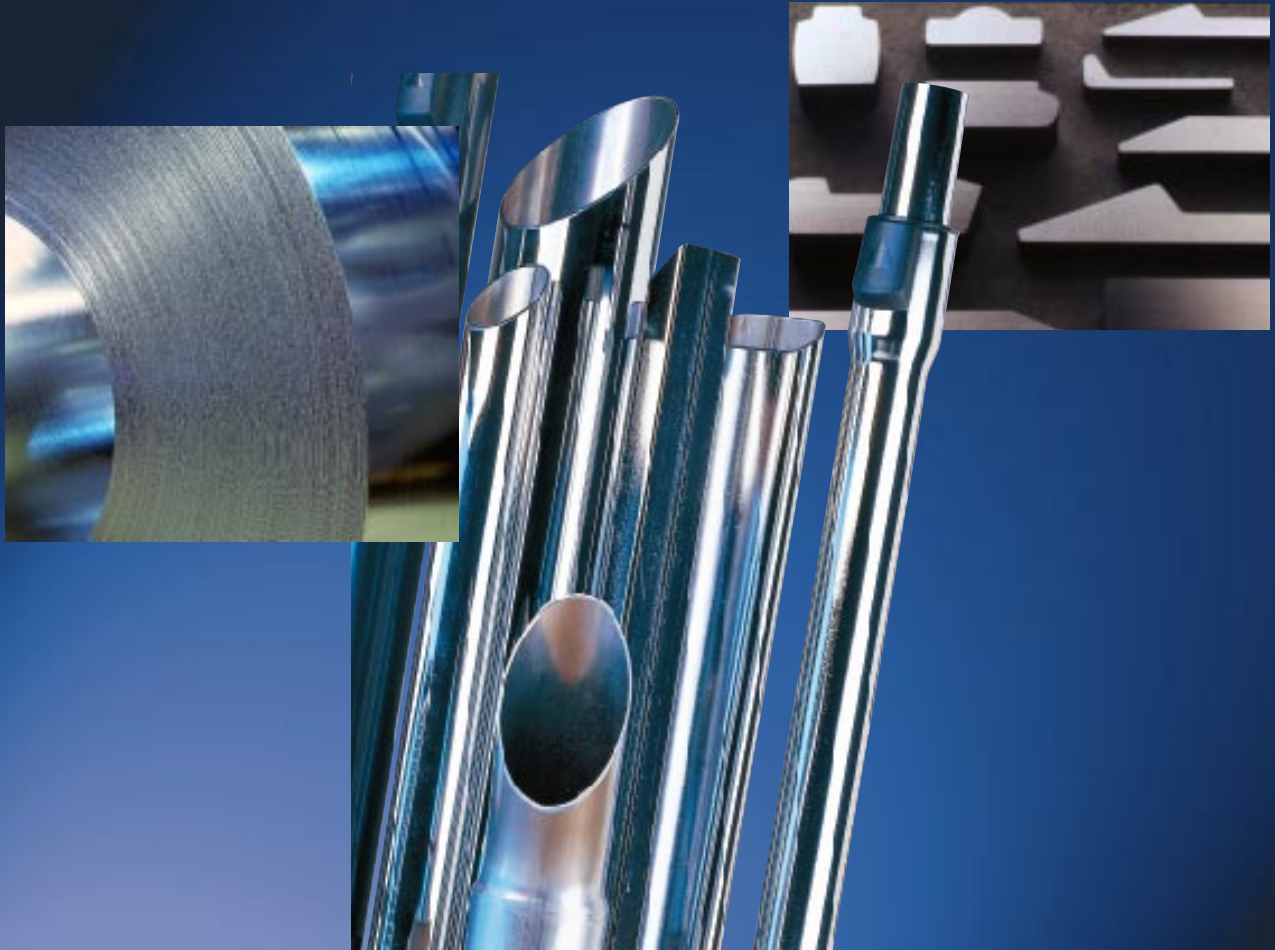


ANNUAL REPORT 1997



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Annual General Meeting

The shareholders of Rautaruukki Oy are invited to the Annual General Meeting to be held on Thursday 12 March 1998 at 1 p.m. at the Hotel Radisson SAS Helsinki, address Runeberginkatu 2.

Shareholders who wish to attend the meeting must give notice no later than 4 p.m. on Wednesday 11 March, 1998 either in writing to

Rautaruukki Oy,
P.O. Box 860, FIN-00101 HELSINKI
or by phone
+358 9 4177 6202/Ritva Putkisto.

Only those shareholders may attend who have been entered in the shareholders' register maintained by Suomen Arvopaperikeskus Oy no later than 6 March 1998.

Proposal for Dividend

The Board of Directors of Rautaruukki Oy will propose to the Annual General Meeting that the shareholders should be paid a dividend for 1997 of FIM 2.00 per share. The Board will propose the payment of the dividend on 20 March to those shareholders who were entered in the owners' register on the matching day 17 March 1998.

Interim Reports

Rautaruukki Oy's scheduled publishing dates for the interim reports are as follows:

10 June 1998 Report 1 Jan - 30 Apr 1998
12 October 1998 Report 1 Jan - 31 Aug 1998

Interim reports may be ordered from

Rautaruukki, Oulu Office
Tel. +358 8 883 60 or
Fax +358 8 883 6450

Corporate Communications

Vice President Esko Lukkari
Tel. +358 9 4177 6221
Fax +358 9 4177 6324

Investor Relations

Deputy Director Airi Sipilä
Tel. +358 9 4177 6246
Fax +358 9 4177 6345

Internet

Information about Rautaruukki's finances and Press Releases can be read on Internet, address <http://www.rautaruukki.fi>

RAUTARUUKKI 1997

Rautaruukki is a listed company whose area of business is manufacture of steel and its versatile upgrading.

- *Demand for steel products increased and prices rose*
- *Rautaruukki's result improved clearly*
- *Equity ratio grew to 40 per cent*
- *The ownership base was broadened*
- *Rautaruukki 2000 investment programme continued*

	1997	1996	Change,%
Turnover, FIM million	13 650	12 834	+ 6
exports from Finland and international operations %	73	77	
Operating profit, FIM million	1 349	1 171	+ 15
% of turnover	9.9	9.1	
Profit before extraordinary items, reserves and taxes, FIM million	1 004	715	+ 40
% of turnover	7.4	5.6	
Profit before reserves and taxes, FIM million	1 004	715	+ 40
% of turnover	7.4	5.6	
Interest bearing net debt, FIM million	5 394	5 588	- 3
Return on net assets, %	12.7	12.5	
Return on equity, %	17.4	14.4	
Equity ratio, %	40.2	34.4	
Earnings per share, FIM	6.69	4.98	+ 34
Equity per share, FIM	41.62	35.93	+ 16
Personnel at year-end	12 705	12 410	+ 2

Five-year Group statistics and principles governing the calculation of key figures shown on pages 60–61.

A successful year for Rautaruukki

1997 was a good year for the Rautaruukki Group. Consolidated net profit improved by 40 per cent and was FIM 1 004 million. The return on net assets was 12.7 per cent, which exceeds the 12 per cent target during a business cycle. The equity ratio rose to 40.2 per cent and reached the Group's minimum target level. Rautaruukki is in a good position to achieve further earnings growth in 1998.

During the year the most costly projects within the Rautaruukki 2000 investment programme were completed. This will have a positive impact on the Group's earnings already in 1998. Rautaruukki strengthened its position further in the new market economies of Eastern and Central Europe.

Rautaruukki's 1997 profit before extraordinary items, reserves and taxes was 7.4 per cent of net sales. All the Group's main financial indicators improved, and the gearing ratio fell to 97 per cent.

Earnings per share were FIM 6.69. The dividend of FIM 2.00 per share proposed by the Board of Directors is a third more than last year's dividend. The dividend payout is about 30 per cent of the Group's earnings per share. Rautaruukki adheres to a competitive and stable dividend policy that takes into account the company's earnings trend and the adequate development of its equity ratio.

The management systems that monitor Rautaruukki's business operations now incorporate benchmarks which should give a better indication of volume growth, profitability and free cash flow in order to improve the total shareholder return.

An upswing in long steel products

The earnings trend of Fundia, which manufactures long steel products, was weak during the first two four-month periods. Earnings improved markedly in the last four months of the year and the positive trend is estimated to continue this year.

Under its new president, Fundia

will concentrate on improving the company's profitability and more effective implementation of its strategy. Fundia has a strong position in the Nordic market and its production structure will be developed so that an increasingly large share of its turnover comes from special steels and upgraded products based on its own steel manufacture.

Operations of the Transtech unit that is part of Rautaruukki's Engineering Division were downsized in line with the unit's order book. Apart from the large cuts in personnel, the unit will peel off its Taivalkoski Works. The Engineering Division's operating profit is expected to be positive this year.

Steel industry improves

The quickening of economic growth in Europe in 1997 increased the demand for steel products and prices strengthened, though average prices remained at the 1996 level. On the basis of advance financial statement information, most of the European steel companies improved their earnings compared with 1996. The earnings trend was nevertheless uneven, and Rautaruukki fared well in comparisons of companies in the industry.

Rautaruukki generates 60 per cent of its turnover in the domestic and nearby markets: in the Nordic countries and in the new market economy countries of the Baltic Rim. In this area Rautaruukki is the market leader in many of its products. In the Group's upgraded products in particular, these countries offer a growing market area in which the investment inputs which

Rautaruukki made in good time have already given it a competitive edge. In these areas the company furthermore has logistics advantages over its competitors.

Rautaruukki is focusing on the steel business - the manufacture and upgrading of steel. The company's strategy is to develop upgrading production which is built around its steel production, yields a high degree of upgrading and value added and is mainly based on its own steel.

In Europe's new market economy countries the Group has established joint ventures to manufacture upgraded products together with companies that fabricate steel construction products or else with steel companies. Alliances of this kind, which mean lighter outlays and combine local know-how, will continue to be of interest to Rautaruukki in the years ahead.

Rautaruukki 2000 investments nearing completion

The investments that will boost Rautaruukki Steel's production are for the most part reaching completion. The modernization investments that will raise the cold rolling capacity at the Hämeenlinna Works from 930,000 tonnes to 1,250,000 tonnes will be completed during the summer 1998.

The investments are now mainly geared to the development of upgrading. The most important projects are a new 400,000 tonne galvanizing line that will be completed at the Hämeenlinna Works in the year 2000 and the raising of the colour coating capacity at the works by 50 000 tonnes as well as an expansion of the business operations of the Steel Structure Division.

An expanded ownership

Rautaruukki's ownership base expanded significantly in May of last year. The Finnish state sold 26,260,000 of the shares it owned in Rautaruukki to Finnish and foreign investors. Concurrently, Rautaruukki carried out an issue of 13,000,000



shares. As a consequence of the sale of shares and share issue, the state's holding in the company fell to 42.3 per cent.

The four largest Finnish shareholders, i.e. the Finnish state and three large institutional owners, hold about 55 per cent of the company's shares. At the end of 1997, 24.3 per cent of the company's shares outstanding was held by foreigners. Rautaruukki considers it important that the company has more than 20 000 small shareholders.

Continuing economic growth in 1998

Economic growth in Europe is estimated to continue in 1998 roughly on a par with the previous year. Demand for steel products, especially upgraded products, is forecast to remain good in Europe. Prices of steel products have strengthened further in the first quarter of the year and it appears that for the most part the strengthening will continue in the second quarter. The overall economic outlook is positive, but the difficulties facing the econo-

mies of Southeast Asia may cause imbalance in the European steel market in the second half of the year.

As 1998 gets under way, Rautaruukki's competitiveness is stronger than ever before and the production machinery is in good shape. Rautaruukki Steel's output will grow by nearly 200,000 tonnes this year, to 2.5 million tonnes. In the Group's domestic and nearby market, which accounts for 60 per cent of Rautaruukki's sales and where it has a strong market position, economic growth is estimated to move ahead at a faster rate than in the rest of Europe. Rautaruukki's extensive range of products and above all its high degree of upgrading coupled with a diverse clientele give a significant competitive edge in all market situations. The Group's equity ratio has strengthened and its financing costs are now smaller.

Rautaruukki is in good shape to generate positive earnings in 1998. The most significant factor influencing earnings is the price trend of steel products in Europe.

I thank the company's new and old shareholders for their confidence in Rautaruukki in 1997. The Group is carrying out long-term work so that those who have invested in the company will receive a good return on their investment. I am grateful to all our important stakeholders and especially to our customers. Rautaruukki is presently studying new ways of working to add greater depth and breadth to our customer service.

I wish to thank the Group's personnel for a job well done. In particular, carrying out the Rautaruukki 2000 investment programme has been a major and positive challenge for many of our Rautaruukki team. That we did this and still managed to generate good earnings gives us cause for satisfaction with our performance last year.

Helsinki 27 February 1998

Mikko Kivimäki

SHARE INFORMATION

The paid-in share capital of Rautaruukki Oy on 31 December 1997 was FIM 1 332 284 160 and comprised 133 228 416 Series K shares, each carrying ten votes at the Annual General Meeting. According to the Articles of Association, a maximum of 100 000 000 Series A shares can also be issued; these will have one vote each at the Annual General Meeting, and a dividend that is 5 percentage points higher than that of the Series K shares may be paid on them. The par value of the shares is FIM 10.

The company's minimum share capital is FIM 1 202 284 160 and its maximum share capital is four times this amount, within which limits the share capital may be raised or lowered without amending the Articles of Association.

Rautaruukki Oy's shares were placed in the book-entry securities system in 1994.

Warrant bond issue to management

In 1994 an issue of bonds with warrants in a total amount of FIM 500 000 was targeted at twelve officers belonging to the Group's senior management. The issue of bonds with warrants is part of the Group's incentive system for management. The interest on the issue is 6 per cent and the maturity is 5 years.

Each FIM 500 bond certificate carries a warrant entitling its holder to subscribe 1000 Series K shares at a subscription price of FIM 56.56 per share. Share subscriptions can be exercised during 1 December 1998 – 31 January 2001.

Share issues between 1989–1997

	Number of shares	Increase in share capital, FIM	Share capital FIM
Share capital 31.12.1988	76 281 500		762 815 000
Share issue 7.6.–22.6.1989	+ 11 000 000	110 000 000	872 815 000
Share issue 18.11.–20.12.1993	+ 14 546 916	145 469 160	1 018 284 160
Share issue 26.4.–17.5.1994	+ 18 400 000	184 000 000	1 202 284 160
Share issue 6.5.1997	+ 13 000 000	130 000 000	1 332 284 160
Share capital 31.12.1997	133 228 416		1 332 284 160

The largest shareholders of Rautaruukki Oy according to the Share Register 31.12.1997

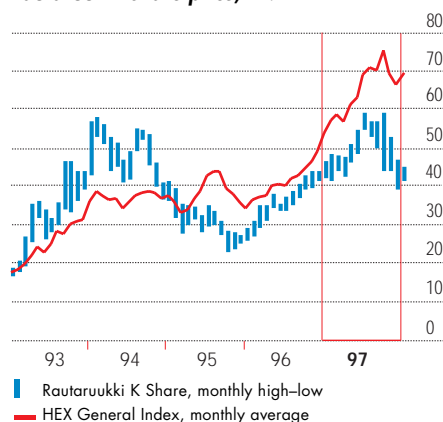
Shareholder	Number of shares	Shares, %
Republic of Finland	56 289 681	42,25
Pohjola Companies		
Pension Insurance Company Ilmarinen	4 320 000	3,24
Mutual Life Insurance Company Suomi	1 153 000	0,87
Life Insurance Company Pohjola Ltd	873 000	0,65
Insurance Company Pohjola Ltd	720 000	0,54
	7 066 000	5,30
Sampo Group		
Teollisuusvakuutus Oy	1 489 370	1,12
Sampo Life Insurance Company Ltd	1 007 000	0,76
Sampo Pension Insurance Company Ltd	816 123	0,61
Sampo Enterprise Insurance Company Ltd	811 194	0,60
Sampo Insurance Company Ltd	721 000	0,54
Mutual Insurance Company Kaleva	331 000	0,29
	5 175 687	3,89
Eläke-Varma and Nova		
Mutual Insurance Company Pension-Varma	4 684 157	3,52
Life Insurance Company Nova Ltd	285 000	0,21
	5 449 157	3,73
Kesko Pension Fund	2 780 952	2,09
Local Government Pensions Institution	1 293 917	0,97
Alfred Berg Finland		
Alfred Berg Finland Fund	434 000	0,33
Alfred Berg Finland Fund portfolio	287 433	0,21
	721 433	0,54
Optimal Fund	415 500	0,31
Finnish National Fund for Research and Development	375 000	0,28
The Central Church Fund	340 000	0,26
Administrative registrations	32 315 999	24,26
Other owners	21 969 023	16,48
Total	133 228 416	100,00

The total number of shares held by members of the Supervisory Board and the Board of Directors was 9 137, which represent 0.01 % of the voting right conferred by all the company's shares. In addition the members of the Board of Directors have subscribed 59.5 % of the 1994 warrant bond worth FIM 297 500, which confer entitlement to subscribe at most 595 000 K Shares, i.e. 0.49 % of the voting right.

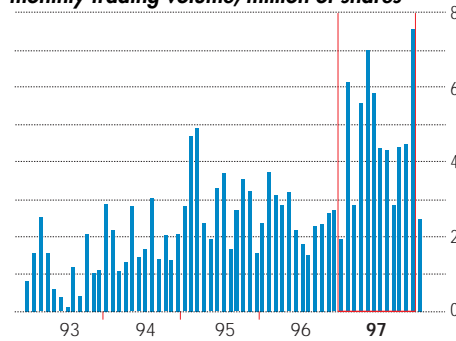
Shareholders by share ownership according to the Share Register 31.12.1997

Number of shares	Shareholders			Shares	%
	No.	%	thousands		
1–	100	3 867	18,16	291	0,22
101–	1 000	15 517	72,86	7 301	5,48
1 001–	10 000	1 707	8,01	4 350	3,27
10 001–	100 000	158	0,74	4 935	3,70
100 001–		49	0,23	116 285	87,33
		21 298	100,00	133 162	100,00

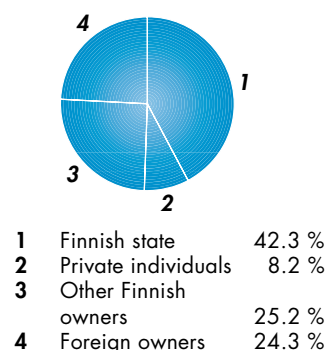
Rautaruukki share price, FIM



Rautaruukki share monthly trading volume, million of shares



Ownership of Rautaruukki as on 31.12.1997



State ownership

On the basis of authorizations obtained from Parliament, the Council of State can reduce the state's holding in Rautaruukki Oy in such a way that the holding is nevertheless at least one third of the company's shares outstanding and the voting rights they confer.

Pre-emption clause

The Articles of Association contain a provision concerning the obligation to exercise pre-emption, which is intended to protect small shareholders. According to it, a shareholder whose proportion of the company's entire shares outstanding or the votes they confer reaches or exceeds $33\frac{1}{3}$ or 50 per cent, is bound by the obli-

gation, upon a demand of the other shareholders, to exercise pre-emption on their shares and warrants.

Share issue authorization

The Board of Directors has an authorization valid up to 26 March 1998 to increase the share capital by a maximum amount of 2 000 000 shares.

Dividend policy

Rautaruukki Oy follows a competitive and stable dividend policy, which also takes into account the Group's earnings trend and the need to strengthen the company's equity ratio.

Proposal for dividend

The Board of Directors will

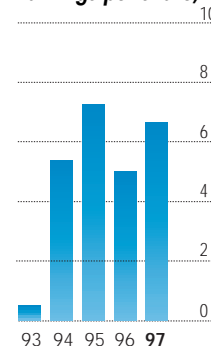
propose to the Annual General Meeting on 12 March 1998 that a dividend for 1997 of FIM 2.00 per share be paid.

Share price trend

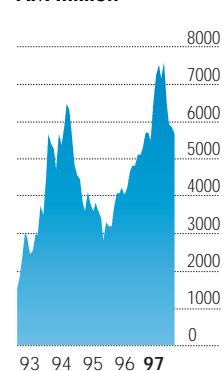
Rautaruukki Oy's shares have been quoted on the Helsinki Stock Exchange since 8 September 1989 and through the SEAQ International trading system associated with the London Stock Exchange since April 1994.

During 1997 the highest share price of Rautaruukki's share was FIM 59.00 and the lowest price was FIM 39.00. The last trade of the year was made at a price of FIM 44.00. The average price of the share trades during the year was FIM 48.80 (35.57).

