

# Financial Statements 2017

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(English translation of Financial statements 2017)

# Report of the Board of Directors

The Group's net sales for 2017 totaled EUR 148.6 million (MEUR 113.1), up by 31 percent from the previous year. The Group's operating profit grew 35 percent from the previous year and stood at EUR 11.6 million positive (MEUR 8.6). The Group's financial income and expenses totaled EUR 0.1 million negative (MEUR -0.3). The result before taxes was EUR 11.5 million positive (MEUR 8.2). Profit for the financial year was EUR 9.3 million (MEUR 6.7). Comprehensive income was EUR 9.2 million positive (MEUR 7.5). Undiluted earnings per share were EUR 2.20 (EUR 1.60) and diluted earnings per share were EUR 2.18 (EUR 1.59). Return on equity was 25.2 percent (20.9%).

*In this report, figures in parentheses refer to corresponding figures for the previous years 2016 and 2015. The calculation formulas for the key ratios and alternative performance measures (APM's) in this report are presented on page 70 and the calculation formulas for the share-related key ratios on page 71.*

## BUSINESS ENVIRONMENT

Raute's customers in the plywood and LVL (Laminated Veneer Lumber) industries are engaged in the manufacture of wood products used in investment projects and are thus highly affected by fluctuations in construction, housing-related consumption, international trade, and transportation.

The situation in the global economy and the financial markets during 2017 did not change considerably with respect to Raute or Raute's customer base. Positive development continued, however, in Raute's key market areas. Although construction activity increased in many market areas, it remained at a fairly low level in all major market areas.

Thanks to the continued brighter economic and market situation, investment activity among Raute's customers improved and the unravelling of the built-up investment backlog began. Quotation activity for new-capacity projects and larger, project-type undertakings remained brisk throughout the year, and trade negotiations took place actively. Demand shifted from smaller projects and modernizations to projects encompassing individual machine lines.

## ORDER INTAKE AND ORDER BOOK

Raute serves the wood products industry with a full-service concept based on service that encompasses the entire life cycle of the delivered equipment. Raute's business consists of project deliveries and technology services. Project deliveries encompass projects from individual

machine or production line deliveries to deliveries of all the machines and equipment belonging to a mill's production process. Additionally, Raute's full-service concept includes comprehensive technology services ranging from spare parts deliveries to regular maintenance and equipment modernizations, as well as consulting, training and reconditioned machinery.

The order intake in 2017 was at a very strong level, amounting to EUR 155 million (MEUR 162). Of the new orders, 39 percent came from Europe (57%), 32 percent from Russia (27%), 23 percent from North America (11%), 5 percent from South America (2%), and 1 percent from Asia-Pacific (3%). Sometimes even strong fluctuations in the distribution of new orders between the various market areas are typical for project-focused business.

The order intake for project deliveries stood at EUR 96 million (MEUR 118), which is 19 percent less than the previous year's record level. The largest individual orders were for an LVL lay-up line in the USA valued at EUR 11 million that took effect at the end of July, and an order for main machinery for a plywood mill expansion in Russia that took effect in October and was valued at EUR 21 million.

Order intake in technology services amounted to EUR 58 million (MEUR 44), 33 percent more than in the comparison year. Growth in modernizations stood at 51 percent and in other technology services 6 percent.

At the end of 2017, the order book, EUR 110 million (MEUR 106), stood at a record-high level. Part of the order book is scheduled for 2019.

## COMPETITIVE POSITION

Raute's competitive position has remained unchanged and is strong. Raute's solutions help customers in securing their delivery and service capabilities throughout the life cycle of the production process or a part thereof. In such investments, the supplier's overall expertise and extensive and diverse technology and service offering play a key role. The competitive edge provided by Raute plays a major role when customers select their cooperation partners. Raute's strong financial position and long-term dedication to serving selected customer industries also enhance its credibility and improve its competitive position as a company that carries out long-term investment projects.

The Metriguard products acquired in April complement Raute's product range. Metriguard's equipment has been integrated into dozens of Raute's deliveries over the years. The active installed equipment base

extends from North and South America to Europe, Asia, Africa, Australia and New Zealand.

## NET SALES

The Group's net sales (IFRS) totaled EUR 148.6 million (2016: MEUR 113.1; 2015: MEUR 127.3). Net sales grew 31 percent on 2016. Growth in net sales is attributed to the good existing order book, the large number of orders received during the year, and the acquisition of the Metriguard business at the start of April.

Net sales were generated by project deliveries related to the wood products technology business and by technology services.

Net sales for project deliveries totaled EUR 99 million (MEUR 70), up 42 percent from the previous year. Project deliveries accounted for 67 percent (62%) of total net sales. The plywood industry's share of the net sales of project deliveries was 83 percent (66%), while the LVL industry's share was 17 percent (34%).

At the end of 2017, the order book contained a total of six large mill-scale projects aimed at generating new capacity, in which Raute is the full-scope supplier. Of these projects, two are in the final approval stage, two are in the installation stage and two are in the production stage.

Net sales for technology services totaled EUR 49 million (MEUR 43). Net sales grew 14 percent from the previous year, but its share of total net sales fell to 33 percent (38%), due to the strong growth in project deliveries. Growth was evenly distributed across the different product areas.

Europe's 2017 share of total net sales was 56 percent (60%), Russia's 24 percent (17%), North America's 14 percent (15%), South America's 4 percent (3%), and Asia-Pacific's 2 percent (5%). 17 percent (22%) of the Group's net sales came from Finland.

*In 2017, net sales (FAS) of the parent company Raute Corporation totaled EUR 130.0 million (2016: MEUR 97.7; 2015: MEUR 112.4).*

## RESULT AND PROFITABILITY

In 2017, the Group's operating profit (IFRS) totaled EUR 11.6 million positive (2016: MEUR 8.6; 2015: MEUR 8.1) and 7.8 percent of net sales (2016: 7.6%; 2015: 6.4%). Operating profit grew 35 percent due to net sales growth.

The Group's financial income and expenses totaled EUR -0.1 million (MEUR -0.3). The Group's profit before taxes was EUR 11.5 million positive (MEUR 8.2) and profit for the financial year was EUR 9.3 million positive (MEUR 6.7). The Group's comprehensive income was EUR 9.2 million positive (MEUR 7.5).

Undiluted earnings per share were EUR 2.20 (EUR 1.60) and diluted earnings per share were EUR 2.18 (EUR 1.59). Return on investment was 30.4 percent (25.3%) and return on equity 25.2 percent (20.9%).

*The operating profit (FAS) of the parent company Raute Corporation was EUR 11.7 million positive (2016: MEUR 8.8; 2015: MEUR 8.3). The operating profit amounted to 9.0 percent of net sales (2016: 9.1%; 2015: 7.3%). The profit for the financial year (FAS) was EUR 9.2 million positive (MEUR 8.7 positive). The profit for the financial year includes a return of EUR 4.4 million (MEUR 2.8) of impairment on loan receivables from subsidiaries, as well as impairments on investments in foreign subsidiaries of EUR 5.2 million (MEUR 1.4).*

## CASH FLOW AND BALANCE SHEET

The Group's financial position remained strong throughout the year. At the end of the financial year, the Group's cash and cash equivalents exceeded interest-bearing liabilities by EUR 29.3 million (MEUR 20.6). At the end of the financial year, gearing was -74 percent (2016: -60%; 2015: -17%) and the equity ratio was 64 percent (2016: 60%; 2015: 59%).

The Group's cash and cash equivalents amounted to EUR 30.7 million (MEUR 23.8) at the end of 2017. The change in cash and cash equivalents in the financial year was EUR 6.9 million positive (MEUR 17.2 positive). Operating cash flow was EUR 18.4 million positive (MEUR 21.2 positive). Cash flow from investment activities was EUR 5.8 million negative (MEUR 2.9 negative), including the cash consideration of EUR 2.9 million on the purchase price and costs of EUR 0.5 million related to the acquisition of the Metriguard business. Cash flow from financing activities was EUR 5.7 million negative (MEUR 1.2 negative), including dividend payments of EUR 4.2 million and EUR 0.2 million in rights issues.

The Group's balance sheet total at the end of 2017 stood at EUR 86.9 million (2016: MEUR 69.8; 2015: MEUR 61.8).

Interest-bearing liabilities amounted to EUR 1.4 million (MEUR 3.1) at the end of 2017.

The parent company Raute Corporation has a EUR 10 million commercial paper program, which allows the company to issue commercial papers maturing in less than one year.

The parent company Raute Corporation is prepared for future working capital needs and has long-term credit facility agreements with three Nordic banks totaling EUR 23.0 million. The main covenants of the credit facilities are an equity ratio of >30% and gearing of <100%. Of the credit facilities, EUR 32.7 million remained unused at the end of the financial year.

*At the end of the financial year, the equity ratio (FAS) of the parent company Raute Corporation was 64 percent (2016: 59%; 2015: 52%).*

## LOANS TO RELATED PARTIES AND OTHER LIABILITIES

Other liabilities are presented in the notes to the financial statements.

## RESEARCH AND DEVELOPMENT

Raute is a leading technology supplier for the plywood and LVL industries and focuses strongly on the development of increasingly efficient, productive, safe and environmentally friendly manufacturing technology and supporting measurement and machine vision applications. Opportunities provided by digitalization are also an essential part of R&D activities.

In 2017, the Group's research and development costs totaled EUR 3.2 million (2016: MEUR 2.9; 2015: MEUR 3.1) and 2.2 percent of net sales (2016: 2.5%; 2015: 2.4%).

The most significant product development project in machine technology in 2017 was the renewal of a veneer dryer. The application area of the green veneer composing line that was launched in 2016 was expanded to include 8'-wide softwood. Suitable pilot customers are currently being sought for both above-mentioned projects. In order to expand the solutions of the SmartMill concept, which optimizes the customer's production process, development work on machine vision and grading solutions, as well as on new digital products, was continued.

*During the financial year, the research and development costs (FAS) of the parent company Raute Corporation were EUR 3.2 million, representing 2.4 percent of net sales (2016: MEUR 2.9/3.0% of net sales; 2015: MEUR 3.1/2.8% of net sales).*

## INVESTMENTS

The Group's investments in 2017 totaled EUR 7.0 million (2016: MEUR 3.2; 2015: MEUR 2.5). The acquisition of the Metriguard business accounted for EUR 3.4 million of the Group's capital expenditure, including an estimate of the earn-out share to be paid in 2018. The investments include EUR 0.1 million in capitalized development costs (2016: MEUR 0.0; 2015: MEUR 0.2). Other investments were related to various replacement and improvement projects targeted at production, premises and IT systems, and to testing equipment manufactured for the needs of product development.

*The investments of the parent company Raute Corporation totaled EUR 4.4 million (2016: MEUR 2.9; 2015: MEUR 2.2).*

## DEVELOPMENT OF OPERATIONS

In 2017, strategic development projects focused on improving competitiveness, delivery capabilities, and the service business. The Group's main unit in Nastola introduced the LEAN method in production. Use of the LEAN method as a development tool will be expanded to other main processes in 2018.

## HUMAN RESOURCES

The Group's headcount at the end of 2017 was 704 (643). Finnish Group companies accounted for 68 percent (72%) of employees, North American companies for 17 percent (13%), Chinese companies for 11 percent (12%), and other sales and maintenance companies for 4 percent (4%).

Converted to full-time employees ("effective headcount"), the average number of employees during the financial year was 660 (2016: 631; 2015: 614). Salaries and remunerations paid by the Group totaled EUR 33.6 million (2016: MEUR 30.1; 2015: MEUR 28.1). This figure does not include expenses resulting from the stock option and share incentive plans.

The Group continued to develop the competence of its personnel and increase their commitment to the company. 3 percent (3%) of the pay-

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roll was invested in personnel training. Personnel development in 2017 focused on selected training programs, including Raute Leader, Service Excellence and Site Operations programs. Targeted competence-development activities were implemented through, among other things, a systematic mentor program. Additionally, a business sustainability development program was initiated. The Raute Academy and Mill Academy online learning systems were introduced as a means of promoting both personnel's training and training directed at customers.

*Converted to full-time employees, the average number of personnel employed by the parent company Raute Corporation in 2017 was 461 (2016: 441; 2015: 417). Salaries and remunerations paid by the parent company totaled EUR 24.8 million (2016: MEUR 22.9; 2015: MEUR 20.8).*

## REMUNERATION

The Group has remuneration systems in place that cover the entire personnel.

### SHARE-BASED INCENTIVE PLANS

A total of EUR 595 thousand (EUR 46 thousand) has been recognized as an expense for the share-based incentive plans. At the end of the financial year, EUR 240 thousand (EUR 129 thousand) from the share plans was allocated to the invested non-restricted equity reserve.

#### Share-based incentive plan 2014–2018

The Group has a long-term share-based incentive plan for the Group's senior management for the years 2014 to 2018 based on performance. The plan has two valid share plans, which began in 2015 and 2016. In both plans, a year-long earnings period is followed by a two-year vesting period. The earnings criteria were the financial year's earnings per share and growth in net sales.

The plan beginning in 2015 covers altogether 11 persons belonging to the Group's senior management. The Board of Directors confirmed the amounts of the personal bonuses to be paid for the 2015 earnings period on March 2, 2016. The bonus of altogether EUR 614 thousand was paid out on March 6, 2017. The proportion paid in shares consisted of a total of 14,523 of the company's A shares. The vesting period will end at the beginning of 2018.

The plan beginning in 2016 covers altogether 12 persons belonging to the Group's senior management. The Board of Directors confirmed the amounts of the personal bonuses to be paid for the 2016 earnings period on March 2, 2017; the proportion to be paid in shares is altogether 8,913 series A shares. No shares or cash were issued under the plan. The vesting period will end at the beginning of 2019.

#### Share-based incentive plan 2017–2022

In February 2017, the Board of Directors of Raute Corporation resolved to implement a new performance-based, share-value-based, long-term incentive plan for the Group's senior management. The purpose of the plan is to align the objectives of the owners and management in order to develop the company's value, and to commit management to achieving the company's strategic goals by offering a competitive long-term incentive plan.

The Performance Share Plan is made up of three three-year plans that begin every year. A single plan may consist of either a three-year earnings period or a one-year earnings period and the subsequent two-year vesting period. The possible bonus earned by virtue of a single plan shall be paid at the end of the three-year plan in question. Any potential bonus will be paid either in Raute's listed A shares or in cash.

The company's Board of Directors decides separately on when each plan commences, the length of its earnings period, the performance targets, the persons entitled to participate in the plan and the earnings potential.

LTI Plan 2017–2019 commenced at the start of 2017. The plan consists of a one-year earnings period and the subsequent two-year vesting period. The bonuses will be paid in spring 2020. The plan covers 12 persons belonging to the Group's senior management. The performance targets are earnings per share (EPS) and growth in net sales. The earnings opportunity is limited such that the value of the bonus, at the time of payment, to be paid to a participant based on a single three-year plan can be no more than double the value of the maximum earnings opportunity allocated to him/her when the plan commenced.

### SOCIETY AND THE ENVIRONMENT

Responsibility is one of the values that guide Raute's operations. Raute aims to systematically develop its products and services to be environ-

mentally sound while also reducing the environmental impacts of its own operations. The Group abides by the principles of good corporate citizenship, taking into consideration nature and its protection, and how society as a whole operates, while respecting local cultures and valuing diversity. Raute's Board of Directors has presented to the company the Code of Conduct which guides the personnel to act responsibly in accordance with Raute's values.

Raute delivers technology for the wood products industry, which uses renewable raw materials. Most of the products manufactured using Raute's machinery have a long life, and the carbon stored in wood products has a positive impact on the achievement of climate targets. An increase in the use of sustainably produced wood, for example, in construction is among the most important means of achieving climate targets. Raute's product development focuses on improving the resource efficiency of the machinery in order to reduce the overall environmental impacts of the production chain. Raute's machinery typically has a very long life, and the majority of emissions arise during the operational phase of the machines.

Raute focuses particularly on developing the occupational safety of its products.

In Raute's own operations, environmental matters and occupational safety are managed according to the principles of continuous improvement. The main production unit in Nastola is certified according to the ISO 14001 (environmental management system) and ISO 9001 (quality management system) standards. The operations and ethical principles of the partner and subcontractor network are also subjected to systematic inspection.

Raute aims to continuously improve occupational safety, reduce energy consumption, decrease the volume of waste, and develop the working environment.

### RISKS AND RISK MANAGEMENT

The Group's identified key risk areas relate to the nature of the business, the business environment, financing, damage or loss and information security. The fluctuations in demand resulting from economic cycles and delivery and technology risks have been identified as the Group's most significant business risks.

Risks in the near term continue to be driven by the uncertainty relating to the global economic situation and the development of the financial markets, as well as by international political instability. The most significant risks for Raute in the near term are related to the very high order book, and especially to the major mill-scale projects that are in the implementation phase, in accordance with the schedule determined in the contract terms, and the sufficiency and availability of skilled resources.

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.

#### Business risks

##### *Impact of economic cycles on business operations*

Raute's business operations are characterized by the sensitivity of investment demand to fluctuations in the global economy and the financing markets, and the cyclical nature of project business. The impact of changes in demand on the Group's result is reduced by increasing the share of technology services, increasing operations in market areas with a small current market share, developing products for customer segments in which the Group has a weaker market position, and developing the partner network.

##### *Deliveries and technology*

The bulk of Raute's business operations consists of project deliveries, which expose the company to risks caused by customer-specific solutions related to each customer's end product, production methods or raw materials. At the quotation and negotiation phase, the company has to take risks relating to the promised performance figures and make estimates of implementation costs.

Raute invests heavily in product development. The developmental phase for new technologies involves the risk that the project will not lead to a technologically or commercially acceptable solution. The functionality and capacity of new solutions produced as a result of development work cannot be fully verified until the solutions can be tested under production conditions in conjunction with the first customer deliveries.

Contract, product liability, implementation, cost and capacity risks are managed using project management procedures that comply with the

company's ISO-certified quality system. Technology risks are reduced by the conditions of delivery contracts and by restricting the number of simultaneous first deliveries.

##### *Emerging markets*

Raute's objective is to increase its local business, for example, in China and Russia, where, besides opportunities, companies face risks typical to emerging markets.

##### *The company's reputation*

Raute is at risk of being part of a business chain that involves corruption, bribery or money laundering without its knowledge. The realization of these risks may result in legal consequences, and the company's reputation and financial position may suffer.

It is possible that players who do not respect Raute's principles related to human rights or the basic rights of employees operate in the international supply chain. Such cases may damage the company's reputation and interrupt the supply chain if the infraction is severe enough to warrant an end to the co-operation.

##### *Payment fraud*

Raute is repeatedly exposed to the risk of payment fraud. The company faces the risk of a fraud attempt bypassing the payment transaction control points and damaging the company financially.

##### *Data security*

Information security risks are managed according to a defined information security policy.

##### *Human resources*

Competence retention and development and good management of the sufficiency of human resources are particularly important in cyclical business. Continuity is ensured by monitoring the development of the age structure, implementing systematic human resources management and investing in well-being at work.

##### *Financing risks*

The most significant financing risks in the Group's international business operations are default risks and currency risks related to counterparties. The Group is also exposed to liquidity, refinancing, interest rate and price risks.

The default risk relating to customers' solvency is managed through payment terms and by covering the unpaid sum with bank guarantees, letters of credit or other suitable securities. The Group's liquid assets are mainly held in banks in the Nordic countries. The credit losses recognized during the 2017 financial year amounted to EUR 3 thousand (EUR 168 thousand).

The Group's main currency is the euro. The most significant currency risks result from the following currencies: Chinese yuan (CNY), Russian ruble (RUB), Canadian dollar (CAD) and US dollar (USD). The main hedging instruments used are foreign currency forward contracts. Currency clauses are included in quotations to hedge against currency risks during the quotation period. Depending on the case, currency risks related to preliminary sales contracts are hedged with currency option contracts.

The Group has prepared for fluctuating working capital requirements and possible disturbances in the availability of money through long-term credit facility agreements with three Nordic banks.

The financing risks, as well as the risk management objectives and procedures, are described in more detail on page 17 of the notes to the financial statements.

##### *Risks of damage or loss*

Raute's most significant single risks concerning material damage and business interruption loss are a fire, a serious machine breakdown and an IT system breakdown or malfunction at the Nastola main production unit, where the production, planning, financial, and ERP systems serving the Group's key technologies are centrally located. Precautions against such risks have been taken by means of back-up systems and insurance policies, but the serious realization of such a risk would cause significant damage to Raute's operations.

Other risks of damage or loss include occupational safety risks, which are managed by means of active risk-prevention measures, such as continuous personnel training and investigation of all near-miss situations. Occupational safety and ergonomics are under continuous development.

Raute's production operations do not have significant direct environmental impacts. The main production unit in Nastola is situated in a



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groundwater zone. A chemical or fuel leak in a groundwater zone could cause environmental damage, financial costs and disturbances in production. The Nastola main unit has an ISO-certified environmental system in place, and special attention has been paid to chemical safety. Other units also aim to adhere to the principles of the environmental system.

The Group hedges against risks of damage or loss by assessing its facilities and processes in terms of risk management and by maintaining emergency plans.

Global and local insurance programs are checked regularly as part of overall risk management. The objective is to use insurance policies to sufficiently hedge against all risks that are reasonable to handle through insurance due to economical or other reasons.

## Organization of risk management

Raute's risk management policy is approved by the Board of Directors. The Board is responsible for organizing internal control and risk management, and for monitoring their efficiency.

The Executive Team defines the Group's general risk management principles and operating policies and defines the boundaries of the organization's powers. The President and CEO and the CFO regularly report significant risks to the Board.

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

Raute has no separate internal auditing organization. The Controller function oversees the annual internal control plan, develops internal control and risk management procedures together with the operative leadership, and monitors compliance with risk management principles, operational policies and powers.

## SHAREHOLDERS

The number of shareholders totaled 3,625 at the beginning of the year and 4,797 at the end of the financial year. Series K shares were held

by 55 private individuals (50) at the end of the financial year. Nominnee-registered shares accounted for 4.0 percent (2.1%) of shares. The company did not receive any flagging notifications in 2017.

The Board of Directors, the President and CEO as well as the Executive Board held altogether 253,893 company shares, equaling 6.0 percent (5.9%) of the company shares and 11.6 percent (11.2%) of the votes on December 31, 2017.

The distribution of ownership by sector and by size as well as the largest shareholders are presented in the financial statements under "Shares and shareholders".

## AUDITORS

At Raute Corporation's Annual General Meeting on March 28, 2017, the authorized public accounting company PricewaterhouseCoopers was chosen as auditor with Authorized Public Accountant Markku Lounis as the principal auditor.

## CORPORATE GOVERNANCE

Raute Corporation complies with the Finnish Corporate Governance Code 2015 for listed companies issued by the Securities Market Association on October 1, 2015.

## CORPORATE GOVERNANCE STATEMENT

Raute Corporation's Board of Directors has reviewed Raute Corporation's Corporate Governance Statement for 2017 according to chapter 7, section 7 of the Finnish Securities Markets Act and the Finnish Corporate Governance Code 2015 for listed companies issued by the Securities Market Association on October 1, 2015. The statement has been drawn up separately from the Report of the Board of Directors.

## NON-FINANCIAL STATEMENT

Raute Corporation's Board of Directors has addressed Raute Corporation's non-financial statement for 2017 (in accordance with Directive 2014/95/EU of the European Parliament and Council) as a statement separate from the Report of the Board of Directors.

## BOARD OF DIRECTORS AND PRESIDENT AND CEO

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

At the Annual General Meeting held on March 28, 2017, Mr. Erkki Pehu-Lehtonen was elected Chairman of the Board of Raute Corporation, Mr. Mika Mustakallio Vice-Chair, and Mr. Joni Bask, Ms. Laura Raitio, Mr. Pekka Suominen, and Mr. Patrick von Essen were elected as Board members.

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

Mr. Tapani Kiiski, Licentiate in Technology, continued as Raute Corporation's President and CEO. He was appointed as Raute Corporation's 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 twelve months' salary.

Raute Corporation's Articles of Association do not grant any unusual authorizations to the Board of Directors, or to the President and CEO.

Any decisions on changes to the Articles of Association or an increase in share capital are made in compliance with the regulations of the effective Companies Act.

## EXECUTIVE BOARD

Raute Group's Executive Board and the members' areas of responsibility are:

Tapani Kiiski, President and CEO, Chairman – Sales

Arja Hakala, Group Vice President, Finance, CFO – Finance and administration

Marko Hjelt, Group Vice President, Human Resources – Human resources and competence development

Mika Hyysti, Group Vice President, Technology – Technology, products and R&D

Timo Kangas, Group Vice President, EMEA – Market area EMEA

Antti Laulainen, Group Vice President, Technology Services and Sales Management – Technology services and sales management

Petri Strengell, Group Vice President, Supply Chain – Sourcing and production.

## SHARES

During 2017, a total of 33,873 new series A shares (80,231 shares) were subscribed for under the 2010 series B and 2010 series C stock option rights.

The number of Raute Corporation's shares at the end of 2017 totaled 4,249,248 (4,206,462), of which 991,161 (991,161) were series K shares (ordinary share, 20 votes/share) and 3,258,087 (3,215,301) series A shares (1 vote/share). Series K and A shares confer equal rights to dividends and company assets.

Series K shares can be converted to series A shares under the terms set out in section 3 of the Articles of Association. If an ordinary share is transferred to a new owner who has not previously held series K shares, the new owner must notify the Board of Directors of this in writing and without delay. In this kind of situation other holders of series K shares have the right to redeem the series K share under the terms specified in Article 4 of the Articles of Association.

Raute Corporation's series A shares are listed on Nasdaq Helsinki Ltd. The trading code is RAUTE. In 2017, 845,672 shares were traded (987,608) worth altogether EUR 19.2 million (MEUR 14.3). The number of shares traded represents 26 percent (31%) of all listed series A shares. The average price of a series A share was EUR 22.70 (EUR 14.50). The highest closing price of the year was EUR 30.52 and the lowest EUR 16.84.

The company's market capitalization at the end of 2017 totaled EUR 123.2 million (MEUR 70.2), with series K shares valued at the closing price of series A shares, EUR 29.00 (EUR 16.70), on the last listing day December 29, 2017.

Raute Corporation has signed a market making agreement with Nordea Bank Ab (publ) in compliance with the Liquidity Providing (LP) requirements issued by Nasdaq Helsinki Ltd.

On September 25, 2017, the company resolved on the issuance of new shares to the company itself without consideration so that, in spring 2018, it will have own shares held by the company available for the payment of the share rewards payable based on the company's share incentive plan 2016–2018. The 8,913 new series A shares were entered in the Trade Register on October 17, 2017 and admitted to public trading on October 18, 2017.

