



Number One In Pouch



ELECSTER OYJ

Annual Report 2017

Managing Director's Review



Globally the year 2017 was a year of growing finances. The speed of growth exceeded all expert expectations so generally the predictions had to be remedied upwards. In addition to the strengthened growth, the year was characterized by several world political factors causing unsteadiness and slowing the decision making. In our most important markets like Kenya and India, some local distractions like the election year in Kenya and the revision of paper money and

the tax reform in India generated more insecurity and delays than expected in the financial activities.

Our main markets are located in the developing countries, where the financing systems and risk-taking capability are not on the same level compared to more developed countries. In these countries, the capability to make financial investments and taking risks are generally much lower than in the capital rich countries, due to which the companies are more dependent on political decisions. Investments entailing a company to bind their assets at one time are tougher to decide and finance. It is thus understandable that, in case of uncertain future prospects, requirements on securities in such countries are increased and the risks also reflect the price and availability of money. Moreover, contingency in the economics of the developing countries decreases the value of the local currencies, complicating the decision making further.

It is however clear that the developing national economies in Asia, Africa and South America are in a phase of rapid growth. Their financing systems are built up and their ability to take risks is increasing.

The UHT milk processing equipment with high-quality packaging materials offered by Elecster are well-suited for the climate conditions and infrastructure of these countries. We therefore trust that after the exceptional year 2017, our machine sales to these areas will again progress favourably.

In the foreword of European Union's plastic strategy, it is stated that plastics are important in our economy and a modern daily life is unthinkable without them. Plastics have multiple functions helping to solve a lot of challenges faced in our society. Light and innovative materials in cars or aircraft save fuel and decrease the CO2 emission. Thanks to high-capacity isolation materials, we save energy costs. 3D printing, combined to bio-plastic materials, is saving human lives when used in new medical innovations. In packaging, plastics contribute to food security and decrease polluting foods waste.

Plastics are closely related to Elecster Oyj business activities. The share of packaging material sales of our total turnover is increasing, for which reason the norms related to the use of plastics are relevant to our company operations. Regrettably often plastics are currently discussed on social media on an emotional level, with low information on the real facts. We believe that the packaging solutions offered by us are more environmentally friendly than alternative packaging ways. It is vital to remember that packaging and long-term preservation of liquids would not be possible in cardboard cartons only

but plastics are always required to close the package and to stop the capillary transition of the liquid through the package. Carton packages equipped with plastic caps offered to the consumers increase the total weight of the package even higher thus the amount of plastics in such a package exceeds the total weight of a plastic pouch.

Unlike the PE-based milk pouch, the carton package for liquids consists of plastics and combined materials, both of which increase the environmental load. The ecology of the milk pouch is based on a lower required amount of plastics and other packaging materials, and on that as mono-material the recycling of the polyethylene plastic is simple, contrary to the carton-plastics-multilayer materials. As the total recycling rates will in reality remain lower, reducing of the total waste amount will be emphasized in future, and this is where the milk pouch is surpassing the carton package. Most essential is however that the waste amount from a milk pouch is only one quarter of that of a carton package.

We believe that by drawing attention to the plastics recycling and on the other hand by focusing on the product development of bio-based and biodegradable plastics, the environmental impact can be reduced remarkably. In our opinion, the environmentally friendly UHT-processing and pouch packaging will over time obtain a bigger share of the milk packaging solutions in the developed countries (milk as well, and a dominating share in the developing countries). With great interest we will monitor the latest developments in environmentally friendliness of liquid packaging and adopt technical innovations in materials in order to minimize the environmental load for the oceans and nature.

In spite of the positive development of the world economics, our dairy machinery sales did not come up to our expectations set for this year. In Elecster Oyj product strategy, except the dairy machinery but also the packaging materials and after-sales services have important and growing shares of our turnover, for which reason the investments during the last years have been directed to these product sectors.

The core of our product strategy is the so-called 'strategic partnership'. Among our competitors, we are able to stand out by offering our customers both high-quality packaging materials as well as equipment for processing milk based products. In addition, our spare parts supplies, installation and after-sales services ensure the long-term working conditions of the equipment delivered to our customers.

In year 2017, the turnover and result targets set by our company did not come true.

