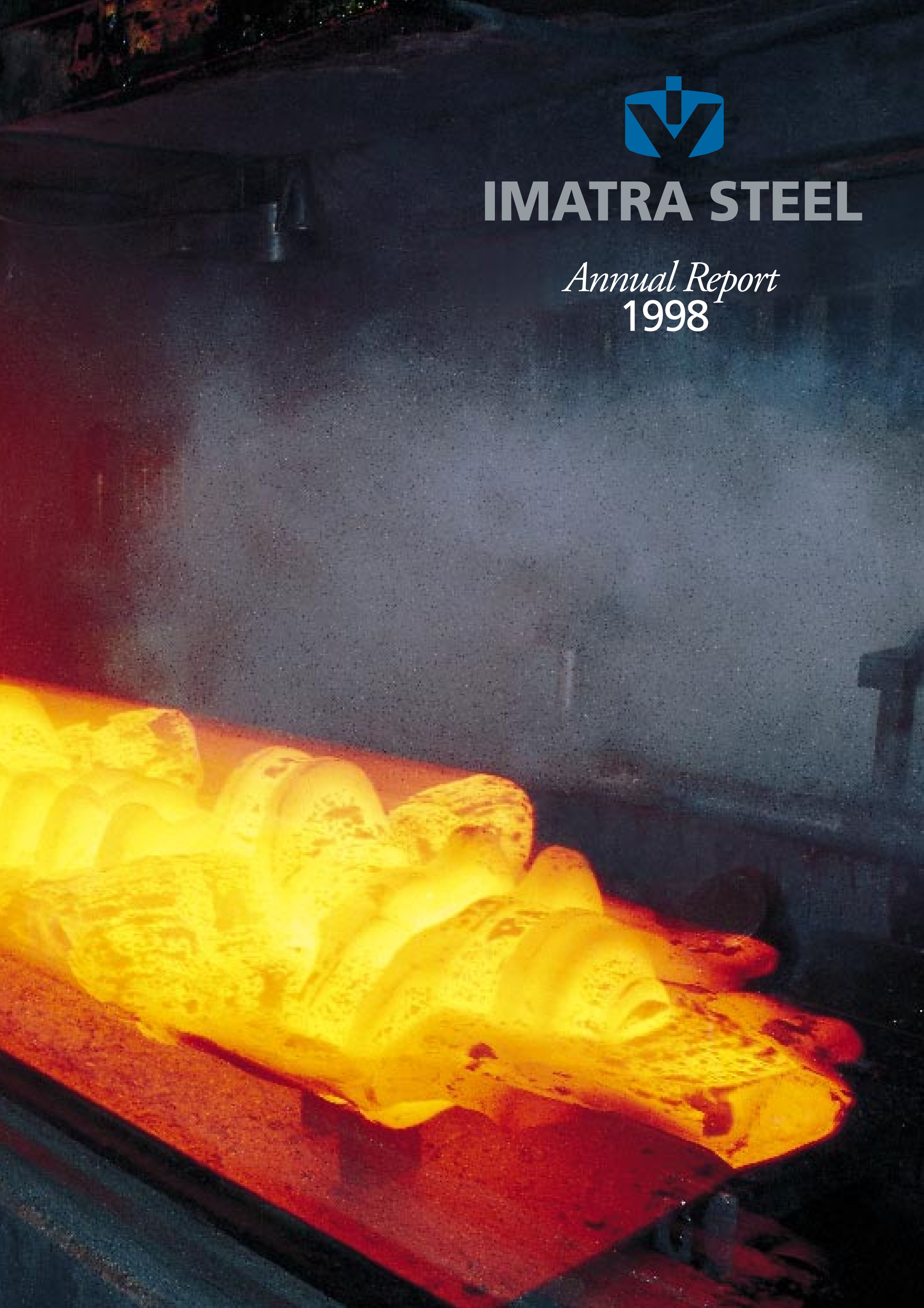


IMATRA STEEL

Annual Report
1998

Contents

Imatra Steel´s Annual Report is published in Finnish and English.

Imatra Steel in Brief

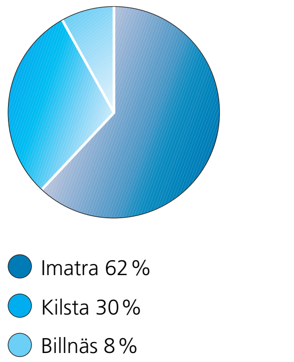
Imatra Steel supplies low-alloy engineering steels and steel products to the automotive and engineering industries. Imatra Steel's operation is founded on full cooperation between its production units: Imatra Steel Works, Kilsta Forge and Billnäs Spring Factory.

Imatra Steel concentrates on serving the truck and car industry and other advanced sections of the mechanical engineering industry. The Group produces low-alloy engineering steel bars, squares and flats; forged crankshafts, front axle beams and steering components; and leaf springs and tubular stabilizer bars.

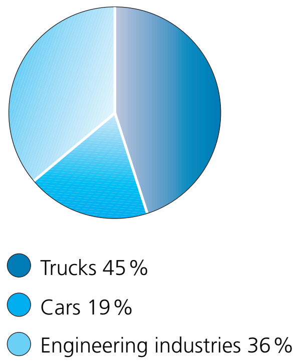
Each production unit has its own marketing organization. The Group also has sales companies in Germany, the UK and France. As a supplier of high-quality products and services, Imatra Steel places high priority on maintaining direct customer contacts through partnership and a lean, process-driven organization.

Imatra Steel is aiming for consistent profitability and quality based on long-term customer relationships. Our products and services are designed to give full customer satisfaction and added value with lower costs throughout the production and user chain. Our personnel share a challenge to be multi-skilled, goal-conscious and willing to cooperate and take responsibility. Care for our customers, personnel, owners and the environment is a vital part of our corporate culture. Our values are goal-consciousness, honesty and keeping promises.

NET SALES BY BUSINESS UNIT 1998



NET SALES BY MARKET SEGMENT 1998



President's Review

Imatra Steel's consolidated net sales increased 12 % to FIM 1,160 million. The operating profit rose from FIM 119 million to FIM 123 million. Our growth was due principally to record-high demand in the automotive industry throughout the year. The Kilsta Forge showed a particularly sharp increase in delivery volume. All in all, though, the long period of strong demand in the European market for special engineering steels began to decline during the final quarter of the year.

The focus of development at Imatra Steel is continuous improvement, partnership and continuous learning. During the year we signed a significant partnership agreement with Kuusakoski Oy on the supply of scrap. Collaboration continued with our customers, and their customers, on further improvements to our products and production processes. We also took over responsibility for certain parts of the delivery chain on behalf of our customers, a policy we intend to develop further.

Customer orientation also guides and defines our development and investment priorities. Investments at the Imatra Steel Works focused on controlled cooling of heavy round bars, finishing of bars and further increasing heat treatment capacity. Our R&D continues to lead the field in machinability of steels and knowhow related to the application of forging heat. Development at the Kilsta Forge concentrated on ensuring continued high capacity utilization and top quality. This goal was strongly supported by investments in forging tool manufacturing and maintenance. The Billnäs Spring Factory further developed its brand products, TAPERTEC® parabolic leaf springs and BENDITEC® tubular stabilizers. The latter are accounting for an increasing share of net sales in pace with the launch of new truck models on the market.

All our units made further progress in the development of their quality systems. The Kilsta Forge gained QS 9000 certification in December and a corresponding auditing process is under way at the Imatra Steel Works.

PERSONNEL

The commitment of our employees and our flexible operating methods have helped us meet our customers' needs during buoyant market conditions. Personnel development based on the principle of Continuous Learning is important for us. It has generated a number of training programmes which are currently in progress in all our units. Our target is to develop the professional competences of our people, to further enhance the quality of our operations and products, and to maintain joy of work. Allocation of responsibilities and decision-making based on flat, process-driven organizations are intended to bring out the hidden potential of our employees. We are confident that these measures

will ensure our continued competitive edge as the new millennium begins.

THE ENVIRONMENT

We continued to develop our environmental systems in line with our parent company Metra's Environmental Concept and Imatra Steel's own Environmental Policy. In the autumn Imatra Steel's Board of Directors approved the revised Environmental Policy, which more clearly sets out our operating principles. In September Imatra Kilsta received official approval to raise its production capacity from 36,000 tonnes to 60,000 tonnes. In other words, its environmental programme was approved as a basis for raising production. Imatra Steel Woks has made an energy conservation agreement with the Ministry of Trade and Industry aimed at achieving further increases in energy efficiency and economy. The Steel Works has distributed a brochure to its neighbours, personnel and customers describing its environmental performance and environmental protection measures. The ISO 14001 auditing process is under way at Imatra.

Gears and axles from case hardening steel.

THE OUTLOOK

The outlook for the current year is uncertain. Demand in the automotive industry will continue to be relatively strong but the pace of growth is forecast to slow. The order intake for steel deliveries has fallen and we have already taken streamlining measures accordingly.

In closing, let me extend my heartfelt thanks to our customers for their confidence and constructive cooperation. We aim to supply you with products and services which offer real added value. I also offer all our employees my abundant thanks for their commendable efforts during 1998.

