



2016 | Financial Statements



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To the Reader

Raute has revamped the presentation of its consolidated financial statements. Our goal has been to make the financial statements more comprehensible, in particular when it comes to the profit or balance sheet items linked to the percentage of completion of long-term projects that are important for our business.

Raute Corporation's financial statements in 2016:

- The notes and accounting principles have been grouped together in sections.
- The accounting principles and the management's estimates and uncertainty factors are discussed in the relevant notes. The sections are presented in an order that reflects the management's view on their materiality in terms of understanding the Group's business.
- The contents of the IFRS terms are linked in more practical terms to our business.
- The sections of the financial statements also include graphs that illustrate the development of the business and presented key figures. Quarterly figures are unaudited.

We hope that the financial statements are clearer than before for the reader.

Arja Hakala
Chief Financial Officer

(English translation of Financial statements 2016)

Report of the Board of Directors

The Group's net sales for 2016 totaled EUR 113.1 million (MEUR 127.3), down by 11 percent from the previous year. The Group's operating profit grew by 5 percent from the previous year and stood at EUR 8.6 million positive (MEUR 8.1). The Group's financial income and expenses totaled EUR 0.3 million negative (MEUR -0.0). The result before taxes was EUR 8.2 million positive (MEUR 8.1). Profit for the financial year was EUR 6.7 million (MEUR 6.7). Comprehensive income was EUR 7.5 million positive (MEUR 6.8). Undiluted earnings per share were EUR 1.60 (EUR 1.65) and diluted earnings per share were EUR 1.59 (EUR 1.64). Return on equity was 20.9 percent (24.7%).

In this report, figures in parentheses refer to corresponding figures for the previous years 2015 and 2014.

Business environment

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

During 2016, uncertainty about what direction global economic and financial market development will take continued. Construction activity remained at a low level in all market areas, including North America, where, however, the construction activity improved steadily but slower than predicted. The order books of Raute's customers remained short and the general market situation was not attractive in terms of the implementation of major investments.

In Europe, several major investment decisions were made concerning new plywood and LVL capacity. In Poland, an investment in an LVL mill's new line started up. In Finland, we started up the modernization of an LVL line and in Finland and Estonia, investments in birch veneer and plywood production lines.

In Russia, the economic and financial situation continued to be weak. The preparation of many investments continued to be active, however, and after several quiet years, a major birch plywood mill project started up.

In North America, plywood and LVL industry production investments were low and mainly targeted the modernization of existing softwood plywood capacity.

In South America, our key customers' previous investments have now found their place on the markets and although the focus is on the future, the weak demand in the domestic markets is slowing investment plans. No new major investment projects were started up. Replacement investments also remained at a low level.

Raute was the first western company to develop modern plywood manufacturing in China. Technological development has not, however, been as fast as expected and Raute's entry into the markets has been slower than hoped for.

In Southeast Asia, raw material availability, the harvesting limitations on natural forests and problems linked to the quality of plantation wood limited the development of plywood production. Raute received few new orders in Southeast Asia in 2016. In Australia and New Zealand, the plywood and LVL product markets performed well, driven by the improvement in the local economy, construction markets and exports. No new major investments were started up. Raute's new orders to the area were modernization-type projects.

Demand for maintenance and spare parts services remained at a good level throughout the year. This bears testimony to the fact that the utilization rates of Raute's customers' production facilities remained good, for the most part.

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 amounted to a record-high EUR 162 million (MEUR 145) during 2016. 57 percent of the new orders came from Europe (67%), 27 percent from Russia (10%), 11 percent from North America (15%), 3 percent from Asia-Pacific (5%) and 2 percent from South America (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 118 million (MEUR 105) and increased on the previous year by 13 percent. In the third and fourth quarters, four major orders took effect, which included altogether five new capacity-generating projects valued at EUR 88 million in total. Four of the projects will be built in Europe and one in Russia.

Order intake in technology services amounted to EUR 44 million (MEUR 40), 8 percent more than in the comparison year. Growth in modernizations equaled 5 percent and in other technology services 12 percent.

At the end of 2016, the order book, EUR 106 million (MEUR 60), stood at a record-high level. An unusually large proportion of the order book is thus scheduled as early as for 2018.

Competitive position

Raute's competitive position has remained unchanged and is good. Raute's solutions help customers in securing their delivery and service capabilities throughout the life cycle of the production process or its part. In such investments, the supplier's overall expertise and extensive and diverse technology 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.

Net sales

The Group's net sales (IFRS) totaled EUR 113.1 million (2015: MEUR 127.3; 2014: MEUR 94.0). Net sales declined by 11 percent on 2015. The decline in net sales resulted from a low volume of new orders within an approximately one-year period beginning in summer 2015 and lasting until summer 2016.

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 70 million (MEUR 85), down 18 percent from the previous year. Project deliveries accounted for 62 percent (67%) of total net sales. The plywood industry's share of the

net sales of project deliveries was 66 percent (68%), while the LVL industry's share was 34 percent (32%).

At the end of 2016, the order book contained seven new major capacity-generating projects of which three projects took off in 2015 and have proceeded to the production ramp-up and final approval stage. A project involving the machines for an LVL mill in Germany, which started up in July 2012, was approved in June 2016. The two major orders received from Poland in 2014 were approved in June 2016.

Net sales for technology services totaled EUR 43 million (MEUR 42). Net sales grew 3 percent from the previous year and grew to 38 percent (33%) of total net sales. Maintenance and spare parts services increased by 6 percent on the previous year.

Europe's 2016 share of total net sales was 60 percent (66%), Russia's 17 percent (9%), North America's 15 percent (13%), Asia-Pacific's 5 percent (5%), and South America's 3 percent (7%). 22 percent (24%) of the Group's net sales came from Finland.

In 2016, the net sales (FAS) of the Parent company Raute Corporation totaled EUR 97.7 million (2015: MEUR 112.4; 2014: MEUR 80.9).

Result and profitability

In 2016, the Group's operating profit (IFRS) totaled EUR 8.6 million positive (2015: MEUR 8.1; 2014: MEUR 2.6) and 7.6 percent of net sales (2015: 6.4%; 2014: 2.8%). Other operating income for the reporting period includes project-business-related insurance compensation of EUR 0.9 million received in the first quarter. Otherwise, profitability reflected the level of net sales.

The Group's financial income and expenses totaled EUR -0.3 million (MEUR -0.0). The Group's profit before taxes was EUR 8.2 million positive (MEUR 8.1) and profit for the financial year EUR 6.7 million positive (MEUR 6.7). The Group's comprehensive income was EUR 7.5 million positive (MEUR 6.8).

Undiluted earnings per share were EUR 1.60 (EUR 1.65) and diluted earnings per share were EUR 1.59 (EUR 1.64). Return on investment was 25.3 percent (28.5%) and return on equity 20.9 percent (24.7%).

The operating profit (FAS) of the Parent company Raute Corporation was EUR 8.8 million positive (2015: MEUR 8.3; 2014: MEUR 1.0). The operating profit equaled 9.1 percent of net sales (2015: 7.3%; 2014: 1.2%). The profit for the financial year (FAS) was EUR 8.7 million positive (MEUR 7.7 positive). The Parent company's result was burdened by EUR 1.4 million in impairment for the Chinese subsidiary's shares and improved by a reversal of impairment for a financing loan in the amount of EUR 0.7 million from the Chinese subsidiary and EUR 2.1 million from the Canadian subsidiary.

Cash flow and balance sheet

The Group's financial position remained good throughout the year. At the end of the financial year, the Group's cash and cash equivalents exceeded interest-bearing liabilities by EUR 20.6 million (MEUR 5.0). At the end of the financial year gearing was -60 percent (2015: -17%; 2014: -7%) and the equity ratio was 60 percent (2015: 59%; 2014: 56%).

The Group's cash and cash equivalents amounted to EUR 23.8 million (MEUR 6.5) at the end of 2016. The change in cash and cash equivalents in the financial year was EUR 17.2 million positive (MEUR 2.1 positive). Operating cash flow was EUR 21.2 million positive (MEUR 7.5 positive). Cash flow from investment activities was EUR 2.9 million negative (MEUR 2.3 negative). Cash flow from financing activities was EUR 1.2 million negative (MEUR 3.1 negative), including dividend payments of EUR 3.3 million, EUR 0.5 million in rights issues and EUR 1.6 million in the growth of short-term loans.

The Group's balance sheet total at the end of 2016 stood at EUR 69.8 million (2015: MEUR 61.8; 2014: MEUR 52.6).

Interest-bearing liabilities amounted to EUR 3.1 million (MEUR 1.5) at the end of 2016.

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 for the

credit facility are an equity ratio of >30% and gearing of <100%. Of the credit facility, EUR 21.6 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 59 percent (2015: 52%; 2014: 54%).

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 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 2016, the Group's research and development costs totaled EUR 2.9 million (2015: MEUR 3.1; 2014: MEUR 1.8) and 2.5 percent of net sales (2015: 2.4%; 2014: 1.9%).

Raute's new digital product family, Raute Insights, reached pilot production in 2016. The new G5 generation of veneer and sheet analyzers was also introduced to the markets, the architecture and performance of which enable the combination of a larger number of measurement variables than before and simultaneous analysis. In addition to greater speed and improved accuracy, the analyzers' new architecture, combined with digital Raute Insights products, allows the efficiency and quality of plywood and LVL production to be ramped up to a whole new level. Raute's new Smart Mill concept produces information on several interconnected production process stages. Using this information, customers can monitor and ensure that the plywood and LVL production corresponds with their targets and react to defects as early as possible. Several new modernization projects were introduced to the markets for meeting the development needs of existing mills and a service concept was developed for boosting Raute's leading position as a full-scope supplier.

During the financial year, the research and development costs (FAS) of the Parent company Raute Corporation were EUR 2.9 million, rep-

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representing 3.0 percent of net sales (2015: MEUR 3.1/2.8% of net sales; 2014: MEUR 1.7/2.3% of net sales).

Investments

The Group's investments in 2016 totaled EUR 3.2 million (2015: MEUR 2.5; 2014: MEUR 1.7). The biggest single investment was the NC boring machine taken into use at the Nastola production unit in early 2016, the acquisition cost of which was spread out across 2015 and 2016. Other investments were linked to production management and technology services information systems, the modernization of business premises and various replacement investments. Investments in 2016 do not include capitalized development costs (2015: MEUR 0.2; 2014: MEUR 0.3).

The investments of the Parent company Raute Corporation totaled EUR 2.9 million (2015: MEUR 2.2; 2014: MEUR 1.1).

Development of operations

In 2016, the focus of strategic development projects was on improving sales. Measures for ensuring delivery capability and quality were continued. New operating methods and production management information systems have been used to simultaneously implement major delivery projects.

Human resources

The Group's headcount at the end of 2016 was 643 (646). Finnish Group companies accounted for 72 percent (68%) of employees, Chinese companies for 12 percent (16%), North American companies for 13 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 631 (2015: 614; 2014: 530). Salaries and remunerations paid by the Group totaled EUR 30.1 million (2015: MEUR 28.1; 2014: MEUR 24.1). 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. A total of 3 percent (2%)

of the payroll was invested in personnel training. The focal point for personnel development in 2016 was on competence development measures, which were implemented through a systematic mentoring program, among other things. Additionally, a business sustainability development program was initiated.

Converted to full-time employees, the average number of personnel employed by the Parent company Raute Corporation in 2016 was 441 (2015: 417; 2014: 370). Salaries and remunerations paid by the Parent company totaled EUR 22.9 million (2015: MEUR 20.8; 2014: MEUR 18.2).

Remuneration

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

Performance Share 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 and 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 earnings criteria were the financial year's earnings per share and growth in net sales. The Board of Directors has confirmed the amounts of the personal bonuses to be paid for the 2015 earnings period on March 2, 2016, of which the portion to be paid in shares is altogether 14,523 series A shares. No shares or cash were issued under the plan in 2015. The vesting period ends at the beginning of 2018.

The plan beginning in 2016 covers altogether 12 persons belonging to the Group's senior management. The amounts of the personal bonuses will be fixed in March 2017. The vesting period will end at the beginning of 2019.

A total amount of EUR 46 thousand (EUR 377 thousand), has been recognized as expense for the share plans in 2016. A total amount

of EUR 129 thousand was allocated into the invested non-restricted equity reserve.

Society and the environment

Sustainability is one of the values that guide Raute's operations. Raute strives to systematically develop the environmental soundness of its products and services and to reduce the environmental impacts of its 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's operations mainly affect the environment indirectly when the company's technology is used in the production processes of the plywood and LVL industry. Raute's technology enables customers to substantially reduce the environmental load caused by their operations through, for example, more efficient use of wood raw materials, additives and energy. Raute focuses particularly on developing the occupational safety of its products.

The Group's own operations do not involve considerable environmental risks that might have a direct impact on the Group's business operations or financial position. The Nastola main production units manage environmental matters in compliance with a certified environmental system. 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 major mill-scale projects that are in the implementation phase, in accordance with the schedule determined in the contract terms.

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, creating products for completely new customer groups 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 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 for emerging markets.

Information security

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

Human resources

Competence retention and development and ensuring 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 2016 financial year amounted to EUR 0.2 million (MEUR 0.6).

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 made preparations 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 in "Financing risks – Critical accounting judgements of the management", page 16.

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 information system breakdown or malfunction at the Nastola main unit, where the production, planning, financial, and ERP systems serving the Group's key technologies are centrally located.

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 involve significant environmental risks. The main unit in Nastola has an ISO-certified environmental management program, whose principles are also adhered to in other units.

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.

Organizing 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

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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 2,623 at the beginning of the year and 3,625 at the end of the financial year. Series K shares were held by 50 private individuals (50) at the end of the financial year. Nominee-registered shares accounted for 2.1 percent (3.3%) of shares. On June 2, 2016, the company received a flagging notification pursuant to the Finnish Securities Markets Act, Chapter 9, Section 5, according to which Göran Sundholm's holding of the total number of Raute Corporation's shares was less than 15 per cent when Raute Corporation's share capital increase was marked in the Trade Register on May 9, 2016. Göran Sundholm's holding of the company's shares was 14.98% and 2.71% of the votes after the flagging threshold was crossed.

The Board of Directors, the President and CEO as well as the Executive Board held altogether 248,979 company shares, equaling 5.9 percent (5.6%) of the company shares and 11.2 percent (11.2%) of the votes on December 31, 2016.

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 31, 2016, the authorized public accountants PricewaterhouseCoopers were chosen as auditor with Authorized Public Accountant Markku Launis as the principal auditor.

Corporate Governance

In 2016, Raute Corporation complied 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 2016 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.

