



Efore Plc Annual Report 2006

This is a print-out of Efore Online Annual Report 2006

development costs accruing
capitalized as development
development expenditure

	2006	2005	2004	2003
Development costs	1,527	1,887	2,012	1,718
Capitalized as development	2,444	4,972	5,298	5,111
Development expenditure	828	1,111	1,186	1,007

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INFORMATION FOR SHAREHOLDERS

Efore Plc's registered office is in Espoo, Finland. Its business identity code is 0195681-3.

ANNUAL GENERAL MEETING

The Annual General Meeting of Efore Plc will be held on Monday, February 5, 2007 at 6 p.m. at Radisson SAS Royal hotel at the address Runeberginkatu 2, Helsinki.

Those shareholders who are listed in Efore's shareholders' listing in Finnish Central Securities Depository Ltd by January 26, 2007 and who have given notification of their attendance no later than 4:00 pm on January 29, 2007 have the right to attend the Annual General Meeting.

Those planning to attend the Annual General meeting are asked to notify Efore accordingly:

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DIVIDEND PAYMENT

The Board of Directors proposes to the Annual General Meeting not to pay dividends for the fiscal year November 1, 2005 - October 31, 2006.

FINANCIAL REPORTS FOR THE FINANCIAL YEAR NOVEMBER 1, 2006 - OCTOBER 31, 2007

Annual Report 2006	Week beginning January 15, 2007
November 1, 2006 – January 31, 2007 (3 months)	March 8, 2007
November 1, 2006 – April 30, 2007 (6 months)	June 7, 2007
November 1, 2006 – July 31, 2007 (9 months)	September 6, 2007

KEY SHARE DATA

Exchange listing	Helsinki Stock Exchange, The Nordic Exchange (Small Cap)
Corporate identifier	EFO1V
Trading lot	1 share
Shares	40,529,648 shares
Book value equivalent	EUR 0.85

ANALYSTS MONITORING EFORE'S PERFORMANCE

The following investment analysts monitor Efore's performance.
Efore takes no responsibility for any evaluations or recommendations published by them.

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STOCK EXCHANGE RELEASES, YEARLY SUMMARY

Efore Plc's yearly summary for the fiscal year November 1, 2005 - October 31, 2006 will be available on Efore's www-pages,
www.efore.com/investor_relations/releases/en_GB/Yearly_summary

The year 2006 in brief

MAIN EVENTS

- . The company grew more rapidly than the markets
- . Net sales increased substantially over the previous fiscal year
- . Personnel changes took place in the company management
- . The company made its strategy more focused and revamped its most important operational processes
- . Production was transferred from Finland and the USA to Estonia and China
- . As a result of extensive restructuring, earnings for the period were below previous year's levels and turned into a loss
- . The company spent 5.6% of net sales on product development

The year 2006 in brief

KEY FIGURES

		2006	2005
Net sales	MEUR	90.5	81.6
Operating profit	MEUR	-5.8	-0.8
-% of net sales	%	-6.4	-1.0
Profit before taxes	MEUR	-5.5	-0.4
Earnings for the period	MEUR	-8.2	-1.5
Return on equity (ROE)	%	-23.9	-3.6
Return on investment (ROI)	%	-14.3	-0.3
Cash flow from business operations	MEUR	-4.7	8.6
Net interest-bearing liabilities	MEUR	-10.5	-19.9
Solvency ratio	%	62.3	63.7
Net gearing	%	-34.6	-52.2
Earnings per share. adjusted	EUR	-0.20	-0.04
Equity per share. adjusted	EUR	0.75	0.94
Dividend per share. adjusted	EUR	0.00 ¹⁾	0.00
Share price on Oct 31st adjusted	EUR	1.41	1.84
Market capitalization	MEUR	57.1	74.6
Personnel. average		792	668




¹⁾ Board proposal to the Annual General Meeting

The year 2006 in brief

GRAPHS - NET SALES



Net sales in 2006 by market

 EMEA*	64 %
 Americas	23 %
 APAC**	13 %

* EMEA: Europe, Middle East and Africa
** APAC: Asia and Pacific



Net sales in 2006 by customer sector

 Telecommunications	69 %
 Industrial Automation	25 %
 Healthcare	6 %

EFORE'S OPERATIONAL BASIS

Efore is a global partner for leading manufacturers of telecommunication, industrial automation and healthcare equipment. We offer custom-designed power supply solutions and DC power systems and provide their users with maintenance and repair services.

MISSION

Our mission is to serve companies within the telecommunication, industrial automation and healthcare sectors by improving their electrical and electronic products and solutions to manage power in the most intelligent manner.

VISION

Our vision is to be a preferred and trusted global partner with leading companies in the telecom, industrial automation and healthcare sectors, providing innovative, highly advanced and customized total Power Solutions and Service..

STRATEGY

Efore's strategy is to concentrate on demanding Custom Designed Power Supply Solutions, Power Systems and related Service and Maintenance.

We serve companies within telecommunication, industry automation and healthcare sectors. Our goal is to create long-term partnerships with our customers. Our competitiveness is based on flexible, agile and customer-centred service, excellence in research and product development together with cost leadership in manufacturing and efficiency in the supply chain.

On average, we will grow faster than the power supply industry. As we grow, we will further expand our global presence, including product development and manufacturing, ensuring closeness to our customers in Europe, Asia and America. This will enable us to globally serve them promptly, economically and in a flexible way.

We will further develop our technological expertise by focused research and global product development in order to create solutions for the power supply applications of our customers' electrical and electronic devices, helping them to manage power in the most intelligent, economical and environment-friendly manner.

We maintain our competitiveness and protect our profitability by continuously improving the operational efficiency in all our activities. Our sourcing of modules, parts and components is international, always searching for the most optimised cost structure and reliable service.

VALUES

Customer focus

We are committed to being the preferred business partner for our customers and to meeting their expectations.

Profitability

We are committed to continuously improving Efore's profitability so that we can meet the expectations of our shareholders, personnel and business partners.

Professional and innovative personnel

We are committed to continuously improving the skills of our personnel so that we can better respond to global business challenges.

Growth

Well-balanced business operations and solid finances are a sound basis for continuous growth.

STRENGTHS

We are a global trendsetter in custom-designed power supply solutions. We invest heavily in product development and can rely on more than three decades of experience in providing the world's leading equipment suppliers and system integrators with power supply solutions.

With manufacturing facilities and service centers in Europe and Asia and with product development Efore is able to provide its global customers prompt and flexible service on a local basis.

We keep the quality of our products high, make them more environmentally friendly and work to put our operations on a better and more efficient basis.

REVIEW BY THE PRESIDENT AND CEO

We operate in a rapidly developing sector that is characterized by tough competition between global players. As a result we have adopted a global strategy so that we can successfully give our customers the service they expect.

The process of transforming Efore into a global player resulted in substantial changes in the company's operations during the fiscal year 2006. Restructuring has been a prerequisite for restoring the company to profitability. We concentrated our production in Estonia and China, two low-cost countries close to our customers, which led to the ending of production in Finland and the closure of one of our two US plants.

Global operations require logistical excellence. For this reason, Efore is in the process of adopting a pull-driven model in which production and subcontracting are on a flexible basis and in accordance with the orders received. This will make all aspects of our delivery process more efficient and mean less capital tied up in inventories.

In keeping with our global operating approach, our customer services are also located close to the customers on three continents.

We have made Efore's spheres of responsibility into global Group-level functions, while at the same time the organization was simplified and operations streamlined to increase flexibility and prompt decision-making and operation. Marketing and sales to customers will remain the responsibility of geographical area profit centers. All this means that we have reorganized our operations so that we will be in a significantly better position to meet the expectations of our global customers and be able to adapt to continuously changing market demands.

Also, we have harmonized our operational approaches and corporate image; while at the same time made the company's objectives more specific and focused its strategy. In addition to being a manufacturer of custom-designed power supply solutions and DC power systems, we are also developing the equipment maintenance and repair services into a third global pillar for our business operations.

In 2006, the world market for power supply solutions expanded by almost six per cent. We grew at a substantially faster rate, which meant that the company was able to increase its market share in accordance with its objectives.

We concentrate on demanding custom-designed power supply solutions and are determined to be the quickest and the most flexible designer and manufacturer in the sector. We have put our product development processes on a new footing so that we can better respond to the challenges. Product quality is our main strength, and we have received a number of awards from our customers for the best quality operations in our sector. Also, as we put a strong emphasis on the environmental properties of our products, for example, reducing the power consumption of our customers' equipment, we are confident that Efore will continue on a strong growth path in the fiscal year 2007.

The fiscal year 2006 was characterized by a fall in product prices, made more problematical by a rise in raw material prices for electronic equipment. Our efficient global-scale component and materials purchasing arrangements failed to provide an adequate shield against profit erosion and this, together with non-recurring restructuring costs, meant that Efore's financial performance for the fiscal year was unsatisfactory. The most important corrective measures have already been carried out. I believe that we are now headed towards a profitable path. The markets are continuing to expand steadily, and our aim is to have organic growth that is faster than the global average.

The fiscal year 2006 was a period of transformation. Most of the changes meant bad news for the personnel. There will undoubtedly be some changes in the fiscal year 2007; however, the outlook is gradually becoming more positive.

I would particularly like to thank our customers, suppliers, personnel and partners for the past year. I am especially indebted to my predecessor, Markku Hangasjärvi, for his valuable contribution to the company and for launching the change process aimed at transforming Efore into a global organization. I would also like to thank Efore's shareholders and financiers for the trust they have put in the company.

December 2006

Reijo Mähäniemi

Efore's business operations

TOWARDS MORE IN-DEPTH CUSTOMER RELATIONSHIPS

Efore has international telecommunications, industrial automation and healthcare companies as its customers. Our aim is to expand cooperation with them further by designing and providing advanced and innovative custom-designed power supply systems and associated maintenance and other services.

We are committed to being their preferred long-term business partner and to meeting their expectations. With manufacturing facilities and service centers in Europe and Asia and with our product development we are able to provide our global customers with service on a local basis and to deliver and service our products quickly and cost-effectively.

We are one of the leading suppliers of power supply solutions for telecommunications companies that build or use fixed telephone and data networks, GSM, Edge or third-generation radio networks. Teleoperators use our DC battery back-up systems both indoors and outdoors for ensuring uninterrupted power supply.

We supply industrial automation companies with power supply solutions for numerous applications such as high-accuracy measuring and dosing equipment and machinery and different kind of moving equipment. Our customers include the leading manufacturers of industrial robots and elevators, manufacturers of fluid and color management systems and manufacturers of electromagnetic flowmeters for metallurgy, wood processing and the petrochemical industries. Our DC battery back-up systems are used by the petrochemical, utility and railroad industries.

Steady uninterrupted power supply is an essential requirement for healthcare equipment manufacturers; systems with remote control pose additional challenges. Our products are used in many healthcare systems, such as medical equipment for intensive care units, patient monitors, x-ray and anesthetic systems.

In the telecommunications sector, we can count leading companies such as Nokia and Ericsson as our prime customers, while in industrial automation; customers include companies such as ABB, Kone and Wärtsilä. GE Healthcare, Abbott Laboratories, Thermo Electron and Planmeca are some of the global healthcare equipment manufacturers that use our solutions.

Efore's business operations

PRODUCT DEVELOPMENT THE MAIN SUCCESS FACTOR

Our product development sets the trends in power supply solutions. The aim is to cut the power consumption of customer-manufactured electrical and electronic equipment and make them more energy-efficient and environment-friendly.

In 2006, we spent a total of EUR 5.1 million, or 5.6 percent of our net sales, on research and development. During the same year, a total of 101 professionals were engaged in research and development tasks.

Locating product development units close to our customers enables us to have quick and smooth cooperation with our customers' own product development organizations. This is essential in the designing of products on a customer-specific basis.

In research and development, the focus is on making the products more environment-friendly, and on new power supply technology platforms, applications and materials. Current development projects aim to achieve greater power density, higher energy efficiency and more cost-effective solutions. There is also increased pressure to launch new products more quickly than before.

The use of materials is minimized in all of our products. All new products are lead-free and meet the requirements of the RoHS (Restriction of Hazardous Substances) Directive. We use 3D CAD equipment and the latest design and simulation tools for electronic, mechanical, software and thermal design.

Testing and verification, both part of the product development process, ensure that our new products meet all relevant safety, environmental and quality requirements set for electronic equipment, now and in the future.

We have our own laboratories for designing and testing products. All power supplies and other electronic equipment designed by Efore are type-tested at the testing laboratory in Espoo. The purpose of the tests is to check that the products are in accordance with the specification and all the appropriate standards. The type tests cover operational, safety, environmental and reliability aspects.

We apply for international and national safety approvals for our designs. Experience amassed over the years and a smooth-working network of partnerships with international approval authorities help in minimizing delays in the approval process.

Efore's business operations

PRODUCTION ON THREE CONTINENTS

Our strategy is to manufacture Efore-designed power supply equipment primarily at our own production plants. We have systematically increased production in China and Estonia, two countries with low labor costs, while production facilities in Finland were closed down in summer 2006. However, to ensure flexible operations, some production has been outsourced to subcontracting partners. Product quality is monitored against the same requirements and criteria, regardless, whether the products are manufactured by us or outsourced.

We have production facilities in Pärnu (Estonia), Irving (Texas, USA), and Suzhou (China). Also, Power Innovation GmbH, a German affiliate company, and subcontracting partners in China and Estonia manufacture our designed power supplies.

Our cost-effective production plants have similar production facilities. The factories have up-to-date production lines based on automatic surface-mounting and wave-soldering technologies as well as automatic testing lines. Our power supply solutions are highly standardized, making it possible to manufacture all of our products flexibly and near the customer. Production capacity can be expanded quickly and at reasonable cost.

Most of the world's electronic components are now produced in Asia. With this in mind, we have made materials purchases part of our Chinese operations so that components can be acquired for our production plants on a cost-effective basis.

Our competitiveness is based on flexible production and the high quality of our power supply solutions. All of our locations have acquired the ISO 9001:2000 quality certificate and the ISO 14001:2004 environmental certificate. In addition to our own quality assurance, customers regularly audit our operations.

Efore's business operations

POWER SUPPLY SOLUTIONS

The needs of equipment manufacturers using electronics in their operations and the demands placed on new power supply solutions in the telecommunications, industrial automation and healthcare sector are on the increase. Areas where efficient operation is dependent on a reliable supply of power for electronic devices e.g. applications in telecommunications, hospitals and public transport are a particular challenge.

We have more than 30 years' experience in delivering power supply solutions to leading equipment manufacturers. Our products and services cover custom-designed power supply solutions, DC power systems and associated maintenance and services.

Our production plants and service centers in Europe and Asia together with our product development enable the company to provide a local service for its global customers.

Telecommunications

Custom-designed power supply solutions

The changeover to broader bandwidths in mobile data transmission is enabling users to send and receive speech, data and broadband services with increasing speed. Although base stations will be smaller in the future, the overall need for power and the number of solutions needed will increase.

The new data transmission technologies will also mean a considerable increase in data transmission by consumers and companies, at work, at home or remotely.

We are one of the leading suppliers of power supply applications for customers in the telecommunications sector, especially within GSM, Edge and third-generation radio networks and fixed telephone and data networks. Our solutions range from single and multi-output AC/DC and DC/DC power supply units to power distribution units, connection units and RF modules.

We are also actively developing power supply and DC power system solutions and DC battery back-up systems for such new data-transmission technologies as Triple Play, WiMAX and DSLAM.

Back-up systems

Telecom operators use our DC battery back-up systems for both indoor and outdoor applications. The systems come with forced or convection cooled rectifiers and they include versatile system control and remote supervision functions as well as the option for load monitoring and low voltage disconnection.

Industrial Automation

We deliver power supply solutions for numerous applications ranging from high-accuracy measuring and dosing equipment to different kind of moving equipment. Customers include leading manufacturers of industrial robots and elevators, manufacturers of fluid and color management systems, and manufacturers of electromagnetic flowmeters for metallurgy, the wood-processing industry, and petrochemical applications.

Our DC battery back-up systems are used e.g. by petrochemical, utility and railroad industries.

Healthcare

An uninterrupted and steady power supply is a critical requirement for medical and healthcare equipment. New functions, such as remote control, pose additional challenges.

Our power supply solutions for healthcare customers include single and multi-output AC/DC and DC/DC power supply units.

Efore's business operations

CAPABLE PERSONNEL A MAJOR STRENGTH

The number of personnel increased during the fiscal year, totaling 812 on October 31, 2006 (751). With contract personnel included, the number was 985 (969). The biggest increases were at our locations in Estonia and China.

The codetermination negotiations on closing down production at Saarijärvi, launched in July, concluded at the end of August and, as a result, a total of 82 persons received notice. The notice process, which will be carried out in stages, will be completed by the end of May 2007.

Saarijärvi production was transferred in its entirety to plants in Estonia and China. Service functions, carried out as part of After Sales operations, and product development still remained at Saarijärvi. One of the two US plants in Irving was also closed down.

Personnel at all work locations underwent extensive training in connection with the 'Demand Supply Chain' approach. Also, personal development reviews were conducted throughout the entire Group, and a great deal of emphasis was placed on training and teamwork courses in China and Estonia.

Motivating the personnel is supported by incentives as well as traditional means. All office staff is under a results-based compensation plan. The compensation plan for production workers is based on improved productivity.

During the year under review, expatriate activities were increased aiming at making product transfers easier and for the transfer of skills and expertise to other production facilities.

We support the working capacity and health of our personnel in cooperation with occupational health care. During the 2006 fiscal year, there were no serious accidents.

We are ensuring our continuously developing customer-focused service approach by our HR policy focusing on recruiting the best professionals and operating on a non-discriminatory basis. At the same time, the development of the work environment is based on providing rewards and incentives, to ensure the achievement of the company's aims, and to promote the open provision of information.

Efore's business operations

GRAPHS - PERSONNEL



Personnel by region

EMEA*	50 %
APAC**	43 %
Americas	7 %

* EMEA: Europe, Middle East and Africa
** APAC: Asia and Pacific



Age structure of personnel

over 50	11 %
40-49	22 %
30-39	27 %
under 30	40 %

Efore's business operations

ENVIRONMENT A CONSIDERATION IN ALL OPERATIONS

Efore's environmental approach is guided by a company policy under which environmental matters are a consideration in all operations. We are committed to continuous improvement in the level of environmental protection, for example, the reduction in electricity consumption by our customers' equipment.

As part of this approach, we provide environmental training and encourage our personnel to take initiatives. We want to be the trendsetter in environmental issues in our sector. In our environmental policy, the priority is on using prevention to reduce harmful environmental impacts. In line with this, we are committed to the observance of customer demands, governmental legislation, improvement of the environmental-protection performance of our customers and suppliers, the continuous improvement of our own operations and open communication to environmental issues.

The ISO 14001:2004 environmental certificate applies to all of our locations. We cooperate closely with our suppliers and customers in order to raise the level of environmental expertise in the whole chain. Regardless of whether the products are manufactured by Efore or outsourced, we monitor and develop the environmental quality of our products against the ISO requirements and criteria, by means of internal and external audits, training and constant improvement. We also monitor the consumption of material. We sort and recycle waste.

Our power supplies and systems, which are based on switch mode technology, make the power supply for the user's equipment much more efficient compared with the traditional linear power supply and transformer solutions. With an improvement in the supply network, energy consumption is reduced, while at the same time the network can be dimensioned to smaller currents. This saves both components and construction materials.

Our principal environmental objectives in recent years have been minimizing harmful substances in line with the RoHS Directive (Restriction of the use of Certain Hazardous Substances) and recycling electronics waste under the WEEE (Waste Electrical and Electronic Equipment) Directive.

The RoHS Directive restricts the use of the following hazardous substances in the electronics industry: lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls (PBB) and polybrominated diphenyl ethers (PBDE). The Directive effects, in particular, the solder-joint technology and soldering materials used in manufacturing, which must be lead-free as of 2006. Our operating locations manufacture products that are in accordance with the RoHS Directive.

The recycling of electronic waste is handled in association with specialist companies.

Information on the materials for the components used by us has been entered in our databank in line with the WEEE Directive. Thus, our designers can avoid the use of harmful substances when developing solutions for the customers. The degree of recycling for our power supplies is usually between 80 and 90 percent, which means a small detrimental effect on the environment because of electronic waste.

During the fiscal year 2006 there were no incidents at Efore that would have had a significant effect on the environment.

GENERAL FEATURE OF EFORE GROUP

The Efore Electronics Group is an international company providing services for the telecommunications, industrial automation and health care industries. Its operations comprise custom-designed power supplies, DC power systems, and ancillary repair and maintenance services.

The Group comprises the parent company Efore Plc and wholly owned subsidiaries Efore (UK) Ltd, Efore (USA) Inc., Efore (Suzhou) Electronics Co. Ltd., Efore (SIP) Technologies Co. Ltd., Efore Ltda, Efore AS and Fi-Systems Oy. Efore Plc also has a 25% holding in Power Innovation, a German power electronics company, and in summer 2006 it opened a branch in Sweden.

Efore Ltda has closed down its Brazilian operations during the fiscal year.

