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OUTO KUMPU

Annual Report 2005

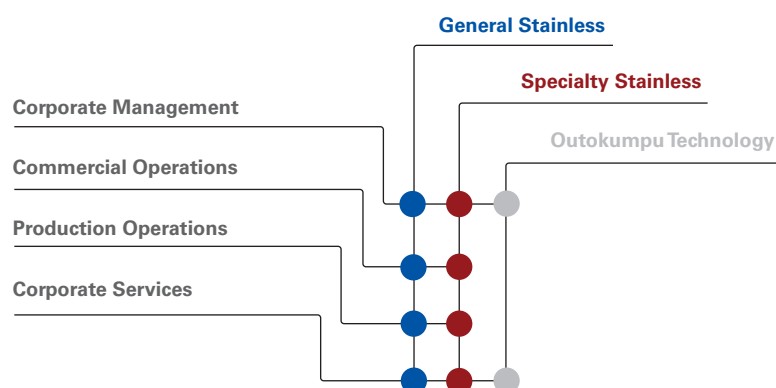
2005 in figures

		2005	2004
Sales	€ million	5 552	5 122
Operating profit	€ million	83	436
Non-recurring items in operating profit	€ million	(129)	19
Profit before taxes	€ million	22	440
Net profit/(loss) for the period from continuing operations	€ million	(3)	379
Net profit/(loss) for the period from discontinued operations	€ million	(360)	7
Net profit/(loss) for the period	€ million	(363)	386
Earnings per share	€	(2.01)	2.12
Earnings per share from continuing operations	€	(0.02)	2.08
Earnings per share from discontinued operations	€	(1.99)	0.04
Equity per share	€	11.31	13.65
Dividend per share	€	0.45¹⁾	0.50
Share price on Dec. 31	€	12.55	13.15
Market capitalization on Dec. 31	€ million	2 272	2 377
Capital expenditure, continuing operations	€ million	174	414
Capital employed on Dec. 31	€ million	3 599	4 941
Return on capital employed	%	1.9	9.6
Net cash generated from operating activities	€ million	459	(128)
Net interest-bearing debt on Dec. 31	€ million	1 537	2 435
Equity-to-assets ratio	%	38.2	35.8
Debt-to-equity ratio	%	74.5	97.2
Stainless steel deliveries	1 000 tonnes	1 647	1 786
Stainless steel base price ²⁾	€/tonne	1 174	1 424
Personnel on Dec. 31, continuing operations		10 764	11 514

¹⁾ Board's proposal to the Annual General Meeting

²⁾ CRU – German base prices (2 mm cold rolled 304 sheet)

Organizational structure of the Group



Outokumpu Oyj

Corporate Management

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Consolidated financial statements presented in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS). Outokumpu Oyj sold its fabricated copper products business in 2005. The whole former Outokumpu Copper business area has been classified as a discontinued operation and the result from discontinued operations is presented in the income statement on a single line after the profit from the Group's continuing operations. Income statement for 2004, but not for prior years, has been restated accordingly.

In graphs and tables, data for years 2003–2005 is presented according to IFRS and for prior years according to Finnish Accounting Standards.

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 aim to be the undisputed number one in stainless steel

Vision and strategic objectives

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

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

Outokumpu's future success will be achieved by building and reinforcing operational excellence in both the commercial and production sectors. This operational excellence will be leveraged first in Europe and later on 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:

- **Best financial performance in the industry**
- **Industry benchmark in customer relationship management**
- **Most efficient production operations**
- **Most attractive employer**

CEO's review

For Outokumpu, the year 2005 was characterized by a very tough market environment in the stainless steel business. In Europe, the industry's deliveries of cold rolled stainless products declined by an estimated 9%. The market decline was due to heavy de-stocking by stainless steel users. The weakness of demand also caused a significant drop in base prices, and the combined impact of lower deliveries and weaker margins resulted in unsatisfactory profitability, especially in the second half of the year. Our results were further weakened by the non-recurring costs and write-downs linked to our strategic and operative decisions and improvements. In spite of a loss-making year, we are paying a dividend that is close to last year's level. This we can do thanks to a healthy cash flow and strong confidence in our future.

For Outokumpu Technology, the business year 2005 was very positive. We booked record-high new orders and underlying profitability improved markedly. With the current high level of metal prices, investments in the global mining and metals industry are expected to remain strong, thus maintaining a very supportive business environment for Outokumpu Technology in the years to come.

A very important milestone in our strategic transformation was the completion of the sale of the fabricated copper products business during the first part of 2005. This step not only strengthened our balance sheet but also enabled the management to focus fully on realizing our vision of becoming the "undisputed number one in the stainless industry". Several important initiatives were launched last year towards that end.

In line with our vision, the concept of operational excellence is crucial for our future. The aim is to create a unique operating culture that starts with the customer and covers all parts of the company. The operational excellence initiative is managed through two programs: Commercial Excellence and Production Excellence. Both programs started during 2005 and made good progress towards transforming the way we run our business. Ambitious financial targets were confirmed for the programs, ultimately resulting in a significant improvement of operating profit in the years to come.

I had the opportunity to visit both Commercial and Production Excellence teams during the year, and these visits strengthened my confidence in the concepts and potential. In commercial excellence we started working closely with a selected number of customers, improving our ways of working with

them: strengthening our product offering, having better delivery and logistical solutions, linking our R&D with customers' needs just to name a few. The Production Excellence program was started at our melt shops by improving our material and equipment efficiency. Also, safety and environmental performance is a high priority in the program.

I believe the stainless steel markets will continue to enjoy good growth in the future. Due to its unique properties, stainless is winning market share from other metals and materials. It well suits the requirements of modern society: fully recyclable, enjoying a long lifetime and it brings convenience to all users. The growth of consumption is increasingly dominated by new growing economies, especially China. China is also the country where a lot of new capacity will be brought on stream in the next few years.

To address the challenge of the new competitive environment, Outokumpu launched a program of short-term performance improvement during the fall. We decided to cease the loss-making operations at Coil Products Sheffield (CPS) in Britain. We also started a fixed cost reduction program covering all stainless steel business units and Group functions. The combined impact of the CPS closure and fixed cost reduction on our operating profit will be some EUR 150 million per year, with full impact from 2007 onwards and half of that already in 2006.

As a result of the excellence programs and the performance improvement initiatives, I am convinced that we will be able to meet our profitability target of 13% return on capital employed even in the expected new competitive environment. This is also supported by our very competitive manufacturing base, having the new Tornio facility now fully available and loaded. We will also apply very tight capital expenditure and working capital management to strengthen cash flow in the years to come.

Finally, I would like to thank all Outokumpu employees for their great work and professionalism during the year. We have gone through a lot of change, some of it painful, but I strongly believe we are on the right track.



Juha Rantanen

CEO

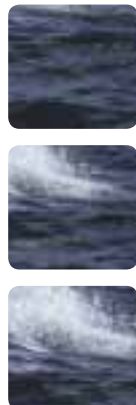


I believe the stainless steel markets will continue to enjoy good growth in the future

Outokumpu's 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.

Outokumpu operates in some 30 countries and employs 11 000 people. In 2005, the Group's sales were EUR 5.6 billion, of which 95 percent was generated outside Finland. The Group's headquarters are located in Espoo, Finland. The parent company, Outokumpu Oyj, has been listed on the Helsinki stock exchange since 1988.



Stainless steel

The consumption of stainless steel is growing more rapidly than any other metal in the world. Outokumpu is one of the largest producers of stainless steel and is widely recognized as a world leader in technical support, research and development.

Main products and customers

Outokumpu's 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. Our products are mainly used in the process industries such as pulp, paper and chemicals as well as in the offshore oil industry, catering and households, automotive industry and building and construction. Outokumpu produces specialty stainless products also e.g. for the electronics and IT industries.

Outokumpu's market position

- The global market totals 24 million tonnes or some EUR 44 billion. During the last ten years, consumption has grown at a rate of 5–7% per annum. In Europe, the Group's main market area, the market totals 4 million tonnes and consumption has grown by 3% annually. However, the largest growth has occurred in China, with a growth rate of 23% annually.
- Outokumpu is one of the world's largest producers of stainless steel. Slab capacity totals 2.5 million tonnes and the capacity for cold rolled material and white hot strip is 1.6 million tonnes. In global terms, Tornio Works is the most cost-efficient and the largest single-site stainless steel production facility. In addition, Outokumpu produces 0.3 million tonnes of long products and plate annually.
- Outokumpu has a 25% share of the stainless steel coil market in Europe and a 8% share worldwide.
- Main markets are Europe (69% of sales in 2005), Asia (15%) and North and South America (13%).

Production facilities

Outokumpu's main production facilities are located in Finland, Sweden, Britain and the US.



Outokumpu – an international stainless steel and technology company

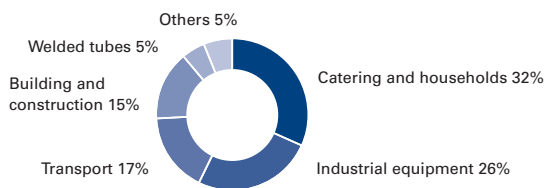
Raw materials and energy

Stainless steel and carbon steel scrap, ferrochrome and nickel are the main raw materials used in producing stainless steel. Outokumpu operates its own chrome mine at Kemi and a ferrochrome smelter at Tornio, both in Finland. Stainless steel and carbon steel scrap, nickel, and some of the ferrochrome are purchased on the open market. Nickel accounted for 56 percent of all raw material costs in the production of stainless steel in 2005.

Electrical energy accounts for some 4% of total costs. The largest individual consumer of electrical energy in the Group is the Tornio ferrochrome smelter.

In addition to Outokumpu's main product, austenitic stainless steel, Outokumpu will start production of ferritic stainless (60 000 tonnes annually) at Tornio in 2007.

End-uses of stainless steel



Source: CRU – global consumption of cold rolled sheet and coil

Major producers

Estimated slab capacity million tonnes	Slabs 2005	Slabs 2007
ThyssenKrupp, Germany	2.88	2.88
Arcelor, Luxemburg	2.72	3.22
Outokumpu, Finland	2.60	2.50
Acerinox, Spain	2.41	3.16
POSCO, South Korea	2.00	2.00
TISCO, China	1.00	2.50

Source: CRU and Outokumpu

Technology

Main products and customers

Outokumpu Technology designs and delivers plants, processes, equipment and customized solutions for a wide variety of customer needs. In addition, Outokumpu Technology provides engineering, project and support services worldwide. Customers are producers of metals and industrial minerals as well as companies operating in the chemical and other process industries.

Outokumpu's market position

- Solid experience throughout the metals production chain
- Market leader in many technologies
- Extensive R&D resources
- Competitors are either engineering companies or equipment manufacturers
- Markets are Asia (35% of sales in 2005), North and South America (21%), Europe (20%), Australia (14%) and Africa (10%)
- Global presence

Operations

Outokumpu has competence centers in Finland, Germany, Sweden, North and South America, Australia and Russia, and sales and service centers in altogether 18 countries.



Management discussion on the financial results and strategy

Major transformation in difficult market conditions

The Group's vision of becoming the undisputed number one in stainless steel, with success based on operational excellence was reinforced by divestiture of the fabricated copper products business in 2005. Following the sale, Outokumpu is an international stainless steel and technology company.

Year 2005 was difficult in the stainless steel market, especially in standard grade volume products, marked by de-stocking and extremely high raw material prices. Global demand declined marginally, but development varied in different regions. According to CRU estimates, apparent consumption of flat products in Western Europe and the US fell by 5%, while in China it rose by 12%. Prolonged de-stocking pushed the industry into oversupply. Producers responded to weakening markets by cutting production in the second half of the year. Base prices drifted downwards throughout 2005. The German base price for CR 304 sheet fell from 1 425 EUR/tonne in December 2004 to 1 030 EUR/tonne at the end of 2005. Demand for special grade and project-related products was stronger and more stable than for standard products.

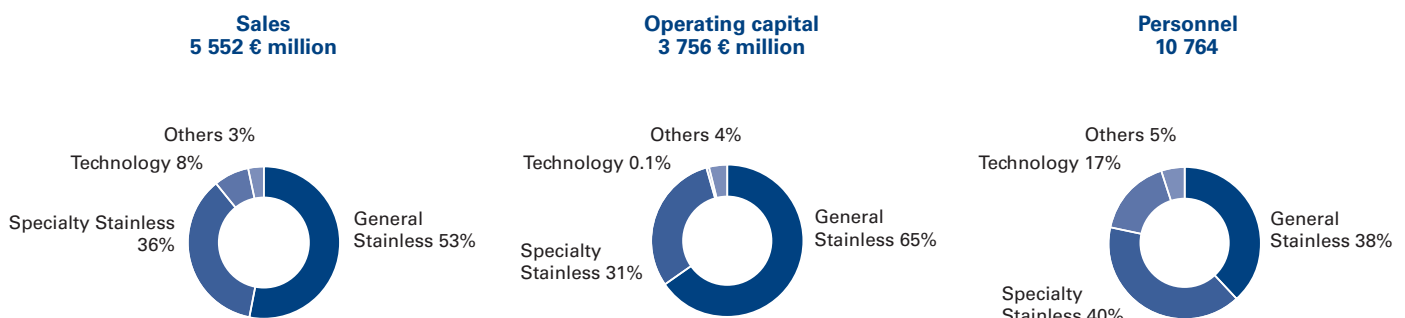
During the autumn, Outokumpu initiated several measures to secure achieving the profitability targets and to adjust to the

new competitive market environment. The fixed cost reduction program covers all stainless steel business units and group functions. Targeted savings are some EUR 100 million on an annual basis and the reduced fixed cost running rate will be in place during the second half of 2006, with full effect in 2007. A decision was also made to close down operations at Coil Products Sheffield (CPS) at the end of April 2006 and to adjust capacity at the Sheffield melt shop and Avesta hot rolling mill accordingly. As a consequence, the estimated additional profit improvement from the second half of 2006 onwards is some EUR 50 million annually. The above actions will reduce Outokumpu's workforce by 1 500 employees.

The closure of CPS and transfer of orders to Tornio confirm the ability of the world's largest stainless steel integrate to operate at full load and deliver the benefits of its low cost base. Together with the cost reduction program and benefits derived from the operational excellence programs, this will improve profitability and ensure the Group's ability to reach the financial goals.

Outokumpu's operating profit decreased markedly in 2005

Outokumpu's sales rose by 8% to EUR 5 552 million. High transaction prices and improved product mix increased the





stainless steel sales even though delivery volumes fell by 8% to 1 647 000 tonnes. Sales by Outokumpu Technology increased by 39%.

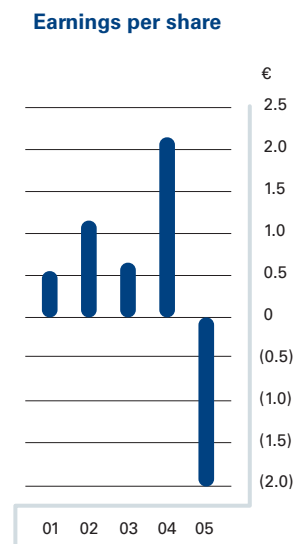
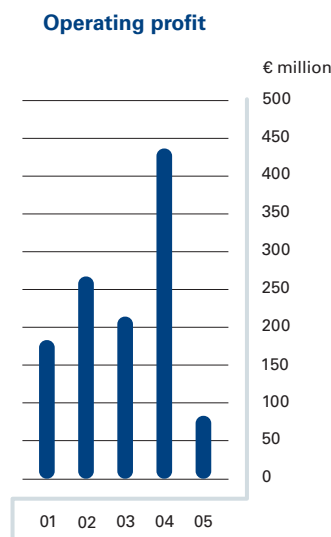
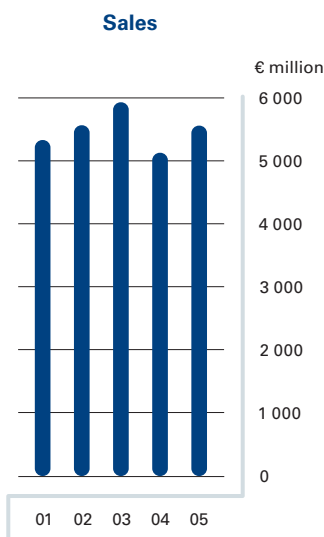
Operating profit totaled EUR 83 million yielding a return on capital employed of 1.9%. Operating profit excluding non-recurring items was EUR 212 million, resulting in return on capital employed of 5.0%. Lowest ever base prices, lower delivery volumes and inventory losses resulting from timing difference between the alloy surcharge and inventory turnover adversely affected profitability during the second half of 2005. Non-recurring items comprise write-downs and non-recurring costs of EUR 130 million related to the closure of CPS and EUR 34 million related to actions taken in the fixed cost reduction program. Non-recurring gain from the sale of remaining 26.5% holding in Boliden amounted to EUR 35 million.

Gearing target was reached

Following the sale of the fabricated copper products business in April, the operations of Outokumpu Copper were classified as discontinued operations and are reported separately from the Group's continuing operations. The total consideration received from the sale to Nordic Capital was EUR 612 million.

The EUR 360 million loss from discontinued operations consists primarily of the EUR 252 million loss from the sale and the impairment loss of EUR 86 million recognized in the Outokumpu Copper Tube and Brass business, which was excluded from the scope of the transaction. A turnaround plan has been initiated and Outokumpu's intention is to divest the tube and brass business.

Net cash generated from operating activities totaled EUR 459 million. EUR 202 million was released from working capital. Capital expenditure declined to EUR 174 million. The Tornio expansion was completed and new capacity has been technically available from the second half of 2005. The Group's short-term profitability improvement program also includes tight capital expenditure discipline, and capital expenditure limit was set at an annual EUR 175 million for 2006–2007. In 2006, however, capital expenditure is expected to be higher due to delayed phasing and rollovers from 2005, but will not exceed the annual depreciation level of EUR 210 million. At the year-end, the Group's net interest-bearing debt stood at EUR 1 537 million and gearing was 74.5%, thus achieving the target level of below 75%.



Financial development

Sales	2005	2004
€ million		
General Stainless	4 073	4 237
Specialty Stainless	2 739	2 702
Technology	590	423
Other operations	238	218
Intra-group sales	(2 088)	(2 458)
The Group	5 552	5 122
Operating profit		
€ million		
General Stainless	(62)	269
Specialty Stainless	110	181
Technology	25	30
Other operations	8	(50)
Intra-group items	1	5
The Group	83	436
Non-recurring items in operating profit		
Gain/(loss) on the sale of the Boliden shares	35	(19)
Closure of Coil Products Sheffield	(130)	-
Costs related to fixed cost reduction program	(34)	-
Gain on the sale of the filter business	-	16
Release of the Finnish TEL disability pension liability	-	22
Total	(129)	19
The Group's operating profit excluding non-recurring items	212	417
Stainless steel deliveries		
1 000 tonnes		
Cold rolled	867	890
White hot strip	391	432
Other	390	464
Total deliveries	1 647	1 786

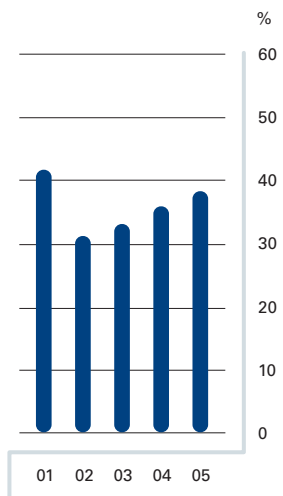
Positive signs in the market

Global economic growth is expected to remain solid in 2006. Although global demand for stainless steel fell marginally in 2005, underlying demand has remained healthy and in the long-term annual growth in consumption is expected to continue at a rate of 5–7%. Towards the end of 2005 orders started to pick up and market sentiment for early 2006 is cautiously optimistic. However, the increasing capacity in China will curb export possibilities of standard grades from Europe to Asia.

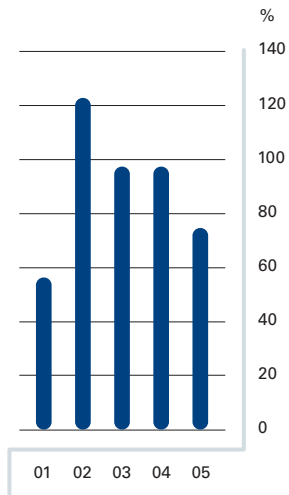
For the first quarter of 2006 deliveries of 304 cold rolled flat products in Europe, Outokumpu has gradually achieved base price increases totaling 100 EUR/tonne or more. The increases vary country by country. The order backlog has strengthened and further price increases are being pressed for April and beyond.

In 2006 the target is to fully utilize Tornio's capacity for finished products and benefit from its low cost base. In the short-term, Outokumpu's profitability is expected to improve compared to the second half of 2005. However, with the still very low base prices prevailing at the start of 2006, operating profit is expected to fall substantially short of the high levels seen in the first half of 2005.

Equity-to-assets ratio



Debt-to-equity ratio



Profitability analysis by business

General Stainless' sales totaled EUR 4 073 million with a decrease of 4% from previous year. The profitability of General Stainless was severely affected by both under-loading and contracted prices for standard grades. The market for standard stainless steel products weakened significantly in the second half of 2005 mainly due to de-stocking in Europe and China and by the new capacity that came on stream in China. As production was market constrained, the benefits from Tornio expansion's efficiency and low cost base could not be achieved. General Stainless posted an operating loss of EUR 62 million. Negative non-recurring items in General Stainless' operating profit totaled EUR 138 million.

Share-related key figures

€	2005	2004
Earnings per share	(2.01)	2.12
– from continuing operations	(0.02)	2.08
– from discontinued operations	(1.99)	0.04
Equity per share	11.31	13.65
Dividend per share	0.45¹⁾	0.50
Share price on Dec. 31	12.55	13.15
Market capitalization on Dec. 31, € million	2 272	2 377

¹⁾ Board's proposal to the Annual General Meeting

In 2005, Outokumpu's WACC after taxes was about 6%. The figure was obtained using a target capital structure in which the weight of the equity 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 2005 Outokumpu's economic value added with a 6 % WACC from its continuing operations turned negative and totaled EUR 238 million.

Outokumpu's vision – to be the undisputed number one in stainless

In August 2004, Outokumpu announced that the Group's future strategic direction will be based on leadership in stainless steel, and that Outokumpu is looking at various options to exit from its fabricated copper products business.

At the beginning of 2005, the Group's new vision targeting at the leading position in stainless was further outlined and financial objectives were updated. Furthermore, the Group's new business organization came into effect at the beginning of April. At the same time, it was confirmed that the technology business is developed as part of Outokumpu Group. The role of the technology business is, however, more independent and from the Group's perspective the business is managed through the Board work of Outokumpu Technology.

Outokumpu's future success will be based on operational excellence. Operational excellence comprises the Commercial and Production Excellence programs, which were launched in April 2005. The Commercial Excellence program covers all stainless steel business units and sales companies. The program will help to shift the Group increasingly towards customer orientation and a one-company operating model. Production Excellence is a highly practical program to improve Outokumpu's production operations. In this program, the objectives are to improve health, safety and environmental performance, raw material and equipment efficiency, benchmarking and the use of best practices.

The objective is to secure the number one position in Europe within stainless steel over the next five years and a leading position globally in ten years. To reach a leading position worldwide, Outokumpu intends to obtain production capacity also outside Europe, whether 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 meet the profitability and performance targets. At the same time Outokumpu evaluates potential acquisition and divestment candidates that would improve the value of the Group's business portfolio.

Financial targets derived from the vision

Outokumpu's 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 objectives aligned with the vision to become number one in stainless for growth, profitability and financial strength are:

- Continue to grow faster than the market
- A return on capital employed to be more than 13% and always the best among peers
- Gearing to be below 75%

Outokumpu has initiated several measures to secure achieving the profitability targets. The targeted savings from the fixed cost reduction program are some EUR 100 million on an annual basis, and the reduced fixed cost running rate will be in place during the second half of 2006, with full effect in 2007. The closure of CPS and adjustment of capacity at the Sheffield melt shop and Avesta hot rolling mill accordingly are expected to result in an estimated profit improvement of some EUR 50 million annually from the second half of 2006 onwards. Further, total combined benefits from the Commercial and Production Excellence programs are expected to amount to EUR 40 million in 2007, EUR 80 million in 2008 and EUR 160 million on an annual basis thereafter.

To prepare for growth opportunities, the capital structure is under strong focus. The tight working capital management continues in 2006. In addition, the Group's short-term profitability improvement program includes tight capital expenditure discipline, and capital expenditure will be an annual maximum of EUR 175 million for 2006–2007. In 2006, however, capital expenditure is expected to be higher due to delayed phasing and rollovers from 2005, but will not exceed the annual depreciation level of EUR 210 million.

Factors affecting Outokumpu's profitability

Outokumpu's business is cyclical. Besides company's own actions, Outokumpu's profitability depends on economic cycle in the world economy and especially on the level of industrial investments. The demand for stainless steel has over long-term

been growing at a rate of 5–7% per annum. Capacity expansions may sometimes have an adverse effect on the stainless markets if resulting in a temporary imbalance between global supply and demand.

Key factor directly affecting Outokumpu's profit is the base price development of stainless steel. The price level is linked to the economic cycle, and especially to the level of industrial investments in the main customer segments. Changes in the base prices are also attributable to strong fluctuations in demand in the de-stocking and re-stocking cycle.

The prices of alloying materials for stainless steel do not have a major impact on Outokumpu's financial results, nonetheless, they feed through into the amount of capital tied up in operations. The transaction price of stainless steel is the base price plus the alloy surcharge. The alloy surcharge is applied in Europe and in North America and it includes the cost of the alloying materials, when exceeding the predefined trigger price level, in stainless steel: nickel, chrome, molybdenum, iron and titanium. Typically, the base price charged to the customer is fixed, and the risk related to changes in the cost of the alloying materials is passed on to the customer through the alloy surcharge. For fixed price sales in markets where the alloy surcharge mechanism is not in use, like in Asia, the nickel portion of the price is hedged through derivative contracts.

Operating profit is affected not only by the changes in the base prices but also, by unit costs, delivery volumes and product mix. In the production of stainless steel the capacity utilization rate also has a major impact on operating profit. Production volumes depend on demand, and products are mainly manufactured to fulfill orders. Apart from delivery volumes, the product mix also has an effect on profitability, because the profit margins for products vary with the value-added component. Overall, the relative changes in base prices are more important than changes in delivery volumes.

The pricing currencies for stainless steel products are as a rule determined by the market areas: euros in Europe and US dollars in the US and Asia. Price levels between Europe, the US and Asia may vary. Foreign exchange rates affect Outokumpu's profits, because a large part of the sales are tied to the US dollar. Outokumpu's production costs, in turn, are for the most part in euros, Swedish crowns and British pounds. Prices of raw material are determined primarily in US dollars.

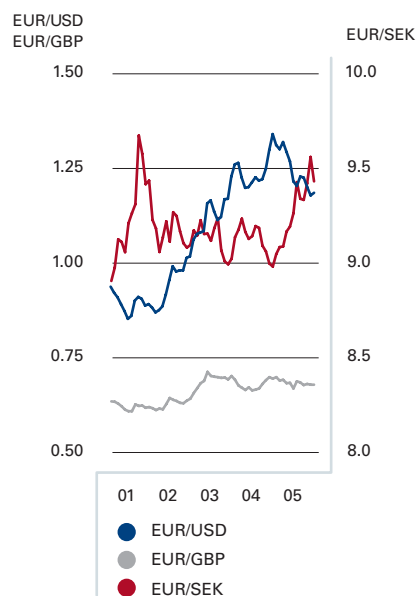
The table on the right shows the sensitivity of Outokumpu's operating profit in 2006 to changes in base prices, ferrochrome prices and the foreign exchange rates between the main currencies and the euro.

Effect of sustained change on annual operating profit

€ million	
Base price, +100 EUR/tonne	200
Ferrochrome price, +5 US\$/lb	10
USD/EUR, +10%	50
SEK/EUR, +10%	(50)
GBP/EUR, +10%	(30)

The figures are estimates and they do not take into account the impact of hedging. They have been calculated on the basis of the average exchange rates in 2005 and projected 2006 production volumes.

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's 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 adverse 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 defines 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. Two extensive risk identification and assessment workshops were carried out during 2005 – one with Group Executive Committee concentrating on steel business and another with management of Outokumpu Technology with emphasis on technology business. In addition, key risks and related mitigating actions for business units were identified and assessed in strategy planning.

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 ensuring 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.

The Group's risk management function prepares a quarterly risk report to the Audit Committee, Corporate Management, internal audit and external auditors.

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. The changes taking place in the market areas as well as regional differences – such as the prevailing sup-



Risk management supports the Group's strategy and business targets and defines a balanced risk profile

ply 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 in the coming years, and the country may become a net exporter to the other main regions. This may lead to continued tough 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 has already taken action and is preparing for a possible continuation of 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.

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 20 to the consolidated financial statements on pages 79–80.

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 cost.

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. Insurances are discussed in detail in note 20 to the consolidated financial statements on pages 79–80.

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, Sheffield and 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. 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 20 to the consolidated financial statements on pages 79–80.



Market review

An encouraging outlook for global economic activity into early 2006

Global GDP rose by about 3.5% in 2005 despite high and volatile oil prices. Growth remained strong in the US, the Japanese recovery maintained steady progress, and the remarkable expansion in China continued unabated. Growth slowed slightly in many developing economies in Asia and Eastern Europe, but remained generally healthy. In Europe economic activity remained generally very sluggish.

Recent business surveys suggest that global economic growth will remain solid during the first half of 2006. Firm growth is forecast to continue in the US. In China economic activity is expected to slow only slightly from current levels and prospects in Japan look increasingly positive. There are also signs that growth in Western Europe might be starting to recover. The manufacturing sector in Germany has been performing well and activity also seems to be picking up in France and Italy.

Demand for stainless in the process industries should remain very strong

The main end-uses for stainless steel exhibited rather different trends during 2005. Growth in the different sectors will continue to diverge during 2006, though in aggregate the demand background for stainless steel should remain solid.

Demand from the process industries and from the industrial machinery and equipment sector was strong in 2005 as a result of increased investment activity. Investment spending in 2005 grew rapidly in North America, Japan and China. The current strength of machinery orders suggests that investment in these areas will remain strong during 2006. Activity in Western Europe was more subdued, but business surveys suggest

that investment activity in the region will improve over the next year.

Activity in the catering and household sector was steady in 2005. US consumers continued to spend at record levels while in Japan consumption maintained a slow recovery. Household spending was extremely weak in Germany and Italy, and lacklustre in the rest of Western Europe. Prospects in Europe seem a little brighter for 2006, and Japanese domestic demand is also looking more encouraging. US consumption growth is expected to moderate in response to higher interest rates and weakening sentiment.

In the transportation sector, worldwide vehicle production rose by just 2% in 2005. This was almost entirely due to firm growth in the developing markets of Asia, Eastern Europe and South America. In contrast, US production was flat and output in Western Europe declined, and the outlook for the transport sector in both these regions remains subdued. However, with developing markets continuing to enjoy strong growth, the global vehicle market is expected to show further steady progress during 2006. In the aerospace industry, orders have recovered strongly, and the outlook over the next year is very encouraging.

The construction sector enjoyed another good year in 2005. The US market was very strong, mainly thanks to the buoyancy of the housing market. Construction spending continued to rise at a spectacular rate in China. Activity in Japan and Eastern Europe was also healthy. In Western Europe the construction sector grew rather slowly. Global activity in construction is expected to moderate a little during 2006. This is partly a reflection of higher interest rates, but there are also worries about housing price bubble in some markets, notably in the US.

Annual metal market prices

		2001	2002	2003	2004	2005	Change% 2005/2004
Stainless steel							
Base price	€/t	1 283	1 403	1 397	1 424	1 174	(17.6)
Alloy surcharge	€/t	372	312	396	828	942	13.8
Transaction price	€/t	1 655	1 715	1 793	2 252	2 116	(6.0)
Nickel							
	US\$/t	5 948	6 772	9 641	13 852	14 744	6.4
	€/t	6 641	7 162	8 523	11 136	11 851	6.4
Ferrochrome (Cr-content)							
	US\$/lb	0.32	0.31	0.43	0.69	0.74	7.2
	€/kg	0.79	0.73	0.84	1.22	1.32	8.2
Molybdenum							
	US\$/lb	2.39	3.94	5.40	16.39	32.51	98.4
	€/kg	5.90	9.18	10.52	29.05	57.61	98.3
Steel scrap							
	US\$/t	97	102	147	236	224	(5.1)
	€/t	93	107	130	190	180	(5.3)

Sources:

Stainless steel: CRU – German base price, alloy surcharge and transaction price (2 mm cold rolled 304 sheet), estimates for deliveries during the period

Nickel: London Metal Exchange (LME) cash quotation

Ferrochrome: Metal Bulletin – Ferrochrome lumpy chrome charge, basis 52% chrome

Molybdenum: Metal Bulletin – Molybdenum oxide, Europe

Steel scrap: Metal Bulletin – Steel scrap HMS 1 fob Rotterdam

Stainless steel consumption in 2005 depressed by de-stocking

Despite the solid economic background the global apparent consumption of cold rolled and hot rolled stainless steel flat products declined marginally during 2005. According to CRU estimates, apparent consumption fell by almost 5% in both Western Europe and the US, and the only region to show significant growth was China, where apparent consumption grew by about 12% from the previous year.

