The company's immediate focus is on completing the ongoing rationalisation programme that has already begun. Strategic options for the future are being studied within Glaston.

The financial targets underlying Glaston's strategy will run until 2010.

The financial targets are:

- Net sales annual growth over 8 per cent
- Operating profit (EBIT) at least 10 per cent
- Return on capital employed (ROCE) at least 20 per cent

### UNCERTAINTIES IN THE NEAR FUTURE

The Group still considers the short-term uncertainties to be the development of the US market and the US dollar exchange rate, as well as the transfer of this development more strongly into other markets. The price development and availability of raw materials and components, mainly in Finland, also constitutes a significant uncertainty factor. Large OSP orders received by Glaston increase the challenges relating to the production and delivery processes.

### OUTLOOK

Glaston is a leading company in a sector that is expanding globally. The proportion of safety glass used in construction is continually growing. Environmental questions such as the energy efficiency of buildings and the high added value of glass products associated with it also represent a significant development trend that supports growth. The solar energy market is developing quickly and will open new opportunities during 2008. Tightening official regulations will increase sales of safety glass further.

Glaston's outlook for 2008 is positive, with the exception of North America. Due to the geographical distribution of the company's operations, however, the economic cycles of Europe, Asia and America will largely balance each other out.

Demand for OSP comprehensive deliveries is expected to continue to grow due to customers' increasing efficiency and productivity requirements.

Glaston expects that it will clearly increase its net sales and operating profit compared to 2007. Quarterly net sales and profit are expected to develop as in 2007, with the first quarter being the weakest and the fourth quarter being the strongest.

Helsinki, 5 February 2008
Glaston Corporation
Board of Directors

## SHARES AND SHAREHOLDERS

### SHARE CAPITAL

The total number of Glaston Corporation shares in circulation is 79,350,000. The nominal value of each share is EUR 0.16. The company's share capital is EUR 12,696,000. The company's minimum share capital is EUR 4 million and the maximum share capital is EUR 16 million, within which limits the share capital can be increased and decreased without amending the company's Articles of Association.

### VOTING RESTRICTIONS

Shareholders are entitled to one vote per share in votes and elections held at the Annual General Meeting. No individual shareholder is entitled to vote at the Annual General Meeting using more than one fifth of the combined votes of the shares represented at the meeting (Articles of Association, Article 12).

### TRADING ON THE OMX NORDIC EXCHANGE

Glaston Corporation's shares are listed on the OMX Nordic Exchange Helsinki Mid Cap List. The quotation of the shares began on 2 April 2001. During the period 1 January 2007 to 31 December 2007, a total of 7,993,461 Glaston Corporation shares were traded on the OMX Nordic Exchange, equivalent to 10.1 per cent of the total number of shares. At the end of the year, the market value of the company's shares was EUR 219,799,500.

On the same date, the company had 3,539 shareholders listed in the book-entry system.

### SHARE PRICE DEVELOPMENT

The highest price paid for a Glaston Corporation share on the Helsinki Stock Exchange was EUR 4.53 and the lowest price EUR 2.70. The average price during the period under review was EUR 3.84.

### MANAGEMENT OWNERSHIP OF SHARES

The members of the Board of Directors and the President and CEO owned a total of 945 000 shares on 31 December 2007. These shares account for 1.2% of the company's shares.

### MANAGEMENT INCENTIVE SCHEMES

See Notes 33 share-based payments.

### SHAREHOLDER AGREEMENTS

The company is unaware of any shareholder agreements which would substantially affect the ownership of Glaston Corporation's shares or the exercise of votes within the company.

### BOOK-ENTRY SYSTEM

On 31 December 2007 a total of 77,932,498 of the company's shares were registered in the book-entry system maintained by the Finnish Central Securities Depository (APK).

### BOARD AUTHORISATIONS

The Board of Directors has no authorisations to change the share capital.

On 13 March 2007, the Annual General Meeting of Glaston Corporation authorised the Board of Directors to acquire the company's own shares, not more than

7,605,096. The company's own shares may be used to develop the company's capital structure, in financing or implementing possible company acquisitions or other arrangements, as part of the company's or its subsidiaries incentive schemes or to be retained by the company or otherwise transferred or invalidated.

The Annual General Meeting also decided to authorise the Board of Directors to decide on the issuing of new shares and/or the transfer of own shares in the company's possession either against payment or without payment.

By virtue of the authorisation, the Board of Directors shall be entitled to decide on the issuing of a maximum of 7,935,000 new shares and/or the transfer of a maximum of 7,935,000 own shares possessed by the company, yet so that the total number of shares issued and/or transferred can be a maximum of 7,935,000 shares. The authorisation is valid until the end of the 2009 Annual General Meeting.

Glaston's Board of Directors decided to exercise the authorisation granted by the Annual General Meeting to acquire the company's own shares. The company acquired 913,500 of its own shares at a unit price of EUR 4.30, a total of EUR 3.9 million. The shares have been acquired to hedge the cash flow risk arising from an incentive scheme. The authorisation remains unexercised in respect of 7,021,500 shares.

As part of Glaston and Albat+Wirsam Software Group deal, it was agreed that Albat+Wirsam's founder, Dr Wirsam, acquired 329,904 treasury shares held by Glaston at a price of EUR 3.99 euros per share.

On 31 December 2007, Glaston held a total of 913,500 treasury shares, corresponding to 1.15 per cent of the total number of the company's shares, with an accounting counter value of EUR 4.30 per share.

### DISTRIBUTION OF SHARE OWNERSHIP

The ownership of Glaston Corporation shares was distributed on 31 December 2007 as follows:

| Numbers of shares | Number of owners | % of owners | Number of shares | % of shares |
|---|---|---|---|---|
| 1–100 | 221 | 6.25 | 13,709 | 0.02 |
| 101–1 000 | 1,934 | 54.65 | 1,041,193 | 1.31 |
| 1 001–10 000 | 1,096 | 30.97 | 3,436,283 | 4.33 |
| 10 001–100 000 | 194 | 5.48 | 6,854,837 | 8.64 |
| 100 001–1 000 000 | 83 | 2.35 | 25,359,782 | 31.96 |
| Over 1 000 001 | 11 | 0.31 | 42,568,996 | 53.65 |
| Total | 3,539 | 100.00 | 79,274,800 | 99.91 |
| On joint account | | | 75,200 | 0.09 |
| **Total number of issued shares** | | | **79,350,000** | **100.00** |

| Ownership by sector | % |
|---|---|
| Private companies | 41.5 |
| Financial and insurance institutions | 1.1 |
| Non-profit organizations | 4.6 |
| Private households and individuals | 43.8 |
| Foreign owned | 4.8 |
| Public organizations | 2.4 |
| Total | 98.3 |
| Nominee-registered | 1.7 |

| Largest shareholders on 31 December 2007 | Shares | % |
|---|---|---|
| GWS Trade Oy | 13,446,700 | 16.9 |
| G.W. Sohlberg Corporation | 12,819,400 | 16.2 |
| Henning Sumelius | 3,642,600 | 4.6 |
| Svenska Litteratursällskapet i Finland | 2,205,000 | 2.8 |
| Oy Investsum Ab | 1,820,000 | 2.3 |
| The estate of Helena Suutarinen | 1,802,400 | 2.3 |
| Charlie von Christierson | 1,600,000 | 2.0 |
| Maria Sumelius | 1,569,400 | 2.0 |
| Bjarne Sumelius | 1,421,790 | 1.8 |
| Nordea Bank Finland | 1,127,706 | 1.4 |
| Birgitta Sumelius-Fogelholm | 1,114,000 | 1.4 |
| Marianne Storhannus | 934,195 | 1.2 |
| Christer Sumelius | 803,800 | 1.0 |
| Karin Huber | 800,800 | 1.0 |
| Mutual employment pension company Pension Fennia | 793,400 | 1.0 |
| Nominee-registered shares | 1,342,302 | 1.7 |
| Other | 31,193,007 | 39.3 |
| Total | 78,436,500 | 98.8 |
| Own shares in the company's possession * | 913,500 | 1.2 |
| **Total** | **79,350,000** | **100.0** |

* SHARES ACQUIRED FOR THE SHARE BONUS SCHEME. SHARE ACQUISITION AND SCHEME MANAGEMENT HAVE BEEN OUTSOURCED TO AN EXTERNAL SERVICE PROVIDER. THE SHARES ARE THE PROPERTY OF THE EXTERNAL PARTY UNTIL THE SHARES ARE TRANSFERRED TO KEY INDIVIDUALS WITHIN THE FRAMEWORK OF THE BONUS SCHEME. IRRESPECTIVE OF THE LEGAL FORM OF THE PROCEDURE, IT HAS BEEN TREATED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS IF GLASTON WOULD HAVE ACQUIRED ITS OWN SHARES.

# FINANCIAL PERFORMANCE INDICATORS

| MEUR | IFRS 2007 | Restated IFRS 2006 | IFRS 2006 | IFRS 2005 |
|---|---|---|---|---|
| **Consolidated income statement continuing and discontinued operations, total** | | | | |
| Net sales | 285.6 | 253.1 | 268.9 | 266.7 |
| change, % | 12.8 | | 0.8 | 15.2 |
| Exports and international operations | 247.4 | 200.7 | 216.5 | 220.1 |
| as % of net sales | 86.6 | 79.3 | 80.5 | 82.6 |
| Depreciation and amortisation | 7.6 | 7.3 | 7.3 | 8.7 |
| Operating profit | 17.2 | 12.1 | 16.5 | 35.5 |
| as % of net sales | 6.0 | 4.8 | 6.1 | 13.3 |
| Net financial items | 0.0 | 0.3 | 0.3 | -1.3 |
| Profit before taxes | 17.1 | 12.3 | 16.7 | 34.2 |
| as % of net sales | 6.0 | 4.9 | 6.2 | 12.8 |
| Income tax | -6.5 | -3.4 | -4.6 | -11.9 |
| Profit for the period | 10.6 | 8.9 | | |
| Attributable to: | | | | |
| Equity holders of the parent | 10.6 | 8.9 | 12.1 | 22.4 |
| Minority interest | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | |
| **Balance sheet** | | | | |
| Non-current assets | 120.6 | 123.2 | 123.2 | 121.3 |
| Inventories | 46.2 | 49.5 | 54.7 | 59.6 |
| Trade and other receivables | 97.4 | 66.9 | 57.1 | 49.3 |
| Financial assets at fair value through profit or loss | 0.1 | 0.1 | 0.1 | 0.1 |
| Cash and cash equivalents | 11.3 | 10.5 | 10.5 | 26.3 |
| Non-current assets available-for-sale | 0.3 | | | |
| Equity attributable to equity holders of the parent | 139.5 | 140.1 | 138.0 | 139.0 |
| Minority interest | 0.1 | 0.0 | 0.0 | 0.0 |
| Total equity | 139.6 | 140.1 | 138.0 | 139.0 |
| Non-current interest-bearing liabilities | 1.9 | 0.6 | 0.9 | 1.2 |
| Non-current non-interest bearing liabilities | 19.1 | 15.0 | 15.2 | 15.6 |
| Current interest-bearing liabilities | 19.4 | 7.4 | 7.2 | 1.7 |
| Current non-interest-bearing liabilities | 95.9 | 87.2 | 84.4 | 98.7 |
| **Balance sheet total** | **275.9** | **250.2** | **245.6** | **256.5** |
| | | | | |
| Return on capital employed, % | 12.1 | 8,8 | 12.1 | 26.1 |
| Return on equity, % | 7.6 | 6.3 | 8.7 | 17.1 |
| Equity ratio, % | 55.4 | 61.9 | 62.2 | 64.4 |
| Gearing, % | 7.4 | -1.9 | -2.2 | -17.7 |
| Interest-bearing net liabilities, EUR million | 10.4 | -2.7 | -3.0 | -24,7 |
| as % of net sales | 3.6 | -1.1 | -1.1 | -9.3 |
| | | | | |
| Gross investments | 34.1 | 12.0 | 12.0 | 11.4 |
| as % of net sales | 11.9 | 4.7 | 4.8 | 4.3 |
| Research and development | 6.3 | 5.5 | 5.5 | 7.3 |
| as % of net sales | 2.2 | 2.2 | 2.0 | 2.7 |
| Order book | 87.0 | 97.8 | 127.5 | 140.7 |
| | | | | |
| Personnel, average | 1,350 | 1,264 | 1,264 | 1,218 |
| Personnel at year-end | 1,435 | 1,211 | 1,211 | 1,222 |
| in Finland | 425 | 427 | 427 | 441 |

# KEY INDICATORS PER SHARE

| | IFRS 2007 | | Restated IFRS 2006 | IFRS 2006 | IFRS 2005 |
|---|---|---|---|---|---|
| Earnings per share, EUR | 0.14 | | 0.11 | 0.15 | 0.28 |
| Equity per share, EUR | 1.78 | | 1.77 | 1.75 | 1.76 |
| Dividend per earnings, % | 71.4 | ** | 81.8 | 60.0 | 60.7 |
| Dividend per share, EUR | 0.10 | ** | 0.09 | 0.09 | 0.08 |
| Extra dividend per share, EUR | | | | | 0.09 |
| Effective dividend yield, % | 3.6 | ** | 2.2 | 2.2 | 4.2 |
| P/E ratio | 19.8 | | 37.7 | 27.7 | 14.5 |
| Number of shares, 1,000 | | | | | |
| average | 78,682 | | 79,020 | 79,020 | 79,020 |
| at end of year | 78,437 | | 79,020 | 79,020 | 79,020 |

**) BOARD'S PROPOSAL

| Share price trend, EUR | | | | | |
|---|---|---|---|---|---|
| average price | 3.84 | | 4.33 | 4.33 | 4.25 |
| lowest price | 2.70 | | 3.75 | 3.75 | 3.79 |
| highest price | 4.53 | | 4.84 | 4.84 | 4.60 |
| Share price at the end of the year. EUR | 2.77 | | 4.15 | 4.15 | 4.06 |

| Market capitalisation of all shares | | | | | |
|---|---|---|---|---|---|
| at the end of the year, EUR million | 219.8 | | 329.3 | 329.3 | 322.16 |
| Turnover, number of shares | 7,993,461 | | 6,978,316 | 6,978,316 | 18,054,297 |
| Turnover, % of the total number of shares | 10.1 | | 8.8 | 8.8 | 22.8 |
| Turnover, EUR million | 31.2 | | 30.2 | 30.2 | 79.0 |

# CALCULATION OF KEY FIGURES

**Equity ratio, %=**
Equity x 100
Balance sheet total - advances received

**Gearing, %=**
Net interest-bearing liabilities x 100
Equity

**Net interest-bearing liabilities=**
Interest-bearing liabilities - interest-bearing receivables – cash and cash equivalents and other short-term investments

**Return on equity (ROE), %=**
Profit or loss for the period x 100
Equity

**Return on capital employed (ROCE), =**
Profit before taxes + interest expenses x 100
Interest-bearing liabilities + equity (average)

**Earnings per share (EPS)=**
Profit for the period attributable to equity holders of the parent
Average number of shares for period excluding treasury shares

**Equity per share**
Equity
Number of shares outstanding at end of period

**Dividend per share =**
Dividend distribution for the period
Number of shares outstanding at end of period

**Dividend-to-earnings ratio, % =**
Dividend per share x 100
Earnings per share

**Effective dividend yield, % =**
Dividend per share x 100
Share price at end of period

**Price/earning (P/E) ratio =**
Share price at end of period
Earnings per share

**Market capitalisation =**
Total number of shares x share price at end of period

# CONSOLIDATED INCOME STATEMENT (IFRS) EUR 1,000

| Continuing Operations | Note | 2007 | % | Restated 2006 | % |
|---|---|---|---|---|---|
| **Net sales** | 1 | **269,801** | **100.0** | **218,872** | **100.0** |
| Other operating income | 5 | 603 | | 2,415 | |
| Increase (+) and decrease (–) in inventories of finished products and work in progress | | -1,380 | | 3,472 | |
| Production for own use | | 1,376 | | 1,114 | |
| Raw materials and consumables used | | 93,036 | | 79,007 | |
| Employee benefit expense | 8 | 63,860 | | 56,170 | |
| Depreciation and amortisation | 7 | 7,164 | | 5,384 | |
| Other operating expenses | 6 | 94,305 | | 79,675 | |
| **Operating profit** | | **12,035** | **4.5** | **5,637** | **2.6** |
| Financial income | 10 | 2,971 | | 2,163 | |
| Financial expenses | 11 | -2,986 | | -1,912 | |
| | | -15 | | 251 | |
| **Profit before taxes** | | **12,020** | **4.5** | **5,888** | **2.7** |
| Income taxes | 12 | -5,156 | | -1,715 | |
| **Profit for the financial year,** | | **6,864** | **2.5** | **4,173** | **1.9** |
| Discontinued Operations | 2 | 3,784 | | 4,770 | |
| **Profit for the financial year** | | **10,648** | | **8,943** | |
| Attributable to: | | | | | |
| Equity holders of the parent | | 10,634 | | 8,937 | |
| Minority interest | | 14 | | 6 | |
| | | **10,648** | | **8,943** | |
| Earnings per share calculated from the profit attributable to equity holders of the parent (EUR) | 13 | | | | |
| Continuing Operations | | 0.09 | | 0.05 | |
| Discontinued Operations | | 0.05 | | 0.06 | |

# CONSOLIDATED BALANCE SHEET (IFRS) EUR 1,000

| Assets | Note | 31.12.2007 | 31.12.2006 |
|---|---|---|---|
| **Non-current assets** | | | |
| Tangible assets | 14 | 32,513 | 43,270 |
| Goodwill | 15 | 67,185 | 53,179 |
| Other intangible assets | 15 | 19,815 | 15,849 |
| Investments in associated companies | 20 | 770 | |
| Available-for-sale financial assets | 22 | 266 | 512 |
| Deferred tax assets | 16 | 4,446 | 8,574 |
| Other receivables | 18 | 8,355 | 2,683 |
| **Total non-current assets** | | **133,351** | **124,068** |
| **Current assets** | | | |
| Inventories | 19 | 46,188 | 49,477 |
| Trade and other receivables | 20 | 84,587 | 66,024 |
| Financial assets at fair value through profit or loss | 22 | 135 | 80 |
| Cash and cash equivalents | 23 | 11,322 | 10,528 |
| Available-for-sale non-current assets | 2 | 327 | |
| Total current assets | | 142,558 | 126,109 |
| **Total assets** | | **275,909** | **250,177** |
| **Equity and liabilities** | | | |
| **Equity attributable to equity holders of the parent** | 24 | | |
| Share capital | | 12,696 | 12,696 |
| Share premium fund | | 25,270 | 25,270 |
| Treasury shares | | -3,933 | -950 |
| Translation reserve | | -1,344 | 424 |
| Fair value and other reserves | | 137 | -169 |
| Invested non-restricted equity fund | | 269 | |
| Retained earnings | | 106,429 | 102,797 |
| | | 139,524 | 140,067 |
| Minority interest | | 37 | 21 |
| **Total equity** | | **139,560** | **140,088** |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 16 | 9,216 | 7,319 |
| Employee benefit obligations | 25 | 4,778 | 6,422 |
| Provisions | 26 | 4,536 | 1,381 |
| Interest-bearing liabilities | 27 | 1,890 | 858 |
| Other non-current liabilities | | 320 | 50 |
| | | **20,740** | **16,031** |
| **Current liabilities** | | | |
| Trade and other payables | 28 | 90,084 | 78,194 |
| Provisions | 26 | 2,579 | 6,149 |
| Current tax liabilities | 28 | 3,520 | 2,564 |
| Interest-bearing liabilities | 27 | 19,426 | 7,151 |
| Total current liabilities | | 115,609 | 94,058 |
| **Total liabilities** | | **136,349** | **110,088** |
| **Total equity and liabilities** | | **275,909** | **250,177** |

