2006

Annual Report

Contents

Information to shareholders

Raute Corporation's series A shares are listed on the Nordic list of the Helsinki Stock Exchange. Share quotations can be followed online at www.raute.com.

Series A share
- Trading code: RUTAV
- Number of shares: 3 013 597
- Votes/share: 1 vote

Series K share
- Number of shares: 991 161
- Votes/share: 20 votes

Investor relations:
Tapani Kiiski, President and CEO
Arja Hakala, CFO
tel. +358 3 829 11
email: ir@raute.com

Annual General Meeting

Raute Corporation's Annual General Meeting will be held on Wednesday, March 21, 2007 starting at 6:00 p.m. at Congress Center Fellmanni, Kirkkokatu 27, Lahti, Finland.

To be entitled to attend the Annual General Meeting, shareholders must be registered in the shareholders' register maintained by the Finnish Central Securities Depository Ltd at the latest on March 9, 2007.

Shareholders who wish to attend the Meeting must register for it by 4:00 p.m. on Thursday, March 15, 2007 by writing to Raute Corporation, P.O. Box 69, FI-15551 Nastola, Finland, by sending a fax to +358 3 829 3582 or by calling +358 3 829 3302 / Sirpa Väänänen. Any proxies should be supplied at the time of registration. Raute Corporation's Articles of Association do not specify special procedures for presenting initiatives to the Annual General Meeting.

Dividend

The Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.70 per share be paid for both series A and K shares. The date of payment is April 2, 2007 and the respective record date is March 26, 2007. Dividends will be paid to shareholders who are registered in the shareholders' register maintained by the Finnish Central Securities Depository Ltd on the record date.

Financial information

This annual report is published in Finnish and English. Raute Corporation will publish three interim reports, in Finnish and English, in 2007:

April 26	January–March 2007
August 9	January–June 2007
October 25	January–September 2007

The annual report, interim reports, stock exchange releases, the complete consolidated financial statements, and other information on Raute Corporation are available in Finnish and English at **www.raute.com**. Raute's financial publications can be ordered in print or as printouts by phone from +358 3 829 11 or by email from ir@raute.com.

From record growth to record order book

Raute's strategic choices have proved to be the right ones. Year 2005, preceding the report period, was a year of strong growth. While growth leveled off in the past year, we received a record number of new orders, which improves the outlook for the new year. The record number of four mill-scale orders is a sign of our strong market position, and of customers' trust in Raute's technology and delivery capacity.

Year 2006 had two sides to it. On the one hand, the market situation continued to be good, we showed strong competitiveness, and received a big number of new orders. These positive factors strengthened our belief in the need to continue on our chosen strategic path.

On the other hand, our profitability did not develop in line with the objectives set for 2006. Challenges in 2006 came from difficulties in the first deliveries of some new products, the cost pressure caused by the good general economic situation, and the rapidly weakening market situation in North America. This means that the implementation of our strategy is not yet finished.

Difficulties in first deliveries and weak demand in North America

Thanks to our strong focus on product development in recent years, we were able to launch several new technology solutions in 2006. Many of these were simultaneously at the first-delivery stage last year. Unfortunately, we had problems with the commissioning and finishing of these new products, and this caused harm to our customers and additional expenses to Raute. However, our solutions have already proved to be functional and will further strengthen our technology offering in the future. In other words, our investments have paid off.

The North American housing market and housing construction, especially in the USA, have decreased significantly since the end of 2005. At the same time, significant amount of new capacity has been rolled out for the production of OSB board. OSB competes with plywood in construction applications, especially in North America. As a result, the prices of plywood grades used for construction decreased in some cases by over 40 percent over the year. Our customers reduced their investments markedly in the past year, as well as their emphasis on development oriented maintenance.

Adjustment to economic fluctuations through structural changes

The quality and efficiency of our operations, and the ability to flexibly and rapidly adapt to changes in investment demand caused by economic fluctuations are essential to our competitiveness and profitability. To answer these challenges we have developed our partner network, as well as the work distribution and competence in our own organization.

We have carried out significant structural changes in our operations in recent years. Although we have implemented most of the planned changes, this kind of development is a never-ending task, with the operating environment changing and competition growing stiffer. The changes have already had a positive impact on our delivery capacity, which has grown in two consecutive years. We now focus on improving our efficiency by making our new operating methods an established part of everyday activities in the organization.

The important role of co-operation with customers

Our selected customer industries and the technologies needed in their production activities offer us both growth opportunities and synergy benefits. Our wide-ranging technology offering and emphasis on the further development of technology services raise us to a unique position in our markets.

The markets of our customers are growing more challenging due to tougher product requirements and stiff competition. Raute's role is to use its technology to help customers improve their competitiveness and profitability. Efficient use of raw material, additives, energy, and workforce, high quality of end products, and sufficient capacity of production equipment are crucial to the success of our customers' operations. We understand our customers' processes and develop them jointly with the customers, which enables us to offer competitive solutions that lead to the achievement of these objectives. Continuous development in small steps, enabled by our technology services, has become increasingly important but is also more challenging due to continuously developing technology.

Climate change and global environmental threats are of particular concern to everyone nowadays. Raute wants to actively contribute to reducing environmental loading. Our technologies help customer industries lessen the load that their operations put on the environment. Apart from environmental considerations, enhancing the use of raw material, additives, and energy also improves the competitiveness of our customers.

Profitability as number one priority

Our order book for this year contains fewer first-delivery risks compared to last year. Except for North America, our customer industries face a good market situation and active demand. Uncertainties are caused by the threat of a general weakening of the North American economy, and its possible impact elsewhere in the world and on our customers' investment activity. We have reorganized our operations in North America to direct our resources more efficiently and improve our customer service.

I believe that our customers' willingness to invest will remain at a good level. The quotations level in the early part of the year lead me to believe that the structure of demand is evening out. While mill-scale projects are still in demand, the number of production line scale projects and modernizations is bigger than last year. Growth in contract-based preventive maintenance operations will continue as well.

Our order book puts us in an excellent position to improve our profitability in the coming year. Succeeding in the deliveries of our high order book is our top priority in terms of customer satisfaction and our goal of improved profitability. The order book also creates a foundation for moderate growth in the new year. Improved profitability and moderate growth, in this order, will be our goals this year.

I wish to thank our customers, personnel, shareholders, and all other partners and stakeholders for good and confidential co-operation and contribution to Raute's development. I hope and believe that our co-operation will continue and improve even further.

Tapani Kiiski
President and CEO

Raute in brief

Leading technology company in the sector

Raute is a technology company that serves the wood products sector worldwide. Its core competence encompasses the manufacturing processes of selected wood products. The company is the world's leading supplier of mill-scale projects to these customer industries. It is also highly competitive in smaller-scale projects and technology services.

Global market area

Raute's sales network covers market areas all around the world. Most of Raute's customers operate close to their raw material sources: forests. Strongest growth is seen in the plantation forest areas of the southern hemisphere.

Co-operation throughout the life cycle of investments

Raute's extensive technology offering covers the customers' entire production process, ranging from raw material processing to the finishing and packaging of end products. In addition to machinery and equipment deliveries, Raute also provides versatile services from raw material and market research to modernizations and production line maintenance to support its customers throughout the investments' life cycle.

The key drivers: Construction, housing, and transportation

Raute's customer industries are strongly influenced by fluctuations in construction, as well as trends related to housing and living, such as interior decorating trends. The transport industry also has an important impact on Raute's customer industries. As is characteristic of the investing business, activities usually reach their peak towards the end of economic cycles. Owing to the project-like nature of the sector, fluctuations in sales volumes and adaptation to them are part of normal operations.

Raute's customer industries include

- the plywood and veneer industry
- the LVL (Laminated Veneer Lumber) industry
- the particleboard and MDF (Medium Density Fiber board) industries
- the parquet industry
- the decorative veneer industry.

A mill supplied by Raute, for example a plywood mill, encompasses separate production lines.

Year 2006

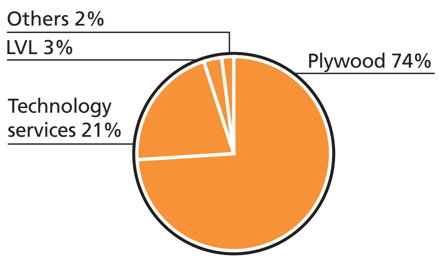
The year in brief

- Net sales (-2%) and operating profit (+2%) on last year's level
- Challenges in the first deliveries of new technologies
- Demand focused at mill-scale projects
- Four mill-scale project orders
- Slack demand for large modernizations, the growth of technology services leveled off
- Order book very strong

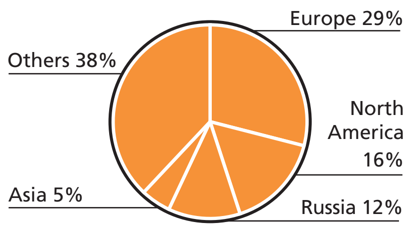
Key figures	2006	2005
Net sales, €m	**106.2**	108.6
Operating profit, €m	**4.5**	4.4
Profit before income taxes, €m	**4.9**	5.5
Order book at Dec. 31, €m	**77**	55
Earnings per share, €	**0.94**	1.09
Dividend per share, €	**0.70***	0.60
ROI, %	**19**	21
ROE, %	**13**	16
Equity ratio, %	**60**	56
Personnel at Dec. 31	**540**	533

**The Board of Directors' proposal to the Annual General Meeting*

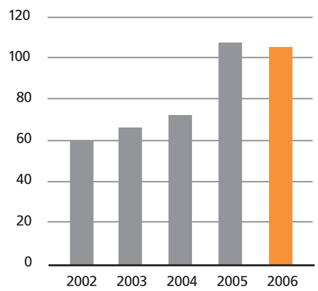
Net sales by product area



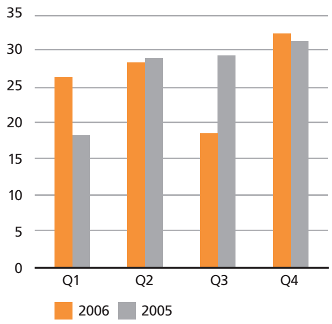
Net sales by market area



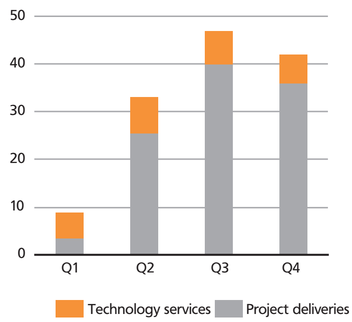
Net sales, EUR million



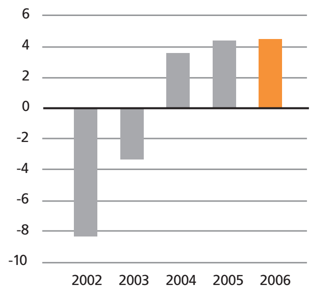
Net sales quarterly, EUR million



Order intake quarterly, EUR million



Operating profit, EUR million



Products and services

Project deliveries

Technologies

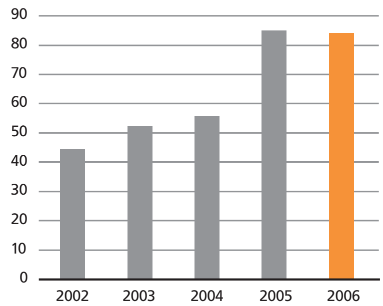
Raute's core competence encompasses the manufacturing processes of selected wood products. Raute offers its customers production processes that optimize the use of raw materials and other resources. Project deliveries may comprise single machines, production lines, or complete mills.

Raute's extensive competence in wood products technology benefits both the customer and the company. Benefits to one customer industry can be offered, for example, by applying practices found to be advantageous in an other customer industry. Raute gains synergy in the development of technologies and competence, in project activities, and in its customer base.

Competitive factors

Raute, contrary to the majority of its competitors, operates worldwide and has a comprehensive offering. Most of its competitors are small or medium-sized companies that operate locally or regionally and often focus on only one or a few processes and technologies in Raute's customer industries. Most of them also focus on a limited number of wood species in their process technologies.

Development of net sales from project deliveries, EUR million



As a result of the continuous development of technologies, further increase in recovery, quality, and capacity calls for the latest innovations in the field, increased automation, and development of production processes. In this respect Raute is at its best as the technology leader and a long-term partner for its customers.

Raute sees to the efficiency of the customers' production processes and ensures that its customers remain leaders in their field also after equipment deliveries. Most of the results from Raute's product development can also be applied in previously delivered equipment.

Markets

Raute engages in global operations. While Europe was the single most important market in 2006, over half of the company's net sales were generated outside Europe. The biggest growth potential is found in the plantation forest areas of the southern hemisphere and in Russia.

Europe and North America are traditional plywood production areas that rarely invest in new capacity. Investments are mostly focused on replacements and on enhancement of operations, for example, by increasing automation. New investments focus on specialty panels with a high degree of processing.

Latest innovations in the field help the customers to improve their profitability.

Technology services

Services

Raute's objective is to serve its key customers locally and ensure that the customers' main competitive advantages are preserved throughout the life cycle of production equipment. This type of competitive advantages include good recovery of raw material, good and even quality of products, and superior productivity. Customer relationships may begin already at the engineering phase of a mill or new production line. In this case, customers are supported with various consulting services, such as market and raw material studies. Raute can act as a partner all the way until the day when the customer gives up its machinery and equipment.

Raute's services comprise basic services, value-added services that offer fundamental improvements to equipment or operations, as well as partnership services based on close cooperation. The goal is to increase the share of continuous, close co-operation based on contracts. At present, contract based operations represent approximately one third of service sales.

Competitive factors

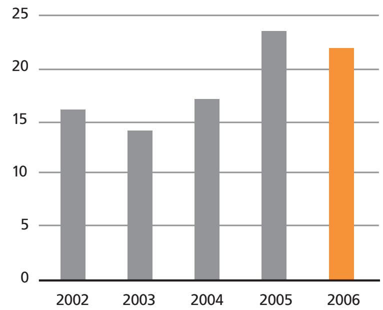
Raute offers its extensive competence to customers in local settings. Its competitors are mainly small, local general maintenance companies that offer only basic services. Mills mostly use their own resources for maintenance tasks. Raute's strengths are a broad understanding of production technology and a versatile service offering, ranging from spare part services to maintenance based on close co-operation. The goal of co-operation is to develop the customer's whole production process. Customers can also benefit from the results of Raute's strong product development, since the latest technology can be partly applied to their previously purchased equipment in the form of modernizations.

Obvious synergies can be found between project deliveries and technology services. Synergies that benefit customers arise from cumulative competence in the field. Since the services are based on Raute's own technologies, the leading products and latest innovations in the field can be offered to customers at a very early phase.

Markets

In the wood products industry, the outsourcing of maintenance services is still in its early phases. Present and potential machinery and equipment customers of

Development of net sales from technology services, EUR million



Raute's project deliveries form the principal customer base for technology services. Raute believes that the sales of technology services may increase significantly in the near future. The estimate is based on enhancing existing customer relations and acquiring new customers. Advanced technology and the customers' tendency to focus on their core competence create new demand.

Raute's technology services ensure the customers' competitiveness through the life cycle of the investment.

Market review

Raute estimates the value of its machinery and equipment market to be approximately EUR 600–650 million a year. Markets are growing at a moderate pace on average, estimated at 3–4 percent annually in the next few years.

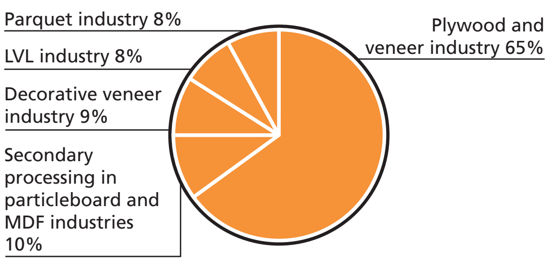
Growth is strongest in the LVL industry, where the production volume is expected to increase by some 10 percent annually. Most of the growth will take place in North America, where LVL has a well-established position. LVL use is also expected to increase in Europe and Asia.

Development is more moderate in the plywood industry, with demand predicted to diminish in North America. Investments focus on plantation forests areas in the southern hemisphere and on Russia. More and more wood resources in the plantation forests of South America, Oceania, and Asia will become available in the coming years. The emphasis in other parts of the world will be on improving the competitiveness of existing production capacity through modernizations.

The parquet, particleboard, and MDF industries have traditionally been strongest in Europe. However, development has also been rapid in Asia and South America in recent years. Asian production volumes already beat those of traditional regions in many products. With its furniture industry showing strong growth, Asia is also an important market for the decorative veneer industry. Nearly half of the decorative veneer production is located in Asia, and much of the production line investments will take place also there in the future.

Equipment markets of Raute's customer industries

Distribution



Growth estimate*

Plywood and veneer industry	3%
LVL industry	10%
Secondary processing in particleboard and MDF industries	5%
Parquet industry	8%
Decorative veneer industry	4%

**Average annual market growth 2007–2009*

Main factors affecting trends in demand

Construction as the main driver

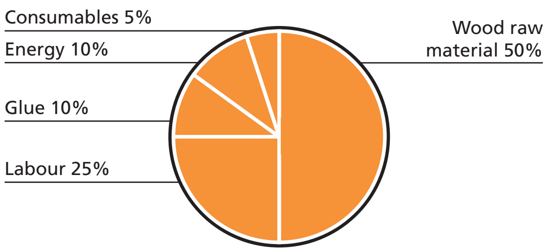
Raute's customer industries are largely dependent on the economic cycles in construction- and housing-related consumption and in international trade and transport. As is characteristic of the investing business, activities usually reach their peak towards the end of economic cycles. Thanks to good economic growth, both new construction and modernization have thrived for quite some time in many of the key market areas of Raute's customers.

Location and quality of raw materials

Especially in the plywood industry, some of the production capacity is located unfavorably in terms of suitable wood raw material or has been designed for wood raw materials, which availability is decreasing. As a result, the investments in production machinery are bigger than those required by growth in production volumes alone. Apart from product demand, the construction of new capacity is also influenced by the availability and location of raw material. Strongest growth is seen in the plantation forest regions of the southern hemisphere and in Russia, which still has great amounts of wood resources that are not fully utilized.

The wood products' market is full of interesting opportunities.

Cost structure estimate
of a plywood producer



Outsourcing of maintenance services

Customers' efforts to enhance operations also affect the demand for technology services. Especially in preventive maintenance services, production processes are systematically developed in co-operation with customers. New equipment is more versatile and calls for high-quality, skilled maintenance. Many predict that this, together with the drive to enhance operations, will lead to more and more customers outsourcing an increasing share of their maintenance activities in the future. In wood products technology, the outsourcing of services is only starting. By using the latest technology and automation to modernize their existing machinery and equipment, customers can surpass earlier production levels, improve output and quality, as well as reduce labor costs.

Customers looking to enhance production

Stiff competition forces Raute's customers to continuously improve the productivity of their manufacturing processes and the quality of their end products. Since raw material is by far the biggest single expense item, technological advances that improve raw material usage support customers in their drive to enhance production. Improvements that save energy, workforce and additives, such as glue, also help customers develop their operations.

Customers aim to produce end products of even quality. Many products must meet specific requirements for rigidity, strength, and durability. It is important for these product properties to exhibit even quality: while products must meet the minimum requirements set for them, occasionally exceeding the requirements is of no benefit to customers. Instead, "too good", unintended raw material use may raise expenses.

Technological development

Intense competition and product quality requirements lead to new demands on production technology. Compared to equipment featuring new technology, older devices are no longer competitive and have a shorter useful life. Thus, technological development as such creates new demand.


Photo: UPM

Strategy

Raute's three key strategic objectives are continuous improvement of profitability, enhanced adaptation to cyclical, economic fluctuations, and controlled growth.

Customer in focus

Raute's technology and service offering is based on a profound understanding of the customers' business and processes, and the will and ability to solve problems related to the customers' operations. This is clearly visible in all of Raute's operations, but particularly so in the company's product development and its comprehensive product and service offering.

Technology services complete co-operation

Raute wants to be a long-term partner to its customers. The life cycle of machinery used in the wood products industry ranges from ten to as much as thirty years.

Raute's technologies cover the customers' entire production process, ranging from raw material processing to the finishing and packaging of end products. Project deliveries comprise complete mills, production lines, or single machines.

The development of technology services is one of the strategic focus areas. Raute offers its customers services ranging from raw material and market research to production line maintenance and modernizations. Project delivery customers are potential customers for technology services later on.

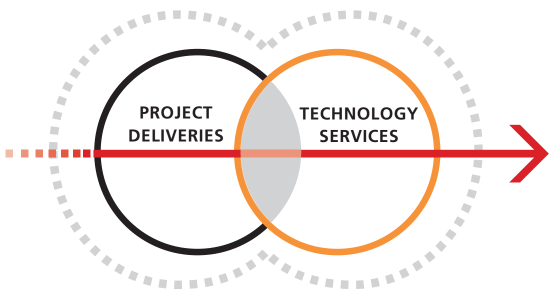
The implementation and schedules of large mill-scale and production line deliveries are difficult to predict. Since the demand for technology services is steadier than that for projects, services even out the variations in project activities, which are more dependent on economic fluctuations. Big modernization projects, however, are similar in nature to project deliveries.

Product development responds to the need to enhance customers' operations

Close co-operation with a wide clientele has provided Raute with valuable information about customer needs that benefits product development. The focus of technological development is to improve those aspects of the customers' production processes, whose development will best help customers to improve their profitability. The aspects that offer customers the biggest benefit are better raw material recovery, improved labor productivity, decreased use of energy and chemicals, higher quality of end products, and reduced environmental loading.

Raute's technological innovations enable the company to provide added value to its customers. This is how product development affects sales volumes and raises the value of products.