Kari Tähtinen
President

Imatra Steel Works

IMATRA

KEY FIGURES	1998	1997
•Sales, MFIM	789	745
•Deliveries, kt	249	245
•Personnel	747	715

Low alloy engineering steel bars in rounds, flats and squares.

Threaded bars for stud bolts.

The market for long engineering steels continued to be buoyant throughout the year until the end of autumn. A change for the worse was evident during the final quarter of the year as demand among engineering workshops entered a moderate decline. Steels imports into Europe began to increase at the same time, which weakened potential for sales. On the other hand the automotive industry, which accounts for more than half of Imatra's delivery volume, showed record levels of growth to the year end. Boosted by a strong first half of the year, Imatra Steel Works reached an all-time high in deliveries. Demand for engineering steels could be compared with 1995 levels but price levels were lower and profitability was weaker. Prices of scrap and other raw materials began to decline during the first half of the year. As alloy and scrap margins contracted, the decline was also reflected in the prices of our products.

Imatra Steel Works adopted the "Balanced Scorecard" as a tool for sharpening its strategy. The four squares in this card – customers, internal efficiency, personnel and finance – form a foundation for defining critical targets and the action necessary to achieve them. Our strategy is based on the principle of Continuous Improvement, which also takes into account the cyclical nature of the steel industry.

Customer satisfaction questionnaires reveal our strong areas and also those requiring further development. Our most important investments support customer requirements. A new finishing line was erected next to the bar rolling mill. The controlled cooling line for bars in the heavy rolling mill is currently at the commissioning stage. We will continue our investments to increase heat treatment capacity with the introduction next autumn of a new stress relieving furnace. When introduced into operation, this furnace will further enhance the flexibility of our steelworks to respond to changes in demand for heat-treated steel bars.

In 1998 we placed heavy emphasis on developing our quality and environmental systems. The preliminary audits necessary for QS 9000 and ISO 14001 have already been performed and the main audits will be carried out in 1999.

Internal efficiency targets focus on our critical processes. We continued to work closely with our suppliers of maintenance and computer services and we made a new partnership agreement with a leading scrap supplier, Kuusakoski Oy.

We also continued our Continuous Learning training programme nicknamed "Bar Markets" (Tankomarkkinat). Weekly lessons give personnel information on a range of issues including steel industry trends, products, customers and their processes, our strategy, environmental and quality systems (ISO 14001 and QS 9000), and maintenance of fitness at work. The training schemes started in 1997 for young people are close to completion. We also started Continuous Improvement activities based around small teams and this will be expanded in 1999 to cover the entire organization.

All employees were invited to take part in a wide-ranging study concerning corporate climate and work satisfaction.

Job rotation at managerial level has offered new challenges for younger employees and given more experienced managers the opportunity to concentrate on strategic and business planning.

We also worked together with our customers and their customers to further develop our products and production processes. Better machinability based on Imatra's special M-treatment knowhow continues to lead the field and its significance is becoming even further pronounced by the active public debate on the abolition of leaded steels.

Finland's entry into the EMU and the adoption of the euro as an internal currency in the company from 1 January 1999 put our computer systems under additional strain. Another special project is bringing our information systems up to the standards required for Year 2000 compliance. In this respect, too, we are now ready to enter the new millennium.

Many of our investments support the increasingly demanding requirements of our customers.

KILSTA

Imatra Kilsta AB / Imatra Tooling AB

KEY FIGURES	1998	1997
• Sales, MFIM	356	281
• Deliveries, kt	43	34
• Personnel	371	312


Front axle beams


Crankshafts


Connecting rods


Steering components

Imatra Kilsta AB is one of the world's leading manufacturers of die-forged products, particularly for the heavy vehicle industry. Imatra Kilsta specializes in heavy crankshafts, front axle beams, steering knuckles and other steering components.

Over the past two years we have placed special emphasis on three main strategies: high capacity utilization, cooperation and organizational development.

Our commitment to achieving high capacity utilization has played a key role in our efforts to fulfill the sometimes extremely volatile fluctuations in customer demand. We have succeeded in raising production volume by almost 60 % in the past two years, thanks largely to our flexible operations and the solid commitment of our personnel.

For years Imatra Kilsta has worked to maintain and develop its competitive efficiency together with its customers. This has generated a number of projects based on the concept of Continuous Improvement: maintaining and further enhancing our high quality levels, cutting costs at every stage of the supply chain from steel to finished product, and reducing throughput times. One result of this work has meant taking responsibility for certain elements in the supply chain on behalf of our customers, and we intend to continue along this path.

Loading of the 2,500-tonne forging line, brought into operation in 1997, has grown substantially. Some of the products made on this line are supplied to customers ready machined and we plan to continue this business.

Production at Imatra Kilsta has been converted into a process-based organization. This means that responsibilities have been devolved to each stage of the process, from steel to forge and right up to the finished product supplied to the customer. Our process organizations are "flat", which means that decisions are made close to production and the products themselves. We have also strengthened our customer support and technical development operations, to further enhance our competitiveness.

Our entire personnel is taking part in a training programme called "Cooperation For All" (Medarbetarskap för alla), the aim of which is to train employees to work in a constantly changing organization. As part of its organizational development Imatra Kilsta has also successfully implemented a system based on the concept of Continuous Process Improvement, which is a central part of the QS 9000 quality system. We received quality certification according to this in December 1998.

Our subsidiary Imatra Tooling AB supplies forging tools to our forge and precision tools to the engineering industry. Further investments in new technology were made during the year including new high-speed milling technology.

In September Imatra Kilsta received official approval to raise its production volume from 36,000 tonnes to 60,000 tonnes. This also meant approval of our environmental scheme as a basis for raising production.

Most of the environmental protection programmes currently in progress will also enhance our profitability.

In December 1998 we terminated an operation which was unrelated to our core business. This operation involved dispersing the liquids produced in our processes and those of our customers to provide heating fuel for our forge.

Environmental issues are critical to Imatra Kilsta's external and also internal corporate identity. In 1999 we will introduce an environmental management system based on the ISO 14000 standard.

During 1998 we made investments in internal environmental improvements and in schemes to maintain and enhance the health of our employees.

Projects based on the concept of Continuous Improvement include maintaining and further enhancing our high quality levels.

BILLNÄS

Imatra Steel Billnäs

KEY FIGURES	1998	1997
• Sales, MFIM	88	88
• Deliveries, kt	8	8
• Personnel	132	134

Leaf springs

Tubular stabilizers

Imatra Steel Billnäs develops and supplies suspension components for the European commercial vehicle market. Its branded products are TAPERTEC® parabolic springs and BENDITEC® tubular stabilizers. We apply the latest technical advances in our production processes and as a result we have succeeded in achieving significant weight savings and outstanding fatigue strength in our products. These make it possible to increase the payload of the vehicle, which offers considerable economical and environmental advantages. Moreover, 99 % of the weight of our products is recyclable steel, which further improves their environmental friendliness.

Imatra Steel Billnäs focuses on serving European manufacturers of heavy commercial vehicles. 77 % of net sales in 1998 came from Sweden, Germany and the Benelux countries. The highly successful BENDITEC® tubular stabilizers accounted for 13 % of net sales. As new truck models are launched on the market this figure will rapidly increase.

Logistical performance is an area of top priority at Imatra Steel Billnäs. Our challenge is to satisfy the demand for punctual deliveries at increasingly short notice, direct to the assembly lines of our customers. Continuous monitoring of our throughput times and delivery punctuality have produced encouraging results. The next step is to apply similar control methods in order to improve deliveries entering our production lines, the key priority being on our raw material and component suppliers.

The competitiveness of Imatra Steel Billnäs depends on creating and maintaining a sufficiently fast pace of development. A continuous improvement system involving our whole organization ensures that development takes place continuously in all our operations. The system was introduced in 1996 and in 1998 it generated 300 improvements. This represented 2.3 improvements per employee. 96 % of our personnel had an active role in either initiating, planning or implementing these improvements.

Imatra Steel Billnäs bases its operations on management systems consisting of quality assurance approved by Lloyd’s Register Assurance according to ISO 9001, an environmental system according to ISO 14001 – targeted for approval in spring 1999 – and an occupational health and safety management system guidelined by BS 8800.

In our products we have succeeded in achieving significant weight savings and outstanding fatigue strength.

