



ELECSTER

Annual Report 2005

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Shortened version

Managing Director's Review



Despite of the complicated initial situation and slow start in the beginning of year 2005, a turn for the better took place in the course of the spring. So, year 2005 finally became a year of positive development. Both our turnover and result regained growth.

High raw material prices made the beginning of the year difficult. In the spring, the prices however went down, which improved the situation in this whole branch of industry. Already during the first half of the year, it became obvious that our result will grow, thanks to the increased volume. During the second half of the year, the development remained in line with the beginning of the year, so the targets set for the whole financial period were achieved. The growth was based on increase in the degree of use at the packaging material factories established in China and Russia. The packaging material factory in China is now in full operation since March 2005, and also in Russia, the degree of use is continuously improving.

The measures we had been forced to take towards the end of the previous fiscal year in order to reduce the overcapacity in our packaging machinery manufacturing were stingy, however in that circumstances indispensable.

Increased volume on one hand, and lower production costs thanks to our intensifying measures on the other hand thus both influenced the rise in our result. Fluctuation of raw material prices was strong. In the spring, the prices went down, which contributed to our better result during the first half of the year, however towards the end of the year the prices turned to swing up, so actually we can be quite pleased with the result reached in the latter part of the year.

In investments, our priority was to double the production capacity of the packaging material factory established in China. The decision was based on the successful start-up of the packaging material factory in China, and on its full degree of use. The investment was scheduled towards the end of the year, and is now at the commissioning phase.

After the job cuts made during the previous fiscal year, the structure of the Group is now on a solid base. In addition to the parent company, all functional units reached a positive result. The structural change from a machine supplier to a system supplier has therefore yielded profits.

Year 2006

We have resolved to grow from a machine supplier to a system supplier and started the work to realise this target.

Since a couple of years we are developing a new concept called "strategic partnership", and our own readiness to act according to this concept. The targets of this concept are a comprehensive customer service and sustained business relation between the customer and the supplier. Year 2005 strengthened our trust in that we are on the right way. We will continue our work to develop our own readiness and resources.

The next phase to develop our readiness is to invest in our Reisjärvi plastic factory and to raise its capacity with new production machinery for packaging materials and a new printing machine. Reisjärvi plastic factory serves the customers widely in Europe, Africa and South America. The increased packaging machine sales to these areas requires rise in packaging material production capacity. This investment is scheduled to start towards the autumn.

We expect our turnover to grow after the starting up of the new line in China, and slightly already after taking the new line in Reisjärvi into operation. The packaging machine sales are also expected to rise slightly.

The preconditions for a positive development of the result exist thanks to the growing volume of production. There are of course threats as high raw material prices resulting from high oil price.

As a whole, the prospects for year 2006 are better than a year earlier.

I wish to express my best thanks to our personnel for the excellent work done and good results in difficult conditions. I also wish to extend my thanks all our clients, shareholders and other interest groups for the good cooperation.

In Kylmäkoski, on March 28th 2006

Jarmo Halonen

Company profil

ELECSTER OYJ

Pouch package is advantageous to the consumers because of its low price and ecology. The assets of Elecster pouch packages produced in the packaging machines manufactured by our company are their technically high standard and visually attracting appearance. Elecster concept is a part of our clients' marketing communication, creating additional value for the business of the dairies.



In the densely populated areas of the world, as in China and other Asian countries, amount of milk packed in pouches is increasing. Elecster has been working purposefully to expand our presence in the traditional milk pouch areas. Focusing our marketing efforts on these key areas that are vital for developing our business, and the already increased production capacities in these areas are a part of our company strategy: to be near to the customers both geographically and culturally. During the year 2005, such areas of priority have been e.g. China and the CIS countries. Economies in these countries continue strong growth and milk pouch package has stabilised its position in their dynamic markets.

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High-quality pouch packages made in Elecster packaging machines are a part of our clients' marketing communication.

In 2004, Elecster made an investment in Tianjin, P.R. China by establishing a packaging material factory that was then taken in full operation in 2005. Delivery contracts have been concluded ensuring a sufficient degree of use for the capacity. In the course of year 2005, Elecster started measures to expand the production capacity. This expansion will be taken into operating in the course of year 2006.

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The assets of Elecster pouch packages are their technically high standard and visually attractive appearance.