## **RAUTE CORPORATION'S 2010 A, 2010 B AND 2010 C STOCK OPTIONS**

In 2017, altogether 16,449 series A shares were subscribed for with Raute's series B 2010 stock options and 17,424 with series C stock options.

Raute Corporation's series C 2010 stock options are listed on Nasdaq Helsinki Ltd under the trading code RAUTEEW310. The subscription period for series C stock options ends on March 31, 2018. The subscription period for series A stock options ended on March 31, 2016 and for series B stock options on March 31, 2017.

At the end of 2017, altogether 13,446 series C stock options had not been exercised. The subscription price for series C stock options was EUR 5.00 at the end of the year, and the closing price was EUR 20.50.

## **DISTRIBUTION OF PROFIT FOR THE 2016 FINANCIAL YEAR**

The Annual General Meeting held on March 28, 2017 decided to pay a dividend of EUR 1.00 per share for the financial year 2016. The total amount of dividends is EUR 4.2 million, with series A shares accounting for EUR 3,228,550.00 and series K shares for EUR 991,161.00. The dividend payment date was April 6, 2017.

## **AUTHORIZATION OF REPURCHASE AND DISPOSAL OF OWN SHARES**

The Annual General Meeting held on March 28, 2017 authorized the company's Board of Directors to decide on the repurchase of Raute Corporation series A shares with assets from the company's non-restricted equity and to decide on a directed issue of a maximum of 400,000 shares.

On September 25, 2017, Raute Corporation's Board of Directors resolved on the issuance of 8,913 new series A shares to the company itself without consideration, in accordance with Chapter 9, section 20 of the Companies Act. At the end of the financial year, the company controlled 8,913 of its own shares.

## **ANNUAL GENERAL MEETING 2018**

Raute Corporation's Annual General Meeting will be held in Lahti on Thursday, March 22, 2018.

## **BOARD OF DIRECTORS' PROPOSAL CONCERNING THE USE OF PROFIT AND PAYMENT OF DIVIDEND**

On December 31, 2017, the parent company's distributable assets totaled EUR 29,525 thousand, of which EUR 9,162 thousand represents the profit for the financial year 2017.

The Board of Directors will propose to Raute Corporation's Annual General Meeting, to be held on March 22, 2018, that a dividend of EUR 1.25 per share be paid to holders of series A and K shares for the financial year 2017, and that the remainder of distributable assets be transferred to equity.

On the date of the profit distribution proposal, the number of shares entitling to a dividend is 4,249,248 shares, which would amount to total dividends of EUR 5,312 thousand. Shareholders who are registered in the shareholders' register maintained by Euroclear Finland Ltd on the record date for dividend payment, March 26, 2018, are entitled to dividends. The dividend payment date would be April 4, 2018.

No essential changes have taken place in the company's financial position since the end of the financial year. The company has good liquidity, and in the Board of Directors' view, the proposed dividend does not pose a risk to solvency.

## **OUTLOOK FOR 2018**

For 2018, due to the record-high order book and sustained brisk demand, we estimate that both Raute's net sales and operating profit will remain at the record high level of the preceding year.





## **RAUTE CORPORATION** **Consolidated Financial Statements** **January 1 – December 31, 2017**

Raute Corporation's consolidated financial statements for January 1–December 31, 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations released accepted for application in the EU. Preparations have complied with the IAS and IFRS standards, as well as SIC and IFRIC interpretations, effective on December 31, 2017. The notes to the consolidated financial statements also comply with Finnish accounting legislation.

Raute's virtual character **Patchman** represents the world's most advanced plywood manufacturing technology with an intelligent combination of the latest machine vision and mechanical tools. Patchman is named after Raute's first automatic veneer patching line.

## General information

### Adoption of the Consolidated Financial Statements

These consolidated financial statements for the period between January 1 and December 31, 2017 were authorized for issue by Raute Corporation's Board of Directors at its meeting on February 15, 2018. According to the Finnish Companies Act, shareholders may approve or reject the financial statements at the Annual General Meeting arranged after the statements have been issued. The Annual General Meeting also has the opportunity to make changes to the financial statements.

### Business and operational segments

Raute Group ("the Group") is a **globally operating technology and service company** serving the wood products industry, with the core competence in selected wood products manufacturing processes. Raute's customers are companies operating in the wood products industry that manufacture veneer, plywood, LVL and sawn timber.

Raute's **full-service concept** is based on product life-cycle management and include project deliveries and technology services. Raute's technology offering covers machinery and equipment for the customer's entire production process. In addition to a broad range of machines and equipment, Raute's solutions cover technology services ranging from spare parts deliveries to regular maintenance and equipment modernizations.

The operations of Raute Group belong to the **wood products technology segment**. Raute Corporation's Board of Directors is the chief operating decision maker that is responsible for assigning resources to the operating segment and assessing its result. The Board monitors profitability through the key figure Operating profit.

Raute's head office is located in Lahti (previously the municipality of Nastola), Finland. Its other production plants are in Kajaani, in the Vancouver area in Canada, in the Shanghai area in China, and in Pullman, Washington, USA. The company's sales network has a global reach.

### Parent company

Raute 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 Nasdaq Helsinki Ltd, under Industrials. Raute Corporation is domiciled in Lahti. The address of its registered office is Rautetie 2, FI-15550 Nastola, and its postal address is P.O. Box 69, FI-15551 Nastola.

### Insider management

Raute Corporation follows the Guidelines for Insiders issued by Nasdaq Helsinki Ltd, the Central Chamber of Commerce, and the Confederation of Finnish Industries EK. In addition, the company applies separate insider instructions approved by the Board of Directors. The Chief Financial Officer is in charge of insider issues in the company.

Raute maintains a list of persons working in the management functions and the persons in their immediate circles (so-called **management under notification obligation**). These persons are obliged to notify Raute and the Financial Supervisory Authority about all transactions made on their account using financial instruments of Raute Corporation. Raute's management under notification obligation includes the Board of Directors, President and CEO and Chief Financial Officer.

Raute maintains a **Confidential Information Recipient (CIR)** list of employees and other persons who have continuous access to the company's undisclosed financial information. The individuals in the CIR group are committed to abiding by the company's closed period. The CIR list is not public.

In addition to what is mentioned above, the company maintains a list of projects. A project means an identifiable set of measures or an arrangement that is to be confidentially prepared by Raute, which is, according to Raute, insider information and whose publication Raute has decided to delay.

The insider trading prohibition of persons under notification obligation and in the CIR group begins at the end of the reporting period, however at least 30 days before the publication of an interim report or financial statements and ends two hours after the publication of a corresponding stock exchange release. The company avoids investor communication meetings during the closed period.

Raute has an internal procedure through which persons employed by the company may report within the company a suspected abuse of regulations and provisions concerning the financial market (**whistle blowing**).

### Preparation of consolidated financial statements

Raute Corporation's consolidated financial statements for January 1 – December 31, 2017 have been prepared in accordance with the International Financial Reporting Standards, IFRS, accepted for application in the European Union. Preparations have complied with the IAS and IFRS standards, as well as SIC and IFRIC interpretations, effective on December 31, 2017.

All figures are presented in thousand euro, unless otherwise stated. Due to the rounding of the figures in the financial statements tables, the sums of figures may deviate from the sum total presented in the table. Figures in parentheses refer to the corresponding figures in the comparison period.

Raute Corporation's consolidated financial statement information is available online at [www.raute.com](http://www.raute.com) or at the head office of the Parent company, Rautetie 2, FI-15550 Nastola, Finland.

# Consolidated statement of income

Financial Statements 2017 / Group

## CONSOLIDATED STATEMENT OF INCOME

EUR 1,000	1.1.–31.12.2017	1.1.–31.12.2016
<b>NET SALES</b>	<b>148 615</b>	113 130
<b>Change in inventories of finished goods and work in progress</b>	<b>1 905</b>	150
<b>Other operating income</b>	<b>96</b>	1 103
Materials and services	-80 721	-54 849
Employee benefits expense	-41 036	-36 606
Depreciation	-2 633	-2 340
Other operating expenses	-14 653	-12 030
<b>Total operating expenses</b>	<b>-139 042</b>	-105 825
<b>OPERATING PROFIT</b>	<b>11 573</b>	8 558
Financial income	359	123
Financial expenses	-411	-461
<b>Financial expenses, net</b>	<b>-51</b>	-338
<b>PROFIT BEFORE TAX</b>	<b>11 522</b>	8 220
Income taxes	-2 222	-1 536
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>9 300</b>	6 684
<b>Profit for the financial year attributable to Equity holders of the Parent company</b>	<b>9 300</b>	6 684
<b>Earnings per share for profit attributable to Equity holders of the Parent company, EUR</b>		
Undiluted earnings per share	2,20	1,60
Diluted earnings per share	2,18	1,59
<b>Shares, 1 000 pcs</b>		
Adjusted average number of shares	4 225	4 167
Adjusted average number of shares diluted	4 259	4 210

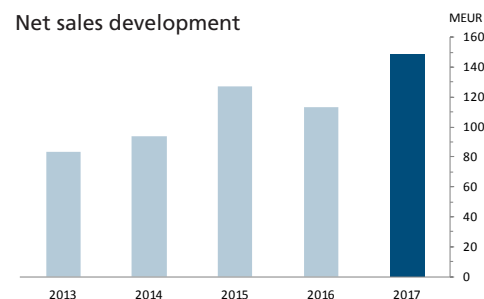
## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR 1,000	1.1.–31.12.2017	1.1.–31.12.2016
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>9 300</b>	6 684
<b>Other comprehensive income items:</b>		
<b>Items that will not be reclassified to profit or loss</b>	<b>-</b>	-
<b>Items that may be subsequently reclassified to profit or loss</b>		
Changes in the fair value of available-for-sale investments	193	259
Hedge accounting	-31	66
Exchange differences on translating foreign operations	-183	534
Income taxes related to these items	-32	-60
<b>Comprehensive income items for the period, net of tax</b>	<b>-52</b>	799
<b>COMPREHENSIVE PROFIT FOR THE FINANCIAL YEAR</b>	<b>9 250</b>	7 483
<b>Comprehensive profit for the financial year attributable to Equity holders of the Parent company</b>	<b>9 250</b>	7 483

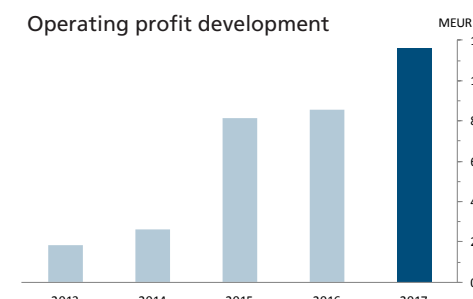
### Basis of preparation

The Board of Directors monitors profitability through the key figure **Operating profit**. The Group has defined operating profit as follows: 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 from employee benefits, depreciation, amortization and possible impairment losses, as well as other operating expenses. All other income statement items are presented under operating profit before the profit for the financial year.

### Net sales development



### Operating profit development



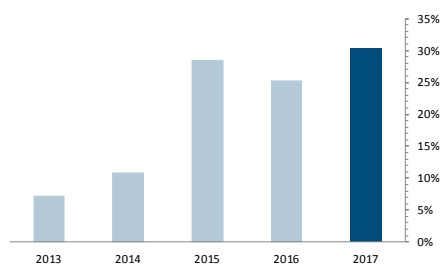
## CONSOLIDATED BALANCE SHEET

EUR 1,000	31.12.2017	31.12.2016
<b>ASSETS</b>		
<b>Non-current assets</b>		
Goodwill	1 035	-
Other intangible assets	2 548	1 353
Property, plant and equipment	9 948	9 580
Other financial assets	923	748
Deferred tax assets	410	167
<b>Total non-current assets</b>	<b>14 865</b>	<b>11 848</b>
<b>Current assets</b>		
Inventories	10 861	9 674
Accounts receivables and other receivables	30 363	24 435
Income tax receivable	45	40
Cash and cash equivalents	30 724	23 769
<b>Total current assets</b>	<b>71 992</b>	<b>57 918</b>
<b>TOTAL ASSETS</b>	<b>86 857</b>	<b>69 767</b>

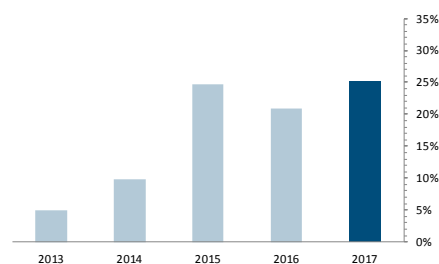
## CONSOLIDATED BALANCE SHEET

EUR 1,000	31.12.2017	31.12.2016
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to Equity holders of the Parent company</b>		
Share capital	8 256	8 256
Fair value reserve and other reserves	7 156	6 577
Exchange differences	659	842
Retained earnings	14 321	11 859
Profit for the financial year	9 300	6 684
<b>Total equity</b>	<b>39 694</b>	<b>34 217</b>
<b>Non-current liabilities</b>		
Provisions	707	462
Deferred tax liability	166	192
<b>Total non-current liabilities</b>	<b>874</b>	<b>653</b>
<b>Current liabilities</b>		
Provisions	1 378	1 156
Current interest-bearing liabilities	1 413	3 136
Current advance payments received	25 188	13 069
Income tax liability	829	1 131
Trade payables and other liabilities	17 481	16 404
<b>Total current liabilities</b>	<b>46 290</b>	<b>34 896</b>
<b>Total liabilities</b>	<b>47 163</b>	<b>35 549</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>86 857</b>	<b>69 767</b>

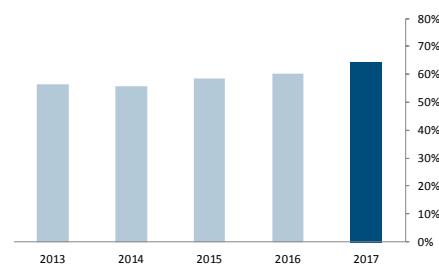
Return on investment, ROI



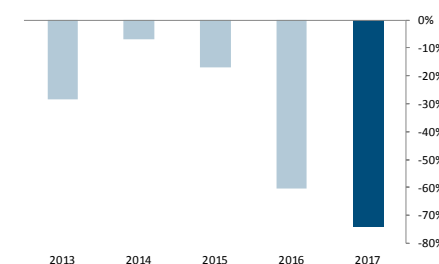
Return on equity, ROE



Equity ratio



Gearing



## CONSOLIDATED STATEMENT OF CASH FLOWS

EUR 1,000	1.1.–31.12.2017	1.1.–31.12.2016
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Proceeds from customers	167 370	123 974
Other operating income	50	1 103
Payments to suppliers and employees	-145 131	-103 221
<b>Cash flow before financial items and taxes</b>	<b>22 289</b>	<b>21 856</b>
Interest paid from operating activities	-277	-111
Dividends received from operating activities	120	114
Interest received from operating activities	7	3
Other financing items from operating activities	-298	-251
Income taxes paid from operating activities	-3 408	-374
<b>Net cash flow from operating activities (A)</b>	<b>18 432</b>	<b>21 237</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and intangible assets	-2 874	-3 019
Business transaction	-3 193	-
Proceeds from sale of property, plant and equipment and intangible assets	117	94
Proceeds from sale of investments	182	-
<b>Net cash flow from investing activities (B)</b>	<b>-5 768</b>	<b>-2 925</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of share capital	207	528
Proceeds from current borrowings	4 413	6 410
Repayments of current borrowings	-6 136	-4 794
Dividends paid	-4 220	-3 303
<b>Net cash flow from financing activities (C)</b>	<b>-5 736</b>	<b>-1 158</b>
<b>Net change in cash and cash equivalents (A+B+C)</b>	<b>6 928</b>	<b>17 154</b>
increase (+)/decrease (-)		
<b>Cash and cash equivalents at the beginning of the period</b>	<b>23 769</b>	<b>6 538</b>
<b>Net change in cash and cash equivalents</b>	<b>6 928</b>	<b>17 154</b>
<b>Effects of exchange rate changes on cash</b>	<b>27</b>	<b>77</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>30 724</b>	<b>23 769</b>

## Non-cash transactions in operating activities

EUR 1,000	2017	2016
Depreciation and amortization	-2 633	-2 340
Employee benefits	-280	-227
Exchange rate differences	-8	162
Derivatives	-36	-66
Profit or loss from change in fair value of financial assets through profit or loss	68	259
<b>TOTAL</b>	<b>-2 890</b>	<b>-2 212</b>

## Basis of preparation

The cash flow statement has been generated using the direct method. The **cash flow from operating activities** includes proceeds from customers, other operating income as well as payments of supplies and services acquired. Cash flow from operating activities also includes payments to employees as well as interest paid and interest received from financial assets held for cash management. The cash flow from operating activities does not include accounts payable related to the investments.

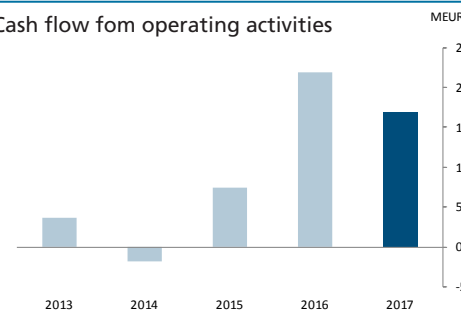
**Cash flow from investing activities** includes the purchase of intangible and tangible assets and expenses of other activated assets. The item also includes proceeds from sale of these assets on accrual basis.

**Cash flow from financing activities** includes the share capital changes in cash, dividends paid to shareholders during the period as well as proceeds and repayments of loans.

**Cash and cash equivalents** comprises cash and cash equivalents which will be due within the following three months' period.

**Foreign Group companies'** cash flow statements have been converted into euros according to the weighted average exchange rate of the financial year.

## Cash flow from operating activities



## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

EUR 1,000	Share capital	Invested non-restricted equity reserve	Other reserves	Exchange differences	Retained earnings	To the equity holders of the Parent company	TOTAL EQUITY
<b>EQUITY at Jan. 1, 2017</b>	<b>8 256</b>	<b>5 445</b>	<b>1 132</b>	<b>842</b>	<b>18 543</b>	<b>34 217</b>	<b>34 217</b>
<b>Comprehensive profit for the financial year</b>							
Profit for the financial year	-	-	-	-	9 300	9 300	9 300
Other comprehensive income items:							
Changes in the fair value of available-for-sale investments	-	-	193	-	-	193	193
Hedging reserve	-	-	-31	-	-	-31	-31
Exchange differences on translating foreign operations	-	-	-	-183	-	-183	-183
Income taxes related to these items	-	-	-32	-	-	-32	-32
<b>Total comprehensive profit for the financial year</b>	<b>-</b>	<b>-</b>	<b>131</b>	<b>-183</b>	<b>9 300</b>	<b>9 250</b>	<b>9 250</b>
<b>Transactions with owners</b>							
Share-options exercised	-	207	-	-	-	207	207
Equity-settled share-based transactions	-	-	240	-	-	240	240
Dividends	-	-	-	-	-4 220	-4 220	-4 220
<b>Total transactions with owners</b>	<b>0</b>	<b>207</b>	<b>240</b>	<b>0</b>	<b>-4 220</b>	<b>-3 773</b>	<b>-3 773</b>
<b>EQUITY at Dec. 31, 2017</b>	<b>8 256</b>	<b>5 652</b>	<b>1 504</b>	<b>659</b>	<b>23 623</b>	<b>39 694</b>	<b>39 694</b>

## COMPARISON YEAR

EUR 1,000	Share capital	Invested non-restricted equity reserve	Other reserves	Exchange differences	Retained earnings	To the equity holders of the Parent company	TOTAL EQUITY
<b>EQUITY at Jan. 1, 2016</b>	<b>8 223</b>	<b>4 950</b>	<b>1 058</b>	<b>308</b>	<b>15 161</b>	<b>29 700</b>	<b>29 700</b>
<b>Comprehensive profit for the financial year</b>							
Profit for the financial year	-	-	-	-	6 684	6 684	6 684
Other comprehensive income items:							
Changes in the fair value of available-for-sale investments	-	-	259	-	-	259	259
Hedging reserve	-	-	66	-	-	66	66
Exchange differences on translating foreign operations	-	-	-	534	-	534	534
Income taxes related to these items	-	-	-60	-	-	-60	-60
<b>Total comprehensive profit for the financial year</b>	<b>-</b>	<b>-</b>	<b>265</b>	<b>534</b>	<b>6 684</b>	<b>7 483</b>	<b>7 483</b>
<b>Transactions with owners</b>							
Share-options exercised	33	495	-	-	-	528	528
Equity-settled share-based transactions	-	-	-191	-	-	-191	-191
Dividends	-	-	-	-	-3 303	-3 303	-3 303
<b>Total transactions with owners</b>	<b>33</b>	<b>495</b>	<b>-191</b>	<b>0</b>	<b>-3 303</b>	<b>-2 966</b>	<b>-2 966</b>
<b>EQUITY at Dec. 31, 2016</b>	<b>8 256</b>	<b>5 445</b>	<b>1 132</b>	<b>842</b>	<b>18 543</b>	<b>34 217</b>	<b>34 217</b>



**Amendments to accounting principles of consolidated financial statements and information to be presented**

The consolidated financial statements are drawn up according to the same accounting principles as in 2016.

Raute Corporation's consolidated financial statements have been prepared under the historical cost convention, except for the items measured at fair value, which are:

- available-for-sale financial assets
- financial assets and liabilities recognized at fair value through profit or loss
- cash-settled share-based transactions
- derivative financial instruments

**Preparation of consolidated financial statements**

The consolidated financial statements include the financial statements of the Parent company Raute Corporation and the financial statements of those subsidiaries in which the Group has **control**. The Group controls an entity when the group is exposed to or has rights to variable returns from its involvement with the entity. Furthermore, the Group has the ability to affect the variable return through its power over entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control in the other company. In Raute Group, control is usually based on share ownership that represents more than 50 percent of the voting rights. Subsidiaries are fully consolidated in the consolidated financial statements from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

**Business combinations** have been entered using the acquisition method. The consideration paid for the acquisition of a subsidiary is determined as the fair value of the transferred assets, liabilities

incurred and equity interests issued by the Group. The consideration transferred contains the fair value of the asset or liability that results from the contingent consideration arrangement. Expenditure related to the acquisition is recognized as an expense when it is incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed by the business combination, have been measured at the acquisition-date fair value. Non-controlling interests have not been recognized in business combinations.

Business transactions, receivables and liabilities, and unrealized gains between Group companies have been eliminated. Unrealized losses has also been eliminated. Where necessary, the accounting principles of the subsidiaries have been changed to comply with the Group's accounting principles.

The allocation of the profit or loss for the financial year to the equity holders of the Parent company has been presented in connection with the statement of comprehensive income.

The consolidated financial statements have been presented in euro, which is the Parent company's functional and presentation currency. The figures concerning the profit or loss and financial position of the companies combined under the consolidated financial statements have been measured in the currency of the country in which that company operates (functional currency).

**Financial statements in foreign currency**

The income statements of foreign subsidiaries have been translated into euro using the weighted average exchange rates during the financial year and balance sheets have been translated at the average rate on the balance sheet date. Translation of income and comprehensive income at different exchange rates in the income statement and in the balance sheet results in translation differences which have been recognized in the balance sheet

Group companies	Group's ownership interest and voting power, %	Parent company's ownership interest and voting
Raute Corporation, Lahti, Finland (Parent company)		
Raute Canada Ltd., Delta, B.C., Canada	100	100
Raute Inc., Delaware, USA	100	100
Raute US, Inc., Monroe, Louisiana, USA	100	-
RWS-Engineering Oy, Lahti, Finland	100	100
Raute Group Asia Pte Ltd., Singapore	100	100
Raute WPM Oy, Lahti, Finland	100	100
Raute Chile Ltda., Santiago, Chile	100	50
Raute Service LLC, St. Petersburg, Russia	100	-
Raute (Shanghai) Machinery Co., Ltd, Shanghai, China	100	100
Metriguard Technologies, Inc., Pullman, Washington, USA	100	-

under equity, the difference of which has been recognized in the other comprehensive income items. The translation differences arising from the elimination of the acquisition cost of foreign subsidiaries and from the translation of equity items accumulated after the acquisition have been recognized in the other items of the comprehensive income. On partial or full disposal of a subsidiary, the accumulated translation differences have been recognized through profit or loss as part of the gains or losses from disposal.

The exchange rates used for the consolidation of subsidiaries has been presented in the table Exchange rates used in consolidation of subsidiaries.

**Related party transactions**

Group's related party consist of Raute Group's subsidiaries and management. Raute Group's management consists of the Board of Directors, President and CEO and Executive Board. In addition, Raute Group's related party consist of Raute Corporation's Sickness Fund.

**EXCHANGE RATES USED IN CONSOLIDATION OF SUBSIDIARIES****Income statement**

EUR	2017	2016
CNY	7,6266	7,3594
RUB	65,8806	74,2224
CAD	1,4644	1,4664
USD	1,1292	1,1066
SGD	1,5583	1,5278
CLP	732,3058	748,7723

**Balance sheet at Dec. 31**

EUR	2017	2016
CNY	7,8073	7,2983
RUB	69,3920	64,3000
CAD	1,5039	1,4188
USD	1,1993	1,0541
SGD	1,6024	1,5234
CLP	751,8129	702,2261

**IFRS-standards that have been published and will be valid in future financial periods**

International Accounting Standard Board (IASB) has published new or revised standards and interpretations or amendments, which the Group will apply at the beginning on the date that each standard and interpretation comes into effect. If the effective date is a date other than the first day of the financial year, the Group applies the standard at the start of the financial year following the effective date.

The effects of the standard have been presented in more detail in the note it concerns:

- IFRS 9: Financial instruments, page 37
- IFRS 15: Net sales, page 20
- IFRS 16: Lease contract, page 27.

Other standards published have not been estimated to have an essential impact on Raute Corporation's future financial statements.

## Management of financing risks

The aim of the Group's financing risk management is to minimize the negative effects of the changes in the financial markets on the Group's financial performance and ensure sufficient liquidity in all market conditions. The Group implements a financing policy, which is approved by the Parent company's Board of Directors and defines the limiting values that guide operations, the adopted financial and hedging instruments, and the acceptable counterparties. The Parent company's financing unit is responsible for the management of financing risks, with a duty to identify, assess, and hedge financing risks in cooperation with operative units. The Board regularly monitors the extent of the financing risks based on, among others, the net currency position, the age distribution and the hedging of receivables as well as cash flow estimates and financial stress tests.

The Group, in its operations, is exposed to financing risks which have been classified into market, counterparty and liquidity risks. Market risks include currency, interest and price risks. Currency risks are further divided into transaction and translation risks. The Group's most significant counterparty risks are customer credit risks related to contractual counterparties in the project business and counterparty risks related to the Group's investment activities. The key risk areas of the Group's international business operations have been recognized as default risks of the counterparty risks and currency risks of the market risks. The Group is also exposed to liquidity and refinancing risks.

