Operations 2000

AvestaPolarit
STAINLESS

This information brochure "Operations 2000" consists of statutory reports for Avesta Sheffield AB (publ) and Outokumpu Steel Oyj together with a description of the new combined company AvestaPolarit.

AvestaPolarit – mission

Mission

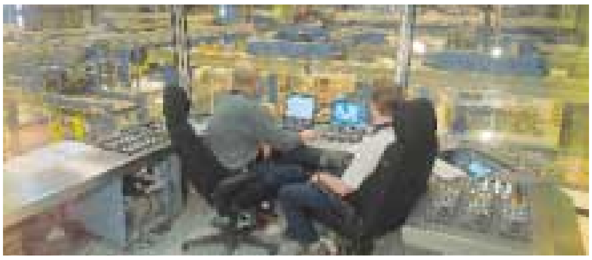
Our mission is to **make the world stainless**.

Stainless steel is the metal with fastest growing demand – a durable and virtually maintenance-free material with low life cycle costs. It is hygienic, lightweight and ductile, and it has excellent green credentials as a fully recyclable product.

Vision

We are determined to make AvestaPolarit **best in stainless** – this is our vision.

We believe that AvestaPolarit will become the **preferred choice among customers** for its manufacturing excellence, price competitiveness,



and vision

value-adding customer services, wide product range and ability to provide fast and inexpensive transactions using modern information technology.

We are determined to become the **preferred employer** for current and potential employees. We hope to be able to unite and motivate all employees in pursuit of our common goals and to attract and retain bright and committed people of many disciplines and nationalities.

We strive to be the **preferred investment among shareholders** by focusing exclusively on the high growth stainless steel market and by growing earnings on average by more than 10 per cent per annum and returning more than 15 per cent on capital employed over a business cycle.

This we can achieve by combining very efficient low-cost production with a wide and efficient distribution network. Significant synergies will also be realised and profitability improved.

Value creation

The key rationale for the merger of Outokumpu Steel and Avesta Sheffield into AvestaPolarit, which took place in January 2001, is the excellent strategic fit. The merger has brought together the complementary strengths of Outokumpu Steel's cost-efficient, integrated production and Avesta Sheffield's broad product range and extensive distribution network. AvestaPolarit – with net sales in excess of EUR 3 billion and some 8,900 employees – was from the start born to be a leading player in the global stainless industry.

The plans to merge Avesta Sheffield and Outokumpu Steel were first announced on 28 September 2000, as a result of discussions which had been going on for about a year. Autumn was a hectic period. Work on the prospectus was then followed by roadshows to meet investors and in January 2001, after the successful completion of a share exchange transaction, we were at last ready to launch the new company.

Successful start with a strong vision and clear strategies

The merger process may have been long and demanding, but the commitment and perseverance of our employees ensured its successful completion. Having myself witnessed this ability and drive, I am very confident about the future of AvestaPolarit.

Our vision to become "Best in Stainless" has been well received by all key audiences – investors, customers and employees alike, as well as by the mass media. This vision calls for AvestaPolarit to become not only the preferred supplier of our existing and future customers, but also an employer of preference and an attractive investment. It may seem ambitious to set such bold goals, but we have formulated clear strategies and a well-prepared business plan to ensure that we reach them. They set a firm direction.

Focus on integration for rapid realisation of synergies

During my first visits to our operational sites, I was able to observe the positive attitudes of our people towards the new company and witness their considerable knowledge of products and production processes and gain an insight into how we could serve our customers even better in the future.

Thanks to the enthusiasm with which everybody has embarked on integration work, we are already well on the way to realising some of the potential synergies of over EUR 100 million identified prior to the merger. Priority integration projects include the co-ordination of our sales and marketing network and IT-systems. Our sales organisation also co-operates closely with our two R&D centres. These centres focus on different areas of research and development - Avesta on products and Tornio on process technology – and thus complement one another very well.

Product swaps between plants have already begun as part of the drive to maximise efficiency and profitabi-

in AvestaPolarit

lity. Each plant will specialise on the products at which it is the best. At the same time, we will also pay a lot of attention to improving logistics and, naturally, to the effective implementation of our ongoing investment programme. Greater co-ordination of raw materials purchases and effective supply chain management should also help us achieve considerable savings.

Making a greater impression worldwide

We are now one of the largest producers in Europe. To continue to grow, we need to establish firmer footholds in markets in other regions of the world. We are already in North America, where we shall strengthen our presence. The Asian market also holds great potential.

To promote our single brand strategy and new logotype around the world is part of the challenging work ahead. Our new logo symbolises two strong forces that have joined into one. The form has its origins in the symbol of iron but also depicts the round shape of coils – our core product. The round shape additionally conveys the message of the full recyclability of stainless steel and the fact that AvestaPolarit must be constantly moving forward to serve our customers' needs. Above all, our logo should be recognised as a symbol for the highest quality in stainless products and services.

A good year followed by a market slowdown

Last year was a very good year for the stainless steel industry. Consumption of stainless steel rose on the previous year by around 7 per cent and average conversion margins rose by 46 per cent despite a decline at the year-end.

Outokumpu Steel's excellent financial performance in 2000 is well illustrated by the company's operating profit, which was almost five times the previous year's level. Net sales increased by 51 per cent. Avesta Sheffield's net sales rose by 38 per cent. Its operating result also improved considerably and was more than three times the previous year's level for the period April to December.

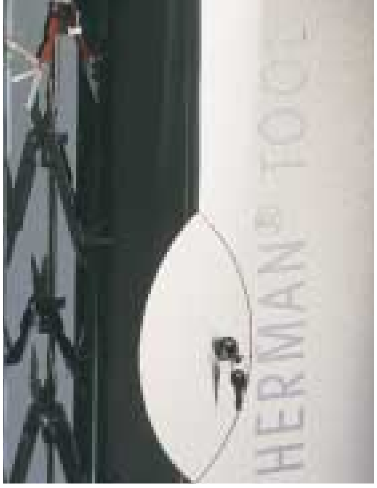
This strong track record puts AvestaPolarit in good stead for the challenging times ahead, in a far tougher trading environment than that we saw this time last year. The last few months of 2000 and the beginning of 2001 have seen a prolonged period of destocking and slackened demand, resulting in markedly weakened prices and margins. The market situation has, however, stabilised, leading to higher prices and demand as of the second quarter of 2001. Over the long term, the growth rate of stainless steel demand is expected to remain strong, at an average of 5 per cent per year.

The next step

I am looking forward to my first year with AvestaPolarit. We have promised a great deal and now we must prove that we can live up to the expectations. We have all the prerequisites for success – manufacturing excellence, quality products and an extensive distribution network. Plus competence, and major ongoing investments to establish a solid platform for future growth and global expansion.

The merger has undoubtedly made us a stronger player in the global stainless steel market, but to capitalise fully on this advantage, our priority now must be to complete the integration process, whilst continuing to serve the needs of customers in all markets. Achieving this will bring us one step closer to realising our vision to become "Best in Stainless".

Ossi Virolainen
Chief Executive Officer



The Avesta Share

AvestaPolarit is listed on the stock exchanges in both Stockholm and Helsinki. The first day of trading in the new share was 30 January, 2001.

According to its Articles of Association, the issued share capital of AvestaPolarit may not be less than EUR 100,000,000 nor more than EUR 400,000,000. The issued share capital may be increased or decreased within these limits without amendment to the Company's Articles of Association. The share capital consists of not less than 50,000,000 shares and not more than 500,000,000 shares. There is only one class of shares. The shares are non-par value shares with an accounting par value of EUR 0.54. Each share entitles the holder to one vote at shareholders' meetings.

Prior to the completion of the Exchange Offer in which Avesta Sheffield shareholders were offered to exchange their shares in Outokumpu Steel at a one-for-one ratio, the total number of shares issued in Outokumpu Steel was 193,111,111, representing a share capital of EUR 104,279,999.94. Following the completion of the Exchange Offer, the name of Outokumpu Steel was changed to AvestaPolarit and the total number of shares issued in AvestaPolarit rose to 348,942,296, representing a share capital of EUR 189,599,999.94.

Through the public offer AvestaPolarit Oyj Abp acquired 98.63% of the total number of shares and voting rights in Avesta Sheffield AB (publ). The Board of AvestaPolarit decided to initiate a compulsory acquisition procedure in accordance with the Swedish Companies Act to acquire those Avesta Sheffield shares not tendered in the Exchange Offer.

Avesta Sheffield AB was delisted from the OM Stockholm Exchange with last day of trading 23 February 2001.

Shareholder	Number of shares	Percentage
Outokumpu Oyj	193,111,111	55.3 per cent
Corus UK Ltd	80,882,090	23.2 per cent
Skandia	5,470,043	1.6 per cent
Odin Fonder (Norge)	5,106,200	1.5 per cent
Alecta	2,441,060	0.7 per cent
UBS Warburg Stockholm	2,129,533	0.6 per cent
SEB-Trygg Försäkring	1,246,000	0.3 per cent
Kunskap och kompetens stift	1,000,000	0,3 per cent
Other	57,556,259	16.5 per cent
TOTAL	**348,942,296**	**100.0 per cent**

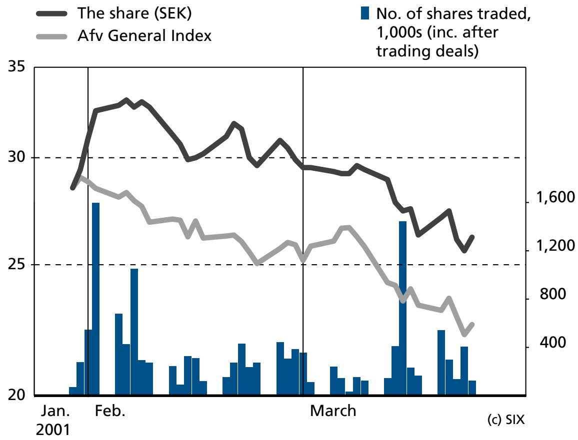
Financial objectives and dividend policy

The principal financial objective for AvestaPolarit is to maximise shareholder value. The principal financial targets are an average minimum return on capital employed of 15 per cent over a business cycle, and an average growth in earnings of at least 10 per cent per annum. Further, in order to facilitate profit driven growth and maintain financial stability, the Company aims to have a maximum debt to equity ratio of 40 per cent.

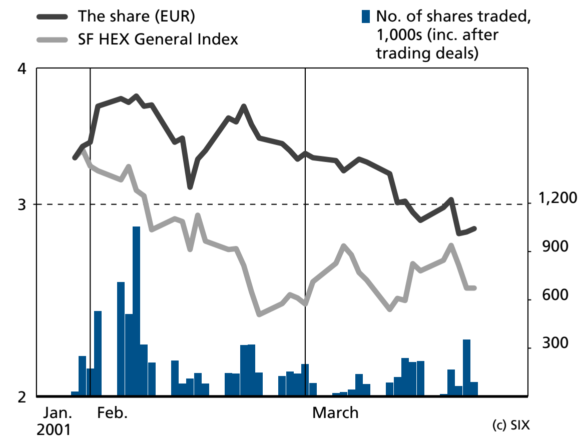
The policy of the Board of Directors is to propose a dividend distribution of, on average, at least 30 per cent of post tax earnings to the Company's shareholders over the business cycle. The dividend policy will, however, take into account the Group's investment and development needs.

Polarit

AVESTAPOLARIT OM STOCKHOLM EXCHANGE



AVESTAPOLARIT HELSINKI EXCHANGE



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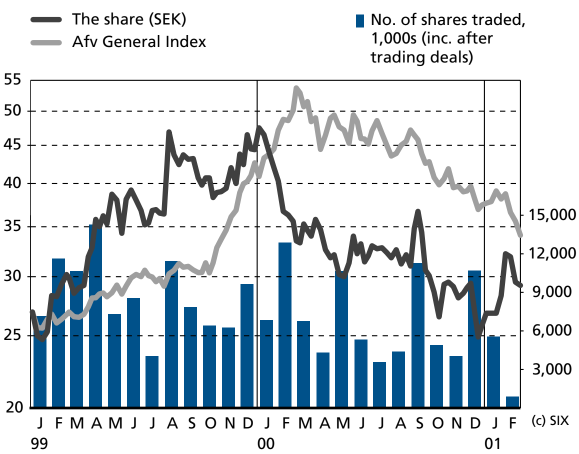
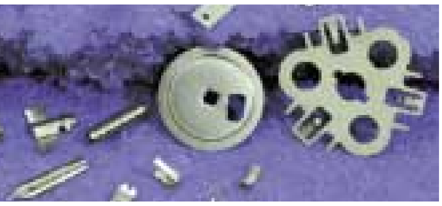
AVESTA SHEFFIELD



Avesta Sheffield was delisted from the OM Stockholm Exchange 23 February 2001.

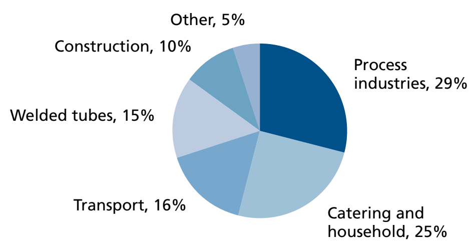
Stainless steel market



The main end-uses of stainless steel include the process industries such as pulp and paper, chemicals, and the offshore oil industry, catering and household, transportation, and building and architecture. The pattern of consumption varies markedly between regions, depending on the state of development of a region and the amount of investment and project activity. However, the USA has a relatively low use of stainless steel in comparison to other developed economies.

Consumers come into contact with stainless steel in kitchen fittings, sink units, household appliances, cutlery and other household goods, cladding on buildings, lifts, escalators and walkways, plate heat exchangers in domestic boilers, catalytic converters and in modern railway carriages.

END-USES OF STAINLESS STEEL

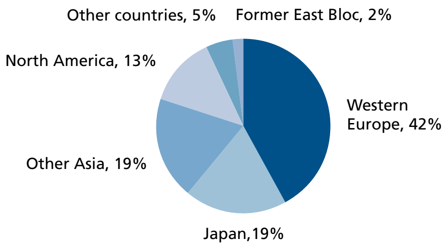


Source: CRU

The global market

According to consultants CRU International ("CRU"), world production of stainless steel was approximately 19.1 million tonnes in 2000, of which about 76 per cent was austenitic stainless and 24 per cent ferritic stainless. Global apparent consumption of cold rolled stainless steel was approximately 10.2 million tonnes in 2000.

WORLD STAINLESS STEEL SLAB PRODUCTION – FORECAST 2000

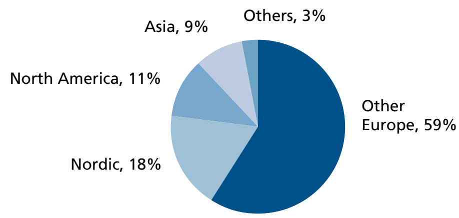


Source: CRU

Expansions by AvestaPolarit coming on stream in the next few years from on-going investments will consolidate its position in the top 10 producers' list.

Europe is the most important market for AvestaPolarit. About 77 per cent of AvestaPolarit's net sales are made in Europe, representing an estimated share of the European market for stainless steel coil products of about 25 per cent. North America and Asia together account for about 20 per cent, and AvestaPolarit's market share in these regions is small. On an individual country level, the most important markets in terms of net sales are Germany, Italy, the USA and the UK.

AVESTAPOLARIT'S SALES BY REGION 2000 (PRO FORMA)



Western Europe is the world's largest producing region for stainless steel, and the second largest in terms of consumption. Forecasts by CRU indicate that, in 2000, the region is likely to have accounted for about 42 per cent of world slab production and about 32 per cent of cold rolled apparent consumption. Asian production represents close to 39 per cent of total world production. As a result of very strong growth in recent years, especially in China, Asia now accounts for about 44 per cent of world cold rolled consumption. North America produces only 13 per cent of world slab output, and accounts for about 17 per cent of cold rolled consumption.

AvestaPolarit's market share

Top 10 stainless steel producers, by slab melting capacity 2000

Million tonnes melting capacity per year	**Slabs 2000**	**2004**
Krupp-Thyssen Stainless	2.21	2.86
AvestaPolarit	**1.75**	**2.75**
Ugine/ALZ	2.12	2.22
POSCO	1.25	1.70
AK Steel	1.02	1.03
Acerinox	0.93	1.73
Yieh United	0.90	0.90
Allegheny Ludlum	0.87	0.87
Nippon Steel	0.78	0.78
Columbus	0.52	0.60

Source: CRU International/AvestaPolarit estimates

Based on CRU's estimates of world production, AvestaPolarit accounted for about 8 per cent of world stainless slab production in 2000 and a similar share of cold rolled production. AvestaPolarit has an annual slab capacity of approximately 1.75 million tonnes and a billet/bloom capacity of approximately 0.23 million tonnes.

Stainless steel market



AvestaPolarit's competitive position

One of the factors which distinguishes AvestaPolarit from its competitors is its production facility in northern Finland. This comprises a large chromium mine at Kemi, and a ferrochrome smelter and stainless steel production plants, comprising a meltshop and rolling mills, in the nearby town of Tornio. This integrated production chain is unique, and is one of the reasons why Tornio is a leading low-cost stainless steel producing unit in the world.

AvestaPolarit also has a competitive advantage in its extensive global sales and distribution network, with sales companies in more than 20 countries and service centres in key markets. AvestaPolarit offers one of the broadest product ranges of any stainless steel producer, including not just coil products but also a number of special products such as ferrochrome, hot rolled plate, long products, precision strip, tubes and tube fittings.

In Europe, the other major producers of flat stainless steel products are Krupp-Thyssen Stainless ("KTS"), Usinor, Acerinox and ALZ.

KTS is the world's largest stainless steel producer, with a current melting capacity of about 2.2 million tonnes per year. In the flat-rolled stainless steel market, the company has a market share of about 36 per cent in Europe and about 13 per cent world-wide. KTS produces a broad range of stainless products, split roughly 70 per cent austenitic and 30 per cent ferritic grades, although it does not produce long products. KTS has production facilities in Germany and Italy, a cold rolling mill in Mexico, and is currently building a new cold rolling plant in China. The company also has a widespread distribution network.

Usinor is the world's third largest producer, with an estimated 14 per cent market share in Europe through its subsidiary Ugine, and close to 8 per cent world-wide. Usinor's product portfolio is highly diversified and includes both austenitic and ferritic flat rolled grades, speciality plates, long products, precision strip and tubes. The company has production facilities in Europe, the USA, Brazil and Thailand. In Europe, Ugine has a strong position in the production of thin bright annealed material, ferritic grades and sophisticated material down to very thin gauges. The company's product mix is being transformed through investment which will increase its capacity for thicker ferritic and austenitic products.

ALZ, which is Europe's smallest stainless steel producer, operates a meltshop and cold rolling mill in Belgium. A substantial expansion in meltshop capacity is under construction and is expected to come on-stream in late 2002. However, the site lacks a hot rolling mill, and hot rolling is carried out on behalf of ALZ by other companies in Belgium and Germany. Although cold rolled stainless steel is the company's main product, ALZ also sells a sizeable tonnage of hot rolled material. Investment has been taking place to improve ALZ's distribution facilities.

Usinor and ALZ announced in February 2001 their intentions to combine their operations.

Acerinox operates an integrated plant in Spain, and produces both flat and long products. The company also owns a plant with both hot and cold rolling facilities in the USA. A meltshop is currently under construction on the same site, and this is expected to be on-stream at the end of 2001. Acerinox is a low cost producer and has focused on standard grade products. More recently the company has been developing a broader product range that incorporates more ferritics and bright annealed material. Investment has also been taking place in its distribution network.

Outside Europe, the major stainless steel producers include AK Steel and Allegheny Ludlum in the USA, Posco in Korea, Yieh United in Taiwan, Nippon Steel, Nisshin and Kawasaki in Japan, and Columbus Stainless in the Republic of South Africa.

Market outlook

Consumption trends for stainless steel are positive. Western world demand has risen by an average of about 5.5 per cent per annum over the last 20 years, and world apparent consumption of cold rolled stainless steel has risen by an average of more than 7.5 per cent per annum since 1994 according to CRU. These strong rates of growth are much higher than those of carbon steel and most other metals, and reflect the particular advantages of stainless steel.

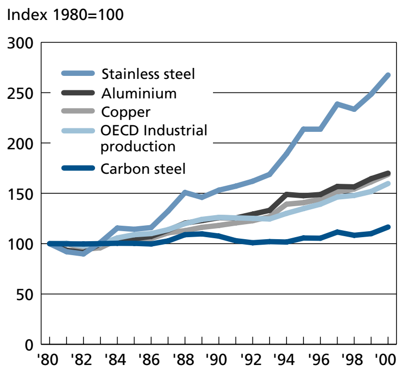
Stainless steel as a material has significant life-cycle cost benefits in many applications and usage continues to increase as a result of tightening environmental regulations and health and hygiene concerns. The consumption of stainless steel also benefits from the fact that it is strongly correlated with the standard of living, as consumers tend to buy more stainless-containing goods as their disposable incomes rise.

All these factors suggest that the outlook for future growth in stainless steel consumption is very encouraging. World apparent consumption of cold rolled products is forecast to have risen by about 7 per cent in 2000, and growth is forecast to average about 5 per cent per annum in the foreseeable future according to CRU.

Market conditions for stainless steel producers improved significantly in the first half of 2000. This was partly attributable to exceptionally strong growth in demand, but also reflected the fact that very little additional slab melting capacity was coming on stream. As a result, average utilisation rates in slab and hot rolling capacity rose sharply, underpinning a sharp rise in base prices and margins. However, the last few months of 2000 and the beginning of 2001 have seen a prolonged period of destocking by distributors and consumers, resulting in base prices and margins weakening markedly.

Nevertheless, the medium term outlook for producers remains encouraging. Although a number of major new projects and expansions have been announced, the extra capacity from these projects will not start to come on stream until 2002-2003. Moreover, the estimated growth in new slab capacity does not look excessive as it follows three years (1999-2001) when world-wide capacity is likely to have risen very little. If demand continues to rise at its trend rate of about 5 per cent per annum, average slab utilisation rates appear likely to remain at a high level for a sustained period.

METALS DEMAND INDEX COMPARED TO INDUSTRIAL PRODUCTION



Source: CRU

AvestaPolarit – an excellent com

A new world-class growth-oriented stainless steel company is born – AvestaPolarit. Outokumpu Steel's cost-efficient, integrated production and Avesta Sheffield's broad product range and extensive distribution network are combined in a perfect fit.

AvestaPolarit's primary expertise is in the manufacturing and processing of stainless steel products. The core facilities for coil production are the integrated Tornio plant in Finland, the Avesta, Nyby and Långshyttan plants in Sweden, and the Sheffield plant in the UK. AvestaPolarit also has substantial operations in chromium mining and ferrochrome production, as well as in a broad range of other stainless steel products: hot rolled plate, long products, precision strip, tubes and tube fittings, and welding products. These special products are manufactured at plants in several European countries as well as in North America.

Close to the market

AvestaPolarit has one of the broadest product and alloy ranges of all stainless steel producers, and is able to provide excellent service in all products by being close to the market. Its own global network of sales companies covers more than 20 countries and the company also has several service centers in its key markets. An extensive network of agents further reinforces AvestaPolarit's global market presence.