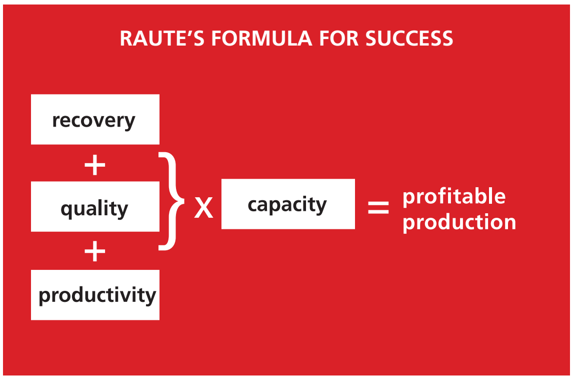
Services covering the entire life cycle of investments

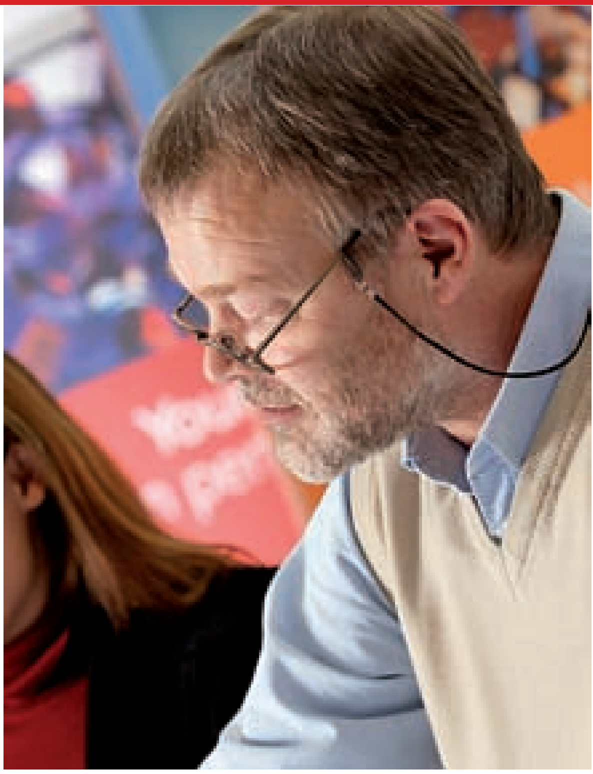


Full-scope service offering

Project deliveries
- Complete mills, 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





Vision

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

Mission

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

Competence is the key element

Competence is one of the key elements with which Raute can ensure its strong market position also in the future. Understanding and anticipating customer needs calls for broad-based insight into customer processes. Raute must use its product development and engineering skills to identify the technologies and practical products that enable it to best meet the individual needs of its customers. High-quality implementation of project deliveries that last several months, even years, also require profound competence in project work. An increasingly important skill is the management of outsourcing work so that work is distributed among partners in an optimized, correctly timed, and efficient manner.

Development of the partner network forms the foundation for efficiency

Partner network development and focus on the company's core competences are essential to efficient operations. The objective is to improve profitability by using the network to acquire entities that are not part of Raute's core competence and that subcontractors can often produce more efficiently (strategic subcontracting).

By using the partner network wisely, Raute can better adapt to the big fluctuations in demand characteristic of the field (subcontracting of capacity). Expenses can be flexibly decreased during the low phase of the economic cycle and, similarly, production capacity can be increased at times of peak demand. However, the use of outside resources may erode relative profitability.

Good management of the partner network and the company's own activities, as well as correctly defining the processes linking these two, all enhance the quality of operations. Customers experience quality operations as correctly timed activities and smooth deliveries and services.

Financial goals

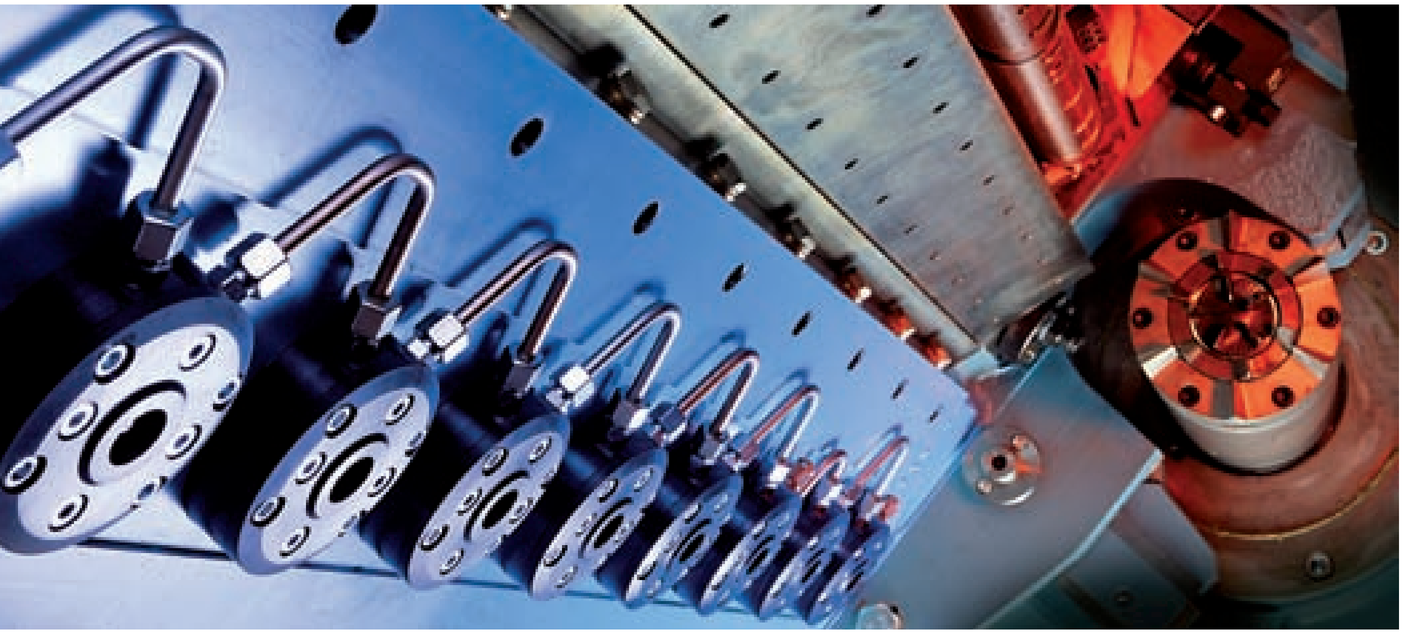
Raute aims to

- **improve profitability and retain a good level over the entire economic cycle.**

Profitable operations are based on correctly priced products offering good customer benefits and on efficient cost management. Profitability is closely linked to the phase of the economic cycle. As the share of turnover from technology services increases, fluctuations in profitability are evened out to some extent. Over shorter periods of time, however, the scheduling of large projects may still cause even big fluctuations.

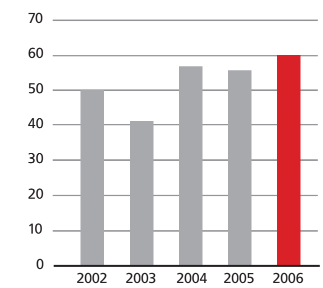
- **increase sales by approximately 10 percent a year over the economic cycle.**

The markets are growing at a moderate rate. Raute estimates annual growth to be around 3–4 percent.

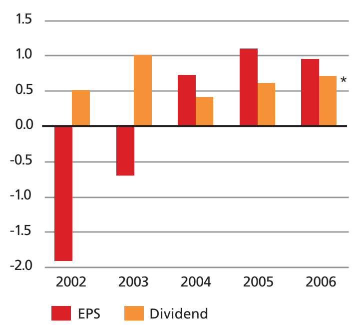


Raute's technological innovations create added value for the customers.

Equity ratio, %



EPS and dividend, EUR



**The Board of Directors' proposal to the Annual General Meeting*

The company can achieve faster growth by increasing its market share. The key to growth lies in Raute's strategic choices, but changes in the operating environment also strengthen Raute's position.

Much of the new production capacity is located unfavorably in terms of suitable wood raw material or has been designed for wood raw materials, whose availability is decreasing. Some of the investments in the industry target production plants constructed in new areas. Raute has a proven track record especially in mill-scale projects and has a good position as a supplier to the rapidly growing LVL industry. Raute also has solid technological competence in the processing of small-diameter plantation wood raw material.

- **maintain good financial solidity and offer investors competitive returns.**

Dividend policy

Raute exercises an active dividend policy, aiming to ensure competitive returns to investors. When paying dividend, future investment needs and the goal of maintaining a solid equity ratio are considered. Due to the nature of project business, the dividend is not directly tied to the annual result.

Strategic review for 2006

Growth
In line with the objectives set for 2006, Raute's sales remained at the same level as in 2005, having increased by nearly 50 percent at the time. Raute made contracts on four mill-scale projects, which is proof of Raute's position as the leading supplier of mill-scale projects. In the smaller product groups Raute's market share fell short of targets. Technology services sales in 2006 were at the previous year's levels, having seen steep growth in 2005.

Profitability
Profitability did not reach its target in the review period due to unexceptionally high expenses from first deliveries, a bigger than expected rise in expenses, and the weaker market situation in North America. Especially in the USA, the slowdown in construction reduced investments in the plywood industry, and operating profit in North America was negative.

Balancing cyclical fluctuations
Raute has developed co-operation with its partner network strongly in recent years. One of the goals is to ensure flexible reaction to fluctuations in demand. Thanks to its extensive network, Raute has been able to satisfy the increased demand without considerably increasing its number of personnel. In 2005 and 2006, turnover was approximately 50 percent higher than that in 2004. However, the use of outside resources has eroded relative profitability.

Strategic priorities in 2007
The main goal for 2007 is to improve profitability. To achieve this, Raute aims to raise prices in line with the rise in purchase and subcontracting prices and by further developing the partner network. Local operations in North America will focus on the development of technology services.

Raute aims at moderate growth. The good market situation supports this objective. Raute's goal is to strengthen its position in potential growth markets, such as South America, Asia, and Russia. It will also seek growth by increasing the share of new products of overall sales.

Values

The customer
Our goal is to create lasting and profitable relationships with our customers and to be their preferred supplier. 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.

Trust in people
We trust that all our employees are fully committed to achieving our common goals and good results. We are responsible in our actions, we keep our promises, and we follow the agreed procedures. We show initiative, and are open, honest, and fair.

Continuous development
Our objective is to achieve profits, both today and tomorrow. We want to prosper and enjoy success. We do not hesitate to seize new opportunities, and we take responsibility for developing our work and operations, for achieving our goals, and for training ourselves and improving our skills to reach these objectives.

The environment
We aim at a continuously improving, profitable working environment. We operate globally as a good corporate citizen. We take into consideration the requirements of local cultures and societies in all our operations. We develop the environmental soundness of our products and services based on customers' needs.

Business review for 2006

The demand for Raute's wood products technology and services was good in the past year, and the order book at the end of the year was at an excellent level. However, profitability improvement did not reach the targets set for it.

Raute performed several first deliveries and installations of newly developed products, which resulted in higher than normal expenses due to additional finishing work of these new products. In addition, the strong economic development that continued in 2006 led to competition for subcontractors and other co-operation partners, which raised expenses. Owing to good demand, also the volume of subcontracting exceeded predictions. However, the market situation in North America weakened and result was in the red.

Year of mill-scale orders

Raute saw a record-breaking year in 2006 in terms of new mill-scale deals. Despite the weak demand for investments in North America, Raute received a mill-scale order for LVL technology from the USA. New orders for plywood mills were made in Chile, France, and Russia. The orders are proof of Raute's leading position as a supplier of mill-scale entities to the plywood and LVL industries. In August 2005 Raute obtained the rights for decorative veneer production technology. The company delivered the first decorative veneer dryer to Finland in 2006.

Divided market situation

A climate that enables fast forest growth, as well as reasonable labor costs, have made **South America** a growth area in plywood production. Raute has had a strong foothold in Chile for quite some time. In the past year the company also made two important deliveries to Brazil. The market is growing in terms of both new capacity and technology services sales. The sales of Raute's technology services are supported by the installed equipment base and the strong development phase that the industry is currently experiencing.

Asia's strong economic growth and extensive raw material resources have made the region into a rapidly developing market, where Raute faces good growth prospects. The company's market position in the region has not been particularly strong in recent years, but after many quiet years Raute made several deliveries with important reference value to Indonesia and Malaysia in 2006. Raute aims to strengthen its market position in Asia in both project deliveries and technology services.

Russia is a significant market for Raute: it already holds a lot of importance but is also a potential growth area. Russia has the world's largest underutilized raw material resources, low labor costs, and a growing economy. In late 2006 Raute signed a contract for a plywood mill delivery to Russia. The mill contract is the biggest in Raute's history.

Europe is an established market, especially in the case of the plywood industry, which is important to Raute's operations. Investments in new capacity are rarely seen, which is why development in the past year was particularly positive. Future growth areas for wood products use include interior decoration, furniture, and construction.

North America is also an established market. Investments there focus on enhancing operations. An exception to this was the significant LVL mill order that Raute received from the USA in the review period. Sales of spare parts and maintenance services developed well in the past year, but modernizations fell short of the previous year's figures. The focus in North America will be especially on technology services sales, the goal being a minimum growth of 10 percent.

In 2006 Raute received a record of four mill-scale project orders.

Profitability as challenge

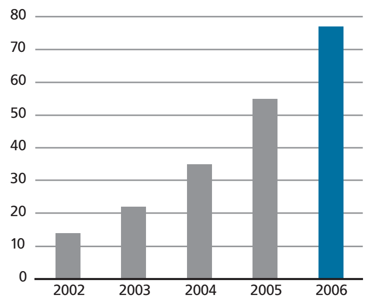
First deliveries

Raute's product development has been strong in recent years, resulting in an exceptional number of first deliveries of new products in 2006. Wide-ranging testing, carried out for the first time, may indicate a need to finish the results of product development in conjunction with the first customer deliveries. This will result in additional costs that are difficult to predict. However, first-delivery products have proved to be successful and will benefit future sales as planned.

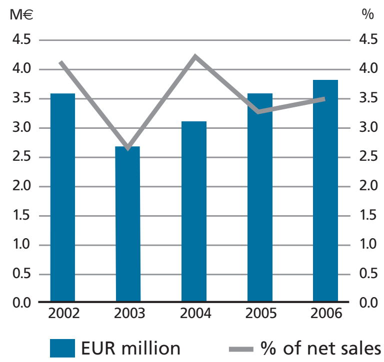
Flexibility to delivery capacity

Raute has strengthened its partner network and outsourced operations outside its core competence in recent years. The strong growth in orders in 2005 called for a capacity increase at the time, which was carried out by developing co-operation with subcontractors and other co-operation partners and by continuing to enhance company's own operations. The goal of the changes was to find the most cost-effective manufacturer for each machine or machine component. Raute also outsourced some work phases characterized by a low level of processing, such as preprocessing, welding, and painting. The partner network has been developed in Finland, as well as the Baltic countries and

Order book at the end of the year, EUR million



Product development



China. In addition to the partner network, Raute has also made major efforts to develop its sourcing operations.

New operating models were fully implemented in 2006 but development continues in the company. Productivity can be improved by further clarifying the distribution of work, enhancing logistics, and making better use of purchase volumes. Partner network development is a strategic choice that aims to reduce result fluctuations caused by wide demand variation in the field.

The steep increase in prices of different steel grades, which began in 2004 and continued in the past year, raised the purchase prices of Raute's main raw materials, as well as those of components based on steel and other metals. The predicted purchase prices of materials for project deliveries include a risk between the time of bid and the time of contract, and this risk was partly realized in the past year.

Weaker market in North America

The North American housing market and housing construction saw a significant decrease in the past year. Meanwhile, the production capacity of OSB board, a competitor of plywood, was expanded. As a result, the prices of plywood grades used for construction decreased in some cases by over 40 percent over the year. Raute's customers made significant cuts to their investments as well as to inputs in enhancing maintenance.

Improved delivery capacity in technology services

Customer feedback and internal operations indicators showed good development in technology services as a whole. Service productization, which started in modernization services in 2004, continued in 2006. The productization targeted spare part services, as well as training and consulting services. The goal is to develop sales, achieve even quality in services, and deepen customer relations.

Procurement activities were also developed to meet the needs of technology services in the past year. After the changes, spare part and maintenance sales people can purchase some of the products they sell or components needed in them directly from the agreed partners. Development aims at faster and more flex-

Major project orders in 2006

- **Plywood mill: Paneles Arauco S.A., Chile**
- **LVL mill: Murphy Company, USA**
- **Plywood mill: Thebault Plyland S.A.S., France**
- **Plywood mill: Vjatsky Fanernyi Kombinat, Russia**
- **Decorative veneer dryer: UPM-Kymmene, Lohja veneer mill, Finland**

Project deliveries in 2006

- **Plywood mill: Empresas CMPC S.A., Chile**
- **Plywood mill expansion: A/S Latvijas Finieris, Latvia**
- **Peeling line: Tawau Plywood Manufacturing SDN. BHD., Malaysia**
- **Peeling line: P.T. Korindo Ariabima Sari, Indonesia**
- **Peeling line: Industria de Compensados Guararapes Ltda., Brazil**
- **Peeling line: Industria de Compensados Sudati Ltda., Brazil**

Product development in 2006

- In 2005, a new block optimization system based on laser curtain technology was introduced to the market. In 2006, the system was expanded with modules that add to automation, and productization was completed.
- The market was introduced to a new high-capacity scarf-jointing line that increases capacity and improves recovery, as well as enhances the quality of the joint. The first delivery was made to Finland in 2006.
- A new version of the core veneer composer was launched. The first machine was delivered at the end of 2006.
- Two new face veneer composers were delivered in 2006.
- The first foam gluing lines were delivered in 2005. The emphasis in 2006 was on the fine tuning of gluing equipment.
- In the area of panel handling a new trimming saw line was developed for plywood. The first delivery was made in 2006.
- Several new automation products were also developed.

ible response, and reliable deliveries, all of which improved over the year. However, expectations were not fully met, and the operating model will be further developed in 2007.

The level of service was also further developed by enhancing resource management. The goal is to analyze resources globally and increase product-orientation in operations by lowering boundaries between companies and countries. For example, the services provided by Raute's subsidiary RWS-Engineering Oy, which specializes in consulting, training, and the delivery of reconditioned machinery, are now a seamless part of Raute's overall offering. The integration of operations also strengthened Raute's position as a provider of services that cover the entire life cycle of investments.

Future prospects

Product development was active in 2005 and 2006, and the products have proved to be successful, offering good sales potential. New products, an order book that is at a good level and well suited to Raute's production capacity, a functional co-operation network, and good opportunities to further develop productivity provide a good foundation for successful project operations in 2007. Equipment delivered to countries all around the world, increasing outsourcing of maintenance, and rapid growth in the wood products sector in emerging markets offer numerous business opportunities also in service activities. Raute will develop operations at its latest sites in Shanghai and St. Petersburg, and will monitor the need to establish new offices.

Corporate responsibility

Raute offers challenges

Raute is the leading technology company in its field. Its success is based on a professional and innovative personnel with good co-operation skills. In recent years, the focus of operations has shifted to more demanding product and automation engineering, and the company has concentrated on the part of production that calls for special skills. This also makes special demands on the development and maintenance of competence.

Since Raute engages in international operations, its employees need versatile language skills and good ability to co-operate with people from different cultures. It is important to secure competence, sufficient social skills, and language skills already at the recruiting phase. In 2006 Raute focused on both recruiting and work induction methods. The emphasis in personnel development was on customer service training offered to mechanics and maintenance staff, as well as on user training in new information systems and design applications.

At the end of 2006 Raute employed 540 people. The structural changes resulting in Raute focusing on its core competence have stabilized the overall number of personnel. The increase in subcontracting calls for special work induction plans to ensure the competence of subcontractors.

Raute employees like their work

Personnel turnover is very low at Raute, and the company's image as an employer is good. Job satisfaction and well-being are emphasized in order to maintain the employees' ability to work. Occupational health care focuses on preventive operations in a number of ways. In 2006 employees were especially encouraged to take care of their physical health and condition.

The work atmosphere survey conducted in late 2005 was analyzed in 2006, and the results indicated that employees were very satisfied. Respondents gave particularly positive answers to the statement "I like my work at Raute". According to the survey, employees consider their work to be challenging and understand the importance of their role as part of Raute's high-quality operations.

Raute has adopted a performance-based bonus system that covers the entire personnel. Employees can also be rewarded for achieving their individual objectives. A share-based incentive plan for the Executive Board and a group of key employees was approved in 2006.

Raute is well-known in educational institutions in the field. The company co-operates actively with educational institutions and universities and offers traineeships and thesis work for students.

Environmental management program guides operations

Raute has been systematically developing the environmental soundness of its products and services and aims to reduce the environmental impact of its operations.

Products that save raw materials and energy

Raute's product development emphasizes solutions that save raw materials and energy and cut down consumption of chemicals. In many production processes, raw material savings have an indirect impact on energy efficiency. If the wood raw material that is unsuitable for the end product is taken aside early enough in the process, and the material fit for utilization is treated in the optimum way, energy is not used needlessly for the drying, processing, and transfer of unsuitable raw material. Characteristics such as these that promote environmental soundness often also enhance the profitability of customer operations, for example, by decreasing raw material, glue, and energy expenses.

Raute's R&D focuses on developing solutions for the customers that enable savings in raw materials, energy and chemical comsumption.

Several environmentally sound products were developed in 2006. In the past year Raute introduced a condition monitoring product for the XY block optimizing system that enables inaccuracies caused by mechanical wear to be automatically eliminated also between annual service checkups. The product leads to annual raw material savings of up to 2 000–4 000 cubic meters in a single peeling line equipped with an XY optimizer. Raute also developed a new type of veneer scarf-jointing concept in 2006. Measurements indicate that the new technology saves raw material and reduces wood waste by 2–3 percent compared to traditional scarf-jointing lines.

