# Annual Report 2004

OUTOKUMPU

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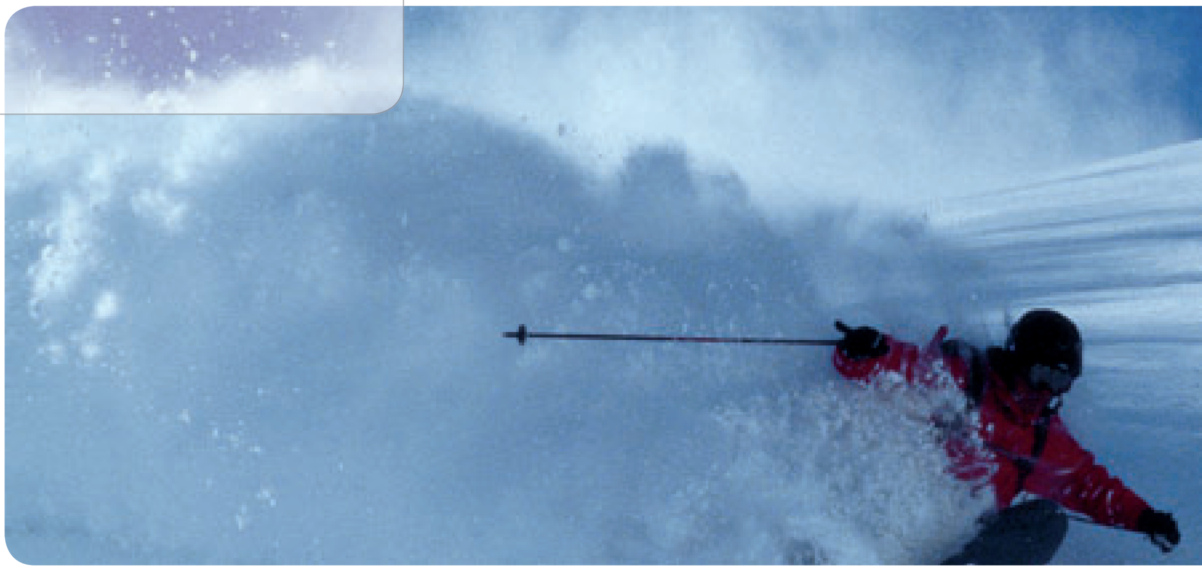
Consolidated financial statements presented in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS). Outokumpu started to apply IFRS in its third-quarter interim report, which was published on October 26, 2004. Prior to IFRS, Outokumpu's financial reporting was based on Finnish Accounting Standards (FAS). Outokumpu's date of transition to IFRS was January 1, 2003.

Accounting principles applied in the IFRS financial statements are presented on pages 60–64. In graphs and tables, data for the years 2003–2004 are presented according to IFRS and for prior years according to FAS.

All figures in the annual report have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

# Vision and strategic direction



## We are aiming to be the undisputed number one in stainless steel.

### Vision and strategic objectives

Outokumpu is an international stainless steel and technology company. Outokumpu's vision is to be the undisputed number one in stainless steel, with success based on operational excellence. To this end, Outokumpu has defined two key strategic objectives:

- Value creation through building superior production and distribution capabilities in all major markets around the world
- Value realization through commercial and production excellence

Outokumpu has started work to map out the path toward realizing this vision. Today, our priority is to deliver on the promises we made during the previous strategic phase of growth and transformation in 2000–2004. At the same time, we are setting ambitious new targets for the coming five-year period to make sure we emerge as the number one stainless steel producer in Europe.

Outokumpu's future success will be achieved by building and reinforcing operational excellence, both in the commercial and production arena. This operational excellence will be leveraged outside Europe to achieve global leadership: becoming the undisputed number one in stainless steel over the next ten years. In the light of Outokumpu's target of continuing to grow faster than the market, the operational excellence efforts will be supported by further development of the Group's current asset base, value chain and product offering.

## Being the undisputed number one in stainless means:

- **Most profitable**
- **Best in customer relationship management**
- **Most efficient production operations**
- **Most attractive employer**

### Financial objectives

Outokumpu's overall financial objective is to generate maximum sustainable economic value added. The specific group-level financial objectives in line with the vision of becoming the number one in stainless steel in terms of growth, profitability and financial strength are:

- To continue growing faster than the market
- A return on capital employed of over 13% and always the best among peers
- Gearing below 75%

### Dividend policy

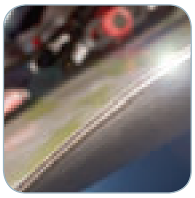
The Board of Directors has established a dividend policy according to which the dividend payout ratio over a business cycle should be at least one-third of the company's net profit for the period. In its annual dividend proposal, the Board will, in addition to financial results, take into consideration the Group's investment and development needs.

## Outokumpu's key strengths

**Produces stainless steel, the fastest-growing segment of the metals market**

**A major investment program for future earnings growth almost completed**

**Added value through knowledge in metals technology and innovations**



# Outokumpu business operations and market position

Outokumpu is an international stainless steel and technology company. Customers in a wide range of industries use our metal products, technologies and services worldwide. We are dedicated to helping our customers gain competitive advantage. We call this promise the Outokumpu factor.

Outokumpu operates in some 40 countries and employs 19 500 people. In 2004, the Group's sales amounted to EUR 7.1 billion, of which 95% was generated outside Finland.

In 2004, Outokumpu's operations were organized into three strategic entities: Stainless, Copper and Technology.

In August 2004, Outokumpu announced that its future strategic direction is based on leadership in stainless steel, and that various options to exit the fabricated copper products business will be explored. The divestment process of Outokumpu Copper is underway.

## Stainless

### Main products and customers

Main products are cold and hot rolled stainless steel coil, sheet and plate. Other products include precision strip, hot rolled plate, long products as well as tubes and fittings. These products are mainly used in process industries, such as pulp, paper and chemicals and the offshore oil industry, catering and households, vehicle manufacture and the building and construction industry.

### Market position

- World market size 24 million tonnes or some EUR 42 billion. During the last ten years, consumption has grown by almost 7% per annum
- One of the world's largest and most cost-efficient producers
- Slab capacity will increase to 2.75 million tonnes and the capacity for cold rolled material and white hot strip to 1.9 million tonnes when the major investment at Tornio comes fully on stream
- 25% share of the stainless steel coil market in Europe and 8% worldwide
- Main markets are Europe (70% of sales), Asia (17%) as well as North and South America (11%)

### Production facilities

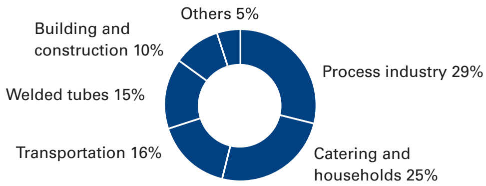
Main production facilities are located in Finland, Sweden, Britain and the US.

### Raw materials and energy

Stainless steel and carbon steel scrap, ferrochrome and nickel are the main raw materials. Outokumpu operates its own chrome mine at Kemi and a ferrochrome smelter at Tornio, both in Finland. Stainless steel and carbon steel scrap, part of ferrochrome and nickel are purchased on the open market.

Electric energy accounts for some 4% of total costs. The Group's single largest consumer of electric energy is the Tornio ferrochrome smelter.

**End-uses**




Source: CRU. Includes cold and hot rolled products in Western world.

### Major producers

| Estimated slab capacity Million tonnes | Slabs 2004 | Slabs 2006 |
|---|---|---|
| Arcelor, Luxemburg | 3.15 | 2.82 |
| ThyssenKrupp, Germany | 2.88 | 2.88 |
| Outokumpu, Finland | 2.60 | 2.75 |
| Acerinox, Spain | 2.33 | 2.43 |
| POSCO, South Korea | 2.00 | 2.00 |

Source: CRU and Outokumpu.

# Copper

## Main products and customers

Main products include ACR tubes, heat transfer coils and components used in air-conditioning applications, radiator strips used in the automotive industry, sanitary tubes and roofing and architectural products used in the building and construction industry, copper tubes, strips and connectors used in the electronics and communication industry, alloy wire and superconducting wire used in the electrical industry as well as welding electrodes. In addition, brass rod products are manufactured.

## Market position

- World market size 20 million tonnes, of which the market served by Outokumpu 6 million tonnes or EUR 20 billion. Demand growth 2–3% per annum; for special products 5–10%
- The only global manufacturer of higher value-added products with production in the US, Europe and Asia
- Delivery capacity 600 000 tonnes, over 10% share of the selected markets
- Main markets are Europe (44% of sales), North and South America (38%) as well as Asia (17%)

## Production facilities

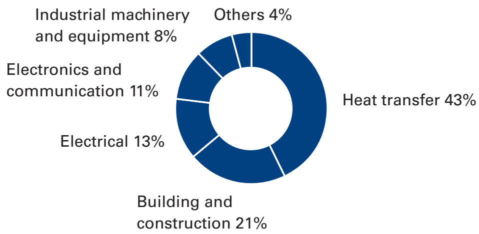
Production facilities are located in the Netherlands, Belgium, Britain, Spain, Italy, Austria, China, Malaysia, Mexico, France, Sweden, Finland, Thailand, the Czech Republic and the US.

## Raw materials and energy

Cathode copper, copper scrap and alloy elements, such as zinc and tin are used as raw materials. Raw materials are purchased on the open market.

Electric energy accounts for some 2% of total costs.

**Outokumpu customer groups**




## Major producers

| Estimated delivery capacity 1 000 tonnes | |
|---|---|
| SMI (KME), Italy | 800 |
| Outokumpu, Finland | 600 |
| Wieland-Werke, Germany | 500 |
| Poongsan, South Korea | 450 |
| Olin, the US | 370 |
| Mueller Industries, the US | 320 |

Source: Outokumpu.

# Technology

## Main products and customers

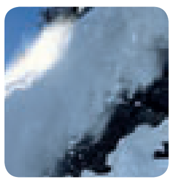
Outokumpu Technology designs and delivers plants, processes and equipment tailored for each customer's needs, and provides engineering, project and support services globally. Customers are producers of metals and industrial minerals as well as companies in chemical and other process industries.

## Market position

- Solid experience in the whole production chain of metals as a strength
- Market leader in many technologies
- Extensive R&D resources
- Competitors are either engineering companies or equipment manufacturers
- Main markets are Asia (36% of sales), North and South America (20%), Europe (18%) as well as Australia and Oceania (17%)

## Operations

Competence centers in Finland, Germany, Sweden, North and South America, Australia as well as Russia. Sales and service centers in altogether 16 countries.



# Statement by CEO Rantanen

For Outokumpu, the year 2004 was significant in several ways. In late August the Board decided on the new strategy for the Group with the ambition of becoming the global leader in stainless steel. To this end, we also started to study alternatives to exit the fabricated copper products business. The decision to focus on stainless is based on good global growth prospects for the business and our already strong competitive position. We have also decided to continue developing the technology business as part of Outokumpu. The market for our technology offering is clearly improving, and our target is to benefit from our strong position.

We have made progress in ramping up the new Tornio capacity and the share of finished products in total deliveries is increasing. Together with favorable market conditions and better product mix, this resulted in a significant improvement in profitability in 2004. Actually Outokumpu recorded the highest ever profit in the company's history. Some of our key targets were not yet reached, however. For example, gearing is still higher than the target of 75%. But I have every reason to believe that with continued good profits, tight working capital management and the divestiture of Outokumpu Copper we will reach our goal.

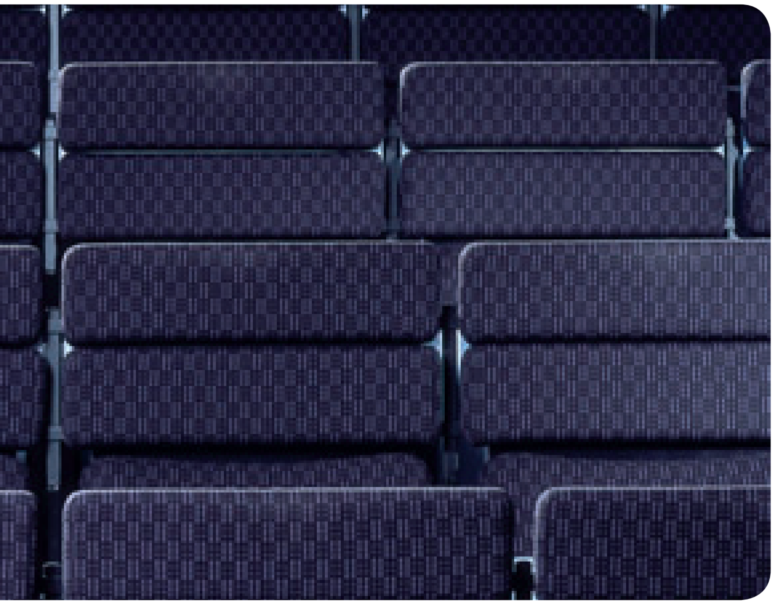
I was very pleased to start as the new CEO at the beginning of January, 2005. My first months at the helm of the company have confirmed my belief that Outokumpu is very well positioned to succeed also in the future.

Our vision – to be the undisputed number one in stainless with success based on operational excellence – is bold, ambitious and inspiring. Number one does not necessarily mean being the largest in volume but rather being the best in the industry in terms of financial performance, managing customer relationships and as an employer.

Our future success in stainless will be based on operational excellence. On the commercial side, operational excellence is about achieving the best customer satisfaction in the industry. We will focus on improving our skills and capabilities in the commercial teams as well as improving our service offering and product development to meet customer needs. As regards production, operational excellence will improve safety, efficiency and productivity, thus reducing variances in our performance and lowering costs. This will be achieved by applying a common methodology across our sites.

We will be launching the commercial and operational excellence programs in early April this year. These programs, aimed at improving our performance and ways of working, will involve personnel throughout the organization and will require learning new skills and competences. It is a massive training exercise and thus results cannot be expected soon. However, over the longer term I am convinced that the programs will form a sound platform for our global expansion and also yield great financial benefits.

Our financial targets have been modified to reflect the new vision. The new profitability target of reaching over 13% return on capital employed every year and to be consistently the best among peers follows the vision – the undisputed number one. I regard the new financial targets as demanding but achievable, especially once the Tornio expansion is up and running and the operational excellence efforts start delivering the expected financial returns.



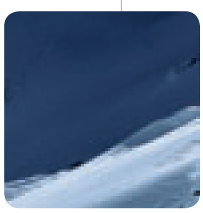
Our vision is ambitious and inspiring. We have an exciting journey ahead.

The new organizational structure also supports the new vision. The Executive Committee focuses on running the stainless business directly, and we have strengthened the functional leadership in the top team. The leaders of our commercial and production operations will have a key role in driving the operational excellence efforts together with the business units.

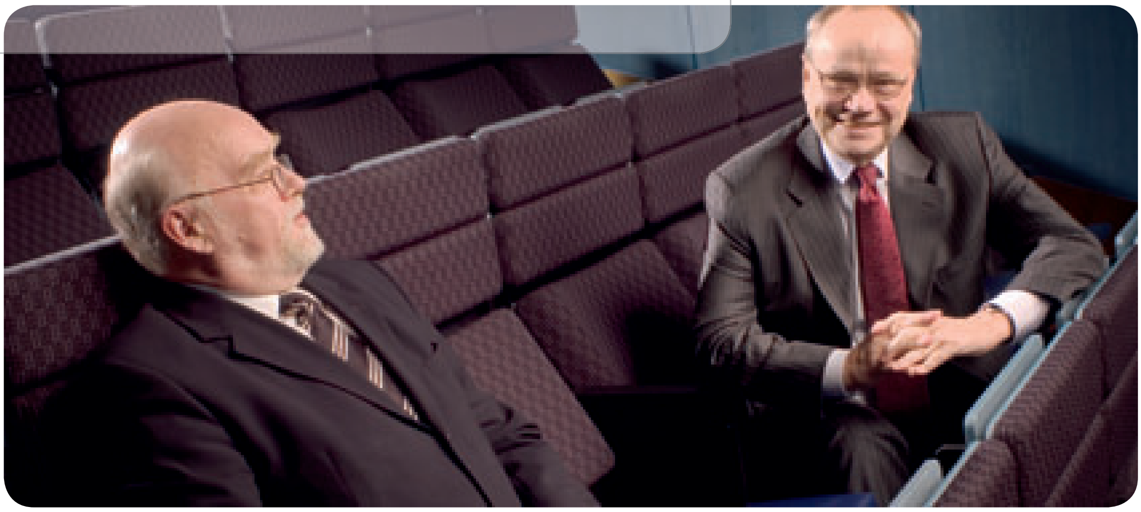
The business outlook for the first half of 2005 remains healthy. Although the base price of stainless steel has softened somewhat, global capacity utilization rates are expected to stay high in 2005, providing a supportive background for prices and margins. This year we will complete the ramp-up of the Tornio expansion and our profitability should continue to improve through higher volumes, better product mix and lower unit conversion costs. For the first half of this year, we estimate that the Group's operating profit, excluding non-recurring items, will be at least at the level of the corresponding period in 2004.

I see for myself an exciting journey ahead in leading Outokumpu toward the new vision. I also want to thank Jyrki Juusela for leading the company very successfully and leaving the company well positioned for me to continue.

Juha Rantanen
CEO



# Interview with Juusela and Virrankoski



CEO Jyrki Juusela, who retired at the end of 2004, and his colleague, Deputy CEO Risto Virrankoski, who retired in February 2005, agree that a lot has happened to Outokumpu during its transformation from being a mining company to become a Group with a focus on stainless steel and technology. There's been no let-up in the pace, and some pitfalls have been encountered here and there.

### What was the initial situation like when Juusela took over as CEO in 1992?

**Juusela:** When I took over as CEO, the company was in a serious and difficult situation. The balance sheet was in bad shape, especially after a string of acquisitions.

**Virrankoski:** What's more, just like other businesses, we were in the grips of a deep recession. We suffered record losses and our shareholders' equity was nearly eaten up. That's how bad it was at the outset. But we managed to ride out the slump, put the balance sheet in better shape and get the company turning a profit. Once we had achieved this, a wide-ranging study was then launched in 1996 to determine the direction the Group would take to achieve future growth.

**Juusela:** We arrived at a decision toward the end of 1997. We concentrated our efforts on metals and technology, with a clear focus on stainless steel. It was easy to set our bearings on this course, because history and especially the future market outlook spoke in favor of stainless steel.

### Was it hard to get out of mining?

**Juusela:** Making the decision wasn't difficult at all. It's clear to me that a medium-sized mining company, like Outokumpu was, can't succeed. In the mining business you have to be either small and flexible, or else have the necessary size.

**Virrankoski:** A big factor that slowed down acting on the decision, however, was that Outokumpu has its roots in the mining business. Without mining, there wouldn't be any Outokumpu. This "mindset debt" held us back for too long, but ultimately we made the decision. Taking our time didn't result in big financial losses, and we were able to exit the mining business on reasonable terms.

**Juusela:** For me, selling the nickel and zinc businesses were difficult decisions, because a lot of top management's know-how was bound up with them. But once those decisions had been taken, it was management's job to concentrate on new things.

**Virrankoski:** The divestiture of all of Outokumpu's traditional businesses was mentally taxing, even though we knew that the funds that were freed up would be put to good use. We weren't just selling ore, machinery and buildings, but Outokumpu people. We always tried to make sure that the divested businesses ended up with an owner to whom they were even more important than to Outokumpu. It's always good to be a core business.

### Was there anything that should have been done differently?

**Juusela:** I don't want to speculate. Even with the benefit of hindsight, I wouldn't do anything differently now, only a bit faster.

**Virrankoski:** On balance, I don't regret anything. There's always a time and place factor for everything.

### What do you look back upon with the most pleasure?

**Virrankoski:** I recall at least two things, one big and one small. The big matter was the settlement that was reached in 1988 in Outokumpu Oy's pensions dispute. I was listening to the news in my car one evening when the announcer said: "It appears that an amicable settlement will be reached in Outokumpu's three-year long pensions dispute." That brought tears to my eyes. The other thing happened a few years ago when, quite surprisingly, we were able after all to continue the Hitura mining operations that had already been put on the block. There was a good feeling for a number of days when I was able to tell the employees about this surprising turn of events. More than a hundred people were able to keep their jobs. These people have lived up to the requirements of that decision and have made profits.

**Juusela:** For my part, I've always appreciated the way Outokumpu people are eager to tackle something new. They have belief in the future and in their abilities.

### What was Outokumpu like as a place to work?

**Juusela:** Outokumpu was very good as a workplace. There weren't any cliques. Rather, fairness and equality were the norm. There was often a lot of discussion when arriving at a decision, but once the decision had been made, there was no more arguing, but instead, everybody set to work.

**Virrankoski:** Outokumpu has been a very tolerant company that also made room for dissidents. This is probably due to the fact that the company places a high value on innovation. Big ideas are permitted.

### International investors got interested in Outokumpu in the mid-1990s. What is your experience of this?

**Juusela:** What I've seen of investor circles, I like. Managing our investor relations has been a dialogue in which management has also been able to put questions to investors. I've learned a lot from these discussions.

**Virrankoski:** My experiences are maybe a bit spottier. There are different kinds of investors, and their expectations can be conflicting. It's of the utmost importance that the company's management ultimately acts as it sees fit in the company's best interests. If this isn't enough, the shareholders can change the management.

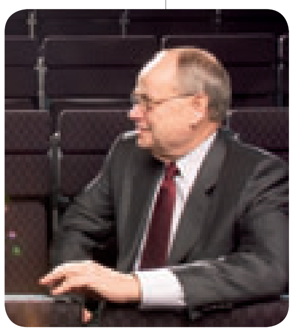
### What kind of message would you like to send?

**Virrankoski:** Outokumpu is a leading company in its own sector. It's been in business as an independent company for nearly a century now under its own name. Outokumpu's business is nevertheless subject to risk factors, but the company has demonstrated its ability to remake itself and to keep risks in check. The new management's starting point is, at least substantively, far better than when Jyrki took over. This poses the challenge of turning good into even better.

**Juusela:** I remember saying just that back in 1992 – Outokumpu is a great company.

The new management faces the challenge of turning good into even better.

Risto Virrankoski



Jyrki Juusela

# Management discussion on the financial results and strategy

World economic growth accelerated in 2004, and metal prices rose strongly. Demand for Outokumpu's products was healthy, led by the revival in industrial investments, but growth nevertheless slowed down toward the end of the year. The conversion margins for stainless steel and copper products, which have an impact on Outokumpu's earnings, developed much more moderately than raw material prices did. The conversion margins for stainless steel rose by 5% while the conversion margins for copper products declined.

The Group's sales were up 20% on the previous year, to EUR 7 136 million. The growth was attributable to the rise in selling prices, an increase in total deliveries of copper products and an improved product mix for stainless steel.

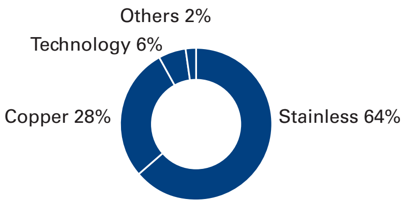
The Group's operating profit more than doubled to EUR 468 million thanks to increased delivery volumes, an improved product mix and higher conversion margins. Outokumpu Stainless generated 94% of the Group's operating profit. Net profit for the financial year rose to EUR 390 million and earnings per share to EUR 2.13. The return on operating capital was 10.3% and the return on equity 17.0%.

Although the base price of stainless steel has weakened slightly, global capacity utilization rates are expected to remain high in 2005, providing a supportive background for prices and margins. Completion of the ramp-up of the new cold rolling mill in Tornio (RAP5) will improve profitability further thanks to larger production volumes, lower unit conversion costs and a better product mix. The total delivery volume of Outokumpu's finished stainless steel products is estimated to increase by well over 20% in 2005, depending on the market situation. Given the higher volumes and lower unit conversion costs, but also slightly softening base price of stainless steel, the Group's operating profit, excluding non-recurring items, in January–June 2005 is estimated to be at least at the level of the same period in 2004.

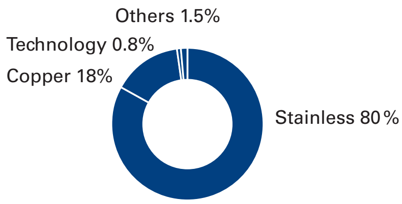
### Growth in working capital weakened capital structure

Although cash flow from operating activities headed into positive territory in the fourth quarter, net cash generated from operating activities was EUR 128 million negative on a full-year basis. The sharp rise in raw material prices and the higher business volume increased the Group's working capital by EUR 710 million. Internal measures to control the increase in working capital did not suffice to offset the effect of the very strong rise in raw material prices. The Group's liquidity nevertheless remained satisfactory throughout the year. Interest-bearing net debt at the end of the year was EUR 2 435 million. Despite clearly improved earnings, the Group's gearing ratio remained at the level seen at the end of 2003. The debt-to-equity ratio was 97.2% and the equity-to-assets ratio 35.8%. Capital expenditure amounted to EUR 473 million.

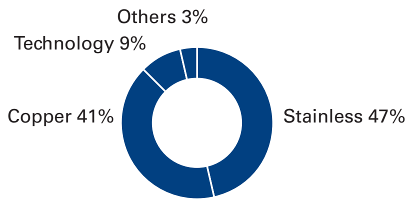
**Sales**
**7 136 € million**




**Operating capital**
**5 151 € million**




**Personnel**
**19 465**



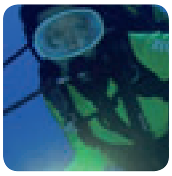
## Group key figures

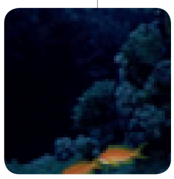
| | | 2004 | 2003 |
|---|---|---|---|
| Sales | € million | **7 136** | 5 922 |
| - change from previous year | % | **20.5** | 6.6 |
| Operating profit | € million | **468** | 214 |
| - in relation to sales | % | **6.6** | 3.6 |
| Profit before taxes | € million | **477** | 108 |
| Net profit for the financial year | € million | **390** | 112 |
| Capital employed on Dec. 31 | € million | **4 941** | 4 108 |
| Return on capital employed | % | **10.3** | 5.0 |
| Operating capital on Dec. 31 | € million | **5 151** | 4 287 |
| Net cash generated from operating activities | € million | **(128)** | 194 |
| Net interest-bearing debt on Dec. 31 | € million | **2 435** | 2 025 |
| - in relation to sales | % | **34.1** | 34.2 |
| Equity-to-assets ratio | % | **35.8** | 33.0 |
| Debt-to-equity ratio | % | **97.2** | 97.2 |
| Earnings per share | € | **2.13** | 0.65 |
| Equity per share | € | **13.65** | 11.54 |
| Dividend per share | € | **0.50** [1] | 0.20 |
| Share price on Dec. 31 | € | **13.15** | 10.77 |
| Market capitalization on Dec. 31 | € million | **2 383** | 1 923 |
| Capital expenditure | € million | **473** | 622 |
| Personnel on Dec. 31 | | **19 465** | 19 359 |

[1] Board's proposal to the Annual General Meeting.

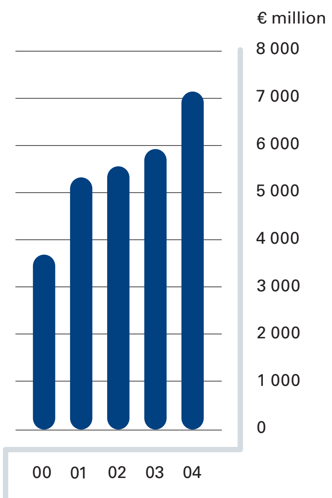
In December, Outokumpu sold 47 million Boliden AB shares for EUR 130 million. As a result, Outokumpu's holding in Boliden fell from 49% to 26.5%. Following the Boliden transaction in 2003, Outokumpu had an EUR 166 million subordinated note from Boliden on its balance sheet. Boliden repaid the entire subordinated note to Outokumpu in the fourth quarter of 2004. In March 2005, Outokumpu sold further its Boliden shares for EUR 115 million and the ownership fell to 16.1%.

The key factors for bringing gearing down to the 75% target level are good profitability, freeing up of working capital through operational excellence and the divestiture of the fabricated copper products business.

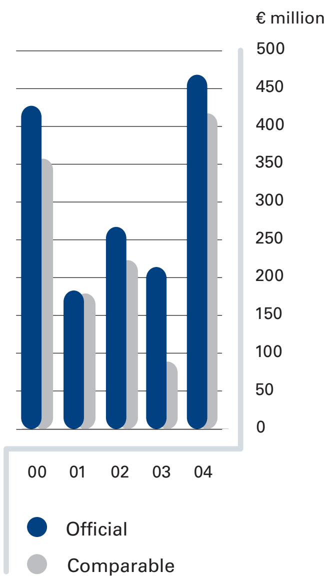




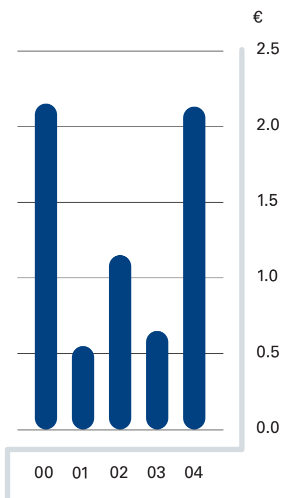
### Sales




### Operating profit




### Earnings per share



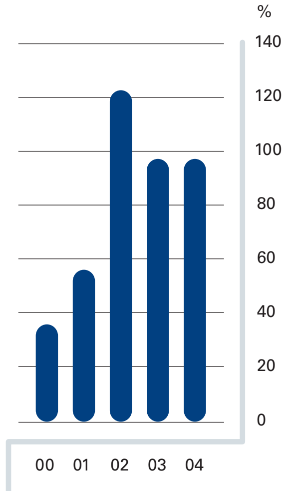
# Management discussion on the financial results and strategy

The table below presents the sales and comparable operating profit (i.e. operating profit excluding non-recurring items and Outokumpu Copper's LIFO-FIFO inventory adjustment) by the Group's businesses.

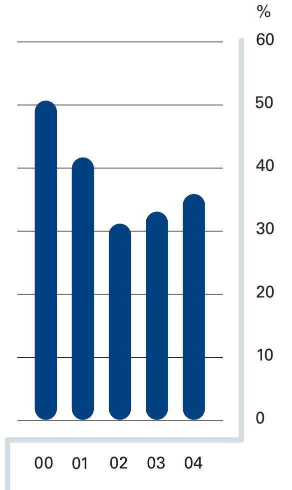
## Financial development excluding items affecting comparability

| € million | Sales 2004 | Sales 2003 | Operating profit 2004 | Operating profit 2003 |
|---|---|---|---|---|
| **Outokumpu Stainless** | | | | |
| Coil Products | **3 503** | 2 749 | **320** | 98 |
| Special Products | **1 650** | 1 297 | **69** | (1) |
| North America | **367** | 252 | **22** | 5 |
| Others | **(883)** | (848) | **14** | 4 |
| Outokumpu Stainless total | **4 637** | 3 450 | **425** | 106 |
| **Outokumpu Copper** | | | | |
| Regional businesses | **1 226** | 721 | **12** | (1) |
| Global businesses | **879** | 707 | **16** | 27 |
| Others | **(56)** | 200 | **(6)** | 1 |
| Outokumpu Copper total | **2 050** | 1 628 | **23** | 27 |
| **Outokumpu Technology** | **423** | 405 | **8** | 5 |
| **Zinc** | **–** | 396 | **–** | 20 |
| **Other operations** | **163** | 263 | **(39)** | (72) |
| Intra-group items | **(136)** | (220) | **0** | 3 |
| **The Group total, excluding items affecting comparability** | **7 136** | 5 922 | **417** | 89 |
| LIFO-FIFO inventory adjustment of Outokumpu Copper | | | **22** | (2) |
| Release of the Finnish TEL disability pension liability | | | **36** | – |
| Gain on the sale of the filter business | | | **16** | – |
| Stelco Hardy closure provision | | | **(3)** | – |
| Waalwijk closure costs | | | **(7)** | – |
| Loss on the sale of the Boliden shares | | | **(19)** | – |
| Gain on the Boliden transaction | | | **(1)** | 120 |
| Excess of Outokumpu's interest in the net fair value of acquired net assets over cost | | | **–** | 23 |
| Gain on the sale of Arctic Platinum Partnership | | | **–** | 26 |
| Gain on the sale of the Inmet shares | | | **–** | 10 |
| Gain on the sale of the precious metals assets | | | **–** | 9 |
| Panteg closure | | | **7** | (7) |
| Provisions for the copper tube cartel fines | | | **–** | (54) |
| **The Group total, official operating profit** | **7 136** | 5 922 | **468** | 214 |

**Debt-to-equity ratio**




**Equity-to-assets ratio**




## The Group's comparable operating profit improved significantly

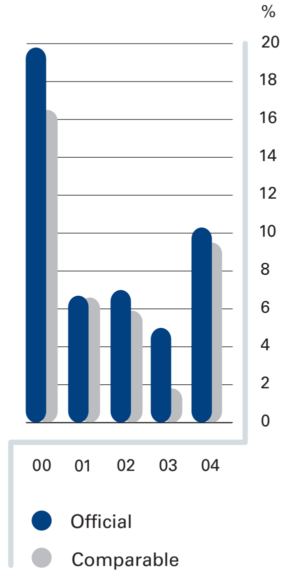
The Group's comparable operating profit rose to EUR 417 million and the comparable return on capital employed to 9.2%. Capital employed was higher due to large investments and the growth in business volume. The steep rise in nickel and copper prices increased working capital significantly. At the end of the year, an estimated EUR 400 million excess working capital was tied up because of raw material prices that were higher than the long-term averages.

Outokumpu Stainless' sales were up 34% to EUR 4 637 million, and comparable operating profit quadrupled to EUR 425 million. Total deliveries of stainless steel were on a par with 2003, but delivery volume of cold rolled and white hot strip products increased by 12%, thus improving the product mix. The growth in operating profit was attributable mainly to the increased proportion of better-margin finished products, thereby improving the average conversion margin. The 2% higher European cold rolled base price improved profitability. Since Outokumpu has its own ferrochrome production it gained from the rise in ferrochrome prices, too. In the early 2004, Outokumpu benefited from the rapid rise in raw material prices due to the timing difference between the inventory turnover rate and the invoiced alloy surcharge. The rise in the cold rolled base price in Europe evened out toward the end of the year, and the price level has declined slightly at the beginning of 2005. In addition to the trend in the base price, the factors contributing on Outokumpu's profitability in 2005 are the growth in delivery volumes of stainless steel, an improved product mix and lower unit conversion costs. Total deliveries of finished products are estimated to grow by well over 20% in 2005, depending on the market situation. Comparable operating profit of Outokumpu Stainless in January–June 2005 is estimated to be at least at the level of the same period a year earlier.

Outokumpu Copper's sales were up 26%. The growth was due principally to the fabrication business that was acquired from Boliden at the end of 2003 and to the rise in the price of copper. Comparable operating profit was EUR 23 million, and profitability was still unsatisfactory. The average conversion margin of Outokumpu's copper products fell by 10%. Demand for copper products is expected to hold up moderately well in the first part of 2005. Across the whole copper products industry, any improvement in volumes or conversion margins during 2005 is likely to be rather modest. Based on the current market prospects and order backlog, Outokumpu Copper's comparable operating profit for the first six months of 2005 is expected to improve on the same period of last year.

The recovery in industrial investments in 2003 was reflected in a slight growth in Technology's sales. Comparable operating profit was nonetheless still unsatisfactory, though it improved markedly from the previous year. The order backlog firmed up significantly, rising to a record level of EUR 458 million at the end of the year. In 2005, Technology's comparable operating profit is forecast to improve slightly.

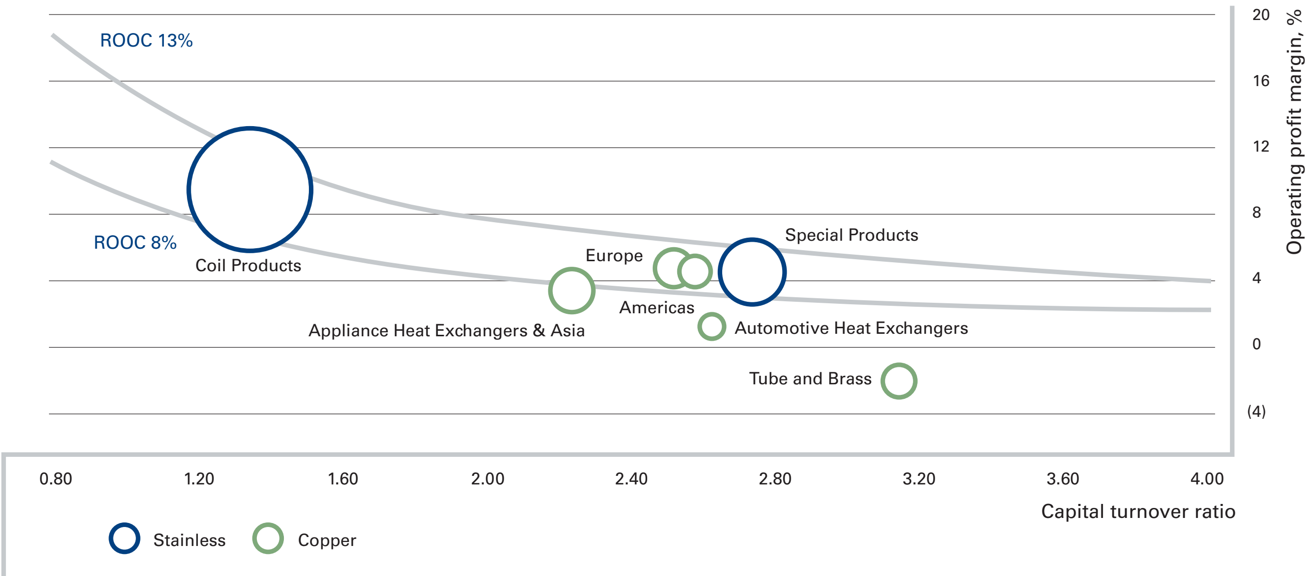
**Return on capital employed**




### Profitability analysis by business

Operating profit margins showed an improvement on the previous year, especially for the stainless steel units. Because of the sharp rise in raw material prices, a greater amount of cash was tied up in working capital in step with the growth in business volume. In addition, the uncompleted investment program at Tornio weakened the relative capital turnover ratio in the Coil Products division. The return on operating capital of all of Outokumpu Stainless' divisions, Outokumpu Copper's Americas and Europe divisions and Technology exceeded the Group's average cost of capital before taxes.

**Operating capital and return on operating capital in 2004**




The return on operating capital (ROOC) shown in the above chart comprises two components: the operating profit margin and the capital turnover ratio. There are two curves for ROOC. Each point on the upper curve gives a 13% target return on operating capital and, similarly, the lower curve indicates the Group's 8% weighted average cost of capital before taxes. If a business unit does not cover the weighted average cost of capital, it will generate negative economic value added. The higher the capital turnover ratio, the less the change in the operating profit margin will impact ROOC. The size of the circle reflects the amount of operating capital tied up into a business unit. Not shown in the chart are Outokumpu Stainless' North America (capital turnover ratio of 13.9 and operating profit margin of 6.0%) and Outokumpu Technology (capital turnover ratio of 10.9 and operating profit margin of 3.0%).

# Management discussion on the financial results and strategy

## A favorable trend in shareholder value

At the end of 2004, Outokumpu Oyj had a market capitalization of EUR 2 383 million, an increase of EUR 460 million during the year. Outokumpu paid dividends of EUR 36 million in 2004.

According to the dividend policy established by the Board of Directors the dividend payout ratio over a business cycle should be at least one-third of the company's net profit for the period. In its dividend proposal, the Board takes into account not only the financial results but also the Group's investment and development needs. The proposed dividend for 2004 is EUR 0.50 per share, corresponding to 23.6% of the Group's profit for the financial year attributable to equity holders of the company. The effective dividend yield is thus 3.8%. Outokumpu's average dividend payout ratio over the past five years has been 35.4%.

Outokumpu's overall financial objective is to generate maximum sustainable economic value added on the capital invested by shareholders. Outokumpu makes use of the weighted average cost of capital (WACC) in defining the capital charge for economic value added, and it applies this for purposes such as estimating the profitability of investment projects and defining the economic and commercial value of its business operations.

In 2004, Outokumpu's weighted average cost of capital after taxes was about 6%. The figure was obtained using a target capital structure in which the weight of the equity cost was 60% and the weight of debt 40%. The cost of equity was 7.5% and the after-tax cost of debt was 3.7%.

In 2004, Outokumpu generated EUR 136 million of economic value added with a 6% WACC.

## Clear strategic focus: to be the number one in stainless steel

Since 2000, Outokumpu has forged ahead with its strategy of growth and transformation. The target has been to double the size and profits of the businesses and to carry through the transformation by focusing on more downstream and higher-margin businesses by 2004–2005. Outokumpu has more than doubled its sales, to over EUR 7 billion. Its position in the fast-growing stainless steel sector has strengthened substantially, and the company has exited the mining business as well as production of zinc and copper metal. The earnings targets have nevertheless not been reached in all areas. For example, the return on capital employed has fallen below the 15% target, and the debt-to-equity ratio at the end of 2004 was 97.2%, exceeding the 75% target level.

In August 2004, Outokumpu's Board of Directors outlined the Group's future strategic focus: to achieve the leading position in stainless steel. Concurrently, a study was launched of the alternatives for exiting the fabricated copper products business. A focus on stainless steel is a logical continuation of the development of Outokumpu's business portfolio. Over the next few years, Outokumpu will devote resources to the efficient utilization and marketing of the new capacity from Tornio, and to stepping up business processes.

At the beginning of 2005, the new vision of targeting the leading position in stainless was outlined, financial targets were updated and a decision was made on the new management system and organization that will come into effect at the beginning of April. At the same time, it was decided to continue developing the technology business as part of the Outokumpu Group. The role of the technology business will henceforth be more independent and, from the Group's perspective, the business will be steered by Outokumpu Technology's board of directors. Outokumpu Copper, too, will be managed on a separate basis until the business has been divested.

Outokumpu's future success will be based on building and strengthening operational excellence in both commercial activities and in production. In addition, Outokumpu is studying possibilities to increase capacity to gain economies of scale, develop its distribution and service center network, and expand its product range to bright annealed and ferritic grades. The objective is to secure the number one position in Europe within stainless steel over the next five years and the leading position globally ten years out. To reach the leading position worldwide, Outokumpu intends to obtain production capacity also outside Europe, either through greenfield investments or by way of suitable acquisitions or alliances.

Outokumpu continually monitors the development of its business portfolio in order to ensure that the businesses fit in with the Group's strategy and reach the profitability and performance targets that have been set. This furthermore involves an assessment of potential acquisition and divestiture candidates that would improve the value of the Group's business portfolio.

## Financial targets in line with the new vision

Outokumpu's overall financial objective is to generate maximum sustainable economic value added on the capital that shareholders have invested in the company.

At the group-level the financial targets for growth, profitability and the balance sheet structure – targets that tie in with the objective of achieving the number one position in stainless steel – are the following:

- To continue growing faster than the market
- A return on capital employed of over 13% and always the best among peers
- Gearing below 75%

## Factors affecting Outokumpu's profitability

Outokumpu's business is cyclical. Profitability depends not only on Outokumpu's own actions but also, in particular, on industrial investments. Furthermore, changes in the operating environment, the overall economic situation as well as the business cycle affect Outokumpu's financial results. Metal prices no longer have a major impact on Outokumpu's financial performance. Instead, the main factors driving profits are the conversion margins for stainless steel and copper products. The prices of metal raw materials nonetheless feed through into the amount of capital tied up in operations.

Within stainless steel business, operating profit is affected not only by conversion margins but also, chiefly, by unit costs, delivery volumes and product mix. The conversion margin for stainless steel is calculated by deducting the raw material costs from the transaction price. The transaction price is the selling price of stainless steel and is equal to the base price of stainless steel plus the alloy surcharge. The alloy surcharge that is applied in Europe and in North America includes the cost of the alloying elements in stainless steel: principally nickel, chrome, molybdenum and scrap iron. Typically, the base price charged to the customer is fixed, and the risk relating to changes in the cost of the alloys is passed on to the customer through the alloy surcharge. Because the alloy surcharge mechanism is in use only in Europe and in North America, the nickel portion of the price in the fixed-price sales contracts that are customary in Asia, for example, is hedged through derivative contracts. Because changes in market conditions affect the base price, movements in the base price show which way the market is headed. Changes in the base price are directly reflected in the conversion margin and in the company's profitability. The overall price and the conversion margin for stainless steel are linked to the economic cycle, and especially to the level of industrial investments in the main customer segments. Changes in the conversion margin are also partly attributable to strong fluctuations in demand, which is often reflected in the de-stocking and re-stocking cycle.

In the fabrication of copper products, operating profit is determined mainly on the basis of the level of conversion margins, unit costs, delivery volumes and the product mix. The conversion margin for the copper products fabrication business is the difference between the unit price of the raw material – copper metal – and the unit price of the product sold to the customer. Conversion margins for fabricated copper products are mainly dependent on the demand in customer industries and competition. Changes in the conversion margins for copper products have generally not been as strong as they are for stainless steel.

The pricing currencies for stainless steel and fabricated copper products are as a rule determined by the market area: euros in Europe and US dollars in the US and Asia. Price levels between Europe, the US and Asia may vary. Outokumpu's production costs, in turn, are for the most part in euros, Swedish kronor and British pounds. Prices of raw materials are determined primarily in US dollars.

In the production of stainless steel and the fabrication of copper products, the capacity utilization rate also has a major impact on operating profit. Production volumes depend on demand, and products are manufactured mainly to fulfill orders. Apart from delivery volumes, the product mix also has an effect on profitability, because the conversion margins for products vary with the value-added component.

The table below shows the sensitivity of Outokumpu's operating profit and working capital in 2005 to changes in conversion margins, raw material prices and the foreign exchange rates between the main currencies and the euro.

### 10% sustained increase, effect on operating profit

| € million | Stainless | Copper | Group |
|---|---|---|---|
| Conversion margin | 235 | 75 | 310 |
| Ferrochrome price | 15 | – | 15 |
| USD/EUR | 45 | 10 | 55 |
| SEK/EUR | (60) | (5) | (65) |
| GBP/EUR | (30) | 0 | (30) |

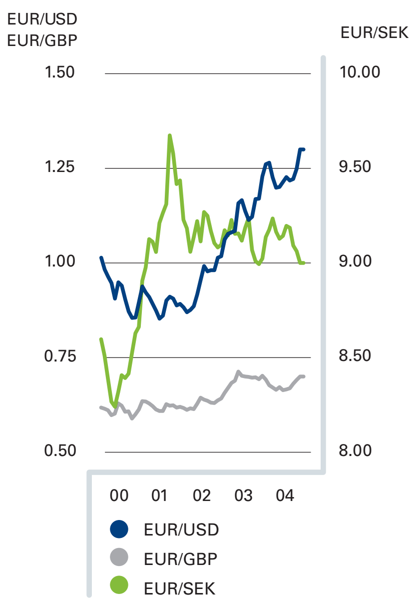
The figures are estimates and the effect of hedging has not been taken into account. They are calculated on the basis of the average prices and exchange rates in 2004 and planned production during 2005.

### 10% sustained increase, effect on working capital

| € million | Stainless | Copper | Group |
|---|---|---|---|
| Nickel price | 70 | – | 70 |
| Chrome price | 15 | – | 15 |
| Copper price | – | 30 | 30 |

The figures are calculated based on the year-end 2004 situation and average prices in 2004.

### Key exchange rates



# Risk management

Outokumpu operates in accordance with the Board-approved risk management policy defining the objectives, approaches and areas of responsibility of risk management. Risk management supports the Group strategy and business targets. It furthermore defines a balanced risk profile from the perspective of shareholders as well as other stakeholders, such as customers, suppliers, personnel and lenders.

Outokumpu has defined a risk to be anything that might have an impact on the activities the company has undertaken to achieve its objectives. Risks can thus be threats, factors of uncertainty or lost opportunities relating to present or future operations.

Outokumpu's risk tolerance tells the range in which the Group's capital structure, earnings and cash flow can vary. The Group Executive Committee confirms each year the Group's risk tolerance as part of strategic planning. The risk management process is part of the Group's management system, and in practice it is divided into four stages: identification of risks; assessment and measurement; control and mitigation; and reporting.

The Board of Directors is responsible for the Group's risk management. The CEO and the Group Executive Committee are responsible for defining and putting risk management procedures into use, and for seeing to it that risks are taken into account in strategic planning. The business units are responsible for managing the risks involved in their operations. The Group's risk management function, in turn, supports the implementation of the risk management policy and develops group-wide ways of working. The external and internal auditors monitor the proper functioning of the risk management process.

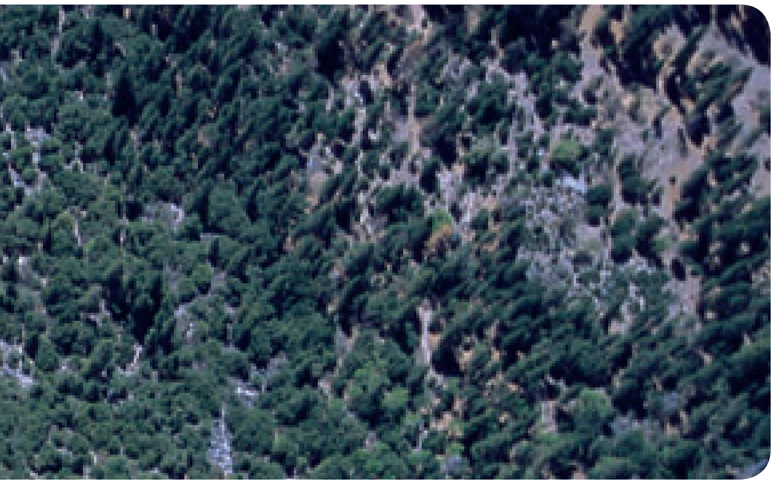
## Strategic and business risks

Strategic and business risks relate to the nature of the business and are often difficult to quantify. Among others, strategic risks relate to Outokumpu's business portfolio, the market position and major investments. Business risks, in turn, are connected with the operating environment, customers' behavior and the economic outlook. Outokumpu's key strategic and business risks are presented in the following.

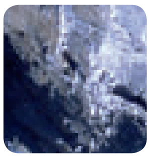
### The global stainless steel market

The stainless steel market is divided into three main markets: Asia, Europe and the Americas. There are significant trade flows between the regions despite some trade political barriers. Outokumpu's key production facilities are located in Europe and it has a global sales and distribution network. Outokumpu's main market area is Europe, and in recent years Asia has accounted for an increased share of sales, thanks to strong demand. The changes taking place in the market areas as well as regional differences – such as the prevailing supply and demand or price levels – can have an effect on Outokumpu's competitive position and financial performance.

Because of the very good demand prospects for stainless steel in China, a lot of new production capacity is being built there. China's production and demand are estimated to be in balance by the end of the decade, and the country may become a net exporter to the other main regions. This may lead to tougher competition in the sector, with prices falling over the longer term. It is nevertheless not certain that China's demand for stainless steel will continue growing in line with forecasts or that new capacity will come on stream as planned. Outokumpu is preparing for a possible overcapacity situation and the adverse effects of it by maintaining cost-efficient production, broadening its product offering, improving its delivery reliability and developing distribution channels. As set out in the strategy, Outokumpu will also study ways of strengthening its position outside Europe in the years ahead.



Implementation of procedures for identifying, assessing and reducing operational risks as a key risk management priority.



