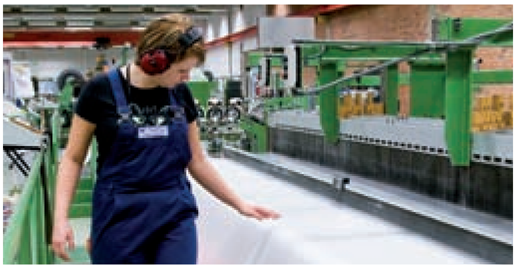
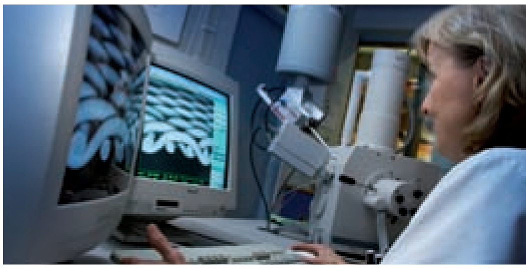
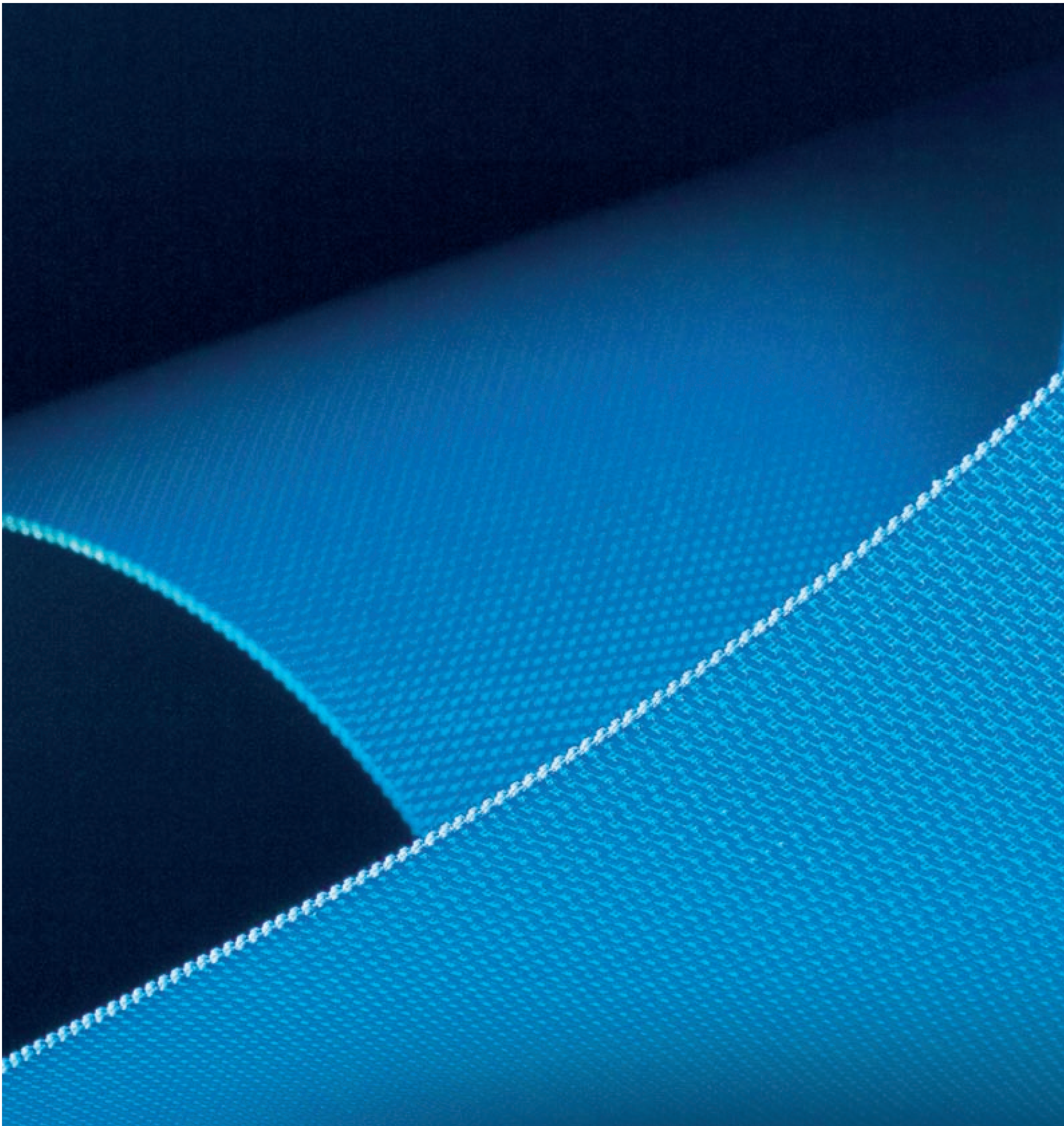
Annual Report 2007

TAMFELT





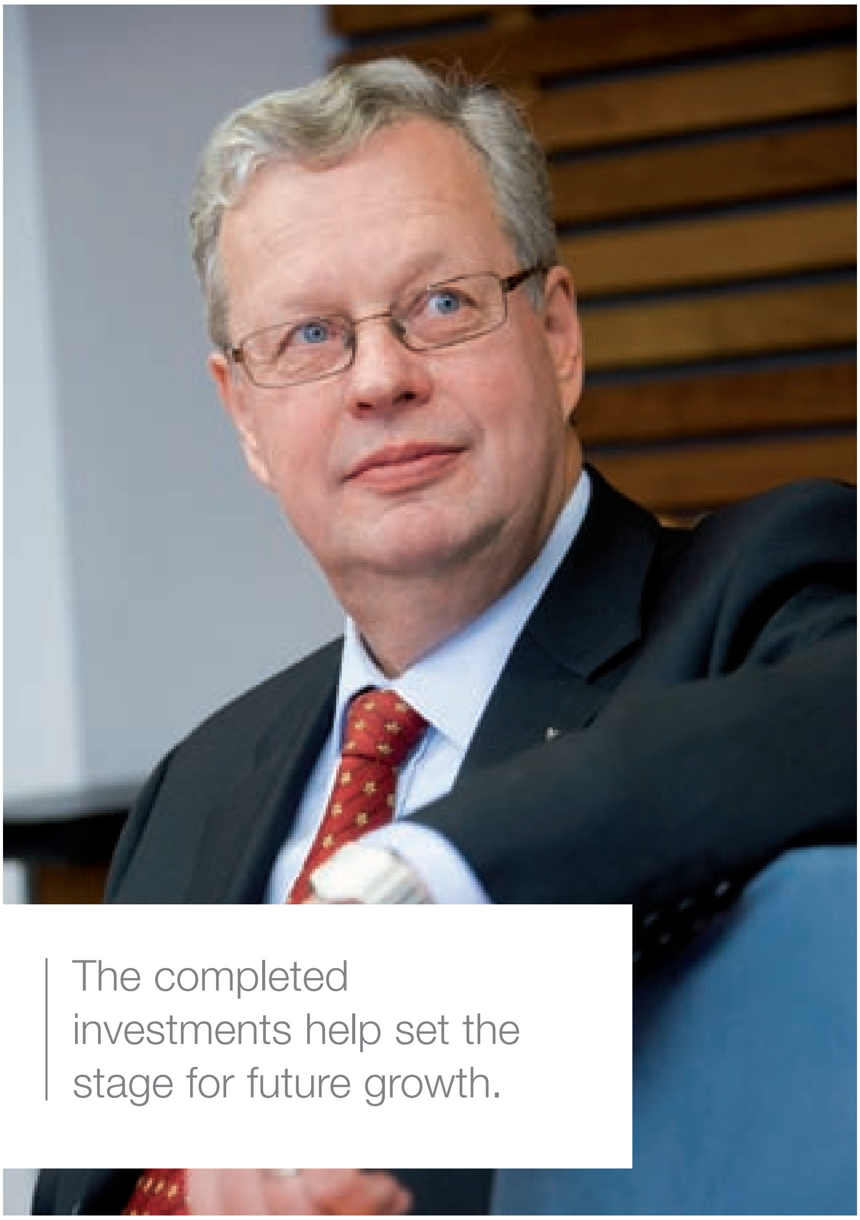


Contents

Company profile

Tamfelt is a world-leading supplier of technical textiles. The company's main products are paper machine clothing and filter fabrics. In addition to the plants in Tampere and Juankoski, Finland, Tamfelt Group operates plants in Portugal, Poland, Brazil and China.

Founded in 1797, the company is one of the pioneers of Finnish industry. The manufacture of paper machine clothing started in 1882 and the manufacture of filter fabrics in 1965.



The completed investments help set the stage for future growth.

Review by the President

The year 2007 was Tamfelt's 210th year in operation. The company's net sales grew as expected and earnings remained good. The forest and mining industries – our most important customer segments – showed high capacity utilization rates worldwide, which ensured brisk demand for paper machine clothing and filter fabrics.

The Group's net sales were up 8 per cent and operating profit remained at the previous year's level. The 2007 operating profit does not include any one-off capital gain, such as was recorded in 2006 on the sale of our share in the water power company Alakoski Oy. Tamfelt's growth exceeded the average growth rate in both filter fabric and paper machine clothing businesses leading to a strengthened market position.

In the pressure of stiff competition, the average prices of clothing continued to fall. Big forest industry corporations, in particular, continue to consolidate their purchases on an ever-smaller number of clothing suppliers in an effort to gain better terms and to reduce the amount of capital tied in clothing.

Tamfelt has chosen to focus on clothing for modern large and high-speed paper machines and on challenging applications in both wet and dry filtration.
This has proved a successful strategy – our selected target areas have been growing faster than the average rate of the field. A number of small paper machines have been shut down across the world with little impact on our activities. The paper industry has increased investments in wide and high-speed machines, in which Tamfelt has increased its market share as a clothing supplier in 2007. China and South-East Asia are the markets with the highest growth rates.

Increasing environmental awareness and tightening standards offer completely new prospects for our filter fabric business. The economic growth and construction boom of Asia have boosted the mining and cement industries as well as energy production, contributing to a significant increase in the consumption of filter fabrics.

The cornerstones of Tamfelt's business knowhow are customer-driven approach and innovation. In all product groups, we have continuously managed to develop spearhead products that differ from competing articles. Such spearhead products play a significant role in good profitability development and in success to win new market shares. We continue to invest in research and development working together with customers, partners and research institutes. Tamfelt was a co-founder of Forest Cluster Ltd., an innovation company established in 2007. The aim of the Cluster is to develop for the entire forest sector superb product and manufacturing concepts, in which also Tamfelt's special competence will be utilized.

Our investments in production machinery and expanded global presence were heavier in 2007 than ever before in the company's history. Our new processing facility for filter fabrics came on stream in Shanghai. Our new forming and dryer fabric line in the Tianjin area will be commissioned in early 2008. A new needling line with cutting-edge technology will significantly increase our press felt capacity in Tampere.

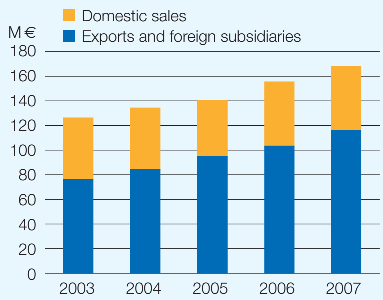
Tamfelt received a record high volume of orders in 2007. The completed investments help set the stage for future growth and efficient operation in the coming years.

In autumn 2007 Tamfelt's Board decided to incorporate the company's paper machine clothing (PMC) and filtration businesses at the beginning of 2008. The procedure will make for a uniform Group structure in operative and legal terms. Separate statements of income and balance sheets will help improve transparency, flexibility in decision making and financial control. Instead of the earlier "technical textiles" we shall report the performance of the two primary segments Tamfelt PMC Corp. and Tamfelt Filtration Corp.

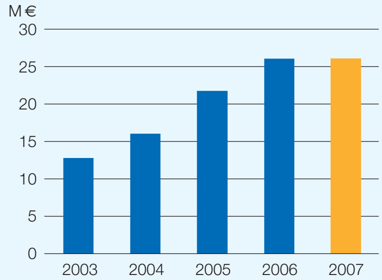
The uncertainties of global economy have increased of late and they are bound to present additional challenges in the current year. High order volumes, however, are a proof of our success in the customer interface. Also, investments in production facilities and expertise provide a solid basis for future growth targets. I wish to thank all our customers, partners and shareholders for the past year. Our good growth and profitability trend would not have been achieved without the excellent performance of our committed and competent personnel. Thank you all for your contribution.

Jyrki Nuutila, President and CEO

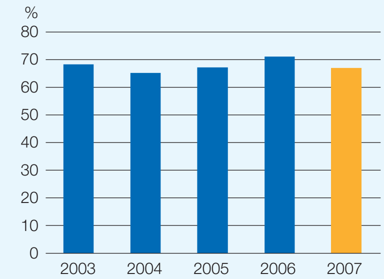
Net Sales, consolidated



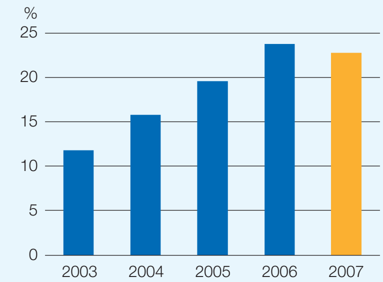
Operating income, consolidated



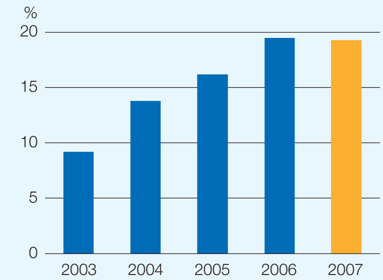
Equity/Asset ratio, consolidated



Return on Net Assets, consolidated



Return on Equity, consolidated



Year 2007 in brief

Net sales and operating profit

Tamfelt's consolidated net sales were 167.5 million euros and operating profit was 25.9 million euros. The net sales were up 8.1 per cent year-on-year. Profit for the period was 20.8 million euros.

Business environment

The market for paper machine clothing grew beyond the long-term average, and the demand for filter fabrics by the paper and pulp industry also exceeded the normal level. Specific consumption – the consumption of clothing per paper ton produced – declined slightly further. Good market situation prevailed for filter fabrics supplied to the mining industry. Stricter environmental standards have boosted the demand for filter fabrics. The weakening U.S. dollar against the euro affected the profitability of sales from Western Europe to North America and Asia.

A year of investment

The Group's gross investment rose to a record high at 24.5 million euros. Two major investment projects were carried out in 2007:

- press felt production volume increased after an investment of more than 10 million euros in the Tampere plant.
- the construction of a new forming and dryer fabric plant in Tianjin, China started in early 2007. The production will begin in February 2008.

Incorporation

In October 2007 Tamfelt made a decision to incorporate the paper machine clothing (PMC) business and the filter fabric business by means of a transfer of undertaking. The new companies – Tamfelt PMC Corp. and Tamfelt Filtration Corp. – started operations on January 1, 2008.

Key figures

	2007	2006	Change, %
Net sales. M €	167.5	155.0	8.1
Operating profit, M €	25.9	25.9	0.0
Gross investments, M €	24.5	11.5	113.0
Earnings/share, €	0.76	0.73	4.1
Equity/share, €	3.95	3.90	1.3
Dividend/share			
common, €	0.52*	0.59	-
preferred, €	0.54*	0.61	-
Return on net assets, %	22.7	23.7	-
Equity/Assets ratio, %	66.5	70.6	-
Personnel, Dec. 31	1,496	1,443	3.7

* Board of Directors' proposal

Releases in 2007

February 8, 2007	Financial statement bulletin 2006
February 8, 2007	Summons to Annual General Meeting 2007
March 21, 2007	Resolutions by the Annual General Meeting 2007
April 26, 2007	Interim report January-March 2007
June 12, 2007	Martin Lilius to abstain from his activities as a member of the Board
August 9, 2007	Interim report January-June 2007
October 22, 2007	Changes in Tamfelt Group structure
October 25, 2007	Interim report January-September 2007
October 25, 2007	Disclosure dates for financial reporting in 2008
November 5, 2007	Martin Lilius resumes his activities as Tamfelt Board member

www.tamfelt.com

Innovatively towards the vision.

Vision

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

Business idea

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

Key success factors

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

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

Strategy

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

Clear focus

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

Competent total service

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

Efficient and innovative approach

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

Tamfelt strengthens positions in the growing Chinese market

China's huge economic growth is also felt in the forest industry. Thanks to its own manufacturing presence, Tamfelt is well established in the rapidly growing but highly competitive market. Tamfelt Chairman of the Board Mikael von Frenckell and President & CEO Jyrki Nuutila discuss the present situation and outlook for the current year.

Jyrki Nuutila: ”The global economy has been growing at a rapid pace in the last few years – even five per cent a year driven by Southeast Asia and notably China. Now it seems that the long period of strong growth has been left behind and we are facing some turbulence and slower growth.”

Mikael von Frenckell: ”Despite a long period of heavy growth, the Finnish forest industry has failed to achieve good results. It is operating under an intense cost pressure, which can partly be attributed to raw material and energy prices, but is also a consequence of rival capacity that is being built in areas which offer cost benefits in comparison to the domestic forest industry. This is a situation that affects Tamfelt, too.”

”The emphasis of production has more and more shifted on Tamfelt's focus area, and at the same time we have improved efficiency in anticipation of cost pressures. Our price and cost competitiveness have remained good.”

What are the major changes that have occurred or are about to occur in the industry?

Jyrki Nuutila: ”The Chinese paper industry is growing at an annual rate of over ten per cent. At the end of 2007 China, for the first time, was a net exporter of paper and board, which is a significant development. Globally, the paper industry is growing at around 2 per cent annually. In North America and especially in Canada, the volumes are shrinking.”

Mikael von Frenckell: ”The Chinese trend is accelerating with almost twenty wide paper machines ordered or under construction in the country. While domestic demand is growing in China, the increasing capacity is beyond the short-term local need.”

Tamfelt has manufacturing plants in China. A filter fabric plant is in operation in Shanghai, and a new forming and dryer fabric plant in Tianjin will start up in early 2008.

Jyrki Nuutila: ”I think Tamfelt's decision to establish itself in China was exactly right. With a total production of some 70 million tons of paper and board last year, China it is the second biggest producer in the world. In our focus area of wide and high-speed machines, the production of paper and board in China has doubled in two or three years to 30 million tons.

How is the process of establishing Tamfelt in China advancing?