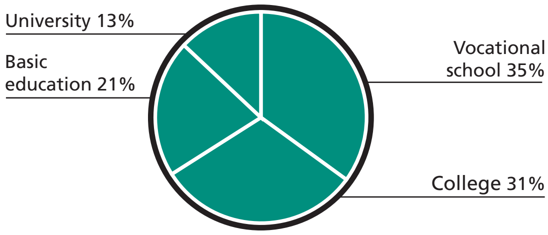
Raute also develops technologies that save additives used in processes. An example of such technology is the foam glue-based veneer layup line launched in 2005. It has reduced the use of glue by some 15 percent.

Environmental goals for company operations were achieved

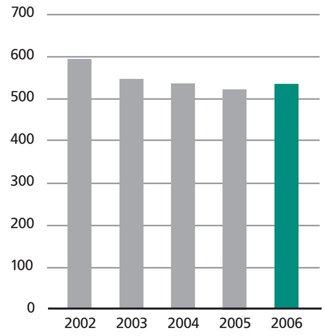
Raute aims to continuously reduce energy use, decrease the volume of waste, and make the working environment safer. Both the Nastola and Jyväskylä plants have valid ISO 9001 and ISO 14001 quality and environmental certificates. The operations and ethical principles of the partner and subcontractor networks are also subjected to systematic inspection.

The targets and measures aimed at reducing the environmental impact of operations are defined annually in Raute's environmental management program, and the results are monitored regularly.

Education*



Personnel*



*Current employment contracts at 31 Dec.

Personnel*	**2006**	2005	2004
Number of personnel	**534**	522	536
Women, %	**12**	11	11
Average age	**45**	44	45
Years at Raute	**14**	14	14
Total turnover of employees, %	**8**	10	10

*Current employment contracts at 31 Dec.

Financial statements
2006

→ *The complete consolidated financial statements can be found on the company's website at www.raute.com.*

Board of Directors' report

The Group's net sales in 2006, EUR 106.2 million (€108.6 m), were down 2 percent. The Group's operating profit totaled EUR 4.5 million (€4.4 m). Financial income and expenses were EUR 0.4 million (€1.1 m). Profit before tax was EUR 4.9 million (€5.5 m) and profit for the period EUR 3.6 million (€4.0 m). Earnings per share amounted to EUR 0.94 (€1.09), while return on equity was 13 percent (16%).

The figures in parentheses in the Board of Directors' report refer to the corresponding figures in the previous report period 2005.

Markets

The market situation in the plywood and veneer industry, the capacity utilization, order book, product prices, and investments were all at a good level throughout the year in the company's main market areas, with the exception of North America. In the USA, the waning confidence in overall economic development affected the demand for and prices of construction materials. In addition, the new production capacity for OSB board rolled out in 2006 competed with plywood in North America. In Asia and Russia, the market situation for plywood showed positive development. The demand for investments focused on mill-scale projects.

Favorable development and investments in new production capacity continued in the LVL industry. The production capacity that has come on line in recent years has found demand on the market.

In technology services, demand for spare part and maintenance services remained at a good level. Modernizations were in less demand in Europe compared to the previous year. Their demand in North America was also low due to the plywood industry's general unwillingness to make investments.

Order intake and market position

Raute's business consists of project deliveries and technology services. Project deliveries encompass complete mills, production lines, and single machines and equipment. Technology services include maintenance, spare part services, modernizations, consulting, training, and sales of reconditioned machinery.

The order intake in 2006 totaled EUR 132 million (€132 m), of which project deliveries accounted for EUR 105 million (€109 m). The most significant orders involved the machinery and equipment for three plywood mills in Chile, France and Russia, as well as key production machinery for an LVL mill in the USA.

Raute's market position is generally speaking good and looks particularly strong in its traditional technology fields: the plywood and veneer industry, as well as the LVL industry. Proof of the company's leading market position as a full-service technology supplier came in the form of four mill-scale orders received in 2006.

The company's competitive position is based on a comprehensive offering of technology and services, leading technology in the field that is maintained by strong product development, and solid references. Several deliveries with reference value were introduced into production use in 2006. New products will boost Raute's competitiveness in these technology and market areas.

Net sales and order book

The Group's net sales (IFRS) EUR 106.2 million (2005: €108.6 m; 2004: €73.1 m) dropped by 2 percent compared to 2005, which was a year of steep growth. The drop in net sales was caused by lower net sales from modernizations and the scheduling of project deliveries.

Project deliveries accounted for 79 percent (78%) of the Group's net sales. 93 percent (83%) of project deliveries were to the plywood industry and 4 percent (17%) to the LVL industry. Technology deliveries to the decorative veneer industry have started as planned, holding a share of 3 percent (0%). The first dryer for the decorative veneer industry was delivered in 2006.

Technology services accounted for 21 percent (22%) of the Group's net sales. While growth in maintenance and spare part services reached targets, overall net sales from technology services were down 7 percent from the previous year due to the market situation for modernizations in Europe. Technology services have grown by 26 percent since 2004.

Europe's share of the Group's net sales dropped to 29 percent (40%) and North America's to 16 percent (27%). Russia's share was 12 percent (14%) and Asia's 5 percent (7%). Other market areas increased their share to 38 percent (12%), fueled by two mill-scale project deliveries to Chile.

The order book grew strongly throughout the year, amounting to EUR 77 million (€55 m) at the end of the year.

Parent company Raute Corporation's net sales (FAS) in 2006 totaled EUR 91.1 million (2005: €87.1 m; 2004: €54.7 m).

Result and profitability

The Group's operating profit in 2006 (IFRS) was EUR 4.5 million (2005: €4.4 m; 2004: €3.6 m), representing 4 percent of turnover (2005: 4%; 2004: 5%). Profitability development fell short of targets due to the unanticipated expenses related to the first deliveries of some new products, the cost pressure caused by the good overall economic situation, and North America's weak market situation. Operations in North America were unprofitable.

The Group's financial income and expenses were EUR 0.4 million (€1.1 m). The Group reached the income level set for asset management in 2006.

Profit before tax was EUR 4.9 million (€5.5 m) and profit for the period EUR 3.6 million (€4.0 m). Earnings per share stood at EUR 0.94 (undiluted: €1.09 per share; diluted: €1.07 per share). Return on investment was 19 percent (21%) and return on equity 13 percent (16%).

In 2006 net sales and profit benefited from a EUR 0.1 million (€-0.7 m) IFRS-compliant recognition of currency hedges that were used for economic hedging purposes but fell outside the scope of hedge accounting. Profit for the previous year was improved by the release of excess cover totaling EUR 0.4 million in conjunction with the dissolution of the pension fund. The hedge accounting and other changes to accounting principles adopted in 2006 did not have an essential impact on the figures for 2006.

Parent company Raute Corporation's operating profit (FAS) amounted to EUR 4.0 million (2005: €5.5 m; 2004: €4.6 m), representing 4 percent of turnover (2005: 6%; 2004: 8%). Profit for the period was EUR 0.9 million in the red (€3.8 m positive). Operating profit suffered from impairments worth EUR 1.2 million from the receivables of a subsidiary. Financial items include a loss of EUR 4.6 million related to the measurement of subsidiaries' loans.

Development of operations

Raute continued to develop its procurement activities by establishing a subsidiary in Shanghai, China. The new company will strengthen the Group's purchasing organization, handle subcontracting and materials purchases in China, and improve the Group's presence on the Chinese market.

The ERP and financial administration systems of Raute's North American operations were harmonized to comply with the information systems used at the main production plant in Nastola. Harmonized systems will enhance quotation processes, project implementation, and co-operation between plants.

Development also continued on the work distribution and co-operation among Raute's own operations, the goal being to improve customer service and operational efficiency. The consulting and reconditioned machinery services offered by RWS-Engineering Oy were made into an operational part of Raute's technology services managed from Finland. To deal with the weak demand for investments in North America, Raute strengthened its customer service and delivery capacity in technology services in the region, and made the resources related to project deliveries a part of its global project organization.

Group structure

Raute Corporation's subsidiary in China, Raute (Shanghai) Machinery Co., Ltd, obtained business permits in September.

The dissolution of Eloc Oy, an associated company, was entered in the Trade Register on May 31, 2006.

The dissolution of Raute Corporation's Pension Fund was entered in the Register of Foundations on July 25, 2006.

Financing

The Group's financial position remained strong. The equity ratio (IFRS) at the end of the period was 60.1 percent (2005: 55.7%; 2004: 56.8%). Gearing was

-80.3 percent (2005: -41.5%; 2004: -30.6%) at the end of the period, and the balance sheet total was EUR 68.5 million (2005: €55.4 m; 2004: €46.2 m). The rise in the balance sheet total came from an increase in prepayments received. The strong fluctuation in balance sheet items and the key ratios based on them results from differences in the timing of customer payments and the cost accumulation from project deliveries, which is typical of project business.

The Group's liquid assets at the end of the period totaled EUR 24.0 million (€11.4 m), while interest-bearing liabilities were EUR 0.5 million (€0.5 m).

Operating cash flow amounted to EUR 15.0 million (€7.7 m) and investing cash flow to EUR -1.5 million (€-3.0 m). The financing cash flow, EUR -0.8 million (€-2.9 m), includes EUR 2.3 million from the payment of year 2005 dividends, as well as EUR 1.4 million in payments received from the stock issue of series A shares subscribed for with options.

Raute Corporation has an EUR 10 million domestic commercial paper program, which allows it to issue commercial papers maturing in less than one year. The company also has bilateral non-current credit regulation agreements worth EUR 15 million.

Parent company Raute Corporation's equity ratio (FAS) at the end of the period was 59.0 percent (2005: 63.1%; 2004: 68.1%).

Research and development costs and capital expenditure

Raute aims at being the leading technology supplier in selected customer industries and to strongly emphasize continuous research and development of plywood and LVL technologies in particular. The Group's research and development expenditure remained high in 2006, amounting to EUR 3.8 million and representing 3.5 percent of net sales (2005: €3.6 m / 3.3% of net sales; 2004: €3.1 m / 4.2% of net sales).

Overall investments in the report period, EUR 1.9 million, were low in terms of production investments (2005: €3.8 m; 2004: €2.1 m). Investments in 2006 included development costs worth EUR 0.5 million (2005: €0.2 m; 2004: €0.5 m). Other investments focused mainly on upgrading information technology.

Parent company Raute Corporation's research and development costs (FAS) in the period totaled EUR 3.2 million, representing 3.5 percent of net sales (2005: €2.9 m / 3.3% of net sales; 2004: €2.5 m / 4.6% of net sales). Investments amounted to EUR 1.8 million (2005: €2.9 m; 2004: €1.4 m).

Personnel

The Group's headcount at the end of 2006 was 540 (533) persons. Finnish companies accounted for 76 percent (77%), North American companies for 21 percent (21%) and other sales and maintenance companies for 3 percent (2%) of personnel.

The number of personnel converted to full-time employees was approximately 547 (2005: 537; 2004: 556). The operations development projects carried out in 2006 had no significant impact on the headcount.

The Group's salaries totaled EUR 22.0 million (2005: €21.1 m; 2004: €19.4 m).

The Group has adopted profit-based bonus systems that cover the entire personnel. In the report period the company set up a share-based incentive plan for the strategy period 2006–2008. The system is described in greater detail in the financial statements under Shares and shareholders.

The number of personnel at parent company Raute Corporation, converted to full-time employees, was on average 386 (2005: 379; 2004: 406). The parent company's salaries totaled EUR 14.8 million (2005: €14.7 m; 2004: €13.8 m).

Shares

The number of Raute Corporation's shares at the end of 2006 totaled 4 004 758, of which 991 161 were series K shares (ordinary share, 20 votes/share) and 3 013 597 series A shares (1 vote/share). Series K and A shares have an equal right to dividends and the company's assets. Series K shares can be converted to series A shares under the terms described in section 3 of the Articles of Association. If an ordinary share is transferred to a new owner who is not a shareholder of the series K shares, the transferee must immediately make this known in writing to the Board of Directors. Other shareholders of the series K shares have the right to redeem the share under the terms described in section 4 of the Articles of Association. The company did not possess company shares during the report period or hold them as security.

Raute Corporation's series A shares are listed on the Nordic list of the Helsinki Stock Exchange. A total of 1 088 288 shares were traded in 2006, amounting to EUR 15.4 million. The traded amount represented 36 percent of the number of series A shares. The average price of series A shares was EUR 14.03 (€11.24). The highest quotation was EUR 17.60 and the lowest EUR 11.60. The company's market capitalization at the end of 2006 was EUR 51.5 million, with series K shares valued at the closing price on 31 December 2006 of series A shares, that is EUR 12.85.

A total of 190 150 series A shares subscribed for through the exercise of B options pertaining to the 1998 option scheme were entered in the Trade Register in 2006. The option scheme expired on September 30, 2006. Corresponding share capital increases totaled EUR 380 300. The terms of the option scheme are described on the company's website.

Raute Corporation has signed a market making agreement with Nordea Bank Finland plc in compliance with the Liquidity Providing (LP) requirements issued by the Helsinki Stock Exchange.

Authorization to acquire and dispose company shares

The Annual General Meeting held on March 22, 2006 gave the Board of Directors a one-year authorization to decide on the acquisition of series A shares using distributable funds. The number of shares acquired may not exceed 10 percent of the company's overall shares or votes. The acquired shares may be used if a weighty reason thereto exists, such as the funding of acquisitions or other arrangements. The authorization was not exercised in 2006.

Loans to related parties and other obligations

In the financial statements dated December 31, 2006 parent company Raute Corporation had loan receivables from its subsidiaries Raute Canada Ltd. totaled CAD 3.2 million; Raute Group Asia Pte Ltd totaled SGD 90 thousand; and Raute Service LLC totaled EUR 30 thousand. Raute Corporation had a loan of EUR 110 thousand to Raute's sickness fund. Other obligations are presented in the notes to the financial statements.

Distribution of dividend

Raute Corporation's Annual General Meeting on March 22, 2006 approved a dividend of EUR 0.60 per share. A total of EUR 2.3 million was paid in dividend on April 3, 2006.

Management

The Annual General Meeting elects the Chairman and Vice-Chairman for the Board of Directors, and 3–5 Board members.

Mr. Jarmo Rytilahti was elected Chairman of the Board, Ms. Sinikka Mustakallio was elected Vice-Chairman, and Mr. Mika Mustakallio, Mr. Panu Mustakallio, Mr. Pekka Paasikivi, and Mr. Jorma Wiitakorpi were elected Board members at the Annual General Meeting on March 22, 2006.

The Board of Directors elects the President and CEO, and confirms the terms of his or her employment, including wage benefits.

Mr. Tapani Kiiski, Licentiate in Technology, continued as President and CEO of Raute Corporation. He was appointed President and CEO on March 16, 2004. As agreed in the executive contract, the term of notice is six months and the severance pay equals six months' salary.

The Articles of Association do not grant unusual authorizations to the Board of Directors or the President and CEO.

Decisions on amendments to the Articles of Association and share capital increases are made in compliance with the regulations of the effective Companies Act.

Other management

Mr. Tapani Kiiski continued as Chairman of Raute's Executive Board, and the Board's members included Ms. Arja Hakala, CFO; Mr. Petri Strengell, Vice President, Technology and Operations; Mr. Timo Kangas, Vice President, Technology Services; and Mr. Bruce Alexander, Vice President, North American Operations and President of Raute's North American companies.

The President of Raute Corporation's subsidiary Mecano Group Oy is Mr. Pasi Kenola, M.Sc. (Eng.), eMBA, who has held the post since March 1, 2006. The President of Raute Corporation's subsidiary RWS-Engineering Oy is Mr. Timo Kangas, Vice President, Technology Services, who took up the post on March 10, 2006.

Auditors

Raute Corporation's Annual General Meeting held on March 22, 2006 elected Mr. Kari Miettinen and Ms. Sari Airola, Authorized Public Accountants, as auditors, and PricewaterhouseCoopers Oy, an authorized public accounting company, as deputy auditor.

Business risks

Impact of economic fluctuations on business operations

Raute supplies technology and services to the wood products industry. Business is characterized by sensitivity to economic fluctuations due to changes in the investment activity of customer industries. The impact that the cyclical nature of project deliveries has on the Group's performance is mitigated by systematically increasing the share of technology services, by developing the subcontracting network, and by focusing on core competence. In the long term, the Group's growth opportunities are increased and the impact of economic fluctuations balanced by developing operations in customer industries where the company's market share is still small, and by creating products for new customer groups, such as the decorative veneer industry.

The Group is prepared for fluctuations in the working capital tied up in project operations. Raute Corporation has an EUR 10 million domestic commercial paper program, which allows it to issue commercial papers maturing in less than one year. The company also has bilateral non-current credit regulation agreements worth EUR 15 million.

Delivery and technology risks

The majority of Raute's business operations consists of different kinds of project deliveries, which always expose the company to risks caused by, for example, the customer's end product, production methods, or customer-specific solutions related to raw materials. At the quotation and negotiation phase, the company has to make estimates of the achievement of promised performance figures and of the costs of implementation. Contract, product liability, implementation, cost, and capacity risks are managed using project management procedures that comply with the company's certified quality system.

Raute emphasizes product development and continuously develops new technology in order to offer solutions for customers' increasing needs. The functionality and capacity of new solutions cannot be fully verified until the solutions can be tested under production conditions in conjunction with first customer deliveries. Technology risks are reduced by the conditions of delivery contracts and by restricting the number of simultaneous first deliveries.

Financial risks

The main financial risks that Raute's international business operations are exposed to are credit, liquidity, and currency risks.

Financial risks, the objectives of financial risk management, and management procedures are described in the notes to the financial statements.

Accident risks

The production, planning, financial, and ERP systems serving the Group's key technologies are centrally located at the Nastola main production plant. A fire or serious breakdown in machinery may result in considerable property or interruption damage. The Group hedges against such risks by assessing its facilities and processes in terms of risk management and by maintaining emergency plans. It regularly reviews its insurance policies as part of overall risk management. The objective is to use insurance policies to sufficiently hedge all risks that are reasonable to handle through insurance due to economical or other reasons.

The Group has no ongoing legal proceedings or other disputes in progress that might materially affect the continuity of business operations, nor is the Board of Directors aware of any other legal risks related to the Group's operations that might have such an effect.

Risk management

Risk management is described in the Annual Report, under Corporate governance.

Society and the environment

The environment is one of the values that guide Raute's operations. Raute has been systematically developing the environmental soundness of its products and services and aims to reduce the environmental impact of its operations. The Group abides by the principles of good corporate citizenship, taking into consideration nature and its protection, as well as the operating methods of the surrounding society, and by showing respect to local cultures.

Raute's operations mainly affect the environment indirectly when the company's technology is used in the production processes of the wood products industry. Raute's technology enables the wood products industry to substantially reduce the environmental load caused by its operations, for example, through more efficient use of raw materials, additives, and energy.

The Group's own operations do not involve any considerable environmental risks that might have a direct impact on the Group's business operations or financial position. The Nastola and Jyväskylä plants manage environmental matters in compliance with a certified environmental system. At the Canadian plant, environmental surveys are carried out regularly by an outside assessor. The operations and ethical principles of the partner and subcontractor networks are also subjected to systematic inspection.

Raute aims to continuously reduce energy use, decrease the volume of waste, and develop the working environment. In 2006, a survey of potential soil contamination was conducted at the Canadian plant. According to the survey, the soil does not call for cleansing measures for the current industrial purposes.

The Group's environmental management is described in more detail in the Annual Report, under Corporate responsibility.

The Board of Directors' proposal for measures concerning the company's profit

The parent company's distributable assets total EUR 14 007 thousand, of which EUR 854 thousand stands for the period's loss.

The Board of Directors will propose to Raute Corporation's Annual General Meeting on March 21, 2007 that a dividend of EUR 0.70 per share be distributed on series A and K shares, that is, a total of EUR 2.8 million. Other distributable funds will be left in retained earnings.

No essential changes have taken place in the company's financial position since the end of the report period. The company has good liquidity, and the proposed dividend does not risk it in the Board of Directors' view.

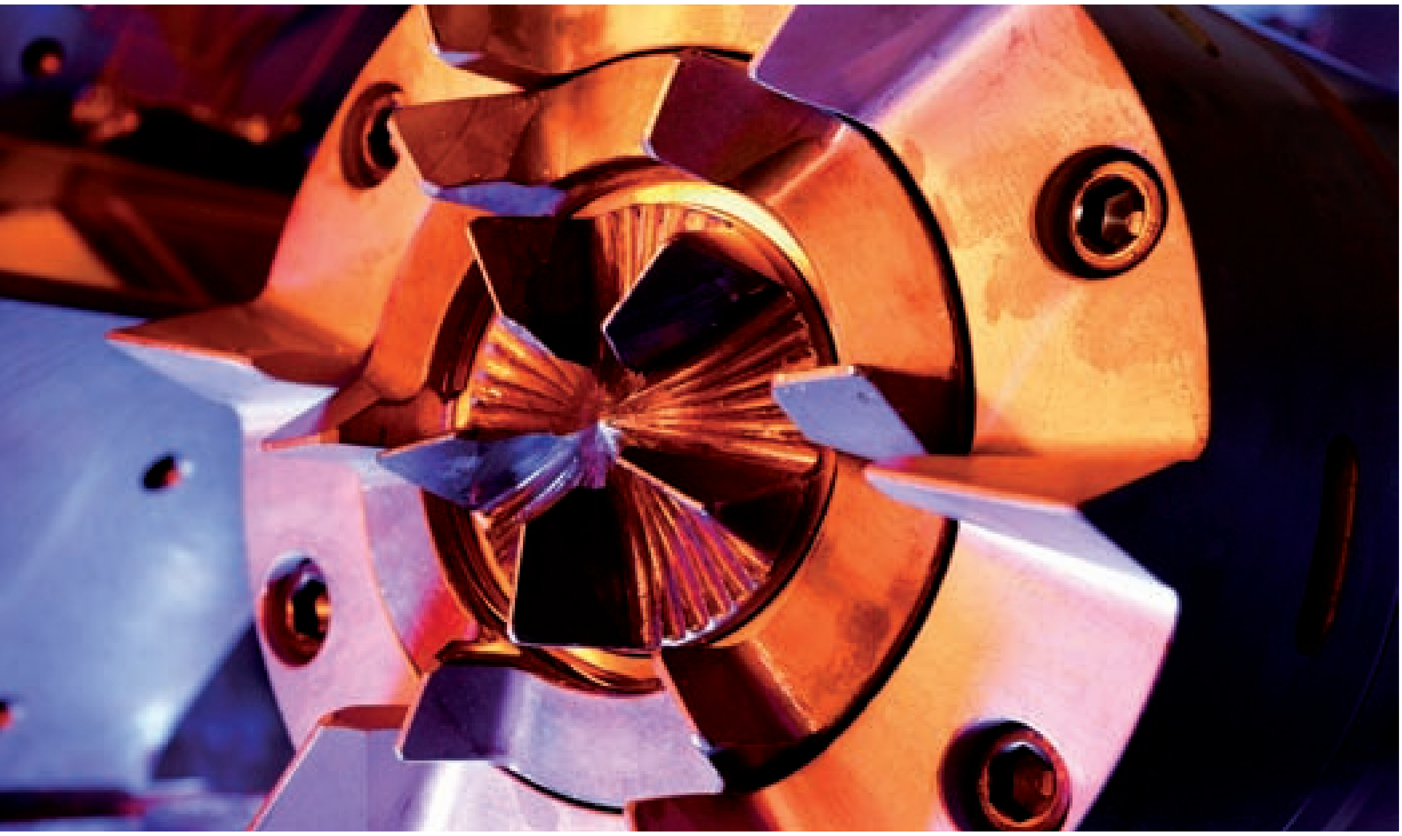
Outlook for 2007

The market situation in Raute's customer industries is expected to remain good, except in North America. However, developments in raw material and energy prices will keep competition tough in the wood products industry, forcing players in the field to focus on continuously developing their production. This will offer business opportunities to Raute.