NET SALES AND FINANCIAL PERFORMANCE

Net sales for the period under review came to EUR 90.5 million (EUR 81.6 million) i.e. 10.8% more than in the same period in the previous fiscal year. Most of the growth resulted from increased deliveries of power supply solutions for mobile phone networks, fixed telecommunications systems and industrial electronics. Sales were divided by customer segment as follows: telecommunications 68.8% (70.4%), industrial electronics 24.8% (24.3%) and health care electronics 6.4% (5.3%). Geographically, sales were split up as follows: EMEA EUR 57.9 million (EUR 50.5 million), the Americas EUR 21.2 million (EUR 24.8 million) and APAC EUR 11.4 million (EUR 6.3 million).

The operating profit for the fiscal year was EUR –5.8 million (EUR –0.8 million).

In addition to lower-than-expected sales in the last quarter, the operating profit for the fiscal year was adversely affected by restructuring costs resulting from transferring the focus of production from Finland and the USA to plants in China and Estonia. Costs were caused by losses at the Saarijärvi plant, the closure of production operations there, and the closure of one of the two US plants. The operating profit was also affected by management redundancy costs, advisory expenses in connection with acquisition negotiations, and large write-offs made on obsolete materials. There were also non-recurring write-offs on previously capitalized product development projects. Expenditure of about EUR 5.7 million is included in the earnings for the fiscal year which in the view of Efore's management is a non-recurring item.

The operating profit was also negatively affected by the simultaneous production and production rundown of lead-containing products, non-recurring expenses resulting from the startup of lead-free versions of the same products in conformance with the RoHS directive and also the somewhat high prices of RoHS components.

Productivity growth at the company's plants in China and Estonia fell short of expectations during the early months of the year, and there were changes in production management at both plants during the second half of the year.

The Group has also increased the provision for product liabilities. At the end of the fiscal year, it amounted to EUR 0.5 million (EUR 0.3 million).

Tax assets of EUR 1.9 million that had a positive impact on the profit during previous fiscal periods were recorded as a non-recurring expense during the second quarter against the earnings for the fiscal period. It is uncertain whether this amount can be used in the future.

The profit for the fiscal year before taxes was EUR –5.5 million (EUR –0.4 million), while the earnings for the period after taxes came to EUR –8.2 million (EUR –1.5 million).

BUSINESS OPERATIONS

A record number of product development projects has been in progress during the fiscal year. Product development has focused mainly on custom-designed power supplies and most of the products are connected with future 2, 5G and 3G base station product families and other equipment for wireless and fixed broadband telecommunications networks which form the basis for the new, fast-growing Triple Play, Quadruple Play and WiMax networks.

Product development teams also worked on DC power systems for telecommunications facilities and industrial process control. There were also a number of custom-designed product development projects going on in the field of health care equipment.

A total of EUR 5.1 million (EUR 4.6 million) was spent on the development of new products and technology solutions during the fiscal year, and at the end of the period 101 (105) persons were working in product development and ancillary tasks.

Product development has been completely reorganized so that it can be put on a more productive basis.

Efore is also continuously examining the possibility of increasing its product development resources in both Europe and Asia so that it can respond to growing demand.

The process of transferring production from the Saarijärvi plant to plants in Estonia and China continued throughout the fiscal year. The new 7,200 m² production facility in Estonia was inaugurated in the first quarter of the fiscal year, and the growth in volumes also resulted in substantial personnel increases at the Estonian plant.

It was decided to increase the production capacity at the Chinese plant during the last quarter, and the operations at Suzhou will be transferred to substantially larger premises (about 10,700 m²) in the beginning of the year 2007. At the end of the fiscal year, after completion of the restructuring and following the closure of the production facilities at Saarijärvi, Efore had 81.5% (52.6%) of its production in low-cost countries.

One of the two plants in the USA was closed down during the third quarter and there have also been further measures aimed at adjusting operations to changing demand. Write-offs of EUR 3.7 million have been entered against Efore Plc's receivables from the US subsidiary. These write-offs have no impact in the consolidated financial statements.

Efore will make further strenuous efforts to improve the cost-effectiveness of its production. A number of projects aimed at making the production more efficient and putting the inventory management on a better footing were launched during the third quarter.

INVESTMENT

As before, investment in fixed assets was at a high level during the fiscal year, amounting to EUR 4.8 million (EUR 5.6 million). Capitalization of product development accounted for EUR 1.6 million (EUR 1.9 million) of this total. Investment in equipment relating to an increase in Efore's own production, particularly in China and Estonia, contributed to the investment figure. As before, the aim in the next few years is to ensure that investment does not exceed planned depreciation.

FINANCIAL POSITION

The Group's financial position during the fiscal year was good. The Group's solvency ratio at the end of the fiscal year was 62.3% (63.7%) and gearing -34.6% (-52.2%). Consolidated net interest-bearing liabilities were EUR 10.5 million positive (EUR 19.9 million positive), which means that consolidated interest-bearing cash reserves exceed consolidated interest-bearing liabilities by EUR 10.5 million. Consolidated net financial income came to EUR 0.2 million (EUR 0.4 million). The cash flow from business operations totaled EUR -4.7 million (EUR 8.6 million) and the change in cash flow showed a decrease of EUR 10.1 million (decrease of EUR 2.5 million). The cash flow after investment amounted to EUR -9.6 million (EUR 2.8 million).

Liquid assets excluding undrawn credit facilities totaled EUR 11.6 million at the end of the fiscal year (EUR 21.8 million). The Group also has access to substantial credit facilities. The consolidated balance sheet total was EUR 48.5 million (EUR 59.9 million).

The consolidated working capital in relation to net sales during the past 12-month period was 11,2 % (7,6 %). Lower sales during the last quarter also meant larger inventories as the Group had prepared for a substantially higher demand.

TAXATION

A deferred tax asset of EUR 1.3 million recorded earlier was adjusted in the second quarter of the fiscal year and entered as taxes. The entry was in connection with the tax assets which had a positive impact on the performance of Efore (USA) Inc in previous years and which had arisen from unused tax losses, but which, according to a new assessment by the management, may not be usable in the future. An avoir fiscal credit (EUR 0.6 million) that had a positive impact on the profit during previous fiscal years has also been entered under taxes for the fiscal year. These entries, totaling EUR 1.9 million, do not have any impact on the cash flow.

The change in other deferred tax assets and liabilities (EUR 0,2 million) has also been entered as an expense under income taxes in the consolidated profit and loss account. In other respects, the taxes corresponding to the profits of the group companies during the fiscal year have been taken into account.

Tax assets arising from loss-making operations that must be considered as potentially substantial have not been capitalized as assets in the consolidated balance sheet.

ENVIRONMENTAL POLICY AND ENCUMBRANCES

The development of Efore's environmental systems is based on international standard ISO 14001 -standard, which is valid in all product development and production facilities in Finland, China, Estonia and the United States.

The recycling of electronics waste is done in partnership with specialized companies. Efore's operation is compliance with EU's WEEE (Waste Electrical and Electronic Equipment) Directive.

All Efore's production facilities are ready for lead-free production in accordance with RoHS (Restriction of Certain Hazardous Substances).

The Board of Directors is not aware of any environmental risks or liabilities that would have an effect on the company's financial position.

PERSONNEL

The number of the Group's own personnel averaged 792 (668) during the fiscal year, and totaled 812 (751) at the end of the period. The number of personnel increased by 61 during the fiscal year, most of the growth occurring in China and Estonia.

In addition to its own personnel, the Group had 173 contract staff at the end of the fiscal year. Their number decreased by 45 during the period.

Geographical distribution of the personnel (incl.contract staff) at the end of the period under review was as follows: Europe 489 (448), of whom 214 (313) were in Finland and 275 (132) in Estonia, the Americas 70 (178) and Asia 426 (343).

At the end of the fiscal year, the Saarijärvi plant had a total of 113 persons on its payroll.

GROUP ORGANISATION

Efore has a global functional line organisation. Efore's five global functions are: Product Development, Technology, Operations and Sourcing, Finance and Administration and Human Resources. Geographical areas are responsible for sales and marketing for their own customers.

BOARD OF DIRECTORS AND PRESIDENT AND CEO

The Annual General Meeting of Efore held on January 25, 2006 elected, on the proposal of the Nomination Committee, the following seven members to the company's Board of Directors: Johan Ek, Isto Hantila, Reijo Mäihäniemi, Outi Raitasuo, Olli Riikkala, Timo Syrjälä and Matti Tammivuori. All the members were re-elected. Timo Syrjälä has acted as chairman of the Board.

Markku Hangasjärvi resigned from the post of Efore President and CEO on June 7, 2006, and the Board of Directors appointed Reijo Mäihäniemi as the new President and CEO as of June 8, 2006 and as of the same day Reijo Mäihäniemi resigned from the Board of Directors and the Committees under the Board of Directors.

In its inaugural meeting on January 25, 2006, the Board of Directors elected the members for the Audit Committee and the Compensation Committee from amongst its members.

Memberships were reviewed twice during the fiscal year. The Board of Directors decided on the appointment of the Nomination Committee after the end of the fiscal year, on November 1, 2006. In addition to two Board members, it also includes two major shareholders from outside the Board.

The company has not made any agreement with the President and CEO about severance pay should he resign or be dismissed or his duties otherwise terminated as the result of a public purchase offer. Other information listed in Chapter 2, section 5a of the Ministry of Finance Decree on a security issuer's statutory duty of disclosure (538/2002) is shown in the financial statements.

AUDITORS

The Annual General Meeting held on January 25, 2006 appointed Authorized Accounting Firm Ernst & Young as Efore's auditors, with Authorized Public Accountant Juha Nenonen as principal auditor.

TRANSITION TO IFRS REPORTING

Efore transferred to financial reporting in accordance with the International Financial Reporting Standards (IFRS) in the fiscal year, November 1, 2005-October 31, 2006 and these financial statements apply valuation and distribution principles that accord with the IFRS standards. The comparison data for 2005 have been made to accord with IFRS principles.

GROUP STRUCTURE

The Group comprises the parent company Efore Plc and wholly owned subsidiaries Efore (UK) Ltd, Efore (USA) Inc., Efore (Suzhou) Electronics Co. Ltd., Efore (SIP) Technologies Co. Ltd., Efore Ltda, Efore AS and FI-Systems Oy. Efore Plc also has a 25% holding in Power Innovation, a German power electronics company, and in summer 2006 it opened a branch in Sweden.

Efore Ltda has closed down its Brazilian operations during the fiscal year.

BOARD OF DIRECTORS AUTHORIZATIONS

Under a decision by the Annual General Meeting on January 25, 2006, the Board of Directors is authorized to increase the company's share capital by a maximum of EUR 6,890,039.65, which corresponds to 8,105,929 new shares, each with an equivalent book value of EUR 0.85. The authorization will remain valid until the next Annual General Meeting but not more than one year from the decision of the Annual General Meeting. It also includes the right to disapply the shareholders' pre-emptive right if there are pressing financial reasons for the company to do so.

The authorization was not exercised by the end of October 31, 2006.

SHARES, SHARE CAPITAL AND SHAREHOLDERS

At the end of the period under review the total number of Efore Plc shares was 40 529 648 and the registered share capital amounted to EUR 34,450,200.80.

The highest share price during the fiscal year was EUR 2.06 and the lowest EUR 1.21. The average price during the period was EUR 1.77 and the closing price EUR 1.41. The market capitalization, calculated with the final trading price of the shares in the period under review, was EUR 57.1 million.

The total number of Efore Plc shares traded on the Helsinki Stock Exchange during the fiscal year was 30.1 million and the turnover value was EUR 52.3 million, 74.2% of the total number of shares at the end of the fiscal year. The number of shareholders at the end of the fiscal year totaled 4,126.

In accordance with a decision of the Annual General Meeting and the permit granted by the National Board of Patents and Registration (registered on June 2, 2006), the premium fund was decreased by EUR 3,971,543.60 by transferring the amount to non-restricted equity.

OPTION RIGHTS PROGRAM 2005

On the basis of the authorization granted by the Annual General Meeting in December 2004, the company's Board of Directors decided in March 2005 to introduce an option rights program aimed at reinforcing the long-term commitment of the company's key personnel. The option rights are connected with a shareholding program under which key personnel are obliged to purchase Efore shares using 20% of the net income obtained from the option rights and then to hold the shares for at least one year.

A total of 2,250,000 option rights were issued on the basis of the option rights program, and each of these can be used to subscribe one Efore Plc share. The option rights are divided into three categories, 2005A, 2005B and 2005C, comprising 950,000, 650,000 and 650,000 option rights, respectively.

The subscription price of the shares in the 2005A option rights program is EUR 3.07; in the 2005B option rights program it is the average tradeweighted price on the Helsinki Stock Exchange in the period January 1 to March 15, 2006 i.e. EUR 1.87; and in the 2005C option rights program it is the average trade-weighted price on the Helsinki Stock Exchange in the period January 1 to March 15, 2007. Each year, the dividend distributed is deducted from the subscription price.

The share subscription period for the 2005A option rights is November 1, 2007 to April 30, 2010; for the 2005B option rights it is April 1, 2008 to April 30, 2011; and for the 2005C option rights it is April 1, 2009 to April 30, 2012.

DISCLOSURE OF CHANGES IN OWNERSHIP DURING THE FISCAL YEAR

Osuuspankkikeskus Osk, its subsidiaries and the investment funds managed by its subsidiaries announced on December 27, 2005 that their combined holding and share of votes in Efore Plc had exceeded 5% and stood at 5.53%.

Osuuspankkikeskus Osk, its subsidiaries and the investment funds managed by its subsidiaries announced on March 31, 2006 that their combined holding and share of votes in Efore Plc had decreased below 5% and stood at 4.96%.

Timo Syrjälä and the companies under his control announced on August 18, 2006 that their combined holding and share of votes in Efore Plc had exceeded 5% and stood at 6.17%.

Rausanne Oy announced on August 21, 2006 that, as a result of forward trading, its holding and share of votes in Efore Plc had exceeded 5% and stood at 5.66%.

OUTLOOK

The moderate euro-denominated growth in the market for telecommunication networks is expected to continue during 2007 (IMS Research: The Worldwide Market for Power Supplies 2006). Growth will continue in both wireless and fixed broadband networks, particularly in Asia and North America. Emerging markets in areas such as India, the Middle East and Africa are expected to record the fastest growth in telecommunications networks. According to company's understanding the decision on the Chinese 3G matter is expected to come during 2007.

Because of the reasonable market outlook, Efore's net sales are expected to continue clear organic growth compared with the fiscal year 2006 and compared with average market growth. Most of the growth in the fiscal year 2007 is expected to occur at the end of the period because weaker demand that begun in the end of the previous fiscal year will have an effect on company's sales still during the first quarter. The company has high expectations of growth in the telecommunications sector, which in proportional terms is already the biggest segment of the Group's net sales. Efore's main aim is to continue investment in the development of demanding and innovative power supply solutions in cooperation with leading customers in their own fields. The focus will be on energy-saving and space-saving solutions.

The Group is working on a number of operational development projects. The aim is to improve productivity and decrease inventories and to make production and product development projects more efficient.

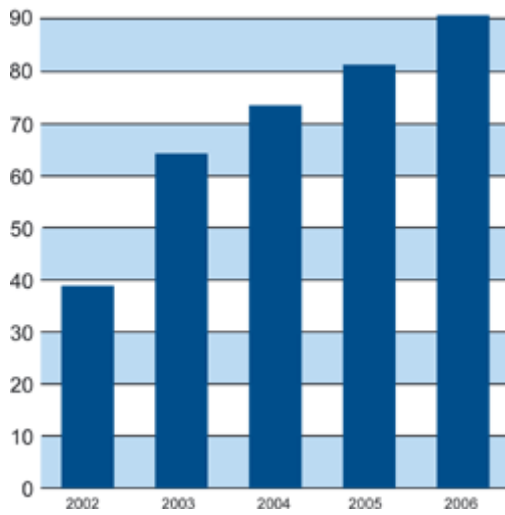
The Group restructuring was largely completed during the fiscal year 2006 and substantial part of cost savings is expected to be realized from the start the fiscal year 2007. The aim is to further increase the focus of operations to low-cost countries and it has also been decided to look into the scope for gaining a foothold in new growth markets where Efore does not yet have any local operations. The aim of the restructuring is to make Efore more competitive on the global market and to achieve profitable growth.

With new customers and new products and the restructuring carried out in 2006, profitability is expected to improve substantially during the fiscal year 2007 (12 months) and results are also expected to be clearly positive.

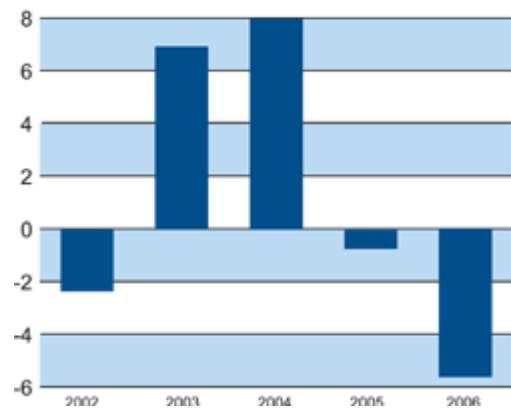
BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF RETAINED EARNINGS

According to financial statements at October 31, 2006 the parent company's distributable shareholders' equity stood at EUR - 7.686 611,31. The Board of Directors will propose at the Annual General Meeting on February 5, 2007 that no dividend be distributed for the fiscal year November 1, 2005 – October 31, 2006.

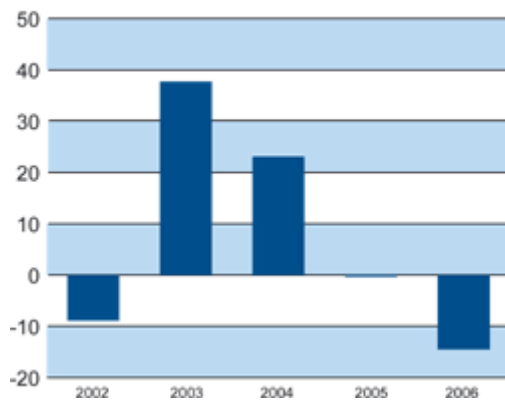
Net sales MEUR



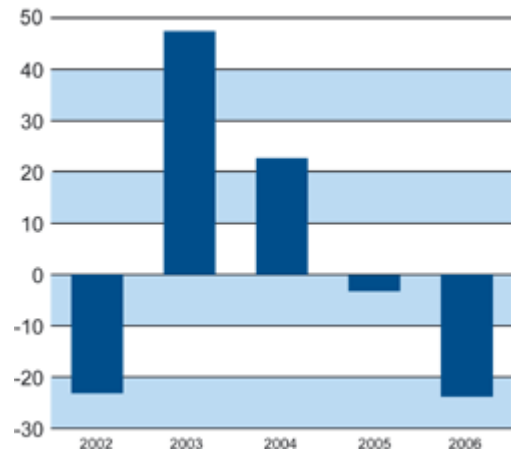
Operating profit MEUR



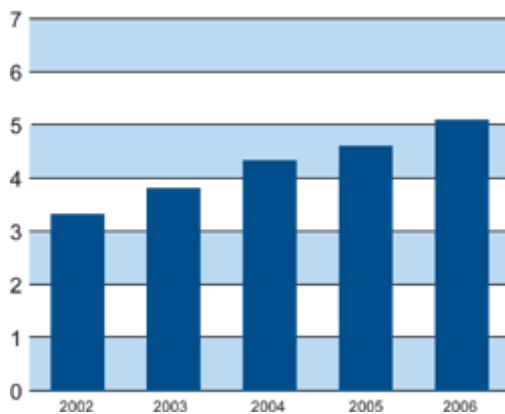
Return on investment (ROI) %



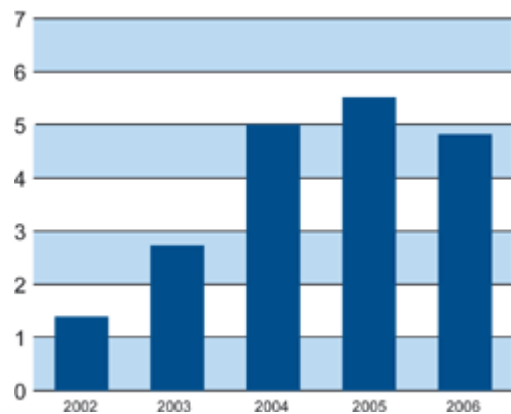
Return on equity (ROE) %



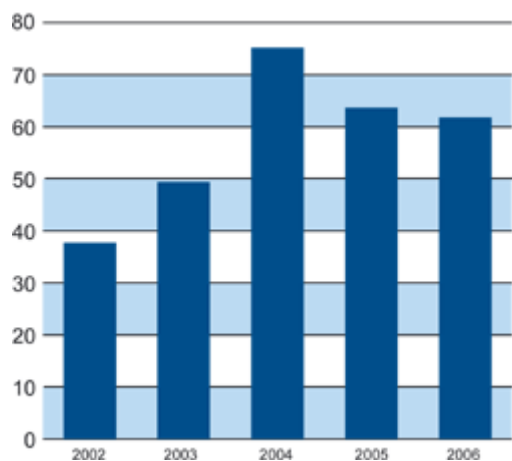
Product development expenditures MEUR



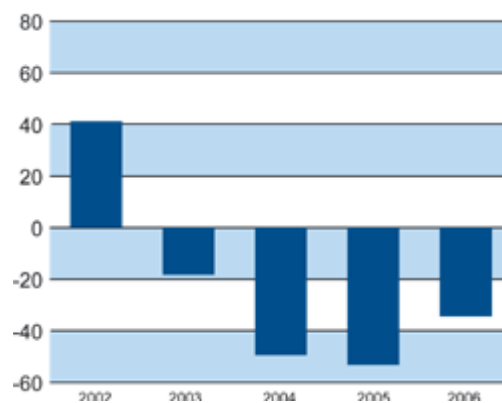
Gross investments MEUR



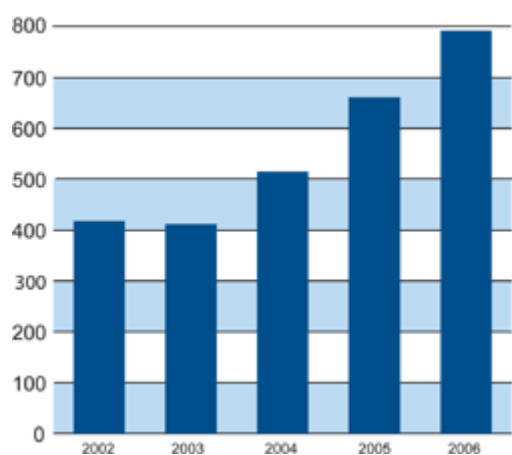
Solvency ratio %



Gearing %



Personnel, average



1,000 EUR	Note	2006	2005
NET SALES	(1)	90,498	81,648
Change in inventories of finished goods and work in progress		1,193	-116
Other operating income	(2)	510	199
Materials and services	(3)	-65,892	-53,610
Employee benefits expenses	(4)	-18,779	-18,312
Depreciation, amortisation and impairment	(5)	-3,995	-3,212
Other operating expenses	(6)	-9,363	-7,444
OPERATING PROFIT(-LOSS)		-5,827	-848
Financing income	(8)	1,022	1,051
Financing expenses	(9)	-842	-639
Share of profit of associated companies	(10)	151	0
PROFIT (-LOSS) BEFORE TAX		-5,495	-437
Tax on income from operations	(11)	-2,685	-1,030
PROFIT (-LOSS) FOR THE PERIOD		-8,180	-1,467
NET PROFIT/LOSS ATTRIBUTABLE			
To equity holders of the parent		-8,180	-1,467
Earnings per share calculated on profit attributable to equity holders of the parent:			
Earnings per share, eur	(12)	-0.20	-0.04
Earnings per share, diluted eur	(12)	-0.20	-0.04

All figures are rounded and consequently the sum of individual figures can deviate from the presented sum figure.

