


# Interim Review Q3 2006

November 1, 2006

**RUUKKI**

- 
- **Ruukki is ready for profitable growth**
  - **New Financial Targets**
  - **Business Environment**
  - **Financials 1-9/2006**
  - **Near-term Outlook**
  - **Summary**

**Ruukki is ready for  
profitable growth**

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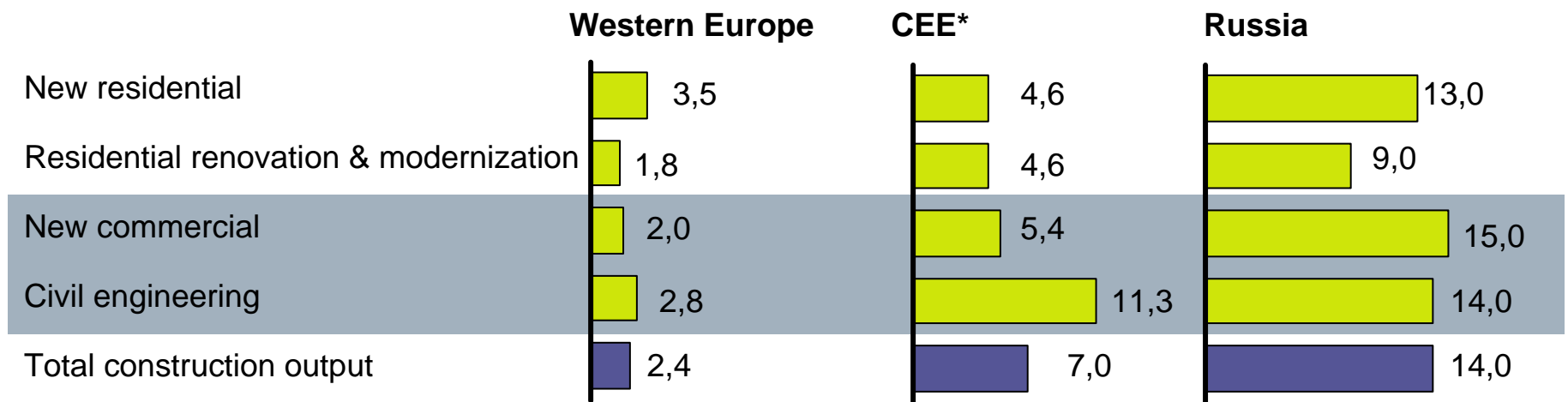
# Growth potential in customer segments



# Strong growth in construction solutions in CEE, Russia and Ukraine

# Strong growth in targeted segments

Annual change (% by volume) 2006



## Ruukki's growth is leveraged by

- **GDP growth** as the main driver for construction activity
- **Growth in construction activity** drives demand for construction solutions and materials
- **Market share of steel** vs other materials is driving demand for Ruukki's solutions

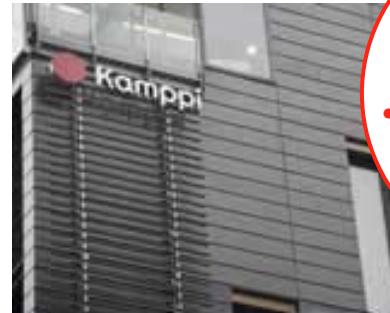
\* Poland, Czech republic, Slovakia, Hungary

Sources: Euroconstruct, BuildEcon

# Simplify and shorten the construction process

## Customer's needs

- Finding out customer needs
- Utilising standard components in planning
- Manufacturing and/or sourcing of materials
- Total delivery



### Extensive component range for:

- foundations
- external walls & facades
  - roofs
  - frames

### 100% ready:

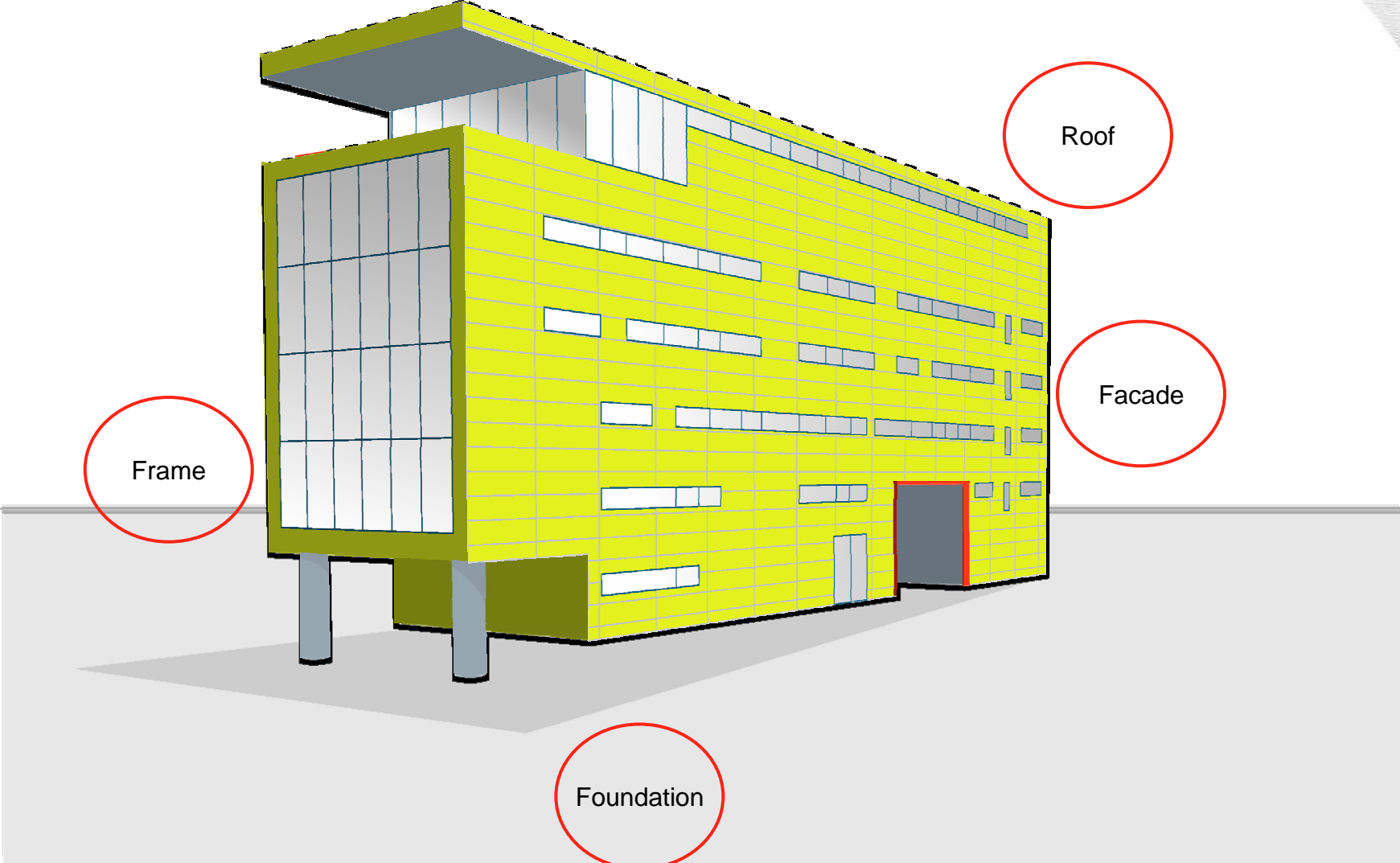
- one-storey buildings
- multi-storey buildings
- noise barriers

### Benefits for customer:

- Fewer parties minimise the process risk
- Industrial prefabrication speeds up construction and improves quality

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# Complete one- and multi-storey commercial buildings

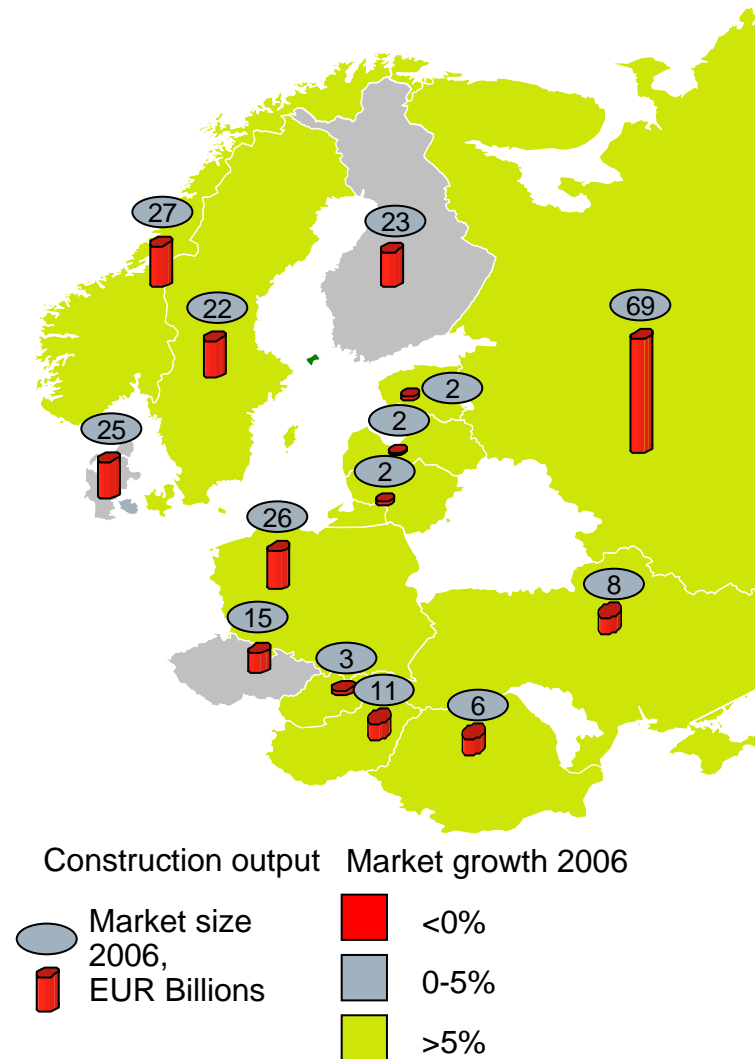




# Ruukki's target market is ~10 EUR billions

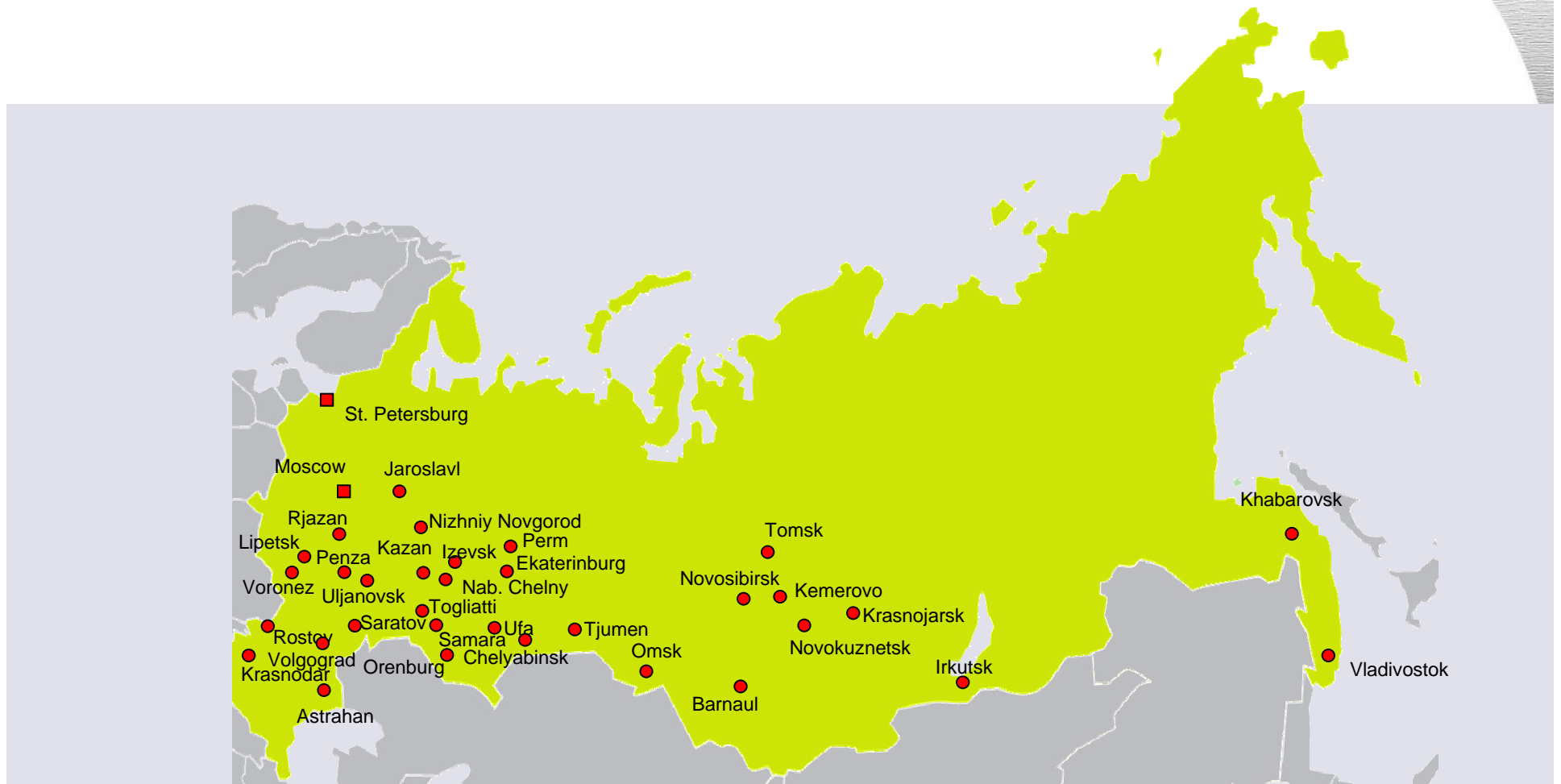
## Market size and growth 2006

- Market for Ruukki's products and solutions **EUR 10 billions**
- Average market growth is **7 %** in Ruukki's focus markets
- Market growth equals to size of **Ruukki Construction**
- The growth is strongest in **CEE, Russia and Ukraine**