I however wish to thank the personnel of the whole group for the good work done. Falling behind the set goals was largely due to facts beyond our company operations.

The starting point for the year 2018 is fine. Our volume of orders is on a decent level and by continuing our determined work we will return the profitable growth in our operations progressing sustainable development.

Akaassa 2.3.2018
Arto Kinnunen

Consolidated Financial Statements, IFRS

Consolidated income statement

EUR 1.000	1.1.-31.12.2017	1.1.-31.12.2016
Net sales	39 431	44 133
Change in inventories of finished goods and work in progress	861	1 316
Production for own use	253	-14
Other operating income	643	410
Material and services	-20 908	-22 424
Employee benefit expenses	-9 250	-9 756
Depreciation	-1 980	-1 980
Other operating expenses	-5 475	-7 160
OPERATING PROFIT	3 577	4 525
Financial income	1 020	890
Financial expenses	-1 313	-1 392
PROFIT BEFORE TAXES	3 285	4 023
Income taxes	-649	-866
PROFIT FOR THE PERIOD	2 636	3 157
NET PROFIT/LOSS ATTRIBUTABLE TO		
Equity holders of the parent	2 463	3 155
Minority interest	173	2
	2 636	3 157
Earnings per share calculated on profit attributable to equity holders of the parent		
Earnings per share undiluted (EUR), continuing operations	0,66	0,84
Earnings per share diluted (EUR), continuing operations	0,66	0,84

Statement of comprehensive income

	1.1.-31.12.2017	1.1.-31.12.2016
PROFIT FOR THE PERIOD	2 636	3 157
OTHER COMPREHENSIVE INCOME:		
Exchange difference on translating foreign operations	-1 153	1 925
Cash flow hedges, net of tax	7	8
Other comprehensive income, net of tax	-1 146	1 934
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1 490	5 091
Total comprehensive income attributable to		
Equity holders of the parent	1 318	5 088
Minority interest	172	3
	1 490	5 091

Consolidated Financial Statements, IFRS

Consolidated balance sheet

EUR 1.000	31.12.2017	31.12.2016
ASSETS		
NON-CURRENT ASSETS		
Intangible assets	471	674
Tangible assets	13 564	13 413
Investments available for sale	420	420
Long-term receivables	630	250
Deferred tax assets	472	343
TOTAL NON-CURRENT ASSETS	15 555	15 100
CURRENT ASSETS		
Inventories	16 961	17 126
Trade receivables and other receivables	8 940	11 435
Tax receivable, income tax	310	150
Cash and bank	7 518	6 517
TOTAL CURRENT ASSETS	33 728	35 228
TOTAL ASSETS	49 284	50 328
EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY		
Share capital	3 152	3 152
Share premium account	4 239	4 239
Fair value reserve	-6	-13
Other reserves	95	101
Translation differences	167	521
Retained earnings	16 807	16 297
	24 454	24 297
Minority interest	1 121	999
SHAREHOLDERS' EQUITY	25 575	25 297
NON-CURRENT LIABILITIES		
Deferred tax liability	551	608
Long-term liabilities, interest-bearing	12 215	13 182
TOTAL NON-CURRENT LIABILITIES	12 765	13 790
CURRENT LIABILITIES		
Short-term interest-bearing liabilities	6 728	4 863
Trade payables and other liabilities	4 215	6 318
Tax liability, income tax	-	60
TOTAL CURRENT LIABILITIES	10 943	11 242
TOTAL EQUITY AND LIABILITIES	49 284	50 328