1,000 EUR	Note	2006	2005
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	(13)	4,623	4,390
Tangible assets	(14)	8,618	8,567
Investments in associates	(15)	247	0
Long-term receivables and other receivables		0	18
Other long-term investments		27	27
Deferred tax assets	(16)	314	1,768
		13,829	14,769
NON-CURRENT ASSETS			
CURRENT ASSETS			
Inventories	(17)	14,261	13,165
Trade receivables and other receivables	(18)	8,787	10,177
Financial assets held for trading	(19)	3,426	11,536
Cash and cash equivalents	(20)	8,200	10,285
		34,673	45,163
CURRENT ASSETS			
ASSETS		48,503	59,932
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	(21)	34,450	34,450
Share premium account	(21)	1	3,973
Fair value reserve and other reserves	(21)	1,280	747
Translation differences	(21)	201	198
Retained earnings		-5,725	-1,175
		30,208	38,192
Equity attributable to equity holders of the parent		30,208	38,192
SHAREHOLDERS' EQUITY		30,208	38,192
NON-CURRENT LIABILITIES			
Deferred tax liability	(16)	131	101
Interest-bearing liabilities	(22,23)	251	709
		381	810
NON-CURRENT LIABILITIES			
CURRENT LIABILITIES			
Interest-bearing liabilities	(22,23)	923	1,178
Trade payables and other liabilities	(24)	16,501	19,340
Current provisions	(25)	490	412
		17,914	20,930
CURRENT LIABILITIES			
LIABILITIES		18,295	21,740
TOTAL EQUITY AND LIABILITIES		48,503	59,932

1,000 EUR	Note	2005-2006	2004-2005
Cash flows from operating activities:			
Cash receipts from customers		90,845	82,094
Cash receipts from other operating income		370	196
Cash paid to suppliers and employees		-95,386	-74,210
		<hr/>	<hr/>
Cash generated from operations		-4,170	8,080
Interest paid		-826	-363
Dividends received		70	0
Interest received		788	1,245
Income taxes paid		-551	-344
		<hr/>	<hr/>
Net cash from operating activities (A)		-4,690	8,618
Cash flows from investing activities:			
Purchase of tangible and intangible assets		-4,966	-6,042
Proceeds from sale of tangible and intangible assets		40	24
Purchase of investments		0	164
		<hr/>	<hr/>
Net cash used in investing activities (B)		-4,926	-5,855
Cash flows from financing activities:			
Directed share issue and subscription of shares with warrants		0	1,048
Proceeds from short-term borrowings		197	43
Repayment of long-term borrowings		-713	-364
Dividends paid		0	-5,987
		<hr/>	<hr/>
Net cash used in financing activities (C)		-516	-5,261
Net increase/decrease in cash and cash equivalents (A+B+C)		-10,131	-2,498
		<hr/>	<hr/>
Cash and cash equivalents at beginning of period on Nov.1		21,821	23,958
Non-monetary changes		-64	361
Cash and cash equivalents at end of period on Oct.31	(19, 20)	11,626	21,821
		<hr/>	<hr/>
		-10,131	-2,498

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, IFRS

1,000 EUR

	Share capital	Share premium account	Other reserves	Translation differences	Retained earnings	Total
SHAREHOLDERS' EQUITY Nov. 1, 2005	34,450	3,973	747	198	-1,175	38,192
Change in translation difference	0	0	-13	4	-243	-252
Transferred from share premium account to retained earnings	0	-3,972	0	0	3,972	0
Transferred from retained earnings to other reserves	0	0	314	0	-314	0
The costs of options rights	0	0	231	0	0	231
Other changes	0	0	0	0	216	216
Profit/loss for the period	0	0	0	0	-8,180	-8,180
SHAREHOLDERS' EQUITY Oct. 31, 2006	34,450	1	1,280	201	-5,725	30,208

	Share capital	Share premium account	Other reserves	Translation differences	Retained earnings	Total
SHAREHOLDERS' EQUITY Nov. 1, 2004	17,127	20,078	297	0	5,940	43,442
Change in translation difference	0	0	11	198	539	748
The costs of options rights	0	0	134	0	0	134
Reclassifications between items	0	0	305	0	-138	166
Other changes	0	0	0	0	-62	-62
Annulment of own shares	-203	203	0	0	0	0
Profit/loss for the period	0	0	0	0	-1,467	-1,467
Dividend	0	0	0	0	-5,987	-5,987
Bonus issue	16,963	-16,963	0	0	0	0
Exercised options	563	656	0	0	0	1,219
SHAREHOLDERS' EQUITY Oct. 31, 2005	34,450	3,973	747	198	-1 175	38,192

Basic information

The electronics group Efore is an international company serving the telecommunications, industrial automation and healthcare sectors, and has custom-designed power supplies, DC power systems and their maintenance and repair services as its business. Efore has its headquarters in Espoo, Finland. It has product development and marketing units in Finland, China, the USA, Germany and Sweden. Efore's production facilities are located in China, Estonia and the USA. The parent company is Efore Plc, which has its registered office in Espoo, Finland (registered address Linnoitustie 4 A, 02600 Espoo, Finland). The parent company shares have been listed on the Helsinki Stock Exchange since 1989. For Efore's consolidated financial statements, please go to www.efore.fi or contact the parent company headquarters.

Accounting policies for the consolidated financial statements

Basis for preparation

The consolidated financial statements for the period November 1, 2005 – October 31, 2006 have been drawn up in accordance with the International Financial Reporting Standards (IFRS) and they conform to the IAS and IFRS standards in effect on October 31, 2006, and SIC and IFRIC interpretations. In the Finnish Accounting Act and the provisions under it, International Financial Reporting Standards mean the standards approved for use in the EU in accordance with the procedure laid down in the EU regulation (EC) No 1606/2002, and their interpretations. The notes to the consolidated financial statements are also in accordance with the Finnish accounting and corporation legislation.

Efore transferred to financial reporting in accordance with the International Financial Reporting Standards (IFRS) in the fiscal year, November 1, 2005-October 31, 2006. In adopting the new standards, Efore made use of the IFRS 1 (First-time Adoption of International Financial Reporting Standards). The consolidated financial statements had previously been in accordance with the Finnish Accounting Standards (FAS). Efore started applying the new standards on November 1, 2004, except for the financial-instrument standards IAS 32 and IAS 39, which were adopted on November 1, 2005. The following exemptions allowed under IFRS 1 were used:

- translation adjustments generated before November 1, 2004, have been recognized as retained earnings;
- the standards on financial instruments have been applied as of November 1, 2005; and
- business combinations taking place before November 1, 2004 have not been adjusted retroactively to correspond to IFRS calculation principles.

The differences arising from the adoption of IFRS standards are presented under 'reconciliation statements' in section 35 of the notes to the consolidated financial statements. Transfer to IFRS reporting. Except for the financial instruments, the comparative information for the fiscal year November 1, 2005 – October 31, 2006, has been changed in accordance with the IFRS principles.

The consolidated financial statements have been drawn up on the basis of original cost, except for financial assets that are recognized at fair value and that affect the financial performance, and derivative financial instruments measured at fair value. Share-based payments (granted option rights) have been recognized at fair value on the grant date. Unless otherwise stated, all the figures in these financial statements are in 1,000 euros.

Subsidiaries

Efore's consolidated financial statements comprise the financial statements of the parent company Efore Plc and its subsidiaries. Subsidiaries are companies in which Efore Plc holds, directly or indirectly, more than 50% of the votes or in which it has otherwise the right to determine how the company manages its finances and business operations.

Mutual shareholdings has been eliminated using the purchase method. Subsidiaries have been consolidated from the date on which the controlling interest in them was transferred to the Group and terminated on the date on which the Group ceased to have the controlling interest in the company. In preparing its preliminary IFRS balance sheet, Efore has made use of the exceptions permitted under IFRS 1 standard concerning business combinations. The assets, liabilities and contingent liabilities of business combinations made before November 1, 2004 have not been measured retroactively at fair value; they are included in the balance sheet of the transitional period at values in accordance with the previous accounting practice.

All intra-group transactions, receivables, liabilities, unrealized profits, and internal profit distribution are eliminated in drawing up the consolidated financial statements. Unrealized losses are not eliminated if the loss is a result of impairment. The distribution of profits for the fiscal year to the parent-company owners is detailed in connection with the income statement.

Associated companies

Associated companies in which the Group holds between 20 and 50% of the voting rights and in which it has a major holding but not the controlling interest have been consolidated using the equity method. If the Group's share of the associated company's losses exceeds its holding in the company, the investment is entered as zero and no consideration is given to losses in excess of that amount unless the Group has other obligations relating to the associated companies.

Translation of foreign-currency items

Figures for the performance and financial position of the Group units are measured in the main currency of the unit's operating environment. The consolidated financial statements are in euros, which is the parent company's functional and presentation currency.

Foreign-currency transactions

Foreign-currency transactions are translated into functional currencies using the exchange rates in effect on the day of the transaction. In practice, Efore often uses exchange rates that are approximately the day's rates. Monetary foreign-currency items on the balance sheet date have been translated into functional currencies using the exchange rate on the balance sheet date. Non-monetary foreign-currency items measured at fair value have been translated into functional currencies using the exchange rates on the transaction date. Other non-monetary items have been translated using the exchange rate on the transaction date. Profits and losses arising from foreign-currency transactions and translation of monetary items have been recognized in the income statement. Exchange adjustments arising from the translation of trade receivables are recognized as adjustment to net sales, while exchange differences resulting from the translation of trade payables are entered as adjustment to purchase costs. Other exchange gains and losses are presented under financial income and costs.

Translation of the financial statements of foreign group companies

The income statements of foreign group companies have been translated into euros by using the averages of the average rates of the European Central Bank for the calendar months in the fiscal year, while their balance sheets have been translated using the exchange rates on the balance sheet date. Using different exchange rates for translating the performance of the fiscal year in the income statement and the balance sheet results in a translation adjustment that is recognized in equity.

Translation differences arising from the elimination of the purchase cost of foreign subsidiaries and from the translation of equity balances accumulated after purchase are recognized as equity. When a subsidiary is sold, the resulting translation differences are recognized in the income statement as sales profits and losses. Translation differences generated before November 1, 2004, the date on which the Efore Group adopted the IFRS standards, have been recognized as retained earnings in connection with the changeover, as permitted under an IFRS 1 exemption. Moreover, they will not be recognized in the income statement in connection with the sale of the subsidiary. Translation differences generated from the changeover date in connection with the preparation of the consolidated financial statements are shown under equity as a separate item.

Property, plant and equipment

Property, plant and equipment are measured at their original cost minus depreciation and amortization expense and impairment.

If property, plant and equipment comprise more than one item each of which has a useful life of a different length, the items are treated separately. In such cases, the cost of renewing the item is capitalized. Otherwise, expenditure generated at a later date is only included in the book value of the item if its future economic benefits are for the good of the Group and the acquisition cost of the item can be reliably determined. Other maintenance and repair costs are recognized as expenditure on the date they were generated.

Straight-line depreciation is applied to the items during their estimated useful lives. The estimated useful lives are as follows:

Machinery and equipment	3-10 years
Other tangible assets	5 years

The residual values and useful lives of the items are examined in connection with the preparation of every set of financial statements and, when necessary, adjusted in accordance with the changes in expectations for economic benefits.

Sales profits and losses resulting from the decommissioning and transfer of property, plant and equipment are included in other operating income and expenses.

Borrowing costs

Borrowing costs are recognized as expenditure for the fiscal year in which they were generated.

Government grants

Grants received from the Government and other sources are entered into the income statement at the same time as the recognition of expenses. Such grants are included in other operating income. Grants connected with the acquisition of property, plant and equipment will decrease their cost. The grants will translate into income in the form of lower depreciation and amortisation expenses during the item's useful life.

Intangible assets

Goodwill

Goodwill generated by business combinations is the difference between the cost and the identifiable assets, liabilities and contingent liabilities measured at fair value. No regular depreciation is made on goodwill as it is tested each year for any impairment. The Efore Group does not have any goodwill during the periods under review.

Research and development expenditure

Research expenditure is recognized as an expense in the income statement. Development costs arising from the design of new or more advanced products are capitalized in the balance sheet as intangible assets from the moment the product can be technically implemented, applied commercially and expected to generate future economic benefits. Capitalized development costs comprise the material, work and testing of expenditure that are the direct result of the process of completing the product for its intended use.

Depreciation and amortisation expenses are recognized from the moment the item is ready for use. Items that are not yet ready for use are tested each year for impairment. Capitalized development costs are measured after the original recognition after impairment and acquisition cost depreciation have been deducted from them. The useful life of capitalized development costs is 3-5 years during which capitalized costs are recognized as straight-line depreciation.

Other intangible assets

Intangible assets are recognized in the balance sheet at original cost if the cost can be accurately determined and the economic benefits generated by the assets are likely to be for the good of the company.

Intangible assets that have a limited useful life are recognized in the income statement as straight-line depreciation during their known or estimated useful life. No depreciation is made on intangible assets that have an unlimited useful life as they are tested each year for impairment. The Group does not have any assets with unlimited useful life during the periods under review.

Depreciation periods for other intangible assets are as follows:

Licenses	5 years
Computer programs	5 years

Inventories

Inventories are measured at acquisition cost or at net realizable value, whichever is lower. Raw material acquisition costs are determined using a weighted average cost method. The acquisition cost for finished goods and work in progress consists of raw materials, direct labor, other direct expenditure and an appropriate part of the variable production overheads and fixed production overheads. The net realizable value is the estimated sales price in the ordinary course of business minus the expenditure needed to make the product ready and the sales-related costs. Obsolete and slow-moving inventories have been subjected to write-offs in accordance with the Group's measurement principles.

Leases

Group as lessee

Leases on tangible and intangible assets in which the Group holds a substantial part of the ownership-related risks and benefits are classified as financial leases. Financial leases are recognized in the balance sheet at the fair value of the leased item at the start of the lease, or at the current value of the minimum lease payments, whichever is lower. Depreciation is made on items acquired with a financial lease during the item's useful life, or during the lease term, whichever is shorter. Leases to be paid are divided into financial cost and decreases in debt during the lease term so that the interest on the remaining debt is the same each fiscal year. Lease obligations are included in interest-bearing liabilities.

Leases in which the lessor carries the ownership-related risks and benefits are classified as operating leases. Lease payments made on the basis of operating leases are recognized in the income statement on a straight-line basis during the lease term.

Impairments

Tangible and intangible assets

The value of assets is assessed on each the balance sheet date so that any impairment can be identified. If there are any indications of impairment, estimates will be made of the recoverable amount. Estimates will also be made of the recoverable amount for the following assets at least on a yearly basis irrespective of whether there are any indications of impairment: intangible assets with an unlimited useful life and capitalized development costs. The impairment need is examined at the level of units generating cash flows, in other words, at the lowest unit level which is largely independent of other units and the cash flows of which can be separated from other cash flows.

The recoverable amount is the fair value of the asset minus sales-related expenditure or a higher value in use. The value in use refers to the estimated future net cash flows, discounted at their present value, that arise from the assets in question or the unit generating cash flows.

The impairment loss is recognized when the book value of the asset is higher than the recoverable amount. The impairment loss is entered directly in the income statement. The useful life of the asset to be depreciated is reassessed in connection with the recognition of the impairment loss. An impairment loss recognized in connection with other assets than goodwill will be reversed if there have been changes in the assessments used for determining the recoverable amount. The impairment loss to be reversed may, however, not exceed the book value the asset would have without the recognition of the impairment loss.

Employee benefits

Pension liabilities

In countries in which it is operational, the Group has entered into pension schemes that are in accordance with local practices. The Group's pension arrangements have been classified as defined contribution plans. Payments made into defined contribution pension schemes are recognized in the income statement during the fiscal year to which they apply.

Share-based payments

Efore has applied the IFRS 2 standard for share-based payments for all such option schemes in which the options have been granted after November 7, 2002 and for which there have been no rights before January 1, 2005. The expenditure for earlier option schemes is not shown in the income statement.

Schemes paid as equity instruments are measured at fair value on the grant date and recognized in the income statement as straight-line expenditure during the period in which the right was generated. Corresponding amounts are recognized directly as an increase in equity. The expenditure determined on the grant date is based on a Group estimate on the number of options to which there should be a right at the end of the period in which the right was generated. The fair value is determined using the Black-Scholes option pricing model. Changes in assessment are recognized in the income statement. When option rights are exercised, the nominal value of the subscription-based payments (adjusted by possible transaction costs) is recognized as share capital while the rest is recognized in the share premium account.

Financial assets and liabilities

Trade and other receivables

Trade and other receivables are financial assets coming under loans and receivables and they are measured at acquisition cost.

The Group examines on each the balance sheet date whether, in connection with trade and other receivables, there is any objective evidence of a write-off in connection with individual receivables or a group of receivables. The amount of write-offs is mainly based on risks connected with individual receivables. Write-offs are recognized as expenditure in the income statement.

Financial assets held for trading

Financial assets held for trading comprise listed shares that have been acquired mainly for profiting from short-term changes in market prices. Realized and unrealized profits and losses arising from changes in market values are recognized in the income statement during the period in which they are generated.

Derivative financial instruments

Derivative financial instruments are classified as financial assets and liabilities held for trading and are measured at fair value. Changes in the fair value of currency derivatives connected with purchases and sales are recognized in the income statement as purchase and sales adjustments. Changes in the fair value of derivatives connected with financial items are recognized as financial income and costs.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits that can be withdrawn on request and highly liquid current investments.

Financial liabilities

At the moment, financial liabilities are still recognized at fair value and transaction costs are included in the original book value of financial liabilities. In the future, all financial liabilities will be measured at amortized cost based on the effective interest method.

Provisions

Provisions are recognized in the balance sheet when the Group has, as a result of earlier transactions, a present obligation that is of legal or constructive nature, and meeting the obligation is likely to require economic outputs or will result in a financial loss, and the obligation can be accurately defined. Provisions may be connected with such matters as restructuring operations, loss-making contracts, court cases or warranty costs.

A warranty provision is recognized in the balance sheet when a product containing a warranty clause is sold. The size of the sum involved is determined on the basis of what is known about past warranty costs.

A restructuring provision is recognized in the balance sheet when the Group has drawn up a detailed restructuring plan, begun to implement the plan or provided notification of it.

Income taxes

Accrual-based taxes corresponding to the earnings of the Group companies for the fiscal year that are based on the taxable income calculated in accordance with the local tax code observed by each company, tax adjustments for earlier fiscal years, and changes in deferred taxes are recognized as income taxes in the Group's income statement.

Recognition of deferred tax liabilities and assets is based on the temporary differences between the taxation of Group companies and the balance sheet and in the financial statements on the basis of the differences arising from Group eliminations. The tax rate for the deferred tax liabilities and assets is based on the tax rate for the following year confirmed in the country in question on the balance sheet date.