The main explanation for this anomaly is that 2005 was characterised by a sustained period of de-stocking. Global apparent consumption rose by almost 18% during 2003–2004, well ahead of underlying demand as consumers built up inventories ahead of steadily rising transaction prices for stainless. This process then went into reverse at the beginning of 2005. Consumers, seeing that future prices were starting to weaken, had a strong incentive to run down inventories and to delay new purchases. This increased the pressure on base prices, reinforcing the downward spiral. Only when stocks had fallen below normal levels, towards the end of the year, did orders start to recover.

The impact of the weakening market on stainless steel base prices was dramatic. According to CRU, typical German base prices for cold rolled 304 fell steadily during 2005, from 1 385 EUR/tonne in January to 1 170 EUR/tonne by mid-year and 1 030 EUR/tonne in December. The average German base price for the year, at 1 174 EUR/tonne, was almost 18% below the 2004 level and in real terms the lowest ever annual figure.

Unfortunately for the stainless steel producers, this dramatic fall in the base price was accompanied by an unprecedented increase in the alloy surcharge. The alloy surcharge is added to the base price of stainless steel when the prices of the main alloying

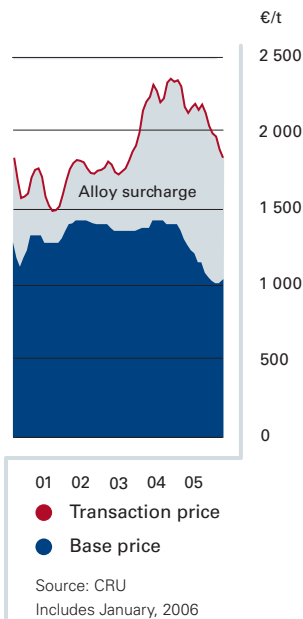
elements rise above a certain threshold level. In July 2003, the alloy surcharge on cold rolled 304 was about 350 EUR/tonne. As the prices of the raw materials spiralled, so the alloy surcharge rose, peaking at 1 035 EUR/tonne in August 2005. This increase thus offset the fall in base prices, keeping stainless transaction prices high at a time when profitability of the stainless mills was being squeezed.

The underlying demand for stainless steel has remained healthy however and the long-term growth in consumption is still estimated to be 5–7% annually. Nevertheless, the sustained high prices have undoubtedly had an impact on the pattern of stainless steel consumption. There has been some substitution of stainless by other materials, though the tonnage loss is not thought to be significant. More importantly, in some end-uses there has been a switch from the austenitic 300-series to ferritic or duplex stainless steels. As a result the proportion of austenitic stainless steel in total stainless production has declined sharply. Some of these changes in end-use consumption are likely to be permanent.

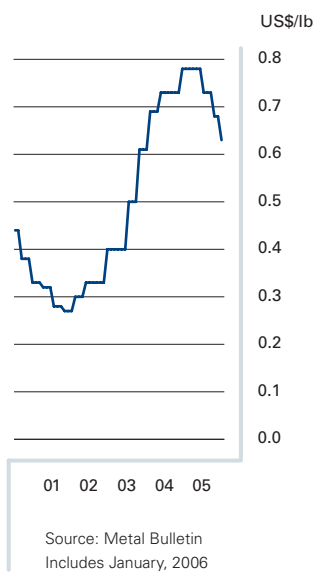
Record nickel prices the main reason for high alloy surcharge

The sharp rise in the alloy surcharge was mainly attributable to a further big increase in the nickel price. In 2005 nickel averaged 14 744 USD/tonne, the highest ever, and more than 50% above its average of two years earlier. Nickel prices peaked in May at over 17 000 USD/tonne, reflecting the record-low level of the stock-consumption ratio. Thereafter prices started to soften gradually and a marked fall in prices took place at the beginning of the fourth quarter as the cutback in global stainless production depressed demand for raw materials. The rise in nickel

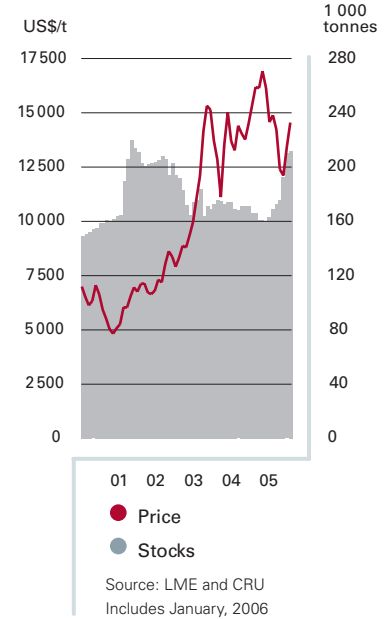
Stainless steel price



Ferrochrome price



Nickel price and stocks



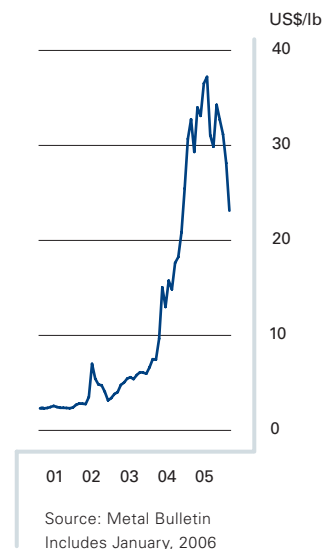
stocks and plentiful supply of scrap are evidence that the fundamentals of the nickel market have eased considerably. Nevertheless, prices rose sharply again in early 2006, driven by a huge flow of investment funds into the metals sector. The scale of fund involvement makes prospects for nickel even more uncertain than normal, though the general expectation is that prices will remain high and very volatile over the next few months.

The price of the other main alloying element for stainless steel, ferrochrome, was high in 2005, and the average price of 0.74 USD/lb was the highest since 1989. After prices of close to 0.80 USD/lb in the first half of the year, quotations started to fall sharply after mid-year. Weaker demand was the main reason for the fall, but supply has also been increasing steadily. With the market now firmly in surplus, average prices in 2006 are expected to be sharply down year-on-year.

Molybdenum prices continued to rise strongly in 2005. The average price of molybdenum oxide delivered in Europe was 32.51 USD/lb, six times the level in 2003. Increased demand from the stainless steel sector, inadequate supply and production problems especially in China were the main reasons for the market tightness. Prices are expected to remain high for at least the first half of 2006.

Stainless steel mills introduced a steel scrap component to the alloy surcharge during 2004 to compensate for the big increase in the scrap price. This component was maintained during 2005, as scrap prices remained very high. The annual average price of 224 USD/tonne (for HMS 1 fob Rotterdam) for 2005 was only slightly down on 2004's exceptional level. High prices for carbon steel, strong demand and lower exports out of the CIS suggest that steel scrap prices will remain high over the near term.

Molybdenum price



A reasonable year for other stainless products

The other stainless steel products also suffered from the volatility of alloy prices. Market conditions were difficult, but prices generally held up better than in the cold rolled market and 2005 was a reasonable year.

In hot rolled coil, including white hot strip, the first half of the year was very strong in Asia, but demand then dropped sharply in response to high inventories and uncertainty about prices. Many projects were delayed because of high extras on



molybdenum-bearing alloys. The Asian market also became increasingly competitive due to the rapid rise in Chinese production capacity. This suggests that prices will remain under pressure in the first half of 2006. In Europe sales volumes picked up in the last quarter of 2005, and a further recovery in sales is anticipated in the early months of 2006.

Quarto plate markets were satisfactory in 2005. There was healthy demand from the oil and gas sector, desalination projects, pulp mills and chemical carriers. However, some projects were delayed due to high alloy prices. In some end-uses low-nickel or duplex stainless steel gained market share. Sales prospects for 2006 look satisfactory, though prices will be heavily influenced by the development of raw materials prices.

Global demand for long products was strong through most of the first half of 2005. Demand deteriorated in the second half, especially in Western Europe however. This resulted in base prices falling significantly. Order levels recovered modestly in the final quarter, indicating that excessive stocks were being eroded. Further recovery is anticipated in early 2006 as lower alloy surcharges take effect.

There was a similar sales pattern in the precision strip market. Demand in both Europe and the US was very strong in the first quarter of 2005. Sharply lower activity in the automotive industry resulted in strip sales falling sharply during the second and third quarters. Demand improved again towards end-year, and 2006 is expected to be a better year in terms of volume. Base prices are, however, expected to be under downward pressure.

Demand for tubes in 2005 was clearly below the previous year, and base prices continued to drift downwards. The oil and gas sector remained strong throughout the year, but demand from the pulp and paper and chemical industries was disappointing. Competition from Asian tube and fitting producers tightened markedly and Chinese tubemakers are now offering their products to distributors in Europe. The market is expected to recover somewhat in 2006, partly due to strong demand from the chemicals, petrochemicals and gas sectors, and partly due to a lower alloy surcharge.

Sentiment improving, but upside on base prices will depend on production response

Although base prices for cold rolled 304 fell to an acutely low level in the final quarter of 2005, sentiment started to improve

towards the end of the year. Orders began to pick up, and the stainless mills began targeting price increases over the next few months. Market conditions clearly look more promising for early 2006. The economic background is looking firm and stainless stocks have been continuing to fall. Given this background, the first half of 2006 could see sustained re-stocking, a trend that would be given added impetus if the alloy surcharge were to stabilise or start rising again.

An improvement in apparent consumption would certainly be positive for base prices over the short term. However, the upside for prices during 2006 is unclear given the background of over-capacity in the industry. If producers choose to maintain production cutbacks at recent levels, then base prices could increase significantly. However, a quick return to full production might cap any increase in base prices at a relatively modest level.

Further ahead, capacity growth, especially in China, will be the key issue for the stainless industry. Chinese capacity is expected to show further massive growth over the next few years. This growth is substantially changing the world trade pattern in stainless. The export opportunities for European producers will be reduced as China gradually moves towards self-sufficiency in stainless flat products. Rapid capacity growth is also expected to keep global utilisation rates under pressure, especially for slab. The tough pricing environment could continue for several years.

Technology sales boosted by strong investment activity

The improvement in Outokumpu Technology's order intake, which had begun in the second half of 2004, strengthened appreciably during 2005. High metals prices were the driving force, stimulating a huge increase in investment activity. Demand from the carbon steel industry was especially strong, but investment grew firmly in all customer sectors. By region, orders were strongest in Asia, South America and Australia, but investment activity was healthy almost everywhere.

The outlook for technology sales in 2006 is highly positive. Substantial new capacity is still needed in mines and metallurgical facilities in both the ferrous and non-ferrous sectors. Sentiment in the markets remains very positive, and industry profitability is running at a high level. Given this background, investment activity in the metals industry is expected to remain very strong over the next year.



Commercial operations

Focused customer orientation is becoming increasingly important also in the stainless steel industry

Outokumpu's global Commercial operations organization consolidates group-wide sales planning, execution and marketing development. This consolidated strategy requires a one-company approach towards customers that combines the product and service offering from different mills to meet the customers' total needs.

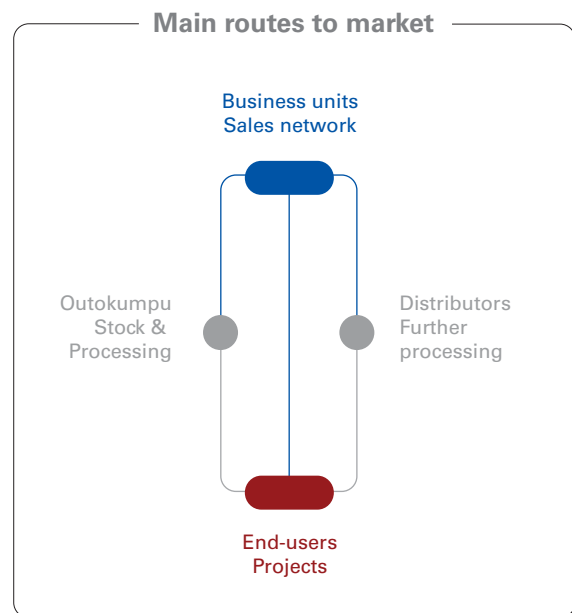
Commercial operations consists of two functions: Sales operations and Group marketing. These two functions are managed centrally, but the activities are delivered through the coordinated actions of business units and sales companies.

Strength from extensive sales network

The primary task of sales operations is to prepare operative sales plans and to ensure the overall steering of the Group's sales force in the marketplace. Operative sales plans, defined for the whole Group, set targets, priorities and actions by geographical market ensure that the Group's global sales plan is achieved. The role of sales steering is to coordinate the day-to-day sales activities which include the definition of prices and other tactical decisions. An important aspect of sales steering is to ensure that optimal use is made of the Group's sales network and different routes to market.

At the end of 2005, the Group's own sales network consisted of 1 035 people in sales companies and service centres. The extensive sales network provides customers with a local contact at sales companies, service centres and agents located in more than 60 countries around the globe.

Outokumpu's key markets are in Europe where the Group enjoys a market share of 25% in stainless steel coil, mainly in



Germany, Italy, France and Spain as well as in its home markets Britain and Scandinavia.

Outokumpu has recognized the need to be close to customers and to ensure that the process of purchasing stainless steel is as simple as possible. High quality and a responsive supply chain continue to be important factors. Outokumpu's extensive network of sales companies provides the primary point of contact for sales dialogues.



Outokumpu's customers benefit from the 28 Outokumpu service locations, mostly located in Central Europe which process plate and coil products to meet specific customer needs. This enables sales companies to tailor the offering to meet customers' needs, creating value for them when their requirements fall outside standard dimensions and finishes.

Coil service centres offer slitting and cutting of coil products to very precise customer-specified dimensions. Vast coils of stainless steel can be slit to widths as narrow as 9 mm and plate can be cut to any length from 400 mm to 13.4 m. These coil service centres also provide a wide variety of polishing and brushing services. The service centres located in the main markets are able to make weekly or even daily deliveries to customers to ensure their operations run smoothly with an uninterrupted supply of high quality and tailored materials. The centres also provide the Group with the capability to make rapid, timely deliveries of small to medium-sized batches of coil products.

As a world-leading supplier of stainless steel plate, Outokumpu provides a full range of products and processing alternatives to cover needs ranging from the largest chemical tankers to small components for the electronics industry. Plate service centres provide plasma, laser and water-jet cutting, sawing, and press braking. The cutting equipment can handle sections up to 16 m in length, cut thicknesses from 2 mm to 150 mm, and produce complicated geometries. Outokumpu operates some of the most powerful press braking equipment in the industry and provides highly complex profiles to narrow tolerances.

Marketing function to further commercial operations

Group marketing is in charge of the medium to long-term development of the Group's commercial activities. Key responsibilities consist of the development of a global commercial strategy, marketing communications, sales-related business processes and IT support systems, and the global Commercial Excellence program – a major development undertaking in marketing and sales.

A major part of Group marketing's current activity is the Commercial Excellence program internally also known as K2. It is Outokumpu's aim to become the industry benchmark in managing customer relationships and to satisfy customer needs in all aspects in terms of both products and service. This means that Outokumpu must intensify its efforts to create a customer-focused culture and define itself not by what it produces but by its customers, their industries and their customers' needs. Concrete actions will also be taken to adjust the already broad product and service offering to help meet these needs more effectively.

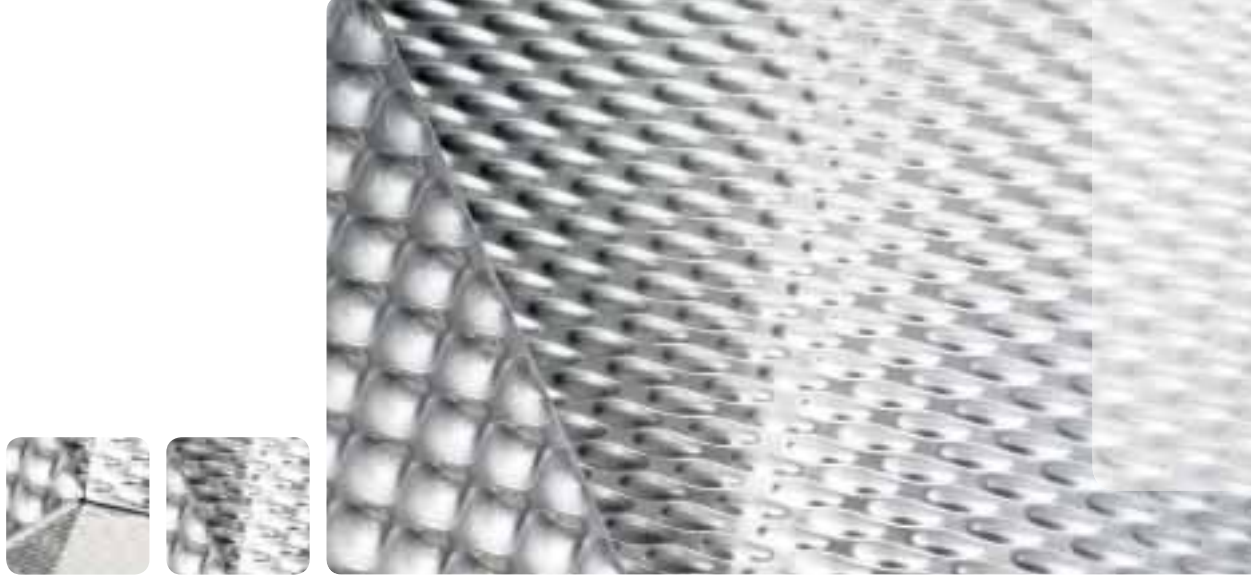
The objectives of the Commercial Excellence program will be achieved through the development of all commercial personnel, building on their skills and capabilities, and establishing a base that enhances the Group's capability to serve increasingly sophisticated customers with demanding procurement needs and strategies.

The program will implement a one-company approach to key accounts which have, for example, a need to purchase stainless steel products for their business units in multiple markets and qualities. A matrix organization, with key account managers at its heart will ensure that a high level of customer service is achieved. This structure will manage the sales and negotiation process that delivers innovative customer solutions, responsive and seamless information exchange and the capability of providing a single point of contact for customers with global operations. The program will also build internal platforms that provide transparency in customers, products and profitability.

The Commercial Excellence program will last two years and will involve some 500 people in the Group's global customer facing sales and business network. It has already identified opportunities in deeper relationships that will deliver improved levels of profitability for both Outokumpu and its customers.

Customers and product offering

Outokumpu's customer base covers a broad range of end-use applications and routes to market. While distribution, tube



making and re-rolling remain central to our business especially in the standard product sector, Outokumpu is actively developing its business in specific customer segments where niche products and grades are required. In the past few years, Outokumpu has made significant investments in the efficient mass-production of standard products. In the future, the special products area will also be subject of focus.

Outokumpu's main products are hot and cold rolled stainless steel coil, sheet and plate. The Group also offers an extensive range of other stainless steel products, such as special strip, hot rolled plate, tubes, fittings and long products.

Outokumpu has a history of continuous research and development work which guarantees both continued high quality products and expert technical advice when selecting the appropriate grade for each customer application. Outokumpu is known for its reliability and its extensive range of austenitic and duplex grades, which provides the core of our product offering for traditional stainless steel applications in the catering and household industry, and also for supplying excellent materials for demanding process applications in oil and gas, chemical, desalination, as well as pulp and paper industries. Outokumpu also produces an extensive selection of special finishes that are attractive to architects and high-strength materials for the automotive industry.

Among the Group's numerous customer application segments the following are among the most promising for Outokumpu in the future:

Architecture, building and construction

Stainless steel is one of the world's most attractive, long-lasting and inspirational materials. It is no surprise that architects and engineers frequently select stainless steel for interiors and facades. Stainless steel requires low-maintenance, is environmentally friendly, 100% recyclable and remains aesthetically pleasing throughout its life cycle.

A new area for the utilization of stainless steel has been in bridge construction. In recent years, Outokumpu has received

several significant orders from bridge projects where designers have recognized the benefits of our new LDX 2101® grade. While this composition has a lower nickel content than traditional stainless steels, it offers also high strength and corrosion resistance and is proving to be a new and appealing opportunity in many applications.

Automotive and transportation

Stainless steel is becoming increasingly common in chassis constructions in the automotive, railroad and bus manufacturing sectors. The Outokumpu-developed HyTens® material has exceptional formability and has the property of hardening during deformation. This opens up the possibility of creating ultra-high strength in new and unique applications. Strength distribution within components can also be controlled, which results in reduced weight compared to traditional materials. This is good news for customers in the automotive industry where deformability, with high strength and weight savings are important considerations.

Desalination – a natural application for stainless steel

There is a growing concern over the world's fresh water resources, which have been shrinking year after year for a variety of reasons. One practical response is to produce fresh water from seawater. The process of making fresh water from salt water is termed desalination.

The processes that separate the salt and produce fresh water make high demands on the materials used in the vessels and tubes that are in contact with corrosive salt water. Stainless steel has proven to be an ideal material for these purposes. Outokumpu has rigorously tested each and every grade – both in the laboratory and in the field – to ensure that its customers in this growing industry can specify stainless components with absolute confidence.



Production operations

Focus on coordination and improvement of production activities

In the new organizational structure production operations focus on development of production plans, production related Group functions and driving the Production Excellence programs. Production operations comprise the following Group functions: production excellence, research & development (R&D), environment, health & safety (EHS), raw material sourcing, energy procurement, general procurement and material flow optimization. EHS activities are described on pages 41–43.

Raw material sourcing – balancing between scrap and primary materials

The goals of the raw material sourcing function are to achieve competitive advantage by maximizing spread between the raw material purchasing price and the slab price, to minimize supply risk, to optimize value in use of raw materials and to ensure cost-effective balance between primary and secondary supplies.

The most important raw material for Outokumpu is stainless steel scrap as it represents the cheapest source of the key alloying elements nickel, chromium and molybdenum. While the availability of stainless steel scrap has grown significantly during 2004 and 2005, mainly because of a high price of nickel, global demand continues to exceed supply.

Stainless scrap volumes from the domestic markets and Russia have increased moderately, but the main increase in the supplies has come from Western Europe and the US, almost all of which was directed to Tornio. The volume from the US continued to increase in 2005, and for the second year running Outokumpu was the number two importer from the US, despite increased pressure on the market from Far Eastern consumers.

The Group's need for primary nickel is dependent on the availability of stainless steel scrap. In 2005, Outokumpu was successful in sourcing the needed volumes of primary nickel.

In standard 304 stainless steel nickel is the most expensive component followed by chromium and iron. The adjacent pie charts illustrate the raw materials used in 2005 by volume and value.

Energy for Nordic plants procured centrally

The main task of the energy supply function is to procure and hedge the price of electrical energy supplied to Outokumpu Group's Nordic sites, in order to ensure favorable and stable prices. Resources permitting, the function also supports group companies in their energy related activities. The Group's sites in Sweden joined the centralized electricity procurement system when their comprehensive agreement ended in January 1, 2006.

Power delivery from the long-term hydropower lease in Norway started on January 1, 2005, as planned. Due to heavy rains in Rana area there is a surplus power available, but most of it will to material extent be banked for 2006 when power prices are expected to rise.

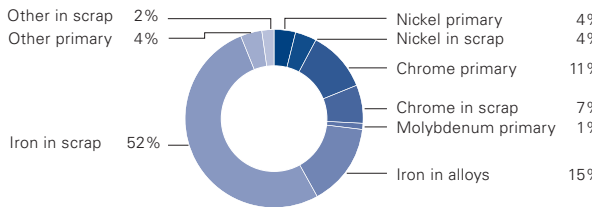
In June, the Finnish energy company Tornion Voima Oy announced its plan to build a combined heat and power plant at Rönttä, Tornio. It will deliver district heat to Outokumpu's Tornio site and electrical energy to its owners.

General procurement aims at cost reductions

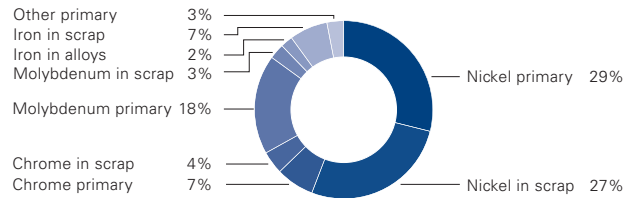
The mission of general procurement is continuous total cost reduction while operating as one company working closely with selected suppliers. The main objectives are annual savings of EUR 20 million in purchases as well as excellence in procurement.

These objectives will be realized by focusing on handling procurement as one company, maximizing Outokumpu's purchasing power through category management, working with common systems and processes, and a hands-on approach through piloting.

Raw material usage by volume



Raw material usage by value



Two pilot programs in purchasing and logistics were launched during the fourth quarter of 2005 under the umbrella of operational excellence. The projects are the purchasing of the protection film and the optimization of material flow from Tornio to Central Europe. In the purchasing pilot the objective is to find a systematic and documented way to significantly reduce total costs. In the logistics pilot the objective is to create a standard cost-efficient distribution route from Tornio Works to the European market and back again. The estimated savings potential from these two pilots are some EUR 5 million. Benefits are expected to materialize during the first half of 2006.

During the spring of 2006, the methodology of these pilots will be extended to other sourcing teams.

Material flow optimization concentrates on the hot end of the stainless steel process

The function aims to optimize the loading of the Group's melting and hot rolling assets. This includes both monitoring of ongoing performance against expected capacity and being able to respond to changes in the balance of supply and demand, so that correct prioritization is made in times of shortage and the most efficient production is utilized in times of melting surplus.

The main mechanism for allocating capacity has been the Steel Balance, which comprises representatives from both up- and downstream units. The new tactical project team aims to speed up the decision making and execution process especially in times of transition and/or rapid change.

During the year, a number of projects and investigations have been undertaken to better understand and model the internal hot-end flows of the Group. A major exercise arose as a consequence of the decision to close the Coil Products Sheffield operations and this has resulted in significant changes to the internal supply routes so that the lowest cost supply routes can be utilized.

The importance of reliable profitability information is also recognized as part of the optimization, and work is ongoing to improve the understanding and harmonization of the calculation of raw material costs within the melt shops.

R&D efforts in architecture, building and construction to increase

The Avesta research centre concentrates on product and applications development whereas the research centre in Tornio focuses on process development and improving the quality of production processes.

The innovation team responsible for the HyTens® material – designed for the transportation and car industry – works mainly on solutions for vehicle components. Automotive activities have focused on the Next Generation Vehicle (NGV) project. This is a three-year over EUR 5 million project where Outokumpu and several European stainless steel producers work together with Volvo, GM, Audi, BMW, Daimler-Chrysler and Fiat. Main activities have been in the simulation work group where extensive progress has been made on benchmarking simulations for forming and crash testing. The four largest computer assisted engineering (CAE) software companies are developing their simulations for high strength stainless steels. Several stainless steel grades have been seen to have excellent potential in automotive applications, including grades 1.4318 and Outokumpu LDX 2101®.

Research and development teams in Tornio have been working on the ramp-up of the unique Steckel-Tandem hot rolling process which is going according to plans. The launch of the RAP™2E product has proceeded well and demand among customers is very strong. The RAP-line has proven its capability and studies are on-going how to utilize the RAP line's flexible properties as a part of the coming new ferritic route.

Environmental research is very important for Outokumpu and the focus in 2005 was on process development for slag utilization. Slag can be treated to be optimum raw materials for roads and construction beds where they replace virgin materials. A process route for Hydroflux, which is a neutralized and processed pickling sludge, has been developed to save fluorspar in the steel melting process.

Utilization of the high strength properties of stainless steels is becoming more and more frequent as customers become familiar with their benefits. With its lower weight and low life cycle costs stainless steel is an excellent substitute for many



other materials. The high strength properties and good formability of stainless steel are being studied further for automotive, transportation and constructional applications. Architecture, building and construction is a segment where Outokumpu's R&D efforts will increase.

The 9th edition of the much acclaimed Outokumpu Corrosion Handbook was published in 2005. This book is available to customers free of charge.

Outokumpu's stainless steel related research and development expenses were EUR 18 million in 2005, and the R&D function employs some 200 professionals.

First production excellence programs completed

The Production Excellence program, internally called the OK-1, is a practical approach to finding and eliminating waste, losses and inefficiencies in production and other operations. Under the program, a new, systematic and well-documented operational approach is being created for the entire Outokumpu production organization, and employees are being trained in it. The goal is to have a set of operating procedures that ensures the maintenance and development of future competitive ability. The program concentrates in particular on occupational safety, production efficiency and quality, as well as improving the predictability of production.

With the help of the Production Excellence program, unnecessary costs are being eliminated, lead times shortened, and working capital reduced. Making operating procedures more uniform improves the ability to identify best practices and transfer them from one production unit to the other. The program includes a "toolbox" where the methods and tools needed for continuous improvement can be found.

The Production Excellence program was launched in April 2005 and the goal is to have it completed in all production units in the Group by the end of 2009. The program was first introduced in the Group's melt shops in Tornio, Avesta and Sheffield, and it is being continuously expanded according to plan. By the end of 2006, half of the most important production units will already belong to the program.

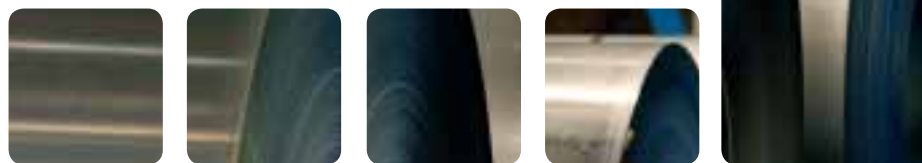
The program will directly affect approximately 6 300 Outokumpu employees, and one of its most important goals is for every employee to participate personally in at least one pilot project. This ensures that the shift to the new operating procedures through the organization will be thoroughgoing and permanent.

The first pilot projects for continuous improvement in the melt shops have already been completed. At the Avesta melt shop one pilot project was aimed at synchronizing the transfer of the melt, while at Tornio the maintenance time was shortened for the flame cutting machine on smelting line 2. With continuous improvement, each problem is described precisely, the necessary information is collected at each point in the process, and a plan is made for achieving continuous improvement.

Both pilot projects lasted approximately 12 weeks and reached the goals set for them. The Avesta pilot developed an alarm system and a working standard for the ladle station, to ensure that the melt is transferred at the right time. The standard was taught to the operating staff who will use it, and its implementation will be monitored with the help of the measuring system developed in the pilot. In the pilot program for the Tornio melt shop, a new operational model was developed in which the cut-off box is emptied while the line is running, cutting maintenance time by over 60%. These two projects have already achieved around EUR 1.5 million in annual savings. Currently there are many new projects directed at further savings in areas such as raw materials and energy use. Before long hundreds of improvement projects will be underway. It is estimated that from 2009 onwards the impact of the Production Excellence program on earnings improvement will be approximately EUR 100 million, of the total impact on earnings of the Operational Excellence program of EUR 160 million.

Steps in continuous improvement

1. Determining the starting point and goal
2. Determining the best current practices
3. Bringing a data collection system into use
4. Analysis and solution of nonconformities
5. Further improvement in new practices
6. Determination of monitoring and control methods for the new operating procedures



Key figures

€ million	2005	2004
Sales	4 073	4 237
of which Tornio Works	2 299	2 183
Operating profit	(62)	269
of which Tornio Works	49	241
Non-recurring items in operating profit	(138)	13
Operating profit margin, %	(1.5)	6.3
Operating capital on Dec. 31	2 484	2 882
Return on operating capital, %	(2.3)	10.1
Capital expenditure	94	222
Depreciation	133	112

Personnel on Dec. 31	4 123	4 462
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Deliveries of main products

1 000 tonnes		
Cold rolled	734	818
White hot strip	284	335
Other	631	799
Total deliveries of the division	1 649	1 951

Kemi mine and Tornio ferrochrome smelter

Production		
Ore excavated, million tonnes	1.1	1.2
Chromite concentrates, 1 000 tonnes	572	580
Ferrochrome, 1 000 tonnes	235	264

Ore reserves and mineral resources

Dec. 31, 2005	Million tonnes	Grade
Ore reserves		
Proved	41	25% Cr ₂ O ₃
Mineral resources		
Indicated	13	29% Cr ₂ O ₃
Inferred	73	29% Cr ₂ O ₃

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. Cr₂O₃ = chromium oxide

Stainless steel consumption is increasing along with the standard of living, as both its properties and aesthetic image are highly competitive compared to alternatives. The main product applications of General Stainless are currently in the industrial segments; pulp and paper, chemicals, construction and food applications. Customers comprise both end-users and distributors, which further stock and process stainless steel to serve end-customer needs.

General Stainless comprises Tornio Works, Coil Products Sheffield and Sheffield Primary Products. Tornio Works is the largest stainless steel integrate in the world including also the Kemi chromite mine and the ferrochrome smelter in Tornio. It is also one of the most cost-efficient stainless steel operations worldwide. The operations of Coil Products Sheffield cold rolling unit in Sheffield, Britain, will be ceased at the end of April 2006. Sheffield Primary Products consists of a melt shop in Sheffield and a hot rolling mill for long products in Degerfors.

Tornio Works' expansion

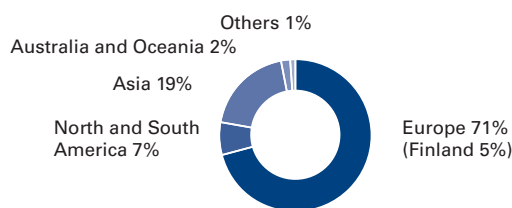
The expansion project in Tornio Works, the biggest unit within the Group, progressed well, and the new capacity has been technically available in the second half of 2005. The Tornio integrate has the annual capacity to produce 1.65 million tonnes of melted stainless steel and 1.2 million tonnes finished products.