# CONSOLIDATED
# CASH FLOW STATEMENT

| EUR 1,000 | 2007 | 2006 |
|---|---|---|
| **Continuing Operations** | | |
| | | |
| **Cash flow from business operations, Continuing Operations** | | |
| Profit for the period | 6,864 | 4,173 |
| Adjustments | | |
| Depreciations and amortisations | 7,164 | 5,384 |
| Gains from disposal of fixed assets | -2,514 | |
| Financial income and expenses | -260 | 84 |
| Non-cash transactions | 1,634 | -4,179 |
| **Cash flow before change in working capital** | **12,888** | **5,461** |
| | | |
| **Change in working capital** | | |
| Change in inventories | 3,374 | 4,845 |
| Change in current non-interest-bearing receivables | -16,331 | -1,750 |
| Change in current non-interest-bearing liabilities | 11,288 | -10,039 |
| Change in provisions | 2,819 | 3,869 |
| **Cash flow from business operations before financial items and taxes** | **14,039** | **2,386** |
| | | |
| **Interest and payments paid for other financing of business operations** | | |
| Interest paid | -1,206 | -1,021 |
| Dividends received from business operations | 12 | 1 |
| Interest received from business operations | 267 | 848 |
| Direct taxes paid | -4,450 | -7,461 |
| **Cash flow from business operations** | **8,661** | **-5,247** |
| | | |
| **Cash flow from investing activities, Continuing Operations** | | |
| Acquisition of subsidiaries | -17,692 | |
| Investments in tangible and intangible assets | -11,282 | -10,998 |
| Proceeds from disposal of tangible and intangible assets | 1,681 | 2,753 |
| Proceeds from sale of other investments | 10 | 3,201 |
| Change in non-current loan receivables | | 1,050 |
| Taxes relating to proceeds from disposal of energy business in 2005 | | -2,932 |
| **Cash flow from investing activities** | **-27,283** | **-6,926** |
| | | |
| **Cash flow from financing activities, Continuing Operations** | | |
| Acquisition of treasury shares* | -3,933 | |
| Disposal of treasury shares | 1,314 | |
| Withdrawals of current loans | 14,136 | 5,638 |
| Repayments of current loans | -2,871 | |
| Repayments of non-current loans | -31 | -600 |
| Dividends paid | -7,105 | -13,421 |
| **Cash flow from financing activities** | **1,511** | **-8,383** |
| | | |
| **Discontinued Operations** | | |
| | | |
| Cash flow from business operations | 7,580 | 4,748 |
| Cash flow from investing activitie | 10,671 | 129 |
| **Cash flow from Discontinued Operations** | **18,251** | **4,877** |
| | | |
| **Change in cash and cash equivalents** | **1,140** | **-15,748** |
| Cash and cash equivalents at the beginning of the period | 10,528 | 26,276 |
| Cash and cash equivalents at the end of the period | 11,322 | 10,528 |
| | **1,140** | **-15,748** |

* SHARES ACQUIRED FOR THE SHARE BONUS SCHEME. SHARE ACQUISITION AND SCHEME MANAGEMENT HAVE BEEN OUTSOURCED TO AN EXTERNAL SERVICE PROVIDER. THE SHARES ARE THE PROPERTY OF THE EXTERNAL PARTY UNTIL THE SHARES ARE TRANSFERRED TO KEY INDIVIDUALS WITHIN THE FRAMEWORK OF THE BONUS SCHEME. IRRESPECTIVE OF THE LEGAL FORM OF THE PROCEDURE, IT HAS BEEN TREATED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS IF GLASTON WOULD HAVE ACQUIRED ITS OWN SHARES.

| | EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| EUR 1,000 | Share capital | Share premium fund | Fair value and other reserves | Translation reserve | Invested non-restricted equity fund | Treasury shares | Retained earnings | total | Minority interest | total equity |
| **Equity at 1 Jan 2006** | **12,696** | **25,270** | **-1,556** | **1,531** | | **-950** | **102,027** | **139,018** | **16** | **139,034** |
| Restatement | | | | | | | 5,266 | 5,266 | | 5,266 |
| Restated equity at 1 Jan 2006 | 2,696 | 25,270 | -1,556 | 1,531 | | -950 | 107,293 | 144,283 | 16 | 144,299 |
| **Cash flow hedges, net of tax** | | | | | | | | | | |
| Gains and losses taken to equity | | | 1,387 | | | | | 1,387 | | 1,387 |
| Translation differences | | | | -1,433 | | | | -1,433 | -1 | -1,433 |
| Gains and losses from hedge of net investments in foreign operations, net of tax | | | | 326 | | | | 326 | | 326 |
| Profit for the period | | | | | | | 8,937 | 8,937 | 6 | 8,943 |
| **Total recognised income and expense for the period** | | | **1,387** | **-1,107** | | | **8,937** | **9,217** | **5** | **9,222** |
| Dividends | | | | | | | -13,433 | -13,433 | | -13,433 |
| **Equity at 31 Dec 2006** | **12,696** | **25,270** | **-169** | **424** | | **-950** | **102,797** | **140,067** | **21** | **140,088** |
| **Cash flow hedges, net of tax:** | | | | | | | | | | |
| Gains and losses taken to equity | | | 306 | | | | | 306 | | 306 |
| Translation differences | | | | - 1,789 | | | | -1,789 | 2 | -1,786 |
| Gains and losses from hedge of net investments in foreign operations, net of tax | | | | 20 | | | | 20 | | 20 |
| Share-based payments | | | | | | | 111 | 111 | | 111 |
| Profit for the period | | | | | | | 10,634 | 10,634 | 14 | 10,648 |
| **Total recognised income and expense for the period** | | | **306** | **-1,768** | | | **10,745** | **9,282** | **14** | **9,298** |
| Dividends | | | | | | | -7,112 | - 7,112 | | -7,112 |
| Disposal of treasury shares | | | | | 269 | 950 | 1,219 | | | 1,219 |
| Acquisition of treasury shares | | | | | | -3,933 | | -3,933 | | -3,933 |
| **Equity at 31 Dec 2007** | **12,696** | **25,270** | **137** | **-1,344** | **269** | **-3,933** | **106,429** | **139,524** | **37** | **139,560** |

# EFFECTS OF CHANGE IN REVENUE RECOGNITION PRACTICE ON COMPARISON DATA FOR 2006

| Consolidated Income Statement, EUR million | 1-3/2006 | Change | Restated 1-3/2006 | 4-6/2006 | Change | Restated 4-6/2006 | 7-9/2006 | Change | Restated 7-9/2006 | 10-12/2006 | Change | Restated 10-12/2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Continuing Operations** | | | | | | | | | | | | |
| Net sales | 54.9 | -9.0 | 45.9 | 55.3 | -2.7 | 52.7 | 51.3 | 5.0 | 56.3 | 73.1 | -9.2 | 64.0 |
| Other operating income | 0.8 | | 0.8 | 0.2 | | 0.2 | 0.7 | | 0.7 | 0.7 | | 0.7 |
| Operating expences | 51.2 | -4.7 | 46.5 | 50.8 | -2.5 | 48.3 | 48.3 | 3.8 | 52.1 | 66.1 | -7.9 | 58.2 |
| Non-recurring items | 0.7 | | 0.7 | 0.0 | | 0.0 | 1.1 | | 1.1 | 3.5 | | 3.5 |
| Depreciation | 1.5 | | 1.5 | 1.5 | | 1.5 | 1.5 | | 1.5 | 1.0 | | 1.0 |
| Operating result | 2.4 | -4.3 | -1.9 | 3.3 | -0.1 | 3.2 | 1.2 | 1.2 | 2.4 | 3.2 | -1.3 | 1.9 |
| % of net sales | 4.3 | | -4.1 | 5.9 | | 6.0 | 2.4 | | 4.3 | 4.4 | | 3.0 |
| Operating result excluding non-recurring items | 3.0 | -4.3 | -1.2 | 3.3 | -0.1 | 3.2 | 2.3 | 1.2 | 3.5 | 6.7 | -1.3 | 5.5 |
| % of net sales | 5.5 | | -2.7 | 5.9 | | 6.0 | 4.4 | | 6.2 | 9.2 | | 8.5 |
| Financial income and expenses | 0.2 | | 0.2 | -0.2 | | -0.2 | 0.5 | | 0.5 | -0.2 | | -0.2 |
| Result before taxes | 2.5 | -4.3 | -1.7 | 3.0 | -0.1 | 2.9 | 1.7 | 1.2 | 2.9 | 3.0 | -1.3 | 1.7 |
| Income tax | -0.9 | 1.2 | 0.4 | 0.5 | 0.1 | 0.7 | -0.6 | -0.3 | -1.0 | -2.0 | 0.2 | -1.8 |
| Result for the financial period. Continuing Operations | 1.6 | -3.0 | -1.4 | 3.6 | 0.0 | 3.6 | 1.1 | 0.9 | 2.0 | 1.0 | -1.0 | 0.0 |
| **Discontinued Operations** | | | | | | | | | | | | |
| Profit for the financial period, Continuing Operations | 1.3 | | 1.3 | 0.9 | | 0.9 | 1.5 | | 1.5 | 1.1 | | 1.1 |
| **Result for the financial period** | 2.9 | -3.0 | -0.1 | 4.5 | 0.0 | 4.5 | 2.6 | 0.9 | 3.5 | 2.1 | -1.0 | 1.1 |
| Attributale to | | | | | | | | | | | | |
| Equity holders of the parent | 2.9 | -3.0 | -0.1 | 4.5 | 0.0 | 4.5 | 2.6 | 0.9 | 3.5 | 2.1 | -1.0 | 1.1 |
| Minority interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Earnings per share, euros, Continuing Operations | 0.02 | -0.04 | -0.02 | 0.05 | 0.00 | 0.05 | 0.01 | 0.01 | 0.02 | 0.01 | -0.01 | 0.00 |
| Earnings per share, euros, Discontinued Operations | 0.02 | | 0.01 | 0.01 | | 0.01 | 0.02 | | 0.02 | 0.01 | | 0.01 |

| Cumulative at end of period | 1-3/2006 | Change | Restated 1-3/2006 | 1-6/2006 | Change | Restated 1-6/2006 | 1-9/2006 | Change | Restated 1-9/2006 | 1-12/2006 | Change | Restated 1-12/2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Continuing Operations** | | | | | | | | | | | | |
| Net sales | 54.9 | -9.0 | 45.9 | 110.2 | -11.6 | 98.6 | 161.5 | -6.6 | 154.9 | 234.6 | -15.8 | 218.9 |
| Other operating income | 0.8 | | 0.8 | 1.0 | | 1.0 | 1.7 | | 1.7 | 2.4 | | 2.4 |
| Operating expences | 51.2 | -4.7 | 46.5 | 102.0 | -7.3 | 94.8 | 150.3 | -3.5 | 146.8 | 216.4 | -11.3 | 205.0 |
| Non-recurring items | 0.7 | | 0.7 | 0.7 | | 0.7 | 1.7 | | 1.7 | 5.2 | | 5.2 |
| Depreciation | 1.5 | | 1.5 | 2.9 | | 2.9 | 4.4 | | 4.4 | 5.4 | | 5.4 |
| Operating result | 2.4 | -4.3 | -1.9 | 5.6 | -4.4 | 1.2 | 6.8 | -3.1 | 3.7 | 10.1 | -4.4 | 5.6 |
| % of net sales | 4.3 | | -4.1 | 5.1 | | 1.2 | 4.2 | | 2.4 | 4.3 | | 2.6 |
| Operating result excluding non-recurring items | 3.0 | -4.3 | -1.2 | 6.3 | -4.4 | 1.9 | 8.6 | -3.1 | 5.4 | 15.3 | -4.4 | 10.9 |
| % of net sales | 5.5 | | -2.7 | 5.7 | | 1.9 | 5.3 | | 3.5 | 6.5 | | 5.0 |
| Financial income and expenses | 0.2 | | 0.2 | 0.0 | | 0.0 | 0.5 | | 0.5 | 0.3 | | 0.3 |
| Result before taxes | 2.5 | -4.3 | -1.7 | 5.6 | -4.4 | 1.2 | 7.3 | -3.1 | 4.2 | 10.3 | -4.4 | 5.9 |
| Income tax | -0.9 | 1.2 | 0.4 | -0.3 | 1.4 | 1.0 | -1.0 | 1.0 | 0.1 | -3.0 | 1.3 | -1.7 |
| Result for the financial period. Continuing Operations | 1.6 | -3.0 | -1.4 | 5.2 | -3.0 | 2.2 | 6.3 | -2.1 | 4.2 | 7.3 | -3.2 | 4.2 |
| **Discontinued Operations** | | | | | | | | | | | | |
| Profit for the financial period, Continuing Operations | 1.3 | | 1.3 | 2.1 | | 2.1 | 3.6 | | 3.6 | 4.8 | | 4.8 |
| **Result for the financial period** | 2.9 | -3.0 | -0.1 | 7.4 | -3.0 | 4.3 | 10.0 | -2.1 | 7.8 | 12.1 | -3.2 | 8.9 |
| Attributale to | | | | | | | | | | | | |
| Equity holders of the parent | 2.9 | -3.0 | -0.1 | 7.4 | -3.0 | 4.3 | 10.0 | -2.1 | 7.8 | 12.1 | -3.2 | 8.9 |
| Minority interest | 0.0 | 0.0 | 0.0 | 0 | 0 | 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Earnings per share, euros, Continuing Operations | 0.02 | -0.04 | -0.02 | 0.07 | -0.04 | 0.03 | 0.08 | -0.03 | 0.05 | 0.09 | -0.04 | 0.05 |
| Earnings per share, euros, Discontinued Operations | 0.02 | | 0.02 | 0.03 | | 0.03 | 0.05 | | 0.05 | 0.06 | | 0.06 |

| Consolidated Balance sheet, EUR million | 31.3.2006 | Change | Restated 31.3.2006 | 30.6.2006 | Change | Restated 30.6.2006 | 30.9.2006 | Change | Restated 30.9.2006 | 31.12.2006 | Change | Restated 31.12.2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | | |
| Non-current assets | 124.5 | | 124.5 | 123.8 | | 123.8 | 123.7 | | 123.7 | 123.2 | | 123.2 |
| Inventories | 61.7 | -10.8 | 50.9 | 65.0 | -9.4 | 55.6 | 64.1 | -12.4 | 51.8 | 54.7 | -5.3 | 49.5 |
| Trade & other receivables | 55.5 | 17.0 | 72.6 | 52.0 | 13.4 | 65.3 | 53.9 | 20.2 | 74.1 | 57.1 | 9.8 | 66.9 |
| Assets recognised at fair value through profit & loss | 0.2 | | 0.2 | 0.0 | | 0.0 | 0.1 | | 0.1 | 0.1 | | 0.1 |
| Cash and cash equivalents | 15.9 | | 15.9 | 5.6 | | 5.6 | 10.5 | | 10.5 | 10.5 | | 10.5 |
| **Total assets** | **258.0** | **6.2** | **264.2** | **246.4** | **4.0** | **250.4** | **252.3** | **7.9** | **260.2** | **245.6** | **4.6** | **250.2** |
| **Shareholders` equity and liabilities** | | | | | | | | | | | | |
| Shareholders`equity attributable to parent company shareholders | 127.2 | 2.3 | 129.4 | 131.6 | 2.3 | 133.9 | 133.6 | 3.2 | 136.7 | 138.0 | 2.1 | 140.1 |
| Minority interest | 0.0 | 0.0 | 0.016 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0 | 0.0 |
| Shareholders' equity, total | 127.2 | 2.3 | 129.5 | 131.6 | 2.3 | 133.9 | 133.6 | 3.2 | 136.8 | 138.0 | 2.1 | 140.1 |
| Non-current interest-bearing liabilities | 1.3 | | 1.3 | 0.7 | | 0.7 | 0.6 | | 0.6 | 0.6 | | 0.6 |
| Non-current interest-free liabilities | 15.1 | | 15.7 | 15.7 | | 15.7 | 15.7 | | 15.7 | 14.9 | | 14.9 |
| Current interest-bearing liabilities | 3.7 | | 3.7 | 4.8 | | 4.8 | 7.3 | | 7.3 | 7.4 | | 7.4 |
| Current interest-free liabilities | 110.8 | 3.9 | 114.7 | 93.6 | 1.7 | 95.3 | 95.0 | 4.7 | 99.7 | 84.7 | 2.5 | 87.1 |
| **Shareholders' equity and liabilities. total** | **258.0** | **6.2** | **264.2** | **246.4** | **4.0** | **250.4** | **252.3** | **7.9** | **260.2** | **245.6** | **4.6** | **250.2** |

# SIGNIFICANT ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

### BASIC INFORMATION OF THE GROUP

The Glaston Group is a growing and international glass technology company. Glaston is a global market leader of glass processing machines and its customers' One-Stop-Partner, comprehensive supplier. Its product range and service network are the most extensive in the industry. Glaston's well-known brands are Bavelloni in pre-processing machines and tools, Tamglass and Uniglass in safety glass machines as well as Albat+Wirsam in glass industry softwares. Glaston's own glass processing unit, Tamglass Glass Processing, operating in Finland, is a manufacturer of high-quality safety glass products.

The name of the Group's parent company has changed from Kyro Corporation to Glaston Corporation on 1 June 2007. The name of the Group has respectively changed to Glaston Group. The parent company is domiciled in Hämeenkyrö, Finland, and its registered address is Vehmaistenkatu 5, 33730 Tampere.

Copies of the consolidated financial statements are available at the Internet address www.glaston.net or at the Group's parent company's address P.O Box 25, FIN-33731 Tampere.

The Board of Directors of the Glaston Group has at its meeting on 5 February 2008 approved these financial statements to be published. According to the Finnish Companies Act, the shareholders have a possibility to approve or reject the financial statements or make a decision on altering the financial statements in a General Meeting to be held after the publication of the financial statements.

### BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) complying with the IAS and IFRS standards as well as the SIC and IFRIC interpretations effective on 31 December 2007. In the Finnish Accounting Act and ordinances based on the provisions of the Act, IFRSs refer to the standards and to their interpretations adopted in accordance with the procedures laid down in regulation (EC) No 1606/2002 of the European Parliament and of the Council. Also the notes to the consolidated financial statements are in accordance with the requirements of the Finnish Accounting and Companies Acts.