Key indicators

Financial indicators

1000 EUR	IFRS 2017	IFRS 2016	IFRS 2015	IFRS 2014	IFRS 2013
Net sales	39 431	44 133	46 108	45 833	45 349
Net sales change, %	-10,7 %	-4,3 %	0,6 %	1,1 %	3,4 %
Operating profit	3 577	4 525	4 316	4 266	3 531
% of net sales	9,1 %	10,3 %	9,4 %	9,3 %	7,8 %
Profit before extra-ordinary items and taxes	3 285	4 023	3 932	3 139	2 853
% of net sales	8,3 %	9,1 %	8,5 %	6,8 %	6,3 %
Return on equity, %	10,4 %	13,5 %	15,1 %	11,6 %	11,0 %
Return on investment, %	8,6 %	11,6 %	12,7 %	12,4 %	10,6 %
Balance sheet total	49 284	50 328	47 208	44 480	43 251
Equity ratio, %	52,2 %	51,0 %	45,7 %	45,7 %	49,7 %
Gearing, %	44,7 %	45,6 %	59,7 %	69,0 %	51,5 %
Gross investments	2 475	2 511	2 276	3 985	2 261
% of net sales	6,3 %	5,7 %	4,9 %	8,7 %	5,0 %
Research and development	1 112	1 128	1 081	1 033	1 054
% of net sales	2,8 %	2,6 %	2,3 %	2,3 %	2,3 %
Average number of personnel during year	307	310	325	333	343
about which abroad	168	166	175	180	184

Adjusted share-related indicators

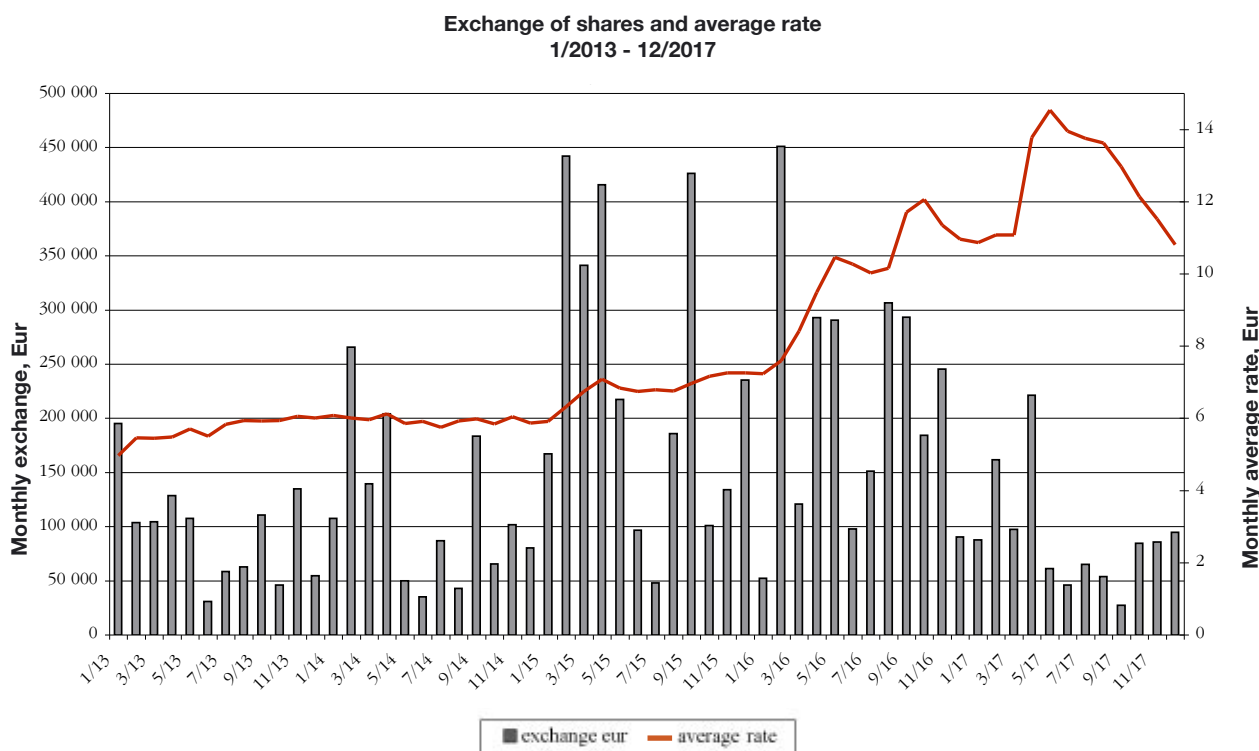
	IFRS 2017	IFRS 2016	IFRS 2015	IFRS 2014	IFRS 2013
Earnings per share, eur	0,66	0,84	0,82	0,65	0,60
Earnings per share (diluted), eur	0,66	0,84	0,82	0,65	0,60
Dividend per share (A-share), eur	0,32 *)	0,31	0,30	0,28	0,26
Dividend per share (K-share), eur	0,32 *)	0,31	0,30	0,28	0,26
Dividend per earnings, %	48,5 %	36,9 %	36,6 %	43,1 %	43,3 %
Effective dividend yield, %	2,9 %	2,8 %	4,1 %	4,8 %	4,3 %
Equity per share, eur	6,52	6,48	5,43	5,09	5,37
Price per earnings ratio (P/E-ratio)	17	13	9	9	10
Trading volume (A-share), 1000 pcs	89	264	415	228	204
% average number of shares	4,9 %	14,5 %	22,8 %	12,5 %	11,2 %
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	10,45	6,88	5,75	5,56	4,60
highest share price, eur	15,71	12,55	7,50	6,50	6,30
share price at December 31, eur	11,07	10,99	7,26	5,85	6,05
Market capitalization of shares December 31, euros millions	41,5	41,2	27,2	21,9	22,7