The additional information related to the financing risks has been presented in the additional information items as follows:

- Currency risks, note Management of risks – Currency risks, page 38
- Interest risks, note Financial liabilities, page 42
- Price risks, note Materials and services, page 23
- Customer credit risks, note Accounts receivables and receivables according to the percentage of completion, page 22
- Counterparty risks, note Accounts receivables and receivables according to the percentage of completion, page 22.

## Critical accounting judgments of the company management and key sources of estimation uncertainty

When preparing the consolidated financial statements in compliance with International Financial Reporting Standards, the company management has made certain estimates and assumptions. In addition, the management has exercised its judgment in selecting and applying the accounting policies. These estimates and assumptions have affected the assets and liabilities in the Group's balance sheet, the disclosure of commitments and possible assets in the consolidated financial statements, and income and expenses for the financial year.

Because the estimates have been based on management's best knowledge at the reporting date, and they comprise risks and uncertainties, therefore actual results may differ from these estimates. Possible changes in estimates and assumptions have been recognized in the financial year in which the estimate or assumptions has been changed.

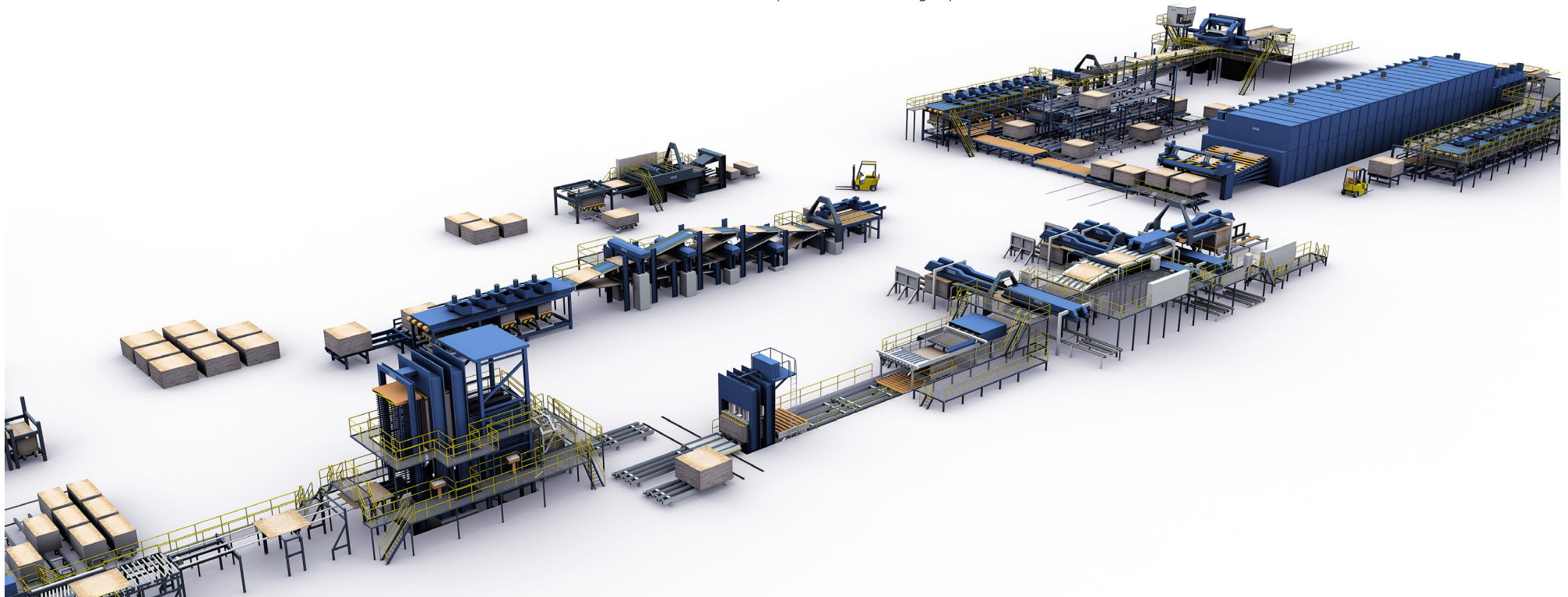
The management is not, by the time the financial statements were to be published, aware of any major uncertainties concerning the estimates on the reporting date or any key assumptions concerning the future, on the basis of which there would be a considerable risk of a substantial change in the carrying values of assets and liabilities during the next financial year.

The judgments the management has been used, when applying the accounting policies and which has the most significant impact on the financial statements, has been presented in the note it concerns. The management estimations have been presented in:

- Note Group goodwill, page 30
- Note Other intangible assets, page 31
- Note Long-term projects, page 21
- Note Accounts receivables and receivables according to the percentage of completion, page 22
- Note Provisions, page 23
- Note Employee benefits, page 24
- Note Income taxes, page 28
- Note Research and development costs, page 32
- Note Current receivables and liabilities, page 36
- Note Financial assets, page 43.

## Project business

A major share of the Group's business is project-type business in which the delivery package contains products and services and the price, payment terms, delivery times and delivery terms are determined based on contract negotiations and the competitive situation. Projects are investments from the customer's viewpoint. With regard to the investment decision, the decision-making process and arranging financing may take a long time and their duration may be difficult to predict. For project business, significant demand fluctuation is typical. The percentage of completion procedure reduces variation in net sales between reporting periods but does not eliminate it. The contents and timing of the in-progress project portfolio impact Raute's working capital items.



EUR 1,000	2017	%	2016	%
<b>NET SALES</b>				
<b>Net sales by market area</b>				
EMEA (Europe and Africa)	81 952	56	67 186	60
CIS (Russia)	35 917	24	19 928	17
NAM (North America)	21 115	14	16 829	15
LAM (South America)	6 202	4	3 826	3
APAC (Asia-Pacific)	3 429	2	5 361	5
<b>YHTEENSÄ</b>	<b>148 615</b>	<b>100</b>	<b>113 130</b>	<b>100</b>

Raute serves the wood products industry with a full-service concept based on service that encompasses the entire life cycle of the delivered equipment. Raute's business consists of **project deliveries and technology services**. Project deliveries encompass projects from individual machine or production line deliveries to deliveries of all the machines and equipment belonging to a mill's production process. Additionally, Raute's full-service concept includes comprehensive technology services ranging from spare parts deliveries to regular maintenance and equipment modernizations, as well as consulting, training and reconditioned machinery.

Large mill or production line scale delivery projects can temporarily increase the share of an individual customer of the Group's net sales to more than 10 percent. At the end of the financial year 2017, the Group had two customers (2), whose customized share of the Group's net sales temporarily exceeded ten percent. The sales share of the customers was 36 percent. The share of one customer was 20 percent and the share of the other customer 16 percent.

Finland accounted for 17 percent (22 %) of net sales.

## Basis of preparation

**Net sales** include revenue from the sale of project deliveries and technology services, as well as raw materials and equipment, adjusted net of indirect taxes, discounts, and exchange differences from foreign currency sales. All components pertaining to each contractual entity have been treated as a whole and the same revenue recognition method is applied to them.

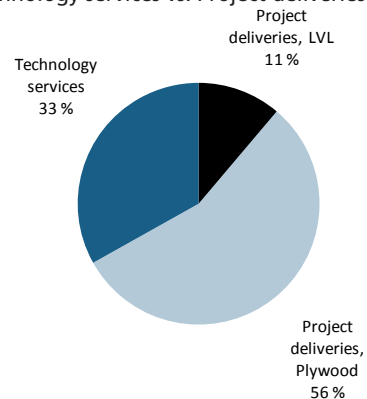
The main part of the net sales is comprised of **project deliveries and modernization projects**, which have been treated as long-term projects. They are carried out customized projects and include both product and service sales. The breakdown of the Group's net sales into purely product and service sales cannot be presented reliably.

Revenues from the **sale of spare parts and other goods**, as well as small and short-term projects, have been recognized in full when the significant risks and rewards have been transferred to the buyer and the Group no longer has right of possession of and control over the product. This generally means the moment at which the goods have been delivered to the customer in accordance with the agreed delivery clause. The delivery conditions used in the Group are based on Incoterms 2010 delivery clauses which have been presented in the official rules published by the International Chamber of Commerce for the interpretation of trade terms.

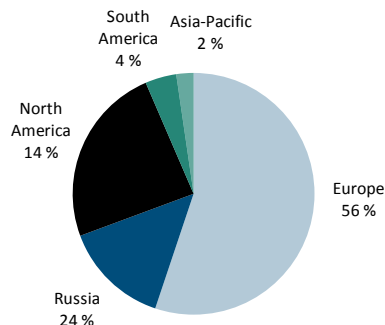
Revenues from **service and other expert services** have been recognized in net sales for the period in which the service has been provided. Revenues from time-based maintenance contracts have been recognized as income for the maintenance contract period and the costs incurred have been recognized as expenses on performance basis. Revenues from other services have been recognized in net sales for the period in which the service has been provided.

## Net sales

### Technology services vs. Project deliveries



## Net sales by market area



## IFRS standards that have been published and will be valid for future financial years

IFRS 15 standard Revenue from contracts with customers will be effective on January 1, 2018. The standard replaces IAS 18 and IAS 11 standards and related interpretations.

According to IFRS 15 standard the revenue is recognized when or as soon as the customer receives the control of the transferred goods or services. When determining the time when control is passed it is estimated whether the control over the performance obligation of goods or services is transferred either over time or at a point in time. This criterion applies by following the five steps guidance: (1) identification of the contract, 2) identification of the performance obligation, 3) determining the transaction price, 4) allocation of the transaction price to the performance obligations and (5) recognition of revenue.

The Group started its IFRS 15 project during spring 2016. The Group reviewed customer contract types and identified the performance obligations related to the contracts and determined the revenue recognition method according to the IFRS 15 standard to evaluate the adoption of the IFRS 15 standard to company's result and the balance sheet position. During the year 2017 Group has analyzed work-in-progress projects at the time of January 1, 2017, and new customer contracts during the year 2017 and identified individual delivery contracts which deviate from the type of revenue recognition adopted in the revenue recognition model for either performance obligations recognition or recognition criteria concerned. According to the management assessment the adoption of the standard is likely to change the recognition in certain long-term projects.

**Project deliveries and modernization projects** of Raute's product and services which shall be treated as long-term projects, recognized according to the

percentage of completion and are customized and tailored to customer's needs, shall be determined as a **performance obligation over time** in accordance with IFRS 15. These performance obligations do not have the alternative use in IFRS 15 and those constitute still one performance obligation. The company applies the same revenue recognition principle in performance obligations over time and percentage of completion (relation of actual project costs to the estimated total project costs). Management has estimated that the adoption of the new standard does not have an impact on the revenue recognition of these projects.

**Exceptions** to the above mentioned rule are long-term projects in which the customer has not been committed to the reimbursement of accumulated costs and a sufficient margin in situations where the client unilaterally suspends the agreement or when the client is unable to fulfill its contractual obligations. These individual projects will in the future be treated as performance obligations satisfied at a point in time. In these exceptional cases, the adoption of the IFRS 15 standard will change the date of revenue recognition to a later date at a point in time. The management has estimated that the amount of these projects has been and shall be minor.

Exceptional long-term projects mentioned above but also **individual standard equipment deliveries** and **other technology services** like services, spare parts, training and digital services shall be categorized as **performance obligations** satisfied at a point in time according to the IFRS 15 standard. According to the IFRS standard performance obligations related to the products will continue to be recognized based on the delivery terms and performance obligations related to services when the service has been provided to the customer. The management has estimated that the adoption of the new standard has no impact on allocation of these performance obligations and revenue recognition date.

According to the management's estimation the adoption of the new standard does not have a significant impact on the Group's result and the balance sheet position. The possible changes in applying the standard do not significantly reduce the amount of the work-in-progress and the advance payments received under percentage of completion.

The impact of the new standard on revenue recognition may however be significant compared to the current procedure if any future large contract combination does not fulfill the performance obligation criteria over time or the contract combination creates separate performance obligations based on specifications evaluated in the contract.

Raute Group will adopt the IFRS 15 standard on the first required effective period starting January 1, 2018. The Group presents adjusted comparative figures of the financial year 2017 and adjusted opening balance of January 1, 2018 according to the IFRS 15 standard methodology. The Group does not apply the reliefs allowed in the retrospective method. The Group presents the numerical data of the impact during the first quarter of the financial year 2018.



EUR 1,000	2017	2016
<b>LONG-TERM PROJECTS</b>		
<b>Specification of net sales</b>		
Net sales by percentage of completion	118 666	89 231
Other net sales	29 949	23 899
<b>TOTAL</b>	<b>148 615</b>	<b>113 130</b>
Project revenues entered as income from currently undelivered long-term projects recognized by percentage of completion	135 874	114 461
Amount of long-term project revenues not yet entered as income (order book)	104 916	105 684
<b>The balance sheet items of the undelivered projects</b>		
Projects in which the value by percentage of completion exceeds advance payments invoiced		
- aggregate amount of costs incurred and recognized profits less recognized losses	88 318	90 806
- advance payments received	67 913	74 065
<b>Gross amount due from customers</b>	<b>20 405</b>	<b>16 741</b>
Projects in which advance payments invoiced exceed the value by percentage of completion		
- aggregate amount of costs incurred and recognized profits less recognized losses	46 940	23 641
- advance payments received	69 533	35 980
<b>Gross amount due to customers</b>	<b>22 593</b>	<b>12 339</b>
<b>Advance payments included in the current liabilities in the balance sheet</b>		
Gross amount due to customers	22 593	12 339
Other advance payments received, not under percentage of completion	2 595	730
<b>Total</b>	<b>25 188</b>	<b>13 069</b>
<b>Advance payments of the long-term projects included in inventories in the balance sheet</b>		
Advance payments paid for long-term projects	659	847
<b>Total</b>	<b>659</b>	<b>847</b>

## Basis of preparation

Project deliveries and modernizations classified as a project delivery have been treated and recognized based on the **percentage of completion** except the projects which do not obtain the classification requirements of long term projects.

If a contractual entity (e.g. mill-scale delivery) includes sub-entities (e.g. production lines) with determined contract terms and conditions and with risks, rewards and control of ownership transferred to the buyer separately from the rest of the contractual entity, they have been treated as separate long-term projects.

During the financial year 2017 and the comparison period, the Group has had no financial costs allocated to the long-term projects entered in the balance sheet.

## Basis of preparation of percentage of completion

Revenue and cost from long-term projects has been recognized as an income and expense according to the percentage of completion (POC) as soon as the outcome has been reliably estimated. The estimates have been based on the previous experience of the corresponding business transactions and the special feature of each project has been estimated. Changes to the project, requirements concerning additional charges and incentives have been taken into account in the project income and expenses to the extent that can be reliably determined and which has been agreed upon with the customer.

**Percentage of completion** has been measured on a cost basis as the relation of actual project costs to the estimated total project costs.

When it is probable that the total costs needed to complete the contract will exceed total contract revenue, the expected loss has been recognized as an expense immediately.

If the result of a long-term project cannot be reliably estimated,

- the project costs have been recognized as an expenditure in the same financial year in which they have been incurred and
- project revenue has been recognized only to the extent of project costs incurred that are likely to be recovered.

Costs related to projects that have not yet been recognized in revenue have been recognized as long-term projects in progress under inventories.

If the net sales by percentage of completion (incurred costs and recognized profits) are larger than the amount of advance payment received for the project, the difference has been recognized as a gross amount due from customers in the balance sheet item Accounts receivables and other receivables. If the net sales by percentage of completion (incurred costs and recognized profits) are smaller than the amount of advance payment received for the project, the difference has been recognized as a gross amount due to customers in the balance sheet item Trade and other payables.

When the risks and responsibilities of the project have been essentially transferred to the counterparty on the contract, the long-term project has been recognized entirely as an income, unpaid contract price has been presented in accounts receivables and the estimated project warranty costs as a warranty reserve.

## Management's critical accounting judgments and key sources of estimation uncertainty

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 is adjusted in the period in which the change first becomes known or can be estimated.

EUR 1,000	2017	2016
<b>ACCOUNTS RECEIVABLES AND RECEIVABLES ACCORDING TO THE PERCENTAGE OF COMPLETION IN THE BALANCE SHEET</b>		
Accounts receivables	8 399	5 612
Receivables according to the percentage of completion	20 405	16 741
<b>TOTAL</b>	<b>28 804</b>	<b>22 353</b>
<b>Customer receivables</b>		
Accounts receivables in the balance sheet	8 399	5 612
Invoiced outstanding advance payments	6 129	4 870
<b>Total</b>	<b>14 528</b>	<b>10 482</b>
<b>Age distribution of customer receivables</b>		
Undue	11 915	8 103
Overdue 0–29 days	1 750	762
Overdue 30–60 days	153	248
Overdue over 60 days	709	1 369
<b>Total</b>	<b>14 528</b>	<b>10 482</b>

The **outstanding advance payments** presented in the table "Customer receivables" are invoiced payments connected to binding contracts which are not included in the assets of the balance sheet at the balance sheet date. The combined age analysis of accounts receivables and advance payments of binding sales contracts invoiced according to payment terms has been presented in the table "Age distribution of customer receivables".

## Basis of preparation

Sales and other revenue have been recognized in **accounts receivables** at the original receivable amount. Current accounts receivables have been measured at the original receivable amount and their book value is equal with their fair value.

Accounts receivables of EUR 8,399 thousand (EUR 5,612 thousand) are non-interest bearing with average terms of payment of 30 days. Accounts receivables do not include any items which will fall due within 12 months from the balance sheet date, classified as non-current.

**Project receivables** are a balance sheet item comparable to accounts receivables. An amount with which individual long-term projects' net sales recognized on the basis of percentage of completion exceed the amount of advance receivables.

The **fair values** of receivables are presented in the notes to the financial statements "Financial assets", on page 43. Project receivables are presented in these notes as a financial asset.

## Management's critical accounting judgments and key sources of estimation uncertainty

The management has estimated customer's ability to remit the payment of such trade receivables, for which the company has not received any guarantee for the payment or any other securities. The Group companies' ability to settle the trade receivables and payments has been estimated by the management.

## Estimated impairment of accounts receivable

Estimates have been made whether there are indications of impairment for accounts receivables. The recognition of accounts receivable impairment has been made when there has been reason to assume that the Group will not receive overdue receivables. During the financial year, the Group recognized accounts receivable impairments in the amount of EUR 3 thousand (EUR 168 thousand). Impairments have been recognized in the item "Other operating expenses".

## Risk management

The total value of accounts receivables and project receivables in the balance sheet corresponds to the amount of money that is the maximum amount of **credit risk** at the balance sheet date without taking into account the fair value of collateral or later contractual obligations in the case that the contractual parties are unable to fulfill their obligations to pay in accordance with the sales contract.

**The Group's credit risks or counterparty risks** are realized when the customer or other counterparty is unable to fulfill its commitments to the Group.

Credit risks related to contractual counterparties in project deliveries are managed with established suppliers and customers by advance payment terms and by expecting bank guarantees or confirmed letters of credit for customer payments. Credit risks related to technology services are managed by regularly monitoring the customer-specific amounts of receivables and customers' payment behavior. As a result of the general uncertainty related to the development of the global economy, financial markets and the customers' market situation the risk level for unhedged receivables is expected to be at a higher level than before the recession.

The maximum credit risk relating to customers' solvency is the amount of receivables relating to binding sales contracts that are not covered by bank guarantees, letters of credit or other securities. Received bank guarantees and letters of credit covered 6 percent (14%) of the accounts receivables and the percentage of completion receivables recorded in the balance sheet and 16 percent (29%) of the order book at the end of the financial year. The credit risk was exceptionally high due to the change in trade practices and the share of established suppliers and customers at the end of the financial year. During the financial year, a credit amounting to EUR 3 thousand million (EUR 168 thousand) from a single customer has been recognized as an expense. No significant credit risk clusters were recognized in the accounts receivables at the balance sheet date.

EUR 1,000	2017	2016
<b>MATERIALS AND SERVICES</b>		
Purchases during the financial year	<b>-69 698</b>	-45 889
Change in inventories, materials and supplies	<b>-203</b>	254
External services	<b>-10 820</b>	-9 213
<b>TOTAL</b>	<b>-80 721</b>	-54 849

## Basis of preparation

**Purchases** include materials and raw materials, as well as variable costs related to acquisition and manufacturing the products. External services include variable costs of production and subcontracting costs as well as service payments to suppliers.

Change in inventories includes material and raw material inventory change.

## Risk management

The raw materials used by the Group are reprocessed steel products, other raw materials, components, and commodities. It is not possible to actively hedge against their **market price risk** with derivatives, and their price risk is a part of the business risk. The price risk of steel is managed by regularly analyzing and following the price fluctuation. The price risk of components is reduced by making blanket agreements with suppliers. The price risk of the electric power used in the Group's production processes is followed and managed through fixed-price contracts.

At the balance sheet date, there were no derivatives hedging **price risk** that would affect the profit or loss in the consolidated financial statements.

EUR 1,000	2017	2016
<b>PROVISIONS</b>		
<b>Warranty provisions</b>		
<b>Book value at Jan. 1</b>	<b>1 543</b>	1 747
Additions	<b>1 808</b>	1 225
Decrease	<b>-1 449</b>	-1 429
Exchange differences	<b>-2</b>	-
<b>Book value at Dec. 31</b>	<b>1 900</b>	1 543
<b>Other provisions</b>		
<b>Book value at Jan. 1</b>	<b>75</b>	116
Additions	<b>186</b>	27
Decrease	<b>-75</b>	-68
<b>Book value at Dec. 31</b>	<b>186</b>	75
<b>TOTAL</b>	<b>2 086</b>	1 618
from which		
- non-current	<b>707</b>	462
- current	<b>1 378</b>	1 156

## Basis of preparation

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

A provision related to warranty obligations has been recognized through profit or loss when revenue from a long-term project, 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 has been recognized as income at the end of the warranty period and expiry of the warranty obligations. In long-term projects recognized on the basis of percentage of completion, the warranty provisions are included in the estimated total costs of the project. Provision for unprofitable

contract has been recognized when the unavoidable direct costs and estimated indirect production costs and depreciation under the contract have exceeded the benefits from the contract.

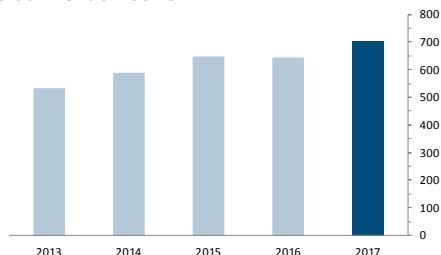
## Management's critical accounting judgments and key sources of estimation uncertainty

The amount of warranty provisions has been estimated on the basis of the management's experience from product costs in the warranty period, taking into consideration special product risks.

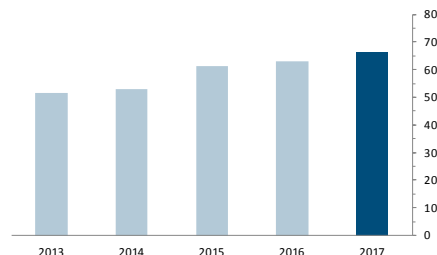
	2017	2016
<b>NUMBER OF PERSONNEL</b>		
<b>Employed at Dec. 31, persons</b>		
Workers	217	201
Office staff	487	442
<b>TOTAL</b>	<b>704</b>	<b>643</b>
Personnel working abroad	222	183
<b>Effective, on average, persons</b>		
Workers	204	197
Office staff	456	434
<b>TOTAL</b>	<b>660</b>	<b>631</b>
Personnel working abroad, effective, on average	204	193
<b>On average, persons</b>		
Workers	209	201
Office staff	473	441
<b>TOTAL</b>	<b>682</b>	<b>642</b>
Personnel working abroad, on average	206	193

EUR 1,000	2017	2016
<b>EMPLOYEE BENEFITS EXPENSE</b>		
Wages and salaries	-33 589	-29 907
Share-based payments	-648	-46
Pension contributions	-4 721	-4 706
Other personnel costs	-2 078	-1 947
<b>TOTAL</b>	<b>-41 036</b>	<b>-36 606</b>

Personnel at Dec. 31



Personnel, effective, on average



## Wages and salaries

Wages and salaries include the basic salaries with fringe benefits, a profit and performance benefits (performance-based bonuses) and long-term incentive schemes.

## Performance-based bonus systems based on annual targets

Performance-based bonus system includes the bonus systems for the President and CEO and for the Group's Executive Board, key personnel and the rest of the personnel. A person can receive the bonus from one performance bonus system at a time. The Board of Directors annually confirms the general principles, maximum amounts and calculation methods for the remuneration systems. The system is in force for a year at a time. The payment of the bonus is dependent of the positive Group's profit. The maximum amount of the bonus systems has been limited to 20 percent. The majority of the performance-based bonuses are paid once a year after the Annual General Meeting has confirmed the consolidated financial statements.

The payment of bonuses within the performance-based bonus systems for the President and CEO, the Group's Executive Board and key personnel is dependent on the profit and task-related personal targets determined for the entire year. The maximum amount of the bonus from the performance-based bonus system is 6 months for the President and CEO and 3 months for the Group's Executive Board.

The payment of bonuses within the plans for the rest of the personnel is dependent on the Group's profit and the shared targets set for the unit's performance, quality and operations. Part of the performance-based bonuses for entire personnel are determined and paid quarterly.

## Basis of preparation

Performance-based bonus systems based on annual targets has been recognized as a provision when the Group has a contractual obligation or when a constructive payment obligation has arisen from an earlier practice.

## Critical accounting judgments

The expenses and liabilities recognized on the performance-based bonuses on annual target are based on calculations of the bonuses that are based on valid contracts. The management has used estimates to assess the amount of the performance-based bonus plan's when the target's linked to the persons or personnel group's profit, quality and operations have been met.

### Senior management's share-based payment plan

Raute Group's performance-based bonus system includes two long-term performance share-based incentive plan for the Group's senior management. The purpose of the plan is to align the objectives of the owners and management, for example, in terms of developing the company's value and to engage management by offering a competitive incentive plan based on ownership of the company's shares.

An expense of EUR 595 thousand (46 thousand) has been recognized for the share-based payments to during the financial year. Amount of EUR 240 thousand (129 thousand) has been allocated to the non-restricted equity reserve at the end of the financial year.