### Cyclical nature of stainless steel demand

Demand for Outokumpu's main product, austenitic stainless steel, is sensitive not only to fluctuations in actual end-user demand, but also to the changes in the price of nickel, its most valuable alloy element. Stockists often speculate on changes in the nickel price in timing their buying, and this too can affect Outokumpu's sales volumes. Outokumpu seeks to mitigate this risk in several ways, such as by increasing the number of direct end-use customers. Over the short-term, variations in the price of nickel can also feed through into Outokumpu's earnings.

### Raw materials and energy

Apart from its own ferrochrome production, Outokumpu is dependent on external suppliers for the raw materials it uses and, as a rule enters into long-term agreements with them. The availability and price of many raw materials and energy are subject to fluctuation. A tightening up of the availability of raw materials and energy or a significant rise in their prices may have an adverse effect on Outokumpu's operations and profits if the risk mitigation measures by Outokumpu prove insufficient or if the price rise cannot be passed on to customers. The carbon dioxide emissions trading that started in the European Union from the beginning of 2005 will in the early stages affect Outokumpu mainly through a possible rise in the price of electrical energy because the emissions allowances now received are by and large sufficient. Outokumpu has prepared to meet higher electricity prices not only through hedging, but also by stepping up the efficiency of the use of energy at its plants, concluding long-term delivery agreements and acquiring stakes in power generation companies. Price risks are discussed in greater detail in note 18 to the consolidated financial statements on pages 82–83.

### Competition in the stainless industry

Competition in the stainless steel industry is fierce, and factors such as competitors' increases in production capacity, a decrease in prices or the development of better or new products and services can weaken Outokumpu's position in relation to its competitors. Producers also compete with manufacturers of substitute materials, such as other metals, plastics and composites. Outokumpu's competitiveness and long-term profitability depend to a significant extent upon its ability to maximize capacity utilization rates, maintain cost-efficient production and strengthen its position in the markets for higher value-added products as well as its prowess in creating long-term customer relationships. On the other hand, stainless steel is finding many new applications where other materials, such as carbon steel, have previously been used. One of the key advantages of stainless steel over competing materials is its low life-cycle costs.

## Operational risks

Operational risks arise as a consequence of inadequate or failed internal processes, people's actions, systems or external events. Risks of this kind are often connected with a plant's operations, projects, information technology or infrastructure, and if they materialize, this can lead to liability, loss of property, suspension of operations or environmental impacts. Outokumpu has defined the implementation of procedures for identifying,

assessing and reducing operational risks as a key risk management priority. Risk surveys are carried out on an ongoing basis to assess such risks and to keep them under control. Part of Outokumpu's operational risks are covered by insurance.

### M&A activity and management resources

Outokumpu's growth, competitive position and profitability have been bolstered significantly in recent years through acquisitions and the integration of the companies acquired. Outokumpu's continuing success will depend largely on its management and other key employees. Outokumpu has not had difficulties in hiring and retaining skilled personnel.

### Property damage and business interruptions

Major part of Outokumpu's production is located in large industrial areas comprising a number of separate buildings and production lines. The production of stainless steel furthermore involves production and logistics integration between the facilities in Tornio, Avesta, and Sheffield and in other smaller facilities. The production is capital intensive and a large part of the Group's operating capital is tied up in the above-mentioned facilities. For example, a fire or a serious machine failure can lead to major property damage or loss of production, or have other indirect adverse effects on Outokumpu's operations. Outokumpu endeavors to guard against such risks by continually evaluating its production facilities and processes from the risk management perspective and by arranging reasonable insurance coverage for a large part of these risks.

## Financial risks

Financial risks comprise market, liquidity and credit risks. One of the main market risks is the price of nickel, which is used as a raw material in stainless steel. A significant portion of the risk due to fluctuations in the nickel price is passed on to the customer in the form of an alloy surcharge that is added to the base price. Price fluctuations nonetheless also have a major impact on the Group's working capital requirement. The principal task of Outokumpu's financial risk management is to reduce the impacts on earnings caused by price fluctuations and other factors of uncertainty as well as to ensure sufficient liquidity. Financial risk management is discussed in detail in note 18 to the consolidated financial statements on pages 82–83.

# Market review

## Global economic activity should remain firm into early 2005.

Global GDP rose by about 4% in 2004, one of the strongest levels in the last decade. Growth was buoyant in the US, Japanese activity continued to improve, and China enjoyed another year of rapid expansion. Growth also strengthened in many developing economies in Asia and Eastern Europe. The weakest region was the euro area, especially Germany and Italy, where activity remained very sluggish.

Business and consumer surveys remain generally supportive, and suggest that the global economic expansion will remain firm during the first half of 2005. However, the pace of growth is clearly moderating. This is already apparent in the US, where worries about the sustainability of the current account deficit have been increasing, and Japanese growth has also been slowing sharply. There is also little sign of activity improving in Western Europe, where hopes of recovery are being undermined by the strength of the euro. Growth in China remains remarkably strong, but even here growth is expected to moderate over the next few months.

### Demand in key end-uses for stainless moderating from a high level

The main end-uses for stainless steel were strong during 2004. However, activity showed signs of slowing toward the end of the year, and growth in many sectors is expected to moderate during 2005.

Global demand from the process industries and from the industrial machinery and equipment sectors was buoyant during 2004 as companies increased investment in response to strong demand. Investment spending rose at double-digit rates in the US and China. Business surveys suggest that spending in these areas will continue at a high, though slightly less rapid level, in 2005. In Europe, investment spending is expected to remain subdued.

Spending in the catering and household sector was strong during 2004. The most spectacular growth took place in developing Asia and in Eastern Europe. In the US, consumers continued to spend at record levels, and there was also a recovery in Japanese consumption. In Western Europe, household spending was firm in Britain and Spain but remained very weak in Germany. Higher interest rates are expected to dampen global spending a little during 2005.

In the transportation sector, worldwide vehicle production in 2004 achieved the highest growth rate for five years. Chinese output rose by nearly 20%, but sales and production in the US and Europe were little changed from 2003, and the outlook in these regions remains lackluster. With developing markets continuing to grow strongly, the global vehicle market is expected to show further solid growth over 2005. Orders in the aerospace industry are also expected to strengthen as the aviation business continues a slow recovery.

The construction sector enjoyed an excellent year in 2004. The US market was particularly strong, underpinned by low interest rates, and construction spending continued to rise at a spectacular rate in China. Activity in Eastern Europe was also healthy, and there was a modest improvement in Japan. Growth in Western Europe remained anemic, however. Higher interest rates and a possible housing price bubble in some markets suggest that global activity in construction will moderate during 2005.

### Annual market prices

| | | 2000 | 2001 | 2002 | 2003 | **2004** | Change, % 2004/2003 |
|---|---|---|---|---|---|---|---|
| Stainless steel | | | | | | | |
| Transaction price | €/kg | 2.07 | 1.65 | 1.72 | 1.80 | **2.25** | 25.0 |
| Base price | €/kg | 1.52 | 1.28 | 1.41 | 1.40 | **1.43** | 2.1 |
| Conversion margin | €/kg | 1.03 | 0.80 | 0.91 | 0.87 | **0.91** | 4.6 |
| Nickel | US$/lb | 3.92 | 2.70 | 3.07 | 4.37 | **6.27** | 43.5 |
| | €/kg | 9.35 | 6.64 | 7.16 | 8.52 | **11.11** | 30.4 |
| Ferrochrome (Cr-content) | US$/lb | 0.43 | 0.32 | 0.31 | 0.43 | **0.69** | 60.5 |
| | €/kg | 1.03 | 0.79 | 0.73 | 0.84 | **1.22** | 45.2 |
| Molybdenum | US$/lb | 2.61 | 2.39 | 3.94 | 5.40 | **16.39** | 203.5 |
| | €/kg | 6.22 | 5.90 | 9.18 | 10.52 | **29.05** | 176.1 |
| Iron scrap | US$/t | 90 | 97 | 102 | 147 | **236** | 60.5 |
| | €/t | 83 | 93 | 107 | 130 | **190** | 46.2 |
| Copper | US$/lb | 0.82 | 0.72 | 0.71 | 0.81 | **1.30** | 60.5 |
| | €/kg | 1.96 | 1.76 | 1.65 | 1.57 | **2.30** | 46.5 |

Sources:
Stainless steel: CRU - German transaction price, base price and conversion margin (2 mm cold rolled sheet), estimates for deliveries during the period. CRU has revised the formula for conversion margin in March 2005. Figures are presented according to the new formula.
Nickel and copper: London Metal Exchange (LME) cash quotations converted into USD/lb and EUR/kg.
Ferrochrome: CRU - US imported high carbon 50-55% Cr.
Molybdenum: Metal Bulletin - molybdenum oxide, Europe.
Iron scrap: Metal Bulletin - HMS 1 fob Rotterdam.

### Stainless steel consumption up nearly 17% in the past two years

Judged against the strong economic background, demand for stainless steel was slightly disappointing in 2004: global apparent consumption of cold rolled and hot rolled flat products rose by an estimated 6%. However, the figures were distorted by massive Chinese stock building in late 2003, and subsequent de-stocking in the first half of 2004. Over 2003-2004, world consumption rose by almost 17%. In terms of the major markets, the US was the strongest in 2004, with consumption growing by about 7%. Western European consumption grew by just over 4%, which is satisfactory given the weakness of economic activity in the region. Chinese apparent consumption rose by a modest 6%, constrained by heavy de-stocking.

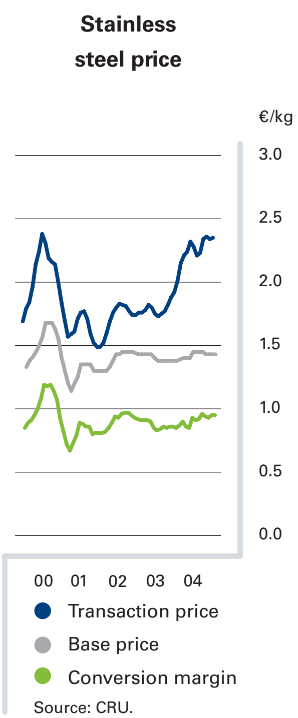
European conversion margins showed an encouraging improvement in 2004. According to CRU, average conversion margins for cold rolled stainless steel in the benchmark German market (transaction price of grade 304 minus the cost of raw materials) rose by nearly 5% compared to the 2003 average, while average base prices rose by 2%. In the US and Asia, prices were on a firm rising trend in 2004, partly due to the increasing alloy surcharge.

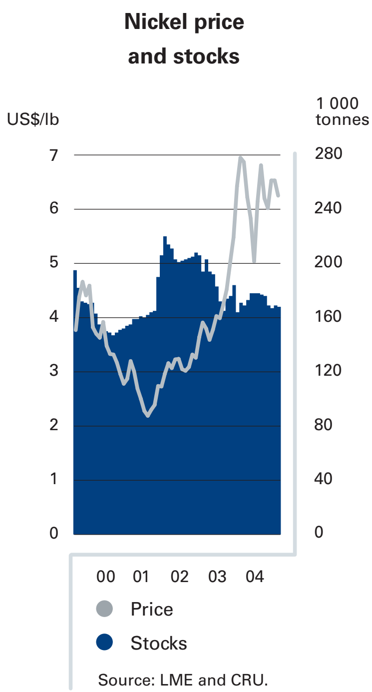
These positive trends in European consumption and conversion margins look even more impressive given the impact of the alloy surcharge during the year. The alloy surcharge is added to the base price of stainless steel when the prices of the main alloying elements rise above a certain threshold level. In July 2003, the alloy surcharge on cold rolled 304 was about 350 EUR/tonne, but as the prices of the raw materials spiraled, so the alloy surcharge rose, peaking at 935 EUR in October 2004. The base price rose by only 45 EUR over the same period. From a customer's point of view, the transaction price of stainless 304 had thus risen by some 630 EUR/tonne, or about 36%, between mid-2003 and late 2004.

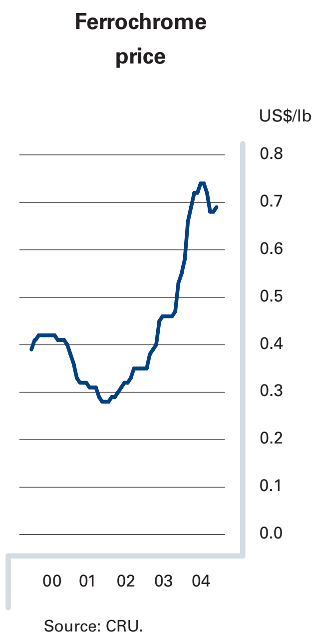
The rapid increase in stainless prices due to the rising alloy surcharge, and the volatility of the surcharge, had a detrimental impact on the austenitic stainless steel market in 2004. The stocking and de-stocking cycle was exacerbated as customers either bought heavily or adopted a wait-and-see approach in response to falls or increases in the surcharge. There was also some evidence of substitution away from nickel containing 300-series to other materials in response to high prices. However, in the past substitution losses have usually been temporary, and austenitic stainless typically regains market share when the nickel price falls.

### Raw materials prices rose strongly

The rise in the alloy surcharge was, above all, attributable to the rise in the nickel price. The 2004 average price of USD 6.27/lb was the highest ever, and 44% above the year-before level. The main reason for the increase was under-investment in new supply in earlier years, compounded by strong demand and by a shortage of scrap. The resulting market deficit saw the stock-consumption ratio fall to the lowest-ever level. The general expectation is that nickel prices will remain high and volatile for at least the first half of 2005. Although supply is




now rising quickly, firm demand is expected to keep the market very tight.

The price of the other main alloying element for stainless steel, ferrochrome, also rose strongly in 2004. The average price of 69 USc/lb was 60% above the 2003 level. The increase was partly attributable to firm demand, but dollar-denominated prices also rose in response to a sharp increase in costs at the South African producers, which dominate the market. Low stock levels suggest that prices will remain high over the near term.

Molybdenum price trends in 2004 were impressive. From an average of USD 5.40/lb in 2003, the price of molybdenum oxide delivered in Europe rocketed to more than USD 30/lb by the end of 2004. At USD 16.39/lb, the average price in 2004 was the highest for 25 years. The increase was attributable to a combination of strong demand and inadequate investment in supply, exacerbated by lower exports out of China. As with the other alloying metals, prices are expected to remain high for at least the first half of 2005.

Stainless steel mills also had to cope with big increases in other raw material costs, notably for iron scrap. Extremely strong demand for steel products, and thus for scrap raw material, resulted in the average dollar price of scrap rising by about 60% during 2004 compared to 2003. The increase was so large that stainless steel producers in Europe introduced an iron scrap component to the alloy surcharge during the second quarter to compensate for part of the additional cost. It is likely to remain in force also this year given that scrap prices are expected to remain high.

## Encouraging year for other stainless products

The other stainless steel products also suffered from the volatility of alloy prices, and some stainless-intensive investment projects were delayed. Even so, 2004 was a generally encouraging year.

In hot rolled coil, the European market was very strong at the beginning of 2004, but weakened toward the year-end. The fall was partly due to alloy price volatility, which put pressure on margins. Chinese demand for hot rolled increased substantially in the fourth quarter and is expected to remain strong into 2005 due to a short-fall of hot rolling capacity as new Chinese cold rolling facilities ramp up. Demand from Eastern Europe is also expected to remain firm.

The quarto plate market developed well during 2004. European base prices rose strongly and look likely to rise further in early 2005. Demand from Asia was healthy and deliveries within Europe were also firm, especially in the first half. Demand was underpinned by strong activity in sectors such as chemical tankers, pulp and paper, liquefied natural gas (LNG) and desalination. Demand for long products was also good during 2004, especially in the US, and prices improved modestly. Market supply for some products is expected to be tight in early 2005, and prospects for the first half of the year look positive.

The year was more mixed for the precision strip market. Demand was subdued in the first half of 2004, but a significant recovery was seen in the second half, which in turn enabled prices to be increased. Increased competition in both Europe

and Asia, exacerbated by dollar weakness, suggests that downward pressure on prices is likely in the early months of 2005. The near-term outlook for the tube and fittings market is also uncertain. Global demand weakened in the second half of 2004 and base prices fell to their lowest level for several years. Weak demand in Europe and rising capacity at many tube mills makes any increase in base prices unlikely in the short term.

### Global stainless utilization rates high

According to CRU, typical German base prices for cold rolled 304 were stable at 1 425 EUR/tonne in the last four months of 2004, though a fall of around 40 EUR/tonne was reported in January 2005. The low level of European economic activity is constraining demand, and the volatility of the alloy surcharge remains a distorting influence on the pattern of consumer buying. European producers also face difficulties stemming from the strength of the euro, which is reducing the euro-denominated cost of imports into Europe.

Nevertheless, orders have improved in early 2005 and the short-term fundamentals of the stainless steel industry remain satisfactory. Global melting capacity is predicted to grow by less than 5% in 2005, while cold rolling capacity is predicted to rise by about 6%, more or less in line with growth in world demand. Global utilization rates, which were at a reasonable level in 2004, are therefore expected to remain satisfactory during 2005. This provides a supportive background, suggesting that average base prices and conversion margins in 2005 would remain at good levels, in spite of the slight decline at the beginning of the year.

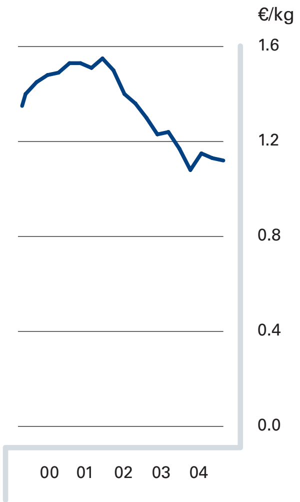
Further ahead, capacity growth, and especially capacity growth in China, will be a key issue for the stainless industry. A number of large Chinese projects are in prospect, and their impact from 2006 onwards will be considerable. Even so, if global consumption continues to rise at the same rate as in the last ten years, then global capacity utilization rates in both slab and cold rolling are likely to remain relatively high during the next few years. The rapid growth of Chinese capacity will, however, substantially change the world trade pattern in stainless steel flat products, and China could become broadly self-sufficient in cold rolled stainless steel by the end of the decade.

### Consumption of copper products rose strongly

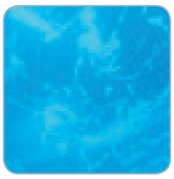
In volume terms, 2004 was an excellent year for copper and copper alloy products. US consumption rose by more than 9%, helped by substantial re-stocking in the early part of the year, and Asian consumption improved by a similar level thanks to continuing strong growth in China. In contrast, the weak economic background resulted in Western European demand rising by only about 2.5%, and prices remained under pressure. The high and volatile price of copper, and rising premiums on cathode, increased the pressure on conversion margins in all markets.

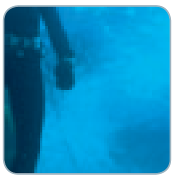
In the US, contract prices on many products are expected to rise, reflecting the strength of the market through most of 2004. However, demand in all regions slackened during the last few months of the year and remained rather slow in early 2005. European mills also face tough competition because of the weak US dollar. Across the whole copper products business,

**Conversion margin of copper products**




Average conversion margin for Outokumpu's copper products. Includes changes in product mix and exchange rates.





any improvement in volumes or conversion margins during 2005 is therefore likely to be rather modest.

### Improved investment activity boosting technology sales

The years 2001 to 2003 were extremely difficult for technology sales, as companies cut back investments in response to low metals prices and poor profitability. As prices and sentiment in the metals markets improved, investment activity recovered, and Outokumpu Technology's order intake strengthened markedly in the second half of 2004. Activity in ferrous markets was particularly buoyant. Orders were strongest in Asia, Australia and South America.

The outlook for technology sales in 2005 is positive. New capacity is needed in mines and metallurgical facilities in both the ferrous and non-ferrous sectors. The mood in the markets remains bullish, and industry profitability is running at a high level. Given this background, investment activity in the metals industry is expected to be very strong over the next few years.

# Outokumpu Stainless

The key objective is to maximize the benefits deriving from the Tornio expansion.

Demand for stainless steel is growing fastest of all metals and the use of it is bound strongly to the rising standard of living. During the past ten years, global demand has increased by nearly 7% per annum. Since 2003 China has taken the leading position as the largest and clearly the fastest growing market. Last year, the consumption of cold rolled stainless steel in China accounted for more than a quarter of the global consumption.

Stainless steel is corrosion resistant, strong, hygienic and recyclable. These properties make stainless steel an ideal choice for various demanding industrial and consumer applications – to the pulp and paper as well as chemicals industry, construction, car industry, food processing, household appliances and even razor blades. A number of life-cycle studies indicate that in many applications the total cost of stainless steel is lower than that of competing materials.

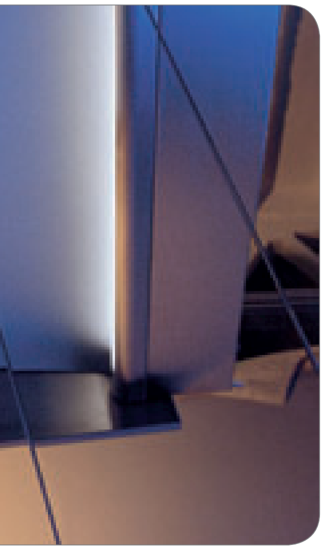
Outokumpu's main product is stainless steel coil, in which it has a market share of about 25% in Europe and 8% worldwide. Outokumpu also produces stainless steel sheet and plate, precision strip, long products, tubes and various tube fittings, flanges and welding consumables. The product range covers both standard and special grades and the products are available in various dimensions and surface finishes. Furthermore, Outokumpu is widely recognized as a leader in technical support, as well as in research and development. A comprehensive network of sales companies, service centers and sales agents in more than 40 countries complement the extensive product range of the Outokumpu plants in Finland, Sweden, Britain and the US.

Outokumpu has a strong market position because it is one of the world's largest and most cost-efficient producers of stainless steel. The annual slab production capacity will rise to 2.75 million tonnes and the capacity for cold rolled products and white hot strip will reach 1.9 million tonnes when the Tornio expansion comes fully on stream.

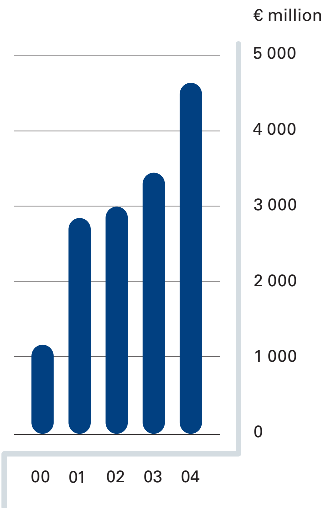
### The objective is to maximize the benefits deriving from investments and restructurings

The large-scale investment program that was launched at the Tornio plant in 1999 is one of the cornerstones of the restructuring of Outokumpu's stainless operations. The objective is to create a production structure, in which each plant has a clearly defined role. The cost-efficient Tornio plant in Finland produces large volumes of standard products, the Avesta plant in Sweden is specialized in wide and thick products, and the cold rolling mill in Kloster in thin stainless steel strips.

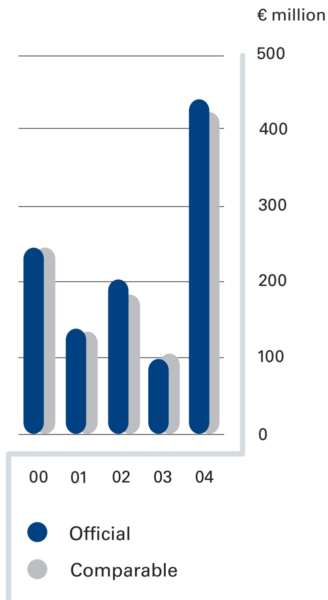
Efficient commissioning of the Tornio expansion and bringing the increasing volumes and new products into the market in a well-controlled manner will remain Outokumpu's key target in order to ensure that the profitability targets are achieved. Furthermore, operational performance will be improved across the organization via the Excellence programs as of April and other development projects. The emphasis will be on utilizing raw materials effectively and optimizing the internal material flows in order to reduce working capital, strengthening of the melt shop performance and delivery reliability as well as improving quality and occupational safety.



### Sales




### Operating profit



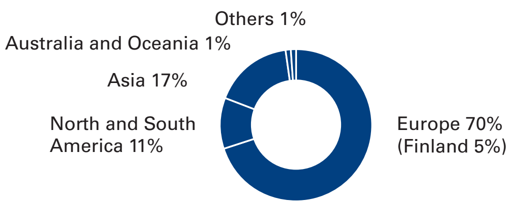

In the coming years, Outokumpu's priority will be on improving operational performance and financial results through internal development programs. However, possibilities to increase capacity in order to gain economies of scale, to develop the distribution and service center network and to broaden the product range with bright annealed and ferritic grades, are areas that are continuously studied. To reach the leading position worldwide, Outokumpu needs to obtain production capacity also outside Europe. Therefore greenfield investments and suitable acquisitions or alliances are being contemplated.

## Investment projects proceeded, restructurings continued

The EUR 1.1 billion Tornio expansion program proceeded significantly during 2004. The modernization of the older melt shop was carried out in the third quarter, and the commissioning of the new stands to increase the capacity of the hot rolling mill to 1.65 million tonnes was completed in September. The idled walking beam furnace in the hot rolling mill will go into operation again by the end of March after which the full capacity is available. Ramping-up of the new cold rolling capacity (RAP5) is continuing according to plan. All the RAP5 products have been produced, and the full capacity is planned to be technically available in mid-2005. Market conditions are taken into account in the production volumes and product mix.

The Panteg cold rolling mill in Britain was closed in March 2004 as planned. In September, a decision was made to close the operations of Stelco Hardy, which produces welded stain-

### Sales by market area




less steel tubes in Wales, by the end of March 2005. The decision was taken against a background of continued losses, and a provision of EUR 3 million was recognized for the closure.

In December 2004, Outokumpu decided to invest EUR 53 million in the cold rolling mill producing thin strip in Kloster, Sweden. The investment will spread over a two-year period with the majority to be spent in 2006. The investment will raise the plant's annual capacity from 25 000 tonnes to 45 000 tonnes and enable the production of even thinner and wider strip. The investment includes a new cold rolling mill, a bright annealing line and a slitting line. The new capacity is scheduled to be in place by the end of 2006.

At the Kemi mine the gradual move to underground mining by 2007 is proceeding according to plan. Increase in long products capacity in the US was inaugurated in October.

### Comparable operating profit quadrupled

Global demand for stainless steel in 2004 grew by an estimated 6%. The growth was led by China, and in Europe the growth came to 4%. Very high and volatile raw material prices resulted in a significant fluctuation in demand as stockists optimized the timing of their buying. In Europe the demand for cold rolled products weakened after the summer and remained sluggish in the last quarter. Asian demand, especially for white hot strip, improved markedly after the summer and was very strong in the last quarter.

Sales of Outokumpu Stainless were up by 34% compared to previous year and the comparable operating profit quadrupled to EUR 425 million. Total stainless steel deliveries stayed at the 2003 level, but deliveries for cold rolled products and white hot strip increased by 12%, thus improving profitability. The 2% higher European cold rolled base price improved profitability. Outokumpu also benefited from the high ferrochrome price through its own ferrochrome production. The rise in raw material prices had a positive effect on operating profit because of

**4.2.2004**
Consolidation of the tubes and fittings businesses

**26.4.2004**
Sheffield stainless steel service center inaugurated

**4.5.2004**
Outokumpu wins order for flue-gas cleaning application

**2.6.2004**
Environmental impact assessment starts at Tornio

**5.8.2004**
New architectural contract for Coil Products Sheffield

**30.8.2004**
The world's first overpass bridge in stainless steel ordered in Spain

**31.8.2004**
Outokumpu aiming for the number one position in stainless steel

**17.9.2004**
Outokumpu to close its tubular operations at Stelco Hardy in Wales

**27.10.2004**
Stainless steel for chemical tankers in China

**17.11.2004**
Lighter stainless steel bumpers contribute to improved fuel efficiency in cars

**25.11.2004**
Hot Rolled Plate receives major order for a bridge project in Hong Kong

**3.12.2004**
Outokumpu to expand value-added thin gauge stainless capacity at Kloster

**9.12.2004**
Major duplex order for Avesta

timing difference between inventory turnover and alloy surcharge.

The rise in the cold rolled base price in Europe evened out toward the end of the year, and the price level has declined slightly at the beginning of 2005. In addition to the trend in the base price, the factors contributing on Outokumpu's profitability in 2005 are the growth in delivery volumes of stainless steel, an improved product mix and lower unit conversion costs. Total deliveries of finished products are estimated to grow by well over 20% this year, depending on the market situation. Outokumpu Stainless' comparable operating profit in January–June 2005 is estimated to be at least at the level of the same period a year earlier.

## Research and development

The Avesta research center concentrates on product and application development whereas the emphasis of the research center in Tornio is on process development and improving the quality of production processes. The small research and development team in Sheffield is developing stainless steel surface properties as well as demanding special products. The innovation team responsible for the HyTens® material – designed for the transportation and car industry – concentrates on solutions for vehicle components. In addition, new train construction solutions were developed based on ultra-high strength laser-welded sandwich panels. Research and development resources in Tornio were committed to the installation and ramp-up of the hot rolling system and to revamping of the older melt shop. The development and optimization of new production routes for ferritic products continued. The flexibility of the RAP technology is showing potential also in ferritics production. The total research and development expenses were about EUR 16 million in 2004.

## Key figures

| € million | 2004 | 2003 |
|---|---|---|
| **Sales** | | |
| Coil Products | 3 503 | 2 749 |
| Special Products | 1 650 | 1 297 |
| North America | 367 | 252 |
| Others | (883) | (848) |
| Total | 4 637 | 3 450 |
| **Comparable operating profit** | | |
| Coil Products | 320 | 98 |
| Special Products | 69 | (1) |
| North America | 22 | 5 |
| Others | 14 | 4 |
| Total | 425 | 106 |
| Sales of the Group sales, % | 64 | 56 |
| Operating profit | 442 | 99 |
| Operating profit margin, % | 10 | 3 |
| Operating capital on Dec. 31 | 4 108 | 3 493 |
| Return on operating capital, % | 12 | 3 |
| Capital expenditure | 276 | 373 |
| Depreciation | 173 | 159 |

### Deliveries of main products

| 1 000 tonnes | 2004 | 2003 |
|---|---|---|
| Cold rolled | 891 | 867 |
| White hot strip | 432 | 316 |
| Others | 464 | 592 |
| Total | 1 787 | 1 775 |

### Production

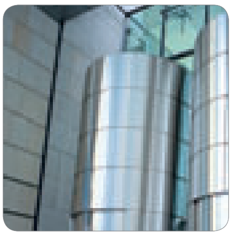
| 1 000 tonnes | 2004 | 2003 |
|---|---|---|
| Coil Products | | |
| Steel slabs | 1 945 | 1 868 |
| – of which Long Products' share | 287 | 349 |
| Cold rolling mill production | | |
| – Cold rolled | 866 | 807 |
| – White hot strip | 578 | 469 |
| Special Products | | |
| Ferrochrome | 264 | 250 |
| Tubes | 67 | 69 |
| Quarto plate | 127 | 116 |
| Long products [1] | 190 | 194 |
| Precision strip | 23 | 22 |
| North America | | |
| Quarto plate, bar and tube | 87 | 76 |

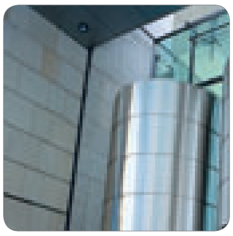
[1] Other than slabs.

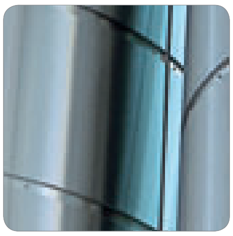
### Personnel

| Dec. 31 | 2004 | 2003 |
|---|---|---|
| Coil Products | 4 402 | 4 466 |
| Special Products | 3 279 | 3 342 |
| North America | 381 | 362 |
| Others | 1 008 | 1 060 |
| Total | 9 070 | 9 230 |

# The Excellence Programs aimed at top performance and improved profitability launched.







## The Excellence Programs starting

In line with Outokumpu's new vision and strategy the leading global position in stainless steel will be achieved by Operational Excellence. Details of the Excellence Programs focusing on commercial activities and production are being finalized and their implementation commences at the beginning of April.

For Outokumpu, Commercial Excellence means customer focused business. The goal is to improve customer relationship management and to achieve a leading position in customer service that will differentiate Outokumpu from its competitors. The sales processes will be harmonized to ensure high-class service, irrespective which sales company or business unit the customer is in contact with. Also a key account management system will be introduced to serve key customers globally.

On the other hand, Production Excellence is a common way of working to improve occupational safety, enhance efficiency and productivity as well as to lower costs in all Outokumpu plants. The Production Excellence program will utilize the WCOM (World Class Operations Management) tool, beneficially used e.g. in the car industry. The tool enables employees and teams to identify the problem areas for example in delivery reliability and to develop and implement the improvements. The program will be implemented in all facilities in phases during the coming three years and by that time it will become an integral part of the continuous improvement culture.

## New business structure – presentation of the units

As of April the stainless steel business will be organized into two divisions according to product types as well as into a separate Tubular Products business unit. The current North America division will be dissolved. The new General Stainless division will comprise three business units: Tornio Works, Coil Products Sheffield and Sheffield Primary Products. The new Specialty Stainless division will consist of four business units: Avesta Works, Thin Strip, Hot Rolled Plate and Long Products.

### Tornio Works

The Tornio Works in Finland produces large volumes of standard stainless steel grades. Within the product range the focus is on cold rolled, dry brushed and the new semi-cold rolled 2E product. Following the completion of the massive investments, the Tornio facility is the world's largest integrated stainless steel facility and one of the most cost-efficient producers worldwide. The Tornio Works' capacities are: 1.65 million tonnes for melting, 1.65 million tonnes for hot rolling and 1.2 million tonnes for the cold rolling mills. The steel melting process in Tornio is integrated with the ferrochrome production enabling the usage of molten ferrochrome. The Kemi underground mine produces more than one million tonnes of chromite ore per year, from which about 270 000 tonnes of ferrochrome is extracted.

#### Kemi mine production

| | 2004 | 2003 |
|---|---|---|
| Ore excavated, million tonnes | **1.2** | 1.1 |
| Chromite concentrates, 1 000 tonnes | **580** | 549 |

#### Ore reserves and mineral resources

| Dec. 31, 2004 | Million tonnes | Grade |
|---|---|---|
| **Ore reserves** | | |
| Proved | 51 | 25% $Cr_2O_3$ |
| **Mineral reserves** | | |
| Measured | 4 | 28% $Cr_2O_3$ |
| Indicated | 14 | 29% $Cr_2O_3$ |
| Inferred | 77 | 29% $Cr_2O_3$ |

The information has been prepared in accordance with the "Australasian Code for Reporting of Mineral Resources and Ore Reserves, 2004 Edition". A mineral resource is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. An ore reserve is the economically mineable part of the measured and/or indicated mineral resource. Ore reserves are not included in the mineral resources. $Cr_2O_3$ = chromium oxide.

### Coil Products Sheffield

Coil Products Sheffield in Britain produces stainless steel coil and sheet with either a bright annealed, brushed or HyClad® surface. The unit focuses on service to complement Tornio's role as a low cost producer of standard material. Sheffield's strengths are its geographical closeness to the main markets in Britain and continental Europe, and its premier stock facility enabling fast deliveries. Coil Products Sheffield's total delivery capacity is about 320 000 tonnes per year.

### Sheffield Primary Products

Sheffield Primary Products includes the Sheffield melt shop in Britain with a capacity of about 500 000 tonnes. The unit also comprises the long products rolling operations in Degerfors, Sweden. The unit produces slabs, blooms, as well as cast and rolled billets that are used as raw material feed in Outokumpu's long products and hot rolled plate operations.

### Avesta Works

The Avesta Works in Sweden is a world-class supplier of 2 meter wide, thick cold and white hot rolled products and continuously produced plate (CPP) to the process industry. The integrated Avesta production facility covers the entire process chain from the melt shop through the hot rolling operation to cold rolling. Avesta's capacities are: about 600 000 tonnes for melting, one million tonnes for hot rolling and 300 000 tonnes for cold rolling. Avesta supplies Sheffield and Nyby cold rolling mills with black hot band material and plate to the hot rolled plate operations.

### Thin Strip

Outokumpu's thin strip operations include the cold rolling mills at Nyby and Kloster in Sweden and the specialty strip operations in Sheffield, Britain. These mills have a combined delivery capacity of about 215 000 tonnes. Thin strips are mainly used in plate heat exchangers, heating elements, flexible tubes, head gaskets and telecom applications. The ongoing investment program at Kloster will increase the overall capacity to 45 000 tonnes per year and enable the production of thinner and wider products.

### Hot Rolled Plate

With its 50% share of the market, Outokumpu is the market leader in quarto plates that are used in the pulp and paper industry, oil and gas industry, power plants and chemical tankers. Outokumpu produces quarto plate in Degerfors, Sweden and in New Castle, the US. Hot rolled plate is produced in Avesta. These facilities are complemented by European plate service centers. Outokumpu's annual hot rolled plate and quarto plate delivery capacity is about 170 000 tonnes.

### Long Products

Outokumpu's long products operation encompasses wire rod and bar products as well as billets and blooms, which are the feedstock for bar rod, flange and seamless tube production. Manufacturing units for long products are in Degerfors, Sweden, Sheffield in Britain, Richburg in the US, and a joint venture Fagersta Stainless in Sweden. Outokumpu's long products delivery capacity is about 80 000 tonnes per year.

### Tubular Products

Outokumpu is one of the largest producers of stainless steel process tubes in Europe with a 15% market share. Tubular Products business unit manufactures and sells welded stainless steel tubes, pipes, fittings and flanges. Tubular products are manufactured in Sweden, Finland, Belgium, the US and Canada. In tubes, Outokumpu's delivery capacity is about 100 000 tonnes per year.

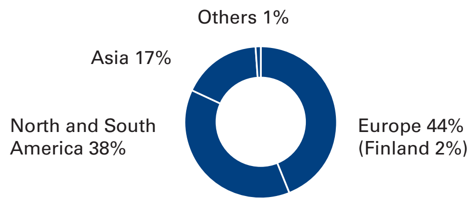
# Outokumpu Copper

Copper's heat transfer, electrical conductivity and signal transmission properties are needed in developing living comfort, communications, energy production and construction.

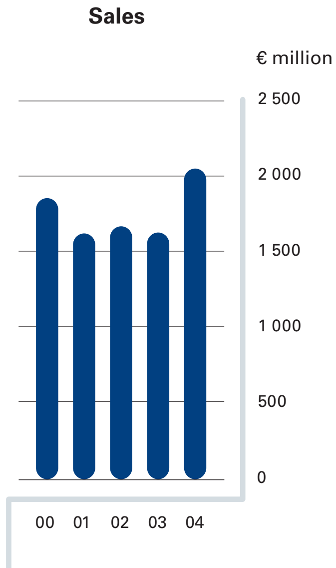
Outokumpu Copper's main products are air-conditioning and refrigeration (ACR) tubes and heat exchangers, radiator strips, oxygen-free copper rods and busbars, architectural and roofing products, sanitary and industrial tubes as well as welding electrodes. Outokumpu Copper concentrates on utilizing the superior properties of copper. In recent years, the focus of production has shifted to high value-added products such as superconducting wires, components for electrical and electronic appliances as well as coils for air-conditioners and heat exchangers. Strong technological know-how also provides a solid foundation for developing innovative applications in close cooperation with customers. Outokumpu is the world's second largest manufacturer of fabricated copper products with a 10% share, and it has a strong market position in the US, Europe and Asia. Outokumpu also manufactures brass rod products that are used in the construction and automotive industries, and has an 8% market share in Europe.

Outokumpu Copper's financial result, like that of its competitors, has remained unsatisfactory in difficult operating environment. Improving profitability is still Outokumpu Copper's key objective. Better profitability is being sought by optimizing production capacity as well as by enhancing cost competitiveness and yield on capital.

**Sales by market area**



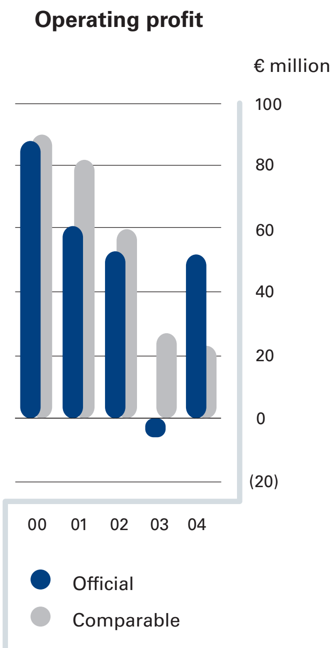
Outokumpu is studying alternatives for exiting the fabricated copper products business, because the Group's strategy is geared to achieving the leading position in stainless steel.




### Consolidation within copper products continues

Boliden's copper tube and brass business in Sweden, the Netherlands, Britain and Belgium was transferred to Outokumpu at the completion of the Boliden transaction at the end of 2003. The units acquired from Boliden along with the tube mills in Pori, Finland, Zaratamo in Spain and Västerås in Sweden were transferred to the new Tube and Brass division. The former Boliden business was integrated, and as part of the process of rationalizing the tube business, the Waalwijk sanitary tube mill in the Netherlands was closed in October 2004. Customers are now served from the other tube mills. In addition, a decision was made to transfer the operations of the small alloy wire plants in Edinburgh and Aldridge, both in Britain, to Pori in Finland, and to Appleton in the US.

In February 2004, Outokumpu and SMI of Italy completed an arrangement whereby Outokumpu exchanged its 50% holding in the Spanish company LOCSA – Laminados Oviedo-Córdoba S.A. for SMI's superconducting wire manufacture in Italy as well as its ACR tube manufacture in China. The deal strengthened Outokumpu's position as the leading manufacturer of superconducting wire. Outokumpu's other plants manufacturing superconducting wire are located in Pori, Finland as well as in Waterbury, the US. Via the deal, Outokumpu's position as the world's largest manufacturer of high-quality copper tubes for



**20.1.2004**
American Brass earns stringent quality certification

**11.2.2004**
Outokumpu´s and SMI´s asset swap finalized

**26.2.2004**
The Neumayer deal finalized

**30.3.2004**
Outokumpu to appeal for the grounds and amount of the cartel fine relating to air-conditioning tubes

**9.6.2004**
Discussions to close down copper tube production in the Netherlands commences

**7.7.2004**
Wasacopper and Aurajoki to join their electrolytic coating business

**31.8.2004**
Outokumpu looking for options to divest its copper products business

**3.9.2004**
Outokumpu fined for EUR 36 million for participation in a copper sanitary tube cartel – Outokumpu will appeal

air-conditioning and refrigeration equipment and systems improved further with the addition of 6 000 tonnes of capacity at the mill in China.

In February 2004, Outokumpu Copper obtained full ownership in its subsidiary Neumayer, which manufactures various alloy wire products in Austria. Now the business can be developed more energetically with a focus on products with a high value-added component.

In September 2004, the electronic coating businesses of Outokumpu Wasacopper Oy and the Turku plant of Aurajoki Oy were combined into a new company, AuraCoat Oy. Outokumpu Wasacopper has a 20% holding in the new company and Aurajoki 80%. The company employs about 70 people and has annual sales of about EUR 7 million.

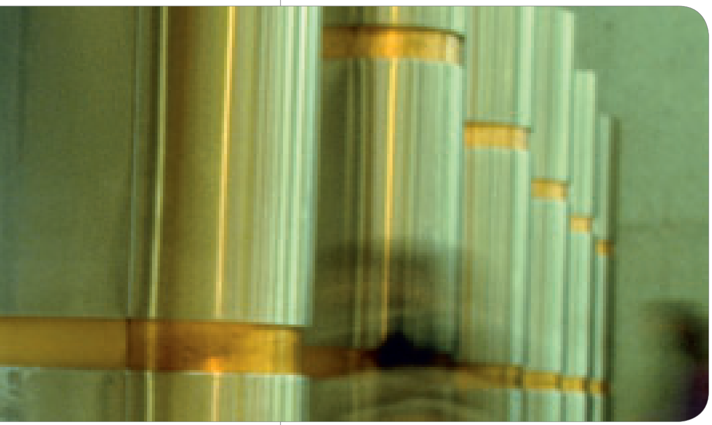
A favorable settlement was reached in the patent infringement dispute in China concerning Cast & Roll™ technology for producing air-conditioning and refrigeration tubes. In February 2005, Outokumpu received a lump sum settlement.

### Earnings still unsatisfactory

The consumption of copper and copper alloy products worldwide was very strong in 2004 and demand grew by 7% on the previous year. There was good growth in demand in the US and China, but growth remained subdued in Western Europe.

Outokumpu Copper's sales were up 26% on the figure a year ago. This was attributable mainly to the increased delivery volumes resulting from the Boliden transaction. In addition, the rise in the price of copper that is used as a raw material added to the sales figure. Outokumpu Copper's profitability was still unsatisfactory, though the official operating profit was up markedly on the previous year. Comparable operating profit, taking into account both non-recurring items and the LIFO-FIFO inventory adjustment, came in slightly below the year-ago figure. Following the Boliden transaction, the average conversion margins received by Outokumpu Copper declined and the product mix was weaker than in 2003.

Due to the high and volatile price of copper and the rise in cathode premiums, customers try to keep their stocks as small as possible. Demand is nonetheless expected to hold up moderately well in the first part of 2005. On the basis of present market demand and the order backlog, Outokumpu Copper's comparable operating profit in January–June 2005 is expected to improve on the same period of last year.



## Research and development

Outokumpu Copper's research and development centers with their pilot plants are located in Pori, Finland and in Västerås, Sweden. Individual development projects are also carried out in close cooperation with customers. Outokumpu furthermore has a 50% stake in a technology joint venture that it has established with Lennox International. The JV company develops new and innovative heating, ventilation, air-conditioning and refrigeration applications. The priority areas for Outokumpu Copper's R&D activities lie within customer applications, flexible and innovative production technologies and other development projects that open up new business opportunities. Among the most important R&D projects carried out in 2004 were the finalization of the MicroMill process for commercial use in Delaware, the US as well as Flashless Conform, which is further developed from Conform technology and is being commercialized at Pori. Outokumpu Copper's research and development expenses came to EUR 11 million in 2004.

## Key figures

| € million | 2004 | 2003 |
|---|---|---|
| **Sales** | | |
| Regional businesses | 1 226 | 721 |
| Global businesses | 879 | 707 |
| Others | (56) | 200 |
| Total | 2 050 | 1 628 |
| | | |
| **Comparable operating profit** | | |
| Regional businesses | 12 | (1) |
| Global businesses | 16 | 27 |
| Others | (6) | 1 |
| Total | 23 | 27 |
| | | |
| Sales of the Group sales, % | 28 | 27 |
| Operating profit | 52 | (6) |
| Operating profit margin, % | 3 | neg. |
| Operating capital on Dec. 31 | 953 | 732 |
| Return on operating capital, % | 6 | neg. |
| Capital expenditure | 59 | 106 |
| Depreciation | 60 | 78 |

**Deliveries of fabricated products**

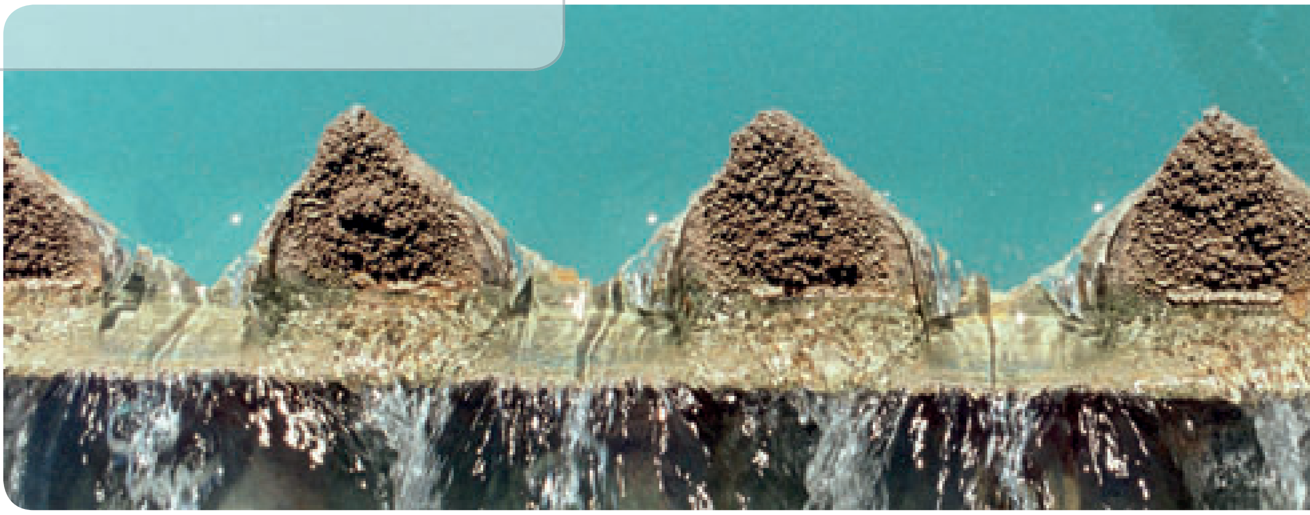
| 1 000 tonnes | 2004 | 2003 |
|---|---|---|
| Regional businesses | 403 | 228 |
| Global businesses | 212 | 193 |
| Internal deliveries | (52) | (1) |
| Total | 562 | 420 |
| | | |
| **Order backlog on Dec. 31, 1 000 tonnes** | 78 | 66 |

**Personnel**

| Dec. 31 | 2004 | 2003 |
|---|---|---|
| Regional businesses | 3 645 | 3 558 |
| Global businesses | 4 132 | 3 834 |
| Others | 176 | 193 |
| Total | 7 953 | 7 585 |

Regional businesses comprise the Americas, the Europe, and the Tube and Brass divisions. The Global businesses consists of the Automotive Heat Exchangers and the Appliance Heat Exchangers & Asia divisions. The 2003 figures for Harjavalta Metals, which was sold to Boliden, are included in Others.

# Outokumpu Technology



## Investment activity in customer industries has increased substantially.

Outokumpu Technology is one of the world's leading developers and suppliers of technology for minerals processing and metallurgical industries. It designs and delivers plants, processes and equipment tailored to customer specifications and offers engineering, project and support services worldwide, serving as a responsible partner throughout the life-cycle of the investment. Outokumpu Technology's strength is its in-depth understanding of customer needs due to its solid knowledge of metals and its innovativeness. Many of the technologies it has developed are market leaders in their respective fields. Outokumpu Technology has an extensive marketing and service network in its main markets.

As Outokumpu's strategy focuses on stainless steel, the technology business will assume a more independent role in the future. From the Group's perspective, its business operations are managed through the board work of Outokumpu Technology.

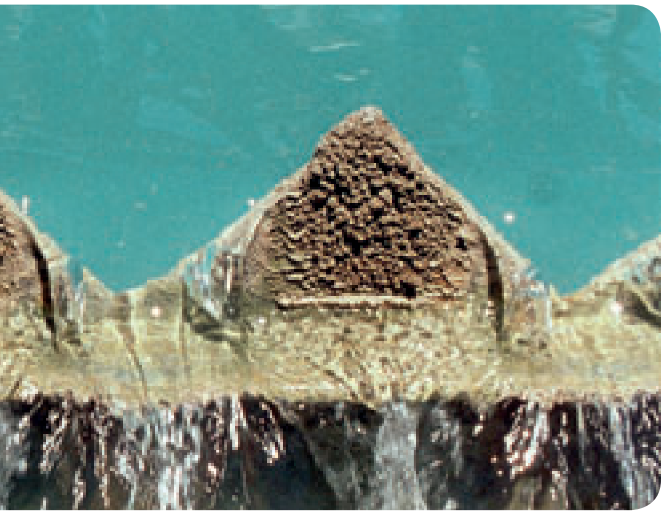
### Service portfolio gains in diversity

Outokumpu Technology's offering was complemented in 2004 as the commercialization of the new HydroCopper™ and Circofer® processes progressed and when Boliden Contech became part of Outokumpu at the end of 2003. Aluminium and ferrous technologies have assumed a significantly larger role in Outokumpu's technology offering due to the growing investments of customers.

