RAUTE

2005

Annual Report

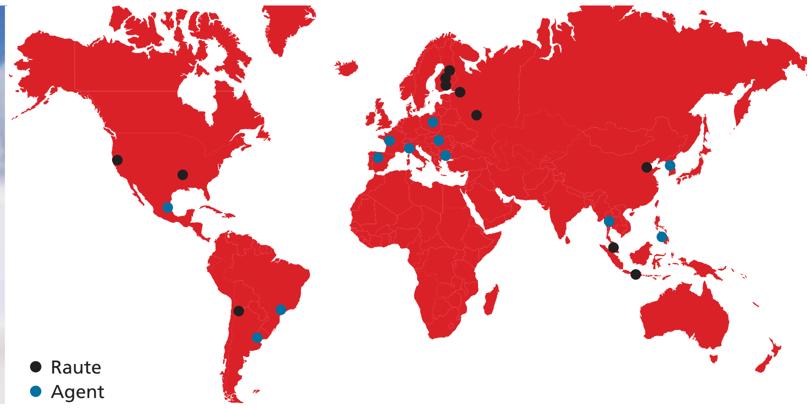
Contents

Leading expertise
in wood products technology

The technology leader in its sector
Raute is a technology company serving the wood products industry worldwide. Its core expertise lies in manufacturing processes for selected wood products. Raute is the world market leader as a supplier of mill-wide projects to its customer industries. The company also holds a strong position in smaller projects and technology services.

Global market
Raute's sales network covers markets worldwide. Most of Raute's customers are located close to their raw material sources, i.e. forests. The most rapidly expanding areas are the plantation forests of the southern hemisphere.

Collaboration throughout the investment's life cycle
Raute's extensive technology offering covers customers' entire manufacturing processes from the handling of raw material to the finishing and packaging of the final product. Raute provides customers with business support throughout the entire life cycle of the investment with machinery and equipment deliveries and a wide range of services from raw material and marketing studies through to production line maintenance and modernization.



Raute operates a global marketing network. The company's head office and main production unit are in Nastola, Finland. Other units are located in the Vancouver area in Canada and in Jyväskylä and Kajaani in Finland.

Raute's customer industries are to a large extent dependent on trends in the building industry. As with investment activity in general, the building industry is normally at its busiest towards the end of the economic cycle. Because of the project nature of operations in the industry, fluctuations in sales volumes are part of business.
Raute's customer industries are:
- plywood and veneer industry
- LVL (laminated veneer lumber) industry
- particleboard and MDF industry
- parquet industry
- decorative veneer industry

Vision

Raute's vision is to be the world's leading supplier of technology and services in its field.

Mission

Raute generates added value for its customers' businesses by supplying state-of-the-art technology and services to facilitate the profitable and environmentally sustainable manufacture of wood products.

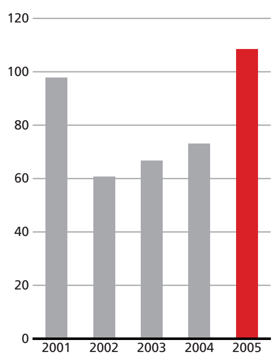
The year in **brief**

- Net sales up by 49%
- Operating profit up by 76%
- Order book strong
- The plywood industry invested early in the year in modernizations
- Three major project orders
- Technology services continued to grow
- Challenges in project execution
- Restructuring measures in full effect

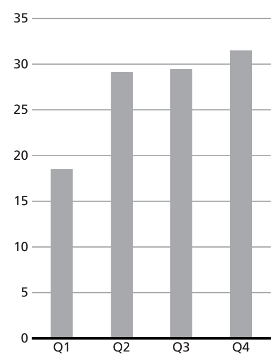
Key figures	2005	2004
Sales, €m	109	73
Operating profit, €m	4.4	3.6
Profit before income taxes, €m	5.5	3.9
Order book at 31.12., €m	55	35
Earnings per share, €	1.09	0.71
Dividend per share, €	0.60 *)	0.40
ROI, %	21	25
ROE, %	16	20
Equity ratio, %	56	57
Personnel at 31 December	533	543

*) The Board of Directors' proposal

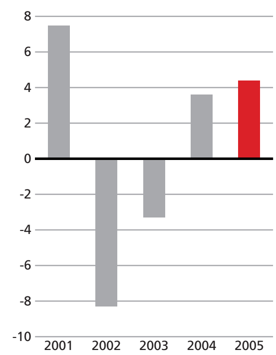
Net sales €m



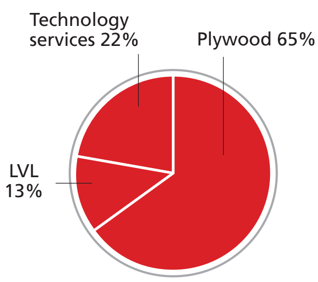
Net sales quarterly €m



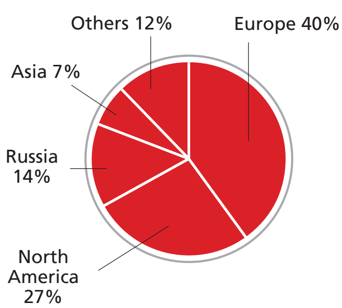
Operating profit €m



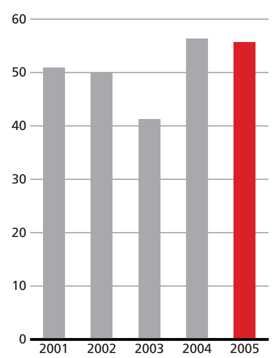
Distribution of net sales



Net sales by market areas



Equity ratio, %



Raute's **formula** for success

Strategy

Raute's goal is to be the world's leading supplier of technology and services in its field. Raute's three main strategic goals are continuous improvement in profitability, better adaptation to cyclical fluctuations, and controlled growth.

The company's business concept is to offer products and services that meet customers' needs and boost their earning potential. Raute offers its customers the expertise required for the efficient, reliable and profitable manufacture of wood products. In-depth understanding of the customer's business and processes, leading technology and extensive project expertise are the company's strengths.

Raute wants to be a long-term partner to its customers. Raute's full-service concept means customers can do all their business with just one partner. The technology and service offering is wide, giving customers the opportunity to work together with Raute throughout the entire life cycle of the investment. By offering technologies for selected customer industries covering all stages of the production process and by keeping at the forefront of development, Raute can help its customers to be successful and thus increase its own sales potential and to retain or achieve a leading position.

The development of technology services is one of the strategic focus areas. Project deliveries to different parts of the world have expanded Raute's potential clientele. This provides a good foundation for the development of services. Demand for services is steadier than for projects and thus evens out fluctuations in project operations.

Dividend policy

Raute exercises an active dividend policy and take special care that investors receive a competitive return on their invested capital. Due to the nature of business, the dividend is not directly tied to the annual result. The aim is to maintain the company's equity ratio at a healthy level.

Financial goals

Raute's goals are

- to improve profitability and retain good profitability over the entire economic cycle
- to increase sales by around 10 per cent a year over the economic cycle
- to maintain good financial solidity
- to offer investors a competitive return.

Values

The customer

We know and understand our customers' needs. We operate in such a way that our customers find us a reliable company with high-quality products and services. Our aim is to create lasting and profitable relationships with our customers and to be their preferred supplier.

Trust in people

All our employees are fully committed to attaining the common goals. We are responsible in our actions, we keep our promises, and we follow the agreed procedures. We show initiative, and we are open, honest and fair.

Continuous development

We want to be successful and enjoy our success. We do not hesitate to take new opportunities or the responsibility for our work and all our operations, for reaching our goals and for training and improving our skills to reach our goals. Our goal is to achieve results – today and tomorrow.

The environment

We operate globally as a good corporate citizen. We take into consideration the requirements of local cultures and societies in our operations. We develop our products and services towards greater environmental soundness based on the customer's needs. Our goal is a continuously improving and more profitable working environment.

A year of growth and growing pains behind – promising prospects ahead

During 2005 we conducted a thorough reappraisal of our strategy. We incorporated into our strategy new elements, but in many respects we recognized that the principles followed previously continue to serve our goals in the best possible way. It is part of our strategy to continue developing our traditional strengths. We are seeking growth in those areas and markets where we have not so far been strong.

Within the wood products industry we have chosen the plywood and veneer industry, the LVL industry, the particleboard and MDF industry, parquet industry and the decorative veneer industry as our customer industries. By helping our customers in these segments of the wood products industry to improve their operations through both our project deliveries and our technology services, we can ourselves achieve synergy benefits in technology development, in the application of expertise, and in the understanding of our customers' businesses.

The customer industries we have chosen are at different stages of development and provide us with numerous opportunities and challenges. The plywood and veneer industry globally is growing fairly slowly, but restructuring in response to new raw materials and demand is maintaining demand for investments. The LVL industry is a fairly new and growing field. In these customer industries Raute already has a strong market position. Particleboard and MDF overlaying and production of multi-layer parquet and decorative veneer are growth areas in which Raute has plenty of opportunities to strengthen its market position. We have the opportunity to improve our position in several geographical areas, especially in Asia and North America, where we are working hard to develop our technology services business.

The main success factor in our activities is our comprehensive, in-depth understanding of our customers' businesses. It is on this foundation that we develop technology that produces real improvements for our customers. And by supplying products of the right quality at the agreed time we play our part in promoting our customers' success during the initial stage of the investment's life cycle. Cooperation in this area continues in the form of systematic maintenance. Therefore the throughput time of our deliveries covers actually the entire life cycle of the production line.

The cost-effectiveness of our own operations is vitally important for the competitiveness of our products and for maintaining and improving our profitability. Development of the technology services we offer expands our activities and evens out fluctuations in the level of project activities. We ourselves are focusing on our core expertise and improving our ability to adapt to the fluctuations typical for our business by further developing our network of partners.

Year of flexibility and growth

For Raute, 2005 was a year of strong growth. Our net sales increased by almost half. Such a substantial change did not happen easily. Improving our processes, and finding new suppliers and other partners and embarking on cooperation at a time of increased workload required all Raute's employees and partners to show flexibility and a sense of responsibility.

The good situation in the global economy continued in 2005, particularly in those sectors important to Raute's customers, and this maintained good demand and encouraged our customers to invest in the development of their operations. The focus of demand shifted during the year from fairly small replacement and improvement investments to larger projects creating new capacity. This was already reflected in the order intake during the late part of the year. Demand for technology services also remained strong.

We continued to place strong emphasis on the development of technology and products. Several of the results of our development work reached the stage of first deliveries to customers. The foothold gained on the Brazilian market towards the end of the year was thanks mainly to our technology development. During the year we extended our technology offering to a new area: the production technology for the manufacture of decorative veneer by slicing. Bringing onto the market new products based on this technology will be one of the challenges in 2006.

Along with growth in net sales our profitability also improved. The biggest improvements in profitability were in technology services and in the North American operations, and in our machine vision and measuring technology unit Mecano. However, this fast growth gave rise to some additional costs, and the improvement therefore did not fully correspond with the strong market development.

Improved profitability the main goal for 2006

From growth to improved profitability

The outlook for 2006 is promising. Raute's order book is strong and demand for products and services is good. Market conditions for our customer industries are good. However, there is still some uncertainty due to the risks relating to future oil prices and the exchange rate for the US dollar.

Investments by Raute's customer industries worldwide are likely to remain at the 2005 level. With the focus of demand having moved towards bigger projects, our order intake could vary from quarter to quarter more than it has done in the past couple of years. However, I believe that at least one mill-scale project in which Raute will be heavily involved will be started this year too. We shall also place much emphasis on further developing contract-based maintenance alongside modernizations.

Last year we succeeded in increasing our market share, particularly within the plywood industry. While market conditions remain good we shall retain our leading position in these areas. We are prepared for weaker market conditions in the plywood industry, and we are seeking growth from customer industries that have so far represented a smaller share of our activities and, in particular, from recovering Asian markets. The additional costs incurred in adapting to the rapid increase in the volume of business are now under control, and the way is open for an improvement in profitability.

I want to thank our customers, our employees, our shareholders and all our other partners for their confidence and cooperation. I hope this cooperation will continue and further strengthen.

Tapani Kiiski

Acclaimed expert in technology

Wood products technology is a relatively narrow field, and many of the companies are small. Raute's leading position is based on strong technological expertise, a full understanding of customers' processes, an extensive range of quality products and services, and a proven track record in the management of project deliveries, however large. These are the factors that bring efficiency to customers' production processes and ensure that production runs smoothly.

The results of a customer survey show that Raute
- is at the forefront of technological development
- has the capability to supply complete mills
- understands its customers' production processes
- is highly competent in process automation.

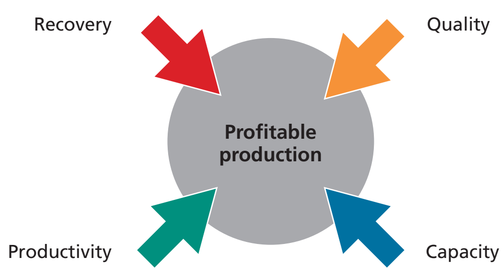
Technology development

Raute's customers operate in a very competitive business environment, where efficiency and quality demands are high. The increasing demands being placed on their end-products also imposes new requirements on technology. The focus of Raute's technology development is on those factors in customers' production processes whose development provides the best way to improve efficiency and profitability and thus create maximum benefit for the customer. The main benefits to the customer are higher raw material recovery, greater productivity, lower consumption of energy and chemicals, better end-product quality and smaller environmental loadings.

Comprehensive offering

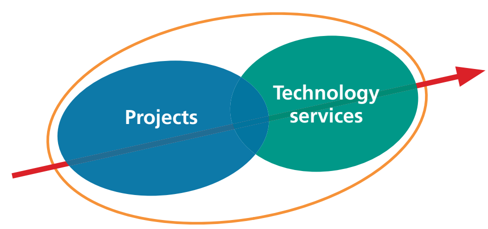
Raute's technologies and services provide customers with efficient production processes featuring optimized use of raw materials and resources. Unlike many of its competitors, Raute operates globally and its offering is extensive. Most of the company's competitors are small or medium-sized businesses operating on a local or regional basis and focusing on just one or a few areas of wood products technology.

Main factors behind customer's cost efficiency

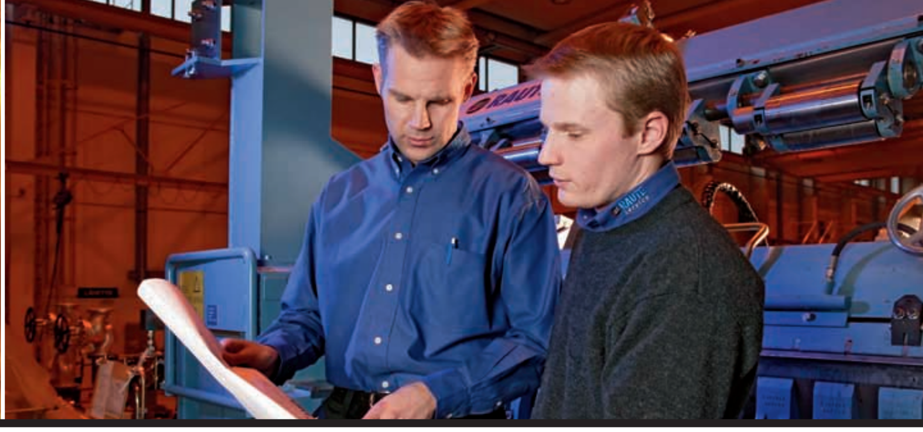


Raute enables customers profitable production through affecting the factors that matter most.

Life cycle management



- Full-scope service offering
- Projects
  - Complete mill-scale deliveries, production lines and individual items of machinery and equipment
  - Automation, machine vision and measuring technology
- Technology services
  - Maintenance, modernizations and spare parts
  - Reconditioned machinery
  - Personnel training
  - Consulting and business development



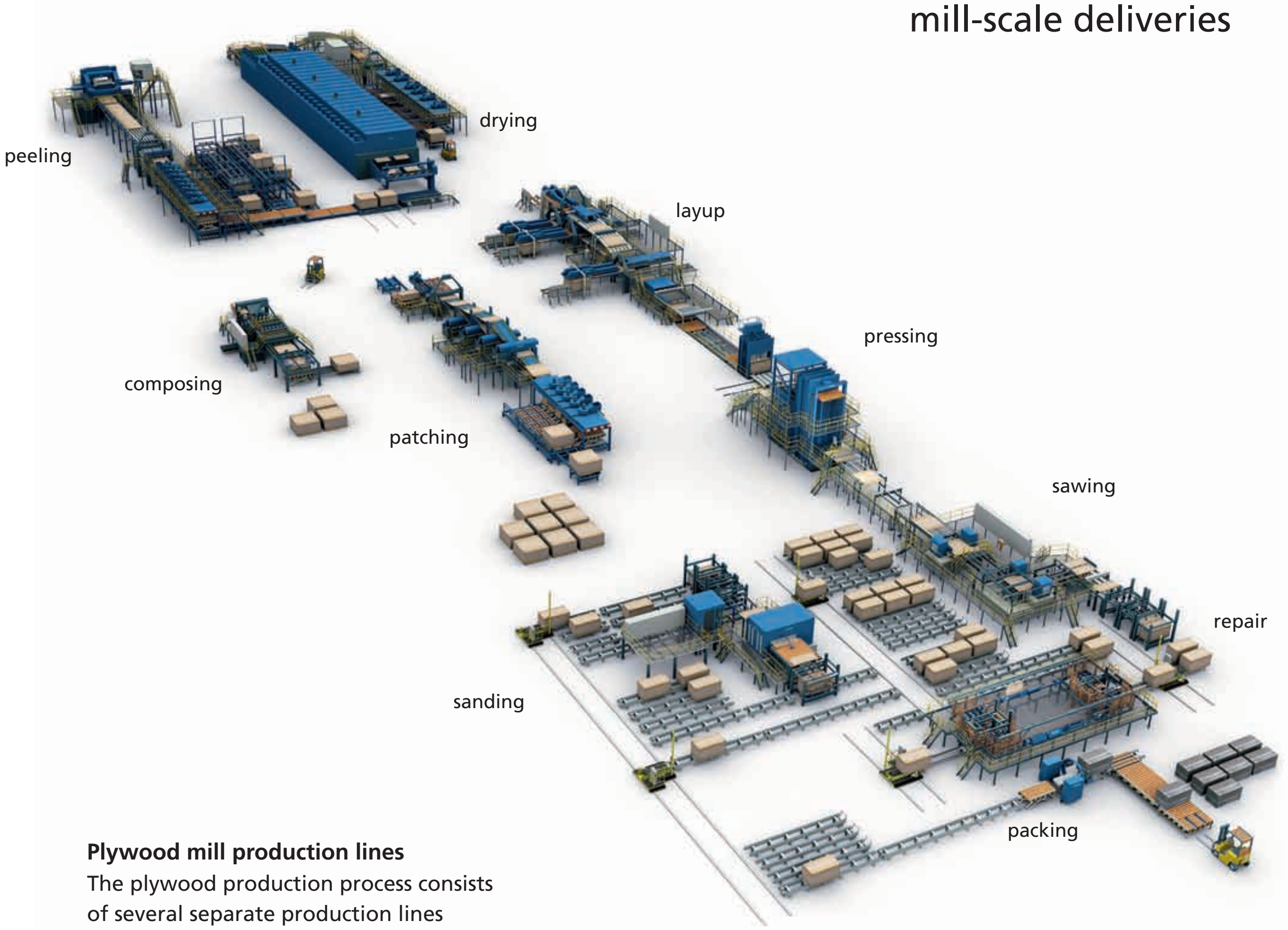
<< Raute's full-service concept provides support for the customer throughout the life-cycle of the investment.

Raute has a profound understanding of its customers' businesses and processes, and through its full-service concept can provide customer support throughout the investment's life cycle, while customers develop their own business operations. The life cycle of machinery used by the wood products industry varies from ten years up to as many as thirty years.

Raute's technologies cover the customer's entire production process from raw material handling through to end-product finishing and packing. The company's project deliveries may involve individual machines, production lines or complete mills.

The requirement for efficiency and quality is also reflected in the demand for services. Raute offers customers services ranging from raw material and market surveys through to production line maintenance and modernization. In particular, there has been growth in demand for preventive maintenance designed to boost the customer's production.

Raute's greatest expertise is in mill-scale deliveries



Plywood mill production lines
The plywood production process consists of several separate production lines

Aiming to **grow** faster than the market

Main factors affecting demand

Changes in demand experienced by customers

- Raute's customer industries are largely dependent on market conditions in the construction industry, international trade, and the transport industry.
- Investment activity is generally greatest towards the end of the economic cycle.

Need for customers to make production more efficient and improve end-product quality

- Need to improve raw material recovery and production process productivity and to cut consumption of energy and additives.
- Change in the industry's quality standards.

Location and quality of raw material

- Much of the present production capacity is unfavourably located with respect to suitable wood raw material, or is designed for the wrong wood raw material.
- The strongest growth in customers' production and thus in Raute's market is in the plantation forest areas of the southern hemisphere, where wood raw material is available on a sustainable basis.

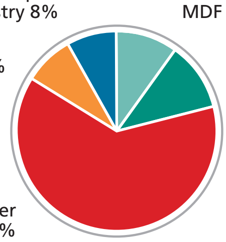
Technology development

- Increasing demands are being placed on technology as demands on customers grow. On the other hand, development of new technology means old equipment is no longer competitive and its useful life shortens. This in itself creates new demand.

Outsourcing of technology services

- Efficiency and quality requirements are reflected in demand for services.
- Outsourcing of services in wood products technology is only just beginning. This market, too, has significant potential.

Wood products industry - distribution of market



Raute's market share	%
Plywood and veneer industry	15
LVL industry	45
Particle board and MDF industry	small
Parquet industry	small
Decorative veneer industry	small

Raute's customer industries	Market growth*)
Plywood and veneer industry	1%
LVL industry	10%
Particle board and MDF industry	5%
Parquet industry	8%
Decorative veneer industry	4%

*) Average annual market growth 2006–2008

<< Technology services help to even out fluctuations in the level of project activity.

>> Development of new technology also creates new demand.

Raute's aim: to grow faster than the market

Growth in Raute's markets is moderate. Growth over the next 3 years is expected to be 3-4 per cent a year. By increasing its market share, Raute can achieve faster growth, especially in technologies relating to particleboard and MDF overlaying, and the manufacture of multi-layer parquet and decorative veneer. Changes in the market will be such that they will probably strengthen Raute's position.

New capacity

Prompted by good economic growth, activity in both new construction and structural repairs has been brisk for a considerable time in several of Raute's market areas. This has supported demand for Raute's products. Construction of new production capacity is steered by demand for the end-product and by the availability and location of raw material. A large proportion of new capacity has been built in areas where raw material availability is secure and where there is little existing capacity. Growth is strongest in the plantation forest areas of the southern hemisphere and also in Russia, where there are still plentiful under-utilized wood reserves.