Earnings per share, FIM



Market capitalization, FIM million



Key figures

		1997	1996	1995	1994	1993
Earnings per share, EPS	FIM	6.69	4.98	7.19	5.40	0.55
Equity per share	FIM	41.62	35.93	33.16	28.28	22.20
Dividend per share	FIM	2.00*	1.50	1.70	1.00	0
Dividend per earnings	%	29.9*	30.1	23.7	18.5	0
Price per earnings, P/E		6.6	8.5	3.7	7.0	79.3
Share trading	thousands	57 215	30 651	36 313	23 184	13 285
Share trading	mFIM	2 792	1 090	1 033	1 136	411
Average price of share	FIM	48.80	35.57	28.44	49.00	30.93
Adjusted average number of shares		128 764 131	120 228 416	120 228 416	113 935 813	92 923 861
Adjusted number of shares at year-end		133 228 416	120 228 416	120 228 416	120 228 416	101 828 416
Number of shares at year-end		133 228 416	120 228 416	120 228 416	120 228 416	101 828 416
Share price at year-end		44.00	42.50	26.50	38.00	43.90
Market capitalization at year-end	mFIM	5 862	5 110	3 186	4 569	4 470

* Board proposal



Board of Directors, sitting from left: Lauri Mannerkoski, Mikko Kivimäki; standing from left: Gösta Engman, Aulis Saarinen, Seppo Sahlman, Seppo Ahonen, Pekka Einamo

Board of Directors

Chairman:

Mikko Kivimäki*, b. 1939

President and Chief Executive Officer
member since 1976, chairman since 1985

Deputy Chairman:

Lauri Mannerkoski, b. 1944

Senior Executive Vice President; marketing
member since 1988, deputy chairman since 1995

Pekka Einamo, b. 1940

Executive V.P.; investments, purchases, logistics
member since 1982

Aulis Saarinen, b. 1939

Executive V.P.; research and development
member since 1983

Gösta Engman, b. 1945

Executive V.P.; administration, personnel
member since 1989

Seppo Ahonen, b. 1942

Chairman of Air Trade International N.V.
member since 1994

Seppo Sahlman, b. 1948

Executive V.P.; finance and treasury
member since 1995

With the exception of Seppo Ahonen, the other members of the Board are permanently employed by the company. The term of office of the Board will end on 30 April 1998.

Supervisory Board

Martti Korhonen*,
Chairman

Jorma Rantanen*,
Deputy Chairman

Göran J. Ehrnrooth*

Tauno Heikonen

Juhani Alaranta

Georg Ehrnrooth

Tuula Haatainen

Marjut Kaarilahti

Timo Ihämäki

Tauno Matomäki

Hannes Manninen

* Supervisory board
working committee

Employee representatives

Kari Jokinen

Pauli Kurikka

Risto Kämäräinen

Asser Siuvatti

The functions of the Supervisory Board include:

- to ensure that the Company's affairs are managed in accordance with sound business principles
- to elect the chairman, deputy chairman and other members to the Board of Directors for a three-year term of office
- to appoint and dismiss the President and CEO, and determine the terms of remuneration for him and the members on the Board of Directors
- to decide on any considerable expansion or curtailment of the Company's operations
- to decide on any essential change to the Company's organization
- to decide on instructions to be given to the Board of Directors in matters of wide scope or fundamental importance

Auditor

KPMG WIDERI OY AB

Hannu Niilekselä,

Authorized Public Accountant

GROUP STRUCTURE

At the beginning of 1998 two industrial divisions of Rautaruukki's flat steel business, Raahe Steel and Strip products, were merged to a new industrial division Rautaruukki Steel.

Rautaruukki Steel has in Raahe the largest Nordic steelworks which offers a wide variety of high-quality tailor-made hot-rolled products. At the Hämeenlinna Works steel is further upgraded to value-added products.

Metform and Steel Structure Division have specialized in product sectors where they can achieve a high degree of upgrading with added value, and obtain the benefits of large volume production.

Metform is one of the biggest European producers of welded steel tubes and its product mix is one of the broadest. Metform has seven works in Finland, Sweden, Denmark and Germany.

Steel Structure Division manufactures building products based primarily on the Group's steel. The division has strongly expanded on the growing markets of Eastern and Central Europe.

Fundia is the leading Nordic manufacturer of long steel products with steel works in Finland, Sweden and Norway. More than half of the deliveries consist of special steel grades and further processed products.

Engineering Division manufactures special products and sells technology developed by the Group.

Rautaruukki has steel wholesale and steel service centre operations in a number of European countries and sales companies outside Europe, too.

RAAHE STEEL

hot rolled plates, coils and sheets
prefabricated plate products
steel industry byproducts

STRIP PRODUCTS

cold rolled sheets
hot dip galvanized sheets
colour coated sheets

RAUTARUUKKI STEEL from 1.1.1998

METFORM

precision tubes, line pipes
hollow sections
upgraded products

STEEL STRUCTURE DIVISION

steel roofing
cold formed sections
facade elements

FUNDIA

bar, wire, profiles, reinforcing
processed products

ENGINEERING DIVISION

rolling stock, dished ends, know-how

WHOLESALE AND SALES UNITS

RAUTARUUKKI'S STEEL PRODUCTION AND UPGRADING

Rautaruukki's manufacture of flat and tubular products forms an integrated production chain in which the steel

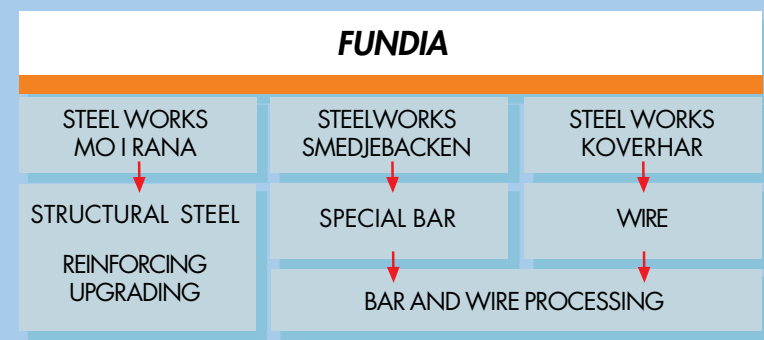
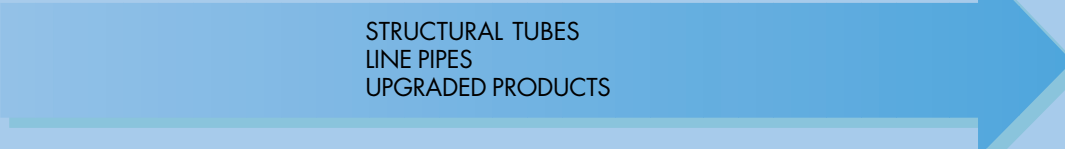
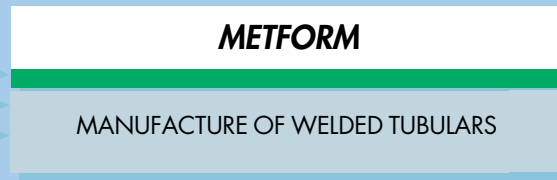
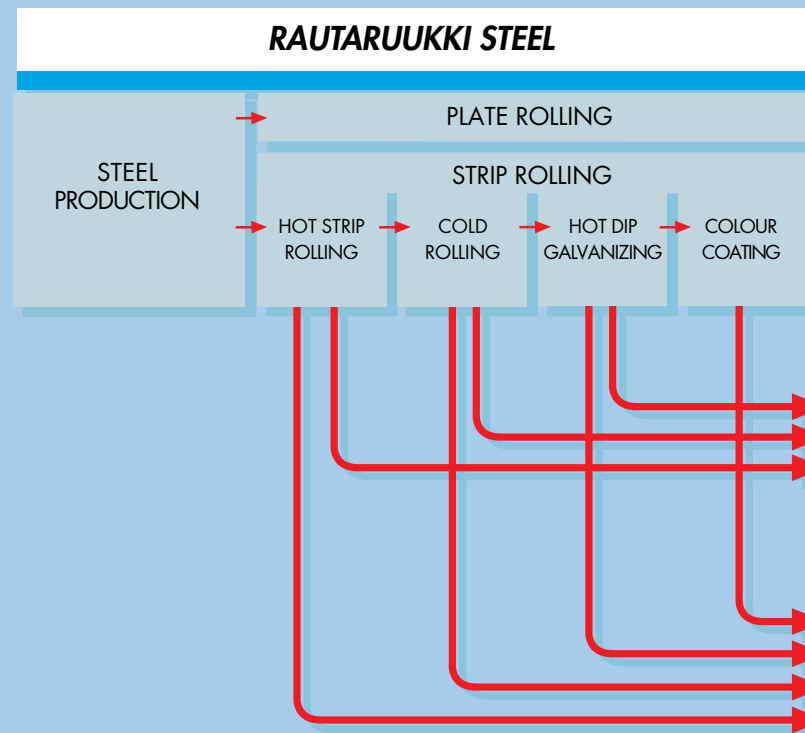
manufactured by Rautaruukki Steel is upgraded in different production stages into value added products.

Steel production is based on pig iron that is manufactured from iron ore and coke in blast furnaces.

Fundia manufactures the steel used in its long steel products at three steel works. At the Koverhar works the

production is blast furnace-based; at the two other works the steel is made from scrap using the electric arc furnace

method. Fundia operates seven rolling units in the manufacture of various long steel products



Sixty per cent of Rautaruukki's deliveries are sold directly to customers and the rest through retail dealers. Rautaruukki

has three own steel wholesalers: Keskometalli Oy, CCB Stål AS and Rautaruukki Eesti OÜ. In addition

Rautaruukki is a minority shareholder in many wholesale businesses.

Business environment

Economic growth picked up clearly in Europe during 1997. It was the fastest in the new market economy countries of Central and Eastern Europe and in the Nordic countries. In the United States, the economy continued to expand rapidly, though it slowed down somewhat in the latter half of the year. The strong economic growth of the Southeast Asian countries slowed down in the latter part of the year when the imbalanced economies of a number of countries in the area led to a dramatic weakening of their currencies.

The demand for all steel products increased markedly in the European market. The demand for coated sheet products showed the most growth. In the new market economies of the Baltic Rim area, there was stronger demand, especially for steel products used in construction.

The demand for steel products in the United States evened out. In the countries of Southeast Asia, there was increasing demand for steel products during the first part of the year, but as the year wore on it fell off sharply in the countries that ran into economic difficulties.

World steel output rose by 6 per cent on the previous year. In the European Union countries, steel output grew by 8 per cent. The steel output of Rautaruukki was 4.1 million tonnes. Some 61 per cent of the deliveries made

by the Rautaruukki Group went to the Nordic countries and the new market economy countries of the Baltic Rim, and 34 per cent went to other parts of Europe. The United States accounted for 2 per cent of the deliveries and Southeast Asia for 1 per cent.

In Europe, the prices of steel products headed upwards at the beginning of 1997 and the rise continued all year long. The average prices of most steel products nevertheless remained at the level of the previous year's average prices. The average price of galvanized sheets, heavy plates and long steel products exceeded the previous year's level and the average price of tubular products was lower than in the previous year.

In the United States, the prices of steel products strengthened and were higher than the previous year's average prices, though towards the end of the year prices tailed off. In Southeast Asia, the average prices of steel products were somewhat lower than a year ago and in the countries that encountered economic problems it was difficult to estimate the price trend in the latter months of the year.

Rautaruukki's market

The average price in Finnish markkaa of Rautaruukki's flat and tubular products was 1 per cent lower than in 1996. The average price in

Swedish kronor of deliveries of long steel products was 4 per cent higher than in the previous year. The exchange rates of the Finnish markka and Swedish krona did not change significantly against the ECU.

Rautaruukki maintained its market share in all its products in its main market areas in Finland and the other Nordic countries. Rautaruukki strengthened its market position in the Baltic countries, Poland and Russia, increasing its sales to these countries by 28 per cent.

Deliveries of the Group's flat and tubular products were up 1 per cent on the previous year. Deliveries of long rolled products grew by 3 per cent.

Deliveries of hot rolled plate and sheet products to the Finnish market rose markedly, especially thanks to the good demand from the shipyard and engineering industries. Deliveries to elsewhere in Europe were down.

Deliveries of cold rolled sheet and coils to the Nordic market showed pronounced growth, and deliveries elsewhere in Europe increased somewhat. By contrast, deliveries to other markets contracted. A larger amount of deliveries of coated sheets and especially of sheet products used in construction was made to the Nordic countries and elsewhere in Europe.

Deliveries of tubular products to the Nordic countries and the rest of the European market grew.

Deliveries of steel products used in construction increased in Rautaruukki's main markets. The strongest growth was in the new market economy countries in the Baltic area.

Deliveries of long steel products grew in all product groups. Speciality steel products and further processed products accounted for an increased share of Fundia's deliveries.

Changes in the Group structure

Rautaruukki combined its two industrial divisions, Raahel Steel and Strip Products, into one division named Rautaruukki Steel, effective as of 1 January 1998. The objective is to improve customer service and the ability to react to changes in the operating environment, and also to increase the cost-effectiveness of the company's flat steel business.

Rautaruukki Steel comprises three business units with profit responsibility: Primary Products, Plate Products and Strip Products. The Plate Products and Strip Products units are responsible for marketing their products and carrying out product development. The service functions are organized in separate units.

A decision was taken to increase Rautaruukki's galvanizing capacity by building a new galvanizing line in Hämeenlinna. Accordingly, towards the end of the year the company sold its 24.95 per cent holding in the Ger-

many-based Bregal Bremer Galvanisierungs GmbH galvanizing plant to the Arbed Group.

It was decided to centralize the Group management functions of the Oulu and Helsinki central administration to the Helsinki office.

Turnover and financial result

Consolidated turnover in 1997 was FIM 13,650 million (12,834 in 1996). Finland accounted for 27 per cent of turnover, the other Nordic countries for 28 per cent and the Baltic Rim countries, Russia and Poland for a total of 6 per cent.

The foreign currency prices of iron raw materials and coal as well as energy prices were at the previous year's level, but the prices in Swedish kronor which Fundia paid for scrap were on average 11 per cent higher. Raw material and energy costs increased on the previous year owing to the strengthening in the exchange rate of the US dollar and the growth in steel output.

Operating profit was FIM 1,349 million (1,171). The improved operating profit was weakened by the costs of downsizing Transtech's operations and write-downs on Transtech's fixed assets. The operating profit figure includes FIM 213 million (257) of other income, the biggest portion of which came from the divestment of the 24.95 per cent holding in Bregal GmbH and the di-

Turnover by division, FIM million

	1997	1996	Change, %
Raahe Steel	4 647	4 508	+ 3
Strip Products	3 101	2 954	+ 5
Metform	2 062	1 990	+ 4
Steel Structure Division	1 327	1 161	+ 14
Engineering Division	359	484	- 26
Fundia	4 162	3 852	+ 8
CCB and Keskometalli	1 464	756	
Other units	0	2	
internal invoicing	- 3 472	- 2 873	+ 21
Consolidated turnover	13 650	12 834	+ 6

Operating profit by division, FIM million

	1997	1996	Change, %
Raahe Steel	492	613	- 20
Strip Products	548	335	+ 64
Metform	186	172	+ 8
Steel Structure Division	113	74	+ 53
Engineering Division	- 84	10	
Fundia	77	8	
CCB and Keskometalli	49	29	+ 69
Other units and internal items	- 32	- 70	
Consolidated operating profit	1 349	1 171	+ 15

vestment of Carl Froh GmbH's small-diameter tube business.

Share of the profit generated by associated companies was FIM 103 million (40). Because YIT Corporation is no longer an associated company of Rautaruukki, a total of FIM 69 million representing previous amortization of YIT's goodwill and Rautaruukki's proportion of YIT's losses in previous years has been reversed and credited to income.

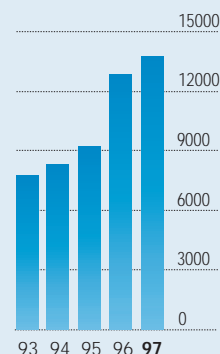
Profit before extraordinary items, reserves and taxes was FIM 1,004 million (715). Earnings per share were FIM 6.69 (4.98). Profit before reserves and taxes was FIM 1,004 million (715).

The financial statements show a net profit of FIM 461 million (199). The profit according to international IAS financial statement practice was FIM 991 million (651).

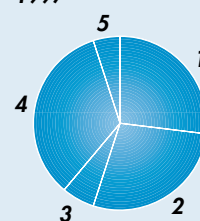
Financing

The Group's financing situation and liquidity remained good throughout the financial year. To reduce financial costs, FIM 1,072 million of long-term loans were repaid prematurely. New long-term loans totalling FIM 501 million were raised. In addition relending from pension funds was increased by FIM 375 million. The management of liquidity and financial risks was developed by merging the cash management and control of foreign exchange risks of Fundia

Turnover, FIM million

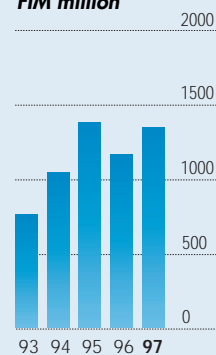


Turnover by market area, 1997

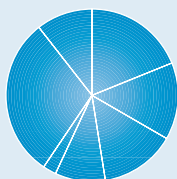


1 Finland	27%
2 Other Nordic countries	28%
3 Baltic States, Poland and Russia	6%
4 Other Europe	34%
5 Other countries	5%

Operating profit, FIM million

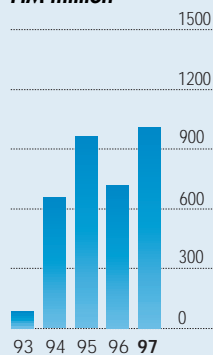


External turnover by division 1997

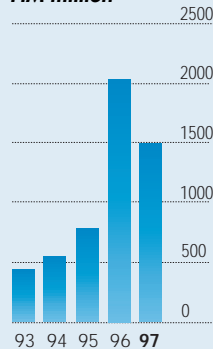


1	Raabe Steel	19%
2	Strip Products	14%
3	Meiform	14%
4	Steel Structure Div.	9%
5	Engineering Division	3%
6	Fundia	30%
7	Other units	11%

Profit before extraordinary items, reserves and taxes, FIM million



Gross investments, FIM million



with the Group's systems.

The share issue carried out in May increased shareholders' equity by FIM 534 million. Interest bearing net debt amounted to FIM 5,394 million (5,588). The increase in working capital mainly due to the rise in prices and volumes retarded the downward trend in net debt. The short-term portion of interest-bearing loans was FIM 824 million (956). The Group's liquid funds at the close of the year totalled FIM 419 million (420).

The Group's equity ratio rose to 40.2 per cent (34.4). The gearing ratio fell to 97 per cent (129). Shareholders' equity, minority interests and provisions totalled FIM 41.62 per share (35.93) at the end of the year. Total assets were FIM 14,006 million (12,722).

Net interest expenses were FIM 344 million (443), or 2.5 per cent of turnover (3.4). Other net financial expenses totalled FIM 2 million (13), including a loss on foreign exchange of FIM 10 million (3). In addition, FIM 45 million (27) of foreign exchange gains on the hedging of long-term dollar-denominated raw materials purchases were booked directly as an adjustment to sales and purchase transactions and credited to operating profit, as was a total of FIM 5 million (30) of foreign exchange gains which the parent company booked on changes in the value of accounts receivable and accounts payable.

The investments of Rautaruukki's pension funds are handled by the parent company. The proportion of short-term money market investments and relending to the company was increased during the year. The proportion of equities along with convertible bonds and other long-term debt investments was reduced. Towards the end of the year, the risk of the equity portfolio was spread out by moving some investments out of Finnish shares and into international shares. At the end of the year total assets of the pension funds were FIM 1,771 million, of which 41 per cent had been invested in long term bonds, 25 per cent in relending and 13 per cent in shares, equity funds and convertible bonds. The remaining 21 per cent consisted mainly of real-estate holdings and loans to the personnel.

Share capital

Rautaruukki Oy's share capital as at 31 December 1996 stood at FIM 1,202,284,160. On the basis of an authorization given by the Annual General Meeting on 25 March 1997, the Board of Directors carried out a share issue in May by offering Finnish and international investors 13,000,000 new shares for subscription at a purchase price of FIM 42. The issue was subscribed in full. As a consequence of the share issue and the concurrent sale of 26,260,000 shares by the Finnish state, the state's holding in Rautaruukki Oy fell to 42.3 per cent.

The share capital increase and the full payment of the shares were entered in the Trade Register on 6 May 1997. Rautaruukki Oy's share capital as at 31 December 1997 was FIM 1,332,284,160, which is divided into 133,228,416 shares, all of which are Series K shares. Of the Board of Directors' authorization to increase the share capital, which is valid up to 26 March 1998, a tranche of 2,000,000 shares is still unexercised.

The highest price of Rautaruukki's Series K share was FIM 59.00 and lowest FIM 39.00. The last trade of the year was done at a price of FIM 44.00. The Group's market capitalization at the end of the year was FIM 5,862 million (5,110).

The share turnover during the year was 57.2 million (30.6), representing a total value of FIM 2,792 million (1,090). The number of registered shareholders at the close of the year was 21,298 (8,602). Foreigners held 24.3 per cent (8.3 per cent) of the company's shares outstanding.

Raw materials and energy

Rautaruukki buys its most important raw materials mainly from Finland's nearby areas, benefiting from short haulage distances. Rautaruukki bought 3.9 million tonnes of iron ore, largely from northern Sweden and the remainder from northern Russia. Rautaruukki has an agreement extending up to

Gross capital expenditure by division, FIM million

	1997	1996
Raahe Steel	939	713
Strip Products	106	103
Metform	84	76
Steel Structure Division	89	50
Engineering Division	21	21
Fundia	186	214
Other units	67	844
Total	1 492	2 021

the end of 1999 with the Swedish company LKAB concerning the delivery of iron concentrate. Some 1.2 million tonnes of coal were purchased from Poland and the United States.

Fundia used 1.2 million tonnes of scrap in its steel manufacturing, 40 per cent of which was imported from outside the Nordic countries.

The Group has long-term agreements with electric power utilities in Finland, Sweden and Norway. The Group's purchases of power totalled 1.4 terawatt hours. In addition, the Group's own plants generated 0.6 terawatt hours of electricity.