The Tornio expansion includes the innovative new rolling, annealing and pickling line (RAP) that creates both flexibility in production and improved cost efficiency. The RAP's production can be shifted between hot rolled (white hot strip) and cold rolled products depending on the market demand. As an integrated cold rolling line, the RAP line also has a clear cost advantage compared to the traditional cold rolling process. In the traditional process, annealing and pickling is done in separate process lines from cold rolling. Integrating the two process steps in the RAP line results in both lower costs and lower working capital. The RAP line has also enabled the production of a new semi-cold rolled product RAPTM2E. It has been well received especially in the stainless steel tube making industry, where it can be used to replace cold rolled stainless steel in a variety of applications.

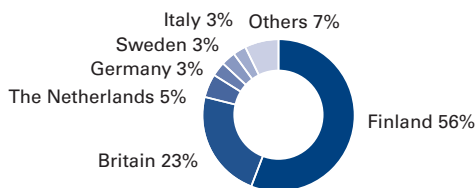
In order to widen the product offering, a decision to start production of ferritic stainless steel in Tornio was made in No-



Sales by market area



Personnel by country



vember 2005. Ferritic stainless steel (400-series) normally includes some 12–17% chromium, and the rest is iron. Not containing any nickel, the price of the 400-series has traditionally been less volatile than the main product, austenitic 300-series stainless steel. Tornio has a cost competitive edge in the 400-series production by utilizing liquid ferrochrome in the process, which reduces the melting costs. With an investment of EUR 13 million for batch annealing furnaces in Tornio, the targeted annual production of ferritics is 60 000 tonnes. Deliveries will start in the first quarter of 2007.

The chromite ore mined at Kemi, and smelted into ferrochrome in Tornio, is used in the stainless steel production in Tornio. Possessing a supply of ferrochrome, the alloy making stainless steel corrosion resistant, is a significant cost competitive advantage for Outokumpu. The majority of global ferrochrome production is in South Africa and Kazakhstan. Open pit mining ended in Kemi at the end of December 2005 and the more cost-efficient underground mine will now feed the ferrochrome smelter.

Decisive actions to prepare General Stainless to changing market

In December, after two months of consultations with the employee representatives the decision to close down Coil Products Sheffield (CPS) was made. The operations of CPS will be wound up by the end of April 2006. CPS' customers will be served mainly from Tornio Works in the future. The closure cuts Outokumpu's annual cold rolling capacity by some 300 000 tonnes and helps to reduce the overcapacity in Europe. The positive effect on Outokumpu's profitability is some EUR 50 million annually from the second half of 2006 onwards.

The production cut-backs and cessation of the cold rolling operations in Sheffield necessitated reduction of Sheffield melt shop's operative capacity from 500 000 to 300 000 tonnes annually during the last quarter of 2005. In the future, the Sheffield melt shop will deliver stainless steel only to plate and long products units of Specialty Stainless.

Measures taken to reduce fixed costs in Tornio Works and Sheffield Primary Products will result in a 10% cost reduction during the first half of 2006, with the new lower fixed cost running rate effective from the second half of 2006.

In order to meet the long-term challenges for profitability and growth, Outokumpu started the group-wide operational excellence programs in 2005. Production excellence focuses on decreasing variation in production and improving efficiency. Both Tornio Works and Sheffield Primary Products have participated in the pilot projects focusing on melt shops with encouraging results. Commercial excellence focuses on promoting customer service and understanding customer needs. Tornio Works is a key participant in this development initiative.

Weak markets together with non-recurring costs affected General Stainless' profitability

The market for standard stainless steel products weakened significantly in the second half of 2005. The de-stocking in all main markets and continuing ramp-up of production capacity in China contributed clearly to the weakening of the European market, as the export opportunities to Asia were almost non-existing after the spring. The nickel prices also drifted lower during August–November 2005 increasing speculation and



de-stocking. The annual global demand for stainless steel was flat in 2005 and the market contracted year-on-year in the second half. According to CRU, apparent consumption in Western Europe fell about 5%. European base price level for standard stainless steel decreased by some 200 EUR/tonne from May to December and ended up at the level of 1 030 EUR/tonne for 2mm cold rolled 304 sheet in Germany.

General Stainless' deliveries declined to 1 649 000 tonnes (2004: 1 951 000 tonnes). The operating loss of General Stainless was EUR 62 million (2004: operating profit EUR 269 million). The operating loss includes EUR 138 million of write-downs and non-recurring costs related to the closure of CPS operations and fixed cost reduction program. The profitability of General Stainless was severely affected by both under-loading and poor price level in the second half of 2005. The Group's melting production was cut by 150 000 tonnes in the second half of the year to adjust production to low demand. This also resulted in slower than normal inventory turnover, which amplified the poor profitability when transaction prices were decreasing.

Towards the end of 2005, orders started to pick up and market sentiment is cautiously optimistic for early 2006. Base price increases have been achieved for the first quarter deliveries and further increases are being pressed for April and beyond. In 2006 the target is to fully utilize Tornio's finished products' capacity and to benefit from its low cost base.

General Stainless – business units

The operations of Coil Products Sheffield will be closed down at the end of April 2006.

Tornio Works

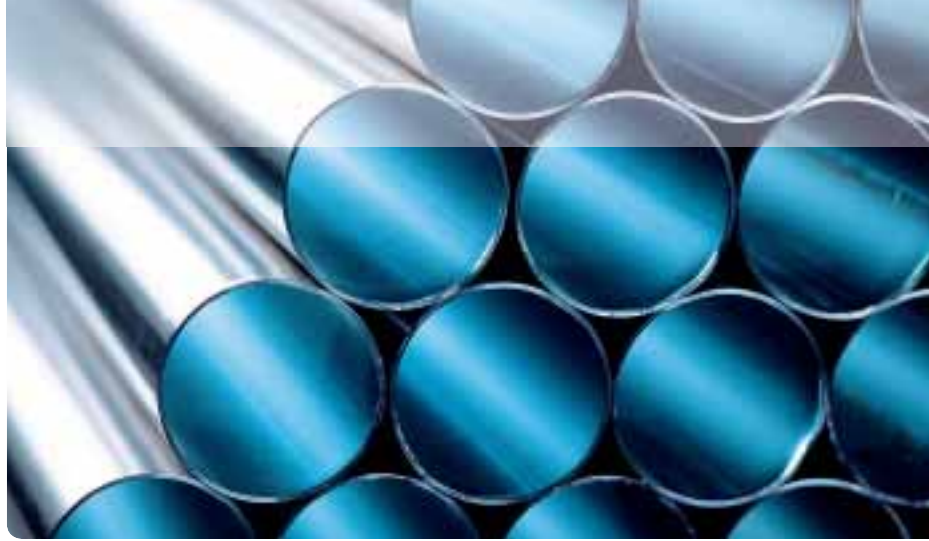
The Tornio Works in Finland is the largest single site integrated stainless steel producer in the world. The main products are cold and hot rolled austenitic stainless steel coils and sheets. The integrated Tornio production process starts from the adjacent Kemi chromite mine, continues in the Tornio ferrochrome smelter, and further into two steel melt shops, hot rolling mill and cold rolling lines. The integration offers significant advantages, for instance enabling the usage of molten ferrochrome in

the steel melt shop. A significant part of the finishing operation is made in the Netherlands, in order to better serve customers in the main markets. Tornio's annual capacities are: 1.65 million tonnes for melting, 1.6 million tonnes for hot rolling and 1.2 million tonnes of finished products from the cold rolling mill. Tornio also delivers black hot band material for internal and external customers.

Sheffield Primary Products

The main asset of Sheffield Primary Products in Britain is the Sheffield melt shop with an annual operative capacity of 300 000 tonnes. The melt shop produces both slabs for flat stainless steel production and billets and blooms for long products' use. The hot rolling mill in Degerfors produces rolled billets and heavy bars from blooms cast in Sheffield. The annual operative rolling capacity is some 50 000 tonnes.

- 2.1.06** Performance of production excellence projects impresses
- 18.11.05** Outokumpu to start ferritic stainless production in Tornio
- 10.11.05** Employee and union consultations on fixed cost reduction program started
- 9.11.05** Stainless steel adds a stylish touch to museum roof
- 31.10.05** New production lines in use in Terneuzen
- 25.10.05** Outokumpu to cease operations of Coil Products Sheffield
- 29.9.05** Commercial excellence projects launched
- 26.9.05** Outokumpu to counter weak market conditions with decisive actions to improve profitability and cash flow
- 15.9.05** Production excellence teams started in all melt shops
- 10.6.05** First stainless steel bridge in Europe welcomes wheels and feet
- 11.1.05** Outokumpu defines strategic steps towards becoming the undisputed number one in stainless



Specialty Stainless

Well-positioned for increasing competition through specialization and differentiation

Specialty Stainless is strong in tailored solutions and demanding customer applications in flat and long stainless as well as tubular products. Specialty Stainless serves customers with very high requirements on the stainless steel properties such as steel grade, shape, thickness, surface finish or other specific need, in chemical industry, oil and gas sector, nuclear power plants as well as pulp and paper industry. Project orders form an important part of the business, which is supported by strong R&D function and long experience in delivering tailored solutions to customers' needs.

Growth in the high-demanding segments and applications is expected to continue buoyant. Specialty Stainless' strategy is based on both differentiation and further specialization, providing improved protection from the increasing competition in the market for standard stainless steel grades.

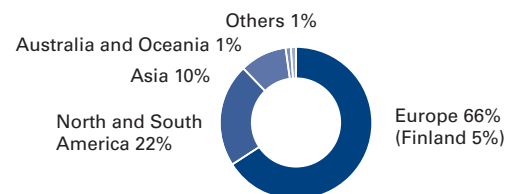
Strong emphasis on product and application development

The main products produced by Specialty Stainless are hot and cold rolled sheet, quarto plate, tubes and various fittings, precision strip, wire rod and bar. Stainless steel is supplied to Specialty Stainless units mainly from the division's own meltshop in Avesta in Sweden as well as from Sheffield melt shop in Britain which is part of the General Stainless division.

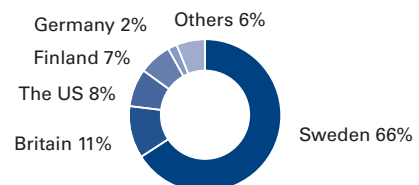
The finished products capacity of Specialty Stainless units is some 500 000 tonnes of cold rolled and white hot strip, 170 000 tonnes of quarto plate, 80 000 tonnes of long products and 100 000 tonnes of tubular products.

An increasing share of Specialty Stainless' sales consists of a variety of special grades especially developed in response to

Sales by market area



Personnel by country



diverse customer demands. Lean Duplex LDX 2101®, a low-nickel high-strength stainless steel with good corrosion resistance properties that correspond to austenitic grades, is a good example of Outokumpu's steel grade development. The excellent properties and competitive pricing of both Lean Duplex and Duplex grades are resulting in increased market share



compared to more traditional grades in applications such as chemical tanks, building and construction, desalination plants and liquefied natural gas (LNG) tankers.

The EUR 53 million investment of Thin Strip at Kloster is proceeding according to plan. Site works and civil engineering works have been completed and equipment is currently being installed. The new production capacity is scheduled to be on stream by the end of 2006, and will expand the mill's total annual production capacity from 25 000 tonnes to 45 000 tonnes. It will also enable the production of thinner (0.12 mm) and wider (1 050 mm) products. The investment includes a new cold rolling mill, a bright annealing line and a slitting line.

While the businesses are pursuing further specialization and an increasing focus on value-adding solutions, which provide higher returns, a very important area of attention is maintaining competitive cost structures within the Group's ongoing fixed cost reduction program. The actions are implemented gradually and are in full effect by the end of 2006. The Production and Commercial Excellence programs are being implemented in all units.

Research and development work, especially in Avesta research centre focuses on identifying new applications and solutions for customers.

Market for special products satisfactory in 2005 – partly offsetting a difficult year for standard grades

Weak markets for stainless steel in 2005 had an impact on Specialty Stainless' financial performance. Deliveries fell to 803 000 tonnes (2004: 961 000 tonnes) and operating profit declined to EUR 110 million (2004: EUR 181 million). Weak demand for standard products also resulted in price pressure in the market for special products, but to a lesser extent than for standard products. However, in some segments and products, the market situation developed quite well. Boosted by record prices, the oil and gas segment experienced strong growth in 2005. The desalination, building and construction as well as pulp and paper segments performed also well, and this had a significant positive impact, especially on project-related sales.

Favourable development in the quarto plate market continued and the results achieved in 2005 were good. Base prices for tailor made plate were healthy even though the generally weak stainless steel market had a negative effect on standard plate business. The outlook for 2006 is reasonable. In the summer of 2005, the market for tubular products turned very difficult and since the industry is characterized by overcapacity and a fragmented structure. The situation is expected to continue challenging in the short-term. The market for long products also weakened towards the end of the year in both Europe and the US. There was downward pressure in both the thin and special strip markets in 2005, and even though demand is improving, base price levels are still unsatisfactory.

In general, the market situation for Specialty Stainless is expected to continue at least reasonable for special products e.g. special grades and project-related business.

Specialty Stainless – business units

Outokumpu divested its stainless welding business, Avesta Welding, to the Austrian Böhler-Uddeholm Group. The sale was completed in October. Sales of this business, which employed approximately 160 people in Sweden, Indonesia and the US, totaled EUR 38 million in 2004. Avesta Welding was part of the Long Products business unit.

Key figures

€ million	2005	2004
Sales	2 739	2 702
Operating profit	110	181
Non-recurring items in operating profit	(21)	–
Operating profit margin, %	4.0	6.7
Operating capital on Dec. 31	1 161	1 250
Return on operating capital, %	9.1	15.6
Capital expenditure	58	53
Depreciation	61	58
Personnel on Dec. 31	4 334	4 493
Deliveries of main products		
1 000 tonnes		
Cold rolled	188	169
White hot strip	160	204
Other	455	588
Total deliveries of the division	803	961



Outokumpu Technology

High metal prices drive investments in customer industries

Outokumpu Technology is one of the world's leading developers and suppliers of technology for the minerals processing and metallurgical industries. It designs and delivers plants, processes and equipment and offers engineering, project and support services worldwide, serving as a responsible partner throughout the life-cycle of each investment. The process know-how covers the whole production chain from mine to metal and the company is capable of delivering large projects even on a turnkey basis.

Outokumpu Technology's strengths are an innovative approach and an in-depth understanding of customer needs based on solid knowledge of metals. Many of the technologies it has developed are market leaders.

Outokumpu Technology has an extensive marketing and service network and presence in its main markets.

While the Outokumpu Group's strategy is to focus on leadership in stainless steel, Outokumpu Technology has a more independent role within the Group. From the Group perspective it is managed as a separate business through the Outokumpu Technology board work. Technology's vision is to be the leading technology partner in the minerals and metals production industries. Published financial objectives include reaching annual sales of EUR 700 million by 2008 with the current business concept and profit before taxes of EUR 50 million.

Focus on growth and improving profitability

In 2005, Outokumpu Technology focused on growth and improving profitability. The company aims to capitalize on the market cycle fueled by high metal prices by broadening the scope of projects and increasing service business, by commercializing and acquiring new technologies, and through building strategic partnerships with industry leaders. To stay competi-

tive, the company will increase the amount of engineering work carried out in lower-cost locations.

Measures taken to improve profitability have included cutting fixed costs, improving internal efficiency and implementing a new organizational structure. Since September 1, 2005, Outokumpu Technology's business consisted of: Minerals Processing, selling technologies for concentrators; Base Metals, selling copper, nickel, zinc, precious metals and ferroalloy technologies; and Metals Processing, focusing on iron, aluminum, and sulfuric acid/off-gas technologies. Outokumpu Research, located in Pori, Finland, is part of Outokumpu Technology.

Expertise covers the whole value chain from mine to metal

The Outokumpu Technology portfolio includes a broad range of technologies and its process knowledge covers the whole value chain from mine to metal. The company is also developing new offerings on a continuing basis.

Technologies for the processing of iron ores have played a significantly larger role in the portfolio due to rapidly growing investments in the iron and steel industry. The company has recently signed several large project contracts with ferrous metal and ferroalloy producers in Brazil, India and South Africa, and the boom in demand for Outokumpu's pelletizing and sintering plants is expected to continue.

Particularly successful products in the portfolio in 2005 were grinding and thickening technology packages and flash smelting plants.

The offering of Outokumpu Technology was expanded by two new technologies in 2005: the company began marketing Paques biotechnology for high-quality purification systems used in treating industrial effluent and process water, and Bio-Heap™ bacterial leaching technology, which when combined

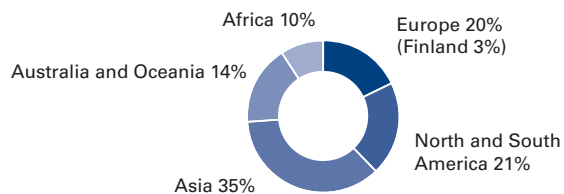


with Outokumpu's solvent-extraction/electrowinning, ion-exchange and other downstream technologies, can significantly reduce both the capital and operating costs of base metals extraction from sulfide ores.

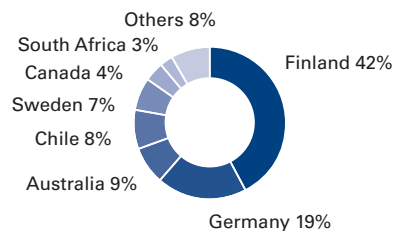
Record high order backlog and profits

In 2005, Outokumpu Technology's market position continued to improve significantly because of the investment boom in the mining and metal industries. In particular, demand for ferrous metals technologies picked up, the most active markets being China, Brazil and India. At the end of December, Outokumpu Technology's order backlog stood at a record level of EUR 596 million. Favorable developments in order intake are expected to continue.

Sales by market area



Personnel by country



Key figures

€ million	2005	2004
Sales	590	423
Operating profit	25	30
Non-recurring items in operating profit	-	21
Operating profit margin, %	4.3	7.1
Operating capital on Dec. 31	4	39
Return on operating capital, %	117.4	77.6
Capital expenditure	10	9
Depreciation	9	9
Order backlog on Dec. 31	596	458
Personnel on Dec. 31	1 791	1 806

Orders totaling EUR 679 million were received by Outokumpu Technology in 2005. The contract signed with Samarco Mineração for turnkey delivery of an iron ore pellet indurating furnace in Brazil was the largest in the history of Outokumpu Technology. Other major orders received included a sintering plant for TISCO in India, technology for IFM's ferrochrome plant and Xstrata's ferrochrome plant in South Africa, a new flash smelting and flash converting plant for Yanggu Xiangguang Copper and a second flash smelting line for Jiangxi Copper in China, three major grinding mill technology packages for Australia, Papua New Guinea and South Africa, a new copper and cobalt roasting plant for Zambia, flash smelting technology for the KGHM copper plant in Poland and large calciners for the Alcan Gove alumina refinery expansion in Australia.

Outokumpu Technology's financial result for 2005 improved significantly from the previous year with operating profit excluding non-recurring items rising significantly from EUR 8 million to EUR 25 million. The strong level of order intake is expected to continue, as the profitability of the customer industries is good due to the high metal prices and high demand for metals particularly in China. Investment in all customer segments is booming. Outokumpu Technology's business volumes and earnings are expected to improve further in 2006.

Research and development

In June 2005, Outokumpu Technology launched the world's largest-ever flotation cell, the TankCell® 300, for enhanced metal recovery and operating efficiency in mineral processing operations.

Commercialization of the HydroCopper™ process continued. Outokumpu Technology carried out a technical study for the Erdenet Mining Corporation of Mongolia and conducted several batch tests on concentrates of other mining companies.

An important milestone in commercializing the Kennecott-Outokumpu Flash Converting technology was the contract with Yanggu Xiangguang Copper to build a greenfield copper production plant in China. This facility will be the second Flash Converting plant in industrial scale operation. Further it will incorporate the Lurec™ sulfur dioxide processing system developed by Outokumpu Technology, the first of its kind in China.

Extensive tests on Circofer® technology for an iron ore direct smelt reduction process were carried out at the Frankfurt research centre in Germany together with an industrial partner. Several iron ore pelletizing and sintering test campaigns were carried out for a variety of customers. Tests of this type played an important role in the deal with Samarco Mineração.

In 2005, Outokumpu Research in Pori made a strong contribution to the development of technologies for the new radio-frequency identification (RFID) antenna business. Both novel technology and an innovative solution resulted from the

unit's in-depth knowledge of metals and materials technology. In April, the Finnish paper company UPM, Outokumpu Technology and Finnish Industry Investment established a joint venture company, Intune Circuits Oy, to produce high-quality RFID antennas.

A new bio-hydrometallurgical laboratory was established in Pori to house BioHeap™ bacteria for testing purposes, and Outokumpu Technology signed an agreement to market Bio-Heap™ leaching technology. A collaboration agreement to market Paques B.V.'s biological effluent treatment technologies was also made. Both these new technologies complement Outokumpu Technology's offering in the expanding hydrometallurgical technology business.

Outokumpu Technology's research and development costs totaled EUR 14 million in 2005.

- 2.12.2005** Two pelletizing and sintering lines for Xstrata, South Africa
- 23.11.2005** A second copper flash smelting process line for Jiangxi Copper, China
- 8.11.2005** Significant contract for a turnkey pellet indurating furnace for Samarco, Brazil
- 8.11.2005** New role and strategic targets for Outokumpu Technology
- 14.10.2005** Technology for IFM's ferrochrome plant in South Africa
- 9.10.2005** Outokumpu Technology hosted the 11th International Flash Smelting Congress in Bulgaria and Spain
- 21.9.2005** A new copper flash smelting - flash converting plant, electrolytic refinery and sulfuric acid plant to Yanggu Xiangguang Copper, China
- 9.9.2005** Outokumpu Technology won three major grinding mill orders
- 4.8.2005** Fourth iron ore sinter plant for TISCO, India
- 25.7.2005** A new copper and cobalt roasting plant to Zambia
- 22.7.2005** Flash Smelting technology for KGHM copper plant in Poland
- 22.6.2005** Largest-ever flotation cell, TankCell® 300, launched in Australia
- 15.6.2005** Technology for Alcan Gove alumina refinery expansion in Australia
- 12.4.2005** Outokumpu Technology, UPM and Finnish Industry Investment to create a new joint venture for RFID antenna production
- 24.3.2005** Delivery to Sepon Copper project in Laos ahead of schedule



Other operations

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

Industrial holdings

Outokumpu's major industrial holding at the end of 2005 was its 32% stake in Okmetic, which manufactures silicon wafers. At the end of the year, the market value of Outokumpu's shareholding in Okmetic was EUR 10 million.

At the beginning of 2005, Outokumpu's holding in the mining and smelting company Boliden totaled 26.5%. In March, Outokumpu reduced its shareholding in Boliden to 16.1%, and recorded a capital gain of EUR 25 million. The total gross proceeds from the sale amounted to some EUR 115 million. In September, the Group's remaining stake in Boliden was sold for some EUR 180 million and a capital gain of EUR 10 million was recorded.

Okmetic accounted for EUR 1 million negative in Outokumpu's share of the results of associated companies in 2005. Boliden was not consolidated as an associated company in the Outokumpu accounts in 2005. In 2004, Boliden accounted for EUR 87 million of the results of associated companies.

Key figures

€ million	2005	2004
Sales	238	218
Operating profit	8	(50)
Non-recurring items in operating profit	29	(15)
Operating capital on Dec. 31	140	58
Capital expenditure	13	130
Depreciation	13	12
Personnel on Dec. 31	516	753



Discontinued operations

According to IFRS principles discontinued operations, i.e. the fabricated copper products business sold in 2005, as well as the held-for-sale Outokumpu Copper Tube and Brass division, are reported separately from the Group's continuing operations. In the consolidated income statement, the discontinued operations are reported on one line before the net profit for the financial year.

The EUR 360 million loss from discontinued operations in 2005 comprises the result of the fabricated copper products business in the first quarter 2005 and the Tube and Brass' result for the whole year, the EUR 252 million loss on the sale of the fabricated copper product business as well as the impairment loss of EUR 86 million recognized in the tube and brass business.

Outokumpu's fabricated copper products business sold

On April 5, 2005, Outokumpu and Nordic Capital signed a sales and purchase agreement whereby Outokumpu sold its fabricated copper products business (Outokumpu Copper Products Oy), excluding the Tube and Brass division, to the private equity firm Nordic Capital. The transaction was closed on June 7, 2005. The total consideration of the transaction was EUR 612 million.

The scope of the transaction comprised the following divisions and businesses of the former Outokumpu Copper business area: Americas, Europe, Automotive Heat Exchangers, Appliance Heat Exchangers & Asia, including 100% of Outokumpu Heatcraft, and the Forming equipment businesses.

The 2004 sales of the sold businesses were EUR 1 684 million and the number of personnel was 6 400 at the end of 2004. It was also agreed by the parties that the sold businesses will continue to use the name Outokumpu Copper Products Oy during a transition period of up to 12 months after closing.

The Tube and Brass division of Outokumpu Copper was not in the scope of the transaction, as some of its units were acquired in connection with the Boliden transaction at the end of 2003 and the integration and restructuring process was ongoing. To bring the Tube and Brass division back to profits will take some time, and it is Outokumpu's intention to divest these businesses.

Outokumpu Copper Tube and Brass

Outokumpu Copper Tube and Brass division's main products are installation and industrial copper tubes for plumbing and industrial applications and brass rods for construction, electrical and automotive industry applications. The division's copper tube mills are located in Pori, Finland, Västerås, Sweden, Liège, Belgium, and Zaratamo, Spain, and the brass rod plants in Drunen, the Netherlands, and Aldridge, Britain. The division also has a 50% stake in a joint venture in Gusum, Sweden.

The division's profitability improvement program that started at the end of year 2004 is continuing as planned. However, in a difficult operating environment the division's financial result has remained unsatisfactory. The improvement of profitability remains the main objective of Outokumpu Copper Tube and Brass. The business aims to achieve better profitability through increased cost competitiveness. In addition to the measures that have already been taken, Tube and Brass launched, first among copper tube manufacturers, a Europe-wide copper tube brand, tub-e®, in September 2005. During the first quarter of 2006, a new business and organization model to support the profitability improvement is going to be introduced. These measures are aimed at streamlining the controllability of the business, optimization of resources and utilization of synergy benefits.

The price of copper reached a record high during 2005, resulting in weakened demand as customers strove to keep their inventories as low as possible. In 2005, Tube and Brass posted sales of EUR 529 million and an operating loss of EUR 13 million, including EUR 9 million non-recurring restructuring costs. The division's net result for the financial year, included in discontinued operations in the consolidated income statement, was EUR 106 million negative, including EUR 86 million impairment loss of tangible assets.

The prices of raw materials are estimated to remain on a high level and no significant improvement in the business environment is anticipated to take place in 2006. The demand is expected to recover slightly due to building renovation but, on the other hand, in Western Europe new residential building is on a lower level than earlier. Tube and Brass division's operating profit in 2006 is expected to be clearly better than in 2005 due to the started restructuring and efficiency improvement actions.



Human resources

Success is about people

Outokumpu's Human Resources (HR) team is a globally networked group of professionals, supporting the business by working proactively with management to effectively attract, retain, develop and motivate employees.

Outokumpu's Human Resources management follows the principle: "Success is about people." To support this principle, a number of steps were taken; definition of HR strategy and global HR processes, implementing a new HR organization, measuring employee satisfaction, and developing HR tools to reinforce high performance culture.

Focusing on global HR processes

In 2005, Outokumpu gave high priority to the global HR processes; Performance Management, Compensation, Management Review, and Leadership & Development.

As regards Performance Management, Performance and Development Dialogue is the main tool for evaluating past performance and, in particular, for setting clear personal targets for the future. The aim is to ensure that personal targets are known, feedback is given and that personal development plans exist.

With the objective of achieving high performance culture, Outokumpu's Compensation Strategy was reviewed. Changes were made to the corporate short-term incentive (bonus) plan, and a new long-term incentive plan was created to link compensation more closely to personal performance and to the Group's financial performance.

The objective of the Leadership & Development is to ensure that Outokumpu has competent people available to support the achievement of the vision. The challenge of the leaders of the company is to create the environment, where people feel motivated and enthusiastic to work. The leadership development framework was aligned with the new strategy in 2005. A major program about strategic leadership was designed.

In 2006, HR will continue the efficient implementation of the initiatives prioritized in 2005. HR will continue the alignment of training and development programs with the business needs, and deliver these programs accordingly.

Employee satisfaction

One of HR's major undertakings in 2005 was the O'People Survey to measure employee satisfaction on everything from the working environment to management. The regularly repeated O'People Survey examines the opinions of the personnel on matters related to organizational climate, managerial style, working conditions, future and image of the employer. This study was made during November 2004 and May 2005. The survey resulted some 6 800 responses of the 10 000 target group. The key positive messages that were summarized from the survey reported employee satisfaction with the amount of training as well as the possibilities for independent decision-making in their work. The employees also gave credit to their supervisors for encouraging their subordinates to develop themselves. Areas that need development include information flow in the organizational level and people see their contribution to the success as less important than personnel of the reference group in general.

Sharing knowledge

The participation model consisting of Outokumpu Personnel Forum and the Group Working Committee elected by the Forum has proved out to be a very effective channel of two way communication. Outokumpu Personnel Forum in May focused especially on current Group strategy, the fabricated copper products divesture considerations and the role of Outokumpu Technology. An extraordinary meeting was held in November to discuss the fixed cost reduction plans. The Group Working Committee had altogether 11 meetings in 2005. It

Key figures

	2005	2004
Sales/person, € million	0.5	0.4
Incentives of total remuneration costs, %	4.6	3.0
Training costs of total remuneration costs, %	1.4	1.3
Training days/person	4.3	3.3
Days lost due to strikes	2 024	659
Turnover, %	6.4	8.4

Personnel by country

Dec. 31	2005	2004
Europe		
Finland	3 697	3 959
Sweden	3 275	3 430
Britain	1 397	1 625
Germany	574	542
The Netherlands	243	233
Italy	142	149
Other European countries	440	461
	9 768	10 399
North and South America		
The United States	411	495
Chile	148	172
Canada	112	109
Other American countries	29	22
	700	798
Asia		
	57	107
Australia		
	177	158
Africa		
	62	52
Continuing operations total	10 764	11 514
Discontinued operations		
	1 335	7 951
Group total	12 099	19 465

used a lot of time to develop communication between management and personnel. On the second half of the year the Committee's main topic was fixed cost reduction program.

Personnel participation has played an important role in the transformation of the Group. The contribution of the personnel representatives was of great importance in the planning and implementing the Group's operational adjustments and fixed cost reduction measures.

Supporting operational excellence

Production Excellence Change Agent Training (PECAT), is an essential part of the Production Excellence program. The PECAT program is a key part of Outokumpu's leadership development process that is supported and coordinated by HR. The program is a blended-learning solution containing classroom training, real project work, team working and mentoring. The first training started in 2005 and new programs will be started on a two to three program yearly rate for the next three years.

HR was also actively supporting the Commercial Excellence program from the people perspective in implementing the key HR processes.

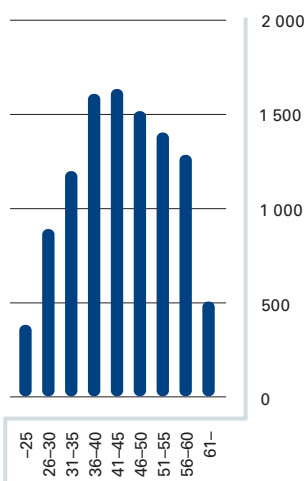
eOrientation, a new tool using blended learning approach serves as a platform for getting new and old personnel oriented, was launched at the end of 2005.

Fixed cost reduction and changes in number of employees

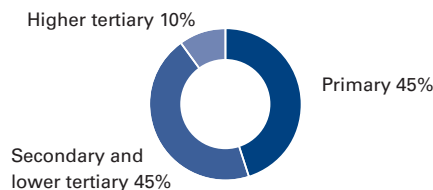
The total personnel reduction from the fixed cost reduction program will be 800 employees. Out of the total, 60% are lay-offs, and the rest consists of e.g. retirements, resignations and terminations of fixed-term contracts. The total reduction of personnel in Finland is 320, in Sweden 350 and in other countries 130. The closure of Coil Products Sheffield and adjustment of operational production capacity at Sheffield melt shop lead to redundancy of some 670 employees in Britain by the end of April 2006. Total workforce reduction is some 1 500 employees. Appropriate employee severance, outplacement and career support arrangements have been agreed with the local unions to mitigate the job losses.

At the end of the year, the Group's continuing operations employed 10 764 people in some 30 countries. The number of personnel decreased by 750 mainly due to restructurings performed during 2005.

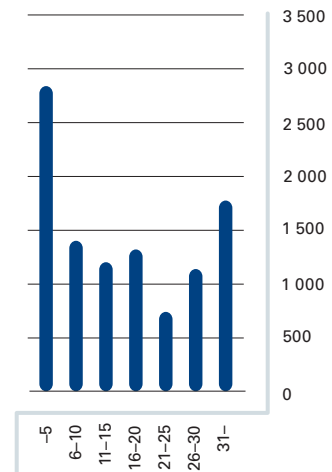
Personnel age profile
(permanent employees)



Educational background of permanent employees



Personnel by years of service
(permanent employees)





Environment, health and safety

Our aim is to improve environmental protection and occupational safety continuously

In line with Outokumpu's corporate responsibility policy the Group aims at minimizing any negative impacts of its operations on the environment as much as is economically and technically possible.