The most important deferred tax assets and liabilities are the depreciation of property, plant and equipment in connection with Group eliminations and the temporary difference in connection with the amortisation of the loss on the winding up of a Group company. No deferred taxes are recognized for subsidiaries' undistributed profits to the extent that the taxes are not dissolved in the foreseeable future.

No deferred tax assets have been recognized for unused tax losses as it is uncertain whether they can be used in the future. Deferred tax liabilities are recognized at the full amount.

Recognizing sales as income

Goods sold and services produced

Sales of products are recognized as income when the major risks and benefits connected with the ownership of the products sold have been transferred to the buyer and the Group is no longer in possession of the products or has any real control over them. Income from services is recognized when the services have been carried out for the customer. The calculation of net sales deducts from the proceeds discounts granted, indirect taxes and exchange differences arising from translating foreign currency trade receivables.

Accounting policies requiring management consideration and the main uncertainty factors in connection with the assessments

When financial statements are prepared, the company management must produce assessments and estimates about the future, which may or may not be accurate. Moreover, the management must apply the accounting policies with care. The assessments and estimates are based on the best management judgment at the balance sheet date. Any changes in assessments and estimates are recognized in the bookkeeping in the fiscal year during which the assessments and estimates are revised and in all subsequent fiscal years.

Management estimates concerning warranty provisions and the write-offs of inventories are based on approved calculation models and case-by-case judgment. The calculation models have been drawn up on the basis of the company history and the current management view of the market. Case-by-case judgment has been based on the best information available on the balance sheet date. Impairment tests for tangible and intangible assets are based on management assessments of how future cash flows will develop.

New standards and interpretations

In the fiscal year November 1, 2006 – October 31, 2007, the Group will introduce the following new or revised standards and interpretations published by IASB in 2005 and 2006:

- IFRIC 4 (Determining whether an Arrangement contains a lease); and
- IFRIC 10 (Interim Financial Reporting and Impairment).

These interpretations are not expected to have any major impact on the Group figures.

In the fiscal year November 1, 2007 – October 31, 2008 Efore will introduce IFRS 7 (Financial Instruments: Disclosures), which will have an impact on how the notes on financial instruments are presented. IFRS 8 (Operating Segments), which will have some impact on how the consolidated segment notes are presented, will be applied in the fiscal year November 1, 2009 – October 31, 2010 at the latest.

Other new and revised standards and interpretations already published are not expected to have any impact on the Group's financial statements.

1. Segment information (1,000 EUR)

Efore Group reports primarily by business segment and secondarily according to geographical segment.

The primary segment refers to the whole Group i.e. the figures in the primary segment are consistent with the consolidated figures.

The secondary, geographical, segment is divided into three groups:

The Americas (North, Central and South America), EMEA (Europe, Middle East and Africa) and APAC (Asia, and the Pacific Region). The geographical segments are based on net sales according to the customers' location i.e. the market areas. Assets and investments are according to the location of the items in question.

Geographical segments 2006	Americas	EMEA	APAC	Group
Net sales	21,179	57,903	11,417	90,498
Segment's assets	3,276	20,221	13,027	36,524
Investments	130	3,713	992	4,835

Geographical segments 2005	Americas	EMEA	APAC	Group
Net sales	24,767	50,536	6,344	81,648
Segment's assets	7,221	20,812	8,181	36,214
Investments	560	3,291	1,751	5,602

2. Other operating income (EUR 1,000)

	2006	2005
Product development grants	244	89
Gain on disposal of non-current assets, tangibles	110	0
Other income	157	109
Total	510	199

3. Materials and services (EUR 1,000)

	2006	2005
Materials	63,547	53,561
Change in inventories	97	-2,243
Services	2,247	2,292
Total	65,892	53,610

4. Employee benefits expenses (EUR 1,000)

	2006	2005
Wages and salaries	15,467	14,653
Pension expenses, defined contribution plans	1,784	1,926
Share-based payments	231	134
Other social security expenses	1,297	1,600
Total	18,779	18,312

Information about wages, salaries and fees of management considered to be insiders and their other employment benefits and shareholdings are shown in Note 32. Insider transactions

Average personnel	2006	2005
Average number of personnel during fiscal year	792	668
Personnel on balance sheet date	812	751
5. Depreciation, amortisation and impairments (EUR 1,000)	2006	2005
Asset-grouped depreciation according to plan		
Development expenses	843	539
Intangible rights	76	81
Intangible assets, finance lease	40	17
Other intangible assets	114	77
Machinery and equipment	2,000	1,729
Machinery and equipment, finance lease	123	138
Other tangible assets	319	266
Total	3,515	2,848
Impairments on development expenses	480	364
6. Other operating expenses (EUR 1,000)	2006	2005
Loss on sale and scrapping of tangible fixed assets	240	2
Research and development expenses recognized in income statement	3,463	2,640
Rental costs	2,453	1,817
Non-statutory employee benefits	947	717
Auditing expenses, actual audit	104	122
Auditing expenses, other specialist services	122	63
Other fixed expenses	2,034	2,083
Total	9,363	7,444
7. Non-recurring items (EUR 1,000)	2006	2005
Deferred tax assets	1 890	0
Materials and services	1 750	220
Employee benefits expenses	443	0
Depreciation and impairments	483	364
Restructuring expenses	1 113	1 071
Impairment loss reversals/impairment loss of value of associated company	-275	260
Total	5 404	1 915

The non-recurring expenses were principally the result of the extensive restructuring by the company, which included the impairments of production equipment and redundancy payments for personnel that arose from the decisions to terminate production operations at the Saarijärvi plant and to close down one of the two plants in the USA. With the closure of the plants major obsolescence write-offs of inventory items both in Finland and the USA were made on materials and components with no future use. Impairment loss reversals/impairment loss of an associated company apply to Power Innovation GmbH.

8. Financing income (EUR 1,000)	2006	2005
Dividends	70	0
Interest	36	62
Exchange rate gains	59	299
Other financing income	685	689
Change in fair value of assets recognized at fair value in income statement	172	0
Total	1,022	1,051
9. Financing expenses (EUR 1,000)	2006	2005
Impairment losses of investments in non-current assets		
Impairment loss of holdings in associated company	0	184
Impairment loss reversals	-199	0
Impairment losses on financial securities in current assets		
Impairment loss of holdings in associated company	0	77
Change in fair value of financial securities recognized at fair value in income statement	91	19
Impairment loss reversals	-203	0
Interest and other financial expenses		
Interest and other financial expenses	402	317
Exchange rate losses	393	29
Other financial expenses	358	14
Total	842	639
10. Share of profit of associated companies (EUR 1,000)	2006	2005
Share of profit of associated companies	151	0
11. Income taxes (EUR 1,000)	2006	2005
Income taxes in income statement		
Tax based on taxable income for fiscal year	-609	-787
Taxes from previous fiscal years	12	1
Deferred taxes	-2,088	-245
Total	-2,685	-1,030

Income taxes recognized in the consolidated income statement differ from income tax according to Finnish company's tax rate as follows

Result before taxes	-5,495	-437
Taxes calculated at parent company's tax rate (26%)	1,429	114
Differing tax rates of foreign subsidiaries	1,321	1,177
Non-deductible expenditure	-492	-97
Tax-exempt income	1,063	1,522
Taxes from earlier fiscal periods	12	1
Effect of change in tax rate	0	42
Changes in deferred tax assets formed in earlier fiscal years	-1,945	-107
Unrecognized tax on losses for fiscal year	-3,957	-2,166
Other items	-117	-1,516
Tax in income statement	-2,685	-1,030

12. Earnings per share (EUR 1,000)

	2006	2005
Result for fiscal year attributable to owners of parent company	-8,180	-1,467
Weighted average number of shares (1,000s)	40,530	40,530
Effect of outstanding options	0	0
Diluted average weighted number	40,530	40,530
Earnings per share, eur		
Undiluted	-0.20	-0.04
Diluted	-0.20	-0.04

Undiluted

The earnings per share is calculated by dividing the profit or loss attributable to the owners of the parent company by the average, share-issue-adjusted number of shares during the fiscal year.

Diluted

The diluted earnings per share has been calculated by adjusting the average number of outstanding shares, assuming that all possible shares are subscribed. Efore has one option program, which has three series (2005A, 2005B ja 2005C).

The options have a diluting effect when the subscription price of an option is lower than the shares' market price. The diluting effect is the number of shares that Efore must issue without charge because the funds obtained from the implemented options do not cover the fair value of the shares. The fair value of Efore's shares is determined on the basis of their market price at the end of the fiscal period.

13. Intangible assets, IFRS (EUR 1,000)

Intangible assets 2006	Development expenses	Intangible rights	Intangible assets finance lease	Other intangible assets	Total
Acquisition cost on Nov. 1	8,088	719	83	587	9,478
Translation difference (+/-)	-2	1	0	0	-2
Additions	1,640	70	74	3	1,787
Disposals	-379	-1	0	0	-380
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Acquisition cost on Oct. 31	9,347	789	157	590	10,883
Accumulated depreciation and impairment on Nov.1	-4,450	-492	-17	-129	-5,088
Translation difference (+/-)	0	1	0	0	1
Cumulative depreciation on disposals	379	1	0	0	380
Depreciation	-843	-76	-40	-114	-1,073
Impairments	-480	0	0	0	-480
<hr/>					
Accumulative depreciation and impairment on Oct. 31	-5,393	-566	-58	-243	-6,260
Book value on Oct. 31, 2006	3,953	223	99	347	4,623

Intangible assets 2005	Development expenses	Intangible rights	Intangible assets finance lease	Other intangible assets	Total
Acquisition cost on Nov. 1	5,719	718	73	616	7,126
Translation difference (+/-)	0	0	0	1	1
Additions	1,936	141	10	70	2,157
Disposals	-11	0	0	0	-11
Reclassifications between items	444	-140	0	-99	205
<hr/>					
Acquisition cost on Oct. 31	8,088	719	83	587	9,478
Accumulative depreciation and impairments on Nov. 1	-3,103	-558	0	-150	-3,811
Translation difference (+/-)	0	0	0	-1	-1
Cumulative depreciation on disposals	-444	147	0	99	-198
Depreciation	-539	-81	-17	-77	-714
Impairments	-364	0	0	0	-364
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Accumulative depreciation and impairment on Oct. 31	-4,450	-492	-17	-129	-5,088
Book value on Oct.31, 2005	3,639	227	65	458	4,390

14. Tangible assets, IFRS (EUR 1,000)

Tangible assets 2006	Machinery and equipment	Machinery and equipment, finance lease	Other tangible assets	Advance payments and work in progress	Total
Acquisition cost on Nov. 1	18,195	461	1,990	297	20,943
Translation difference (+/-)	-284	0	-50	0	-334
Additions	4,645	192	245	1,497	6,579
Disposals	-5,361	-152	-62	-1,673	-7,248
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Acquisition cost on Oct. 31	17,195	501	2,124	121	19,941
Accumulative depreciation and impairments on Nov. 1	-10,905	-138	-1,334	0	-12,377
Translation difference (+/-)	163	0	31	0	194
Cumulative depreciation on disposals	3,212	62	29	0	3,303
Depreciation	-2,000	-123	-319	0	-2,442
Impairments	0	0	0	0	0
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Accumulative depreciation and impairments on Oct. 31	-9,531	-198	-1,593	0	-11,322
Book value on Oct. 31, 2006	7,664	303	530	121	8,618
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Tangible assets 2005	Machinery and equipment	Machinery and equipment, finance lease	Other tangible assets	Advance payments and work in progress	Total
Acquisition cost on Nov. 1	17,129	461	1,636	138	19,365
Translation difference (+/-)	327	0	61	0	388
Additions	2,867	0	418	159	3,445
Disposals	-657	0	0	0	-657
Reclassifications between items	-1,472	0	-125	0	-1,597
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Acquisition cost on Oct. 31	18,195	461	1,990	297	20,943
Accumulative depreciation and impairment on Nov. 1	-11,182	0	-1,063	0	-12,245
Translation difference (+/-)	-191	0	-43	0	-234
Cumulative depreciation on disposals	2,197	0	38	0	2,236
Depreciation	-1,729	-138	-266	0	-2,134
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Accumulative depreciation and impairment on Oct. 31	-10,905	-138	-1,334	0	-12,377
Book value on Oct. 31, 2005	7,290	323	656	297	8,567

15. Holdings in associated company (EUR 1,000)	2006	2005
At beginning of fiscal year	0	361
Share of profit	151	0
Share of profit from previous fiscal years	96	0
Impairment losses	0	-361
At end of fiscal year	247	0

The associated company's book value does not include goodwill for 2006 or 2005.

Group's associated company and its assets, liabilities, net sales and profit//loss.

	Registered office	Assets	Liabilities	Net sales	Profit/loss	Ownership
Power Innovation GmbH	Germany	6,778	5,789	17,917	604	25 %

16. Deferred tax assets and liabilities (EUR 1,000)

Deferred tax assets	Nov.1, 2005	Recognized in income statement	Oct. 31, 2006
Accumulated losses	1,273	-1,273	0
Translation difference of deferred tax asset	0	33	0
Internal margin on capitalized product development costs	355	-151	204
Amortisation of loss on winding-up	93	0	93
Cancellation of avoir-fiscal receivable	0	-638	0
Other items	48	-30	17
Total	1,768	-2,059	314
 Deferred tax liabilities			
Internal margin on product development capitalization	101	15	116
Other items	0	14	14
Total	101	29	131
Deferred taxes, net	1,667	-2,088	183

Deferred tax assets	Nov.1, 2004	Recognized in income statement	Oct. 31, 2005
Accumulated losses	1,202	71	1,273
Translation difference of deferred tax asset	0	-77	0
Internal margin on capitalized product development costs	583	-228	355
Amortisation of loss on winding-up	93	0	93
Other items	13	35	48
Total	1,890	-199	1,768
 Deferred tax liabilities			
Internal margin on product development capitalization	55	46	101
Other items	0	0	0
Total	56	46	101
Deferred taxes, net	1,834	-245	1,666

Deferred tax assets of EUR 1,273 thousand recognized in previous fiscal years were cancelled in the fiscal year ended October 31, 2006. The Group had tax losses totaling EUR 24,070 thousand on October 31, 2006. A deferred tax asset was not recognized out of them because they may not be usable. The confirmed losses will decrease from 2015 onwards. The avoiron-fiscal receivable of EUR 638 thousand was included in Prepayments and accrued income in 2005.

A deferred tax liability on the undistributed earnings of the subsidiaries has not been recorded in the consolidated accounts because the tax is not expected to be realized in the foreseeable future.

17. Inventories (EUR 1,000)	2006	2005
Materials and supplies	9,998	10,095
Work in progress	1,578	1,162
Finished goods	2,684	1,908
Total	14,261	13,165

The inventories were reduced in the fiscal year by write-offs of EUR 1,939 thousand (EUR 722 thousand).

18. Trade receivables and other receivables (EUR 1,000)	2006	2005
Trade receivables from associated company	0	10
Trade receivables	7,574	7,911
Other receivables	574	961
Prepayments and accrued income	634	1,208
Income tax receivables	4	87
Total	8,787	10,177

During the fiscal year the Group recognized write-offs of EUR 58 thousand (EUR 22 thousand) on trade receivables.

Material items included in Prepayments and accrued income		
Periodizations of personnel expenses	165	77
Avoiron-fiscal proceeds	0	638
Other items	469	493
Total	634	1,208

19. Financial assets held for trading (EUR 1,000)	2006	2005
Financial assets held for trading	3,426	11,536

Financial assets held for trading are listed shares and funds and they were valued at their closing market value on October 31, 2006. These financial assets were hedged by a share futures with a nominal value of EUR 2,004 thousand.

20. Cash and cash equivalents (EUR 1,000)	2006	2005
Cash at banks	8,200	10 285

21. Notes concerning equity (1,000 EUR)

Number of shares, share capital and premium account	Number of shares	Share capital	Premium account	Total
Nov. 1, 2004	20,149,024	17,127	20,078	37,204
Option rights 1998	662,400	563	0	563
Option rights Nov. 1 - Oct.31	0	0	656	656
Annulment of shares Dec.21, 2004	-238,400	-203	203	0
Bonus issue Dec.21, 2004	19,956,624	16,963	-16,963	0
Oct. 31, 2005	40,529,648	34,450	3,973	38,423
Nov. 1, 2005	40,529,648	34,450	3,973	38,423
Use of option rights	0	0	0	0
Annulment of shares	0	0	0	0
Transfer to undistributed earnings	0	0	-3,972	-3,972
Oct. 31, 2006	40,529,648	34,450	1	34,451
Own shares held by company	0			
Total number of shares	40,529,648			

The number of Efore Plc shares was 40,529,648 and the share capital EUR 34,450,200.80 on October 31, 2006. The equivalent book value was EUR 0.85 per share.

According to the company's Articles of Association, the company's minimum share capital is EUR 12,750,000.00 and the maximum EUR 51,000,000.00. All the issued shares have been paid for in full.

The company has one share series. The voting right for each share is one vote per share.

Below is a description of the reserves within equity:

Other reserves

The legal reserve includes the proportion transferred to tied equity in accordance with the Articles of Association or a decision by a meeting of shareholders.

Other reserves include amounts included in the tied equity of foreign Group companies.

The fair value reserves includes the costs of the option rights.

Translation differences

The translation reserve contains translation adjustments generated by the translation of the foreign units' financial statements.

Dividends

After the balance sheet date the Board of Directors did not recommend the payment of a dividend. (2005: EUR 0.0).

Stock options

Under an authorization granted by the Annual General Meeting on December 16, 2004 the Board of Directors decided on March 18, 2005 to introduce a stock option program aimed at committing key personnel to the company on a long-term basis. A share ownership program in which key personnel are obliged to acquire Efore shares with 20% of the net income gained from stock option rights and to own the shares for at least one year is incorporated in the stock options. The option rights will lapse if they have not been claimed within the subscription time. If a person leaves the Group before the final creation of the right, the option rights will be lost.

Stock option scheme 2005	Share-based option rights			Total
	2005A	2005B	2005C	
Option rights maximum, pcs	950,000	650,000	650,000	2,250,000
Shares to be subscribed per option, pcs	1	1	1	
Subscription price	3.07	1.87	1)	
Dividend right	Yes	Yes	Yes	
Exercisable, from	Nov. 1, 2007	Apr. 1, 2008	Apr. 1, 2009	
Expiration	Apr. 30, 2010	Apr. 30, 2011	Apr. 30, 2012	
Option life, years	3.5	4.5	5.5	

1) Average price on Helsinki Stock Exchange January 1 - March 15, 2007 weighted by turnover of Efore shares

Option scheme 2005	Share-based option rights			Total	Subscription prices (weighted)
	2005A	2005B	2005C		
Numbers Nov. 1, 2005					
Option rights granted	676,000	0	0	676,000	3.07
Option rights forfeited	0	0	0	0	
Option rights cancelled	0	0	0	0	
Option rights exercised	0	0	0	0	
Option rights outstanding	676,000	0	0	676,000	3.07
Option rights held for future grants	274,000	650,000	650,000	1,574,000	2.08
Changes in fiscal year					
Option rights granted	163,000	580,000	0	743,000	2.13
Option rights forfeited	236,000	100,000	0	336,000	2.71
Option rights cancelled	0	0	0	0	
Option rights exercised	0	0	0	0	
Average price weighted by turnover in subscription period, EUR					
Option rights expired	0	0	0	0	
Numbers Oct. 31, 2006					
Option rights granted	839,000	580,000	0	1,419,000	2.58
Option rights forfeited	236,000	100,000	0	336,000	2.71
Option rights cancelled	0	0	0	0	
Option rights exercised	0	0	0	0	
Option rights outstanding	603,000	480,000	0	1,083,000	2.54
Option rights held for future grants	347,000	170,000	650,000	1,167,000	2.23
Option rights exercisable	0	0	0	0	

The Black-Scholes option pricing model was used to determine the fair value of the options. Fair value is determined for the option rights on the grant day and is recognized in personnel expenses for the option rights' commitment period. The grant date is the date of decision by the Board of Directors. Future dividends are not included in the calculation. In accordance with the IFRS regulations the option rights that were granted before November 7, 2002 or to which a right was created before January 1, 2005 have not been recognized as an expense in the financial statements. The 1998 option program expired with the end of the subscription time for shares on December 31, 2004. IFRS 2 is not applied to Efore Plc's 1998 option rights, so no fair value was determined for them. The effect of option rights on the company's financial performance for the 2006 fiscal year is EUR 231 thousand (EUR 134 thousand).

Implementation	2006 granted	all option rights
Option rights granted, pcs	743,000	1,419,000
Share price, EUR	1.90	2.07
Subscription price, EUR	2.13	2.58
Risk-free interest %	3.7 %	3.5 %
Expected dividends (dividend yield)	0.0 %	0.0 %
Option right's lifetime, years	4.7	4.9
Expected volatility, %*	53.6 %	54.0 %
Option rights forfeiting, %	21.3 %	29.3 %
Fair value, total, EUR	651,809	1,299,573
Value-determination model	BS	BS

*The expected volatility has been determined by calculating the actual volatility of the Group's share price for a period corresponding to the maturity of the option rights just before the grant date of the option rights.

