

# Interim report 1-6/2011



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Rautaruukki Corporation  
20 July 2011

**RUUKKI**

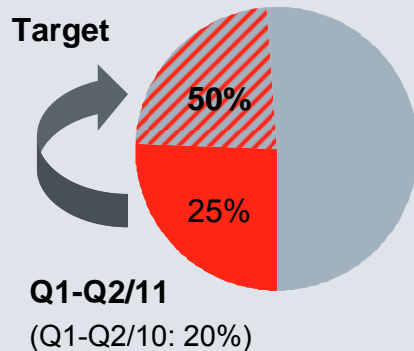
# Highlights of Q2/2011

- Growth in demand continued in all business areas
  - Order intake up 13% y-o-y
  - Geographically strongest growth in Nordic countries and CEE
- Consolidated net sales up 13% at €730 million
- Operating profit improved in all business areas
  - Good profitability in steel business (16% EBIT margin)
  - Construction business returned to profitability
  - Engineering business still made a loss, but improved compared to previous year
- Good development in achieving strategic targets
  - Special steels accounted for 34% of Metals' net sales in Q2

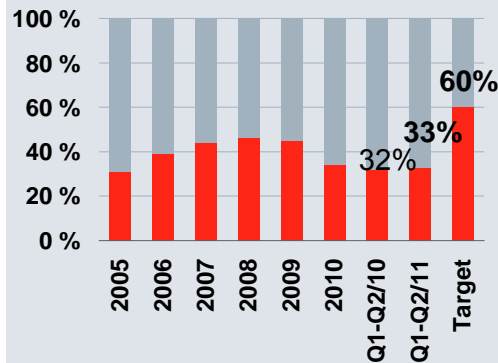
# Good progress made in achieving strategic targets

## Targets for the current strategic period

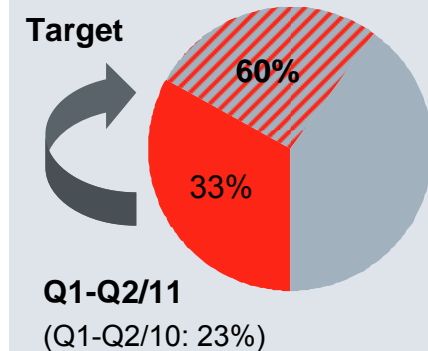
- Emerging markets to account for 50% of consolidated net sales



- Construction and engineering businesses to account for 60% of consolidated net sales



- Special steel products to account for 60% of the steel business' net sales



# Business environment and financial performance

# Business environment

## General market development

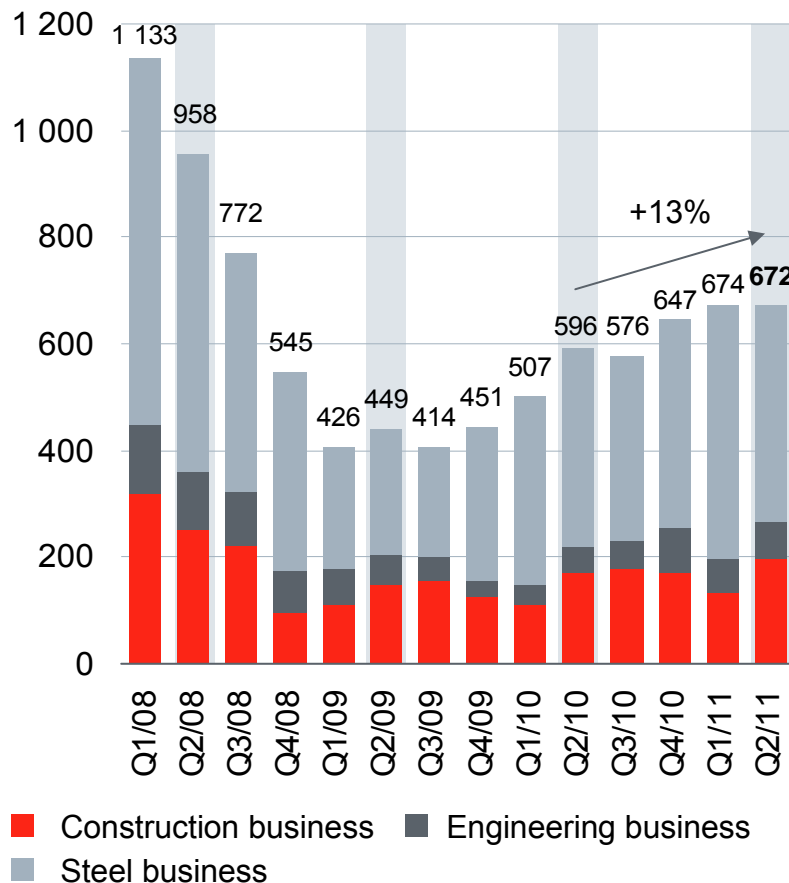
- Favourable economic growth continued in all main market areas
  - In Europe, strongest growth in Germany
  - In Russia, continued high price of oil and gas supported a pick-up of investments
- Uncertainty increased on the financial markets in Europe

## Development in Ruukki's market areas

- Construction activity grew y-o-y
  - Clear pick-up in demand for residential roofing products
  - Commercial and industrial construction still relatively quiet compared to earlier years
  - Demand in Russia was briskest in agricultural construction
- Market outlook strengthened further in the engineering industry
  - Growth in the emerging markets supported demand, especially for mining industry machines and equipment
- Demand in the steel industry grew in most main customer segments

# Order intake up 13% y-o-y

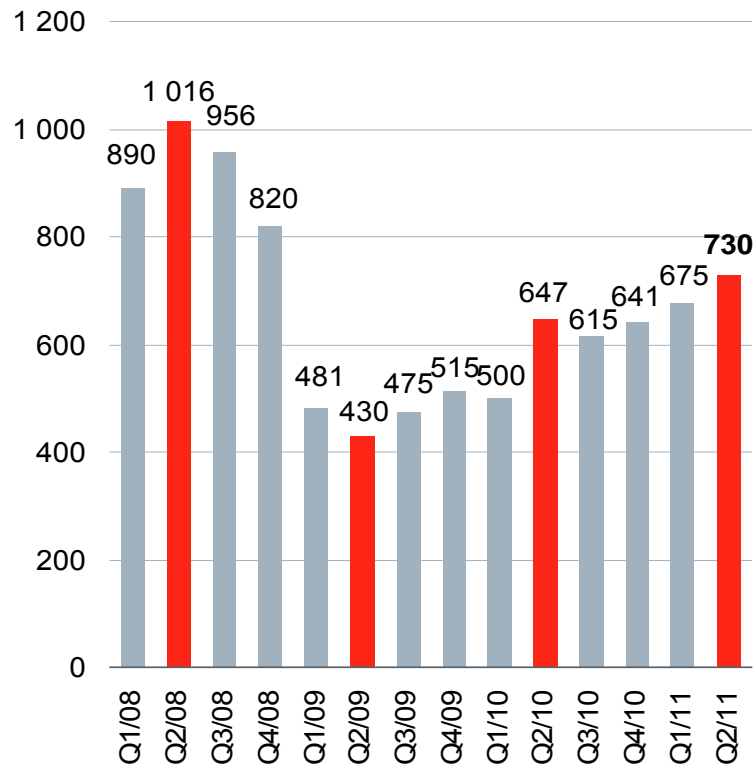
Quarterly order intake, €m



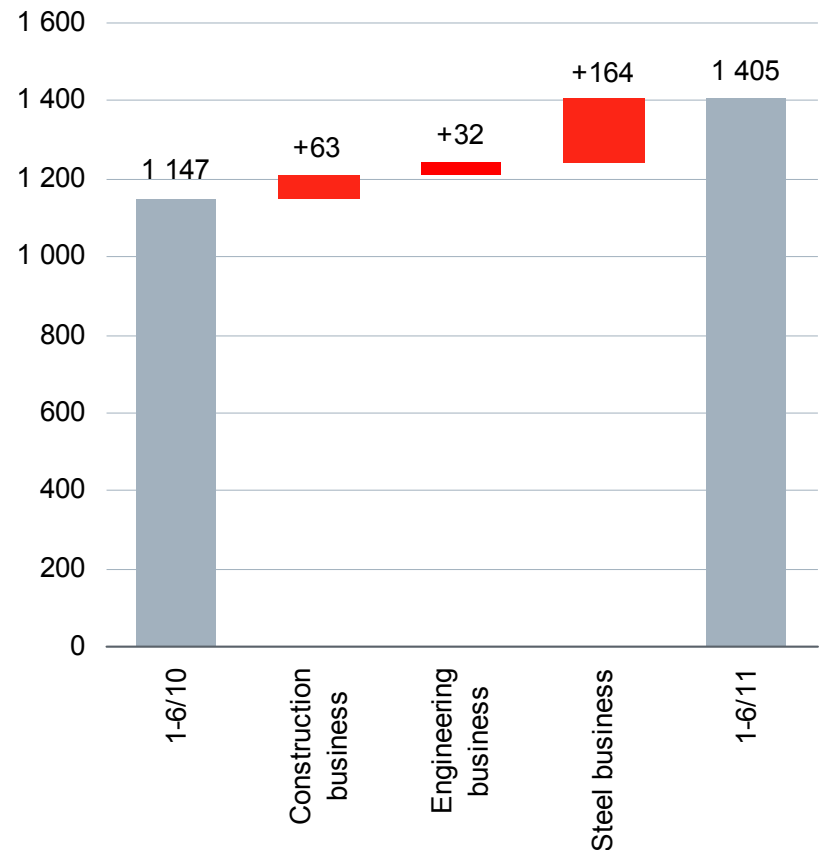
- Growth in all business areas
  - Relatively strongest growth in the Engineering business
- Geographically strongest growth in:
  - Finland and the other Nordic countries
  - CEE, especially Poland
  - Good order development also in Russia