Currently, the environmental impacts of Outokumpu's operations result primarily from emissions during stainless steel production and related energy consumption. The key environmental targets are to reduce emissions into air, water and soil, and to improve energy efficiency. The increased use of recycled steel as raw material, the reduction of process waste and the optimization of water usage are also important targets. In parallel with emerging European legislation increasing emphasis will be placed on the environmental profile of the products.

In health and safety, the most important target is to achieve a significant reduction in the frequency of accidents. In 2005, occupational safety was the group-wide theme.

Comprehensive efforts in environmental and safety practices

The main environmental issues in 2005 were waste and landfill statutes and legislation on climate change prevention, soil contamination criteria and the new European Union chemicals policy, particularly the classification of metallic alloys. Outokumpu cooperates with the authorities and other organizations in the development of environmental and safety practices.

Outokumpu is responding to the challenges of tighter legislation on waste by reducing the quantity of process waste, increasing the degree of recycling and when the utilization of waste is not possible, designing working landfill areas.

The Group's business units in Britain participated in the "Business in the Community – Environment Index" for the Yorkshire and Humberside region, which is a well-regarded benchmark assessment of environmental performance involving over 140 companies. The overall ranking of Outokumpu was eighteenth and it achieved the highest placing of any Sheffield company.

Six new certified environmental management systems in 2005

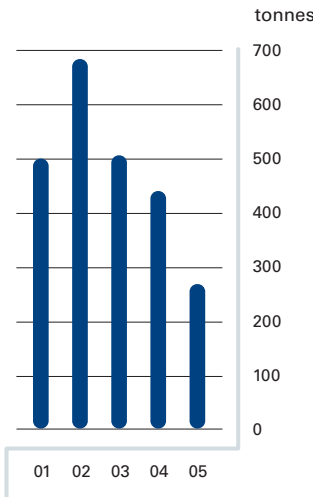
It is Outokumpu's intention to obtain certification in accordance with the ISO 14001 standard for environmental management systems (EMS) at all major production sites. Six stainless steel units in Finland, Sweden and Britain achieved this target and this resulted in a total of 23 stainless steel and five copper tube and brass certificates. Two distribution companies in Britain also have received EMS. Of the Group's major production sites, two specialty steel units in Britain and one copper tube unit in Spain have not yet received certification.

Emission allowances in place

Outokumpu's stainless steel plants in Finland, Sweden and Britain belong to the Greenhouse Gas emission trading system that started in the European Union in 2005. Carbon dioxide allowances and related permits for the period 2005–2007 were granted to Tornio Works in Finland and the steel making and casting plants at Avesta and Degerfors in Sweden. The allocated allowances are sufficient for Outokumpu's planned production and preparations for applying for allowances for the 2008–2012

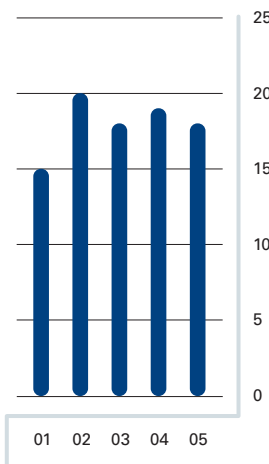


Particle emissions to air



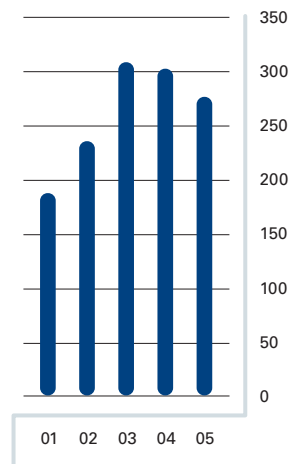
Accidents

(accidents/million hours worked, employees and contractors)



Sick leave days

(per million hours worked, employees and contractors)



Sick leave days caused by accidents

Kyoto period have began. For the 2005–2007 period, the Sheffield melt shop in Britain utilized the opt-out possibility provided by the British Climate Change Levy system.

Efficient use of electricity is a focus area in stainless steel production

The production of stainless steel is a very energy intensive process in particular when it is linked to ferrochrome production. However, Outokumpu is also committed to energy-saving measures through mutual contracts with governments in Finland, Sweden and Britain.

In addition to these improvements in energy use, Outokumpu is prepared to meet higher electricity prices not only through hedging, but also by concluding long-term delivery agreements and acquiring stakes in electricity production based on renewable energy sources.

Tornion Voima Oy is building a combined heat and power plant in Tornio, which will generate 90 MW of heat and 40 MW of electricity. The plant is scheduled to start operating in 2008 and will deliver heat to Tornio Works. Outokumpu's consumption of electrical energy in the Nordic countries totaled 2.8 TWh in 2005. Outside the Nordic countries the consumption totaled some 0.4 TWh.

Emissions well under control – striving to decrease emissions even further

The majority of the Group's particle emissions originate from the stainless steel plants in Tornio, Sheffield and Avesta. Closure of the roof openings at the older melt shop in Tornio has resulted in a marked decline in fugitive emissions in particular, and progress in emission reduction has been good throughout the Group. Emissions of nitrogen oxide have also fallen. Most discharges of metal into water originate in Tornio and Avesta.

Emissions during 2005 were mostly below permitted limits. A few minor breaches of permit conditions were however registered in Sheffield, in Tornio and at the tube mill in Florida. These included releases of fugitive dust from steel melt shops and process lines and high pH values and metal contents measured in wastewater. Legal limits on emissions of solvent vapors and melt shop dust were also exceeded at a copper tube plant in Zaratamo, Spain. An investment to rectify this situation has been initiated.

Carbon dioxide emissions by the Group in 2005 totaled approximately 1 050 000 tonnes, of which Tornio accounted for 680 000 tonnes.



Group policy on scrap procurement has been adjusted, and especially the control of radioactivity detection systems and devices has been intensified.

Environmental investments and expenditure

Environmental investments by the Group totaled some EUR 12 million in 2005. EUR 2.1 million was invested in a dust-removal control system and new dust silos at the melt shop in Sheffield. Environmental investments in improvements of energy efficiency in ferrochrome and stainless steel operations at Tornio totaled EUR 6.3 million.

Operating costs for environmental protection measures totaled EUR 48 million in 2005. The reclamation of the closed mine sites accounted for EUR 0.4 million of this sum.

Environmental liabilities and risks

As part of the agreement on the sale of the Group's fabricated copper products business, Outokumpu is obliged for a defined time period to participate in costs arising from the upgrading of pollution prevention systems or remedial action required due to the possible materialization of specific environmental obligations. In addition, Outokumpu has ongoing soil and groundwater remedy actions at the old Tornio landfill site, at the tube mill in Florida, US and in Montreal, Canada.

Work related to the maintenance and aftercare of the closed mine sites continued.

Following the announcement to close the operations at Coil Products Sheffield and the operations of the OSTP tube mill in Sorsakoski, implementation of the site closure plans began in accordance with the environmental permit provisions.

Provisions for soil risks and waste management amounted to EUR 32 million in the balance sheet.

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.

Environmental permits

All Outokumpu sites have valid environmental permits or applications have been filed. Many sites have applied for new permits because of changes in their operations or the implementation of the EU's environmental legislation (IPPC directive), and some were granted an IPPC environmental permit in 2005.

The Supreme Administrative Court of Finland issued its decision in December 2005 concerning waste interpretation at Tornio Works. According to this decision, ferrochrome slag and the products made of it as well as steel scrap used as raw material in the Tornio melt shop are not classified as waste. The slag products are used as a replacement for natural rock material for example in the construction of roads and buildings.

Health and occupational safety in Outokumpu

In 2005 occupational safety was the group-wide theme. The aim was to increase safety awareness and encourage people to report "near miss" cases in particular. A safety target for the Group of no more than five accidents per million man-hours before 2009 has been set. The accident rate in the Group's continuing operations in 2005 was 18 per million man-hours (2004: 19). In November, one fatal accident occurred at the Outokumpu Stainless Tubular Products tube mill in Nyby, Sweden.

Reporting on corporate responsibility

Outokumpu's corporate responsibility report, based on the Global Reporting Initiative guidelines (GRI), will be published in spring 2006. Further information on environmental issues, health and safety are available at www.outokumpu.com and in the Outokumpu and the environment 2005 report.

Outokumpu Oyj's financial statements for 2005

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Consolidated financial statements presented in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS). Outokumpu Oyj sold its fabricated copper products business in 2005. The whole former Outokumpu Copper business area has been classified as a discontinued operation and the result from discontinued operations is presented in the income statement on a single line after the profit from the Group's continuing operations. Income statement for 2004, but not for prior years, has been restated accordingly.

In graphs and tables, data for years 2003–2005 is presented according to IFRS and for prior years according to Finnish Accounting Standards.

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

Major transformation but reduced profits in difficult market conditions

Outokumpu went through a major transformation in 2005. Sale of the Group's fabricated copper products business to Nordic Capital was finalized in June 2005. Outokumpu Copper Tube and Brass was excluded from the transaction and a turnaround plan to improve its profitability has been initiated. It is Outokumpu's intention to divest the tube and brass business.

Following the sale of the fabricated copper products business, Outokumpu is a leading stainless steel and technology company. In April, the Group's stainless steel business was organized into the General Stainless and Specialty Stainless divisions. In the new structure Outokumpu Technology is managed at arms-length as a stand-alone business through the board work of Outokumpu Technology.

Tornio expansion was completed and the new capacity has been technically available from the second half of 2005. The market environment, however, changed dramatically during the second half of the year when prolonged de-stocking in the stainless steel markets resulted in oversupply. To achieve the Group's profitability and financial strength targets and to adjust to the new competitive market environment, several measures were initiated during the fall of 2005. In September a fixed cost reduction program was initiated in all stainless steel business units and group functions. In October, Outokumpu announced the plan to cease operations at Coil Products Sheffield (CPS) in Britain, having the annual capacity of 300 000 tonnes and CPS' orders were transferred to Tornio, thus enabling the world's largest stainless steel integrate to operate at full load and deliver the benefits of its low cost base. The Sheffield melt shop's annual operational capacity was also adjusted from 500 000 tonnes to 300 000 tonnes. As the Avesta Works in Sweden has been hot rolling slabs from the Sheffield melt shop for CPS, the annual operational hot rolling capacity in Avesta was adjusted to 450 000 tonnes to reflect the new operational structure. The above actions will reduce workforce by a total of 1 500 employees.

Outokumpu's financial result for 2005 was a significant deterioration from the previous year. Prolonged de-stocking especially in Europe, Outokumpu's main market, had an adverse effect on Group's delivery volumes, and these were 8% lower than in 2004. Group's sales rose by 8% to EUR 5 552 million as a result of high transaction prices, improved product mix and Technology's 39% increase in sales. Operating profit fell to EUR 83 million. In addition to lower deliveries, the main reasons for the significant drop in profits were lowest ever base prices during the latter part of the year and EUR 164 million

of non-recurring costs and write-downs related to the closure of CPS and actions taken to reduce fixed costs. Non-recurring gain from the sale of the Boliden holding amounted to EUR 35 million. Outokumpu Technology posted a record operating profit of EUR 25 million.

The Group's net loss for 2005 from continuing operations totaled EUR 3 million and the net loss from discontinued operations was EUR 360 million. Earnings per share was negative at EUR 2.01. Net cash generated from operating activities improved significantly and was EUR 459 million. EUR 202 million was released from working capital. Gearing was 74.5% and reached the targeted level of below 75%.

The Board of Directors is proposing to the Annual General Meeting that a dividend of EUR 0.45 per share be paid for 2005.

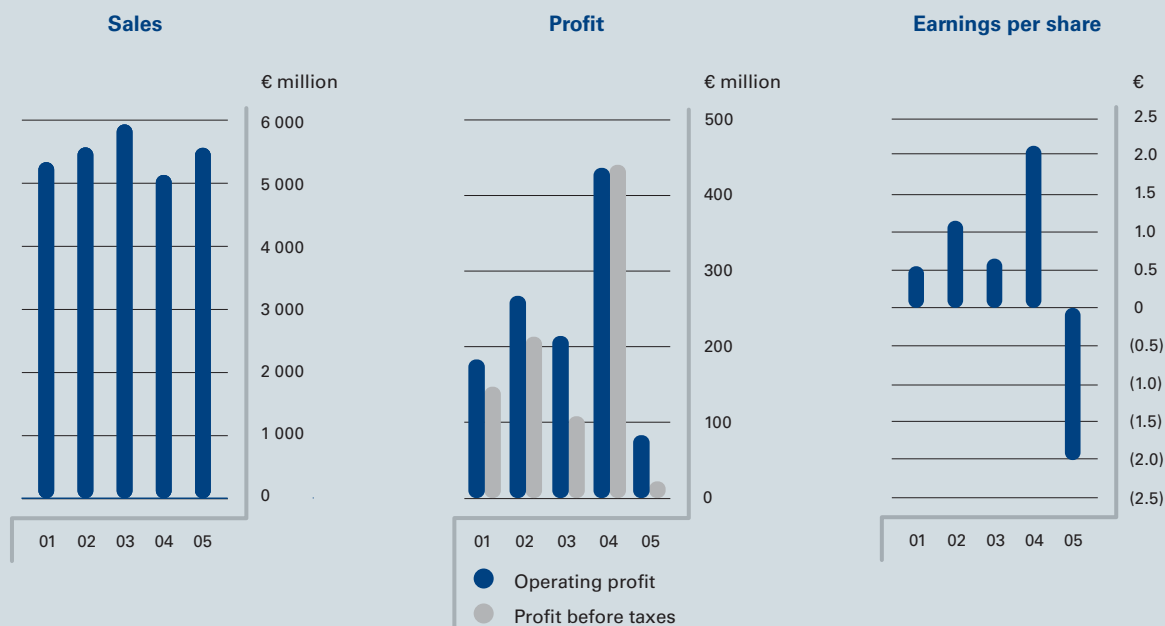
Weak global demand for stainless steel

Despite the solid economic background global consumption of cold rolled and hot rolled stainless steel flat products declined marginally during 2005. According to CRU estimates apparent consumption fell by 5% in both Western Europe and the US, and the only region to show significant growth was China, where apparent consumption grew by 12% from the previous year. European markets were heavily oversupplied in 2005 due to the prolonged de-stocking and declining export possibilities to Asia. Producers responded to the weakening markets by cutting production in the second half of the year.

The weak demand for stainless steel had its biggest negative effect on the standard grade volume products supplied by General Stainless whereas demand for Specialty Stainless' special grade and project-related products performed better.

Base prices declined throughout 2005. The European base price for CR 304 sheet fell from 1 425 EUR/tonne at the end of 2004 to 1 030 EUR/tonne at the end of 2005, and the average price in 2005 was 1 174 EUR/tonne, 18% lower than in 2004. Base prices have, however, turned upwards in early 2006.

The price of nickel was extremely high in 2005 and markets were very volatile. The average price of nickel in 2005 was 14 744 USD/tonne, up by 6% from 2004 and the highest ever annual average price. Nickel prices peaked at above 17 000 USD/tonne in May-June. In the second half of the year nickel markets moved into oversupply as demand from the stainless steel sector declined significantly and prices fell to around 13 000 USD/tonne in the fourth quarter. In the beginning of 2006 nickel prices turned upwards again and stood at 15 200 USD/tonne at the end of January.



Ferrochrome markets softened during 2005. Undersupplied in the first half of the year markets moved into oversupply in the second half of 2005 as a result of the significant cutbacks in stainless steel production, and prices for ferrochrome drifted downwards. The average price for the year was 0.74 USD/lb, 7% higher than in 2004. The ferrochrome market is expected to remain oversupplied and the contract price for the first quarter of 2006 was settled at 0.63 USD/lb. The price of molybdenum was exceptionally high in 2005. The average annual price of 32.51 USD/lb was the highest annual price ever and twice what it was in 2004. The average price for steel scrap was 224 USD/tonne, 5% less than in 2004.

Stainless steel deliveries down by 8%

Sales			
€ million	2005	2004	Change, %
General Stainless	4 073	4 237	(4)
Specialty Stainless	2 739	2 702	1
Technology	590	423	39
Other operations	238	218	9
Intra-group sales	(2 088)	(2 458)	(15)
The Group	5 552	5 122	8

Stainless steel deliveries			
1 000 tonnes	2005	2004	Change, %
Cold rolled	867	890	(3)
White hot strip	391	432	(9)
Other	390	464	(16)
Total deliveries	1 647	1 786	(8)

The Group's sales rose by 8% compared with 2004 and amounted to EUR 5 552 million. Deliveries of stainless steel were down by 8%. The main reasons were prolonged de-stocking in Europe, Outokumpu's main market, high and volatile raw material prices and increasing capacity in China, which undermined export possibilities to Asia. The reduction in demand in Europe had its greatest adverse effect on General Stainless' sales, which fell by 4%, whereas Specialty Stainless' sales increased by 1%. Outokumpu Technology's sales rose by 39% as a result of increased deliveries to the minerals and metals industries, in which firm investment activity continued throughout 2005.

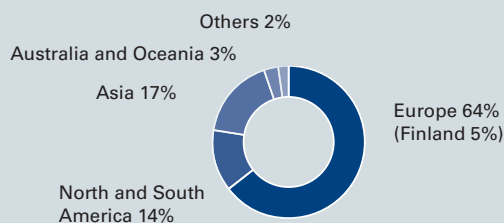
The share of the Group's sales to Europe declined from 69% to 64%. The share of Asia and Americas rose to 17% and 13%, respectively. Sales to Asia increased due to the good demand of white hot strip during the first half of 2005.

A substantial reduction in profits

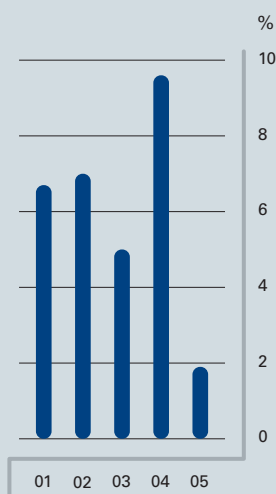
Operating profit			
€ million	2005	2004	Change
General Stainless	(62)	269	(331)
Specialty Stainless	110	181	(71)
Technology	25	30	(5)
Other operations	8	(50)	58
Intra-group items	1	5	(4)
The Group	83	436	(353)

The Group's operating profit declined to EUR 83 million (2004: EUR 436 million). Operating profit includes a negative net impact of EUR 129 million from non-recurring items (2004: EUR 19 million positive). The non-recurring items comprise a EUR 35 million capital gain on the sale of Boliden

Sales by market area



Return on capital employed



shares, EUR 130 million of write-downs and costs related to the closure of CPS and EUR 34 million of costs related to actions taken in the fixed cost reduction program.

Low base prices for stainless steel mainly affected Outokumpu's standard grade volume products. During the second half of 2005, production was market constraint and the benefits from Tornio Works' expansion's efficiency and low cost base were not fully achieved. General Stainless posted an operating loss of EUR 62 million while Specialty Stainless posted an operating profit of EUR 110 million. Negative non-recurring items in General Stainless' operating profit totaled EUR 138 million and in Specialty Stainless' EUR 21 million. Technology's operating profit rose to a record high of EUR 25 million as a result of increased deliveries to customer industries. Technology's operating profit for 2004 included a EUR 16 million non-recurring gain from the sale of the filter business.

Net financial expenses decreased to EUR 61 million (2004: EUR 75 million). Net interest expenses were EUR 62 million (2004: EUR 66 million). Profit before taxes was EUR 22 million (2004: EUR 440 million) and taxes amounted to EUR 24 million (2004: EUR 61 million). The loss for the period from continuing operations was EUR 3 million (2004: profit EUR 379

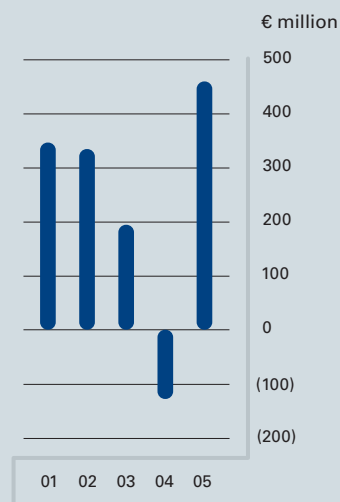
million) and the loss from discontinued operations EUR 360 million (2004: profit EUR 7 million). The Group's earnings per share was EUR 2.01 negative (2004: EUR 2.12 positive). Earnings per share from continuing operations was EUR 0.02 negative and from discontinued operations EUR 1.99 negative. Return on capital employed declined to 1.9% (2004: 9.6%).

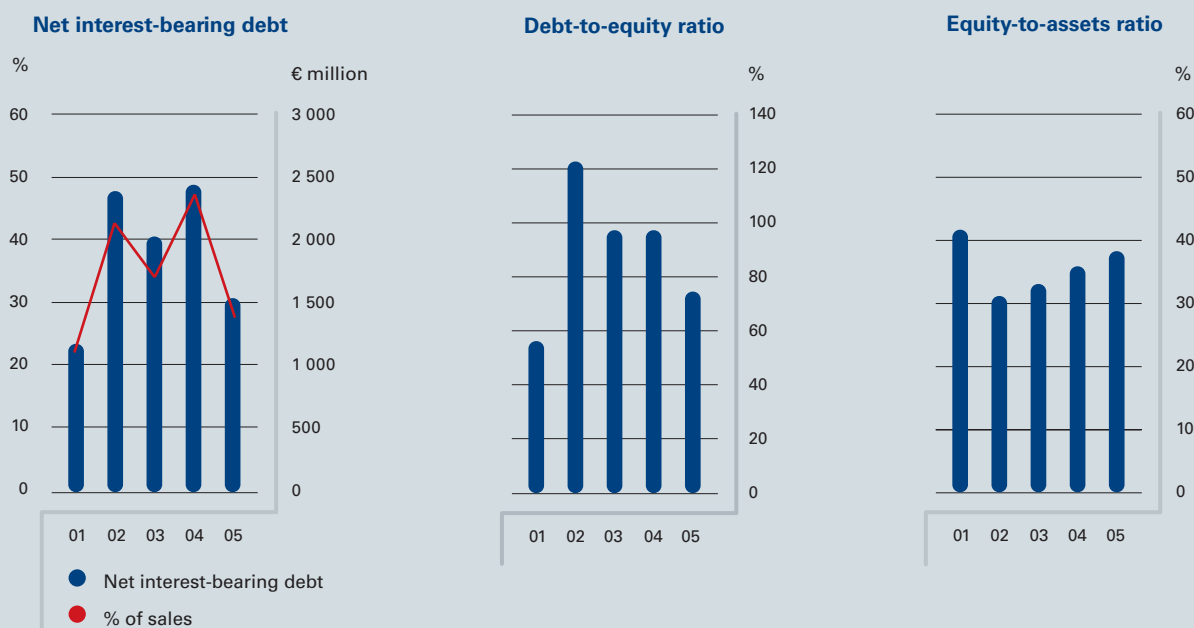
Capital structure strengthened

Key financial indicators on financial position

€ million	2005	2004
Net interest-bearing debt		
Long-term debt	1 624	1 975
Current debt	556	1 150
Total interest-bearing debt	2 180	3 125
Interest-bearing assets	(511)	(690)
Net assets held for sale	(132)	–
Net interest-bearing debt	1 537	2 435
Net interest-bearing debt in relation to sales, %	27.7	47.5
Shareholders' equity	2 047	2 468
Debt-to-equity ratio, %	74.5	97.2
Equity-to-assets ratio, %	38.2	35.8
Net cash generated from operating activities	459	(128)
Net financial expenses	61	75
Net financial expenses in relation to sales, %	1.1	1.5
Interest cover	1.4	7.6

Net cash flow from operations





The Group's net cash generated from operating activities improved significantly in 2005 and amounted to EUR 459 million. The contribution by continuing operations totaled EUR 547 million. EUR 202 million was released from working capital. Net interest-bearing debt fell to EUR 1 537 million. Divestiture of the Group's fabricated copper products business reduced indebtedness.

In June, Outokumpu signed a five-year revolving credit facility of EUR 1 billion. This is a committed credit facility, which replaces the comparable EUR 875 million facility from May 2003.

Outokumpu sold its remaining stake in Boliden in two lots, in March and in September. Proceeds from the disposal totaled EUR 295 million and resulted in a capital gain of EUR 35 million.

In October, Outokumpu sold its stainless welding business, Avesta Welding to Böhler-Uddeholm of Austria. Sales by the business in 2004 was EUR 38 million and it employs some 160 people. The gain on the sale was EUR 3 million.

At the end of 2005, the Group's equity-to-assets ratio stood at 38.2%. Gearing declined to 74.5% as a result of sale of assets and a good cash flow from operating activities and was at the targeted level of below 75%.

Capital expenditure under tight control

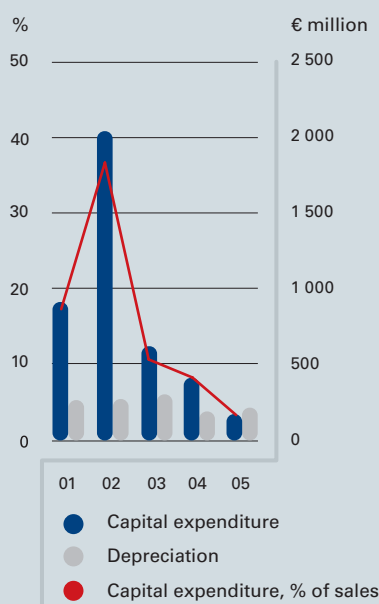
Capital expenditure

€ million	2005	2004
General Stainless	94	222
Specialty Stainless	58	53
Technology	10	9
Other operations	13	130
The Group	174	414

The Group's short-term profitability improvement program also includes tight capital expenditure discipline. The capital expenditure continued to decline markedly from previous years and totaled EUR 174 million. Towards the end of 2005, cash outflows on capital expenditure were delayed and some capital expenditure planned for 2005 was postponed until 2006. The Group's capital expenditure limit for 2006–2007 has been set at an annual EUR 175 million. In 2006, however, delayed phasing and rollovers from 2005 will mean that capital expenditure is expected to be higher, but will not exceed the annual depreciation level of EUR 210 million.

The expansion project at the Tornio Works was completed and new capacity has been technically available from the second half of 2005. Tornio's annual capacities are some 1.65 million tonnes for melting and 1.2 million tonnes for the cold rolling mill. Open pit mining at the Kemi mine ceased in December and all production comes now from the underground mine.

Capital expenditure and depreciation



The EUR 53 million investment at the Kloster Thin Strip in Sweden is proceeding according to plan. Site works and civil engineering works have been completed and equipment is currently being installed. The new production capacity is scheduled to be on stream by the end of 2006, and will expand the mill's annual production capacity from 25 000 tonnes to 45 000 tonnes. It will also enable the production of thinner (0.12 mm) and wider (1 050 mm) products. The investment comprises a new cold rolling mill, a bright annealing line and a slitting line.

To widen the Group's product offering, a decision to start production of ferritic stainless steel in Tornio was made in November. Ferritic stainless steel normally includes some 12–17% chromium, with the remainder being iron. The price of the ferritics, not containing any nickel, has traditionally been less volatile than that of austenitic stainless steel, the main product produced by General Stainless. Tornio has a cost competitive advantage in the ferritics production by utilizing liquid ferrochrome from its own smelter in the process, which reduces the melting costs. EUR 13 million is being invested in batch annealing furnaces and annual production capacity target for ferritics is 60 000 tonnes. Deliveries will begin in the first quarter of 2007.

Discontinued operations

On April 5, 2005 Outokumpu and Nordic Capital signed a sales and purchase agreement according to which Outokumpu sold the fabricated copper products business to Nordic Capital. The sale was finalized on June 7, 2005 and the total considera-

tion received was EUR 612 million. The scope of the transaction comprised the following divisions and businesses of the former Outokumpu Copper business area: Americas, Europe, Automotive Heat Exchangers, Appliance Heat Exchangers & Asia, including 100% of Outokumpu Heatcraft, and the Forming equipment businesses.

Sales in 2004 by the divested businesses totaled EUR 1 684 million and the number of personnel employed totaled 6 400 at the end of 2004. Personnel continued with Nordic Capital under their existing employment terms and conditions. It was also agreed by the parties that the divested businesses may continue to use the name Outokumpu Copper Products Oy during a transition period of up to 12 months after the closing.

Outokumpu Copper Tube and Brass business was excluded from the transaction and comprises European sanitary and industrial tubes, including air-conditioning and refrigeration tubes in Europe, as well as brass rod.

Outokumpu recorded a capital loss of EUR 252 million from the sale to Nordic Capital. An impairment loss of EUR 86 million has also been recognized based on management's valuation of the remaining tube and brass business. As a result of Finnish participation exemption tax rules, these losses are not tax deductible. The whole former Outokumpu Copper business area has been classified as a discontinued operation. The EUR 360 million loss from discontinued operations consists of the result of fabricated copper products business in the first quarter of 2005, the loss on the sale to Nordic Capital, the impairment loss recognized for the Outokumpu Copper Tube and Brass as well as the tube and brass business' result for 2005. The loss from discontinued operations is presented in the income statement as a separate item after the profit from continuing operations.

The assets sold to Nordic Capital were de-consolidated at the end of March 2005 and the assets and liabilities of Outokumpu Copper Tube and Brass are presented as held for sale. Outokumpu Copper Tube and Brass posted an operating loss of EUR 13 million in 2005 and operating capital at the end of December 2005 totaled EUR 132 million. A turnaround plan has been initiated and Outokumpu has stated its intention to divest the business.

Outokumpu Copper (USA), Inc. has been served with a complaint in a case filed in federal district court in Memphis, Tennessee, the US by plaintiff American Copper & Brass, Inc. The complaint alleges claims and damages under the US anti-trust laws and purports to be a class action on behalf of all direct purchasers of copper plumbing tubes in the US from 1988 to March 31, 2001. Outokumpu believes that the allegations in this case are groundless and will defend itself in any such proceeding. In connection with the transaction to sell the fabricated copper products business to Nordic Capital, Outo-

kumpu has agreed to indemnify and hold harmless Nordic Capital with respect to this class action.

Decisive actions to improve profitability and cash flow

During the autumn, decisive actions were initiated to counter the difficult market conditions caused by the continued destocking and roll-out of new production capacity especially in China. Oversupply in the market drove stainless steel base prices down and kept them at a very low level. After completing the review of its stainless steel cold rolling operation in Sheffield, Outokumpu announced in October the intention to cease the operations of CPS. CPS's new orders were transferred to Tornio, the world's largest single-site stainless operation and a clear cost leader. To obtain the full benefits of Tornio Works' cost efficiency, the plant has to be run as close to capacity as possible.

CPS is a medium-scale, high-cost operation with complicated logistics and cannot compete with the clearly more cost-efficient integrated operations in current and foreseeable market conditions. In addition to ceasing the CPS operation (annual capacity 300 000 tonnes), the annual operational capacity of the Sheffield melt shop is being adjusted from 500 000 tonnes to 300 000 tonnes to provide feedstock only for the Group's long products and plate operations in Britain, Sweden and the US. These actions will reduce the workforce in Britain by 670 employees. At the end of December, the consultation process between the management and local trade unions was concluded and the operations at CPS will be closed down at the end of April 2006.

As the Avesta Works in Sweden has been hot rolling slabs from the Sheffield melt shop for CPS, the annual operational hot rolling capacity in Avesta was adjusted to 450 000 tonnes to reflect the new operational structure. This resulted in a review of shift manning levels at Avesta hot rolling mill and union negotiations in this respect have been concluded.

The closure of CPS resulted in non-recurring write-downs of EUR 84 million and costs of EUR 46 million. The resulting annual improvement in the Group's operating profit is expected to be some EUR 50 million from the second half of 2006 onwards.

In the new operational structure, Outokumpu's annual melting capacity will be 2.5 million tonnes with hot rolling capacity matching melting capacity, annual cold rolling mill capacity will be 1.6 million tonnes and annual long products and plate capacity 0.3 million tonnes.

In September, Outokumpu also started a decisive program to improve profitability and cash flow. This program has three components: fixed cost reduction, reduced capital expenditure and tight working capital management.

Fixed cost reductions are being implemented in all the Group's stainless business units and group functions. The tar-

get of a 10% reduction in fixed costs will result in some EUR 100 million improvement in the group-level operating profit on an annual basis. Units prepared their plans and implementation began following the completion of employee negotiations at the year-end. The program will reduce the workforce by some 800 employees. Reduced fixed cost running rates will be in place during the second half of 2006, and deliver full effect in 2007.

Targets and achievements in commercial and production excellence programs

Outokumpu's vision – to be the undisputed number one in stainless with success based on operational excellence – was announced in January 2005. Operational excellence comprises the commercial and production excellence programs launched in April 2005.

The commercial excellence program covers all Outokumpu's stainless business units and sales companies. The program will help move the Group increasingly towards customer orientation and a one-company operating model. Through key account management practices, sales force training and by improving internal effectiveness in areas such as pricing management, the program seeks to significantly improve both the value Outokumpu can offer its customers and the Group's own business performance. In order to fully leverage all improvement opportunities, the commercial excellence program will have close links to the production excellence program.