The consolidated financial statements are prepared on the historical cost convention except that the following items are stated at their fair value: investments classified as available-for-sale, financial assets at fair value through profit or loss and derivative financial instruments. Also the liability arising from cash-settled share-based payments and the liability arising from the obligation to redeem the minority shares with cash are both stated at fair value.

The Group has applied the following new or amended standards and interpretations as from 1 January 2007:

IFRS 7 Financial Instruments: Disclosures. IFRS 7 requires more extensive disclosures about the significance of financial instruments to the consolidated income statement and balance sheet as well as disclosures about risks and extent of risks arising from financial instruments. The standard has therefore increased the amount of information to be given in the notes to the financial statement on financial instruments and financial risks.

Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures. The amended standard requires the entity to present information on the entity's capital and the capital management during the financial period. The amended standard has affected the Group's presentation of disclosures.

IFRIC 10 Interim Financial Reporting and Impairment. The interpretation prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, investment in an equity instrument or a financial asset carried at cost. The interpretation has had no effect on the consolidated financial statements.

The Group has changed its accounting policy regarding the recognition of revenue from projects to comply with the principles of revenue recognition of construction contracts during the financial period 2007. The change is due to the fact that the revenue from customer-specifically tailored glass processing machines to be sold as a comprehensive delivery has increased significantly and the revenue recognition in accordance with the standard IAS 11 Construction Contracts is considered to give better information on this business. The comparative year 2006 has been restated accordingly. The effect of the change on the previously reported figures for the year 2006 is presented together with the indicators illustrating the financial development of the Group.

The Group has disposed of its energy segment during 2007 and it is presented in these financial statements as a discontinued operation. The continuing operations presented in the financial statements include the operations relating to the glass processing technology.

As the Group disposed of the energy segment, it reorganised its businesses and re-determined its reportable segments. They are Pre-processing and Heat

Treatment and, as from the third quarter, Software Solutions. The Pre-processing segment includes the glass pre-processing machines sold under the Bavelloni trademark, maintenance and service business as well as tool manufacturing. The Heat Treatment segment includes the tempering, bending and laminating machines sold under the Tamglass and Uniglass trademarks, maintenance and service business as well as the glass processing business of Tamglass Glass Processing. The Software Solutions segment comprises of the business of the A+W Software Group. The Group expenses which are not allocated to the segments are reported separately.

The geographical segments are EMEA (Europe, Middle East and Africa), America (North, Central and South America) as well as Asia (China and other Asia-Pacific region). The comparative segment information has been restated to correspond with the new classification.

The goodwill has been re-allocated to the segments of the Group for the impairment testing in accordance with the new allocation basis. The re-allocation is described in more details in Note 15.

### ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGMENT AND USE OF ESTIMATES IN THE FINANCIAL STATEMENTS

The preparation of consolidated financial statements in conformity with the IFRSs requires management to make estimates and assumptions that affect the application of accounting principles, the reported amounts of assets and liabilities in the balance sheet, the disclosure of contingent assets and liabilities as well as income and expenses. The estimates are based on the management's best present estimates and therefore actual results may differ from these estimates. In addition, management's judgments are required in applying the accounting policies. In 2007 the management has changed the revenue recognition principle regarding the customer-specifically tailored glass processing machines to be sold as a comprehensive delivery and it considers this to give better information on the business.

Management's estimations have been used in determining the amounts reported in the consolidated financial statements, among others in determining the realisability of certain assets and the useful lives of both tangible and intangible assets. Measurement of the pension obligation and the plan assets is based on actuarial calculations which are based on several actuarial assumptions made by the management. These include the discount rate used in calculating the present value of the obligation, the future salary and pension levels, the expected rate of return on plan assets and the rates of employee turnover concerning the employees participating in the plan, among others.

The Group management also assesses in preparing the financial statements whether there is any indication of impairment of tangible assets, goodwill or other intangible assets. Goodwill is tested every year for impairment regardless of there being indication of impairment or not. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is based on management's estimations on future sales and selling prices, production costs and discount rate, among others. The amounts of the provisions are estimated in compliance with the applicable legislation or interpretations of the authorities.

Part of the selling price of the energy business was based on the management's estimate on the future emission allowances to be received by the business and the use of these rights. This part has been recognised as a non-current receivable from the buyer of the business. The receivable is remeasured at every balance sheet date at the best estimate that can be made based on the information available at that time. In the financial statements for the year 2007 the receivable has been measured based on a $CO_2$ futures market quotation made for December 2008.

The Group has used an external expert in the measurement of fair values of the intangible assets acquired as a part of the business combination. A part of the acquisition cost has been allocated to the product rights and the backlog of orders and measured to fair value based on the expected returns and their economic useful lives have been estimated to five years, in respect of the product rights, and to six months, in respect of the backlog of orders. Indications of possible impairment are reviewed at the balance sheet date in respect of both the above mentioned assets and other tangible and intangible assets.

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the parent company Glaston Corporation and all subsidiaries in which over 50 % of the voting rights are hold directly or indirectly by the parent company, or the parent company has otherwise the power to govern their financial and operating policies so as to obtain benefits from their activities. The subsidiaries are listed in Note 32.

The mutual shareholding has been

## SIGNIFICANT ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

eliminated by the purchase method of accounting. The acquired subsidiaries are included in the consolidated financial statements from the date that the Group's control commences until the date that control ceases. Intragroup transactions, receivables, liabilities and unrealised gains, as well as intragroup distribution of profits, are eliminated. Unrealised losses are eliminated only to the extent that there is no evidence of impairment. The allocation of profit to the parent company equity holders and minority interest is presented on the face of the income statement. In the balance sheet, the minority interest is presented as a separate item in total equity. In case the Group has a contractual obligation to redeem the minority shareholding with cash or cash equivalents, minority interest is classified as a financial liability.

#### ITEMS DENOMINATED IN FOREIGN CURRENCIES

The consolidated financial statements are presented in euro, which is the functional currency of the parent company. Functional currencies of other Group companies are determined by the primary economic environment in which they operate.

Transactions in foreign currencies are translated at the average rate which approximates the foreign exchange rate ruling at the date of the transaction. Monetary items denominated in foreign currencies are translated at the balance sheet date exchange rate. Non-monetary items are translated at the average rate which approximates the exchange rate ruling at the date of transaction. Foreign exchange differences arising on translation are recognised in the income statement. Foreign exchange gains and losses related to sales, purchases and other operating expenses are treated as adjustments to respective items and included in the operating profit. Exchange rate differences related to financing are included in the financial income and expenses.

In the consolidated financial statements, the income statements of foreign subsidiaries have been translated to euro using the average exchange rates for the financial period. The balance sheets of foreign subsidiaries have been translated to euro using the exchange rates ruling at the balance sheet date. Exchange differences arising from the translation of the income statements and balance sheets with different exchange rates are recognised in translation reserve, a separate component of shareholders' equity. Exchange differences arising from the translation of the net investment in foreign subsidiaries are also taken to translation reserve. When a subsidiary is disposed of, the accumulated translation differences are recognised in the income statement as a part of the gain or loss on the sale.

#### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated in the balance sheet at historical cost less accumulated depreciation and impairment losses.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. When an asset consists of major components with different useful lives, they are accounted for as separate items. Ordinary repairs and maintenance costs are recognised in the income statement as an expense as incurred. Other subsequent expenditure is capitalised only when it increases the future economic benefits in excess of the originally assessed standard of performance of the existing asset and the cost can be measured reliably.

Depreciation on property, plant and equipment is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are:

- Buildings and structures
  25–40 years
- Heavy machinery
  10–15 years
- Other machinery and equipment
  3–5 years
- IT equipment
  3–10 years
- Other tangible assets
  5–10 years

Land is not depreciated.

Residual values and expected useful lives of property, plant and equipment are reassessed at each balance sheet date and where they differ from previous estimates, depreciation periods are changed accordingly. Non-current assets classified as held for sale are no longer depreciated according to the IFRS 5 standard.

Capital gains and losses arising from disposals of property, plant and equipment are recognised in other operating income or expenses.

#### BORROWING COSTS

Borrowing costs are recognised as an expense in the period in which they are incurred.

#### INTANGIBLE ASSETS

Intangible asset is recognised in the balance sheet if its cost can be measured reliably and it is probable that the expected future economic benefits attributable to the asset will flow to the Group. Intangible assets are stated at cost and amortised on a straight line basis over their estimated useful lives. Intangible assets with indefinite useful life are not amortised, but tested annually for impairment.

The estimated useful lives for intangible assets are as follows:

- Computer software, patents, licences, trademarks, product rights 3–10 years
- Development expenditure 5–7 years
- Other intangible assets 5–10 years

#### GOODWILL

After 1 January 2004, goodwill represents the difference between the acquisition cost and the Group's share of the fair value of the net identifiable assets acquired. In respect of acquisitions prior to the IFRS transition, goodwill is included in the financial statements on the basis of its deemed cost, which represents the amount recognised under previous GAAP, in accordance with the exemption defined in IFRS 1.

Goodwill is an intangible asset with indefinite useful life and it is not amortised but tested annually for impairment. For this purpose, goodwill has been allocated to the segments of the Group. Goodwill is measured at cost less any accumulated impairment losses.

The Group has reorganised its businesses and re-determined its reportable segments in the summer 2007 in accordance with its new operational model. The goodwill has been re-allocated to the segments accordingly.

#### RESEARCH AND DEVELOPMENT EXPENDITURE

Research expenditure is recognised in the income statement as an expense as incurred. Expenditure on development activities is capitalised in the balance sheet if the product is technically and commercially feasible, and it is expected to generate economic benefits. Amortisation of the capitalised expenditure starts when the asset is available for use. The intangible assets not yet available for use are tested for impairment. Research expenditure and development expenditure not qualifying for IAS 38 are recognised in other operating expenses.

#### EMISSION ALLOWANCES

The Group has no emission allowances at the balance sheet date due to the disposal of the energy segment. In the comparative year 2006 the emission allowances have been initially recognised in the balance sheet at fair value. Subsequently the allowances have been recognised at historical cost. The allowances are not amortised as their residual value is equal to their initially recognised value. Allowances have been derecognised when the actual emission obligation has been settled. Emission allowances have been sold as part of the sales of the energy business and they are included in the gain on sales as a separate item in other operating income for the year 2007.

#### IMPAIRMENT

At each balance sheet date, the carrying amounts of the Group's assets are reviewed to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The value in use represents the discounted future net cash flows expected to be derived from an asset or a cash-generating unit. The Group's calculations are mainly based on value in use.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. An impairment loss is reversed if a positive change in circumstances leads to a revised estimate of the asset's or cash-generating unit's recoverable amount. An impairment loss in respect of goodwill is not reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net depreciation and amortisation, if no impairment loss had been recognised.

#### LEASES

Leases in terms of which the Group assumes substantially all risks and rewards incidental to the ownership are classified as finance leases. At the inception of the lease term, a finance lease is recognised as an asset at the amount equal to the lower of its fair value and the present value of the minimum lease payments. Asset acquired under finance lease is depreciated over the shorter of the useful life and the lease term. The Group has acquired a production plant, and machinery and equipment under finance leases.

Leases where the lessor retains the risks and rewards of the ownership are classified as operating leases. Payments made under operating leases are expensed on a straight-line basis over the lease terms. The rental obligation arising from the fixed-term lease agreements has been presented in Note 35. Operating leases.

#### INVENTORIES

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle. In the case of manufactured inventories and work in progress, cost

# SIGNIFICANT ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

includes materials, direct labour, other direct costs and a systematically allocated appropriate share of variable and fixed production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### EMPLOYEE BENEFITS

The Group attends to both defined contribution and defined benefit pension plans. Contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

The Group's net obligation in respect of each defined benefit pension plan is calculated separately and using the projected unit credit method. Pension expenses are recognised to periods of service according to actuarial calculations prepared by authorised actuaries. The amount recognised as a defined benefit liability or receivable comprises the net total of the following: the present value of the defined benefit obligation, the fair value of the plan assets, past service cost, and actuarial gains and losses. The discount rate for the defined benefit obligation is the yield on high quality corporate bonds or the interest rate on government bonds that have maturity dates approximating to the terms of the Group's obligations.

Actuarial gains and losses arising in calculating the Group's obligation in respect of a plan, to the extent that they exceed 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, are recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. All actuarial gains and losses as at 1 January 2004, the date of transition to the IFRSs, were recognised in the opening balance sheet in accordance with the IFRS 1 exemption.

The Group also recognises a liability for a post-employment defined benefit plan in foreign Group companies.

#### SHARE-BASED PAYMENT TRANSACTIONS

In 2007 the Group started an incentive programme, in which the payments are settled in equity instruments and in cash. The proportion to be settled in cash covers the taxes and tax-like charges arising from the payment to a key person. The benefits granted within the programme are measured to fair value at the grant date and they are recognised in the income statement as an employee benefit expense during the vesting period. The proportion to be settled in shares is recognised in equity and the payments settled in cash are recognised as a liability in the balance sheet. The expense determined at the grant date of the options is based on Glaston's share price and on the Group's estimate of the number of the shares to be given out within the programme.

In addition, the Group has a share-based payment programme which has almost entirely ended during 2007. Within the programme the key management of the Group has been granted share appreciation rights (synthetic option). The payments have been settled in cash. The expense arising from the programme has been recognised as an employee benefit expense in the income statement during the vesting period. The corresponding liability has been recognised at fair value at the grant date and remeasured at each reporting date and at the settlement date. Any changes in the fair value have been recognised as an employee benefit expense in the income statement. The fair value measurement for the profit-related component has been based on the terms and conditions of the programme. For the share-value-related component an applicable valuation technique has been used.

The redemption of 18 % interest in DiaPol S.r.l., which was incorporated from Glaston Italy S.p.a in Italy in the beginning of 2006, includes a cash-settled share-based put option based on the financial statements for the years 2006, 2008 and 2010 as well as on a condition concerning the person's employment. The arrangement has been interpreted as a share-based transaction and the liability arising from this arrangement is measured at fair value at each balance sheet date and expensed during the vesting period. During 2007 Glaston Italy S.p.a. redeemed all the shares of DiaPol S.r.l.

#### PROVISIONS

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows, when appropriate.

A provision for warranties is recognised when the underlying products are sold. The provision is estimated on the basis of historical warranty data.

A restructuring provision is recognised when a detailed plan for restructuring is prepared by the Group and the implementation of the plan has either commenced or the plan has been announced to the persons it concerns. A restructuring plan includes at least the following information: the business which the restructuring concerns, the principal locations affected, the location, function and approximate number of employees who will be compensated for terminating their services, the expenditure which will be undertaken and when the plan will be implemented. No provision is recognised for the expenditure arising from the Group's continuing operations.

#### INCOME TAXES

Income taxes in the consolidated income statement include current tax based on taxable income for the financial period, adjustments to prior periods' taxes and changes in deferred taxes. Current income tax based on taxable income is calculated in accordance with the local tax regulations. The deferred tax effects related to the items recognised directly in shareholders' equity are recognised similarly.

Deferred tax assets and liabilities are recognised using the balance sheet liability method for all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The most significant temporary differences arise from share-based payment transactions, tax losses carried forward and depreciations and amortisations of tangible and intangible assets. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred taxes are not provided for undistributed profits of subsidiaries if it is probable that the temporary difference will not reverse in the foreseeable future.

The enacted tax rates of the balance sheet date are used in calculating the deferred taxes.

#### REVENUE RECOGNITION PRINCIPLES

Revenue is recognised after the risks and rewards of ownership of the goods have been transferred to the buyer. Normally, revenue recognition takes place at the date of the delivery in accordance with the delivery terms. Revenue from services rendered and reparations is recognised in the income statement when the service has been rendered or the work has been finished.

Revenue from customer-specifically tailored glass processing machine deliveries is recognised by reference to the stage of completion of the delivery at the balance sheet date. The stage of completion is determined project-specifically as the ratio between the costs incurred and attributable to the work performed by the balance sheet date and the total estimated costs of the project. Costs which are attributable to a project for which revenue is not yet recognised are included in inventories under unfinished construction contracts. Revenue from the glass processing machine deliveries is recognised based on a milestone method, according to which revenue from a glass processing machine is recognised when the machine delivery leaves the manufacturing plant and the revenue from the installation is recognised when the machine has been mobilised at the customer's premises.

Sales are presented net of indirect taxes, discounts and annual rebates.

#### GOVERNMENT GRANTS

Government or other grants are recognised in the income statement in the same periods in which the corresponding expenses are incurred. Grants are recognised as deduction in the carrying amount of the asset in question.

#### FINANCIAL INSTRUMENTS

#### FINANCIAL ASSETS AND LIABILITIES

The Group has classified the financial assets according to IAS 39 as financial assets at fair value through profit or loss, available-for-sale investments and loans and receivables. Classification is made on initial recognition and is based on the nature of the item. The purchases and sales of financial assets are accounted for at the trade date. A financial asset is derecognised when the Group has lost its contractual rights to the cash flows from the financial asset or when it has transferred substantially all the significant risks and rewards of ownership of the financial asset to an external party. Transaction costs are included in the initial measurement of financial assets that are not measured at fair value through profit or loss.

#### FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The category includes the financial assets held for trading and financial assets designated by the Group at the initial recognition as measured at fair value through profit or loss. Financial assets held for trading are mainly held to generate profits from short-term market price changes. The category also includes derivative instruments not qualifying for IAS 39 hedge accounting. The assets belonging to the category are measured at fair value on the balance sheet date which is based on their current market bid price. The assets held for trading and the assets due within 12 months are included in the balance sheet current assets. Unrealised and realised gains and losses due to fair value adjustments are recognised in profit or loss in the period they occur.

# SIGNIFICANT ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

#### AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments category includes unlisted securities. They are measured at fair value. If their fair value cannot be measured reliably, they are stated at lower of cost and probable value. Unrealised gains and losses on remeasurement are recognised directly in equity deducted by the associated tax effect. Amounts recognised in equity are transferred to profit or loss when the asset is sold. Significant impairment losses of available-for-sale assets for which there is objective evidence, are immediately recognised in the income statement. Normally, available-for-sale investments are included in non-current assets unless the Group has the intention to hold them for less than 12 months after the balance sheet date.

#### LOANS AND RECEIVABLES

Loans and receivables arise when money, goods or services are delivered to a debtor. They are not quoted in an active market and payments related to them are either fixed or determinable. Loans and receivables granted by the Group are measured at amortised cost. They are included in current or non-current assets in accordance with their maturity.

#### FINANCIAL LIABILITIES

Financial liabilities include loans from financial institutions, trade payables and other financial liabilities. On initial recognition a loan is measured at its fair value that is based on the consideration received, transaction costs included. Subsequent to initial recognition, these liabilities are stated at amortised cost calculated using the effective interest method.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents constitute cash, bank accounts and other short-term highly liquid investments.

#### DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

Derivative instruments are recognised at the trade date at cost which equals to their fair value. Subsequently derivatives are measured to fair value. Gains and losses arising from remeasurement are accounted for based on the purpose of the instrument. The Group uses derivative instruments to hedge the exposure to fair value changes¬ of the recognised asset or liability and the exposure to variability in foreign currency cash inflows attributable to unrecognised firm commitments.

For IAS 39 hedge accounting purposes the Group documents the relationship between the hedged item and the hedging instrument, the risk management objectives and the strategy. The effectiveness of a hedging instrument is tested both prospectively and retrospectively. A hedge is effective, if hedging instrument offsets the changes in the fair value or cash flows of the hedged item.

A derivative instrument effectively hedging the fair value of assets and receivables is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value is recognised in profit or loss adjusting the gain or loss on the hedged item attributable to the hedged risk. The ineffective part of the hedging instrument measurement is recognised in financial income or expenses.

When a derivative financial instrument is designated as hedging the variability in the cash flows of firm commitments, the effective portion of change in instrument's fair value is recognised directly in equity. The cumulative unrealised gain or loss recognised in equity is taken to the income statement in the same period in which the hedged transaction affects the profit or loss. When a hedging instrument expires or is sold or no longer qualifies for hedge accounting, the cumulative gain or loss at that point remains in equity and is recognised when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

In 2006 the Group has hedged the net investment in the USA from currency risk with forward contracts. The fair value of the forward contracts is entirely included in the hedge relationship (the spot exchange rate and the effect of interest points of the forward contract). Fair value changes of the effective portion are recognised directly in the translation differences in equity and the ineffective portion is recognised in the income statement. In 2007 the net investment hedging has been ceased.

Some derivative instruments do not meet the criteria for IAS 39 hedge accounting, even if they are economical hedges according to the Group risk management policy. Changes in fair values of these derivatives are recognised in the income statement.

The fair values of derivative instruments have been determined on the basis of market prices or balance sheet date rates.

#### SHARE CAPITAL

The outstanding ordinary shares are presented as share capital.

When share capital recognised as equity is repurchased by the Company, the consideration paid including directly attributable transaction costs is recognised as a deduction from equity. When the Company cedes the treasury shares the gain on disposal is recognised in the invested unrestricted equity reserve deducted by the tax effect.

#### DIVIDENDS

The dividends proposed by the Board of Directors are recognised as a deduction from retained earnings after they have been approved by the shareholders at the Annual General Meeting.

#### NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets and assets and liabilities included in the discontinued operations are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than a through continuing use. In this case the sale is highly probable, the asset is available for immediate sale in its present condition and the sale is expected to occur within one year from the date of the classification. As from the date of the classification the assets held for sale are measured to lower of carrying amount and fair value less costs to sell. The assets are no longer depreciated or amortised as from the date of the classification.

A discontinued operation is a segment or a unit representing a significant geographical area. A coordinated disposal plan has been prepared regarding the discontinued operation. The profit for the period attributable to the discontinued operation is presented separately in the consolidated income statement. The assets and liabilities included in the discontinued operation are presented in Note 2.

#### APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The IASB has published the following new or amended standards and interpretations which are not yet effective and which the Group has not yet applied. The Group will apply each standard and interpretation as from their respective effective date.

- IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (effective on the financial period beginning on 1 January 2008). The interpretation is applied to defined benefit plans when they include a minimum funding requirement. The interpretation specifies the recognition requirements of the defined benefit asset. According to a tentative estimate, the interpretation will not have an effect on the financial statements of the Glaston Group. The interpretation has not yet been approved by the EU.
- IFRS 8 Operating Segments (effective on the financial period beginning on 1 January 2009). According to the new standard, the segment reporting is based on the internal management reporting and the accounting principles applied in it. The Group assesses the interpretation will not change current segment reporting significantly.
- Amendment to IAS 1 Presentation of Financial Statements (effective on the financial period beginning on 1 January 2009). According to the Group's estimate, the amendment to IAS 1 affects mainly the consolidated financial statement calculations and notes to the consolidated financial statements. The standard has not yet been approved by the EU.
- Amendment to IAS 23 Borrowing Costs (effective on the financial period beginning on 1 January 2009). The amendment requires the capitalisation of borrowing costs when they are directly attributable to a qualifying asset, which in practice means acquisition or construction of an item of property, plant and equipment. In such case, the application of the standard decreases the interest expenses in the consolidated financial statements and increases the property, plant and equipment as well as the depreciations on these assets. The standard has not yet been approved by the EU.

The other interpretations published by the IASB will not, according to the Group management, affect the future consolidated financial statements.

## 1. SEGMENT INFORMATION

In segment reporting, the business segment is defined as the primary segment and the geographical segment as the secondary segment. The segments presented correspond to the company's internal reporting structure. The assets and liabilities of segments include items directly attributable to the segment as well as those that can be allocated to the segments on a reasonable basis. Unallocated income statement items include expenses of the parent company and the Group. Unallocated assets and liabilities include receivables, shares, loans and tax liabilities relating to the Group's administration. Inter-segment sales are not quantitatively significant.

### BUSINESS SEGMENTS

**The Pre-processing** segment includes glass pre-processing machines sold under the Bavelloni brand, maintenance and service operations, as well as tool manufacturing.

**The Heat Treatment** segment includes tempering, bending and laminating machines sold under the Tamglass and Uniglass brands, maintenance and service operations, as well as the glass processing operations of Tamglass Glass Processing.

**The Software Solutions** segment comprises the operations of Albat+Wirsam Software Group. The segment has been consolidated as of 07/2007.

**The Energy** business area is classified as Discontinued Operations. The energy business area was sold to M-real Corporation and separated from the Group as of 1 July 2007.

| Business segments 2007 | Pre-processing | Heat Treatment | Software Solutions | Unallocated and eliminations | Total |
|---|---|---|---|---|---|
| External net sales of goods | 91,160 | 155,634 | 328 | -324 | 246,798 |
| External net sales of services | 2,343 | 6,236 | 14,375 | 49 | 23,003 |
| Intragroup sales | 623 | 381 | | -1,004 | |
| Total net sales | 94,125 | 162,251 | 14,703 | -1,279 | 269,801 |
| Operating profit of segments, excluding non-recurring items | 1,449 | 19,556 | 2,613 | | 23,618 |
| Non-recurring items | 1,449 | 5,870 | | -2,756 | 4,563 |
| Unallocated items | | | | 7,020 | 7,020 |
| Operating profit | 0 | 13,686 | 2,613 | | 12,035 |
| Profit for the period, Continuing Operations | | | | | 6,864 |
| Profit for the period, Discontinued Operations | | | | | 3,784 |
| **Profit for the period** | | | | | **10,648** |
| | | | | | |
| Segment assets | 80,454 | 149,988 | 28,750 | | 259,192 |
| Unallocated liabilities | | | | 16,718 | 16,718 |
| **Total assets** | | | | | **275,909** |
| | | | | | |
| Segment liabilities | 35,791 | 59,858 | 7,592 | | 103,241 |
| Unallocated liabilities | | | | 33,108 | 33,108 |
| **Total liabilities** | **35,791** | **59,858** | **7,592** | **33,108** | **136,349** |
| | | | | | |
| Investments | 1,955 | 9,557 | 7,824 | 14,747 | 34,083 |
| Depreciation and amortisation | 1,870 | 3,972 | 1,114 | 207 | 7,164 |

| Business segments 2006 | Pre-processing | Heat Treatment | Software Solutions | Unallocated and eliminations | Total |
|---|---|---|---|---|---|
| External net sales of goods | 85,649 | 127,358 | | | 213,007 |
| External net sales of services | 2,375 | 3,490 | | | 5,865 |
| Intragroup sales | 1,058 | 398 | | -1,457 | 0 |
| Total net sales | 89,082 | 131,246 | | -1,457 | 218,872 |
| Operating profit of segments, excluding non-recurring items | 298 | 13,542 | | | 13,841 |
| Non-recurring items | 3,927 | 1,313 | | | 5,240 |
| Unallocated items | | | | 2,964 | 2,964 |
| Operating profit | -3,629 | 12,229 | | | 5,637 |
| **Profit for the period,** | | | | | |
| Continuing Operations | | | | | 4,173 |
| Discontinued Operations | | | | | 4,770 |
| **Profit for the period** | | | | | **8,943** |
| | | | | | |
| Segment assets | 87,387 | 109,299 | | | 196,686 |
| Unallocated assets | | | | 53,491 | 53,491 |
| **Total assets** | **87,387** | **109,299** | | **53,491** | **250,177** |
| | | | | | |
| Segment liabilities | 51,043 | 45,008 | | | 96,051 |
| Unallocated liabilities | | | | 14,038 | 14,038 |
| **Total liabilities** | **51,043** | **45,008** | | **14,038** | **110,088** |
| | | | | | |
| Investments | 2,098 | 9,883 | | 13 | 11,994 |
| Depreciation and amortisation | 1,553 | 3,649 | | 181 | 5,384 |
| | | | | | |
| Other non-cash expenses: | | | | | |
| Restructuring provision | 1,504 | | | | 1,504 |

## GEOGRAPHICAL SEGMENTS

**EMEA** (including Europe, the Middle East and Africa)

**America** (including North, Central and South America)

**Asia** (including China and the rest of the Asia-Pacific area)

Segment income is based on customers' geographical location. Segment assets are divided according to the geographical location of the assets.

| Geographical segments 2007 | EMEA | America | Asia | Total |
|---|---|---|---|---|
| Net sales | 150,536 | 75,553 | 43,712 | 269,801 |
| Assets | 223,886 | 36,570 | 15,454 | 275,909 |
| Investments | 33,477 | 162 | 444 | 34,083 |

| Geographical segments 2006 | EMEA | America | Asia | Total |
|---|---|---|---|---|
| Net sales | 125,978 | 65,400 | 27,494 | 218,872 |
| Assets | 202,706 | 36,652 | 10,818 | 250,177 |
| Investments | 9,570 | 174 | 2,250 | 11,994 |

| NON-RECURRING ITEMS | 2007 | 2006 |
|---|---|---|
| Non-recurring items | | |
| Pre-Processing | 149 | |
| Heat Treatment | 5,070 | |
| Unallocated | -2,756 | |
| Restructuring costs | | |
| Pre-Processing | 1,300 | 3,927 |
| Heat Treatment | 800 | 1,313 |
| **Total** | **4,563** | **5,240** |

Restructuring costs for Pre-Processing consist of efficiency measures in Brazil.
Restructuring costs for Heat Treatment relate to the close-down of the product development unit in Switzerland.
Non-recurring costs for Heat Treatment relate mainly to post-delivery costs incurred in projects delivered in 2006.
Unallocated non-recurring item consists of gains on the sale of non-operating fixed assets.

## 2. NON-CURRENT AVAILABLE-FOR-SALE ASSETS AND DISCONTINUED OPERATIONS

The Group sold its energy business to M-real Corporation in July 2007. The deal was based on the agreement signed on 29 September 2006, by which Glaston had the right to sell and M-real the right to buy the energy business operations in summer 2007 when the energy supply contract between the two companies expired.
The result of the sold energy operations, the gains from the disposal and the cash flow were as follows:

| **Result of Energy Operations** | **2007** | **2006** |
|---|---|---|
| Income | 15,980 | 38,841 |
| Expenses | -11,893 | -32,410 |
| Profit before taxes | 4,087 | 6,431 |
| Taxes | -1,075 | -1,662 |
| **Profit after taxes** | **3,012** | **4,770** |
| | | |
| Gains from disposal of Energy operations before taxes | 1,043 | |
| Taxes | -271 | |
| Gains from disposal of Energy operations after taxes | 772 | |
| **Profit for the financial period, Discontinued Operations** | **3,784** | **4,770** |
| | | |
| **Cash flow from Energy operations** | | |
| Cash flow from business operations | 7,580 | 4,748 |
| Cash flow from investing activities | 10,671 | 129 |
| **Cash flow, total** | **18,251** | **4,877** |

| **Impact of disposal of Energy operations on Group's financial position** | **1.7.2007** |
|---|---|
| Tangible assets | 13,841 |
| Other intangible assets | 134 |
| Inventories | 179 |
| Trade and other payables | -134 |
| Total assets and liabilities | 14,020 |
| Expenses attributed to disposal | 276 |
| Gains from disposal before taxes | 1,043 |
| Considerations, total | 15,340 |
| | |
| Consideration received in cash | 10,630 |
| Expenses attributed to disposal | 276 |
| **Net cash inflow** | **10,354** |

From the sale price was recognised a EUR 4.7 million receivable relating to the sale of future emission rights. The estimated time of realisation of the receivable is 2008-2012.

| **Non-current assets items classified as being available for sale** | **2007** |
|---|---|
| Tangible assets | 327 |

Non-current assets items classified as being available for sale are connected with the parent company's real estate and apartment block company units.

## 3. ACQUIRED BUSINESS OPERATIONS

Through an agreement signed on 2 July 2007, Glaston Corporation acquired all of the shares of German A+W Software AG Group. A+W Group is the world's leading company in production management and reporting (ERP) software for the flat glass, window and door industries. The purchase price paid by Glaston Corporation was a total of EUR 21.2 million, of which a sum of EUR 0.9 million represents a discounted portion of an additional purchase price payable within two years. The final acquisition cost of the shares is EUR 21.8 million, including expert fees amounting to EUR 0.6 million. The goodwill/acquisition cost of the acquired business may change on the basis of terms and conditions relating to the purchase price of the bill of sale. In a business combination, tangible fixed assets are valued at fair value based on the market prices of similar assets taking into consideration the age and condition of the assets and other corresponding factors. Tangible assets are depreciated over their useful life based on a management estimate in accordance with the Group's depreciation principles.

Intangible assets acquired in a business combination are recognised separately from goodwill at fair value at the time of acquisition, if the fair value of the asset can be determined reliably. In the acquired business, the Group has acquired identifiable intangible assets mainly in the form of product rights and an order book of technology deliveries. From the acquisition cost a fair value of EUR 6.5 million was attributed to the product rights and order book. Fair value has been determined using the Multi-period Excess Earnings (MEEM) method. The useful life is five years. The deal includes goodwill amounting to EUR 14.2 million. The creation of goodwill is based on expert personnel, expected synergy benefits and the good profitability of the acquired business. A+W Software AG Group's net sales for six months, EUR 14.7 million, are included in consolidated net sales in 2007. Management estimates that consolidated net sales in 2007 would have been around EUR 282 million, if this company acquisition had been completed on 1 January 2007.

**The values of the acquired assets and the received liabilities at the date of acquisition were as follows**

| | Note | Fair values recognised in combination | Book values before combination |
|---|---|---|---|
| Tangible assets | 14 | 816 | 816 |
| Other intangible assets | 15 | 6,491 | 0 |
| Investments | | 281 | 281 |
| Inventories | 19 | 264 | 264 |
| Interest-free receivables | 20 | 8,749 | 8,749 |
| Financial assets | 23 | 3,777 | 3,777 |
| Other interest-free liabilities | 16, 28 | -12,854 | -12,721 |
| **Acquired net assets** | | **7,524** | **1,167** |
| | | | |
| Acquisition price | | 21,166 | |
| Expenses related to acquisition | | 559 | |
| Goodwill | 15 | 14,200 | |
| | | | |
| Acquisition price paid as cash | | 20,231 | |
| Expenses related to acquisition | | 559 | |
| Cash and cash equivalents of acquired companies | | -3,777 | |
| **Cash flow impact** | | **17,013** | |

The purchase price allocation is preliminary.

## 4. CONSTRUCTION CONTRACTS

Consolidated net sales include revenue from construction contracts amounting to EUR 96.0 million in 2007 (EUR 71.9 million in 2006).

Consolidated income statement includes revenue from unfinished construction contracts amounting to EUR 61.4 million at 31 December 2007 (EUR 10.9 million at 31 December 2006).

The balance sheet 31 December 2007 includes advance payments attributable to construction contracts amounting to EUR 12.6 million (EUR 14.3 million 31 December 2006).

## 5. OTHER OPERATING INCOME

| 5. OTHER OPERATING INCOME | 2007 | 2006 |
|---|---|---|
| Gains from disposal of tangible and intangible assets | | 938 |
| Gains on sale of available-for-sale investments | | 364 |
| Other income | 603 | 1,113 |
| **Total** | **603** | **2,415** |

## 6. OTHER OPERATING EXPENSES

| | | |
|---|---|---|
| Rentals | 4,317 | 3,540 |
| Subcontracting, service and maintenance | 37,352 | 33,032 |
| Other operating expenses | 52,636 | 43,103 |
| **Total** | **94,305** | **79,675** |

## 7. DEPRECIATION, AMORTISATION AND IMPAIRMENT

| | | |
|---|---|---|
| Depreciation by asset class | | |
| Intangible assets | | |
| Capitalised development expenditure | 2,204 | 1,248 |
| Other intangible assets | 904 | 606 |
| Tangible assets | | |
| Buildings and structures | 1,161 | 969 |
| Machinery and equipment | 2,764 | 2,372 |
| Other tangible assets | 130 | 188 |
| **Total** | **7,164** | **5,384** |

## 8. EMPLOYEE BENEFIT EXPENSES

| 8. EMPLOYEE BENEFIT EXPENSES | 2007 | 2006 |
|---|---|---|
| Wages, salaries and bonuses | 49,255 | 43,521 |
| Share-based transactions settled in company shares | 111 | |
| Cash-settled share-based transactions | 289 | |
| Pensions | | |
| Defined benefit plans | 125 | 122 |
| Defined contribution plans | 4,202 | 3,685 |
| Other personnel expenses | 9,650 | 8,044 |
| Other post-employment benefits | 229 | 798 |
| Total | **63,860** | **56,170** |

Management employee benefits and loans are presented in Note 32 Related party transactions

| **Average number of group employees during the financial period, Continuing Operations** | | |
|---|---|---|
| Pre-processing | 586 | 626 |
| Heat Treatment | 607 | 606 |
| Software Solutions | 143 | |
| Parent company | 13 | 8 |
| **Total** | **1,350** | **1,241** |
| Employees, Discontinued Operations | | 23 |

## 9. RESEARCH AND DEVELOPMENT EXPENSES

The income statement includes research and development expenditure recognised as an expense amounting to EUR 6.3 million in 2007 (EUR 5.5 million in 2006).