Jyrki Nuutila: ”The process has been advancing more or less according to plan. Our filter fabric plant came on stream on schedule, and the new Tianjin operation will also start as planned. But they have not been easy projects; we have been in for surprises, but we have always ridden out.”

What are the biggest challenges for successful business in the Chinese market?

Mikael von Frenckell: ”The culture and the operating environment are completely different from what we are used to. And the challenges of a new operating environment should not be underestimated. Another big challenge is to find employees who are able to operate successfully in a strange environment implementing the strategy and goals of a Finnish parent company, and who will feel at home and adapt themselves to the new environment.”

Jyrki Nuutila: ”One reason for the difficulty of recruiting competent people to the Tamfelt team is the narrowness of our line of business on the global scale. The required expertise abounds nowhere. We must always start from the grassroots level and the necessary knowhow and competence must be passed on from Europe. Recruiting, training and the transmission of competencies are huge challenges, and we have been investing in them a lot.

How is the competitive situation in China?
Jyrki Nuutila: ”As a market area, China is in no way easier than others. Our major competitors have already established themselves in China. Competition is extremely heavy in paper machine clothing as well as filter fabrics.”

How would you expect the market situation to develop for paper machine clothing and filter fabrics?
Mikael von Frenckell: ”The role of China as an exporter of paper and board is growing. We must remember, however, that forest industry is a business that is heavily logistics dependent – the transport of recycled fibre or paper from a continent to another is hardly profitable in the long term. At the same time, the focus will increasingly shift to wide and high-speed machines – Tamfelt’s target segment – and they place ever-greater requirements on the clothing. Paper machine clothing that is more sophisticated and more expensive to manufacture is needed.”

”In the filter fabric business, the market situation is affected by growing concerns for the environment. Filtration in various forms will increase.”

Jyrki Nuutila: ”The Southeast Asian boom has necessitated stricter environmental regulations. For example, the coal power plants under construction in China have plenty of the type of filtration needs that we have invested in our filter fabric business. As long as construction activity remains strong, the world needs concrete and steel, and this means that the mining and cement industries are major growth areas for our filter fabric business.”

The new subsidiaries Tamfelt PMC Corp. and Tamfelt Filtration Corp. started operating in the beginning of 2008. Tamfelt Corp. is the parent company of the Group. What were the reasons for the incorporation?
Mikael von Frenckell: ”It was a move that will facilitate focusing, and improve business transparency and cost monitoring and, if necessary, two subsidiaries under a parent company give strategic freedom. Having their own income statements and balance sheets provides the business units excellent management tools. Markets usually appreciate transparency. And flexibility is always good in our rapidly changing world.”

Jyrki Nuutila: ”In terms of operational activities, the incorporation means prompter and more flexible decision making. Instead of one segment we will be reporting two primary segments since the first quarter of the year. The market will see the position and profitability of the paper machine clothing and filter fabric businesses.”

How would you assess the outlook for 2008?
Mikael von Frenckell: ”There is more uncertainty in the air than before, and the momentum for change has accelerated – in information society all changes take place quickly and across the board. It takes flexibility to be able to respond to the changing conditions.”

”The competitive situation and cost pressures are very heavy throughout Tamfelt’s operating environment. All this does harm to the industry. When the return on capital is inadequate, research and development will suffer. Tamfelt has chosen a certain focus area early on, and so we have done better than average. We have been able to increase our market shares profitably in all important business sectors.”

Jyrki Nuutila: ”The uncertainty in the international economy has increased lately, which creates additional challenge for the new year. However, our high volume of orders tells us we have succeeded. Our start to the year 2008 is satisfactory, if anything.”

Business environment

Customers

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

Clothing market

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

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

The aggregate market for filter fabrics, including both wet and dry filtration, is currently estimated at 1.5 to 2 billion euros, and it is growing at an average rate of 6 to 7 per cent a year. The demand is boosted by heavily growing customer industries, increasing environmental awareness, tightening environmental standards and high energy prices.

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

Market position

Tamfelt has established a global presence in all central market areas through an extensive sales and service network. The company serves customers in roughly 70 countries. Of the 2007 net sales, 31.1 per cent came from the domestic market, 41.4 per cent from the rest of Europe and 27.3 per cent from other countries.

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

Trends

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

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

Paper and board machine clothing (PMC)

Innovative products, expertise and experience are the key.

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

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

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

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

Forming fabrics

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

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

The triple-layer HiSpeed style has been specially engineered for high-speed paper machines. The patented warp design, different from conventional forming fabrics, combines the excellent performance of triple-layer fabrics and the thinness and high dewatering properties of double-layer styles. When it comes to runnability, water removal, paper formation or low marking, the HiSpeed forming fabric is rated outstanding. It has delivered superior results, notably in high-speed newsprint and SC machines.

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

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

Press felts and fabrics

Press felts are produced from synthetic yarns and fibres in a weaving and needling process. During 2006 and 2007, Tamfelt's press felt capacity grew over 30 per cent thanks to an extensive investment programme. The new needling machine represents cutting-edge technology and has a working width up to 13 metres. The key requirements for press felts are repeatable quality, fast start-up, high dewatering capability and, above all, good runnability to ensure excellent performance throughout the targeted lifetime.

Transmaster Open (TMO), patented by Tamfelt, combines the best of permeable felt and impermeable transfer belt. The benefits of TMO include fast start-up, excellent runnability of the press section, high dry content of paper after the press section and, in many cases, superior smoothness of the paper or board. TMO has helped improve the performance of a number of high-speed and wide paper machines, which has ensured growing market shares for the product.

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

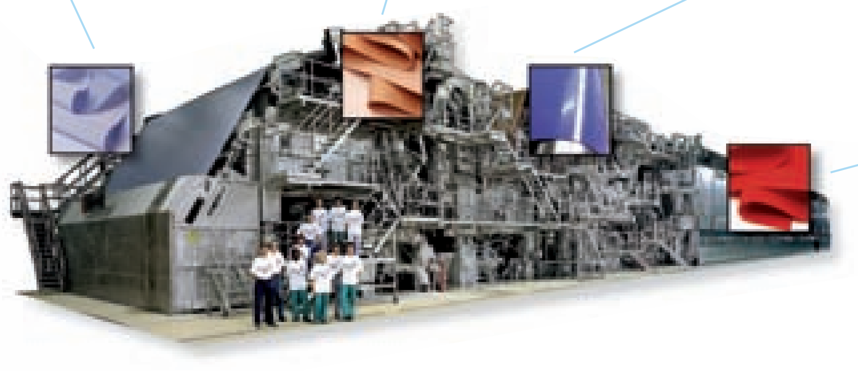
What fabrics do in a paper machine

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

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

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

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



> More than 50 per cent of all new paper and board machine capacity will be installed in China in the next few years. Local manufacture and extensive sales and service network are most important for our company.
>
> Seppo Holkko
> Executive Vice President,
> PMC (Paper Machine Clothing)

two-tier sections that require high drying efficiency and relatively high air permeability. Tamstar HC High Contact is ideal for machines requiring good support of the paper web. There are statistics for all dryer fabrics run in Finland since the year 2000 (51 paper machines, 277 positions, 1,380 dryer fabrics). They show that Tamstar reaches 15 to 25 per cent longer running times than any other dryer fabric in the market.

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

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

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

Shoe press belts

Tambelts are made by casting cylindrical roller jackets of polyurethane, which are reinforced with yarns. The volumes have grown heavily, and the customers have reported good results. Belts are either smooth (Tambelt S), semi-grooved (Tambelt SG), grooved (Tambelt V), or with discontinuous grooves (Tambelt DG).

The key requirements for belts are excellent wear resistance, non-stretchability, low friction, and superb dewatering capacity. The latest development is Tambelt 3G (patent pending) with a third layer of reinforcing yarns added to make the belt structure still stronger. Tamfelt's belts are also delivered to Metso Paper under the trade name Metso Belt.

Dryer fabrics

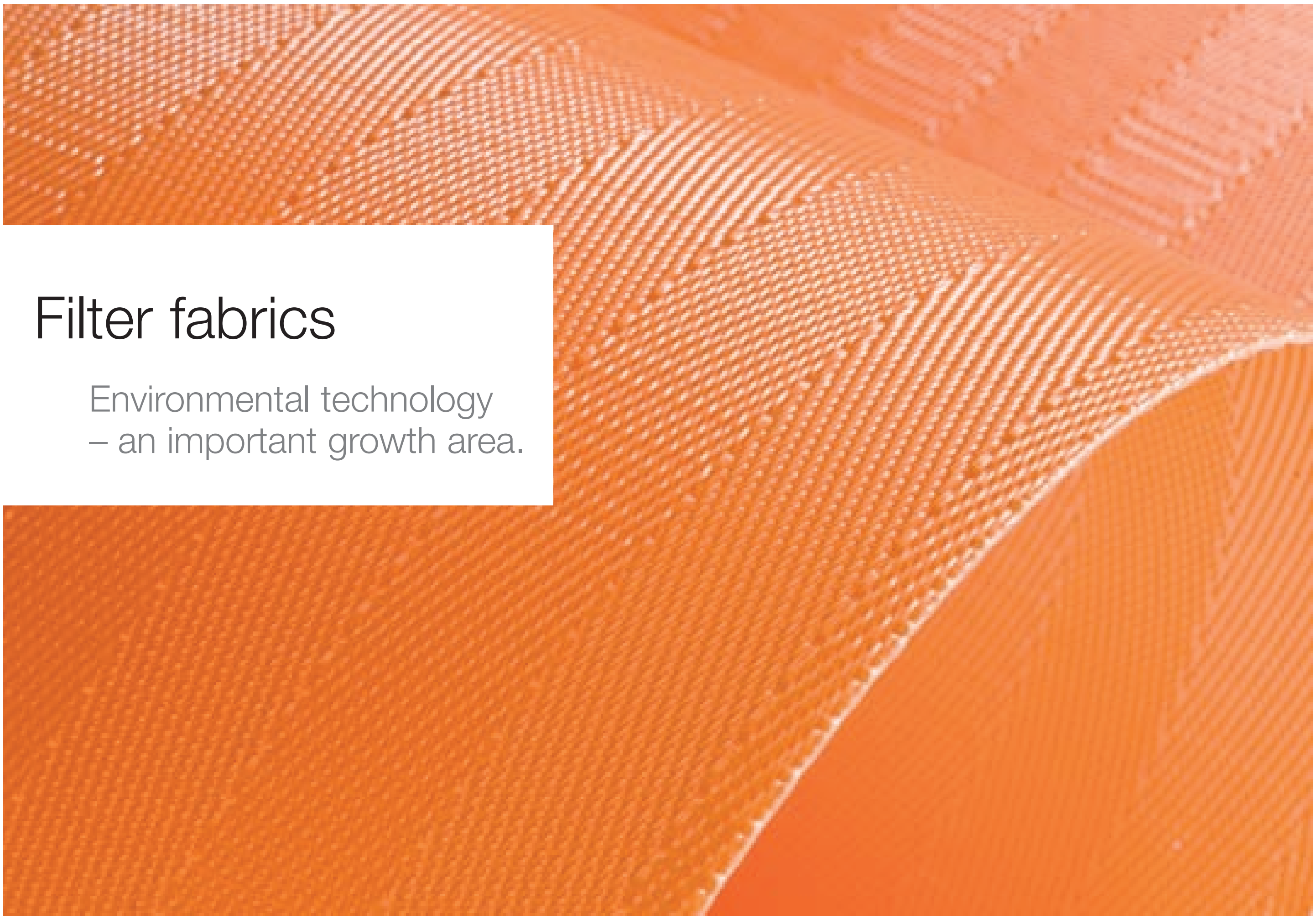
Tamfelt's dryer fabrics are woven from synthetic yarns and processed through heat-setting and seaming. Their essential requirements are good support to the paper or board web, maximum evaporation capacity, a non-marking process, high wear resistance and anti-dirt properties.

We have extended the Tamstar product family to comprise four types of fabrics, each one with different functional properties. Tamstar is the right choice for positions which require good runnability and steerability as well as superior wear resistance. Tamstar HS High Speed has been engineered for machines with modern web control equipment, and Tamstar HP High Perm for

Guangzhou went on stream at record speed

Guangzhou Paper PM 9 in China was successfully commissioned in December 2007. Never before has a new paper machine started up at a speed of 1,684 m/min. Tamfelt had supplied the two forming fabrics Gapmaster GMD as well as Tamfelt-made Metso Belt grooved belts for the shoe press. Our team of experts helped to ensure that the start-up was a success. This 10.2-m wide newsprint machine is supplied by Metso.

Tamfelt contributed successfully to ten paper or board machine start-ups in China in 2007. There is intense competition to win contracts for start-up clothing, but our good references, superior products, competent technical support and flexible approach ensure that Tamfelt is well placed to perform well in the growing Chinese market even in future years. Our position is further strengthened by a forming and dryer fabric plant starting operation in Tianjin in 2008.



Filter fabrics

Environmental technology
– an important growth area.

Tamfelt specializes in filter fabrics for the forest, mining and chemical industries, for sewage treatment plants, energy production, food manufacturing industry, and for the building materials industry. An increasing percentage of our products go to filtration applications which use or serve environmental technology. Our other special line of products comprises ironer felts for commercial and institutional laundries.

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

Tamfelt has for a long time worked in intensive partnership with a number of market leaders and filter suppliers in the mining, chemical and pulp industries.

Filter fabrics for the mining and chemical industries

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

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

The StrongMax fabric has been developed for horizontal belt filters and belt filter presses used in the mining and chemical industries. The polymer material improves filtering performance and extends fabric life. The product has delivered very good results. StrongMax has proved its excellent filtering properties especially in the desulphurization of flue gases. As environmental regulations tighten, increasing numbers of desulphurization units are being installed worldwide, which ensures strong growth potential for our StrongMax products. The StrongMax fabrics have been successfully used also in phosphate and silicate mines, in ash filtering, in gold mines and in wastewater treatment plants.

In 2007, Tamfelt introduced the double-layer DuoMax style. Engineered for the horizontal belt filters of the chemical and mining industries, DuoMax is an extremely durable product. It is specially suited for

> We invest in filter fabrics, which are in ever-increasing demand for environmental technology applications. Higher environmental awareness in developing markets boosts the demand for filter fabrics and provides a good base for Tamfelt's further success.
>
> Heikki Rehakka
> Executive Vice President,
> Filter Fabrics

applications in phosphate mines and phosphoric acid manufacturing plants.

Filter fabrics for the pulp and paper industries

Tamfelt has two major advantages as a filter fabric supplier to the pulp and paper industry: firstly, our location in Finland, which is a world leader in paper making technology, and, secondly, our close partnership with leading filter suppliers.

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

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

The biggest product groups are:

- shrink fabrics for drum filters
- disc filter bags
- lime mud filter bags
- filter fabrics for white and green liquor and dregs
- dewatering wires.

WellBag, our patented disc filter bag, has proved a success in delivering 15 to 25 per cent higher filtering capacities compared with ordinary styles. The unique weave structure forms a wavy surface when the bag shrinks. This provides a larger filtration surface than a conventional weave. WellBags are often mounted as original equipment on new filters. Tamfelt is the biggest supplier worldwide of disc filter bags to the pulp and paper industries.

Waste water from pulp and paper mills is filtered before discharge into waterways. The compacted dry slurry is acceptable for incineration.

Filter fabrics for energy production

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

Ironer felts

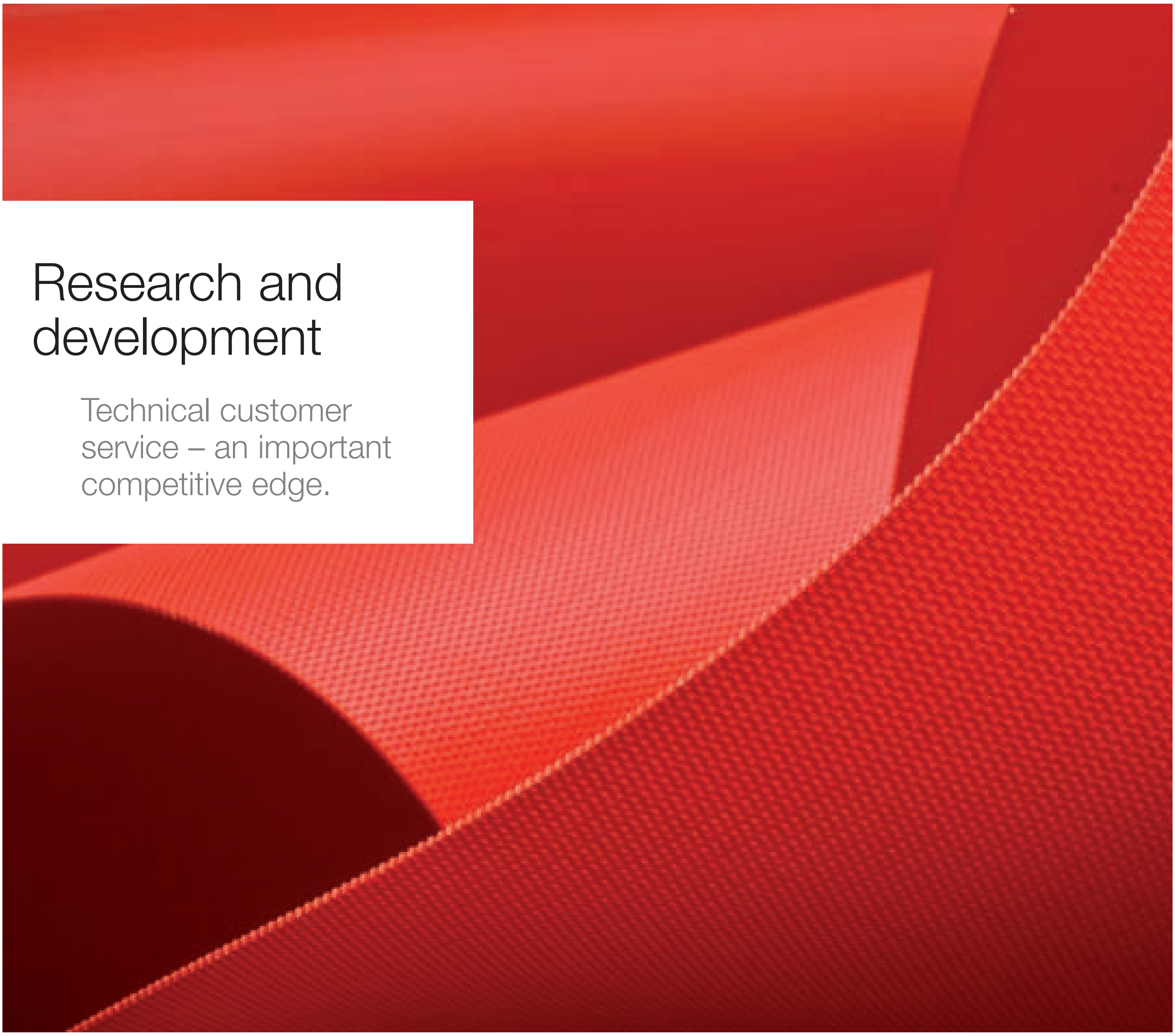
Commercial and institutional laundries provide their customers with clean and dry textiles. The ironers use special felts that are installed around rotating rolls. They make the textiles smooth and give them a pleasant feel. The felt is highly permeable in order to absorb moisture from the fabric. The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

Deliveries to China's biggest pulp mills

Hainan Jinhai Pulp & Paper Co., Ltd. is the biggest pulp producer in China. Since its start-up in 2005, the mill has used Tamfelt's causticization products and shrink fabrics in its process.