*) 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 investments, %	$\frac{\text{Profit before extra-ordinary items and taxes + interest expences and other financial expenses}}{\text{Total assets - non-interest-bearing liabilities (average)}} * 100$
Equity ratio, %	$\frac{\text{Total equity}}{\text{Total assets - advance payments received}} * 100$
Gearing, %	$\frac{\text{Interest-bearing liabilities - cash and cash equivalents}}{\text{Total equity}} * 100$
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/earnings ratio (P/E)	$\frac{\text{Adjusted share price at 31 December}}{\text{Earnings/share}}$
Effective dividend yield, %	$\frac{\text{Dividend per share}}{\text{Adjusted share price at 31 December}} * 100$

Exchange of shares and turnover



Share
A-share

Share price 31 Dec 2017
11,07

Lowest price
10,45

Highest price
15,71

Trading volume
88.904

%-of A-share
4,9

Share information

Principal shareholders on December 31st, 2017

	A-share	K-share	%-of shares	%-of votes
1. Finha Capital Oy	509 179	520 000	27,46 %	27,06 %
2. Okuli Oy	70 000	957 920	27,42 %	45,73 %
3. Halonen Irma	3 700	388 760	10,47 %	18,44 %
4. Tam-Kraft Oy	119 412		3,19 %	0,57 %
5. Mandatum Henkivakuutusosakeyhtiö	117 000		3,12 %	0,55 %
6. Mandatum Life Unit-Linked	100 000		2,67 %	0,47 %
7. Määttä Mikko	80 000		2,13 %	0,38 %
8. Nordea Henkivakuutus Suomi Oy	50 000		1,33 %	0,24 %
9. Korte Kauko	42 746		1,14 %	0,20 %
10. Halonen Jukka	11 950	26 280	1,02 %	1,30 %

At the end of 2017, the members of Elecster's Board of Directors, Managing Director and the corporations in their authority hold a total 48.760 shares.

These shares represent 1,30 percent of the total share capital and 1,35 percent of voting rights.

Structure of share capital on December 31st, 2017

Series of shares	Number of shares	% of shares	% of votes	Share 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, 2017

Breakdown of shareholding

	Number of shares	Number of shareholders	% of shareholders	Shares	% of shares
	1-100	416	38,20 %	21 817	0,58 %
	101-1 000	531	48,76 %	207 384	5,53 %
	1 001-5 000	106	9,73 %	211 409	5,64 %
	5 001-10 000	16	1,47 %	110 424	2,95 %
	10 001-100 000	15	1,38 %	506 106	13,50 %
	100 001-	5	0,46 %	2 685 971	71,66 %
Total		1 089	100,00 %	3 743 111	99,87 %
Number of shares not entered in the book of entry systems				5 005	0,13 %
Number issued				3 748 116	100,00 %

According to shareholders

	Number of shareholders	% of shares
Companies	61	60,41 %
Credit and insurance institutions *)	9	7,42 %
Non-profit institutions	3	0,04 %
Households	1 013	31,97 %
Foreign owners	3	0,03 %
Number of shares not entered in the book entry system		0,13 %
Total	1 089	100,00 %

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

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