Investments in the wood products industry will continue at a good level in the near future. Several mill-scale projects are in the planning phase in different market areas. In addition, demand for smaller production line projects and modernizations is picking up after 2006, which was less active in this respect.

Raute's competitiveness is good thanks to modern technology and the investments carried out. First deliveries account for a smaller share of the order book than the year before. The potential weakening of the US and Canadian dollars against the euro create challenges to the competitiveness of North American project deliveries.

Thanks to a strong order book and good continued demand the outlook for 2007 is promising. Net sales are expected to grow moderately in 2007 and operating profit to improve over 2006.



Consolidated income statement

EUR 1 000		1.1–31.12.2006	1.1–31.12.2005
Note			
2,3,4	NET SALES	106 206	108 627
5	**Other operating income**	199	708
	Increase (+) or decrease (-) in inventories of finished goods and work in progress	-111	40
6	Materials and services	62 418	66 694
7	Expenses from employee benefits	26 227	25 387
10,16,17	Depreciation, amortization and impairment charges	2 660	2 877
12	Other operating expenses	10 476	10 014
	Total operating expenses	101 781	104 972
	OPERATING PROFIT	4 513	4 403
13	**Financial income**	745	1 131
13	**Financial expenses**	-371	-73
	PROFIT BEFORE TAX	4 887	5 461
14	**Income taxes**	-1 255	-1 423
	PROFIT FOR THE PERIOD	3 632	4 038
15	**Breakdown**		
	Minority interest		-114
	Share of profit that belongs to owners of the parent company	3 632	4 152
15	**Undiluted earnings per share, EUR**	0.94	1.09
15	**Diluted earnings per share, EUR**	0.94	1.07
	Shares		
	Adjusted average number of shares	3 866 561	3 814 608
	Adjusted average number of shares diluted	3 866 561	3 871 703

→ *The notes form an essential part of the financial statements.*

Consolidated balance sheet

EUR 1 000 Note		31.12.2006	31.12.2005
	ASSETS		
	Fixed assets and other non-current assets		
16	Intangible assets	**2 924**	2 757
17	Tangible assets	**12 542**	13 939
19	Available-for-sale investments	**395**	395
20	Receivables		48
28	Deferred tax assets	**487**	210
	Total	**16 348**	17 349
	Current assets		
21	Inventories	**4 933**	5 026
4, 22	Accounts receivable and other receivables	**23 184**	21 666
23, 24	Financial assets at fair value through profit or loss	**10 195**	8 975
24	Cash and cash equivalents	**13 812**	2 419
	Total	**52 124**	38 086
2	**TOTAL ASSETS**	**68 472**	55 435
	SHAREHOLDERS' EQUITY AND LIABILITIES		
	Shareholders' equity		
25	Share capital	**8 010**	7 629
25	Share premium	**6 498**	5 429
25, 26	Other funds	**-201**	14
25	Retained earnings	**11 370**	8 699
25	Profit for the period	**3 632**	4 152
	Share of shareholders' equity that belongs to owners of the parent company	**29 309**	25 923
	Minority interest		224
	Total shareholders' equity	**29 309**	26 147
30	**Long term liabilities**		
27	Provisions	**262**	475
28	Deferred tax liabilities	**1 084**	1 300
29	Long term interest-bearing liabilities	**317**	357
	Total	**1 663**	2 132
30	**Current liabilities**		
28	Provisions	**1 726**	1 927
31	Short-term interest-bearing liabilities	**150**	176
32	Pension obligations	**335**	380
33	Advance payments received	**19 726**	8 500
	Current tax liabilities	**113**	105
33	Trade and other payables	**15 450**	16 068
	Total	**37 500**	27 156
	Total liabilities	**39 163**	29 288
	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**68 472**	55 435

Consolidated cash flow statement

EUR 1 000	1.1–31.12.2006	1.1–31.12.2005
CASH FLOW FROM OPERATING ACTIVITIES		
Proceeds from sales	**116 046**	108 934
Proceeds from other operating income	**155**	483
Payments of operating expenses	**-100 100**	-99 840
Cash flow before financial items and taxes	**16 102**	9 577
Interests and other operating financial expenses paid	**-190**	-80
Interests and other income received	**660**	764
Dividends received	**24**	56
Income taxes paid	**-1 614**	-2 636
NET CASH FROM (+) / USED IN (-) OPERATING ACTIVITIES (A)	**14 982**	7 681
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure in tangible and intangible assets	**-1 809**	-3 554
Purchases of available-for-sale as investments	**-49**	
Acquisition of subsidiary shares		-304
Proceeds from sale of tangible and intangible assets	**292**	713
Proceeds from other investments	**20**	180
NET CASH FROM (+) / USED IN (-) INVESTING ACTIVITIES (B)	**-1 545**	-2 965
CASH FLOW FROM FINANCING ACTIVITIES		
Repayments of long-term and short-term loan receivables	**95**	
Repayment of short-term liabilities		-1 537
Increase of long-term liabilities		278
Repayment of long-term liabilities	**-67**	-66
Proceeds from issuance of shares	**1 436**	
Dividends paid	**-2 290**	-1 526
NET CASH FROM (+) / USED IN (-) FINANCING ACTIVITIES (C)	**-826**	-2 851
NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C)	**12 611**	1 865
increase (+) / decrease (-)		
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR*	**11 395**	9 530
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR*	**24 006**	11 395
CASH AND CASH EQUIVALENTS IN THE BALANCE SHEET		
Financial assets at fair value through profit or loss	**10 195**	8 975
Cash and cash equivalents	**13 812**	2 419
Total	**24 006**	11 395

*Cash and cash equivalents comprise trading assets as well as cash and bank receivables, which will be due under three months' period.

→ *The notes form an essential part of the financial statements.*

Consolidated statement of changes in shareholders' equity

EUR 1 000	Share capital	Share premium	Other funds	Exchange rate differences	Retained earnings	Share of share-holders' equity that belongs to the owners of the parent company	Minority interests	**TOTAL**
EQUITY Jan. 1, 2005	**7 629**	**5 429**		**902**	**10 726**	**24 686**	**353**	**25 039**
Exchange differences from net investments								
Taxes related to items recognized in equity or transferred from equity								
Translation differences				-1 435		-1 435		-1 435
Other increase/decrease					32	32	-15	17
Net income recognized directly in equity				**-1 435**	**32**	**-1 403**	**-15**	**-1 418**
Profit for the period					4 152	4 152	-114	4 038
Total income and expenses recognized in the period				**-1 435**	**4 184**	**2 749**	**-129**	**2 620**
Share capital increase (options)			14			14		14
Dividend					-1 526	-1 526		-1 526
Equity-settled share-based transactions								
EQUITY Dec. 31, 2005	**7 629**	**5 429**	**14**	**-533**	**13 384**	**25 923**	**224**	**26 147**
EQUITY Jan. 1, 2006	**7 629**	**5 429**	**14**	**-533**	**13 384**	**25 923**	**224**	**26 147**
Exchange differences from net investments			-338			-338		-338
Taxes related to items recognized in equity or transferred from equity			88			88		88
Translation differences				808		808		808
Other increase/decrease*							-224	-224
Net income recognized directly in equity			**-250**	**808**		**558**	**-224**	**334**
Profit for the period					3 632	3 632		3 632
Total income and expenses recognized in the period			**-250**	**808**	**3 632**	**4 190**	**-224**	**3 966**
Share capital increase (options)	381	1 069	-14			1 436		1 436
Dividend					-2 290	-2 290		-2 290
Equity-settled share-based transactions			50			50		50
EQUITY Dec. 31, 2006	**8 010**	**6 498**	**-201**	**274**	**14 726**	**29 308**		**29 309**

*Dissolution of associate Eloc Oy.

→ *The notes form an essential part of the financial statements.*

Notes to the consolidated financial statements

General information

Raute Group ('Group') is a globally operating technology corporation, whose core business consists of the production processes of veneer-based wood products. Project deliveries include complete mills, production lines, and single machines. Full-service technology services include spare part, maintenance, and modernization services, as well as services related to developing customers' businesses.

The Group's parent company, Raute Corporation, is a Finnish public limited liability company established in accordance with Finnish law (Business ID FI01490726). Its series A shares are quoted on the Nordic list of the Helsinki Stock Exchange under Industrials. Raute Corporation is domiciled in Lahti, Finland. The address of its registered office is Rautetie 2, 15550 Nastola, Finland and its postal address is P.O. Box 69, 15551 Nastola, Finland.

These financial statements were authorized for issue by Raute Corporation's Board of Directors at its meeting on February 8, 2007. According to the Finnish Companies Act, shareholders may approve or reject the financial statements at the shareholders' meeting arranged after the statements have been issued. The shareholders' meeting also has the opportunity to make changes to the financial statements.

Notes

1 ACCOUNTING PRINCIPLES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Preparations have complied with the IAS and IFRS standards, as well as SIC and IFRIC interpretations, effective on December 31, 2006. IFRS refer to the standards and their interpretations that have been approved for application in the EU in the Finnish Accounting Act and regulations issued under it in accordance with the procedures laid down in the EU regulation (EC) 1606/2002. The notes to the consolidated financial statements also comply with Finnish Accounting Legislation.

The consolidated financial statements have been prepared under the historical cost convention, except for the following items measured at fair value:

- available-for-sale investments
- financial assets and liabilities recognized at fair value through profit or loss
- derivative financial instruments
- hedged items in fair value hedge
- cash-settled share-based transactions.

All of the figures presented in these consolidated financial statements are in thousand euro, unless otherwise stated.

The Group has applied the following amended standards as of January 1, 2006:

The Group has adopted the amendments to IAS 39 issued by IASB in 2004 and 2005. The adoption of the amended standard has not had any material impact on the figures for 2005 and 2006.

The Group has applied the IFRS 2 standard to the share-based incentive plan set up for key employees on March 22, 2006.

The Group has adopted hedge accounting in compliance with IAS 39.

The Group has adopted the amendments to standard IAS 21, the Effects of Changes in Foreign Exchange Rates. The amendment to the standard has not had any material impact on the figures for 2005 and 2006.

The preparation of financial statements in conformity with IFRS requires management to make certain critical accounting estimates and to exercise its judgment in applying the Group's accounting policies. Information about the estimates and judgment that the management has used and that are most critical to the figures in the financial statements are disclosed under "Critical accounting judgments and key sources of estimation uncertainty".

Segment reporting

The Group's primary reporting format is by business segments and its secondary format by geographical segments. The business segments are based on the Group's internal organization structure and internal financial reporting. A geographical segment is identified as reportable if the market area it forms accounts for more than 10 percent of the Group's net sales and if its business risks and profitability differ from those found in the economic environments of other market areas.

In the report periods 2005 and 2006 the Group's continuing operations as a whole were included in the wood products technology segment.

Consolidated financial statements

The consolidated financial statements include the parent company Raute Corporation and its subsidiaries in which the parent company holds, directly or indirectly, over 50 percent of the votes or in which it exercises control otherwise. Control means the right to decide on the company's financial and business principles to profit from the company's operations.

Mutual shareholding has been eliminated using the purchase method. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Accounting policies of 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 internal distribution of profit have been eliminated. The profit or loss for the period has been allocated to equity holders of the parent company and to minority interest in the income statement. In the balance sheet the minority interest is presented as a separate item under equity. The minority interest's share of accumulated losses recognized in the consolidated financial statements may not exceed the invested amount.

Associates over which the Group has significant influence but not control, which generally means a holding of between 20 percent and 50 percent of the voting rights, are accounted for in the consolidated financial statements using the equity method. Unrealized gains on transactions between the 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 parent company's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. In practice the translation is often carried out using rates that approximately correspond to those prevailing at the dates of transactions. Foreign currency non-monetary items measured at fair value are translated into the functional currency using the rates prevailing at the date of measurement. Otherwise non-monetary items are measured using the rate prevailing at the date of transaction. Exchange differences arising from transactions are recognized in the corresponding accounts in the income statement before operating profit.

Exchange differences arising from financial transactions are recognized in financial assets and liabilities, except for exchange differences arising from intra-Group loans which have been treated as net investments in foreign entities. Such exchange differences are recognized in translation differences under equity, and they are recognized in financial liabilities in the income statement on full or partial disposal of the net investment.

The income statements of foreign subsidiaries are translated into euro using the weighted average exchange rates during the report period and balance sheets are translated at the average rate on the balance sheet date. Exchange differences arising from translation, as well as translation differences arising from equity, are recognized as a separate component of equity. On partial or full disposal of a subsidiary, the accumulated translation differences are recognized in the income statement as part of the gains or losses from disposal. According to the exemption allowed by IFRS 1, translation differences that have arisen prior to January 1, 2004, have been recognized in accumulated gains, and the translation differences that have arisen after the transition date are presented as a separate component of equity.

The exchange rates used for the consolidation of subsidiaries are presented in the notes to the consolidated income statement and balance sheet no. 39.

Revenue recognition

Net sales include revenue from the sale of products and services, as well as raw materials and equipment, adjusted net of indirect taxes, discounts, and exchange differences from foreign currency sales.

Revenue from the sale of spare parts and other goods, as well as small and short-term projects, are recognized in full when the significant risks and rewards have been transferred to the buyer. After this the Group no longer has control related to the product. This generally means the moment at which the goods have been delivered to the customer in accordance with the agreed delivery clause. Revenue from services are recognized in the period in which the service has been carried out.

Revenue and costs from construction contracts (deliveries of project nature) are recognized based on the percentage of completion. Completion is measured on a cost-basis as the relation of actual project costs to the estimated overall project costs. When it is probable that the total costs needed to complete the contract will exceed total contract revenue, the expected loss is recognized as an expense immediately. If the result of a construction contract cannot be reliably estimated, the project costs have been recognized as an expenditure in the period in which they have incurred, and contract revenue is recognized only to the extent of contract costs that are likely to be recovered. Construction contracts are recognized as revenue in full when the risks and benefits related to ownership are transferred to the buyer.

Costs related to projects that have not yet been recognized in revenue are recognized as construction contracts in progress under inventories. Net sales recognized on the basis of percentage of completion is allocated to prepayments from customers. If such net sales exceed the prepayments received, the difference is presented under trade and other receivables in the balance sheet.

Other operating income

Other operating income includes revenue not included in net sales, such as lease income and gains on the disposal of fixed assets.

Non-current assets held for sale and discontinued operations

Non-current assets held for sale and discontinued operations are treated in compliance with IFRS 5. Assets held for sale and assets related to discontinued operations classified as held for sale are measured at the lower of the following: carrying amount of fair value less costs to sell. Depreciation of these assets has ended at the date of classification. Assets held for sale are presented as separate items in the balance sheet.

A separate major line of business which can be clearly distinguished from other operations in terms of property and result and which is part of a single disposal plan is treated as a discontinued operation.

Income taxes

The taxes in the income statement include the estimated taxes corresponding to the Group companies' taxable profit for the period, as well as tax adjustments for previous periods and the change in deferred taxes. Tax expenses are recognized in the income statement, except for items recognized directly in equity.

Deferred taxes are calculated for all temporary differences in accounting and taxation using the tax rates enacted by the reporting date. The principal temporary differences arise from the amortization of tangible fixed assets.

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

Financial assets and liabilities

Financial assets and liabilities are classified in accordance with IAS 39, Financial Instruments: Recognition and Measurement, into the following

- financial assets at fair value through profit or loss
- loan receivables
- trade and other receivables
- financial assets held for sale.

All purchases and sales of financial assets are recognized on the transaction date.

Classification is made based on the purpose of acquisition in conjunction with the original acquisition. An item in financial assets is assigned to the financial assets at fair value through profit or loss group if it is held for trading.

Financial assets at fair value through profit or loss include shares and units, deposits with maturities under three months and other securities. Financial assets held for trading have mainly been acquired to generate profit from short-term changes in market price. Derivatives that do not meet the conditions for hedge accounting provided for in IAS 39 are classified as held for trading. Derivatives held for trading, as well as financial assets maturing within 12 months, are included in current assets. The items in this group are measured at fair value. Realized and unrealized gains and losses from changes in fair value are recognized in the income statement in the period in which they have arisen.

Loan and other receivables are assets with fixed or determinable payments that are not quoted in an active market and which the company does not hold for trading. Loan and other receivables are measured at amortized cost using the effective interest method. They are included in non-current financial assets under trade and other receivables in the balance sheet if they mature over 12 months from the balance sheet date. Otherwise they are included in current financial assets.

Sales and other revenue are recognized in trade receivables at the original receivable amount. The default risk related to overdue receivables is estimated on the basis of a comprehensive survey of receivables carried out at the balance sheet date, and estimated credit losses are recognized as an expense.

Available-for-sale financial assets are assets not included in derivatives that have been expressly assigned to this group or that have not been classified into any other group. They are included in non-current assets unless the intention is to hold them less than 12 months from the balance sheet date, in which case they are included in current assets. Available-for-sale financial assets may consist of shares and interest-bearing investments. They are measured at fair value or, where fair value cannot be reliably determined, at cost of acquisition. Impairment during ownership is directly recognized in the fair value reserve in equity, including the tax effects. When an investment is sold or disposed, the difference between the original cost and the realized price is recognized in the income statement. Permanent impairment of assets is always recognized directly in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, short-term bank deposits and other highly liquid short-term investments with original maturities of three months or less. Bank overdrafts are included in short-term interest-bearing liabilities. Credit accounts related to Group accounts are included in short-term interest-bearing liabilities and presented net if the Group has a contractual legal right of set-off concerning full or partial payment or elimination of an amount to the lender.

Financial assets are de-recognized when the contractual right to cash flows expires or the Group has substantially transferred risks and income outside the Group.

Financial liabilities

Financial liabilities are recognized at fair value based on the purchase consideration at the grant date less transaction costs. Financial liabilities are included in current and non-current liabilities and they may be interest-bearing or non-interest-bearing.

Measurement of financial instruments

The fair values of all financial instruments in the balance sheet are based on market values.

Impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets.

The Group recognizes impairment loss for trade receivables if there is objective evidence that the receivable cannot be recovered in full. The impairment loss recognized in the income statement is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. If an in impairment loss decreases in a subsequent period, and the decrease can be objectively related to an event occurring after the impairment was recognized, the impairment is reversed through profit or loss.

Derivative financial instruments

Derivative financial instruments to which hedge accounting is not applied in compliance with IAS 39 are measured at fair value at the reporting date. The fair values of derivative financial instruments are presented in deferred income or receivables in the balance sheet, and changes in fair value are presented in the income statement. Impairment related to operating activities are presented as adjustments to net sales.

Hedge accounting

The Group has adopted hedge accounting in compliance with IAS 39. Derivative contracts hedging against currency risks are treated as either fair value hedges or economic hedges (excluded from the scope of hedge accounting). In fair value hedging, changes in the values of the hedged item and the hedging instrument are recognized in profit or loss. The result for economic hedges taken out against currency risks is recognized in net sales. When initiating hedge accounting, the relationship between the hedged item and the hedging instrument is documented, as are the objectives of the Group's risk management. The effectiveness of hedging is tested regularly and the effective portion is recognized in line with the hedged item against the change in its value in profit or loss. Hedge accounting is discontinued when the hedging instrument expires or is sold, or the contract is terminated or exercised.

The fair values of hedged derivative financial instruments are presented in non-current assets or liabilities in the balance sheet when the remaining hedged item is more than 12 months from the reporting date, and in current assets or liabilities otherwise.

Intangible assets

An intangible asset is recognized in the balance sheet only if it is probable that the expected future benefit attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. In other cases the expenditure from intangible assets is recognized as an expense when incurred. Intangible assets include goodwill, capitalized development costs and other intangible assets.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment. Goodwill is measured at cost less impairment losses. The financial statements for 2006, including the comparison data, do not include goodwill.

Research and development costs
Research and development costs are recognized as an expense in the income statement. Development expenditure incurred in planning new or more advanced products are recognized as intangible assets in the balance sheet from the moment the product can be produced technologically, utilized commercially, and future financial benefit is expected from it. Capitalized development costs include the material, work and testing expenditure incurred directly from completing the asset for the intended purpose. Capitalized, in-progress development expenditure is tested annually for impairment. Development expenditure previously recognized as an expense is not capitalized at a later date. Development costs are depreciated from the time the product is ready for use. The useful life of development costs is three years, during which time capitalized assets are recognized as an expense on a straight line basis.