Shandong Asia Pacific SSYMB P&P Co., Ltd. has relied 100% on Tamfelt fabrics for years. The plant uses causticization fabrics, shrink fabrics, disc filter bags and fabrics for the waste water process.

For years, Tamfelt has been the market leader in filter fabrics for the causticization processes of pulp mills. Superb products, good references and long-term experience ensure good business prospects even in future.



Research and development

Technical customer service – an important competitive edge.

Close long-term partnership with customers, machine and equipment manufacturers and material suppliers, combined with an innovative approach, are the best guarantee of successful R&D.

R&D

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

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

The 2007 R&D expenditure was 2.7 per cent of the Group's net sales.

Laboratory

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

Analyses of both raw materials and completed products are an important part of our activities. Incoming raw materials and supplies are tested before use. Measurements and examinations are carried out

throughout the manufacturing process to ensure that the products meet all quality requirements.
The laboratories also examine used paper machine clothing and filter fabrics and analyse paper and board on a large scale. The results are extensively exploited in product development and customer service.

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

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

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

Technical support

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

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

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

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

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

Innovative R&D, high-performing products and competent technical support are the key to successful long-term partnership with the customer.

Personnel report

Professional competence and multicultural cooperation as focal points.

At the end of 2007, the Group employed 1,496 people (up from 1,443 in 2006), 28 per cent of these in Tamfelt's foreign subsidiaries. The Group's personnel grew by 53 people. Most of the growth came from the Chinese subsidiaries, but the numbers of the Brazilian and Tampere plants were also slightly on the increase. The parent company employed 1,057 people (1,045) at the end of the year; 757 (745) at Tampere and 300 (300) at Juankoski.

Labor turnover

External labor turnover, which measures movement of people into and out of the company, was 6.5 per cent (7.6) at the Group level and 6.6 per cent (8.1) in the parent company. The parent company hired 85 new people (95), of whom 65 (71) for the shop floor and 20 (24) for office jobs. Sixty-nine employments (84) terminated; of these 52 (61) were workers and 17 (23) clerical personnel. Seven (8) were retiring employees.

Internal labor turnover, reflecting the versatility of skills and cumulative competence, was 5.8 per cent (10) as 61 people (104) moved to new jobs in the parent company. Besides, 11 employees (12) acquired valuable expatriate experience in Germany, Portugal, China and Poland. Job stints and study trips between parent company and subsidiaries increased and the opportunities for electronic networking improved.

Students brought a noteworthy contribution to labor turnover. Over the year, 146 summer trainees (a record-high number, up from 134) worked in the parent company, and 30 younger students (32) were introduced to the world of work. Some of the summer trainees continued working during the school term. Collaboration with vocational institutions continued with Tamfelt offering internships and theme visits to their students. Positive experiences were made with teachers from polytechnics and the Adult Education Centre completing worklife periods at Tamfelt. Fresh knowledge and views were also brought by the 17 students (18) who were preparing their academic degree papers for Tamfelt.

At the end of the year, 68 per cent (65) of shop floor workers and 93 per cent (94) of officials held professional degrees. The percentage of office staff with post-secondary level education was 27 (28); college engineers accounted for 28 per cent (29), and 34 per cent (34) held university degrees.

Competence development

Competence development programs focused on supervisory and managerial skills, deepening professionalism, and multicultural cooperation.

The induction program was upgraded for new recruits and employees moving to new jobs in the company. Twenty-seven employees completed the job instructor training course.

Manufacturing competence and factory support resources were extended in apprenticeship training programs, combining theory with on-the-job learning and independent studies. The company's employees pursued studies for vocational qualification in electrical engineering, logistics, textile technology and mechanical engineering.

The parent company conducted a basic analysis of managerial and supervisory work, focusing on the position and role of supervisors in the management system. The results were applied to prepare a plan for the improvement of the management system and supervisory work. The start of the development project has been scheduled for autumn 2008. Seven employees participated in programs organized by Tampere Business Campus (JET – Specialist Qualification in Management, TET – Specialist Qualification in Technology, and Leader Program for Senior Executives). The international JET program, implemented for the first time, was attended by three employees from Tamfelt's filter fabric subsidiaries in China and Poland. The series of explicit training courses continued dealing with employment issues for supervisors.

The PMC Division's export organization carried out a training program for Export Managers, with an emphasis on HR management. A junior program for export personnel is about to start, with a focus on sales and the customer relationship process.

One of the key marketing and sales initiatives of the globalizing Filter Fabric Division is the elaboration of a new operational model and the roll-out of product knowledge, and the instillation of these into the entire filter fabric organization. The project was designed in a division-wide exercise during the year.

The harmonization of the Group's information systems continued. The SAP resource planning system was introduced in the Polish, Chinese and Brazilian subsidiaries. The absorption of new, shared procedures is an efficient hands-on learning process for all involved in the development projects.

Tamfelt values:

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

Monitoring and enhancing wellbeing at work

The percentage of sick absences of the theoretical regular working hours was 6.8 (up from 6.1) in the parent company, while the overall industrial average in 2006 was 6.3 per cent. Forty-two percent (41) of absenteeism through sickness was attributed to musculoskeletal diseases, 15 per cent (14) to respiratory disorders, 15 per cent (16) to injuries, 12 per cent (8) to mental health disorders, and 16 per cent (21) to other illnesses. Brief absences due to sickness involving less than three days away from work accounted for 11 per cent of all lost worktime.

The average age of retirement was 59 years (61). Again, musculoskeletal diseases were the number one reason for retirement on a disability pension. At the end of the year, 23 people (15) were on part-time pension.

The specialists of the health station of the Tampere plant have teamed up with the personnel, management, supervisors and the EHS and HR staff making an effort to balance preventive and development activity and occupational health care to better answer current needs. The Juankoski plant started working with an external provider of health care services.

The resources for promoting wellbeing at work were improved. Non-smoking was encouraged and supported by a special campaign. People who stopped smoking and stuck to their decision participated in a lottery for trips to Tamfelt's plant in Portugal. An ASLAK rehabilitation course, implemented in an open form together with the Social Insurance Institution of Finland, was taken by nine workers or officials from the Tampere plant.

Along with internationalization much more health care services were focused to personnel traveling a lot or preparing for an international assignment. Training and support courses were developed for people going on international assignments, including their family members.

The officials of the Tampere plant had an opportunity to take part in a wellbeing survey focusing on visual ergonomics, sleep, food, weight control, physical condition, life management, stress and work load. The results will bring added motivation to contribute to one's own wellbeing as well as help in the focusing and further planning of occupational health care services.

Flexibility in working life is seen as an important factor of wellbeing at different stages of the life cycle. During the year, 64 individuals (60) benefited from an option to flexiwork in the parent company. Of these, 32 took job alternation leave, 24 took full-time or part-time child-care leave, and eight took study leave.

Tamfelt encouraged and supported the personnel's leisure activities. Yoga, Pilates, workout and gym classes in the company's own fitness facilities were popular. A total of 200 individuals made use of company-sponsored fitness vouchers for the spring and winter seasons. Eighteen hobby clubs were in operation at the Tampere plant. Juankoski's personnel club has a number of divisions for various activities.

Safety and accidents

In the parent company, there were 105 (80) accidents at work and 11 (18) accidents on the journey to or from work. Four (3) occupational diseases were diagnosed. Altogether, these resulted in 711 (586) days lost. The average loss per incident was 6.8 (7.3) days.

The parent company's injury rate, involving a loss of more than three days, was close to the Group average at 27 (24). Sickness rate, comprising all days lost in work-related injuries, was 442 (364).

In 2008, the parent company's EHS work will concentrate on efforts to reduce the number of accidents and to encourage reporting on near miss incidents. This will involve safety campaigns and accident analysis. Work continues to improve working methods and to reduce physical stress.

Suggestion schemes

A campaign launched in the beginning of April 2007 was designed with the purpose of increasing the number of employee contributions by 20 per cent. Both plants raise the amount of suggestions and the targets were nearly reached. Some 10 per cent of the personnel contributed with suggestions. A total of 36,275 euros was paid as rewards. The highest single reward was 10,000 euros.

On special theme days, job instructors, supervisors and expert staffers immersed themselves in intercultural cooperation and the issue of cultural background in job instruction. A special focus area was Chinese culture, as employees from the Chinese plants were trained during the year at the two Finnish plants as well as in Shanghai and Tianjin.

Personnel structure Dec. 31

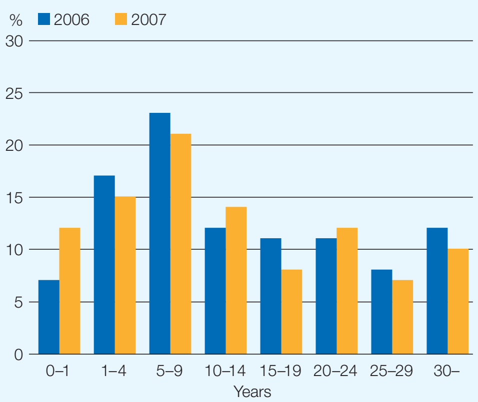
	2007 consoli-dated number	2007 parent number	2006 consoli-dated number	2006 parent number
Wage-earners	1,038	747	1,013	742
Salaried employees	458	310	430	303
Total	1,496	1,057	1,443	1,045
	%	%	%	%
Men	51	53	50	53
Women	49	47	50	47
Wage-earners	70	71	70	71
Salaried employees	30	29	30	29
Labor turnover	6.5	6.6	7.6	8.1

	2007 consoli-dated years	2007 parent years	2006 consoli-dated years	2006 parent years
Average age	42	42	41	42
Average employment	13	14	13	14

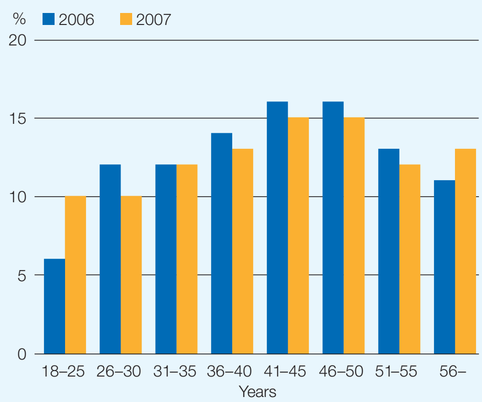
Human Resources Account Jan. 1–Dec. 31

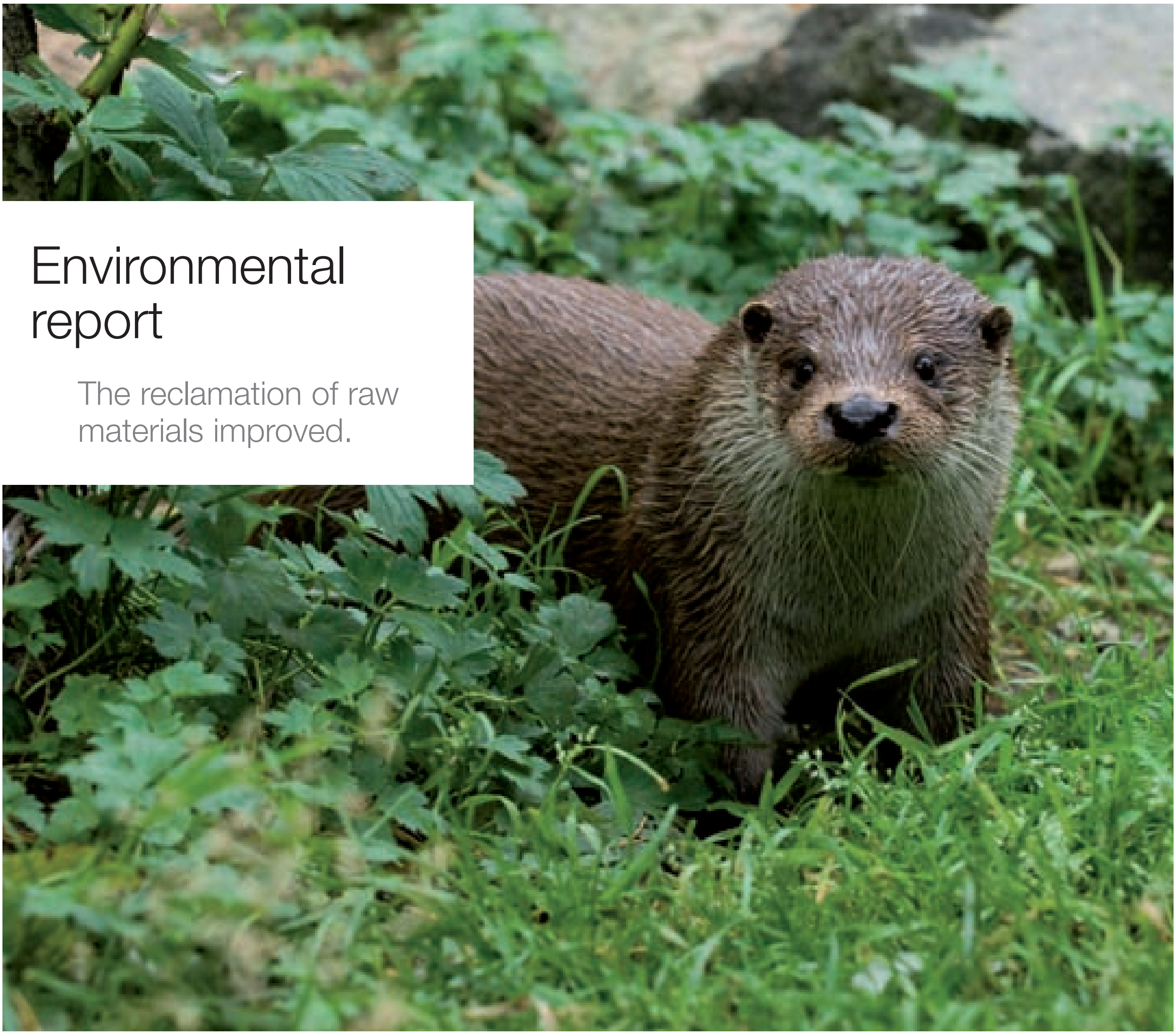
Parent company 1000 €	**2007**	%	**2006**	%
Net sales	**140,361**	100	**128,770**	100
Personnel expenses	55,728	40	54,239	42
Payroll for regular worktime	37,818	27	35,702	28
Performance bonuses	1,943	1	3,627	3
Payments for overtime	2,148	2	1,765	1
Personnel renewal				
Recruiting and induction expenses	631	0	851	1
Vacation payments	7,576	5	7,270	6
Other holiday payments	2,729	2	2,607	2
Human resources development				
Training	493	0	484	0
Other measures to maintain and improve working ability	399	0	395	0
Sick payments	1,077	1	994	1
Other pension expenses	596	0	149	0
Other personnel expenses	319	0	395	0
Outsourced services	2,283	2	3,103	2
Other costs and expenses	65,978	47	52,448	41
Financing items	-121		-1,642	
Extraordinary items	-1,430		-2,050	
Taxes	3,405		4,793	
Net income for the year	**14,518**	10	**17,879**	14

Length of Employment, consolidated



Age Composition, consolidated





Environmental report

The reclamation of raw materials improved.

Environmental policy

Sustainable development
Adherence to and continuous improvement of the company's adopted environmental management system ensure the optimal use of natural resources and sustainable development.

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

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

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

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

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

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

Environmental issues in 2007

Major environmental initiatives focused on improving the efficiency of raw material use at the Tampere and Juankoski facilities, waste reduction, improved recycling, the measures required by the environmental permit granted to the Tampere plant, efficient energy use, and emissions trading.

Some 12,000 emission allowances were freed up from the Tampere plant.

Environmental policy and environmental management system

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

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

Tamfelt's environmental management system is based on the ISO 14001 standard, and the parent company was certified on March 2, 1998.

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

Environmental risks

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

An earlier investigation revealed small amounts of metals at the bottom of the Tampere plant's equalizing reservoir. The reservoir was removed from use in 2006. Test drillings were conducted, soil samples were analyzed and the degree of pollution was determined. The polluted soil will be removed in the near future.

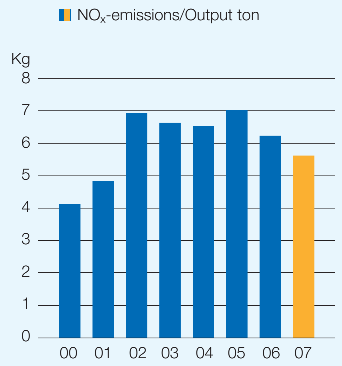
Major environmental impacts and their trends

The Tampere plant pumps service water from the nearby lake Kaukajärvi. The water has an important role in cooling the plant especially in summer. In August 2007 the water sank below the permitted level. The company took action to restrict the use of water and applied for an exceptional permit from the Western Finland Environmental Permit Authority.

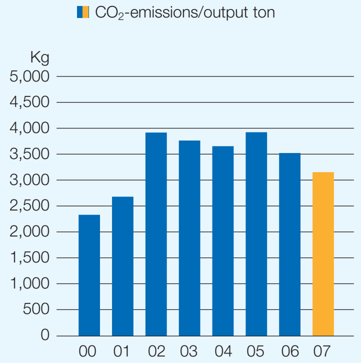
Tamfelt attends to the impounding dam of the lake outlet, which helps regulate the water level. The dam was renovated in 2007. The environmental permit allows the company to lead water used for air conditioning back to the lake. Tamfelt applied for and received a permit to move the position of the return pipe. The design of the pipe was continued and it is scheduled to be built in 2008.