Raute has a strong track record in mill-wide projects and enjoys a good position as a supplier to the rapidly-growing LVL industry. Raute also has plenty of technology expertise in the processing of small-diameter plantation wood raw material.

Technology life cycles shorten along with new needs and technology development

Customers are constantly seeking to make their production more efficient, and to improve productivity and end-product quality. Fierce competition and changing quality standards in the industry mean that technology has to cater for new needs. Development of new technology itself creates new demand, as in the new situation old equipment is no longer competitive, which in turn shortens its useful life.

Raute has a wide clientele and works with its customers throughout the life cycle of each investment, and this provides information about customers' needs that is valuable in product development. Raute also works closely with its customers in the development of new technologies.

Significant potential in technology services

Customers' efforts to make their production more efficient are also visible in the demand for technology services. Raute works together with its customers to systematically develop their production processes, particularly in preventive maintenance services. New equipment is more versatile and demands a high level of maintenance expertise. According to several estimates, this, coupled with the drive towards greater efficiency, will lead to more customers outsourcing their maintenance in the future. Demand for modernization services is also growing. By modernizing their machines using the latest technology and automation, customers can exceed their previous level of production.

Technology services even out fluctuations in project business

Project deliveries and technology services support each other in several ways. In the case of projects, implementation and schedules are difficult to predict in advance, and these have a major impact of resource allocation and financial results. Demand for technology services is steadier than that for project deliveries, and technology services therefore even out fluctuations in Raute's project business. In the case of contract customers, plans for actions are usually made in advance.

Raute's opportunities as a supplier of technology services are supported by a large potential clientele that has accumulated through project deliveries, successful equipment installations, and by familiarity with technology and a local presence in different market areas. Development of services is one of Raute's areas of strategic focus.

Year of vigorous growth

For Raute, 2005 was a successful year in many ways. Sales increased by 49 per cent on the previous year to EUR 109 million (€73 m). Profitability improved and the operating profit was EUR 4.4 million, which, excluding non-recurring items, was 76 per cent higher than the comparable operating profit for 2004 (€2.5 m). In arriving at operating profit for 2004 (€3.6 m), a non-recurring capital gain of EUR 1.1 million relating to pension arrangements has been deducted. In the wood products industry, investment by Raute's customer industries showed a clear increase, while demand also rose for maintenance and modernization of machinery supplied previously. Apart from the growth in sales, reorganizations carried out in recent years to improve cost-effectiveness also contributed to the improved financial result.

Order book strengthened

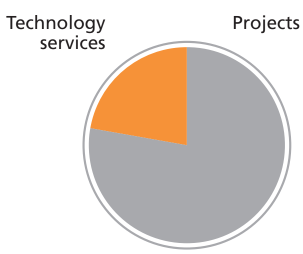
The value of Raute's order book increased by 57 per cent to EUR 55 million. The value of project orders received rose considerably to EUR 109 million. The most notable orders for project deliveries were the entire machinery for a softwood plywood mill in Chile, and the machinery for a new LVL mill in Finland. Demand for technology services also showed clear growth. Orders received were worth EUR 23 million. The clientele widened and the number of contract customers, in particular, increased. The substantial growth in orders required additional capacity, and the company achieved this by developing co-operation with subcontractors and other partners, and by continuing to make its own operations more efficient. Capacity was successfully increased, and deliveries were handled as agreed. The increase in workload was, however, reflected in the commissioning of a number of projects. The Finnish engineering industry in general experienced strong demand, and competition for subcontractors and other partners put pressure on both schedules and prices.

Growth in construction and logistics

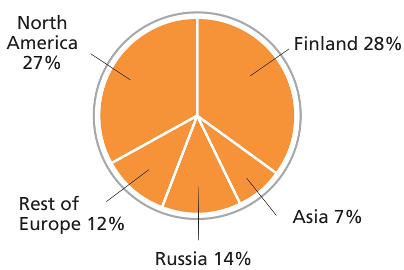
Largely as a result of growth in the building industry and logistics markets worldwide, demand for the products of all Raute's customer industries strengthened. Prices for both plywood and LVL remained good. Demand and prices for multi-layer parquet, overlaid particleboard and MDF also developed positively.

Different market areas developed differently, however. In Finland, the only increase in the production capacity of Raute's customer industries was in relation to LVL. Customers in the plywood industry concentrated largely on developing their existing production technology. Elsewhere in Europe, investments began to rise strongly, as customers decided to implement plans that had been under consideration for several years. Achieving a leading market position among customers using pop-

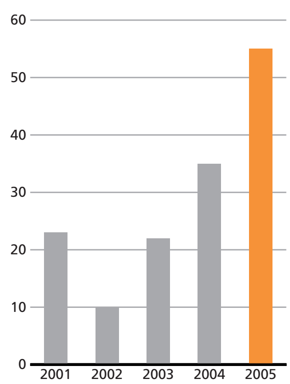
Business operations



Project order intake by geographical region



Order book, €m




<< Raute is focusing on its core expertise. Non-core activities were outsourced.

>> Demand for modernization services was brisk and focused particularly on lathes.

lar as raw material in southern Europe was especially gratifying. In Russia, demand was lively but deals were signed with only a small number of customers. In North America, plywood production is declining but demand for LVL is growing. Investment thus focused mainly on making production more competitive and reducing environmental impacts, and no new production capacity was built. The plywood and LVL industries of Oceania and South America, on the other hand, are developing strongly. These areas have extensive plantation forests, where growth is faster than in natural forests. Utilization of plantation forests has resulted in a number of large projects giving rise to new production capacity. Asia has been an important plywood producer, but production has recently declined because of instability in the region. Here, too, positive economic development has prompted preparations for the large-scale utilization of plantation forests.

Change of emphasis

In recent years, Raute has focused on its core expertise and changed the emphasis of its operations from traditional engineering to work involving a greater value-added input. The company continued with this change in 2005 by outsourcing non-core activities and strengthening its cooperation network. Parts manufacture and machining, in particular, were entrusted to subcontractors. Raute focuses on heavy machining, assembly and test runs. In design, the emphasis is on master engineering, and important contracts were signed with partners regarding mechanical engineering and automation engineering. Expansion of the partner network allows peaks in workload to be evened out and permits more effective allocation of resources. It also offers a wider range of knowhow, as working with partners abroad provides expertise that is not available in Finland. This focus on core expertise has freed resources for the development of technology services.

The division of work between Raute's units was further clarified and cooperation intensified. The biggest production-related investments were the CNC milling machine acquired for the Nastola plant and the expansion and refurbishment of the Jyväskylä assembly hall. Job rotation among production personnel was stepped up to make activities more flexible. Multi-tasking allows workers to gain experience of different jobs and thus an overall grasp of Raute's operations.

Project deliveries and technology services

Wood products technology business operations comprise project deliveries and technology services. Project deliveries represent 78 per cent of sales and technology services 22 per cent. At the end of 2005, the order book was worth EUR 55 million. Project deliveries comprise complete mills, production lines and individual items of machinery and equipment. Technology services consist of maintenance, spare parts services, modernizations, consulting, training and the supply of reconditioned machinery.

Important project orders

Raute is the market leader in mill-scale deliveries of wood products technology to its selected customer industries. The company's competitiveness is based on its position as the frontrunner in technology development, on an understanding of customers' businesses, and on long experience in project deliveries. Raute's technology offers the customer the opportunity to achieve optimum production efficiency and profitability. In the customer's production, technology has led to the further development of recovery, quality, productivity and capacity, which are the key factors behind the customer's competitiveness. Machine design is based on modules, which means they can be built to meet each customer's specific needs.

The order book for project deliveries strengthened considerably in 2005. In February, Raute received an order from Finnforest to supply the machinery for a new LVL mill in Finland. The order included an automated LVL layup line, the first of its kind to be delivered anywhere in Europe. During the spring, Raute received orders worth over EUR 10 million to supply drying technology to the United States and Canada. In September, the

<< Orders received in 2005 included the entire machinery for a new plywood mill in Chile.

>> New concepts in panel handling technology were delivered to several customers.

Chilean company Empresas CMPC S.A. ordered machines for its new plywood mill. The order comprised production machines, lines and processes. In November, orders were received for two peeling and camera-controlled grading lines for Brazil, which is a new market area for Raute. In December, Latvijas Finieris placed a EUR 9 million order for plywood machinery for Latvia.

New contract customers for technology services

Technology services complement Raute's offering, covering the customer's production technology over its entire life cycle. Technology services ensure that the customer's production runs as smoothly as possible without unnecessary breaks, and at the same time seek to predict maintenance requirements. Raute's strong emphasis on technology and on understanding the customer's business is also reflected in its services.

Demand for technology services developed positively in 2005. Most of the growth came from Europe, Russia and Asia. The company's clientele expanded and the number of contract customers increased considerably. The number of modernizations, in particular, showed an increase on previous years. Raute further developed its service network by setting up a subsidiary in St. Petersburg and a service point in Jyväskylä. Growth in technology services was held back by the availability of experienced maintenance personnel. Additional resources were provided by transferring personnel internally, hiring new workers, and signing new cooperation agreements for the provision of services. A project to develop preventive maintenance was started alongside product development.

Raute aims to continue expanding its cooperation with customers and to improve the standard of its services by developing resource management. Services were already being made into products in modernizations in 2004 and in maintenance work in 2005. Close collaboration with customers in Finland has yielded a number of best practices and tools that can be used to advantage in global operations.

Positive outlook

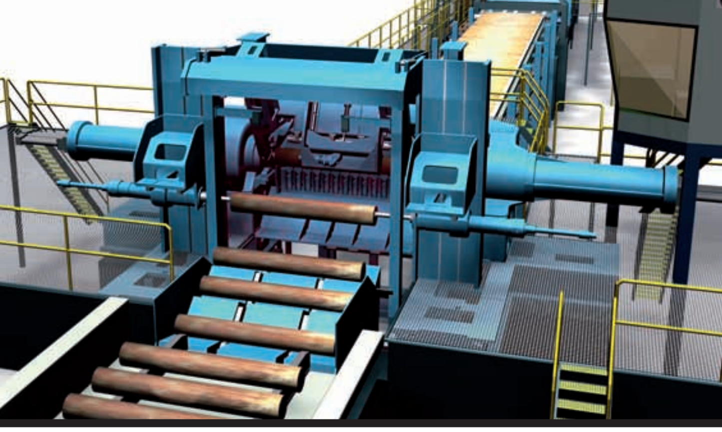
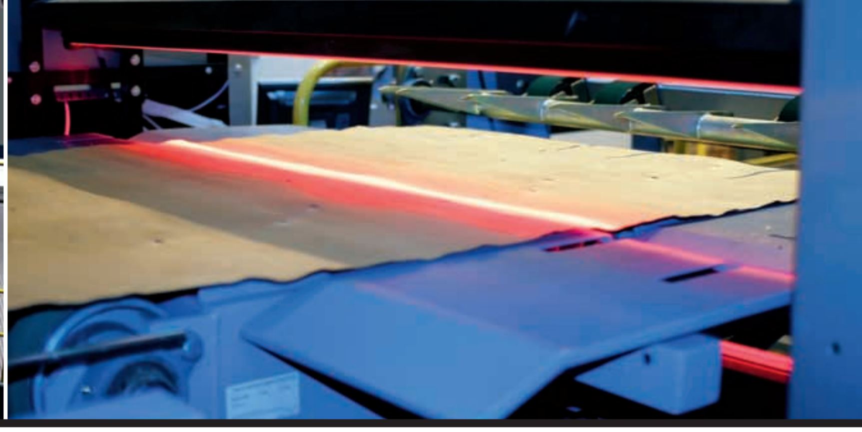
Raute's prospects for 2006 are good. The current order book is strong, and the projects currently under negotiation suggest that the positive development will continue. Thanks to measures undertaken in recent years, Raute's product range is now more competitive and the company's capacity can be increased in a more controlled way.

Thanks to its greater competitiveness, Raute has good prospects for acquiring new customers and strengthening its present customerships. There is now greater demand for the construction of completely new capacity, and Raute's position as the market leader in mill-scale deliveries means it is equipped to accept orders for major projects. In its technology services, Raute uses its strong position among its present customers. Vigorous efforts to further develop preventive maintenance and contract customerships will continue. Growth potential in the market is being created by the fact that customers are increasingly outsourcing their service and maintenance operations.

New technologies also create opportunities for growth. During 2005, Raute acquired technology for the machinery needed in the production of decorative veneers. By expanding into this new area of technology Raute is seeking sales of several million euros in the next few years. The new products brought onto the market as a result of product development are also creating growth opportunities.

Growth potential in the south and east

Demand is expected to level off following strong investment activity in 2005. The biggest growth potential lies in the plantation forest areas of the southern hemisphere and in Russia. The wood reserves of the plantation forests in South America, Oceania and Asia will becoming increasingly available over the next few years. Good prices for plywood, LVL, overlaid panels and multi-layer parquet are encouraging the construction of new production capacity. Signs of positive developments

<< Raute's latest peeling technology was successful in the market.

>> Machine vision technology has growth potential. In future it will be useful in an increasing number of processes.

were seen towards the end of 2005, particularly in Asia. Russia has the world's largest under-utilized wood reserves, which will permit the construction of more new production capacity in the near future.

In Finland, customers are expected to continue to focus on keeping their present production machinery efficient and competitive by replacing lines and modernizing existing machines. High production costs and limited wood reserves will make it difficult to increase competitive production capacity. In North America, the pace of investment is expected to level off following an exceptional year in 2005 and to focus on the development of existing production capacity. In China, plywood production is outdated and relies heavily on manual labour. A change to more modern technology is likely in the long term.

Product development distinguishes Raute from its competitors

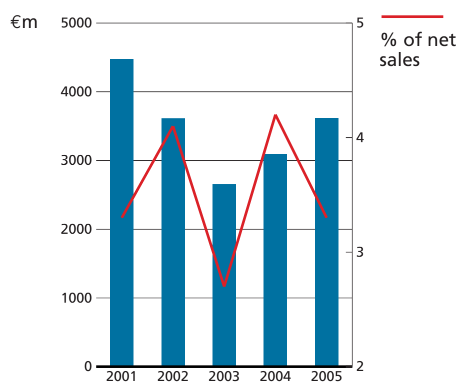
As the leading technology company in its field, Raute is heavily committed to the continuous development of its products. Product development expenditure is around 3 per cent of net sales. Raute is the frontrunner in the utilization of new technologies and the search for applications. Research work is conducted in the planning of new products, in making improvements to existing products, and in the development of technology services such as maintenance and modernizations. Maintenance and service operations yield important information for use in product development.

Product development is always driven by customers' needs and with the aim of making their production more competitive. The keys to competitive production are recovery, i.e. the proportion of raw material converted into end-product, the quality of the end-product, worker productivity, and the efficiency of production in terms of factors such as energy and chemicals consumption. Environmental impacts are also considered in product development, and the use of new technology allows the environmental impacts of customers' production to be reduced.

Product development is often carried out together with the customer in order to achieve optimum results. Customers have clear goals for their projects and understand their own business best. Raute's contribution is technology expertise and a wealth of experience in its field. Projects may also involve other partners, research institutes, colleges and universities.

Raute completed first deliveries of several new products during 2005. The new-generation peeling line brought onto the market the previous year was extremely well received. The block optimization system based on curtain laser technology came up to expectations. Three foam gluing lines were delivered, and development of this technology continues. Foam gluing reduces glue consumption and improves conditions in the customer's production facilities. An automated panel repair line featuring machine vision was also delivered. Machine vision will continue to be utilized as it can be applied to almost all processes.

R&D



Personnel and environment

Focus on developing competence in technology, multi-tasking and service expertise

Raute is the leading technology company in its field. Behind its success are highly skilled and innovative employees. Raute seeks to create a working atmosphere characterized by openness, trust and equality. This, the company believes, is the route to profitable operations and the way to develop each employee and the working community as a whole in line with the targets set.

In 2005, Raute employed an average of 537 persons. The total number has fallen in recent years mainly due to the rationalization and outsourcing of non-core businesses. The company's operational focus has changed. Raute now concentrates on designing more demanding products and automation with greater emphasis in its own production on competitiveness and expertise. The change can be seen in the personnel structure: there are more salaried staff with a higher level of training.

Encouraging multiple skills

Raute's net sales rose considerably in 2005, while the number of its employees was almost the same as the year before. The reorganization and the training it required have boosted multiple skills, thus forming a platform for more effective operations. Efforts to raise the level of multiple skills will continue in the future.

Understanding customers' needs and an in-depth knowledge of the wood products industry are vital if Raute is to design and produce the most effective solutions and services for its customers. Competence in wood products technology is a key priority area for Raute. Technological progress is rapid, and specialist expertise and the need for professional skills are constantly changing. The international nature of Raute's operations requires its employees to have good language skills and the ability to work together with people from different cultures. Raute has placed great emphasis on training, with the focus in 2005 on service expertise.

Personnel *)	2005	2004
Number of personnel	522	536
Women, %	11	11
Average age	44	45
Years at Raute	14	14
New employment contracts	39	35

*) Current employment contracts at 31 Dec.

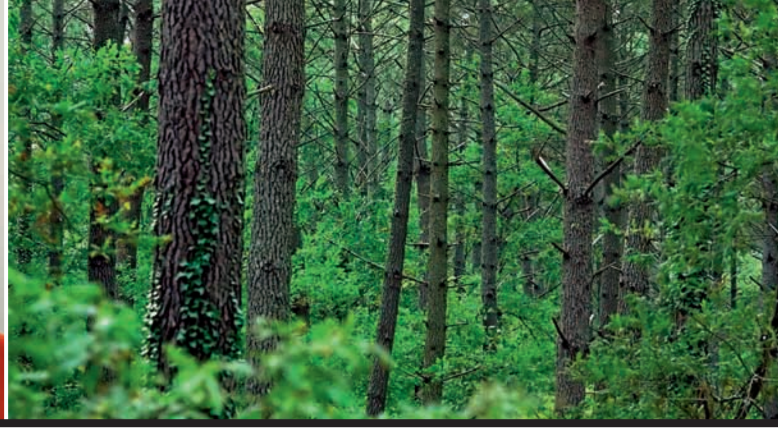
Competition for skilled people

Raute offers interesting work and good opportunities for advancement for the top people in wood products technology. In several areas of expertise there is a shortage of experienced workers. Most in demand are chief mechanical engineers, automation design engineers, project personnel for installation sites, and skilled maintenance people. Securing a sufficiently large workforce means offering not just interesting work but also competitive terms of employment.

Raute's public profile and reputation as an employer have risen in recent years. The company is well known at educational institutes in this field and the company's strong emphasis on technology development has been noted. Raute works actively with colleges and universities and offers students both work experience and subjects for theses and dissertations.

Open working atmosphere

Employee turnover at Raute is low. Every effort is made to ensure the work is enjoyable as a means of maintaining good working capacity. Employees are encouraged to look after their health, especially their physical fitness. The company's occupational health care service is focused on preventative health care.



<< Encouraging multi-tasking creates the foundations for more efficient operations.

>> Saving valuable natural resources is a common goal shared by Raute and its wood-processing customers.

Environmental and productivity targets complement each other

The environment is one of the four values that steer Raute's activities. Raute 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.

Raute works systematically to make its products and services more environmentally sound and to reduce the environmental impact of its own activities. Targets for reducing the company's environmental impacts, and the measures needed to achieve them, are incorporated into the environmental management programme each year. The results are monitored regularly.

Increasing demands from customers

The wood products industry and its customers are becoming increasingly aware of the relationship between product quality and the way products are manufactured. Raute devotes considerable resources to product development with the aim of making the production lines and machinery it manufactures more environmentally sound. Products manufactured using the latest Raute technology save raw materials, energy and additives. Saving valuable natural resources is an important goal both for Raute and for its customers. This goal can be achieved by improving recovery and quality and by making more use of fast-regenerating plantation forests.

Raute has been successful in offering its customers solutions that cut production costs and at the same time allow reductions in environmental loadings and improve the safety of production. One example is Raute's veneer dryer, which is the most energy-efficient on the market.

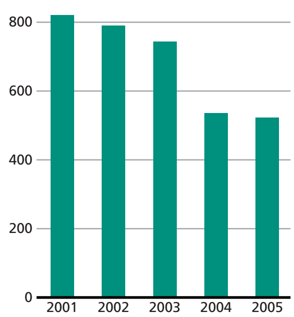
Better working conditions through product development

Raute's products also translate into better working conditions for its customers. Product development provides automation that relieves workers of awkward and risky work stages, which in turn reduces accidents and absences from work. Efforts are also being made to reduce the use of chemicals in production. Examples of this are the first deliveries in 2005 of fully automatic plywood panel repair lines and plywood layup technology based on foam gluing. In foam gluing, the need for glue is greatly reduced.

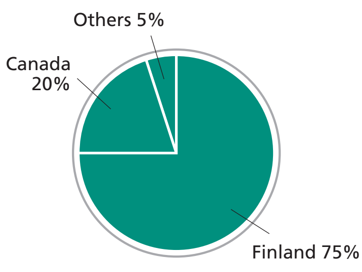
In its own production, too, Raute is constantly seeking to reduce energy consumption and waste, and at the same time to make the working environment a safer place. The aim is to create a good and productive working environment and to find the best and most effective working practices. Raute has developed its own manufacturing processes by investing in new technology and by reducing work stages that affect the environment.

The company's plants at Nastola and Jyväskylä have both certified quality and environmental management systems. Raute also carries out systematic inspections of the activities and ethical principles of its partners and subcontractors.

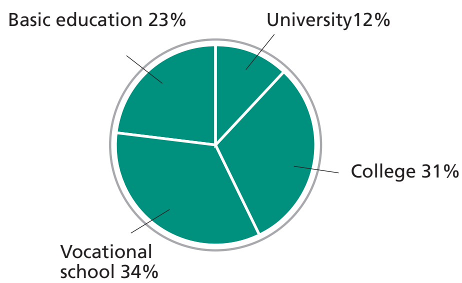
Personnel*)



Personnel*)



Education*)



*) Current employment contracts at 31 Dec.

Financial Statements 2005

Board of Directors' report

The Group's net sales for the 2005 financial period were EUR 108.6 million, up 49 per cent on the previous year's figure of EUR 73.1 million. Operating profit was EUR 4.4 million (€3.6 m). Financial income and expenses were EUR 1.1 million (€0.3 m). Profit before taxes was EUR 5.5 million (€3.9 m) and profit for the period was EUR 4.0 million (€4.8 m). Earnings per share (undiluted) from continuing operations were EUR 1.09 (€0.71).

MARKETS

Market conditions, capacity utilization rates, order books and product prices for the 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 demand good.

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 were at the planning stage, but most wood products manufacture 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 still being planned in Australia and New Zealand, but their implementation and timing are 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 plantation forest areas of 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, demand was brisk for systematic maintenance services designed to improve operations.

NEW ORDERS AND MARKET POSITION

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.