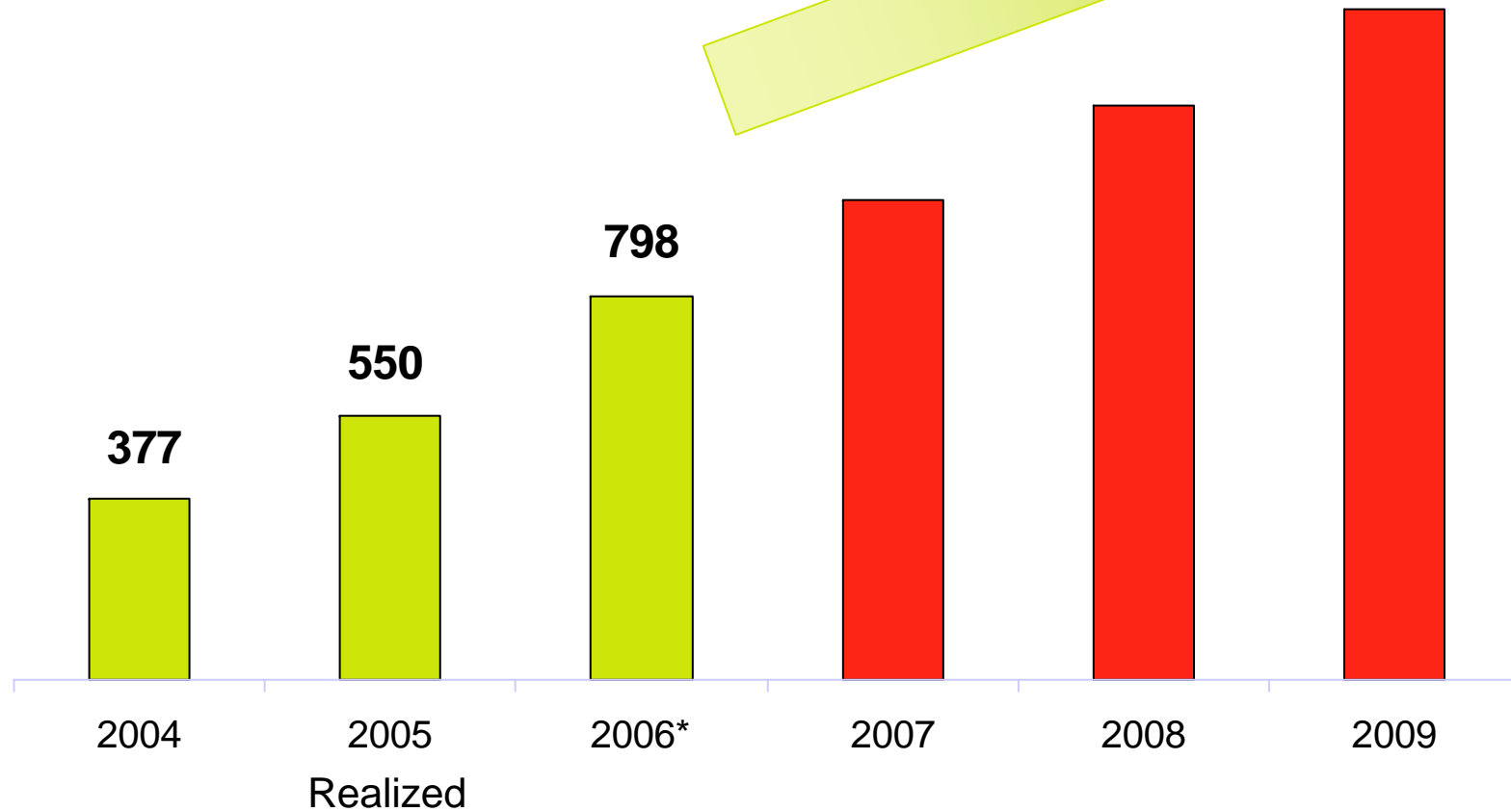
Sources: Euroconstruct, BuildEcon, VTT

# Russian cities with over half million inhabitants



# Ruukki Construction: Strong organic growth expected to continue

Net sales (EUR millions)



\* Sum of last 4 quarters, including PPTH, Steelmont, Ventall pro forma

# High value added systems to engineering customers

# Engineering business areas

## Lifting, Handling & Transportation (LHT)



- Cranes & Material handling
- Construction & Mining
- Forest machines
- Agriculture

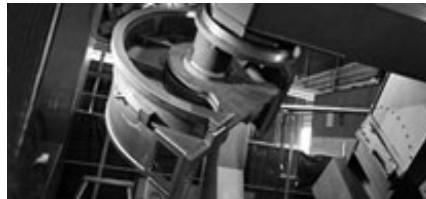
Systems

Components

Parts

Standard and special steel products

## Paper, Wood & Energy



Components

Parts

Standard and special steel products

## Marine & Offshore

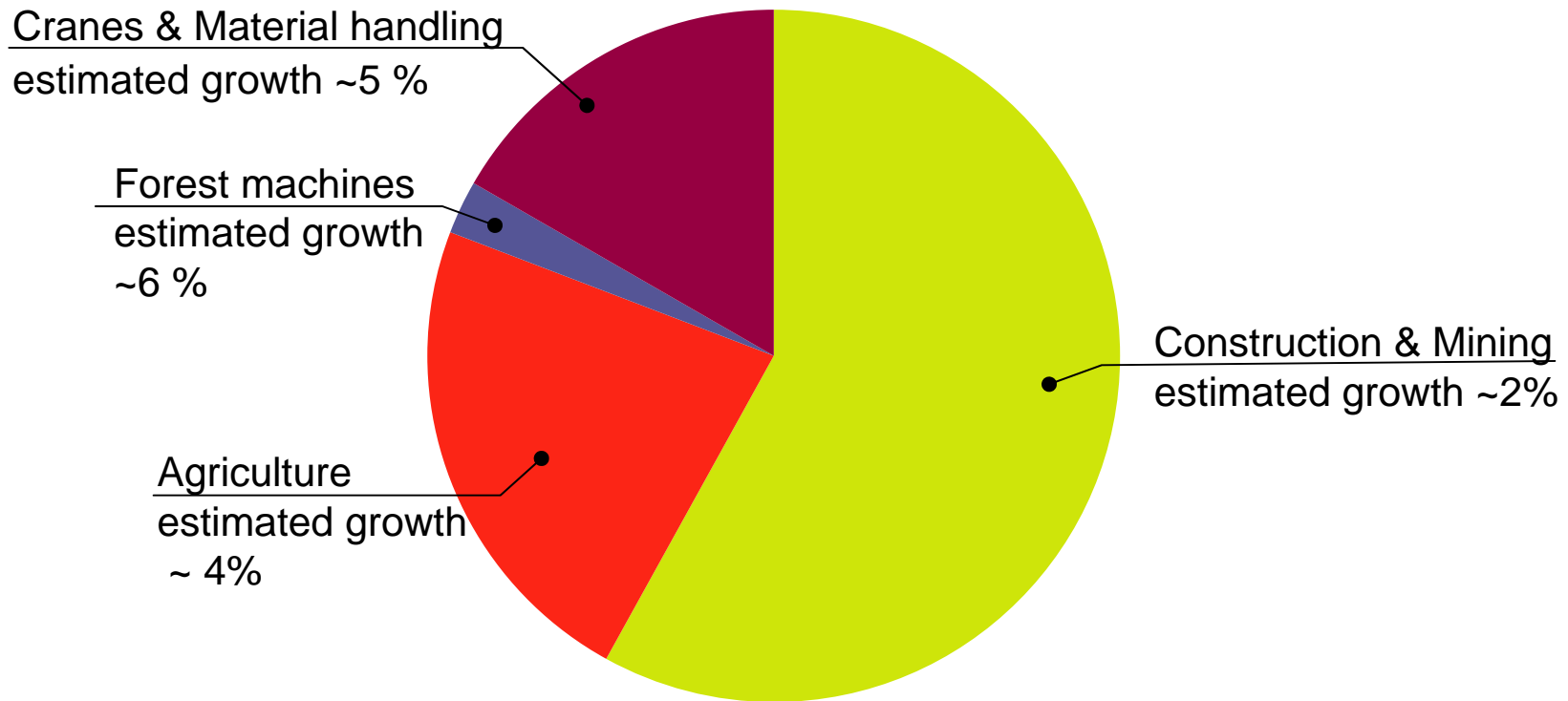


Components

Parts

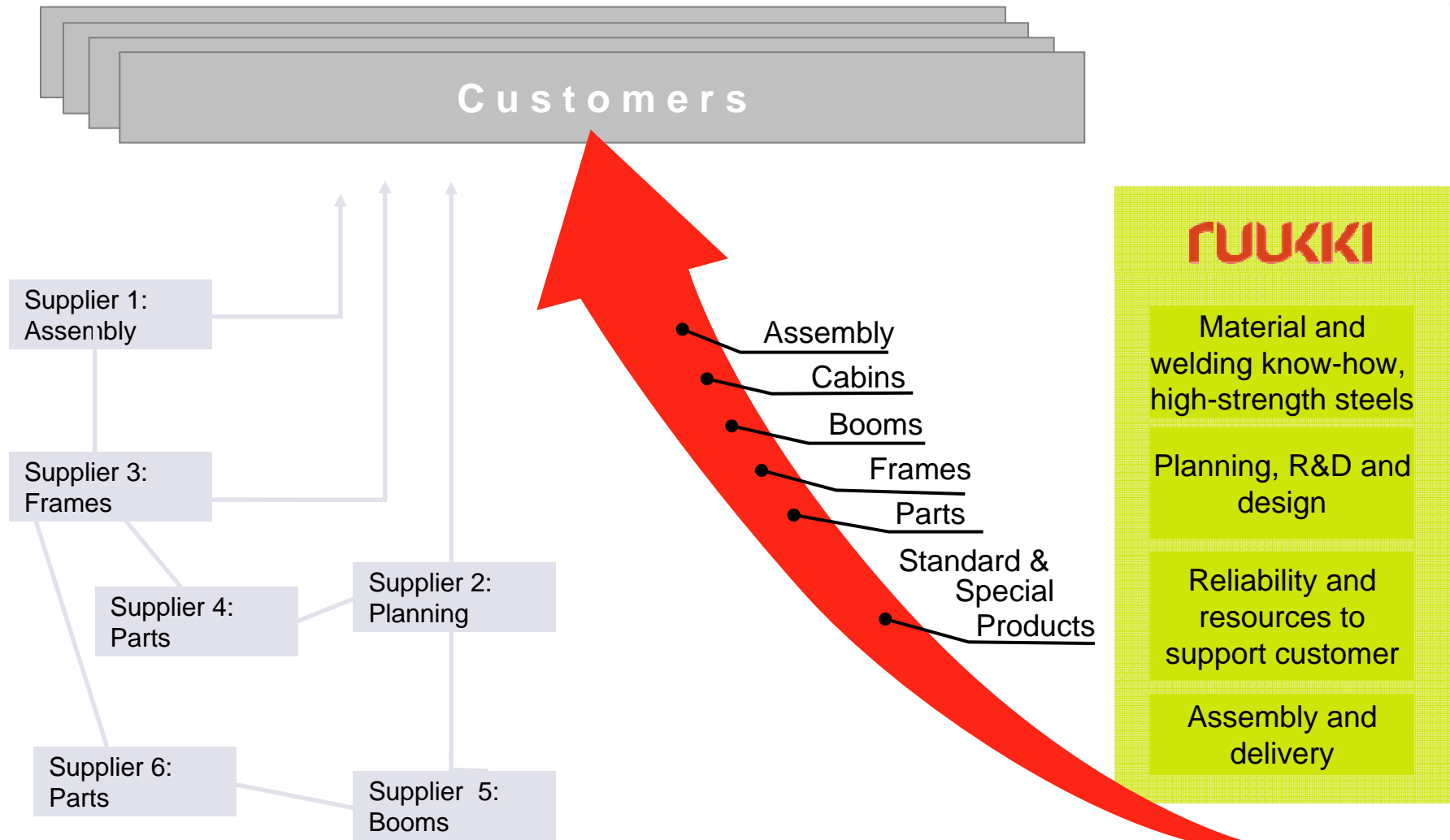
Standard and special steel products

# Ruukki's potential market in LHT is ~ 5 EUR billions

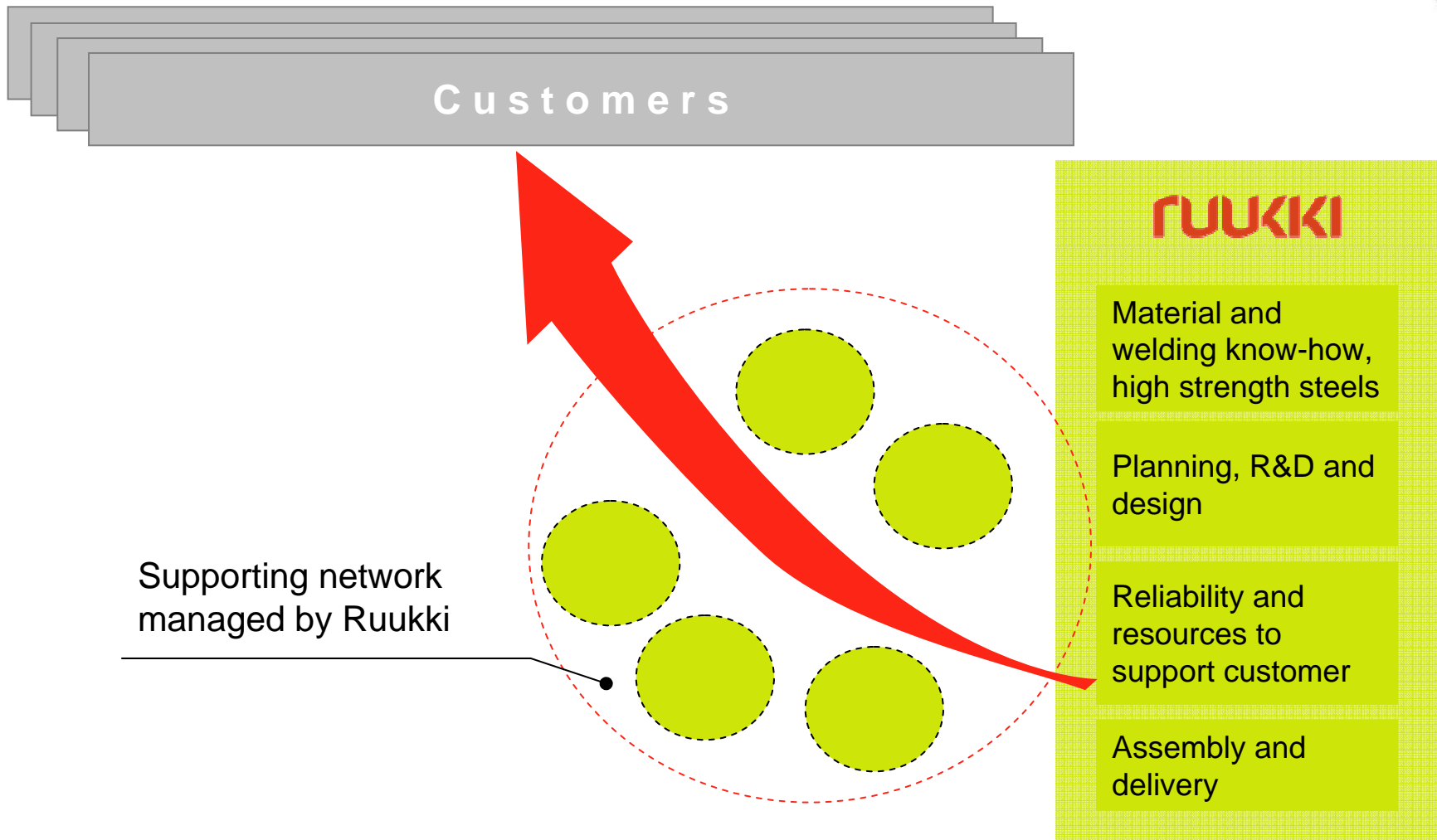


- The annual market growth is estimated ~ 4 %.
- Current market using **high strength steel products** is estimated at **800 MEUR**.

