Financial Review 2007

6 February 2008
2007 in brief
Business environment

- Good market situation in the Group’s core market areas and main customer industries continued throughout 2007.
- Brisk activity in non-residential construction continued in the Nordic countries, Central Eastern Europe and Russia.
- Order books of engineering customers, especially in the lifting, handling and transportation equipment industry, remained strong.
- Demand for special steel and plate products has remained strong, although there was an oversupply in certain product groups, including galvanised products, particularly towards the end of the year.
Strong profitable growth

- Very good operating result
  - Comparable net sales up by 10% to €3 876 million
  - Comparable operating profit up by 24% to €637 million
- Extensive investment programme launched in Russia and Central Eastern Europe to support strong organic growth in construction solutions
- Acquisition in Hungary provided major new customers in lifting, handling and transportation equipment business
- Start up of direct quenching unit at Raahe Works in Finland clearly improved delivery capability especially to customers in the lifting, handling and transportation equipment industry
- Special steels accounted for increased share of net sales, improved delivery capability
Solutions businesses and special products accounted for increased share of net sales

Share of net sales

- **2004**: 23%
- **2005**: 51%
- **2006**: 41%
- **2007**: 13%

Legend:
- **Construction**: 11%
- **Special products**: 8%
- **Engineering**: 17%
- **Other steel and metal products**: 27%
- **Long products**: 7%
Progress made with Ruukki United efficiency programme

- Aim to achieve cost savings, compared to 2004 cost structure, of €150 million by the end of 2008
  - €96 million saved under current structure
- Aim to permanently free up €150 million of capital, compared to 2004 capital structure, by the end of 2008
  - €76 million released from current businesses
# Financial summary 2007

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>€m</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comparable net sales *</td>
<td>3876</td>
<td>3515</td>
<td>+361</td>
<td>+10%</td>
</tr>
<tr>
<td>Comparable operating profit (EBIT)*</td>
<td>637</td>
<td>515</td>
<td>+122</td>
<td>+24%</td>
</tr>
<tr>
<td>- % of net sales</td>
<td>16.4</td>
<td>14.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-tax profit (excl. capital gain from Ovako divestment)</td>
<td>621</td>
<td>535</td>
<td>+86</td>
<td>+16%</td>
</tr>
<tr>
<td>EPS (excl. capital gain from Ovako divestment), €</td>
<td>3.31</td>
<td>2.92</td>
<td>+0.39</td>
<td>+13%</td>
</tr>
<tr>
<td>DPS **, €</td>
<td>1.70+0.30</td>
<td>1.50+0.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROCE (excl. capital gain from Ovako divestment), %</td>
<td>29.6</td>
<td>27.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE (excl. capital gain from Ovako divestment), %</td>
<td>24.0</td>
<td>24.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gearing, %</td>
<td>1.4</td>
<td>1.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Comparable figures exclude Nordic Reinforcing units, which were part of the Group until 31 July 2006.

** 2007 Board of Directors’ proposal
Operating profit was reduced by costs due to unutilised capacity (€25m) and strikes (€6m). In addition, operating profit was affected by a loss on the divestment of the Central European reinforcing units (€2m) and lower margins on stainless steel trading (€10m).

Net finance expense included €10 million to hedge a liability denominated in Swedish kronor.
Consolidated net sales

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>2953</td>
<td>3564</td>
<td>3654</td>
<td>3682</td>
<td>3876</td>
</tr>
</tbody>
</table>

Comparable net sales based on the company's internal accounting (excl Ovako and the Nordic reinforcing units)
Solutions businesses strengthened share of net sales

- Ruukki Metals
  - €2168m (€2291m)
  - 56% (62%)

- Ruukki Construction
  - €1042m (€829m)
  - 27% (23%)

- Ruukki Engineering
  - €667m (€557m)
  - 17% (15%)

- Special products
- Other steel products
- Trading
Share of net sales from Central Eastern Europe and Russia increased


