

CONSOLIDATED FINANCIAL STATEMENTS, IFRS

CONSOLIDATED INCOME STATEMENT, 1000 €	1.1.-31.12.2005	1.1.-31.12.2004
Turnover	28 129	22 768
Change in stocks of finished goods and work in progress	23	313
Other operating income	45	47
Raw materials and consumables	-13 519	-10 772
Personnel expenses	-7 626	-6 753
Planned depreciation	-638	-618
Other operating cost	-3 022	-2 838
Operating profit	3 392	2 147
Financial income and expenses	-78	-144
Profit before taxes	3 314	2 003
Income tax	-929	-533
Profit for the financial year	<u>2 386</u>	<u>1 470</u>
CONSOLIDATED BALANCE SHEET, 1000 €	31.12.2005	31.12.2004
ASSETS		
NON-CURRENT ASSETS		
Tangible assets	4 127	3 644
Intangible assets	152	241
Salable investments	18	21
Deferred tax assets	31	31
CURRENT ASSETS		
Inventories	6 559	6 053
Accounts receivable and other short-term receivables	5 425	3 921
Cash and bank accounts	577	453
TOTAL ASSETS	<u>16 889</u>	<u>14 364</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Share capital	1 917	1 917
Additional paid-in capital	6	-
Retained earnings	6 683	5 013
TOTAL SHAREHOLDERS' EQUITY	8 606	6 930
NON-CURRENT LIABILITIES		
Deferred tax liabilities	487	595
Provisions	120	120
Interest-bearing liabilities	2 750	2 763
CURRENT LIABILITIES		
Accounts payable and other short-term liabilities	3 503	2 900
Tax liabilities for the financial period	520	211
Interest-bearing liabilities	904	845
TOTAL LIABILITIES	8 284	7 434
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>16 889</u>	<u>14 364</u>

CONSOLIDATED FUNDS STATEMENT, 1000 €	2005	2004
Business operations		
Turnover and other operating income received	27 537	22 505
Operating expenses paid	-24 901	-20 440
Interest and other financial expenses paid	-89	-103
Income taxes paid	-728	-465
Net cash flow from operations (A)	<u>1 819</u>	<u>1 497</u>
Capital expenditure		
Investments in tangible and intangible assets	-1 038	-433
Investment subventions	13	-
Cash outflow for investments (B)	<u>1 025</u>	<u>-433</u>
Financing		
Drawing of non-current creditors	1 200	750
Amortisation of non-current creditors	-1 154	-908
Dividend distribution	-716	-838
Financing total (C)	<u>-670</u>	<u>-996</u>
Increase (+) / decrease (-) in liquid assets (A+B+C)	124	68
Liquid assets 1 January	453	386
Liquid assets 31 December	577	453

Figures used in consolidated financial statements for financial year 2004 are pro forma figures.

PARENT COMPANY FINANCIAL STATEMENTS, FAS
**PARENT COMPANY INCOME STATEMENT,
1000 €**

	1.1.-31.12.2005		1.1.-31.12.2004	
Turnover		28 131		22 768
Change in stocks of finished goods and work in progress		106		70
Other operating income		253		47
Raw materials and services				
Raw materials and consumables				
Purchases during the financial year	-12 427		-10 854	
Change in stock	-206		832	
External services	-909	-13 542	-787	-10 809
Personnel expenses				
Wages and salaries	-6 051		-5 482	
Social security expenses				
Pension expenses	-961		-905	
Other social security expenses	-478	-7 490	-387	-6 774
Depreciation				
Planned depreciation		-623		-606
Other operating cost		-2 978		-2 838
Operating profit		3 857		1 858
Financial income and expenses				
Financial income	8		-6	
Financial expenses	-87	-78	-138	-144
Profit before extraordinary items		3 779		1 714
Profit before appropriations and taxes		3 779		1 714
Appropriations				
Change in depreciation reserve		190		211
Income tax				
For financial period		-1 036		-579
Profit for the financial year		2 932		1 346

PARENT COMPANY BALANCE SHEET, 1000 €
31.12.2005
31.12.2004
ASSETS
NON-CURRENT ASSETS

Intangible assets

Intangible rights	50		83	
Other long term expenses	44	94	100	184

Tangible assets

Land and water	152		152	
Buildings and structures	3 483		2 831	
Machinery and equipment	704	4 338	988	3 971