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 31, 2016, Mr. Erkki Pehu-Lehtonen was elected Chairman of the Board of Raute Corporation, Mr. Mika Mustakallio Vice-Chair, and Mr. Joni Bask, Ms. Päivi Leiwo, 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 as of March 14, 2016:

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 2016, a total of 80,231 new series A shares (96,480 shares) were subscribed for under the 2010 series A, 2010 series B and 2010 series C stock option rights.

The number of Raute Corporation's shares at the end of 2016 totaled 4,206,462 (4,111,708), of which 991,161 (991,161) were series K shares (ordinary share, 20 votes/share) and 3,215,301 (3,120,547) 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 (RUTAV until January 16, 2017). During 2016, 987,608 shares were traded (1,094,902) worth altogether EUR 14.3 million (MEUR 13.1). The number of shares traded represents 31 percent (36%) of all listed series A shares. The average price of a series A share was EUR 14.50 (EUR 11.95). The highest closing price of the year was EUR 17.98 and the lowest EUR 12.06.

The company's market capitalization at the end of 2016 totaled EUR 70.2 million (MEUR 58.1), with series K shares valued at the closing price of series A shares, EUR 16.70 (EUR 14.12), on December 31, 2016.

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 28, 2016, the company resolved on the issuance of new shares to the company itself without consideration so that, in spring 2017, 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 2015–2017. The 14,523 new series A shares were entered in the Trade Register on October 5, 2016 and admitted to public trading on October 6, 2016.

Raute Corporation's 2010 A, 2010 B and 2010 C stock options

In 2016, altogether 15,355 series A shares were subscribed for with Raute's series A 2010 stock options, 41,951 with series B stock options and 22,925 with series C stock options.

Raute Corporation's series B 2010 stock options are listed on Nasdaq Helsinki Ltd under the trading code RAUTEEW210 and series C 2010 stock options under the trading code RAUTEEW310. The subscription period ends for series B stock options on March 31, 2017 and for series C stock options on March 31, 2018. The subscription period for series A stock options ended on March 31, 2016.

At the end of 2016, altogether 16,449 series B stock options and 31,370 series C stock options had not been exercised. The subscription prices at the end of the year were EUR 7.13 for series B stock options and EUR 6.00 for series C stock options. The closing prices at the end of 2016 were EUR 9.10 for series B stock options and EUR 8.80 for series C stock options.

Distribution of profit for the 2015 financial year

The Annual General Meeting held on March 31, 2016 decided to pay a dividend of EUR 0.80 per share for the financial year 2015. The dividends amounted to a total of EUR 3.3 million, of which series A shares accounted for EUR 2,509,597.60 and series K shares for EUR 792,928.80. The dividend payment date was April 12, 2016.

Authorization of repurchase and disposal of own shares

The Annual General Meeting held on March 31, 2016 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 28, 2016, Raute Corporation's Board of Directors resolved on the issuance of 14,523 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 14,523 of its own shares.

Annual General Meeting 2017

Raute Corporation's Annual General Meeting for 2017 will be held on Tuesday March 28, 2017 at 6:00 p.m.

Board of Directors' proposal concerning the use of profit and payment of dividend

On December 31, 2016, the Parent Company's distributable assets totaled EUR 24,376 thousand, of which EUR 8,702 thousand stands for the profit for the financial year 2016.

The Board of Directors will propose to Raute Corporation's Annual General Meeting, to be held on March 28, 2017, that a dividend of EUR 1.00 per share be paid to holders of series A and series K shares for the financial year 2016, 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 4,206,462 shares, which would amount to total dividends of EUR 4,206 thousand. Shareholders who are registered in the shareholders' register maintained by Euroclear Finland Ltd on the record date for dividend payment March 30, 2017 are entitled to dividends. The dividend payment date would be April 6, 2017.

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 2017

Raute's business operations are characterized by the sensitivity of investment commodity demand to cyclical fluctuations in the global economy and financial markets.

The development of the global economy and financial markets is still facing major uncertainty. The market situation for Raute's customer industries is expected to remain unpredictable.

Improvement investments in the plywood industry to ensure quality and cost competitiveness and to maintain market shares are expected to be at a normal level in 2017. Several large projects encompassing single production lines and new mills' entire production lines that are in the planning and negotiation phase are also pending. The strong growth in demand for technology services is expected to continue strong.

Thanks to its strong financial and market position and the development measures carried out, Raute is well positioned to respond to demand.

Based on the strong initial order book and the prevailing demand situation, Raute's net sales for 2017 are expected to grow and operating profit is anticipated to improve over the year 2016.



RAUTE CORPORATION **Consolidated Financial Statements** **January 1 – December 31, 2016**

Raute Corporation's consolidated financial statements for January 1–December 31, 2016 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, 2016. The notes to the consolidated financial statements also comply with Finnish accounting legislation.

General information

Adoption of the Consolidated Financial Statements

These consolidated financial statements for the period between January 1 and December 31, 2016 were authorized for issue by Raute Corporation's Board of Directors at its meeting on February 15, 2017. 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 and LVL.

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, and in the Shanghai area in China. 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.

Insider management until July 2, 2016

Public insiders comprised the President and CEO, his or her deputy, the Board members, the auditors and the members of the Group's Executive Board. Company-specific insiders comprised individuals who, as part of their duties, regularly deal with or obtain unpublished information that influences the share price.

Insider management as of July 3, 2016

Raute's insider management changed on July 3, 2016 when the so-called MAR directive and revamped insider guidelines of the Helsinki Stock Exchange entered into force in Finland.

- The obligations concerning the reporting and publication of the management's business transactions (management under notification obligation) apply to the company's Board of Directors, President and CEO and CFO.
- A Confidential Information Recipient (CIR) list, corresponding to the previous, more detailed insider register, was created for insider management and includes individuals who have continuous access to insider information. The individuals in the CIR group are committed to abiding by the company's closed period. The CIR list is not public.

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.

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.

Raute Corporation's financial statements bulletin for January 1 - December 31, 2016 has 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, 2016. The notes to the financial statements bulletin also comply with Finnish accounting and corporate legislation.

All of the figures presented in the financial statements bulletin are in thousand euro, unless otherwise stated. Due to the rounding of the figures in the financial statement 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 or at the head office of the Parent company, Rautetie 2, FI-15550 Nastola, Finland.

Consolidated statement of income

Financial Statements 2016 / Group

CONSOLIDATED STATEMENT OF INCOME

EUR 1,000	1.1.–31.12.2016	1.1.–31.12.2015
NET SALES	113 130	127 278
Change in inventories of finished goods and work in progress	150	-313
Other operating income	1 103	393
Materials and services	-54 849	-67 992
Employee benefits expense	-36 606	-34 310
Depreciation	-2 340	-2 125
Amortization	-	-1 370
Other operating expenses	-12 030	-13 441
Total operating expenses	-105 825	-119 238
OPERATING PROFIT	8 558	8 120
Financial income	123	342
Financial expenses	-461	-343
Financial expenses, net	-338	-1
PROFIT BEFORE TAX	8 220	8 118
Income taxes	-1 536	-1 435
PROFIT FOR THE FINANCIAL YEAR	6 684	6 684
Profit for the financial year attributable to Equity holders of the Parent company	6 684	6 684
Earnings per share for profit attributable to Equity holders of the Parent company, EUR		
Undiluted earnings per share	1,60	1,65
Diluted earnings per share	1,59	1,64
Shares, 1 000 pcs		
Adjusted average number of shares	4 167	4 051
Adjusted average number of shares diluted	4 210	4 079

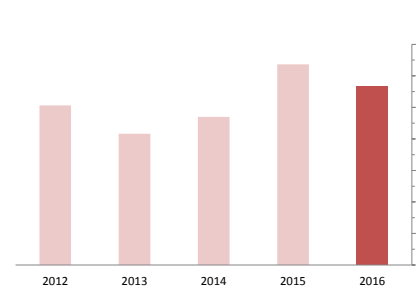
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR 1,000	1.1.–31.12.2016	1.1.–31.12.2015
PROFIT FOR THE FINANCIAL YEAR	6 684	6 684
Other comprehensive income items:		
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit obligations	-	2
Items that may be subsequently reclassified to profit or loss		
Changes in the fair value of available-for-sale investments	259	-
Hedge accounting	66	8
Exchange differences on translating foreign operations	534	88
Income taxes related to these items	-60	-
Comprehensive income items for the period, net of tax	799	98
COMPREHENSIVE PROFIT FOR THE FINANCIAL YEAR	7 483	6 782
Comprehensive profit for the financial year attributable to Equity holders of the Parent company	7 483	6 782

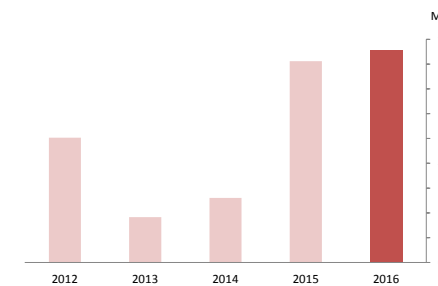
Basis of preparation

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



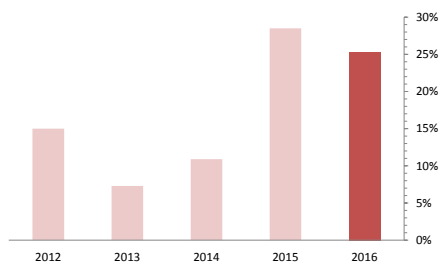
CONSOLIDATED BALANCE SHEET

EUR 1,000	31.12.2016	31.12.2015
ASSETS		
Non-current assets		
Intangible assets	1 353	1 609
Property, plant and equipment	9 580	8 529
Other financial assets	748	490
Deferred tax assets	167	172
Total non-current assets	11 848	10 799
Current assets		
Inventories	9 674	9 577
Accounts receivables and other receivables	24 435	34 722
Income tax receivable	40	123
Cash and cash equivalents	23 769	6 538
Total current assets	57 918	50 960
TOTAL ASSETS	69 767	61 760

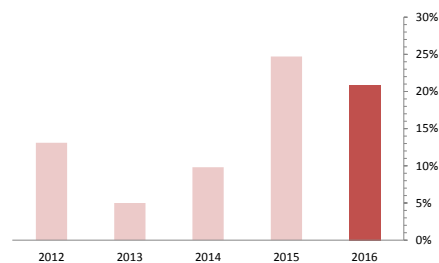
CONSOLIDATED BALANCE SHEET

EUR 1,000	31.12.2016	31.12.2015
EQUITY AND LIABILITIES		
Equity attributable to Equity holders of the Parent company		
Share capital	8 256	8 223
Fair value reserve and other reserves	6 577	6 008
Exchange differences	842	308
Retained earnings	11 859	8 477
Profit for the financial year	6 684	6 684
Share of shareholders' equity that belongs to the owners of the Parent company	34 217	29 700
Total equity	34 217	29 700
Non-current liabilities		
Provisions	462	455
Deferred tax liability	192	241
Total non-current liabilities	653	696
Current liabilities		
Provisions	1 156	1 409
Current interest-bearing liabilities	3 136	1 535
Current advance payments received	13 069	11 024
Income tax liability	1 131	11
Trade payables and other liabilities	16 404	17 386
Total current liabilities	34 896	31 364
Total liabilities	35 549	32 059
TOTAL EQUITY AND LIABILITIES	69 767	61 760

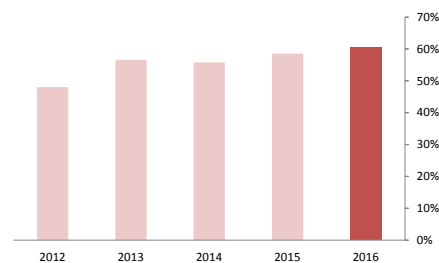
Return on investment, ROI



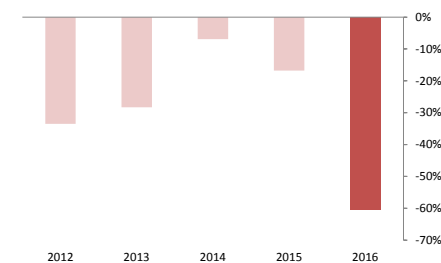
Return on equity, ROE



Equity ratio



Gearing



Consolidated statement of cash flows

Financial Statements 2016 / Group

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR 1,000	1.1.–31.12.2016	1.1.–31.12.2015
CASH FLOW FROM OPERATING ACTIVITIES		
Proceeds from customers	123 974	122 089
Other operating income	1 103	371
Payments to suppliers and employees	-103 221	-114 092
Cash flow before financial items and taxes	21 856	8 368
Interest paid from operating activities	-111	-115
Dividends received from operating activities	114	97
Interest received from operating activities	3	5
Other financing items from operating activities	-251	105
Income taxes paid from operating activities	-374	-983
Net cash flow from operating activities (A)	21 237	7 477
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment and intangible assets	-3 019	-2 395
Proceeds from sale of property, plant and equipment and intangible assets	94	66
Net cash flow from investing activities (B)	-2 925	-2 329
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	528	607
Proceeds from current borrowings	6 410	-
Repayments of current borrowings	-4 794	-
Repayments of non-current borrowings	-	-1 250
Dividends paid and repayment of equity	-3 303	-2 409
Net cash flow from financing activities (C)	-1 158	-3 052
Net change in cash and cash equivalents (A+B+C)	17 154	2 096
increas (+)/decrease (-)		
Cash and cash equivalent at the beginning of the period	6 538	4 431
Net change in cash and cash equivalents	17 154	2 096
Effects of exchange rate changes on cash	77	11
Cash and cash equivalents at the end of the period	23 769	6 538

Non-cash transactions in operating activities

EUR 1,000	2016	2015
Depreciation and amortization	-2 340	-3 495
Employee benefits	-227	-389
Exchange rate differences	162	-6
Derivatives	-66	-
Profit or loss from change in fair value of financial assets through profit or loss	259	54
TOTAL	-2 212	-3 836

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.

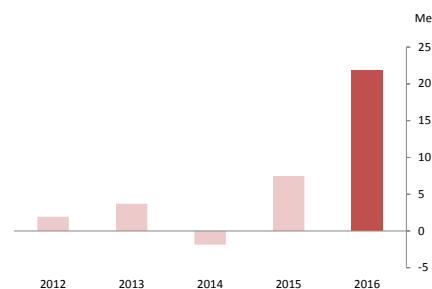
Cash flow from investing activities includes the purchase of intangible and tangible assets and expenses of other activated assets. The item also includes proceeds from sale of these assets on accrual basis.