Particular emphasis within AvestaPolarit is placed on partnerships in design and material selection. The objective is to assist customers to improve quality and production technology and to help them reduce costs in their operations. This co-operation also provides valuable user experience to feed back into, and further strengthen, AvestaPolarit's strong R&D function.

The AvestaPolarit brand

AvestaPolarit is projecting a new corporate single brand in all its product markets to communicate the company's vision and values and to effectively support the rapid integration and further continuous improvement.
The desired brand values are:

- competitive value and excellent service in all products,
- a broad product range,
- added value service,
- help with design and material selection and
- fast and inexpensive transactions using modern information technology.

Major ongoing investments to feed growth

AvestaPolarit focuses on expansion in the fast-growing stainless steel market and it has clear aspirations, as well as a strong foundation, for global growth.

An ongoing investment programme of EUR 770 million will, within the next few years, expand total slab capacity from the current 1.75 to about 2.75 million tonnes and coil rolling capacity from 1.2 to 1.9 million tonnes. The bulk of these investments will be made at the integrated Tornio mill, further strengthening this unit's cost leadership position as well as AvestaPolarit's total combined cost-efficiency.

Integrated production, efficient logistics

AvestaPolarit's highly cost-efficient production is largely attributable to the unique and fully integrated mine-to-mill production chain in the Kemi-Tornio area in northern Finland. Ore reserves at the Kemi mine are abundant and

AvestaPolarit – created through the combination of Outokumpu Steel and Avesta Sheffield – is a world-class international stainless steel company with a broad product range.

bination

work is currently under way for a switch to underground mining in preparation for plans to double production capacity.

The fully integrated, practically single-site operation gives the Tornio mill a considerable cost advantage in internal logistics and energy savings.

The cost-efficiency is further enhanced by the mill's proximity to a harbour, which ensures fast routes to the company's main markets all year round.

Increased specialisation

By integrating the production systems of all its main coil processing sites, AvestaPolarit will be able to optimise its operations through further specialisation. Each site can improve efficiency by reducing overlapping capacity with other sites.

In the overall plan, Avesta in Sweden will specialize in thicker gauges. Tornio will be a high volume plant serving the main markets with standard grade material. Sheffield in the UK will concentrate on thin gauge products with enhanced surface finishes, whilst Nyby and Långshyttan in Sweden will focus on even thinner gauge material down to microns.

This increased specialisation between sites will lead to longer runs, increased capacity utilisation and reduced operating and logistics costs.

In addition to the melting and rolling operations for coil products, AvestaPolarit supplies a broad range of products from both upstream and downstream value-adding operations in Europe, the USA, Canada and Mexico, which account for a quarter of its sales. Most products in this area have a significant shared value with the core coil products' operations. These units will be developed with the emphasis on achieving an increasing degree of specialisation on products with strongest growth potential and higher margins.

Total synergies of over EUR 100 million per annum are expected to accrue as integration and current investment plans are carried out.

Value creation

AvestaPolarit's overall objective is to secure a significant and sustained increase in value for its shareholders. It will achieve this by creating an independent, world-class, focused, profitable and growth-oriented stainless steel company which has strong potential and the ambition to become the leader in the global stainless steel industry.

Strategies

AvestaPolarit's overall objective is to secure a significant and sustained increase in value for its shareholders by creating an independent, world class, focused, profitable and growth-oriented stainless steel company with strong potential and ambition to become the leader in the global stainless steel industry.

The key drivers in creating value are:

- An effective combination of the two companies and their complementary strengths to exploit economies of scale in production, sales and distribution, research and development, purchasing and administration.
- The ability to seize the opportunities offered by the Combination to increase specialisation at individual production units, which will simultaneously significantly improve logistics.
- The efficient use of capital to deliver higher returns on investment and lower levels of business risk.
- The ability to unite and motivate all employees in pursuit of common goals and to attract and retain bright and committed people of many disciplines and nationalities.

To achieve the overall objective, a strategy has been prepared on the basis of the following six elements:

1 Focus on developing Coil Products as the core business

The steel melting and coil processing systems (plants at Tornio, Avesta, Nyby, Långshyttan and Sheffield) constitute the core of the merged assets. These facilities will be integrated and developed for increased product specialisation at the individual production sites with the intention of creating the world's best manufacturing system, measured by cost-efficiency as well as total quality.

2 Effective implementation of current large-scale investment programmes to create foundation for growth

Every effort will be made to ensure effective implementation of the progressing EUR 770 million investment programmes at Tornio, Avesta, Nyby and Sheffield. These investments will provide significant new and increasingly cost-efficient melting and rolling capacity, which can feed growth in line with the anticipated market development through to 2005, creating a platform for future expansion, both in Europe and globally.

3 Effective integration to ensure achievement of projected synergies and continuous improvement

The organisation will quickly move to integrate marketing, sales and distribution, research and development, purchasing and administration. This will enable prompt implementation of efficient standard operating procedures to contribute to enhanced efficiency and earnings.

A new single AvestaPolarit brand has been launched to project the Group's vision and values and to effectively support the rapid integration and further continuous improvement.

AvestaPolarit will focus on offering its customers competitive value in its full range of products and value-added services, through excellence in manufacturing, partnerships in design and product selection, and fast and inexpensive transactions using modern IT technology.

4 Development of Special Products businesses to ensure value creation

Each Business Unit will be evaluated in the context of the overall business plan for its contribution to the creation of shareholder value.

Where there is significant shared value with Coil Products, the primary objective will be to develop the business to maximise this value, mainly through increased specialisation and focus on value-added products with higher margins.

Where there is little shared value with Coil Products and its melting assets, the business will be regarded as a financial investment that will be retained or disposed of depending on its realisable value, either through its contribution to AvestaPolarit's earnings stream or via its disposal.

5 Positioning for growth and global expansion

Significant revenue improvement and increased market share will be sought through the prompt integration of both parties' marketing expertise and a more efficient utilisation of the existing extensive distribution and service centre network.

New capacity coming on stream in 2002–2004 will lay a strong foundation for continued global expansion and increased flexibility to service higher-margin markets. A gradual shift will be sought in the geographic distribution of sales. A target has been set to significantly increase the proportion of revenues and profits generated outside AvestaPolarit's current main market in Europe.

6 Sound financial management to maintain strong position and attractiveness as an investment

The principal financial objective is to maximise shareholder value by setting appropriate and challenging targets for each Business Unit. Incentive schemes to match and support the achievement of these targets will be established.

A strong balance sheet is to be maintained by efficient use of capital, thereby promoting financial stability and facilitating profit-driven growth.

Interest in AvestaPolarit shares will be promoted through active investor relations, including open and honest communication and financial reporting. Management will also undertake active measures to increase liquidity in trading especially as and when Outokumpu, in accordance with its commitment, reduces its shareholding.

Organisation

AvestaPolarit's operations are organised with the intention of establishing a strong commitment to common objectives through a flat organisation with clear individual areas of responsibility and short reporting channels. Emphasis is on the creation of strong links between the production, marketing and administrative staff in order to contribute to a clear customer focus in the overall business.

The operations are organised into three Business Areas: *Coil Products, Special Products and North America.*

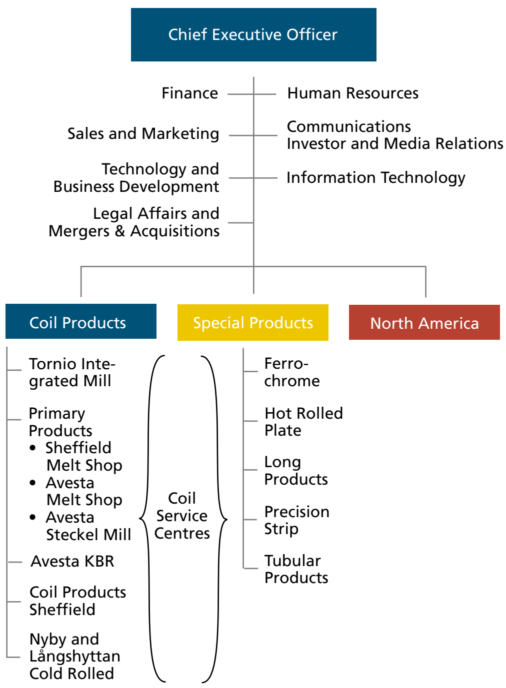
Each of the Business Areas is fully responsible for the overall development of their respective operations and performance.

The Business Areas are further divided into Business Units. Each Business Unit is a clearly defined business with its own financial targets. Every Business Unit manager has responsibility for the Business Unit's manufacturing, marketing, sales and financial results.

Corporate staff are assigned to the functions of *Finance, Sales and Marketing, Technology and Business Development, Mergers & Acquisitions and Legal Affairs, Human Resources, Communications, Investor & Media Relations and Information Technology.*

AvestaPolarit markets its products through a network of wholly-owned sales companies, independent distributors and agents. The sales staff are directly responsible to the Business Areas / Business Units for the implementation of their marketing strategies. E-commerce channels are being jointly developed to serve as an effective marketing tool for all AvestaPolarit Business Units.

THE AVESTAPOLARIT ORGANISATION:



Coil Products Business Area

AvestaPolarit's core business is the steel melting and coil processing systems in Tornio, Avesta, Nyby, Långshyttan and Sheffield. The Company will integrate and develop these coil facilities with the intention of creating a world best manufacturing system, portraying both high quality and high cost-efficiency. The ongoing investments totalling some EUR 770 million, scheduled for completion by the end of 2002, will increase current slab capacity from approximately 1.75 million tonnes to approximately 2.75 million tonnes and significantly upgrade the quality of the current assets.

The key features for the Coil Products Business Area are to:

- develop the Tornio melt shop to create the world's lowest cost stainless steel melt unit;
- leverage existing hot rolling assets, through the incremental development of both the Avesta and Tornio steckel mills, to world best operating scale;
- invest in new integrated rolling, annealing and pickling technology in Tornio to develop further the lowest cost cold rolling facility;
- leverage existing coil processing facilities in Avesta, through incremental investment, to create a large scale, cost-efficient, process route for continuously produced plate products;
- Coil Products Sheffield will focus on enhanced surface products; and
- the new Nyby and Långshyttan Cold Rolled unit will focus on the growing market for the thin gauge products.

The development programme described above optimises the production structure, and it is anticipated that it will fully satisfy customer needs and further improve AvestaPolarit's position as a leading cost efficient producer of stainless steel. The expansion investments will also create the opportunity to utilise the current melting and rolling assets as the foundation for future expansion both in Europe and globally.

The performance of Coil Products will improve significantly as a result of both increased sales and a major reduction in conversion costs. A key factor in the successful implementation of the Business Plan will be the marketing and sales of the combined AvestaPolarit product range, utilising existing and enhanced market based stock and processing channels to add value.

Coil Products	**2000**	**1999**	**1998**	**1997**
Average number of employees	4,876	4,820	5,291	5,272
Production, ('000 tonnes)				
Slab	1,441	1,431	1,342	1,355
Coil products	1,101	1,104	1,057	1,007

Business Units within Coil Products

Tornio Integrated Mill

The Tornio Integrated Mill is centred on the integrated coil production facility in Tornio. The key production units within the Tornio facility are the melt shop and the hot and cold rolling mills. The steel melting process is integrated with the ferrochrome production unit, a separate Business Unit within the Special Products Business Area, enabling the usage of molten ferrochrome.

The Tornio facility will be the focus of capacity increases within AvestaPolarit through a EUR 680 million investment programme, which will be completed by the end of 2002. Melting capacity will be increased to about 1.65 million tonnes from the current capacity of around 650,000 tonnes per annum. Further, the hot rolling capacity will be increased by around 350,000 tonnes to about 1 million tonnes per annum and the coil production capacity will be increased by around 450,000 tonnes to 1 million tonnes per annum. The installation of a new high-capacity integrated line, including cold rolling, annealing, pickling and skin passing, will be the focus of AvestaPolarit's growth in coil products, producing finished products as well as providing low cost feedstock for cold rolling in AvestaPolarit's other coil business units.

The integration of chrome raw materials with stainless steel melting, hot rolling and coil production on one site and the investment in integrated coil production technology, together with shortening lead times and improved on-time deliveries, supports the Tornio facility's cost and quality leadership position.

Primary Products

The Primary Products Business Unit consists of three manufacturing units: melt shops in Sheffield and Avesta, and the Steckel hot rolling mill, which is also located on the Avesta site.

Primary Products is responsible for supplying AvestaPolarit's cold-rolling mills with high quality stainless slab and coil feedstock. Primary Products currently produces around 870,000 tonnes of slab and 660,000 tonnes of hot rolled coil per annum.

The capacity at the Avesta melting shop is expected to increase to 580,000 tonnes of slab per annum through a EUR 13 million investment in additional production facilities and improved operations.

The Sheffield melting shop has a capacity to produce 550,000 tonnes of slab per annum.

Avesta KBR

The Avesta KBR Business Unit produces over 170,000 tonnes of wide cold and hot rolled products per annum, which measure up to two metres in width and between 3 mm and 13 mm in thickness.

KBR is a trademark synonymous with wide cold rolled stainless steel. The product range has been expanded to include both cold and hot rolled wide products processed in coil form. The majority of KBR's customers are industrial users, especially those who benefit from using wider material for fast production and improved weld integrity, for example within the process industries. KBR can cut to length widths up to two metres and thicknesses up to 13 mm, and its Central Service Centre is developing a service which can ensure delivery within 10 days anywhere in Europe.

An investment of EUR 39 million is under way to increase capacity for coil products from 210,000 tonnes to 330,000 tonnes per annum.

Coil Products Sheffield

This cold rolling business manufactures austenitic and ferritic grades of stainless steel in cold rolled sheet and coil.

The capacity at Sheffield has been increased, through an investment of EUR 20 million, from 275,000 tonnes to 305,000 tonnes of austenitic cold rolled product per annum. The investment was completed in December 2000. As well as increasing output, this plant will produce more thinner gauge material in line with a growth in demand from customers. The Panteg unit, in Wales, which belongs to the Coil Products Sheffield Business Unit, has supplied around 40,000 tonnes of cold rolled material per annum for specialist niche markets, with a particular focus on surface finish and enhanced ferritic grades and thin 430 material.

Nyby and Långshyttan Cold Rolled

The Nyby and Långshyttan rolling mills produce over 170,000 tonnes of cold rolled stainless coil and sheet per annum.

The cold rolled product range comprises thin strip, special grades, value-added products and standard grade stainless sheet and coil. To allow production of thin material to be optimised between the two sites, the larger scale Nyby plant will focus on bulk produced thinner gauge material and the Långshyttan plant on speciality thin gauge strip.

An investment programme of EUR 17 million has been launched on the Nyby site to increase the capability in respect of thin gauges.

Special Products Business

The main Business Units within the Special Products Business Area include both up- and down-stream value-adding operations: Ferrochrome, Hot Rolled Plate, Long Products, Precision Strip, and Tubular Products.

The Special Products businesses contribute to the creation of shareholder value by:

- Maximising shared value with Coil Products through integrated material flows and processes, common process technology, shared distribution channels and an integrated marketing approach to common customer groups.
- Generating targeted returns on investment through the execution of appropriate growth strategies, which may include organic investment and mergers/acquisitions.

In all cases where a business is retained within the AvestaPolarit Special Products portfolio, the business is managed to create shareholder value by focusing on these two key elements.

Special Products	**2000**	**1999**	**1998**	**1997**
Average number of employees	4,007	3,629	4,045	4,203
Production, ('000 tonnes)				
Ferrochrome	261	256	231	237
Quarto plate	76	60	59	55
Long products	139	113	106	141
Precision strip	25	10	9	11
Tubes	82	71	74	82

Business Units within Special Products

Ferrochrome

The ferrochrome business consists of the chromium mine and concentrator in Kemi and a ferrochrome plant in Tornio. The main product is charge grade ferrochrome, which is mainly used at the integrated Tornio melt shop on the same site as raw material for stainless steel production. The remaining ferrochrome is sold on the open market, mainly to European stainless steel producers.

At Kemi, which holds significant chromium ore reserves and resources, approximately 1 million tonnes of chromite ore per annum is produced from an open pit mine. This chromite ore is used to produce about 260,000 tonnes of ferrochrome per annum. Concentration takes place at the mine. The concentrates, i.e. the upgraded lumpy ore and the metallurgical grade concentrate, are used as raw materials in ferrochrome production at Tornio. An underground mine is under construction. The investment programme is estimated to cost some EUR 70 million. The target is to move production to lower-cost underground mining gradually after 2003.

Hot Rolled Plate

The Hot Rolled Plate Business Unit includes the Degerfors Hot Rolled Plate manufacturing plant, Avesta Press Plate, Avesta Prefab and Plate Service Centres in six European countries. All of the operational units are closely related around a central product range of individually rolled heavy stainless steel quarto plate. Hot Rolled Plate is a major producer for quarto plate both in terms of volume and product range. The total quarto plate production capacity is approximately 100,000 tonnes per annum.

The Degerfors manufacturing unit produces sizes ranging from 5 mm to 100 mm in thickness, up to 3.2 metres in width, and up to approximately 14 metres in length. The maximum possible weight of a plate is around 9 tonnes.

All plates are heat treated and pickled and a minor volume is ordered with a specified surface finish. A large volume, primarily for chemical tankers, is weld prepared and delivered with extremely tight dimensional tolerances. The plates are used primarily for industrial plant and equipment.

Avesta Press Plate produces press plates for, among other things, plastic laminates, hard board and plywood and veneer, transport plates for industrial laminates and hard board and wear plates.

Area

Avesta Prefab produces prefabricated products such as suction roll shells, material sets for pressure vessels and heavy wall welded pipes.

AvestaPolarit's Plate Service Centres provide downstream processing to meet different customer needs. They are located in Sweden, the UK, Italy, Finland, Germany and the Netherlands.

Long Products

Long Products' manufacturing units include Degerfors Stainless, Alloy Steel Rods and AvestaPolarit Welding together with the two joint ventures Fagersta Stainless and Avesta Valbruna. Long Products' customers are predominantly European, but increasingly the Business Unit sells its products to Asian customers.

Degerfors Stainless is responsible for the production and sales of semi-finished continuously cast billet and blooms. Degerfors Stainless also has a capability to produce slabs. The business produces material for internal downstream processes but also sells an increasing amount of billet and slab to other producers. Alloy Steel Rods is a rod-rolling business, which supplies, in addition to rounds, specialist niche products and an extensive range of flat bar in coil, as well as squares, hexagons and rebar.

AvestaPolarit Welding manufactures stainless welding consumables, including welding electrodes, flux-cored wire, MIG and TIG wire and welding strip. At a separate manufacturing unit in Malmö, chemical products for the pickling of stainless steel are produced.

Long Products also includes two joint ventures: Fagersta Stainless, which is a Swedish wire rod producer, and Avesta Valbruna, which sells stainless steel bars in the Nordic region. AvestaPolarit holds a 50 per cent stake in each of these joint ventures. The remaining 50 per cent in Fagersta Stainless is held by Sandvik Invest AB and in Avesta Valbruna by Acciaierie Valbruna Srl.

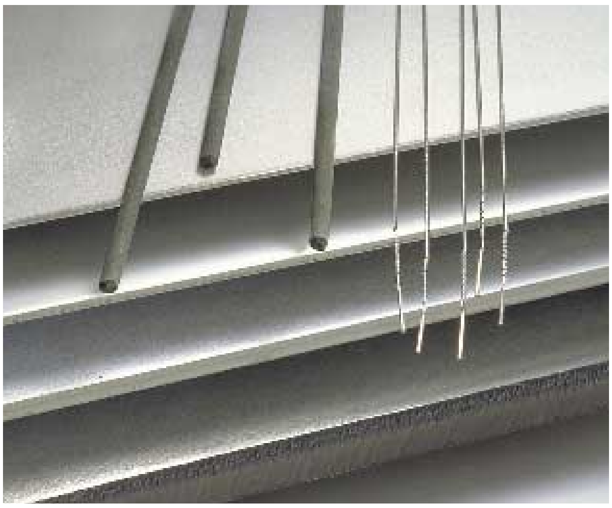
Precision Strip

Precision Strip produces thin, narrow cold rolled stainless steel and carbon steel strip at two sites in the UK, Stocksbridge and Meadowhall, both located close to Sheffield.

Precision strip material is used in a broad range of applications including chimney liners, chemical filtration, foil products, flexible tubing and surgical scalpels. The Stocksbridge plant is a major supplier in the world market for razor blade strip. The Meadowhall plant is a major supplier of carbon spring steels and other precision stainless products.

Tubular Products

Tubular Products encompasses pipes, tubes and fittings operations. The Business Unit consists of Avesta Sandvik Tube AB ("AST"), Avesta ABE Group and JA-RO.



Avesta Sandvik Tube

Avesta Sandvik Tube AB ("AST") is one of Europe's leading manufacturers of welded stainless steel pipes and tubes, which are used in a number of different applications in the pulp and paper, chemical and petrochemical industries, as well as in food and beverage, the energy sector and the automotive industry.

AvestaPolarit has a 75 per cent holding in AST, with Sandvik AB owning the remaining 25 per cent. AST's product range is marketed to customers world-wide.

AST has production facilities in Fagersta, Nyby and Storfors in Sweden, as well as in Finland and the Netherlands. Each of these facilities concentrate on different stainless steel welded tubular products.

The plant at Fagersta manufactures small diameter tubes, ideal for applications in the dairy and food and beverage sectors, for heat exchangers and for water piping systems for drinking water. At Nyby, pipes for the process industry and for applications of a more general nature are produced. The Storfors plant produces large diameter thick-walled pipes, used mainly in the production of oil and gas, the pulp and paper industry and in water treatment applications. AST's subsidiary, Finnpipe Oy in Sorsakoski, Finland, manufactures tubes for the process industry. AST's facility in Helmond in the Netherlands has continued to specialise in thin-walled tubes for the water, automotive and energy sectors.

Avesta ABE Group

The production and sale of fittings is organised under the Avesta ABE Group, which manufactures stainless steel butt weld fittings, flanges, threaded fittings and pressure vessels.

Fittings sales are largely dependent on the rate of investment in industrial segments such as the pulp and paper, chemical and offshore industries.

Avesta ABE's head office is in Örnsköldsvik, Sweden, where butt weld fittings are manufactured. AB Örnsköldsviks Mekaniska Verkstad (ÖMV) is a fabrication business producing pressure vessels and heat exchangers. Avesta ABE also has business operations in Brockville, Canada and in Guadalupe, Mexico. Butt weld fittings are further manufactured by Finnbend Oy in Sorsakoski, Finland. Calamo Nords AB, based in Molkom, Sweden, manufactures butt weld fittings, flanges and threaded fittings.

Flanges are also manufactured by Hertecant N.V. in Belgium, whilst threaded fittings are manufactured by Oü Ratas in Estonia and SH Trade in Helsinki, Finland. The ABE Group has sales companies in both Lyon and Wavrin in France.

JA-RO

JA-RO encompasses stainless steel pipe and pipe fittings operations. Most of JA-RO's products are manufactured from austenitic stainless or acid resistant steel. The product range is marketed mainly in Western Europe. Pipe production is concentrated in Pietarsaari with production of pipe fittings in Veteli, both located in Finland.

The company utilises modern and effective welding techniques like TIG, MIG, plasma, High Frequency ("HF") and laser in its production processes. JA-RO's main focus is on developing HF and laser welding technology and the further automation of the production processes. Production of pipe fittings is also effective and widely automated.