# Net sales up 13%

Quarterly net sales, €m \*)



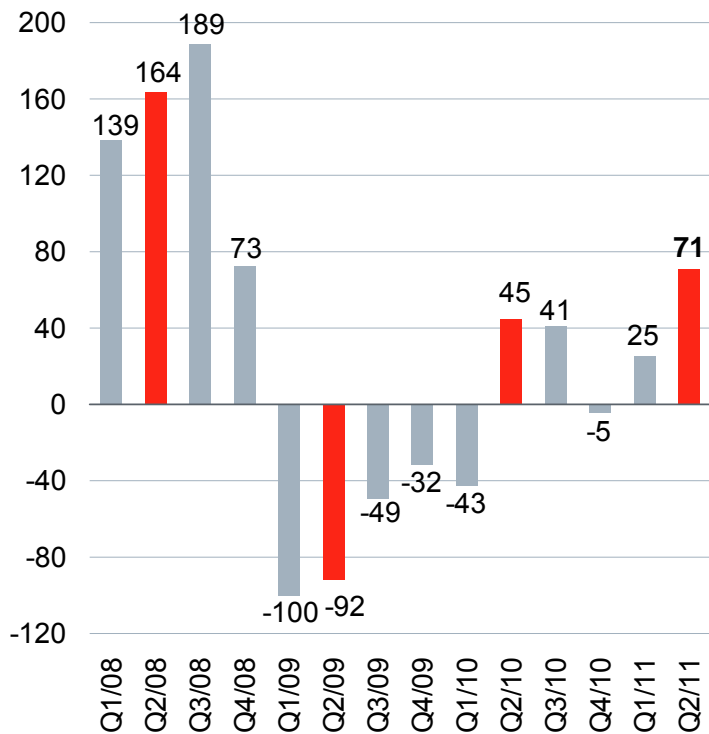
Change in net sales by business area 1-6/10 vs. 1-6/11, €m \*)



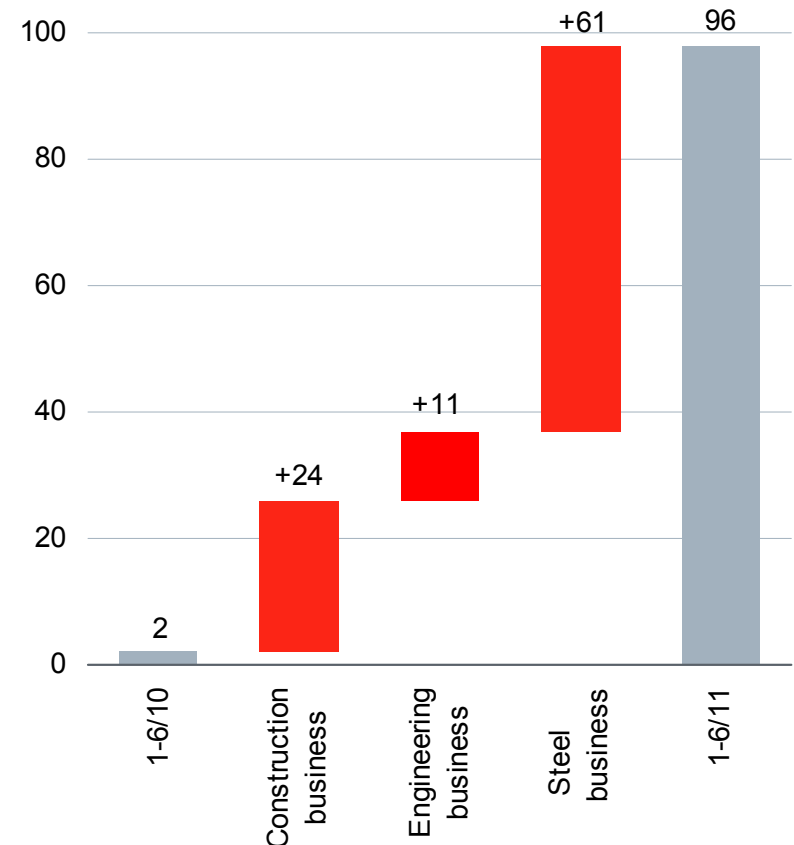


# Profitability improved in all business areas

Quarterly operating profit, €m <sup>\*)</sup> <sup>\*\*)</sup>



Change in operating profit by business area 1-6/10 vs. 1-6/11, €m <sup>\*)</sup>



<sup>\*)</sup> Comparable

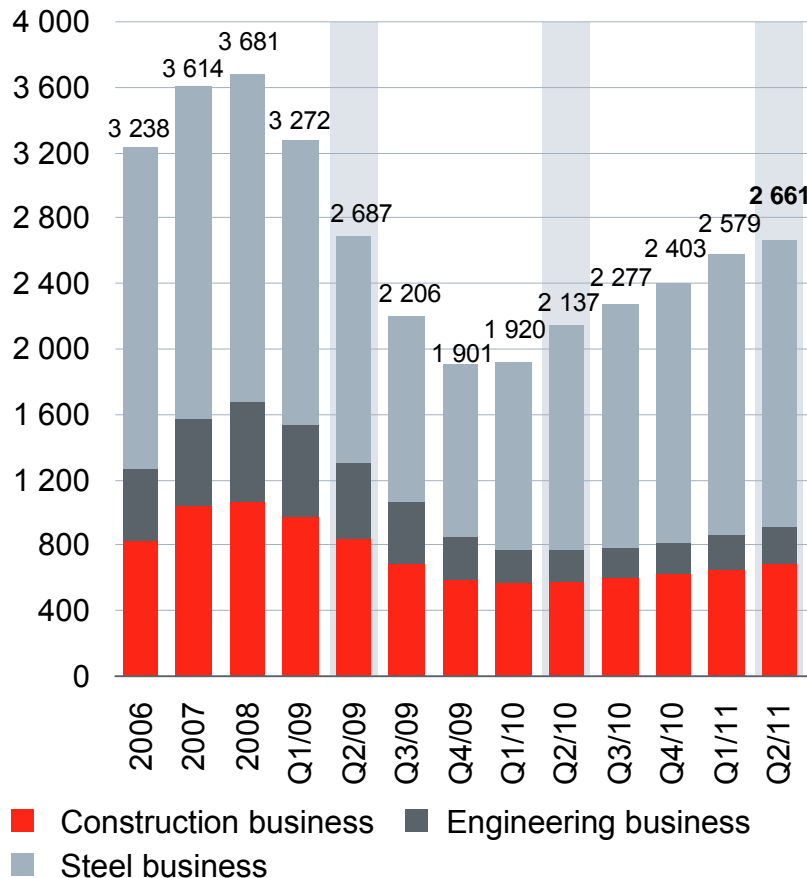
<sup>\*\*)</sup> Figures for 2008 not restated for unrealised gains and losses relating to USD derivatives



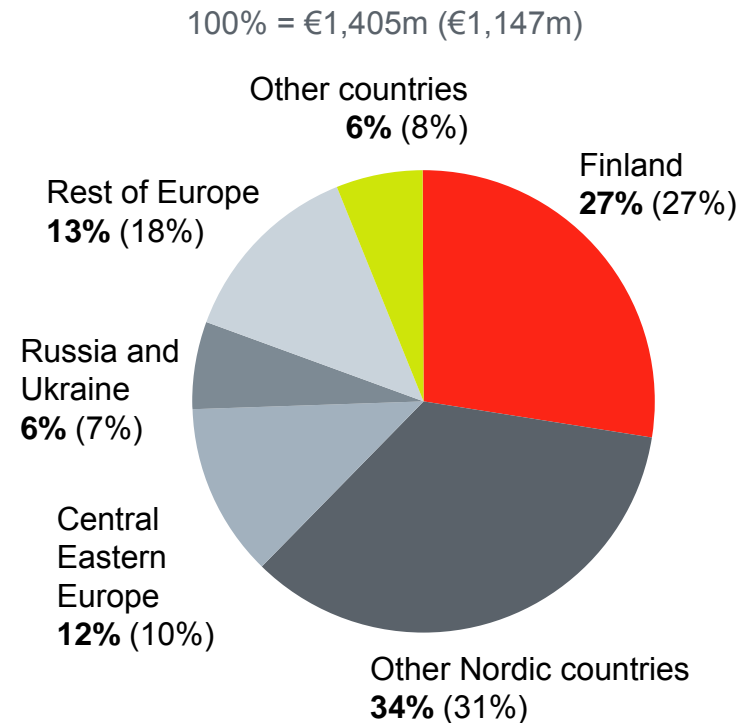
# Strongest growth in Nordic countries and CEE