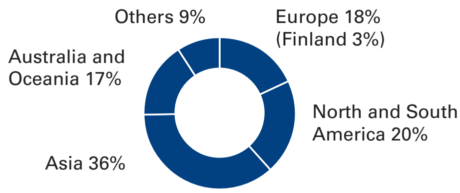
Outokumpu's filter business, comprising the Hoesch, Pannevis and Ceramec® trademarks, was sold to Larox at the beginning of 2004. The sold operations generated sales of EUR 39 million in 2003 and 170 people transferred over as part of the deal.

### Key figures

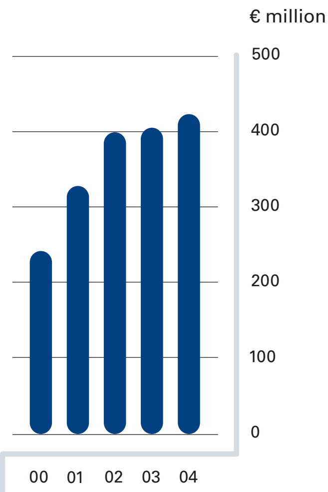
| € million | 2004 | 2003 |
|---|---|---|
| **Sales** | **423** | 405 |
| **Comparable operating profit** | **8** | 5 |
| Sales of the Group sales, % | **6** | 7 |
| Operating profit | **29** | 5 |
| Operating profit margin, % | **7** | 1 |
| Operating capital on Dec. 31 | **39** | 38 |
| Return on operating capital, % | **74** | 11 |
| Capital expenditure | **9** | 25 |
| Depreciation | **9** | 7 |
| **Order backlog on Dec. 31, € million** | **458** | 356 |
| **Personnel on Dec. 31** | **1 776** | 1 908 |



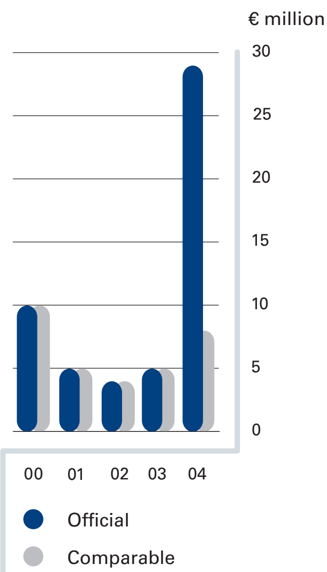
**Sales by market area**




**Sales**




**Operating profit**




## Record-high order backlog

The market situation for technology sales improved significantly thanks to a recovery in investments by the mining and metal industries. Demand picked up for ferrous metals technologies in particular. In 2004, Outokumpu Technology received new orders worth EUR 535 million in total, and the order backlog was EUR 458 million at the end of the year.

The major orders received were for pelletizing plants for LKAB in Sweden and for Gol-E-Gohar in Iran, a copper solvent extraction plant for Minera Escondida in Chile, a zinc plant for Iran Zinc Production Company in Iran, a ferrochrome plant for Hernic Ferrochrome in South Africa, a delivery of thickener technology for the Ravensthorpe nickel project in Australia, the delivery of two sinter plants for Jindal's iron and steel companies in India, deliveries of concentrators to India, Kazakhstan and South Africa, a sulphuric acid plant to Egypt, and letters of intent and design agreements on the expansion of the copper plants of Codelco's Chuquicamata in Chile and HydroCopper™ plants in Mongolia and Canada.

## Financial result unsatisfactory in spite of improved order backlog

Technology's result improved on the previous year but the EUR 8 million comparable operating profit was still unsatisfactory. The robust order intake is expected to continue, as the profitability of the customer industries is good and customers are willing to invest. Technology's earnings are expected to improve further in 2005.

## Research and development

The most significant research projects were the test runs of the Circofer® direct reduction process for iron concentrate together with an industrial partner as well as iron concentrate pelletizing and sintering test runs carried out for customers at the Frankfurt research center in Germany. In addition, Circofer® technology was successfully tested for the processing of titanium raw material as part of the process chain of titanium oxide pigment manufacture.

The commercialization of the HydroCopper™ process was pursued. It yielded concrete results when two letters of intent were signed.

The sales of Outokumpu Research, Technology's research center in Pori, amounted to EUR 13 million in 2004 and it had 195 employees. Outokumpu Research became part of Outokumpu Technology at the beginning of 2004, leading to even higher efficiency in commercialization of research. R&D cooperation with the units sold to Boliden at the end of 2003 continued at the same scale. Filtering technology research was carried out for Larox.

The first customer test run was performed at the HydroCopper™ demonstration plant. The customer was the Mongolian company Erdenet Mining Corporation. The campaign lasted four months and was successful, producing high-grade copper metal. Numerous batch tests were performed on the concentrates of many customers with the HydroCopper™ process – this shows that there is widespread interest in the technology. Toward the end of the year, an agreement was made on the thorough pilot testing of the raw materials of the Canadian bcMetals Corporation.

Other significant R&D projects included copper ore process development for the Spanish company Cobre Las Cruces, direct reduction of oxidized zinc ore and zinc concentrate, testing of ferroalloy technology on customers' raw materials, new versions of smart analyzers and new materials technology applications. Thanks to Outokumpu Research's long-term development of solvent extraction technology, Outokumpu Technology received an order for the world's largest copper solvent-extraction plant. It will be delivered to the Escondida mine in Chile.

In 2004, the research and development expenses were EUR 13 million.

**9.1.2004**
Sale of the filter business to Larox completed

**16.4.2004**
A major ferrochrome plant order from Hernic of South Africa

**26.5.2004**
A letter of intent on delivery of the HydroCopper technology to Mongolia

**7.6.2004**
Modern zinc production technology to Iran

**4.8.2004**
Technology to deliver a new copper concentrator to Kazakhstan

**6.8.2004**
Outokumpu's technology for the Gol-E-Gohar pelletizing plant in Iran

**2.9.2004**
Technology to deliver the world's largest copper solvent extraction plant for Minera Escondida in Chile

**9.9.2004**
Technology to deliver a sulphuric acid plant to Egypt

**20.9.2004**
Outokumpu wins two sinter plant contracts in India

**5.11.2004**
A letter of intent on delivery of the HydroCopper process to Canada

**17.11.2004**
Technology to deliver a pelletizing plant for LKAB in Sweden

**17.12.2004**
Technology awarded minerals processing contracts at Ravensthorpe, Australia

**13.1.2005**
Extensive conceptual engineering contract for the expansion of Codelco's Chuquicamata copper plant

**8.2.2005**
Marketing of Titan´s BioHeap leaching technology starts



# Other operations

Reporting under Other operations covers mainly business development and Corporate Management expenses that are not allocated to the businesses. In addition, Outokumpu's industrial holdings and the Hitura nickel mine are reported under Other operations.

### Business Support Unit

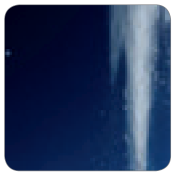
The Business Support Unit (BSU) brings together group-wide expertise and processes that support the businesses. The unit has been comprised of financial services, procurement, IT and business processes, sales, M&A and legal affairs, intellectual property rights, environment, health and safety (EHS), treasury and risk management, human resources, financial control and tax planning, as well as corporate communications.

As Outokumpu changes over to a new management system and organizational model on April 1, 2005 the BSU functions will be reorganized and transferred mainly to Corporate Management and to the new commercial and production functions.

### Industrial holdings

Among Outokumpu's major industrial holdings at the end of 2004 were its 26.5 % interest in a mining and smelting company Boliden, and 32% holding in Okmetic, which manufactures silicon wafers. Of the associated companies, EUR 87 million of Boliden's net profit and EUR 11 million of Okmetic's net loss have been consolidated into Outokumpu's financial results for 2004. In December 2004 in connection with the Boliden's share offering, Outokumpu sold part of its holding in Boliden. Subsequently, Outokumpu's stake declined from 49% to 26.5%. The market value of Outokumpu´s shareholding in Boliden and Okmetic totaled EUR 254 million at the end of 2004.

In March 2005, Outokumpu further reduced its shareholing in Boliden to 16.1% and recorded an EUR 25 million nonrecurring gain on the sale. As a result, Boliden will no longer be consolidated as an associated company in the Outokumpu accounts.



### Key figures

| € million | 2004 | 2003 |
|---|---|---|
| **Sales** | **163** | 263 |
| **Comparable operating profit** | **(39)** | (72) |
| Sales of the Group sales, % | **2** | 4 |
| Operating profit | **(55)** | 93 |
| Operating profit margin, % | **neg.** | 35 |
| Capital expenditure | **129** | 58 |
| Depreciation | **9** | 28 |
| **Personnel on Dec. 31** | **666** | 636 |

# Human resources

## Top performance springs from motivated and skilled people.

The cornerstones of Outokumpu's human resource management are the three key HR processes: Development Dialogue, O'People Employee Survey and Management Review Process. Furthermore, Outokumpu emphasizes continuous development of its personnel.

The purpose of Development Dialogue, which is held at least once a year with each employee, is to ensure that the objectives set are clear-cut and understood correctly. At the same time, it offers an occasion for giving and receiving feedback. Via the O'People Employee Survey, the units in turn measure the workplace atmosphere and its development. The third HR process is the Management Review Process. The results of this assessment are used in developing the organization, in internal recruitment and in supporting job rotation. The aim is to promote personal growth in step with job tasks and to ensure career rotation within the Group. These three HR processes are in place at all the business units, and use of them was expanded in 2004. Based on the employees' development needs, Outokumpu carries out either its own training and development programs or calls in outside consultants.

### Training and development

Five group-wide development programs were carried out in 2004: two O'Talent seminars, two Leading the Way programs and one Outokumpu Management Development Program. About 100 people again took part in them. In addition, the business units ran development programs tailored at their specific needs. Employees from all personnel groups participated in these programs.

The Management Review Process that was launched in 2003 was carried out across all the Stainless units and started within Copper and Technology. In 2005, Technology will further enlarge the scope of the process to cover the entire organization.

### Technology reruns the O'People Employee Survey

A repeat survey was carried out among the Technology employees in 2004. The survey indicated that job tasks are felt to be interesting and challenging. Commitment to the employer had improved although there was no change in the overall satisfaction index. Supervisors' work received better marks than in the previous survey. The respondents were particularly appreciative of the way in which supervisors encouraged their staff to undertake development and training opportunities. In this respect, supervisors were more supportive than in international peer groups. The response rate rose from 62% to 75%. The survey pointed out that a clear area for development is the need to communicate Technology's direction and objectives more energetically, since these were felt to be less clear than in the previous survey. Another evident development area is the need to organize work more effectively and to clarify areas of responsibility and roles within the international matrix organization.

Preparations are being made for conducting a full-scale employee survey at Outokumpu's stainless steel units in the spring of 2005.



### Renewal of the European personnel participation system

The Outokumpu Personnel Forum (OPF) that was held in May 2004 saw the ratification of the agreement that had been negotiated with the personnel and concerned reform of the personnel participation system according to the European Works Council directive, which had been started at Outokumpu in 1994 and at AvestaPolarit in 2002. The OPF meeting is held once a year and is attended by 25 employee-elected representatives from different countries in Europe. On the agenda for the meeting are current matters for the Group, and it offers an opportunity for an exchange of ideas and experiences between the employees and management.

The OPF employee representatives elect eight members to the Group Working Committee, which acts as a liaison channel between the employees and management in the period between OPF meetings. Three employer representatives are also members of the Group Working Committee. The Committee meets with top management at least four times a year, and it has an opportunity to comment on the Group's strategy and major projects.

### Structural changes ongoing – a strategic focus on stainless

In recent years, Outokumpu's personnel has been involved in sweeping changes as the Group has reshaped its business portfolio in line with its strategy. In August 2004, the Group announced its objective of becoming the leading company in stainless steel and stated its intention to exit the fabricated copper products business. This marked a sharpening of Outokumpu's new vision, strategy of focusing on stainless steel and a new management system and business organization in early 2005.

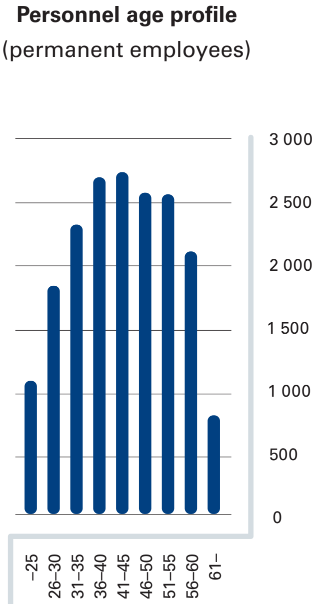
From the beginning of April the Group Executive Committee will be directly in charge of the stainless steel business. Technology will have a more independent role and copper products business will be managed on a separate basis until the business has been divested.

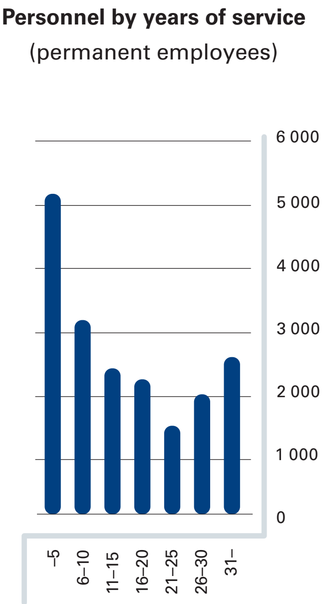
As part of the new organizational structure that will come into effect at the beginning of April the Business Support Unit (BSU) organization will be dissolved. The BSU staff supporting the technology sales and the copper products business will transfer to the business organizations of Technology and Copper. The revamped function and service organization will concentrate solely on stainless steel.

### Personnel by country

| Dec. 31 | 2004 | 2003 |
|---|---|---|
| **Europe** | | |
| Finland | 5 036 | 5 061 |
| Sweden | 3 987 | 3 930 |
| Britain | 2 099 | 2 260 |
| The Netherlands | 731 | 933 |
| Germany | 561 | 655 |
| Spain | 467 | 448 |
| Italy | 287 | 204 |
| Belgium | 268 | 270 |
| France | 259 | 316 |
| Czech Republic | 189 | 159 |
| Austria | 114 | 112 |
| Estonia | 68 | 68 |
| Russia | 62 | 66 |
| Poland | 30 | 28 |
| Denmark | 27 | 27 |
| Norway | 21 | 21 |
| Hungary | 19 | 18 |
| Other European countries | 19 | 16 |
| | 14 244 | 14 592 |
| **North and South America** | | |
| The United States | 3 613 | 3 307 |
| Chile | 172 | 200 |
| Canada | 109 | 152 |
| Other American countries | 26 | 30 |
| | 3 920 | 3 689 |
| **Asia** | | |
| China | 492 | 326 |
| Thailand | 282 | 277 |
| Malaysia | 260 | 224 |
| Indonesia | 24 | 23 |
| Other Asian countries | 33 | 46 |
| | 1 091 | 896 |
| **Australia** | 158 | 133 |
| **Africa** | 52 | 49 |
| **Group total** | 19 465 | 19 359 |

# Human resources




The process aiming at divesting the fabricated copper products business is underway. Divestiture of the copper products business will bring a significant reduction in the Group's headcount, because Outokumpu Copper employs nearly 8 000 people in Europe, the US and Asia.

Becoming the undisputed number one in stainless steel first in Europe and later worldwide calls for excellence in both production and commercial functions. Major inputs into both will be made through the Excellence Programs that will get started in early April and in which human resource development and leadership occupy a central role. Other challenges for human resource management are the improvement of internal mobility, attracting and retaining talented employees and the development of rewarding practices.

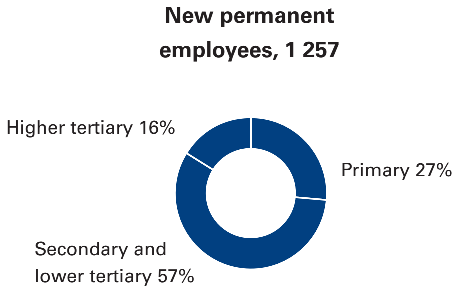
### Value dialogue re-launched

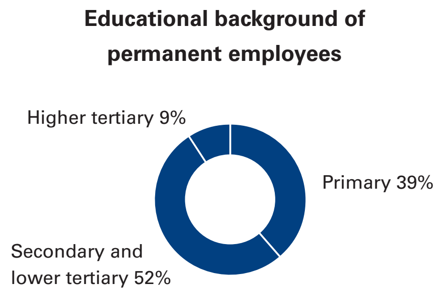
The Outokumpu way has been crystallized into the following values:

- Outstanding performance
- Superior knowledge
- Individual achievement
- Creating success with customers
- Leading the way

Outokumpu's core values combine the requirements set by the Group strategy, the traditional strengths derived from the company's history and the expectations of individuals. In accordance with the Group's leadership principles, every Outokumpu employee is entitled to good leadership.

Because the core value dialogue in 2002 did not cover Outokumpu's stainless steel business, the process will be relaunched this year. The core values will be discussed in parallel with the implementation of the new brand. The objective is to document Outokumpu's way of working so that the entire organization can get solidly behind it.




### Key figures

| | 2004 | 2003 |
|---|---|---|
| Sales/person, € million | **0.4** | 0.3 |
| Incentives of total remuneration costs, % | **3.0** | 3.8 |
| Training costs of total remuneration costs, % | **1.3** | 1.1 |
| Training days/person | **3.3** | 3.7 |
| Days lost due to strikes | **659** | 7 047 |
| Turnover, % | **8.4** | 7.4 |

# Environment, health and safety

Our aim is to improve the level of environmental protection and occupational safety continuously.

Today, the environmental impacts of Outokumpu's operations derive primarily from emissions and energy consumption of stainless steel production. The key environmental targets are to decrease fugitive emissions, improve energy-efficiency, promote the utilization of by-products, reduce water consumption and decrease discharges to water. In health and safety area, the most important target is to decrease the frequency of accidents significantly. This is also one of the key areas in the Production Excellence Program, which starts in April 2005.

### A step forward in environmental management systems

Outokumpu aims that all its major production sites have certified environmental management systems in place by the end of 2005. During 2004, the stainless steel bar plant in Richburg, the US and the cold rolling mill in Sheffield, Britain as well as the copper tube plant in Zhongshan, China certified their environmental management systems. Now altogether 28 sites have a certified environmental management systems in place. The work for certification continues at seven stainless steel and four copper products sites.

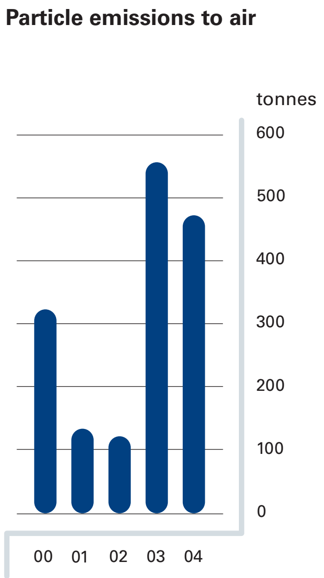
### Emissions well under control

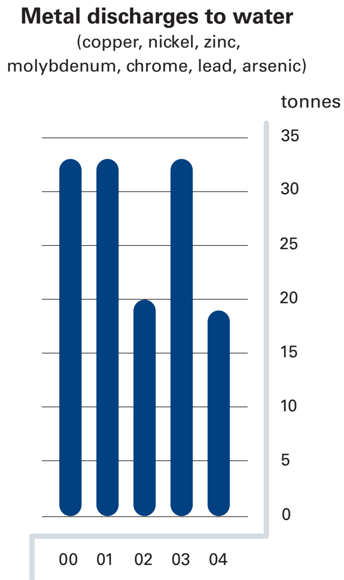
Emissions remained mostly under permit limits during 2004. However, there were a few minor breaches of permit conditions that were registered according to local practices. For example, one of the dust filters of the cold rolling mill in Tornio did not work properly and emitted dust into surroundings for three weeks in December.

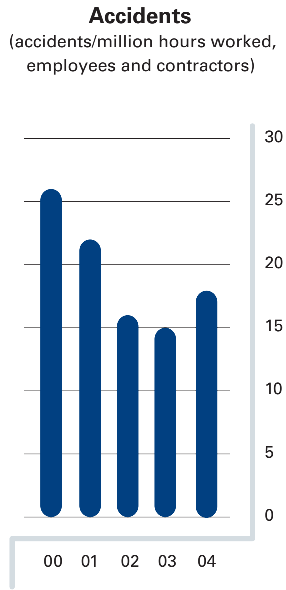
Majority of particle emissions originate from the stainless steel plants in Tornio, Sheffield and Avesta as well as from the hot rolling mill in New Castle. The modernization of the older melt shop at Tornio has markedly decreased the specific emission of dust. Since the production volume has also simultaneously been increased, the absolute emission decrease is not so large, but still about 100 tonnes per year. The emissions of nitrogen oxides have decreased in Avesta, Nyby and Sheffield due to implementation of the latest burner technology in annealing furnaces and introduction of a new technology for managing pickling fumes. Most of the metal discharges to water originate from Tornio and Avesta and from the copper products mills at Pori and Buffalo. The metal discharges have decreased especially at Pori thanks to investments. The Group's carbon dioxide emissions in 2004 amounted to about 1 140 000 tonnes, of which Tornio accounted for 670 000 tonnes.

In January 2004, radioactivity of a process control sample in the Sheffield melt shop showed that a small amount of radioactive material had been melted together with the scrap. The steel produced or the filter dust was not radioactive but the radioactive elements had remained in the slag. The slag was stored properly and is waiting for the delivery for further treatment in the first quarter of 2005. Some radioactivity in slag was also detected in the Avesta melt shop in January 2005. Also this slag has been stored properly and is waiting for the delivery for further treatment.

# Environment, health and safety




Environmental data for Outokumpu Stainless has been reported extensively only since 2003.

### Meeting environmental challenges

Outokumpu cooperates with the authorities and organizations on the development of environmental and safety practices. Company experts participate in preparation of legislation as members of working groups and give comments and statements on issues at both international and national forums. The main issues in 2004 were waste and landfill statutes and legislation on climate change prevention, protection of waters and the new European chemicals policy.

Outokumpu responds to the challenges of tightened waste legislation by decreasing the amount of process waste, increasing recycling and designing fittingly working landfill areas when utilization of waste is not possible. At Tornio, a research program is ongoing to develop new products out of steel making slag instead of landfilling it. The production and sale of these by-products started in 2004, and about 50 000 tonnes was sold for construction material and insulation material in road construction. A significant reduction of landfill waste is also taking place in Sheffield. Outokumpu is participating in the Green Business Network initiative, in which products are made out of waste in line with the principles of sustainable development. The raw material is our own packing waste and other industry waste in the area. The initiative also has a social aspect offering training and employment opportunities for long-term unemployed persons.

At Avesta, a new method has been developed to recycle the hydroxide sludge generated in the neutralization process of pickling acids. The treated sludge acts as a slag-forming agent in the AOD converter thus replacing the previously used calcium fluoride. The method, which has been tested in production scale, decreases landfill waste. The results are promising.

At Tornio, an extensive environmental impact assessment procedure was launched in 2004 for a possible increase in production.

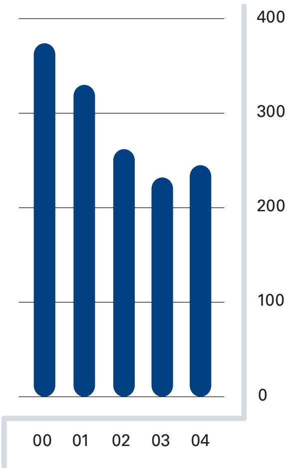
### Improved energy-efficiency – a response for possible increase in the price of electric energy

Outokumpu stainless steel plants in Finland, Sweden and Britain belong to the emission trading system, which started in January 2005 in the European Union. The plants in Finland and Sweden got their quotas according to the national allocation plans by the end of 2004, but in Britain the process was delayed and the national allocation is pending. All Outokumpu sites have adequate environmental permits for emission trading system as well as systems for monitoring and forecasting carbon dioxide emissions in place.

In Finland and Sweden Outokumpu got enough carbon dioxide emission allowances for the planned production. This is due to long-term and systematic work to save energy by participating in voluntary national energy savings programs. Hence the emission trading system will in the early stages affect Outokumpu mainly through a possible rise in the price of electrical energy. Outokumpu has prepared to meet higher electricity prices not only through hedging, but also by stepping up the efficiency of the use of energy at its plants, concluding long-term delivery agreements and acquiring stakes of electricity production based on renewable energy sources. In 2004, Outokumpu's consumption of electric energy was 3 TWh in the Nordic countries and some 1 TWh outside the Nordic countries.

Outokumpu participates together with authorities in preparing the national allocation criteria of green house gas emis-

**Sick leave days**
(per million hours worked, employees and contractors)




Sick leave days caused by accidents.

sions for so-called Kyoto period 2008–2012. The national allocation plans should be in place in the middle of 2006. European commission has initiated the discussion about emission cut objectives after the first Kyoto period.

### Environmental permits

All Outokumpu sites have valid environmental permits in place or applications have been filed. Many sites have applied for new permits because of changes in their operations or the implementation of EU's environmental legislation (IPPC directive). Some of the sites have already been granted the environmental permit according to IPPC in 2004.

In 2004, after requesting the preliminary ruling from the European Court of Justice, the Supreme Administrative Court of Finland issued its decision concerning the waste interpretation in the decision about the Kemi mine environmental permit. The decision was that barren rock and tailings are to be considered as waste according to the EU's waste directive. The Supreme Administrative Court has not yet issued its decision on the interpretations of slag produced in the ferrochrome production, metal scrap used as raw material at Tornio melt shop as well as on the appeal of the new environmental permit of the Kemi mine.

### Environmental investments and expenditure

Total environmental investments amounted to EUR 52 million in 2004. The largest investment, EUR 20 million, was the dust recovery system in connection with the modernization of the older Tornio melt shop. Dust recovery was also improved at the Tornio hot rolling mill, by investing EUR 2.5 million for a new electrostatic filter. A total of EUR 8 million was invested in water treatment systems at Tornio, Wildwood and Zutphen. Altogether the landfill investments at Tornio, Kemi and Sheffield were EUR 4 million. Operating costs for environmental protection amounted to EUR 47 million in 2004. Of that amount, reclamation of old mine sites accounted for EUR 0.5 million.

### Environmental liabilities and risks

In the US, the PGT groundwater case is now closed. This issue is explained in more detail in the note 29 to the consolidated financial statements on page 93.

Demolishing and remediation of the Kenosha connector strip plant that was closed in 1999 have been finalized and the land has been transferred to the city of Kenosha with no remaining liabilities. The previous owner covered the costs. In Gusum, Sweden the industrial area of Gräsdalen has been partly remedied in connection to operational changes. Pumping and treating of groundwater is ongoing at Tornio, Wildwood, Montreal and Grenada sites.

Soil and groundwater surveys continued and renovation plans were prepared at six Stainless and eight Copper sites. In addition, reclamation work continued at closed mine sites. Provisions for soil risks and waste management amounted to a total of EUR 31 million. Provisions for reclamation of closed mines were about EUR 5 million.

The legal proceedings related to the occasional emission non-compliances at the Zutphen brass strip mill in 2000–2001 are underway.

Outokumpu is not a party in any significant juridical or administrative proceedings concerning environmental issues, nor is it aware of any environmental risks that would have a material impact on the Group's financial position.

### Health and safety

In 2004, the Group's accident frequency was 18 accidents per million man-hours and no major accidents occurred. At Outokumpu's major stainless steel plants a thorough safety management assessment and review was carried out, and as a result an extensive safety-training program was started.

Year 2005 is the second group-wide safety theme year. A new safety target for the Group was set at 5 accidents per million man-hours before 2009.

### Reporting on corporate social responsibility

Development of group-level corporate social responsibility reporting continued in 2004. For example, Outokumpu's current reporting practices were compared with the Global Reporting Initiative (GRI) principles. Furthermore, peer companies were also benchmarked. During 2005, a corporate social responsibility policy for the Group will be established and a reporting system will be set up for corporate social responsibility issues. Outokumpu's first corporate social responsibility report will be published in spring 2006.

Further information on environmental issues is available at www.outokumpu.com as well as in the Outokumpu and Environment report, which will be published in spring 2005.

# Outokumpu Oyj's financial statements for 2004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Consolidated financial statements presented in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS). Outokumpu started to apply IFRS in its third-quarter interim report, which was published on October 26, 2004. Prior to IFRS, Outokumpu's financial reporting was based on Finnish Accounting Standards (FAS). Outokumpu's date of transition to IFRS was January 1, 2003.

Accounting principles applied in the IFRS financial statements are presented on pages 60–64. In graphs and tables, data for the years 2003–2004 are presented according to IFRS and for prior years according to FAS.

All figures in the annual report have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

# Review by the Board of Directors

## IFRS standards adopted

Outokumpu has been applying International Financial Reporting Standards (IFRS) in its financial reporting from the third-quarter interim report 2004 onwards. Outokumpu's date of transition to IFRS was January 1, 2003. However, for the adoption of IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation), the date of transition was January 1, 2004. As for financial instruments, Outokumpu has utilized the exemption for a first-time adopter of IFRS not to restate comparative information for 2003. Prior to IFRS, Outokumpu's financial reporting was based on Finnish Accounting Standards (FAS). The most significant effects of the transition to IFRS concerned the treatment of positive and negative goodwill, pension and inventory accounting, recognition of financial instruments and the presentation of market price gains and losses.

## Financial performance improved

Outokumpu's financial result for 2004 improved significantly on the previous year in step with the strengthened global economic recovery, better market conditions and progress in the Tornio ramp-up. The Group's sales rose by 20% to EUR 7 136 million (2003: EUR 5 922 million) and the official operating profit more than doubled to EUR 468 million (2003: EUR 214 million). The profitability improvement was mainly attributable to Outokumpu Stainless. Also, the financial performance of Outokumpu Copper and Outokumpu Technology developed favorably. Net profit for the financial year rose to EUR 390 million (2003: EUR 112 million) and earnings per share to EUR 2.13 (2003: EUR 0.65).

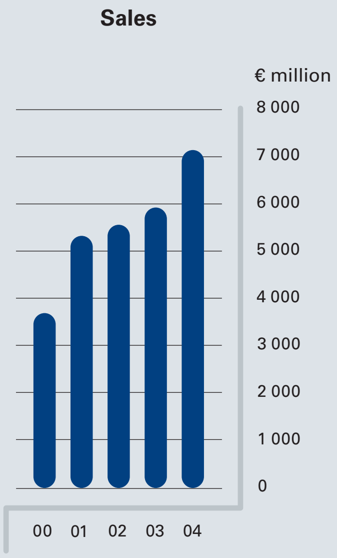
Net cash generated from operating activities was, however, EUR 128 million negative (2003: EUR 194 million positive). The Group's working capital increased substantially due to soaring raw material prices, and capital expenditure was still relatively high at EUR 473 million. Therefore, the Group's gearing remained above the target level at 97.2% in spite of the clearly improved net profit for the period.

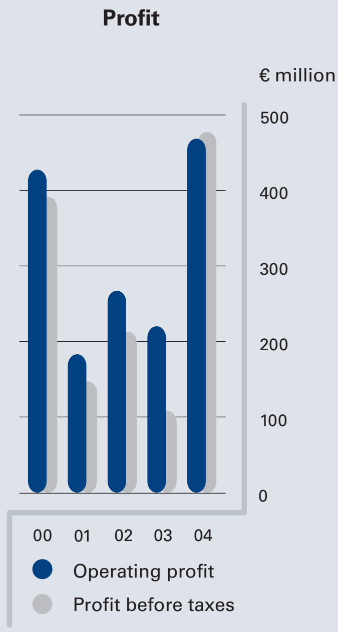
The Board of Directors is proposing to the Annual General Meeting that a dividend of EUR 0.50 per share be paid for 2004.

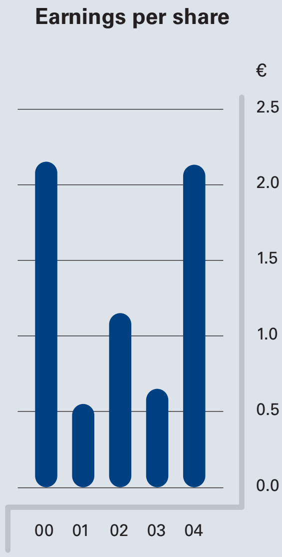
## Global demand for stainless steel up 6%

The economic recovery strengthened and broadened during 2004. Growth was especially strong in the US and activity in Japan also improved markedly. Rapid expansion continued in China. Growth also firmed in many other developing economies in Asia and Eastern Europe. As a result, global GDP rose by about 4%, one of the strongest showings in 20 years. The main disappointment was in the eurozone, notably in Germany and Italy, where growth remained very sluggish. The main end-uses for metals were strong during 2004, in line with the general economic background. However, activity showed signs of slowing toward the end of the year, and growth in many sectors is expected to moderate during 2005.

Both production of and consumption for stainless steel increased by an estimated 6% in 2004. Growth was led by China and followed by the US. The increase in consumption was slowest in Europe, at 4%, but better than in 2003. Very high and volatile raw material prices resulted in a significant fluctuation in demand as stockists optimized the timing of their buying. In Europe, demand was healthy during the first five months, supported partly by some competitors' production problems and increasing alloy costs, but slowed down toward the summer. In Europe, demand for cold rolled products weakened after the summer and remained sluggish in the last quarter. Asian demand was very strong in the first quarter but slowed down clearly in




the second quarter due to de-stocking and the Chinese government's measures to cool down the local economy. Asian demand, especially for white hot strip, improved markedly after the summer and was very strong in the last quarter. The US cold rolled stainless steel market recovered significantly in the first quarter and remained very strong throughout the year.

The nickel market was extremely volatile and prices at historically high 2004. Volatility was mainly driven by speculative activity rather than market fundamentals. The high nickel prices resulted in an increased supply of stainless scrap, which reduced the use of primary nickel. Some of the end users also substituted high nickel alloyed stainless steel with lower nickel-containing grades. These factors helped the undersupplied market seen in the first half of the year to return to balance in the second half. Altogether, the consumption of nickel grew by 2% in 2004. The average nickel price for 2004 was 43% higher than in 2003.

Demand for ferrochrome increased by 8% in 2004 due to strong growth in stainless steel production. The price of ferrochrome rose in the first and second quarters, but stabilized for the second half of the year. The average ferrochrome price was 60% higher than in 2003. Also, the average prices for molybdenum and iron scrap rose significantly compared to 2003.

In Europe, the cold rolled base price improved in the first half of the year due to strong demand and increasing alloy surcharge, that drove speculative buying. Base price came up against downward pressure in the second half when demand weakened. According to CRU, the German cold rolled average base price (2 mm cold rolled 304 sheet) was 2% higher and conversion margin 10% higher than in 2003. In the US, the cold rolled base price improved in the first half of the year and stabilized thereafter. In Asia, the transaction prices for cold rolled material and white hot strip decreased in the second quarter due to lower demand and raw material costs, but recovered strongly toward the end of 2004.

The base price of quarto plate improved in Europe and demand increased toward the end of the year. The project market for tubular products was good in Europe, but the standard products business was markedly softer. The base price of tubes improved before the summer, but has been under pressure since then. The long products market improved globally, but the trend in Europe was below global average. Precision strip prices remained low. In the US, demand for quarto plate, tubular and long products improved significantly at the beginning of 2004 and has since remained at good levels.

For copper and copper alloy products, 2004 was a year of contrasting fortunes. In global terms, consumption was very strong and rose by 7% from the previous year. However, activity varied sharply between regions. US consumption rose more than 9%, helped by substantial restocking in the early part of the year, and Asian consumption improved at a similar rate thanks to further dynamic growth in China. In contrast, Western European demand remained lackluster, and conversion margins were under pressure. The high and volatile price of copper, and spiraling premiums on cathode, exacerbated the pressure on conversion margins.

### Sales by business

| € million | 2004 | 2003 | Change, % |
|---|---|---|---|
| Stainless | **4 637** | 3 450 | 34 |
| Copper | **2 050** | 1 628 | 26 |
| Technology | **423** | 405 | 4 |
| Zinc | **–** | 396 | – |
| Other operations | **163** | 263 | (38) |
| Intra-group sales | **(136)** | (220) | (38) |
| The Group | **7 136** | 5 922 | 20 |

## Sales rise by 20% due to higher prices and deliveries

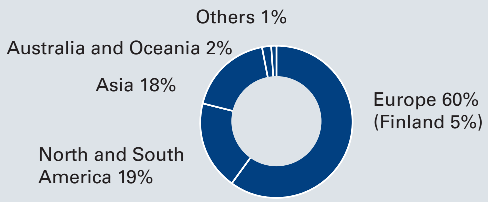
The Group's sales rose by 20% compared with 2003 and amounted to EUR 7 136 million. The growth in sales was primarily attributable to the higher selling prices of stainless steel and copper products, increased total deliveries of copper products and a better product mix within stainless steel. The 2003 figures include sales of the assets transferred to Boliden at the end of 2003.

Sales of Outokumpu Stainless were up by 34% compared to the previous year. This resulted mainly from higher raw material costs and improved base prices. Total deliveries were at the previous year's level, but the 12% higher deliveries of cold rolled products and white hot strip improved the product mix. The weakening of the US dollar against the euro had a negative impact on sales.

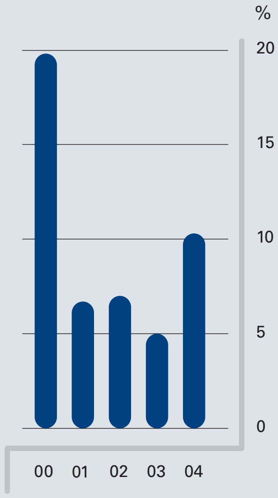
The 26% growth in Outokumpu Copper's sales was mainly due to an increase in delivery volumes following the acquisition of the tube and brass business from Boliden at the end of 2003. Also, the higher copper raw material prices contributed significantly to sales. Sales of Outokumpu Technology grew by 4% due to the increased activity of customer industries. On the other hand, sales by Other operations were down by 38% because of the sale of Tara mine to Boliden at the end of 2003.

The relative share of the Group's sales to Europe declined slightly from 62% to 60%. The share of Americas and Asia rose to 19% and 18%, respectively. More detailed geographical segment information is given in note 3.2 to the consolidated financial statements on page 71.

**Sales by market area**




**Return on capital employed**




## A substantial increase in profits

The Group's operating profit more than doubled to EUR 468 million (2003: EUR 214 million). The improvement in profitability was mainly attributable to Outokumpu Stainless. Also, the financial performance of Outokumpu Copper and Outokumpu Technology developed favorably. The Group's operating profit margin was 6.6% (2003: 3.6%). Operating profit includes EUR 29 million of non-recurring items (2003: EUR 127 million).

Outokumpu Stainless' operating profit for 2004 improved considerably compared to the previous year and operating profit margin was 9.5%. Almost all the business units within Stainless improved their profitability. However, the majority of the improved operating profit came from the Coil Products division, where the higher share of finished products in total deliveries improved the average conversion margin. The higher European cold rolled base price also improved profitability. The rise in raw material prices had a positive effect on operating profit because of timing difference between inventory turnover and alloy surcharge. The inclusion of an iron component in the alloy surcharge formula improved profitability from June onwards. Stainless' operating profit includes non-recurring items of EUR 17 million in total, which comprises the release from the Finnish TEL disability pension liability, capital gain on the sale of Panteg assets and the closure costs for the Stelco Hardy operations. The comparison period includes a negative non-recurring item of EUR 7 million relating to the closure of Panteg.

Outokumpu Copper's operating profit improved significantly from the previous year. However, profitability was still unsatisfactory. Copper's operating profit includes non-recurring items of EUR 7 million. These items were the release from the TEL disability pension liability and closure costs for the Waalwijk tube plant. The comparison period includes negative non-recurring items of EUR 31 million consisting of the provisions of the copper tube cartel fines (EUR 54 million negative) as well as the adjustment related to the assets acquired from Boliden (EUR 23 million). The LIFO-FIFO inventory adjustment in 2004 amounted to EUR 22 million (2003: EUR 2 million negative).

### Operating profit by business

| € million | 2004 | 2003 | Change |
|---|---|---|---|
| Stainless | 442 | 99 | 343 |
| Copper | 52 | (6) | 58 |
| Technology | 29 | 5 | 24 |
| Zinc | – | 20 | (20) |
| Other operations | (55) | 93 | (148) |
| Intra-group items | 0 | 3 | (3) |
| The Group | 468 | 214 | 254 |

Outokumpu Technology's operating profit remained unsatisfactory in spite of the clear increase from the previous year. The rise in operating profit resulted mainly from non-recurring items of EUR 21 million, which were attributable to the gain on the sale of the filter business and the release from the TEL disability pension liability. The comparison period did not include non-recurring items.

Other operations' operating loss resulted mainly from such business development and Corporate Management expenses that are not allocated to businesses. In addition to this, the operating result includes negative non-recurring items of EUR 16 million, which comprises the loss from the sale of Boliden shares and the release from the TEL disability pension liability. Other operations' operating profit in 2003 included non-recurring items of EUR 165 million, which related to capital gains on various asset disposals.

The Group's share of results in associated companies rose to EUR 78 million (2003: EUR 15 million negative) due to new Boliden's good performance. At the end of December, Outokumpu's remaining 26.5% stake in Boliden had a carrying value of EUR 256 million, which is slightly lower than its current market value.

The Group's net financial expenses decreased to EUR 69 million (2003: EUR 91 million). Net interest expenses remained low relative to the amount of net interest-bearing debt due to low interest rate level. Market price gains and losses arising mainly from metals exchange deals and the recognition of electricity derivatives were EUR 24 million in total. However, the underlying physical exposures had a negative impact on the Group's operating profit.

The Group's profit before taxes rose to EUR 477 million (2003: EUR 108 million). The Group's effective tax rate was low at 18.4% due to reduction in the Finnish corporate income tax rate and utilization of tax losses, on which no deferred tax asset had previously been recognized. Net profit for the financial year increased to EUR 390 million (2003: EUR 112 million). Earnings per share amounted to EUR 2.13 (2003: EUR 0.65). The return on capital employed rose to 10.3% and the return on equity to 17.0% (2003: 5.0% and 5.4%).

### Capital structure still below target

Net cash generated from operating activities decreased from the previous year and was EUR 128 million negative (2003: EUR 194 million positive). The negative cash flow resulted mainly from the increase in working capital due to the very high raw material prices and larger business volume. Internal measures for managing working capital did not suffice to offset the impact of the significant rise in raw material prices.

The Group's net interest-bearing debt increased from the previous year and stood at EUR 2 435 million (2003: EUR 2 025 million). The Group's equity-to-assets ratio strengthened to 35.8% (Dec. 31, 2003: 33.0%), and gearing was 97.2% (Dec. 31, 2003: 97.2%). Key issues for bringing gearing down to the 75% target level are good profits, the freeing up of working capital through operational excellence and the potential divestment of fabricated copper products business. It is estimated that at the year-end the Group had excess working capital of some EUR 400 million due to increased raw material prices compared with the long-term averages.

**Key financial indicators on financial position**

| € million | 2004 | 2003 |
|---|---|---|
| Interest-bearing liabilities | | |
| Long-term | 1 975 | 1 777 |
| Current | 1 150 | 1 045 |
| Total interest-bearing liabilities | 3 125 | 2 821 |
| Interest-bearing assets | (690) | (796) |
| Net interest-bearing debt | 2 435 | 2 025 |
| | | |
| Net interest-bearing debt in relation to sales, % | 34.1 | 34.2 |
| Total equity | 2 506 | 2 083 |
| Debt-to-equity ratio, % | 97.2 | 97.2 |
| Equity-to-assets ratio, % | 35.8 | 33.0 |
| Net cash generated from operating activities | (128) | 194 |
| Net financial expenses | 69 | 91 |
| Net financial expenses in relation to sales, % | 1.0 | 1.5 |
| Interest cover | 6.0 | 2.1 |

The Group's liquidity remained satisfactory throughout the year in spite of significant increase and fluctuation in working capital. At year-end, cash and cash equivalents amounted to EUR 211 million. The Group had committed and available credit facilities as well as other agreed and undrawn loans totaling EUR 684 million.

### Capital expenditure heading down

The Group's total capital expenditure declined from the previous year and amounted to EUR 473 million (2003: EUR 622 million). Apart from the ongoing Tornio expansion, the biggest single capital expenditure item, EUR 76 million, was the share subscription in the Boliden rights issue in March 2004. Capital expenditure in 2005 is estimated to decrease markedly from 2004 and to normalize close to the level of depreciation.

**Capital expenditure by business**

| € million | 2004 | 2003 |
|---|---|---|
| Stainless | 276 | 373 |
| Copper | 59 | 106 |
| Technology | 9 | 25 |
| Zinc | – | 60 |
| Other operations | 129 | 58 |
| The Group | 473 | 622 |

The Tornio expansion program progressed significantly during 2004. The modernization of the older melt shop was carried out in the third quarter and the commissioning of the new stands in order to increase the capacity of the hot rolling mill to 1.65 million tonnes was completed in September. The idled furnace in the hot rolling mill will go into operation in the first quarter of 2005 after which the full technical capacity is available. Ramping-up of the new cold rolling capacity (RAP5) is continuing according to plan. All the RAP5 products have been produced, and the full capacity is planned to be technically available in mid-2005. The market conditions are taken into account in the ramp-up volumes and product mix. Due to strong Asian demand and relatively good prices the RAP5 production has recently been steered toward white hot strip products at the expense of cold rolled material.

The ramp-up of the Kemi underground mine is proceeding as planned and the increase in long products capacity in the US was inaugurated in October 2004.

In December 2004, Outokumpu decided to invest about EUR 53 million in the Kloster thin strip cold rolling mill in Sweden. The capital expenditure will be spread over a two-year period, with the bulk to be spent in 2006. The investment will expand the mill's overall capacity from 25 000 tonnes to 45 000 tonnes per year and enable the production of thinner and wider products. The main components of the investment are a new cold rolling mill, a bright annealing line and a slitting line. The new capacity is scheduled to be in place by the end of 2006.

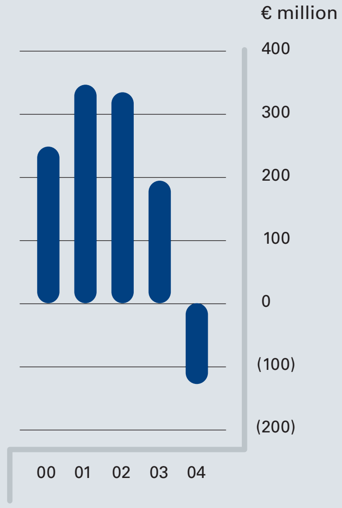
In February 2004, Outokumpu completed the transaction whereby it acquired the remaining 50% ownership in Neumayer GmbH, a subsidiary of Outokumpu Copper, which fabricates various alloy wire products in Leobersdorf, Austria. As consideration, Outokumpu Oyj transferred 309 597 treasury shares to the seller.

## Proceeds from the sale of the Boliden shares EUR 130 million

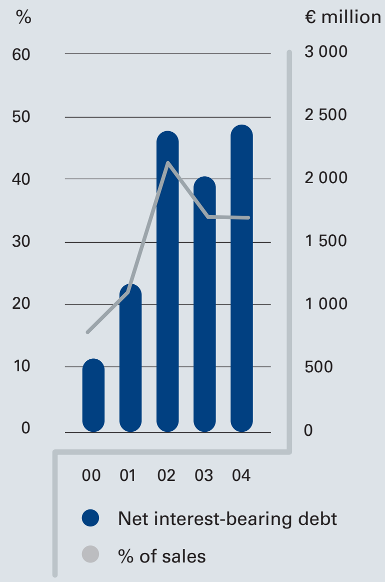
In December 2004, Outokumpu sold, in conjunction with Boliden's share offering, 47 million shares in Boliden AB (publ) at a price of SEK 25 per share. The total proceeds from the sale for Outokumpu amounted to EUR 130 million. The sale of shares is in accordance with Outokumpu's strategy of decreasing its shareholding in Boliden over time. Following the sale, Outokumpu's shareholding in Boliden fell to 26.5%. The sale of the shares had a EUR 19 million negative non-recurring impact on Outokumpu's financial results. Due to Boliden's good earnings in the fourth quarter, the capital loss was larger than initially estimated, but at the same time Boliden contributed favorably to Outokumpu's results through the share of results in associated companies.

As a result of the Boliden transaction in 2003, Outokumpu had a subordinated note of EUR 166 million from Boliden in its balance sheet. Boliden repaid the whole amount in two installments in the last quarter of 2004 as part of its loan portfolio restructuring and following its successful equity offering.

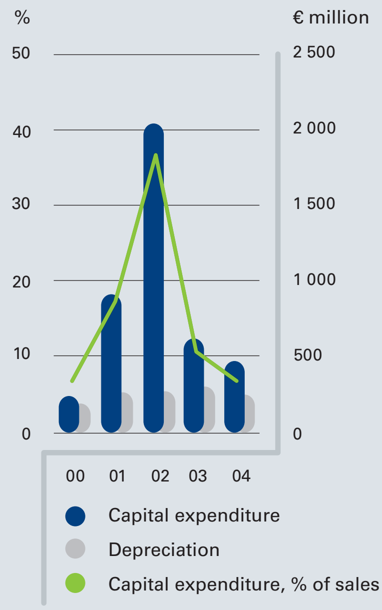
**Net cash flow from operations**



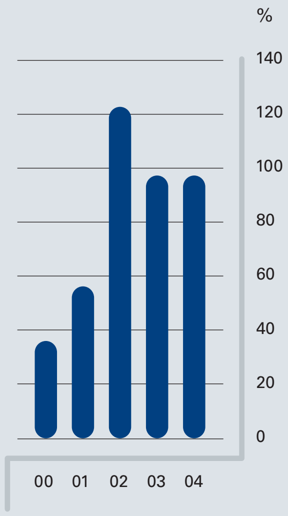

**Net interest-bearing debt**



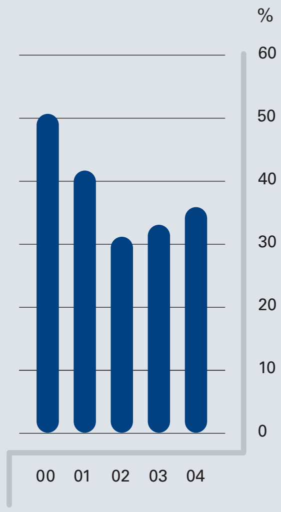

**Capital expenditure and depreciation**



Debt-to-equity ratio




Equity-to-assets ratio




### Outokumpu's strategic direction clear: aiming to be number one in stainless

In August 2004, the Board stated that the Group's future strategic direction will be based on leadership in stainless steel, and that Outokumpu is looking at various options for exiting from its fabricated copper products business. The process of divesting Outokumpu Copper is underway and as of today the Board is not in a position to assess any possible impact on the Group's financial position.