Raute's project order intake during 2005 was EUR 109 million (€68 m). The most notable new project orders were for machinery for a softwood plywood mill in Chile and an LVL mill expansion in Finland. Other orders mainly concerned modernizations of existing production capacity in the plywood industry.

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. The new-generation peeling line placed on the market the previous year has been extremely well received. Peeling technology has also given the company a foothold in Brazil, where the plywood industry has so far relied mainly on local technology. The mill-scale order obtained from Chile was the latest indication of Raute's market leadership as full-service supplier of technology to the plywood industry.

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.

NET SALES AND ORDER BOOK

The Raute Group's net sales for 2005 were EUR 108.6 million, 49 per cent up on the previous year (€73.1 m). Finland accounted for 28 per cent of net sales (11%). Growth resulted from an LVL plant expansion delivery and from the first installations of new panel handling developments. Share of 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%).

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

The order book at the year-end was a strong EUR 55 million (€35 m).

RESULT AND PROFITABILITY

The Board's period of operation starts at the Annual General Meeting, where the Board is elected. The Group's operating profit was EUR 4.4 million (€3.6 m) and profit from continuing operations before tax was 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.

Earnings per share from continuing operations were EUR 1.09 undiluted (€0.71) and EUR 1.07 diluted (€0.71). Return on capital employed was 21 per cent (including discontinued operations 25%) and return on equity was 16 per cent (including discontinued operations 20%).

DEVELOPMENT OF OPERATIONS

Raute's position as the leading technology supplier in its field was maintained through continuing emphasis on product development and expertise. The range of products for the wood products industry was expanded through the acquisition of technology needed for the machinery used to produce decorative veneers.

Raute continued to focus on its core expertise. The division of work between Raute's network of partners and its own production units was further developed in order to respond to the increase in the level of business activity. At the main production unit in Nastola 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 operations.

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, Russia under the name Raute Service LLC, and this company has supplied spare parts and maintenance services in Russia since May. The company's maintenance and modernization services in North America were also vigorously developed.

CHANGES 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 Corporation purchased the remaining 50 per cent of the shares of its associated company Mecano Group Oy. 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.

FINANCING

The Group's financial position remained strong. Gearing was -41.5 per cent (-30.6%) and the equity ratio 55.7 per cent (56.8%). Liquid assets at the end of the year were

EUR 11.4 million (€9.5 m) and interest-bearing liabilities EUR 0.5 million (€1.9 m). 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) and the cash flow from investing activities -EUR 3.0 million (€7.8 m). 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).

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 in long-term bilateral credit facilities.

RESEARCH AND DEVELOPMENT COSTS AND INVESTMENTS

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

The number of employees at the end of the year was 533 (543). Of these, 77 per cent were employed by the Group's Finnish companies (78%), 21 per cent by the North American companies (21%) and 2 per cent by the sales and service units elsewhere (1%).

SHARES

The total number of shares at the end of 2005 was 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 A shares are quoted on the main list of Helsinki Stock Exchange. Altogether 1,529,700 shares, total value €17.1 million, were traded during 2005. This represented 54 per cent of the total number of Series A shares. The average quotation for Series A shares was EUR 11.24 (€8.14). 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, with Series K shares valued at the closing price of Series A shares at 31 December 2005, i.e. EUR 14.24.

During 2005, a total of 1,650 Series A shares were subscribed through exercise of B warrants pertaining to Raute Corporation's 1998 bond issue. The increase in share capital, EUR 3,300, corresponding to the shares subscribed, was entered in the Trade Register on 25 January 2006.

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

DISTRIBUTION OF DIVIDEND

The Annual General Meeting of 22 March 2005 approved the Board of Directors' proposal to distribute a dividend of EUR 0.40 per share, i.e. a total of EUR 1.5 million. Dividend was paid on 5 April 2005.

AUTHORIZATION TO BUY BACK AND DISPOSE OF OWN SHARES

The Annual General Meeting of 22 March 2005 authorized the Board of Directors to decide, within a period of one year, to buy back, using funds available for the distribution of profit, a maximum of 190,730 company Series A shares. The shares so purchased may be disposed of in the event of a pressing financial reason such as the financing of company acquisitions or other corporate restructuring. The authorization was not used during 2005.

AMENDMENT TO THE COMPANY'S ARTICLES OF ASSOCIATION

The Annual General Meeting of 22 March 2005 decided to adopt Raute Corporation as the company's name in English and Raute Abp as the company's name in Swedish, and to amend Article 1 of the Articles of Association correspondingly.

The Annual General Meeting of 22 March 2005 elected the following persons as members of the company's Board of Directors: Jarmo Rytilahti (Chairman), Sinikka Mustakallio (Vice-Chairman), Mika Mustakallio, Panu Mustakallio, Markku Nihti, Pekka Paasikivi and Heikki Lehtonen.

Tapani Kiiski has been the company's President and CEO since 16 March 2004. In addition to Mr Kiiski, the Group's Executive Board in 2005 comprised Arja Hakala (Deputy to the President and CEO), Petri Strengell (Vice President, Technology and Operations), Timo Kangas (Vice President, Technology Services), and Bruce Alexander (Vice President, North American Business Operations).

AUDITORS

Raute Corporation's Annual General Meeting of 22 March 2005 elected Kari Miettinen and Lotta Mäkelä, both authorized public accountants, as the company's auditors and the authorized public accountants PricewaterhouseCoopers Oy as deputy auditor.

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 the decorative veneer industry.

The Group has prepared itself for fluctuations in the amount of working capital tied up in its project business by means of a domestic commercial paper programme and 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.

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 operations 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' PROPOSAL TO THE ANNUAL GENERAL MEETING

The Board of Directors will propose to the Annual General Meeting to be held on 22 March 2006 that a dividend of EUR 0.60 per share be paid on Series A and K shares, i.e. a total of EUR 2.3 million. The date for payment is 3 April 2006 and the record date for dividend payment is 27 March 2006.

OUTLOOK FOR 2006

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 is 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 some 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.

Consolidated income statement

EUR 1 000

Note		1.1.-31.12.2005	1.1.-31.12.2004
2,3,4	NET SALES	**108 627**	73 116
	Increase (+) or decrease (-) in inventories of finished goods and work in progress	**40**	-338
5	**Other operating income**	**708**	823
6	Materials and services	**65 324**	36 274
7	Personnel expenses	**25 387**	22 640
10,17,18	Depreciation, amortisation and impairment charges	**2 877**	3 002
13	Other operating expenses	**11 384**	8 038
	Total operating expenses	**104 972**	69 954
	OPERATING PROFIT	**4 403**	3 647
14	**Financial income**	**1 131**	870
14	**Financial expense**	**-73**	-558
	Share of results in associated companies		-53
	PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**5 461**	3 906
15	**Income taxes**	**-1 423**	-1 167
	PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**4 038**	2 739
12	**Profit from discontinued operations**		2 071
	PROFIT FOR THE PERIOD	**4 038**	4 810
16	**Breakdown**		
	Minority interest	**-114**	48
	Share of profit that belongs to owners of the parent company	**4 152**	4 762
16	**Earnings per share**		
	From continuing operations, eur	**1,09**	0,71
	From discontinued operations, eur		0,54
16	**Diluted earnings per share**		
	From continuing operations, eur	**1,07**	0,71*)
	From discontinued operations, eur		0,54*)
	Shares		
	Adjusted average number of shares	**3 814 608**	3 814 608
	Adjusted average number of shares diluted	**3 871 703**	3 814 608

*) Diluted earnings per share is presented as equal to basic (undiluted). The effect of options to earnings per share in year 2004 has been antidilutive.

Consolidated balance sheet

EUR 1 000

Note		31.12.2005	31.12.2004
	ASSETS		
	Fixed assets and other non-current assets		
17	Intangible assets	**2 757**	3 070
18	Tangible assets	**13 939**	13 246
19	Investments in associated companies		309
20	Available-for-sale investments	**395**	342
21	Receivables	**48**	48
29	Deferred tax assets	**210**	235
	Total	**17 349**	17 250
	Current assets		
22	Inventories	**5 026**	3 875
4,23	Accounts receivable and other financial assets	**21 666**	14 978
24	Financial assets at fair value through profit/loss	**8 975**	7 751
25	Cash and cash equivalents	**2 419**	1 779
	Total	**38 086**	28 383
26	**Non-current assets held as available-for-sale**		555
2	**TOTAL ASSETS**	**55 435**	46 188
	SHAREHOLDERS' EQUITY AND LIABILITIES		
	Shareholders' equity		
27	Share capital	**7 629**	7 629
	Reserve fund		5 429
	Share premium	**5 429**	
27	Other funds	**14**	
27	Retained earnings	**8 699**	6 866
27	Profit / loss for the period	**4 152**	4 762
	Share of shareholders' equity that belongs to owners of the parent company	**25 923**	24 686
	Minority interest	**224**	353
	Total shareholders' equity	**26 147**	25 039
	Long-term liabilities		
28	Provisions	**475**	654
29	Deferred tax liabilities	**1 300**	1 552
30	Long-term interest-bearing liabilities	**357**	186
	Total	**2 132**	2 392
	Current liabilities		
28	Provisions	**1 927**	692
	Tax liabilities	**105**	1 085
34	Pension obligations	**380**	76
32	Short-term interest bearing liabilities	**176**	1 674
33	Advance payments received	**8 500**	2 136
33	Trade and other payables	**16 068**	13 094
	Total	**27 156**	18 757
	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**55 435**	46 188

Consolidated cash flow statement

EUR 1 000

	1.1.-31.12.2005	1.1.-31.12.2004
CASH FLOW FROM OPERATING ACTIVITIES		
Proceeds from sales	**108 934**	73 167
Proceeds from other operating income	**483**	494
Payments of operating expenses	**-99 840**	-73 572
Cash flow before financial items and taxes	**9 577**	89
Interests and other operating financial expenses paid	**-80**	-750
Interests and other income received	**764**	1 378
Dividends received	**56**	219
Income taxes paid	**-2 636**	-640
NET CASH FROM (+) / USED IN (-) OPERATING ACTIVITIES (A)	**7 681**	296
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure in tangible and intangible assets	**-3 554**	-1 629
Acquisition of subsidiary shares	**-304**	
Proceeds from disposal of subsidiary shares		7 385
Proceeds from sale of tangible and intangible assets	**713**	611
Proceeds from other investments	**180**	1 462
NET CASH FROM (+) / USED IN (-) INVESTING ACTIVITIES (B)	**-2 965**	7 829
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of short-term liabilities	**-1 537**	-7 255
Increase of long-term liabilities	**278**	-40
Repayment of long-term liabilities	**-66**	
Increase of long-term and short-term receivables		-998
Dividends paid	**-1 526**	-3 815
NET CASH FROM (+) / USED IN (-) FINANCING ACTIVITIES (C)	**-2 851**	-12 108
NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C)	**1 865**	-3 983
increase (+) / decrease (-)		
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR *)	**9 530**	13 513
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR *)	**11 395**	9 530

*) Cash and cash equivalents comprise of financial assets at fair value through profit/loss as well as cash and bank receivables

Consolidated statement of changes in shareholders' equity

EUR 1 000	Share capital	Reserve fund	Share premium	Other funds	Exchange rate differences	Retained earnings	Share of shareholders' equity that belongs to the owners of the parent company	Minority interest	**TOTAL**
TOTAL 31.12.2003 FAS	**7 629**	**5 429**			**565**	**9 690**	**23 313**	**0**	**23 313**
Effect of adopting IFRS	-	-			-	51	51	-	**51**
TOTAL 01.01.2004 IFRS	**7 629**	**5 429**	**0**	**0**	**565**	**9 741**	**23 364**	**0**	**23 364**
Taxes related to items recognized in or derecognized from shareholders' equity						38	38		**38**
Other increase / decrease					337		337	305	**642**
TOTAL	7 629	5429		0	902	9 779	23 739	305	**24 044**
Profit / loss for the period						4 762	4 762	48	**4 810**
TOTAL INCOME AND EXPENSES FOR THE PERIOD	7 629	5 429			902	14 541	28 501	353	**28 854**
Acquisition of treasury shares									
Dividends paid						-3 815	-3 815		**-3 815**
TOTAL 31.12.2004 IFRS	**7 629**	**5 429**		**0**	**902**	**10 726**	**24 686**	**353**	**25 039**
Taxes related to items recognized in or derecognized from shareholders' equity									
Other increase / decrease		-5 429	5 429	14	-1 435	32	-1 389	-15	**-1 404**
TOTAL	7 629	0	5 429	14	-533	10 758	23 297	338	**23 635**
Profit for the period						4 152	4 152	-114	**4 038**
Other increase / decrease									
TOTAL INCOME AND EXPENSES FOR THE PERIOD	7 629	0	5 429	14	-533	14 910	27 449	224	**27 673**
Acquisition of treasury shares									
Dividends paid						-1 526	-1 526		**-1 526**
TOTAL 31.12.2005 IFRS	**7 629**	**0**	**5 429**	**14**	**-533**	**13 384**	**25 923**	**224**	**26 147**

Transition to IFRS reporting

Raute Group started the reporting of its accounting and financial principles in accordance with International Financial Reporting Standards (IFRS) at 1 January 2005, and published a stock exchange release about the transition on 26 April 2005. The date of transition was 1 January 2004. The interim financial reports of 2005 have been prepared in accordance with the recognition and measurement principles of IFRS.

Raute Group has applied the transitional standards of IFRS 1, which provides alternatives in the application of the standards, and IFRS 5 for the year of comparison. The largest positive impact on equity resulted from the recognition of development costs as assets and from a receivable of a defined benefit pension scheme in Raute Group's pension foundation. Equity was reduced by liabilities related to the defined benefit disability pension provided for by the Employees Pension Act (TEL), specification principles of revenue recognition, and depreciation on the revaluation of property. Measurement of forward contracts in connection with foreign currency denominated trade receivables in accordance with the IFRS requirements has since 2004 had an effect on the income statement of the Group.

The transition to IFRS reduced the 2004 net sales by EUR 8.0 million and the operating profit by EUR 1.5 million compared to the Financial Statements prepared by Finnish Accounting Standards (FAS). The effect on net profit was EUR 0.8 million and EUR 1.0 million on total assets. The continuing operations presented in the 2004 IFRS-figures are comparable with Raute's current "wood products technology" operations.

The 2004 net sales in accordance with IFRS amounted to EUR 73.1 million and operating profit to EUR 3.6 million. Operating profit in Q4, 2004, included a non-recurring profit item of EUR 1.1 million in connection with the pension plan. The net profit without aforementioned extraordinary item and taxes was EUR 2.8 million. The profit before taxes from continuing operations was EUR 2.9 million and profit after taxes EUR 2.7 million.

The operation in weighing and dosing technology has been treated as a discontinued operation in the 2004 IFRS-figures, which reduced net sales by EUR 7.4 million and operating profit by EUR 3.0 million compared to the FAS-figures. The profit from discontinued operations was EUR 3.0 million before taxes and EUR 2.1 million after taxes.

Main effects on the accounting policies applied when preparing the consolidated financial statements

The following changes in accounting policies have an impact on Raute's reporting:

1. Intangible assets (IAS 38)

Development expenditures due to the planning of new or more advanced products are recognized as soon as the product is technically feasible, it can be utilized commercially and the asset is expected to generate future economic benefit. The estimated useful life of the development expenditures is three years. The recognition of development expenditures has been introduced in the opening balance sheet in accordance with IAS 38.

The remaining goodwill relating to the machine vision technology acquired in the Mecano Group Oy acquisition in 1999, and the wood products technology acquired in the Jymet Engineering Oy acquisition in 2000 comprises purchased technologies in compliance with the requirements for an intangible asset under IAS 38. Hence these items have been reclassified as intangible assets.

2. Property, plant and equipment (IAS 16)

The historical cost of certain property includes revaluations recognized in accordance with Finnish Accounting Standards. Depreciation of the revaluation of buildings has been calculated retrospectively from the purchase date in accordance with IFRS 1.

Some of the property has been classified as non-current assets held for sale. Depreciation ended when a classification as non-current assets held for sale was made.

Shares in housing corporations have been reclassified as non-current assets held for sale.

3. Investments in associates (IAS 28)

The associate Eloc Oy has been incorporated in the opening balance sheet at January 1, 2004, using the equity method. The same method of accounting has been applied since January 1, 2004, in the reporting in accordance with FAS.

4. Employee benefits (IAS 19)

The Group has both defined contribution and defined benefit pension schemes.

Defined benefit schemes comprise the disability pension included in the Finnish TEL pension system and a voluntary pension scheme provided by the pension foundation of Raute Group. The pension arrangements of foreign subsidiaries have been classified in the IFRS as defined benefit schemes.

Pension arrangements are reported in accordance with IAS 19. Obligations under defined benefit pension schemes increase the Group's liabilities. In the event that the assets of defined benefit pension schemes exceed the liabilities, the excess increases the Group's assets. Pension expenditures are recognized as an expense based on actuarial calculations.

5. Inventories (IAS 2)

A portion of fixed and variable overheads incurred in proportion to the volume of production has been included in the cost of inventories.

6. Deferred tax assets and liabilities (IAS 12)

Deferred taxes have been recognized in accordance with IAS 12. The largest temporary differences result from the recognition of development expenditures and defined benefit pension schemes. Deferred taxes have been calculated at a rate of 29% during 2004 and at a rate of 26% at 31 December 2004. In compliance with the principle of prudence, no deferred tax assets have been recognized on losses incurred by foreign subsidiaries.

7. Financial instruments (IAS 32, IAS 39)

In accordance with the requirements of the IFRS, financial assets have been classified as financial assets at fair value through profit or loss, available-for-sale financial assets, and other loans and receivables.

Derivatives have been measured at fair value through profit or loss.

8. Revenue (IAS 18)

Since 2001, Raute has applied the percentage of completion method for long-term projects. The revenue recognition date (percentage of completion 100%) has been adjusted to match IAS 18. Projects are recognized as revenue in full when the risks and rewards related to ownership are transferred to the buyer. The adjustment of the revenue recognition date has an impact on the balance sheet, e.g. on the amount of provisions.

9. Non-current assets held for sale (IFRS 5)

Raute divested the Raute Precision business on February 24, 2004. In the opening balance sheet at 1 January 2004, Raute Precision has been classified as a discontinued operation and its assets and liabilities have been presented separately from other assets and liabilities in the balance sheet. The operation profit and the profit from sales for Raute Precision are presented in the income statement under discontinued operations.

10. Segment reporting

Raute's primary reporting segment is the business segment. After the sale of Raute Precision, the entire business belongs to the wood products technology segment.

The secondary reporting segment is the geographical segment. A geographical segment consists of a market area accounting for over 10 % of the Group's turnover.

Balance sheet 1 January 2004

EUR 1 000

Note		FAS 1.1.2004	Discontinued operations	IFRS effect	IFRS 1.1.2004
	ASSETS				
	Fixed assets and other non-current assets				
1	Intangible assets	769	-222	1 944	2 491
	Goodwill	779	-111	-668	0
2	Tangible assets	17 883	-1 653	-1 035	15 196
3	Investments in associated companies	2 103		-73	2 030
2	Available-for-sale investments	535		-112	423
	Receivables	48			48
6	Deferred tax assets			544	544
	Total	**22 117**	**-1 985**	**601**	**20 733**
	Current assets				
5	Inventories	5 728	-1 672	228	4 284
4,8	Accounts receivable and other financial assets	22 153	-9 833	-1 049	11 271
7	Financial assets at fair value through profit / loss	11 500		184	11 684
	Cash and cash equivalents	2 012	-91		1 921
	Total	**41 393**	**-11 596**	**-636**	**29 161**
9	**Non-current assets held as available-for-sale**		**13 581**	**671**	**14 252**
	TOTAL ASSETS	**63 510**	**0**	**635**	**64 145**
	SHAREHOLDERS' EQUITY AND LIABILITIES				
	Shareholders' equity				
	Share capital	7 629			7 629
	Reserve fund	5 429			5 429
	Retained earnings	12 958		51	13 009
	Profit / loss for the period	-2 703			-2 703
	Total	**23 313**		**51**	**23 364**
	Minority interest				
	Non-current liabilities				
6	Deferred tax liabilities	1 172	-135	584	1 622
8	Provisions			477	477
	Long-term interest-bearing liabilities	252			252
	Total	**1 424**	**-135**	**1 061**	**2 351**
	Current liabilities				
8	Trade and other payables	27 765	-8 811	-1 665	17 289
4	Pension obligations			1 197	1 197
8	Provisions	1 985	-441	-9	1 535
	Short-term interest-bearing liabilities	9 023			9 023
	Total	**38 773**	**-9 252**	**-477**	**29 044**
9	Liabilities related to non-current assets held as available-for-sale		9 387		9 387
	Total liabilities	**40 197**	**0**	**584**	**40 781**
	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**63 510**	**0**	**635**	**64 145**

Balance sheet 31.1.2004

EUR 1 000

Note		FAS 31.12.2004	IFRS effect	IFRS 31.12.2004
	ASSETS			
	Fixed assets and other non-current assets			
1	Intangible assets	1 365	1 705	3 070
	Goodwill	407	-407	0
2	Tangible assets	14 156	-910	13 246
3	Investments in associated companies	309		309
2	Available-for-sale investments	424	-82	342
	Receivables	48		48
6	Deferred tax assets		235	235
	Total	**16 709**	**541**	**17 250**
	Current assets			
5	Inventories	3 650	225	3 875
4,8	Accounts receivable and other financial assets	15 304	-326	14 978
7	Financial assets at fair value through profit / loss	7 712	39	7 751
	Cash and cash equivalents	1 779		1 779
	Total	**28 445**	**-62**	**28 383**
9	Non-current assets held as available-for-sale		555	555
	TOTAL ASSETS	**45 154**	**1 034**	**46 188**
	SHAREHOLDERS' EQUITY AND LIABILITIES			
	Shareholders' equity			
	Share capital	7 629		7 629
	Reserve fund	5 429		5 429
	Retained earnings	6 815	51	6 866
	Profit / loss for the period	3 945	817	4 762
	Total	**23 818**	**868**	**24 686**
	Minority interest	**353**		**353**
	Non-current liabilities			
6	Deferred tax liabilities	1 048	504	1 552
8	Provisions		654	654
	Long-term interest-bearing liabilities	186		186
	Total	**1 234**	**1 158**	**2 392**
	Current liabilities			
8	Trade and other payables	16 247	68	16 315
4	Pension obligations		76	76
8	Provisions	1 828	-1 136	692
	Short-term interest-bearing liabilities	1 674		1 674
	Total	**19 749**	**-992**	**18 757**
	Liabilities related to non-current assets held as available-for-sale			
	Total liabilities	**20 983**	**166**	**21 149**
	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**45 154**	**1 034**	**46 188**