North America Business Area

North America	2000	1999	1998	1997
Average number of employees	364	457	587	736
Production, ('000 tonnes)				
Quarto plate, bar and tubes	72	85	67	55

AvestaPolarit, Inc., the North America Business Area, includes several operational units producing hot rolled plate, bar and tubular products. The operations also include sales and distribution responsibility for marketing AvestaPolarit's European-produced stainless steel products within the entire NAFTA market area.

The focus of the Business Area is to create value by generating targeted returns on investments made in local manufacturing and through the leverage of shared value with the European production systems. For example, rolling European-produced slab to plate or European-produced billets to bar. The Business Area's responsibilities include sales of Group products within the United States, Canada and Mexico. In 2000, it delivered approximately 118,000 tons of Avesta Sheffield's products including imports within the NAFTA region. In addition, Outokumpu Steel delivered about 25,000 tons of product to the region in 2000.

The North American Business Area is organized with a Business Unit structure, with each business responsible for the entire business process – from raw material procurement through sales and delivery to the customer. At its headquarters in Schaumburg, Illinois, a small central staff handles functions where significant synergies exist, such as benefits administration and cash management. The Coil and Welding businesses are also situated in Schaumburg. Additional Business Unit operations are located in New Castle, Indiana, where hot rolled plate is produced; Wildwood, Florida, where welded pipe is produced; and Richburg, South Carolina, where long products are produced.

Board of Directors

From left to right: Jyrki Juusela, Tony Pedder, Bernt Magnusson, Jacob Palmstierna, Timo Peltola, Juha Rantanen, Risto Virrankoski, Ossi Virolainen, Stuart I. Pettifor.

Jyrki Juusela, Chairman
Born 1943
Chief Executive Officer and President of Outokumpu Oyj 1992–. Member of the Board of Directors of Outokumpu 1988–. Chairman of the Outokumpu Group Executive Committee (former Executive Board) 1997-. Member and Chairman of the Board of Directors of Outokumpu Steel 1993–2001. Employed by the Outokumpu Group 1971–. Chairman of the Board of Directors of the Confederation of Finnish Industry and Employers. Member of the Board of Directors of the Sampo-Leonia Insurance Company plc, of the Federation of Finnish Metal, Engineering and Electrotechnical Industries, and of the Association of Finnish Steel and Metal Producers. Member of the Supervisory Board of Directors of Varma-Sampo Mutual Pension Insurance Company.

Tony Pedder, Vice Chairman
Born 1949
Chairman of the Board of Directors of Avesta Sheffield AB. Member of the Board of Directors of Avesta Sheffield AB since 1999. Executive Director of Corus Group plc. Member of the Board of Directors of Delta plc.

Bernt Magnusson
Born 1941
Deputy Chairman of the Board of Directors of Avesta Sheffield AB. Member of the Board of Directors of Avesta Sheffield AB since 1985. Chairman of the Board of Directors of AssiDomän AB, Swedish Match AB, Dyno Nobel ASA and Tax Delegation for Swedish Business and Commerce. Deputy Chairman of the Board of Directors of Net Insight AB. Member of the Board of Directors of Volvo Car Corporation, Höganäs AB, MeritaNordbanken Abp, Emtunga International AB, Förvaltningsaktiebolaget Stattum and the Federation of Swedish Industries. Adviser to the European Bank for Reconstruction and Development.

Jacob Palmstierna
Born 1934
Member of the Board of Directors of Avesta Sheffield AB since 1991. Honorary Doctor of Economics at Stockholm School of Economics. Chairman of the Board of Directors of Bilia AB and Siemens Elema AB. Member of the Board of Directors of NCC AB, Nordstjernan AB and Höganäs AB.

Timo Peltola
Born 1946
Chief Executive Officer and President of Huhtamäki Van Leer Oyj. Member of the Board of Directors of Nordea AB. Supervisory Board Member of Ilmarinen Pension Insurance Company, the Finnish Cultural Foundation and the Finnish Fair Corporation.

Juha Rantanen
Born 1952
Chief Executive Officer and President of A. Ahlstrom Corporation. Chairman of the Board of Directors of the Finnish Forest Industries Federation. Member of the Board of Directors of KCI Konecranes International and Paroc Oyj. Member of Executive Committee of the Confederation of Finnish Industry and Employers. Member of the Supervisory Board of Directors of Mandatum and Mutual Pension Insurance Company Varma-Sampo.

Risto Virrankoski
Born 1946
Deputy Chief Executive of Outokumpu Oyj 2001–. Vice Chairman of the Group Executive Committee 2001– and its Member 2000–. Member of the Group Executive Board 1997–2000, and Member of the Board of Directors 1986–1997. Employed by the Outokumpu Group since 1969. Chairman of the Board of Directors of Okmetic Oyj. Vice Chairman of the Board of Directors of Partek Oyj Abp. Member of the Board of Directors of VR Ltd (Finnish Railways).

Ossi Virolainen
Born 1944
President and Chief Executive Officer of AvestaPolarit Oyj Abp. Deputy Chief Executive Officer and Chief Financial Officer of Outokumpu Oyj 1992–2001. Vice Chairman of the Outokumpu Group Executive Committee 1997–2001. Member of the Executive Board 1983–97. Chairman of the Board of Directors of Outokumpu Steel 1990–1993 and a member 1993–. Employed by the Outokumpu Group 1967–2001. Vice Chairman of the Board of Directors of Elisa Communications Corporation.

Stuart I. Pettifor
Born 1945
President of Coil Products and Deputy Chief Executive Officer of AvestaPolarit Oyj Abp. President and Chief Executive Officer of Avesta Sheffield AB since 1997. Member of the Board of Directors of Avesta Sheffield AB since 1997. Employed by British Steel (Corus Group) between 1963 and 1996. Employed by Avesta Sheffield since 1997. Representative of the Swedish Steel Producers' Association. Representative of the Employers' Association of the Swedish Steel and Metal Industry. Chairman of the Board of Governors of Ashorne Hill Management College.

Executive Management

The Executive Committee consists of, from left to right: Ossi Virolainen, Stuart I. Pettifor, Antti Närhi, Ian L. Cooper, Barrie Cheetham, Pekka Erkkilä, Karri Kaitue, Leif Helgman.

Ossi Virolainen
Born 1944
President and Chief Executive Officer of AvestaPolarit Oyj Abp.
(See adjacent page)

Stuart I. Pettifor
Born 1945
President of Coil Products and Deputy Chief Executive Officer of AvestaPolarit Oyj Abp.
(See adjacent page)

Antti Närhi
Born 1944
President of Special Products. Member of the Outokumpu Group Executive Committee 1998–2001. President and Member of the Board of Directors of Outokumpu Steel 1991–2001. Employed by the Outokumpu Group 1971–2001. Member of the Supervisory Board of Directors of Sampo Life Insurance Company Limited.

Ian L. Cooper
Born 1947
Executive Vice President – Chief Financial Officer. Chief Financial Officer of Avesta Sheffield AB 1998–2001. Employed by British Steel (Corus Group) between 1995 and 1997. Employed by Avesta Sheffield 1998–2001. Previously held positions at Ford Motor Company, Babcock International and United Engineering Steels.

Barrie Cheetham
Born 1943
Executive Vice President – Sales & Marketing. Vice President (Strategy and Business Planning) of Avesta Sheffield AB 2000–2001. Vice President (Sales & Marketing) of Avesta Sheffield AB 1997–1999. Member of Board of Directors of Avesta Sheffield AB 1992–1997. Employed by British Steel (Corus Group) between 1973 and 1996. Employed by Avesta Sheffield 1997–2001.

Pekka Erkkilä
Born 1958
Executive Vice President – Business Development and Technology, including environmental and energy issues. President of Outokumpu Chrome Oy 1996–2001. Employed by the Outokumpu Group 1983–2001.

Karri Kaitue
Born 1964
Executive Vice President – Mergers & Acquisitions and Legal Affairs. Senior Vice President – Corporate General Counsel of Outokumpu 1998–2001. Assistant Vice President – Corporate Counsel (USA) 1996–1998. Employed by the Outokumpu Group 1990–2001.

Leif Helgman
Born 1961
Executive Vice President – Human Resources, including health and safety issues. Vice President (Human Resources) of Avesta Sheffield AB 1998–2001. Employed by Avesta Sheffield 1998–2001. Previously held positions at Ericsson, Avesta Sheffield 1993–1996 and the Swedish Army.

Business Unit managers

Niilo Suutala
Tornio

Sean Lyons,
Primary Products

Olof Faxander
Coil Products Sheffield

Peter Gossas
Avesta KBR

Lars-Göran Jöbo
Nyby and Långshyttan Cold Rolled

Harri Natunen
Ferrochrome

Leif Rosén
Hot Rolled Plate

Peter Holes
Long Products

Andrew Black
Precision Strip

Christer Bäck
Tubes / AST

Bengt Blomberg
Tubes / ABE

Christer Asp
Tubes / JARO

Mike Rinker
North America

Other key managers

Jouni Grönroos
Deputy CFO

Jukka Jokinen
Coil marketing

Jorma Kemppainen
R & D

Sjaak Klap
Logistics

Jorma Kovalainen
General purchases

Leif Lindbergh
Treasury

Katarina Lybeck
Communications

John Newborn
Integration

Claes Wallnér
IT

Christer Wallstén
Raw materials

Five-year review Avesta Sheffield

SEKm Amounts in SEK million	2000[2] Jan.–Dec.	1999/2000 Apr.–March	1998/1999 Apr.–March	1997/1998 Apr.–March	1996/1997[1] Apr.–March
From the income statement					
Net sales	20,150	16,093	15,812	18,699	17,204
Increase/decrease, %	25	2	–15	9	–21
Proportion of sales outside Sweden, %	91	91	92	92	91
Operating result	1,986	1,291	–1,175	61	–144
Result after financial items	1,847	1,206	–1,211	35	–124
Net result for the year	1,421	965	–1,036	–33	–13
From the balance sheet					
Fixed assets	6,305	5,862	5,690	5,915	5,638
Inventories	4,687	4,427	3,204	4,507	4,455
Accounts receivable	3,773	4,183	2,911	3,528	3,356
Cash, bank accounts and short term investments	479	560	593	457	675
Gross assets	15,666	15,678	12,731	14,963	14,742
From the statement of the financial position					
Net financing from operating income	1,217	–816	1,221	7	82
Cash flow	373	–1,316	773	–667	–682
External financing	–294	1,283	–637	449	–149
Change in cash, bank accounts and short term investments	79	–33	136	–218	–831
Key numbers					
Return on capital employed, %	19	14	neg	1	0
Return on equity after full tax, %	17	13	neg	0	0
Solvency (equity/assets) ratio, %	55	53	56	56	57
Proportion of risk–bearing capital, %	62	58	61	61	62
Level of interest cover, times	8.3	10.3	–8.8	1.3	–0.7
Rate of capital turnover, times	1.8	1.6	1.6	1.8	1.7
Result margin, %	10.4	8.4	–6.8	0.8	–0.2
Other					
Deliveries, kt	962	931	882	942	899
Equity	8,571	8,168	7,115	8,305	8,348
Capital employed, average	11,057	9,966	9,639	10,198	9,836
Investments in fixed assets	672	414	508	757	853
Average number of employees	6,407	6,354	7,151	7,726	8,009
– of which outside Sweden	3,239	3,208	3,677	4,074	4,357

[1] Some figures have been revised in accordance with new formats for Income Statements and Balance Sheets in the Swedish Annual Accounts Act.
[2] The 2000 reporting period was shortened to 9 months and refer to the period 1 April 2000 to 31 December 2000.
For comparison, the figures have been calculated for the 12 month period from 1 January 2000 to 31 December 2000.

Data per share

	2000	1999/2000	1998/1999	1997/1998	1996/1997
Number of shares at period-end, million	158	158	158	158	158
Average number of shares, million	158	158	158	158	158
Net sales per share, SEK	127.53	101.85	100.08	118.35	108.89
Earnings per share, SEK	8.99	6.11	–6.56	–0.21	–0.08
Shareholders' equity per share, SEK	54.25	51.70	45.00	52.60	52.80

Five-year review Outokumpu Steel

EURm

Amounts in EUR million	1996	1997	1998	1999	2000
Key figures[1]					
Net sales	755	832	795	778	1,177
Operating profit	104	92	50	52	246
Operating profit margin, %	14	11	6	7	21
Profit before extraordinary items	104	94	42	47	241
Return on shareholders' equity, %	17	15	8	8	33
Return on capital employed, %	17	14	7	8	33
Capital employed on Dec. 31	628	737	687	709	815
Equity-to-assets ratio	61	57	62	58	62
Debt-to-equity ratio	17	26	21	24	8
Capital expenditure	108	138	51	36	84
Depreciation	40	46	55	59	61
Personnel on Dec. 31	2,355	2,391	2,391	2,397	2,438
Share-related data					
Number of shares at the end of the period	185,806,841	193,111,110	193,111,110	193,111,110	193,111,111
Average number of shares	144,446,186	185,997,058	193,111,110	193,111,110	193,111,110
Net sales per share, EUR	5.22	4.47	4.12	4.03	6.10
Earnings per share (excluding extra-ordinary items), EUR	0.52	0.35	0.16	0.15	0.88
Earnings per share, EUR	0.12	0.29	0.03	–0.09	0.53
Shareholders' equity per share, EUR	2.61	2.91	2.94	2.85	3.50

[1]The figures for 1998-1999 have been restated to reflect the change in inventory valuation principle. More specific information is given in the Principles applied in the financial statements of Outokumpu Steel.

Euro exchange rates

	Closing rates					Average rates	
	1996	1997	1998	1999	2000	1999	2000
USD	1.280	1.097	1.167	1.005	0.931	1.066	0.924
SEK	8.811	8.664	9.487	8.563	8.831	8.808	8.445
GBP	0.756	0.661	0.705	0.622	0.624	0.659	0.610

Exchange rates of 1999 and 2000 are quoted by the European Central Bank.
Exchange rates of 1996–1998 are based on corresponding Finnish Markka rates converted into euro rates at the fixed conversion rate, EUR 1=FIM 5.94573.

Definitions of the key financial indicators and share-specific data, as used by Avesta Sheffield and Outokumpu Steel in their respective reports and above reviews are given on page 26.

Financial definitions[1)]

Avesta Sheffield

Capital employed
Balance sheet total less interest-free liabilities and provisions, and deferred tax.

Debt/equity (gearing) ratio
Short-term loans plus long-term interest bearing liabilities and provisions, minus cash and bank accounts and short-term investments in relation to equity capital.

Dividend yield
The dividend as a percentage of the market price per share at the year-end.

Earnings per share
The result after taking into account minority interests less full taxation, divided by the average number of shares.

Level of interest cover
Result after net financial items plus the cost of interest, divided by the cost of interest.

P/E ratio
Price/Earnings ratio. The market price per share at the year-end in relation to the result per share after full taxation.

Proportion of risk-bearing capital
Declared equity and deferred tax inclusive of the interests of minority shareholders as a percentage of the balance sheet total.

Rate of capital turnover
Invoiced sales divided by the average capital employed.

Result margin
The result before financial items plus financial income as a percentage of invoiced sales.

Return on capital employed
The result before financial items plus financial income as a percentage of the average capital employed.

Return on equity after full taxation
The result after full taxation as a percentage of the average equity.

Solvency (equity/assets) ratio
Declared equity, inclusive of the interest of minority shareholders, as a percentage of the balance sheet total.

Standard taxation
Standard taxation, when calculating deferred tax, is at the rate of 28 per cent.

Working capital
Inventories plus interest-free short-term receivables less interest-free liabilities and provisions.

Outokumpu Steel

Capital employed
Total assets – non-interest-bearing liabilities

Research and development costs
Research and development expenses in the income statement (including expenses covered by grants received)

Return on shareholders' equity
((Profit before extraordinary items – income taxes) / (Shareholders' equity + minority interest (average for period)) x 100

Return on capital employed
((Profit before extraordinary items + interest expenses + other financial expenses) / Capital employed (average for period)) x 100

Net interest-bearing debt
Total debt – cash and marketable securities

Equity-to-assets ratio
((Shareholders' equity + minority interest) / (Total assets – advances received)) x 100

Debt-to-equity ratio
(Net interest-bearing debt / (Shareholders' equity + minority interest)) x 100

Earnings per share (excluding extraordinary items)
(Profit before extraordinary items – income taxes – minority interest in earnings) / Adjusted average number of shares during the period

Earnings per share
Profit (loss) for the financial year / Adjusted average number of shares during the period

Shareholders' equity per share
Shareholders' equity / Adjusted number of shares at end of period

[1)] The definitions are given as used by Avesta Sheffield and Outokumpu Steel in their respective official reports.

Avesta Sheffield
Annual Report 2000

Directors' Report for 1 April to 31 December 2000

The Avesta Sheffield AB (publ) last financial year was from 1 April to 31 December 2000. Comparatives quoted in the Report are for the comparable nine month period in 1999 unless otherwise stated. From January 2001 the financial year is the calendar year.

- ***The most significant event during the financial year was the announcement of the Combination with Outokumpu Steel Oyj to form AvestaPolarit. The combination represents an excellent opportunity for Avesta Sheffield to further advance its recent improvement by combining its strong distribution system with Outokumpu Steel's low cost and efficient production. The new AvestaPolarit Group is now operational, and Avesta Sheffield is a subsidiary of AvestaPolarit Oyj Abp.***
- ***The result after financial items for the period 1 April to 31 December 2000 was a profit of SEK 860 million, compared with a profit after financial items of SEK 1,206 million for the 1999/2000 financial year, and a profit after financial items of SEK 219 million for the comparable period 1 April to 31 December 1999.***
- ***The improvement in the result for the financial year compared with the same period last year arose because of improvements in base selling prices and deliveries. The result was adversely affected by currency movements, principally related to the weakness of the euro.***
- ***The Group had a cash inflow of SEK 572 million, before acquisition costs associated with the purchase of subsidiary companies and non-recurring expenditure.***
- ***Delivered tonnage increased by 5 per cent and net sales by 38 per cent compared with same period last year as a result of both improved world-wide demand and increased selling price for coil products. Prices for coil products started to decrease after the summer vacation period reflecting destocking by customers and a reduction in nickel prices.***
- ***A new five year multi-currency committed credit facility of EUR 300 million was signed with a consortium of 14 banks on 15 May 2000.***
- ***The Board of Directors has decided to recommend that no dividend be paid in respect of the 2000 financial year as the Board of AvestaPolarit Oyj Abp will separately decide on any dividend to be paid to shareholders of AvestaPolarit.***

Formation of AvestaPolarit

Avesta Sheffield AB and Outokumpu Steel Oyj combined on 22 January 2001 to form AvestaPolarit, a leading and growth-oriented stainless steel company. The company is the world's second largest stainless steel producer with net sales in excess of EUR 3 billion. This new company employs about 8,900 people and has major production facilities in Sweden, Finland, the UK and the United States.

The combination was carried out through an Exchange Offer in which shareholders of Avesta Sheffield were offered one Outokumpu Steel share for each Avesta Sheffield share. Shareholders representing 94.7 per cent of the shares and voting rights approved the Exchange Offer during the initial acceptance period. This met the conditions set for completion of the combination. After the initial acceptance period for the Exchange Offer, Outokumpu Oyj owned 56.4 per cent and Corus Group plc 23.6 per cent of AvestaPolarit. The acceptance period was subsequently extended, for the shares not tendered during the initial acceptance period, until 2 February 2001. This increased the level of acceptance of the Exchange Offer to 98.6 per cent, and reduced the holding of Outokumpu Oyj to 55.3 per cent and Corus Group plc to 23.2 per cent. In order to increase the liquidity of the share, Outokumpu Oyj has agreed to reduce its holding to not more than 40 per cent within three years. Outokumpu Steel Oyj was renamed AvestaPolarit Oyj Abp on 24 January 2001. AvestaPolarit's share was listed on the OM Stockholm and Helsinki Exchanges on 30 January 2001.

Avesta Sheffield AB, now a 98.6 per cent owned subsidiary of AvestaPolarit Oyj Abp, was delisted from the OM Stockholm Exchange on 23 February 2001. The process has now commenced for compulsory redemption of the remaining shares that were not exchanged for AvestaPolarit shares.

The stainless steel market and prices

In the financial year a dramatic turn round in the stainless steel market was experienced. During the first half, the upward trend in coil products base prices and demand, which started in late 1999, accelerated rapidly and month on month base price increases were achieved.

However in the summer, the first signs of a change in market sentiment became apparent. Customers were expressing concern both at the actual stainless steel transaction price level (similar to levels previously seen during the last peak of 1995) and the rapid pace of price increases.

The perception in the market was that coil products prices had passed their peak and were declining. Together with a fall in nickel prices, this acted as a signal for customers to reduce stainless steel inventory levels, which had been built up by speculative demand during the first half of 2000. Market sentiment towards the end of the year was also adversely affected by a slowdown in economic growth, particularly in the USA, and the potential impact this could have on the global economy. This destocking by customers has continued into the early months of 2001. Coil products base prices in the final quarter of 2000 reduced by 10 per cent compared to the previous quarter.

For other products, there was less volatility in both volume and pricing terms. Despite initial quarto plate base price rises at the beginning of 2000, demand was not sufficient to support further price increases and prices remained stable during the majority of 2000. During the final quarter of 2000 further declines in the price of nickel and overall poor market sentiment led to prices slipping back by around 3 to 5 per cent. Long product performance was in line with expectations. Precision strip demand was robust in all segments, remaining largely unaffected at the end of 2000 by the de-stocking cycle affecting coil products. Order books were strong, which enabled base price improvements to take place through the year.

Despite some slowing down in rates of economic growth the underlying demand for stainless steel is expected to continue to grow through 2001, once the current destocking phase comes to an end. In Asia there are indications that market activity is beginning to improve, supported by improved stainless steel demand from China. Capacity utilisation levels are forecast to remain above trend. The outlook for prices is uncertain but it is believed that there will be some recovery from current levels as demand improves.

Quarto plate consumption should gradually improve as more project-related investment, particularly in the oil and gas sector, is anticipated to come on stream during the year. Base prices, however, are not expected to show any improvements in the short term, due to the supply / demand imbalance currently seen in the market.

The outlook for precision strip products remains buoyant, with potential for further price increases expected to be supported by firm demand.

Raw materials

Nickel prices reduced through most of the nine-month period to December 2000, falling from USD 4.64 per lb at the start of the period to approximately USD 3 per lb at end December 2000. Since the turn of the year, however, nickel prices have become more volatile as a result of increasing uncertainty in the market. This price volatility has been caused by, amongst other factors, destocking at both stainless steel producers and stockists, potential supply problems at producers (including the effect of a strike at the Falconbridge plant in Canada), speculative activity and varying availability of stainless steel scrap. There appears to be a consensus amongst analysts that, despite the current short-term uncertainty, the nickel market will move into over-supply in the course of 2001 and will remain in surplus until 2004. This is likely to lead to a further weakening in nickel prices over this period.

The Group continued to benefit from the increased use of stainless steel scrap in its production. Prices for this secondary source of ferroalloys tended to follow the movement in primary ferroalloy prices, but at a significant discount to them.