- **Rest of Europe**: 15% (19%)
- **Central Eastern Europe, Russia & Ukraine**: 21% (17%)
- **Finland**: 31% (31%)
- **Other Nordic countries**: 30% (31%)
- **Other countries**: 3% (2%)

**Key Points**:
- Strong market position in Finland and other Nordic countries
- Strongest growth in Central Eastern Europe and Russia
- Divestment of underperforming businesses has decreased relative share of sales in rest of Europe
Acquisitions and investments increased headcount in Central Eastern Europe
Comparable consolidated operating profit increased by 24%

- Operating profit
- Comparable operating profit (excl. Ovako and Nordic reinforcing units)
12-month rolling operating profit
2004-2007

€m

Q1 04 Q2 04 Q3 04 Q4 04 Q1 05 Q2 05 Q3 05 Q4 05 Q1 06 Q2 06 Q3 06 Q4 06 Q1 07 Q2 07 Q3 07 Q4 07

- 12-month rolling operating profit (EBIT)
- Comparable 12-month rolling EBIT (excl. Ovako and Nordic reinforcing units)
Q4 operating profit compared with previous year

€m

<table>
<thead>
<tr>
<th></th>
<th>Q4 2006</th>
<th>Unutilised capacity and destocking</th>
<th>Stainless steel margins</th>
<th>Strikes</th>
<th>Capital loss from divestment</th>
<th>Other</th>
<th>Q4 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2006</td>
<td>167</td>
<td>-25</td>
<td>-10</td>
<td>-6</td>
<td>-2</td>
<td>-4</td>
<td>120</td>
</tr>
</tbody>
</table>

Rautaruukki Corporation
Impact of strikes and unutilised capacity on Q4 operating profit by division

€m

Ruukki Construction 32 - 6
Ruukki Engineering 15 - 5
Ruukki Metals 77 - 19
Ruukki total 120 - 31

Reported operating profit
Strikes and unutilised steel production capacity
Earnings per share

€

2003 2004 2005 2006 2007

0.39 2.40 3.31 3.65 3.31

Excl. Ovako capital gain
Return on equity

Excl. Ovako capital gain

Return on capital employed
Strong balance sheet enables funding for growth
12-month rolling cash flow
2004-2007

Cash flow from operating activities
Cash flow before financing activities (excl. proceeds from Ovako divestment)
Capital expenditure increased

Capex in 2008 is expected to exceed €250 million.
Business areas
Ruukki Construction – strong profitable growth continues

- Net sales grew especially in Russia and the Nordic countries.
- Extremely strong demand within building construction in the Nordic countries, Russia and Central Eastern Europe.
- Continued good demand and deliveries also within infrastructure construction.
- Progress as planned with investments to increase production capacity in Central Eastern Europe, Finland and Russia.
- New solutions to shorten construction time launched in Nordic countries.
- Construction markets in Russia and Central Eastern Europe expected to grow much faster than in other areas.

Net sales, €m

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales, €m</td>
<td>829</td>
<td>1042</td>
</tr>
<tr>
<td>Change</td>
<td>26%</td>
<td></td>
</tr>
</tbody>
</table>

Operating profit, €m

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit, €m</td>
<td>101</td>
<td>150</td>
</tr>
<tr>
<td>Change</td>
<td>49%</td>
<td></td>
</tr>
</tbody>
</table>
Ruukki Construction: Target: net sales of over €1.5bn by the end of 2010 (excl. acquisitions)


- Russia & Ukraine: 22% (15%)
- Central Eastern Europe: 20% (22%)
- Nordic countries: 48% (50%)
- Baltics: 9% (9%)
- Other: 2% (4%)

Net sales (€m)
12-month rolling

- Q1/2005: 404
- Q2/2005: 442
- Q3/2005: 498
- Q4/2005: 550
- Q1/2006: 596
- Q2/2006: 639
- Q3/2006: 714
- Q4/2006: 829
- Q1/2007: 909
- Q2/2007: 986
- Q3/2007: 1020
- Q4/2007: 1042

