

# 2005



Financial statements

## RAUTE CORPORATION'S - FINANCIAL STATEMENTS FOR 2005

- Net sales were €108.6 m (€73.1 m), up 49%. Operating profit was €4.4 m (€3.6 m) and profit from continuing operations before taxes was €5.5 m (€3.9 m).
- Earnings per share (undiluted) from continuing operations were €1.09 (€0.71). The Board of Directors proposes a dividend of €0,60 per share.
- The order book at the year-end was a strong €55 m (€35 m).
- The market is forecast to remain good. Net sales for 2006 are expected to be about the same as in 2005 and profit from operations to improve.
- The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

### KEY FIGURES

CONTINUING OPERATIONS	2005	2004	Q1-3/2005	Q1-3/2004	Q1-2/2005	Q1-2/2004	Q1/2005	Q1/2004
Net sales, €m	108.6	73.1	77.1	51.2	47.6	33.1	18.5	16.9
Change, %	49 %		51 %		44 %		10 %	
Operating profit/loss, €m	4.4	3.6	3.7	1.3	1.8	0.8	0.4	0.0
Profit/Loss before tax, €m	5.5	3.9	4.5	1.5	2.4	0.9	0.7	0.0
Equity ratio, %	56 %	57 %	53 %	47 %	52 %	45 %	56 %	42 %
Assets total, €m	55.4	46.2	56.0	52.9	55.8	54,8	53.7	54.6
Earnings per share (EPS), €	1.09	0.71	0.85	0.23	0.45	0.11	0.10	-0.04
Order intake (Projects), €m	109	68	87	52	54	28	38	15
Order book, €m	55	35	57	36	52	25	56	25
Capital expenditure, €m	3.8	2.1	2.4	1.4	1.6	0.8	0.5	0.2
R&D expenses, % of net sales	3.3 %	4.2 %	2.9 %	4.3 %	2.9 %	4.8 %	3.5 %	3.1 %

### MR. TAPANI KIISKI, PRESIDENT AND CEO: A YEAR OF GROWTH AND GROWING PAINS

"Both our markets and our own operations continued to develop well throughout the year. Our sales rose by almost half, while operative profitability nearly doubled.

The level of investment in production technology by our customer industries was good. Our growth benefited not just from good market conditions but also from growth in our market shares in plywood and LVL technologies and in technology services. We have increased our market share through systematic development work. We have been developing our products and services, as well as our own working practices and resources, for a considerable time. Even when times were very difficult in 2002 and 2003 we worked hard at product development and maintained our relations with customers. We have now reaped the benefits of these investments.

We achieved our strong business growth and at the same time improved our profitability by focusing on our core expertise. We greatly expanded our network of partners and we outsourced operations that were outside our own core competence. This allowed our own skilled employees to concentrate on their own areas of expertise and allowed us to cope with the increased workload.

Growth was not achieved easily, however. All our employees worked hard and did their best. Together we succeeded in keeping the promises made to our customers. With such a heavy workload, some mistakes were made, but these were rectified as swiftly as possible. They did, however, cause us additional costs. At the same time, profitability was affected by the fact that the generally good conditions in the engineering industry raised subcontractors' prices. Adding to this the profit-wise unfavourable product mix and several challenging first deliveries of new technology, our relative profitability during the latter part of the year did not develop as well as it could have, nor did it reach the target.

Our order book for 2006 is strong. Our customers are planning a significant number of new investments and production plants for the year just begun. We have made progress with several development projects relating to our partner network and our own operations. These form a good platform on which to build in 2006 and, in particular, to improve our profitability.

I want to thank our customers, our own employees, our partners and other interest groups for working with us so well in 2005."

## MARKETS

### Customer industries' markets

Market conditions, capacity utilization rates, order books and product prices for Raute's customer industries in the main market areas were good throughout the year. Activity in the building and transport industries, resulting mainly from growth in the global economy, kept plywood and LVL (Laminated Veneer Lumber) in good demand. Overlaid panels accounted for a higher share of particleboard and MDF production, and demand for these products was good. Demand and prices for multi-layer parquet also developed positively.

### Demand for wood products technology

Demand for investments in the plywood industry was brisk throughout 2005. Strong demand for modernization projects aimed at improving existing production capacity and optimization of production tailed off towards the end of the year and the emphasis shifted towards bigger projects to build new capacity.

Demand for the latest plywood technology was lively in Europe. In North America, plywood producers invested in improving existing production capacity and the quality of their wood-based panels. In Russia, the planning of large projects continued, but no major projects were started during the year.

Demand for investments in Southeast Asia showed signs of picking up during late 2005. In China, demand for modern technology remained quiet. A few projects are at the planning stage, but most wood products manufacture there still relies on traditional production methods. In South America, a plywood mill project got under way in a plantation forest area of Chile. A number of mill-scale projects are being planned in Australia and New Zealand, but their implementation and timing are still uncertain.