Five years in Figures, Euro

MEUR	1998	1997	1996	1995	1994
Net sales	195.1	174.7	155.5	167.2	134.4
of which outside Finland	83%	83%	82%	80%	79%
Exports from Finland	111.2	106.3	95.7	108.6	81.2
Personnel on average	1,252	1,155	1,164	1,162	1,064
From the income statement					
Depreciation	12.0	10.7	9.1	7.9	8.4
Operating profit	20.8	20.1	17.1	29.0	16.1
share of net sales	10.6%	11.5%	11.0%	17.4%	11.9%
Net financial items	–2.2	–3.1	–2.9	–3.5	–2.9
Profit before extraordinary items	18.6	17.0	14.2	25.5	13.2
share of net sales	9.5%	9.7%	9.2%	15.3%	9.8%
Profit for the financial period	2.4	2.6	4.0	1.8	6.2
From the balance sheet					
Fixed assets	89.5	90.8	93.4	78.5	78.8
Inventories	36.9	33.3	32.8	35.0	29.5
Financial assets	33.7	39.3	29.4	39.9	35.0
Shareholders' equity	48.8	47.8	45.0	40.7	38.4
Provisions	3.3	3.8	4.5	2.9	1.3
Interest-bearing liabilities	55.7	61.8	67.7	63.7	76.5
Non interest-bearing liabilities	52.3	50.0	38.4	46.1	27.1
Balance sheet total	160.1	163.4	155.6	153.4	143.3
Financial ratios					
Funds generated from operations	28.4	23.5	24.1	26.6	24.6
Gross capital expenditure	12.0	8.1	24.5	13.1	3.9
share of net sales	6.2%	4.6%	15.7%	7.8%	2.9%
Return on investment (ROI)	20.4%	18.2%	16.7%	29.0%	15.4%
Solvency ratio	30.5%	29.2%	28.9%	26.5%	26.8%
Net gearing	1.1	1.2	1.4	1.3	1.8

Five Years in Figures, Finnish Markka

MFIM	1998	1997	1996	1995	1994
Net sales	1,160	1,039	925	994	799
of which outside Finland	83%	83%	82%	80%	79%
Exports from Finland	661	632	569	646	483
Personnel on average	1,252	1,155	1,164	1,162	1,064
From the income statement					
Depreciation	71	63	54	47	50
Operating profit	123	119	102	173	95
share of net sales	10.6%	11.5%	11.0%	17.4%	11.9%
Net financial items	–13	–19	–17	–21	–17
Profit before extraordinary items	110	100	85	152	78
share of net sales	9.5%	9.7%	9.2%	15.3%	9.8%
Profit for the financial period	14	15	24	11	37
From the balance sheet					
Fixed assets	532	540	555	467	468
Inventories	219	198	195	208	176
Financial assets	201	233	175	237	208
Shareholders' equity	290	284	267	242	228
Provisions	19	23	27	17	8
Interest-bearing liabilities	332	367	403	379	455
Non interest-bearing liabilities	311	297	228	274	161
Balance sheet total	952	971	925	912	852
Financial ratios					
Funds generated from operations	169	139	144	158	146
Gross capital expenditure	72	48	145	78	23
share of net sales	6.2%	4.6%	15.7%	7.8%	2.9%
Return on investment (ROI)	20.4%	18.2%	16.7%	29.0%	15.4%
Solvency ratio	30.5%	29.2%	28.9%	26.5%	26.8%
Net gearing	1.1	1.2	1.4	1.3	1.8

CALCULATION OF FINANCIAL RATIOS

Return on investment (ROI)

$$\frac{\text{Profit before extraordinary items + interest and other financial expenses}}{\text{Balance sheet total – non interest-bearing liabilities – provisions, average over the year}} \text{ X 100}$$

Solvency ratio

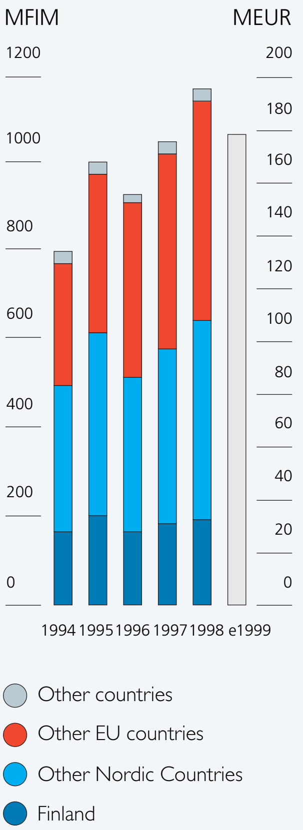
$$\frac{\text{Shareholders' equity + minority interest}}{\text{Balance sheet total – advances received}} \text{ X 100}$$

Net gearing

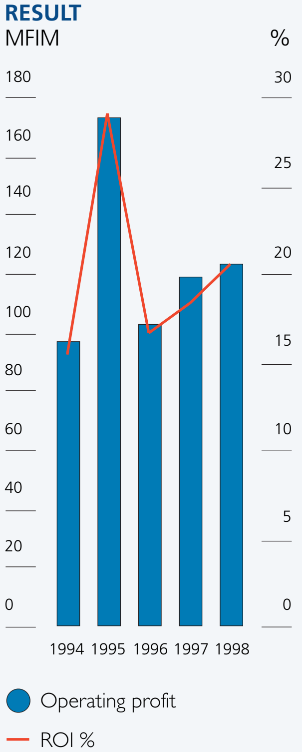
$$\frac{\text{Interest-bearing liabilities – cash and bank balances}}{\text{Shareholders' equity + minority interest}}$$

Report by the Board of Directors

NET SALES BY MARKET AREA



RESULT



Two clear trends were evident in the European market for special engineering steels during 1998. Demand in the engineering sector and among wholesalers began to decline during the final quarter of the year, after several years of buoyant activity, as European exporters ran into difficulties, imports into Europe increased sharply and stocks filled up. Prices of scrap and other raw materials began to fall during the first half of the year, followed by a drop in steel prices.

In the automotive industry, by contrast, demand remained strong all year and production volumes reached record levels. Production of heavy trucks increased 12 % on the previous year, while production of cars rose 5 %. Deliveries by Imatra Steel, and the Kilsta Forge in particular, showed clear growth.

OPERATING PROFIT AND RESULT

Consolidated net sales increased 12 % to FIM 1,160 (1,039) million. The Imatra Steel Works recorded net sales growth of 6 % and the Kilsta Forge of 25 %, while net sales of the Billnäs Spring Factory remained essentially unchanged. Imatra's and Kilsta's delivery volumes hit all-time highs. Deliveries of tubular stabilizers from Billnäs were increased by the launch of several new truck models on the market.

The operating profit rose to FIM 123 (119) million.

The profit before extraordinary items was FIM 110 million, up FIM 9 million on the previous year. Taxes for the year totalled FIM 10 million.

FINANCING

The Group's liquidity remained unchanged. Cash flow before financing activities was FIM +104 (+98) million. Investments were financed using the company's own funds.

Imatra Steel's consolidated profit for the period was FIM 14 (15) million. Return on investment was 20.4 % (18.1 %).

Net financial expenses amounted to FIM 13 (19) million, which represented 1.0 % (1.8 %) of net sales. The parent company recorded unrealized exchange rate gains totalling FIM 5.6 million. The balance sheet totalled FIM 952 (971) million. Interest-bearing debt amounted to FIM 332 (367) million on the balance sheet date. The Group's solvency ratio was 30.5 % (29.2 %).

CAPITAL EXPENDITURE AND R&D

Gross capital expenditure totalled FIM 72 (48) million and net investments amounted to FIM 69 (47) million. Investments focused on customer-oriented development projects and the removal of production bottlenecks.

FIM 46 million was invested in the Imatra Steel Works. A bar finishing line costing FIM 12 million was brought into production in the bar rolling mill. Construction of a controlled cooling line for heavy round bars was close to completion. This investment will cost FIM 25 million.

Capital expenditure at the Kilsta Forge totalled FIM 16 million. An inspection line for heavy-duty crankshafts, costing FIM 12 million, was brought into operation during the year. A new investment project involving centering of heavy crankshafts was started at the year end. Costing FIM 8 million, this investment will be completed in summer 1999.

Capital expenditure at Billnäs amounted to FIM 6 million. The major item was a shot-peening line for spring leaves costing FIM 3 million.

Imatra Steel spent FIM 11 (11) million on research and development. This focused on continuous development of its products in collaboration with customers, and continuous improvement in quality and cost-competitiveness.

PERSONNEL AND DEVELOPMENT OF HUMAN RESOURCES

Capacity utilization was good in all units for most of the year. Production had to be restricted at Imatra Steel Works right at the end of the year owing to weaker demand. The Group had 1,270 (1,176) employees at the close of the period, 884 (851) of whom worked in Finland. Personnel averaged 1,252 (1,155) during the year. All units ran training programmes for developing professional competences, enhancing work and product quality, and maintaining joy of work.

BOARD OF DIRECTORS AND AUDITORS

The Annual General Meeting was held on 16 March 1998. The firm of authorized public accountants KPMG Wideri Oy Ab were elected the company's auditors. The members of the Board of Directors are Georg Ehrnrooth (chairman), Heikki Allonen, Sven Bertlin, Pentti-Juhani Hintikka and Pekka Virtanen. Imatra Steel Oy Ab is a wholly owned subsidiary of Metra Corporation.

YEAR 2000 COMPLIANCE

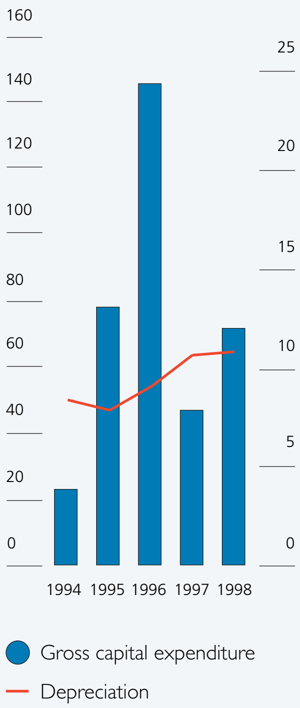
Evaluations and measures to achieve Year 2000 compliance are making scheduled progress in all Imatra Steel's units. This work is focusing on the millennium compliance of the entire production process, including automation, production control systems and machinery. Renewal of certain systems and machinery are being accelerated due to the change of millennium. System testing to ensure Year 2000 compliance of the entire production process will be scheduled to suit planned production stoppages.