22. Interest-bearing liabilities (1,000 EUR)	2006 Balance sheet values	2005 Balance sheet values
Non-current		
Loans from credit institutions	0	505
Finance lease liabilities	251	204
Current		
Loans from credit institutions	788	1,053
Finance lease liabilities	135	124

Maturity dates of non-current liabilities

2006	2007	2008	Later
Finance lease liabilities	118	115	136

2005	2006	2007	Later
Loans from credit institutions, floating interest rate	505	0	0
Finance lease liabilities	123	122	83

Interest-bearing non-current liabilities by currency

	2006	2005
	251	709
	<u>251</u>	<u>709</u>

23. Maturity of finance lease liabilities (EUR 1,000)

	2006	2005
Finance lease liabilities - Total amount of minimum lease payments		
Less than 1 year	154	139
1-5 years	272	218
More than 5 years	0	0
	<u>426</u>	<u>357</u>
Finance lease liabilities - present value of minimum lease payments		
Less than 1 year	135	124
1-5 years	251	204
More than 5 years	0	0
	<u>386</u>	<u>328</u>
Financing expenses accumulating in the future	40	29
Total amount of finance lease liabilities	<u>386</u>	<u>328</u>

Finance lease liabilities are caused by leases for production machinery, IT software and office equipment

24. Trade payables and other liabilities (EUR 1,000)	2006	2005
Current		
Trade payables to associated company	9	3
Advances received	5	0
Trade payables	11,723	14,952
Other payables	764	420
Accruals and deferred income	4,000	3,965
	<hr/>	<hr/>
Total	16,501	19,340
Material items included in accruals and deferred income		
Short-term interest payable	0	38
Periodized personnel expenses	2,173	2,450
Income taxes	0	68
Periodized restructuring expenses	614	63
Other items	1,213	1,347
	<hr/>	<hr/>
Total	4,000	3,965

25. Provisions (EUR 1,000)	2006	2005
Short-term provisions		
Warranty provision Nov. 1	343	0
Additions	147	343
	<hr/>	<hr/>
Warranty provision Oct. 31	490	343

Products sold by the company have a normal warranty time. Predicted future warranty costs relating to delivered products are recognized in the warranty provision. Actual warranty costs are recognized in the income statement in the fiscal year in which they are created.

Other short-term provisions Nov. 1	69	0
Increases	0	69
Provisions used	-69	0
	<hr/>	<hr/>
Other short-term provisions Oct. 31	0	69

26. Management of financing risks

The principles and aims of the Group's management of financing risks is determined in the financing risk policy, which, if necessary is updated and confirmed by the Board of Directors. The management of financing risks aims at avoiding risks and cost-effective arrangements for protecting the Group from factors that may affect its performance and cash flow.

Financing risks are managed through exchange-rate and interest-rate hedging using only financial instruments with a market value and risk profile that can be reliably monitored.

Exchange-rate risk

Exchange-rate risks refer to risks caused by changes in exchange rates that can affect business performance or Group solvency.

Most of the Group's sales are denominated in euros and the US dollar. The operating expenses are generated in euros, the US dollar and the Renminbi.

The policy of the Group is to hedge the main foreign currency surpluses and deficits of commercial value and fixed purchase and sales contracts. Hedging is carried out with currency derivatives, such as forward currency contracts, currency options and foreign currency loans. Most currency derivatives have a duration of less than one year. In the financial statements the equity capital of foreign subsidiaries is translated at the European Central Bank's average rate on the balance sheet date and exchange rate differences are shown in the consolidated financial statements as translation adjustments. The subsidiaries' equity capital has not been hedged. The instrument used for hedging against exchange-rate risks and their nominal values at the end of the fiscal year are itemized in section 27 of the notes to the financial statements, Fair values of derivative financial instruments.

Interest-rate risk

Interest-rate risks are caused by interest-rate fluctuations affecting the loan portfolio and cash reserves, and also by whether the interest-bearing liabilities are fixed-interest or floating-rate. Interest-rate risks are managed by making the right decisions on loan-interest periods and by using different types of interest-rate derivative instruments. On the balance sheet date, the Group did not have any open interest-rate hedges.

Liquidity risk

According to the financing policy, the liquidity and adequate financing of the Group and its efficient cash management are the responsibility of the parent company. The liquidity risk is controlled by a balanced maturity distribution of the loans, adequate cash assets and credit limits.

At the end of the fiscal year the Group's liquid assets totaled EUR 11.6 million. The Group's interest-bearing liabilities totaled EUR 1.2 million at the end of the fiscal year, compared with EUR 1.9 million a year earlier. The company's financing reserves comprised unused credit limits totaling EUR 30.0 million on October 31, 2006.

Share price risk

Efore has invested some of its liquid assets in publicly listed shares and funds. The investing is based on an authorization given by the Board of Directors and its administration has been outsourced. The market value of the investments at the end of the fiscal year was EUR 3,426 thousand. The investments were hedged by a shares future with a nominal value of EUR 2,004 thousand.

Credit and other counter-party risks

Management of credit risks is primarily the responsibility of each business unit. Credit risk management accords with the Group's credit policy and the aim is to obtain sufficient security if the customer's credit-worthiness so requires. Material items of trade receivables are evaluated on a counter-party basis in order to identify possible impairment.

The credit risks related to the investment of liquid assets and derivative contracts are minimized by setting credit limits for the counter-parties and by concluding agreements only with leading domestic and foreign banks and financial institutions.

27. Fair values of derivate financial instruments (EUR 1,000)	2006	2005
Currency derivatives		
Forward currency contracts		
Nominal amount	778	1,868
Positive fair value	0	45
Negative fair value	9	0
Stock derivatives		
Futures		
Nominal amount	2,004	0
Positive fair value	0	0
Negative fair value	2	0

28. Operating lease commitments (1,000 EUR)	2006	2005
Group as lessee		
Non-cancellable minimum operating lease payments.		
Less than 1 year	1,882	2,271
1-5 years	7,324	5,047
More than 5 years	0	0
	9,207	7,318

The income statement for 2006 includes EUR 2,453 thousand in rental costs paid on the basis of operating leases (2005: EUR 1,817 thousand). The Group has rented the operating facilities it uses. The leases for the premises will last a maximum of five years. In most cases the leases include the option to continue the lease past the original expiry date. Operating lease commitments includes also liabilities of hiring the Group's company cars, which usually lasts three years.

29. Other contracts

The company has some big customer and financing contracts that include a condition normal for the sector, according to which the parties have the right to terminate the contract if the authority in the company changes as a result of a public offer to purchase.

30. Security and contingent liabilities (EUR 1,000)	2006	2005
For own liability		
Pledges	15	67
For others		
Other contingent liabilities	235	235

31. Civil actions and legal processes

A shareholder has taken out an action for annulment against Efore Plc over a decision taken by Annual General meeting on February 3, 2004 concerning a share issue targeted at holders of the company's K shares. The plaintiff is demanding that the decision be rescinded.

Espoo District Court rejected the action through a decision given on February 25, 2005. The plaintiff has appealed against the ruling to Helsinki Court of Appeal, where the matter is still under consideration. The company considers the action to be groundless.

32. Related party transactions (EUR 1,000)

The Group's parent and subsidiary company relationships are as follows:

	Registered office	Home country	Group ownership %	Share of voting rights %	Parent company ownership %
Parent company					
Efore Plc	Espoo	Finland			
Group companies					
FI-Systems Oy	Espoo	Finland	100	100	100
Efore (UK) Ltd		UK	100	100	100
Efore (USA), Inc.	Texas	USA	100	100	100
Efore (Suzhou) Electronics Co., Ltd		China	100	100	100
Efore Ltda		Brazil	100	100	100
Efore As	Pärnu	Estonia	100	100	100
Efore (SIP) Technologies Co., Ltd		China	100	100	100
Associated companies					
Power Innovation GmbH		Germany	25	25	25

The following transactions were carried out with related parties

	2006	2005
Associated companies		
EUR 1,000		
Sales	4,239	52
Purchases	476	316
Receivables	123	10
Liabilities	44	3

The Group has related party relationships with members of the Board of Directors, President and CEO and other key management personnel.

	2006	2005
Key management personnel		
Salaries and other short-term employment benefits	977	760
Benefits after termination of employment	197	0
Total	1,174	760
Granted option rights, 1,000 pcs	282	303
Option rights forfeited, 1,000 pcs	172	0
Salaries and fees, President and CEO		
Reijo Mähäniemi	72	0
Markku Hangasjärvi includes resignation compensation	360	169
Fees of members of Board of Directors		
Ek Johan	27	19
Hantila Isto	28	20
Koivusalo Mikko	1	0
Leppälä-Nilsson Anne	5	20
Marttinen Heikki	6	22
Mähäniemi Reijo	24	22
Puolimatka Rauno	7	19
Raitasuo Outi	30	21
Riikkala Olli	29	21
Syrjälä Timo	53	34
Tammivuori Matti	33	24
Fabritius Hannes	0	4
Fabritius Pirkko	0	4
Komulainen Veijo	0	4
Other key management personnel	742	591
includes fees	4	6

The members of the Board of Directors have not been granted pension commitments with special terms. No loans, guarantees or other collaterals have been granted to the related parties.

During 2006 the two holders of the position of President and CEO and the rest of key management personnel received 282 thousand option rights (2005: 303,000). The option rights plan terms for the management personnel are equal to the option rights directed at other personnel. On October 31, 2006, the key management personnel had been granted 413,000 option rights, with 0 pcs exercisable (2005: 303,000, with 0 pcs exercisable).

No option rights have been granted to the members of the Board of Directors. Other key management personnel comprises persons who belong to the Group's executive management. team.

33. Events subsequent to balance sheet date

As far as the Group management is aware, there are no material events subsequent to the balance sheet date that would have affected the calculations of the financial statements.

34. Transfer to IFRS reporting (EUR 1,000)

These are the Efore Group's first financial statements drawn up on IFRS principles. Before the introduction of IFRS, the Group's financial statements were drawn up according to Finnish Accounting Standards.

The transfer to IFRS financial statements has changed the end-of-year accounts, the notes to them and the principles for drawing them up compared with previous financial statements. The reconciliation statements and explanations below depict the differences of IFRS financial statements compared with Finnish Accounting Standards, (FAS) for 2005 and with IFRS standards on the transfer date, November 1, 2004

EQUITY AND PROFIT RECONCILIATION STATEMENTS NOVEMBER 1, 2004 AND OCTOBER 31, 2005

CONSOLIDATED OPENING IFRS BALANCE

SHEET AS PER NOVEMBER 1, 2004 EUR 1,000	Note	FAS Nov.1, 2004	IFRS-adjustment Nov.1, 2004	IFRS Nov.1, 2004
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	3,7	3,026	285	3,311
Goodwill	1	38	-38	0
Tangible assets	3	6,659	461	7,120
Investments in associates		77	0	77
Long-term receivables and investments	2	2,085	19	2,104
NON-CURRENT ASSETS		11,885	727	12,613
CURRENT ASSETS				
Inventories	4	10,952	86	11,038
Trade receivables and other receivables	3,4,5	13,021	-1,803	11,218
Cash equivalents	6	1,503	-481	1,022
Cash in hand and at banks		22,936	0	22,936
CURRENT ASSETS		48,412	-2,198	46,213
ASSETS		60,297	-1,471	58,826
EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital		17,127	0	17,127
Share premium account and other reserves	6	20,856	-481	20,375
Retained earnings	1-5,7	7,418	-1,478	5,940
SHAREHOLDERS' EQUITY		45,401	-1,959	43,442
LIABILITIES				
Long-term liabilities	2,3	892	375	1,267
Current liabilities	3	14,005	112	14,117
LIABILITIES		14,896	488	15,384
TOTAL EQUITY AND LIABILITIES		60,297	-1,471	58,826

CONSOLIDATED PROFIT AND LOSS STATEMENT	FAS	IFRS-adjustment	IFRS
	Nov./04- Oct./05	Nov./04- Oct./05	Nov./04- Oct./05
Net sales	81,763	-115	81,648
Changes in inventories of finished goods and work in progress	-116	0	-116
Other operating income	199	0	199
Materials and services	-53,664	54	-53,610
Personnel expenses	-17,312	-1,000	-18,312
Depreciation	-3,249	401	-2,848
Impairment	0	-364	-364
Other operating expenses	-7,445	0	-7,444
Share of loss of associated companies	0	0	0
OPERATING PROFIT	176	-1,024	-848
Financing income and expenses	397	14	411
Extraordinary items	-1,331	1,331	0
Share of loss of associated companies	0	0	0
PROFIT BEFORE TAX	-758	321	-437
Tax on income from operations	-985	-45	-1,030
PROFIT FOR THE PERIOD	-1,743	276	-1,467
CONSOLIDATED BALANCE SHEET	FAS	IFRS-adjustment	IFRS
	Oct. 31, 2005	Oct. 31, 2005	Oct. 31, 2005
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	3,935	455	4,390
Goodwill	22	-22	0
Tangible assets	8,243	323	8,567
Long-term receivables and investments	1,794	19	1,813
NON-CURRENT ASSETS	13,994	775	14,769
CURRENT ASSETS			
Inventories	12,990	174	13,165
Trade receivables and other receivables	11,765	-1,588	10,177
Cash equivalents	11,536	0	11,536
Cash in hand and at banks	10,285	0	10,285
CURRENT ASSETS	46,576	-1,413	45,163
ASSETS	60,570	-638	59,932

EQUITY AND LIABILITIES

SHAREHOLDERS' EQUITY

Share capital	34,450	0	34,450
Share premium account and other reserves	4,585	134	4,720
Retained earnings	224	-1,202	-978
SHAREHOLDERS' EQUITY	39,260	-1,068	38,192

LIABILITIES

Long-term liabilities	505	306	810
Current liabilities	20,806	124	20,930
LIABILITIES	21,310	430	21,740
TOTAL EQUITY AND LIABILITIES	60,570	-638	59,932

RECONCILIATION OF EQUITY

EUR 1,000	Note	Nov. 1, 2004	Oct. 31, 2005
Shareholders' equity FAS		45,401	39,260
IFRS 3, Goodwill	1	-38	-22
IAS 12, Income taxes	2	-37	-82
IAS 17, Leases	3	-8	-18
IAS 18, Revenue recognition	4	-27	-53
IAS 21, The effects of changes in foreign exchange rates	5	-1,580	-1,282
IAS 37, Provisions	9	0	0
IAS 38, Intangible assets	7	213	389
IAS 39, Financial instruments	6	-481	0
Shareholders' equity IFRS		43,442	38,192

RECONCILIATION OF PROFIT AND LOSS
 STATEMENT

EUR 1,000	Note	Nov./04- Oct./05
Profit/loss FAS		-1,743
IFRS 2, Share-based payment	8	-134
IFRS 3, Goodwill	1	16
IAS 12, Income taxes	2	-45
IAS 17, Leases	3	-10
IAS 18, Revenue recognition	4	-27
IAS 21, The effects of changes in foreign exchange rates	5	299
IAS 37, Provisions	9	0
IAS 38, Financial instruments	7	177
Profit/loss IFRS		-1,467

Transition to IFRS financial statement

The most significant impacts of the IFRS changeover on the Efore Group concern the treatment of unrealized exchange rate differences in non-current loan receivables and of financial leasing agreements, treasury shares, the adjustment of depreciation on capitalized product development expenses, personnel option programs and segment reporting. The regrouping of associated company profit and extraordinary items under IFRS has influenced the structure of the profit and loss statement but not the 2005 equity and profit.

PRINCIPAL IMPACTS OF TRANSITION TO IFRS

IFRS 1, First-time adoption of IFRS

The following exemptions allowed under IFRS 1 were used: - translation adjustments generated before November 1, 2004, have been recognized as retained earnings; - the standards on financial instruments have been applied as of November 1, 2005; and - business combinations taking place before November 1, 2004 have not been adjusted retroactively to correspond to IFRS calculation principles.

IFRS 2, Share-based payment (Note 8)

The standard applies to option rights that have been issued after November 7, 2002 and had not yet vested before January 1, 2005. Option rights are valued at fair value on the date of issue and recorded as an expense over the vesting period. An expense determined at the time of issue is based on an estimate of the number of options that eventually vest. The fair value of the options has been determined by applying the Black & Scholes option valuation model.

The standard has no impact on Efore Group's opening balance sheet. On March 18, 2005 Efore Plc's Board of Directors decided to issue option rights under an authorization given by the Annual General Meeting on December 16, 2004. The option program's expenses of EUR 0.1 million for 2005 are included in personnel costs and credited to equity correspondingly.

IFRS 3, Business combinations (1)

Under IFRS 3, amortisation is not made on goodwill; possible impairment of goodwill is assessed annually using IAS 36 impairment testing.

Efore Group's balance sheet has included goodwill arising from the establishment expenses of a subsidiary. Under IFRS, this is not to be treated as goodwill. The impact of the elimination of the goodwill in the opening balance sheet is EUR 38,000.

IAS 7, Cash flow statement

The capitalization of leasing agreements causes a change in classification in the IFRS cash flow statement between cash flow from business operations and cash flow from investments. There are no other significant differences between Efore Group's cash flow statements under IFRS and FAS.

IAS 12, Income taxes (2)

In accordance with the standard, deferred tax liabilities must be recorded in full and deferred tax assets on the basis of estimated probable benefit. In accordance with IAS 12, deferred tax items are calculated on all temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. Because of the transition to IFRS reporting, deferred tax items have been taken into account in the opening balance sheet and in the figures for the comparison year. The biggest temporary differences arise from adjustments to product development depreciations. The opening balance sheet includes EUR 37,000 worth of deferred tax items.

IAS 14, Segment reporting

As of the beginning of the 2006 fiscal period, the entire Group is the primary segment in reporting, and geographical areas are the secondary segments. The geographical segments are the Americas (North, Central and South America), EMEA (Europe, Middle East and Africa) and APAC (Asia – Pasific Area). The geographical segments are based on net sales depending on the location of clients, i.e. market areas.

IAS 17, Leases (3)

Leases of fixed assets in which a significant proportion of the rewards and risks related to ownership of assets is transferred to the Group are classified as finance leases in accordance with IAS 17 calculation principles.

Finance leases are recorded in the balance sheet as assets and liabilities at the lower of the fair value and the present value of the minimum lease payments at the time the contract becomes valid. Assets acquired with finance leases are depreciated and cause a financial expense. Lease liabilities are included in interest-bearing non-current and current liabilities. Depreciation is made over the shorter of the economic life and lease period. Leases that are not finance leases are classified as operating leases in IAS 17. These are not recorded as assets or liabilities in the balance sheet, and lease payments are recorded as expenses over the lease period.

Efore Group has previously recorded lease payments as rent expenses. Efore Group has classified some of its leasing agreements as finance leases and treats them as described above. Recording finance leases in the balance sheet increased the tangible assets in the opening IFRS balance sheet of November 1, 2004 by EUR 0.5 million. Operating lease liabilities totaled EUR 4.2 million on November 1, 2004.

IAS 18, Revenue (4)

Sales of goods and services are recorded when the significant risks and rewards related to ownership of a product have been transferred to the buyer and the Group no longer has supervision or controlling rights to the product. Usually this means the moment when the product has been delivered to the customer in accordance with the delivery terms agreed on. If invoicing deviates from the above rule, an adjustment is made in the consolidated financial accounts for its impact. Revenues from services are recorded when the services have been rendered.

The impact of the change caused by the above IFRS principle for recording sales of goods and services on the equity capital in the opening balance sheet is EUR 27,000.

IAS 19, Employee benefits

Pension arrangements are classified in accordance with IAS 19 as defined contribution plans or defined benefit plans.

The statutory pension security of personnel in Finland has been arranged by insuring it with a pension insurance company. In units abroad, pension security is arranged in accordance with local legislation and social security regulations.

The standard has no impact on Efore Group's opening balance sheet or its 2005 interim accounts. The Group treats Finnish TEL (Employees' Pension Act) pension scheme as a defined contribution plan. Expenses caused by the employment pension insurance's disability pension benefit are recognized when the event caused by incapacity for work has occurred. The pension security of units located abroad is dealt with on a defined contribution basis.

IAS 21, Effects of changes in foreign exchange rates (5)

In its FAS financial statements, Efore Group recorded unrealized exchange rate differences under prepayments and accrued income in the assets in the balance sheet. In the IFRS opening balance sheet of November 1, 2004 the exchange rate difference of non-current loan receivables is recorded as a decrease in the retained earnings from the prepayments and accrued income recorded in the balance sheet. This booking reduces the equity in the opening balance sheet by EUR 1.6 million. In the 2005 IFRS comparison data, the changes in the unrealized exchange rate differences of non-current loan receivables has been recognized through the profit and loss statement. This recognition causes an increase of EUR 0.3 million in the 2005 profit.

In accordance with the Group's hedging policy, significant commercial exchange rate surpluses and deficits and fixed purchase and sales contracts are hedged. The derivatives contracts made are recorded in the financial statements at fair value. The exchange rate differences in the derivatives contracts made are entered in the profit and loss statement against the exchange rate difference of the equivalent hedged items.

IAS 32 and 39, Financial instruments (6)

Financial instruments were recorded and valued in accordance with FAS principles up to the end of the 2005 fiscal period. In the IFRS accounts for the 2006 fiscal period beginning on November 1, 2005, they are classified at fair value under available-for-sale financial assets held for trading, and any value adjustment is entered in the profit and loss statement.