At the same time with the investment made in China, Elecster established another packaging material factory in Perm, Russia. Such a remarkable increase in production capacity, i.e. the simultaneous launching of two new factories seldom succeeds without any problems. For arranging in-line processing of plastics, reliable supplier relations and functioning logistics solutions are required.

It has been a more laborious process than expected to create functioning delivery processes, and simultaneously to carry out the training of operators, so rise in the degree of use of the production capacity has been slower than expected in Russia. In Perm we thus have not yet reached the full capacity. Work to achieve a higher degree of use will be continued during this year. With the required additional investments, we target to improve the quality level of our products and increase the cost-effectiveness of our production.

Consolidated Financial Statements, IFRS

Consolidated income statement

	Note	1.1.-31.12.2005	1.1.-31.12.2004
NET SALES		34 531	28 677
Change in finished goods and work in progress		89	-375
Production for own use		1 747	1 493
Other operating income	4	725	111
Material and services	5	-19 771	-15 595
Employee benefits expense	6	-7 819	-7 986
Depreciation	7	-1 054	-911
Other operating expenses	8	-5 392	-5 370
OPERATING PROFIT		3 056	42
Financing income	9	494	423
Financing expenses	9	-1 154	-876
Share of profit/loss in associates		-128	-132
PROFIT/LOSS BEFORE TAXES		2 268	-542
Tax on income from operations	10	-784	-219
PROFIT/LOSS FOR THE PERIOD		1 483	-761
NET PROFIT/LOSS ATTRIBUTABLE			
To equity holders of the parent		1 261	-924
To minority interest		222	163
		1 483	-761
Earnings per share calculated on profit attributable to equity holders of the parent:			
Earnings per share undiluted (EUR), continuing operations		0,34	-0,25
Earnings per share diluted (EUR), continuing operations		0,34	-0,25

Concolidated Financial Statements, IFRS
Consolidated balance sheet

	Note	31.12.2005	31.12.2004
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	12	169	277
Tangible assets	13	11 153	9 476
Investments in associates	14	98	392
Investments available for sale	16	418	418
Long-term Receivables		1 399	1 047
TOTAL NON-CURRENT ASSETS		13 237	11 610
CURRENT ASSETS			
Inventories	17	10 133	9 687
Trade receivables and other receivables	18	9 309	9 277
Tax Receivable, income tax		125	184
Cash and bank	19	3 275	3 522
TOTAL CURRENT ASSETS		22 842	22 669
TOTAL ASSETS		36 079	34 279
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital	20	3 152	3 152
Share premium account	20	4 239	4 239
Translation differences		9	-625
Retained earnings		4 195	3 064
		11 595	9 830
Equity attributable to equity holders of the parent		853	743
Minority interest			
SHAREHOLDERS' EQUITY		12 449	10 573
NON-CURRENT LIABILITIES			
Deferred tax liability	22	300	323
Long-term liabilities, interest-bearing	23	10 138	11 009
TOTAL NON-CURRENT LIABILITIES		10 437	11 333
CURRENT LIABILITIES			
Short-term interest-bearing liabilities	23	6 317	6 739
Trade Payables and Other Liabilities	23	6 337	5 464
Tax liability, income tax	23	539	170
TOTAL CURRENT LIABILITIES		13 193	12 374
TOTAL EQUITY AND LIABILITIES		36 079	34 279

Key indicators

Financial indicators

1000 EUR	IFRS 2005	IFRS 2004	FAS 2003	FAS 2002	FAS 2001
Net sales	34 531	28 677	38 760	37 556	29 293
Net sales change, %	20,4%	-26,0%	3,2%	28,2%	21,5%
Operating profit/loss	3 056	42	4 938	4 535	3 286
% of net sales	8,8%	0,1%	12,7%	12,1%	11,2%
Profit before extra-ordinary items and taxes	2 268	-542	4 516	3 239	1 539
% of net sales	6,6%	-1,9%	11,7%	8,6%	5,3%
Profit after extra-ordinary items	2 268	-542	4 116	3 239	1 539
% of net sales	6,6%	-1,9%	10,6%	8,6%	5,3%
Return on equity, %	12,9%	2,0%	26,4%	23,1%	13,8%
Return on investment, %	11,7%	4,8%	22,4%	23,6%	20,8%
Balance sheet total	36 079	34 279	40 066	29 295	28 816
Equity ratio, %	35,0%	31,0%	36,4%	42,5%	36,5%
Gross investment	2 376	2 233	4 525	2 251	572
% net sales	6,9%	7,8%	11,7%	6,0%	2,0%
Research and development	615	696	890	840	695
% net sales	1,8%	2,4%	2,3%	2,2%	2,4%
Average number of personnel during year about which abroad	302 136	286 118	320 97	291 80	247 61