PROSPECTS FOR 1999

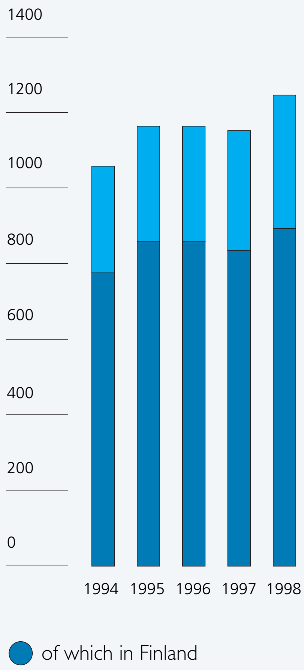
The outlook for 1999 is uncertain. The order intake for steel deliveries has decreased and streamlining measures are already in progress. The capacity load for automotive products is still good but this, too, is expected to deteriorate during the spring.

Imatra Steel's net sales is forecast to decline and its result to weaken during 1999.

GROSS CAPITAL EXPENDITURE AND DEPRECIATION



PERSONNEL ON AVERAGE



Financial Statements

GROUP
INCOME STATEMENT

	Note	MFIM 1998	MFIM 1997	MEUR 1998	MEUR 1997
Net sales	1	**1,159.9**	**1,038.8**	**195.1**	**174.7**
Change in inventories of finished goods and work in progress		18.0	–10.6	3.0	–1.8
Production for own use		–0.1	0.4	–0.0	0.1
Other operating income	2	17.3	19.6	2.9	3.3
Materials and services					
Materials and consumables					
Purchases during the financial year		–528.7	–436.6	–88.9	–73.4
Change in inventories		8.8	10.5	1.5	1.8
External services		–129.1	–118.8	–21.7	–20.0
		–649.0	–544.9	–109.1	–91.6
Personnel expenses	3	–277.1	–248.9	–46.6	–41.9
Depreciation and writedowns	4	–71.3	–63.4	–12.0	–10.7
Other operating expenses		–74.3	–71.6	–12.5	–12.0
Operating profit		**123.4**	**119.4**	**20.8**	**20.1**
Financial income and expenses	5				
Income from financial assets		0.1	0.0	0.0	0.0
Other interest income and financial income		1.8	1.2	0.3	0.2
Exchange gains and losses		4.6	–0.2	0.8	–0.0
Interest expenses and other financial expenses		–19.5	–19.6	–3.3	–3.3
		–13.0	–18.6	–2.2	–3.1
Profit before extraordinary items		**110.4**	**100.8**	**18.6**	**17.0**
Extraordinary income and expenses	6	–14.4	0.0	–2.4	0.0
Group contributions		–70.0	–80.1	–11.8	–13.5
		–84.4	–80.1	–14.2	–13.5
Direct taxes	7	–11.6	–5.4	–2.0	–0.9
Profit for the financial year		**14.4**	**15.3**	**2.4**	**2.6**

GROUP
FINANCIAL ANALYSIS

	MFIM 1998	MFIM 1997	MEUR 1998	MEUR 1997
Funds generated from operations				
Operating profit	119.0	113.7	20.0	19.1
Depreciation	71.3	63.4	12.0	10.7
Financial income and expenses	–12.9	–18.5	–2.2	–3.1
Extraordinary items	-	-	-	-
Taxes	–11.6	–5.4	–1.9	–0.9
	165.8	153.2	27.9	25.8
Change in working capital				
Inventories, increase (–), decrease(+)	–21.1	–0.1	–3.6	–0.0
Receivables, increase (–), decrease(+)	23.5	–37.1	4.0	–6.2
Non interest-bearing liabilities, increase (+), decrease (–)	0.6	23.3	0.1	3.9
	3.0	–13.9	0.5	–2.3
Cash flow from operations	**168.8**	**139.3**	**28.4**	**23.5**
Cash flow from investing activities				
Capital expenditures	–71.6	–47.8	–12.0	–8.1
Disposal of fixed assets and other changes	7.2	6.7	1.2	1.1
	–64.4	–41.1	–10.8	–7.0
Cash flow before financing	**104.4**	**98.2**	**17.6**	**16.5**
Financing				
Long-term loans, increase (+), decrease (–)	–37.4	–28.8	–6.3	–4.8
Short-term loans, increase (+), decrease (–)	1.8	–3.8	0.3	–0.6
Group contributions	–80.1	–49.8	–13.5	–8.4
Other changes in the Group	–2.1	0.2	-0.4	0.0
	–117.8	–82.2	–19.9	–13.8
Change in liquid funds, increase (+), decrease (–)	**–13.4**	**16.0**	**–2.3**	**2.7**

The impact of changes in exchange rates on consolidation has been eliminated.

GROUP BALANCE SHEET ASSETS

	Note	MFIM 31 Dec.1998		MFIM 31 Dec.1997		MEUR 31 Dec.1998	MEUR 31 Dec.1997
Fixed assets	8						
Intangible assets							
Intangible rights		1.1		1.2		0.2	0.1
Other long-term expenditure		5.2		6.9		0.9	1.2
		6.3	1%	8.1	1%	1.1	1.3
Tangible assets							
Land and water		13.7		14.1		2.3	2.4
Buildings and structures		121.7		134.0		20.5	22.5
Machinery and equipment		346.4		367.8		58.3	61.9
Other tangible rights		6.7		8.0		1.1	1.3
Advance payments and construction in progress		34.2		3.4		5.7	0.6
		522.7	55%	527.3	54%	87.9	88.7
Financial assets							
Shares in Group companies		-		-		-	-
Shares and securities		3.0		4.5		0.5	0.8
		3.0	0%	4.5	1%	0.5	0.8
Total fixed assets		532.0	56%	539.9	56%	89.5	90.8
Current assets							
Inventories							
Materials and consumables		58.2		51.9		9.8	8.7
Work in progress		65.9		58.2		11.1	9.8
Finished products/goods		95.0		88.0		16.0	14.8
		219.1	23%	198.1	20%	36.9	33,3
Long-term receivables	9						
Receivables from Group companies		-		-		-	-
Loan receivables		1.5		1.8		0.2	0.3
Deferred tax assets	14	4.5		-		0.8	-
		6.0	1%	1.8	0%	1.0	0.3
Short-term receivables							
Trade receivables		153.2		166.2		25.8	28.0
Receivables from Group companies		1.2		1.8		0.2	0.3
Other receivables		0.0		0.1		0.0	0.0
Prepaid expenses and accrued income		22.5		32.3		3.7	5.4
		176.9	19%	200.4	21%	29.7	33.7
Cash and bank balances		17.9	2%	31.2	3%	3.0	5.3
Total current assets		419.9	44%	431.5	44%	70.6	72.6
Assets		**951.9**	**100%**	**971.4**	**100%**	**160.1**	**163.4**

GROUP
BALANCE SHEET, SHAREHOLDERS´ EQUITY AND LIABILITIES

	Note	MFIM 31 Dec.1998		MFIM 31 Dec.1997		MEUR 31 Dec.1998	MEUR 31 Dec.1997
Shareholders´ equity	10						
Share capital		104.0		104,0		17.5	17,5
Other reserves		20.7		22.1		3.5	3.7
Retained earnings	11	150.8		142.6		25.4	24.0
Profit for the financial year		14.4		15.3		2.4	2.6
Total shareholders´ equity		289.9	30%	284.0	29%	48.8	47.8
Provisions	12	19.5	2%	22.7	2%	3.3	3.8
Liabilities	13						
Long-term							
Loans from credit institutions		112.9		138.4		19.0	23.3
Pension loans		159.0		171.5		26.7	28.8
Deferred tax liability	14	83.5		63.9		14.0	10.8
Other long-term liabilities		2.2		1.6		0.4	0.3
		357.6	38%	375.4	39%	60.1	63.2
Current							
Loans from credit institutions		20.0		20.6		3.4	3.4
Pension loans		12.2		12.9		2.0	2.2
Advanced received		-		0.0		-	0.0
Trade payables		65.7		73.8		11.0	12.4
Liabilities to Group companies		94.3		103.1		15.9	17.3
Accrued expenses and deferred income	15	89.9		77.7		15.1	13.1
Other current liabilities		2.8		1.2		0.5	0.2
		284.9	30%	289.3	30%	47.9	48.6
Total liabilities		642.5	68%	664.7	68%	108.0	111.8
Shareholders´ equity and liabilities		**951.9**	**100%**	**971.4**	**100%**	**160.1**	**163.4**