Capital expenditure

Gross capital expenditures on fixed assets totalled FIM 1,492 million (2,021) and net capital expenditures were FIM 1,083 million (1,513). The Rautaruukki 2000 capital expenditure programme, which will increase Raahe Steel's steel and rolling mill production to 2.8 million tonnes and Strip Products' cold rolling production to 1,250,000 tonnes, was continued in line with plans.

The investments that will increase the charge weight of the converters were completed at Raahe Steel's steel plant, as was a state-of-the-art continuous casting machine that will replace three old continuous casting machines. At the rolling mill, a new slab heating furnace that will increase the capacity of the hot strip rolling line as well as slab handling equipment were completed. The remaining parts of the Rautaruukki 2000 programme are the modernization of two continuous casting machines and conversion works on the strip mill. These improvements will make it possible to raise the maximum coil weight from 20 tonnes to 30 tonnes.

Modernization of the cold rolling line was continued at the Hämeenlinna Works. The investments will be completed in the autumn 1998, after which the cold rolling capacity of the works will rise from the present 930,000 tonnes to 1,250,000 tonnes. At the end of 1997 a decision was taken to increase the colour coating capacity at the Hämeenlinna Works from 100,000 tonnes to 150,000 tonnes. The in-

vestment will be completed in 2000.

At the beginning of 1998, a decision was taken to build a new 400,000 tonne galvanizing line at the Hämeenlinna Works. The line will start up in the spring 2000. The financing for the investment will be eased considerably by the sale of the shares in Bregal GmbH. The new galvanizing line will make it possible to expand the product range and to manufacture products that are highly demanding in terms of their surface quality. Rautaruukki's galvanizing capacity will rise to 900,000 tonnes a year.

The Steel Structure Division expanded its operations in the new market economy countries of Central and Eastern Europe. The capacity of the units in Poland and Estonia was increased. The joint venture Rannila Velvary s.r.o. began operations in the Czech Republic, and the joint venture Rannila Kosice s.r.o. was established in Slovakia. In both companies, Rautaruukki has a majority holding. Rannila Kosice will begin operations during the spring 1998.

At Fundia, decisions were taken to make investments aiming at raising the coil weight of the Taalintehdas wire rod line and to develop the Smedjebacken medium rolling mill.

In Estonia, the steel service centre Rautaruukki Eesti OÜ that encompasses the entire Baltic area began operations.

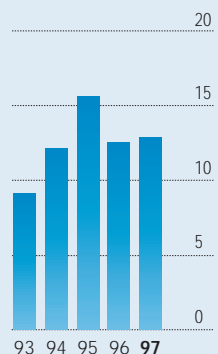
Research and development

The focus of research and development activities was on the development of new products and processes. The objective was to create capabilities for utilizing the potential offered by the ongoing capital expenditure programme. Product development was geared increasingly to customers' needs by establishing closer cooperation between the research and marketing people.

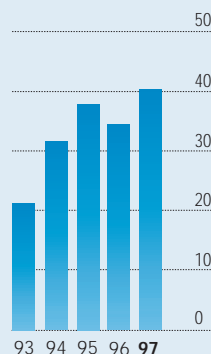
At the Raahe Steel Works, the coking oven's energy use was reduced by developing the control and regulation of the batteries. The effectiveness of the blast furnaces was improved by increasing the oil injection and by using sinter with a high iron content as the charge material.

Product development efforts were directed at improving the dimensional accuracy and surface quality of steel products as well as the consistency of their characteristics. Raahe Steel brought out on the market tempered RAEX AR steel grades, which have excellent durability. The new Pural colour coating for steel roofing enjoyed good success on the market. The weatherproofing of PVC coatings was developed in conjunction with paint suppliers. The main focus of development work on tubular products was on achieving a regular form of the cross sections of the tubes and good strength-formability characteristics. At Fundia, development work was directed notably at boron-alloy steels and spring

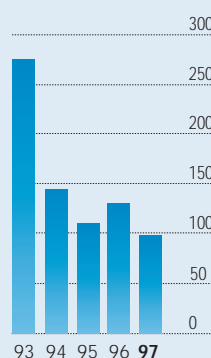
Return on net assets, %



Equity ratio, %



Gearing ratio, %



steels. The Steel Structure Division brought to the production phase the light-weight frame system based on steel thermoprofiles which it has developed for single-family houses.

The Rautaruukki Group spent a total of FIM 97 million (96), or 0.7 per cent of net sales, on research and development.

Environmental protection

The Raahe Steel Works received both ISO 14001 certification and EMAS approval for its environmental system, becoming the first integrated steel mill in Europe to gain these accreditations. Raahe Steel's environmental system encompasses the entire steel mill with all its functions. Fundia's steel mill in Mo i Rana received ISO 14001 certification in 1996. The Group's objective is to obtain certification according to the ISO 14001 environmental standard for all its main sites by the year 2000.

At the Raahe Steel Works' strip mill, a new water treatment plant that will cut oil discharges in half compared with the 1995 level was put in use. The collection and purification system for dust emissions of the converters at the steel plant was completed, and it will reduce the dust emissions of the converters by 80 per cent.

A more efficient dust extraction system was installed at the steel plant of Fundia's Mo i Rana steel mill. At the Koverhar steel mill, an investment connected with

automatic dust extraction was started.

Personnel

The Group's payroll at the close of the year was 12,705 (12,410) people and the parent company employed 6,501 people (6,303). During the year the Group employed an average of 12,868 people (12,812) and the parent company 6,658 people (6,615). The increase in personnel was due mainly to the expansion of the Steel Structure Division's operations. In January 1998 a decision was taken to downsize Trans-tech's personnel significantly.

In accordance with Rautaruukki Oy's profit bonus system, Rautaruukki's personnel fund will receive FIM 23 million (16).

Outlook for 1998

Finland's economic growth is estimated to slow down but nevertheless to remain good during 1998. In the other European Union countries as well as in the new market economies of Central and Eastern Europe, economic growth is anticipated to continue at roughly the same level as in 1997. Economic growth in the United States is estimated to slow down somewhat. In Southeast Asia, economic growth is anticipated to slow down markedly.

In Europe, the demand for steel products is estimated to continue at a good level and it is believed that the demand for upgraded steel products will grow further. In

the second half of the year, the economic difficulties of the countries in Southeast Asia may cause imbalance in the European steel market. There will continue to be good demand for steel products used in construction, particularly in the new market economy countries of the Baltic Rim. In the United States, it is estimated that there will continue to be good demand for steel, but domestic output and the supply of imported steel are expected to increase at the same time.

In Europe, the prices of steel products are estimated to strengthen during 1998. The rise in prices is likely to come mostly in the first half of the year. Prices in the United States are expected to weaken slightly.

Rautaruukki Steel's output of steel will rise to 2.5 million tonnes in 1998, an increase of almost 200,000 tonnes compared with 1997. The planned increase in deliveries of rolled products will be weighted in favour of hot-rolled coils prior to the completion of the capital expenditures that will boost the upgrading capacity.

The Group's turnover for 1998 is estimated to be FIM 16 billion. The rise in the cost level is expected to continue on a moderate trend. It is estimated that Rautaruukki's full-year result will be at the level of 1997. The result estimate includes factors of uncertainty on the steel market during the second half of the year.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FIM million	Note	1.1.-31.12.1997		1.1.-31.12.1996	
			%		%
Turnover	1)	13650	100.0	12834	100.0
Change in stock of finished products		398	2.9	-287	-2.2
Production for own use		77	0.6	62	0.5
Other income on business operations		213	1.6	257	2.0
Share of associated companies' profit/loss		103	0.8	40	0.3
Expenses					
Sales freights and other sales expenses		970		896	
Material, supplies and goods					
Purchases during the accounting period		6715		5592	
Change in inventories		19		82	
External services		738		703	
Wages and salaries	2)	2234		2148	
Indirect employee costs	2)	588		587	
Rents		214		212	
Other expenses		818	12295 90.1	750	10970 85.5
Depreciation	3)	797	5.8	765	6.0
Operating profit		1349	9.9	1171	9.1
Financing income and expenses	4)				
Interest income		9		33	
Other financing income and expenses		9		-10	
Currency exchange differences		-10		-3	
Interest expenses		-352	-345 -2.5	-475	-456 -3.6
Profit before extraordinary items, reserves and taxes		1004	7.4	715	5.6
Extraordinary income and expenses	5)				
Extraordinary income		0		0	
Extraordinary expenses		0	0 0.0	0	0 0.0
Profit before reserves and taxes		1004	7.4	715	5.6
Change in depreciation difference		-604	-4.4	-466	-3.6
Change in optional reserves		204	1.5	66	0.5
Direct taxes					
Taxes for the year		-123		-83	
Taxes for previous years		-12		-39	
Change in deferred tax liability		-10	-144 -1.1	6	-116 -0.9
Profit before minority interest		459	3.4	199	1.5
Minority interest of profit		2	0.0	0	0.0
Group profit for the year		461	3.4	199	1.5

CONSOLIDATED BALANCE SHEET

FIM million	Note	31.12.1997			31.12.1996		
ASSETS							
Fixed assets and other long-term investments	7-11)						
Intangible assets							
Intangible rights		23			21		
Goodwill		287			352		
Other long-term expenses		105	416		57	431	
Tangible assets							
Land and water areas		139			140		
Buildings and structures		2028			1928		
Machinery and equipment		4994			4309		
Advance payments and incomplete acquisitions		366	7527		505	6881	
Securities included in fixed assets and other long-term investments							
Stocks and shares in associated companies		281			563		
Other stocks and shares		313			82		
Interest bearing long-term loans receivable		42			34		
Non interest bearing long-term loans receivable		46	682		24	702	
		8624	61.6		8014	63.0	
Valuation items	12)						
Pension liabilities		117			141		
Other valuation items		22	139	1.0	27	168	1.3
Current assets	13)						
Inventories							
Materials and supplies		815			778		
Finished and semi-finished products		1704			1327		
Advance payments		22	2540	18.1	4	2109	16.6
Receivables	14)						
Accounts receivable		1974			1770		
Short-term loans and other receivables		9			3		
Accruals		187			135		
Other short-term receivables		113	2283	16.3	102	2010	15.8
Marketable securities included in current assets			0	0.0		138	1.1
Cash in hand and at bank			419	3.0		282	2.2
			5242	37.4		4540	35.7
			14006	100.0		12722	100.0

FIM million	Note	31.12.1997		31.12.1996	
			%		%
LIABILITIES					
Shareholders' interests	16)				
Restricted equity					
Share capital		1332		1202	
Reserve fund		1186		782	
Revaluation fund		195		195	
Translation adjustment		-13	2700	-22	2157
Nonrestricted equity					
Profit/loss from previous years		542		575	
Profit for the year		461		199	
Other nonrestricted equity		2	1005	-50	723
			3705 26.5		2880 22.6
Minority interests			9 0.1		2 0.0
Optional reserves and accumulated depreciation difference	17)				
Accumulated depreciation difference		1840		1236	
Optional reserves		0	1840 13.1	204	1440 11.3
Obligatory provisions	6)				
Uncovered pension liability		117		141	
Other obligatory provisions		24	141 1.0	14	155 1.2
External liabilities	18)				
Long-term					
Interest bearing					
Bonds		407		349	
Loans from financial institutions		4011		4536	
Pensions loans		550		180	
Advanced payments		1		0	
Other long-term debts		73	5041	25	5090
Non interest bearing					
Pension loans		79		203	
Deferred tax liability		62		52	
Other long-term debts		21	162	0	256
Short-term					
Interest bearing					
Loans from financial institutions		613		722	
Pension loans		31		0	
Other short-term debts		180	824	234	956
Non interest bearing					
Advanced payments		190		148	
Accounts payable		1133		861	
Accruals		844		856	
Other short-term debts		117	2284	80	1944
			8310 59.3		8246 64.8
			14006 100.0		12722 100.0

CONSOLIDATED FUNDS STATEMENT

FIM million	31.12.1997	31.12.1996
Business operations		
From operations		
Operating profit	1 349	1 171
Depreciation	797	765
Share of associated companies' profit/loss	-103	-40
Financing income and expenses	-306	-487
Extraordinary items and adjustment of sales profits/losses of fixed assets	-175	-156
Taxes	-110	-71
	1 452	1 182
Change in net working capital		
Change in inventories	-431	-644
Change in short-term receivables	-272	-518
Change in non-interest bearing short-term debts	305	457
	-398	-705
Cash flow from operations	1 054	477
Investments		
Investments in fixed assets	-1 492	-2 021
Decrease of fixed assets and sales profits	409	508
Unpaid investments	-100	100
	-1 183	-1 413
Cash flow before financing	-129	-936
Financing		
Change in long-term receivables	-16	-1
Change in long-term debts	-182	1 451
Change in short-term debts	-32	-355
Dividend distribution	-180	-204
Share issue	534	
Other financing items	5	3
Liquid assets in acquired company		-99
	129	795
Change in liquid assets	-1	-141

The items of the funds statement cannot directly be derived from the balance sheet and the profit and loss account due to sold and acquired subsidiaries and changes in exchange rates, for example.

RAUTARUUKKI OY'S PROFIT AND LOSS ACCOUNT

FIM million	Note	1.1.-31.12.1997		1.1.-31.12.1996	
			%		%
Turnover	1)	6714	100.0	6715	100.0
Change in stock of finished products		150	2.2	-120	-1.8
Production for own use		65	1.0	55	0.8
Other income on business operations		63	0.9	155	2.3
Expenses					
Sales freights and other sales expenses		512		537	
Material, supplies and goods					
Purchases during the accounting period		3179		2760	
Change in inventories		-45		87	
External services		289		267	
Wages and salaries	2)	1179		1128	
Indirect employee costs	2)	287		297	
Rents		16		21	
Other expenses		162	5580 83.1	178	5276 78.6
Depreciation	3)	509	7.6	495	7.4
Operating profit		903	13.4	1033	15.4
Financing income and expenses	4)				
Interest income		137		129	
Other financing income and expenses		21		4	
Currency exchange differences		-18		-10	
Interest expenses		-339		-387	
Change in the values of short-term investment		14	-185 -2.8	-176	-440 -6.6
Profit before extraordinary items, reserves and taxes		718	10.7	593	8.8
Extraordinary income and expenses	5)				
Intra-Group contributions received		75		52	
Extraordinary expenses		-7	68 1.0	-7	45 0.7
Profit before reserves and taxes		786	11.7	638	9.5
Change in depreciation difference		-612	-9.1	-463	-6.9
Change in optional reserves		190	2.8	66	1.0
Direct taxes					
Taxes for the year		-104		-70	
Taxes for previous years		-10	-114	2	-68
Profit for the year		250	3.7	172	2.6

RAUTARUUKKI OY:S BALANCE SHEET

22

Rautaruukki 1997

FIM million	Note	31.12.1997		31.12.1996	
			%		%
ASSETS					
Fixed assets and other					
long-term investments	7-11)				
Intangible assets					
Intangible rights		15		16	
Goodwill		179		217	
Other long-term expenses		95	289	47	279
Tangible assets					
Land and water areas		38		37	
Buildings and structures		1366		1299	
Machinery and equipment		3738		3105	
Other tangible assets		1		1	
Advance payments and incomplete acquisitions		250	5393	443	4885
Securities included in fixed assets and other long-term investments					
Shares in subsidiaries		991		946	
Stocks and shares in associated companies		154		453	
Other stocks and shares		267		31	
Interest bearing long-term loans receivable		1958		2185	
Non interest bearing long-term loans receivable		218	3588	212	3827
			9269 73.4		8991 76.5
Valuation items	12)				
Pension liabilities		111		111	
Other valuation items		18	128 1.0	22	133 1.1
Current assets					
Inventories	13)				
Materials and supplies		433		388	
Finished and semi-finished products		657		490	
Other inventories		0		17	
Advance payments		4	1094 8.7	0	894 7.6
Receivables	14)				
Accounts receivable		1068		998	
Short-term loans and other receivables		307		357	
Accruals		237		141	
Other short-term receivables		4	1615 12.8	3	1499 12.7
Marketable securities included in current assets			0 0.0		138 1.2
Cash in hand and at bank			517 4.1		104 0.9
			3227 25.6		2635 22.4
			12624 100.0		11759 100.0

FIM million	Note	31.12.1997		31.12.1996	
			%		%
LIABILITIES					
Shareholders' interests	16)				
Restricted equity					
Share capital		1332		1202	
Reserve fund		1186		782	
Revaluation fund		195	2713	195	2180
Nonrestricted equity					
Profit/loss from previous years		880		888	
Profit for the year		250	1129	172	1060
			3843 30.4		3240 27.6
Optional reserves and accumulated depreciation difference	17)				
Accumulated depreciation difference		1836		1224	
Optional reserves		0	1836 14.5	190	1414 12.0
Obligatory provisions	6)				
Uncovered pension liability		111		111	
Other obligatory provisions		7	118 0.9	1	112 1.0
External liabilities	18)				
Long-term					
Interest bearing					
Bonds		407		348	
Convertible bonds		1		1	
Loans from financial institutions		3950		4442	
Pension loans		404		60	
Other long-term debts		0	4762	0	4851
Non interest bearing					
Pension loans		18	18	144	144
Short-term					
Interest bearing					
Loans from financial institutions		550		654	
Pension loans		31			
Other short-term debts		167	747	286	940
Non interest bearing					
Advanced payments		170		136	
Accounts payable		508		320	
Accruals		614		602	
Other short-term debts		8	1300	1	1059
			6828 54.1		6994 59.5
			12624 100.0		11759 100.0

RAUTARUUKKI OY'S FUNDS STATEMENT

FIM million	31.12.1997	31.12.1996
Business operations		
From operations		
Operating profit	903	1 033
Depreciation	509	495
Financing income and expenses	-146	-471
Extraordinary items and adjustment of sales profits/losses of fixed assets	11	111
Taxes	-80	-65
	1 197	1 104
Change in net working capital		
Change in inventories	-199	178
Change in short-term receivables	-117	-30
Change in non-interest bearing short-term debts	207	-97
	-109	51
Cash flow from operations	1 088	1 155
Investments		
Net change in fixed assets	-937	-368
Unpaid investments	-100	100
	-1 037	-268
Cash flow before financing	51	886
Financing		
Change in long-term receivables	217	-1 712
Change in long-term debts	-253	1 363
Change in short-term debts	-93	-520
Share issue	534	
Dividend distribution	-180	-204
	224	-1 074
Change in liquid assets	275	-187

NOTES TO THE ACCOUNTS

ACCOUNTING PRINCIPLES

Accounting principles for the financial statements

The consolidated financial statements include the financial statements of Rautaruukki Oy plus those of those companies in which the parent company, either directly or through its subsidiaries, holds over 50 per cent of the voting rights conferred by stocks or shares.

Investments in associated companies (holding 20–50 per cent) have been included in the consolidated financial statements as of 1994, using the equity method. The Group's share in the associated companies' profits for the accounting period, according to the Group's holding in these companies, is given on a separate line in the profit and loss account.

The consolidated financial statements do not include subsidiary or associated housing corporations, real estate corporations and dormant companies which do not make a significant contribution.

Companies acquired during the accounting period are included in the consolidated financial statements from the date of acquisition, and the sold companies are included up to the sale date. The same principles were applied when Group companies were merged or wound up during the accounting period.

All intra-Group transactions, unrealized profits of internal deliveries, internal receivables and debts, and internal dividend payments were eliminated when the consolidated financial statements were drawn up.

The past-equity method has been used when eliminating mutual share ownership. If the current value of a subsidiary's fixed assets exceeds its book value, goodwill is allocated to the subsidiary's fixed asset items. This allocated portion is depreciated in accordance with the planned depreciation for the fixed asset in question. The remainder of the goodwill is treated as goodwill of the subsidiary or associated company, which is depreciated over its effective period (no more than 10 years). The same allocation principles are also applied if the acquisition cost calculation yields a negative difference. In this case, the part that is considered to be allocated to fixed assets is subtracted from the value of fixed assets and credited to earnings by reducing the depreciation of the specific fixed assets.

The goodwill of associated companies is included in the balance sheet value of associated companies and the depreciation on it is deducted from the associated companies' profit in the profit and loss account. In Finnish financial statements, the depreciation of associated companies' goodwill was started in 1994 in such a way that the depreciation period does not exceed ten years calculated from the acquisition year.

Dividends received from associated companies have been eliminated from the consolidated financial statements.

Minority interests have been separated from the Group's shareholders' interests, from optional reserves and from the profit, and they are shown as a separate item in the consolidated balance sheet and the profit and loss account.

Amounts in foreign currency

Items in foreign currency have been entered at the exchange rate on the transaction date. Balance sheet items at the end of the financial year have been valued at the exchange rate quoted by the Bank of Finland on the balance sheet date. Exchange rate

differences related to ordinary business operations are treated as items adjusting turnover and purchases. Exchange rate differences related to financing are stated in the profit and loss account in financial income and expenses.

Open forward exchange contracts and currency swaps have been valued at the exchange rate quoted by the Bank of Finland on the balance sheet date. Exchange rate differences are entered in financial income and expenses in the profit and loss account. The interest rate difference of forward contracts has been entered as accrued interest expense according to the maturity of the agreements. Premiums on foreign exchange options have been entered in advance payment receivables or liabilities. Currency options that are open at the end of the financial year have been marked to market. The net results of the options, including premiums on options that have fallen due, are included in financial income and expenses. Foreign exchange differences that have arisen from the hedging of specific purchase and sale commitments denominated in foreign currency are entered in the profit and loss account as an item adjusting turnover and purchases when the hedging contract falls due.