Cash flow from financing activities includes the share capital changes in cash, dividends paid to shareholders during the period and capital repayments paid 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 owners of the Parent company	TOTAL EQUITY
EQUITY at Jan. 1, 2016	8 223	4 950	1 058	308	15 161	29 700	29 700
Comprehensive profit for the period							
Profit for the period	-	-	-	-	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
Total comprehensive profit for the period	-	-	265	534	6 684	7 483	7 483
Transactions with owners							
Share-options exercised	33	495	-	-	-	528	528
Equity-settled share-based transactions	-	-	-191	-	-	-191	-191
Dividends	-	-	-	-	-3 303	-3 303	-3 303
Total transactions with owners	33	495	-191	-	-3 303	-2 966	-2 966
EQUITY at Dec. 31, 2016	8 256	5 445	1 132	842	18 543	34 217	34 217

COMPARISON YEAR

EUR 1,000	Share capital	Invested non-restricted equity reserve	Other reserves	Exchange differences	Retained earnings	To the owners of the Parent company	TOTAL EQUITY
EQUITY at Jan. 1, 2015	8 031	5 339	662	220	10 083	24 334	24 334
Comprehensive profit for the period							
Profit for the period	-	-	-	-	6 684	6 684	6 684
Other comprehensive income items:							
Changes in the fair value of available-for-sale investments	-	-	-	-	-	-	-
Hedging reserve	-	-	8	-	-	8	8
Exchange differences on translating foreign operations	-	-	-	88	-	88	88
Income taxes related to these items	-	-	-	-	-	-	-
Total comprehensive profit for the period	-	-	8	88	6 684	6 780	6 780
Transactions with owners							
Share-options exercised	193	414	-	-	-	607	607
Equity-settled share-based transactions	-	-	389	-	-	389	389
Dividends and repayment of equity	-	-803	-	-	-1 606	-2 409	-2 409
Total transactions with owners	193	-389	389	-	-1 606	-1 413	-1 413
EQUITY at Dec. 31, 2015	8 223	4 950	1 058	308	15 161	29 700	29 700

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 2015.

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 con-

tingent 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.

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 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 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 accumu-

Group companies

Group companies	Group's ownership interest and voting	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

lated 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.

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 date of entry into force 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 date of entry into force. The effects of the standard

have been presented in more detail in the note it concerns:

- IFRS 9: Financial instruments, page 34
- IFRS 15: Net sales, page 18
- IFRS 16: Lease contract, page 25.

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

EXCHANGE RATES USED IN CONSOLIDATION OF SUBSIDIARIES

Income statement

EUR	2016	2015
CNY	7,3594	6,9733
RUB	74,2224	68,0090
CAD	1,4664	1,4177
USD	1,1066	1,1097
SGD	1,5278	1,5251
CLP	748,7723	725,3048

Balance sheet at Dec. 31.

euroa	2016	2015
CNY	7,2983	7,0223
RUB	64,3000	80,6736
CAD	1,4188	1,5116
USD	1,0541	1,0887
SGD	1,5234	1,5417
CLP	702,2261	765,9751

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 35
- Interest risks, note Financial liabilities, page 39
- Price risks, note Materials and services, page 21
- Customer credit risks, note Accounts receivables and receivables according to the percentage of completion, page 20
- Counterparty risks, note Accounts receivables and receivables according to the percentage of completion, page 20.

Critical accounting judgements 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 judgement 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.

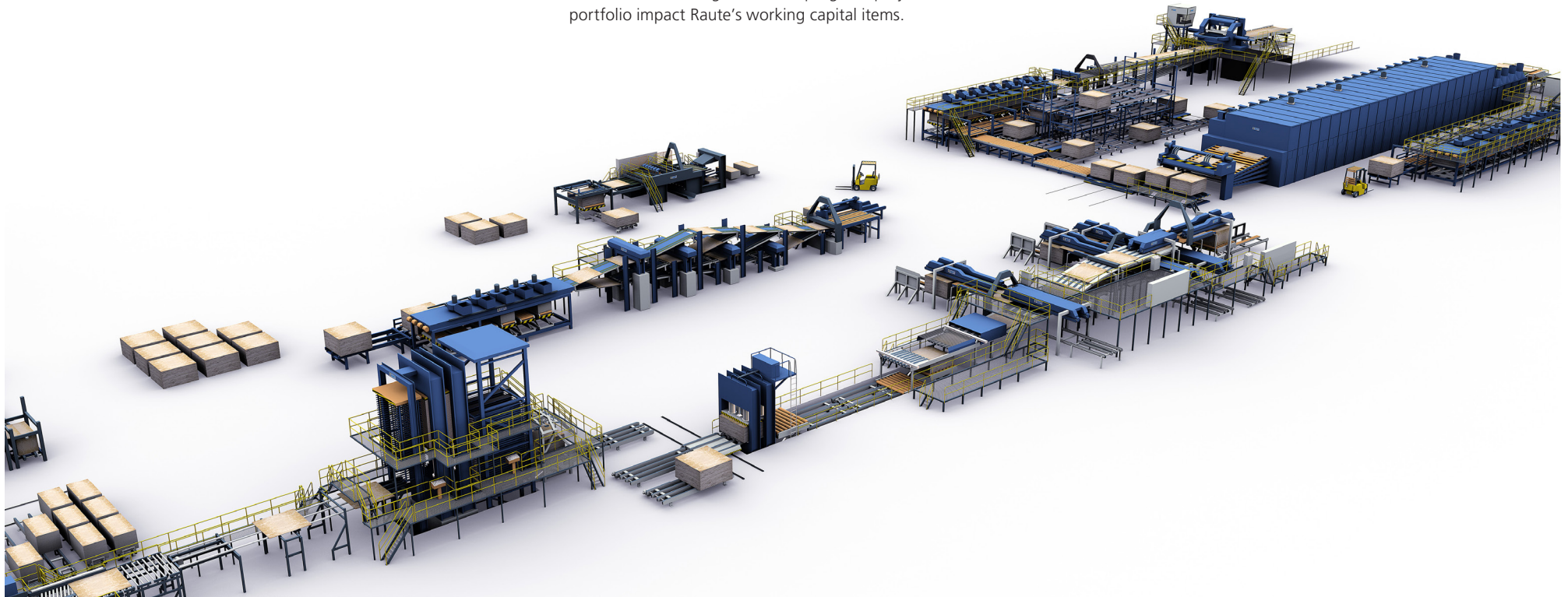
The management is not, by the time the financial statements were to be published, aware of any major uncertainties concerning the estimates on the reporting date or any key assumptions concerning the future, on the basis of which there would be a considerable risk of a substantial change in the carrying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

The judgements 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 Long-term projects, page 19
- Note Accounts receivables and receivables according to the percentage of completion, page 23
- Note Provisions, page 21
- Note Employee benefits, page 23
- Note Income taxes, note 26
- Note Research and development costs, page 29
- Note Current receivables and liabilities, page 33
- Note Financial assets, page 41

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 and, 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.



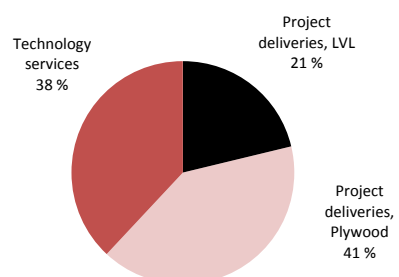
EUR 1,000	2016	%	2015	%
NET SALES				
Net sales by market area				
EMEA (Europe and Africa)	67 186	60	82 632	66
CIS (Russia)	19 928	17	11 841	9
NAM (North America)	16 829	15	16 962	13
APAC (Asia-Pacific)	5 361	5	6 906	5
LAM (South America)	3 826	3	8 937	7
TOTAL	113 130	100	127 278	100

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.

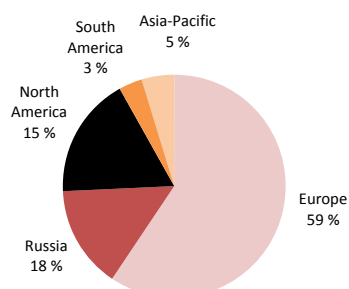
Large mill or production line scale delivery projects can temporarily increase the share of an individual customer of the Group's net sales to more than 10 percent. At the end of the financial year, the Group had two customers (2), whose customized share of the Group's net sales temporarily exceeded ten percent. The sales share of the customers was 22 percent. The share of one customer was 12 percent and the share of the other customer 10 percent.

Finland accounted for 22 percent (24 %) of net sales.

Net sales
Technology services vs. Project deliveries



Net sales by market area



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.

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

IFRS 15 standard Revenue from contracts with customers will be effective on January 1, 2018. The standard provides principles for sales revenue recognition. Raute Group has started IFRS 15 –project during spring 2016. The first phase of the project, the Group has reviewed customer contract types and identified the functions and performance obligations related to the contracts. During the financial year 2016 the Group has also drawn up additional guidelines for new sales contracts, which has been clarified by the interpretation of the Group's contracts IFRS 15 for the application.

Certain contract types include distinct income performance determined according to the standard guideline such as supply of goods and services. Management has estimated that the new standard will have an impact on the recognition date and definition, allocation and revenue recognition of the transaction price.

Raute Corporation has adopted the percentage of completion method of the contract accounting principle. The company estimates that the percentage of completion in accordance with IFRS 15 does not require the system changes in Raute Group. The Group has adequate accounting systems to meet the standard recognition principles.

Management has assessed that the adoption of the standard is likely to change revenue recognition date in certain transactions when a customer has not been committed to the reimbursement of accumulated costs and a sufficient margin in situations where the client unilaterally suspend the agreement or when the client is unable to fulfill its contractual obligations.

The review of the overall impact of the standard is ongoing. Standard effect cannot be estimate advance. The impact of the standard on the Group's results and balance sheet position depends on the contract base at the reporting date. The Group presents estimates of the impact of the standard during the financial year 2017 and numerical data of the impact at the beginning of the financial year 2018.

EUR 1,000	2016	2015
LONG-TERM PROJECTS		
Specification of net sales		
Net sales by percentage of completion	89 231	104 251
Other net sales	23 899	23 027
TOTAL	113 130	127 278
Project revenues entered as income from currently undelivered long-term project recognized by percentage of completion	114 461	112 329
Amount of long-term project revenues not yet entered as income (order book)	105 684	59 210
The balance sheet items of the undelivered projects		
Projects for which the value by percentage of completion exceeds advance payments invoiced		
- aggregate amount of costs incurred and recognized profits less recognized losses	90 806	72 948
- advance payments received	74 065	46 415
Gross amount due from customers	16 741	26 533
Projects for which advance payments invoiced exceed the value by percentage of completion		
- aggregate amount of costs incurred and recognized profits less recognized losses	23 641	36 823
- advance payments received	35 980	46 294
Gross amount due to customers	12 339	9 471
Advance payments included in the current liabilities in the balance sheet		
Gross amount due to customers	12 339	9 471
Other advance payments received, not under percentage of completion	730	1 553
Total	13 069	11 024
Specification of combined asset and liability items		
Advance payments paid of the long-term projects	847	1 367
Total	847	1 367

Basis of preparation

Project deliveries and modernizations in technology services 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 2016 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 an warranty reserve.

Management's critical accounting judgements 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	2016	2015
ACCOUNTS RECEIVABLES AND RECEIVABLES ACCORDING TO THE PERCENTAGE OF COMPLETION IN THE BALANCE SHEET		
Accounts receivables	5 612	4 787
Receivables according to the percentage of completion	16 741	26 533
TOTAL	22 353	31 320
Customer receivables	2016	2015
Accounts receivables in the balance sheet	5 612	4 787
Invoiced outstanding advance payments	4 870	3 457
Total	10 482	8 244
Age distribution of customer receivables	2016	2015
Neither past due nor impairment	8 103	5 924
Overdue 0-29 days	762	1 384
Overdue 30-60 days	248	291
Overdue over 60 days	1 369	645
Total	10 482	8 244

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 5,612 thousand (EUR 4,787 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 40. Project receivables are presented in these notes as a financial asset.

Management's critical accounting judgements 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 168 thousand (EUR 579 thousand). Impairments are 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 14 percent (0%) of the accounts receivables and the percentage of completion receivables recorded in the balance sheet and 29 percent (1%) 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 0.2 million (MEUR 0.6) 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	2016	2015
MATERIALS AND SERVICES		
Purchases during the financial year	-45 889	-60 896
Change in inventories	254	1 583
External services	-9 213	-8 679
TOTAL	-54 849	-67 992

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	2016	2015
PROVISIONS		
Warranty provisions		
Book value at Jan. 1	1 747	1 827
Additions	122	1 298
Decrease	-326	-1 369
Exchange differences	-	-9
Book value at Dec. 31	1 543	1 747
Other provisions		
Book value at Jan. 1	116	687
Additions	27	79
Decrease	-68	-651
Book value at Dec. 31	75	116
TOTAL	1 618	1 863
from which		
- non-current	462	455
- current	1 156	1 409

Basis of preparation

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.

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.

	2016	2015
NUMBER OF PERSONNEL		
Employed at Dec. 31, persons		
Workers	201	204
Office staff	442	442
TOTAL	643	646
- of which personnel working abroad	183	205
Effective, on average, persons		
Workers	197	189
Office staff	434	425
TOTAL	631	614
- of which personnel working abroad	193	199
Average, persons		
Workers	201	193
Office staff	441	431
TOTAL	642	624
- of which personnel working abroad	193	199
 EUR 1,000	 2016	 2015
EMPLOYEE BENEFITS EXPENSE		
Wages and salaries	-29 907	-28 051
Stock options granted	-	-12
Share-based payment	-46	-377
Pension contributions	-4 706	-4 214
Other personnel costs	-1 947	-1 656
TOTAL	-36 606	-34 310

Critical accounting judgements

The expenses and liabilities recognized on the performance-based bonuses paid as money are based on calculations of the bonuses that are based on valid contracts. The management has used estimates to assess whether the performance-based bonus plan's terms and the targets linked to the unit's result, quality and operations have been met.

Accounting principles

Wages and salaries include the basic salaries, bonuses and fringe benefits and other employee benefits recognized on an accrual basis during the financial year. A performance bonus provision is recognized when the Group has a contractual obligation or when a constructive payment obligation has arisen from an earlier practice.

Share-based payments include share-based payments amortized for the financial period on the 2015–2017 and 2015–2018 share plans.

Performance-based bonus systems cover the entire personnel and are in force for a year at a time. The Board of Directors annually confirms the general principles, maximum amounts and calculation methods for the remuneration systems. 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 Group's profit and task-related personal targets. 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. The majority of the performance-based bonuses are paid once a year after the Annual General Meeting has confirmed the consolidated financial statements.