Investments

Holdings in Group companies	20		-	
Other shares and holdings	18		21	
Own shares	59	97	71	91

Total non-current assets

		4 530		4 245
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CURRENT ASSETS

Inventories

Material and supplies	2 283		2 318	
Work in progress	1 874		2 004	
Finished products/goods	816	4 973	751	5 073

Short-term receivables

Trade receivables	5 861		3 912	
Accrued income	836	6 697	10	3 922

Cash and bank accounts

		524		453
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Total current assets

		12 195		9 448
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		16 724		13 693
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LIABILITIES AND SHAREHOLDERS' EQUITY
SHAREHOLDERS' EQUITY

Restricted equity

Share capital	1 917		1 917	
Additional paid-in capital	6		-	

Other reserves

Reserve for own shares	59		71	
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Non-restricted equity

Retained earnings	2 899		2 268	
Profit for financial year	2 932	7 813	1 346	5 603

Appropriations		1 061		1 252
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Provisions		120		120
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LIABILITIES

Non-current liabilities

Loans from financial institutions	2 750		2 575	
Other loans	-	2 750	188	2 763

Current liabilities

Loans from financial institutions	904		845	
Advances received	33		26	
Accounts payable	1 965		1 655	
Deferred income	2 077		1 428	
Other non-bearing liabilities	2	4 981	2	3 956

		16 724		13 693
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PARENT COMPANY FUNDS STATEMENT, 1000 €	2005	2004
Business operations		
Turnover and other operating income received	26 319	22 505
Operating expenses paid	-23 867	-20 419
Interest and other financial expenses paid	-89	-103
Income taxes paid	-728	-465
Net cash flow from operations (A)	<u>1 635</u>	<u>1 519</u>
Capital expenditure		
Investments in tangible and intangible assets	-1 038	-433
Investment subventions	13	-
Selling of fixed assets	131	-
Cash outflow for investments (B)	<u>-894</u>	<u>-433</u>
Financing		
Acquisition of own shares	-	-22
Drawing of non-current creditors	1 200	750
Amortisation of non-current creditors	-1 154	-908
Dividend distribution	-716	-838
Financing total (C)	<u>-670</u>	<u>-1 018</u>
Increase (+) / decrease (-) in liquid assets (A+B+C)	71	68
Liquid assets 1 January	453	386
Liquid assets 31 December	524	453

FINANCIAL KEY INDICATORS, 1000 €

	2005 IFRS	2004 IFRS	2004 FAS	2003 FAS	2002 FAS	2001 FAS
Turnover	28 129	22 768	22 768	17 822	18 294	17 792
Change, %	23,5	27,8	27,8	-2,6	2,8	-12,5
Operating margin	4 030	2 765	2 464	1 426	1 848	1 298
% of turnover	14,3	12,1	10,8	8,0	10,1	7,3
Operating profit	3 392	2 147	1 858	830	1 190	589
% of turnover	12,1	9,4	8,2	4,7	6,5	3,3
Profit before extraordinary items	3 314	2 003	1 714	717	1 021	313
% of turnover	11,8	8,8	7,5	4,0	5,6	1,8
Profit before appropriations and taxes	3 314	2 003	1 714	717	1 021	313
% of turnover	11,8	8,8	7,5	4,0	5,6	1,8
Profit for the financial year	2 386	1 470	1 135	437	735	313
% of turnover	8,5	6,5	5,0	2,5	4,0	1,8
Return on equity (ROE), %	30,7	21,2	16,9	6,6	11,4	5,1
Return on investment (ROI), %	29,5	20,1	17,6	7,7	10,8	5,3
Equity ratio, %	51,1	48,0	50,2	51,7	50,7	48,4
Gearing, %	35,8	45,5	46,0	51,6	60,0	76,2
Balance sheet total, M€	16,9	14,4	13,7	12,7	13,1	12,9
Gross capital expenditure on fixed assets	1 038	433	433	207	196	31
% of turnover	3,7	1,9	1,9	1,2	1,1	0,2
Investment subvention in fixed assets	13	-	-	-	-	-
Research and development expenditure	793	716	716	692	691	829
% of turnover	2,8	3,1	3,1	3,9	3,8	4,7
Average number of staff	194	182	182	171	167	161