PARENT COMPANY
INCOME STATEMENT

	Note	MFIM 1998	MFIM 1997	MEUR 1998	MEUR 1997
Net sales	1	**853.7**	**811.5**	**143.6**	**136.5**
Change in inventories of finished goods and work progress		11.5	–15.6	1.9	–2.6
Production for own use		–0.1	0.4	–0.0	0.1
Other operating income	2	9.1	10.2	1.5	1.7
Materials and services					
Materials and consumables					
Purhases during the financial year		–396.9	–360.4	–66.8	–60.6
Change in inventories		–1.4	2.4	–0.2	0.4
External services		–127.8	–116.8	–21.5	–19.7
		–526.1	–474.8	–88.5	-79.9
Personnel expenses	3	–186.2	–173.7	–31.3	–29.2
Depreciation and writedowns	4	–58.9	–51.6	–9.9	–8.7
Other operating expenses		–16.3	–16.6	–2.7	–2.8
Operating profit		**86.7**	**89.8**	**14.6**	**15.1**
Financial income and expenses	5				
Income from financial assets		0.6	1.1	0.1	0.2
Other interest income and financial income		1.5	0.9	0.2	0.1
Exchange gains and losses		4.5	–0.4	0.8	–0.1
Interest expenses and other financial expenses		–16.8	–17.7	–2.8	–2.9
		–10.2	–16.1	–1.7	–2.7
Profit before extraordinary items		**76.5**	**73.7**	**12.9**	**12.4**
Extraordinary income and expenses	6	-	-	-	-
Group contributions		–70.0	–57.0	–11.8	–9.6
		–70.0	–57.0	–11.8	–9.6
Profit before appropriations and taxes		**6.5**	**16.7**	**1.1**	**2.8**
Change in depreciation difference		–1.1	–8.8	–0.2	–1.5
Direct taxes	7	–2.5	–0.8	–0.4	–0.1
Profit for the financial year		**2.9**	**7.1**	**0.5**	**1.2**

PARENT COMPANY
FINANCIAL ANALYSIS

	MFIM		MEUR	
	1998	**1997**	**1998**	**1997**
Funds generated from operations				
Operating profit	82.8	84.4	13.9	14.2
Depreciation	58.9	51.6	9.9	8.7
Financial income and expenses	–10.2	–16.1	–1.7	–2.8
Extraordinary items	-	-	-	-
Taxes	–2.5	–0.8	–0.4	–0.1
	129.0	119.1	21.7	20.0
Change in working capital				
Inventories, increase (–), decrease (+)	–10.0	13.3	–1.7	2.2
Current receivables, increase (–), decrease (+)	24.8	–26.8	4.2	–4.5
Non interest-bearing liabilities, increase (+), decrease (–)	–7.8	15.8	–1.3	2.7
	7.0	2.3	1.2	0.4
Cash flow from operations	**136.0**	**121.4**	**22.9**	**20.4**
Cash flow from investing activities				
Capital expenditures	–52.5	–23.0	–8.8	–3.9
Disposal of fixed assets and other changes	5.5	6.3	0.9	1.1
	–47.0	–16.7	–7.9	–2.8
Cash flow before financing	**89.0**	**104.7**	**15.0**	**17.6**
Financing				
Long-term receivables, increase (–), decrease (+)	0.2	-	0.0	-
Long-term loans, increase (+), decrease (–)	–37.5	–32.5	–6.3	–5.5
Short-term loans, increase (+), decrease (–)	–1.3	–13.9	–0.2	–2.3
Group contributions	–57.0	–47.0	–9.6	–7.9
	–95.6	–93.4	–16.1	–15.7
Change in liquid funds, increase (+), decrease (–)	**–6.6**	**11.3**	**–1.1**	**1.9**

PARENT CMPANY
BALANCE SHEET
ASSETS

	Note	MFIM		MEUR	
	Note	**31 Dec.1998**	**31 Dec.1997**	**31 Dec.1998**	**31 Dec.1997**
Fixed assets	8				
Intangible assets					
Intangible rights		1.1	1.2	0.2	0.2
Other long-term expenditure		4.9	6.8	0.8	1.1
		6.0	8.0	1.0	1.3
Tangible assets					
Land and water		8.0	8.0	1.3	1.3
Buildings and structures		112.0	123.8	18.8	20.8
Machinery and equipment		289.5	303.0	48.7	51.0
Other tangible rights		7.2	8.0	1.2	1.4
Advance payments and construction in progress		24.7	3.1	4.2	0.5
		441.4	445.9	74.2	75.0
Financial assets					
Shares in Group companies		58.0	58.0	9.8	9.8
Shares and securities		3.2	4.7	0.5	0.8
		61.2	62.7	10.3	10.6
Total fixed assets		508.6	516.6	85.5	86.9
Current assets					
Inventories					
Materials and consumables		35.0	36.8	5.9	6.2
Work in progress		44.7	38.1	7.5	6.4
Finished products/goods		61.6	56.3	10.4	9.5
		141.3	131.2	23.8	22.1
Long-term receivables	9				
Receivables from Group companies		5.3	5.5	0.9	0.9
Loan receivables		1.5	1.6	0.2	0.3
		6.8	7.1	1.1	1.2
Short-term receivables					
Trade receivables		62.6	66.1	10.5	11.1
Receivables from Group companies		69.3	83.3	11.7	14.0
Other receivables		-	0.2	-	0.0
Prepaid expenses and accrued income		13.8	20.9	2.3	3.5
		145.7	170.5	24.5	28.6
Cash and bank balances		10.0	16.6	1.7	2.8
Total current assets		303.8	325.4	51.1	54.7
Assets		**812.4**	**842.0**	**136.6**	**141.6**

PARENT COMPANY
BALANCE SHEET
SHAREHOLDERS´ EQUITY AND LIABILITIES

	Note	MFIM 31 Dec.1998	MFIM 31 Dec.1997	MEUR 31 Dec.1998	MEUR 31 Dec.1997
Shareholders´ equity	10				
Share capital		104.0	104.0	17.5	17.5
Other reserves		21.1	21.1	3.5	3.5
Retained earnings	11	5.3	–1.8	0.9	–0.3
Profit for the financial year		2.9	7.1	0.5	1.2
Total shareholders´ equity		133.3	130.4	22.4	21.9
Appropriations					
Accumulated depreciation difference		202.0	200.9	4.0	33.8
Voluntary provisions		-	-	-	-
		202.0	200.9	34.0	33.8
Provisions	12	10.8	13.6	1.8	2.3
Liabilities	13				
Long-term					
Loans from credit institutions		106.5	132.1	17.9	22.2
Pension loans		159.0	171.5	26.7	28.8
Other long-term liabilities		2.2	1.6	0.4	0.3
		267.7	305.2	45.0	51.3
Short-term					
Loans from credit institutions		20.0	20.6	3.4	3.5
Pension loans		12.2	12.9	2.1	2.2
Advances received		-	0.0	-	0.0
Trade payables		44.2	52.0	7.4	8.7
Liabilities to Group companies		72.2	60.2	12.1	10.1
Accrued expences and deferred income	15	49.5	45.7	8.3	7.7
Other current liabilities		0.5	0.5	0.1	0.1
		198.6	191.9	33.4	32.3
Total liabilities		466.3	497.1	78.4	83.6
Shareholders´ equity and liabilities		**812.4**	**842.0**	**136.6**	**141.6**

Accounting Principles

The consolidated financial statements of Imatra Steel Group have been prepared in accordance with the new Finnish accounting regulations, which came into force on 31 December 1997. In all essential respects these comply with the accounting standards issued by the International Accounting Standards Committee (IASC). The comparative data for the previous year have been restated to conform to the new principles. The changes to the income statement caused by the new accounting principles on the balance sheet at the start of the year, are recorded under extraordinary items. The most important of these changes concern the treatment of deferred tax liabilities and deferred tax assets.

The financial statements are presented in Finnish markka.

The preparation of the financial statements in conformity with applicable regulations and generally accepted accounting principles requires management to make estimates and assumptions that affect the valuation and allocation of the reported figures. Actual results may differ from such estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Imatra Steel Oy Ab and the accounts of its directly or indirectly owned subsidiaries (over 50 % of the voting rights). Certain real estate and housing companies are not consolidated since they have a negligible effect on the Group's result and distributable equity.

All intra-group transactions as well as distribution of profit, receivables and liabilities, and unrealized margins on intra-group transactions are eliminated in the consolidation.

Mutual shareholdings are eliminated using the purchase method. The goodwill in the subsidiaries is calculated on the basis of their acquisition cost by eliminating the Group's share of the equity of the acquired subsidiaries, including untaxed reserves, less deferred tax liability. Of the difference between the cost of the acquisition and the equity of the subsidiaries at the date of acquisition, that amount by which the value of fixed assets can be considered to exceed the subsidiary's balance sheet value has been entered under fixed assets. The remainder of the difference is recorded as goodwill. Goodwill is amortized over the useful life of the asset, nevertheless over a period not exceeding twenty years.

FOREIGN SUBSIDIARIES

In the consolidated accounts all items in the income statements of foreign subsidiaries are translated into Finnish markka at the average exchange rates for the financial year. The balance sheet items of subsidiaries are translated into Finnish markka at the rates of exchange ruling on the balance sheet date. Translation differences arising from the application of the purchase method are treated as an adjustment affecting consolidated shareholders' equity; the translation difference applying to shareholders' equity at the time of acquisition is allocated to distributable and non-distributable equity. Those differences, which arise from the translation of income statement items and balance sheet items at different rates, are recorded as part of the consolidated non-restricted equity.