Emerging markets 25% of net sales

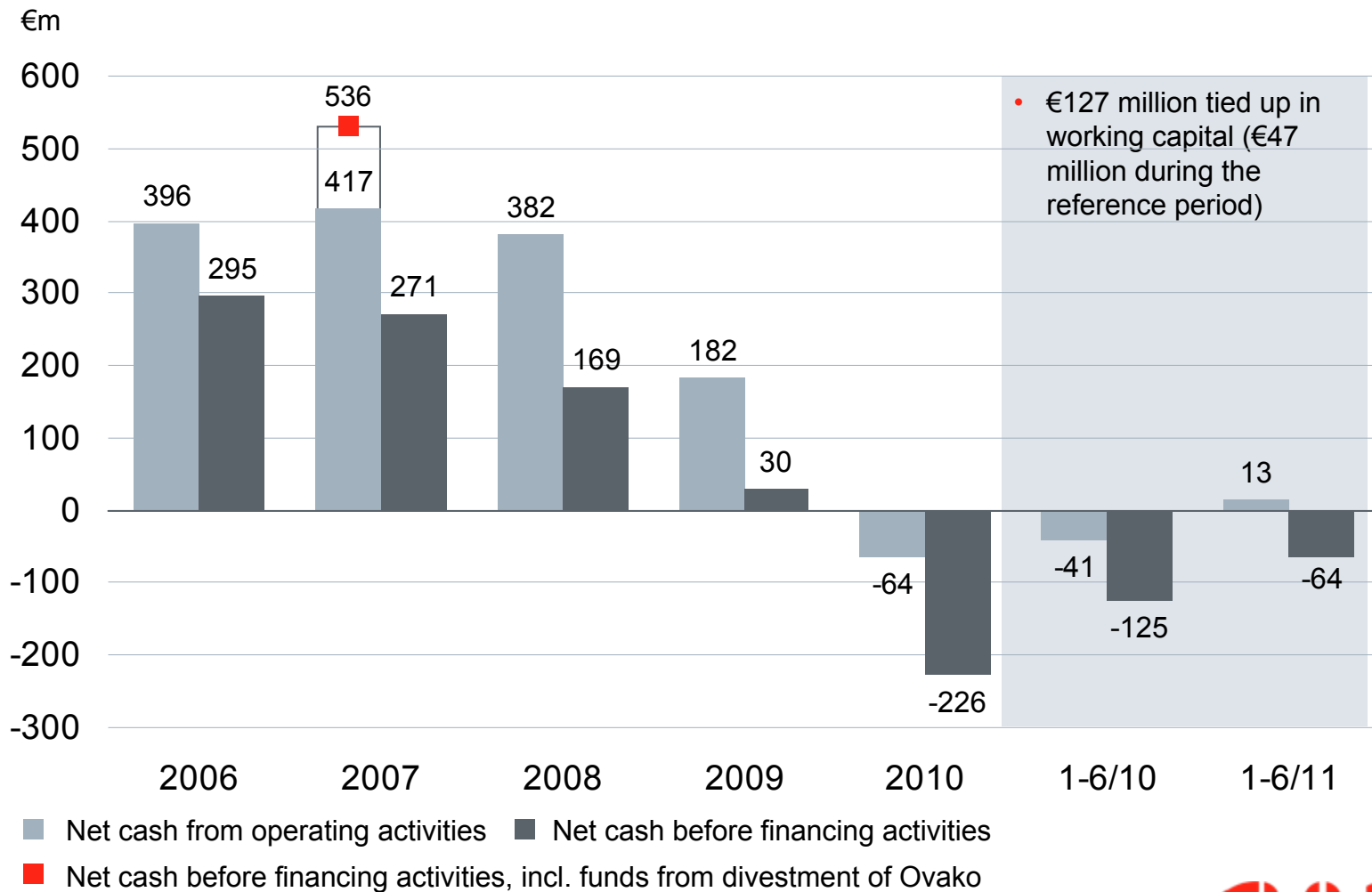
Net sales by business area, rolling 12 months, €m \*)



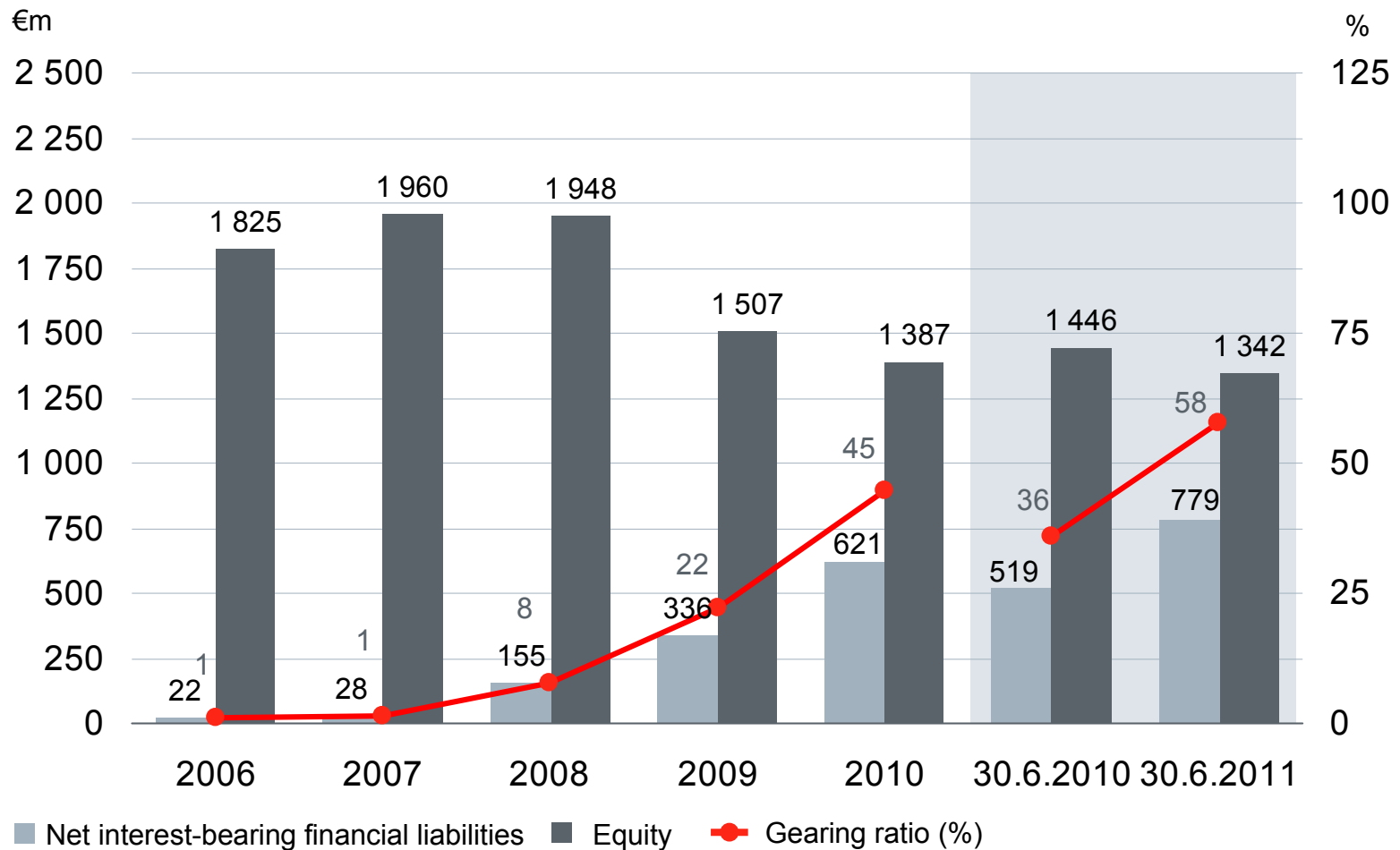
Net sales by market area 1-6/11 (1-6/10) \*)



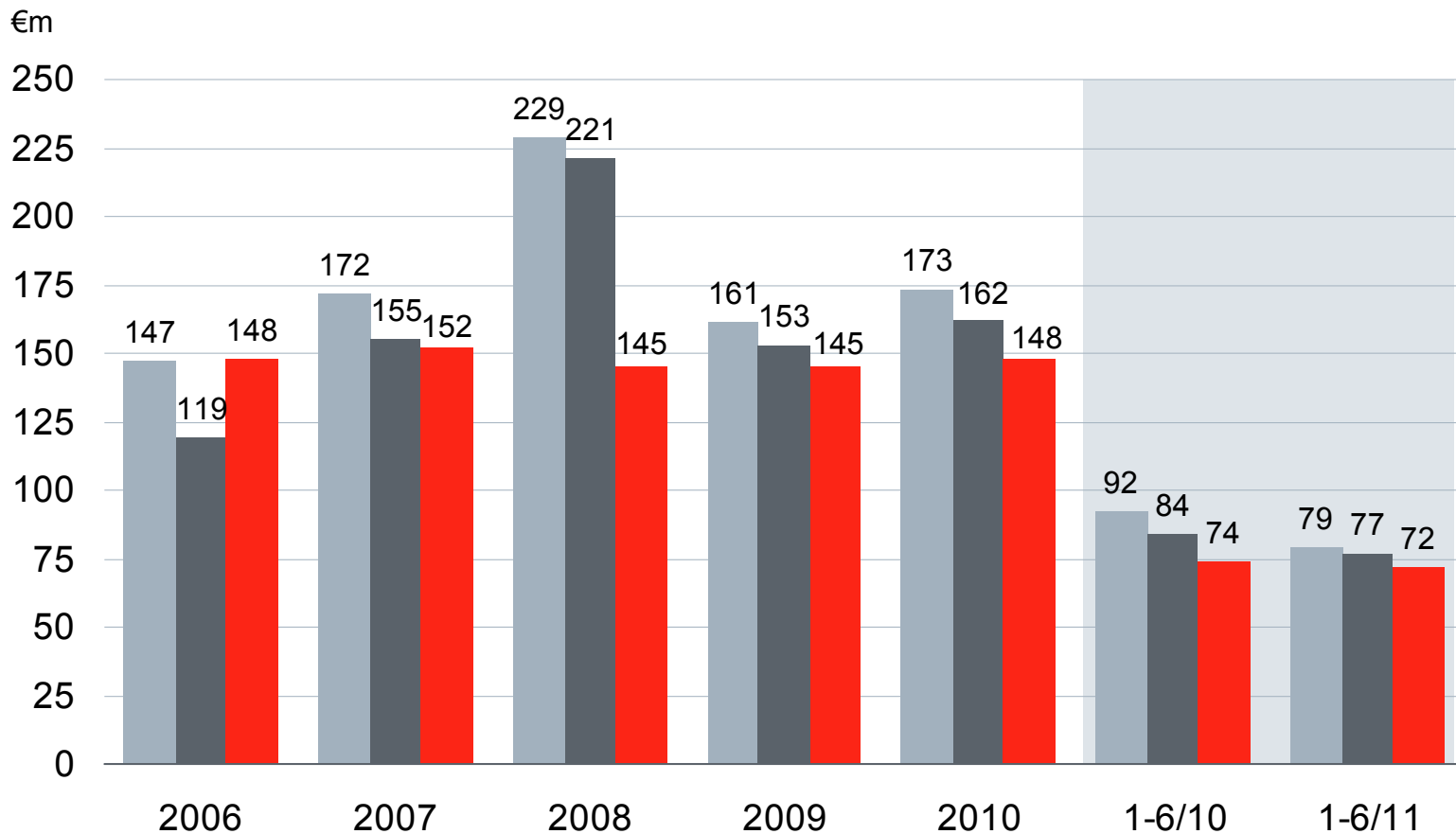
# Net sales growth tied up working capital ...