Adjusted share-related indicators

1000 EUR	IFRS 2005	IFRS 2004	FAS 2003	FAS 2002	FAS 2001
Earnings per share, eur	0,34	0,02	0,80	0,57	0,26
Earnings per share (diluted), eur	0,34	0,02	0,80	0,57	0,26
Dividend per share (A-share), eur	0,12*)	0,00	0,30	0,25	0,12
Dividend per share (K-share), eur	0,12*)	0,00	0,30	0,25	0,12
Dividend per share, %	35,3%	0,0%	43,6%	45,3%	46,2%
Effective dividend yield, %	1,8%	0,0%	4,1%	4,8%	2,4%
Equity per share, eur	3,09	2,62	3,37	2,95	2,51
Price /earnings ratio (P/E-ratio)	19	291	9	9	20
Trading volume (A-share), 1000 pcs	300	468	815	475	164
% of average number of shares	16,5%	25,7%	44,8%	26,1%	9,0%
Average number of shares	3 748 116	3 748 116	3 748 116	3 748 116	3 748 116
Number of shares at the end of period					
A-share	1 820 116	1 820 116	1 820 116	1 820 116	1 820 116
K-share	1 928 000	1 928 000	1 928 000	1 928 000	1 928 000
Adjusted share (A-share)					
lowest share price, eur	5,01	4,70	4,62	4,11	3,50
highest share price, eur	6,80	8,90	8,50	5,69	5,20
share price December 31, eur	6,50	5,25	7,30	5,25	5,10
Market capitalization of shares December 31, euros million	24,4	19,7	27,4	19,7	19,1