TRANSACTIONS DENOMINATED IN FOREIGN CURRENCIES

Business transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Receivables and payables on the balance sheet date are valued at the exchange rates prevailing on that date. Open hedging instruments of foreign currency based items, including interest components, are valued at the balance sheet date. Exchange gains and losses related to business operations are treated as adjustments to net sales and operating expenses. Exchange gains and losses related to financing operations are entered at their net values under financial income and expenses.

NET SALES AND REVENUE RECOGNITION

Net sales is calculated by deducting items including indirect sales taxes and discounts from gross sales revenues. Revenue is recognized at the date of delivery.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed in the financial period in which they occurred, with the exception of investments in buildings, machinery and equipment, which are capitalized and depreciated.

PENSION ARRANGEMENTS

Statutory and supplementary pension obligations in Finland are covered through payments to pension insurance institutions and recorded as determined by periodical actuarial calculations prepared by those institutions. In the Group companies outside Finland, the pension obligations are arranged and pension liabilities recorded in accordance with local regulations and practice.

Changes in uncovered pension obligations are entered in the income statement and the pension liability is included in provisions in the balance sheet. This treatment of pension costs, which differs from IAS principles, is not estimated to have a material effect on the financial statements.

WARRANTY COSTS

The estimated warranty costs of goods delivered to customers are included under current liabilities in the balance sheet. Actual warranty costs, including changes in warranty liability, are charged against earnings for the period.

VALUATION OF INVENTORIES

Inventories are valued at their direct acquisition cost, which includes direct manufacturing costs and an appropriate proportion of indirect production overheads and acquisition costs. The upper value used in the valuation of inventories is their net realizable value.

FIXED ASSETS AND DEPRECIATION

Fixed assets are valued in the balance sheet at their direct acquisition cost less accumulated depreciation. Certain land and buildings also include revaluations; these are stated in the notes to the financial statements.

The following indicative useful lives are used:

Other long-term expenditure	3–10 years
Buildings	10–40 years
Machinery and equipment	5–20 years

LEASING

Operating leasing payments are treated as rentals. Significant financial leasing items are capitalized as fixed assets.

EXTRAORDINARY INCOME AND EXPENSES

Extraordinary income and expenses include items, which fall outside the ordinary activities of the company, such as items arising from divestments of operations as well as received and given Group contributions. Extraordinary items include the effect of the changes in accounting principles on the balance sheet at the start of the year.

APPROPRIATIONS

Appropriations comprise voluntary provisions and the depreciation difference. In the consolidated accounts accumulated appropriations are divided into tax liability and shareholders' equity. The change in appropriations, net of tax liability, is included in the result for the year. Since appropriations were recorded in this manner in previous years, they have not been affected by the changes in accounting principles concerning deferred tax liabilities. The amount of appropriations entered under shareholders' equity is not regarded as distributable funds.

PROVISIONS

Provisions in the balance sheet comprise those items which the Company is committed to covering either through agreements or otherwise, but which are not yet realized. These include uncovered pension liabilities. Changes to provisions are included in the income statement.

DIRECT TAXES

Direct taxes in the income statement include taxes of subsidiaries for the financial period, calculated in accordance with local regulations, as well as adjustments to prior year taxes and deferred taxes. Taxes allocated to extraordinary items are listed in the notes to the financial statements.

Deferred tax liabilities or assets are calculated as the temporary differences between the tax and financial periods using the tax rate for subsequent years confirmed on the balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and the probable realizable amount of deferred tax assets.

Notes to the Financial Statements

MFIM	Group		Parent Company	
	1998	**1997**	**1998**	**1997**
1. NET SALES BY COUNTRY				
Finland	192.5	179.2	192.5	179.2
Other Nordic countries	450.9	396.2	311.6	301.8
Other EU countries	489.6	435.8	324.0	305.1
Other countries	26.9	27.6	25.6	25.4
Total	1,159.9	1,038.8	853,7	811.5
2. OTHER OPERATING INCOME				
Rental income	3.1	2.7	2.6	2.3
Profit on sale of fixed assets	4.4	5.7	3.8	5.5
Other operating income	9.8	11.2	2.7	2.4
Total	17.3	19.6	9.1	10.2
3. PERSONNEL EXPENSES				
Wages and salaries	211.2	182.3	145.6	128.1
Pension costs	30.5	26.2	22.1	25.9
Other personnel costs	35.4	41.6	18.5	20.3
Total	277.1	250.1	186.2	174.3
Salaries and emoluments to senior management:				
President and members of the Board of Directors	3.7	3.3	0.7	0.7
The President of the Group has the right to retire at the age of 60.				
Personnel on average	1,252	1,155	889	838
4. DEPRECIATION AND WRITEDOWNS				
Depreciation according to plan				
Intangible assets	0.1	0.1	0.1	0.1
Other long-term expenditure	2.4	2.7	2.4	2.7
Buidings and structures	6.1	6.9	5.5	6.4
Machinery and equipment	54.5	52.2	42.7	41.0
Other tangible assets	1.4	1.5	1.4	1.4
Total depreciation according to plan	64.5	63.4	52.1	51.6
Total book depreciation			53.2	60.4
Depreciation diffrence			–1.1	–8.8
Depreciation diffrence on 1 January			200.9	192.1
Change in depreciation difference			1.1	8.8
Depreciation difference on 31 December			202.0	200.9

Depreciation of FIM 6.8 million on revaluation of buildings was entered in the accounts.

MFIM	Group		Parent Company	
	1998	**1997**	**1998**	**1997**
5. FINANCIAL INCOME AND EXPENSES				
INCOME FROM FINANCIAL ASSETS				
Dividend income				
From Group companies	-	-	0.5	1.1
From other companies	0.1	0.0	0.1	0.0
Total	0.1	0.0	0.6	1.1
OTHER INTEREST INCOME AND FINANCIAL INCOME				
From Group companies	1.5	0.8	1.3	0.6
From other companies	0.3	0.4	0.2	0.3
Total	1.8	1.2	1.5	0.9
EXCHANGE GAINS AND LOSSES	4.6	–0.2	4.5	–0.4
INTEREST EXPENSES AND FINANCIAL EXPENSES				
To Group companies	–1.4	–1.8	-	–0.6
To other companies	–18.1	–17.8	–16.8	–17.1
Total	–19.5	–19.6	–16.8	–17.7
FINANCIAL INCOME AND EXPENSES, TOTAL	–13.0	–18.6	–10.2	–16.1
6. EXTRAORDINARY INCOME AND EXPENSES				
Deferred tax, change in accounting principles	–14.4	-		-
Group contributions given	–70.0	–80.1	–70.0	–57.0
Total	–84.4	–80.1	–70.0	–57.0
7. DIRECT TAXES				
Direct taxes on operatons				
for the financial year	–10.1	–1.5	–2.5	–0.8
for prior years	–0.7	-	-	-
Change in deferred tax	–0.8	–3.9	-	-
Total	–11.6	–5.4	–2.5	–0.8
Direct taxes on extraordinary items	23.6	22.4	19.6	16.0

Revaluations are taken into account in deferred tax.

8. FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS

MFIM	Acquisition cost on 1 Jan.	Increases	Decreases	Acc.depr.and writedown on 1 Jan.	Acc.depr.in decreases	Depr. during year	Residual value on 31 Dec.
GROUP							
Intangible assets							
Intangible rights	1.4	0.1	-	–0.2	-	–0.2	1.1
Goodwill on consolidation	14.9	-	-	–14.9	-	-	-
Other long-term expenditure	34.8	0.6	-	–27.8	-	–2.4	5.2
Group 1998	51.1	0.7	-	–42.9	-	–2.6	6.3
Group 1997	50.6	0.4	-	–40.1	-	–2.8	8.1
Tangible assets							
Land and water	13.7	–0.0	–0.0	-	-	-	13.7
Buildings and structure	305.6	1.3	–0.2	–172.1	0.0	–12.9	121.7
Machinery and equipment	1,115.6	38.7	–1.1	–753.4	0.3	–53.7	346.4
Other tangible assets	22.0	0.0	-	–14.0	-	–1.3	6.7
Work in progress	3.3	30.9	-	-	-	-	34.2
Group 1998	1,460.2	70.9	–1.3	–939.5	0.3	–67.9	522.7
Group 1997	1,420.2	47.4	–0.9	–879.0	0.2	–60.6	527.3
PARENT COMPANY							
Intangible assets							
Intangible rights	1.4	0.1	-	–0.3	-	–0.1	1.1
Other long-term expenditure	34.6	0.4	-	–27.7	-	–2.4	4.9
Parent Company 1998	36.0	0.5	-	–28.0	-	–2.5	6.0
Parent Company 1997	35.8	0.2	-	–25.2	-	–2.8	8.0
Tangible assets							
Land and water	8.0	0.0	–0.0	-	-	-	8.0
Buildings and structure	291.2	0.5	-	–167.4	-	–12.3	112.0
Machinery and equipment	882.2	29.9	–0.1	–579.2	-	–42.7	289.5
Other tangible assets	21.9	0.0	-	–13.9	-	–1.3	7.2
Work in progress	3.1	21.6	-	-	-	-	24.7
Parent Company 1998	1,206.4	52.0	–0.2	–760.5	-	–56.3	441.4
Parent Company 1997	1,184.0	22.8	–0.3	–711.7	-	–48.9	445.9

Revaluations	**Group**		**Parent Company**	
	1998	**1997**	**1998**	**1997**
Land	5.7	5.7	5.7	5.7
Buildings	61.6	68.4	61.6	68.4

MFIM	Group		Parent Company	
	1998	**1997**	**1998**	**1997**
9. MAIN ITEMS IN PREPAID EXPENSES AND ACCRUED INCOME				
Interest	0.0	0.2	0.0	0.2
Value added tax	12.5	17.9	11.4	17.9
Income and other taxes	1.3	1.1	0.0	0.1
Other	8.7	13.1	3.0	2.9
Total	22.5	32.3	14.4	21.1
Receivables from Group companies				
Long-term receivables				
Loans receivable	-	-	5.3	5.5
Short-term receivables				
Trade receivables	1.2	1.8	68.6	83.3
Prepaid expenses and accrued income	0.0	0.1	0.6	0.2

There are no receivables from the Management and the Board of Directors.