Income statement 1.1. - 31.12.2004

EUR 1 000	FAS 2004	Discontinued operations	IFRS effect	IFRS 2004
NET SALES	**81 166**	**-7 398**	**-652**	**73 116**
Other operating income	3 775	-2 952		823
Operating expenses	-77 103	7 311	2 502	-67 290
Depreciation, amortisation and impairment charges	-2 712	87	-377	-3 002
OPERATING PROFIT / LOSS	**5 126**	**-2 952**	**1 473**	**3 647**
Financial income and expenses	651	35	-374	312
Share of results in associated companies			-53	-53
PROFIT BEFORE TAXES	**5 777**	**-2 917**	**1 046**	**3 906**
Taxes	-1 784	846	-229	-1 167
PROFIT FROM CONTINUING OPERATIONS	**3 993**	**-2 071**	**817**	**2 739**
PROFIT FROM DISCONTINUED OPERATIONS				**2 071**
Minority interest	-48			-48
PROFIT / LOSS FOR THE PERIOD	**3 945**		**817**	**4 762**

Key ratios

	FAS 31.12.2004	IFRS 31.12.2004
Earnings per share from continuing operations:		
Undiluted, eur		0.71
Diluted, eur		0.71
Earnings per share from discontinued operations:		
Undiluted, eur		0.54
Diluted, eur		0.54
Equity to share, eur	6.24	6.47
Return on investment %, ROI	22.0	25.2
Return on equity %, ROE	16.8	19.9
Equity ratio %	56.2	56.8
Gearing %	-31.6	-30.6
Order book, EUR 1 000	32 199	35 417

Consolidated statement of changes in shareholders' equity

EUR 1 000	Share capital	Reserve fund	Exchange rate and translation differences	Retained earnings	Total
SHAREHOLDERS' EQUITY 1.1.2004 FAS	**7 629**	**5 429**	**565**	**9 690**	**23 313**
Effects of adopting IFRS				51	
SHAREHOLDERS' EQUITY 1.1.2004 IFRS	**7 629**	**5 429**	**565**	**9 741**	**23 364**
Profit / loss for the period				4 762	
Dividends paid				-3 815	
Translation differences			375		
SHAREHOLDERS' EQUITY 31.12.2004	**7 629**	**5 429**	**940**	**10 688**	**24 686**

Reconciliation of shareholders' equity

	Note	31.12.2004	30.9.2004	30.6.2004	31.3.2004	1.1.2004
Shareholders' equity according to FAS		23 818	22 617	22 335	21 612	23 313
Effects of adopting IFRS						
Development costs	1	1 299	1 157	1 185	1 230	1 276
Depreciations on buildings	2	-366	-352	-356	-408	-475
Pension plans	4	419	-695	-688	-681	-673
Inventories	5	224	331	308	214	228
Deferred tax assets and liabilities	6	-318	178	165	132	-40
Financial instruments	7	462	298	181	379	415
The change of date of full recognition of revenue	8	-830	-1 352	-1 246	-1 235	-607
Other IFRS-adjustments	3	-22				-73
Adjustments in shareholders' equity, total		868	-435	-451	-369	51
Shareholders' equity according to IFRS		**24 686**	**22 182**	**21 884**	**21 243**	**23 364**

Reconciliation of profit / loss

RECONCILIATION OF PROFIT / LOSS	Note	2004	1-9/2004	1-6/2004	1-3/2004
Profit / loss according to FAS		3 945	3 318	2 878	2 275
Effects of adopting IFRS					
Development costs	1	23	-119	-91	-46
Depreciations on buildings	2	123	123	119	67
Pension plans	4	1 092	-22	-15	-8
Inventories	5	-4	103	80	-14
Deferred tax assets and liabilities	6	-278	218	205	172
Financial instruments	7	47	-117	-234	-36
The change of date of full recognition of revenue	8	-223	-745	-639	-627
Other IFRS-adjustments	3	37	73	73	73
Adjustments in profit / loss, total		817	-486	-502	-419
Profit / loss according to IFRS		**4 762**	**2 832**	**2 376**	**1 856**

The development of quarterly profit / loss

EUR 1 000		2004	2004	2004	2004
FAS 1.1. -31.12.2004	2004	10-12	7-9	4-6	1-3
Net sales	81 166	20 538	18 708	15 799	26 121
Operating profit / loss	5 126	350	683	787	3 306
Profit / loss for the period	**3 945**	**627**	**440**	**603**	**2 275**
IFRS 1.1. - 31.12.2004		10-12	7-9	4-6	1-3
Continuing operations					
Net sales	73 116	21 940	18 053	16 243	16 880
Operating profit / loss	3 647	2 324	569	791	-37
Profit/loss from continuing operations	2 739	1 832	448	612	-153
Profit/loss from discontinued operations	2 071	113			1 958
Profit / loss for the period	**4 810**	**1 945**	**448**	**612**	**1 805**
Breakdown					
Minority interest	+48	+15	-8	+92	-51
Share of profit / loss that belongs to owners of the parent company	4 762	1 930	456	520	1 856

Raute Group's notes to the Financial Statements

GENERAL INFORMATION

Raute Group (later 'Group') is a global technology group which core business areas include production processes of veneer based wood products. The project deliveries contain entire factories, production lines and single machines. The total service concept of technology services includes spare part, maintenance and modernization services as well as services related to business development of our clients.

The parent company of the Group, Raute Oyj (Business ID FI1490726), is a public limited liability company organized under the laws of the Republic of Finland, domiciled in Lahti. The A-shares are quoted on the main list in the group of Industrial Products and Services on the Helsinki Stock Exchange. The principal executive offices of the Group are located at Rautetie 2, 15550 Nastola and the postal address is P.O.Box 69, FI-15551 NASTOLA, Finland.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES

Basis of preparation

These are the first financial statements of the Group that have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared in accordance with the IFRS and IAS standards and SIC and IFRIC interpretations effective or issued and early adopted at December 31, 2005. With the IFRS are referred to the standards and interpretations upon these in the Finnish Accounting Act and regulations issued by virtue to it and endorsed in the EU in accordance with the procedure defined in the EU Regulation (EY) N:o 1606/2002. The notes to the consolidated financial statements have been prepared in conformity with the Finnish Accounting Legislation.

In 2005 the Group adopted IFRS accounting principles and has in this context applied the IFRS 1, First Time Adoption of International Financial Reporting Standards. The transition date is January 1, 2004. Reconciliations and descriptions of the effect of the transition from Finnish Accounting Standards to IFRS are presented in the IFRS-reconciliations in consolidated Financial Statements.

The consolidated financial statements have been prepared under the historical cost convention, except for revaluation of available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through profit or loss. All amounts in the consolidated financial statements are in euro thousand unless otherwise stated.

The preparation of financial statements in accordance with IFRS requires the management to make estimates and judgments in applying the Group's accounting policies. Information about the estimates and judgments that the management has used and which are most critical to the figures in the financial statements are presented under section "The Critical Accounting Estimates and Judgements".

Segment reporting

The Group's primary format for reporting segment information is business segments and secondary format is geographical segments. The business segments are based upon the Group's internal organizational, management and financial reporting structure. A geographical segment is identified as a reportable segment if its revenue is 10% or more of the Group's total revenue and if its risks and returns are different from those of components operating in other economic environments.

For the financial years 2004 and 2005 the continuing operations as a whole are included in the Wood Product Technology segment.

Consolidation principles

The consolidated financial statements include the parent company Raute Corporation and its subsidiaries in which the parent company holds, directly or indirectly, more than 50 per cent of the voting rights or otherwise has the power to exercise control over the operations. The subsidiaries are accounted for by using the purchase method. Subsidiaries are consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

Accounting policies for foreign subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. All intra-group transactions, receivables, liabilities and unrealized margins, as well as distribution of profits within the Group, are eliminated. The profit or loss for the period is in the income statement allocated to the profit or loss attributable to equity holders of the parent and profit and loss attributable to minority interest. In the balance sheet the minority interest is presented as a separate item of equity.

Associates, over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights, are accounted for by using the equity method. Unrealized gains on transactions between Group and its associates are eliminated to the extent of the Group's interest in the associates. The Group's investment in associates includes goodwill identified on acquisition.

The Group has made use of the exemption available under IFRS 1 not to restate the acquisitions that took place prior to January 1, 2004.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('functional currency'). The consolidated financial statements are presented in euro, which is the functional and presentation currency of the parent company.

Advances paid and received are recognized in the balance sheet using the exchange rate prevailing at the date of the payment. Other foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions or at rates approximating the rate prevailing at the date of transaction. At the balance sheet date monetary assets and liabilities are translated at the average exchange rates on the balance sheet date. Gains and losses resulting from the settlement and translation of monetary assets and liabilities are recognized in the income statement above the operating profit or under financial income and expenses based on the nature of transactions.

Income statements of foreign entities are translated into the Group's reporting currency at the weighted average exchange rates during the period and balance sheets are translated at the exchange rates on the balance sheet date. Exchange differences arising from the translation are recognized as a separate component of equity. Exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity on consolidation. In accordance with the exemption allowed by IFRS 1 the previously accumulated translation differences are set to zero at January 1, 2004.

The exchange rates used in the consolidation of subsidiaries are disclosed in the Note 39.

Revenue recognition

Sales of spare parts and other goods are recognized when the significant risks and rewards of ownership have been transferred to the purchaser. Revenue from services is recognized when the services are rendered.

Revenue and costs from long-term contracts (projects) are recognized based on the percentage of completion method. Completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of estimated total project costs for each contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Other operating income

Revenue and gains not included in the net sales such as rental revenues and gains on disposal of fixed assets are included in other operating income.

Assets held for sale and discontinued operations

The Group has applied IFRS 5 to assets held for sale and discontinued operations. Assets held for sale and assets related to discontinued operations that are classified as assets held for sale are measured at the lower of their carrying amounts and fair value less costs to sell. Depreciations or amortizations of assets held for sale are ceased at the moment of the classification. Assets held for sale shall be disclosed separately in the balance sheet.

A separate major line of business or geographical area of operations that has been either disposed or is classified as asset held for sale and is part of a single co-ordinated plan to dispose is presented as discontinued operation.

Total of post-tax profit or loss for the discontinued operations and the gain or loss on disposal of the assets included in the discontinued operations are presented as a single amount on the face of the income statement.

Income taxes

The Group's income tax expense includes taxes of the Group's companies based on taxable profit for the period, together with tax adjustments for the previous periods and the change in deferred income taxes.

Deferred tax assets and liabilities are determined for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes using tax rates enacted by the balance sheet day. The principal temporary differences arise from the amortizations of tangible fixed assets.

Deferred tax receivables are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Financial assets and liabilities

The Group classifies its financial assets and liabilities into the following categories: financial assets at fair value through profit and loss, loans and receivables and available-for-sale. Purchases and sales of financial assets and liabilities are recognized at the trade date.

Financial assets at fair value through profit and loss include investments in equity securities, deposits with maturities over 3 months as well as investments in other securities intended to be held for less than 12 months .

Available-for-sale investments are measured at fair value. Unrealized fair value changes are recognized directly in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses.

Trade receivables are recognized initially at fair value. Trade receivables are assessed for credit loss risks and when there is objective evidence that the Group will not be able to collect all due amounts an impairment loss is recognized.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. Loans and receivables are carried at amortized cost using the effective interest method and they are included in the non-current assets, unless they have a maturity of less than 12 months from the balance sheet date in which case they are included in the current assets.

Cash and cash equivalents comprise cash in hand, short-term bank deposits and other highly liquid investments with original maturity of three months or less. Bank overdrafts are included within the short term borrowings.

Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.

Accounting for derivative financial instruments

The Group does not apply hedge accounting.

At the balance sheet date derivatives are valued at fair value and included in accruals. Changes in fair value are recognized in the income statement.

Intangible assets

Intangible asset is recognized in the balance sheet only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Otherwise the expenditure is expensed as incurred. Intangible assets include goodwill, capitalized development costs and other intangible assets.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognized as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Intangible assets with indefinite useful life are not subject to amortization and are tested annually for impairment. Intangible assets with definite useful life are amortized on a straight-line basis, as follows:

Patents	10 years
Capitalized development costs	3 years
Computer programs	5 years
Other intangible assets	3-10 years

Property, plant and equipment

All property, plant and equipment is valued at cost less subsequent depreciation and impairment. Ordinary repair and maintenance costs are recognized as an expense as incurred. Land is not depreciated. Other property, plant and equipment is depreciated using the straight-line method over its estimated useful life, as follows:

Buildings	23-40 years
Plant and machinery	4-12 years
Other property, plant and equipment	3-10 years

The estimated useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The depreciation of property, plant and equipment is ceased when the asset is classified as an asset held for sale.

Gains and losses on disposals of property, plant and equipment are included into the other operating income or expenses.

Impairment of assets

Assets with indefinite useful life are not subject to amortization and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. The impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is higher of an assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the Group are classified as finance leases. Finance leases are capitalized at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term. The corresponding rental obligations, net of finance charges, are included in borrowings.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating lease are charged to the income statement on a straight-line basis over the period of the lease.

Inventories

Inventories are valued at the lowest of cost and net realizable value. Raw materials and supplies are valued at weighted average cost method. The cost of finished goods and work in progress comprises direct material and production costs and related production overheads including depreciation but excluding borrowing costs. The net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provision related to warranty obligation is recognized when revenue from construction contract, service or sale of spare part including a warranty clause is recognized. The unused provision is recognized as income at the end of the guarantee period. Restructuring provision is recognized when the Group has a detailed formal restructuring plan and the Group has started to implement the plan or has announced its main features to those affected by the plan. Provision for onerous contract is recognized when the unavoidable costs under the contract exceed the economic benefits expected to be received under it.

Post-employment benefits: pension obligations

The Finnish Statutory Employment Pension Scheme ('TEL') excluding the future disability benefit and the pension plans of the foreign subsidiaries are classified as defined contribution plans. The contributions to defined contribution plans are charged to the income statement in the year to which they relate.

The future disability benefit of TEL as well as the supplementary retirement benefit scheme of Raute Corporation are classified as defined benefit plans. In 2005 the supplementary retirement benefit scheme was transferred from Group's pension fund to a pension company. The liabilities and expenses from the defined benefit plans are recognized on the basis of actuarial calculations prepared by authorized actuaries. In accordance with the exemption allowed by IFRS 1 all actuarial gains and losses have been recognized in the opening balance sheet at the day of transition January 1, 2004. Subsequent actuarial gains and losses exceeding the greater of 10% of the fair value of plan assets or 10% of the present value of the defined benefit obligation are recognized in the income statement over the employees' expected average working lives.

Employment benefits: share-based payments

Costs arising from share option plans made before November 7, 2002 are not recognized in the income statement.

Dividends

Dividends proposed by the Boards of Directors are not recorded in the financial statements until the shareholders have approved them at the General Meeting.

Earning per share

Earnings per share is calculated by dividing the net profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is calculated using the treasury stock method. The weighted average number of ordinary shares in issue is adjusted as if the options were exercised. The assumption of exercise is not reflected in earnings per share when the exercise price of the options exceeds the average market price of the shares during the period. The options have a dilutive effect only if the average market price of the share during the period exceeds the exercise price of the options.

The critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires the management to make estimates and assumptions. In addition, the management makes judgements in applying the Group's accounting policies. These may have effect on the carrying amounts of assets and liabilities, on disclosure of the contingent assets and liabilities and revenues and costs for the period. Actual results may differ from the estimates and assumptions.

The intangible assets with indefinite useful life are tested annually for impairment. Assets that are subject to amortization are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, which require the use of estimates.

The percentage of completion method is based on the expected revenue and costs of the project, as well as reliable measurement of the proceeding of the project. If the estimates of the project outcome change, the revenue and profit will be affected in the period when the change is made.

Warranty provisions are assessed based on past experience and attention is paid to the risks related to the specific product.

Application of the standards

The following standards and related interpretations are not relevant for the Group due to the nature of the business and financial transactions:

IFRS 4
IAS 26
IAS 29
IAS 30
IAS 31
IAS 41

The amendments for the IAS 39 standard issued by IASB in years 2004 and 2005 will be adopted by Raute in year 2006. Raute estimates that the adoption will not have material impact to the future financial statements.

The new standard IFRS 7 that issued by IASB in year 2005 will be adopted by Raute in year 2007. Raute estimates that adoption of this standard will only impact the format and extent of disclosures presented in the accounts.

EUR 1 000	2005	%	2004	%
2 SEGMENT INFORMATION				
Raute's primary reporting segment is business segment.				
Continuing operations belong to wood products technology segment.				
The secondary reporting segment is geographical.				
Geographical segment consists of market areas accounting for over 10% of Group's net sales.				
Net sales to external clients by clients' geographical location				
Europe	**43 954**	**40**	21 185	29
North-America	**28 817**	**27**	15 548	21
Russia	**15 534**	**14**	15 253	21
Asia	**8 107**	**7**	3 448	5
Rest of the world	**12 215**	**12**	17 682	24
TOTAL	**108 627**	**100**	**73 116**	**100**
Assets by geographical location				
Europe	**48 655**	**89**	42 127	91
North-America	**6 375**	**11**	3 941	9
Russia	**200**	**0**		0
Asia	**155**	**0**	120	0
Rest of the world	**50**	**0**		0
TOTAL	**55 435**	**100**	**46 188**	**100**

EUR 1 000	2005	%	2004	%
Capital expenditure by geographical location				
Europe	**3 654**	**96**	2 000	97
North-America	**142**	**4**	55	3
Russia		**0**		0
Asia	**1**	**0**	5	0
Rest of the world	**1**	**0**		0
TOTAL	**3 798**	**100**	**2 060**	**100**

3 PROCEEDS FROM SALES

Main part of the net sales is comprised of project deliveries related to wood processing technology, which are handled as constructions contracts. Other part of net sales is comprised of technology services provided to wood products industry (spare parts, maintenance and modernization services as services provided to wood products industry)

EUR 1 000	2005	%	2004	%
Net sales by market area				
Finland	**30 444**	**28**	7 980	11
North-America	**28 817**	**27**	15 548	21
Russia	**15 534**	**14**	15 253	21
Other Europe	**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
Others	**5 293**	**6**	274	0
TOTAL	**108 627**	**100**	73 116	100

4 CONSTRUCTION CONTRACTS

EUR 1 000	2005	2004
Net sales		
Net sales by percentage of completion	**93 021**	59 743
Other net sales	**15 606**	13 373
TOTAL	**108 627**	73 116
Project revenues entered as income from currently undelivered construction contracts recognized by percentage of completion	**45 578**	34 181
Amount of construction contract revenues not yet entered as income (order book)	**53 691**	33 145
Specification of combined asset and liability items		
Advances paid	**1 342**	453
Advances wound up by percentage of completion		
Advance payments included in inventories	**1 342**	453
Accrued income corresponding to revenues by percentage of completion	**46 501**	34 323
Advances received from project customers	**-34 211**	-26 000
Project receivables included in short-term receivables	**12 290**	8 322

EUR 1 000		2005	2004
5	**OTHER OPERATING INCOME**		
	Capital gain on sale of fixed assets	**225**	405
	Other	**483**	418
	TOTAL	**708**	823
6	**MATERIALS AND SERVICES**		
	Materials and supplies		
	- Purchases during the period	**57 131**	32 510
	- Change in inventories	**173**	94
	External services	**8 020**	3 670
	TOTAL	**65 324**	36 274
7	**PERSONNEL EXPENSES**		
	Personnel expenses in Income Statement		
	Wages and salaries	**21 137**	19 371
	Pension contributions		
	- Defined benefit plans	**-401**	-1 092
	- Defined contribution plans	**2 684**	2 416
	Other personnel costs	**1 967**	1 945
	TOTAL	**25 387**	22 640
8	**PERSONNEL**		
	Employed at 31.12.		
	Workers	**191**	208
	Office staff	**342**	335
	TOTAL	**533**	543
	- of which personnel working abroad	**124**	123
	Average		
	Workers	**197**	219
	Office staff	**340**	337
	TOTAL	**537**	556
	- of which personnel working abroad	**124**	117
9	**RESEARCH AND DEVELOPMENT COSTS ENTERED AS EXPENSES FOR THE PERIOD**		
	Total research and development costs	**3 616**	3 093
	Recognized as assets in balance sheet	**-242**	-523
	Research and development costs entered as expenses for the period	**3 374**	2 570
	Research and development costs as per cent of net sales	**3,3**	4,2
10	**DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES**		
	Depreciations		
	Intangible assets	**1 151**	1 172
	Tangible fixed assets		
	- Buildings and structures	**516**	510
	- Machinery and equipment	**1 210**	1 314
	- Other tangible fixed assets		6
	TOTAL	**2 877**	3 002

EUR 1 000	**2005**	2004

11 ACQUISITIONS

In March 2005 Raute Corporation acquired 29 percent of real estate holding company Eloc Oy's capital stock from Raute Corporation's Pension fund. After the acquisition Raute Corporation's shareholding of the company increased to 63 percentage.

In April 2005 Raute acquired rest of the 50 percent in associated company Mecano Group. Mecano Group develops and delivers machine vision technology and measuring systems to wood products industry. Sales and marketing occurs mainly through Raute's sales network.

Total cash flow from acquisitions in 2005 was EUR 304 thousand.

No acquisitions were made during the corresponding year.

12 DISCONTINUED OPERATIONS

Weighing and automation technology and its sale is handled as discontinued operation in year 2004 figures. Group disposed of the industry segment by selling the shares in Raute Precision Oy in February 2004.

	2005	2004
Intangible assets		333
Tangible fixed assets		1 569
Inventories		1 436
Receivables		12 069
Debts		-10 974
Total considerations		4 433
Capital gains / losses		2 952
Total considerations		7 385
Cash flows		
Received as cash		7 385
Subsidiaries' financial assets disposed		-737
Cash flow from disposals		6 648
Development of profit / loss from discontinued operations		
Income		7 398
Expenses		-4 481
Profit before taxes from available-for-sale asset		2 917
Taxes		-846
Profit from available-for-sale asset		2 071
Profit before taxes when assets are recognized in fair value		2 917
Taxes		-846
Profit after taxes		2 071
Cash flow from discontinued operations		
Cash flow from operating activities		778
Cash flow from investing activities		-41
TOTAL		737

13 OTHER OPERATING EXPENSES

	2005	2004
Indirect production expenses	**2 842**	1 700
Sales and marketing expenses	**2 536**	2 051
Administration expenses	**2 854**	2 407
Other expenses	**3 152**	1 880
TOTAL	**11 384**	8 038

EUR 1 000		2005	2004
14	**FINANCIAL INCOME AND EXPENSES**		
	Interest expenses	**-40**	-212
	Interest income	**142**	118
	Dividend income	**56**	307
	Profit from sales of available-for-sale investments	**95**	5
	Exchange rate profit / loss	**217**	-268
	Profit from sales of trading assets	**217**	-216
	Change in fair value of trading assets	**403**	656
	Other financial expenses	**-33**	-78
	TOTAL	**1 058**	312
	Exchange rate differences entered in Income Statement		
	Included in net sales	**-518**	-439
	Included in purchases and other expenses	**32**	-5
	Included in financial income / expenses	**217**	-268
	TOTAL	**-269**	-712
15	**INCOME TAXES**		
	From operations, financial year	**-1 653**	-967
	From operations, previous years	**3**	78
	Change in deferred taxes	**227**	-278
	TOTAL	**-1 423**	-1 167
	Analysis of the relationship between realized tax expense and theoretical accounting result using Finnish tax rate of 26% (tax rate in the comparison year is 29%)		
	Profit before taxes	**5 461**	3 906
	Accounted tax in year 2005, tax rate 26% / 2004 tax rate 29%	**-1 420**	-1 133
	Effect of changes in tax rates		157
	Effect of differences in taxes from other countries		-31
	Tax free income		28
	Non-deductible costs	**-194**	-199
	Taxes from the previous financial years	**1**	77
	Unrecognized tax assets from the losses of foreign subsidiaries		-172
	Other items	**190**	106
	Consolidated tax expense	**-1 423**	-1 167

Taxes from the year 2004 include EUR 157 thousand of extraordinary tax benefit due to change in Finnish tax legislation.