### Share-based payment plan 2014–2018 (LTI2014, LTI2015, LTI2016)

On 12 February 2014, Raute Corporation's Board of Directors decided on a new long-term Performance Share Plan for the Group's senior management. The share plan includes three three-year share plans, which each include a year-long earnings period and a two-year vesting period following the earnings period, during which the bonus's value development is based on the development of the value of the share. Any payment of share rewards is carried out in the company's series A shares and the portion intended for paying tax on the bonus is paid in cash. Participants in the share plan cannot sell or otherwise transfer any shares received as a bonus during the vesting period. The share plans commenced in 2014 (LTI2014), 2015 (LTI2015) and 2016 (LTI2016).

The company's Board of Directors separately decided on the participants in the share plans and on the earnings criteria applied during each earnings period, the targets set for them and the target

and maximum levels of the bonus to be paid. The earnings criteria of the share plan are earnings per share and growth in net sales. The 2015 share plan covers altogether 11 persons and the 2016 share plan covers altogether 12 people belonging to the Group's senior management.

### LTI2014

The bonus earned during the 2014 earnings period, altogether EUR 49 thousand, was paid out entirely in cash in 2015, as decided by the Board of Directors, and the share plan has ended.

### LTI2015

The bonus earned during the 2015 earnings period, altogether EUR 614 thousand, was paid out on 6 March 2017. The vesting period ended at the start of 2018.

### LTI2016

The total amount of bonuses earned during the 2016 earnings period and the personal proportions were confirmed in February 2017. The bonus will be paid in spring 2018. The vesting period ends at the start of 2019.

### Performance Share Plan 2017–2022 (LTI Plan 2017–2019, LTI Plan 2018–2020, LTI Plan 2020)

On February 15, 2017, the Board of Directors of Raute Corporation resolved to implement a new performance-based, share-value-based, long-term incentive plan for the Group's senior management.

The Performance Share Plan is made up of three three-year plans that begin every year. A single plan may consist of either a three-year earnings period or a one-year earnings period and the subsequent two-year vesting period. The possible bonus earned by virtue of a single plan shall be paid at the end of the three-year plan in question. The earnings opportunity has been limited such that

the value of the bonus, at the time of payment, to be paid to a participant based on a single three-year plan can be no more than double the value of the maximum earnings opportunity allocated to the employee when the plan commenced. The company's Board of Directors decides separately on when each plan commences, the length of its earnings period, the performance targets, the persons entitled to participate in the plan and the earnings opportunity.

### LTI Plan 2017–2019

LTI Plan 2017–2019 commenced at the start of 2017. The plan consists of a one-year earnings period and the subsequent two-year vesting period. The bonuses shall be paid in spring 2020. Any payment of share rewards shall be carried out in Raute Corporation's series A shares and its tax portion in cash or total amount in cash. The plan covers altogether 12 persons belonging to the Group's senior management, including the Group's President and CEO and the members of the Executive Board. The performance targets are earnings per share (EPS) and growth in net sales.

### Basis of preparation

Share price at the balance sheet date has been used in determining the payment of bonuses within the open performance-based bonus. The contra account for the performance-based share incentive plan issued in shares is the invested non-restricted equity reserve. The portion paid in cash has been included in the accrued liabilities.

### Pension plans

Pension plans have been classified into defined benefit and defined contribution plans. Under a defined contribution plan the Group pays fixed contributions to a separate insurance company, after which the Group has no other obligations to pay. In addition, the Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay retirement benefits. Contributions to defined contribution pension plans have been recognized in the income statement as an expense in the period in which they were due. The Finnish statutory employment pension scheme and the pension plans of foreign subsidiaries have been classified as defined contribution plans.

The parent company Raute Corporation has a defined-contribution pension arrangement and the related obligations are determined in accordance with the pension act that applies to the employees. The pension arrangements of foreign subsidiaries are managed in accordance with local legislation and they are defined-contribution arrangements. Raute Corporation's voluntary supplementary pension insurance has been treated in accounting as a defined-benefit plan. The current Finnish employees' voluntary supplementary pension insurance has been arranged through Mandatum Life Insurance Company. At the end of the financial year, the balance sheet did not contain any obligations resulting from benefit-based obligations.

Raute's Sickness Fund is 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 Lahti Precision Oy.

EUR 1,000	2017	2016
<b>Salaries and remunerations of the President and CEO and Board of Directors of the Parent company</b>		
<b>Tapani Kiiski, President and CEO</b>		
Salaries and other short-term employee benefits	453	374
Post-employment benefits	79	65
Share-based payments	233	93
<b>TOTAL</b>	<b>765</b>	<b>532</b>
<b>Remuneration of the Parent company's Board of Directors</b>		
<b>Members of the Board of Directors</b>		
Pehu-Lehtonen Erkki, Chairman of the Board	40	40
Mustakallio Mika, Vice-Chairman of the Board	20	20
Suominen Pekka, Member of the Board	20	20
Bask Joni, Member of the Board	20	20
von Essen Patrick, Member of the Board as of March 31, 2016	20	13
Raitio Laura, Member of the Board as of March 28, 2017	13	-
Leiwo Päivi, Member of the Board until March 28, 2017	7	20
Hautamäki Risto, Member of the Board until March 31, 2016	-	7
<b>TOTAL</b>	<b>140</b>	<b>140</b>
<b>Group Executive Board's employee benefits on an accrual basis</b>		
Salaries and other short-term employee benefits	1 099	933
Post-employment benefits	224	183
Share-based payments	331	127
<b>TOTAL</b>	<b>1 654</b>	<b>1 243</b>

The **President and CEO** has a possibility to have a profit-related bonus amounting to a maximum of six months' salary which depends on the annual targets. The President and CEO's term of notice is six months, and the severance pay equals twelve months' salary.

An expense of EUR 462 thousand has been recognized for the share based payment during the financial year based on the long-term share-based incentive program directed to the top management.

During the financial year, the management and the Board of Directors has not granted share options.

**Pension obligations of the President and CEO and the Board Members** are determined according to the Employees Pensions Act. Other special conditions concerning retirement or the amount of retirement allowance have not been agreed on. The statutory pension cost in the financial year 2017 was EUR 79 thousand (EUR 65 thousand). Remunerations paid to the Board of Directors do not include the statutory retirement obligation.

Raute's **Remuneration statement** contains information on the remuneration of the Board of Directors and the President and CEO. Up-to-date information is available on the company's website at [www.raute.com](http://www.raute.com).

On December 31, 2017, the Board of Directors and the Group's President and CEO and the Group's Executive Board held altogether 126,003 series A shares and 127,890 series K shares. The management's holding represents 6.0 percent of the company shares and 11.6 percent of the votes. The figures include the holdings of their own, minor children and control entities.

During the financial year no loans have been granted to the company's management. No pledges have been given or other commitments made on behalf of the company's management and shareholders.



## Other operating income and expenses

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EUR 1,000	2017	2016
<b>OTHER OPERATING INCOME</b>		
Insurance compensations	11	918
Allowances received	4	84
Capital gain on sale of fixed assets	24	28
Other	57	74
<b>TOTAL</b>	<b>96</b>	<b>1 103</b>

EUR 1,000	2017	2016
<b>OTHER OPERATING EXPENSES</b>		
Indirect production expenses	-3 264	-2 982
Renting expenses	-1 416	-1 215
Sales and marketing expenses	-2 604	-2 128
Credit losses	-3	-168
Administration expenses	-2 298	-2 334
Changes in the fair value of currency forward contracts	-58	179
Other expenses	-5 010	-3 380
<b>TOTAL</b>	<b>-14 653</b>	<b>-12 030</b>

### Auditors' remunerations

#### Authorized Public Accountants PricewaterhouseCoopers Oy (Finland)

Audit expenses, statutory	-40	-41
Audit expenses, other assignments according to the Audit Act	-2	-1
Audit expenses, other services	-93	-19
Audit expenses, tax services	-5	-10
<b>Total</b>	<b>-140</b>	<b>-71</b>

#### Authorized Public Accountants PricewaterhouseCoopers (Global)

Audit expenses, statutory	-12	-12
Audit expenses, other assignments according to the Audit Act	-	-
Audit expenses, other services	-	-
Audit expenses, tax services	-	-
<b>Total</b>	<b>-12</b>	<b>-12</b>

### Other lease agreement

#### Group as a lessee

Minimum rents paid on the basis of other non-cancellable leases:

- Within one year	1 297	926
- After a period of more than one year and less than five years	2 773	756
- Maturing later	-	1
<b>Total</b>	<b>4 070</b>	<b>1 684</b>

### Basis of preparation

Revenue not included in net sales, such as lease income, insurance compensations and gains on the disposal of fixed assets, has been recognized in the **other operating income**. Lease income has been recognized as income on a straight-line basis for the lease term.

### Basis of preparation

**Other operating expenses** have been recognized as income-impact items by nature included in business operations. Other individual items such as direct purchases, changes in inventories and employee benefits expenses included in the income statement have been presented in connection of the corresponding income statement item.

The Parent company's **auditor** during the financial year was the Authorized Public Accountants PricewaterhouseCoopers Oy. Statutory audit fee includes audit fees for current financial year auditing. Other services and tax services include audit fees for other services recognized on accrual basis during the financial year. Fees do not include travel costs and fees payable to the authorities arising from auditing or other assignments.

### Basis of preparation

**Leases** in which a significant portion of the risks and rewards incident to ownership are retained by the lessor have been treated as operating leases. Payments made under other leases have been recognized as an expense based on the lease period.

### IFRS standards that have been published and will be valid in future financial periods

IFRS 16 standard Leases shall be effective on January 1, 2019. According to the standard, lease agreements shall be recognized in the balance sheet item Property, plant and equipment in the lessee's balance sheet. A lessee shall recognize an asset based on the right-of-use of the asset and a lease liability based on the obligation to pay lease rent. The standard includes two exemptions for the lessee. The leases of low-value items and short-term leases, maturing under 12 months, can be excluded according to IFRS 16.

Raute Corporation has estimated that the adoption of the standard will have an impact on the recognition of certain lease agreements in the consolidated financial statements. The lease expense of lease contracts will be replaced by the depreciation calculated on the asset and the interest expense on the lease liability. A lessee shall recognize an asset based on the right-of-use of the asset and a lease liability based on the obligation to pay lease rent. Furthermore, the standard will have an impact on the additional information in the consolidated financial statements and the Group's key ratios. Raute Corporation will publish a more detailed evaluation of the impact of the standard during the financial year 2018.

In the 2017 financial statements, lease obligations have been presented in the off-balance sheet item in the Other own obligations in the note Pledged assets and contingent liabilities, on page 47.

EUR 1,000	2017	2016
<b>INCOME TAXES</b>		
<b>Consolidated income statement</b>		
Current tax based on the taxable profit of the financial year	-3 108	-2 003
Current tax of previous financial years	9	61
Deferred taxes	878	407
<b>TOTAL</b>	<b>-2 222</b>	<b>-1 536</b>
<b>Reconciliation of the relationship between realized tax expense and theoretical accounting result using the Finnish tax rate of 20.0 percent</b>		
<b>Profit before taxes</b>	<b>11 522</b>	<b>8 220</b>
Tax effect of the following items:		
Taxes calculated using the Finnish tax rate, 20.0%	-2 304	-1 644
Effect of differences in tax rates of foreign subsidiaries	57	-27
Non-taxable income	120	48
Non-deductible costs in taxation	-123	-247
Taxes from the previous financial years	5	51
Utilization of previously unrecognized tax losses	-	8
Unrecognized tax assets from the losses of foreign subsidiaries	-494	-24
Other items	519	300
<b>Consolidated tax expense</b>	<b>-2 221</b>	<b>-1 536</b>
<b>Effective tax rate, %</b>	<b>19,3 %</b>	<b>18,7 %</b>

## Basis of preparation

**The taxes** in the consolidated income statement include the current tax based on the Group companies' taxable income, as well as tax adjustments for previous years and the change in deferred taxes. Current tax based on the taxable income has been calculated on taxable income using the tax rate in force in each country. Taxes have been recognized in the income statement, except when they are related to other comprehensive income items or recognized directly in equity. In such a case, the tax has also correspondingly been recognized in other comprehensive income items or directly in equity.

The Group companies can use special tax deductions related to certain new investments of assets or expenses under certain conditions. These tax credits are treated as a deductible from taxes at the moment when it is highly probable that the tax deduction will be received. The tax credit reduces the tax liability and the tax expense based on the taxable income for the period.

**Deferred taxes** have been recognized for all temporary differences between the accounting and taxation value. Deferred tax has been determined using tax rates that have been enacted or substantively enacted by the balance sheet date and have been expected to apply when the related deferred tax asset shall be realized or the deferred tax liability shall be settled. The most significant temporary differences have arisen from the amortization of tangible fixed assets, fair value adjustments of available-for-sale financial assets, fair value adjustments of derivatives and tax losses carried forward unused.

The undistributed profits of foreign subsidiaries are not recognized as deferred tax liabilities. The assets are invested permanently in the countries in question. The translation differences generated by the consolidation of foreign subsidiaries are not recognized as deferred tax liabilities.

**Deferred tax assets** have been recognized to the extent that it is probable that taxable profits will be available against which temporary differences can be utilized. The recognition of deferred tax assets has been estimated at each reporting date. The undistributed profits of foreign subsidiaries are not recognized as deferred tax liabilities. The assets are invested permanently in the countries in question. The translation differences generated by the consolidation of foreign subsidiaries are not recognized as deferred tax liabilities.

## Management's critical accounting judgments and key sources of estimation uncertainty

The Group is subject to income taxes in Finland and several other countries. Management's judgment has been required in determining the amount based on the taxable income for the financial year, tax of uncertain tax positions, as well as deferred tax assets and liabilities. The recognition and basis of preparation of the deferred tax assets has been estimated at the end of the financial year and the extent to which deferred tax assets can be recognized to the balance sheet. The management estimates how likely it is for the Group's companies to have future recoverable taxable income against which unused tax losses can be utilized. The preparatory estimates used for the estimates at the balance sheet date can differ from the actual figures, in which case changes in tax assets have been recognized as expenses in the income statement.

# Deferred tax assets and liabilities

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## DEFERRED TAX ASSETS

EUR 1,000	1.1.2017	Entered through profit or loss	Entered in comprehensive income statement	Recognized in share-holders' equity	31.12.2017
Intercompany inventory profit	34	-7	-	-	28
Provisions	210	28	-	-	238
Employee benefits	9	9	-	-1	17
Tax losses and credits unused	183	227	-	-	410
Other temporary differences	40	-4	-	-	35
Deferred tax assets, total	476	253	-	-1	728
Offset from deferred tax liabilities	-306	-9	-	-	-315
<b>Deferred tax assets, net</b>	<b>167</b>	<b>244</b>	<b>0</b>	<b>-1</b>	<b>410</b>

## COMPARISON YEAR

EUR 1,000	1.1.2016	Entered through profit or loss	Entered in comprehensive income statement	Recognized in share-holders' equity	31.12.2016
Intercompany inventory profit	25	9	-	-	34
Provisions	224	-14	-	-	210
Employee benefits	8	1	-	-	9
Tax losses and credits unused	172	11	-	-	183
Other temporary differences	49	-9	-	-	40
Deferred tax assets, total	478	-2	-	-	476
Offset from deferred tax liabilities	-303	-3	-	-	-306
<b>Deferred tax assets, net</b>	<b>172</b>	<b>-5</b>	<b>0</b>	<b>0</b>	<b>167</b>

A deferred tax asset of EUR 434 thousand (EUR 10 thousand) has been recognized from **losses of foreign subsidiaries from the financial year 2017**.

A deferred tax asset of EUR 634 thousand (EUR 1 125 thousand) has been unrecognized from **loss carry-forwards of foreign subsidiaries**. It is probable that no taxable income, against which the losses can be utilized, shall be available to the Group before the expiry date of the losses.

## DEFERRED TAX LIABILITIES

EUR 1,000	1.1.2017	Entered through profit or loss	Entered in comprehensive income statement	Recognized in share-holders' equity	31.12.2017
Financial assets at fair value	52	-	39	-	90
Effect of Group consolidation	114	-10	-	-	103
Other temporary differences	333	-54	8	-	287
Deferred tax liabilities, total	499	-64	47	-	481
Offset to deferred tax assets	-306	-9	-	-	-315
<b>Deferred tax liabilities, net</b>	<b>192</b>	<b>-73</b>	<b>47</b>	<b>-</b>	<b>166</b>

## COMPARISON YEAR

EUR 1,000	1.1.2016	Entered through profit or loss	Entered in comprehensive income statement	Recognized in share-holders' equity	31.12.2016
Financial assets at fair value	-	-	52	-	52
Effect of Group consolidation	126	-12	-	-	114
Other temporary differences	418	-85	-	-	333
Deferred tax liabilities, total	544	-98	52	-	499
Offset to deferred tax assets	-303	-3	-	-	-306
<b>Deferred tax liabilities, net</b>	<b>241</b>	<b>-101</b>	<b>52</b>	<b>-</b>	<b>192</b>

## BUSINESS COMBINATION

On April 3, 2017, Raute Corporation acquired the business of Metriguard, Inc. in the USA. Metriguard sells and maintains measuring equipment for the veneer and plywood industry and for sawmills on a global scale. The production of the company has been centralized in Pullman, Washington. Metriguard's business will be continued under Raute's new US subsidiary, Metriguard Technologies, Inc., whose financial information will be reported as part of Raute's wood products technology segment.

The acquisition has been implemented as an asset purchase, including Metriguard's intangible assets, working capital and fixed assets, except real estate. Metriguard, Inc.'s personnel transferred in the business transaction. The purchase price is paid in two installments. A base purchase price of USD 3.1 million has been paid at closing. The additional earn-out payment based on net sales for a 12-month period following closing of the transaction will be paid in the summer 2018. The fair values of the balance sheet items recognized from the acquisition are preliminary.

<b>Fair values of the acquisition, thousand euros</b>	<b>3.4.2017</b>
Intangible assets	1 407
Tangible assets	94
Inventory	1 368
Sales receivables and other receivables	310
Trade payables and other payables	-178
<b>Net identifiable assets acquired</b>	<b>3 002</b>
<b>Goodwill</b>	<b>1 035</b>
<b>Net assets acquired</b>	<b>4 037</b>
<b>Purchase consideration, thousand euros</b>	
<b>3.4.2017</b>	
Cash paid	2 911
Contingent consideration	1 126
<b>Total purchase consideration</b>	<b>4 037</b>

The cash flow effect of the business transaction at the acquisition date was EUR 3,371 thousand.

The Group has recognized acquisition related expenses in the amount of EUR 0.5 million. The expenses are included in Other operating expenses of the consolidated statement of income.

## Basis of preparation

The goodwill recognized in the consolidated balance sheet has been generated in the business acquisition from Metriguard, Inc. The goodwill represents acquired market share, business knowledge and the synergies obtained in connection with the acquisition. The goodwill is the amount over which the acquisition cost has exceeded the fair values of identified acquired assets and liabilities.

Net identifiable other intangible assets acquired has been presented in the balance sheet item Other intangible assets. These items shall be depreciated over their useful life.

Group goodwill has been recognized in the balance sheet at original acquisition cost less amortization and possible impairments. No amortization according to a plan is booked from group goodwill. The group goodwill is tested annually for impairment and always if any indication of impairment exists.

## Impairment testing

For the impairment test the goodwill is allocated to the cash generating units (CGUs) of the Group,

which are identified to the business unit. The recoverable amount of a CGU is determined by value-in-use calculations which require the usage of assumptions.

Cash flow estimates used in the calculations are based on management's best judgment and budget accepted by the management. The discount rate used in the calculations is based on the weighted average cost of capital (WACC) at the business area.

The possible impairment loss is recognized immediately in the income statement. Previously recognized goodwill impairment losses will not be revised.

The management has estimated the assumptions for the impairment testing at the balance sheet date. The recoverable amount of the cash generating unit is based on the budget accepted by the management and for forecasts for five years. The discount rate used in calculations is 9.1% (before taxes). The assumptions used in the cash flow estimates for future operations are based on management estimates at the balance sheet date. During the financial year impairment has not been recognized to the consolidated income statement.

## OTHER INTANGIBLE ASSETS

EUR 1,000	Development costs	Other intangible assets	Development costs in progress	TOTAL
<b>Acquisition cost at Jan. 1, 2017</b>	<b>4 640</b>	<b>8 751</b>	<b>0</b>	<b>13 391</b>
Exchange rate differences	-	-48	-	-48
Additions	-	1 627	123	1 750
Reclassification between items	-	-295	-	-295
<b>Acquisition cost at Dec. 31, 2017</b>	<b>4 640</b>	<b>10 036</b>	<b>123</b>	<b>14 799</b>
<b>Accumulated depreciation and amortization at Jan. 1, 2017</b>	<b>-4 291</b>	<b>-7 746</b>	<b>0</b>	<b>-12 038</b>
Exchange rate differences	-	42	-	42
Accumulated depreciation and amortization of disposals and reclassification	-	565	-	565
Depreciation and amortization for the financial year	-223	-597	-	-820
<b>Accumulated depreciation and amortization at Dec. 31, 2017</b>	<b>-4 515</b>	<b>-7 736</b>	<b>0</b>	<b>-12 250</b>
<b>Book value at Dec. 31, 2017</b>	<b>125</b>	<b>2 300</b>	<b>123</b>	<b>2 548</b>

## COMPARISON YEAR

EUR 1,000	Development costs	Other intangible assets	Development costs in progress	TOTAL
<b>Acquisition cost at Jan. 1, 2016</b>	<b>4 640</b>	<b>8 375</b>	<b>1 020</b>	<b>14 035</b>
Exchange rate differences	-	-28	-	-28
Additions	-	108	-	108
Reclassification between items	-	296	-1 020	-724
<b>Acquisition cost at Dec. 31, 2016</b>	<b>4 640</b>	<b>8 751</b>	<b>0</b>	<b>13 391</b>
<b>Accumulated depreciation and amortization at Jan. 1, 2016</b>	<b>-4 065</b>	<b>-7 341</b>	<b>-1 020</b>	<b>-12 426</b>
Exchange rate differences	-	18	-	18
Accumulated depreciation and amortization of disposals and reclassification	-	-	1 020	1 020
Depreciation and amortization for the financial year	-227	-423	-	-650
<b>Accumulated depreciation and amortization at Dec. 31, 2016</b>	<b>-4 291</b>	<b>-7 746</b>	<b>0</b>	<b>-12 038</b>
<b>Book value at Dec. 31, 2016</b>	<b>348</b>	<b>1 005</b>	<b>0</b>	<b>1 353</b>

## Basis of preparation

An intangible asset has been recognized in the balance sheet when it is probable that the expected future financial benefit attributable to the asset will flow to the entity over a period of several years (amortization period) and the cost of the asset can be measured reliably. In other cases the expenditure from intangible assets has been recognized as an expense when incurred. Intangible assets in the Group do not include assets, which has unlimited economical period.

The intangible assets include capitalized development costs and other intangible assets.

Intangible assets with a finite useful life have been recorded in the balance sheet and recognized in the income statement as an expense based on the straight-line depreciation method over their useful life as follows:

Patents	10 years
Computer software	3–5 years
Other intangible assets	3–10 years
Capitalized development costs	3–10 years.

**Development costs** incurred in planning new or more advanced products and in manufacturing test machinery for testing them has been 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 product development costs include the material, work and testing expenditure incurred directly from completing the product for the intended purpose. After they have originally recognized in the balance sheet capitalized product development costs have been measured at acquisition cost less accumulated amortization and impairment. Development costs recognized as an expense during previous financial year is not capitalized at a later date

**Other intangible asset** has been recognized in the balance sheet at original cost when it is probable that the expected future financial benefit attributable to

the assets will flow to the entity over a period of several years (amortization period) and the cost of the assets can be measured reliably.

The expected useful lives of the items in the intangible assets in the balance sheet have been reviewed at each reporting date. If they differ considerably from previous estimates, the amortization plan is updated in accordance with the new expected useful lives. The carrying values of intangible assets with limited useful lives have been reviewed at each reporting date. If the value of an asset has decreased significantly the impairment is transferred to the income statement. A previously made impairment can be reversed if the circumstances can be shown to have improved considerably.

## Impairment of intangible assets

Group's intangible assets have been tested annually for impairment. Assets that are subject to the amortization have been reviewed for impairment always when events or changes in circumstances have provided indications that it may be impossible to recover the carrying amount of the assets. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. The value in use is the present value of the expected recoverable cash flows from the asset. For the assessment of impairment, the assets are classified at the lowest levels at which the cash flows can be separately identified.

The amount by which the carrying amount of the asset exceeds the recoverable amount has been recognized in the income statement as an impairment loss. An impairment loss recognized in previous periods for non-financial assets other than goodwill has been reassessed at each balance sheet date. The recognition of an impairment loss has been reversed when a change has taken place in the circumstances or in the estimates used to determine the recoverable amount of the asset. However, reversal of impairment has not exceeded the asset's carrying amount less impairment loss.

EUR 1,000	2017	2016
<b>RESEARCH AND DEVELOPMENT COSTS</b>		
Research and development costs for the financial year	<b>-3 237</b>	-2 863
Amortization of previously capitalized development costs	<b>-223</b>	-227
Development costs recognized as an asset in the balance sheet	<b>123</b>	-
Research and development costs recognized as an expense for the financial year	<b>-3 338</b>	-3 090

## Basis of preparation

**Research cost and those development costs** which have not been capitalized to the balance sheet, has been recognized as an expense to the operating expenses before operating profit.

**Amortization of capitalized product development costs** has been started when the product is ready for use and released for sale. The useful life of development costs is three to ten years depending on the estimated lifetime of the product, during which time capitalized assets have been recognized as an expense on a straight-line basis. Capitalized costs for product development in progress have been tested annually for impairment with the value calculation, if the changes in the circumstances have provided indications of impairment.

## Management's accounting judgments

The expected useful lives of the items in the intangible assets in the balance sheet have been reviewed at each reporting date. If they differ considerably from previous estimates, the amortization plan is updated in accordance with the new expected useful lives.

Each asset has been assessed for indications of impairment as explained in the accounting principles above. Where the carrying amount of the asset exceeds the assets' estimated recoverable fair value, impairment has been recognized in the income statement.

The valuations are sensitive to the assumptions involving future expected returns and discount rates. The **discount rate** describes the estimated interest rate expected on the markets, taking into account the time value of money and the special risks pertaining to the asset in question, the related adjustments for which have not been made to the estimated cash flows. The discount rate is defined using the average weighted capital cost, which describes the total equity and borrowing costs, taking into account the special risks linked to the assets. The discount rate used in calculations is 9.1%.

During the 2017 financial year and the comparison year, no impairment loss was recognized on capitalized product development costs in progress.