Rautaruukki has hedged US dollar-denominated purchases based on long-term delivery agreements by means of forward rate agreements. As a departure from other hedging measures, the foreign exchange and interest rate differences due to these are booked as a credit or charged to income when the hedging arrangement for the purchase transaction in question falls due.

In the consolidated financial statements, the balance sheet items of foreign companies have been translated into Finnish marks at the rate quoted by the Bank of Finland on the last day of the accounting period. The profit and loss accounts of foreign companies have been translated into Finnish marks at the average exchange rate during the financial year. Translation differences of shareholders' interests are included in the shareholders' interest in such a way that the translation difference of the restricted equity at the time of acquisition is in the restricted equity and the translation difference of the nonrestricted equity at the time of acquisition is in the non-restricted equity. Foreign exchange differences arising from the hedging of the shareholders' equity items of foreign companies have been entered in the consolidated balance sheet against translation differences applied to nonrestricted equity. A translation difference resulting from translating a profit and loss account and a balance sheet at different rates is given in the nonrestricted equity.

Other derivative contracts

Interest rate swaps used to hedge the Group's long-term interest-bearing receivables and liabilities are not valued in the financial statements. Interest on interest rate swaps is periodized over the contract period and booked in a net amount as an adjustment to interest income or liabilities depending on whether the contract has been taken out to hedge receivables or liabilities. Where interest rate swaps are used to hedge specific securities held in financial assets, an amount corresponding to the opposite sign change entered for the securities has been booked as the change in the value of the interest rate swaps.

The net results of forward exchange contracts, interest rate options and futures used to hedge short-term investments and liabilities are periodized over the maturity of the contract. Option premiums are entered in advanced payment receivables

or liabilities in the balance sheet and periodized over the maturity of the option. Open forward rate agreements as well as option and futures contracts are not valued in the financial statements.

The hedging of currency and exchange rate risks is discussed in Note 20.

Covering pension expenses and pension liabilities

The Group companies apply different pension systems in each country according to local conditions and conventions. Pension expenses are calculated on the basis of time and they are entered in the profit and loss account. Pensions are normally arranged through pension insurance companies or pension funds.

The uncovered pension liability from previous years is given in the valuation items and in the obligatory reserves. Non interest bearing pension loans contain a portion of the pension liability that has been entered as an expense in the profit and loss account to the extent that it has not been covered for the pension funds. The method of calculating certain pensions was changed in 1996. The reduction in the pension liability due to the change in the method of calculation was FIM 44 million, by which amount the valuation items in the balance sheet were reduced, as was the uncovered pension liability included in obligatory provisions.

Inventories

Inventories are valued at the acquisition price, or at the probable replacement price or selling price (if lower). The costs are defined on a FIFO basis.

In the inventory account, indirect purchasing and manufacturing expenses have also been capitalized in addition to direct acquisition costs.

Individual figures and sums stated in the notes have been rounded off to the nearest million from the exact figures. This may lead to minor discrepancies upon addition or subtraction.

1. External turnover by division and by market area

Turnover is calculated by deducting VAT and rebates from sales of products and services.

	Group				Rautaruukki Oy			
	1997 mFIM	1997 %	1996 mFIM	1996 %	1997 mFIM	1997 %	1996 mFIM	1996 %
Turnover by division								
Raahe Steel	2 594	19.0	2 590	20.2	2 615	39.0	2 652	39.5
Strip Products	1 937	14.2	2 186	17.0	2 588	38.5	2 535	37.8
Metform	1 963	14.4	1 919	15.0	1 114	16.6	1 041	15.5
Steel Structure Division	1 272	9.3	1 114	8.7	111	1.6	105	1.6
Engineering Division	342	2.5	465	3.6	286	4.3	379	5.6
Fundia	4 091	30.0	3 807	29.7				
Other units	1 451	10.6	753	5.9	0	0.0	1	0.0
	13 650	100.0	12 834	100.0	6 714	100.0	6 715	100.0
Turnover by market area								
Finland	3 726	27.3	3 117	24.3	2 668	39.7	2 407	35.8
Other EU countries	7 020	51.4	6 884	53.6	3 098	46.1	3 202	47.7
Other Europe	2 229	16.3	1 943	15.1	699	10.4	624	9.3
Other countries	676	4.9	891	6.9	249	3.7	482	7.2
Total external turnover, of which	13 650	100.0	12 834	100.0	6 714	100.0	6 715	100.0
- Exports from Finland	4 232	31.0	4 663	36.3	4 046	60.3	4 308	64.2
- Internal operations	5 842	42.8	5 217	40.7				

Fixed assets and depreciation

The values of fixed assets are based on the original acquisition cost, with the exception of the revaluation of certain land areas and buildings. Wearing assets are depreciated according to a plan based on the estimated economic useful life of the asset.

Gains and losses on the sale of fixed assets are included in the profit and loss account, either in the operating profit or in extraordinary items, depending on the nature of the transactions.

Extraordinary income and expenses

Extraordinary income and expenses include exceptional business transactions and events that are of material importance. The parent company's extraordinary income and expenses also include Group contributions. Previously, extraordinary expenses also included changes in the value of shares and other investments, but these items are now included in the parent company's profit and loss account under the heading write-offs on investments and in the consolidated profit and loss account under financial income and expenses.

Taxes

The consolidated financial statements include direct taxes based on Group companies' taxable profits for the year, and they have been calculated according to local tax legislation.

The deferred tax liability has been taken into account to the extent it can be assumed that voluntary provisions and the depreciation difference have had to be discharged, thus having an impact on the company's taxes.

Research and development expenses

Research and development expenses are booked as an expense of the year in which they arise.

2. Wages, salaries and other personnel expenses

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Salaries, wages and fringe benefits				
Salaries, fees and fringe benefits* of members of the Supervisory Board and Board and Managing Directors	36	34	6	7
Other salaries, wages and fringe benefits	2211	2125	1177	1125
	2247	2159	1183	1131
Including fringe benefits	13	12	4	3
Wages and salaries in the profit and loss account	2234	2148	1179	1128
* Including bonuses to management			0.3	1.0
Indirect employee expenses				
Pension insurance premiums and pensions	272	271	128	157
Other indirect personnel expenses	316	317	159	140
	588	587	287	297

3. Depreciation and change in depreciation difference

Planned depreciation is based on the original acquisition cost of the fixed asset and the estimated economic life, which in the case of buildings and structures is 10–40 years, 20 years for process machinery and equipment as well as vessels, 5 years for computer equipment and software, and 5–10 years for other machinery and equipment.

Licence fees included in intangible rights and other long-term expenses are depreciated on the straightline basis over a 5–10 year period.

Depreciation is calculated from the beginning of the month after the item is taken into use.

Rautaruukki Oy's planned depreciation and change in depreciation difference by the balance sheet line:

	Accumulated difference in depreciation	Planned depreciation	Total depreciation	Change in depreciation difference	Accumulated difference
					in depreciation
	1.1.97	1997	1997		31.12.97
Intangible rights	0	2	2	0	0
Goodwill	0	39	39	0	0
Other long-term expenses	9	15	23	8	17
Buildings and structures	456	55	148	92	548
Machinery and equipment	759	398	911	512	1 271
Total	1 224	509	1 121	613	1 836

Rautaruukki Group's planned depreciation and change in depreciation difference by the balance sheet line:

	Accumulated difference in depreciation	Planned depreciation	Total depreciation	Change in depreciation difference	Accumulated difference
					in depreciation
	1.1.97	1997	1997		31.12.97
Goodwill	0	67	67	0	0
Other long-term expenses	9	22	26	4	13
Buildings and structures	457	99	197	98	555
Machinery and equipment	770	610	1 111	501	1 272
Total	1 236	797	1 401	604	1 840

In the case of international subsidiaries, the planned depreciation used is in accordance with local accounting practice, which is not significantly different from the principles applied to depreciation by the parent company.

4. Financing income and expenses

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Interest income				
From long-term investments	1	4	99	101
From short-term investments	8	29	38	28
	9	33	137	129
Other financing income and expenses				
Change in the value of investments	0	0	14	-176
Dividend income	23	4	32	17
Other financing income and expenses	-14	-14	-11	-13
	9	-10	35	-172
Currency exchange differences	-10	-1	-18	-10
Interest expenses	-352	-475	-339	-387
Total financing income and expenses	-345	-454	-185	-440

Intra-Group financing income and expenses

FIM million	Rautaruukki Oy	
	1997	1996
Financing income from Group companies		
Interest income from long-term investments	110	99
Interest income from short-term investments	28	18
	138	117
Financing income paid to Group companies		
Interest expenses	6	7
	6	7

NOTES TO THE ACCOUNTS

5. Extraordinary income and expenses

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Extraordinary income				
Group contributions			75	52
Extraordinary expenses				
Merger losses				-7
Group contributions			-7	
Extraordinary items, total			68	45

6. Obligatory provisions

The part of the pension liability, which is not booked as expenses is shown in obligatory provisions and on the assets side under valuation items.

Obligatory provisions also include guarantee, restructuring and other provisions for future liabilities and charges.

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Pension liabilities 1.1.	141	169	111	155
Change	-24	-28		-44
	117	141	111	111
Other obligatory reserves 1.1.	14	15	1	0
Change	10	-1	6	1
	24	14	7	1

7. Tangible and intangible assets

Acquisition cost on January 1 has been calculated using December 31 exchange rates. Items that have previously been stated as establishment and arrangement expenses and which included capitalized overhead have been transferred, according to their nature, to other long-term expenditure.

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Intangible assets				
Intangible rights				
Acquisition cost 1.1.	56	46	41	40
Increases 1.1.-31.12.	6	4	1	2
Decreases and adjustment 1.1.-31.12.	6	-7	5	0
Acquisition cost 31.12.	57	56	38	41
Accumulated planned depreciation 1.1.	35	27	25	23
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.	4	-5	4	0
Planned depreciation 1.1.-31.12.	3	4	2	2
Book value 31.12.	23	21	15	16

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Goodwill				
Book value 1.1.	353	278	217	256
Increases 1.1.-31.12.		136		
Decreases and adjustment 1.1.-31.12.	-1			
Planned depreciation 1.1.-31.12.	67	62	39	39
Book value 31.12.	287	352	179	217
Other long-term expenses				
Acquisition cost 1.1.	199	180	180	171
Increases 1.1.-31.12.	66	18	64	9
Decreases and adjustment 1.1.-31.12.	0	-1		
Acquisition cost 31.12.	265	199	244	180
Accumulated planned depreciation 1.1.	143	122	134	117
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.	0	-2		
Planned depreciation 1.1.-31.12.	18	18	15	17
Book value 31.12.	105	57	95	47

Tangible rights

Land and water areas				
Book value 1.1.	140	132	37	35
Increases 1.1.-31.12.	7	46	1	3
Decreases and adjustment 1.1.-31.12.	8	38		
Book value 31.12.	139	140	38	37
Revaluations included in the acquisition cost of land areas				
Revaluations 1.1.	14	14	14	14
Increases 1.1.-31.12.				
Decreases 1.1.-31.12.				
Revaluations 31.12.	14	14	14	14

Buildings and structures

Acquisition cost 1.1.	2 956	2 624	2 112	2 033
Increases 1.1.-31.12.	208	389	127	91
Decreases and adjustment 1.1.-31.12.	20	68	2	12
Acquisition cost 31.12.	3 144	2 945	2 237	2 112
Accumulated planned depreciation 1.1.	1 017	948	812	764
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.	0	19	-3	1
Planned depreciation 1.1.-31.12.	99	89	55	49
Book value 31.12.	2 028	1 928	1 366	1 299
Revaluations included in the acquisition cost of buildings				
Revaluations 1.1.	181	181	181	181
Increases 1.1.-31.12.				
Decreases 1.1.-31.12.				
Revaluations 31.12.	181	181	181	181

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Machinery, equipment and other material goods				
Acquisition cost 1.1.	8 681	7 354	6 738	6 410
Increases 1.1.-31.12.	1 335	1 748	1 062	596
Decreases and adjustment 1.1.-31.12.	215	449	115	269
Acquisition cost 31.12.	9 801	8 652	7 685	6 738
Accumulated planned depreciation 1.1.	4 307	3 996	3 632	3 421
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.	112	244	84	177
Planned depreciation 1.1.-31.12.	612	590	398	388
Book value 31.12.	4 994	4 309	3 738	3 105
Book value of machinery 31.12.			3 504	2 935
Advance payments and incomplete acquisitions				
Acquisition cost 1.1.	505	254	443	228
Changes 1.1.-31.12.	-139	251	-193	216
Book value 31.12.	366	505	250	443

8. Taxation values of fixed assets

The taxation values of real property and shares have been shown at the most recently confirmed taxation value. If no taxation value is in use, the book value is given.

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Land and water areas	103	91	49	47
Buildings and structures	1 109	1 114	619	645
Stocks and shares	1 133	1 121	1 129	1 114

10. Fixed assets and other long-term investments, summary

Group FIM million	Intangible assets*	Tangible assets	Stocks and shares*	Loans re- ceivable*	Total
Acquisition cost/Book value 1.1.97 *)	430	12 282	644	58	13 415
Increases 1.1.-31.12.97	73	1 411	8		1 492
Decreases and adjustment 1.1.-31.12.	-4	-244			-248
Change in loans receivable and shares			-59	30	-28
Acquisition cost 31.12.97	499	13 450	593	88	14 631
Accumulated planned depreciation 1.1.97		5 324			5 324
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.	4	112			116
Planned depreciation 1.1.-31.12.97	88	711			799
Book value 31.12.97	416	7 527	593	88	8 624

In the profit and loss account the depreciation is calculated using the average exchange rates of the accounting period.

9. Stocks, shares and loans receivable included in long-term investments

Long-term loans receivable include loans due for repayment in one year or later. Loans receivable in foreign currency have been valued in the manner described in the notes to the accounts.

FIM million	Rautaruukki Oy	
	1997	1996
Group companies		
Shares	975	946
Loans receivable	2 121	2 358
Total	3 096	3 304
Associated companies		
Shares	154	453
Loans receivable include subordinated loans		
to subsidiaries	52	67
to associated companies	0	0
to other companies	1	1
	53	68
Long-term receivables from the company's Board member	0	0

At the time of preparing the financial statements, the book value of the publicly quoted shares owned by Rautaruukki Oy was FIM 6 million lower than their market value for the shares of associated companies and FIM 9 million lower for other shares.

NOTES TO THE ACCOUNTS

Rautaruukki Oy FIM million	Intangible assets	Tangible assets	Stocks and shares	Loans re- ceivable	Total
Acquisition cost 1.1.97	620	9330	1430	2396	13776
Increases 1.1.-31.12.97	65	997	38	-220	880
Decreases and adjustment 1.1.-31.12.	5	117	57		178
Acquisition cost 31.12.97	681	10210	1411	2176	14478
Accumulated planned depreciation 1.1.97	341	4445			4786
Accumulated planned depreciation of decreases and adjustment 1.1.-31.12.	4	81			84
Planned depreciation 1.1.-31.12.97	55	454			509
Book value 31.12.97	289	5392	1411	2176	9268
Book value 31.12.96	279	4885	1430	2396	8991

11. Stocks and shares 31.12.1997

The statutory financial statements also include information on the profits/losses and equities of the subsidiaries and associated companies.

FIM million	Country	Number of shares	Group share of share capital voting rights		Nominal value currency thousands		Book values 1000 FIM held by Rautaruukki Oy		held by other Group companies
Subsidiaries of Rautaruukki Oy:									
August Lindberg Oy	FI	5	100.0	100.0	FIM	250	3 662		
Carl Christensen og Brødre AS	NO	66	100.0	100.0	NOK	2310	122 922		
DCA-instruments Oy	FI	990	97.2	71.0	FIM	990	990		
Etnarör Ab	FI	100	100.0	100.0	FIM	1	1		
Kyrön Konepaja Oy	FI	10000	100.0	100.0	FIM	100	3 893		
Oy JIT-Trans Ltd	FI	150	100.0	100.0	FIM	1500	5 500		
Keskometalli Oy	FI	6000	100.0	100.0	FIM	60000	242 316		
Kiinteistö Oy Dental-talo	FI	26	65.0	65.0	FIM	13	0		
Kiinteistö Oy Myllynummentie 17	FI	100	100.0	100.0	FIM	15	81		
Kiinteistö Oy VM-Hallit	FI	1580	100.0	100.0	FIM	158	1 356		
Polarplan Oy	FI	100	100.0	100.0	FIM	200	1 105		
Polartherm Oy	FI	3100	100.0	100.0	FIM	3100	7 852		
Presteel Oy	FI	2365	55.0	55.0	FIM	2365	12 653		
Rannila Kosice s.r.o.	SK		51.0	51.0	SKK	139630	21 768		
Rannila Steel Oy	FI	1500	100.0	100.0	FIM	15000	100 000		
Rautaruukki Holding AB	SE	570000	100.0	100.0	SEK	57000	188 371		
Rautaruukki Holding B.V.	NL		100.0	100.0	NLG	40	85		
Rautaruukki Holding Danmark A/S	DK	1000	100.0	100.0	DKK	4000	13 733		
Rautaruukki Holding GmbH	DE		100.0	100.0	DEM	4050	228 618		
Rautaruukki (Norge) A/S	NO	200	100.0	100.0	NOK	200	260		
Rautaruukki Polska Sp.zo.o.	PL		100.0	100.0	PLN	2317	5 661		
Rautaruukki (S.E.A.) Pte Ltd	SG	100000	100.0	100.0	SGD	100	383		
Rautaruukki (UK) Ltd.	GB	10000	100.0	100.0	GBP	10	81		
Rautaruukki USA Inc.	US	200	100.0	100.0	USD	0,2	5 919		
SKJ-yhtiöt Oy	FI	1000	100.0	100.0	FIM	500	836		49
Star Tubes (UK) Ltd.	GB	2800000	100.0	100.0	GBP	2800	19 555		168
Steel Building Systems Oy	FI	1520	76.0	76.0	FIM	91	91		
							987 693		217
Subsidiaries not eliminated from consolidated accounts:									
Housing and real estate corporations, 12 companies									
Other subsidiaries of Rautaruukki Group (non-trading) 7 companies									
			100.0	100.0		120	108		3 335
Non-eliminated subsidiaries, total							3 443		18
							991 137		235

FIM million	Country	Number of shares	Group share of share capital voting rights		Nominal value currency thousands		Book values 1000 FIM	
							held by Rautaruukki Oy	held by other Group companies
Subsidiary of A/S Carl Christensen og Brødre:								
CCB Stål AS	NO	600	100.0	100.0	NOK	600		9 338
Subsidiary of DCA-Instruments Oy:								
Nordic Instruments Inc.	US	10000	100.0	100.0	USD	10		41
Subsidiaries of Keskkometalli Oy:								
Rautaruukki Eesti OÜ	EE	1	100.0	100.0	EEK	270		238
Rautaruukki Metalcentrs SIA	LV	35	100.0	100.0	LVL	35		312
Rautaruukki Metalu Centras	LT		100.0	100.0	LTL	50		64
								614
Subsidiaries of Rannila Steel Oy:								
Alamentti Oy	FI	100	100.0	100.0	FIM	100		468
ZAO Rannila Steel Rossija	RU	48100	100.0	100.0	RUR	48100		144
ZAO Rannila Taldom	RU	27360	95.0	95.0	RUR	2736000		3 893
AS Rannila Profiil	EE	1500	100.0	100.0	EEK	4395		2 015
Rannila Steel Latvia S.I.A	LV	110	100.0	100.0	LVL	11		110
Rannila Steel Vilnius U.A.B	LT	30	100.0	100.0	LTL	30		35
Rannila Velvary s.r.o.	CZ		65.0	65.0	CZK	6500		1 019
ZAT Rannila Kiev	BY	100	100.0	100.0	BYB	40		116
ZAT Rannila Minsk	UA	520	100.0	100.0	UAK	520000		106
ZAO Rannila Marketing	RU	50	100.0	100.0	RUR	50000		44
								7 951
Subsidiaries of Rautaruukki Holding AB:								
Fundia AB	SE	3500000	100.0	100.0	SEK	350000		905 916
Gasell Profil AB	SE	162000	100.0	100.0	SEK	16200		35 548
Rautaruukki AB	SE	3000	100.0	100.0	SEK	300		218
Rautaruukki Sverige AB	SE	9000	100.0	100.0	SEK	900		653
Wirso Stålrör AB	SE	50000	100.0	100.0	SEK	5000		13 726
								956 061
Subsidiary of Rautaruukki Holding B.V.:								
Rautaruukki Finance B.V.	NL	40	100.0	100.0	NLG	40		107
Subsidiaries of Rautaruukki Holding Danmark A/S:								
Nordisk Simplex A/S	DK		100.0	100.0	DKK	20000		47 945
Stelform A/S	DK		100.0	100.0	DKK	30000		12 134
								60 079
Subsidiaries of Rautaruukki Holding GmbH:								
Carl Froh GmbH	DE		100.0	100.0	DEM	6800		155 311
Carl Froh Verwaltungs-GmbH	DE		100.0	100.0	DEM	200		672
Ragal Feinblech GmbH	DE		100.0	100.0	DEM	300		908
Rautaruukki (Deutschland) GmbH	DE		100.0	100.0	DEM	100		908
Rautaruukki Stahlservice GmbH	DE		100.0	100.0	DEM	50		22 676
Schmacke Rohr GmbH	DE		100.0	100.0	DEM	4000	280	20 981
								201 456
Subsidiary of Rautaruukki (USA) Inc.:								
Finnsteel Inc.	US	3000	100.0	100.0	USD	30		163
Subsidiaries of SKJ-yhtiöt Oy:								
ZAO Peterski	RU	80	100.0	100.0	RUR	104500		99
SKJ Svenska AB	SE	100	100.0	100.0	SEK	100		67
								166