Other intangible assets
An intangible asset is recognized at cost if the cost of the asset can be reliably measured and it is probable that the economic benefits attributable to the asset will flow to the entity.

Depreciation is not recognized for intangible assets with an indefinite useful life. They are tested annually for impairment. Intangible assets with a finite useful life are presented in the balance sheet and recognized as an expense based on the straight-line depreciation method over their useful life as follows:

Patents	10 years
Computer software	5 years
Other intangible assets	3–10 years

Property, plant and equipment
All property, plant and equipment is measured at cost less accumulated depreciation and impairment. Ordinary repair and maintenance costs are recognized through profit or loss as incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives:

Buildings	25–40 years
Machinery	4–12 years
Other property, plant and equipment	3–10 years

The residual value of property, plant and equipment, and the remaining useful lives are reviewed at each balance sheet date. If needed, they are adjusted to reflect changes in expectations of economic benefit.

The depreciation of property, plant and equipment ceases when the asset is classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Gains and losses on decommissioning and disposal of property, plant and equipment are presented in other operating income or expenses.

Impairment of assets
Tangible and intangible assets
The Group's intangible assets with an indefinite useful life are tested annually for impairment. For other balance sheet assets, impairment is tested if there are indications of impairment. This involves measuring the recoverable amount of the asset. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's 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. An impairment loss is recognized immediately in profit or loss. An impairment loss recognized for an asset other than goodwill is reversed when a change has taken place in the figures used to measure the recoverable amount of the asset. However, reversal of impairment shall not exceed the asset's carrying amount less impairment loss. Impairment loss for goodwill is not reversed.

Leases
Group as lessee
Leases in which a significant portion of the risks and rewards incident to ownership are retained by the lessor are treated as operating leases. Payments made under operating leases are recognized as an expense over the lease period.

Group as lessor
Assets held under other than finance leases are included in property, plant and equipment. They are depreciated over the useful life, similar to property, plant and equipment in own use. Rental income is recognized in other operating income on a straight-line basis over the lease term.

Inventories
Inventories are measured at the lower of cost and net realizable value. Raw materials and supplies are measured using the weighted average cost method. The cost of finished goods and work in progress comprises direct material and production costs and the portion of indirect production costs and depreciation allocated to products at a normal capacity excluding interest expenses. The value of inventories includes impairment due to obsolescence.

Provisions

Provisions are recognized then 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 a construction contract, service or spare part including a warranty clause has been recognized. The amount of the warranty provision is estimated at the beginning of the project based on past experience from warranty costs. The unused provision is recognized as income at the end of the warranty period.

Provision for contract is recognized when the unavoidable direct costs and estimated indirect production costs and depreciation under the contract exceed the benefits from the contract.

Restructuring provision is recognized when the Group has drawn up a detailed plan for restructuring and has started to implement the plan or has announced its main features to those affected by it. The financial statements for 2006, including the comparison data, do not include restructuring provisions.

Employee benefits: pension obligations

Pension plans are classified into defined benefit and defined contribution plans. Under a defined contribution plan the Group pays fixed contributions to a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay retirement benefits. All other plans are defined benefit pension plans. Contributions to defined contribution pensions plans are recognized in profit or loss in the period in which they are due.

The Finnish statutory employment pension scheme and the pension plans of foreign subsidiaries are classified as defined contribution plans.

Defined benefit plans include Raute Corporation's voluntary supplementary pension plan and the disability pension included in the Finnish pension scheme TEL, which was withdrawn in 2005.

The voluntary supplementary pension plan was transferred from the parent company's pension fund to an outside insurance company in 2005. The obligations from defined benefit plans are recognized as an expense separately for each plan based on calculations made by authorized actuaries.

In accordance with the exemption allowed by IFRS 1, all actuarial gains and losses have been recognized in equity in the opening balance sheet on the date of transition January 1, 2004. Subsequent actuarial gains and losses have been recognized in profit or loss over the employees' average remaining working lives where they exceed the greater of the following: 10 percent of the defined benefit obligation or 10 percent of the fair value of plan assets.

Employee benefits: share-based payments

The Group has applied the IFRS 2 standard to the share-based incentive plan set up for key employees on March 22, 2006.

The Group has a share-based incentive plan for the Executive Board and other key employees, as well as performance-based share remuneration and contingent share remuneration.

The Group measures granted share-based payments in equity at the fair value at the grant date. Share- and cash-based payments are recognized as an expense on a straight-line basis over the vesting period. The amount paid in shares is based on the management's latest estimate at the grant date and each balance sheet date of the number of shares expected to vest at the end of the commitment period. Cash-settled payments are based on the latest estimate of outstanding shares and the fair value of shares at the balance sheet date.

Costs from option schemes set up prior to November 7, 2002 have not been recognized in the income statement.

Share capital

The nominal value of the outstanding series K and A shares is presented in share capital.

Expenditure related to own equity issues or acquisitions are presented as allowance for equity. If the parent company repurchases own equity instruments, their acquisition cost is deducted from equity.

Dividend

The dividend proposed by the Board of Directors to the Annual General Meeting is recognized as a deduction from distributable equity, but not until approved by the Annual General Meeting.

Operating profit

IAS 1 Presentation of Financial Statements does not define the concept of operating profit. The Group uses the following definition: operating profit is the net sum calculated by adding other operating income to net sales; deducting purchase expenses that have been adjusted by changes in inventories of finished goods and work in progress and by expenses from production for own use; and by deducting expenses, depreciation and possible impairment losses from employee benefits, as well as other operating expenses. All other income statement items are presented under operating profit. Exchange differences and changes in the fair values of derivatives are included in operating profit if they have arisen from business-related items. In other cases they are recognized in financial items.

Earnings per share

Undiluted earnings per share are calculated by dividing the period's profit attributable to parent company equity holders by the weighted average of outstanding shares in the period.

Diluted earnings per share are calculated using the treasury stock method. In addition to the weighted average of outstanding shares, the divisor includes additional shares from the presumed exercise of options. The exercise of options is not taken into account in the calculation of earnings per share if the exercise price of options exceeds the average market price of shares during the period. Options have a dilutive effect if the average market price of shares exceeds the exercise price of options.

The calculation of other key ratios is presented in the notes to the consolidated financial statements on page 60.

Critical accounting judgments and key sources of estimation uncertainty

When preparing the consolidated financial statements in compliance with IFRS, the company management must make certain estimates and assumptions. In addition, the management must exercise its judgment in applying the accounting policies. These may affect the assets and liabilities in the balance sheet, the disclosure of commitments and possible assets in the financial statements, and income and expenses for the period. Actual results may differ from the estimates.

Intangible assets

The Group's intangible assets are tested annually for impairment. Other balance sheet assets are assessed for indications of impairment as explained in the accounting principles above. The recoverable amounts of cash-generating entities have been determined based on value-in-use calculations, which require the use of estimates.

Revenue recognition

The percentage of completion method is based on estimates of expected project revenue and expenses, as well as on reliable measurement of project progress. Should the estimates of the project outcome change, the recognized revenue and profit will be adjusted in the period in which the change first becomes known and can be estimated.

The warranty provisions are based on empirical estimates of the costs caused by the product during the warranty period, having regard to the special risks related to the product.

Receivables

The management's estimates of customers' solvency have been used in trade receivables for which the company has no security from the customer.

The management has estimated the ability of Group companies to pay trade receivables owed to other Group companies and to handle payments related to loans.

Deferred taxes

The management has made estimates pertaining to deferred tax assets.

Share-based reward expenses

The share-based reward expenses are counted using the management's estimate of the Group's profit development and the achievement of the strategic goals in 2007 and 2008.

Comparatives

The expense classification in the income statement for the comparison period has been adjusted by moving EUR 1 370 thousand related to project deliveries from other operating expenses to materials and services. The adjustment does not affect the key figures.

Applying new or amended IFRS standards and IFRIC interpretations

The standards, interpretations and their amendments presented below have been published, but they are not yet in effect, nor has the Group applied these provisions prior to their obligatory entry into force. The Group will adopt in 2007 or later the following new or amended standards and interpretations published by IASB in 2005 and 2006:

- IFRS 7 Financial Instruments: Disclosures, adopted Jan. 1, 2007
- Amendment to standard IAS 1: Presentation of Financial Statements, adopted Jan. 1, 2007
- IFRIC 8: Scope of IFRS 2, adopted Jan. 1, 2007
- IFRIC 9: Reassessment of Embedded Derivatives, adopted Jan. 1, 2007
- IFRIC 10: Interim Financial Reporting and Impairment, adopted Jan. 1, 2007
- IFRIC 11, IFRS 2: Group and Treasury Share Transactions, adopted Jan. 1, 2008
- IFRIC 12: Service Concession Arrangements, adopted Jan. 1, 2008
- IFRS 8: Operating Segments, adopted Jan. 1, 2009

Of the abovementioned standards, interpretations and their amendments, the following have not yet been approved by the EU: IFRS 8, IFRIC 10, IFRIC 11, IFRIC 12.

EUR 1 000	**2006**	**%**	2005	%

2 SEGMENT INFORMATION

Primary reporting segment

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

Secondary reporting segment

The secondary reporting segment is geographical. The geographical segment consists of market areas accounting for over 10 percent of the Group's net sales.

Geographical reporting segment information:

Net sales to external clients by clients' geographical location

	2006	%	2005	%
South America	**39 160**	**37**	4 556	4
Europe	**30 620**	**29**	43 954	40
North America	**17 107**	**16**	28 817	27
Russia	**12 470**	**12**	15 534	14
Rest of the world	**6 849**	**6**	15 766	15
TOTAL	**106 206**	**100**	108 627	100

Assets by geographical location

	2006	%	2005	%
South America	**38**	**0**	50	0
Europe	**63 832**	**93**	48 655	89
North America	**4 158**	**7**	6 375	11
Russia	**190**	**0**	200	0
Rest of the world	**254**	**0**	155	0
TOTAL	**68 472**	**100**	55 435	100

Capital expenditure by geographical location

	2006	%	2005	%
South America			1	0
Europe	**1 801**	**97**	3 654	96
North America	**51**	**3**	142	4
Russia				
Rest of the world			1	0
TOTAL	**1 852**	**100**	3 798	100

3 PROCEEDS FROM SALES

The main part of the net sales is comprised of project deliveries related to wood products technology that are handled as construction contracts. The rest of the of net sales is comprised of technology services provided to the wood products industry (spare parts, maintenance and modernization services as well as services provided to the development of customers' business).

Net sales by market area

	2006	%	2005	%
Finland	**10 417**	**10**	30 444	28
North America	**17 107**	**16**	28 817	27
Russia	**12 470**	**12**	15 534	14
Rest of Europe	**20 203**	**19**	13 510	12
Asia	**5 593**	**5**	8 107	7
South America	**39 160**	**37**	4 556	4
Oceania	**501**	**0**	2 366	2
Rest of the world	**755**	**1**	5 293	6
TOTAL	**106 206**	**100**	108 627	100

EUR 1 000	2006	2005
4 CONSTRUCTION CONTRACTS		
Net sales		
Net sales by percentage of completion	**90 464**	93 021
Other net sales	**15 742**	15 606
TOTAL	**106 206**	108 627
Project revenues entered as income from currently undelivered construction contracts recognized by percentage of completion	**77 607**	45 578
Amount of construction contract revenues not yet entered as income	**74 281**	53 691
Specification of combined asset and liability items		
Advances paid	**1 180**	1 342
Advances wound up by percentage of completion		
Advances paid included in inventories	**1 180**	1 342
Accrued income corresponding to revenues by percentage of completion	**76 989**	46 501
Advances received from project customers	**-62 588**	-34 211
Project receivables included in short-term receivables	**14 401**	12 290
5 OTHER OPERATING INCOME		
Capital gain on sale of fixed assets	**44**	225
Other	**155**	483
TOTAL	**199**	708
6 MATERIALS AND SERVICES		
Materials and supplies		
- Purchases during the period	**55 907**	58 501
- Change in inventories	**-307**	173
External services	**6 818**	8 020
TOTAL	**62 418**	66 694
7 EXPENSES FROM EMPLOYEE BENEFITS		
Wages and salaries	**22 024**	21 137
Pension contributions		
- Defined contribution plans	**2 541**	2 684
- Defined benefit plans	**-45**	-401
Share-based payments settled in shares	**52**	
Share-based payments settled in cash	**44**	
Other personnel costs	**1 611**	1 967
TOTAL	**26 227**	25 387

Information about management's employee benefits and loans is presented in the notes to the financial statements no. 34 Related party transactions.
Information about the share-based incentive plan is presented in the notes to the financial statement no. 26.

EUR 1 000	2006	2005
8 PERSONNEL		
Employed at Dec. 31		
Workers	**182**	191
Office staff	**358**	342
PERSONNEL, TOTAL	**540**	533
- of which personnel working abroad	**130**	124
Average		
Workers	**188**	197
Office staff	**359**	340
PERSONNEL, TOTAL	**547**	537
- of which personnel working abroad	**127**	124

EUR 1 000	2006	2005
9 RESEARCH AND DEVELOPMENT COSTS ENTERED AS EXPENSES FOR THE PERIOD		
Total research and development costs	**3 765**	3 616
Depreciation of capitalized development costs	**228**	500
Recognized as assets in balance sheet	**-538**	-242
Research and development costs entered as expenses for the period	**3 455**	3 874
Research and development costs	**3 765**	3 616
% of net sales	**3.5**	3.3

Research and development costs have been recognized in operating expenses prior to operating profit.

10 DEPRECIATION, AMORTIZATION AND IMPAIRMENT CHARGES		
Depreciation		
Intangible assets		
- Capitalized development costs	**228**	500
- Other intangible assets	**593**	660
Tangible fixed assets		
- Buildings and structures	**517**	515
- Machinery and equipment	**1 093**	1 202
- Other tangible fixed assets	**6**	
TOTAL	**2 437**	2 877
Impairment by class of assets		
- Buildings and structures	**222**	
TOTAL	**222**	
DEPRECIATION, AMORTIZATION AND IMPAIRMENT, TOTAL	**2 660**	2 877

11 ACQUISITIONS

No business acquisitions were made in the report period 2006.

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 percent.

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

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

12 OTHER OPERATING EXPENSES		
Indirect production expenses	**1 644**	1 472
Sales and marketing expenses	**2 293**	2 536
Administration expenses	**2 874**	2 854
Other expenses	**3 665**	3 152
TOTAL	**10 476**	10 014

EUR 1 000	2006	2005
13 FINANCIAL INCOME AND EXPENSES		
Financial Income		
Interest income	**209**	142
Dividend income	**24**	56
Profit from sales of available-for-sale investments		95
Exchange rate profit		217
Profit from sales of trading assets	**584**	217
Change in fair value of trading assets	**-94**	403
Other financial income	**22**	
TOTAL	**745**	1 131
Financial expenses		
Interest expenses	**-56**	-40
Losses from sales of available-for-sale investments	**-13**	
Exchange rate losses	**-158**	
Other financial expenses	**-144**	-33
TOTAL	**-371**	-73
Exchange rate differences entered in income statement		
Included in net sales	**-154**	-518
Included in purchases and other expenses	**54**	32
Included in financial income / expenses	**-158**	217
TOTAL	**-258**	-269
14 INCOME TAXES		
Current tax	**-1 488**	-1 653
From operations, previous years	**-174**	3
Change in deferred taxes	**407**	227
TOTAL	**-1 255**	-1 423
Analysis of the relationship between realized tax expense and theoretical accounting result using Finnish tax rate of 26 percent.		
Profit before taxes	**4 887**	5 461
Taxes calculated using the Finnish tax rate, 26%	**-1 271**	-1 420
Effect of differences in taxes from other countries	**-78**	
Non-deductible costs	**-45**	-194
Taxes from the previous financial years		1
Effect from unrecognized tax assets (from the losses of foreign subsidaries)	**157**	
Other items	**-18**	190
Consolidated tax expense	**-1 255**	-1 423
Effective tax rate, %	**26**	26
15 EARNINGS PER SHARE		
Share of profit that belongs to owners of the parent company	**3 632**	4 152
Weighted average number of shares, 1 000 shares	**3 867**	3 815
Effect of warrants issued in 1998, 1 000 shares		57
Diluted weighted average number of shares, 1 000 shares	**3 867**	3 872
Earnings per share, EUR	**0.94**	1.09
Diluted earnings per share, EUR	**0.94**	1.07

16 INTANGIBLE ASSETS

EUR 1 000	Development costs	Long-term expenses and intangible rights*	TOTAL
Intangible assets 2005			
Carrying amount at Jan. 1, 2005	**2 298**	**5 725**	**8 023**
Exchange rate differences			
Additions	242	745	987
Disposals			
Reclassifications of held-for-sale items	-141		-141
Other reclassifications between items			
Carrying amount at Dec. 31, 2005	**2 400**	**6 470**	**8 870**
Accumulated depreciation and amortization at Jan. 1, 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 amortization at Dec. 31, 2005	**-1 500**	**-4 613**	**-6 113**
Book value at Jan. 1, 2005	**1 298**	**1 772**	**3 070**
Book value at Dec. 31, 2005	**900**	**1 857**	**2 757**
Intangible assets 2006			
Carrying amount at Jan. 1, 2006	**2 400**	**6 470**	**8 870**
Exchange rate differences			
Additions	539	309	848
Disposals			
Reclassifications to held-for-sale items			
Other reclassifications between items		140	140
Carrying amount at Dec. 31, 2006	**2 939**	**6 919**	**9 858**
Accumulated depreciation and amortization at Jan. 1, 2006	**-1 500**	**-4 613**	**-6 113**
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	-228	-593	-821
Accumulated depreciation and amortization at Dec. 31, 2006	**-1 728**	**-5 206**	**-6 934**
Book value at Jan. 1, 2006	**900**	**1 857**	**2 757**
Book value at Dec. 31, 2006	**1 211**	**1 713**	**2 924**

*Long-term expenditure and intangible rights include patents, computer software and product rights.

17 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 2005						
Carrying amount at Jan. 1, 2005	**1 174**	**14 412**	**22 089**	**417**		**38 092**
Exchange rate differences	105	405	1 135			1 646
Additions	5	159	1 462		566	2 193
Disposals	-50	-128	-60	-6		-244
Reclassifications of held-for-sale items						
Other reclassifications between items						
Carrying amount at Dec. 31, 2005	**1 234**	**14 849**	**24 627**	**411**	**566**	**41 687**
Accumulated depreciation and amortization at Jan. 1, 2005		**-6 857**	**-17 620**	**-369**		**-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 reporting period		-515	-1 202			-1 717
Accumulated depreciation and amortization at Dec. 31, 2005		**-7 506**	**-19 872**	**-369**		**-27 747**
Book value at Jan. 1, 2005	**1 174**	**7 555**	**4 469**	**48**		**13 246**
Book value at Dec. 31, 2005	**1 234**	**7 342**	**4 755**	**42**	**566**	**13 939**
Property, plant and equipment 2006						
Carrying amount at Jan. 1, 2006	**1 234**	**14 849**	**24 627**	**411**	**566**	**41 687**
Exchange rate differences	-65	-486	-845	-34		-1 430
Additions	5	42	601		313	961
Disposals	-16	-316	-335			-667
Reclassifications to held-for-sale items						
Other reclassifications between items		619			-759	-140
Carrying amount at Dec. 31, 2006	**1 158**	**14 708**	**24 048**	**377**	**120**	**40 411**
Accumulated depreciation and amortization at Jan. 1, 2006		**-7 506**	**-19 872**	**-369**		**-27 747**
Exchange rate differences		440	824	34		1 298
Accumulated depreciations on disposals		145	274			419
Accumulated depreciations on reclassifications to held-for-sale items						
Accumulated depreciations on other reclassifications between items						
Depreciation for the financial period		-517	-1 093	-6		-1 616
Impairments		-222				-222
Accumulated depreciation and amortization at Dec. 31, 2006		**-7 660**	**-19 867**	**-341**		**-27 868**
Book value at Jan. 1, 2006	**1 234**	**7 342**	**4 755**	**42**	**566**	**13 939**
Book value at Dec. 31, 2006	**1 158**	**7 047**	**4 181**	**36**	**120**	**12 542**

EUR 1 000	2006	2005
18 INVESTMENTS IN ASSOCIATED COMPANIES		
Book value at Jan.1		309
Disposals and other deductions*		-309
Book value at Dec. 31		

The dissolution of associate Eloc Oy was completed on May 31, 2006.

*Eloc Oy became Raute Corporation's subsidiary in 2005 and was consolidated in group accounts on January 1, 2005 using the purchase method after holdings rose to 63 percent.

EUR 1 000	2006	2005
19 AVAILABLE-FOR-SALE INVESTMENTS		
Balance sheet value at Jan.1	**395**	342
Additions	**49**	81
Deductions	**-49**	-28
Balance sheet value at Dec. 31	**395**	395

For the period's available-for-sale investments, a total of EUR 13 thousand of realized sales losses have been recognized in financial items (EUR 95 thousand gains).

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

EUR 1 000	2006	2005
20 LONG-TERM RECEIVABLES		
Loan receivables		48
TOTAL		48

The fair value of loan assets does not differ materially from the carrying amount.

EUR 1 000	2006	2005
21 INVENTORIES		
Materials and supplies	**2 664**	2 456
Work in progress	**1 018**	1 154
Finished products / goods	**71**	74
Advance payments	**1 180**	1 342
TOTAL	**4 933**	5 026

In the year ended, EUR 184 thousand were recognized in expenses, reducing the carrying amount of inventories to correspond to the disposal price (EUR 571 thousand).

EUR 1 000	2006	2005
22 TRADE RECEIVABLES AND OTHER RECEIVABLES		
Short-term receivables		
- Trade receivables	**5 519**	7 021
- Loan receivables	**1 000**	1 050
- Accrued income and prepaid expenses	**15 174**	13 091
- Other receivables	**1 491**	504
TOTAL	**23 184**	21 666

Balance sheet values correspond best to the amount of money, that is the maximum amount of credit risk without taking into consideration the fair value of collaterals, in such a case where other contract parties are not able to fulfill their obligations related to financial instruments. Receivables do not include significant credit risk clusters.