# Ruukki has competitive edge in solutions

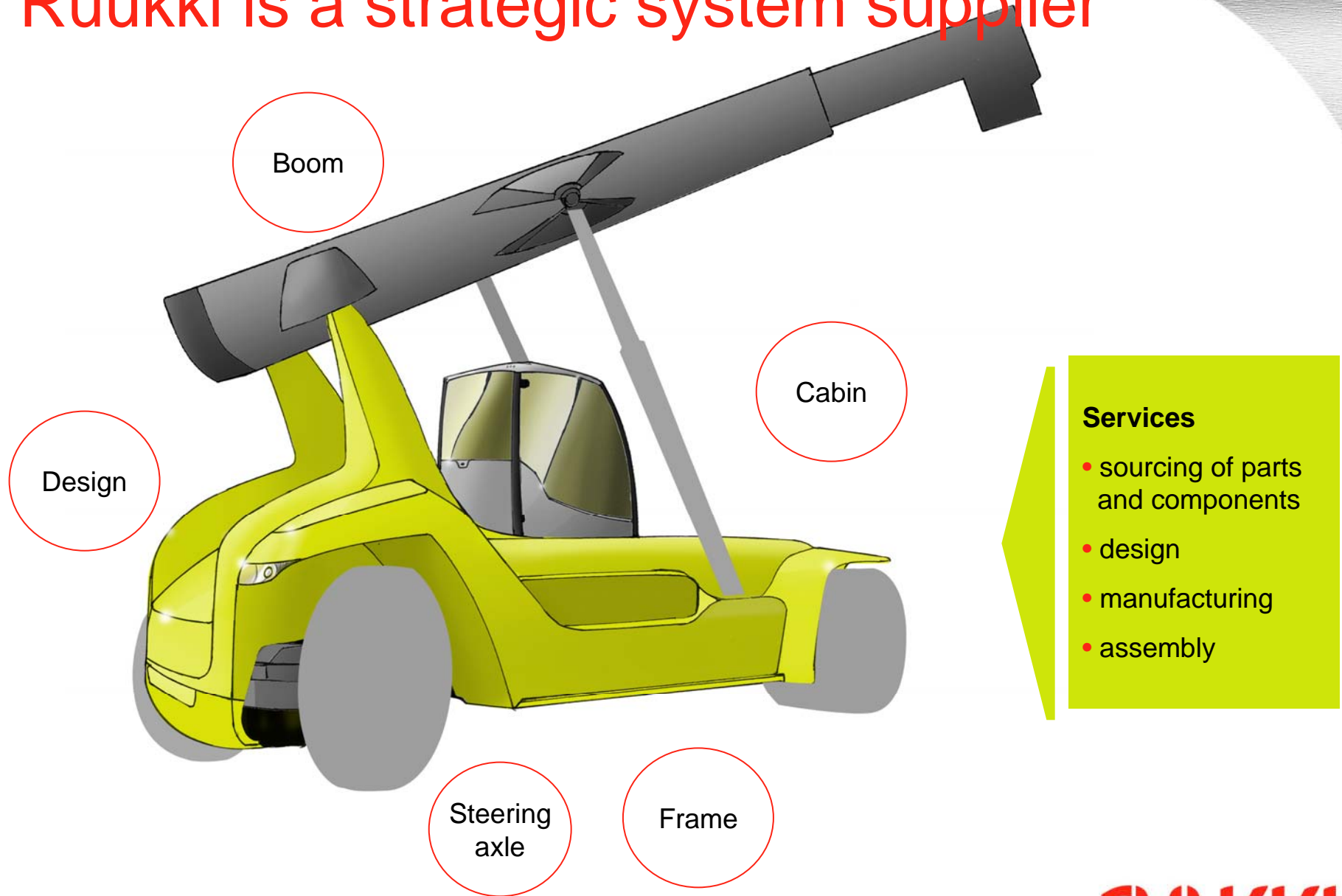


# Ruukki co-operates with a supporting network





# Ruukki is a strategic system supplier





# More value to customers with special steel products

# Steel industry playground is changing

## Drivers

Trends in supply:

- Consolidation
- Globalisation
- Up-streaming
- Service for volume markets

**Opportunities for big global players**

## Main players in Europe

Arcelor Mittal	62,2 bEUR	115 mt
Corus	14,8 bEUR	18 mt
ThyssenKrupp Steel	14,8 bEUR	17 mt

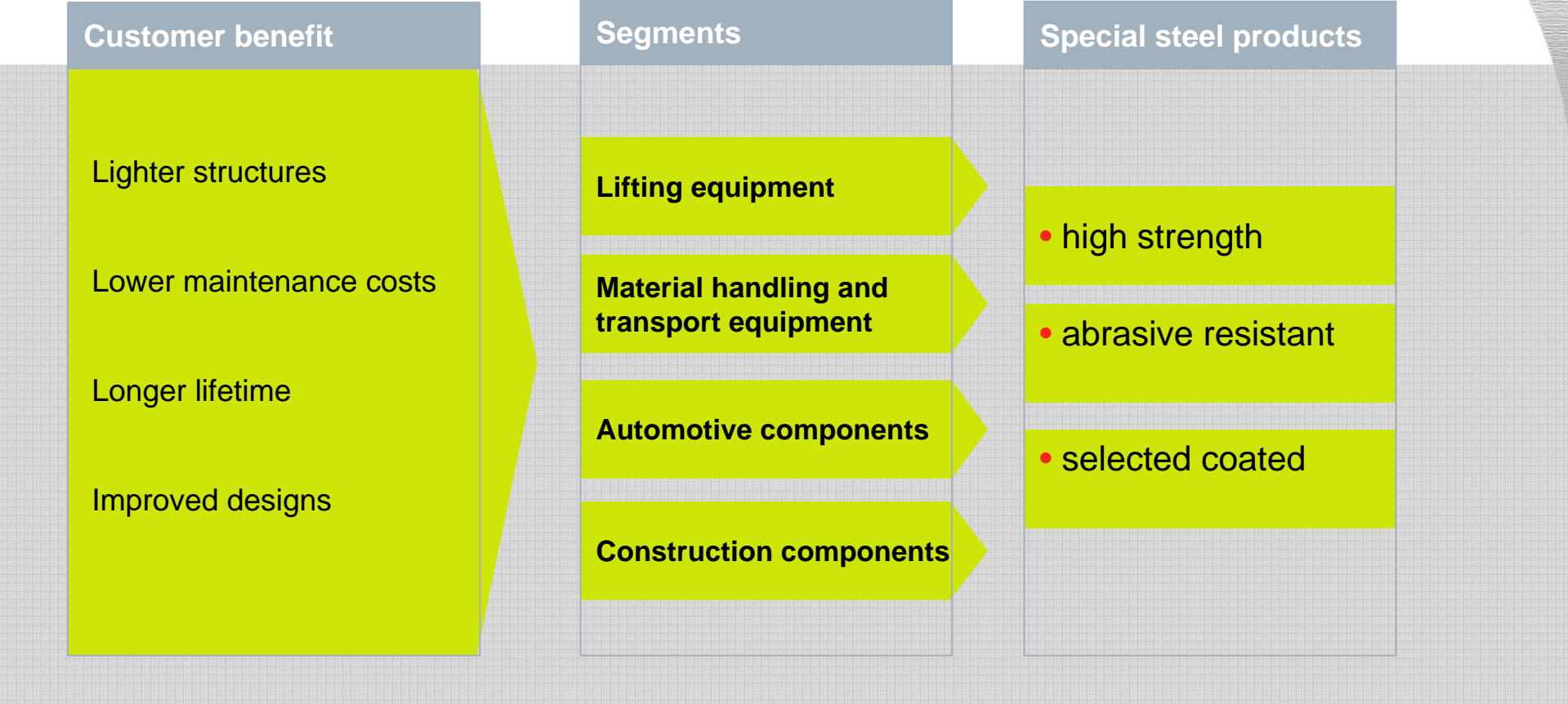
Trends in customer demand:

- Down-streaming
- Outsourcing
- Product specialization
- New application segments

**New business niches emerge**

Voestalpine	6,4 bEUR	6,4 mt
Rautaruukki	3,7 bEUR	3,8 mt
SSAB	3,0 bEUR	4,0 mt

# Ruukki Metals: Special products in focus

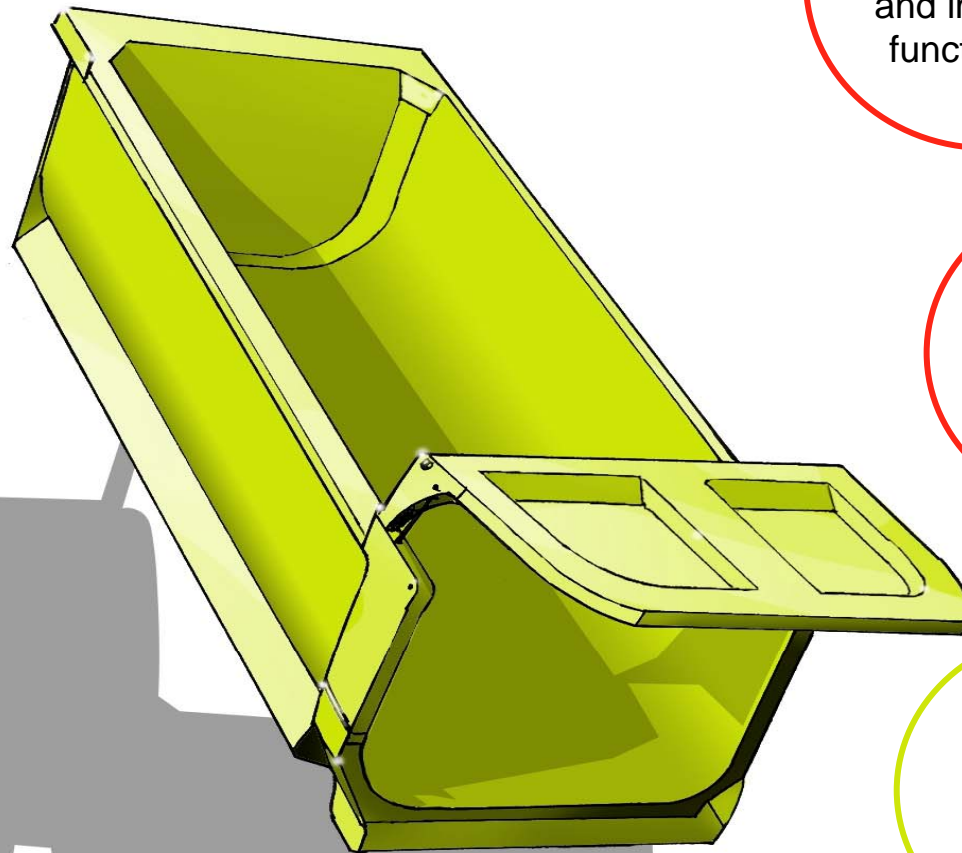


# Case: Material handling and transport equipment

Mechanical,  
machining  
and surface  
properties

Simplified  
manufacturing  
process.

Accurate  
logistics  
and in-time  
deliveries



Increased  
payload  
and improved  
functionality

Longer life-  
cycle of the  
product

High  
strength  
wear  
resistant  
steel, that is  
formable

# Expansion of St. Petersburg Service Center

- Ruukki invests some EUR 20 million to expand its service center operations in St. Petersburg, Russia.
  - Growth in this business requires strong local operations
- Russia is a large and growing market having no serious competition in service center operations, which forms right timing for Ruukki's expansion.
- Western customers coming into market are used to have materials and services from service centres in order to avoid investments in prefabrication.
- Service center serves Western customers entering Russian market as well as local Russian customers.