## 10. FINANCIAL INCOME

| 10. FINANCIAL INCOME | 2007 | 2006 |
|---|---|---|
| Dividend income on financial assets available for sale | 9 | 5 |
| Interest income on bank receivables | 741 | 681 |
| Foreign exchange gains | 2,221 | 1,469 |
| Gains from sale of assets recognised at fair value through profit and loss | | 8 |
| **Total** | **2,971** | **2,163** |

## 11. FINANCIAL EXPENSES

| | | |
|---|---|---|
| Interest expenses for financial liabilities valued at amortised acquisition cost | -1,059 | -436 |
| Foreign exchange losses | -1,308 | -1,252 |
| Losses from sale of assets recognised at fair value through profit or loss | 0 | 0 |
| Other financial expenses | -619 | -224 |
| **Total** | **-2,986** | **-1,912** |

### Foreign exchange gains and losses included in the financial statements

| | | |
|---|---|---|
| Net sales | 133 | -360 |
| Expenses | 148 | 57 |
| Financial items | 913 | 217 |
| **Total** | **1,194** | **-86** |

## 12. INCOME TAXES

| | | |
|---|---|---|
| Current tax | 3,115 | 2,851 |
| Deferred tax | 2,041 | -1,136 |
| **Total income taxes** | **5,156** | **1,715** |

The current tax differs from the income tax calculated using the tax rate for Finnish companies (26%) as follows:

| | | |
|---|---|---|
| Profit before taxes | 12,020 | 5,888 |
| Income tax according to the Finnish tax rate on the Group's profit before taxes | 3,125 | 1,531 |
| Effect of different tax rates of foreign subsidiaries | 1,518 | 949 |
| Tax-free income | -6 | -528 |
| Other taxable income | 171 | |
| Non-deductible expenses in taxation | 416 | 1,057 |
| Deferred tax asset on previous years' losses | 267 | -147 |
| Taxes for previous financial periods | 18 | -1,124 |
| Effect of change in tax rates on deferred tax | -390 | 0 |
| Other items | 37 | -22 |
| **Tax in income statement** | **5,156** | **1,715** |

## 13. EARNINGS PER SHARE

| | | |
|---|---|---|
| Profit for the period attributable to the equity holders of the parent, Continuing Operations | 6,850 | 4,168 |
| Profit for the period attributable to the equity holders of the parent, Discontinued Operations | 3,784 | 4,770 |
| Weighted average number of shares outstanding | 78,682,449 | 79,020,096 |
| Earnings per share (euros/share), Continuing Operations | 0.09 | 0.05 |
| Earnings per share (euros/share), Discontinued Operations | 0.05 | 0.06 |

## 14. TANGIBLE ASSETS

| 14. TANGIBLE ASSETS | Land and water areas | Buildings | Machinery and equipment | Other-tangible assets | Capital investments in progress | Total |
|---|---|---|---|---|---|---|
| Acquisition cost 1 Jan 2007 | 2,062 | 25,463 | 56,756 | 2,384 | 3,884 | 90,550 |
| Exchange rate difference | -8 | -124 | -144 | -7 | -5 | -288 |
| Business combination | | | 248 | 568 | | 816 |
| Additions | 232 | 2,752 | 2,733 | 105 | 1,996 | 7,818 |
| Disposals | -586 | -3,479 | -30,666 | -1,095 | -491 | -36,317 |
| Transfers between items | | 2,676 | 735 | | -3,411 | 0 |
| Acquisition cost 31 Dec 2007 | 1,700 | 27,289 | 29,661 | 1,955 | 1,973 | 62,579 |
| Accumulated depreciations 1 Jan 2007 | | -12,159 | -33,193 | -1,921 | | -47,272 |
| Exchange rate difference | | 7 | 108 | 16 | | 131 |
| Accumulated depreciations of disposals and transfers | | 1,621 | 18,500 | 1,009 | | 21,130 |
| Depreciation for the period | | -1,161 | -2,764 | -130 | | -4,055 |
| Accumulated depreciations 31 Dec 2007 | | -11,692 | -17,348 | -1,026 | | -30,066 |
| **Carrying amount 31 Dec 2007** | **1,700** | **15,597** | **12,313** | **930** | **1,973** | **32,513** |
| | | | | | | |
| Acquisition cost 1 Jan 2006 | 1,875 | 24,591 | 54,093 | 2,320 | 2,589 | 85,468 |
| Exchange rate difference | 19 | -21 | -57 | -27 | -80 | -165 |
| Additions | 322 | 1,724 | 3,080 | 63 | 2,860 | 8,049 |
| Disposals | -154 | -2,270 | -336 | -43 | | -2,803 |
| Transfers between items | | 1,439 | -24 | 70 | -1,485 | |
| Acquisition cost 31 Dec 2006 | 2,062 | 25,463 | 56,757 | 2,384 | 3,884 | 90,550 |
| | | | | | | |
| Accumulated depreciations 1 Jan 2006 | | -11,456 | -29,451 | -1,750 | | -42,657 |
| Exchange rate difference | | -11 | 23 | 12 | | 24 |
| Accumulated depreciations of disposals and transfers | | 458 | 237 | | | 695 |
| Depreciation for the period | | -1,069 | -4,001 | -182 | | -5,253 |
| Accumulated depreciations 31 Dec 2006 | | -11,996 | -33,193 | -1,921 | | -47,191 |
| **Carrying amount 31 Dec 2006** | **2,062** | **13,385** | **23,564** | **464** | **3,884** | **43,270** |

| | 2007 | 2006 |
|---|---|---|
| **Carrying amount of Group's production machinery and equipment, Continuing Operations** | **10,436** | **8,294** |

#### FINANCE LEASE AGREEMENTS

Tangible fixed assets include the following assets leased by finance lease agreements:

| | Buildings | Machinery and equipment | Total |
|---|---|---|---|
| Acquisition cost 1 Jan 2007 | 427 | 1,297 | 1,723 |
| Additions | 1,876 | 264 | 2,140 |
| Disposals | -368 | -33 | -401 |
| Acquisition cost 31 Dec 2007 | 1,935 | 1,527 | 3,462 |
| Accumulated depreciations 1 Jan 2007 | -177 | -527 | -704 |
| Depreciation for the period | -143 | -169 | -313 |
| Accumulated depreciations of disposals and transfers | 118 | 9 | 127 |
| Accumulated depreciations 31 Dec 2007 | -202 | -687 | -890 |
| **Carrying amount 31 Dec 2007** | **1,733** | **840** | **2,573** |

| | Buildings | Machinery and equipment | Total |
|---|---|---|---|
| Acquisition cost 1 Jan 2006 | 427 | 957 | 1,384 |
| Additions | | 340 | 340 |
| Acquisition cost 31 Dec 2006 | 427 | 1,297 | 1,723 |
| Accumulated depreciations 1 Jan 2006 | -118 | -376 | -494 |
| Depreciation for the period | -59 | -151 | -210 |
| Accumulated depreciations 31 Dec 2006 | -177 | -527 | -704 |
| **Carrying amount 31 Dec 2006** | **250** | **769** | **1,020** |

## 15. INTANGIBLE ASSETS

| | Capitalised development expenditure | Intangible rights | Goodwill | Group goodwill | Other intangible assets | Capital investments in progress | Tot. |
|---|---|---|---|---|---|---|---|
| Acquisition cost 1 Jan 2007 | 10,992 | 11,853 | | 53,179 | 4,573 | 4,267 | 84,864 |
| Exchange rate difference | 0 | -51 | | | 2 | | -49 |
| Business combination | 6,491 | | | 14,200 | 0 | 0 | 20,691 |
| Additions | 1,102 | 1,172 | 96 | 32 | 287 | 2,173 | 4,861 |
| Disposals | -120 | -4,401 | 0 | 0 | -1,953 | -36 | -6,510 |
| Transfers between items | 2,110 | 0 | 226 | -226 | 0 | -2,110 | |
| Acquisition cost 31 Dec 2007 | 20,574 | 8,574 | 322 | 67,185 | 2,909 | 4,294 | 103,858 |
| Accumulated amortisations 1 Jan 2007 | -6,418 | -5,305 | 0 | | -4,112 | | -15,836 |
| Exchange rate difference | 0 | 65 | 0 | | -3 | | 61 |
| Accumulated amortisations of disposals and transfers | 25 | 97 | 0 | | 1,903 | | 2,026 |
| Amortisation for the period | -2,204 | -716 | -74 | | -114 | | -3,109 |
| Accumulated amortisations 31 Dec 2007 | -8,597 | -5,859 | -74 | | -2,326 | | -16,857 |
| **Carrying amount 31 Dec 2007** | **11,977** | **2,714** | **248** | **67,185** | **583** | **4,294** | **87,001** |

| | Capitalised development expenditure | Intangible rights | Goodwill | Group goodwill | Other intangible assets | Capital investments in progress | Tot. |
|---|---|---|---|---|---|---|---|
| Acquisition cost 1 Jan 2006 | 9,599 | 7,819 | | 53,121 | 4,539 | 2,338 | 77,415 |
| Exchange rate difference | | -40 | | | | 334 | 294 |
| Additions | 1,302 | 5,501 | | 58 | 30 | 1,705 | 8,596 |
| Disposals | | -1,427 | | 0 | -15 | | -1,442 |
| Transfers between items | 91 | 0 | | 0 | 19 | -110 | 0 |
| Acquisition cost 31 Dec 2006 | 10,992 | 11,853 | | 53,179 | 4,573 | 4,267 | 84,864 |
| Accumulated amortisations 1 Jan 2006 | -5,170 | -4,758 | | | - 4,071 | | -14,000 |
| Exchange rate difference | | 11 | | | | | 11 |
| Accumulated amortisations of disposals and transfers | | | | | | | 0 |
| Amortisation for the period | -1,248 | -558 | | | -41 | | -1,847 |
| Accumulated amortisations 31 Dec 2006 | -6,418 | -5,305 | | 0 | -4,112 | | -15,836 |
| **Carrying amount** | | | | | | | |
| **31 Dec 2006** | **4,573** | **6,548** | **0** | **53,179** | **461** | **4,267** | **69,028** |

All of the shares of the German A+W Software AG Group were acquired in summer 2007. The deal includes goodwill amounting to EUR 14.2 million. More detail in Note 3 Acquired business operations.

## IMPAIRMENT TESTING OF GOODWILL

The goodwill is tested annually for impairment in accordance with the IFRSs. The goodwill is monitored for impairment at business segment level in the Group. The impairment test is performed by comparing the recoverable amount of the cash-generating unit to its carrying amount. The recoverable amount of the cash-generating unit has been determined based on discounted future cash flows. The cash flows are based on the management's five-year estimates which take into account only the unit's organic growth. An annual growth rate of two per cent has been used as a long-term growth.

### PRINCIPLES APPLIED

Goodwill is allocated to Glaston's segments on a rational basis to reflect the new business concept launched by Glaston in 2007. The goodwill split per segment is set forth in the table below.

| MEUR | Goodwill 31.12.2007 |
|---|---|
| Pre-processing | 25.7 |
| Heat Treatment | 28.9 |
| Software Solutions | 12.5 |
| | **67.2** |

Goodwill is subject to an annual impairment testing procedure by which its carrying amount is tested against its recoverable amount for each segment. Impairment tests are made also when any indication of impairment is noted. An impairment loss is recognized if the carrying amount of the assets (incl. goodwill) allocated to a segment is higher than the segment's recoverable amount. The recoverable amount of each segment is determined by using the Discounted Cash Flow (DCF) method.

The impairment testing calculations are based on management estimates on future cash flows covering period until year 2012. The cash flow estimates are based on future expectations by the management. Cash flows beyond the forecasted period (i.e. the terminal value) are calculated using long-term growth estimates. The most important assumptions, in addition to future cash flow estimates, are those made on the weighted average cost of capital (WACC), which is used as factor for discounting of future cash flows.

The elements affecting the WACC are Glaston's future target capital structure, equity beta, the cost of equity and the cost of interest bearing debt. The cost of equity also includes estimates of the risk-free interest rates and risk premiums in the different countries where the segments are operating.

## IMPAIRMENT TESTS PERFORMED

**The principal assumptions used for impairment tests as per 31 December 2007 are set forth in the below table.**

| | Pre-prosessing | Heat Treatment | Software Solutions |
|---|---|---|---|
| Annual growth in forecast period | 5-10 % | 5-10 % | 5-10% |
| EBIT-%(2008-→) * | Higher | Higher | Slightly lower |
| WACC (after tax) | 7.4 % | 8.1 % | 8.2 % |
| Discount rate (pre-tax WACC) | 13.4 % | 10.3 % | 10.0 % |
| Long term growth | 2.5 % | 2.5 % | 2.5 % |

* COMPARED TO YEAR 2007

Changes in the global economy, changes in the company's market situation and changes in interest rates all reflect on growth and profitability estimates of segments and to their risk and expected rates of return. Assumptions used in impairment tests are based on management estimates for future years on 31.12.2007. Forecasts and assumptions are prepared for the purpose of performing impairment tests. Forecasts and other assumptions are reviewed constantly and they are subject to change.

### Sensitivity analysis

#### DECLINE OF EBIT

The main element of uncertainty connected with impairment testing is the management's assumption on future EBIT-level for each segment. The outcome of future years' EBIT is in turn dependent on the outcome of the estimated future net sales and the EBIT. The table below shows the required decline of estimated future EBIT levels (2008 -→) per segment which would cause the recoverable amount of a segment to equal the carrying amount of a segment's net assets.

| | Sensitivity of DCF value -Decline of EBIT |
|---|---|
| Pre-processing | -6.0 % |
| Heat Treatment | -38.8 % |
| Software Solutions | -50.3 % |

#### INCREASE OF THE DISCOUNT RATE

The table below illustrates the required increase in the discount rate that would lead the DCF-value of equity to equal carrying amount.

| | IFRS WACC - change in %-points |
|---|---|
| Pre-processing | 1.8 % |
| Heat Treatment | 9.2 % |
| Software Solutions | 15.9 % |

## 16. DEFERRED TAXES

| | 31.12. 2006 | Recognised in income statement | Recognised in equity | Acquired / Discontinued operations | 31.12.2007 |
|---|---|---|---|---|---|
| Deferred tax assets | | | | | |
| Inventories | 794 | -92 | | | 702 |
| Fixed assets | 327 | -45 | | | 282 |
| Losses carried forward | 4,822 | -1,463 | | | 3,359 |
| Share-based payments | 1,650 | -1,577 | 31 | | 103 |
| Change in principle of revenue recognition | 871 | -871 | | | |
| Changes in fair value | 56 | 0 | -56 | | 0 |
| Other items | 53 | -53 | | | 0 |
| **Total** | **8,574** | **-4,102** | **-26** | | **4,446** |
| | | | | | |
| Deferred tax liabilities | | | | | |
| Capitalised intangible assets | -2,363 | -154 | | | -2,516 |
| Business combination | | | | -2,517 | -2,517 |
| Accrued depreciation difference | -4,088 | 187 | | 1,504 | -2,398 |
| Change in fair value | -8 | | -55 | | -64 |
| Other items | -859 | 365 | | -1,227 | -1,722 |
| **Total** | **-7,319** | **398** | **-55** | **-2,240** | **-9,216** |

The Group has recognised a tax refund of approximately EUR 2 million in 2006 after having received an affirmative decision according to which the expenses arising from the management incentive scheme of the Group are deductible in taxation. The tax authorities of the Tax Office for Major Corporations have appealed against the decision to the Administrative Court of Helsinki and the matter is still unfinished. It is considered in the Group that the earlier decision on the expenditure arising from the incentive arrangement is valid.

## 17. FINANCIAL ASSETS AND LIABILITIES BY CATEGORIES

| 2007 | Financial assets/liabilities at fair value through income statement | Loans and other receivables | Derivatives in hedge accounting | Held-to maturity financial assets | Available-for -sale financial assets | Financial liabilities measured at amortized cost | Carrying amounts by balance sheet item |
|---|---|---|---|---|---|---|---|
| Other shares and securities | | | | | 266 | | 266 |
| Trade and other receivables | | | | | | | |
| -non interest-bearing | | 8,355 | | | | | 8,355 |
| Current financial assets | | | | | | | |
| Other shares and securities | 135 | | | | | | 135 |
| Derivative assets | | | 185 | | | | 185 |
| Trade and other receivables | | | | | | | |
| - interest-bearing | | 279 | | | | | 279 |
| - non-interest-bearing | | 84,122 | | | | | 84,122 |
| **Carrying amount by category** | **135** | **92,757** | **185** | **0** | **266** | **0** | **93,343** |
| | | | | | | | |
| Non-current financial liabilities | | | | | | | |
| Finance lease liabilities | | | | | | 1,890 | 1,890 |
| Accruals and deferred expense | | 320 | | | | | 320 |
| Current financial liabilities | | | | | | | |
| Loans from financial institutions | | | | | | 18,220 | 18,220 |
| Finance lease liabilities | | | | | | 233 | 233 |
| Advances received | | 23,834 | | | | | 23,834 |
| Trade payables | | 23,041 | | | | | 23,041 |
| Other current liabilities | | 7,992 | | | | 974 | 8,966 |
| Current tax liabilities | | 3,520 | | | | | 3,520 |
| Accruals and deferred expenses | | 35,217 | | | | | 35,217 |
| **Carrying amount by category** | | **93,924** | | **0** | **0** | **21,315** | **115,240** |

Carrying amounts of balance sheet items correspond to their fair value.

| 2006 | Financial assets/liabilities at fair value through income statement | Loans and other receivables | Derivatives in hedge accounting | Held-to maturity financial assets | Available-for -sale financial assets | Financial liabilities measured at amortized cost | Carrying amounts by balance sheet item |
|---|---|---|---|---|---|---|---|
| Non-current financial assets | | | | | | | |
| Other shares and securities | | | | | 512 | | 512 |
| Trade and other receivables | | | | | | | |
| -non-interest-bearing | | 2,683 | | | | | 2,683 |
| Current financial assets | | | | | | | |
| Other shares and securities | 80 | | | | | | 80 |
| Derivative assets | | | 10 | | | | 10 |
| Trade and other receivables | | | | | | | |
| - interest-bearing | | 85 | | | | | 85 |
| - non-interest-bearing | | 65,939 | | | | | 65,939 |
| **Carrying amount by category** | **80** | **68,708** | **10** | **0** | **512** | **0** | **69,310** |
| | | | | | | | |
| Non-current financial liabilities | | | | | | | |
| Finance lease liabilities | | | | | | 858 | 858 |
| Accruals and deferred expenses | | 50 | | | | 0 | 50 |
| Current financial liabilities | | | | | | | |
| Loans from financial insitutions | | | | | | 6,990 | 6,990 |
| Finance lease liabilities | | | | | | 161 | 161 |
| Derivate liabilities | | | 237 | | | | 237 |
| Advances received | | 23,850 | | | | | 23,850 |
| Trade payables | | 21,882 | | | | | 21,882 |
| Other current liabilities | | 6,522 | | | | | 6,522 |
| Current tax liabilities | | 2,564 | | | | | 2,564 |
| Accruals and deferred expenses | | 25,703 | | | | | 25,703 |
| **Carrying amount by category** | **0** | **80,571** | **237** | **0** | **0** | **8,009** | **88,818** |

Carrying amounts of balance sheet items correspond to their fair value.

## 18. NON-CURRENT RECEIVABLES

| | 2007 | 2006 |
|---|---|---|
| Trade receivables | 8,058 | 2,340 |
| Other receivables | 298 | 343 |
| **Total** | **8,355** | **2,683** |

Non-current receivables are discounted and interest income recognised by the effective interest rate method.

## 19. INVENTORIES

| | 2007 | 2006 |
|---|---|---|
| Materials and supplies | 6,205 | 11,936 |
| Work in progress | 22,398 | 24,319 |
| Finished products/goods | 17,585 | 13,221 |
| **Total inventories** | **46,188** | **49,477** |

In the period an expense of EUR 2.0 million was recognised by which the carrying amount of inventories was impaired to correspond with its net realisable value (EUR 0.4 million in 2006).