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

Nitrogen Oxide Emissions, Tampere plant



Carbon Dioxide Emissions, Tampere plant



The heating station of the Tampere facility is fuelled by natural gas. The consumption of natural gas per output ton decreased in 2007. This was mainly attributed to mild weather conditions and consequent lower need for heating the premises in the winter. The Tampere plant joined the emissions trading scheme on January 1, 2005. The granted emission permit and emission allowances covered the years 2005–2007. The company is covered by the second period of emissions trading for 2008–2012.

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

The consumption of electricity per output ton was down at both domestic plants compared to 2006.

Most of the waste from the two plants consists of raw material residue. At Tampere and Juankoski, the amount of landfill waste per output kilo remained at the level of 2006. The percentage of waste recycling was 52 at Tampere and 90 at Juankoski.

Hazardous waste was treated by the appropriate disposal contractor. The amount of hazardous waste from both facilities is low. The hazardous waste generated by the Tampere plant has been slightly on the rise in recent years following an increased use of harmful chemicals in the manufacturing process.

At the Group level, the target set for raw material utilization was reached, whereas the target for cloth waste recycling was not met. Raw material utilization was up six per cent thanks to improved production efficiency. Cloth waste recycling rose by 10 per cent. The recycling of cloth waste was improved in partnership with cloth residue users. Tamfelt continues to research into opportunities to increase the use of cloth waste.

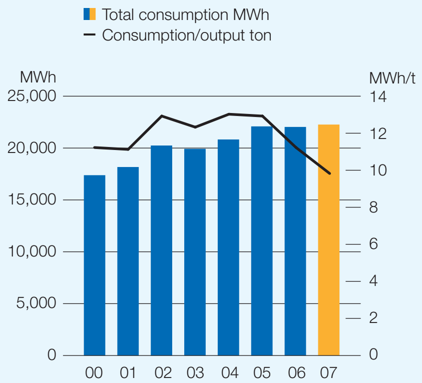
More than 90 per cent of the packaging of products supplied by Tamfelt are reused.

Waste as energy

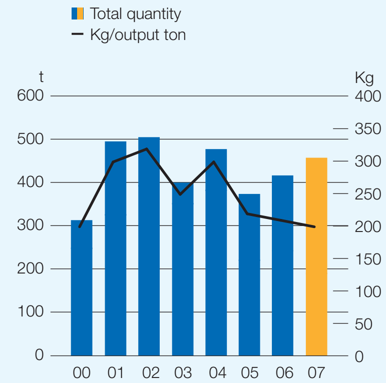
The kinds of waste that serve no production purposes but can be burned are referred to separate collection. Most of this “energy fraction”, in the case of the Tampere plant, consists of raw material waste, contaminated board, plastic and wood. It must not contain organic waste, metals or PVC; these are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

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

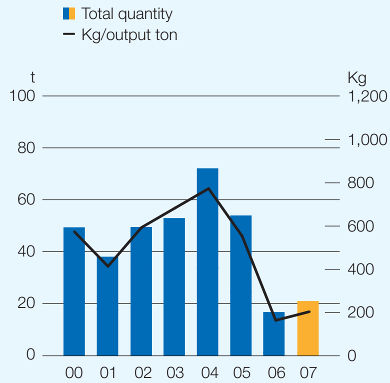
Electricity Consumption,
Tampere plant

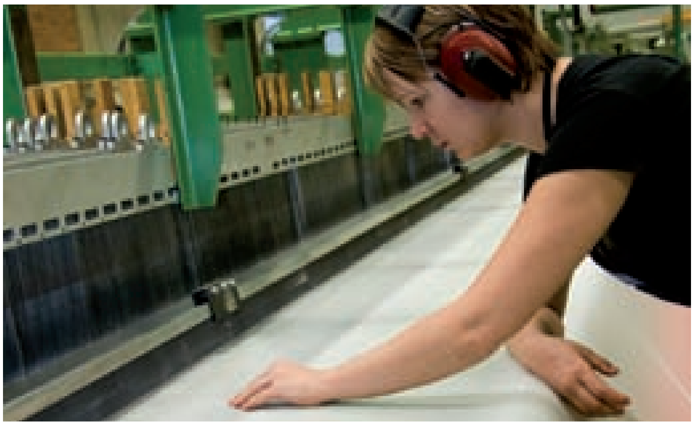


Landfill Waste,
Tampere plant



Landfill Waste,
Juankoski plant





Waste as fuel considerably reduces the load on landfill sites. Also, the cost of waste treatment is cut to almost a half of the cost of landfilling, one reason being that energy fraction is not subject to waste tax.

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

Stakeholder relations

Over the year, Tamfelt has been in dialogue with public authorities, mainly on issues related to the environmental permit. The company has also actively cooperated with its neighbourhood in environmental issues.

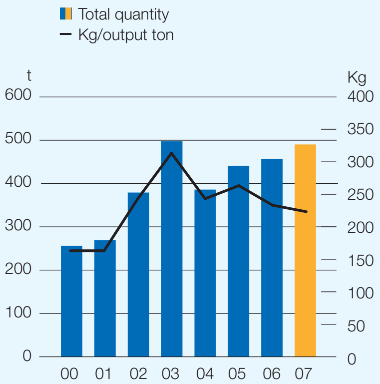
Tamfelt's personnel are willing to contribute to the improvement of the environmental programme. They integrate environmental considerations into their daily work and have actively proposed measures to reduce the company's adverse environmental impact.

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

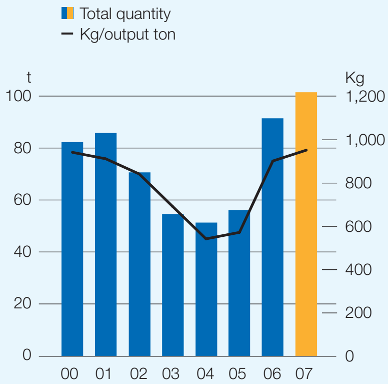
Environmental issues form an integral part of management activities in the Tamfelt Group. Tamfelt's Finnish plants have implemented certified management systems. Tamfelt's Portuguese subsidiary Fanafel has also an ISO certificate for an integrated quality, environmental and safety management system. During 2008 and 2009, Tamfelt will establish environmental management systems in the Chinese, Polish and Brazilian entities.

Fanafel's environmental impact focuses on raw material use, waste production and noise. The company has improved the utilization of raw material and increased waste recycling by annual measures set forth in the environmental management system. Production-related noise is being actively monitored and sources of noise are being progressively isolated.

Recovered Material,
Tampere plant



Recovered Material,
Juankoski plant



Board of Directors Dec. 31, 2007

MIKAEL VON FRENCKELL

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

Tamfelt Corp.:

Deputy member of the Board 1979–1983. Member of the Board since 1983. Deputy Chairman 1990–1995. Chairman since 1995.

Previous track record:

Executive Vice President and member of the Executive Committee of the Union Bank of Finland (1993–1995); Member of the Board of the Union Bank of Finland (1990–1993).

Chairman of the Board:

Sponsor Capital Oy and Waldemar von Frenckell Foundation.

Deputy Chairman of the Board:

Neste Oil Corporation

Member of the Board:

Tamro Corporation.

Tamfelt shares:

150,000 common and 150,000 preferred shares.

NIKLAS SAVANDER

born in 1962
Deputy Chairman.
M.Sc. (Eng.) M.Sc. (Econ.)
Executive Vice President, Group Executive Board Member, Nokia Corporation, Services and Software.

Tamfelt Corp.:

Member of the Board since 2005.
Deputy Chairman of the Board since 2007.

Previous track record:

Executive Vice President, Nokia Technology Platforms (2006–2007); Senior Vice President and General Manager of Nokia Enterprise Solutions, Mobile Devices Business Unit (2003–2006).

Member of the Board:

Waldemar von Frenckell Foundation and Nokia Siemens Networks.

Tamfelt shares:

3,250 preferred shares.

MARTIN LILIUS

born in 1947
M.Sc. (Eng.)
Senior Consultant at Management Systems Oy.
Swedish consul in Tampere.

Tamfelt Corp.:

Deputy member of the Board 1986–1994.
Member of the Board since 1994.

Previous track record:

Private entrepreneur (1994–1999); Managing Director of Powerpush Oy (1988–1994).

Member of the Board:

Swedish Assembly of Finland and Tamfelt Properties.

Deputy member of the Board:

Pohjola-Norden ry.

Tamfelt shares:

14,517 common and 447 preferred shares.

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

Tamfelt Corp.:
Member of the Board since 1995.

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

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

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

Member of the Board:
Ahlström Capital Oy.

Tamfelt shares:
600 common shares.

VESA KAINU
born in 1947
B.Sc. (Eng.)

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

Previous track record:
President of Metso Ventures (2003–2006); Executive Vice President of Metso Minerals, Inc. (2001–2003).

Member of the Board:
Exel plc, Karolin Machine Tool AB, Valmet Automotive Inc.

Tamfelt shares:
750 preferred shares.

CARL-MAGNUS CEDERCREUTZ
born in 1964
M.Sc. (Eng.) MBA.
Director, Nokia Siemens Networks.

Tamfelt Corp.:
Deputy member of the Board 2006–2007.
Member of the Board since 2007.

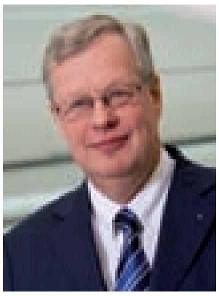
Previous track record:
Director of Nokia Business Infrastructure (2002–2004); various positions at Nokia Networks (1997–2002 and 2004–2007).

Tamfelt shares:
3,630 common shares.

Shares held on December 31, 2007 include also the holdings of the persons closely associated with insider and of controlled corporations.

The share of foreign operations increased further.

Group Executive Board Dec. 31, 2007



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

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

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

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

Tamfelt shares and stock options:
346 common, 2,128 preferred shares and 30,000 options.

SEPPO HOLKKO
born in 1950
M.Sc. (Eng.)
Executive Vice President, PMC Division (Paper Machine Clothing) and deputy to the CEO. President of Tamfelt PMC Corp. since January 1, 2008.

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

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

Member of the Board:
Forest Cluster Ltd. and Paper-Machine Clothing Association (PCA).

Member of the Advisory Board:
Tampere Polytechnic, Pulp and Paper Technology.

Tamfelt shares and stock options:
500 common, 2,548 preferred shares and 20,000 options.

HEIKKI REHAKKA
born in 1958
M.Sc. (Eng.)
Executive Vice President, Filter Fabric Division. President of Tamfelt Filtration Corp. since January 1, 2008.

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

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

Tamfelt shares and stock options:
4,150 common shares and 17,500 options.

Shares and options held on December 31, 2007 include also the holdings of the persons closely associated with insider and of controlled corporations.

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

Tamfelt Corp.: in the company since 1995. Member of the Group Executive Board since 2005.

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

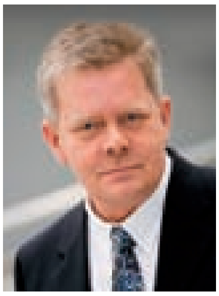
Tamfelt shares and stock options:
825 preferred shares and 17,500 options.

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

Tamfelt Corp.: in the company since 1983. Member of the Group Executive Board since 2003.

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

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



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

Tamfelt Corp.: in the company since 1984. Member of the Group Executive Board since 1997.

Tamfelt shares and stock options:
holds no Tamfelt shares.

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

Tamfelt Corp.: in the company since 1978. Member of the Group Executive Board since 1997.

Tamfelt shares and stock options:
750 preferred shares.

* Personnel representatives.

Corporate governance

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

Annual General Meeting

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

Pursuant to the Articles of Association, summons to the Annual General Meeting shall be published once in a Finnish-language and once in a Swedish-language newspaper issued in Helsinki and once in a newspaper issued in Tampere, or else sent to the shareholders' addresses, as they are entered in the share register, not earlier than two (2) months and not later than seventeen (17) days before the meeting. The summons is also published as a stock exchange release and on Tamfelt's website on the Internet.

Supervisory Board

Tamfelt has no supervisory board.

Board of Directors

Tamfelt's Board of Directors consists of five to nine ordinary members and not more than three deputy members. The members are elected by the Annual General Meeting. The term of Board members terminates at the closing of the first Annual General Meeting following their election. This means that all Board members are elected in every Annual General Meeting. A person turned 70 years of age is not eligible for the Board of Directors. In 2007 the Board of Directors consisted of six ordinary members.

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

Rule of procedure for Board work

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

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

Board meetings

The Board of Directors holds scheduled meetings. It can also have non-scheduled meetings. A meeting can also be arranged as a teleconference. The Board of Directors met ten times in 2007. The average participation rate of the members was 92 %.

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

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

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

Election of the Board of Directors

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

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

Board of Directors in 2007

In 2007, the Board of Directors was chaired by Mikael von Frenckell, with Niklas Savander as Deputy Chairman. The other ordinary members were Martin Lilius, Jouko Oksanen, Vesa Kainu and Carl-Magnus Cedercreutz.

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

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

Board Committees

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

President and CEO

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

Executive Board

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

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

Executive Board meetings

The Executive Board meets about once monthly. Major issues dealt with by the Executive Board in 2007 included strategic lines, incorporation of businesses, issues of globalization, investments, corporate agreements, and productivity improvement.

The Executive Board met 14 times in 2007. Résumés of the members of the Executive Board, including details of their shareholding, are on pages 28–29 of this Annual Report.

Remuneration

Remuneration to the Board of Directors

By a resolution of the Annual General Meeting 2007, the monthly remuneration to the Chairman of the Board is 3,000 euros and to the Deputy Chairman and ordinary members 1,500 euros. The Chairman is also paid 800 euros and a member 600 euros for each meeting and a refund of travel expenses. The members of the Board of Directors receive no remuneration in the form of shares, and they are not covered by option schemes. In 2007, a total remuneration of 150,300 euros was paid to the members of the Board of Directors.

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

Decisions on management remuneration are made by the Board of Directors. On top of a monthly salary, the President & CEO and the members of the Executive Board are paid bonuses, which are determined by the company's profit as well as individual targets that have been agreed in advance. The members of the Executive Board hold a total of 7,000 E options and 92,000 F options from the 2005 stock option scheme. Details of the Tamfelt shares and stock options held by the President & CEO and the members of the Executive Board are on pages 28-29 of this Annual Report.

The President & CEO's salary including perquisites and bonuses was 353,720 euros in 2007. The President & CEO holds 30,000 options from the 2005 scheme. The President & CEO's pension will be 60% of his reference pay. Tamfelt's pension system enables the President & CEO to retire on an old-age pension earliest at the age of 60. The period of notice to resign is twelve months if given by the company or six months if given by the President & CEO. The remuneration paid in case of a notice given by the company equals to the salary payable for the period of notice.

Internal control, risk management and internal audit

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

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

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

Insider administration

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

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

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

External audit

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

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

The Annual General Meeting 2007 elected Authorized Public Accountants Jari Paloniemi and Veikko Terho as auditors and Authorized Public Accountant Jukka Lahdenpää and Authorized Public Accountant Company Moore Stephens Rewinet Oy Ab as deputy auditors.

All Group auditors were paid a total remuneration of 91,695 euros in 2007. This amount includes consultation fees unrelated to auditing for 13,771 euros.

Communication

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

Annual Report

Business environment

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

In 2007, the demand for paper and board grew slightly beyond the long-term average, with most paper and board machines reporting higher year-on-year utilization rates. Output volumes increased most in Asia, notably in China, but also in Europe. Volumes remained level in the United States and Japan, but slumped in Canada. The prices of pulp and some grades of paper and board rose slightly during the year.

Most investments in new paper and board manufacturing capacity are still being made in China and elsewhere in Asia. Pulp industry is investing heavily in South America. The metal market conditions affect the demand for filter fabrics that are consumed in the mining industry. The demand and prices for metals were at a good level, though the long-term peak in price was surpassed in spring 2007.

The demand for paper machine clothing exceeded somewhat the long-term average growth. The demand increased especially in China and across Asia. The biggest growth was in dryer fabrics. Specific consumption – the consumption of clothing per paper ton produced – continued a slight decline, which is a result of higher product durability and improved machine performance. For filter fabrics, favourable market situation continued in the mining industry, and the demand from the paper and pulp industries exceeded the normal average.

Rising oil price will increase the use of coal as energy source. In an effort to cut emissions from coal burning, high-quality filter fabrics are key. Also the growing production of biofuels requires filtration equipment. Stricter environmental standards overall have boosted the demand for filter fabrics – a trend that will continue to the foreseeable future. Competition from Asia has tightened the situation in some markets.

The continuing weakness of the U.S. dollar against the euro affected the profitability of sales from Western Europe to North America and Asia.

Stiff competition forced suppliers to cut prices for paper machine clothing in Europe. Customers continue to consolidate purchases and work with fewer suppliers in order to reduce stocks. This means that they require prompter deliveries. Undisturbed operation of paper machine clothing and the achievement of budgeted life time are vital as customers seek to improve their performance. Successful cooperation with customers and machine suppliers to reach these aims ensures the clothing supplier an opportunity for a stronger market position.

The shutdowns of several production lines in Finland affect the demand for PMC products in the domestic market. However, by increasing market shares for the remaining machines Tamfelt has managed to compensate sales volumes to a remarkable degree.

Clothing suppliers are building new capacity in China and closing down operations in North America. In Western Europe, capacity is consolidated through investments in large and high-performing production lines while smaller units are being shut down. Filter fabric manufacturers are shifting operations to countries where cost levels are lower and market growth is faster than the avarage.

Profit performance and financial position

The Group's net sales grew 8.1 per cent to 167.5 million euros (155.0 million in 2006). Net sales increased in all major markets. Foreign operations contributed 68.9 per cent (66.3) of the consolidated net sales.

Tamfelt Group's consolidated operating profit was 25.9 million euros (25.9), corresponding to 15.5 per cent (16.7) of the net sales. Profit for the period amounted to 20.8 million euros (20.1). Return on net assets was 22.7 per cent (23.7) and return on equity was 19.2 per cent (19.4). Earnings per share were up at 0.76 euros. The 2006 earnings per share, 0.73 euros, included 0.07 euros in profit for the disposal of the company's share in the hydroelectric power plant Alakoski.