# ... which also raised net gearing



# Capex in 2011 estimated at around €180 million

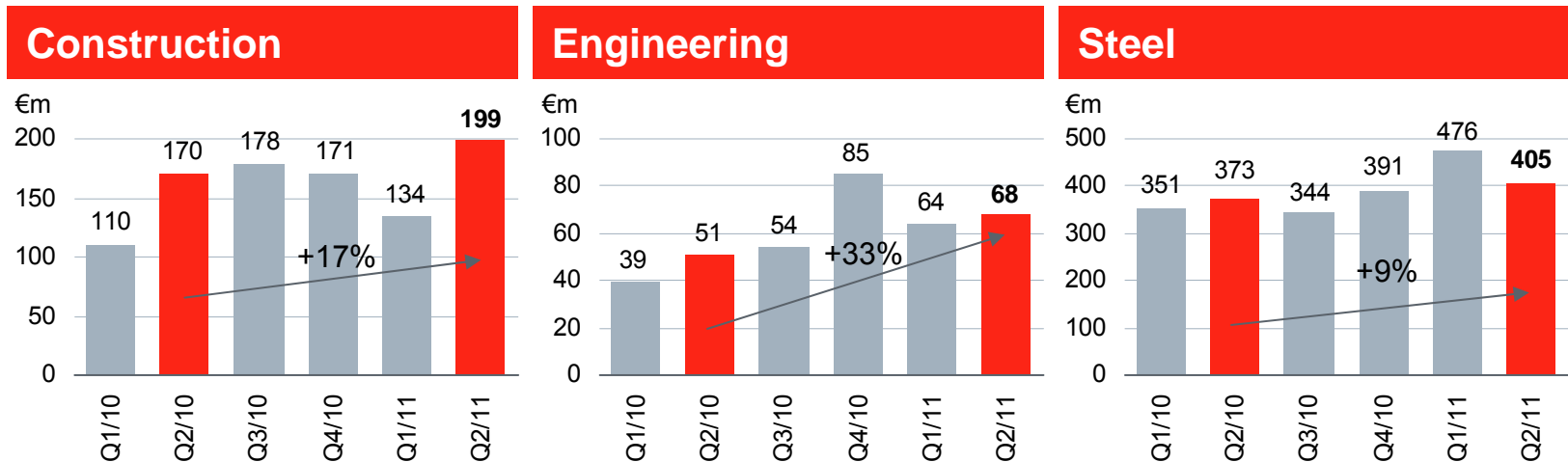


■ Gross capex \*) ■ Net capex \*) ■ Depreciation

\*) In tangible and intangible assets

# Business areas

# Order intake by business area



## Compared to previous year

- + Residential roofing products
  - + Growth in almost all market areas, especially in Finland and Poland
- + Concept buildings in Russia
- + Piles used in foundations in infrastructure construction

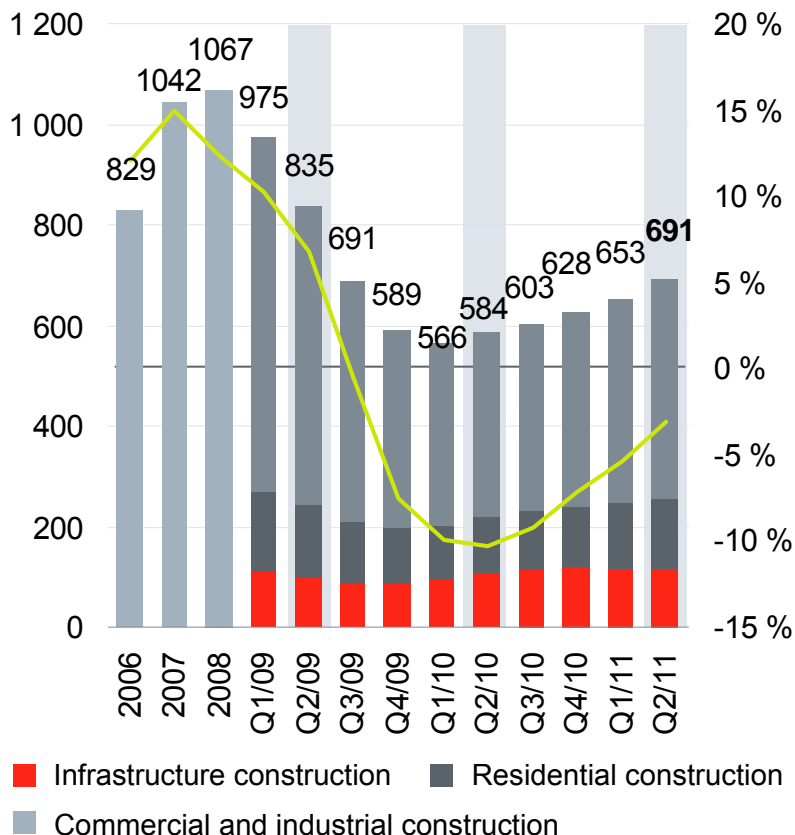
- + Cabins
  - + Especially in manufacture of materials handling equipment
  - + Also in machines and equipment in the mining industry and construction

- + Growth in almost all market areas
  - + Finland + other Nordics
  - + New markets for special steel products, especially China and South Africa
- Due to restocking in Q1, order volumes decreased q-o-q
  - + No significant change in pricing

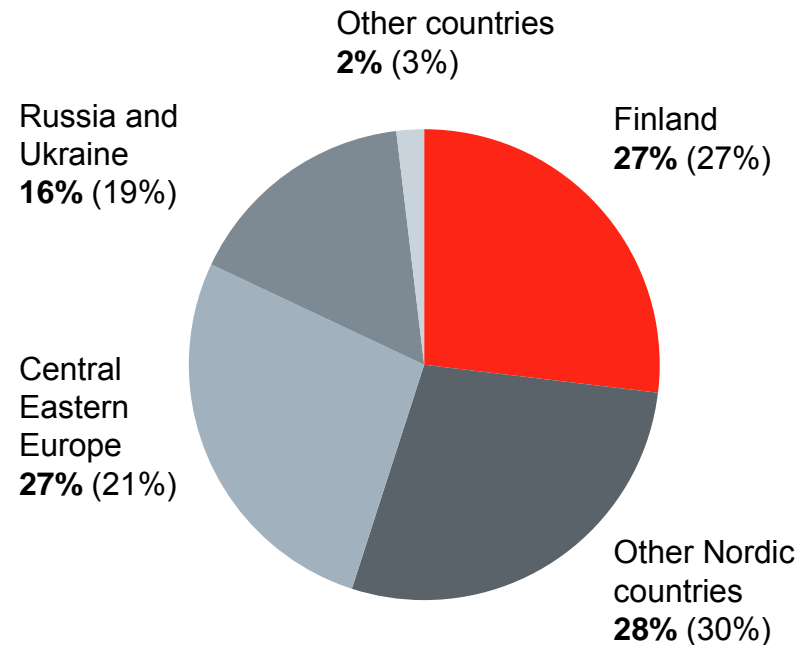
# Construction business:

## Strongest relative growth in Central Eastern Europe

Net sales by product group and operating profit %, rolling 12m, €m \*)



Net sales by market area 1-6/11 (1-6/10 \*)

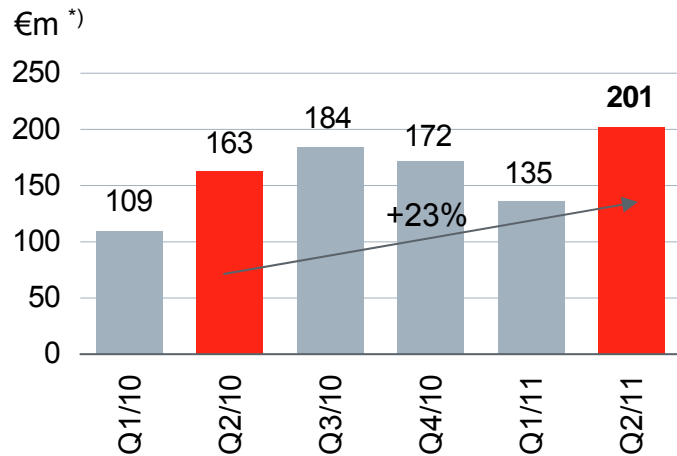




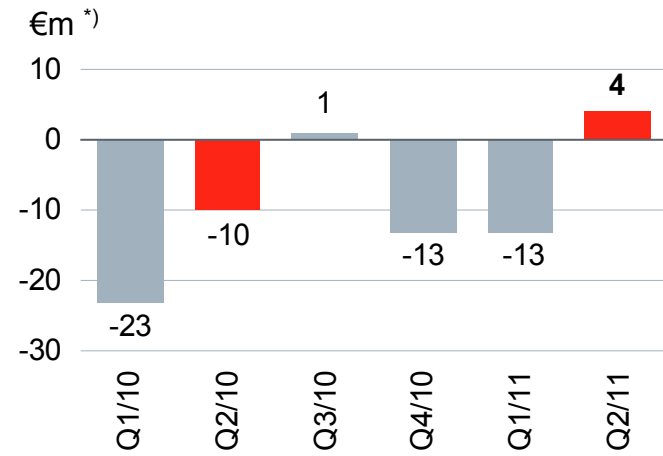
# Construction business:

## Positive operating profit in Q2

### Net sales



### Operating profit



### Compared to previous year

- + Residential roofing products +26%
- + Commercial and industrial construction +32%
- Infrastructure construction -2%
  - + Deliveries increased in Sweden

- + Increased delivery volumes
  - + Improved capacity utilisation rate
- + Improved operational efficiency
- + Higher selling prices

# Construction business:

## Actions to improve profitability and achieve strategic targets

### Targets and actions taken

- Improving profitability
- Improving operational efficiency



- Decision was made to reorganise and improve the efficiency of Ruukki Construction's sales activities in CEE
  - Among other things, local project sales in this region will be centralised

- Increasing sales
- Strengthening market position
- Increasing share of emerging markets



- Further expansion of Ruukki Express chain. New outlets in:
  - Finland, Sweden, Lithuania and several in Poland and Estonia
  - Today, total of 44 outlets in 9 different countries
- New sandwich panel production line near Kiev, Ukraine

# Construction business

## New energy-efficient products

### New products

#### Energy piles

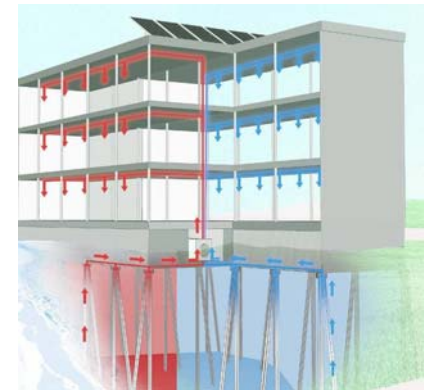
- New steel piles utilising ground-source energy serve as
  - Building foundations
  - Energy piles collecting free energy
- Promote the use of renewable energy sources
- Improve the energy efficiency of a building

#### Solar panel façade

- Photovoltaic system fully integratable into a façade
- Applications in buildings of a high architectural standard with strict environmental regulations

#### Applications

- Office buildings
- Apartment blocks
- Single-storey buildings (commercial premises, warehouses, industry)



#### Applications

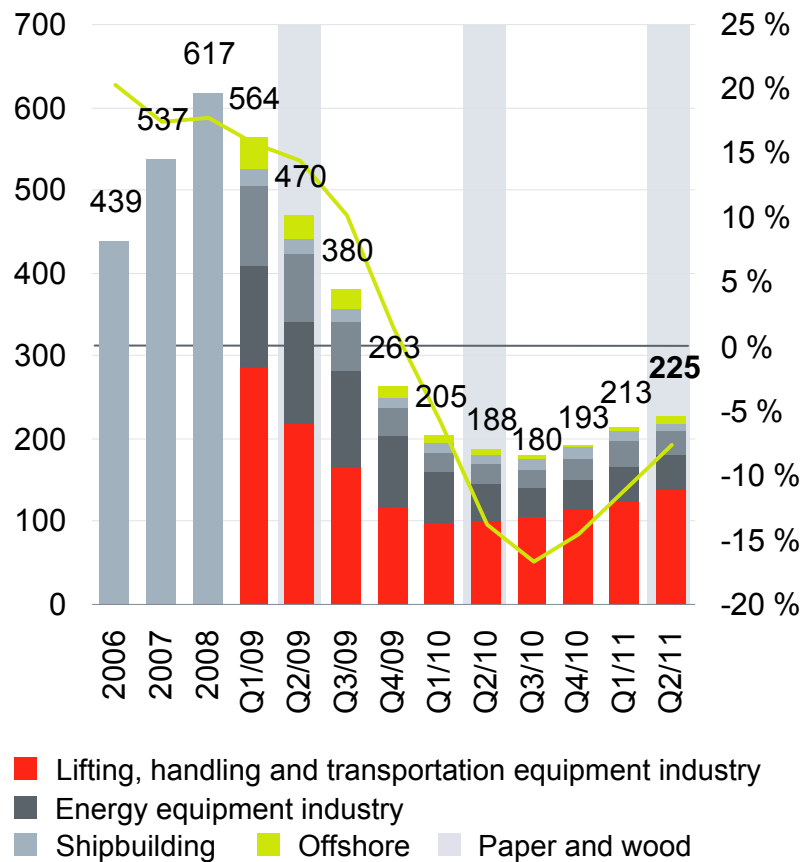
- Especially for office and commercial buildings
- Also for residential and industrial buildings



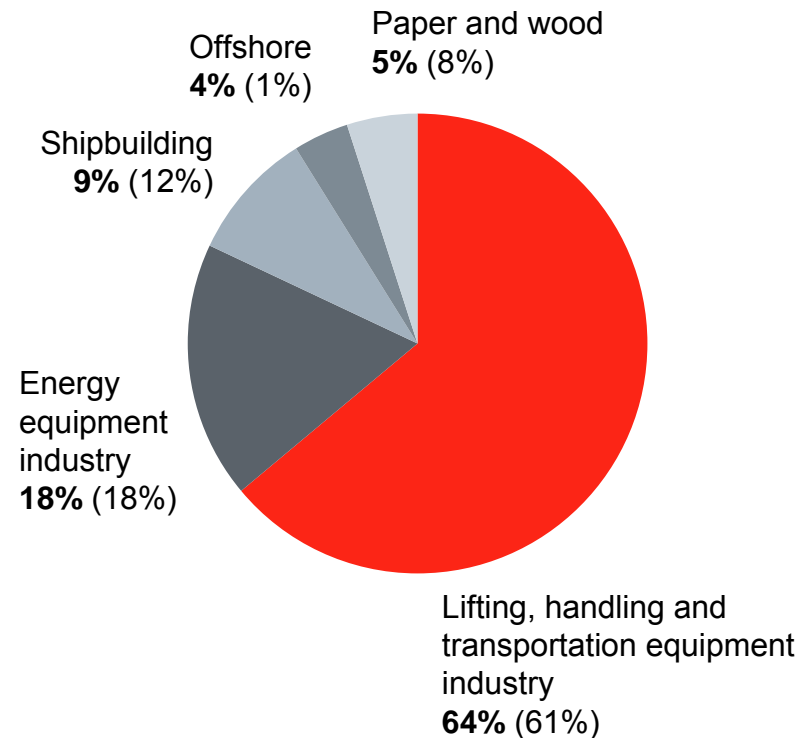
# Engineering business:

Growth in cabin, frame and boom deliveries especially to materials handling equipment manufacturers

Net sales by customer segment and operating profit %, rolling 12m, €m \*)

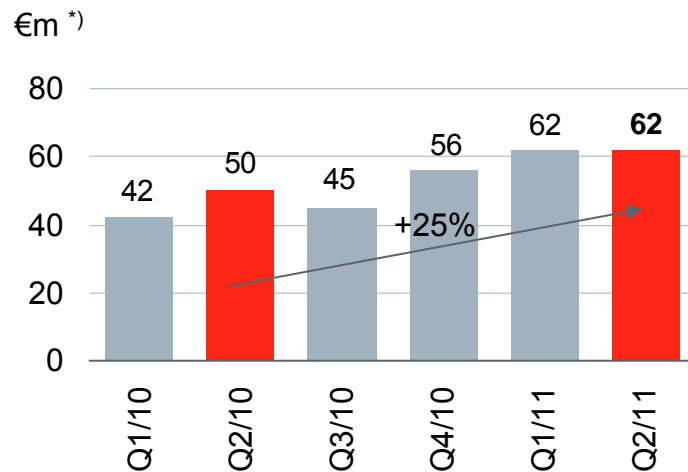


Net sales by customer segment 1-6/11 (1-6/10) \*)

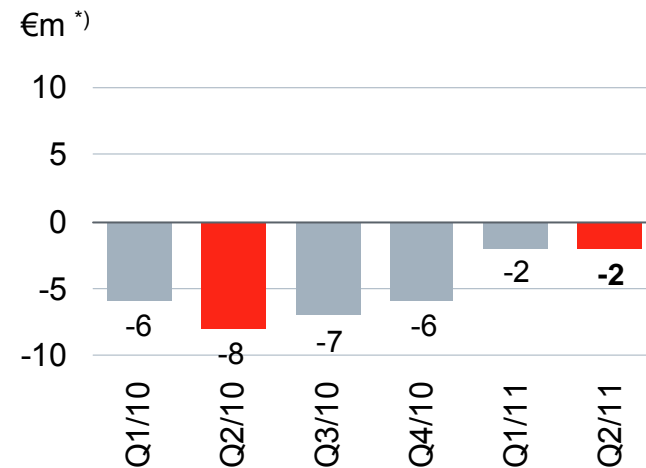


# Engineering business

## Net sales



## Operating profit



## Compared to previous year

- + Cabins, frames and booms
  - + Especially manufacture of materials handling equipment
  - + Equipment manufacture for mining industry and forest machines
- + Offshore industry
  - Deliveries started for North Sea wind farm project

- + Larger delivery volumes
- + Higher selling prices
  - Not yet fully reflected in Q2
- Low-margin product range
- Costs of ramping up cabin production
- Delivery problems in Shanghai unit

# Engineering business:

Actions to improve profitability and achieve strategic targets

## Targets and actions taken

- Improving profitability
- Improving operational efficiency



- Focus on fewer products and expansion of customer base
- Shift towards clearly more global sourcing in cabin production
- Pursuit of more effective use of resources between production units

- Increasing sales
- Strengthening market position
- Increasing share of emerging markets

