# Rautaruukki Corporation

## Financial statements Bulletin 2005

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## RAUTARUUKKI CORPORATION FINANCIAL STATEMENTS BULLETIN 2005

Rautaruukki adopted International Financial Reporting Standards (IFRS) from the beginning of 2005. The comparison figures of this report have been reported according to IFRS. Additional information and a more detailed discussion of the effects of the transition on the balance sheet and income statement were given in the company's stock exchange release published on 26 April 2005.

## REPORT OF THE BOARD OF DIRECTORS 2005

### Operating environment

The trend in the overall economy remained positive in Rautaruukki's core market areas in 2005. In the Nordic countries, GDP growth was clearly above the average for the eurozone, and in central eastern Europe and the Baltic countries, economic growth was considerably stronger than elsewhere in Europe. Demand held up well in the Group's most important customer industries. Construction activity was good throughout Rautaruukki's market area, and especially strong in the Baltic countries and central eastern Europe. Within the engineering industry, Rautaruukki's customers saw a very good increase in their order books, particularly within the lifting, handling and transportation equipment industry as well as in the offshore and marine industry. Demand was also strong in the paper, wood-processing and energy industries.

Within standard steel products, the winding down of the excess stocks which wholesalers had built up towards the end of 2004 and at the beginning of 2005 depressed deliveries, and in the first half of the year this translated into considerable pressure on spot market prices. The steel industry responded to the situation by adjusting production in line with profitable demand. The stock situation normalised during the autumn.

World market prices of the concentrated iron ore, iron pellets and coking coal used in making steel rose markedly at the beginning of 2005.

The US dollar strengthened by about 13 per cent from the level of 1.35 euro at the beginning of 2005. The exchange rate of the US dollar against the euro was 1.1797 at 31 December 2005.

### Net sales and result for 2005 (comparative figures for 2004)

Consolidated net sales for the full year in 2005, EUR 3,654 million, exceeded the net sales figure of 3,564 million in 2004, despite the fact that the businesses that were transferred to Ovako were excluded from the reported figures as from 1 May 2005. Comparable net sales in 2004 were EUR 3,192 million. Net sales were lifted by a considerably higher price level than in 2004. The solutions businesses accounted for 28 per cent of the net sales (20). The increased share was attributable to the substantially higher volume of the solutions businesses and the acquisitions that were carried out.

Of net sales, 29 per cent came from Finland (26) and 30 per cent from the other Nordic countries (28). Central eastern Europe accounted for 12 per cent of net sales (11), the rest of Europe for 26 per cent (32) and other countries for 3 per cent (3). Sales to the core market areas increased due to the measures that have been carried out to concentrate sales as well as to the Ovako arrangement.

Delivery volumes declined by 19 per cent. The factors underlying the drop in delivery volumes were the non-inclusion of the units that were transferred to Ovako as well as the adjustment of deliveries and production in line with profitable demand. On a like-for-like basis, delivery volumes were down 7 per cent.

Operating profit was EUR 618 million (493), or 16.9 (13.8) per cent of net sales. Comparable operating profit in 2004 was EUR 446 million, or 14.0 per cent of net sales. Operating profit was lifted by the rise in product prices coupled with an improvement in the sales structure. The profitability of solutions businesses improved from 2004 and their share of net sales rose to 29 per cent (22).

Prices of the raw materials used in manufacturing steel rose markedly compared with 2004. Higher raw material prices began to affect earnings from the second quarter on.

Sales and administrative costs increased slightly owing to the change in the Group structure. The good result also increased the costs of the profit bonus and share bonus schemes periodised over the financial year.

The average exchange rate of the US dollar remained at the level seen in 2004. Dollar hedging contributed about EUR 25 million to operating profit compared with 2004. The net effect of foreign exchange rates on operating profit was a gain of EUR 16 million (loss of 5).

Net financial expenses amounted to EUR 30 million (51). Net interest expenses totalled EUR 28 million (46).

The share of associate companies' profit was EUR 23 million (2), of which Ovako accounted for 18 million.

The result before taxes was EUR 612 million (443).

The Group's taxes amounted to EUR 157 million (114), including a change in deferred taxes of EUR 1 million (-4). The effective tax rate was 27 per cent (26).

The minority interest share of the result was EUR 0 million (1). Net profit for the financial period was EUR 455 million (330).

Diluted earnings per share were EUR 3.31 (2.40).

The return on capital employed was 32.8 per cent (26.0) and the return on equity 34.7 per cent (33.8).

**Balance sheet**

From the end of 2004, the Group's total assets decreased by EUR 11 million to EUR 2,701 million. At the year-end, the equity ratio was 56.0 per cent (41.7) and the gearing ratio 22.8 per cent (68.0).

**Cash flow and financing**

Cash flow from operations was EUR 652 million (386) and cash flow after investments was EUR 519 million (268).

Interest-bearing net debt at the end of 2005 totalled EUR 341 million (761). Working capital remained unchanged (grew by 152 million in the previous year). In calculating the change in working capital, the effect of acquired companies and the units that were transferred to Ovako have been removed.

At the end of the year the Group's liquid funds amounted to EUR 163 million and it had a total of EUR 300 million of committed unused revolving credit facilities with banks. The average interest rate on loans at the end of the year was 5.2 per cent (4.6), owing to old bonds with a high interest rate. The average maturity of loans at the end of the year was 3.5 years (3.0).

At the end of the financial year, shareholders' equity stood at EUR 1,498 million (1,127), or EUR 10.98 per share (8.29).