Target 2010
Ruukki Engineering: Strong market situation, profitability improvement programme initiated

- Strong market situation continued and order books of engineering customers are at a good level
  - Especially in the lifting, handling and transportation equipment industry

- Hungarian acquisition brought major new lifting, handling and transportation equipment industry customers and an expanded product range

- Production capacity limits growth within wind energy and lifting, handling & transportation equipment industries

- Operating profit decreased due to weak profitability during Q4
  - Cost of integrating acquisitions and reorganisation as well as raw materials difficulties in wind turbine projects
  - Costs of €5 million due to unutilised steel production capacity and strikes

- Profitability improvement programme aims at improving operating profit by €20 million in 2008
Ruukki Engineering: Share of net sales strengthened in lifting, handling and transportation equipment industry and energy sector

Net sales (€m) 12-month rolling


- LHT industry 42% (35%)
- Marine 28% (33%)
- Offshore 6% (10%)
- Paper and wood processing 5% (6%)
- Energy 19% (16%)
Ruukki Engineering’s profitability improvement programme: target €20m increase in 2008 operating profit

- Lighter cost structure
- Intensified production
  - Removal of production bottlenecks
  - Shorter lead-times
  - Improved delivery accuracy
- Increased capacity to meet expanded customer base and demand
- Discontinuation of less profitable products
- Introduction of new organisation and management model
Ruukki Metals’ profitability clearly improved

- Demand from end-customers continued strong in core market areas
- Steel wholesalers reduced high stocks in Europe during Q4
- Higher selling prices and change in sales structure improved profitability
  - Average selling prices of own steel products during Q4 were at the same level as in the previous quarter
  - Special steel products accounted for 25% of net sales during Q4
- Stocks at Ruukki’s service centres were clearly reduced and sales were restricted to meet profitable demand
- The cost of unutilised steel capacity, a loss on the divestment of the Central European reinforcing units, strikes and lower margins on stainless steel trading reduced Q4 operating profit
- Demand outlook is good, demand also for galvanised products is improving
Ruukki Metals: Share of net sales grew in core market area

Comparative net sales (€m)
12-month rolling

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4/2005</td>
<td>2128</td>
<td></td>
</tr>
<tr>
<td>Q1/2006</td>
<td>2078</td>
<td></td>
</tr>
<tr>
<td>Q2/2006</td>
<td>2040</td>
<td></td>
</tr>
<tr>
<td>Q3/2006</td>
<td>2063</td>
<td></td>
</tr>
<tr>
<td>Q4/2006</td>
<td>2124</td>
<td></td>
</tr>
<tr>
<td>Q1/2007</td>
<td>2174</td>
<td></td>
</tr>
<tr>
<td>Q2/2007</td>
<td>2239</td>
<td></td>
</tr>
<tr>
<td>Q3/2007</td>
<td>2241</td>
<td></td>
</tr>
<tr>
<td>Q4/2007</td>
<td>2168</td>
<td></td>
</tr>
</tbody>
</table>

Net sales by region

- Long products: 3% (13%)
- Finland: 32% (28%)
- Western Europe: 20% (22%)
- Eastern Europe: 10% (9%)
- Scandinavia: 35% (29%)
Steel production

- Steel production in 2007 totalled 2,546,000 tonnes (2,853,000). Production in Q4 was 25 per cent less than during the corresponding period a year earlier.
- Low production utilisation rate was due to destocking and a realignment of steel production to meet profitable growth.
  - Steel plate and hot-rolled sheet capacity utilisation rate was normal
- Deployment in September of a direct quenching unit at the Raahe Works enables increased capacity of high-strength and abrasion-resistant steels and finishing capacity will come on stream in stages during 2008.
- Strikes by the Union of Salaried Employees and workers stopped hot-rolling production and the cutting lines at the Raahe Works for about a week in all.
- The purchase of emissions allowances for the 2008-2012 trading period are expected to result in additional costs of €3-5m a year
- The capacity utilisation rate was back to normal in all products at the end of December.
Dividend proposal
Dividend proposal: €1.70 and €0.30 additional dividend