In January 2005, the Board outlined that Outokumpu is an international stainless steel and technology company. According to the new vision statement, Outokumpu's vision is to be the undisputed number one in stainless, with success based on operational excellence. To this end, two key strategic objectives were defined: "Value creation through building superior production and distribution capabilities in all major markets globally" and "Value realization through production and commercial excellence". The ultimate goal is to secure a significant and sustained increase in shareholder value.

Outokumpu's short-term priority is to deliver on the promises from the previous strategic phase of growth and transformation in 2000-2004. At the same time, new goals are being set for the coming five-year period – to secure the position of number one in stainless in Europe. Outokumpu's future success will be achieved by building and strengthening operational excellence in both commercial and production arena. The final step is to leverage operational excellence in other regions to achieve global leadership, i.e., to reach the undisputed number one position globally in stainless in the coming ten years. In the light of Outokumpu's target of continuing to grow faster than the market, the operational excellence efforts will be supported by further development of the Group's current asset-base, value chain and product offering.

### New financial objectives, dividend policy unchanged

The Group's financial objectives were also aligned with the new vision. Outokumpu's overall financial objective is to generate the maximum sustainable economic value added. Specific group-level financial objectives for growth, profitability and financial strength are: to continue to grow faster than the market, to have a return on capital employed of over 13% and to be consistently the best among peers, and to have gearing below 75%. Outokumpu's dividend policy remains unchanged. The dividend payout ratio over a business cycle should be at least one-third of the period's profit.

### Management system and business organization trimmed toward operational excellence

The new organizational structure, effective April 1, 2005, also supports the new vision. The Group Executive Committee focuses on running the stainless business directly, and the new roles of the functional leaders of commercial and production operations will be essential in driving the operational excellence efforts together with the business units.

Outokumpu's stainless business will be organized into two divisions according to product types as well as into a separate Tubular Products business unit. The new General Stainless division will comprise three business units: Tornio Works, Coil Products Sheffield, and Sheffield Primary Products. The new Specialty Stainless division will consist of four business units: Avesta Works, Thin Strip, Hot Rolled Plate, and Long Products. Corporate Management and support functions will be realigned to support the new management system and business organization.

Under the new structure, Outokumpu Technology will be managed, from the Group perspective, at arms-length as a standalone business through its board work. Accordingly, it will continue to be developed as part of the Group but more independently. Until the divestment of the fabricated copper products business is completed, Outokumpu Copper will be managed separately. Both the technology and copper businesses will report to the Deputy CEO.

The new external reporting structure, which will go into effect in the second-quarter interim report, will be announced in June 2005.

## Changes in the Board of Directors and Group Executive Committee

Mr. Juha Rantanen was appointed CEO of the Outokumpu Group effective from January 1, 2005. Mr. Rantanen joined Outokumpu on October 1, 2004. Outokumpu's former CEO, Dr. Jyrki Juusela retired at the end of 2004. In accordance with Outokumpu's corporate governance principles, Mr. Juha Rantanen resigned on September 30, 2004 from Outokumpu's Board of Directors, and Mr. Ole Johansson moved up as Vice Chairman of the Board on October 1, 2004. Mr. Johansson became also the new Chairman of the Board's Audit Committee.

In connection with the new management system and business organization, the Board has appointed a new Group Executive Committee, effective April 1, 2005, and defined its members' duties as follows: Juha Rantanen (CEO), Karri Kaitue (Deputy CEO), Pekka Erkkilä (EVP – General Stainless & Production Operations), Olof Faxander (EVP – Specialty Stainless), Esa Lager (CFO) and Andrea Gatti (EVP – Commercial Operations). The Executive Vice President – Human Resources is still to be appointed.

The current Group Executive Committee will continue in office until March 31, 2005, as follows: Juha Rantanen, CEO, Karri Kaitue, Deputy CEO, Pekka Erkkilä, Tapani Järvinen (to continue as President of Outokumpu Technology reporting to the Deputy CEO as of April 1, 2005), Esa Lager, Juho Mäkinen (to continue as Special Adviser to the CEO from April 1, 2005 until his retirement on July 31, 2005), Kalevi Nikkilä (to retire on March 31, 2005), Vesa-Pekka Takala (to continue as Corporate Controller reporting to the CFO as of April 1, 2005) and Risto Virrankoski (to retire on February 15, 2005).

## Shareholders' Nomination Committee

A Shareholders' Nomination Committee was set up based on the resolution passed by the Annual General Meeting on April 2, 2004. It was given the task of preparing proposals on the composition of the Board of Directors along with director remuneration for the following General Meeting. The members of the Committee were: Markku Tapio (Chairman) representing the Finnish State, Pertti Parmanne representing the Finnish Social Insurance Institution, Kari Puro representing Ilmarinen, and Mikael Silvennoinen representing the OP-Delta investment fund. The Chairman of Outokumpu's Board, Heimo Karinen, served as an expert member. The committee submitted its proposals on January 31, 2005.

## Environment, health and safety

Environmental emissions and discharges were mostly below permission levels in 2004. Minor breaches occurred in Sheffield, Degerfors, Tornio and Wildwood sites. The biggest environmental investments were made at Tornio. The upgrading of the dust filter systems at the Tornio melt shop and hot rolling mill amounts to EUR 22 million and a significant reduction is anticipated in dust emissions. Also, a new hazardous waste land filling area is under construction at Tornio.

Outokumpu's stainless steel plants in Finland and Sweden received carbon dioxide emissions trading allowances and emission permits according to the national allocation plans in 2004. In Britain the process was delayed, but the final allocations should be available by the end of February 2005 at the latest. The received allowances are sufficient for Outokumpu's planned production in 2005–2007. Monitoring and forecasting systems for carbon dioxide emissions are in place.

An environmental impact assessment is underway for possible increase in production at Tornio. A separate impact assessment process concerning the main Tornio shipping channel was also started. The surveys related to soil and groundwater contamination continued at eight Copper and six Stainless sites. Groundwater remedial actions are ongoing in Tornio and three sites in the US. Outokumpu's appeal concerning the definition of ferrochrome slag and steel scrap as waste has gone before the Supreme Administrative Court of Finland.

All the Outokumpu units have valid environmental permits in place or they are in the process for applying for them. Outokumpu is not a party in any significant juridical or administrative proceeding concerning environmental issues, nor is it aware of any environmental risks that could have a material adverse effect on the Group's financial position.

In 2004, the accident frequency was at 18 accidents per million man-hours, and no major accidents were reported. A safety management assessment and safety review of the main sites in the Stainless business area were conducted in 2004. Consequently, an extensive safety-training program has been started. Year 2005 will be a group-wide safety theme year. A new safety target for the Group was set at 5 accidents per million man-hours before 2009.

## R&D is engaged in new products and applications

Expenditure on research and development during 2004 amounted to EUR 40 million or 0.6 % of the net sales (2003: EUR 48 million and 0.8 %). 68 new patent applications were filed (2003:74). In addition to new products, R&D focused on innovative manufacturing processes. They provide lower cost and emissions, shorter lead times and better quality.

New initiatives were taken to expand the stainless steel applications in the automotive industry and buildings sector. In the transportation and automotive segment, the special HyTens® material innovation team was dedicated solely to development of automotive components. New solutions for train construction were developed based on ultra-high strength, laser-welded sandwich panels. In the architecture, building and construction segment the focus has been on producing of design data for stainless steel building components.

Within Outokumpu Copper, the Nordic Systems™ product range for building sector was widened by adding new coatings, surface structures and appearances. Outokumpu Technology's new hydrometallurgical method of producing copper, HydroCopper™ was in successful test runs using concentrates from many potential customers, which demonstrates the wide interest in this new method. New applications were developed for Circofer® technology, which was originally developed for the direct reduction of iron ore. Outokumpu Technology also received an order to supply the world's largest solvent extraction plant to Escondida copper mine in Chile, thus rewarding intensive long-term R&D work.

The most important process developments were made at Tornio stainless operations. All the R&D skills and competencies were committed to installation and ramp-up of the hot rolling system and to revamping of the older melt shop. In addition to benefits in production, the melt shop revamping brings a significant reduction in dust emission. The ramp-up of the RAP5 continued. A new product RAP™2E was launched on the market. This product with tight thickness tolerances and smooth surface is ideal for tube makers and re-rollers. Trials to find and optimize a new production route for ferritic products continued. The flexibility of the RAP technology is showing a big potential in ferritics production. In copper products process development, the R&D focus was on sophisticated casting and rolling technologies, particularly in the production of tubes and narrow strips.

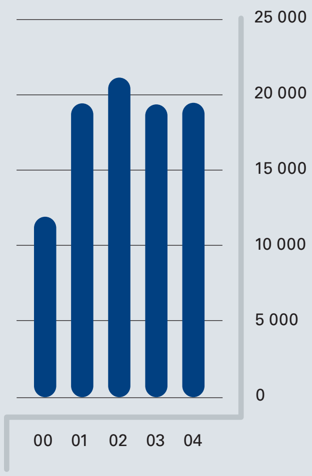
In order to minimize landfill waste, a new Hydrofluss™ product is being developed from stainless steel pickling sludge. The recently developed new stainless steel alloy, Lean Duplex LDX2101®, is making good progress in light structures in transportation and construction. It has been well received by customers.

### Human resources

Outokumpu's human resource management focused on three key HR-processes: Development Dialogue, O'People Employee Survey and Management Review Process. These processes are applied in all business units and their implementation was expanded during 2004.

During 2004, a total of five group-wide development programs – two O'Talent seminars, two Leading the Way programs and a Outokumpu Management Development Program – were carried out and around 100 people participated in them. In addition, the business units ran numerous development programs tailored at their specific needs.

**Personnel**




A new Outokumpu Personnel Forum (OPF) agreement was signed in an OPF meeting in May 2004 to replace the former Outokumpu and AvestaPolarit agreements. The new agreement follows the European Work Council Directive and forms the basis for employee participation in Outokumpu operations in Europe. A process to unite Outokumpu and AvestaPolarit personnel funds according to Finnish legislation is in progress.

Outokumpu's new vision to be the undisputed number one in stainless brings new HR challenges, notably in the areas of leadership, competence development, internal mobility, attracting and retaining talent and rewarding practices. At the same time, Outokumpu's potential exit from the fabricated copper products business is likely to decrease the number of the Group's employees significantly and lead to a major de-integration process.

At the end of the year, the Group employed 19 465 people in some 40 countries. The number of personnel increased only slightly from the previous year. Integration of the companies acquired from Boliden at the end of 2003 was completed during the year.

**Personnel by business**

| Dec. 31 | 2004 | 2003 |
|---|---|---|
| Stainless | 9 070 | 9 230 |
| Copper | 7 953 | 7 585 |
| Technology | 1 776 | 1 908 |
| Other operations | 666 | 636 |
| The Group | 19 465 | 19 359 |

### Repurchase and transfer of the company's own shares

The Board of Directors has valid authorizations from the Annual General Meeting of 2004 to repurchase and transfer of company's own shares (treasury shares). The authorizations are valid until the next Annual General Meeting. The authorization to repurchase the company's own shares has not been used. Outokumpu Oyj currently holds 498 533 treasury shares, which it has acquired in 2001.

On February 10, 2005, the Board of Directors confirmed the management remuneration of the third scheme that expired at the end of 2004. Under the said scheme, approximately 280 490 treasury shares will be transferred to the designated persons on February 14, 2005.

The repurchase and transfer of the company's own shares is discussed in greater detail in note 23 to the consolidated financial statements on pages 86–88.

### Competition law issues

In September 2004, Outokumpu received a notification from the European Commission concerning participation by Outokumpu's copper tube business in a cartel with respect to sanitary tubes in the European Union. The Commission concluded that Outokumpu had participated in a cartel and fined Outokumpu EUR 36 million. Outokumpu has appealed the sanitary tube decision with respect to the grounds for the calculation of the fine and the amount of the fine itself. In connection with the transition to IFRS, a provision of EUR 36 million related to the sanitary tube cartel fine was recognized already in the December 2003 income statement.

### The business outlook for the first half of 2005 set to hold steady

Global economic growth is expected to slow from the current 4% to closer to 3% in 2005. Western Europe is expected to remain the weakest of the major regions, hindered by the strength of the euro. Momentum in the US and Japan has also began to moderate. Doubts about the sustainability of the US current account deficit have been increasing, and worries remain as to whether China will succeed in slowing growth to a more sustainable level. Also, high energy prices could damp down the world business climate.

Business and consumer surveys remain positive, suggesting that the global economic growth will remain firm into the first half of 2005. Although the base price of stainless steel has softened somewhat, global capacity utilization rates are expected to remain high in 2005, providing a supportive background for prices and margins. The ramp-up of Outokumpu's new cold rolling mill (RAP5) in Tornio will continue to improve profitability through higher volumes and lower unit conversion costs. Furthermore, the product mix is expected to improve further. It is currently estimated that the increase in Outokumpu's total deliveries of finished products will be well above 20% in 2005 depending on the market situation.

Given the higher volumes and lower unit conversion costs, but also slightly softening base price of stainless steel, Outokumpu management estimates that the Group's operating profit excluding non-recurring items, during the first half of 2005 will be at least at the level of the corresponding period in 2004.

### Board of Directors' proposal for profit distribution

In accordance with the Board of Directors' established dividend policy, the payout ratio over a business cycle should be at least one-third of the company's profit for the period. In its annual dividend proposal to the Annual General Meeting, the Board of Directors will, in addition to financial results, take into consideration the company's investment and development needs.

The Board of Directors is proposing to the Annual General Meeting to be held on April 5, 2005 that a dividend of EUR 0.50 per share be paid from the profits for the financial year ended December 31, 2004 and that any remaining distributable funds be allocated to retained earnings. The suggested dividend record date is April 8, 2005 and the dividend will be paid on April 15, 2005. All the shares transferred on February 14, 2005 from the company to the persons belonging to the management's share remuneration scheme are also entitled to a full dividend for 2004.

According to the financial statements at December 31, 2004, the Group's distributable funds total EUR 1 010 million and those of the parent company EUR 567 million. The proposed dividend corresponds to 23.6% of the Group's profit for the financial year attributable to equity holders of the Company.

Espoo, February 10, 2005

Heimo Karinen
Ole Johansson
Evert Henkes
Arto Honkaniemi
Jorma Huuhtanen
Leena Saarinen
Soili Suonoja
Arto Vilppola

Juha Rantanen
CEO

# Auditor's report

**To the shareholders of Outokumpu Oyj**

We have audited the accounting records, the financial statements and the administration of Outokumpu Oyj for the period January 1–December 31, 2004. The financial statements prepared by the Board of Directors and the Chief Executive Officer include the report of the Board of Directors, the consolidated financial statements of the Outokumpu Group prepared in accordance with International Financial Reporting Standards (IFRS), and the parent company's financial statements prepared in accordance with prevailing rules and regulations in Finland. Based on our audit we express an opinion on these financial statements and on the parent company's administration.

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 administration has been to examine that the members of the Board of Directors and the Chief Executive Officer of the parent company have legally complied with the rules of the Finnish Companies Act.

In our opinion the consolidated financial statements prepared in accordance with International Financial Reporting Standards give a true and fair view of the consolidated result of operations, as well as of the financial position of the Outokumpu Group. The consolidated financial statements have been prepared in accordance with prevailing rules and regulations in Finland and can be adopted.

The parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements. The parent company's financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the company's result of operations and of the financial position. The parent company's financial statements can be adopted and the members of the Board of Directors and the Chief Executive Officer 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 funds is in compliance with the Finnish Companies Act.

Espoo, March 1, 2005

PricewaterhouseCoopers Oy
Authorized Public Accountants

Markku Marjomaa
Authorized Public Accountant

# Consolidated financial statements, IFRS

# Consolidated income statement

| € million | Note | 2004 | 2003 |
|---|---|---|---|
| **Sales** | 3, 5 | 7 136 | 5 922 |
| Cost of sales | 8 | (6 202) | (5 315) |
| **Gross margin** | | 934 | 608 |
| Other operating income | 6 | 63 | 210 |
| Selling and marketing expenses | 8 | (210) | (206) |
| Administrative expenses | 8 | (244) | (272) |
| Research and development expenses | 8 | (41) | (55) |
| Other operating expenses | 7 | (35) | (71) |
| **Operating profit** | | 468 | 214 |
| Share of results of associated companies | 16 | 78 | (15) |
| Financial income and expenses | 10 | | |
| Net interest expenses | | (95) | (99) |
| Market price gains and losses | | 24 | (1) |
| Other financial income and expenses | | 2 | 9 |
| Total financial income and expenses | | (69) | (91) |
| **Profit before taxes** | | 477 | 108 |
| Income taxes | 11 | (87) | 4 |
| **Net profit for the financial year** | | 390 | 112 |
| **Attributable to:** | | | |
| Equity holders of the Company | | 383 | 111 |
| Minority interest | | 7 | 1 |
| **Earnings per share for profit attributable to the equity holders of the Company:** | | | |
| Earnings per share, € | 12 | 2.13 | 0.65 |
| Diluted earnings per share, € | | 2.13 | 0.65 |
| **Average number of shares** | | 180 056 920 | 171 623 035 |

All figures in the financial statements have been rounded and consequently the sum of individual figures can deviate from the presented sum figure.

# Consolidated balance sheet

| € million | Note | 2004 | 2003 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 14 | **620** | 601 |
| Property, plant and equipment | 15 | **2 743** | 2 668 |
| Investments in associated companies [1)] | 16 | **291** | 255 |
| Available-for-sale financial assets [1)] | 17 | **53** | 18 |
| Derivative financial instruments [1)] | 19 | **2** | – |
| Deferred tax assets | 11 | **44** | 69 |
| Trade and other receivables | 21 | | |
| Interest-bearing [1)] | | **63** | 207 |
| Non interest-bearing | | **11** | 12 |
| **Total non-current assets** | | **3 827** | 3 830 |
| **Current assets** | | | |
| Inventories | 20 | **1 579** | 1 219 |
| Available-for-sale financial assets [1)] | 17 | **8** | 6 |
| Derivative financial instruments [1)] | 19 | **44** | 64 |
| Trade and other receivables | 21 | | |
| Interest-bearing [1)] | | **18** | 15 |
| Non interest-bearing | | **1 390** | 1 032 |
| Cash and cash equivalents [1)] | 22 | **211** | 231 |
| **Total current assets** | | **3 250** | 2 567 |
| **TOTAL ASSETS** | | **7 077** | 6 397 |

[1)] Included in net interest-bearing debt.

| € million | Note | 2004 | 2003 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to the equity holders of the Company** | | | |
| Share capital | | 308 | 304 |
| Unregistered share capital | | – | 0 |
| Premium fund | | 700 | 681 |
| Other reserves | | 27 | 14 |
| Retained earnings | | 1 049 | 938 |
| Net profit for the financial year | | 383 | 111 |
| | | 2 468 | 2 048 |
| **Minority interest** | | 38 | 35 |
| **Total equity** | 23 | 2 506 | 2 083 |
| **Non-current liabilities** | | | |
| Long-term debt [1] | 26 | 1 971 | 1 777 |
| Derivative financial instruments [1] | 19 | 4 | – |
| Deferred tax liabilities | 11 | 255 | 248 |
| Pension obligations | 24 | 139 | 186 |
| Provisions | 25 | 38 | 72 |
| Trade and other payables | 27 | 10 | 13 |
| **Total non-current liabilities** | | 2 417 | 2 297 |
| **Current liabilities** | | | |
| Current debt [1] | 26 | 1 103 | 986 |
| Derivative financial instruments [1] | 19 | 15 | 33 |
| Income tax liabilities | 11 | 29 | 33 |
| Provisions | 25 | 29 | 31 |
| Trade and other payables | 27 | | |
| Interest-bearing [1] | | 32 | 26 |
| Non interest-bearing | | 947 | 909 |
| **Total current liabilities** | | 2 154 | 2 017 |
| **TOTAL EQUITY AND LIABILITIES** | | 7 077 | 6 397 |

[1] Included in net interest-bearing debt.

# Consolidated cash flow statement

| € million | Note | 2004 | 2003 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Net profit for the financial year | | **390** | 112 |
| Adjustments for | | | |
| Taxes | 11 | **87** | (4) |
| Depreciation | 14, 15 | **251** | 304 |
| Share of results of associated companies | 16 | **(78)** | 15 |
| Profit/loss on sale of property, plant and equipment | 6, 7 | **(3)** | (119) |
| Interest income | 9 | **(23)** | (14) |
| Dividend income | 9 | **(3)** | (3) |
| Interest expense | 9 | **118** | 112 |
| Other adjustments | | **(7)** | (5) |
| | | **341** | 286 |
| Change in working capital | | | |
| Change in trade and other receivables | | **(332)** | (60) |
| Change in inventories | | **(354)** | (36) |
| Change in trade and other payables | | **37** | 53 |
| Change in provisions | | **(61)** | (44) |
| | | **(710)** | (87) |
| Dividends received | | **3** | 3 |
| Interest received | | **23** | 14 |
| Interest paid | | **(112)** | (110) |
| Income tax paid | | **(63)** | (24) |
| **Net cash generated from operating activities** | | **(128)** | 194 |
| **Cash flow from investing activities** | | | |
| Acquisition of subsidiaries, net of cash | 4 | **0** | (56) |
| Acquisition of shares in associated companies | 16 | **(76)** | – |
| Acquisition of available-for-sale financial assets | 17 | **(26)** | (11) |
| Purchases of property, plant and equipment | 15 | **(337)** | (447) |
| Purchases of intangible assets | 14 | **(39)** | (55) |
| Proceeds from disposal of subsidiaries, net of cash | 4 | **18** | 362 |
| Proceeds from sale of shares in associated companies | 16 | **127** | 28 |
| Proceeds from sale of property, plant and equipment | 15 | **8** | 2 |
| Proceeds from sale of available-for-sale financial assets | 17 | **6** | 23 |
| Loan repayments received from associated companies | 30 | **172** | 2 |
| Change in other long-term receivables | | **(6)** | (9) |
| **Net cash used in investing activities** | | **(152)** | (161) |
| **Cash flow before financing activities** | | **(280)** | 33 |
| **Cash flow from financing activities** | | | |
| Borrowings of long-term debt | | **379** | 734 |
| Repayments of long-term debt | | **(144)** | (384) |
| Change in current debt | | **25** | (344) |
| Dividends paid | | **(36)** | (69) |
| Proceeds from share subscriptions | | **19** | 6 |
| Other financing cash flow | | **(8)** | 37 |
| **Net cash generated from financing activities** | | **235** | (20) |
| Other adjustments | | **30** | 4 |
| **Net change in cash and cash equivalents** | | **(16)** | 17 |
| Cash and cash equivalents at the beginning of the financial year | | **231** | 222 |
| Foreign exchange rate effect on cash and cash equivalents | | **(4)** | (8) |
| Net change in cash and cash equivalents | | **(16)** | 17 |
| **Cash and cash equivalents at the end of the financial year** | 22 | **211** | 231 |

# Consolidated statement of changes in equity

| | Attributable to the equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| € million | Share capital | Unregistered share capital | Share premium fund | Other reserves | Fair value reserves | Treasury shares | Cumulative translation differences | Retained earnings | Minority interest | Total equity |
| **Equity on Jan. 1, 2003** | **293** | **0** | **630** | **15** | **–** | **(14)** | **(18)** | **1 101** | **43** | **2 050** |
| Net investment hedges | – | – | – | – | – | – | 1 | – | – | 1 |
| Change in translation differences | – | – | – | – | – | – | (44) | – | 0 | (44) |
| Items recognised directly in equity | – | – | – | – | – | – | (43) | – | 0 | (43) |
| Net profit for the financial year | – | – | – | – | – | – | – | 111 | 1 | 112 |
| **Total recognised income and expenses** | – | – | – | – | – | – | (43) | 111 | 1 | 69 |
| Dividends paid | – | – | – | – | – | – | – | (69) | – | (69) |
| Transfers from unregistered share capital | 0 | (0) | – | – | – | – | – | – | – | 0 |
| Shares subscribed with options | 1 | 0 | 4 | – | – | – | – | – | – | 5 |
| Converted bonds | 1 | – | 2 | – | – | – | – | – | – | 3 |
| Share offering | 9 | – | 45 | – | – | – | – | – | – | 54 |
| Outokumpu Oyj shares owned by associated companies | – | – | – | – | – | – | – | (26) | – | (26) |
| Transfer of treasury shares | – | – | – | – | – | 2 | – | – | – | 2 |
| Other changes | – | – | (0) | (1) | – | – | – | 5 | (9) | (5) |
| **Equity on Dec. 31, 2003** | **304** | **0** | **681** | **14** | **–** | **(12)** | **(61)** | **1 122** | **35** | **2 083** |
| Cash flow hedges | – | – | – | – | (2) | – | – | – | – | (2) |
| Fair value gains on available-for-sale financial assets | – | – | – | – | 16 | – | – | – | – | 16 |
| Net investment hedges | – | – | – | – | – | – | (2) | – | – | (2) |
| Change in translation differences | – | – | – | – | – | – | 4 | – | 0 | 4 |
| Items recognised directly in equity | – | – | – | – | 15 | – | 2 | – | 0 | 17 |
| Net profit for the financial year | – | – | – | – | – | – | – | 383 | 7 | 390 |
| **Total recognised income and expenses** | – | – | – | – | 15 | – | 2 | 383 | 7 | 407 |
| Dividends paid | – | – | – | – | – | – | – | (36) | – | (36) |
| Transfers from unregistered share capital | 0 | (0) | – | – | – | – | – | – | – | 0 |
| Shares subscribed with options | 4 | – | 15 | – | – | – | – | – | – | 19 |
| Converted bonds | 1 | – | 3 | – | – | – | – | – | – | 4 |
| Outokumpu Oyj shares owned by associated companies | – | – | – | – | – | – | – | 26 | – | 26 |
| Transfer of treasury shares | – | – | 0 | – | – | 6 | – | – | – | 6 |
| Other changes | – | – | 1 | (1) | – | – | – | 1 | (4) | (3) |
| **Equity on Dec. 31, 2004** | **308** | **–** | **700** | **13** | **15** | **(5)** | **(59)** | **1 496** | **38** | **2 506** |

# Notes to the consolidated financial statements

## 1. Accounting principles for the consolidated accounts

### Principal activities

Outokumpu Oyj is a Finnish public limited liability company organized under the laws of Finland and domiciled in Espoo. The parent company, Outokumpu Oyj, has been listed on the Helsinki stock exchange since 1988.

Outokumpu is an international stainless steel and technology company. Customers representing a wide range of industries use our metal products, technology and services worldwide. Outokumpu Oyj and its subsidiaries (together "the Outokumpu Group" or "the Group") have been organized into three strategic entities in 2004: Outokumpu Stainless, Outokumpu Copper and Outokumpu Technology.

In 2004, Outokumpu operated in about 40 countries and employed some 19 500 people. The Group's sales amounted to EUR 7.1 billion, of which 95% was generated outside Finland.

### Basis for preparation of the financial statements

These are the first consolidated financial statements of Outokumpu in accordance with International Financial Reporting Standards (IFRS). Prior to IFRS, Outokumpu's financial reporting was based on Finnish Accounting Standards (FAS). The consolidated financial statements are presented in millions of euros and have been prepared under the historical cost conventions, unless otherwise stated in the accounting principles.

In 2004, the Group adopted IFRS standards and the adoption was done according to the IFRS 1 (First-time Adoption of IFRS). Outokumpu's date of transition to IFRS was January 1, 2003. However, for the adoption of IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation), the date of transition was January 1, 2004. For financial instruments, Outokumpu utilized the exemption for a first-time adopter of IFRS not to restate comparative information for 2003. The effects of the adoption of IFRS are summarized in note 2, Transition to IFRS. Comparative figures for 2003 presented in these financial statements have been restated to comply with IFRS.

### Standards applied before their effective date

The following standards, as amended in 2003, have been applied in the preparation of the financial statements before their effective date January 1, 2005:

| | |
|---|---|
| IAS 1 | Presentation of Financial Statements |
| IAS 2 | Inventories |
| IAS 10 | Events After the Balance Sheet Date |
| IAS 17 | Leases |
| IAS 21 | The Effects of Changes in Foreign Exchange Rates |
| IAS 24 | Related Party Disclosures |
| IAS 27 | Consolidated and Separate Financial Statements |
| IAS 28 | Investments in Associates |
| IAS 31 | Interests in Joint Ventures |
| IAS 32 | Financial Instruments: Disclosure and Presentation |
| IAS 33 | Earnings per Share |
| IAS 39 | Financial Instruments: Recognition and Measurement |

### Use of estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Accounting estimates are employed in the financial statements to determine reported amounts, including the realizability of certain assets, the useful lives of tangible and intangible assets, income taxes and other items. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from the estimates.

### Principles of consolidation

The consolidated financial statements include the parent company Outokumpu Oyj and all subsidiaries where over 50 % of the subsidiary's voting rights are controlled directly or indirectly by the parent company, or the parent company is otherwise in control of the company. Associated companies, where Outokumpu holds voting rights of 20–50% and in which Outokumpu has significant influence, but not control, over the financial and operating policies, are included in the consolidated financial statements using the equity method. When Outokumpu's share of losses exceeds the interest in the associated company, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associated companies. The interest in an associated company is the carrying amount of the investment under the equity method together with any long-term interest that, in substance, forms part of the investor's net investment in the associated company. Joint ventures over whose activities Outokumpu has joint control, established by contractual agreement, are consolidated using the equity method.

Acquired companies are accounted for using the purchase method according to which the assets and liabilities of the acquired company are measured at fair value at the date of acquisition. The cost of goodwill is the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. In accordance with the exemption under IFRS 1, acquisitions prior to the IFRS transition date have not been restated but the previous values are taken as the deemed cost. Prior to the IFRS transition date, the difference between the acquisition cost and the subsidiary's equity at the time of acquisition has been allocated, where applicable, to the underlying assets. The remainder of the difference has been shown as goodwill on consolidation and amortized on a straight-line basis over the asset's expected useful life. Under IFRS, goodwill on consolidation is not amortized but tested for impairment annually. Subsidiaries acquired during the financial year are included in the consolidated financial statements from the date of their acquisition and disposed subsidiaries are included up to their date of sale.

All intra-group transactions, receivables, liabilities and unrealized margins, as well as distribution of profits within the Group, are eliminated.

Minority interest is presented separately from the net profit and disclosed as a separate item in the equity.

### Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of segments in other economic environments. Outokumpu's primary reporting segments are its business segments, namely Outokumpu Stainless, Outokumpu Copper and Outokumpu Technology. Other operations consists mainly of such business development and Corporate Management expenses that are not allocated to businesses. Pricing of inter-segment transactions is based on current market prices. Secondary reporting segments are geographical and based on the main areas where Outokumpu has activities and sales: Finland, Sweden, Britain, other Europe, North America, Asia and Australia as well as other countries.

### Foreign currency transactions

Items of each subsidiary included in the consolidated financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that subsidiary ("the functional currency"). The consolidated financial statements are presented in euros, which is the functional currency of the parent company. Foreign currency transactions are translated into euros using the exchange rates prevailing at the dates of the transactions. Receivables and liabilities in foreign currencies are translated into euros at the exchange rates prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in financial income and expenses in the income statement. Foreign exchange differences arising in respect of financial instruments are included in financial income and expenses, except for certain cases where hedge accounting is applied. Income statements and cash flows of subsidiaries, whose functional and reporting currencies are not the euro, are translated into euros at the average exchange rates during the financial period. Their balance sheets are translated at the exchange rates prevailing at the balance sheet date and the translation differences are entered in equity. When a subsidiary is sold, possible translation differences are recognized in the income statement as part of the gain or loss on the sale.

### Revenue recognition

Sales of goods are recognized after the significant risks and rewards that are connected with ownership have been transferred to the buyer, and the Group retains neither a continuing managerial involvement to the degree usually associated with ownership, nor effective control of those goods. Revenues from services are recorded when the service has been performed. Sales are shown net of indirect sales taxes and discounts. Revenue from long-term construction contracts within Outokumpu Technology is recognized based on the stage of completion when the outcome of the project can be reliably measured. The stage of completion is measured by using the cost-to-cost method under which the percentage of completion is defined as the ratio of costs incurred to total estimated costs.

### Research and development costs

Research and development costs are expensed as they are incurred, except for certain development costs, which are capitalized when it is probable that a development project will generate future economic benefits, and certain criteria, including commercial and technological feasibility, have been met. Capitalized development expenses, comprising materials, supplies, direct labor and related overhead costs are amortized on a systematic basis over their expected useful lives.

### Income taxes

The Group's income tax expense includes taxes of the group companies based on taxable profit for the period, together with tax adjustments for previous periods and the change in deferred income taxes. The income tax effects of items recognized directly in equity are similarly recognized. The share of results in associated companies is reported in the income statement as calculated from net profit, and thus including the income tax charge. Deferred income taxes are stated using the balance sheet liability method, as measured with enacted tax rates, to reflect the net tax effects of all temporary differences between the financial reporting and tax bases of assets and liabilities. The main temporary differences arise from the depreciation difference on property, plant and equipment, fair valuation of net assets in acquired companies, fair valuation of available-for-sale financial assets and derivatives, intra-group inventory profits, pension and other provisions, untaxed reserves and tax losses and credits carried forward. Deductible temporary differences are recognized as a deferred tax asset to the extent that it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilized.

### Goodwill and other intangible assets

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets, liabilities and contingent liabilities acquired. Goodwill is stated at cost and is not amortized, but tested annually for impairment. In respect of associated companies, the carrying amount of goodwill is included in the carrying amount of the investment.

Other intangible assets include customer relations, capitalized development expenses, patents, copyrights, licenses and software. The valuation of intangible assets acquired in a business combination is based on fair value. Other intangible assets are stated at cost and amortized on a straight-line basis over expected useful lives. Development costs or acquisition costs of new software clearly associated with an identifiable product, which will be controlled by the Group and has probable economic benefit exceeding its cost beyond one year, are recognized as an intangible asset and depreciated over the software's expected useful life. Associated costs include staff costs of the development team and an appropriate portion of overhead. An intangible asset is recognized only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the cost of the asset can be measured reliably. All other expenditure is expensed as incurred.

Periods of amortization used for intangible assets are:

| | |
|---|---|
| Intangible rights | up to 20 years |
| Software | 3–5 years |

### Property, plant and equipment

Property, plant and equipment acquired by group companies are stated at historical cost, except the assets of acquired companies that were stated at their fair values at the date of acquisition. Depreciation is calculated based on the useful lives of the assets and adjusted for impairment charges, if any. The carrying value of the property, plant and equipment in the balance sheet represents the cost less accumulated depreciation and any impairment charges. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Depreciation is based on the following expected useful lives:

| | |
|---|---|
| Buildings | 25–40 years |
| Heavy machinery | 15–20 years |
| Light machinery and equipment | 5–15 years |

Land is not depreciated and mine properties are depreciated using the units-of-production method based on the depletion of ore reserves. Expected useful lives of non-current assets are reviewed at each balance sheet date and, where they differ significantly from previous estimates, depreciation periods are changed accordingly. Ordinary repairs and maintenance costs are charged to the income statement during the financial year in which they are incurred. The cost of major renovations is included in the asset's carrying amount when it is probable that the Group will derive future economic benefits in excess of the originally assessed standard of performance of the existing asset. Major renovations are depreciated over the useful lives of the related assets. Gains and losses on sales and disposals are determined by comparing the received proceeds with the carrying amount and are included in operating profit.

### Government grants

Government or other grants are recognized as income on a systematic basis over the periods necessary to match them with the related costs, which they are intended to compensate. Investment grants are recognized as revenue on a systematic basis over the useful life of the asset. In the balance sheet, investments grants are deducted from the value of the asset they relate to.

### Impairments

Property, plant and equipment and other non-current assets, including goodwill and intangible assets, are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill is in all cases tested annually. For the purposes of assessing impairment, assets are grouped at the lowest cash generating unit level for which there are separately identifiable, mainly independent, cash inflows and outflows. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount. The recoverable amount is the asset's value in use. The value in use is determined by reference to discounted future net cash flows expected to be generated by the asset. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount. However, the reversal must not cause that the adjusted value is higher than the carrying amount that would have been determined if no impairment loss had been recognized in prior years. Impairment losses recognized for goodwill are not reversed.

### Leases

Leases of property, plant and equipment where the Group has substantially all the rewards and risks of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased property or the estimated present value of the underlying lease payments. Each lease payment is allocated between the capital liability and finance charges, so as to achieve a constant interest rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in interest-bearing liabilities with the interest element of the finance charge being recognised in the income statement over the lease period. Property, plant and equipment acquired under finance lease contracts are depreciated over the shorter of the useful life of the asset or lease period. Leases of assets, where the lessor retains all the risks and benefits of ownership, are classified as operating leases. Payments made thereunder, and under rental agreements, are expensed on a straight-line basis over the lease periods.

### Financial instruments

IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation) have been adopted as of January 1, 2004. Outokumpu has utilized the exemption for a first-time adopter of IFRS not to restate comparative information for 2003.

Financial instruments are classified as loans and receivables, held-to-maturity investments, available-for-sale financial assets, financial liabilities at amortized cost and financial assets and liabilities at fair value through profit and loss. Equity securities are designated as available-for-sale financial assets. Interest-bearing securities and convertible loan receivables are designated as financial assets at fair value through profit and loss.

Available-for-sale investments, as well as financial assets and liabilities at fair value through profit and loss, are measured at fair value and the valuation is based on quoted rates and market prices or appropriate valuation models. Unlisted equity securities for which fair value cannot be reliably measured are recognized at cost less impairment. Fair value changes of available-for-sale investments are recognized directly in equity. In the event such an asset is disposed of, the accumulated fair value changes are released from equity to financial income and expenses in the income statement. Purchases and sales of available-for-sale financial assets are recognized at the trade date.

Loans and receivables as well as all financial liabilities, except for derivatives, are recognized at the settlement date and measured at amortized cost using the effective interest rate method. Transaction costs are included in the initially recognized amount. Financial assets and liabilities at fair value through profit and loss are recognized at the trade date and measured at fair value.

All derivatives, including embedded derivatives, are initially recognized at fair value on the date Outokumpu has entered into the derivative contract, and are subsequently remeasured at fair value. Determination of fair values is based on quoted market prices and rates, discounting of cash flows and option valuation models.

Fair values of currency forwards and swaps, interest rate swaps and metal forwards are determined by discounting the future nominal cash flows with relevant interest rates and then converting the discounted cash flows to the base currency using spot rates. Fair values of electricity forwards are determined by discounting the base currency denominated future values with relevant interest rates. The fair value of currency and metal options is determined by utilizing commonly applied option valuation models. Other optionalities included in electricity derivatives are measured at fair value with their own valuation models.

Part of derivatives and other financial instruments may be designated as hedging instruments, in which case hedge accounting is applied. If hedge accounting is not applied, all fair value changes in derivatives are recognized directly in financial income and expenses in the income statement. If hedge accounting is applied, the accounting for hedging instruments is dependent on the particular nature of the hedging relationship.

Hedging programs are documented according to the requirement of IAS 39 and designated hedging instruments are subject to prospective and retrospective testing of effectiveness. Fair value changes in derivatives, which are assigned to hedge forecasted transactions (cash flow hedging), are recognized in equity to the extent that the hedge is effective. Such accumulated fair value changes are released into income as adjustments to sales or purchases in the period when the hedged cash flow affects income. The ineffective portion of the gain or loss of the hedging instrument is recognized in income.

Fair value changes in designated hedging instruments, which are assigned to hedge translation risk related to net investments in foreign operations, are recognized in equity to the extent that the hedge is effective. Accumulated gains and losses from hedges are recognized as income only if the hedged subsidiary is sold or liquidated. The ineffective portion of the gain or loss of the hedging instrument is recognized in income.

All recognized fair value changes to equity are net of tax.

### Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads, but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### Trade receivables

Trade receivables are carried at their anticipated realizable value, which is the original invoice amount less an estimated valuation allowance for impairment of these receivables. A valuation allowance for impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

### Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities in the balance sheet.

### Treasury shares

When the company or its subsidiaries purchases the company's own shares, the consideration paid, including any attributable transaction costs net of income taxes, is deducted from equity as treasury shares until they are cancelled. When such shares are subsequently sold or reissued, any consideration received is included in equity.

### Provisions

Provisions are recognized in the balance sheet when Outokumpu has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions can arise from restructuring plans, onerous contracts and from environmental, litigation or tax risks.

### Employee benefits

Group companies in different countries have various pension plans in accordance with local conditions and practices. The plans are classified as either defined contribution plans or defined benefit plans. The contributions to defined contribution plans are charged to the income statement in the year to which they relate. The present value of the obligation of defined benefit plans is determined using the projected unit credit method and the plan assets are measured at fair value at the measurement date. In calculating the Group's obligation with respect to a plan, the extent to which the cumulative unrecognized actuarial gain or loss exceeds the greater of the present value of the defined benefit obligation and the fair value of plan assets by more than 10% is identified. That excess portion is recognized in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized. In accordance with the exemption under IFRS 1, all cumulative actuarial gains and losses have been recognized in retained earnings at the date of transition, January 1, 2003.

### Equity and equity-related compensation benefits

Stock options have been granted based on Outokumpu's 2003 option program. The options will be distributed to key personnel in accordance with terms and conditions of the option program, if the earnings criteria for options are met. Holders of options have the right to subscribe for shares at a price that is based on the volume-weighted average price of the Outokumpu Oyj share on the Helsinki stock exchange during the periods defined in the terms and conditions of the Outokumpu 2003 option program. The share subscription price with stock options will be reduced on each dividend record date by the amount of dividends to be declared after the close of the period for determining the subscription price and prior to the share subscription. When the options are exercised, the proceeds received, net of any transaction costs, are credited to share capital and the share premium reserve.

The Group's management and other key personnel have participated in a share remuneration scheme. Pursuant to the scheme, remuneration is based on the relative performance of Outokumpu Oyj's share price, and remuneration is paid provided that the average change in Outokumpu's share price equals or exceeds the average trend in a reference index. The costs of share remuneration schemes are recognized in the income statement as personnel expenses (60% in cash and 40% in Outokumpu shares paid from treasury shares) in the period in which they are earned. Remuneration is paid by the decision of the Board of Directors.

Outokumpu will apply IFRS 2 (Share-based Payment) from the beginning of 2005, and comparative information will be restated accordingly.

### Dividends

The dividend proposed by the Board of Directors is not deducted from distributable equity until approved by a General Meeting of Shareholders.

### Earnings per share

Earnings per share is calculated by dividing the net profit attributable to the shareholders of the company by the weighted average number of shares in issue during the year, excluding shares purchased by Outokumpu and held as treasury shares. Diluted earnings per share is calculated as if the warrants and options were exercised at the beginning of the period. In addition to the weighted average number of shares outstanding, the denominator includes the incremental shares obtained through the assumed exercise of the warrants and options. The assumption of exercise is not reflected in earnings per share when the exercise price of the warrants and options exceeds the average market price of the shares during the period. The warrants and options have a diluting effect only when the average market price of the share during the period exceeds the exercise price of the warrants and options.

## 2. Transition to IFRS

### General information

Outokumpu converted from Finnish Accounting Standards (FAS) to International Financial Reporting Standards (IFRS) in its third-quarter interim report in 2004. Outokumpu's date of transition to IFRS was January 1, 2003. However, for the adoption of IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation), the date of transition was January 1, 2004. The financial statements for 2003 and the first and second quarter interim reports in 2004 were originally prepared in accordance with FAS.

The following section presents the major changes in accounting principles and effects of the transition to IFRS on Outokumpu's consolidated financial statements for 2003. On October 11, 2004 Outokumpu published comparative IFRS information for the periods January-December 2003, January-March 2004 and January-June 2004. The information was unaudited and some minor adjustments have been made. Outokumpu has adopted IFRS 1 (First-time Adoption of IFRS) and used the exemptions from the requirements of IAS 19 (Employee Benefits), IFRS 3 (Business Combinations), IAS 39 and IAS 32. From Outokumpu's point of view, the most significant effects of the transition to IFRS related to the treatment of positive and negative goodwill, pension and inventory accounting, recognition of financial instruments and presentation of market price gains and losses.

**Reconciliation of shareholders' equity**

| € million | Dec. 31, 2003 | Jan. 1, 2003 |
|---|---|---|
| **Shareholders' equity according to FAS** | **1 924** | **1 906** |
| Effects of adopting IFRS | | |
| Recognition of negative goodwill in equity | 151 | 190 |
| Reversal of goodwill amortization | 44 | – |
| Restatement of business combinations | 23 | – |
| Inventory valuation | 26 | 28 |
| Pension obligations | (97) | (129) |
| Provisions | (42) | (13) |
| Deferred taxes on IFRS adjustments | 27 | 24 |
| Matching of share remuneration scheme | (8) | (6) |
| Other | (1) | 7 |
| **Shareholders' equity according to IFRS** | **2 048** | **2 007** |

**Reconciliation of net profit for the period**

| € million | 2003 |
|---|---|
| **Net profit for the period according to FAS** | **92** |
| Effects of adopting IFRS | |
| Reversal of goodwill amortization | 44 |
| Reversal of negative goodwill amortization | (40) |
| Restatement of business combinations | 23 |
| Inventory valuation | (1) |
| Adjustment to the gain from the Boliden transaction | 13 |
| Change in pension obligations | (2) |
| Change in provisions | (29) |
| Change in deferred taxes on IFRS adjustments | 12 |
| Matching of share remuneration scheme | (3) |
| Other | 1 |
| **Net profit for the period according to IFRS** | **111** |

**Consolidated income statement from January 1 through December 31, 2003**

| € million | Footnote | FAS | Effect of transition to IFRS | **IFRS** |
|---|---|---|---|---|
| **Sales** | 1,7 | 5 921 | 1 | **5 922** |
| Costs and expenses | 1,2,3,7 | (5 836) | (4) | **(5 840)** |
| Unusual items | 4 | 119 | 8 | **127** |
| Other operating income and expenses | 7 | 6 | (1) | **5** |
| Amortization of positive and negative goodwill | 5 | (4) | 4 | **–** |
| **Operating profit** | | 206 | 8 | **214** |
| | | | | |
| Share of results in associated companies | | (15) | – | **(15)** |
| Financial income and expenses | 1 | | | |
| Net interest expenses | | (98) | (1) | **(99)** |
| Market price gains and losses | | 0 | (1) | **(1)** |
| Other financial income and expenses | | 7 | 2 | **9** |
| **Profit before taxes and minority interest** | | 100 | 8 | **108** |
| | | | | |
| Income taxes | 6 | (8) | 12 | **4** |
| Minority interest | | 0 | (1) | **(1)** |
| **Net profit for the period** | | 92 | 19 | **111** |

**Key figures**

| | 2003 FAS | **2003 IFRS** |
|---|---|---|
| Operating profit margin, % | 3.5 | **3.6** |
| Return on capital employed, % | 5.0 | **5.0** |
| Return on shareholders' equity, % | 4.7 | **5.4** |
| | | |
| Capital employed at end of period, € million | 3 972 | **4 108** |
| Net interest-bearing debt at end of period, € million | 2 013 | **2 025** |
| Equity-to-assets ratio at end of period, % | 32.3 | **33.0** |
| Debt-to-equity ratio at end of period, % | 102.8 | **97.2** |
| | | |
| Earnings per share, € | 0.54 | **0.65** |
| Average number of shares outstanding, in thousands [1] | 171 623 | **171 623** |
| Shareholders' equity per share at end of period, € | 10.84 | **11.54** |
| Number of shares outstanding at end of period, in thousands [1] | 177 451 | **177 451** |
| | | |
| Capital expenditure, € million | 622 | **622** |
| Depreciation, € million | 307 | **304** |

[1] Excluding treasury shares.

**Consolidated balance sheet**

| € million | Footnote | Dec. 31, 2003 FAS | Dec. 31, 2003 Effect of transition to IFRS | Dec. 31, 2003 IFRS | Jan. 1, 2003 FAS | Jan. 1, 2003 Effect of transition to IFRS | Jan. 1, 2003 IFRS |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Intangible assets | 5 | 380 | 221 | **601** | 373 | 184 | **557** |
| Property, plant and equipment | 7 | 2 665 | 3 | **2 668** | 3 088 | 5 | **3 093** |
| Long-term financial assets | | | | | | | |
| Interest-bearing | 1,7 | 490 | (10) | **480** | 166 | (4) | **162** |
| Deferred tax assets | 6 | 68 | 1 | **69** | 82 | 14 | **96** |
| Other non interest-bearing | 2,4,7 | 13 | (1) | **12** | 22 | (6) | **16** |
| **Total non-current assets** | | 3 616 | 214 | **3 830** | 3 731 | 193 | **3 924** |
| **Current assets** | | | | | | | |
| Inventories | 3 | 1 181 | 38 | **1 219** | 1 235 | 39 | **1 274** |
| Receivables | | | | | | | |
| Interest-bearing | 1,7 | 68 | 17 | **85** | 76 | 7 | **83** |
| Non interest-bearing | 7 | 1 036 | (4) | **1 032** | 1 059 | 3 | **1 062** |
| Cash and cash equivalents | 7 | 236 | (5) | **231** | 226 | (5) | **221** |
| **Total current assets** | | 2 521 | 46 | **2 567** | 2 596 | 44 | **2 640** |
| **TOTAL ASSETS** | | 6 137 | 260 | **6 397** | 6 327 | 237 | **6 564** |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | | | | | |
| **Shareholders' equity** | | 1 924 | 124 | **2 048** | 1 906 | 101 | **2 007** |
| **Minority interest** | | 34 | 1 | **35** | 40 | 3 | **43** |
| **Non-current liabilities** | | | | | | | |
| Interest-bearing | 1,7 | 1 782 | (5) | **1 777** | 1 493 | (8) | **1 485** |
| Deferred tax liabilities | 6 | 272 | (24) | **248** | 320 | (11) | **309** |
| Pension obligations | 2 | – | 186 | **186** | – | 232 | **232** |
| Provisions | 4 | – | 72 | **72** | – | 44 | **44** |
| Other non interest-bearing | 2,4,7 | 112 | (98) | **13** | 147 | (116) | **31** |
| **Total non-current liabilities** | | 2 166 | 131 | **2 297** | 1 960 | 141 | **2 101** |
| **Current liabilities** | | | | | | | |
| Interest-bearing | 1,7 | 1 016 | 29 | **1 045** | 1 352 | 31 | **1 383** |
| Provisions | 4 | – | 31 | **31** | – | 35 | **35** |
| Other non interest-bearing | 2,4,7 | 997 | (55) | **942** | 1 069 | (74) | **995** |
| **Total current liabilities** | | 2 013 | 4 | **2 017** | 2 421 | (8) | **2 413** |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | 6 137 | 260 | **6 397** | 6 327 | 237 | **6 564** |

**Statement of changes in shareholders' equity**

| € million | Share capital | Unreg-istered share capital | Share premium fund | Other funds | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Shareholders' equity on Dec. 31, 2002, FAS** | **293** | **0** | **630** | **15** | **968** | **1 906** |
| Effect of transition to IFRS | – | – | – | – | 101 | 101 |
| **Shareholders' equity on Jan. 1, 2003, IFRS** | **293** | **0** | **630** | **15** | **1 069** | **2 007** |
| Transfers from unregistered share capital | 0 | (0) | – | – | – | 0 |
| Shares subscribed with options | 1 | 0 | 4 | – | – | 5 |
| Converted bonds | 1 | – | 2 | – | – | 3 |
| Share offering | 9 | – | 45 | – | – | 54 |
| Outokumpu Oyj shares owned by associated companies | – | – | – | – | (26) | (26) |
| Transfer of treasury shares | – | – | – | – | 2 | 2 |
| Change in translation difference | – | – | – | (0) | (43) | (43) |
| Dividends paid | – | – | – | – | (69) | (69) |
| Other changes | – | – | (0) | (1) | 5 | 4 |
| Net profit for the period | – | – | – | – | 111 | 111 |
| **Shareholders' equity on Dec. 31, 2003, IFRS** | **304** | **0** | **681** | **14** | **1 049** | **2 048** |

**Footnotes**

**1. Financial instruments**

Outokumpu has applied the December 2003 versions of IAS 39 (Financial Instruments: Recognition and Measurement) and IAS 32 (Financial Instruments: Disclosure and Presentation) as of January 1, 2004. Outokumpu utilized the exemption for a first-time adopter of IFRS not to restate comparative information for 2003. Accordingly, recognition and measurement of financial instruments and treatment of cash flow hedges for 2003 are presented according to FAS principles.