**Improving cost-effectiveness**

In October 2005 Rautaruukki announced savings targets for the Ruukki United programme for unifying ways of working and boosting efficiency. By the end of 2008 the cost savings are expected to add about 150 million euros to the Group's operating profit. It is also estimated that the efficiency-boosting programme will free up about 150 million euros of capital by the end of 2008, especially by optimising stocks and stepping up the working capital turnover ratio. The effects on staffing levels will be ascertained on a project-specific basis, and the reductions are expected to be made primarily by way of retirement and relocation. The non-recurring costs for the projects have been taken into account in setting the above-mentioned savings targets. The investments required for the projects will be about EUR 30 million.

**Personnel**

During 2005 the Group had an average payroll of 11,684 employees (12,273). At the end of 2005 the entire payroll was 11,374 employees (12,126). The change in the number of employees was a decrease of 752 people. The Metalplast acquisition increased the Group's payroll by 726 employees and the Syneco Industri AB acquisition by 587 employees. During the report period, 1,900 Group staff transferred to the employ of Ovako.

The Group's profit bonus that is calculated on earnings for 2005 is EUR 19 million (15). This bonus system covers nearly the entire personnel. In accordance with the share bonus scheme that is part of the long-term incentive system for key Group personnel, the bonuses paid for the period 2002-2004 were the maximum amounts. The portion of bonuses paid for 2005 was EUR 13 million. The portion of schemes falling due subsequently and periodised to the financial year was EUR 23 million. On the accounting period, the total costs arising from share bonus schemes was EUR 36 million (11) The share bonus scheme covers 94 senior executives or other persons who are classified as key employees.

**Research and development**

Research and development expenditure in 2005 amounted to EUR 22 million (17), representing 0.6 per cent of net sales (0.5). R&D activities centred on the development of customer applications and solutions for selected business areas. Process development focused on improving productivity, achieving greater production flexibility and reducing environmental impacts.

In 2005 the Group increased its product development co-operation with customers and end users. The construction business area expanded its integrated deliveries of frame and envelope structures that are used in building industrial, retail and logistics facilities. By means of new technical solutions, Rautaruukki will be able to respond to an ever greater range of architectonic requirements, to speed up implementation at the site and to raise the cost-effectiveness of construction projects. Within the engineering business area R&D work centres on developing customised cabins for mobile machines. Efficiency was enhanced by emphasising the development of welded components in the division's own and customers' production. Within steel products, the focus of development work was on new special products and coatings. An example of such a product that reached completion during the year was high-strength galvanised steels which have good formability characteristics and meet Euronorm requirements. Development work on dirt resistant and antibacterial coatings was continued together with VTT Technical Research Centre of Finland. Together with customers, technology and materials solutions were developed, particularly for demanding component applications, in which the critical factor is the forming processes for sheet steel and tubes as well as the techniques for joining components.

**M&A arrangements completed**

The long steel products business was spun off into Oy Ovako Ab, which is owned jointly by Rautaruukki, SKF and Wärtsilä. The company began operations in May. The units that were transferred from Rautaruukki to Ovako were Fundia Special Bar, Fundia Wire and Fundia Bar &

Wire Processing, including their subsidiaries. Rautaruukki has a 47 per cent stake in Ovako. Ovako has been included as an associate company in Rautaruukki's consolidated financial statements as from 1 May 2005. The capital invested by Rautaruukki in Ovako at 1 May 2005 amounted to about EUR 278 million. Of this amount, an EUR 80 million shareholder loan was repaid to Rautaruukki in its entirety during the report period. Additional information on the effects of the arrangement on Rautaruukki's balance sheet and income statement was given in the company's stock exchange release of 6 June 2005.

In order to strengthen its position in the building systems market in central eastern Europe, Rautaruukki Corporation raised its holding in Metalplast Oborniki Holding Sp. z o.o in June from 16.6 per cent to 99.8 per cent. The shares were bought for a price of about EUR 19 million, in addition to which Rautaruukki assumed about 7 million euros of interest-bearing liabilities. The remaining 0.2 per cent of the shares are held by individual shareholders. Metalplast has been included in Rautaruukki's consolidated financial statements as from 1 June 2005.

In October, Rautaruukki Corporation purchased the entire shares outstanding in Syneco Industri AB from AB Pehrson & Lindgren of Sweden with the aim of expanding its component offerings, especially for the lifting, handling and transportation equipment industry. The shares were bought for a price of about EUR 15 million, in addition to which Rautaruukki assumed about 1 million euros of interest-bearing liabilities. Syneco Industri has been included in Rautaruukki's consolidated financial statements as from 1 October 2005.

Ruukki Engineering's Halikko Works business was sold to Halikko Works Oy in an MBO deal in October. Halikko Works had net sales in 2004 of EUR 13 million and a payroll of just over 100 employees.

The vacuum cleaner tube business of Rautaruukki's subsidiary Froh House Tech was sold to FON Telescopic Systems GmbH in September. The divested business had annual net sales of about EUR 10 million and it had a payroll of 54 employees.

**M&A agreements**

In the latter part of the year, Rautaruukki Corporation announced two acquisitions that will round out its capabilities of deliveries for integrated systems in the construction industry, whilst strengthening the company's project know-how.