NOTES TO THE ACCOUNTS

FIM million	Country	Number of shares	Group share of		Nominal value		Book values 1000 FIM	
			share capital	voting rights	currency	thousands	held by Rautaruukki Oy	held by other Group companies
Subsidiaries of Fundia AB:								
Fundia Bar & Wire Processing AB	SE	400000	100.0	100.0	SEK	40000		48 041
Fundia Bygg AS	NO	230000	100.0	100.0	NOK	230000		294 423
Fundia GmbH	DE		100.0	100.0	DEM	9000		46 332
Fundia Ltd.	GB	1000	100.0	100.0	GBP	1		503
Fundia Profiler AS	NO	70000	100.0	100.0	NOK	70000		102 945
Fundia Special Bar AB	SE	106000	100.0	100.0	SEK	10600		274 520
Fundia Stahl GmbH	DE		100.0	100.0	DEM	50000		104
Fundia Wire Oy Ab	FI	200	100.0	100.0	FIM	20000		185 987
								952 855
Subsidiaries of Fundia Bar & Wire Processing AB:								
Fundia Cromax AB	SE	1000	100.0	100.0	SEK	100		69
Fundia Dalwire Oy Ab	FI	120000	100.0	100.0	FIM	12000		6 560
Fundia Hjulstro AB	SE	80000	100.0	100.0	SEK	8000		13 726
Fundia Mandal Stål AS	NO	16358	100.0	100.0	NOK	16358		14 158
Fundia Steelservice AB	SE	60000	100.0	100.0	SEK	6000		13 040
Fundia SWL AB	SE	8000	100.0	100.0	SEK	800		686
								48 239
Subsidiaries of Fundia Bygg AB:								
Fundia Welbond BV	NL	499	100.0	100.0	NLG	500		1 539
Fundia Welbond Ltd.	GB	249999	100.0	100.0	GBP	250		3 346
Fundia Welbond SA	FR	20249	100.0	100.0	FRF	2500		2 256
Fundia Ølstykke A/S	DK	38	100.0	100.0	DKK	1000		4 375
Hjulstro AB	SE	7500	100.0	100.0	SEK	750		2 539
								14 056
Subsidiaries of Fundia Bygg AS:								
Fundia Betoniteräkset Oy	FI	1570	100.0	100.0	FIM	15700		16 582
Fundia Bygg AB	SE	600000	100.0	100.0	SEK	60000		54 075
Fundia Maidenhead Ltd	GB	998	99.8	99.8	GBP	1		8
Norsk Jernverk BRD GmbH	DE	50	100.0	100.0	DEM	50		110
Robocon International AS	NO	500	100.0	100.0	NOK	50		1 146
SNJ Gesellschaft für Walzhandel GmbH	DE	500	100.0	100.0	DEM	50		102
								72 023
Subsidiary of Fundia GmbH:								
Groth Eisenhandel GmbH & Co KG	DE	1	100.0	100.0	DEM	750		3 049
Subsidiary of Robocon International AS:								
Robocon Latino America SA	CL	20249	99.0	99.0	USD	20		261
Subsidiaries of Fundia Cromax AB:								
Fundia Bright Bar AB	SE	50000	100.0	100.0	SEK	5000		3 432
Fundia Mora AB	SE	38500	100.0	100.0	SEK	8010		5 497
Fundia Redon S.A.	FR	25050	100.0	100.0	FRF	2505		5 499
Fundia Twente B.V.	NL	5000	100.0	100.0	NLG	5000		1
								14 429
Subsidiary of Fundia Profiler AS:								
Fundia PreStål AS	NO	3500	100.0	100.0	NOK			2 588
Subsidiaries of Fundia Special Bar AB:								
Flatenbergs Hyttelag AB	SE	500	100.0	100.0	SEK	100		0
Fundia Acier S.A.R.L.	FR	100	100.0	100.0	FRF	1000		74
Fundia Steel B.V.	NL	28	80.0	80.0	NLG	1000		49
Fundia Tankoteräs Oy	FI	150	100.0	100.0	FIM	100		16
Scansider AB	SE	10000	100.0	100.0	SEK	100		1
								140
Subsidiaries of Fundia Wire Oy Ab:								
Asunto Oy Lappohjan Kerrostalot	FI	34556	100.0	100.0	FIM	3456		3 511
Bostads Ab Sägars	FI	15263	100.0	100.0	FIM	4579		4 940
Fastighets Ab Gamla Posten	FI	276	100.0	100.0	FIM	276		490
Fastighets Ab Järnstängen	FI	10100	100.0	100.0	FIM	101		3
Fastighets Ab Lapphyddan	FI	810	81.0	81.0	FIM	81		81

FIM million	Country	Number of shares	Group share of share capital voting rights		Nominal value currency thousands		Book values 1000 FIM	
							held by Rautaruukki Oy	held by other Group companies
Fundia Tråd AB	SE	500	100.0	100.0	SEK	50		5 580
Fundia Wire Rod. Ltd.	GB	1000	100.0	100.0	GBP	1		8
								14 612
Subsidiaries of Gasell Profil AB:								
Gasell Profil A/S	DK	500	100.0	100.0	DKK	500		1 018
Gasell Profil AS	NO	500	100.0	100.0	NOK	50		38
Gasell Profil Polska Sp. zo.o.	PL	32	80.0	80.0	PLZ	3		7
Gasell Profiles Ltd.	GB	900	90.0	90.0	GBP	1		6
U.A.B. Gasell Profil	LT	10	100.0	100.0	LTL	10		14
								1 083
Stocks and shares in subsidiaries, total							991 416	2 359 545
Associated companies, voting rights 20-50 %								
A+R Profilstahl GmbH	DE		33.3	33.3	DEM	1000		9 083
ACH Aluminium AB	SE	6	20.0	20.0	SEK	600		394
Asva Oy	FI	770	20.0	20.0	FIM	7700	47 823	
Asva Stal Serwis Sp. zo.o	PL	1250000	50.0	50.0	PLN	2500	5 711	
Bet-Ker Oy	FI	120	40.0	33.3	FIM	1200		1 200
Ekometall AOZT	UA	1000	50.0	50.0	USD	25		123
Heléns Rör AB	SE	4500	25.0	25.0	SEK	4500	39 800	
Kiinteistö Oy Teknocent	FI	1916	47.9	47.9	FIM	1916	1 916	
Kings Lynn Steel (Holdings) Ltd.	GB	5000	50.0	50.0	GBP	500		3 233
Mofjellet Berghaller AS	NO	600	40.0	40.0	NOK	1000		689
Norsk Jern Eiendom AS	NO	3600	30.0	30.0	NOK	22500		55 038
Osuuskunta Teollisuuden Romu	FI	2	33.3	33.3	FIM	20	10	10
PPTH Teräs Oy	FI	20000	40.0	40.0	FIM	20000	20 002	
Raahen Kauppaklubin Kannatus Oy	FI	15	33.3	33.3	FIM	150	151	
Rannila-Centrostal Bydgoszcz Sp. zo.o.	PL	13202	49.0	49.0	PLZ	660		1 687
Valtameri Oy	FI	405540	24.6	21.7	FIM	4055	38 335	
							153 747	71 457
							225 204	
Associated companies' profits and goodwill							55 717	
Associated companies' value in balance sheet							280 921	
Other stocks and shares, share of voting rights less than 20 %:								
Ancofer Stahlhandel GmbH	DE		10.0	10.0	DEM	2800		19 061
Broderne Sundt Verktoymaskinfabrik A/S	NO	2939	15.4	15.4	NOK	73		147
Oy Datacity Center Ab	FI	1000	7.0	7.0	FIM	100	100	
Ekokem Oy Ab	FI	230	1.3	1.3	FIM	460	460	
Europäisches Entwicklungszentrum für Kokereitechnik GmbH	DE	1	1.0	1.0	DEM	25	59	
Franzefoss Gjennvinning AS	NO	150	17.7	17.7	NOK	7500		11 701
Hangöudds Utvecklingsbolag Ab	FI	8	10.0	10.0	FIM	800		813
Hex Oy	FI	24400			FIM		150	
AB Järnbruksförnödenheter	SE	623			SEK	100		70
Metalplast-Oborniki Sp. zo.o.	PL	149903	16.9	16.9	PLN		5 408	
Odda Recycling AS	NO	166	16.6	16.6	NOK	1000		125
Oulun Teknologia kylä Oy	FI	2000	0.3	0.3	FIM	100	100	
Posion Kehitysyhtiö Oy	FI	20	3.4	3.4	FIM	200	200	
Raahen Liikuntahalli Oy	FI	17	8.5	8.5	FIM	17	1 055	
Raahen Tietotekniikka Oy	FI	10	2.3	2.3	FIM	10	50	
Raahetech Oy	FI	2	2.6	2.6	FIM	100	100	
Savonlinnan Oopperajuhlat Oy	FI	1000	0.5	0.5	FIM	25	30	
Skandinavian Link Finska Oy	FI	100	7.7	7.7	FIM	15	100	
Suomen Osakekeskusrekisteri Osuuskunta	FI	10	2.2	2.2	FIM	700	700	
Tammet Oy	FI	900	15.0	15.0	FIM	324		4 439
YIT-yhtymä Oy	FI	4012000	13.7	13.7	FIM	40120	238 191	
Shares in housing and real estate companies							16 405	3 532
Other stocks and shares							3 474	1 713
Total other stocks and shares							266 582	41 601

NOTES TO THE ACCOUNTS

12. Valuation items

Pension liabilities

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Pension funds' uncovered pension liability 1.1.	123	167	123	167
Change in uncovered pension liability due to calculation method		-44		-44
Pension funds' uncovered pension liability 31.12.	123	123	123	123
In addition to this liability pension funds have an obligatory uncovered pension liability of 18 FIM million. Rautaruukki Oy has booked to expenses, but not covered to the pension fund	-13	-13	-13	-13
Uncovered pension liability in the company's balance	110	110	111	111
Liability for pensions paid directly by the company 1.1.	31	15		
Change in uncovered pension liability/transfer to other long-term investments	-24	16		
Liability for pensions paid directly by the company 31.12.	7	31		
Total pension liabilities	117	141	111	111

Capitalized interest during construction period

The interest for the period the Raahé Steel Works' coking plant was under construction. Annual booking to interest costs.

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Capitalized interest in valuation items as at 1.1.	22	29	22	29
Change	-5	-7	-5	-7
	18	22	18	22

Other valuation items

Other valuation items include activated expenses on loans payable and deferred tax receivable.

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Other valuation items 1.1.	4	1		
Change in 1996		4		
Other valuation items 31.12.	4	5		
Other valuation items, total	21	27	18	22
Valuation items, total	139	168	128	133

13. Inventories

Inventories are valued at the acquisition price or at the probable replace cost, whichever is the lower, or at the disposal price. Costs are determined on a FIFO basis.

14. Short-term receivables, securities included in current assets, and cash in hand and at bank

Short-term receivables include receivables that fall due for payment within one year. Financial assets in foreign currency have been valued in the manner described in the accounting principles.

FIM million	Rautaruukki Oy	
	1997	1996
The parent company's current assets include the following short-term receivables from subsidiaries:		
Accounts receivable	221	169
Short-term loans and other receivables	306	355
Accruals	108	61
Other short-term receivables	1	2
	636	586

The parent company's current assets include the following short-term receivables from associated companies:

Accounts receivable	143	99
---------------------	-----	----

15. Management pension commitments

One of the members of Rautaruukki Oy's Board has the right, if he so wishes, to retire at the age of 60.

16. Shareholders' interests

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Restricted equity				
Share capital 1.1.	1 202	1 202	1 202	1 202
Share issue	130		130	
Share capital 31.12.	1 332	1 202	1 332	1 202
Reserve fund 1.1.	782	782	782	782
Share issue	404		404	
Reserve fund 31.12.	1 186	782	1 186	782
Revaluation fund	195	195	195	195
Translation adjustment	-14	-22		
Restricted equity 31.12.	2 700	2 157	2 714	2 180
Nonrestricted equity				
Profit/loss from previous years 1.1.	723	779	1 060	1 092
Dividend distribution	-180	-204	-180	-204
Translation adjustment and other equity	1	-50		
Profit/loss from previous years 31.12.	544	524	880	888
Profit for the year	461	199	250	172
Nonrestricted equity 31.12.	1 005	723	1 130	1 060

Shareholders' interests 31.12. 3 705 2 880 3 843 3 240

The shareholders of Rautaruukki Oy according to the share register at 31.12.1997

Shareholder	Number of shares	Shares %	Shares mFIM
Republic of Finland	56 289 681	42.25	563
Pohjola Companies	7 066 000	5.30	71
Sampo Group	5 175 687	3.88	52
Eläkevarma and Nova	4 969 657	3.73	50
Kesko Pension Fund	2 780 952	2.09	28
Local Government Pensions Institution	1 293 917	0.97	13
Alfred Berg Fund	721 433	0.54	7
Finnish National Fund for R&D	375 000	0.28	4
Optimal Fund	415 500	0.31	4
The Central Church Fund	340 000	0.26	3
Administrative registrations	31 939 482	23.97	319
Other owners	21 861 107	16.41	219
	133 228 416	100.00	1332

17. Optional reserves and accumulated depreciation difference

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
Accumulated depreciation difference 1.1.	1 236	770	1 224	715
Change in profit and loss account	604	466	612	463
Change due to merger				46
Accumulated depreciation difference 31.12.	1 840	1 236	1 836	1 224
Transition reserve 1.1.	204	260	190	252
Change in profit and loss account	-204	-66	-190	-66
Change due to merger and acquisitions		10		4
Transition reserve 31.12.	0	204	0	190

Optional reserves and accumulated depreciation difference, total 31.12. 1 840 1 440 1 836 1 414

In the subgroup, an imputed deferred tax liability of FIM 62 million has been separated out from the optional reserves and the depreciation difference. The deferred tax liability for optional reserves and the depreciation difference, which are stated in the consolidated balance sheet, would have been FIM 515 million at the balance sheet date, and this has not been separated out.

Changes in obligatory provisions are shown in note no. 6.

18. External liabilities

External liabilities denominated in foreign currency have been valued in the balance sheet at the Bank of Finland rate quoted on the last day of the accounting period.

FIM million

Rautaruukki Oy's external liabilities include the following debts to subsidiaries:

	1997	1996
Accounts payable	32	-4
Accruals	67	28
Short-term debts	7	80
	106	104

Rautaruukki Oy's external liabilities include the following debts to associated companies:

Accounts payable	9	10
Accruals	24	35
	33	45

The currency mix and interest maturity of long-term debt as of 31.12.1997

Includes long-term currency swaps which have a countervalue of FIM 1,752 million and are intended to hedge the loan portfolio

	FIM million	% of total debt
FIM	2 256	40 %
DEM	1 570	28 %
SEK	1 372	24 %
USD	396	7 %
Others	48	1 %
	5 642	100 %

Repayment schedule of interest bearing long-term debt as of 31.12.1997

Including currency swaps used for hedging long-term loans

Annual repayments	Group, mFIM
1998	601
1999	233
2000	808
2001	1 190
2002	1 279
2003-	1 531
Total	5 642

Bonds

	interest rate	currency	millions	1997 mFIM	1996 mFIM
1993-1997	8.5 %	FIM	300	0	300
1994-2001	floating	USD	75	407	348
Bonds issued with warrants					
1994-1999	6.0 %	FIM	1	1	1
				408	649

NOTES TO THE ACCOUNTS

19. Contingent liabilities

FIM million	Group		Rautaruukki Oy	
	1997	1996	1997	1996
For own debts				
Mortgaged real estates	620	320	599	294
	620	320	599	294
For Group companies				
Guarantees			296	346
Debit balance of Group bank accounts			395	
Mortgaged real estates	0	1	0	1
	0	1	691	346
For associated companies				
Mortgaged real estates	0	20	0	20
Guarantees	87	107	86	105
	87	127	86	125
For others				
Guarantees	8	5	1	3
	8	5	1	3
Leasing liabilities				
Due next year	163	139	4	4
Due later	382	501	2	6
	545	640	6	11
Repurchase liabilities	129	74	125	74
Letter of Comfort -liabilities* for Group companies			52	

* Letter of Comfort contingent liabilities do not constitute a legal guarantee.

20. Fair values of derivative contracts as at 31.12.1997

The following table shows the nominal values, carrying amounts (= balance sheet values) and fair values of derivative contracts connected with the management of foreign currency and interest rate risks. Fair value is defined as the amount at which the given instrument could be exchanged between willing parties in a non-forced sales situation.

FIM million	Nominal value	Carrying amount	Fair value
Foreign currency contracts			
Forward foreign exchange contracts	6 430	0	32
Currency swaps	1 752	84	-63
Interest rate contracts			
Forward rate agreements	995	0	0
Interest rate swaps	3 490	-92	-169

The fair value of *forward foreign exchange contracts* is calculated based on the market rates on the balance sheet date. The carrying amount does not include the exchange rate difference of forward foreign exchange contracts hedging long-term purchases of raw materials.

The fair value of *currency swaps* is calculated based on the market rates on the balance sheet date. The fair value of the interest rate flows connected with these has been estimated on the basis of the present value of future cash flows. In addition to the exchange rate difference, the carrying amount includes accrued interest. Currency swaps include contracts connected with the hedging of both the loan portfolio and the cash flow.

The fair value of *forward interest rate agreements* is calculated based on market rates on the balance sheet date.

The carrying amount of *interest rate swaps* consists of accrued interest. The fair value is estimated on the basis of the present value of future cash flows.

EXCHANGE RATES

	Average rates					Year-end rates				
	1997	1996	1995	1994	1993	1997	1996	1995	1994	1993
USD	5.1944	4.5905	4.3658	5.2184	5.7189	5.4207	4.6439	4.3586	4.7432	5.7845
DEM	2.9939	3.0530	3.0471	3.2169	3.4584	3.0275	2.9880	3.0435	3.0615	3.335
SEK	0.6799	0.6847	0.6123	0.6758	0.735	0.6863	0.6748	0.6546	0.6358	0.6945
DKK	0.7859	0.7921	0.779	0.8207	0.8822	0.7948	0.7809	0.7862	0.7794	0.8549
NOK	0.7339	0.7111	0.6889	0.7393	0.8059	0.7394	0.7209	0.6899	0.7014	0.7701
GBP	8.506	7.164	6.891	7.982	8.582	8.992	7.869	6.741	7.409	8.554
FRF	0.8894	0.8978	0.8746	0.9406	1.0096	0.9046	0.8862	0.8906	0.8873	0.9817
ITL	0.00305	0.00298	0.00268	0.00324	0.00364	0.00308	0.00304	0.00275	0.00292	0.00338
ECU	5.864	5.751	5.644	6.175	6.685	5.989	5.770	5.597	5.815	6.459

21. Profit and equity in accordance with IAS

The differences between international and Finnish accounting practice

The accounting principles adopted by Rautaruukki Group differ from IAS (International Accounting Standards) in a few items. Differences have arisen in handling revaluations and some other fixed asset items, sale and lease back agreements and the booking of pension liabilities.

The deferred tax liability, which on the balance sheet date would have been FIM 515 million, has not been separated out from the optional reserves or the depreciation difference.

Following calculations show the reconciliated profit and equity in accordance with IAS.

FIM million	1997	1996
Profit for the year in the consolidated accounts	461	199
Goodwill depreciation allocated to reserves	38	38
Depreciation of revaluations	-5	-5
Adjustment to other depreciation	18	23
Pension expenses	0	48
Associated companies	5	5
Sale & lease back and other agreements	21	-4
Imputed deferred tax liability portion of provisions	53	-53
Change in reserves	400	400
Profit for the year in the IAS accounts	991	651
Shareholders' interests in the consolidated accounts	3 705	2 880
Optional reserves	1 830	1 430
Imputed deferred tax liability portion of provisions	0	-53
Pension liabilities entered to expenses	-110	-110
Goodwill depreciation allocated to reserves	-80	-118
Sale & lease back and other agreements	-41	-62
Depreciation of intangible assets	-16	-34
Depreciation of revaluations	-117	-112
Associated companies	-3	-8
Shareholders' interests in the IAS accounts	5 168	3 813

BOARD PROPOSAL FOR THE USE OF PROFIT

At the closing of the accounts for 1997 the consolidated nonrestricted equity capital of the Group was FIM 1,004.8 million, of which the profit for the year was FIM 460.5 million. The nonrestricted equity capital of the parent company was made up as follows:

Net profit for the year	FIM	249,751,653.68
Retained earnings from previous years	FIM	879,572,665.94
Total	FIM	1,129,324,319.62

The Board of Directors will recommend to the Annual General Meeting that

on the share capital of	FIM	1,332,284,160.00
a dividend of 20 per cent be paid	FIM	266,456,832.00
and that a donation be made to the Foundation for Financial Aid, Helsinki University of Technology, and to the Foundation of Technology in Finland for the fund raising drive of Suomen Tekniikka's 150th Jubilee, thus	FIM	1,000,000.00
and that the remainder of the profit be posted to the retained earnings account, bringing it to a total of	FIM	861,867,487.62

Helsinki 11 February 1998

BOARD OF DIRECTORS

Mikko Kivimäki

Lauri Mannerkoski

Pekka Einamo

Aulis Saarinen

Gösta Engman

Seppo Ahonen

Seppo Sahlman

AUDITORS' REPORT

To the shareholders of Rautaruukki Oy

We have audited the accounting records and the financial statements, as well as the administration by the Supervisory Board, the Board of Directors and the Managing Director of Rautaruukki Oy for the year ended 31 December 1997. The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and the company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose

of our audit of the administration has been to examine that the Supervisory Board, the Board of Directors and the Managing Director have complied with the rules of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations, as well as of the financial position. The financial statements can be adopted and the members of the Supervisory Board, the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal made by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies Act.