The LVL industry's production capacity is growing. Several projects to increase capacity have been at the planning stage for a long time in North America and also in the southern hemisphere. One important LVL mill expansion began in Finland during 2005.

Demand for particleboard and MDF overlaying technology was brisk. Projects were at the planning stage, primarily in Europe. Demand for investments in the parquet industry was slack despite the good market for end-products.

Due to high rates of capacity utilization in Raute's customer industries, intense competition and rising production costs, the demand was brisk for systematic maintenance services designed to improve operations.

### New project orders and order books

Raute's wood products technology business operations comprise project deliveries and technology services. Project deliveries cover complete production plants, production lines and individual items of machinery and equipment. Technology services comprise maintenance, spare parts, modernizations, consulting, training and the supply of reconditioned machinery.

The project order intake during 2005, EUR 109 million (€68 m), increased by 60 per cent from the previous year. The most notable individual orders were for machinery for an entire softwood plywood mill in Chile (Empresas CMPC S.A.) and machinery for an LVL production line in Finland (Finnforest Corporation). New project order intake during the final quarter of the year totalled EUR 22 million. The biggest of these was a EUR 9 million plywood machinery order for Latvia (A/S Latvijas Finieris).

The value of Raute's order book rose considerably and stood at EUR 55 million at the end of the year (€35 m).

### Competitive position

The mill-scale order obtained from Chile in September was the latest indication of Raute's market leadership as a full-service supplier of technology to the plywood industry. As the focus of investment demand shifts to larger projects, Raute's traditionally strong position as a supplier of major projects will be further consolidated.

As the leading technology company in its field, Raute devotes substantial resources to the continuous development of its products. The new-generation peeling line placed on the market the previous year has been extremely well received. The latest peeling technology has also given the company a foothold in Brazil, where the plywood industry has so far relied mainly on local technology.

In 2005, Raute strengthened its position as market leader, particularly as a supplier to the plywood industry of southern Europe, where the main raw material is poplar. The company enjoyed a strong position as a supplier of machine vision and drying technology, notably on the west coast of North America, where plywood manufacturers invested in several drying lines.

Raute has also strengthened its competitive position as a supplier of technology services. In 2005, the clientele for these services expanded and the number of contract customers increased.

## **DEVELOPMENT OF OPERATIONS**

Raute continued to further develop the division of work between its network of partners and its own production units in order to respond to the rapid increase in the level of business activity.

The main production unit in Nastola continued to focus on its core expertise. Both profitability and competitiveness were improved by outsourcing detailed mechanical engineering, reducing Raute's own parts manufacture and devoting more attention to assembly, installation, commissioning and maintenance.

Work continued to develop the Jyväskylä production unit as a technology centre for panel handling. The Jyväskylä unit was made part of Raute's certified quality and environmental management systems.

Development of technology services also continued. A company was established in St. Petersburg under the name Raute Service LLC, and this company has supplied spare parts and maintenance services in Russia since May. In customer service, efforts were made to reach customers who have not previously ordered their spare parts from Raute. The company's maintenance and modernization services in North America were vigorously developed.

In August, Raute expanded its product offering in the wood products industry by acquiring production technology relating to the manufacture of decorative veneer. In the next few years, Raute is seeking sales of several million euros from the decorative veneer industry.

## **EVENTS DURING THE REPORT PERIOD**

In March, Raute Corporation purchased 29 per cent of the shares of the real estate company Eloc Oy from its own pension fund, bringing its interest in the company up to 63 per cent. Eloc Oy's assets were liquidated during the year and the company has been placed into voluntary liquidation preparatory to its winding up.

In accordance with a shareholders' agreement, in April Raute purchased the remaining 50 per cent of the shares of its associated company Mecano Group Oy, which develops and supplies machine vision technology and systems for the wood products

industry. Sales and marketing are handled mainly through Raute's sales network. The share purchase has had no impact on the company's operations.

Also in April, Raute Corporation transferred the voluntary supplementary pensions insured in its pension fund to an insurance company. The pension fund was placed into liquidation, and its final accounts were prepared as per 30 September 2005.

## **NET SALES AND RESULT**

The Group's net sales rose sharply to reach EUR 108.6 million (€73.1 m). Business operations centred entirely around wood products technology. Project deliveries accounted for 78 per cent of net sales and technology services for 22 per cent. Plywood technology represented 83 per cent of project deliveries and LVL technology 17 per cent.

Net sales from technology services, EUR 23.5 million (€17.4 m), developed in line with the targets. Growth was particularly strong in Finland (69%) and North America (51%). Good growth was also recorded in Europe (25%) and Russia (27%).

Finland accounted for 28 per cent of total net sales (11%). Growth resulted from an LVL plant expansion delivery and from the first installations of new panel handling concepts. Growth in the rest of Europe fell to 12 per cent (18%) despite the strengthening of the company's market position in the poplar area of southern Europe. Net sales in North America rose to 27 per cent of the total (21%) thanks to drying technology deliveries to the west coast. In Russia, deliveries consisted of individual production lines, and net sales there fell to 14 per cent of the total (21%). New orders received towards the end of the year began to show in Asia's contribution to total net sales, which was 7 per cent (5%). The mill-scale order received from Chile was not yet reflected in the 12 per cent contribution from other areas (24%).