In September, Rautaruukki announced it was increasing its shareholding in PPTH Steelmanagement Oy from 20 per cent to 100 per cent. The shares were purchased from funds managed by CapMan, a private equity firm, and from the company's management for a price of about EUR 7 million. As part of the deal, Rautaruukki assumed EUR 24 million of interest-bearing liabilities. The competition authorities gave their approval for the arrangement on 22 December 2005, and the acquisition was completed after the end of the report period. PPTH had net sales in 2005 of just over EUR 100 million and it had a payroll of about 500 employees at the end of the year.

In December, Rautaruukki signed an agreement on purchasing a 100 per cent holding in Steel-Mont a.s. from the company's management and other private individuals. Completion of the acquisition is contingent upon approval by the competition authorities. The acquisition is expected to be completed by the end of March 2006. Steel-Mont's net sales in 2005 is forecast to be EUR 25 million. The company's customers are international and Slovak investors and construction companies that are erecting industrial and retail facilities in Slovakia. The company had a payroll of 129 employees at the end of 2004. The total purchase price was EUR 10 million.

**Capital expenditure**

Investments in tangible and intangible assets in 2005 totalled EUR 103 million (108). Disposals of property, plant and equipment during the report period amounted to EUR 16 million (24). During the financial year, EUR 31 million (35) was spent on M&A arrangements, less the cash and cash equivalents of the purchased companies at the time of acquisition. The acquisitions increased the Group's interest-bearing net liabilities by EUR 8 million. Via the acquisitions, property, plant and equipment increased by EUR 18 million, working capital by EUR 8 million and goodwill by EUR 13 million.

Ruukki Engineering operates in the lifting, handling and transportation equipment industry, which has grown robustly over the past years. To support these operations, the company took a decision in the second quarter to modernise the direct quenching equipment at the Raahe steel mill. The investment will also raise the proportion of ultra high strength steels within Rautaruukki's steel products and thereby also bolster Ruukki Metals' special product strategy. The capital expenditure is expected to reach completion in 2007. The estimated cost of the investment is about EUR 24 million.

**Environmental and safety issues**

All Rautaruukki's main production sites operate in accordance with ISO 14001 environmental systems. When modernising production processes or building new processes, environmental risks are assessed as part of the plant's design and planning process. Rautaruukki operates in accordance with the principles of sustainable development. Environmental investments in 2005 came to EUR 5 million.

The most important initiative within environmental protection in 2005 was the start-up of the EU scheme for emissions trading in greenhouse gases. Of Rautaruukki's plants, Raahe and Hämeenlinna in Finland fall within the scope of the EU's emissions trading. A similar system has been developed in Norway, and it will be linked to the EU's emissions trading. The Norwegian system will apply to the Mo i Rana Works. In the initial allocation of emissions rights, Rautaruukki received a total of about 18.6 million tonnes of emission rights, of which about 6.2 million tonnes were for 2005. Of these, the portion for the units that were transferred to Ovako amounted to a total of 3.2 million tonnes, and the portion of emission rights allocated for 2005 about 1.08 million tonnes.

The Group sets up a provision for emission rights to cover the difference between actual emissions and emission allowances. The provision is marked to market price. During the three-year period from 2005 to 2007, it is not estimated that the purchase of emission rights will result in significant costs to the company's steel production from the standpoint of overall operations.

Improving occupational safety was the company's theme of the year. The aim is to achieve a marked improvement in occupational safety. A pilot scheme for safety management was launched at Ruukki Production, and the operational models developed will be employed across the entire Group. In 2005 the accident frequency decreased clearly and was 24 accidents per million working hours (32).

**Risks and risk management**

The Board of Directors is responsible for the Group's risk management policy and oversees its implementation. The President and CEO ensures that risk management has been arranged duly and appropriately. During 2005, Rautaruukki unified its methods of identifying and prioritising the Group's exposure to risks. On the basis of a unified operational model, the level of risk management within the Group was assessed, the risk management policy was defined and the principles of risk reporting were formulated. According to the frame of reference that was defined, risk management is a part of the day-to-day operations and decision-making of the support functions of the divisions and the entire Group.

Rautaruukki's earnings trend is affected significantly by the changes occurring in the business operations of its main customer industries. Part of the Group's products are standard steel products, the prices of which track the trend in world market prices.

The Group's production can be disturbed if the availability of certain raw materials and energy weakens due to snags in production processes or because of accidents. To cope with disturbances of this kind, the company has anti-accident systems, standby systems and appropriate insurance cover.

Fluctuations in foreign exchange rates can lead to significant fluctuations in earnings. Hedging of currency risks, interest rate risks in financing activities and credit risks is handled in accordance with the treasury policy approved by the Board of Directors.

**Shares and share capital**

In 2005 the trade volume of Rautaruukki Corporation's share on the Helsinki Stock Exchange was EUR 2,041 million (912). The share registered a high of EUR 21.15 in December and a low of EUR 8.02 in January. The volume weighted average share price was EUR 12.90. The closing price of the share on 30 December 2005 was EUR 20.55 and the Group had a market capitalisation of EUR 2,854 million.

The company's registered share capital at 31 December 2005 stood at EUR 236.1 million. The number of Series K shares issued was 138,886,445. Rautaruukki Corporation's Annual General Meeting, held on 23 March 2005, authorised the Board of Directors to decide on transferring treasury shares. Under this authorisation, on 29 August 2005 the company transferred 480,263 of its own Series K shares (treasury shares) without consideration to persons covered by the Group's share bonus scheme. At the end of the year the company held 2,592,697 treasury shares, corresponding to 1.87 per cent of the company's shares outstanding and the votes conferred by the shares. The treasury shares had an acquisition cost of EUR 11 million and a market value at 31 December 2005 of EUR 53.3 million.