Chromium prices in 2000 were approximately 20 per cent above 1999 levels. However, current market conditions have resulted in producers markedly reducing their initial price expectations for the early part of 2001. Molybdenum prices reduced by approximately 10 per cent in the second half of 2000 but recent tightness of material for prompt availability has led to signs of price increases. Despite these recent moves, the market is still forecast to be significantly oversupplied throughout 2001.

Price change in inventory

Changes in ferro alloy prices have a significant effect on the result because of the time lag between purchase and sale and the holding of raw material and other stocks, such as work in progress. During periods of raw material price increases, profits are realised when material is sold from stock. During periods of raw material price decreases, corresponding losses are realised, but also losses arising from stock valuation. The effect of these gains and losses is described as price change in inventory in order to monitor the result from normal trading. There was a positive effect from price change in inventory of SEK 7m (513m) for the nine-month period to December. This positive effect arose, despite the reduction in nickel prices, because of lower inventory levels and reduced stock provisions.

FINANCIAL

Net sales

Delivered tonnage of 676,000 tonne (645,000) was a 5 per cent increase compared with same period last year, which was in line with the normal underlying growth of the stainless steel market. The largest percentage improvement compared with same period last year was in Asia and Rest of World markets.

Net sales increased to SEK 14.9 billion (10.8 bn), an increase of 38 per cent compared with same period last year, of which 5 per cent was attributable to increased deliveries and 35 per cent relates to mix and price improvements, offset by a detoriation of 2 per cent as a result of adverse exchange rate movements.

The comparison of net sales by geographical area and by Product Sector is shown in detail in Tables 1 and 2. The analysis of sales by Product Sector is included instead of an analysis by Business Area as the Product Sector analysis includes more meaningful consolidated coil product sales and also analyses the Product Sector sales of the North American Business Area.

TABLE 1. Net Sales by Geographical Area, April–December

	SEKm		Kt	
	2000	1999	2000	1999
Nordic Area	2,800	1,993	120	106
Rest of Europe	8,601	6,150	401	387
North America	2,245	1,895	86	94
Asia	863	534	51	44
Other countries	362	242	18	14
Group Total	**14,871**	**10,814**	**676**	**645**

TABLE 2. Net Sales by Product Sector, April–December

	SEKm		Kt	
	2000	1999	2000	1999
Coil products	8,000	5,920	423	441
Hot rolled plate	2,300	1,636	98	87
Long products	2,093	1,422	119	105
Tubes and pipes	1,382	1,102	44	47
Fittings	620	610	–	–
Precision strip	1,119	631	39	24
Other operations	519	316	22	6
Less internal sales	–1,162	–823	–69	–65
Group Total	**14,871**	**10,814**	**676**	**645**

Results

A summary of the income statement is shown below:

Income Statement, SEKm	2000 Apr.–Dec.	1999 Apr.–Dec.	1999/2000 Year
Result before depreciation and share in associated companies	**1,341**	**667**	**1,813**
Depreciation according to plan	–397	–367	–491
Result after depreciation	**944**	**300**	**1,322**
Share of result in associated companies	25	–26	–31
Operating result	**969**	**274**	**1,291**
Result from financial items	–109	–55	–85
Result after financial items	**860**	**219**	**1,206**

The result after depreciation for the financial year was a profit of SEK 944 million (300m), which was 6.3 per cent (2.8 per cent) of net sales. The effect of price changes in inventory is estimated to have affected the operating result by SEK 7 million in the financial year. The share of result in associated companies, which is calculated using the equity accounting method, was a profit of SEK 25 million in the financial year compared with a loss of SEK –26 million in the same period in 1999. The improvement was mainly attributable to the wire rod business, Fagersta Stainless AB (50% owned).

Net financial items were SEK –109 million (–55m), as the Group operated with increased borrowings through the financial year.

An analysis of profitability by Product Sector or Business Area is not included in these accounts as this information would be commercially detrimental to the Group.

Profit analysis

The improvement in the operating result for the nine-month financial year compared to the same period last year was principally the result of:

- A 5 per cent increase in sales volumes to 676,000 tonnes, which improved the result by an estimated SEK 100m.
- Increased conversion margins (the difference between net selling prices and raw material costs) totalling SEK 1,750m, mainly resulting from the improvement in base selling prices across the Group's product range during the first six months of the period.
- The share of profits of associated companies improved the result by SEK 51m compared with last year.

These improvements were offset by:

- Price changes in inventory which affected the result by SEK 7m compared with SEK 513m for the same period last year.
- Adverse exchange rate movements related to the weakness of the euro and to the strength of the US dollar against the Swedish krona, the net cost of which is estimated at SEK –400m compared with the same period last year.
- Cost increases related to the reduced level of production, particularly during December when there were extended plant shutdowns, increased cost levels related mainly to plant maintenance and also net additional costs related to acquisitions and disposals. There were also non-recurring costs of SEK 50m associated with the merger.

	2000 Apr.–Dec.	1999 Apr.–Dec.	Change (%)
Steel production, Kt	760	736	3
Net sales, Kt	676	645	5
Net sales, SEK m	14,871	10,814	38
Average manning, number	6,494	6,339	2
Productivity, t/person	104	102	2
Sales, KSEK/person	2,290	1,706	34

Results by quarter

The trend in result after depreciation by quarter is shown below.

SEKm	Operating result after depreciation	of which price changes in inventory
Q1	586	122
Q2	363	–122
Q3	20	7

At the start of 2000 sentiment in the stainless steel market was so strong that consecutive monthly base price increases were achieved, giving rise to an overall price increase of more than 25 per cent for the first six months of 2000. Such a rapid rise in base and total prices had not been seen since the peak of 1995. Similarly conversion margins also improved rapidly, increasing more than 33 per cent in the same period. Immediately after the summer shutdown period, demand failed to pick up as quickly as anticipated. Nickel prices began to fall and base prices in South East Asia were the first to show signs of weakness, soon followed by similar sharp falls in base prices in Western Europe.

There was a strong growth in the demand for coil products during the first six months of 2000. Reasons for the accelerated and above trend growth of demand, included the strong nickel price rises, which in turn lead to increased speculative demand. The stainless market was also going through a period of restocking and renewed optimism after a period of only average growth. Rising surcharges and the prospect of higher base prices encouraged customers, particularly distributors, to replenish their stocks. Following the decrease in nickel prices the demand for cold rolled material has weakened considerably and a significant period of destocking, which is still ongoing, has taken place.

Taxation

The income tax charge on the Group's result for the financial year was SEK 38 million, compared with a income tax charge of SEK 7 for the same period last year. The increase in taxation was a result of the increased profitability for the financial year.

The full tax charge, including deferred tax, amounted to SEK 227 million (54 for the same period last year). The standard rates of corporate taxation in 2000 were 31 per cent in the United Kingdom, 28 per cent in Sweden and 40 per cent in USA.

Balance sheet developments

The capital employed in the Group increased in the financial year by SEK 247 million to SEK 11,384 million. Working capital increased by SEK 64 million to SEK 5,956 million. This increase in working capital was mainly because of the effect of increased nickel prices on stock valuation and inventories remaining high because of destocking by customers and slow recovery of demand. Accounts receivable and accounts payable reduced because of the lower level of activity.

Fixed assets increased by SEK 443 million to SEK 6,305 million following the progression of approved capital expenditure schemes.

Equity increased by SEK 403 million to SEK 8,571 million as a result of the improved profitability in 2000.

Capital expenditure

Capital expenditure for the financial year totalled SEK 536 million (278m). Capital expenditure increased as the major projects approved in late 1999 and early 2000 were progressed. Good progress was made on capital projects through the year and the new ladle arc furnace at Avesta commissioned ahead of programme.

The most significant projects incurring expenditure during the nine-month period were:

- installation of a ladle arc furnace and craneage at the Avesta Melt Shop to reduce costs and improve production flexibility, commissioned October / December 2000. Total project cost: SEK 112m.
- installation of additional cold rolling capacity of 30,000 tonnes per annum, including an extra 15,000 tonnes per annum thinner gauge material, at Sheffield Coil, commissioned December 2000. Total project cost: SEK 167m.
- installation of equipment at Nyby to increase thin cold rolled capacity by 15,000 tonnes per annum, commissions October 2001. Total project cost: SEK 148m.
- increase in production capacity from 210,000 to 330,000 tonnes per annum of continuously produced wide plate at KBR in Avesta, commissions end 2001. Total project cost: SEK 328m.

The investment programme has been aimed at reducing costs and improving operational efficiency, and in projects with a strong customer or market focus. The projects form part of the joint Business Plan developed for AvestaPolarit.

Expenditure by Business Area is summarised in Table 3.

TABLE 3. Investments in fixed assets, SEKm

Business Area	2000 Apr.–Dec.	1999/2000 Apr.–Dec.
Primary Products	118	18
Coil Products, Sheffield	138	32
KBR Avesta	68	61
Coil Products, Nyby	59	11
Hot Rolled Plate	29	24
Long Products	17	35
North America	14	21
Precision Strip	32	30
Tubular	15	12
Sales Companies, other	46	34
Group Total	**536**	**278**

These investments and acquisitions (see below) have been financed from operating cash flow and from the Group's committed credit facilities, which are multi-currency syndicated bank loans.

Acquisitions

On 2 May the Group announced the purchase of Smidesbolaget L Persson AB for SEK 26 million, plus borrowings of SEK 33m taken over at the time of acquisition. The Group already owned 20 per cent of the share capital of Smidesbolaget, which is a processing operation for hot rolled plate. Smidesbolaget will be managed as part of the Hot Rolled Plate business, and is an integral part of the Plate Service Centre concept for that business.

The acquisition of the Deroulinox stainless steel service centre in Tours in France was successfully completed on 2 November 2000. The purchase price was FFR 22 million and this acquisition will strengthen the Group's position in France.

On 14 November 2000 the Group completed the purchase of the Triasas stainless steel stockholder in Kaunas, Lithuania, for USD 0.6 million. This acquisition will strengthen the Group's distribution network in the Baltic States.

Financial strength

Financial strength was maintained through the year, as demonstrated by the key financial ratios – solvency (equity / assets) and gearing (debt / equity).

	December 2000	March 2000	March 1999
Solvency (%)	55	53	56
Gearing (%)	26	28	14

Solvency and gearing both improved from March 2000 as a result of the improved profitability in the financial year, which resulted in an increase in equity compared with March 2000.

Return on capital employed and equity

The Group has stated that its primary financial target is to achieve a minimum return on capital employed of 15 per cent per annum (excluding the effects of price changes in inventory) on average over a business cycle, with a secondary financial target of a satisfactory return even in the trough of a cycle.

Since the merger at the end of 1992, the Group has achieved an average return on capital of 11 per cent before, and 10 per cent after, the effect of price changes in inventory. This result was significantly influenced by the peak year of 1995/1996. For the financial year, the annualised return was 12 per cent both before and after the effect of price changes in inventory.

To ensure achievement of the secondary financial target the focus of the business has continued to be on cost-competitiveness and on developing differentiated value-added products.

The annualised return on opening equity was 10 per cent (3 per cent) for the financial year.

	Cash flow, SEKm	
Cash flow and financing	**2000 Apr.–Dec.**	**1999 Apr.–Dec.**
Operations	1,195	483
Working capital	–64	–1,385
Capital expenditure net	–629	–253
Sale/acquisition of assets in subsidiary companies	–103	–135
Total, excluding dividends	**399**	**–1,290**
Dividend paid	–316	0
Increase/reduction in net borrowings	**83**	**–1,290**

The cash inflow was SEK 572 million before net acquisition costs associated with the purchase of companies and non-recurring expenditure of SEK 70 million. Net borrowings (interest-bearing liabilities less liquid assets) were SEK 2,260 million as at 31 December 2000, compared with net borrowings of SEK 2,317 million as at 31 December 1999 and SEK 2,343 million as at 31 March 2000. The gross interest-bearing liabilities as at 31 December 2000 were SEK 2,739 million (2,717m at 31 December 1999 and 2,903m at 31 March 2000), leaving an unutilised credit balance of SEK 3,575 million. Liquid assets were SEK 479 million (400m at 31 December 1999 and 560m at 31 March 2000).

The committed credit facilities of Avesta Sheffield comprise:

a) a five year multi-currency committed credit facility of EUR 300 million, established with a consortium of 14 banks in May 2000.

b) a five year multi-currency committed credit facility of USD 70 million to Avesta Sheffield NAD Inc and its US subsidiaries. This facility expires in July 2001.

Parent Company

The Parent Company reported net sales of SEK 6,730 million (4,504m) for the financial year. The increase in Parent Company sales relates primarily to higher delivered tonnage and improved selling prices. The result after financial items amounted to SEK 180 million (15m), with the improvement attributable to substantially the same items as explained in 'Profit analysis' above. Capital expenditure amounted to SEK 262 million (123m) and liquid assets stood at SEK 61 million (141m) as at 31 December 2000.

Employees

During the financial year, the number of employees increased by 163 to 6,471. This net increase includes approximately 100 additional employees related to acquisitions made during the period (see 'Acquistions' above).

Trade cases

Anti-dumping duty has been paid by the Group on hot rolled plate supplied to the USA from Sweden since the "Finding of Dumping" by the US Authorities was issued in 1973. Following a Sunset Review of the case, the US Authorities decided to revoke the anti-dumping order as from 1 January 2000.

In June 1998, the US Authorities initiated an investigation into claims of dumping of cold rolled sheet and strip (including foil) in coil against the UK. A preliminary deposit rate of 13.45 per cent was determined, which applied to shipments landed in the USA between 17 December 1998 and 27 July 1999. A final deposit rate of 14.84 per cent was issued in July 1999, which has applied to shipments from the UK landed in the USA from 27 July 1999. Provisions have been made in the accounts for estimated anti-dumping duties and professional fees related to these cases.

Environmental

From an environmental perspective, the position currently held by stainless steel is regarded as strong, and is expected to remain so in the future. The corrosion resistance of stainless steel means that virtually no metal, if any, is released into the environment in normal operating conditions. Avesta Sheffield has also developed a wide range of special steel grades to withstand particularly aggressive environments so that metal is not discharged, through the corrosion process, into the environment. Stainless and heat-resisting steels are therefore important in many areas of application relating to both working and outdoor environments.

Around 95 to 98 per cent of the stainless steel used in discarded plant and equipment is recycled. The use of primary raw materials in stainless steel production is, however, necessary due to the combination of high market growth and the long life of stainless steel products, which makes it difficult to balance production and scrap recycling. In a report, the Swedish Delegation for a Sustainable Society has also described stainless steel as a product well suited to its concept of a sustainable society.

The environmental impact of production is limited by the conditions set by various authorities and by Avesta Sheffield's own targets, which are often more demanding than those set by the authorities.

The businesses are regulated by the appropriate number of necessary concessions and the Group has insurance policies to cover the eventuality of unexpected environmental incidents of any magnitude.

The Combination with Outokumpu Steel Oyj

Following the completion of the Combination, Avesta Sheffield AB is now a 98.6 per cent owned subsidiary of AvestaPolarit Oyj Abp and was delisted from the OM Stockholm Exchange on 23 February 2001. It is therefore no longer appropriate to outline in detail the objectives, financial targets and internal control procedures of Avesta Sheffield AB, which will be superceded by those applicable to AvestaPolarit Oyj Abp. The paragraphs below summarise the objectives, financial targets and iternal control procedures followed by Avesta Sheffield AB during the last financial year. The Prospectus for the combination defined certain financial targets for AvestaPolarit Oyj Abp. These are in the process of being further developed, together with operating policies for the new Group. AvestaPolarit will form an Audit Committee, to operate in a similar way to the Audit Committee of Avesta Sheffield.

Group objectives

The Group has had a primary objective to achieve a minimum pre-tax return on capital employed of 15 per cent per annum (excluding the effects of price changes in inventory) on average over a business cycle, with a satisfactory return even in the trough of a cycle. This return, which is related to the Group's overall cost of capital, was required to create value for the Group's shareholders by providing a sustainable and market-comparable return in the form of dividends and capital growth. Through the financial year additional objectives set by the Group's management were to:

- finalise the announced combination with Outokumpu Steel, being the final step in completing the Group's Cornerstone Strategy announced in 1998,
- continue the drive to reduce the cost base,
- position the Group to benefit from the improving stainless steel market, and
- progress approved investments which underpin the AvestaPolarit Business Plan.

Treasury operations

The Group has sought to manage and monitor its external and internal funding requirements and treasury risks in support of Group corporate objectives. Treasury activities were governed by policies and procedures approved by the Board.

The treasury function has managed, in a non-speculative manner, any financial risks related to funding, interest rates and foreign currency. The Group has operated a central non-profit treasury function, which has provided financial advice to operating businesses and subsidiaries. Counterparty credit risk has been controlled by Group treasury, with specific limits applied to counterparties and to transactions.

Currency management

The Group's foreign exchange policy with regard to commercial flows has remained unchanged, with near full-forward cover on sales and purchases at the point of transaction commitment. Foreign currency contracts do not generally extend beyond twelve months.

The Group, in common with the steel industry generally, has not hedged its economic exposure for long term foreign exchange risks. Equity hedging of currency exposures in the form of investments in foreign subsidiaries was not undertaken as the Group's balance sheet is regarded as strong and able to absorb fluctuations in value arising from such exchange movements in underlying assets.

The effects of fluctuations in the relationship between the Swedish krona, sterling, the US dollar, and the euro (which tends to be the dominating currency for European steel selling prices) are complex. Variations in a specific direction will not always have a consistent effect on profitability, which can be affected by other related economic factors. For example, the Group's European competition is located in countries that have adopted the euro and, because of the weakness of the euro through most of 2000, these competitors have benefited from their improved competitiveness on exports from "euroland".

Approximately 50 per cent of the Group's net sales are to the eleven countries that were in the EMU from its introduction. However, a major part of the Group's operations are outside these countries. The continuing political uncertainty in the UK and Sweden regarding the possible date of entry of these countries into EMU, and their consequent timetable for introduction of the euro, continues to complicate the long-term planning of the Group's operations and its strategic direction. For those sales companies located in EMU countries, adoption of the euro has proceeded smoothly although the demand for euro based transactions has so far been limited.

Raw materials hedging

In those instances where the Group sells at fixed prices, it has sought to reduce its exposure to the potential volatility of nickel prices by using the forward price fixing mechanisms offered by the London Metal Exchange. At 31 December 2000, the Group held forward price contracts for the purchase of nickel totalling the equivalent of SEK 87 million (market value SEK 84 million).

Internal financial control and risk management

The Group has operated a system of internal control aimed at ensuring that the assets of the Group are safeguarded, business transactions authorised and recorded properly and any material errors and irregularities either prevented or detected within a timely period. However, no system of internal control can provide absolute assurance against material misstatement or loss.

The Board has determined the long-term strategy of the Group, the product sectors and markets in which the Group operates and the level of risk acceptable in each area of its business. Formal risk management, covering the management of strategic, commercial, operational and business risks, continued through the year.

To reduce its exposure to catastrophe losses, Avesta Sheffield uses insurance, most of which is arranged through a wholly owned subsidiary which reinsures catastrophe risks with the external insurance market.

Long Term Incentive scheme

On 25 May 1999 the Board of Avesta Sheffield launched a five year plan to incentivise the senior management of the Group using call options. To execute the inventive scheme, call options in underlying Avesta Sheffield shares were issued by British Steel plc (now renamed Corus UK Limited following the formation of the Corus Group plc). A total of 302,090 call options, out of a total number of call options on offer of 318,400, in Avesta Sheffield AB (publ) were acquired by 16 individuals. The call options had a maturity of three years and an exercise price of SEK 42.57.

As a result of the Combination with Outokumpu Steel Oyj, this incentive scheme is in the process of being cancelled.

The Board of Directors' procedures

For the financial year the Board consisted of six Board Members who were elected by the last Annual General meeting of shareholders. The Employees' Associations have appointed three Board Members and three deputy Board Members. The Board held fifteen meetings during the financial year. During the period, the Board's work increased because of the proposed merger with Outokumpu Steel. The Board adopted Rules of Procedure and Written Instructions on the allocation of the tasks between the Board and the President, and between the Board and the Board Committees, and on reporting processes. The Board has operated with two Board Committees, the Remuneration Committee and the Audit Committee. Apart from this no further general allocation of tasks has been made between Board members.

Remuneration Committee

The Remuneration Committeés task has been to define principles for the remuneration and other contract terms, including bonus and pension arrangements for the President and the members of the Executive Group, as well as other essential remuneration issues within the Group. The Remuneration Committee has reported to the Board on its actions and sought the Board's approval on major issues. The Remuneration Committee held two meetings during the financial year.

Audit Committee

The Audit Committeés task has been to review, in greater detail than was possible for the Board, the auditing work, internal controls, the scope of internal and external audits and the Group's risk management procedures. The Audit Committee has reported to the Board where final Board approval was required. The Audit Committee held two meetings during the financial year, and a final meeting of the Committee was held in February 2001.

Accounting policies

With effect from 1 January 2001, Avesta Sheffield AB will adopt the accounting policies to be applied by AvestaPolarit Oyj Abp. These will be based on Finnish Accounting Standards. Management expects that a reconciliation of the profit for the financial period and equity as reported by AvestaPolarit to International Accounting Standards (IAS) will show no material differences. However, it is not yet known how a new standard on recognition and measurement of financial instruments (IAS 39) will affect this reconciliation.

Dividend

The Board of Directors has decided to recommend that no dividend be paid in respect of the 2000 financial year. The Board of Directors of AvestaPolarit will separately decide about any dividend to be paid to shareholders of AvestaPolarit. Both of these recommendations are subject to approval at the respective Annual General Meetings of Avesta Sheffield AB and AvestaPolarit Oyj Abp, both to be held on 23 April 2001.

Shareholders Meeting

Prior to every Annual General Meeting of shareholders (AGM) the majority shareholder consults with the company's other major shareholders regarding proposals to the AGM, such as the election of board members, auditors and Board fees.

Change of the Year End

The AGM of Avesta Sheffield AB (publ) on 19 June 2000 adopted the calendar year as the financial year and that the financial year beginning 1 April 2000 was therefore shortened to end on 31 December 2000.