Under FAS, Outokumpu's foreign exchange, interest rate and most metal derivatives were measured at fair value in the balance sheet, whereas all electricity derivatives and unrealized gains on certain metal derivatives were presented only in the notes to the financial statements. Under IFRS and as of January 1, 2004, all derivative contracts have been reported at fair value under financial assets and liabilities. Some commercial contracts include embedded derivatives, which under IFRS have been separated from their host contracts and are treated as financial instruments.

Market price gains and losses are caused by changes in currency and interest rates as well as in metal, electricity and security prices. After January 1, 2004 market price gains and losses on financial instruments have been reported under financial items in the income statement. This has led to reclassification from sales as well as from costs and expenses to financial items in the income statement. Presentation of market price gains and losses under sales or costs and expenses is done only in connection with effective hedge accounting that meets the requirements of IAS 39.

Under IFRS, receivables and debt are accounted for at amortized cost using the effective interest rate method. Amortized costs are included in the calculation of the effective interest rate over the expected life of the instrument. The costs may include e.g. fees, premiums or discounts and transaction costs.

Investments in equity instruments, except for investments in associated companies and joint ventures, are classified as available-for-sale financial assets. These investments are measured at fair value. Unlisted securities, for which the values cannot be measured reliably, are recognized at cost. Unrealized gains and losses on available-for-sale financial assets are recognized directly in equity. When the investment is sold, the accumulated fair value adjustment is recognized in income.

Investments in money market instruments and fixed income securities are classified in financial assets at fair value through profit and loss.

**2. Employee benefits**

Outokumpu has various pension plans in accordance with local practices in the countries where it operates. Under FAS, the Group's pension liabilities were reported according to local regulations. In the IFRS financial statements, pension obligations are treated in accordance with IAS 19 (Employee Benefits).

The Finnish pension scheme (TEL) has been accounted for as a defined contribution plan under FAS. Under IFRS, the disability element of TEL is calculated as a defined benefit plan. Outokumpu has utilized the exemption given in IFRS 1 (First-time Adoption of IFRS) to recognize the cumulative actuarial gains and losses of all defined benefit pension plans in the balance sheet at the date of transition to IFRS. The corridor method under IAS 19 is applied to actuarial gains and losses arising after the date of transition.

At the date of transition to IFRS, the Group's pension obligations increased by EUR 129 million. The largest increases by country were as follows: Finland EUR 52 million, the US EUR 33 million, Ireland EUR 26 million, Britain EUR 9 million and Norway EUR 6 million.

Pension obligations reported under FAS have been reclassified in the IFRS balance sheet.

**3. Inventories**

According to IAS 2 (Inventories), inventories are valued using the first-in-first-out (FIFO) valuation method. Under FAS, Outokumpu has used FIFO except for Outokumpu Copper, whose raw material inventories have been valued using the last-in-first-out (LIFO) valuation method. Under IFRS, all Outokumpu inventories are valued using the FIFO method. At the date of transition to IFRS, the Group's inventory value increased by EUR 28 million.

**4. Provisions**

As a result of the adoption of IFRS, an environmental provision of EUR 13 million was recognized at the date of transition. The provision relates to the closing of old dumping areas and removal of problem waste in Tornio. Contrary to previous guidance, the EUR 36 million provision related to the copper sanitary tubes cartel fine imposed by the European Commission was, in connection with the IFRS transition, recognized already in the December 2003 income statement. Under FAS, provisions were reported in other non interest-bearing liabilities.

### 5. Business combinations

Business combinations before the date of transition to IFRS are reported as they were recognized under FAS. This is in line with the exemption given to a first-time adopter not to apply IFRS 3 (Business Combinations) retrospectively to past business combinations. Acquisitions after January 1, 2003, are recognized in accordance with IFRS 3. Hence, the EUR 23 million excess of Outokumpu's interest in the net fair value of the acquired Boliden fabrication operations' identifiable assets, liabilities and contingent liabilities over the acquisition cost was recognized in the income statement in December 2003. The previously recognized goodwill, EUR 50 million, from the acquisition of the quarto plate business of ThyssenKrupp Nirosta in February 2003 has been reclassified as intangible asset under IFRS.

Goodwill is not amortized under IFRS but instead tested annually for impairment. Goodwill amortization entries after the date of transition to IFRS have been reversed. At the IFRS opening balance sheet the total amount of goodwill was EUR 522 million.

Goodwill has been allocated to the business areas or divisions and tested for impairment based on their discounted future cash flows. The cash generating units for goodwill impairment testing have been defined based on how Outokumpu management monitors the Group's business operations. Outokumpu's cash generating units are as follows. Outokumpu Stainless: Coil Products, Special Products and North America; Outokumpu Copper: Americas, Europe, Tube and Brass, Automotive Heat Exchangers, Appliance Heat Exchangers & Asia; and Outokumpu Technology.

As a result of impairment tests performed at the date of transition to IFRS and at the end of 2003, no impairment losses were recognized.

Under IFRS 3, the concept of negative goodwill is abolished. Previously recognized negative goodwill has been de-recognized with a corresponding adjustment to equity at the opening IFRS balance sheet.

According to IFRS 3, a part of the negative goodwill from the formation of AvestaPolarit in 2001 was allocated to the minority interest, and consequently EUR 154 million of the negative goodwill was netted against the goodwill arising from the acquisition of the AvestaPolarit minority interest in 2002. The rest of the negative goodwill, EUR 190 million, was recognized in equity at the date of transition to IFRS.

### 6. Income taxes

Deferred taxes have been entered in accordance with IAS 12 (Income Taxes) for IFRS adjustments causing temporary differences. Consequently deferred taxes are not recognized for items, such as goodwill and negative goodwill and other permanently tax free or non-deductible items. The decrease in deferred taxes on IFRS adjustments at the date of transition amounted to EUR 24 million.

### 7. Other changes

Share remuneration schemes have been entered as expenses for the periods in which they have been earned. The other changes relate mainly to the treatment and reporting of finance leases. The income statement and balance sheet also include minor reclassifications between account groups.

## 3. Segment information

Outokumpu's business activities were organized into three strategic primary segments in 2004: Outokumpu Stainless, Outokumpu Copper and Outokumpu Technology. Activities outside the segments are reported under Other operations.

### Outokumpu Stainless

Demand for stainless steel grows fastest of all metals in the world. Outokumpu is one of the largest producers of stainless steel and widely recognized as a leader in technical support as well as in research and development. Outokumpu's plants, mainly in Finland, Sweden, Britain and the US, produce a wide range of stainless steel products including hot and cold rolled coil, sheet and plate, precision strip as well as tubular and long products. Additionally, Outokumpu offers a comprehensive selection of fittings, flanges and welding consumables. Products are available in various dimensions, grades and surface finishes. Outokumpu produces part of raw material at its own chromium mine and ferrochrome facility. The excellent properties of stainless steel make it an ideal choice in various demanding industrial and end-use applications such as food processing and chemicals industries, oil platforms, construction and automotive industries, cutlery and razor blades.

### Outokumpu Copper

Copper has superior properties – heat transfer, electrical conductivity and signal transmission – over other metals that are in wide commercial use. These properties are needed to enhance comfort in everyday living, communications, energy production and construction.

Outokumpu Copper's mills are located in 15 countries. Main products include air-conditioning and refrigeration tubes, strips for automotive radiators and electrical connectors, architectural and roofing products, sanitary tubes and welding electrodes. Production has been shifted to higher value-added products, such as superconducting wires, components for electrical and electronic appliances as well as coils for air-conditioning and heat transfer appliance manufacturers.

### Outokumpu Technology

Outokumpu is one of the world's leading developers and suppliers of technology for minerals processing and metallurgical industry. Outokumpu Technology designs and delivers plants, processes and equipment tailored for each customer's needs, and provides engineering, project and support services globally.

### Other operations

Other operations consists of activities outside the primary segments as well as industrial holdings. Business development and Corporate Management expenses that are not allocated to the businesses are also reported under Other operations.

### 3.1 Business segments

| **2004**<br>€ million | Outokumpu Stainless | Outokumpu Copper | Outokumpu Technology | Other operations | Eliminations | Group |
|---|---|---|---|---|---|---|
| External sales | 4 627 | 2 044 | 415 | 50 | – | 7 136 |
| Inter-segment sales | 10 | 6 | 8 | 113 | (136) | – |
| Sales | 4 637 | 2 050 | 423 | 163 | (136) | 7 136 |
| Operating profit | 442 | 52 | 29 | (55) | – | 468 |
| Share of results of associated companies | 3 | (0) | – | 75 | – | 78 |
| Financial income and expenses | – | – | – | – | – | (69) |
| Profit before taxes | – | – | – | – | – | 477 |
| Income taxes | – | – | – | – | – | (87) |
| Net profit for the financial year | – | – | – | – | – | 390 |
| | | | | | | |
| Depreciation | (163) | (58) | (7) | (4) | 0 | (231) |
| Amortization | (10) | (2) | (2) | (5) | – | (20) |
| Impairments | (0) | (0) | – | – | (0) | (0) |
| | | | | | | |
| Non interest-bearing assets | 4 810 | 1 225 | 222 | 143 | (59) | 6 341 |
| Investments in associated companies | 22 | 5 | – | 265 | – | 291 |
| Other interest-bearing assets | – | – | – | – | – | 399 |
| Deferred tax assets | – | – | – | – | – | 45 |
| Total assets | – | – | – | – | – | 7 077 |
| | | | | | | |
| Non interest-bearing liabilities | 702 | 272 | 183 | 66 | (33) | 1 190 |
| Interest-bearing liabilities | – | – | – | – | – | 3 125 |
| Deferred tax liabilities | – | – | – | – | – | 255 |
| Total liabilities | – | – | – | – | – | 4 570 |
| | | | | | | |
| Operating capital | 4 108 | 953 | 39 | 77 | (26) | 5 151 |
| Net deferred tax liability | – | – | – | – | – | (210) |
| Capital employed | – | – | – | – | – | 4 941 |
| | | | | | | |
| Capital expenditure | 276 | 59 | 9 | 129 | – | 473 |

| 2003<br>€ million | Outokumpu Stainless | Outokumpu Copper | Outokumpu Technology | Other operations | Eliminations | Group |
|---|---|---|---|---|---|---|
| External sales | 3 444 | 1 617 | 379 | 486 | (4) | 5 922 |
| Inter-segment sales | 6 | 11 | 26 | 173 | (216) | – |
| Sales | 3 450 | 1 628 | 405 | 659 | (220) | 5 922 |
| Operating profit | 99 | (6) | 5 | 113 | 3 | 214 |
| Share of results of associated companies | 0 | (8) | – | (7) | – | (15) |
| Financial income and expenses | – | – | – | – | – | (91) |
| Profit before taxes | – | – | – | – | – | 108 |
| Income taxes | – | – | – | – | – | 4 |
| Net profit for the financial year | – | – | – | – | – | 112 |
| | | | | | | |
| Depreciation | (149) | (77) | (6) | (56) | 1 | (287) |
| Amortization | (10) | (1) | (1) | (6) | – | (18) |
| Impairments | (0) | (0) | – | (0) | – | (0) |
| | | | | | | |
| Non interest-bearing assets | 4 132 | 1 082 | 240 | 147 | (69) | 5 532 |
| Investments in associated companies | 19 | 8 | – | 228 | – | 255 |
| Other interest-bearing assets | – | – | – | – | – | 541 |
| Deferred tax assets | – | – | – | – | – | 69 |
| Total assets | – | – | – | – | – | 6 397 |
| | | | | | | |
| Non interest-bearing liabilities | 639 | 350 | 202 | 89 | (35) | 1 245 |
| Interest-bearing liabilities | – | – | – | – | – | 2 821 |
| Deferred tax liabilities | – | – | – | – | – | 248 |
| Total liabilities | – | – | – | – | – | 4 314 |
| | | | | | | |
| Operating capital | 3 493 | 732 | 38 | 58 | (34) | 4 287 |
| Net deferred tax liability | – | – | – | – | – | (179) |
| Capital employed | – | – | – | – | – | 4 108 |
| | | | | | | |
| Capital expenditure | 373 | 106 | 25 | 118 | – | 622 |

### 3.2 Geographical segments

| 2004<br>€ million | Finland | Sweden | Britain | Other Europe | North America | Asia and Australia | Other countries | Inter area | Group total |
|---|---|---|---|---|---|---|---|---|---|
| Sales by destination [1] | 340 | 322 | 455 | 3 156 | 1 263 | 1 399 | 201 | – | 7 136 |
| Sales by origin [2] | 2 922 | 2 492 | 1 596 | 1 588 | 1 079 | 444 | 57 | (3 042) | 7 136 |
| Operating profit [2] | 234 | 157 | (14) | 5 | 57 | 28 | 1 | – | 468 |
| Assets [2] | 3 163 | 1 200 | 595 | 614 | 507 | 238 | 24 | – | 6 341 |
| Operating capital [2] | 2 802 | 976 | 406 | 392 | 370 | 201 | 4 | – | 5 151 |
| Capital expenditure [2] | 333 | 43 | 14 | 45 | 33 | 5 | 0 | – | 473 |

| 2003<br>€ million | Finland | Sweden | Britain | Other Europe | North America | Asia and Australia | Other countries | Inter area | Group total |
|---|---|---|---|---|---|---|---|---|---|
| Sales by destination [1] | 393 | 295 | 401 | 2 594 | 935 | 1 086 | 218 | – | 5 922 |
| Sales by origin [2] | 2 420 | 1 832 | 1 091 | 1 706 | 858 | 465 | 66 | (2 516) | 5 922 |
| Operating profit [2] | 61 | 62 | (45) | 89 | 27 | 19 | 1 | – | 214 |
| Assets [2] | 2 656 | 1 043 | 481 | 646 | 465 | 222 | 19 | – | 5 532 |
| Operating capital [2] | 2 297 | 820 | 325 | 385 | 299 | 160 | 1 | – | 4 287 |
| Capital expenditure [2] | 327 | 123 | 31 | 112 | 24 | 5 | 0 | – | 622 |

[1] Sales by destination is presented for external sales.

[2] Sales, operating profit, assets, operating capital and capital expenditure are presented by the locations of the group companies or associated companies.

## 4. Acquisitions and disposals

**Acquisitions in 2004**

In 2004, Outokumpu made only some minor acquisitions. In February, Outokumpu acquired SMI Group's superconductors business in Italy and its air-conditioning and refrigeration tube operations in China in exchange for its shareholding in LOCSA - Laminados Oviedo-Córdoba, S.A. of Spain. In February, Outokumpu also acquired the remaining 50% ownership in Neumayer GmbH, which is an Austrian subsidiary of Outokumpu Copper fabricating various alloy wire products. As consideration Outokumpu Oyj transferred 309 597 treasury shares to the seller.

The acquired businesses from the SMI Group contributed sales of EUR 25 million and net loss of EUR 0 million to the Group for the period February–December 2004. These acquisitions have been summarized below.

| **Consideration**<br>€ million | |
|---|---|
| Paid in cash | – |
| Fair value of shares in LOCSA | 10 |
| Direct costs related to the acquisitions | 1 |
| Fair value of transferred treasury shares | 3 |
| Total consideration | 14 |
| Fair value of the acquired net assets | (11) |
| Goodwill | 3 |

The fair value of the treasury shares is based on the market value of the share on the date of the acquisition.

| **Specification of the acquired net assets**<br>€ million | Fair value | Seller's carrying amount |
|---|---|---|
| Cash and cash equivalents | 0 | 0 |
| Intangible assets | 0 | 0 |
| Property, plant and equipment | 10 | 10 |
| Inventories | 16 | 16 |
| Receivables | 6 | 6 |
| Liabilities | (23) | (23) |
| Acquired net assets | 9 | 9 |
| Acquired minority | 2 | 1 |
| Fair value of the acquired net assets | 11 | |
| | | |
| Considerations paid in cash | – | |
| Cash and cash equivalents in acquired subsidiaries | 0 | |
| Cash outflow on the acquisitions | 0 | |

**Acquisitions in 2003**

In December, Outokumpu acquired Boliden's copper products fabrication and technology sales operations. Furthermore in February, Outokumpu acquired ThyssenKrupp Nirosta's quarto plate operations. These acquisitions have been summarized below.

**Specification of the net assets in acquired subsidiaries and businesses**

| € million | |
|---|---|
| Cash and cash equivalents | 4 |
| Intangible assets | 54 |
| Property, plant and equipment | 34 |
| Investments in associated companies | 4 |
| Inventories | 50 |
| Receivables | 47 |
| Non interest-bearing liabilities | (46) |
| Pension benefit obligations | (22) |
| Interest-bearing liabilities | (10) |
| Net deferred tax liability | (0) |
| Acquired net assets | 115 |
| | |
| Total consideration | 92 |
| | |
| Considerations paid in cash | 59 |
| Direct costs related to the acquisitions | 1 |
| Cash and cash equivalent in acquired subsidiaries and businesses | (4) |
| Total cash outflow on the acquisitions | 56 |

**Acquisition of Boliden's copper products fabrication and technology sales operations in 2003**

In December, Outokumpu acquired Boliden's copper products fabrication and technology sales operations. As consideration Outokumpu issued, and Boliden subscribed for, 5 000 000 new shares in Outokumpu Oyj in deviation from the shareholders' pre-emptive subscription rights.

Because the business was acquired on Dec. 30, 2003 it did not contribute sales or net profit to the Group in 2003.

**Consideration**

| € million | |
|---|---|
| Paid in cash | – |
| Direct costs related to the acquisition | 0 |
| Fair value of issued shares | 54 |
| Adjustments to consideration | (21) |
| Total consideration | 32 |
| Fair value of the acquired net assets | (54) |
| Excess of Outokumpu's interest in the net fair value of acquired net assets over cost | (21) |

The main reason for the excess of Outokumpu's interest in the net fair value of acquired net assets over cost was the fair value of property, plant and equipment as well as inventory. The gain is recognised in Other operating income in the income statement.

**Specification of the acquired net assets**

| € million | Fair value | Seller's carrying amount |
|---|---|---|
| Cash and cash equivalents | 4 | 4 |
| Intangible assets | 1 | 1 |
| Property, plant and equipment | 32 | 37 |
| Investments in associated companies | 4 | 4 |
| Inventories | 44 | 42 |
| Receivables | 47 | 47 |
| Non interest-bearing liabilities | (46) | (46) |
| Pension benefit obligations | (22) | (22) |
| Interest-bearing liabilities | (10) | (10) |
| Net deferred tax liability | (0) | (1) |
| Acquired net assets | 54 | 56 |
| | | |
| Consideration paid in cash | – | |
| Cash and cash equivalents in acquired subsidiaries | (4) | |
| Cash outflow on the acquisition | (4) | |

**Acquisition of ThyssenKrupp Nirosta's quarto plate operations in 2003**

In February, Outokumpu acquired ThyssenKrupp Nirosta's quarto plate operations.

Because the acquired business is a part of Outokumpu Stainless' Hot Rolled Plate business unit, the contributed sales or net profit to the Group cannot be determined separately.

**Consideration**

| € million | |
|---|---|
| Paid in cash | 59 |
| Direct costs related to the acquisition | 1 |
| Total consideration | 60 |
| Fair value of the acquired net assets | 60 |

| **Specification of the acquired net assets** € million | Fair value | Seller's carrying amount |
|---|---|---|
| Customer lists (intangible assets) | 45 | – |
| Trademarks (intangible assets) | 8 | – |
| Property, plant and equipment | 2 | 2 |
| Inventories | 6 | 6 |
| Acquired net assets | 60 | 8 |
| | | |
| Consideration paid in cash | 59 | |
| Direct costs related to the acquisition | 1 | |
| Cash outflow on the acquisition | 60 | |

**Disposals in 2004 and 2003**

In January 2004, Outokumpu Technology's filter business was sold to Larox Oyj. The total consideration was EUR 31 million.

In December 2003, Outokumpu sold its mining and smelting operations within zinc and copper to Boliden. The total consideration was EUR 864 million. Boliden's consideration to Outokumpu for the acquired mining and smelting assets consisted of a cash payment of EUR 373 million, issue of a subordinated note of EUR 159 million to Outokumpu and issuance of new shares (82 446 475) to Outokumpu, corresponding to 49% of all shares in Boliden at a fair value as per Dec. 31, 2003 of EUR 247 million.

In November 2003, Outokumpu sold its precious metals assets to Dragon Mining NL. The total consideration was EUR 12 million. These disposals have been summarized below.

**Net assets of the disposed subsidiaries and businesses**

| € million | 2004 | 2003 |
|---|---|---|
| Intangible assets | 3 | 67 |
| Property, plant and equipment | 3 | 480 |
| Investments in associated companies | – | 17 |
| Inventories | 7 | 133 |
| Receivables | 2 | 121 |
| Liabilities | 0 | (186) |
| | 15 | 632 |
| Gains on disposals | 16 | 129 |
| Deferred gain on disposal | – | 115 |
| Total consideration | 31 | 876 |
| | | |
| Received in cash | 20 | 379 |
| Direct costs related to the disposals | (2) | (8) |
| Cash and cash equivalents in disposed subsidiaries and units | 0 | (9) |
| Cash inflow from the disposals | 18 | 362 |

The EUR 115 million deferred gain related to the Boliden transaction, was 49% of the total gain and corresponded to Outokumpu's ownership in Boliden at Dec. 30, 2003. The deferred gain will be released proportionally as Outokumpu's ownership in Boliden decreases, and entirely once Outokumpu's ownership in Boliden decreases below 20%.

## 5. Long-term construction contracts

Sales include EUR 233 million (2003: EUR 146 million) of income recognized based on the stage of completion of long-term construction contracts within Outokumpu Technology. Revenue recognized from long-term construction contracts in progress amounted to EUR 185 million (2003: EUR 121 million) and advances received to EUR 30 million, respectively (Dec. 31, 2003: EUR 24 million).

## 6. Other operating income

| € million | 2004 | 2003 |
|---|---|---|
| Gain on the sale of the filter business | 16 | – |
| Panteg closure | 8 | – |
| Gain on the Boliden transaction | – | 120 |
| Excess of Outokumpu's interest in the net fair value of acquired net assets over costs | – | 23 |
| Gain on the sale of Arctic Platinum Partnership (49%) | – | 26 |
| Gain on the sale of the Inmet shares | – | 10 |
| Gain on the sale of the precious metals assets | – | 9 |
| Gains on sale of other intangible and tangible assets | 9 | 7 |
| Other income items | 30 | 15 |
| | 63 | 210 |

## 7. Other operating expenses

| € million | 2004 | 2003 |
|---|---|---|
| Loss on the sale of the Boliden shares | (19) | – |
| Provisions for the copper tube cartel fines | – | (54) |
| Losses on disposals of intangible and tangible assets and scrapping | (4) | (5) |
| Impairment of intangible and tangible assets | (0) | (1) |
| Other expense items | (12) | (11) |
| | (35) | (71) |

## 8. Function expenses by nature

| € million | 2004 | 2003 |
|---|---|---|
| Raw materials and merchandise | (4 310) | (2 995) |
| Fuels and supplies | (335) | (341) |
| Energy expenses | (239) | (251) |
| Freights | (267) | (224) |
| Maintenance | (146) | (122) |
| Employee benefit expenses | (933) | (1 050) |
| Rents and leases | (43) | (42) |
| Hire processing | (55) | (32) |
| Depreciation and amortization | (251) | (304) |
| Production for own use | 24 | 29 |
| Change in inventories | 346 | 81 |
| Other expenses | (488) | (596) |
| | (6 697) | (5 847) |

Expenses by function include cost of sales, selling and marketing, administrative as well as research and development.

Operating income and expenses comprise following non-recurring items, which have affected financial performance for the period.

**Non-recurring items**

| € million | 2004 | 2003 |
|---|---|---|
| Release of the Finnish TEL disability pension liability | 36 | – |
| Gain on the sale of the filter business | 16 | – |
| Stelco Hardy closure provision | (3) | – |
| Waalwijk closure costs | (7) | – |
| Loss on the sale of the Boliden shares | (19) | – |
| Gain on the Boliden transaction | (1) | 120 |
| Excess of Outokumpu's interest in the net fair value of acquired net assets over cost | – | 23 |
| Gain on the sale of Arctic Platinum Partnership (49%) | – | 26 |
| Gain on the sale of the Inmet shares | – | 10 |
| Gain on the sale of the precious metals assets | – | 9 |
| Panteg closure | 7 | (7) |
| Provisions for the copper tube cartel fines | – | (54) |
| | 29 | 127 |

## 9. Employee benefit expenses

| € million | 2004 | 2003 |
|---|---|---|
| Wages and salaries | **(725)** | (790) |
| Termination benefits | **(5)** | (5) |
| Social security | **(112)** | (77) |
| Pension costs | | |
| Defined benefit plans | **16** | (18) |
| Defined contribution plans | **(46)** | (78) |
| Other post-employment benefits | **(5)** | 1 |
| Other personnel expenses [1)] | **(56)** | (83) |
| | **(933)** | (1 050) |

[1)] Includes EUR 2 million (2003: EUR 1 million) of profit-sharing bonuses based on the Finnish Personnel Funds Act.

## 10. Financial income and expenses

| € million | 2004 | 2003 |
|---|---|---|
| Dividend income | **3** | 3 |
| Interest income | | |
| Derivatives | **4** | 0 |
| Other | **19** | 14 |
| Other financial income | **4** | 4 |
| Interest expenses | | |
| Current and long-term debt | **(110)** | (107) |
| Finance lease arrangements | **(2)** | (2) |
| Capitalized interests | **6** | 14 |
| Derivatives | **(5)** | (4) |
| Other financial expenses | **(12)** | (13) |
| Exchange gains and losses | | |
| Derivatives | **33** | 38 |
| Other | **(32)** | (38) |
| Other market price gains and losses | | |
| Derivatives | **24** | – |
| Other | **0** | – |
| | **(69)** | (91) |

**Exchange gains and losses in the income statement**

| € million | 2004 | 2003 |
|---|---|---|
| In sales | **–** | 49 |
| In purchases and other expenses | **–** | (9) |
| In financial income and expenses | **1** | 0 |
| | **1** | 40 |

## 11. Income taxes

**Income taxes in the income statement**

| € million | 2004 | 2003 |
|---|---|---|
| Current taxes | **(57)** | (18) |
| Deferred taxes | **(30)** | 22 |
| Total income taxes | **(87)** | 4 |

The difference between income taxes at the statutory tax rate in Finland (29%) and income taxes recognized in the consolidated income statement is reconciled as follows:

| € million | 2004 | 2003 |
|---|---|---|
| Hypothetical income taxes at Finnish tax rate on consolidated profit before tax | **(138)** | (31) |
| Effect of different tax rates outside Finland | **9** | (9) |
| Non-deductible expenses and tax exempt income | **4** | 75 |
| Losses for which no deferred tax benefit is recognized | **(23)** | (29) |
| Changes in the carrying amounts of deferred tax assets from prior years | **30** | 11 |
| Taxes for prior years | **(5)** | 1 |
| Impact of the changes in the tax rates on deferred tax balances | **17** | 0 |
| Net results of associated companies | **12** | (4) |
| Effects of consolidation and eliminations | **2** | (16) |
| Other items | **5** | 5 |
| Income taxes in the consolidated income statement | **(87)** | 4 |

Majority of the impact of the changes in the tax rates was attributable to the decrease in the Finnish tax rate from 29% to 26% on Jan. 1, 2005.

**Deferred income taxes in the balance sheet**

| € million | 2004 | 2003 |
|---|---|---|
| Deferred tax assets | **44** | 69 |
| Deferred tax liabilities | **(255)** | (248) |
| Net deferred tax liability | **(210)** | (179) |

Deferred taxes have been reported as a net balance of those group companies that file a consolidated tax return or that may otherwise be consolidated for current tax purposes.

The gross movements of the deferred income tax balances

| € million | 2004 | 2003 |
|---|---|---|
| Deferred taxes on Jan. 1 | **(179)** | (214) |
| Income statement charge | **(30)** | 22 |
| Translation differences | **(2)** | (5) |
| Acquisitions and disposals of subsidiaries | **(1)** | 18 |
| Taxes recognized in equity | **1** | – |
| Deferred taxes on Dec. 31 | **(210)** | (179) |

**Movement in deferred tax assets and liabilities during the financial year**

| 2004<br>€ million | Jan. 1 | Recognized in the income statement | Recognized in equity | Translation differences | Acquisitions/ disposals of subsidiaries | Dec. 31 |
|---|---|---|---|---|---|---|
| Deferred tax liabilities | | | | | | |
| Depreciation difference and other untaxed reserves | (245) | (41) | – | (1) | – | **(287)** |
| Fair value adjustments | (10) | 7 | 0 | – | (1) | **(4)** |
| Effects of consolidation and eliminations | (6) | (3) | – | – | – | **(9)** |
| Other taxable temporary differences | (79) | 26 | – | 0 | – | **(53)** |
| | (340) | (11) | 0 | (1) | (1) | **(353)** |
| Deferred tax assets | | | | | | |
| Tax losses carried forward | 57 | (3) | – | 0 | – | **54** |
| Fair value adjustments | 5 | (5) | 1 | – | – | **1** |
| Pension obligations | 17 | (3) | – | 0 | – | **14** |
| Accrual of cartel fines | 10 | (10) | – | – | – | **0** |
| Effects of consolidation and eliminations | 6 | 14 | – | – | – | **20** |
| Other tax deductible temporary differences | 67 | (12) | – | (1) | – | **55** |
| | 162 | (19) | 1 | 0 | – | **143** |
| Net deferred tax liability | (179) | (30) | 1 | (2) | (1) | **(210)** |

| 2003<br>€ million | Jan. 1 | Recognized in the income statement | Recognized in equity | Translation differences | Acquisitions/ disposals of subsidiaries | Dec. 31 |
|---|---|---|---|---|---|---|
| Deferred tax liabilities | | | | | | |
| Depreciation difference and other untaxed reserves | (292) | 15 | – | 3 | 30 | (245) |
| Fair value adjustments | (32) | 2 | – | 0 | 19 | (10) |
| Effects of consolidation and eliminations | (3) | (3) | – | – | – | (6) |
| Other taxable temporary differences | (80) | (12) | – | 0 | 14 | (79) |
| | (408) | 2 | – | 3 | 63 | (340) |
| Deferred tax assets | | | | | | |
| Tax losses carried forward | 94 | (1) | – | (3) | (33) | 57 |
| Fair value adjustments | 7 | (3) | – | – | 1 | 5 |
| Pension obligations | 29 | 1 | – | (1) | (12) | 17 |
| Accrual of cartel fines | – | 10 | – | – | – | 10 |
| Effects of consolidation and eliminations | 2 | 4 | – | – | – | 6 |
| Other tax deductible temporary differences | 62 | 10 | – | (3) | (1) | 67 |
| | 194 | 20 | – | (7) | (45) | 162 |
| Net deferred tax liability | (214) | 22 | – | (5) | 18 | (179) |

**Deferred taxes recognized directly in equity**

| € million | **2004** | 2003 |
|---|---|---|
| Land and buildings | **–** | – |
| Hedging reserve | **1** | – |
| Available-for-sale financial assets | **0** | – |
| | **1** | – |

Deferred tax assets of EUR 123 million (2003: EUR 145 million) have not been recognized in the consolidated financial statements because the realization of the tax benefit included in these assets is not probable. Majority of these unrecognized deferred tax assets relate to tax losses amounting to EUR 360 million (2003: EUR 405 million), which can be carried forward in the future. EUR 13 million (2003: EUR 48 million) of these tax losses will expire within next five years and the rest earliest in 2010. The consolidated balance sheet includes deferred tax assets of EUR 31 million (Dec. 31, 2003: EUR 27 million) in subsidiaries, which have generated losses in current or in prior year. The recognition of the assets is based on result estimates, which indicate that the realization of these deferred tax assets is probable. Deferred tax liability on undistributed earnings of subsidiaries has not been recognized in the consolidated balance sheet because distribution of the earnings is in the control of the Group and such distribution is not probable within foreseeable future. The amount of such undistributed earnings at the end of the year was EUR 6 million (Dec. 31, 2003: EUR 554 million). The difference compared with the previous year results mainly from the new Finnish dividend taxation system, which came into effect on Jan. 1, 2005. The new system enables distribution of earnings in Finnish subsidiaries without any compensatory tax.

### 12. Earnings per share

| | 2004 | 2003 |
|---|---|---|
| Profit attributable to the equity holders of the Company, € million | **383** | 111 |
| Weighted average number of shares, in thousands | **180 057** | 171 623 |
| Earnings per share, € | **2.13** | 0.65 |

Diluted earnings per share is calculated by adjusting average number of shares outstanding to assume conversion of all diluting potential shares. The Group has diluting options (2003 option program). The options have a diluting effect, when the exercise price with an option is lower than the market value of the Company share. The diluting effect is the number of shares that the Company has to issue gratuitously because the received funds from the exercised options do not cover the fair value of the shares. The fair value of the Company's share is determined as the average market price of the shares during the period. The convertible bond is converted into shares and the net profit is adjusted to eliminate the interest expense, net of tax. The subscription period for the 1998 option program ended on Mar. 31, 2004 and for the 1999 convertible bond on Apr. 5, 2004.

| | | |
|---|---|---|
| Profit attributable to the equity holders of the Company, € million | **383** | 111 |
| Weighted average number of shares, in thousands | **180 057** | 171 623 |
| Effect of the 1998 option warrants, in thousands | **–** | 213 |
| Effect of the 1999 convertible bond, in thousands | **–** | 730 |
| Effect of 2003A options, in thousands | **115** | – |
| Diluted average number of shares, in thousands | **180 172** | 172 566 |
| Diluted earnings per share, € | **2.13** | 0.65 |

### 13. Dividend per share

The dividends paid in 2004 were EUR 0.20 per share and in 2003 EUR 0.40 per share. At the Annual General Meeting on Apr. 5, 2005, a dividend of EUR 0.50 per share is proposed, corresponding to total dividends of EUR 90 million for 2004. This dividend payable is not reflected in the financial statements.

### 14. Intangible assets

| € million | Intangible asset, internally generated | Intangible asset, acquired | Goodwill | Total |
|---|---|---|---|---|
| Historical cost on Jan. 1, 2004 | 43 | 135 | 474 | 653 |
| Additions | 0 | 34 | 2 | 36 |
| Acquisition of subsidiaries | 1 | – | 2 | 4 |
| Disposals | (2) | (1) | (2) | (5) |
| Reclassifications | (35) | 38 | – | 3 |
| Translation differences | 0 | 0 | (3) | (3) |
| **Historical cost on Dec. 31, 2004** | **8** | **207** | **474** | **687** |
| | | | | |
| Accumulated depreciation on Jan. 1, 2004 | (11) | (43) | 2 | (52) |
| Acquisition of subsidiaries | (1) | 0 | – | (1) |
| Disposals | 1 | 1 | 0 | 2 |
| Reclassifications | 7 | (5) | – | 1 |
| Amortization during the period | (1) | (19) | – | (20) |
| Impairments | – | – | (0) | (0) |
| Translation difference | 0 | 0 | 1 | 1 |
| **Accumulated depreciation on Dec. 31, 2004** | **(5)** | **(67)** | **3** | **(69)** |
| | | | | |
| **Carrying value on Dec. 31, 2004** | **3** | **140** | **477** | **620** |
| Carrying value on Dec. 31, 2003 | 32 | 92 | 477 | 601 |

**Depreciation and amortization by function**

| € million | 2004 | 2003 |
|---|---|---|
| Cost of sales | **(16)** | (8) |
| Selling and marketing expenses | **(0)** | (0) |
| Administrative expenses | **(4)** | (9) |
| Research and development expenses | **(0)** | (0) |
| | **(20)** | (17) |

**Impairment testing of goodwill**

Goodwill is allocated to the Group's cash-generating units (CGUs) according to the business organization.

**Goodwill allocation to the segments and divisions**

| € million | 2004 | 2003 |
|---|---|---|
| Outokumpu Stainless | **386** | 387 |
| Coil Products | **10** | 10 |
| Special Products | **8** | 7 |
| North America | **–** | – |
| | | |
| Outokumpu Copper | | |
| Americas | **–** | – |
| Europe | **13** | 10 |
| Tube and Brass | **–** | – |
| Automotive Heat Exchangers | **9** | 10 |
| Appliance Heat Exchangers & Asia | **4** | 4 |
| | | |
| Outokumpu Technology | **47** | 48 |
| | **477** | 477 |

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations are based on the cash flow projections in the strategic plans approved by the management covering a five-year period. The estimated sales and production volumes are derived from the utilization of existing property, plant and equipment. The most important assumptions are the product and market mix as well as the conversion margins. In defining its planning assumptions Outokumpu makes use of growth, demand and price estimates by market research institutions. Discount rate is the weighted average pre-tax cost of capital (WACC) as defined for Outokumpu. The components of WACC are risk-free yield rate, market risk premium, industry specific beta, cost of debt and targetted capital structure. The WACC used in the calculations was 8% in 2004 (2003: 8.8%). Cash flows beyond the five-year period are calculated using terminal value method, where the EBITDA (=earnings before interest, taxes, amortizations and depreciation) of the fifth planning period is multiplied by six and discounted using the WACC described above. As a result of the performed impairment tests, no impairment losses have been recognized.

## 15. Property, plant and equipment

| € million | Land | Mine properties | Buildings | Machinery and equipment | Other tangible assets | Advances paid and construction in progress | Total |
|---|---|---|---|---|---|---|---|
| Historical cost on Jan. 1, 2004 | 64 | 31 | 905 | 3 314 | 98 | 482 | 4 894 |
| Additions | 2 | – | 67 | 142 | 2 | 123 | 336 |
| Acquisition of subsidiaries | – | – | – | 14 | – | 0 | 14 |
| Disposals | (1) | – | (10) | (62) | (5) | (2) | (80) |
| Reclassifications | (6) | 3 | 26 | 435 | 7 | (464) | 0 |
| Translation differences | (1) | – | (5) | (29) | (2) | (1) | (37) |
| **Historical cost on Dec. 31, 2004** | **58** | **34** | **983** | **3 813** | **100** | **138** | **5 127** |
| | | | | | | | |
| Accumulated depreciation on Jan. 1, 2004 | (5) | (6) | (334) | (1 842) | (39) | – | (2 226) |
| Acquisition of subsidiaries | – | – | – | (4) | – | – | (4) |
| Disposals | 0 | – | 5 | 56 | 1 | – | 62 |
| Reclassifications | 2 | – | (1) | (4) | (3) | (2) | (8) |
| Depreciation during the period | 0 | 0 | (33) | (193) | (5) | – | (231) |
| Impairments | – | – | – | (0) | – | – | (0) |
| Translation differences | 0 | – | 2 | 19 | 2 | – | 23 |
| **Accumulated depreciation on Dec. 31, 2004** | **(3)** | **(6)** | **(360)** | **(1 968)** | **(44)** | **(2)** | **(2 383)** |
| | | | | | | | |
| **Carrying value on Dec. 31, 2004** | **55** | **27** | **623** | **1 845** | **56** | **137** | **2 743** |
| Carrying value on Dec. 31, 2003 | 59 | 25 | 572 | 1 472 | 59 | 482 | 2 668 |

### Depreciation by function

| € million | **2004** | 2003 |
|---|---|---|
| Cost of sales | **(210)** | (269) |
| Selling and marketing expenses | **(5)** | (5) |
| Administrative expenses | **(11)** | (10) |
| Research and development expenses | **(5)** | (3) |
| | **(231)** | (287) |

Interest capitalized on investment projects during the financial year was EUR 6 million. Total interest capitalized on Dec. 31, 2004 was EUR 78 million. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization is 3.9%.

### Assets leased by finance lease agreements

| **2004**<br>€ million | Buildings | Machinery and equipment | Total |
|---|---|---|---|
| Historical cost | 4 | 71 | 75 |
| Accumulated depreciation | (1) | (7) | (8) |
| **Carrying value on Dec. 31** | **3** | **64** | **67** |

| 2003<br>€ million | Buildings | Machinery and equipment | Total |
|---|---|---|---|
| Historical cost | 4 | 26 | 29 |
| Accumulated depreciation | (1) | (2) | (3) |
| Carrying value on Dec. 31 | 3 | 24 | 27 |

## 16. Investments in associated companies

| € million | 2004 | 2003 |
|---|---|---|
| Investments in associated companies at cost | | |
| Historical cost on Jan. 1 | **407** | 62 |
| Translation differences | **0** | (0) |
| Additions | **75** | 353 |
| Disposals | **(201)** | (8) |
| Historical cost on Dec. 31 | **281** | 407 |
| | | |
| Equity adjustment to investments in associated companies on Jan. 1 | **(151)** | 15 |
| Change in translation differences | **5** | 0 |
| Dividends received during financial period | **(0)** | (0) |
| Disposals and other changes | **78** | (151) |
| Share of results of associated companies | **78** | (15) |
| Equity adjustment to investments in associated companies on Dec. 31 | **10** | (151) |
| | | |
| Carrying value of investments in associated companies on Dec. 31 | **291** | 255 |

**Associated companies and joint ventures**

| | Domicile | Ownership, % |
|---|---|---|
| ABB Industriunderhåll AB | Sweden | 49 |
| Advanced Heat Transfer LLC | The United States | 50 |
| AuraCoat Oy | Finland | 20 |
| Boliden AB (publ) | Sweden | 27 |
| Fagersta Stainless AB | Sweden | 50 |
| Kopparlunden Development AB | Sweden | 50 |
| Okmetic Oyj | Finland | 32 |
| Outokumpu (Thailand) Co., Ltd. | Thailand | 49 |
| Outokumpu Nordic Brass AB | Sweden | 50 |
| Rapid Power Oy | Finland | 33 |

**Principal associated companies**

| **2004** € million | Domicile | Assets | Liabilities | Sales | Profit/ loss | Ownership, % |
|---|---|---|---|---|---|---|
| Boliden AB (publ) | Sweden | 2 219 | 1 226 | 1 965 | 116 | 27 |
| Okmetic Oyj [1] | Finland | 92 | 48 | 42 | (32) | 32 |
| Fagersta Stainless AB | Sweden | 84 | 42 | 155 | 6 | 50 |

| 2003 € million | Domicile | Assets | Liabilities | Sales | Profit/ loss | Ownership, % |
|---|---|---|---|---|---|---|
| Laminados Oviedo-Córdoba S.A. | Spain | 59 | 48 | 54 | (17) | 50 |
| Okmetic Oyj [1] | Finland | 121 | 48 | 50 | (10) | 32 |
| Arctic Platinum Partnership [2] | Finland | – | – | 0 | (6) | 49 |

[1] Okmetic's figures for 2004 are based on the information published for the period ending on Sep. 30, 2004. However, comparison figures are based on the entire financial year 2003. Outokumpu's share of Okmetic's profits for 2004 and 2003 are consolidated from the 12-month periods ending at the end of September.

[2] Arctic Platinum Partnership was sold to Gold Fields on Sep. 11, 2003. The share of the net result has been included in the income statement until the date of the disposal.

The carrying values of investments in associated companies include publicly listed shares for EUR 265 million (2003: EUR 241 million). The market value of these investments was EUR 254 million on Dec. 31, 2004 (Dec. 31, 2003: EUR 367 million). The market value of these investments was higher than the carrying value on Feb. 10, 2005.

## 17. Available-for-sale financial assets

| € million | 2004 |
|---|---|
| Carrying value on Jan. 1 | 24 |
| Translation differences | 0 |
| Additions | 26 |
| Disposals | (6) |
| Fair value changes | 16 |
| Impairments | – |
| Gains and losses on disposals in the income statement | 1 |
| Carrying value on Dec. 31 | 61 |
| | |
| Listed equity securities | 6 |
| Unlisted equity securities | 55 |
| | |
| Less: | |
| Non-current listed equity securities | 0 |
| Non-current unlisted equity securities | (53) |
| Current available-for-sale financial assets | 8 |
| | |
| Fair value | 61 |
| Acquisition value | (45) |
| Fair value changes | 16 |
| Deferred tax liability | 0 |
| Fair value reserve in equity | 16 |

Available-for-sale financial assets comprise listed and unlisted equity securities. These have been valued at fair value from Jan. 1, 2004 onwards. Available-for-sale financial assets include equity securities with carrying value of EUR 30 million, for which the fair value cannot be reliably determined. These assets are measured at cost less possible impairment.

## 18. Financial risk management

The main objective of the Group's financial risk management is to reduce the impacts of price fluctuations in financial markets and other factors of uncertainty on earnings, cash flows and balance sheet, as well as to ensure sufficient liquidity.

The Board has approved the risk management policy, which among others, defines financial risk management guidelines for the Group. The Board oversees the Group's risk management framework. CEO and the Group Executive Committee have approved more detailed operating procedures for financial risk management. CEO and the Group Executive Committee approve risk limits based on Group's risk tolerance and monitor financial risks and implementation of risk management procedures. Group's finance management is responsible for development and implementation of financial risk management procedures.

Financial risks consist of market, default and liquidity risks. The business units hedge their market risks against the Group's treasury, which does most of the financial contracts with banks and other financial institutions. Treasury is also responsible for managing certain group-level risks, such as interest rate risk and foreign currency translation risk.

### Market risk

Market risks are caused by changes in foreign exchange and interest rates, as well as commodity, energy and security prices. These changes may have a significant impact on the Group's earnings, cash flows and balance sheet.

In order to mitigate adverse impacts of market price changes Outokumpu uses derivative contracts. IAS 39 hedge accounting is applied to hedge forecasted electricity purchases of the Finnish production facilities and to hedge net investment in the foreign subsidiaries. Derivatives, for which hedge accounting is not applied, have been entered into for the purpose of reducing adverse impacts of market price changes on earnings and cash flows related to business and financing activities. In this description of financial risk management, the term hedging, has been used in its broadest sense and therefore it also includes usage of non-hedge-accounted derivatives.

Non-hedge-accounted long-term electricity and interest rate derivatives cause timing differences between both derivative gains/losses and electricity purchases and interest expenses. Currency forwards made to fix exchange rates of sales and purchase orders cause similar type of timing differences between exchange gains/losses and sales/purchases.

### Exchange rate risk

Major part of the Group's sales is in euros and US dollars. A significant part of expenses arise in euros, US dollars, Swedish kronas and British pounds. The Group's Asian businesses also include local currency risks, all of which cannot be effectively hedged.

Outokumpu hedges most of its fair value risk. Cash flow risk related to firm commitments is hedged to large extent and forecasted cash flows are hedged selectively, based on separate decisions. Outokumpu does not currently hedge its income statement translation risk and translation of equity is hedged selectively. The total non-euro-denominated equity of the Group's foreign subsidiaries and associated companies was EUR 1 513 million on December 31, 2004 (2003: EUR 1 512 million). Approximately 9.3% (2003: 2.2%) of the net investment exposure was hedged.

On December 31, the Group had the following outstanding foreign exchange derivative contract amounts (the nominal amounts do not represent the amounts exchanged by the parties, and those amounts may also include positions, which have been closed off):

| € million | 2004 | 2003 |
|---|---|---|
| Currency forwards | 1 247 | 1 620 |
| Currency options, purchased | 7 | 280 |
| Currency options, written | 8 | 270 |
| Currency swaps | 21 | 40 |

### Interest rate risk

The Group's interest rate risk is monitored as cash flow and fair value risks. In order to manage the balance between risk and cost efficiently, most of the loans and financial investments have short-term interest rate as a reference rate. Interest rate swaps have been used to reduce cash flow risk.

Euro, Swedish krona, US dollar and British pound have substantial contribution to overall interest rate risk. Approximately 80% of the Group's interest-bearing liabilities have interest period of less than one year.

On December 31, the Group had the following outstanding interest rate derivative contract amounts (the nominal amounts do not represent the amounts exchanged by the parties, and those amounts may include also positions, which have been closed off):

| € million | 2004 | 2003 |
|---|---|---|
| Interest rate swaps | 172 | 210 |

### Commodity and energy price risk

Outokumpu uses substantial amount of raw materials and energy, for which prices are determined in regulated markets, such as London Metal Exchange and Nord Pool ASA. Timing differences between raw material purchase and pricing of products, changes in inventory levels and the capability to pass on increases in raw material and energy prices to end-product prices, all affect hedging requirements and activities.

The most important commodity price risks are caused by nickel and copper price fluctuations. Majority of stainless steel sales contracts include an alloy adjustment factor clause, with the aim of reducing the risk arising from the time difference between raw material purchase and product pricing. Outokumpu uses metal derivatives to reduce the impacts of nickel and copper price changes on earnings and cash flows. Nickel and copper price changes also have a major impact on the Group's working capital and cash flow before financing. This cash flow risk cannot be fully hedged with derivatives.

On December 31, the Group had the following outstanding metal derivative contract amounts (the nominal amounts do not represent the amounts exchanged by the parties, and those amounts may include also positions, which have been closed off):

| Tonnes | 2004 | 2003 |
|---|---|---|
| Forward and futures copper contracts | 50 150 | 101 400 |
| Copper options, purchased | 20 522 | – |
| Forward and futures nickel contracts | 1 758 | 4 300 |
| Nickel options, purchased | – | 720 |
| Forward and futures zinc contracts | 39 000 | 299 700 |
| Forward and futures aluminium contracts | 2 550 | 2 800 |
| Forward and futures gold contracts (tr. oz.) | – | 146 800 |
| Forward and futures silver contracts (tr. oz.) | – | 886 800 |

Outokumpu has energy intensive production processes utilizing mainly electrical energy but also natural gas, liquefied petroleum gas and some other fuels. Spot and forward prices of many energy products are relatively volatile.

Electrical energy utilized by the Group's Nordic production facilities is purchased and managed centrally. In other facilities, electrical energy is purchased locally. Electricity price risk is reduced with price fixed supply contracts and derivatives. Part of the electricity derivatives are included in the hedging program, which meets the requirements of IAS 39. The hedging program was launched on April 1, 2004. The Group has not used derivatives to reduce the risk caused by changes in fuel prices.

On December 31, 2004 the Group had exchange traded electricity derivatives of 0.1 TWh (2003: 0.0 TWh) and other derivatives of 5.0 TWh (2003: 3.5 TWh). The electricity consumption of the Group's Nordic production facilities was 3.1 TWh (2003: 4.7 TWh).

### Securities price risk

Outokumpu has investments in equity securities and from time to time the portfolio may also include fixed income securities. On December 31, 2004 the biggest single security investment was the shareholding in the associated company Boliden AB. Securities price risk has not been hedged with derivatives.

### Default risk

The Group's accounts receivables are generated by a large number of customers worldwide. Credit risk related to business operations is reduced for example with credit insurances and letters of credit.