Rautaruukki Corporation's Board of Directors does not have a valid authorisation to issue convertible bonds and/or bonds with warrants or to increase the company's share capital.

**Corporate governance and auditors**

Rautaruukki Corporation's Annual General Meeting, held on 23 March 2005, re-elected, Turo Bergman, Lic. (Pol. Sc.) as chairman of the Supervisory Board and Member of Parliament Jouko Skinnari as deputy chairman. The following persons were re-elected to seats on the Supervisory Board: Heikki Allonen, President and CEO, Fiskars Oyj Abp; Ole Johansson, President and CEO, Wärtsilä Corporation; Tauno Matomäki, former President & CEO, UPM-Kymmene Corporation; as well as Members of Parliament Inkeri Kerola, Miapetra Kumpula, Petri Neittaanmäki, Tapani Tölli, and Lasse Virén.

The Annual General Meeting re-elected Jukka Viinanen, President & CEO, Orion Group, as chairman of the company's Board of Directors and Georg Ehrnrooth, former President and CEO, Metra Corporation, as deputy chairman. Re-elected to seats on the Board of Directors were Christer Granskog, President and CEO, Kalmar Industries AB, Ms. Pirkko Juntti, LL.M. and Ms. Maarit Aarni, Vice President, Phenol Business Unit, Borealis Group. The new members elected were Kalle J. Korhonen, Director General, Ministry of Trade and Industry, and Kiuru Schalin, Senior Vice President, AGA, Region Europe North.

The members of the Board-appointed Audit Committee during the 2005 financial year were Pirkko Juntti (chairwoman), Maarit Aarni and Christer Granskog. The members of the Board-appointed Compensation Committee during the 2005 financial year were Jukka Viinanen (chairman), Georg Ehrnrooth and Kiuru Schalin.

The Annual General Meeting re-elected as auditors the firm of independent public accountants Ernst & Young Oy, with Pekka Luoma, Authorised Public Accountant, acting as principal auditor.

**Resolutions of the Annual General Meeting**

Rautaruukki Corporation's Annual General Meeting on 23 March 2005 approved the Board of Directors' proposals concerning the transfer and buy-back of treasury shares for a period of one year from the close of the meeting. The Annual General Meeting passed a resolution to set up a Nomination Committee to prepare proposals concerning the members of the Board of Directors and their emoluments for presentation to subsequent Annual General Meeting. In addition, the Annual General Meeting passed a resolution to amend the Articles of Association such that henceforth a person who has reached the age of 68 may not be elected as a member of the Board of Directors and Supervisory Board.

The Annual General Meeting resolved to pay a dividend of EUR 0.80 per share for the financial year ended 31 December 2004, or EUR 109 million in total amount.

**Events after the balance sheet date**

The purchase of PPTH Steelmanagement Oy from funds managed by CapMan, a private equity firm, and from the company's management was completed on 18 January 2006. PPTH will be included in Rautaruukki's consolidated financial statements as from 1 January 2006.

**Outlook for 2006**

Demand is expected to hold up well on Rautaruukki's core market area. In the Nordic countries, economic growth is expected to be clearly above the average for the euro zone. GDP growth in eastern Europe is estimated to be a good 5 per cent. Construction activity is estimated to be good in Rautaruukki's core market areas and the strong growth in the main business areas within construction is expected to continue. Customers' order books in the engineering industry are healthy and there are good prospects for the current year. The European market situation for standard steel products has normalised and consumption is expected to increase more than in the previous year.

The market situation in Rautaruukki's core market areas has been good in the current quarter. Demand is expected to hold up well within construction and the engineering industry, and prices of steel products are set to strengthen. Net sales for the full year in 2006 are expected to increase on the comparative previous year figure, and operating profit in the first half of the year should come in at the good level reached in the second half of last year. Major factors of uncertainty relate to the way in which the steel product markets in Asia develop and to general trend in the world economy.

**Board proposal for the disposal of distributable funds**

At 31 December 2005, the consolidated distributable equity was EUR 725 million. The distributable equity of parent company was EUR 557 million.

The Board of Directors has decided to propose to the Annual General Meeting on 23 March 2006 that dividend be paid EUR 1.40 per share (2004: 0.80), totalling EUR 191 million. It is proposed that the dividend will be paid on 4 April 2006.

Helsinki 8 February 2006

Board of Directors

## BUSINESS REVIEW OF THE DIVISIONS

The Ruukki Fabrication functions were made a part of the other divisions as from 1 January 2005. The 2004 figures for the individual divisions have been adjusted accordingly in line with the new organisational structure.

The Pipelines business was transferred in August 2005 from Ruukki Construction to Ruukki Metals. The reference figures have been changed consequently.

### Ruukki Construction

| EUR million | I/04 | II/04 | III/04 | IV/04 | 2004 | I/05 | II/05 | III/05 | IV/05 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 61 | 99 | 114 | 103 | 377 | 88 | 137 | 170 | 155 | 550 |
| Operating profit | 0 | 16 | 24 | 16 | 57 | 9 | 22 | 39 | 17 | 86 |
| - % of net sales | 1 | 17 | 21 | 15 | 15 | 10 | 16 | 23 | 11 | 16 |

In 2005 Ruukki Construction reported a net sales increase of 46 per cent to EUR 550 million (377). Operating profit was EUR 86 million (57). The division’s share of consolidated net sales was 15 (11) per cent. Net sales and operating profit were improved by the actions taken in order to expand selected business areas, coupled with a good market situation, an increased production efficiency and an improved sales structure.