Income statement

		Group			Parent Company		
SEKm		**2000 Apr.–Dec.**	**1999 Apr.–Dec.**	**1999/2000 Apr.–March**	**2000 Apr.–Dec.**	**1999 Apr.–Dec.**	**1999/2000 Apr.–March**
Net sales	Note 2, 4	**14,871**	**10,814**	**16,093**	**6,730**	**4,504**	**6,838**
Change in inventories		48	883	1,089	–6	390	385
Own work capitalised		0	0	4	0	0	0
Other operating income		290	265	762	378	365	803
		15,209	**11,962**	**17,948**	**7,102**	**5,259**	**8,026**
Operating expenses	Note 3						
Raw materials and consumables		–7,580	–5,777	–8,631	–4,193	–2,938	–4,271
Other external costs		–4,069	–3,561	–4,830	–1,811	–1,551	–2,193
Personnel costs	Note 24	–2,156	–1,952	–2,672	–690	–598	–830
Depreciation and write–downs		–401	–367	–491	–179	–162	–224
Other operating expenses		–59	–5	–2	–12	0	0
		–14,265	**–11,662**	**–16,626**	**–6,885**	**–5,249**	**–7,518**
Share of result in associated companies		25	–26	–31	–	–	–
Operating result		**969**	**274**	**1,291**	**217**	**10**	**508**
Result from shares and participations in subsidiary companies	Note 5	–	–	–	27	29	29
Dividends on shares and participations in associated companies		–	–	–	5	7	7
Dividends on other shares and participations		0	0	10	0	0	9
Interest income and similar items	Note 6	80	22	45	78	30	60
Interest expenses and similar items		–189	–77	–140	–147	–61	–116
		–109	–55	–85	–37	5	–11
Result after financial items		**860**	**219**	**1,206**	**180**	**15**	**497**
Appropriations	Note 7	–	–	–	–242	0	–238
Tax on profit for the year	Note 8	–227	–54	–235	–17	0	7
Minority interests		–13	–1	–6	–	–	–
NET RESULT FOR THE YEAR		**620**	**164**	**965**	**–79**	**15**	**266**

Balance sheet

		Group			Parent Company		
ASSETS SEKm		**31.12.2000**	**31.12.1999**	**31.3.2000**	**31.12.2000**	**31.12.1999**	**31.3.2000**
Intangible assets	Note 9						
Goodwill		117	103	105	–	–	–
		117	**103**	**105**	**–**	**–**	**–**
Tangible assets	Note 9						
Land and buildings		919	935	929	283	303	303
Machinery		4,162	3,845	4 091	2,183	2,114	2,206
Equipment		111	194	195	13	99	99
Construction in progress and advance payments		505	440	220	267	167	63
		5,697	**5,414**	**5,435**	**2,746**	**2,683**	**2,671**
Financial assets							
Shares and participations in subsidiary companies	Note 10	–	–	–	2,638	2,605	2,606
Shares and participations in associated companies	Note 11	203	178	175	57	63	65
Other shares and participations		74	74	74	73	73	73
Receivables from subsidiary companies		–	–	–	1,459	1,456	1,459
Other receivables		214	64	73	114	0	1
		491	**316**	**322**	**4,341**	**4,197**	**4,204**
Total fixed assets		**6,305**	**5,833**	**5,862**	**7,087**	**6,880**	**6,875**
Inventories	Note 12	**4,687**	**4,369**	**4,427**	**1,489**	**1,520**	**1,407**
Current receivables							
Accounts receivable		3,637	3,355	4,039	285	304	436
Receivables from subsidiary companies		–	–	–	2,264	1,818	2,413
Receivables from associated companies		136	169	144	158	206	113
Other receivables	Note 13	252	334	495	167	71	327
Prepaid costs and accrued income	Note 14	170	152	151	24	22	12
		4,195	**4,010**	**4,829**	**2,898**	**2,421**	**3,301**
Short–term investments		**50**	**163**	**79**	**17**	**134**	**61**
Cash and bank		**429**	**237**	**481**	**44**	**7**	**1**
Total current assets		**9,361**	**8,779**	**9,816**	**4,448**	**4,082**	**4,770**
TOTAL ASSETS		**15,666**	**14,612**	**15,678**	**11,535**	**10,962**	**11,645**

Balance sheet

EQUITY AND LIABILITIES SEKm		Group 31.12.2000	Group 31.12.1999	Group 31.3.2000	Parent Company 31.12.2000	Parent Company 31.12.1999	Parent Company 31.3.2000
Equity	Note 15						
Restricted equity							
Share capital for 158,000,000 shares, each with a nominal value of SEK 10		1,580	1,580	1,580	1,580	1,580	1,580
Restricted reserves		5,191	4,957	5,028	1,782	1,782	1,782
		6,771	**6,537**	**6,608**	**3,362**	**3,362**	**3,362**
Non–restricted equity							
Non–restricted reserves		1,180	638	595	1,446	1,240	1,336
Net result for the year		620	164	965	–79	15	266
		1,800	**802**	**1,560**	**1,367**	**1,255**	**1,602**
Total equity		**8,571**	**7,339**	**8,168**	**4,729**	**4,617**	**4,964**
Minority interests		**74**	**61**	**66**	**–**	**–**	**–**
Untaxed reserves	Note 16	**–**	**–**	**–**	**2,643**	**2,162**	**2,400**
Provisions							
Provisions for pensions and similar commitments[1]		534	377	522	131	19	152
Provisions for deferred taxation		1,003	626	800	–	–	–
Other provisions	Note 17	193	413	235	40	213	46
Total provisions		**1,730**	**1,416**	**1,557**	**171**	**232**	**198**
Long–term liabilities	Note 18						
Bond loans		6	11	8	6	11	8
Liabilities to credit institutions	Note 19	1,705	1,327	2,203	1,316	1,094	1,726
Liabilities to subsidiary companies		–	–	–	35	43	43
Other liabilities interest-bearing		108	104	104	39	23	21
Other liabilities non interest-bearing		86	70	52	0	19	0
Total long-term liabilities		**1,905**	**1,512**	**2,367**	**1,396**	**1,190**	**1,798**
Current liabilities							
Accounts payable		1,673	1,907	2,098	681	653	673
Liabilities to subsidiary companies		–	–	–	1,295	962	940
Liabilities to associated companies		10	30	47	9	2	18
Liabilities to credit institutions		546	942	235	111	601	205
Other liabilities non interest-bearing	Note 20	277	478	357	59	26	19
Accrued costs and prepaid income	Note 21	880	927	783	441	517	430
Total current liabilities		3,386	**4,284**	**3,520**	**2,596**	**2,761**	**2,285**
TOTAL EQUITY AND LIABILITIES		**15,666**	**14,612**	**15,678**	**11,535**	**10,962**	**11,645**
Pledged assets	Note 22	**112**	**103**	**96**	**109**	**102**	**94**
Contingent liabilities	Note 23	**45**	**37**	**99**	**943**	**933**	**928**

[1]Proivisons include SEK 374 (333m at 31 December 1999 and 353m at 31 March 2000) of interest bearing pension liabilities.

Cash flow statement

	Group			Parent Company		
SEKm	**2000 Apr.–Dec.**	**1999 Apr.–Dec.**	**1999/2000 Apr.–March**	**2000 Apr.–Dec.**	**1999 Apr.–Dec.**	**1999/2000 Apr.–March**
Operating income and costs						
Result before appropriations and tax	860	219	1,206	180	15	497
Adjustments for non-cash items						
Depreciation and write-downs against earnings	401	368	491	184	162	224
Share of result in associated companies	–21	33	38	–	–	–
Change in pension prepayments and provisions	–50	–163	–206	–26	–79	–110
Others	24	38	–12	–4	–1	–1
Paid tax	–19	–12	–28	0	0	7
	1,195	**483**	**1,489**	**334**	**97**	**617**
Working capital						
Increase (–)/reduction (+) in inventories	–251	–1,278	–1,336	–82	–649	–535
Increase (–)/reduction (+) in interest-free receivables	628	–753	–1,529	473	–955	–1,675
Increase (+)/reduction (–) in interest-free liabilities	–441	646	560	314	159	–106
	–64	**–1,385**	**–2,305**	**705**	**–1,445**	**–2,316**
From operations	**1,131**	**–902**	**–816**	**1,039**	**–1,348**	**–1,699**
Fixed assets						
Investments in assets	–536	–278	–414	–262	–123	–173
Investment in shares	–1	–5	–6	–29	0	–50
Sale of assets	50	15	50	11	3	3
Sale of shares	0	0	0	0	0	46
Sale/acquisition of assets in businesses	–103	–135	–135	–	–	–
Increase (–)/reduction (+) in long-term receivables	–142	15	5	–112	4	3
	–732	**–388**	**–500**	**–392**	**–116**	**–171**
Cash flow	**399**	**–1,290**	**–1,316**	**647**	**–1,464**	**–1,870**
External financing						
Dividend	–316	–	–	–316	0	–
Group contributions	–	–	–	160	167	262
Increase (+)/reduction (–) in short-term interest-bearing liabilities	479	445	–98	–100	342	–49
Increase (+)/reduction (–) in long-term interest-bearing liabilities	–643	652	1,381	–392	766	1,390
	–480	**1,097**	**1,283**	**–648**	**1,275**	**1,603**
Change in the year in liquid assets	**–81**	**–193**	**–33**	**–1**	**–189**	**–267**
LIQUID ASSETS AT YEAR-END	**479**	**400**	**560**	**61**	**141**	**62**

Notes

NOTE 1 ACCOUNTING PRINCIPLES

The accounts have been prepared in accordance with the Annual Accounts Act (Årsredovisningslagen) and recommendations of the Swedish Accounting Standards Board (Bokföringsnämnden), the Swedish Financial Accounting Standards Council (Redovisningsrådet) and the Swedish Institute of Authorised Public Accountants (Föreningen Auktoriserade Revisorer). Avesta Sheffield's business operations comprise the manufacture and sale of stainless steel products, which constitutes a single and inseparable line of business.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements have been prepared in accordance with the recommendations of the Swedish Financial Accounting Standards Council (Redovisningsrådet).

The consolidated financial statements relate to Avesta Sheffield AB (publ) and to those companies in which the company directly or indirectly owns shares representing more than 50 per cent of the voting rights.

The consolidated financial statements were prepared using acquisition accounting, which means that the Parent Company's book-value of shares in subsidiary companies is eliminated against the subsidiary companies' equity including untaxed reserves less deferred tax. Only that part of the subsidiary company's equity which arose after the acquisition is thus included in Group equity.

Assets and liabilities of acquired companies are incorporated in the Group at market values. Where there is a difference between the acquisition price and the net value of the acquired assets and liabilities, including deferred tax, this is stated as goodwill. Excess value in fixed assets is depreciated in accordance with what is stated below under depreciation.

The equity accounting method has been used to report the interests in associated companies. According to this method, the book-value of shares, as stated in the consolidated balance sheet, changes by the amount of the Group's share in the net results of each associated company less any dividend payment made. In the consolidated income statement, the share in the result of associated companies refers to the Group's share of the associated companies' results before appropriations and tax. Interests in the tax reported by associated companies together with estimated taxes included in appropriations are included in the Group's tax.

In the Group, appropriations and untaxed reserves are allocated to equity and deferred tax. Deferred tax on temporary differences between reported values of assets less liabilities and their values for tax purposes is also allocated.

The profit or loss on sales of companies during the year is included in the income statement calculated at the time of their sale.

Inter-company profits in the inventories of Group companies are eliminated against unrestricted equity in the consolidated financial statements. These eliminations affect the operating result.

The minority interests in the equity of subsidiary companies are stated as a separate item between long-term liabilities and equity. This item also includes the minority interest in the equity element of untaxed reserves.

The current rate method is used to translate the income statements and balance sheets of foreign subsidiary companies into Swedish krona. All assets and liabilities in subsidiary company balance sheets are consequently translated at year-end rates, and all items in the income statements at average rates for the year. The translation differences arising are taken directly to equity.

RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCIES

Receivables and liabilities in foreign currencies are valued at the rate of exchange on the balance sheet date.

Those currency agreements that have been entered into, for the purpose of hedging purchasing and sales agreements already entered into, are valued according to the spot exchange rate at the financial year-end, adjusted for forward premiums accrued during the period.

INVENTORIES

Inventories are valued in accordance with the lower of cost and market principle. Raw materials are valued at the lower of the acquisition and replacement values, while manufactured products are valued at the lower of manufacturing cost and the sales value less selling costs. Appropriate provision has been made for the risk of obsolescence.

PROVISION FOR PENSIONS AND SIMILAR COMMITMENTS

Provisions were made in accordance with the regulations in each country. The Group operates a number of defined contribution and defined benefit plans throughout the world. The pension plans are generally funded by payments from the relevant Group companies and employees, taking account of the recommendations of independent qualified actuaries.

SEKm

Notes

NOTE 1 ***cont.***

PROVISIONS FOR DEFERRED TAXES

Deferred income tax is provided for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax receivables pertaining to so-called temporary differences and losses carried forward are recognised to the degree that these items could be offset against deferred tax liabilities in the same tax area.

The principal differences arise from depreciation on property, plant and equipment, revaluations of certain non-current assets, provisions for pensions and other post retirement benefits and tax losses carried forward.

In the balance sheet, the estimated liability to the tax authorities is reported as current. Deferred tax liabilities are reported as a provision. The tax expenses reported for the year included changes in deferred taxes and the tax on the share in earnings of associated companies.

OTHER PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

DEPRECIATION

Depreciation according to plan is based on the acquisition cost of the assets and the estimated economic life.

Machinery and equipment are classified for the calculation of depreciation in different groups, based on estimated economic life. The estimated economic life for the different types of assets has been summarised below:

	Economic life in years
Equipment	5–10
Machinery	15–20
Industrial and office buildings	25
Residential buildings	40
Land improvements	20
Goodwill	5–10

CLAIMS AND LITIGATION

Specific provision is made for claims where a judgement can be formed of the likely outcome. For other cases, a general provision is maintained.

ACCOUNTING FOR GROUP CONTRIBUTIONS

The Parent Company accounts were adapted to the statement by the Urgent Issues Committee of the Swedish Financial Accounting Standards Council regarding reporting of Group and shareholder contributions. Group contributions are reported based on the financial substance, mainly to minimise Group taxes. Accordingly, since Group contributions are not a consideration paid for services rendered, they are charged directly against retained earnings less their tax effect. Earnings and shareholders' equity in comparable years are adjusted to reflect this principle.

NOTE 2 NET SALES BY GEOGRAPHICAL AREA

Net sales allocated by geographical area:

	Group		Parent Company	
	2000 Apr.–Dec.	1999/2000 Apr.–March	2000 Apr.–Dec.	1999/2000 Apr.–March
Sweden	1,360	1,398	1,903	1,961
Norway	242	349	57	88
Denmark	589	580	155	159
Finland	609	546	306	266
Total Nordic area	**2,800**	**2,873**	**2,421**	**2,474**
United Kingdom	1,709	2,033	696	649
Germany	2,460	2,443	1,034	1,034
Italy	1,379	1,561	545	614
France	705	748	282	253
Netherlands	442	514	179	165
Austria	342	328	112	105
Switzerland	272	348	76	114
Belgium	257	309	63	85
Spain	341	424	157	183
Other European countries	694	627	123	120
Total Europe	**11,401**	**12,208**	**5,688**	**5,796**
USA	2,047	2,200	354	324
Canada	198	414	9	65
Total North America	**2,245**	**2,614**	**364**	**389**
Asia	863	899	511	501
Other countries	362	372	168	152
Total net sales	**14,871**	**16,093**	**6,730**	**6,838**

SEKm

NOTE 3 OPERATING EXPENSES

RESEARCH AND DEVELOPMENT WORK

The Group's costs for Research & Development were approximately SEK 75 million (103m) and in the Parent Company SEK 46 million (83m).

AUDITING EXPENSES

Auditing expenses in 1999/2000 can be specified as follows:

	Group		Parent Company	
	2000 Apr.–Dec.	1999/2000 Apr.–March	2000 Apr.–Dec.	1999/2000 Apr.–March
PricewaterhouseCoopers				
Auditing assignments	15	15	3	4
Other assignments	16	18	13	16
Other auditors				
Auditing assignments	1	1	0	0
Other assignments	0	0	0	0
Total	**32**	**34**	**16**	**20**

Other assignments undertaken by Procewaterhouse Coopers includes expenditure on systems development, review of risk management, taxation and acquisitions.

NOTE 4 PURCHASES FROM AND SALES TO GROUP COMPANIES

Purchases by the Parent Company from, and sales to Group Companies amounted to SEK 717 million (965m) and SEK 5,354 million (5,509m) respectively.

NOTE 5 RESULT FROM SHARES IN SUBSIDIARY COMPANIES

	Parent Company	
	2000 Apr.–Dec.	1999/2000 Apr.–March
Dividends	32	29
Write-downs	–5	0
Total	**27**	**29**

NOTE 6 INTEREST INCOME AND SIMILAR ITEMS

	Group		Parent Company	
	2000 Apr.–Dec.	1999/2000 Apr.–March	2000 Apr.–Dec.	1999/2000 Apr.–March
Interest income	80	43	78	60
Other	0	2	0	–
Total	**80**	**45**	**78**	**60**

NOTE 7 APPROPRIATIONS

	Parent Company	
	2000 Apr.–Dec.	1999/2000 Apr.–March
Tax allocation reserve	–15	0
Depreciation in excess of plan	–227	–238
Total	**–242**	**–238**

NOTE 8 TAX ON PROFIT FOR THE YEAR

	Group		Parent Company	
	2000 Apr.–Dec.	1999/2000 Apr.–March	2000 Apr.–Dec.	1999/2000 Apr.–March
Income tax	–38	–11	–17	7
Deferred taxes	–186	–222	–	–
Foreign tax	–12	–5	–	–
Share of tax in associated companies	9	3	–	–
Total	**–227**	**–235**	**–17**	**7**
Less minority interests in tax	0	0	–	–
Total	**–227**	**–235**	**–17**	**7**

In the consolidated financial statements, deferred taxes have been calculated on the basis of an average 28 per cent (28%) taxation.

SEKm

Notes

NOTE 9 INTANGIBLE AND TANGIBLE FIXED ASSETS

Group	Goodwill	**Total intangible fixed assets**	Land and buildings	Machinery	Equipment	Constructions in progress and advance payments	**Total tangible fixed assets**
Acquisition value brought forward 1.4.00	300	300	2,222	9,737	489	220	12,668
Investments	–	–	4	82	19	431	536
Sales/disposals	–	–	–47	–145	–11	–	–203
Sales/acquisitions of business	21	21	34	74	0	–	108
Reclassifications	0	0	7	276	–137	–146	0
Translation differences	9	9	57	175	13	0	245
Acquisition value carried forward 31.12.00	**330**	**330**	**2,277**	**10,199**	**373**	**505**	**13,354**
Depreciation brought forward 1.4.00	–195	–195	–1,220	–5,463	–294	–	–6,977
Depreciation for the year	–12	–12	–44	–319	–22	–	–385
Sales/disposals	0	0	19	139	10	–	168
Sales/acquisitions of businesses	–	–	–5	–29	0	–	–34
Reclassifications	0	0	0	–55	53	–	–2
Translation differences	–6	–6	–35	–123	–9	–	–167
Accumulated write-downs carried forward 31.12.00	**–213**	**–213**	**–1,285**	**–5,850**	**–262**	**–**	**–7,397**
Write-downs brought forward 1.4.00	–	–	–73	–183	–	–	–256
Write-down for the year	0	0	0	–4	0	0	–4
Accumulated write-downs carried forward 31.12.00	**–**	**–**	**–73**	**–187**	**–**	**–**	**–260**
Residual value according to plan carried forward 31.12.00	**117**	**117**	**919**	**4,162**	**111**	**505**	**5,697**
Book value in respect of land and buildings in Sweden			360				
Tax assessment value in respect of land and buildings in Sweden			474				

Parent Company	Land and buildings	Machinery	Equipment	Constructions in progress and advance payments	**Total tangible fixed assets**
Acquisition value brought forward 1.4.00	627	3,865	186	63	4,741
Investments	0	8	1	253	262
Sales/disposals	–7	–3	–2	0	–12
Reclassifications	1	187	–139	–49	0
Acquisition value carried forward 31.12.00	**621**	**4,057**	**46**	**267**	**4,991**
Depreciation brought forward 1.4.00	–324	–1,659	–87	–	–2,070
Depreciation for the year	–14	–161	–4	–	–179
Sales/disposals	0	2	2	–	4
Reclassifications	0	–56	56		0
Accumulated depreciation carried forward 31.12.00	**–338**	**–1,874**	**–33**	**0**	**–2,245**
Residual value according to plan carried forward 31.12.00	**283**	**2,183**	**13**	**267**	**2,746**
Tax assessment value in respect of land and buildings in Sweden	378				

SEKm

NOTE 10 SHARES AND PARTICIPATIONS IN SUBSIDIARY COMPANIES

Shares and participations in subsidiary companies	Parent Company 31.12.2000	31.3.2000
Acquisition value brought forward	2,958	2,961
Investments		
New capital stock issue	2	0
Shareholders contribution	0	43
Sale of subsidiary	0	–46
Acquisition of subsidiaries	30	
Acquisition value carried forward	2,990	2,958
Write-downs brought forward	–352	–352
Write-downs for the year	0	0
Accumulated write-downs carried forward	–352	–352
Book value at the end of the year	**2,638**	**2,606**

The following list comprises shares and participations in important subsidiary companies owned directly or indirectly by Avesta Sheffield AB. For subsidiary companies owned indirectly by Avesta Sheffield AB, the participation by the Group is stated. These subsidiary companies are shown indented below their respective parent companies.

Subsidiary Companies in Sweden	Organisation Number	Registered office/country	Share of equity %	No. of shares	Book value
Avesta Sheffield Information Systems AB	556208-0415	Västerås	100	5,000	1
Avesta Prefab AB	556232-8897	Avesta	100	80,000	10
Avesta Press Plate AB	556050-8839	Avesta	100	50,000	10
Avesta Sandvik Tube AB	556057-8592	Fagersta	75	450,000	120
Avesta Sheffield Precision Strip AB	556254-8478	Hedemora	100	2,000	6
Avesta Welding AB	556017-7866	Avesta	100	10,000	24
Avesta Sheffield Nordic AB	556069-1924	Eskilstuna	100	43,000	8
Billing Metal Trading AB	556232-8905	Eskilstuna	100	20,000	2
Avesta ABE AB	556051-6436	Örnsköldsvik	100	25,800	82
Calamo Nords AB	556068-3806	Molkom	100		
AB Örnsköldsviks Mekaniska Verkstad	556080-9625	Örnsköldsvik	100		
Visent Invest AB	556035-9076	Stockholm	100	40,000	5
Visenta Försäkringsaktiebolag	516401-8680	Stockholm	100	25,000	25
Smidesbolaget L. Persson AB	556099-8295	Degerfors	100	10,000	30
Other companies (dormant)					42
Total					**365**
Foreign Subsidiary Companies					
Avesta Sheffield A/S		Denmark	100	4,000	4
Avesta Sheffield A/S		Norway	100	5,000	8
Avesta Sheffield Holding GmbH		Germany	100	1 cert	40
Avesta Sheffield GmbH		Germany	100		
Avesta Sheffield GesmbH		Austria	100	1 cert	13
Avesta Sheffield Holding B.V.		Netherlands	100	900	29
Avesta Sheffield NAD Inc.		USA	100	2,000	100
Avesta Sheffield Inc.		USA	100		
Avesta Sheffield Plate Inc.		USA	100		
Avesta Sheffield Pipe Co.		USA	100		
Avesta Sheffield East Inc.		USA	100		
Avesta Sheffield Bar Co.		USA	100		
Energy Steel Products Corp.		USA	100		
Avesta Sheffield Holdings Ltd		UK	100	97	1,954
Avesta Sheffield Distribution Ltd		UK	100	16,000,000	14[1)]
Avesta Sheffield Ltd		UK	100		
Avesta Sheffield Precision Strip Ltd		UK	100		
Lee Steel Strip Ltd		UK	100		
Avesta Sheffield Oy		Finland	100	8,000	37
Avesta Sheffield S.A.		France	100	979,007	20
Avesta Sheffield S.A.		Spain	100	26,400	3
Avesta Sheffield SpA		Italy	100	3,000,000	37
Avesta Sheffield s.r.o.		Czech Republic	100	1 cert	1
Avesta Sheffield Ireland Ltd		Ireland	100	220,000	1
Avesta Sheffield Pty Ltd		Australia	100	5,002,500	3
Other companies (Belgium, Brazil, Poland, South Africa, Estonia, Lithuania, Russia, Hungary, Indonesia, etc)					9
Total					**2,273**
Total shares and other participations in Subsidiary Companies					**2,638**

[1)] Value of shares in subsubsidiary companies held directly by Avesta Sheffield AB.