Sales growth is the result of Tamfelt's successful long-term R&D and customer-driven policies. Productivity has been enhanced through timely investments and improved processes and work procedures. Focusing on selected segments has also helped increase profitability. The consolidated balance sheet total was 165.1 million euros (up from 153.6). Consolidated equity was 109.6 million euros (107.8) corresponding to 3.95 euros (3.90) per share. Equity/assets ratio was 66.5 per cent (70.6). Gearing was 10.3 per cent (-4.3). On the balance sheet date, interest-bearing loans amounted to 17.6 million euros (5.2) and the book value of liquid assets to 6.3 million euros (9.8). The Group's net financial items totalled 0.3 million euros (0.3). Tamfelt's overall order backlog is good, though the orders are unevenly distributed on different products.

The parent company's net sales were 140.4 million euros (128.8). Operating profit was 18.4 million euros (19.3) and profit for the period 14.5 million euros (17.9). Exports accounted for 63.5 per cent (59.5) of the parent company's net sales.

Business operations and key events

Tamfelt is a manufacturer of technical textiles for the paper and pulp industries, mining and chemical industries, for the energy industry and for commercial laundries and waste-water treatment plants. The company focuses on selected segments, namely clothing for large and high-speed paper and board machines and filter fabrics among others for the causticization process, iron pelletizing plants and the desulphurization of flue gases.

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

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

The Group runs manufacturing operations in Finland, Portugal, Brazil, China and Poland. Tamfelt's plants in Finland are located in Tampere and Juankoski. The Tampere operation produces press felts and fabrics, dryer fabrics, shoe press belts and filter fabrics. Forming fabrics are made at Juankoski. The Portuguese plant concentrates on dry filtration products and ironer felts. The company's Brazilian operation produces filter fabrics for the pulp and mining industries, for biofuel production, and for the chemical and metallurgical industries. In the Chinese joint venture at Tianjin, forming and dryer fabrics are finished. A new forming and dryer fabric plant, 100 percent owned by Tamfelt, was built in Tianjin in 2007. The plant will come on stream in February 2008. In Shanghai, the processing of filter fabrics started in the beginning of 2007. The Polish plant specializes in filter fabrics for wet and dry filtration. In addition, Tamfelt operates a sales company in the United States and in Canada.

Tamfelt's strengthening market position – both in paper machine clothing and in filter fabrics – was reflected in growing net sales, which clearly surpassed the average growth of the industry. Net sales were up in all main market areas. Exports and foreign operations improved most in China, North America and in Central and Eastern Europe. The new investments, investments in production bottlenecks and focused productivity improving measures helped increase delivery volumes. All the manufacturing units produced higher volumes year-on-year.

All PMC products were in good demand, boosted by Tamfelt's successful supplies to paper machines representing cutting-edge technology. The sales of the Group's dry filtration products continued to grow strongly in 2007.

Tamfelt continued to contribute as clothing supplier for a number of start-ups of new or rebuilt paper and board machines. Major start-up orders came especially from China and other Asian countries, but from Europe as well. Tamfelt's clothing contributed to a new world record speed at the start-up of a newspaper machine in China.

The SAP resource planning system has now been rolled out to all Tamfelt subsidiaries. The system assists in improving business planning, monitoring and intelligence.

Incorporation of businesses

In October 22, 2007, Tamfelt Corp. published a Stock Exchange Release announcing an incorporation of the Group's paper machine clothing (PMC) and filter fabric business areas by means of a transfer of undertaking.

The transfers have been completed according to plan as of January 1, 2008, and the operation of the new companies, Tamfelt PMC Corp. and Tamfelt Filtration Corp. has started. The parent company for the Group is Tamfelt Corp.

As a result of the incorporation, the Group will report the PMC and Filtration businesses as primary segment and the geographical segment as secondary segment for the first time in the Interim Report for January–March 2008 to be published on April 24, 2008.

Investments

The Group's gross investments were record high at 24.5 million euros (up from 11.5). Two major investment projects were carried out in 2007.

Press felt manufacturing volume was increased at the Tampere plant with an investment of over 10 million euros. The expenditure included a state-of-the-art needling machine as well as rebuilds of weaving looms and finishing equipment.

The building of a forming and dryer fabric plant in Tianjin, China, started in the beginning of 2007. The investment is in line with Tamfelt's long-term strategy. The premises are ready and the mechanical installations of the first phase were completed during the year. After all required equipment is in place and trial runs have been conducted, the production will begin in February 2008. The purpose of the investment is to enhance Tamfelt's competitiveness by improved delivery performance and logistics. Tamfelt is now able to supply Chinese-made dryer and forming fabrics to high-speed and wide paper and board machines in China and across the Pacific area.

Research and development

The cost of research and development in 2007 was 2.7 per cent (2.8) of Tamfelt's net sales. The company's R&D is conducted in collaboration with customers, material suppliers, paper machine and filter manufacturers as well as universities and research institutes. Joint initiatives are designed to improve filtration, paper quality, paper machine's runnability and economy. Extensive projects are under way to upgrade fabric structures, raw materials and processes.

In spring 2007 Tamfelt joined Forest Cluster Ltd, an innovation company co-founded by 17 key players of the forest industry in order to add momentum to the joint research targets of the field.

Risks and uncertainty factors

The major risks involved in Tamfelt's activities relate to the maintenance and expansion of market shares. Customers make clothing manufacturers compete for contracts and consolidate their purchases on an ever-smaller number of suppliers. Vigorous competition and declining specific consumption lead to a pressure on prices and a higher business risk. Other uncertainties relate to the availability, price and quality of raw materials, especially as Tamfelt, in some materials, is dependent on a small number of suppliers.

The paper and board industries are growing fastest in China and elsewhere in Asia. The mining industry is growing fastest in South America. Tamfelt's customers are increasingly relocating their production capacities to these areas. Clothing suppliers, too, are shifting operations to countries where cost levels are lower. In an effort to stay competitive, Tamfelt continues to improve its performance, cost structure and productivity. Tamfelt is increasingly operating in the South American and Southeast Asian markets, where the risk of credit loss is higher.

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

The uncertainties of global economy have increased of late and will present additional challenges in the current year. A more detailed account of the management of financial risks is in section 24 of the Notes.

Personnel

The average Group employment was 1,469 people (1,415). The parent company employed an average of 1,053 people (1,036). On the last day of the year, the Group employed 1,496 (1,443) and the parent company 1,057 (1,045) people. The Group employment grew by 53 people.

The average length of employment in the Group was 13 years (13). At the end of 2007, the average age of personnel was 42 years (41). Labour turnover at the Group level was 6.5 per cent (7.6). During the year, 61 employees moved to new jobs within the parent company. The parent company offered numerous students summer jobs and internships. Cooperation with schools comprised internships around the year and themes for degree projects for many university students.

In the parent company, absenteeism through sickness was 6.8 per cent (6.1) of theoretical regular working time. The average pension age was 59 years (61).

Investments in high-quality working conditions and further improvement of personnel well-being continued in the company.

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

Environment

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

The goals and targets to support sustainable development have been published in Tamfelt's environmental policy. The company's manufacturing processes do not discharge any significant amounts of pollutants to the environment. The key objectives of Tamfelt's environmental management programme are more efficient use of raw materials, reduction of slow-decaying landfill waste and the avoidance of unnecessary use of water and energy.

The major environmental initiatives of 2007 focused on waste reduction, improved recycling and efficient energy use at the Tampere and Juankoski facilities. Cloth waste was increasingly channelled to recycling. The total environmental expenditure was 0.2 per cent of the net sales.

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

Foreign branches

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

Changes in share capital

At the end of 2007, Tamfelt's share capital stood at 27,563,964.00 euros. The aggregate number of shares was 27,563,964, of which 10,119,198 were common shares and 17,444,766 preferred shares.

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

Own shares

The company held no own shares in 2007. The Board of Directors holds no current authorization to decide on the acquisition or conveyance of the company's own shares.

Board of Directors, auditors and executive board

Tamfelt Corp.'s Annual General Meeting of March 20, 2007 elected Mikael von Frenckell, Martin Lilius, Jouko Oksanen, Vesa Kainu, Niklas Savander and Carl-Magnus Cedercreutz as ordinary members of the Board of Directors. At the organization meeting, Mikael von Frenckell was elected as Chairman and Niklas Savander as Deputy Chairman.

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

Jyrki Nuutila served as the company's President & CEO and Chairman of the Group Executive Board. Seppo Holkko, Executive Vice President of the PMC Division, served as Deputy to the CEO.

In addition to the above, the Group's Executive Board consisted of Heikki Rehakka, Executive Vice President of the Filter Fabric Division, Kimmo Pärssinen, Chief Financial Officer, Jukka Huhtiniemi, Technical Director (until June 30, 2007), Hannu Laine, Executive Vice President of Corporate Planning (until August 31, 2007), and, as personnel representatives Jarmo Järviö, Chief shop steward at the Tampere plant, Jaakko Räsänen, Chief shop steward at the Juankoski plant, and Pirkko Järvelä, clerical personnel representative. Technical Director Jukka Huhtiniemi took over as President of Tamfelt Tianjin PMC Co., Ltd. on July 1, 2007 and Executive Vice President of Corporate Planning Hannu Laine retired on September 1, 2007.

Outlook for 2008

Global economic uncertainty has remarkably grown lately, and the rate of growth is expected to slow down in 2008. In particular, the impacts of the financial market crisis may reflect in the development of the global economy in an unanticipated manner. In China and Southeast Asia, good economic growth is believed to continue, though less fast than last year.

The demand for paper and the production volumes of the forest industry are estimated to grow at the long-term average rate. In Tamfelt's focus area, however, the output volumes of the paper industry will be growing faster than average, and brisk demand for clothing for new high-speed paper and board machines will prevail. In the mining industry, the market trend is expected to remain positive for iron and colour metals, increasing the demand for filter fabrics. Keener environmental awareness and more stringent environmental standards worldwide will boost the demand for filter fabrics and open up new opportunities to step up sales.

The record-level investments of the past year have significantly increased the manufacturing capacity of Tamfelt's PMC products as well as filter fabrics. Higher capacity together with a nice volume of orders on hand provides good conditions for business growth. The high investment rate has been planned to continue in 2008, though below the record level of 2007. Effective capital spending and productivity improvement will remain the focus of special attention. The Group's balance sheet structure is expected to stay strong.

Big customer corporations make clothing manufacturers compete for contracts and consolidate their purchases on an ever-smaller number of suppliers. Price competition in paper machine clothing has already tightened to the extreme. Notwithstanding the threats hanging over the global economy and the tough market situation, however, Tamfelt is still in a position to retain its performance and return on capital at the present level.

Board of Directors' proposal for the distribution of profit

The Board proposes to the Annual General Meeting that a dividend of 0.52 euros be paid on a common share and 0.54 euros on a preferred share.

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

Consolidated statement of income

1,000 €	Ref.	2007 Jan. 1 – Dec. 31	%	2006 Jan. 1 – Dec. 31	%
Continuing operations					
Net sales	1.	**167,506**	100	**154,972**	100
Operating profit	2.–5.	**25,908**	15	**25,877**	17
Financial income	6.	1,565		1,157	
Financial expenses	7.	-1,260		-831	
Profit before tax		**26,213**		**26,203**	
Income taxes	8.	-5,371		-6,059	
Profit for the period		**20,842**	12	**20,144**	13
Attributable to					
Equity holders of the parent		20,869		20,196	
Minority interest		-27		-52	
		20,842	12	**20,144**	13
Earnings per share calculated on profit attributable to equity holders of the parent (euro), continuing operations:	9.				
Basic		0.76		0.73	
Diluted		0.75		0.73	

Consolidated balance sheet

1,000 €	Ref.	Dec. 31, 2007	%	Dec. 31, 2006	%
Assets					
Non-current assets					
Property, plant and equipment	10.	88,492		75,751	
Goodwill	11.	287		287	
Other intangible assets	11.	4,288		4,033	
Investment in associates	12.				
Other financial assets	13.	1,396		1,791	
Deferred tax assets	14.	924		648	
		95,387	58	**82,510**	54
Current assets					
Inventories	15.	33,049		32,087	
Trade and other receivables	16.	29,794		29,191	
Financial assets at fair value through profit or loss	25.	1,886		1,751	
Tax assets based on taxable income for the period		514		16	
Cash and cash equivalents	17.	4,438		8,028	
		69,681	42	**71,073**	46
Total assets		**165,068**	100	**153,582**	100
Equity and liabilities					
Issued capital and reserves attributable to equity holders of the parent					
Share capital	18.	27,564		27,564	
Share premium reserve	18.	1,015		1,015	
Translation differences	18.	-1,645		-495	
Fair value reserve	18.	103		508	
Retained earnings		82,306		78,989	
		109,343		**107,581**	
Minority interest		225		229	
Total equity		**109,568**	66	**107,810**	70
Non-current liabilities					
Deferred tax liabilities	14.	10,592		10,850	
Interest-bearing liabilities	22.	11,728		1,830	
		22,320	14	**12,680**	8
Current liabilities					
Trade and other payables	23.	27,090		28,883	
Tax liabilities based on taxable income for the period		262		845	
Provisions	21.			42	
Current interest-bearing liabilities	22.	5,828		3,322	
		33,180	20	**33,092**	22
Total liabilities		**55,500**		**45,772**	
Total equity and liabilities		**165,068**	100	**153,582**	100

Consolidated statement of cash flows

1,000 €	Ref.	2007 Jan. 1 – Dec. 31	2006 Jan. 1 – Dec. 31
Cash flow from operating activities			
Profit for the period		**20,842**	**20,144**
Adjustments to profit	26.	15,378	12,631
Change in working capital:			
Change in trade and other receivables		-603	-530
Change in inventories		-962	108
Change in trade and other payables		-2,376	5,394
Change in provisions		-42	-485
Interest received		378	225
Interest paid		-973	-563
Other financial items, net		900	357
Taxes paid		-7,309	-5,581
Net cash flow from operating activities		**25,233**	**31,700**
Cash flow from investing activities			
Investment in property, plant and equipment		-23,075	-10,835
Investment in intangible assets		-1,241	-704
Other investments		-150	
Disposal of associates			2,295
Net cash flow from investing activities		**-24,466**	**-9,244**
Cash flow from financing activities			
Subscription for stock options			67
Withdrawal of loans		16,727	
Repayment of loans		-4,323	-8,974
Dividends paid		-16,611	-11,099
Net cash flow from financing activities		**-4,207**	**-20,006**
Change in cash and cash equivalents		**-3,440**	**2,450**
Cash and cash equivalents at the beginning of the period		9,779	7,676
Effect of exchange rate changes		113	-160
Effect of changes in the fair value of investment		-128	-187
Statement of changes in consolidated equity		**6,324**	**9,779**

Statements of changes in consolidated equity

	Issued capital and reserves attributable to equity holders of the parent							
1,000 €	Share capital	Share premium	Translation differences	Fair value reserve and other reserves	Retained earnings	Total	Minority interest	Total equity
Equity Dec. 31, 2005	**27,552**	**960**	**60**	**822**	**69,762**	**99,156**	**270**	**99,426**
Translation differences			-555			**-555**	11	**-544**
Change of fair value, financial assets available for sale				-425		**-425**		**-425**
Tax on equity items				111		**111**		**111**
Counter entry of share-based payments					130	**130**		**130**
Profit for the period					20,196	**20,196**	-52	**20,144**
Total recognized income and expenses for the period			**-555**	**-315**	**20,326**	**19,457**	**-41**	**19,416**
Dividends					-11,099	**-11,099**		**-11,099**
Exercised stock options	12	55				**67**		**67**
Equity Dec. 31, 2006	**27,564**	**1,015**	**-495**	**508**	**78,989**	**107,581**	**229**	**107,810**
Translation differences			-1,150			**-1,150**	23	**-1,127**
Change of accounting estimates					-1,070	**-1,070**		**-1,070**
Change of fair value, financial assets available for sale				-546		**-546**		**-546**
Tax on equity items				142		**142**		**142**
Counter entry of share-based payments					130	**130**		**130**
Profit for the period					20,869	**20,869**	-27	**20,842**
Total recognized income and expenses for the period			**-1,150**	**-404**	**19,929**	**18,375**	**-4**	**18,371**
Dividends					-16,612	**-16,612**		**-16,612**
Equity Dec. 31, 2007	**27,564**	**1,015**	**-1,645**	**103**	**82,306**	**109,343**	**225**	**109,568**

Notes to consolidated financial statements

Company profile

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

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

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

The Board of Tamfelt Corp. has approved the release of these financial statements at a meeting on February 6, 2008. According to the Finnish Companies Act, shareholders have the opportunity to approve or disapprove the financial statements at the Annual General Meeting held after the release. The Annual General Meeting is also entitled to amend the financial statements.

Significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). Statements are based on the IAS and IFRS standards and the SIC and IFRIC interpretations effective on December 31, 2007. International Financial Reporting Standards refer to standards and interpretations that are based on the procedure adopted for application in the E.U. according to E.C. regulation No. 1606/2002. Notes to Consolidated Statements also comply with Finnish accounting legislation and other legislation relating to financial statements.

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

Since January 1, 2007 the Group has applied the following new and revised standards and interpretations:

IFRS 7 *Financial Instruments*. Disclosures. IFRS 7 requires the disclosure of both the significance of financial instruments on the company's financial position and performance and of the nature and degree of risks involved in financial instruments. The standard has increased the extent of notes to the Group's annual statements; most of the new notes have to do with sensitivity analyses.

IAS 1 *Presentation of Financial Statements*. Capital disclosures. The amended IAS 1 requires disclosure of the level and management of the entity's capital in the financial period. The regulations have extended the content of notes to consolidated statements.

IFRIC 8: *IFRS 2 Scope*. IFRIC 8 applies to arrangements where equity instruments are granted and the identifiable consideration given is less than the fair value of these instruments. In the expired period or in preceding periods, the Group has had no arrangements referred to in this interpretation.

IFRIC 9 *Reassessment of Embedded Derivatives*. IFRIC 9 requires that an embedded derivative separated from the host contract should not be reassessed unless there is a change in the terms of the contract that significantly modifies the cash flows of the host contract. The introduction of this interpretation has no effect on the consolidated statements.

IFRIC 10 *Interim Financial Reporting and Impairment*. The interpretation prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, equity instruments classified as available-for-sale or unquoted equity instruments carried at cost. This interpretation has no effect on the consolidated statements.

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

Significant accounting policies for consolidated statements

Subsidiaries

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

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

Foreign currency translation

The performance and financial position of all Group entities are measured in the currency of the primary economic environment in which the entity operates (functional currency).

Consolidated statements are presented in euro, which is the functional and presentation currency of the parent company.