Demand for industrial, retail and logistics premises grew strongly in central eastern Europe, Russia and Ukraine. Several traffic infrastructure and harbour projects were under construction in the Nordic countries, creating good demand for foundation and traffic structures. The exceptionally cold winter in central eastern Europe was reflected in demand for roofing products. When the season got started, the demand for roofing products was good.

In central eastern Europe and Ukraine, total deliveries of frame and envelope structures for industrial, retail and logistics construction increased substantially. During the year about a hundred frame and envelope deliveries were made in the area. The envelope structures include external wall and roofing structures. In Russia, good progress was made in deliveries of envelope structures. External wall elements, in which cladding and windows are pre-installed in the elements at the plant, were well received by customers and deliveries of them showed an increase in the Nordic countries.

Ready-to-install retaining wall structures were delivered for a number of harbour projects in the Baltic sea area. The pile delivery to Skandia Harbour of Gothenburg, the biggest deep-sea harbour of the Nordic countries, was a long-term and demanding project delivery. In central eastern Europe and Ukraine, Ruukki received its first orders for component deliveries for bridge projects in the area. In Finland, a total delivery of noise barriers for the railway line project Oikorata between Kerava and Lahti got started in the autumn.

The acquisition of Metalplast-Oborniki Holding Sp. z o.o, Poland’s leading manufacturer of metal-based construction panels, has strengthened the division’s delivery and service capability in central eastern Europe and the Baltic countries. In September Ruukki announced it was acquiring PPTH Steelmanagement Oy, the leading steel constructor in the Nordic countries. The acquisition was closed in January 2006. In December, Ruukki announced it was acquiring Steel-Mont a.s., Slovakia’s leading steel constructor. These acquisitions will bring Ruukki steel structure production knowhow and strengthen significantly knowhow in construction design and project management.

The enlargement of the plant in Estonia brought a doubling of the production capacity for external wall elements. The delivery capability in central eastern Europe was strengthened by adding production capacity for construction components in the Czech Republic and Poland. In Hungary the construction of a new plant was started. The actions taken to increase production efficiency were continued.

**Ruukki Engineering**

| EUR million | I/04 | II/04 | III/04 | IV/04 | 2004 | I/05 | II/05 | III/05 | IV/05 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 63 | 78 | 74 | 113 | 329 | 124 | 114 | 101 | 137 | 476 |
| Operating profit | 9 | 15 | 10 | 19 | 53 | 22 | 23 | 23 | 27 | 96 |
| - % of net sales | 15 | 19 | 14 | 17 | 16 | 18 | 21 | 23 | 20 | 20 |

In 2005 Ruukki Engineering’s net sales were up 45 per cent to EUR 476 million (329). Operating profit was EUR 96 million (53). The division’s share of consolidated net sales was 13 per cent. Apart from the good market situation, net sales were lifted by acquisitions. Operating profit was lifted by positive price development coupled with improved operations and sales structure.

Demand in the lifting, handling and transportation equipment industry has been at a very good level all year long and deliveries grew substantially, particularly to manufacturers of materials handling equipment and forest machines. Demand in the paper and wood processing industry was strong in 2005 and deliveries were up on the previous year. Roll blanks were delivered for new applications in the pulp and paper machine industry. The market for wind power plants grew substantially and there was rising demand for the frame components for wind power plants. Within the shipbuilding industry, order books were at a very good level around the world and some customers had orders for several years ahead. The rise in the price of oil has led to more new offshore projects.

In October 2005 Ruukki acquired Syneco Industri AB, which manufactures frame structures and other large steel components for the lifting, handling and transportation equipment industry. The company's clientele includes many of the world’s leading manufacturers of end products, whose products are used in materials handling, the mining industry and the heavy vehicle industry. The acquisition of Syneco Industri AB is a follow-up to the purchase of the cabin manufacturer Velsa Oy that was carried out in 2004. Through these acquisitions, Ruukki Engineering has speeded up implementation of its strategy of being a supplier of solutions for the lifting, handling and transportation equipment industry.

Ruukki Engineering’s four service centres occupy a key position in the division's strategic value chain. The newest of these service centres started up in Raahe in summer 2005 and it concentrates on delivering parts to the lifting, handling and transportation equipment industry. Because Ruukki Production has raised its quenching capacity for steel plates, Ruukki Engineering will be able to increase its deliveries of components made from high-strength steels. Ruukki Engineering is building additional capacity in Kurikka in order to be able to meet increased demand and raise the efficiency of its cabin production. The additional capacity is set to go into operation in the second quarter of 2006.

During the year, two non-core operations were divested and in May 2005 parts of Ruukki Engineering were transferred to Ovako, which was established jointly by Rautaruukki, SKF and Wärtsilä. In October, Ruukki sold the Halikko Works business that manufactures dished ends for tanks.

**Ruukki Metals**

| EUR million | I/04 | II/04 | III/04 | IV/04 | 2004 | I/05 | II/05 | III/05 | IV/05 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 668 | 733 | 663 | 787 | 2850 | 802 | 686 | 541 | 596 | 2625 |
| Operating profit | 73 | 108 | 105 | 138 | 425 | 180 | 147 | 69 | 91 | 486 |
| - % of net sales | 11 | 15 | 16 | 18 | 15 | 22 | 21 | 13 | 15 | 19 |

In 2005 Ruukki Metals’ net sales fell by 8 per cent to EUR 2,625 million (2,850). The drop in net sales were largely attributable to the fact that the units that were transferred to Ovako were no longer included in the division’s reporting as from 1 May 2005 and to the lower volume due to the adjustment of production. Measured against comparable net sales of EUR 2,522 million in 2004, growth was 4 per cent. Operating profit grew by 14 per cent to EUR 486 million (425). Comparable operating profit in 2004 was EUR 385 million. Operating profit was lifted by higher prices coupled with efficiency-boosting and an improved sales structure. The division’s share of consolidated net sales were 72 per cent (80).