# Key themes for growth in Ruukki

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# Key themes for growth in Ruukki

## Construction



- Utilise momentum and **SPEED-UP GROWTH** especially in Eastern Europe
- Develop new products and services to industrialise construction process

## Engineering



- Speed-up growth in Lifting, Handling & Transportation (LHT)
- Build **EFFICIENT MANUFACTURING NETWORK** in CEE and Russia

## Metals



- Strengthen leading position in Nordic
- Structural change from standard to **SPECIAL PRODUCTS**

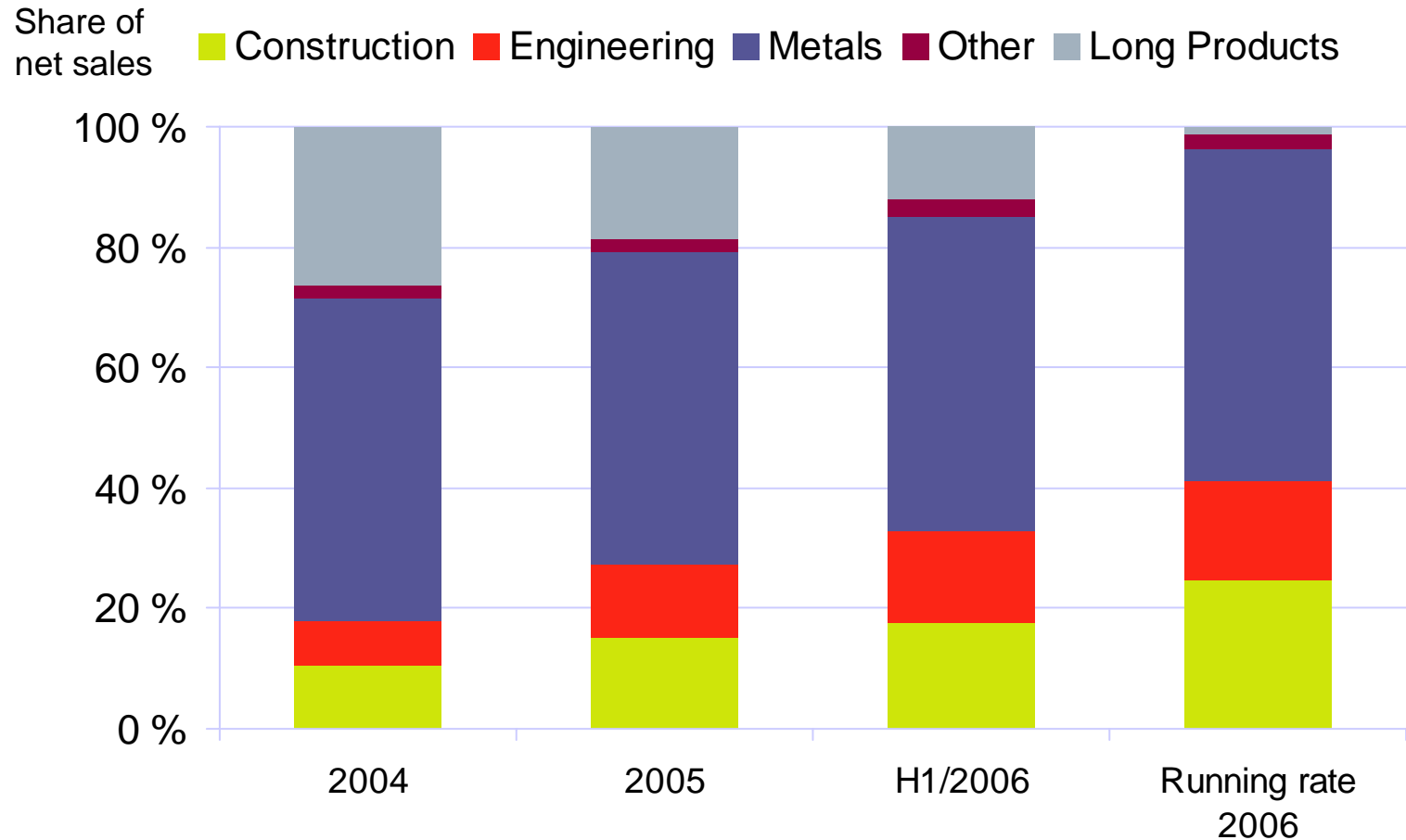
## Production



- Develop flexibility and efficiency via **INTEGRATED STEEL SUPPLY CHAIN**
- Invest in modern technology to achieve leading edge in special products



# Structure has changed



# New financial targets

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# Drivers for growth and better sustainable profitability

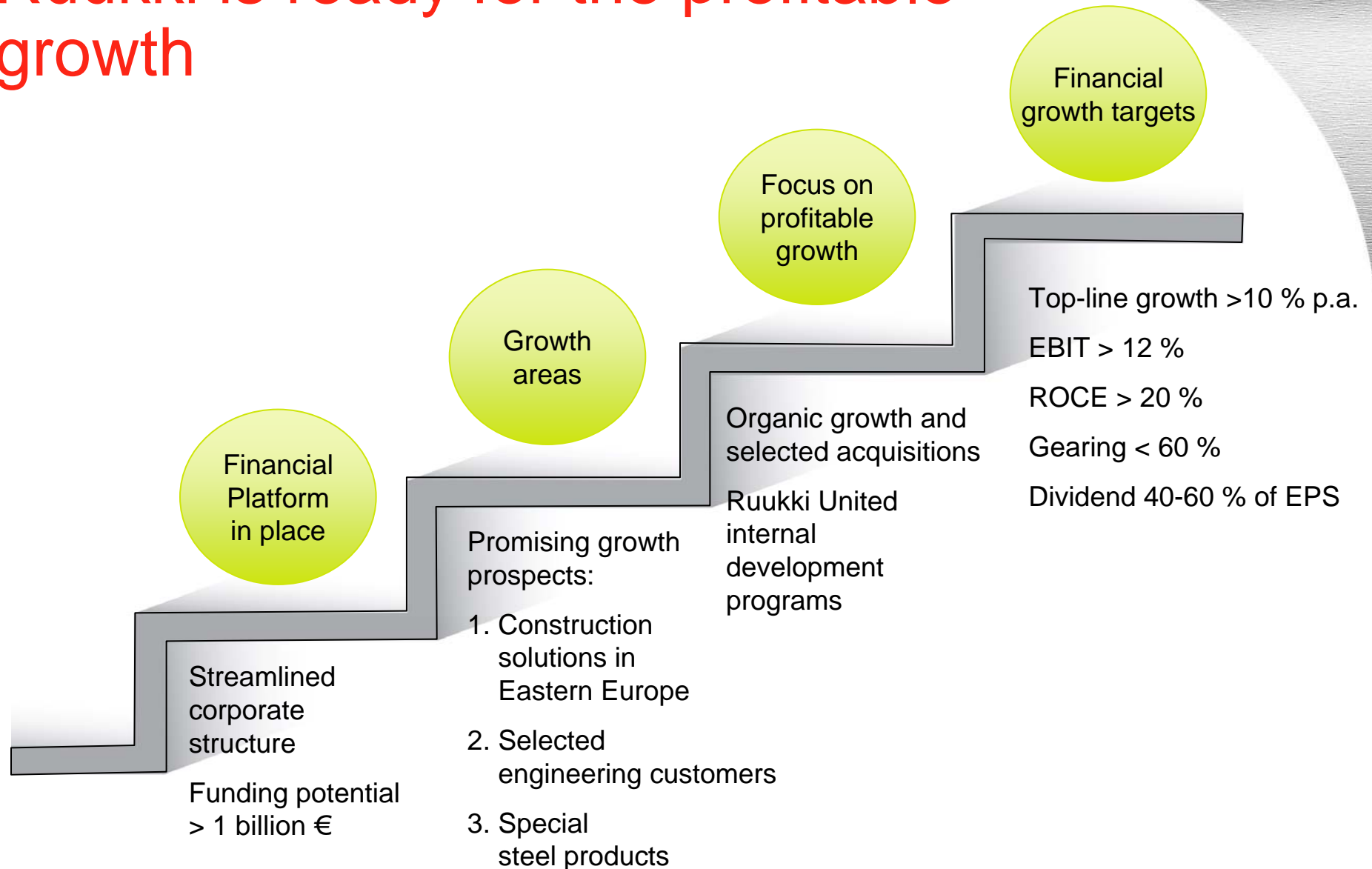
- Divesting or closing of unprofitable and non-core operations
  - Fundia (Ovako, Nordic reinforcing)
  - Unprofitable sales in Central Europe
- Main businesses focus on high growth markets
  - Increasing growth in Central Eastern Europe, Russia and Ukraine
  - Good market development also in the Nordic area
- Healthy margins before volumes
- Increasing sales of value-added parts, components and systems
- Unified corporate structure brings cost efficiency

# New financial targets and dividend policy

	earlier	next three years
Top-line growth		> 10 % p.a.
Operating profit % (EBIT)	> 7 %	> 12 %
Return on capital employed % ROCE	> 15 %	> 20 %
Gearing	< 80 %	< 60 %

**Rautaruukki's dividend policy** is to pay a yearly dividend of 40 % to 60% of net profit. The company aims at a steadily increasing dividend that takes into account the requirements for business growth.

# Ruukki is ready for the profitable growth



# Business Environment

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# Demand continued good

- Demand in Ruukki's market area was good
  - Deliveries of integrated systems and good demand increased sales in Construction
  - Good order books of customer industries boosted Engineering
  - Demand for standard and speciality steel products held up well
- Average prices in 1-9/2006 were at the same level as 2005

# Financials 1-9/2006

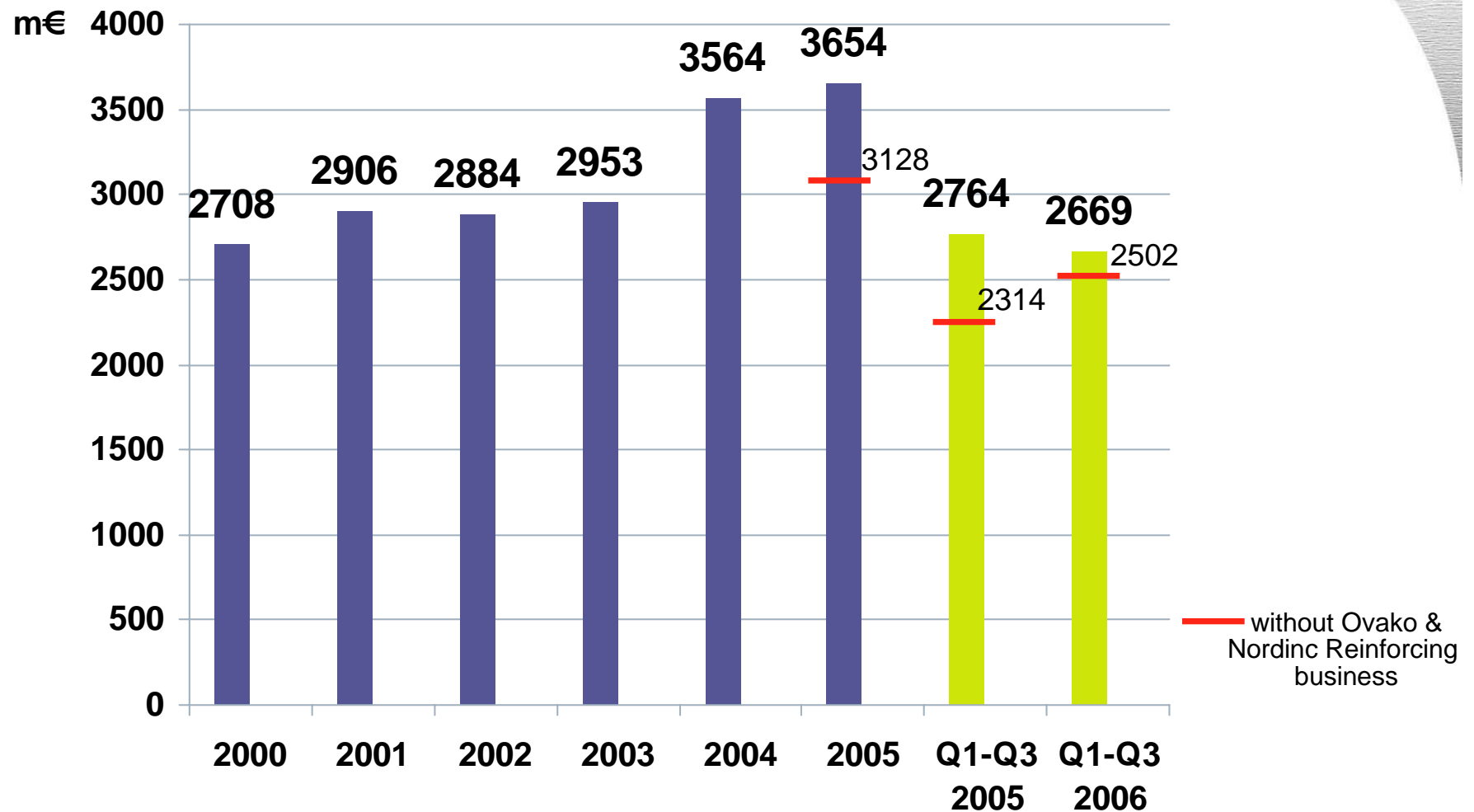
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# Financial highlights for Q3 2006