Under FAS, the company's own shares were entered under investments in the non-current assets of the balance sheet and as a separate equity item. In the IFRS balance sheet opening on November 1, 2004, the company's own shares were deducted from equity. This causes a reduction of EUR 0.5 million in equity.

IAS 36, Impairment of assets

A corporation must assess possible impairment in the financial statements under IAS 36. In order to ascertain potential impairment, the carrying amount of the asset in question is compared with the recoverable amount. Impairment loss is recorded if the recoverable amount is lower than carrying amount.

Efore Group carried out IFRS impairment tests on tangible fixed assets and other long-term investments at the time of transition on November 1, 2004 and at the end of the fiscal period on October 31, 2005. The impairment tests showed that the values in use exceeded the carrying amounts.

Efore Group has been carrying out impairment tests on a continuous basis on capitalized product development expenses under intangible fixed assets. As a result of impairment testing, impairment losses were recorded according to FAS principles as a depreciation of EUR 0.1 million for the 2005 fiscal period. Under IFRS, this is shown in the profit and loss statement as a separate impairment item. IFRS causes an increase of EUR 0.3 in million in impairment of capitalized product development expenses for the 2005 fiscal period.

IAS 37, Provisions (9)

In the second quarter of the 2005 fiscal year, the Group recorded total costs of EUR 1.3 million under extraordinary items as expenses arising from production reconstruction and write-downs in associated company shares and loan receivables. Since extraordinary items are not included in IFRS reporting, the comparison data gives these expenses under the relevant expense group. Some of the provisions for production reconstruction made during the 2005 fiscal period were not in keeping with IAS 37. This is why provisions of EUR 0.3 million were cancelled in the second quarter of the fiscal period and entered as expenses in accordance with the actual time of implementation in the IFRS comparison data for the third and fourth quarters of the 2005 fiscal period.

IAS 38, Intangible assets (7)

Intangible assets include capitalized product development expenses, software user rights, other non-current expenditure and goodwill.

The opening IFRS balance sheet cancels depreciation on capitalized development expenses for products that are not yet in production. According to IAS 38, depreciation must begin when the product is ready for use. This increases the equity in the opening balance sheet by EUR 0.2 million. The change concerning goodwill is dealt with under IFRS 3, business combinations.

EUR 1000	Note	2006	2005
NET SALES	(1)	50,935	61,279
Change in inventories of finished goods and work in progress		-285	-955
Other operating income		6,307	3,943
Materials and services			
Materials and consumables			
Purchases during the financial year		42,369	50,071
Change in inventory		2,603	220
Materials and consumables in total		44,972	50,291
External services		560	537
		45,532	50,828
Personnel costs	(2)		
Wages, salaries and fees		8 754	9 533
Social security expenses			
Pension expenses		1,282	1,529
Other social security expenses		609	794
		10,645	11,856
Depreciation and impairments	(3)		
Depreciation according to plan		2,735	3,300
Impairment loss on non-current assets		371	0
		3,106	3,300
Other operating expenses	(4)	4,860	4,218
OPERATING PROFIT (LOSS)		-7,187	-5,933
Financing income and expenses	(5)		
Income from group undertakings (dividend)		3,270	5,389
Income from other investments and fixed assets		0	-3
Other interest and financial income		1,077	831
Impairment loss on investments carried as non-current assets		-1,887	0
Impairment loss on receivables and securities carried as current assets		-1,758	-19
Interest expenses and other financing expenses		-967	-230
		-265	5,968

	Note	2006	2005
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS		-7,453	34
Extraordinary items	(6)		
Extraordinary income		540	0
Extraordinary expenses		-1,628	-1,576
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES		-8,540	-1,541
Income taxes			
Income taxes for the period		-223	-122
Income taxes for previous years		0	1
		-223	-121
PROFIT (LOSS) FOR THE PERIOD		-8,763	-1,662

1,000 EUR	Note	2006	2005
ASSETS			
NON-CURRENT ASSETS			
	(7)		
Intangible assets			
Development expenses		4,225	4,567
Intangible rights		210	210
Other capitalized long-term expenses		721	1,150
		5,156	5,927
Tangible assets			
Machinery and equipment		1,019	2,893
Other tangible assets		17	24
Advance payments and constructions in progress		121	237
		1,157	3,153
Investments			
Holdings in Group companies	(7,8)	975	1,177
Receivables from Group companies		3,486	5,656
Holdings in associated companies		361	0
Other shares and holdings		27	27
		4,850	6,859
CURRENT ASSETS			
Inventories			
Materials and consumables		530	3,133
Work in progress		79	80
Finished goods		813	1,098
		1,422	4,310
Current receivables			
	(9)		
Trade receivables		1,301	3,518
Receivables from Group companies		13,301	6,911
Receivables from associated companies		0	10
Other receivables		411	625
Prepayments and accrued income		526	2,364
		15,539	13,427
Financial securities			
	(10)		
Other shares and equity interests		2,443	1,446
Other securities		983	10,090
		3,426	11,536
Cash and cash equivalents		4,220	7,900
TOTAL ASSETS		35,769	53,113

1,000 EUR	Note	2006	2005
LIABILITIES AND SHAREHOLDERS EQUITY			
SHAREHOLDERS' EQUITY			
	(11)		
Share capital		34,450	34,450
Share premium account		0	3,972
Retained earnings		1,077	49
Profit (loss) for the period		-8,763	-1,662
		26,764	36,809
STATUTORY PROVISIONS			
	(12)		
Other Provisions		0	69
		0	69
LIABILITIES			
	(13)		
Non-current liabilities			
Loans from financial institutions		0	505
		0	505
Current liabilities			
Loans from financial institutions		0	387
Trade payables		921	3,321
Liabilities to Group companies		5,000	8,833
Liabilities to associated companies		9	3
Other liabilities		301	378
Accruals and deferred income		2,775	2,809
		9,006	15,731
TOTAL LIABILITIES		35,769	53,113

1,000 EUR	2005-2006	2004-2005
Cash flows from operating activities:		
Cash receipts from customers	49,512	63,198
Cash receipts from other operating income	5,915	179
Cash paid to suppliers and employees	-69,077	-64,792
	<hr/>	<hr/>
Cash generated from operations	-13,649	-1,415
Interest paid	-992	-228
Dividends received	3,340	5,385
Interest received	1,688	1,450
Income taxes paid	-145	218
	<hr/>	<hr/>
Cash flow before extraordinary items	-9,759	5,409
Cash flow from extraordinary items	-1,194	-1,469
	<hr/>	<hr/>
Net cash from operating activities (A)	-10,953	3,940
Cash flows from investing activities:		
Purchase of tangible and intangible assets	-2,611	-3,196
Proceeds from sale of tangible and intangible assets	2,245	263
Purchase of investments	201	-102
	<hr/>	<hr/>
Net cash used in investing activities (B)	-165	-3,035
Cash flows from financing activities:		
Directed share issue and subscription of shares with warrants	0	1,048
Repayment of long-term borrowings	-673	-168
Dividends paid	0	-5,987
	<hr/>	<hr/>
Net cash used in financing activities (C)	-673	-5,108
Net increase/decrease in cash and cash equivalents (A+B+C)	-11,790	-4,203
Cash and cash equivalents at beginning of period on Nov. 1	19,436	23,639
Cash and equivalents at end of period on Oct. 31	7,646	19,436
	<hr/>	<hr/>
	-11,790	-4,203

ACCOUNTING POLICIES FOR THE FINANCIAL STATEMENTS OF PARENT COMPANY, FAS**General**

The financial statements of Efore Plc (registered office in Espoo, Finland), have been drawn up and presented in accordance with the Finnish Accounting Act and Finnish Accounting Standards (FAS) and other laws and provisions in effect in Finland.

Foreign-currency items

Transactions in foreign currencies have been recognized at the exchange rate valid on the date of transaction. Foreign-currency receivables and liabilities outstanding on the balance sheet date have been measured using the exchange rates on the balance sheet date. Exchange gains and losses connected with ordinary business operations have been treated as adjustment items for sales and purchases. Exchange gains and losses on financing are recognized as financial income and expenses. Exchange differences on derivatives taken for hedging currency positions have been used for correcting exchange differences for the corresponding hedged items.

Valuation of fixed assets

The values of fixed assets are based on their original acquisition cost minus accumulated depreciation and impairments. On physical fixed assets, planned straight-line depreciation is made on the basis of their estimated useful life. The profit and loss on sales of fixed assets are included in the operating result.

Estimated useful lives for different groups of assets are as follows:

Development expenditure 3-5 years

Intangible rights 5 years

Other capital expenditure 5-10 years

Machinery and equipment 3-10 years

Other tangible assets 5 years

Impairment is made on the carrying value of fixed assets, if it is evident that earnings expectations do not cover the carrying value of the assets. Companies acquired or established during the fiscal year are included in subsidiary shares from the date of acquisition or establishment. Companies sold during the fiscal year are included in the subsidiary shares until the sales date.

Investments and receivables with a depreciation period of more than one year are given as other non-current investments and receivables.

Inventories

Inventories are measured at the lower of acquisition cost or net realizable value. In addition to variable costs, the value of inventories includes a proportion of the fixed purchasing and production costs. The weighted average price has been used for the valuation of the raw materials included in inventories. Obsolescence depreciation that is in accord with the Group's valuation principles have been made on obsolete and slow-moving inventories.

Securities held in financial assets

Securities held in financial assets have been valued at market value on the balance sheet date.

Statutory provisions

Expenses that the company is committed to cover but which are not yet realized are presented as statutory provisions in the balance sheet. These include production restructuring costs among other things. Changes in statutory provisions are given under the relevant expenses in the income statement.

Net sales

The calculation of net sales deducts from the proceeds the discounts granted, indirect taxes and exchange differences arising from translating foreign-currency trade receivables.

ACCOUNTING POLICIES FOR THE FINANCIAL STATEMENTS OF PARENT COMPANY, FAS

Product development expenditure

In the case of the largest individual projects, development expenses accruing income over three or more years have been capitalized under intangible assets and amortized over 3-5 years. Product development expenditure is amortized over the fiscal years in which it accrues income. In capitalizing product development expenditure, the Company has complied with the Ministry of Trade and Industry decision on capitalizing development expenditure in balance sheets.

Leasing

Leasing charges are treated as rental expenditure. Unpaid leasing charges are presented as leasing liabilities in the notes to the financial statements.

Pensions

The pension cover of the company's employees has been arranged through insurance policies in pension insurance companies.

Income taxes

Taxes of the fiscal year and tax adjustments for previous fiscal years have been recognized as income taxes in the income statement.

1. Net sales in market areas by customers (1,000 EUR)	2006	2005
Finland	9,897	15,685
European Union	20,948	23,479
USA	9,800	14,914
Other countries	10,290	7,202
Total	50,935	61,279

2. Personnel costs(1,000 EUR)	2006	2005
Wages, salaries and fees	8,754	9,533
Pension costs	1,282	1,529
Other social security expenses	609	794
Presented in the income statement	10,645	11,856
Management salaries and fees		
President and CEO, Members of the Board of Directors	674	496
Total personnel, average		
Hourly paid	133	189
Salaried	121	136
Total	254	325

3. Depreciations and impairments (1,000 EUR)	2006	2005
Depreciation according to plan:		
Development expenses	1,592	1,880
Intangible assets	69	71
Other capitalized expenditure	431	423
Machinery and equipment	636	919
Other tangible assets	7	7
	2,735	3,300
Impairments on development expenses	371	0

4. Other operating expenses

Other operating expenses are normal expenses.

5. Financing income and expenses (1,000 EUR)	2006	2005
Dividend income		
From Group companies	3,270	5,389
Interest income, non-current		
From others	0	-3
	<u>0</u>	<u>-3</u>
Other interest and financial income		
From Group companies	152	157
From others	924	674
	<u>1,077</u>	<u>831</u>
Impairment loss on investments carried as non-current assets		
Impairment losses of holdings in Group companies	-1,887	0
	<u>-1,887</u>	<u>0</u>
Impairment losses in current assets		
Impairment losses of holdings in Group companies	-1,794	0
Impairment losses/ impairment loss reversals on securities	36	-19
	<u>-1,758</u>	<u>-19</u>
Interest expenses and other financial expenses		
For Group companies	0	0
Others	-967	-229
	<u>-967</u>	<u>-229</u>
Financial income and expenses in total	-265	5,968
The item 'financial income and expenses' includes exchange rate gains/losses, net	28	0
6. Extraordinary items (1,000 EUR)	2006	2005
Extraordinary income		
Impairment loss reversals in associated company	540	0
	<u>540</u>	<u>0</u>
Extraordinary expenses		
Expenses from restructuring production	-1,628	-1,036
Impairment loss of holdings in associated company	0	-540
	<u>-1,628</u>	<u>-1,576</u>
Extraordinary items, total	-1,087	-1,576

7. Non-current assets (1,000 EUR)	2006	2005
Intangible assets		
Development expenses		
Acquisition cost on Nov. 1	11,419	9,536
Additions Nov. 1 - Oct. 31	1,621	1,893
Disposals Nov. 1 - Oct. 31	-405	-11
Acquisition cost on Oct. 31	12,634	11,419
Accumulated planned depreciation on Nov. 1	6,852	4,972
Cumulative depreciation on disposals	-405	0
Depreciations Nov. 1 - Oct. 31	1,592	1,880
Impairments	371	0
Accumulated planned depreciation on Oct. 31	8,409	6,852
	<hr/>	<hr/>
Balance sheet value on Oct. 31	4,225	4,567
<p>For the largest individual projects, product development costs accruing income for three or more years have been capitalized as development expenses. For the Parent Company, capitalized direct development expenditure totals 4.2 Meur.</p>		
Intangible rights		
Acquisition cost on Nov. 1	680	545
Additions Nov. 1 - Oct. 31	69	136
Acquisition cost on Oct. 31	750	680
Accumulated planned depreciation on Nov. 1	470	399
Depreciations Nov. 1 - Oct. 31	69	71
Accumulated planned depreciation on Oct. 31	540	470
	<hr/>	<hr/>
Balance sheet value on Oct. 31	210	210
Other capitalized long-term expenses		
Acquisition cost on Nov. 1	2,003	1,933
Additions Nov. 1 - Oct. 31	3	70
Reclassifications between items	320	0
Acquisition cost on Oct. 31	2,326	2,003
Accumulated planned depreciation on Nov. 1	853	431
Depreciations Nov. 1 - Oct. 31	431	423
Reclassifications between items	320	0
Accumulated planned depreciation on Oct. 31	1,605	853
	<hr/>	<hr/>
Balance sheet value on Oct. 31	721	1,150

	2006	2005
Tangible assets		
Machinery and equipment		
Acquisition cost on Nov. 1	10,545	10,760
Additions Nov. 1 - Oct. 31	699	684
Disposals Nov. 1 - Oct. 31	-4,957	-899
Acquisition cost on Oct. 31	6,287	10,545
Accumulated planned depreciation on Nov. 1	7,652	7,377
Cumulative depreciation on disposals	-3,020	-644
Depreciations Nov. 1 - Oct. 31	636	919
Impairments	0	0
Accumulated planned depreciation on Oct. 31	5,268	7,652
Balance sheet value on Oct. 31	1,019	2,893
Other tangible assets		
Acquisition cost on Nov. 1	688	686
Additions Nov. 1 - Oct. 31	0	2
Acquisition cost on Oct. 31	688	688
Accumulated planned depreciation on Nov. 1	664	657
Depreciations Nov. 1 - Oct. 31	7	7
Accumulated planned depreciation on Oct. 31	671	664
Balance sheet value on Oct. 31	17	24
Advance payments and constructions in progress		
Acquisition cost on Nov. 1	237	138
Additions Nov. 1 - Oct. 31	-116	99
Acquisition cost on Oct. 31	121	237
Balance sheet value on Oct. 31	121	237
Investments		
Holdings in Group companies		
Shares on Nov. 1	1,177	1,071
Additions Nov. 1 - Oct. 31	0	106
Disposals Nov. 1 - Oct. 31	-201	0
Balance sheet value on Oct. 31	975	1,177
Receivables from Group companies		
Receivables on Nov. 1	5,656	5,357
Additions Nov. 1 - Oct. 31	0	299
Disposals Nov. 1 - Oct. 31	-2,170	0
Balance sheet value on Oct. 31	3,486	5,656

	2006	2005
Holdings in associated company		
Shares on Nov. 1	0	361
Additions Nov. 1 - Oct. 31	361	0
Disposals Nov. 1 - Oct. 31	0	-361
	<hr/>	<hr/>
Balance sheet value on Oct. 31	361	0
Receivables from associated companies		
Receivables on Nov. 1	0	102
Disposals Nov. 1 - Oct. 31	0	-102
	<hr/>	<hr/>
Balance sheet value on Oct. 31	0	0
Other shares and similar rights of ownership		
Shares on Nov. 1	27	30
Disposals Nov. 1 - Oct. 31	0	-3
	<hr/>	<hr/>
Balance sheet value on Oct. 31	27	27
Summary of non-current assets		
Acquisition cost on Nov. 1	32,431	30,519
Additions Nov. 1 - Oct. 31	2,753	3,289
Disposals Nov. 1 - Oct. 31	-7,849	-1,377
Acquisition cost on Oct. 31	27,335	32,431
Accumulated planned depreciation on Nov. 1	16,492	13,836
Accumulated depreciation on decreases	-3,425	-644
Depreciations Nov. 1 - Oct. 31	2,735	3,300
Impairments	371	0
Accumulated planned depreciation on Oct. 31	16,172	16,492
	<hr/>	<hr/>
Balance sheet value on Oct. 31	11,163	15,939
Book value on Oct. 31		
Production machinery and equipment	554	2,427

8. Shares and similar rights of ownership (1,000 EUR)

	2006	2005
	Book value	Book value
Subsidiary companies		
FI-Systems Oy, Espoo	3	3
Efore (UK) Ltd, United Kingdom	28	28
Efore (USA), Inc., Teksas USA	0	0
Efore (Suzhou) Electronics Co. Ltd, China	705	705
Efore (Ltda), Brazil	107	309
Efore AS, Estonia	26	26
Efore (SIP) Technology Co., Ltd, China	106	106
	<hr/>	<hr/>
	975	1,177

	2006	2005
Associated companies		
Power Innovation GmbH, Germany	361	0
Other shares and similar rights of ownership	27	27
9. Current receivables (1,000 EUR)	2006	2005
Current receivables		
Trade receivables	1,301	3,519
Other receivables	411	625
Prepaid expenses and accrued income	526	2,364
	2,238	6,506
Current receivables from Group companies		
Trade receivables	10,102	6,597
Prepaid expenses and accrued income	3,199	313
	13,301	6,911
Current receivables from associated companies		
Trade receivables	0	10
	0	10
Current receivables in total	15,539	13,427
Prepaid expenses and accrued income		
Parent company prepaid expenses and accrued income include the following key items:		
Periodizations of personnel costs	147	73
Periodizations of financial income	8	15
Income taxes	0	78
Income from company tax credit	0	638
Dividend from subsidiaries	3,199	313
Capitalized exchange rate losses of long-term investments	0	1,282
Other items	371	278
	3,725	2,677
10. Financial securities (1,000 EUR)	2006	2005
Market value	3,426	11,581
Corresponding book value	3,426	11,536
Difference	0	45

11. Shareholders' equity (1,000 EUR)	2006	2005
Share capital on Nov. 1	34,450	17,127
Increase in share capital from 1998 option rights	0	563
Annulment of shares, Dec. 21,2004	0	-203
Bonus issue, Dec. 21, 2004	0	16,963
	<hr/>	<hr/>
Share capital on Oct. 31	34,450	34,450
Share premium account on Nov. 1	3,972	20,077
Increase in share capital from 1998 option rights	0	656
Reclassifications between items	-3,972	0
Annulment of shares, Dec. 21,2004	0	203
Bonus issue, Dec. 21, 2004	0	-16,963
	<hr/>	<hr/>
Share premium account on Oct. 31	0	3,972
Fund for own shares on Nov. 1	0	481
Decreases Nov. 1 - Oct. 31	0	-481
	<hr/>	<hr/>
Fund for own shares on Oct. 31	0	0
Retained earnings on Nov. 1	-1,613	6,036
Dividend distribution	0	-5,987
Changes in accounting principles	-1,282	0
Reclassifications between items	3,972	0
	<hr/>	<hr/>
Retained earnings on Oct. 31	1,077	49
Profit (loss) for the period	-8,763	-1,662
	<hr/>	<hr/>
Shareholders' equity total	26,764	36,809
Calculation of distributable earnings		
Retained earnings	-1,613	49
Transfer from share premium account	3,972	0
Changes in accounting principles	-1,282	0
Profit (loss) for the period	-8,763	-1,662
	<hr/>	<hr/>
Distributable earnings from shareholders' equity	-7,687	-1,613

Parent company share capital is divided by share category as follows:

	2006	
	pcs	eur
Shares	40,529,648	34,450,200.80

Parent company share capital is divided by share category as follows:

	2005	
	pcs	eur
Shares	40,529,648	34,450,200.,80

12. Statutory Provisions (1,000 EUR)	2006	2005
Expenses from restructuring production	0	69
Total	0	69
13. Liabilities (1,000 EUR)	2006	2005
Non-current loans		
Loans from financial institutions	0	505
	0	505
Current liabilities		
Loans from financial institutions	0	387
Trade payables	921	3,321
Other liabilities	301	378
Accruals and deferred income	2,775	2,809
	3,996	6,894
Current liabilities to Group companies		
Trade payables	3,135	8,645
Other liabilities	1,729	5
Accruals and deferred income	136	183
	5,000	8,833
Current liabilities to associated companies		
Trade payables	9	3
Current liabilities in total	9,005	15,731
Accruals and deferred income		
Parent company accruals and deferred income include the following key items:		
Periodizations of holiday pay	1,006	1,415
Periodizations of other personnel costs	458	598
Periodizations of financial expenses	0	25
Group companies	136	183
Other items	1,311	770
	2,911	2,992

14. Security, contingent liabilities and other commitments given (1,000 EUR)	2006	2005
Security given on own behalf		
Pledges given	15	11
Other contingent liabilities	235	235
Security given on behalf of group companies		
Guarantees	2,495	2,558
Securities given in total		
Pledges given	15	11
Guarantees	2,495	2,558
Other contingent liabilities	235	235
Rent and leasing commitments on own behalf		
Payable in the following financial year	794	982
Payable later	1,179	1,655
Other contingent liabilities		
Derivative contracts		
Forward currency contracts:		
Fair value	788	1,913
Nominal value	778	1,868
Stock derivatives		
Futures		
Fair value	2,002	0
Nominal value	2,004	0

		IFRS 2006	IFRS 2005	FAS 2004	FAS 2003	FAS 2002
Income statement						
Net sales	MEUR	90.5	81.6	73.2	64.3	38.8
- change	%	10.8	11.7	13.9	65.4	-31.1
Operating profit/-loss	MEUR	-5.8	-0.8	8.0	6.9	-2.3
- of net sales, %	%	-6.4	-1.0	10.9	10.8	-5.9
Profit/loss before extraordinary items	MEUR			7.8	6.8	-2.4
- of net sales, %	%			10.7	10.6	-6.1
Profit/loss before taxes	MEUR	-5.5	-0.4	8.3	8.2	-2.4
- of net sales, %	%	-6.1	-0.5	11.3	12.8	-6.1
Net profit/loss	MEUR	-8.2	-1.5	7.5	7.8	-2.4
- of net sales, %	%	-9.0	-1.8	10.3	12.1	-6.2
Gross investments	MEUR	4.8	5.6	5.0	2.7	1.4
- of net sales, %	%	5.3	6.9	6.8	4.2	3.6
Balance sheet						
Non-current assets	MEUR	13.8	14.8	9.9	7.9	8.3
Inventories	MEUR	14.3	13.2	11.0	8.8	6.6
Receivables	MEUR	8.8	10.1	14.9	11.7	6.2
Cash, cash equivalents and financial assets held for trading	MEUR	11.6	21.8	24.4	7.2	3.6
Share capital	MEUR	34.5	34.5	17.1	13.8	13.8
Other shareholder's equity	MEUR	-4.3	3.7	28.3	4.0	-4.4
Non-current liabilities	MEUR	0.4	0.8	0.9	2.2	3.9
Current liabilities	MEUR	17.9	20.9	14.0	15.5	11.4
Balance sheet total	MEUR	48.5	59.9	60.3	35.5	24.7
Profitability						
Return on equity (ROE)	%	-23.9	-3.6	22.6	47.8	-23.0
Return on investment (ROI)	%	-14.3	-0.3	23.2	37.1	-9.2
Finance and economic position						
Net interest bearing liabilities	MEUR	-10.5	-19.9	-22.3	-3.2	3.9
Gearing	%	-34.6	-52.2	-49.6	-18.2	41.6
Current ratio		1.9	2.3	3.5	1.7	1.4
Solvency ratio	%	62.3	63.7	75.1	49.5	37.8
Other key figures						
Personnel, average		792	668	512	411	415
Salaries and wages	MEUR	15.5	14.7	13.4	12.1	10.4
Product development expenditure (booked as costs)	MEUR	3.5	2.6	3.0	2.8	2.4
- of net sales, %		3.8	3.3	4.1	4.4	6.2
Product development expenditure (capitalized in balance sheet)	MEUR	1.6	1.9	1.3	1.0	0.9
- of net sales, %		1.8	2.3	1.8	1.6	2.3
Product development expenditure total	MEUR	5.1	4.6	4.3	3.8	3.3
- of net sales, %		5.6	5.6	5.9	5.9	8.3

KEY FINANCIAL INDICATORS PER SHARE		IFRS 2006	IFRS 2005	FAS 2004	FAS 2003	FAS 2002
Earnings per share/adjusted	EUR	-0.20	-0.04	0.20	0.20	-0.08
Diluted earnings per share/adjusted	EUR	-0.20	-0.04	0.19	0.20	-0.08
Dividend per share, adjusted	EUR	0.00*	0.00	0.15	0.10	0.00
Dividend/share	EUR	0.00*	0.00	0.30	0.37	0.00
Dividend payout ratio	%	0.0 %	0.0 %	76.7	46.8	0.0
Effective dividend yield	%	0.0 %	0.0 %	4.8	5.5	0.0
Shareholder's equity per share, adjusted	EUR	0.75	0.94	1.13	0.56	0.30
Adjusted share price, October 31	EUR	1.41	1.84	3.15	1.74	0.26
P/E ratio		-6.99	-50.80	16.10	8.49	-3.34
Market value and dividend						
Market capitalization	MEUR	57.1	74.6	125.4	54.1	8.1
Dividend distribution, for shares in circulation	MEUR	0.0	0.0	6.0	3.0	0.0
Trading						
Shares traded	1 000 kpl	30 059	49 054	37 511	17 580	3 812
Value of trading	MEUR	52.3	130.1	115.9	13.4	1.5
Number of shares adjusted						
- average	1 000 kpl	40 530	37 688	36 374	31 628	31 628
- actual number of shares on October 31	1 000 kpl	40 530	40 530	40 298	31 628	31 628
- actual number of shares excl. own shares	1 000 kpl	40 530	40 530	39 822	31 164	31 164
- diluted number of shares on October 31	1 000 kpl	40 530	40 530	39 956	31 164	31 164
Adjusted share prices						
lowest	EUR	1.21	1.60	1.69	0.19	0.21
highest	EUR	2.06	3.65	4.18	1.78	0.66
at the end of fiscal year	EUR	1.41	1.84	3.15	1.74	0.26
average	EUR	1.77	2.65	2.96	0.62	0.39

In calculation of key figures and key indicators own shares have been excluded from number of shares and the fund of own shares has been excluded from shareholder's equity.

* The Board of Directors proposes that no dividend be paid for the fiscal year 2006.

Years 2005 and 2006 are reported according to IFRS, while years 2002 to 2004 are reported according to FAS.

Return on investment (ROI), %	=	$\frac{\text{Profit before taxes+interest and other financing expenses}}{\text{Total assets - non-interest-bearing liabilities (average)}} \times 100$
Return on Equity (ROE), %	=	$\frac{\text{Profit for the period}}{\text{Shareholders' equity (average)}} \times 100$
Current ratio	=	$\frac{\text{Liquid asset + inventories}}{\text{Current liabilities}}$
Solvency ratio, %	=	$\frac{\text{Shareholders' equity}}{\text{Total assets - advance payments received - own shares}} \times 100$
Net interest-bearing debt	=	Interest-bearing debt - cash, cash equivalents and financial assets held for trading
Gearing, %	=	$\frac{\text{Net interest-bearing debt}}{\text{Shareholders' equity}} \times 100$
Earnings per share	=	$\frac{\text{Profit for the period attributable to the equity holders of parent company}}{\text{Adjusted average number of shares - own shares}}$
Adjusted dividend per share	=	$\frac{\text{Dividend for the financial year}}{\text{The adjustment coefficients of the share issues that have been taken place during or after the end of fiscal year}}$
Dividend payout ratio, %	=	$\frac{\text{Adjusted dividend per share}}{\text{Earnings per share}} \times 100$
Effective dividend yield, %	=	$\frac{\text{Adjusted dividend per share}}{\text{Adjusted share price at balance sheet date}} \times 100$
Shareholders' equity per share	=	$\frac{\text{Equity attributable to equity holders of the parent company - own shares}}{\text{Adjusted average number of shares at balance sheet date}}$
P/E-ratio	=	$\frac{\text{Adjusted share price at balance sheet date}}{\text{Earnings per share}}$
Market capitalization	=	Adjusted share price at balance sheet date x actual number of shares at balance sheet date

SHARE CAPITAL AND SHARES

Efore shares are quoted on the Helsinki Stock Exchange Nordic List (Small Cap) under the corporate identifier EFO1V. The trading lot is one share. The total number of shares is 40,529,648, and each share has an equivalent book value of EUR 0.85. Efore's registered share capital on October 31, 2006 stood at EUR 34,450,200.80. The shares have been entered in the book-entry system.

VALID AUTHORIZATION HELD BY THE BOARD OF DIRECTORS

The Annual General Meeting of January 25, 2006 decided that the Board of Directors be authorized to increase the company's share capital through a rights issue and/or to issue stock options and/or to float a convertible bond loan, so that when new shares, stock options or convertible bonds are issued, the maximum entitlement that may be subscribed is 8,105,929 new shares, each with an equivalent book value of EUR 0.85. Under this authorization, the company's share capital may be increased by a maximum of EUR 6,890,039.65.

The authorization will remain valid until the next Annual General Meeting, but not more than one year from the decision of the Annual General Meeting. The authorization includes the right to disapply the shareholders' pre-emptive rights, provided that there is a pressing financial reason for the company to do so. The authorization may be used for providing the personnel with incentives only in connection with corporate acquisitions (max. number of shares 1,000,000).

SHARE PRICES AND TRADING

The highest issue-adjusted share price during the fiscal year was EUR 2.06, the lowest EUR 1.21, and the average EUR 1.77. The closing price stood at EUR 1.41. The market capitalization, calculated with the final trading price, was EUR 57.1 million.

The number of Efore shares traded during the fiscal year stood at 30.1 million, representing 74.2% of the total number of shares on October 31, 2006. The turnover value in the fiscal year was EUR 52.3 million.

2005 STOCK OPTION PROGRAM

Under an authorization granted by the Annual General Meeting in December 2004, the company's Board of Directors decided in March 2005 to introduce a stock option program aimed at committing key personnel to the company on a long-term basis. A share ownership program in which the key personnel are obliged to acquire Efore shares with 20% of the net income gained from the stock options and to own the shares for at least one year is incorporated in the stock options.

A total of 2,250,000 stock options were issued on the basis of the program, and each can be used to subscribe one Efore Plc share. The option rights are divided into three categories: 2005A, 2005B and 2005C, comprising 950,000, 650,000 and 650,000 option rights respectively.

The share subscription price for category 2005A is EUR 3.07; for category 2005B, the average trade-weighted price of Efore Plc shares on the Helsinki Stock Exchange between January 1 and March 15, 2006 (EUR 1.87); and in category 2005C, the average trade-weighted price of Efore Plc shares on the Helsinki Stock Exchange between January 1 and March 15, 2007. The amount of dividend distributed each year is deducted from the subscription price.

The share subscription period for category 2005A is November 1, 2007 – April 30, 2010, for category 2005B, April 1, 2008 – April 30, 2011, and for category 2005C, April 1, 2009 – April 30, 2012.

MANAGEMENT SHAREHOLDING

The total share ownership, as defined in Chapter 1, Section 5 of the Securities Markets Act, of Efore Plc's Board members and the President and CEO stood at 4,208,008 on October 31, 2006, which is equivalent to 10.4 % of the total number of shares and votes. The shares held by the President and CEO accounted for 0.06 % of the total number of shares and votes.

GRAPHS AND TABLES

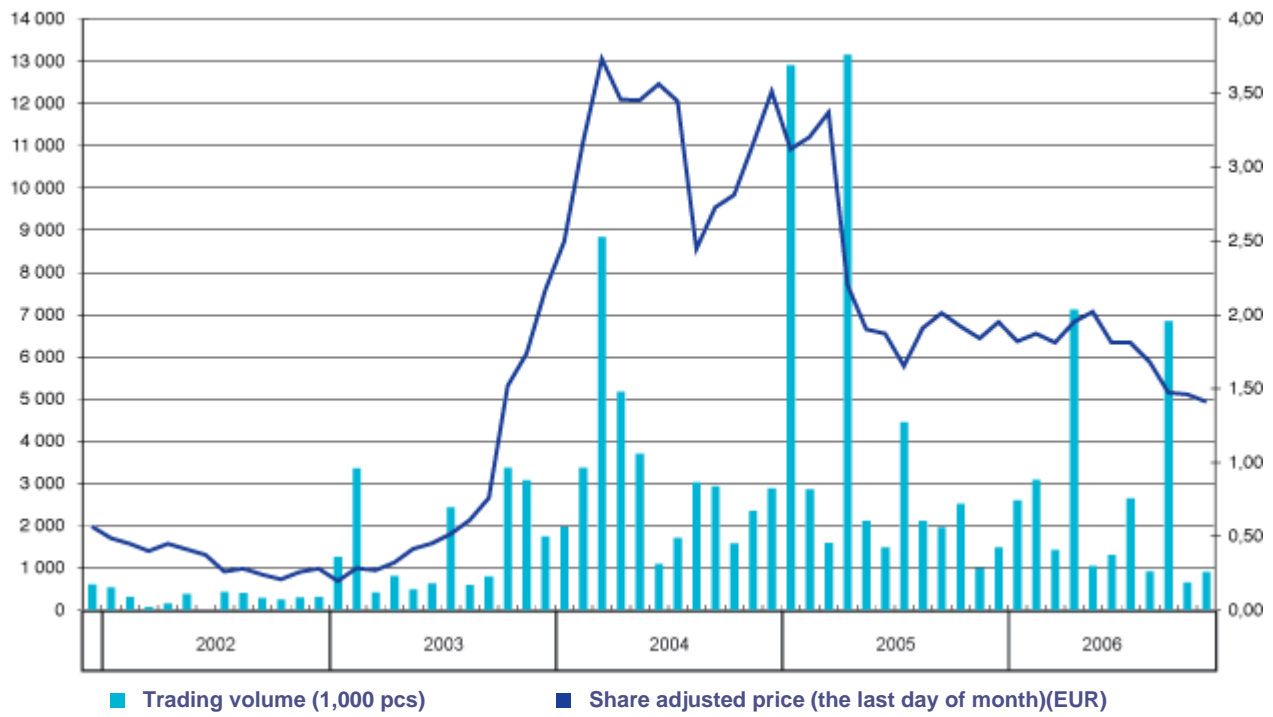
Distribution of shareholdings by size of holding, October 31, 2006

Shares	Number of shareholders	Proportion of shareholders %	Total number of shares and votes	Proportion of shares and votes %
1 - 100	215	5.24	17,628	0.04
101 - 500	932	22.70	321,374	0.79
501 - 1000	889	21.66	766,272	1.89
1 001 - 5 000	1,473	35.88	3,805,932	9.39
5 001 - 10 000	317	7.72	2,386,982	5.89
10 001-100 000	238	5.80	6,059,320	14.95
100 001 - 999 999	41	1.00	27,167,348	67.03
Total	4,105	100.00	40,524,856	99.99
of which nominee registered	9		3,658,228	9.03
In joint account			3,304	0.01
In special accounts			1,488	0.00
Number issued			40,529,648	100.00

Changes in share capital 2002 - 2006

Year	Subscription-share-relationship	Subscription /registering time	Subscription price, EUR	New shares, pcs	Change, 1,000 EUR	New share capital, 1,000 EUR	Dividend right
	Share capital Nov 1, 2001			8,135,104 pcs		13,830 (1,000 EUR)	
2004	On basis of options	Jan. 23,2004	7.79	600	1	13,831	2004
2004	Exchangend and targeted issue for K-shareholders, 1K:1,5A	Feb. 27,2004	0.85	529,616	450	14,281	2004
2004	Split 1:1, gratuitous	Feb. 27,2004		8,135,704		14,281	2004
2004	On basis of options	Apr. 21, 2004	3.71	2,400	2	14,283	2004
2004	Targeted share issue	Apr. 30 ,2004	6.95	3,240,000	2,754	17,037	2004
2004	On basis of options	Jun. 22, 2004	3.71	47,200	40	17,077	2004
2004	On basis of options	Aug. 27, 2004	3.71	11,000	9	17,086	2004
2004	On basis of options	Oct. 28, 2004	3.71	47,400	40	17,127	2004
2004	On basis of options	Dec. 2, 2004	3.71	46,000	39	17,165	2004
2004	Annulment of shares	Dec. 21,2004		-238,400	-203	16,963	
2004	Bonus issue 1:1	Dec. 21,2004		19,956,624	16,963	33,926	2005
2005	On basis of options	Feb.10, 2005	1.70	616,400	523	34,450	2005
	Share capital Oct. 31, 2006			40,529,648 pcs		34,450 (1,000 EUR)	

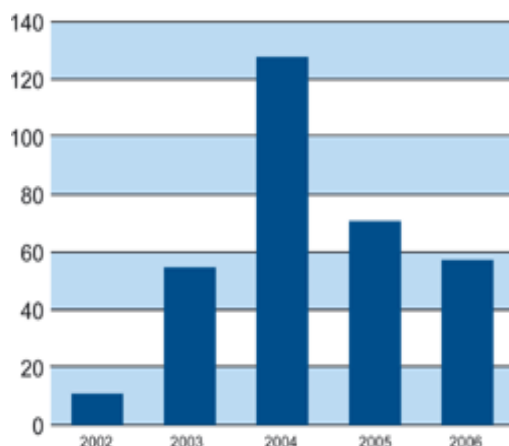
Efore Plc share prices and trading 2002-2006



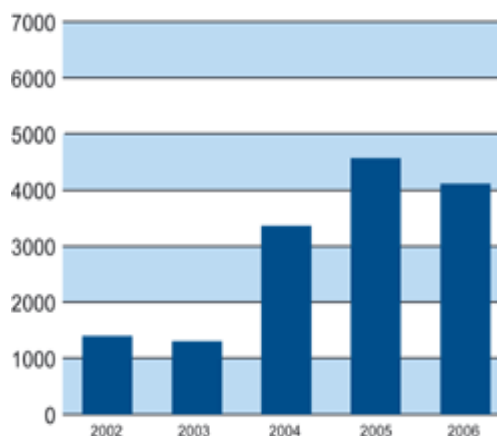
Distribution of shareholdings by shareholder category, October 31, 2006

	Shareholders	Proportion of shareholders	Shares	Proportion of shares and votes
	pcs	%	pcs	%
ENTERPRISES				
Domestic enterprises	268		7,821,363	
of which nominee registered			13,650	
Foreign ownership majority enterprises	1		5,000	
ENTERPRISES TOTAL	269	6.55	7,840,013	19.34
FINANCIAL- AND INSURANCE INSTITUTIONS				
Deposit banks	12		3,784,617	
of which nominee registered			3,644,578	
Other credit institutions	1		74,300	
Financial auxiliaries	1		365,700	
Insurance companies	2		4,400	
Other financial institutions	3		1,512,012	
TOTAL	19	0.46	9,385,607	23.16
PUBLIC ENTITIES				
Employment pension institutions	3		2,655,800	
PUBLIC ENTITIES TOTAL	3	0.07	2,655,800	6.55
NON-PROFIT ORGANIZATIONS				
Non-profit organizations	20		2,143,362	
NON-PROFIT ORGANIZATIONS TOTAL	20	0.49	2,143,362	5.29
HOUSEHOLDS				
Households	474		1,260,441	
Entrepreneurs	157		597,580	
Wage earners	2,747		14,782,448	
Other households	402		1,162,105	
HOUSEHOLDS TOTAL	3,780	92.08	17,802,574	43.92
OUTSIDE FINLAND TOTAL	14	0.34	697,500	1.72
TOTAL	4,105	100.00	36,866,628	90.96
of which nominee registered	9		3,658,228	9.03
In joint account			3,304	0.01
In special accounts			1,488	0.00
TOTAL			40,529,648	100.00

MARKET CAPITALIZATION, MEUR



NUMBER OF REGISTERED SHAREHOLDERS



Efore Plc's 20 largest shareholders, October 31, 2006

	Shares	Proportion of shares and votes
	pcs	%
EVLI Bank Plc	3,012,300	7.43
Tammivuori Esko	1,779,592	4.39
Tammivuori Matti	1,398,000	3.45
Tammivuori Leena	1,369,800	3.38
Syrjälä & Co Oy	1,350,000	3.33
Varma Mutual Pension Insurance Company	1,214,100	3.00
FIM Fenno Mutual Fund	1,077,800	2.66
Mutual Insurance Company Pension Fennia	1,041,700	2.57
Oy O&A Consulting Ab	1,038,400	2.56
Maijos Oy	1,000,000	2.47
Veikko Laine Oy	814,400	2.01
OP-Suomi Small Cap Investment Fund	661,200	1.63
Svenska Handelsbanken Ab (Publ)	510,600	1.26
Fabritius Hannes	473,316	1.17
Rausanne Oy	443,400	1.09
Placeringsfonden Aktia Capital	430,812	1.06
FIM Forte Mutual Fund	420,000	1.04
Ilmarinen Mutual Pension Insurance Company	400,000	0.99
Syrjälä Timo	400,000	0.99
Mandatum Securities Ltd	365,700	0.90
Total	19,201,120	47.38
Nominee registered		
Nordea Bank Finland Plc	3,553,425	8.77

BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF RETAINED EARNINGS

According to the financial statements at October 31, 2006, the parent company's distributable shareholders' equity stood at EUR -7,686,611.31.