10. SHAREHOLDERS´ EQUITY				
Share capital				
Share capital on 1 Jan.	104.0	104.0	104.0	104.0
Share capital on 31 Dec.	104.0	104.0	104.0	104.0
Other reserves				
Other reserves on 1 Jan.	22.1	23.2	21.1	21.1
Translation differences	–1.4	–1.1	-	-
Other reserves on 31 Dec.	20.7	22.1	21.1	21.1
Retained earnings				
Retained earnings on 1 Jan.	157.9	140.2	5.3	–1.8
Translation differences	–7.1	2.4	-	-
Profit for the year	14.4	15.3	2.9	7.1
Retained earnings on 31 Dec.	165.2	157.9	8.2	5.3
11. DISTRIBUTABLE EQUITY				
Retained earnings on 31 of December	165.2	157.9	8.2	5.3
Voluntary provisions and depreciation difference	–233.9	–228.1	-	-
Deferred tax liability	65.5	63.9	-	-
Distributable equity	–3.2	–6.3	8.2	5.3
12. PROVISIONS				
Pension liabilities	19.4	22.7	10.8	13.6
Change in provisions	–3.3	–4.0	–2.8	–4.2
13. LIABILITIES				
Long-term				
Non interest-bearing	83.5	63.9	-	-
Interest-bearing	274.1	311.5	267.7	305.2
Total	357.6	375.4	267.7	305.2
Short-term				
Non interest-bearing	227.1	233.3	165.9	157.9
Interest-bearing	57.8	56.0	32.7	34.0
Total	284.9	289.3	198.6	191.9

Group´s long-term debt with maturity profile

	Bank loans	Pension loans	Other loans	Total
1999	20.0	12.2	0.5	32.7
2000	25.9	11.1	0.7	37.7
2001	20.3	10.4	0.2	30.9
2002	53.3	9.6	0.2	63.1
2003	13.4	9.0	0.2	22.6
2004-	-	118.9	0.9	119.9
Total 31 Dec.1998	132.9	171.2	2.7	306.8
Total 31 Dec.1997	159.0	184.4	2.1	345.5

Group´s division of long-term loans by currency

	31 Dec.1998	31 Dec.1997
FIM	78 %	77 %
SEK	20 %	21 %
GBP	2 %	2 %
Total	100 %	100 %

MFIM	Group		Parent Company	
	1998	**1997**	**1998**	**1997**
14. SPECIFICATION OF DEFERRED TAX ASSETS AND LIABILITIES				
Deferred tax assets				
Based on appropriations	-	-	-	-
Based on consolidation	1.2	-	-	-
Included in balance sheet of Group companies	3.3	-	-	-
Total	4.5	-	-	-
Deferred tax liabilities				
Based on appropriations	65.5	63.9	-	-
Based on consolidation	-	-	-	-
Included in balance sheet of Group companies	18.1	-	-	-
Total	83.6	63.9	-	-

The figures of 1998 were affected by a change in accounting principles.

15. MAIN ITEMS IN ACCRUED EXPENSES AND DEFERRED INCOME				
Warranty costs	0.9	1.7	-	-
Project costs	0.4	0.9	-	-
VAT, income and other taxes	17.9	3.9	6.6	0.6
Personnel expenses	49.7	53.0	31.3	40.9
Interest and other financial items	6.7	7.1	6.5	7.1
Other	14.5	11.1	7.2	0.1
Total	90.1	77.7	51.6	48.7
Current liabilities to Group companies				
Trade payables	0.1	0.1	0.2	0.2
Accrued expenses and deferred income	0.2	0.1	2.0	3.0
Other current liabilities	94.0	102.9	70.0	57.0

16. COLLATERAL, CONTINGENT LIABILITIES AND OTHER COMMITMENTS

MFIM

Mortgages given as collateral for liabilities and commitments

	Group				Parent Company			
	1998		1997		1998		1997	
	loan amount in balance sheet	mortgage amount	loan amount in balance sheet	mortgage amount	loan amount in balance sheet	mortagage amount	loan amount in balance sheet	mortgage amount
Loans from credit institutions	66.7	80.0	80.0	86.0	66.7	80.0	80.0	80.0
Pension loans	171.2	115.2	184.4	115.2	171.2	115.2	184.4	115.2
Total		195.2		201.2		195.2		195.2

Guarantees and contingent liabilities on behalf of Group companies

Parent Company 1.9 MFIM

Guarantees and contingent liabilities on behalf of others

Parent Company 12.4 MFIM

All pension liabilities are included in the balance sheet.
There are no guarantees or contingents given for the Management.

17. EXCHANGE RATES

	Closing rates					Average rates	
	31 Dec.98	31 Dec.97	31 Dec.96	31 Dec.95	31 Dec.94	1998	1997
GBP	8.4280	8.9920	7.8690	6.7410	7.4090	8.8470	8.5060
SEK	0.6267	0.6863	0.6748	0.6546	0.6358	0.6721	0.6799
DEM	3.0400	3.0275	2.9880	3.0435	3.0615	3.0381	2.9939
FRF	0.9064	0.9046	0.8862	0.8906	0.8873	0.9062	0.8894
ECU/EUR	5.94573	5.9890	5.7700	5.5970	5.8150	5.9940	5.8640

18. SHARES AND SECURITIES

			Nominal value		Book value, ´000					
	Share of total shares %	Share of votes %	. Curr.	Curr. ´000	Direct ownership of Imatra Steel Oy Ab	Indirect owner-ship	Profit from fin.period TFIM	Share-holders´ equity TFIM	Date of financial closing	Length of acc. period
Subsidiaries										
Imatra Kilsta AB	100	100	SEK	20,000	57,092		12,886	57,522	31 Dec.98	12
Imatra Tooling AB	100	100	SEK			4,900	3,448	7,359	31 Dec.98	12
Imatra Stahl GmbH	100	100	DEM	100	270		684	1,301	31 Dec.98	12
Imatra Steel Ltd	100	100	GBP	50	389		513	801	31 Dec.98	12
Imatra Steel S.a.r.l.	100	100	FRF	250	202		281	490	31 Dec.98	12
Oy Alamos Ab	100	100	FIM	4	0		0	64	31 Dec.98	12

Proposal by the Board and Auditors´Report

PROPOSAL BY THE BOARD OF DIRECTORS

The Board of Directors will propose to the Annual General Meeting that no dividend be paid and that the Parent Company´s profit for the year, FIM 2,864,082.37, be transferred to the profit and loss account under shareholders´ equity.

Helsinki, 12 February 1999

Georg Ehrnrooth	Sven Bertlin
Heikki Allonen	Pentti-Juhani Hintikka
Pekka Virtanen	Kari Tähtinen *President*

AUDITORS' REPORT

To the shareholders of Imatra Steel Oy Ab
We have audited the accounting records and the financial statements, as well as the administration by the Board of Directors and the Managing Director of Imatra Steel Oy Ab for the year ended 31 December 1998. 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 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 Board of Directors and the Managing Director of the parent company can be discharged from liability for the year 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.