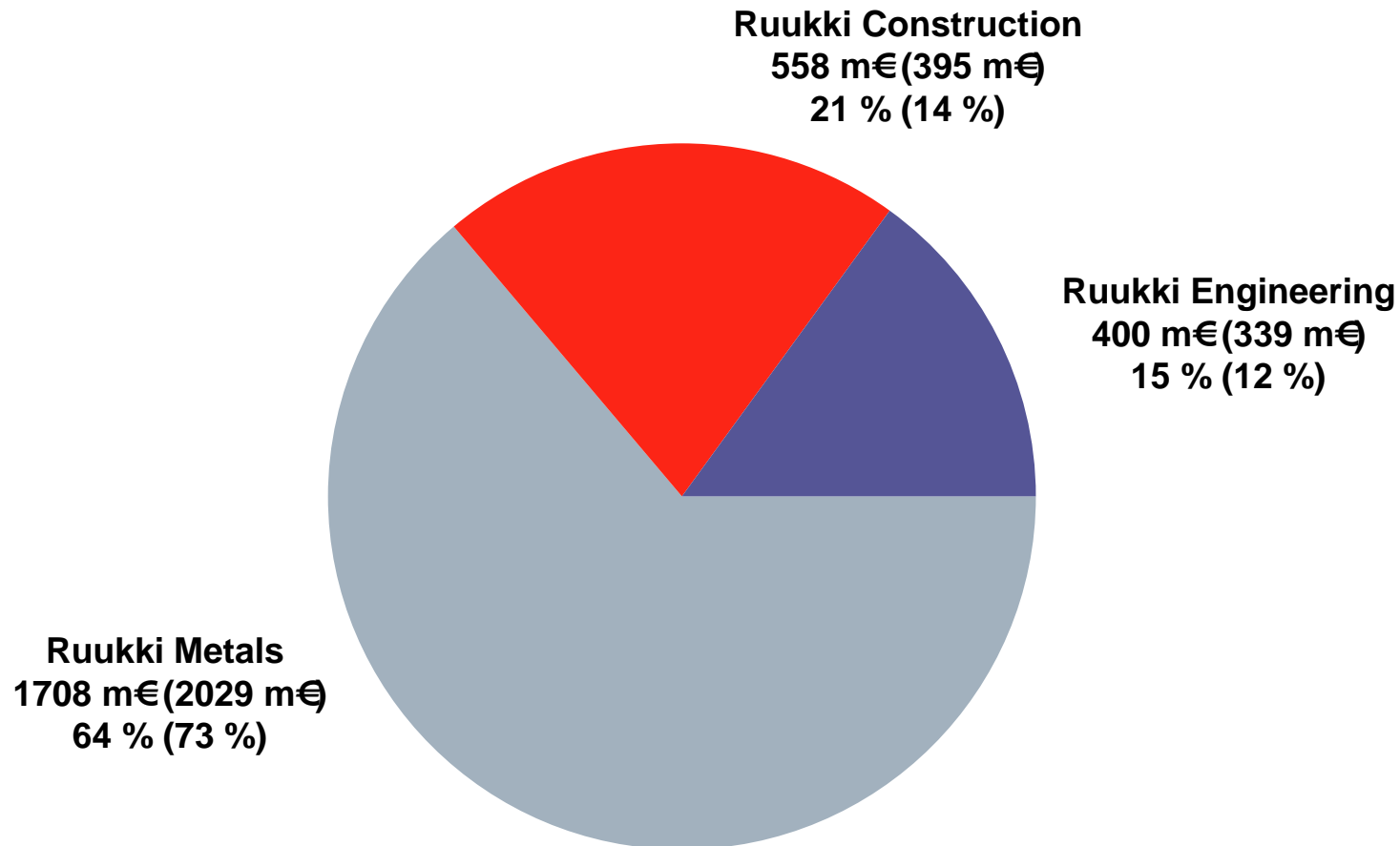
- Comparable net sales increased by 17 per cent to EUR 868 million in Q3 2006 compared with EUR 745 million in 2005.
- Net sales were boosted by
  - clearly higher average sales prices over Q3/2005 and
  - acquisitions made (e.g. PPTH, Steel-Mont)
- Operating margin was 16.2 % (15 %).
- Earnings per share (diluted) was EUR 0.76 (0.61)
- The share of solution business in Group's
  - net sales was 42 % (33 %)
  - operating profit was 44 % (54 %)
- Sale of the Nordic reinforcing steel business was closed

# Net sales, Group total

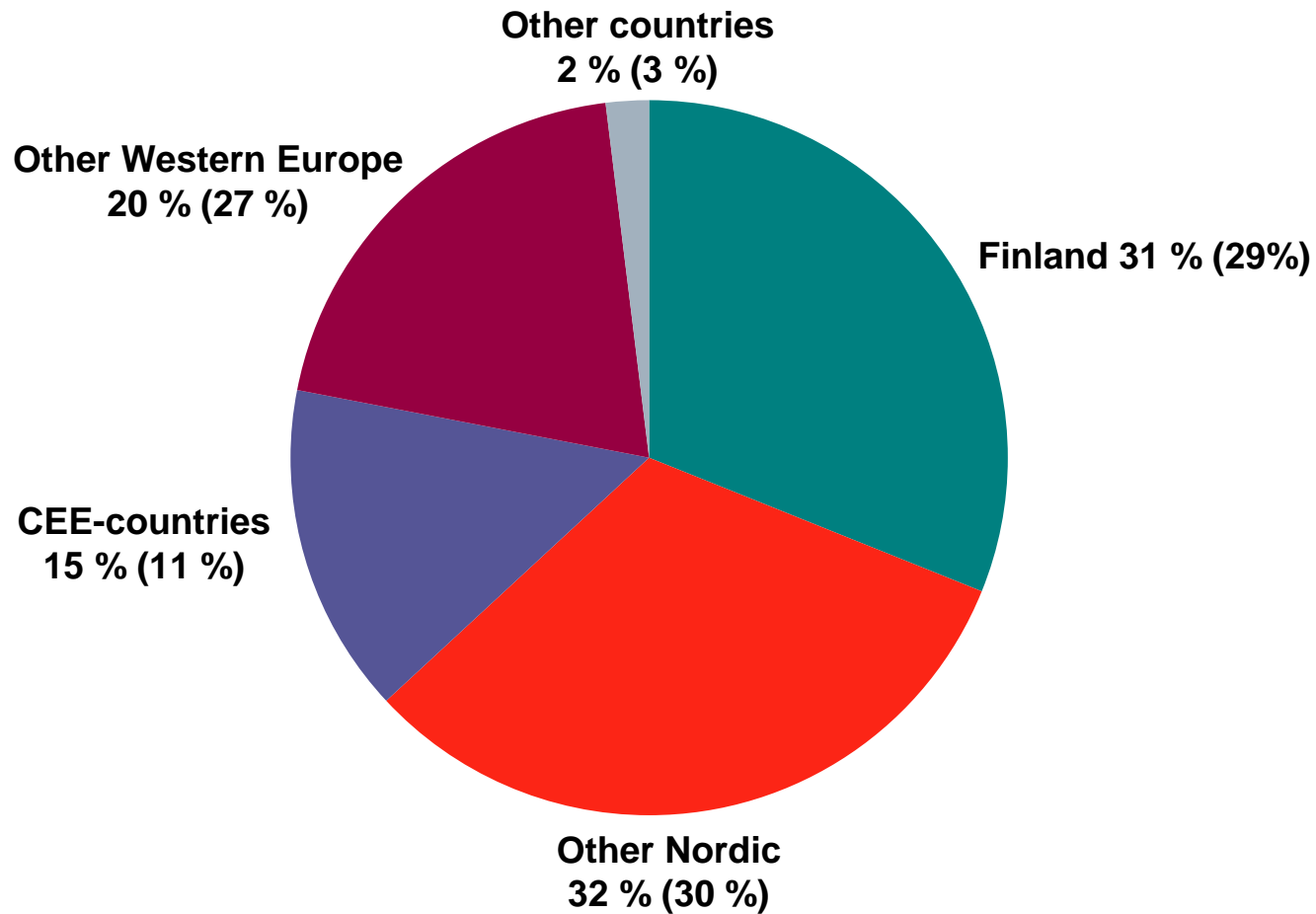


Years 2000 – 2003 according to FAS and from 2004 according to IFRS.

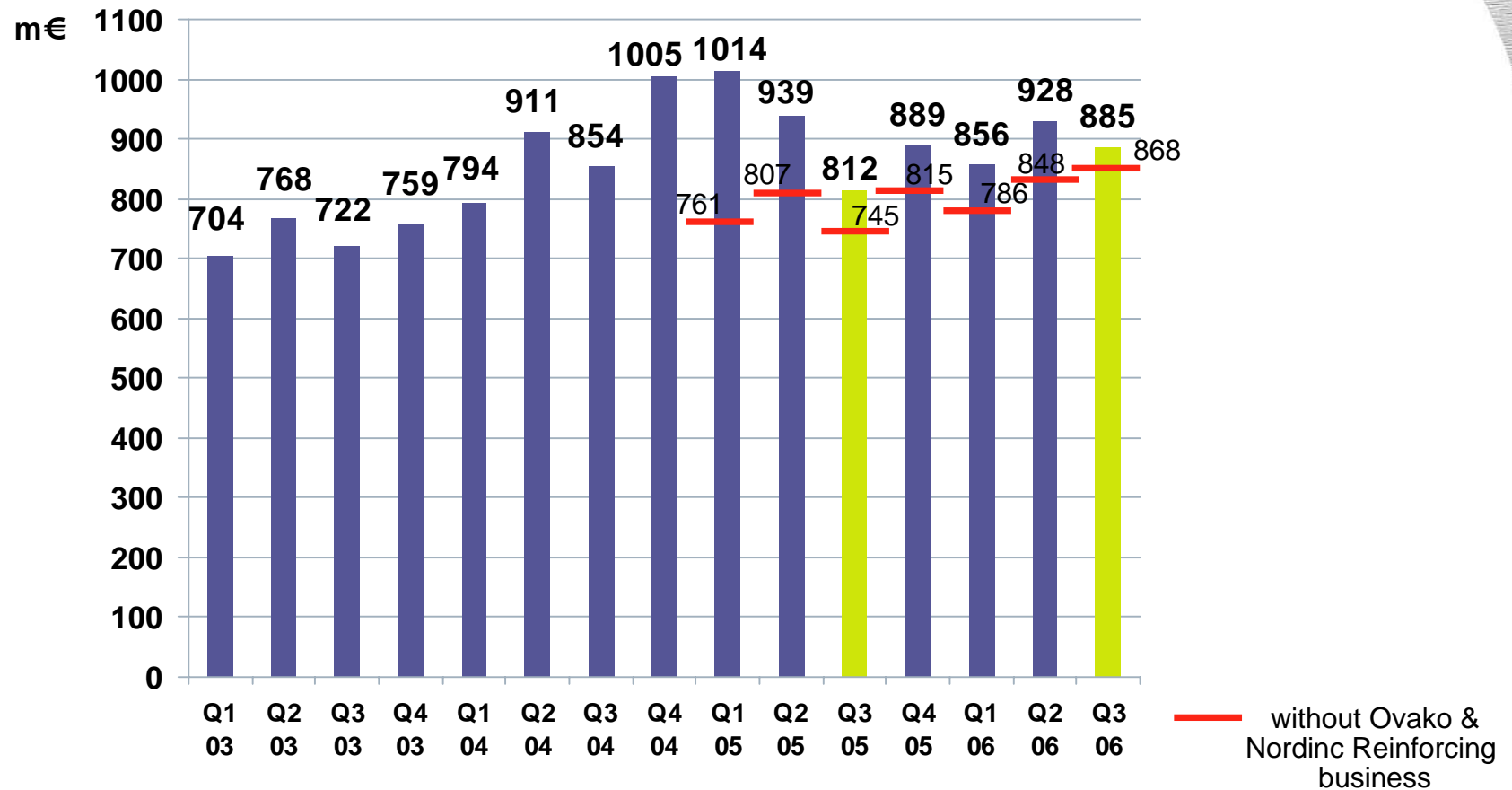
# Group net sales by division Q1-Q3/2006 (Q1-Q3/2005)