## PROPERTY, PLANT AND EQUIPMENT

EUR 1,000	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and assets in progress	Total
<b>Acquisition cost at Jan. 1, 2017</b>	<b>386</b>	<b>10 887</b>	<b>36 571</b>	<b>553</b>	<b>260</b>	<b>48 657</b>
Exchange rate differences	-	-	-585	-11	-	-596
Additions	-	4	1 217	-	1 403	2 623
Disposals	-	-	-97	-	-	-97
Reclassification between items	-	209	-84	12	-589	-452
<b>Acquisition cost at Dec. 31, 2017</b>	<b>386</b>	<b>11 100</b>	<b>37 021</b>	<b>594</b>	<b>1 073</b>	<b>50 134</b>
<b>Accumulated depreciation and amortization at Jan. 1, 2017</b>	<b>-</b>	<b>-7 390</b>	<b>-31 234</b>	<b>-453</b>	<b>-</b>	<b>-39 077</b>
Exchange rate differences	-	-	513	7	-	520
Accumulated depreciation and amortization of disposals and reclassification	-	-	183	-	-	183
Depreciation and amortization for the financial year	-	-364	-1 426	-23	-	-1 813
<b>Accumulated depreciation and amortization at Dec. 31, 2017</b>	<b>-</b>	<b>-7 754</b>	<b>-31 964</b>	<b>-469</b>	<b>-</b>	<b>-40 186</b>
<b>Book value at Dec. 31, 2017</b>	<b>386</b>	<b>3 346</b>	<b>5 058</b>	<b>85</b>	<b>1 073</b>	<b>9 948</b>

## COMPARISON YEAR

EUR 1,000	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and assets in progress	Total
<b>Acquisition cost at Jan. 1, 2016</b>	<b>386</b>	<b>10 218</b>	<b>33 244</b>	<b>561</b>	<b>1 054</b>	<b>45 463</b>
Exchange rate differences	-	-	432	14	-	445
Additions	-	-	936	-	2 179	3 116
Disposals	-	-	-66	-	-	-66
Reclassification between items	-	669	2 025	-22	-2 973	-301
<b>Acquisition cost at Dec. 31, 2016</b>	<b>386</b>	<b>10 887</b>	<b>36 571</b>	<b>553</b>	<b>260</b>	<b>48 657</b>
<b>Accumulated depreciation and amortization at Jan. 1, 2016</b>	<b>-</b>	<b>-7 047</b>	<b>-29 463</b>	<b>-423</b>	<b>-</b>	<b>-36 934</b>
Exchange rate differences	-	-	-452	-7	-	-458
Accumulated depreciation and amortization of disposals and reclassification	-	-	5	-	-	5
Depreciation and amortization for the financial year	-	-342	-1 324	-23	-	-1 690
<b>Accumulated depreciation and amortization at Dec. 31, 2016</b>	<b>-</b>	<b>-7 390</b>	<b>-31 234</b>	<b>-453</b>	<b>-</b>	<b>-39 077</b>
<b>Book value at Dec. 31, 2016</b>	<b>386</b>	<b>3 497</b>	<b>5 337</b>	<b>100</b>	<b>260</b>	<b>9 580</b>

EUR 1,000	2017	2016
<b>DEPRECIATION AND AMORTIZATION</b>		
<b>Depreciation and amortization by class of assets</b>		
Intangible assets		
- Capitalized development costs	-223	-227
- Other intangible assets	-597	-423
Property, plant and equipment		
- Buildings and structures	-364	-342
- Machinery and equipment	-1 426	-1 324
- Other tangible assets	-23	-23
<b>TOTAL</b>	<b>-2 633</b>	<b>-2 340</b>

## Basis of preparation

**Property, plant and equipment** have been measured at acquisition cost less accumulated depreciation and impairment. The acquisition cost includes the purchase price, cash and other discounts, import duties and fixed taxes. When a property, plant or equipment is manufactured in-house, it also includes, in addition to the above-mentioned items, a share of the Group's fixed costs. Ordinary property, plant and equipment repair and maintenance costs have been recognized through profit or loss as incurred. Possible costs incurred in restoring to original state have been taken into account in IFRS accounting as part of the acquisition cost.

Raute Corporation's consolidated financial statements of December 31, 2017, including the comparison data, do not include property, plant or equipment for which costs capitalized in the future should be taken into account.

Depreciation of tangible assets is calculated using the straight-line method over their estimated useful lives as follows:

Buildings	25–40 years
Machinery and equipment	4–12 years
Other fixed assets	3–10 years
Land	no depreciations are made.

The residual value and useful lives of assets are reviewed at the last day of each reporting period and are changed if necessary. If the carrying amount of an asset exceeds the estimated recoverable amount, it is immediately reduced to correspond to the recoverable amount. Gains and losses on decommissioning and disposal of property, plant and equipment have been recognized through profit or loss.

EUR 1,000	2017	2016
<b>INVENTORIES</b>		
Materials and supplies	6 723	5 929
Work in progress	2 514	1 952
Other inventories	965	945
Advance payments for long-term projects	659	847
<b>TOTAL</b>	<b>10 861</b>	9 674

During the financial year, EUR 447 thousand (EUR 357 thousand) were recognized in expenses, reducing the carrying amount of inventories to correspond to the disposal price.

#### Basis of preparation

**Inventories** have been measured at the lower of cost and net realizable value. Raw materials and supplies have been 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 financial expenses. Net realizable value is the estimated selling price in the ordinary course of business, less costs of completion and sale. The value of inventories includes impairment due to obsolescence.

#### Risk management

Advance payments made to suppliers and subcontractors at the reporting date involve a risk of the counterparty not being able to fulfil their contractual obligations and return the advance payment. The risk is managed by examining the size of the subcontractors' risk position and the physical progress of the task and by demanding collateral for the advance payments from specific suppliers. At the reporting date, there was EUR 0.6 million in unsecured paid advance payments (EUR 0.8 million).

EUR 1,000	2017	2016
<b>ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES</b>		
Accounts receivables	8 399	5 612
Receivables according to percentage of completion from customers' long-term projects	20 405	16 741
Accrued income and prepaid expenses	899	691
Derivative contract receivables	131	90
Other receivables	574	1 341
<b>TOTAL</b>	<b>30 408</b>	<b>24 476</b>

**Substantial items included in accrued income and prepaid expenses**

Accrued employee related expenses	23	21
Income tax receivable	45	40
Other accrued income and prepaid expenses	831	630
<b>TOTAL</b>	<b>899</b>	<b>691</b>

EUR 1,000	2017	2016
<b>TRADE PAYABLES AND OTHER PAYABLES</b>		
<b>Current interest-free liabilities in the balance sheet</b>		
Advance payments received	25 188	13 069
Trade payables	7 115	7 596
Accrued expenses and prepaid income	9 603	8 097
Derivatives	80	7
Income tax liability	829	1 131
Other liabilities	683	704
<b>TOTAL</b>	<b>43 498</b>	<b>30 604</b>

**Substantial items included in accrued expenses and prepaid income**

Accrued project expenses related to long-term projects	845	1 435
Accrued employee related expenses	7 184	6 146
Financial expenses	27	176
Contingent consideration of the business acquisition	1 001	-
Other accrued expenses and prepaid income	546	340
<b>TOTAL</b>	<b>9 603</b>	<b>8 097</b>

Advance payments received, EUR 25 188 thousand (EUR 13 069 thousand), include advance payments received from the long-term projects in the amount of EUR 22 593 thousand (EUR 12 339 thousand).

**Basis of preparation**

The Group's assets include accounts receivables, percentage of completion receivables, accrued income and prepaid expenses, derivative contract receivables and other receivables.

Information of credit losses related to the accounts receivables and percentage of completion receivables as well as exposure to credit risk and counterparty risk has been presented in the note Account receivables and Project receivables on page 22. Fair values of the receivables have been presented in the note Financial assets, page 43.

**Management's accounting judgments and key sources of estimation uncertainty**

Management has monitored the customers' and other counterparties' ability to settle the commercial receivables and payment obligations related to loans. No significant credit risk clusters were recognized in the receivables at the balance sheet date.

**Basis of preparation**

The Group's **trade payables and other payables** include liabilities arising from goods and services delivered prior to the financial year-end. Liabilities are unsecured and are due to be paid within 12 months after the reporting period. The book value of the items correspond to the fair value at the closing date.

EUR 1,000	2017	2016
<b>EXCHANGE RATE GAINS AND LOSSES (NET)</b>		
Included in net sales	33	-82
Included in financial income and expenses	-82	-178
Included in other comprehensive income items	-183	534
<b>TOTAL</b>	<b>-232</b>	<b>274</b>

EUR 1,000	2017	2016
<b>DERIVATIVES</b>		
<b>Nominal values of forward contracts in foreign currency</b>		
Economic hedging		
- Related to financing	492	-
- Related to the hedging of net sales	3 228	6 084
Hedge accounting		
- Related to the hedging of net sales	12 716	2 556
<b>Fair values of forward contracts in foreign currency</b>		
Economic hedging		
- Related to financing	52	-
- Related to the hedging of net sales	27	-41
Hedge accounting		
- Related to the hedging of net sales	-18	-75

## IFRS standards that have been published and will be valid in future financial periods

IFRS 9 standard is effective on January 1, 2018. Raute Group shall adopt the standard from the date of application. The change includes revised guidance on the hedge accounting. The standard also provides the guidance on the classification and measurement of the financial assets, and expanded presentation requirements. It has been estimated that the changes in the standard will not have a significant impact on financial statement transactions and items.

## Basis of preparation

**Foreign currency transactions** of foreign subsidiaries' financial statements have been 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. Monetary items in foreign currency have been translated into the functional currency using the rates prevailing on the last day of the reporting period. Foreign currency non-monetary items measured at fair value have been translated into the functional currency using the rates prevailing at the date of fair value measurement. Otherwise non-monetary items have been measured using the rate prevailing at the date of transaction.

## Basis of preparation

The Group has used currency derivative contracts to hedge against currency risks related to future transactions of commercial transactions and financial items. At the time of the adoption of each derivative contract have been determined in which asset or liability recognized in the balance sheet, or a highly probable forecast transaction (cash flow hedge) the risk it protects and has the hedge accounting applied.

Derivative financial instruments have been recognized in the balance sheet at their fair value at the contract date and are later remeasured at fair value. The fair values of derivative contracts have been determined using the market values at the balance sheet date. Gains and losses from fair value measurement are treated as determined by the purpose of the derivatives.

The changes in the value of derivatives, to which hedge accounting has not been applied, have been presented in the income statement in other operating income or expenses. Derivatives recognized in the Group's balance sheet have been presented as accrued expenses or receivables under current assets or liabilities in the balance sheet. The derivatives mature within the due dates of the contracts.

Gains and losses from foreign currency transactions and translation of monetary items have been recognized in the income statement. Exchange rate gains and losses from transactions have been presented in the corresponding items in a net basis above the operating profit or loss. Exchange rate gains and losses related to cash and cash equivalents, loans and other financial assets and liabilities have been presented in the income statement under the item Financial income and expenses.

**The exchange gains and losses included in the comprehensive income items** include exchange rate differences linked to monetary items which fulfill the terms defined for the hedging of cash flows. In addition, the items include the translation difference profits generated by the net investments linked to a foreign subsidiary.

Hedge accounting has been applied when essential exchange risk exists on the derivative contract which is determined as a hedging of the cash flow of the long-term project. The decision to apply hedge accounting is made separately for each contract at the contract date. Each hedging derivative is set to hedge certain assets and liabilities, binding contracts or future transactions. The hedging relationship between the hedged item and the hedging instrument and risk management objectives and strategies for hedging transactions has been documented when hedging relationship has been created. When starting the hedging, the Group documents an estimate of whether the change in the fair value of the hedging instrument effectively corresponds to the changes in the fair values of the hedged cash flows or other hedged items.

The changes in the fair value in derivative contracts which meet the conditions of hedging has been recognized in the items of comprehensive income and presented in the equity hedge reserves. The gains or losses in equity have been recognized in profit or loss when the predicted sale has been recognized in the comprehensive income statement.

## Risk management

The Group operates in international markets and is thus exposed to currency risks resulting from changes in currency exchange rates. The Group's **currency risks** consist of foreign currency denominated sales and purchases as well as assets and liabilities recognized in the balance sheet (transaction risks) and investments in foreign subsidiaries (translation risks).

The Group's main currency is the euro. The most significant currency risks result from the following currencies:

- Canadian dollar (CAD)
- US dollar (USD)
- Chinese yuan (CNY)
- Russian rouble (RUB).

The distribution of the Group's sales varies annually according to market area. In 2017 amount of 63 percent (50%) of net sales were generated outside the euro zone. The Group primarily uses Group company's functional currency as the primary trading currency, of which the most important is the euro. The proportion of the net sales sold in another currency than the Group's home currency was 7 percent (11 %) during the year 2017.

The Group's operative units hedge foreign currency denominated payments based on binding sales contracts through the Parent company's financing unit when the contracts take effect. Currency forward contracts are used to hedge sales payments operatively.

The Group hedges the internal trading with forward contracts. The most significant individual currency risk related to purchasing in the Group arises from the Parent company's internal purchases from China. The trading currency of these purchase agreements is the euro but the Group's costs are determined by the Chinese yuan. Primarily, cash flows accumulating from un-hedged sales payments in the same currency are used in

the hedging of currency risks related to binding procurement contracts.

Future cash flows, which are not based on contracts binding both parties, are usually not hedged. Currency clauses are used to hedge against currency risks during the quotation period. Depending on the case, currency risks related to preliminary sales contracts are hedged with currency option contracts. The nominal value of forward contracts used to hedge business operations was EUR 16.4 million (MEUR 8.6) and the fair value EUR 60,8 thousand (EUR -116 thousand) at the balance sheet date.

The internal loans taken out by the Group companies and their deposits are mainly in the functional currency of the subsidiary in question. The currency exchange risks of the Group's internal loans have been hedged with forward contracts, with the exception of equity loans or loans in fact classified as such, and such working capital loans, the repayments of which are paid from the forecasted unhedged currency flows of sales in the same currency.

At the end of the financial year 2017, no forward contracts were related to the hedging of the Group's financing. The subsidiaries' loans from external financial institutions were in each company's functional currency.

The forward contract receivables and liabilities related to an economic hedging of a sales currency payments, to which hedge accounting is not applied, increase the currency risk to the Group at the balance sheet date. This currency risk is recognized to the extent that the value of forward contracts exceeds the respective binding sales contracts recorded sales. The measurement of the forward contracts and the percentage of completion receivables had a EUR 78 thousand positive effect on the Group's operating profit (EUR -41

thousand) at the reporting date. The nominal values of derivatives related to financing are presented in the note Derivatives, page 37.

The Group applies the hedge accounting to the currency derivative contracts when the change in the fair value of a contract may have a significant temporary effect on the Group's operating profit due to the change in exchange rates. The Group's Parent company concludes, with an external counterparty, a derivative contract which is defined as a hedging instrument in hedge accounting. Subsidiaries use internal derivatives to hedge transactions defined as hedged items. The total amounts of the valuation gains and losses for derivatives have been presented in the note Derivatives, page 37.

The Group regularly monitors transaction risks in the main currency pairs. Currency flows related to binding contracts, and derivative contracts used for their hedging, are taken into account in the net currency position from the reporting date onwards regardless of which year's profit or loss the currency risk will affect. The aim of managing currency risks is to keep the open net currency positions of each Group currency pair at less than EUR 500 thousand for each currency pair other than for the Russian ruble, for which the aim is to keep the net currency position at less than EUR 1 million. The Group's net currency position and its portion included in the balance sheet at the reporting date (Net balance sheet risk) is presented in currency pairs in the following table:

EUR 1,000	Net currency position		Net balance sheet risk	
	2017	2016	2017	2016
CNY/EUR	216	82	8	286
RUB/EUR	-650	-539	-650	-539
CAD/EUR	650	185	4 986	185
USD/EUR	177	30	677	-379

The Group is exposed to **translation risks**. The Group has foreign subsidiaries which have equities in currencies other than the Parent company's functional currency. The currency risks related to the conversion of the foreign subsidiaries' net investments to the Group's home currency, the euro, have not been hedged. The Group's subsidiaries' non-euro-denominated equities equalled altogether EUR -3 280 thousand on December 31, 2017 (EUR -3,680 thousand). Net investments are detailed according to currency in the following table:

## Net investments

EUR 1,000	2017	2016
CNY	-	-
RUB	-	-
CAD	84	84
USD	1 058	17
Other	15	15

A **sensitivity analysis** in the main currency pairs on the transaction risk, i.e. the effect of reasonable potential changes in the exchange rates on the Group's profit or loss after tax on December 31, 2017 is presented in the following table:

## Effect on profit after tax

EUR 1,000	2017		2016	
CNY +/- 30%	-/+	184	-/+	436
RUB +/- 30%	+/-	25	-/+	152
CAD +/- 30%	-/+	1 077	-/+	566
USD +/- 30%	-/+	99	+/-	5

All foreign currency receivables and liabilities as well as the currency derivative contracts, recognized in the balance sheet on the reporting date, have been taken into account in the sensitivity analysis. In the analysis, the change in exchange rate has been estimated to be +/-30 percent from the reporting date based on the prevailing uncertainty in the financial market development. Other factors are estimated to remain unchanged.

EUR 1,000	2017	2016
<b>SHARE CAPITAL</b>		
<b>Share capital at Jan. 1</b>	<b>8 256</b>	8 223
Exercised stock options	-	33
<b>Share capital at Dec. 31</b>	<b>8 256</b>	8 256
<b>FAIR VALUE RESERVE AND OTHER RESERVES</b>		
<b>Invested non-restricted equity reserve at Jan. 1</b>	<b>5 445</b>	4 950
Exercised stock options	207	495
<b>Invested non-restricted equity reserve at Dec. 31</b>	<b>5 652</b>	5 445
<b>Other reserves at Jan. 1</b>	<b>1 132</b>	1 058
Fair value reserve	193	259
Hedging reserve, hedge accounting	-31	66
Equity settled share-based payments	240	-191
Deferred taxes related to these items	-32	-60
<b>Other reserves at Dec. 31</b>	<b>1 504</b>	1 132
<b>EXCHANGE RATE DIFFERENCES</b>		
<b>Exchange rate differences at Jan. 1</b>	<b>842</b>	308
Exchange rate differences on translating foreign operations	-183	534
<b>Exchange rate differences at Dec. 31</b>	<b>659</b>	842
<b>RETAINED EARNINGS</b>		
<b>Retained earnings at Jan. 1</b>	<b>18 543</b>	15 161
Dividends	-4 220	-3 303
Profit for the financial year	9 300	6 684
<b>Retained earnings at Dec. 31</b>	<b>23 623</b>	18 543
<b>OTHER COMPREHENSIVE INCOME ITEMS</b>		
Changes in the fair value of available-for-sale investments	193	259
Cash flow hedges	-31	66
Exchange differences on translating foreign operations	-183	534
Income taxes related to these items	-32	-60
<b>TOTAL</b>	<b>-52</b>	799

**Basis of preparation**

Series K and series A shares held by third parties have been presented in **share capital**. Expenditure related to issues or acquisitions of own equity instruments has been presented as allowance for equity.

**Invested non-restricted equity reserve** includes other equity investments and the share subscription price unless not recognized to the equity based on an explicit resolution.

**Other reserves** include the fair value reserve arising from the valuation of revaluation reserve, granted share-based remuneration settled in shares and the changes in fair value in derivative contracts which meet the conditions of hedging.

**Exchange rate differences** include exchange differences arising from translation of foreign subsidiaries financial statements as well as gains and losses arising from hedging of net investments in subsidiaries.

The **dividend** proposed by the Board of Directors to the Annual General Meeting has been recognized as a liability and a deduction from distributable equity for the period in which the dividend has been approved for distribution by the shareholders.

The Annual General Meeting held on March 28, 2017 decided to pay a dividend of EUR 1.00 per share for the financial year 2016. The total amount of dividends was EUR 4 219 711.00, with series A shares accounting for EUR 3 228 550.00 and series K shares for EUR 991 161.00. The dividend payment date was April 6, 2017.



Shares, 1,000 pcs		2017	2016
Series K shares (ordinary shares)	20 votes/share	991	991
Series A shares	1 vote/share	3 258	3 215
<b>Total shares at Dec. 31</b>		<b>4 249</b>	4 206
<b>Own shares at Jan. 1</b>		<b>15</b>	-
Acquisition of own shares		9	15
Disposal of own shares		-15	-
<b>Own shares at Dec. 31</b>		<b>9</b>	15
<b>Reconciliation of the number of shares, 1,000 pcs</b>			
<b>Number of shares at Jan. 1</b>		<b>4 206</b>	4 112
Exercised stock options		34	80
Directed issue of shares to the company itself		9	15
<b>Number of shares at Dec. 31</b>		<b>4 249</b>	4 206

Changes in share capital from Jan. 1, 1994 to Dec. 31, 2017	Share capital EUR	Number of series K shares	Number of series A shares
<b>Share capital at Jan. 1, 1994</b>	<b>5 359 073</b>	<b>1 054 600</b>	<b>2 124 240</b>
Issue of share capital Sep. 21, 1994	1 069 285	-	635 768
Conversion 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	-	-
Conversion of series K shares into series A shares 2003	-	-44 539	44 539
Conversion of series K shares into series A shares 2004	-	-4 900	4 900
Registration of shares with options 2006	380 300	-	190 150
Share subscriptions with series 2010 stock options 2014	20 940	-	10 470
Share subscriptions with series 2010 stock options 2015	192 960	-	96 480
Directed issue of shares to the company itself 2016	-	-	14 523
Share subscriptions with series 2010 stock options 2016	32 900	-	80 231
Directed issue of shares to the company itself 2017	-	-	8 913
Share subscriptions with series 2010 stock options 2017	-	-	33 873
<b>Share capital at Dec. 31, 2017</b>	<b>8 256 316</b>	<b>991 161</b>	<b>3 258 087</b>

Other tradable securities	2017	2016
Series 2010 B stock options, unsubscribed at Dec. 31	-	16 449
Series 2010 C stock options, unsubscribed at Dec. 31	13 446	31 370
<b>Total unsubscribed at Dec. 31</b>	<b>13 446</b>	47 819

Raute Corporation has **two series of shares**, series K and series A. Share-related data is presented on page 70 of the financial statements.

In 2017, altogether 16,449 series A shares have been subscribed for with Raute's series B 2010 stock options and 17,424 with series C stock options. The subscription period for series B stock options ended on March 31, 2017.

Raute Corporation's series C 2010 stock options are listed on Nasdaq Helsinki Ltd under the trading code RAUTEEW310. The subscription period for series C stock options is March 1, 2015 to March 31, 2018. The respective subscription price was EUR 5.00 and the closing price at the end of the reporting period 2017 was 20.50.

The company has acquired through a direct issue to the company itself a total of 8,913 pieces of its own shares based on the authorization granted by the Annual General Meeting. The new shares were registered with the Trade Register on October 17, 2017 and they were held by the company at the balance sheet date December 31, 2017.

## Capital structure management

The objective of the Group's capital structure management is an effective capital structure that secures the Group's operational preconditions on the capital market. The Group's Parent company's credit ranking throughout 2017, as well as in the comparison year 2016, was good. The Group's capital structure is followed using the equity ratio, which has been set a strategic target value. During the financial year 2017 the target value of the equity ratio was over 40 percent. At the end of the financial year, the equity ratio was 64 percent (60%) and gearing -74 percent (-60%).

	2017	2016
<b>Undiluted earnings per share</b>		
Share of profit that belongs to the owners of the Parent company, EUR	9 300	6 684
Weighted average number of shares, 1,000 pcs	4 225	4 167
Earnings per share, EUR	2,20	1,60
<b>Diluted earnings per share</b>		
Share of profit that belongs to the owners of the Parent company, EUR	9 300	6 684
Diluted weighted average number of shares, 1,000 pcs	4 259	4 210
Diluted earnings per share, EUR	2,18	1,59
<b>The weighted average number of shares used as divider when calculating the diluted earnings per share</b>		
The weighted average number of shares used as divider when calculating the diluted earnings per share	4 225	4 167
Share-based payments	34	43
The weighted average number of shares used when calculating the diluted earnings per share	4 259	4 210

## Basis of preparation

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

**Diluted earnings per share** have been calculated by dividing the period's profit attributable to equity holders of the Parent company by the weighted average of shares in the period, which have been adjusted by dilutive effect of the share-based payments. Share-based payments have dilutive effect if the exercise price of the share benefit is lower than the fair value of the share.

For the calculation of diluted earnings per share, share-based payments calculation is done to determine the number of shares that could have been acquired at fair value (the average annual market share price of the company's share) based on the monetary value of the subscription rights attached to outstanding share benefits. This number of shares is compared with the number of shares that would have been issued assuming the exercise of the share benefits. The share-based payments had a diluted effect of 33 834 pieces (43 049 pieces) on calculating the diluted number of shares.

EUR 1,000	2017	2016
<b>CURRENT INTEREST-BEARING LIABILITIES</b>		
<b>Financial liabilities recognized at amortized cost</b>		
Partial payments of financial loans	1 413	3 136
<b>TOTAL</b>	<b>1 413</b>	<b>3 136</b>
<b>Distribution of the Group's current loans by currencies</b>		
- Chinese yuan (CNY)	100 %	100 %
<b>The weighted averages of effective interest rates of current interest-bearing loans</b>		
Partial payments of financial loans	5,28 %	5,37 %

The following table shows the fair values and carrying amounts of financial item which corresponds their fair value carried in the consolidated balance sheet. The Group's principles of fair value determination related to the financial instruments have been described in the note Basis of preparation.

EUR 1,000	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	Carrying amount Dec. 31, 2016	Fair value Dec. 31, 2016
<b>Fair value of financial liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Derivative contracts	80	80	7	7
Financial liabilities recognized at amortized cost				
- Financial loans	1 413	1 413	3 136	3 136
- Trade payables and other liabilities	32 986	32 986	21 369	21 369
- Accrued expenses and prepaid income	9 603	9 603	8 097	8 097
<b>Total</b>	<b>44 082</b>	<b>44 082</b>	<b>32 609</b>	<b>32 609</b>
<b>Financial instruments by category</b>				
Financial liabilities at fair value through profit or loss	80	80	7	7
Financial liabilities recognized at amortized cost	44 002	44 002	32 602	32 602
<b>Hierarchy levels</b>				
Financial liabilities at fair value through profit or loss				
- Derivative contracts	-	80	-	80
<b>Total</b>	<b>-</b>	<b>80</b>	<b>-</b>	<b>80</b>

The fair value of the instruments included in the hierarchy level 2 is based on the price available from the market data but instruments are not traded in an active market.

## Basis of preparation

**Financial liabilities** are initially recognized at fair value. Transaction costs have been included in the initial carrying amount of the financial assets at amortized cost. Later, financial liabilities, excluding derivative liabilities, have been measured at amortized cost using the effective interest method. Current financial liabilities are debts where the Group has no unconditional right to defer the payment of the debt to at least 12 months from the reporting date.