The Group's operating profit was EUR 4.4 million (€3.6 m) and profit before tax EUR 5.5 million (€3.9 m), both well up on the previous year. Profit for the financial year was EUR 4.0 million (€4.8 m). Profit for 2004 includes EUR 2.1 million in profit from discontinued operations and the capital gain relating to their sale, together with a non-recurring gain, before tax, of EUR 1.1 million relating to pension arrangements. Calculated on a comparative basis, profit from operations for 2005, excluding non-recurring items, was EUR 4.0 million, twice the previous year's figure (€2.0 m).

The improved financial result for 2005 is due mainly to growth in net sales, which in turn is attributable to good market conditions and also to the greater cost-effectiveness achieved through restructuring. The substantial growth in the volume of business in 2005 posed major challenges to the activities of both the company and its partners. Subcontracting prices rose as a result of the Finnish engineering industry's generally high order backlog. The rise in world market prices for raw materials, in particular for steel, pushed up production costs. In a small number of projects, product development-like finishing work carried out in conjunction with first deliveries reduced profitability towards the end of the year. The financial result of the company's North American operations improved despite the weakness of the US and Canadian dollars against the euro early in the year.

Net sales and operating profit for the financial year were reduced by EUR 0.7 million relating to foreign currency hedging agreements under IFRS (+€0.4 m) and improved by EUR 0.4 million in excess cover arising from the winding-up of the pension fund.

## **FINANCING**

The Group's financial position is strong. Liquid assets were EUR 11.4 million (€9.5 m). Gearing was -41.5 per cent (-30.6%) and the equity ratio 55.7 per cent (56.8%). The balance sheet totalled EUR 55.4 million (€46.2 m), the increase being due to the fact that advance payments from projects not completed were entered as prepayments and accrued income and also to the increase in prepayments received.

The cash flow from operating activities was +EUR 7.7 million (+€0.3 m). The cash flow from investment activities was -EUR 3.0 million (+€7.8 m), including income of EUR 0.9 million from the disposal of real estate unconnected with business activities. The cash flow from financing activities was -EUR 2.9 million (-€12.1 m), of which dividends paid accounted for -EUR 1.5 million (-€3.8 m).

Interest-bearing liabilities at the end of the year were EUR 0.5 million (€1.9 m).

## **RESEARCH AND DEVELOPMENT COSTS AND INVESTMENTS**

Research and development costs remained high at EUR 3.6 million (€3.1 m) representing 3.3 per cent of the Group's increased net sales (4.2%). Development costs of EUR 0.2 million were capitalized (€0.5 m).

Capital expenditure totalled EUR 3.8 million (€2.1 m), including EUR 0.8 million in subsidiary shares and EUR 0.6 million in product development investments. The most important investments designed to improve delivery capacity were the CNC milling machine acquired for the main production unit in Nastola, and the basic repair and expansion of the Jyväskylä assembly plant. Other investments mainly concerned the updating of information technology.

## **PERSONNEL**

At the end of the year the Group had a total of 533 employees (543). Converted to full-time employees, the average number was 536 (551).

The number of employees fell due to the outsourcing of parts manufacture and detailed mechanical engineering at the main production unit in Nastola early in the year. The number of employees fell by 27, while the jobs of some 35 employees changed in conjunction with the outsourcing during the early part of the year. Seven mechanical design engineers joined a service provider in conjunction with the outsourcing.

In human resources development, the areas of focus were business expertise and effective use of information systems. In production, job rotation was used to promote employees' multiple skills and make production more flexible.

## **ORGANIZATIONAL CHANGES**

Pasi Kenola M.Sc.(Eng.), eMBA, has been appointed President of Mecano Group Oy, Raute Corporation's subsidiary, with effect from 1 March 2006. The company's founder and current President Markku Korhonen will continue as a member of Mecano Group Oy's board of directors and as advisor to the management.

## **ANNUAL GENERAL MEETING**

The Annual General Meeting of Raute Corporation held on 22 March 2005 adopted the financial statements for 2004, granted freedom from responsibility to those responsible for the accounts, decided to distribute a dividend of EUR 0.40 per share, authorized the Board of Directors to buy back and dispose of Raute Corporation Series A shares, and decided to adopt Raute Corporation and Raute Abp as the English and Swedish names, respectively, for the company. The following persons were re-elected to Raute Corporation's Board of Directors: Jarmo

Rytilahti (Chairman), Sinikka Mustakallio (Vice Chairman), and members Heikki Lehtonen, Mika Mustakallio, Panu Mustakallio, Markku Nihti and Pekka Paasikivi.