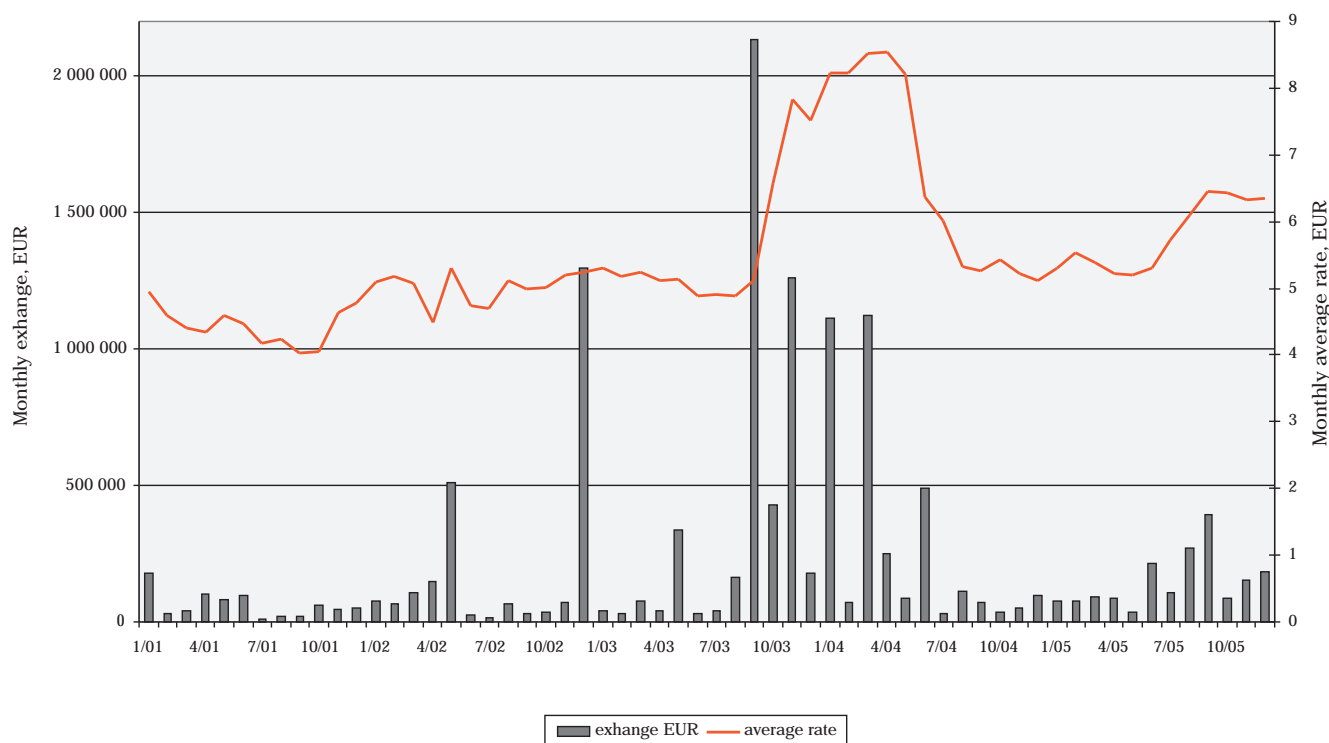
*) Proposal by the Board of Directors

Calculation of key figures

Return on equity, %	$\frac{\text{Profit before extra-ordinary items and taxes - direct taxes}}{\text{Total equity (average)}} * 100$
Return on investment, %	$\frac{\text{Profit before extra-ordinary items and taxes + interest expences and other financial expences}}{\text{Total assets - non-interest-bearing liabilities (average)}} * 100$
Equity ratio, %	$\frac{\text{Total equity}}{\text{Total assets - advance payments received}} * 100$
Earnings/share	$\frac{\text{Profit before extra-ordinary items - taxes +/- minority interest}}{\text{Adjusted number of shares (average)}}$
Shareholders' equity/share	$\frac{\text{Equity attributable to shareholders of parent company}}{\text{Adjusted numbers of shares at 31 December}}$
Price per earnings ratio (P/E)	$\frac{\text{Adjusted share price at 31 December}}{\text{Earnings/share}}$
Effective dividend yield, %	$\frac{\text{Dividend per share}}{\text{Adjusted share price at 31 December}} * 100$

Share performance

Exchange of shares and average rate
1/2001-12/2005



Share information

Principal shareholders on December 31st 2005

	Ashare	Kshare	% of shares	% of votes
1. Finha Capital Oy	428 595	900 000	35,45%	44,69%
2. Okuli Oy	70 000	1 005 920	28,71%	48,01%
3. FIM Fenno sijoitusrahasto	143 800		3,84%	0,68%
4. Vakuutusosakeyhtiö Henki-Sampo	117 000		3,12%	0,55%
5. Etra-Invest Oy Ab	80 000		2,13%	0,38%
6. Functional Foods Finland Oy	75 045		2,00%	0,36%
7. Granberg Karl-Olof	50 000		1,33%	0,24%
8. Fondita equity spice placeringsfond	31 200		0,83%	0,15%
9. Försäkringsaktiebolaget Pensions-Ålandia	27 000		0,72%	0,13%
10. Pöyhönen Eija Anneli	26 600		0,71%	0,13%

At the end of 2005, the members of Elecster's Board of Directors and Managing Director hold a total 10 315 shares. These shares represent 0,28 percent of total share capital and 0,06 percent of voting rights.

Structure of share capital on December 31st 2005

Series of shares	Number of shares	% of shares	% of votes	Share of capital EUR
K-shares	1 928 000	51%	91,37%	1 621 331,61
A-shares	1 820 116	49%	8,63%	1 530 607,68
Total	3 748 116	100%	100,00%	3 151 939,29

Distribution of shareholding on December 31st 2005

Breakdown of shareholding

	Number of shares	Number of shareholders	% of shareholders	Shares	% of shares
1-100		233	29,42%	15 014	0,40%
101-1 000		422	53,28%	176 067	4,70%
1 001-5 000		90	11,36%	189 196	5,05%
5 001-10 000		21	2,65%	157 309	4,20%
10 001-100 000		22	2,78%	537 700	14,35%
100 001-		4	0,51%	2 665 315	71,11%
Total		792	100,00%	3 740 601	99,80%
Number of shares not entered in the book entry system				7 515	0,20%
Number issued				3 748 116	100,00%

According to shareholders

	Number of shareholders	% of shares
Companies	79	72,00%
Credit and insurance institutions *)	8	6,24%
General government	2	0,84%
Non-profit institutions	3	4,36%
Households	699	16,12%
Foreign owners	1	0,24%
Number of shares not entered in the book-entry system		0,24%
Total	792	100,00 %

*) Also the administratively registered shares are included in this figure.

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