Demand held up well in the most important customer industries in the Nordic countries and the Baltic area. In deliveries to central Europe, the volumes of standard products were trimmed as planned, and the proportion of special products, such as ultra high-strength steels, was increased. The trend in project sales in different market areas was also positive. The overstocking by wholesalers towards the end of 2004 and at the beginning of 2005 decreased deliveries, and this translated into considerable pressure on spot market prices. In the third quarter, when the impact of higher raw material prices also began to be felt to the full extent, destocking together with the holiday season depressed selling prices somewhat.

The business model was streamlined by organising the division’s operations by customer and market area. Development of the sales structure was continued by gearing operations towards the core market area. The product range was optimised with an accent on profitability, and the proportion of standard products was cut back. As part of the operational streamlining, the non-core Froh HouseTech GmbH business of vacuum cleaner tubes was sold in September.

During the year the groundwork was laid for expanding the core market area to Russia and central eastern Europe, where the key emphasis in future will be on the development of logistics and steel service centres. The delivery process was stepped up by developing logistics functions. The research and development effort will focus on customer-oriented special products in co-operation with the solutions divisions and production.

**Ruukki Production**

| 1000 tonnes | I/04 | II/04 | III/04 | IV/04 | 2004 | I/05 | II/05 | III/05 | IV/05 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Steel production | 1184 | 1198 | 985 | 1184 | 4549 | 1176 | 982 | 765 | 888 | 3813 |
| - Excluding Ovako | 906 | 907 | 735 | 881 | 3429 | 883 | 897 | 765 | 888 | 3434 |

Production ran smoothly at all the plants and production flexibility was increased. Steel production at Raahe was 2,747,000 tonnes (2,719,000) and at Mo i Rana 687,000 tonnes (710,000). Steel production at the Koverhar and Smedjebacken works that were transferred to Oy Ovako Ab was 379,000 tonnes in January–April.

The prices of raw materials used in steel manufacture rose further. The price of concentrated iron ore was about 60 per cent and the price of coking coal 40 per cent higher than in 2004. The price of recycled steel stayed almost unchanged. Purchases of raw materials came to approximately EUR 930 million, of which the share of iron ore and coking coal was about 35 per cent. The volume of steel slabs purchased from outside suppliers fell to a quarter of the previous year’s amount, thereby lowering production costs.

Two major investments that will improve the quality of products and productivity went into operation at the hot strip mill in Raahe in early 2005: a new slab reheating furnace and an upgraded automated system. Commissioning went well. At the strip rolling mill in Raahe, measures were launched for building new direct quenching equipment. The investment will bring a significant increase in the proportion of ultra high-strength steels in production and will support Ruukki Engineering’s business in the fast-growing lifting, handling and transportation equipment industry. The investment is expected to be completed in 2007 at an estimated cost of about EUR 24 million.

Ruukki Production has two steel mills and 10 other production plants in Finland, Norway, Sweden and Denmark. Wire and bar production operations were transferred to Oy Ovako Ab, which was established at the beginning of May.

**CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

Individual figures and grand totals presented in the tables have been rounded off to full millions of euros from exact figures, which mean that when added together or subtracted they will not always tally.

CONSOLIDATED INCOME STATEMENT (CONDENSED)

| EUR million | 10-12/05 | 10-12/04 | 1-12/05 | 1-12/04 |
|---|---|---|---|---|
| Net sales | 889 | 1 005 | 3654 | 3564 |
| Other operating income | 11 | 9 | 28 | 19 |
| Operating expenses | -739 | -801 | -2908 | -2915 |
| Depreciation | -38 | -47 | -156 | -175 |
| Operating profit | 123 | 166 | 618 | 493 |
| Financing income and expenses | -6 | -14 | -30 | -51 |
| Share of results in associated companies | 4 | 0 | 23 | 2 |
| Profit before taxes | 121 | 152 | 612 | 443 |
| Taxes | -27 | -48 | -157 | -114 |
| Profit for the period | 93 | 104 | 455 | 330 |
| Attributable to: | | | | |
| Equity holders of the company | 93 | 104 | 455 | 329 |
| Minority interest | 0 | 0 | 0 | 1 |
| | | | | |
| EPS, diluted, e | 0.68 | 0.76 | 3.31 | 2.40 |
| EPS, basic, e | 0.68 | 0.77 | 3.35 | 2.42 |
| Operating profit, % of net sales | 13.8 | 16.5 | 16.9 | 13.8 |

CONSOLIDATED BALANCE SHEET (CONDENSED)

| EUR million | 31.12. 2005 | 31.12. 2004 | Change % |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | 1476 | 1417 | 4 |
| Current assets | | | |
| Inventories | 534 | 651 | -18 |
| Trade and other receivables | 528 | 584 | -10 |
| Cash and cash equivalents | 163 | 60 | 173 |
| | 2701 | 2712 | 0 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Capital attributable to Company's equity holders | 1497 | 1126 | 33 |
| Minority interest | 1 | 1 | 0 |
| Non-current liabilities | | | |
| Interest bearing | 372 | 619 | -40 |
| Other | 194 | 215 | -10 |
| Current liabilities | | | |
| Interest bearing | 132 | 203 | -35 |
| Other | 505 | 548 | -8 |
| | 2701 | 2712 | 0 |