# Group net sales by area Q1-Q3/2006 (Q1-Q3/2005)

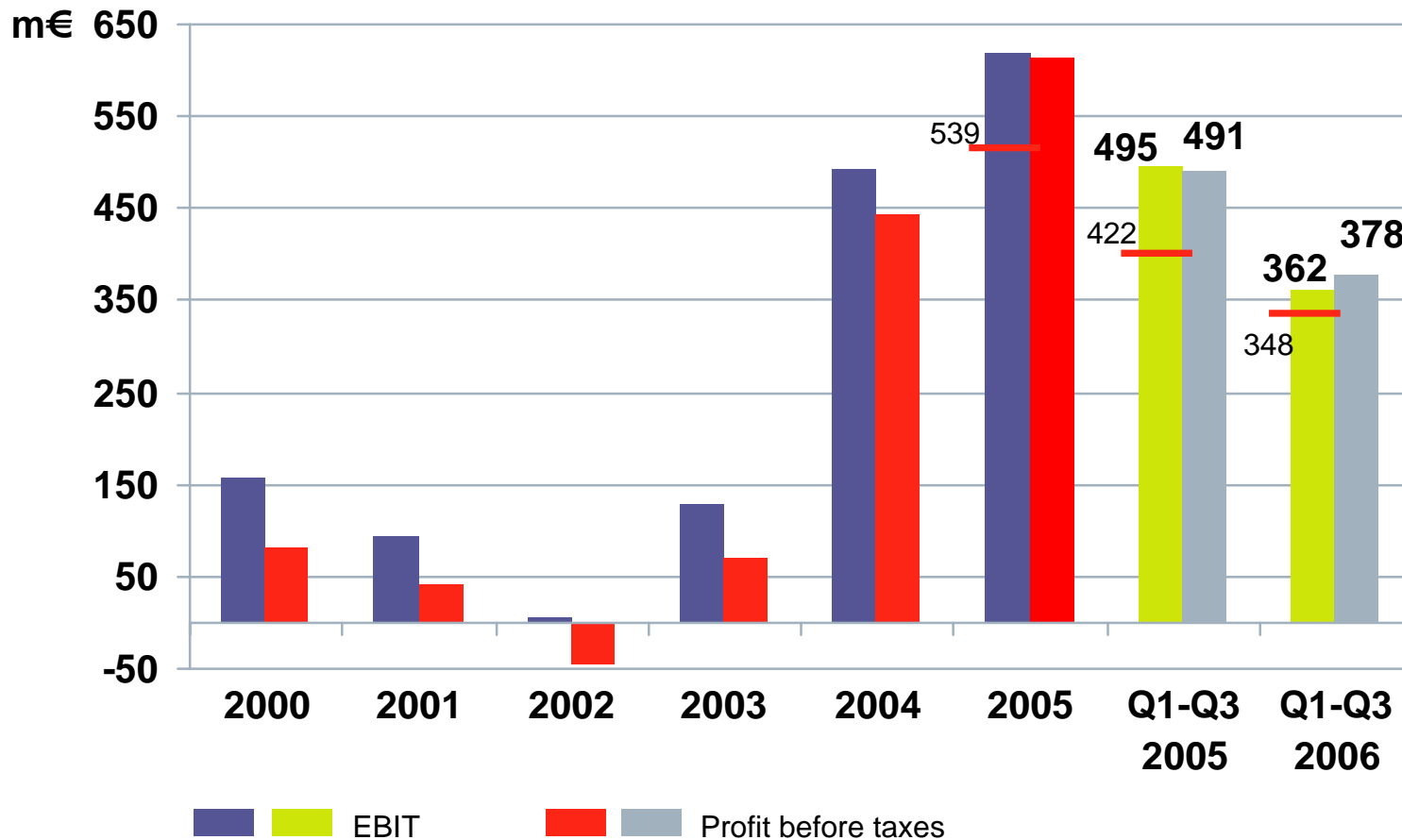


# Quarterly net sales, Group total



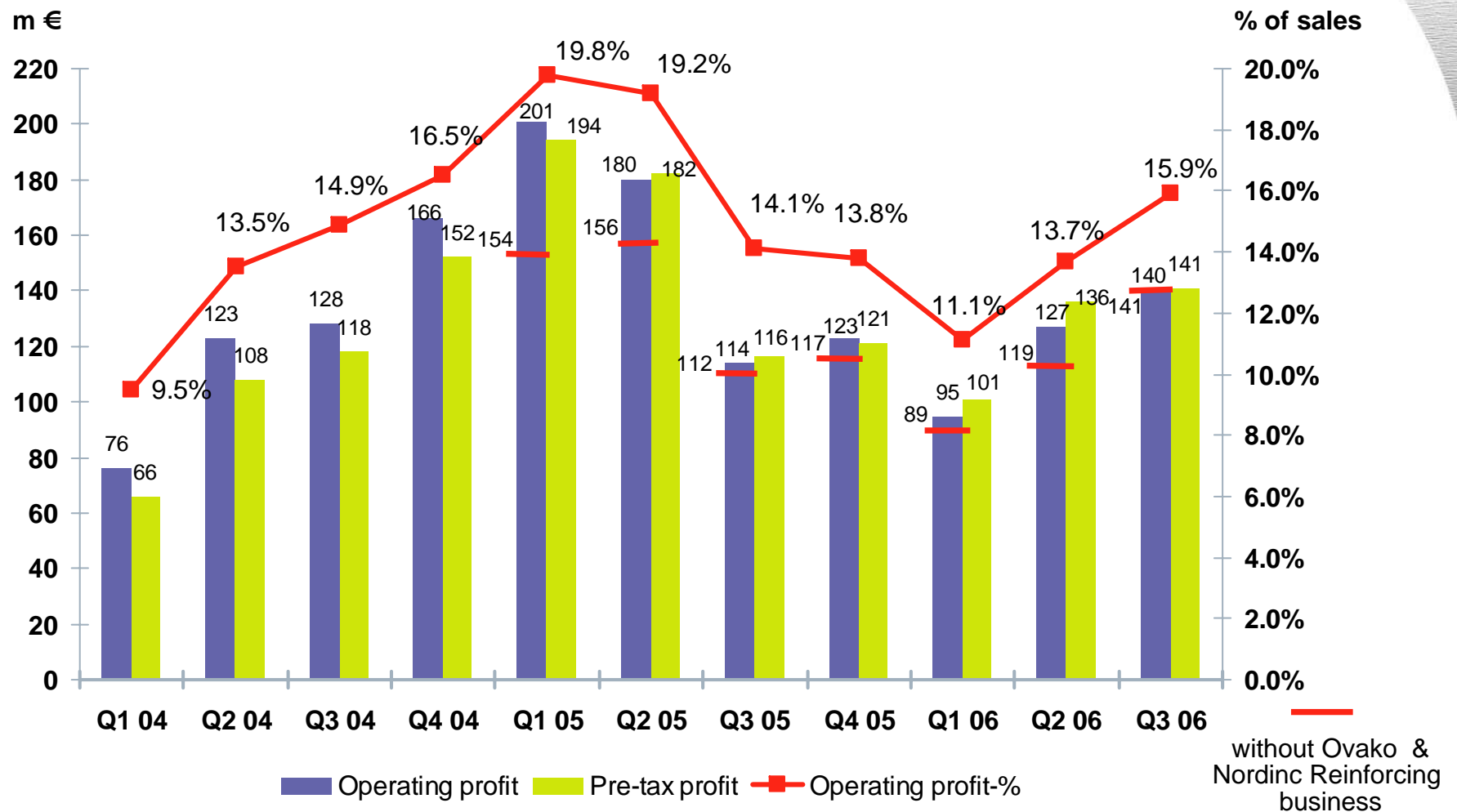
Years 2000 – 2003 according to FAS and from 2004 according to IFRS.

# EBIT and profit before taxes 2000 – Q3/2006



Years 2000 – 2003 according to FAS and from 2004 according to IFRS.

# Quarterly EBIT and profit before taxes, Group total

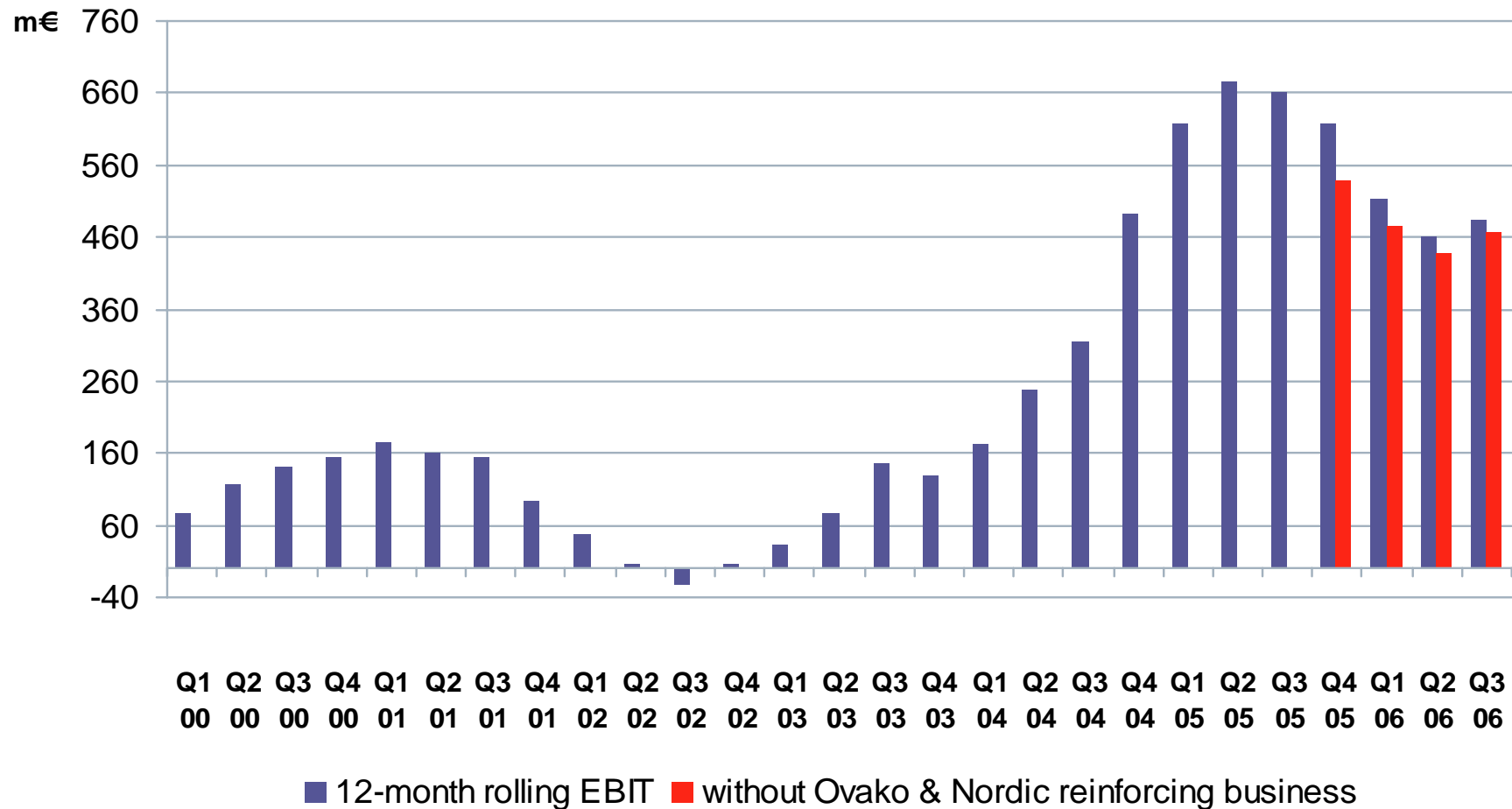


# Profit comparison (Q1-3/2006 vs. Q1-3/2005)

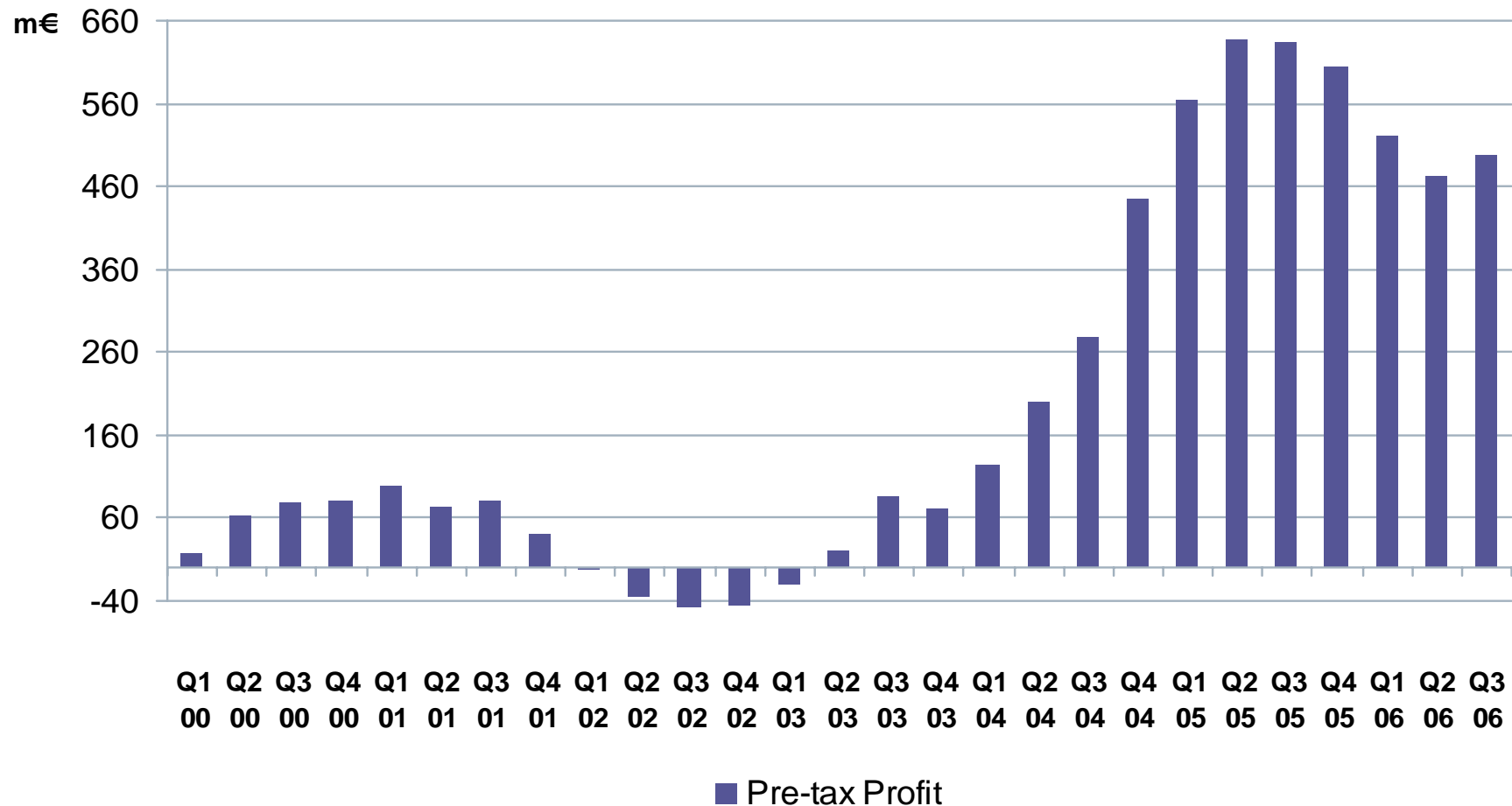
- Ruukki Construction
  - the price of raw materials (zinc) has not fully been transferred to product prices
  - PPTH has not yet reached the targeted profitability level
  - accrued depreciation of allocated goodwill in Q3
- Ruukki Engineering
  - long-term contracts renewed -> improved margin in Q3
- Ruukki Metals
  - further price increases in Q3, average sales prices in the same level as in 2005
  - raw material costs clearly over 2005