A total of EUR 1,525,843.20 in dividend was distributed to shareholders on 5 April 2005.

## **CORPORATE GOVERNANCE**

All members of the Board of Directors are independent of the company, while the Chairman of the Board of Directors (Jarmo Rytilahti) and three members (Heikki Lehtonen, Markku Nihti and Pekka Paasikivi) are independent of any major shareholder in the company.

The Chairman of the Appointments Committee is Chairman of the Board of Directors Jarmo Rytilahti and the members are Vice Chairman Sinikka Mustakallio and Ville Korhonen, a representative of the major shareholders. The Chairman of the Working Committee is Jarmo Rytilahti and the members are Sinikka Mustakallio and Heikki Lehtonen.

## **SHARES**

The total number of shares in issue is 3,814,608, comprising 991,161 Series K shares and 2,823,447 Series A shares. The number of shareholders was 921 at the beginning of the year and 974 at the end. Series K shares were held by 46 private persons. The company's permanent insiders owned a total of 179,328 of the company's shares. Raute Corporation received no flagging notifications during the financial period.

During 2005, a total of 1,650 Series A shares were subscribed through exercise of B warrants relating to the 1998 bond issue. As a result, the company's share capital, as at 25 January 2006, has increased by EUR 3,300. The number of Series A shares has risen to 2,825,097 and the total number of shares to 3,816,258.

In 2005, a total of 1,529,700 Series A shares were traded to a total value of EUR 17.1 million (568,922 and EUR 4.6 m in 2004). The highest quotation was EUR 16.42 and the lowest EUR 7.60. The company's market capitalization at 31 December 2005 was EUR 54.3 million (€29.4 m), with Series K shares valued at the closing price of Series A shares at 31 December 2005, i.e. EUR 14.24 (€7.70). The average quotation for the company's Series A share in 2005 was EUR 11.24 (€8.14).

Raute Corporation has signed a market making agreement with Nordea Bank Finland Plc in compliance with Helsinki Stock Exchange's Liquidity Providing (LP) requirements.

## **TRANSITION TO IFRS REPORTING**

On January 1, 2005 Raute Corporation adopted International Financial Reporting Standards (IFRS) for accounting and financial statements in its financial reporting. On April 26, 2005 Raute published a stock exchange release on the transition to the financial statement practices of the International Financial Reporting Standards (IFRS). The release contains information about the major impact on the preparation principles of the consolidated financial statements and the comparative data for 2004. The interim reports issued in 2005 were prepared in accordance with the registration and valuation principles of IFRS.

The transition to IFRS reporting reduced Raute's net sales for the 2004 accounting period by EUR 8.0 million and operating profit by EUR 1.5 million compared with Finnish reporting standards. The effect on profit was +EUR 0.8 million and on the total assets +EUR 1.0 million. The continuing operations presented in the IFRS figures for 2004 are comparable with Raute's current wood products technology business. The IFRS-based net sales comparative to the current business were EUR 73.1 million. The operating profit was EUR 3.6 million. The operating profit contains a non-recurring gain of EUR million 1.1 related to pension schemes. This gain is recognized in the operating profit of the last quarter of 2004. The operating profit without the above-mentioned non-recurring expense and taxes was EUR 2.8 million. Profit before taxes was EUR 3.9 million and profit after taxes EUR 2.7 million.

The weighing and dosing technology business has been reported as a discontinued operation in the IFRS figures for 2004, and this reduced net sales calculated in accordance with Finnish Accounting Standards by EUR 7.4 million and operating profit by EUR 3.0 million. The profit for discontinued operations was EUR 2.9 million and after taxes EUR 2.1 million.

## **BUSINESS RISKS**

### **Effect of economic cycle fluctuations**

Raute supplies technology and services for the wood products industry. This business is characterized by fluctuations in investment activity by Raute's customer industries worldwide. The impact on financial results of cyclical fluctuations in project deliveries is reduced

by systematically increasing the proportion of technology services, developing the company's network of subcontractors and focusing on in-house core expertise. The Group's growth prospects are improved and the impact of economic cycle fluctuations evened out in the long term by promoting business in those customer industries in which Raute's present market share is small, and by developing products for completely new customer groups such as the decorative veneer industry.

The Group has prepared itself for fluctuations in the amount of working capital tied up in its project business. Raute Corporation has a EUR 10 million domestic commercial paper programme under which it may issue commercial papers with maturities of less than one year. The company also has a total of EUR 15 million available in long-term bilateral credit facilities.

### **Delivery and technology risks**

Raute's business operations consist largely of different types of project deliveries that always include solutions designed specifically for each customer's own end-product, manufacturing processes or raw materials. To manage the risks associated with projects and capacity, the company employs project management procedures complying with its certified quality system.

Raute sustains a strong product development effort and continuously develops its technology solutions to meet its customers' growing needs. Full-scale testing of new solutions can only be performed under manufacturing conditions in conjunction with the first customer deliveries. The associated technology risk is limited in the terms contained in the delivery contract.