The Board of Directors of Raute Corporation resolved on February 12, 2014 to **implement a long-term performance based share incentive plan for the Group's senior management**. The program consists of three share plans, which commenced in 2014, 2015 and 2016. The duration of each share plan is three years, consisting of a year-long earnings period (2014, 2015 and 2016) which is followed by a two-year vesting period.

The bonuses that have accumulated for the 2014 earnings period are recognized as expense for 2014 and

have been paid in cash in 2015.

The plan beginning in 2015 covers altogether 11 persons belonging to the Group's senior management. The earnings criteria were the financial year's earnings per share and growth in net sales. The Board of Directors has confirmed the amounts of the personal bonuses to be paid for the 2015 earnings period on March 2, 2016, of which the portion to be paid in shares is altogether 14,523 series A shares. No shares or cash were issued under the plan in 2016. The vesting period will end at the end of 2017.

The plan beginning in 2016 covers altogether 12 persons belonging to the Group's senior management. The earnings criteria were the earnings per share and growth in net sales. The amounts of the personal bonuses will be fixed in March 2017. The vesting period will end at the end of 2019.

The total value of the bonuses paid from the 2015 and 2016 share plans at the reporting date is measured at the value at the reporting date and recognized as an expense for the three-year earnings and vesting periods 2015–2017 and 2016–2018. A total amount of EUR 46 thousand (EUR 377 thousand), has been recognized as expense for 2016. At the end of the financial year, EUR 129 thousand was allocated into the invested non-restricted equity reserve.

The company's contra account for the expense recognition linked to the 2015 performance based share incentive plan was the invested non-restricted equity reserve in the 2015 financial statements. In accordance with the terms of the Performance Share Plan, the company is committed to paying the amount of tax resulting from rewarding, in which case the 2015 financial statements have been adjusted by transferring the share paid as cash from the invested non-restricted equity reserve to accruals and deferred income.

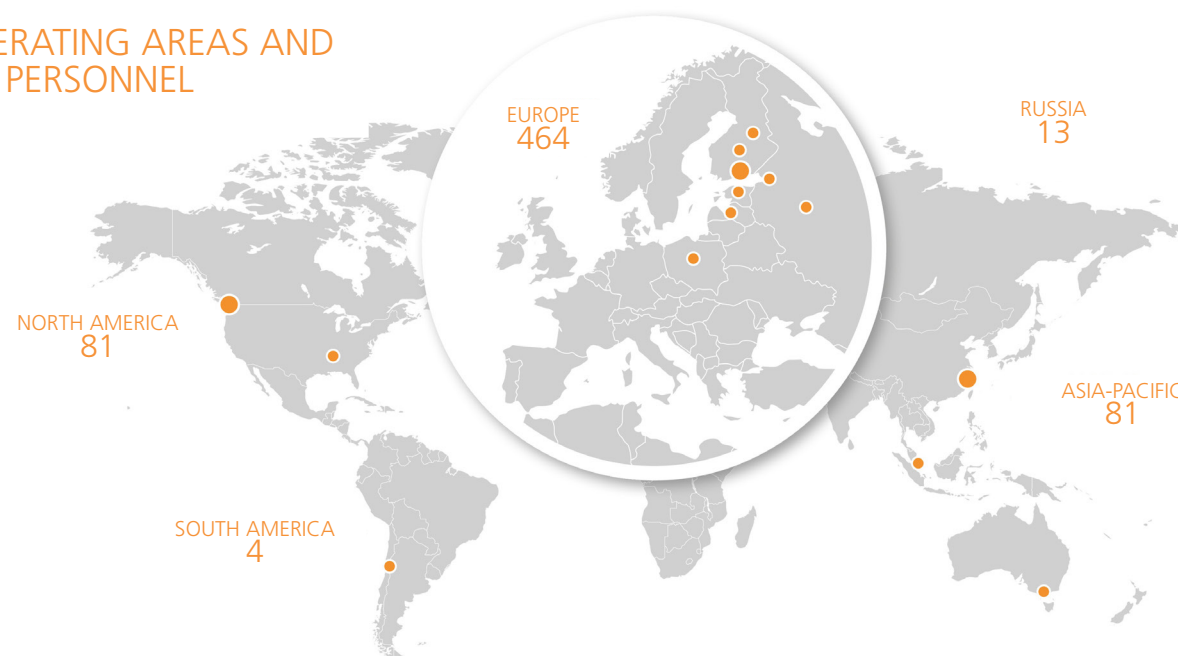
Accounting principles

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.

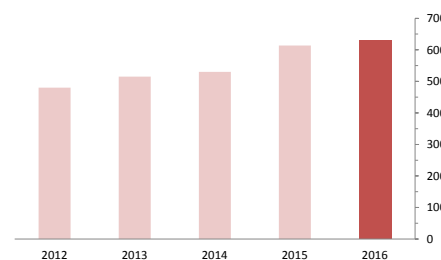
The parent company Raute Corporation has a defined-contribution pension arrangement and the related obligations are determined in accordance with the pension act that applies to the employees. The pension arrangements of foreign subsidiaries are managed in accordance with local legislation and they are 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.

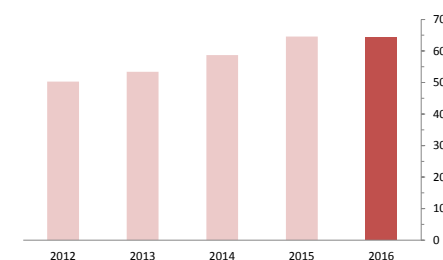
RAUTE'S OPERATING AREAS AND NUMBER OF PERSONNEL



Personnel, effective, on average



Personnel at Dec. 31



EUR 1,000	2016	2015
Salaries and remunerations of the President and CEO and Board of Directors of the Parent company		
Tapani Kiiski, President and CEO		
Salaries and other short-term employee benefits	374	420
Post-employment benefits	65	78
Share-based payments	93	135
TOTAL	532	633
Remuneration of the Parent company's Board of Directors		
Members of the Board of Directors		
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
Leiwo, Päivi Member of the Board	20	20
von Essen Patrick, Member of the Board until March 31, 2016	13	-
Hautamäki, Risto Member of the Board as of March 31, 2016	7	20
TOTAL	140	140
Group Executive Board's employee benefits on an accrual basis		
Salaries and other short-term employee benefits	933	959
Post-employment benefits	183	187
Share-based payments	127	172
TOTAL	1 243	1 318

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.

Management has not been paid share-based payments during the financial year. During the financial year, the management and the Board of Directors has not granted share options.

Management has not been granted shares or cash contributions share-based payment plans in 2015 and 2016.

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 2016 was EUR 65 thousand (EUR 78 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.

On December 31, 2016, the Board of Directors and the Group's President and CEO and the Group's Executive Board held altogether 126,149 series A shares and 122,830 series K shares. The management's holding represents 5.9 percent of the company shares and 11.2 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

Financial Statements 2016 / Group

EUR 1,000	2016	2015
OTHER OPERATING INCOME		
Insurance compensations	918	195
Allowances received	84	118
Capital gain on sale of fixed assets	28	35
Other	74	45
TOTAL	1 103	393

EUR 1,000	2016	2015
OTHER OPERATING EXPENSES		
Indirect production expenses	-2 982	-4 185
Renting expenses	-1 215	-1 307
Sales and marketing expenses	-2 128	-2 016
Credit losses	-168	-579
Administration expenses	-2 334	-2 342
Changes in the fair value of currency forward contracts	179	70
Other expenses	-3 380	-3 082
TOTAL	-12 030	-13 441

Auditors' remunerations

Authorized Public Accountants PricewaterhouseCoopers

Audit expenses, statutory	-53	-50
Audit expenses, other assignments according to the Audit Act	-1	-1
Audit expenses, other services	-19	-18
Audit expenses, tax services	-10	-13
Total	-83	-82

Other lease agreement

Group as a lessee

Minimum rents paid on the basis of other non-cancellable leases:		
- Within one year	926	903
- After a period of more than one year and less than five years	756	1 301
- Maturing later	1	-
Total	1 684	2 204

Basis of preparation

Other operating income has been recognized revenue not included in net sales, such as lease income, insurance compensations and gains on the disposal of fixed assets. 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 income-impact items by nature included in business operations. Other individual items 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. The standard includes the methodology of the recognition of leases. Raute Corporation estimates that the adoption of the standard will have impact on certain lease agreements recognition in the consolidated financial statement. Leased assets and pledges under the lease contracts shall be recognized as an asset and liability to the balance sheet. In the financial statements 2016 lease obligations have been presented in the off-balance sheet item in the Other own obligations in the note Pledged assets and contingent liabilities, in page 44.

EUR 1,000	2016	2015
INCOME TAXES		
Consolidated income statement		
Current tax based on the taxable profit of the financial year	-2 003	-1 574
Current tax of previous financial years	61	85
Deferred taxes	407	54
TOTAL	-1 536	-1 435
Reconciliation of the relationship between realized tax expense and theoretical accounting result using the Finnish tax rate of 20.0 percent		
Profit before taxes	8 220	8 118
Tax effect of the following items:		
Taxes calculated using the Finnish tax rate, 20.0%	-1 644	-1 624
Effect of differences in tax rates of foreign subsidiaries	-27	-157
Non-taxable income	48	20
Non-deductible costs in taxation	-247	-72
Taxes from the previous financial years	51	-75
Utilization of previously unrecognized tax losses	8	687
Unrecognized tax assets from the losses of foreign subsidiaries	-24	-8
Other items	300	-355
Consolidated tax expense	-1 536	-1 435
Effective tax rate, %	18,7 %	17,7 %

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 judgements and key sources of estimation uncertainty

The Group is subject to income taxes in Finland and several other countries. Management's judgement 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

Financial Statements 2016 / Group

DEFERRED TAX ASSETS

EUR 1,000	1.1.2016	Entered through profit or loss	Entered in comprehensive income statement	Re-cognized in shareholders' 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
Deferred tax assets, net	172	-5	0	0	167

COMPARISON YEAR

EUR 1,000	1.1.2015	Entered through profit or loss	Entered in comprehensive income statement	Re-cognized in shareholders' equity	31.12.2015
Intercompany inventory profit	28	-3	-	-	25
Provisions	350	-125	-	-	224
Employee benefits	1	7	-	-	8
Tax losses and credits unused	185	-13	-	-	172
Other temporary differences	221	-172	-	-	49
Deferred tax assets, total	784	-306	-	-	478
Offset from deferred tax liabilities	-596	293	-	-	-303
Deferred tax assets, net	185	-13	0	0	172

A deferred tax asset of EUR 10 thousand (EUR 60 thousand) has been recognized from **losses of foreign subsidiaries from the financial year 2016**.

A deferred tax asset of EUR 1 125 thousand (EUR 1 584 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	1.1.2016	Entered through profit or loss	Entered in comprehensive income statement	Re-cognized in shareholders' equity	31.12.2016
Financial assets at fair value	0	-	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
Deferred tax liabilities, net	241	-101	52	-	192

COMPARISON YEAR

EUR 1,000	1.1.2015	Entered through profit or loss	Entered in comprehensive income statement	Re-cognized in shareholders' equity	31.12.2015
Financial assets at fair value	0	-	-	-	0
Effect of Group consolidation	300	-174	-	-	126
Other temporary differences	534	-116	-	-	418
Deferred tax liabilities, total	834	-290	-	-	544
Offset to deferred tax assets	-596	293	-	-	-303
Deferred tax liabilities, net	238	3	-	-	241

INTANGIBLE ASSETS

EUR 1,000	Development costs	Other intangible assets	Development costs in progress	TOTAL
Carrying amount at Jan. 1, 2016	4 640	8 375	1 020	14 035
Exchange rate differences	-	-28	-	-28
Additions	-	108	-	108
Disposals	-	-	-	-
Reclassification between items	-	296	-1 020	-724
Carrying amount at Dec. 31, 2016	4 640	8 751	0	13 391
Accumulated depreciation and amortization at Jan. 1, 2016	-4 065	-7 341	-1 020	-12 426
Exchange rate differences	-	18	-	18
Accumulated depreciation and amortization of disposals and reclassifications	-	-	1 020	1 020
Depreciation and amortization for the financial year	-227	-423	-	-650
Impairments	-	-	-	-
Accumulated depreciation and amortization at Dec. 31, 2016	-4 291	-7 746	0	-12 038
Book value at Dec. 31, 2016	348	1 005	0	1 353
COMPARISON YEAR				
EUR 1,000	Development costs	Other intangible assets	Development costs in progress	TOTAL
Carrying amount at Jan. 1, 2015	4 077	8 387	1 363	13 826
Exchange rate differences	-	60	-	60
Additions	-	121	220	346
Disposals	-	-350	-	-350
Reclassification between items	563	157	-563	152
Carrying amount at Dec. 31, 2015	4 640	8 375	1 020	14 035
Accumulated depreciation and amortization at Jan. 1, 2015	-3 961	-6 374	-	-10 334
Exchange rate differences	-	-32	-	-32
Accumulated depreciation and amortization of disposals and reclassifications	-	-	-	-
Depreciation and amortization for the financial year	-104	-586	-	-690
Impairments	-	-350	-1 020	-1 370
Accumulated depreciation and amortization at Dec. 31, 2015	-4 065	-7 341	-1 020	-12 426
Book value at Dec. 31, 2015	575	1 034	0	1 609

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	2016	2015
RESEARCH AND DEVELOPMENT COSTS		
Research and development costs for the period	-2 863	-3 092
Amortization of previously capitalized development costs	-227	-104
Development costs recognized as an asset in the balance sheet	-	220
Research and development costs entered as expense for the period before impairment	-3 090	-2 976
Impairment of previously capitalized development costs	-	-1 020
Research and development costs entered as expense for the period	-3 090	-3 996

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 judgements

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 10.9%.