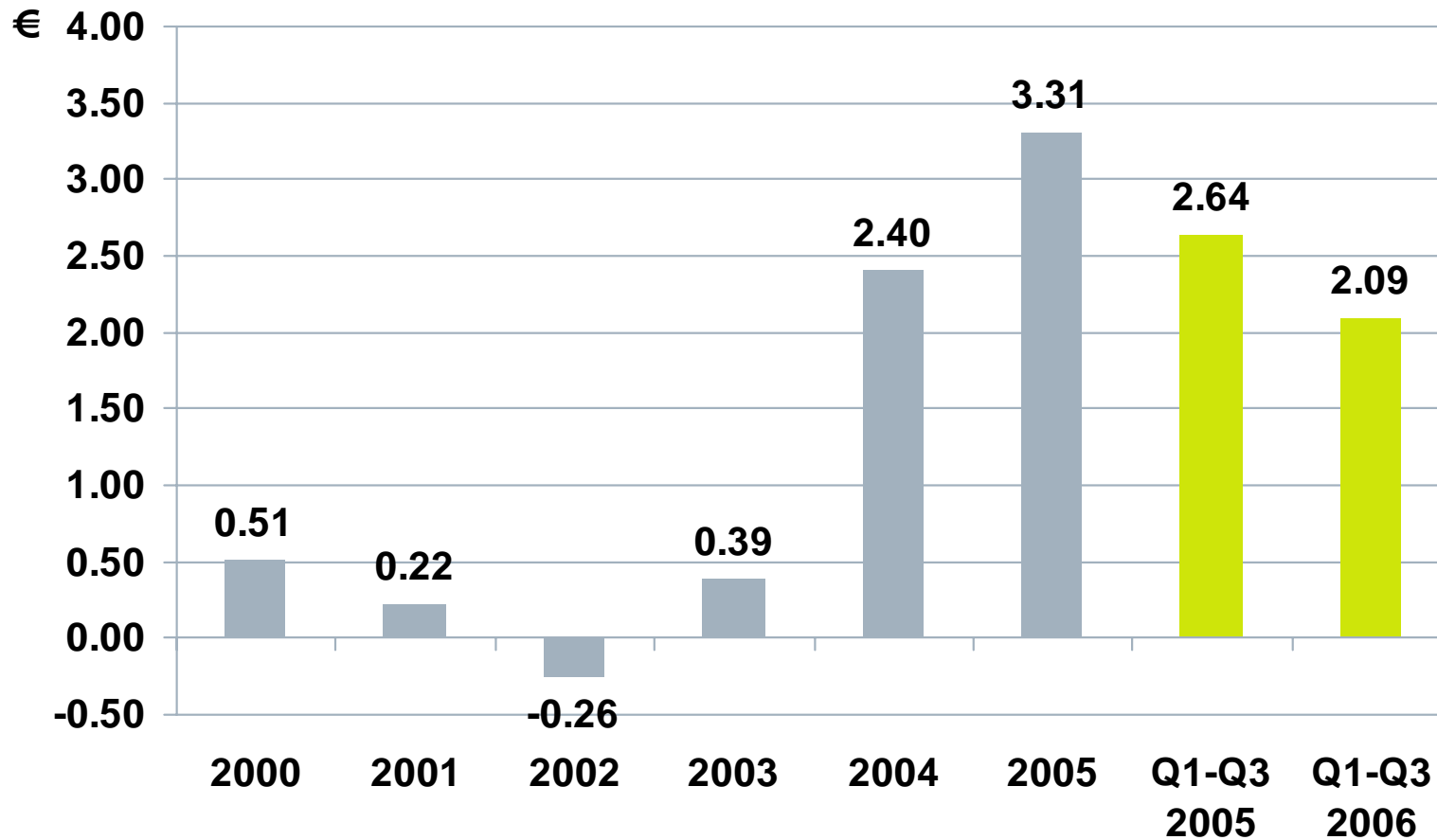
# 12-Month rolling EBIT 2000-2006



# 12-Month rolling PTP 2000-2006

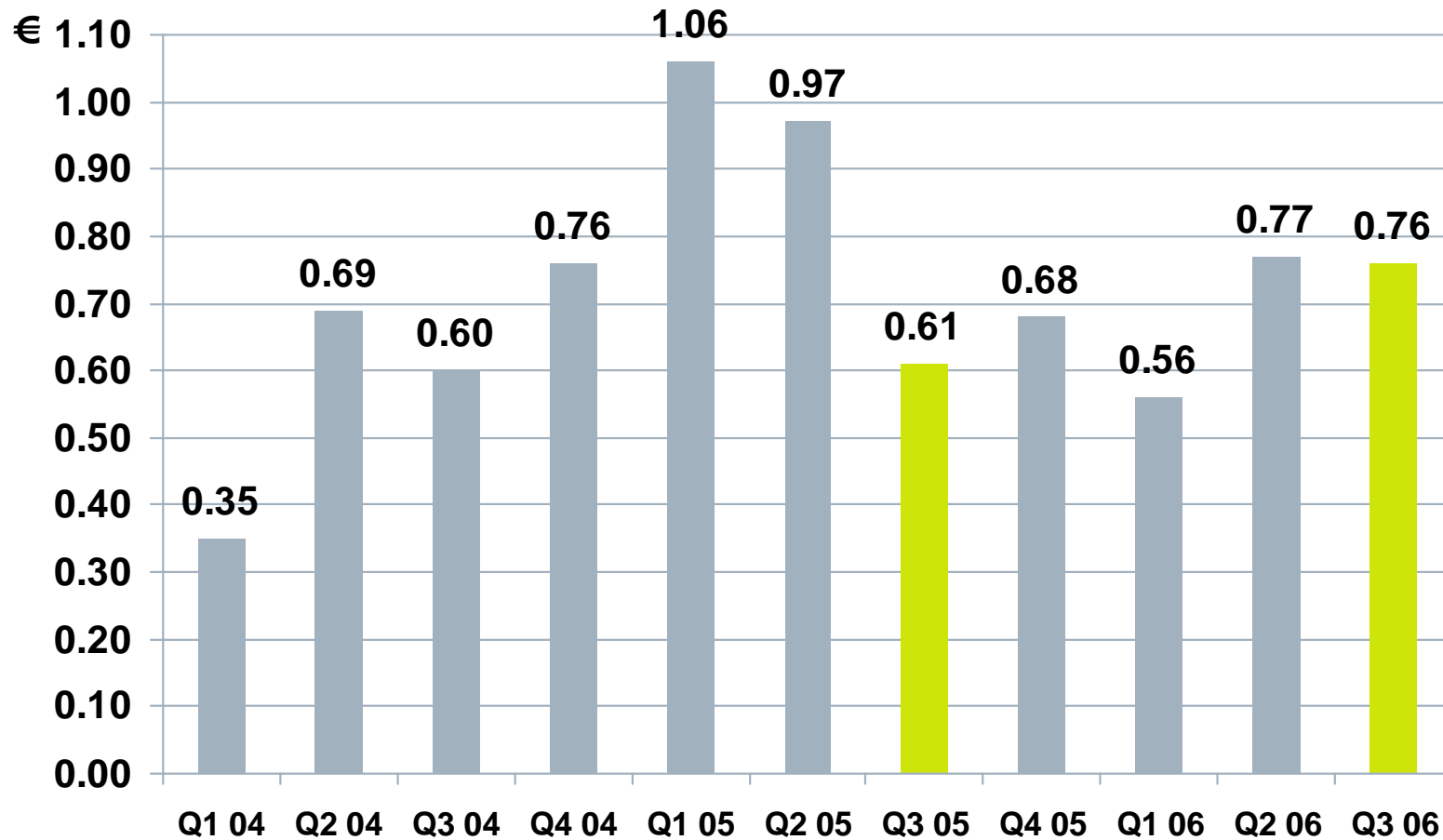


# Earnings per share

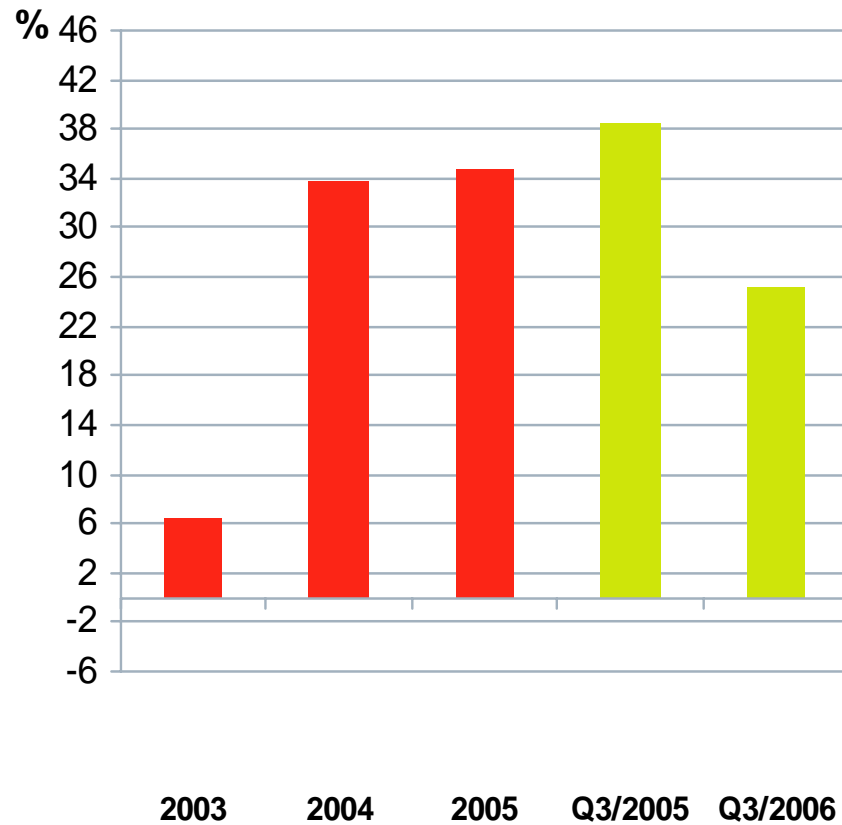


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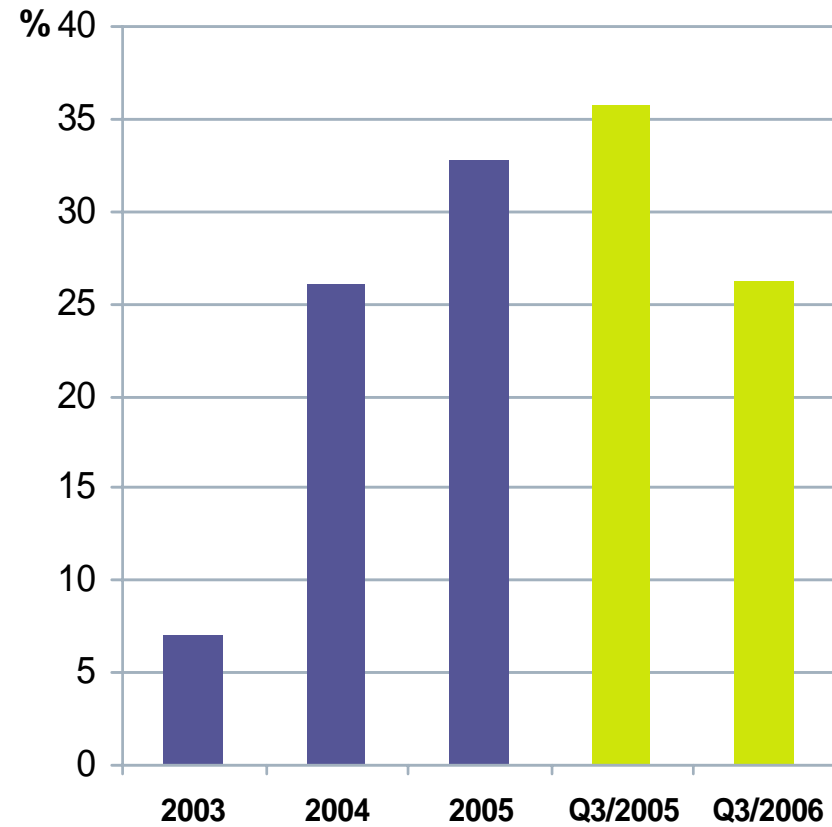
# Quarterly earnings per share