### **Hedging of foreign currency receivables**

Foreign currency trade receivables of over EUR 100,000 are hedged in full by means of foreign currency derivatives as sales agreements became effective. Project payments in Canadian and American dollars used to hedge receivables from sales were valued at EUR 3.1 million at the end of the period (€7.6 m). The valuation of forward contracts under IFRS reduced operating profit for the period by EUR 0.7 million (+€0.4 m) compared with the valuation under Finnish Accounting Standards.

## **SOCIETY AND THE ENVIRONMENT**

The environment is one of the four values that steer the company's operations. Raute seeks systematically to further develop the environmental soundness of its

products and services and to reduce the environmental impact of its own activities. The Group follows the principles of good corporate citizenship by taking full account of the environment and its protection, and showing respect for local communities and local cultures.

In Raute's view, its activities do not involve any significant risks to the environment that could have an immediate impact on either its business operations or its financial position. Environment-related affairs at the production units in Nastola and Jyväskylä are handled in accordance with the company's certified environmental management system. In Canada, the company's production unit is subject to regular environmental inspections by an outside assessor. The activities and ethical principles of partners and subcontractors are also systematically inspected.

In its own production, Raute is continuously seeking to reduce energy consumption and waste volumes and to further improve its working environment. Raute has developed its own manufacturing processes by investing in new technology and by cutting the number of work stages that result in environmental loadings. The most notable investment relating to energy consumption in 2005 concerned a new HVAC and building automation system for the office premises in Nastola.

## **BOARD OF DIRECTORS' PROPOSALS TO THE ANNUAL GENERAL MEETING**

Raute Corporation's Annual General Meeting will be held on 22 March 2006 beginning at 6.00 pm.

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.60 per share be paid on Series A and K shares, a total amount of EUR 2.3 million, and that dividend be paid on 3 April 2006. The record date for dividend payment is 27 March 2006.

The Board of Directors will propose that the Annual General Meeting authorize the Board of Directors for a period of one year to decide to buy back, using funds available for the distribution of profit, company Series A shares and to decide on the disposal of shares so purchased in the event of a pressing financial reason such as the financing of company acquisitions or other corporate restructuring. Series A shares may be purchased up to an amount which, together with shares already held by the company, corresponds to 10 per cent of all the company's shares and the associated voting rights at the time of purchase.

## **OUTLOOK**

The pace of modernization investment by Raute's customer industries is now levelling off following strong growth that peaked in 2005. Demand for investments in the plywood and LVL industries is forecast to shift towards large projects aimed at generating new production capacity and replacing old capacity. It is precisely in mill-scale projects that Raute has traditionally been at its most competitive. However, the implementation and timing of major investment projects involves a greater degree of uncertainty than modernization projects. This could be reflected as a marked fluctuation in Raute's order intake. Growth in technology services will help to reduce the impact of these fluctuations.

Investment activity by the plywood and LVL industries will be greatest in the southern hemisphere (South America, Oceania and Asia) where wood raw material reserves in plantation forest areas will become increasingly available in the next few years and where prices for wood products will encourage the construction of new production capacity. An increase in production capacity is also expected in the next few years in Russia, which has the world's largest unexploited fibre reserves. In North America, investment by the plywood industry will remain low, whereas LVL capacity will increase. The positive development in modernization investments forecast to begin in Asia's plywood industry will help to counteract the levelling-off in other market areas.

In view of the strong order book and continuing brisk demand for technology and services, the outlook for 2006 is promising. New products and services, a stronger network of partners, and continuous development of in-house expertise will further improve Raute's competitiveness and profitability. Net sales for 2006 are expected to be about the same as in 2005 and profit from operations to improve.



(Figures in 1 000 euros. The figures has not been audited)

<b>CONSOLIDATED INCOME STATEMENT</b>	<b>1.1.-31.12. 2005</b>	<b>1.1.-31.12. 2004</b>
<b>CONTINUING OPERATIONS</b>		
<b>NET SALES</b>	<b>108 627</b>	73 116
Other operating income	708	823
Operating expenses *)	-102 054	-67 290
Depreciation, amortisation and impairment charges	-2 877	-3 002
<b>OPERATING PROFIT</b>	<b>4 403</b>	3 647
% of net sales	4 %	5 %
Financial income	1 131	870
Financial expenses	-73	-558
Share of results in associated companies		-53
<b>PROFIT BEFORE TAX</b>	<b>5 461</b>	3 906
% of net sales	5 %	5 %
Income taxes **)	-1 423	-1 167
<b>PROFIT FROM CONTINUING OPERATIONS</b>	<b>4 038</b>	2 739
% of net sales	4 %	4 %
<b>DISCONTINUED OPERATIONS</b>		
Profit from discontinued operations	0	2 071
<b>PROFIT FOR THE PERIOD</b>	<b>4 038</b>	4 810
<b>BREAKDOWN OF PROFITS</b>		
Minority interest	-114	48
Owners of the parent company	4 152	4 762
*) Year 2004 contains a non-recurring gain of €m 1.1 related to pension schemes.		
**) Income taxes include the tax liability estimated for the report period.		
<b>EARNINGS PER SHARE</b>		
<b>Earnings per share from continuing operations:</b>		
- basic, euros	1,09	0,71
- diluted, euros	1,07	0,71
<b>Earnings per share from discontinued operations:</b>		
- basic, euros	-	0,54
- diluted, euros	-	0,54