A complete list of the company's shares and participations, as required by Swedish law, has been attached to the copy of the annual accounts submitted to the Swedish Patent and Registration Office (Patent- och Registreringsverket). This list can be obtained from the company on request.

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Notes

NOTE 11 SHARES AND PARTICIPATIONS IN ASSOCIATED COMPANIES

	Organisation Number	Registered office	Share of equity %	No. of shares	Book value in Parent Company	Book value in the Group 31.12.2000	Book value in the Group 31.3.2000
Fagersta Stainless AB	556051-6881	Fagersta	50	400,000	46	148	122
Smidesbolaget L Persson AB	556099-8295	Degerfors[1]	20	2,000	0	0	3
Avesta Valbruna AB	556124-5639	Karlstad	50	50,000	6	25	22
Avesta Sheffield Asia Pacific Ltd		Hong Kong	50	50	0	17	15
Recuperator Swedish Corporation	556549-4209	Gothenburg	40	400	1	0	1
IT Barents Region AS		Tromsö	40	4,000	4	2	4
Other companies					0	11	8
Total					**57**	**203**	**175**

The difference between the book value in the Parent Company of shares in associated companies and the Group's share of equity in associated companies is SEK 138 million (110m).

A complete list of the company's shares and participations, as required by Swedish law, has been attached to the copy of the annual accounts submitted to the Swedish Patent and Registration Office (Patent- och Registreringsverket). This list can be obtained from the company on request.

[1] On 2 May 2000, the Parent Company purchased the remaining 80 per cent of the equity.

NOTE 12 INVENTORIES

	Group		Parent Company	
	31.12.2000	31.3.2000	31.12.2000	31.3.2000
Raw materials and consumables	719	624	492	415
Work in progress	1,935	2,050	700	798
Finished products	2,033	1,753	297	194
Total	**4,687**	**4,427**	**1,489**	**1,407**

NOTE 13 OTHER RECEIVABLES

	Group		Parent Company	
	31.12.2000	31.3.2000	31.12.2000	31.3.2000
Income tax assets	10	20	–	–
VAT receivables	45	83	60	49
Advances to suppliers	1	1	–	–
Other	196	391	107	278
Total	**252**	**495**	**167**	**327**

NOTE 14 PREPAID COSTS AND ACCRUED INCOME

	Group		Parent Company	
	31.12.2000	31.3.2000	31.12.2000	31.3.2000
Prepaid pension costs	81	76	–	–
Accrued interest income	2	0	1	0
Prepaid costs for rents, fuels, electricity etc.	87	75	23	12
Total	**170**	**151**	**24**	**12**

NOTE 15 EQUITY

Group	Restricted equity	Non restr. equity	Total equity
Closing balance 31 March 1999	**6,184**	**931**	**7,115**
Translation differences	96	–8	88
Transfer between reserves	328	–328	0
Net result for the year	–	965	965
Closing balance 31 March 2000	**6,608**	**1,560**	**8,168**
Dividend	–	–316	–316
Translation differences	–129	228	99
Transfer between reserves	460	–460	0
Net result for the year	–	620	620
Closing balance 31 December 2000	**6,939**	**1,632**	**8,571**

Parent Company	Share capital	Legal reserve	Retained earnings	Total equity
Closing balance 31 March 1999	**1,580**	**1,782**	**1,074**	**4,436**
Group contribution	–	–	262	262
Net result for the year	–	–	266	266
Closing balance 31 March 2000	**1,580**	**1,782**	**1,602**	**4,964**
Dividend	–	–	–316	–316
Group contribution	–	–	160	160
Net result for the year	–	–	–79	–79
Closing balance 31 December 2000	**1,580**	**1,782**	**1,367**	**4,729**

Number of shares 31.3.00	158,000,000
Number of shares 31.12.00	158,000,000

NOTE 16 UNTAXED RESERVES

	Parent Company	
	31.12.2000	31.3.2000
Tax allocation reserve	705	690
Accumulated depreciation in excess of plan	1,938	1,710
Total	**2,643**	**2,400**

SEKm

NOTE 17 OTHER PROVISIONS

	Group		Parent Company	
	31.12.2000	31.3.2000	31.12.2000	31.3.2000
Provisions for rationalisation costs	143	184	9	15
Other	50	51	31	31
Total	**193**	**235**	**40**	**46**

The provisions for rationalisation costs at 31 December 2000 principally include provisions made in 1998/1999 for manning reductions and for costs (other than asset writedowns) associated with mothballing the Baltimore site.

NOTE 18 LONG-TERM LIABILITIES

The amount of long-term liabilities falling due after more than five years after the date of balance:

	Group		Parent Company	
	31.12.2000	31.3.2000	31.12.2000	31.3.2000
Liabilities to credit institutions	24	82	–	14
Other liabilities	188	95	114	80
Total	**212**	**177**	**114**	**94**

NOTE 19 LIABILITIES TO CREDIT INSTITUTIONS

The Group's liabilities to credit institutions include bank overdraft facilities, bank loans and other financial liabilities. Unutilised credit facilities for the Group were SEK 3,575 million, and for the Parent Company SEK 2,224 million.

Avesta Sheffield NAD, Inc. signed an agreement for a five year multicurrency committed credit facility of USD 70 million on 28 June 1996 (as amended 21 March 1997 and 30 June 1998) due 15 July 2001. The facility can be utilised by Avesta Sheffield NAD, Inc. and its US subsidiaries who jointly guarantee the amounts taken up. Avesta Sheffield AB guarantees the credit.

Avesta Sheffield AB signed an agreement for a five year multicurrency committed credit facility of EUR 300 million on 15 May 2000. The facility can be utilised by Avesta Sheffield AB and Avesta Sheffield Ltd., who jointly guarantee the amounts taken up. The agreement includes certain minimum requirements in relation to key numbers.

NOTE 20 OTHER LIABILITIES NON INTEREST-BEARING

	Group		Parent Company	
	31.12.2000	31.3.2000	31.12.2000	31.3.2000
VAT payables	34	150	0	0
Advance from customers	14	16	3	7
Income tax liabilities	37	14	17	0
Other	192	177	39	12
Total	**277**	**357**	**59**	**19**

NOTE 21 ACCRUED COSTS AND PREPAID INCOME

	Group		Parent Company	
	31.12.2000	31.3.2000	31.12.2000	31.3.2000
Holiday pay and other payroll provisions	203	225	97	98
Liabilities for tax on wages, etc. and social security	100	118	41	60
Accrued interest costs	9	4	8	4
Accrued costs for rents, fuels, electricity, etc.	568	436	295	268
Total	**880**	**783**	**441**	**430**

NOTE 22 PLEDGED ASSETS

	Group		Parent Company	
	31.12.2000	31.3.2000	31.12.2000	31.3.2000
Property mortgages	42	27	40	25
Floating charges	70	69	69	69
Total	**112**	**96**	**109**	**94**

SEK 109 million (94m) of the Group's pledged assets comprise collateral for liabilities to credit institutions and other interest-bearing liabilities.

SEK 109 million (94m) of the Parent Company's pledged assets comprise collateral for bond loans, liabilities to credit institutions and other interest-bearing liabilities.

NOTE 23 CONTINGENT LIABILITIES

	Group		Parent Company	
	31.12.2000	31.3.2000	31.12.2000	31.3.2000
Bills discounted	0	2	–	–
Guarantees and contingent liabilities on behalf of subsidiary companies	–	–	940	926
Other	45	97	3	2
Total	**45**	**99**	**943**	**928**

Within the Group there are also contingent liabilities in the ordinary course of business, e.g. in connection with contractual arrangements with suppliers and customers.

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Notes

NOTE 24 AVERAGE NUMBER OF EMPLOYEES, WAGES, SALARIES AND OTHER REMUNERATION

The average number of employees in the Group in 1999/2000 was 6,494 (6,354), of whom 2,059 (1,876) in the Parent Company, at the following sites:

	2000 Apr.–Dec.		1999/2000 Apr.–March	
	Number of employees	Of which men, %	Number of employees	Of which men, %
Parent Company				
Avesta	953	83	815	80
Degerfors	720	88	655	86
Eskilstuna	342	88	363	87
Stockholm	44	57	43	70
Total	**2,059**	**85**	**1,876**	**84**
Subsidiary Companies in Sweden				
Avesta	158	78	143	77
Eskilstuna	219	82	224	79
Fagersta	168	88	170	83
Hedemora	203	89	181	88
Karlstad	131	89	147	90
Storfors	61	92	70	91
Örnsköldsvik	284	91	289	90
Other municipalities	46	74	46	72
Total	**1,270**	**86**	**1,270**	**85**
Foreign Subsidiary Companies				
Denmark	29	66	30	63
Finland	138	83	137	83
Norway	32	72	38	74
Belgium	75	79	78	81
France	66	50	63	48
Netherlands	178	84	180	84
Italy	94	60	88	57
Spain	21	57	20	100
UK	1,737	91	1,672	91
Germany	159	81	181	74
Austria	52	65	53	66
Canada	43	93	115	83
USA	364	83	371	83
Australia	24	83	26	85
Other countries	153	76	156	71
Total	**3,165**	**85**	**3,208**	**84**
Group total	**6,494**	**85**	**6,354**	**84**

Cost for wages, salaries, other remuneration and social security:

	Group		Parent Company	
	2000 Apr.–Dec.	1999/2000 Apr.–March	2000 Apr.–Dec.	1999/2000 Apr.–March
Wages, salaries and other remuneration	1,641	2,102	473	602
Social security expenses	522	853	222	474
of which pension costs	228	463	96	318
Change in redundancy provisions	7	–283	5	–246

The breakdown of wages, salaries and other remuneration paid to its employees by the Group is shown below by country:

	Group	
	2000 Apr.–Dec.	1999/2000 Apr.–March
Sweden	739	942
Denmark	9	12
Finland	30	39
Norway	9	13
Belgium	15	21
France	16	21
Netherlands	40	60
Italy	20	25
Spain	5	8
UK	519	624
Germany	54	81
Austria	14	23
Canada	7	31
USA	144	170
Australia	5	10
Other countries	15	22
Group total	**1,641**	**2,102**

Costs for salaries and other remuneration to directors of boards, managing directors and deputy managing directors within the Group:

	2000 (April–December)	
	Salaries and other remuneration	of which bonus
Sweden	6	1
UK	3	0
Other European countries	19	2
North America	7	2
Other countries	1	0
Group total	**36**	**5**

A detailed analysis of salaries and other remuneration to directors of boards, managing directors and deputy managing directors in each individual country is considered to be detrimental to the operation of the Group.

The Group exercises different pension plans for the employees around the world, which follow the standard practices of the countries concerned. Most of the Group's pension plans are defined benefits plans and they are vested through insurance, provisions to pension funds or book reserves. The pension provisions are based on actuarial regulations and calculations in each country.

Of the Group's total pension costs, SEK 4 million (7m) pertains to Directors of the Board of Avesta Sheffield AB (publ), managing directors and deputy managing directors in the major companies within the Group. Of this amount SEK 1 million (2m) pertains to individuals who formerly held such positions. The Group's commitment pertaining to pensions and similar benefits for Directors of the Board of Avesta Sheffield AB (publ), managing directors and deputy managing directors in the major companies within the Group amounts to SEK 45 million (35m).

In accordance with a resolution passed by the Annual General Meeting, board fees totalling SEK 862,500 have been paid to the Company's Board of Directors, of which SEK 225,000 was paid to the Chairman. No other fees or bonus payments have been paid to the members of the Board. The President does not receive a board fee.

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In 2000 (April–December), the Chief Executive Officer and President of the Company received a salary of SEK 4,041,000 including bonus and retroactive remuneration for earlier period. The CEO also receives free accommodation and company car. The retirement age is 60 years of age and he will receive a pension of approximately 67 per cent of the pensionable earnings at full pensionable service (this equals approximately 40 per cent of his present salary). Should the Company serve notice, 24 months notice is given.

Certain key senior managers employed under Swedish conditions (at present 17 individuals) can, according to a pension plan adopted by the Board, retire at age of 60. Between the age of 60 and 65, the pension level is 70 per cent of the pensionable earnings up to a maximum of earnings equivalent to 50 Swedish base amounts at full pensionable service. Some of those defined individuals will receive an additional pension from age 65 of 32.5 per cent of pensionable earnings between 20 and 50 Swedish base amounts at full pensionable service. Pensions are earned gradually and will be paid in full after 10 years of pensionable service in an eligible position and only if the individual remains employed until the contracted pension age.

Retirement age for other company managers under Swedish conditions is 65 and the pension level follows the ITP pension scheme. Normal retirement age for managers under UK conditions is 65, and pensions are earned gradually and will be paid in full only after 35 years of pensionable service. Managers under UK conditions can retire with an immediate pension from the age of 60 with the consent of the Company, or from the age of 55 at the request of the Company. The pension will be approximately 67 per cent of the pensionable earnings at full pensionable service.

Notice, if served by the Company, is 12, 18 or 24 months for managers under Swedish conditions, according to age, and 12 or 18 months for managers under UK conditions. No severance payments are payable other than those mentioned above.

NOTE 25 LEASING

Assets leased by the Group as financial leases and therefore included in tangible fixed assets consist of:

Financial leases	**2000**	**1999/2000**
Land and buildings		
Acquisition value	32	32
Accumulated depreciation	–4	–3
Residual value according to plan	**28**	**29**

Future minimum lease payments for the Group as at 31 December 2000 are:

	Financial leases	**Operational leases**
2001	3	82
2002	3	46
2003	3	39
2004	3	33
2005	3	25
2006 and thereafter	17	73
Group total	**32**	**298**

Operational leasing costs for fixed assets totalled SEK 80 million.

NOTE 26 DISCLOSURES CONCERNING THE PARENT COMPANY

Corus Group plc (registered number 3811373 in London, UK) is the ultimate parent company in the Group where Avesta Sheffield AB is consolidated.

Copies of the Annual Report for Corus Group plc can be obtained on request from Corus Group plc, 15 Great Marlborough Street, London WIV 2BS, United Kingdom.

PROPOSED TREATMENT OF UNAPPROPRIATED EARNINGS

The non-restricted equity of the Group as stated in the consolidated balance sheet amounts to SEK 1,632 million. It is proposed that no transfer be made to restricted reserves. No dividend is proposed for the 2000 financial year. The Board and the President propose that the unappropriated earnings, SEK 1,367 million, at the disposal of the Annual General Meeting be allocated as retained earnings:

Stockholm, 30 March 2001

Tony Pedder
Chairman

Leif Axelsson ***Franswillem Briët*** ***Kent Källin*** ***Bernt Magnusson***
Deputy Chairman

Bjarne Rasmussen ***Jacob Palmstierna***

Stuart I. Pettifor
President

Our auditors' report was submitted on 30 March 2001

Öhrlings PricewaterhouseCoopers
Matts Edin
Authorised Public Accountant

Auditors' Report

To the Annual General Meeting of shareholders of
Avesta Sheffield AB (publ)
(Org. no. 556001-8748)

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Avesta Sheffield AB (publ) for the financial year 1 April 2000 to 31 December 2000. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any board member or the President. We also examined whether any board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and thereby, give a true and fair view of the company's and the Group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden.

We recommend to the General Meeting of shareholders that the income statements and the balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Directors' Report, and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Stockholm, 30 March 2001

Öhrlings PricewaterhouseCoopers
Matts Edin
Authorised Public Accountant

Outokumpu Steel Oyj
Annual Report 2000

49

Corporate review of the year / Directors' report

Outokumpu Steel Oyj and the Swedish company Avesta Sheffield AB (publ) joined forces on 22 January, 2001 and formed a leading stainless steel manufacturer AvestaPolarit. Outokumpu Steel Oyj changed its name on 24 January, 2001 to AvestaPolarit Oyj Abp and the company was listed on the Stockholm and Helsinki stock exchanges on 30 January, 2001.

These financial statements for AvestaPolarit cover the operations during 2000 of Outokumpu Steel Oyj only and for the sake of clarity the name Outokumpu Steel is therefore used throughout this report.

Avesta Sheffield published its financial statements earlier today. Avesta Sheffield's figures for 2000 were not consolidated with the AvestaPolarit Group since they will be consolidated with AvestaPolarit as of 22 January, 2001.

Outokumpu Steel performed excellently in 2000. Operating profit was almost five times the previous year's level, reaching EUR 246 million. Profit before extraordinary items was EUR 241 million.

AvestaPolarit's Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.15 per share be distributed for 2000. In drawing up the proposal for distribution of profit, the Board has considered Avesta Sheffield's financial performance during the 9 months financial year ended 31 December, 2000, in addition to Outokumpu Steel's financial performance.

Prices turned down

The growth rate of the world economy peaked in mid-2000 and then slowed down towards year-end. Economic growth for the year exceeded 4%. Both industrial production and industrial investment increased sharply. A period of slower growth began during the second half of the year in the United States, where more stringent monetary policy and rising oil prices curbed the robust growth that had continued for many years. Growth in Europe and Asia also slowed down during the second half of the year.

Demand and prices for metals rose considerably from the previous year and the overall metals market was better than average. Slower growth in the world economy towards the year end, however, had an adverse effect on the metals market, which had recovered during the first half of the year. Destocking by customers started in the second half of the year causing a decline in the price and demand of stainless steel. The prices of the key raw materials for stainless steel, nickel and ferrochrome, also began to decline markedly.

Consumption of stainless steel rose on the previous year by around 7% and the average conversion margins rose 46% despite a decline at year-end. The supply of stainless steel scrap increased substantially, putting a damper on the demand for ferrochrome, the price of which increased by 19%. The average price of nickel rose by 44% despite a final-quarter decline.

Sharp increase in net sales

Outokumpu Steel's net sales increased 51% from the previous year and amounted to EUR 1,177 million. Growth was mainly due to the price increases achieved for stainless steel and ferrochrome, while stainless steel and ferrochrome delivery volumes were slightly less than the previous year.

Net sales by business units

EUR million	2000	1999	Change, %
Outokumpu Chrome	106	95	11
Outokumpu Polarit	1,128	755	49
Ja-Ro	92	67	38
Parent Company	6	5	13
Intra-group sales	–155	–144	7
The Group	**1,177**	**778**	**51**

Among Outokumpu Steel's business units, the biggest increase in net sales was shown by Outokumpu Polarit, which handles stainless steel production. Both Outokumpu Chrome, which operates a chromium mine and ferrochrome smelter, and Ja-Ro, which processes stainless steel into tubes and fittings, also showed an increase in net sales. In addition to the company's stainless steel production in Tornio, Outokumpu Polarit's figures include a steel processing unit in the Netherlands, a service centre in Germany and a Finnish forwarding company.

Asian trade picked up during the year under review and the region's share of sales rose to 15%. Meanwhile, Europe's share of sales fell to 76%, while the North American share remained almost unchanged.

Stainless steel production went smoothly and production volumes rose beyond the record 1999 level.

Excellent financial performance

Outokumpu Steel's result was substantially better in 2000 than the previous year. Consolidated operating profit was nearly five times the previous year's figure, reaching EUR 246 million (1999: EUR 52 million). Operating profit was boosted primarily by the rises in stainless steel and ferrochrome prices and by the strengthening of the dollar.

Final-quarter profitability improved somewhat from the previous quarter and doubled compared with the same period in 1999. EUR 54 million in operating profit was generated in October-December.

Outokumpu Steel's profit before extraordinary items rose to EUR 241 million (1999: EUR 47 million). An amount of EUR 11 million due to changes in inventory valuation method was recorded under extraordinary income. The comparison figures in the “Corporate Review for the Year” have been restated to conform to the new accounting principle. The change is explained in more detail in the notes to the consolidated financial statements. Group contributions to Outokumpu Oyj of EUR 113 million have been entered under extraordinary expenses. The payment of Group contributions was as agreed in the Combination Agreement and disclosed in detail in the Prospectus for the Exchange Offer.

Profit for the financial year after Group contributions and taxes amounted to EUR 101 million (1999: a loss of EUR 17 million). Earnings per share were EUR 0.88 (1999: EUR 0.15) and the return on capital employed 33% (1999: 8%).

Financial position further improved

Outokumpu Steel's financial position improved significantly in the period under review as a consequence of good operational performance.

Key figures of financial position

EUR million	**2000**	**1999**
Net interest bearing debt		
Long-term loans	65	119
Current loans	64	38
Total loans	129	157
Cash, bank and marketable securities	–76	–28
Net interest bearing debt	53	129
– in relation to net sales (%)	4.5	16.6
Shareholders' equity	676	551
Debt-to-equity ratio (%)	7.9	23.8
Equity-to-assets ratio (%)	62.0	57.9
Cash provided by operating activities	218	73
Net financial expenses	–5	–5
– in relation to net sales (%)	0.4	0.6

Cash flow from operating activities showed a clear increase, reaching EUR 218 million (1999: EUR 73 million). The equity-to-assets ratio improved further and was 62% at year-end. Net interest-bearing debt declined on the previous year and amounted to EUR 53 million at year-end.

Investments proceed according to plan

Capital expenditure rose considerably on the previous year and amounted to EUR 84 million, or 7.1% of net sales. Maintenance investments accounted for about EUR 34 million of this.

The most significant investment project in 2000 was the construction of the new steel meltshop and the significant capacity expansions at the hot and cold rolling mills in Tornio (total cost EUR 680 million). The new production will come on stream gradually from 2002, and full annual capacity will be achieved by 2004. This investment will strengthen the position of the integrated production plant in Tornio as one of the most cost-efficient manufacturers of stainless steel.

Another important ongoing investment is the move to underground mining at the Kemi chromium mine (EUR 70 million). This investment will improve the efficiency and profitability of operations and make it possible to double the mine's output.

The investments in progress have proceeded according to plan.

Expenditure on research and development during 2000 amounted to EUR 7 million, or 0.6% of net sales (1999: EUR 8 million and 1.0%). R&D focused on developing processes and customer applications in ferrochrome, coil and tubular production, and in mining, and on improving quality.

Good results from new water treatment programme

During the Group's occupational safety campaign year 2000, various training sessions were held at different sites, and safety risks connected with working habits and the working environment were identified and eliminated. The number of accidents at Outokumpu Steel declined by 22% from the previous 5-year average.

The focused efforts to reduce emissions from production plants continued. Emissions exceeding the limits established in the Tornio water permit in 1999 were clearly reduced below those specified in the permit terms with a new water treatment programme. The neutralisation plant scheduled for completion in 2001 will ensure compliance with the permit terms.

The environmental system of the Kemi mine was certified during the year.

Personnel figures unchanged

During 2000, personnel development focused primarily on occupational safety and on the vocational expertise of young employees and experience-based learning. Incentive schemes for management and other employees were also developed further.

The number of employees remained at the 1999 level and totalled 2,438 at year-end.