Production excellence is a very practical program for improving Outokumpu's production activities. Objectives of the program are to decrease variation in production and improve health, safety and environmental performance, raw material and equipment efficiency, as well as to benchmark and employ best practices. The program started from the Group's three melt shops and the first improvement teams have already kicked off. The next step is to expand the program to include cold rolling operations. After three years, the program will be launched throughout the Group. The first pilot projects in Tornio and Avesta have been audited which reinforced the confidence in the program. In short time the teams involved have already achieved significant results and have confirmed that there is remarkable improvement potential to be attained.

Total combined benefits from the commercial and production excellence programs are expected to amount to EUR 40 million in 2007, EUR 80 million in 2008 and EUR 160 million on an annual basis thereafter.

Risk identification and assessment workshops carried out

Two extensive risk identification and assessment workshops were carried out during 2005 – one with Group Executive Committee concentrating on the steel business and another

with the management of Outokumpu Technology where the emphasis was on technology business. Key risks and related management actions for business units were also identified and assessed during the strategic planning process. In workshops, participants identified risks that could prevent the achievement of particular business targets or risks within predefined key areas of business activity.

Outokumpu has classified risks that affect its operations into three categories: risks relating to strategy and business, operational risks and financial risks. Risks are assessed based on their estimated impact and likelihood of occurrence. Key risks are further described and addressed through more detailed analysis. This analysis also involves definitions of risk mitigating actions as well as roles and responsibilities.

Environment, health and safety

Outokumpu's stainless steel plants in Finland, Sweden and Britain belong to the Greenhouse Gas emission trading system that started in the European Union in 2005. In February, carbon dioxide allowances and associated permits for the first three-year period were granted to the Tornio site in Finland and the steel making and casting plants at Avesta and Degerfors in Sweden. The allocated allowances are sufficient for Outokumpu's planned production in 2005–2007 and preparations for applying for allowances for the 2008–2012 Kyoto period have begun. For the 2005–2007 period, the Sheffield melt shop in Britain utilized the opt-out possibility provided by the British Climate Change Levy system.

Emissions remained mostly within permitted limits during 2005. The modernization of the older melt shop in Tornio has markedly decreased the specific emission of dust. Also, 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 handling pickling fumes.

All Outokumpu units have valid environmental permits in place or are in the process of applying. 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.

The Supreme Administrative Court of Finland issued its decision in December 2005 concerning waste interpretation at Tornio Works. According to this decision, slag formed in the ferrochrome production as well as steel scrap used as raw material in the Tornio melt shop are not classified as waste. The ferrochrome slag is used as a replacement for natural rock material for example in the construction of roads and buildings.

In 2005 occupational safety was the group-wide theme. The aim was to increase safety awareness and encourage people to

report "near miss" cases in particular. A safety target for the Group of no more than five accidents per million man-hours before 2009 has been set. The accident rate in the Group's continuing operations in 2005 was 18 per million man-hours (2004: 19). In November, one fatal accident occurred at the Outokumpu Stainless Tubular Products tube mill in Nyby, Sweden.

Research and development

Expenditure on research and development during 2005 amounted to EUR 33 million or 0.6% of net sales (2004: EUR 31 million and 0.6%). In addition to new products, R&D focuses on innovative manufacturing processes that reduce costs, result in lower emissions, shorten lead times and improve quality.

In the joint Next Generation Vehicle project, Outokumpu and other European stainless steel producers are developing new solutions together with the main automotive producers. Stainless steel grades that are lighter in weight, such as the innovative HyTens® material, have very good potential in automotive applications. In 2006, research and development resources will be directed to a greater extent into the architecture, building and construction sectors, where stainless steel products have enormous potential.

Outokumpu's strategic intention is to increase market share in special grades. Development of duplexes, especially LDX 2101® and corresponding applications has progressed well. The largest orders have been delivered to desalination plants, de-washers, various storage tanks and flexible tubes. The RAP™2E product has been launched and has been well received by customers.

The Tornio ramp-up of the unique Steckel-Tandem hot rolling process has progressed well. The RAP-line has shown its capabilities, and the possibilities of utilizing its flexible characteristics as part of the new ferritics route are being examined.

Development of processes for slag utilization was a high priority in 2005. Slag can be treated to be an optimum raw material for roads, construction beds etc. instead of using virgin materials. Process route for Hydroflux, neutralized and processed pickling sludge, has been developed to save fluorspar in the steel melting process.

In June 2005, Outokumpu Technology launched its largest-ever flotation cell, the TankCell® 300, for enhanced metal recovery and operating efficiency in mineral processing operations. Commercialization of the HydroCopper™ process continued. An important milestone in commercializing the Kenecott-Outokumpu Flash Converting technology was the contract with Yanggu Xiangguang Copper in China. Extensive tests on Circofer® technology for an iron-ore direct-smelt reduction process were carried out. Technology's both innovative solution and novel technology were combined to develop a cost

effective way of producing metallic radio-frequency identification (RFID) antennas to the rapidly growing and emerging RFID technology based item identification markets. As a result, the Finnish paper company UPM, Outokumpu Technology and Finnish Industry Investment formed a joint venture company, Intune Circuits Oy, to produce high-quality RFID antennas.

Personnel

Personnel			
Dec. 31	2005	2004	Change
General Stainless	4 123	4 462	(339)
Specialty Stainless	4 334	4 493	(159)
Technology	1 791	1 806	(15)
Other operations	516	753	(237)
The Group	10 764	11 514	(750)

Outokumpu's human resource management was strengthened and reorganized during 2005 to support the Group's new business structure and strategic targets.

A new participation model consisting of the Outokumpu Personnel Forum and the Group Working Committee elected by the Forum has proved out to be a very effective channel of two way communication. The Group Working Committee held a total of 11 meetings in 2005. Personnel participation played a significant role in the transformation of the Group.

The contribution by personnel representatives was of great importance in the planning and implementation of operational adjustments and fixed cost reduction measures.

The total personnel reduction from the fixed cost reduction program will be some 800 employees. Of this, 60% will be lay-offs and the remainder will consist of retirements, resignations and the terminations of fixed term contracts. The total reduction of personnel in Finland will be 320, in Sweden 350 and in other countries 130. The closure of CPS and the adjustment of operational production capacity at the Sheffield melt shop will result in 670 employees being made redundant in Britain by the end of April 2006. Appropriate employee severance, out-placement and career support arrangements have been agreed with the local unions to mitigate the effects of the job losses.

A new performance and development dialogue has been created in 2005 to develop a common management approach linked to rewards.

At the end of the year, the Group's continuing operations employed 10 764 people in some 30 countries. The total number of personnel employed fell by 750 mainly due to restructurings carried out during 2005.

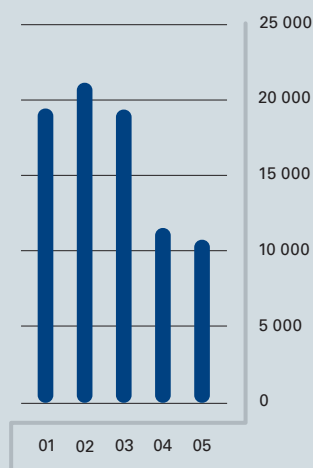
Changes in organization

Mr. Juha Rantanen was appointed CEO of the Outokumpu Group, effective January 1, 2005. The new organization for direct running of the stainless steel business came into effect on April 1, 2005. The Group Executive Committee members are: Juha Rantanen (CEO), Karri Kaitue (Deputy CEO), Pekka Erkkilä (EVP – General Stainless & Production Operations), Olof Faxander (EVP – Specialty Stainless), Andrea Gatti (EVP – Commercial Operations), Esa Lager (CFO) and Timo Vuorio (EVP – Human Resources, as of May 1, 2005). Mr. Olof Faxander will leave Outokumpu on February 28, 2006.

The stainless steel business has been organized into two divisions according to product types. The General Stainless division comprises three business units: Tornio Works, Coil Products Sheffield (until closure at the end of April 2006) and Sheffield Primary Products. The Specialty Stainless division consists of six business units: Avesta Works, Thin Strip, Hot Rolled Plate, Long Products, Sheffield Special Strip and Outokumpu Stainless Tubular Products.

In the new structure Outokumpu Technology is managed at arms length as a stand-alone business through the board work of Outokumpu Technology. Outokumpu Copper Tube and Brass is also managed separately and will be reported as a discontinued operation until divestment. These businesses report to the Deputy CEO.

Personnel



Board of Directors

In the Annual General Meeting on April 5, 2005, Mr. Evert Henkes, Mr. Arto Honkaniemi, Mr. Jorma Huuhtanen, Mr. Ole Johansson, Mr. Heimo Karinen, Ms. Leena Saarinen and Ms. Soili Suonoja were re-elected as members of the Board of Directors, and Mr. Jukka Härmälä, Mr. Juha Lohiniva and Ms. Anna Nilsson-Ehle were elected as new members. Mr. Heimo Karinen was elected as Chairman of the Board of Directors and Mr. Ole Johansson as Vice Chairman. Mr. Karinen was nominated the chairman of the Board Nomination and Compensation Committee and Mr. Ole Johansson of the Audit Committee.

Shareholders' Nomination Committee

Outokumpu's Annual General Meeting of April 5, 2005 decided to establish a Shareholders' Nomination Committee to prepare proposals concerning the composition of the Board of Directors and director remuneration for the following Annual General Meeting. The members represent Outokumpu's four largest registered shareholders on December 1, 2005: Mr. Markku Tapio (Chairman), representing the Finnish State, Mr. Pertti Parmanne, representing the Finnish Social Insurance Institution, Mr. Kari Puro, representing Ilmarinen Mutual Pension Insurance Company and Mr. Kalevi Hemilä, representing Etera Mutual Pension Insurance Company. Mr. Heimo Karinen, the Chairman of Outokumpu's Board served as an expert member. The Shareholders' Nomination Committee submitted its proposals to the Board of Directors on January 27, 2006.

Short-term outlook

Global economic growth is expected to remain solid in 2006. Although global demand for stainless steel fell marginally in 2005 as a result of de-stocking and extremely high and volatile raw material prices, underlying demand has remained healthy and in the long-term annual growth in consumption is expected to continue at a rate of 5–7%. Towards the end of 2005 orders started to pick up and market sentiment for early 2006 is cautiously optimistic.

For the first quarter of 2006 deliveries of 304 cold rolled flat products in Europe, Outokumpu has gradually achieved base price increases totaling 100 EUR/tonne or more. The increases vary country by country. The order backlog has strengthened and further price increases are being pressed for April and beyond.

In 2006 the target is to fully utilize Tornio's capacity for finished products and benefit from its low cost base. In the short-term, Outokumpu's profitability is expected to improve compared to the second half of 2005. However, with the still very low base prices prevailing at the start of 2006, operating profit

is expected to fall substantially short of the high levels seen in the first half of 2005.

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 the Group's 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 March 30, 2006 that a dividend of EUR 0.45 per share be paid from the Group's distributable funds on December 31, 2005 and that any remaining distributable funds be allocated to retained earnings. The suggested dividend record date is April 4, 2006 and the dividend will be paid on April 11, 2006.

According to the financial statements at December 31, 2005, the Group's distributable funds total EUR 665 million and those of the parent company total EUR 318 million.

Espoo, February 2, 2006

Heimo Karinen
Ole Johansson
Evert Henkes
Arto Honkaniemi
Jorma Huuhtanen
Jukka Härmälä
Juha Lohiniva
Anna Nilsson-Ehle
Leena Saarinen
Soili Suonoja
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, 2005. The Board of Directors and the Chief Executive Officer have prepared the report of the Board of Directors and the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the parent company's financial statements prepared in accordance with prevailing regulations in Finland, that include the parent company's balance sheet, income statement, cash flow statement and the notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements and on the administration of the parent company.

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

Consolidated financial statements

In our opinion the consolidated financial statements give a true and fair view, as referred to in the International Financial Reporting Standards as adopted by the EU and defined in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position. The consolidated financial statements can be adopted.

Parent company's financial statements and administration

In our opinion 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 in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of the financial position. The financial statements can be adopted and the members of the Board of Directors and the 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, 2006

PricewaterhouseCoopers Oy
Authorized Public Accountants

Markku Marjomaa
Authorized Public Accountant

Consolidated financial statements

Consolidated income statement

€ million	Note	2005	2004
Continuing operations:			
Sales	3, 6	5 552	5 122
Cost of sales	9	(5 081)	(4 361)
Gross margin		471	761
Other operating income	7	84	80
Selling and marketing expenses	9	(154)	(166)
Administrative expenses	9	(192)	(179)
Research and development expenses	9	(33)	(31)
Other operating expenses	8	(94)	(28)
Operating profit		83	436
Share of results of associated companies	17	0	78
Financial income and expenses	11		
Net interest expenses		(62)	(66)
Market price gains and losses		(0)	(12)
Other financial income and expenses		1	4
Total financial income and expenses		(61)	(75)
Profit before taxes		22	440
Income taxes	12	(24)	(61)
Net profit/(loss) for the financial year from continuing operations		(3)	379
Discontinued operations:			
Net profit/(loss) for the financial year from discontinued operations	4	(360)	7
Net profit/(loss) for the financial year		(363)	386
Attributable to:			
Equity holders of the Company		(364)	382
Minority interest		1	4
Earnings per share for profit attributable to the equity holders of the Company:			
Earnings per share, €	13	(2.01)	2.12
Diluted earnings per share, €		(2.01)	2.12
Earnings per share from continuing operations attributable to the equity holders of the Company:			
Earnings per share, €		(0.02)	2.08
Diluted earnings per share, €		(0.02)	2.08
Earnings per share from discontinued operations attributable to the equity holders of the Company:			
Earnings per share, €		(1.99)	0.04
Diluted earnings per share, €		(1.99)	0.04

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	2005	2004
ASSETS			
Non-current assets			
Intangible assets	15	578	620
Property, plant and equipment	16	2 125	2 743
Investments in associated companies ¹⁾	17	50	291
Available-for-sale financial assets ¹⁾	18	38	53
Derivative financial instruments ¹⁾	21	18	2
Deferred tax assets	12	30	44
Trade and other receivables	23		
Interest-bearing ¹⁾		156	63
Non interest-bearing		15	11
Total non-current assets		3 009	3 827
Current assets			
Inventories	22	1 186	1 579
Available-for-sale financial assets ¹⁾	18	4	8
Derivative financial instruments ¹⁾	21	25	44
Trade and other receivables	23		
Interest-bearing ¹⁾		8	18
Non interest-bearing		841	1 390
Cash and cash equivalents ¹⁾	24	212	211
Total current assets		2 277	3 250
Receivables related to assets held for sale ¹⁾	4	221	–
TOTAL ASSETS		5 507	7 077

¹⁾ Included in net interest-bearing debt.

€ million	Note	2005	2004
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the Company			
Share capital		308	308
Premium fund		701	700
Other reserves		34	27
Retained earnings		1 369	1 050
Net profit/(loss) for the financial year		(364)	382
		2 047	2 468
Minority interest		15	38
Total equity	25	2 062	2 506
Non-current liabilities			
Long-term debt ¹⁾	28	1 618	1 971
Derivative financial instruments ¹⁾	21	5	4
Deferred tax liabilities	12	188	255
Pension obligations	26	74	139
Provisions	27	55	38
Trade and other payables	29	3	10
Total non-current liabilities		1 943	2 417
Current liabilities			
Current debt ¹⁾	28	501	1 103
Derivative financial instruments ¹⁾	21	22	15
Income tax liabilities	12	40	29
Provisions	27	78	29
Trade and other payables	29		
Interest-bearing ¹⁾		32	32
Non interest-bearing		739	946
Total current liabilities		1 413	2 153
Liabilities related to assets held for sale ¹⁾	4	89	–
TOTAL EQUITY AND LIABILITIES		5 507	7 077

¹⁾ Included in net interest-bearing debt.

Consolidated cash flow statement

€ million	Note	2005	2004
Cash flow from operating activities			
Net profit/(loss) for the financial year		(363)	386
Adjustments for			
Taxes	4, 12	28	87
Depreciation	15, 16	232	251
Impairments	4, 15, 16	168	–
Share of results of associated companies	17	0	(78)
Loss on the sale of the fabricated copper products business	4	249	–
Profit/(loss) on sale of property, plant and equipment	7, 8	(11)	(3)
Interest income	11	(21)	(23)
Dividend income	11	(6)	(3)
Interest expense	11	95	118
Other adjustments		10	(3)
		743	345
Change in working capital			
Change in trade and other receivables		123	(332)
Change in inventories		(5)	(354)
Change in trade and other payables		31	37
Change in provisions		52	(61)
		202	(710)
Dividends received		7	3
Interest received		21	23
Interest paid		(93)	(112)
Income tax paid		(58)	(63)
Net cash from operating activities		459	(128)
Cash flow from investing activities			
Acquisition of subsidiaries, net of cash	5	(32)	0
Acquisition of shares in associated companies	17	(3)	(76)
Acquisition of available-for-sale financial assets	18	(1)	(26)
Purchases of property, plant and equipment	16	(194)	(337)
Purchases of intangible assets	15	(15)	(39)
Proceeds from disposal of subsidiaries, net of cash	5	489	18
Proceeds from sale of shares in associated companies	17	290	127
Proceeds from sale of available-for-sale financial assets	18	4	6
Proceeds from sale of property, plant and equipment	16	2	8
Proceeds from sale of intangible assets	15	7	–
Loan repayments received from associated companies	32	–	172
Change in other long-term receivables		18	(6)
Net cash from investing activities		565	(152)
Cash flow before financing activities		1 024	(280)
Cash flow from financing activities			
Borrowings of long-term debt		136	363
Repayments of long-term debt		(454)	(139)
Change in current debt		(600)	25
Borrowings of finance lease liabilities		3	16
Repayments of finance lease liabilities		(6)	(6)
Dividends paid		(91)	(36)
Proceeds from share subscriptions		–	19
Other financing cash flow		(19)	(8)
Net cash from financing activities		(1 032)	234
Other adjustments		2	30
Net change in cash and cash equivalents		(6)	(16)
Cash and cash equivalents at the beginning of the financial year		211	231
Foreign exchange rate effect on cash and cash equivalents		7	(4)
Net change in cash and cash equivalents		(6)	(16)
Cash and cash equivalents at the end of the financial year	24	212	211

Consolidated statement of changes in equity

€ million	Attributable to the equity holders of the Company								Minority interest	Total equity
	Share capital	Unregistered share capital	Premium fund	Other reserves	Fair value reserves	Treasury shares	Cumulative translation differences	Retained earnings		
Equity on Jan. 1, 2004	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	-	-	-	-	-	-	-	382	4	386
Total recognised income and expenses	-	-	-	-	15	-	2	382	4	403
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
Management stock option program: value of received services	-	-	-	-	-	-	-	1	-	1
Transfer of treasury shares	-	-	0	-	-	6	-	-	-	6
Other changes	-	-	1	(1)	-	-	-	1	(1)	0
Equity on Dec. 31, 2004	308	-	700	13	15	(5)	(59)	1 496	38	2 506
Cash flow hedges	-	-	-	-	6	-	-	-	-	6
Fair value gains on available-for-sale financial assets	-	-	-	-	3	-	-	-	-	3
Net investment hedges	-	-	-	-	-	-	1	-	-	1
Change in translation differences	-	-	-	-	-	-	19	-	0	19
Items recognised directly in equity	-	-	-	-	9	-	20	-	0	29
Net loss for the financial year	-	-	-	-	-	-	-	(364)	1	(363)
Total recognised income and expenses	-	-	-	-	9	-	20	(364)	1	(334)
Dividends paid	-	-	-	-	-	-	-	(91)	-	(91)
Management stock option program: value of received services	-	-	-	-	-	-	-	3	-	3
Transfer of treasury shares	-	-	1	-	-	3	-	-	-	4
Effect of the sale of the fabricated copper products business	-	-	-	-	-	-	-	-	(24)	(24)
Other changes	-	-	-	(1)	-	-	-	-	-	(1)
Equity on Dec. 31, 2005	308	-	701	11	23	(2)	(38)	1 044	15	2 062

Notes to the consolidated financial statements

1. Corporate information

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. A copy of the consolidated financial statements is available at the Group's website www.outokumpu.com, from Outokumpu Oyj/Corporate Communications, Riihitontuntie 7 B, P.O. Box 140, 02201 Espoo, Finland or via e-mail corporate.comms@outokumpu.com.

Outokumpu is an international stainless steel and technology company. Customers representing a wide range of industries use our metal products, technology and services worldwide. In 2005 Outokumpu Oyj and its subsidiaries (together "the Outokumpu Group" or "the Group") have been organized into two divisions: General Stainless and Specialty Stainless, as well into an independent Outokumpu Technology.

In 2005, Outokumpu operated in about 30 countries and employed some 11 500 people. The Group's sales amounted to EUR 5.6 billion, of which 95% was generated outside Finland.

2. Accounting principles for the consolidated accounts

Basis of preparation

The consolidated financial statements of Outokumpu have been drawn up in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union. 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.

Applied new and amended standards

The Group has adopted the following new and amended standards and comparative figures have been amended as required:

IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IAS 16	Property, Plant and Equipment
IAS 36	Impairment of Assets
IAS 38	Intangible Assets

Adoption of new and amended standards and interpretations in 2006 and 2007

Outokumpu will adopt in 2006 the following amended and new standards and interpretations issued in 2004–2006:

IAS 39 Financial Instruments: Recognition and Measurement: Amendments after March 31, 2004:

- Cash flow hedges of forecast intragroup transactions, issued on April 14, 2005, effective date January 1, 2006.
- Fair value option, issued on June 16, 2005, effective date January 1, 2006.
- Financial guarantee contracts, issued on August 18, 2005, effective date January 1, 2006

IFRS 6 Exploration for and Evaluation of Mineral Resources, issued on December 9, 2004, effective date January 1, 2006.

IFRIC 4 Interpretation: Determining whether an Arrangement contains a Lease, issued on December 2, 2004, effective date January 1, 2006.

IFRIC 8 Interpretation: Scope of IFRS 2, issued on January 12, 2006, effective date May 1, 2006.

Amendment to IAS 19 Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures, issued on December 16, 2004, effective date January 1, 2006.

The Group estimates that the adoption of the amended standards and new interpretations does not have material impact on the Group's financial statements.

Outokumpu will adopt in 2007 the following new and amended standards:

IFRS 7 Financial Instruments: Disclosures

Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures.

Outokumpu investigates the impacts on the disclosure information.

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, provisions, pension obligations, impairment of goodwill and other items. The basis for the estimates are described in more detail in these accounting principles and in connection with the relevant disclosure to the financial statement. 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. Goodwill on consolidation is not amortized but tested for impairment annually. In accordance with the exemption under IFRS 1, acquisitions prior to the IFRS transition date, January 1, 2003, have not been restated but the previ-

ous values are taken as the deemed cost. 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.

Discontinued operations

A discontinued operation results from a decision, pursuant to a single disposal plan, to divest an operation comprising a separate major line of business for which the assets less liabilities and net financial results may be distinguished physically, operationally and for financial reporting purposes. The disposal shall be highly probable. The result from discontinued operations is presented in the income statement as a separate item after the profit from continuing operations. Comparative income statement figures are restated accordingly. Comparative balance sheet items are not restated but presented separately from the assets and liabilities of continuing operations from the date they have been classified as discontinued operations.

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 General Stainless, Specialty Stainless 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. Group companies' foreign currency transactions are translated into functional currencies using the exchange rates prevailing at the dates of the transactions. Receivables and liabilities in foreign currencies are translated into functional currencies at the exchange rates prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the settlement or translation of monetary interest-bearing assets and liabilities denominated in foreign currencies and related derivatives are recognized in financial income and expenses in the income statement. Foreign exchange differences arising in respect of other financial instruments are included in operating profit under sales, purchases or other income and expenses. 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 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

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 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. Intangible assets are amortized on a straight-line basis over their 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	up to 10 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, investment 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 tested at least 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 recognized 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

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 classified as available-for-sale financial assets. Interest-bearing securities and convertible loan receivables are classified as financial assets at fair value through profit and loss. Highly liquid marketable securities with maturity not exceeding three months are classified as cash equivalents.

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 and 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. The need for impairment is assessed separately for each loan receivable and when realized it is deducted from the carrying value. The impairment shall be based on evidence that it is probable that the Group will not be able to collect the loan receivable according to initial terms. 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 option-alities included in electricity derivatives are measured at fair value with their own valuation models.

Part of derivatives or other financial instruments may be designated as hedging instruments, in which case hedge accounting is applied. If hedge accounting is not applied, fair value changes in derivatives are recognized in other income and expenses. However, if the derivative is assigned to financial items, the fair value changes are recognized in financial income and expenses. In the case hedge accounting is applied, the accounting for hedging instruments is dependent on the particular nature of the hedging relationship. This presentation of derivative instruments has been taken into use in 2005. The comparative figures have been restated accordingly.

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 forecast 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.

Emission allowances

EU emission trading system (ETS) started on January 1, 2005. Outokumpu's sites covered by EU emissions trading are the stainless steel production plants in Tornio, Finland as well as in Avesta and Degerfors, Sweden. Accounting for carbon dioxide (CO₂) allowances is based on current IFRS standards. Emission allowances are intangible assets. Purchased CO₂ allowances are recognized cost, where-

as allowances received free of charge are recognized at nominal value, i.e. at zero. A provision to cover the obligation to return emission allowances is recognized provided that emission allowances received free of charge will not cover the actual emissions. Consequently the possible effect in operating profit will reflect the difference between what has been emitted and the received emission allowances. At the end of 2005, emission allowances are not reflected in Outokumpu's balance sheet because actual emissions do not exceed the amount of allowances received free of charge and no allowances have been purchased from the market.

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

Where 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.

Share-based payment transactions

Outokumpu has applied IFRS 2 Share-based Payment standard only to the 2003 option program in which the stock options have been granted after November 7, 2002 and were not vested on January 1, 2005. Equity-settled awards that were granted before November 7, 2002, have not been recognized as an expense in the financial statements. The comparative information has been restated accordingly.

The stock options are valued at fair value on the grant date and recognized as an expense in the income statement during the vesting period. The expense of the stock options determined at the grant date reflects the Group's estimate of the number of stock options that will ultimately vest. The fair value is determined at the grant date using the Black-Scholes-Merton option pricing model and relevant statistical methods. The non-market criteria are not included in the fair value of the option but taken into account in the number of options that are assumed to vest. Outokumpu updates

at each annual closing the estimate of the final amount of the options that will vest. The changes in the estimates are recognized in the income statement. When the options are exercised, the proceeds received, net of any transaction costs, are credited to share capital and the share premium reserve.

Dividends

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

Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the equity holders 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.

3. Segment information

Outokumpu's business activities were organized into three strategic primary segments in 2005: General Stainless, Specialty Stainless and Outokumpu Technology. Activities outside the segments are reported under Other operations. Outokumpu Copper Tube and Brass is reported as a discontinued operation held for sale.

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 research and development. 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, automotive industries, cutlery and razor blades.

General Stainless

General Stainless comprises three business units: Tornio Works, Coil Products Sheffield and Sheffield Primary Products. The main products are hot and cold rolled coil and sheet. Tornio Works is the largest stainless steel integrate in the world, including also the Kemi chromite mine and the ferrochrome smelter in Tornio. The operations at Coil Products Sheffield cold rolling unit in Sheffield, Britain, will be ceased at the end of April 2006. Sheffield Primary Products consists of a melt shop in Sheffield and a hot rolling mill for long products in Degerfors, Sweden.

Specialty Stainless

Specialty Stainless comprises six business units: Avesta Works, Thin Strip, Hot Rolled Plate, Long Products, Sheffield Special Strip and Outokumpu Stainless Tubular Products. The main products are

hot and cold rolled sheet, quarto plate, tubes and various fittings, precision strip, wire rod and bar. Specialty Stainless is strong in tailored solutions and demanding customer applications in flat and long stainless as well as tubular products. Specialty Stainless serves customers with high requirements on the stainless steel properties such as steel grade, shape, thickness, surface finish or other specific needs.

Outokumpu Technology

Outokumpu Technology is one of the world's leading developers and suppliers of technology for the minerals processing and metallurgical industries. It designs and delivers plants, processes and equipment and offers engineering, project and support services worldwide, serving as a responsible partner throughout the life-cycle of each investment. Outokumpu Technology's strengths are an innovative approach and an in-depth understanding of customer needs based on solid knowledge of metals. Many of the technologies it has developed are market leaders. While the Group's strategy is to focus on leadership in stainless steel, Outokumpu Technology has a more independent role within the Group. From the Group perspective its business operations are managed through the board work of Outokumpu Technology.

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

2005	General	Specialty	Outokumpu	Other	Discontinued		
€ million	Stainless	Stainless	Technology	operations	operations	Eliminations	Group
External sales	2 873	2 011	587	81	–	–	5 552
Inter-segment sales	1 200	729	3	157	–	(2 088)	–
Sales	4 073	2 739	590	238	–	(2 088)	5 552
Operating profit	(62)	110	25	8	–	1	83
Share of results of associated companies	–	–	(1)	1	–	–	0
Financial income and expenses	–	–	–	–	–	–	(61)
Profit before taxes	–	–	–	–	–	–	22
Income taxes	–	–	–	–	–	–	(24)
Discontinued operations	–	–	–	–	(360)	–	(360)
Net loss for the financial year	–	–	–	–	–	–	(363)
Depreciation	(131)	(54)	(7)	(2)	–	–	(194)
Amortization	(2)	(7)	(2)	(11)	–	–	(22)
Impairments	(77)	(0)	–	–	–	–	(78)
Non interest-bearing assets	3 061	1 537	276	240	–	(369)	4 745
Investments in associated companies	–	–	2	48	–	–	50
Other interest-bearing assets	–	–	–	–	–	–	461
Deferred tax assets	–	–	–	–	–	–	30
Assets held for sale	–	–	–	–	221	–	221
Total assets	–	–	–	–	–	–	5 507
Non interest-bearing liabilities	577	376	272	100	–	(337)	988
Interest-bearing liabilities	–	–	–	–	–	–	2 179
Deferred tax liabilities	–	–	–	–	–	–	188
Liabilities held for sale	–	–	–	–	89	–	89
Total liabilities	–	–	–	–	–	–	3 445
Operating capital	2 484	1 161	4	140	–	(32)	3 756
Net deferred tax liability	–	–	–	–	–	–	(158)
Capital employed	–	–	–	–	–	–	3 599
Capital expenditure	94	58	10	13	–	–	174
2004	General	Specialty	Outokumpu	Other	Discontinued		
€ million	Stainless	Stainless	Technology	operations	operations	Eliminations	Group
External sales	3 031	1 591	417	83	–	–	5 122
Inter-segment sales	1 206	1 112	6	135	–	(2 458)	–
Sales	4 237	2 702	423	218	–	(2 458)	5 122
Operating profit	269	181	30	(50)	–	5	436
Share of results of associated companies	–	–	–	78	–	–	78
Financial income and expenses	–	–	–	–	–	–	(75)
Profit before taxes	–	–	–	–	–	–	440
Income taxes	–	–	–	–	–	–	(61)
Discontinued operations	–	–	–	–	7	–	7
Net profit for the financial year	–	–	–	–	–	–	386
Depreciation	(110)	(53)	(7)	(3)	–	–	(172)
Amortization	(2)	(5)	(2)	(9)	–	–	(18)
Impairments	(0)	–	–	–	–	–	(0)
Non interest-bearing assets	3 480	1 581	222	170	1 225	(337)	6 341
Investments in associated companies	–	–	–	286	5	–	291
Other interest-bearing assets	–	–	–	–	–	–	399
Deferred tax assets	–	–	–	–	–	–	44
Total assets	–	–	–	–	–	–	7 077
Non interest-bearing liabilities	599	331	183	112	272	(307)	1 190
Interest-bearing liabilities	–	–	–	–	–	–	3 125
Deferred tax liabilities	–	–	–	–	–	–	255
Total liabilities	–	–	–	–	–	–	4 570
Operating capital	2 882	1 250	39	58	953	(31)	5 151
Net deferred tax liability	–	–	–	–	–	–	(210)
Capital employed	–	–	–	–	–	–	4 941
Capital expenditure	222	53	9	130	–	–	414

3.2 Geographical segments

2005	Finland	Sweden	Britain	Other Europe	North America	Asia and Australia	Other countries	Inter area	Group total
€ million									
Sales by destination ¹⁾	298	285	304	2 685	567	1 120	293	–	5 552
Sales by origin ²⁾	2 655	2 513	1 471	946	453	286	120	(2 892)	5 552
Operating profit ²⁾	32	110	(137)	44	21	10	4	–	83
Non interest-bearing assets ²⁾	2 689	1 216	533	377	176	79	37	(363)	4 745
Operating capital ²⁾	2 384	909	275	170	63	13	(48)	(9)	3 756
Capital expenditure ²⁾	98	50	9	9	4	2	1	–	174

2004	Finland	Sweden	Britain	Other Europe	North America	Asia and Australia	Other countries	Inter area	Group total
€ million									
Sales by destination ¹⁾	308	264	307	2 662	470	926	187	–	5 122
Sales by origin ²⁾	2 478	2 280	1 478	992	395	240	56	(2 797)	5 122
Operating profit ²⁾	235	152	(1)	5	28	16	2	–	436
Non interest-bearing assets ²⁾	3 116	1 408	696	790	502	242	27	(439)	6 341
Operating capital ²⁾	2 707	1 112	442	424	311	162	(6)	1	5 151
Capital expenditure ²⁾	236	40	13	109	15	1	0	–	414

¹⁾ Sales by destination is presented for external sales.