**Partial payments** of the financial loan in the following financial year have been presented in the current liabilities. The Group has no non-current financial liabilities at the reporting date.

The Group's financial liabilities include a financial loan of a foreign subsidiary totaling EUR 1.4 million (MEUR 3.1) from a financial institution approved

by the Parent company. The Group's pledges and contingent liabilities have been presented in note Pledged assets and contingent liabilities, page 47.

## Risk management

The Group's **interest risk** results from financial liabilities. The Group's objective is to hedge against interest risks related to liabilities through fixed-interest rate loans, interest rate derivative instruments and sufficient liquid assets. The Group takes out loans with either fixed interest rates or floating interest rates. The floating interest rate loans expose the Group's cash flow to interest risk.

In the Group, the fluctuating interest level mainly influences the future return level of liquid assets and the use of current credit agreements intended for working capital financing.

## Maturities of the financial liabilities at Dec. 31, 2017

EUR 1,000	2018
<b>Financial loans</b>	
Repayments	1 413
Financial expenses	109
<b>Total</b>	<b>1 522</b>
<b>Trade payables</b>	
Repayments	7 115
Financial expenses	-
<b>Total</b>	<b>7 115</b>
<b>Accrued expenses and prepaid income</b>	
Repayments	9 603
Financial expenses	-
<b>Total</b>	<b>9 603</b>
<b>Derivatives</b>	
Cash outflow	-16 093
Cash inflow	15 944
<b>Total</b>	<b>-150</b>

## Maturities of the financial liabilities, comparison year

EUR 1,000	2017
<b>Financial loans</b>	
Repayments	3 136
Financial expenses	85
<b>Total</b>	<b>3 221</b>
<b>Trade payables</b>	
Repayments	7 596
Financial expenses	-
<b>Total</b>	<b>7 596</b>
<b>Accrued expenses and prepaid income</b>	
Repayments	7 987
Financial expenses	-
<b>Total</b>	<b>7 987</b>
<b>Derivatives</b>	
Cash outflow	-6 775
Cash inflow	4 235
<b>Total</b>	<b>-2 540</b>

EUR 1,000	Carrying amount Dec. 31, 2017	Fair value Dec. 31, 2017	Carrying amount Dec. 31, 2016	Fair value Dec. 31, 2016
<b>Fair values of financial assets</b>				
Financial assets at fair value through profit or loss				
- Derivative contracts	131	131	90	90
Unquoted share investments	923	923	748	748
Loans and receivables				
- Account receivables and other receivables	30 277	30 277	24 385	24 385
Cash and cash equivalents	30 724	30 724	23 769	23 769
<b>Total</b>	<b>62 055</b>	<b>62 055</b>	<b>48 992</b>	<b>48 992</b>
<b>Financial instruments by category</b>				
Loans and receivables	61 000	61 000	48 154	48 154
Available-for-sale financial assets	1 054	1 054	838	838

The balance sheet item Accounts receivables and other receivables includes percentage of completion receivables from customers' long-term projects totaling EUR 20,405 thousand (EUR 16,741 thousand).

EUR 1,000	Level 1	Level 2	Level 3	Total
<b>Hierarchy levels</b>				
Financial assets at fair value through profit or loss				
- Unquoted share investments	-	-	923	923
- Derivative contracts	-	131	-	131
<b>Total</b>	-	131	923	1 054

Financial instruments at fair value are categorized according to standard IFRS 7. Instruments included in level 1 are traded in active markets. The fair values of these instruments are based on the quoted market prices at the balance sheet date. The fair value of the instruments included in level 2 is based on the price available from the market data but instruments are not traded in an active market. The fair value of the instruments included in level 3 is not based on the observable market data but is based on the estimates from the management.

### Basis of preparation

**Financial assets** have been classified as financial assets at fair value through profit and loss, loans and other receivables and available-for-sale financial assets. Classification has been made based on the purpose of acquisition in conjunction with the original acquisition. Financial assets are derecognized from the balance sheet when the contractual right to receive cash flows has expired or the Group has substantially transferred risks and income outside the Group. The balance sheet values of the Group's financial items correspond with the carrying amount of the Group balance sheet due to the nature of balance sheet items. Financial assets maturing within 12 months are included in current assets.

**Financial assets at fair value through profit or loss** have been acquired for trading. All purchases and sales of financial assets have been recognized on the transaction date. Financial assets held for trading have mainly been acquired to generate profit from short-term changes in market price. Derivatives which are used for hedging purposes, but hedge accounting is not applied, are classified as held for trading.

The fair values of **derivatives** have been determined using the market values of the contract determined to the similar period at the balance sheet date. Derivatives held for trading are included in current assets. The changes in the fair value of derivatives, have been presented in income statement in the financial year in which they have been incurred. The nominal values of currency derivative contracts have been disclosed in the note Derivatives, page 37.

**Available-for-sale financial assets** consist of unquoted share investments. Unquoted share investments have been recognized at cost deducted with

possible impairments, so far as their fair value has not been possible to determine reliably.

The original carrying amount of **sales receivables and other receivables** corresponds to their fair value. The discounting effect is not significant when taking into account the maturity of the receivables. The balance sheet sales receivables at the reporting date do not include significant risk concentrations.

### Impairment of financial assets

At the reporting date the Group assesses whether there is objective evidence of impairment of a financial asset or a group of financial assets. If the fair value of the Group's equity investment is significantly less than the acquisition cost and the time period defined by the Group, this is a sign of impairment of the available-for-sale share. If impairment has occurred, the losses accumulated in the fair value reserve are transferred to the income statement. Impairment losses of equity investments classified as available-for-sale assets have not been reversed through profit or loss. The default risk related to accounts receivables has been estimated on the basis of a comprehensive survey of accounts receivables carried out at the balance sheet date. Factors indicating impairment of accounts receivables include repeated failures or delays to pay, imminent bankruptcy or debt restructuring as a result of major financial difficulties of the debtor. Estimated impairment losses have been recognized in the income statement as the difference between the carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. If an 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 loss is reversed through profit or loss.

EUR 1,000	2017	2016
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and bank accounts	30 724	23 769
<b>TOTAL</b>	<b>30 724</b>	<b>23 769</b>
Cash and cash equivalents in cash flow statement		
Cash and cash equivalents	30 724	23 769
<b>TOTAL</b>	<b>30 724</b>	<b>23 769</b>

EUR 1,000	2017	2016
<b>OTHER FINANCIAL ASSETS</b>		
<b>Available-for-sale financial assets</b>		
Unquoted share investments	471	490
Revaluation: PHP-Holding Oy	-	186
Revaluation: Other shares	452	73
<b>TOTAL</b>	<b>923</b>	<b>748</b>

## Basis of preparation

**Cash and cash equivalents** comprise cash in hand, current bank deposits and other highly liquid short-term investments with original maturities of three months or less. Bank overdrafts are included in current interest-bearing liabilities. Credit accounts related to Group accounts are included in current 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 derecognized when the contractual right to cash flows expires or the Group has substantially transferred risks and income outside the Group.

## Basis of preparation

**Available-for-sale financial assets** consist of investments in unquoted shares. They have been included in non-current assets unless the intention is to hold them less than 12 months from the balance sheet date. The Group has so far no intention to dispose these investments in which case they have been included in non-current assets. Unquoted shares have been valued at cost less potential impairment, extent the fair value cannot be determined reliably.

**Changes in the fair value** of available-for-sale financial assets have been recognized in other items of the comprehensive income and they have been presented in the fair value reserve, including the tax effects. Permanent impairment of assets has always been recognized directly in the income statement. The fair value of the available-for-sale financial assets has been categorized in level 3 in the financial asset hierarchy. The fair value hierarchy information has been presented in the notes to the consolidated financial statements on page 43.

## Risk management

### Counterparty risk for investment activities

The financing instrument contracts that the Group has concluded with banks and financial institutions involve the risk that the counterparty is not able to fulfill its obligations according to the contract. In investment activities and when concluding derivative contracts, only those parties which have a good credit rating and which meet the other terms and conditions defined by the financing policy are accepted as counterparties. When making investments, or derivative and loan agreements, the Group applies counterparty-specific upper limits to avoid risk concentrations. On the balance sheet date, the investments assets related to the Group's cash management were in bank accounts. The liquid assets in financial institutions outside the euro zone were EUR 4.9 million (MEUR 5.8) at the balance sheet date.

### Management's accounting judgments

In determination of the fair value of available-for-sale financial assets the management has used management's judgment and assumptions which have been based on the available information on market conditions.

## Risk management

Due to the nature of the Group's project business, required financing and the amount of liquid assets also fluctuate in the short term. Predicting working capital requirements is made especially challenging by new orders which have individual payment terms and involve uncertainties related to delivery schedules.

The minimum amounts of cash and cash equivalents, current investments, and available credit liabilities have been defined in the Group's financing policy to ensure the Group's liquidity. Good liquidity is maintained primarily through efficient working capital and cash management. In the long term, risks related to the availability and pricing of funding are managed by using a variety of sources for financing. Investments are required to exhibit sufficient liquidity. The Group did not have interest-bearing net liabilities in the consolidated financial statements of December 31, 2017 or in the comparison year. The cash and cash equivalents available to the Group are sufficient to cover the Group's short-term financing needs.

The Group's cash and cash equivalents totaled EUR 30.7 million (MEUR 23.8) at the end of the financial year. The Group has made preparations for

fluctuating working capital requirements and possible disturbances in the availability of money with non-current credit limit agreements worth EUR 23.0 million with three Nordic banks. At the end of the financial year, EUR 32.7 million was unused of the limit. The current credit limit agreements terminate in the year 2019.

Investments are made mainly in current deposits or in secondary marketable euro-based investments with a good credit rating.

The Group's financial liabilities include trade payables, derivative liabilities and interest-bearing liabilities. Trade payables are due within less than a month on average. Repayment of interest-bearing loans based on the Group's loan contracts and cash flows from financial expenses related to them and cash flows from other financial liabilities are presented in note Financial liabilities on page 42.

In addition, bank credit limits and Raute Corporation's EUR 10 million (MEUR 10) domestic commercial paper program, which allows the Group to issue commercial papers maturing in less than one year, secure the Group's liquidity. Nordea Bank AB (publ) is the arranger of the program.

## The credit facility agreements covenants

The Group has set in its loan and credit contracts, as well as in the security agreements related to them, the following specific conditions of key ratios, so called covenants:

- equity ratio at least 30 percent and
- gearing under +100 percent.

The loan covenants are reported to the creditor on a quarterly basis. If the Group breaks the loan covenant conditions, the creditor may require expedited repayment of the loans.

During the financial year 2017 and the comparison year, the Group met the conditions of the covenants and reached the set target value of equity ratio.

## Fluctuations in working capital

Fluctuations in balance sheet working capital items and the key figures based on them are due to differences in the timing of customer payments and the cost accumulation from project deliveries, which is typical of the project business. Major individual projects in particular typically employ working capital just before the delivery of machines and equipment to customers.

EUR 1,000	2017	2016
<b>FINANCIAL EXPENSES, NET</b>		
<b>Financial income</b>		
Interest income from receivables	5	3
Dividend income from available-for-sale investments	120	114
Revaluation of assets at fair value through profit or loss	68	-
Capital gains from available-for-sale investments	164	-
Exchange rate gains from financial liabilities, net	1	6
Other financial income	2	-
<b>Total financial income</b>	<b>359</b>	<b>123</b>
<b>Financial expenses</b>		
Interest expenses on financial loans recognized at amortized cost	-191	-173
Exchange rate losses on other financial items	-83	-184
Other financial expenses	-137	-104
<b>Total financial expenses</b>	<b>-411</b>	<b>-461</b>
<b>Financial expenses, net</b>	<b>-51</b>	<b>-338</b>

## Basis of preparation

**Interest income** has been recognized as income in the financial year in which it has arisen. Dividend income has been recognized as income in the financial year when the right to receive the dividend payment has been established.

**Foreign exchange gains** arise from the valuation of the Group's foreign currency cash and cash equivalents and financial liabilities.

**Interest expenses** from financial liabilities have been recognized as expense in the financial year in which they belong to based on the interest liability determined in the financial loan contract.

**Other interest expenses** have been recognized as expense in the financial year in which they have arisen.

**Foreign exchange losses** arise from the valuation of the Group's foreign currency cash and cash equivalents and financial liabilities.



## Pledged assets and contingent liabilities

Financial Statements 2017 / Group

EUR 1,000	2017	2016
<b>On behalf of the Parent company</b>		
Business mortgages	8 274	6 623
<b>Mortgage agreements on behalf of subsidiaries</b>		
Financial loans	1 413	3 136
Other obligations	313	189
Business mortgages	1 726	3 377
<b>Commercial bank guarantees on behalf of the Parent company and subsidiaries</b>	25 728	17 793
<b>Other own obligations</b>		
Rental liabilities maturing within one year	1 297	926
Rental liabilities maturing in one to five years	2 773	756
Rental liabilities maturing later	-	1
<b>Total</b>	<b>4 070</b>	<b>1 684</b>

### Loans and guarantees on behalf of the related party

The Parent company Raute Corporation had loan receivables from its subsidiary Raute Canada Ltd. a total of EUR 997 thousand (2 114 thousand) and from Metriguard Technologies, Inc. a total of EUR 1 032 thousand.

Raute Corporation has given a counter guarantee of EUR 1 413 thousand (EUR 3 136 thousand) for the loan of a foreign subsidiary. Raute Corporation has given a commercial counter guarantee of EUR 99 thousand (EUR 20 thousand) on behalf of a foreign subsidiary.

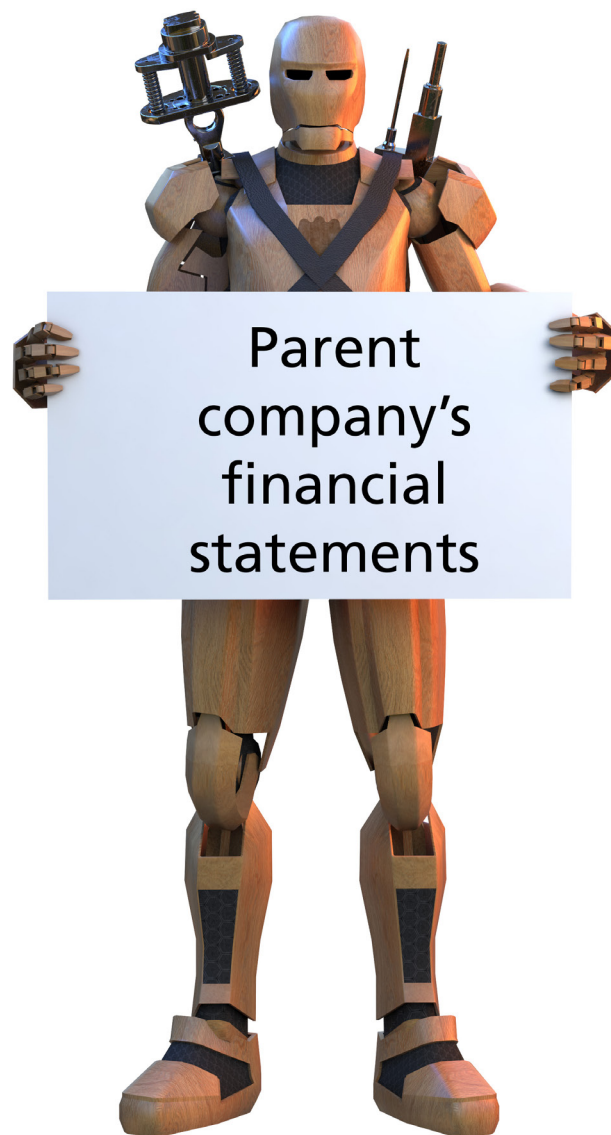
EUR 1,000	2017	%	2016	%
<b>SEGMENT INFORMATION</b>				
<b>Wood products technology</b>				
Net sales	148 615		113 130	
Operating profit	11 573		8 558	
Assets	86 857		69 767	
Liabilities	47 163		35 549	
Capital expenditure	6 962		3 224	
<b>Assets of the wood products technology segment by geographical location</b>				
Finland	77 392	89	58 993	85
North America	5 693	7	4 077	6
China	2 511	3	5 357	8
Russia	1 007	1	990	1
South America	128	0	189	0
Other	127	0	161	0
<b>Total</b>	<b>86 857</b>	<b>100</b>	<b>69 767</b>	<b>100</b>
<b>Capital expenditure of the wood products technology segment by geographical location</b>				
Finland	4 283	62	2 925	91
North America	2 663	38	181	6
China	-	-	104	3
Russia	13	0	9	0
South America	1	0	1	0
Other	1	0	4	0
<b>Total</b>	<b>6 962</b>	<b>100</b>	<b>3 224</b>	<b>100</b>

## Basis of preparation

Operations of Raute Group belong to the wood products technology segment. Raute Corporation's Board of Directors is the chief operating decision maker that is responsible for assigning resources to the operating segment and assessing its result. The Board monitors profitability through the operating profit key figures.

Due to Raute's business model, operational nature and administrative structure, the operational segment to be reported as wood products technology segment is comprised of the whole Group and the information on the segment is consistent with that of the Group.

The division into operating segments is based on the Group's internal decision-making order and is consistent with the financial reports submitted to the chief operating decision maker. Segment reporting follows the principles of presentation of the consolidated financial statements.



### **RAUTE CORPORATION** **Financial statements** **January 1 – December 31, 2017**

The accounting principles of the Parent company's financial statements have been presented only for those parts that differ from the IFRS accounting principles of the consolidated financial statements.

#### **Basis of preparation**

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

Other than euro-denominated transactions have been recognized at the exchange rate effective on the transaction date. Receivables and liabilities denominated in other than euro-based currencies have been translated into euro at the average rate of the balance sheet date, except for business operations where the associated currency risk has been hedged by a currency derivative contract. These items have been measured at the value hedged through the derivative contract. Advances paid and received have been recognized in the balance sheet at the exchange rate effective on the payment date. Exchange gains and losses related to changes in the exchange rates have been recognized through profit or loss.

## PARENT COMPANY'S INCOME STATEMENT

euros	1.1.–31.12.2017	1.1.–31.12.2016
<b>NET SALES</b>	<b>129 993 776,94</b>	97 713 817,06
<b>Change in inventories of finished goods and work in progress</b>	<b>636 019,00</b>	464 092,84
<b>Other operating income</b>	<b>336 743,05</b>	1 393 187,11
Materials and supplies	-75 246 701,21	-51 416 095,39
Personnel expenses	-30 576 856,82	-28 470 135,58
Depreciation and amortization	-1 900 894,13	-1 585 142,82
Other operating expenses	-11 541 364,39	-9 253 428,76
<b>Total operating expenses</b>	<b>-119 265 816,55</b>	-90 724 802,55
<b>OPERATING PROFIT</b>	<b>11 700 722,44</b>	8 846 294,46
<b>Financial income and expenses</b>	<b>-27 259,73</b>	1 355 066,93
<b>PROFIT BEFORE APPROPRIATIONS AND TAXES</b>	<b>11 673 462,71</b>	10 201 361,39
<b>Income taxes</b>	<b>-2 511 000,30</b>	-1 499 622,35
<b>PROFIT FOR THE FINANCIAL YEAR</b>	<b>9 162 462,41</b>	8 701 739,04

## PARENT COMPANY'S BALANCE SHEET

euros	31.12.2017	31.12.2016
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	2 889 716,81	880 017,78
Tangible assets	7 845 393,77	7 460 355,91
Investments	1 839 802,15	817 208,03
<b>Total non-current assets</b>	<b>12 574 912,73</b>	9 157 581,72
<b>Current assets</b>		
Inventories	7 558 857,86	7 375 584,14
Deferred tax assets	37 220,39	9 339,04
Current receivables	30 624 745,52	24 529 168,95
Cash and cash equivalents	30 331 321,27	22 144 932,16
<b>Total current assets</b>	<b>68 552 145,04</b>	54 059 024,29
<b>TOTAL ASSETS</b>	<b>81 127 057,77</b>	63 216 606,01

## PARENT COMPANY'S BALANCE SHEET

euros	31.12.2017	31.12.2016
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Share capital	8 256 316,00	8 256 316,00
Fair value reserve and other reserves	5 652 408,93	5 445 207,56
Retained earnings	14 710 592,47	10 228 564,43
Profit for the financial year	9 162 462,41	8 701 739,04
<b>Total shareholders' equity</b>	<b>37 781 779,81</b>	32 631 827,03
<b>Obligatory provisions</b>	<b>1 979 039,84</b>	1 558 684,00
<b>Liabilities</b>		
Current liabilities	41 366 238,12	29 026 094,98
<b>Total liabilities</b>	<b>41 366 238,12</b>	29 026 094,98
<b>TOTAL LIABILITIES</b>	<b>81 127 057,77</b>	63 216 606,01

## PARENT COMPANY'S CASH FLOW STATEMENT

euros	1.1.–31.12.2017	1.1.–31.12.2016
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Proceeds from sales	135 947 843,21	107 452 953,82
Proceeds from other operating income	283 168,30	1 299 996,68
Payments of operating expenses	-115 720 492,50	-88 619 212,43
<b>Cash flow before financial items and taxes</b>	<b>20 510 519,01</b>	20 133 738,07
Interest paid from operating activities	-25 815,72	-41 270,07
Dividends received from operating activities	119 954,00	114 160,00
Interests received from operating activities	502 322,27	32 686,73
Other financing items from operating activities	-50 837,52	-203 341,96
Income tax paid	-2 887 940,02	-258 262,67
<b>Net cash flow from operating activities (A)</b>	<b>18 168 202,02</b>	19 777 710,10
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Capital expenditure in tangible and intangible assets	-2 349 969,91	-2 850 197,21
Business transaction	-1 546 555,22	-
Proceeds from sale of tangible and intangible assets	108 977,63	93 237,21
Payment for acquisition of subsidiary	-6 285 787,97	-
Proceeds from sale of investments	182 400,00	-
Loans granted to Group companies	-1 031 798,14	-
Repayments of loan receivables from Group companies	5 248 711,11	3 006 763,80
<b>Net cash flow from investing activities (B)</b>	<b>-5 674 022,50</b>	249 803,80
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of share capital	207 201,37	527 691,83
Proceeds from current borrowings	3 000 000,00	3 000 000,00
Repayments of current borrowings	-3 000 000,00	-4 250 000,00
Dividends paid	-4 219 711,00	-3 302 526,40
<b>Net cash flow from financing activities (C)</b>	<b>-4 012 509,63</b>	-4 024 834,57
<b>Net change in cash and cash equivalents (A+B+C)</b>	<b>8 481 669,89</b>	16 002 679,33
increase (+)/decrease (-)		
<b>Cash and cash equivalents at the beginning of the year</b>	<b>22 144 932,16</b>	5 987 976,60
Net change in cash and cash equivalents	8 481 669,89	16 002 679,33
Effect of exchange rate changes on cash	-295 280,78	154 276,23
<b>Cash and cash equivalents at the end of the year</b>	<b>30 331 321,27</b>	22 144 932,16

## NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

EUR 1,000	2017	%	2016	%
<b>NET SALES</b>				
<b>Net sales by market area</b>				
EMEA (Europe and Africa)	82 296	63	67 882	70
CIS (Russia)	34 827	27	18 800	19
LAM (South America)	5 986	5	3 048	3
NAM (North America)	4 062	3	3 180	3
APAC (Asia-Pacific)	2 822	2	4 804	5
<b>TOTAL</b>	<b>129 994</b>	<b>100</b>	<b>97 714</b>	<b>100</b>

Finland accounted for 20 percent (25%) of the Parent company's net sales.

**Basis of preparation**

The revenue recognition related to net sales correspond the accounting principles of the Group consolidated financial statements.

EUR 1,000	2017	2016
<b>LONG-TERM PROJECTS</b>		
<b>Specification of net sales</b>		
Net sales by percentage of completion	110 896	83 005
Other net sales	19 098	14 709
<b>TOTAL</b>	<b>129 994</b>	<b>97 714</b>
Project revenues entered as income from currently undelivered long-term projects recognized by percentage of completion	129 804	109 828
Amount of long-term project revenues not yet entered as income (order book)	88 168	100 173
<b>The balance sheet items of the undelivered projects</b>		
Projects in which the value by percentage of completion exceeds advance payments invoiced		
- aggregate amount of costs incurred and recognized profits less recognized losses	84 998	88 283
- advance payments received	64 882	72 037
<b>Gross amount due from customers</b>	<b>20 117</b>	<b>16 246</b>
Projects in which advance payments invoiced exceed the value by percentage of completion		
- aggregate amount of costs incurred and recognized profits less recognized losses	44 805	21 545
- advance payments received	63 973	31 555
<b>Gross amount due to customers</b>	<b>19 168</b>	<b>10 010</b>
<b>Advance payments included in the current liabilities in the balance sheet</b>		
Gross amount due to customers	19 168	10 010
Other advance payments received, not under percentage of completion	2 534	181
<b>TOTAL</b>	<b>21 702</b>	<b>10 191</b>
<b>Advance payments of the long-term projects included in inventories in the balance sheet</b>		
Advance payments paid for long-term projects	965	1 213
<b>TOTAL</b>	<b>965</b>	<b>1 213</b>



## CURRENT RECEIVABLES

EUR 1,000	2017	2016
Current receivables from Group companies		
Loan receivables	2 029	2 114
Accounts receivables	985	915
Other receivables	-	350
Total from Group companies	3 014	3 379
Current receivables from others		
Accounts receivables	6 530	3 521
Accrued income and prepaid expenses	20 724	16 678
Other receivables, non-interest-bearing	356	951
Total from others	27 610	21 150
<b>TOTAL</b>	<b>30 625</b>	<b>24 529</b>
Substantial items included in accrued income		
Project receivables entered according to percentage of completion	20 117	16 247
Other accrued income	607	431
<b>TOTAL</b>	<b>20 724</b>	<b>16 678</b>

### Basis of preparation

**Receivables** in the balance sheet include accounts receivables and other receivables. Receivables have been valued at original carrying amount or at the lower disposal price. Accounts receivables in the balance sheet do not include significant concentration.

## MATERIALS AND SERVICES

EUR 1,000	2017	2016
Purchases during the financial year	-63 929	-42 553
Change in inventories, materials and supplies	-204	438
External services	-11 114	-9 301
<b>TOTAL</b>	<b>-75 247</b>	<b>-51 416</b>

## INVENTORIES

EUR 1,000	2017	2016
Materials and supplies	4 357	4 562
Work in progress	1 639	1 065
Other inventories	598	536
Advance payments for long-term projects	965	1 213
<b>TOTAL</b>	<b>7 559</b>	<b>7 376</b>

During the financial year, EUR 98 thousand (EUR 101 thousand) were recognized in expenses, reducing the carrying amount of inventories to correspond to the disposal price.

