



Tamro Corporation's financial statements and consolidated financial statements have been prepared in accordance with Finnish legislation, which in all material respects is based on the provisions of EU Directives 4 and 7.

Scope of the consolidated financial statements

The financial statements include the parent company as well as those Finnish and overseas subsidiaries in which the parent company holds, directly or indirectly, more than 50 per cent of the voting rights. The subsidiaries acquired during the financial year are included in the consolidated financial statements from the date of acquisition. If a subsidiary is divested before the close of the financial year, its figures are included in the consolidated financial statements until the time of sale.

The consolidated financial statements do not include certain smaller non-operating companies. The companies excluded from the consolidated financial statements have no significant effect on the consolidated non-restricted equity.

The financial statement data on affiliated companies have been consolidated using the equity method. Affiliates are defined as companies in which the Group holds 20 to 50 per cent of the voting rights. Certain small affiliates have not been included in the consolidated financial statements. The effect of these companies on the consolidated non-restricted equity is insignificant.

Consolidation principles

Both the purchase method and the pooling-of-interests method have been used when preparing the consolidated financial statements.

Pooling method

Tamro AB and Nomeco A/S are consolidated using the pooling-of-interests method. The acquisition cost of the subsidiaries' shares is first eliminated from the subsidiary's restricted equity at the beginning of the financial year of acquisition, then from the premium fund created in connection with Tamro Corporation's private placement, and, lastly, from the Group's other non-restricted equity available for dividends. Thus the acquisitions do not create consolidated goodwill.

Purchase method

The acquisition cost method is used in the elimination of inter-subsidiary shareholdings. The difference between the acquisition cost of subsidiary shares and the shareholders' equity is allocated to the fixed assets of the subsidiaries. The consolidated goodwill remaining after the allocations is posted in the balance sheet as a separate item that will be amortised over a period of 10 years. However, goodwill from certain strategic and significant acquisitions may be amortised over a period of up to 20 years.

Foreign subsidiaries and translation differences

The financial statements of foreign subsidiaries have been converted and restated to correspond to the Finnish Accounting Act.

The income statements have been converted into euros at the weighted average rate of the financial year and the balance sheets at the foreign exchange mid-rate quoted by the European Central Bank on the balance sheet date. Translation differences have been recorded directly into equity. Exchange rate differences from the parent company's long-term intra-group loan receivables from the Swedish and Russian subsidiaries have been posted directly under translation differences in the consolidated accounts. These loans are considered as equity by nature.

Transaction costs associated with hedging the parent company's above-mentioned long-term intra-group loan receivables are posted under translation differences in the consolidated accounts. In the consolidated accounts the exchange rate differences attributable to equity type of transactions are netted against the period's translation difference in the Group's equity, net of any significant tax

effects.

Minority interest

The minority interest is calculated as a portion of the subsidiaries' equity and net income unless otherwise agreed in shareholders' agreement etc.

Duration of the financial year

The financial year of the Group companies coincides with the calendar year.

Intra-group transactions

The following intra-group transactions have been eliminated: sales and purchases, dividend payments, receivables and liabilities as well as the gross margin included in the value of inventories and fixed assets acquired from other Group companies. Internal profits between the Group and affiliated companies are eliminated in proportion to the ownership share and deducted from the consolidated retained earnings and non-current assets. The eliminated profit is recognised in revenue at the rate of depreciation.

Fixed assets

Fixed assets are posted to the balance sheet at their direct acquisition costs, allowing for depreciation according to plan. Some real-estate holdings include revaluation, as specified in the Notes to the balance sheets. The revaluation surplus is not subject to depreciation.

The depreciation according to plan on fixed assets is based on the original acquisition cost and the expected economic life of the item. For the most part, the straight-line method is used applying the following useful lives:

Intangible rights	5 - 10 years
Goodwill	5 - 10 years
Consolidated goodwill	5 - 20 years
Other intangible assets	5 - 7 years
Buildings and structures	10 - 40 years
Machinery and equipment	3 - 10 years
Other tangible assets	5 - 10 years

Capitalised interest in Tamro House

Interest expenses incurred during the construction of the parent company's office building and warehouse have been capitalised in year 1991 and included in the acquisition cost of buildings. The capitalised interest has been amortised over a period of 10 years.

Leasing

Leasing payments are charged to rental expense. The Group has no significant capital lease contracts. Leasing commitments are disclosed in the Notes to the financial statements.