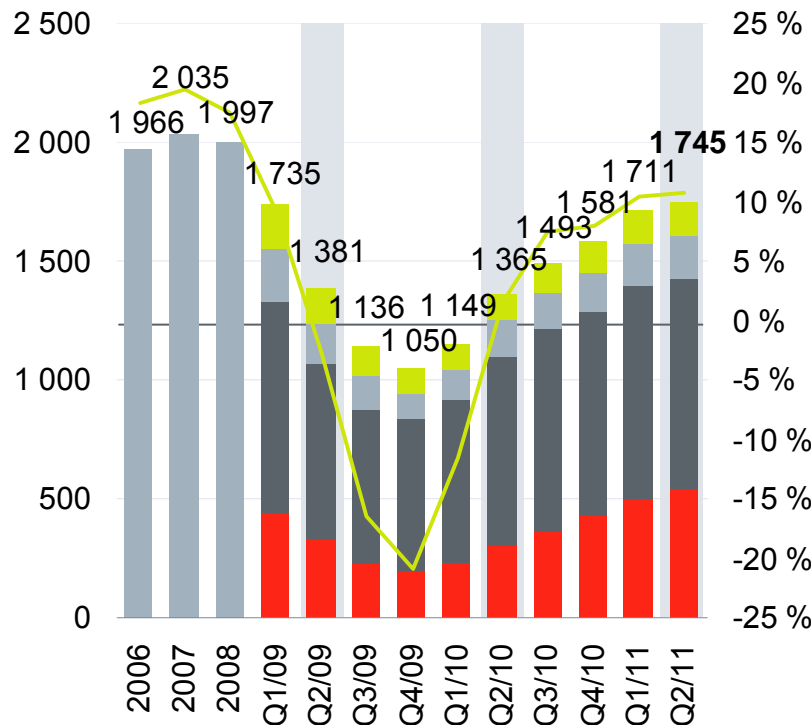


- Sales in the early part of the year targeted towards new cabin and special-steel component customers
  - Test deliveries made to potential new customers
- Own technological expertise strengthened in component product design

# Steel business:

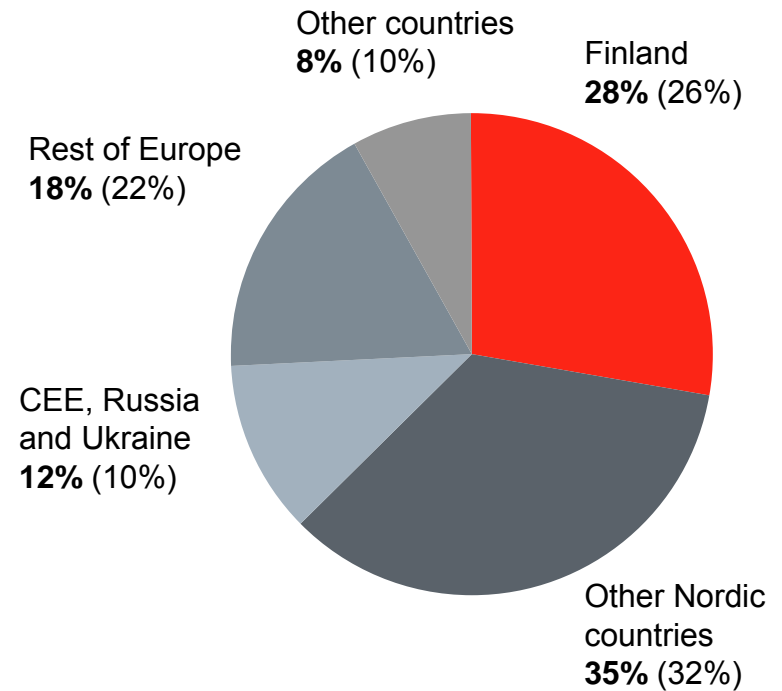
Special steel products 34% of net sales in Q2

Net sales by product group and operating profit %, rolling 12m, €m \*)



■ Special steel products   
 ■ Customised steel products  
■ Price-sensitive steel products   
 ■ Stainless steel and aluminium

Net sales by market area 1-6/11 (1-6/10) \*)

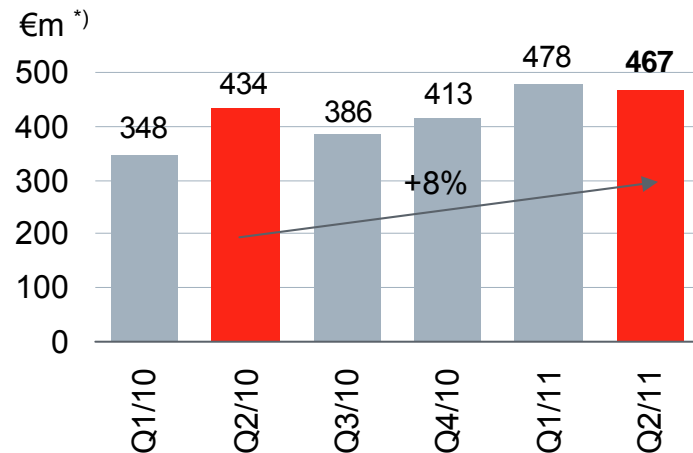




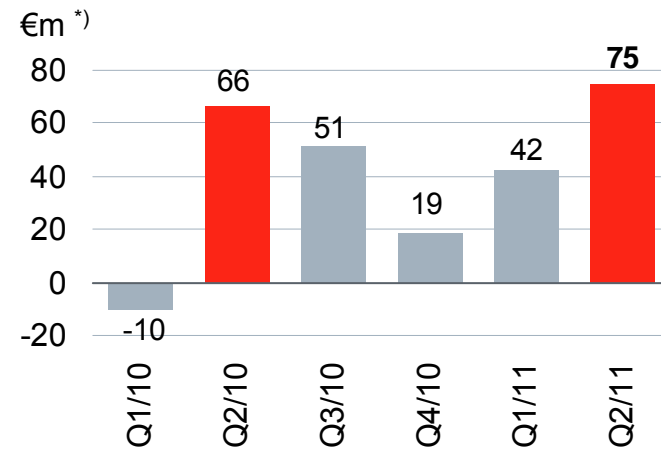
# Steel business

Higher average selling prices improved profitability

## Net sales



## Operating profit



## Compared to previous year

- + Growth in nearly all market areas
  - + Especially in Finland and the other Nordic countries
- + Relatively best growth in CEE, especially Poland, and in Russia
- + Continued growth in new markets for special steel products

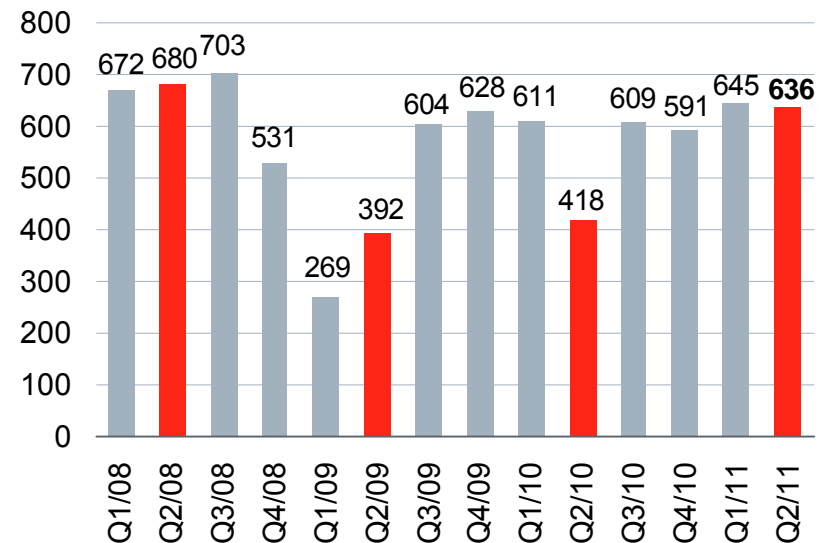
- + Higher average selling prices
- + Increased share of special steel products
- + Higher capacity utilisation rate
- Higher raw material costs still not fully reflected in cost structure in Q2

# Good capacity utilisation rate in steel production

- Steel production in Q2/2011 was 636k tonnes (418)
- Blast furnace 2 at Raahe Steel Works shut down in late June for modernisation
  - Slab inventories were increased to ensure customer deliveries
  - Modernisation work will take around 2 months and ramp-up to normal production around 4-6 weeks
  - Blast furnace 2 is expected to reach planned production level by end of September

## Steel production

1 000 tonnes



# Near-term outlook

# Growth in all main market areas

## Industrial production and fixed investment growth forecasts - Forecast for 2011 in June/July 2011

	Industrial production %-change since 2010	Change from April 2011 forecast *)	Fixed investment %-change since 2010	Change from April 2011 forecast *)		Industrial production %-change since 2010	Change from April 2011 forecast *)	Fixed investment %-change since 2010	Change from April 2011 forecast *)
<b>Finland</b>	3.9	➡ +0.4	6.5	➡ -0.2	<b>Poland</b>	7.6	➡ -0.4	7.4	➡ -0.3
<b>Germany</b>	8.2	⬆️ +2.1	12.3	⬆️ +3.2	<b>Czech R</b>	7.1	➡ 0.0	3.0	➡ +0.2
<b>Norway</b>	2.5	⬆️ -1.2	8.3	⬆️ +1.7	<b>Slovakia</b>	8.5	⬆️ +0.6	4.3	⬆️ -0.6
<b>Sweden</b>	10.0	⬆️ +2.8	8.4	➡ 0.0	<b>Romania</b>	6.7	⬆️ +1.4	4.0	➡ -0.3
<b>Russia</b>	5.2	➡ 0.0	7.9	⬆️ -0.7	<b>USA</b>	4.2	⬆️ -0.7	7.6	⬆️ -1.0

Source: Consensus Economics, June 2011 (CEE) & July 2011 (W. Europe and USA) and recent key forecasts for Finland's investments