The Group's treasury manages a major part of the credit risk related to financial instruments. Outokumpu seeks to reduce these risks by limiting the counterparties to banks, other financial institutions, brokers and suppliers of electrical power, which have good credit standing. All investments related to liquidity management are made in liquid instruments with low credit risk.

### Liquity risk

The Group's treasury raises most of the Group's interest-bearing debt centrally. The Group seeks to reduce liquidity and refinancing risks with balanced maturity profile of loans as well as by keeping sufficient amount of credit lines available. Efficient cash and liquidity management is also reducing liquidity risk.

In 2004, Outokumpu issued two bonds: EUR 125 million and EUR 75 million. Maturities of the bonds are three and seven years, correspondingly. The main funding programs and standby credit facilities include the Finnish Commercial Paper Program totaling EUR 650 million, the Euro-Commercial Paper Program totaling USD 250 million, the committed Revolving Credit Facility of EUR 875 million and the committed financing facility of EUR 500 million. On December 31, 2004, Outokumpu had committed and available credit facilities and other agreed and undrawn loans totaling EUR 684 million. Group's loan agreements include typical covenants. Committed loan facilities also include equity ratio covenants.

### 19. Fair values of derivative instruments

| € million | 2004 Positive fair value | 2004 Negative fair value | 2004 Net fair value | 2003 Net fair value |
|---|---|---|---|---|
| Currency derivatives | | | | |
| Currency forwards | 35 | 9 | 26 | 29 |
| Currency options, purchased | 0 | 0 | 0 | 5 |
| Currency options, written | 0 | 0 | 0 | (4) |
| Currency swaps | – | 1 | (1) | (3) |
| Interest rate derivatives | | | | |
| Interest rate swaps | – | 2 | (2) | (3) |
| Metal derivatives | | | | |
| Forward and futures copper contracts | 5 | 2 | 3 | 1 |
| Copper options, purchased | 0 | – | 0 | 0 |
| Forward and futures nickel contracts | 1 | 0 | 1 | 7 |
| Nickel options, purchased | – | – | – | 0 |
| Forward and futures zinc contracts | 4 | 4 | 0 | 0 |
| Forward and futures aluminium contracts | 0 | – | 0 | 0 |
| Forward and futures gold contracts | – | – | – | 0 |
| Forward and futures silver contracts | – | – | – | 0 |
| Electricity derivatives | | | | |
| Publicly traded electricity derivatives | – | – | 0 | – |
| Other electricity derivatives | 3 | 3 | 0 | 6 |
| | 49 | 22 | 27 | 38 |
| Long-term derivatives | | | | |
| Interest rate derivatives | – | (1) | | |
| Electricity derivatives | (2) | (3) | | |
| Short-term derivatives | 47 | 18 | | |

Fair values are estimated based on market rates and prices, discounted future cash flows, and in respect of options on evaluation models.

**Net investment hedges on Dec. 31, 2004**

| Currency | Nominal value | Fair value, € million | Cumulative translation difference in equity 2004, € million |
|---|---|---|---|
| USD million [1] | 32 | 2 | 1 |
| GBP million | 21 | 1 | 1 |
| SEK million | 763 | 0 | 0 |

[1] Hedging has ended on Jan. 3, 2005.

Net investment in foreign subsidiaries is hedged with currency forwards. The portion of gains and losses on effective hedges, net of tax is recognized in equity. The ineffective portion is recognized in income. On Dec. 31, 2003, EUR 6 million of net exchange gains on financial instruments were deferred.

**Electricity purchase hedges on Dec. 31, 2004**

| € million | Nominal amounts, TWh | Fair value | In fair value reserve in equity |
|---|---|---|---|
| 2005 | 0.1 | 0 | (1) |
| 2006 | 0.2 | 0 | (1) |
| 2007 | – | – | – |
| 2008 | – | – | – |
| 2009 | – | – | – |

| € million | |
|---|---|
| Fair value changes as of Apr. 1, 2004 | (2) |
| Deferred tax liability | 1 |
| Fair value reserve in equity | (2) |

Forecasted purchases of electricity by the Finnish production facilities are hedged with electricity forwards. The portion of unrealized gains and losses on effective hedges, net of tax is recognized in equity. Other fair value changes are recognized in income.

The portion of realized gains and losses on effective hedges is recognized in income as adjustment to purchases in the period when the hedged cash flow affects income. Other realized gains and losses are recognized in financial income and expenses.

## 20. Inventories

| € million | 2004 | 2003 |
|---|---|---|
| Raw materials and consumables | 415 | 348 |
| Work in progress | 535 | 425 |
| Finished goods and merchandise | 616 | 438 |
| Advance payments | 12 | 8 |
| | 1 579 | 1 219 |

In 2004, EUR 7 million (2003: EUR 5 million) was recognized as expense, with which the carrying value of the inventories was written down to reflect its net realizable value.

## 21. Trade and other receivables

| € million | 2004 | 2003 |
|---|---|---|
| **Non-current** | | |
| Interest-bearing | | |
| Loans receivable | 59 | 207 |
| Held for trading investments | 3 | 0 |
| | 63 | 207 |
| Non interest-bearing | | |
| Trade receivables | 0 | 3 |
| Defined benefit pension assets | 4 | 5 |
| Other receivables | 7 | 3 |
| | 11 | 12 |
| **Current** | | |
| Interest-bearing | | |
| Loans receivable | 6 | 13 |
| Held for trading investments | 9 | 0 |
| Prepaid interest expenses | 0 | 1 |
| Accrued interest income | 1 | 1 |
| Other interest-bearing items | 1 | 0 |
| | 18 | 15 |

| € million | 2004 | 2003 |
|---|---|---|
| **Current** | | |
| Non interest-bearing | | |
| Trade receivables | **1 249** | 901 |
| Income tax receivable | **6** | 8 |
| Prepaid insurance expenses | **12** | 8 |
| VAT receivable | **73** | 71 |
| Grants and subsidies receivable | **14** | 1 |
| Other accruals | **16** | 21 |
| Other receivables | **19** | 24 |
| | **1 390** | 1 032 |

Doubtful receivables deducted from trade receivables

| | | |
|---|---|---|
| Doubtful trade receivables on Jan. 1 | **13** | 12 |
| Additions | **4** | 4 |
| Deductions | **(2)** | (3) |
| Recovery of doubtful receivables | **0** | (1) |
| Doubtful trade receivables on Dec. 31 | **14** | 13 |

## 22. Cash and cash equivalents

| € million | 2004 | 2003 |
|---|---|---|
| Cash at bank and in hand | **196** | 210 |
| Short-term bank deposits | **15** | 20 |
| | **211** | 231 |

Fair value of cash and cash equivalents does not significantly differ from the carrying value. The effective interest rate of short-term bank deposits was 2.03% and these deposits had an average maturity of 47 days.

## 23. Equity

**Share capital and premium fund**

| € million | Number of shares, 1 000 | Share capital | Premium fund | Total |
|---|---|---|---|---|
| On Jan. 1, 2003 | 171 111 | 293 | 630 | 923 |
| Share offering | 5 143 | 9 | 45 | 54 |
| Costs of the share offering | | | (0) | 0 |
| Shares subscribed with options | 660 | 1 | 5 | 6 |
| Converted bonds | 255 | 0 | 2 | 2 |
| On Dec. 31, 2003 | 177 451 | 304 | 681 | 985 |
| Shares subscribed with options | 2 176 | 4 | 15 | 19 |
| Converted bonds | 500 | 1 | 3 | 4 |
| Gain on the sale of the subscription rights on treasury shares | | | 0 | 0 |
| Other | | | 0 | 0 |
| **On Dec. 31, 2004** | **180 752** | **308** | **700** | **1 008** |
| Treasury shares | **499** | | | |
| Total number of shares on Dec. 31, 2004 | **181 251** | | | |

According to the Articles of Association, the maximum number of Outokumpu Oyj shares is 706 million. Account equivalent value of a share is EUR 1.70, and the maximum share capital is EUR 1.2 billion.

### Fair value reserves

| € million | 2004 |
|---|---|
| Available-for-sale investments reserve | 16 |
| Cash flow hedge reserve | (2) |
| | 15 |

Fair value reserves include movements in the fair value of the available-for-sale financial assets and the derivative instruments used for cash flow hedging.

### Other reserves

| € million | 2004 |
|---|---|
| Reserve fund | 12 |
| Other reserves | 1 |
| | 13 |

Other reserves consist of reserve fund and other reserves. Reserve fund includes amounts transferred from the distributable equity under the Articles of Association or by a decision by General Meeting of Shareholders. Other reserves include other items based on the local regulations of the group companies.

### Distributable equity

| € million | 2004 |
|---|---|
| Non-restricted equity | 1 064 |
| Net profit for the financial year | 383 |
| Untaxed reserves in equity | (419) |
| Transfers to restricted equity | – |
| Undistributable equity | (18) |
| Distributable equity | 1 010 |
| | |
| Untaxed reserves | |
| | |
| Accumulated depreciation difference | 524 |
| Other untaxed reserves | 37 |
| Untaxed reserves | 561 |
| | |
| Deferred tax liability on untaxed reserves | (142) |
| Untaxed reserves in equity | 419 |

Distributable equity is calculated according to IFRS balance sheet and Finnish legislation.

### Shares and share capital

The total number of Outokumpu Oyj shares was 181 250 555 and the share capital amounted to EUR 308.1 million on December 31, 2004. Outokumpu Oyj held a total of 498 533 treasury shares on December 31, 2004 with total account equivalent value of EUR 0.8 million. This equaled to 0.3% of the share capital and the total voting rights of the Company on December 31, 2004.

Two of Outokumpu's share related incentive schemes – the 1998 option program and the 1999 convertible bond – came to an end during 2004 and the last share subscriptions were registered with the Finnish trade register on April 7, 2004. Altogether 2 836 068 Outokumpu Oyj shares were subscribed for under the 1998 option warrants that Outokumpu Oyj issued in March 1998 during the subscription period from May 2, 2001 to March 31, 2004. All 2 584 option warrants were exercised by the close of the subscription period. Bonds relating to the convertible bond loan of EUR 18 180 000, which was issued in April 1999 for the Group's personnel were converted into 1 797 919 shares in Outokumpu Oyj during the subscription period from April 9, 2001 to April 5, 2004. EUR 2 092 000 of the total amount of the convertible bond loan was prepaid in advance and repayment of non-converted bonds of EUR 363 000 took place on April 7, 2004.

The Annual General Meeting of April 3, 2003 approved a stock option program for management. Under the terms and conditions of the stock option program, altogether 5 100 000 stock options may be issued entitling holders thereof to subscribe for 5 100 000 new shares in the Company during the years 2006 and 2011.

In February 2004, the Board of Directors confirmed that altogether 742 988 stock options 2003A be distributed to 116 persons in management positions of Outokumpu. The members of the Group Executive Committee received 62.00% and other key persons 45.25% of the maximum number of stock options 2003A approved in June 2003. The number of stock options 2003A distributed was decided based on the Group's earnings per share and share price development that were set as earnings criteria for the options in June 2003. The additional earnings criterion for the Group Executive Committee members was the Group's gearing. Outokumpu Oyj shares can be subscribed for with the 2003A stock options between September 1, 2006 and March 1, 2009. Subscription price for a stock option will be the trading volume weighted average of the Outokumpu share on the Helsinki stock exchange between December 1, 2003 and February 29, 2004, i.e. EUR 10.70 per share deducted with dividends paid annually.

In February 2004, the Board of Directors of Outokumpu Oyj decided the earnings criteria on the basis of which stock options 2003B will be distributed to 131 key persons of the Outokumpu Group in spring 2005. The earnings criteria comprise the Group's earnings per share, share price development, and additionally gearing for the Group Executive Committee members. A total maximum of 1 700 000 Outokumpu Oyj shares can be subscribed for with the 2003B stock options between September 1, 2007 and March 1, 2010. Subscription price for a stock option will be the trading volume weighted average of the Outokumpu share on the Helsinki stock exchange between December 1, 2004 and February 28, 2005.

As a result of the share subscriptions with the 2003 stock options, the share capital of Outokumpu Oyj may be increased by a maximum of EUR 6 989 283.10 and the number of shares by a maximum of 4 111 343 shares. The shares that can be subscribed with the 2003 stock options equal to 2.3% of the Company's shares and voting rights.

### Authorizations of the Board of Directors

During 2004, the Board of Directors utilized twice its authorization to transfer the Company's own shares granted by the Annual General Meeting in 2003. On February 12, 2004, Outokumpu Oyj transferred a total of 315 310 of treasury shares to the persons participating in the share remuneration scheme for management. Furthermore on February 26, 2004, in conjunction with the acquisition of the remaining 50% interest in its subsidiary Neumayer GmbH, Outokumpu transferred 309 597 treasury shares to the seller as consideration.

The Board of Directors has a valid authorizations granted by the Annual General Meeting of April 2, 2004 to increase the share capital by issuing new shares, stock options or convertible bonds. The share capital may be increased by no more than EUR 30 400 000 and the aggregate maximum of 17 882 352 new shares may be issued (10% of the company's share capital). The Board of Directors is authorized to decide who will have the right to subscribe for the new shares, stock options or convertible bonds. The Board of Directors may deviate from the shareholders' pre-emptive subscription right, provided that such deviation is justified by an important financial reason for the Company, such as strengthening the Company's capital structure or financing corporate acquisitions or restructurings. The Board of Directors decides the subscription price and the other terms and conditions of the issue of shares, stock options or convertible bonds. The Board of Directors may decide that the subscription price for new shares can be paid by means of contribution in kind, set-off or otherwise subject to specific terms and conditions determined by the Board of Directors. The authorization is valid until the Annual General Meeting in 2005, however no longer than one year from the decision of the General Meeting. By February 10, 2005, the Board of Directors had not used this authorization.

The Board of Directors has a valid authorization granted by the Annual General Meeting of April 2, 2004 to repurchase the Company's own shares. The maximum number of shares to be repurchased is 8 900 000. The number of own shares in the Company's possession may not exceed 5% of the total of the Company's shares. Shares may be repurchased pursuant to a decision of the Board of Directors through purchases in public trading at the Helsinki stock exchange at the prevailing market price. Shares may be repurchased for improving of the Company's capital structure, or to be used as consideration when acquiring assets for the Company's business or as consideration in possible corporate acquisitions, in the manner and to the extent decided by the Board of Directors. Repurchased shares may also be used as a part of incentive and bonus schemes directed to the personnel of the Company. The authorization is valid until the Annual General Meeting in 2005, however no longer than one year from the decision of the General Meeting. By February 10, 2005, the Board of Directors had not used this authorization.

The Board of Directors has a valid authorization granted by the Annual General Meeting of April 2, 2004 to transfer the Company's own shares. The maximum number of shares to be transferred is 10 000 000. Shares may be transferred on one or several occasions. The Board of Directors is authorized to decide on the recipients of the shares and the procedure and terms to be applied. The Board of Directors may decide to transfer shares in deviation of the pre-emptive right of the shareholders to the Company's shares. Shares can be transferred as consideration when acquiring assets for the Company's business or as consideration in possible corporate acquisitions, in the manner and to the extent decided by the Board of Directors. The Board of Directors may decide to sell shares through public trading at the Helsinki stock exchange in order to obtain funds for the Company for investments and possible corporate acquisitions. Shares can also be transferred as a part of incentive and bonus schemes directed to the personnel of the Company, including the Chief Executive Officer and his/her deputy. Except as specifically authorized, the Board of Directors may not deviate from the shareholders' pre-emptive right to shares in favor of persons that are closely connected to the Company in the meaning of chapter 1, section 4, subsection 1 of the Finnish Companies Act. The transfer price may not be less than the fair market value of the shares at the time of the transfer set in public trading at the Helsinki stock exchange. The consideration can be paid by means of contribution in kind, set-off or otherwise subject to specific terms and conditions determined by the Board of Directors. The authorization is valid until the Annual General Meeting in 2005, however no longer than one year from the decision of the General Meeting.

On February 10, 2005, the Board of Directors used the abovementioned authorization and confirmed the management remuneration of the third and last scheme that expired at the end of 2004. Approximately 280 490 treasury shares that the Company currently holds will be transferred to the assigned persons as share part of the total remuneration on February 14, 2005.

## 24. Employee benefit obligations

Outokumpu has established several defined benefit and defined contribution pension plans in various countries. The most significant pension plan in Finland is the Finnish Statutory Employment Pension Scheme (TEL), in which benefits are directly linked to employee earnings. The disability component of TEL has been accounted for as a defined benefit plan. In December 2004, the Finnish Ministry of Social Affairs and Health approved certain changes, effective from January 1, 2006 onwards, to the principles for calculating disability pension liabilities under TEL. According to the new practice, TEL's disability pension component will be accounted for as a defined contribution plan. Due to this change and based on the year-end actuarial calculations, Outokumpu has released EUR 36 million of this obligation in December 2004 and the rest, EUR 6 million, will be released by the end of 2005. The Group's foreign pension plans include both defined contribution and defined benefit plans.

Other post-employment benefits realte mainly to retirement medical arrangements in the US.

ITP-pension plans operated by Alecta in Sweden and plans operated by Stichting Bedrjfspensioenfonds voor de metaalindustrie in the Netherlands are multi-employer defined benefit pension plans. It has, however, not been possible to get sufficient information for the calculation of obligations and assets by employer from the plan operators, and therefore these plans have been accounted for as defined contribution plans in the financial statements.

**Pension and other post-employment benefits**

**Amounts recognized in the income statement**

| € million | 2004 | 2003 |
|---|---|---|
| Defined benefit pension expenses | 16 | (18) |
| Defined contribution pension expenses | (46) | (78) |
| Other post-employment benefits | (5) | 1 |
| | (35) | (96) |

By function

| € million | Defined benefit pension plans 2004 | Defined benefit pension plans 2003 | Other post-employment benefits 2004 | Other post-employment benefits 2003 |
|---|---|---|---|---|
| Cost of sales | 12 | (13) | (2) | (2) |
| Selling and marketing expenses | (1) | (3) | (2) | 0 |
| Administrative expenses | 4 | (1) | (1) | 3 |
| Research and development expenses | 1 | (1) | 0 | – |
| | 16 | (18) | (5) | 1 |

Pension cost in employee benefit expenses

| € million | Defined benefit pension plans 2004 | Defined benefit pension plans 2003 | Other post-employment benefits 2004 | Other post-employment benefits 2003 |
|---|---|---|---|---|
| Current service cost | (23) | (24) | (1) | (1) |
| Interest cost | (31) | (34) | (3) | (3) |
| Expected return on plan assets | 27 | 30 | – | – |
| Recognized net actuarial gains and losses | 0 | 0 | 0 | – |
| Employee contributions | 4 | 3 | – | – |
| Past service cost | 4 | 0 | 0 | 5 |
| Gains and losses on curtailments and settlements | 36 | 7 | (2) | – |
| | 16 | (18) | (5) | 1 |
| | | | | |
| Actual return on plan assets | 26 | 39 | – | – |

**Amounts recognized in the balance sheet**

| € million | Defined benefit pension plans 2004 | Defined benefit pension plans 2003 | Other post-employment benefits 2004 | Other post-employment benefits 2003 |
|---|---|---|---|---|
| Present value of funded obligations | 491 | 462 | – | – |
| Fair value of plan assets | (413) | (379) | – | – |
| Present value of unfunded obligations | 45 | 81 | 50 | 48 |
| Unrecognized actuarial gains and losses | (26) | (23) | (12) | (9) |
| Unrecognized past service cost | – | – | 1 | 1 |
| Net liability | 96 | 142 | 39 | 40 |
| | | | | |
| **Balance sheet reconciliation** | | | | |
| Net liability on Jan. 1 | 142 | 177 | 40 | 52 |
| Net periodic pension cost in income statement | (16) | 18 | 5 | (1) |
| Employer contributions | (26) | (27) | (4) | (3) |
| Translation differences | (3) | (5) | (3) | (8) |
| Impact of acquired and disposed companies | – | (22) | – | – |
| Net liability on Dec. 31 | 96 | 142 | 39 | 40 |

| | 2004 | 2003 |
|---|---|---|
| Defined benefit pension and other post-employment benefit obligations | 139 | 186 |
| Defined benefit pension assets (note 21) | (4) | (5) |
| Net liability | 135 | 181 |

**Principal actuarial assumptions**

| % | 2004 | 2003 |
|---|---|---|
| Discount rate | | |
| The United States | **6.06** | 6.32 |
| Finland | **5.00** | 5.25 |
| Britain | **5.35** | 5.43 |
| Germany | **5.12** | 5.38 |
| Sweden | **5.00** | 5.25 |
| Other countries | **5.00** | 5.17 |
| Expected return on plan assets | | |
| The United States | **8.43** | 8.43 |
| Finland | **5.00** | 5.25 |
| Britain | **6.98** | 7.02 |
| Sweden | **3.35** | 3.35 |
| Other countries | **5.00** | 5.18 |

| % | 2004 | 2003 |
|---|---|---|
| Future salary increase expectation | | |
| The United States | **4.27** | 4.27 |
| Finland | **3.50** | 3.50 |
| Britain | **3.82** | 3.82 |
| Germany | **4.00** | 4.00 |
| Sweden | **3.00** | 3.00 |
| Other countries | **3.00** | 3.00 |
| Future benefit increase expectation | | |
| The United States | **1.35** | 1.35 |
| Finland | **2.00** | 2.00 |
| Britain | **2.75** | 2.75 |
| Germany | **2.00** | 2.00 |
| Sweden | **2.00** | 2.00 |
| Other countries | **2.00** | 2.00 |

**Defined benefit pension and other post-employment benefit obligations in the balance sheet**

**2004**

| € million | The US | Finland | Britain | Germany | Sweden | Other | Total |
|---|---|---|---|---|---|---|---|
| Present value of funded obligations | 82 | 63 | 326 | – | 12 | 8 | 491 |
| Present value of unfunded obligations | 45 | 5 | – | 39 | – | 7 | 95 |
| Fair value of plan assets | (62) | (61) | (281) | – | (1) | (7) | (413) |
| Unrecognized prior service cost | 1 | – | – | – | – | – | 1 |
| Unrecognized net gain or loss | (15) | 1 | (22) | (4) | 0 | 0 | (39) |
| | 51 | 8 | 23 | 35 | 11 | 8 | 135 |

2003

| € million | The US | Finland | Britain | Germany | Sweden | Other | Total |
|---|---|---|---|---|---|---|---|
| Present value of funded obligations | 83 | 67 | 296 | – | 12 | 4 | 462 |
| Present value of unfunded obligations | 44 | 44 | – | 35 | – | 6 | 129 |
| Fair value of plan assets | (60) | (63) | (251) | – | (1) | (3) | (379) |
| Unrecognized prior service cost | 1 | – | – | – | – | – | 1 |
| Unrecognized net gain or loss | (10) | (4) | (15) | (2) | – | 0 | (32) |
| | 58 | 44 | 29 | 33 | 11 | 6 | 181 |

## 25. Provisions

| € million | Restructuring provisions | Environmental provisions | Other provisions |
|---|---|---|---|
| Provisions on Jan. 1, 2004 | 13 | 30 | 60 |
| Translation differences | 0 | 0 | 0 |
| Increases in provisions | 21 | 6 | 9 |
| Utilized during the year | (13) | (1) | (17) |
| Unused amounts reversed | (1) | (4) | 0 |
| Other changes | – | – | (36) |
| **Provisions on Dec. 31, 2004** | **19** | **31** | **16** |

| € million | 2004 | 2003 |
|---|---|---|
| Non-current provisions | **38** | 72 |
| Current provisions | **29** | 31 |
| | **66** | 103 |

Provisions are based on best estimates on the balance sheet date. Restructuring provisions relate to reorganizations and closing of facilities in Britain and in the Netherlands. Majority of the environmental provisions are for closing costs of landfill areas and removal of problem waste in facilities in Finland and in Britain. Other provisions comprise mainly provisions for reclamation of old mine sites (EUR 5 million), litigations as well as onerous contracts and claims. The EUR 36 million change in other reserves is due to reclassification of the copper tube cartel fine as an interest-bearing liability in 2004. The outflow of economic benefits related to long-term provisions is expected to take place mainly within 2–3 years.

## 26. Interest-bearing liabilities

| € million | 2004 | 2003 |
|---|---|---|
| **Non-current** | | |
| Bonds and debentures | **311** | 111 |
| Loans from financial institutions | **1 427** | 1 443 |
| Pension loans | **149** | 145 |
| Finance lease liabilities | **67** | 59 |
| Other long-term loans | **18** | 19 |
| | **1 971** | 1 777 |

| € million | 2004 | 2003 |
|---|---|---|
| **Current** | | |
| Convertible bonds | **–** | 5 |
| Loans from financial institutions | **358** | 356 |
| Pension loans | **25** | 17 |
| Finance lease liabilities | **6** | 2 |
| Bills payable | **–** | 1 |
| Other current loans | **715** | 606 |
| | **1 103** | 986 |

**Finance lease liabilities**

**Minimum lease payments**

| € million | 2004 | 2003 |
|---|---|---|
| Not later than 1 year | **8** | 3 |
| 1–2 years | **8** | 5 |
| 2–3 years | **8** | 5 |
| 3–4 years | **8** | 5 |
| 4–5 years | **5** | 5 |
| Later than 5 years | **49** | 51 |
| Future finance charges | **(13)** | (11) |
| Present value of minimum lease payments | **72** | 62 |

**Present value of minimum lease payments**

| € million | 2004 | 2003 |
|---|---|---|
| Not later than 1 year | **6** | 2 |
| 1–2 years | **6** | 3 |
| 2–3 years | **6** | 3 |
| 3–4 years | **6** | 3 |
| 4–5 years | **4** | 4 |
| Later than 5 years | **45** | 46 |
| Present value of minimum lease payments | **72** | 62 |

**Repayment schedule of long-term debt on Dec. 31, 2004**

| € million | | 2005 [1] | 2006 | 2007 | 2008 | 2009 | 2010– | Total |
|---|---|---|---|---|---|---|---|---|
| Bonds and debentures | EUR | | | 125 | 89 | | 75 | 289 |
| | SEK | | | 22 | | | | 22 |
| Loans from financial institutions | EUR | 29 | 37 | 89 | 396 | 62 | 244 | 857 |
| | GBP | | | | 149 | | | 149 |
| | USD | 26 | 35 | 86 | 57 | | 3 | 207 |
| | CAD | | | | | 18 | | 18 |
| | CNY | | 4 | | | | | 4 |
| | SEK | | 20 | 20 | 198 | 10 | | 248 |
| Pension loans | EUR | 23 | 24 | 24 | 24 | 22 | 48 | 165 |
| | SEK | 1 | | 1 | | 1 | 4 | 7 |
| Finance lease liabilities | EUR | 4 | 4 | 3 | 3 | 4 | 45 | 62 |
| | USD | 2 | 2 | 3 | 3 | | | 10 |
| Other long-term loans | EUR | 8 | 4 | 6 | 3 | | 1 | 22 |
| | SEK | | | 1 | | | 3 | 4 |
| | | 93 | 130 | 380 | 922 | 117 | 423 | 2 064 |

[1] Repayments in 2005 are included in current debt.

Average maturity of long-term debt was 4 years and the average interest rate 3.44%.

**Bonds and debentures**

| € million | Interest rate, % | In currency | 2004 | 2003 |
|---|---|---|---|---|
| Fixed interest rate | | | | |
| Bonds and debentures | | | | |
| 2002–2007 | 7.05 | SEK 200 million | **22** | 22 |
| 2002–2008 | 6.90 | EUR 89 million | **89** | 89 |
| 2004–2011 | 5.00 | EUR 75 million | **75** | – |
| Convertible bond | | | | |
| 1999–2004 | 3.75 | EUR 5 million | **–** | 5 |
| | | | **186** | 116 |
| Floating interest rate | | | | |
| Bonds and debentures | | | | |
| 2004–2007 | 2.67 | EUR 125 million | **125** | – |
| | | | **311** | 116 |

**Carrying and fair values of borrowings**

| € million | 2004 Carrying value | 2004 Fair value | 2003 Carrying value | 2003 Fair value |
|---|---|---|---|---|
| Long-term debt | **1 971** | **2 005** | 1 777 | 1 810 |
| Current debt | **1 103** | **1 103** | 986 | 986 |

The fair value of interest-bearing liabilities is higher compared with the carrying value mainly due to the valuation of fixed rate bonds, bank and pension loans with the current relatively low interest rates.

## 27. Trade and other payables

| € million | 2004 | 2003 |
|---|---|---|
| **Non-current** | | |
| Non interest-bearing | | |
| Trade payables | **0** | 0 |
| Other long-term liabilities | **10** | 13 |
| | **10** | 13 |
| **Current** | | |
| Interest-bearing | | |
| Accrued interest expenses | **32** | 26 |
| Non interest-bearing | | |
| Trade payables | **567** | 493 |
| Advances received | **70** | 76 |
| Prepaid interest income | **0** | 0 |
| Accrued employee-related liabilities | **134** | 136 |
| VAT payable | **26** | 22 |
| Withholding tax and social security liabilities | **20** | 11 |
| Other accruals | **99** | 80 |
| Other payables | **31** | 91 |
| | **947** | 909 |

## 28. Commitments and contingent liabilities

| € million | 2004 | 2003 |
|---|---|---|
| Pledges on Dec. 31 | | |
| Mortgages to secure own borrowings | **110** | 142 |
| Other pledges to secure own borrowings | **2** | 2 |
| Guarantees on Dec. 31 | | |
| On behalf of associated companies | | |
| For financing | **4** | 6 |
| On behalf of other parties | | |
| For financing | **10** | 28 |
| For other commitments | **28** | 24 |

The real estate mortgages given relate to properties in Tornio (EUR 66 million), Pori (EUR 26 million) and Pietarsaari (EUR 6 million) in Finland. For property located in Avesta in Sweden the corresponding amount is EUR 4 million. Additionally EUR 8 million corporate mortgage on Outokumpu Stainless AB's assets has been given as security.

**Present value of minimum lease payments on operating leases**

| € million | 2004 | 2003 |
|---|---|---|
| Not later than 1 year | **33** | 36 |
| 1–2 years | **27** | 28 |
| 2–3 years | **22** | 22 |
| 3–4 years | **15** | 17 |
| 4–5 years | **11** | 12 |
| Later than 5 years | **38** | 45 |
| Present value of minimum lease payments | **146** | 160 |

Outokumpu Oyj sold to the Mutual Pension Insurance Company Varma-Sampo part of its real estate located in Espoo, Finland in 2002. Outokumpu Oyj sold five office buildings and parcels of totaling approximately three hectares for the consideration of EUR 50 million. In connection with the sale, Outokumpu Oyj concluded operating lease agreements with Varma-Sampo for 10–15 years.

The Group has entered into long-term (15 years) supply agreements of industrial gases for the production facilities in Tornio, Avesta and Sheffield. These agreements do not qualify as finance lease agreements.

**Major off-balance sheet investment commitments on Dec. 31**

| € million | 2004 | 2003 |
|---|---|---|
| The Tornio expansion project | **44** | 98 |
| Increase in long products capacity in the US | **–** | 14 |

## 29. Disputes and litigations

Princeton Gamma-Tech, Inc. ("PGT"), a subsidiary acquired in 1985, has been designated, together with certain other parties, a potentially responsible party for ground water contamination at and around its production facilities in Princeton, New Jersey, by the United States Environmental Protection Agency ("USEPA"). USEPA has subsequently sued PGT to recover costs of investigation and clean up of the site. The alleged cause of the contamination relates to a time prior to the acquisition of PGT by Outokumpu. PGT is discussing with USEPA the suitable clean-up method. Outokumpu has received partial compensation for the costs incurred from prior owners and PGT has made claims to others who, it is believed, have contributed to the contamination. PGT has also made claims to and has initiated litigation against its insurance carriers under insurance policies in effect during the relevant period to recover the above costs. Some of the carriers settled the claims against them before commencement of the trial in October 1996.

PGT has reached a comprehensive settlement with USEPA and corresponding authorities of New Jersey which settlement has been approved by the federal district court judge and is therefore final. PGT's insurance carriers have funded the settlement pursuant to separate settlement agreements that has been entered into with each of the carriers. In light of the above, it is not anticipated that PGT would incur any further costs for any further clean up activities.

In March 2001, the European Commission initiated an investigation concerning alleged participation by Outokumpu Oyj and Outokumpu Copper Products Oy in price and market-sharing cartel with respect to copper tubes and fittings in the European Union. Outokumpu has cooperated fully with the European Commission in connection with the investigation. The investigation involving Outokumpu has subsequently been divided into two separate proceedings: investigation into alleged price fixing and market sharing in the industrial copper tubes sector and investigation into alleged price fixing and market sharing in the sanitary copper tube sector.

Pursuant to its investigations the European Commission has in its decision dated December 16, 2003, found Outokumpu Oyj and Outokumpu Copper Products Oy having infringed the applicable EU competition laws by participating in agreements and concerted practices consisting of price fixing and market sharing in the industrial tubes sector during a period between May 3, 1988 and March 22, 2001. As a result, the European Commission imposed an aggregate fine of EUR 18 million on Outokumpu Oyj and Outokumpu Copper Products Oy. Outokumpu has lodged an appeal in this matter that is currently pending.

In connection with its investigation into alleged price fixing and market sharing in the copper sanitary tube sector, the European Commission has on September 1, 2003 issued a Statement of Objections, in which it accuses Outokumpu Oyj and Outokumpu Copper Products Oy for having infringed applicable EU competition laws for participation in agreements and concerted practices consisting of price fixing and market sharing in the sanitary tube sector during a period between June 1988 and March 2001. As a result, the European Commission has in its decision dated 3 September 2004 imposed an aggregate fine of EUR 36 million on Outokumpu Oyj and Outokumpu Copper Products Oy. This fine has in connection with transition to IFRS been recognized in income in 2003. Outokumpu has lodged an appeal in this matter that is currently pending.

In June 1998, the US International Trade Commission initiated an investigation relating to an alleged dumping of cold rolled stainless steel sheet and strip (including foil) against Britain. A preliminary deposit rate of 13.45% was determined, which applied to shipments from Britain to the US between December 17, 1998 and July 27, 1999. A final deposit rate of 14.84% was issued in July 1999, which has applied to shipments from Britain to the US from July 27, 1999.

Management believes that the foregoing actions taken by the US authorities do not have any material adverse effect on the Group's financial position.

In addition to the litigation described above, some Group companies are involved in disputes incidental to their business. Management believes that the outcome of such disputes will not have a material effect on the Group's financial position.

## 30. Related party transactions

| € million | 2004 | 2003 |
|---|---|---|
| **Transactions and balances with associated companies** | | |
| Sales | 49 | 29 |
| Purchases | (269) | (8) |
| Interest income | 0 | 0 |
| Derivatives | (5) | 0 |
| Long-term receivables | | |
| Loans receivable | 0 | 0 |
| Subordinated loans receivable | 2 | 160 |
| Current receivables | | |
| Loans receivable | 5 | 9 |
| Accounts receivable | 2 | 12 |
| Derivatives | 1 | 7 |
| Other receivables | 2 | 1 |
| Current liabilities | | |
| Accounts payable | 2 | 3 |
| Derivatives | 0 | 20 |
| Other current liabilities | 0 | 0 |

| **Loans receivable from associated companies and joint ventures** [1] | | |
|---|---|---|
| Loans receivable on Jan. 1 | 169 | 9 |
| Withdrawals | 9 | 162 |
| Repayments | (172) | (2) |
| Loans receivable on Dec. 31 | 7 | 169 |

[1] Loans to associated companies and joint ventures include both current and non-current receivables.

The interest rates of loans granted to associated companies are based on market rates. EUR 5 million of the loans is expected to mature by the end of 2005 and the rest EUR 2 million by the end of 2009.

**Employee benefits for key management**

| € million | 2004 | 2003 |
|---|---|---|
| Short-term employee benefits | 4 | 4 |
| Post-employment benefits | 3 | 1 |
| Other long-term benefits | 0 | 0 |
| | 7 | 5 |

Key management consists of the members of the Board of Directors, CEO and other members of the Group Executive Committee. There were no outstanding loans receivable from key management on Dec. 31, 2004 (Dec. 31, 2003: EUR – million).

## 31. Subsidiaries by business area on December 31, 2004

### Outokumpu Stainless

| | | Country | Nature of activity | Group holding, % |
|---|---|---|---|---|
| Outokumpu Stainless Steel Oy | *) | Finland | ■ | 100 |
| Outokumpu Benelux B.V. | [1] | The Netherlands | ■ | 100 |
| Outokumpu Stainless Holdings Ltd | | Britain | ■ | 100 |
| Outokumpu Stainless Holding GmbH | | Germany | ■ | 100 |
| Outokumpu Stainless, Inc. | | The United States | ■ | 100 |
| AvestaPolarit East, Inc. | | The United States | ■ | 100 |
| Outokumpu Chrome Oy | | Finland | ✖▲ | 100 |
| Outokumpu PSC Benelux B.V. | | The Netherlands | ▲ | 100 |
| Outokumpu Stainless B.V. | | The Netherlands | ▲ | 100 |
| Hertecant N.V. | [4] | Belgium | ▲ | 88 |
| P.T. Avesta Welding | [1] | Indonesia | ▲ | 100 |
| Outokumpu Stainless Tubular Products Ltd. | [1,4] | Canada | ▲ | 88 |
| AvestaPolarit ABE, S.A. de C.V. | [4] | Mexico | ▲ | 88 |
| AB Örnsköldsviks Mekaniska Verkstad (ÖMV) | [4] | Sweden | ▲ | 88 |
| Outokumpu Stainless Tubular Products AB | [1,4] | Sweden | ▲ | 88 |
| Outokumpu Prefab AB | | Sweden | ▲ | 100 |
| Outokumpu Press Plate AB | | Sweden | ▲ | 100 |
| Avesta Welding AB | [1] | Sweden | ▲ | 100 |
| AB Husqvarna Elektrolytpolering | [4] | Sweden | ▲ | 88 |
| Outokumpu PSC Germany GmbH | | Germany | ▲ | 100 |
| Outokumpu Stainless Oy | | Finland | ▲ | 100 |
| Outokumpu Stainless Tubular Products Oy Ab | [1,4] | Finland | ▲ | 88 |
| AS Outokumpu Stainless Tubular Products | [1,4] | Estonia | ▲ | 88 |
| Outokumpu Stainless Bar, Inc. | | The United States | ▲ | 100 |
| Outokumpu Stainless Pipe, Inc. | | The United States | ▲ | 100 |
| Outokumpu Stainless Plate, Inc. | | The United States | ▲ | 100 |
| Outokumpu Stainless Ltd | | Britain | ●▲ | 100 |
| Outokumpu S.p.A. | | Italy | ●▲ | 100 |
| Outokumpu Stainless AB | | Sweden | ■▲◆ | 100 |
| Handelmij Roestvrij B.V. | [1] | The Netherlands | ● | 100 |
| Outokumpu Pty Ltd | | Australia | ● | 100 |
| Outokumpu N.V. | | Belgium | ● | 100 |
| Outokumpu S.A. | [1] | Spain | ● | 100 |
| Outokumpu (Pty) Ltd | | South Africa | ● | 100 |
| Outokumpu Asia Pacific Ltd | | China | ● | 100 |
| Outokumpu Ltd | | Ireland | ● | 100 |
| Outokumpu Ges.m.b.H | | Austria | ● | 100 |
| Outokumpu K.K. | | Japan | ● | 100 |
| Outokumpu UAB | [1] | Lithuania | ● | 100 |
| Outokumpu AS | | Norway | ● | 100 |
| Outokumpu Sp z o.o. | | Poland | ● | 100 |
| Outokumpu Stainless Tubular Producs S.A.R.L. | [1,4] | France | ● | 88 |
| Outokumpu S A | | France | ● | 100 |
| E.L.F.E. SA Etires Lamines Forges Estampes | [4] | France | ● | 88 |
| Outokumpu Nordic AB | | Sweden | ● | 100 |
| Outokumpu GmbH | | Germany | ● | 100 |
| Outokumpu (S.E.A.) Pte Ltd. | | Singapore | ● | 100 |
| Outokumpu Distribution Oy | | Finland | ● | 100 |
| SH–Trade Oy | [4] | Finland | ● | 88 |
| Outokumpu A/S | | Denmark | ● | 100 |
| Outokumpu s.r.o. | | Czech Republic | ● | 100 |
| Outokumpu Kft | | Hungary | ● | 100 |
| ZAO Outokumpu | [1] | Russia | ● | 100 |
| Outokumpu Baltic Oü | | Estonia | ● | 100 |
| Outokumpu Stainless Coil, Inc. | | The United States | ● | 100 |
| Avesta Welding Products, Inc. | [1] | The United States | ● | 100 |
| AvestaPolarit Gebouwen B.V. | | The Netherlands | ◗ | 100 |
| AvestaPolarit Pension Trustees Ltd | | Britain | ◗ | 100 |
| 2843617 Canada Inc. | | Canada | ◗ | 100 |
| Visent Invest AB | | Sweden | ◗ | 100 |
| Visenta Försäkrings AB | | Sweden | ◗ | 100 |
| AvestaPolarit Holding GmbH & Co. KG | | Germany | ◗ | 100 |
| Kandelinin Seuraajat Oy | | Finland | ◗ | 100 |
| Outokumpu Rossija Oy | *) | Finland | ◗ | 100 |
| ZAO Outokumpu Moskva | | Russia | ◗ | 100 |
| ZAO Outokumpu St. Petersburg | | Russia | ◗ | 100 |
| OOO Outokumpu Norilsk | | Russia | ◗ | 100 |

### Outokumpu Copper

| | | Country | Nature of activity | Group holding, % |
|---|---|---|---|---|
| Outokumpu Copper Products Oy | *) | Finland | ■ | 100 |
| Outokumpu Copper B.V. | | The Netherlands | ■ | 100 |
| Outokumpu Copper Limited | | Britain | ■ | 100 |
| Outokumpu Copper, Inc. | | The United States | ■ | 100 |
| Outokumpu Copper Holdings Inc. | | The United States | ■ | 100 |
| Outokumpu Copper Kenosha, Inc. | | The United States | ■ | 100 |
| Outokumpu Copper Neumayer Holding GmbH | [1,2] | Austria | ■ | 100 |
| Outokumpu Heatcraft B.V. | | The Netherlands | ■ | 55 |
| Outokumpu Holton Limited | | Britain | ▲ | 100 |
| Outokumpu Copper Neumayer GmbH | [1] | Austria | ▲ | 100 |
| Outokumpu Copper Nippert Ltd. | [1] | Britain | ▲ | 100 |
| Outokumpu Advanced Superconductors Inc. | | The United States | ▲ | 100 |
| Outokumpu American Brass, Inc. | | The United States | ▲ | 100 |
| Outokumpu Castform Oy | | Finland | ▲ | 100 |
| Outokumpu Copper Franklin, Inc. | | The United States | ▲ | 100 |
| Outokumpu Copper Partner AB | | Sweden | ▲ | 100 |
| Outokumpu Copper Strip AB | | Sweden | ▲ | 100 |
| Outokumpu Copper Strip B.V. | | The Netherlands | ▲ | 100 |
| Outokumpu Copper Products (Malaysia) Sdn. Bhd. | | Malaysia | ▲ | 100 |
| Outokumpu Copper Tube (Changzhou) Ltd | [2] | China | ▲ | 100 |
| Outokumpu Copper Tube (Zhongshan) Ltd. | | China | ▲ | 100 |
| Outokumpu Copper Products AB | | Sweden | ▲ | 100 |
| Outokumpu Copper Tubes, S.A. | | Spain | ▲ | 100 |
| Outokumpu Heatcraft Czech s.r.o. | | Czech Republic | ▲ | 55 |
| Outokumpu Heatcraft de Mexico S. de R.L. de C.V. | | Mexico | ▲ | 55 |
| Outokumpu Heatcraft France SAS | | France | ▲ | 55 |
| Outokumpu Heatcraft Italia s.r.l. | | Italy | ▲ | 55 |
| Outokumpu Heatcraft USA LLC | | The United States | ▲ | 55 |
| Outokumpu Heatcraft Heat Exchanger (Zhongshan) Co. Ltd. | | China | ● | 55 |
| Outokumpu Heatcraft Trading (Shanghai) Co. | | China | ▲ | 55 |
| Outokumpu Hitachi Copper Tube (Thailand) Ltd. | | Thailand | ▲ | 64 |
| Outokumpu Livernois Engineering LLC | | The United States | ▲ | 55 |
| Outokumpu Poricopper Oy | | Finland | ▲ | 100 |
| Outokumpu Pori Tube Oy | [3] | Finland | ▲ | 100 |
| Outokumpu Wasacopper Oy | | Finland | ▲ | 90 |
| Outokumpu Fabrication Technologies AB | | Sweden | ▲ | 100 |
| Outokumpu Copper Nippert Inc. | | The United States | ▲ | 100 |
| Outokumpu Copper Valleycast LLC | | The United States | ▲ | 100 |
| Outokumpu Plating Inc. | | The United States | ▲ | 100 |
| Outokumpu Copper Superconductors Italy S.p.A | [1,2] | Italy | ▲ | 95 |
| Neumayer Corporation | | The United States | ● | 100 |
| Outokumpu Rawmet (UK) Limited | | Britain | ◗ | 100 |
| Outokumpu Centro Servizi S.p.A. | | Italy | ◗▲ | 100 |
| Outokumpu Copper Thatcher Ltd | | Britain | ◗▲ | 100 |
| Outokumpu Copper Fabrication AB | *) | Sweden | ■ | 100 |
| Outokumpu Copper LDM B.V. | | The Netherlands | ▲ | 100 |
| Outokumpu Copper Nonferro Metal GmbH | | Germany | ● | 100 |
| Outokumpu Holding UK Limited | | Britain | ■ | 100 |
| Outokumpu Copper MKM Limited | | Britain | ▲ | 100 |
| Outokumpu Copper Metal Supplies Limited | | Britain | ● | 100 |
| Outokumpu Copper Brass International Limited | | Britain | ● | 100 |
| Outokumpu Copper Brass SA | | France | ● | 100 |
| Outokumpu Copper Gusum AB | | Sweden | ■ | 100 |
| Outokumpu Copper BCZ SA | | Belgium | ▲ | 100 |
| Outokumpu Copper BCZ (France) Eurl | [1] | France | ● | 100 |
| Outokumpu Copper BCZ GmbH | | Germany | ● | 100 |
| Boliden Cuivre & Zinc Espana SA | | Spain | ● | 100 |
| Outokumpu Copper BCZ (Polska) Sp. z o.o. | | Poland | ● | 100 |
| Outokumpu Copper HME B.V. | | The Netherlands | ▲ | 100 |
| Outokumpu Copper HME S A | | France | ● | 100 |
| Outokumpu Copper Securus GmbH | | Germany | ● | 100 |
| Outokumpu Copper Tube Hungary Kereskedelmi Kft. | | Hungary | ● | 100 |
| Outokumpu Copper CDC SA | [1] | Belgium | ● | 100 |

## Outokumpu Technology

| | | Country | Nature of activity | Group holding, % |
|---|---|---|---|---|
| Outokumpu Technology Oy | *) | Finland | ■ | 100 |
| Boliden Contech Chile S.A. | | Chile | ▲ | 100 |
| Boliden Contech GmbH | | Germany | ▲ | 100 |
| Kumpu GmbH | 1) | Germany | ▲ | 100 |
| Outokumpu Technology Turula Oy | | Finland | ▲ | 100 |
| Outokumpu Wenmec AB | | Sweden | ▲ | 100 |
| SepTor Tehnologies B.V. | | The Netherlands | ▲ | 100 |
| Outokumpu Technology B.V. | 1) | The Netherlands | ●▲ | 100 |
| Outokumpu Mexicana, S.A. de C.V. | | Mexico | ● | 100 |
| Outokumpu Tecnologia Brasil Ltda. | | Brazil | ● | 100 |
| Pannevis Inc. | | The United States | ● | 100 |
| Outokumpu Technology AB | *) | Sweden | ●◗ | 100 |
| Outokumpu Technology Australasia Pty. Ltd. | | Australia | ●◗ | 100 |
| Outokumpu Technology Chile Limitada | | Chile | ●◗ | 100 |
| Outokumpu Technology GmbH | 1) | Germany | ●◗ | 100 |
| Outokumpu Technology Inc. | | The United States | ●◗ | 100 |
| Outokumpu Technology Ltd. | | Canada | ●◗ | 100 |
| Outokumpu Technology Minerals Oy | | Finland | ●◗ | 100 |
| Outokumpu Technology Pty. Ltd. | | Australia | ●◗ | 100 |
| Outokumpu Technology (Pty) Ltd. | | South Africa | ●◗ | 100 |
| Outokumpu Technology S.A.C. | | Peru | ●◗ | 100 |
| Outokumpu Research Oy | *) | Finland | ◆ | 100 |
| Aisco Systems Inc. Chile y Compañia Limitada | | Chile | ◗ | 100 |
| MPE Service Oy | | Finland | ◗ | 96 |
| Outokumpu Technology A/S | | Norway | ◗ | 100 |
| Outokumpu Technology Ltd. | | Britain | ◗ | 100 |
| Petrobau Ingenieur Bulgaria EOOD | | Bulgaria | ◗ | 100 |
| ZAO Mineral Processing Engineers | | Russia | ◗ | 60 |
| Eberhard Hoesch & Söhne GmbH | | Germany | ❋ | 100 |
| Edifo AB | | Sweden | ❋ | 100 |
| International Project Services Ltd. Oy | | Finland | ❋ | 100 |
| Kumpu Engineering, Inc. | | The United States | ❋ | 100 |

## Other operations

**Mining**

| | | Country | Nature of activity | Group holding, % |
|---|---|---|---|---|
| Outokumpu Nickel Resources B.V. | | The Netherlands | ■ | 100 |
| Outokumpu Zinc B.V | *) | The Netherlands | ■ | 100 |
| Outokumpu Mining Oy | | Finland | ✖ | 100 |
| Norsulfid A/S | *) | Norway | ✔ | 100 |
| Viscaria AB | *) | Sweden | ✔ | 100 |
| Outokumpu Minera Española S.A. | | Spain | ◆ | 100 |
| Outokumpu Mines, Inc. | *) | Canada | ◆ | 100 |
| OAO Kola-Mining | | Russia | ◆ | 96 |
| Outokumpu Exploration Ventures Pty. Ltd. | | Australia | ❋ | 100 |
| Outokumpu Mining Australia Pty. Ltd. | | Australia | ❋ | 100 |
| Outokumpu Zinc Australia Pty. Ltd. | | Australia | ❋ | 100 |

**Corporate services**

| | | Country | Nature of activity | Group holding, % |
|---|---|---|---|---|
| Granefors Bruk AB | *) | Sweden | ■ | 100 |
| Outokumpu Sales Oy | *) | Finland | ● | 100 |
| Outokumpu, Lda. | 1) **) | Portugal | ● | 100 |
| Outokumpu Copper (U.S.A.), Inc. | | The United States | ● | 100 |
| Outokumpu Deutschland GmbH | | Germany | ● | 100 |
| Outokumpu Istanbul Dis Ticaret Limited Sirketi | *) | Turkey | ● | 98 |
| Outokumpu Poland Sp. z o.o. | *) | Poland | ● | 100 |
| Outokumpu Shanghai Co. Ltd | 3) | China | ● | 100 |
| Kopparlunden AB | | Sweden | ◗ | 100 |
| Orijärvi Oy | *) | Finland | ◗ | 100 |
| Outokumpu Alueverkko Oy | *) | Finland | ◗ | 100 |
| Outokumpu Business Support Unit AB | *) | Sweden | ◗ | 100 |
| Outokumpu Rawmet, S.A. | | Spain | ◗ | 100 |
| Pancarelian Ltd. | *) | Bermuda | ◗ | 100 |
| Outokumpu Engineering Enterprises, Inc. | *) | The United States | ❋ | 100 |
| Outokumpu España, S.A. | *) | Spain | ❋ | 100 |
| Outokumpu France S.A. | *) | France | ❋ | 100 |
| Outokumpu Italia S.r.L | *) | Italy | ❋ | 100 |
| Outokumpu Scandinavia AB | | Sweden | ❋ | 100 |

**Industrial holdings**

| | Country | Nature of activity | Group holding, % |
|---|---|---|---|
| Princeton Gamma-Tech, Inc. | The United States | ▲ | 82 |
| Princeton Gamma-Tech U.K. Ltd. | Britain | ● | 82 |

**Foreign branches**

Outokumpu Asia Pacific Ltd., branch office in Rep. of Korea
Outokumpu Asia Pacific Ltd., agencies in China and Taiwan
Outokumpu Copper Kenosha, Inc, branch office in Mexico
Outokumpu Baltic Oü, branch office in Latvia
Outokumpu Mining Oy, branch office in Spain
Outokumpu Sales Oy, agencies in China
Outokumpu Sales Oy, branch office in Britain
Outokumpu Sales Oy, branch office in Spain
Outokumpu Sales Oy, branch office in Italy
Outokumpu Sales Oy, branch office in Rep. of Korea
Outokumpu Sales Oy, branch office in France
Outokumpu Sales Oy, branch office in Singapore
Outokumpu Sales Oy, branch office in Denmark
Outokumpu (S.E.A.) Pte. Ltd., agency in Vietnam

**Merged and dissolved subsidiaries**

AvestaPolarit ABE AB
AvestaPolarit Finance B.V.
AvestaPolarit Immobiliare S.p.A. (Commerciale Acciai S.p.A.)
Calamo Nords AB
Finero B.V.
Finnbend Oy
Finnpipe Oy
JARO Fittings Oy Ab
KHD Aluminium Technology GmbH
Outokumpu Benelux B.V.
Outokumpu Business Support Unit Inc.
Outokumpu Copper Resources B.V.
Outokumpu Ecomills Oy
Outokumpu Japan K.K.
Outokumpu Nickel B.V.
Outokumpu PSC Nordic AB
Outokumpu (UK) Limited

**Legend**

■ Management or holding
▲ Production
● Marketing
✖ Operational mine
✔ Mine production discontinued/sold
◆ Exploration or research
◗ Service
❋ Dormant

This list does not include all dormant companies or all holding companies. However, all companies owned directly by the parent company are included. The Group holding corresponds to the Group's share of voting rights.