Accounting for IT costs

Software purchase costs are mainly capitalised and posted in the balance sheet as intangible rights. Software is depreciated over a maximum period of 5 years. Minor software purchases are charged directly to income. In-house and outsourced IT development costs are charged to revenue.

Research and development

The Group R&D expenses, which represent only small amounts, are charged directly to income.

Financial investments and debt securities

Financial investments and debt securities are included in short-term investments under current assets. Debt securities are valued at lower of adjusted acquisition cost or market value. There are no material long-term financial investments at year-end.

Derivative financial instruments

Received and paid premiums related to currency options are posted as a prepayment in the balance sheet. Premium income and expenses are recorded to the income statement as the option matures.

Received and paid premiums related to interest options are posted as a prepayment in the balance sheet and recognised in income or expensed over the period from purchase until maturity.

Open option agreements are valued at market price.

Inventories

Inventories are valued at the lowest of their acquisition cost, replacement value or probable selling price. Materials and supplies use is recorded under the FIFO principle.

Foreign-currency denominated receivables and liabilities

All the foreign currency receivables and liabilities of the parent company and its Finnish subsidiaries have been converted into euros at the mid-rate quoted by the European Central Bank on the balance sheet date. Foreign subsidiaries' foreign-currency-denominated receivables and liabilities are converted at their appropriate exchange rates on the balance sheet date. Open positions on foreign-exchange forward contracts are valued at their market price on the balance sheet date and the exchange rate differences are posted under financial items on the income statement.

Pension liabilities

Pension expenses are calculated in accordance with the national legislation of each country. The pension plans of the Group companies have, as a general rule, been arranged with external pension insurance companies. Certain pension obligations based on collective bargaining agreements are included under long-term pension loans in the balance sheet. These pension benefits are determined by the labour market and cannot be influenced by the company.

Year-end tax appropriations and untaxed reserves

Appropriations include allocations to untaxed reserves, mainly in the form of accelerated depreciation.

In the income statement of the parent company, the difference between depreciation according to plan and accelerated cost recovery is transferred to untaxed reserves. The accumulated temporary depreciation difference is shown as an item under untaxed reserves in the balance sheet.

The consolidated balance sheet and the income statement are presented without any untaxed reserves and appropriations. The untaxed reserves of the Group companies break down into deferred income tax liability, shown as a long-term liability, and non-restricted equity. The appropriations made by Group companies, adjusted for the change in the deferred income tax liability, have correspondingly been eliminated from the consolidated income statement.

The untaxed reserves, net of deferred income tax liability, may not be distributed to shareholders as dividend.

Obligatory reserves

The obligatory reserves in the balance sheet are defined as commitments related to the current or prior financial years which on the balance sheet date are certain or likely to materialise but where there is uncertainty as to the amount or the timing of the obligation.

The estimated reserves are based on information available on the balance sheet date. Any income-impacting changes of obligatory reserves are included in the income statement item(s) to which they relate by their nature.

Net sales

The net sales consist of sales revenue from ordinary operations, rentals and leases as well as minor gains from the sale of fixed assets. The net sales are stated net of indirect taxes, sale discounts and credits (refunds).

Other income

Other income consists of capital gains on the divested long-term investments.

Extraordinary income and expense

Extraordinary income and expense items consist of significant, unusual business transactions incidental to the Group's normal operations. These also include correction items from prior years. In the parent company, group contributions paid and/or received have also been recorded under extraordinary items.

Taxes payable on extraordinary items are presented separately from income taxes on normal operations and included under extraordinary items.

Income taxes

The consolidated income tax charges of the Group companies' normal operations have been calculated in accordance with local tax laws of the relevant country of operation. The taxes include income taxes incurred for the financial year as well as taxes to be paid or received for prior periods on accrual basis. Moreover, any change in the deferred tax liability is included in the taxes. The change in the deferred income tax includes tax effects of timing differences, confirmed tax losses, changes in untaxed reserves and consolidation adjustments to net income.

Accounting for income taxes related to extraordinary items, see the chapter Extraordinary income and expense above.

The consolidated cash flow statement

Capital Investments in the consolidated cash flow statement include significant acquisitions and divestitures of companies valued at the sale price of the shares. Accordingly, the assets and liabilities of the acquired or divested company are not included in the change of net working capital, net investments or financing. Share transactions paid partly in kind (share swaps) are included in the cash flow statement only up to cash amount paid or received.

Differences between annual report and official financial statements

This annual report deviates from the official accounts in that financial data is partly presented in EUR millions.