We have acquainted ourselves with the interim financial statements made public by the company during the year. It is our understanding that the interim financial statements have been prepared in accordance with the rules and regulations governing the preparation of such statements in Finland.

Helsinki 12 February 1998

KPMG WIDERI OY AB

Hannu Niilekselä
Authorized Public Accountant

STATEMENT BY THE SUPERVISORY BOARD

Having today considered the company's financial statements and consolidated financial statements for 1997, as well as the Auditors' Report, the Supervisory Board of Rautaruukki Oy proposes to the 1998 Annual General Meeting of shareholders that the profit and loss accounts and the balance sheets of the company and the Group be approved. The Supervi-

sory Board concurs with the Board of Directors' proposal concerning the disposal of profit.

The following members of the Supervisory Board are due to retire at the 1998 Annual General Meeting of the shareholders: Göran J. Ehrnrooth, Juhani Alaranta, Tuula Haatainen and Tauno Matomäki.

Helsinki 27 February 1998

SUPERVISORY BOARD

Martti Korhonen

Jorma Rantanen

Göran J. Ehrnrooth

Tauno Heikonen

Juhani Alaranta

Georg Ehrnrooth

Tuula Haatainen

Marjut Kaarilahti

Timo Ihamäki

Tauno Matomäki

Hannes Manninen

Principles underlying financing and financial risk management

The Group's financing and financial risk management is handled centrally by the parent company. The Group's Board of Directors confirms the principles underlying risk management and the risk levels. Financial risk is dealt with regularly both in the meetings of the Group's Board of Directors and in its Financing Committee. The industrial divisions are responsible for their own financial result and financing measures which are executed mainly through intra-Group transactions.

The objective of financial risk management is to minimize the effects of financial risks connected with business operations (foreign exchange, interest rate, liquidity and credit risks) on the Group's earnings, primarily in respect of the current financial year, but also over the medium term. The aim is thus to create a stable framework for developing the operations of the Group and its industrial divisions, for the appreciation of Rautaruukki's share and to ensure a good ability to pay dividends.

Financial risks are hedged with derivative contracts (forward foreign exchange contracts, forward interest rate agreements, currency and interest rate swaps and options). These are not used for trading purposes. The nominal values of the derivative contracts described below do not necessarily represent amounts exchanged by the parties and thus, when examined in isolation, they do not give a measure of the Group's risk position. (The nominal and fair values and carrying amounts of the derivative contracts are given in the Notes to the Financial

Statements (20) on page 36).

The Group constantly evaluates the market and credit risks of its financial assets and liabilities, including derivative contracts as well as their effect on earnings. To assess market risks, it constantly compares different instruments against market prices and estimates their price sensitivity to changes in market factors. The credit risk of financial contracts, i.e. the risk that the counterparty may not be able to fulfil its obligations, is minimized by making contracts only with leading Finnish and foreign banks and financial institutions as well as by investing liquid funds only in sufficiently sound counterparties that are approved by the Group's Board of Directors. Defaults by the other party are not expected.

In addition to direct financial risks, the Group minimizes operational risk related to financial instruments - the risk of losses due to deficient systems or the procedures used in exercising internal control. Management of Rautaruukki's financial risks is handled on a central basis by the parent company's Treasury unit, which continually reports on various financial risks to Group management and requires that counterparties continually report on their open derivative contracts.

The Group's foreign exchange position and foreign exchange risk management

Changes in foreign exchange rates have an impact on the Group's result and shareholders' equity in a number of ways, some of which have a direct and some an indirect effect:

Economic risk: Changes in foreign exchange rates affect steel supply in different curren-

cy zones and thus have a major impact on trends in steel prices. For example, if the USD strengthens against European currencies, this increases exports of European steel products to the USA and reduces imports. On the other hand, the competitive position of European companies depends to a large degree on the level of the exchange rates of the national currencies. Rautaruukki's steel production is based in the Nordic countries and about 95 per cent of the Group's net sales is generated in Europe. Going over to the EMU would reduce economic risk.

Cash flow risk: A considerable part of Rautaruukki's production of flat products and its upgrading operations takes place in Finland. Fundia's long steel products are manufactured mainly in Finland, Sweden and Norway. The Group's sales in Finland totalled FIM 3,576 million. Exports from Finland amounted to FIM 4,232 million and went mainly to the other Nordic countries and countries in the European Union and were priced in their local currencies. International operations accounted for FIM 5,842 million of the Group's net sales. Fundia was the major international unit, and about half of its net external sales of FIM 4,091 million came from the Nordic countries, the remainder consisting mainly of exports to the EU countries, with invoicing in the local currencies. The Group's foreign exchange surplus in the currencies of the EU countries is offset by raw materials purchases, which are mainly in US dollars but also in currencies of the EU countries (table 1).

Both the Board of Directors and its Financing committee regularly review the hedg-

ing level of cash flow risk. Hedging period of the estimated cash flow was in 1997 one month at most.

The new market economy countries of Eastern Europe have accounted for a growing proportion of the Group's net sales over the past couple of years. In 1997 the total turnover in these countries amounted to FIM 873 million, of which external exports from Finland accounted for a little less than 50 % and was invoiced mainly in western currencies the rest being principally sales to the local Group companies. Business operations in these countries consist mainly of steel upgrading and sales in local currencies and to some extent also in US dollars. Raw material purchases are almost totally in Finnish markka. Risk is managed, among other things, by making mainly short-term sales agreements.

Balance sheet risk: The Group carries out separate hedging of balance sheet risk, which includes all the foreign currency-denominated items in the balance sheet as well as the off-balance sheet derivative contracts used to hedge them: long- and short-term loans in foreign currency and foreign currency swaps, currency hedging for the foreign subsidiaries, accounts receivable and accounts payable in foreign currency, loans made in foreign currency, forward exchange contracts and cash assets denominated in foreign currency (table 2). In 1997 the Group's balance sheet risk was on average fully hedged against the base currencies with the exception of net accounts receivable which were only partly hedged. When making decision on the hedge level the EMU convergence on the basis of ERM cen-

Table 1.
Estimated annual net cash flow risk of the Group against Finnish Markka

(FIM million)	Countervalue	Effect of an average of 10% exchange rate change on the Group's operating profit
USD	- 600	-/+ 60
ERM	+ 1 830	+/- 183
SEK	+ 100	+/- 10
NOK	- 20	-/+ 2
GBP	+ 950	+/- 95
Other currencies	+ 330	+/- 33
Total	+ 2 590	+/- 259

Exchange rates for five years on page 36.

Table 2.
Balance sheet risk of the Group's Finnish companies against Finnish Markka as of 31.12.1997:

(FIM million)	Balance sheet risk	Effect of an average of 10% exchange rate change on the Group's net profit
USD	+ 20	+/- 2
ERM	+330	+/- 33
SEK	+ 90	+/- 9
NOK	+ 40	+/- 4
GBP	+ 50	+/- 5
Other currencies	+ 10	+/- 1
Total	+ 540	+/- 54

Table 3.
Interest rate linkage of the Group's net liabilities of FIM 5,394 million as of 31.12.1997:

	Share	% fixed rate (interest period >12months)	Average maturity of fixed rate position
FIM	62%	45 %	1.3 years
SEK	24%	0 %	
DEM	5%	480 %*	2 years
Other currencies	9%	17 %	1.5 years
Total	100%	54 %	1.6 years

*DEM interest rate swaps used for hedging FIM position in view of EMU

tral parities was taken into account.

Translation risk involving equity accounts: The Group also uses foreign currency loans and forward exchange contracts to hedge a part of the shareholders' equity of overseas subsidiaries and associated companies as decided by the Board of Directors. At the end of 1997, the total amount of the currency translation risk was FIM 392 million, of which the Swedish krona accounted for 50%, the Norwegian krone for 25% and the Deutsche mark for 17%. The loans and forward exchange contracts

hedging these amounts totalled FIM 193 million.

Management of the loan portfolio and interest rate risks

The total amount of the Group's interest-bearing liabilities was FIM 5,865 million as at 31 December 1997, and interest bearing receivables and liquid assets totalled FIM 471 million, i.e. net interest bearing debt amounted to a total of FIM 5,394 million. The parent company is responsible for obtaining debt financing and for the treasury management of liquid assets. The subsidiaries obtain borrowed cap-

ital mainly via intra-Group loans. Currency swaps are employed to a considerable amount in managing the loan portfolio, whereby the loans are converted to correspond to the Group's objective for the foreign exchange balance sheet risk. The currency mix and repayment schedule of long term loans are given on page 35 (Note 18).

The interest rate risk arising from a mismatch between the interest rate periods of interest bearing liabilities and receivables is managed by means of the net debt position currency by currency, also taking into account the interest rate risk of foreign exchange derivative contracts which hedge both the cash flow and balance sheet risk. The objective is to hedge against changes resulting from a sharp rise in the level of interest rates during the current financial year and the next few years out, taking into account, among other things, the prevailing interest rates, yield curves and volatilities. Borrowing and short term investment operations are spread out across fixed and variable rate instruments, and derivative contracts are used.

The amount of interest rate swaps outstanding as at 31 December 1997 was FIM 3,490 million, with contracts denominated in Finnish markkaa amounting to FIM 1,870 million, and Deutsche mark-denominated contracts totalling FIM 1,302 million. The remainder of FIM 318 million was in pounds sterling as well as Norwegian and Danish kroner. The average maturity of the swaps was 1.4 years. On the basis of the contracts, Rautaruukki pays a fixed average interest of 5.72 per cent against variable interest rates.

Forward rate agreements are used to short-term hedging of loans and investments.

Interest rate sensitivity

Net interest bearing debt totalled on average FIM 5,689 million in 1997, and net interest expenses amounted to FIM 344 million, or on average 6.05 per cent. Net interest bearing debt was FIM 5,394 million and the average interest was 5.90 per cent as at 31 December 1997 (table 3). An interest rate change moving the interest rate curve one percentage point in any direction (interest rate sensitivity) is estimated to have an effect of about FIM 20 million on net interest expenses in 1998, providing that net interest bearing debt remain at the year-end level and that new hedging operations are not undertaken.

Managing liquidity risk

The Group's liquidity position is monitored in terms of the ratio of liquid assets to liquid liabilities. In calculating the liquidity position, the Group's cash and bank receivables (FIM 419 million as at 31 December 1997), negotiable debt securities (FIM 0) as well as open and binding revolving credit facilities granted by banks (FIM 0) are counted as positive items. In addition, the company has unused commercial paper and bank credit lines totalling some FIM 2,400 million.

Short-term interest-bearing loans and repayments on long-term loans due in the next 12 months (FIM 824 million) are treated as items that decrease the liquidity position. In addition, the Group continually monitors the forecast change in net liabilities, since this affects the overall liquidity position.

RAUTARUUKKI STEEL (from 1.1.1998)

Raahe Steel and Strip Products were merged into a single industrial division, Rautaruukki Steel, as from 1 January 1998. Combining the divisions will improve customer service and the company's ability to react to changes in its business environment, and will make Rautaruukki's flat steel operations more cost effective.

Improving customer service and cost efficiency

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Rautaruukki 1997

The structure of Rautaruukki Steel is based on three business units, Primary Products, Plate Products and Strip Products. Plate Products and Strip Products are responsible for marketing their products and for product development. Service operations are organized in separate units.

Primary Products comprises the iron and steel production at the Raahe works. The unit employs 1,200 people and it is responsible for supplying the raw materials for Plate Products and Strip Products.

Plate Products consists of plate operations, pre-fabrication and Presteel Oy at Raahe. These have a turnover of FIM 1.5 billion and employ 550 people.

The new Strip Products unit contains Raahe Steel's hot rolling operations and the cold rolling, galvanizing and colour coating operations of the former Strip Products Division in Hämeenlinna and Kankaanpää, as well as a sales company and a steel service centre in Germany. The Strip Products unit will have a turnover of about FIM 4.5 billion and 1400 employees.

Rautaruukki Steel also includes Oy

JIT-Trans Ltd, which is responsible for the Rautaruukki Group's transportation, and August Lindberg Oy, a forwarding company, as well as SKJ-Yhtiöt Oy, which handles by-products from steel production. Rautaruukki Steel will have an annual turnover of more than FIM 6 billion and about 4,600 employees.

The purpose in establishing Rautaruukki Steel is to make plate and strip operations more growth and profit oriented. It will also improve customer service and the company's ability to react to changes in its business environment. The business unit structure and uniform planning and control of operations will also raise the division's profitability and make it possible to direct capital expenditure to where it will have the greatest impact on profits.

The business units will increase the division's flexibility and make customer-oriented product development more efficient. It will also improve the quality of products and production and raise efficiency on the production lines. Merging duplicated operations will give financial savings.

Rautaruukki Steel

Heikki Rusila, President

PRIMARY PRODUCTS

Peter Sandvik, Vice President

Raahe Steel Works

Sintering plant

Coking plant

Blast furnaces

Steel plant

PLATE PRODUCTS

Veli-Matti Nopanen, Vice President

Raahe Steel Works

Plate rolling mill

Pretreated products line

Presteel Oy

STRIP PRODUCTS

Pekka Vaarno, Senior Vice President

Raahe Steel Works

Hot strip rolling mill

Hämeenlinna Works

Cold rolling mill

Hot dip galvanizing line

Colour coating line

Kankaanpää Works

Ragal GmbH

Rautaruukki Stahlservice GmbH

OTHER UNITS

Oy JIT-Trans Ltd

August Lindberg Oy

SKJ Companies

Raahe Steel manufactures and markets hot rolled plate and strip and prefabricated products to meet the needs of customers and the Group's other units. It also markets steel industry byproducts and provides transport services.

Investment programme near completion



Heikki Rusila
Senior Vice President

The demand for hot-rolled products grew throughout the year and prices strengthened. Deliveries of Raahe Steel's products to Finland increased. The growth was due to the increase in demand, particularly within the ship-building and engineering industry. Deliveries to Scandinavia remained at the previous year's level.

Steel deliveries to the Strip Products Division were at the previous year's level. Deliveries to the Group's other upgrading units rose by 20 per cent. Owing to the increase in upgrading and deliveries to Finnish custom-

ers, exports elsewhere in Europe contracted.

Raahe Steel delivered a total of 2,300,000 tonnes (2,290,000) of hot-rolled steel products. Deliveries to the Group's other units amounted to 1,412,000 tonnes (1,305,000), or 61 per cent of total deliveries (57).

Hot-rolled steel prices rose during 1997. The average price of Raahe Steel's external deliveries was 1 per cent higher than the price a year earlier. Raw material costs rose due to the appreciation of the US dollar.

Raahe Steel's turnover was FIM 4,647 million (4,508). Operating profit was FIM 492 million (613). The operating profit for 1996 includes the gain on the sale of the lime burning kilns. The division's profitability was acceptable. Production ran smoothly in spite of the modernization works in progress.

Production lines are being modernized

Carrying through of the Rautaruukki 2000 investment programme continued according to plan. The investments connected with increasing the charge weight of the steel plant were completed in the autumn. Projects aiming at raising the capacity of the strip mill were mainly completed during the summer production shutdown. A new slab heating furnace became operational in September.

The most important part of the investment programme – a new continuous casting machine that will re-



A new walking beam furnace that makes possible more even temperatures of slabs was placed in use in September. It will aid in producing rolled products with increased dimensional accuracy.

Key figures

	1997	1996	Change
Turnover mFIM	4 647	4 508	+ 3 %
Operating profit, mFIM	492	613	- 20 %
Return on net assets, %	9.8	11.9	
Steel production, 1000 t	2 349	2 018	+ 16 %
Personnel at year-end	3 725	3 709	-

place three old continuous casting machines – was completed in December. The building of a ladle metallurgy plant that will expand the Group's range of flat and tubular products got under way and the plant will be put into use in the autumn 1998. The remaining parts of the investment programme are the modernization of two continuous casting machines as well as modernization works on the strip mill, which will make it possible to raise the maximum coil weight from 20 tonnes to 30 tonnes.

The investments also comprise a number of environmental protection projects. A new dust extraction system was built for the converter plant. The system will reduce the particulate emissions of the converters by 80 per cent. The new closed-circuit cooling water circulation systems of the steel plant and the strip mill will cut solids and oil discharges to a tenth of their previous level.

Product development that delivers customer benefits

A major focus of the product development effort was improving the engineering workability of steel products. The development of production methods and automation at engineering works means that steel must have predictable and uniform behaviour also in unmanned production.

During the year Raahe Steel improved the dimensional accuracy, surface quality and consistent characteristics of its products by means of development projects which emphasize the testing of development measures and closely observing how the improvements work out in customers' production processes.

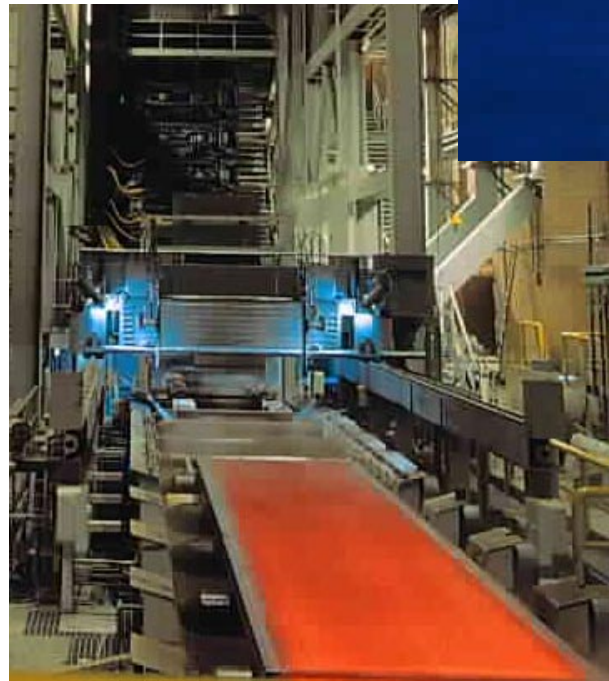
New products that were brought to market were tempered RAEX AR

steels, which thanks to their excellent wear resistance extend the duty life of machine components manufactured by customers.

Presteel Oy, a joint venture between Rautaruukki and Valmet Corporation, began operations in Raahe. The company manufactures roll blanks for paper machines and other preprocessed plate products. Rautaruukki has a majority holding in Presteel.

Environmental system certified

The Raahe Steel Works obtained certification of its environmental system in accordance with the ISO 14001 standard in the summer. The environmental system also received approval according to the EMAS regulation of the European Union. A central principle of the environmental system is the continual improvement of environmental affairs in accordance with the objectives set. Implementation of the



A state-of-the-art continuous casting machine that will replace three machines that were previously in use was installed at the Raahe Steel Works.



Finland's longest bridge Raippaluoto Bridge was completed last autumn. More than 3000 tonnes of Rautaruukki's fine-grained structural steel was used in its structures.



programmes is monitored by means of environmental audits.

Outlook for 1998

The demand for steel products is expected to remain good and prices will strengthen in the first half of the year. With the growth in the Raahe Steel Works' output, deliveries to customers will increase significantly. The merger of Raahe Steel and Strip Products into a new division Rautaruukki Steel is estimated to improve the combined profitability of the divisions.

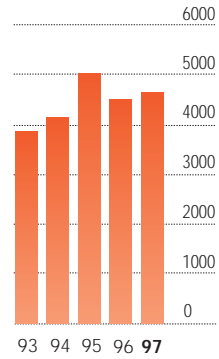


Machine components with high dimensional accuracy can be made from Rautaruukki's RAEX Laser steels.

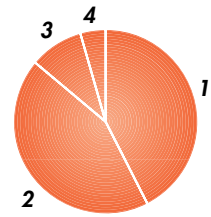


Presteel, which began operations in 1997, manufactures roll blanks for paper machines.

Turnover, FIM million



External sales by region 1997



- 1 Finland 42 %
- 2 Other EU countries 44 %
- 3 Other Europe 9 %
- 4 Other countries 5 %

Division's units

- RAAHE STEEL WORKS
- Sintering plant
- Coking plant
- Blast furnaces
- Steel plant
- Plate rolling mill
- Strip rolling mill
- Prefabricated products line

- PRESTEEL OY
- OY JIT-TRANS LTD
- AUGUST LINDBERG OY
- SKJ COMPANIES

Rautaruukki Strip Products manufactures and markets cold rolled, galvanized and colour-coated strip products for construction, interior design and furnishing, the automotive and transport industry, the electronic industry and household appliances.

Profit improves markedly

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Rautaruukki 1997



Pekka Vaarno
Senior Vice President

The market situation for cold-rolled, galvanized and colour-coated steel was good throughout the year in the main European markets. There was strong demand for colour-coated products in particular, and prices continued to rise. In the United States demand for steel and its price level remained good in all the product groups. The strong dollar has nevertheless increased imports to the United States, putting pressure on prices. Demand for steel in Asia was fairly good in the first part of the year, but weakened sharply in the latter months of the year due to the economic problems in the region.