## OBLIGATORY PROVISIONS

EUR 1,000	2017	2016
<b>Warranty provisions</b>		
<b>Book value at Jan. 1</b>	<b>1 511</b>	1 672
Additions	1 693	1 158
Decrease	-1 411	-1 319
<b>Book value at Dec. 31</b>	<b>1 793</b>	1 511
<b>Other obligatory provisions</b>		
<b>Book value at Jan. 1</b>	<b>48</b>	116
Additions	186	1
Decrease	-48	-69
<b>Book value at Dec. 31</b>	<b>186</b>	48
<b>TOTAL</b>	<b>1 979</b>	1 559

**PERSONNEL EXPENSES**

EUR 1,000	2017	2016
Wages and salaries	-24 801	-22 674
Pension costs	-4 164	-4 158
Fixed share-based employee payments	-286	-227
Other personnel expenses	-1 129	-1 411
<b>TOTAL</b>	<b>-30 577</b>	<b>-28 470</b>
<b>PERSONNEL</b>		
<b>Employed at Dec. 31, persons</b>		
Workers	164	163
Office staff	323	301
<b>TOTAL</b>	<b>487</b>	<b>464</b>
Personnel working abroad	5	4
<b>Effective, on average, persons</b>		
Workers	157	157
Office staff	304	284
<b>TOTAL</b>	<b>461</b>	<b>441</b>
Personnel working abroad, effective, on average	5	4
<b>On average, persons</b>		
Workers	162	162
Office staff	319	291
<b>TOTAL</b>	<b>481</b>	<b>453</b>
Personnel working abroad, on average	5	4

**Basis of preparation**

**Statutory pension coverage** of Raute Corporation has been arranged through an external pension insurance company. Pension expenses have been recognized as expenses according to accrual over time.

**OTHER OPERATING INCOME**

EUR 1,000	2017	2016
Other operating income from Group companies	280	311
Other operating income	26	53
Capital gain on non-current assets	16	28
Insurance compensations	11	918
Allowances received	4	84
<b>TOTAL</b>	<b>337</b>	<b>1 393</b>

**Basis of preparation**

Revenue not included in net sales has been recognized in the other operating income. Lease income included in the other operating income has been recognized as income on a straight-line basis for the lease term.

**OTHER OPERATING EXPENSES**

EUR 1,000	2017	2016
Indirect production costs	-3 089	-2 744
Sales and marketing costs	-2 819	-2 317
Administration costs	-2 304	-1 992
Credit losses from Group companies	-	900
Credit losses from others	-3	-159
Other costs	-3 326	-2 942
<b>TOTAL</b>	<b>-11 541</b>	<b>-9 253</b>

**Basis of preparation**

**Research and development costs** have been recognized as expenses in the income statement in the year they incurred. During the financial year research and development costs have been recognized in the income statement in the amount of EUR 3 169 thousand (EUR 2 898 thousand).

## OTHER OPERATING EXPENSES

EUR 1,000	2017	2016
<b>Auditor's remunerations</b>		
<b>Authorized Public Accountants PricewaterhouseCoopers Oy (Finland)</b>		
Audit expenses, statutory	-40	-41
Audit expenses, other assignments according to the Audit Act	-2	-1
Audit expenses, other services	-93	-19
Audit expenses, tax services	-5	-10
<b>TOTAL</b>	<b>-140</b>	<b>-71</b>

The Parent company's **auditor** during the financial year was Authorized Public Accountants PricewaterhouseCoopers Oy. Statutory audit fee includes audit fees for current financial year auditing. Other services and tax services include audit fees for other services recognized on accrual basis during the financial year. Fees do not include travel costs and fees payable to the authorities arising from auditing or other assignments. Travel expenses paid to the auditors during the financial year totaled EUR 6 thousand (EUR 4 thousand).

## OTHER LEASES

EUR 1,000	2017	2016
Raute Corporation as a lessee		
Minimum rents paid on the basis of other non-cancellable leases:		
- Within one year	149	149
- After a period of more than one year and less than five years	29	26
- Maturing later	-	1
<b>TOTAL</b>	<b>178</b>	<b>176</b>

## INCOME TAXES

EUR 1,000	2017	2016
Income taxes from operations	-2 548	-1 563
Current tax of previous financial years	9	54
Deferred tax assets	28	9
<b>TOTAL</b>	<b>-2 511</b>	<b>-1 500</b>

### Basis of preparation

**The income taxes in the income statement** include the current tax based on the taxable income, as well as tax adjustments for previous years.

**Current tax based on the taxable income of the financial year** has been calculated on taxable income using the tax rate in force.

**Deferred taxes have been** recognized for temporary differences between the accounting and taxation value.

**INTANGIBLE ASSETS**

EUR 1,000	Intangible rights	Goodwill	Other intangible assets	TOTAL
<b>Acquisition cost at Jan. 1, 2017</b>	<b>2 206</b>	<b>0</b>	<b>5 813</b>	<b>8 019</b>
Additions	1 531	662	97	2 289
Reclassification between the items	-	-	270	270
<b>Acquisition cost at Dec. 31, 2017</b>	<b>3 737</b>	<b>662</b>	<b>6 180</b>	<b>10 579</b>
<b>Accumulated amortization and depreciation at Jan. 1, 2017</b>	<b>-1 873</b>	<b>0</b>	<b>-5 266</b>	<b>-7 139</b>
Depreciation for the financial year	-216	-47	-287	-550
<b>Accumulated amortization and depreciation at Dec. 31, 2017</b>	<b>-2 090</b>	<b>-47</b>	<b>-5 552</b>	<b>-7 689</b>
<b>Book value at Dec. 31, 2017</b>	<b>1 647</b>	<b>615</b>	<b>628</b>	<b>2 890</b>
Book value at Dec. 31, 2016	333	0	547	880

**Basis of preparation**

The **Goodwill** recognized in the Parent company's balance sheet has been generated in the business acquisition from Metriguard, Inc. The identifiable other intangible assets acquired has been presented in the balance sheet item Other intangible assets. These items shall be depreciated over their useful life.

**Tangible and intangible assets** have been recognized in the balance sheet at original cost less accumulated depreciation, with the exception of tangible assets and shares, which have been subject to impairment. Variable costs arising from the acquisition and production of a product have been included in the carrying amount.

The carrying values of intangible assets with limited useful lives have been reviewed at each reporting date. If the value of an asset has decreased significantly the **impairment** has been transferred to the income statement.

**TANGIBLE ASSETS**

EUR 1,000	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and assets in progress	TOTAL
<b>Acquisition cost at Jan. 1, 2017</b>	<b>218</b>	<b>9 777</b>	<b>26 473</b>	<b>355</b>	<b>260</b>	<b>37 083</b>
Additions	-	4	694	-	1 403	2 101
Disposals	-	-	-94	-	-	-94
Reclassification between items	-	209	98	12	-589	-270
<b>Acquisition cost at Dec. 31, 2017</b>	<b>218</b>	<b>9 990</b>	<b>27 170</b>	<b>367</b>	<b>1 073</b>	<b>38 819</b>
<b>Accumulated depreciation and amortization at Jan. 1, 2017</b>	<b>-</b>	<b>-6 849</b>	<b>-22 440</b>	<b>-334</b>	<b>-</b>	<b>-29 623</b>
Depreciation and amortization for the financial year	-	-303	-1 046	-2	-	-1 351
<b>Accumulated depreciation and amortization at Dec. 31, 2017</b>	<b>-</b>	<b>-7 152</b>	<b>-23 485</b>	<b>-336</b>	<b>-</b>	<b>-30 973</b>
<b>Book value at Dec. 31, 2017</b>	<b>218</b>	<b>2 838</b>	<b>3 685</b>	<b>31</b>	<b>1 073</b>	<b>7 845</b>
Book value at Dec. 31, 2016	218	2 928	4 033	21	260	7 460

**Book value for production machinery** was EUR 2,478 thousand (EUR 2,715 thousand) at the end of the financial year.

**DEPRECIATION AND AMORTIZATION**

EUR 1,000	2017	2016
Depreciation and amortization of intangible assets	-550	-318
Depreciation and amortization of tangible assets	-1 351	-1 267
<b>TOTAL</b>	<b>-1 901</b>	<b>-1 585</b>

Depreciations of tangible assets and amortizations of intangible assets according to a plan have been recorded with the straight-line method over the expected economic lives of the assets as follows:

Intangible rights	10 years
Goodwill	10 years
Other intangible assets	3–10 years
Buildings and structures	25–40 years
Machinery and equipment	4–12 years
Other tangible assets	3–10 years.

**Depreciations and amortizations** have been recorded from the beginning of the month in which the asset has been taken into use. Residual expenditures on decommissioning and disposal of tangible assets are presented under the item Depreciation and amortization in the income statement. **Gains and losses** on disposal of tangible assets are presented in other operating income or expenses.

## NON-CURRENT INVESTMENTS

EUR 1,000	Shares, Group companies	Shares, Others	Total
<b>Acquisition cost at Jan. 1, 2017</b>	<b>7 888</b>	<b>792</b>	<b>8 680</b>
Additions	6 286	-	6 286
Disposals	-	-19	-19
<b>Acquisition cost at Dec. 31, 2017</b>	<b>14 174</b>	<b>773</b>	<b>14 947</b>
<b>Accumulated impairments at Jan. 1, 2017</b>	<b>-7 560</b>	<b>-303</b>	<b>-7 863</b>
Impairments	-5 245	-	-5 245
<b>Accumulated impairments at Dec. 31, 2017</b>	<b>-12 805</b>	<b>-303</b>	<b>-13 107</b>
<b>Book value at Dec. 31, 2017</b>	<b>1 369</b>	<b>471</b>	<b>1 840</b>
Book value at Dec. 31, 2016	328	490	817

## SHARES OWNED BY THE COMPANY

	Holding and voting rights, %	Book value, EUR 1,000
<b>Subsidiaries</b>		
Raute Inc., Delaware, USA	100	1 058
RWS-Engineering Oy, Lahti, Finland	100	203
Raute Canada Ltd., Delta, B.C., Canada	100	84
Raute WPM Oy, Lahti, Finland	100	9
Raute Group Asia Pte Ltd., Singapore	100	0
Raute (Shanghai) Machinery Co., Ltd, Shanghai, China	100	0
Raute Chile Ltda., Santiago, Chile	50	15
<b>TOTAL</b>		<b>1 369</b>
<b>Other shares</b>		
	<b>Number of shares, pcs</b>	<b>Book value, EUR 1,000</b>
Lahden Seudun Puhelin Oy	1 717	326
Esys Oy	600	51
FIMECC OY	50	50
Other		44
<b>TOTAL</b>		<b>471</b>

## SHAREHOLDERS' EQUITY

EUR 1,000	2017	2016
<b>Share capital at Jan. 1</b>	<b>8 256</b>	8 223
Exercised stock options	-	33
<b>Share capital at Dec. 31</b>	<b>8 256</b>	8 256
<b>Invested non-restricted equity reserve at Jan. 1</b>	<b>5 445</b>	4 950
Exercised stock options	207	495
<b>Invested non-restricted equity reserve at Dec. 31</b>	<b>5 652</b>	5 445
<b>Retained earnings at Jan. 1</b>	<b>10 229</b>	5 806
Changes during the financial year		
- Profit from the previous year	8 702	7 725
- Dividends	-4 220	-3 303
<b>Retained earnings at Dec. 31</b>	<b>14 711</b>	10 229
<b>Profit for the financial year</b>	<b>9 162</b>	8 702
<b>SHAREHOLDERS' EQUITY AT DEC. 31</b>	<b>37 782</b>	32 632
<b>Distributable funds</b>		
Retained earnings at Dec. 31	14 711	10 229
Profit for the financial year	9 162	8 702
Invested non-restricted equity reserve	5 652	5 445
<b>Distributable funds at Dec. 31</b>	<b>29 525</b>	24 376
<b>Shares of the company</b>		
Series K shares (ordinary shares, 20 votes/share), 1,000 pcs	991	991
Series A shares (1 vote/shares), 1,000 pcs	3 258	3 215
Shares, 1,000 pcs	4 249	4 206
Book counter value of the share	1,94	1,96
Total book counter value, 1 000 pcs	8 256	8 256

## LIABILITIES

EUR 1,000	2017	2016
<b>Current liabilities</b>		
Current liabilities to Group companies		
- Advance payments received	1 938	2 489
- Accounts payable	349	586
- Accrued expenses and prepaid income	425	-
- Other current liabilities	3 729	4 161
Total to Group companies	6 440	7 236
Current liabilities to others		
- Advance payments received	19 764	7 703
- Accounts payable	6 102	6 241
- Accrued expenses and prepaid income	8 500	7 238
- Other liabilities	560	609
Total to others	34 926	21 790
<b>TOTAL</b>	<b>41 366</b>	29 026
<b>Interest-bearing liabilities</b>		
- Current other liabilities	3 729	4 161
<b>TOTAL</b>	<b>3 729</b>	4 161
<b>Substantial items included in accrued expenses and prepaid income</b>		
- Accrued personnel expenses	6 343	5 413
- Accrued project expenses	231	282
- Income tax liability	782	1 131
- Accrued investments	542	-
- Other accrued expenses	603	411
<b>TOTAL</b>	<b>8 500</b>	7 238

## FINANCIAL INCOME AND EXPENSES

EUR 1,000	2017	2016
<b>Dividend income</b>		
From others	120	114
<b>Total</b>	120	114
<b>Other interest and financial income</b>		
From Group companies	679	20
Reversed impairment on loan receivables from Group companies	4 383	2 764
From others	236	2
<b>Total</b>	5 298	2 787
<b>Total financial income</b>	5 418	2 901
<b>Interest and other financial expenses</b>		
To Group companies	-	-1
Impairments, investment in Group company	-5 245	-1 394
To others	-201	-150
<b>Total</b>	-5 445	-1 546
<b>Total financial expenses</b>	-5 445	-1 546
<b>Financial income and expenses, net</b>	-27	1 355
Exchange rate gains (+) / losses (-) included in total financial income	-57	-19

Raute Corporation's result was improved by a reversal of impairment for financing loan receivable EUR 4 383 thousand (EUR 2 114 thousand). At the end of the financial year, Raute Corporation had loan receivables from its subsidiary Raute Canada Ltd. Raute Corporation had loan receivables from its subsidiary Raute Canada Ltd a total of EUR 997 thousand (2 114 thousand) and from a Group company Metriguard Technologies, Inc. a total of EUR 1 032 thousand. At the end of the financial year Raute Corporation have been recognized an impairment for an investment in a foreign subsidiary a total of EUR 5 245 thousand (EUR 1 394 thousand).

## DERIVATIVES

EUR 1,000	2017	2016
<b>Nominal values of forward contracts in foreign currency</b>		
Economic hedging		
- Related to financing	492	-
- Related to the hedging of net sales	2 189	3 275
Hedge accounting		
- Related to the hedging of net sales	12 716	2 556
<b>Fair values of forward contracts in foreign currency</b>		
Economic hedging		
- Related to financing	52	-
- Related to the hedging of net sales	22	-97
Hedge accounting		
- Related to the hedging of net sales	-18	-75

## Basis of preparation

The company's derivatives include foreign currency derivative contracts. Currency derivatives are used to hedge against currency risks related to currency cash flow.

## PLEDGED ASSETS AND CONTINGENT LIABILITIES

EUR 1,000	2017	2016
<b>On behalf of the Parent company</b>		
Business mortgages	8 274	6 623
<b>Mortgage agreements on behalf of subsidiaries</b>		
Financial loans	1 413	3 136
Other obligations	313	189
Business mortgages	1 726	3 377
<b>Commercial bank guarantees on behalf of the Parent company and subsidiaries</b>	25 728	17 793

"Letters of Guarantee" engagements have been issued on behalf of certain subsidiaries. No pledges or other contingent liabilities have been given on behalf of the management or shareholders. No loans have been granted to the management and shareholders.



## List of the Parent company's common accounting document types, voucher groups and means of storing

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### FINANCIAL STATEMENTS DECEMBER 31, 2017

#### Common accounting document types used

Balance sheet book

General journal and general ledger

Accounts payable and accounts receivable

#### Documents' means of storing

Separately bound, in paper

In electronic format

In electronic format

#### Description of voucher group

Bank and cash vouchers

Purchase invoices

Sales invoices

Transactions of purchase and sales invoices

Fixed asset register

Salary vouchers

Memo vouchers

Automatic contra entries of memo vouchers

Imputed and entries of cost accounting

#### Voucher group

10, 11 and 15

81, 85, 86, 87 and 88

30, 31, 34, 35 and 36

70, 72 ja 80

65, 66, 67 and 68

6, 20, 21, 22 and 25

98

28 ja 29

#### Vouchers' means of storing

In paper

In electronic format

In paper

In electronic format

In paper

In paper

In paper

In electronic format

In electronic format and in paper (28)

## THE BOARD OF DIRECTORS' PROPOSAL FOR PROFIT DISTRIBUTION, SIGNATURES FOR THE REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS AND THE AUDITOR'S NOTE

The Parent company's distributable funds total EUR 29,525,463.81 of which the profit for the financial year is EUR 9,162,464.41 and the balance sheet amounts to EUR 81,127,057.77.

The Board of Directors will propose to the Annual General Meeting 2018 that the distributable funds will be used in the following way based on the total amount of shares entitled for the dividend at the date of the proposal for dividend distribution, i.e. 4,249,248 shares:

- EUR 1.25 per share to be distributed as dividend, i.e. a total of	EUR 5,311,560.00
- Retained in equity	EUR 24,213,903.81
Total	EUR 29,525,463.81.

No material changes have taken place in the company's financial position after the end of the financial year. The company has good liquidity, and the proposed profit distribution does not pose a risk to solvency.

Lahti, February 15, 2018

Erkki Pehu–Lehtonen  
Chairman of the Board

Mika Mustakallio

Joni Bask

Laura Raitio

Pekka Suominen

Patrick von Essen

Tapani Kiiski  
President and CEO

### Auditor's note

A report on the audit performed has been issued today.

Lahti, February 15, 2018

**PricewaterhouseCoopers Oy**  
Authorized Public Accountants

Markku Launis  
Authorized Public Accountant

To the Annual General Meeting of Raute Corporation

## Report on the Audit of the Financial

### Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Board of Directors.

### What we have audited

We have audited the financial statements of Raute Corporation (business identity code 0149072-6) for the year ended 31 December 2017. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

### Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note Other operating expenses to the Financial Statements.

## Our Audit Approach

### Overview



- We have applied an overall group materiality of EUR 1,4 million.
- We have audited parent company and its subsidiaries in Finland and Canada. In addition, we have performed group level procedures over specific consolidated accounts and analytical procedures to assess unusual movements across all entities.
- Revenue recognition of long-term projects

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

<b>Overall group materiality</b>	EUR 1,4 million
<b>How we determined it</b>	Net sales
<b>Rationale for the materiality benchmark applied</b>	We chose net sales as the benchmark because, in our view, the performance of the Group is most commonly measured by using this criteria, and it is a generally accepted benchmark. We chose net sales as the benchmark as we considered that this provides us with a consistent year-on-year basis for determining materiality.

## How we tailored our group audit scope

The group audit scope was tailored to take into account the structure of the Group and the size, complexity and risk of individual subsidiaries. Using this criteria we selected companies into our audit scope and at the same time ensured that we get sufficient coverage to our audit, in order to issue an audit opinion for the Group.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
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### *Revenue recognition of long-term projects*

*Refer to accounting principles of the consolidated financial statements and notes net sales and long-term projects in the consolidated financial statements*

The main part of net sales is comprised of wood products industry project deliveries and modernizations in technology services, which are treated as long-term projects.

The revenue recognition for long-term projects includes significant management judgments, which have a direct impact on the revenue and profit of the financial year. The most important judgment relates to the estimated total revenues as well as estimated material, subcontracting and labour costs.

Revenue and cost from long-term projects have been recognized as an income and expense according to the percentage of completion as soon as the outcome has been reliably estimated. Percentage of completion has been measured on a cost basis as the relation of actual project costs to the estimated total project costs.

Our audit procedures focused on the revenue recognition of long-term projects, as they include management judgment. The revenue recognition for long-term projects includes management judgment in a form of estimates affecting both on the amount of revenue being recognized and profitability of the projects.

Our revenue testing included both testing of the company's controls, as well as substantive audit procedures targeted at selected long-term projects. Our substantive procedures included the following but was not limited to:

- We have verified, by sampling new contracts signed during the accounting period, that the revenue recognition method applied was appropriate based on the terms of the arrangement
- We have tested by sample, that estimated revenues are based on signed contracts and that new projects have been processed in accordance with Raute's decision making policy.
- We have assessed reliability of the expected expenses for projects by comparing expenses of unfinished projects in the previous year-end to the final outcome. We have had discussions with relevant personnel about uncertainty relating to the estimated total expenses of the projects. We have read minutes from monthly project meetings into which the changes in expected expenses are documented by project.
- We have tested the arithmetic of the spreadsheets with which the percentage of completion and revenue to be recognized for projects is calculated.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

# Auditor's Report (Translation of the Finnish Original)

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## *Responsibilities of the Board of Directors and the Managing Director for the Financial Statements*

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

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## *Auditor's Responsibilities for the Audit of the Financial*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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## *Other Reporting Requirements*

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### *Appointment*

We were first appointed as auditors by the annual general meeting on 31 March 2010.

Our appointment represents a total period of uninterrupted engagement of 8 years.

### *Other Information*

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

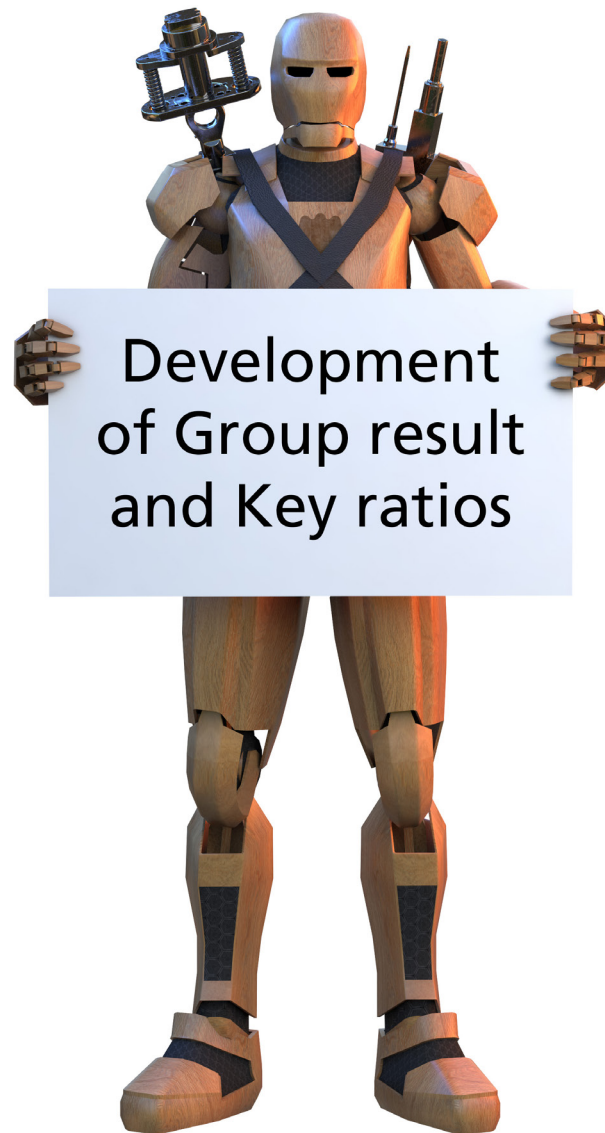
Lahti 15 February 2018

**PricewaterhouseCoopers Oy**

Authorised Public Accountants

Markku Launis

Authorised Public Accountant (KHT)

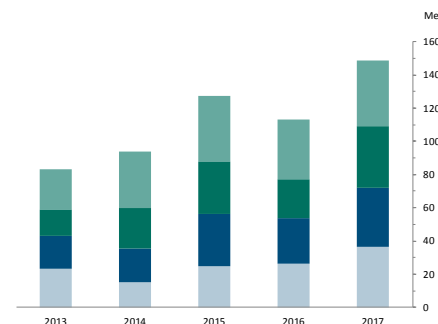


The presented interim report figures have not been audited.