In 2004 tax expense related to discontinuing of the business of Raute Precision was EUR 800 thousand and tax expense from operating activities of discontinuing operations was EUR 47 thousand.

		2005	2004
16	**EARNINGS PER SHARE**		
	Share of profit from continuing operations that belong to owners of the parent company	**4 152**	2 691
	Share of profit from discontinued operations that belong to owners of the parent company		2 071
	Weighted average number of shares, 1000 shares	**3 815**	3 815
	Effect of stock options issued in 1998, 1000 shares	**57**	
	Diluted weighted average number of shares, 1000 shares	**3 872**	3 815
	Earnings per share from the continuing operations, EUR	**1.09**	0.71

EUR 1 000	2005	2004
Diluted earnings per share from the continuing operations, EUR	**1.07**	**0.71**
Earnings per share from the discontinued operations, EUR		0.54
Diluted earnings per share from the discontinued operations, EUR		0.54
The effect of options to earnings per share in year 2004 has been antidilutive +0.01%. The effect is not included in diluted earnings per share.		

17 INTANGIBLE ASSETS

EUR 1 000	Development costs	Long-term expenses and intangible rights	TOTAL
Intangible assets 2004			
Carrying amount at 1 January 2004	**1 776**	**4 497**	**6 273**
Exchange rate differences			
Additions	523	785	1 308
Disposals			
Reclassifications of held-for-sale items			
Other reclassifications between items		443	443
Carrying amount at 31 December 2004	**2 298**	**5 725**	**8 023**
Accumulated depreciation and amortisation at 1 January 2004	**-500**	**-3 282**	**-3 782**
Exchange rate differences			
Accumulated depreciations on disposals			
Accumulated depreciations on reclassifications to held-for-sale items			
Accumulated depreciations on other reclassifications between items		19	19
Depreciation for the financial period	-500	-690	-1 190
Accumulated depreciation and amortisation at 31 December 2004	**-1 000**	**-3 953**	**-4 953**
Book value at 1 January 2004	**1 276**	**1 215**	**2 491**
Book value at 31 December 2004	**1 298**	**1 772**	**3 070**
Intangible assets 2005			
Carrying amount at 1 January 2005	**2 298**	**5 725**	**8 023**
Exchange rate differences			
Additions	242	745	987
Disposals			
Reclassifications to held-for-sale items	-141		-141
Other reclassifications between items			
Carrying amount at 31 December 2005	**2 399**	**6 470**	**8 870**
Accumulated depreciation and amortisation at 1 January 2005	**-1 000**	**-3 953**	**-4 953**
Exchange rate differences			
Accumulated depreciations on disposals			
Accumulated depreciations on reclassifications to held-for-sale items			
Accumulated depreciations on other reclassifications between items			
Depreciation for the financial period	-500	-660	-1 160
Accumulated depreciation and amortisation at 31 December 2005	**-1 500**	**-4 613**	**-6 113**
Book value at 1 January 2005	**1 298**	**1 772**	**3 070**
Book value at 31 December 2005	**899**	**1 857**	**2 757**

18 PROPERTY, PLANT AND EQUIPMENT

EUR 1 000	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Assets in progress and advance payments received	TOTAL
Property, plant and equipment 2004						
Carrying amount at 1 January 2004	**1 180**	**15 265**	**21 691**	**414**	**552**	**39 102**
Exchange rate differences	-6	-21	-65			**-92**
Additions	47	300	667	3	229	**1 246**
Disposals	-47	-1 201	-473			**-1 721**
Reclassifications of held-for-sale items						
Other reclassifications between items		69	269		-781	**-443**
Carrying amount at 31 December 2004	**1 174**	**14 412**	**22 089**	**417**	**0**	**38 092**
Accumulated depreciation and amortisation at 1 January 2004	**0**	**-6 839**	**-16 703**	**-363**	**0**	**-23 905**
Exchange rate differences		16	62			**78**
Accumulated depreciations on disposals		483	310			**793**
Accumulated depreciations on reclassifications to held-for-sale items						
Accumulated depreciations on other reclassifications between items						
Depreciation for the reporting period		-517	-1 289	-6		**-1 812**
Accumulated depreciation and amortisation at 31 December 2004	**0**	**-6 857**	**-17 620**	**-369**	**0**	**-24 846**
Book value at 1 January 2004	**1 180**	**8 426**	**4 988**	**51**	**552**	**15 197**
Book value at 31 December 2004	**1 174**	**7 555**	**4 469**	**48**	**0**	**13 246**
Property, plant, and equipment 2005						
Carrying amount at 1 January 2005	**1 174**	**14 412**	**22 089**	**417**	**0**	**38 092**
Exchange rate differences	105	405	1 135			**1 645**
Additions	5	159	1 462		566	**2 192**
Disposals	-50	-128	-60	-6		**-243**
Reclassifications to held-for-sale items						
Other reclassifications between items						
Carrying amount at 31 December 2005	**1 234**	**14 849**	**24 627**	**411**	**566**	**41 687**
Accumulated depreciation and amortisation at 1 January 2005	**0**	**-6 857**	**-17 620**	**-369**	**0**	**-24 846**
Exchange rate differences		-390	-1 050			**-1 440**
Accumulated depreciations on disposals		256				**256**
Accumulated depreciations on reclassifications to held-for-sale items						
Accumulated depreciations on other reclassifications between items						
Depreciation for the financial period		-515	-1 202			**-1 717**
Accumulated depreciation and amortisation at 31 December 2005	**0**	**-7 506**	**-19 872**	**-369**	**0**	**-27 747**
Book value at 1 January 2005	**1 174**	**7 555**	**4 469**	**48**	**0**	**13 246**
Book value at 31 December 2005	**1 234**	**7 342**	**4 755**	**42**	**566**	**13 939**

EUR 1 000	2005	2004

19 INVESTMENTS IN ASSOCIATED COMPANIES

	2005	2004
Book value at 1.1.	**309**	2 030
Exchange rate differences		
Additions		
Share of the profit / loss for the period		-53
Disposals and other deductions *)	**-309**	-1 668
Book value at 31.12.	**0**	309

*) Reclassification of Mecano Group Oy's shares to subsidiary shares EUR 410 thousand and repayment of capital concerning Eloc Oy's shares EUR 1,321 thousand are included in deductions for the year 2004. Eloc Oy has become a subsidiary of Raute Corporation in 2005.

Principal associated companies	2005	2004
Eloc Oy (real estate holding company), domicile Lahti **)		
- share of ownership		34 %
- assets		924
- liabilities		11
- net sales		40
- profit / loss		-1 173

**) Consolidated in group accounts from 1.1.2005 with purchase method after the share of ownership increased to 63 per cent.

20 AVAILABLE-FOR-SALE ASSETS

	2005	2004
Balance Sheet value at 1.1.	**342**	423
Additions	**81**	
Deductions	**-28**	-81
Balance Sheet value at 31.12.	**395**	342

Available-for-sale assets include unquoted shares. These shares are recognized at cost deducted with possible impairments, since their fair value cannot be determined reliably.

21 LONG-TERM RECEIVABLES

	2005	2004
Loan receivables	**48**	48
TOTAL	**48**	48

22 INVENTORIES

	2005	2004
Materials and supplies	**2 456**	2 589
Work in progress	**1 154**	586
Finished products / goods	**74**	247
Advance payments	**1 342**	453
TOTAL	**5 026**	3 875

Inventories, which are valued at net realisable value, are in total EUR 3 684 thousand (EUR 3 422 thousand).

In the financial period, inventories were entered as expenses at net realisable value for a total of EUR 571 thousand (EUR 533 thousand).

Inventories entered as expenses during the financial period are in total EUR 571 thousand (EUR 533 thousand).

EUR 1 000	2005	2004

23 TRADE RECEIVABLES AND OTHER RECEIVABLES

Short-term receivables		
- Trade receivables	**7 021**	3 954
- Loan receivables	**1 050**	1 000
- Accrued income and prepaid expenses	**13 091**	9 191
- Derivative receivables		78
- Other receivables	**504**	755
TOTAL	**21 666**	14 978

Short-term receivables from associated companies		
- Trade receivables		6

Balance Sheet values correspond best to the amount of money, which is the maximum amount of credit risk without taking into consideration the fair value of collaterals, in that case where other contract parties are not able to fulfill their obligations related to financial instruments.

Receivables do not include significant credit risk clusters.

Significant items included in accrued income and prepaid expenses		
- Project receivables recognized according to percentage of completion	**12 290**	8 322
- Other accrued income and prepaid expenses	**801**	869
TOTAL	**13 091**	9 191

Impairments recognized from trade receivables are in total EUR 5 thousand (EUR 62 thousand).

24 FINANCIAL ITEMS AT FAIR VALUE THROUGH PROFIT / LOSS

Initially recognized as financial assets / liabilities through profit / loss	**8 536**	7 715
Fair valuation of cash and cash equivalents	**439**	36
Financial items at fair value through profit / loss at the end of the financial period	**8 975**	7 751

25 CASH AND CASH EQUIVALENTS

Cash and bank accounts	**1 819**	1 179
Bank deposits	**600**	600
TOTAL	**2 419**	1 779

26 LONG-TERM ASSETS HELD AS AVAILABLE-FOR-SALE

Long-term assets held as available-for-sale comprise mainly of real estate investments not included in operating activities.

Long-term assets held as available-for-sale in the balance sheet		
Tangible fixed assets	**0**	555
TOTAL	**0**	555

27 SHAREHOLDERS' EQUITY AND DISTRIBUTABLE FUNDS

Notes to shareholders' equity

Shareholders' equity is divided as follows		
Volume, 1 000 shares	**3 815**	3 815
Nominal value, EUR	**2.00**	2.00
Total shareholders' equity, EUR thousand	**7 629**	7 629
K-shares (20 votes/share), 1 000 shares	**991**	991
A-shares (1 vote/share), 1 000 shares	**2 824**	2 824

Maximum shareholders' equity is EUR 20 000 thousand (EUR 20 000 thousand).

All issued shares are paid in full.

Other funds include shares subscibed by warrants that have not yet been registered in trade register by the balance sheet date.

EUR 1 000	2005	2004
Share premium includes the value paid for shares in connection with rights issue that exceeds nominal value.		
Distributable funds		
Retained earnings at 31.12.	**8 699**	6 866
Profit for the period	**4 152**	4 762
Transfer of accumulated depreciation to equity	**-2 297**	-2 305
Product development costs recognized as an asset	**-899**	-1 298
Distributable shareholders' equity at 31.12.	**9 655**	**8 025**

After balance sheet date, the Board of Directors has proposed to Annual General Meeting that a dividend of EUR 0.60 per share shall be paid from financial year 2005.

28 PROVISIONS

Warranty provisions

	2005	2004
Book value at the beginning of the financial year	**1 346**	1 308
Additions	**2 387**	1 410
Used	**-1 367**	-763
Cancelled unused amounts	**-646**	-578
Exchange rate differences	**21**	-31
Book value at the end of the financial year	**1 741**	1 346
Negative project margins	**661**	
Provisions in total	**2 402**	**1 346**
long-term and	**475**	654
short-term	**1 927**	692

Provisions at January 1, 2004 include EUR 704 thousand non-recurring expense due to restructuring of North-American operations.

29 DEFERRED TAX LIABILITIES AND DEFERRED TAX ASSETS

EUR 1 000		Items entered in income statement	Items recognized in share-holders' equity	Translation differences	Acquisitions and disposals of subsidiaries	
Deferred tax assets	**31.12.2003**					**31.12.2004**
Depreciation differences and other provisions						0
Changes in fair value						0
Effects of Group consolidation	21	-21				0
Other taxable temporary differences	523	-289				235
Total	**544**	**-310**	**0**	**0**	**0**	**235**
	31.12.2004					**31.12.2005**
Depreciation differences and other provisions						0
Changes in fair value						0
Effects of Group consolidation						0
Other taxable temporary differences	235	-25				210
Total	**235**	**-25**	**0**	**0**	**0**	**210**

Deferred tax liabilities	31.12.2003	Items entered in income statement	Items recognized in share-holders' equity	Translation differences	Acquisitions and disposals of subsidiaries	31.12.2004
Depreciation differences and other provisions	658	-207				451
Changes in fair value	-99	219				120
Effects of Group consolidation	414	-21				393
Other taxable temporary differences	649	-23	-38			588
Total	**1 622**	**-32**	**-38**	**0**	**0**	**1 552**
	31.12.2004					**31.12.2005**
Depreciation differences and other provisions	451	1				452
Changes in fair value	120	-6				114
Effects of Group consolidation	393	-4				389
Other taxable temporary differences	588	-243				345
Total	**1 552**	**-252**	**0**	**0**	**0**	**1 300**

Unrecognized tax assets from losses of foreign subsidaries are in total EUR 3,692 thousand (EUR 3,274 thousand).

Deferred tax liability is not recognized from undistributed earnings of Finnish subsidiaries and associated companies, since in most cases these earnings are transfered to the company without tax implications.

EUR 1 000	2005	2004
30 LONG-TERM INTEREST-BEARING LIABILITIES		
Long-term interest-bearing liabilities		
- Loans from financial institutions	**357**	186
TOTAL	**357**	186

Long-term interest-bearing liabilities are Tekes-loans and their repayment period is between the years 2005-2008. Interest on the loans is 1.0 per cent.

31 CARRYING VALUES AND FAIR VALUES OF LIABILITIES

Majority of the Group's financial liabilities are short-term and their carrying value equals fair value. Fair value of long-term liabilities with the exeption of partial payments are EUR 357 thousand (EUR 186 thousand) and their carrying value is EUR 357 thousand (EUR 186 thousand).

32 SHORT-TERM INTEREST-BEARING LIABILITIES

	2005	2004
Partial payments of long-term debts	**66**	26
Used credits in current accounts		1 528
Other short-term interest-bearing debts	**110**	120
Total short-term interest-bearing liabilities	**176**	1 674
Distribution of Group's short-term loans by currencies		
- Euro	**100%**	9%
- Canadian Dollar		91%

33 ADVANCE PAYMENTS RECEIVED, TRADE AND OTHER PAYABLES

Advance payments received EUR 8,500 thousand (EUR 2,136 thousand) comprise of advances received from projects in progress.

Short-term liabilities in Balance Sheet	2005	2004
- Trade payables	**6 572**	3 224
- Accrued expenses and prepaid income	**8 823**	9 472
- Derivative liabilities	**145**	
- Other liabilities	**528**	398
TOTAL	**16 068**	13 094

EUR 1 000	2005	2004
Substantial items included in accrued expenses and prepaid income		
- Periodizing of project costs	**3 468**	4 763
- Periodizing of personnel costs	**4 312**	3 637
- Other accrued expenses and prepaid income	**1 043**	1 072
TOTAL	**8 823**	9 472

34 PENSION OBLIGATIONS

Disability pension included in Finnish TEL-pension plan and Raute Corporation's voluntary supplementary pension plan are treated as defined benefit plans.

Raute Corporation's Pension Fund

Voluntary supplement to pension coverage for those employees that have had long-term employment with Raute Corporation is managed in the Raute Corporation's Pension Fund that has been closed on October 1, 1992. During the year 2005, Raute Corporation has made an agreement to transfer the supplementary pensions insured in the Pension Fund to Sampo Life Insurance company. In the year 2005 overmargin of EUR 1.2 million has been refunded from the Pension Fund, which is distributed as income in IFRS financial statements among the years 2003-2005. Pension Fund has been set in liquidation starting from April 1, 2005 and final settlement has been prepared from the situation on September 30, 2005.

	2005	2004
Defined benefit pension plans		
Items recognized in Balance Sheet		
Present value of funded obligations	**335**	3 538
Fair value of assets included in the plan	**-252**	-4 046
Difference	**83**	-509
Present value of non-funded obligations		
Unrecognized actuarial losses	**154**	-583
Unrecognized costs based on retrospective work performance	**143**	673
Net liabilities (receivables) in Balance Sheet (liability +/ receivable -)	**380**	-419
Amounts in Balance Sheet		
Liabilities	**380**	76
Assets		-494
Net liabilities in Balance Sheet (liability +/ receivable -)	**380**	-419
Items entered in Income Statement		
Costs based on the work performance in the financial year	**48**	181
Interest on obligation	**77**	254
Expected income from the assets included in the plan	**-64**	-201
Effect of changes in billing basis		-1 170
Net of recognized actuarial gains / losses in the financial year	**14**	-95
Costs based on retrospective work performance	**-129**	-61
Profits / losses resulting from the reduction of the plan or fulfilling of the obligation	**-346**	
Total, included in personnel expenses (expenses +/income -)	**-401**	-1 092
Realized income from the assets included in the plan (expenses +/income -)	**373**	-142
Changes in net liabilities recognized in Balance Sheet		
Net liabilities at 1.1.	**-419**	673
Net amount of income / expenses entered in Income Statement	**-401**	-1 092
Contributions from the plan	**1 200**	
Exchange rate differences from foreign plans		
Liabilities acquired from business combinations		
Net liabilities at 31.12. (liability +/receivable -)	**380**	-419

EUR 1 000	2005	2004
Key actuarial assumptions		
Discount interest		
- Finland	**4.5 - 5.0%**	5.0%
Expected yield from the assets		
- Finland	**4.5%**	5.0%
Yearly salary increase assumption		
- Finland	**3.0 - 3.5%**	3.5%
Inflation assumption		
- Finland	**2.0%**	2.0%
Personnel turnover assumption		
- Finland	**1.0 - 2.0%**	1.0 - 2.0%

35 RELATED PARTY TRANSACTIONS

Raute Group's related party consists of associated companies, board members, President and CEO and Presidents of the subsidiaries

Management's employee benefits		
Salaries and other short-term employee benefits	**894**	823
Share-based payments	**0**	6
TOTAL	**894**	829

Raute Corporation's Pension Fund

See note number 34, Pension obligations

Company's Board of Directors, President and CEO and Presidents of the subsidiaries owned a total of 82,338 A-shares and 96,990 K-shares. Management's ownership corresponds to 4.7 percentage of the shares in the company and 8.9 percentage of associated total voting rights. The figures include the holdings of their own, minor children and control entities.

Warrants owned by the management correspond to 11.8 percentage of the total amount of B-warrants issued by Raute Corporation. A total of 25,000 A-shares may be subscribed on the basis of these warrants corresponding to 0.9 percentage of the voting rights of A-shares and 0.1 percentage of the total voting rights.

Sickness fund

Raute Corporation has an insurance fund, which pays its members additional benefits on top of compensations being paid according to Sickness Insurance Act. Raute's sickness fund's range of operations consists of personnel in Raute Corporation and its domestic subsidiaries as well as personnel in former subsidiary Raute Precision Oy. Raute's sickness fund has deposited its assets to Raute Corporation. The amount of deposits was EUR 110 thousand at 31.12. (EUR 120 thousand) and 1.75 per cent (2.0%) of interest was paid to it.

No loans are granted to related parties.

36 PLEDGED ASSETS AND CONTINGENT LIABILITIES

Pledged assets

Raute Group has long-term bilateral credit facilities to a total of EUR 15,000 (15,000) thousand, from which nothing was used during 2005.

Raute Corporation has a ten million EUR domestic commercial paper plan, which is arranged by Nordea Bank Finland Oyj. Within the limits of the plan, the Corporation can issue commercial papers with maturity under one year.

Debts and other contingent liabilities above have been secured by mortgages		
- Mortgages on real property	**1 134**	1 151
- Business mortgages	**10 000**	10 000

EUR 1 000	**2005**	2004
Contingent liabilities and other liabilities		
On behalf of Group companies		
- Guarantees issued	**4 111**	5 873
On behalf of other companies		
- Guarantees issued		450
Leasing and rent liabilities		
- For the current accounting period	**126**	127
- For subsequent accounting periods	**76**	97
TOTAL	**202**	224
Other lease obligations		
Under 1 year	**53**	26
1 - 5 years	**46**	25
Over 5 years		
TOTAL	**99**	51
Forward exchange contracts		
- Nominal value	**9 901**	13 472
- Market value	**-145**	78
The nominal value is the value of underlying instruments converted into euros using the exchange rate on the balance sheet date. Market value is the profit generated, if the derivatives position would have been closed at the market price on the balance sheet date.		
Other own obligations		
No money loans, pledges or other contingent liabilities have been given on behalf of the management, shareholders or associated companies.		

Financial risk management

The fundamental financing risks of Raute's international business operations are liquidity, currency, and credit risks. The principles of the financing policy, which is approved by Raute's board, are cost efficient hedging and risk minimizing of such risk that negatively affects the Group's net income or cash flows. The financing policy defines the limiting values controlling the operation, the funding and hedging instruments, and the approvable counterparties.

The parent company financing unit is responsible for the implementation of the financing risk management. It identifies, evaluates, and hedges finance risks in cooperation with the operative business units. In addition, the external fund-raising, asset management and required hedging are concentrated to the financing unit.

Currency risks

The major portion of Raute's turnover comes in outside euro zone currencies. In customer deliveries and inter-company transactions different currencies are used, of which the most important are the US and Canadian dollars.

According to the financing policy, operative business units must hedge all foreign currency flows over EUR 100 000 based on committed delivery and purchase agreements. Foreign exchange clauses are used in order to minimize the tender period currency risk.

Interest rate risks

Interest rate risks are managed by keeping some of the loans by fixed rates. Investments in interest funds are made in money market funds.

Credit and other counterparty risks

Investments and derivative agreements are only made with counterparties that meet the credit rating criteria defined in the financing policy. When making investments, derivative and loans agreements, the Group applies counterparty specific limits in order to avoid risk concentrations.

Trade-related credit risks are managed by demanding bank guarantees or confirmed letters of credit for customer receivables for project deliveries.

Liquidity

The minimum amount of cash, current investments and available credit liabilities are defined in the financing policy in order to ensure the Group's liquidity. In the long run, risks related to the availability and pricing of funding are managed by using different sources of funding.

The parent company has a EUR 10 Million domestic commercial paper program, within which commercial papers maturing in less than one year can be issued. In addition, the company has non-current, private credit regulation agreements for a total of EUR 15 Million.