EUR 1 000	2006	2005
Significant items included in accrued income and prepaid expenses		
- Project receivables recognized according to percentage of completion	**14 401**	12 290
- Other accrued income and prepaid expenses	**773**	801
TOTAL	**15 174**	13 091

For trade receivables, a total of EUR 5 thousand (€62 thousand) was recognized in losses.

23 FINANCIAL ITEMS AT FAIR VALUE THROUGH PROFIT / LOSS

	2006	2005
Initially recognized as financial assets through profit / loss	**9 849**	8 536
Fair valuation of cash and cash equivalents	**346**	439
Financial items at fair value through profit / loss at the end of the financial period	**10 195**	8 975

24 CASH AND CASH EQUIVALENTS

	2006	2005
Cash and bank accounts	**2 612**	1 819
Bank deposits	**11 200**	600
TOTAL	**13 812**	2 419
Cash and cash equivalents in cash flow statement		
Financial items at fair value through profit / loss	**10 195**	8 975
Cash and cash equivalents	**13 812**	2 419
TOTAL	**24 006**	11 395

25 SHAREHOLDERS' EQUITY AND DISTRIBUTABLE FUNDS

Notes to equity:

Reconciliation of the number of shares (1 000)	2006	2005
Number of shares Jan.1	**3 815**	3 815
Shares subscribed by warrants	**190**	
Number of shares Dec. 31	**4 005**	3 815
Nominal value, EUR	**2.00**	2.00
Total shareholders' equity, EUR thousand	**8 010**	7 629
Series K shares (20 votes/share)	**991**	991
Series A shares (1 vote/share)	**3 014**	2 824

The minimum share capital is EUR 5 000 000 and the maximum share capital is EUR 20 000 000. All issued shares are paid in full.

Other reserves include:
- Granted share-based remuneration settled in shares
- Exchange differences arising from intra-Group loans (net investment)
- Payments for shares subscribed for with options, which have not been entered in the Trade Register on the reporting date.

The share premium includes the value paid for shares in connection with a rights issue that exceeds the nominal value.

After the balance sheet date, the Board of Directors has proposed to the Annual General Meeting that a dividend of EUR 0.70 per share be paid for the financial year 2006.

26 SHARE-BASED PAYMENTS

SHARE-BASED INCENTIVE PLAN 2006

The Board of Raute Corporation has on 22 March 2006 resolved to implement a share-based incentive plan. The share-based incentive plan offers the target group a possibility to earn Raute Corporation series A shares as reward for an earning period of three calendar years for attainment of the targets established for it.

The earning period began on 1 January 2006 and will end on 31 December 2008. The amount of reward that shall be paid on the basis of the plan, has been bound to the Raute's operating profit (weight 75%) and the evaluation of the Board of Directors on e.g. the materialization of the strategy (weight +/- 25%). The maximum total reward is 65 000 Raute series A shares and a cash payment equivalent to the value of the shares, in the maximum. The attainment of the targets established for the earning period will determine the amount to be paid to the key personnel out of the maximum reward. The reward from the plan shall be paid to the key personnel as a combination of shares and cash payment, after the end of the earning period.

No reward shall be paid if a key person's employment ends before the reward payment. In addition, a key person must own the earned shares at least for two years from the reward payment.

The basic information on the share-based incentive plan has been collected in the table below:

Share-based payments in 2006

Issue date	March 22, 2006
Instrument	Share-based payment
Number of shares, max.*	65 000
Share price upon grant	17.28
Fair value of the share upon grant**	15.28
Share price at the end of financial year	12.85
Earning period begins, date	Jan. 1, 2006
Earning period ends, date	Dec. 31, 2008
Earnings criteria	Operating profit and Board's evaluation on e.g. the materialization of the strategy
Pay-out assumption of earnings criteria, %	24
Vesting date of shares	Jan. 1, 2009
Share ownership obligation, years	2
Remaining binding period, years	2
Target group (Dec. 31, 2006)	18

	Number of shares Jan. 1, 2006	Changes during financial year	Number of shares Dec. 31, 2006
Shares granted	0	56 000	56 000
Shares returned	0	0	0
Shares distributed	0	0	0
Shares forfeited	0	0	0
Shares total	**0**	**-**	**56 000**

* The numbers of shares presented in the table describe the numbers of shares to be distributed on the basis of the share-based incentive plan. In addition, the Company is committed to pay a cash amount that corresponds to the value of the shares in the maximum (proportion for taxes).

**From the share price on the grant date of the shares have been deducted the expected dividends EUR 2.00 that the key people do not receive before the potential reward payment.

Determination of the fair value

Raute Corporation has used Alexander Corporate Finance Oy as an advisor when determining the fair value of the reward. As the reward will be paid as a combination of shares and cash payment, the determining of the fair value of the reward is divided into two proportions, in accordance with IFRS 2 standard: a proportion settled in shares and a proportion settled in cash. The proportion to be settled in shares will be entered in the equity and the proportion to be settled in cash will be entered in liabilities. The fair value of the share-based payment on the grant date was the market price of the Raute series A share, the dividends to be distributed before the reward payment deducted. The fair value of the share proportion was thus EUR 15.28 per share. Correspondingly, the fair value of the proportion to be settled in cash will further be evaluated every reporting day until the end of the earning period, and the fair value of the debt will thus change in accordance with Raute series A share price. At the end of the financial year, the fair value of the cash proportion was EUR 12.85 per share. The fair value of the rewards granted during the financial year was EUR 0.3 million in total. The effect of the rewards on the result of Raute Corporation is EUR 0.1 million during the financial year 2006 (€0).

Calculation of fair value of reward	
Number of shares granted	56 000
Share price upon grant, EUR	17.28
Assumed dividend before reward payment*, EUR	2.00
Fair value (proportion in shares), EUR	15.28
Share price Dec. 31, 2006 (proportion in cash), EUR	12.85
Pay-out assumption of earnings criteria, %	24
Estimate of shares to be returned, %	10
Fair value of reward Dec. 31, 2006, EUR	340 260

*Dividend assumption is an estimate on distributed dividends before reward payment.

OPTIONS

1 000 shares	**2006**		2005	
	Exercise price as a weighted average per share, EUR	The amount of options	Exercise price as a weighted average per share, EUR	The amount of options
In the beginning of the financial year		**212 500**		212 500
Options exercised	**7.63**	**-190 150**		
Options expired		**22 350**		
Options available for exercise at the end of the financial year				212 500

A total of 190 150 series A shares, worth EUR 1 450 thousand, were subscribed for with B warrants pertaining to Raute Corporation's 1998 bond issue. The share capital increase corresponding to the share subscriptions total EUR 380 thousand.

EUR 1 000	**2006**	2005
27 PROVISIONS		
Warranty provisions		
Book value at the beginning of the financial year	**1 741**	1 346
Additions	**1 984**	2 387
Used	**-2 013**	-1 367
Cancelled unused amounts	**-735**	-646
Exchange rate differences	**-25**	21
Book value at the end of the financial year	**952**	1 741
Losses from construction contracts in order book		
Book value at the beginning of the financial year	**661**	
Additions	**417**	661
Decrease	**-412**	
Book value at the end of the financial year	**666**	661
Other provisions		
Provision for disputed warranty obligations to customer	**370**	
Provisions in balance sheet	**1 988**	2 402
from which		
- long-term	**262**	475
- short-term	**1 726**	1 927

28 DEFERRED TAX LIABILITIES AND DEFERRED TAX ASSETS

EUR 1 000		Items entered in income statement	Items recognized in sharehol-ders' equity	
Deferred tax assets	**1.1.2005**			**31.12.2005**
Depreciation differences and other provisions				
Changes in fair value				
Effects of Group consolidation				
Other taxable temporary differences	235	-25		210
TOTAL	**235**	**-25**		**210**
	1.1.2006			**31.12.2006**
Depreciation differences and other provisions				
Changes in fair value		58		58
Effects of Group consolidation				
Other taxable temporary differences	210	219		429
TOTAL	**210**	**276**		**487**
Deferred tax liabilities	**1.1.2005**			**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**		**1 300**
	1.1.2006			**31.12.2006**
Depreciation differences and other provisions	452	-69		383
Changes in fair value	114	-24		90
Effects of Group consolidation	389	-63		326
Other taxable temporary differences	345	26	-86	285
TOTAL	**1 300**	**-130**	**-86**	**1 084**

Unrecognized tax assets from losses of foreign subsidiaries are in total EUR 769 thousand (€929 thousand).

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

EUR 1 000	**2006**	2005
29 LONG-TERM INTEREST-BEARING LIABILITIES		
Long-term interest-bearing liabilities		
- Other loans	**317**	357
TOTAL	**317**	357

Non-current loans are Technology Funding Agency loans, with repayment scheduled for 2006–2011 and an interest rate of 1.0 percent. The loans have no collateral, and the Technology Funding Agency may, under certain conditions, demand a loan to be fully or partly repaid immediately without notice.

30 CARRYING VALUES AND FAIR VALUES OF LIABILITIES

The majority of the Group's financial liabilities are short-term and their carrying value equals fair value. The fair value of long-term liabilities with the exception of partial payments are EUR 317 thousand (€357 thousand) and their carrying value is EUR 317 thousand (€357 thousand).

EUR 1 000		2006	2005
31	**SHORT-TERM INTEREST-BEARING LIABILITIES**		
	Partial payments of long-term debts	**40**	66
	Other short-term interest-bearing debts	**110**	110
	Total short-term interest-bearing liabilities	**150**	176
	Distribution of Group's short-term loans by currencies		
	- EUR, %	**100**	100
	The weighted averages of effective interest rates of current interest-bearing liabilities were:		
	Amortization of non-current loans, %	**1.00**	1.00
	Other current loans, %	**2.30**	1.75

32 PENSION OBLIGATIONS

Raute Corporation's voluntary supplementary pension plan and in 2005 Disability pension included in Finnish TEL pension plan are treated as defined benefit plans.

Raute Corporation's Pension Fund

Raute Corporation's Pension Fund was dissolved on 17 May 2006. The liquidation has been entered in the fund register on 25 July 2006.

Voluntary supplement to pension coverage for those employees that have had long-term employment with Raute Corporation was managed in Raute Corporation's Pension Fund that was closed on October 1, 1992. During the year 2005, Raute Corporation 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.

EUR 1 000	2006	2005
Defined benefit pension plans		
Items recognized in balance sheet		
Present value of funded obligations	**367**	335
Fair value of assets included in the plan	**-328**	-252
Difference	**39**	83
Present value of non-funded obligations		
Unrecognized actuarial losses	**205**	154
Unrecognized costs based on retrospective work performance	**91**	143
Net liabilities (receivables) in balance sheet (liability + / receivable -)	**335**	380
Amounts in balance sheet		
Liabilities	**335**	380
Assets		
Net liabilities in balance sheet (liability + / receivable -)	**335**	380
Items entered in income statement		
Costs based on the work performance in the financial year	**17**	48
Interest on obligation	**16**	77
Expected income from the assets included in the plan	**-13**	-64
Effect of changes in billing basis		
Net of recognized actuarial gains / losses in the financial year	**11**	14
Costs based on retrospective work performance	**-52**	-129
Profits / losses resulting from the reduction of the plan or fulfilling of the obligation	**-24**	-346
Total, included in personnel expenses (expenses + / income -)	**-45**	-401
Realized income from the assets included in the plan (expenses + / income -)	**-52**	373

EUR 1 000	2006	2005
Changes in net liabilities recognized in balance sheet		
Net liabilities at Jan.1	**380**	-419
Net amount of income / expenses entered in income statement	**-45**	-401
Contributions from the plan		1 200
Net liabilities at Dec. 31 (liability + / receivable -)	**335**	380
Key actuarial assumptions		
Discount interest, %		
- Finland	**4.5**	4.5–5.0
Expected yield from the assets, %		
- Finland	**4.5**	4.5
Yearly salary increase assumption, %		
- Finland	**3.0**	3.0–3.5
Inflation assumption, %		
- Finland	**2.0**	2.0
Personnel turnover assumption, %		
- Finland	**1.0**	1.0–2.0

33 ADVANCE PAYMENTS RECEIVED, TRADE AND OTHER PAYABLES

Advance payments received EUR 19 726 thousand (€8 500 thousand) comprise of advances received from projects in progress.

	2006	2005
Short-term liabilities in balance sheet		
- Trade payables	**6 085**	6 572
- Accrued expenses and prepaid income	**8 472**	8 823
- Derivative liabilities	**57**	145
- Other liabilities	**836**	528
TOTAL	**15 450**	16 068
Substantial items included in accrued expenses and prepaid income		
- Periodizing of project costs	**3 860**	3 468
- Periodizing of personnel costs	**3 927**	4 312
- Other accrued expenses and prepaid income	**685**	1 043
TOTAL	**8 472**	8 823

34 RELATED PARTY TRANSACTIONS

Raute Group's related parties consist of associated companies, Board members, President and CEO and Presidents of the subsidiaries and Raute Corporation's Sickness Fund and Raute's Pension Fund.

	2006	2005
Group management's employee benefits		
Salaries and other short-term employee benefits	**1 015**	894
Share-based payments	**107**	
TOTAL	**1 122**	894
Salaries and remunerations of Directors of the Parent company		
President and CEO		
Kiiski, Tapani	**273**	237
The members of the Board of Directors		
Rytilahti, Jarmo, Chairman of the Board	**36**	33
Mustakallio, Mika, Member of the Board	**18**	17
Mustakallio, Panu, Member of the Board	**18**	17
Mustakallio, Sinikka, Vice-Chairman of the Board	**18**	17
Paasikivi, Pekka, Member of the Board	**18**	17
Wiitakorpi, Jorma, Member of the Board	**14**	
Lehtonen, Heikki, Former Member of the Board	**5**	17
Nihti, Markku, Former Member of the Board	**5**	17
TOTAL	**405**	372

The company's Board of Directors, President and CEO and Presidents of the subsidiaries owned a total of 81 838 series A shares and 98 990 series K shares. Management's ownership corresponds to 4.5 percent of the shares in the company and 9.0 percent of associated total voting rights. The figures include the holdings of their own, minor childern and control entities.

Raute Corporation's Pension Fund
See note number 32, Pension obligations.

Sickness Fund
Raute Group has an insurance fund, which pays its members additional benefits on top of compensations paid according to the Sickness Insurance Act. Raute's Sickness Fund covers personnel in Raute Corporation and its domestic subsidiaries as well as personnel in the former subsidiary Raute Precision Oy. Raute's Sickness Fund has deposited its assets in Raute Corporation. The amount of deposits was EUR 110 thousand at Dec. 31 (€110 thousand) and 2.3 percent (1.75%) of interest was paid to it.

No loans are granted to related parties of the Group.

EUR 1 000	2006	2005
35 OTHER LEASES AND OPERATING LEASE LIABILITIES		
Group as lessee		
Minimum rents paid on the basis of other non-cancellable leases:		
- For the current accounting period	**169**	126
- For subsequent accounting periods	**470**	76
TOTAL	**639**	202
Minimum rents paid on the basis of other non-cancellable leases:		
Under 1 year	**49**	53
1–5 years	**57**	46
Over 5 years		
TOTAL	**106**	99

Group as lessor
The Group has rent out the office and plant facilities that it does not need. The facilities have been classified as tangible fixed asset in the financial statements. Lease income has been recognized in other operating income in the financial statements and totaled EUR 85 thousand (€156 thousand).

36 CURRENCY DERIVATIVES

Currency derivatives are used for hedging purposes.

EUR 1 000	2006	2005
Nominal values of forward contracts in foreign currency		
Economic hedging		
- Related to financing	**2 065**	6 830
- Related to hedging of net sales	**174**	3 071
Hedge accountig		
- Related to hedging of net sales	**7 000**	
Fair values of forward contracts in foreign currency		
Economic hedging		
- Related to financing	**2**	-41
- Related to the hedging of net sales	**-8**	-104
Hedge accountig		
- Related to the hedging of net sales	**-50**	
Purchased currency options		
- Nominal values	**1 963**	
- Fair values	**13**	

EUR 1 000	2006	2005
37 PLEDGED ASSETS AND CONTINGENT LIABILITIES		
Pledged assets		
Raute Group had long-term bilateral credit facilities to a total of EUR 15 000 thousand, of which nothing was used during 2006.		
Raute Corporation has an EUR 10 million 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.		
The debts and other contingent liabilities above have been secured by mortgages		
- Mortgages on real property	**1 134**	1 134
- Business mortgages	**10 000**	10 000
Contingent liabilities and other liabilities		
Security for Group's liabilities		
- Guarantees issued	**646**	4 111
Other own obligations		
No money loans, pledges or other contingent liabilities have been given on behalf of the management, shareholders or associated companies.		

Management of financial risks

The main financial risks that Raute's international business operations are exposed to are credit, liquidity, and currency risks.

The written financing policy, approved by Raute's Board of Directors, is based on the principle of cost-effective hedging against risks that have a negative effect on the Group's performance or cash flow.

The financing policy defines the limiting values that guide operations, the adopted financial and hedging instruments, and the acceptable counterparties.

Practical risk management is the responsibility of the parent company's financing unit. It identifies, assesses, and hedges financial risks in co-operation with operating units.

The financing unit is also in charge of centrally handling external asset acquisition, managing financial assets, and taking care of the necessary hedging actions.

Currency risks

A significant share of the Group's net sales is generated outside the euro zone. The most important foreign currencies used in customer deliveries, and business transactions between Group companies are the US and Canadian dollars. The currency distribution varies yearly.

As stated in the Group's financing policy, operating units hedge currency items in excess of EUR 100 thousand based on binding delivery and subcontracting agreements. The Group applies hedge accounting in compliance with IAS 39 to separately defined significant and long-term project deliveries.

Currency clauses are used to hedge against currency risks during the bidding period. Depending on the case, currency risks related to preliminary agreements are hedged with currency options.

The Group has foreign subsidiaries and is exposed to translation risks. Net investments and corresponding items in subsidiaries have not been hedged. Exchange rate differences for net investments are recognized in equity.

Interest rate risks

The Group has a strong financial position. Interest rate risks are mostly related to income from investment activities and to interest rate differences between currencies. Loans on the balance sheet date had fixed interest rates. Investments in interest funds have been made in short-term interest 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 or derivative and loan agreements, the Group applies counterparty-specific upper limits to avoid risk concentrations.

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

Liquidity

The minimum amounts of cash, current investments and available credit liabilities have been defined to ensure the Group's liquidity. In the long term, risks related to the availability and pricing of funding are managed by using a variety of sources for financing.

The parent company has an EUR 10 million domestic commercial paper program, which allows it to issue commercial papers maturing in less than one year. The company also has bilateral non-current credit regulation agreements worth EUR 15 million.

Most investment activities are carried out through mutual funds, which are required to exhibit good creditworthiness and sufficient liquidity.