- **Dividend per share**
- **Additional dividend arising from funds freed up from the long steel businesses**
- **Earnings per share**
- **Earnings per share, excl. capital gain on Ovako**

* Board of Directors’ proposal
Near-term outlook
Strong growth outlook for 2008 in all Ruukki’s target markets

<table>
<thead>
<tr>
<th>Estimated annual change (%)</th>
<th>CEE*</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>New residential</td>
<td>6.9 % (11.7%)</td>
<td>19.5 % (21.0%)</td>
</tr>
<tr>
<td>Residential renovation</td>
<td>5.2 % (6.3%)</td>
<td>9.1 % (9.0%)</td>
</tr>
<tr>
<td>New non-residential</td>
<td>6.5 % (12.1%)</td>
<td>18.4 % (19.3%)</td>
</tr>
<tr>
<td>Civil engineering</td>
<td>15.1 % (4.7%)</td>
<td>13.2 % (12.7%)</td>
</tr>
<tr>
<td>Total construction output</td>
<td>8.9 % (8.3%)</td>
<td>17.4 % (18.1%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Estimated annual change (%)</th>
<th>Northern Europe</th>
<th>Baltics</th>
</tr>
</thead>
<tbody>
<tr>
<td>New residential</td>
<td>-2.1 % (-0.5%)</td>
<td>-9.9 % (28.2%)</td>
</tr>
<tr>
<td>Residential renovation</td>
<td>2.6 % (2.7%)</td>
<td>-10.8 % (28.6%)</td>
</tr>
<tr>
<td>New non-residential</td>
<td>3.0 % (11.7%)</td>
<td>10.8 % (12.9%)</td>
</tr>
<tr>
<td>Civil engineering</td>
<td>3.1 % (4.8%)</td>
<td>12.0 % (10.6%)</td>
</tr>
<tr>
<td>Total construction output</td>
<td>1.7 % (4.1%)</td>
<td>5.5 % (16.1%)</td>
</tr>
</tbody>
</table>

* Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Ukraine
Source: Euroconstruct, Buildecon, VTT
Strong increase in customer order books in engineering industries

Source: Compiled from order book data of some Engineering players within Ruukki’s market
Continued good demand for steel products

- Stocks of European wholesalers normalised at the end of the year
- Customer orders were back on the growth track in Europe during Q4
- Good demand outlook for steel products
  - Especially for special steel and plate products
  - Demand for galvanised products is also improving
- Pressure to increase selling prices due to expected increases in raw material costs
  - Prices of raw materials not yet agreed for 2008
  - Iron ore and coal, including freight charges, accounted for about 10% of the Group’s costs in 2007
Near-term outlook

- Market environment:
  - Non-residential construction activity is expected to remain brisk across the entire market area. The markets in Eastern Europe are expected to grow much faster than in other areas.
  - The infrastructure construction market is expected to continue good in all market areas.
  - Demand from engineering customers is expected to remain good in the lifting, handling and transportation equipment industry, as well as in the energy, shipbuilding and offshore sectors.
  - Demand for steel products, particularly special products and plate products, is expected to continue good. Stocks of standard steel product were high during Q4 2007 but normalised at the turn of 2008.

- Near-term outlook:
  - The company’s strong growth especially in Russia and in Central Eastern Europe, together with brisk demand in customer industries, creates a good platform for Rautaruukki’s growth in 2008.
  - Comparable net sales growth is expected to meet the target and exceed 10 per cent. Operating profit in 2008 is expected to be higher than in 2007.
ruukki
more with metals