1) Name change
2) Acquired
3) Founded
4) Group holding change
*) Shares and stock held by the parent company
**) Parent company's ownership 65 %

## 32. Events after the balance sheet date

Outokumpu management does not have knowledge of any significant events after the balance sheet date, which would have had an impact on the financial statements.

# Key financial figures

## Key financial figures of the Group

| | | FAS 2000 | FAS 2001 | FAS 2002 | IFRS 2003 | **IFRS 2004** |
|---|---|---|---|---|---|---|
| **Scope of activity** | | | | | | |
| Sales | € million | 3 693 | 5 324 | 5 558 | 5 922 | **7 136** |
| - change in sales | % | 27.0 | 44.2 | 4.4 | 6.6 | **20.5** |
| - exports from and sales outside Finland, of total sales | % | 90.7 | 91.8 | 92.4 | 93.4 | **95.2** |
| Capital employed on Dec. 31 | € million | 2 199 | 3 266 | 4 331 | 4 108 | **4 941** |
| Operating capital on Dec. 31 | € million | 2 331 | 3 507 | 4 569 | 4 287 | **5 151** |
| Capital expenditure | € million | 242 | 914 | 2 042 | 622 | **473** |
| - in relation to sales | % | 6.6 | 17.2 | 36.7 | 10.5 | **6.6** |
| Depreciation and amortization | € million | 192 | 266 | 264 | 304 | **251** |
| Research and development costs | € million | 35 | 41 | 47 | 48 | **40** |
| - in relation to sales | % | 0.9 | 0.8 | 0.8 | 0.8 | **0.6** |
| Personnel on Dec. 31 | | 11 932 | 19 428 | 21 130 | 19 359 | **19 465** |
| - average for the year | | 12 193 | 19 010 | 20 196 | 21 442 | **19 761** |
| **Profitability** | | | | | | |
| Operating profit | € million | 427 | 183 | 267 | 214 | **468** |
| - in relation to sales | % | 11.6 | 3.4 | 4.8 | 3.6 | **6.6** |
| Share of results in associated companies | € million | 2 | 2 | (7) | (15) | **78** |
| Profit before extraordinary items | € million | 372 | 147 | 213 | – | **–** |
| - in relation to sales | % | 10.1 | 2.8 | 3.8 | – | **–** |
| Profit before taxes | € million | 391 | 147 | 213 | 108 | **477** |
| - in relation to sales | % | 10.6 | 2.8 | 3.8 | 1.8 | **6.7** |
| Net profit for the financial year | € million | 315 | 76 | 159 | 112 | **390** |
| - in relation to sales | % | 8.5 | 1.4 | 2.9 | 1.9 | **5.5** |
| Return on equity | % | 19.8 | 6.9 | 8.0 | 5.4 | **17.0** |
| Return on capital employed | % | 19.8 | 6.7 | 7.0 | 5.0 | **10.3** |
| Return on operating capital | % | 18.5 | 6.3 | 6.6 | 4.8 | **9.9** |
| **Financing and financial position** | | | | | | |
| Liabilities | € million | 1 605 | 3 009 | 4 381 | 4 314 | **4 570** |
| Net interest-bearing debt | € million | 582 | 1 175 | 2 385 | 2 025 | **2 435** |
| - in relation to sales | % | 15.7 | 22.1 | 42.9 | 34.2 | **34.1** |
| Net financial expenses | € million | 57 | 38 | 46 | 91 | **69** |
| - in relation to sales | % | 1.5 | 0.7 | 0.8 | 1.5 | **1.0** |
| Net interest expenses | € million | 54 | 56 | 75 | 98 | **95** |
| - in relation to sales | % | 1.4 | 1.1 | 1.4 | 1.7 | **1.3** |
| Interest cover | | 7.9 | 3.6 | 3.8 | 2.1 | **6.0** |
| Share capital [1)] | € million | 212 | 212 | 294 | 304 | **308** |
| Other equity | € million | 1 405 | 1 879 | 1 652 | 1 779 | **2 198** |
| Equity-to-assets ratio | % | 50.6 | 41.6 | 31.1 | 33.0 | **35.8** |
| Debt-to-equity ratio | % | 36.0 | 56.2 | 122.6 | 97.2 | **97.2** |
| Net cash generated from operating activities | € million | 248 | 346 | 334 | 194 | **(128)** |
| Dividends | € million | 99.6 | 75.2 | 68.6 | 35.5 | **90.4** [2)] |

[1)] The 2003 and 2002 figures include unregistered share capital.

[2)] The Board of Directors' proposal to the Annual General Meeting.

## Share-related key figures

| | | FAS 2000 [1] | FAS 2001 [1] | FAS 2002 | IFRS 2003 | **IFRS 2004** |
|---|---|---|---|---|---|---|
| Earnings per share | € | 2.15 | 0.55 | 1.15 | 0.65 | **2.13** |
| Cash flow per share | € | 1.81 | 2.52 | 2.42 | 1.13 | **(0.71)** |
| Equity per share | € | 11.70 | 11.37 | 11.14 | 11.54 | **13.65** |
| Dividend per share | € | 0.72 | 0.55 | 0.40 | 0.20 | **0.50** [2] |
| Dividend/earnings ratio | % | 33.5 | 100.0 | 43.5 | 32.0 | **23.6** |
| Dividend yield | % | 9.9 | 5.1 | 4.8 | 1.9 | **3.8** |
| Price/earnings ratio | | 3.4 | 19.4 | 7.2 | 16.7 | **6.2** |
| Development of share price | | | | | | |
| Average trading price | € | 9.74 | 8.50 | 10.28 | 8.75 | **12.52** |
| Lowest trading price | € | 6.56 | 6.42 | 8.14 | 6.87 | **9.93** |
| Highest trading price | € | 14.29 | 10.81 | 12.67 | 11.41 | **14.46** |
| Trading price at the end of period | € | 7.28 | 10.72 | 8.30 | 10.77 | **13.15** |
| Change during the period | % | (42.7) | 47.2 | (22.6) | 29.8 | **22.1** |
| Change in the HEX-index during the period | % | (10.6) | (32.4) | (34.4) | 4.4 | **3.3** |
| Market capitalization at the end of period [3] | € million | 1 002 | 1 461 | 1 420 | 1 911 | **2 377** |
| Development in trading volume | | | | | | |
| Trading volume | 1 000 shares | 24 028 | 37 155 | 58 198 | 75 574 | **123 832** |
| In relation to weighted average number of shares | % | 17.4 | 27.1 | 42.3 | 44.0 | **68.5** |
| Adjusted average number of shares [3] | | 137 643 380 | 137 127 433 | 137 658 458 | 171 623 035 | **180 702 386** [4] |
| Number of shares at the end of period [3] | | 137 643 380 | 136 277 653 | 171 110 613 | 177 450 725 | **180 752 022** |
| 1998 option warrants [5] | | | | | | |
| Price development | | | | | | |
| Average trading price | € | | 2 278 | 3 087 | 1 732 | **2 273** |
| Lowest trading price | € | | 2 278 | 957 | 320 | **1 250** |
| Highest trading price | € | | 2 278 | 3 672 | 2 880 | **3 055** |
| Trading price at the end of period | € | | 2 278 | 1 051 | 2 400 | **1 900** |
| Trading volume | pcs. | | 40 | 1 288 | 1 263 | **1 239** |
| Number at the end of period | | | 2 584 | 2 584 | 2 179 | **–** |

1) The share-related key figures for 2000–2001 have been adjusted to reflect the rights offering in 2002 based on the pre-emptive subscription right of shareholders.
2) The Board of Directors' proposal to the Annual General Meeting.
3) Excluding treasury shares.
4) The average number of shares for 2004 diluted with the 2003A options was 180 171 663. No diluting effect on earnings per share in 2004.
5) 1998 option warrants were traded on the Helsinki stock exchange from June 21, 2001 to March 24, 2004.

## Definitions of key financial figures

**Capital employed** = Total equity + net interest-bearing debt

**Operating capital** = Capital employed + net tax liability

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

**Return on equity** $= \dfrac{\text{Net profit for the financial year}}{\text{Total equity (average for the period)}} \times 100$

**Return on capital employed (ROCE)** $= \dfrac{\text{Operating profit}}{\text{Capital employed (average for the period)}} \times 100$

**Return on operating capital (ROOC)** $= \dfrac{\text{Operating profit}}{\text{Operating capital (average for the period)}} \times 100$

**Net interest-bearing debt** = Total interest-bearing debt – total interest-bearing assets

**Interest cover** $= \dfrac{\text{Profit before taxes + net interest expenses}}{\text{Net interest expenses}}$

**Equity-to-assets ratio** $= \dfrac{\text{Total equity}}{\text{Total assets – advances received}} \times 100$

**Debt-to-equity ratio** $= \dfrac{\text{Net interest-bearing debt}}{\text{Total equity}} \times 100$

**Earnings per share** $= \dfrac{\text{Net profit for the financial year attributable to the equity holders}}{\text{Adjusted average number of shares during the period}}$

**Cash flow per share** $= \dfrac{\text{Net cash generated from operating activities}}{\text{Adjusted average number of shares during the period}}$

**Equity per share** $= \dfrac{\text{Equity attributable to the equity holders}}{\text{Adjusted number of shares at the end of period}}$

**Dividend per share** $= \dfrac{\text{Dividend for the financial year}}{\text{Adjusted number of shares at the end of period}}$

**Dividend/earnings ratio** $= \dfrac{\text{Dividend for the financial year}}{\text{Net profit for the financial year attributable to the equity holders}} \times 100$

**Dividend yield** $= \dfrac{\text{Dividend per share}}{\text{Adjusted trading price at the end of period}} \times 100$

**Price/earnings ratio (P/E)** $= \dfrac{\text{Adjusted trading price at the end of period}}{\text{Earnings per share}}$

**Average trading price** $= \dfrac{\text{EUR amount traded during the period}}{\text{Adjusted number of shares traded during the period}}$

**Market capitalization at end of period** = Number of shares at the end of period × trading price at the end of period

**Trading volume** = Number of shares traded during the period, and in relation to the weighted average number of shares during the period

## Key financial figures by business

| | | FAS 2000 | FAS 2001 | FAS 2002 | IFRS 2003 | **IFRS 2004** |
|---|---|---|---|---|---|---|
| **Outokumpu Stainless** | | | | | | |
| Sales | € million | 1 177 | 2 851 | 3 002 | 3 450 | **4 637** |
| Share of the Group's sales | % | 28 | 50 | 52 | 56 | **64** |
| Operating profit | € million | 246 | 139 | 204 | 99 | **442** |
| Operating profit margin | % | 21 | 5 | 7 | 3 | **10** |
| Operating capital on Dec. 31 | € million | 843 | 1 857 | 3 038 | 3 493 | **4 108** |
| Return on operating capital | % | 30 | 10 | 8 | 3 | **12** |
| Capital expenditure | € million | 84 | 405 | 633 | 373 | **276** |
| Depreciation | € million | 60 | 120 | 127 | 159 | **173** |
| Personnel on Dec. 31 | | 2 438 | 9 004 | 9 147 | 9 230 | **9 070** |
| **Outokumpu Copper** | | | | | | |
| Sales | € million | 1 855 | 1 622 | 1 669 | 1 628 | **2 050** |
| Share of the Group's sales | % | 44 | 28 | 29 | 27 | **28** |
| Operating profit | € million | 87 | 61 | 53 | (6) | **52** |
| Operating profit margin | % | 5 | 4 | 3 | neg. | **3** |
| Operating capital on Dec. 31 | € million | 1 002 | 966 | 935 | 732 | **953** |
| Return on operating capital | % | 9 | 6 | 6 | neg. | **6** |
| Capital expenditure | € million | 70 | 114 | 149 | 106 | **59** |
| Depreciation | € million | 75 | 74 | 77 | 78 | **60** |
| Personnel on Dec. 31 | | 5 588 | 5 669 | 7 564 | 7 585 | **7 953** |
| **Outokumpu Technology** | | | | | | |
| Sales | € million | 242 | 328 | 399 | 405 | **423** |
| Share of the Group's sales | % | 6 | 6 | 7 | 7 | **6** |
| Operating profit | € million | 10 | 5 | 4 | 5 | **29** |
| Operating profit margin | % | 4 | 2 | 1 | 1 | **7** |
| Operating capital on Dec. 31 | € million | 32 | 48 | 35 | 38 | **39** |
| Return on operating capital | % | 31 | 13 | 10 | 11 | **74** |
| Capital expenditure | € million | 3 | 79 | 8 | 25 | **9** |
| Depreciation | € million | 5 | 5 | 6 | 7 | **9** |
| Personnel on Dec. 31 | | 1 197 | 1 646 | 1 737 | 1 908 | **1 776** |
| **Zinc** | | | | | | |
| Sales | € million | 385 | 453 | 418 | 396 | **–** |
| Share of the Group's sales | % | 9 | 8 | 7 | 6 | **–** |
| Operating profit | € million | 46 | 33 | 3 | 20 | **–** |
| Operating profit margin | % | 12 | 7 | 1 | 5 | **–** |
| Operating capital on Dec. 31 | € million | 188 | 393 | 361 | – | **–** |
| Return on operating capital | % | 25 | 11 | 1 | 9 | **–** |
| Capital expenditure | € million | 27 | 241 | 23 | 60 | **–** |
| Depreciation | € million | 13 | 26 | 35 | 33 | **–** |
| Personnel on Dec. 31 | | 762 | 1 183 | 1 117 | – | **–** |
| **Other operations** | | | | | | |
| Sales | € million | 586 | 480 | 336 | 263 | **163** |
| Share of the Group's sales | % | 14 | 8 | 6 | 4 | **2** |
| Operating profit | € million | 9 | (51) | 18 | 93 | **(55)** |
| Operating profit margin | % | 2 | neg. | 5 | 35 | **neg.** |
| Operating capital on Dec. 31 | € million | 307 | 221 | 209 | 51 | **77** |
| Return on operating capital | % | 3 | neg. | 8 | 68 | **neg.** |
| Capital expenditure | € million | 59 | 75 | 1 229 | 58 | **129** |
| Depreciation | € million | 39 | 42 | 20 | 28 | **9** |
| Personnel on Dec. 31 | | 1 947 | 1 926 | 1 565 | 636 | **666** |

Figures in this table are unaudited.

## Financial development by quarter

| € million | I/03 | II/03 | III/03 | IV/03 | I/04 | II/04 | III/04 | IV/04 |
|---|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | | |
| Outokumpu Stainless | | | | | | | | |
| Coil Products | 704 | 697 | 661 | 687 | 849 | 894 | 767 | 994 |
| Special Products | 349 | 327 | 273 | 348 | 363 | 459 | 379 | 449 |
| North America | 64 | 59 | 64 | 65 | 78 | 94 | 98 | 98 |
| Others | (241) | (231) | (148) | (228) | (188) | (285) | (210) | (203) |
| Outokumpu Stainless total | 876 | 852 | 850 | 872 | 1 102 | 1 162 | 1 034 | 1 338 |
| Outokumpu Copper | | | | | | | | |
| Regional businesses | 185 | 174 | 172 | 191 | 304 | 326 | 308 | 289 |
| Global businesses | 180 | 191 | 173 | 163 | 204 | 244 | 224 | 207 |
| Others | 44 | 38 | 61 | 57 | (15) | (18) | (16) | (7) |
| Outokumpu Copper total | 409 | 403 | 405 | 411 | 493 | 552 | 516 | 489 |
| Outokumpu Technology | 89 | 81 | 98 | 137 | 81 | 104 | 91 | 147 |
| Zinc | 93 | 95 | 98 | 110 | – | – | – | – |
| Other operations | 67 | 61 | 61 | 74 | 41 | 39 | 41 | 42 |
| Intra-group sales | (51) | (53) | (48) | (68) | (37) | (31) | (33) | (35) |
| The Group | 1 483 | 1 439 | 1 464 | 1 536 | 1 680 | 1 826 | 1 649 | 1 981 |
| **Operating profit** | | | | | | | | |
| Outokumpu Stainless | | | | | | | | |
| Coil Products | 45 | 35 | 1 | 10 | 102 | 88 | 69 | 77 |
| Special Products | 0 | 2 | (8) | 5 | 11 | 25 | 5 | 30 |
| North America | 0 | 0 | 4 | 1 | 5 | 6 | 5 | 7 |
| Others | 2 | (4) | 10 | (4) | 2 | (1) | (1) | 12 |
| Outokumpu Stainless total | 47 | 33 | 7 | 12 | 120 | 118 | 78 | 126 |
| Outokumpu Copper | | | | | | | | |
| Regional businesses | (2) | (1) | 2 | 2 | 17 | 7 | (1) | 10 |
| Global businesses | 5 | 10 | 4 | 6 | 11 | 4 | 4 | 6 |
| Others | 2 | (3) | 0 | (23) | (4) | 0 | (2) | 0 |
| Outokumpu Copper total | 5 | 6 | 6 | (15) | 24 | 11 | 1 | 16 |
| Outokumpu Technology | (6) | (1) | 1 | 11 | 9 | (1) | 1 | 19 |
| Zinc | 6 | 3 | 5 | 6 | – | – | – | – |
| Other operations | (18) | (20) | 11 | 120 | (9) | (2) | (7) | (37) |
| Intra-group sales | 1 | 0 | 1 | 1 | (2) | 2 | 0 | 0 |
| The Group | 35 | 21 | 31 | 134 | 142 | 129 | 73 | 124 |
| Share of results in associated companies | (3) | (3) | (4) | (5) | 15 | 9 | 31 | 23 |
| Financial income and expenses | (29) | (27) | (18) | (17) | 10 | (18) | (29) | (32) |
| **Profit (loss) before taxes** | 3 | (9) | 9 | 112 | 167 | 120 | 75 | 116 |
| Income taxes | (3) | (4) | (8) | 19 | (34) | (24) | (20) | (9) |
| **Net profit (loss) for the period** | 0 | (13) | 1 | 131 | 133 | 96 | 55 | 107 |
| **Attributable to** | | | | | | | | |
| Equity holders of the Company | (1) | (14) | 2 | 131 | 130 | 95 | 53 | 106 |
| Minority interest | (1) | (1) | 1 | 0 | (3) | (1) | (2) | (1) |

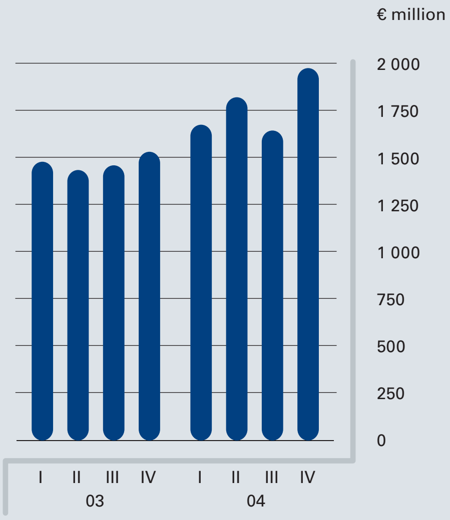
Figures in this table are unaudited.

Euro exchange rates

| | Closing rates | | | | | Average rates | |
|---|---|---|---|---|---|---|---|
| | 2000 | 2001 | 2002 | 2003 | **2004** | 2003 | **2004** |
| USD | 0.931 | 0.881 | 1.049 | 1.263 | **1.362** | 1.131 | **1.244** |
| GBP | 0.624 | 0.609 | 0.651 | 0.705 | **0.705** | 0.692 | **0.679** |
| SEK | 8.831 | 9.301 | 9.153 | 9.080 | **9.021** | 9.124 | **9.124** |
| AUD | 1.677 | 1.728 | 1.856 | 1.680 | **1.746** | 1.738 | **1.691** |

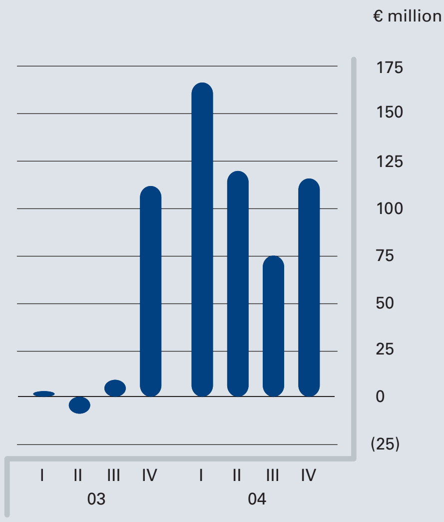
The European Central Bank's euro exchange rates.

**Sales**




**Operating profit**


**Profit before taxes**



# Parent company financial statements, FAS

## Income statement of the parent company

| € million | Note | 2004 | 2003 |
|---|---|---|---|
| **Sales** | | **113** | 111 |
| Cost of sales | | **(107)** | (99) |
| **Gross margin** | | **6** | 12 |
| Administrative expenses | | **(69)** | (57) |
| Research and development expenses | | **(3)** | (2) |
| Other operating income and expenses | 4 | **3** | 4 |
| **Operating loss** | 2–4 | **(63)** | (42) |
| Financial income and expenses | 5 | **(5)** | 126 |
| **Loss/profit before extraordinary items** | | **(67)** | 84 |
| Extraordinary items | 6 | **60** | (9) |
| **Loss/profit before appropriations and taxes** | | **(7)** | 75 |
| Appropriations | | | |
| Change in depreciation difference | | **(1)** | (0) |
| Income taxes | 7 | **(5)** | (26) |
| **Loss/profit for the financial year** | | **(14)** | 49 |

According to the Finnish regulations, in addition to the consolidated financial statements separate financial statements of the parent company have to be presented.

The income statement and balance sheet items of the parent company are mainly intra-group and thus eliminated in the consolidated financial statements.

## Cash flow statement of the parent company

| € million | 2004 | 2003 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss/profit for the financial year | **(14)** | 49 |
| Adjustments | | |
| Depreciation | **8** | 6 |
| Unrealized exchange gains and losses | **(3)** | (32) |
| Interest income | **(89)** | (72) |
| Interets expenses | **97** | 85 |
| Income taxes | **5** | 26 |
| Other non-cash income and expenses | **(63)** | 9 |
| Other adjustments [1] | **(1)** | 10 |
| | **(47)** | 32 |
| Change in working capital | | |
| Decrease in current non interest-bearing receivables | **44** | 18 |
| Decrease in current non interest-bearing liabilities | **(9)** | (71) |
| | **35** | (53) |
| Interest paid | **(93)** | (79) |
| Interest received | **84** | 72 |
| Income taxes paid | **–** | (0) |
| | **(9)** | (7) |
| **Net cash generated from operating activities** | **(35)** | 21 |
| **Cash flow from investing activities** | | |
| Capital expenditure for fixed assets | **(22)** | (11) |
| Investments in subsidiaries and other equity investments | **(28)** | (9) |
| Proceeds from sale of fixed assets | **13** | 2 |
| Decrease in long-term financial assets | **65** | 15 |
| **Net cash generated from investing activities** | **28** | (4) |
| **Cash flow before financing activities** | **(7)** | 17 |
| **Cash flow from financing activities** | | |
| Borrowings of long-term debt | **658** | 710 |
| Repayments of long-term debt | **(109)** | (72) |
| Change in current debt | **(25)** | 452 |
| Dividends paid | **(36)** | (69) |
| Proceeds from share subscriptions | **19** | 6 |
| Cash flow from group contributions | **(101)** | (16) |
| Other financing cash flow | **(425)** | (973) |
| **Net cash generated from financing activities** | **(20)** | 37 |
| Net change in cash and cash equivalents | **(26)** | 54 |
| **Net change in cash and cash equivalents in the balance sheet** | **(26)** | 54 |

[1] Includes write-downs and reversals of write-downs on shares as well as gains and losses on sale of fixed assets.

## Balance sheet of the parent company

| € million | Note | 2004 | 2003 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets and other long-term investments** | 8 | | |
| Intangible assets | | **55** | 38 |
| Property and equipment | | **23** | 21 |
| Long-term financial assets | | **3 066** | 3 128 |
| **Total fixed assets and other long-term investments** | | **3 145** | 3 188 |
| **Current assets** | | | |
| Receivables | 10 | **2 208** | 1 688 |
| Cash and cash equivalents | | **96** | 122 |
| **Total current assets** | | **2 304** | 1 810 |
| **TOTAL ASSETS** | | **5 449** | 4 997 |

| € million | Note | 2004 | 2003 |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | 9 | | |
| Share capital | | **308** | 304 |
| Unregistered share capital | | **–** | 0 |
| Premium fund | | **707** | 688 |
| Treasury shares | | **5** | 11 |
| Retained earnings | | **581** | 562 |
| Loss/profit for the financial year | | **(14)** | 49 |
| | | **1 587** | 1 613 |
| **Untaxed reserves** | | | |
| Accumulated depreciation difference | | **3** | 1 |
| **Liabilities** | | | |
| **Long-term** | 10 | | |
| Interest-bearing | | **1 758** | 1 253 |
| Non interest-bearing | | **3** | – |
| **Current** | 10 | | |
| Interest-bearing | | **1 909** | 1 902 |
| Non interest-bearing | | **189** | 228 |
| **Total liabilities** | | **3 859** | 3 383 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | **5 449** | 4 997 |

## Notes to the parent company financial statements

### 1. Accounting principles

The financial statements of Outokumpu Oyj have been prepared according to Finnish Accounting Standards (FAS).

#### 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 foreign currencies are translated into euros at the closing rate on the balance sheet date. Advances paid and received appear in the balance sheet at the exchange rate effective on the day on which they were paid or received.

Currency, interest rate and metal derivatives are initially recognized at fair value on the date derivative contract is entered into and are subsequently remeasured at their fair value. Determination of fair values is based on quoted market prices and rates, discounting of cash flows and option valuation models.

However, positive fair values of derivatives, which have been acquired for trading purposes, are not recognized in the financial statements. Fair value changes of currency, interest rate and metal derivatives are recognized in financial income and expenses. Realized gains and losses of electricity forwards, which are related to purchase of electricity for the Finnish production facilities, are recognized as adjustments to purchases. Realized gains and losses of other derivatives are recognized in financial income and expenses.

#### Fixed assets and other long-term investments

The carrying values of fixed assets are stated at historical cost less accumulated amortization and depreciation. Assets held under finance or operating leases are not recorded on the balance sheet, and the lease rentals are charged to income as incurred. Depreciation and amortization is based on historical cost and the estimated useful life of investments. Depreciation and amortization is calculated on a straight-line or declining-balance.

Estimated useful lives for various fixed asset classes are:

| | |
|---|---|
| – intangible rights | 5–10 years |
| – other long-term expenses | 5–10 years |
| – buildings | 25–40 years |
| – machinery and equipment | 5–20 years |
| – other fixed assets | 4–40 years. |

Property, plant and equipment, other non-current tangible assets and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets whose carrying values exceed their recoverable amount are written down to an amount determined using discounted net future cash flows expected to be generated by the asset.

Long-term financial assets include financial investments and receivables intended to be held for over one year.

#### Cash and marketable securities

Cash and cash equivalents include cash in hand, funds held on call accounts and on deposit up to three months, as well as other funds equivalent to cash. Marketable securities include deposits with a maturity exceeding three months and debt securities intended for resale within one year. Marketable securities are valued at the lower of cost or market.

#### Sales

Sale of goods is recognized on delivery and revenues from services are recorded when the services have been performed. Sales are shown net of indirect sales taxes and discounts.

#### Research and development costs

Research and development costs are expensed as incurred.

#### Other operating income and expenses

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

#### 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 current liabilities in the balance sheet.

#### Extraordinary items

Group contributions paid or received are reported in extraordinary items.

#### Income taxes

Income taxes presented in the income statement consist of accrued taxes for the financial year and tax adjustments to prior years. Deferred tax liabilities or assets have not been included in the balance sheet, but hypothetical deferred tax liabilities and assets are presented in the notes to the financial statements. These deferred tax liabilities or assets have been determined for all temporary differences between the tax bases of assets and liabilities and their financial reporting amounts, using the tax rates effective for future periods.

### 2. Personnel expenses

| € million | 2004 | 2003 |
|---|---|---|
| Board of Directors', CEO's and deputy CEO's fees and salaries | 2 | 1 |
| Other wages | 29 | 16 |
| Pension contributions | 5 | 7 |
| Other personnel expenses [1)] | 2 | 2 |
| | 37 | 27 |

1) No profit-sharing bonuses based on the Finnish Personnel Funds Act were paid in 2004 (2003: EUR – million).

| | 2004 | 2003 |
|---|---|---|
| Average number of personnel | 285 | 275 |
| Personnel on Dec. 31 | 285 | 272 |

| € million | 2004 | 2003 |
|---|---|---|
| **3. Depreciation and amortization** | | |
| Depreciation and amortization by group of assets | | |
| Intangible assets | **3** | 3 |
| Other long-term expenses | **4** | 2 |
| Buildings | **0** | 0 |
| Machinery and equipment | **1** | 1 |
| Other fixed assets | **0** | 0 |
| | **8** | 6 |
| Depreciation and amortization by function | | |
| Cost of sales | **5** | 0 |
| Administrative expenses | **4** | 6 |
| | **8** | 6 |

## 4. Other operating income and expenses

| | | |
|---|---|---|
| Other operating income | | |
| Rental income | **0** | 0 |
| Gains on sale of fixed assets and shares | **5** | 1 |
| Gain on the sale of precious metal assets | **–** | 2 |
| Other income items | **3** | 4 |
| | **7** | 7 |
| Other operating expenses | | |
| Expenses from the Boliden transaction | **–** | (1) |
| Losses on disposal of fixed assets and sale of shares | **(4)** | (0) |
| Other expense items | **(0)** | (2) |
| | **(4)** | (3) |
| Total other operating income and expenses | **3** | 4 |

## 5. Financial income and expenses

| | | |
|---|---|---|
| Dividend income | **3** | 146 |
| Interest income on long-term financial assets | **26** | 29 |
| Interest income on current assets | **63** | 43 |
| Other financial income | **2** | 1 |
| Interest expenses | **(97)** | (85) |
| Other financial expenses | **(6)** | (9) |
| Exchange gains and losses | **3** | 1 |
| | **(5)** | 126 |
| Financial income from and expenses to subsidiaries | | |
| Dividend income | **2** | 146 |
| Interest income on long-term financial assets | **26** | 29 |
| Interest income on current assets | **58** | 36 |
| Other financial income | **1** | 1 |
| Interest expenses | **(18)** | (11) |
| | **69** | 201 |

| € million | 2004 | 2003 |
|---|---|---|
| **6. Extraordinary items** | | |
| Group contributions | **60** | (9) |

## 7. Income taxes

| | | |
|---|---|---|
| Taxes for the financial year | **(2)** | (26) |
| Tax adjustments for prior years | **(3)** | 0 |
| | **(5)** | (26) |
| Hypothetical deferred taxes in the balance sheet | | |
| Deferred tax assets | **3** | 4 |

## 8. Fixed assets and other long-term investments

| € million | Historical cost on Jan. 1, 2004 | Additions | Disposals | Accumulated depreciation on Dec. 31, 2004 | Carrying value on Dec. 31, 2004 |
|---|---|---|---|---|---|
| Intangible assets | 47 | 25 | (1) | (16) | 55 |
| Property and equipment | | | | | |
| Land | 8 | – | (0) | – | 8 |
| Buildings | 4 | – | – | (2) | 2 |
| Machinery and equipment | 10 | 1 | (0) | (7) | 4 |
| Other fixed assets | 2 | – | – | (1) | 1 |
| Construction in progress | 6 | 8 | (5) | – | 8 |
| | 30 | 8 | (6) | (10) | 23 |
| Long-term financial assets | | | | | |
| Shareholdings in subsidiaries | 2 327 | 2 | (14) | – | 2 315 |
| Treasury shares | 11 | – | (6) | – | 5 |
| Other long-term equity investments | 20 | 25 | (3) | – | 42 |
| Other loans receivable | 769 | 134 | (198) | – | 705 |
| | 3 127 | 160 | (221) | – | 3 066 |
| Total fixed assets | 3 204 | 193 | (227) | (25) | 3 145 |

**Depreciations**

| € million | Accumulated depreciation on Jan. 1, 2004 | Accumulated depreciation on disposals and transfers | Depreciation during period | Accumulated depreciation on Dec. 31, 2004 |
|---|---|---|---|---|
| Intangible assets | (9) | 0 | (7) | (16) |
| Property and equipment | | | | |
| Buildings | (2) | – | (0) | (2) |
| Machinery and equipment | (6) | 0 | (1) | (7) |
| Other fixed assets | (1) | – | (0) | (1) |
| | (9) | 0 | (1) | (10) |
| Total fixed assets | (18) | 0 | (8) | (25) |

## 9. Shareholders' equity

| € million | **2004** | 2003 |
|---|---|---|
| Share capital on Jan. 1 | **304** | 293 |
| Transfers from unregistered share capital | **0** | 0 |
| Share offering | **–** | 9 |
| Shares subscribed with options | **4** | 1 |
| Converted bonds | **1** | 1 |
| Share capital on Dec. 31 | **308** | 304 |
| | | |
| Unregistered share capital on Jan. 1 | **0** | 0 |
| Transfers to registered share capital | **(0)** | (0) |
| Unregistered share options | **–** | 0 |
| Unregistered share capital on Dec. 31 | **–** | 0 |
| | | |
| Premium fund on Jan. 1 | **688** | 636 |
| Share offering | **–** | 45 |
| Gain on the sale of treasury shares | **0** | – |
| Shares subscribed with options | **15** | 5 |
| Converted bonds | **3** | 2 |
| Premium fund on Dec. 31 | **707** | 688 |
| | | |
| Treasury shares on Jan.1 | **11** | 14 |
| Transfer of treasury shares | **(6)** | (3) |
| Treasury shares on Dec. 31 | **5** | 11 |

| € million | **2004** | 2003 |
|---|---|---|
| Retained earnings on Jan. 1 | **562** | 84 |
| Previous year's profit | **49** | 544 |
| Dividends paid | **(36)** | (69) |
| Transfer of treasury shares | **6** | 2 |
| Retained earnings on Dec. 31 | **581** | 562 |
| | | |
| Loss/profit for the financial year | **(14)** | 49 |
| | | |
| Total shareholders' equity on Dec. 31 | **1 587** | 1 613 |
| | | |
| Distributable funds | | |
| Retained earnings | **581** | 562 |
| Loss/profit for the financial year | **(14)** | 49 |
| Distributable funds on Dec. 31 | **567** | 611 |

## 10. Receivables and liabilities

| € million | 2004 | 2003 |
|---|---|---|
| Receivables | | |
| Loans receivable | 1 906 | 1 489 |
| Accounts receivable | 20 | 21 |
| Prepaid expenses and accrued income | 16 | 11 |
| Other receivables | 267 | 166 |
| | 2 208 | 1 688 |
| | | |
| Long-term liabilities | | |
| Interest-bearing | | |
| Bonds | 200 | – |
| Loans from financial institutions | 1 144 | 1 146 |
| Pension loans | 115 | 105 |
| Other long-term loans | 300 | 2 |
| | 1 758 | 1 253 |
| Non interest-bearing | | |
| Other long-term liabilities | 3 | – |
| | | |
| Current liabilities | | |
| Interest-bearing | | |
| Convertible bonds | – | 5 |
| Loans from financial institutions | 268 | 273 |
| Pension loans | 18 | 11 |
| Other current loans | 1 623 | 1 614 |
| | 1 909 | 1 902 |
| Non interest-bearing | | |
| Accounts payable | 17 | 20 |
| Accrued expenses and prepaid income | 38 | 21 |
| Other current liabilities | 133 | 186 |
| | 189 | 228 |
| | | |
| Total liabilities | 3 859 | 3 383 |
| | | |
| Receivables from and liabilities to subsidiaries | | |
| | | |
| Long-term receivables | | |
| Loans receivable | 677 | 744 |
| | | |
| Current receivables | | |
| Loans receivable | 1 901 | 1 486 |
| Accounts receivable | 14 | 20 |
| Prepaid expenses and accrued income | 15 | 11 |
| Other receivables | 212 | 90 |
| | 2 142 | 1 607 |
| Long-term liabilities | | |
| Other long-term loans | 300 | – |
| | | |
| Current liabilities | | |
| Current loans | 1 009 | 1 047 |
| Accounts payable | 4 | 2 |
| Accrued expenses and prepaid income | 3 | 1 |
| Other current liabilities | 117 | 170 |
| | 1 132 | 1 220 |

| € million | 2004 | 2003 |
|---|---|---|
| Receivables from associated companies | | |
| Long-term | | |
| Loans receivable | 2 | 2 |
| Current | | |
| Prepaid expenses and accrued income | 0 | 0 |
| Loans receivable | 5 | – |
| | 5 | 0 |
| Prepaid expenses and accrued income | | |
| Prepaid interest expenses and accrued interest income | 16 | 11 |
| Income tax receivable | – | 0 |
| Other | – | 0 |
| | 16 | 11 |
| | | |
| Accrued expenses and prepaid income | | |
| Accrued employee related expenses | 3 | 3 |
| Accrued interest expenses and prepaid interest income | 20 | 17 |
| Other | 15 | 1 |
| | 38 | 21 |

## 11. Commitments and contingent liabilities

| € million | 2004 | 2003 |
|---|---|---|
| Pledges on Dec. 31 | | |
| Mortgages to secure own borrowings | 26 | 39 |
| | | |
| Guarantees on Dec. 31 | | |
| On behalf of subsidiaries | | |
| For financing | 107 | 153 |
| For other commitments | 142 | 110 |
| On behalf of other parties | | |
| For financing | 0 | 0 |
| For other commitments | 3 | 2 |
| | 252 | 265 |

Mortgages are given to secure pension loans.

Minimum future lease payments on operating leases on Dec. 31

| € million | 2004 | 2003 |
|---|---|---|
| Not later than 1 year | 6 | 5 |
| Later than 1 year | 44 | 49 |
| | 51 | 55 |

# Outokumpu Oyj's shares and shareholders

## Shares and share capital

On December 31, 2004, Outokumpu Oyj's fully paid and registered share capital totaled EUR 308 125 943.50 and it consisted of 181 250 555 shares. The account equivalent value of a share is EUR 1.70. Each share entitles its holder to one vote at general meetings of shareholders. The Company's shares have been entered in the Finnish book-entry securities system.

According to the Articles of Association, the share capital of Outokumpu Oyj is a minimum of EUR 150 000 000 and a maximum of EUR 1 200 000 000. The issued share capital may be increased or decreased within these limits without amending the Articles of Association.

## Listing of shares

Outokumpu Oyj's shares are listed on the Helsinki stock exchange. The trading symbol is OUT1V and a trading lot is 200 shares.

## Treasury shares

At the end of 2004, the Company held 498 533 treasury shares. The repurchases have been made between April 9 and November 27, 2001. Following the transfer of treasury shares to participants for the last incentive period in the share remuneration scheme on February 14, 2005, Outokumpu holds 218 603 treasury shares. This corresponds to 0.1% of the Company's shares and voting rights.

## State ownership

The Finnish State holds 37.8% of the Company's shares and voting rights. According to a resolution passed by the Finnish Parliament in June 2001, the state's shareholding in Outokumpu can be reduced down to 10%. Any reduction below this level would require a new parliamentary resolution.

## Redemption obligation

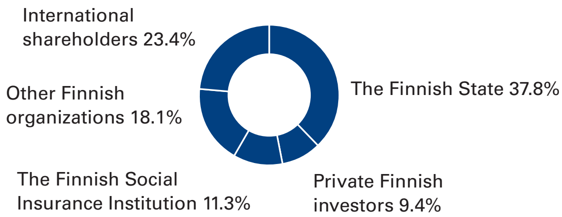
According to the Articles of Association, a shareholder whose proportion of all the Company's shares or aggregate voting rights reaches or exceeds 33 1/3 or 50% is obligated, upon request by the other shareholders, to redeem their shares at a price calculated in the manner specified in the Articles of Association. The redemption obligation does not apply to a shareholder whose shareholding or voting threshold had been reached or exceeded prior to the registration of this redemption obligation with the Finnish Trade Register on May 18, 1994, provided that the shareholder's aggregate shareholding or voting rights remain above the said threshold.

## Board's authorization to increase share capital

On April 2, 2004, the Annual General Meeting authorized the Board of Directors to increase the Company's share capital by issuing new shares, granting stock options and/or issuing convertible bonds. On the basis of this authorization, the Company's share capital may be increased by a maximum of EUR 30 400 000 by issuing a maximum of 17 882 352 new shares for subscription.

The Board of Directors is authorized to decide who will have the right to subscribe for the new shares, stock options or convertible bonds. The Board of Directors may deviate from the shareholders' pre-emptive subscription right, provided that such deviation is justified by an important financial reason such as strengthening the Company's capital structure, or financing

**Shareholders by group**
**January 31, 2005**



## Principal shareholders on January 31, 2005

| Shareholder | Number of shares | % |
|---|---|---|
| The Finnish State | 68 440 597 | 37.8 |
| The Finnish Social Insurance Institution | 20 518 448 | 11.3 |
| Ilmarinen Mutual Pension Insurance Company | 3 055 436 | 1.7 |
| OP-Delta investment fund | 1 727 239 | 1.0 |
| Finnish State Pension Fund | 1 500 000 | 0.8 |
| Etera Mutual Pension Insurance Company | 1 395 411 | 0.8 |
| Pohjola Finland Value Investment Fund | 1 020 000 | 0.6 |
| Nordea Life Assurance Company Finland | 772 175 | 0.4 |
| Fortum Pension Foundation | 696 636 | 0.4 |
| Mutual Insurance Company Pension-Fennia | 600 420 | 0.3 |
| Nominee accounts held at custodian banks [1)] | 41 227 688 | 22.7 |
| Other shareholders total | 40 296 505 | 22.2 |
| Total number of shares | 181 250 555 | 100.0 |

1) Shareholding of the companies belonging to the Capital Group Companies Inc. has on November 8, 2004 increased to 6.5% of Outokumpu shares. According to the information available to Outokumpu, no other nominee holdings exceed 5% of the total number of shares.

## Shareholders by group on January 31, 2005

| Shareholder group | Number of shares | % |
|---|---|---|
| Privately held companies | 5 011 458 | 2.8 |
| Publicly held companies | 27 068 | 0.0 |
| Financial and insurance institutions | 12 125 086 | 6.7 |
| The public sector and public organizations | | |
| The Finnish State | 68 440 597 | 37.8 |
| The Finnish Social Insurance Institution | 20 518 448 | 11.3 |
| Occupational pension schemes | 10 316 112 | 5.7 |
| Other | 165 157 | 0.1 |
| Non-profit organizations | 5 151 613 | 2.8 |
| Households/private persons | 17 012 368 | 9.4 |
| International shareholders | 42 480 327 | 23.4 |
| Shares not transferred to book-entry securities system | 2 321 | 0.0 |
| Total | 181 250 555 | 100.0 |

## Distribution of shareholding on January 31, 2005

| Number of shares | Number of shareholders | % of shareholders | Total shares | % of share capital | Average shareholding |
|---|---|---|---|---|---|
| 1–100 | 1 837 | 10.9 | 108 011 | 0.1 | 59 |
| 101–500 | 6 701 | 39.7 | 1 867 289 | 1.0 | 279 |
| 501–1 000 | 3 427 | 20.3 | 2 614 334 | 1.4 | 763 |
| 1 001–10 000 | 4 525 | 26.8 | 12 781 557 | 7.1 | 2 825 |
| 10 001–100 000 | 330 | 2.0 | 8 701 861 | 4.8 | 26 369 |
| 100 001–1 000 000 | 59 | 0.3 | 16 290 363 | 9.0 | 276 108 |
| over 1 000 000 | 7 | 0.0 | 97 657 131 | 53.9 | 13 951 019 |
| | 16 886 | 100.0 | 140 020 546 | 77.3 | 8 292 |
| Nominee accounts held at custodian banks | | | 41 227 688 | 22.7 | |
| Shares not transferred to book-entry securities system | | | 2 321 | 0.0 | |
| Total | | | 181 250 555 | 100.0 | |

corporate acquisitions or restructurings. The Board of Directors decides the subscription price and the other terms and conditions connected with the issue of shares, stock options or convertible bonds. The Board of Directors may decide that the subscription price for new shares can be paid through contributions in kind, set-off or otherwise subject to specific terms and conditions determined by the Board of Directors. The authorization to issue new shares is valid until the Annual General Meeting in 2005, but no longer than 12 months from the decision of the General Meeting. The Board has not exercised the authorization.

### Board's authorization to repurchase the Company's own shares

On April 2, 2004, the Annual General Meeting authorized the Board of Directors to repurchase the Company's own shares (treasury shares). A maximum of 8 900 000 shares can be repurchased, but the number of treasury shares cannot exceed 5% of the Company's total registered number of shares. Shares may be repurchased in accordance with a decision by the Board of Directors through purchases in public trading on the Helsinki stock exchange at the prevailing market price. Shares may be repurchased to improve the Company's capital structure, or to be used as a consideration when acquiring assets for the Company's business or in possible corporate acquisitions, in the manner and to the extent decided by the Board of Directors. Repurchased shares may also be used as an element in incentive and bonus schemes directed to the Company's personnel. The authorization to repurchase shares is valid until the Annual General Meeting in 2005, but no longer than 12 months from the decision of the General Meeting. The Board has not exercised this authorization.

### Board's authorization to transfer the Company's own shares

During 2004, the Board of Directors exercised the authorization to transfer the Company's own shares given by 2003 Annual General Meeting on two occasions. On February 12, 2004, Outokumpu transferred 315 310 of its own shares to Company personnel in the 2001 share remuneration scheme. On February 26, 2004, Outokumpu transferred 309 597 own shares as a consideration in a corporate transaction through which the Company acquired the remaining 50% of Neumayer GmbH, an Outokumpu subsidiary.

On April 2, 2004, the Annual General Meeting authorized the Board of Directors to transfer a maximum of 10 000 000 of the Company's own shares on one or several occasions. The Board of Directors was authorized to decide on the recipients of the shares and the procedure and terms to be applied. The Board of Directors may decide to transfer shares in deviation from the pre-emptive right of the shareholders to the Company's shares. Shares can be transferred as a consideration when acquiring assets for the Company's business or as a consideration in possible corporate acquisitions, in the manner and to the extent decided by the Board of Directors. The Board of Directors can decide to sell shares through public trading on the Helsinki stock exchange to obtain funds for the Company for investments and possible corporate acquisitions. Shares can also be transferred as an element in incentive and bonus schemes directed to the Company's personnel, including the CEO and his/her deputy. The transfer price may not be less than the fair market value of the shares at the time of the transfer as set in public trading on the Helsinki stock exchange. The authorization to transfer shares is valid until the Annual General Meeting in 2005, but no longer than 12 months from the decision of the General Meeting.

On February 10, 2005, the Board of Directors confirmed remunerations for the third incentive period under the share remuneration scheme. A total of 279 930 treasury shares were transferred to participants in the scheme on February 14, 2005.

### 1998 option program

By the end of the subscription period, which started on May 2, 2001 and ended on March 31, 2004, a total of 2 836 068 Outokumpu Oyj shares had been subscribed for on the basis of the 1998 option program. The maximum number, a total of 2 584 stock options, were exercised.

The stock options were issued in March 1998. Based on the reference index model, and in deviation from shareholder's pre-emptive rights, a total of 2 600 stock options entitling subscription for a maximum of 2 600 000 of the Company's shares were initially offered for subscription to employees in management positions in the Outokumpu Group. Sixteen stock options were returned to Outokumpu in accordance with the terms and conditions and were annulled on October 30, 2001. At the beginning of subscription period, a total of 94 persons in managerial positions held stock options allocated on the basis of relative share price performance and Group earnings per share.

The subscription price for shares to be subscribed for with stock options was based on the volume-weighted average price for the Outokumpu Oyj share on the Helsinki stock exchange between October 1, 2000 and March 31, 2001. At the beginning of the subscription period this was EUR 10.45 per share. According to the terms and conditions of the stock options, annual dividends were deducted from the subscription price. The stock options were traded on the Helsinki stock exchange from June 21, 2001 to March 24, 2004. Following the dividend payout in the spring of 2003, and in accordance with the terms and conditions of the stock options amended as a result of the rights offering in 2002, each option entitled its holder to subscribe for 1 097.56 shares in Outokumpu Oyj at a price of EUR 8.56 per share.

### 1999 convertible bond

By the end of conversion period, which started on April 9, 2001 and ended on April 5, 2004, a total of 1 797 919 Outokumpu Oyj shares had been subscribed for on the basis of the 1999 convertible bond program amounting to EUR 18 180 000.