²⁾ Sales, operating profit, non interest-bearing assets, operating capital and capital expenditure are presented by the locations of the Group companies or associated companies.

4. Discontinued operations

On April 5, 2005 Outokumpu and Nordic Capital signed a sales and purchase agreement according to which Outokumpu sold its fabricated copper products business to Nordic Capital. The sale was finalized on June 7, 2005. The scope of the transaction comprised the following businesses of the former Outokumpu Copper business area: Americas, Europe, Automotive Heat Exchangers, Appliance Heat Exchanger & Asia, including 100% of Outokumpu Heatcraft, and the Forming equipment businesses. Sales in 2004 by the divested businesses totaled EUR 1 684 million and the number of personnel was 6 400 at the year end. Outokumpu Copper Tube and Brass business was excluded from the transaction and comprises European sanitary and industrial tubes, including air-conditioning and refrigeration tubes in Europe, as well as brass rod.

The total consideration received EUR 612 million was comprised of a cash component of EUR 512 million and a USD-denominated long-term subordinated vendor note of EUR 100 million. Outokumpu recorded a capital loss of EUR 252 million from the disposal. An EUR 86 million impairment loss on the remaining tube and brass business has also been recognized based on the management's valuation of the business. As a result of the Finnish participation exemption tax rules, the losses are not tax deductible. The whole former Outokumpu Copper business area has been classified as a discontinued operation. The EUR 360 million loss from discontinued operations consists of the net result of the fabricated copper products business in the first quarter of 2005, the EUR 252 million loss on the sale to Nordic Capital and the impairment loss of EUR 86 million recognized for the tube and brass business as well as its result for 2005. The loss from discontinued operations is recorded in the income statement on a single line after the profit from continuing operations. The assets and liabilities of Outokumpu Copper Tube and Brass are presented as held for sale. A turnaround plan to improve profitability has been initiated and Outokumpu has stated its intention to divest the tube and brass business.

Specification of discontinued operations and assets held for sale

Income statement

€ million	2005	2004
Sales	921	2 050
Expenses	(927)	(1 978)
Operating profit	(6)	72
Net financial expenses	(10)	(35)
Profit/(loss) before taxes	(16)	37
Income taxes	(4)	(26)
Profit/(loss) after taxes	(20)	11
Impairment loss recognized on the fair valuation of the Tube and Brass division's assets and liabilities	(86)	–
Loss on the sale of the fabricated copper products business	(252)	–
Taxes	–	–
After-tax loss recognized on the measurement of assets and liabilities of the disposal group	(338)	–
Minority interest	(1)	(3)
Net profit/(loss) for the financial year from discontinued operations	(360)	7

Balance sheet

€ million	2005
Assets	
Intangible and tangible assets	9
Other non-current assets	4
Inventories	113
Other current, non interest-bearing assets	95
	221
Liabilities	
Provisions	21
Other non-current, non interest-bearing liabilities	3
Trade payables	49
Other current, non interest-bearing liabilities	17
	89

Cash flows

€ million	2005
Operating cash flow	(88)
Investing cash flow	(70)
Financing cash flow	142
Total cash flows	(17)

5. Acquisitions and disposals

Acquisitions in 2005 and 2004

In 2005, Outokumpu acquired the remaining ownership in Outokumpu Heatcraft. The total consideration was EUR 32 million. The company was sold in connection with the sale of the fabricated copper products business on June 7, 2005.

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.

Notes to the consolidated financial statements

Consideration

€ million	2004
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

€ 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	

Disposals in 2005 and 2004

On April 5, 2005 Outokumpu and Nordic Capital signed a sales and purchase agreement according to which Outokumpu sold its fabricated copper products business to Nordic Capital. The sale was finalized on June 7, 2005. The total consideration was EUR 612 million, of which EUR 4 million was recognized as interest income. For more details, see note 4. Discontinued operations.

In November 2005 Outokumpu sold its stainless steel welding operations, Avesta Welding, to Austrian company Böhler-Uddeholm. Total consideration was EUR 9 million.

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

Net assets of the disposed subsidiaries and businesses

€ million	2005	2004
Intangible assets	31	3
Property, plant and equipment	399	3
Other long-term assets	8	–
Derivatives	3	–
Inventories	293	7
Receivables, non interest-bearing	352	2
Provisions	37	0
Liabilities, non interest-bearing	183	0
	866	15
Losses/gains on disposals	(249)	16
Total consideration	617	31
Received in cash	517	20
Direct costs related to the disposals	(8)	(2)
Cash and cash equivalents in disposed subsidiaries and units	(19)	0
Net cash flow from disposals	489	18

6. Long-term construction contracts

Sales include EUR 360 million (2004: EUR 233 million) of income recognized based on the stage of completion of long-term construction contracts in Outokumpu Technology. Revenue recognized from long-term construction contracts in progress amounted to EUR 288 million (2004: EUR 185 million) and advances received to EUR 42 million, respectively (Dec. 31, 2004: EUR 30 million).

7. Other operating income

€ million	2005	2004
Gain on the sale of the Boliden shares	35	–
Gain on the sale of the filter business	–	16
Panteg closure	–	8
Gain on the sale of the stainless welding business	3	–
Gains on sale of other intangible and tangible assets	6	6
Other income items	18	18
Market price gains and losses from derivatives	22	33
	84	80

8. Other operating expenses

€ million	2005	2004
Loss on the sale of the Boliden shares	–	(19)
Losses on disposals of intangible and tangible assets and scrapping	(11)	(1)
Impairment of intangible and tangible assets	(78)	(0)
Other expense items	(6)	(8)
	(94)	(28)

9. Function expenses by nature

€ million	2005	2004
Raw materials and merchandise	(3 214)	(2 986)
Fuels and supplies	(335)	(251)
Energy expenses	(221)	(196)
Freights	(217)	(215)
Maintenance	(141)	(121)
Employee benefit expenses	(665)	(599)
Rents and leases	(36)	(33)
Hire processing	(43)	(55)
Depreciation and amortization	(216)	(191)
Production for own use	2	5
Change in inventories	(58)	281
Other expenses	(317)	(377)
	(5 460)	(4 737)

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

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

Non-recurring items

€ million	2005	2004
Coil Products Sheffield closure	(130)	–
Fixed cost reduction program	(34)	–
Gain/(loss) on the sale of the Boliden shares	35	(19)
Release of the Finnish TEL disability pension liability	–	22
Gain on the sale of the filter business	–	16
	(129)	19

10. Employee benefit expenses

€ million	2005	2004
Wages and salaries	(480)	(470)
Termination benefits	(57)	(5)
Social security costs	(86)	(86)
Pension and other post-employment benefits		
Defined benefit plans	8	13
Defined contribution plans	(41)	(35)
Other post-employment benefits	(3)	(4)
Expenses from share-based payments	(3)	(1)
Other personnel expenses ¹⁾	(2)	(10)
	(665)	(599)

¹⁾ Includes EUR 0 million (2004: EUR 2 million) of profit-sharing bonuses based on the Finnish Personnel Funds Act.

11. Financial income and expenses

€ million	2005	2004
Dividend income	6	3
Interest income		
Derivatives	0	4
Other	31	42
Other financial income	1	4
Total financial income	38	53
Interest expenses		
Current and long-term debt	(89)	(104)
Finance lease arrangements	(2)	(2)
Capitalized interests	0	6
Derivatives	(1)	(6)
Other financial expenses	(6)	(10)
Total financial expenses	(99)	(116)
Exchange gains and losses		
Derivatives	7	(0)
Other	(13)	(12)
Other market price gains and losses		
Derivatives	5	(0)
Other	0	0
Total market price gains and losses	(1)	(12)
Total financial income and expenses	(61)	(75)

Exchange gains and losses in the income statement

€ million	2005	2004
In sales	67	(0)
In purchases	(41)	(12)
In other income	5	21
In financial income and expenses	(6)	(12)
	25	(3)

Exchange gains and losses comprise EUR 13 million (2004: EUR 20 million) exchange gains and losses on derivatives.

12. Income taxes**Income taxes in the income statement**

€ million	2005	2004
Current taxes	(67)	(50)
Deferred taxes	43	(11)
Total income taxes from continuing operations	(24)	(61)
Current taxes	–	(7)
Deferred taxes	–	(19)
Total income taxes from discontinued operations	–	(26)
Total income taxes	(24)	(87)

The difference between income taxes at the statutory tax rate in Finland 26% (2004: 29%) and income taxes recognized in the consolidated income statement is reconciled as follows:

€ million	2005	2004
Hypothetical income taxes at Finnish tax rate on consolidated profit before tax	(6)	(138)
Effect of different tax rates outside Finland	(3)	9
Tax effect of non-deductible expenses and tax exempt income	13	4
Tax effect of losses for which no deferred tax benefit is recognized	(30)	(23)
Changes in the carrying amounts of deferred tax assets from prior years	3	30
Taxes for prior years	(2)	(5)
Impact of the changes in the tax rates on deferred tax balances	0	17
Tax effect of net results of associated companies	0	12
Effects of consolidation and eliminations	2	2
Other items	(1)	5
Income taxes in the consolidated income statement	(24)	(87)

In 2004 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	2005	2004
Deferred tax assets	30	44
Deferred tax liabilities	(188)	(255)
Net deferred tax liability	(158)	(210)

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	2005	2004
Deferred taxes on Jan. 1	(210)	(179)
Income statement charge from continuing operations	43	(30)
Translation differences	2	(2)
Acquisitions and disposals of subsidiaries	2	(1)
Taxes recognized in equity	(2)	1
Discontinued operations	7	–
Deferred taxes on Dec. 31	(158)	(210)

Movement in deferred tax assets and liabilities during the financial year

2005 € million	Jan. 1	Recognized in the income statement	Recognized in equity	Translation differences	Acquisitions/ disposals of subsidiaries	Dis- continued operations	Dec. 31
Deferred tax liabilities							
Depreciation difference and other untaxed reserves	(287)	40	–	4	2	37	(204)
Fair value adjustments	(4)	(2)	(1)	0	–	1	(6)
Effects of consolidation and eliminations	(9)	2	–	–	–	–	(7)
Other taxable temporary differences	(53)	(9)	–	1	–	3	(57)
	(353)	32	(1)	4	2	41	(275)
Deferred tax assets							
Tax losses carried forward	54	16	–	0	0	(15)	55
Fair value adjustments	1	4	(1)	(1)	–	–	4
Pension obligations	14	(5)	–	0	–	(4)	4
Effects of consolidation and eliminations	20	(6)	–	0	–	–	14
Other tax deductible temporary differences	55	3	–	(2)	–	(15)	41
	143	11	(1)	(2)	0	(34)	118
Net deferred tax liability	(210)	43	(2)	2	2	7	(158)

Notes to the consolidated financial statements

2004 € 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)

Aggregate deferred taxes recognized directly in equity

€ million	2005	2004
Hedging reserve	(1)	1
Available-for-sale financial assets	0	0
	(1)	1

Deferred tax assets of EUR 92 million (2004: EUR 123 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 and credits amounting to EUR 280 million (2004: EUR 360 million), which can be carried forward in the future. EUR 1 million (2004: EUR 13 million) of these tax losses and credits will expire within next five years and the rest earliest in 2011. The consolidated balance sheet includes deferred tax assets of EUR 35

million (Dec. 31, 2004: EUR 31 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 has not been recognized on all undistributed earnings of subsidiaries 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 (2004: EUR 6 million).

13. Earnings per share

	2005	2004
Profit attributable to the equity holders of the Company, € million	(364)	382
Weighted average number of shares, in thousands	181 031	180 057
Earnings per share for profit attributable to the equity holders of the Company, €	(2.01)	2.12
Earnings per share, €:		
from continuing operations	(0.02)	2.08
from discontinued operations	(1.99)	0.04

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.

	2005	2004
Profit attributable to the equity holders of the Company, € million	(364)	382
Weighted average number of shares, in thousands	181 031	180 057
Effect of 2003A share options, in thousands	109	115
Diluted average number of shares, in thousands	181 140	180 172
Diluted earnings per share, €:	(2.01)	2.12
from continuing operations	(0.02)	2.08
from discontinued operations	(1.99)	0.04

14. Dividend per share

The dividends paid in 2005 were EUR 0.50 per share and in 2004 EUR 0.20 per share. At the Annual General Meeting on March 30, 2006, a dividend of EUR 0.45 per share is proposed, corresponding to total dividends of EUR 81,5 million for 2005. This dividend payable is not reflected in the financial statements.

15. Intangible assets

€ million	Intangible asset, internally generated	Intangible asset, acquired	Goodwill	Total
Historical cost on Jan. 1, 2005	8	207	477	692
Translation differences	1	(1)	4	4
Additions	–	14	0	15
Disposal of subsidiaries ¹⁾	–	(0)	–	(0)
Disposals	–	(17)	(1)	(18)
Reclassifications	(2)	9	–	6
Discontinued operations	(4)	(12)	(29)	(46)
Historical cost on Dec. 31, 2005	2	199	451	652
Accumulated amortization and impairment on Jan. 1, 2005	(5)	(67)	–	(72)
Translation differences	(0)	1	–	0
Disposal of subsidiaries ¹⁾	–	0	–	0
Disposals	–	6	–	6
Reclassifications	1	(1)	–	0
Amortization during the period	(0)	(22)	–	(22)
Impairments	–	(0)	–	(0)
Discontinued operations	3	10	–	13
Accumulated amortization and impairment on Dec. 31, 2005	(2)	(73)	–	(75)
Carrying value on Dec. 31, 2005	0	126	451	578
Carrying value on Jan. 1, 2005	3	140	477	620
Historical cost on Jan. 1, 2004	43	135	474	653
Translation differences	0	0	0	0
Additions	0	34	2	36
Acquisition of subsidiaries	1	–	2	4
Disposals	(2)	(1)	(2)	(5)
Reclassifications	(35)	38	–	3
Historical cost on Dec. 31, 2004	8	207	477	692
Accumulated amortization and impairment on Jan. 1, 2004	(11)	(43)	–	(54)
Translation differences	0	0	–	0
Acquisition of subsidiaries	(1)	0	–	(1)
Disposals	1	1	–	2
Reclassifications	7	(5)	–	1
Amortization during the period	(1)	(19)	–	(20)
Impairments	–	–	–	–
Accumulated amortization and impairment on Dec. 31, 2004	(5)	(67)	–	(72)
Carrying value on Dec. 31, 2004	3	140	477	620
Carrying value on Jan. 1, 2004	32	92	474	599

¹⁾ Stainless Steel welding operations

Depreciation and amortization by function

€ million	2005	2004
Cost of sales	(18)	(15)
Selling and marketing expenses	(0)	(0)
Administrative expenses	(4)	(4)
Research and development expenses	(1)	(0)
	(22)	(18)
Discontinued operations	–	(2)

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	2005	2004
General Stainless	338	338
Specialty Stainless	66	66
Outokumpu Technology	47	47
	451	451
Discontinued operations	–	26

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 three-year period. Projections for the fourth and fifth year are estimated to equal the third planning year. 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.

Emission allowances

As of January 1, 2005 Emissions Trading System (ETS) started in the European Union. Outokumpu's stainless steel plants in Finland and Sweden belong to the Greenhouse Gas emission trading system. In February, carbon dioxide allowances for the first three-year period 2005–2007 were granted to the Tornio site in Finland and the steel making and casting plants at Avesta and Degerfors in Sweden. Purchased CO₂ allowances are accounted for as intangible assets at cost, whereas CO₂ emission allowances received free of charge are accounted for at nominal value, i.e. at zero. A provision to cover the obligation to return emission allowances is recognized provided that emission allowances received free of charge will not cover the

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 2005 (2004: 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.

actual emissions. Consequently the possible effect in operating profit will reflect the difference between what has been emitted and the received emission allowances. On December 31, 2005, emission allowances are not reflected in Outokumpu's balance sheet because no allowances have been purchased and because actual emissions did not exceed the amount of received allowances in 2005. Actual CO₂ emissions in 2005 were about 730 000 tonnes. The Group sold emission allowances for EUR 2.5 million in 2005 and the gain is recognized under other operating income. At the end of 2005 the Group had 2 270 000 tonnes unused emission allowances permitted for the period 2005–2007 and the fair value was EUR 50 million.

16. Property, plant and equipment

€ million	Land	Mine properties	Buildings	Machinery and equipment	Other tangible assets	Advances paid and construction work in progress	Total
Historical cost on Jan. 1, 2005	58	34	983	3 813	100	138	5 127
Translation differences	1	–	10	53	3	2	68
Additions	2	2	6	67	6	74	157
Disposal of subsidiaries ¹⁾	(0)	–	(0)	(10)	–	–	(11)
Disposals	(1)	–	(6)	(26)	(0)	(0)	(33)
Reclassifications	0	1	7	45	2	(71)	(16)
Discontinued operations	(19)	–	(148)	(853)	(32)	(51)	(1 104)
Historical cost on Dec. 31, 2005	41	37	852	3 088	79	92	4 188
Accumulated depreciation and impairment on Jan. 1, 2005	(3)	(6)	(360)	(1 968)	(44)	(2)	(2 383)
Translation differences	(0)	–	(4)	(32)	(3)	(0)	(40)
Disposal of subsidiaries ¹⁾	–	–	0	5	–	–	5
Disposals	–	–	4	20	0	–	24
Reclassifications	(1)	(0)	1	8	1	–	9
Depreciation during the period	1	(0)	(30)	(161)	(3)	–	(194)
Impairments	(0)	–	(9)	(68)	(0)	–	(77)
Discontinued operations	0	–	57	506	27	2	593
Accumulated depreciation and impairment on Dec. 31, 2005	(3)	(7)	(341)	(1 690)	(22)	(0)	(2 063)
Carrying value on Dec. 31, 2005	38	30	511	1 398	57	92	2 125
Carrying value on Jan. 1, 2005	55	27	623	1 845	56	137	2 743
Historical cost on Jan. 1, 2004	64	31	905	3 314	98	482	4 894
Translation differences	(1)	–	(5)	(29)	(2)	(1)	(37)
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
Historical cost on Dec. 31, 2004	58	34	983	3 813	100	138	5 127
Accumulated depreciation and impairment on Jan. 1, 2004	(5)	(6)	(334)	(1 842)	(39)	–	(2 226)
Translation differences	0	–	2	19	2	–	23
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)
Accumulated depreciation and impairment 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 Jan. 1, 2004	59	25	572	1 472	59	482	2 668

¹⁾ Stainless Steel welding operations

Depreciation by function

€ million	2005	2004
Cost of sales	(179)	(155)
Selling and marketing expenses	(3)	(5)
Administrative expenses	(8)	(8)
Research and development expenses	(4)	(4)
	(194)	(172)
Discontinued operations	–	(59)

Interest capitalized on investment projects during the financial year was EUR 0.2 million (2004: EUR 6 million). Total interest capitalized on Dec. 31, 2005 was EUR 71 million (Dec. 31, 2004: EUR 78 million). In 2005 the capitalization rate used to determine the amount of borrowing costs eligible for capitalization was 2.9% (2004: 3.9%).

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Assets leased by finance lease agreements

2005 € million	Buildings	Machinery and equipment	Total
Historical cost	3	65	68
Accumulated depreciation	(1)	(8)	(9)
Carrying value on Dec. 31, 2005	2	56	59

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

17. Investments in associated companies

€ million	2005	2004
Investments in associated companies at cost		
Historical cost on Jan. 1	281	407
Translation differences	(0)	0
Additions	21	75
Disposals	(263)	(201)
Discontinued operations	(5)	–
Historical cost on Dec. 31	33	281
Equity adjustment to investments in associated companies on Jan. 1	10	(151)
Change in translation differences	(0)	5
Dividends received during financial period	(1)	(0)
Disposals and other changes	8	78
Share of results of associated companies	0	78
Discontinued operations	(0)	–
Equity adjustment to investments in associated companies on Dec. 31	17	10
Carrying value of investments in associated companies on Dec. 31	50	291

Associated companies and joint ventures

	Domicile	Ownership, %
ABB Industriunderhåll AB	Sweden	49
Fagersta Stainless AB	Sweden	50
Intune Circuits Oy	Finland	28
Kopparlunden Development AB	Sweden	50
Okmetic Oyj	Finland	32
Outokumpu Nordic Brass AB	Sweden	50
Rapid Power Oy	Finland	33

Principal associated companies

2005 € million	Domicile	Assets	Liabilities	Sales	Profit/(loss)	Ownership, %
Okmetic Oyj ¹⁾	Finland	83	49	36	(0)	32
Fagersta Stainless AB	Sweden	73	31	164	4	50
Rapid Power Oy	Finland	271	218	43	(0)	33

2004 € million	Domicile	Assets	Liabilities	Sales	Profit/(loss)	Ownership, %
Boliden AB (Publ) ²⁾	Sweden	2 219	1 226	1 965	116	27
Okmetic Oyj ¹⁾	Finland	89	57	55	(9)	32
Fagersta Stainless AB	Sweden	84	42	155	6	50

The carrying values of investments in associated companies include publicly listed shares for EUR 9 million (2004: EUR 265 million). The market value of these investments was EUR 10 million on Dec. 31, 2005 (Dec. 31, 2004: EUR 254 million).

¹⁾ Okmetic's figures for 2005 are based on the information published for the period ending on Sep. 30, 2005. However, comparison figures are based on the entire financial year 2004. Outokumpu's share of Okmetic's profits for 2005 and 2004 are consolidated from the 12-month periods ending at the end of September.

²⁾ Outokumpu sold its stake in Boliden in 2005. Proceeds from the disposal totalled EUR 295 million and resulted in a capital gain of EUR 35 million.

18. Available-for-sale financial assets

€ million	2005	2004
Carrying value on Jan. 1	61	24
Translation differences	(1)	0
Additions	1	26
Disposals	(5)	(6)
Transfer to investments in associated companies	(18)	–
Fair value changes	3	16
Impairments	–	–
Gains and losses on disposals in the income statement	1	1
Discontinued operations	(1)	–
Carrying value on Dec. 31	41	61
Listed equity securities	4	6
Unlisted equity securities	37	55
Less:		
Non-current listed equity securities	0	0
Non-current unlisted equity securities	(37)	(53)
Current available-for-sale financial assets	4	8
Fair value	41	61
Acquisition value	22	(45)
Fair value changes	19	16
Deferred tax liability	0	0
Fair value reserve in equity	19	16

Available-for-sale financial assets comprise listed and unlisted equity securities, which are valued at fair value. Available-for-sale financial assets include equity securities with carrying value of EUR 9 million, for which the fair value cannot be reliably determined. These assets are measured at cost less possible impairment.

19. Share-based payment plans

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.

IFRS 2 Share-based Payment standard has been applied for the 2003 stock option program for management and other key persons. The total estimated value of the program is EUR 6 million. This value is recognized as an expense in the income statement during the vesting periods.

Three of Outokumpu's share related incentive schemes – the 2002 share remuneration scheme, the 1998 option program and the 1999 convertible bond – came to an end during 2004 and the last share subscriptions from options and the convertible bond were registered with the Finnish trade register on April 7, 2004. These equity-based rewards, that were granted before November 7, 2002 have not been recognized as an expense in the financial statements.

The following table illustrates the general terms and conditions of the option program.

	2003A	2003B I	2003B II
Grant date	12.6.2003	10.2.2004	15.9.2004
The number of options granted	742 988	1 088 820	60 000
The maximum number of options granted on Dec. 31	684 191	1 047 570	60 000
Exercise price, € ¹⁾	10.00	13.06	13.06
Term of contract	12.6.2003–1.3.2009	10.2.2004–1.3.2010	15.9.2004–1.3.2010
Vesting period	12.6.2003–31.8.2006	10.2.2004–31.8.2007	15.9.2004–31.8.2007
Conditions of the agreement	The Group's earnings per share in 2003 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.	The Group's earnings per share in 2004 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.	The Group's earnings per share in 2004 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.

¹⁾ Paid dividends have been deducted.

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	2003C I	2003C II
Grant date	22.3.2005	22.3.2005
The number of options granted	595 000	595 000
The maximum number of options granted on Dec. 31	580 000	580 000
Excercise price, € ¹⁾	Not yet known	Not yet known
Term of contract	22.3.2005–1.3.2011	22.3.2005–1.3.2011
Vesting period	22.3.2005–31.8.2008	22.3.2005–31.8.2008
Conditions of the agreement	The development of the Group's operating profit in 2005 (EBIT). The additional criterion for Group Executive Committee members was the Group's gearing.	The development of the Group's total shareholders return (TSR) compared to a peer group.

¹⁾ Paid dividends have been deducted.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2005 is 4.3 years (2004:4.8 years).

The weighted average fair value of options granted during the year was € 2.03 (2004: € 3.81).

The fair value of equity-settled share options granted is estimated

at the grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted.

The following table lists the used inputs to the model.

	2003A	2003B I	2003B II	2003C I	2003C II
Risk-free interest rate (%)	3.05	3.79	3.64	3.38	3.38
Expected life of options at the grant date (years)	5.7	6.1	5.5	6.0	6.0
Share price at the grant date, €	7.75	10.35	13.49	13.46	13.46
Estimated forfeit ratio at the grant date, % p.a.	7.1	6.9	2.0	3.8	3.8
Actual forfeit ratio, % p.a.	6.2	6.1	0.0	3.8	3.8
Estimated outcome of non-market based criteria (at the grant date)	– ¹⁾	– ¹⁾	– ¹⁾	37.0	–
Estimated outcome of market based criteria (at the grant date)	– ¹⁾	– ¹⁾	– ¹⁾	–	6.8
Fair value of the option at the grant date, €	2.99	3.78	4.48	3.79	0.26

¹⁾The actual value have been used on the transition date to IFRS 2 standard (January 1, 2005).

The following table illustrates the number of options and weighted average exercise prices of, and movements in, share options during the year.

	2005 Options	2005 Weighted average exercise price €/share	2004 Options	2004 Weighted average exercise price €/share
Outstanding at the beginning of the year	2 369 444	12.62	1 505 000	10.70
Granted during the year	1 265 000	13.44	1 680 000	10.35
Forfeited during the year	(134 628)	12.12	(56 313)	10.39
Exercised during the year	–	–	–	–
Expired during the year	(548 055)	13.06	(759 243)	10.50
Outstanding at the end of the year	2 951 761	12.48	2 369 444	12.62
Exercisable at the end of the year	–	–	–	–

20. Financial risk management and insurances

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 other things 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. The Chief Financial Officer is responsible for implementation and development of financial risk management.

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.

Risk Management purchases substantial part of Group's insurances. The most important insurance lines are property damage/business interruption, liability and credit. The Group's own insurance company underwrites part of the risks.

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. Hedge accounting is applied to hedges of forecasted electricity purchases of the Finnish production facilities and to hedges of 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 derivative gains/losses and electricity purchases/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 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 1 264 million on December 31, 2005 (2004: EUR 1 513 million). Approximately 5.6% (2004: 9.3%) 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	2005	2004
Currency forwards	1 796	1 247
Currency options, purchased	-	7
Currency options, written	-	8
Currency swaps	-	21

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, significant part of the loans and financial investments have short-term interest rate as a reference rate. In order to reduce cash flow risk new euro and Swedish krona denominated swaps, where Outokumpu pays fixed rate and receives variable rate, were made during 2005.

Euro, Swedish krona and British pound have substantial contribution to overall interest rate risk. Approximately 70% 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	2005	2004
Interest rate swaps	432	172

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 to certain extent 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 delivery. 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 is not hedged with derivatives.

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

Tonnes	2005	2004
Forward and futures copper contracts	33 775	50 150
Copper options, purchased	-	20 522
Forward and futures nickel contracts	1 608	1 758
Forward and futures zinc contracts	1 300	39 000
Forward and futures aluminium contracts	-	2 550

Some of the Group's production facilities are participating the EU Emission Trading Scheme. Realized carbon dioxide emissions, granted emission allowances and forecasted emissions are monitored and assessed centrally. Trading with emission allowances and related derivatives is centralized to Treasury.

Outokumpu has energy intensive production processes utilizing

Notes to the consolidated financial statements

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. Hedge accounting is applied to part of the electricity derivatives. The Group has not used derivatives to reduce the risk caused by changes in fuel prices.

On December 31, 2005 the Group had exchange traded electricity derivatives of 0,1 TWh (2004: 0.1 TWh) and other derivatives of 4.6 TWh (2004: 5.0 TWh). The electricity consumption of the Group's Nordic production facilities was 2.8 TWh (2004: 3.1 TWh).

Securities price risk

Outokumpu has investments in equity securities and the portfolio also includes debt notes. On December 31, 2005 the biggest investment in listed equity securities was the shareholding in the associated company Okmetic Oyj. The most significant debt investments are the receivable from Cidron International Oy and another receivable from Inmet Finland Oy. Apart from currency risk related to receivables, securities have 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, as far as possible, low credit risk. Especially related to Technology's project prepayments part of liquid assets can be invested in local money markets in emerging countries.

Liquidity 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 June 2005, a new five year committed revolving credit facility of EUR 1 000 million was signed and an existing similar type of arrangement was refinanced. 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 and the committed Revolving Credit Facility of EUR 1 000 million. On December 31, 2005, Outokumpu had committed and available credit facilities and other agreed and undrawn loans totaling EUR 719 million.

Insurances

Outokumpu's business is capital intensive and key production processes are rather tightly integrated and have other interdependencies as well. Property damage and business interruption is the most important insurance line and substantial part of the insurance premiums paid relates to these types of risks. Other significant insurance lines include credit and liability.

Outokumpu's own insurance company, Visenta Försäkrings AB, can act as direct insurer or as reinsurer. The company is registered in Sweden and it has assets worth over EUR 30 million. The company issues insurance policies for business units e.g. to cover the differences between internal and external deductibles.

21. Fair values of derivative instruments

€ million	2005 Positive fair value	2005 Negative fair value	2005 Net fair value	2004 Net fair value
Currency derivatives				
Currency forwards	11	12	(1)	26
Currency options, purchased	-	-	-	0
Currency options, written	-	-	-	0
Currency swaps	-	-	-	(1)
Interest rate derivatives				
Interest rate swaps	4	1	3	(2)
Metal derivatives				
Forward and futures copper contracts	3	4	(1)	3
Copper options, purchased	-	-	-	0
Forward and futures nickel contracts	1	0	1	1
Forward and futures zinc contracts	0	0	0	0
Forward and futures aluminium contracts	-	-	-	0
Electricity derivatives				
Publicly traded electricity derivatives	1	0	1	0
Other electricity derivatives	23	10	13	0
	42	27	15	27
Long-term derivatives				
Interest rate derivatives	(4)	-		
Electricity derivatives	(14)	(5)		
Short-term derivatives	25	22		

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, 2005

Currency	Nominal value	Fair value, € million	Cumulative translation difference in equity 2005, € million
GBP million	21	0	0
SEK million	371	0	3

Net investment hedges on Dec. 31, 2004

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

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.

Electricity purchase hedges on Dec. 31, 2005

€ million	Nominal amounts, TWh	Fair value	In fair value reserve in equity
2006	0.3	3	2
2007	0.3	1	1
2008	0.1	1	1
2009	–	–	–
2010	–	–	–

€ million

Fair value changes	5
Deferred tax liability	(1)
Fair value reserve in equity on Dec. 31, 2005	4

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 April 1, 2004	(2)
Deferred tax liability	1
Fair value reserve in equity on Dec. 31, 2004	(2)

Forecasted purchases of electricity for 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 other operating income and expenses.

22. Inventories

€ million	2005	2004
Raw materials and consumables	244	415
Work in progress	472	535
Finished goods and merchandise	461	616
Advance payments	9	12
	1 186	1 579

At the end of 2005, EUR 27 million (Dec. 31, 2004: EUR 7 million) was recognized as expense, with which the carrying value of the inventories was written down to reflect its net realizable value.

23. Trade and other receivables

€ million	2005	2004
Non-current		
Interest-bearing		
Loans receivable	152	59
Held for trading investments	4	3
	156	63
Non interest-bearing		
Trade receivables	0	0
Defined benefit pension assets	14	4
Other receivables	1	7
	15	11

Fair value of interest-bearing loan receivables is estimated to be some EUR 26 million below recognized value.

Current

Interest-bearing		
Loans receivable	8	6
Held for trading investments	–	9
Prepaid interest expenses	0	0
Accrued interest income	1	1
Other interest-bearing items	–	1
	8	18
Non interest-bearing		
Trade receivables	707	1 249
Income tax receivable	9	6
Prepaid insurance expenses	7	12
VAT receivable	61	73
Grants and subsidies receivable	14	14
Other accruals	33	16
Other receivables	11	19
	841	1 390
Doubtful receivables deducted from trade receivables		
Doubtful trade receivables on Jan. 1	14	13
Additions	2	4
Deductions	(3)	(2)
Recovery of doubtful receivables	(0)	0
Discontinued operations	(4)	–
Doubtful trade receivables on Dec. 31	9	14

24. Cash and cash equivalents

€ million	2005	2004
Cash at bank and in hand	138	196
Short term bank deposits	30	15
Cash equivalent marketable securities	44	–
	212	211

Fair value of cash and cash equivalents does not significantly differ from the carrying value. The effective interest rate of short-term bank deposits and cash equivalent marketable securities is 14.3% and the average maturity 14 days.