Investment activities are mainly implemented through mutual funds. Good creditworthiness and sufficient liquidity is required of the funds.

EUR 1 000	2005		2004	

37 SHARE-BASED PAYMENTS

(1 000 shares)	Exercise price as an weighted average per share,€	The amount of options	Exercise price as an weighted average per share,€	The amount of options
In the beginning of the financial year	**1.09**	**212 500**	**0.60**	**425 000**
Options exercised				
Options expired			0.24	-212 500
Options available for exercise at the end of the financial year	**3.56**	**212 500**	**1.09**	**212 500**

During the financial year 2005, a total of 1.650 Raute Corporation's B-warrants from 1998 were subscibed. The subscriptions are registered in trade register on January 25, 2006.
As a result of subscriptions, the share capital increases by EUR 3.3 thousand and EUR 10.3 thousand is recognized in share premium.

38 SHARES AND PARTICIPATIONS OWNED BY THE GROUP

Group companies	Group's ownership interest and voting power, %	Parent company's ownership interest and voting power, %
Raute Wood Ltd., New Westminster, BC, Canada	100.00	100.00
Raute Inc., Delaware, USA	100.00	100.00
Raute Wood Inc., Rossville, Tennessee, USA	100.00	0.00
RWS-Engineering Oy, Lahti	100.00	100.00
Raute Group Asia Pte Ltd., Singapore	100.00	100.00
Raute WPM Oy, Lahti	100.00	100.00
Raute Wood Oy-Santiago Limitada, Chile	100.00	50.00
Mecano Group Oy, Kajaani	100.00	100.00
Mecano Group Inc, Oregon, USA	100.00	0.00
Raute Service LLC, St. Petersburg, Russia	100.00	100.00
Eloc Oy, Lahti	63.01	63.01

EUR 1 000	2005	2004

39 EXCHANGE RATES USED IN CONSOLIDATION OF THE SUBSIDIARIES

	2005	2004
Income statement		
USD	**1.2448**	1.2433
CAD	**1.5097**	1.6170
SGD	**2.0711**	2.1008
CLP	**698.9770**	775.6396
RUB	**35.1860**	
Balance sheet		
USD	**1.1797**	1.3621
CAD	**1.3725**	1.6416
SGD	**1.9628**	2.2262
CLP	**609.4000**	770.6155
RUB	**33.92**	

Parent company Income statement

EUR 1 000

Note		1.1.-31.12.2005	1.1.-31.12.2004
2,3	NET SALES	87 084	54 696
	Increase (+) or decrease (-) in inventories of finished goods and work in progress	-127	-369
4	Other operating income	2 220	3 915
5	Materials and services	54 931	28 619
6	Personnel expenses	17 938	16 888
8,14,15	Depreciation, amortisation and impairment charges	1 720	1 923
9	Other operating expenses	9 059	6 258
	Total operating expenses	83 648	53 688
	OPERATING PROFIT	5 529	4 554
	Financial income and expenses		
10	Income from investments in other non-current assets	56	57
10	Interest and other financial income	1 206	1 405
10	Impairments from investments in non-current assets	-1 536	-1 900
10	Interest and other financial expenses	-76	-464
	Total financial income and expenses	-350	-902
	PROFIT BEFORE EXTRAORDINARY ITEMS	5 179	3 652
11	Extraordinary items	100	128
	PROFIT AFTER EXTRAORDINARY ITEMS	5 279	3 780
12	Appropriations	-32	553
13	Income taxes	-1 419	-1 724
	PROFIT FOR THE FINANCIAL YEAR	3 828	2 609

Parent company Balance sheet

Eur 1 000

Note		31.12.2005	31.12.2004
	ASSETS		
	Fixed assets and other non-current assets		
14	Intangible assets	**1 625**	1 363
14	Tangible assets	**11 122**	11 149
15	Investments	**10 064**	8 272
	Total	**22 811**	20 784
	Current assets		
3,16	Inventories	**2 011**	1 969
17	Long-term receivables	**124**	88
3,17	Short-term receivables	**20 076**	11 830
18	Investments held as current assets	**8 975**	7 712
	Cash and cash equivalents	**1 580**	1 167
	Total	**32 766**	22 766
	TOTAL ASSETS	**55 577**	43 550
	LIABILITIES		
	Shareholders' equity		
19	Share capital	**7 629**	7 629
19	Equity issue	**14**	
19	Reserve fund		5 429
19	Share premium	**5 429**	
19	Retained earnings	**13 322**	12 561
19	Profit / loss for the financial year	**3 828**	2 609
	Total	**30 222**	28 228
20	**Appropriation reserve**	**1 740**	1 709
21	**Provisions**	**2 141**	1 186
	Liabilities		
22	Deferred tax liabilities	**130**	243
23	Long-term liabilities	**277**	
23	Short-term liablities	**21 067**	12 184
	Total	**21 474**	12 427
	TOTAL LIABILITIES	**55 577**	43 550

Parent company
Cash flow statement

Eur 1 000

	1.1.-31.12.2005	1.1.-31.12.2004
CASH FLOW FROM OPERATING ACTIVITIES		
Proceeds from sales	**85 360**	50 360
Proceeds from other operating income	**1 788**	654
Payments of operating expenses	**-79 839**	-53 210
Cash flow before financial items and taxes	**7 309**	-2 196
Interests and other operating financial expenses paid	**-76**	-376
Interests and other income received	**638**	1 352
Dividends received	**56**	218
Income taxes paid	**-2 529**	-681
Cash flow before extraordinary items	**5 398**	-1 683
NET CASH FROM (+) / USED IN (-) OPERATING ACTIVITIES (A)	**5 398**	-1 683
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure in tangible and intangible assets	**-2 753**	-1 523
Acquisition of subsidiary shares	**-2 103**	-1 901
Proceeds from disposal of tangible and intangible assets	**678**	510
Proceeds from other investments		6 477
Loans granted		-1 134
Interests received from investments		122
NET CASH FROM (+) / USED IN (-) INVESTING ACTIVITIES (B)	**-4 178**	2 551
CASH FLOW FROM FINANCING ACTIVITIES		
Increase (+) / decrease (-) of short-term liabilities	**1 545**	-3 154
Increase (+) / decrease (-) of long-term liabilities	**277**	-252
Incerease (-) / decrease (+) of long-term and short-term receivables	**-20**	2 186
Dividends paid	**-1 526**	-3 815
Group contributions, paid and received	**180**	150
NET CASH FROM (+) / USED IN (-) FINANCING ACTIVITIES (C)	**456**	-4 885
NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C) increase (+) / decrease (-)	**1 676**	-4 017
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**8 879**	12 896
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**10 556**	8 879

Parent company
Notes to the financial statements

1 ACCOUNTING PRINCIPLES

The accounting principles of the Parent Company's financial statements are presented only for those parts that differ from the accounting principles of the consolidated financial statements.

Parent Company's financial statements have been prepared in accordance with the Finnish Accountancy Act (FAS).

Foreign currency items

Other than euro denominated transactions are recognized at the exchange rate effective on the transaction date. Receivables and liabilities denominated in other currencies are translated into euro at the average rate of the balance sheet date, except for hedged items that are valued at the agreed contract rate. Advances paid and received are entered in the balance sheet at the exchange rate effective on the payment date. The exchange rate gains resulting from the extension of protection contracts related to sales receivables will be capitalized into accrued expenses or receivables. Other exchange rate gains and losses are handled according to their impact on profit.

Cash, cash equivalents and financial securities

Cash and cash equivalents include cash, bank accounts, deposits with 3-months minimum maturity, and other cash equal assets. Financial securities include shares and participations, deposits with 3-month minimum maturity, and other securities with an intended holding period of less than one year.

Starting on 1 January 2005, financial securities are measured at fair value through profit or loss. In the financial statements of the year of comparison, financial securities are assessed to their carrying cost or to a lower probable transfer price.

Fixed assets and long-term investments

Fixed assets are stated at cost less accumulated depreciation, with the exception for some property items and revaluated shares. Only variable costs arising from the acquisition and production of a product are included in the carrying amount.

From the beginning of 2005, development expenditures arising from development related to the planning of new or more advanced products, are recognized as assets as soon as the product is technically feasible, it can be utilized commercially and the asset is expected to generate future economic benefit. Development expenditures previously entered as expenses, will not be recognized as assets at a later date. A product is depreciated ever since it is ready for use. The estimated useful life of development expenditures is three years, during which the products are depreciated based on the straight-line method.

Depreciations of tangible and intangible assets are recorded with the straight-line method over the expected economic lives of the assets as follows:

Goodwill	5 years
Other intangible assets	5-10 years
Consolidation differences	5 years
Buildings and structures	25 - 40 years
Machinery and equipment	4 - 12 years
Other fixed assets	3 - 10 years

Certain property and shares include, in addition to the non-depreciated acquisition cost, a maximum revaluation that equals the difference between the probable net realizable value and the non-depreciated acquisition cost. The probable realizable value is based on an assessment provided by an independent party.

Extraordinary items

Extraordinary items include significant and exceptional income and expenses that are not a part of the usual business operations. Group contributions received and paid are also recognized as extraordinary items.

Pension plans

Statutory pension coverage of the Group's Finnish personnel has been arranged through a pension insurance company.

Voluntary supplementary pensions have been provided for the oldest staff members through Raute Group's Pension Fund, which was closed on 1 October 1992. In March 2005, Raute Group made an agreement to transfer the supplementary pensions insured in the Pension Fund to Sampo Life Insurance Company. In 2005, the Pension Fund has refunded the margin to Raute Group. The Pension Fund was set in liquidation starting on 1 April 2005 and a final settlement of the situation was prepared on 30 September 2005.

Research and product development expenditures

Research and development expenditures are recognized in the income statement as costs when incurred except for development expenditures activated since 1 January 2005.

Income taxes

Income taxes recognized in the income statement include direct taxes for the period and tax adjustments for previous periods. Deferred tax assets and liabilities have not been recognized in the balance sheet for other than revaluations. The deferred tax liability included in the depreciation difference is presented in the notes.

Changes in accounting principles on 1 January 2005

Revenue recognition

The date of full revenue recognition (percentage of completion 100%) has been adjusted to match IAS 18. The adjustment of the revenue recognition date has an impact on the accrual of sales as well as on the balance sheet, e.g. on the amount of accrued income and prepaid expenses, and the amount of compulsory provisions. The effect of changes in revenue recognition has been adjusted in the income statement and balance sheet of the previous reporting period.

Changes in valuation principles of financial securities

Starting on 1 January 2005, financial securities are measured at fair value through profit or loss. In the previous reporting period the securities were assessed to their carrying amount or to a lower probable transfer price.

Inventories

Starting on 1 January 2005, a portion of the direct costs of production and depreciations without interest expenses has been included in the carrying amount. Previously only variable costs incurring from the acquisition and production of goods have been included in the cost of finished goods and work in progress. The effect of the changes in the valuation principles of inventories has been adjusted in the income statement and balance sheet of the previous reporting period.

Recognition of R&D expenditures as assets

Starting on 1 January 2005, development expenditures that accrue income for three years or more are recognized as other non-current expenses. Previously research and development expenditures have been assessed in the year of origination.

The effect of the changes in the accounting principles on shareholders' equity is presented in Note 19.

EUR 1 000	2005	%	2004	%
2 NET SALES BY MARKET AREA				
Finland	29 699	34	6 955	13
Russia	14 697	17	13 941	25
Other European countries	12 523	14	11 872	22
North-America	10 028	12	1 902	3
South-America	4 556	5	9 804	18
Asia	8 021	9	2 690	5
Oceania	2 366	3	7 446	14
Other	5 194	6	86	0
TOTAL	87 084	100	54 696	100

EUR 1 000	2005	2004
3 REVENUE RECOGNITION METHOD BASED ON PERCENTAGE OF COMPLETION		
Net sales by percentage of completion	78 595	45 729
Other net sales	8 489	8 967
TOTAL	87 084	54 696
Project revenues entered as income from currently undelivered construction contracts recognized by percentage of completion	36 662	32 689
Amount of construction contracts revenues not yet entered as income (order book)	49 716	26 697
Specification of combined asset and liability items		
Advances paid	759	445
Advances wound up by percentage of completion		
Advance payments included in inventories	759	445
Accrued income corresponding to revenues by percentage of completion	36 662	32 689
Advances received from project customers	-26 202	-24 050
Balance sheet project receivables included in non-current receivables	10 460	8 639
4 OTHER OPERATING INCOME		
Capital gain on sale of fixed assets	439	3 248
Other	1 781	667
TOTAL	2 220	3 915
5 MATERIALS AND SERVICES		
Materials and supplies		
- Purchases	47 292	25 207
- Change in inventories	146	267
External services	7 493	3 145
TOTAL	54 931	28 619

EUR 1 000	2005	2004
6 PERSONNEL EXPENSES		
Personnel expenses in income statement		
Wages and salaries	14 651	13 779
Pension costs	2 324	2 090
Other statutory personnel contributions	963	1 020
TOTAL	17 938	16 888
SALARIES AND REMUNERATIONS OF DIRECTORS		
Kiiski, Tapani, CEO 16.3.2004-	237	127
Mäkitalo, Risto, CEO 1.1.-16.3.2004		70
Rytilahti, Jarmo, Chairman of the Board	33	22
Mustakallio, Sinikka, Member of the Board	17	12
Lehtonen, Heikki, Member of the Board	17	12
Mustakallio, Mika, Member of the Board	17	10
Mustakallio, Panu, Member of the Board	17	12
Nihti, Markku, Member of the Board	17	12
Paasikivi, Pekka, Member of the Board	17	12
TOTAL	372	289
7 PERSONNEL		
Employed at 31 December		
Workers	146	163
Office staff	229	227
TOTAL	375	390
- of which personnel working abroad	4	4
Average		
Workers	152	179
Office staff	227	230
TOTAL	379	409
- of which personnel working abroad	4	4
8 DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES		
Depreciation and amortisation from tangible and intangible assets	1 720	1 923
9 OTHER OPERATING EXPENSES		
Indirect production costs	2 761	1 627
Sales and marketing costs	2 184	1 690
Administration costs	2 294	1 621
Other costs	1 820	1 320
TOTAL	9 059	6 258
10 FINANCIAL INCOME AND EXPENSES		
Income from investments in other non-current assets		
Dividends	56	57

EUR 1 000	2005	2004
Other interest and financial income		
Group companies	251	140
Dividends and yield on investment funds from others		287
Other interest and financial income from others	955	979
TOTAL	1 206	1 405
Impairments from investments in non-current assets		
Group companies	1 536	1 900
Interest and other financial expenses		
Group companies	4	2
Other than associates or Group companies	72	463
TOTAL	76	464
Total financial income and expenses	-350	-902
Exchange rate gains (+) / losses (-) included in total financial items	101	-17
11 EXTRAORDINARY ITEMS		
Extraordinary income		
Contributions from Group companies	135	180
TOTAL	135	180
Extraordinary expenses		
Tax impact of extraordinary items	35	52
TOTAL	35	52
Extraordinary items in income statement (net)	100	128
12 APPROPRIATIONS		
Difference in planned and taxed depreciations	-32	553
TOTAL	-32	553
13 INCOME TAXES		
Current financial year	-1 421	-1 724
Previous financial years	2	
Change in deferred taxes		
TOTAL	-1 419	-1 724

14 NON-CURRENT ASSETS

EUR 1 000	INTANGIBLE ASSETS			TANGIBLE ASSETS					TOTAL
	Capitalized product develop-ment costs	Goodwill	Other capitalized expenditure and intangible assets	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Assets in progress and advance payments received	
Carrying amount at 1 January 2005		526	3 569	462	9 544	15 821	336		30 258
Additions	38		599	5	161	1 312		566	2 681
Disposals		-526	0	-50	-489	-59	-6		-1 130
CARRYING AMOUNT AT 31 DECEMBER 2005	**38**	**0**	**4 168**	**417**	**9 216**	**17 074**	**330**	**566**	**31 809**
Accumulated depreciation at 1 January 2005		-526	-2 206		-3 927	-11 731	-293		-18 683
Accumulated depreciations on disposals		526			256	59			841
Depreciation for the accounting period			-375		-324	-1 021			-1 720
ACCUMULATED DEPRECIA-TION AT 31 DECEMBER 2005	**0**	**0**	**-2 581**	**0**	**-3 995**	**-12 693**	**-293**	**0**	**-19 562**
Revaluations at 1 January				13	923				936
Revaluations wound up					-436				-436
REVALUATIONS AT 31 DECEMBER 2005	**0**	**0**	**0**	**13**	**487**	**0**	**0**	**0**	**500**
BOOK VALUE AT 31 DECEMBER 2005	**38**	**0**	**1 587**	**430**	**5 708**	**4 381**	**37**	**566**	**12 747**

15 INVESTMENTS IN FIXED AND OTHER NON-CURRENT ASSETS

EUR 1 000	SHARES			RECEIVABLES	TOTAL
	Group companies	Associated companies	Others	Group companies	
Carrying amount at 1 January 2005	4 347	1 745	414	6 396	12 902
Additions	2 104			1 254	3 358
Disposals			-30		-30
Transfers between items	1 745	-1 745			
CARRYING AMOUNT AT 31 DECEMBER	**8 196**	**0**	**384**	**7 650**	**16 230**
Accumulated impairments at 1 January 2005	-4 029	-601			-4 630
Additions 2005	-1 536				-1 536
Transfers between items	-601	601			0
ACCUMULATED IMPAIRMENTS AT 31 DECEMBER 2005	**-6 166**	**0**	**0**	**0**	**-6 166**
BOOK VALUE AT 31 DECEMBER 2005	**2 030**	**0**	**384**	**7 650**	**10 064**

EUR 1 000	2005	2004
16 INVENTORIES		
Materials and supplies	**1 018**	1 164
Work in progress	**234**	160
Finished products / goods	**0**	200
Advance payments	**759**	445
TOTAL	**2 011**	1 969
17 SPECIFICATION OF RECEIVABLES		
Non-current receivables		
Non-current receivables from Group companies		
- Loan receivables	**76**	40
Non-current receivables from others		
- Loan receivables	**48**	48
TOTAL	**124**	88
Current receivables		
Current receivables from Group companies		
- Trade receivables	**1 567**	661
- Accrued income and prepaid expenses	**136**	1 515
Total from Group companies	**1 703**	2 176
Current receivables from associates		
- Trade receivables		6
Total from associates		6
Current receivables from others		
- Trade receivables	**5 765**	385
- Loan receivables	**1 050**	1 000
- Accrued income and prepaid expenses	**11 407**	7 633
- Other receivables	**151**	630
Total from others	**18 373**	9 648
TOTAL	**20 076**	11 830
Substantial items included in accrued income and prepaid expenses		
- Contribution receivables from Group companies	**135**	180
- Project receivables entered according to percentage of completion	**10 460**	8 639
- Other items	**948**	329
TOTAL	**11 543**	9 148
18 INVESTMENTS HELD AS CURRENT ASSETS		
Fair value	**8 975**	7 751
Book value	**-8 975**	-7 712
DIFFERENCE	**0**	39

Marketable securities are measured at fair value through profit or loss in the 2005 financial statements. The change in value of marketable securities was EUR 439 thousand positive.

Current assets in marketable securities at 31 December 2005 are public fund units.

EUR 1 000	2005	2004
19 SHAREHOLDERS' EQUITY		
Share capital at 1 January and 31 December	**7 629**	7 629
Share issue at December 31	**14**	
Premium fund at 1 January	**5 429**	5 429
Share premium fund	**-5 429**	
Reserve fund at 31 December	**0**	5 429
Share premium fund at 1 January		
Transfer from reserve fund	**5 429**	
Share premium fund at 31 December	**5 429**	
Retained earnings at 1 January	**12 561**	15 744
Changes during the financial year		
- Profit from the previous year	**2 609**	655
- Dividends	**-1 526**	-3 815
- Reductions in revaluations	**-436**	-71
- Change of deferred tax liabilities from revaluation	**114**	49
Retained earnings at 31 December	**13 322**	12 561
Profit for the financial year	**3 828**	2 609
Shareholders' equity at 31 December	**30 222**	28 228

The accounting principles have been changed in the 2005 financial statements regarding the date of full recognition of revenue and inventory valuation method. The effect of these changes has been presented in the comparative 2004 income statement and balance sheet. The retained earnings of the comparative year 2004 have not been adjusted, but the changes in accounting principles have been presented in the 2004 profit. The effect in the 2004 profit was -EUR 670 thousand. Corrected profit for the financial year of 2004 was EUR 2 609 thousand whereas the original approved profit was EUR 3 279 thousand.

Distributable funds		
Retained earnings at 1 January	**13 322**	12 561
Profit for the financial year	**3 828**	2 609
Capitalized development costs	**-38**	
DISTRIBUTABLE FUNDS	**17 112**	15 170
Share capital of parent company		
Shares, EUR 1 000	**3 815**	
Nominal value, EUR	**2.00**	
Total nominal value, EUR 1 000	**7 629**	
K-shares (ordinary shares, 20 votes/share), 1 000 pcs	**991**	
A-shares (1 vote/share), 1 000 pcs	**2 824**	

EUR 1 000	2005	2004
20 APPROPRIATION RESERVE		
The appropriation reserve consists of accumulated depreciation difference of EUR 1 740 thousand (EUR 1 709 thousand), including deferred tax liabilities for EUR 452 thousand (EUR 444 thousand).		
21 PROVISIONS		
Estimated warranty accruals at 1 January	1 182	1 828
Changes during the financial year	298	-642
Estimated warranty accruals at 31 December	1 480	1 186
Loss from construction contracts in order book	661	
TOTAL	2 141	1 186
22 DEFERRED TAX LIABILITIES		
Non-current		
- From revaluations	130	243
23 SPECIFICATION OF LIABILITIES		
Non-current liabilities		
Non-current tax liabilities		
- Non-current deferred tax liabilities (specification in Note 22)	130	243
Non-current liabilities to others	277	
TOTAL	407	243
Liabilities with a maturity of more than five years		
- Other liabilities	46	
TOTAL	46	0
Current liabilities		
Current liabilities to Group companies		
- Accounts payable	368	174
- Accrued expenses and prepaid income	64	90
- Other current liabilities	1 907	352
Total to Group companies	2 339	615
Current liabilities to associated companies		
- Accounts payable		34
Total to associated companies	0	34
Current liabilities to others		
- Advances received	7 665	2 112
- Accounts payable	3 718	2 415
- Accrued expenses and prepaid income	6 794	6 469
- Other current liabilities	551	539
Total to others	18 728	11 535
TOTAL	21 067	12 184
Interest-bearing debt		
- Non-current	277	
- Current	2 016	472
TOTAL	2 293	472

EUR 1 000	2005	2004
Substantial items included in accrued expenses and prepaid income		
- Accrued project expenses	2 843	1 809
- Accrued employee related expenses	3 443	2 934
- Tax liabilities		1 059
- Other	571	757
TOTAL	6 857	6 559
24 PLEDGED ASSETS AND CONTINGENT LIABILITIES		
Pledged assets		
Debts secured by mortgages		
Raute Group has non-current bilateral credit facilities for a total of EUR 15 000 (15 000) thousand, from which none has been in use in 2005.		
Raute Corporation has a ten million EUR domestic commercial paper plan, which is arranged by Nordea Bank Finland Oyj. Within the limits of the plan, the Corporation can issue commercial papers with maturity under one year.		
Debts and other contingent liabilities above have been secured by mortgages		
- Real estate mortgages	1 134	1 151
- Business mortgages	10 000	10 000
Contingent liabilities and other liabilities		
On behalf of Group companies		
- Guarantees issued	4 971	8 462
On behalf of other companies		
- Guarantees issued	0	450
Leasing and rent liabilities		
- For the current financial year	7	5
- For subsequent financial years	5	8
Forward exchange rate contracts		
- Nominal value	9 901	14 109
- Market value	-145	88
The nominal value is the value of underlying instruments converted into euros using the exchange rate of balance sheet date. The market value is the profit generated, if the derivatives position would have been closed to the market price on the balance sheet date.		
Other own obligations		
No money loans, pledges or other contingent liabilities have been given on behalf of the management, shareholders or associated companies.		