During the 2016 financial year, no impairment loss (EUR 1,020 thousand) 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
Carrying amount at Jan. 1, 2016	386	10 218	33 244	561	1 054	45 463
Exchange rate differences	-	-	432	14	-	445
Additions	-	-	936	-	2 179	3 116
Disposals	-	-	-66	-	-	-66
Reclassifications between items	-	669	2 025	-22	-2 973	-301
Carrying amount at Dec. 31, 2016	386	10 887	36 571	553	260	48 657
Accumulated depreciation and amortization at Jan. 1, 2016	-	-7 047	-29 463	-423	-	-36 934
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
Accumulated depreciation and amortization at Dec. 31, 2016	-	-7 390	-31 234	-453	-	-39 077
Book value at Dec. 31, 2016	386	3 497	5 337	100	260	9 580

COMPARISON YEAR

EUR 1,000	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and assets in progress	Total
Carrying amount at Jan. 1, 2015	386	10 053	32 826	577	102	43 944
Exchange rate differences	-	-	-443	-15	-	-458
Additions	-	4	592	-	1 564	2 160
Disposals	-	-	-30	-	-	-30
Reclassifications between items	-	160	299	-	-612	-152
Carrying amount at Dec. 31, 2015	386	10 218	33 244	561	1 054	45 463
Accumulated depreciation and amortization at Jan. 1, 2015	-	-6 711	-28 897	-406	-	-36 014
Exchange rate differences	-	-	495	7	-	502
Accumulated depreciation and amortization of disposals and reclassification	-	-	-	-	-	-
Depreciation and amortization for the financial year	-	-336	-1 062	-24	-	-1 422
Accumulated depreciation and amortization at Dec. 31, 2015	-	-7 047	-29 463	-423	-	-36 934
Book value at Dec. 31, 2015	386	3 170	3 781	138	1 054	8 529

EUR 1,000	2016	2015
DEPRECIATION AND AMORTIZATION		
Depreciation and amortization by class of assets		
Intangible assets		
- Capitalized development costs	-227	-104
- Other intangible assets	-423	-586
Property, plant and equipment		
- Buildings and structures	-342	-336
- Machinery and equipment	-1 324	-1 075
- Other tangible assets	-23	-24
TOTAL	-2 340	-2 125

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, 2016, 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	2016	2015
INVENTORIES		
Materials and supplies	5 929	5 252
Work in progress	1 952	2 627
Other inventories	945	331
Advance payments from long-term projects	847	1 367
TOTAL	9 674	9 577

During the financial year, EUR 357 thousand (EUR 261 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 0.8 million in unsecured paid advance payments.

EUR 1,000	2016	2015
ACCOUNTS RECEIVABLES AND OTHER RECEIVABLES		
Accounts receivables	5 612	4 787
Receivables according to percentage of completion from customers' long-term projects	16 741	26 533
Accrued income and prepaid expenses	691	890
Derivative contract receivables	90	48
Other receivables	1 341	2 587
TOTAL	24 476	34 845
Substantial items included in accrued income and prepaid expenses		
Periodizing of personnel costs	21	5
Income tax receivable	40	123
Other accrued income and prepaid expenses	630	761
TOTAL	691	890

EUR 1,000	2016	2015
TRADE PAYABLES AND OTHER PAYABLES		
CURRENT INTEREST-FREE LIABILITIES IN THE BALANCE SHEET		
Advance payments received	13 069	11 024
Trade payables	7 596	7 893
Accrued expenses and prepaid income	8 097	8 030
Derivatives	7	31
Income tax liability	1 131	11
Other liabilities	704	1 432
TOTAL	30 604	28 420
Substantial items included in accrued expenses and prepaid income		
Accrued project expenses related to long-term projects	1 435	1 560
Accrued employee related expenses	6 146	6 104
Financial expenses	176	59
Other accrued expenses and prepaid income	340	307
TOTAL	8 097	8 030

Advance payments received, EUR 13 069 thousand (EUR 11 024 thousand), include advance payments received from the long-term projects in the amount of EUR 12 339 thousand (EUR 9 471 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 in page 20. Fair values of the receivables have been presented in the note Financial assets, page 40.

Management's accounting judgements 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.

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	2016	2015
EXCHANGE RATE GAINS AND LOSSES (NET)		
Included in net sales	-82	280
Included in financial income and expenses	-178	126
Included in other comprehensive income items	534	88
TOTAL	274	494

EUR 1,000	2016	2015
DERIVATIVES		
Nominal values of forward contracts in foreign currency		
Economic hedging		
- Related to the hedging of net sales	6 084	2 969
Hedge accounting		
- Related to the hedging of net sales	2 556	2 679
Fair values of forward contracts in foreign currency		
Economic hedging		
- Related to the hedging of net sales	-41	-89
Hedge accounting		
- Related to the hedging of net sales	-75	-47

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

IFRS 9 standard is effective on January 1, 2018. The change provides a possibility to apply more widely hedge accounting in future cash flow hedging.

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 mature within 12 months from the balance sheet date, and they have been presented as accrued expenses or receivables under current assets or liabilities in the balance sheet.

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.

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:

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

The distribution of the Group's sales varies annually according to market area. In 2016 amount of 50 percent (53%) 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 11 percent (12 %) during the year 2016.

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 operationally.

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, where the trading currency is the euro but the Group's costs are determined by the Chinese yuan. Primarily, cash flows accumulating from unhedged sales payments in the same currency are used in the hed-

ging 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 8.6 million (MEUR 5.7) and the fair value EUR -116 thousand (EUR -136 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 2016, 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 41 thousand negative effect on the Group's operating profit (EUR 136 thousand) at the reporting date. The nominal values of derivatives related to financing are presented in the note Derivatives, page 34.

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.

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 effect. 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 rouble, 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:

	Net currency position		Net balance sheet risk	
EUR 1,000	2016	2015	2016	2015
CNY/EUR	82	-79	286	224
RUB/EUR	-539	109	-539	109
CAD/EUR	185	152	185	152
USD/EUR	30	721	-379	789

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 equaled altogether EUR -3,680 thousand on December 31, 2016 (EUR -2,543 thousand). Net investments are detailed according to currency in the following table:

Net investments

EUR 1,000	2016	2015
CNY	0	1 394
RUB	0	0
CAD	84	84
USD	17	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, 2016 is presented in the following table:

Effect on profit after tax

EUR 1,000		2016		2015
CNY +/- 30%	+/-	436	+/-	36
RUB +/- 30%	+/-	152	+/-	125
CAD +/- 30%	+/-	566	+/-	99
USD +/- 30%	+/-	5	+/-	1

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	2016	2015
SHARE CAPITAL		
Share capital at Jan. 1	8 223	8 031
Exercised stock options	33	193
Share capital at Dec. 31	8 256	8 223
FAIR VALUE RESERVE AND OTHER RESERVES		
Invested non-restricted equity reserve at Jan. 1	4 950	5 339
Exercised stock options	495	414
Repayment of equity	-	-803
Invested non-restricted equity reserve at Dec. 31	5 445	4 950
Other reserves at Jan. 1	1 058	662
Fair value reserve	259	-
Hedging reserve, hedge accounting	66	8
Equity settled share-based payments	-191	389
Deferred taxes related to these items	-60	-
Other reserves at Dec. 31	1 132	1 058
Exchange rate differences at Jan. 1		
Exchange rate differences on translating foreign operations	308	220
Exchange rate differences at Dec. 31	534	88
Exchange rate differences at 31.12.	842	308
Retained earnings at Jan. 1		
Dividend paid	15 161	10 083
Profit for the financial year	-3 303	-1 606
Retained earnings at Dec. 31	6 684	6 684
Retained earnings at Dec. 31	18 543	15 161
OTHER COMPREHENSIVE INCOME ITEMS		
Remeasurement of defined benefit obligations	-	2
Changes in the fair value of available-for-sale investments	259	-
Cash flow hedges	66	8
Exchange differences on translating foreign operations	534	88
Income taxes related to these items	-60	-
TOTAL	799	98

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 31, 2016 decided to pay a dividend of EUR 0.80 per share for the financial year 2015. The total amount of dividends was EUR 3 302 526,40, with series A shares accounting for EUR 2 509 597,60 and series K shares for EUR 792 928,80. The dividend payment date was April 12, 2016.

Shares, 1,000 pcs		2016	2015
Series K shares (ordinary shares)	20 votes/share	991	991
Series A shares	1 vote/share	3 215	3 121
Total shares at Dec. 31		4 206	4 112
Own shares at Jan. 1		-	-
Acquisition of own shares register on October 5		15	-
Own shares at Dec. 31		15	-
Reconciliation of the number of shares, 1,000 pcs			
Number of shares at Jan. 1		4 112	4 015
Exercised stock options		80	96
Directed issue of shares to the company itself		15	-
Number of shares at Dec. 31		4 206	4 112

Changes in share capital from Jan. 1, 1994 to Dec. 31, 2016	Share capital EUR	Number of series K shares	Number of series A shares
Share capital at Jan. 1, 1994	5 359 073	1 054 600	2 124 240
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	-	-	14 523
Share subscriptions with series 2010 stock options 2016	32 900	-	80 231
Share capital at Dec. 31, 2016	8 256 316	991 161	3 215 301

Other tradable securities	2016	2015
Series 2010 A stock options, unsubscribed at Dec. 31	-	15 355
Series 2010 B stock options, unsubscribed at Dec. 31	16 449	58 400
Series 2010 C stock options, unsubscribed at Dec. 31	31 370	54 295
Total unsubscribed at Dec. 31	47 819	128 050

Raute Corporation has **two series of shares**, series K and series A. The regulation concerning the par value of the share was removed by the resolution made by the Annual General Meeting held on March 31, 2016. Share-related data is presented at page 48 of the financial statements.

In 2016, altogether 15,355 series A shares have been subscribed for with Raute's series A 2010 stock options, 41,951 with series B stock options and 22,925 with series C stock options. The subscription period for series A stock options ended on March 31, 2016.

Raute Corporation's series B 2010 stock options are listed on Nasdaq Helsinki Ltd under the trading code RAUTEEW210 and series C 2010 stock options under the trading code RAUTEEW310. The subscription period for series B stock options is March 1, 2014 to March 31, 2017 and the subscription period for series C stock options is March 1, 2015 to March 31, 2018. The respective subscription prices were EUR 7.13 and EUR 6.00 and the closing prices at the end of the reporting period were EUR 7.79 and EUR 8.80.

The company has acquired through a direct issue to the company itself a total of 14,523 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 5, 2016 and they were held by the company at the balance sheet date December 31, 2016.

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 2016, as well as in the comparison year 2015, 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 2016 the target value of the equity ratio was over 40 percent. At the end of the financial year, the equity ratio was 60 percent (59%) and gearing -60 percent (-17%).

EUR 1,000	2016	2015
Undiluted earnings per share		
Share of profit that belongs to the owners of the Parent company, EUR	6 684	6 684
Weighted average number of shares, 1,000 pcs	4 167	4 051
Earnings per share, EUR	1,60	1,65
Diluted earnings per share		
Share of profit that belongs to the owners of the Parent company, EUR	6 684	6 684
Diluted weighted average number of shares, 1,000 pcs	4 210	4 079
Diluted earnings per share, EUR	1,59	1,64
The weighted average number of shares used as divider when calculating the diluted earnings per share		
The weighted average number of shares used as divider when calculating the diluted earnings per share	4 167	4 051
Share-based payments	43	28
The weighted average number of shares used when calculating the diluted earnings per share	4 210	4 079

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 43 049 pieces (27 719 pcs) on calculating the diluted number of shares.

EUR 1,000	2016	2015
CURRENT INTEREST-BEARING LIABILITIES		
Financial liabilities recognized at amortized cost		
Partial payments of financial loans	3 136	1 535
TOTAL	3 136	1 535
Distribution of the Group's current loans by currencies		
- Euro (EUR)	0 %	81 %
- Chinese yuan (CNY)	100 %	19 %
The weighted averages of effective interest rates of current interest-bearing loans		
Partial payments of financial loans	5,37 %	4,15 %

EUR 1,000	Carrying amount Dec. 31, 2016	Fair value Dec. 31, 2016	Carrying amount Dec. 31, 2015	Fair value Dec. 31, 2015
Fair value of financial liabilities				
Financial liabilities at fair value through profit or loss				
- Derivative contracts	7	7	31	31
Financial liabilities recognized at amortized cost				
- Financial loans	3 136	3 136	1 535	1 535
- Trade payables and other liabilities	21 369	21 369	20 348	20 348
- Accrued expenses and prepaid income	8 097	8 097	8 030	8 030
Total	32 609	32 609	29 944	29 944
Financial instruments by category				
Financial liabilities at fair value through profit or loss	7	7	31	31
Financial liabilities recognized at amortized cost	32 602	32 602	29 913	29 913

EUR 1,000	Level 1	Level 2	Level 3	Total
Hierarchy levels				
Financial liabilities at fair value through profit or loss				
- Derivative contracts	-	7	-	7
Total	-	7	-	7

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 3.1 million

(MEUR 0.2) 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 44.

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, 2016

EUR 1,000	2017
Financial loans	
Repayments	3 136
Financial expenses	85
Total	3 221

Trade payables

Repayments	7 596
Financial expenses	-
Total	7 596

Accrued expenses and prepaid income

Repayments	7 987
Financial expenses	-
Total	7 987

Derivatives

Cash outflow	-6 775
Cash inflow	4 235
Total	-2 540

Maturities of the financial liabilities, comparison year

EUR 1,000	2016
Financial loans	
Repayments	1 535
Financial expenses	45
Total	1 580

Trade payables

Repayments	7 893
Financial expenses	-
Total	7 893

Accrued expenses and prepaid income

Repayments	7 974
Financial expenses	-
Total	7 974

Derivatives

Cash outflow	-5 667
Cash inflow	5 483
Total	-184

EUR 1,000	Carrying amount Dec. 31, 2016	Fair value Dec. 31, 2016	Carrying amount Dec. 31, 2015	Fair value Dec. 31, 2015
Fair values of financial assets				
Financial assets at fair value through profit or loss				
- Derivative contracts	90	90	48	48
Unquoted share investments	748	748	490	490
Loans and receivables				
- Account receivables and other receivables	24 385	24 385	31 320	31 320
Cash and cash equivalents	23 769	23 769	6 538	6 538
Total	48 992	48 992	38 396	38 396
Financial instruments by category				
Loans and receivables	48 154	48 154	37 858	37 858
Available-for-sale financial assets	838	838	538	538

The balance sheet item Accounts receivables and other receivables includes percentage of completion receivables from customers' long-term projects totaling EUR 16 741 thousand (26 533 thousand).

EUR 1,000	Level 1	Level 2	Level 3	Total
Hierarchy levels				
Financial assets at fair value through profit or loss				
- Unquoted share investments	-	-	748	748
- Derivative contracts	-	90	-	90
Total	-	90	748	838

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 34.

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	2016	2015
CASH AND CASH EQUIVALENTS		
Cash and bank accounts	23 769	6 538
TOTAL	23 769	6 538
Cash and cash equivalents in cash flow statement		
Cash and cash equivalents	23 769	6 538
TOTAL	23 769	6 538

EUR 1,000	2016	2015
OTHER FINANCIAL ASSETS		
AVAILABLE-FOR-SALE FINANCIAL ASSETS		
Unquoted share investments	490	500
Revaluation: PHP-Holding Oy	186	-
Revaluation: Muut osakkeet	73	-
Impairment	-	-10
TOTAL	748	490

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 at page 40.