## 20. CURRENT RECEIVABLES

| 20. CURRENT RECEIVABLES | 2007 | 2006 |
|---|---|---|
| Trade receivables | 68,179 | 58,505 |
| Loan receivables | 279 | 85 |
| Other receivables | 3,819 | 2,305 |
| Prepaid expenses and accrued income, income taxes | 1,655 | 908 |
| Other prepaid expenses and accrued income | 10,655 | 4,222 |
| **Total** | **84,587** | **66,024** |

The most substantial items of other prepaid expenses and accrued income, EUR 4.6 million, relate to the sale of future emission rights of the Energy business.The estimated time of realisation of the receivable is 2008-2012. The items relating to indirect taxes amount to EUR 1.0 million (2006: EUR 2.0 million).

## 21. INVESTMENTS IN ASSOCIATED COMPANIES

Sanhe AAA was founded at the end of 2007. Glaston Hong Kong owns 70% of this joint venture and a local company named NST 30%. The carrying amount of the company is MEUR 0,77. The Group has no real control over the company. The company manufactures tools for pre-processing machines.

## 22. OTHER FINANCIAL ASSETS

| 22. OTHER FINANCIAL ASSETS | 2007 | 2006 |
|---|---|---|
| Non-current | | |
| Available-for-sale financial assets | | |
| Investments in unlisted shares | 266 | 512 |
| | | |
| Current | | |
| Financial assets measured at fair value through profit or loss | | |
| Investments in listed shares | 135 | 80 |

## 23. CASH AND CASH EQUIVALENTS

| | | |
|---|---|---|
| Cash and bank accounts | 11,322 | 10,528 |

Cash flow statement cash and cash equivalents correspond to balance sheet cash and cash equivalents.

## 24. EQUITY

### Reconciliation of the number of shares

| | Number of shares (1000) | Share capital EUR 1,000 | Share premium fund EUR 1,000 | Invested non -restricted equity EUR fund 1,000 | Treasury shares EUR 1,000 | Total |
|---|---|---|---|---|---|---|
| 1.1.2006 | 79,350 | 12,696 | 25,270 | | | 37,966 |
| Held by Group | -330 | | | | -950 | |
| **31.12.2006** | **79,020** | **12,696** | **25,270** | | **-950** | **37,966** |
| Acquisition of treasury shares | -914 | | | | -3 933 | |
| Disposal of treasury shares | 330 | | | 269 | 950 | |
| **31.12.2007** | **78,437** | **12,696** | **25,270** | **269** | **-3 933** | **37,966** |

The nominal value of shares is EUR 0.16 per share and the Group's maximum share capital is EUR 16 million. All shares issued have been fully paid.

#### OWN SHARES

The company has concluded an agreement with an external service provider for the management of the share bonus scheme for key individuals. As part of the management agreement, the service provider acquired in 2007 a total of 913,500 shares to manage the cash flow risk arising from the share bonus scheme. Irrespective of the legal form of the procedure, it has been treated in the consolidated financial statements as if Glaston would have acquired its own shares. The acquisition cost is EUR 3,933,156 and it is treated as a reduction in shareholders' equity.

As part of the acquisition of Albat+Wirsam Software Group, Glaston sold 329,904 of its treasury shares at a price of EUR 3.99 per share.

The invested non-restricted equity fund includes other equity investments and the subscription price of shares in so far as it is not by express decision entered in shareholders' equity.

The translation reserve includes translation differences arising from the translation of foreign entities' financial statements.

Also the gains and losses arising from the net investment hedges are included in the translation reserve when the criteria for hedge accounting are met.

The fair value and other reserves include two sub-reserves: fair value reserve for the available-for-sale financial assets and hedging reserve for the changes in fair values of derivative instruments used for cash flow hedges.

Distributable assets totalled EUR 63,447,063.

After the closing date, the Board of Directors has proposed that a dividend of EUR 0.10 per share be distributed.

## 25. OBLIGATIONS ARISING FROM EMPLOYEE BENEFITS

The Group has statutory defined benefit severance pay schemes in Italy and in Mexico and voluntary defined benefit pension plans in Finland in certain Group companies. Pension expenses are recognised as an expense on the basis of actuarial calculations. In calculations the amount of employee benefits is determined on the basis of certain factors e.g. salary and years of service.

| **Finnish voluntary pension plans** | **2007** | **2006** |
|---|---|---|
| Employee benefit obligation | | |
| Present value of unfunded obligations | 155 | 201 |
| Present value of funded obligations | 340 | 335 |
| Fair value of plan assets | -254 | -269 |
| Deficit/surplus | 241 | 267 |
| Unrecognised actuarial gains (+) and losses (-) | -30 | -37 |
| Net liability | 270 | 230 |
| Amounts in the balance sheet | | |
| Liabilities | 270 | 230 |
| **Net liability** | **270** | **230** |

| The amount recognised in profit or loss | 2007 | 2006 |
|---|---|---|
| The amount recognised in profit or loss | | |
| Current service cost | 110 | 109 |
| Interest cost | 28 | 27 |
| Expected return on plan assets | -13 | -14 |
| Total | 125 | 122 |
| | | |
| Actual return on plan assets | -71 | 7 |

| Changes in the present value of the obligation: | | |
|---|---|---|
| Defined benefit obligation at 1 Jan | 536 | 504 |
| Current service cost | 110 | 109 |
| Interest cost | 28 | 27 |
| Actuarial gains (-) and losses (+) | -151 | 1 |
| Benefits paid | -29 | -28 |
| Settlement | | -76 |
| **Defined benefit obligation at the end of the period** | **495** | **536** |

| Movements in fair value of the plan assets | | |
|---|---|---|
| Fair value of plan assets at 1 Jan | 269 | 254 |
| Expected return on plan assets | 13 | 14 |
| Actuarial gains (-) and losses (+) | -84 | -7 |
| Contributions by employer | 85 | 36 |
| Benefits paid | -29 | -28 |
| **Fair value of plan assets at the end of the period** | **254** | **269** |
| | | |
| The amount the company expects to contribute into its defined pension plans during 2008 | 119 | |

Information on asset categories is not available

| Principal actuarial assumptions: | | |
|---|---|---|
| Discount rate | 5.00 % | 4.50 % |
| Expected return on plan assets | 5.00 % | 4.50 % |
| Expected rate of future salary increase | 3.30 % | 3.30 % |
| Expected rate of future pension increases | 2.10 % | 2.10 % |
| Inflation rate | 2.00 % | 2.00 % |

| Five-year overview (as of 1 Jan 2005) | | |
|---|---|---|
| Present value of the obligation | -495 | -536 |
| Fair value of plan assets | 254 | 269 |
| **Deficit/surplus** | **-241** | **-267** |
| | | |
| Experience adjustments to plan assets | 84 | 7 |
| Experience adjustments to plan liabilities | | |

| Italian and Mexican statutory severance pay scheme | | |
|---|---|---|
| Employee benefit obligation | | |
| Present value of unfunded obligations | 4 504 | 6 193 |
| Unrecognised actuarial gains (+) and losses (-) | 4 | -1 |
| **Net liability** | **4 508** | **6 192** |
| | | |
| Amounts in the balance sheet | | |
| Liabilities | 4 508 | 6 192 |
| Receivable | | |
| **Net liability** | **4 508** | **6 192** |
| | | |
| The amount recognised in profit or loss | | |
| Current service cost | 4 | 526 |
| Interest cost | 224 | 222 |
| Actuarial gains and losses | | 0 |
| Past service cost | | 50 |
| **Total** | **229** | **798** |

| Actual return on plan assets | 2007 | 2006 |
|---|---|---|
| **Changes in the present value of the obligation:** | | |
| Defined benefit obligation at 1 Jan | 6,192 | 6,346 |
| Current service cost | 47 | 649 |
| Interest cost | 278 | 250 |
| Actuarial gains (-) and losses (+) | 165 | -365 |
| Past service cost | | 48 |
| Gains (-) and losses (+) on curtailments | -883 | 0 |
| Benefits paid | -1,292 | -736 |
| **Obligation at the end of the period** | **4,508** | **6,192** |
| The amount the company expects to contribute into its defined pension plans during 2008 | 455 | |
| Discount rate | 5.00 % | 4.60 % |
| Assumed future salary increases | 3.30 % | 3.00 % |
| Inflation rate | 2.00 % | 1.90 % |

| Five-year overview (as of 1 Jan 2005) | | |
|---|---|---|
| Present value of the obligation | -4,504 | -6,193 |
| Fair value of plan assets | | |
| **Deficit/surplus** | **-4,504** | **-6,193** |

| 26. PROVISIONS | Environmental provision | Guarantee provision | Restructuring | Other provisions |
|---|---|---|---|---|
| 1 Jan 2006 | 4,321 | 1,378 | 1,504 | 326 |
| Increase in provisions | | 3,420 | 2,100 | 1,398 |
| Used provisions | -4,321 | -1,618 | -1,394 | |
| **31 Dec 2006** | **0** | **3,180** | **2,210** | **1,724** |

#### GUARANTEE PROVISION

The Group admits for its machine deliveries a guarantee period of 1 to 2 years. The Group defrays expenses from repairing the defects in the products noticed during the guarantee period. The guarantee provisions are expected to be used during the next two years.

#### RESTRUCTURING PROGRAMS

During 2007, Glaston initiated an efficiency programme relating to the Pre-processing business area's Brazilian operations.
A maintenance and product development unit of the Heat Treatment business area was discontinued in Switzerland.

#### OTHER PROVISIONS

Heat Treatment's non-recurring expenses relate mainly to post-delivery costs for projects in 2006.

| 27. INTEREST-BEARING LIABILITIES | 2007 | 2006 |
|---|---|---|
| Non-current | | |
| Other loans | 158 | 319 |
| Finance lease liabilities | 1,731 | 539 |
| **Total** | **1,890** | **858** |
| Current | | |
| Current portion of repayments of loans from financial institutions | 18,220 | 6,990 |
| Current portion of finance lease liability repayments | 233 | 161 |
| Other current loans | 974 | |
| **Total** | **19,426** | **7,151** |

Increase in the interest-bearing liabilities is due to financing of working capital of foreign subsidiaries.

| | Loans from financial institutions | Finance lease liabilities | Other loans |
|---|---|---|---|
| Repayments | | | |
| 2008 | 18,220 | 233 | 974 |
| 2009 | 158 | 243 | |
| 2010 | | 220 | |
| 2011 | | 204 | |
| 2012 | | 187 | |
| more than 5 years | | 877 | |

| **Finance lease liabilities** | **2007** | **2006** |
|---|---|---|
| Total amount of minimum lease payments | | |
| Up to 1 year | 333 | 212 |
| 1 - 5 years | 1,209 | 625 |
| More than 5 years | 1,092 | 2 |
| **Total** | **2,634** | **839** |
| Present value of minimum lease payments | | |
| Up to 1 year | 269 | 161 |
| 1 - 5 years | 937 | 538 |
| More than 5 years | 922 | 2 |
| **Total** | **2,128** | **700** |
| Unaccrued financial expenses | 506 | 139 |

## 28. TRADE PAYABLES AND OTHER LIABILITIES

| | | |
|---|---|---|
| Trade payables | 23,041 | 21,882 |
| Other current liabilities | 31,826 | 30,372 |
| Interest expenses and other financial liabilities | 222 | 52 |
| Salary and social cost allocations | 6,293 | 10,338 |
| Accrued expenses and deferred income, income taxes | 3,520 | 2,564 |
| Other accrued expenses and deferred income | 28,702 | 15,551 |
| **Total** | **93,604** | **80,758** |

Cost provisions for machine deliveries EUR 15.9 million (2006  EUR 6.4 million) are the most substantial items of other accrued expenses and deferred income.

## 29. RISK MANAGEMENT

### FINANCIAL RISK

The Group's financial risks consist or foreign exchange, interest rate, credit and liquidity risks. The nature of international business means that the company has transaction and translation risks arising from fluctuations in foreign exchange rates. The effects of interest rate changes on the value of interest-bearing liabilities and receivables in various foreign currencies creates an interest rate risk. Credit risk consists of payments on trade receivables that come from customers. Financial risk is managed according to a financial policy approved by the Board of Directors and every effort is made to hedge against the negative effect of risks on the result.

The Group's financial functions have been centralised in the parent company, which is responsible for bank relations, long-term financing arrangements and the investment of assets as well as the Group's internal financial allocations according to the liquidity needs of different Group companies. The Group's finance unit is responsible together with operational units for the recognition of risks, and it takes the measures required to hedge against risk.

The Group has no foreign currency loans in Finland. The working capital credit facilities of foreign subsidiaries are in the subsidiaries' own domestic currencies. Foreign exchange positions consist of foreign exchange receivables and liabilities as well as foreign exchange income and expenses based on binding orders.

Net positions vary greatly from company to company. Net positions are hedged mainly with forward contracts up to a maximum of 12 months ahead. The average position has been hedged for 4-6 months forward. The Group has not hedged the shareholders' equity of foreign subsidiaries.

The Group's most significant foreign exchange risk arises from exchange rate fluctuations between the euro and the US dollar. The share of the Group's net sales in US dollars has declined significantly, however, as many customers nowadays have accepted the euro as a contract currency.

Liquid assets are invested avoiding risk and only operators that possesss high credit-worthiness as counter-parties are accepted. The intention is to maintain a state of readiness for investments and acquisitions. Portfolio investments are mainly money market deposits. Acceptable counter-parties are approved annually by the Board of Directors.

### CREDIT RISK

The structure of the Group's clientele is diversified over several different areas and customers. This reduces significantly the areas of credit risk. The biggest single customer's share of the Group's receivables is not significant in terms of risk management. Significant unfavourable changes in the level of construction activity might, however, cause changes in the development of the Group's credit risk.

The Group's liquid assets are invested avoiding risk and only operators that possess high credit-worthiness are accepted as counter-parties. Portfolio investments are mainly money market deposits. Acceptable counter-parties are approved annually by the Board of Directors.

| **Credit loss provisions** | **2007** | **2006** |
|---|---|---|
| Trade receivables (gross) | 76,237 | 60,845 |
| Credit loss provisions: | | |
| Value at 1 Jan. | 3,351 | 1,896 |
| Change during the year | 1,044 | 443 |
| Realised credit losses | -722 | -229 |
| Value at 31 Dec. | 3,484 | 3,351 |
| **Trade receivables (net)** | **72,752** | **57,494** |

**Age distribution of trade receivables after credit loss provisions**

The total value of trade receivables on 31 December 2007 was EUR 76.2 million euros (60.8 million). Of this value, the proportion accounted for by renegotiated receivables according to IFRS 7 was EUR 0.9 million.

| **Age distribution of trade receivables after credit loss provisions** | **2007** | **2006** |
|---|---|---|
| Not overdue | 45,113 | 37,145 |
| Overdue 0-30 days | 9,917 | 5,640 |
| Overdue 31-180 days | 9,408 | 9,375 |
| Overdue 181-360 days | 7,750 | 4,102 |
| Overdue more than one year | 566 | 1,232 |
| **Total** | **72,752** | **57,494** |

The Group reduces its credit risk by using credit insurance, letters of credit and bank guarantees given by purchasers. In addition, the Group tries to accelerate payment schedules by using advance payments.

### CHANGE OF CREDIT LOSS PROVISIONS IN THE GROUP

The quality of trade receivables is assessed for each business area and, based on these assessments, decisions are made about provisions.

### LIQUIDITY RISK

The Group tries to manage liquidity risk through the effective use of advance payments, in order to reduce the level of working capital tied up in operations. Short- and long-term cash planning is part of units' operational activity together with the Group's finance function. The Group's funding is mainly handled with short-term funding from the commercial paper market, but the Group also has committed credit facilities to safeguard the availability of funding.

| MEUR | Sum withdrawn | Sum not withdrawn | Total |
|---|---|---|---|
| Loan commitments 31.12.2007 | 11.8 | 68.2 | 80 |
| Loan commitments 31.12.2006 | 2.9 | 77.1 | 80 |

**Maturity analysis of financial obligations 2007**

| 31.12.2007 | | | Maturity of liabilities | |
|---|---|---|---|---|
| | Sum withdrawn (* | Contractual cash flows (** | 12 months or less | over 12 months |
| Financial liabilities | | | | |
| Unsecured credit facilities | 5,739 | 5,739 | 5,739 | 0 |
| Commercial paper programme | 12,480 | 12,500 | 12,500 | 0 |
| Finance leasing liabilities | 2,122 | 2,122 | 233 | 1,890 |
| Trade payables | 23,041 | 23,041 | 23,041 | 0 |
| Other liabilities | 974 | 974 | 974 | 0 |
| Cash flow hedging foreign exchange forward contracts | | | | |
| Expenses | 13 | 13 | 13 | |
| Revenue | 13 | 13 | 13 | |
| **Total** | **44,356** | **44,376** | **42,487** | **1,890** |

**Maturity analysis of financial obligations, comparison data 2006**

**Liquidity risk**

| 31.12.2006 | | | Maturity of liabilities | |
|---|---|---|---|---|
| | Sum withdrawn (* | Contractual cash flows (** | 12 months or less | over 12 months |
| Financial liabilities | | | | |
| Unsecured credit facilities | 7,329 | 7,329 | 7,329 | 0 |
| Commercial paper programme | 0 | 0 | 0 | 0 |
| Finance leasing liabilities | 618 | 0 | 79 | 539 |
| Trade payables | 21,882 | 21,882 | 21,882 | 0 |
| Cash flow hedging foreign exchange forward contracts | | | | |
| Expenses | 15 | 15 | 15 | |
| Revenue | 16 | 16 | 16 | |
| **Total** | **29,829** | **29,210** | **29,290** | **539** |

*) SUM CORRESPONDS TO THAT STATED IN THE BALANCE SHEET **) ALSO INCLUDES INTEREST PAYMENTS

#### FOREIGN EXCHANGE RISK

The Group operates internationally and therefore is subject to translation and transaction risks arising from fluctuations in foreign exchange rates. Transaction risks arise from cash flows generated by purchase and sales activity, while translation risks arise from converting balance sheet items of foreign subsidiaries into the Group's domestic currency.

In its hedging, the Group applies cash flow hedge accounting according to IAS 39. The euro, which is the Group's domestic currency, is the main invoicing currency. The Group's most significant foreign exchange risk arises from exchange rate fluctuations between the euro and the US dollar. The euro and US dollar together account for over 90 per cent of the Group's positions. Other major currencies such as the GBP and JPY are also used as invoicing currencies, but they are quantitatively insignificant.

Net positions are hedged mainly with forward contracts up to a maximum of 12 months ahead. The average position has been hedged for 4-6 months forward. The Group has not hedged the shareholders' equity of foreign subsidiaries.