Strip Products had turnover of FIM 3,101 million (2,954). The growth in turnover was due to increased delivery volumes. Despite the rise in prices, the average price of external deliveries remained at the previous year's level. The division's aggregate deliveries were 1,027,000 tonnes (1,001,000), of which intra-Group deliveries amounted to 37 per cent (26).

Operating profit was FIM 548 million (335) which includes the gain on the sale of Rautaruukki's holding in Bregal GmbH. Strip Products' profitability was good.

Output grows

As part of the Rautaruukki 2000 investment programme, preparatory works for modernizing the tandem rolling and pickling line at the Hämeenlinna Works were continued. The modernizations will be completed during 1998 and increase the cold-rolling production at the works from 930,000 tonnes to 1,250,000 tonnes.

Towards the end of the year a decision was taken to modernize the colour-coating line at the Hämeenlin-

na Works. Capacity will grow from 100,000 tonnes to 150,000 tonnes by increasing the line's speed. The investment will be completed in 2000.

At the beginning of 1998 it was decided to build a new 400,000 tonne galvanizing line at the Hämeenlinna Works. The galvanizing capacity will rise to 900,000 tonnes. At the same time, Rautaruukki sold its 24.95 per cent holding in Bregal GmbH, but it will continue galvanizing operations at the Bregal plant until the new galvanizing line is completed in 2000.

Deliveries by Rautaruukki Stahl-service GmbH, the steel service centre that operates in Duisburg, Germany, grew thanks to the new slitting line that was installed at the plant in the previous year. Concurrently, the company's product range was expanded to include colour-coated steel products.

New steels and coatings

The characteristics of cold-rolled products were developed by bringing to market a grade of steel that is better suited to resistance welding than before as well as by updating the calculation models of the annealing programmes to improve the consistent quality of products.

The new Pural roof coating sold well on the market. The weathering ability of PVC plastisol coatings was developed together with paint manufacturers. The improved coatings will be placed in use during 1998.

Outlook for 1998

The market situation for sheets is expected to remain good in 1998, as it was the year before. The use of galvanized sheets in particular is forecast to increase in the EU countries by several percentage points a year over the next few years. In Eastern Europe too, the market for colour-coated sheets is expected to grow briskly thanks to the step-up in construction activity. The rise in the prices of colour-coated sheets is expected to continue.

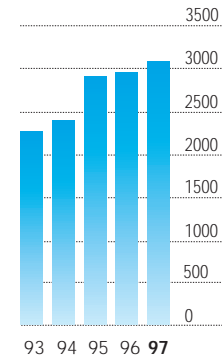
Key figures

	1997	1996	Change
Turnover, mFIM	3 101	2 954	+ 5 %
Operating profit, mFIM	548	335	+ 64 %
Return on net assets, %	40.9	26.2	
Personnel at year-end	1 039	1 056	- 2 %

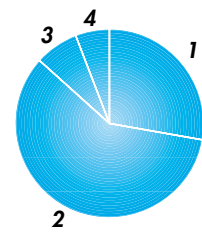


Colour coated steel sheets provide builders with the means of laying a handsome traditional steel roof.

Turnover, FIM million



External sales by region 1997



- 1 Finland 28 %
- 2 Other EU countries 59 %
- 3 Other Europe 8 %
- 4 Other countries 5 %

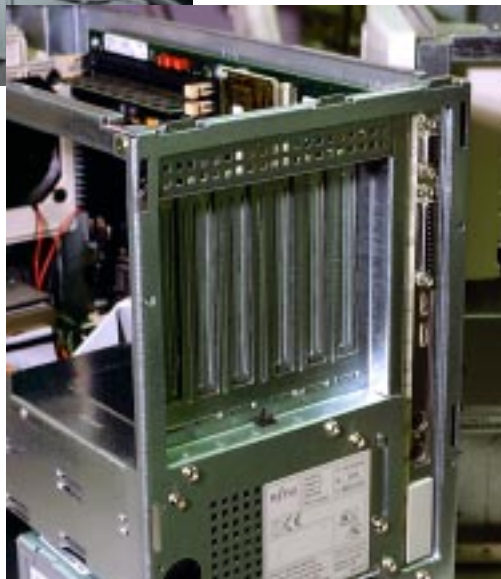


The household appliance industry is a fast-growing user of colour-coated steel sheets.

Division's units

COLD ROLLING AND GALVANIZING
 Hämeenlinna Works
 Ragal GmbH
 Rautaruukki Stahlservice GmbH

COLOUR COATING
 Hämeenlinna unit
 Kankaanpää Works



Strong and dimensionally accurate cold-rolled steel sheet is used in manufacturing deposit boxes.

The characteristics of galvanized steel sheets are exploited in making computers.

Metform manufactures and markets welded steel tubes and pipes and value-added products based on them. Metform is Europe's third largest manufacturer of welded precision tubes and hollow sections. It has plants in Finland, Sweden, Denmark and Germany.

Demand for steel tubes grows strongly

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Rautaruukki 1997



Juha Järvelä
Senior Vice President;
from 1 April 1998 President and CEO
of Fundia AB

Demand for structural tubing declined in Western Europe during 1995-1996 by about 10 per cent but grew again in 1997, exceeding the 1995 level. Metform's deliveries of structural tubing grew by 25 per cent on the previous year. Competition increased, particularly within large hollow sections, as competitors' new production capacity came on stream. Metform has responded to this by purposefully modernizing the production equipment at the Pulkkila Works throughout the 1990s.

The demand for small-diameter line pipes improved to a good level by the end of the year. The demand for

medium-sized and large-diameter line pipes was good all year long. During the year Metform delivered line pipes for international projects in Indonesia, the Netherlands, Norway and Lithuania.

The demand for upgraded tubular products in the European market improved, but competition got tougher at the same time. The Carl Froh GmbH small-diameter tube business was sold to the Siebe Group in the UK.

Metform's turnover was FIM 2,062 million (1,990). About 60 per cent of the turnover came from structural tubing, 20 per cent from line pipes and 20 per cent from upgraded products. A total of 562,000 tonnes (480,000) of tubular products was delivered.

Operating profit was FIM 186 million (172) which includes the gain on the sale of the small-diameter tube business. Metform continued to have good profitability.

Strong inputs to boost productivity

The coil-handling equipment of two tube welding lines was modernized at the Hämeenlinna Tube Works. An efficiency-boosting investment programme was seen to completion at the

Pulkkila Works. The tube welding line at the Nordisk Simplex A/S plant was modernized.

Metform's new Metocs operations control system was placed in use at the Hämeenlinna Tube Works. Metform began to extend the system to the Lappohja, Nordisk Simplex, Pulkkila and Wirsbo Works. Metocs helps to improve customer service by enhancing order processing and delivery supervision.

Production rationalization and development of the product structure was continued to improve the competitiveness of Carl Froh GmbH.

New demanding products

Towards the end of the year a new product family of hollow sections that is more demanding than the EU standards was brought out on the market. Spiral-weld gas pipes were manufactured from steel in the X80 strength class with the aim of gaining approval by the authorities. New tubular components were developed for the needs of the automotive industry.

The production of small piles, which formerly was part of the Steel Structure Division, was made a unit of Metform. Combined with the division's large pile business, Metform's position in this business area will strengthen.

Outlook for 1998

The demand for steel tubes is expected to grow both in the nearby markets and elsewhere in Europe, and prices are set to notch up further. Within upgraded tubular products, tough competition can be expected to continue. The division's capital expenditures will improve competitiveness. Metform's profitability is estimated to remain good in 1998, although the rise in the prices of raw materials will slow down the upward earnings trend.

Key figures

	1997	1996	Change
Turnover, mFIM	2 062	1 990	+ 4 %
Operating profit, mFIM	186	172	+ 8 %
Return on net assets, %	20.3	19.0	
Personnel at year-end	1 629	1 644	- 1 %



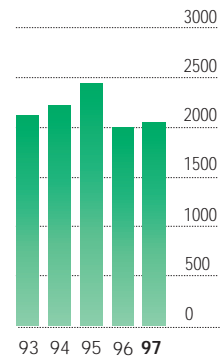
People get a close-up view of Meiform steel tubes right from their days in the pram.

The Nokia head office in Espoo won the 1997 Steel Structure Award. Meiform hollow sections are used in the structures.

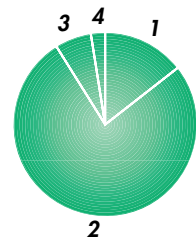


Meiform's steel tubes are used in the safety structures of vehicles.

Turnover, FIM million



External sales by region 1997



- 1 Finland 15 %
- 2 Other EU countries 77 %
- 3 Other Europe 6 %
- 4 Other countries 2 %

Division's units

STRUCTURAL TUBING
 Hämeenlinna Tube Works
 Lappohja Works
 Pulkkila Works
 Nordisk Simplex A/S

LINE PIPES
 Oulainen Works
 Wirsbo Stålrör AB

UPGRADED PRODUCTS
 Carl Froh GmbH

SALES COMPANY
 Star Tubes (UK) Ltd

The Steel Structure Division manufactures and markets steel products for construction and construction systems based on them. Main products are steel roofing, load-bearing sections and facade elements. The division is the leading manufacturer of steel roofing in the Baltic Sea area.

Operations expand to Central Europe

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Rautaruukki 1997



Jorma Lukkari
Senior Vice President



Markku Koljonen
Vice President

Demand for products of the Steel Structure Division was brisk in all the countries in the division's market area. Because of growing demand, the price level remained good, although competition increased in the new market economy countries.

To ensure its market position, the Steel Structure Division expanded its business operations in Central and Eastern Europe. The capacity of the plants in Poland and Estonia was increased. In the Czech Republic, the joint venture Rannila Velvary s.r.o., which manufactures steel roofing, began operations, and in Slovakia the joint venture Rannila Kosice s.r.o. was

established and will begin operations in the summer 1998. Rautaruukki has a majority holding in both companies.

The Steel Structure Division showed a good earnings trend. Turnover grew by 14 per cent, to FIM 1,327 million (1,161). Operating profit was up 53 per cent and amounted to FIM 113 million (74). The division's profitability was good.

Structural solutions are developed

A considerable portion of Rautaruukki's products are used in different forms of construction. Accordingly, the company invests heavily in developing new structural solutions and in

promoting the use of steel in building.

Amongst the results of the development work are composite frames, which go beyond conventional reinforcing bars to make use of steel sections and tubes as forms for casting and as load-bearing structures.

In 1997 the Steel Structure Division brought its lightweight frame system for single-family houses, which is based on thermoprofiles, to the production stage, and the new Rannila Classic roofing system also went into production. Work aiming at gaining certification according to the ISO 14001 environmental standard got started at all the Group's main locations with the aim of obtaining approved certifications during 1998 and 1999.

Outlook for 1998

The division's turnover will continue to grow during 1998 thanks to the new production lines that have gone into operation. The price level is estimated to remain good although competition will increase in the Eastern European area. The division's profitability is expected to remain good.

Key figures

	1997	1996	Change
Turnover, mFIM	1 327	1 161	+ 14 %
Operating profit, mFIM	113	74	+ 53 %
Return on net assets, %	26.7	13.6	
Personnel at year-end	1 045	908	+ 19 %





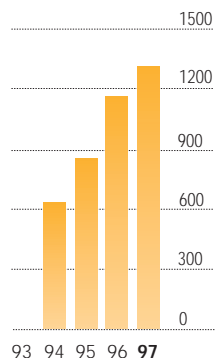
Renovation of an apartment building facade. Rannila's Liberta cassette panels are used as the wall cladding.



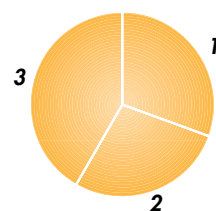
Rautaruukki's sales of steel roofing in Eastern and Central Europe grew by more than 30 per cent.

Renovation of an apartment building. Three additional floors were added to the building, using steel thermoprofiles as a loadbearing structure.

Turnover, FIM million



External sales by region 1997



- 1 Finland 30 %
- 2 Other EU countries 28 %
- 3 Other Europe 42 %

Division's units

- Rannila Steel Oy
- AS Rannila Profiil
- Rannila Taldom A/O
- Rannila Velvary s.r.o.
- Rannila Kosice s.r.o.
- Rautaruukki Polska Sp. z o.o
- Rautaruukki Toijala Works
- Gasell Profil AB
- Stelform A/S
- Sales companies
 - Gasell Profil AS
 - Rannila Steel Latvia Sia
 - Uab Rannila Steel Vilnius

Fundia is the leading Nordic manufacturer of long steel products. The most important products are bar and wire for the engineering industry, profiles for the shipbuilding and offshore industries and reinforcing for the building industry. More than half of Fundia's deliveries are different kind of further processed products.

Profitability improves



Per Havdal
Executive Vice President
Acting President until 1 April 1998

Following a slow beginning to 1997, the market situation for long steel products improved gradually during the year. Fundia strengthened its market position in the Nordic countries and retained it in the important markets of the rest of Europe. Fundia's deliveries rose by 3 per cent compared with 1996. The share of rolled special steel products and further processed products increased according to Fundia's strategy. The average price of total deliveries was 4 per cent higher than in 1996.

Fundia's turnover was FIM 4,162 million (3,852). Operating profit rose to FIM 77 million (8). The improvement is explained largely by higher prices and volumes and by increased productivity at the plants.

At the same time as the demand for steel grew, the price of scrap rose, and it was not until the end of the year that margins reached the same levels as at the start of the year. The average price for scrap was 11 per cent higher than in 1996. Fundia's profitability was weak.

Reorganizing the development work

A business development organization was established during the autumn in order to strengthen Fundia's market position. The product development function in the Special Bar Division was reorganized and strengthened with new resources to better meet the demands of the new product mix.

Investments in quality and productivity

In the Special Bar Division a decision was made to invest in developing the rolling mills in Smedjebacken and Boxholm. During the spring 1998 a

new diffusion annealing furnace will be commissioned in Smedjebacken. This will make it possible to supply larger dimensions of bars with low hydrogen contents.

At Dalsbruk, a decision was made to improve the production flow at the rolling mill. This investment is expected to result in higher production and is a preparatory step towards an increase in coil weight.

Developing environmental systems

Fundia Bygg AS, Mo i Rana obtained in 1996 ISO 14001 certification for its environmental management system. Similar work on environmental certification is in progress in other units and is expected to be completed in 1999.

New and more effective filter systems for the cleansing of gases at the melting shops of Mo i Rana and Smedjebacken were installed. At Koverhar Steel Works the renewal of the dust extracting system will be completed in 1998.

Outlook for 1998

In the long steel products sector, the strong market position of the second half of 1997 is expected to continue at least during the first half of 1998. Forecasts for the second half of the year are more uncertain, partly on account of the implications of the crisis in South-East Asia.

Fundia sees prospects of improving profits by means of higher prices, a larger proportion of special steel products and expansion of further processing, increases in productivity and cost-cutting programmes.

Key figures

	1997	1996	Change
Turnover, mFIM	4 162	3 852	+ 8 %
Operating profit, mFIM	77	8	
Return on net assets, %	3.5	1.0	
Steel production, 1000 t	1 734	1 570	+ 10 %
Personnel at year-end	3 552	3 522	+ 1 %



Fundia increased its deliveries of reinforcing to the market in the Nordic countries.

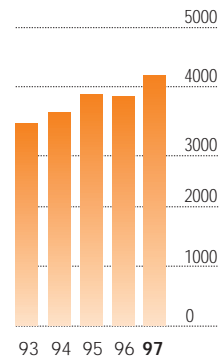


Thanks to the submerged casting method, the Smedjebacken plant has increased the share of demanding grades of steel in its production programme.

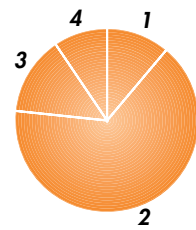


Fundia's boron steels are used for applications requiring exceptional wear resistance, such as ploughs.

Turnover, FIM million



External sales by region 1997



1	Finland	11 %
2	Other EU countries	66 %
3	Other Europe	14 %
4	Other countries	9 %

Fundia's production units

REINFORCING

Mo i Rana
Halmstad
Oslo
Ølstykke
Smedjebacken

SPECIAL BAR

Smedjebacken
Boxholm

WIRE

Koverhar
Dalsbruk

STRUCTURAL STEELS

Mo i Rana

BAR & WIRE PROCESSING

Dalsbruk
Mandal
Twente
Redon
Hjulsbro
Forsbacka
Mora
Hallstahammar

The Engineering Division manufactures and markets rolling stock, dished ends and other engineering products, and it sells technology developed within the Group.

Engineering division faces with a structural change

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Rautaruukki 1997



Jorma Lukkari
Senior Vice President

The division's turnover was FIM 359 million (484). The 1997 turnover figure includes FIM 51 million of the net sales of Hydoring Oy, which was sold off towards the end of the year. Transtech's railway wagon deliveries fell clearly short of the previous year's level.

Turnover by the Halikko Works, which manufactures dished ends, grew and profitability improved further. The deliveries of Rautaruukki Engineering, which markets technology

developed by the Group, were at the previous year's level.

Operations of the Engineering Division were loss-making. The division posted an operating loss of FIM 84 million (a profit of FIM 10 million in 1996). The result was burdened by the reserve made for the downsizing of Transtech's operations and the write-down to scrap value of goods wagons that are held in stocks but have remained undelivered to Russia.

In November the Engineering Division sold the surface treatment robot business and at the beginning of 1998 it divested Polartherm Oy, a manufacturer of air heaters.

Transtech to be downsized

The largest deliveries of rolling stock for the next few years have for the most part been made in Finland, and major new orders are not expected on the export market. Accordingly, a decision was taken at the start of 1998 to downsize Transtech's operations in line with the market demand. As a consequence of these measures, about 350 Transtech employees will be made redundant.

Outlook for 1998

Transtech has an order book of about FIM 650 million, of which the share of deliveries to be made in 1998 amounts to FIM 300 million. As a consequence of the downsizing of Transtech's operations, the Engineering Division's operating profit is expected to move into the black.

Key figures

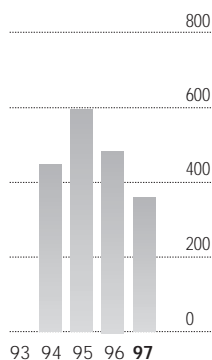
	1997	1996	Change
Turnover, mFIM	359	484	- 26 %
Operating profit, mFIM	- 84	10	
Return on net assets, %	neg.	4.7	
Personnel at year-end	949	858	+ 11 %



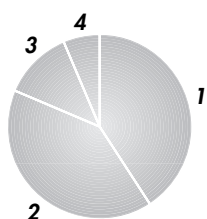
In 1997 deliveries of new-type double-decker passenger wagons to the Finnish State Railways were started.

WHOLESALEERS

Turnover, FIM million



External sales by region 1997



1	Finland	41 %
2	Other EU countries	41 %
3	Other Europe	12 %
4	Other countries	6 %

Division's units

Transtech
Halikko Works
DCA-Instruments Oy
Rautaruukki Engineering

Sixty per cent of Rautaruukki's deliveries are sold directly to customers. The rest are sold through retail dealers. The Group has its own wholesalers and sales companies in the major European countries, in the United States, Singapore and Dubai.

Rautaruukki owns three steel wholesalers who sell the Group's steel products: Keskometalli Oy in Finland, CCB Stål AS in Norway and Keskometalli's Estonia-based subsidiary Rautaruukki Eesti OÜ.

In addition, the Group's divisions have their own steel centres: Rautaruukki Stahlservice GmbH and Fundia GmbH in Germany as well as Star Tubes (UK) Ltd in Great Britain.

There continued to be good demand for steel products in Finland, but competition in the steel wholesaling trade was keener. Keskometalli's deliveries grew by 10 per cent, to more than 180,000 tonnes.

Keskometalli's cut-to-size operations and logistics were renewed with a view to improving customer service. A new slitting line was purchased for the steel service centre in Naantali. At

the same time, the coil storage was renewed in order to make materials handling more efficient. The handling of long steel products and hot-rolled heavy plates was transferred to the Kouvola steel service centre on a centralized basis.

In Pärnu, Estonia, Keskometalli opened the Rautaruukki Eesti OÜ steel centre, which will serve the entire Baltic area.

The demand for steel increased in Norway and CCB Stål AS maintained its position as Norway's second largest steel wholesale business. CCB Stål has outlets in nine localities in Norway.

Turnover of the Group's wholesalers totalled FIM 1,464 million (756) and operating profit FIM 49 million (29). Keskometalli was merged with Rautaruukki Group on 1 September 1996.

Rautaruukki's shares in steel wholesalers and service centres

Company	Country	Rautaruukki's share
Keskometalli Oy	Finland	100 %
CCB Stål AS	Norway	100 %
Rautaruukki Eesti OÜ	Estonia	100 %
Rautaruukki Stahlservice GmbH	Germany	100 %
Star Tubes (UK) Ltd	Great Britain	100 %
Fundia GmbH	Germany	100 %
Asva Stal Serwis Sp. z o.o	Poland	50 %
A+R Profilstahl GmbH	Germany	33 %
Heléns Rör AB	Sweden	25 %
Asva Oy	Finland	20 %
Ancofer Stahlhandel GmbH	Germany	10 %

ENVIRONMENTAL PROTECTION

The fundamental premise which guides the Rautaruukki Group in environmental affairs is continuous improvement in line with the principle of sustainable development. Each company location carries out its own environmental protection programme. During 1997 Rautaruukki carried out a number of investments that will significantly reduce the environmental impacts of the company's operations.