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 5,8 million (MEUR 3,4) at the balance sheet date.

Management's accounting judgements

In determination of the fair value of available-for-sale financial assets the management has used management's judgement 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, 2016 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 23.8 million (MEUR 6.5) 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 21.6 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 39.

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 2016 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	2016	2015
FINANCIAL EXPENSES, NET		
Financial income		
Interest income from receivables	3	2
Dividend income from available-for-sale investments	114	97
Exchange rate gains from financial liabilities, net	6	163
Other financial income	-	80
Total financial income	123	342
Financial expenses		
Interest expenses on financing loans recognized at amortized cost	-173	-114
Exchange rate losses from financing loans	-	-3
Exchange rate losses from other financial items	-184	-34
Impairment losses on available-for-sale investments	-	-10
Other financial expenses	-104	-182
Total financial expenses	-461	-343
Financial expenses, net	-338	-1

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.

EUR 1,000	2016	2015
PLEDGED ASSETS AND CONTINGENT LIABILITIES		
On behalf of the Parent company		
Business mortgages	6 623	7 869
Financial loans	-	1 250
Business mortgages	-	1 250
Mortgage agreements on behalf of subsidiaries		
Financial loans	3 136	285
Other obligations	189	568
Business mortgages	3 377	881
Commercial bank guarantees on behalf of the Parent company and subsidiaries	17 793	11 546
Other own obligations		
Rental liabilities maturing within one year	926	903
Rental liabilities maturing in one to five years	756	1 301
Rental liabilities maturing later	1	-
Total	1 684	2 204

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 2 114 thousand (992 thousand).

The Parent company Raute Corporation has given a counter guarantee of EUR 3 136 thousand (285 thousand) for the loan of foreign subsidiary. Raute Corporation has given a commercial counter guarantee of EUR 20 thousand (568 thousand) on behalf of a foreign subsidiary.

EUR 1,000	2016	%	2015	%
SEGMENT INFORMATION				
Wood products technology				
Net sales	113 130		127 278	
Operating profit	8 558		8 120	
Assets	69 767		61 760	
Liabilities	35 549		32 059	
Capital expenditure	3 224		2 506	
Assets of the wood products technology segment by geographical location				
Finland	58 993	85	52 488	85
China	5 357	8	4 572	7
North America	4 077	6	3 655	6
Russia	990	1	732	1
South America	189	0	202	0
Other	161	0	112	0
TOTAL	69 767	100	61 760	100
Capital expenditure of the wood products technology segment by geographical location				
Finland	2 925	91	2 388	95
China	104	3	57	2
North America	181	6	61	2
Russia	9	0	-	-
South America	1	0	1	0
Other	4	0	-	-
TOTAL	3 224	100	2 506	100

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.

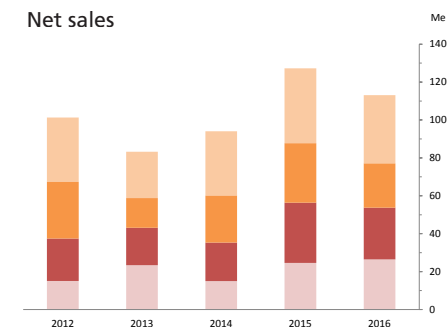
The division into operating segments is based on the Group's internal decision-making order and is consistent with the financial reports submitted to the chief operating decision maker. Segment reporting follows the principles of presentation of the consolidated financial statements

The presented interim report figures have not been audited.

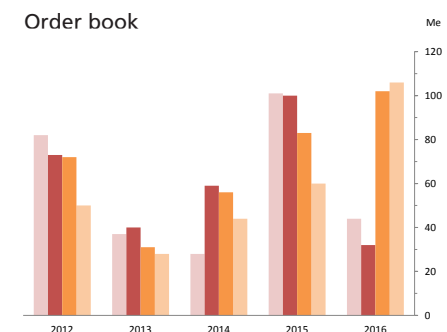
EUR 1,000	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
NET SALES	36 043	23 355	27 306	26 427	39 521	31 391	31 759	24 606
Change in inventories of finished goods and work in progress	-894	67	60	917	-1 254	1 161	-532	312
Other operating income	24	46	73	962	32	7	314	40
Materials and services	-17 041	-10 032	-13 513	-14 264	-21 316	-18 623	-16 197	-11 856
Employee benefits expense	-9 882	-8 627	-8 966	-9 131	-8 935	-8 357	-8 878	-8 140
Depreciation and amortization	-646	-605	-573	-515	-296	-565	-716	-548
Impairments	-	-	-	-	-1 370	-	-	-
Other operating expenses	-3 313	-2 838	-2 871	-3 009	-3 600	-3 102	-3 529	-3 211
Total operating expenses	-30 881	-22 103	-25 923	-26 919	-35 518	-30 646	-29 320	-23 754
OPERATING PROFIT	4 292	1 364	1 516	1 386	2 781	1 912	2 222	1 204
% of net sales	11,9	5,8	5,6	5,2	7,0	6,1	7,0	4,9
Financial income	152	-70	-52	93	129	-42	-10	266
Financial expenses	-139	-134	35	-222	-72	-99	-61	-112
Financial expenses, net	13	-204	-17	-129	57	-141	-71	154
PROFIT BEFORE TAX	4 304	1 159	1 499	1 258	2 837	1 772	2 151	1 359
% of net sales	11,9	5,0	5,5	4,8	7,2	5,6	6,8	5,5
Income taxes	-689	-219	-274	-353	-459	-300	-400	-276
TOTAL PROFIT FOR THE PERIOD	3 615	940	1 224	904	2 378	1 472	1 750	1 083
% of net sales	10,0	4,0	4,5	3,4	6,0	4,7	5,5	4,4
Undiluted earnings per share, euros	0,86	0,22	0,29	0,22	0,58	0,36	0,43	0,27
Diluted earnings per share, euros	0,85	0,22	0,29	0,22	0,58	0,36	0,43	0,27
Adjusted average number of shares, 1 000 pcs	4 191	4 192	4 147	4 124	4 091	4 053	4 025	4 015
Adjusted average number of shares diluted, 1 000 pcs	4 235	4 201	4 189	4 151	4 139	4 065	4 036	4 043
FINANCIAL DEVELOPMENT QUARTERLY								
Order intake during the period, EUR million	42	92	16	13	16	14	31	84
Order book at the end of the period, EUR million	106	102	32	44	60	83	100	101

Development quarterly

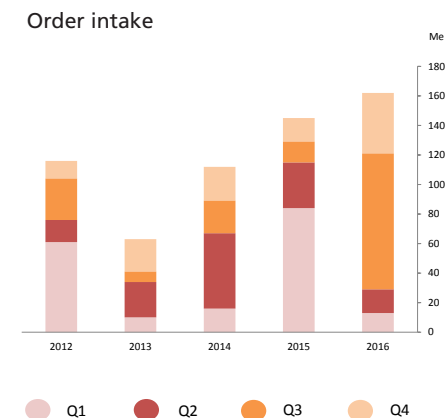
Net sales



Order book



Order intake



The presented interim report figures have not been audited.

Key ratios describing the Group's financial development

Financial Statements 2016 / Group

	2016	2015	2014	2013	2012	Calculation of key ratios
Net sales	113 130	127 278	94 021	83 274	101 273	
Change in net sales, %	-11,1	35,4	12,9	-17,8	36,3	
Exported portion of net sales	88 612	97 113	88 696	78 436	95 099	
% of net sales	78,3	76,3	94,3	94,2	93,9	
Operating profit	8 558	8 120	2 605	1 828	5 022	
% of net sales	7,6	6,4	2,8	2,2	5,0	
Profit before tax						
% of net sales	8 220	8 118	2 810	1 589	4 766	
Profit for the financial year	7,3	6,4	3,0	1,9	4,7	
% of net sales	6 684	6 684	2 361	1 196	2 985	
	5,9	5,3	2,5	1,4	3,0	
Return on investment (ROI), %						
Return on equity (ROE), %	25,3	28,5	10,9	7,3	15,0	
Balance sheet total	20,9	24,7	9,8	5,0	13,1	
Interest-bearing net liabilities	69 767	61 760	52 646	48 783	63 076	
% of net sales	-20 633	-5 003	-1 669	-6 677	-8 087	
Non-interest-bearing liabilities	-18,2	-3,9	-1,8	-8,0	-8,0	
Equity ratio, %	31 760	28 421	22 795	18 302	27 235	
Gearing, %	60,4	58,5	55,8	56,6	48,0	
	-60,3	-16,8	-6,9	-28,3	-33,5	
Gross capital expenditure	3 224	2 506	1 675	3 189	3 529	
% of net sales	2,8	2,0	1,8	3,8	3,5	
Research and development costs	2 863	3 092	1 767	2 523	2 516	
% of net sales	2,5	2,4	1,9	3,0	2,5	
Order book, EUR million	106	60	44	28	50	
Order intake, EUR million	162	145	112	63	116	
Personnel at Dec. 31	643	646	587	534	503	
Personnel effective, on average	631	614	530	515	480	
Personnel, average	642	624	545	522	488	
Dividend	4 206*	3 303	1 606	801	2 002	
Repayment of equity	-*	-	803	1 201	-	
						Operating profit
						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.
						Operating profit, % of net sales
						$\frac{\text{Operating profit}}{\text{Net sales of the financial year}} \times 100$
						Profit before tax, % of net sales
						$\frac{\text{Profit before tax}}{\text{Net sales of the financial year}} \times 100$
						Profit for the financial year, % of net sales
						$\frac{\text{Profit for the financial year}}{\text{Net sales of the financial year}} \times 100$
						Return on investment (ROI), %
						$\frac{\text{Profit before tax} + \text{financial expenses}}{\text{Shareholders' equity} + \text{interest-bearing financial liabilities (average of the financial year)}} \times 100$
						Return on equity (ROE), %
						$\frac{\text{Profit for the financial year}}{\text{Shareholders' equity (average of the financial year)}} \times 100$
						Interest-bearing net liabilities
						Interest-bearing liabilities /. (cash and cash equivalents + financial assets at fair value through profit or loss)
						Equity ratio, %
						$\frac{\text{Shareholders' equity}}{\text{Balance sheet total} /. \text{ advance payments received}} \times 100$
						Gearing, %
						$\frac{\text{Interest-bearing net financial liabilities}}{\text{Shareholders' equity}} \times 100$
						Order book, EUR million
						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.
						Order intake, EUR million
						Binding sales contracts entered into force during the financial year.
						Number of personnel at 31 Dec.
						Number of employed personnel at the end of the financial year.
						Personnel, effective, average
						Average of the effective number of employed personnel at the end of calendar months of the financial year.
						Personnel, average
						Average of the number of employed personnel at the end of calendar months.

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

	2016	2015	2014	2013	2012
Earnings per share, (EPS), undiluted, EUR	1,60	1,65	0,59	0,30	0,75
Earnings per share, (EPS), diluted, EUR	1,59	1,64	0,59	0,30	0,75
Equity to share, EUR	8,13	7,26	6,06	5,90	6,03
Dividend per series A share, EUR	1,00*	0,80	0,40	0,20	0,50
Dividend per series K share, EUR	1,00*	0,80	0,40	0,20	0,50
Dividend per profit, %	62,3*	48,4	68,0	66,7	66,4
Effective dividend return, %	6,0*	5,7	5,5	2,9	5,6
Price/earnings ratio (P/E ratio)	10,41	8,55	12,42	23,28	11,95
Repayment of equity from invested non-restricted equity reserve, EUR	-	-	0,20	0,30	-
Development in share price (series A share)					
Lowest share price for the financial year, EUR	12,06	7,17	6,90	6,88	6,18
Highest share price for the financial year, EUR	17,98	14,25	8,60	9,33	9,24
Average share price for the financial year, EUR	14,50	11,95	7,69	8,49	8,22
Share price at the end of the financial year, EUR	16,70	14,12	7,30	6,95	9,00
Market value of capital stock at Dec. 31, EUR thousand**	70 248	58 057	29 311	27 833	36 043
Trading of the company's shares (series A shares)					
Shares traded during the financial year, 1 000 pcs	988	1 095	594	514	302
% of the number of series A shares	30,7	35,1	20,0	17,0	10,0
Total number of shares (undiluted)					
Issue-adjusted weighted average number of shares	4 166 966	4 051 034	4 009 777	4 004 758	4 004 758
Issue-adjusted number of shares at the end of the financial year	4 206 462	4 111 708	4 015 228	4 004 758	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.