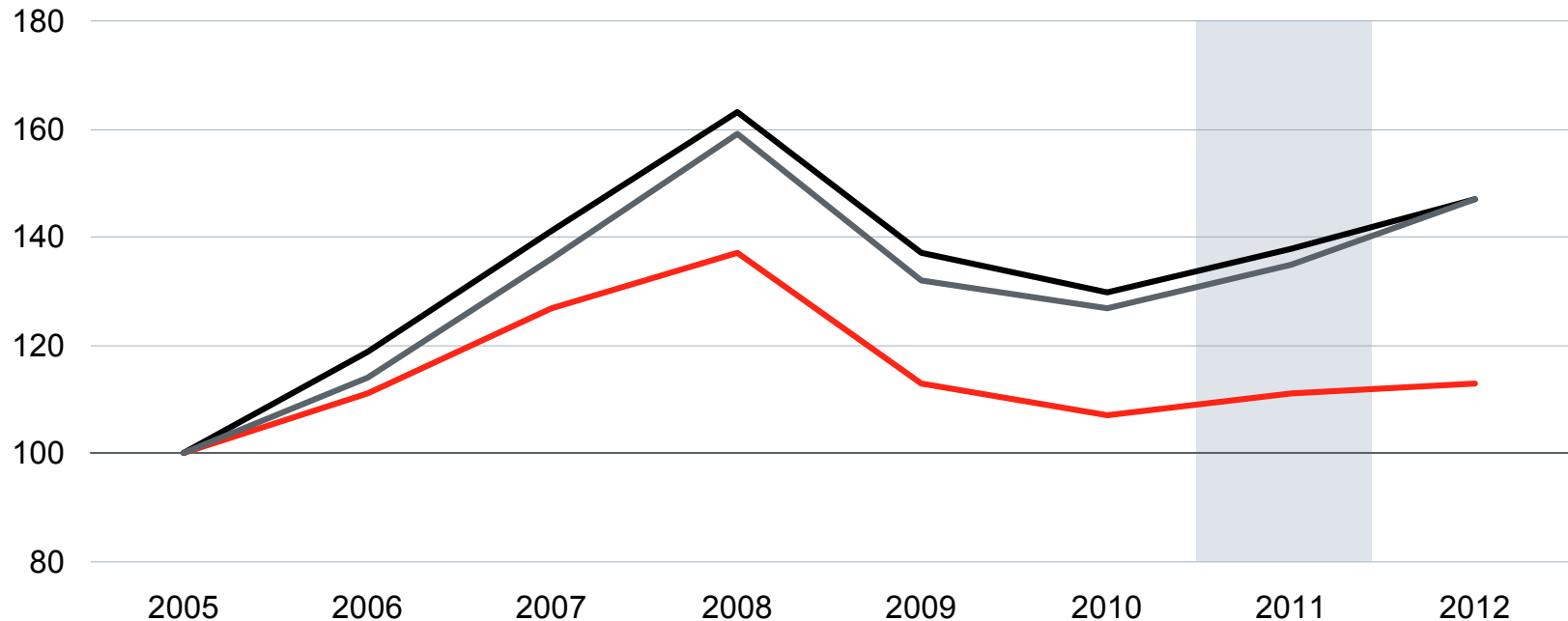
\*) Change since April 2011 forecast, direction and change in percentage units

# Construction business:

## Commercial and industrial construction forecast to grow in 2011

Commercial, office and industrial construction, new construction \*)

Index



■ Nordic countries ■ Russia ■ Central Eastern Europe  
(Poland, Czech R, Slovakia, Hungary, Romania, Bulgaria and Ukraine)

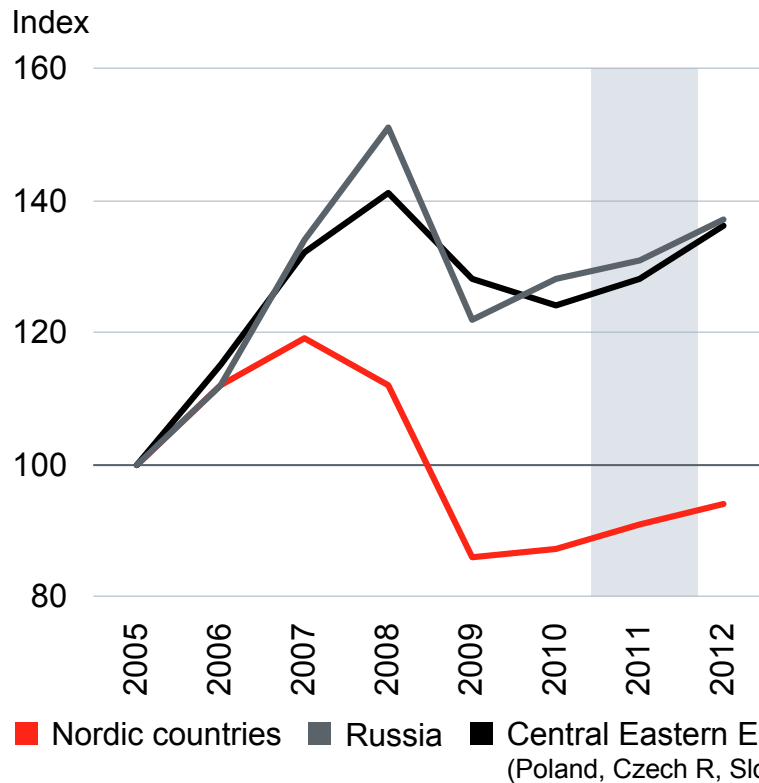
Source: Global Insight June 2011, at constant prices

\*) Figures for Romania, Ukraine, Bulgaria and Russia also include renovation construction, but in these countries new construction accounts for 85-95% of the commercial, office and industrial construction market

# Construction business:

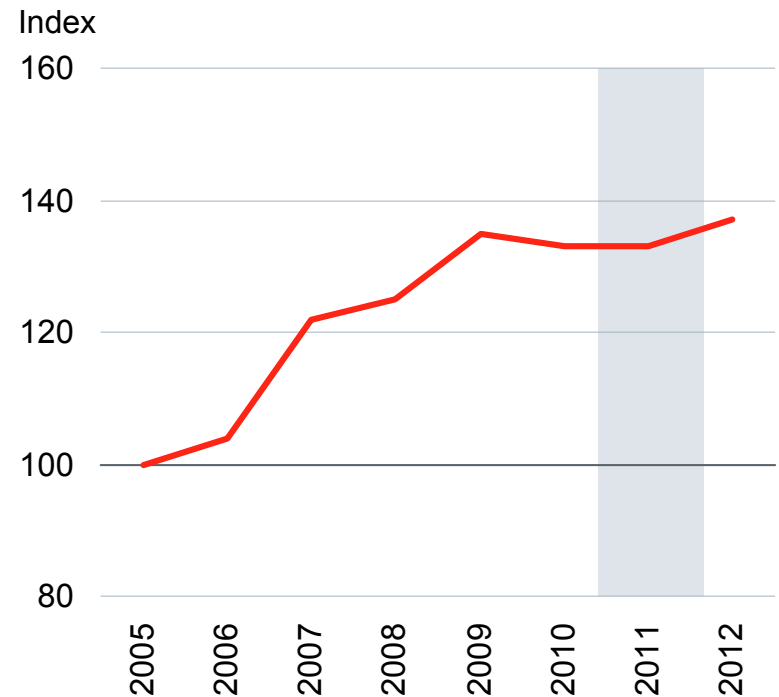
Residential construction growing, transport infrastructure continues at good level

## Residential construction, new and renovation construction



Source: Global Insight June 2011, at constant prices

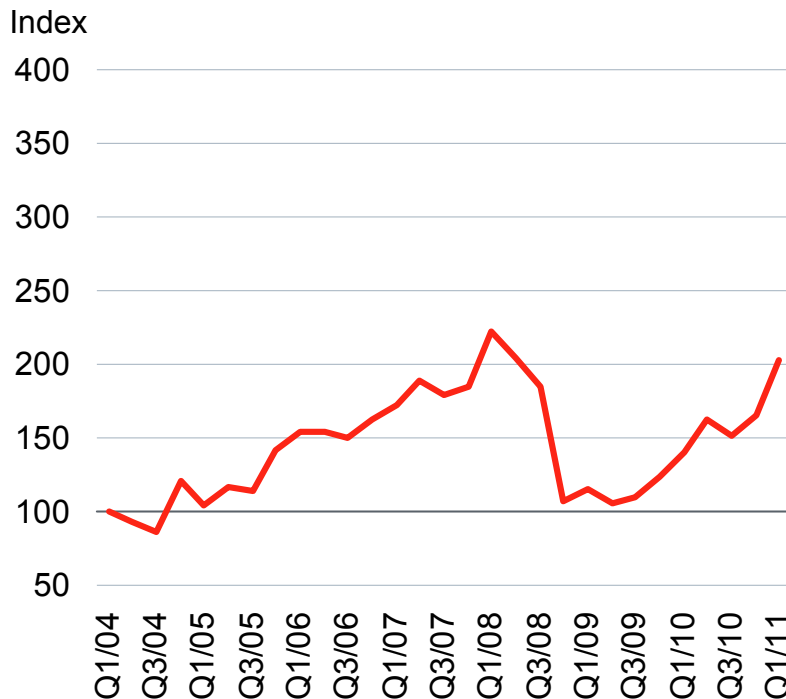
## Transport infrastructure construction