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Rautaruukki 1997

Rautaruukki has drawn up for its two main production units, the Raahe Steel Works and the Hämeenlinna Works, ambitious environmental programmes for the years 1996-2000. The objective is to achieve a gradual reduction in the emissions at the plants in accordance with the target values that have been set. Similar programmes will be prepared for all major units.

Another aim is to obtain ISO 14001 environmental certification for all the main company locations by the year 2000. In 1997 the Raahe Steel Works was the first European integrated steel mill to obtain both the ISO 14001 and the EU's EMAS certificate for its environmental system. Fundia's Mo i Rana steel mill received the ISO 14001 certificate for its environmental system in 1996.

It is estimated that the Vimpeli Works of Rannila Steel, a part of the Steel Structure Division, will obtain certification during the spring 1998. Fundia's plants in Koverhar and Smedjebacken are getting their environmental systems ready for certification.

Environmental values

One of Rautaruukki's four basic values is: We respect the environment. In accordance with this basic value, all Rautaruukki employees recognize their responsibility for the environment in their own work. Environmental considerations are taken into account in all operations. The objective is to develop the personnel's professional skill and environmental knowledge whilst creating and maintaining a corporate image that emphasizes en-

vironmental soundness.

Care for the environment is viewed as a part of the total quality of the Group's operations. Rautaruukki is participating in drawing up the environmental principles of the International Iron and Steel Institute. The company is also a signatory to the Sustainable Development Charter of the International Chamber of Commerce.

Life cycle responsibility

In accordance with the principle of sustainable development, the manufacturer bears a responsibility for the environmental impacts of its products. The responsibility begins with the procurement of raw materials and ends with the disposal of the product which is withdrawn from use or its recycling. The definition of the life cycle of steel products is presently the subject of a study being carried out by the International Iron and Steel Institute and Rautaruukki is participating in this work.

Rautaruukki takes environmental impacts into account in choosing the sources of its raw materials. The company tracks and evaluates the management of environmental affairs by the subcontractors, suppliers and contractors it uses, and encourages them to strive for continual improvement.

Rautaruukki develops its own products with an eye to ever better compliance with environmental standards. This means continual improvement of the recyclability, quality and durability of the products.

Steel is a completely recyclable material. It is also one of the first ma-



terials whose collection and recycling have been built into a well functioning, commercially viable system.

Fundia's steel mills in Mo i Rana and Smedjebacken manufacture steel by the electric arc furnace method and thus make exclusive use of recycled steel as their raw material. The Raahe Steel Works and Fundia's Koverhar Works substitute recycled steel for a quarter of their raw material needs.



Steel is a completely recyclable material.

Steel is needed when builders make environmental conservation a high priority.

Apart from reducing environmental impacts, the Raahe Steel Works is presently carrying out an energy conservation programme which it has agreed with the Ministry of Trade and Industry on a contract basis with the aim of reducing the specific consumption of energy by 10 per cent from the 1990 level by the year 2005. Similar conservation programmes will be launched at the Group's other main locations.

By-products – a profitable business

The Rautaruukki subsidiary SKJ Companies is specialized in the upgrading and marketing of by-products of the steel industry. The company also sells its proprietary technology to other steel companies. SKJ Companies processes annually more than three million tonnes of slag which is generated as a by-product of steel manufacture and recycles it back into use. For

example, already 92 per cent of the by-products produced at the Raahe Steel Works is reclaimed.

Environmental work brings results

In the steel industry the operations that exert the greatest strain on the environment are at the starting end of the manufacturing chain. That is why the operations of the four steel mills are the main focus of Rautaruukki's environmental work.

In recent years about 10 per cent of the total capital expenditures at the Raahe Steel Work have been either directly or indirectly connected with environmental protection. During 1997 a new water treatment plant went into use at the strip mill. The objective of reducing oil discharges has now been clearly achieved.

The dust emission collection and purification system for the converters at the mill was completed at the end of 1997. It will enable total dust emissions into the air to be reduced by about 300 tonnes a year. The objective of reducing measured dust emissions by 25 per cent from the 1995 level has now been reached.

The sanitary purification plant was expanded by adding a biological purification unit that has already resulted in a 60 per cent decrease in the oxygen consumption caused by the waste water.

A more effective dust extraction system was installed at Fundia's Mo i Rana steel mill. At Fundia's Smedjebacken mill, the new burners for the furnace serving the small section rolling mill and the optimization of the electric arc furnace have led to a substantial reduction in emissions of nitrogen oxides.

At Metform's Carl Froh GmbH plant, the settling tank will be modernized and exhaust air handling equipment will be installed in the coating plant. In addition, a circulating water system will be built for the drawing mill. The dust removal and ventilation systems at Wirsbo Stålrör AB will be renewed stage by stage by 1999.

Among the main objectives of Rautaruukki's research and development activities are to develop high quality products that are tailored to customers' needs as well as cost-efficient production processes. The Rautaruukki Research Centre at Raahе serves the entire Group. Product development is carried out within the divisions in close cooperation with customers. Rautaruukki participates in a number of international research projects that serve the needs of its divisions.

Realizing the potential of the investments

Owing to the ongoing Rautaruukki 2000 investment programme, the accent in development work was on the development of the processes at Raahе.

Rautaruukki's objective is to manufacture increasingly pure grades of steel. When the charge weight of the converters was increased, Rautaruukki's engineers also installed slag detection and retention equipment that will reduce the amount of slag going to the ladle processing stage. A dynamic control system is being developed to improve control of the converters. It will make possible a shorter melting time and boost output.

By means of modelling the flows of the intermediate ladle process and the mould, a technique has been developed that enables the new continuous casting machine to turn out steel grades with demanding surface quality characteristics at high casting speeds. These steels have a number of applications including use by the offshore industry in arctic conditions.

Development of the modelling and measuring of the liquid core has made it possible to introduce slight working of the slab in conjunction with the new casting machine. This enables the manufacture of steel sheets that are more demanding in



TM steels developed by Rautaruukki are finding a growing number of applications in demanding bridge and offshore projects. A new alternative that is being studied is the use of titanium in the killing of thermomechanically manufactured steels.

terms of their internal structure.

The surface quality and evenness of strip products will be improved by means of a new liquid gas-heated walking beam furnace. The slabs will now be even in temperature so that the rolled products have improved dimensional accuracy. Heating of the slabs and energy use will be optimized by means of a gas flow model.

International cooperation

In order to improve the dimensional accuracy of strip rolling, an extensive international research project that is part of the Brite Euram Programme and is based on neural computing is presently being carried out under Rautaruukki's coordination. Over the past years the effective operating time of

the strip mill at Raahе has been one of the highest in Europe. It has been raised further by developing an integrated fault diagnostics system that detects any malfunctions in advance.

Rautaruukki is participating in nine research projects launched by the European Coal and Steel Community, and Rautaruukki is acting as the coordinator in three of them. These

projects are connected with control of the sintering process with the objective of making full use of the sintering capacity at the Raahе steel mill, the development of new formable and strong strip products and the manufacture of environmentally friendly multilayer coatings.

Product development tailored for customers

Raahе Steel improved the dimensional accuracy and surface quality of its steels and brought out on the market tempered RAEX AR steels that have excellent wear resistance. Strip Products made outlays on

improving the even quality of its sheets and continued the development of increasingly durable coatings.

Metform expanded its range of tubular products to more demanding grades of steel and developed customer-specific product applications of structural tubing.

The objective of development work at Fundia was to increase the range of special steel products. Product development focused on boron steels and spring steels.

The Steel Structure Division made outlays on developing structural solutions and on promoting the use of steel in building. Its frame system for single-family houses, which is based on the use of steel thermoprofiles, went into production.

PERSONNEL

Rautaruukki's personnel are professionally skilled and motivated. Their capabilities are continually developed in accordance with the basic values that have been collectively defined by Rautaruukki's entire team. The basic value "We develop our skills through working together" expresses the goal of open interaction, mutual trust and respect for each other.

The Group's divisions continued the development of their personnel in accordance with their own needs. The themes of the training programmes were process thinking and teamwork, improving the capabilities of those involved in investment projects, quality, cost-effectiveness and environmental protection.

The training of the management groups of units operating in different countries and those who will take up positions in them was continued at the Group's Steel Seminars, at which the subjects dealt with by a group of international participants were the Group's strategy, competitiveness, leadership and cooperation within the Group.

Group-wide cooperation was implemented according to the model developed in 1996. During the year both a national Group meeting and an international Rautaruukki Forum were arranged.

Work fitness is important

Rautaruukki's personnel have strong ties to the company. Staff turnover and absenteeism are very low. This means that a great deal of attention has been paid to maintaining the personnel's work fitness. Employees' fitness pursuits are supported in a number of ways. During the year two fitness campaigns in which more than 40 per cent of the personnel participated were arranged at the units in Finland.

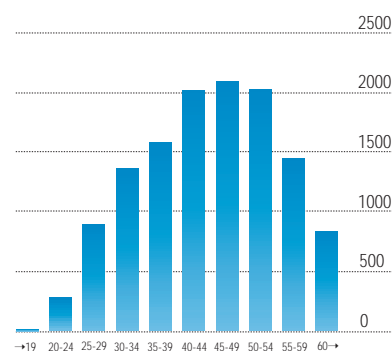
Successful occupational safety

In observing occupational safety measures, particular attention was paid to the safe carrying out of the investment

projects. Aspects of occupational safety were anticipated from the planning stage onward and occupational safety cooperation with contractors was made more effective. On-the-job accidents did not increase even though the projects that were in progress did hamper normal working in many ways.

In order to emphasize the importance of occupational safety, lowering the frequency of accidents and studying "close shaves" were given a special status in determining the parent company's employee bonuses.

Age structure of Group personnel



Personnel at year-end

		1997	1996
by division	Raahe Steel	3 725	3 709
	Strip Products	1 039	1 056
	Metform	1 629	1 644
	Steel Structure Division	1 045	908
	Engineering Division	949	858
	Fundia	3 552	3 522
	Other units	766	713
	Total	12 705	12 410
by country	Finland	7 994	7 853
	Sweden	1 856	1 883
	Norway	1 163	1 085
	Germany	860	910
	Denmark	260	288
	Baltic states	188	95
	Poland	85	47
	Great Britain	83	73
	Netherlands	83	70
	France	58	48
	Russia	53	39
	Other countries	22	19
	Total	12 705	12 410

GROUP STATISTICS 1993–1997

		1997	1996	1995	1994	1993
Turnover	mFIM	13 650	12 834	9 213	8 255	7 683
Personnel at year-end		12 705	12 410	8 730	9 068	9 151
Personnel on average		12 868	12 812	9 318	9 444	9 437
Value added per person	FIM	395	378	436	386	351
Steel production	1000 t	4 083	3 586	2 007	2 267	2 201
FINANCE						
Operating profit	mFIM	1 349	1 171	1 385	1 050	762
% of turnover	%	9.9	9.1	15.0	12.7	9.9
Profit before extraordinary items, reserves and taxes	mFIM	1 004	715	954	658	78
% of turnover	%	7.4	5.6	10.4	8.0	1.0
Profit before reserves and taxes	mFIM	1 004	715	810	440	-42
% of turnover	%	7.4	5.6	8.8	5.3	-0.6
Return on net assets	%	12.7	12.5	15.5	12.1	9.0
Return on equity	%	17.4	14.4	23.4	21.6	2.6
Equity ratio	%	40.2	34.4	37.7	31.6	21.1
Gearing ratio		97	129	109	143	274
Gross investments	mFIM	1 492	2 021	778	544	432
% of turnover	%	10.9	15.7	8.4	6.6	5.6
Research and development	mFIM	97	96	80	66	65
% of turnover	%	0.7	0.7	0.9	0.8	0.8
Net interest expenses	mFIM	344	443	387	424	475
% of turnover	%	2.5	3.4	4.2	5.1	6.2
Interest bearing net debt	mFIM	5 394	5 588	4 347	4 850	6 246
EXTERNAL DELIVERIES**						
Hot rolled coils, sheets and plates	1 000 t	948	1 016	944	991	1 055
Cold rolled coils and sheets	1 000 t	295	308	271	244	236
Coated coils and sheets	1 000 t	442	464	433	387	311
Tubulars	1 000 t	560	476	532	508	471
Profiled sheets and sections	1 000 t	199	160	152	141	131
Long steel products	1 000 t	1 910	1 860	1 520*	1 570*	1 600*

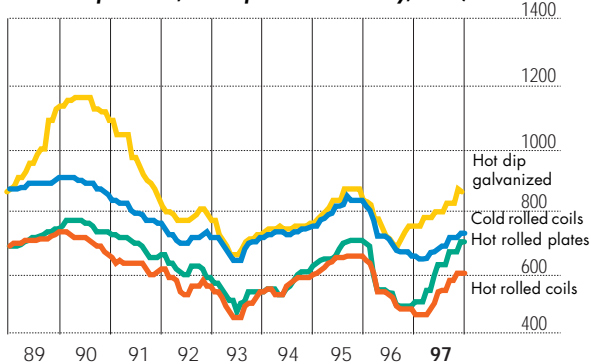
* Fundia is a Group company since 1996

** Including deliveries to the Group's own steel wholesalers

Share key figures shown on page 7

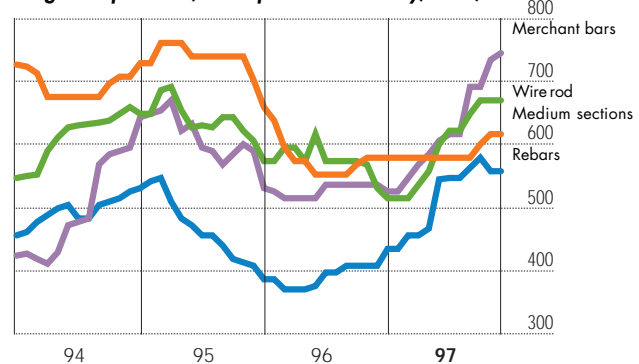
PRICE DEVELOPMENT OF STEEL AND RAW MATERIALS

Flat steel products, basic price in Germany, DEM/t



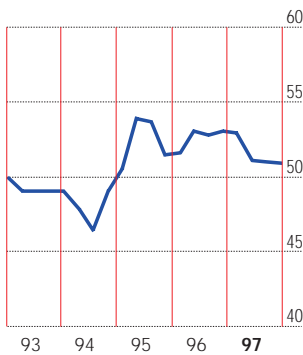
Source: MEPS, European Steel Review

Long steel products, sales price in Germany, DEM/t



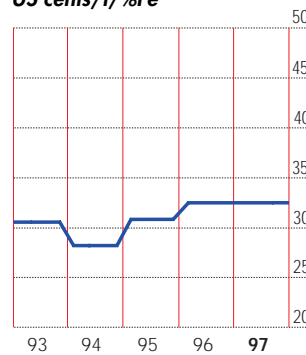
Source: MEPS, European Steel Review

Coking coal, USD/t



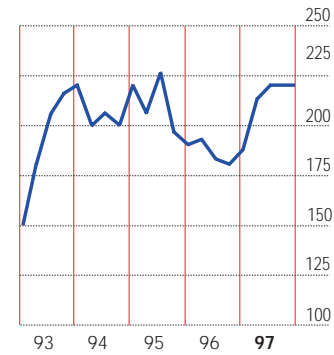
Source: Coal Week International
US Hampton Roads

Iron ore, US cents/t/%Fe



Source: Metal Bulletin
LKAB Kiruna B fines

Iron scrap, DEM/t



Source: Bundesverband der
Deutschen Schrottwirtschaft,
Ruhr No.2, >3mm

Principles governing the calculation of key figures:

$$\text{Value added per person} = \frac{\text{operating profit} + \text{depreciation} + \text{wages} + \text{indirect employee costs} + \text{rents} - \text{share of associated companies' profits}}{\text{average personnel}}$$

$$\text{Return on net assets} = \frac{\text{profit before extraordinary items, reserves and taxes} + \text{interest expenses} \pm \text{exchange rate differences} + \text{other financing expenses (excl. change in the values of short-term investment)}}{[\text{balance sheet total} - \text{obligatory provisions} - \text{non-interest bearing debt}] \text{ (average of the beginning and end of the year)}}$$

$$\text{Return on equity} = \frac{\text{profit before extraordinary items, reserves and taxes} - \text{taxes}}{[\text{shareholders' interests} + \text{optional reserves and accumulated depreciation difference} + \text{minority interests}] \text{ (average of the beginning and end of the year)}}$$

$$\text{Equity ratio} = \frac{\text{shareholders' interests} + \text{optional reserves and accumulated depreciation difference} + \text{minority interests}}{\text{balance sheet total} - \text{short-term advanced payments received}}$$

$$\text{Earnings per share (EPS)} = \frac{\text{profit before extraordinary items, reserves and taxes} - \text{minority interest of profit} - \text{taxes}}{\text{adjusted average number of shares}}$$

$$\text{Equity per share} = \frac{\text{shareholders' interests} + \text{optional reserves and accumulated depreciation difference}}{\text{adjusted number of shares at year-end}}$$

$$\text{Dividend per share} = \frac{\text{dividends paid}}{\text{adjusted number of shares at year-end}}$$

$$\text{Dividend per earnings} = \frac{\text{dividend per share}}{\text{earnings per share}}$$

$$\text{Price per earnings (P/E)} = \frac{\text{share price at year-end}}{\text{earnings per share}}$$

$$\text{Average share price} = \frac{\text{total FIM trading of the share}}{\text{adjusted number of shares traded}}$$

$$\text{Market capitalization} = \text{number of shares} \times \text{share price at year-end}$$

$$\text{Interest bearing net debt} = \text{interest bearing debt} - \text{interest bearing receivables} - \text{cash and other liquid current assets}$$

$$\text{Gearing} = \frac{\text{interest bearing net debt}}{\text{shareholders' interests} + \text{optional reserves and accumulated depreciation difference} + \text{minority interests}}$$

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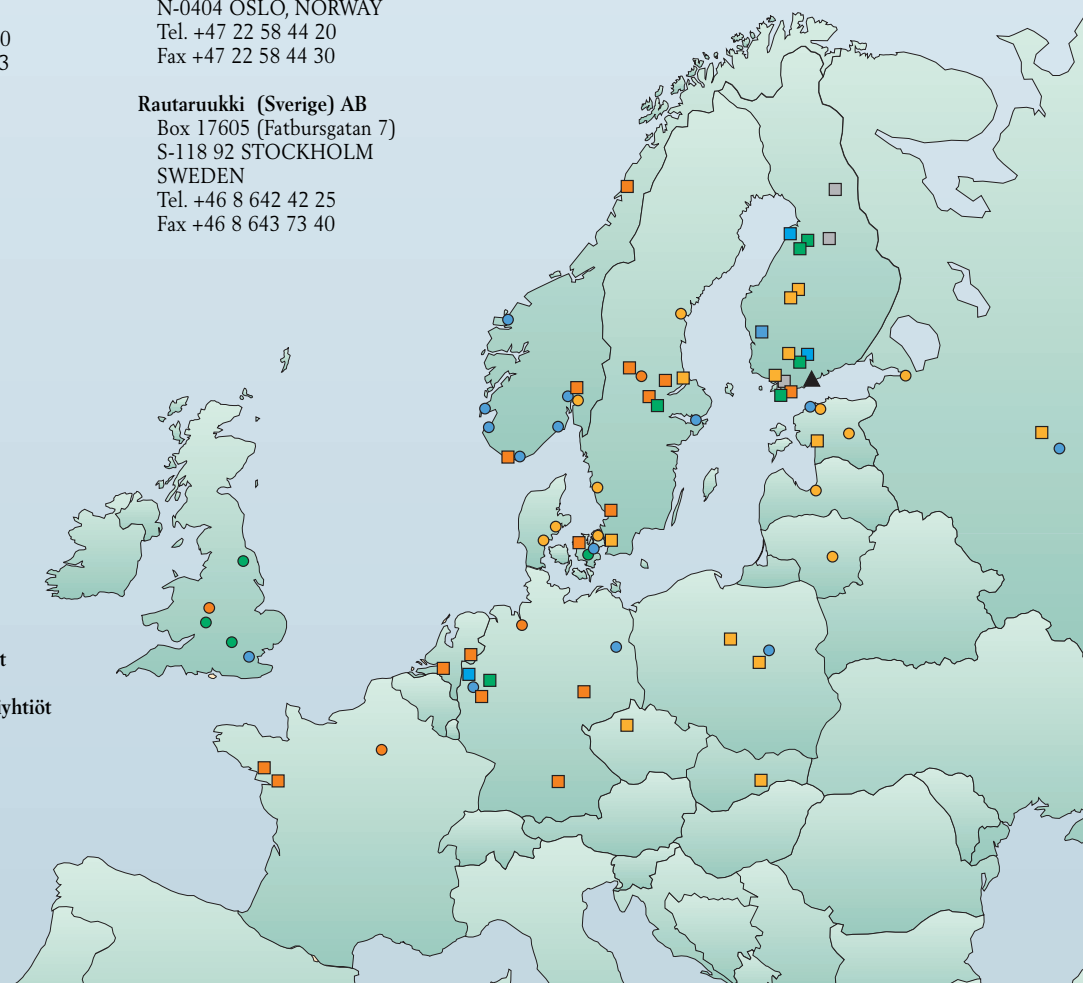
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