#### SENSITIVITY ANALYSIS FOR FOREIGN EXCHANGE RISK ACCORDING TO IFRS 7

For the sensitivity analysis, a possible +/- 10% change in the main currency was assessed, all other factors remaining unchanged. The sensitivity analysis is based on foreign exchange assets and liabilities on the closing date. The sensitivity analysis also takes into consideration the impact of the foreign exchange derivatives used, which offset the effects of changes in foreign exchange rates.

The Group's position consists of US dollar-denominated trade receivables (EUR 13.5 million), loans (EUR 0.8 million) and trade payables (EUR 4.5 million). These items are offset by foreign exchange derivatives (EUR 9.5 million). On these terms, in the case of the Group's balance sheet at the end of 2007, the impact on shareholders' equity is +/-EUR 0.2 million. The analysis only includes risks resulting from financial instruments.

#### INTEREST RATE RISK

The Group external financing has been handled mainly in accordance with the current commercial paper programme. The Group's interest-bearing net debt was EUR 10.4 million (–2.7 million) on 31 December 2007. This can be considered in its entirety as floating interest rate debt.

When analysing interest rate risk, the Group has assessed a possible +/- one percentage point change in interest rate level. The impact of this change on the Group's profit before taxes, in terms of the level of debt on 31 December 2007, is +/- EUR 0.1 million.

#### RAW MATERIAL RISK

The change in price of no single raw material gives rise to a significant risk to the Group. For this reason, the Group does not use commodity derivatives to cover its raw material risks.

## 30. CONTINGENT LIABILITIES

| Nominal values and fair values of derivate contracts | 2007 | 2006 |
|---|---|---|
| Currency derivatives | | |
| Forward contracts | | |
| Nominal value | 13,153 | 17,281 |
| Positive fair value | 130 | 304 |
| Negative fair value | -20 | -90 |

The fair values of currency forwards are based on the difference between the contract price and the closing date price.

## 31. GUARANTEES AND CONTINGENT LIABILITIES ON OWN BEHALF

| | 2007 | 2006 |
|---|---|---|
| Mortgages as security for loans | | |
| Loans from financial institutions | | 17 |
| Company mortgages | 168 | 168 |
| | | |
| Contingent liabilities and liabilities not included in the balance sheet | | |
| Pledges on own behalf | 1,869 | 2,034 |
| Repurchase obligations | 2,990 | 1,591 |
| Other liabilities | 19,275 | 3,539 |

A customer of US subsidiary Glaston USA, Inc. has made a claim of USD 10 millions due to a sale of machine in 2004. On 25 January 2008 the company has received a statement that the customer has increased the claim to USD 22 million. Regarding the Group's opinion, both the original claim and the increased one are unfounded. The matter has been referred to arbitration in the USA and the award is expected during the year 2008.

Tamglass Glass Processing Ltd has signed a company facility agreement with the town of Akaa. The subject of the agreement is a hall to be completed in spring 2008. The company has committed to redeem the premises from the town within 12 years. A preliminary cost estimate for the construction project is MEUR 4.2.

## 32. RELATED PARTY TRANSACTIONS

| GROUP'S PARENT COMPANY AND SUBSIDIARY RELATIONSHIPS | Company's domicile | Group ownership % | Group share of votes % |
|---|---|---|---|
| **Parent company Glaston Corporation** | **Hämeenkyrö** | | |
| Uniglass Engineering Oy | Tampere | 100.0 % | 100.0 % |
| Glaston Estonia Oü | Tallinn, Estonia | 100.0 % | 100.0 % |
| Glaston Services Ltd. Oy | Tampere | 100.0 % | 100.0 % |
| Glaston Finland Oy | Tampere | 100.0 % | 100.0 % |
| Tamglass Glass Processing Ltd. | Tampere | 100.0 % | 100.0 % |
| Glaston America, Inc. | Pittsburgh, PA, USA | 100.0 % | 100.0 % |
| Glaston USA, Inc. | Cinnaminson, N.J., USA | 100.0 % | 100.0 % |
| Glaston North America, Inc. | Greenboro NC, USA | 100.0 % | 100.0 % |
| Glaston UK Ltd. | Nottinghamshire, United Kingdom | 100.0 % | 100.0 % |
| Glaston France S.A.R.L. | Chassieu, France | 99.8 % | 99.8 % |
| Glaston Germany GmbH | Nürnberg, Germany | 100.0 % | 100.0 % |
| Glaston Japan, Inc. | Osaka, Japan | 100.0 % | 100.0 % |
| Glaston Singapore Pte. Ltd. | Singapore | 100.0 % | 100.0 % |
| Cattin Machines, S.A. | La Chaux-de-Fonds, Switzerland | 100.0 % | 100.0 % |
| Tamglass South America Ltda. | São Paulo , Brazil | 99.0 % | 100.0 % |
| Glaston Tianjin Co. Ltd | Tianjin, China | 100.0 % | 100.0 % |
| Glaston Shanghai Co. Ltd | Shanghai, China | 100.0 % | 100.0 % |
| Glaston China Co. Ltd | Tianjin, China | 100.0 % | 100.0 % |

| | | | |
|---|---|---|---|
| Tamglass-Bavelloni OOO, Russia | Moscow, Russia | 100.0 % | 100.0 % |
| Glaston Australia Pty Ltd | Queensland, Australia | 100.0 % | 100.0 % |
| Glaston Mexico S.A. de C.V. | Jalisco, Mexico | 100.0 % | 100.0 % |
| Glaston Servicios S.A. de C.V. | Jalisco, Mexico | 100.0 % | 100.0 % |
| Z. Bavelloni South America Ltda | São Paulo , Brazil | 100.0 % | 100.0 % |
| Glasto Holding BV | Sittard, Netherlands | 100.0 % | 100.0 % |
| Glaston Netherlands BV | Hoensbroek, Netherlands | 100.0 % | 100.0 % |
| Glaston Hong Kong | Hong Kong | 100.0 % | 100.0 % |
| Bavelloni Tools (Tianjin) | Tianjin, China | 70.0 % | 70.0 % |
| Sanhe AAA Tools Co | Sanhe, China | 70.0 % | 70.0 % |
| Glaston Italy S.p.A. | Bregnano, Italy | 100.0 % | 100.0 % |
| DiaPol S.r.l | Bregnano, Italy | 100.0 % | 100.0 % |
| Albat+Wirsam Software AG | Linden, Germany | 100.0 % | 100.0 % |
| Cantor Software GmbH | Linden, Germany | 100.0 % | 100.0 % |
| Albat+Wirsam Compas GmbH | Reutlingen, Germany | 100.0 % | 100.0 % |
| Albat+Wirsam Benelux PGmbH | Eupen, Belgium | 100.0 % | 100.0 % |
| Albat+Wirsam France S.A. | Genas, France | 100.0 % | 100.0 % |
| Albat+Wirsam Iberica S.L. | Barcelona, Spain | 100.0 % | 100.0 % |
| Albat+Wirsam Software (UK) Ltd. | Hertfordshire, United Kingdom | 100.0 % | 100.0 % |
| Albat+Wirsam Scandinavia S.A. | Halmstad, Sweden | 100.0 % | 100.0 % |
| Albat+Wirsam Software AG | Baden bei Wien, Austria | 100.0 % | 100.0 % |
| Albat+Wirsam Poland sp.z.o.o. | Krakow, Poland | 100.0 % | 100.0 % |
| Albat+Wirsam North America Inc. | Ontario, Canada | 100.0 % | 100.0 % |

| MANAGEMENT EMPLOYEE BENEFITS | 2007 | 2006 |
|---|---|---|
| Salaries and employee benefits | 2,197 | 3,206 |

| MANAGEMENT SALARIES AND BONUSES | | | |
|---|---|---|---|
| President and CEO Pentti Yliheljo, until 31 Dec 2006 | salary | | 414 |
| | bonus | | 386 |
| President and CEO Mika Seitovirta, as from 1 Jan 2007 | salary | 382 | |

| Board of Directors | Total bonuses | 2007 | 2006 |
|---|---|---|---|
| Carl-Johan Numelin | | 15 | 66 |
| Christer Sumelius | | 35 | 42 |
| Lars Hammarén | | 7 | 27 |
| Barbro Koljonen | | | 8 |
| Carl-Johan Rosenbröijer | | 26 | 30 |
| Heikki Mairinoja | | 7 | 32 |
| Klaus Cawén | | 26 | 33 |
| Claus von Bonsdorff | | 25 | 19 |
| Jan Hasselblatt | | 25 | 19 |
| Andreas Tallberg | | 43 | 24 |
| Other Group management | salary | 1,538 | 2,031 |
| | bonus | 69 | 77 |

Management's other remuneration: See Note 33 Share-based payments.

| Business transactions and open balances with related parties | 2007 | 2006 |
|---|---|---|
| Rental expenses | 585 | 1,402 |
| Interest expenses | | |
| Loan receivables | | 84 |
| Deposit | | 366 |
| Liabilities to related parties | | 750 |

In addition, the Group has rented premises as a consequence of an acquisition from companies owned by individuals belonging to the company's management. The rent payable for these premises corresponds with the local level of rents.

## 33. SHARE-BASED PAYMENTS

SHARE BASED PAYMENTS

SHARE OWNERSHIP PLAN 2007—2009

On 9 May 2007 The Board of Directors of Glaston agreed to establish a long-term share ownership plan directed to the key personnel. The share ownership plan offers the key personnel a possibility to earn Company's shares as reward for attaining targets established for the earning period. The plan includes three earning periods each of them lasting for one calendar year.
The Board of Directors decides on the target group and on the maximum rewards of the key personnel belonging to the target group at the beginning of each earning period. Earning periods include calendar years 2007, 2008 and 2009. The maximum reward of the plan is 52 500 shares divided annually by 217 000 shares. In addition to shares a cash payment up to an amount that is needed for taxes and tax-related costs arising from the reward will be paid. The earnings criteria for the earning period 2007 are the Group's operating profit (EBIT; 60% weight) and growth of turnover (%; 40% weight). The shares will be transferred to employee's account and they cannot be transferred within two years from the reward payment. If a person's employment or service ends during the restriction period, he/she must return the shares paid as reward to the Company.

Key characteristics and terms of the Plan are described in the table below:

| Basic data | Earning period 2007 |
|---|---|
| 31.12.2007 | |
| Grant date | 9 May 2007 |
| Form of the reward | Equity and cash |
| Target group | Key personnel |
| Maximum number of shares | 217,500 |
| Cash in terms of number of shares * | 217,500 |
| Beginning of earning period | 1.1.2007 |
| End of earning period | 31.12.2007 |
| End of restriction period | 30.4.2010 |
| Vesting conditions EBIT | (60%) and turnover (40%) |
| Service until the end of the restriction period | |
| Required share ownership term in years | 2.0 |
| Remaining vesting period 31 December 2007 | 2.3 |
| Number of persons 31 December 2007 | 26 |

* THE ARRANGEMENT INCLUDES A SHARE-BASED PAYMENT TO BE SETTLED IN CASH

| NUMBER OF SHARES 2007 | | | Earning period 2007 |
|---|---|---|---|
| **Gross number of shares** ** | **1.1.2007** | **Changes** | **31.12.2007** |
| Granted | 0 | 435,000 | 435,000 |
| Forfeited | 0 | 0 | 0 |
| Settled | 0 | 0 | 0 |
| Expired | 0 | 0 | 0 |

** NUMBER OF SHARES INCLUDE CASH-SETTLED PAYMENTS OF THE PLAN

| Inputs to fair value measurement | Earning period 2007 |
|---|---|
| Granted shares during the period (equity and cash) | 435,000 |
| Share price at the grant date | 4.08 |
| Expected dividends | 0.10 |
| Fair value of the share at the grant date *** | 3.99 |
| Share price 31 December 2007 | 2.77 |
| Expected forfeitures before settlement | 0.0 % |
| Expected forfeitures after settlement | 7.7 % |
| Expected fulfillment of earning criteria | 65.8 % |
| Fair value of the expected reward at the grant date *** | 1,111,013 |
| Fair value of the expected reward 31 December 2007 | 923,532 |
| Expense recognised for the period | 201,359 |

*** SHARE PRICE AT THE GRANT DATE DEDUCTED BY THE DIVIDENDS EXPECTED TO BE PAID DURING THE EARNING PERIOD: 0,10 EUROS

Under IFRS2, share-based incentive schemes must be valued at fair value at the time of granting and recognised as an expense during the vesting period. As the share bonus is paid as a combination of shares and cash, the determination of the fair value of the bonus is divided according to the IFRS 2 standard into two parts: into the part to be settled in shares and the part to be settled in cash. The part to be settled in shares is recognised in shareholders' equity and the payment to be settled in cash in debt. The fair value of the share-based payment at the time of granting the bonus was the Glaston share price. Correspondingly the fair value of the part to be settled in cash is re-examined on each reporting date until the ending of the performance period, and the fair value of the debt thus changes according to the Glaston share price.

#### INCENTIVE SCHEME

Glaston Services Ltd. operates a management incentive scheme, approved in 2002, which covers Glaston Group's management and key personnel. During the financial period 18 500 A options, totalled EUR 2.8 million, were paid to nine persons and 19 875 B options, totaled EUR 3.0 million, to fourteen persons. A total of 1,500 A and B options, valued at EUR 0.2 million, were not redeemed.

| 34. ADJUSTMENT TO CASH FLOWS FROM BUSINESS OPERATIONS | 2007 | 2006 |
|---|---|---|
| Depreciation | 7,164 | 7,318 |
| Financial items | -260 | 84 |
| Taxes | 1,514 | -5,475 |
| Gains from sale of fixed assets | -2,514 | 0 |
| Others | 120 | -257 |
| **Total** | **6,024** | **1,669** |

| 35. OPERATING LEASES | 2007 | 2006 |
|---|---|---|
| Up to 1 year | 2,449 | 2,391 |
| 1 - 5 years | 10,904 | 3,382 |
| More than 5 years | 2,914 | 41 |

The 2007 income statement includes rental expenses of EUR 4.3 million (2006: EUR 3.6 million) paid on the basis of operating leases.

### 36. EVENTS AFTER THE CLOSING DATE

Tamglass Glass Processing has been defined in the new strategy to be outside Glaston's core operations. The company's immediate focus is on completing the ongoing rationalisation programme that has already begun. Strategic options for the future are being studied within Glaston.

# INCOME STATEMENT OF THE PARENT COMPANY (FAS) EUR 1,000

| | Note | 2007 | 2006 |
|---|---|---|---|
| **Net sales** | | **641** | **794** |
| Other operating income | 1 | 5,413 | 544 |
| Personnel expenses | 2 | 5,505 | 2,068 |
| Depreciation and amortisation | 3 | 267 | 271 |
| Other operating expenses | 4 | 4,322 | 2,641 |
| **Operating profit** | | **-4,039** | **-3,641** |
| Net financial income | 5 | 11,253 | 3,162 |
| **Profit before extraordinary items** | | **7,215** | **-479** |
| Extraordinary items | 6 | 1,000 | 11,450 |
| **Profit before appropriations and taxes** | | **8,215** | **10,971** |
| Appropriations | 7 | -115 | 65 |
| Income tax | 8 | 413 | -2,828 |
| **Profit for the financial year** | | **8,513** | **8,209** |

# BALANCE SHEET OF THE PARENT COMPANY (FAS) EUR 1000

| Assets | Note | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|---|
| Fixed assets | | | |
| Intangible assets | 9 | 1,117 | 294 |
| Tangible assets | 9 | 2,261 | 2,489 |
| Investments | 10,11 | 82,242 | 61,571 |
| **Fixed assets, total** | | **85,620** | **64,354** |
| Current assets | | | |
| Non-current receivables | 12 | 18,872 | 18,915 |
| Current receivables | 12 | 29,477 | 40,801 |
| Cash at bank and in hand | | 668 | 2,890 |
| Current assets, total | | 49,018 | 62,607 |
| | | **134,638** | **126,960** |

| Equity and liabilities | Note | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|---|
| Equity | | | |
| Share capital | 13 | 12,696 | 12,696 |
| Share premium fund | 13 | 25,270 | 25,270 |
| Invested non-restricted equity fund | 13 | 269 | |
| Retained earnings | 13 | 54,665 | 56,538 |
| Profit for the financial year | 13 | 8,513 | 8,209 |
| **Equity, total** | | **101,413** | **102,712** |
| **Accumulated appropriations** | 14 | **128** | **13** |
| Liabilities | | | |
| Current liabilities | 15 | 33,097 | 24,235 |
| Liabilities, total | | 33,097 | 24,235 |
| | | **134,638** | **126,960** |

# PARENT COMPANY
# CASH FLOW STATEMENT
# EUR 1,000

| CASH FLOW FROM BUSINESS OPERATIONS | 2007 | 2006 |
|---|---|---|
| Profit for the financial period | 8,776 | 8,209 |
| Adjustments: | | |
| Depreciation according to plan | 267 | 271 |
| Financial income and expenses | -10,421 | -224 |
| Other adjustments | -6,627 | -6,942 |
| Cash flow before change in working capital | -8,006 | 1,314 |
| | | |
| Change in working capital | | |
| Change in current non-interest-bearing receivables | -1,230 | 2,005 |
| Change in current non-interest-bearing liabilities | 116 | -6,315 |
| Cash flow from business operations before financial items and taxes | -9,120 | -2,996 |
| | | |
| Interest and payments paid for other financing of business operations | | |
| Interest paid | -800 | -326 |
| Dividends received from business operations | 4 | 1,235 |
| Interest received from business operations | 1,432 | 2,477 |
| Direct taxes paid | -86 | -7,915 |
| Cash flow from business operations before extraordinary items | -8,570 | -7,525 |
| Cash flow from business operations resulting from extraordinary items | 11,450 | 1,000 |
| **Cash flow from business operations** | **2,880** | **-6,525** |
| | | |
| Cash flow from investing activities | | |
| Investments in tangible and intangible assets | -1,449 | -382 |
| Proceeds from disposal of tangible and intangible assets | 4,541 | 2,235 |
| Investments in subsidiaries | -20,790 | |
| Capital refunds received | | 6,444 |
| Repayments of loan receivables | | 1,050 |
| Proceeds from sale of other investments | 80 | 3,201 |
| | | |
| **Cash flow from investing activities** | **-17,619** | **12,547** |
| | | |
| Cash flow from financing activities | | |
| Acquisition of treasury shares* | -3,933 | |
| Disposal of treasury shares | 1,314 | |
| Change in non-current loan receivables | 84 | |
| Change in current Group receivables | 14,413 | -1,914 |
| Withdrawals of current Group loans | -4,707 | -4,234 |
| Withdrawals of current loans | 12,452 | |
| Dividends paid | -7,105 | -13,421 |
| **Cash flow from financing activities** | **12,517** | **-19,570** |
| | | |
| **Change in cash and cash equivalents** | **-2,222** | **-13,548** |
| | | |
| Cash and cash equivalents at the beginning of the period | 2,890 | 16,438 |
| Cash and cash equivalents at the end of the period | 668 | 2,890 |
| | **-2,222** | **-13,548** |

* SHARES ACQUIRED FOR THE SHARE BONUS SCHEME. SHARE ACQUISITION AND SCHEME MANAGEMENT HAVE BEEN OUTSOURCED TO AN EXTERNAL SERVICE PROVIDER. THE SHARES ARE THE PROPERTY OF THE EXTERNAL PARTY UNTIL THE SHARES ARE TRANSFERRED TO KEY INDIVIDUALS WITHIN THE FRAMEWORK OF THE BONUS SCHEME. IRRESPECTIVE OF THE LEGAL FORM OF THE PROCEDURE, IT HAS BEEN TREATED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS IF GLASTON WOULD HAVE ACQUIRED ITS OWN SHARES.