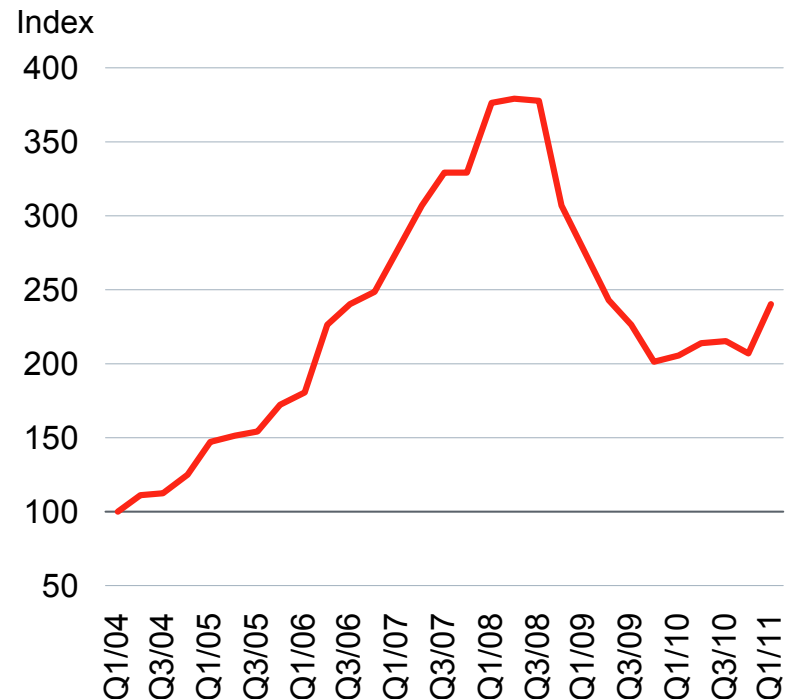
# Engineering business:

Clear growth in customers' order intake and order book compared to previous year

Order intake of main customers, Q1/04-Q1/11



Order book of main customers, Q1/04-Q1/11



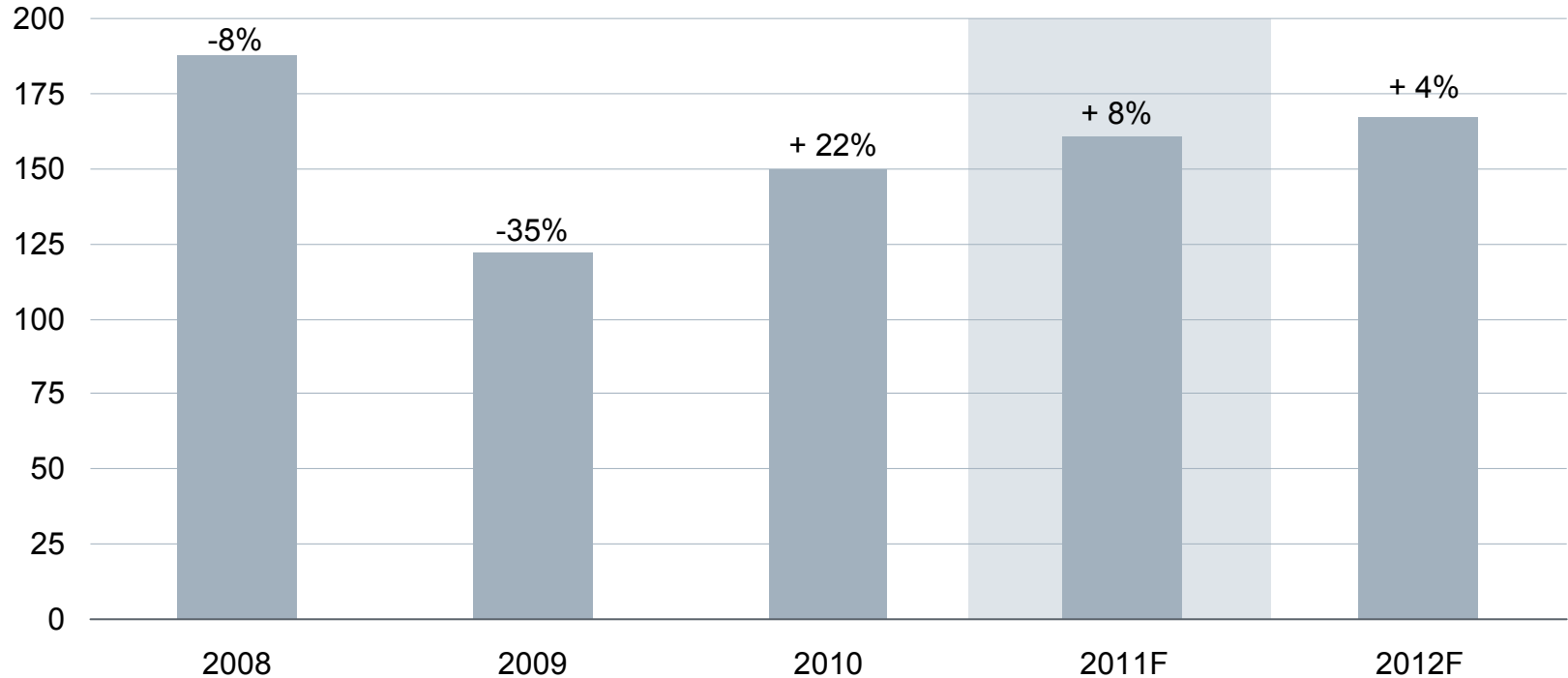
Sources: Company reports - Andritz Pulp & Paper, Atlas Copco Construction & Mining Equipment, Cargotec (Industrial & Terminal), Konecranes, Metso Mining & Construction Technology, Wärtsilä



# Apparent steel use in Europe forecast to grow by around 8% in 2011

Apparent steel use in EU-27 region  
2008-2012F

Million tonnes



Source: EUROFER, July 2011

# Near-term outlook

## Factors affecting net sales development

Construction	Engineering	Steel
<ul style="list-style-type: none"><li>• <u>Commercial and industrial construction</u> is estimated to return to the growth track in number of areas during 2011<ul style="list-style-type: none"><li>– Growth in Sweden is estimated to be brisker than in the other Nordic countries</li><li>– In Russia, investments are already clearly growing</li></ul></li><li>• <u>Residential construction</u> is forecast to remain at a good level in all main market areas</li><li>• <u>Infrastructure construction</u> activity in the Nordic countries is expected to continue to be relatively good, especially in Sweden</li></ul>	<ul style="list-style-type: none"><li>• Further improvement in order volumes especially for <u>cabins, booms and frames</u> is anticipated because:<ul style="list-style-type: none"><li>– Demand from manufacturers of heavy cargo and other materials handling equipment is estimated to be at a good level</li><li>– As is, demand for construction, forest and mining industry machines and equipment</li></ul></li><li>• In the manufacture of equipment for the <u>energy industry</u>, demand is forecast to improve somewhat during H2/11</li></ul>	<ul style="list-style-type: none"><li>• Demand in the steel business at a good level</li><li>• Sales of <u>special steel products</u> supported by:<ul style="list-style-type: none"><li>– Good demand from the heavy engineering and heavy vehicle industries</li><li>– Expansion of the company's distribution network into emerging markets and mining-intensive countries</li></ul></li><li>• Development of average <u>selling prices</u> during H2/11 supported by:<ul style="list-style-type: none"><li>– Good demand</li><li>– Higher raw material costs</li><li>– Increased sales of special steel products</li></ul></li></ul>

# Near-term outlook

## Guidance unchanged

### Factors affecting profitability

- Company's cost structure is lighter than in previous years because of efficiency actions already completed and those ongoing
- Capacity utilisation rate is projected to be better in 2011 than in 2010, especially in the solutions businesses
- Increase in raw material costs will only be fully reflected in the cost structure from H2/11

### Assessment of future performance

- Consolidated net sales in 2011 are estimated to grow approximately 25 per cent year on year
- Profitability is expected to clearly improve compared to 2010

# Summary

- Growth in demand in all businesses
  - Order intake in Q2 up 13% y-o-y
- Profitability improved and the company's cost structure was clearly better than in previous years
- Good demand is estimated to continue in most customer segments
  - Investments and industrial production showing good growth in important nearby markets
- Improving the profitability of the solutions businesses is high on the agenda during H2/11
- Actions to strengthen cash flow and lower gearing will continue
- Consolidated net sales in 2011 are estimated to grow approximately 25 per cent year on year
- Profitability is expected to clearly improve compared to 2010

Q&A?



# Appendices

# Key figures

€m	1-6/11	1-6/10	2010
Net sales *)	1 405	1 147	2 403
Operating profit *)	96	2	38
as % of net sales *)	6.8	0.1	1.6
Result before income tax *)	76	-12	8
Result for the period	52	-13	-79
Earnings per share, diluted, €	0.38	-0.09	-0.57
Return on capital employed (rolling 12 mths), %	4.1	-4.4	-0.3
Return on capital employed (annualised), %	8.9	0.0	-0.3
Gearing ratio, %	57.9	35.9	44.7
Gross capex **)	79	92	173
Net cash before financing activities	-64	-125	-226
Personnel (average)	11 839	11 733	11 693

\*) Comparable \*\*) In tangible and intangible assets

# Quarterly comparable net sales and operating profit

€m	Q2/10	Q3/10	Q4/10	Q1/11	Q2/11
<b>Comparable net sales</b>					
Ruukki Construction	163	184	172	135	201
Ruukki Engineering	50	45	56	62	62
Ruukki Metals	434	386	413	478	467
Others	1	0	0	0	0
<b>Comparable net sales, total</b>	<b>647</b>	<b>615</b>	<b>641</b>	<b>675</b>	<b>730</b>
<b>Comparable operating profit</b>					
Ruukki Construction	-10	1	-13	-13	4
Ruukki Engineering	-8	-7	-6	-2	-2
Ruukki Metals	66	51	19	42	75
Others	-4	-4	-4	-3	-6
<b>Comparable operating profit, total</b>	<b>45</b>	<b>41</b>	<b>-5</b>	<b>25</b>	<b>71</b>