Key ratios describing the financial development

EUR 1 000	**2005*)**	2004*)	2003	2002	2001
Net sales	**108 627**	73 116	97 608	88 908	136 106
Overseas sales	**78 183**	65 136	84 419	73 708	85 264
% of net sales	**72.0**	89.1	86.5	82.9	62.6
Operating profit / loss	**4 403**	3 647	-3 340	-8 299	7 485
% of net sales	**4.1**	5.0	-3.4	-9.3	5.5
Profit / loss before income taxes, from continuing operations	**5 461**	3 906	-2 274	-8 951	10 764
% of net sales	**5.0**	5.3	-2.3	-10.1	7.9
Profit / loss attributable to equity holders of the parent company	**4 152**	4 762	-2 703	-7 329	8 333
% of net sales	**3.8**	6.5	-2.8	-8.2	6.1
Return on investment, % (ROI)	**20.7**	25.2	-5.4	-18.5	19.1
Return on equity, % (ROE)	**15.8**	19.9	-10.7	-22.8	15.5
Balance sheet total	**55 435**	46 188	63 510	58 903	80 430
Interest-bearing net liabilities	**-10 861**	-7 670	-4 238	-4 450	-6 396
% of net sales	**-10.0**	-10.5	-4.3	-5.0	-4.7
Interest-free liabilities	**28 755**	19 289	30 922	21 504	32 064
Equity ratio, %	**55.7**	56.8	41.3	50.1	51.0
Quick ratio	**2.0**	1.5	1.2	1.3	1.6
Gearing	**-41.5**	-30.6	-18.2	-16.3	-17.2
Gross capital expenditure in fixed assets	**3 798**	2 060	1 502	2 793	5 157
% of net sales	**3.5**	2.8	1.5	3.1	3.8
R&D costs	**3 616**	3 093	2 651	3 611	4 478
% of net sales	**3.3**	4.2	2.7	4.1	3.3
Order book	**55 317**	35 417	38 774	25 387	34 586
Personnel 31 December	**533**	543	758	801	836
Personnel, average	**537**	556	783	835	860
Dividends	**2 289**) **	1 526	3 815	1 907	3 815

*) The years 2004-2005 have been reported according to International Financial Reporting Standards (IFRS) and the years 2001-2003 according to Finnish Accounting Standards (FAS)

**) The Board of Directors' proposal

SHARE RELATED DATA

EUR 1 000	**2005*)**	2004*)	2003	2002	2001
Earnings per share from continuing operations, EUR	1.09	0.71	-0.71	-1.92	1.41
Earnings per share from discontinued operations, EUR		0,54			
Equity to share, EUR	**6.80**	6.47	6.11	7.18	9.74
Dividend per share, EUR	**0.60**) **	0.40	1.00	0.50	1.00
Dividend per profit, %	**55.12**	32.0	-141.1	-26.0	70.7
Effective dividend return, %	**4.21**	5.2	12.5	6.4	11.8
Price/earnings ratio (P/E ratio)	**13.08**	6.16	-11.3	-4.1	6.0

EUR 1 000	**2005*)**	2004*)	2003	2002	2001
Development in share price (A-shares)					
Lowest, EUR	**7.60**	7.10	6.20	7.80	7.15
Highest, EUR	**16.42**	8.90	9.50	10.30	9.70
Average exchange rate for the accounting period, EUR	**11.24**	8.14	8.12	9.18	7.95
Share price at 31 December, EUR	**14.24**	7.70	8.00	7.80	8.50
Market value of capital stock, EUR 1 000***)	**54 320**	29 372	30 517	29 754	32 424
Trading in the company's shares (A-shares)					
Shares traded during the fiscal year, thousand	**1 530**	569	323	845	74
% of the number of A-shares	**54.2**	20.1	11.5	30.5	2.7
Issue-adjusted number of share average	**3 814 608**	3 814 608	3 814 608	3 814 608	3 814 608
Issue-adjusted number of share average at year-end	**3 814 608**	3 814 608	3 814 608	3 814 608	3 814 608

The deferred tax liabilities have been included in the computation of the key ratios.

*) The years 2004-2005 have been reported according to International Financial Reporting Standards (IFRS) and the years 2001-2003 according to Finnish Accounting Standards (FAS).
**) The Board of Directors' proposal
***) K-shares valued at the value of A-shares

DEVELOPMENT OF QUARTERLY RESULTS

EUR 1 000	2005	Q4 2005	Q3 2005	Q2 2005	Q1 2005
CONTINUING OPERATIONS					
NET SALES	**108 627**	**31 503**	**29 494**	**29 138**	**18 492**
Other operating income	**708**	89	94	72	453
Operating expenses	**-102 054**	-30 184	-26 997	-27 132	-17 742
Depreciation, amortisation and impairment charges	**-2 877**	-715	-705	-675	-784
OPERATING PROFIT	**4 403**	**695**	**1 887**	**1 403**	**419**
% of net sales	**4**	2	6	5	2
Financial income and expenses	**1 058**	255	243	292	268
PROFIT BEFORE TAX	**5 461**	**950**	**2 129**	**1 695**	**687**
% of net sales	**5**	3	7	6	4
Taxes	**-1 423**	-32	-596	-531	-264
PROFIT FROM CONTINUING OPERATIONS	**4 038**	**918**	**1 534**	**1 164**	**423**
% of net sales	**4**	3	5	4	2
ALLOCATION OF PROFIT / LOSS					
Profit/loss attributable to minority interest	**-114**	3	-2	-141	26
Profit/loss attributable to equity holders of the parent company	**4 152**	915	1 536	1 305	397
EARNINGS PER SHARE					
earnings per share from continuing operations					
- undiluted, EUR	1.09	0.24	0.40	0.34	0.10
- diluted, EUR	1.07	0.24	0.40	0.34	0.10
Equity issue-adjusted number of shares					
- weighted average	3 815	3 815	3 815	3 815	3 815
- diluted	3 872	3 872	3 861	3 834	3 822

Definition of key ratios

Return on investment, % (ROI) =	Profit before tax*) + interest expenses + other financial expenses	Balance Sheet total ./. interest-free liabilities (average)	x 100
Return on equity, % (ROE) =	Profit before tax *) ./. taxes	Equity + minority interests (average)	x 100
Interest-bearing net liabilities =	Interest-bearing liabilities ./. cash and cash equivalents + financial assets at fair value through profit / loss		
Equity ratio, % =	Equity + minority interests	Balance Sheet total ./. advances received	x 100
Quick ratio =	Cash and cash equivalents + financial assets at fair value through profit / loss + current receivables	Current liabilities ./. advances received	
Earnings per share (EPS) =	Profit / loss for the period **)	Equity issue-adjusted average number of shares during the year	
Equity to share =	Equity	Equity issue-adjusted number of shares at the day of the Financial Statements	
Dividend per share =	Distributed dividend for the year	Equity issue-adjusted number of shares at the day of the Financial Statements	
Dividend per profit, % =	Dividend per share	Earnings per share	x 100
Effective dividend return, % =	Dividend per share	Equity issue-adjusted share price at 31 December	x 100
Price/earnings ratio (P/E ratio) =	Equity issue-adjusted share price at 31 December	Earnings per share	
Market value of capital stock =	Number of shares at year end (A+K shares) x Share price on the last day of the year		
Gearing, % =	Interest-bearing liabilities ./. cash and cash equivalents + financial assets at fair value through profit / loss	Equity + minority interest	x 100

*) 2001 - 2003: profit before extraordinary items

**) 2001 - 2003: profit before extraordinary items and taxes ./. taxes +/- minority interest

Shares and shareholders

SHARE CAPITAL AT 31 DECEMBER 2005

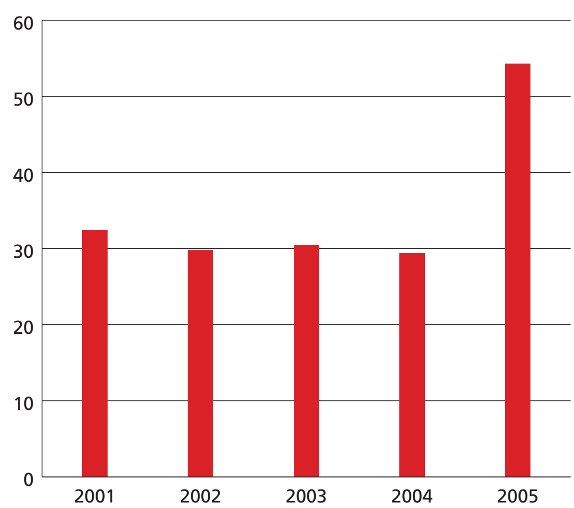
SHARES	Voting rights	Nominal value EUR/share	Volume 1 000 shares	Total nominal value EUR 1 000
K-shares (Ordinary shares)	20 votes/share	2.00	991	1 982
A-shares	1 vote/share	2.00	2 823	5 647
TOTAL SHARES AT 31 DECEMBER 2005		**2.00**	**3 815**	**7 629**

CHANGES IN SHARE CAPITAL FROM 1 JANUARY 1994 TO 31 DECEMBER 2005	Share capital EUR	K-shares pcs	A-shares pcs
Share capital at 1 January 1994	5 359 073	1 054 600	2 124 240
Issue of share capital 21 September 1994	1 069 285		635 768
Change of K-series shares into A-series shares 1998		-14 000	14 000
Decrease of share capital (reserve fund) 30 June 2000	-12 648		
Increase of share capital, capitalization issue 30 June 2000	1 213 506		
Change of K-series shares into A-series shares 2003		-44 539	44 539
Change of K-series shares into A-series shares 2004		-4 900	4 900
SHARE CAPITAL AT 31 DECEMBER 2005	**7 629 216**	**991 161**	**2 823 447**

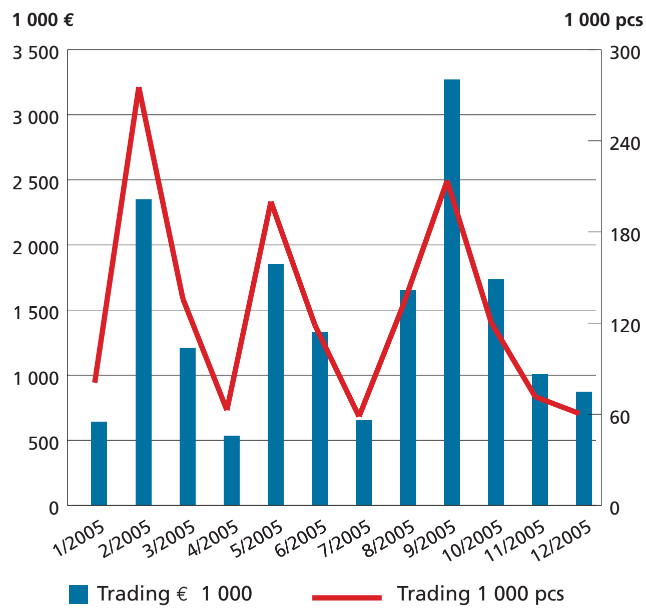
During the period, Raute Corporation did not decide to issue shares, convertible bonds or stock options.

The Corporation's Board of Directors does not hold any effective authorization to share issuing or issuing of convertible bonds and stock options. On 22 March 2005, the Annual General Meeting authorized the Board of Directors to decide whether to acquire A-class treasury shares with distributable retained earnings and to decide on the disposal of treasury shares. The Board of Directors may decide to acquire a maximum of 190,730 A-shares with a nominal value of EUR 2.00 taking the regulations of the Companies Act regarding the maximum amount of treasury shares held by a company into consideration.

Market value of capital stock at 31 Dec. €m



Trading in A-shares 1 Jan. - 31 Dec. 2005



Share quotation

Raute Corporation's A-shares are listed on the main list of the Helsinki Stock Exchange. The trading code is RUTAV.

Share price development

The highest price paid during the year was EUR 16.42 (EUR 8.90) and the lowest was EUR 7.60 (EUR 7.10). At the end of the year the share price was EUR 14.24 (EUR 7.70).
During the year 1,529,700.00 shares (568,922.00 shares) were traded for a total value of EUR 17,1 million (EUR 4,6 m).

Insider information policy

Raute Corporation complies with the Helsinki Stock Exchange, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers insider information policies.

The Corporation's public insiders are the Board of Directors, the President and CEO, the Members of the Executive Board, the Presidents of the subsidiaries and the auditors.

Taxable value

The taxable value of Raute Corporation's shares was EUR 9.91 (EUR 5.36) at 31 December 2005.

BONDS WITH WARRANTS

Raute Corporation's General Meeting of 16 June 1998 decided to issue a EUR 357,399.34 bond with warrants to the Group's personnel, to the members of the Board of Directors of Raute Group, and to a subsidiary company owned entirely by Raute Group.

The maturity of the bonds was three years, and it was repaid as a single payment on 4 September 2001.

The warrants are divided into A-warrants (212,500.00), that had an exercise period from 1 September 2001 to 30 September 2004, and B-warrants (212,500.00), with an exercise period from 1 September 2003 to 30 September 2006. The issuance of A-warrants on the main list of the Helsinki Stock Exchange began on 22 September 2001 and ended on 30 September 2004 and the issuance of B-warrants began on 1 September 2003.

The warrants entitle their holders to subscribe a maximum of 212,500.00 A-shares, which represent 6 percent of the company's share capital and 1 percent of the votes. As a result of the warrants being exercised, the share capital may increase by no more than EUR 425,000.00.

According to the terms of bonds with warrants, the original subscription price of the shares was EUR 13.29. The price is adjusted annually on the dividend record date. After the dividend payment for 2004, the new subscription price is EUR 8.22. The dividend payment for 2005 decreases the subscription price of the shares by the amount of dividend paid on the record date 27 March 2006.

The highest price paid for a B-warrant during the year was EUR 9.20 (EUR 1.50) and the lowest EUR 1.00 (EUR 0.82).
The number of B-warrants traded during the year totaled 197,900.00 (70,500.00), with a total value of EUR 701,207.00 (EUR 77,157.00).

DISTRUBUTION OF SHARES BY SHARE TYPE AT 31 DECEMBER 2005

A- AND K-SHARES By shareholder groups	Share- holders	%	Shares	%	Voting rights	%
Households	884	90.8	3 235 503	84.8	22 067 562	97.4
Credit and insurance institutions	3	0.3	81 200	2.1	81 200	0.4
Foreign shareholders	4	0.4	8 500	0.2	8 500	0.1
Non-profit institutions	7	0.7	29 900	0.8	29 900	0.1
Public institutions	3	0.3	223 300	5.9	223 300	1.0
Companies	70	7.2	186 895	4.9	186 895	0.8
Administrative registered	3	0.3	49 310	1.3	49 310	0.2
TOTAL	**974**	**100.0**	**3 814 608**	**100.0**	**22 646 667**	**100.0**

A-SHARES By shareholder groups	Share- holders	%	Shares	%	Voting rights	%
Households	882	90.8	2 244 342	79.5	2 244 342	79.5
Credit and insurance institutions	3	0.3	81 200	2.9	81 200	2.9
Foreign shareholders	4	0.4	8 500	0.3	8 500	0.3
Non-profit institutions	7	0.7	29 900	1.1	29 900	1.1
Public institutions	3	0.3	223 300	7.9	223 300	7.9
Companies	70	7.3	186 895	6.6	186 895	6.6
Administratively registered	3	0.2	49 310	1.7	49 310	1.7
TOTAL	**972**	**100.0**	**2 823 447**	**100.0**	**2 823 447**	**100.0**

A-SHARES By size of holding	Share-holders	%	Shares	%	Voting rights	%
1 - 1 000	785	80.8	295 207	10.5	295 207	10.5
1 001 - 5 000	118	12.1	273 237	9.7	273 237	9.7
5 001 - 10 000	22	2.3	171 045	6.1	171 045	6.1
10 001 - 50 000	36	3.7	838 125	29.7	838 125	29.7
50 001 - 100 000	9	0.9	615 833	21.8	615 833	21.8
100 001 -	2	0.2	630 000	22.2	630 000	22.2
Total	**972**	**100.0**	**2 823 447**	**100.0**	**2 823 447**	**100.0**

K-SHARES By shareholder groups	Share-holders	%	Shares	%	Voting rights	%
Households	46	100.0	991 161	100.0	19 823 220	100.0
TOTAL	**46**	**100.0**	**991 161**	**100.0**	**19 823 220**	**100.0**

K-SHARES By size of holding	Share-holders	%	Shares	%	Voting rights	%
1 - 1 000	2	4.3	580	0.1	11 600	0.1
1 001 - 5 000	2	4.3	7 429	0.8	148 580	0.8
5 001 - 10 000	13	28.3	84 173	8.5	1 683 460	8.5
10 001 - 50 000	25	54.4	677 099	68.3	13 541 980	68.3
50 001 - 100 000	4	8.7	221 880	22.4	4 437 600	22.4
Total	**46**	**100.0**	**991 161**	**100.0**	**19 823 220**	**100.0**

TEN LARGEST SHAREHOLDERS 31 DECEMBER 2005

BY NUMBER OF SHARES		Number of K-shares	Number of A-shares	Total number of shares	% of total shares	Total number of votes	% of voting rights
1	Sundholm Göran		430 000	430 000	11.3	430 000	1.9
2	Keskinäinen Työeläke-vakuutusyhtiö Varma		200 000	200 000	5.2	200 000	0.9
3	Suominen Jussi Matias	48 000	74 759	122 759	3.2	1 034 759	4.6
4	Suominen Tiina Sini-Maria	48 000	74 759	122 759	3.2	1 034 759	4.6
5	Suominen Pekka Matias	48 000	74 159	122 159	3.2	1 034 159	4.6
6	Mustakallio Kari Pauli	60 480	60 009	120 489	3.2	1 269 609	5.6
7	Kirmo Kaisa Marketta	50 280	65 492	115 772	3.0	1 071 092	4.7
8	Siivonen Osku Pekka	50 640	59 539	110 179	2.9	1 072 339	4.7
9	Jaakonsaari Markus		85 000	85 000	2.2	85 000	0.4
10	Keskiaho Leena	33 600	51 116	84 716	2.2	723 116	3.2
TOTAL		**339 000**	**1 174 833**	**1 513 833**	**39,7**	**7 954 833**	**35.1**

BY NUMBER OF VOTES		Number of K-shares	Number of A-shares	Total number of shares	% of total shares	Total number of votes	% of voting rights
1	Mustakallio Kari Pauli	60 480	60 009	120 489	3.2	1 269 609	5.6
2	Särkijärvi Riitta	60 480	22 009	82 489	2.2	1 231 609	5.4
3	Siivonen Osku Pekka	50 640	59 539	110 179	2.9	1 072 339	4.7
4	Kirmo Kaisa Marketta	50 280	65 492	115 772	3.0	1 071 092	4.7
5	Suominen Jussi Matias	48 000	74 759	122 759	3.2	1 034 759	4.6
6	Suominen Tiina Sini-Maria	48 000	74 759	122 759	3.2	1 034 759	4.6
7	Suominen Pekka Matias	48 000	74 159	122 159	3.2	1 034 159	4.6
8	Mustakallio Ulla Sinikka	47 240	25 862	73 102	1.9	970 662	4.3
9	Mustakallio Kai Henrik	47 240	12 362	59 602	1.6	957 162	4.2
10	Mustakallio Risto	42 240	35 862	78 102	2.0	880 662	3.9
TOTAL		**502 600**	**504 812**	**1 007 412**	**26.4**	**10 556 812**	**46.6**

The number of administratively registered shares at 31 December 2005 was 49 310 (17 980).

MANAGEMENT INTEREST AT 31 DECEMBER 2005

Company's Board of Directors, President and CEO and Presidents of the subsidiaries owned a total of 82 338 A-shares and 96 990 K-shares. Management's ownership corresponds to 4.7 per cent of the shares in the company and 8.9 per cent of associated total voting rights. The figures include the holdings of their own, minor children and entities under their control.

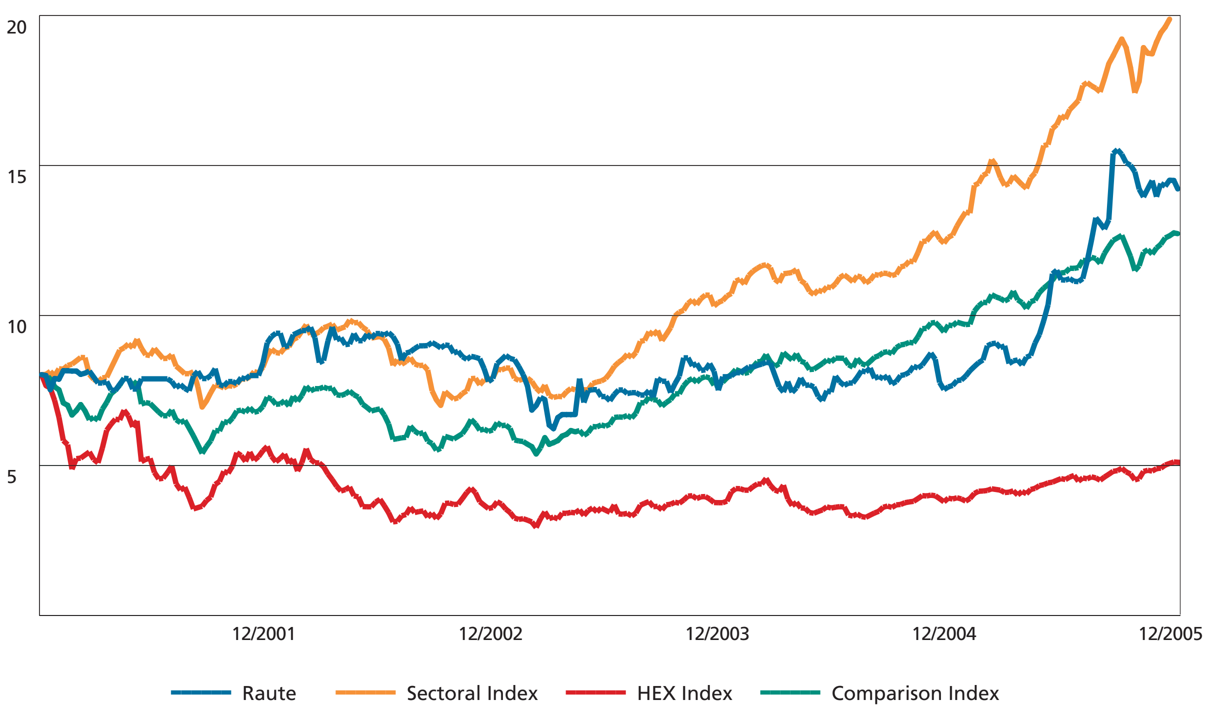
Warrants owned by the management correspond to 11.8 per cent of the total amount of B-warrants issued by Raute Group. A total of 25 000 A-shares may be subscribed on the basis of these warrants corresponding to 0.9 per cent of the voting rights of A-shares and 0.1 per cent of the total voting rights.