Stock options 2010 B and 2010 C	Closing price at Dec. 31	Share subscription price at Dec. 31	Unsubscribed at Dec. 31
2010 B series stock options	9,10	7,13	16 449
2010 C series stock options	8,80	6,00	31 370

CALCULATION OF SHARE-RELATED DATA

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

RAUTE CORPORATION **Financial statements** **January 1 – December 31, 2016**

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.–31.12.2016	1.1.–31.12.2015
NET SALES	97 713 817,06	112 449 707,73
Change in inventories of finished goods and work in progress	464 092,84	-653 052,98
Other operating income	1 393 187,11	1 364 668,89
Materials and supplies	-51 416 095,39	-66 274 914,40
Personnel expenses	-28 470 135,58	-25 622 683,00
Depreciation and amortization	-1 585 142,82	-1 474 492,22
Impairments	-	-350 000,00
Other operating expenses	-9 253 428,76	-11 180 776,35
Total operating expenses	-90 724 802,55	-104 902 865,97
OPERATING PROFIT	8 846 294,46	8 258 457,67
Financial income and expenses	1 355 066,93	888 137,08
PROFIT BEFORE APPROPRIATIONS AND TAXES	10 201 361,39	9 146 594,75
Appropriations	-	35 827,09
Income taxes	-1 499 622,35	-1 457 406,79
PROFIT FOR THE FINANCIAL YEAR	8 701 739,04	7 725 015,05

Parent company's balance sheet, FAS

Financial Statements 2016 / Parent company

PARENT COMPANY'S BALANCE SHEET

euros	31.12.2016	31.12.2015
ASSETS		
Non-current assets		
Intangible assets	880 017,78	794 378,23
Tangible assets	7 460 355,91	6 271 846,98
Investments	817 208,03	2 211 304,77
Total non-current assets	9 157 581,72	9 277 529,98
Current assets		
Inventories	7 375 584,14	7 699 459,25
Deferred tax assets	9 339,04	-
Current receivables	24 529 168,95	33 914 312,82
Cash and cash equivalents	22 144 932,16	5 987 976,60
Total current assets	54 059 024,29	47 601 748,67
TOTAL ASSETS	63 216 606,01	56 879 278,65

PARENT COMPANY'S BALANCE SHEET

euros	31.12.2016	31.12.2015
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity		
Share capital	8 256 316,00	8 223 416,00
Fair value reserve and other reserves	5 445 207,56	4 950 415,73
Retained earnings	10 228 564,43	5 806 075,78
Profit for the financial year	8 701 739,04	7 725 015,05
Total shareholders' equity	32 631 827,03	26 704 922,56
Obligatory provisions	1 558 684,00	1 787 917,60
Liabilities		
Current liabilities	29 026 094,98	28 386 438,49
Total liabilities	29 026 094,98	28 386 438,49
TOTAL LIABILITIES	63 216 606,01	56 879 278,65

PARENT COMPANY'S CASH FLOW STATEMENT

euros	1.1.–31.12.2016	1.1.–31.12.2015
CASH FLOW FROM OPERATING ACTIVITIES		
Proceeds from sales	107 452 953,82	107 554 068,37
Proceeds from other operating income	1 299 996,68	1 319 709,54
Payments of operating expenses	-88 619 212,43	-102 692 753,91
Cash flow before financial items and taxes	20 133 738,07	6 181 024,00
Interest paid from operating activities	-41 270,07	-91 249,99
Dividends received from operating activities	114 160,00	444 873,00
Interests received from operating activities	32 686,73	3 211,94
Other operating finance costs	-203 341,96	16 250,77
Income tax paid	-258 262,67	-952 048,57
Net cash flow from operating activities (A)	19 777 710,10	5 602 061,15
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure in tangible and intangible assets	-2 850 197,21	-2 051 922,03
Proceeds from sale of tangible and intangible assets	93 237,21	65 783,66
Return of capital from a subsidiary	-	94 768,84
Loans granted to Group companies	-	-650 000,00
Repayments of loan receivables from Group companies	3 006 763,80	2 472 848,55
Net cash flow from investing activities (B)	249 803,80	-68 520,98
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	527 691,83	606 794,00
Proceeds from current liabilities	3 000 000,00	-
Repayments of current liabilities	-4 250 000,00	-
Repayments of non-current liabilities	-	-1 250 000,00
Dividends paid and repayment of equity	-3 302 526,40	-2 409 136,80
Net cash flow from financing activities (C)	-4 024 834,57	-3 052 342,80
Net change in cash and cash equivalents (A+B+C)	16 002 679,33	2 481 197,37
increase (+) / decrease (-)		
Cash and cash equivalents at the beginning of the year	5 987 976,60	3 512 088,65
Net change in cash and cash equivalents	16 002 679,33	2 481 197,37
Effect of exchange rate changes on cash	154 276,23	-5 309,42
Cash and cash equivalents at the end of the year	22 144 932,16	5 987 976,60

NOTES TO THE PARENT COMPANY'S FINANCIAL STATEMENTS

EUR 1,000	2016	%	2015	%
NET SALES				
Net sales by market area				
EMEA (Europe and Africa)	67 882	70	83 107	74
CIS (Russia)	18 800	19	10 876	10
APAC (Asia-Pacific)	4 804	5	6 635	6
NAM (North America)	3 180	3	3 469	3
LAM (Latin America)	3 048	3	8 363	7
TOTAL	97 714	100	112 450	100

Finland accounted for 25 percent (27%) of the Parent company's net sales.

Basis of preparation

The revenue recognition related to net sales and other operating income correspond the accounting principles of the Group consolidated financial statements. Other operating income of the Parent company includes also royalty income which has been recognized on an accrual basis in accordance with the substance of the relevant agreement.

EUR 1,000	2016	2015
LONG-TERM PROJECTS		
Specification of net sales		
Net sales by percentage of completion	83 005	97 395
Other net sales	14 709	15 055
TOTAL	97 714	112 450
Project revenues entered as income from currently undelivered long-term project recognized by percentage of completion	109 828	105 719
Amount of long-term project revenues not yet entered as income (order book)	100 173	55 361
The balance sheet items of the undelivered projects		
Projects for which the value by percentage of completion exceeds advance payments invoiced		
- aggregate amount of costs incurred and recognized profits less recognized losses	88 283	70 133
- advance payments received	72 037	43 669
Gross amount due from customers	16 246	26 464
Projects for which advance payments invoiced exceed the value by percentage of completion		
- aggregate amount of costs incurred and recognized profits less recognized losses	21 545	35 586
- advance payments received	31 555	44 334
Gross amount due to customers	10 010	8 749
Advance payments included in the current liabilities in the balance sheet		
Gross amount due to customers	10 010	8 749
Other advance payments received, not under percentage of completion	181	1 296
TOTAL	10 191	10 045
Specification of combined asset and liability items		
Advance payments paid of the long-term projects	1 213	2 439
TOTAL	1 213	2 439

CURRENT RECEIVABLES

EUR 1,000	2016	2015
Current receivables from Group companies		
Loan receivables	2 114	992
Accounts receivables	915	254
Accrued income and prepaid expenses	-	10
Other receivables	350	66
Total from Group companies	3 379	1 322
Current receivables from others		
Accounts receivables	3 521	3 476
Accrued income and prepaid expenses	16 678	27 211
Other receivables, non-interest-bearing	951	1 905
Total from others	21 150	32 592
TOTAL	24 529	33 914
Substantial items included in accrued income		
Project receivables entered according to percentage of completion	16 247	26 464
Tax receivables	-	120
Other accrued income	431	637
TOTAL	16 678	27 221

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	2016	2015
Purchases during the financial year	-42 553	-58 648
Increase or decrease in inventories	438	1 191
External services	-9 301	-8 818
TOTAL	-51 416	-66 275

INVENTORIES

EUR 1,000	2016	2015
Materials and supplies	4 562	4 124
Work in progress	1 065	1 137
Other inventories	536	-
Advance payments from long-term projects	1 213	2 439
TOTAL	7 376	7 699

During the financial year, EUR 101 thousand (EUR 241 thousand) were recognized in expenses, reducing the carrying amount of inventories to correspond to the disposal price.

OBLIGATORY PROVISIONS

EUR 1,000	2016	2015
OBLIGATORY PROVISIONS		
Warranty provisions		
Book value at Jan. 1	1 672	1 748
Additions	55	1 220
Decrease	-216	-1 295
Book value at Dec. 31	1 511	1 672
Other obligatory provisions		
Book value at Jan. 1	116	687
Additions	1	61
Decrease	-69	-633
Book value at Dec. 31	48	116
TOTAL	1 559	1 788

PERSONNEL EXPENSES

EUR 1,000	2016	2015
Wages and salaries	-22 674	-20 792
Pension costs	-4 158	-3 674
Fixed share-based employee payments	-227	-
Other personnel expenses	-1 411	-1 157
TOTAL	-28 470	-25 623
PERSONNEL		
Employed at Dec. 31, persons		
Workers	163	163
Office staff	301	280
TOTAL	464	443
- of which personnel abroad	4	2
Effective, on average, persons		
Workers	162	155
Office staff	291	272
TOTAL	453	427
- of which personnel abroad	4	2
Effective, on average, persons		
Workers	157	151
Office staff	284	266
TOTAL	441	417
- of which personnel abroad	4	2

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	2016	2015
Insurance compensations	918	195
Other operating income from Group companies	311	219
Allowances received	84	118
Other operating income	53	44
Capital gain on non-current assets	28	35
Gain on previously impaired accounts receivables from Group companies	-	754
TOTAL	1 393	1 365

OTHER OPERATING EXPENSES

EUR 1,000	2016	2015
Indirect production costs	-2 744	-3 910
Sales and marketing costs	-2 317	-2 150
Administration costs	-1 992	-2 006
Credit losses from Group companies	900	100
Credit losses from others	-159	-579
Other costs	-2 942	-2 636
TOTAL	-9 253	-11 181

Basis of preparation

Research and development costs have been recognized as expenses in the income statement in the year they incurred.

EUR 1,000	2016	2015
Auditor's remunerations		
Authorized Public Accountants PricewaterhouseCoopers Oy		
Audit expenses, statutory	-41	-37
Audit expenses, other assignments according to the Audit Act	-1	-1
Audit expenses, other services	-19	-18
Audit expenses, tax services	-10	-13
TOTAL	-71	-69

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 4 thousand (EUR 6 thousand).

OTHER LEASES

EUR 1,000	2016	2015
Raute Corporation as a lessee		
Minimum rents paid on the basis of other non-cancellable leases:		
- Within one year	149	161
- After a period of more than one year and less than five years	26	120
- Maturing later	1	-
TOTAL	176	281

INCOME TAXES

EUR 1,000	2016	2015
Income taxes from operations	-1 563	-1 556
Current tax of previous financial years	54	99
Deferred tax assets	9	-
TOTAL	-1 500	-1 457

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	Intangible assets	TOTAL
Carrying amount at Jan. 1, 2016	2 138	5 477	7 615
Additions	68	40	108
Reclassifications between the items	-	296	296
Carrying amount at Dec. 31, 2016	2 206	5 813	8 019
Accumulated depreciation at Jan. 1, 2016	-1 809	-5 012	-6 821
Depreciation for the financial year	-64	-254	-318
Accumulated depreciation at Dec. 31, 2016	-1 873	-5 266	-7 139
Book value at Dec. 31, 2016	333	547	880
Book value at Dec. 31, 2015	329	466	794

Basis of preparation

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. 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
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.

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
Carrying amount at Jan. 1, 2016	218	9 108	23 893	355	1 054	34 628
Additions	-	-	638	-	2 179	2 817
Disposals	-	-	-66	-	-	-66
Reclassifications between items	-	669	2 008	-	-2 973	-296
Carrying amount at Dec. 31, 2016	218	9 777	26 473	355	260	37 083
Accumulated depreciation and amortization at Jan. 1, 2016	-	-6 568	-21 456	-332	-	-28 356
Depreciation and amortization for the financial year	-	-281	-984	-2	-	-1 267
"Accumulated depreciation and amortization at Dec. 31, 2016"	-	-6 849	-22 440	-334	-	-29 623
Book value at Dec. 31, 2016	218	2 928	4 033	21	260	7 460
Book value at Dec. 31, 2015	218	2 540	2 437	23	1 054	6 272

Book value for production machinery

Dec. 31, 2016	2 715
Dec. 31, 2015	1 469

DEPRECIATION, AMORTIZATION AND IMPAIRMENT CHARGES

EUR 1,000	2016	2015
Depreciation and amortization from intangible assets	-318	-475
Depreciation and amortization from tangible assets	-1 267	-999
Impairments of non-current assets	-	-350
TOTAL	-1 585	-1 824

NON-CURRENT INVESTMENTS

EUR 1,000	Shares, Group companies	Shares, Others	Total
Carrying amount at Jan. 1, 2016	7 888	792	8 680
Carrying amount at Dec. 31, 2016	7 888	792	8 680
Accumulated impairments at Jan. 1, 2016	-6 166	-303	-6 469
Impairments	-1 394	-	-1 394
Accumulated impairments at Dec. 31, 2016	-7 560	-303	-7 863
Book value at Dec. 31, 2016	328	490	817
Book value at Dec. 31, 2015	1 722	490	2 212

SHARES OWNED BY THE COMPANY

	Holding and voting rights, %	Book value, EUR 1,000
Subsidiaries		
RWS-Engineering Oy, Lahti, Finland	100	203
Raute Canada Ltd., Delta, B.C., Canada	100	84
Raute Inc., Delaware, USA	100	17
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
TOTAL		328
Other shares		
	Number of shares , pcs	Book value, EUR 1,000
Lahden Seudun Puhelin Oy	1 717	326
Esys Oy	600	51
FIMECC OY	50	50
PHP Holding Oy	114	19
Ahkera Smart Tech Ltd	143 914	0
Finnish Wood Research Oy	10	0
Other		44
TOTAL		490

SHAREHOLDERS' EQUITY

EUR 1,000	2016	2015
Share capital at Jan. 1	8 223	8 030
Exercised stock options	33	193
Share capital at Dec. 31	8 256	8 223
Invested non-restricted equity reserve at Jan. 1	4 950	5 340
Exercised stock options	495	414
Repayment of non-restricted equity	-	-803
Invested non-restricted equity reserve at Dec. 31	5 445	4 950
Retained earnings at Jan. 1	5 806	6 504
Changes during the financial year		
- Profit from the previous year	7 725	908
- Dividends	-3 303	-1 606
Retained earnings at Dec. 31	10 229	5 806
Profit for the financial year	8 702	7 725
SHAREHOLDERS' EQUITY AT DEC. 31	32 632	26 705
Distributable funds		
Retained earnings at Dec. 31	10 229	5 806
Profit for the financial year	8 702	7 725
Invested non-restricted equity reserve	5 445	4 950
Distributable funds at Dec. 31	24 376	18 482
Shares of the company		
Shares, 1,000 pcs	4 206	4 112
Book counter value of the share	1,96	2,00
Total book counter value, 1 000 pcs	8 256	8 223
Series K shares (ordinary shares, 20 votes/share), 1,000 pcs	991	991
Series A shares (1 vote/shares), 1,000 pcs	3 215	3 121

LIABILITIES

EUR 1,000	2016	2015
Current liabilities		
Current liabilities to Group companies		
- Advance payments received	2 489	485
- Accounts payable	586	577
- Other current liabilities	4 161	2 787
Total to Group companies	7 236	3 850
Current liabilities to others		
- Loans from financial institutions	-	1 250
- Advance payments received	7 703	9 560
- Accounts payable	6 241	6 412
- Accrued expenses and prepaid income	7 238	6 702
- Other liabilities	609	612
Total to others	21 790	24 536
TOTAL	29 026	28 386
Interest-bearing liabilities		
- Current	4 161	4 037
TOTAL	4 161	4 037
Substantial items included in accrued expenses and prepaid		
- Accrued personnel expenses	5 413	5 313
- Accrued project expenses	282	1 187
- Income tax liability	1 131	-
- Other accrued expenses	411	203
TOTAL	7 238	6 702

FINANCIAL INCOME AND EXPENSES

EUR 1,000	2016	2015
Dividend income		
From others	114	97
Total	114	97
Other interest and financial income		
From Group companies	20	47
Reversed impairment on loan receivables from Group companies	2 764	1 528
From others	2	169
Total	2 787	1 744
Total financial income	2 901	1 841
Interest and other financial expenses		
To Group companies	-1	-7
Impairment on loan receivables from Group companies	-	-650
Impairment, investment in Group company	-1 394	-
To others	-150	-296
Total	-1 546	-953
Total financial expenses	-1 546	-953
Financial income and expenses, net	1 355	888
Exchange rate gains (+) / losses (-) included in total financial income	-19	171

Raute Corporation's result was improved by a reversal of impairment for financing loan receivable EUR 650 thousand from its subsidiary Raute (Shanghai) Machinery Co., Ltd and amount of EUR 2 114 thousand from its subsidiary Raute Canada Ltd. Raute Corporation had loan receivables from its subsidiary Raute Canada Ltd. a total of EUR 2 114 thousand (992 thousand) at the end of the financial year. At the end of the financial year Raute Corporation have been recognized an investment in a foreign subsidiary for impairment amount of EUR 1 394 thousand.