<b>CONSOLIDATED BALANCE SHEET</b>	<b>31.12.2005</b>	<b>31.12.2004</b>
<b>ASSETS</b>		
<b>Fixed assets and other non-current assets</b>		
- intangible assets	2 757	3 070
- tangible assets	13 939	13 246
- investments in associated companies	0	309
- available-for-sale investments	395	342
- receivables	48	48
- deferred tax assets	210	235
<b>Fixed and other non-current assets total</b>	<b>17 349</b>	<b>17 250</b>
<b>Current assets</b>		
- inventories	5 026	3 875
- trade and other receivables	21 666	14 978
- financial assets at fair value through profit or loss	8 975	7 751
- cash and cash equivalents	2 419	1 779
<b>Current assets total</b>	<b>38 086</b>	<b>28 383</b>
<b>Non-current assets held for sale</b>	<b>0</b>	<b>555</b>
<b>TOTAL ASSETS</b>	<b>55 435</b>	<b>46 188</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
- share capital	7 629	7 629
- other shareholders' equity	18 294	17 057
<b>Owners of the parent company</b>	<b>25 923</b>	<b>24 686</b>
<b>Minority interest</b>	<b>224</b>	<b>353</b>
<b>Total shareholders' equity</b>	<b>26 147</b>	<b>25 039</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
- provisions	475	654
- deferred tax liabilities	1 300	1 552
- interest-bearing long-term liabilities	357	186
<b>Current liabilities</b>		
- provisions	1 927	692
- income tax liabilities	105	1 085
- pension obligations	380	76
- interest-bearing short-term liabilities	176	1 674
- customer deposits	8 500	2 136
- trade and other payables	16 068	13 094
<b>Total liabilities</b>	<b>29 288</b>	<b>21 149</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES TOTAL</b>	<b>55 435</b>	<b>46 188</b>

<b>CONSOLIDATED CASH FLOW STATEMENTS</b>	<b>1.1.-31.12. 2005</b>	<b>1.1.-31.12. 2004</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Payments received:		
Receipts from sales	108 934	73 167
Receipts from other operating income	483	494
Payments made:		
- expenses	-99 840	-73 572
- interest and other financial expenses paid	-80	-750
Interest and other financial income received	764	1 378
Dividend income received	56	219
Income taxes paid	-2 636	-640
<b>Net cash from (+) / used in (-) operating activities (A)</b>	<b>7 681</b>	<b>296</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Capital expenditure:		
- capital expenditure in tangible and intangible assets	-3 554	-1 629
Subsidiary shares:		
- acquisition of subsidiary shares	-304	0
- disposal of subsidiary shares	0	7 385
Proceeds:		
- proceeds from sale of tangible and intangible assets	713	611
- proceeds from sale of investments	180	1 462
<b>Net cash from (+) / used in (-) investing activities (B)</b>	<b>-2 965</b>	<b>7 829</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Change:		
- change in short-term loans	-1 537	-7 255
- change in long-term loans	212	-40
- change in long-term and short term receivables	0	-998
Dividends paid	-1 526	-3 815
<b>Net cash from (+) / used in (-) financing activities (C)</b>	<b>-2 851</b>	<b>-12 108</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C)</b>	<b>1 865</b>	<b>-3 983</b>
<small>Increase (+)/decrease (-)</small>		
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING</b>	<b>9 530</b>	<b>13 513</b>
<b>CASH AND CASH EQUIVALENTS AT THE END</b>	<b>11 395</b>	<b>9 530</b>

\*) Cash and cash equivalents comprise of trading assets as well as cash and bank receivables.

<b>CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY</b>	Share capital	Share premium*)	Other funds	Exchange rate differences
<b>31.12.2003 FAS</b>	7 629	5 429		565
Effect of adopting IFRS				
<b>1.1.2004 IFRS</b>	7 629	5 429	0	565
Taxes related to items recognised in or derecognised from shareholders' equity				
Other increase / decrease				337
<b>TOTAL</b>	<b>7 629</b>	<b>5 429</b>	<b>0</b>	<b>902</b>
Profit for the period				
<b>TOTAL INCOME AND EXPENSES FOR THE PERIOD</b>	<b>7 629</b>	<b>5 429</b>	<b>0</b>	<b>902</b>
Acquisition of treasury shares				
Dividends paid				
<b>31.12.2004 IFRS</b>	<b>7 629</b>	<b>5 429</b>	<b>0</b>	<b>902</b>
Taxes related to items recognised in or derecognised from shareholders' equity				
Other increase / decrease			14	-1 435
<b>TOTAL</b>	<b>7 629</b>	<b>5 429</b>	<b>14</b>	<b>-533</b>
Profit for the period				
Other increase / decrease				
<b>TOTAL INCOME AND EXPENSES FOR THE PERIOD</b>	<b>7 629</b>	<b>5 429</b>	<b>14</b>	<b>-533</b>
Acquisition of treasury shares				
Dividends paid				
<b>31.12.2005 IFRS</b>	<b>7 629</b>	<b>5 429</b>	<b>14</b>	<b>-533</b>