PUBLIC INSIDER OWNERSHIP AT 31 DECEMBER 2005

Public insiders owned a total of 82 338 A-shares and 96 990 K-shares. Management's ownership corresponds to 4.7 per cent of the shares in the company and 8.9 per cent of associated total voting rights. The figures include the holdings of their own, underage children and entities under their control.

Warrants owned by public insiders correspond to 15.1 per cent of the total amount of B-warrants issued by Raute Group. A total of 32 000 A-shares may be subscribed on the basis of these warrants corresponding to 1.1 per cent of the voting rights of A-shares and 0.1 per cent of the total voting rights.

Performance of Raute Corporation's A-shares 1 Jan. 2001 - 31 Dec. 2005, €



The Board of Directors' proposal to the Annual General Meeting

The Group's retained earnings and the profit for the period is 12 851 thousand euros from which 9 655 thousand euros is distributable. The distributable funds of the parent company is 17 112 thousand euros.

The Board of Directors proposes to the Annual General Meeting that a per-share dividend of 0.60 EUR be paid on 3 of April 2006. Dividends paid in total 2 288 764.80 euros.

Nastola, 8 February 2006

Jarmo Rytilahti
Chairman of the Board

Heikki Lehtonen — Mika Mustakallio — Panu Mustakallio

Sinikka Mustakallio — Markku Nihti — Pekka Paasikivi

Tapani Kiiski
President and CEO

Auditor's report

To the shareholders of Raute Corporation

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

We have 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 financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures 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 administration is to examine that the members of the Board of Directors and the President and CEO of the parent company have complied with the rules of the Companies' Act.

Consolidated financial statements

In our opinion the consolidated financial statements give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company's financial statements and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the President and 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.

Nastola 10 February 2006

Kari Miettinen
APA

Lotta Mäkelä
APA

Board of Directors

Jarmo Rytilahti
b. 1944, M.Sc. (Econ.)
Chairman of the Board 2004-
Member of the Board 2003-
Principal occupation: President of Uponor Oyj (former Asko Oyj) 1991-2003
Main simultaneous positions of trust: Member of the Board: Kemppi Oy 2003-, Renor Oy 2003-, Lahden Polttimo Oy 2005-
Raute shares and warrants:
no holding of shares and warrants
Remuneration in 2005: 33 000 €

Sinikka Mustakallio
b.1952
Vice-Chairman of the Board 2004-
Member of the Board 1998-
Chairman of Raute Corporation's Supervisory Board 1996-1998
Principal occupation:
President, WoM Oy 2001-
Main simultaneous positions of trust:
none
Raute shares and warrants:
47 240 K-shares,
25 862 A-shares,
holding of warrants to subscribe 5 000 A-shares
Remuneration in 2005: 16 500 €

Heikki Lehtonen
b.1959, M.Sc.(Eng.)
Member of the Board 1997-
Principal occupation:
President and CEO, Componenta Oyj 1993-
Main simultaneous positions of trust:
Vice-Chairman of the Board of Directors: Jaakko Pöyry Group Oyj 2003-, The Family Business Network Finland 2004-,
Member of the Board of Directors:
Otava Books and Magazines Group Ltd 1991-, Confederation of Finnish Industries 2005-
Raute shares and warrants:
4 600 A-shares
holding of warrants to subscribe 5 000 A-shares
Remuneration in 2005: 16 500 €

Mika Mustakallio
b. 1964, M.Sc. (Econ.), CEFA
Member of the Board 2004-
Principal occupation:
Vice President, Algorithmica Research AB 2000-
Main simultaneous positions of trust:
none
Raute shares and warrants:
37 750 K-shares
34 670 A-shares
no holding of warrants
Remuneration in 2005: 16 500 €

Panu Mustakallio
b. 1971, M.Sc. (Eng.)
Member of the Board 2003-
Principal occupation:
Development Engineer, Halton Oy 2001-2005,
Specialist, Indoor Climate Technology Halton Oy 2005
Main simultaneous positions of trust:
none
Raute shares and warrants:
12 000 K-shares
15 256 A-shares
no holding of warrants
Remuneration in 2005: 16 500 €

Markku Nihti
b. 1945, M.Sc. (Eng.), MBA
Member of the Board 1997-
Principal occupation:
President, Elektroskandia Oy 1992-2005,
Senior Advisor, Elektroskandia Group 2005-
Main simultaneous positions of trust:
Chairman of the Board: Elektroskandia AB 2004-,
Member of the Board: Duuri Oy 2003-
Raute shares and warrants:
900 A-shares
holding of warrants to subscribe 5 000 A-shares
Remuneration in 2005: 16 500 €

Pekka Paasikivi
b. 1944, B.Sc. (Eng.)
Member of the Board 2002-
Principal occupation:
CEO, Oras Oy 1979-2001
Main simultaneous positions of trust:
Chairman of the Board: Oraset Oy 1996-, Oras Oy 2005-, Oras Invest Oy 2005-, Uponor Oyj 1999-, Deputy Chairman of the Board: Hollming Oy 1993-2005,
Deputy Chairman of the Supervisory Board: Varma Mutual Pension Insurance Company 2001-2005, Chairman of the Supervisory Board: Varma Mutual Pension Insurance Company 2005-, Member of the Board: Okmetic Oyj 1996-, Technology Industries of Finland, 1996-2005, Foundation of Economic Education, 2003-, Member of the Supervisory Board: Finpro, 2000-2005
Raute shares and warrants:
no holding of shares
holding of warrants to subscribe 5 000 A-shares
Remuneration in 2005: 16 500 €

Auditors

Holdings of Raute shares and warrants on 31 December 2005. The figures include the holdings of their own, underage children and entities under their control.

Kari Miettinen, APA
Lotta Mäkelä, APA

Deputy Auditor
PricewaterhouseCoopers Oy

Executive Board

Tapani Kiiski
b. 1962, Licentiate in Technology
President and CEO, 16 March 2004-
With the Company since: 2002-
Member of the Executive Board since: 16 March 2004
Raute shares and warrants:
1 000 A-shares
holding of warrants to subscribe 5 000 A-shares

Arja Hakala
b. 1957, M.Sc. (Econ.), MBA
Chief Financial Officer, Deputy to President and CEO
With the Company since: 1990-
Member of the Executive Board since: 1 January 2001
Raute shares and warrants:
no holding of shares
holding of warrants to subscribe 2 000 A-shares

Petri Strengell
b. 1962, M.Sc. (Eng.)
Vice President, Technology and Operations
With the Company since: 1987-
Member of the Executive Board since: 1 June 2004
Raute shares and warrants:
no holding of shares
holding of warrants to subscribe 5 000 A-shares

Timo Kangas
b. 1965, Engineer
Vice President, Technology Services
With the Company since: 2004-
Member of the Executive Board since: 22 September 2004
Raute shares and warrants:
no holding of shares and warrants

Bruce Alexander
b. 1959, B.Sc. (For.), MBA
Vice President, North American Business Operations,
President of Raute Wood Ltd.
With the Company since: 2000
Member of the Executive Board since: 1 June 2004
Raute shares and warrants:
no holding of shares and warrants

Holdings of Raute shares and warrants on 31 December 2005. The figures include the holdings of their own, underage children and entities under their control.

Corporate Governance

Raute Corporation follows the Corporate Governance Recommendation for listed companies, issued by Hex Oyj, the Central Chamber of Commerce, and the Confederation of Finnish Industry and Employers (TT) on July 1, 2004. The central elements of Raute Corporation's governance are provided below. The principles and information defined as public in the recommendations are presented on the company's website.

SHARES AND SHAREHOLDERS

Raute Corporation's shares are divided into common shares (series K) and A shares (series A). Share series differ from each other so that K share entitles the holder to twenty (20) votes, A share to one (1) vote at the General Meeting. The A shares have been quoted on the Main List of the Helsinki Stock Exchange since 1994.

Year 2005

Detailed information on Raute Corporation's shares and shareholders is provided on pages 63 of Annual Report.

ANNUAL GENERAL MEETING

Raute Corporation's Annual General Meeting is normally held in March, but not later than six months from the end of the fiscal year. The Annual General Meeting elects the Chairman of the Board, the Vice-Chairman and 3 - 5 Board members.

Year 2005

Raute Corporation's Annual General Meeting was held on March 22, 2005. The Annual General Meeting adopted the financial statements for 2004 and resolved to distribute a dividend of 0,40 euro per share, elected the Board of Directors and the auditors, and decided on their remunerations. The Annual General Meeting authorized the Board of Directors to decide on acquiring the company's own series A shares using distributable funds, and to dispose of company's own shares. Further, the Annual General Meeting decided to change the company's name Raute Oyj to be Raute Corporation in English and Raute Abp in Swedish and that Article 1 of the Articles of Association be changed respectively.

BOARD OF DIRECTORS

The Board's period of operation starts at the Annual General Meeting, where the Board is elected, and ends at the following Annual General Meeting. The majority of the Board members shall be independent of the company and at least two members in the said majority shall be independent of the company's major shareholders.

The Charter for the Board of Directors is described in the company's Administrative Instructions. In addition to statutory tasks and those defined in the Articles of Association, the Board confirms the company strategy and budget annually, and, on basis of the management's reports, monitors the Group's financial status monthly and provides interim reports. The Board evaluates the work of the Board members and the Chairman of the Board annually.

Year 2005

Raute Corporation's Annual General Meeting held on March 22, 2005 elected seven members to Raute Corporation's Board of Directors. Mr. Jarmo Rytilahti, M.Sc. (Econ. & Bus. Adm.), was re-elected Chairman of the Board, Ms. Sinikka Mustakallio, researcher, was re-elected Vice-Chairman, and Mr. Heikki Lehtonen, M.Sc. (Eng), Mr. Mika Mustakallio, M.Sc. (Econ. & Bus. Adm.), Mr. Panu Mustakallio, M.Sc. (Eng), Mr. Markku Nihti, M.Sc. (Eng) and Mr. Pekka Paasikivi, B.Sc. (Eng), were re-elected as Board members.

All the Board members are independent of the company. Chairman (Jarmo Rytilahti) and three members (Heikki Lehtonen, Markku Nihti, and Pekka Paasikivi) are independent of the company's major shareholders.

The remunerations for the Board members in 2005 were defined by the Annual General Meeting for the term in 2005 as follows: 36 thousand euros to the Chairman of the Board and 18 thousand euros to each Board member. In 2005, salaries and remunerations to the Chairmen and members of the Board totaled 144 thousand euros

In 2005, the Board held 12 meetings, four of which were teleconferences. The attendance of the Board members at meetings was 94 percent on the average. The meetings dealt with the issues listed in the Charter of the Administrative Instructions. The Board's self-evaluation has taken place in June 2005.

According to the plan for 2006, the Board of Directors will convene eight times, and teleconferences will be held as necessary.

The Board members' personal data, holdings of shares and warrants on December 31, 2005, and remunerations for 2005 are presented on page 68.

THE COMPANY'S ADMINISTRATIVE INSTRUCTIONS

On June 21, 2004, Raute Corporation's Board of Directors issued Administrative Instructions for the company. They comprise the Charter for the decision-making bodies and instructions both on the division of responsibilities among the Board of Directors, the President and CEO, and the Executive Board, and on the organization of internal supervision and risk management to complement the provisions of the Companies Act and the company's Articles of Association. The Administrative Instructions are available on the company's website.

BOARD COMMITTEES

Raute Corporation's Board of Directors is responsible for the tasks of the Audit Committee. In this capacity, the Board shall meet the external auditor at least once a year without the presence of any members of the management employed by the company. In the capacity of the Audit Committee, the Board's responsibilities include reviewing the company's financial statements and interim reports, monitoring the internal supervision system, and seeing to internal and external audits.

For the preparation of matters of major importance, the Board of Directors appoints annually from among its members a Working Committee comprising a Chairman, a Vice-Chairman, and one Board member.

The Board elects annually an Appointments Committee, whose task is to prepare a proposal on Board members and auditors to the Annual General Meeting. The members of the Appointments Committee are Board members or representatives of major shareholders.

The Board may also establish other separate committees as necessary.

Year 2005

The Appointments Committee and the Working Committee continued in the composition appointed in the fall 2004. Mr. Jarmo Rytilahti, Chairman of the Board, is the Chairman of the Working Committee and Ms. Sinikka Mustakallio, Vice-Chairman, and Mr. Heikki Lehtonen, Board member, are members of the Working Committee. The Working Committee convened two times during 2005. The Chairman of the Appointments Committee, Mr. Jarmo Rytilahti, Chairman of the Board, Ms. Sinikka Mustakallio, Vice-Chairman of the Board, and Mr. Ville Korhonen, a representative of a major group of shareholders, are members of the Appointments Committee. The Appointments Committee convened two times in 2005.

PRESIDENT AND CEO

Raute Corporation's Board of Directors appoints the President and CEO and confirms the terms of his or her employment. The Board evaluates the President and CEO's work annually.

Raute Corporation's President and CEO also acts as the Group's President and CEO and as the Chairman of the Group's Executive Board. The President and CEO acts as the representative of the Group at the General Meetings of subsidiaries and affiliates, and as the Chairman of the subsidiaries' Boards of Directors, unless the Board decides otherwise in individual cases.

Year 2005

Mr. Tapani Kiiski, Licentiate in Technology was appointed President and CEO on March 16, 2004. Ms. Arja Hakala, M.Sc. (Econ), MBA, Chief Financial Officer, was appointed deputy to the President and CEO on 16 March 2004.

According to the President and CEO Tapani Kiiski's executive contract, his annual salary and fringe benefits total approximately 174 thousand euros. In addition, he has the possibility to receive a profit-related bonus amounting to six months' salary at the most. The contract does not include any special conditions concerning retirement or the amount of retirement allowance. The term of notice is six months, and the severance pay equals six months' salary.

The salaries and remunerations paid to Raute Corporation's President and CEO for his tasks in 2005 totaled 237 thousand euros

The President and CEO's and his deputy's personal holdings of shares and warrants are presented on page 70.

BUSINESS ORGANIZATION

Raute Group's Executive Board consists of the President and CEO who acts as the Chairman, and of a variable number of members appointed by Raute Corporation's Board of Directors. The Executive Board prepares the Group's business strategy and is in charge of its implementation. The Executive Board deals with all major operational issues, and its decisions are confirmed by the President and CEO. The members of the Executive Board are in charge of the day-to-day management of the company in their respective areas of responsibility.

Year 2005

The Group's Executive Board consists of: Mr. Tapani Kiiski, President and CEO (Chairman); Ms. Arja Hakala, Chief Financial Officer; Mr. Petri Strengell, Vice President, Technology and Operations; Mr. Timo Kangas, Vice President, Technology Services and Mr. Bruce Alexander, President of North American Operations.

The Executive Board members' personal data and holdings of shares and warrants are presented on page 70.

SALARIES AND REMUNERATIONS

The company's remuneration system is divided into three components: the basic salary, a profit- and performance-related bonus system, and a long-term incentive scheme. Depending on the employee's position, different variations of the abovementioned elements are applied.

The Board of Directors prepares a proposal on and determines the President and CEO's annual remuneration and, based in the President and CEO's proposal, approves the remunerations for the members of the Executive Board. An individual employee's remuneration is always approved by the superior of the employee's superior. The Chairman of the Board approves the remunerations for those of the President and CEO's immediate subordinates who are not members of the Executive Board. An employee is not entitled to a separate remuneration for being a member in a Board of Directors in Raute Group's subsidiaries.

INSIDER ISSUES

Raute Corporation follows the Insider Rules provided by the Helsinki Stock Exchange, the Central Chamber of Commerce, and the Confederation of Finnish Industry and Employers (TT). In addition, the company applies separate insider instructions approved by the Board of Directors. The public insiders comprise the President and CEO, his or her deputy, the Board members, the auditors, the members of the Group's Executive Board, and the Presidents of Raute Group companies. The company-specific insiders are members of the Group's Executive Board and persons who regularly handle or receive non-disclosed information that affects the share price. In addition to the persons mentioned above, the company maintains a company-specific project register where project-specific insiders are listed. The Chief Financial Officer is in charge of insider issues in the company.

The insider trading prohibition applies from the end of an interim reporting period or fiscal year up to the publication of the corresponding stock exchange release. The company tries to avoid investor communication meetings during insider trading prohibitions.

The list of public insiders is available on the company's website.

RISK MANAGEMENT

The key risks related to Raute Group's international business are the financing, product liability, and contractual risks. The company applies a risk management policy approved by the Board. The President and CEO and the Chief Financial Officer report to the Board regularly on any major strategic and business risks.

The Board of Directors determines the Group's general risk attitude and approves the risk management policy at a general level. The Executive Board determines the Group's general risk management principles and confirms various operating policies and boundaries of powers. The Chief Financial Officer is responsible for the coordination of risk management.

The Group's President and CEO is responsible for the implementation of risk management in the entire Group, and the Presidents of the Group companies in their respective companies. The members of the Executive Board are responsible for their own fields across company boundaries.

The responsibility of the Group's Controller function is to develop risk management procedures together with the operational management and to control the compliance with risk management principles and powers. The principal product and operation liability risks, and property and personal damage risks are covered by insurance. The absence of an internal auditing organization is taken into account when drawing up the contents of Group reporting and the internal audits of quality systems. The company's Board of Directors approves the auditing program.

The management of financing risks is described in the notes to the Consolidated Financial Statements on page 48.

AUDITS

According to the Articles of Association, the company shall elect two regular auditors with deputies. The General Meeting may exercise its legal right and elect a public accountant company instead of two deputy auditors. The Board of Directors approves the audit plan and supervises its implementation. When drawing up the contents of the audit, the absence of a separate internal auditing organizations shall be taken into account. In addition to tasks defined by regulations, the auditors report to the Chairman of the Board when necessary, and at least once a year to the Board of Directors on any issues arisen in connection with the audit.

Year 2005

Mr. Kari Miettinen and Ms. Lotta Mäkelä, Authorized Public Accountants, were re-elected as auditors, and PricewaterhouseCoopers Oy, an authorized public accounting company, was elected as deputy auditor in the Annual General Meeting on 22 March 2005.

The remunerations paid to PricewaterhouseCoopers Oy for the normal annual audit of year 2005 were 40 thousand euros. Other remunerations paid to PricewaterhouseCoopers Oy during 2005 were 50 thousand euros including expert services in connection with the transition to IFRS-based accounting standards.

Raute globally

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Information on Raute

Raute Corporation's Series A shares are quoted on the Helsinki Stock Exchange. Quotations for Series A shares can be found on the company's website, address www.raute.com, where a copy of the financial statements and the stock exchange releases published in 2005 may also be obtained

Series A shares
- trading code: RUTAV
- number of shares: 2,823,447
- voting rights per share: 1 vote

Series K shares
- number of shares: 991,161
- voting rights per share: 20 votes

Investor relations

Tapani Kiiski	Arja Hakala
President and CEO	Chief Financial Officer
tel. +358 3 829 3560	tel. +358 3 829 3293

Information to shareholders

Annual General Meeting

Raute Corporation will hold its Annual General Meeting starting at 6.00 pm on Wednesday 22 March 2006 at Kongressikeskus Fellmanni, address Kirkkokatu 27, Lahti.

To be entitled to attend the Annual General Meeting shareholders must be registered in the shareholders' register held by Finnish Central Securities Depository Ltd no later than 10 March 2006.

Shareholders wishing to attend the Annual General Meeting must register for the meeting by 4.00 pm on Thursday 16 March 2006 by writing to Raute Corporation, P.O.Box 69, FI-15551 Nastola, Finland, or by fax to +358 3 829 3582 or by phone to Ms Sirpa Väänänen at +358 3 829 3302. Any proxies should be presented at the time of registration.

Dividend

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.60 per share be paid for both Series A and K shares in respect of the 2005 financial year. The date for dividend payment is 3 April 2006 and the respective record date is 27 March 2006. To receive dividend, shareholders must be registered in the shareholders' register held by Finnish Central Securities Depository Ltd on the above record date.

Financial information

This Annual Report is published in Finnish and English. In 2006, Raute Corporation will issue three Interim Reports as follows:

27 April	January – March 2006
10 August	January – June 2006
25 October	January – September 2006

Interim Reports are published in Finnish and English.

The Annual Report, Interim Reports and other information on Raute Corporation are available in Finnish and English at www.raute.com

Annual Reports and Interim Reports can also be ordered from:
Raute Corporation
P.O.Box 69
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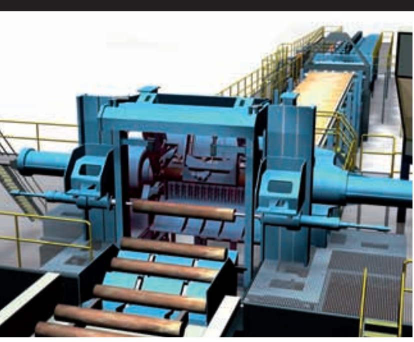
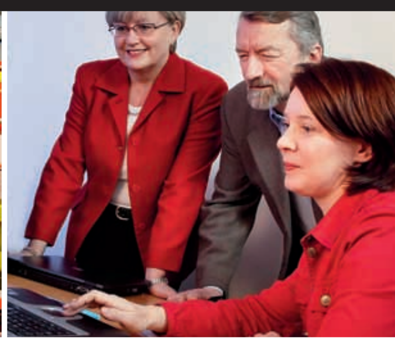
email: ir@raute.com

Annual Report 2005

Visuality: Onnion Oy
Content and production: Viestintä Oy Virtuoosi
Photos: Kimmo Häkkinen and Raute
Printing house: Art-Print
Pictured Raute employees: Ulla Hillu, Antero Hyvönen, Tomi Iivonen, Sari Kääriäinen,
Seppo Leppänen, Sami Mattila, Janne Pelkonen, Tuomas Pitkänen and Mikko Vesterinen



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