CASH FLOW STATEMENT (CONDENSED)

| EUR million | 2005 | 2004 |
|---|---|---|
| Profit for the period | 455 | 330 |
| Adjustments | 333 | 331 |
| Cash flow before working capital changes | 788 | 661 |
| Change in working capital | 0 | -152 |
| Financing items and taxes | -137 | -122 |
| Cash flow from operations | 652 | 386 |
| | | |
| Cash flow from investing activities | -133 | -118 |
| Cash flow before financing | 519 | 268 |
| | | |
| Dividends paid | -109 | -27 |
| Other net cash flow from financing | -307 | -231 |
| Change in cash and cash equivalents | 103 | 10 |

| KEY FIGURES | 10-12/05 | 10-12/04 |
|---|---|---|
| Net sales, Me | 889 | 1005 |
| Operating profit, Me | 123 | 166 |
| - % of net sales | 13.8 | 16.5 |
| Profit before taxes, Me | 121 | 152 |
| - % of net sales | 13.6 | 15.1 |

| KEY FIGURES | 2005 | 2004 |
|---|---|---|
| Net sales, Me | 3654 | 3564 |
| Operating profit, Me | 618 | 493 |
| - % of net sales | 16.9 | 13.8 |
| Profit before taxes, Me | 612 | 443 |
| - % of net sales | 16.7 | 12.4 |
| Net profit, Me | 455 | 330 |
| - % of net sales | 12.5 | 9.2 |
| Return on capital employed, %* | 32.8 | 26.0 |
| Return on equity %* | 34.7 | 33.8 |
| Equity ratio, % | 56.0 | 41.7 |
| Gearing ratio, % | 22.8 | 68.0 |
| Interest bearing net debt, Me | 341 | 761 |
| Equity per share, e | 10.98 | 8.29 |
| Personnel on average | 11,684 | 12,273 |
| Number of shares | 138,886,445 | 138,886,445 |
| - not counting own shares | 136,293,748 | 135,813,485 |
| - diluted | 137,377,120 | 137,213,485 |

* based on previous 12 months

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2004
EUR million

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Share premium account | Fair value and other reserves | Translation differences | Retained earnings | Total | Minority Interest |
| EQUITY 1.1. | 236 | 220 | 1 | -5 | 369 | 820 | 1 |
| Change in translation difference | | | | 3 | | 3 | |
| Share based compensation | | | 1 | | | 1 | |
| Dividend distribution | | | | | -27 | -27 | |
| Profit for the period | | | | | 329 | 329 | |
| EQUITY 31.12. | 236 | 220 | 2 | -2 | 671 | 1126 | 1 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 2005
EUR million

| | Attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital | Share premium account | Fair value and other reserves | Trans-lation differ-ences | Re-tained earn-ings | Total | Minority Interest |
| EQUITY 1.1. | 236 | 220 | 2 | -2 | 671 | 1126 | 1 |
| Changes from IAS 39 and 32 | | | | | | | |
| Cash flow hedging | | | 2 | | -2 | | 0 |
| ADJUSTED EQUITY 1.1. | 236 | 220 | 4 | -2 | 670 | 1126 | 1 |
| Cash flow hedging | | | | | | | |
| Increase (hedging reserve) | | | 32 | | | 32 | |
| Deferred taxes' share of period movements | | | -8 | | | -8 | |
| Change in translation difference | | | | -3 | | -3 | |
| Share based compensation | | | 4 | | | 4 | |
| Change in minority interest | | | | | | | |
| Dividend distribution | | | | | -109 | -109 | |
| Profit for the period | | | | | 455 | 455 | |
| EQUITY 31.12. | 236 | 220 | 31 | -5 | 1016 | 1497 | 1 |

The Pipelines business was transferred in August 2005 from Ruukki Construction to Ruukki Metals. The reference figures have been changed consequently.

NET SALES BY DIVISION

| Me | 2005 | 2004 |
|---|---|---|
| Ruukki Construction | 550 | 377 |
| Ruukki Engineering | 476 | 329 |
| Ruukki Metals | 2625 | 2850 |
| Other units | 3 | 8 |
| Consolidated net sales | 3654 | 3564 |

OPERATING PROFIT BY DIVISION

| Me | 2005 | 2004 |
|---|---|---|
| Ruukki Construction | 86 | 57 |
| Ruukki Engineering | 96 | 53 |
| Ruukki Metals | 486 | 425 |
| Group management and other units | -50 | -42 |
| Consolidated operating profit | 618 | 493 |

NET SALES BY QUARTER

| Me | I/04 | II/04 | III/04 | IV/04 | I/05 | II/05 | III/05 | IV/05 |
|---|---|---|---|---|---|---|---|---|
| Ruukki Construction | 61 | 99 | 114 | 103 | 88 | 137 | 170 | 155 |
| Ruukki Engineering | 63 | 78 | 74 | 113 | 124 | 114 | 101 | 137 |
| Ruukki Metals | 668 | 733 | 663 | 787 | 802 | 686 | 541 | 596 |
| Other units | 1 | 1 | 3 | 2 | 0 | 2 | 0 | 1 |
| Consolidated net sales | 794 | 911 | 854 | 1005 | 1014 | 939 | 812 | 889 |