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

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

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

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

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

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

Borrowing costs
Borrowing costs are expensed in the period in which they are incurred.

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

Intangible assets

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

The useful lives of the assets are the following:

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

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

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

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

Inventories

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

Impairment of assets

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

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

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

Employee benefits

Pension liabilities
Pension schemes are classified as defined benefit plans and defined contribution plans. Contributions are charged to the income statement in the period to which they relate. The benefit arisen from the Group's defined benefit plans over the period is expensed in the income statement.

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

Provisions

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

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

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

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

Income taxes

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

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

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

Revenue recognition

Sales of goods and services

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

Interest and dividend

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

Financial assets and liabilities

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

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

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

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

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

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

Operating profit

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

Accounting policies requiring management judgment and key uncertainty factors related to estimates

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

Impairment testing

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

Application of new or amended IFRS standards

IASB has published the following new or revised standards and interpretations, which are not yet in force and which have not yet been applied by the Group. The Group shall apply each standard and interpretation from the respective effective dates or, if the effective date is other than the first date of the financial period, from the beginning of the next financial period following the effective date.

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after March 1, 2007). The new interpretation clarifies the application of share-based payment transactions involving an entity's own equity instruments (IFRS 2) and requires the reassessment of such transactions in subsidiary companies. The new interpretation has no effect on the consolidated statements.

IFRIC 12 *Service Concession Arrangements* (effective for annual periods beginning on January 1, 2008). The Group has no this type of arrangements with the public sector, and the interpretation has no effect on future consolidated statements.

IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning after July 1, 2008). The Group runs no loyalty programmes, and the interpretation has no effect on future consolidated statements.

IFRIC 14 *IAS19 – The Limit on a Defined Benefit asset. Minimum Funding Requirement and their Interaction* (effective for annual periods beginning on January 1, 2008). The interpretation applies to defined post-employment benefit plans and other defined long-term employment benefits according to IAS 19 when minimum funding requirement is involved. The interpretation also addresses the recognition of assets through refunds or reductions in future contributions to the plan. The Group runs this type of pension benefit plans in some countries and is presently assessing the impacts of the interpretation.

IFRS 8 *Operating Segments* (effective for annual periods beginning after January 1, 2009). IFRS 8 replaces the IAS 14 segment reporting standard. According to the new standard, segment reporting is based on internal management reporting and the applied basis of measurement. IFRS 8 requires an entity to report information about its products, services, geographical areas and major customers. The entity is required to disclose the way in which segments were determined and the measurements used in segment reporting. The standard also requires reconciliation of reportable segment amounts to corresponding amounts in the entity's financial statements. The Group adopts segment reporting on January 1, 2008 and will assess its impacts thereafter.

IAS 23 *Amendment to the Borrowing Costs* standard (effective for annual periods beginning after January 1, 2009). The revised standard requires that the borrowing costs incurred from the acquisition, construction or production of a qualifying asset, such as a plant, are immediately recognized in the cost of that asset. As permitted under the previous model, the Group used to expense borrowing costs in the period in which they were incurred. The Group estimates that the introduction of the amended standard will have no essential effect on future consolidated statements.

IAS 1 *Amendment to the Presentation of Financial Statements* standard (effective for annual periods beginning after January 1, 2009). The revised standard changes the presentation of financial statements. The Group assumes that the change will mainly influence the presentation of the income statement. The basis for calculating earnings per share is not affected.

1. Segment information

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

The Group's secondary, geographical, segment is divided in Finland, other Europe, and other countries. The net sales are recognized according to customer location and the assets are stated according to their location.

Inter-segment pricing is determined by current market prices.

The assets and liabilities of the segment are operating items that the segment uses in its business operations or that can be allocated to the segment on a reasonable basis. Unallocated items contain tax and financial items as well as items that relate jointly to the whole company. Investments consist of increases of property, plant and equipment and intangible assets that are used over more than one financial period.

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

Geographical segments

1,000 €	**2007**	2006
Net sales		
Finland	57,580	53,649
Other Europe	68,152	67,548
Other countries	58,958	45,727
Elimination	-17,184	-11,952
Consolidated	**167,506**	154,972
Investments		
Finland	14,242	9,214
Other Europe	1,114	527
Other countries	9,110	1,798
Consolidated	**24,466**	11,539
Assets		
Finland	136,232	126,420
Other Europe	15,308	19,294
Other countries	25,952	13,214
Elimination	-12,424	-5,346
Consolidated	**165,068**	153,582

2. Other operating income

1,000 €	**2007**	2006
Gain on the disposal of property, plant and equipment	114	2,030
Rent income	19	23
Other	173	90
	306	2,143

3. Operating costs

Materials, services and other operating expenses

1,000 €	**2007**	2006
Change in the inventory of finished goods and work in progress	1,558	-3
Purchases during the period	37,657	32,212
Change in inventories	-2,448	466
Rent expenses	556	381
Outsourced and subcontracted services	1,075	559
Loss on the disposal and scrapping of property, plant and equipment	211	47
Other expense items	30,067	26,992
	68,676	60,654

Expenses from employee benefits

1,000 €	**2007**	2006
Payroll		
Members of the Boards of Directors and Presidents	1,172	1,052
Other salaries	48,851	47,535
	50,023	48,587
Pension expenses	8,962	7,696
Granted stock options settled in equity or in cash	130	130
Other social expenses	4,518	5,085
	63,633	61,498
Number of employees		
Average	1,469	1,415
At the end of the period	1,496	1,443

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

4. Depreciation and impairment

1,000 €	**2007**	2006
Depreciation per asset groups		
Property, plant and equipment		
Buildings	766	678
Machinery and equipment	7,975	7,530
Other tangible assets	14	13
Intangible assets		
Other intangible assets	840	865
	9,595	9,086

5. Research and development costs

The consolidated R&D cost was 4,475,000 euros (up from 4,381,000).

6. Financial income

1,000 €	**2007**	2006
Interest income	378	225
Dividend income	80	101
Exchange rate gains	786	442
Remeasurement of forward exchanges, not in hedge accounting		80
Gain on the disposal of financial assets held for trading	321	122
Change in fair value of the financial assets at fair value through profit or loss		187
	1,565	1,157

Items above the operation profit include 960,000 euros of exchange rate losses (2006: 1,090,000 euros).

7. Financial expenses

1,000 €	**2007**	2006
Interest expenses	973	592
Exchange rate losses	96	230
Remeasurement of forward exchanges, not in hedge accounting	63	
Loss on the disposal of financial assets held for trading		
Change in fair value of the financial assets at fair value through profit or loss	128	9
	1,260	831

8. Income tax

1,000 €	**2007**	2006
Tax based on taxable income for the period	6,342	6,014
Taxes for prior periods	-811	127
Deferred taxes	-160	-82
	5,371	6,059

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

1,000 €	**2007**	2006
Profit before tax	**26,212**	26,203
Taxes computed at domestic tax rate	6,815	6,813
Taxes for prior periods	-811	127
Different tax rates in foreign subsidiaries	410	106
Taxfree income	-606	-784
Non-deductible expenses	137	68
Use of previously unrecorded fiscal losses	-515	-258
Unrecorded tax asset in the profit for the period	303	
Change in deferred taxes	-362	-13
Taxes in the income statement	**5,371**	6,059

9. Earnings per share

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

	2007	2006
Profit for the period attributable to equity holders of the parent, continuing operations (1,000 €)	20,869	20,196
Weighted average number of shares in the period (1,000)	27,564	27,564
Basic earnings per share (euro), continuing operations	0.76	0.73

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

	2007	2006
Profit for the period attributable to equity holders of the parent, continuing operations (1,000 €)	20,869	20,196
Weighted average number of shares in the period (1,000)	27,564	27,564
Effect of stock options (1,000)	122	20
Weighted average number of shares for the calculation of diluted earnings per share (1,000)	27,686	27,584
Diluted earnings per share (euro), continuing operations	0.75	0.73

10. Property, plant and equipment

1,000 €	Land	Buildings	Machinery and equipment	Other tangible assets	Pre-payments	**Total**
Cost Jan. 1, 2007	942	24,164	161,580	474	7,551	**194,711**
Increase		7,100	22,126		1,382	**30,608**
Decrease	-62	-620	-7,835		-7,533	**-16,050**
Exchange differences		6	3		-2	**7**
Cost Dec. 31, 2007	**880**	**30,650**	**175,874**	**474**	**1,398**	**209,276**
Depreciation and impairment Jan. 1, 2007		-11,451	-107,145	-364		**-118,960**
Depreciation		-766	-7,974	-14		**-8,754**
Decrease		843	6,077			**6,920**
Exchange differences		2	7			**9**
Depreciation and impairment Dec. 31, 2007		**-11,372**	**-109,035**	**-378**		**-120,785**
Carrying amount Jan. 1, 2007	942	12,713	54,435	110	7,551	**75,751**
Carrying amount Dec. 31, 2007	880	19,278	66,839	96	1,398	**88,491**
Machinery and equipment, undepreciated portion Dec. 31, 2007						**63,412**
Cost Jan. 1, 2006	942	24,036	159,317	474	268	**185,037**
Increase		128	3,424		7,542	**11,094**
Decrease			-1,046		-259	**-1,305**
Exchange differences			-115			**-115**
Cost Dec. 31, 2006	**942**	**24,164**	**161,580**	**474**	**7,551**	**194,711**
Depreciation and impairment Jan. 1, 2006		-10,773	-100,630	-351		**-111,754**
Depreciation		-678	-7,530	-13		**-8,221**
Decrease			921			**921**
Exchange differences			94			**94**
Depreciation and impairment Dec. 31, 2006		**-11,451**	**-107,145**	**-364**		**-118,960**
Carrying amount Jan. 1, 2006	942	13,263	58,687	123	268	**73,284**
Carrying amount Dec. 31, 2006	942	12,713	54,435	110	7,551	**75,751**
Machinery and equipment, undepreciated portion Dec. 31, 2006						**52,536**

11. Intangible assets

1,000 €	Goodwill	Other intangible assets	**Total**
Cost Jan. 1, 2007	1,346	11,826	**13,172**
Increase		1,241	**1,241**
Decrease		-1,279	**-1,279**
Exchange differences		-1	**-1**
Cost Dec. 31, 2007	**1,346**	**11,787**	13,133
Depreciation and impairment Jan. 1, 2007	-1,059	-7,793	**-8,852**
Depreciation		-840	**-840**
Decrease		1,134	**1,134**
Exchange differences			**0**
Depreciation and impairment Dec. 31, 2007	**-1,059**	**-7,499**	-8,558
Carrying amount Jan. 1, 2007	287	4,033	**4,320**
Carrying amount Dec. 31, 2007	287	4,288	**4,575**
Cost Jan. 1, 2006	1,346	11,127	**12,473**
Increase		704	**704**
Acquisition of subsidiary			**0**
Decrease			**0**
Exchange differences		-5	**-5**
Cost Dec. 31, 2006	**1,346**	**11,826**	13,172
Depreciation and impairment Jan. 1, 2006	-1,059	-6,928	**-7,987**
Depreciation		-865	**-865**
Decrease			**0**
Exchange differences			**0**
Depreciation and impairment Dec. 31, 2006	**-1,059**	**-7,793**	-8,852
Carrying amount Jan. 1, 2006	287	4,199	**4,486**
Carrying amount Dec. 31, 2006	287	4,033	**4,320**

By December 31, 2007 the Group has been issued 19,000 emission allowances, of which 12,000 are estimated to be set free for sale. The monetary value of these was about 600 euros on the balance sheet date.

12. Investment in associates

1,000 €	**2007**	2006
At the beginning of the period		291
Share of profit for the period		
Decrease		-291
At the end of the period		

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

13. Other financial assets

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

1,000 €	**2007**	2006
Publicly quoted equity investments	1,059	1,604
Non-quoted equity investments	337	187
	1,396	1,791

14. Deferred tax assets and liabilities

Change in deferred tax in 2007

1,000 €	Jan. 1, 2007	Charged to income statement	Charged to equity	Dec. 31, 2007
Deferred tax assets				
Internal margin in inventories	512	-76		436
Amortization differences	136	352		488
	648	**276**		**924**
Deferred tax liabilities				
Accumulated depreciation difference	8,879	102		8,981
Fair value measurement of other investments	178		-142	36
Fair value measurement of derivatives	21	-17		4
Acquisition of subsidiaries	40			40
Other remeasurement differences	758	-98		660
Amortization differences	974	-103		871
Total	**10,850**	**-116**	**-142**	**10,592**

Change in deferred tax in 2006

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

15. Inventories

1,000 €	**2007**	2006
Materials and supplies	12,560	10,125
Work in progress	8,524	9,124
Finished products	11,965	12,838
	33,049	32,087

Expenses recognized on the carrying amount of inventories were 1,143,000 euros (2006: 1,220,000 euros).

16. Trade and other receivables

1,000 €	**2007**	2006
Trade receivables	27,353	27,828
Accrued income	2,636	1,018
Loan assets	319	361
	30,308	29,207

Significant items related to accrued income consist of personnel-associated amortization. The Group recognized a loss of 33,000 euros on trade receivables (no loss in 2006).

Non-interest bearing receivables were distributed among various currencies as follows:

1,000 €	**2007**	2006
AUD	56	180
BRL	509	464
CAD	752	1,354
CNY	1,815	609
EUR	20,862	19,081
GBP	39	88
NOK	77	25
PLN	336	309
SEK	144	630
USD	5,455	6,286
	29,989	28,846

17. Cash and cash equivalents

1,000 €	**2007**	2006
Cash on hand and in banks	4,438	5,168
Certificates of deposit		2,860
	4,438	8,028

18. Equity

1,000 €	Quantity (1,000)	Share capital	Share premium
Jan. 1, 2006	27,552	27,552	960
Exercised stock options	12	12	55
Dec. 31, 2006	27,564	27,564	1,015
Dec. 31, 2007	27,564	27,564	1,015

Minimum share capital according to Tamfelt Corp.'s Articles of Association is 10,000,000 euros and maximum share capital 80,000,000 euros. On December 31, 2007 the company's share capital was 27,563,964 euros and the number of shares was 27,563,964.
The shares were divided as follows:

	2007		2006	
	Quantity	EUR	Quantity	EUR
Common share (20 votes/share)	10,119,198	10,119,198	10,119,198	10,119,198
Preferred share (1 vote/share)	17,444,766	17,444,766	17,444,766	17,444,766
	27,563,964	**27,563,964**	27,563,964	27,563,964

Dividends

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

Common share	0.52 euros/share
Preferred share	0.54 euros/share

Description of reserves

Translation differences

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

Fair value reserve and other reserves

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

Mandatory redemption clause

A shareholder whose percentage of the company's aggregate share capital or number of votes equals or exceeds 33 1/3 per cent shall be liable to redeem the shares held by other shareholders, irrespective of the class of share, in so far as other shareholders demand their rights of redemption, on the conditions detailed in Article 12 of the Articles of Association.

Detailed information on shares is presented in Stock analysis.

19. Share-based payments

The Group has run stock option schemes since April 1, 1998. Options granted after November 7, 2002 and not vested before January 1, 2005 are recognized according to IFRS 2 Share-based Payments. In Tamfelt's statements for 2006 this applies only to E and F options of the year 2005.

The E options vested at November 1, 2007 and the F options will vest at November 1, 2009 and both mature at May 30, 2011. The 2005 options expire also if the holder's employment at Tamfelt ends before November 1, 2009 for a reason other than death or retirement on a pension.

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

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

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

	2005 E options		**2005 F options**	
	Exercise price as weighted average euro/share	**Quantity**	**Exercise price as weighted average euro/share**	**Quantity**
At the beginning of the period	8.79	218,500	8.79	218,500
Granted new options	-	-	-	-
Forfeited options	-	-	-	-
Exercised options	-	-	-	-
Expired options	-	-	-	-
Exercisable options at the end of the period	8.18	218,500	8.18	218,500

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

Maturity year	**2007 Exercise price (euro)**	**2007 Quantity**
2007	8.18	218,500
2009	8.18	218,500

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

20. Pension liabilities

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

1,000 €	**2007**	2006
Defined benefit-based pension liability in balance sheet	804	621

21. Provision

1,000 €	**2007**	2006
Pension provision		42

22. Interest-bearing liabilities

1,000 €	2007	2006
Long-term		
Pension loans		1,583
Other loans	11,728	247
	11,728	1,830
Short-term		
Pension loans	1,583	3,167
Other loans	245	155
Bank loans	4,000	
	5,828	3,322

Maturity dates of long-term loans

Year 2007

1,000 €	2008	2009	2010	2011	2012
Pension loans	1,583				
Other loans	4,245	2,067	2,011	2,000	5,650
	5,828	**2,067**	**2,011**	**2,000**	**5,650**

Year 2006

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

The Group's bank loans bear either variable or fixed interest. The average interest rate is 5.66% (up from 4.17 in 2006).

Interest-bearing long-term liabilities were distributed among various currencies as follows:

1,000 €	2007	2006
EUR	7,078	1,830
CNY	4,650	
	11,728	1,830

23. Trade and other payables

1,000 €	2007	2006
Short-term		
Trade payables	6,781	5,910
Advances received	408	913
Accrued liabilities	15,428	17,706
Other liabilities	4,473	4,354
	27,090	28,883

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

24. Financial risk management

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

Currency risk

Some 29 per cent of the Group's sales and 6.8 per cent of purchases are conducted in foreign currencies. The U.S. dollar is the principal sales currency. As a rule, the currency-specific net position is reviewed in one-year term, and the Group's policy is to hedge this position. The main hedging instruments are 1 to 12-month forward exchange contracts that are not covered by cash flow hedging. Currency risk related to the equity of foreign subsidiaries is not hedged. The Group has foreign net investments and it is thus exposed to risks that arise when JPY-denominated investments are translated into the parent company's functional currency. The Group has not hedged its foreign net investments.

The parent company's functional currency is the euro. The foreign-currency denominated assets and liabilities translated into the euro at the rate of the closing date are the following:

Year 2007, Nominal values

1,000 €	BRL	CAD	CNY	PLN	USD
Non-current assets	498	21	10,429	672	102
Non-current liabilities			4,650		
Exchange rate change in non-current items	9	2	-84	15	-4
Current assets	1,203	2,293	6,378	942	6,097
Current liabilities	962	2,154	6,174	533	200
Exchange rate change in current items	29	194	-154	7	-30

Year 2006, Nominal values

1,000 €	BRL	CAD	CNY	PLN	USD
Non-current assets	113	26	1,913	233	34
Non-current liabilities					
Exchange rate change in non-current items	-2	-4	-16	1	-4
Current assets	1,084	3,346	2,962	1,013	6,680
Current liabilities	366	3,372	3,512	104	288
Exchange rate change in current items	-8	-329	-177	0	-38

The table below depicts the strengthening or weakening of the euro against the U.S. dollar, Canadian dollar and Chinese yuan while all other factors remain constant.