<b>CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (continues)</b>	Retained earnings	Share of share- holders' equity that belongs to the owners of the parent company	Minority interests	<b>TOTAL</b>
<b>31.12.2003 FAS</b>	<b>9 690</b>	<b>23 313</b>		<b>23 313</b>
Effect of adopting IFRS	51	51		51
<b>1.1.2004 IFRS</b>	<b>9 741</b>	<b>23 364</b>		<b>23 364</b>
Taxes related to items recognised in or derecognised from shareholders' equity	38	38		38
Other increase / decrease		337	305	642
<b>TOTAL</b>	<b>9 779</b>	<b>23 739</b>	<b>305</b>	<b>24 044</b>
Profit for the period	4 762	4 762	48	4 810
<b>TOTAL INCOME AND EXPENSES FOR THE PERIOD</b>	<b>14 541</b>	<b>28 501</b>	<b>353</b>	<b>28 854</b>
Acquisition of treasury shares		0		0
Dividends paid	-3 815	-3 815		-3 815
<b>31.12.2004 IFRS</b>	<b>10 726</b>	<b>24 686</b>	<b>353</b>	<b>25 039</b>
Taxes related to items recognised in or derecognised from shareholders' equity		0		0
Other increase / decrease	32	-1 389	-15	-1 404
<b>TOTAL</b>	<b>10 758</b>	<b>23 297</b>	<b>338</b>	<b>23 635</b>
Profit for the period	4 152	4 152	-114	4 038
Other increase / decrease		0		0
<b>TOTAL INCOME AND EXPENSES FOR THE PERIOD</b>	<b>14 910</b>	<b>27 449</b>	<b>224</b>	<b>27 673</b>
Acquisition of treasury shares		0		0
Dividends paid	-1 526	-1 526		-1 526
<b>31.12.2005 IFRS</b>	<b>13 384</b>	<b>25 923</b>	<b>224</b>	<b>26 147</b>

\*) Premium fund changed as share premium

**SEGMENT INFORMATION, CONTINUING OPERATIONS**

Raute's primary reporting segment is the business segment.  
Continuing operations belongs to the wood products technology segment.

The secondary reporting segment is geographical location.  
Geographical segments consist of market areas accounting for over 10% of Group's revenue.

<b>BY GEOGRAPHICAL LOCATION</b>	<b>1.1.-31.12. 2005</b>	<b>%</b>	<b>1.1.-31.12. 2004</b>	<b>%</b>
<b>NET SALES</b>				
Europe	43 954	40	21 185	29
Russia	15 534	14	15 253	21
North America	28 817	27	15 548	21
Asia	8 107	7	3 448	5
Rest of the world	12 215	12	17 682	24
<b>TOTAL</b>	<b>108 627</b>	<b>100</b>	<b>73 116</b>	<b>100</b>
<b>ASSETS</b>				
Europe	48 655	89	42 127	91
Russia	200	0	0	0
North America	6 375	11	3 941	9
Asia	155	0	120	0
Rest of world	50	0	0	0
<b>TOTAL</b>	<b>55 435</b>	<b>100</b>	<b>46 188</b>	<b>100</b>
<b>CAPITAL EXPENDITURE</b>				
Europe	3 654	96	2 000	97
Russia	0	0	0	0
North America	142	4	55	3
Asia	1	0	5	0
Rest of world	1	0	0	0
<b>TOTAL</b>	<b>3 798</b>	<b>100</b>	<b>2 060</b>	<b>100</b>

<b>THE DEVELOPMENT OF QUARTERLY RESULTS</b>	<b>Q4 2005</b>	<b>Q3 2005</b>	<b>Q2 2005</b>	<b>Q1 2005</b>
<b>CONTINUING OPERATIONS</b>				
<b>NET SALES</b>	<b>31 503</b>	<b>29 494</b>	<b>29 138</b>	<b>18 492</b>
Other operating income	89	94	72	453
Operating expenses *)	-30 184	-26 997	-27 132	-17 742
Depreciation, amortisation and impairment charges	-715	-705	-675	-784
<b>OPERATING PROFIT</b>	<b>695</b>	<b>1 887</b>	<b>1 403</b>	<b>419</b>
% of net sales	2 %	6 %	5 %	2 %
Financial income and expenses	255	243	292	268
<b>PROFIT BEFORE TAX</b>	<b>950</b>	<b>2 129</b>	<b>1 695</b>	<b>687</b>
% of net sales	3 %	7 %	6 %	4 %
Income taxes **)	-32	-596	-531	-264
<b>PROFIT FROM CONTINUING OPERATIONS</b>	<b>918</b>	<b>1 534</b>	<b>1 164</b>	<b>423</b>
% of net sales	3 %	5 %	4 %	2 %
<b>BREAKDOWN OF PROFIT</b>				
Minority interest	-3	2	141	-26
<b>OWNERS OF THE PARENT COMPANY</b>	<b>915</b>	<b>1 536</b>	<b>1 305</b>	<b>397</b>