25. Equity

Share capital and premium fund

€ million	Number of shares, 1 000	Share capital	Premium fund	Total
On Jan. 1, 2004	177 451	304	681	985
Shares subscribed with options	2 176	4	15	19
Converted bonds	500	1	3	4
Treasury shares to management remuneration schemes	625	–	0	0
Other	–	–	0	0
On Dec. 31, 2004	180 752	308	700	1 008
Treasury shares to management remuneration schemes	280	–	1	1
On Dec. 31, 2005	181 032	308	701	1 009
Treasury shares	219			
Total number of shares on Dec. 31, 2005	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	2005	2004
Available-for-sale investments reserve	19	16
Cash flow hedge reserve	4	(2)
	23	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	2005	2004
Reserve fund	10	12
Other reserves	1	1
	11	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	2005	2004
Non-restricted equity	1 391	1 064
Net profit for the financial year	(364)	382
Untaxed reserves in equity	(345)	(419)
Transfers to restricted equity	–	–
Undistributable equity	(18)	(18)
Distributable equity	665	1 010

Untaxed reserves

Accumulated depreciation difference	465	524
Other untaxed reserves	1	37
Untaxed reserves	466	561
Deferred tax liability on untaxed reserves	(121)	(142)
Untaxed reserves in equity	345	419

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

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, 2005. Outokumpu Oyj held 218 603 treasury shares on December 31, 2005 with a total account equivalent value of EUR 0.4 million. This corresponded to 0.1% of the share capital and the total voting rights of the Company on December 31, 2005.

Authorizations of the Board of Directors

In 2005, the Board of Directors utilized once its authorization to transfer the Company's own shares granted by the Annual General Meeting in 2004. On February 14, 2005, Outokumpu Oyj transferred a total of 279 930 of treasury shares to the persons participating in the share remuneration scheme for the management.

The Board of Directors has a valid authorization granted by the Annual General Meeting of April 5, 2005 to increase the Company's share capital by issuing new shares, stock options or convertible bonds. The share capital may be increased on one or several occasions by no more than EUR 30 800 000 in total. Accordingly, an aggregate maximum of 18 117 647 shares, having the account equivalent value of EUR 1.70 each, may be issued. 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 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 2006, however not longer than one year from the decision of the General Meeting. By February 2, 2006 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 5, 2005 to repurchase the Company's own shares. 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 maximum number of shares to be repurchased is 9 000 000. The number of own shares in the Company's possession may not exceed 5% of the total amount 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. The purchase price shall be

paid to the sellers within the time limit provided in the rules of the Helsinki stock exchange and the Finnish Central Securities Depository Ltd. The shares shall be repurchased with distributable funds and accordingly repurchasing will reduce distributable equity of the Company. As the number of shares to be repurchased is limited as explained above and as the Company has only one class of shares, repurchases of own shares are not likely to have a significant impact on the relative holdings or voting rights between shareholders of the Company. Since shares will be repurchased in public trading at the Helsinki stock exchange without knowledge of the sellers' identity, it is not possible to determine whether and to what extent the repurchase could affect the proportionate holdings 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 Board of Directors is authorized to decide on other matters and measures related to the repurchasing of own shares. The authorization is valid until the Annual General Meeting in 2006, however not longer than one year from the decision of the General Meeting. By February 2, 2006 the Board of Directors had not used this authorization.

The Board of Directors has a valid authorizations granted by the Annual General Meeting of April 5, 2005 to transfer the Company's own shares. The maximum number of shares to be transferred is 9 300 000. Shares may be transferred on one or several occasions. The Board of Directors shall be 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 separately 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 Board of Directors is authorized to decide on other matters and measures related to the transfer of own shares. The authorization is valid until the Annual General Meeting in 2006, however not longer than one year from the decision of the General Meeting. By February 2, 2006 the Board of Directors had not used this authorization.

Notes to the consolidated financial statements

Amounts recognized in the balance sheet

€ million	Defined benefit pension plans		Other post-employment benefits	
	2005	2004	2005	2004
Present value of funded obligations	437	491	–	–
Fair value of plan assets	(375)	(413)	–	–
Present value of unfunded obligations	42	45	36	50
Unrecognized actuarial gains and losses	(69)	(26)	(13)	(12)
Unrecognized past service cost	(1)	–	3	1
Net liability	34	96	26	39

Balance sheet reconciliation

Net liability on Jan. 1	96	142	39	40
Net periodic pension cost in income statement	(8)	(16)	3	5
Employer contributions	(18)	(26)	(2)	(4)
Translation differences	1	(3)	3	(3)
Discontinued operations	(37)	–	(17)	–
Net liability on Dec. 31	34	96	26	39
Defined benefit pension and other post-employment benefit obligations	74	139		
Defined benefit pension assets (note 23)	(14)	(4)		
Net liability	61	135		

Principal actuarial assumptions

%	2005	2004
Discount rate		
The United States	5.50	6.06
Finland	4.50	5.00
Britain	4.90	5.35
Germany	4.50	5.12
Sweden	4.00	5.00
Other countries	4.25	5.00
Expected return on plan assets		
The United States	5.50	8.43
Finland	4.50	5.00
Britain	6.90	6.98
Sweden	5.00	3.35
Other countries	5.00	5.00
Future salary increase expectation		
The United States	5.00	4.27
Finland	3.50	3.50
Britain	3.95	3.82
Germany	2.50	4.00
Sweden	2.50	3.00
Other countries	3.50	3.00
Future benefit increase expectation		
The United States	1.70	1.35
Finland	2.00	2.00
Britain	2.70	2.75
Germany	1.50	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

2005

€ million	The US	Finland	Britain	Germany	Sweden	Other	Total
Present value of funded obligations	31	68	318	–	11	10	437
Present value of unfunded obligations	32	–	–	44	–	2	78
Fair value of plan assets	(20)	(65)	(280)	–	(1)	(9)	(375)
Unrecognized prior service cost	3	–	–	–	0	–	2
Unrecognized net gain or loss	(20)	(2)	(50)	(8)	–	(1)	(82)
	26	0	(12)	36	9	2	61

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

27. Provisions

€ million	Restructuring provisions	Environmental provisions	Other provisions
Provisions on Jan. 1, 2005	19	31	16
Translation differences	0	1	0
Increases in provisions	79	5	6
Utilized during the year	(7)	(4)	(5)
Unused amounts reversed	0	0	0
Other changes	0	–	0
Discontinued operations	(6)	0	0
Provisions on Dec. 31, 2005	85	32	17
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		2005	2004
Non-current provisions		55	38
Current provisions		78	29
		133	66

Provisions are based on best estimates on the balance sheet date. The increase in restructuring provisions in 2005 relates to the closure of Coil Products Sheffield in Britain and actions taken in the fixed cost reduction program. Majority of 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 4 million), litigations as well as onerous contracts and claims. The outflow of economic benefits related to long-term provisions is expected to take place mainly within 2–3 years.

28. Interest-bearing liabilities

€ million	2005	2004
Non-current		
Bonds and debentures	310	311
Loans from financial institutions	1 089	1 427
Pension loans	147	149
Finance lease liabilities	64	67
Other long-term loans	9	18
	1 618	1 971
Current		
Loans from financial institutions	121	358
Pension loans	23	25
Finance lease liabilities	5	6
Other current loans	352	715
	501	1 103

Finance lease liabilities**Minimum lease payments**

€ million	2005	2004
Not later than 1 year	9	8
1–2 years	9	8
2–3 years	9	8
3–4 years	5	8
4–5 years	5	5
Later than 5 years	46	49
Future finance charges	(13)	(13)
Present value of minimum lease payments	69	72

Present value of minimum lease payments

€ million	2005	2004
Not later than 1 year	7	6
1–2 years	7	6
2–3 years	6	6
3–4 years	4	6
4–5 years	4	4
Later than 5 years	42	45
Present value of minimum lease payments	69	72

Repayment schedule of long-term debt on Dec. 31, 2005

€ million		2006 ¹⁾	2007	2008	2009	2010	2011–	Total
Bonds and debentures	EUR	–	125	89	–	–	75	289
	SEK	–	21	–	–	–	–	21
Loans from financial institutions	EUR	38	60	246	97	66	180	687
	GBP	–	–	153	–	–	–	153
	USD	31	78	56	–	–	–	165
	CAD	–	–	–	22	–	–	22
	SEK	20	30	30	20	10	41	151
Pension loans	EUR	22	23	25	24	24	44	162
	SEK	1	1	2	1	0	2	7
Finance lease liabilities	EUR	2	3	4	4	3	42	58
	USD	3	3	3	0	–	–	9
	SEK	–	–	1	–	–	1	2
Other long-term loans	EUR	3	3	3	1	–	–	10
	SEK	–	–	1	–	–	1	2
		120	347	613	169	103	386	1 738

¹⁾ Repayments in 2006 are included in current debt.

Average maturity of long-term debt was 4 years and the average interest rate 3.82%.

Bonds and debentures

€ million	Interest rate, %	In currency	2005	2004
Fixed interest rate				
Bonds and debentures				
2002–2007	7.05	SEK 200 million	21	22
2002–2008	6.90	EUR 89 million	89	89
2004–2011	5.00	EUR 75 million	75	75
			185	186
Floating interest rate				
Bonds and debentures				
2004–2007	2.94	EUR 125 million	125	125
			310	311

Carrying and fair values of borrowings

€ million	2005 Carrying value	2005 Fair value	2004 Carrying value	2004 Fair value
Long-term debt	1 618	1 642	1 971	2 005
Current debt	501	501	1 103	1 103

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.

29. Trade and other payables

€ million	2005	2004
Non-current		
Non interest-bearing		
Trade payables	–	0
Other long-term liabilities	3	10
	3	10
Current		
Interest-bearing		
Accrued interest expenses	32	32
Non interest-bearing		
Trade payables	406	567
Advances received	108	70
Prepaid interest income	–	0
Accrued employee-related expenses	91	134
VAT payable	9	26
Withholding tax and social security liabilities	12	20
Other accruals	80	99
Other payables	33	30
	739	946

30. Commitments and contingent liabilities

€ million	2005	Group 2004	Parent company 2005	Parent company 2004
Mortgages and pledges on Dec. 31				
Mortgages on land	94	110	0	26
Other pledges	8	2	–	–
Guarantees on Dec. 31				
On behalf of subsidiaries				
For financing	–	–	54	107
For commercial guarantees	77	81	174	142
On behalf of associated companies				
For financing	4	4	4	3
Other commitments	65	–	65	–

The Group has pledged real estate mortgages created in the Tornio production plant for a value of EUR 88 million as security for its pension loans. Other pledges consist of floating charges in the production plants in Sweden. A major part of the commercial guarantees relates to project and equipment deliveries in the Technology division. The total value of commercial guarantees issued by the parent company includes advance payment guarantees for an amount of EUR 115 million. Outokumpu Oyj is liable for the costs, commitments and liabilities relating to electricity provided by Rapid Power Oy in relation to its shareholding in Kymppivoima Tuotanto Oy and Etelä-Pohjanmaan Voima Oy. The net debt of Rapid Power Oy at the year end amounted to approximately EUR 195 million, out of which Outokumpu is liable for one third.

Present value of minimum lease payments on operating leases

€ million	2005	2004
Not later than 1 year	26	33
1–2 years	22	27
2–3 years	14	22
3–4 years	11	15
4–5 years	10	11
Later than 5 years	36	38
Present value of minimum lease payments	120	146

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	2005	2004
The Tornio expansion project	31	44
The Kloster expansion project	21	–

31. Disputes and litigations

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. The fine has been recognized in the income statement in 2003. Outokumpu has lodged an appeal in this matter that is currently pending.

Furthermore, the European Commission has in its decision dated 3 September 2004 found Outokumpu Oyj and Outokumpu Copper Products Oy having infringed applicable EU competition laws for participating 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 imposed an aggregate fine of EUR 36 million on Outokumpu Oyj and Outokumpu Copper Products Oy. The fine has been recognized in the income statement in 2003. Outokumpu has lodged an appeal in this matter that is currently pending.

In connection with the above investigations of the European Commission, Outokumpu Oyj, Outokumpu Copper Products Oy and

Outokumpu Copper (USA), Inc. have been served with a complaint in a case filed in federal district court in Memphis, Tennessee, the US by plaintiff American Copper & Brass, Inc. The complaint alleges claims and damages under the US antitrust laws and purports to be a class action on behalf of all direct purchasers of copper plumbing tubes in the US from 1988 to March 31, 2001. In addition, there are purported class actions pending against these same Outokumpu companies in the state courts of California, Tennessee and Massachusetts, on behalf of so-called indirect purchasers of copper plumbing tube. Outokumpu believes that the allegations in all these proceedings lack merit and will vigorously defend itself. In connection with the sale of the fabricated copper products business to Nordic Capital, Outokumpu has agreed to indemnify and hold harmless Nordic Capital with respect to these class actions.

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. The ITC determined in June 2005 that the existing orders on imports of stainless steel sheet and strip from Great Britain will be revoked. Thus, no dumping duties are now affecting the imports of steel sheet and strip from Great Britain to the US. Hence, 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 litigations 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.

32. Related party transactions

Transactions and balances with associated companies

€ million	2005	2004
Sales	6	49
Purchases	(12)	(270)
Dividends received	1	0
Interest income	0	0
Derivatives	0	(5)
Long-term receivables		
Loans receivable	0	0
Subordinated loans receivable	2	2
Current receivables		
Loans receivable	6	5
Trade receivables	0	2
Derivatives	0	1
Other receivables	0	2
Current liabilities		
Trade payables	1	2
Derivatives	0	0
Other current liabilities	0	0
Loans receivable from associated companies and joint ventures ¹⁾		
Loans receivable on Jan. 1	7	169
Withdrawals	1	9
Repayments	–	(172)
Loans receivable on Dec. 31	8	7

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 6 million of the loans is expected to mature by the end of 2006 and the rest EUR 2 million by the end of 2009.

Employee benefits for key management

€ million	2005	2004
Short-term employee benefits	3	4
Termination benefits	4	–
Post-employment benefits	3	3
Other long-term benefits	–	0
Share-based payments	1	0
	11	7

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, 2005 (Dec. 31, 2004: EUR – million).

33. 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.

34. Subsidiaries on December 31, 2005

	Country	Group holding, %		Country	Group holding, %
General Stainless					
AvestaPolarit Gebouwen B.V.	The Netherlands	100	Outokumpu Stainless Plate, Inc.	The United States	100
AvestaPolarit Holding GmbH & Co. KG	Germany	100	AS Outokumpu Stainless Tubular Products	Estonia	88
Handelmij Roestvrij B.V.	The Netherlands	100	Outokumpu Stainless Tubular Products AB	Sweden	88
Kandelinin Seuraajat Oy	Finland	100	Outokumpu Stainless Tubular Products Ltd.	Canada	88
Outokumpu AS	Norway	100	Outokumpu Stainless Tubular Products Oy Ab	Finland	88
Outokumpu A/S	Denmark	100	Outokumpu Stainless		
Outokumpu Asia Pacific Ltd	China	100	Tubular Products S.A.R.L.	France	88
Outokumpu Baltic Oü	Estonia	100	Polarit Welding, Inc.	¹⁾ The United States	100
Outokumpu Benelux B.V.	The Netherlands	100	SH-Trade Oy	Finland	88
Outokumpu Chrome Oy	Finland	100	AB Örnköldsviks Mekaniska Verkstad	Sweden	88
Outokumpu Distribution Oy	Finland	100			
Outokumpu Ges.m.b.H	Austria	100	Outokumpu Technology		
Outokumpu GmbH	Germany	100	Aisco Systems Inc. Chile y Compañía		
Outokumpu Kft	Hungary	100	Limitada	Chile	100
Outokumpu K.K.	Japan	100	Boliden Contech Chile S.A.	Chile	100
Outokumpu, Lda.	^{*)} Portugal	100	Eberhard Hoesch & Söhne GmbH	Germany	100
Outokumpu Ltd	Ireland	100	Edifo AB	Sweden	100
Outokumpu Nordic AB	Sweden	100	International Project Services Ltd. Oy	Finland	100
Outokumpu N.V.	Belgium	100	Kumpu Engineering, Inc.	The United States	100
Outokumpu Pty Ltd	Australia	100	Kumpu GmbH	Germany	100
Outokumpu (Pty) Ltd	South Africa	100	MPE-Service Oy	⁴⁾ Finland	100
Outokumpu Rossija Oy	^{*)} Finland	100	OOO Outokumpu Norilsk	Russia	100
Outokumpu S A	France	100	Outokumpu Metals Off-Take Oy	³⁾ Finland	100
Outokumpu S.A.	Spain	100	Outokumpu Mexicana, S.A. de C.V.	Mexico	100
Outokumpu (S.E.A.) Pte. Ltd.	Singapore	100	Outokumpu Research Oy	^{*)} Finland	100
Outokumpu S.p.A.	Italy	100	Outokumpu Shanghai Co. Ltd	China	100
Outokumpu Sp. z o.o.	Poland	100	Outokumpu Technology AB	^{*)} Sweden	100
Outokumpu s.r.o.	Czech Republic	100	Outokumpu Technology A/S	Norway	100
Outokumpu Stainless B.V.	The Netherlands	100	Outokumpu Technology Australasia Pty. Ltd.	Australia	100
Outokumpu Stainless Coil, Inc.	The United States	100	Outokumpu Technology B.V.	The Netherlands	100
Outokumpu Stainless Holding GmbH	Germany	100	Outokumpu Technology Chile Limitada	Chile	100
Outokumpu Stainless Ltd	Britain	100	Outokumpu Technology GmbH	Germany	100
Outokumpu Stainless Oy	Finland	100	Outokumpu Technology Inc.	The United States	100
Outokumpu UAB	Lithuania	100	Outokumpu Technology Ltd.	Canada	100
ZAO Outokumpu	Russia	100	Outokumpu Technology Ltd.	Britain	100
			Outokumpu Technology Minerals Oy	Finland	100
			Outokumpu Technology Oy	^{*)} Finland	100
			Outokumpu Technology Pty. Ltd.	Australia	100
			Outokumpu Technology (Pty) Ltd.	South Africa	100
			Outokumpu Technology S.A.C.	Peru	100
			Outokumpu Technology Turula Oy	Finland	100
			Outokumpu Tecnologia Brasil Ltda.	Brazil	100
			Outokumpu Wenmec AB	Sweden	100
			Pannevis Inc.	The United States	100
			Petrobau Ingenieur Bulgaria EOOD	Bulgaria	100
			SepTor Tehnologies B.V.	The Netherlands	100
			ZAO Mineral Processing Engineers	Russia	60
			ZAO Outokumpu Moskva	Russia	100
Specialty Stainless					
AvestaPolarit ABE, S.A. de C.V.	Mexico	88			
E.L.F.E. SA Etires Lamines Forges Estampes	France	88			
Hertecant N.V.	Belgium	88			
AB Husqvarna Elektrolytpolering	Sweden	88			
Outokumpu Prefab AB	Sweden	100			
Outokumpu Press Plate AB	Sweden	100			
Outokumpu PSC Benelux B.V.	The Netherlands	100			
Outokumpu PSC Germany GmbH	Germany	100			
Outokumpu Stainless AB	Sweden	100			
Outokumpu Stainless Bar, Inc.	The United States	100			
Outokumpu Stainless Pipe, Inc.	The United States	100			

	Country	Group holding, %
Other operations		
2843617 Canada Inc.	Canada	100
AvestaPolarit Pension Trustees Ltd	Britain	100
Granefors Bruk AB	¹⁾ Sweden	100
Kopparlunden AB	Sweden	100
Norsulfid A/S	¹⁾ Norway	100
Orijärvi Oy	¹⁾ Finland	100
Outokumpu Alueverkko Oy	¹⁾ Finland	100
Outokumpu Deutschland GmbH	Germany	100
Outokumpu Engineering Enterprises, Inc.	¹⁾ The United States	100
Outokumpu España, S.A.	¹⁾ Spain	100
Outokumpu Exploration Ventures Pty. Ltd.	Australia	100
Outokumpu France S.A.	¹⁾ France	100
Outokumpu Istanbul		
Dis Ticaret Limited Sirketi	¹⁾ Turkey	98
Outokumpu Italia S.r.l.	¹⁾ Italy	100
Outokumpu Minera Española S.A.	Spain	100
Outokumpu Mines Inc.	¹⁾ Canada	100
Outokumpu Mining Australia Pty. Ltd.	Australia	100
Outokumpu Mining Oy	Finland	100
Outokumpu Nickel Resources B.V.	The Netherlands	100
Outokumpu Poland Sp. z o.o.	¹⁾ Poland	100
Outokumpu Rawmet, S.A.	Spain	100
Outokumpu Shared Services AB	¹⁾ Sweden	100
Outokumpu Stainless Holdings Ltd	Britain	100
Outokumpu Stainless Steel Oy	¹⁾ Finland	100
Outokumpu Stainless, Inc.	The United States	100
Outokumpu Zinc Australia Pty. Ltd.	Australia	100
Outokumpu Zinc B.V.	¹⁾ The Netherlands	100
Pancarelian Ltd.	¹⁾ Bermuda	100
Princeton Gamma-Tech, Inc.	The United States	82
Viscaria AB	¹⁾ Sweden	100
Visent Invest AB	Sweden	100
Visenta Försäkrings AB	Sweden	100

Discontinued operations

Boliden Cuivre & Zinc España S.A.	Spain	100
Hydrex Materials B.V.	³⁾ The Netherlands	100
Outokumpu Copper BCZ (France) Eurl	France	100
Outokumpu Copper BCZ GmbH	Germany	100
Outokumpu Copper BCZ (Polska) Sp. z o.o.	Poland	100
Outokumpu Copper BCZ SA	Belgium	100
Outokumpu Copper Brass SA	France	100
Outokumpu Copper CDC SA	Belgium	100
Outokumpu Copper Fabrication AB	¹⁾ Sweden	100
Outokumpu Copper Gusum AB	Sweden	100
Outokumpu Copper HME B.V.	The Netherlands	100
Outokumpu Copper HME S A	France	100
Outokumpu Copper LDM B.V.	The Netherlands	100
Outokumpu Copper Metal Supplies Limited	Britain	100
Outokumpu Copper MKM Limited	Britain	100

	Country	Group holding, %
Outokumpu Copper Nonferro Metal GmbH	Germany	100
Outokumpu Copper Products AB	Sweden	100
Outokumpu Copper Securur GmbH	Germany	100
Outokumpu Copper Tube Hungary		
Kereskedelmi Kft.	Hungary	100
Outokumpu Copper Tubes, S.A.	¹⁾ Spain	100
Outokumpu Holding UK Limited	Britain	100
Outokumpu Pori Tube Oy	Finland	100
Outokumpu Tube Italia S.r.l.	Italia	100

Foreign branches

Outokumpu Asia Pacific Ltd., branch office in Republic of Korea
 Outokumpu Asia Pacific Ltd., agencies in China and Taiwan
 Outokumpu Baltic Oü, branch office in Latvia
 Outokumpu Mining Oy, branch office in Spain
 Outokumpu (S.E.A.) Pte. Ltd., agency in Vietnam

Merged and dissolved subsidiaries

AvestaPolarit East, Inc.
 Boliden Contech GmbH
 Outokumpu Copper Brass International Limited
 Outokumpu Scandinavia AB

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

¹⁾ Shares and stock held by the parent company

Key financial figures

Key financial figures of the Group

		FAS 2001 ¹⁾	FAS 2002 ¹⁾	IFRS 2003 ¹⁾	IFRS 2004	IFRS 2005
Scope of activity						
Sales	€ million	5 324	5 558	5 922	5 122	5 552
- change in sales	%	44.2	4.4	6.6	n/a	8.4
- exports from and sales outside Finland, of total sales	%	91.8	92.4	93.4	94.0	94.6
Capital employed on Dec. 31	€ million	3 266	4 331	4 108	4 941	3 599
Operating capital on Dec. 31	€ million	3 507	4 569	4 287	5 151	3 756
Capital expenditure	€ million	914	2 042	622	414	174
- in relation to sales	%	17.2	36.7	10.5	8.1	3.1
Depreciation and amortization	€ million	266	264	304	191	216
Research and development costs	€ million	41	47	48	31	33
- in relation to sales	%	0.8	0.8	0.8	0.6	0.6
Personnel on Dec. 31		19 428	21 130	19 359	11 514	10 764
- average for the year		19 010	20 196	21 442	11 787	11 517
Profitability						
Operating profit	€ million	183	267	214	436	83
- in relation to sales	%	3.4	4.8	3.6	8.5	1.5
Share of results in associated companies	€ million	2	(7)	(15)	78	0
Profit before taxes	€ million	147	213	108	440	22
- in relation to sales	%	2.8	3.8	1.8	8.6	0.4
Net profit/(loss) for the period from continuing operations ¹⁾	€ million	–	–	–	379	(3)
Net profit/(loss) for the period from discontinued operations ¹⁾	€ million	–	–	–	7	(360)
Net profit/(loss) for the financial year	€ million	76	159	112	386	(363)
- in relation to sales	%	1.4	2.9	1.9	7.5	(6.5)
Return on equity	%	6.9	8.0	5.4	16.8	(15.9)
Return on capital employed	%	6.7	7.0	5.0	9.6	1.9
Return on operating capital	%	6.3	6.6	4.8	9.2	1.9
Financing and financial position						
Liabilities	€ million	3 009	4 381	4 314	4 571	3 355
Net interest-bearing debt	€ million	1 175	2 385	2 025	2 435	1 537
- in relation to sales	%	22.1	42.9	34.2	47.5	27.7
Net financial expenses	€ million	38	46	91	75	61
- in relation to sales	%	0.7	0.8	1.5	1.5	1.1
Net interest expenses	€ million	56	75	98	66	62
- in relation to sales	%	1.1	1.4	1.7	1.3	1.1
Interest cover		3.6	3.8	2.1	7.6	1.4
Share capital ²⁾	€ million	212	294	304	308	308
Other equity	€ million	1 879	1 652	1 779	2 198	1 754
Equity-to-assets ratio	%	41.6	31.1	33.0	35.8	38.2
Debt-to-equity ratio	%	56.2	122.6	97.2	97.2	74.5
Net cash generated from operating activities	€ million	346	334	194	(128)	459
Dividends	€ million	75.2	68.6	35.5	90.5	81.5 ³⁾

¹⁾ Figures for 2001–2003 have not been divided into continuing and discontinuing operations.

²⁾ Figures for 2002 and 2003 include unregistered share capital.

³⁾ The Board of Directors' proposal to the Annual General Meeting.

Key financial figures

Share-related key figures

		FAS 2001 ¹⁾	FAS 2002	IFRS 2003	IFRS 2004	IFRS 2005
Earnings per share	€	0.55	1.15	0.65	2.12	(2.01)
Cash flow per share	€	2.52	2.42	1.13	(0.71)	2.54
Equity per share	€	11.37	11.14	11.54	13.65	11.31
Dividend per share	€	0.55	0.40	0.20	0.50	0.45 ²⁾
Dividend payout ratio	%	100.0	43.5	32.1	23.6	neg.
Dividend yield	%	5.1	4.8	1.9	3.8	3.6
Price/earnings ratio		19.4	7.2	16.7	6.2	neg.
Development of share price						
Average trading price	€	8.50	10.28	8.75	12.52	11.89
Lowest trading price	€	6.42	8.14	6.87	9.93	9.63
Highest trading price	€	10.81	12.67	11.41	14.46	14.72
Trading price at the end of the period	€	10.72	8.30	10.77	13.15	12.55
Change during the period	%	47.2	(22.6)	29.8	22.1	(4.6)
Change in the HEX-index during the period	%	(32.4)	(34.4)	4.4	3.3	31.1
Market capitalization at the end of the period ³⁾	€ million	1 461	1 420	1 911	2 377	2 272
Development in trading volume						
Trading volume	1 000 shares	37 155	58 198	75 574	123 832	179 289
In relation to weighted average number of shares	%	27.1	42.3	44.0	68.8	99.0
Adjusted average number of shares ³⁾		137 127 433	137 658 458	171 623 035	180 056 920	181 031 415 ⁴⁾
Number of shares at the end of the period ³⁾		136 277 653	171 110 613	177 450 725	180 752 022	181 031 952

¹⁾ The share-related key figures for 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 2005 diluted with the 2003A options was 180 140 202. No diluting effect on earnings per share in 2005.

Parent company financial statements

Income statement of the parent company

€ million	Note	2005	2004
Sales		187	113
Cost of sales		(146)	(107)
Gross margin		42	6
Administrative expenses		(57)	(69)
Selling and marketing expenses		(28)	–
Research and development expenses		(6)	(3)
Other operating income and expenses	4	(125)	15
Operating loss	2–4	(173)	(51)
Financial income and expenses	5	(30)	(17)
Loss before extraordinary items		(203)	(67)
Extraordinary items	6	41	60
Loss before appropriations and taxes		(162)	(7)
Appropriations			
Change in depreciation difference		1	(1)
Income taxes	7	0	(5)
Loss for the financial year		(161)	(14)

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	2005	2004
Cash flow from operating activities		
Profit/(loss) for the financial year	(161)	(14)
Adjustments for		
Taxes	(0)	5
Depreciation	10	8
Unrealized exchange gains and losses	13	(3)
Interest income	(98)	(89)
Dividend income	(5)	(3)
Interest expenses	114	97
Other non-cash income and expenses	(46)	(63)
Other adjustments ¹⁾	138	(1)
	125	(50)
Change in working capital		
Change in current non interest-bearing receivables	62	44
Change in current non interest-bearing liabilities	(41)	(6)
	21	38
Interest received	99	84
Interest paid	(108)	(93)
	(9)	(9)
Net cash used in operating activities	(24)	(35)
Cash flow from investing activities		
Purchases of intangible and tangible assets	(12)	(22)
Acquisition of subsidiaries and other equity investments	–	(28)
Proceeds from sale of intangible and tangible assets	12	13
Proceeds from disposal of subsidiaries	499	–
Change in long-term financial assets	(292)	65
Net cash generated from investing activities	207	28
Cash flow before financing activities	183	(7)
Cash flow from financing activities		
Borrowings of long-term debt	406	658
Repayments of long-term debt	(418)	(109)
Change in current debt	(137)	(25)
Dividends paid	(91)	(36)
Proceeds from share subscriptions	–	19
Cash flow from group contributions	205	(101)
Other financing cash flow	(191)	(425)
Net cash used in financing activities	(226)	(20)
Net change in cash and cash equivalents	(42)	(26)
Net change in cash and cash equivalents in the balance sheet	(42)	(26)

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	2005	2004
ASSETS			
Non-current assets	8		
Intangible assets		44	55
Property, plant and equipment		19	23
Long-term financial assets		3 104	3 062
Total non-current assets		3 167	3 140
Current assets			
Receivables	10	1 780	2 208
Cash and cash equivalents		53	96
Total current assets		1 833	2 304
TOTAL ASSETS		5 000	5 444

€ million	Note	2005	2004
EQUITY AND LIABILITIES			
Shareholders' equity	9		
Share capital		308	308
Premium fund		708	707
Retained earnings		480	581
Loss for the financial year		(161)	(14)
		1 334	1 582
Untaxed reserves			
Accumulated depreciation difference		2	3
Non-current liabilities	10		
Interest-bearing		1 725	1 758
Non interest-bearing		1	3
Total non-current liabilities		1 726	1 761
Current liabilities	10		
Interest-bearing		1 789	1 909
Non interest-bearing		148	189
Total current liabilities		1 937	2 098
TOTAL EQUITY AND LIABILITIES		5 000	5 444

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. 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 other operating income and expenses but if the derivative is assigned to financial items, the fair value changes are recognized in financial income and expenses.

Non-current assets

The carrying values of intangible assets and property, plant and equipment are stated at historical cost less accumulated depreciation and amortization. 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 the assets investments. Depreciation and amortization is calculated on a straight-line or declining-balance.

Estimated useful lives for various 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 tangible assets	4–40 years

Property, plant and equipment, other non-current tangible and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may

Notes to the parent company financial statements

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 cash equivalents

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.

Sales

Sales 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 discontinued operations and of intangible and tangible assets, scrapping and fair value changes in derivatives if the derivative is not assigned to financial items.