## ACCOUNTING PRINCIPLES OF PARENT COMPANY

The parent company's financial statements have been prepared according to the Finnish Accounting Act (1997/1336), Accounting Ordinance (1997/1339) and other laws and regulations relating to financial statements.

### FOREIGN CURRENCY ITEMS

Receivables and liabilities denominated in foreign currency have been translated into euros at currency rates quoted on the closing date. Translation differences arising from financial activity have been recognised in financial income and expenses.

### NET SALES

Net sales includes the Group's income from administration services and rental income.

### LEASING

Leasing payments have been treated as rental expenses. Outstanding leasing payments have been presented in the financial statements as liabilities.

### VALUATION OF FIXED ASSETS

Fixed assets have been valued in the balance sheet at original acquisition cost less accrued depreciation according to plan. Planned depreciation has been calculated on a straight-line basis over the economic life of the fixed asset items.

PLANNED DEPRECIATION PERIODS FOR VARIOUS FIXED ASSET ITEMS:

| | | |
|---|---|---|
| INTANGIBLE RIGHTS | 5 | YEARS |
| OTHER CAPITALISED EXPENSES | 5-10 | YEARS |
| BUILDINGS AND STRUCTURES | 10-25 | YEARS |
| LIGHT MACHINERY AND EQUIPMENT | 3-5 | YEARS |
| IT EQUIPMENT AND SYSTEMS | 3-5 | YEARS |
| OTHER TANGIBLE ASSETS | 5 -10 | YEARS |

## NOTES TO THE FINANCIAL STATEMENTS PARENT COMPANY EUR 1,000

| | 2007 | 2006 |
|---|---|---|
| **1. Other operating income** | | |
| Proceeds from sale of fixed assets | 5,413 | 135 |
| Proceeds from sale of other investments | | 364 |
| Other income | | 46 |
| **Other operating income, total** | **5,413** | **544** |
| | | |
| **2. Personnel expenses** | | |
| Salaries and fees | 4,909 | 1,683 |
| Pension expenses | 409 | 251 |
| Other personnel expenses | 187 | 134 |
| **Total** | **5,505** | **2,068** |
| | | |
| Salaries and remuneration paid to members of the Board and Managing Director | 590 | 1,098 |
| | | |
| The members of the Board are covered by voluntary pension insurance accrued from board membership fees. | | |
| | | |
| **Parent Company employees during financial year, average** | **2007** | **2006** |
| Management and administrative personnel | 13 | 9 |
| **Total** | **13** | **9** |

| | 2007 | 2006 |
|---|---|---|
| **3. Depreciation and amortisation** | | |
| Depreciation according to plan | | |
| Intangible assets | | |
| Intangible rights | 86 | 76 |
| Other capitalised expenditure | 9 | 0 |
| Tangible assets | | |
| Buildings and structures | 88 | 129 |
| Machinery and equipment | 73 | 46 |
| Other tangible assets | 11 | 19 |
| **Depreciation according to plan, total** | **267** | **271** |
| | | |
| **4. Other operating expenses** | | |
| Loss on sale of fixed assets | 37 | |
| Rents | 215 | 144 |
| Other expenses | 4,069 | 2,497 |
| **Other operating expenses, total** | **4 322** | **2 641** |
| | | |
| **5. Net financial items** | | |
| Dividend income | | |
| from Group companies | 10,000 | 1,235 |
| from others | 4 | 2 |
| **Dividend income, total** | **10,004** | **1,236** |
| | | |
| Other interest and financial income | | |
| from Group companies | 2,202 | 2,138 |
| from others | 144 | 336 |
| **Interest income, total** | **2,345** | **2,474** |
| | | |
| Interest income from long-term investments and other interest and financial income | | |
| **Total** | **12,350** | **3,710** |
| | | |
| Interest and other financial expenses | | |
| to group companies | 277 | -279 |
| to others | -1,373 | -269 |
| **Interest and other financial expenses, total** | **-1,096** | **-548** |
| | | |
| **Net financial items, total** | **11,253** | **3,162** |
| | | |
| Other financial income and expenses include foreign exchange gains (net) | -188 | -174 |
| | | |
| **6. Extraordinary income** | | |
| Received Group contributions | 1,000 | 11,450 |
| **Extraordinary income, total** | **1,000** | **11,450** |
| | | |
| **7. Appropriations** | | |
| Difference between depreciation according to plan and actual depreciation in taxation | 115 | -65 |
| **Total** | **115** | **-65** |
| | | |
| **8. Income taxes** | | |
| Income tax for extraordinary items | 260 | 2,977 |
| Income taxes for actual business operations | -673 | -149 |
| **Total** | **-413** | **2,828** |

## 9. Fixed assets and other long-term investments

| Intangible assets | Intangible rights | Other capitalised long-term expenses | Advance payments and investments in progress | Total |
|---|---|---|---|---|
| Cost basis 1 January 2007 | 545 | 180 | | 724 |
| Additions | 121 | 241 | 570 | 932 |
| Disposals | -23 | | | -23 |
| Acquisition cost 31 December 2007 | 643 | 421 | 570 | 1,633 |
| Accumulated depreciations 1 January 2007 | -250 | -180 | | -430 |
| Accumulated depreciations of disposals and transfers | 9 | | | 9 |
| Depreciation for the period | -86 | -9 | | -95 |
| Accumulated depreciations 31December 2007 | -327 | -189 | | -516 |
| **Book value 31 December 2007** | **315** | **232** | **570** | **1,117** |
| Book value 31 December 2006 | 294 | 0 | | 294 |

| Tangible assets | Land and water areas | Buildings | Machinery and equipment | Other tangible assets | Total |
|---|---|---|---|---|---|
| Acquisition cost 1 January 2007 | 1,533 | 1,266 | 455 | 426 | 3,681 |
| Additions | | 4 | 512 | | 517 |
| Disposals | -500 | -27 | -40 | -395 | -963 |
| Acquisition cost 31 December 2007 | 1,033 | 1,243 | 927 | 31 | 3,235 |
| Accumulated depreciations 1 January 2007 | | -485 | -349 | -358 | -1,192 |
| Accumulated depreciations of disposals and transfers | | 26 | 26 | 339 | 391 |
| Depreciation for the period | | -88 | -73 | -11 | -172 |
| Accumulated depreciations 31 December 2007 | | -547 | -395 | -31 | -973 |
| **Book value 31 December 2007** | **1,033** | **696** | **532** | **1** | **2,261** |
| Book value 31 December 2006 | 1,533 | 781 | 106 | 68 | 2,489 |

## 10. Investments

| | Shares Group companies | Shares Others | Total |
|---|---|---|---|
| Acquisition cost 1 January 2007 | 61,104 | 467 | 61,571 |
| Increase | 20,790 | | 20,790 |
| Decrease | | -120 | -120 |
| Acquisition cost 31 December 2007 | 81,894 | 348 | 82,242 |
| **Book value 31 December 2007** | **81,894** | **348** | **82,242** |
| Book value 31 December 2006 | 61,104 | 467 | 61,571 |

## 11. Other shares and holdings owned by the Parent Company

| | Ownership osuus-% | Number | Nominal value | Book value |
|---|---|---|---|---|
| Subsidiary shares | | | | |
| Uniglass Engineering Oy | 100.0 % | 20,000 | 400 | 6,351 |
| Glaston Services Ltd. Oy | 100.0 % | 1,800,000 | 3,600 | 54,753 |
| Albat+Wirsam Software AG | 100.0 % | 1,500,000 | | 20,790 |
| **Total** | | | | **81, 894** |
| | | | | |
| **Other** | | | | |
| Shares and holdings | | | | |
| Kiinteistö Oy Torikyrö | 63.4% | 804 | 68 | 240 |
| Other housing companies | | | | 87 |
| Other shares and holdings | | | | 20 |
| **Total** | | | | **348** |

## 12. Receivables

| | 2007 | 2006 |
|---|---|---|
| Non-current receivables | | |
| Receivables from Group companies | | |
| Loan receivables | | |
| Non-current receivables, total | 18,872 | 18,915 |
| | 18,872 | 18,915 |
| Current receivables | | |
| Trade receivables | 2 | 3 |
| Loan receivables | | 84 |
| Deferred tax assets | 401 | |
| Prepaid expenses and accrued income | 2,510 | 1,091 |
| | 2,914 | 1,178 |
| Receivables from Group companies | | |
| Trade receivables | 210 | 129 |
| Loan receivables | 13,092 | 26,653 |
| Prepaid expenses and accrued income | 13,262 | 12,841 |
| | 26,564 | 39,623 |
| **Current receivables, total** | **29,477** | **40,801** |
| | | |
| Prepaid expenses and accrued income | | |
| Personnel expenses | 100 | 156 |
| Interest income | 2,225 | 1,385 |
| Income taxes | 675 | 528 |
| Indirect taxes | 125 | 392 |
| Dividends receivable | 10,000 | |
| Group contribution | 1,000 | 11,450 |
| Receivable from sale of real estate | 1,500 | |
| Other | 147 | 20 |
| **Prepaid expenses and accrued income, total** | **15,772** | **13,931** |

| 13. Equity | 2007 | 2006 |
|---|---|---|
| Share capital 1 January | 12,696 | 12,696 |
| **Share capital 31 December** | **12,696** | **12,696** |
| Share premium fund 1 January | 25,270 | 25,270 |
| **Share premium fund 31 December** | **25,270** | **25,270** |
| Invested non-restricted equity fund 1 January | | |
| Gains on sale of treasury shares | 269 | |
| **Invested non-restricted equity fund 31 December** | **269** | |
| Retained earnings | 64,747 | 69,943 |
| Dividends | -7,112 | -13,433 |
| Acquisition of treasury shares* | -3,933 | |
| Disposal of treasury shares | 950 | |
| Dividends not drawn | 13 | 28 |
| **Retained earnings 31 December** | **54,665** | **56,538** |
| **Profit for the financial year** | **8,513** | **8,209** |
| **Equity at 31 December** | **101,413** | **102,712** |
| **Account of distributable funds at 31 December** | | |
| Invested non-restricted equity fund | 269 | |
| Retained earnings | 54,665 | 56,538 |
| Profit for the financial year | 8,513 | 8,209 |
| **Distributable funds** | **63,447** | **64,747** |

* SHARES ACQUIRED FOR THE SHARE BONUS SCHEME. SHARE ACQUISITION AND SCHEME MANAGEMENT HAVE BEEN OUTSOURCED TO AN EXTERNAL SERVICE PROVIDER. THE SHARES ARE THE PROPERTY OF THE EXTERNAL PARTY UNTIL THE SHARES ARE TRANSFERRED TO KEY INDIVIDUALS WITHIN THE FRAMEWORK OF THE BONUS SCHEME. IRRESPECTIVE OF THE LEGAL FORM OF THE PROCEDURE, IT HAS BEEN TREATED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS IF GLASTON WOULD HAVE ACQUIRED ITS OWN SHARES.

| 14. Accumulated appropriations | 2007 | 2006 |
|---|---|---|
| Accumulated depreciation difference 1 January | 13 | 78 |
| Increase (+) Decrease (-) | 115 | -65 |
| Accumulated depreciation difference 31 December | 128 | 13 |

Accumulated appropriations in the Parent Company consist of accumulated depreciation difference.

| 15. Current liabilities | 2007 | 2006 |
|---|---|---|
| Liabilities to outsiders | | |
| Loans from financial institutions | 12,480 | |
| Accounts payable | 446 | 352 |
| Other liabilities | 150 | 169 |
| Accrued liabilities and deferred income | 1,000 | 1,060 |
| **Liabilities to outsiders, total** | **14,077** | **1,582** |
| Liabilities to Group companies | | |
| Accounts payable | 25 | 97 |
| Other liabilities | 18,883 | 22,501 |
| Accrued liabilities and deferred income | 113 | 55 |
| **Liabilities to Group companies, total** | **19,021** | **22,653** |
| **Current liabilities, total** | **33,097** | **24,235** |
| Accrued liabilities and deferred income | | |
| Salary and other periodised personnel expenses | 888 | 940 |
| Interest | 40 | 19 |
| Other | 185 | 156 |
| **Accrued liabilities and deferred income, total** | **1,113** | **1,115** |

| 16. Contingent liabilities and liabilities not included in the balance sheet | 2007 | 2006 |
|---|---|---|
| Leasing liabilities | | |
| With due date in the current financial year | 47 | 28 |
| With a later due date | 92 | 27 |
| Total | 139 | 55 |

Normal conditions apply to the leasing agreements.

| | | |
|---|---|---|
| Pledges | | |
| On behalf of Group companies | 5,745 | 4,137 |
| **Other liabilities** | | **10** |

| 17. Values of the underlying instruments of derivative contracts | | 2007 | 2006 |
|---|---|---|---|
| Currency derivatives | | | |
| Forward agreements | Market value | 4,723 | 7,082 |
| | Positive fair value | 57 | 94 |
| | Negative fair value | -14 | -26 |

# BOARD'S PROPOSAL TO THE ANNUAL GENERAL MEETING

According to the consolidated balance sheet on 31 Dec 2007, non-restricted equity amounts to EUR 63,447,063 of which distributable assets amount to EUR 63,447,063. On 5 February 2008, dividend-entitling shares numbered 78,436,500.

The Board proposes to the Annual General Meeting a dividend of EUR 0.10 per share, that is a total of EUR 7,843,650. This leaves EUR 55,603,413 of unused profit funds at the Parent Company.

No substantial changes in the company's financial position have taken place after the closing date. The company's liquidity is good, and in the view of the Board of Directors the proposed dividend distribution does not threaten the company's solvency.

Helsinki 5 February 2008

| | |
|---|---|
| Andreas Tallberg | Christer Sumelius |
| Carl-Johan Rosenbröijer | Klaus Cawén |
| Claus von Bonsdorff | Jan Hasselblatt |

Mika Seitovirta
President

The preceding financial statements have been prepared in accordance with Finnish Standards of Auditing. A separate Auditor´s Report concerning the performed auditing has been submitted today.

Helsinki, 5 February 2008

KPMG Oy Ab
Sixten Nyman, APA

#### TO THE SHAREHOLDERS OF GLASTON CORPORATION

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Glaston Corporation for the period 1.1. – 31.12.2007. The Board of Directors and the President and Chief Executive Officer have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, containing the consolidated balance sheet, income statement, cash flow statement, statement on the changes in equity and notes to the financial statements, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

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

#### CONSOLIDATED FINANCIAL STATEMENTS

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

#### PARENT COMPANY'S FINANCIAL STATEMENTS, REPORT OF THE BOARD OF DIRECTORS AND ADMINISTRATION

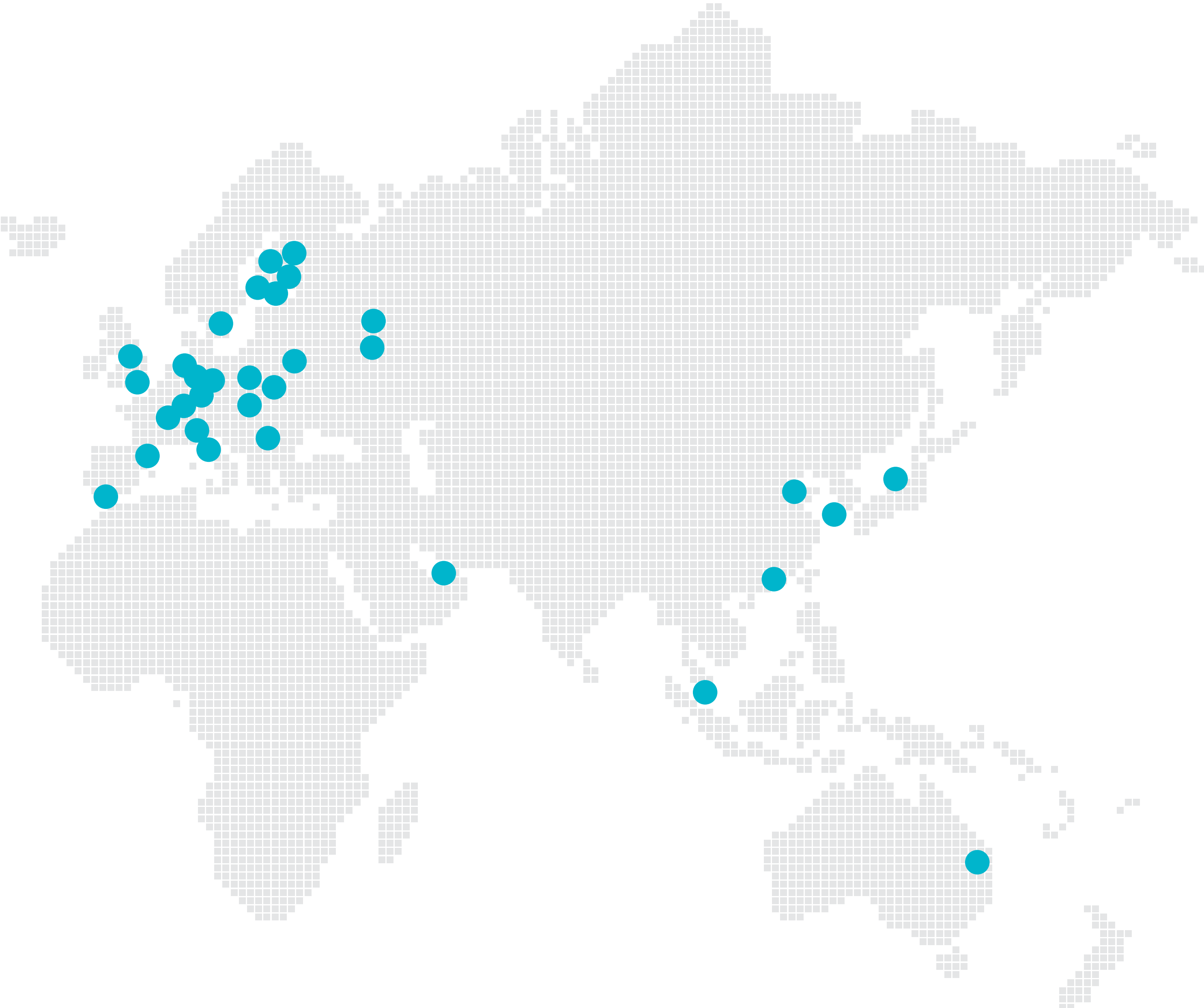
In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial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

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

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

Helsinki 5 February 2008
KPMG OY AB
Sixten Nyman
Authorized Public Accountant

# ADDRESSES AND LOCATIONS



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