DERIVATIVES

EUR 1,000	2016	2015
Nominal values of forward contracts in foreign currency		
Economic hedging		
- Related to the hedging of net sales	3 275	1 874
Hedge accounting		
- Related to the hedging of net sales	2 556	2 679
Fair values of forward contracts in foreign currency		
Economic hedging		
- Related to the hedging of net sales	-97	-116
Hedge accounting		
- Related to the hedging of net sales	-75	-47

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	2016	2015
On behalf of Parent company		
Business mortgages	6 623	7 869
Financial loans	-	1 250
Business mortgages	-	1 250
Mortgage agreements on behalf of subsidiaries		
Financial loans	3 136	285
Other obligations	189	232
Business mortgages	3 377	881
Commercial bank guarantees on behalf of the Parent company and subsidiaries	17 793	11 546

"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.



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 2016, a total of 987,608 Raute Corporation's series A shares were traded (1,094,902 pcs). The total value of trading was EUR 14.3 million (MEUR 13.1). The highest share price was EUR 17.98 (EUR 14.25) and the lowest EUR 12.06 (EUR 7.17). At the end of the year 2016, the share price was EUR 16.70 (EUR 14.12). The average price was EUR 14.50 (EUR 11.95). The company's market capitalization at the end of the financial year was EUR 70.2 million (MEUR 58.1), with series K shares valued at the closing price of series A shares on December 31, 2016.

Share-based incentive program 2014-2018

Information is presented in note Employ benefits, page 22.

Board authorizations

The Annual General Meeting on March 31, 2016 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 31, 2016, 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 28, 2016, the Board of Directors resolved on the issuance of new shares to the company itself without consideration, so that, in spring 2017, 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 2015–2017. The 14,523 new series A shares were entered in the Trade Register on October 5, 2016.

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 14,523 pcs of its own shares.

On December 31, 2016, the company had no valid share issues.

Distribution of ownership

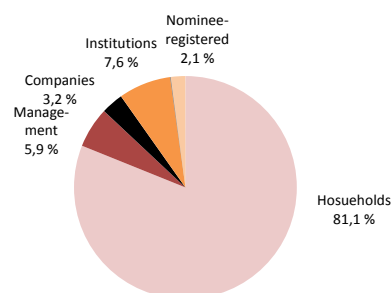
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ENTIRE CAPITAL STOCK

Series A and series K shares by shareholder category	Number of share-holders	%	Number of shares	%	Number of voting rights	%
Households	3 450	95,2	3 662 437	87,1	22 494 496	97,6
Financial and insurance institutions	8	0,2	178 772	4,2	178 772	0,8
Companies	136	3,8	135 361	3,2	135 361	0,6
Non-profit institutions	16	0,4	79 036	1,9	79 036	0,3
Public institutions	2	0,1	60 350	1,4	60 350	0,3
Foreign shareholders	6	0,2	2 945	0,1	2 945	0,0
Nominee-registered	7	0,2	87 561	2,1	87 561	0,4
Total	3 625	100,0	4 206 462	100,0	23 038 521	100,0

Series A and series K shares by number of shares	Number of share-holders	%	Number of shares	%	Number of voting rights	%
1–1 000	3 342	92,2	758 781	18,0	767 521	3,3
1 001–5 000	208	5,7	421 703	10,0	674 061	2,9
5 001–10 000	20	0,6	140 868	3,3	657 668	2,9
10 001–50 000	37	1,0	844 400	20,1	9 205 521	40,0
50 001–	18	0,5	2 040 710	48,5	11 733 750	50,9
Total	3 625	100,0	4 206 462	100,0	23 038 521	100,0

Shareholding at December 31, 2016



SERIES A SHARES

Series A shares by shareholder category	Number of share-holders	%	Number of shares	%	Number of voting rights	%
Households	3 433	95,1	2 671 276	83,1	2 671 276	83,1
Financial and insurance institutions	8	0,4	178 772	5,6	178 772	5,6
Companies	136	3,8	135 361	4,2	135 361	4,2
Non-profit institutions	16	0,4	79 036	2,5	79 036	2,5
Public institutions	2	0,1	60 350	1,9	60 350	1,9
Foreign shareholders	6	0,2	2 945	0,1	2 945	0,1
Nominee-registered	7	0,2	87 561	2,7	87 561	2,7
Total	3 608	100,0	3 215 301	100,0	3 215 301	100,0

Series A shares by number of shares	Number of share-holders	%	Number of shares	%	Number of voting rights	%
1–1 000	3 344	92,7	760 033	23,6	760 033	23,6
1 001–5 000	209	5,8	427 802	13,3	427 802	13,3
5 001–10 000	21	0,6	148 590	4,6	148 590	4,6
10 001–50 000	24	0,7	575 969	17,9	575 969	17,9
50 001–	10	0,3	1 302 907	40,5	1 302 907	40,5
Total	3 608	100,0	3 215 301	100,0	3 215 301	100,0

SERIES K SHARES

Series K shares by shareholder category	Number of share-holders	%	Number of shares	%	Number of voting rights	%
Households	50	100,0	991 161	100,0	19 823 220	100,0
Total	50	100,0	991 161	100,0	19 823 220	100,0

Series K shares by number of shares	Number of share-holders	%	Number of shares	%	Number of voting rights	%
1–1 000	5	10,0	840	0,1	16 800	0,1
1 001–5 000	8	16,0	21 551	2,2	431 020	2,2
5 001–10 000	6	12,0	32 100	3,2	642 000	3,2
10 001–50 000	26	52,0	651 810	65,8	13 036 200	65,8
50 001–	5	10,0	284 860	28,7	5 697 200	28,7
Total	50	100,0	991 161	100,0	19 823 220	100,0

20 LARGEST SHAREHOLDERS AT DEC. 31, 2016 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	-	622 942	622 942	14,8	622 942	2,7
2. Mandatum Life Unit-Linked	-	131 196	131 196	3,1	131 196	0,6
3. Laakkonen Mikko Kalervo	-	119 919	119 919	2,9	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	2,5	1 161 941	5,0
7. Suominen Tiina Sini-Maria	48 000	53 816	101 816	2,4	1 013 816	4,4
8. Relander Harald kuolinpesä	-	85 000	85 000	2,0	85 000	0,4
9. Keskiäho Kaija Leena	33 600	51 116	84 716	2,0	723 116	3,1
10. Mustakallio Mika Tapani	57 580	26 270	83 850	2,0	1 177 870	5,1
11. Särkijärvi Anna Riitta	60 480	22 009	82 489	2,0	1 231 609	5,3
12. Mustakallio Marja Helena	46 740	16 047	62 787	1,5	950 847	4,1
13. Mustakallio Kari Pauli	60 480	500	60 980	1,4	1 210 100	5,3
14. Särkijärvi Timo Juha	12 000	43 256	55 256	1,3	283 256	1,2
15. Särkijärvi-Martinez Anu Riitta	12 000	43 256	55 256	1,3	283 256	1,2
16. Suominen Jukka Matias	24 960	27 964	52 924	1,3	527 164	2,3
17. Keskinäinen työeläkevakuutus- yhtiö Varmia	-	51 950	51 950	1,2	51 950	0,2
18. Mustakallio Ulla Sinikka	49 740	-	49 740	1,2	994 800	4,3
19. Suominen Jussi Matias	48 000	-	48 000	1,1	960 000	4,2
20. Keskiäho Ilta Marjaana	24 780	19 094	43 874	1,0	514 694	2,2
Total	632 680	1 478 644	2 111 324	50,2	14 132 244	61,3

MANAGEMENT'S SHAREHOLDING AT DEC. 31, 2016

The Board of Directors, the President and CEO as well as the Executive Board held altogether 126,149 series A shares and 122,830 series K shares at December 31, 2016, equaling 5.9 percent of the company shares and 11.2 percent of the votes. The figures include the holding of their own, minor children and control entities.

NOMINEE-REGISTERED SHARES AT DEC. 31, 2016

Nominee-registered shares accounted for 2.1 percent (3.3%) of the total shares.

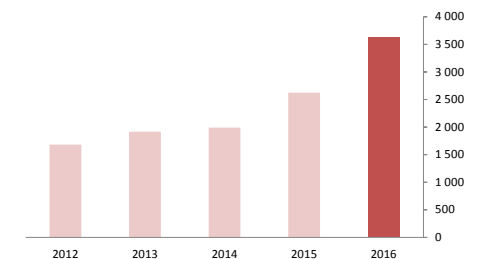
20 LARGEST SHAREHOLDERS AT DEC. 31, 2016 BY NUMBER OF VOTES

	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. Särkijärvi Anna Riitta	60 480	22 009	82 489	2,0	1 231 609	5,3
2. Mustakallio Kari Pauli	60 480	500	60 980	1,4	1 210 100	5,3
3. Mustakallio Mika Tapani	57 580	26 270	83 850	2,0	1 177 870	5,1
4. Kirmo Kaisa Marketta	55 680	48 341	104 021	2,5	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	53 816	101 816	2,4	1 013 816	4,4
8. Mustakallio Ulla Sinikka	49 740	-	49 740	1,2	994 800	4,3
9. Suominen Jussi Matias	48 000	-	48 000	1,1	960 000	4,2
10. Mustakallio Marja Helena	46 740	16 047	62 787	1,5	950 847	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. Sundholm Göran	-	622 942	622 942	14,8	622 942	2,7
14. Keskiäho Vesa Heikki	29 680	-	29 680	0,7	593 600	2,6
15. Keskiäho Juha-Pekka	27 880	5 816	33 696	0,8	563 416	2,4
16. Kirmo Lasse	27 645	2 967	30 612	0,7	555 867	2,4
17. Suominen Jukka Matias	24 960	27 964	52 924	1,3	527 164	2,3
18. Keskiäho Ilta Marjaana	24 780	19 094	43 874	1,0	514 694	2,2
19. Kultanen Leea Annikka	22 405	8 031	30 436	0,7	456 131	2,0
20. Molander Sole	20 160	-	20 160	0,5	403 200	1,8
Total	778 690	1 020 881	1 799 571	42,8	16 594 681	72,0

NUMBER OF SHAREHOLDERS AT DEC. 31, 2016

The number of shareholders totaled 3,625 (2,623) at the end of the year 2016. Series K shares were owned by 50 (50) private individuals at the end of the financial year.

Number of shareholders



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 24,375,511.03, of which the profit for the financial year is EUR 8,701,739.04 and the balance sheet amounts to EUR 63,216,606.01.

The Board of Directors will propose to the Annual General Meeting 2017 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. 4,206,462 shares:

- EUR 1.00 per share to be distributed as dividend, i.e. a total of	EUR	4,206,462.00
- Retained in equity	EUR	20,169,049.03
Total	EUR	24,375,511.03.

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, 2017

Erkki Pehu-Lehtonen
Chairman of the Board

Mika Mustakallio

Joni Bask

Päivi Leiwo

Pekka Suominen

Patrick von Essen

Tapani Kiiski
President and CEO

Auditor's note

The Auditor's report has been issued today.

Lahti, February 15, 2017

PricewaterhouseCoopers Oy
Authorized Public Accountants

Markku Launis
Authorized Public Accountant

FINANCIAL STATEMENTS DECEMBER 31, 2016

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 and 80

65, 66, 67 and 68

6, 20, 21, 22 and 25

98

28 and 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)

To the Annual General Meeting of Raute Corporation

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the Group's financial performance and financial position 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.

What we have audited

We have audited the financial statements of Raute Corporation (business identity code 0149072-6) for the year ended 31 December, 2016. The financial statements comprise:

- the consolidated balance sheet, 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.

Our Audit Approach

Overview



Overall Group materiality

- Overall Group materiality: € 1.100.000

Audit scope

- 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.

Key audit matters

- 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.

Overall Group materiality	€ 1.100.000
How we determined it	1 % of revenues
Rationale for the materiality benchmark applied	The Group's profitability has been volatile over the last few years. Therefore, we chose revenues as the benchmark as we considered that this provides us with a consistent year-on-year basis for determining materiality. We believe revenue is also the benchmark against which the performance of the Group is commonly measured by users, and is a generally accepted benchmark. We chose 1 % to be applied.

How we tailored our Group audit scope

We tailored the scope of our audit, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Group's sales is mainly generated by Parent company and we have audited the Parent company as part of our audit of consolidated financial statements. In addition, we have performed audit procedures in Canadian subsidiary. We have considered that the remaining subsidiaries don't present a reasonable risk of material misstatement for consolidated financial statements and thus our procedures have been limited to analytical procedures performed at Group level.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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
Revenue recognition of long-term projects <i>Refer to accounting principles of the consolidated financial statements and notes net sales and long-term projects in the consolidated financial statements</i>	<p>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:</p> <ul style="list-style-type: none"> - 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.
<p>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.</p> <p>The revenue recognition for long-term projects includes significant management judgements, which have a direct impact on the revenue and profit of the financial year. The most important judgement relates to the estimated total revenues as well as estimated material, subcontracting and labour costs.</p> <p>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.</p> <p>Our audit procedures focused on the revenue recognition of long-term projects, as they include management judgement. The revenue recognition for long-term projects includes management judgement in a form of estimates affecting both on the amount of revenue being recognized and profitability of the projects.</p> <p>We have no key audit matters to report with respect to our audit of the Parent company financial statements.</p>	

Auditor's Report (Translation of the Finnish Original)

Responsibilities of the Board of Directors and the President and CEO for the Financial Statements

The Board of Directors and the President and CEO 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 President and CEO 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 President and CEO are responsible for assessing the Parent company's and the Group's ability to continue as 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 Corporation or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on 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 good auditing practice, we exercise professional judgement 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 President and CEO'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.

OTHER REPORTING REQUIREMENTS

Other Information

The Board of Directors and the President and CEO are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We 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 information included in the report of the Board of Directors, 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 2017

PricewaterhouseCoopers Oy

Authorized Public Accountants

Markku Launis

Authorized Public Accountant



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