A total of 742 Outokumpu employees subscribed for the convertible bonds, which formed a part of the incentive program for the Outokumpu Group personnel in Finland. The loan pe-

### Increase in share capital 2000 – 2004

| | Number of shares | Share capital, € |
|---|---|---|
| Share capital on Jan. 1, 2000 | 124 529 660 | 211 700 422.00 |
| Share subscriptions under the 1999 convertible bond | | |
| Apr. 9–Nov. 30, 2001 | +170 390 | 211 990 085.00 |
| Apr. 8–Nov. 29, 2002 | +872 161 | 213 472 758.70 |
| Rights offering Nov. 28–Dec. 17, 2002 | | |
| Primary subscriptions registered on Dec. 23, 2002 | +46 944 402 | 293 278 242.10 |
| Secondary subscriptions registered on Jan. 3, 2003 | +142 506 | 293 520 502.30 |
| Share subscriptions under the 1999 convertible bond | | |
| Apr. 8–Nov. 28, 2003 | +255 417 | 293 954 711.20 |
| Share subscriptions under the 1998 option warrants | | |
| Sep. 10–Dec. 19, 2003 | +659 629 | 295 076 080.50 |
| Share issue to Boliden Mineral AB on Dec. 31, 2003 | +5 000 000 | 303 576 080.50 |
| Share subscriptions under the 1998 option warrants | | |
| Dec. 20–31, 2003 | +2 195 | 303 579 812.00 |
| Jan. 1–Mar. 31, 2004 | +2 174 244 | 307 276 026.80 |
| Share subscriptions under the 1999 convertible bond | | |
| Jan. 2–Apr. 5, 2004 | +499 951 | 308 125 943.50 |
| Share capital on Dec. 31, 2004 | 181 250 555 | 308 125 943.50 |
| | | |
| Treasury shares on Dec. 31, 2004 | 498 533 | 847 506.10 |
| Number of shares outstanding on Dec. 31, 2004 | 180 752 022 | 307 278 437.40 |

riod was five years and the annual interest rate 3.75%. Initially each EUR 1 000 convertible bond entitled holders thereof to subscribe for 110 shares in the Company. Following the amendments resulting from the rights offering in 2002, each EUR 1 000 convertible bond entitled holders thereof to subscribe for 120.73 Outokumpu Oyj shares at a conversion price of EUR 8.28 per share. EUR 2 092 000 of the total amount of the convertible bond loan was prepaid in advance, and repayment of non-converted bonds totaled EUR 363 000.

### 2000–2002 share remuneration schemes

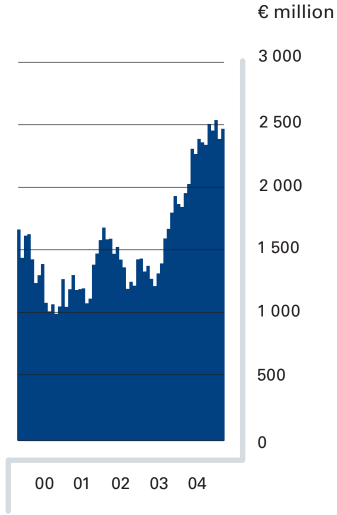
In March 2000, the Annual General Meeting approved a share remuneration scheme as part of the incentive program for Group management and other key personnel. The scheme comprises three incentive periods, each with a term of three years. The periods commenced on January 1, 2000, January 1, 2001 and January 1, 2002. The Board of Directors decided on the persons entitled to participate in the scheme for each incentive period. At the close of the incentive period at the end of 2002, the 2000 scheme included 149 persons. At the end of 2003, the 2001 scheme covered 154 persons, and the 2002 scheme at the the end of 2004 covered 142 persons.

In connection with the scheme, remuneration is based on the relative performance of the Company's share price, and is paid provided that the average change in Outokumpu's share price equals or exceeds the average trend in the reference index. The maximum remuneration will be paid if the Company's share price has outperformed the reference index by at least 15%. The reference index is comprised of a combination of the Dow Jones World Mining Index (40%) and the Dow Jones Europe Steel Index (60%). Remuneration under the schemes is paid 60% in cash and 40% in Outokumpu shares. Persons entitled to remuneration under the scheme must retain shares they receive for at least one year from the date of their receipt.

Remunerations for the first incentive period were paid in February 2003 when 282 660 treasury shares were transferred to participants as the share element of the total remuneration. Remuneration for the second incentive period was paid in February 12, 2004 when 315 310 treasury shares were transferred to participants.

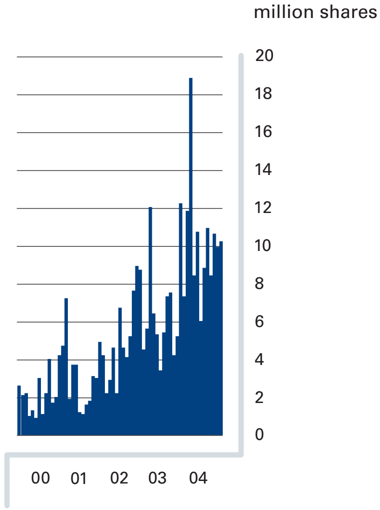
# Outokumpu Oyj's shares and shareholders

**Market capitalization**

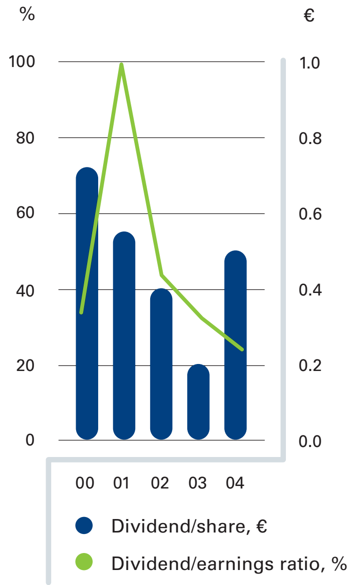



Including January 2005.

**Monthly trading volume**




**Dividend/share**




On February 10, 2005, the Board of Directors approved remuneration according to the maximum remuneration for the third incentive period. A total of 279 930 treasury shares were transferred to participants on February 16, 2005. The shareholding distributed via the remuneration scheme amounts to 0.2% of the Company's shares and the voting rights.

## 2003 option program

The Annual General Meeting held in 2003 passed a resolution on a stock option program for management. Stock options are part of the Group's incentive and commitment-building system for key employees, and the objective is to encourage recipients to work in the long term to increase shareholder value. The reward system is based on both earnings and the Company's relative performance, with rewards geared to accomplishments.

Under the terms and conditions of the stock option program, a total of 5 100 000 stock options may be issued, entitling holders of stock options to subscribe for 5 100 000 new shares in the Company in the period 2006 to 2011. Stock options will be marked 2003A, 2003B and 2003C and will be distributed by decision of the Board of Directors, without additional consideration, in 2004, 2005 and 2006, in deviation from shareholders' pre-emptive rights, to the key persons employed by or recruited by the Outokumpu Group.

In deciding on the number of stock options to be distributed annually in total and to each individual, the Board of Directors will assess the Group's earnings trend and performance by comparing, for example, the trend in earnings per share with the trend for the same key ratio in peer companies. In making their assessment, the Board will take into account any exceptional conditions and the effect on the Group's earnings per share of any acquisition or divestiture, M&A arrangement or other similar major change.

The 2003 option program also comprises a share ownership plan whereby members of the Group Executive Committee are obligated to purchase Outokumpu shares with 10% of the income they obtain from stock options.

The subscription price for shares through the exercise of stock option 2003A is the trading volume-weighted average price of the Outokumpu Oyj share on the Helsinki stock exchange from December 1, 2003 to February 29, 2004, with stock option 2003B it is the trading volume-weighted average price of the Outokumpu Oyj share on the Helsinki stock exchange from December 1, 2004 to February 28, 2005, and with stock options 2003C it is the trading volume-weighted average price of the Outokumpu Oyj share on the Helsinki stock exchange from December 1, 2005 to February 28, 2006. On each dividend record date, the share subscription price of stock options will be reduced by the amount of dividends to be decided after the close of the period for determining the subscription price and prior to share subscription.

The subscription period for shares with stock option 2003A is from September 1, 2006 to March 1, 2009, with stock option 2003B it is from September 1, 2007 to March 1, 2010 and with stock option 2003C it is from September 1, 2008 to March 1, 2011.

In February 2004, the Board of Directors confirmed that a total of 742 988 stock options 2003A be distributed to 116 persons in management positions of Outokumpu. The maximum number of 2003A stock options was 1 700 000. Members of the Group Executive Committee received 62% and other key persons received 45,25% of the maximum number of 2003A stock options. The number of 2003A stock options distributed was decided on the basis of the earnings criteria established in June, and which were the Group's earnings per share and share price performance outperforming the share price trend of peer companies. The additional earnings criterion for Group Executive Committee members was the Group's gearing. In accordance with the terms and conditions of the option program, the subscription price for a stock option was EUR 10.70 per share, with annual dividends being deducted.

On February 16, 2005, the Board of Directors decided that a total of 1 148 820 stock options 2003B be distributed to 130 persons in management positions in the Outokumpu Group. The maximum number of 2003B stock options was 1 700 000. Members of the Group Executive Committee received 55.2% and other key persons 75% of the maximum number of 2003B stock options. The number of 2003B stock options distributed was decided on the basis of the earnings criteria established in February 2004, and which were the Group's earnings per share and share price performance outperforming the share price trend of peer companies. The additional earnings criterion for the Group Executive Committee members was the Group's gearing. In accordance with the terms and conditions of the option program, the subscription price for a stock option was EUR 13.56 per share, with annual dividends being deducted.

Following the subscriptions with 2003 stock options, and if the stock options 2003C are fully exercised, Outokumpu Oyj's share capital may be increased by a maximum of EUR 6 052 277.10 and the number of shares by a maximum of 3 560 163. The number of shares that can be subscribed for on the basis of the stock options corresponds to 2.0% of Company's shares and voting rights.

## Management shareholding

On January 31, 2005, members of the Board of Directors and the Group Executive Committee held a total of 56 382 Company shares, corresponding to 0.03% of the Company's shares and voting rights.

On January 31, 2005, members of the new Group Executive Committee, effective in April 2005, held a total of 9 370 Company shares. On February 14, 2005, the shareholding of the new Group Executive Committee increased by 10 940 shares when the share element of the third incentive period of the share remuneration scheme was transferred to participants. After this, the total shareholding of the new Executive Committee corresponds to 0.01% of the Company's shares and voting rights.

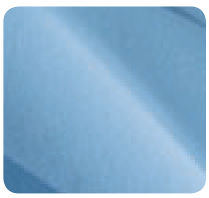
If the 2003A and 2003B options were exercised in their entirety, shareholdings and aggregate voting rights held by the members of the new Group Executive Committee would increase by 0.1 percentage points.

Details of management shareholdings are given on pages 119, 122–123 and 126.

## Dividend proposal for 2004

The Board of Directors has established a dividend policy according to which the payout ratio over a business cycle should be at least one-third of the company's net profit for the period. In its annual dividend proposal, the Board takes into account both the financial results and the Group's investment and development needs.

For the financial year 2004, a dividend of EUR 0.50 is proposed, corresponding to 23.6% of the Group's profit for the financial year attributable to equity holders of the company. The effective dividend yield is therefore 3.8%. The average dividend payout ratio during the past five years is 35.4%.



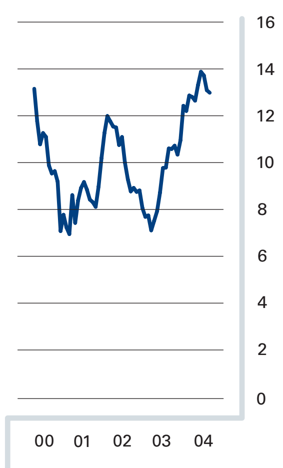
# Outokumpu Oyj's shares and shareholders

Share price performance and trading volume for the Outokumpu share as well as the key share-related figures are presented in the following table.

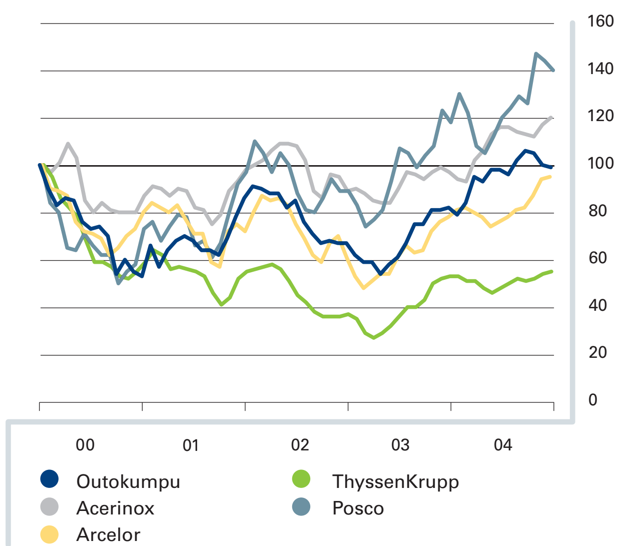
| **Share-related key figures** | | FAS 2000 [1] | FAS 2001 [1] | FAS 2002 | IFRS 2003 | **IFRS 2004** |
|---|---|---|---|---|---|---|
| Earnings per share | € | 2.15 | 0.55 | 1.15 | 0.65 | **2.13** |
| Equity per share | € | 11.70 | 11.37 | 11.14 | 11.54 | **13.65** |
| Dividend per share | € | 0.72 | 0.55 | 0.40 | 0.20 | **0.50** [2] |
| Dividend/earnings ratio | % | 33.5 | 100.0 | 43.5 | 32.0 | **23.6** |
| Dividend yield | % | 9.9 | 5.1 | 4.8 | 1.9 | **3.8** |
| Price/earnings ratio | | 3.4 | 19.4 | 7.2 | 16.7 | **6.2** |
| Development of share price | | | | | | |
| Average trading price | € | 9.74 | 8.50 | 10.28 | 8.75 | **12.52** |
| Lowest trading price | € | 6.56 | 6.42 | 8.14 | 6.87 | **9.93** |
| Highest trading price | € | 14.29 | 10.81 | 12.67 | 11.41 | **14.46** |
| Trading price at the end of period | € | 7.28 | 10.72 | 8.30 | 10.77 | **13.15** |
| Change during the period | % | (42.7) | 47.2 | (22.6) | 29.8 | **22.1** |
| Change in the HEX-index during the period | % | (10.6) | (32.4) | (34.4) | 4.4 | **3.3** |
| Market capitalization at the end of period | € million | 1 002 | 1 478 | 1 432 | 1 923 | **2 383** |
| Development in trading volume | | | | | | |
| Trading volume | 1 000 shares | 24 028 | 37 155 | 58 198 | 75 574 | **123 832** |
| In relation to weighted average number of shares | % | 17.4 | 27.1 | 42.3 | 44.0 | **68.5** |
| Adjusted average number of shares [3] | | 137 643 380 | 137 127 433 | 137 658 458 | 171 623 035 | **180 702 386** |
| Number of shares at the end of period [3] | | 137 643 380 | 136 277 653 | 171 110 613 | 177 450 725 | **180 752 022** |

[1] The share-related key figures for 2000–2001 have been adjusted to reflect the rights offering in 2002 based on the pre-emptive subscription right of shareholders.
[2] The Board of Directors' proposal to the Annual General Meeting.
[3] Excluding treasury shares.

**Share price**




**Peer group share price performance**




Including January 2005.

# Outokumpu's corporate governance

The Outokumpu Group's parent company, Outokumpu Oyj, is a public limited liability company incorporated and domiciled in Finland. In its corporate governance and management, Outokumpu Oyj complies with Finnish legislation, the Company's Articles of Association and the Corporate Governance policy resolved and approved by the Board of Directors.

Outokumpu complies with the Corporate Governance Recommendations for Listed Companies published jointly in December 2003 by the Helsinki stock exchange, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. In one exception to these recommendations, Outokumpu has both the Board Nomination and Compensation Committee and the Shareholders' Nomination Committee appointed by the Annual General Meeting of Shareholders. Furthermore, Outokumpu complies with the regulations and recommendations issued by the Helsinki stock exchange.

### Group structure

Up to March 31, 2005, the Outokumpu Group's business organization comprises Corporate Management, Business Operations, the Business Support Unit and Industrial Holdings, the last of these being the Group's non-core industrial holdings.

Corporate Management consists of the CEO of the parent company Outokumpu Oyj, members of the Group Executive Committee, and other executives and experts who assist the CEO and the Group Executive Committee members. The task of Corporate Management is to manage the Group as a whole, and its duties include developing and implementing the Group strategy, directing and supervising the activities of operational business units, establishing and maintaining uniform principles and policies for key corporate functions, establishing and maintaining reporting and control systems, managing internal and external communications as well as investor relations, overseeing the legality of operations and compliance with the parent company's operational guidelines and decisions, assisting the CEO and deciding on major operational matters at the Group level.

Up to March 31, 2005, operations conducted by the Outokumpu Group take place within strategic business entities called Business Areas. These are Stainless, Copper and Technology. Each Business Area consists of operational Business Units and/or groups of Business Units, i.e. Divisions. Activities supporting Group businesses have been centralized in a separate Business Support Unit that reports to the member of the Group Executive Committee, who is responsible for corporate administration. Industrial Holdings comprise non-core units, the management of which is decided separately.

The Outokumpu Group's new organizational structure, effective as of April 1, 2005, supports the new strategy and vision. The focus of the Group Executive Committee will be on direct management of the stainless steel business, and from the Group perspective, Outokumpu Technology will be managed at arms-length as a stand-alone business through Technology's board of directors. Outokumpu Copper will be managed separately until divestment of the fabricated copper products business is completed. The change in the Group's business structure means that the Business Area level will disappear and the Business Support Unit will be dissolved. Corporate Management and support functions will be realigned to support the new management system and business organization.

The stainless steel business will be organized into two Divisions according to the types of product produced, and a separate Tubular Products Business Unit will be established. The new General Stainless Division will comprise three Business Units: Tornio Works, Coil Products Sheffield, and Sheffield Primary Products. The new Specialty Stainless Division will consist of four Business Units: Avesta Works, Thin Strip, Hot Rolled Plate and Long Products.

The Outokumpu Group will be managed in accordance with its business organization, in which the legal company structure of the Group provides the legal framework for operations. Clear financial and operational targets have been defined for all the Group's operational business units.

## Tasks and responsibilities of governing bodies

The ultimate responsibility for the Group management and Group operations lies with the governing bodies of Outokumpu Oyj: the General Meeting of Shareholders, the Board of Directors and the Chief Executive Officer and President (CEO). The Group Executive Committee assists the CEO.

### General Meeting of Shareholders

The General Meeting of Shareholders normally convenes once a year. Under the Finnish Companies Act, certain important decisions fall within the exclusive domain of the General Meeting of Shareholders. These decisions include the approval of financial statements, decisions on dividends and increasing or decreasing share capital, amendments to the Articles of Association and election of the Board of Directors and auditors.

The Board of Directors convenes a General Meeting of Shareholders. The Board can decide to convene a General Meeting on its own initiative, but is obliged to convene a General Meeting if the auditor or shareholders holding at least 10% of the Company's shares so request.

Furthermore, each shareholder has the right to bring a Company-related matter of their choice before a General Meeting of Shareholders provided that a written request to do this has been received by the Board of Directors early enough to allow the matter to be placed on the agenda included in the notice announcing that a General Meeting is being convened.

According to its Articles of Association, Outokumpu has only a single class of shares. All shares therefore have equal voting power at General Meetings of Shareholders.

### Board of Directors

The tasks and responsibilities of the Company's Board of Directors are determined on the basis of the Finnish Companies Act as well as other applicable legislation. The Board has general authority to decide and act in all matters not reserved for other corporate governing bodies by law or under the provisions of the Company's Articles of Association. The Board's general task is to organize the Company's management and operations. In all situations, the Board must act in accordance with the Company's best interests. The Board has set itself the objective of directing the Company's business and strategies in a manner that secures a significant and sustained increase in the value of the Company for its shareholders.

The Board of Directors has established rules of procedure, which define its tasks and operating principles. The main duties of the Board of Directors are as follows:

With respect to directing the Company's business and strategies:

- To decide on the Group's basic strategies and monitor their implementation;
- To decide on annual plans for the Group's capital expenditure, monitor their implementation, review such plans quarterly and decide on changes;
- To decide on individual investments or items of expenditure that are included in approved capital expenditure plans and have a value exceeding EUR 30 million, as well as on other major and strategically-important investments, acquisitions or divestitures; and
- To decide on any major group-level financing arrangements.

With respect to organizing the Company's management and operations:

- To nominate and dismiss the CEO and his deputy, and to decide on their terms of service, including incentive schemes, on the basis of a proposal made by the Board Nomination and Compensation Committee;
- To nominate and dismiss members of the Group Executive Committee, to define their areas of responsibility, and to decide on terms of service, including incentive schemes, on the basis of a proposal by the Board Nomination and Compensation Committee;
- To decide on the composition of boards of directors of the Group's subsidiaries in which the CEO is a member;
- To monitor the adequacy and allocation of the Group's top management resources;
- To decide on any significant changes to the Group's business organization;
- To define the Group's ethical values and methods of working;
- To ensure that policies outlining the principles of corporate governance are in place;
- To ensure that policies outlining the principles of managing the Company's insider issues are in use; and
- To ensure that the Company has other guidelines concerning matters which the Board deems necessary and fall within the scope of the Board's duties and authority.

With respect to the preparation of matters to be resolved by General Meetings of Shareholders:

- To establish a dividend policy and issue a proposal on dividend distribution; and
- To make other proposals to General Meetings of Shareholders.

With respect to financial control and risk management:

- To discuss and approve interim reports and annual accounts;
- To monitor significant risks related to the Group's operations and management of such risks; and
- To ensure that adequate procedures concerning risk management are in place.

The Board of Directors also assesses its own activities on a regular basis.

A decision by the Board of Directors shall be the opinion supported by more than half the members present at a meeting. In the event of a tie, the Chairman shall have the casting vote.

The Annual General Meeting elects the members of the Board of Directors for a term expiring at the close of the following Annual General Meeting. The entire Board is therefore elected at each Annual General Meeting. Under the Articles of Association, the Board of Directors itself elects a Chairman and a Vice Chairman from among its members. A Board member may be removed from office at any time by a resolution passed by a General Meeting of Shareholders. Proposals to the Annual General Meeting concerning the election of Board members which have been made known to the Board prior to the Annual General Meeting will be made public if a given proposal is supported by shareholders holding a minimum of 10% of all the Company's shares and voting rights and if the person proposed has consented to such nomination.

Under the Articles of Association, the Board shall have a minimum of five and a maximum of twelve members. At the 2004 Annual General Meeting, nine members were elected to the Board of Directors. The CEO of Outokumpu is not a Board member. On September 30, 2004, Mr. Juha Rantanen tendered his resignation from the Board of Directors when he had earlier in July been appointed CEO of Outokumpu with effect from January 1, 2005.

The Company's largest shareholders have confirmed that they are in favor of adopting a principle according to which members of the Company's Board of Directors should, as a rule, be qualified experts from outside the Company. Of the eight current members of the Board, seven are independent of the Company (Heimo Karinen, Evert Henkes, Arto Honkaniemi, Jorma Huuhtanen, Ole Johansson, Leena Saarinen and Soili Suonoja) and five are independent of both the Company and its significant shareholders (Heimo Karinen, Evert Henkes, Ole Johansson, Leena Saarinen and Soili Suonoja).

The Board of Directors shall meet at least five times a year. In 2004, the Board met 11 times. The average attendance of members at Board meetings was 97%.

### Board committees

The Board of Directors has set up two permanent committees from among its members and confirmed rules of procedure for these committees. Reports on the work of these committees are made to the full Board of Directors.

The Audit Committee comprises three Board members who are independent of the Company: Ole Johansson (Chairman), Jorma Huuhtanen and Leena Saarinen. The task of the Audit Committee is to deal with matters relating to financial statements, auditing work, internal controls, the scope of internal and external audits, billing by auditors, the Group's financial policies and other procedures for managing the Group's risks. In addition, the Committee prepares a recommendation to the Company's largest shareholders concerning the election of an external auditor and auditing fees. The Audit Committee met three times during 2004.

The Nomination and Compensation Committee comprises the Chairman of the Board and two other Board members who are independent of the Company: Heimo Karinen (Chairman), Evert Henkes and Arto Honkaniemi. The tasks of the Committee do not comply in all respects with the Corporate Governance Recommendations for Listed Companies published by the Helsinki stock exchange, the Central Chamber of Commerce of Finland and the Confederation of Finnish Industry and Employers. The task of the Nomination and Compensation Committee is to prepare proposals for the Board of Directors concerning appointment of the company's top management – excluding the Board of Directors – and the principles

ples of their compensation. The Nomination and Compensation Committee met 12 times during 2004.

For attending to specific tasks, the Board of Directors can also set up temporary working groups from among its members. These working groups report to the Board.

### Shareholders' Nomination Committee

Outokumpu's 2004 Annual General Meeting decided to establish a Shareholders' Nomination Committee to prepare proposals for the following General Meeting of Shareholders on the composition of the Board of Directors and director remuneration. The 2004 Annual General Meeting also decided that the Shareholders' Nomination Committee should consist of the representatives of Outokumpu's four largest registered shareholders in the Finnish book-entry securities system as of December 1, 2004, with the Chairman of Outokumpu's Board of Directors as an expert member.

On December 1, 2004, Outokumpu's four largest registered shareholders were: The Finnish State, The Finnish Social Insurance Institution, the Ilmarinen Mutual Pension Insurance Company and the OP-Delta investment fund. These shareholders chose the following as their representatives on the Shareholders' Nomination Committee: Markku Tapio, Director General, State Shareholdings Unit (The Finnish State); Pertti Parmanne, Director of the Central Organisation of the Finnish Trade Unions, SAK (The Finnish Social Insurance Institution); Kari Puro, President and CEO (Ilmarinen) and Mikael Silvennoinen, CEO of OKO (OP-Delta investment fund). Heimo Karinen, the Chairman of Outokumpu's Board served as an expert member and Markku Tapio as Chairman. The Committee submitted its proposals on Board composition and director remuneration on January 31, 2005. The Outokumpu Board will incorporate these proposals into the notice announcing the Annual General Meeting of Shareholders.

### CEO and Deputy CEO

The CEO is responsible for the Company's day-to-day operations with the objective of securing significant and sustainable growth in the value of the Company to its shareholders. It is the CEO's responsibility to make sure that existing laws and regulations are observed throughout the Group. The CEO is responsible for ensuring that Board decisions are implemented properly. The CEO chairs meetings of the Group Executive Committee.

The Deputy CEO is responsible for attending to the CEO's duties in the event that the CEO is prevented from attending to them.

### Group Executive Committee

The Group Executive Committee's task is to assist the CEO in managing the Group, to prepare matters to be dealt with by the Board of Directors and the CEO, to act as the CEO's advisor, and to share information between the CEO, the members of the Group Executive Committee and the Group's businesses.

The Group Executive Committee deals with all matters of central importance for managing the Group, such as issues relating to the Group's strategies, capital expenditure, acquisitions or divestments, reporting, corporate image, the management of investor relations, compensation systems, as well as defines the main principles for risk management and human resources policy. The Group Executive Committee also monitors the Group's operations.

Until March 31, 2005, members of the Group Executive Committee are the CEO and his deputy, Business Area Presidents, and Executive Vice Presidents in charge of certain corporate or expert functions. Executive Committee members who are in charge of corporate and expert functions monitor and guide operations in their own area of responsibility across the whole Group. In 2004, the Group Executive Committee had nine members.

In connection with the new business organization, the Board of Directors appointed a new Group Executive Committee with effect from April 1, 2005. Members of this new committee are the CEO and his Deputy, Executive Vice President General Stainless Division and Production Operations, Executive Vice President – Specialty Stainless, Executive Vice President - Commercial Operations, Executive Vice President - Human Resources and the Chief Financial Officer. From April 1, 2005, the Group Executive Committee will have seven members.

The Group Executive Committee meets 1–2 times a month.

## Remuneration and other benefits of Board members, the CEO and members of the Group Executive Committee

Monthly fees for members of the Board of Directors as confirmed by the Annual General Meeting are the following: Chairman EUR 3 600, Vice Chairman EUR 2 700, other members EUR 2 200. All members of the Board of Directors are to be paid a meeting fee of EUR 300. A meeting fee is also paid for meetings of Board committees. Board members are not paid a fee on any other basis than that of their Board membership.

CEO Juha Rantanen's annual salary, with employee benefits is about EUR 595 000. The amount is calculated based on the January 2005 earnings.

The period of notice for the CEO is six months on both sides. If the Company terminates the CEO's employment for a reason or reasons unconnected with his performance or events interpreted as his having failed in his duties, the Company will make a compensation payment. The amount of this payment will total the CEO's basic salary in the preceding 24 months plus the monetary value of his employee benefits at the moment of termination.

The performance-related bonus paid to the CEO and members of the Group Executive Committee in addition to their salary and employee benefits is determined on the basis of the Group's return on capital employed. The maximum amount of this bonus is 50% of annual salary based on basic monthly earn-

Fees, salaries and employee benefits paid to the members of the Board of Directors and the Group Executive Committee are presented below.

| **2004**<br>€ | Salaries and fees with employee benefits | Performance/project-related bonuses | Share remuneration | 1998 options | Total |
|---|---|---|---|---|---|
| Members of the Board of Directors | 296 700 | – | – | – | 296 700 |
| CEO | 586 285 | 54 773 | 252 899 | 252 000 | 1 145 957 |
| Other Group Executive Committee members | 2 001 647 | 27 732 | 569 167 | 260 437 | 2 858 983 |

The share remuneration presented in the table refer to the remuneration from the second remuneration period, which was paid in February 2004. 60% of the remuneration was paid in cash and 40% in Outokumpu shares. Shares and options received through share-related schemes are also included in the table on page 126.

| 2003<br>€ | Salaries and fees with employee benefits | Performance/project-related bonuses | Share remuneration | 1998 options | Total |
|---|---|---|---|---|---|
| Members of the Board of Directors | 299 034 | – | – | – | 299 034 |
| CEO | 439 636 | 128 784 | 143 657 | 80 000 | 792 077 |
| Other Group Executive Committee members | 1 709 028 | 217 435 | 523 430 | 351 522 | 2 801 414 |

The share remuneration presented in the table refer to the remuneration from the first remuneration period, which was paid in February 2003.

ings. No separate remuneration is paid to the CEO or members of the Group Executive Committee for membership of the Committee or the other internal governing bodies of the Group.

Members of the Group Executive Committee are entitled, subject to a decision by the Board of Directors, to retire at the age of 60. Pension benefits of members of the Group Executive Committee amount to 60% of the total average annual salary in the last five full years of service. Two members of the Group Executive Committee are entitled to retire at the age of 60 on the basis of their prior employment with AvestaPolarit Oyj Abp.

The Company has not given any guarantees or other similar commitments on behalf of the members of the Board of Directors or the Group Executive Committee. Neither members of the Board of Directors or the Group Executive Committee, or closely related persons or institutions, have any significant business relationships with the Company.

## Share ownership and options

The table below shows the number of Outokumpu Oyj shares held by members of the Board of Directors and the Group Executive Committee on January 31, 2005, the shares received through the share remuneration scheme on February 14, 2005 and number of new shares they are entitled to subscribe with options.

| Pcs. | Members of the Board of Directors | Group Executive Commitee members Jan.1–Mar. 31, 2005 | Group Executive Committee members as of Apr. 1, 2005 |
|---|---|---|---|
| Shares | 3 918 | 52 464 | 9 370 |
| Share remuneration scheme [1] | – | 31 660 | 10 940 |
| Options 2003A | – | 176 450 | 87 975 |
| Options 2003B [2] | – | 231 120 | 152 490 |

[1] On February 10, 2005, the Board confirmed the remuneration of the scheme that expired at the end of 2004. The table presents the remuneration paid in Outokumpu shares.

[2] The Board confirmed the final amount of stock options on February 16, 2005.

Shareholdings and options of members of the Board of Directors and the current and new Group Executive Committee on January 31, 2005 are set out on pages 122–123 and 126. Details of the terms and conditions of the share remuneration scheme and the option program are given on pages 111–113.

### Control systems

The Group's operations are controlled and steered by means of the already-described corporate governance system. The Group is organized into operational business units and divisions providing clear channels of financial responsibility within the Group and promoting supervision of the operations and administration of the Group's different parts. Outokumpu employs the reporting systems required for operational business control and effective monitoring of the Group's assets and interests.

Ultimate responsibility for accounting and financial controls rests with the Board of Directors. It is the CEO's duty to attend to the practical arrangements concerning accounting and the control mechanism.

Realization of the objectives set is monitored monthly by means of an operational planning and financial control reporting system. In addition to actual data, the system provides up-to-date forecasts and plans for the current year and the next 12 months. The accumulation of economic value added is monitored in Outokumpu's internal quarterly reports and this information is published in the Annual Report.

The Board of Directors has the ultimate responsibility for the Group's risk management. The CEO and the Group Executive Committee are responsible for defining and implementing risk management procedures and ensuring that risks are taken into account in the Group's strategic planning. The Business Units are responsible for managing the risks related to their own operations. The Group's finance and risk management function supports the implementation of risk management policy and develops practical ways of working. External and internal auditors monitor the proper functioning of the risk management process.

Outokumpu has classed risks that affect its operations in three categories: risks relating to strategy and business, operational risks and financial risks. Risk management is discussed in more detail on pages 16–18. Financial risks are discussed in more detail in note 18 to the consolidated financial statements on pages 82–83.

The internal audit function provides consultative auditing on areas and matters that are agreed separately with the Board Audit Committee and the Group Executive Committee. The focus of the audit is on business risks and on the sharing of information. The internal audit acts in close cooperation with the Group's finance and risk management function, financial and business control and the external auditors. The internal audit function reports to the Board Audit Committee.

The CEO, members of the Group Executive Committee and other directors working at Corporate Management are responsible for ensuring that day-to-day operations of the Group comply with existing laws and regulations, the Company's operating principles and decisions by the Board of Directors.

### Managing of insider issues

Outokumpu applies insider rules that are similar in content to the recommendations issued by the Helsinki stock exchange. Outokumpu has also started to prepare for changes to its insider system connected with the European Commission's market abuse directive.

The Company's permanent insiders on the basis of their position are members of the Board of Directors, the CEO and his deputy, members of the Group Executive Committee, secretary to the Board of Directors and the Group Executive Committee, secretaries and assistants of members of the Group Executive Committee, the responsible auditor in the Company's elected firm of independent public accountants, and members of the Group Working Committee of the Outokumpu Personnel Forum. Similarly, the group of permanent insiders includes other persons designated by the CEO who are responsible for key Group functions and who regularly receive insider information in the course of their duties.

Permanent insiders must not purchase or sell securities issued by the Company in the 14 days prior to publication of interim reports or annual accounts (the so-called closed period).

The insider rules also contain regulations on a temporary suspension of trading in the Company's shares. Persons defined as project-specific insiders are those who in the course of their duties in connection with a project, as a member of a cooperation committee or other working group, or in some other way, receive information concerning the Group which might, if made public, materially affect the valuation of the Company's listed securities. Similarly, project-specific insiders also include persons outside the Company who might, through auditing, consulting or specialist tasks, or otherwise, receive information of the aforementioned kind.

Secretary of the Board and Group Executive Committee is responsible for coordinating and supervising insider issues. Up-to-date information on holdings by Outokumpu's permanent insiders can be found at the Outokumpu website.

### Auditors

Under the Articles of Association, the Company shall have a minimum of one and a maximum of two auditors who are auditors or firms of independent public accountants authorized by the Central Chamber of Commerce of Finland.

The Annual General Meeting elects the auditors to a term of office ending at the close of the next Annual General Meeting. Proposals to the Annual General Meeting concerning the election of auditors which have been made known to the Board prior to the Annual General Meeting will be made public if the proposal is supported by shareholders holding a minimum of 10% of all the Company's shares and voting rights and if the person or company proposed has consented to such nomination.

The Company's auditors submit the statutory auditor's report to the Company's shareholders in connection with the Company's financial statements. The auditors also report their findings to the Board of Directors on a regular basis.

PricewaterhouseCoopers has been responsible for auditing the Group's companies worldwide since 1994. The parent company, Outokumpu Oyj, is audited by PricewaterhouseCoopers Oy, and the responsible auditor is Markku Marjomaa, Authorized Public Accountant. PricewaterhouseCoopers Oy is also responsible for overseeing and coordinating the auditing of all Group companies.

Both Outokumpu and PricewaterhouseCoopers highlight the requirement for an auditor to be independent of the company being audited. In its global independence policy, PricewaterhouseCoopers has stated its commitment to applying the Code of Ethics of the International Federation of Accountants (IFAC). Outokumpu's Board Audit Committee continuously monitors the global level of non-audit services purchased by the Group from PricewaterhouseCoopers.

In 2004, auditors were paid fees totaling EUR 6 million, of which non-auditing services accounted for EUR 2 million.

### Communications

The aim of the Outokumpu's external communications is to support the correct valuation of the Company's listed securities by providing the markets with sufficient information on Outokumpu's business structure, financial position, market developments and, in particular, the Group's objectives and strategy for attaining these objectives.

Outokumpu's website is at www.outokumpu.com and contains the information that has been made public based on the disclosure requirements for listed companies.

# Board of Directors

Chairman

**Heimo Karinen,** b. 1939, Finnish citizen,
M.Sc. (Eng.)
Outokumpu Board member 1999–, Chairman of the Board 2003–, Chairman of the Nomination and Compensation Committee
CEO and Chairman of the Board: Kemira Oyj 1991–99
Owns 1 029 Outokumpu shares.

Vice Chairman

**Ole Johansson,** b. 1951, Finnish citizen,
B.Sc. (Econ.)
Outokumpu Board member 2002–, Vice-Chairman of the Board 2004–, Chairman of the Audit Committee
President & CEO 2000–: Wärtsilä Corporation
Board member: Confederation of Finnish Industries, Technology Industries of Finland, Varma Mutual Pension Insurance Company, Central Chamber of Commerce of Finland, International Chamber of Commerce
Supervisory board member: Rautaruukki Group
Owns 1 789 Outokumpu shares.

**Evert Henkes,** b. 1943, Dutch citizen,
B.Sc. (Econ.)
Outokumpu Board member 2003–, member of the Nomination and Compensation Committee
CEO 1998–2003: Shell Chemicals Ltd.
Board member: BPB plc, Tate & Lyle plc, CNOOC Ltd, SempCorp Industries Ltd
Advisory board member: Air Products and Chemicals Inc.
Owns no Outokumpu shares.

**Arto Honkaniemi,** b. 1946, Finnish citizen,
LL.M., B.Sc. (Econ.)
Outokumpu Board member 1999–, member of the Nomination and Compensation Committee
Industrial Counsellor 1998–: Ministry of Trade and Industry
Board member: Kemira GrowHow Oyj
Owns no Outokumpu shares.

**Jorma Huuhtanen,** b. 1945, Finnish citizen,
Licentiate (Med.)
Outokumpu Board member 2001–, member of the Audit Committee
Director-General 2000–: Finnish Social Insurance Institution
Member of Parliament 1987–2000
Member of the Council of State of Finland 1992–95
Supervisory board member: Fortum Corporation
Owns no Outokumpu shares.

**Leena Saarinen,** b. 1960, Finnish citizen,
M.Sc. (Food technology)
Outokumpu Board member 2003–, member of the Audit Committee
Managing Director 2003–: Unilever Bestfoods,
Nordic Foodsolution National Manager 2002–: Suomen Unilever Oy and board member 1999 and 2001–
Owns 800 Outokumpu shares.

**Soili Suonoja,** b. 1944, Finnish citizen,
Teacher of Home Economics, MBA
Outokumpu Board member 2003–
CEO 1989–2000: Amica Restaurants Ltd., Amica Services Ltd.
Board member: Finland Post Corporation, Alko Inc., Finnish Road Enterprise, Lassila & Tikanoja Plc, Lännen Tehtaat Oyj, the Finnish Association of Professional Board Members
Owns 300 Outokumpu shares.

**Arto Vilppola,** b. 1962, Finnish citizen,
Process technician
Outokumpu Board member 2004–
Production Foreman, Outokumpu Stainless Oy
Employed by the Outokumpu Group since 1990
Owns no Outokumpu shares.

# Group Executive Committee as of April 1, 2005

**Juha Rantanen,** b. 1952, Finnish citizen,
M.Sc. (Econ.), MBA
CEO 2005–
Chairman of the Group Executive Committee 2005–
Outokumpu Board member and Vice Chairman 2003–2004
Responsibility: Group management
Employed by the Outokumpu Group since 2004
Chairman of the board of directors: Finpro Association
Member of the executive committee of the board: Confederation of Finnish Industries
Board member: Technology Industries of Finland, Association of Finnish Steel and Metal Producers
Supervisory board member: Varma Mutual Pension Insurance Company

**Karri Kaitue,** b. 1964, Finnish citizen,
LL.Lic.
Deputy CEO 2005–
Member of the Group Executive Committee 2002–, Vice Chairman of the Group Executive Committee 2005–
Responsibility: commercial operations, Outokumpu Technology, portfolio businesses, strategy and corporate planning, business development, M&A and legal affairs, communications, investor relations, corporate social responsibility
Employed by the Outokumpu Group since 1990

**Pekka Erkkilä,** b. 1958, Finnish citizen,
M.Sc. (Eng.)
Executive Vice President – General Stainless & Production Operations
Member of the Group Executive Committee 2003–
Responsibility: the General Stainless division, production operations: Production Excellence program, material flow optimization, R&D, EHS, procurement
Employed by the Outokumpu Group since 1983
Board member: Eurofer, International Stainless Steel Forum (ISSF), Jernkontoret, Finnish Association of Mining and Metallurgical Engineers

**Olof Faxander,** b. 1970, Swedish citizen,
M.Sc., B.Sc. (Soc. Sc.)
Executive Vice President – Specialty Stainless
Member of the Group Executive Committee 2005–
Responsibility: the Specialty Stainless division
Employed by the Outokumpu Group since 2001

**Andrea Gatti,** b. 1962, Italian citizen,
M.Sc. (Econ.)
Executive Vice President – Commercial Operations
Member of the Group Executive Committee 2005–
Responsibility: Commercial Excellence program, sales strategy and planning, marketing, sales company network, stock and processing and selected key accounts
Employed by the Outokumpu Group since 2002

**Esa Lager,** b. 1959, Finnish citizen,
M.Sc. (Econ.), LL.M.
Chief Financial Officer (CFO)
Member of the Group Executive Committee 2001–
Responsibility: financial control and tax planning, treasury and risk management, business processes and IT, shared services
Employed by the Outokumpu Group since 1990
Board member: Olvi Oyj, Okmetic Oyj
Supervisory board member: Sampo Life Insurance Company Limited

**Timo Vuorio,** b. 1949, Finnish citizen,
M.Sc. (Econ.)
Executive Vice President – Human Resources
Member of the Group Executive Committee 2005–
Responsibility: HR strategy and key HR processes: competence management and people development, recruitment, industrial relations, compensation, development of leadership and organization, and the Management Review Process
Employed by the Outokumpu Group as of May 1, 2005

## Group Executive Committee January 1–March 31, 2005

**Juha Rantanen,** CEO

**Karri Kaitue,** Deputy CEO

**Pekka Erkkilä,** Executive Vice President – Outokumpu Stainless

**Esa Lager,** Executive Vice President – Finance and Administration

**Tapani Järvinen,** b. 1946, Finnish citizen, Lic.Tech.
Executive Vice President – Outokumpu Technology
Member of the Group Executive Committee 2000–
Employed by the Outokumpu Group since 1985
To continue as President of Outokumpu Technology reporting to Deputy CEO as of April 1, 2005

**Juho Mäkinen,** b. 1945, Finnish citizen, D.Tech.
Executive Vice President – EHS and technologies
Member of the Group Executive Committee 2000–
Board member 1996–97, member of the Group Executive Board 1997–2000
Employed by the Outokumpu Group since 1975
To continue as Special Adviser to the CEO from April 1, 2005 until his retirement on July 31, 2005

**Kalevi Nikkilä,** b. 1945, Finnish citizen, D.Tech.
Executive Vice President – Outokumpu Copper
Member of the Group Executive Committee 2000–
Employed by the Outokumpu Group since 1991
To retire on March 31, 2005

**Vesa-Pekka Takala,** b. 1966, Finnish citizen, M.Sc. (Econ.)
Executive Vice President – Corporate Controller
Member of the Group Executive Committee 2004–
Employed by the Outokumpu Group since 1990
To continue as Corporate Controller reporting to the CFO as of April 1, 2005

**Risto Virrankoski,** b. 1946, Finnish citizen, B.Sc. (Econ.)
Senior Adviser to the CEO
Deputy CEO 2001–2004
Member of the Group Executive Committee 2000–, Vice Chairman of the Group Executive Committee 2001–2004
Board member 1986–97, member of the Executive Board 1997–2000
Employed by the Outokumpu Group since 1969
Retired on February 15, 2005

## Shares and options of the Group Executive Committee members

| | Shares | Share remuneration scheme [1] | Options 2003A | Options 2003B [2] |
|---|---|---|---|---|
| Juha Rantanen | 500 | – | – | 60 000 |
| Karri Kaitue | 1 930 | 2 950 | 21 700 | 19 320 |
| Pekka Erkkilä | 2 180 | 4 550 | 31 000 | 27 600 |
| Olof Faxander | – | – | 9 050 | 18 750 |
| Andrea Gatti | – | – | 4 525 | 7 500 |
| Esa Lager | 4 760 | 3 440 | 21 700 | 19 320 |
| Timo Vuorio | – | – | – | – |
| Tapani Järvinen | 10 282 | 4 830 | 21 700 | 19 320 |
| Juho Mäkinen | 5 315 | 3 970 | 15 500 | 19 320 |
| Kalevi Nikkilä | 9 486 | 4 750 | 24 800 | 19 320 |
| Vesa-Pekka Takala | 3 670 | 1 970 | 9 050 | 19 320 |
| Risto Virrankoski | 14 341 | 5 200 | 31 000 | 27 600 |

[1] On February 10, 2005, the Board confirmed the remuneration of the scheme that expired at the end of 2004. The table presents the remuneration paid in Outokumpu shares.

[2] The Board confirmed the final amount of stock options on February 16, 2005.

# Annual General Meeting and Investor Relations

The Annual General Meeting of Outokumpu Oyj will be held on Tuesday, April 5, 2005 at 1.00 pm (Finnish time) at the Dipoli Congress Centre, in Espoo, Finland.

In order to attend the Annual General Meeting a shareholder must be registered in the Company's shareholders' register maintained by the Finnish Central Securities Depository Ltd (Suomen Arvopaperikeskus Oy) on March 24, 2005. Nominee-registered shareholders who wish to attend the Annual General Meeting should temporarily re-register the shares under their own name. Such re-registration must be made no later than March 24, 2005. In order to arrange a temporary re-registration, nominee-registered shareholders should contact their bank or other custodian. Shareholders, whose shares have not been entered into the Finnish book-entry securities system, should mention this when giving notice to attend in order to receive further instructions.

Shareholders who wish to attend the Annual General Meeting must notify the Company by no later than April 1, 2005 at 4.00 pm (Finnish time). Notification can be made by telephone +358 9 421 2813, by fax +358 9 421 2920 or by e-mail agm@outokumpu.com. Notification can also be made by a letter addressed to Outokumpu Oyj, Share Register, P.O. Box 140, 02201 Espoo, Finland. The letter must reach the Company on April 1, 2004 at the latest.

A shareholder may attend and vote at the meeting in person or by proxy. However, in accordance with Finnish practice, Outokumpu does not send proxy forms to its shareholders. Shareholders wishing to vote by proxy should submit their own proxy forms to the Company during the registration period.

Additional information on the Annual General Meeting is available at www.outokumpu.com.

### Annual General Meeting and payment of dividends in 2005

| | |
|---|---|
| Annual General Meeting | April 5 |
| Ex-dividend date | April 6 |
| Record date for dividend payment | April 8 |
| Dividend payout | April 15 |

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.50 per share be paid for the financial year 2004.

### Financial reports in 2005

| | |
|---|---|
| Financial Statements Bulletin | February 10 |
| Annual Report | Week starting March 21 |
| First-quarter interim repor | April 27 |
| Second-quarter interim report | July 26 |
| Third-quarter interim report | October 25 |

Investor information is available at the Group's English language website www.outokumpu.com. The website also covers annual reports, interim reports, as well as stock exchange and press releases, which are published in both Finnish and English.

Alternatively financial reports can be obtained from Outokumpu Oyj/Corporate Communications, Riihitontuntie 7 B, P.O. Box 140, 02201 Espoo, Finland, tel. +358 9 421 2416, fax +358 9 421 2429 and e-mail corporate.comms@outokumpu.com. Subscriptions to the e-mailing list for press releases and the mailing list for printed annual reports can be made via the same e-mail address.

Shareholder mailings are made on the basis of the contact information in the shareholders' register maintained by the Finnish Central Securities Depository Ltd. A shareholder should inform his/her account operator, or in case of a nominee-registered shareholder the relevant bank or other custodian, about changes in contact details.

### Outokumpu share basics

| | |
|---|---|
| Listing | Helsinki stock exchange |
| Trading symbol | OUT1V |
| Trading lot | 200 shares |
| Number of shares | 181 250 555 |

### Investor Relations

The main task of Outokumpu's Investor Relations function is to support the correct valuation of the Outokumpu share by providing information about the company's activities, financial position, goals and strategy, thus enabling the markets to form a true and fair view of Outokumpu as an investment prospect. Our aim is to communicate in open, timely and clear manner and to treat all parties equally.

Outokumpu observes a two-week closed period prior to the publication of financial statements and interim reports. During these periods, we do not arrange meetings with investors or comment on result forecasts.

Should you require further information about Outokumpu, please contact one of the following persons:

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## Analysts covering Outokumpu

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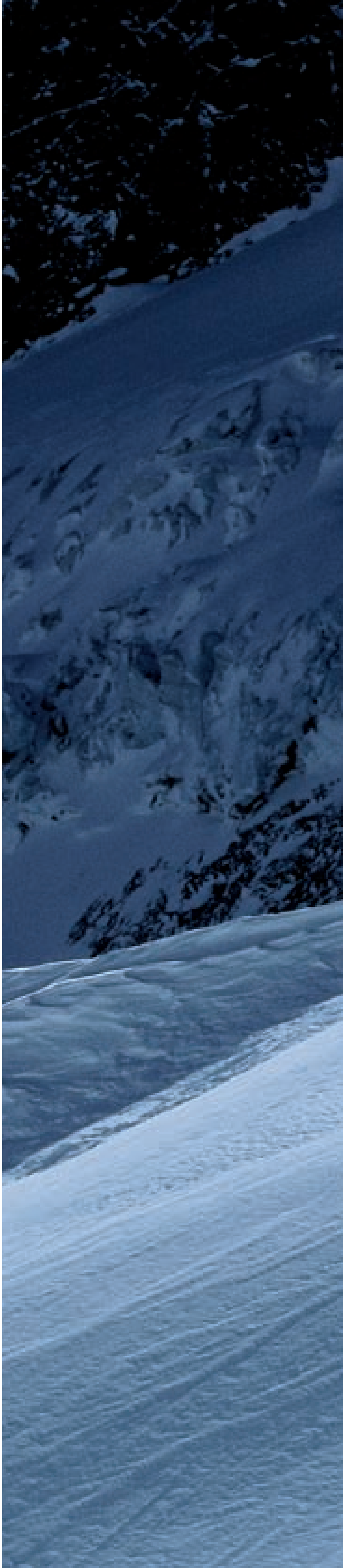

0007EN. Kreab/Libris, Helsinki, Finland. March 2005.

*Outokumpu is an international stainless steel and technology company. Our vision is to be the undisputed number one in stainless, with success based on operational excellence. Customers in a wide range of industries use our metal products, technologies and services worldwide. We are dedicated to helping our customers gain competitive advantage. We call this promise the Outokumpu factor.*

www.outokumpu.com

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