OPERATING PROFIT BY QUARTER

| Me | I/04 | II/04 | III/04 | IV/04 | I/05 | II/05 | III/05 | IV/05 |
|---|---|---|---|---|---|---|---|---|
| Ruukki Construction | 0 | 16 | 24 | 16 | 9 | 22 | 39 | 17 |
| Ruukki Engineering | 9 | 15 | 10 | 19 | 22 | 23 | 23 | 27 |
| Ruukki Metals | 73 | 108 | 105 | 138 | 180 | 147 | 69 | 91 |
| Group management and other units | -7 | -17 | -12 | -7 | -10 | -12 | -17 | -11 |
| Consolidated operating profit | 76 | 123 | 128 | 166 | 201 | 180 | 114 | 123 |

NET SALES BY QUARTER (PRO FORMA)
EXCLUDING UNITS TRANSFERRED TO OVAKO

| Me | I/04 | II/04 | III/04 | IV/04 | I/05 | II/05 | III/05 | IV/05 |
|---|---|---|---|---|---|---|---|---|
| Ruukki Construction *) | 61 | 99 | 114 | 103 | 88 | 137 | 170 | 155 |
| Ruukki Engineering | 48 | 62 | 61 | 95 | 103 | 107 | 101 | 137 |
| Ruukki Metals *) | 556 | 608 | 558 | 647 | 632 | 633 | 541 | 596 |
| Other units | 1 | 1 | 3 | 2 | 0 | 2 | 0 | 1 |
| Consolidated net sales | 667 | 770 | 736 | 846 | 822 | 878 | 812 | 889 |

*) Pipelines business transferred from Ruukki Construction to Ruukki Metals in August 2005.

OPERATING PROFIT BY QUARTER (PRO FORMA)
EXCLUDING UNITS TRANSFERRED TO OVAKO

| Me | I/04 | II/04 | III/04 | IV/04 | I/05 | II/05 | III/05 | IV/05 |
|---|---|---|---|---|---|---|---|---|
| Ruukki Construction *) | 0 | 16 | 24 | 16 | 9 | 22 | 39 | 17 |
| Ruukki Engineering | 8 | 13 | 8 | 16 | 21 | 24 | 23 | 27 |
| Ruukki Metals *) | 71 | 94 | 95 | 119 | 143 | 135 | 69 | 91 |
| Group management and other units | -7 | -17 | -12 | -7 | -10 | -12 | -17 | -11 |
| Consolidated operating profit | 71 | 107 | 115 | 144 | 163 | 169 | 114 | 123 |

*) Pipelines business transferred from Ruukki Construction to Ruukki Metals in August 2005.

NET SALES BY AREA

| % of net sales | 2005 | 2004 |
|---|---|---|
| Finland | 29 | 26 |
| Other Nordic countries | 30 | 28 |
| Central eastern Europe | 12 | 11 |
| Other western Europe | 26 | 32 |
| Other countries | 3 | 3 |

CONTINGENT LIABILITIES

| Me | 12/05 | 12/04 |
|---|---|---|
| Mortgaged real estates | 29 | 30 |
| Given as pledges | 19 | 0 |
| Collateral given on behalf of | | |
| associated companies | 3 | 2 |
| others | 2 | 2 |
| Leasing and rental liabilities | 141 | 166 |
| Other financial liabilities | 4 | 2 |

VALUES OF DERIVATIVE CONTRACTS
31.12.2005, Me

| CASH FLOW HEDGES INCLUDED IN HEDGE ACCOUNTING | Nominal value | Fair value |
|---|---|---|
| Interest rate derivatives | | |
| Interest rate swaps | 70 | -0.3 |
| | | |
| Zinc derivatives | | |
| Forward contracts | 41,100* | 16.9 |
| | | |
| Electricity derivatives | | |
| Forward contracts | 2,344** | 18.3 |

| CASH FLOW HEDGES NOT INCLUDED IN HEDGE ACCOUNTING | Nominal value | Fair value |
|---|---|---|
| Interest rate derivatives | | |
| Interest rate swaps | 309 | -1,1 |
| | | |
| Foreign currency derivatives | | |
| Forward contracts | 639 | 1,5 |
| Options | | |
| Bought | 55 | 1,2 |
| Sold | 55 | 1,0 |
| | 110 | 2,2 |

*tonnes
**GWh

The unrealised profit/loss of the cash flow hedges are booked to equity, if the hedge is effective. Other fair value changes are booked to profit and loss.

**Annual General Meeting**

The Annual General Meeting of Rautaruukki Corporation will be held on Thursday 23 March 2006 at 12.00 midday, in Helsinki at the Marina Congress Center.

**Financial reporting in 2006**

The Annual report 2005 will be published in March 2006, week 11.

Rautaruukki Corporation will publish the interim report 2006 for the first quarter on 26 April 2006, for the second quarter on 26 July 2006 and for the third quarter on 1 November 2006.

ADDITIONAL INFORMATION:
President and CEO Sakari Tamminen, tel. +358 20 592 9075
CFO Mikko Hietanen, tel. +358 20 592 9030

Rautaruukki Corporation

Taina Kyllönen
VP, Corporate Communications

Ruukki supplies metal-based components, systems and integrated systems to the construction and mechanical engineering industries. The company has a wide selection of metal products and services. Ruukki has operations in 23 countries and employs 12,000 people. Net sales in 2004 totalled EUR 3.6 billion. The company's share is quoted on the Helsinki Exchanges (Rautaruukki Corporation: RTRKS).

www.ruukki.com