Year 2007

1,000 €	CAD	CNY	USD
Change %	5%	5%	5%
Effect on post-tax profit	190	63	919
Effect on equity Jan. 1		69	321
	190	**132**	**1 240**

Year 2006

1,000 €	**CAD**	**CNY**	**USD**
Change %	5%	5%	5%
Effect on post-tax profit	114	26	863
Effect on equity Jan. 1.		10	341
	114	**36**	**1,204**

Interest risk

Current money market investments expose the Group to cash flow interest rate risk, but the overall impact is not significant. Most of the Group's income and operative cash flows are independent of the fluctuations of the market rate of interest. The Group is most exposed to fair value interest risk, which is mainly associated with the loan portfolio. On the balance sheet date, 91 per cent of loans were variable-rate loans with the duration of 4.8 years. The Group may take out loans at fixed or variable interest rates and use interest rate swaps to achieve the goals of its financing policy. The Group had no open interest rate swaps on the balance sheet date. Changes in the fair values of derivative interest-rate contracts are immediately recognized in the income statement.

Investment market risk

In liquid fund investments, Tamfelt avoids risks. The company invests mainly in money market instruments. Limited amounts of liquid funds can be placed in shares. According to principles confirmed by the Board of Directors, investment risks and counterparty risks can only be taken with counterparties of a certain level of creditworthiness, whose market value and risk profile can be monitored regularly and reliably. The table below shows the price risk of investments if various share indices strengthened or weakened by 5 per cent while all other factors remained constant. Change in the value of financial assets stated at fair value through profit or loss affects the post-tax income. Change in financial assets available for sale affects the equity. The calculations are based on the assumption that Group investments change according to changes in the particular index.

	Changes in Income Statement		**Changes in equity**	
1,000 €	**2007**	**2006**	**2007**	**2006**
OMX	70	65	70	65
TOPIX	-	-	39	59

Price risk

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

Cash flow and fair value credit risks

The Group financial policy determines requirements of creditworthiness for customers, investment transactions and derivative contracts and the investment policy. The Group's customer base is spread worldwide and does not entail any significant concentration of credit risk. The credit limits and financial standing of customers are continuously monitored.

The Group's maximum credit risk is the carrying amount of financial assets at December 31 less cash in hand and in bank and secured receivables.

Liquidity risk

The Group is committed to regular assessment and monitoring of the level of financing to ensure the adequacy of liquid assets. The availability and flexibility of financing is guaranteed by unwithdrawn portions of credit limits and by relying on several banks and financing forms for funding. The amount of the unwithdrawn portion of credit limit at December 31, 2007 was 18 million euros (down from 20 million at December 31, 2006).

A contractual maturity analysis has been described in in Note 22 to consolidated financial statements. All trade payables have a maturity of less than one year.

Capital management

The Group's capital management policy has been designed to support the business with an optimal capital structure by safeguarding normal operating conditions and to raise shareholder value to the best possible yield. Optimal capital structure also reduces the cost of capital.

The trend of the Group's capital structure is monitored by gearing. At the end of the year 2007, the consolidated interest-bearing net debts stood at 11.2 million euros (up from -4.6 million on Dec 31, 2006) and gearing was 10.3 per cent (up from -4.3 per cent on Dec. 31, 2006). Gearing is calculated by dividing interest-bearing net debts (interest bearing liabilities less cash and cash equivalents) by equity, at the end of 2007 amounting to 109.6 million euro (up from 107.8 million on Dec. 31, 2006).

25. Fair values of financial assets and liabilities

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

1,000 €	**2007**	2006
Financial assets at fair value through profit or loss		
Fair value	1,886	1,751
Carrying amount	1,886	1,751
Forward exchanges, not in hedge accounting		
Fair value	2,734	5,015
Value of underlying asset	2,717	4,935
Electricity derivatives		
Fair value	2,057	1,994
Trading value	1,689	2,015

26. Adjustment of cash flows from operations

1,000 €	**2007**	2006
Income from the disposal of associates		-2,003
Other financial items net	-305	-325
Depreciation	9,595	9,086
Employee benefits	130	130
Exchange differences of working capital and financial items	560	-368
Minority interests	27	52
Taxes for the period	5,371	6,059
	15,378	12,631

27. Other rental agreements

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

28. Contingent liabilities

Collaterals and contingent liabilities

1,000 €	**2007**	2006
Collaterals on own behalf		
Deposit guarantee	20	20
Other contingent liabilities		
Pension liabilities	347	554
Operational lease liabilities, maturity in 12 months	153	151
Operational lease liabilities, maturity in over 12 months	166	175
	686	346

29. Related-party transactions

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

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

The following transactions were carried out with related parties:

1,000 €	**2007**	2006
Employee benefits to executives in the Executive Board		
Salaries and other current benefits	1,155	1,071
Share-based payments	296	
Salaries and fees		
President and CEO	354	314
Board members and deputy members		
Cedercreutz, Axel	5	20
Cedercreuz, Carl-Magnus	22	16
von Frenckell, Mikael	42	38
Kainu, Vesa	22	20
Lilius, Martin	14	20
Oksanen, Jouko	22	20
Savander, Niklas	22	20

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

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

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

Consolidated financial summary

1,000,€	IFRS **2007**	IFRS 2006	IFRS 2005	IFRS 2004	FAS 2003
Net sales	167,506	154,972	140,087	133,760	125,698
Change, %	8.1	10.6	4.7	6.4	-0.4
Exports and foreign operations	115,420	102,814	94,556	83,692	75,607
% of net sales	68.9	66.3	67.5	62.6	60.1
Operating profit	25,908	25,877	21,574	15,854	12,608
% of net sales	15.5	16.7	15.4	11.9	10.0
Profit before extraordinary items, taxes and minority interest	26,212	26,203	20,801	16,282	12,618
% of net sales	15.6	16.9	14.8	12.2	10.0
Profit before taxes and minority interest	26,212	26,203	20,801	16,282	12,618
% of net sales	15.6	16.9	14.8	12.2	10.0
Return on equity, %	19.2	19.4	16.1	13.7	9.1
Return on net assets, %	22.7	23.7	19.5	15.7	11.7
Equity/assets ratio, %	66.5	70.6	66.7	64.7	67.8
Gearing, %	10.3	-4.3	6.5	11.5	-0.1
Gross investment	24,466	11,539	10,165	15,379	3,398
% of net sales	14.6	7.4	7.3	11.5	2.7
R&D expenditure	4,475	4,381	3,289	3,593	3,578
% of net sales	2.7	2.8	2.3	2.7	2.8
Average employment during the period	1,469	1,415	1,333	1,325	1,344

Return on equity, %

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

Return on net assets, %

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

Equity/assets ratio, %

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

Gearing, %

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

Parent company statement of income

1,000 €	Ref.	2007 Jan. 1 – Dec. 31	%	2006 Jan. 1 – Dec. 31	%
Net sales	1.	**140,361**	100	**128,770**	100
Change in finished goods inventory and work in progress		-1,299		-318	
Other operating income	2.	328		2,508	
Materials and services	3.	-29,927		-22,313	
Personnel expenses	4.	-55,425		-53,899	
Depreciation and impairment	5.	-7,992		-7,861	
Other operating expenses		-27,667		-27,587	
		-121,011		-111,660	
Operating profit		**18,379**	13	**19,300**	14
Financial income and expenses	6.	121		1,642	
Profit before extraordinary items, appropriations and taxes		**18,500**	13	**20,942**	16
Extraordinary items	7.	1,430		2,050	
Profit before appropriations and taxes		**19,930**	14	**22,992**	18
Appropriations		-2,007		-320	
Direct taxes	8.	-3,405		-4,793	
Profit for the period		**14,518**	10	**17,879**	14

Parent company balance sheet

1,000 €	Ref.	Dec. 31, 2007	%	Dec. 31, 2006	%
Assets					
Non-current assets					
Intangible assets	10.	4,325		4,131	
Tangible assets	11.	60,690		58,947	
Investment	12.	45,580		40,470	
		110,595	70	**103,548**	69
Current assets					
Inventories	13.	20,838		21,939	
Long-term receivables	14.	162		163	
Short-term receivables	15.	24,671		21,958	
Current investments					
Cash and bank		618		3,118	
		46,289	30	**47,178**	31
Assets total		**156,884**	100	**150,726**	100
Liabilities and shareholders' equity					
Equity	16.				
Share capital		27,564		27,564	
Share premium		1,015		1,015	
Equity issue					
Retained earnings		25,407		24,140	
Profit for the period		14,518		17,879	
		68,504	44	**70,598**	47
Accumulated appropriations	18.	**32,863**	21	**30,856**	20
Statutory provisions	19.		0	**42**	0
Liabilities					
Long-term liabilities	20.	7,021		1,681	
Short-term liabilities	20.–21.	48,496		47,549	
		55,517	35	**49,230**	33
Liabilities and shareholders' equity total		**156,884**	100	**150,726**	100

Parent company cash flow statement

1,000 €	2007 Jan. 1 – Dec. 31	2006 Jan. 1 – Dec. 31
Cash flow from operating activities		
Operating profit	**18,379**	**19,300**
Adjustments to profit*	7,623	5,352
Change in working capital		
Change in trade and other receivables	-2,171	1,618
Change in inventories	1,101	48
Change in trade and other payables	-541	2,691
Change in provisions	-42	-486
Interest received	173	115
Interest paid	-1,661	-1,027
Other financial items, net	1,609	2,768
Taxes	-5,631	-4,353
Net cash flow from operating activities	**18,839**	**26,026**
Cash flow from investing activities		
Investment in property, plant and equipment	-9,082	-8,008
Investment in intangible assets	-1,161	-705
Other investments	-4,960	-2,560
Receivables from Group companies		592
Gain on the disposal of property, plant and equipment	505	214
Gain on the disposal of other fixed assets		2,295
Net cash flow from investing activities	**-14,698**	**-8,172**
Cash flow from financing activities		
Withdrawal of loans	15,493	1,300
Repayment of loans	-6,952	-8,252
Dividends paid	-16,612	-11,099
Group subsidy received	1,430	2,050
Net cash flow from financing activities	**-6,641**	**-16,001**
Change in cash and cash equivalents	-2,500	1,853
Cash and cash equivalents at the beginning of the period	3,118	1,265
Cash and cash equivalents at the end of the period	**618**	**3,118**

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

Notes to parent company financial statements

Significant accounting policies

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

Net sales

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

Receivables and liabilities in foreign currencies

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

Measurement of non-current assets

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

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

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

Inventories

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

Current investments

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

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

Research and development expenditure

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

Taxes

Calculated estimates of taxes are recognized in the income statement.

Pension liabilities in Finland

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

Environmental expenditure

Environmental expenditure is recognized in the financial period in which it was incurred, with the exception of machinery and equipment, which are depreciated according to plan over three to five years on a straight-line basis.

1. Net sales

(Tamfelt's line of business: technical textiles)

Net sales per segments

1,000 €	**2007**	%	2006	%
Finland	52,086	37	52,158	41
Other Europe	55,254	39	48,197	37
Other countries	33,021	24	28,415	22
	140,361	100	128,770	100

2. Other operating income

1,000 €	**2007**	2006
Gain on the disposal of property, plant and equipment	46	2,321
Rent income	107	110
Other	175	77
	328	2,508

3. Materials and services

1,000 €	**2007**	2006
Purchases during the period	29,454	20,772
Change in inventories	-197	-270
Outsourced and subcontracted services	670	1,811
	29,927	22,313

4. Personnel expenses

1,000 €	**2007**	2006
President & CEO	354	314
Board members	150	154
Other salaries and fees	43,319	42,345
Pension costs	8,111	6,905
Other social expenses	3,491	4,181
	55,425	53,899
Number of employees		
Average	1,053	1,036
At the end of the period	1,057	1,045

5. Planned depreciation

1,000 €	**2007**	2006
Intangible rights	614	614
Other long-term expenditure	210	198
Buildings	124	125
Machinery and equipment	7,030	6,911
Other tangible assets	14	13
	7,992	7,861

Information on related party transactions is presented in Note 29 of the Group.

6. Financial income and expenses

1,000 €	**2007**	2006
Dividend income from Group companies	951	2,397
Dividend income from others		38
	951	2,435
Other interest and financial income from others	860	233
Financial income total	1,811	2,668
Interest expenses and other financial expenses		
to Group companies	-810	-522
to others	-880	-504
Financial expenses total	-1,690	-1,026
	121	1,642

Interest and financial income include exchange gain (+) or loss (-) of 687,000 euros net (120,000 in 2006).

7. Extraordinary items

1,000 €	**2007**	2006
Group subsidies	1,430	2,050

8. Direct taxes

1,000 €	**2007**	2006
Income tax on extraordinary items	372	533
Income tax on regular operations	3,033	4,260
	3,405	4,793

9. Environmental costs

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

10. Intangible assets

1,000 €	**2007**	2006
Intangible rights		
Cost Jan. 1	9,773	9,263
Increase	508	510
Decrease	-1,293	
Cost Dec. 31	**8,988**	9,773
Accumulated depreciation and impairment Jan. 1	-6,636	-6,022
Depreciation	-614	-614
Decrease	1,150	
Accumulated depreciation and impairment Dec. 31	**-6,100**	-6,636
Carrying amount Dec. 31	2,888	3,137
Other long-term expenditure		
Cost Jan. 1	2,196	2,001
Increase	653	
Transfer between items		195
Cost Dec. 31	**2,849**	2,196
Accumulated depreciation and impairment Jan. 1	-1,203	-1,005
Depreciation	-210	-198
Accumulated depreciation and impairment Dec. 31	**-1,413**	-1,203
Carrying amount Dec. 31	1,437	994

11. Tangible assets

1,000 €	2007	2006
Land		
Cost Jan. 1	767	767
Cost Dec. 31	**767**	767
Carrying amount Dec. 31	767	767
Buildings		
Cost Jan. 1	4,888	4,888
Cost Dec. 31	**4,888**	4,888
Accumulated depreciation and impairment Jan. 1	-1,108	-984
Depreciation	-124	-124
Accumulated depreciation and impairment Dec. 31	**-1,232**	-1,108
Carrying amount Dec. 31	**3,656**	3,780
Machinery and equipment		
Cost Jan. 1	142,508	140,751
Increase	13,592	2,752
Decrease	-6,191	-995
Cost Dec. 31	**149,909**	142,508
Accumulated depreciation and impairment Jan. 1	-93,741	-87,713
Depreciation	-7,030	-6,911
Decrease	6,020	883
Accumulated depreciation and impairment Dec. 31	**-94,751**	-93,741
Carrying amount Dec. 31	**55,158**	48,767
Carrying amount of production machinery Dec. 31	**52,945**	46,943
Other tangible assets		
Cost Jan. 1	474	474
Cost Dec. 31	**474**	474
Accumulated depreciation and impairment Jan. 1	-363	-349
Depreciation	-14	-13
Accumulated depreciation and impairment Dec. 31	**-378**	-363
Carrying amount Dec. 31	**96**	111
Advances paid and construction in progress		
Cost Jan. 1	**5,524**	268
Increase	998	5,515
Decrease	-5,508	-259
Cost Dec. 31	**1,014**	5,524
Carrying amount Dec. 31	**1,014**	5,524

12. Investment

1,000 €	2007	2006
Shares in Group companies		
Cost Jan. 1	39,366	36,806
Increase	4,960	2,560
Cost Dec. 31	**44,326**	39,366
Carrying amount Dec. 31	**44,326**	39,366
Shares in associates		
Cost Jan. 1		1
Decrease		-1
Cost Dec. 31		
Carrying amount Dec. 31	**44,326**	39,366

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

1,000 €	2007	2006
Other shares		
Cost Jan. 1	1,104	1,104
Increase	150	
Cost Dec. 31	**1,254**	1,104
Carrying amount Dec. 31	**1,254**	1,104
Receivables from Group companies		
Cost Jan. 1		692
Decrease		-692
Cost Dec. 31		

13. Inventories

1,000 €	2007	2006
Materials and supplies	8,325	8,127
Work in progress	8,149	8,894
Finished products	4,364	4,918
	20,838	21,939

14. Long-term receivables

1,000 €	2007	2006
Other loan assets	162	163

15. Short-term receivables

1,000 €	2007	2006
Trade receivables from others	17,642	19,969
Trade receivables from Group companies	5,628	1,329
Other loan assets	248	130
Accrued income	1,152	530
	24,670	21,958
Significant items in accrued income		
Staff-related amortization	234	142
Tax amortization	599	
Other amortization	319	388
	1,152	530

16. Equity

1,000 €	**2007**	2006
Share capital Jan. 1	27,564	27,552
Subscriptions under stock options		12
Share capital Dec. 31	**27,564**	27,564
Share premium Jan. 1	1,015	960
Subscriptions under stock options		55
Share premium Dec. 31	**1,015**	1,015
Retained earnings Jan. 1	42,019	35,239
Dividend	-16,612	-11,099
Retained earnings Dec. 31	**25,407**	24,140
Profit for the period	**14,518**	17,879
Total equity	**68,504**	70,598

17. Statement of distributable assets

1,000 €	**2007**	2006
Retained earnings	25,407	24,140
Profit for the period	14,518	17,879
	39,925	42,019

18. Accumulated appropriations

Accumulated appropriations consist of accumulated depreciation difference.