Personnel by business unit

December 31	**2000**	**1999**
Outokumpu Chrome	307	315
Outokumpu Polarit	1,816	1,743
Ja-Ro	311	333
Parent Company	4	6
The Group	**2,438**	**2,397**

Most of the personnel, or 94%, were stationed in Finland at the end of the year. About 4% were stationed in the Netherlands and 2% in Germany.

Outokumpu Steel and Avesta Sheffield joined and formed AvestaPolarit

Outokumpu Steel and Avesta Sheffield joined forces in January 2001 and formed AvestaPolarit, a leading, focused and growth-oriented stainless steel company. The company is the world's second largest producer of stainless steel and has net sales of more than EUR 3 billion. It employs some 8,900 people and its key production plants are located in Finland, Sweden, Great Britain and the United States.

The combination was carried out with an Exchange Offer valid from 21 December, 2000 to 19 January, 2001 in which Avesta Sheffield shareholders were offered one Outokumpu Steel share for one Avesta Sheffield share. Shareholders representing 94.7% of the shares and voting rights approved the Exchange Offer during the initial acceptance period. This met the pre-condition set for the combination. After the end of an extended acceptance period, this figure went up to 98.6%. After the close of the Exchange Offer, Outokumpu owns 55.3% of AvestaPolarit's shares, while Corus owns 23.2%. Outokumpu has agreed to reduce its holding to 40% or less within three years.

Outokumpu Steel Oyj was renamed AvestaPolarit Oyj Abp on 24 January, 2001 and the share was listed on the Stockholm and Helsinki Exchanges on 30 January, 2001.

Difficult market situation at outset of 2001

A controlled slowdown in world economic growth is expected. Factors contributing to this trend are a more stringent monetary policy and declining share prices in the United States, which together will slow industrial production and reduce consumer demand. Economic development in the United States will affect the entire world economy. Economic growth in many Asian countries has already slowed down considerably. In Europe, the decline in growth will be more moderate than in the United States and Asia.

The consumption of stainless steel has remained good in the company's main market of Europe. The destocking of the excessive inventories held by stockists began after summer 2000 and led to a fall in demand and a reduction in price levels. The market situation is expected to stabilise and demand to pick up again during the second quarter. Over the long term, the growth rate of stainless steel demand is expected to remain strong, at an average of 5% per year.

The market situation for ferrochrome also deteriorated as a result of reduced production of stainless steel and the high availability of stainless steel scrap.

As far as AvestaPolarit's profit in the near future is concerned, the key factor will be the demand and price development for stainless steel in the next few months.

Key factors in financial performance over the longer term will be the successful integration of the AvestaPolarit combination, rapid initiation of the measures required to achieve identified synergies, and efficient realisation of decided investments.

Proposal by the Board of Directors for profit distribution

The objective of AvestaPolarit's Board of Directors is to maintain a dividend pay-out-ratio of a least 30% of net income over a business cycle. In drawing up its annual proposal for distribution of profit, the Board considers both the financial performance and the Group's investment and development needs.

Under the Exchange Offer, all new AvestaPolarit shareholders who accepted the Exchange Offer are entitled to a dividend as of the financial year 2000. The Board of Directors of Avesta Sheffield has proposed that Avesta Sheffield does not distribute a separate dividend for the 9 month financial period to 31 December, 2000.

In drawing up the proposal for profit distribution, AvestaPolarit's Board has considered the facts presented above together with the financial performance for the financial year ending on 31 December, 2000 for both Outokumpu Steel and Avesta Sheffield.

Outokumpu Steel's financial statements of 31 December, 2000 show that the Group's distributable funds total EUR 123 million and those of the Parent Company EUR 104 million.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.15 per share be distributed and that the remaining distributable funds be allocated to retained earnings.

Stockholm, 22 February, 2001

Jyrki Juusela	Anthony Pedder	Bernt Magnusson
Jacob Palmstierna	Timo Peltola	Stuart I. Pettifor
Juha Rantanen	Risto Virrankoski	Ossi Virolainen *President*

Consolidated income statement

Amounts in EUR thousand		2000	1999
Net sales	Note 1	1,177,342	777,778
Cost of sales	Note 2, 3	–876,929	–687,872
Gross margin		**300,413**	**89,906**
Selling and marketing expenses	Note 2, 3	–20,143	–18,166
Administrative expenses	Note 2, 3	–27,133	–25,064
Exploration, research and development expenses	Note 2, 3	–6,610	–7,598
Unusual items	Note 4	–	165
Other operating income and expenses	Note 5	–851	363
Operating profit		**245,676**	**39,606**
Financial income and expenses	Note 6	–4,762	–4,727
Profit before extraordinary items		**240,914**	**34,879**
Extraordinary items	Note 7	–101,964	–64,908
Profit/Loss before taxes		**138,950**	**–30,029**
Income taxes	Note 8	–37,555	4,796
PROFIT/LOSS FOR THE FINANCIAL YEAR		**101,395**	**–25,233**
Earnings per share (excluding extraordinary items), EUR		0.88	0.11
Earnings per share, EUR		0.53	–0.13
Average numbers of shares		193,111,110	193,111,110

The comparison figures in the consolidated income statement, balance sheet, cash flow statement and notes to the financial statements are based on the official financial statements. The comparison figures in other financial information have been restated to conform with the change in the inventory valuation principle.

Consolidated balance sheet

Amounts in EUR thousand

ASSETS		**31 Dec. 2000**	**31 Dec. 1999**
Fixed assets and other long-term investments	Note 9		
Intangible assets			
Intangible rigths		918	1,210
Other long-term expenses		3,533	3,492
		4,451	**4,702**
Property, plant and equipment			
Land		1,469	1,457
Mine properties		6	11
Buildings		127,542	134,542
Machinery and equipment		382,474	408,579
Other fixed assets		16,976	17,497
Construction in progress		51,106	8,860
Advances paid for fixed assets		10,255	890
		589,828	**571,836**
Long-term financial assets			
Investments in group companies		9,163	9,163
Other long-term equity investments		6,003	2,279
Other financial assets		–	164
		15,166	**11,606**
Total fixed assets and other long-term investments		**609,445**	**588,144**
Current assets			
Inventories			
Raw materials		28,249	28,251
Fuels and supplies		12,997	14,064
Finished goods		197,414	111,618
		238,660	**153,933**
Receivables			
Accounts receivable		136,175	122,442
Loans receivable		73,323	24,538
Prepaid expenses and accrued income	Note 10	22,342	15,560
Group contributions receivable		–	34,961
Other receivables		7,520	4,140
		239,360	**201,641**
Cash, banks and marketable securities		**2,935**	**3,007**
Total current assets		**480,955**	**358,581**
TOTAL ASSETS		**1,090,400**	**946,725**

Amounts in EUR thousand

SHAREHOLDERS' EQUITY AND LIABILITIES		31 Dec. 2000	31 Dec. 1999
Shareholders' equity	Note 11		
Share capital		104,280	102,595
Premium fund		211,914	179,519
Retained earnings		258,021	283,330
Net income for the year		101,395	-25,233
		675,610	**540,211**
Minority interest		**9,848**	**9,848**
Long-term liabilities			
Interest-bearing	Note 12		
Loans from financial institutions		741	580
Pension loans		3,722	4,295
Other long-term loans		60,293	113,705
		64,756	**118,580**
Non-interest-bearing			
Deferred tax liability	Note 13	99,661	106,172
Other long-term liabilities		43	21
		99,704	**106,193**
Current liabilities			
Interest-bearing			
Loans from financial institutions		3,307	2,514
Pension loans		573	573
Other current loans		60,790	34,958
		64,670	**38,045**
Non-interest-bearing			
Advances received		322	996
Accounts payable		91,767	82,752
Accrued expenses and prepaid income	Note 12	73,234	21,597
Group contributions payable		–	22,616
Other current liabilities		10,489	5,887
		175,812	**133,848**
Total liabilities		**404,942**	**396,666**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,090,400**	**946,725**

Consolidated cash flow statement

Amounts in EUR thousand	2000	1999
Operating activities		
Profit for the financial year	101,395	–25,233
Depreciation and amortization	60,522	58,553
Deferred taxes	–5,817	–5,922
Other adjustments[1]	1,144	1,043
	157,244	28,441
Change in working capital		
(Increase) decrease in inventories	–69,466	–10,140
(Increase) decrease in non-interest bearing receivables	–23,936	–50,890
Increase (decrease) in current non-interest-bearing liabilities	52,982	39,199
	–40,420	–21,831
Other adjustments[2]	101,380	66,324
Cash provided by operating activities	**218,204**	**72,934**
Investing activities		
Capital expenditure for purchase of fixed and intangible assets	–79,760	–36,241
Proceeds from sales of business operations and fixed and intangible assets	352	335
(Increase) decrease in other long-term financial assets	–3,724	–10
(Increase) decrease in working capital related to fixed assets	7,290	–7,416
Cash used in investing activities	**–75,842**	**–43,332**
Cash flow before financing activities	**142,362**	**29,602**
Financing activities		
Borrowings of long-term debt	152	13,793
Repayments of long-term debt	–5,700	–12,832
Decrease (increase) in current debt	–21,500	15,096
Dividends paid	–76	–178
Share issue	34,080	–
Group contributions	–100,455	–42,292
(Increase) decrease of current receivables	–150	397
Other financial items	–48,785	–1,431
Cash used in financing activities	**–142,434**	**–27,447**
Increase (decrease) in cash, bank and marketable securities[3]	**–72**	**2,155**
Adjustments	0	0
Increase (decrease) in cash, bank and marketable securities in the consolidated balance sheet	**–72**	**2,155**

[1]Includes i.a. gains and losses on sales of tangible and intangible assets.
[2]Includes i.a. group contributions, exchange gains and losses and the change in the accounting principles.
[3]Liquid assets include cash, bank and marketable securities.

Financial key indicators

FINANCIAL INDICATORS BY QUARTER[1)]

EUR MILLION	I/99	II/99	III/99	IV/99	I/00	II/00	III/00	IV/00
Net sales	183	191	182	222	300	320	264	293
Operating profit	3	15	8	26	59	83	50	54
Profit before extraordinary items	1	14	7	25	58	82	48	53
Earnings per share (excluding extraordinary items), EUR	0.00	0.05	0.02	0.08	0.29	0.42	0.02	0.15

[1)]The figures for 1998–1999 have been restated to reflect the change in inventory valuation principle. More specific information in Principles applied in the financial statements.

Definitions of the key financial indicators and share-specific data, as used by Avesta Sheffield and Outokumpu Steel in their respective reports are given on page 26.

AVERAGE METAL MARKET PRICES

		1996	1997	1998	1999	2000	Change, % 2000/1999
Stainless steel transaction price	EUR/kg	1.48	1.64	1.41	1.30	2.07	59.2
Stainless steel base price	EUR/kg	1.23	1.40	1.28	1.18	1.52	28.8
Stainless steel conversion margin	EUR/kg	0.84	0.93	0.83	0.74	1.08	45.9
Ferrochrome	USD/lb	0.51	0.46	0.45	0.36	0.43	19.4
(Cr-content)	EUR/kg	0.87	0.88	0.89	0.75	1.03	37.3
Nickel	USD/lb	3.40	3.14	2.09	2.73	3.92	43.6
	EUR/kg	5.79	6.04	4.15	5.65	9.35	65.5

Sources:
Stainless steel: CRU – German transaction and base prices and conversion margin (2 mm cold rolled 304 sheet); estimate of prices for deliveries during the period. CRU has revised stainless steel conversion margin according to its new accounting practise.
Ferrochrome: Metal Bulletin - lumpy Cr charge, basis 52% Cr, free market.
Nickel: London Metal Exchange (LME) cash quotations converted into USD/lb.

EURO EXCHANGE RATES

	Closing rates					Average rates	
	1996	1997	1998	1999	2000	1999	2000
USD	1.280	1.097	1.167	1.005	0.931	1.066	0.924
SEK	8.811	8.664	9.487	8.831	8.831	8.808	8.445
GBP	0.756	0.661	0.705	0.624	0.624	0.659	0.610

Exchange rates of 1999 and 2000 are quoted by the European Central Bank.
Exchange rates of 1996–1998 are based on corresponding Finnish Markka rates converted into euro rates at the fixed conversion rate, EUR 1=FIM 5.94573.

Notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

PRINCIPLES APPLIED IN THE FINANCIAL STATEMENTS

All Group companies apply uniform accounting standards based on the Finnish Accounting Act. The consolidation, valuation and accrual principles set out in these accounting standards comply with the United States Generally Accepted Accounting Principles (US GAAP) in all material respects. However, pension and other post-retirement benefits are treated in accordance with the local accounting principles of each individual group company.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements cover Parent Company Outokumpu Steel Oyj and its subsidiaries, i.e. companies in which Outokumpu Steel Oyj directly or indirectly holds more than 50% of the voting rights. The consolidated financial statements do not cover companies which became group companies after the combination of Outokumpu Steel and Avesta Sheffield as of January 22, 2001.

In addition to the above, the consolidated financial statements cover the German steel processing company, Outokumpu Service Center GmbH and its real estate holding company Outokumpu Holding GmbH & Co Grundstucks KG and their parent company Outokumpu Holding GmbH. Outokumpu Steel exerts significant influence in these companies even though they are not directly owned. The ownership of Outokumpu Service Center GmbH and Outokumpu Holding GmbH & Co Grundstucks KG was transferred to Outokumpu Steel at the beginning of 2000. The effect of these companies to the Group's shareholders' equity is considered to be insignificant.

Real estate companies and condominiums, which Group employees use for accommodation or recreation, are not consolidated. Their impact on the Group's earnings and shareholders' equity is insignificant.

The financial results of subsidiaries acquired or divested during the year are included in the consolidated statements from their acquisition up to their divestiture date. The figures for companies in which controlling interest is relinquished through stock alienation or other transfers during the accounting period are included in the consolidated statements until the date they lose subsidiary status.

The consolidated financial statements are a compilation of the Parent Company's and subsidiaries' income statements, balance sheets and notes to the financial statements. To facilitate inclusion in the consolidated accounts, the statutory accounts of individual Group companies records have, where necessary, been restated to comply with Outokumpu's uniform accounting standards.

Inter-company transactions and balances, inter-company profits, as well as dividends have been eliminated in consolidation.

In applying the acquisition cost method in accounting for acquisitions, the cost of acquiring shares in subsidiaries is allocated primarily to the fair values of the underlying assets and liabilities, and the remaining difference is carried as goodwill on consolidation and amortized over its useful life, generally not exceeding 5 years. Allocations to fixed assets are amortized according to the depreciation plan of the underlying asset.

Foreign exchange translation differences arising from the elimination of foreign shareholdings have been credited or charged to equity.

TRANSITION TO THE EURO

Outokumpu Steel adopted the euro as its accounting currency and as its new corporate base currency from the beginning of 1999. The exchange gains and losses arising from the transition were entered in the income statement in 1998. All previous years' figures have been converted to euros using the fixed conversion rate.

FOREIGN CURRENCY ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS

Foreign currency transactions during the year are recorded in the accounts at the exchange rate effective at the time of transaction. Receivables and liabilities in currencies, other than the euro are translated into the euro at the closing rate on the balance sheet date quoted by the Central Bank of Europe. Advances paid and received appear in the balance sheet at the exchange rate effective on the day of payment.

Since 1999, the Group has applied a new principle in income statement presentation of foreign exchange gains and losses. All exchange gains and losses attributable to transaction risk (currency receivables, loans and other contractual commercial items) as well as hedging against transaction risk, and exchange gains and losses arising from hedging the economic exposure (anticipated currency cash flows), are recorded as adjustments to net sales, costs and expenses. Only exchange gains and losses relating to financing are still recorded under financial income and expenses. Prior years' financial statements have not been restated to conform to the new income statement presentation principle.

Derivative financial instruments used as hedges against exchange rate risks are valued at the exchange rate or market rate on the balance sheet date. The interest component inherent is accrued as interest income or expenses, and exchange gains and losses are recorded under net sales, costs, expenses, financial income and expenses. Exchange gains and losses on loans and on derivative financial instruments used as hedges for off-balance-sheet items are, however, deferred until the underlying cash flow is recognized as income (hedge accounting). Deferred exchange gains and losses are presented as receivables in the balance sheet.

FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS

The balance sheet values of fixed assets are based on historical cost. Interest is capitalized on major investment projects.

Depreciation and amortization are based on historical cost and the estimated useful life of investments. Depreciation and amortization are calculated on a straight-line or declining-balance basis over the varying useful lives of assets depending on the nature of the subsidiary's operations. Estimated useful lives for various fixed asset classes are:

- intangible rights 5–10 years
- goodwill and goodwill on consolidation 5 years
- other long-term expenses 5–10 years
- buildings and structures 25–40 years
- machinery and equipment 5–20 years
- other tangible assets 4–40 years

Mine properties are amortized using the units-of-production method based on the depletion of ore reserves.

Long-term financial assets include financial investments and receivables intended to be held for over one year. Marketable securities are stated at the lower of cost or market.

INVENTORIES

As of 1 January 1998 purchased metals and metal raw materials are valued according to the LIFO (last in, first out) principle at the lower of cost or market. The change from the FIFO method to the LIFO method was made in accordance with US GAAP. The closing FIFO inventory on December 31, 1997 was used as the opening LIFO inventory on January 1, 1998. The figures for prior years have therefore not been restated. For other than metal part the inventories were valued using the FIFO (first in, first out) method at the lower of cost or market. The cost of inventories includes a proportionate share of overheads arising from the purchase and production of goods.

The inventory valuation method has been adjusted as of the beginning of 2000. The inventory valuation method of purchased metals and metal raw materials has been changed retrospectively to the FIFO method. The comparison figures for 1998 and 1999 presented in financial information, except the income statement, balance sheet, cash flow statement and notes presented in the official Consolidated Financial Statements, have been restated to reflect this change.

CASH, BANK AND MARKETABLE SECURITIES

Cash and cash equivalents include cash, funds held on call accounts and on deposit up to three months, as well as other funds equivalent to cash.

NET SALES

Net sales include revenue from goods sold less discounts and sales-related indirect taxes.

Revenue on goods sold is recognized at the time of delivery.

METAL PRICE HEDGING

Gains and losses on derivative financial instruments hedging against price risks are recognized simultaneously with the underlying transaction and reported as adjustment to the underlying sales and raw material purchases.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred.

UNUSUAL ITEMS

Non-recurring unusual items include material and exceptional transactions not relating to normal business activities, such as non-recurring income, expenses and provisions for sale, restructuring or discontinuation of business operations.

OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses include income and expenses generated in other than normal business activities, such as capital gains and losses on fixed assets, scrapping and rental income.

EXTRAORDINARY ITEMS

Extraordinary items include highly exceptional and significant transactions outside the Group's core business activities.

Also material cumulative effects on income arising from changes in accounting principles are included in extraordinary items.

The extraordinary items of group company financial statements also include group contributions paid or received.

CONTINGENT LOSSES

Provision is made for contingent losses which are almost certain to materialize in the future and the amount of which can be reasonably estimated. Depending on their nature, provisions are presented under long-term or short-term liabilities in the balance sheet.

PENSION PLANS

Costs for pension and post-retirement benefits are treated in accordance with the local accounting principles of each individual Group company.

Notes

Pension insurance has been organized for the Group's personnel in Finland. Also the additional pension benefits organized before through Outokumpu Oyj's pension trusts were transferred to an insurance company in 1999. These additional pension benefits were terminated in 1985. The assets of the pension trusts exceeded the existing pension liability.

Pensions in subsidiaries outside Finland have been arranged according to local practices. The pension liabilities of foreign subsidiaries are also covered.

UNTAXED RESERVES

The tax legislation of Finland and some other countries allows companies to transfer, as a premature expense, a part of pretax income into untaxed reserves in the balance sheet.

All allocations to untaxed reserves, including accumulated depreciation differences, are reversed on consolidation and recorded to equity after deferred tax provision. In the income statement, changes occurring in untaxed reserves during the fiscal year have correspondingly been divided into the accounting period result and change in deferred tax liability.

The Finnish Companies Act prescribes that untaxed reserves included under consolidated equity cannot be distributed as dividends to shareholders.

INCOME TAXES

Income taxes presented in the income statement consist of current and deferred taxes.

A deferred tax liability or asset has been determined for all temporary differences between taxation and the financial statements, using the tax rates effective for future periods. Deferred tax liabilities are recognized in the balance sheet in full, and deferred tax assets at their estimated realizable amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Amounts in EUR thousands (unless otherwise stated)

NOTE 1 NET SALES BY GEOGRAPHIC REGION, EUR MILLION[1]

	Group	
	2000	**1999**
Finland	116	67
Europe	783	567
North America	55	40
Asia	178	85
Other countries	45	19
Total	**1,177**	**778**

[1] Net sales are presented by destination.

NOTE 2 PERSONNEL EXPENSES

	Group	
	2000	**1999**
Board of Directors' and Managing Directors' fees and salaries	630	604
Other wages and salaries	83,604	78,830
Pension contributions	11,398	10,029
Other personnel expenses	17,592	10,061
Personnel expenses in the income statement	113,224	99,524
Average number of personnel	2,500	2,509
Personnel on 31 Dec.	2,438	2,397

NOTE 3 DEPRECIATION

	Group	
	2000	**1999**
Depreciation according to plan by group of asset		
Intangible rights	459	437
Other long-term expenses	789	651
Mine properties	5	5
Buildings	8,976	8,721
Machinery and equipment	49,434	47,912
Other fixed assets	859	827
Total	**60,522**	**58,553**
Depreciation according to plan by group of expenses		
Cost of sales	57,297	55,704
Selling and marketing expenses	164	149
Administrative expenses	2,014	1,727
Exploration, research and development	1,047	973
Total	**60,522**	**58,553**

NOTE 4 UNUSUAL ITEMS

	Group	
	2000	**1999**
Refund of actuarial surplus	–	165

NOTE 5 OTHER OPERATING INCOME AND EXPENSES

	Group 2000	Group 1999
Other operating income		
Gains on disposals of fixed assets	181	195
Other income items	1,367	1,503
	1,548	**1,698**
Other operating expenses		
Losses on disposals of fixed assets and scrapping	–2,166	–1,238
Other expense items	–233	–97
	–2,399	**–1,335**
Other operating income and expenses, total	**–851**	**363**

NOTE 6 FINANCIAL INCOME AND EXPENSES

	Group 2000	Group 1999
Income on other long-term investments		
From others	37	32
Other interest and financial income		
From companies in the same group	3,425	1,600
From others	230	98
Interest and other financial expenses		
To companies in the same group	–8,207	–6,075
To others[1)]	–247	–382
Total	**–4,762**	**–4,727**
[1)]Interest capitalized on investment projects during the year	321	–

NOTE 7 EXTRAORDINARY ITEMS

	Group 2000	Group 1999
Group contributions	–112,800	–64,908
Cumulative effect of the change in accounting principles		
Inventory valuation	15,262	–
of which deferred tax	–4,426	–
Total	**–101,964**	**–64,908**

NOTE 8 INCOME TAXES

	Group 2000	Group 1999
Current taxes		
Income taxes for the year	–43,372	–963
Tax adjustments for past years	–0	–162
	–43,372	–1,125
Deferred taxes	5,817	5,921
Total income taxes	**–37,555**	**4,796**

NOTE 9 FIXED ASSETS

	Historical cost on 1 Jan., 2000	Additions	Dispo-sitions	Accumulated depreciation on 1 Jan., 2000	Depreciat. of dispos. and transfers	Depreciation during period	Accumulated depreciation on 31 Dec., 2000	Carrying value on 31 Dec., 2000
Intangible assets								
Intangible rights	4,805.9	180.8	–32.3	–3,595.8	18.5	–458.7	–4,036.0	918.3
Other long-term expenses	12,348.1	829.4	–14.6	–8,855.8	14.6	–789.1	–9,630.4	3,532.5
Total	**17,154.0**	**1,010.1**	**–46.9**	**–12,451.6**	**33.1**	**–1,247.9**	**–13,666.4**	**4,450.8**
Property, plant and equipment								
Land	1,457.0	108.2	–95.9	–	–	–	–	1,469.3
Mine properties	740.8	–	–	–729.6	–	–4.7	–734.3	6.4
Buildings and constructions	219,106.5	1,899.4	–469.2	–84,564.5	546.1	–8,976.6	–92,995.0	127,541.7
Machinery and equipment[1)]	791,969.5	24,791.7	–10,717.4	–383,390.3	9,254.1	–49,434.0	–423,570.2	382,473.6
Other fixed assets	24,458.8	338.5	–	–6,961.8	–	–859.3	–7,821.0	16,976.2
Construction in progress	8,859.4	42,246.8	–	–	–	–	–	51,106.2
Advances paid for fixed assets	889.8	9,365.0	–	–	–	–	–	10,254.8
Total	**1,047,481.8**	**78,749.6**	**–11,282.5**	**–475,646.2**	**9,800.2**	**–59,274.6**	**–525,120.5**	**589,828.3**
Long-term financial assets								
Investments in group companies	9,162.6	–9,162.6	–	–	–	–	–	–
Other long-term equity investments	2,278.6	13,051.2	–164.5	–	–	–	–	15,165.4
Other financial assets	164.5	–	–164.5	–	–	–	–	–
Total	**11,605.7**	**3,888.6**	**–329.0**	**–**	**–**	**–**	**–**	**15,165.4**
TOTAL FIXED ASSETS	**1,076,241.5**	**83,648.3**	**–11,658.3**	**–488,097.8**	**9,833.3**	**–60,522.4**	**–538,786.9**	**609,444.6**

[1)]Of which machinery 1,000 EUR 379,067.5 (1999: 1,000 EUR 404,716.7).