<b>NET SALES BROKEN DOWN BY MARKET AREA</b>	<b>1.1.-31.12. 2005</b>	<b>%</b>	<b>1.1.-31.12. 2004</b>	<b>%</b>
Finland	30 444	28	7 980	11
North-America	28 817	27	15 548	21
Russia	15 534	14	15 253	21
Other European countries	13 510	12	13 205	18
Asia	8 107	7	3 448	5
South-America	4 556	4	9 987	14
Oceania	2 366	2	7 421	10
Rest of the world	5 293	6	274	0
<b>TOTAL</b>	<b>108 627</b>	<b>100</b>	<b>73 116</b>	<b>100</b>

<b>PERSONNEL CONTINUING OPERATIONS</b>	<b>1.1.-31.12. 2005</b>	<b>1.1.-31.12. 2004</b>
Personnel		
- effective on average	536	551
- in books on average	537	556
- in books, at the end of the period	533	543

<b>OFF BALANCE SHEET COMMITMENTS AND DERIVATIVES</b>	<b>1.1.-31.12. 2005</b>	<b>1.1.-31.12. 2004</b>
<b>COMMITMENTS</b>		
<b>Security of own debts</b>		
- pledged	0	0
- mortgages	11 134	11 151
<b>Security for Group's liabilities</b>		
- guarantees	4 111	5 873
<b>Security for others' liabilities</b>		
- guarantees	0	450
<b>Other own liabilities</b>		
Leasing and rent liabilities		
- for the current accounting period	179	153
- for the following accounting periods	122	122
<b>FOREIGN EXCHANGE DERIVATIVES</b>		
Foreign exchange derivatives are used for currency hedging.		
<b>Forward contracts:</b>		
- nominal value	9 901	13 472
- market value	-145	78
No loans or pledges given or other commitments made on behalf of the company's management, shareholders or associated companies.		

<b>GROUP KEY RATIOS</b>	<b>1.1.-31.12. 2005</b>	<b>1.1.-31.12. 2004</b>
Earnings per share from continuing operations:		
- basic, EUR	<b>1,09</b>	0,71
- diluted, EUR	<b>1,07</b>	0,71
Earnings per share from discontinued operations:		
- basic, EUR	-	0,54
- diluted, EUR	-	0,54
Return on investment , ROI	<b>20,7%</b>	25,2%
Return on equity , ROE	<b>15,8%</b>	19,9%
Quick ratio	<b>2,0</b>	1,5
Gearing	<b>-41,5 %</b>	-30,6 %
Equity ratio	<b>55,7 %</b>	56,8 %
Equity per share, EUR	<b>6,80</b>	6,47
Order book, €m	<b>55</b>	35
Order intake, €m	<b>109</b>	68
Exported portion of net sales	<b>72,0%</b>	89,1%
Gross capital expenditure, €m	<b>3,8</b>	2,1
Gross capital expenditure, of net sales	<b>3,5 %</b>	2,8 %
Research and development	<b>3,6</b>	3,1
- capital expenditure, €m	<b>0,2</b>	0,5
- expenses, €m	<b>3,4</b>	2,6
Research and development, of net sales	<b>3,3 %</b>	4,2 %
<b>SHARE RELATED DATA</b>	<b>1.1.-31.12. 2005</b>	<b>1.1.-31.12. 2004</b>
Equity issue adjusted number of shares, 1 000's		
- weighted average	<b>3 815</b>	3 815
- diluted	<b>3 872</b>	3 815
Earnings per share (EPS)		
- from continuing operations, EUR	<b>1,09</b>	0,71
- from discontinued operations, EUR		0,54
- diluted from continuing operations, EUR	<b>1,07</b>	0,71
- diluted from discontinued operations, EUR		0,54
Equity to share, EUR	<b>6,80</b>	6,47
Dividend per share, EUR *)	<b>0,60</b>	0,40
Dividend per profit, %	<b>55,12</b>	32,00
Effective dividend return, %	<b>4,21</b>	5,20
P/E ratio	<b>13,08</b>	6,16
Share price at 31 Dec.	<b>14,24</b>	7,70

\*) Board of Directors' proposal to Annual General Meeting on 2005

## RAUTE CORPORATION

Board of Directors

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