Helsinki, 18 February 1999

KPMG WIDERI OY AB
Ari Ahti
Authorized Public Accountant

Group Management

BOARD OF DIRECTORS

Georg Ehrnrooth, Chairman
born 1940, President and CEO
Metra Corporation

Sven Bertlin, Deputy Chairman
born 1944, Executive Vice President
Wärtsilä NSD Corporation

Heikki Allonen
born 1954, Senior Vice President,
Corporate Planning
Metra Corporation

Pentti-Juhani Hintikka
born 1940, Vice President
Metra Corporation

Pekka Virtanen
born 1941, Senior Vice President
Metra Corporation

BOARD OF MANAGEMENT

Magnus Baarman
born 1964, General Manager
Imatra Steel Billnäs

Kalevi Laaksonen
born 1943, Corporate Controller
Imatra Steel Group

Kalevi Taavitsainen
born 1949, General Manager
Imatra Steel Works

Kari Tähtinen
born 1946, President
Imatra Steel Group

Dan-Åke Widenberg
born 1949, Managing Director
Imatra Kilsta AB

Board of Management:
Magnus Baarman, Kari Tähtinen, Kalevi Taavitsainen,
Kalevi Laaksonen, Dan-Åke Widenberg

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Imatra Steel Oy Ab
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2. Turenki, Special Steel Stock and Sales Finland
3. Billnäs, Spring Factory
4. Helsinki, Head Office

Imatra Steel
5. Askim, Sales Norway

Imatra Steel Oy Ab
6. Karlskoga, Sales Scandinavia

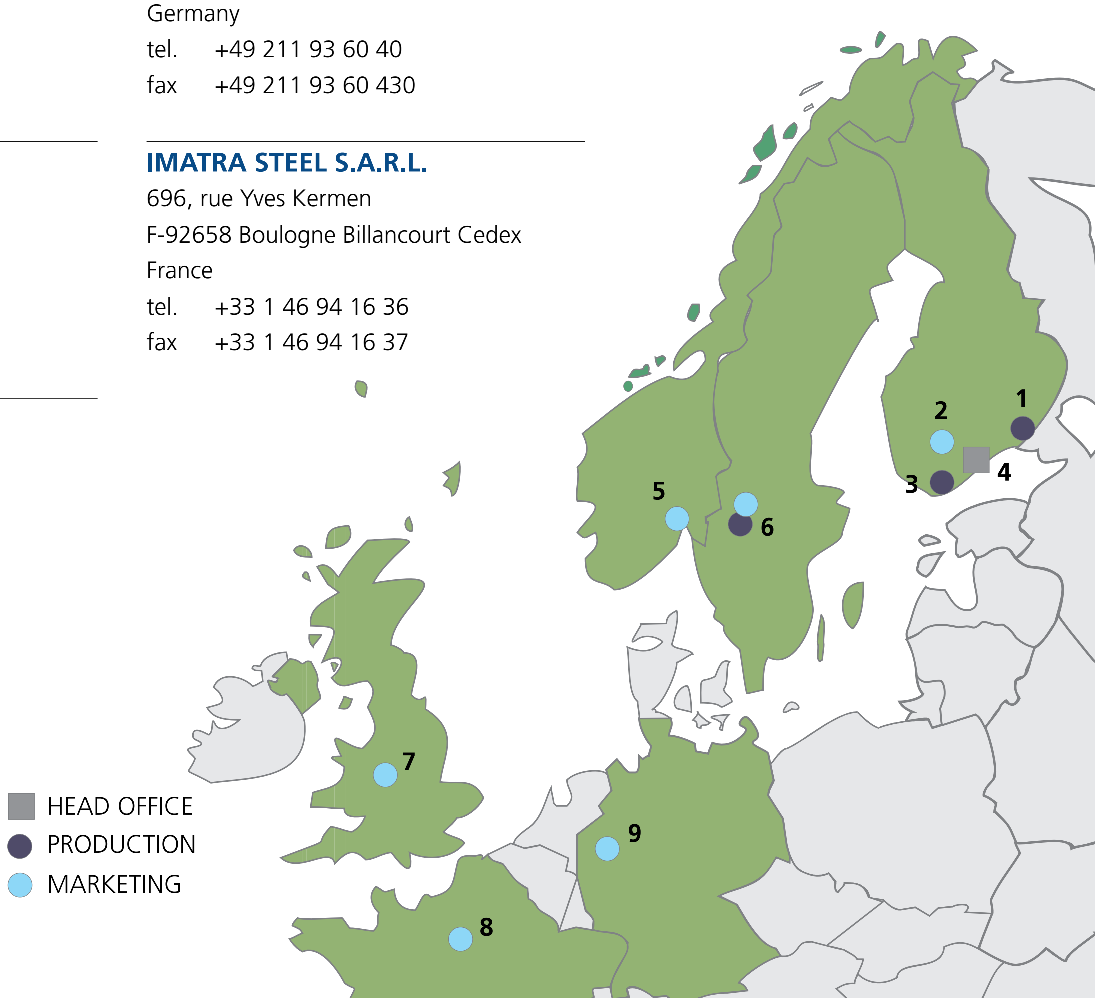
Imatra Kilsta AB
6. Karlskoga, Forge

Imatra Tooling AB
6. Karlskoga, Tooling

Imatra Steel Ltd
7. Wolverhampton, Sales UK

Imatra Steel S.a.r.l.
8. Boulogne Billancourt Sales France

Imatra Stahl GmbH
9. Düsseldorf, Sales Germany



IMATRA STEEL

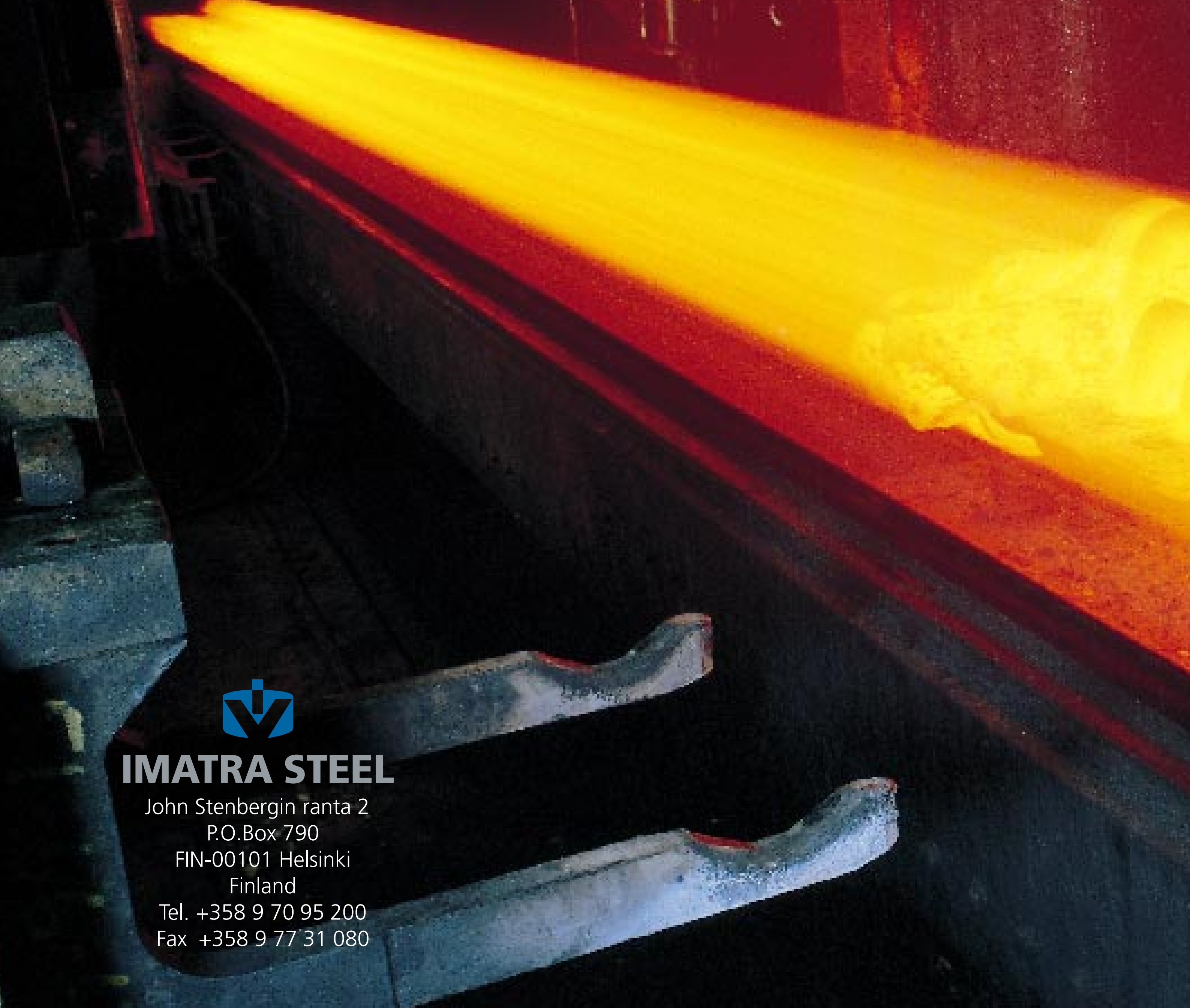
Imatra Steel produces engineering steels and products for the European automotive and mechanical engineering industries. Imatra Steel is a subgroup of Metra Corporation.

Metra Corporation is a Finnish based industrial group. Metra's other subgroups are Wärtsilä NSD Corporation and Sanitec. Wärtsilä NSD is a mechanical engineering group with global operations. It offers the customers complete power solutions for power plants and marine propulsion. Sanitec is one of the leading bathroom ceramics companies in Europe. Metra's associated company Assa Abloy is the world's leading locking systems company.

Metra is based in Helsinki, Finland. The Metra Group's 14,000 employees are located in more than 50 countries.

In 1998 Metra's net sales were FIM 15.5 billion (USD 2.9 billion). Metra's shares are listed on the HEX Ltd., Helsinki Exchanges and the SEAQ system in London. Metra has 17,100 shareholders.

METRA



IMATRA STEEL

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