Notes

NOTE 10 PREPAID EXPENSES AND ACCRUED INCOME

	Group	
	2000	**1999**
Value added taxes receivable	15,469	12,086
Accrued pension expenses	2,348	563
Accrued exchange gains	4,043	2,403
Other items	482	508
Total	**22,342**	**15,560**

NOTE 11 SHAREHOLDERS' EQUITY

	Group	
	2000	**1999**
Share capital		
Share capital on 1 Jan.	102,595	102,595
Registration of share capital	1,685	–
Share capital on 31 Dec.	104,280	102,595
Premium fund		
Premium fund on 1 Jan.	179,519	179,519
Bonus issue	–1,685	
Share premium	34,080	
Premium fund on 31 Dec.	211,914	179,519
Retained earnings		
Profit for prior years on 1 Jan.	258,097	283,508
Change in translation difference	–	–0
Other changes	–76	–178
Retained earnings on 31 Dec.	258,021	283,330
Net income for the year	101,395	–25,233
Total shareholders' equity on 31 Dec.	**675,610**	**540,211**
Distributable funds		
Retained earnings	258,021	283,330
Net income for the year	101,395	–25,233
Less untaxed reserves in shareholders' equity	–236,229	–251,821
Distributable funds on 31 Dec.	**123,187**	**6,276**

NOTE 12 LIABILITIES

	Group	
	2000	**1999**
Liabilities falling due after five years or later		
Loans from financial institutions	33	49
Pension loans	1,431	2,004
Total	**1,464**	**2,053**
Accrued expenses and prepaid income		
Value added taxes payable	1,199	457
Accrued employee related expenses	27,014	18,307
Income taxes payable	42,288	187
Accrued interest expenses	795	677
Accrued exchange losses	–	1,229
Other items	1,938	740
Total	**73,234**	**21,597**

NOTE 13 DEFERRED TAXES

	Group	
	2000	**1999**
Deferred tax assets	3,147	1,663
Depreciation and amortisation of fixed assets	–96,488	–102,855
Valuation of inventory	–8,216	–1,613
Other items	–3,173	–3,316
Net deferred tax liability	**–104,730**	**106,121**
Deferred tax in the consolidated balance sheet		
Long-term deferred tax assets	–	165
Current deferred tax assets	–	40
Long-term deferred tax liabilities	–99,661	–106,172
Current deferred tax liabilities	–5,069	–154
Net deferred tax liability	**–104,730**	**–106,121**

NOTE 14 OTHER NOTES

	Group 2000	1999
Receivables from and payables to other Outokumpu group companies		
Accounts receivable	4,603	5,772
Loans receivable	73,323	24,538
Prepaid expenses and accrued income	4,299	2,472
Group contributions receivable	–	34,961
Other receivables	4,445	888
Accounts payable	19,339	29,236
Accrued expenses and prepaid income	1,901	1,987
Group contributions payable	–	22,616
Other current payables	3,131	2,690
Current loans	60,667	34,862
Long-term loans	60,095	113,474
Commitments and contingent liabilities		
Pledges on 31 Dec.		
Mortgages		
To secure own borrowings[1]	6,021	6,021
Collective mortgages held by Outokumpu Oyj[2]	152,042	152,042
Total	**158,063**	**158,063**
Guarantees on 31 Dec.		
On behalf of group companies		
For financing	3,068	2,045
On behalf of others	4,206	4,174
Total	**7,274**	**6,219**
Minimum future lease payments on operating leases on Dec. 31		
2000	–	3,301
2001	3,317	2,185
2002	2,229	1,888
2003	1,792	759
2004	534	628
2005	409	–
Total	**8,281**	**8,761**
Total commitments and contingent liabilities	**173,618**	**173,043**

[1]The mortgages are given to secure pension loans of 1,000 EUR 4,294.

[2]1,000 EUR 17,693 (1999: 1,000 EUR 21,394) of the collective mortgages held by Outokumpu Oyj are to secure liabilities outside the Outokumpu Group.

Unrealized exchange gains of 1,000 EUR 1,632 (1999: 1,000 EUR 2,238) related to derivate transactions made for hedging off-balance sheet commitments are not recorded in the income statement. The deferred exchange gains and losses are presented in prepaid expenses and acrrued income in the balance sheet.

OUTPUT OF MAIN PRODUCTS

Tonnes	2000	1999
Outokumpu Chrome		
Ore milled (million)	1.3	1.2
Ferrochrome	260,600	256,300
Outokumpu Polarit		
Steel slabs	636,300	567,900
Cold rolling mill production:		
Cold rolled products	421,700	403,300
White hot strip	135,000	128,300
JA-RO		
Tubes and tube fittings	32,100	28,400

CHROME ORE RESERVES

The Kemi mine is one of the most significant chrome deposits in the world and its reserves will last for years to come. The mine's proved and probable ore reserves are some 70 million tonnes. In addition almost 150 million tonnes of mineral resources have been located.

OPEN DERIVATE INSTRUMENTS

EUR million	Fair value 31 Dec., 2000	Contract amounts 31 Dec., 2000	31 Dec., 1999
Financial derivatives			
Forward foreign exchange contracts	3	190	192
Metal derivatives[1]			
Forward and futures nickel contracts	0	612	216

[1]Contract amounts of base metal in tonnes.

The derivative transactions have been made for hedging purposes. The fair value of derivatives indicates the result of those transactions if the deals would have been closed at the balance sheet date. The realized gains and losses of derivative instruments are recorded in the income statement primarily according to hedge accounting principle, i.e. against the underlying transaction. All of the above derivative transactions have been made with Outokumpu Oyj.

Parent Company income statement

Amounts in EUR thousands		2000	1999
Net sales		5,938	5,232
Administrative expenses	Note 1, 2	–6,403	–5,178
Research and development expenses		–85	–97
Other operating income and expenses	Note 3	–20	–8
Operating loss		**–570**	**–51**
Financial income and expenses	Note 4	–9	114
Loss/Profit before extraordinary items		**–579**	**63**
Extraordinary items	Note 5	145,595	–94
Profit/Loss before taxes		**145,016**	**–31**
Appropriations	Note 6		
Change of depreciation difference		69	27
Income taxes	Note 7	–42,068	–0
PROFIT/LOSS FOR THE FINANCIAL YEAR		**103,017**	**–4**

Parent Company balance sheet

Amounts in EUR thousands			
ASSETS		**31 Dec. 2000**	**31 Dec. 1999**
Fixed assets and other long-term investments	Note 8		
Intangible assets			
Intangible rights		–	16
Other long-term expenses		17	23
		17	**39**
Property, plant and equipment			
Land		–	96
Buildings		–	738
Machinery and equipment		78	122
Other tangible assets		15	15
		93	**971**
Long-term financial assets			
Investments in group companies		313,796	279,716
Other long-term financial assets		3,914	25
		317,710	**279,741**
Total fixed assets and other long-term investments		**317,820**	**280,751**
Current assets			
Receivables			
Accounts receivable		66	60
Loans receivable		3,246	3,735
Prepaid expenses and accrued income		500	42
Group contributions receivable		145,275	70,688
Other receivables		–	10
		149,087	**74,535**
Cash and bank		**–**	**52**
Total current assets		**149,087**	**74,587**
TOTAL ASSETS		**466,907**	**355,338**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity	Note 9		
Share capital		104,280	102,595
Premium fund		211,914	179,519
Retained earnings		1,182	1,186
Net income for the year		103,017	–4
		420,393	**283,296**
Untaxed reserves			
Accumulated depreciation difference	Note 6	30	99
		30	**99**
Current liabilities	Note 10		
Non-interest-bearing			
Advances received		–	52
Accounts payable		2,722	156
Accrued expenses and prepaid income		43,762	121
Group contributions payable		–	71 614
		46,484	**71 943**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**466,907**	**355,338**

Parent Company cash flow statement

Amounts in EUR thousands	2000	1999
Operating activities		
Income financing		
Profit for the financial year	103,017	–4
Depreciation and amortization	50	69
Change of depreciation difference	–69	–27
	102,998	**38**
Change in working capital		
Increase (–), decrease (+) in current receivables	–454	8
Increase (+), decrease (–) in current non-interest-bearing liabilities	41,907	–42
	41,453	**–34**
Other adjustments[1)]	–145,574	102
Cash provided by operating activities	**–1,123**	**106**
Investing activities		
Capital expenditurs for fixed and intangible assets	–51	–2
Proceeds from sales of fixed and intangible assets	880	–
Change in working capital related to fixed assets	4,247	–10
Increase in long-term financial assets	–37,969	–
Cash used in investing activities	**–32,893**	**–12**
Cash flow before financing activities	**–34,016**	**94**
Financing activities		
Dividends paid	–	–108
Share issue	34,080	–
Group contributions	–606	–471
Decrease in short-term loans receivable	490	447
Cash used in financing activities	**33,964**	**–132**
INCREASE (+), DECREASE (–) IN CASH, BANK AND MARKETABLE SECURITIES	**–52**	**–38**

[1)]Includes Group contributions

Notes to the Parent Company financial statements

NOTE 1 PERSONNEL EXPENSES

	Parent Company 2000	1999
Board of Director's and Managing Director's fees and salaries	60	120
Other wages and salaries	305	270
Pension contributions	77	85
Other personnel expenses	29	29
Personnel expenses in the income statement	471	504
Number of personnel		
31 Dec.	4	6
Average	5	6

NOTE 2 DEPRECIATION

	Parent Company 2000	1999
Depreciation according to plan by group of asset		
Intangible rights	2	3
Other long-term expenses	12	11
Buildings	27	31
Machinery and equipment	9	24
Total	**50**	**69**

Depreciation and amortization is based on historical cost and the estimated useful life of investments. The estimated useful lives and methods used in calculating the depreciations by group of asset are:

Intangible rights	5–10 years straight-line
Other long-term expenses	5 years straight-line
Buildings	10–25 years declining-balance
Machinery and equipment	5–10 years declining-balance

	Parent Company 2000	1999
Depreciation according to plan by group of expenses		
Administration expenses	50	69

NOTE 3 OTHER OPERATING INCOME AND EXPENSES

	Parent Company 2000	1999
Other operating income		
Gains on disposals of tangible assets	6	–
Total	**6**	**–**
Other operating expenses		
Losses on disposals of fixed assets and scrapping	–26	–8
Total	**–26**	**–8**
Other operating income and expenses, total	**–20**	**–8**

NOTE 4 FINANCIAL INCOME AND EXPENSES

	Parent Company 2000	1999
Other interest and financial income		
From Group companies	136	115
Interest and other financial expenses		
To other Group companies	–1	–1
To others	–144	–
Total	**–9**	**114**

NOTE 5 EXTRAORDINARY ITEMS

	Parent Company 2000	1999
Group contributions received	258,395	68,102
Group contributions granted	–112,800	–68,196
Total	**145,595**	**–94**

NOTE 6 APPROPRIATIONS

	Parent Company 2000	1999
Increase (–), decrease (+) in depreciation difference in the income statement		
Intangible rights	–4	–1
Other long-term expenses	–10	–9
Buildings	–9	–0
Machinery and equipment	–46	–17
Total	**–69**	**–27**
Accumulated depreciation difference in the balance sheet		
Intangible rights	–	4
Other long-term expenses	10	19
Buildings	–	10
Machinery and equipment	20	66
Total	**30**	**99**

NOTE 7 INCOME TAXES

	Parent Company 2000	1999
Current taxes		
Income taxes for the year	–42,068	–
Tax adjustments for past years	–0	–0
Total	**–42,068**	**–0**

Notes – Parent Company

NOTE 8 FIXED ASSETS

1,000 EUR	Historical cost 1 Jan., 2000	Additions	Dispo-sitions	Accumulated depreciation 1 Jan., 2000	Depreciation of dispositions and transfers	Depreciation during period	Accumulated depreciation 31 Dec., 2000	Carrying value 31 Dec., 2000
Intangible assets								
Intangible rights	32	–	–32	–16	18	–2	–	–
Other long-term expenses	69	7	–15	–46	15	–12	–43	17
Total	**101**	**7**	**–47**	**–62**	**33**	**–14**	**–43**	**17**
Property, plant and equipment								
Land	96	–	–96	–	–	–	–	–
Buildings	1,241	–	–1,241	–503	531	–27	–	–
Machinery and equipment	232	44	–156	–110	76	–9	–42	78
Other tangible assets	15	–	–	–	–	–	–	15
Total	**1,584**	**44**	**–1,493**	**–613**	**607**	**–36**	**–42**	**93**
Long-term financial assets								
Investments in group companies	279,716	34,080	–	–	–	–	–	313,796
Other financial assets	25	3,889	–	–	–	–	–	3,914
Total	**279,742**	**37,969**	**–**	**–**	**–**	**–**	**–**	**317,710**
Total fixed assets	**281,426**	**38,020**	**–1,540**	**–675**	**640**	**–50**	**–85**	**317,820**

Shares and shareholdings, 31 Dec., 2000

Company name and domicile	Holding %	Number of shares
Subsidiaries		
Outokumpu Chrome Oy, Tornio	100%	14 000 000
Outokumpu Polarit Oy, Tornio	100%	42 000 000
Kandelinin Seuraajat Oy, Tornio	100%	40 920
Outokumpu Steel Processing B.V., Westdorpe	100%	40
Oy JA-RO Ab, Jakobstad	100%	320 000
Other shares and stock		
Tornion Golf Oy, Tornio		6

NOTE 9 SHAREHOLDERS' EQUITY

	Parent Company 2000	1999
Share capital		
Share capital on 1 Jan.	102,595	102,595
Bonus issue	1,685	–
Share capital on 31 Dec.	**104,280**	**102,595**
Premium fund		
Premium fund on 1 Jan.	179,519	179,519
Bonus issue	–1,685	
Share premium	34,080	
Premium fund on 31 Dec.	**211,914**	**179,519**
Retained earnings		
Retained earnings on Dec 31, 2000	1,182	1,294
Dividends	–	–108
Retained earnings on 31 Dec., 2000	**1,182**	**1,186**
Net income for the year	**103,017**	**–4**
Total shareholders' equity on 31 Dec., 2000	**420,393**	**283,296**

NOTE 9 *cont.*

	Parent Company 2000	1999
Distributable funds		
Retained earnings	1,182	1,186
Net income for the year	103,017	–4
Distributable funds on 31 Dec.	**104,199**	**1,182**

NOTE 10 LIABILITIES

	Parent Company 2000	1999
Accrued expenses and prepaid income		
Accrued employee-related expenses	98	98
Value added taxes payable	–	23
Income taxes payable	42,068	–
Other	1,596	–
Total	**43,762**	**121**

Receivables from and liabilities to group companies

	Parent Company 2000	1999
Current receivables		
Short-term loans	3,245	3,735
Accounts receivable	66	60
Prepaid expenses and accrued income	12	8
Group contributions	145,275	70,688
Current liabilities		
Accounts payable	2,512	139
Accured expenses and prepaid income	1,053	–
Group contributions	–	71,614

Shareholders and administration

Shares and shareholders

On 31 December 2000 Outokumpu Oyj was the sole owner of Outokumpu Steel Oyj (AvestaPolarit Oyj Abp as of 24 January 2001) and Outokumpu Steel Oyj the Parent Company of Outokumpu Steel Group. At year-end, the share capital of Outokumpu Steel Oyj consisted of 193,111,111 shares with each share having an accounting par value of EUR 0.54.

The share of AvestaPolarit was listed on the Stockholm and Helsinki Exchanges on 30 January 2001.

Outokumpu owns some 55 per cent of the shares but has agreed to reduce its holding to 40% or less by 31 March 2004. Where there are material adverse capital market conditions, this reduction may be postponed until 31 December 2005.

Board of Directors as of 22 January 2001

Jyrki Juusela, chairman
Anthony Pedder, deputy chairman
Bernt Magnusson
Jacob Palmstierna
John L. Rennocks (until 31 January 2001)
Timo Peltola
Juha Rantanen
Risto Virrankoski
Ossi Virolainen
Stuart I. Pettifor

Board of Directors until 22 January 2001

Jyrki Juusela, chairman
Ossi Virolainen, deputy chairman as of 17 March 2000, previously member
Antti Närhi, deputy chairman until 17 March 2000, member thereafter
Risto Virrankoski
Juho Mäkinen (until 17 March 2000)
Matti Rantamaula (until 4 March 2000)
Pekka Erkkilä (until 17 March 2000)
Niilo Suutala (until 17 March 2000)

President

Mr Matti Rantamaula acted as President until 4 March 2000. Mr Antti Närhi took over as President after Matti Rantamaula past away. He continued until 22 January 2001 when Mr Ossi Virolainen was nominated President of AvestaPolarit as of the combination of Outokumpu Steel and Avesta Sheffield.

Auditors

Outokumpu Steel's auditor has been the Authorized Public Accountant firm SVH Pricewaterhouse Coopers Oy, Finland, with auditor-in-charge Pekka Nikula, APA. As of the combination of Outokumpu Steel and Avesta Sheffield on 22 January 2001 the auditor-in-charge of AvestaPolarit Oyj Abp is Markku Marjomaa, APA.

Auditors' report

To the shareholders of AvestaPolarit Oyj Abp

We have audited the accounting, the financial statements and the corporate governance of AvestaPolarit Oyj Abp (former Outokumpu Steel Oyj) for the period 1.1. - 31.12.2000. 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 President and CEO. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit 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 corporate governance is to examine that the members of the Board of Directors and the President and CEO have legally complied with the rules of the Companies' Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations as well as of the financial position. The financial statements with the consolidated financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the distributable assets is in compliance with the Companies' Act.

Espoo, 23 February 2001

SVH Pricewaterhouse Coopers Oy
Authorised Public Accountants

Markku Marjomaa
Authorised Public Accountant

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Annual General Meeting

The Annual General Meeting of shareholders of Avesta-Polarit Oyj Abp will be held at the Head Office of Outokumpu Oyj, at Riihitontuntie 7 B, FIN-02200 Espoo, Finland at 3.00 p.m. on Monday, 23 April 2001.

Registration for attendance and distribution of voting slips will begin at 2.00 p.m.

Right to attend the Annual General Meeting

In order to attend the Annual General Meeting, shareholders must be registered in the Shareholders' Register of the Company, maintained by the Finnish Central Securities Depository Ltd. (Suomen Arvopaperikeskus Oy) (the "APK"), on 12 April 2001. Shareholders who own their shares through a nominee shareholder must contact their bank or broker to be temporarily recorded in the Shareholders' Register in their own name. Accordingly, also those shareholders whose shareholdings are registered with the Swedish Central Securities Depository and Clearing Organisation (VPC AB) (the "VPC") should request temporary registration with the APK by delivering a specific VPC form to the VPC. The form is available at the Company's Corporate Management offices both at Linnoitustie 4 A, FIN-02600 Espoo, Finland and Vasagatan 8 – 10, SE-10327 Stockholm, Sweden. These forms will also be sent to shareholders upon request. To allow sufficient time for the temporary registration the VPC form must be delivered to the VPC by 4.00 p.m. Swedish time on 5 April 2001, at the latest.

In order to attend the Annual General Meeting, shareholders must also notify the Company of their intention to do so by telephone to +358-16-454290, by fax to +358-16-453190, by letter addressed to AvestaPolarit Oyj Abp, FIN-95400 Tornio, Finland, by e-mail to agm@avestapolarit.com or at AvestaPolarit's website at www.avestapolarit.com. The notification must be received by the Company by 4.00 p.m. Finnish time on 18 April 2001, at the latest.

Dividends

The Board of Directors is proposing a dividend of EUR 0.15 per share. The dividend will be paid to the shareholders who are registered in the Shareholders' Register of the Company maintained by the APK or who are registered with the VPC on the record date 26 April 2001. The dividend is proposed to be paid in euros to those shareholders registered with the APK and in Swedish krona to those registered with the VPC. Payment of the dividend is proposed to be effected as of 9 May 2001.

INFORMATION MEETING FOR SHAREHOLDERS IN STOCKHOLM ON 25 APRIL 2001

Shareholders who will not be in a position to attend the Annual General Meeting in Espoo, Finland, will have an opportunity to take part in an information meeting in Stockholm, Sweden, which will be attended by senior Company management. The information meeting will include a briefing on the Annual General Meeting agenda issues and resolutions and a presentation by the Chief Executive Officer.

The information meeting will be held at Gårda Konferens, Hallonbergsplan 5, SE-17407 Sundbyberg on 25 April 2001 beginning at 5.00 p.m. Swedish time. Shareholders who wish to attend this meeting are requested to confirm their participation no later than on 18 April 2001 by telephone to +46-8-6133648, by fax to +46-8-6134401 or by e-mail to inger.waern@avestapolarit.com

FINANCIAL INFORMATION

- Quarterly reports:
  7 May 2001, 2 August 2001 and 31 October 2001.

Financial reports

Financial reports and a copy of the President and CEO's address to the Annual General Meeting can be obtained from:

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Telefax: +46 (0)8 20 84 81
The information is also available on the Internet:
www.avestapolarit.com

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