19. Statutory provisions

1,000 €	**2007**	2006
Pension provision		42

20. Interest-bearing liabilities

1,000 €	**2007**	2006
Long-term		
Pension loans		1,583
Other loans	7,021	98
	7,021	1,681
Short-term		
Pension loans	1,583	3,167
Other loans	77	85
Bank loans	4,000	
Other loans from Group companies	20,793	20,000
	26,453	23,252

Maturity dates of long-term loans

Year 2007	**2008**	**2009**	**2010**	**2011**	**2012**
Pension loans	1,583				
Other long-term loans	4,077	2,011	2,010	2,000	1,000
	5,660	**2,011**	**2,010**	**2,000**	**1,000**

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

21. Trade and other payables

1,000 €	**2007**	2006
Short-term		
Advances received	147	157
Advances received from Group companies		174
Trade payables	4,808	3,902
Trade payables to Group companies	509	98
Other liabilities	3,467	3,057
Accrued liabilities	13,113	16,909
	22,044	24,297
Significant items in accrued liabilities		
Personnel expenses amortization	10,071	11,127
Other amortization	3,042	5,782
	13,113	16,909

22. Collaterals and contingent liabilities

1,000 €	**2007**	2006
Collaterals on own behalf		
Mortgages on real estate		
Deposit guarantee	20	20
Other contingent liabilities		
Operational lease liabilities, maturity within 12 months	0	151
Operational lease liabilities, maturity within over 12 months	0	175
	20	346

23. Derivative financial instruments

1,000 €	**2007**	2006
Forward exchange contracts		
Fair value	2,734	5,015
Value of underlying asset	2,717	4,935
Electricity derivatives		
Fair value	2,060	1,994
Trading value	1,689	2,015

Stock analysis

Share capital and classes of shares

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

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

Option scheme

Tamfelt Corp.'s Annual General Meeting of March 10, 2005 decided to grant options to the company's key executives. The number of options granted under the 2005 scheme was 437,000; of these 218,500 were marked "E" and 218,500 "F". Each option entitles its holder to subscribe for one preferred share in Tamfelt Corp. The subscription price is the volume-weighted average price of the preferred share on the Helsinki Exchanges between February 1 and March 9, 2005, added by 0.35 euros and rounded up to the nearest ten cents. The subscription price will be reduced at the dividend record date by the amount of dividend to be paid before the subscription. However, the minimum subscription price will not fall below the accounting par value of the share. The subscription price at December 31, 2007 was 8.18 euros.

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

The option schemes are a part of the company's key executive incentive scheme. Altogether 22 persons are covered by the 2005 option scheme.

Trends and trade volumes

The OMX Helsinki Cap index rose 3.81 per cent in 2007. The rate of Tamfelt's common share was up 13.0 per cent and the rate of Tamfelt's preferred share was up 4.2 per cent.

Trading in Tamfelt's common shares on the Helsinki Exchanges in 2007 amounted to 2.9 million euros (2.5 million euros in 2006) and in preferred shares to 17.4 million euros (25.3). The units traded were 253,315 (278,561) common shares and 1,533,963 (2,737,413) preferred shares.

Turnover in 2007 (2006) in common shares was 2.5 per cent (2.8) of the company's total common stock. Turnover in preferred shares was 8.8 per cent (15.7) of the total preferred stock.

The highest quotation for a common share in 2007 was 12.75 euros and the lowest 10.35 euros. The respective quotations for a preferred share were 12.88 and 9.55 euros. The closing rates at the year-end were 12.00 euros and 11.10 euros, respectively. The average rate of the common share was 11.55 euros. The average rate of the preferred share was 11.34 euros. The market capitalization of the company's total stock at the end of 2007 was 315,067,279 euros.

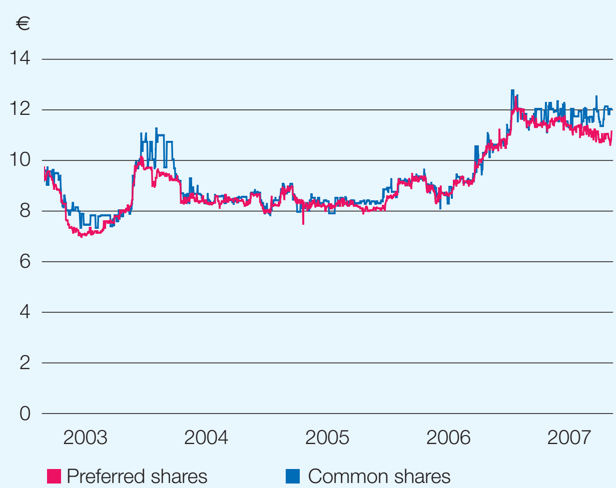
Dividend policy and proposed dividend for 2007

According to Tamfelt's dividend policy, at least 50 per cent of the company's earnings per share shall be distributed as dividend, provided that this will not jeopardize the company's financial position or development. Tamfelt's Board of Directors will propose to the 2008 Annual General Meeting that a dividend of 0.52 euros be paid on a common share and 0.54 euros on a preferred share. The aggregate proposed dividend is 14.7 million euros corresponding to 70.4 per cent of the earnings. The dividend record date is March 25, 2008 and the payment date is April 1, 2008.

Share capital ownership

At the end of 2007 the company had 3,202 (3,194) shareholders and three (two) ownership registrations in the name of a nominee. Domestic ownership accounts for 96.2 per cent of the share capital, 38.8% of this being private investors. The number of shares registered in the name of a nominee was 503,779 (756,496).

Share price development 2003–2007



Flagging announcements in 2007

There were no flaggings in 2007.

Own shares and authorities of the Board of Directors

Tamfelt does not hold its own shares, and the Board of Directors has no authorization to acquire the company's own shares.

Shareholder agreements

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

Mandatory redemption

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

Management shareholding

On December 31, 2007 the company's Board of Directors, President & CEO, and Deputy to the CEO (including the holdings of close associated persons) held a total of 169,053 (566,296) common and 159,123 (222,082) preferred shares corresponding to 1.2 per cent (2.9) of the share capital and a 1.6 per cent (5.2) voting power. The President & CEO and the Deputy to the CEO held a total of 50,000 options at the end of the year. These options entitle them to subscribe for maximum 50,000 preferred shares altogether, corresponding to 0.18 per cent of the company's entire stock and 0.02 per cent of the total voting power on December 31, 2007. The share ownership of the company's Board of Directors and Group Executive Board is detailed on pages 26 to 29 of this Annual Report.

Basic information on shares Dec. 31, 2007

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

Trading code	
common share	TAFKS
preferred share	TAFPS
Number of shares	
common share	10,119,198
preferred share	17,444,766
Closing price	
common share	12.00 €
preferred share	11.10 €
Number of votes	
common share	20 votes
preferred share	1 vote
Total capital stock	27,563,964.00 €
Total number of votes	219,828,726 votes

Largest ownership registrations by voting power Dec. 31, 2007 (Dec. 31, 2006)

			%	
1.	(1.)	Varma Mutual Pension Insurance Company	7.5	(7.5)
2.	(2.)	Sampo Life Insurance Company Limited	7.2	(7.2)
3.	(3.)	Waldemar von Frenckells Foundation	5.7	(5.7)
4.	(4.)	Ilmarinen Mutual Pension Insurance Company	4.6	(4.6)
5.	(5.)	Metso Corporation	4.5	(4.5)
6.	(6.)	Cedercreutz, Axel	3.6	(3.6)
7.	(7.)	Svenska Litteratursällskapet i Finland r.f.	3.5	(3.4)
8.	(8.)	Kaleva Mutual Insurance Company	2.9	(2.9)
9.	(9.)	Samfundet Folkhälsan i Svenska Finland r.f.	2.5	(2.5)
10.	(10.)	Snäll, Clara	2.3	(2.3)
		Total above	**44.3**	**(44.2)**
		Ownership registered in the name of nominee	0.7	(1.0)
		Other	55.0	(54.8)
		Total	**100.0**	**(100.0)**

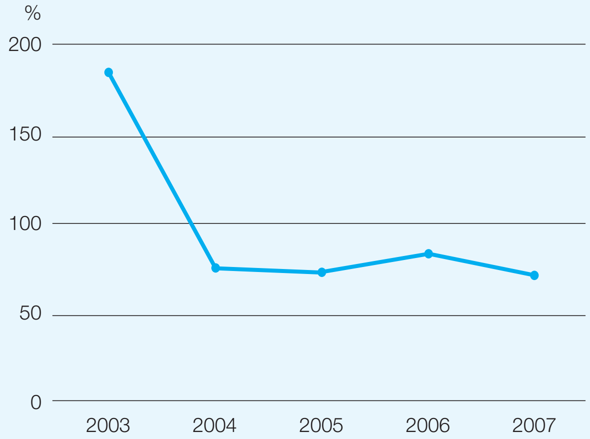
Largest ownership registrations by number of shares Dec. 31, 2007 (Dec. 31, 2006)

			%	
1.	(1.)	Ilmarinen Mutual Pension Insurance Company	7.3	(7.4)
2.	(2.)	Varma Mutual Pension Insurance Company	6.1	(5.9)
3.	(3.)	Tapiola Mutual Pension Insurance Company	3.8	(3.2)
4.	(4.)	Svenska Litteratursällskapet i Finland r.f.	3.1	(2.9)
5.	(5.)	Sampo Life Insurance Company Limited	2.8	(2.9)
6.	(6.)	Metso Corporation	2.6	(2.6)
7.	(7.)	Waldemar von Frenckells Stiftelse	2.6	(2.6)
8.	(8.)	Samfundet Folkhälsan i Svenska Finland r.f.	2.2	(2.2)
9.	(9.)	Juselius Sigrid Stiftelse	2.0	(2.1)
10.	(10.)	Cedercreutz Axel	1.7	(1.7)
		Total above	**34.2**	**(33.5)**
		Ownership registered in the name of nominee	1.8	(2.7)
		Other	64.0	(63.8)
		Total	**100.0**	**(100.0)**

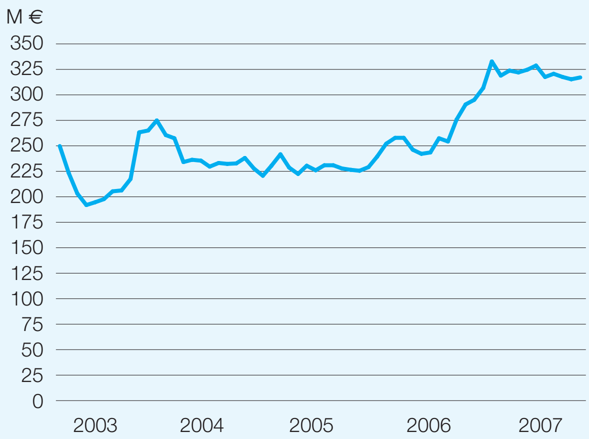
Share ownership by size Dec. 31, 2007

Shares	Ownership	%	Shares	%	Votes	%
1 – 500	1,344	42.0	312,340	1.1	1,395,796	0.6
501 – 5,000	1,435	44.8	2,453,286	8.9	11,184,356	5.1
5,001 – 10,000	167	5.2	1,172,166	4.3	6,191,035	2.8
10,001 – 50,000	175	5.5	4,053,437	14.7	30,096,471	13.7
50,001 – 100,000	30	0.9	2,120,045	7.7	15,551,316	7.1
100,001 –	51	1.6	17,452,690	63.3	155,409,752	70.7
Total	3,202	100.0	27,563,964	100.0	219,828,726	100.0
Issued units			27,563,964	100.0	219,828,726	100.0

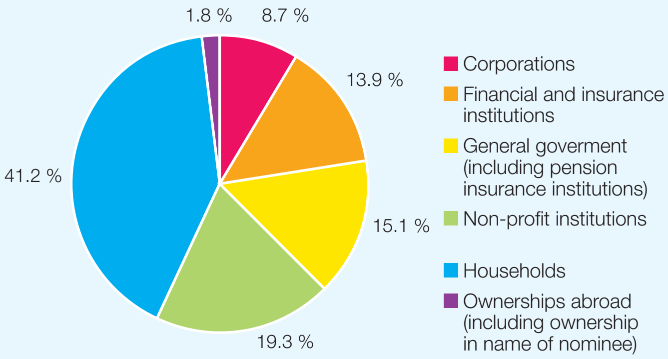
Dividend/earnings 2003–2007



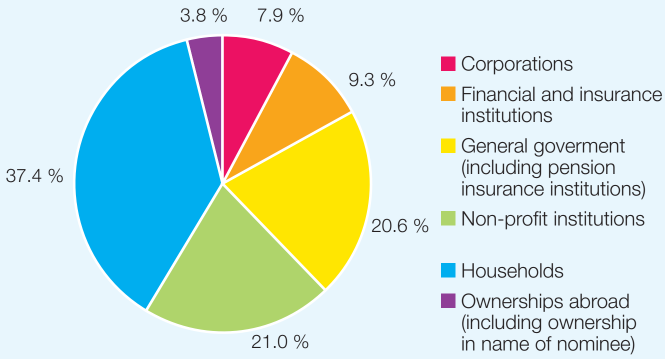
Total market capitalization 2003–2007



Share ownership by voting power



Share ownership by number of shares



Stock summary

The key figures have been adjusted for share issue.

	IFRS **2007**	IFRS 2006	IFRS 2005	IFRS 2004	FAS 2003
Earnings/share, basic, €	0.76	0.73	0.56	0.47	0.34
Earnings/share, diluted, €	0.75	0.73	0.56	0.46	0.34
Equity/share Dec. 31, basic, €	3.97	3.90	3.60	3.31	3.39
Equity/share, Dec. 31, diluted, €	3.95	3.90	3.60	3.31	3.39
DIVIDEND					
Dividend, million €	14.7*	16.6	11.1	9.4	17.2
Dividend/share, €					
common	0.52*	0.59	0.39	0.33	0.62
preferred	0.54*	0.61	0.41	0.35	0.64
Dividend/earnigs, %	70.4*	82.3	71.9	73.7	183.0
Effective dividend yield Dec. 31, %					
common	4.3*	5.6	4.5	4.1	5.5
preferred	4.9*	5.7	5.1	4.4	6.8
P/E ratio Dec. 31, diluted					
common	15.9	14.5	15.4	17.3	31.7
preferred	14.7	14.6	14.4	17.2	26.2
TRENDS AND TRADE VOLUMES					
Trading price at year-end, €					
common	12.00	10.62	8.60	8.05	11.20
preferred	11.10	10.65	8.05	7.98	9.27
Change of trading price, %					
common	12.99	23.49	6.83	-28.13	22.63
preferred	4.23	32.30	0.88	-13.88	-4.14
Highest trading price, €					
common	12.75	10.99	9.00	11.20	11.20
preferred	12.88	11.99	9.00	9.67	10.17
Lowest trading price, €					
common	10.35	8.11	7.90	7.83	7.33
preferred	9.55	8.13	7.50	7.81	6.97
Medium trading price, €					
common	11.55	9.11	8.63	8.42	9.09
preferred	11.34	9.23	8.42	8.69	8.65
Trading volume/total stock, %					
common	2.5	2.8	3.9	11.2	5.8
preferred	8.8	15.7	17.4	18.1	20.7
SHARE CAPITAL AND NUMBER OF SHARES					
Share capital Dec. 31, million €	27.6	27.6	27.6	27.3	18.2
common	10.1	10.1	10.1	10.1	6.7
preferred	17.4	17.4	17.4	17.2	11.4
Market capitalization Dec. 31, million €	315.1	293.3	227.4	219	272.9
Number of shares Dec. 31 (1,000)	27,564	27,564	27,552	27,355	18,228
common	10,119	10,119	10,119	10,119	6,746
preferred	17,445	17,445	17,433	17,236	11,482
Average number of shares (1,000), basic	27,564	27,564	27,388	27,342	17,763
Average number of shares (1,000), diluted	27,686	27,584	27,388	27,360	17,763
Number of shares Dec. 31 (1,000), basic	27,564	27,564	27,552	27,355	18,228
Number of shares Dec. 31 (1,000), diluted	27,686	27,584	27,552	27,374	18,228
Number of shareholders Dec. 31	3,202	3,194	3,099	2,948	2,521
Nominee-registered ownerships Dec. 31	3	2	2	2	2

* Board of Directors' proposal

Signatures to the annual report and the financial statements

Helsinki, February 6, 2008

Mikael von Frenckell
Martin Lilius
Vesa Kainu

Niklas Savander
Jouko Oksanen
Carl-Magnus Cedercreutz

Jyrki Nuutila
President & CEO

Auditors' report

To the shareholders of Tamfelt Corp.

We have audited the accounting records, the annual report of the Board of Directors, the financial statements and the administration of Tamfelt Corp. for the period January 1 – December 31, 2007. The Board of Directors and the President & CEO have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the annual report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the President & CEO of the parent company have complied with the rules of the Companies Act.

Consolidated financial statements

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

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.

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

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

Helsinki, February 6, 2008

Jari Paloniemi,
Authorized Public Accountant

Veikko Terho,
Authorized Public Accountant

Stockholder information

Annual General Meeting

The Annual General Meeting of Tamfelt Corp. will be held at 4.00 p.m. on Tuesday, March 18, 2008 at Group Headquarters, Yrittäjänkatu 21, Tampere, Finland.

The right to attend the Annual General Meeting is held by stockholders entered in the register of the Finnish Central Securities Depository on March 7, 2008 at the latest.

A stockholder wishing to attend the Annual General Meting should notify the company by 4.00 p.m. on Friday, March 14, 2008. The notifications are requested either by letter addressed to Tamfelt Corp., Stockholder Register, P.O. Box 427, 33101 Tampere, Finland, by telephone +358 10 404 9000/9343, or by e-mail to mirja.takatalo@tamfelt.com. Proxies, if any, should be delivered at the same time.

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

Dividend and shares

The Board of Directors proposes to the Annual General Meeting that a dividend of 0.52 euros be paid on a common share and 0.54 euros on a preferred share for the fiscal year 2007. The dividend is payable to shareholders entered in the register of the Finnish Central Securities Depository on the dividend record date, Tuesday, March 25, 2008. The dividend will be paid on Tuesday, April 1, 2008, as proposed by the Board of Directors.

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

Financial reports in 2008

In addition to Financial Statement Bulletin and Annual Report for the year 2007, Tamfelt will release three Interim Reports:

- January–March April 24, 2008
- January–June August 5, 2008
- January–September October 30, 2008.

Availability of financial reports

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

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

Change of address

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

Investor relations

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

Tamfelt observes a two-week silent period prior to the announcement of the company's interim or full-year results, during which the company's representatives refrain from all comment regarding financial accounts. Any questions about Tamfelt's business activities can be addressed to:

Jyrki Nuutila, President & CEO, Tamfelt Corp.
Tel. +358 10 404 9200
E-mail: jyrki.nuutila@tamfelt.com

Kimmo Pärssinen, CFO, Tamfelt Corp.
Tel. +358 10 404 9215
E-mail: kimmo.parssinen@tamfelt.com

Investment analyses

Investment analyses of Tamfelt have been made by companies including
Evli Bank Plc • Glitnir Bank • Seligson & Co. •
E. Öhman J:or Fondkommission AB.

Tamfelt shall not be held accountable
for the assessments.

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Innovation adds performance.

TAMFELT