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	2005	2004
Board of Directors', CEO's and deputy CEO's fees and salaries	2	2
Other wages	20	29
Pension contributions	5	5
Other personnel expenses ¹⁾	1	2
	28	37
¹⁾ No profit-sharing bonuses based on the Finnish Personnel Funds Act were paid in 2005 (2004: EUR – million).		
Average number of personnel	262	285
Personnel on Dec. 31	231	285

3. Depreciation and amortization

€ million	2005	2004
Depreciation and amortization by group of assets		
Intangible assets	3	3
Buildings	0	0
Other long-term expenses	6	4
Machinery and equipment	1	1
Other tangible assets	0	0
	10	8
Depreciation and amortization by function		
Cost of sales	7	5
Administrative expenses	3	4
	10	8

4. Other operating income and expenses

Other operating income		
Gains on the sale of intangible and tangible assets and shares	2	5
Market price gains and losses from derivatives	17	12
Other income items	1	3
	20	19
Other operating expenses		
Losses on disposals of intangible and tangible assets and shares	(7)	(4)
Losses on disposal of fabricated copper products business	(137)	–
Other expense items	(0)	(0)
	(144)	(4)
Total other operating income and expenses	(125)	15

5. Financial income and expenses

Dividend income	5	3
Interest income		
Long-term financial assets	30	26
Current assets	68	63
Other financial income	1	2
Interest expenses	(114)	(97)
Other financial expenses	(14)	(6)
Exchange gains and losses	(7)	(8)
	(30)	(17)
Financial income from and expenses to subsidiaries		
Dividend income	5	2
Interest income on long-term financial assets	23	26
Interest income on current assets	64	58
Other financial income	1	1
Interest expenses	(38)	(18)
	56	69

6. Extraordinary items

Group contributions	41	60
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7. Income taxes

Taxes for the financial year	0	(2)
Tax adjustments for prior years	0	(3)
	0	(5)
Hypothetical deferred taxes in the balance sheet		
Deferred tax assets	9	3

8. Non-current assets

€ million	Historical cost on Jan. 1, 2005	Additions	Disposals	Accumulated depreciation on Dec. 31, 2005	Carrying value on Dec. 31, 2005
Intangible assets	71	15	(24)	(18)	44
Property, plant and equipment					
Land	8	2	(0)	–	10
Buildings	4	–	(0)	(2)	2
Machinery and equipment	11	1	(2)	(7)	3
Other tangible assets	2	2	–	(1)	3
Construction in progress	8	1	(8)	–	2
	33	7	(10)	(10)	19
Long-term financial assets					
Shareholdings in subsidiaries	2 315	180	(68)	–	2 427
Other long-term equity investments	42	–	(3)	–	38
Other loans receivable	705	5	(71)	–	639
	3 062	185	(142)	–	3 104
Total non-current assets	3 165	207	(177)	(28)	3 167

Depreciations

€ million	Accumulated depreciation on Jan. 1, 2005	Accumulated depreciation on disposals and transfers	Depreciation during period	Accumulated depreciation on Dec. 31, 2005
Intangible assets	(16)	7	(9)	(18)
Property, plant and equipment				
Buildings	(2)	0	(0)	(2)
Machinery and equipment	(7)	1	(1)	(7)
Other tangible assets	(1)	(0)	(0)	(1)
	(10)	1	(1)	(10)
Total non-current assets	(25)	8	(10)	(28)

9. Shareholders' equity

€ million	2005	2004	€ million	2005	2004
Share capital on Jan. 1	308	304	Retained earnings on Jan. 1	581	562
Transfers from unregistered share capital	–	0	Previous year's profit	(14)	49
Shares subscribed with options	–	4	Dividends paid	(91)	(36)
Converted bonds	–	1	Transfer of treasury shares	3	6
Share capital on Dec. 31	308	308	Retained earnings on Dec. 31	480	581
Unregistered share capital on Jan. 1	–	0	Profit/(loss) for the financial year	(161)	(14)
Transfers to registered share capital	–	(0)	Total shareholders' equity on Dec. 31	1 334	1 582
Unregistered share capital on Dec. 31	–	–	Distributable funds		
Premium fund on Jan. 1	707	688	Retained earnings	480	581
Gain on the sale of treasury shares	1	0	Profit/(loss) for the financial year	(161)	(14)
Shares subscribed with options	–	15	Distributable funds on Dec. 31	318	567
Converted bonds	–	3			
Premium fund on Dec. 31	708	707			

Notes to the parent company financial statements

10. Receivables and liabilities

€ million	2005	2004
Receivables		
Loans receivable	1 688	1 906
Trade receivable	25	20
Prepaid expenses and accrued income	16	16
Other receivables	50	267
	1 780	2 208
Non-current liabilities		
Interest-bearing		
Bonds	200	200
Loans from financial institutions	1 089	1 144
Pension loans	126	115
Other long-term loans	310	300
	1 725	1 758
Non interest-bearing		
Other long-term liabilities	1	3
Current liabilities		
Interest-bearing		
Loans from financial institutions	89	268
Pension loans	19	18
Other current loans	1 682	1 623
	1 789	1 909
Non interest-bearing		
Trade payable	20	17
Accrued expenses and prepaid income	29	38
Other current liabilities	99	133
	148	189
Total liabilities	3 664	3 859

Receivables from and liabilities to subsidiaries

Non-current receivables		
Loans receivable	517	677
Current receivables		
Loans receivable	1 682	1 901
Trade receivable	15	14
Prepaid expenses and accrued income	15	15
Other receivables	19	212
	1 730	2 142
Non-current liabilities		
Other long-term loans	310	300
Current liabilities		
Current loans	1 357	1 009
Trade payable	3	4
Accrued expenses and prepaid income	4	3
Other current liabilities	77	117
	1 441	1 132

€ million	2005	2004
Receivables from associated companies		
Non-current receivables		
Loans receivable	-	2
Current receivables		
Prepaid expenses and accrued income	0	0
Loans receivable	6	5
	6	5

€ million	2005	2004
Prepaid expenses and accrued income		
Prepaid interest expenses and accrued interest income	15	16
Other	2	-
	16	16
Accrued expenses and prepaid income		
Accrued employee-related expenses	3	3
Accrued interest expenses and prepaid interest income	27	20
Other	0	15
	29	38

Outokumpu Oyj's shares and shareholders

Shares and share capital

On December 31, 2005, 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 2005, the Company held 218 603 treasury shares. The repurchases have been made between April 9 and November 27, 2001. The amount 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 5, 2005, 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 Compa-

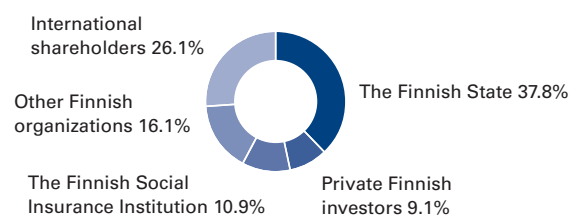
ny's share capital may be increased by a maximum of EUR 30 800 000 by issuing a maximum of 18 117 647 new shares for subscription.

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 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 authorization to issue new shares is valid until the Annual General Meeting in 2006, 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 5, 2005, the Annual General Meeting authorized the Board of Directors to repurchase the Company's own shares (treasury shares). A maximum of 9 000 000 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 2006, but no longer than 12 months from the decision of the General Meeting. The Board has not exercised this authorization.

Shareholders by group January 31, 2006



Principal shareholders on January 31, 2006

Shareholder	Number of shares	%
The Finnish State	68 440 597	37.8
The Finnish Social Insurance Institution	19 791 648	10.9
Ilmarinen Mutual Pension Insurance Company	4 545 763	2.5
Etera Mutual Pension Insurance Company	1 909 511	1.1
Investment fund Pohjola Finland Value	1 592 000	0.9
Odin Norden	1 528 100	0.8
Finnish State Pension Fund	1 450 000	0.8
Tapiola Mutual Pension Insurance Company	1 187 400	0.7
Investment fund OP-Delta	1 045 339	0.6
Varma Mutual Pension Insurance Fund	848 354	0.5
Nominee accounts held by custodian banks ¹⁾	44 179 803	24.4
Other shareholders total	34 732 040	19.2
Total number of shares	181 250 555	100.0

¹⁾ Shareholding of the companies belonging to the Capital Group Companies Inc. has on December 20, 2005 decreased to 4.0% of Outokumpu shares. According to the information available to Outokumpu, no nominee holdings exceed 5% of the total number of shares.

Shareholders by group on January 31, 2006

Shareholder group	Number of Shares	%
Finnish corporations	3 811 419	2.1
Financial and insurance institutions	8 456 194	4.7
The public sector and public organizations		
The Finnish State	68 440 597	37.8
The Finnish Social Insurance Institution	19 791 648	10.9
Other	12 837 827	7.1
Non-profit organizations	4 209 261	2.3
Households/private persons	16 455 891	9.1
International shareholders	47 245 617	26.1
Shares not transferred to book-entry securities system	2 101	0.0
Total	181 250 555	100.0

Distribution of shareholdings on January 31, 2006

Number of shares	Number of shareholders	% of shareholders	Total shares	% of share capital	Average shareholding
1-100	1 921	11.6	114 833	0.1	60
101-500	6 843	41.3	1 888 859	1.0	276
501-1 000	3 291	19.9	2 542 436	1.4	773
1 001-10 000	4 174	25.2	11 828 188	6.5	2 834
10 001-100 000	292	1.8	7 604 717	4.2	26 044
100 001-1 000 000	44	0.3	11 599 260	6.4	263 620
> 1 000 000	9	0.1	101 490 358	56.0	11 276 706
	16 574	100.0	137 068 651	75.6	8 270
Nominee accounts held by custodian banks			44 179 803	24.4	
Shares not transferred to book-entry securities system			2 101	0.0	
Total			181 250 555	100.0	

Increase in share capital 2001–2005

	Number of shares	Share capital, €
Share capital on Jan. 1, 2001	124 529 660	211 700 422.00
Share subscription 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 subscription under the 1999 convertible bond		
Apr. 8–Nov 28, 2003	+255 417	293 954 711.20
Share subscription 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 subscription 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 subscription under the 1999 convertible bond		
Jan. 2–Apr. 5, 2004	+499 951	308 125 943.50
Share capital on Dec. 31, 2005	181 250 555	308 125 943.50
Treasury shares on Dec. 31, 2005	218 603	371 625.10
Number of shares outstanding on Dec. 31, 2005	181 031 952	307 754 318.40

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 2003, 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. On January 31, 2006 an aggregate maximum of 684 191 Outokumpu Oyj shares could be subscribed for with the 2003A stock options. 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.

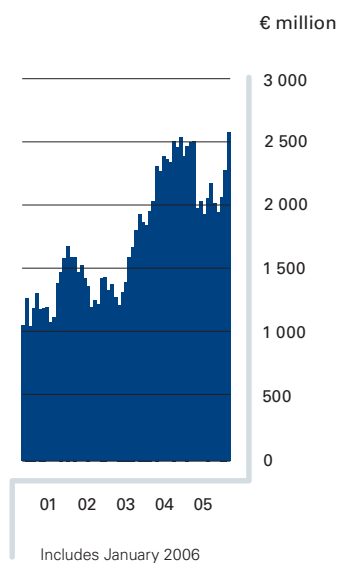
In February 2005, the Board of Directors confirmed that a total of 1 148 820 stock options 2003B be distributed to 130 persons in management positions of Outokumpu. The maximum number of 2003B stock options was 1 700 000. Members of the Group Executive Committee received 55.2% and other key persons received 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 estab-

lished 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 Group Executive Committee members was the Group's gearing. On January 31, 2006 an aggregate maximum of 1 107 570 Outokumpu Oyj shares could be subscribed for with 2003B stock options. 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.

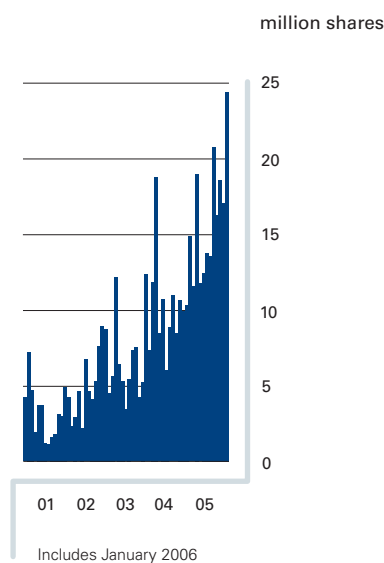
On February 2, 2006, the Board of Directors decided that a total of 97 500 stock options 2003C be distributed to 7 members of the Group Executive Committee. The maximum number of 2003C stock options was 1 160 000. Members of the Group Executive Committee received 25% of the maximum number of 2003C stock options. No stock options will be distributed to other key persons, because the earnings criteria established in March 2005, the Group's operating profit in 2005 and relative development of total shareholder return, were not achieved. The additional earnings criterion for the Group Executive Committee members was the Group's gearing and the established gearing target was achieved. Subscription price for stock options will be trading volume weighted average of the Outokumpu share on the Helsinki stock exchange between December 1, 2005 and February 28, 2006.

Following the subscriptions with 2003 stock options, Outokumpu Oyj's share capital may be increased by a maximum of EUR 3 211 744 and the number of shares by a maximum of 1 889 261. The number of shares that can be subscribed for on the basis of the stock options corresponds to 1.0% of Company's shares and voting rights.

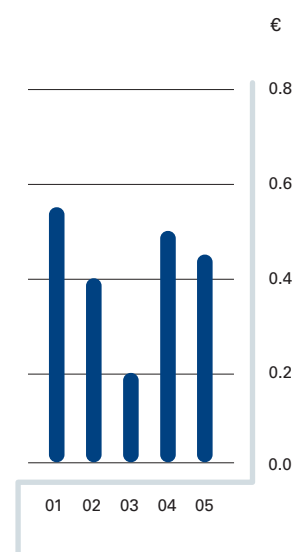
Market capitalization



Monthly trading volume



Dividend/share



Share-based incentive program for 2006–2010

Outokumpu's Board of Directors confirmed on February 2, 2006 a share-based incentive program as part of the key employee incentive and commitment system of the company. The share incentive program will last five years, comprising three earning periods of three calendar years each. The earning periods commence on January 1, 2006, January 1, 2007 and January 1, 2008. The Board of Directors decides on the persons entitled to participate in the program for each earning period. On February 2, 2006 132 people were confirmed to be in the scope of the program for the earning period 2006–2008.

The objective of the share-based incentive program is to reward for good performance, which supports the Company's strategy and at the same time to direct the management's attention to increasing the company's shareholder value over a longer period of time. The program offers a possibility to receive Outokumpu shares and cash (equaling to the amount of taxes) as an incentive reward, if the targets set by the Board for each earning period are achieved. The aggregate number of shares to be distributed for each of the earning periods cannot exceed 500,000 shares. In accordance with targets confirmed for the earning period 2006–2008 the reward is based on relative development of TSR (50 % of the maximum reward) and achieving targets set for Operational Excellence programs (50% of the maximum award).

If persons confirmed on February 2, 2006 to be covered by the first earning period of the share-based incentive program were to receive the number of shares in accordance with the maximum reward (a total of 387 000 shares), their shareholding

obtained via the program would amount to 0.2% of the Company's shares and the voting rights.

Under the program, entitled persons must keep the shares in their possession for at least two years from their receipt. In addition, according to the share ownership plan of the Outokumpu Group the members of the Group Executive Committee are obliged to own Outokumpu shares received under the incentive programs for the value of their annual gross base salary.

Management shareholding

On January 31, 2006 members of the Board of Directors and the Group Executive Committee held a total of 26 128 Company shares, corresponding to 0.01% of the Company's shares and voting rights.

If the 2003A, 2003B and 2003C options were exercised in their entirety and if the first earning period of the share-based incentive program for 2006–2010 yielded the maximum number of shares, shareholdings and aggregate voting rights held by the members of the Group Executive Committee would increase by 0.19 percentage points pursuant to the option warrants, and by 0.05 percentage points pursuant to the share-based incentive program.

Details of management shareholdings are given on pages 116–118.

Dividend proposal for 2005

For the financial year 2005, a dividend of EUR 0.45 is proposed. The effective dividend yield is 3.6%. The average dividend payout ratio during the past five years is 85.4%.

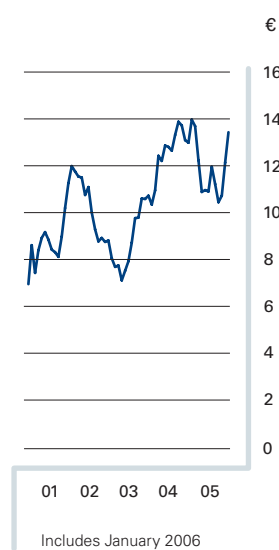
Outokumpu Oyj's shares and shareholders

Share price performance and trading volume for the Outokumpu share as well as the key share-related figures are presented in the following table.

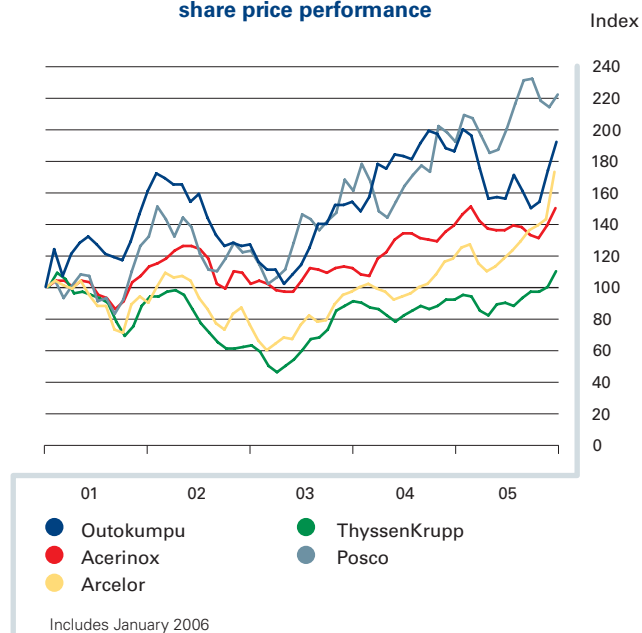
Share-related key figures		FAS ¹⁾	FAS	IFRS	IFRS	IFRS
		2001	2002	2003	2004	2005
Earnings per share	€	0.55	1.15	0.65	2.12	(2.01)
Equity per share	€	11.37	11.14	11.54	13.65	11.31
Dividend per share	€	0.55	0.40	0.20	0.50	0.45²⁾
Dividend payout ratio	%	100.0	43.5	32.1	23.6	neg.
Dividend yield	%	5.1	4.8	1.9	3.8	3.6
Price/earnings ratio		19.4	7.2	16.7	6.2	neg.
Development of share price						
Average trading price	€	8.50	10.28	8.75	12.52	11.89
Lowest trading price	€	6.42	8.14	6.87	9.93	9.63
Highest trading price	€	10.81	12.67	11.41	14.46	14.72
Trading price at the end of period	€	10.72	8.30	10.77	13.15	12.55
Change during the period	%	47.2	(22.6)	29.8	22.1	(4.6)
Change in the HEX-index during the period	%	(32.4)	(34.4)	4.4	3.3	31.1
Market capitalization at the end of period ³⁾	€ million	1 461	1 420	1 911	2 377	2 272
Development in trading volume						
Trading volume	1 000 shares	37 155	58 198	75 574	123 832	179 289
In relation to weighted average number of shares	%	27.1	42.3	44.0	68.8	99.0
Adjusted average number of shares ³⁾		137 127 433	137 658 458	171 623 035	180 056 920	181 031 415
Number of shares at the end of period ³⁾		136 277 653	171 110 613	177 450 725	180 752 022	181 031 952

¹⁾ The share-related key figures for 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





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 follows 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

Outokumpu's Corporate Management consists of the Chief Executive Officer, members of the Group Executive Committee, and managers 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 coordination and execution work in the areas of strategy and planning, business development, financial control, internal audit, human resources, environment, health and safety, investor relations and communications, legal affairs as well as

treasury and risk management. To support a "one company" management philosophy, emphasis has been placed on functional leadership of the stainless operations. In addition to the resources centralized under Corporate Management, functional steering across the businesses has also been organized into Commercial Operations, Production Operations and Corporate Services functions.

In 2005, the stainless steel business has been organized into two Divisions according to the types of product produced. The General Stainless Division comprised three business units: Tornio Works, Coil Products Sheffield and Sheffield Primary Products. The Specialty Stainless Division consisted of six business units: Avesta Works, Thin Strip, Hot Rolled Plate, Long Products, Sheffield Special Strip and OSTP (Outokumpu Stainless Tubular Products). As of March 1, 2006, the stainless steel business is organized into six business units: Tornio Works, Avesta Works, Hot Rolled Plate, Thin Strip, OSTP and Long Products. The business units report directly to individual Group Executive Committee members. The above mentioned division structure will be used in external reporting.

The technology business, Outokumpu Technology, is managed independently from the Group and the Group's interests in the business are ensured through steering on the Outokumpu Technology Board of Directors level.

Outokumpu Copper Tube and Brass, as a discontinued operation, is managed separately from the Group through steering on the Outokumpu Copper Tube and Brass Board of Directors level.

The Outokumpu Group is 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 businesses.

Tasks and responsibilities of governing bodies

The ultimate responsibility for the Group management and Group operations lies with the governing bodies of the parent company Outokumpu Oyj: the General Meeting of Shareholders, the Board of Directors and the President and Chief Executive Officer (CEO). The Group Executive Committee operates within the authorities of the CEO and has been formed for the efficient management of the Group.

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 general objective of the Board of Directors is to direct the Company's business in a manner that secures a significant and sustained increase in the value of the Company for its shareholders. To this end the members of the Board offer their expertise and experience for the benefit of the Company.

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 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 authority frames 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 the authorized capital expenditure frames and have a value exceeding EUR 20 million, as well as on other major and strategically-important investments;
- To decide on any individual business acquisitions and divestments within the current scope of business, having a value exceeding EUR 10 million;
- To decide on any financing arrangements by any Group company which either exceed EUR 150 million, are organized by way of public offerings, or which are otherwise out of the Group's normal course of business; and
- To decide on any other commitments by any of the Group companies that are out of the ordinary either in terms of value or nature, taking into account the size, structure and field of operation of the Group.

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

who are independent of the Company: Heimo Karinen (Chairman), Evert Henkes, Arto Honkaniemi and Jukka Härmälä. 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 of their compensation. The Committee is authorized to determine the terms of service and benefits of the Group Executive Committee members other than the CEO and the Deputy CEO. The Nomination and Compensation Committee met 12 times during 2005.

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. During 2005 no such working groups were set up.

Shareholders' Nomination Committee

Outokumpu's 2005 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 2005 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 on December 1, 2005, with the Chairman of Outokumpu's Board of Directors as an expert member.

Outokumpu's four largest registered shareholders on December 1, 2005 were: The Finnish State, The Finnish Social Insurance Institution, Ilmarinen Mutual Pension Insurance Company and Etera Mutual Pension Insurance Company. These shareholders chose the following persons as their representatives on the Shareholders' Nomination Committee: Markku Tapio, Director General, Ministry of Trade and Finance (The Finnish State); Pertti Parmanne, Chairman of the Board (The Finnish Social Insurance Institution); Kari Puro, President and CEO (Ilmarinen) and Kalevi Hemilä, Deputy Managing Director (Etera). The Chairman of Outokumpu's Board Heimo Karinen served as an expert member and Markku Tapio as the Chairman of the Committee. The Committee

submitted its proposals on Board composition and director remuneration on January 27, 2006. 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. The CEO prepares the matters for the Board of Directors' decision-making, develops the Group in line with the targets agreed with the Board and ensures proper implementation of the Board's decisions. It is further the CEO's responsibility to make sure that existing laws and regulations are observed throughout the Group. 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 role of the Group Executive Committee is to manage Outokumpu's main business, stainless steel, as a whole. The Committee members have extensive authorities in their individual areas of responsibilities and have the duty to develop the Group's operations in line with the targets set by the Board of Directors and the CEO.

As of March 1, 2006, the Group Executive Committee consists of six members appointed by the Board of Directors. The members of the committee are the CEO and his Deputy, Executive Vice President – Production Operations, Executive Vice President – Commercial Operations, Executive Vice President – Chief Financial Officer and Executive Vice President – Human Resources. 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 4 000, Vice Chairman EUR 3 000, other members EUR 2 400. All members of the Board of Directors are to be paid a meeting fee of EUR 500. 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.

Fees, salaries and employee benefits paid to the Board of Directors and the Group Executive Committee are presented below:

2005 €	Salaries and fees with employee benefits	Performance/project- related bonuses	Share remuneration	Total
Board of Directors				
Chairman of the Board, Karinen Heimo	56 200	–	–	56 200
Vice Chairman of the Board, Johansson Ole	40 200	–	–	40 200
Board members:				
Henkes Evert	36 500	–	–	36 500
Honkaniemi Arto	37 800	–	–	37 800
Huuhtanen Jorma	34 500	–	–	34 500
Härmälä Jukka	26 600	–	–	26 600
Lohiniva Juha	25 100	–	–	25 100
Nilsson-Ehle Anna	25 100	–	–	25 100
Saarinen Leena	34 500	–	–	34 500
Suonoja Soili	32 700	–	–	32 700
Vilppola Arto	13 000	–	–	13 000
CEO	602 991	–	–	602 991
Deputy CEO	371 804	36 181	104 130	512 115
Other Group Executive Committee members ¹⁾	1 441 072	326 678	1 331 799	3 099 549

¹⁾ Includes also salaries and performance related bonuses as well as share remunerations paid to the former CEO Jyrki Juusela and the former Deputy CEO Risto Virrankoski.

The share remuneration presented in the table refer to the remuneration from the third remuneration period, which was paid in February 2005. 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 tables on pages 114 and 118.

2004 €	Salaries and fees with employee benefits	Performance/project- related bonuses	Share remuneration	1998 options	Total
Board of Directors					
Chairman of the Board, Karinen Heimo	50 100	–	–	–	50 100
Vice Chairman of the Board, Johansson Ole	34 200	–	–	–	34 200
Board members:					
Henkes Evert	31 800	–	–	–	31 800
Honkaniemi Arto	33 300	–	–	–	33 300
Huuhtanen Jorma	30 600	–	–	–	30 600
Puhakka Matti	9 100	–	–	–	9 100
Rantanen Juha	27 600	–	–	–	27 600
Saarinen Leena	30 300	–	–	–	30 300
Suonoja Soili	29 700	–	–	–	29 700
Ukskoski Seppo	9 400	–	–	–	9 400
Vilppola Arto	19 700	–	–	–	19 700
CEO	586 285	54 773	252 899	252 000	1 145 957
Deputy CEO	460 808	–	131 666	22 379	614 853
Other Group Executive Committee members	1 540 839	27 732	437 501	238 058	2 244 130

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. In the table there are also presented the incentives received based on the 1998 option program.

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 for the year 2006 is determined on the basis of achieving Group's operating profit target, set targets of the profitability improvement program and separately set individual targets. The maximum amount of this bonus is for the CEO 60% and for the other members of the Group Executive Committee 50% of annual salary based on basic

monthly earnings. 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.

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 share ownership and options of the Board of Directors and the members of the Group Executive Committee on January 31, 2006.

Pcs	Members of the Board of Directors	Members of the Group Executive Committee
Shares	4 318	21 810
Options 2003A	–	87 975
Options 2003B	–	152 490
Options 2003C ¹⁾	–	97 500

¹⁾The Board confirmed the final amount of stock options on February 2, 2006.

Control systems

The Group's operations are controlled and steered by means of the above-described corporate governance system. The Group is organized into operational business units 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 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 14–16. Financial risks are dis-

cussed in more detail in note 20 to the consolidated financial statements on pages 79–80.

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 operationally reports to the Board Audit Committee.

The CEO, members of the Group Executive Committee and other managers 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's Insider Rules are based on and comply with the Guidelines for Insiders by the Helsinki Stock Exchange.

The Company's permanent insiders with a duty to declare consist of the members of the Board of Directors, the Auditor in Charge, the CEO and his deputy, as well as the other members of the Group Executive Committee. Outokumpu maintains a public register on the permanent insiders with the duty to declare.

Employees of the Group who receive inside information on a regular basis due to their positions or tasks are registered in a non-public register of permanent company-specific insiders.

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 window).

Separate non-public project-specific insider registers are maintained for insider projects. Persons defined as project-specific insiders are those who in the course of their duties in connection with a project receive information concerning the Group which, when realized, is likely to have a significant effect on the value of the company's publicly traded security.

Outokumpu's Corporate Secretary is responsible for coordinating and supervising insider issues. Up-to-date information on holdings by Outokumpu's permanent insiders with a duty to declare 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. Pro-

posals 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 2005, auditors were paid fees totaling EUR 3.5 million, of which non-auditing services accounted for EUR 1.2 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

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.

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,
Suomen Lehtiyhtymä Oy
Owns 300 Outokumpu shares.

Anna Nilsson-Ehle

b. 1951, Swedish citizen,
Ph.D., M.Sc. (Eng.)
Outokumpu Board member 2005–
Managing Director 1999–2004:
Universeum AB
Board member: Chalmers
University of Technology
Foundation
Consultant 2005–: Ohde & Co
Owns no Outokumpu shares.



Chairman



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
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: Tate & Lyle plc,
CNOOC Ltd, SembCorp
Industries Ltd
Advisory board member:
Air Products and Chemicals Inc.
Owns no Outokumpu shares.

Leena Saarinen

b. 1960, Finnish citizen, M.Sc. (Food technology)
Outokumpu Board member 2003–,
member of the Audit Committee
President and CEO Altia Corporation 2005–
Managing Director 2003–2005:
Unilever Bestfoods, Nordic Foodsolution
National Manager 2002–2005:
Suomen Unilever Oy and board member
1999 and 2001–2005
Owns 800 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.



Jukka Härmälä

b. 1946, Finnish citizen, B.Sc. (Econ.)
Outokumpu Board member 2005–,
member of the Nomination and
Compensation Committee
CEO and board member of
Stora Enso Oyj 1999–
Board member: Finnlines plc
Supervisory board member: Varma Mutual
Pension Insurance Company
Owns 400 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.

Juha Lohiniva

b. 1962, Finnish citizen,
Outokumpu Board member 2005–
Maintenance operator –
Tornio Works
Employed by the Outokumpu
Group since 1980
Owns no Outokumpu shares.
Supervisory board: Varma Mutual
Pension Insurance Company
Owns 400 Outokumpu shares.

Group Executive Committee

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, and Hot Rolled Plate, Thin Strip and OSTP business units
Employed by the Outokumpu Group since 2004
Chairman of the board of directors: Finpro Association
Vice President: European Confederation of Iron and Steel Industries Eurofer
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, Long Products business unit, Outokumpu Technology, strategy and corporate planning, business development, M&A and legal affairs, communications, investor relations, corporate social responsibility, portfolio businesses
Employed by the Outokumpu Group since 1990
Vice Chairman of the board: Okmetic Oyj
Board member: Cargotec Oyj

Pekka Erkkilä

b. 1958, Finnish citizen,
M.Sc. (Eng.)
Executive Vice President – General Stainless and Production Operations
Member of the Group Executive Committee 2003–
Responsibility: Tornio Works and Avesta Works business units, and Production Operations: Production Excellence program, material flow optimization, R&D, EHS, procurement
Employed by the Outokumpu Group since 1983
Chairman of the board: Finnish Association of Mining and Metallurgical Engineers
Board member: International Stainless Steel Forum (ISSF), Jernkontoret

Olof Faxander

b. 1970, Swedish citizen,
M.Sc., B.Sc. (Soc. Sc.)
Executive Vice President – Specialty Stainless division
Member of the Group Executive Committee 2005–
Responsibility: the Specialty Stainless division
Employed by the Outokumpu Group since 2001,
until February 28, 2006
Board member: Fagersta Stainless AB

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, commercial strategy and sales planning, marketing, sales company network, stock and processing
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

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 since 2005

Shares and options of the Group Executive Committee members

	Shares	Options 2003A	Options 2003B	Options 2003C ¹⁾
Juha Rantanen	–	–	60 000	27 500
Karri Kaitue	4 880	21 700	19 320	15 000
Pekka Erkkilä	6 730	31 000	27 600	15 000
Olof Faxander	–	9 050	18 750	10 000
Andrea Gatti	–	4 525	7 500	10 000
Esa Lager	8 200	21 700	19 320	10 000
Timo Vuorio	2 000	–	–	10 000
Total	21 810	87 975	152 490	97 500

¹⁾ The Board confirmed the final amount of stock options on February 2, 2006.



Back row: Timo Vuorio, Esa Lager, Andrea Gatti Front row: Karri Kaitue, Pekka Erkkilä, Olof Faxander, Juha Rantanen

Investor information

The Annual General Meeting of Outokumpu Oyj will be held on Thursday, March 30, 2006 at 12.00 am (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 20, 2006. 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 20, 2006. 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 March 24, 2006 at 4.00 pm (Finnish time). Notification can be made by telephone +358 9 421 5519, by fax +358 9 421 2223 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 March 24, 2006 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 2006

Annual General Meeting	March 30
Ex-dividend date	March 31
Record date for dividend payment	April 4
Dividend payout	April 11

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.45 per share be paid for the financial year 2005.

Financial reports in 2006

Financial Statements Bulletin	February 2
Annual Report	Week starting March 13
First-quarter interim report	April 25
Second-quarter interim report	July 25
Third-quarter interim report	October 23

Investor information is available at the Group's English language website www.outokumpu.com. The website also covers annual re-

ports, 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:

Päivi Laajaranta

IR Assistant
Tel. +358 9 421 4070, fax +358 9 421 2125
E-mail: paivi.laajaranta@outokumpu.com
Päivi Laajaranta coordinates meeting requests.

Ingela Ulfves

Vice President – Investor Relations
Tel. +358 9 421 2438, fax +358 9 421 2125
E-mail: ingela.ulfves@outokumpu.com

Kari Lassila

Senior Vice President – IR and Communications
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Analysts covering Outokumpu

The following analysts prepare investment analysis on Outokumpu. The persons mentioned below cover Outokumpu on their own initiative.

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Opstock Securities Jari Räsänen	+358 10 252 4408	jari.raisanen@oko.fi
UBS Investment Research Olof Cederholm	+46 8 453 7306	olof.cederholm@ubs.com

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 – from the process industry and industrial machinery to building, construction and transportation, electronics and information technology, as well as catering and households – use our metal products, technologies and services worldwide. We are dedicated to helping our customers gain competitive advantage.

www.outokumpu.com

**OUTO
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