The Board of Directors proposes to the Annual General Meeting that no dividend will be distributed and the loss for the period -8,763,285.06 euros, to be entered under the item "retained earnings".

Board of Directors' signature

Espoo, 12 December, 2006

Timo Syrjälä
Chairman

Isto Hantila
Deputy Chairman

Matti Tammivuori

Outi Raitasuo

Johan Ek

Olli Riikkala

Reijo Mäihäniemi
President and CEO

To the shareholders of Efore Plc

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Efore Plc for the 12-month period ended 31 October 2006. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

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

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 Managing Directors of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies Act.

Espoo, 20 December 2006

ERNST & YOUNG OY
Authorised Public Accountant Firm

Juha Nenonen
Authorised Public Accountant

RISK MANAGEMENT

The purpose of Efore's risk management system is to identify the strategic, operational and financial risks faced by the company and any conventional risks of loss. The risks that Efore takes in its operations are risks that are encountered in pursuit of the company's strategy and goals. Risk management seeks to control these risks in a proactive and comprehensive manner. The measures taken can include risk avoidance, risk reduction, and risk transfer by insurance or agreement.

MANAGEMENT OF BUSINESS RISKS

In accordance with Efore's operating principles, risk management forms an integral part of the company's business processes in all its operational units. Efore Group and its operational units assess the risks of their own operations, prepare risk management plans, and report risks in accordance with the organizational structure.

Efore's operational units have long-established training and development programs for reducing occupational accidents and improving overall safety levels. Environmental management systems based on the ISO 14001 standard and quality management tools based on ISO 9001/2000 are applied in the Group's different business locations and form the basis for the management of environmental risks.

There are separate guidelines for data and corporate security. Risk management in procurement is based on harmonized purchasing guidelines, contract clauses, and advanced data systems.

Risk of loss

Efore aims to prevent losses by observing the highest standards in its operations and taking proactive risk management measures. Risks that Efore cannot manage itself are insured. The aim is to have appropriate insurance cover for all risks of loss, such as those concerning assets, business interruption, and operational and product liability.

MANAGEMENT OF FINANCING RISKS

The principles and aims of the Group's management of financing risks is determined in the financing risk policy, which, if necessary is updated and confirmed by the Board of Directors. The management of financing risks aims at avoiding risks and cost-effective arrangements for protecting the Group from factors that may affect its performance and cash flow.

Financing risks are managed through exchange-rate and interest-rate hedging using only financial instruments with a market value and risk profile that can be reliably monitored.

Exchange-rate risk

Exchange-rate risks refer to risks caused by changes in exchange rates that can affect business performance or Group solvency.

Most of the Group's sales are denominated in euros and the US dollar. The operating expenses are generated in euros, the US dollar and the Renminbi.

The policy of the Group is to hedge the main foreign currency surpluses and deficits of commercial value and fixed purchase and sales contracts. Hedging is carried out with currency derivatives, such as forward currency contracts, currency options and foreign currency loans. Most currency derivatives have a duration of less than one year.

In the financial statements the equity capital of foreign subsidiaries is translated at the European Central Bank's average rate on the balance sheet date and exchange rate differences are shown in the consolidated financial statements as translation adjustments. The subsidiaries' equity capital has not been hedged.

The instrument used for hedging against exchange-rate risks and their nominal values at the end of the fiscal year are itemized in section 27 of the notes to the financial statements, Fair values of derivative financial instruments.

Interest-rate risk

Interest -rate risks are caused by interest-rate fluctuations affecting the loan portfolio and cash reserves, and also by whether the interest-bearing liabilities are fixed-interest or floating-rate. Interest-rate risks are managed by making the right decisions on loan-interest periods and by using different types of interest-rate derivative instruments. On the balance sheet date, the Group did not have any open interest-rate hedges.

Liquidity risk

According to the financing policy, the liquidity and adequate financing of the Group and its efficient cash management are the responsibility of the parent company. The liquidity risk is controlled by a balanced maturity distribution of the loans, adequate cash assets and credit limits.

At the end of the fiscal year the Group's liquid assets totaled EUR 11.6 million. The Group's interest-bearing liabilities totaled EUR 1.2 million at the end of the fiscal year, compared with EUR 1.9 million a year earlier. The company's financing reserves comprised unused credit limits totaling EUR 30.0 million on October 31, 2006.

Share price risk

Efore has invested some of its liquid assets in publicly listed shares and funds. The investing is based on an authorization given by the Board of Directors and its administration has been outsourced. The market value of the investments at the end of the fiscal year was EUR 3,426 thousand. The investments were hedged by a shares future with a nominal value of EUR 2,004 thousand.

Credit and other counter-party risks

Management of credit risks is primarily the responsibility of each business unit. Credit risk management accords with the Group's credit policy and the aim is to obtain sufficient security if the customer's credit-worthiness so requires. Material items of trade receivables are evaluated on a counter-party basis in order to identify possible impairment.

The credit risks related to the investment of liquid assets and derivate contracts are minimized by setting credit limits for the counter-parties and by concluding agreements only with leading domestic and foreign banks and financial institutions.

CORPORATE GOVERNANCE

The obligations of Efore's decision-making bodies are defined in accordance with Finnish legislation and the principles established by the Board of Directors. Efore's corporate governance complies with the provisions of the Companies Act.

The Group operates in accordance with Corporate Governance Recommendation for Listed Companies issued by the Helsinki Stock Exchange, the Central Chamber of Commerce, and the Confederation of Finnish Industry and Employers, and with the insider trading instructions issued by the Helsinki Stock Exchange.

Corporate governance

GROUP STRUCTURE

Efore Group consists of the parent company, Efore Plc, and its wholly owned subsidiaries, Efore (USA), Inc. in the United States, Efore (Suzhou) Electronics Co., Ltd and Efore (SIP) Technologies Co., Ltd in China, Efore AS in Estonia, Efore Ltda in Brazil, Efore (UK) Ltd in the United Kingdom, and Fi-Systems Oy in Finland. Efore also has a 25% stake in Power Innovation GmbH, a German power electronics company.

The governance and operations of the Group are the responsibility of decision-making bodies of the parent company Efore Plc, which are the Annual General Meeting, Board of Directors, and the President and CEO. The President and CEO is assisted by the Executive Management Team. The operations of the subsidiaries are the responsibility of their respective Boards of Directors, which comprise the Group's President and CEO and other representatives of the Group's senior management. The Group's President and CEO is also chairman of the Board of Directors of each of the subsidiaries. The President of each subsidiary reports to the Group's President and CEO. Efore Plc provides the subsidiaries with joint Group services and is also responsible for its strategic planning and finances.

The Group's operating structure is based on line organizations for global functions and three geographical sales areas: Europe, the Americas and Asia.

Corporate governance

SHAREHOLDERS' MEETING

The functions of a shareholders' meeting as the company's supreme decision-making authority are defined in the Companies Act and Efore's Articles of Association. In addition to the Annual General Meeting, extraordinary shareholders' meetings may be organized as necessary. At shareholders' meetings, shareholders are able to exercise their right to speak and vote.

The President and CEO and all but one member of the Board of Directors were present at the Annual General Meeting held on January 25, 2006.

Corporate governance

APPOINTING BOARD MEMBERS

The Nomination Committee of the Board of Directors draws up a proposal for the members of the Board. The Annual General Meeting elects the members of the Board of Directors by a simple majority vote for a term of office that ends with the close of the next Annual General Meeting following their election. The Board of Directors elects from amongst its members a chairman and vice chairman.

Corporate governance

BOARD OF DIRECTORS

As set out in Efore's Articles of Association, the Board of Directors shall have no less than five and no more than ten members. The Board currently has six members. The company's President and CEO is not a member of the Board of Directors.

Corporate governance

MEMBERS OF THE BOARD OF DIRECTORS

The following persons were appointed as members of the Board of Directors at the Annual General Meeting held on January 25, 2006: Johan Ek, Isto Hantila, Reijo Mäihäniemi, Outi Raitasuo, Olli Riikkala, Timo Syrjälä and Matti Tammivuori. At its inaugural meeting, the Board of Directors elected Timo Syrjälä as chairman and Reijo Mäihäniemi as vice chairman of the Board.

Reijo Mäihäniemi resigned from the Board of Directors as of June 8, 2006 after being appointed President and CEO. Since that date, the membership of the Company's Board of Directors has been as follows:

Timo Syrjälä, b. 1958

M.Sc. (Econ.)

Chairman of the Board since 2004

Board Member since 2001

Syrjälä & Co Oy, Managing Director

Holds 2,750,000 Efore shares

Isto Hantila, b. 1958

M.Sc. (Eng.)

Vice Chairman of the Board as of August 17, 2006

Board Member since 2004

Perlos Oyj, President and CEO, 2004 - 2006

Ascom Group, Switzerland, CEO, Co-operation Division 2001-2004

Ascom Energy Systems Division, Switzerland, CEO 1994-2001

Technology Industries of Finland, Board Member since 2005

Holds 10,000 Efore shares

Johan Ek, b. 1968

M.Sc. (Econ.) M.A.

Board Member since 2004

Relacom AB, Sweden , CEO since 2005

Powerwave Technologies Inc, President 2004 - 2005

LPG Allgon AB, Sweden, Director since 1999 and President since 2004

McKinsey and Company, Sweden, management consultant 1994-1999

Partnertech AB , Board Member

No shareholding in Efore

Outi Raitasuo, b. 1959

LL.M. (trained on bench), LL.M. (Toronto)

Board Member since 2004

Hannes Snellman Oy Attorneys at Law since 1989, partner since 1997

RF Micro Devices (Finland) Oy, Board Member

Mundipharma Oy, Board Member

Pontos Oy, Board Member

Oriola-KD Oyj, Board Member

No shareholding in Efore

Olli Riikkala, b. 1951

M.Sc. (Eng.), MBA

Board Member since 2004

GE Healthcare – Information Technologies, Senior Adviser 2004-2006

GE Healthcare, Senior Executive 2003

Instrumentarium, President and CEO 1997-2003

Fiskars Oyj Abp, Chairman of the Board

Tietoenator Oyj, Board Member

Helvar Merca Oy Ab, Board Member

Comptel Oyj, Chairman of the Board

PaloDEX Group, Chairman of the Board

Oriola-KD Oyj, Chairman of the Board

Holds 10,000 Efore shares

Matti Tammivuori, b. 1957

BA Marketing

Board Member since 1999

Tamcor Ky, Managing Director, since 1985

PerlaSoft Oy, Board Member

Virtaankosken Voima Oy, Board Member

Pienvesivoimayhdistys, Chairman of the Board,

Holds 1,413,008 Efore shares

Shareholdings Oct 31, 2006

Corporate governance

DUTIES AND RESPONSIBILITIES OF THE BOARD

The Board of Directors has general decision-making authority in all company matters that are not stipulated (by law or under the Articles of Association) for the decision or action of another party. The Board is responsible for the governance of the company and for duly organizing its operations. It also approves the corporate strategy, the risk management principles, the Group's corporate values, the operating plan and related annual budget, and decides on major investments.

The main duties and operating principles of the Board of Directors are given in a separate working order. This refers to the declaration of a quorum at Board meetings, the writing and approval of minutes, and the preparations needed on matters for decision. The Board of Directors met 17 times during the fiscal year. The participation rate of members in the Board meetings was 90.9%. In an assessment of independence undertaken by the Board of Directors, it was found that all Board members are independent of the company and that all Board members, with the exception of Matti Tammivuori, are independent of the company's main shareholders.

The Board of Directors reviews its own working procedures through a regular self-evaluation process.

Corporate governance

BOARD FEES AND OTHER BENEFITS

The Annual General Meeting decides annually on the Board of Directors' fees and on the criteria for reimbursement of Board expenses. Board members' fees are paid in the form of monetary reimbursement.

By a decision of the Annual General Meeting of January 25, 2006, the chairman of the Board of Directors is paid a fee of EUR 3,000 per month for his Board work and a meeting fee of EUR 750 per Board meeting, the vice chairman is paid EUR 2,000 per month and a meeting fee of EUR 500, and Board members are paid EUR 1,750 per month and EUR 500 per meeting. Board members are also reimbursed for travel expenses in accordance with the Finnish Tax Administration's approved maximum limits for travel compensation in each case.

A fee of EUR 500 per meeting is paid to committee chairmen and members for their work on the committees. Travel expenses are also reimbursed.

In the fiscal year ending October 31, 2006, the chairman and members of the Board of Directors were paid a total of EUR 219,595.76 in monthly and meeting fees. Committee chairmen and members were paid a total of EUR 23,500 in meeting fees. Board members were not awarded options or Efore shares as fees for their Board work.

Corporate governance

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Corporate governance

EFORE'S PRESIDENT AND CEO

The Board of Directors appoints the company's President and CEO and supervises his actions. The main terms and conditions governing his appointment are detailed in a written contract. The President and CEO manages and supervises Group business operations within the guidelines and directives issued by the Board of Directors, and ensures that the company's accounting accords with the law and that the financial management system is reliable.

Markku Hangasjärvi acted as the company's President and CEO until June 7, 2006. Reijo Mäihäniemi was appointed President and CEO as of June 8, 2006.

Under the contract between Efore and Reijo Mäihäniemi, the President and CEO is entitled to a performance-related remuneration for the fiscal year ending in 2007. The remuneration, determined by the Board of Directors, is paid once during the fiscal year. The Board of Directors decides on the targets used as the basis for the remuneration each fiscal year. For the fiscal year 2006, the remuneration can be paid at the discretion of the Board of Directors. Reijo Mäihäniemi does not, as President and CEO, have any voluntary pension insurance policy. His contract does not contain provisions on any specific age limit for early old-age pension or for resignation. The period of notice for the President and CEO is six months, and under the contract, he will not receive any separate discharge fee.

Reijo Mäihäniemi was paid a total of EUR 71,523.81 in salary and fringe benefits during the fiscal year ending on October 31, 2006: the regular monetary salary accounted for EUR 71,428.57 and fringe benefits EUR 95.24. The Board of Directors granted a total of 100,000 option rights under the 2005 option rights program to Mäihäniemi under the fiscal year. Efore does not operate an incentive system under which fees are paid to the President and CEO in the form of the company's own shares.

Markku Hangasjärvi was paid a total of EUR 359,763.14 in salary, fringe benefits, and discharge payments during the fiscal year ending on October 31, 2006; the regular monetary salary accounted for EUR 181,338.63 of this total, fringe benefits for EUR 11,988.59 and discharge payments for 166,435.92. During the fiscal year ending on October 31, 2006, Hangasjärvi was granted a total of 70,000 option rights under the 2005 option rights program.

Corporate governance

EXECUTIVE MANAGEMENT TEAM AND STEERING GROUPS FOR FUNCTIONS AND GEOGRAPHICAL AREAS

The President and CEO chairs and is assisted by the Executive Management Team. The Team comprises the chairman, the Executive Vice Presidents of Europe, the Americas, and Asia, Sales and Marketing; the Group's CFO; Executive Vice President, Operations; Executive Vice President, Product Development; and Executive Vice President, Technology.

The Executive Management Team's main responsibilities include drafting the broad outline of the Group's strategy, monitoring the Group's financial performance, and securing a good financial performance. The Team convenes approximately monthly.

The Steering Groups for individual Functions are responsible for implementing the chosen strategies, putting measures agreed upon into effect, ensuring that operations are continuously developed so that set targets are achieved, monitoring costs and guaranteeing a high-level financial performance, efficiency and top-quality operations.

The Geographical Area Steering Groups are responsible for coordinating local operations between different functions and to make initiatives so that the Group can take regional requirements into account when developing its business operations.

Corporate governance

MEMBERS OF THE GROUP'S EXECUTIVE MANAGEMENT TEAM



Reijo Mähäniemi, b. 1947
M.Sc. (Eng.)
Chairman of the Executive Management Team
President and CEO since 2006

Before joining Efore worked as Managing Director of Olivetti Finland (1994-1995) and Fiskars Power Systems (1985-1990), and held managerial positions in such companies as Tellabs Oy (1997-2005), Teleste Oy (1995-1997) and Nokia Telecommunications (1973-1985).

Holds 25,000 Efore shares and 100,000 option rights.



Khalid Hafeez, b. 1950
Lic.Sc. (Tech.), MBA
Joined Efore in 2002
Executive Vice President, Sales and Marketing, Asia Pacific (until Dec. 21, 2006)

Before joining Efore held international managerial positions in sales and marketing in Nokia Networks (1983—2002), with responsibility for the Chinese market.

Holds 61,000 Efore shares and 49,000 option rights



Panu Kaila, b. 1955
B.Sc (Eng.)
Joined Efore in 2004
Executive Vice President, Operations

Before joining Efore held managerial positions in Elcoteq Networks Oyj (1999-2002) and Nokia MobilePhones Oy (1985-1999) and worked as Project Manager at the Helsinki University of Technology (1999).

Holds 9,400 Efore shares and 49,000 option rights



Markku Kukkonen, b. 1959
Lic.Sc. (Tech.)
Joined Efore in 2006
Executive Vice President, Product Development

Before joining Efore held managerial positions in Salcomp Oy's product development (1999-2005) and in Helvar Oy (1986-1999).

No share ownership, holds 28,000 option rights



Jorma Lappalainen, b. 1950
B.Sc. (Econ.)
Joined Efore in 2000
Executive Vice President CFO (until Jan. 31, 2007)

Before joining Efore worked as Finance Director in Mercantile Oy (1996-2000) and Helvar Oy (1981-1996) and as Finance Manager in Rocla Oy (1973-1981).

Holds 70,800 Efore shares and 35,000 option rights



Kari Saarinen, b. 1956
M.Sc. (Eng.)
Joined Efore in 2005
Executive Vice President, Sales and Marketing, EMEA

Before joining Efore, worked as president and CEO of Incap Oy (2000-2002), and in managerial positions in Outokumpu Stainless Oy (2002-2005) and Nokia Maillefer (1978-2000).

No share ownership, holds 49,000 option rights



Mika Sippola, b. 1971
D.Sc. (Tech.)
Joined Efore in 2004
Executive Vice President, Technology

Before joining Efore worked as Research Engineer at Schaffner EMV AG (2002-2004) and Fiskars Power Systems (1994-1995) and as Researcher at the Helsinki University of Technology (1996-2002).

No share ownership, holds 35,000 option rights



Scott Vartija, b. 1949
MBA, BA, Certified General Accountant
Joined Efore in 2001
Executive Vice President, Sales and Marketing, Americas

Before joining Efore held managerial positions in sales and marketing in Windsport Inc (1999 - 2001) and Vidpro International Inc (1991-1999).

No share ownership, holds 35,000 option rights

M.Sc. (Econ.) Olli Nermes has been appointed as Efore Group's CFO and member of the Group's Executive Management Team as of February 1, 2007.

Shareholdings and option rights Oct. 31, 2006

Corporate governance

REMUNERATION SYSTEM FOR THE PRESIDENT AND CEO AND THE COMPANY'S MANAGEMENT

The performance-related pay system for the Group's management is drawn up by the Compensation Committee and then approved by the Efore Plc Board of Directors. The Board-approved upper limits for performance-related pay are in the range 20-60% of annual earnings, depending on the position in question. The criteria used for assessing this are the Group-level performance requirements and those applying to the person's own sphere of responsibility, and other measures of operational activity. Approximately 90 Efore Group personnel are covered by the management performance-related pay system.

Corporate governance

GOVERNANCE OF INSIDER ACTIVITY

Efore Plc's public insiders are the members of the Board of Directors, the President and CEO, the company's auditors, and the members of the Executive Management Team. The company also has a company-specific insider register. Insider registers are maintained by the company's lawyer under the supervision of the President and CEO.

Efore Plc complies with the insider trading instructions approved by the Helsinki Stock Exchange, on the basis of which the company's Board of Directors has approved a set of internal guidelines on insider trading. According to these guidelines, investments made by insiders must be on a long-term basis and trading must always take place at a time when the market's information on factors affecting the share value is as complete as possible. The period closed to trading by insiders is always a minimum of 14 days before publication of interim reports, and 21 days before publication of the financial statements bulletin. Trading can also be prohibited for special reasons outside the closed period, in which case all insiders entered in the register will be informed accordingly.

Corporate governance

SUPERVISION

The Group has financial reporting systems for supervising its business operations and financial management. The Board of Directors has approved the Group's management organization and governing principles, decision-making authority and approval procedures, administrative operating policies, financial planning and reporting, and remuneration principles. Internal auditing is part of the Group's financial administration. The financial administration management reports the findings of internal auditing to the President and CEO and the Audit Committee.

Efore Plc's principal auditor is responsible for the auditing instructions and for coordinating the audit. The principal auditor and the company management jointly draw up an auditing plan each year. The Group's auditing fees for the fiscal year totaled EUR 104,000. The fees paid to the auditors for other services totaled EUR 122,000.

As required by law, the auditors provide the company's shareholders with an auditors' report at the time of the annual financial statements. The auditors also report their findings to the Audit Committee.

CONTACT DETAILS

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