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 Canada Ltd., New Westminster, B.C., Canada	**100.00**	100.00
Raute Land Ltd, B.C., Canada	**100.00**	0.00
Raute Inc., Delaware, USA	**100.00**	100.00
Raute US, Inc., Rossville, Tennessee, USA	**100.00**	0.00
RWS-Engineering Oy, Lahti, Finland	**100.00**	100.00
Raute Group Asia Pte Ltd., Singapore	**100.00**	100.00
Raute WPM Oy, Lahti, Finland	**100.00**	100.00
Raute Wood Oy-Santiago Limitada, Chile	**100.00**	50.00
Mecano Group Oy, Kajaani, Finland	**100.00**	100.00
Mecano Group Inc., Oregon, USA	**100.00**	0.00
Raute Service LLC, St. Petersburg, Russia	**100.00**	100.00
Raute (Shanghai) Machinery Co., Ltd, Shanghai, China	**100.00**	100.00

39 EXCHANGE RATES USED IN CONSOLIDATION OF THE SUBSIDIARES

	2006	2005
Income statement	EUR	EUR
USD	**1.2557**	1.2448
CAD	**1.4242**	1.5097
SGD	**1.9940**	2.0711
CLP	**695.9000**	698.9770
RUB	**34.1116**	35.1860
CNY	**10.0090**	
Balance sheet	EUR	EUR
USD	**1.3170**	1.1797
CAD	**1.5281**	1.3725
SGD	**2.0202**	1.9628
CLP	**696.4292**	609.4000
RUB	**34.68**	33.92
CNY	**10.333**	

Parent company's income statement, FAS

EUR 1 000	1.1–31.12.2006	1.1–31.12.2005
NET SALES	91 092	87 084
Increase (+) or decrease (-) in inventories of finished goods and work in progress	307	-127
Other operating income	396	2 220
Materials and services	58 453	56 301
Personnel expenses	18 110	17 938
Depreciation, amortization and impairment charges	1 769	1 720
Other operating expenses	9 470	7 689
Total operating expenses	87 802	83 648
OPERATING PROFIT	3 993	5 529
Financial income and expenses		
Income from investments in other non-current assets	524	56
Interest and other financial income	883	1 206
Impairments from investments in non-current assets	-4 581	-1 536
Intrerest and other financial expenses	-713	-76
Total financial income and expenses	-3 887	-350
PROFIT BEFORE EXTRAORDINARY ITEMS	106	5 179
Extraordinary items	222	100
PROFIT / LOSS AFTER EXTRAORDINARY ITEMS	328	5 279
Appropriations	265	-32
Income taxes	-1 447	-1 419
PROFIT / LOSS FOR THE FINANCIAL YEAR	-854	3 828

Parent company's balance sheet, FAS

EUR 1 000	31.12.2006	31.12.2005
ASSETS		
Non current assets		
Intangible assets	**1 945**	1 625
Tangible assets	**10 387**	11 122
Investments	**4 289**	10 064
Total	**16 621**	22 811
Current assets		
Inventories	**3 157**	2 011
Long-term receivables	**44**	124
Short-term receivables	**21 459**	20 076
Investments held as current assets	**10 194**	8 975
Cash and cash equivalents	**13 531**	1 580
Total	**48 385**	32 766
TOTAL ASSETS	**65 006**	55 577
LIABILITIES		
Shareholders' equity		
Share capital	**8 010**	7 629
Equity issue		14
Share premium	**6 498**	5 429
Retained earnings	**14 861**	13 322
Profit / loss for the financial year	**-854**	3 828
Total	**28 515**	30 222
Appropriation reserve	**1 475**	1 740
Provisions	**1 818**	2 141
Liabilities		
Deferred tax liabilities	**130**	130
Long-term liabilities	**277**	277
Short-term liabilities	**32 791**	21 067
Total	**33 198**	21 474
TOTAL LIABILITIES	**65 006**	55 577

→ *The complete consolidated financial statements can be found on the company's website at www.raute.com.*

Parent company's statement of changes in shareholders' equity, FAS

EUR 1 000	Share capital	Other funds	Reserve fund	Share premium	Retained earnings	TOTAL
SHAREHOLDERS' EQUITY AT JAN. 1, 2005	**7 629**		**5 429**		**15 170**	**28 228**
Share capital increase (options)		14				14
Dividend					-1 526	-1 526
Transfer from reserve fund to the share premium fund			-5 429	5 429		
Reductions in revalutations (inc. deferred tax)					-322	-322
Profit for the period					3 828	3 828
SHAREHOLDERS' EQUITY AT DEC. 31, 2005	**7 629**	**14**		**5 429**	**17 150**	**30 222**
SHAREHOLDERS' EQUITY AT JAN. 1, 2006	**7 629**	**14**		**5 429**	**17 150**	**30 222**
Share capital increase (options)	381	-14		1 069		1 436
Dividend					-2 290	-2 290
Loss for the period					-854	-854
SHAREHOLDERS' EQUITY AT DEC. 31, 2006	**8 010**			**6 498**	**14 007**	**28 515**

Distributable funds	**2006**	2005
Retained earnings at Dec. 31	**14 861**	13 322
Loss / profit for the period	**-854**	3 828
Capitalized development costs		-38
DISTRIBUTABLE FUNDS	**14 007**	17 112

→ *The complete consolidated financial statements can be found on the company's website at www.raute.com.*

Key ratios describing the financial development

EUR 1 000	**2006**	2005	2004	2003*	2002*
Net sales	**106 206**	108 627	73 116	97 608	88 908
Overseas sales	**95 789**	78 183	65 136	84 419	73 708
% of net sales	**90.2**	72.0	89.1	86.5	82.9
Operating profit / loss	**4 513**	4 403	3 647	-3 340	-8 299
% of net sales	**4.2**	4.1	5.0	-3.4	-9.3
Profit / loss before income taxes, from continuing operations	**4 887**	5 461	3 906	-2 274	-8 951
% of net sales	**4.6**	5.0	5.3	-2.3	-10.1
Profit / loss attributable to equity holders of the parent company	**3 632**	4 152	4 762	-2 703	-7 329
% of net sales	**3.4**	3.8	6.5	-2.8	-8.2
Return on investment (ROI), %	**18.6**	20.7	25.2	-5.4	-18.5
Return on equity (ROE), %	**13.1**	15.8	19.9	-10.7	-22.8
Balance sheet total	**68 472**	55 435	46 188	63 510	58 903
Interest-bearing net liabilities	**-23 539**	-10 861	-7 670	-4 238	-4 450
% of net sales	**-22.2**	-10.0	-10.5	-4.3	-5.0
Interest-free liabilities	**38 696**	28 755	19 289	30 922	21 504
Equity ratio, %	**60.1**	55.7	56.8	41.3	50.1
Quick ratio	**2.7**	2.0	1.5	1.2	1.3
Gearing, %	**-80.3**	-41.5	-30.6	-18.2	-16.3
Gross capital expenditure	**1 852**	3 798	2 060	1 502	2 793
% of net sales	**1.7**	3.5	2.8	1.5	3.1
R&D costs	**3 765**	3 616	3 093	2 651	3 611
% of net sales	**3.5**	3.3	4.2	2.7	4.1
Order book	**76 699**	55 317	35 417	38 774	25 387
Personnel at Dec. 31	**540**	533	543	758	801
Personnel, average	**547**	537	556	783	835
Dividend	**2 803******	2 289	1 526	3 815	1 907

* The years 2002–2003 have been reported according to Finnish Accounting Standards (FAS).
**The Board of Directors' proposal to the Annual General Meeting.

SHARE-RELATED DATA

	2006	2005	2004	2003*	2002*
Earnings per share from continuing operations, EUR	**0.94**	1.09	0.71	-0.71	-1.92
Earnings per share from discontinued operations, EUR			0.54		
Equity to share, EUR	**7.32**	6.80	6.47	6.11	7.18
Dividend per share, EUR	**0.70** **	0.60	0.40	1.00	0.50
Dividend per profit, %	**74.5**	55.1	32.0	-141.1	-26.0
Effective dividend yield, %	**5.5**	4.2	5.2	12.5	6.4
Price/earnings ratio (P/E ratio)	**13.68**	13.08	6.16	-11.3	-4.1
Development in share price (series A shares)					
Lowest, EUR	**11.60**	7.60	7.10	6.20	7.80
Highest, EUR	**17.60**	16.42	8.90	9.50	10.30
Average exchange rate for the accounting period, EUR	**14.03**	11.24	8.14	8.12	9.18
Share price at Dec. 31, EUR	**12.85**	14.24	7.70	8.00	7.80
Market value of capital stock at Dec. 31, EUR thousand***	**51 461**	54 320	29 372	30 517	29 754
Trading in the company's shares (series A shares)					
Shares traded during the fiscal year, 1 000 shares	**1 088**	1 530	569	323	845
% of the number of series A shares	**36.1**	54.2	20.1	11.5	30.5
Issue-adjusted number of share average	**3 866 561**	3 814 608	3 814 608	3 814 608	3 814 608
Issue-adjusted number of share average at year-end	**4 004 758**	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 2002–2003 have been reported according to Finnish Accounting Standards (FAS).
** The Board of Directors' proposal to the Annual General Meeting.
*** Series K shares valued at the value of series A shares.

DEVELOPMENT OF QUARTERLY RESULTS

EUR 1 000	**Total 2006**	Q4 2006	Q3 2006	Q2 2006	Q1 2006
NET SALES	**106 206**	**32 494**	**18 666**	**28 543**	**26 503**
Other operating income	**198**	72	30	72	25
Operating expenses	**-99 231**	-29 396	-18 404	-26 629	-24 803
Depreciation, amortization and impairment charges	**-2 660**	-871	-616	-579	-595
OPERATING PROFIT / LOSS	**4 513**	**2 299**	**-324**	**1 408**	**1 130**
% of net sales	**4**	7	-2	5	4
Financial income and expenses	**374**	113	92	-51	220
PROFIT / LOSS BEFORE TAX	**4 887**	**2 412**	**-233**	**1 357**	**1 350**
% of net sales	**5**	7	-1	5	5
Taxes	**-1 255**	-717	-66	-50	-423
PROFIT / LOSS FROM CONTINUING OPERATIONS	**3 632**	**1 696**	**-299**	**1 307**	**927**
% of net sales	**3**	5	-2	5	3
BREAKDOWN					
Profit / loss attributable to minority interest					
Profit / loss attributable to equity holders of the parent company	**3 632**	1 696	-299	1 307	927
EARNINGS PER SHARE					
Earnings per share:					
- Basic, EUR	**0.94**	0.44	-0.08	0.34	0.24
- Diluted, EUR	**0.94**	0.44	-0.08	0.33	0.24
Equity issue-adjusted number of shares					
- Weighted average	**3 867**	3 867	3 834	3 822	3 816
- Diluted	**3 867**	3 867	3 957	3 931	3 925

Calculation of key ratios

Return on investment (ROI), % = $\dfrac{\text{Profit before tax* + interest expenses + other financial expenses}}{\text{Balance sheet total ./. interest-free liabilities (average)}} \times 100$

Return on equity (ROE), % = $\dfrac{\text{Profit before tax* ./. taxes}}{\text{Equity + minority interests (average)}} \times 100$

Interest-bearing net liabilities = Interest-bearing liabilities ./. cash and cash equivalents + financial assets at fair value through profit / loss

Equity ratio, % = $\dfrac{\text{Equity + minority interests}}{\text{Balance sheet total ./. advances received}} \times 100$

Quick ratio = $\dfrac{\text{Cash and cash equivalents + financial assets at fair value through profit / loss + current receivables}}{\text{Current liabilities ./. advances received}}$

Earnings per share (EPS) = $\dfrac{\text{Profit / loss for the period**}}{\text{Equity issue-adjusted average number of shares during the year}}$

Equity to share = $\dfrac{\text{Equity}}{\text{Equity issue-adjusted number of shares at the day of the financial satements}}$

Dividend per share = $\dfrac{\text{Distributed dividend for the year}}{\text{Equity issue-adjusted number of shares at the day of the financial statements}}$

Dividend per profit, % = $\dfrac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$

Effective dividend return, % = $\dfrac{\text{Dividend per share}}{\text{Equity issue-adjusted closing share price at 31 Dec.}} \times 100$

Price/earnings ratio (P/E ratio) = $\dfrac{\text{Equity issue-adjusted closing share price at 31 Dec.}}{\text{Earnings per share}}$

Market value of capital stock = Number of shares at year end (series A+K shares) x closed share price on the last day of the year

Gearing, % = $\dfrac{\text{Interest-bearing liabilities ./. cash and cash equivalents + financial assets at fair value through profit / loss}}{\text{Equity + minority interest}} \times 100$

* 2002–2003: profit before extraordinary items
**2002–2003: profit before extraordinary items and taxes ./. taxes +/- minority interests

Shares and shareholders

→ *Current information on Raute's shares and shareholders can be found on the company's website at www.raute.com.*

SHARE CAPITAL AT DECEMBER 31, 2006

Shares	Voting rights	Nominal value EUR/share	Number of 1 000 shares	Total nominal value EUR 1 000
Series K shares (ordinary shares)	20 votes/share	2.00	991	1 982
Series A shares	1 vote/share	2.00	3 014	6 027
Total shares at Dec. 31, 2006		**2.00**	**4 005**	**8 010**

CHANGES IN SHARE CAPITAL FROM JANUARY 1, 1994 TO DECEMBER 31, 2006

	Share capital EUR	Number of series K shares	Number of series A shares
Share capital at January 1, 1994	5 359 073	1 054 600	2 124 240
Issue of share capital September 21, 1994	1 069 285		635 768
Change of series K shares into series A shares 1998		-14 000	14 000
Decrease of share capital (premium fund) June 30, 2000	-12 648		
Increase of share capital, capitalization issue June 30, 2000	1 213 506		
Change of series K shares into series A shares 2003		-44 539	44 539
Change of series K shares into series A shares 2004		-4 900	4 900
Shares registered for with options 1.1–31.12.2006	380 300		190 150
Share capital at Dec. 31, 2006	**8 009 516**	**991 161**	**3 013 597**

Board authorizations

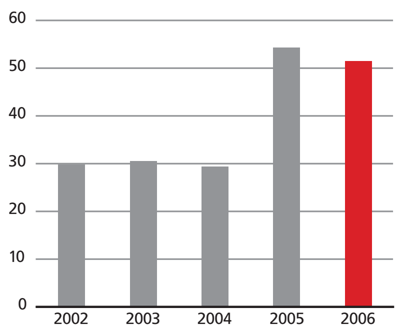
No decisions about new share issues were made during the report period, nor were any convertible bonds or stock options issued.

Raute Corporation's Board of Directors had no valid authorizations to issue shares, convertible bonds, or stock options. The Annual General Meeting held on March 22, 2006 re-authorized the Board to decide about the acquisition of Raute's series A shares using distributable funds, as well as about the disposal of own shares. The maximum number of shares that the Board is authorized to purchase is defined as follows: after the purchase, the total nominal value of the shares or the votes that they offer, combined with company shares held by the company or its subsidiaries, may not exceed 10 percent of the company's registered share capital or the total votes of all shares.

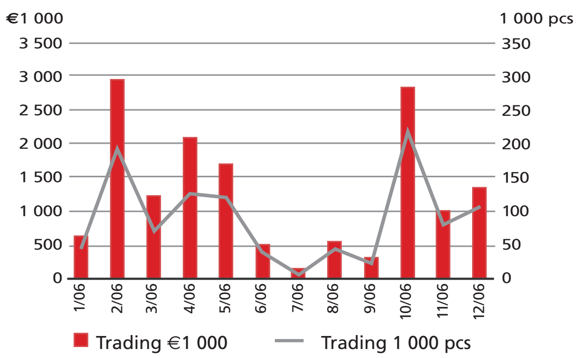
Shares and shareholders

Raute Corporation's series A shares are listed on the Nordic list of the Helsinki Stock Exchange. The trading code is RUTAV. The shares have a nominal value of EUR 2. Raute Corporation has signed a market making agreement with

Market value of capital stock at 31 Dec., EUR million



Trading in series A shares



Nordea Bank Finland plc in compliance with the Liquidity Providing (LP) requirements issued by the Helsinki Stock Exchange.

The number of shares at the end of the report period totaled 4 004 758, of which 991 161 were series K shares and 3 013 597 series A shares.

A total of 1 088 288 (1 529 700) shares were traded in 2006. The total value of trading was EUR 15.4 million (€17.1 m). The highest share price was EUR 17.60 (€16.42) and the lowest EUR 11.60 (€7.60). At the end of the year, the share price was EUR 12.85 (€14.24). The average price was EUR 14.03 (€11.24). The company's market capitalization at the end of the report period was EUR 51.5 million (€54.3 m), with series K shares valued at the closing price on December 29, 2006, of series A shares.

The number of shareholders totaled 974 at the beginning of the year and 1 144 at the end of the report period.

Incentive schemes

Share-based incentive plan

On March 22, 2006, the Board of Directors of Raute Corporation approved a share-based incentive plan for the strategy period 2006–2008. The potential reward from the plan will be based on the Group's operating profit and on the Board of Directors' assessment of the success of the strategy. The incentive plan encompasses the Group's Executive Board (5 members) and 13 other key employees. The rewards will be paid partly in shares and partly in cash. Decisions on the rewards will be made in 2009. The cash portion is meant for the payment of taxes and tax-related costs. The shares are subject to a two-year transfer prohibition.

Option scheme

Raute Corporation's 1998 option scheme expired on September 30, 2006, for B options. The scheme accounted for a total of 212 500 options, of which 190 150 were exercised. The highest trading price in 2006 for B options was EUR 9.58 (€9.20) and the lowest EUR 4.48 (€1.00). A total of 330 650 B options were exercised in 2006 (197 500). The total value of trading was EUR 2 452 176 (€701 207).

Insider issues

Raute Corporation follows the Guidelines for Insiders issued by the Helsinki Stock Exchange, the Central Chamber of Commerce, and the Confederation of Finnish Industry and Employers. In addition, the company applies separate insider instructions approved by the Board of Directors.

The company's public insiders include the Board of Directors, the Group's President and CEO, the Executive Board, the Presidents of subsidiaries, and auditors.

DISTRIBUTION OF SHARES BY SHARE TYPE AT DEC. 31, 2006

Series A and K shares by shareholder groups	Number of shareholders	%	Number of shares	%	Number of voting rights	%
Households	1 039	90.9	3 263 501	81.5	22 095 560	96.9
Credit and insurance institutions	4	0.3	110 425	2.8	110 425	0.5
Foreign shareholders	8	0.7	54 250	1.4	54 250	0.2
Non-profit institutions	8	0.7	34 201	0.9	34 201	0.1
Public institutions	3	0.3	212 133	5.3	212 133	0.9
Companies	78	6.8	277 808	6.9	277 808	1.2
Administrative registered	4	0.3	52 440	1.3	52 440	0.2
Total	**1 144**	**100.0**	**4 004 758**	**100.0**	**22 836 817**	**100.0**

DISTRIBUTION OF SERIES K SHARES BY SHARE TYPE AT DEC. 31, 2006

Series K shares by shareholder groups	Number of shareholders	%	Number of shares	%	Number of 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**

Series K shares by size of holding	Number of shareholders	%	Number of shares	%	Number of voting rights	%
1–1 000	2	4.3	580	0.1	11 600	0.1
1 001–5 000	2	4.4	7 429	0.8	148 580	0.8
5 001–10 000	14	30.4	92 653	9.4	1 853 060	9.4
10 001–50 000	24	52.2	668 619	67.5	13 372 380	67.5
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**

DISTRIBUTION OF SERIES A SHARES BY SHARE TYPE AT DEC. 31, 2006

Series A shares by shareholder groups	Number of shareholders	%	Number of shares	%	Number of voting rights	%
Households	1 037	90.8	2 272 340	75.4	2 272 340	75.4
Credit and insurance institutions	4	0.7	110 425	3.7	110 425	3.7
Foreign shareholders	8	0.7	54 250	1.8	54 250	1.8
Non-profit institutions	8	0.7	34 201	1.1	34 201	1.1
Public institutions	3	0.3	212 133	7.0	212 133	7.0
Companies	78	6.8	277 808	9.2	277 808	9.2
Administrative registered	4	0.0	52 440	1.7	52 440	1.7
Total	**1 142**	**100.0**	**3 013 597**	**100.0**	**3 013 597**	**100.0**

Series A shares by size of holding	Number of shareholders	%	Number of shares	%	Number of voting rights	%
1–1 000	937	82.1	335 490	11.1	335 490	11.1
1 001–5 000	130	11.4	292 558	9.7	292 558	9.7
5 001–10 000	28	2.5	214 303	7.1	214 303	7.1
10 001–50 000	37	3.2	958 913	31.8	958 913	31.8
50 001–100 000	8	0.7	517 333	17.2	517 333	17.2
100 001–	2	0.2	695 000	23.1	695 000	23.1
Total	**1 142**	**100.0**	**3 013 597**	**100.0**	**3 013 597**	**100.0**

20 LARGEST SHAREHOLDERS AT DEC. 31, 2006

By number of shares	Number of series K shares	Number of series A shares	Total number of shares	% of total shares	Total number of votes	% of voting rights
1 Sundholm, Göran		500 000	500 000	12.5	500 000	2.2
2 Varma Mutual Pension Insurance Company		195 000	195 000	4.9	195 000	0.9
3 Suominen, Jussi Matias	48 000	74 759	122 759	3.1	1 034 759	4.5
4 Suominen, Tiina Sini-Maria	48 000	74 759	122 759	3.1	1 034 759	4.5
5 Mustakallio, Kari Pauli	60 480	60 009	120 489	3.0	1 269 609	5.6
6 Kirmo, Kaisa Marketta	50 280	65 092	115 372	2.9	1 070 692	4.7
7 Suominen, Pekka Matias	48 000	64 159	112 159	2.8	1 024 159	4.5
8 Siivonen, Osku Pekka	50 640	59 539	110 179	2.8	1 072 339	4.7
9 Keskiaho, Leena	33 600	51 116	84 716	2.1	723 116	3.2
10 Särkijärvi, Riitta	60 480	22 009	82 489	2.1	1 231 609	5.4
11 Mustakallio, Risto	42 240	35 862	78 102	2.0	880 662	3.9
12 Mustakallio, Ulla Sinikka	47 240	30 862	78 102	2.0	975 662	4.3
13 Mustakallio, Mika	39 750	34 670	74 420	1.9	829 670	3.6
14 Op-Suomi Pienyhtiöt Mutual Fund		67 900	67 900	1.7	67 900	0.3
15 Mustakallio, Marja Helena	42 240	20 662	62 902	1.6	865 462	3.8
16 Mustakallio, Kai Henrik	47 240	12 000	59 240	1.5	956 800	4.2
17 Kirmo, Lasse	30 000	26 200	56 200	1.4	626 200	2.7
18 Särkijärvi, Timo Juha	12 000	43 256	55 256	1.4	283 256	1.2
19 Särkijärvi-Martinez, Anu Riitta	12 000	43 256	55 256	1.4	283 256	1.2
20 Suominen, Jukka Matias	24 960	27 964	52 924	1.3	527 164	2.3
Total	**697 150**	**1 509 074**	**2 206 224**	**55.1**	**15 452 074**	**67.7**

20 LARGEST SHAREHOLDERS AT DEC. 31, 2006

By number of votes		Number of series K shares	Number of series 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	3.0	1 269 609	5.6
2	Särkijärvi, Riitta	60 480	22 009	82 489	2.1	1 231 609	5.4
3	Siivonen, Osku Pekka	50 640	59 539	110 179	2.8	1 072 339	4.7
4	Kirmo, Kaisa Marketta	50 280	65 092	115 372	2.9	1 070 692	4.7
5	Suominen, Jussi Matias	48 000	74 759	122 759	3.1	1 034 759	4.5
6	Suominen, Tiina Sini-Maria	48 000	74 759	122 759	3.1	1 034 759	4.5
7	Suominen, Pekka Matias	48 000	64 159	112 159	2.8	1 024 159	4.5
8	Mustakallio, Ulla Sinikka	47 240	30 862	78 102	2.0	975 662	4.3
9	Mustakallio, Kai Henrik	47 240	12 000	59 240	1.5	956 800	4.2
10	Mustakallio, Risto	42 240	35 862	78 102	2.0	880 662	3.9
11	Mustakallio, Marja Helena	42 240	20 662	62 902	1.6	865 462	3.8
12	Mustakallio, Mika	39 750	34 670	74 420	1.9	829 670	3.6
13	Keskiaho, Leena	33 600	51 116	84 716	2.1	723 116	3.2
14	Kirmo, Lasse	30 000	26 200	56 200	1.4	626 200	2.7
15	Keskiaho, Juha-Pekka	27 440	9 500	36 940	0.9	558 300	2.4
16	Suominen, Jukka Matias	24 960	27 964	52 924	1.3	527 164	2.3
17	Keskiaho, Marjaana	24 780	23 288	48 068	1.2	518 888	2.3
18	Sundholm, Göran		500 000	500 000	12.5	500 000	2.2
19	Molander, Sole	20 000		20 000	0.5	400 000	1.8
20	Kultanen, Leea Annika	19 789	4 050	23 839	0.6	399 830	1.8
Total		**765 159**	**1 196 500**	**1 961 659**	**49.0**	**16 499 680**	**72.3**

The number of administratively registered shares at 31 December 2006 was 52 440 (49 310).