# Return on equity

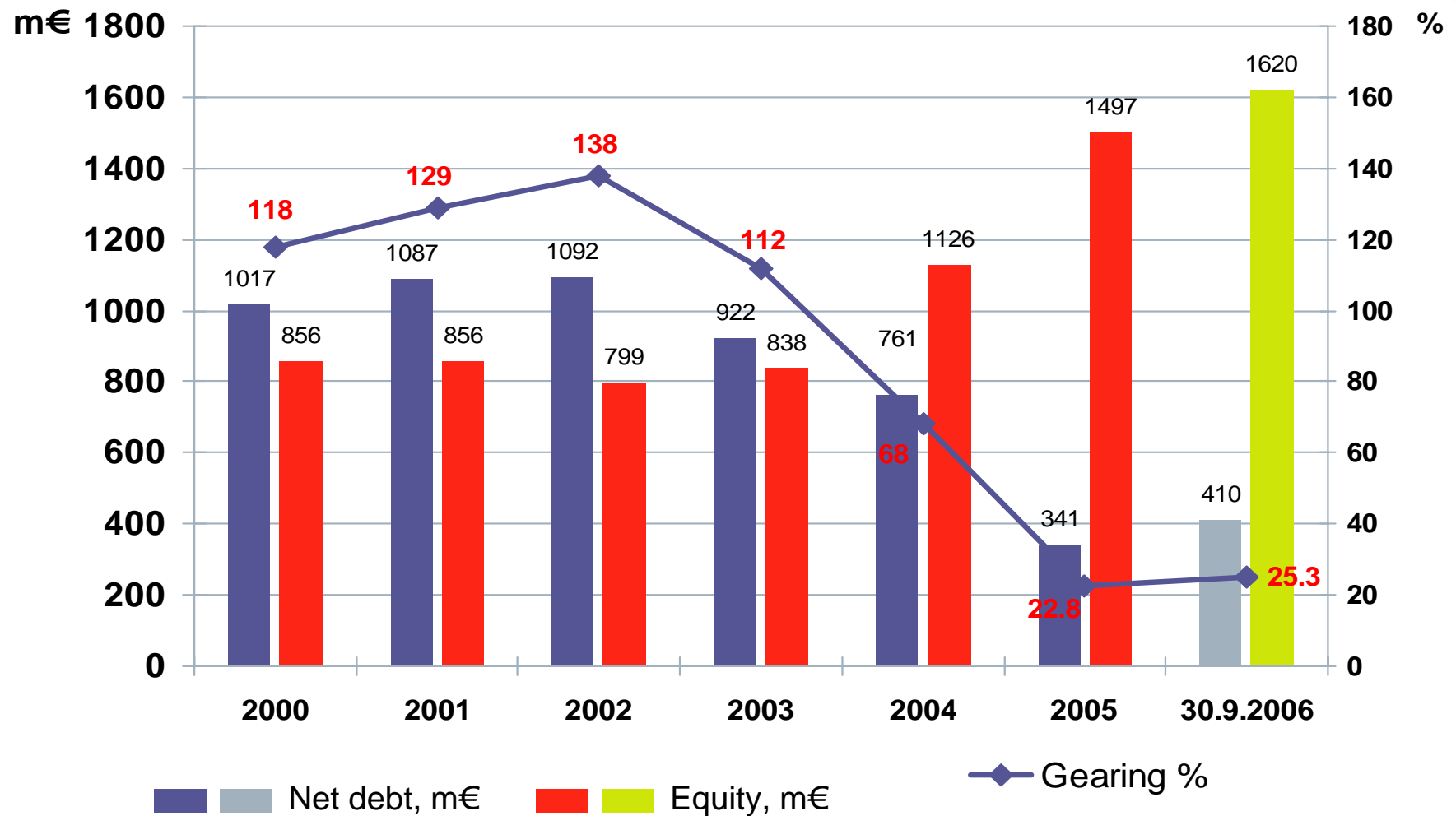


# ROCE



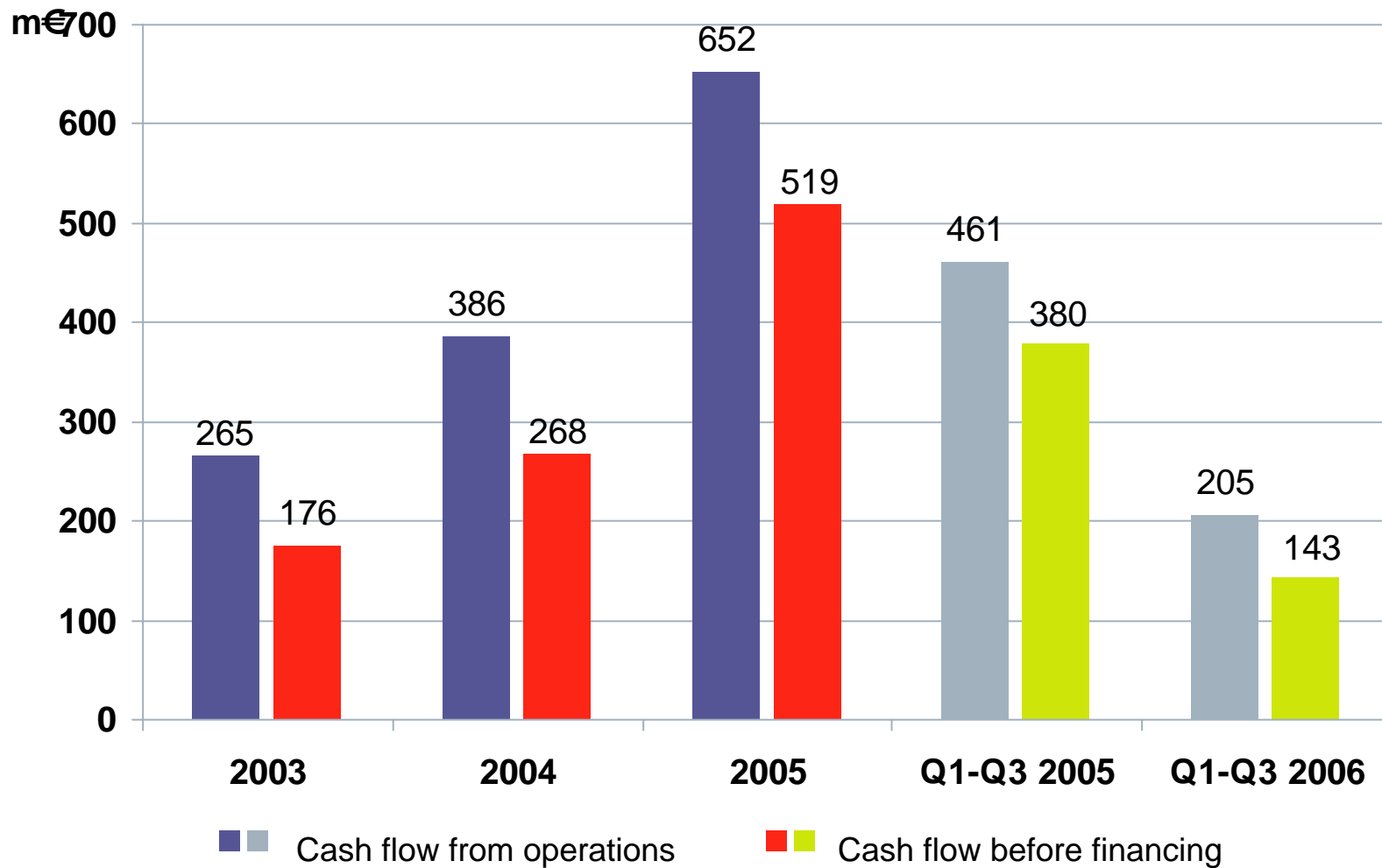
Year 2000 – 2003 according to FAS and from 2004 according to IFRS.

# Net debt, equity, gearing



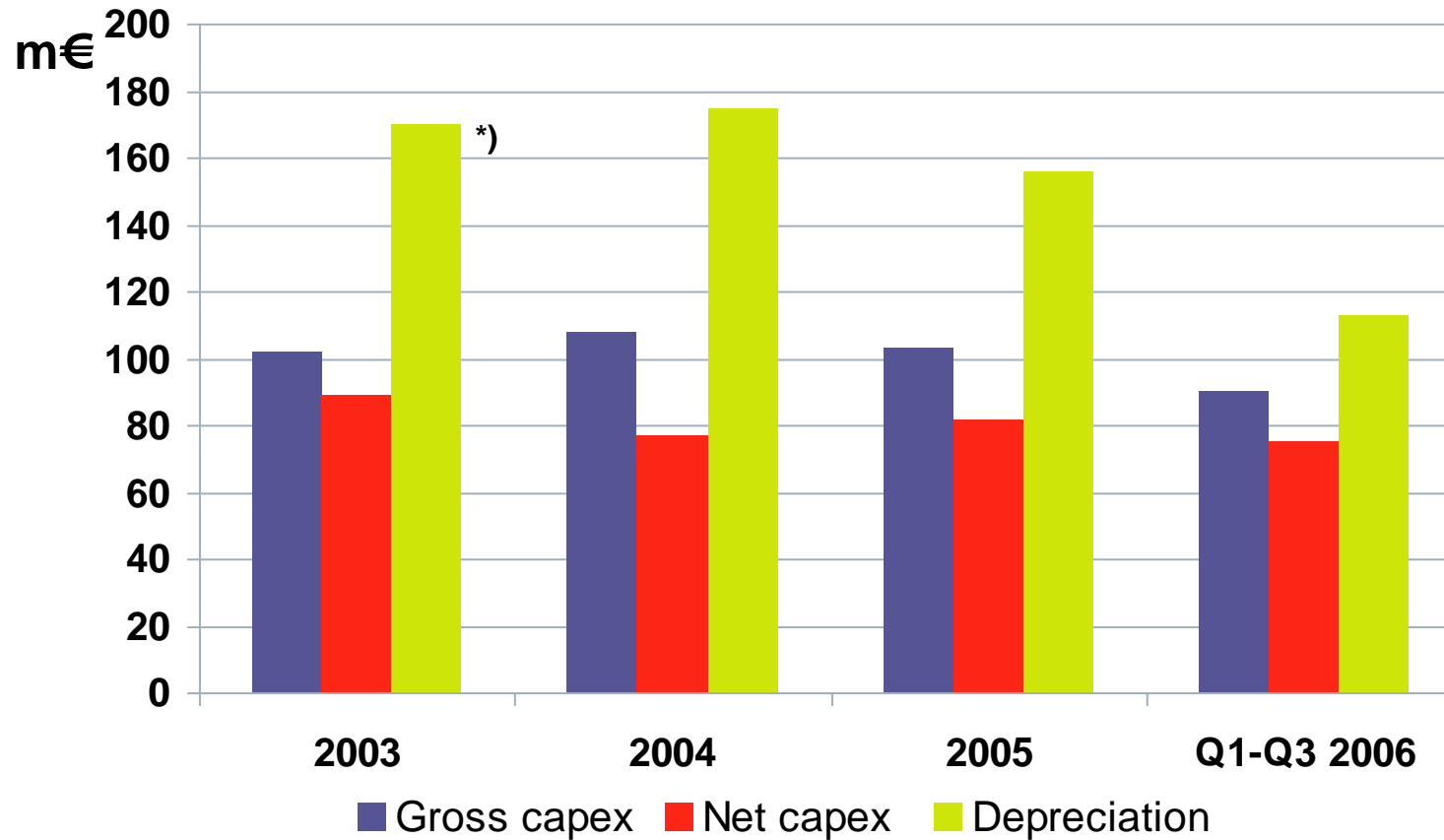
Years 2000 – 2003 according to FAS and from 2004 according to IFRS.

# Cash flow



Year 2000 – 2003 according to FAS and from 2004 according to IFRS.

# Capex vs. depreciation

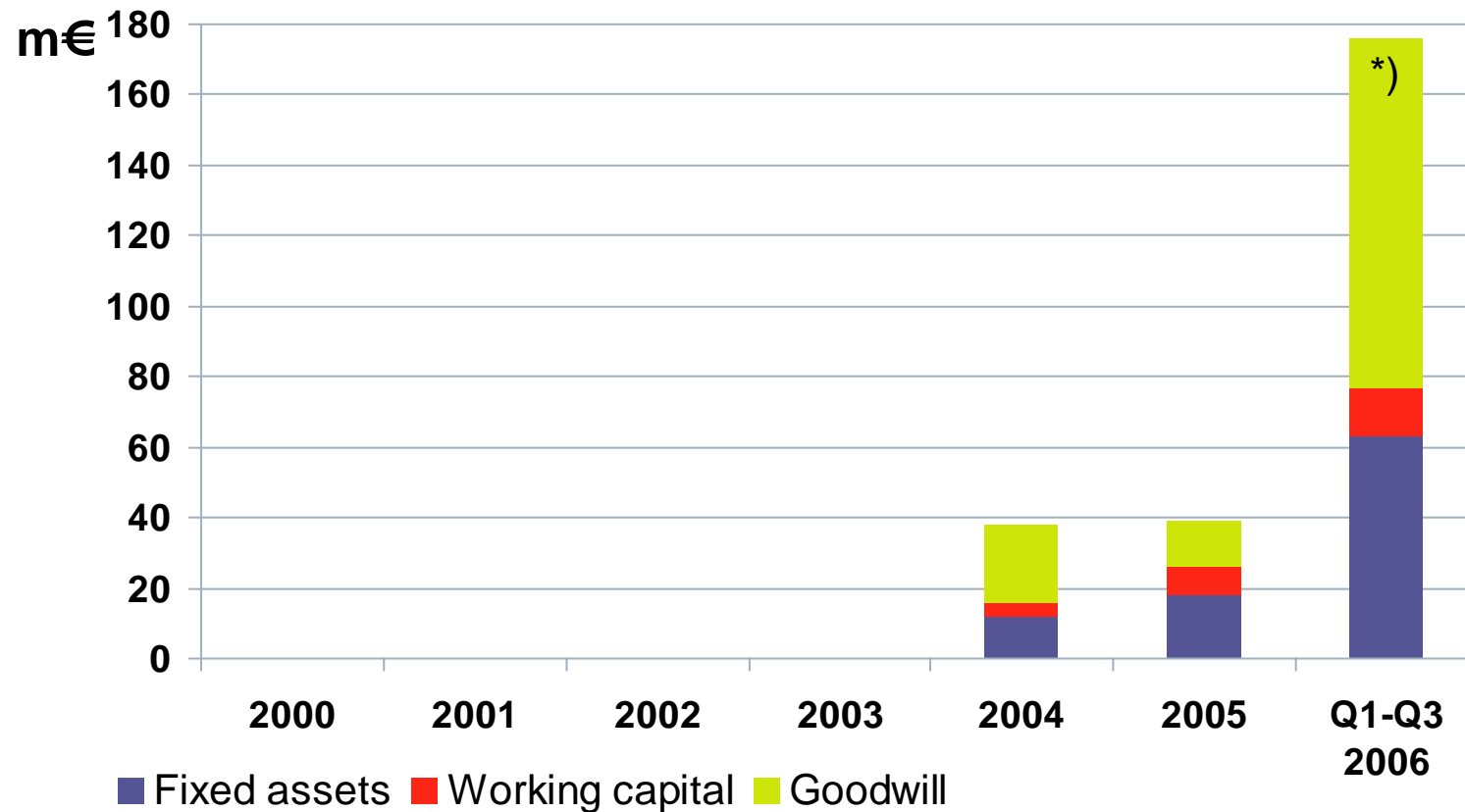


Years 2000 – 2003 according to FAS and from 2004 according to IFRS.

<sup>\*)</sup> Excl. value reductions 33 m€



# Acquisitions



\*) Ventall's goodwill is not yet allocated

Years 2000 – 2003 according to FAS and from 2004 according to IFRS.

# Financial summary

M€	Q3		Q1-Q3		Year
	2006	2005	2006	2005	2005
<b>Net sales</b>	885	812	2669	2764	3654
<b>- pro forma</b>	868	745	2502	2314	3128
<b>EBIT</b>	140	114	362	495	618
<b>- % of net sales</b>	15,9	14,1	13,6	17,9	16,9
<b>- pro forma</b>	141	112	348	422	539
<b>- % of net sales</b>	16.2	15.0	13.9	18.2	17.2
<b>Pre tax profit</b>	141	116	378	491	612
<b>EPS, €</b>	0.76	0.61	2.09	2.64	3.31
<b>ROCE rolling 12-months, %</b>	26.2	35.7	26.2	35.7	32.8
<b>Gearing, %</b>	25.3	34.1	25.3	34.1	22.8

# Near-term Outlook

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# Near-term outlook

- Economic growth in the Group's core market areas has remained strong and the market situation in the main customer industries is good.
- Costs of the raw materials used in steel manufacture are expected to remain at the level seen in the second half of 2005.
- Full-year consolidated net sales in 2006 are estimated to exceed EUR 3.5 billion.
- The company's cash flow is estimated to improve significantly in the latter part of the year thanks to good profitability and the Ovako transaction.
- Fourth-quarter operating profit is estimated to improve markedly compared with the same period last year and the Group is well positioned to start the year 2007.

# Summary

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# Summary

- Ruukki is ready for profitable growth
  - strong financial platform and competent personnel
  - clear growth potential in CEE, Russia and Ukraine
- New financial targets in place
- Customer industries' demand is expected to continue good and steel prices to strengthen further in last quarter
- Internally the focus is on continuous improvement of cost efficiency (Ruukki United)
- Full-year consolidated net sales in 2006 are estimated to exceed EUR 3.5 billion and fourth-quarter operating profit is estimated to improve markedly compared with the same period last year
- The Group is well positioned to start the year 2007



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more with metals