Key indicators for shares

Earnings per share (EPS), €	2,12	1,30	1,01	0,39	0,65	0,28
Shareholders' equity per share, €	7,63	6,14	6,08	5,81	5,89	5,54
Dividend per share, €	1,20*)	0,65	0,65	0,75	0,47	0,30
Dividend per earnings, %	56,7	49,9	64,6	193,5	72,1	108,1
Effective dividend yield, %	5,7	7,1	7,1	9,6	9,4	9,2
Price-earnings ratio (P/E)	9,9	9,1	9,1	20,3	7,7	11,7

Share price development of A-shares, € share-issue-adjusted

Share prices						
- Highest of the year	21,05	9,18	9,18	7,94	5,70	5,40
- Lowest of the year	8,90	6,25	6,25	3,55	3,20	2,10
- Average of the year	14,03	7,61	7,61	6,19	4,55	3,70
- Closing price of the year	20,94	9,18	9,18	7,85	5,00	3,25
Market capitalisation, A-shares, euro Billion	17,3	7,6	7,6	6,5	4,1	2,7
Market capitalisation, all shares, euro Billion	23,6	10,4	10,4	8,9	5,6	3,7
A-share turnover, number of shares	344 058	176 635	176 635	69 275	80 848	52 558
A-share turnover, %	41,6	21,3	21,3	8,4	9,8	6,3
Number of all shares on the closing day	1 127 715	1 127 715	1 127 715	1 127 715	1 127 715	1 127 715
Number of registered shareholders	453	355	355	316	303	315

*) suggestion

CALCULATION OF KEY INDICATORS

$$\text{ROE} = \frac{\text{Result before appropriations and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest}}$$

$$\text{ROI} = \frac{\text{Result before extraordinary items} + \text{interest expenses and other financial expenses}}{\text{Balance sheet total} - \text{interest-free liabilities}}$$

The divider of the above-mentioned key ratios is the average of numbers for financial and previous year.

$$\text{Equity ratio} = \frac{\text{Shareholders' equity} + \text{minority interest}}{\text{Balance sheet total} - \text{advance payments received}}$$

$$\text{Gearing} = \frac{\text{Interest-bearing liabilities} - \text{cash in hand and at bank}}{\text{Shareholders' equity} + \text{minority interest}}$$

Key indicators for shares

$$\text{Earnings per share (EPS)} = \frac{\text{Result before extraordinary items, appropriations and taxes} - \text{income taxes}}{\text{Average number of shares during financial year (share-issue-adjusted)}}$$

$$\text{Shareholders' equity per share} = \frac{\text{Shareholders' equity} + \text{minority interest}}{\text{Average number of shares}}$$

$$\text{Dividend per earnings, \%} = \frac{\text{Dividend per share}}{\text{Earnings per share}}$$

$$\text{Effective dividend yield, \%} = \frac{\text{Dividend per share}}{\text{Average share price of the year}}$$

$$\text{Price per earnings (P/E)} = \frac{\text{Average share price of the year}}{\text{Earnings per share}}$$

$$\text{Average share price during financial year} = \frac{\text{Total trade during financial year, €}}{\text{Shares traded during financial year}}$$

Average number of staff during financial year is the average of the month-end staff numbers.

Acquisition of own shares has not been taken into account in these calculations because their effect on key indicators is irrelevant.

AUDITOR ´S REPORT

To the shareholders of Kesla Oyj

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Kesla Oyj for the period 1.1.-31.12.2005. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

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

Consolidated financial statements

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

Parent company's financial statements, report of the Board of Directors and administration

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

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

Joensuu February 2nd, 2006

Ernst & Young Oy

Roger Nyqvist
Authorised Public Accountant

Interim reports will be released as follows:

January – March	20 April, 2006
January – June	8 August, 2006
January – September	17 October, 2006

For additional information about Kesla Oyj please contact financial and administration director Ms Marke Tyrväinen, tel. +358 13 6828 328 or marke.tyrvainen@kesla.fi.