Management interest at Dec. 31, 2006

The company's Board of Directors, President and CEO and Presidents of the subsidiaries owned a total of 81 838 series A shares and 98 990 series K shares. Management's ownership corresponds to 4.5 percent of the shares in the company and 9.0 percent of associated total voting rights. The figures include holdings of their own, minor children and control entities.

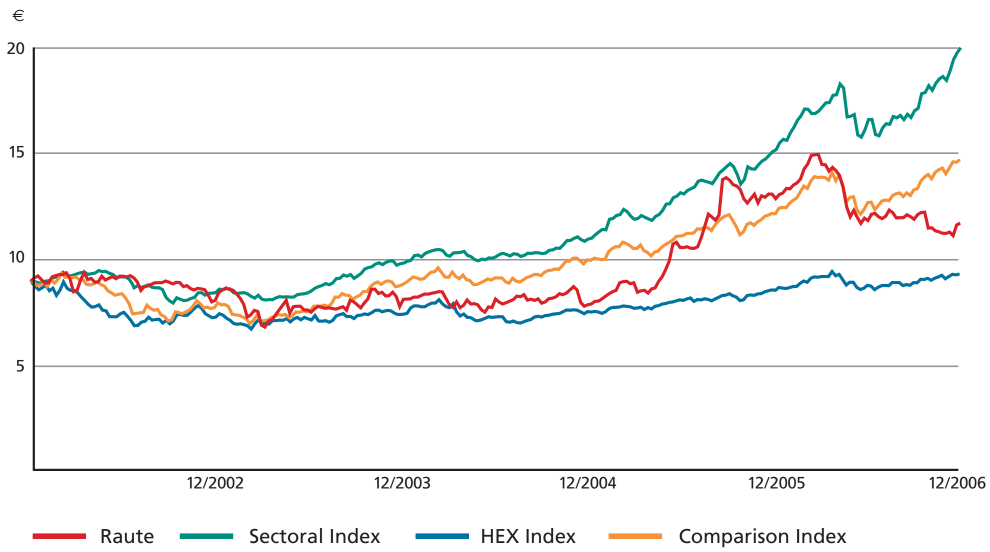
Public insider ownership at Dec. 31, 2006

Public insiders owned a total of 81 838 series A shares and 98 990 series K shares. Management's ownership corresponds to 4.5 percent of the shares in the company and 9.0 percent of associated total voting rights. The figures include the holdings of their own, minor children and control entities.

Changes in ownership related to the disclosure obligation as provided in the Securities market act, Chapter 2, Section 9

The holdings of Varma Mutual Pension Insurance Company dropped under the disclosure threshold of one-twentieth (1/20) when the increase in Raute Corporation's share capital was registered in the Trade Register on November 2, 2006. Varma Mutual Pension Insurance Company's holdings of Raute Corporation's share capital and voting rights was: 200 000 Raute Corporation series A shares, 4.99 percent of share capital, and 0.88 percent of voting rights.

Performance of series A shares, EUR



The Board of Directors' proposal for distribution of profits

The parent company's distributable profits total EUR 14 007 thousand, of which the loss for the period is EUR 854 thousand.

The Board of Directors proposes to the Annual General Meeting that the distributable profits be used in the following way:

- EUR 0.70 per share distributed as dividend, i.e., a total of	EUR 2 803 thousand
- Retained in equity	EUR 11 204 thousand
	EUR 14 007 thousand

No significant changes have taken place in the company's financial position after the end of the report period. The company has good liquidity, and the proposed profit distribution does not put liquidity at risk.

Nastola, February 8, 2007

Jarmo Rytilahti
Chairman of Board of Directors

Mika Mustakallio   Panu Mustakallio   Sinikka Mustakallio

Pekka Paasikivi   Jorma Wiitakorpi

Tapani Kiiski
President and CEO

Auditor's report

To the shareholders of Raute Corporation

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Raute Corporation for the period Jan. 1–Dec. 31, 2006. The Board of Directors and the President and CEO have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report of the Board of Directors and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the 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, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

Parent company's financial statements and administration

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

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

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the President 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 disposal of distributable funds is in compliance with the Companies' Act.

Nastola 9 February 2007

Kari Miettinen, APA   Sari Airola, APA

Board of Directors

Jarmo Rytilahti
b. 1944, M.Sc. (Econ. & Bus. Adm.)
Chairman of the Board 2004–
Member of the Board 2003–
Principal occupation: President of Uponor Oyj
(former Asko Oyj) 1991–2003
Main simultaneous position of trust:
Member of the Board:
Kemppi Oy 2003–
Renor Oy 2003–
Lahden Polttimo Oy 2005–
Raute shares: No holding of shares
Remuneration in 2006: EUR 36.2 thousand
Share-based remunerations: No share-based remunerations

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 position of trust: None
Raute shares:
47 240 series K shares
30 862 series A shares
Remuneration in 2006: EUR 18 thousand
Share-based remunerations: EUR 26.4 thousand

Mika Mustakallio
b. 1964, M.Sc. (Econ. & Bus. Adm.), CEFA
Member of the Board 2004–
Principal occupation: President, MORS Software Oy 2006–
Main simultaneous positions of trust: None
Raute shares:
39 750 series K shares
34 670 series A shares
Remuneration in 2006: EUR 18 thousand
Share-based remunerations: No share-based remunerations

*Holdings of Raute shares on 31 December 2006.
The figures include holdings of their own,
minor children and control entities.*

→ *Current Raute shareholdings of the members of the Board of Directors' can be found on the company's website at www.raute.com.*

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:
12 000 series K shares
15 256 series A shares
Remuneration in 2006: EUR 18 thousand
Share-based remunerations: No share-based remunerations

Pekka Paasikivi
b. 1944, B.Sc. (Eng.)
Member of the Board 2002–
Principal occupation: Chairman of the Board,
Oras Invest Oy 2005–
Main simultaneous positions of trust:
Chairman of the Board:
Uponor Oyj 1999–
Erkki Paasikivi Foundation 1997–
Chairman of the Supervisory Board:
Varma Mutual Pension Insurance Company 2005–
Member of the Board:
Okmetic Oyj 1996–
Foundation of Economic Education 2003–
Raute shares: No holding of shares
Remuneration in 2006: EUR 18 thousand
Share-based remunerations: No share-based remunerations

Jorma Wiitakorpi
b. 1957, M.Sc. (Eng.)
Member of the Board 2006–
Principal occupation: President and CEO, Patria Oyj 2001–
Main simultaneous positions of trust:
Chairman of the Board:
The Finnish Road Enterprise 2006–
Plenware Group Oy 2004–
Reka Oy 2004–
Member of the Board:
Puulämpö Yhtiöt Oy 1997–
Raute shares: No holding of shares
Remuneration in 2006: EUR 13.5 thousand
Share-based remunerations: No share-based remunerations

Expirations from the Board of Directors on 22 March 2006
Heikki Lehtonen, Member of the Board 1997–2005
Remuneration in 2006: EUR 4.5 thousand
Share-based remunerations: No share-based remunerations

Markku Nihti, Member of the Board 1997–2005
Remuneration in 2006: EUR 4.5 thousand
Share-based remunerations: EUR 35 thousand

Auditors
Kari Miettinen, APA
Sari Airola, 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:
1 000 series 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:
No holding of 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:
No holding of 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:
No holding of shares

Bruce Alexander
b. 1959, B.Sc. (For.), MBA
Vice President, North American Operations,
President of Raute's North American companies
With the company since: 2000–
Member of the Executive Board since: 1 June 2004
Raute shares:
No holding of shares

*Holdings of Raute shares on 31 December 2006.
The figures include holdings of their own,
minor children and control entities.*

Tapani Kiiski
Arja Hakala
Petri Strengell
Timo Kangas
Bruce Alexander

→ *Current Raute shareholdings of the members of the Executive Board can be found on the company's website at www.raute.com.*

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 on July 1, 2004. The main elements of Raute's corporate governance are described below. The principles and information defined as public in the recommendation are presented on the company's website.

Shares and shareholders

Raute Corporation's shares are divided into ordinary shares (series K) and A shares (series A). The difference between the series is that a series K share entitles the holder to twenty (20) votes and a series A share to one (1) vote at shareholders' meetings. The series A shares have been quoted on the Nordic list of the Helsinki Stock Exchange since 1994.

Year 2006

Detailed information on Raute Corporation's shares and shareholders is provided on pages 61–64.

Annual General Meeting

Raute Corporation's Annual General Meeting is held in March, but no later than six months from the end of the fiscal year. The Annual General Meeting elects the Chairman and Vice-Chairman for the Board of Directors, and 3–5 Board members.

Year 2006

Raute Corporation's Annual General Meeting was held on March 22, 2006. The Meeting adopted the financial statements for 2005 and resolved to distribute a dividend of EUR 0.60 per share, elected the Board of Directors and the auditors, and decided on their remuneration. The Meeting authorized the Board to decide on the acquisition of the company's own series A shares using distributable funds, as well as on the disposal of own shares.

Board of Directors

The Board's term of office 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 must be independent of the company and at least two members in the said majority must be independent of the company's major shareholders.

The Charter and tasks of the Board of Directors are described in the Administrative Instructions available on the company's website. In addition to statutory tasks and those defined in the Articles of Association, the Board confirms the company strategy and budget annually, and, based on management reports, monitors the Group's financial status monthly and draws up interim reports. The Board carries out an annual self-evaluation of the work of the Board members and the Chairman of the Board.

Year 2006

Raute Corporation's Annual General Meeting on March 22, 2006 elected six members to the Board of Directors. Mr. Jarmo Rytilahti, M.Sc. (Econ. & Bus. Adm.), was elected Chairman of the Board, Ms. Sinikka Mustakallio, researcher, was elected Vice-Chairman, and Mr. Mika Mustakallio, M.Sc. (Econ. & Bus. Adm.), Panu Mustakallio, M.Sc. (Eng.), Mr. Pekka Paasikivi B.Sc. (Eng.), and Jorma Wiitakorpi, M.Sc. (Eng.) were elected Board members.

All Board members are independent of the company. The Chairman (Jarmo Rytilahti) and two of the Board members (Pekka Paasikivi and Jorma Wiitakorpi) are independent of major shareholders.

The Annual General Meeting of 2006 set the following remunerations for Board members in 2006: EUR 36 thousand to the Chairman of the Board and EUR 18 thousand to each Board member. The salaries and fees paid to the Chairman and Board members totaled EUR 131 thousand, and income from stock options EUR 61 thousand in 2006.

The Board held 10 meetings in 2006, 2 of which were teleconferences. The Board members' average attendance at meetings was 92 percent. The attendance of individual members was as follows: Jarmo Rytilahti 9/10, Sinikka Mustakallio 9/10, Heikki Lehtonen 2/3, Mika Mustakallio 10/10, Panu Mustakallio 9/10, Markku Nihti 3/3, Pekka Paasikivi 10/10, and Jorma Wiitakorpi 6/7. The meetings handled the matters listed in the Charter of the Administrative Instructions. The Board carried out a self-evaluation in November 2006.

According to the plan for 2007, the Board of Directors will convene eight times and hold teleconferences if necessary.

The Board members' personal data, shareholdings on December 31, 2006, and remunerations for 2006 can be found on pages 66–67.

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; instructions on the division of responsibilities among the Board of Directors, the President and CEO, and the Executive Board; as well as guidelines for organizing internal control and risk management to complement the provisions of the Companies Act and Raute's Articles of Association. The Administrative Instructions are available on the company's website.

Board Committees

The Audit Committee's tasks are handled by Raute Corporation's Board of Directors. In this capacity, the Board meets 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 control 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 the Chairman, Vice-Chairman, and one Board member.

The Board annually elects 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 committees, if necessary.

Year 2006

The Chairman of the Working Committee is the Chairman of the Board, Mr. Jarmo Rytilahti, and its members are the Vice-Chairman, Ms. Sinikka Mustakallio, and Board member Pekka Paasikivi. The Working Committee convened once in 2006. The Chairman of the Appointments Committee is the Chairman of the Board, Mr. Jarmo Rytilahti, and its members are the Vice-Chairman, Ms. Sinikka Mustakallio, and a representative of a major shareholder, Mr. Ville Korhonen. The Appointments Committee convened twice in 2006.

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 Chairman of the Group's Executive Board. The President represents the Group at the shareholders' meetings of subsidiaries and associates, and acts as Chairman of the subsidiaries' Boards of Directors, unless the Board decides otherwise in individual cases.

Year 2006

Mr. Tapani Kiiski, Licentiate in Technology, was appointed Raute Corporation's 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 March 16, 2004.

According to the President and CEO Tapani Kiiski's executive contract, his annual salary and fringe benefits total approximately EUR 201 thousand. 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. President and CEO, Mr. Tapani Kiiski, is covered by Raute Corporation's share-based incentive plan for key employees (2006–2008). His share of the incentive plan may be a maximum of 10 000 series A shares.

The salaries and fees paid to Raute Corporation's President and CEO in 2006 amounted to EUR 308 thousand, of which salaries accounted for EUR 201 thousand, profit-related bonuses for EUR 72 thousand, and income from options for EUR 35 thousand.

The personal data, as well as the shareholdings, of the President and CEO and his deputy are presented on page 68.

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 2006

The Group's Executive Board consisted of Mr. Tapani Kiiski, President and CEO (Chairman); Ms. Arja Hakala, CFO; Mr. Petri Strengell, Vice President, Technology and Operations; Mr. Timo Kangas, Vice President, Technology Services; and Mr. Bruce Alexander, Vice President, North American Operations and President of Raute's North American companies.

The Executive Board members' personal data and shareholdings are presented on page 68.

Salaries and fees

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 plan. Depending on the employee's position, different variations of the above-mentioned elements are applied. The Board of Directors confirms annually the principles of remuneration systems, and determines the profit-related bonuses of the President and CEO and other senior management.

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

Insider issues

Raute Corporation follows the Guidelines for Insiders issued by the Helsinki Stock Exchange, the Central Chamber of Commerce, and the Confederation of Finnish Industry and Employers. In addition, the company applies separate insider instructions approved by the Board of Directors. 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. Company-specific insiders comprise individuals who, as part of their duties, regularly deal with or obtain unpublished information that influences the share price. Raute also maintains a company-specific project register where project-specific insiders are entered. The Chief Financial Officer is in charge of insider issues in the company.

The insider trading prohibition begins at the end of an interim reporting period or fiscal year and ends on the publication of the corresponding stock exchange release. The company aims to avoid investor communication meetings during insider trading prohibitions.

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

Risk management

The main risks in Raute Group's international business are financing, product liability, and contractual risks. The company has a risk management policy approved by the Board of Directors. The President and CEO and the Chief Financial Officer report to the Board regularly about any major strategic and business risks.

The Board of Directors determines the Group's general attitude to risk 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 principles and boundaries of powers. The Chief Financial Officer is responsible for the co-ordination of risk management.

The Group's President and CEO controls the implementation of risk management in the entire Group, while the Presidents of the Group companies are responsible for risk management 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 jointly with the operational management and to control compliance with the 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 content 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 pages 52–53.

Audits

According to the Articles of Association, the company shall elect two regular auditors and deputies for them. The shareholders' 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 the contents of the audit are being drawn up, the absence of a separate internal auditing organization shall be taken into account. In addition to their tasks defined in 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 that have arisen during the audit.

Year 2006

The Annual General Meeting held on March 22, 2006 re-elected Mr. Kari Miettinen and Ms. Sari Airola, Authorized Public Accountants, as auditors, and PricewaterhouseCoopers Oy, an authorized public accounting company, as deputy auditor.

The remuneration paid to the principal accountants for the normal annual audit of year 2006 totaled EUR 68 thousand. Other remuneration paid to PricewaterhouseCoopers in 2006 amounted to EUR 61 thousand.

Stock exchange
releases and announcements 2006

January	
16 January	1 650 pcs of Raute Corporation's series A shares subscribed with warrants
February	
8 February	Raute Corporation's financial statements for 2006
17 February	The appointment committee's proposal regarding composition of Raute Corporation's Board of Directors and authorized public accountants
20 February	Summons to Raute Corporation's Annual General Meeting
22 February	Raute has signed a letter of intent for a major order to Russia
March	
9 March	Raute's annual report 2005 published
22 March	The Board of Directors of Raute Corporation approved an incentive plan for key personnel
22 March	Raute Corporation's Annual General Meeting
April	
26 April	20 000 pcs of Raute Corporation's series A shares subscribed with warrants
27 April	Raute Corporation's interim report 1 January–31 March 2006
June	
2 June	Raute to deliver an expansion for a plywood mill in Chile
15 June	Raute corrects information published by Kauppalehti Online
July	
3 July	1 000 pcs of Raute Corporation's series A shares subscribed with warrants
August	
3 August	Raute receives an EUR 18 million order for a LVL mill in the USA
10 August	Raute Corporation's interim report January 1–June 30, 2006
10 August	52 200 pcs of Raute Corporation's series A shares subscribed with warrants
September	
4 September	900 pcs of Raute Corporation's series A shares subscribed with warrants
12 September	Raute receives an EUR 11 million order for a plywood mill in Europe
October	
5 October	114 400 pcs of Raute Corporation's series A shares subscribed with warrants
24 October	Raute's operating profit remains on last year's level
25 October	Raute Corporation's interim report January 1–September 30, 2006
25 October	115 300 pcs of Raute Corporation's series A shares subscribed with warrants
25 October	Raute Corporation's financial reporting in 2007
November	
10 November	Notification pursuant to chapter 2, section 9 of the Securities Market Act concerning changes in ownership
December	
20 December	Raute to receive an EUR 30 million order for a plywood mill in Russia

Up-to-date information for investors is available in the Investor section on Raute's website at www.raute.com. The section contains information about the company as an investment, Raute Corporation's complete consolidated financial statements, the stock exchange releases published by the company as well as information on Raute's share and shareholdings.

Addresses

Raute Corporation
Head office and main production plant
P.O. Box 69 (Rautetie 2)
FI-15551 Nastola
Finland
Tel. +358 3 829 11
Fax +358 3 829 3200
firstname.lastname@raute.com
www.raute.com

Raute Corporation
Jyväskylä plant
Hakkutie 3
FI-40320 Jyväskylä
Finland
Tel. +358 14 445 4400
Fax +358 14 445 4429

RWS-Engineering Oy
Tuhkamäentie 2
FI-15540 Villähde
Finland
Tel. +358 3 829 61
Fax +358 3 762 2378

Mecano Group Oy
Syväojankatu 8
FI-87700 Kajaani
Finland
Tel. +358 8 877 6700
Fax +358 8 612 1982
info@mecanogroup.com

Raute Canada Ltd. (former Raute Wood Ltd.)
5 Capilano Way
New Westminster, B.C.
Canada V3L 5G3
Tel. +1 604 524 6611
Fax +1 604 521 4035

Raute US, Inc. (former Raute Wood Inc.)
50 Commercial Loop Way
Suite A, Rossville, TN
USA 38066
Tel. +1 901 853 7290
Fax +1 901 853 4765

Raute Wood Oy-Santiago Limitada
Hernando de Aguirre 162 Of. 704
Providencia
Santiago
Chile
Tel. +56 2 233 4812
Fax +56 2 233 4748

Raute Group Asia Pte Ltd
35 Jalan Pemimpin # 06-02
Wedge Mount Industrial Building
Singapore 577 176
Tel. +65 625 043 22
Fax +65 625 053 22

Raute Wood Indonesia Representative Office
Jl. Kelapa Tiga / Joe No. 75
Jagakarsa, Jakarta 12620
Indonesia
Tel. +62 21 7888 6461
Fax +62 21 7888 9867

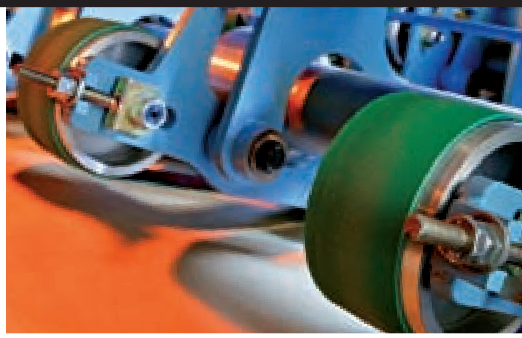
Raute Wood Beijing Representative Office
Office 969, Poly Plaza
14 Dongzhimen Nandajie
Dongcheng District
Beijing 100027
China
Tel. +86 10 650 11698
Fax +86 10 650 11798

Raute (Shanghai) Machinery Co., Ltd
18 Building, No. 399, Xuanzhong Road
Nanhui Industry Zone, Nanhui District
Shanghai City, China
P.C. 201300
Tel. +86 021 5818 6330
Fax +86 021 5818 6322

Raute Wood Moscow
Arkhangelski per., 1
101934 Moscow
Russia
Tel. +7 495 207 8794
Fax +7 495 207 8794

Raute Service LLC
V.O. Srednii prospect, 48
199178 St. Petersburg
Russia
Tel. +7 812 740 5386 (87)
Fax +7 812 740 5387

Annual Report 2006
Graphic design and layout: Onnion Oy
Content: Viestintä Oy Virtuoosi and Raute
Photos: Kimmo Häkkinen, Timo Kauppila and Raute
Printing house: Esa Print Oy
Pictured Raute employees: Kaarle Espo, Marja Hurme,
Markku Ikonen, Hannu Keskiväli, Tuija Leppänen-Tiukkanen,
Krista Savolainen, Reijo Sinisalo and Antti Taavila



Raute Corporation
P.O. Box 69 (Rautetie 2), FI-15551 Nastola, Finland
Tel. +358 3 82 911, fax +358 3 829 3200
www.raute.com