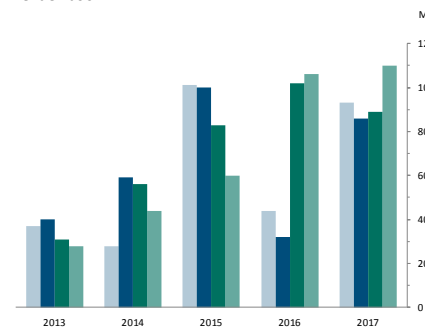
EUR 1,000	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
<b>NET SALES</b>	<b>39 659</b>	<b>37 152</b>	<b>35 209</b>	<b>36 595</b>	<b>36 043</b>	<b>23 355</b>	<b>27 306</b>	<b>26 427</b>
<b>Change in inventories of finished goods and work in progress</b>	<b>891</b>	<b>-224</b>	<b>748</b>	<b>489</b>	<b>-894</b>	<b>67</b>	<b>60</b>	<b>917</b>
<b>Other operating income</b>	<b>-190</b>	<b>167</b>	<b>91</b>	<b>28</b>	<b>24</b>	<b>46</b>	<b>73</b>	<b>962</b>
Materials and services	-21 183	-19 386	-19 405	-20 747	-17 041	-10 032	-13 513	-14 264
Employee benefits expense	-11 437	-9 495	-10 347	-9 756	-9 882	-8 627	-8 966	-9 131
Depreciation and amortization	-702	-654	-660	-618	-646	-605	-573	-515
Other operating expenses	-3 738	-3 381	-4 223	-3 311	-3 313	-2 838	-2 871	-3 009
<b>Total operating expenses</b>	<b>-37 060</b>	<b>-32 916</b>	<b>-34 634</b>	<b>-34 432</b>	<b>-30 881</b>	<b>-22 103</b>	<b>-25 923</b>	<b>-26 919</b>
<b>OPERATING PROFIT</b>	<b>3 300</b>	<b>4 179</b>	<b>1 413</b>	<b>2 681</b>	<b>4 292</b>	<b>1 364</b>	<b>1 516</b>	<b>1 386</b>
<b>% of net sales</b>	<b>8,3</b>	<b>11,2</b>	<b>4,0</b>	<b>7,3</b>	<b>11,9</b>	<b>5,8</b>	<b>5,6</b>	<b>5,2</b>
Financial income	5	19	17	318	152	-70	-52	93
Financial expenses	-39	-121	-145	-105	-139	-134	35	-222
<b>Financial expenses, net</b>	<b>-34</b>	<b>-102</b>	<b>-127</b>	<b>212</b>	<b>13</b>	<b>-204</b>	<b>-17</b>	<b>-129</b>
<b>PROFIT BEFORE TAX</b>	<b>3 266</b>	<b>4 077</b>	<b>1 286</b>	<b>2 894</b>	<b>4 304</b>	<b>1 159</b>	<b>1 499</b>	<b>1 258</b>
<b>% of net sales</b>	<b>8,2</b>	<b>11,0</b>	<b>3,7</b>	<b>7,9</b>	<b>11,9</b>	<b>5,0</b>	<b>5,5</b>	<b>4,8</b>
Income taxes	-376	-660	-396	-790	-689	-219	-274	-353
<b>TOTAL PROFIT FOR THE PERIOD</b>	<b>2 890</b>	<b>3 417</b>	<b>890</b>	<b>2 104</b>	<b>3 615</b>	<b>940</b>	<b>1 224</b>	<b>904</b>
<b>% of net sales</b>	<b>7,3</b>	<b>9,2</b>	<b>2,5</b>	<b>5,7</b>	<b>10,0</b>	<b>4,0</b>	<b>4,5</b>	<b>3,4</b>
Undiluted earnings per share, euros	0,68	0,81	0,21	0,50	0,86	0,22	0,29	0,22
Diluted earnings per share, euros	0,68	0,80	0,21	0,50	0,85	0,22	0,29	0,22
Adjusted average number of shares, 1 000 pcs	4 240	4 229	4 225	4 205	4 191	4 192	4 147	4 124
Adjusted average number of shares diluted, 1 000 pcs	4 274	4 259	4 242	4 249	4 235	4 201	4 189	4 151
<b>FINANCIAL DEVELOPMENT QUARTERLY</b>								
Order intake during the period, EUR million	60	42	29	24	42	92	16	13
Order book at the end of the period, EUR million	110	89	86	93	106	102	32	44

## Development quarterly

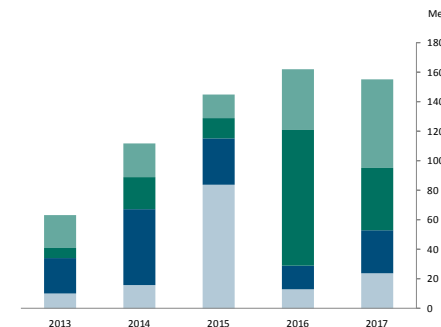
Net sales



Order book



Order intake



Q1 Q2 Q3 Q4



## Key ratios describing the Group's financial development

	2017	2016	2015	2014	2013
Net sales	<b>148 615</b>	113 130	127 278	94 021	83 274
Change in net sales, %	<b>31,4</b>	-11,1	35,4	12,9	-17,8
Exported portion of net sales	<b>122 801</b>	88 612	97 113	88 696	78 436
% of net sales	<b>82,6</b>	78,3	76,3	94,3	94,2
Operating profit	<b>11 573</b>	8 558	8 120	2 605	1 828
% of net sales	<b>7,8</b>	7,6	6,4	2,8	2,2
Profit before tax	<b>11 522</b>	8 220	8 118	2 810	1 589
% of net sales	<b>7,8</b>	7,3	6,4	3,0	1,9
Profit for the financial year	<b>9 300</b>	6 684	6 684	2 361	1 196
% of net sales	<b>6,3</b>	5,9	5,3	2,5	1,4
Return on investment (ROI), %	<b>30,4</b>	25,3	28,5	10,9	7,3
Return on equity (ROE), %	<b>25,2</b>	20,9	24,7	9,8	5,0
Balance sheet total	<b>86 857</b>	69 767	61 760	52 646	48 783
Interest-bearing net liabilities	<b>-29 311</b>	-20 633	-5 003	-1 669	-6 677
% of net sales	<b>-19,7</b>	-18,2	-3,9	-1,8	-8,0
Non-interest-bearing liabilities	<b>44 877</b>	31 760	28 421	22 795	18 302
Equity ratio, %	<b>64,4</b>	60,4	58,5	55,8	56,6
Gearing, %	<b>-73,8</b>	-60,3	-16,8	-6,9	-28,3
Gross capital expenditure	<b>6 962</b>	3 224	2 506	1 675	3 189
% of net sales	<b>4,7</b>	2,8	2,0	1,8	3,8
Research and development costs	<b>3 237</b>	2 863	3 092	1 767	2 523
% of net sales	<b>2,2</b>	2,5	2,4	1,9	3,0
Order book, EUR million	<b>110</b>	106	60	44	28
Order intake, EUR million	<b>155</b>	162	145	112	63
Personnel at Dec. 31	<b>704</b>	643	646	587	534
Personnel, effective, on average	<b>660</b>	631	614	530	515
Personnel, average	<b>682</b>	642	624	545	522
Dividend	<b>5 312*</b>	4 220	3 303	1 606	801
Repayment of equity	<b>-*</b>	-	-	803	1 201

Raute Group uses key ratios and alternative performance measures (APM's) to describe the income, operational financial result, capital structure, return on equity, financial position and cash flows.

The purpose of the key ratios and APMs is to give the readers a performance of the Group's financial position and help in analyzing the financial statements and evaluating the development of the operations.

The key ratios have been derived from the consolidated financial statements or are based on items presented in the financial statements which have been prepared in accordance with the accounting standards.

If there is a change in the accounting principles of the Group during a certain financial year, the figures of the comparison years are adjusted to correspond those accounting principles in force for the current year.

The calculation of the key figures and the alternative performance measures has been presented on page 70 and the calculation of share-related data in connection of the share-related data, on page 71.

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

<b>Change in net sales, %</b>	$\frac{\text{Net sales of the financial year} - \text{Net sales of the previous financial year}}{\text{Net sales}} \times 100$
<b>Exported portion of net sales</b>	Exported portion of materials and services sold from Finland
<b>Exported portion of net sales, %</b>	$\frac{\text{Exported portion}}{\text{Net sales of the financial year}} \times 100$
<b>Operating profit</b>	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 from employee benefits, depreciation and possible impairment losses, as well as other operating expenses.
<b>Operating profit, % of net sales</b>	$\frac{\text{Operating profit}}{\text{Net sales of the financial year}} \times 100$
<b>Profit before tax, % of net sales</b>	$\frac{\text{Profit before tax}}{\text{Net sales of the financial year}} \times 100$
<b>Profit for the financial year, % of net sales</b>	$\frac{\text{Profit for the financial year}}{\text{Net sales of the financial year}} \times 100$
<b>Return on investment (ROI), %</b>	$\frac{\text{Profit before tax} + \text{financial expenses}}{\text{Shareholders' equity} + \text{interest-bearing financial liabilities (average of the financial year)}} \times 100$
<b>Return on equity (ROE), %</b>	$\frac{\text{Profit for the financial year}}{\text{Shareholders' equity (average of the financial year)}} \times 100$
<b>Interest-bearing net liabilities</b>	Interest-bearing liabilities /. (cash and cash equivalents + financial assets at fair value through profit or loss)
<b>Interest-bearing net liabilities, % of net sales</b>	$\frac{\text{Interest-bearing liabilities} /. (\text{cash and cash equivalents} + \text{financial assets at fair value through profit or loss})}{\text{Net sales}} \times 100$
<b>Non-interest-bearing liabilities</b>	Provisions + current advance payments received + income tax liability + trade payables and other liabilities

<b>Equity ratio, %</b>	$\frac{\text{Shareholders' equity}}{\text{Balance sheet total} /. \text{advance payments received}} \times 100$
<b>Gearing, %</b>	$\frac{\text{Interest-bearing net financial liabilities}}{\text{Shareholders' equity}} \times 100$
<b>Gross capital expenditure</b>	Gross capital expenditure includes additions in intangible and tangible assets
<b>Gross capital expenditure, % of net sales</b>	$\frac{\text{Gross capital expenditure}}{\text{Net sales of the financial year}} \times 100$
<b>Research and development costs</b>	Research and development costs include materials and supplies, working hours and other operating costs
<b>Research and development costs, % of net sales</b>	$\frac{\text{Research and development costs}}{\text{Net sales of the financial year}} \times 100$
<b>Order book, EUR million</b>	Binding sales contracts received but not yet delivered as far the orders have not been recognized in net sales according to the standard IAS 11 at the balance sheet date.
<b>Order intake, EUR million</b>	Binding sales contracts entered into force during the financial year according to the latest net sales estimate.
<b>Number of personnel at 31 Dec.</b>	Number of employed personnel at the end of the financial year.
<b>Personnel, average</b>	Average of the number of employed personnel at the end of calendar months.
<b>Henkilöstö, keskimäärin</b>	Keskiarvo tilikauden kalenterikuukausien lopussa työsuhteessa olleiden henkilöiden määrästä.
<b>Dividend distribution</b>	Dividend distribution confirmed or proposed for the financial year.
<b>Repayment of equity</b>	Repayment of equity from the non-restricted equity reserve confirmed or proposed for the financial year.

## Share-related data and calculation

	2017	2016	2015	2014	2013
Earnings per share, (EPS), undiluted, EUR	<b>2,20</b>	1,60	1,65	0,59	0,30
Earnings per share, (EPS), diluted, EUR	<b>2,18</b>	1,59	1,64	0,59	0,30
Equity to share, EUR	<b>9,34</b>	8,13	7,26	6,06	5,90
Dividend per series A share, EUR	<b>1,25*</b>	1,00	0,80	0,40	0,20
Dividend per series K share, EUR	<b>1,25*</b>	1,00	0,80	0,40	0,20
Dividend per profit, %	<b>56,8*</b>	62,3	48,4	68,0	66,7
Effective dividend return, %	<b>4,3*</b>	6,0	5,7	5,5	2,9
Price/earnings ratio (P/E ratio)	<b>13,17</b>	10,41	8,55	12,42	23,28
Repayment of equity from invested non-restricted equity reserve, EUR	-	-	-	0,20	0,30
<b>Development in share price (series A share)</b>					
Lowest share price for the financial year, EUR	<b>16,84</b>	12,06	7,17	6,90	6,88
Highest share price for the financial year, EUR	<b>30,52</b>	17,98	14,25	8,60	9,33
Average share price for the financial year, EUR	<b>22,70</b>	14,50	11,95	7,69	8,49
Share price at the end of the financial year, EUR	<b>29,00</b>	16,70	14,12	7,30	6,95
Market value of capital stock at Dec. 31, EUR thousand**	<b>123 228</b>	70 248	58 057	29 311	27 833
<b>Trading of the company's shares (series A shares)</b>					
Shares traded during the financial year, 1 000 pcs	<b>846</b>	988	1 095	594	514
% of the number of series A shares	<b>26,0</b>	30,7	35,1	20,0	17,0
<b>Total number of shares (undiluted)</b>					
Issue-adjusted weighted average number of shares	<b>4 225 082</b>	4 166 966	4 051 034	4 009 777	4 004 758
Issue-adjusted number of shares at the end of the financial year	<b>4 249 248</b>	4 206 462	4 111 708	4 015 228	4 004 758

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

\*Board of Directors' proposal to the Annual General Meeting.

\*\*Series K shares valued at the value of series A shares.

	Closing price at Dec. 31	Share subscription price at Dec. 31	Unsubscribed at Dec. 31
<b>Stock options 2010 C</b>			
2010 C series stock options	20,50	5,00	13 446

<b>Earnings per share, undiluted, euros</b>	$\frac{\text{Profit (loss) for the financial year}}{\text{Equity issue-adjusted average number of shares during the financial year}}$
<b>Earnings per share, diluted, euros</b>	$\frac{\text{Diluted profit (loss) for the financial year}}{\text{Diluted equity issue-adjusted average number of shares during the financial year}}$
<b>Equity to share, euros</b>	$\frac{\text{Share of shareholders' equity belonging to the owners of the Parent company}}{\text{Undiluted number of shares at the end of the financial year}}$
<b>Dividend per series A share, euros</b>	$\frac{\text{Distributed dividend for the financial year}}{\text{Undiluted number of shares at the end of the financial year}}$
<b>Dividend per series K share, euros</b>	$\frac{\text{Distributed dividend for the financial year}}{\text{Undiluted number of shares at the end of the financial year}}$
<b>Dividend per profit, %</b>	$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$
<b>Effective dividend return, %</b>	$\frac{\text{Dividend per share}}{\text{Closing share price at the end of the financial year}} \times 100$
<b>Price/earnings ratio (P/E ratio)</b>	$\frac{\text{Closing share price at the end of the financial year}}{\text{Earnings per share}}$
<b>Average share price for the financial year, euros</b>	$\frac{\text{Total EUR value of series A shares traded during the financial year}}{\text{Average number of series A shares traded during the financial year}}$
<b>Market value of capital stock at Dec. 31, EUR 1,000**</b>	$\text{Number of shares (series A and series K shares) at the end of the financial year} \times \text{closing price of the share at the end of the financial year}$
<b>Share turnover (series A shares) during the financial year</b>	$\frac{\text{Total number of series A shares traded during the financial year}}{\text{Average number of series A shares during the financial year}} \times 100$
<b>Number of shares, average</b>	$\frac{\text{Average of the number of shares at the end of calendar months of the financial year.}}{\text{Average of the issue-adjusted number of shares at the end of calendar months of the financial year.}}$
<b>Number of shares, average, diluted</b>	



## Raute Corporation

Raute is a financially sound Small Cap company with a strong family background. The company's series A shares are listed on Nasdaq Helsinki Ltd.

Raute operates globally and has a leading position in its field.

## Market capitalization and trading

Raute Corporation's series A shares are listed on the Nasdaq Helsinki Ltd in the Industrials sector. The trading code is RAUTE (previously RUTAV). Raute Corporation has signed a market making agreement with Nordea Bank AB (publ) in compliance with the Liquidity Providing (LP) requirements issued by Nasdaq Helsinki Ltd.

In 2017, a total of 845,672 Raute Corporation's series A shares were traded (987,608 pieces). The total value of trading was EUR 19.2 million (MEUR 14.3). The highest share price was EUR 30.52 (EUR 17.98) and the lowest EUR 16.84 (EUR 12.06). At the end of the year 2017, the share price was EUR 29.00 (EUR 16.70). The average price was EUR 22.70 (EUR 14.50). The company's market capitalization at the end of the financial year was EUR 123.2 million (MEUR 70.2), with series K shares valued at the closing price of series A shares on the last listing day December 29, 2017.

## Share-based incentive program 2014–2018

Information is presented in note Employee benefits, page 25.

## Board authorizations

The Annual General Meeting on March 28, 2017 authorized the Board to decide on the repurchase of a maximum of 400,000 Raute Corporation's series A shares using assets from the company's non-restricted equity, which would lead to a decrease in the company's distributable assets.

The authorization entitles the Board to acquire the company's series A shares to be used for the development of the company's capital structure, as consideration for funding or carrying out any acquisitions or other arrangements, or to be otherwise disposed of or cancelled.

The purchase consideration paid for shares purchased by virtue of the authorization shall be based on the price of the series A share in public trading so that the minimum price of acquired shares is the lowest market price quoted in public trading during the term of validity of the authorization and the maximum price, correspondingly, the highest market price quoted in public trading during the term of validity of the authorization.

The authorization includes the right to acquire shares other than in proportion to the holdings of the shareholders. A targeted repurchase of the company's own shares can take place, for example, by acquiring shares in public trading in markets where, according to regulations, the company is permitted to engage in the trade of its own shares. Repurchasing shares in public trading as mentioned above or otherwise in a targeted way, requires that the company has a weighty financial reason to do so.

Series K shares can be converted to series A shares in accordance with Article 3 of Raute Corporation's

Articles of Association. The Board of Directors will decide on the other conditions related to share repurchases.

By the authority granted to the Board at the Annual General Meeting on March 28, 2017, the Board can decide on an issue of Raute Corporation's series A shares, as well as on all of the related conditions, including the recipients and the sum of consideration to be paid. The Board of Directors may decide to issue either new shares or company shares held by Raute. The maximum number of shares that can be issued is 400,000 series A shares. As proposed, the authorization can be used to fund or carry out acquisitions or other arrangements or for other purposes decided by the Board of Directors.

The authorizations are valid until the end of the next Annual General Meeting.

On September 25, 2017, the Board of Directors resolved on the issuance of new shares to the company itself without consideration, so that it will have own shares held by the company available for the payment of the share rewards payable based on the company's share incentive plan 2016–2018. The 8,913 new series A shares were entered in the Trade Register on October 17, 2017.

No decisions on share issues were made during the financial year, nor were any convertible bonds issued. At the end of the financial year, the company held a total of 8,913 pieces of its own shares.

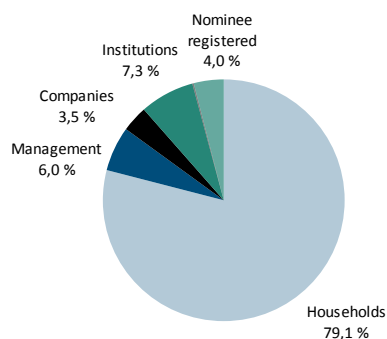
On December 31, 2017, the company had no valid share issues.

## ENTIRE CAPITAL STOCK

Series A and series K shares by shareholder category	Number of share-holders	%	Number of shares	%	Number of voting rights	%
Households	4 593	95,7	3 613 638	85,0	22 445 697	97,2
Financial and insurance institutions	5	0,1	180 967	4,3	180 967	0,8
Companies	164	3,4	147 122	3,5	147 122	0,6
Non-profit institutions	15	0,3	76 771	1,8	76 771	0,3
Public institutions	1	0,0	51 950	1,2	51 950	0,2
Foreign shareholders	11	0,2	7 335	0,2	7 335	0,0
Nominee-registered	8	0,2	171 465	4,0	171 465	0,7
<b>Total</b>	<b>4 797</b>	<b>100,0</b>	<b>4 249 248</b>	<b>100,0</b>	<b>23 081 307</b>	<b>100,0</b>

Series A and series K shares by by number of shares	Number of share-holders	%	Number of shares	%	Number of voting rights	%
1-1 000	4 497	93,7	861 102	20,3	896 632	3,9
1 001-5 000	225	4,7	451 023	10,6	703 381	3,0
5 001-10 000	21	0,4	145 194	3,4	661 994	2,9
10 001-50 000	35	0,7	862 871	20,3	9 111 322	39,5
50 001-	19	0,4	1 929 058	45,4	11 707 978	50,7
<b>Total</b>	<b>4 797</b>	<b>100,0</b>	<b>4 249 248</b>	<b>100,0</b>	<b>23 081 307</b>	<b>100,0</b>

## Shareholding at December 31, 2017



## SERIES A SHARES

Series A shares by shareholder category	Number of share-holders	%	Number of shares	%	Number of voting rights	%
Households	4 571	95,7	2 622 477	80,5	2 622 477	80,5
Financial and insurance institutions	5	0,1	180 967	5,6	180 967	5,6
Companies	164	3,4	147 122	4,5	147 122	4,5
Non-profit institutions	15	0,3	76 771	2,4	76 771	2,4
Public institutions	1	0,0	51 950	1,6	51 950	1,6
Foreign shareholders	11	0,2	7 335	0,2	7 335	0,2
Nominee-registered	8	0,2	171 465	5,3	171 465	5,3
<b>Total</b>	<b>4 775</b>	<b>100,0</b>	<b>3 258 087</b>	<b>100,0</b>	<b>3 258 087</b>	<b>100,0</b>

Series A shares by by number of shares	Number of share-holders	%	Number of shares	%	Number of voting rights	%
1-1 000	4 493	94,1	860 931	26,4	860 931	26,4
1 001-5 000	227	4,8	460 622	14,1	460 622	14,1
5 001-10 000	22	0,5	152 816	4,7	152 816	4,7
10 001-50 000	22	0,5	588 383	18,1	588 383	18,1
50 001-	11	0,2	1 195 335	36,7	1 195 335	36,7
<b>Total</b>	<b>4 775</b>	<b>100,0</b>	<b>3 258 087</b>	<b>100,0</b>	<b>3 258 087</b>	<b>100,0</b>

## SERIES K SHARES

Series K shares by shareholder category	Number of share-holders	%	Number of shares	%	Number of voting rights	%
Households	55	100,0	991 161	100,0	19 823 220	100,0
<b>Total</b>	<b>55</b>	<b>100,0</b>	<b>991 161</b>	<b>100,0</b>	<b>19 823 220</b>	<b>100,0</b>

Series K shares by by number of shares	Number of share-holders	%	Number of shares	%	Number of voting rights	%
1-1 000	10	18,2	2 250	0,2	45 000	0,2
1 001-5 000	8	14,5	21 551	2,2	431 020	2,2
5 001-10 000	6	10,9	32 100	3,2	642 000	3,2
10 001-50 000	26	47,3	645 880	65,2	12 917 600	65,2
50 001-	5	9,1	289 380	29,2	5 787 600	29,2
<b>Total</b>	<b>55</b>	<b>100,0</b>	<b>991 161</b>	<b>100,0</b>	<b>19 823 220</b>	<b>100,0</b>

## 20 LARGEST SHAREHOLDERS AT DECEMBER 31, 2017 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	-	509 557	509 557	12,0	509 557	2,2
2. Mandatum Life Unit-Linked	-	131 396	131 396	3,1	131 396	0,6
3. Laakkonen Mikko Kalervo	-	119 919	119 919	2,8	119 919	0,5
4. Suominen Pekka	48 000	62 429	110 429	2,6	1 022 429	4,4
5. Siivonen Osku Pekka	50 640	53 539	104 179	2,5	1 066 339	4,6
6. Kirmo Kaisa Marketta	55 680	48 341	104 021	2,4	1 161 941	5,0
7. Suominen Tiina Sini-Maria	48 000	53 356	101 356	2,4	1 013 356	4,4
8. Keskiäho Kaija Leena	33 600	51 116	84 716	2,0	723 116	3,1
9. Mustakallio Mika Tapani	62 100	21 170	83 270	2,0	1 263 170	5,5
10. Särkijärvi Anna Riitta	60 480	22 009	82 489	1,9	1 231 609	5,3
11. Mustakallio Kari Pauli	60 480	500	60 980	1,4	1 210 100	5,2
12. Mustakallio Marja Helena	46 740	12 547	59 287	1,4	947 347	4,1
13. Särkijärvi Timo Juha	12 000	43 256	55 256	1,3	283 256	1,2
14. Särkijärvi Anu Riitta	12 000	43 256	55 256	1,3	283 256	1,2
15. Suominen Jukka Matias	24 960	27 964	52 924	1,2	527 164	2,3
16. Keskinäinen työeläkevakuutus- yhtiö Varma	-	51 950	51 950	1,2	51 950	0,2
17. Relander Pär-Gustaf	-	51 000	51 000	1,2	51 000	0,2
18. Suominen Jussi	48 000	-	48 000	1,1	960 000	4,2
19. Mustakallio Ulla Sinikka	47 740	-	47 740	1,1	954 800	4,1
20. Keskiäho Ilta Marjaana	24 780	19 094	43 874	1,0	514 694	2,2
<b>Total</b>	<b>635 200</b>	<b>1 322 399</b>	<b>1 957 599</b>	<b>46,1</b>	<b>14 026 399</b>	<b>60,8</b>

## MANAGEMENT'S SHAREHOLDING AT DECEMBER 31, 2017

The Board of Directors, the President and CEO as well as the Executive Board held altogether 126,003 series A shares and 127,890 series K shares at December 31, 2017, equaling 6.0 percent of the company shares and 11.6 percent of the votes. The figures include the holding of their own, minor children and control entities.

## NOMINEE-REGISTERED SHARES AT DECEMBER 31, 2017

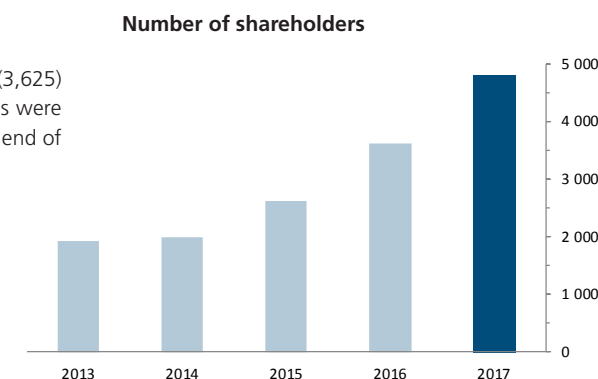
Nominee-registered shares accounted for 4.0 percent (2.1%) of the total shares.

## 20 LARGEST SHAREHOLDERS AT DECEMBER 31, 2017 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 Mika Tapani	62 100	21 170	83 270	2,0	1 263 170	5,5
2. Särkijärvi Anna Riitta	60 480	22 009	82 489	1,9	1 231 609	5,3
3. Mustakallio Kari Pauli	60 480	500	60 980	1,4	1 210 100	5,2
4. Kirmo Kaisa Marketta	55 680	48 341	104 021	2,4	1 161 941	5,0
5. Siivonen Osku Pekka	50 640	53 539	104 179	2,5	1 066 339	4,6
6. Suominen Pekka	48 000	62 429	110 429	2,6	1 022 429	4,4
7. Suominen Tiina Sini-Maria	48 000	53 356	101 356	2,4	1 013 356	4,4
8. Suominen Jussi	48 000	-	48 000	1,1	960 000	4,2
9. Mustakallio Ulla Sinikka	47 740	-	47 740	1,1	954 800	4,1
10. Mustakallio Marja Helena	46 740	12 547	59 287	1,4	947 347	4,1
11. Mustakallio Risto Knut kuolinpesä	42 240	-	42 240	1,0	844 800	3,7
12. Keskiäho Kaija Leena	33 600	51 116	84 716	2,0	723 116	3,1
13. Keskiäho Vesa Heikki	29 680	-	29 680	0,7	593 600	2,6
14. Keskiäho Juha-Pekka	27 880	5 716	33 596	0,8	563 316	2,4
15. Suominen Jukka Matias	24 960	27 964	52 924	1,2	527 164	2,3
16. Keskiäho Ilta Marjaana	24 780	19 094	43 874	1,0	514 694	2,2
17. Sundholm Göran	-	509 557	509 557	12,0	509 557	2,2
18. Kirmo Lasse	22 525	2 967	25 492	0,6	453 467	2,0
19. Kultanen Leea Annikka	21 595	8 031	29 626	0,7	439 931	1,9
20. Molander Sole	20 160	-	20 160	0,5	403 200	1,7
<b>Total</b>	<b>775 280</b>	<b>898 336</b>	<b>1 673 616</b>	<b>39,4</b>	<b>16 403 936</b>	<b>71,1</b>

## NUMBER OF SHAREHOLDERS AT DECEMBER 31, 2017

The number of shareholders totaled 4,797 (3,625) at the end of the year 2017. Series K shares were owned by 55 (50) private individuals at the end of the financial year.





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